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ANNUAL REPORT

of the company Elektro Celje
and the Elektro Celje group

2016



Elektro Celje

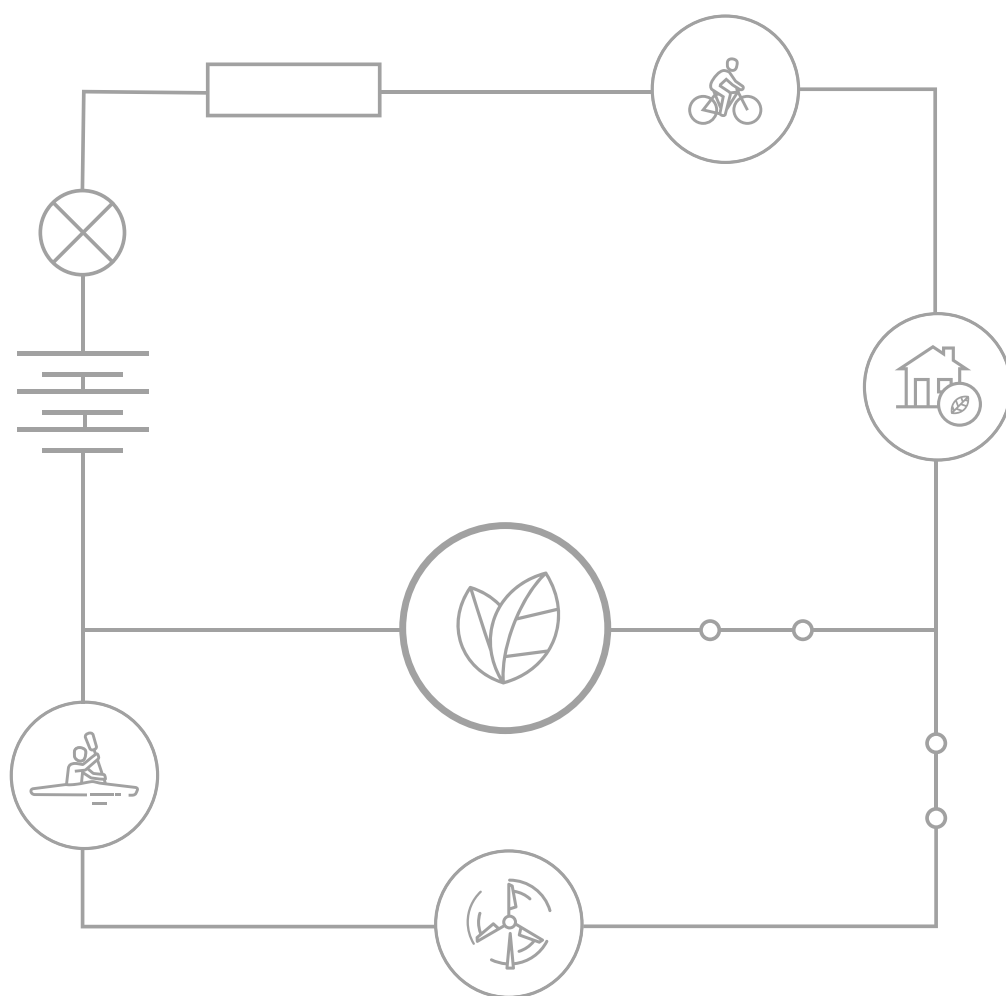




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RELATIONSHIP



INTEGRITY

We respect the rules of the game. As power transmission specialists, we act in accordance with legislation, internal rules, standards and the Code of Ethics. Impartiality and independence from personal interests guide us in our operations.



INTRODUCTION



Elektro Celje

OPERATION HIGHLIGHTS

of the company Elektro Celje and the Elektro Celje group

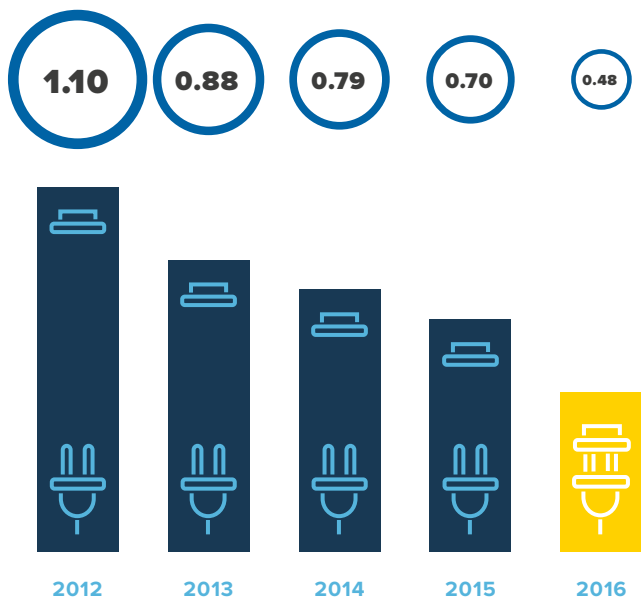
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Company Elektro Celje

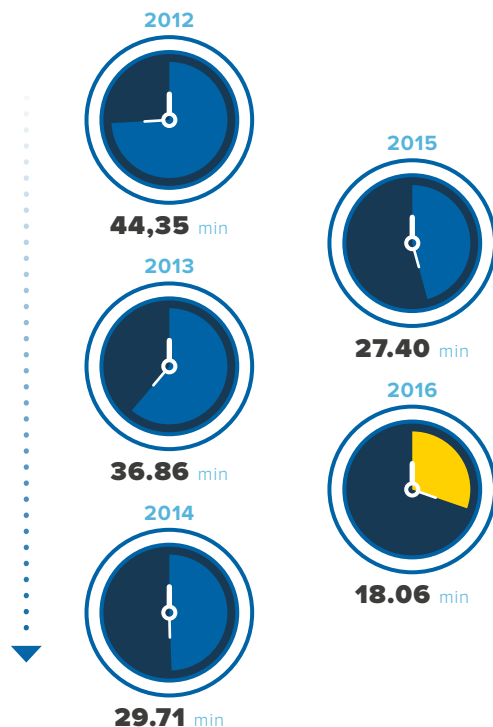
Company Elektro Celje (in EUR)	2012	2013	2014	2015	2016
EBIT	7,198,584	7,802,081	9,749,430	8,539,422	9,518,167
EBITDA	24,729,201	26,450,230	29,124,466	26,639,589	27,596,970
EBITDA margin	36.3%	38.1%	40.3%	38.4%	42.6%
VALUE ADDED	43,868,395	45,685,077	48,943,645	47,732,674	49,345,560
NET PROFIT	7,486,250	5,580,713	8,841,612	6,808,482	9,435,710
EQUITY	184,435,940	186,467,766	192,935,102	196,443,080	200,929,373
ASSETS	260,465,989	262,241,480	264,813,515	272,260,993	276,059,990
Realised investments	22,473,248	24,510,162	23,123,000	21,765,222	20,072,117
Electricity distributed	1,891,762	1,882,792	1,868,300	1,928,787	1,944,411
Number of customers	168,445	168,865	169,414	170,006	170,688



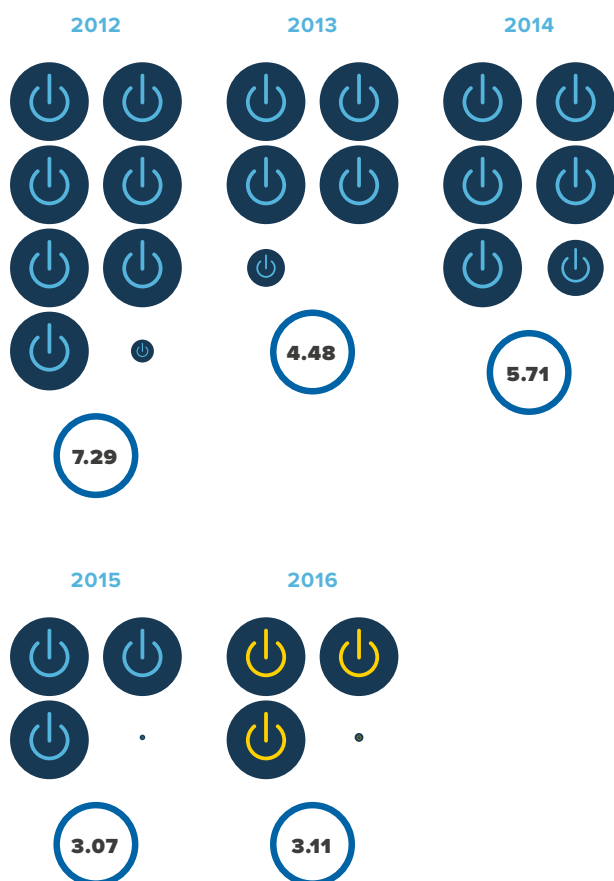
SAIFI – Average number of interruptions per customer – own cause



SAIDI – Average duration of interruption per customer in minutes – own cause

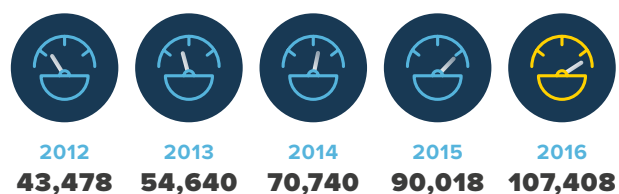


MAIFI – Average number of momentary interruptions per customer



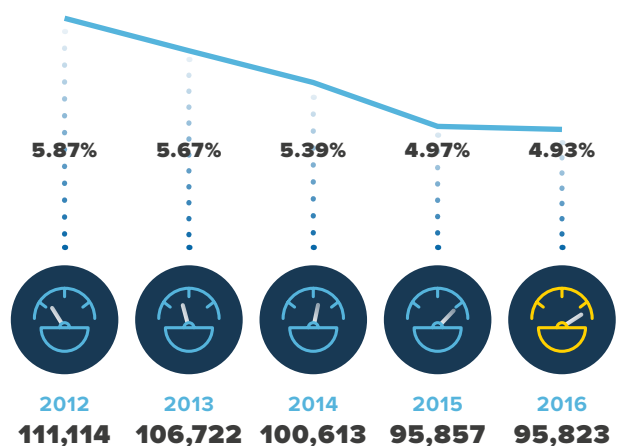
WE PROVIDE QUALITATIVE SERVICES FOR CUSTOMERS BY STRENGTHENING THE DISTRIBUTION NETWORK

Number of remote metering points



WE MAINTAIN OPTIMISATION AND INCREASE THE EFFICIENCY OF BUSINESS PROCESSES

Electricity losses in the (MWh)



OPERATION HIGHLIGHTS

of the company Elektro Celje and
the Elektro Celje group

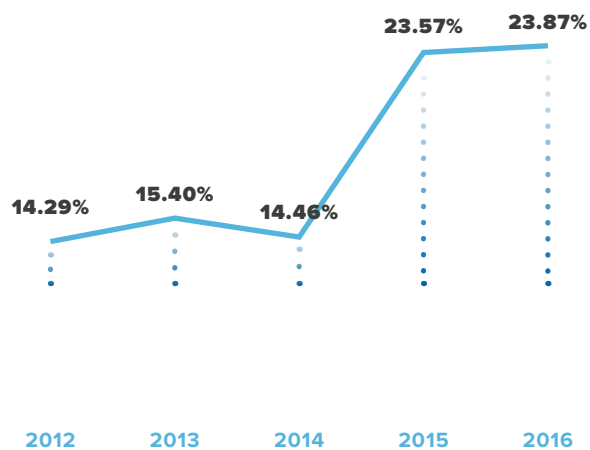
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Elektro Celje group

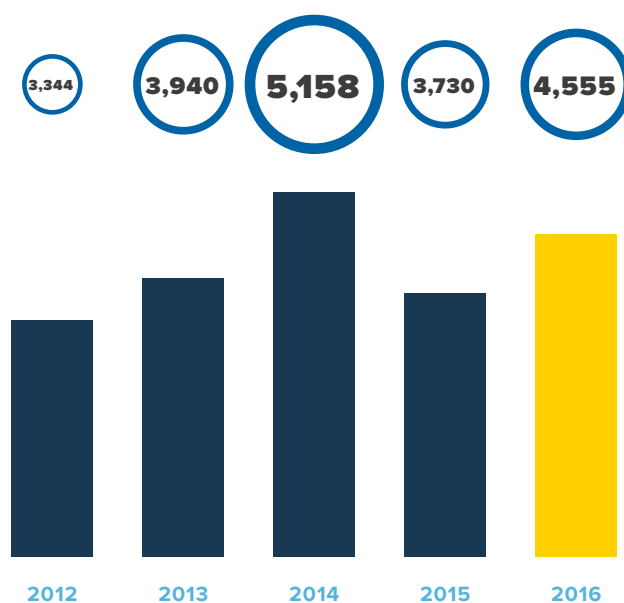
Elektro Celje group (in EUR)	2012	2013	2014	2015	2016
SALES REVENUE	145,793,897	156,542,174	140,389,018	162,405,192	182,114,244
VALUE ADDED	46,746,047	48,783,276	54,553,794	54,680,314	55,176,463
NET PROFIT	6,905,850	6,639,381	10,733,939	10,233,231	10,747,578
EQUITY	185,388,091	188,478,584	196,839,551	207,638,928	213,314,562
ASSETS	277,757,706	283,699,999	285,713,412	312,244,544	314,273,205



Market Share of Subsidiary ECE in Slovenia



Electricity Production in Subsidiary MHE – ELPRO





FOREWORD

by the chairman of the
management board

02



Our operation was successful

The Elektro Celje Public Limited Company followed the key goals of SHH, the company for managing capital assets, in managing the investments of power distribution companies in 2016. All operations were executed successfully in accordance with the confirmed operational plan and, at the same time, we generated an annual profit before tax in the amount of EUR 9.3 million. We realised investments in the amount of EUR 20.1 million and distributed electricity to 170,688 household and business customers. We have supplied a total of 1,944 GWh of electricity to the distribution network users, with the network charge charged to the company SODO amounting to EUR 86.6 million, which is 9.2% more than planned (EUR 79.2 million). The share of losses per unit of electricity distributed in 2016 stood at 4.93%, which is less than planned (5.3%) and less than the losses recognised as per the regulatory framework of the Energy Agency (5.7%). The value of services provided to customers amounted to EUR 1.5 million (with EUR 0.8 being planned).

We are building a robust network

We put the recently erected DTS 110/20 kV Žalec into operation. The investment amounting to over EUR 5 million is of great importance for further economic development of the Savinja Region. The operation of the new DTS 110/20 kV Žalec also enables a faster and simpler transition of the town of Celje to a higher voltage level. During this period, we executed the first phase of cabling the existing OPL 2x20 kV Nazarje – Ljubno, and OPL 20 kV Vuhred, built several 20/0.4 kV transformer substations and restored a large portion of the LV distribution network. We are actively conducting a project of siting OPL 2x110 kV DTS Trebnje – DTS 110/20 kV Mokronog – DTS 110/20 kV Sevnica. In 2016, the Government of the Republic of Slovenia issued a Decision on the most favourable OPL route. Because of that, we continued with the procedures to finish the NSP. Siting of the OPL 2x110 kV Ravne – Mežica installation was stopped because the Prevalje Municipality failed to confirm the recommended Municipal Detailed Spatial Plan (MDSP) in

2016. That is why we will begin with the activities of siting the OPL 2x110 kV in question according to the National Spatial Plan (NSP) in 2017.

In 2016, we continued with the process of replacing the existing electricity meters with more modern ones, enabling remote data transfer via various communication channels. At the end of 2016, we managed to increase the number of metering points included in the advanced metering system to 107,408, which represents **63%** of all metering points in the Elektro Celje, d.d. distribution area. In 2017, we will include at least another 13,000 metering points in the advanced metering system. This will enable us to increase the number of included metering points by 10%.

We have been active in digital transformation and, consequently, the change in the business operation model for several years. Renewable energy resources, e-mobility, distribution network automation and the use of modern metering devices with consumers result in data collection,

processing and exchange processes, based on which we perform technological optimisation of the functioning of the network and increase its efficiency reflecting also in its economical functioning. Here, it is important to realise that the data obtained can also be used as marketable goods and a new business opportunity for our company and, at the same time, for the distribution network users. Structured data enable them to manage their consumption in a manner that they find suitable and sensible.

Since our company is aware of the complexity of digitalisation and changes that are already taking place in the company, we have launched a project for information system renewal by implementing two new modern programmes (Microsoft Dynamics AX – AXEC project and EAM IBM Maximo – MaxEC project), which will enable the company to manage the electricity infrastructure and the rapidly changing business processes. The first project refers to setting up a comprehensive information system to support our operations, whereas for the second project, we are planning and establishing a Resource Management System throughout its entire life cycle.

We are strengthening cooperation in international projects

The company takes part in two international projects, **the Slovenian and Japanese NEDO project**, in the scope of which advanced functionalities enabling better coordination between stakeholders in the electricity system and more effective system operation will be established, and the European project **Flex4Grid**, focusing on developing an open technological system for data management and provision of services enabling management of the flexibility of distribution network users during both in consumption, as well as generation, of electricity.

Strategic guidelines

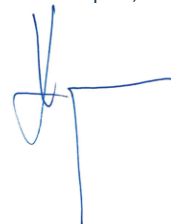
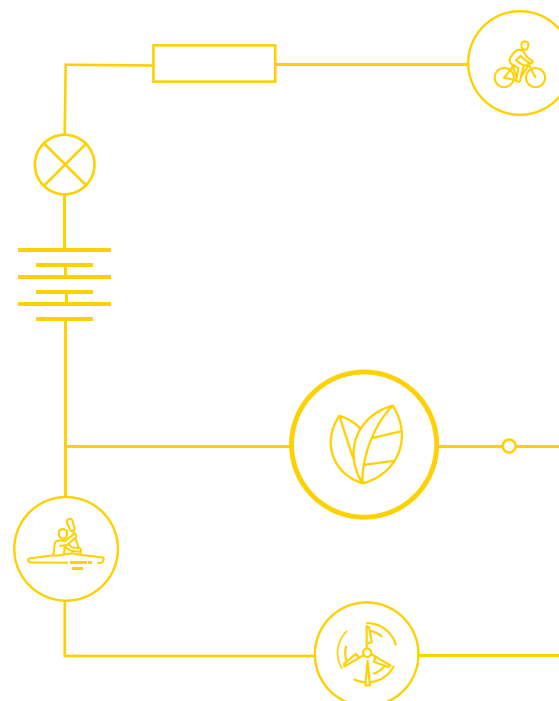
The company Elektro Celje adopted a strategic business plan for the period 2015 to 2018 and, consequently, strategic guidelines, goals, activities and duties. They are structured in a manner that enables the use of a system for managing strategy implementation with a balanced indicator system. In cooperation with the Supervisory Board, we determine maximum risks that the company shall take into account while attempting to reach its goals. The purpose of Risk Management is to recognise preferential risks (compliance with the legislation, safety of people, service quality, project management etc.), handle them and adopt measures for managing them within acceptable limits.

We strive for excellence

The company Elektro Celje accepted a decision and commitment to act in accordance with the principles of excellence years ago. By introducing quality management standards, developing standards and complying with regulations regarding occupational safety, concern for the health of employees and the environmental protection, and by adopting measures of a family-friendly enterprise, we have created a foundation for striving for, and proving the excellence of our organisation as defined in the excellence model **EFQM**. In 2016, we conducted a third self-appraisal in accordance with the EFQM model. Based on the results, we applied for the competition for the Business Excellence Prize of the Republic of Slovenia (PRSPO), managed by the Ministry of Economic Development and Technology. The main purpose of this was to evaluate our self-appraisal and to allow external appraisers to evaluate our organisation so that we would receive numerous opportunities to improve our activities and strengthen those we are good at. The number of points that we achieved

has confirmed our expectations based on the results from the internal appraisal, and we were placed among the PRSPO finalists. Additionally, we received an award for being included on the shortlist and the EFQM Recognised for Excellence Certificate.

Chairman of the Management Board
Boris Kupec, MSc

03 SUPERVISORY BOARD REPORT

I. INTRODUCTION

In 2016, The Supervisory Board supervised the operations of the company Elektro Celje d.d. and the Elektro Celje Group in accordance with relevant legislation, the company's Articles of Association, the Rules of Procedure of the Supervisory Board, the Code of Corporate Governance of State-Owned Enterprises, recommendations of the Capital Assets Management Agency of the Republic of Slovenia, and other principles of good practice of corporate governance. The SB read reports on the company's operations and other key company activities regularly, adopted adequate resolutions and monitored their implementation.

II. GENERAL INFORMATION

In 2016, the Supervisory Board of the company Elektro Celje, d.d. consisted of six members, four of whom were shareholder representatives:

- Mirjan Trampuž, BSc Electrical Engineering, MSM and MSc Energetics, Chairman,
- Dejan Božič, BA Economics, MBA, Deputy Chairman (until 19 June 2016),
- Mitja Vatovec, BA Economics, member (until 12 September 2016) and Deputy Chairman of the Supervisory Board (since 13 September 2016),
- Tatjana Habjan, BA Economics, member,
- Miha Kerin, MSc, member (since 1 September 2016)

and two employee representatives:

- Tomislav Pajić, BSc in Energy Technology,
- Boris Počivavšek, Electronics Engineer and energetics expert.

In 2016, the composition of the Supervisory Board changed due to the expiration of the mandate of one of the Supervisory Board members. In the period between 19 June 2016 and 31 August 2016, the Supervisory Board was comprised of five members.

The Supervisory Board had fifteen regular meetings and four meetings by correspondence in 2016. More meetings were needed so that a new Chairman could be selected; the Supervisory Board did not appoint a special Staff Committee for this purpose.

The Supervisory Board appointed the Supervisory Board Audit Committee consisting of:

- Tatjana Habjan, BA Economics, Chairwoman,
- Dejan Božič, BA Economics, MBA, member (until 19 June 2016),
- Mirjan Trampuž, BSc Electrical Engineering, MSM and MSc Energetics, member,
- Darinka Virant, BA Economics, independent external expert in accounting and finance, member of the Audit Committee

The Supervisory Board Audit Committee consisted of three members since 19 June 2016, at first due to the expiration of the mandate of an SB member, who was also an Audit Committee member, and from 1 September 2016, due to the amendment of the company's Articles of Association laying down the structure of the Audit Committee comprised of three members. Other appointed members of the Audit Committee continued with their duties after the Supervisory Board had adopted the Resolution.

The Supervisory Board Audit Committee had seven regular meetings and no meetings by correspondence.

The expenses for the operation of the Supervisory Board and the Audit Committee, which consist of payments for their duties, meeting fees, and training and business trip expenses, are in accordance with the Resolutions of the Shareholders Assembly and disclosed in Chapter 15.10.2 of the Annual Report of the company for 2016. A Contract was signed with the third-party independent expert taking part in the Audit Committee, which is subject to the

criteria and recommendations by the Capital Assets Management Agency of the Republic of Slovenia.

III. SUPERVISION OF OPERATIONS AND MANAGEMENT OF THE COMPANY

As part of its fundamental function of responsible supervision of company management, the Supervisory Board monitored the implementation of the set goals and the efficiency of company operations. The SB paid close attention to developmental orientations, risk management and improvements of the company. Its proactiveness and recommendations raised the company to a higher level of corporate governance.

The reports and data prepared by the Management Board enabled the Supervisory Board to conduct efficient supervision and reach informed and competent decisions. The Management Board observed and acted, except in certain legal matters, on the recommendations, instructions and resolutions adopted by the Supervisory Board, and prepared reports on their implementation regularly. In compliance with the company Articles of Association, the Supervisory Board granted approvals to individual company transactions. At its meetings, the Supervisory Board adopted the following decisions regarding individual tasks and areas of operations:

Appointment of the Chairman of the Management Board

- The Supervisory Board carried out the selection procedure, the appointment and the definition of rights and duties of the new Chairman of the Management Board. While doing that, it acknowledged the recommendations from the Code of Corporate Governance of State-Owned Enterprises, practical instructions for supervisory boards on management staffing, and the specificity of the company

or sector. It acknowledged the exclusion and evaluation criteria, the required profile of competences, the psychological evaluation results and the integrity of the work programme and candidates' vision during the selection process. Both the external and the internal candidates that had applied were treated in the same manner throughout the selection procedure.

- Pursuant to the Companies Act (ZGD-1), the Supervisory Board made sure that the total remuneration paid out to the Management Board is in proportion to the Management Board's tasks and the financial position of the company, as well as in compliance with the Act Governing the Remuneration of Managers of Companies with Majority Ownership held by the Republic of Slovenia or Self-Governing Local Communities.

Strategic planning and business excellence

- The SB monitored the realisation of strategic goals set out in the Strategic Business Plan of the company for the period 2015-2018, and noted the preparation activities for a new Strategic Business Plan.
- After putting the company on the path to business excellence, it noted the self-appraisal report following the EFQM excellence model in 2016 and supported the company when it applied for an evaluation to receive a Business Excellence Prize of the Republic of Slovenia.

Operations supervision

- The Supervisory Board (SB) was presented with Quarterly Reports on the operations and performance of the company Elektro Celje, d.d., and the companies ECE d.o.o. and MHE ELPRO d.o.o. within the Elektro Celje Group, examined reports on the collection of outstanding receivables and liabilities and on legal matters, while monitoring the company performance indicators carefully;

- The SB read the Quarterly Reports on Risk Management in the company Elektro Celje, d.d. and drew attention to possible risks in specific business areas, and suggested that the risk assessment methodology be modernised.
- From the Management Board of the company EC, the SB received and examined the report of the company ECE d.o.o. on the realisation of synergies from the merger of the companies ECE and EGP, as well as the reports of the Shareholders Assemblies of the company ECE d.o.o.
- The SB approved the Business Plan of the company Elektro Celje, d.d., and Elektro Celje Group for 2017, complete with the starting points for 2018 and 2019.
- The SB monitored the company's project to buy back its Treasury Shares.

Company organisation

- The SB confirmed the establishment of a new staff duty for organisational development and other recommended organisational changes in the company to strengthen business processes. These changes were introduced on 1 May 2016, and again on 1 January 2017.
- The SB examined individual business processes in greater detail, especially processes of orders, purchases, conclusion of contracts and staffing, and recommended which improvements could be made, pointing out potential risks.
- The SB monitored activities to discover possibilities for merging subsidiaries with strategic partners.

Digitalization

- The SB examined the Contract with Informatika d.d. on Information Services and recommended several adjustments.
- The SB gave consent to a Contract with Informatika d.d. for the introduction of a system for managing and maintaining resources, and monitored the renewal project.

- The SB gave consent to the Contract on Enterprise Resource Planning (ERP) Microsoft Dynamics AX system and monitored the renewal project.

Contracts

- The SB consented to the execution of important transactions in accordance with the company's Articles of Association.
- The SB reviewed individual Contracts, especially Contracts for loans, insurance, information support and purchase of key equipment, and demanded additional explanations, which it also received.
- With the help of the transaction regarding the contract overview of information service maintenance from the Internal Audit Department, it introduced changes in the quality of the contracts concluded and internal regulations for that area.

Internal Audit

- The SB confirmed the Operations Plan for the Internal Audit Department for 2016, the multi-annual Operating Plan of the Internal Audit Department, and the update of the fundamental document of Internal Audit Department activities with new Standards, and confirmed the Annual Report on the Internal Audit Department activities for 2015.

Shareholders Assembly

- The SB approved the Annual Report of the company Elektro Celje, d.d. for 2015, and the Consolidated Annual Report of the Elektro Celje Group, and adopted the report on the Annual Report audit.
- The SB approved the Audit Report on the operations of the companies in 2015.
- The SB proposed to the company's Shareholders Assembly that they appoint the auditing firm BDO Revizija, d.o.o., as the authorised Auditor for the fiscal year 2016, and concluded a Contract with the same.

- The SB proposed to the company's Shareholders Assembly that they adopt the Decision on granting a discharge from liability to the company Management Board and Supervisory Board for 2015, and approved the proposal of the Management Board for the allocation of distributable profits.

Corporate governance

- The SB adopted the Management Policy, which represents a framework of company management and in which the Supervisory and Management Boards, in accordance with legal and statutory provisions, undertake to disclose how they intend to oversee and manage the company.
- The SB adopted the dividend policy of the company and the management revenue policy.
- The SB adopted a profile of competences for members of the company's Supervisory Board with regard to the optimum size and structure of the SB, and recommended that the Shareholders Assembly appoint a Supervisory Board member as a member's mandate had expired, and amend the Articles of Association of the company.
- The SB renewed the rules of procedure regarding the work of the Supervisory Board and the Audit Committee.
- The SB was presented with the updated Code of Ethics and the reports of the Corporate Integrity Compliance Officer

IV. SUPERVISORY BOARD AUDIT COMMITTEE

Prior to the Supervisory Board meetings, the Audit Committee reviewed business reports for the reporting period and provided its opinion thereon to the Supervisory Board and recommendations for the Management Board. It worked in close cooperation with the Internal Audit Department. At its meetings, the Committee discussed the areas of financial reporting, the internal control system and risk management systems regularly. It studied the individual reports by the Internal Audit Department and reports on the status of outstanding receivables and liabilities, while examining in detail the individual key processes or operations.

In addition, the Committee conducted two separate interviews with the internal and independent auditors, without the Management Board being present. It participated in the selection process for Financial Statement auditors and held several interviews with them. The Committee also reviewed the unaudited and audited Annual Reports of the company of Elektro Celje, d.d., and the Consolidated Annual Report of the Elektro Celje Group, providing its opinion for the Supervisory Board.

The Audit Committee reported on its operations to the Supervisory Board, providing the perspective and recommendations to the points under evaluation. All members of the Supervisory Board receive Minutes from the meetings of the Audit Committee, which ensures the transparency of the Committee's operation and greater efficiency of the Supervisory Board. The Audit Committee's self-appraisal concerning its work in 2016 was performed in February 2017. The results have shown that the committee performs its tasks well; however, activities will be implemented in areas with opportunities for improvement.

V. SUPERVISORY BOARD COMPOSITION AND SELF-APPRAISAL

The members of the Supervisory Board representing the shareholders were appointed via a structured nomination accreditation procedure by the former Capital Assets Management Agency (AUKN) and the Slovene Compensation Company (SOD) referred to as SDH, d.d. in 2016, and subsequently elected and, thus, confirmed by the Shareholders Assembly; the employee representatives were elected by the Works Council.

All Supervisory Board members meet, in addition to the statutory criteria, the requirements of the Corporate Governance Code for state-owned assets of the Republic of Slovenia. The members of the board have relevant education, expertise, work experience, skills, and they are not in any potential conflict of interest with the company. They provide expert knowledge from different fields, as well as complementary knowledge and skills. The two employee repre-

sentatives also support the functions of the Supervisory Board with their long-years' experience and specific knowledge of power distribution and the conditions in the company.

The members of the Supervisory Board supervise the work of the company Management Board in a responsible and professional manner, which also reflects their personal involvement. The members are allowed to carry out their functions independently and objectively, but must acknowledge the interest of the company and the principles of corporate governance and good practice. They are committed to personal integrity and business ethics. All members of the Supervisory Board have signed the Statements of Independence and Absence of Conflict of Interest, published on the company website.

In 2016, the Shareholders Assembly acknowledged the recommendations of the Supervisory Board and adopted a Resolution to disburse funds for this purpose. Members of the Supervisory Board take part in training and education in specific fields that are relevant to the function of supervising the company's operations on their own initiative. Members of the Supervisory Board take part regularly in educational meetings organised by SSH, while also monitoring changes in the legislation, following current events that are important for the company's operations, or taking part in them.

The Supervisory Board continued what it had been practising in the past few years and conducted a self-assessment, or an assessment of work efficiency to improve the efficiency, communication and quality of work conducted by the Supervisory Board and Audit Committee and improve commercial practices. The Slovenian Directors' Association methodology was applied. The joint assessment was higher than the assessment from the previous year. The Supervisory Board examined each area that had not achieved the planned assessment individually, and adopted appropriate measures.

VI. SUPERVISION OF COMPANY AND GROUP OPERATIONS AFTER THE END OF THE FISCAL YEAR

After the end of the fiscal year 2016, the Supervisory Board devoted special attention to staffing, alteration of business processes, Risk Management, corporate integrity and Internal Audit Department activities, examination of the Annual Management Plan of SDH d.d., examination of the state when the company acquired its own shares, examination of the company's Annual Report for 2016, the review of the recommendation to alter the Strategic Business Plan and supplement the Business Plan of the subsidiary MHE ELPRO d.o.o., and to monitoring of the final phase of auditing the Financial Statements for 2016.

V. AUDIT AND APPROVAL OF THE ANNUAL REPORT

The Supervisory Board reviewed the audited 2016 Annual Report of the company Elektro Celje, d.d., and the Elektro Celje Group for 2016 at its 5th regular session held on 25 May 2017.

The Audit of the Annual Report was carried out by the authorised audit company, BDO Revizija, d.o.o. The company's subsidiary ECE, d.o.o. was audited as well. The audit company gave a favourable opinion on the Annual Report of Elektro Celje d.d. on 28 April 2017, as well as on the Consolidated Annual Report of the Elektro Celje Group for 2016.

In accordance with good practice, the Audit Committee examined the Annual Report for 2016, including the Audit Report and letter to the Management, and gave recommendations on supplementation, views and opinions, which were acknowledged by the Supervisory Board. It conducted these examinations prior to the meeting of the Supervisory Board and with due attention and in accordance with good practice.

The Supervisory Board discovered that the Annual Report of the Elektro Celje Group for 2016, which was prepared by the Management Board and reviewed by an Auditor, was drafted in a clear and transparent manner, and is in accordance with the provisions of ZGD-1, the Slovenian Accounting Standards that apply to the company, and the International Standards that apply to the Elektro Celje Group. The Supervisory Board believes that the Annual Report of the company and the Elektro Celje Group is a credible reflection of the companies' operations in the past financial year, and presents a true and fair view of the financial state of Elektro Celje, d.d., and the Elektro Celje Group on 31 December, 2016, of its Profit or Loss and Cash Flows in 2016.

Therefore, based on its own audit of the Annual Reports, the review of the Audit Report issued by the certified auditor for 2016, and the report by the Supervisory Board Audit Committee on the audit of the Annual Report of the company Elektro Celje, d.d., for 2016 and of the Consolidated Annual

Report of Elektro Celje Group:

- The Supervisory Board of the company Elektro Celje, d.d., approves, without any comments, the Annual Report of the company Elektro Celje, d.d. for 2016 and the Consolidated Annual Report of the Elektro Celje Group for 2016.
- The Supervisory Board of the company Elektro Celje, d.d., gives a positive opinion on the Audit Report on the companies' operations in 2016, as it finds that the Report was compiled in conformity with the relevant law and prepared on the basis of a careful and comprehensive review of the operations and performance and the Annual Reports of Group companies.
- The Supervisory Board of the company Elektro Celje, d.d., proposes to the Shareholders Assembly to adopt the Decision to grant discharge from liability to the company Management Board and Supervisory Board for the year 2016, for it judges that the company operations were carried out in conformity with the set goals and the Business Plan for 2016.
- The Supervisory Board hereby adopts the Supervisory Board Audit Committee Report on the audit of the Annual Report of the company Elektro Celje and of the Consolidated Annual Report of the Elektro Celje Group for 2016.

Celje, 25 May 2017

Chairman of the Supervisory Board
Mirjan Trampuž, MSM and MSc Energetics



Elektro Celje

BUSINESS REPORT



RELATIONSHIP



ENTREPRENEURSHIP

We continuously strengthen self-initiative and entrepreneurial spirit. We strive to create a productive work environment, enabling personal and professional development of all employees. We encourage creativity and identification of opportunities for improvement.

04 OVERVIEW OF MAJOR EVENTS



January

- On 1 January 2016, the organisational units **Rogaška Slatina** and **Šmarje pri Jelšah** control units were abolished with a new organisational unit – the Mestinje control unit formed in their place. The organisational unit Selce Warehouse was also abolished.
- On 20 January 2016, a control audit of the occupational health and safety management system performed by **external examiners of the testing, inspection and certification firm Bureau Veritas Certification**

showed that our company honours the commitments made when we introduced the occupational health and safety management system.

- On 21 January 2016, the **Government of the Republic of Slovenia** appointed two inter-sectoral groups in the field of energy industry to find synergy effects in investing in construction of smart grids and broadband infrastructure. The task of the working group for the regulation of the DNSO's PU service is to perform activities nec-

essary for the implementation of engagements from the response report and to create a plan of activities necessary for achieving the objectives of acquiring 100% state ownership stakes in the five EDCs and to divest or break-up subsidiaries for the sale and trading of electricity from their parent distribution companies, which own a significant part of the distribution network in the Republic of Slovenia, or otherwise to reorganise the distribution groups into holding companies.



March

- At its 5th regular session held on 21 March 2016, the **Supervisory Board of the company** adopted the decision to appoint a new **Chairman of the Management Board**. The position of Chairman

of the Management Board of the company Elektro Celje for the subsequent four-year term, extending from 1 May 2016 to 30 April 2020 was given to Boris Kupec, BSEE, MSc.

- The company Elektro Celje agreed to submit the application for **the EFQM Business Excellence model** in accordance with the decision of the Supervisory Board.



April

- A scheduled general strike with requirements which were submitted to the Government of the Republic of Slovenia pursuant to the provisions of the Strike Act took place in the company in the period from 4 to 18 April 2016 in accordance with the decision of the committee of the Trade Union of Energy Sector Workers of Slovenia.
- At the **second strategic conference of Slovene Electricity Distribution, which was held on 5 April**, EDCs presented the state of devel-

opment of smart grids in Slovenia, highlighting legislative barriers and emphasising numerous advantages and challenges of smart grids for end users.

- At the **Energetika (Energy Industry) Fair**, which took place from 12 to 15 April, the company Elektro Celje together with its partnership companies ECE d.o.o. and Gorenjске elektrarne, d.o.o. presented themselves, together with the European Development Project Flex4Grid. The project is aimed

at developing a smart grid of the future which will enable users to adapt the consumption or production of electricity to the needs of other stakeholders of the distribution network.

- The company began the **process of the third self-appraisal, conducted on the basis of the EFQM model in April**. In addition to appraising and acknowledging achievements, the motivation for participation was above all benchmarking with top organisations.



May

- **Replacement of the e-mail provider and Lync cooperation tool began.** The existing e-mail boxes

and Lync accounts hosted on the infrastructure of the company Informatika d.d. were migrated to the

cloud of the company Microsoft Office365.



June

- **In June 2016, the company Elektro Celje, d.d. decided to implement two major information projects,** which will be launched by the end of 2017:
- **establishment of a comprehensive information system to support operations** (ERP – En-

terprise Resource Planning) – the Microsoft Dynamics AX system, with the company Informatika d.d. being the contractor and the company Adacta d.o.o. being the subcontractor will be established.
- **establishment of the asset management system** (EAM – Enter-

prise Asset Management). The IBM Maximo system will be established with the company Informatika d.d. being the contractor and the companies Troia d.o.o. and IBM d.o.o. being subcontractors.



August

- **On August 31 2016, at the 21st regular Shareholders Assembly of Elektro Celje, d.d.,** the shareholders were informed of the company's operations in 2015 and presented with the reports of the Management and Supervisory Boards. The shareholders adopted the decision on the use of distributable profit in the amount of EUR 3,235,246.43, that is: EUR 3,234,527.22 to be used for dividend pay-outs in the gross amount of EUR 0.1337 per share, with the remainder of the distributable profit amounting to EUR 719.21 EUR to remain unal-

located. The audit company BDO revizija was appointed as the certified auditor for the fiscal year 2016. The shareholders appointed Miha Kerina, MSc as a new Supervisory Board member, effective as of 1 September 2016 and approved the proposal of payments to the Supervisory Board members. The shareholders approved the amendment and supplementation of the company's Articles of Association pursuant to the proposed text of the Articles of Association of the proposer, the company SDH, d.d., and adopted a decision authorising the

Management Board to acquire and dispose of the company's treasury shares.

- **Self-appraisal based on the EFQM model** was concluded and a response to a call for tenders for the PRSPO Business Excellence prepared.
- **A contract for purchasing meters and related equipment was signed in August** between the supplier of the equipment and four EDCs, with a schedule plan for supplying the meters by the end of 2016 prepared.



September

- **The document referred to as the Rules of Management of the company Elektro Celje, d.d. effective as of 1 September 2016 was established for managing processes related to the adopted standards.**
- **The newly constructed DS 110/20 kV Žalec distribution substation was opened in September.** The investment worth slightly more than EUR 5 million is of vital importance for further economic development of the Savinjska region. The facility currently supplies the entire Arnovski gozd business zone, the Juteks complex and the company Novem Car Interior with electricity. New underground cables to

the town of Žalec and supply lines towards Celje were constructed. The new Žalec distribution substation enables, among other things, a quicker and simpler transition of the town of Celje to a higher voltage level.

- **Internal audits of quality, environmental, and occupational health and safety management systems were conducted in September.** A review of system functioning was performed by the Management System Council, all documents were reviewed and the process of updating the documents started.
- **The first assessment of the EU project Flex4Grid, which is usu-**

ally performed for such projects at the mid-term of the duration of the project, **was held in mid-September.** The company Elektro Celje, d.d. successfully presented a work package entitled "Implementation and Validation of Project Pilot Testing" and exceeded the expectations of the European Commission with certain results. Thus, the company began the second part of the project and consequently, while the second part of financing of the project from the EU Financial Framework Horizon 2020 will also be approved.



October

- **External audits of management systems (quality and environmental management systems) were conducted in October.**



November

- On 11 November 2016 the company Elektro Celje, d.d. began implementing **the programme of purchasing treasury shares outside the organised market** based on the decision adopted at the Shareholder's Assembly.

Events after the End of the Accounting Period

• **Changes to the Organisation of the Company Elektro Celje**

Certain organisational changes were implemented on 1 January 2017 after consultation with social partners and with the consent of the company's Supervisory Board. In a period of increasing speed of change, the company has to also make adjustments to certain processes and find a way to respond to these changes. If we wish to be successful, we have to find capacities to enable us to operate more effectively. These capacities are also reflected in the organisational structure itself.

• **Calculating Network Charges on 2 January 2017**

The 2nd of January is a holiday pursuant to the Act Amending the Public Holidays and Work-off Days in the Republic of Slovenia Act (Official Gazette of the Republic of Slovenia, No. 83 dated 23 December 2016). In accordance with the guidelines received from the EAgEn, we have notified our customers that the change of daily periods in calculating network charges would be arranged remotely for meter points included in the advanced metering system by 2 January 2017 and that the timely adaptation of metering devices will be possible. At meter points where the change of

daily periods in charging for the network charge requires a visit to the meter point in the field, the change will be implemented by the end of 2017 as adaptation in the short time available is not possible. At these meter points, the network charge will be, in accordance with the opinion of the EAgEn, calculated identically on 2 January 2017 as on working days.

- **Amendment no. 5 to the Agreement on the Lease of Electricity Distribution Infrastructure and Provision of Services for the Distribution Network System Operator for the regulatory period 2016-2018** was signed in February.

05 COMPANY GOVERNANCE AND MANAGEMENT

The corporate governance bodies at Elektro Celje are: the Management Board, the Supervisory Board and the Shareholders Assembly.

The Management Board is composed of a single member appointed by the company's Supervisory Board for a four-year mandate. In 2016, the company Elektro Celje was managed by the Management Board, represented by the Chairman of the Management Board Rade Knežević, BSEE during the period from 1 January 2016 until his retirement on 30 April 2016. **Boris Kupec, MSc** was given the position as new Chairman of the Management Board for a four-year mandate from 1 May 2016 to 30 April 2020 by the Supervisory Board of the company Elektro Celje at its 5th session, held on 21 March 2016.

The Supervisory Board is composed of six members, two of whom are employee representatives. The members of the Supervisory Board are appointed for four-year terms and are eligible for re-election. The members of the Supervisory Board representing capital are appointed to the board by the Shareholders Assembly with a simple majority of the shareholders present. The two board members representing employees are appointed by the company's Works Council.

In 2016, the company's Supervisory Board was composed of:

Representatives of shareholders:

Mirjan Trampuž, MSM and MSc Energetics, MBA – Chairman of the Supervisory Board

Dejan Božič, MBA – Deputy Chairman (until 19 June 2016)

Mitja Vatovec, BA in Economics – member of the Supervisory Board (from 1 January 2016 to 12 September 2016) and Deputy Chairman (from 13 September 2016)

Tatjana Habjan, BA in Economics – member of the Supervisory Board
Miha Kerin, MSc – member of the Supervisory Board (from 1 September 2016)

Representatives of employees:

Tomislav Pajić, BSc in energy technology – member of the Supervisory Board

Boris Počivavšek – member of the Supervisory Board

5.1 Elektro Celje Corporate Governance Statement

The Management and Supervisory Boards of the company Elektro Celje, d.d. declare that the management of the company in 2016 was carried out in accordance with the laws and regulations, the Articles of Association of the joint-stock company Elektro Celje as well as the recommendations and expectations of Slovenski državni holding d.d. - Slovene Sovereign Holding (February 2016, published on its website www.sdh.si).

In its work and operations, Elektro Celje voluntarily observes and applies the Corporate Governance Code for Companies with Capital Assets of the State (March 2016, published on the website of Slovene Sovereign Holding (SSH); www.sdh.si).

The Corporate Government Statement is an integral part of the 2016 Annual Report and is accessible on the company's website www.elektro-celje.si.

The Management Board represents the company and manages the com-

pany's business independently and on its own responsibility. In doing so, it makes decisions in line with the strategic goals of the company and to the benefit of the shareholders. The system of governance and management steers the company and enables supervision over the company and its controlled undertakings. It defines the distribution of rights and responsibilities among the managing bodies, determines the rules and procedures to follow in deciding on corporate issues, provides a framework for setting, achieving and supervising the achievement of business goals, and establishes the values, principles and standards of fair and responsible decision-making and behaviour in all aspects of the company's business. The applicable regulations important for the operation of the company as well as the company's Articles of Association are published on the company's website (www.elektro-celje.si).

The governance and management system is a means for achieving the com-

pany's long-term strategic goals and the manner in which the Management Board and the Supervisory Board of the company Elektro Celje, d.d., carry out their responsibility towards shareholders and other stakeholders of the company. The vision and objective of Elektro Celje and its subsidiaries is the implementation of modern principles of governance and management and represents the fullest conformity with advanced business practices in Slovenia and abroad.

Explanations Relating to the Code of Corporate Governance of State-Owned Enterprises and Recommendations and Expectations of the Slovenian Sovereign Holding.

In 2016, the company's operation did not deviate from the principles, procedures and criteria prescribed by the above code or from recommendations and expectations of the company SSH. The company declares that it may depart from the latter when the provisions of the said code or recom-

mendations and expectations are already governed differently by the law or the company's Articles of Association, when non-mandatory actions are not prescribed in the company acts, or when practices are not established as legal obligations.

The company's operations deviated from the following principles, procedures and criteria:

- **Public Obligations and Duties** – Section 5.1.2:

The company Elektro Celje, d. d. has no public obligations and duties.

- **Non-Economic Goals** – Section 5.1.3: The company Elektro Celje, d. d. has no non-economic goals.

- **Supervisory Board** – The selection procedure of candidates for the Supervisory Board and proposal-making for the Assembly – section 6.8.1, Section 6.8.2:

In 2016, the Supervisory Board did not set up a Nomination Committee for the selection procedure of candidates for the Supervisory Board and, consequently, accepted no new external members. In accordance with Section 6.8.7, the Supervisory Board functioned as a Nomination Committee and followed the proposals from Sections 6.8.3 to 6.8.5.

- **Management Board, or Management** – Remuneration paid out to the Management Board members – Section 7.3:

The Supervisory Board determines the remuneration paid out to the Management Board members pursuant to the Act Governing the Remuneration of Managers of Companies with Majority Ownership held by the Republic of Slovenia or Self-Governing Local Communities (Official Gazette RS, nos. 21/10 and 8/11).

It is this company's opinion that the members of the Supervisory Board are professional, responsible and independent in performing their duties and act in accordance with the provisions of the said Code as well as recommendations and expectations of SHH.

The company also declares that in 2016, the Management Board of the controlling company has actively followed and directly supervised the op-

eration of the controlled undertakings ECE, d. o. o., and MHE – ELPRO, d. o. o., in accordance with strategic guidelines, with the purpose of achieving the set business objectives. In the governance and management of its subsidiaries, the company has imposed uniform corporate governance standards as apply for the controlling company in the Elektro Celje Group.

Elektro Celje will continue to observe the recommendations of SSH in the future, fine-tuning and improving its management system accordingly. In the case of any departure from the present statement on the Code's observance, the company will see to its timely publication.

Clarifications in accordance with the Companies Act

Pursuant to the provision of Paragraph 5 of Article 70 of the Companies Act (ZGD-1), which establishes the minimum required contents of the corporate governance statement, the company Elektro Celje sets forth the following clarifications:

1. Description of the principal characteristics of internal control and risk management systems in the company in connection with the financial reporting procedure.

Internal controls represent guidelines and procedures that the company Elektro Celje conducts at all levels to manage risks, including those related to financial reporting. The purpose of this process is to ensure the efficiency and success of operations, and the reliability of financial reporting in accordance with applicable laws and other external and internal regulations. Accounting controls are based on authenticity verification, the division of responsibilities, transaction execution control, up-to-date record keeping, and checking if the balance in accounting records corresponds to the actual situation.

The company has established a system of internal controls and Risk Management related to financial reporting. In this system, controls are integrated into business processes and systems, more precisely, they are connected with financial reporting procedures, and defined in the accounting rules and regulations, the provisions of the financial

regulation, the provisions of stock verification and precise guidelines within the scope of ISO documents. The controls include, among other things, double control and confirmation of accuracy, completeness and authenticity of transactions, which must be proven with invoices and other accounting documents, verification of accounting situations (e.g. by checking if the figures correspond with those of buyers and suppliers, checking if the balance in books corresponds with the actual balance) and the limitation of authority and responsibility (e.g. separate booking and payment of invoices, obligatory additional confirmation of payments).

Accounting controls are related closely to controls in the field of Information Support which, among other things, guarantee limitations and monitoring of data and application access (access rights are granted selectively) as well as completeness (systemic control) and accuracy of data collection and processing.

The adequacy of internal controls is checked by an authorised audit company annually. In addition to that, the company also established an Internal Audit reviewing the adequacy and efficiency of the established internal controls and their reliability when several risks are being managed simultaneously.

2. Significant direct and indirect ownership of the company's securities in terms of achieving a qualified holding, as determined by the act governing acquisitions.

All company shares are ordinary registered no-par value shares giving their holders the right to manage the company, and entitlement to a dividend and to the payment of remaining assets in the event of liquidation. All shares are of the same class and issued in un-certificated form. All shares are freely transferable.

The owner of a qualified holding as determined by the Takeovers Act of the company Elektro Celje, d.d., is as of 31 December 2016, the Republic of Slovenia, with a 79.50% ownership stake; that is 19,232,978 shares.

The company Elektro Celje has no share schemes for employees.

3. Clarifications on each holder of securities with special controlling rights.

Individual shareholders of the company Elektro Celje, d.d. have no special controlling rights arising from their holding shares of the company. There are no special agreements that could result in a restriction on the transfer of shares or delegation of voting rights.

4. Clarifications concerning all restrictions of voting rights.

The shareholders of Elektro Celje, d.d. have no restrictions in exercising their voting rights.

5. The company's rules on the appointment and replacement of members of management or supervisory bodies and amendments to the Articles of Association.

Company regulations do not govern separately the appointment or replacement of members of management or supervisory bodies or amendments to the Articles of Association. In such cases, the company refers entirely to the current legislation.

6. Authorisation to the management, particularly authorisations to issue or purchase treasury shares.

In 2016, the company Elektro Celje, d.d. obtained an authorisation to redeem treasury shares based on the decision of the Shareholder's Assembly dated 31 August 2016 and adopted the Regulation on the treasury shares fund. Based on the authorisation of the general meeting valid for the period from 1 September 2016 to 31 March 2018, the company's Management Board is authorised to acquire up to 2,419,242 shares in total, representing 10% of the company's share capital. The authorisation enabled the company's Management Board to acquire up to 790,068 treasury shares in 2016, up to 781,443 treasury shares in 2017 and in 2018, treasury shares up to the amount of difference between 2,419,242 shares and acquired treasury shares in 2016 and 2017. Following the authorisation of the general

meeting, the company may purchase treasury shares in the period from 1 September 2016 to 31 March 2018 at a price not lower than EUR 2.38 and not higher than EUR 3.43 per share.

Based on the authorisation and decision of the general meeting, the company acquires shares for the purposes defined in paragraph one Article 247 of ZGD-1 due to increased value of the company's assets and for other purposes. Following the authorisation of the general meeting and the conducted public call for shareholders to redeem treasury shares, the company acquired 227,661 treasury shares in 2016.

7. Activities of the company's general meeting and its key responsibilities.

In 2016, the Shareholders Assembly met once. The powers of the Shareholders Assembly and the shareholders' rights are specified by law and shall be exercised in the manner as provided in the company's Articles of Association, assembly rules of procedure and by the Chair of the Assembly.

8. Data on the structure and operation of the management and supervisory bodies and their commissions.

A comprehensive presentation of the management and supervisory bodies and their commissions is given in the Annual Report 2016.

9. System of Operations Compliance and Corporate Integrity

A system of corporate integrity with elements containing elements defined by the Slovenian Guidelines of Corporate Integrity was established and used in the company in 2016. Corporate integrity and the related risks are integrated in the company's existing risk management system. Risks related to corporate integrity are included in the Risk Register, where they are identified, assessed and managed through proposed measures. Through a corporate integrity officer, a mechanism for regular and comprehensive identification of corporate integrity risks, their assessment and a systematic and in-


dependent control of risk management efficiency was established.

The company's corporate integrity is one of our strategic goals and as such, integrated into the strategic orientation of the Elektro Celje Group. In this way, we wish to facilitate the attainment of set goals, promote proactive management, enhance the identification of opportunities and threats, act in compliance with the applicable regulations and standards, and increase operational efficiency and performance.

In 2016, we renewed the Code of Ethics defining the basic principles and rules followed by our personnel, providing an additional basis for ensuring compliance of operations with positive legislation and codes and a legal framework for ensuring data protection and integrity and prevention of discrimination of all forms in the workplace. The renewed Code of Ethics was distributed to all employees in printed edition and is published on the company's intranet as well as its website for the purpose of informing the internal and external publics about its content. All employees have signed the statement on acquaintance with and observation of the provisions of the Code of Ethics. The company adopted additional organisational and technical measures, enabling anonymous notification of any irregularities or violations of compliance of operations in the company by means of an additional communication channel. Any procedures of disclosure of conflicts of interest, self-elimination and adoptions of decisions on elimination are also recorded through the corporate integrity officer appointed by the Management Board.

Pursuant to Article 60a of the Companies Act, the Management Board and the Supervisory Board of the company Elektro Celje, d.d., jointly ensure that the Annual Report of the Company Elektro Celje and Elektro Celje Group for the year 2016 is compiled and published in compliance with the Companies Act and Slovenian Accounting Standards.

Chairman of the Management Board
Boris Kupec, MSc

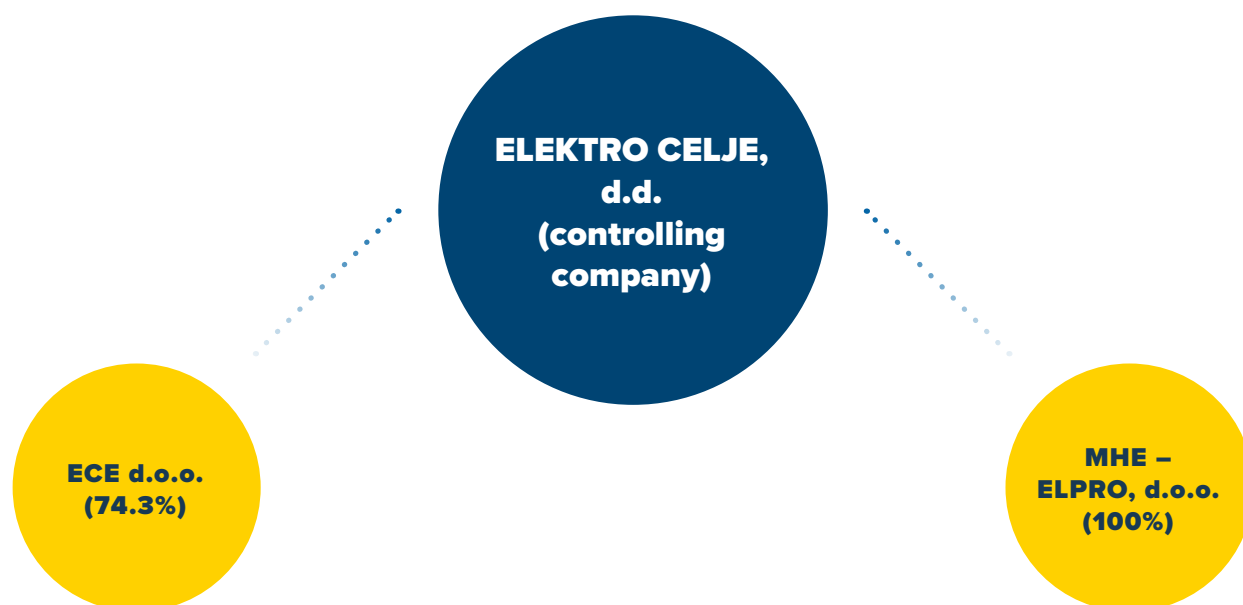


Chairman of the Supervisory Board
Mirjan Trampuž, MSM and MSc Energetics



06 PRESENTATION OF ELEKTRO CELJE GROUP

ELEKTRO CELJE GROUP



6.1 Controlling Company Elektro Celje

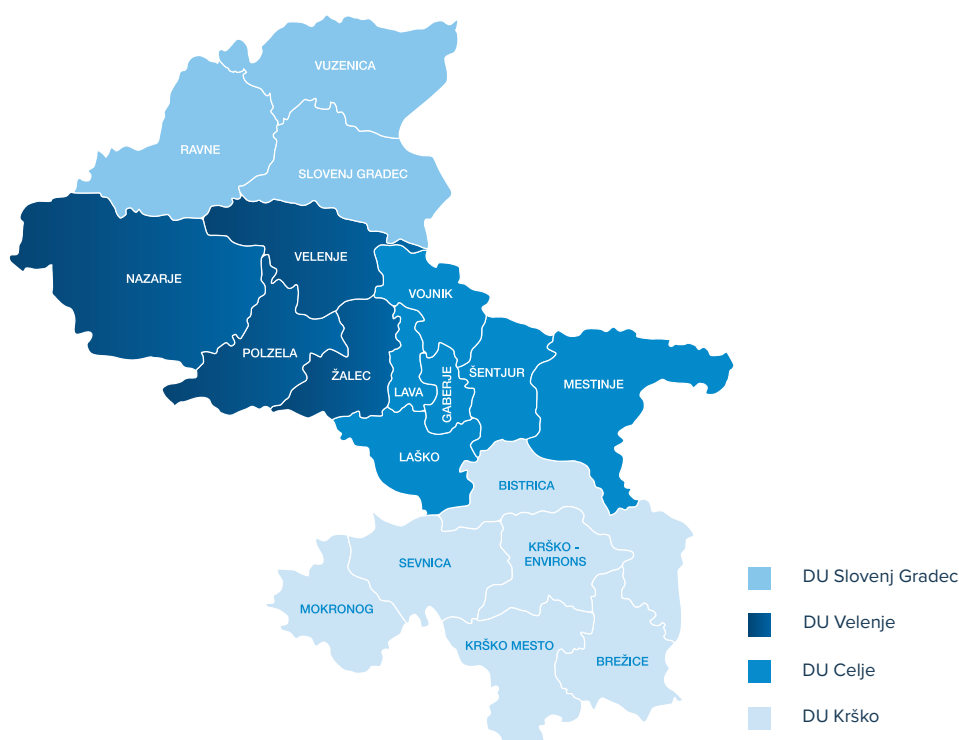
6.1.1 Elektro Celje Company Profile

Elektro Celje is part of the electric power system of the Republic of Slovenia and one of the five electricity distribution companies in the country. Since 2007, the company has been registered as a limited company governed by private law, performing network (i.e., regulated) activities and electricity infrastructure related marketing services.

Elektro Celje, d.d., is the owner of an electricity infrastructure consisting of over 13,000 km of low-voltage networks, over 800 km of medium-voltage underground cables, 103

km of 110 kV overhead power lines, over 2,600 km of medium-voltage overhead power lines, 18 distribution transformer substations, 14 distribution substations, and over 3,400 transformer substations. On 1 July 2007, the company leased its electricity infrastructure to the provider of economic public service of the national electricity distribution network system operator, the company SODO d.o.o., signing the Agreement on the Lease of Electricity Distribution Infrastructure and Provision of Services for the Distribution Network System Operator.

Elektro Celje, d.d. is in charge of the supervision, management and operation of the electricity distribution network, as well as maintenance, construction and refurbishment of electric power distribution lines and devices in an area extending over 4,345 km² or 22% of the total territory of Slovenia in the Savinjska, Koroška and Spodnjeposavska regions, comprising 40 municipalities in their entirety and 2 in part. The dispersed lines and devices supplying over 170,000 costumers represent, in view of its total length, the longest network among the five distribution companies in Slovenia.



Elektro Celje Company Profile	
Company:	ELEKTRO CELJE, podjetje za distribucijo električne energije, d.d.
Abbreviated name:	ELEKTRO CELJE, d.d.
Head office:	Vrunčeva 2a, 3000 Celje
Legal registration:	Register of Companies of the District Court of Celje, Reg. No.1/00600/00
Company share capital:	EUR 100,953,200.63
Number of shares:	24,192,425
Registration number:	5223067
VAT identification number:	SI62166859
Current accounts:	03118-1000007817 with SKB banka 29000-0001897565 with SKB UniCredit Bank 02234-0010129952 with NLB 10100-0047650663 with Banka Koper
Company size (according to the provisions of the Companies Act-1):	632
Number of employees as of 31 December 2016:	three Slovene regions: Savinjska, Koroška and Spodnjeposavska, with 40 municipalities in their entirety and 2 in part
Distribution area:	4,345 km ²
Size of distribution area:	1,944,411 MWh
Number of MWh distributed in 2016:	170,688
Number of customers as of 31 December 2016:	
CONTACT DETAILS FOR ELEKTRO CELJE	
Telephone:	+386 (03) 42 01 000
Fax:	+386 (03) 42 01 010
Call centre:	+386 (03) 42 01 180
Press contact:	+386 (03) 42 01 435
Website:	(03) 42 01 435
E-mail:	http://www.elektro-celje.si
Chairman of the Management Board:	info@elektro-celje.si
Chairman of the Supervisory Board:	Boris Kupec, MSc
	Mirjan Trampuž, MSM and MSc Energetics, MBA

6.1.2 Mission, Vision and Values of the Company Elektro Celje

MISSION



To provide a reliable, high-quality, cost-effective and environment-friendly electric power supply and related services based on partnership and innovation.

VISION



To become a leading company with a technologically advanced electricity network comprehensively supplying electricity to customers in the territory of Slovenia, which will lead to the recognition of the company in society as an agent of improvement of quality of life, with a responsible attitude towards the environment and its employees.

VALUES



Good faith and fair dealing, professional competence and entrepreneurship, partnership, respect and responsibility, positive communication, equality, healthy lifestyle, safety at work and data protection.

6.1.3 Organisational Structure of Elektro Celje

The organisational structure of the company is based on the applicable Rules and Regulations on Internal

Organisation and Job Classification, which are set to ensure expert, efficient and rational performance of

company operations, as well as provide efficient internal control over the execution of the tasks.

SUPERVISORY BOARD

MANAGEMENT BOARD

INTERNAL AUDIT

MANAGEMENT BOARD CABINET

Business Data Processing Department
Human Resources Department
Organisational Development Department
OHS and FS Department

JOINT SERVICES SECTOR

General Services Department
Legal Department
Purchase and Procurement Department
Plant and Transportation Logistics Department

ECONOMIC AND FINANCIAL SECTOR

Financial Services Department
Accounting Department
Planning and Analysis Department

MAINTENANCE AND ENGINEERING SECTOR

Distribution Unit Celje
Distribution Unit Krško
Distribution Unit Slovenj Gradec
Distribution Unit Velenje
Engineering Department

DEVELOPMENT AND OPERATIONS SECTOR

Operations Department
Development Department
Protection and Remote Control Department
Telecommunications Department
Network Access and Numerical Metering Department
Network Charge Department

6.2 Subsidiary ECE

ECE, energetska družba, d.o.o. was established with a social contract on 4 September 2015. The company was established by the companies Elektro Celje and Elektro Gorenjska. The partner Elektro Gorenjska, d.d. entered the company in the process of

merger by acquisition of its subsidiary Elektro Gorenjska Prodaja by Elektro Celje Energija.

The business stake of each member in the subsidiary's share capital is as follows:

- Elektro Celje, d.d.: 74.3256%

- Elektro Gorenjska, d.d.: 25.6744%

The company ECE is managed by Sebastijan Roudi, MSc. The company has no Supervisory Board of its own.

6.2.1 ECE Company Profile

ECE Company Profile	
Company:	ECE, energetska družba, d.o.o.
Abbreviated name:	ECE d.o.o.
Head office:	Vrunčeva 2a, 3000 Celje
Branch offices:	Celje, Kranj, Krško, Slovenj Gradec, Velenje, Žirovnica
Legal registration:	Register of Companies of the District Court of Celje, ref. number Srg 2011/36741, and changes following merger by acquisition, ref. number Srg 2015/37235
Company share capital:	EUR 3,436,767.65
Registration number:	6064892000
VAT identification number:	SI55722679
Current accounts:	03118-1000877810 with SKB banka 02943-0259709385 with NLB 30000-0009265864 with Sberbank 19100-0010311251 with Deželna banka Slovenije 07000-0002705420 with Gorenjska banka
Company size (according to the provisions of the Companies Act-1):	large company
Number of employees as of 31 December 2016:	75
Number of MWh sold in 2016:	2,728,918 MWh
Number of customers as of 31 December 2016:	174,994
CONTACT DETAILS FOR ECE	
Telephone:	+386 (0)80 22 04
Fax:	+386 (03) 62 09 559
Website:	http://www.ece.si
E-mail:	info@ece.si , prodaja@ece.si , podjetja@ece.si
Managing director:	Mitja Terče, MSc (until 8 August, 2016) Sebastijan Roudi, MSc (since 8 August, 2016)
Procurator and assistant managing director:	Erik Dobnik, MSc

6.2.2 Strategic Orientation of the Company ECE

The strategic orientation of the company ECE is defined in section 7.1.

6.2.3 Operations of ECE

The company's main activities are purchase and sale of electricity and other energy products to final customers, i.e. households as well as business customers. The sale is mainly performed in the Savinjska,

Gorenjska, Koroška and Spodnje-posavska regions.

In 2016, the company also performed the activity of selling other merchandise via an online shop, predominant-

ly intended for promoting the use of economical electrical devices, thus contributing to greater environmental responsibility.

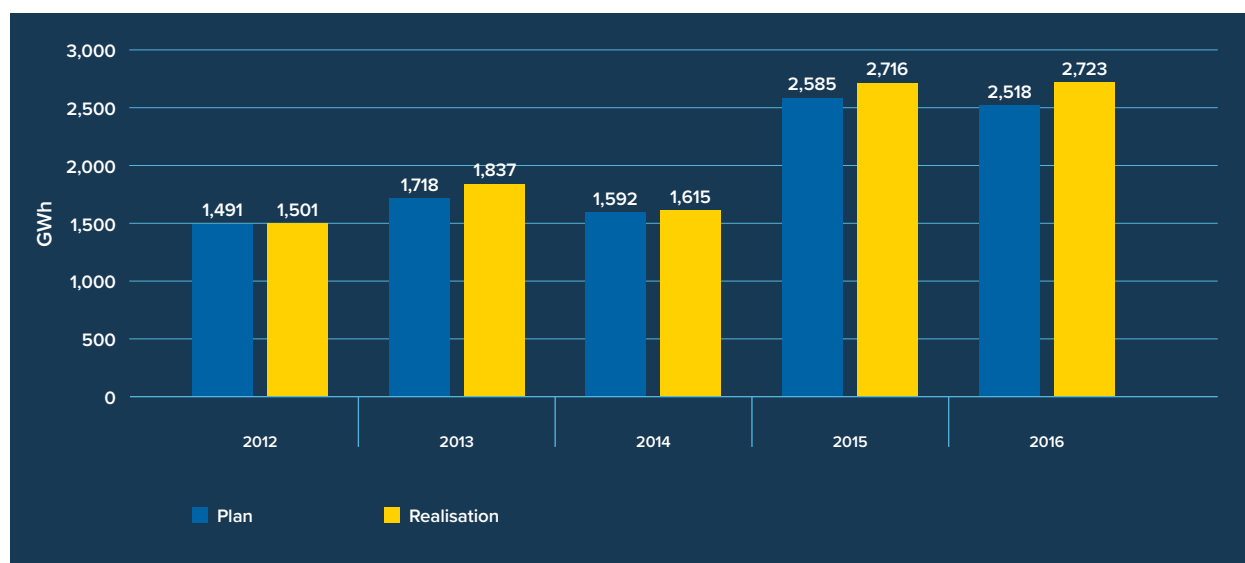
6.2.3.1 Purchase of Electricity

The total purchase of electricity in 2016 was 8.1% higher than planned. The purchase of electricity by the end of 2016 amounted to 2,723,116 MWh. The total purchase includes devia-

tions from timetables and purchase at the Southpool stock exchange. The amounts for reconciliation of deviations for 2016 and the difference between invoiced purchases and in-

voiced sales must also be taken into account in the purchase. The purchase of electricity increased by 0.9% compared to 2015.

Purchase of electricity in the period from 2012 to 2016



The share in the structure of electricity purchases amounted to 75.3%

for business customers (73.8% in the year before) and 24.7% for house-

holds (26.1% in 2015).

6.2.3.2 Sales of Electricity

In 2016, the sales of electricity amounted to 2,728,918 MWh, which is 0.5% more than in 2015. The sales to household customers amounted to 654,778 MWh (7.5% less than in 2015) and those to business customers 2,074,138 MWh (3.3% more compared to 2015). The sale of electricity

also includes the sale on the Borzen Southpool stock exchange and sale in view of deviations from timetables amounting to 77,647 MWh in total.

Sales of electricity to business customers

Business customers are legal per-

sons purchasing electricity for the needs of their operations. They are classified into large, medium-sized and small business customers in view of their annual consumption.

A custom-tailored offer, personal administrator and portal including key

information are available for large business customers. Some customers decided to switch to another supplier due to fierce competition, nevertheless, we managed to attract more new customers and slightly increase sales in this segment.

Medium-sized and small business customers were addressed at the mass level, with a standardised offer, which will be supplemented with an individual approach in future. Fewer customers than in the past responded to the standard written offer, despite more favourable supply conditions compared to the existing ones. Those who did not respond were contacted individually, which turned out to be a good decision as we managed to conclude new contracts with most customers. We achieve positive price differences in these two groups, which are thus also interesting for the competition. Therefore, the number

of agents offering electricity to small business customers for various suppliers increased.

In 2016, the number of metering points (23,627) and business consumption customers (13,423) decreased. This is mainly due to the expired tender of the Slovene municipalities group. We had a concluded umbrella agreement with them valid until the end of 2015, but were not selected in the new tender. In spite of the smaller number of metering points, we managed to increase sold quantities by attracting new customers with larger electricity consumption at a smaller number of metering points.

Sales of electricity to household customers

In 2016, we continued with the offer "A cell phone for EUR 1" for new customers at stands in large shopping centres and through agents in

the field. Around 10,000 customers accepted the special offer. Towards the end of 2016, with the desire of avoiding a downward trend in the number of customers, we organised the campaign "Electricity at more favourable prices 17", through which we concluded around 3,000 contracts (mostly with existing customers) until 31 December 2016.

We have maintained external contractual field agents with the established offer of electricity "Special offer package 18" offering a price guarantee which is valid until the end of 2018. Up to 800 contracts are concluded monthly with new customers via agent sale services, thus compensating for the loss of customers due to the activities of other suppliers. In 2016, there were 161,571 household customers.

6.2.3.3 Renewable Energy Sources

In 2016, we supplied electricity entirely generated by renewable energy sources to all household and small business customers. We also supplied all business customers concluding a contract with us based on a public tender with such electricity.

Our commitment is confirmed by redeeming guarantees of origin proving the origin of the electricity sold.

Thus, at the beginning of 2016, we informed customers about the redeemed guarantees of origin related to their consumption in 2015.

In the future, we would also like to offer electricity generated from renewable energy sources to large business customers. Currently, the interest of these customers for such energy is low as they cannot obtain

state financial benefits for the consumption of such energy. Consequently, customers are not willing to pay more for such energy. However, we have detected increased interest in the energy referred to with customers trading with large international companies. The latter require from them that they meet certain environmental standards, including energy from renewable sources.

6.2.3.4 Natural Gas

The natural gas market is despite common legislation, significantly less developed compared to the electricity market. Due to their small size, distribution system operators do not see the need for improvement to make the market more open and transparent and the state does not force them

to act differently despite leverage. The main deficiency of the market is the lack of a single entry point which would enable suppliers to communicate with operators in a uniform way.

The greatest success in concluding contracts is achieved with small

business and household customers where our offer is among the most favourable ones in the market.

In 2016, 7,272,032 Sm³ of natural gas was sold to business customers and 1,206,654 Sm³ to households, for a combined total of 8,478,686 Sm³.

Volume and values of natural gas sales *	2013	2014	2015	2016
Volume (Sm ³)	52,851	3,911,434	7,858,529	8,478,686
Value (in EUR)	22,376	1,337,119	2,770,986	2,150,443

* The company ECE introduced the sale of natural gas in December 2013.

6.2.3.5 Wood Biomass

Based on our experience from previous season, we decided to continue our offer of two types of wood pellets in

2016 – A2-quality wood pellets from a Slovene producer and A2-quality wood pellets from an Austrian producer, both

possessing the international ENplus quality certificate.



Beech wood and wood briquettes, so far representing a negligible portion in the sale of the total biomass, were added to the offer for the 2016/2017

season. Customers usually choose smaller and more frequent purchases.

ECE's market share of sales amounts to between 1 and 2% of the entire Slovene market.

Quantities and values of wood biomass sales	2012	2013	2014	2015	2016
Quantity (T)	378	1,852	1,672	2,229	2,001
Value (in EUR)	66,879	366,863	346,457	415,981	356,747

6.3 Subsidiary MHE – Elpro

MHE – ELPRO, podjetje za proizvodnjo in trženje električne energije, d.o.o. is a limited liability company. Its founder and sole owner is the company Elektro Celje, d.d.

6.3.1 MHE – ELPRO Company Profile

MHE – ELPRO Company Profile	
Company:	MHE - ELPRO, podjetje za proizvodnjo in trženje električne energije, d.o.o.
Abbreviated name:	MHE – ELPRO, d.o.o.
Head office:	Vrunčeva 2a, 3000 Celje
Entry in the court register:	Register of Companies of the District Court of Celje, entry no. 1/07492/00
Company share capital:	EUR 12,518.78
Registration number:	1700758
VAT identification number:	SI52011429
Current account:	06000-0910239666 with Abanka
Company size (according to the provisions of the Companies Act-1):	micro company
Number of employees as of 31 December 2016:	0
Number of MWh produced in 2016:	4,555,428 kWh
Managing director:	Gregor Milanez, BSEE

6.3.2 Operations of MHE – Elpro

In 2016, the company MHE – ELPRO completed 15 years of operations. Its key values include efficient and environmentally friendly production of electricity and investment into renewable energy sources. In 2016, company operations included:

- small hydropower plants: Rastke, Ljubija zgornja, Ljubija spodnja and Majcen Mislinja,
- small-scale photovoltaic systems: Brdo pri Kranju, Srce, Lava, Šempeter 1, Šempeter 2, Slovenj Gradec 1, Slovenj Gradec 2, Slovenj Gradec 3, Mestinje 1 and Mestinje 2,
- combined heat and power plants Srce located at the Elektro Celje, d.d., headquarters, and on office buildings in Selce, Krško and Slovenj Gradec,
- electric vehicle charging stations (7 stations).

In 2016, we invested in the expansion of heating of business premises at the headquarters in Celje for the needs of the companies Elektro

Celje, d.d. and NLB, d.d. A pipeline state analysis was performed for the SHP Majcen Mislinja in the course of the year. A testing of the most suitable method for cleaning such pipelines was performed, with information on the extent of damage due to corrosion obtained.

The output of small hydropower plants largely depends on natural circumstances. Two years stand out in the company's history: 2014 (as a year with high rainfall) and 2015 (as a very dry year).

The operation of small-scale photovoltaic systems (SPSs) depends on the amount of solar radiation, which also changes with the seasons. In 2016, total SPS output was comparable to that of the year before.

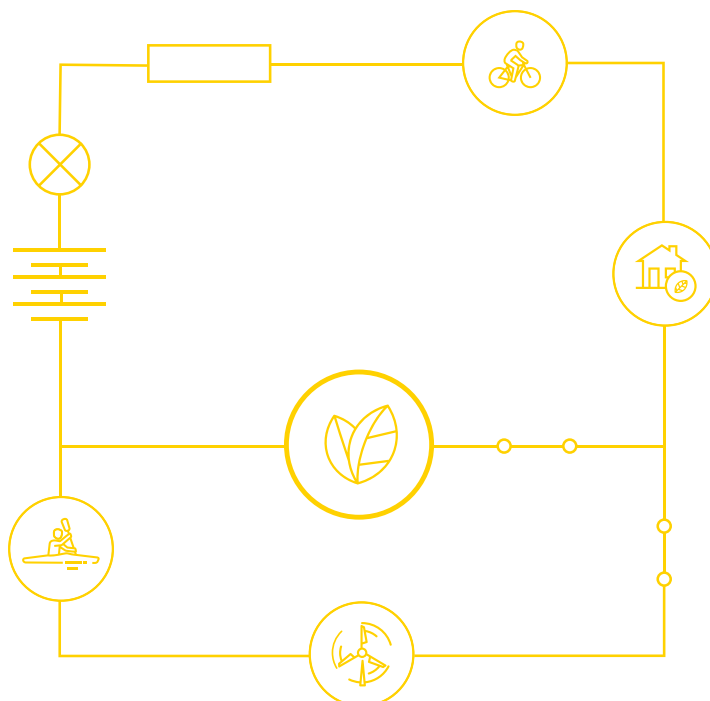
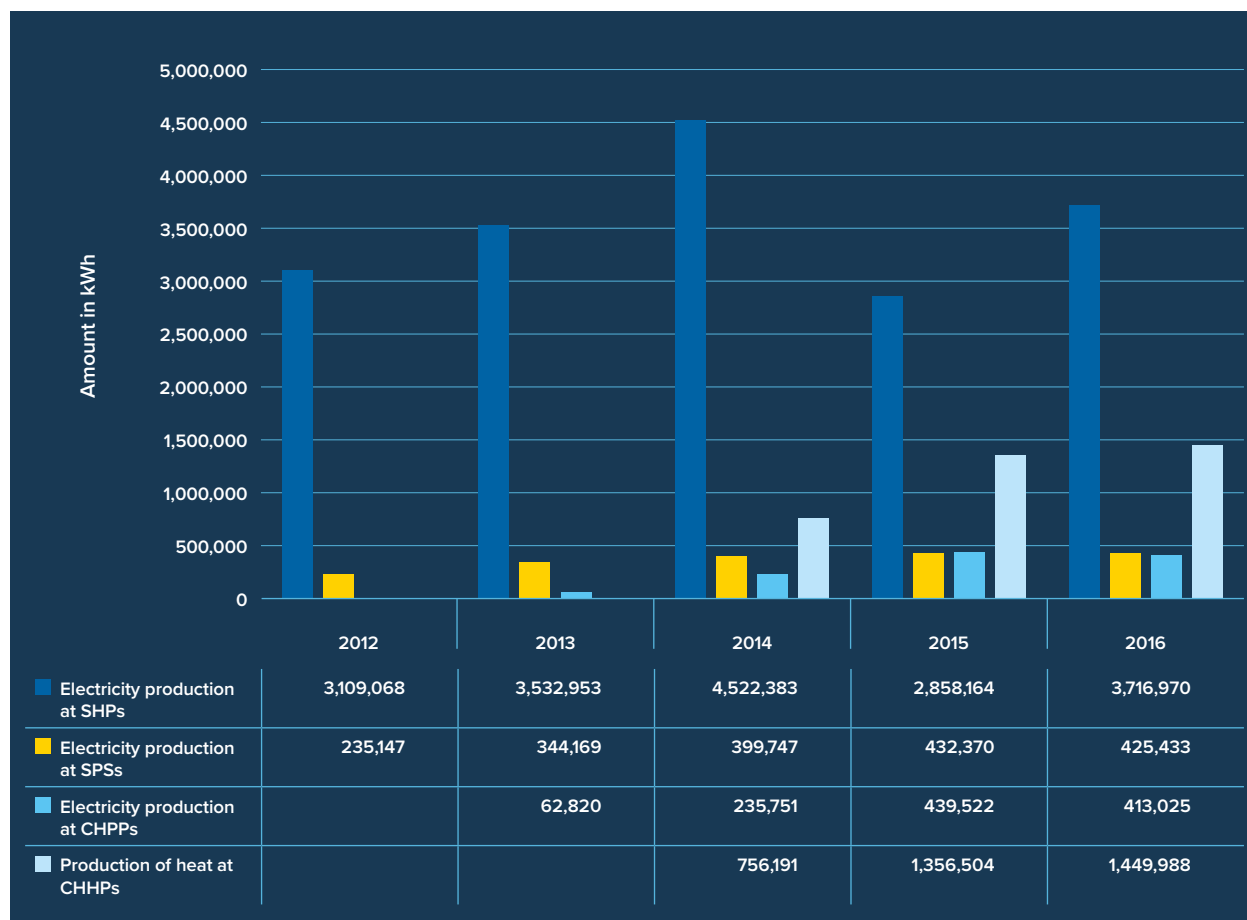
The operation of the combined heat and power plants (CHPPs) is planned during the heating season and designed to provide heating for the Elektro Celje company office buildings.

Operation and power output depend on the buildings' needs for heating in relation to outside temperatures. In 2016, all plants operated at full capacity and according to expectations and predictions.

The electricity produced and fed in into the electricity network by the company MHE – Elpro in 2016 amounted to **4,555,428 kWh**. The share of electricity produced by SPSs was 81.6% (3,716,970 kWh), the share of SPS-generated electricity 9.3% (425,433 kWh), and the share of electricity output from the combined heat and power plants 9.1% (413,025 kWh).

The company MHE – ELPRO wrapped up the year 2016 with a profit of EUR 135,131 (index 128 with respect to 2015, and 163 with respect to the annual plan). The better result compared to 2015 reflects more favourable hydrological conditions and the functioning of natural gas cogenerations.

Electricity production in the company MHE - ELPRO, d.o.o.



RELATIONSHIP



TRUST

Trust represents the basis of our work. Through open and honest communication with our customers, business partners, shareholders and other stakeholders, we strengthen good relations and lay foundations for the future.





Elektro Celje

07 DEVELOPMENT STRATEGY

7.1 Strategic Guidelines, Goals and Strategy Implementation Criteria

Strategy Guidelines Defined until 2018 for the Company Elektro Celje

PROVISION OF QUALITATIVE SERVICES FOR CUSTOMERS BY STRENGTHENING THE DISTRIBUTION NETWORK

The company is faced with numerous challenges and opportunities that we wish to take advantage of as well as weaknesses we wish to eliminate and threats we wish to carefully avoid. The following are connected to the provision of qualitative services for customers by strengthening the distribution network: introduction of new technologies, optimisation of the electric power supply to customers, improved customer communication, concessions for the provision of the economic public service of SODO in the Elektro Celje, d.d. geographical area, an improved employee working culture, introduction of advanced IT support, and defining which work will be performed with our own resources and which in cooperation with subcontractors and contracting partners.

OPTIMISATION AND INCREASED EFFICIENCY OF BUSINESS PROCESSES

The following are related to optimisation and increased operational efficiency: streamlining costs and the entire business operation, improving warehouse operations and distribution of material to working grounds, improving the work conditions of field workers, controlling the company's debt position, managing energy losses, introducing new technologies, improving the performance of the operative sector in distribution units (process planning) and managing transport costs.

The company's strategy for the period 2015 through 2018 and adopted strategic guidelines, goals, activities and tasks were valid in the company Elektro Celje during 2016.

Amendment or supplement to the

corporate strategy requires, in addition to a well-prepared strategy, effective communication or transmission of information regarding the strategy and strategic goals to all stakeholders, and besides management and supervisory bodies, particularly to the

managing team and employees. After presenting the amended corporate strategy, continuous monitoring of the achievement of strategic goals including control over the implementation of strategic activities will be required during its implementation.

Performance/Beginning	Task description	Operator	Implementation
Quarterly	Verification of the implementation of the strategy and preventive and corrective measures – change management.	Deputy Chairman of the Management Board	January 2016 April 2016 October 2016
Semi-annually	Reporting the achieved progress to the Supervisory Board of the company Elektro Celje, d.d.	Chairman of the Management Board	✓
November 2018	Review of achieved goals in the strategic period and validation of the strategic document for the new strategic period.	Chairman of the Management Board	

The key activities, milestones and persons responsible for reviewing and adopting measures for achieving the strategy in the strategic period

are listed. All employees and particularly the operators of strategic goals are charged with strategy implementation and achievement of goals, with

operators of individual strategic goals and the Management Board of the joint-stock company Elektro Celje responsible for it.

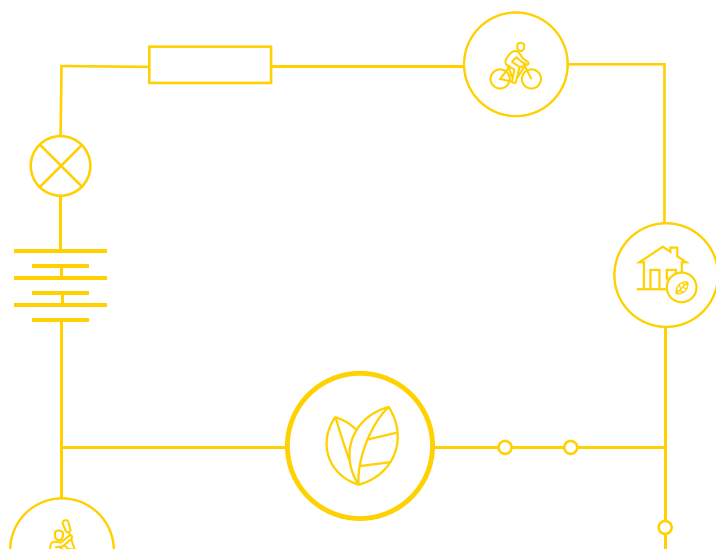
Strategy Guidelines Defined until 2019 for the Company ECE

- Become the leading provider of energy products in terms of quality and diversity of services.
- Introduce the sale of new products and services for purchasers of energy products and also to become the national provider of energy products for households and companies.
- Develop an excellently organised and high-quality IT-based company which will lead by example in its sector and attract highly qualified, motivated and development-oriented personnel.
- Continue strategic connections with companies from the electric power sector in order to become bigger, better and more stable, which is of great importance for those purchasing energy products.
- Improve provision of information and advisory services to large business customers, thus establishing long-term partnerships which will not depend merely on the sales price.

Strategic goals, activities and tasks are structured in such a way to enable a system of supervision over strategy implementation by means of a system of balanced indicators.

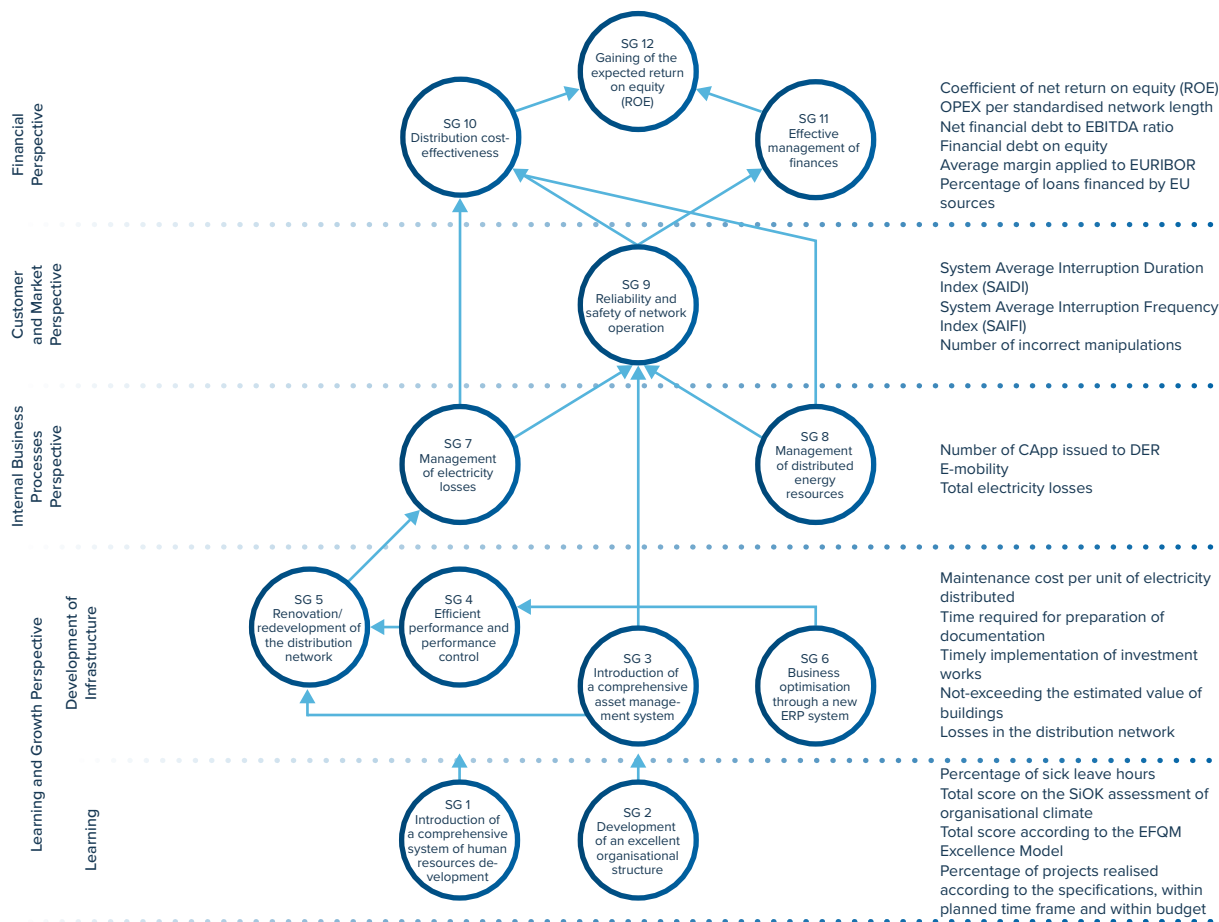
Strategy Guidelines Defined until 2018 for the Company Elektro Celje

PERSPECTIVE	STRATEGIC GOALS	STRATEGY IMPLEMENTATION CRITERIA
Learning and Growth Perspective	Introduction of a comprehensive system of personnel development. Development of an excellent organisational structure. Introduction of a comprehensive asset management system. Efficient implementation and control over the performance of works. Renovation/redevelopment of the distribution network. Business optimisation through a new ERP system.	Regular maintenance plan realisation (Target for 2018: 100%). Average value of organisational climate (Target for 2018: >3.3) Number of hours of training and education per employee (Target for 2018: >15) Sick leave usage (Target for 2018: <4.8%).
Internal Business Process Perspective	Management of electricity losses. Management of distributed energy resources and e-mobility.	Share of distributed electricity loss (Target for 2018: <5.4%).
Customer and Market Perspective	Reliability and safety of network operation.	SAIDI cumulative (Target for 2018: <35). SAIFI cumulative (Target for 2018: <0.8).
Financial Perspective	Distribution cost-effectiveness. Effective management of finances. Guaranteed return on equity (ROE).	Return on equity - ROE (Target for 2018: >2%). OPEX (operating expenditure) per standardised network length (Target for 2018: <€ 73,000/km. Net debt/EBITDA (Target for 2018: <2.5). Added value per employee (Target for 2018: >70,000).





Balance Scorecard – Strategic Diagram and Indicators



7.2 Business Goals of the Company Elektro Celje

Achievement of Goals of the Company Elektro Celje in 2016

- Net profit amounting to EUR 9.4 million was achieved, which is EUR 1.3 million more than projected.
- Optimisation of operating costs; the efficiency ratio considering lower operating revenue achieved in 2016 compared to 2015 (by 6.7%) improved and amounted to 1.17% (compared to 1.14% in 2015).
- Investments in the projected amount of EUR 20 million were realised.
- The company implemented the strategy of headcount management (632 employees).
- 1,944,411 MWh of electricity was distributed (compared to the projected 1,936,000 MWh).
- The network charge amounted to EUR 87 million (the projected amount was EUR 79 million).
- Power losses represented 4.93% of distributed electricity (5.3% was projected).
- Services to customers in the amount of EUR 1.460 million were performed (with EUR 0.845 million projected).
- The dividend to equity ratio amounted to 1.6% (1.5% was projected).
- Realisation of expectations in view of financial indicators by the company SSH managing capital assets of the Republic of Slovenia and financial commitments given to banks (explained in sections 10.1.4 and 10.2.4 Performance Indicators).




Operational Goals of the Company Elektro Celje for 2017

- Net profit in the amount of EUR 8.3 million is projected.
- Investments of the company Elektro Celje for 2017 in the amount of EUR 20.9 million are projected.
- The company will implement the strategy of headcount management.
- Projected amount of electricity distribution is 1,951,000 MWh.
- Network charges in the amount of EUR 88 million, with SODO's share accounting for 53.2% are projected.
- Power losses in the amount of 4.9% of distributed electricity are projected.
- Provision of services to customers in the amount of EUR 1 million is projected with the company maintaining its own investments to the maximum volume possible.
- The company will continue to implement the established strategy of headcount management. With proper organisation of works and within the framework of set norms, the company will ensure optimal use of working time for maintenance and repair of damage on electric power infrastructure, construction of infrastructure on its own and provision of services to customers.
- The company's dividend policy will harmonise the treasury purchase programme, the need for future growth of the company's operations and the expectations of investors or owners of the company.
- Realisation of expectations in view of financial indicators of the company SSH, managing capital assets of the Republic of Slovenia and financial commitments given to banks and other stakeholders of the company.
- Concern for sustainable development, welfare of current and future customers as well as responsible and active co-creation of the company's social and natural environments.
- Responsible environmental management: planning, development and implementation of technological environmental solutions that contribute to the preservation of the environment and more efficient use of resources, as well as on-going monitoring of potential impacts of the company's operations on the environment.

With regard to ensuring quality electricity supply, the company strives to achieve all goals laid down, which include: commercial quality, continuity (reliability) of supply and voltage

quality defined by the Decree on General Conditions for the Supply and Consumption of Electricity and the Slovene SIST EN 50160 standard. The values of indicators of uninter-

rupted supply from the distribution network are harmonised with the requirements of the Energy Agency.

	Plan 2016	Achieved in 2016	Expectations of SSH in 2016	Plan 2017	Expectations of SSH in 2017	
SAIFI (interruption frequency/customer)	0.75	0.48	0.75	0.47	0.47	
SAIDI (number of minutes/customer)	28.04	18.06	28.04	22.38	22.38	
MAIFI (momentary interruption frequency/customer)	3.50	3.11	3.50	3.46	3.46	

7.3 Planned Development of the Distribution Network

The development of the electricity distribution network is specified in the business plan for 2017, which includes starting points for 2018 and 2019, and in the ten-year development plan for the electricity distribution network for the period 2017-2026, in a total value of EUR 213 million. The plans comply with the national strategy in the energy sector and employs the prescribed methodology, which takes into account long-term electricity consumption and load

estimates, information on the existing state of the system (network, voltage change, load and consumption), projected development of individual regions, planning criteria ensuring adequate quality of electricity supply, careful planning, network construction and management, integration of distributed energy resources in the network and availability of funds. These plans are based on guidelines and requirements pursuant to applicable legal acts and documents from

the energy sector, electric energy sector and electricity distribution, including the requirements and guidelines from directives and regulations of the European Community in the area of energy supply and use.

Frequent extreme weather in the recent years dictates more extensive cabling of the MV and LV lines in renovated and newly constructed buildings whenever conditions in the field allow it. Underground cables are con-

siderably less susceptible to weather conditions than overhead lines, improving the quality and reliability of the electricity supply and facilitating siting. Electric vehicle charging stations will also affect projected development of the distribution network in the subsequent ten-year period. New foundations are being laid for controlling distribution system management, with the introduction of new concepts in relation to the so-called smart grids presenting us with new requirements and approaches and an understanding of the operation of the system as a whole. It is of key importance to introduce modern IT and communication technologies that integrate end users into the smart grid. The construction of a comprehensive system is based

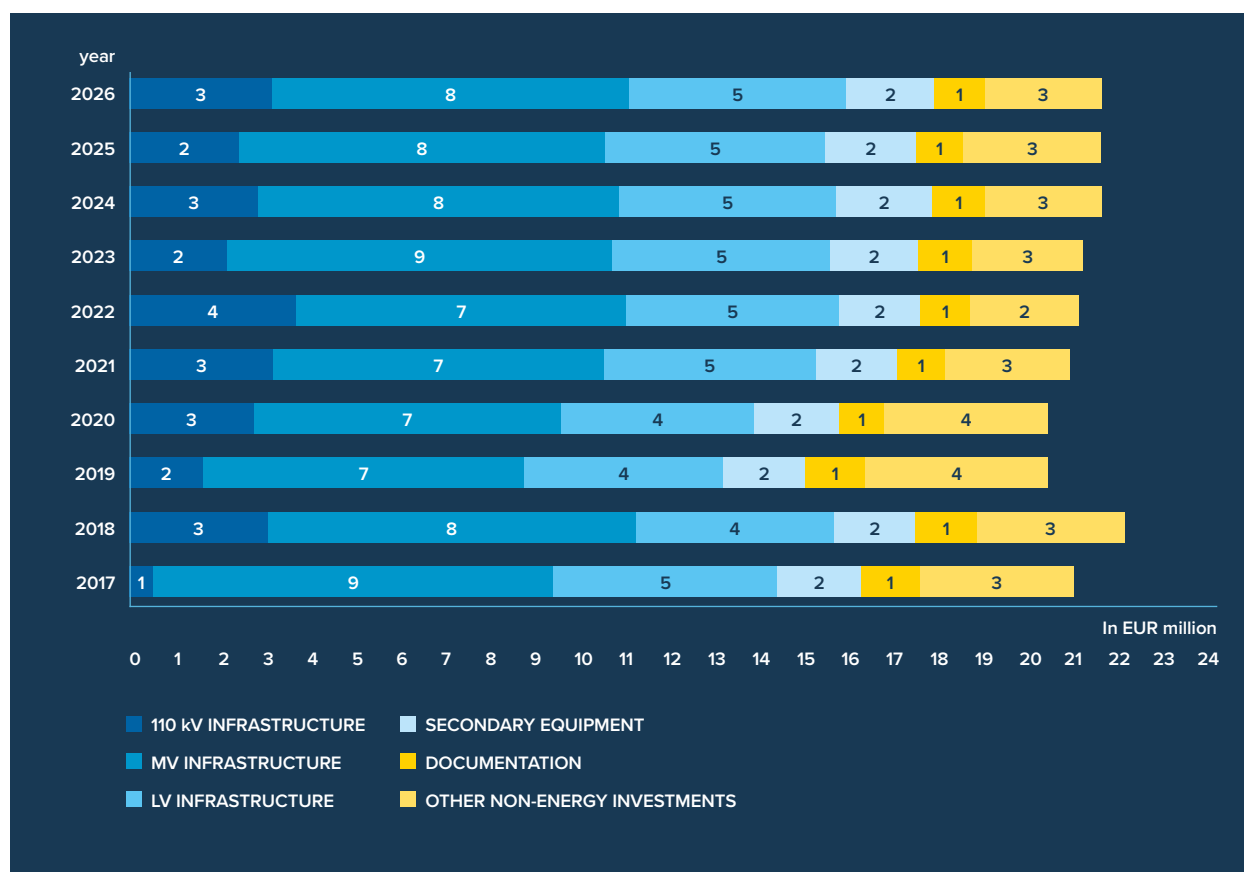
on modern DMS software and installation of advanced metering systems in the network, which provide accurate and more illustrative electricity consumption data.

Through planned distribution network development, we wish to provide cost-efficient operation, maintenance, management and development of the distribution network in accordance with professional standards and the state of the art, so that the quality of electricity distribution is maintained or improved. We wish to ensure long-term access to the distribution network, its sufficient transfer capacity, reliable power supply, appropriate voltage quality, short-circuit current management, as well

as safe and reliable operation of the power system, which will enable the quality supply of electricity, its efficient use and generation from renewable energy sources.

The allotment of the largest share of total investments into power infrastructure in the area serviced by the company Elektro Celje in the period 2017-2026 is projected for MV infrastructure (37%), followed by LV infrastructure (22%), non-energy investments (14%), 110 kV infrastructure (12%), secondary equipment (9%), and the obtaining of project documentation (6%). It is expected that 57% of the funds will go for new infrastructure and 37% for reconstruction.

Structure of investments in the period 2017-2026

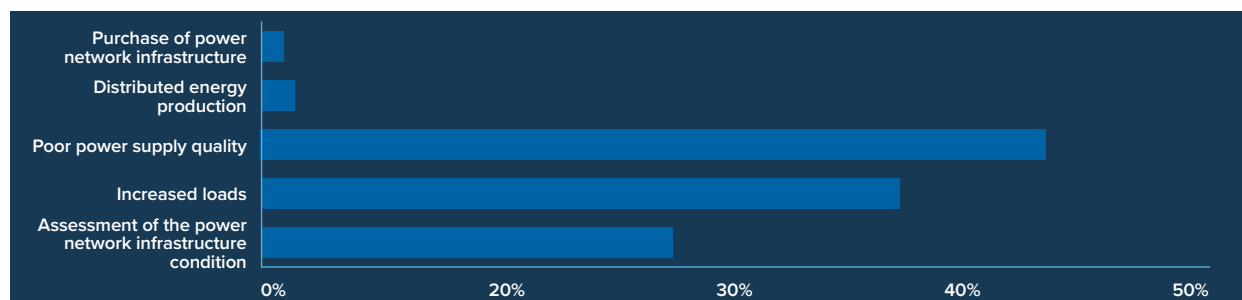


Investments planned for 2017 in the area of the Elektro Celje, d.d. electricity distribution system amount to EUR 21.1 million, of which EUR 20.9 million will be invested by Elektro Celje,

while SODO is expected to provide EUR 0.2 million of earmarked resources in previous years to finance investments into greater transmission capacity and development of the

power distribution network required by the customers' higher connected load.

Reasons for investments (in %)



Activities of transfer for value of lines and devices of a 110 kV network having the character of a transmission

network will be performed in 2017 in accordance with the Decree on Ownership Transfer of Transmission

Network to the System Operator, the company ELES.

Important Investments Planned for the Elektro Celje Distribution Network:

- The construction of DTS Mežica 110/20 kV is planned for 2026, with the construction of 2 x OPL 110 kV DTS Ravne to DTS Mežica (appr. 8 km) and 2 x underground cable (UC) 110 kV DTS Ravne to 2 x OPL 110 kV DTS Mežica (approx. 0.46 km) planned for 2022 due to increased load in the Mežica Valley area.
- Problems related to the electrical voltage quality and provision of stand-by supply are appearing due to long MV lines and increased electricity consumption in the areas of Mokronog and Mirna, therefore the construction of DTS 110/20 kV Mokronog is projected for 2022, with its connection to the newly constructed 2 x OPL 110 kV DTS Trebnje – DTS Mokronog – DTS Sevnica (approx. 9 km) and 2 x CU 110 kV DTS Trebnje – DTS Mokronog (0.4 km) projected for 2024.
- The construction of the UC 2 x 110 kV (approx. 0.3 km) between the planned DTS Vojnik and 110 kV OPL DTS Selce – DTS Sl. Konjice is necessary due to the integration of the new DTS 110/20 kV Vojnik in the 110 kV HV network (in 2021).
- The construction of the DTS Vojnik 110/20 kV (in 2021) will be required due to increased losses in the wide area of Vojnik and to improve power supply reliability.
- Renovation and restoration works due to wear and tear, improvement of operational reliability and provision of adequate power supply are planned in certain DTSs.
- The construction of (TS) Pristava Betonarna in 2017 and DS Ločica 20 kV in 2018 will improve the reliability of supply and ensure stand-by supply.
- Investments in the MV network are related to the construction of commercial and residential areas, appropriate power supply and increased demand for integration of renewable energy sources (solar power plants, combined heat and power plants, small hydro power plants). New MV power lines are mainly built in the underground cable version (3 x UC 20 kV DS Nazarje – DS Ljubno, 2 x UC 20 kV DTS Ravne – DS Mežica, 2 x UC 20 kV DTS Podlog – DS Ločica). Over the next three years, 99 new standard TSs MV/0.4 kV will be constructed.
- The construction of TS Miklavc (in 2017).
- The transition to 20 kV lines in the area of Celje, mainly in the old town centre, which forms an important part of the investment plan, continues.
- Consistent with the projections of the electricity consumption, the state of the art, environmental protection requirements and conditions of consent authorities, the company also plans to invest in current TSs and their replacement, and increase of capacity and renovation of MV and LV lines and devices.
- Replacement and modernisation of remote-controlled equipment, protection systems in DTSs and DSs, installation of additional remote-controlled switchgears (RCSs) and fault indicators (FIs) as well as TS remote control in poorly accessible and critical sections of the network is planned for the next few years. The equipment installed enables faster fault location and repair, consequently improving SAIDI and SAIFI indicators and customers' satisfaction related to it.
- Pursuant to the new Energy Act (EZ-1; Official Gazette of the Republic of Slovenia, no. 17/2014) and its provision that the advanced metering systems shall include 80% of consumers by 2020, we will continue the installation of 12,000 electronic meters per year.
- Implementation and introduction of the asset management information system (EAM – Enterprise Asset Management) and the system supporting basic business functions (ERP – Enterprise Resource Planning) at the beginning of 2018, increased investment in the DMS system upgrade in 2019 and 2020 and the upgrade of the remote control platform (AMI – Advanced Meter Infrastructure) with the function of advanced analysis (MDM – Meter Data Management) in 2020.
- Further extension of the company's own optical network in redundant rings throughout the entire power network of DTS and DS facilities and to key TSs, continued entry of the optical network in the Fiber Manager information system to the level of optical fibres, connectors and devices on optical fibres, and consequently investment in an active IP/Ethernet network equipment and cyber-safety, use of digital radio system also for narrowband data links for remote control and automation of the MV network, and construction of the company's own wireless system for broadband data links that could cover the broadband communication needs of the entire SmartGrid system.

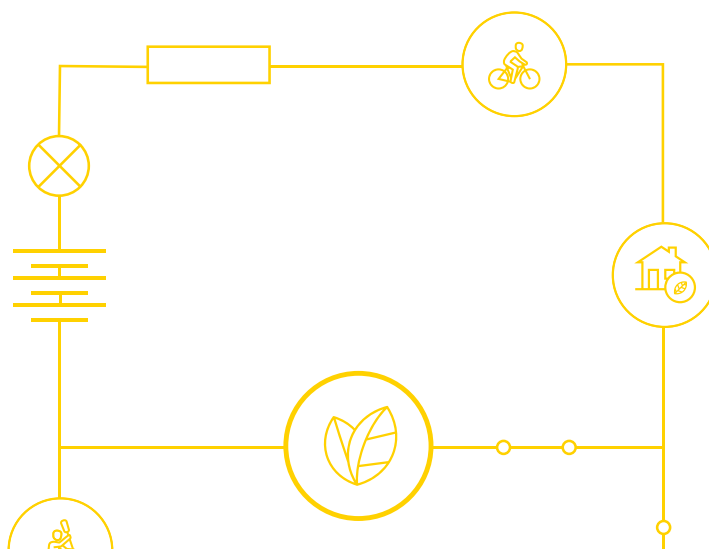
7.4 Business Goals of the Elektro Celje Group

Achievement of the Goals of the Elektro Celje Group in 2016

- Net profit of the Group amounted to EUR 10.7 million, with EUR 10 million of the amount comprising majority shareholders' profit (the planned net profit amounted to EUR 10.7 million, with EUR 10 million comprising majority shareholders' profit).
- Higher values of financial indicators concerning the Group's financial position compared to the commitments given to the banks were achieved: financial debt/EBITDA must be below 2.5 (achieved value 1.5) and financial debt/equity must be below 0.3 (achieved value 0.2).
- The Group managed to cover current liabilities with current assets (the current ratio amounted to 1.12).
- 2,728,918 MWh of electricity was sold (compared to the projected amount of 2,517,823 MWh).
- Production of electricity generated by the Group's own SHPs, SPSs and CHPPs in the amount of 4,555,428 kWh, and 1,449,988 kWh of heat energy was achieved (projected electricity generation amounted to 3,935,054 kWh and 1,180,000 kWh of heat energy).
- A series of measures to retain household and small business customers purchasing electricity in the subsidiary ECE was implemented.
- Expansion of the sales offer for energy products in the subsidiary (beech wood, wood briquettes).
- In 2016, the Group's activities were aimed at the development of modern IT support for all operating processes in the Group's companies, as well as for communication with consumers, customers, suppliers and other business partners.

Operational Goals of the Elektro Celje Group for 2017

- Planned net profit of the Group amounts to EUR 10.2 million, with EUR 9.7 million of the amount comprising majority shareholders' profit.
- The financial indicators concerning the Group's financial position (i.e. financial debt/EBITDA and net financial debt/equity) will comply with commitments made to the banks.
- The Group plans to cover current liabilities with current assets.
- Sale of electricity in the amount of 2,615,683 MWh is planned, 1,985,682 MWh of which is projected to be sold to business customers and 630,001 MWh to household customers.
- A series of measures to retain household and small business customers purchasing electricity will be implemented.
- The sale of natural gas and biomass compared to the previous year will be increased.
- Sale of electricity generated by the Group's own SHPs, SPSs and CHPPs in the amount of 3,737,005 kWh and 1,356,000 kWh of heat energy.
- Renovation of SHP Majcen in 2017 and SHP Rastke in the period from 2017 to 2019.
- Establishment of modern IT support for operating processes as well as for communication with consumers, customers, suppliers and other business partners.
- Enhancement of social responsibility, sustainable development, reputation and visibility of the Elektro Celje Group.
- Comprehensive development of employees, their personal growth and creation of a good work climate.
- Exploitation of new business opportunities in the area of environment-friendly energy.
- Enhancement of the reputation and visibility of the Elektro Celje Group.



08 OPERATING CONDITIONS

8.1 Business Environment Analysis

Economic trend indicators	2013	2013	2014	2015	2016
GDP (real growth in %)	-2.5	-1.1	3.0	2.9	2.5
Registered unemployment rate (in %)	13.0	13.5	13.0	12.3	10.8
Inflation (annual average in %)	2.6	1.8	0.2	-0.5	0.1
Average gross salary in the Republic of Slovenia (nominal growth in %)	0.1	-0.1	1.1	0.7	1.8
Average gross salary in the Republic of Slovenia (real growth in %)	-2.4	-1.9	0.9	1.2	1.9

According to the first estimate (based on the quarterly data), gross domestic product stood at EUR 39,769 million and grew by 2.5% in real terms compared to 2015, which is 0.2 percentage points higher than what the Institute of Macroeconomic Analysis and Development (UMAR) had predicted.

The unemployment rate decreased in 2016 from 12.3% in 2015 to 10.8%. According to data from the Employment

Agency of the Republic of Slovenia, there were 99,615 registered unemployed persons in Slovenia as of the end of December 2016, which is 11.9% less than in December 2015.

The Slovene consumer price index increased by 1.3% at an annual level. The higher prices of oil products contributed most to the annual inflation. The average annual inflation rate equalled 0.1%, while both the annual

and the average annual deflation rates in 2015 were 0.5%.

The average monthly gross salary in 2016 in the Republic of Slovenia amounted to EUR 1,584.66, which is more than the average monthly gross salary in 2015: having increased by 1.8% in nominal and 1.9% in real terms.

8.1.1 Impact of the Economic Environment on the Volume of Electricity Consumption

The situation in Slovenia is such that economic activities and the related gross domestic product (GDP) have the most decisive influence on the volume of electricity consumption. The volume and structure of the GDP have in addition to the turbulent economic situation, pricing policy, opening of energy markets and distributed electricity generation sources an even greater influence on the volume of electricity consumption.

Considering various statistical indicators (the growth of GDP, export, employment rate, etc.) and the predicted future growth, it can be concluded that Slovenia has emerged from the economic crisis (and not only from the recession). However, we need to distinguish between the economic crisis itself and its consequences which we still feel and which will take sig-

nificantly longer to be rectified. The volume of electricity consumption is connected to the volume of economic activities and assuming the continued economic growth, higher electricity consumption can be expected, but since the economic situation in Slovenia is not yet fully stabilised, the prediction of consumption is complex and uncertain. The projected rate of electricity consumption growth is low and based on the premise that further economic growth requires sufficient amounts of electricity and a power system capable of providing electricity to end consumers in a safe and reliable way. Analyses of past trends show that during periods of high GDP growth, the consumption of energy grows somewhat slower, just as in the periods of large drops in GDP, consumption decreases slightly more slowly. The correlation is under-

standable, for not all consumption of the distribution network customers is directly associated with economic activity, while consumption by household customers acts as a "cushion" for the trends.

Due to favourable economic projections, the beginning of a new economic cycle, introduction of new consumption elements (additional air conditioning, heat pumps, e-mobility, etc.) and expected post-crisis recovery (which will also be reflected in gradual realisation of some of the planned but not yet realised past projects), a trend of somewhat higher growth of electricity consumption (over 2%) and peak loads can be expected in the Slovene distribution network in the coming period. Obviously, inter-annual fluctuations resulting from other influencing factors (the

influence of weather and outdoor temperatures) are still possible and expected. Future growth in consumption will also be affected by increased consumption in transport (electric vehicles, increased consumption in railways).

The current situation does not justify

the halt of the development cycle of investments. First, because the electric power system of the Republic of Slovenia has to be prepared for consumption regrowth and second, because electricity infrastructure investments, due to their complex siting and execution, require long-term planning. The systems that will be

ready for such regrowth will provide a long-term competitive advantage to their economies. Due to their extensive multiplicative effect, investments in the power infrastructure have to be considered as opportunities for mitigating the effects of the crisis and faster further development.

8.1.2 The Impact of the Economic Environment and Supply and Demand on the Price of Electricity and Other Energy Products

Compared to other forms of goods, electricity is characterised by several specifics: it has no adequate substitute, cannot be stored, and is not freely transferable between countries, for it is limited by the physical capacity of the network.

The economic crisis and attempts at economic recovery in recent years still exert a powerful influence on the price of electricity. The trends of the latter in 2016 on European stock exchanges moved in accordance with weather conditions, the available amount of electricity generated from renewable sources, and the prices of other energy products. The reason for the electricity price fluctuation also lie in the expectations of economic recovery and the situation in financial and other markets. In 2016, the price of electricity was also affected by prices of other energy products (largely oil, which lost some of its value at the beginning of the year that grew again by the end of the year due to geopolitical decisions regarding production limitation

and expectations of other markets, and natural gas). The electricity price is also affected by the prices of transmission capacities (these were fairly high in 2016, as they are dependant on prices on the Hungarian electricity market) and largely also by other events on the European electricity and global energy products markets (political decisions on the possible additional phasing out of nuclear energy in France and consequently, increased demand for conventional energy sources, agreements on balancing the production of and demand for oil aimed at price stabilisation, Brexit, etc.).

Finally, the price of electricity is also related to renewable energy sources, which represent a growing category in the structure of electricity generation sources. An increasing number of countries wish to reduce their energy dependency on conventional sources in this way and increase the share of renewable sources in their production structure in accordance with European directives, which is

creating growing uncertainty regarding the network itself as well as prices on the market. Due to their strong correlation with weather conditions, renewable energy sources influence the relationship between rates for individual hours of the day. Recently we have witnessed large differences between day and night rates of electricity; the day rate, at peak load times, when there was a shortage of production sources, was very high, while the night rate was quite low. In 2016, the difference between night and day rates had been decreasing, mostly due to RES, which produce more electricity during the day and thus contribute to the increased supply of electricity on the market.

The purchase of natural gas is entirely covered by imports, mostly from Russia. The problems arising in the natural gas market are related to the non-standardised service of system operators with regard to data necessary for the management of purchases and uninterrupted supply to end customers.

8.2 The Legal and Regulatory Framework of Operation

The role of distribution in the electric power system of the Republic of Slovenia is defined in the National Energy Programme (NEP). Following the adoption of the Energy Act (EZ-1), the current NEP will be replaced by Slovenia's Energy Concept, in which the targets of reliable, sustainable and competitive electricity supply for

the subsequent 20-year period and 40-year framework period will be set, based on the projections of economic, environmental and social development of our country, and international commitments made.

The development of an electricity distribution network and provision of

long-term, stable electricity supply is defined in the Plan for the Development of the Electricity Distribution Network in the Republic of Slovenia for the 10-year period from 2015 to 2024, produced by the company SODO, concessionaire for the performance of the PU service of the distribution network system operator

(DNSO) in the territory of the Republic of Slovenia based on the Plans for the Development of the Electricity Distribution Network for the 10-year period from 2015 to 2024 prepared by individual electricity distribution companies of Slovenia.

In its operation in 2016, the Elektro Celje Group complied with all core legislative and regulatory bases.

MAJOR EU DIRECTIVES RELATED TO ENERGY:

- Directive 2009/72/EC of the European Parliament and the Council of 13 July 2009 Concerning Common Rules for the National Electricity market and Repealing Directive 2003/54/EC (OJ L 211 of 14 August 2009, pp. 55–93).
- Directive 2005/89/EC of the European Parliament and of the Council of 18 January 2006 Concerning Measures to Safeguard Security of Electricity Supply and Infrastructure Investment (OJ L 33 of 4 February 2006, p. 22).

ACTS RELATED TO ENERGY:

- Energy Act (EZ-1) (Official Gazette of the Republic of Slovenia, nos. 17/2014), 81/2015);
- Companies Act (ZGD-1), Official Gazette of the Republic of Slovenia, no. 65/09 – official consolidated text, 33/11, 91/11, 32/12, 57/12, 44/13 – decision CC and no. 82/13.

EXECUTIVE REGULATIONS RELATED TO ELECTRICITY:

>> Regulations related to electricity distribution

- Legal Act on the Criteria and Rules for Providing Emergency Supply of Electricity, Official Gazette of the Republic of Slovenia, no. 48/16;
- Decree on Measures and Procedures for the Introduction and Interoperability of Advanced Electric Power Metering Systems, Official Gazette of the Republic of Slovenia, no. 79/15;
- Legal Act on the Methodology Determining the Regulatory Framework and Network Charge for the Electricity Distribution System, Official Gazette of the Republic of Slovenia, nos. 66/15, 105/15, 61/16, (unofficial consolidated text of the Legal Act);

- Legal Act on the Rules for Monitoring the Quality of Electricity Supply, Official Gazette of the Republic of Slovenia, no. 59/15;
- Decree on the Awarding of a Concession and on the Method of Provision of a Service of General Economic Interest – Electricity Transmission System Operator, Official Gazette of the Republic of Slovenia, no. 46/15;
- Legal Act on the Identification of Entities in the Data Exchange among Participants in the Electricity and Natural Gas Markets, Official Gazette of the Republic of Slovenia, nos. 39/15, 36/16, (unofficial consolidated text of the legal Act);
- Legal Act on the Method for the Submission of Data and Documents by Providers of Energy Sector Activities, Official Gazette of the Republic of Slovenia, no. 98/14;
- Legal Act on the Methodology for the Preparation and Evaluation of an Investment Plan of the Electricity Distribution System Operator, Official Gazette of the Republic of Slovenia, no. 97/14;
- Rules on the System Operation of Electricity Distribution Network, Official Gazette of the Republic of Slovenia, nos. 41/11, 17/14 - EZ-1;
- Decree on the Concession of an Electricity DSO Service of General Economic Interest, Official Gazette of the Republic of Slovenia, nos. 39/07, 17/14 - EZ-1;
- Decree on the Method of Provision of an Electricity DSO Service of General Economic Interest and a Service of General Economic Interest of Electricity Supply to Tariff, Official Gazette of the Republic of Slovenia, nos. 117/04, 23/07, 17/14 - EZ-1;
- General Conditions for Connection to the Distribution Electric System, Official Gazette of the Republic of Slovenia, nos. 126/07, 37/11 - decision CC, no. 17/14 - EZ-1;
- Decree on Maintenance Works for the Public Benefit in the Energy Sector, Official Gazette of the Republic of Slovenia, nos. 125/04, 71/09, 22/10 - EZ-D, 17/14 - EZ-1.

>> Market activities

- Rules on the Operation of the Electricity Market, Official Gazette of the Republic of Slovenia, no. 105/15;
- Decree on the Award of a Conces-

- sion and on the Method of Provision of a Service of General Economic Interest – Electricity Market Operator, Official Gazette of the Republic of Slovenia, no. 39/15;
- Act on the Determination of the Shares of Individual Electricity Production Sources and on the Method of their Presentation, Official Gazette of the Republic of Slovenia, no. 22/16;
- Rules on the Balancing of the Electricity Market, Official Gazette of the Republic of Slovenia, no. 97/14;
- Act Concerning the Method of Electronic Data Reporting for Valid Regular Tariffs Comparison of Electricity and Natural Gas Suppliers for Household and Small Business Customers, Official Gazette of the Republic of Slovenia, no. 69/14;
- Decision Laying Down Prices for the Electricity Supply to Household Consumers and Prices for Covering the Supplier's Costs Associated with the Electricity Supply, Official Gazette of the Republic of Slovenia, no. 27/07.

OTHER LEGISLATION

- Construction Act (ZGO-1), Official Gazette of the Republic of Slovenia, 102/04 – official consolidated text, nos. 14/05 – corr., 92/05 - ZJC-B, 93/05 - ZVMS, 111/05 - decision CC, 120/06 (CC decision), 126/07, 108/09, 61/10 - ZRud-1, 20/11 - decision CC, 57/12, 101/13 - ZDavNepr, and 110/13;
- Spatial Planning Act (ZPNačrt), Official Gazette of the Republic of Slovenia, nos. 33/07, 70/08 - ZVO-1B, 108/09, 80/10 - ZUPUDPP, 43/11 - ZKZ-C, 57/12, 57/12 - ZUPUDPP-A, (109/12), and 76/14 - decision CC;
- Spatial Management Act (ZUreP-1), Official Gazette of the Republic of Slovenia, nos. 110/02, 8/03 – corr., 58/03 - ZZK-1, 33/07 - ZPNačrt, 108/09 - ZGO-1C, 80/10 - ZUPUDPP;
- Environmental Protection Act (ZVO-1), Official Gazette of the Republic of Slovenia, 39/06 - official consolidated text, 49/06 - ZMetD, 66/06 - decision CC, 33/07 - ZPNačrt, 57/08 - ZFO-1A, 70/08, 108/09, 108/09 - ZPNačrt-A, 48/12, 57/12, and 92/13;
- Public Information Access Act (ZDI-JZ), Official Gazette of the Republic of Slovenia, nos. 51/06 - official

- consolidated text, 117/06 - ZDavP-2, 23/14, and 50/14;
- General Administrative Procedure Act (ZUP), Official Gazette of the Republic of Slovenia, nos. 24/06 - official consolidated text, 105/06 - ZUS-1, 126/07, 65/08, 8/10, and 82/13;
 - Administrative Dispute Act (ZUS-1), Official Gazette of the Republic of Slovenia, nos. 105/06, 107/09 - decision CC, 62/10, 98/11 - decision CC, and 109/12;
 - Public Procurement Act (ZJN-2), Official Gazette of the Republic of Slovenia, nos. 12/13 - official consolidated text, and 19/14; until 31 March 2016;
 - Public Procurement Act (ZJN-3), Official Gazette of the Republic of Slovenia, no. 91/2015;
 - Act Regulating Public Procurement in the Water, Energy, Transport and Postal Services Sectors (ZJNVET-PS), Official Gazette of the Republic of Slovenia, nos. 72/11 - official consolidated text, 43/12 - decision CC, 90/12, and 19/14; - until 31 March 2016;
 - Legal Protection in Public Procurement Procedures Act (ZVPJN), Official Gazette of the Republic of Slovenia, nos. 43/11, 60/11 - ZTP-D, and 63/13;
 - Physical Assets of the State and Local Government Act (ZSPDSL), Official Gazette of the Republic of Slovenia, nos. 86/10, 75/12, 47/13 - ZDU-1G, and 50/14;
 - Public Finance Act (ZJF), Official Gazette of the Republic of Slovenia, nos. 11/11 - official consolidated text, 14/13 - corr., and 101/13;
 - Siting of Spatial Arrangements of National Importance Act (ZUPDPP), Official Gazette of the Republic of Slovenia, nos. 80/10, 106/10 - corr., and 57/12;
 - Excise Duty Act (ZTro-1), Official Gazette of the Republic of Slovenia, nos. 84/1998, 52/1999, 57/1999, 2/2001, 33/2001, 99/2001, 5/2002, 126/2003, 7/2004 - corr., 42/2004, 114/2006 - ZUE, 122/2006, 25/2009, 41/2009, 19/2010, 56/2010, 61/2010, 85/2010, 48/2012, 109/2012, 32/2014, 47/2016 - ZTro-1, valid until 31 July 2016;
 - Excise Duty Act (ZTro), Official Gazette of the Republic of Slovenia, no. 47/2016;
 - Value Added Tax Act (ZDDV-1), Official Gazette of the Republic of Slovenia, nos. 117/2006, 52/2007, 33/2009, 85/2009, 85/2010, 18/2011, 78/2011, 38/2012, 40/2012 - ZUJF, 83/2012, 14/2013, 46/2013 - ZIPRS1314-A, 101/2013 - ZIPRS1415, 86/2014, 90/2015;
 - Code of Obligations (OZ), Official Gazette of the Republic of Slovenia, nos. 83/2001, 32/2004, 28/2006 - dec. CC, 40/2007, 64/2016 - decision CC;
 - Law of Property Code (SPZ), Official Gazette of the Republic of Slovenia, nos. 87/2002, 91/2013;
 - Rules on Conditions and Restrictions Regarding the Construction and Use of Installations and the Performance of Activities in the Electricity Network Safety Zone, Official Gazette of the Republic of Slovenia, nos. 101/10, and 17/14 - EZ-1;
 - Resolution on the National Energy Programme, Official Gazette of the Republic of Slovenia, no. 57/04 (Re-Nep);
 - Strategy for Development of the Power distribution System in the Republic of Slovenia between 2013 and 2022.

8.3 Composition of the Price of Electricity for the End Consumer

The final price of supplied electricity for a customer who is billed for the network charge and the electricity consumed, charged by the electricity supplier is composed of the following categories:

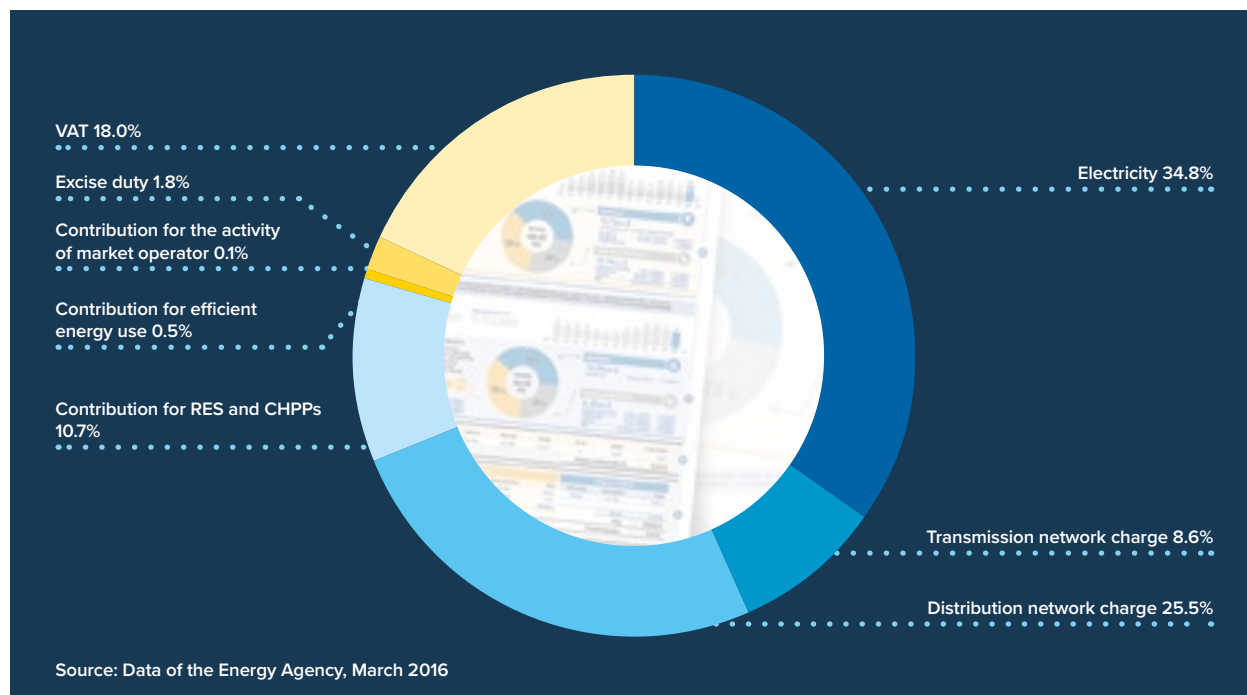
- >> price of electricity formed in the free market;
- >> network charge (determined by EAgem):

- >> transmission network charge and
- >> distribution network charge;
- >> contributions (determined by the Government of the Republic of Slovenia):
- >> contribution for provision of support to high-efficiency combined heat and power generation and for energy generation from renewable energy sources (RES and CHP);

- >> contribution for efficient energy use (EE),
- >> contribution for the activity of market operator;
- >> excise duties on electricity (determined by the Government of the Republic of Slovenia) and
- >> VAT (determined by the Government of the Republic of Slovenia).

Source: Energy Agency

8.4 Shares of Categories on the Electricity Bill for a Typical Household Customer



09 ORGANISATION AND ACTIVITIES OF THE COMPANY ELEKTRO CELJE

9.1 Operation and Development of the Distribution Network

The Operations and Development sector performs the following tasks:

- >> distribution of electricity,
- >> management, control and operation of the distribution network,
- >> provision of network development,
- >> compliance with systemic operational instructions,
- >> management of electricity transmission via the distribution network and exchange with other networks,
- >> provision of optimum restoration of system operations following any faults,
- >> coordinated operation of the distribution network with connected networks,
- >> provision of systemic protection of the distribution network,
- >> conducting operational measurements in the distribution network,
- >> conducting measurements and analyses in the field of quality of electricity supply,

>> development of operational statistics.

In 2016, the Operations and Development sector continued upgrading the DMS/OMS V2 software tool by concentrating on actively reducing losses of electricity in the network. Together with our external partners, we are successfully participating in the European project Flex4Grid.

Focussing on a reliable provision of electricity to our customers, in 2016 the company Elektro Celje continued the activities of the project "parallel operation of the MV network." The electrical codes allow normal power-line loads that cause up to a 7.5% voltage drop, but in extraordinary operating conditions, the maximum permitted voltage drop can be higher. Temporal and financial limitations regarding the siting of facilities can result in an extraordinary operating

condition, reducing to ordinary operating conditions. The disadvantages of such an operating condition are mainly greater electricity losses and a negative impact on the continuity of supply parameters. The company Elektro Celje set itself the goal of utilising the existing infrastructure optimally even in such circumstances. In order to achieve this goal, project documentation, background documents and technical specifications were prepared for the planned equipment.

In 2016, we implemented this project into the real environment. We performed parallel operation of power supply lines for DTS Mokronog from DTS Sevnica, and began actively monitoring the first experiences of such an operation. It should be noted that this is the first project of its kind in Slovenia.

9.1.1 Development of the Distribution Network

The Development Department issues land development documents and agreements on connection to the

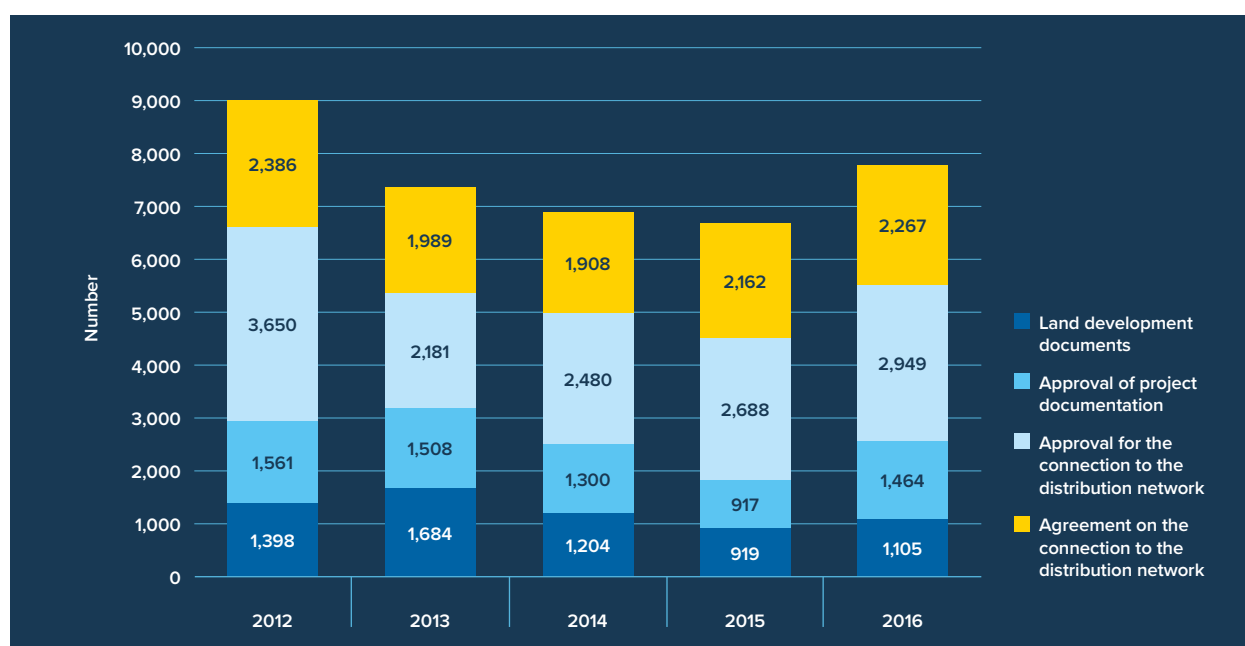
distribution network, while also being responsible for the processing of geographic data for the Geographic

Information System (GIS), the quality of electricity supply, and network development plans.

9.1.1.1 Land Development Documents

Number of land development documents issued in 2016							Total
No.	Type of document	Consumer category	DU Celje	DU Krško	DU SI. Gradec	DU Velenje	Elektro Celje
1.	Guidelines to the spatial planning document		18	13	9	18	58
2.	Opinion on the spatial planning document		12	15	9	19	55
3.	Terms of project		212	354	195	231	992
4.	Approval of project documentation		512	290	199	463	1,464
5.	Connection approval:						
		0.4 kV up to 41 kW	242	131	136	231	740
		0.4 kV over 41 kW	46	37	39	35	157
		household customers	692	398	255	511	1,856
		MV (1 - 35 kV)	13	7	8	10	38
		distributed energy resources - input	16	12	17	28	73
		distributed energy resources - output	16	14	18	28	76
		distributed energy resources - generation	3	1	1	4	9
Connection approvals in total:			1,028	600	474	847	2,949
6.	Connection agreement:						
		0.4 kV up to 41 kW	149	113	130	140	532
		0.4 kV over 41 kW	32	31	39	21	123
		household customers	523	375	252	382	1,532
		MV (1 - 35 kV)	7	6	8	7	28
		distributed energy resources	13	12	9	18	52
Connection agreements in total:			724	537	438	568	2,267
Total			2,506	1,809	1,324	2,146	7,785

Land development documents issued



9.1.1.2 GIS and DTD

The Development Department also includes a team for the technical information system (TIS), which is in charge of:

- >> entering data on electric power equipment into TIS (GIS and later also into DTD) and maintaining consistency between them,
- >> transmitting data on electric power equipment to other information systems within the company (DMS, SCADA, etc.),
- >> analysing and preparing data and graphical templates for supporting business processes,
- >> recording the electric power equipment with manual GPS devices,
- >> management and maintenance of GIS,
- >> updating single-line diagrams of TSs,
- >> ordering third-party surveying services and managing the archives of received surveying snapshots,

- >> exchanging data with GURS (The Surveying and Mapping Authority of the Republic of Slovenia) in the field of consolidated cadastre of public infrastructure,
- >> preparing and forwarding network data to external clients.

In 2016, we carried out the entry of data on electric power equipment as a priority. We also joined the preparation of Terms of Reference (ToRs) where by drawing and entering the planned new routes determined by the expert technical commission for the preparation of ToRs, we generate the asset codes used in the project server system for managing investments. In December, we prepared a study for entering facilities into the Consolidated Cadastre of Public Infrastructure for HV, MV, LV, telecommunication optical lines, optical network cable ducts, DTS, TS

and internal telecommunication hubs and submitted it to the Surveying and Mapping Authority of the Republic of Slovenia.

We intensively participated in the pilot project and process of preparing the execution planning phase for the IBM Maximo asset management system and the project for introduction of the Microsoft Dynamics AX ERP system.

Based on our own GPS data capture, the provided surveying snapshots and by tracings from plans and ToRs, we drew 36 TSs, 87 km of MV network and 1,206 km of LV network into the GIS.

Amounts of data recorded in GIS in 2016

TS (number)	recorded over the year	36
	entered as of 31 December	4,083
	rate - recorded over the year/as of 31 December	0.9%
HV + MV network (km)	recorded over the year	87
	entered as of 31 December	3,974
	rate - recorded over the year/as of 31 December	2.2%
LV network (km)	recorded over the year	1,206
	entered as of 31 December	8,710
	rate - recorded over the year/as of 31 December	13.8%

The situation of 31 December 2016 reflects the amount of assets recorded on this day with one of the following statuses: being planned, under construction, operating, being repaired or in reserve. The amounts referred to are not an arithmetic sum of the recorded amounts and the final situation in the previous year since a certain amount of network and devices are also dismantled, replaced with new ones and/or deleted from the records each year. Foreign devices required for managing the network are also recorded in GIS, thus information can deviate from the information on assets in company's ownership with the status operating.

9.1.1.3 Quality of Electricity Supply and Network Development

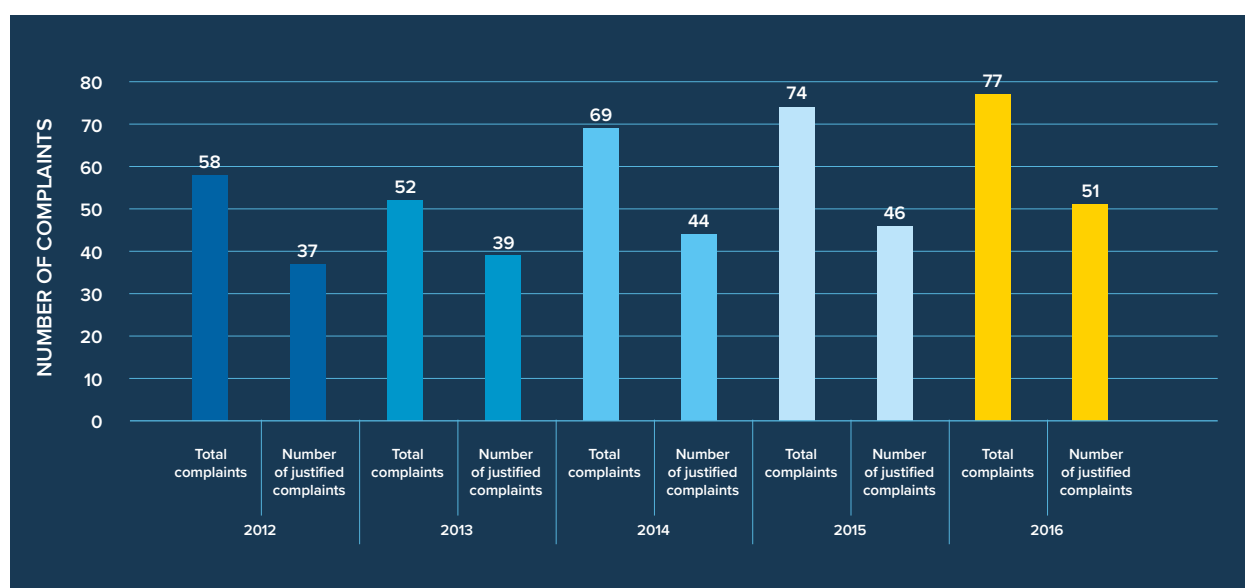
The Development Department plans the network so as to provide supply of electricity of adequate quality with the possibility of allowing the connection of new consumers. Every two years, updates are performed in the ten-year development plan, which provides the basis for the annual

planning of the distribution network. For the purposes of including new, larger customers and distributed energy sources, analyses of the network are performed with the use of appropriate software.

The Development Department moni-

tors the indicators of supply reliability and electric voltage quality, and takes part in solving customer complaints concerning poor voltage conditions. Based on electric voltage quality measurements and field inspection, solutions are proposed to improve voltage conditions.

Complaints about power quality



The reliability of supplied electricity is monitored using the indicators SAIFI (System Average Interruption Frequency Index) and SAIDI (System Average Interruption Duration Index), relative to the cause of interruption,

and MAIFI (Momentary Average Interruption Frequency Index).

Total values of the reliability indicators SAIFI and SAIDI for 2016 at the company level are shown below, to-

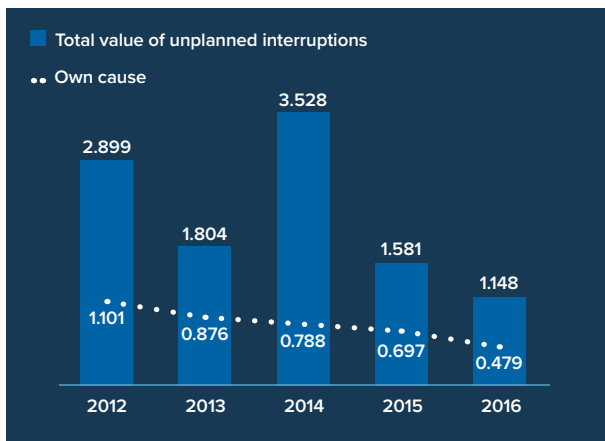
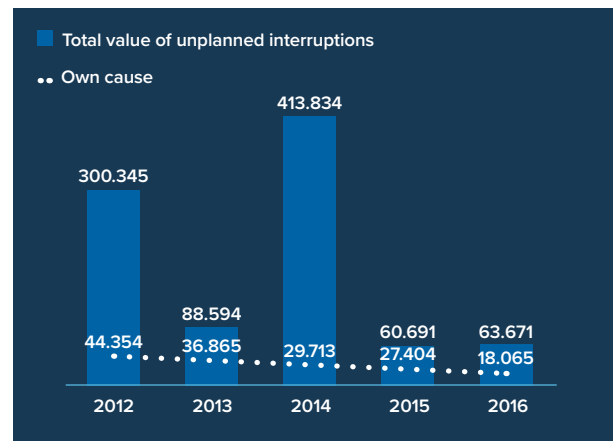
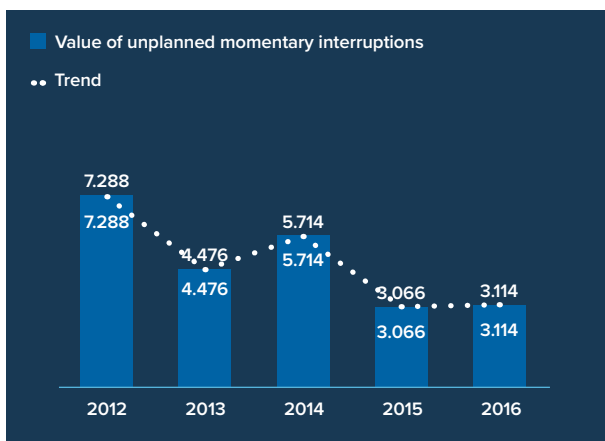
gether with the cause of interruption. These indicators provide information about the average number of interruptions and the average duration of interruption per customer.

SAIFI/SAIDI Reliability indicators	UNPLANNED INTERRUPTIONS						PLANNED INTERRUPTIONS	
	OWN CAUSE		THRID-PARTY CAUSE		FORCE MAJEURE			
	SAIFI (int./cust.)	SAIDI (min/cust.)	SAIFI (int./cust.)	SAIDI (min/cust.)	SAIFI (int./cust.)	SAIDI (min/cust.)	SAIFI (int./cust.)	SAIDI (min/cust.)
Total urban lines	0.421	12.450	0.200	6.205	0.132	15.221	0.618	102.890
Total rural lines	0.533	23.285	0.227	8.234	0.755	59.855	1.345	204.729
Total value	0.479	18.065	0.214	7.256	0.455	38.350	0.995	155.661

By following these reliability indicators, which are also included in the set of strategic indicators of the company Elektro Celje, we monitor the progress towards of one of our key

strategic goals – reliability and safety of network operation – and the implementation of strategic activities towards achievement of the following goals: ensuring reliability of network

operation, efficient control of voltage conditions, MV network automation upgrade, MV network cabling, and optic cable upgrade.

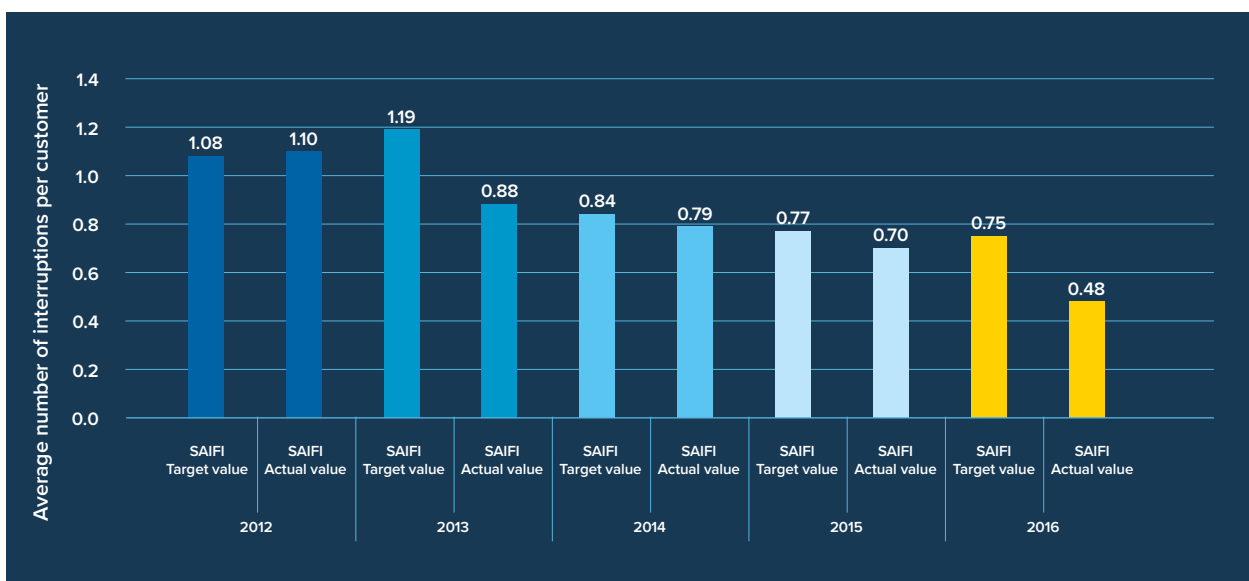
SAIFI – Average number of interruptions per customer**SAIDI** – Average duration of interruption per customer in minutes**MAIFI** – Average number of momentary interruptions per customer

The values of power supply quality indicators in 2016 for reasons attrib-

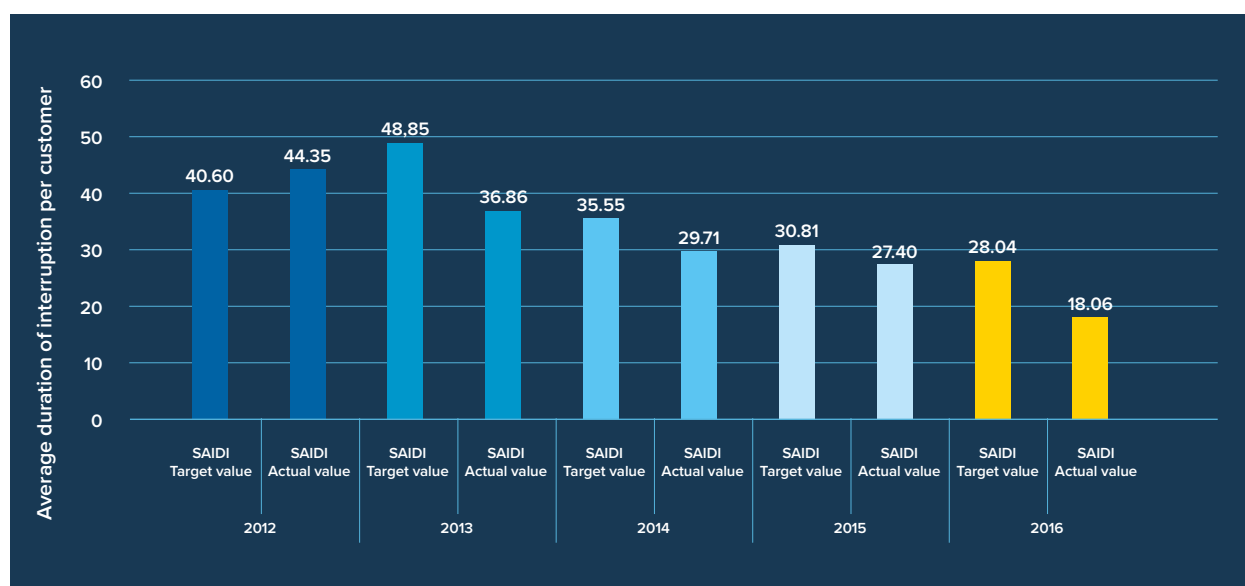
able to our company were lower than in the previous years, and lower than

target values, indicating greater reliability of electricity supply.

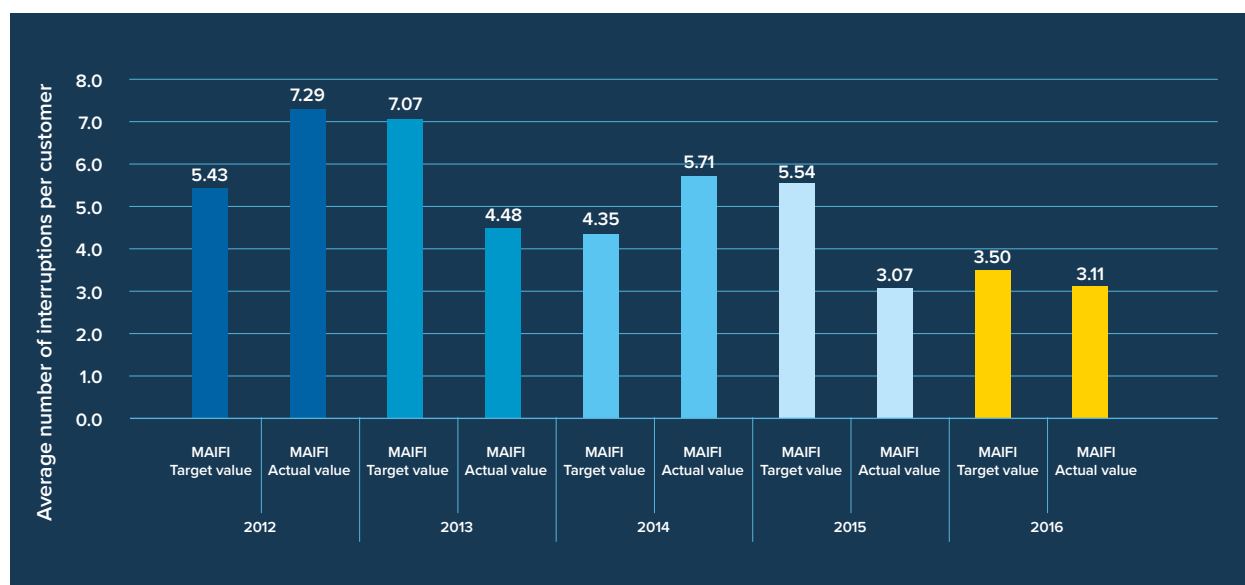
SAIFI value: unplanned interruptions - own cause



SAIDI value: unplanned interruptions - own cause



MAIFI value: unplanned momentary interruptions



9.1.2 Operation of the Distribution Network

The Operations Department includes the distribution control centre (DCC) and system engineering. The key tasks of the distribution management centre are as follows:

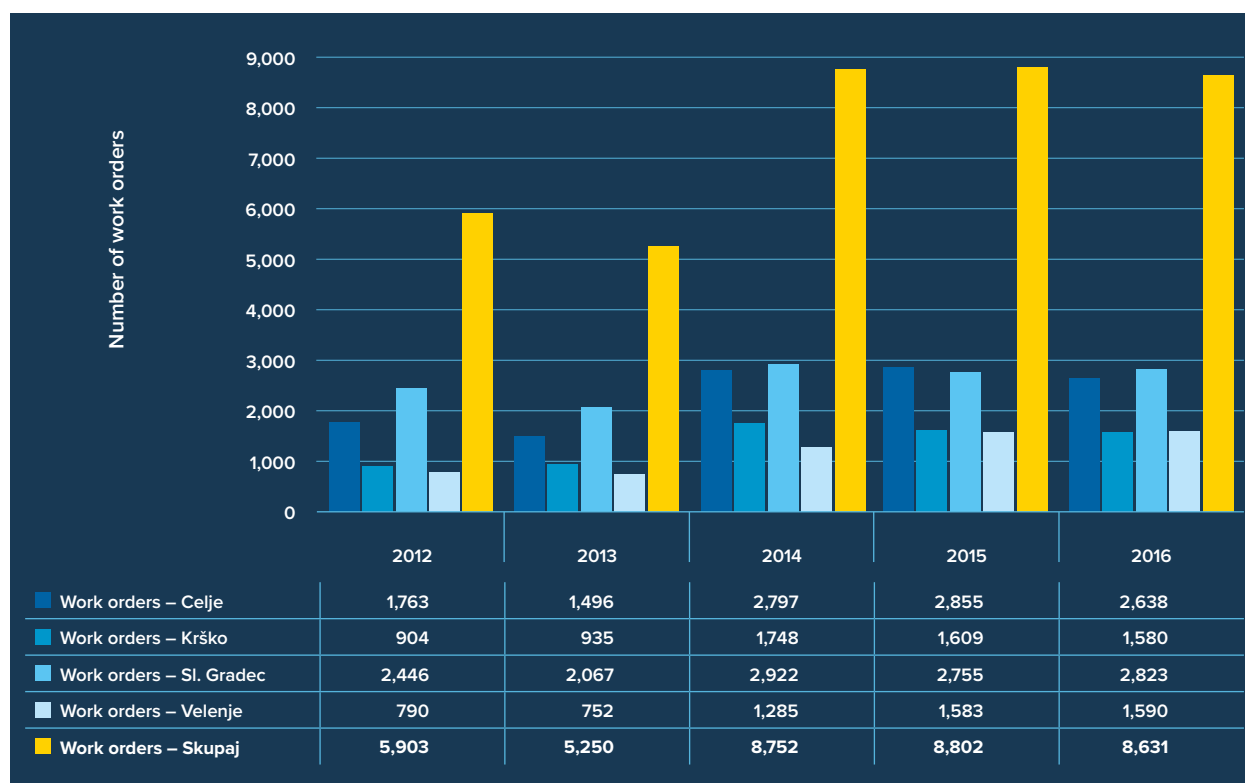
- >> remote control, management and provision of safe and reliable operation of the entire distribution electricity system (DES), more specifically DTSs, DSs, remote-controlled TSs and RCSs (Remote-Controlled Switchgears) in the entire area of the company Elektro Celje, d.d.,
- >> coordination and plan development for DES operation with neighbouring systems,
- >> outage and fault analysis and operational statistics development,
- >> coordination of switchgear manipulations for planned and unplanned events in HV and MV networks,
- >> dispatching in coordination with ELES's National Control Centre (NCC) and Regional Control Centres (RCC), and the neighbouring Distribution Control Centres (DCC),
- >> development of reports on planned and unplanned events, and recording events statistics,
- >> elaboration of forecasts and analyses of the power distribution network operating conditions,
- >> implementation of the measures prescribed for limiting load and consumption,
- >> development or confirmation of operating instructions,
- >> response to customer calls outside regular working hours,
- >> review and approval of work programmes for planned work on the MV network.

The following two graphs display works performed by individual distribution units on the power distribution network in the 5-year period, broken down by work programmes and work orders.

Work programmes



Work orders



The key task of system engineering in 2016 was the development of the network model in DMS and PSI software tools and synchronisation with the state in GIS and DTD.

The following activities were performed in the DMS/OMS systems in 2016: entry of new facilities in the DMS data model, changes regarding the existing facilities and harmonisation of DTS schemes with the newly drawn ones, connection of new facilities through the TASE.2 communication protocol with SCADA, control and analysis of results of the newly developed LCA function, updating the information on the LV section of the TSs by using the CAT function on a daily basis, organisation of training regarding DMS and OMS at the DU level for dispatchers in DCCs and other employees (over 200 employees in total), purchase of an additional 12 licences for using OMS, commencement of the test use period for OMS at the level of the entire company, maintenance of the DMS v2 system

linked to the maintenance contract, analysing, reporting and rectifying errors in the DMS/OMS software, and commencement of work in the project group aimed at preparing DMS solutions.

The following activities were performed in the PSIControl system in 2016: maintenance of the correct network status, harmonisation of data with regard to the GIS-DMS-PSI relation, start-up of DTS Žalec, transformation of OPL bays with the replacement of primary switchgears (DTS Ravne, DTS Slovenj Gradec, DTS Brežice, DTS Rogaška Slatina, DTS Vuzenica), differential protection (DTS Brežice, DTS Sevnica, DS Mokronog), construction of switching sequences, transformation of cell control at DTS Krško, preparation of 20 kV-cells at DTS Lava, restructuring the management of DTS Trnovlje, development of the TR bay with the replacement of the transformer (DTS Vuzenica), entry of RCSs, transformation of the graphic interface, testing at

the Lava warehouse, testing prior to start-up and start-up, transformation of MV cells and network development (DS Nazarje), entry and testing detection of contact with the ground (DTS Krško), maintenance of the wall display in DCCs, ensuring switching statuses and measurements for the DMS tool through the TASE connection and establishing connection with Elektro Ljubljana as well as exchange of information, looping HP Dravograd and HP Brežice and exchanging information with the company ELES, opening small remote-controlled TSs (4 pcs), preparing remote-controlled TSs and DSs (TS Žerjav and DS Koštanjevica).

Review and maintenance of the video control and anti-burglary systems at DTS Šentjur were performed in 2016. The anti-burglary system was also upgraded to include the approach control system. Anti-burglary signals from the facility of DTS Šentjur were channelled to the security control system of Prosignal.

9.1.3 Protection and Remote Control

In 2016, investments in the replacement of primary equipment of 110 kV switching substations were made. With functional testing, we took part in the replacement of the equipment at DTS Rogaška Slatina, DTS Brežice, DTS Ravne and DTS Vuzenica. At the latter, the power transformer was replaced.

MV network automation contributed to a more reliable operation. We installed 11 RCS sets, 4 TSs were automated, with protection tests carried out at 7 remote-controlled switching points.

We continued with activities regarding the sale of transmission parts of 110 kV switching substations. For the facilities of DTS Brežice and DTS Velenje, we took part in the preparation of information for the study into the technical status of facilities, audited the studies and prepared a list of equipment to be sold.

Within the framework of investment maintenance, we replaced the control system at DTS Krško with the new SYS600C unit which will, following the restoration of OPL 110 kV bays, be the only remote control system at the facility.

We took active part in the pilot project of parallel operation of MV lines between the facilities of DTS Sevnica and DTS Mokronog. The project and the system of differential protection of lines are in the phase of trial parallel operation.

Functional and start-up tests of secondary systems were performed at DTS Žalec which were concluded when the facility began operating.

Important investments in 2016 also include the restoration of the primary and secondary equipment of 110 kV OPL bays at DTS Slovenj Gradec. Works were concluded for OPL 110

kV Dravograd, whereas for OPL 110 kV Velenje, they will continue in 2017.

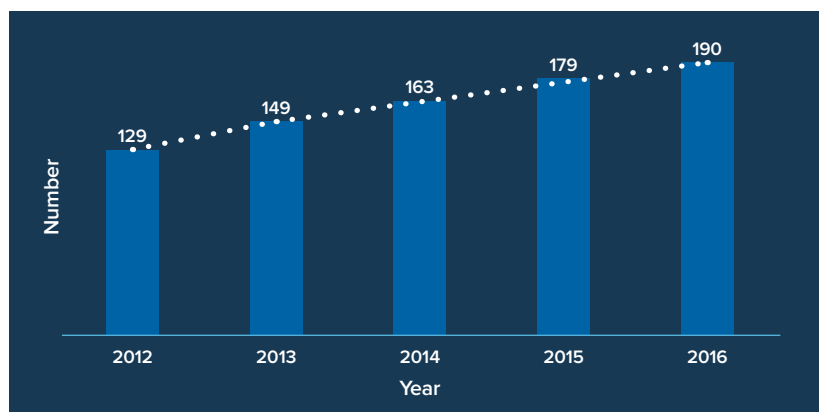
The concept of Petersen's coils at facilities of DTS Podlog, DTS Mozirje and DTS Rogaška Slatina was harmonised.

We carried out functional tests of protection and control, statutory measurements, voltage tests on HVUCs and LVUCs, cable casing tests, detection of faults at MV and LV UCs, measurements of electricity quality, as well as data capture from the electricity monitoring system on our equipment.

In 2016, we began our own testing of protection of 110 kV lines which pursuant to the Decree on Delimitation of the 110kV network are included in the distribution.

Regular maintenance and replacement of UPS systems at DTS Brežice and DTS Sevnica contributed to more reliable operation.

Number of remote-controlled switchgears



9.1.4 Telecommunications

The Telecommunications Department is responsible for the following four main telecommunication networks or systems: optical network, Ethernet network in several redundant 1 GB/10GB rings, digital radio system for speech and narrow-band data connections, and the telephone system with a call centre and a customer relationship management (CRM) system.

In addition to the systems referred to, the Telecommunications Department

is also fully responsible for the technical administration of the microwave connection system and the Polycom video conference system integrated with Microsoft Lync or Skype for Business, safety mechanism for ICT systems (cyber safety) and the WiFi wireless network. The Department is also responsible for marketing surplus telecommunication capacities through the company Stelkom and for renting the remaining TC infrastructure (TC premises, TC towers, collocations, cable ducts for optics etc.).

In 2016, special attention was devoted to cyber safety which is becoming an increasingly important field. It requires the mastering of advanced tools and knowledge as well as constant investment in hardware, software and licences. Consequently, it has to be ensured that employees are suitably qualified for mastering anti-hacking systems (in the sense of trainings at suppliers and manufacturers of equipment).



Technicians of the Telecommunications Department inspecting the antenna equipment on the transmission tower.

Author: Davor Lipej



Okrog repeater for the Mokronog area

Author: Vlado Bucalo



Optical fibres

Author: Davor Lipej

9.1.5 Access to Network and Metering

Before connection, the customer or the producer has to sign an agreement on supply or feed-in of electricity with an electricity supplier forming the basis for signing an agreement on access to the distribution network. The access agreement is signed with the holder of the approval for connection to the distribution network for each input/output point. It has to be signed before the beginning of power supply or feed-in from or into the distribution network, or following any changes in the parameters of this same agreement. The access

agreement is signed for an indefinite period of time, except in cases when connection approval is issued for a fixed term.

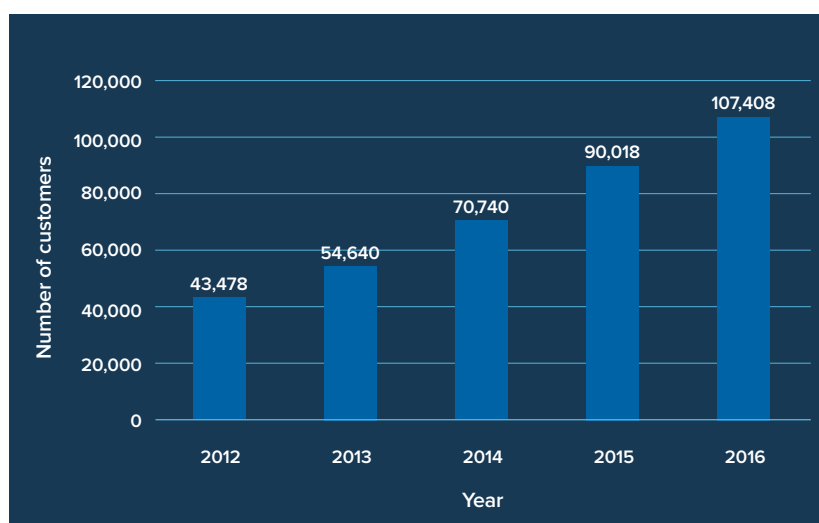
In 2016, 16,790 customers from the distribution area of the company Elektro Celje, d.d., changed their electricity supplier, which is 7,842 more than in 2015.

At the end of 2016, 1,144 electricity producers were connected to the distribution network of the company Elektro Celje, d.d. (with 37 connected

in 2016 alone). In the remote metering system, there are 2,067 concentrators installed in TSs, representing 59% of all TSs, and 2,846 control meters, representing 82% of all TSs, while 107,408 customers (63% of all customers) are already charged by actual consumption of electricity.

In recent years, the number of remote metering points has increased. Our plan is to fit all our customers with remote meters by 2020, allowing them to be billed according to actual monthly consumption of power.

Charging electricity by actual consumption



9.1.5.1 Energy Balance Sheet

9.1.5.1.1 Input (Production) Balance

In 2016, the total input of electricity into the distribution network of the company Elektro Celje, d.d., amounted to 2,040,265 MWh (input from the transmission network + input from electricity producers + input from other distribution networks), which is

0.8% more than in 2015, while maximum peak load reached a limit of 312 MW in January 2016. The total amount of electricity distributed to customers connected to the distribution network of the company Elektro Celje, d.d. (use of network) in 2016

amounted to 1,944,411 MWh, which is 0.8% more than in 2015. The percentage of input from the transmission network increased by 0.4%, from 1,861,240 MWh in 2015 to 1,868,970 MWh in 2016.

Input and output (generation and consumption) balance	2012 in MWh	Share in %	2013 in MWh	Share in %	2014 in MWh	Share in %	2015 in MWh	Share in %	2016 in MWh	Share in %
Transmission network	1,883,051	94.00	1,850,964	93.03	1,809,644	91.89	1,861,240	91.93	1,868,970	91.61
Power producers	119,174	5.95	131,261	6.60	143,781	7.30	143,688	7.10	152,298	7.46
Unregulated supply	947	0.05	7,288	0.37	16,005	0.81	19,719	0.97	19,032	0.93
Total input into the distribution network	2,003,172	100	1,989,513	100	1,969,430	100	2,024,647	100	2,040,300	100
Total supply (output) of electricity	1,891,762	/	1,882,792	/	1,868,300	/	1,928,787	/	1,944,411	/
Unregulated supply	296	/	0,449	/	518	/	3,770	/	66,322	/
Losses	111,114	5.87	106,722	5.67	100,613	5.39	95,857	4.97	95,823	4.93

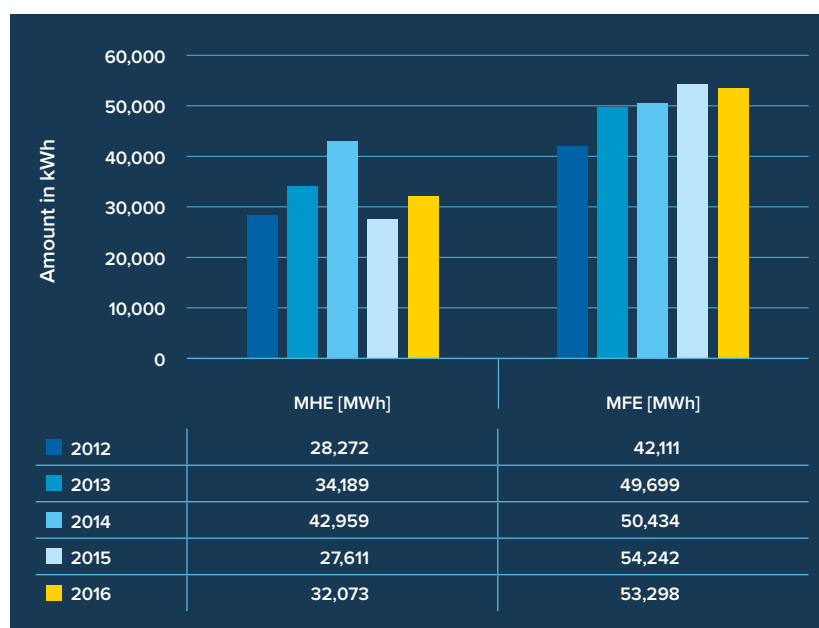
Electricity losses in the distribution network decreased from 4.97% in 2015 to 4.93% in 2016, calculated in compliance with the Act Determining the Methodology for the Calculation of Network Charge. The considerable decrease of losses from previous years is a result of measurement of commercial losses, which include losses due to metering errors, inaccuracy of metering devices, unregis-

tered consumption, unjustified consumption, and other unforeseeable events in the operation of the power distribution system. The reason for lower losses of electric energy in 2016 is particularly more frequent controls of metering points and a higher share of remote metering points. The measures to reduce commercial and technical losses include the implementation of AMI systems. In fact, remote

metering systems simplify our work, while allowing us to perform it more accurately.

Compared to the previous year, the production of electricity in SHPs increased by 16% in 2016, while the power production in SPSs decreased by 1.3%.

Annual electricity generation at SHPs and SPSs



In comparison to the previous year, the number of newly connected small power plants increased. The reason lies in the adoption of the Decree on Self-supply of Electricity from the Re-

newable Energy Sources (OG of the Republic of Slovenia, no. 97/15) establishing measures to promote the consumption of electricity generated from renewable sources by means of

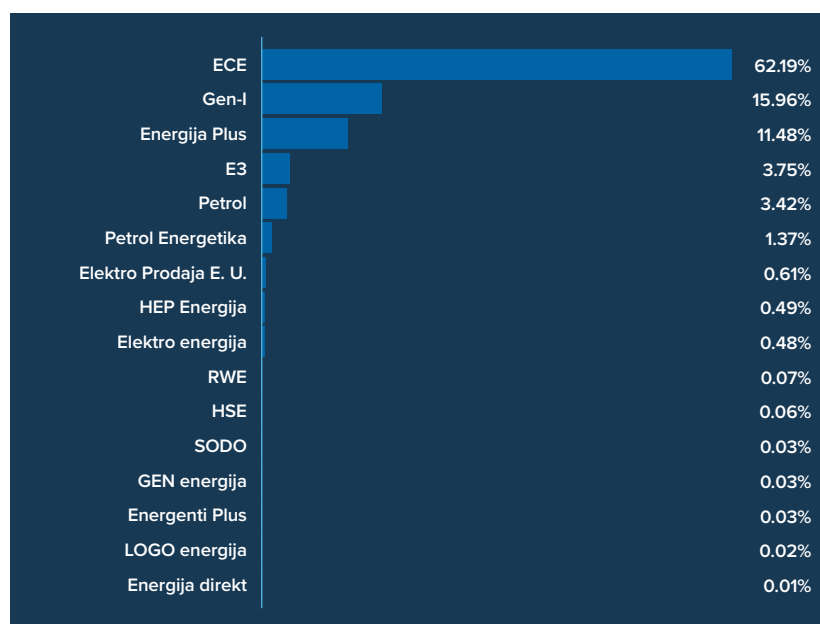
self-supply devices. In 2016, 36 new solar power stations and 1 gas-fired power plant were connected. Total number of power plants in view of energy source is shown below.

Energy source					
Sun	Water	Biomass	Gas	Wind	Total
829	3	7	75	2	916

9.1.5.1.2 Electricity Suppliers

ECE and GEN-I hold the largest market shares among electricity suppliers, 62.19% and 15.96%, respectively, while shares of other suppliers are minimal.

Electricity suppliers



9.1.5.1.3 Electricity Consumers

In 2016, 170,688 electricity consumers were connected to the distribution network of the company Elektro Celje, d.d.: 20,021 business customers and 150,667 households.

Number of electricity consumers					
	2012	2013	2014	2015	2016
Business customers	19,808	19,828	19,877	19,929	20,021
Household customers	148,637	149,037	149,537	150,077	150,667
Total	168,445	168,865	169,414	170,006	170,688

End consumers by category	Število	%
MV	295	0.1
LV with measured power	2,341	1.4
LV without measured power	17,383	10.2
Households	150,667	88.3
Charging EV on AC	2	0.0
Total	170,688	100

9.1.5.2 Metering Equipment

In 2016, we continued with the installation of meters that allow remote transmission of data via different communication channels. At the end of the previous year, 129,025 such meters were installed, representing 75.6% of all customers connected to the distribution network of the company Elektro Celje, d.d. At the end of

2016, the number of customers billed on the basis of actual electricity consumption was 107,408.

The benefits of introducing the remote meter reading system are: lower costs of meter reading, fewer errors in data reading and transfer, improved cash-flow, possibility of data

transfer services for third parties (gas, water, etc.), two-way communication, fewer customer complaints, better overview over power consumption and network operation, easier error detection, and higher quality analyses and implementation of measures for efficient energy use.

9.1.6 Network Charge Calculation

Pursuant to the agreement with SODO, the company Elektro Celje, d.d. is invoicing network charges to those customers who are not billed for the network charge by their electricity suppliers.

The network charges invoiced on behalf of SODO amounted to EUR 86,625,064, which is 5% more than in 2015.

The table below presents the dynamics of the services of the network charge calculation department for the last five-year period.

Services of the network charge department	2012	2013	2014	2015	2016
Agreements on access to the distribution network	10,497	10,118	11,924	15,463	13,658
Manual meter reading - annual reading	123,805	111,893	99,528	85,511	71,341
Manual meter reading - monthly reading	112,020	100,684	82,154	62,502	44,189
Remote meter reading - household and business customers	437,992	577,204	752,845	947,066	1,172,177
Manual meter reading due to change of supplier	5,075	4,693	2,729	4,847	6,570
Remote meter reading due to change of supplier	1,368	1,593	1,892	4,101	8,949

We are bound by the Act Concerning the Reporting of Data on Quality of Electricity Supply, issued by the Energy Agency of the Republic of Slovenia, to monitor some activities that provide quality provision of services for electricity consumers in the distribution area of the company Elektro Celje.

The following events are recorded for monitoring of commercial quality indicators:

- >> time required for response to written inquiries, complaints and user requests,
- >> time required to resume electricity supply at a metering point after the conditions for such resumption have been met,

- >> time required to repair a meter fault,
- >> number of meter readings in a year according to the type of schedule (annual, monthly),
- >> time of call hold at the call centre,
- >> call-centre service level indicator.

9.2 Maintenance and Engineering

In addition to network maintenance and planning and implementation of investments, the Maintenance and Engineering Sector provides its customers a complete range of services

in building, reconstruction, maintenance and servicing power-generating facilities and devices at the MV and LV levels. These tasks are carried out by the DUs of Celje, Krško,

Slovenj Gradec and Velenje and their respective control units and electrical installation teams, and by the Engineering Service.

9.2.1 Maintenance

Below is a presentation of value data on electricity infrastructure maintenance by type of asset for 2016.

Maintenance by type of asset	DU CELJE	DU KRŠKO	DU SLOVENJ GRADEC	DU VELENJE	OTHER	TOTAL ELEKTRO CELJE
HV overhead power lines	20,697	35,779	0	24,166	80,140	160,782
DTS 110/MV kV, DS 110 kV	205,767	183,803	128,380	150,706	221,980	890,636
Total 110 kV facilities	226,464	219,582	128,380	174,872	302,120	1,051,418
MV overhead power lines	378,080	548,479	381,133	604,667	374,903	2,287,262
MV underground cables	39,827	34,975	35,723	57,517	95,369	263,411
DTS MV/MV, DS MV (with control and protection)	34,595	40,628	10,732	71,133	85,111	242,199
TS MV/0.4 kV, TS MV/0.95 kV, TS 0.95/0.4 kV	517,976	372,116	300,563	505,583	590,155	2,286,393
Total MV facilities	970,478	996,198	728,151	1,238,900	1,145,538	5,079,265
Total LV network	1,253,446	1,173,084	927,994	1,092,683	829,056	5,276,263
TOTAL MAINTENANCE OF LINES AND DEVICES	2,450,388	2,388,864	1,784,525	2,506,455	2,276,714	11,406,946

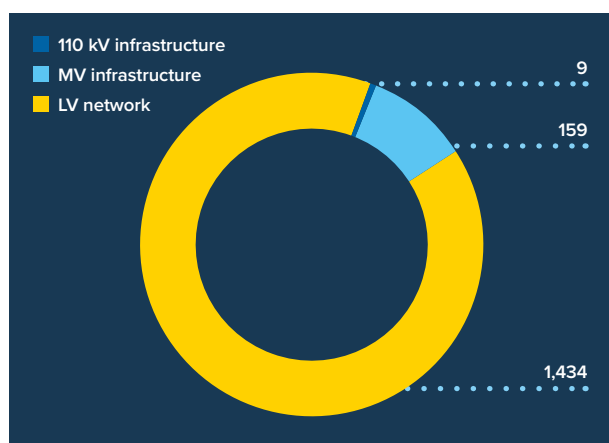
The distribution units are in charge of ensuring the technically impeccable condition of the power distribution equipment, intervening as necessary during regular working hours, providing emergency services outside regular working hours, reading meters, and replacing fuses. These activities are primarily carried out by control units.

Technical and other documentation for the requirements of regular and investment maintenance is provided in cooperation with technical operations at the distribution units; also, arrangements are made with property owners and customers regarding the performance of works and interruptions in electricity supply. Maintenance teams are in charge of the

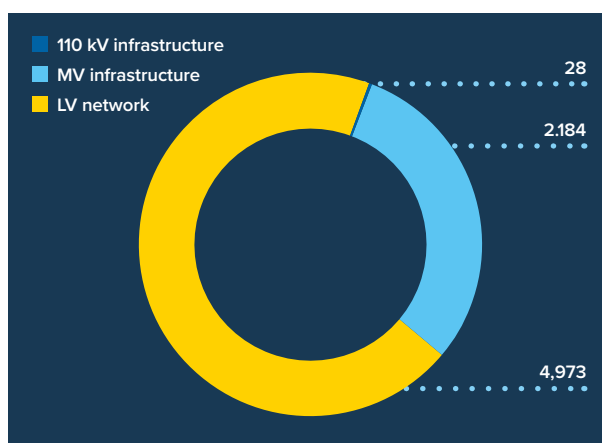
performance of investment and maintenance works of public benefit.

In 2016, due to various causes, there were occasional interruptions and faults in the power distribution equipment, which maintenance personnel repaired in the shortest time possible, with normal operation of the network being restored.

Number of interruptions



No. of hours required to repair the faults



In the area of **DU Celje**, the number of interruptions on the MV infrastructure dropped by 19% compared to the previous year, from 32 to 26, mainly due to intensive systemic investments in the renovation of the MV network and the integration of resonant inductors in the DTSs. Also, no storms were recorded in 2016. The number of interruptions on the LV network compared to 2015 rose from 726 to 839 (by 16%), but the time required to repair them increased by 41%.

In the area of **DU Krško**, the number of interruptions on the MV infrastructure increased from 41 to 50 (by 22%),

with the number of interruptions on the LV network (195) and the time required for them to be repaired (461 hours) remaining at the level of the previous year.

In the area of **DU Slovenj Gradec**, the number of interruptions on MV infrastructure decreased from 44 to 37 (by 16%). Since the faults were major, the time to repair them increased from 250 to 555 hours. The number of interruptions on the LV infrastructure increased from 145 to 179 (by 23%), whereas the time required for their repair decreased by 31%.

In the area of **DU Velenje**, the number of interruptions on the MV infrastructure decreased from 78 to 46 (by 41%), with the time required to repair them also significantly decreasing (from 498 to 183 hours). The number of interruptions on the LV infrastructure dropped from 373 to 221 (by 41%), with the time necessary for their repair also decreasing (by 42%).

In 2016, we replaced 31 transformers due to the requirement of increased capacity and 60 due to faults and wear. We also restored 1,008 LV connections.

in EUR

Electricity distribution infrastructure as of 31 December 2016	DU Celje	DU Krško	DU Slovenj Gradec	DU Velenje	Total Elektro Celje
Number of DTSs	6	4	4	4	18
Number of DSs	3	4	3	4	14
Number of TSs	988	948	723	827	3,486
110 kV OPL (km)	62	34	0	7	103
MV OPL (km)	712	821	440	676	2,649
MV UC (km)	263	229	168	202	862
0.4 kV LV network (km)	4,320	3,547	2,618	3,203	13,688

9.2.2 Engineering

The Engineering Department performs the planning, control and targeting of investments in the company and drafts project documentation until the building permit is obtained (PD – conceptual design, BD – basic design), project documentation for the execution of the works (DD – detailed design), preliminary designs (PDs) and project documentation for completed works (AD – as-built design)

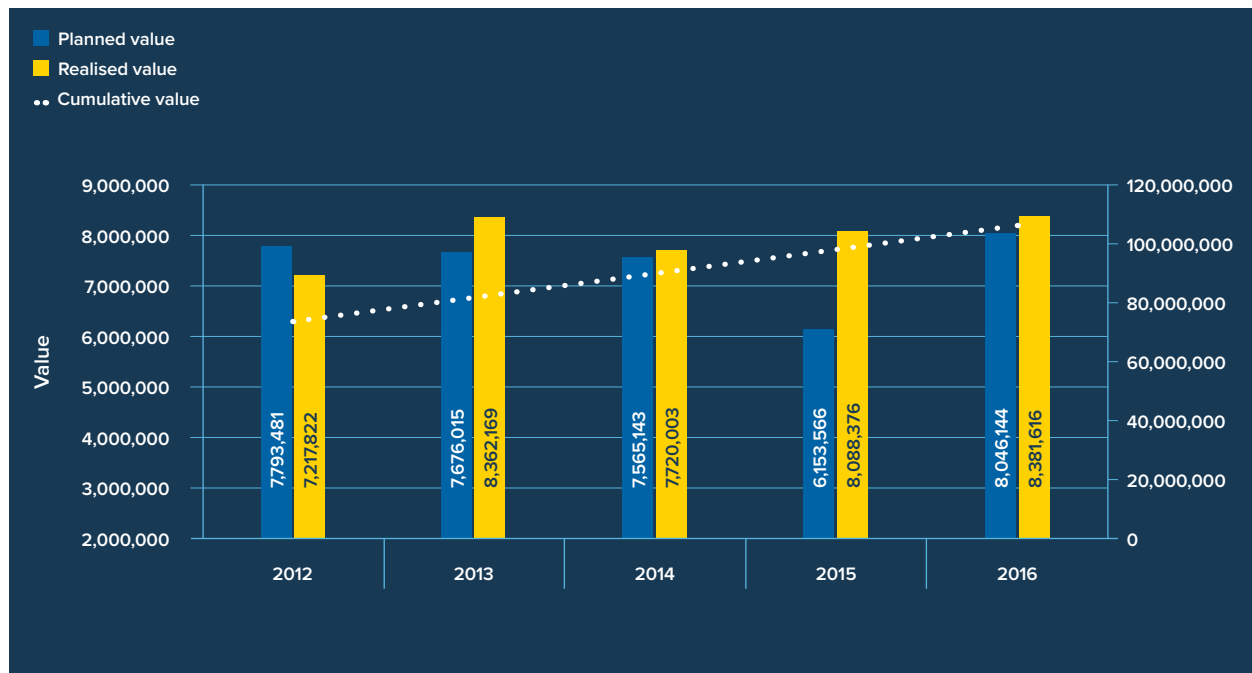
for newly constructed and renovated MV/LV transformer stations, MV and LV connection lines, relocations and revisions of power distribution lines and equipment, mechanical protection of lines etc. Employees devote considerable attention and time to the integration of facilities in the environment, impacts on the environment, matters related to land law, coordination regarding electrical power line

routes and the location of electricity installations with land-owners, preparation and conclusion of agreements on easement and determining easement compensations. The employees manage investments for new MV and LV infrastructure and new DTSs or DSs from preparing the ToR to the integration of the new facility in the operation or fixed asset mobilisation.

9.2.2.1 Design

The total investment value of completed BD and DD project documentation in 2016 amounted to EUR 8,381,616.

Plan and realisation of completed projects according to estimated value of investment

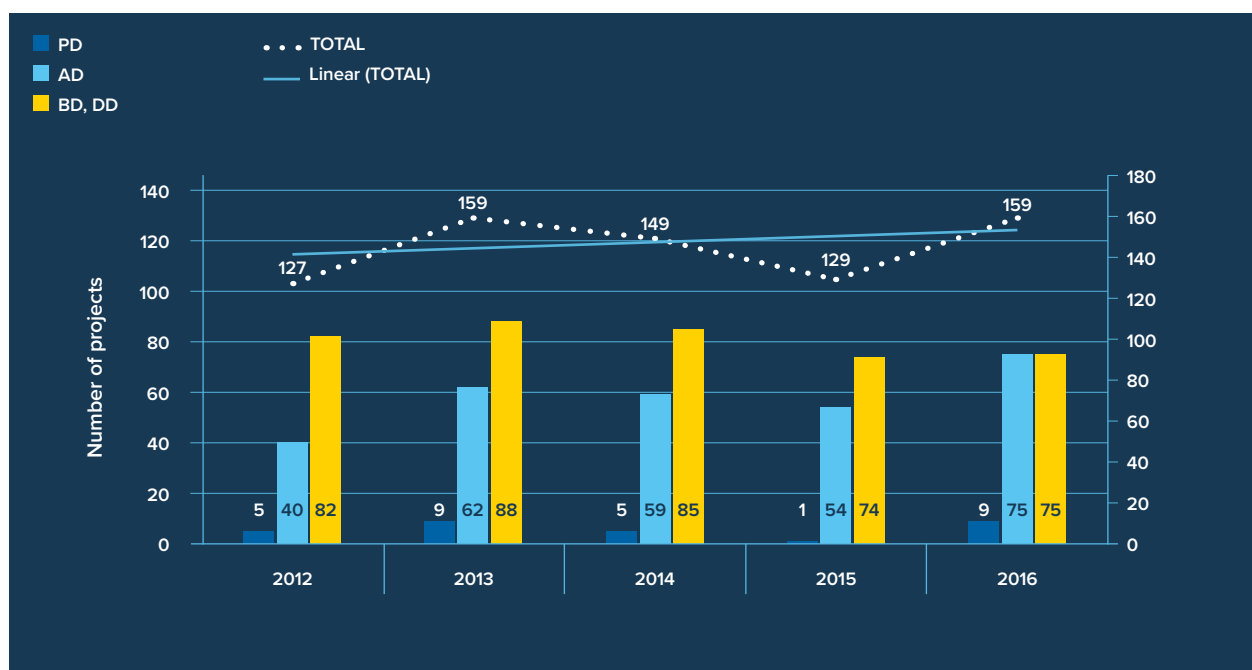


In 2016, a total of 159 designs were prepared, of which 75 were BDs and/or DDs, 75 ADs, and 9 PDs. Of all

designs prepared, a total of 32 were developed for third-party customers, of which 16 were BDs and (or) DDs, 7

ADs and 9 PDs.

Number of projects completed by year



New instructions on the operation and local use of DTS Žalec, DTS Vuzenica and DS Mokronog were prepared and published in 2016. Eight instructions on the use and operation of DTSs and DSs were revised. There

were 408 easement agreements and 49 amendments to such agreements drafted, 391 appraisals of easement compensations, 15 revisions to such appraisals drafted, and 1,053 easement agreements in total reviewed

and signed. There were 5 purchases of plots for existing and planned TSs made, 2 cancellations of permits prepared, 4 amendments to agreements, 1 co-investment agreement and 2 contracts on building rights drawn up.

9.2.2.2 Investments

In 2016, investments amounted to EUR 20,072,117 (value of acquisitions stated in the tables of intangible assets and tangible fixed assets in 2016, minus the value of tangible fixed assets acquired free of charge), which

is equivalent to 100.4% of the annual plan of EUR 20,000,000.

The investments were financed with own depreciation assets in the amount of EUR 4,485,150, other

own sources in the amount of EUR 4,586,967 and long-term investment loans in the amount of EUR 11,000,000. The value of fixed assets acquired free of charge in 2016 amounted to EUR 442,418.

in EUR

Realisation of investments in 2016	Plan	Achieved	Achieved Plan
New MV and LV infrastructure	7,323,500	7,300,414	99.7%
Replacement, increase of capacity and refurbishment	7,358,000	7,178,660	97.6%
Other energy investments	3,056,120	3,136,479	102.6%
Non-energy investments	2,262,380	2,456,564	108.6%
TOTAL	20,000,000	20,072,117	100.4%

New MV and LV Infrastructure

We constructed 36 new TSs (20/0.4 kV), 0.8 km of MV overhead power lines, 58.1 km of MV underground cables, and 22.9 km of LV underground cables.

Renovation, Replacement, and Increase of Capacity

The actually used funds were intended for remediation of damaged lines and other infrastructure, replacement of cables, utility poles with relevant equipment, disconnectors, overhead power lines, construction of replacement MV underground cables, replacement of LV cabinets, overvoltage conductors, refurbishment of the building or MV equipment at transformer substations, replacement of utility poles for overhead LV power lines and underground cabling of the LV network. We remedied 37.2 km of MV overhead power lines, 5.1 km of MV underground cabling, 184.3 km of LV network, renovated 31 buildings of transformer substations, replaced MV switching blocks at 55 and LV switching blocks at 78 transformer substations, replaced 886 MV utility poles and 1,450 LV utility poles, as well as 212 MV overvoltage conductors.

Other Energy and Non-energy Investments

Other energy and non-energy investments are defined in detail in the Review of Major Investments in 2016 section.

Review of Major Investments in 2016

Underground cable 2 x 110 kV DTS Žalec – 110 kV OPL DTS Podlog – DTS Lava

The underground cable 2 x 110 kV for the integration of DTS Žalec in the electricity network was built in the first half of 2016. All administrative permits were acquired for it, which was handed over for operation in November.

OPL 2 x 110 kV DTS Ravne – DTS Mežica

In 2016, the Municipality of Prevalje did not approve the proposed Municipal Detailed Spatial Plan (MDSP), thus we will begin with the activities for implementing the National Spatial Plan (NSP).

OPL 2 x 110 kV DTS Trebnje – DTS Mokronog – DTS Sevnica

In 2016, the Government of the Re-

public of Slovenia issued the Decision approving the most favourable OPL route and thus we began with further procedures to complete the NSP.

Transformation of the stand-off position 29 DTS Lava – Podlog

The existing stand-off position no. 29 on OPL Podlog – Lava was not suitable for looping of DTS Žalec and was thus adjusted for the connection of DTS in 2016.

DTS 110/20 kV Žalec with TS 110/20 kV 2 x 31.5 MVA

In June 2016, DTS Žalec was integrated in the electricity system at both the HV and MV levels. All administrative permits were acquired for the facility, which was handed over for operation in November.

DTS 110/20 kV Vojnik with TS 110/20 kV 2 x 20 MVA

In 2016, we conducted a public procurement for the selection of the designer for the preparation of project documentation (CD, BD, DD, tender documentation (TD) and AD). A conceptual design forming the basis for further designing was prepared.

DTS 110/20 kV Lava

A separator and oil-collector signalling devices were installed with 20 kV cells activated.

DTS 110/20 kV Selce

The Petersen's coil was upgraded.

DTS 110/20 kV Mozirje

A separator and oil-collector signalling devices were installed.

DTS 110/20/10 kV Trnovlje

A separator and oil-collector signalling devices were installed and a staircase canopy mounted.

DTS 110/20 kV Mozirje

A separator and oil-collector signalling devices were installed.

DTS 110/20 kV Vuzenica

We replaced the power transformer with 31.5 MVA funded by the company SODO in the amount of EUR 540,000. The company Elektro Celje, d.d. replaced the primary equipment for the TS bay, painted the façade and renovated the façade base. Windows in toilet facilities and the lobby were replaced.

DTS 110/20 kV Rogaška Slatina

We replaced the primary equipment for the TS bay, upgraded the Petersen's coil system, and replaced the windows in the control room, toilet facilities and the AKU room.

DTS 110/20 kV Šentjur

We restored 20 kV cells and replaced the windows in the control room, toilet facilities and the AKU room.

DTS 110/20 kV Slovenj Gradec

We replaced the primary and secondary equipment for the OPL bay and installed a separator and oil-collector signalling devices.

DTS 110/20 kV Ravne

We replaced the primary and secondary equipment for the OPL bay, installed a separator and oil-collector signalling devices, upgraded the Petersen's coil system and rehabilitated the floor at the 20 kV switchyard.

DTS 110/20 kV Krško

A separator and oil-collector signalling devices were installed.

DTS 110/20 kV Brežice

The primary equipment of TS I and TS II was replaced.

DTS 110/20 kV Podlog

The Petersen's coil system was upgraded with the foundations of TS and concrete cable ducts restored.

DTS 110/20 kV Sevnica

The secondary equipment was replaced.

DS Ljubno

The DD and AD documentation was prepared with the primary and secondary equipment replaced.

DS Ločica

The Term of Reference for secondary equipment was prepared.

DS Pristava betonarna

We began with the preparation of project documentation for the integration of MV lines in the direction towards DS Pristava and ordered equipment for DS Pristava.

DS Mokronog

We implemented the project of parallel operation of MV lines between the facilities of DTS Sevnica and DS (DTS) Mokronog.

Metering Devices

Regular and extraordinary substitution activities included the replacement of 14,269 meters, while 1,000 meters were replaced for the requirements of statistical sampling.

Telecommunication Network

As regards cyber-safety, we increased the number of licences in 2016 to increase the number of monitored sessions in the SIEM Juniper Secure Analytics system.

As regards the Ethernet network, we purchased Extreme Networks Ethernet switches for upgrading Ethernet hubs in business facilities and Siemens/RuggedCom Ethernet switches for upgrading hubs in several energy facilities. The hubs are new or the capacity of connection points of the existing hubs was increased.

Communication hubs were renovated or upgraded with new universal wir-

ing in the business premises Vuzenica and Mestinje.

We purchased the equipment for the new digital radio repeater for the Mislinja area including the cabinet for outdoor installation with supply system. The repeater is under construction and will be connected to the radio centre through the microwave link to the hub Mala Kopa which is already connected to the centre.

As regards the phone system, we upgraded the software of all phone system elements: on three NEC phone exchanges, and on the NEC Business ConneCT phone exchange server and the NEC MA4000 control system server including the NEC Expense Management system for tariffing and monitoring phone calls.

As regards the optical network, we concluded an agreement for the provision of services for external contractors and purchased 5,000 m of underground optical cable, fibre optic closures and modules for implementing current projects related to construction of the optical network. The following projects were realised: construction of the underground optical cable TS Stari trg - Nama Slovenj Gradec (from ADSS to the underground optical cable - UOC) for the purpose of OPL cabling, construction of the optical route in the UOC/ADSS combination from DTS Brežice in the direction towards Bizeljsko, implementation of the optical connection between the Business Facility SG (ECE) and TS Bolnica v Slovenj Gradcu (mostly by using the associated optical fibres in the optical cable of Stelkom to the base station of Si.mobil near TS Bolnica), with some short optical connections also implemented for the purposes of marketing optical fibres through the company Stelkom.

MV Network Automation

In 2016, we continued with the installation of remote-controlled switching points (RCSs). We installed 11 sets, automated TS Potok, TS Zg. Vižinga, TS Control Unit Šmarje and TS Bencinski servis Šentrupert and tested protection at 7 remote-controlled switchgears. The pilot project of parallel operation between the facilities of DTS Sevnica and DTS Mokronog was

concluded in 2016 and is undergoing trial operation.

DCC

We renewed the maintenance contract for the PSI software tool for 2016. Part of the funds was allocated to the purchase of 12 additional licences for the Schneider DMS software tool. We purchased 15 monitors for the purpose of managing and controlling the network at DCCs. Some unused funds were transferred to the Maintenance and Investments Department.

Business Data Processing

Two major information projects were implemented in 2016, namely the planning stage for establishing the Microsoft Dynamics AX ERP system (AXEC project) and the IBM Maximo EAM system (MaxEC project). We also implemented several information infrastructure projects:

- >> disk purchase and installation,
- >> the introduction of SQL 2014 AAG and migration of contents from the SQL 2008R2 cluster,
- >> upgrade of SharePoint to the 2013 version,

- >> the establishment of infrastructure for connecting identities in Office 365 (and transition to O365 - migration of e-mail accounts, Skype, etc.),
- >> upgrade of GIS functionality,
- >> upgrade of the AMI system,
- >> ePlan upgrade (planned financial values),
- >> introduction of Sidoksis (sending wage bills by e-mail).

The largest information investment in 2016 was the purchase of IBM system software which is installed and implemented on the infrastructure of the company Informatika, d.d. We agreed on this purchase with the company Informatika while concluding the new agreement for the provision of services. By becoming the owner of the system software, by means of which they provide services for us, we further reduced costs of services.

Business Premises and Inventory

In 2016, investments in the purchase and reorganisation of business premises in the first floor of the C building at Vrunčeva ulica in Celje were made.

Means of Transport

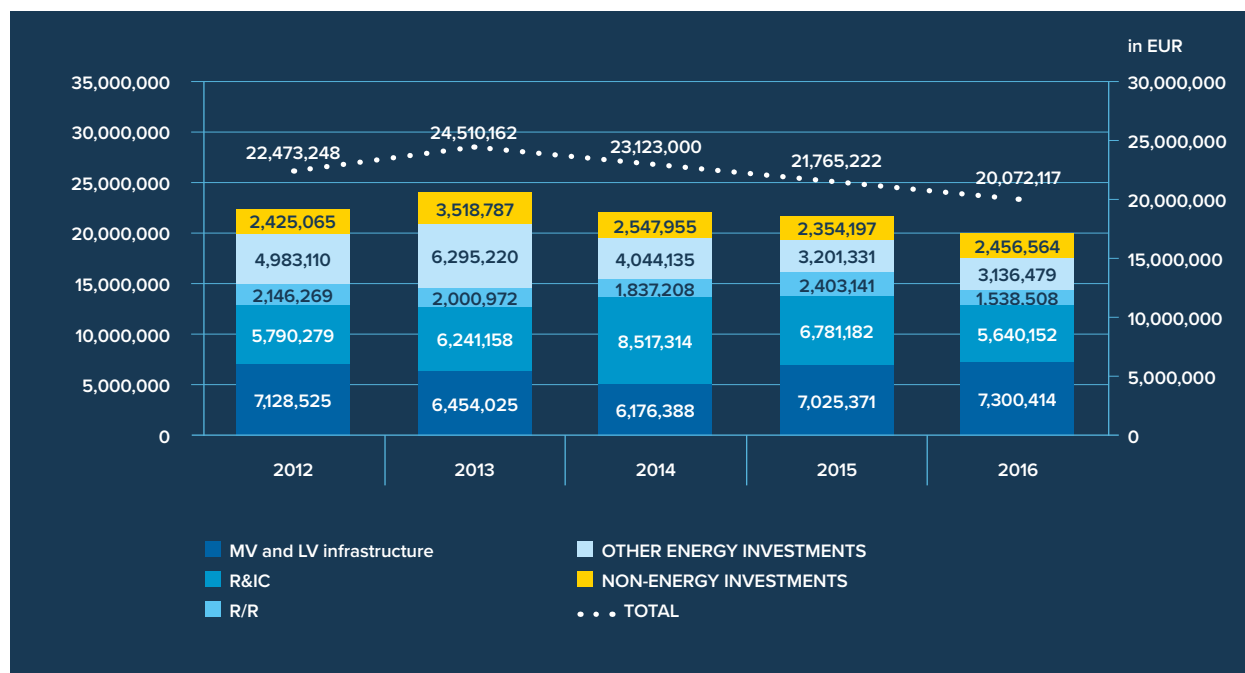
The following vehicles were purchased in 2016 based on an executed public contract: 5 passenger vehicles, 17 light-duty vehicles, 2 heavy-duty vehicles and 3 trailers.

Ecology Investments and Major and Small Tools

In 2016, the septic tank of the Vuzenica Control Unit was connected to the public sewage network, closing the septic tank of DTS Vuzenica water tightly and preparing it for further cleaning according to the faeces removal system. Some obsolete small tools in workshops were replaced, with oil-catchers rehabilitated at 7 DTSS. Oil separators with suitable signalling devices were installed at these DTSS. The purchase and replacement of the remaining small tools was carried out in accordance with the requirements of distribution units.

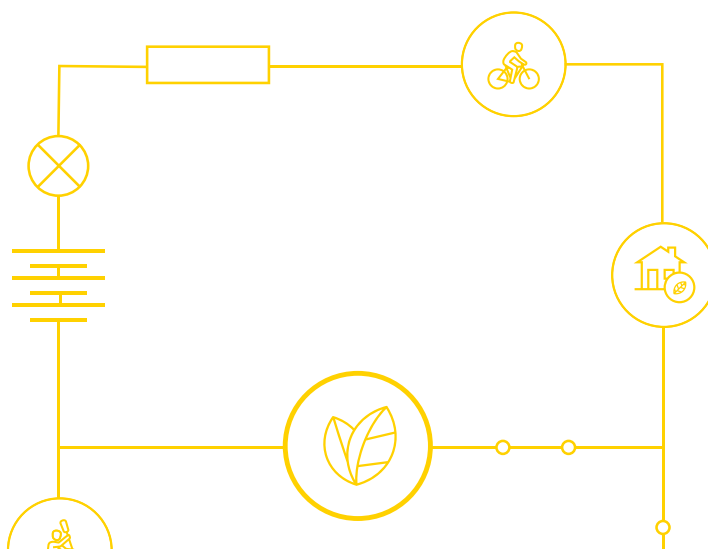
The graph below presents the value and structure of investments for the period from 2012 to 2016.

Value and structure of investments



The table below presents the investment plan for the period 2015–2017 and the actual investments in 2015 and 2016, following the agreement between EIB and the company Elektro Celje, d.d.

Item		2015		2016		2017
		Contract	Realisation	Contract	Realisation	Contract
New HV power lines	M EUR	0.18	0.03	0.06	0.06	0.15
New MV power lines	M EUR	0.49	0.20	0.09	0.05	0.05
	km	8.40	4.20	1.67	0.82	0.90
Refurbished MV power lines	M EUR	1.17	3.58	2.11	2.04	0.97
	km	38.90	42.30	38.39	37.16	17.58
New MV underground cables	M EUR	2.50	3.95	4.17	4.07	4.85
	km	46.00	46.74	59.61	58.11	69.30
Refurbished MV underground cables	M EUR	1.00	0.25	0.06	0.11	0.18
	km	49.60	11.90	2.96	5.13	8.57
LV Network	M EUR	5.57	4.25	3.81	4.05	4.80
	km	266.90	227.91	199.57	207.20	239.75
MV/LV stations	M EUR	2.86	2.73	2.51	2.57	2.61
- New	Number	40.00	36.00	40.00	36.00	33.00
- Refurbished	Number	105.00	106.00	100.00	109.00	102.00
HV/MV stations	M EUR	0.46	0.58	1.14	1.11	0.80
- New	Number	0.00	0.00	0.00	0.00	1.00
- Refurbished	Number	3.00	3.00	3.00	3.00	2.00
Automation and control	M EUR	1.05	0.77	0.33	0.28	0.33
Other equipment (metering equipment, transportation means, office buildings etc.)	M EUR	5.02	5.42	5.72	5.74	6.16
Total	M EUR	20.30	21.77	20.00	20.07	20.90



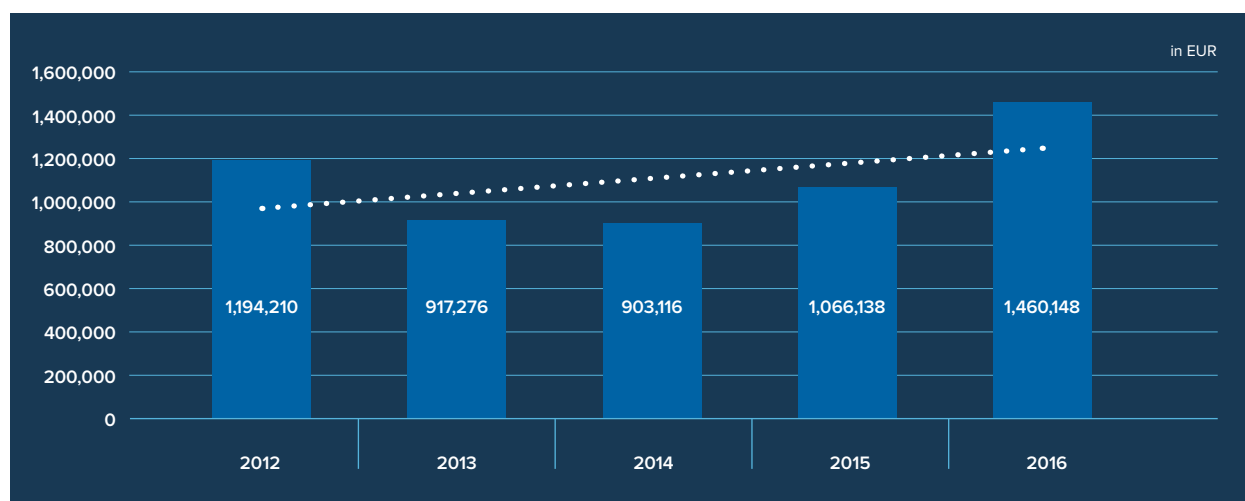
9.2.3 Marketing Services of the Company Elektro Celje

In 2016, revenue from sale of services to customers amounted to EUR 1,460,148, which is 37% more compared to the previous year or 73% more than projected in 2016. Construction and electric installa-

tion works, other works in non-energy marketing activities and design, where the revenue percentage increased in 2016 compared to 2015, account for the highest share. The projected revenue was exceeded

mainly due to construction of large facilities, where external investors invested in their electricity infrastructure, successful arrangement of new deals on the market and good work organisation.

Revenue from sale of services to customers



Marketing services in the company Elektro Celje are classified into several groups:

- >> project preparation,
- >> construction and electric installation works,

- >> maintenance of third-party devices,
- >> various measurements for customers,
- >> other works in non-energy marketing activities (network switchovers, works at metering control devices,

supervision during construction of facilities, etc.).





Elektro Celje



A person in a dark suit and blue tie is standing in a field of tall, dry grass. The person's hands are clasped in front of them. The background is a soft-focus field of similar grass.

RELATIONSHIP



RESPONSIBILITY

We recognize our responsibility to the natural environment. We are strategically and continuously faced with the challenges of electricity supply in the future, so the development of the distribution network is planned carefully, in the long term and in cooperation with all stakeholders.

10 OPERATION AND PERFORMANCE ANALYSIS

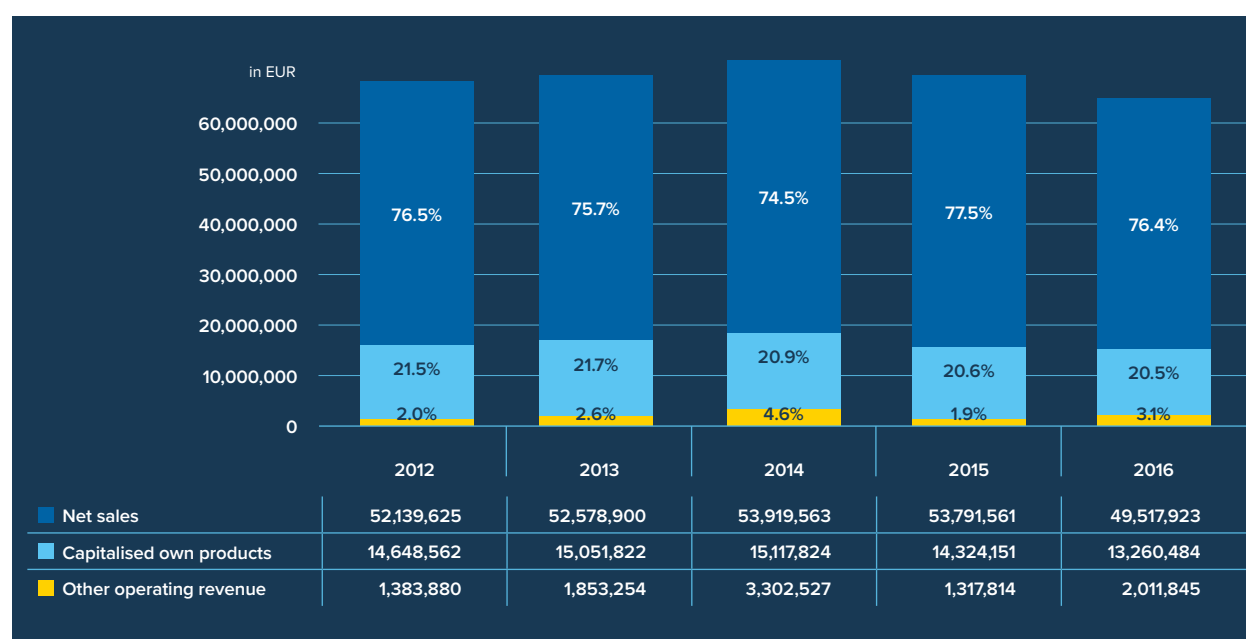
The operation analysis includes information on values and explanations for the company Elektro Celje and the Elektro Celje Group.

10.1 Operation and Performance Analysis of the Company Elektro Celje

10.1.1 Profit or Loss

Operating revenue of the company Elektro Celje amounting to EUR 64,790,252 represents 99.3% of total company revenue, and includes net sales, revenue from construction of own fixed assets, and other operating revenue.

Operating Revenue of the Company Elektro Celje



Net sales mainly refer to revenue from lease and maintenance of infrastructure and provision of services for SODO (in 2016 amounting to EUR 47,514,713; 0.3% higher than projected and 8.8% lower than achieved in 2015 which also included revenue for covering electricity losses) and revenue from provision of services to customers (EUR 1,474,011).

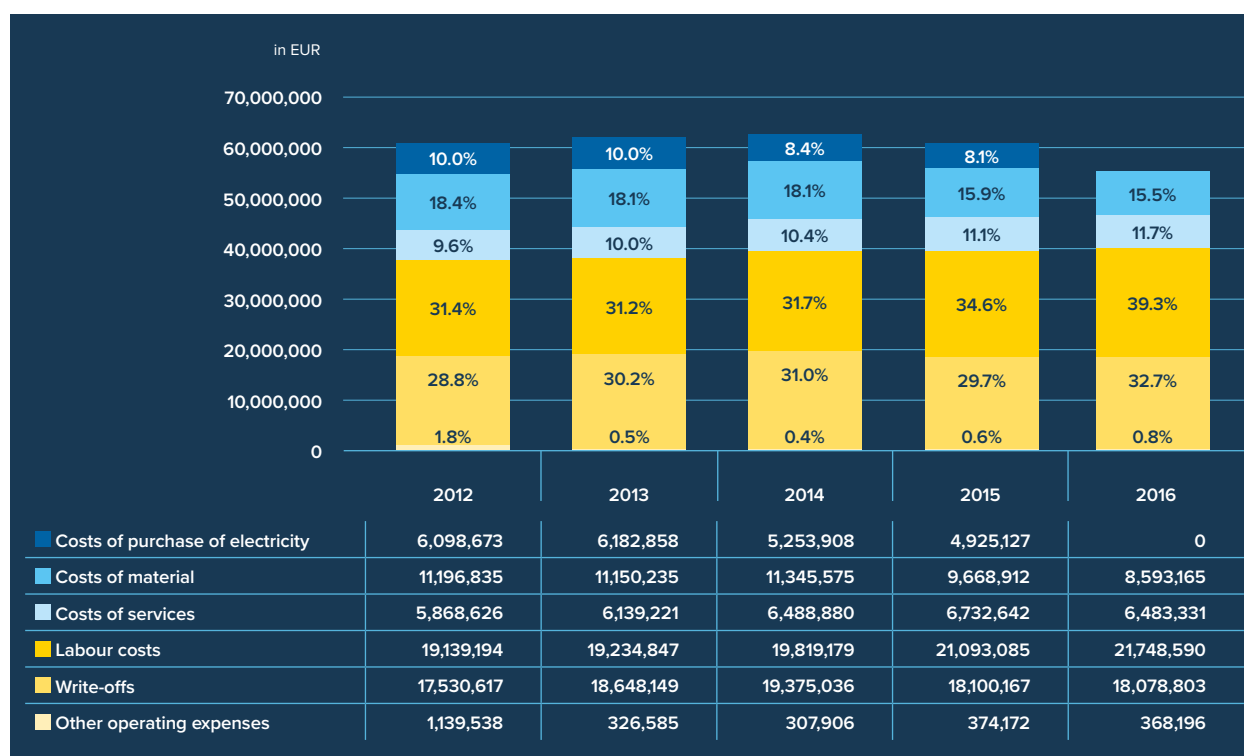
Revenue from construction of own fixed assets amounting to EUR 13,260,484 were lower than projected (by 13.1%) and lower from that achieved in 2015 (by 7.4%).

Other operating revenue amounting to EUR 2,011,845 were 52.7% higher than achieved in 2015 (EUR 1,317,814) or 43.7% higher than projected (EUR 1,400,175), mainly due to reversal of

provisions set up in 2015 from demands for the payment of the balance of holiday pay for 2015.

Operating expenses of the company Elektro Celje amounted to EUR 55,272,085. They represent 98.7% of total expenses. They were 9.2% lower than in 2015 (EUR 60,894,104 EUR) and 2.1% lower than the plan (EUR 56,449,200).

Operating Expenses of the Company Elektro Celje



The purchase of electricity for covering network losses was carried out by SODO from 1 January 2016 in accordance with the Network Charge Act.

The costs of material amounting to EUR 8,593,165 were 11.1% lower compared to the previous year (EUR 10,661,965) and 19.4% lower than the plan mainly due to lower costs of material in the company's own implementation of investments (EUR 6,383,999) and lower costs of materi-

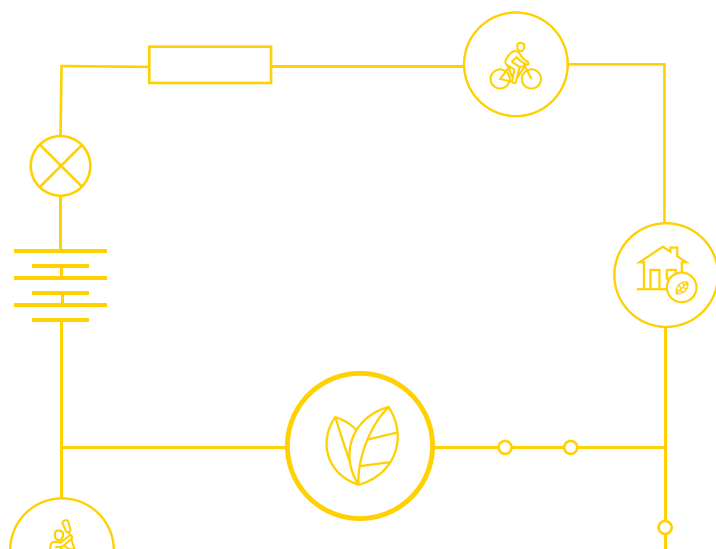
al required to remedy damages (EUR 138,093).

Costs of services in the amount of EUR 6,483,331 were 3.7% lower than the previous year, mainly due to lower costs of maintenance services (EUR 2,002,678) and lower costs of services required to remedy damages (EUR 100,280). They were 3.1% higher than projected for 2016 (EUR 6,287,352).

Labour costs accounting for the high-

est share of total operating expenses in the amount of EUR 21,748,590 were achieved. They were 3.1% higher compared to labour costs in the same period in the previous year and 3.7% higher than projected. They are presented in detail in section 15.6.5.

Depreciation and amortisation of the company Elektro Celje amounted to EUR 17,453,965 (EUR 17,689,500 in 2015). The amount was 2.5% lower than defined in the plan.



Financing Revenues and Expenses

in EUR

	The company Elektro Celje				
	Achieved 2012	Achieved 2013	Achieved 2014	Achieved 2015	Achieved 2016
Financial revenue	1,769,142	370,001	632,382	145,345	470,426
Financial expenses	-937,410	-2,120,567	-1,284,021	-1,082,192	-642,354
Net financial result	831,732	-1,750,566	-651,639	-936,847	-171,928

The net financial result of the company Elektro Celje in 2016 has improved compared to the previous year.

Financial revenue was EUR 325,081 higher compared to the previous year and EUR 168,030 higher com-

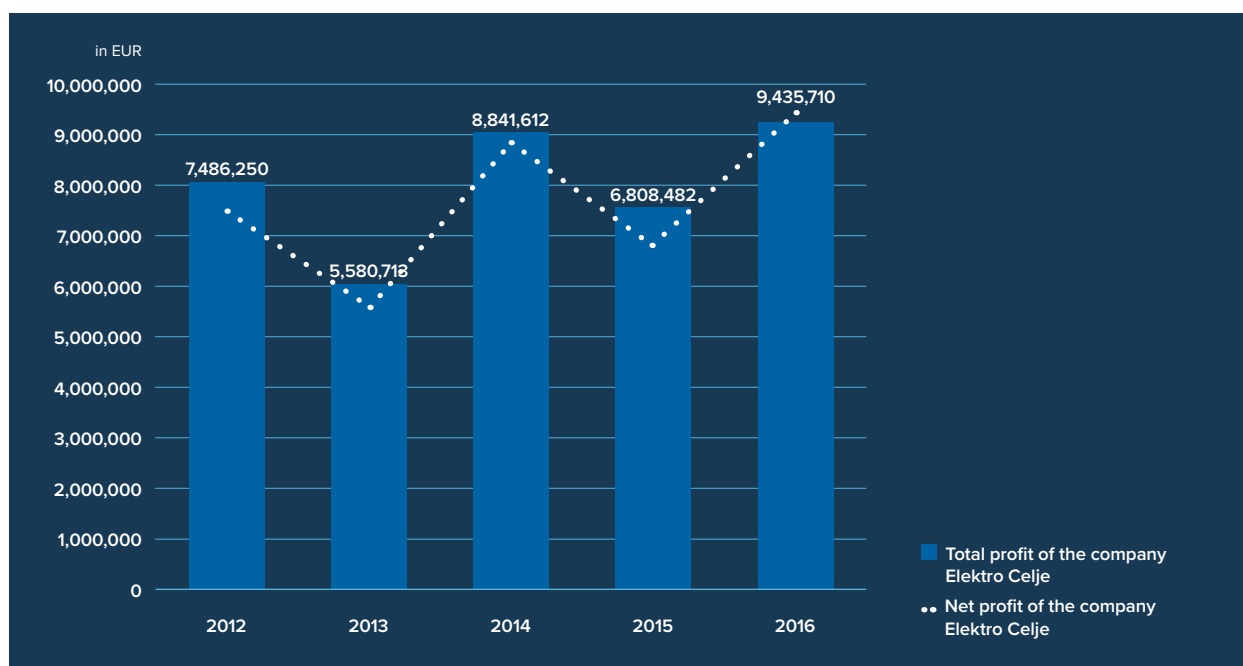
pared to the plan mainly due to the redemption of shares in the profit of the subsidiary ECE amounting to EUR 408,791.

Financial expenses amounting to EUR 642,354 were 40.7% lower com-

pared to the previous year mainly due to lower interest paid on loans (EUR 179,618 less than in 2015) and due to no impairments of long-term financial investments through the economic result charged to financial expenses arising in 2016 (EUR 103,508 in 2015).

Profit or Loss

Profit or Loss of the Company Elektro Celje



The operating result of the company Elektro Celje achieved is represented by profit amounting to EUR 9,518,167 (5.3% higher than the projected EUR 9,036,500) and 11.5% higher than achieved in 2015 (EUR 8,539,422). Considering financial revenue

(EUR 470,426) and expenses (EUR 642,354) and other extraordinary revenue (EUR 8,707) and expenses (EUR 100,801), the company's total profit amounted to EUR 9,254,145 which is 8.4% higher than projected (EUR 8,538,400) and 22.3% higher than

achieved in 2015 (EUR 7,566,013). Taking into account income tax and deferred taxes, **the net economic result of the company Elektro Celje for 2016 is represented by profit amounting to EUR 9,435,710.**

10.1.2 Assets and Liabilities

in EUR

ASSETS	The company Elektro Celje				
	31 Dec 2016	Share (in %)	31 Dec 2015	Share (in %)	Index 2016/2015
Non-current assets	261,663,678	94.8%	259,214,761	95.2%	101
Intangible assets and long-term accrued revenue and deferred expenses	1,544,031	0.6%	1,115,166	0.4%	138
Tangible fixed assets	246,036,537	89.1%	243,946,137	89.6%	101
Long-term financial investments	7,579,228	2.7%	7,580,116	2.8%	100
Long-term trade receivables	4,733,721	1.7%	5,934,882	2.2%	80
Deferred tax receivables	1,770,161	0.6%	638,460	0.2%	277
Current assets	11,579,999	4.2%	12,306,938	4.5%	94
Inventory	1,161,017	0.4%	1,380,529	0.5%	84
Short-term trade receivables	10,238,293	3.7%	10,902,286	4.0%	94
Cash and cash equivalents	180,689	0.1%	24,123	0.0%	749
Short-term accrued revenue and deferred expenses	2,816,313	1.0%	739,294	0.3%	381
Total assets	276,059,990	100.0%	272,260,993	100.0%	101

The value of the assets of the company increased by 1.4% compared to the previous year and amounted to EUR 276,059,990 at the end of 2016. Tangible fixed assets accounting for 89.1% of the balance-sheet total increased by 0.9%. Investments in 2016

reached EUR 20,072,117 accounting for 100.4% of projected investments. They are presented in detail in section 9.2.2.2.

The value of inventory as of the balance sheet date was 15.9% lower

compared to the previous year, with the index of average inventory commitment standing at 91 and average purchase price 1.5% lower compared to the previous year.

in EUR

Equity and liabilities	The company Elektro Celje				
	31 Dec 2016	Share (in %)	31 Dec 2015	Share (in %)	Index 2016/2015
Equity and liabilities	200,929,373	72.8%	196,443,080	72.2%	102
Provisions and long-term accrued expenses and deferred revenue	19,132,507	6.9%	19,644,210	7.2%	97
Non-current financial liabilities	34,146,052	12.4%	33,550,207	12.3%	102
Current financial liabilities	21,156,172	7.7%	21,825,063	8.0%	97
Short-term accrued expenses and deferred revenue	695,886	0.3%	798,433	0.3%	87
Total equity and liabilities	276,059,990	100.0%	272,260,993	100.0%	101

The company's equity as at 31 December 2016 amounted to EUR 200,929,373 accounting for 72.8% of liabilities. It increased by 2.3% compared to 2015. It is divided into 24,192,425 non-par value shares. Of these, 19,232,978 shares (79.50%) are held by the Republic of Slovenia, 370,238 shares (1.53%) by the pension fund management company Kapitalska družba and Modra zavarovalnica insurance company, 3,592,264

shares (14.85%) held by other legal persons, 769,284 shares (3.18%) by natural persons and 227,661 shares (0.94%) by the company Elektro Celje. The carrying value per share as of 31 December 2016 amounted to EUR 8.31.

Non-current financial liabilities of the company refer to non-current portions of investment loans provided by banks amounting to EUR

43,958,475 as of 31 December 2016. Current financial and operating liabilities mainly refer to current portions of non-current loans provided by banks amounting to EUR 11,182,132, short-term trade payables from operations for third-party accounts (EUR 3,940,329), trade payables (EUR 2,713,544) and short-term trade payables to employees (EUR 2,137,316).

10.1.3 Cash Flow Statement

in EUR

CASH FLOW	The company Elektro Celje	
	31 Dec 2016	31 Dec 2015
Net operating cash flow	12,312,952	8,493,596
Net investing cash flow	-6,578,608	-7,223,285
Net financing cash flow	-5,577,778	-1,352,936
Change in net cash and cash equivalents	156,566	-82,625

Cash and cash equivalents of the company Elektro Celje increased by EUR 156,566 in 2016 as the positive cash flow from operating activities exceeded the negative cash flow from investing and financing activities. Operating cash flow increased by EUR 3,819,356 in 2016 compared to 2015 mainly due to lower expendi-

ture for purchasing material and services. Investing cash flow, recording a surplus of outflows over inflows was EUR 644,677 higher compared to the previous year, mainly due to higher inflows from interest and participation in the profit of the subsidiary ECE (EUR 408,791) and lower outflows for the acquisition of intangible and tan-

gible fixed assets. The negative cash flow in financing activities in 2016 is mainly attributed to the payment of non-current and current financial liabilities.

The cash flow statement is defined in detail in section 15.7.

10.1.4 Performance Indicators of the Company Elektro Celje

A. FINANCING INDICATORS (INVESTMENTS)						
in EUR	December 31, 2013	December 31, 2014	December 31, 2015	Plan 2016	December 31, 2016	Graphical comparison
Equity	186,467,766	192,935,102	196,443,080	201,837,951	200,929,373	
Liabilities	262,241,480	264,813,515	272,260,993	274,324,327	276,059,990	
Equity to total liabilities ratio	71.11%	72.86%	72.15%	73.58%	72.78%	
Equity plus long-term debt (including provisions) and long-term accrued expenses and deferred revenue	240,239,554	248,731,690	249,637,497	258,715,296	254,207,932	
Liabilities	262,241,480	264,813,515	272,260,993	274,324,327	276,059,990	
Long-term financing rate	91.61%	93.93%	91.69%	94.31%	92.08%	

* Selected indicators for SSH

** The calculation of standardised network length is based on the information on the quantity of lines recorded in GIS.

B. INVESTMENT INDICATORS						
in EUR	December 31, 2013	December 31, 2014	December 31, 2015	Plan 2016	December 31, 2016	Graphical comparison
Fixed assets (carrying values)	235,023,848	239,718,420	243,946,137	246,213,795	246,036,537	
Assets	262,241,480	264,813,515	272,260,993	274,324,327	276,059,990	
PP&E to total assets ratio	89.62%	90.52%	89.60%	89.75%	89.12%	
Fixed assets (PP&E) plus long-term accrued revenue and deferred expenses (carrying value), investment property, long-term financial investments and long-term trade receivables	244,433,306	252,843,429	258,576,301	261,721,406	259,893,517	
Assets	262,241,480	264,813,515	272,260,993	274,324,327	276,059,990	
Long-term investment ratio	93.21%	95.48%	94.97%	95.41%	94.14%	
in EUR	2013	2014	2015	Plan 2016	2016	
Actual investment	24,510,162	23,123,000	21,765,222	20,000,000	20,072,117	
Planned investment	24,000,000	21,500,000	20,300,000	20,000,000	20,000,000	
Investment realisation rate	102.13%	107.55%	107.22%	100.00%	100.36%	
Investing cash flow	24,510,162	23,123,000	21,765,222	20,000,000	20,072,117	
Net revenue from sales	52,578,900	53,919,563	53,791,561	48,824,525	49,517,923	
CAPEX to net revenue from sales ratio*	46.62%	42.88%	40.46%	40.96%	40.54%	

C. HORIZONTAL FINANCIAL STRUCTURE RATIOS						
in EUR	2013	2014	2015	Plan 2016	2016	Graphical comparison
Equity	186,467,766	192,935,102	196,443,080	201,837,951	200,929,373	
Property, plant and equipment (carrying value)	235,023,848	239,718,420	243,946,137	246,213,795	246,036,537	
Equity to fixed asset ratio	0.793	0.805	0.805	0.820	0.817	
Liquid assets	52,548	106,748	24,123	35,000	180,689	
Current liabilities	21,126,063	15,213,956	21,825,063	15,009,031	21,156,172	
Liquid assets to short-term liabilities ratio	0.002	0.007	0.001	0.002	0.009	
in EUR	December 31, 2013	December 31, 2014	December 31, 2015	Plan 2016	December 31, 2016	
Sum of liquid assets and short-term receivables	9,634,714	8,915,432	10,926,409	9,835,000	10,418,982	
Current liabilities	21,126,063	15,213,956	21,825,063	15,009,031	21,156,172	
Acid-test ratio	0.456	0.586	0.501	0.655	0.492	

* Selected indicators for SSH

** The calculation of standardised network length is based on the information on the quantity of lines recorded in GIS.

D. ECONOMIC INDICATOR

in EUR	2013	2014	2015	Plan 2016	2016	Graphical comparison
Operating revenue	69.483.976	72.339.914	69.433.526	65.485.700	64.790.252	
Operating expenses	61.681.895	62.590.484	60.894.104	56.449.200	55.272.085	
Operating efficiency ratio	1.126	1.156	1.140	1.160	1.172	

E. PROFITABILITY INDICATORS

in EUR	2013	2014	2015	Plan 2016	2016	Graphical comparison
EBITDA	26,450,230	29,124,466	26,639,589	27,210,322	27,596,970	
Gross operating profit	69,483,976	72,339,914	69,433,526	65,485,700	64,790,252	
EBITDA margin*	38.07%	40.26%	38.37%	41.55%	42.59%	
EBIT	7,802,081	9,749,430	8,539,422	9,036,500	9,518,167	
Gross operating profit	69,483,976	72,339,914	69,433,526	65,485,700	64,790,252	
EBIT margin	11.23%	13.48%	12.30%	13.80%	14.69%	
Net profit	5,580,713	8,841,612	6,808,482	8,129,800	9,435,710	
Average equity (excl. net income from the current year)	182,661,497	185,280,628	191,284,850	191,558,254	193,968,372	
Net return on equity (ROE)	3.06%	4.77%	3.56%	4.24%	4.86%	
Net profit	5,580,713	8,841,612	6,808,482	8,129,800	9,435,710	
Average assets	261,353,735	263,527,498	268,537,254	270,551,727	274,160,492	
Return on assets (ROA)*	2.14%	3.36%	2.54%	3.00%	3.44%	
in EUR	December 31, 2013	December 31, 2014	December 31, 2015	Plan 2016	December 31, 2016	
Sum of dividends for the fiscal year	3,556,286	2,419,242	3,145,015	2,898,127	3,234,527	
Average share capital	100,953,201	100,953,201	100,953,201	100,953,201	100,953,201	
Dividend to share capital ratio	0.035	0.024	0.031	0.029	0.032	
Dividend paid out in the year	3,556,286	2,419,242	3,145,015	2,898,127	3,234,527	
Average equity	185,451,853	189,701,434	194,689,091	195,623,154	198,686,227	
Dividend to equity ratio	1.92%	1.28%	1.62%	1.48%	1.63%	

F. LABOUR PRODUCTIVITY INDICATOR

in EUR	2013	2014	2015	Plan 2016	2016	Graphical comparison
Gross value added	45,685,077	48,943,645	47,732,674	48,185,822	49,345,560	
Number of employees per hours worked	623	635	633	632	631	
Gross value added per employee*	73,331	77,077	75,407	76,243	78,202	

* Selected indicators for SSH

** The calculation of standardised network length is based on the information on the quantity of lines recorded in GIS.

G. TECHNICAL INDICATORS						
	2013	2014	2015	Plan 2016	2016	Graphical comparison
SAIDI (System Average Interruption Duration Index, calculated at an annual level)*	36.86	29.71	27.40	28.04	18.06	
SAIFI (System Average Interruption Frequency Index, calculated at an annual level)*	0.88	0.79	0.70	0.75	0.48	
MAIFI (Momentary Average Interruption Frequency Index, calculated at an annual level)*	4.48	5.71	3.07	3.50	3.11	
Losses (MWh)	106,722	100,613	95,857	102,587	95,823	
Electricity distributed (MWh)	1,882,792	1,868,300	1,928,787	1,936,000	1,944,411	
Losses to electricity distributed ratio*	5.67%	5.39%	4.97%	5.30%	4.93%	
Electricity supplied in the time interval (MW)	227	225	231	232	232	
Peak power in the time interval (MW)	308	309	306	306	316	
Load factor (LF)	0.74	0.73	0.75	0.76	0.74	
Electricity distributed (MWh)	1,882,792	1,868,300	1,928,787	1,936,000	1,944,411	
Standardised network length (km)**	605	585	599	610	591	
Power distribution per standardised network length	3.112	3.194	3.220	3.174	3.290	
Number of connection approvals issued by consumer category						
- MV (1 - 35 kV)	20	24	33	31	38	
- 0.4 kV measured power	143	132	158	168	157	
- 0.4 kV without measured power	627	728	774	806	813	
- households	1,251	1,449	1,704	1,733	1,856	
in EUR	2013	2014	2015	Plan 2016	2016	Graphical comparison
Standardised network length (km)**	605	585	599	610	591	
Number of employees	632	632	632	632	632	
Standardised network length per employee	0.96	0.93	0.95	0.97	0.94	

* Selected indicators for SSH

** The calculation of standardised network length is based on the information on the quantity of lines recorded in GIS.

H. TECHNICAL ECONOMIC INDICATORS OF REGULATED ACTIVITY

in EUR	2013	2014	2015	Plan 2016	2016	Graphical comparison
Operating expenses of regulated activity (in EUR)	44,928,481	45,993,267	45,067,062	40,154,707	40,730,638	
Electricity distributed (MWh)	1,882,792	1,868,300	1,928,787	1,936,000	1,944,411	
OPEX per electricity distributed*	24	25	23	21	21	
Operating expenses of regulated activity (in EUR)	44,928,481	45,993,267	45,067,062	40,154,707	40,730,638	
Standardised network length (km)**	605	585	599	610	591	
OPEX per standardised network length	74,262	78,621	75,237	65,827	68,918	
Investment in regulated activity (in EUR)	23,682,241	22,605,214	21,279,340	19,906,753	19,875,252	
Electricity distributed (MWh)	1,882,792	1,868,300	1,928,787	1,936,000	1,944,411	
Investment per electricity distributed	13	12	11	10	10	
Labour costs of regulated activity (in EUR)	13,775,275	14,279,828	15,196,660	14,821,573	15,898,245	
Number of customers	168,865	169,414	170,006	170,428	170,688	
Labour costs per customer (in EUR)	82	84	89	87	93	
Operating revenue of regulated activity (in EUR)	53,095,531	55,960,882	53,646,613	49,267,224	49,533,777	
Electricity distributed (MWh)	1,882,792	1,868,300	1,928,787	1,936,000	1,944,411	
Operating revenue per electricity distributed	28	30	28	25	25	

Financing indicators point to the share of equity, debt and accruals in the structure of total equity in liabilities and are important mainly when adopting long-term decisions on the funding policy. Long-term financing in liabilities amounted to 92.1%, while equity in liabilities accounted for 72.8%.

The investment indicators are important mainly when adopting decisions on investment projects. Values achieved in 2016 were lower compared to 2015. The share of tangible fixed assets in total assets was 89.1%, which is 0.5 percentage points less than in 2015. The reason is the simultaneous increase of value of fixed

assets (by 0.9%) and of total assets (by 1.4%). Total non-current assets accounted for 94.1% of total assets with actual investment amounting to 100.4% of the annual plan.

The indicators of horizontal financial structure were appropriate. The equity to fixed asset ratio shows that as of 31 December 2016, 81.7% of property, plant and equipment was covered by equity, a higher proportion than in 2015. The liquid assets to short-term liabilities and acid-test ratios indicate the company's solvency. The liquid assets to short-term liabilities ratio increased compared to the previous year mainly due to lower current financial liabilities.

The operating efficiency ratio refers to the ratio between operating revenue and operating expenses. It stood at 1.2 for 2016 which is 1% higher than projected or 2.8% higher than achieved in 2015.

The EBITDA margin (ratio between operating revenue and operating expenses less depreciation) is a benchmark for business performance and profitability. It amounted to 42.6% in 2016. In 2016, ROA stood at 3.4%, ROE at 4.9%, and dividend to equity ratio at 1.6%. All these values are higher than planned for 2016 and higher than achieved in the previous year.

* Selected indicators for SSH

** The calculation of standardised network length is based on the information on the quantity of lines recorded in GIS.

I. INDICATORS OF COMPLIANCE WITH BANK COMMITMENTS						
in EUR	2013	2014	2015	Plan 2016	2016	Graphical comparison
Financial debt	45,444,466	42,881,872	45,387,489	46,887,732	44,996,904	
Equity	186,467,766	192,935,102	196,443,080	201,837,951	200,929,373	
Financial debt/Equity	0.244	0.222	0.231	0.232	0.224	
Financial debt	45,444,466	42,881,872	45,387,489	46,887,732	44,996,904	
EBITDA (for a period of 12 months)	26,450,230	29,124,466	26,639,589	27,210,322	27,596,970	
Financial debt/EBITDA	1.718	1.472	1.704	1.723	1.631	
EBITDA (for a period of 12 months)	26,450,230	29,124,466	26,639,589	27,210,322	27,596,970	
Financial expenses from financial liabilities (for a period of 12 months)	1,056,699	1,280,888	977,927	794,446	540,474	
EBITDA/Financial expenses from financial liabilities	25	23	27	34	51	
Current assets	14,880,473	10,308,179	12,306,938	11,002,921	11,579,999	
Current liabilities	21,126,063	15,213,956	21,825,063	15,009,031	21,156,172	
Current ratio	0.704	0.678	0.564	0.733	0.547	
Financial debt	45,444,466	42,881,872	45,387,489	46,887,732	44,996,904	
Average equity	185,451,853	189,701,434	194,689,091	195,623,154	198,686,227	
Financial debt/Equity (SID bank)	0.245	0.226	0.233	0.240	0.226	
Net financial debt	45,391,918	42,775,124	45,363,366	46,852,732	44,816,215	
EBITDA	26,450,230	29,124,466	26,639,589	27,210,322	27,596,970	
Net financial debt/EBITDA (SID bank)	1.716	1.469	1.703	1.722	1.624	

In 2016, value added per employee amounted to EUR 78,202, which is EUR 1,959 more than planned and EUR 2,795 more compared to 2015, mainly due to a higher gross value added and lower average number of employees per hours worked.

The SAIDI (System Average Interruption Duration Index, calculated at an annual level), SAIFI (System Average Interruption Frequency Index, calculated at an annual level) and MAIFI (Momentary Average Interruption Frequency Index, calculated at an annual level) indicators for the period January – December 2016 point to more favourable (lower) values than planned and than achieved in 2015. Data on the continuity of supply refer to interruptions due to own cause.

The share of losses per unit of electricity distributed in the period stood at 4.93%, while recognised losses as per the Energy Agency regulatory framework amount to 5.70%.

Indicators referring to regulated activity of the company Elektro Celje stand as follows: operating expenses of regulated activity per 1 MWh of distributed electricity amounted to EUR 21 or, measured per 1 km of standardised network length, EUR 68,918. Labour cost of regulated activity per customer amounted to EUR 93, whereas operating revenue of regulated activity per unit of electricity distributed amounted to 25 EUR/MWh.

The net financial debt to EBITDA ratio shows that the gross cash flow gener-

ated by Elektro Celje in 2016 would be sufficient to liquidate company's total financial liabilities in 1.6 years. In 2015, that would have taken 1.7 years. The debt ratio in 2016 stood at 0.22.

Indicators referring to the company's commitment to banks show that in 2016, the company maintained an appropriate financial position and fulfilled all its financial commitments to banks.

In the period January–December 2016, the performance of the company Elektro Celje, d.d., was successful. Net profit in the amount of EUR 9,435,710 claims an implementation rate of 116 percent against the annual plan and 139 percent against the 2015 overall result.

* Selected indicators for SSH

** The calculation of standardised network length is based on the information on the quantity of lines recorded in GIS.

10.2 Operation and performance Analysis of the Elektro Celje Group

10.2.1 Profit or Loss

Operating revenue of the Elektro Celje Group in the amount of EUR 197,956,773 represents 99.8% of to-

tal revenue and includes net revenue from sales, revenue from construction of own fixed assets and other op-

erating revenue.

Operating Revenue of the Elektro Celje Group



In the last 5-year-period, the average annual growth rate of **Net Sales revenue** of the Elektro Celje Group stood at 5.9%; this rate was 12.1% higher from the rate in 2015 (EUR 162,405,192), and 1.7% higher than planned for 2016 (EUR 179,040,672). It refers mostly to revenue from the sale of electricity, which amounted to EUR 129,929,484 in 2016; compared to the results for 2015 (EUR 104,349,129), it increased by 24%, which is 5.1% ahead of plan (EUR 123,608,778), revenue from lease

and maintenance of infrastructure and provision of services for SODO, which was, in 2016, 8.8% down on 2015 (which also included revenue for covering losses of electricity).

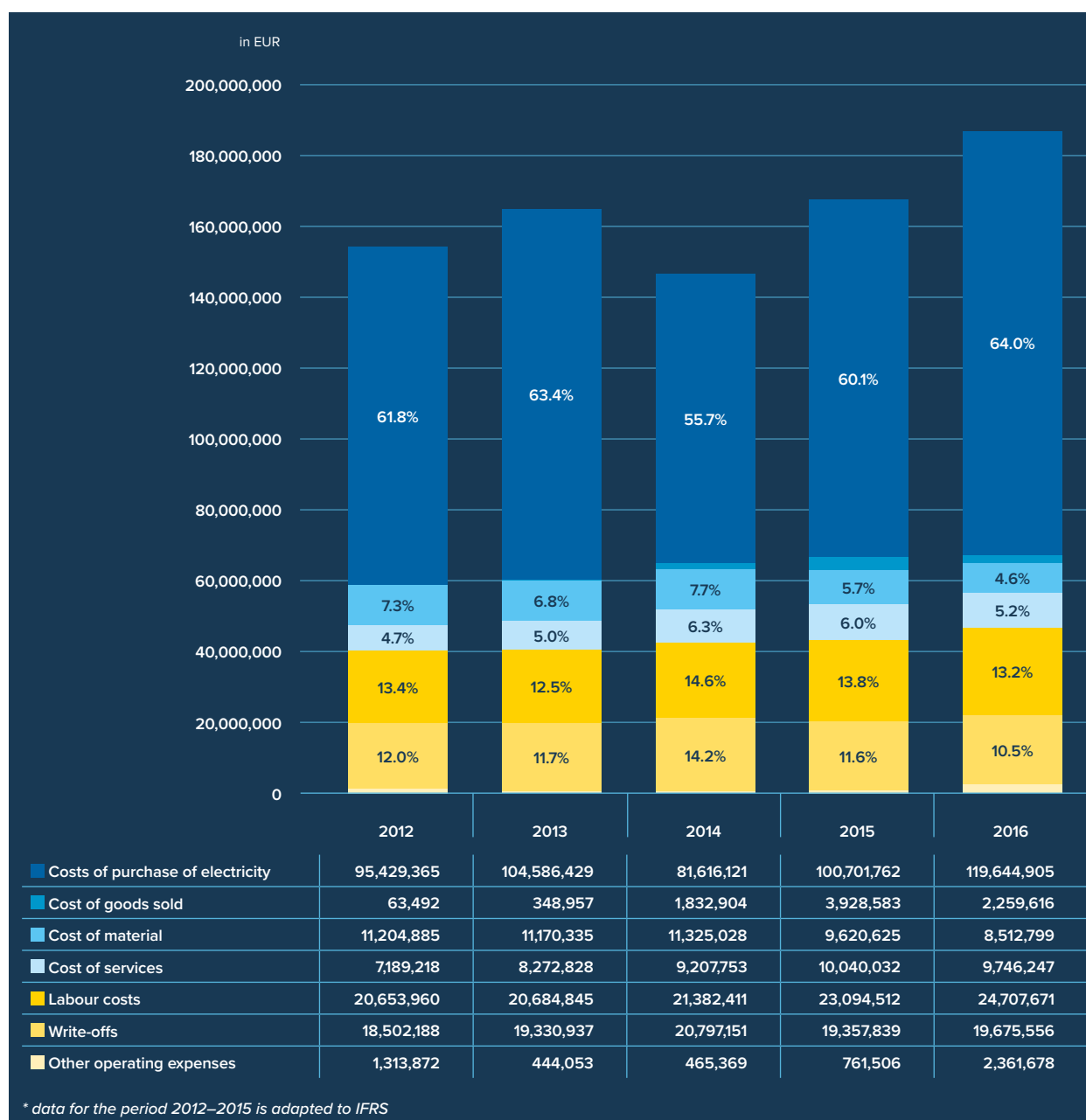
With **revenue from construction of own fixed assets** in the amount of EUR 13,260,484, the controlling company generated 6.7% of total revenue of the Elektro Celje Group.

Other operating revenue of the Elektro Celje Group amounts to EUR

2,582,045, which is 15.7% down on 2015, or 56% ahead of the plan (EUR 1,655,325), due mostly to reversal and utilisation of provisions, which amounted to EUR 640,730 in 2016 (compared to EUR 8,959 in 2015).

Operating expenses of the Elektro Celje Group amounted to EUR 186,908,472. They represent a 99.6 per cent share of total expenses. This amount is 11.6% ahead of 2015 (EUR 167,504,859), and 1.3% ahead of plan (EUR 184,464,674).

Operating Expenses of the Elektro Celje Group



Costs of electricity purchased, which increased by 18.8% compared to 2015 (EUR 100,701,762), and by 4.1% compared to the amount planned for 2016 (EUR 114,962,905), account for the highest share of operating expenses.

Cost of materials was 11.5% lower compared to the previous year, and 20.8% lower compared to the amount planned (EUR 10,750,244), due mostly to the lower cost of materials for in-

vestments carried out in-house (EUR 6,383,999).

Cost of services in the amount of EUR 9,746,247 was, compared to the amount planned (EUR 9,118,374), 6.9% higher, and 2.9% lower compared to the previous year, due mostly to the lower cost of insurance premiums (EUR 1,480,070) and lower cost of maintenance services (EUR 2,144,501).

Labour costs amounted to EUR 24,707,671 EUR. This amount is 7% ahead of the previous year, and 4.7% ahead of the plan. They are presented in detail in Section 17.30.

Amortisation and depreciation of the Group amounted to EUR 17,892,902 (compared to EUR 18,069,944 in 2015). It was 4% down on the plan (EUR 18,643,847).

Financing revenue and expenditure

in EUR

	Elektro Celje Group				
	Achieved 2012	Achieved 2013	Achieved 2014	Achieved 2015	Achieved 2016
Financial revenue	512,966	468,272	294,983	346,514	341,846
Financial expenses	-966,309	-2,119,060	-1,307,696	-1,103,061	-670,278
Net financial result	-453,343	-1,650,788	-1,012,713	-756,547	-328,432

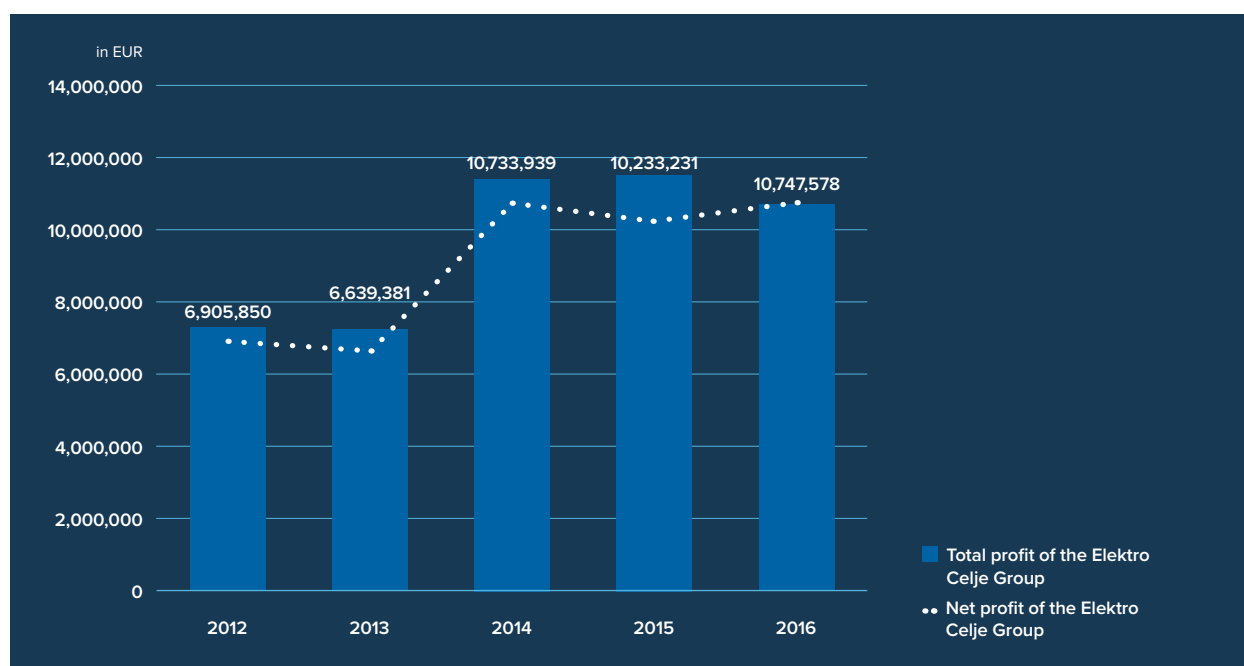
Compared to 2015, the net flow of the Elektro Celje Group improved in 2016, due mostly to lower financial

expenditure (EUR 432,783 less than in 2015); in 2016, the company did not register any long-term financial

investment impairment through Profit or Loss and interest paid on loans decreased as well.

Profit or loss

Profit or Loss of the Elektro Celje Group



The operating profit of the Elektro Celje Group amounts to EUR 11,048,301, which is 2.7% down on the plan (EUR 11,356,373) and 10.1% less compared to 2015 (EUR 12,286,251). Adding the effect of finance income

(EUR 341,846) and financial expenses (EUR 670,278), the total profit of the Group amounted to EUR 10,719,869, which is 4.3% down on the plan (EUR 11,199,030) and 7% down on 2015 (EUR 11,529,704). Together with the

Corporate Income Tax and deferred taxes, **the net income of the Elektro Celje Group for 2016 stands at EUR 10,747,578.**

10.2.2 Assets and Liabilities

in EUR

ASSETS	Elektro Celje Group				
	31 December 2016	Share (in %)	31 December 2015	Share (in %)	Index 2016/2015
Non-current assets	259,939,760	82.7%	257,668,990	82.5%	101
Intangible assets	2,035,257	0.6%	1,787,304	0.6%	114
Tangible fixed assets	248,417,284	79.0%	246,489,479	79.0%	101
Investment property	302,975	0.1%	321,318	0.1%	94
Financial investments	682,824	0.2%	684,777	0.2%	100
Trade receivables	5,698,675	1.8%	6,928,016	2.2%	82
Deferred tax assets	2,802,745	0.9%	1,458,096	0.5%	192
Current assets	54,333,445	17.3%	54,519,142	17.5%	100
Available-for-sale assets	51,628	0.0%	51,628	0.0%	100
Inventory	1,169,107	0.4%	1,426,577	0.5%	82
Trade receivables from customers	44,291,888	14.1%	47,167,231	15.1%	94
Income tax receivables	0	0.0%	229,977	0.1%	0
Other trade receivables	6,239,815	2.0%	3,786,860	1.2%	165
Cash and cash equivalents	2,581,007	0.8%	1,856,869	0.6%	139
Total assets	314,273,205	100.0%	312,188,132	100.0%	101

The amount of the Elektro Celje Group's assets increased by 0.7% compared to the previous year and, as of the end of 2016, amounted to EUR 314,273,205. The value of intangible assets increased, due mostly to higher investments in software in the amount of EUR 1,967,572 (26.1% more than in 2015). Tangible fixed

assets representing 79% of the Balance Sheet total increased by 0.8%. Investments of the Elektro Celje Group amounted to EUR 20,328,477 EUR (99.3% of the amount planned for 2016). In subsidiaries, most investments were used for restorations (EUR 58,942), rolling stock modernisation (EUR 29,840), software up-

grades (EUR 20,370), and new information support (EUR 147,208).

In 2016, the amount of deferred tax assets increased by EUR 1,344,649 due to the increased tax rate from 17% to 19% in accordance with the Act amending the Slovenian Corporate Income Tax Act.

in EUR

EQUITY AND LIABILITIES	Elektro Celje Group				
	31 December 2016	Share (in %)	31 December 2015	Share (in %)	Index 2016/2015
Equity	213,314,562	67.9%	207,638,928	66.5%	103
Non-current financial liabilities	54,370,651	17.3%	53,839,229	17.2%	101
Current financial liabilities	46,587,992	14.8%	50,709,975	16.2%	92
Total equity and liabilities	314,273,205	100.0%	312,188,132	100.0%	101

The Group's equity on 31 December 2016 amounted to EUR 213,314,562, which is 2.7% ahead of 2015, due mostly to higher other revenue reserves amounting to EUR 32,230,975, which is 17.2% ahead of the previous year. Non-current liabilities of the Group, which are similar to those in

2015, refer mostly to long-term portions of investment loans from banks (EUR 33,843,699) and long-term deferred revenue (EUR 13,356,857). Short-term financial and operating liabilities refer mostly to short-term parts of long-term loans in the amount of EUR 11,218,405 EUR, which is 19.1%

down on 2015, trade payables to suppliers (EUR 17,451,325; of which EUR 14,059,294 to liabilities for purchasing electricity), and trade payables from operations for third-party account (EUR 11,347,268).

10.2.3 Cash Flow Statement

in EUR

CASH FLOW	Skupina Elektro Celje	
	31 December 2016	31 December 2015
Net operating cash flow	15,582,595	6,513,424
Net investing cash flow	-7,104,782	-7,616,788
Net financing cash flow	-7,753,675	602,960
Change in net cash and cash equivalents	724,138	-500,404

Cash and cash equivalents of the Elektro Celje Group increased by EUR 724,138 in 2016, as the positive cash flow from operating activities exceeded the negative cash flow from investing and financing activities. Operating cash flow increased in 2016 by EUR 9,069,171 compared to the previous

year, due mostly to lower expenses for purchasing materials and services. Investing cash flow registered a surplus of outflows over inflows and was EUR 512,006 higher compared to 2015, due mostly to lower outflows for acquiring long-term intangible assets and since no outflows for ac-

quiring short-term financial investments were recorded in 2016 (these amounted to EUR 380,000 in 2015). The negative financing cash flow in 2016 was influenced most strongly by lower inflows from financing activities, including utilisation of long-term loans.

10.2.4 Performance Indicators of the Elektro Celje Group

A. FINANCING INDICATORS (INVESTMENTS)						
in EUR	December 31, 2013	December 31, 2014	December 31, 2015	Plan 2016	December 31, 2016	Graphical comparison
Equity	188,478,584	196,839,551	207,638,928	216,685,228	213,314,562	
Liabilities	283,699,999	285,713,412	312,244,544	310,754,058	314,273,205	
Equity to total liabilities ratio (Unicredit bank)	66.44%	68.89%	66.50%	69.73%	67.88%	
Equity plus long-term debt (including provisions) and long-term accrued expenses and deferred revenue	242,709,424	253,067,514	261,478,157	274,182,081	267,685,213	
Liabilities	283,699,999	285,713,412	312,244,544	310,754,058	314,273,205	
Long-term financing rate	85.55%	88.57%	83.74%	88.23%	85.18%	

* Selected indicators for SSH

** The calculation of standardised network length is based on the information on the quantity of lines recorded in GIS. The technical indicators and technical economic indicators of regulated activity are calculated for the company Elektro Celje. Data from the Consolidated Statements used for calculating performance indicators for the Elektro Celje Group is adjusted to the needs of users.

B. INVESTMENT INDICATORS						
in EUR	December 31, 2013	December 31, 2014	December 31, 2015	Plan 2016	December 31, 2016	Graphical comparison
Fixed assets (carrying values)	237,388,266	242,253,976	246,489,479	248,800,159	248,417,284	
Assets	283,699,999	285,713,412	312,244,544	310,754,058	314,273,205	
PP&E to total assets ratio	83.68%	84.79%	78.94%	80.06%	79.05%	
Fixed assets (PP&E) plus long-term accrued revenue and deferred expenses property, long-term financial investments and long-term trade receivables	240,536,790	248,830,741	256,210,894	259,211,020	257,137,015	
Assets	283,699,999	285,713,412	312,244,544	310,754,058	314,273,205	
Long-term investment ratio	84.79%	87.09%	82.05%	83.41%	81.82%	
in EUR	2013	2014	2015	Plan 2016	2016	
Actual investment	24,914,164	23,689,059	21,923,723	20,470,000	20,328,477	
Planned investment	25,352,013	22,270,000	20,800,000	20,470,000	20,470,000	
Investment realisation rate	98.27%	106.37%	105.40%	100.00%	99.31%	
Investing cash flow	24,914,164	23,689,059	21,923,723	20,470,000	20,328,477	
Net revenue from sales	156,542,174	140,389,018	162,405,192	179,040,672	182,114,244	
CAPEX to net revenue from sales ratio*	15.92%	16.87%	13.50%	11.43%	11.16%	

C. HORIZONTAL FINANCIAL STRUCTURE RATIOS						
in EUR	December 31, 2013	December 31, 2014	December 31, 2015	Plan 2016	December 31, 2016	Graphical comparison
Equity	188,478,584	196,839,551	207,638,928	216,685,228	213,314,562	
Property, plant and equipment (carrying value)	237,388,266	242,253,976	246,489,479	248,800,159	248,417,284	
Equity to fixed asset ratio	0.794	0.813	0.842	0.871	0.859	
Liquid assets	689,770	2,003,549	1,856,869	520,081	2,581,007	
Current liabilities	39,641,102	30,519,657	48,742,355	35,695,377	45,406,030	
Liquid assets to short-term liabilities ratio	0.017	0.066	0.038	0.015	0.057	
in EUR	December 31, 2013	December 31, 2014	December 31, 2015	Plan 2016	December 31, 2016	
Sum of liquid assets and short-term receivables	34,917,881	33,489,753	52,617,989	47,501,533	49,619,370	
Current liabilities	39,641,102	30,519,657	48,742,355	35,695,377	45,406,030	
Acid-test ratio	0.881	1.097	1.080	1.331	1.093	

* Selected indicators for SSH

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D. ECONOMIC INDICATOR

in EUR	2013	2014	2015	Plan 2016	2016	Graphical comparison
Operating revenue	173,555,129	158,913,110	179,625,613	195,771,847	197,537,341	
Operating expenses	164,787,635	146,538,878	167,397,650	184,415,474	186,744,105	
Operating efficiency ratio	1.053	1.084	1.073	1.062	1.058	

E. PROFITABILITY INDICATORS

in EUR	2013	2014	2015	Plan 2016	2016	Graphical comparison
EBITDA	28,098,431	33,171,383	31,585,802	30,753,390	30,468,792	
Gross operating profit	173,555,129	158,913,110	179,625,613	195,771,847	197,537,341	
EBITDA margin	16.19%	20.87%	17.58%	15.71%	15.42%	
EBIT	8,767,494	12,374,232	12,227,963	11,356,373	10,793,236	
Gross operating profit	173,555,129	158,913,110	179,625,613	195,771,847	197,537,341	
EBIT margin	5.05%	7.79%	6.81%	5.80%	5.46%	
Net profit	6,639,381	10,733,939	10,233,231	10,685,010	10,747,578	
Average equity (excl. net income from the year at hand)	183,613,647	187,292,098	197,122,624	199,821,131	205,102,956	
Net return on equity (ROE)	3.62%	5.73%	5.19%	5.35%	5.24%	
Net profit	6,639,381	10,733,939	10,233,231	10,685,010	10,747,578	
Average assets	280,728,853	284,706,706	298,978,978	298,923,295	313,258,875	
Return on assets (ROA)*	2.37%	3.77%	3.42%	3.57%	3.43%	
in EUR	December 31, 2013	December 31, 2014	December 31, 2015	Plan 2016	December 31, 2016	
Sum of dividends for the fiscal year	3,556,286	2,419,242	3,145,015	2,898,127	3,234,527	
Average share capital	100,953,201	100,953,201	100,953,201	100,953,201	100,953,201	
Dividend to share capital ratio	0.035	0.024	0.031	0.029	0.032	
Dividend paid out in the year	3,556,286	2,419,242	3,145,015	2,898,127	3,234,527	
Average equity	186,933,338	192,659,068	202,239,240	205,163,636	210,476,745	
Dividend to equity ratio	1.90%	1.26%	1.56%	1.41%	1.54%	

F. LABOUR PRODUCTIVITY INDICATOR

in EUR	2013	2014	2015	Plan 2016	2016	Graphical comparison
Gross value added	48,783,276	54,553,794	54,680,314	54,354,949	55,176,463	
Number of employees per hours worked	669	683	689	716	710	
Gross value added per employee*	72,920	79,874	79,362	75,915	77,713	

* Selected indicators for SSH

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G. TECHNICAL INDICATORS						
	2013	2014	2015	Plan 2016	2016	Graphical comparison
SAIDI (System Average Interruption Duration Index, calculated at an annual level)*	36.86	29.71	27.40	28.04	18.06	
SAIFI (System Average Interruption Frequency Index, calculated at an annual level)*	0.88	0.79	0.70	0.75	0.48	
MAIFI (Momentary Average Interruption Frequency Index, calculated at an annual level)	4.48	5.71	3.07	3.50	3.11	
Losses (MWh)	106,722	100,613	95,857	102,587	95,823	
Electricity distributed (MWh)	1,882,792	1,868,300	1,928,787	1,936,000	1,944,411	
Losses to electricity distributed ratio*	5.67%	5.39%	4.97%	5.30%	4.93%	
Electricity supplied in the time interval (MW)	227	225	231	232	232	
Peak power in the time interval (MW)	308	309	306	306	316	
Load factor (LF)	0.74	0.73	0.75	0.76	0.74	
Electricity distributed (MWh)	1,882,792	1,868,300	1,928,787	1,936,000	1,944,411	
Standardised network length (km)**	605	585	599	610	591	
Power distribution per standardised network length	3,112	3,194	3,220	3,174	3,290	
Number of connection approvals issued by consumer category						
- MV (1 - 35 kV)	20	24	33	31	38	
- 0.4 kV measured power	143	132	158	168	157	
- 0.4 kV without measured power	627	728	774	806	813	
- households	1,251	1,449	1,704	1,733	1,856	
in EUR	2013	2014	2015	Plan 2016	2016	Graphical comparison
Standardised network length (km)**	605	585	599	610	591	
Number of employees	632	632	632	632	632	
Standardised network length per employee	0.96	0.93	0.95	0.97	0.94	

* Selected indicators for SSH

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H. TECHNICAL ECONOMIC INDICATORS OF REGULATED ACTIVITY

in EUR	2013	2014	2015	Plan 2016	2016	Graphical comparison
Operating expenses of regulated activity (in EUR)	44,928,481	45,993,267	45,067,062	40,154,707	40,730,638	
Electricity distributed (MWh)	1,882,792	1,868,300	1,928,787	1,936,000	1,944,411	
OPEX per electricity distributed*	24	25	23	21	21	
Operating expenses of regulated activity (in EUR)	44,928,481	45,993,267	45,067,062	40,154,707	40,730,638	
Standardised network length (km)**	605	585	599	610	591	
OPEX per standardised network length	74,262	78,621	75,237	65,827	68,918	
Investment in regulated activity (in EUR)	23,682,241	22,605,214	21,279,340	19,906,753	19,875,252	
Electricity distributed (MWh)	1,882,792	1,868,300	1,928,787	1,936,000	1,944,411	
Investment per electricity distributed	13	12	11	10	10	
Labour costs of regulated activity (in EUR)	13,775,275	14,279,828	15,196,660	14,821,573	15,898,245	
Number of customers	168,865	169,414	170,006	170,428	170,688	
Labour costs per customer (in EUR)	82	84	89	87	93	
Operating revenue of regulated activity (in EUR)	53,095,531	55,960,882	53,646,613	49,267,224	49,533,777	
Electricity distributed (MWh)	1,882,792	1,868,300	1,928,787	1,936,000	1,944,411	
Operating revenue per electricity distributed	28	30	28	25	25	

The financing indicators show an adequate structure of financing long-term assets from long-term liabilities. The share of long-term financing in liabilities amounted to 85.2%, with the share of equity in liabilities standing at 67.9%.

The values of investment indicators for 2016 are lower compared to 2015 and lower than planned. The share of total long-term assets in the total value of assets amounted to 81.8%, which is 0.3 percentage points lower than in 2015. The reason for this is in

the simultaneous increase in the value of long-term assets (by 0.4%) and that of total assets (by 0.6%).

The indicators of horizontal financial structure were adequate. The equity to fixed asset ratio shows that, as of 31 December 2016, 85.9% of property, plant, and equipment were covered by equity, which is 2% more than in the previous year. The liquid assets to short-term liabilities ratio is higher compared to the previous year, due mostly to the higher amount of cash and cash equivalents (39% ahead of






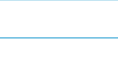
2015) and lower short-term financial liabilities (6.9% less than the year before).

The operating efficiency ratio (1.058) is lower than planned (1.062) and lower compared to 2015 (1.073) due to the simultaneous increase in operating revenue and operating expenses.

The EBITDA margin in 2016 stood at 15.4%, which is comparable to the plan. The Return On Assets (ROA) stood at 3.4%, which is the same as in 2015, with the Return On Equity (ROE)

* Selected indicators for SSH

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I. INDICATORS OF COMPLIANCE WITH BANK COMMITMENTS						
in EUR	2013	2014	2015	Plan 2016	2016	Graphical comparison
Financial debt	46,914,613	43,017,780	47,488,684	46,947,732	45,066,277	
Equity	188,478,584	196,839,551	207,638,928	216,685,228	213,314,562	
Financial debt/Equity (EIB)	0.249	0.219	0.229	0.217	0.211	
Financial debt	46,914,613	43,017,780	47,488,684	46,947,732	45,066,277	
EBITDA (for a period of 12 months)	28,098,431	33,171,383	31,585,802	30,753,390	30,468,792	
Financial debt/EBITDA (EIB)	1.670	1.297	1.503	1.527	1.479	
EBITDA (for a period of 12 months)	28,098,431	33,171,383	31,585,802	30,753,390	30,468,792	
Financial expenses from financial liabilities (for a period of 12 months)	1,057,952	1,305,291	985,557	808,510	543,229	
EBITDA/Financial expenses from financial liabilities (EIB)	27	25	32	38	56	
Current assets	39,543,384	34,940,768	54,096,194	48,750,304	50,840,105	
Current liabilities	39,641,102	30,519,657	48,742,355	35,695,377	45,406,030	
Current ratio (EIB)	0.998	1.145	1.110	1.366	1.120	
Financial debt	46,914,613	43,017,780	47,488,684	46,947,732	45,066,277	
Average equity	186,933,338	192,659,068	202,239,240	205,163,636	210,476,745	
Financial debt/Average equity	0.251	0.223	0.235	0.229	0.214	
Net financial debt	46,224,843	41,014,231	45,631,815	46,427,651	42,485,270	
EBITDA	28,098,431	33,171,383	31,585,802	30,753,390	30,468,792	
Net financial debt/EBITDA (Unicredit bank)	1.645	1.236	1.445	1.510	1.394	

amounting to 5.2%, which is one percentage point higher than in 2015. This is due to higher net profit (5%) and higher average equity (4%).

The value added per employee in 2016 amounted to EUR 77,713, which is EUR 1,798 ahead of plan, due mostly to higher gross value added (1.5%) and a lower average number of employees per hours worked (0.8%).

The technical indicators and technical economic indicators of regulated activity are calculated for the control-

ling company and described in Section 10.1.4.

Indicators referring to commitments to the banks show that the company maintained an appropriate financial position in 2016 and fulfilled all its commitments to the banks. The net financial debt to EBITDA shows that the gross cash flow generated by Elektro Celje Group would be sufficient to liquidate the company's total financial liabilities in 1.4 years. The debt ratio in 2016 amounted to 0.21.

The performance of the Elektro Celje Group in the period from January to December 2016 was successful. The net profit in the amount of EUR 10,747,578 claims an implementation rate of 101 percent against the annual plan and 105 percent against the 2015 overall result.

* Selected indicators for SSH

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11 ORGANISATIONAL DEVELOPMENT

11.1 Management Systems

Quality Management System – QMS and Environmental Management System – EMS

The management system at Elektro Celje, d.d. functions in accordance with the ISO 9001:2008 Standard and is a system standard for company management. The management, Occupational Health and Safety and environmental management processes are certified in accordance with OHSAS 18001:2007 and ISO 14001:2004, but they are not formally integrated into a uniform management system, even though, in practice, they function as a system with the same procedures for documentation management, preventive and corrective measures, management reviews and other measures and activities that enable the execution of measures for improvement of operations. All documentation related to the certified Management and Environmental Management Systems is published on the company website and available to all employees. In 2013, the company conducted a self-appraisal following the business excellence model. The results and suggested measures were presented to the management. Certain suggested measures were initiated and some improvements were introduced into everyday activities.

The ISO 9001 Management System was introduced into our management systems in 2003. In 2012, the certifi-

cation was performed after issuing the 2008 Standard. The umbrella document defining the management system, the processes and procedures, is referred to as »Poslovnik vodenja« (Rules of Management) of the company Elektro Celje, d.d.. The main tools used in company management are internal audits, external audits and management reviews. Internal audits are governed by an organisation regulation that also directs the execution of internal audits for a system for the protection of employees' health and the environment. With regular implementation of internal audits, the following is provided:

- >> Determination of the efficiency of achieving the goals pursued,
- >> Creation of conditions that ensure constant improvement,
- >> Maintaining the level of quality that is necessary for the certification and maintaining the certificate.

With the management review as the most important activity, we determine the efficiency and suitability of the management system. As a rule, a comprehensive management review is conducted annually in the second quarter of the financial year; alternately, partial management reviews can be carried out constantly, depending on the nature of business events and the needs of managing and coordinating business processes. Preventive and corrective measures are also important tools.

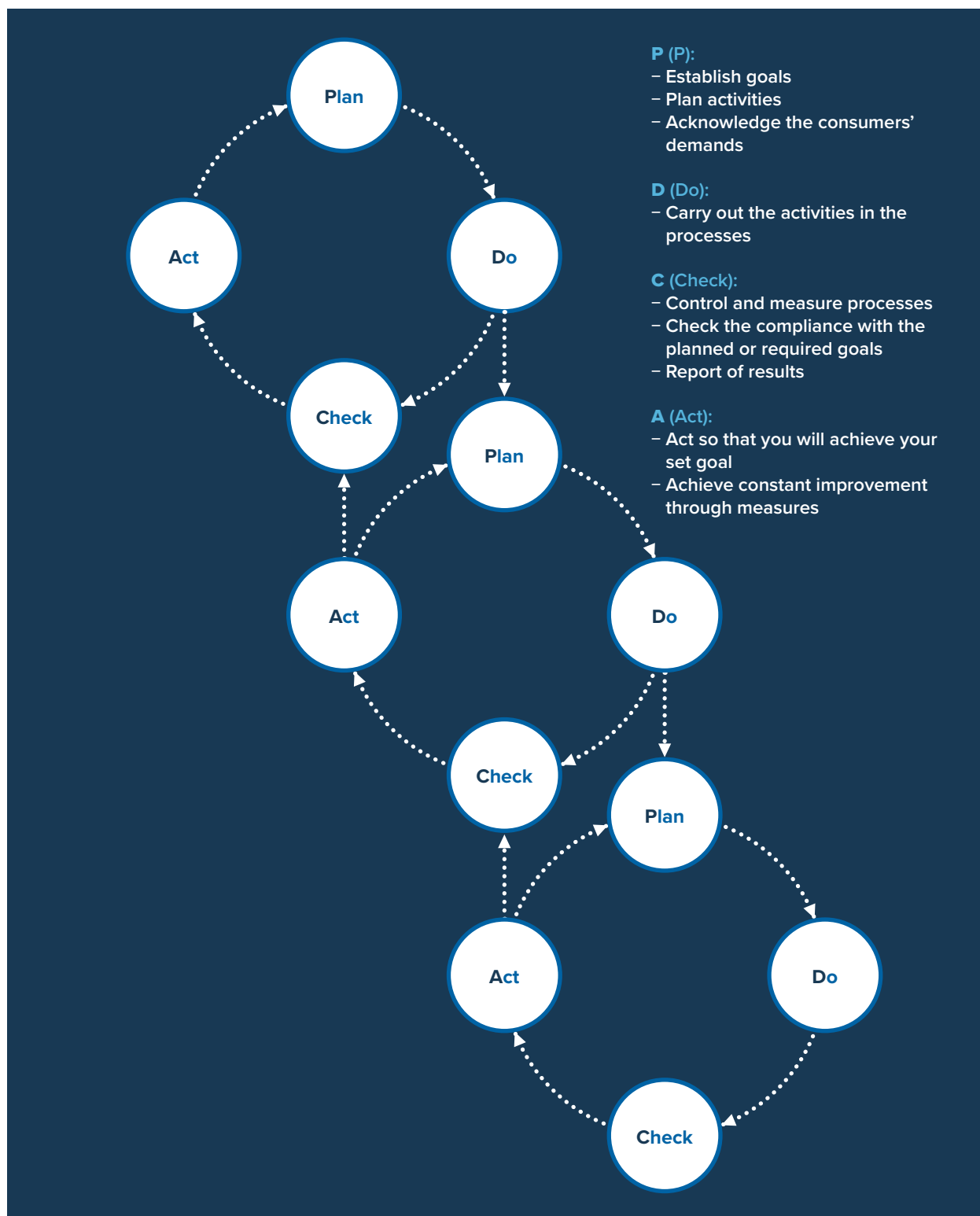
Their implementation depends on the management review. Examiners from BVQI review the functioning of the management system every year.

The company has an established system of managing Occupational Health and Safety, which is a part of the management system and is used for the development and execution of the Occupational Health and Safety Policy and for managing recognised occupational Health and Safety risks. The management system is comprised of a series of interconnected elements that are used for setting up a policy and goals, and for achieving these goals. The management system includes an organisational structure, planning, responsibilities, work techniques, procedures, processes and sources.

The Environmental Management System is in accordance with the requirements of the ISO 14001:2004 Standard and includes all the activities, processes and locations in the company.

The management system functions in accordance with identified processes and includes a succession of these processes and their interactions. We control, measure and analyse these processes, as well as execute measures that are necessary for reaching our goals. Additionally, we improve the processes constantly.

All processes have set systems of planning, execution, revision and acting (PDCA), which mean:



The principle of the PDCA method guarantees progress and constant improvement, which is standardised and used in various environments and processes in the company.

Business Excellence

In 2016, Elektro Celje, d.d. carried out the third self-appraisal following the EFQM excellence model. It conducted its first self-appraisal in 2012 by using a questionnaire, and the second in 2015 by using a Business Excellence Matrix (BEM). On the basis of self-appraisal, numerous opportunities for improvement were recognised; some of these have already been implemented and others are ongoing improvements. This year's self-appraisal was carried out in the most demanding manner, with the simulation of cooperation within the scope of the Business Excellence Prize of the Republic of Slovenia (PRSPO). For this purpose, a managerial document with a comprehensive presentation of the activities and results of the company was prepared. It is the basis for a possible external appraisal within the scope of PRSPO.



The main purpose of the self-appraisal was to analyse the approaches, systematic nature and consistency of their use at day-to-day activities, to measure their success and efficiency, as well as to learn and improve on the basis of the findings. By analysing relevant results carefully, we are able to understand the cause and effect relationship and review the trust, so that positive business trends will continue in the future. A comprehensive and analytical approach enables us to recognise opportunities for further improvement to help realise our strategy and the development of the company's excellence successfully and effectively.

Within the scope of the 2016 self-appraisal we could, thanks to the self-reflection of the participants and an analysis in evaluation teams and self-appraisal, recognise as many as 85 opportunities for improvement. Together with the perceived benefits, they form the basis for improvement of business processes.

Occupational Health and Safety System

Since 2012, we have had an established system of Occupational Health and Safety, OHSAS 18001, which is an indispensable part of the company management system in accordance with certified Quality Standards. We improve our care for our employees constantly via an Occupational Health and Safety Policy, by managing risks, monitoring performance indicators, realising our set goals and acknowledging the legislative requirements. By introducing new technologies into the area of operational resources, work procedures, integrated equipment in electricity plants, working environment and ergonomics, we minimise risks and exposure of employees to danger at work.

In 2016, we registered 11 accidents at work, documented and investigated 8 dangerous events, 6 of which were connected with the use of or work at electricity plants and risk of exposure to electric currents that can cause electric shock. On the basis of legislative regulations and the approved Statement on Safety and Risk Assessment, we have carried out periodic checks of work and personal safety equipment and random checks of electricity plants, working and building sites.

We conduct the protection of workers' health in accordance with Occupational Health requirements, which are stated in the Statement on Safety and Risk Assessment. Newly employed workers were referred to preliminary medical examinations, and employees with disabilities had statutory follow-up checks.

On 31 December, Elektro Celje employed 54 disabled persons. Workers in exposed positions were administered the second dose of vaccination against tick-borne encephalitis and the company organised vaccination against influenza.

In 2016, we organised education and training with a test on Occupational Health and Safety, Fire Safety and environmental management for all technical, operational and newly hired employees, interns and apprentices; we also arranged first-aid training for employees responsible for administering first aid at the workplace to increase the number of trained workers in work groups. OHS and FS staff attended expert seminars. As part of the responsibilities of working groups, we conducted a promotion of health and measures for the protection of employees' health in the company.

11.2 Risk Management at the Company Elektro Celje

At Elektro Celje, we achieve the goals we set successfully and effectively. For achieving these goals, a comprehensive Risk Management System must be established. With the help of this system, we manage risks that hinder our long-term strategic plans and short-term business plans. The management controls the functioning of the Risk Management System, approves its updates, determines the maximal acceptable level of each risk, and adopts additional measures for minimising risks. The company Elektro Celje managed the exposure of operations to risks in the entire or-

ganisational structure well in 2016, and limited these risks to an acceptable level, which is mostly due to an internal control system. No high risks were discovered at the end of 2016. We do not expect any significant changes to the level or risks in the following year either. The risk management, information on which is given in quarterly reports, is also monitored by the Audit Committee of the Supervisory Board and the Supervisory Board, which give additional recommendations and assess the risk management in the company.

We manage risks on a system level by basing our business activities on management systems, such as: the Quality Management System - ISO 9001, the Environmental Management System - ISO 14001 and the system of Occupational Health and Safety - OHSAS 18001. We also improve the function of internal controls by conducting internal audits in risky areas, which is further proof of our care for managing risks.

The evaluation of risk levels is based on the matrix presented below:

		POTENTIAL			
		Very low	Low	High	Very high
		1	2	3	4
INFLUENCE	Very strong	4	8	12	16
	Strong	3	6	9	12
	Moderate	2	4	6	8
	Weak	1	2	3	4

RISK	
from 12 to 16	HIGH
from 6 to 9	MEDIUM
from 3 to 4	LOW
1 up to 2	VERY LOW

11.2.1 Overview of Basic Risks at the Company Elektro Celje

Here, groups of strategic, operational and financial risks are presented: The company Elektro Celje will likely be

exposed to these risks in the future as well, which is why we are preparing additional measures for managing

them.

11.2.1.1 Groups of Strategic Risks

Risk group	Size of risk depending on manageability	Acceptable level of risk	Assessment of the size of the risk in 2017 compared to 2016
STRATEGY AND REGULATIONS	Medium	Medium	Same
DEVELOPMENT	Low	Low	Same
HUMAN RESOURCES	Low	Low	Same
REPUTATION	Medium	Low	Lower
CORPORATE INTEGRITY	Low	Low	Same



Strategic risks can have a significant impact on the goals of our company and its business success, which is why the company manages them in one of the three risk groups.

Strategy and regulations

Due to the regulated activities of Elektro Celje, d.d., its business is affected significantly by external factors, which can affect the business strategy and plans. For this reason, the company must adapt to them. It cannot manage the risks fully but, instead, accepts them. These are:

- >> SSH, as the representative of the majority shareholder,
- >> SODO, as the holder of the concession (an amendment to the agreement on the lease and maintenance of electricity distribution infrastructure was not yet signed at the end of 2016),
- >> The Energy Agency, which determines the price for using the network on the basis of the Act on the Methodology for Charging the Network Charge and Criteria for Determining Eligible Costs of Electricity System Operators. In accordance with this Act, the company can acquire incentives, which depend on achieving costs that are lower from eligible costs and the level of supply quality achieved.

Legal changes in the energy sector and other fields also impact the com-

pany Elektro Celje greatly. The company adapted adequately to all regulatory changes and, consequently, managed all risks connected with the strategy of the company Elektro Celje, d.d.. The company is implementing its strategy by following its set strategic guidelines, achieving strategic goals, goals stated in the yearly Business Plan, and process goals.

Development risk

The company participates in numerous development projects. The two most important projects that should be noted are Flex4grid, a pilot project dealing with the critical peak tariff, and the NEDO, which is conducted by Slovenia and Japan. The above-mentioned projects are aimed at searching for solutions to lower peak loads and the imbalance between the consumption and distributed energy production, and they test more advanced technologies for the distribution and management of electricity, thus improving the agility of the company Elektro Celje. The above-mentioned national and international research and development investments are proof of the successful introduction of new technologies and development risk management.

Human resources risk

This risk is connected with the selection of employees, the evaluation of their competences, their motivation, knowledge transfer, and the replace-

ment of key employees. The company Elektro Celje is reducing the risk successfully by conducting yearly plans of employees, creating a Catalogue of Descriptions of the Desired Approaches, Methods and Conduct at Work, identifying prospective human resources, measuring the work environment of the organisation, updating the Code of Ethics, preparing a Corporate Integrity Plan, performing a SiOK analysis and yearly discussions on the development of the company.

Risk to reputation

Reputation is both a threat and an opportunity. By conducting relevant implemented reviews of the existing risks, we also minimise the risk to our reputation, which creates new opportunities for introducing new improvements.

Corporate integrity risk

In 2016, the Code of Ethics was renewed, with the creation of a communication plan of the Code of Ethics and corporate integrity. Corporate integrity risks were first included into the Risk Register in 2015. The established system of corporate integrity ensures that these values will be respected in day-to-day business and in relations within the company Elektro Celje. The employees received an opportunity to report detected irregularities in company business activities to a representative for corporate integrity. There were no reports of non-compliance or other irregularities in 2016.

11.2.1.2 Groups of Operational Risks

Risk group	Size of risk depending on manageability	Acceptable level of risk	Assessment of the size of the risk in 2017 compared to 2016
EMPLOYEE BEHAVIOUR	Low	Low	Same
SYSTEMS OPERATION	Low	Low	Same
EXTERNAL EVENTS	Low	Low	Same

Employee behaviour and execution of internal procedures:

Such risk arises from behaviour, which is the employees' responsibility, and can either affect the fulfilment of annual business goals positively or negatively. The company Elektro Celje manages this risk successfully with a system of planning, managing and monitoring work, a system of internal controls, through employee training,

proper organisation, fulfilment of ISO requirements (ISO 9001, ISO 14001) and achievement of process goals.

In 2016, the company began executing investments into ERP (Microsoft Dynamics AX) and EAM (IBM Maximo). At the beginning stage, an inadequate analysis and dissatisfaction of employees with the solutions could present a risk. That is why a project for

the implementation of new technologies has been launched (the project is managed by the contractor), which includes the management and a large number of employees. On the basis of numerous workshops, an external contractor, with the help of competent employees, prepared an ERP implementation plan by the end of year 2016 (the so called "blueprint"), as the company planned. The execution of

the investment will be controlled by an appointed project council in the future. The Maximo project is currently at the preparation stage.

At the company Elektro Celje, we take great care in managing **Occupational Health and Safety, as well as Fire Safety risks**. Since 2012, the company has been certified according to the OHSAS 18001 Standard. We minimise risks through internal and external audits, controlling dangerous events and accidents at work, regular checks of work equipment and operational resources, working environment research, preventive medical examinations of employees, and regular employee training. In 2016, an internal audit was conducted given the defined risk level in the area. The execution of internal controls of the effectiveness of the Occupational Health and Safety Office is, thus, improving further and is being perfected in accordance with recommendations.

The risks of environmental impacts that arise when electricity plants and equipment are being built, operated and serviced are also important. We manage this risk with audits, by

checking and assessing environmental aspects and meeting the requirements of ISO 14001.

Systems operation

The systems operation risk refers to electricity and information systems. Distribution network fallouts cause interruptions of electricity supply to consumers and, consequently, a reduction in the quality of electricity, which can lead to liability for payment of compensation on the basis of contracts between Elektro Celje and its consumers. The company Elektro Celje monitors the continuity of supply and commercial quality indicators and acts accordingly whenever necessary. The indicators for the year of 2016 were very good.

In the previous year, the highest risk in the field of systems operation was the risk of malfunction of the information systems provided by the company Informatika d.d., which was facing the danger of illiquidity and insolvency. The company Elektro Celje could remain without any information support for its basic functions and for managing the public utility service. In the last quarter of 2016, the risk was reduced

somewhat, although the company Elektro Celje continues to monitor the situation. In 2016, we launched activities to insure the continuity of business, which is why we will set and conduct an adequate system architecture for a back-up data centre.

External events

The risk of weather impact on the electricity system is one of the external events that have been recognised as a significant risk. Such risk has, considering the amount of consequences, increased, as the Energy Agency covers much less expenses since the new Network Charge Act has been passed, which is only 10% of the cost of damages remaining after the insurance companies cover the damage. We minimise the risk of damage caused by meteorological disasters through cabling and other measures, and have passed part of the liability on to insurance companies on the basis of insurance contracts. In view of the risk recognised, an internal audit in the field of Collateral has been carried out. A collateral review (for a longer period of time) has been conducted and future guidelines have been set.

11.2.1.3 Financial risks

Risk group	Size of risk depending on manageability	Acceptable level of risk	Assessment of the size of the risk in 2017 compared to 2016
CREDIT RISK	Medium	Low	Same
MARKET RISK	Low	Low	Same
LIQUIDITY RISK	Low	Low	Same
EQUITY RISK	Low	Low	Same

The credit risk is the risk of non-payment of debtors' contractual obligations as a consequence of insolvency. Receivable management and recovery of receivables from debtors are conducted in accordance with the provisions of Article 76 of the Slovenian Energy Act (EZ – 1), Article 42 of the Regulation on the General Conditions of the Supply and Distribution of Electricity (SPDOEE) and internal company regulations. Short-term receivables are only partially insured with debt collection instruments, as trade receivables for network charges cannot be insured because this is not foreseen by the SPDOEE. We

manage the risk with measures that are prescribed in recovery processes. **The credit risk is presented in more detail in section 15.9.1.**

The market risk is associated with an increase in financing costs due to varying interest rates, most notably the EURIBOR reference interest rate. The company does not deal with currency risks due to the limited area of its activities.

The market risk is presented in more detail in section 15.9.2.

The liquidity risk is a risk of inconsistent liquidity, or the maturity of assets

and liabilities of the company, which could cause insolvency. The basic frameworks of the financial policy are determined in a three-year operating plan, defining the extent of revenue and expenditure of each activity, the assets and resources, the size of investments, sources of financing the investments, and other business guidelines. A prospective Cash Flow statement is also a part of the operating plan.

The liquidity risk is presented in more detail in section 15.9.3.

The risk related to equity adequacy arises if a company does not pos-



sess an adequate amount of long-term sources of financing in regard to the size and type of business that it conducts, and the risks to which it is exposed during its conduct. The management monitors and verifies the company's achievement of eq-

uity adequacy regularly. The owners, who decide on sharing or distributing the profit, also have a great influence on the equity risk. The opinion of the majority shareholder is of particular importance (acquisition of Treasury shares) because he or she indirectly

defines the regulatory environment and can affect the company's financial results and fulfilment of financial commitments greatly.

The equity risk is presented in more detail in section 15.9.4.

11.2.2 Risk Management and Types of Risks in the Elektro Celje Group

The risks in the Elektro Celje Group are divided into: strategic, operational and financial risks.

Strategic risks in the Group are possible events with an (un)favourable impact on achieving medium-term or long-term operational goals of companies in the Group. We manage them successfully by setting, monitoring and analysing strategic and annual business plans. They are related to the company's reputation and

managed by checking the consumers', shareholders', employees' and suppliers' satisfaction and the satisfaction of the general public, and by acting depending on the results.

Operational risks are possible events that could have an (un)favourable impact on achieving the annual operational goals of the Group companies and present a risk of losses (benefits) due to internal processes. We identified the risk of performing the process-

es of managing the subsidiaries on the Group level. We manage this risk by preparing backup documents for the management of subsidiaries and choosing an appropriate structure of staff and management in subsidiaries.

Financial risks are related to possible events that have an (un)favourable impact on reaching the strategic and annual goals of financing the companies. We identified credit and market risks on the Group level.

11.3 Internal Audit

The aim of an internal audit is to strengthen and protect the value of the company by providing objective guarantees based on risk assessment, consulting and gaining deeper understanding of the company's operation.

Internal audits are aimed at achieving better management, better risk management and greater success and efficiency of operations within the framework of the adopted strategic and annual operating plans.

The bases for the operation of an internal audit are defined in the fundamental Charter of the Activity of Internal Audits, which was amended in 2016 and defines the purpose, jurisdiction, responsibilities and duties of internal audits in Elektro Celje, d.d., and is in accordance with the compulsory components of the International Professional Practices Framework.

The company has established an internal audit which, in view of administration, acts in the authority of the Chairman of the Management Board, and, as regards its function, to the Supervisory Board Audit Committee (SB AC),

or the Supervisory Board (SB). The Management Board, and the SB AC or the SB, are actively working to carry out the planned internal audit activities and include outsourcing for performing internal audit activities when faced with larger unforeseen risks or in case of lengthy absence of risks. The Manager of the Internal Audit ensures that the planned internal audit activities are carried out adequately, provided that no greater unforeseen risks have been identified or there has been no lengthy absence of risks.

The Internal Audit carries out its duties on the basis of a multi-annual and annual operations plan of internal audit activities, and submits it to the company's Management and Supervisory Boards for adoption and to the SB AC for review.

In accordance with the operations plan of the Internal Audit for 2016, the internal audit reviews were conducted in the area of storage and stock monitoring, occupational and fire safety, metering and control devices, electricity network and device operation and maintenance, moni-

toring contract implementation and company property insurance.

The Internal Audit reviewed and assessed the adequacy and efficiency of internal controls within the scope of individual internal audit transactions and tasks and declared that the control system in the company Elektro Celje is established adequately. The controls, authorisations and responsibilities are mostly defined in the ISO 9001 Quality Management System, the ISO 14001 Environmental Management System and the OHSAS 18001 Occupational Health and Safety Management System. The company manages risks successfully in order to achieve important business goals, but there is room for improving the internal control system in the revised units or processes. For this reason, recommendations were given, categorised by level of risk, and their implementation is controlled regularly. Control of the implementation of the recommendations is carried out in accordance with the annual plan. The concrete effects of this implementation can be seen in better risk and company management (better

management of stocks, property insurance, etc.).

Within the framework of the internal audit operations, attention was drawn to the possibility of fraud and the malfunction of Information Technology. A system of preventive internal controls for preventing larger frauds in areas that were reviewed by the Internal Audit has been established and is functioning successfully. During the review of the Information and Communication Technology area, the Internal Audit

assessed that the internal controls of traceability, security of information and data processing are adequate.

In 2016, quarterly reports were prepared on the function of internal audit activities. They were reviewed by the SB AC and the SB, as defined in the Companies Act (ZGD-1).

The Management Board ensures adequate conditions for quality and independent work of the Internal Audit. The Manager of the Internal Audit

took part in meetings of the SB AC regularly, and of the SB if necessary, and monitored the company's operations. The necessary knowledge and skills were provided for carrying out each task in the Internal Audit. The training programmes that were planned for 2016 were realised.

A programme for improving the quality of internal audit operations ensures that operations are carried out in accordance with the expectations of the Management Board, the SB AC or the SB.

11.4 Corporate Integrity and the Code of Ethics

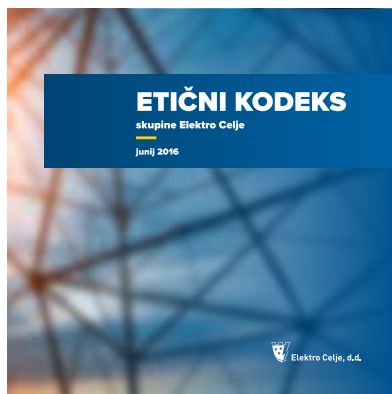
At the company Elektro Celje, a system of corporate integrity has been established with elements defined by the Slovenian Guidelines of Corporate Integrity. These rely mostly on the OECD Guidelines on good internal control practice, ethics and compliance, the OECD corporate governance principles, the standards of socially responsible operations of the Ministry of Economy (ICC Rules on Combating Corruption, ICC Guidelines on Whistleblowing, anti-corruption clause, etc.), the IAIS Recommendations, and other relevant practices.

Ethical rules, which we as employees must follow in certain circumstances, are laid down in the Elektro Celje Group Code of Ethics. The Code, which is made available publicly on the company's website, is a guide of fundamental regulations, standards of conduct and decision-making that must be followed by all Group companies. We use it in everyday activities and its set out values and principles help us in situations when we are uncertain about how we should act.

Corporate integrity is acknowledged and defined as one of the strategic goals and included into the strategic guidelines of the Elektro Celje Group. In this manner, we wish to increase the likelihood of achieving our goals, encourage proactive management, improve the ability to recognise opportunities and risks, to act in accordance with relevant legislative provisions and standards, and to improve the operational efficiency and success.

Corporate integrity and risks related to it are included into the already functioning Risk Management System. Risks related to corporate integrity are included in the Risk Register, where they are identified, assessed and managed through suggested measures.

With the help of a Corporate Integrity Compliance Officer, a mechanism has been established for regular and com-



prehensive identification of corporate integrity risks, their assessment, and a systematic and independent control to ensure the efficiency of measures for managing such risks. The Management Board provided an additional communication channel that enables anonymous reports of potential irregularities or violations of the compliance with the company's operations. On the company website, anyone can access the tab "Compliance of Operations—Corporate Integrity", which enables him or her to create an anonymous mailbox at the end of the application form with the

help of an external administrator. As correspondence, the reporter can either send personal data or create an anonymous mailbox, through which he or she can communicate with the Compliance Officer. This way, the reporter remains anonymous and no one can come in contact with him or her. The reporter also has the opportunity to report and view the mailbox he or she created, where he or she can check whether the Compliance Officer sent additional questions to clear the matter and monitor the progress of settling the case. In this manner, we widen the communication channels further to ensure that the Codes of Ethics and Corporate Integrity are adhered to.

With the support of competent services, the Compliance Officer for Corporate Integrity prepared a Training and Communication Programme in the field of Corporate Integrity. Its basic purpose is to familiarise all employees with the Code of Ethics through the Annual Training Programme, so that they will know the basic ethical values of the company and the Group, which enables the company to form clear expectations from the employees, heads and Managers, and that each value in the Code of Ethics is presented systematically and, in view of its content, to employees depending on concrete cases. Individual workshops and materials are set up accordingly. With these methods, we strive to encourage fair and ethical conduct on all levels—in relation to our environment, employees and, most of all, ourselves.

RELATIONSHIP



PARTNERSHIP

We believe that success is the result of joint work and common objectives, which allow us to continuously advance along the path of our planned strategy. Therefore, we develop long-term partnerships, prioritising professionalism, reliability and honesty.





Elektro Celje

12 SUSTAINABLE DEVELOPMENT

At Elektro Celje, d.d., we practice sustainable development, which is based on economic and social development and on environment protection. We strive to do business in a sustainable manner by wasting as little space as possible when erecting new energy installations and using natural and degradable materials whenever we can. An important factor within the scope of electricity distribution is the generation of electricity from distributed resources—i.e. from small hydro power plants, solar power plants and co-generation of heat and electricity. Over 450 diffuse power plants are connected to the distribution network managed by Elektro Celje, d.d. Elektro Celje, d.d. also produces electric-

ity in 5 small hydro power plants and 3 solar power plants.

At the Elektro Celje company, the environment policy regulates the environment protection, and the entire company is dedicated to observing the environmental legislation, regulations, agreements and Standards. By adopting an environment policy, we have committed ourselves to observing the environmental management policy and bringing it to the attention of all working on behalf of the company. We have committed ourselves to constant improvement of the environmental aspects of business, with emphasis on preventive conduct and introduction of environmentally

friendly technologies, economical use of energy and materials, as well as thorough verification of the use of dangerous materials in the company, which we will eliminate gradually. We offer environmentally friendly energy generated from renewable sources to our consumers. Our activities in the area of preservation of the environment for future generations are available publicly and we acknowledge the opinions of our consumers, locals and communities, because we share their concern for efficient and rational environmental management. The company has a certified system of environmental management in accordance with the ISO 14001:2004 Standard.

12.1 Research and Development Investment and Other Investments

Research and Development Investments

Flex4Grid European Development Project

Flex4Grid is a European research project that is conducted within the scope of the Horizon 2020 programme. The project was launched on 1 January 2015 and combines eight project partners from Slovenia, Finland, Slovakia and Germany comprised of various knowledge institutions, or research institutes, electricity distributors, and industrial partners. The project, which will cost nearly EUR 3.2 million and will be financed almost entirely by the European Commission, will last 36 months, and is being coordinated by VTT, a Finnish research institute.

The project focuses on the development of an open technological system for data management and the provision of services enabling the management of flexibility of distribution network users for both the consumption and generation of electricity. User flexibility means that the

user is able to adapt the consumption or generation to the needs of other participants of the system, for which the user could be rewarded. Power distribution companies will be able to use this flexibility to lower peak loads and the imbalance between the consumption and distributed energy generation, while other, or new, participants, will be able to offer their new services in the electricity market based on the data and open interfaces of the Flex4Grid technological system.

Three main pilots will also be erected in the second half of the year 2017 within the project; two in Germany and one in the Elektro Celje, d.d. distribution area, which will incorporate up to 2,000 household electricity consumers.

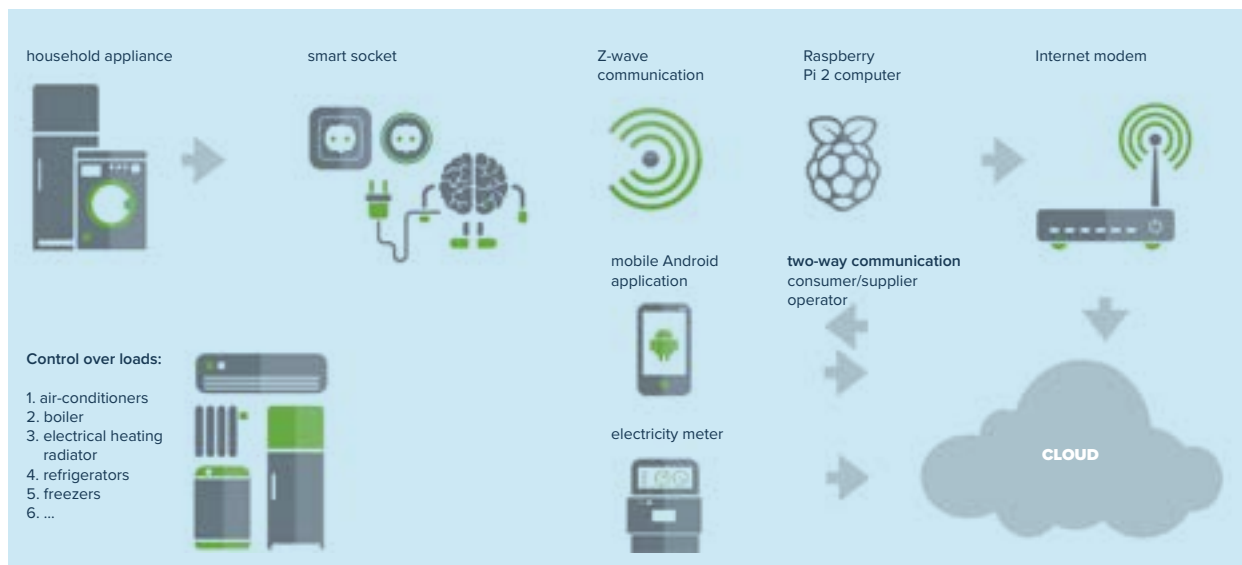
In the pilots, the response and use of the system shall be measured on three levels:

1) At each consumer,

2) On the transformer substation level,
3) On the level of all participants in the project.

Responses of participants in both pilots will also be collected via questionnaires. After the end of the project, a summary of selected results of pilots shall be made available publicly.





Pilot Project Dealing with the Critical Peak Tariff

In 2016, the Energy Agency recognised the pilot project dealing with the Critical Peak Tariff as a pilot project in the field of Smart Grids and included it into the scheme of Smart Grid Implementation Incentives on the basis of the Act on the Methodology for Charging the Network Charge. The implementation incentives, with the use of the pilot critical tariff, or dynamic tariffing, focus on testing the efficiency of active inclusion of consumers into consumption adjustment programmes. The project will be launched in the first half of 2017 and, by the end of 2018, it will enable 8,700 household consumers in the areas covered by the company Elektro Celje to take part in the consumption adjustment programmes on the basis of a pilot tariff for dynamic network charging from Article 123 of the Act in a transparent manner. These programmes will be conducted by the distribution company Elektro Celje, d.d. within the framework of this project.

Slovenian and Japanese demonstration project

At the end of 2016, the company ELES from Slovenia and NEDO from Japan (New Energy and Industrial Development Organization) signed an agreement on cooperation in the field

of Smart Grids and Smart Communities. In accordance with the agreement, the company Elektro Celje will be conducting a demonstration project in the period from 2016 to 2019, which will, in addition to its Japanese partners, include 5 Slovenian partners. The Japanese partner, HITACHI, will develop an advanced integrated system for managing distribution networks. The integrated system functions will cover the field of Voltage Regulation, a system for automatic detection and locating outages, and a system service for ELES, which shall conduct a conservative voltage reduction. Within the scope of the demonstration project, the Slovenian partners will develop complementary functionalities for voltage regulation in LV networks and loop operation in MV networks, establish the necessary communication infrastructure and a platform for programme solutions for integrating all the technologies mentioned above.

The demonstration project will be established in a realistic environment of the Elektro Celje company in the area of DTS Slovenj Gradec. The role of Elektro Celje, d.d., is to ensure a realistic testing ground, integrate equipment, and use and evaluate the above-mentioned technologies. With the establishment of this demonstration project, we expect to achieve

better adaptability of the distribution network to including distributed energy sources, to manage voltage profiles better, reduce losses during electricity transfer, and improve the reliability of electricity supply directly.

In 2016, we received EU grants for co-financing the Flex4Grid project in the amount of EUR 83,738 EUR, and grants for the Eco Fund (cars) in the amount of EUR 8,000.

Investments - financial aspect

The total amount of the investments of the company Elektro Celje for the period of 2017–2026 that was planned is defined in the 10-year plan for developing the electricity distribution network and amounts to EUR 213.1 million. From this amount, the company Elektro Celje intends to invest EUR 211.1 million (with EUR 104.7 million from its own resources and EUR 106.4 million of investment loans), while SODO is expected to provide EUR 2 million of assigned revenue for financing investments into strengthening and developing the electricity network, which is the result of the customers' higher connected load.

The planned distribution network development is presented in more detail in section 7.3.

12.2 Societal and Social Aspects

12.2.1 Responsibility towards Employees

Human Resource planning is a part of the strategic and annual plan of the company. Employees ensure that activities within individual business processes take place in a harmonised way. The ability to operate in harmony itself stems from the individual, making each and every one an important link in the chain of operations. Only an individual with a harmonised personal and professional life can make a significant contribution to the common results, which is why, when managing Human Resources, we take all three spheres of the individual into consideration. The foundations of operations are compliance with labour

legislation, concern for Occupational Health and Safety, and an appropriate working environment. In our work, we do not only follow the economic effects of operations, but also operate in accordance with the highest ethical and moral values, and comply with professional standards of work. By investing into the development of employees, we ensure their personal and professional development. We have thus set ourselves a vision to be recognised within society as a subject who elevates the quality of life through responsibility towards the environment and employees.

Supplementary employee retirement insurance

The company Elektro Celje created a retirement plan of supplementary retirement insurance in 2001. All employees are included in the second pillar of pension funds. Premiums for supplementary retirement insurance are paid by the company Elektro Celje (EUR 773,200 in 2016) in a contractually defined share of the maximum premium amount. The employees have the possibility to make additional payments of their share of the premium.

12.2.1.1 Number and Structure of Employees

In 2016, the fluctuation in the Elektro Celje Group was 5.2%, appearing mainly due to retirement of employees and temporary employment. In the parent company, 9 male employees have retired due to age, as well as 2 female workers in the subsidiary, while there were no retirements due to disability. In recent years, we have noticed a trend where older employees do not decide to retire immediately after meeting the first condition. This is due mainly to the stimulating legislation, which rewards the continuation of work financially, and the fact that pensions are lower than wages.

Employment vacancy notices are publicly available on the websites of

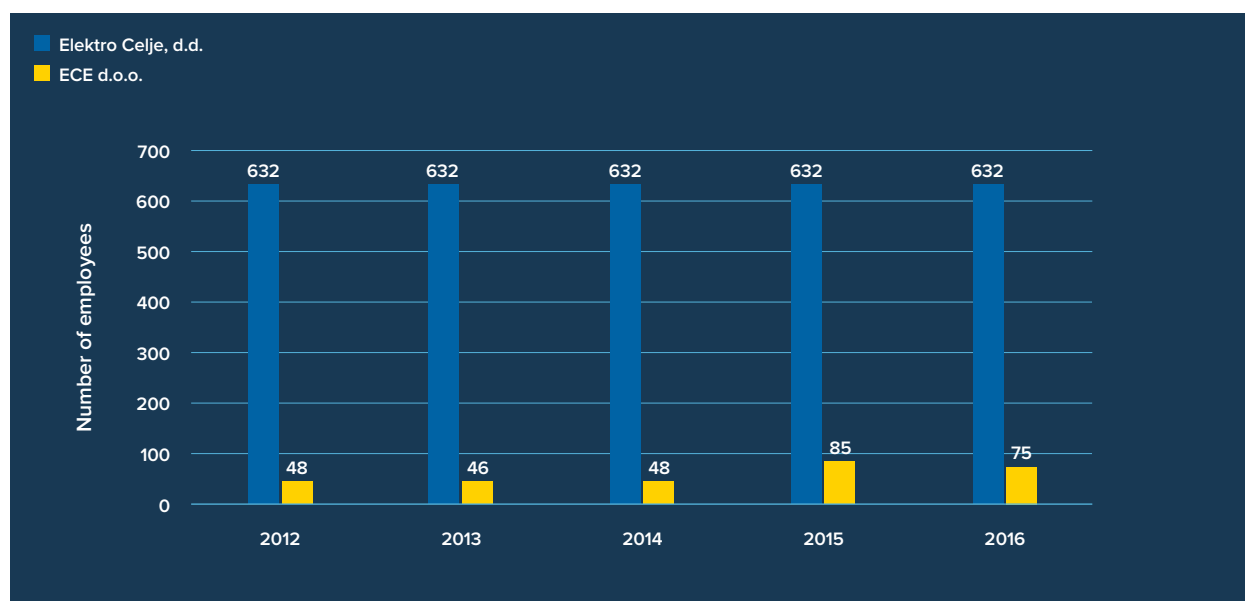
the parent company and the subsidiary, and at the Employment Service of Slovenia. When selecting our Human Resources, we pay attention not only to expertise, but also to commitment, target-orientation, and ethics of the candidates. In planning new employment, compliant with the business plan, we follow the policy of recruiting highly qualified, ambitious and competent staff. Thus, we ensure competitiveness, follow the requirements and development of the Power Engineering industry, and operate in compliance with the company's mission and values.

On 31 December 2016, the Elektro Celje Group employed 707 people,

with the average number of employees in the parent company amounting to 645 and in the subsidiary ECE to 80. The number of employees has, compared to the previous years, increased due to the acquisition of the company Elektro Gorenjska Prodaja and its merger with the subsidiary ECE in 2015. The subsidiary MHE - Elpro has no employees. To carry out its activities, it engages the employees of the parent company and uses external services, while all required maintenance is carried out based on contracts or individual orders with other suppliers and the parent company.



Number of employees in the Elektro Celje Group



The majority of the personnel are employed full time, with only 2% working part-time. These are mainly employees with disability status or those en-

titled to part-time employment due to parenthood.

The Table shows the number of employees in the Elektro Celje Group with regard to employment status as of 31 December 2016:

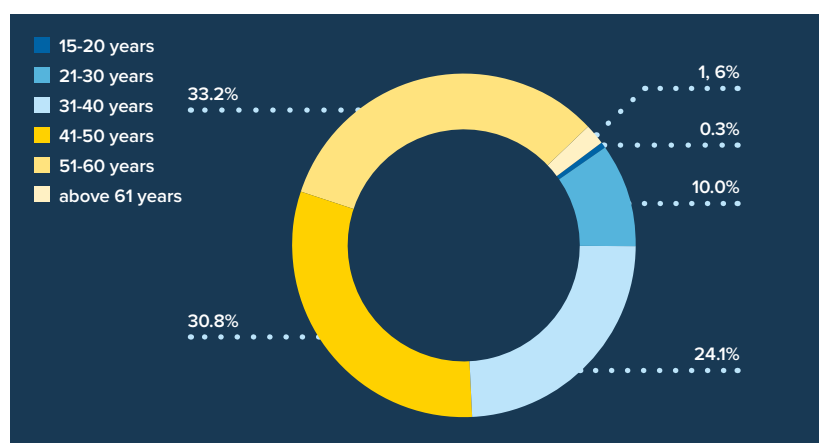
	Elektro Celje, d.d.	ECE d.o.o.	Elektro Celje Group
Number of permanently employed workers	618	68	686
Number of temporarily employed workers	14	7	21
Total number of employees as of 31 December, 2016	632	75	707

The age structure of the employees remains similar to that of previous years, but we have noticed a trend of increase in the average age. The average age of employees at the com-

pany Elektro Celje is 45 years (half a year more than in 2015), and 42 years in the company ECE (one year more than in the previous year). The gender composition in the parent com-

pany consists of 86% male and 14% female employees, with the situation at the subsidiary being reversed: there are 27% male and 73% female employees.

Composition of employees by age



At the company Elektro Celje, we exceed the share of employees with disabilities, as defined by the Decree Establishing an Employment Quota for Persons with Disabilities applicable in the field of Electricity Supply. For several years in a row, 8% of the company's employees have had disability status, which exceeds the requirements of the Decree in the field of Electricity Supply by 2%. As of the end

of 2016, the company Elektro Celje employed 54 disabled persons, with the company ECE employing 1 disabled person. Through adjustments of workflow or reassignment to more suitable posts, the disabled persons and employees with different health conditions can continue working after a disability. We also encourage retraining of those who are no longer able to perform their work tasks.

In Elektro Celje, absence of work because of illness is monitored and health promotion activities are implemented. In 2016, sick leave amounted to 5.1% of total working hours, including refundable and non-refundable, which is more compared to 2015 (4.7%).

12.2.1.2 Employee Education and Training

Knowledge and competencies that support the company's vision and strategic goals are developed systematically. The employee development programme is based on balanc-

ing their talents, skills and ambitions and the company's objectives and requirements. In 2016, we devoted an average of 19.8 hours per employee to education and training.

Employees with a secondary professional education and qualified employees make up for 63% of all employees, with the majority of the employees with education in the field of Electrical and Power Engineering.

Education	Average number of employees in the Elektro Celje Group
PhD	1
MASTER OF SCIENCE	16
UNIVERSITY	126
POST-SECONDARY	81
SECONDARY	268
VOCATIONAL	7
HIGHLY QUALIFIED	9
QUALIFIED	188
SEMI-QUALIFIED	20
UNQUALIFIED	8

Special emphasis is given to the continued knowledge updating, acquisition of special skills, and special knowledge. Annual employee training and regular professional education maintain and upgrade our level of professionalism. The employees who undergo internal training keep up with innovations in the energy sector, and act as motors of technical development, so their exchange of knowledge with other colleagues is of particular importance.

In 2016, the company organised an education workshop on the topic of efficient communication and telephone communication, with workshops on effective management and communication organised for

junior and senior management. We devote a great deal of attention to the field of Occupational Health and Safety, ensure that the employees undergo compulsory professional examinations and organise trainings for employees working with power engineering plants. Prior to performing annual developmental interviews with Heads of Departments, a workshop is organised aimed at analysing the progress of recent interviews and preparing for an implementation of a new cycle.

Employees also took part in various seminars, workshops and conferences, as well as functional education, which are essential for the work process. In addition, our employees

attend free trainings provided by our contractors. Internal trainings are a cost-efficient method of knowledge transfer. In 2016, these were organised on the subject of Smart Meters, the DMS/OMS system, and the project server. Feedback on satisfaction with education and training is obtained based on reports and training efficiency assessments. According to these assessments, employees were satisfied with the education workshops organised. Employees occupying more demanding management or professional positions are replaced mostly by means of internal redistribution. We thus cultivate knowledge transfer among employees and enable a career progression to the already employed individuals.

12.2.1.3 Concern for Employee Development

Through a comprehensive Human Resource management, we pay special attention to recognition of talent. The most important aspect of Human Resource management in the company is to use a method allowing us to handle knowledge, abilities, skills and personal traits of employees best. We pay special attention to the field of Management and development of key human resources, which is of strategic significance for our organisation.

As regards succession, the company has two main goals, identification and development, or recognition and raising of key human resources. The Human Resource Department, in cooperation with the Management Board and heads of individual organisational units, devotes a considerable amount of time to the identification and development of promising personnel. These are engaged by the company to cover the needs of succession and new key jobs.

Annual development interviews are an important instrument of the targeted management of human resources in modern organisations striving for excellence. At the company Elektro Celje, we have been performing them since 2014. In the first year, the interviews included Managers and Heads of Departments while, since 2015, they are performed with all employees. An annual interview is an in-depth dialogue about current tasks,

work carried out, results, objectives and tasks for the future, and about the employee's personal development and career path. Many wishes for new knowledge acquisition were expressed at annual interviews, which is why we dedicated special attention to this and attempted to realise it to the fullest extent possible.

Research on organisational climate and employee satisfaction was carried out within the framework of the annual developmental interviews in 2016. The results showed that 83% of employees were satisfied or very satisfied with their status within the organisation, with 85.2% being satisfied or very satisfied with the working conditions (equipment, safety, premises). 78.5% of employees were satisfied or very satisfied with the work process organisation in the organisational unit, while as many as 95.5% were satisfied or very satisfied with the management of their direct superior. The categories where the satisfaction was the lowest comprise opportunities for training, education and professional development, as well as opportunities for promotion and career development. Thus, these two categories present an important challenge for improvement. The SiOK organisational climate measurement was carried out in 2015, but was omitted in 2016.

Communication with Employees
Open and regular communication be-

tween personnel and management, as well as among the employees, is of key importance. Through promotion of responsible and ethical communication at all levels, we create a productive work atmosphere, increase loyalty and build a culture of mutual trust and respect. Internal communication most commonly takes the form of meetings, face-to-face and telephone conversations, our website, electronic mail and the intranet.

The goals that the company pursues in the field of Internal Communication include the adoption and introduction of the **Code of Ethics**, which is published permanently on the company's website.

One of the forms of employee informing is the **GEC internal newsletter**, a joint newsletter of the Elektro Celje Group with three issues per year.

We carried on with our regular monthly **»Open Door Day«** at the office of the Chairman of the Management Board, introduced in 2010, which practice has proven to be effective and well received.

Through our **intranet site**, we notified all employees regularly and transparently about the events and activities at the company. Direct superiors play a major role in internal communication, so we strive to forward the information from superiors to all employees.



12.2.2 Responsibility towards Investors and the Financial Public

Communication with investors and the financial public is transparent and compliant with all effective provisions. The information provided relates mainly to business performance and the company's future strategy. Public information (Quarterly Reports, concluded Contracts, General Assembly meetings and material thereof) is disclosed on the corporate

website www.elektro-celje.si. Shareholder communication is based on SSH recommendations and OECD guidelines for corporate governance of state-owned enterprises issued in the procedure of the accession of the Republic of Slovenia that put emphasis on three main principles: Transparency, efficiency and responsibility.

The company's Annual Report is one of the most important sources of communication with shareholders and the financial public, with transparency, timeliness and precision of notification about operations and business plans compliant with the provisions of the applicable regulation presenting the main mission.

12.2.3 Responsibility towards Customers

The company Elektro Celje operates with the purpose of realising its business objectives. To realise our business goals successfully, we must perform communication with all important stakeholders or the public consistently. An efficient communication system is the key to long-term and socially responsible relations with the entire public - from employees to local communities, business partners, media and owners.

Communication with the local community

Our **media relations** are based on transparent and updated communication. Media communication mainly regards the company's operations, pro-

vision of new services and sponsor agreements, network developments and completion of major works on the electricity distribution infrastructure. We are regular contributors to the Slovenia power industry newsletter, ***Naš stik (Our Contact)***, publishing news and informing the professional community on the activities implemented at the company Elektro Celje.

Communication with business customers is based on personal contacts and e-communication. Personal contacts are necessary in the business hence, our customers are treated on an individual basis.

The Call Centre of the company Elektro Celje, d.d., established in 2005 to improve customer relations management, facilitated access and communication with consumers. Since December 2011, two Call Centres have been available for the consumers – Elektro Celje's and ECE's. Call Centre operators receive and handle complaints, consumer notifications on electric meter faults, meter statuses required for annual billing; they notify consumers on planned power supply interruptions; reply to customers' general questions; communicate regularly with workers in the field and electricity suppliers; and handle communications involving other services within the company.



The website of the company Elektro Celje is informative, user-friendly and facilitates access to information of interest. The website contains all information required by SSH and the Public Information Act. Transparency of operations is compliant with good practices of corporate governance and the governance codes adopted.

Notification of customers on planned power supply interruptions is necessary and essential for performing all necessary work on electricity installations safely and as soon as possible. The works are planned carefully, meaning that we can inform our customers about planned power supply interruptions at least 48 hours in advance. Notifications on planned power supply interruptions are published on the company website, radio stations and local televisions.



Communication with influential public on the content related to the regulations and legislation, and the management of relationships with various institutions, is regular and open. It includes governmental institutions

of the Government of the Republic of Slovenia as the majority shareholder of the company, line ministries and other important institutions: AE, SSH and others.

12.2.4 Social Responsibility

Every company is interdependent on its local environment - it takes from the environment and returns to it. The objective of the company Elektro Celje is to maintain a good relationship with the community enabling long-term survival.

Quality Standards at the company Elektro Celje (ISO 9001:2008, ISO 14001:2004, OHSAS 18001:2007)

At Elektro Celje, we strive towards quality and transparent operations, as the fundamental mission of the company is a reliable and quality electricity supply to consumers and the provision of related services.

Family Friendly Enterprise

For many years, the company has been encouraging the values of mutual respect and meeting ethical and legal standards. Since 2011, special attention has been devoted to harmonisation of professional and private lives. We adopted measures to facilitate harmonisation of professional and private lives, but it is thereby important that these measures are maintained and a part of our every day work and mindset.

The acquisition of the full "Family Friendly Enterprise" certificate in 2015 presents, for our company, a reward for the work performed so far, as well as a commitment to keep

following these principles and reinforce them. As a socially responsible company, we are aware that employees are the most important part of an organisation and that their opinions, points of view, suggestions, and also problems, are important. With common efforts to implement an employee-friendly organisational policy, we ensure conditions to facilitate harmonisation of family and business obligations.

Our Sports Society promotes physical activities among the employees. Employees and retired workers are offered the company's holiday facilities, where they can spend quality free time.



POLNI CERTIFIKAT



Sponsorships and Donations

The company Elektro Celje allocates a part of available funds for sponsorships and donations based on a system ensuring transparent, economical and competitive-driven operations of the company with regard to sign-

ing deals related to the company's expenditure including sponsorship and donation funds. In 2016, we supported a number of sports, cultural, educational and other events. In the New Year's holiday period, we funded various humanitarian activities in

the local communities where Elektro Celje is active. When providing sponsorships, we observed the principle of balance, economic benefit and diversification, while, in providing donations, the principle of social responsibility was applied.

12.3 Environmental Aspect

The company Elektro Celje meets all requirements of the international Standard ISO 14001 aimed at preserving the environment and adequate living conditions for future generations as well (meeting legal requirements, efficient exploitation of resources and prevention of environmental pollution).

In siting electricity installations and in its operations, the company Elektro Celje follows the good practices of environmental protection and complies sensibly with the guidelines of local communities and population.

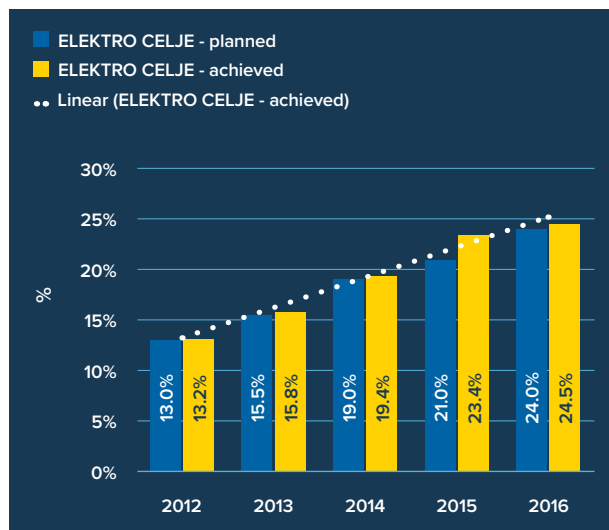
The electricity network is equipped systematically with transformers with environmentally acceptable oils. Where sensible and permissible, chestnut wood or coniferous tree wood impregnated with environmentally acceptable and permissible impregnation is used for the construction of overhead power lines.

Elektro Celje d.d. is an energy company and, thus, heat pumps and devices for coproduction of heat and electrical power have been installed to reduce energy consumption in renovation of facilities.

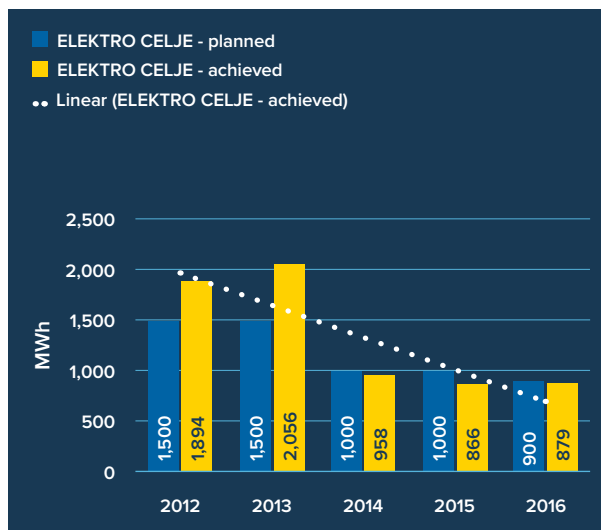
By reducing losses in the water distribution system and the use of rain-water for process water, activities are being implemented for the reduction of the amount and cost of potable water consumption.

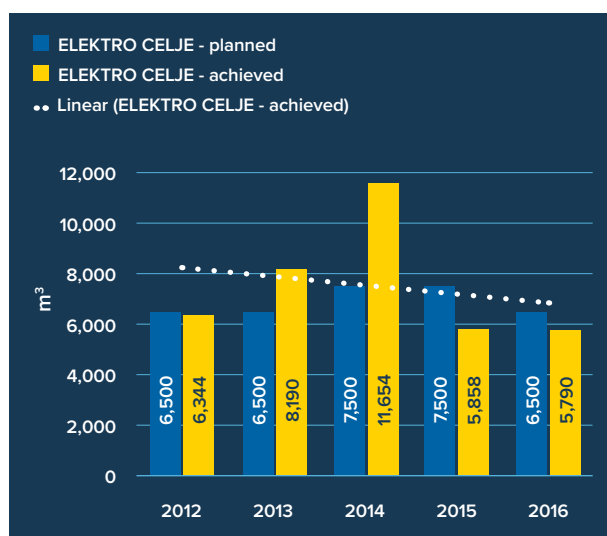
The rolling stock is modernised compliant with the criteria of the so-called green public procurement with environmentally friendly transport vehicles.

Share of transformers with environmentally sound oil (in %)

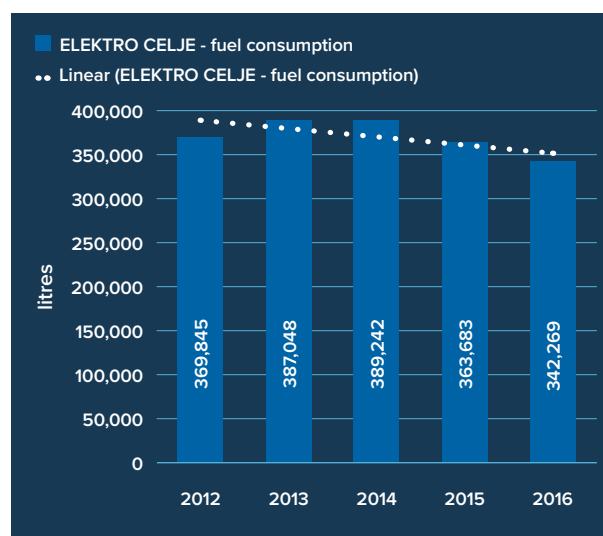


Electricity consumption (in MWh)



Water consumption (in m³)

Consumption of fuel for transport means (in l)



The eMobility Project

Progress in the field of new technology development enables the reduction of dependence on fossil fuels, while alternative forms of energy source consumption are a step towards the realisation of the principles of sustainable progress and environmental protection. One such step is also the arrangement of infrastructure for electrical vehicles. The Elektro Celje Group set up and arranged charging stations for electrical vehicles in cooperation with the Municipalities of Dobrna, Mežica and Sevnica.



Storks at Ljubečna got a Safer Home

Elektro Celje, d.d. moved the nest of the only couple of white storks at Ljubečna to a new pole without exposed electrical conductors in cooperation with the Local Community of Ljubečna, Urban Municipality of Celje and the Institute of the Republic of Slovenia for Nature Conservation, thus preventing any possibility of contact of the storks with electricity. In future years, the placement of new distribution lines is planned underground, while the pole will remain in place as a nesting post of the white storks.





Elektro Celje

FINANCIAL REPORT

RELATIONSHIP



EXPERTISE

Expertise is the point of departure for our mission – the supply of electricity to customers. Through continuous transfers and upgrades of knowledge and experience, we raise society's potential as a whole.

13 INDEPENDENT AUDITOR'S REPORTS



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INDEPENDENT AUDITOR'S REPORT (Translation from the original in Slovene language)

To the Shareholders of
ELEKTRO CELJE, d.d.
Vrunčeva ulica 2a
3000 Celje

Opinion

We have audited the financial statements of Elektro Celje, d.d. (the Company), which comprise the balance sheet as at December 31, 2016 and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion the accompanying financial statements present fairly, in all material respects, the financial position of the company Elektro Celje, d.d. as at December 31, 2016, and its financial performance, comprehensive income and cash flows for the year then ended in accordance with Slovenian Accounting Standards.

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 Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code) together with 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 the other information. The other information comprises the information included in the business report of the annual report of the company Elektro Celje, d.d., but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Business report is consistent with the audited financial statements and is prepared in compliance with applicable law or regulation.

Responsibilities of Management and Supervisory Board for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with SASs, 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 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.

Supervisory Board is responsible for overseeing the Company's financial reporting process and for confirmation of audited annual report.



Auditor's Responsibilities for the Audit of the 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 auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's 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 auditor's 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 Audit Committee and Supervisory Board 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.

We also provide Audit Committee and Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Ljubljana, April 28, 2017

BDO Revizija d.o.o.
Cesta v Mestni log 1, Ljubljana


BDO Revizija d.o.o.
Družba za reviziranje


Maruša Hauptman,
Certified auditor, procurator

13 INDEPENDENT AUDITOR'S REPORTS



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INDEPENDENT AUDITOR'S REPORT (Translation from the original in Slovene language)

To the Shareholders of
ELEKTRO CELJE, d.d.
Vrunčeva ulica 2a
3000 Celje

Opinion

We have audited the financial statements of Elektro Celje Group (the Group), which comprise the consolidated statement of financial position as at December 31, 2016 and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion the accompanying financial statements present fairly, in all material respects, the financial position of Elektro Celje Group as at December 31, 2016, and its financial performance, comprehensive income and cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by 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 Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code) together with 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 the other information. The other information comprises the information included in the business report of the consolidated annual report of Elektro Celje Group, but does not include the financial statements and our auditor's report thereon. Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Business report is consistent with the audited consolidated financial statements and is prepared in compliance with applicable law or regulation.

Responsibilities of Management and Supervisory Board for the Financial Statements

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

In preparing the consolidated 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 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.

Supervisory Board is responsible for overseeing the consolidated financial reporting process and for confirmation of audited consolidated annual report.



Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated 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 auditor's 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 auditor's 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 Audit Committee and Supervisory Board 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.

We also provide Audit Committee and Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Ljubljana, April 28, 2017

BDO Revizija d.o.o.
Cesta v Mestni log 1, Ljubljana

BDO
BDO Revizija d.o.o.
Družba za reviziranje


Marusa Hauptman,
Certified auditor, procurator

14 FINANCIAL STATEMENTS OF ELEKTRO CELJE

14.1 Balance sheet

ITEM (in EUR)		Note	Amount	
			As of	As of
			31 / 12/ 2016	31 / 12/ 2015
ASSETS				
A.	Non-current assets (I. + II. + III. + IV. + V. + VI.)		261,663,678	259,214,761
I.	Intangible assets and long-term accrued revenue and deferred expenses (1 to 6)	15.4.1	1,544,031	1,115,166
	1. Long-term property rights		1,222,401	1,104,965
	4. Intangible assets in development		321,351	10,051
	6. Other long-term accrued revenue and deferred expenses		279	150
II.	Property, plant and equipment (1 to 4)	15.4.2	246,036,537	243,946,137
	1. Land and buildings (a + b)		178,131,624	173,793,918
	a) Land		5,884,577	5,836,999
	b) Buildings		172,247,047	167,956,919
	2. Production equipment and machinery		61,984,729	62,087,248
	3. Other plant and equipment		88,222	93,493
	4. Tangible fixed assets in the course of acquisition (a + b)		5,831,962	7,971,478
	a) Property, plant and equipment under construction		5,831,962	7,971,478
IV.	Long-term financial investments (1 to 12)	15.4.3	7,579,228	7,580,116
	1. Long-term financial investments, excluding loans (a + b + c + d)		7,579,228	7,580,116
	a) Shares and shareholdings in companies within the corporate group		7,246,975	7,246,975
	c) Other shares and shareholdings		332,253	333,141
V.	Long-term trade receivables (1 to 3)	15.4.6.1	4,733,721	5,934,882
	2. Long-term trade receivables from customers		4,725,754	5,927,233
	3. Long-term trade receivables from others		7,967	7,649
VI.	Deferred tax asset	15.4.4	1,770,161	638,460
B.	Current assets (I. + II. + III. + IV. + V.)		11,579,999	12,306,938
II.	Inventory (1 to 4)	15.4.5	1,161,017	1,380,529
	1. Material		1,161,017	1,380,529
IV.	Short-term trade receivables (1 to 3)	15.4.6.2	10,238,293	10,902,286
	1. Short-term trade receivables from companies within the corporate group		11,828	11,772
	2. Short-term trade receivables from customers		10,015,647	10,542,806
	3. Short-term trade receivables from others		210,818	347,708
V.	Cash and cash equivalents	15.4.7	180,689	24,123
C.	Short-term accrued revenue and deferred expenses	15.4.8	2,816,313	739,294
TOTAL ASSETS (A + B + C)			276,059,990	272,260,993

ITEM (in EUR)		Note	Amount	
			As of	As of
			31 / 12/ 2016	31 / 12/ 2015
LIABILITIES				
A.	Equity	15.4.9	200,929,373	196,443,080
I.	Called-up capital	15.4.9	100,953,201	100,953,201
	1. Share capital		100,953,201	100,953,201
II.	Share premium		62,260,317	62,260,317
III.	Revenue reserve	15.4.9	35,266,336	30,075,398
	1. Legal reserves		3,035,361	2,563,756
	2. Reserves for own shares and interests		541,833	0
	3. Own shares and interests		-541,833	0
	5. Other revenue reserves		32,230,975	27,511,642
V.	Reserves resulting from valuation at fair value	15.4.9	-356,704	-81,082
VI.	Retained earnings	15.4.9	0	1,217
	1. Retained earnings from previous years		0	1,217
VII.	Net income/profit for the year	15.4.9	2,806,223	3,234,029
	1. Undistributed net income/profit for the year		2,806,223	3,234,029
B.	Provisions and long-term accrued expenses and deferred revenue (1 to 3)	15.4.10	19,132,507	19,644,210
	1. Provisions for pensions and similar liabilities		5,743,800	5,409,368
	2. Other provisions		31,850	615,626
	3. Long-term accrued expenses and deferred revenue		13,356,857	13,619,216
C.	Non-current liabilities (I.+ II.+ III.)	15.4.11	34,146,052	33,550,207
I.	Non-current financial liabilities (1 to 4)	15.4.11	33,810,599	33,542,731
	2. Long-term financial liabilities to banks		33,810,599	33,542,731
II.	Non-current operating liabilities (1 to 5)	15.4.11	327,266	0
	2. Long-term trade payables to suppliers		327,266	0
III.	Deferred tax liabilities	15.4.12	8,187	7,476
Č.	Current liabilities (I.+ II.+ III.)	15.4.13	21,156,172	21,825,063
II.	Current financial liabilities (1 to 4)	15.4.13	11,186,305	11,844,758
	2. Short-term financial liabilities to banks		11,182,132	11,837,695
	4. Other short-term financial liabilities		4,173	7,063
III.	Current operating liabilities (1 to 8)	15.4.14	9,969,867	9,980,305
	1. Short-term trade payables to companies within the corporate group		49,428	686,907
	2. Short-term trade payables to suppliers		2,713,544	3,210,524
	4. Short-term trade payables from operations for third-party account		3,940,329	3,845,389
	5. Short-term trade payables to employees		2,137,316	1,454,486
	6. Short-term trade payables to state and other institutions		643,049	308,472
	7. Short-term trade payables based on advances		8,017	65,810
	8. Other short-term trade payables		478,184	408,717
D.	Short-term accrued expenses and deferred revenue	15.4.14	695,886	798,433
	TOTAL LIABILITIES (A + B + C + D + E)		276,059,990	272,260,993

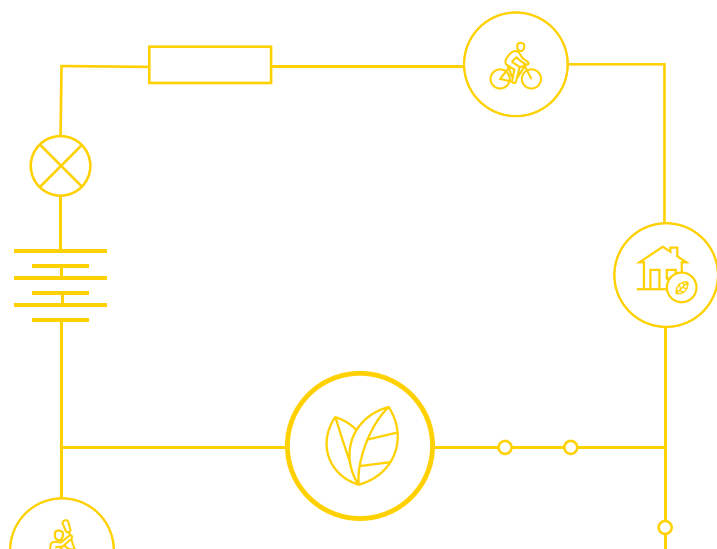
14.2 Income statement

ITEM (in EUR)		Note	Amount	
			Current year	Previous year
1.	Net sales revenue (a + b)	15.6.1	49,517,923	53,791,561
	a. In the domestic market		49,517,923	53,791,561
3.	Capitalised own products and services	15.6.2	13,260,484	14,324,151
4.	Other operating revenue (including revaluation surplus)	15.6.3	2,011,845	1,317,814
5.	Costs of goods, materials and services (a + b)	15.6.4	15,076,496	21,326,680
	a. Cost of goods and material		8,593,165	14,594,038
	b. Cost of services		6,483,331	6,732,642
6.	Labour costs (a + b + c + d)	15.6.5	21,748,590	21,093,085
	a. Cost of salaries		15,441,099	14,974,458
	b. Cost of supplementary employee retirement insurance		2,178,378	1,999,555
	c. Cost of employer contributions and other levies on salaries		1,154,916	1,091,099
	d. Other labour costs		2,974,197	3,027,973
7.	Write-downs and write-offs (a + b + c)	15.6.6	18,078,803	18,100,167
	a. Amortisation and depreciation		17,453,965	17,689,500
	b. Operating expenses from revaluation of intangible and tangible fixed assets		460,515	255,756
	c. Operating expenses from revaluation of current assets		164,323	154,911
8.	Other operating expenses	15.6.7	368,196	374,172
9.	Financial revenues from shareholdings (a + b + c)	15.6.8	416,221	7,400
	a. Financial revenues from shareholdings in companies within the corporate group		408,791	0
	b. Financial revenues from shareholdings in other companies		7,430	7,400
10.	Financial revenues from loans granted (a + b)	15.6.9	94	2,223
	a. Financial revenues from loans to companies within the corporate group		0	395
	b. Financial revenues from loans to others		94	1,828
11.	b. Financial revenues from trade receivables (a + b)	15.6.10	54,111	135,722
	b. Financial revenues from trade receivables due from third parties		54,111	135,722
12.	Financial expenses from impairment and write-downs of financial investments	15.6.11	0	103,508
13.	Financial expenses from financial liabilities (a + b + c + d)	15.6.12	540,474	871,009
	b. Financial expenses related to loans from banks		540,474	720,092
	d. Financial expenses related to other financial liabilities		0	150,917
14.	Financial expenses from trade payables (a + b + c)	15.6.13	101,880	107,675
	c. Financial expenses from other trade payables		101,880	107,675
15.	Other revenue	15.6.14	8,707	26,854
16.	Other expenses	15.6.15	100,801	63,416
17.	NET PROFIT/LOSS FOR THE PERIOD BEFORE TAXES (1 ± 2 + 3 + 4 + 5 – 6 – 7 – 8 + 9 + 10 + 11 – 12 – 13 – 14 + 15 – 16)	15.6.16	9,254,145	7,566,013
18.	Income tax	15.6.18	919,951	784,969
19.	Deferred taxes	15.6.18	1,101,516	27,438
20.	NET PROFIT/LOSS FOR THE PERIOD (1 ± 2 + 3 + 4 – 5 – 6 – 7 – 8 + 9 + 10 + 11 – 12 – 13 – 14 + 15 – 16 – 18 + 19)	15.6.16	9,435,710	6,808,482

14.3 Statement of comprehensive income

	ITEM (in EUR)	Current year	Previous year
1.	Net profit or loss for the financial period	9,435,710	6,808,482
3.	Changes in reserves resulting from valuation at fair value	-1,599	-7,772
a.	Revaluation of financial investments measured at fair value through equity	-888	-296
b.	Adjustment to reserves resulting from valuation at fair value for deferred tax liabilities	-711	-7,476
5.	Other components of comprehensive income	-278,345	-147,717
a.	Actuarial gains/losses in provisions for retirement benefits	-308,530	-158,640
b.	Carry-over of actuarial gains/losses to retained earnings	4,322	-1,217
c.	Impact of deferred tax on actuarial gains/losses in provisions for retirement benefits	30,185	10,923
č.	Decrease in retained earnings	-4,322	1,217
6.	Total comprehensive income for the financial period (1 + 2 + 3 + 4 + 5)	9,155,766	6,652,993

Notes to the Statement of Comprehensive Income are shown in section 15.6.17.



14.4 Statement of cash flows

Item (in EUR)	Note	Current year	Previous year
1	2	3	4
A. Cash flow from operating activities			
a) Inflows from operating activities	15.7.1	100,565,962	100,743,131
Inflows from sale of goods and services		99,472,189	99,587,573
Other inflows from operating activities		1,093,773	1,155,558
b) Outflows from operating activities	15.7.2	-88,253,010	-92,249,535
Purchase of material and services		-59,633,329	-64,909,390
Salaries and employees' share in the profit		-20,726,734	-20,172,295
Charges (contributions and other taxes)		-6,829,680	-6,087,820
Other outflows from operating activities		-1,063,267	-1,080,030
c) Positive or negative net cash flow from operating activities (a + b)		12,312,952	8,493,596
B. Cash flow from investing activities			
a) Inflows from investing activities	15.7.3	791,226	328,599
Inflows from interests and dividends received relating to investing activities		416,288	9,627
Inflows from disposal of property, plant and equipment		374,938	258,972
Inflows from disposal of financial investments		0	60,000
b) Outflows from investing activities	15.7.4	-7,369,834	-7,551,884
Cash payments for the acquisition of intangible assets		-779,844	-869,118
Purchase of property, plant and equipment		-6,589,990	-6,622,766
Purchase of financial investments		0	-60,000
c) Positive or negative net cash flow from investing activities (a + b)		-6,578,608	-7,223,285
C. Cash flows from financing activities			
a) Inflows from financing activities	15.7.5	32,736,000	18,475,000
Inflows from the increase in financial liabilities		32,736,000	18,475,000
b) Outflows from financing activities	15.7.6	-38,313,778	-19,827,936
Interest paid on financing activities		-554,695	-738,609
Cash payments for equity redemption		-541,833	0
Repayment of financial liabilities		-33,123,695	-15,970,567
Dividends and other profit shares paid		-4,093,555	-3,118,760
c) Positive or negative net cash flow from financing activities (a + b)		-5,577,778	-1,352,936
D. Closing balance	15.7	180,689	24,123
Net cash flow for the period (sum of net cash flows Ac, Bc and Cc)		156,566	-82,625
Opening balance		24,123	106,748

14.5 Statement of changes in equity

STATEMENT OF CHANGES IN EQUITY from 1 January 2016 to 31 December 2016 (in EUR)		Called-up capital	Revenue reserve					Reserves resulting from valuation at fair value	Retained net profit or loss		Net profit or loss for the year	Total
			Share premium	Legal reserves	Reserves for own shares and interests	Own shares and interests	Other revenue reserve		Retained net profit	Retained net loss		
A.1.	Balance at the end of previous period	100,953,201	62,260,317	2,563,756	0	0	27,511,642	-81,082	1,217	0	3,234,029	196,443,080
A.2.	Balance at the beginning of the reporting period	100,953,201	62,260,317	2,563,756	0	0	27,511,642	-81,082	1,217	0	3,234,029	196,443,080
B.1.	Changes in equity – transactions with shareholders	0	0	0	0	-541,833	-893,113	0	-3,234,527	0	0	-4,669,473
a)	Purchase of own shares and interests	0	0	0	0	-541,833	0	0	0	0	0	-541,833
b)	Payment of dividends	0	0	0	0	0	-893,113	0	-3,234,527	0	0	-4,127,640
B.2.	Total comprehensive income in the financial year	0	0	0	0	0	0	-275,622	-719	0	9,435,710	9,155,766
a)	Input of net profit/loss from the reporting period	0	0	0	0	0	0	0	0	0	9,435,710	9,435,710
b)	Changes in reserves resulting from valuation of financial investments at fair value	0	0	0	0	0	0	-1,599	0	0	0	-1,599
c)	Other components of comprehensive income in the reporting period	0	0	0	0	0	0	-274,023	-719	-3,603	0	-278,345
B.3.	Changes in equity	0	0	471,605	541,833	0	5,612,446	0	3,234,029	0	-9,863,516	0
a)	Allocation of the remainder of net profit in the comparative reporting period to other equity components	0	0	0	0	0	0	0	3,234,029	0	-3,234,029	0
b)	Allocation of a part of net profit in the reporting period to other equity components pursuant to decisions by the management and supervisory bodies	0	0	471,605	0	0	5,612,446	0	0	0	-6,084,051	0
c)	Offsetting of loss as an equity deduction item	0	0	0	0	0	0	0	0	3,603	-3,603	0
č)	Creation of reserves for own shares and interests from other equity components	0	0	0	541,833	0	0	0	0	0	-541,833	0
C.1.	Balance at the end of the reporting period	100,953,201	62,260,317	3,035,361	541,833	-541,833	32,230,975	-356,704	0	0	2,806,223	200,929,373
DISTRIBUTABLE PROFIT		0	0	0	0	0	0	0	0	0	2,806,223	2,806,223

Notes to the Statement of Changes in Equity are shown in section 15.8.

STATEMENT OF CHANGES IN EQUITY from 1 January 2015 to 31 December 2015 (in EUR)		Called-up capital	Revenue reserve			Revaluation surplus	Retained net profit or loss		Net profit or loss for the year	Total
			Share premium	Legal reserves	Other revenue reserves		Retained net profit	Net profit for the financial year		
A.1.	Balance at the end of the previous reporting period	100,953,201	62,260,317	2,223,332	23,222,862	75,624	0	0	4,199,766	192,935,102
A.2.	Balance at the beginning of the reporting period	100,953,201	62,260,317	2,223,332	23,222,862	75,624	0	0	4,199,766	192,935,102
B.1.	Changes in equity – transactions with shareholders	0	0	0	0	0	-3,145,015	0	0	-3,145,015
a)	Dividends paid	0	0	0	0	0	-3,145,015	0	0	-3,145,015
B.2.	Total comprehensive income in the reporting period	0	0	0	0	-156,706	1,217	6,808,482	6,652,993	6,652,993
a)	Input of net profit/loss from the reporting period	0	0	0	0	0	0	6,808,482	6,808,482	6,808,482
b)	Change in the revaluation surplus from revaluation of financial investments	0	0	0	0	-7,772	0	0	0	-7,772
d)	Other components of comprehensive income in the reporting period	0	0	0	0	-148,934	1,217	0	0	-147,717
B.3.	Changes in equity	0	0	340,424	4,288,780	0	3,145,015	-7,774,219	0	0
a)	Allocation of the remainder of net profit for 2014 to other equity components	0	0	0	0	0	4,199,766	-4,199,766	0	0
b)	Allocation of a part of net profit in 2015 to other equity components pursuant to decisions by the management and supervisory bodies	0	0	340,424	3,234,029	0	0	-3,574,453	0	0
c)	Allocation of a part of net profit into building up additional reserves pursuant to the decision by the Shareholders Assembly	0	0	0	1,054,751	0	-1,054,751	0	0	0
C.1.	Balance at the end of the reporting period	100,953,201	62,260,317	2,563,756	27,511,642	-81,082	1,217	3,234,029	196,443,080	196,443,080
DISTRIBUTABLE PROFIT		0	0	0	0	0	1,217	3,234,029	3,235,246	3,235,246

Notes to the Statement of Changes in Equity are shown in section 15.8.

15 EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS

The Elektro Celje Group consists of the parent company Elektro Celje d.d. (hereinafter: Company) and its subsidiary ECE, d.o.o. and MHE – ELPRO d.o.o., all with their registered seat at Vrnčeva 2a in Celje, Slovenia.

The financial statements of the Company have been prepared for the

financial year which coincides with the calendar year from 1 January to 31 December 2016. In accordance with Article 56 of the Companies Act (ZGD-1), a company based in Slovenia which is the parent company of one or more companies must prepare a consolidated annual report.

The key task of the Company is that through the planning of the network, its development, construction, management, operation and maintenance in the distribution zone of Elektro Celje, it ensures the long-term performance of the network, as well reliable, safe and efficient electricity supply to customers.

15.1 Bases for the Preparation of the Financial Statements

a) Declaration of conformity

The Company's financial statements have been prepared in accordance with Slovenian Accounting Standards 2016 (hereinafter: SAS 2016) with the corresponding relevant positions and interpretations as adopted by the Professional Council of Slovenian Institute of Auditors, the provisions of the Companies Act (hereinafter: ZGD-1), rules on accounting, the Energy Act (EZ-1) and other regulations governing the accounting, financial and tax fields. The Management Board of the Company approved the financial statements on 31 March 2017.

b) Reporting by business and geographical segments

The Company performs services of general economic interest of distribution network system operator pursuant to the contract with SODO d.o.o., energy market activities and non-energy market activities, which are considered business segments. The Company does not have geographical segments.

In accordance with Article 109 of EZ-1, the Company ensures separate accounting for monitoring activities pursuant to the contract on the lease of electricity distribution infrastructure and provision of services for the distribution network system operator and for the marketing activity; these two activities are also considered business segments according to SAS 2016. The balance sheet, in-

come statement, statement of cash flows and criteria and standards for allocating direct and indirect costs, expenses, revenues, and assets and liabilities for individual activities are presented in section 15.11.

c) Basis of measurement

The financial statements reflect a true and fair presentation of the Company's financial position, its economic outturn and cash flows. In preparing financial statements, the Company observes the fundamental accounting assumptions of accruals and the going concern basis. In doing so the qualitative characteristics of financial statements are taken into account: clarity, relevance, reliability and comparability. The selection and application of accounting policies are based on prudence, substance over form and materiality.

The financial statements have been prepared on a historical cost basis, except for financial assets, which are quoted at active market prices and whose value can be reliably measured and are therefore measured and accounted for at fair value.

d) Functional and presentation currency

The financial statements are presented in euros (EUR), which is the functional currency of the Company. All financial data presented in euros are shown as rounded-off figures.

e) Use of estimates and assumptions and significant uncertainty in operations

Use of estimates and assumptions in the preparation of the financial statements

The preparation of the financial statements in accordance with SAS 2016 requires the use of estimates and assumptions that affect the residual value of reported assets and liabilities on the reporting date and the amount of revenue, costs and expenses during the reporting period. Estimates and assumptions are based on management's best knowledge of current and future events and activities, and are regularly reviewed, with adjustments recognized in the period of the change, valid for all future periods which the changes affect. Information regarding significant estimated uncertainty and critical assessments are described in the following notes:

- Note 15.4.1 and Accounting Policy 15.3 (b) - Determining the useful lives of intangible and tangible fixed assets,
- Note 15.4.4 and Accounting Policy 15.3 (d) - Deferred taxes,
- Note 15.4.10 and Accounting Policy 15.3 (i) - Long-term accruals and deferred income, measurement of provisions for severance pay and jubilee awards and lawsuits,
- Note 15.4.3 and Accounting Policy 15.3 (c) - Valuation of investments,
- Note 15.4.6 and Accounting Policy 15.3 (f) - Impairment of receivables.

Regulatory framework for the period 2016 - 2018 and operations with SODO

The Energy Agency, pursuant to Article 116 of the Energy Act (EZ-1) has the authority to determine the methodology for calculating network charges and eligible costs of providers of SODO activities. On 7 August 2015 the Council of the Energy Agency adopted the Legal act on the methodology determining the regulatory framework and network charge for the electricity distribution system (Official Gazette of RS, no. 66/2015, hereinafter: Network Charge Act) which defines the methodology for determining the regulatory framework and calculation of the network charge. On 15 December 2015 the Energy Agency with Decision no. 211-58/2015-122/452 defined the regulatory framework for the period 2016-2018. In determining eligible costs of operation and maintenance, the Energy Agency took into account Article 13 of the Network Charge Act, which states that all elements of the regulatory framework for individual regions of the distribution system are based on data from the electricity operator and distribution companies if the distribution operator is not the owner of all or a significant part of the distribution system and if distribution companies perform the tasks of the distribution operator. Eligible costs of the distribution network system operator (i.e. SODO) no longer intervene in the part of eligible costs determined by the distribution companies, as was prescribed in previous years. Controlled eligible costs of operation and maintenance (hereinafter: CCOM) are determined based on historical data, the average realized eligible costs in the period 2011-2013. Significant changes which also affect the amount of revenue in the new regulatory period are the changed conditions of recognition of the cost of insurance premiums as they are no longer recognized in the actual amount incurred in the year they originate, but are now included in CCOM. With the insurance contract concluded in 2015 for a pe-

riod of three years, the cost of premiums are significantly higher than they were in previous years, mainly due to large loss events involving ice and snow damage in 2013 and 2014. The Energy Agency also defined that only 10% of the cost of loss events could be recognized as eligible expenses, at the same time lowering the regulated return on assets before tax for the new electricity infrastructure (EI) from 7.8% to 7.14%. The Network Charges Act also fails to provide financial incentives for pilot projects, with the cost of pilot projects completely exempted from CCOM; assuring the reliability and quality of the electricity supply and its efficient use however, requires investment in research and development (smart grid, advanced metering infrastructure, effective information - communications technology support).

Purchase of electricity for losses of electricity in the distribution network in the distribution area of Elektro Celje is being performed by SODO from 1 January 2016 onwards, in accordance with the Network Charges Act. As a result, the Company no longer has revenues and expenses under this heading, with the contractual clause between the Company and SODO d.o.o. regulating stimulation and penalization under the heading of managing quantities of electricity losses in the network valid. Revenue under this heading for the year 2016 amounted to EUR 666,990.

From 2007 onwards the company SODO d.o.o. has been operating as the exclusive holder of the concession for the implementation of the service of general economic interest of the electricity distribution network system operator in the territory of the Republic of Slovenia. The Company, which owns the electricity distribution infrastructure, concluded the Agreement on the Lease of Electricity Distribution Infrastructure and Provision of Services with SODO on 21 February 2012, and in accordance with the terms of the Agreement, the contract-

ing parties conclude annexes, defining the amount of the lease fee and scope of services implemented in the distribution network for each regulatory year. Mutual relationships for the regulatory period 2016-2018 are regulated by Annex no. 5, signed at the beginning of 2017.

In March 2017, the Company received a preliminary calculation of the regulatory fee for 2016 from SODO, which was carried out on the basis of data from the unaudited financial statements of the Company. From the offset it is seen that the already charged contractual value of services and lease in 2016 was EUR 2,730,926 less than the value determined on the basis of the preliminary account. The Company in the calculated amount of the deficit in March issued an invoice with payment due in April 2017 and in the amount of established difference, recognised additional revenue to SODO for 2016. The final calculation for the regulatory year 2016 will be based on audited figures from both contracting parties and the decision that will be issued by the Energy Agency.

The deficit from preliminary accounts for 2014 and 2015, due to the network charge deficits in both years, have not been paid in full; part of the deficit for 2014 (amounting to EUR 3,860,759) will be paid in the regulatory period 2016-2018, namely a third of the amount each year, while the deficit for 2015 (EUR 3,426,391) is expected to be fully integrated into the regulatory period 2019-2021, if the Energy Agency charges for it in the tariff items for the network charge, which will then be charged to customers. The Company had not yet received the final accounts for the years 2014 and 2015 by the conclusion of the financial year 2016.

f) Amendments in accounting policies

The Company did not amend its accounting policies in 2016.

15.2 Transition to SAS 2016

The Company has been using SAS 2016 from 1 January 2016 onwards. No significant effects due to the transition from SAS 2006 to SAS 2016 were observed, but the Company pursuant to individual standards which specify the aforementioned, reclassified certain items of assets and liabilities as at 1 January 2016 and also took this into account in the comparative period on 31 December 2015. The Company also does not apply accounting policies that were previously permitted by SAS 2006 and which do not comply with individual

accounting standards of SAS 2016. In accordance with SAS 2.39, rights to immovable property and other similar rights which on the basis of this standard are recognized and measured in accounting records as intangible assets, are reclassified as land and buildings in the Balance Sheet as at 1 January 2016. The acquisition cost of real rights to immovable property on 31 December 2016 amounted to EUR 44,175 (EUR 42,410 on 31 December 2015), with revaluation adjustment amounting to EUR 1,655 (EUR 1215 on 31 December 2015).

The revaluation surplus, which on 31 December 2015 amounted to EUR -81,082 was according to the state as at 1 January 2016 reallocated to reserves originating from valuation at fair value related to an increase or decrease in the carrying value of financial investments, creation of actuarial gains and losses identified in creation of provisions for retirement and deferred tax actuarial losses. Reserves arising from revaluation at fair value as at 31 December 2016 amounted to EUR -356,704.

15.3 Significant Accounting Policies

SAS 2016 is directly applied for the presentation and valuation of items in the financial statements, with items for which SAS 2016 offers a choice between different methods for valuation defined by accounting policies disclosed by individual item in the annual report. Pursuant to SAS 2016 the Company discloses all significant items, with the importance of individual items defined in the accounting rules.

a) Intangible non-current assets and long-term accrued revenue and deferred expenses

An intangible asset is a non-monetary asset, as a rule without physical form and appears as an intangible non-current asset. The Company discloses long-term property rights (investment in software and material rights to use apartments), such assets under preparation and accrued rev-

enues and deferred expenses (long-term deferred expenses) among the long-term intangible assets of the Company. Investments into real rights on immovable property are disclosed in the item land and buildings in the balance sheet according to SAS 2.39.

Recognition and elimination of recognition of intangible assets

An intangible asset is recognized when it is probable that future economic benefits associated with it will flow to the Company and its cost can be measured reliably. An intangible asset is derecognised upon disposal or when no more economic benefits are expected from its use and subsequent disposal.

Initial accounting measurement and measurement after recognition

An intangible asset is valued at cost upon initial recognition, which also

includes import and non-refundable purchase duties, after deducting discounts and any directly attributable costs of preparing the asset for its intended use. Acquisition costs are subsequently reduced by the amount of accumulated depreciation.

Depreciation and useful life

All intangible assets are depreciable assets with finite useful lives. The straight-line depreciation method is used, with the depreciation basis equal to the acquisition value of intangible assets. Amortization of intangible assets begins on the first day of the following month after the asset becomes available for use. Depreciation calculated for each accounting period is recognized as a cost or operating expense for the period. Intangible assets are not revalued since they represent less than 1% of total assets.

Significant groups of depreciable assets	Estimated useful life in years	Depreciation rate in %	
		Minimum	Maximum
Computer software	3	33.33	33.33
Real rights in immovable property	100	1.00	1.00
Right to use facilities	30	3.33	3.33

Long-term accrued revenue and deferred costs include amounts of deferred costs and expenses relating to a period longer than one year and not yet charged to the income statement.

b) Tangible fixed assets

A tangible fixed asset is an asset owned or financially leased or otherwise controlled by the Company which is used for the implementation of services, leasing or administra-

tive purposes and is expected to be used for this purpose during more than one accounting period. Groups of tangible fixed assets are immovable property (land, buildings), equipment and other tangible fixed assets

as well as investments in the acquisition of such assets and receivables for advances in this respect. Some types of small tools with useful lives longer than one year (hand tools and devices) are also considered tangible fixed assets.

Recognition, initial measurement and derecognition of tangible fixed assets

A tangible fixed asset is recognized when it is probable that future economic benefits associated with it will flow to the Company and its cost can be measured reliably. A tangible fixed asset is valued at cost upon initial recognition. This consists of the acquisition cost, import and non-refundable purchase duties and expenses which are directly attributable to the activities necessary to prepare the asset for its intended use. The acquisition cost also comprises the costs of loans related to the acquisition of new tangible fixed assets for those fixed assets, for which the period from the date of the provision of services of the first invoice for construction-assembly services or equipment up to commissioning of the fixed asset for use is longer than one year, namely for the period from the payment deadline of the individual invoice until the date of commissioning of the fixed asset for use. If the acquisition cost of a fixed asset is significant, the cost is distributed to its parts. If these parts have different useful lives and/or usage patterns, important in relation to the total cost of the tangible fixed asset, each part is treated separately.

Land is valued at acquisition cost, which includes costs of real estate turnover taxes and land registry fee.

The acquisition cost of buildings comprises expenditures to cover the purchase, construction or upgrading of facilities, project and other documentation on the basis of which the acquisition was made, construction or upgrades for land development for the necessary permits for the manufacture of connections and other costs that can be directly attributable to preparing them for use. Expenditures for the acquisition of land on which buildings are situated and expenditures for the acquisition of land intended for access to buildings or for

other needs regarding their use are not included in the acquisition cost.

The acquisition cost of equipment comprises expenditures to cover the purchase, manufacture or elaboration of equipment, costs of delivery, installation and other expenses arising during purchase, manufacture or elaboration.

The acquisition cost of tangible fixed assets constructed or produced in the Company consists of costs originating from their construction or manufacture and indirect costs of construction or manufacture that can be attributed to the asset. It does not comprise costs not related to their construction or manufacture, and costs which the market does not recognize. The acquisition cost of such fixed assets cannot be greater than that of identical or similar fixed assets in the market. Investments carried out in the Company are divided into reconstruction, which covers major repairs of fixed assets due to wear, substitution and capacity increases, which include investment for replacement and increasing of capacity of existing fixed assets and new investments, which cover investments in the acquisition of new fixed assets.

Here, the fixed assets acquired free of charge are valued at cost, and if this is not known, at fair value as determined in the free acquisition agreement.

Recognition of a tangible fixed asset is derecognised upon its disposal or when no future economic benefits are expected from its use or disposal. Gains and losses upon disposal or elimination, which is determined by comparing sales revenue to the carrying value, are included in the income statement by the Company.

Measurement after recognition and subsequent costs

In evaluating tangible fixed assets, the Company uses the cost model and carries them at cost, less accumulated depreciation and accumulated impairment losses.

Subsequent costs incurred for repairs and maintenance related to tangible fixed assets are recognized as

maintenance costs when they are incurred in the process of restoring and maintaining future economic benefits based on the initial estimated level of the asset's efficiency. Estimated costs of regular inspections or repairs of tangible fixed assets are treated as parts of tangible fixed assets.

Revaluation

The Company revalues tangible fixed assets due to impairment as a rule, immediately once their carrying amount exceeds the recoverable amount. The recoverable amount is the fair value less costs of sale or value in use, whichever is greater. A significant change in the operating situation is one for which the assumptions used in assessing value in use and fair value reduced by costs of sale, changes by more than 5% in one year. A review of impairments is decided based on a significant asset with the longest useful life; the Company defines a significant asset as an asset whose acquisition cost is more than 0.5% of the total cost of tangible fixed assets. A decrease in value of a depreciable asset due to impairment is treated as an operating expense from revaluation, as is the residual value of an asset that no longer possesses any usefulness; if this asset is sold and the net realizable value is greater than the carrying amount, the difference is treated as a revenue from revaluation.

The value of land, buildings and distribution equipment is assessed by certified appraisers. The Company as a rule does not revalue other equipment as they represent less than 5% of total fixed assets.

Depreciation and useful life

A tangible fixed asset begins to be depreciated on the first day of the following month after the asset becomes available for use. The Company uses the straight-line depreciation method. Depreciation rates are set according to the expected useful lives which depend on expected physical wear, technical and economic aging and expected legal or other restrictions regarding their the use, taking into account the one that is the shortest. The useful life of fixed assets is determined by the Joint Commission of electricity distribution companies

designated for that purpose. Depreciation is calculated individually, until the amount fully replaces the value that forms the basis for the calculation of depreciation. Accumulated depreciation of fixed assets is carried out

for the amount of depreciation, which is determined in the final annual accounts of depreciation. Depreciation is not calculated for land, fixed assets of cultural, historical or artistic significance, fixed assets permanently out

of use, investing in the acquisition of fixed assets until they are available for use, and advances for the acquisition of fixed assets.

Significant groups of depreciable assets	Estimated useful life in years	Depreciation rate in %	
		Minimum	Maximum
Energy infrastructure buildings	20–40	2.50	5.00
Other buildings	20–40	2.50	5.00
Energy infrastructure equipment	3–33.33	3.00	33.33
Other equipment	2–33.33	3.00	50.00
Vehicles	8–12.5	8.00	12.50

The Company verifies the useful lives of significant fixed assets whose value exceeds EUR 1 million at least every two years, with depreciation rates recalculated, if expectations differ significantly from the estimates. The effect of the recalculation is treated as a change in accounting estimates.

c) Financial investments

Financial investments are financial assets held by the investing company, so that yield arising from them would increase its financial revenues and are shown as long-term investments in the balance sheet, namely those that the Company intends to hold for a period longer than one year, and not held for trading and short-term investments. Long-term financial investments that mature within one year after the balance sheet date are transferred to short-term financial investments in the balance sheet. Short-term financial investments can, due to justified grounds on the basis of contracts, be changed into long-term investments.

Exposure to various types of risks, especially the risk of reduction in the value of financial investments below their cost is not hedged with financial instruments. The value that best represents the maximum exposure to such risk is the total value of the investment.

The Company's balance sheet shows long-term financial investments in the capital of subsidiaries and other shares and stakes. Long-term financial investments in the capital of other companies are allocated among

other long-term investments, allocated and measured at cost, or other financial investments. Allocation and measurement is performed at fair value through equity or own funds. Received profit pay-outs from long-term investments are recognized as financial revenue at the moment the Company acquires the right to the payment of dividends.

Recognition and derecognition of financial investments

Financial investments are recognized when it is probable that future economic benefits associated with them will flow to the Company and its cost can be reliably measured. When acquiring or selling financial investments, the Company recognizes them on the day of trading or settlement. The Company performs recognition of a financial asset the moment a contractual obligation related to cash flows no longer exists or when all the risks and benefits associated with ownership of the financial risk is transferred to a third party.

Initial accounting measurement and measurement after initial recognition

Upon initial recognition, a financial investment is measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of a financial asset are also added, except for assets measured at fair value through profit or loss. The Company classifies financial assets which are financial investments upon initial recognition as financial assets, measured at fair value through profit or loss, financial investments held to

maturity, loans, assets available for sale or financial assets measured at cost. Financial assets measured at fair value through profit or loss are usually short-term investments. Financial investments in the equity of subsidiaries are measured and calculated by the Company only at cost. If the fair value of investments in stocks and stakes cannot be reliably measured, they are valued at cost, increased by transaction costs, less any impairment.

Revaluation of investments

The Company revalues investments to their fair value at the end of the financial year. If the recorded carrying value of long-term financial investments is higher than the market value calculated according to the last published stock exchange price, the Company will implement an impairment; if their proven fair value according to the last published stock exchange price exceeds their carrying value, the Company appreciates the financial investments (the carrying value is increased to the fair value). Fair value is established, if it can be reliably measured and is determined in accordance with SAS 16. Proven profits or losses arising from the change in fair value of a financial asset available for sale is recognized directly in equity as an increase (gain) or a reduction in reserves (loss) resulting from valuation at fair value.

Financial investments, which are stated according to the historical cost model are impaired if their recorded carrying value is higher than the proven realizable value. At each balance

sheet date, it should be assessed whether objective evidence of impairment of the financial investment exists. A financial investment/group of financial investments is impaired (long-term) causing losses if there is objective evidence of impairment as a result of an event/events after the initial recognition of the investment. The Company carries out a test to assess the impairment of financial investments in equity instruments which are not measured at fair value, if the carrying amount of the investments at the balance sheet date is more than 20% greater than the proportional part of the carrying amount of the total capital of the company in which it has an investment and also, if the Company's future business plans indicate permanent impairment of these investments. The amount of loss is measured as the difference between the carrying amount of the financial investments on the balance sheet date and the present value of expected future cash flows of these investments, discounted at the current market rate of return (recoverable value), which applies to similar financial assets, and recognised in the income statement as a revaluation financial expense. Such impairment losses may not be reversed.

d) Deferred tax assets and liabilities

Deferred tax assets and liabilities are the result of calculating current and future tax consequences (future repayment/settlement of the carrying value of assets/liabilities recognized in the balance sheet of the Company and transactions and other business events in the period in question, recognized in the financial statements of the Company).

Deferred tax assets are the amounts of income taxes recoverable in future periods and recognized by the Company at the end of the reporting period, if it is likely to have future taxable profits which could be burdened by deductible temporary differences. Deferred tax assets reduce tax expense, thereby contributing to an improved operating result, or directly increasing capital.

The Company accounts for deferred taxes by using the liability method on the balance sheet, taking into

account temporary differences between the book and tax values of individual assets and liabilities which arise from each respective state of accounting items and not from differences between the previous and current states. Deferred taxes are measured at tax rates that are expected to be applied in the financial year when the deferred tax assets are realized or deferred liabilities settled, and are based on tax rates and tax regulations valid until the balance sheet date.

Whenever the carrying amount of deferred tax changes due to changes in tax rates or tax regulations, a re-assessment of the recoverability of deferred tax assets or changes in the expected manner of recovery of the assets, the resulting deferred tax is recognized in profit or loss, except to the extent that it relates to items previously recognized outside profit or loss.

e) Inventories

Inventories comprise a part of current assets in tangible form, which will be used to create products or provide services. The Company shows material and small tools with a useful life of up to one year which have the characteristics of inventory among stocks of materials, but may also include those with useful lives exceeding one year, if their individual acquisition value does not exceed EUR 500. The Company also includes protective equipment and tools under small tools. The Company monitors stocks of materials by individual material and warehouse in its analytical records.

Recognition and elimination of recognition of inventories

Stocks of materials in the accounting records and the balance sheet are recognized if it is probable that future economic benefits associated with them exist and their value or cost can be reliably measured. Recognition of inventories is eliminated when the material has been consumed, sold, or otherwise ceases to exist, as confirmed by relevant documents.

Initial measurement and valuation of inventories after recognition

A unit of stock of materials is valued at cost, which comprises the acquisition

cost, reduced by discounts, import and other non-refundable acquisition duties and direct acquisition costs. Consumption of stocks of materials is valued according to the moving average price method.

Revaluation of inventories

Inventories are revalued due to impairment if their book value exceeds their net realizable value. Write-downs of damaged and obsolete inventories are performed by the Company regularly throughout the year and during inventory-taking.

f) Receivables

Receivables are property rights and other rights based on legal relationships to demand that a particular person pay a debt or in the case of advance payments to demand the supply of goods or performance of a service and depending on their maturities, are allocated to short-term receivables due within one year, while the other are long-term. Long-term receivables that have matured and are not yet settled, and those which will fall due for payment within one year after the balance sheet date are recognized as short-term receivables. Receivables that arise in the Company are mainly trade receivables, receivables due from suppliers for advance payments, from employees, from the state, etc.

Recognition and elimination of receivables

Receivables in the accounting records and balance sheet are recognised if it is probable that future economic benefits associated with them exist and their historical cost can be reliably measured. Derecognition is implemented if they no longer fall under binding contractual rights because they either expired or were assigned.

Initial accounting measurement and measurement upon recognition

Upon initial recognition, receivables of all types are recognized in the amounts that arise from relevant documents (invoices, contracts), assuming that they will be paid. Receivables from legal and natural persons abroad are converted into domestic currency on the day of occurrence using the current reference exchange

rate of the European Central Bank. Later receivables can be increased or decreased (subsequent discounts, complaints), thereby affecting the relevant business and financial revenues.

Revaluation of receivables

They mainly appear as a revaluation of receivables due to their impairment or reversal of impairment, i.e. reduction or subsequent increase in their value to their liquid value. In the balance sheet receivables are carried at amortized cost, which means that they are reduced by the amount of the value adjustment for doubtful and disputed receivables. In accordance with SAS, the Company carries out a revaluation adjustment in the total amount for receivables in bankruptcy proceedings, for receivables which are the subject of litigation, and for receivables whose due date has exceeded 90 days on the balance sheet date. For receivables in compulsory settlement proceedings, the Company carries out a revaluation adjustment depending on the decisions of compulsory settlements or in the amount of 80% if compulsory settlement has not yet been confirmed. Revaluation adjustments are reduced by payments and write-offs of receivables on the basis of supporting documents: court decision, decision on compulsory settlement, decision on bankruptcy proceedings and other relevant documents.

Long-term receivables relating to trade receivables, which are undergoing compulsory settlement are remunerated in accordance with the decisions on compulsory settlements. The decisions usually denote the scope, dynamics of repayment and interest rate at which receivables are remunerated (if at all). Long-term trade receivables from the company SODO are remunerated in accordance with Article 84 and section 5.3 of the Network Charges Act (Official Gazette of RS, no. 81, dated 29 October 2012).

Receivables of significant value which are not remunerated are shown at discounted values in the balance sheet, taking into account the interest rate, which is equal to the average interest rate of long-term loans.

g) Cash and cash equivalents

Cash and cash equivalents of the Company include scriptural money (i.e. money in the transactions accounts listed in section 6.1.1.) and deposits at commercial banks. They are shown in the amounts arising from relevant documents, after verification of such nature. Cash also includes cash equivalents, investments that can be quickly converted to known amounts of cash in the near future and where the risk of changes in value is insignificant (overnight deposits with banks).

h) Equity

Total equity is the liability to owners of the company, which is due for payment when the company goes out of business. It is defined in the amounts invested by the owners and the amounts generated during operation that belong to the owners. Equity is reduced by loss from operations, repurchase of treasury shares and dividend payments. Total equity is the company's liability to owners of the company, which is due for payment when the company goes out of business. It consists of called-up capital, capital reserves, revenue reserves, revaluation reserves, reserves resulting from valuation at fair value, retained net earnings from previous periods, and temporarily undistributed net profit for the business year.

Called-up capital of the Company is share capital divided into 24,192,425 ordinary freely transferable shares. Ordinary shares give their holders the right to participate in the management of the Company, entitlement to a part of the profits (dividends) and the right to participate in an appropriate share of assets remaining after the liquidation or bankruptcy of the Company. There are no agreements between shareholders which could result in a limitation of transfer of securities and voting rights. The Company also has no restrictions on voting rights, except for treasury shares which do not have voting rights, nor provide dividends. All shares are of the same class and have been fully paid up. The shares are issued in dematerialized form and held at KDD - Centralna klirinško depotna družba, d. d. (Central Securities Clearing Corporation) in accordance with regulations. The Company has

no employee shareholder scheme and during the financial year, did not conditionally increase share capital, with treasury shares formed from net profit in the amount of EUR 541,833 in accordance with the Articles of Association of the Company.

The Company's capital reserves consist of amounts of reversals of the general capital revaluation adjustment and are formed in accordance with the transitional provisions (item 15 of the introduction to SAS 2006) to be used in accordance with Article 64 of the Companies Act (ZGD – 1). Profit reserves include legal reserves, reserves for treasury shares, acquired treasury shares and other profit reserves. Profit reserves are formed in the amount and under the conditions laid down in Article 64 of the Companies Act and Articles of Association of the Company from net profit amounts for the business year and retained profit

Other profit reserves may be used for any purpose, except in the case of the fifth paragraph of Article 64 of the Companies Act or if the Company's Articles of Association provide otherwise Capital and statutory reserves may pursuant to the Companies Act be used to cover net loss for the year if it cannot be covered from retained profit or other profit reserves and for coverage of retained loss, if it cannot be covered by net profit for the year or from other profit reserves. If the total amount of these reserves is higher than the statutory prescribed percent of share capital (10%), they can also be used to increase share capital from the Company's assets and to cover net and retained loss for the business year if profit reserves are not used for the distribution of profit to shareholders.

The Company also formed reserves arising from revaluation at fair value, based on actuarial gains or losses from severance pay upon retirement and amounts of proven gains or losses from changes in fair value of financial assets available for sale.

i) Provisions and long-term accrued expenses and deferred revenue

The purpose of these provisions is to collect amounts in the form of ac-

crued costs or expenses which will in the future be used to cover costs or expenses incurred at that time. Deferred revenue, which will cover estimated expenses in a period exceeding one year, fall under long-term accrued expenses and deferred revenue.

Recognition and elimination of the recognition of provisions

Provisions are recognized if due to a past event a current obligation exists (probability must be greater than 50%), which is expected to be settled in a period which cannot be determined with certainty, and if the amount of the obligation can be measured reliably. Derecognition is carried out when the item for which the provisions were made has already been used or there is no longer a need for it.

Initial accounting measurement of provisions

The amount recognized as a provision is the best estimate of the expenditures (includes risks and uncertainties) required for settlement of usually long-term commitments existing on the balance sheet date and is equal to the value of the expenditures expected to be required to settle the obligation. If the effect of the time value of money is material, the expected expenditures must be appropriately discounted to their present value.

Provisions for payment of retirement benefits and long-service awards

The Company pursuant to legislation and the collective agreement is obliged to pay long-service awards to employees, severance upon their retirement and allowance in the case of the death of employees, for which provisions were created for the long-term benefit of future payments discounted at the balance sheet date. The actuarial calculation was prepared using the projected unit credit method based on the multiple decrement model and takes into account current service costs, interest costs, payment of benefits and actuarial gains/losses that result from changes in actuarial assumptions and adjustments based on experience. In accordance with SAS 10.35 on the balance cut-off date, the Com-

pany determines and in the income statement recognizes revenues or expenses connected to the adjustment of provisions for retirement benefits (long-service costs and interest), while actuarial gains and losses arising from liabilities for retirement benefits are recognized in equity within reserves resulting from valuation at fair value.

The Company similarly in accordance with SAS 10.36 on the cut-off balance date determines, and in the income statement recognises, revenue and expenses connected to the adjustment of provisions for long-service payments and allowance payments in the case of death of an employee (long-service costs, interest, actuarial gains/losses).

Provisions for lawsuits

The Company discloses provisions for lawsuits in which it is the defendant. Every year the eligibility of provisions formed is assessed in relation to the state of disputes and the likelihood of a favourable or unfavourable resolution. The amount of provisions is determined by the known amount of compensation claims or according to the anticipated amount, if the claim amount is not yet known.

Long-term accrued expenses and deferred revenue

The Company recognizes long-term accrued expenses and deferred revenue for fixed assets acquired free of charge classified in categories according to the rate of depreciation of the acquired assets. They are intended to cover depreciation costs of depreciable assets and are used by reallocating them to operating revenues. Acquisition of fixed assets free of charge relates mainly to the connections of customers which the Company assumed as tangible fixed assets with a commitment to maintain and restore them, in accordance with regulations (Official Gazette of RS, no. 126/07, General conditions for connection to the distribution electric system).

The Company also recognizes long-term accrued expenses and deferred revenue for the calculation of average costs of connection pursuant to the Decision on determining the net-

work charge for use of the electricity networks of the Energy Agency of the Republic of Slovenia for electricity for the period up to 30 June 2007 and relate to the dedicated payment of connections to the network or increase in coupling strength (financing investments in network expansion). Their purpose is to cover depreciation of assets and they are used by reallocating them to operating revenue at the prevailing rate of fixed assets of the energy infrastructure, i.e. at a rate of 3%.

Revaluation and measuring changes in provisions and long-term accrued expenses and deferred revenue

Provisions and long-term accrued expenses and deferred revenue are not revalued. At the end of the accounting period, they are adjusted due to changed estimates so that their value is equal to the current value of the expenditure expected to be required to settle the obligation.

j) Liabilities

Liabilities are recognized obligations associated with the financing of own assets, which must be repaid or settled, in particular in cash. The Company discloses financial and operating liabilities, and depending on the maturity of the payment as long-term or short-term. Short-term liabilities mature into payment within a period shorter than one year.

Recognition and elimination of liabilities

Liabilities are recognized if it is likely that their settlement will reduce factors allowing for economic benefits and if the amount of their settlement can be reliably measured. Derecognition is performed when the obligation specified in a contract or other legal instrument is discharged, cancelled or expires.

Initial accounting measurement of liabilities

Upon initial recognition, liabilities are valued at the amounts arising from relevant documents on their origin, which for financial liabilities is evidence of received loans, or obligations for the payment of interest, dividends or payment of a business debt, for operating liabilities receipt of a

product or service, performed work or accrued cost, expense or a share in profit or loss.

Measurement after initial recognition
Liabilities are measured at amortized cost. Before compiling the financial statements, the Company estimates the fair value of short-term liabilities based on contracts at least once a year, and if the carrying values are lower than the established fair values, a mandatory increase in the value of the Company's short-term liabilities is implemented. Liabilities increase by the amount of accrued interest and decrease by the amount of repaid amounts or other form of settlement. The carrying value of long-term liabilities equals their historical cost decreased by repayment of the principal and transfers under short-term debts. When purchasing on credit and if the contractual deadline for payment is exceeded, that part of the liability relating to interest is treated as financial expense. Subsequent reduction by the amount for which agreements with creditors exist (subsequent discounts, returns of sold material, recognized complaints, etc.), reduce the relevant costs or operating or financial expenses. Short-term debts denominated in foreign currencies are translated into local currency at the reference exchange rate of the European Central Bank by the Company on the balance sheet date.

Revaluation of liabilities

The Company does not carry out impairment of short-term liabilities or disclose it.

k) Short-term accruals and deferrals

Short-term deferred costs and accrued revenue include short-term deferred costs (expenses), which are expected to be realized in the coming year and whose appearance is probable and whose size can be reliably estimated and which do not yet affect profit or loss, accrued revenue if they are justified in the income statement, for which the Company has not yet received payment and which could not be invoiced, and VAT on advances received and overpayments of network charges.

Short-term deferred costs and accrued revenue include accrued costs

or expenses arising on the basis of equal burdening of profit or loss with expected costs, which have not yet arisen, and deferred revenue and VAT from granted advances.

Recognition and elimination of short-term accruals and deferrals

Short-term accruals and deferrals are recognized when it is probable that during the period for which they were created, such revenues and costs or expenses are actually incurred. Derecognition is performed when all incurred options have expired or accruals and deferrals are no longer needed. They are only used for the items for which they were originally recognized. The reality of the items in short-term accrued revenue and deferred costs must be justified on the balance sheet date, while items in accrued expenses and deferred revenue should not hide the reserves.

Revaluation of short-term accruals and deferrals

Accruals and deferrals are not revalued and at the end of the accounting period, their reality and eligibility of their formation is verified.

l) Income tax

Income tax for the business year comprises current and deferred tax. Current tax is the tax paid by the Company from its taxable profit for the year, using tax rates in force on the reporting date, and taking into account any adjustment to tax liabilities in respect of previous business years.

m) Revenue

Revenue is broken down into operating revenue, financial income and other revenue. Operating revenue and financial income are regular revenue.

Operating revenue comprise net sales revenues, capitalized own products and services and other operating revenue associated with business effects.

Net sales revenue include revenue of SODO from the lease of electricity infrastructure and the provision of related services, and revenue from the provision of services to customers in the market, including rental of prem-

ises, the Company's vacation facilities, etc. Amounts that have been invoiced to the account of SODO d.o.o. are not shown under revenue, but among operating liabilities towards SODO d.o.o. VAT and excise duty are not counted as sales revenue, but as withdrawal liabilities.

Capitalised own services are services rendered for the Company's own needs and capitalised among tangible fixed assets or intangible non-current assets.

Other operating revenue comprises revenue from the reversal of provisions (mainly for fixed assets acquired free of charge), revenue associated with business effects (received compensation, subsidies, grants, etc.), and operating revenue from revaluation, arising from the disposal of fixed assets as surpluses of their sales value over their carrying amounts, sale of dismantled material, write-offs of liabilities and the elimination of revaluation adjustments.

Financial income arises in connection to financial investments (mainly income from dividend payments and participation in profits of subsidiaries), receivables (mainly interest on late payments of the network charge and services), interest received from deposits, cash in accounts and granted loans, positive exchange rate differences and revaluation financial revenues. Revenue from interest is recognised on the date of its occurrence using the effective interest rate, income from dividends on the date when the shareholder's right to receive payment is exercised, and late charges on overdue payments of the network charge and services rendered at settlement when there is no doubt with respect to their amount and maturity date.

Other revenue comprises unusual items which are not expected to occur regularly or frequently (recovered receivables written off in previous years, received reimbursement of legal costs and damages, etc.).

Recognition of revenue

Revenue is recognized if increases in economic benefits during the accounting period are associated with

increases in assets or decreases in liabilities, and if those increases can be measured reliably. Recognition criteria are usually applied separately to each transaction. Net sales revenue is recognized upon the sale of products or services if it is reasonable to expect that sales will lead to receipts if they are not realised at the time of occurrence. Recognition of revenue from services rendered is performed using the method of work completion rate on the balance sheet date.

Initial accounting measurement of revenue

Revenue is measured at the selling prices stated in invoices and other documents, reduced by any returns and rebates approved upon sale or subsequently for early payment.

n) Costs and expenses

Costs and expenses are classified as operating, financial and other expenses. Operating and financial expenses are regular expenses.

Operating costs and expenses include costs of goods, materials and services, labour costs, write-downs and other operating expenses.

Financial expenses are expenses from the Company's financing (borrowing costs, exchange rate differences, etc.) and expenses from investing activities (e.g. impairment and write-downs from investments) and are divided into the part associated with the creation of operating revenue, and the part associated with the creation of financial income.

Other expenses include unusual items and other expenses reducing profit. (fines, compensation and annuities, etc.).

Recognition of expenses

Costs and expenses are recognized if decreases in economic benefits during the accounting period are as-

sociated with decreases in assets or increases in liabilities and if these decreases can be reliably measured. Operating expenses from revaluation are recognized when the adequate revaluation is performed. Financial expenses are recognized at settlement irrespective of the payments associated with them. Borrowing costs are recognized in the income statement using the effective interest method, except for those costs that are capitalized and attributable to tangible fixed assets in the course of construction or development.

Initial accounting measurement of expenses

Consumption of stocks of materials is valued using the moving average price method. Labour costs include salaries and other labour costs calculated in gross amounts, as well as contributions paid from these bases which are not a constituent part of the gross amounts. The Company complied with the provisions of general and industry collective agreements and individual employment contracts with regard to payment of salaries. Write-offs include depreciation and operating expenses from revaluation. Depreciation was calculated based on the depreciation rates laid down by the so-called single commission of the five distribution companies with respect to the useful life of fixed assets. Operating expenses from revaluation arise in connection to long-term intangible and tangible fixed assets and fixed assets due to their revaluation to a lower value, and in relation to the sale or other disposal and derecognition of fixed assets.

o) Statement of comprehensive income

The statement of comprehensive income is a financial statement which gives a true and fair view of all components of the income statement for the periods for which it is prepared, and includes those items of income

and expense that are not recognized in profit or loss, but have an impact on the size of total equity.

The Company uses Version I of the profit or loss statement in accordance with SAS 21.8. Total comprehensive income with items from 19 to 24 of SAS 21.8 and items from 25 to 29 of SAS 21.10 is given in an additional statement.

p) Statement of cash flows

The statement of cash flows faithfully and fairly presents the changes in inflows and outflows in operating, investing and financing activities and explains the changes in the balance of cash flows for the financial year.

Cash and cash equivalents in the statement of cash flows include cash in current accounts, cash items in the process of collection, and deposits redeemable at notice. The statement of cash flows is compiled using the direct method (Version I) in accordance with SAS 22.6.

Proceeds from sales include value added tax and excise duties; cash flow items in investing and financing activities are reported in non-offset amounts. The data for the items of the statement of cash flows are derived from analytical records, current account summaries, and offsets.

q) Statement of changes in equity

The statement of changes in equity faithfully and fairly presents changes in all equity components in the balance sheet for the financial year in accordance with SAS 23.4 and SAS 23.5 in the form of a table of changes in all equity components. Total Company equity consists of share capital as entered into the court registry, capital reserves, profit reserves, reserves arising from valuation at fair value, net profit or loss brought forward and net income for the fiscal year.

15.4 Disclosure of Items in the Balance Sheet

The balance sheet is a fundamental financial statement which shows the fair balance of assets and liabilities as at 31 December 2016. It is compiled

in a sequential order as defined in SAS 20.4 and the Companies Act. Balance sheet items are recorded at their carrying values as the difference

between total value and revaluation adjustment. The principle of individual valuation of assets and liabilities is observed.

15.4.1 Long-term Intangible Assets and Long-term Accrued Revenue and Deferred Expenses

Property rights predominantly represent investments in software. The value of new purchases in 2016 amounted to EUR 1,055,230, and for

activation EUR 743,930. The majority of resources were earmarked for upgrades to the EIS and IIS information systems with IBM software (EUR

596,858). Intangible assets in development were mainly investments for upgrades of IT support (the ERP and Maximo software).

Intangible non-current assets (in EUR)	31 December 2016	31 December 2015
Long-term property rights	1,222,401	1,104,965
Intangible non-current assets in development	321,351	10,051
Other long-term accrued revenue and deferred expenses	279	150
Total	1,544,031	1,115,166

Changes in intangible non-current assets

Intangible non-current assets (in EUR)	Long-term property rights	Intangible assets in development	Long-term accrued revenue and deferred expenses	Total
Cost				
As of 1 January 2015	7,630,605	41,907	622	7,673,134
Effect of transition to SAS 2016	-35,855	0	0	-35,855
As of 1 January 2015 after transition to SAS 2016	7,594,750	41,907	622	7,637,279
Increase	3,548	498,309	0	501,857
Carry-over from ongoing investments	530,165	-530,165	0	0
Decrease	-772,467	0	-472	-772,939
As of 31 December 2015	7,355,996	10,051	150	7,366,197
As of 1 January 2016	7,355,996	10,051	150	7,366,197
Increase	0	1,055,230	129	1,055,359
Carry-over from ongoing investments	743,930	-743,930	0	0
Decrease	-33,863	0	0	-33,863
As of 31 December 2016	8,066,063	321,351	279	8,387,693
Revaluation adjustment				
As of 1 January 2015	6,288,434	0	0	6,288,434
Effect of transition to SAS 2016	-543	0	0	-543
As of 1 January 2015 after transition to SAS 2016	6,287,891	0	0	6,287,891
Amortisation	732,252	0	0	732,252
Rentals from holiday facilities	3,355	0	0	3,355
Decrease	-772,467	0	0	-772,467
As of 31 December 2015	6,251,031	0	0	6,251,031
As of 1 January 2016	6,251,031	0	0	6,251,031
Amortisation	623,139	0	0	623,139
Rentals from holiday facilities	3,355	0	0	3,355
Decrease	-33,863	0	0	-33,863
As of 31 December 2016	6,843,662	0	0	6,843,662
Carrying value				
As of 1 January 2015	1,342,171	41,907	622	1,384,700
Effects of transition to SAS 2016	-35,312	0	0	-35,312
As of 1 January 2015 after transition to SAS 2016	1,306,859	41,907	622	1,349,388
As of 31 December 2015	1,104,965	10,051	150	1,115,166
As of 1 January 2016	1,104,965	10,051	150	1,115,166
As of 31 December 2016	1,222,401	321,351	279	1,544,031

The carrying value of property rights, which pursuant to SAS 2.39 are managed as intangible assets in the accounting records and shown in the item land and buildings in the balance sheet, amounted to EUR 44,175 as at 31 December 2016 (EUR 42,410

on 31 December 2015), while the revaluation adjustment of those rights amounted to EUR 1,655 (EUR 1,215 on 31 December 2015).

Trade payables for the acquisition of intangible assets amounted to EUR

543,690 on 31 December 2016. The Company did not have any intangible assets related to limited property rights or pledged as security for the repayment of debts as at 31 December 2016.

15.4.2 Tangible Fixed Assets

The carrying value of tangible fixed assets as at 31 December 2016 in the amount of EUR 246,036,537 represented 89.1% of balance sheet total of the Company.

Property, Plant and Equipment (in EUR)	31 December 2016	31 December 2015
Land	5,884,577	5,836,999
Buildings	172,247,047	167,956,919
Equipment	62,072,951	62,180,741
Property, plant and equipment in the course of acquisition	5,831,962	7,971,478
Total	246,036,537	243,946,137

Significant activation in 2016 related to the construction of the underground cable for 20 Kv TS Bukovšek Cerjak (EUR 180,844 EUR), underground cable for 20 kV DTS Žalec - Novo Celje (EUR 192,422), underground cable for 20 kV DTS Žalec - Varioform (EUR 200,470), underground cable for 20 kV TS Solčava – TS Solčava hunting lodge (EUR 204,965), underground cable for 20 kV TS Brstovnica item 36 - TS Gračnica (EUR 209,843), underground cables for 2 x 20 kV DTS Vuzenica – DS Radlje (EUR 442,838), underground cable for 20 kV TS Arneško - TS Lokve (EUR 229,52), underground cable for OPL 2 x 20 kV Nazarje - Ljubno to TS Rečica trg (EUR 231,386) and reconstruction of the 20 kV overhead power line for DTS Šentjur - DS Podplat (EUR 233,114), and replacement of the equipment for the supply and transformer bay (EUR 205,380) in the 110 kV switchyard of DTS Vuzenica. Borrowing costs which in 2016 were attributed to the newly activated engineering structures amounted to EUR 9,888 (EUR 7,257 in 2015), with EUR 800 (EUR 862 in 2015) attributed to new equipment.

The rate of depreciation of buildings

amounted to 69.6% and equipment 61.7%. Disposal and elimination of tangible fixed assets arose due to new investments, investment in reconstruction and renovation or technical, economic or physical obsolescence of fixed assets. Significant individual disposal (elimination) of the electricity infrastructure relate to fixed assets, which no longer had current values, therefore acquisition costs and accumulated depreciation were reduced by the same amount: 35 kV OPL DTS Selce - Bukovžlak – Podplat (EUR 536,480), 35 kV OPL DTS Selce – Štore north (EUR 225,206), 35 kV OPL DTS Selce – Štore south (EUR 224,248), 20 kV OPL DTS Mozirje - Letuš Topovlje (EUR 120,358), etc.

Electricity infrastructure is defined in the Decree on the energy infrastructure (Official Gazette of RS, no. 22/16) and also includes a portion of land in addition to buildings and equipment. The carrying value of long-term intangible and tangible fixed assets based on the Contract on leasing of the electricity distribution infrastructure and provision of services for the system operator and associated annexes leased to SODO d.o.o. on 31 December 2016

amounted to EUR 218,905,578 (EUR 214,469,851 in 2015) with that of other assets amounting to EUR 21,306,367 (EUR 21,568,221 in 2015); out of this amount, intangible fixed assets amounted to EUR 1,205,256 and tangible fixed assets EUR 239,006,68. The calculated value of revenue from leases to SODO for the financial year 2016 in the preliminary reconciliation of the regulatory year 2016 amounted to EUR 25,588,834 (EUR 26,238,701 in 2015).

The cost of the construction and manufacture of tangible fixed assets for the Company's own account in 2016 amounted to EUR 13,260,484 (EUR 14,324,151 in 2015), purchases of property, plant and equipment from suppliers EUR 5,758,418 (EUR 7,441,071 in 2015), and acquisitions free of charge EUR 442,418 (EUR 380,390 in 2015). The Company disclosed liabilities in the amount of EUR 942,594 for the acquisition of tangible fixed assets on 31 December 2016.

The Company did not have any tangible fixed assets acquired through financial leasing or any tangible fixed assets pledged as security for liabilities as at 31 December 2016.

Changes in property, plant and equipment

Property, Plant and Equipment (in EUR)	Land	Buildings	Equipment	Ongoing investments	Advance-payments for PP&E	Total
Cost						
As of 1 January 2015	5,862,933	548,396,650	156,329,187	5,486,002	0	716,074,772
Effect of transition to SAS 2016	35,855	0	0	0	0	35,855
As of 1 January 2015 after transition to SAS 2016	5,898,788	548,396,650	156,329,187	5,486,002	0	716,110,627
Increase	0	0	0	21,647,303	2,548	21,649,851
Carry-over from ongoing investments	28,580	13,414,149	5,719,098	-19,161,827	0	0
Decrease	-89,154	-5,461,869	-3,696,205	0	-2,548	-9,249,776
As of 31 December 2015	5,838,214	556,348,930	158,352,080	7,971,478	0	728,510,702
As of 1 January 2016	5,838,214	556,348,930	158,352,080	7,971,478	0	728,510,702
transfer from account 021 to 040	0	-301,772	301,772	0	0	0
Increase				19,459,306	0	19,459,306
Carry-over from ongoing investments	48,596	15,340,385	5,964,974	-21,353,955	0	0
Decrease	-578	-5,114,499	-2,707,744	-244,867	0	-8,067,688
As of 31 December 2016	5,886,232	566,273,044	161,911,082	5,831,962	0	739,902,320
Revaluation adjustment						
As of 1 January 2015	0	382,709,133	93,647,219	0	0	476,356,352
Effect of transition to SAS 2016	543	0	0	0	0	543
As of 1 January 2015 after transition to SAS 2016	543	382,709,133	93,647,219	0	0	476,356,895
Amortisation	672	10,933,691	6,022,886	0	0	16,957,249
Decrease	0	-5,250,813	-3,498,766	0	0	-8,749,579
As of 31 December 2015	1,215	388,392,011	96,171,339	0	0	484,564,565
As of 1 January 2016	1,215	388,392,011	96,171,339	0	0	484,564,565
transfer from account 021 to 040	0	-6,640	6,640	0	0	0
Amortisation	440	10,645,179	6,185,207	0	0	16,830,826
Decrease	0	-5,004,553	-2,525,055	0	0	-7,529,608
As of 31 December 2016	1,655	394,025,997	99,838,131	0	0	493,865,783
Carrying value						
As of 1 January 2015	5,862,933	165,687,517	62,681,968	5,486,002	0	239,718,420
Effect of transition to SAS 2016	35,312	0	0	0	0	35,312
As of 1 January 2015 after transition to SAS 2016	5,898,245	165,687,517	62,681,968	5,486,002	0	239,753,732
As of 31 December 2015	5,836,999	167,956,919	62,180,741	7,971,478	0	243,946,137
As of 1 January 2016	5,836,999	167,956,919	62,180,741	7,971,478	0	243,946,137
As of 31 December 2016	5,884,577	172,247,047	62,072,951	5,831,962	0	246,036,537

15.4.3 Long-term Financial Investments

Long-term investments in companies in the Group in accordance with SAS 20.3 are carried at cost:

- ECE d.o.o., Vrunčeva 2a, in the amount of EUR 5,501,023 (contribution in kind). The basic contribution of shareholder Elektro Celje d.d. was EUR 2,554,399, comprising 74.3256% of its share capital.

Total equity of the Company on 31 December 2016 amounted to EUR 18,206,206. In 2016, the Company operated with a net profit of EUR 1,353,114.

- MHE – Elpro, d.o.o., Vrunčeva 2a, in the amount of EUR 1,745,952; this amount comprised a cash injection in the amount of EUR 12,519 and in-

kind contribution in the amount of EUR 1,733,433. The Company is 100 percent owned by the parent company. The total amount of equity of the Company on 31 December 2016 amounted to EUR 2,355,618 with net profit for 2016 amounting to EUR 135,131.

Other shares and shareholdings	31 December 2016	Number of shares	31 December 2015	Number of shares
Zavarovalnica Triglav, d.d.	68,672	2,960	69,560	2,960
Informatika, d.d.	206,987	2,479	206,987	2,479
Stelkom, d. o. o	56,594		56,594	
Total	332,253	5,439	333,141	5,439

Financial investments in shares and stakes of other companies are stated at cost, except for investments in shares of Zavarovalnica Triglav d.d., which are recorded as other long-term financial investments, classified and measured at fair value through equity.

Financial investments are classified as financial investments measured at cost, except for investments of Zavarovalnica Triglav, d.d., which are classified as assets held for sale. Re-

serves arising from valuation at fair value through equity, which on 31 December 2015 amounted to EUR 43,978 decreased by EUR 888 and on 31 December 2016 amounted to EUR 43,090 due to the revaluation of the shares of Zavarovalnica Triglav, d.d. The Company estimated that in 2016 there was no need for a revaluation of other investments the prices of which are not quoted on the active market and are stated at cost, since there is no objective evidence of their impairment.

The Company also carried out impairment of financial investments for equity instruments of the company Informatika d.d. on 31 December 2015, with an impairment in the amount of 33% of the investment carried out and its adjustment in the amount of EUR 103,508 made. The Company also has a 6.32% stake in the company Stelkom, which was impaired in 2004 in the amount of EUR 1,243.

Changes in long-term financial investments

Item (in EUR)	Investments into companies within the corporate group	Other investments	Total
Carrying value as of 1 January 2015	7,246,975	436,945	7,683,920
Impairment through the Income Statement	0	-103,508	-103,508
Changes in the other comprehensive income	0	-296	-296
Carrying value as of 31 December 2015	7,246,975	333,141	7,580,116
Carrying value as of 1 January 2016	7,246,975	333,141	7,580,116
Impairment through the Income Statement	0	0	0
Changes in the other comprehensive income	0	-888	-888
Carrying value as of 31 December 2016	7,246,975	332,253	7,579,228

The Company did not hold stakes in other companies for which it possessed unlimited personal liability for the obligations of the Company.

15.4.4 Deferred Tax Assets

The tax rate of 19% was used for the calculation of deferred tax assets in 2016, with the same rate expected to be used in the coming years (17% in 2015).

Deferred Tax Assets (in EUR)	31 December 2016	31 December 2015
Short-term receivables	177,336	167,030
Long-term receivables	14,561	6,322
Provisions for long-term benefits	535,854	447,511
Financial assets measured at cost	19,667	17,597
Long-term accrued expenses and deferred revenue for fixed assets acquired free of charge	1,022,743	0
Total	1,770,161	638,460

As at 31 December 2016, the Company had no other significant temporary tax differences and tax credits, which could constitute an additional source for the formation of deferred tax assets.

Changes in the Deferred Tax Asset

Item (in EUR)	Short-term receivables	Long-term receivables	Provisions for long-term benefits	Financial investments	Long-term accrued expenses and deferred revenue for fixed assets acquired free of charge	Total
As of 1 January 2015	164,831	3,990	431,278	0	0	600,099
Recognised in the Income Statement	2,199	2,332	5,310	17,597	0	27,438
Recognised in the Comprehensive Income Statement	0	0	10,923	0	0	10,923
Reversed in the Income Statement	0	0	0	0	0	0
As of 31 December 2015	167,030	6,322	447,511	17,597	0	638,460
As of 1 January 2016	167,030	6,322	447,511	17,597	0	638,460
Recognised in the Income Statement	10,306	8,239	58,158	2,070	1,022,743	1,101,516
Recognised in the Comprehensive Income Statement	0	0	30,185	0	0	30,185
Reversed in the Income Statement	0	0	0	0	0	0
As of 31 December 2016	177,336	14,561	535,854	19,667	1,022,743	1,770,161

15.4.5 Inventories

During the regular annual stocktaking conducted according to the state on 30 November 2016, the Company established a deficit of EUR 5,575

and surplus of EUR 3,823, calculated within the scope of expenditures and revenue of the Company. Due to obsolescence or changes in quality of

material, inventory in the amount of EUR 39,270 was written off in 2016. The Company had no inventories pledged as security for its obligations.

Inventory (in EUR)	31 December 2016	31 December 2015
Material	1,082,705	1,274,534
Small tools	78,312	105,995
Total	1,161,017	1,380,529

15.4.6 Receivables

Total receivables on 31 December 2016 amounted to 14,972,014 of which EUR 10,238,293 comprised

short-term trade receivables. The revaluation adjustment of receivables on 31 December 2016 amounted to

EUR 933,522 (security for receivables and maturity analysis are presented in section 15.9.1 - Credit Risk).

Changes in revaluation adjustments to short-term receivables for 2016

Item (in EUR)	As of 1 January 2016	Write-downs and write-offs	Reconciliation		As of 31 December 2016
			Increase	Reversal	
Adjustments to trade receivables - network charge	795,875	-146,654	71,688	0	720,909
Adjustments to trade receivables - services	113,355	-5,216	8,537	0	116,676
Adjustments to trade receivables - other	13,880	0	1,060	0	14,940
A Total adjustments to trade receivables	923,110	-151,870	81,285	0	852,525
Adjustments to late charge - network charge	68,887	-10,388	2,882	0	61,381
Adjustments to late charge - services	6,688	-205	206	0	6,689
Adjustments to late charge - other	3,849	-297	60	0	3,612
B Total adjustments to late charge	79,424	-10,890	3,148	0	71,682
Adjustments to misc. short-term receivables	8,112	-592	1,795	0	9,315
C Total adjustments to misc. short-term receivables	8,112	-592	1,795	0	9,315
D Adjustments to short-term advancepayments made	0	0	0	0	0
TOTAL (A + B + C)	1,010,646	-163,352	86,228	0	933,522

Changes in revaluation adjustments to short-term receivables for 2015

Item (in EUR)	As of 1 January 2015	Write-downs and write-offs	Reconciliation		As of 31 December 2015
			Increase	Reversal	
Adjustments to trade receivables - network charge	775,344	-95,438	115,969	0	795,875
Adjustments to trade receivables - services	111,753	-1,428	3,030	0	113,355
Adjustments to trade receivables - other	31,853	-221	0	-17,752	13,880
A Total adjustments to trade receivables	918,950	-97,087	118,999	-17,752	923,110
Adjustments to late charge - network charge	60,173	-13,522	22,236	0	68,887
Adjustments to late charge - services	8,539	-156	0	-1,695	6,688
Adjustments to late charge - other	3,186	0	663	0	3,849
B Total adjustments to late charge	71,898	-13,678	22,899	-1,695	79,424
Adjustments to misc. short-term receivables	6,434	-78	1,756	0	8,112
C Total adjustments to misc. short-term receivables	6,434	-78	1,756	0	8,112
D Adjustments to short-term advancepayments made	428	-428	0	0	0
TOTAL (A + B + C + D)	997,710	-111,271	143,654	-19,447	1,010,646

15.4.6.1 Long-term Trade Receivables

Long-term trade receivables (in EUR)	31 December 2016	31 December 2015
Long-term trade receivables from customers	4,924,530	6,064,344
Minus revaluation adjustment	-195,751	-108,149
Short-term portion of long-term trade receivables from customers	-3,025	-28,962
	4,725,754	5,927,233
Long-term trade receivables from others	7,967	7,649
Minus revaluation adjustment		
Short-term portion of long-term trade receivables from others		
	7,967	7,649
Total	4,733,721	5,934,882

Long-term trade receivables of the Company as at 31 December 2016 in the amount of EUR 4,733,721 comprised long-term trade receivables due from customers in compulsory settlement proceedings in the amount of EUR 7,282, long-term trade receivables from others in the amount of EUR 7,967 and long-term receivables from SODO in the amount of EUR 4,718,472; long-term receivables from SODO from preliminary reconciliations for the regulatory year 2014 in the amount of EUR 1,394,170 EUR and 2015 in the amount of EUR 3,426,391, discounting both receivables in the amount of EUR -119,116, a third of final RF reconciliations for the years 2012,

2013, 2014 and accrued interest from uncovered deficits of preliminary and final reconciliations for these years, from their occurrence up to their inclusion into the 2016-2018 regulatory framework, in the amount of EUR 17,027. Receivables from SODO from the preliminary reconciliations of the regulatory frameworks for the years 2014 and 2015, which following inclusion in the regulatory frameworks will no longer bear interest, were recorded at their discounted values in line with SAS 5.36, with the method of remuneration of deficits and surpluses from Article 85 of the Network Charges Act (Official Gazette of RS, no. 66/2015 dated 14 September

2015) and an interest rate equal to the average fixed interest rate on investment loans on 31 December 2016 in the amount of 0.896% taken into account.

Part of the long-term trade receivables in the amount of EUR 3,025 maturing in 2017 was transferred to short-term trade receivables. A revaluation adjustment of receivables was carried out in the amount of EUR 195,751.

Long-term receivables of the Company were not insured or pledged as security for liabilities of the Company.

15.4.6.2 Short-term Trade Receivables

On 31 December 2016 the Company disclosed stated short-term trade receivables in the amount of EUR 10,238,293; these comprise receivables from group companies representing 0.1%, receivables from customers representing 97.8% and receivables from others representing 2.1%. Short-term trade receivables from group companies in the amount of EUR 11,828 refer to receivables from network charges, leases and services to its subsidiaries.

Short-term receivables from customers in the amount of EUR 9,954,904 included:

- receivables from customers for network charges in the amount of EUR 3,704,402 (accounts: 1204 and 1294);

- receivables for maintenance and lease of electricity infrastructure and provision of services for SODO d.o.o. in the amount of EUR 5,866,595, all fully non-matured;
- discounted value of receivables from SODO from the preliminary reconciliation of the regulatory year 2014 in the amount of EUR -12,619;
- receivables from customers for services in the amount of EUR 257,540 (accounts: 1200, 1201, 1290 and 1291);
- receivables from customers for leases, average connection costs, sold fixed assets and waste material in the amount of EUR 138,986 (accounts: 1202, 1205, 1206, 1295 and 1296).

Short-term interest receivables, less revaluation of interest receivables in

the amount of EUR 6,700 regarded receivables for default interest for network charges in the amount of EUR 6,575 and receivables for default interest for services in the amount of EUR 125.

Receivables from others in the total amount of EUR 210,818 represented receivables for input VAT (EUR 86,787) and other short-term receivables from state institutions (EUR 124,031).

No short-term receivables were pledged as security for liabilities of the Company. The Company also disclosed it had no receivables from members of the Management Board and the Supervisory Board and internal owners, except for regular invoices for electricity.

Short-term trade receivables (in EUR)	31 December 2016	31 December 2015
Short-term trade receivables from companies within the corporate group	11.828	11.772
Short-term trade receivables from customers	10.820.048	11.431.066
- revaluation adjustment to trade receivables from customers	-852.525	-923.110
- discounted trade receivables from SODO	-12.619	-26.653
Late charge receivables	78.382	87.720
(of which short-term portion of long-term receivables for late charge)	0	626
- revaluation adjustment to late charge receivables	-71.682	-79.424
Advance payments made	54.043	53.207
Short-term trade receivables from customers	10.015.647	10.542.806
Short-term trade receivables from others	220.133	355.817
(of which short-term portion of long-term trade receivables)	3.025	28.962
- revaluation adjustment to short-term receivables from others	-9.315	-8.112
Receivables related to finance income	0	3
Short-term trade receivables from others	210.818	347.708
Total	10.238.293	10.902.286

15.4.7 Cash and Cash Equivalents

On 31 December 2016 the Company had no borrowings on transaction accounts with commercial banks.

Cash and cash equivalents (in EUR)	31 December 2016	31 December 2015
Cash in current accounts	37,317	15,934
Overnight deposits	143,372	8,189
Total	180,689	24,123

15.4.8 Accrued Revenue and Deferred Expenses

EUR 32,549 of the total amount of preliminary accrued revenue of EUR 2,780,515 on 31 December 2016 regarded accrued projects in 2016, the preliminary reconciliation for 2016 in

the amount of EUR 2,730,926 and a third of the eligible costs in the amount of EUR 17,040, which were recognized in the regulatory period 2012-2014 and will in accordance with

the Act determining the methodology for charging the network charge, be settled in 2017. Balance sheet items are real and do not contain hidden reserves.

Short-term accrued revenue and deferred expenses (in EUR)	31 December 2016	31 December 2015
Short-term deferred expenses	35,517	670,108
Short-term accrued revenue	2,780,515	65,024
VAT from advance payments received	253	4,098
VAT from overpayment of network charge	28	64
Total	2,816,313	739,294

15.4.9 Equity

Total equity of the Company as at 31 December 2016 amounted to EUR 200,929,373 and was 2.3% higher compared to the state of equity on 31 December 2015. The book value per share as at 31 December 2016 amounted to EUR 8.31 (EUR 8.12 on 31 December 2015), with earnings per share amounting to EUR 0.39. The state of individual components of equity as of 1 January 2016 to 31 December 2016 and changes in individual components of equity in 2016 is shown in Table 14.5.

Called-up capital of the Company is share capital divided into 24,192,425 freely transferable ordinary shares in the amount of EUR 100,953,201 (described in section 15.3.h).

Share premium includes a general equity revaluation adjustment in the amount of EUR 62,260,317. Revenue reserves in the amount of EUR 35,266,336 include: legal reserve in the amount of EUR 3,035,361 (5% of net profit for the years 2003-

2015, with EUR 471,605 of revenue reserve formed in 2016), other revenue reserve in the amount of EUR 32,230,975 (EUR 5,612,446 formed in 2016), reserve for treasury shares and acquired treasury shares. Other revenue reserve decreased by EUR 893,113 in 2016. The court upheld the contested lawsuit of minority shareholders with Elektro Celje consequently having to pay an additional EUR 893,113 in dividends from profit for the financial year 2014.

In 2016, the Company acquired 227,661 treasury shares, representing 0.94% of all shares in the amount of EUR 541,833 (i.e. EUR 2.38 per share). The purpose and reason for acquisition of treasury shares was determined by the decision of the 21st General Assembly of Elektro Celje d.d. of 31 August 2016, namely to increase the value of the Company's assets and maximize value for shareholders for the period from 1 September 2016 to 31 March 2018. Acquisition of treasury shares was carried out dur-

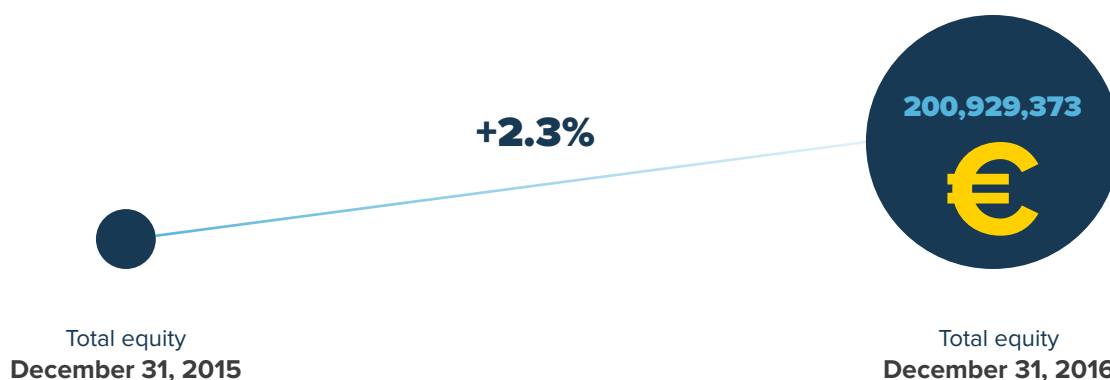
ing the period from 10 November to 9 December 2016. With the acquisition of treasury shares, the Company in accordance with the Articles of Association and paragraph 5 of Article 64 of the Companies Act, formed reserves for treasury shares from net profit for the financial year in the balance sheet. Acquired treasury shares are a constituent part of total equity and are deducted from it.

The revaluation surplus which as at 31 December 2015 amounted to EUR -81,082 was in accordance with the amendment in SAS 2016 reallocated on 1 January 2016 among reserves arising from revaluation at fair value. Reserves arising from revaluation at fair value amounted to EUR -356,704 on the balance sheet date 31 December 2016. In 2016 they decreased by EUR 310,129 (i.e. by EUR 888 EUR due to revaluation of shares of Zavarovalnica Triglav, d.d., by EUR 308,530 due to actuarial gains identified in the creation of provisions for retirement benefits and by EUR 711 due to

adjustment of surpluses from the revaluation of financial investments for deferred tax) and increased by EUR 34,507 (i.e. by EUR 4,322 due to the transfer of a proportionate part of

actuarial losses determined during creation of provisions for retirement benefits to retained earnings and by EUR 30,185 due to deferred tax arising from actuarial losses).

Remaining net profit for the financial year amounted to EUR 2,806,223.



15.4.10 Provisions and Long-term Accrued Expenses and Deferred Revenue

Provisions and long-term accrued expenses and deferred revenue (in EUR)	31. 12. 2016	31. 12. 2015
Long-term provisions for retirement benefits and long-service awards	5,743,800	5,409,368
Provisions for lawsuits	31,850	615,626
Long-term accrued expenses and deferred revenue		
- from received government grants (state aid)	965,686	1,063,344
- fixed assets acquired free of charge	9,932,849	9,989,558
- from connection fees	2,458,322	2,566,314
Total	19,132,507	19,644,210

Provisions for long-term service, retirement benefits and death allowance to employees in the amount of EUR 5,743,800 EUR accounted for 2.1% in the structure of liabilities and were formed in the amount of estimated future payments, discounted on 31 December 2016.

The actuarial calculation on 31 De-

cember 2016 took into account the following assumptions: the statistical probability of death and disability, retirement in accordance with the law and staff turnover (4% until the age of 40 and 1% probability between the ages of 41 to 50, 0% for those over 51 years old), 1.31% discount rate, 2% salary growth in the Republic of Slovenia and the electricity sector, 2.25% sal-

ary growth in the Company, valid employer contribution rate of 16.1% and 0.5% growth in the amounts provided for in Decree on the levels of reimbursed work-related expenses and of certain income not to be included in the tax base (Official Gazette of RS, nos. 140/2006, 76/2008).

Liabilities related to long-term employment benefits

Item (in EUR)	Long-service awards	Retirement benefits	Death allowance	Total
As of 1 January 2015	1,697,369	3,275,939	166,780	5,140,088
Current service costs	116,811	162,803	11,422	291,036
Interest expense	32,668	70,846	3,403	106,917
Payments of benefits	-245,445	-127,218	-15,518	-388,181
Actuarial surplus	84,261	158,640	16,607	259,508
As of 31 December 2015	1,685,664	3,541,010	182,694	5,409,368
As of 1 January 2016	1,685,664	3,541,010	182,694	5,409,368
Current service costs	114,085	184,919	8,868	307,872
Interest expense	29,068	68,438	3,654	101,160
Payments of benefits	-232,261	-119,099	0	-351,360
Actuarial surplus	22,053	308,529	-53,822	276,760
As of 31 December 2016	1,618,609	3,983,797	141,394	5,743,800

The expected present value of liabilities also includes actuarial gains/losses due to changes in financial and demographic assumptions and adjustments for experience. During the year EUR 351,360 of provisions were used based on actual costs incurred for long-term employee benefits, EUR 730,746 of additional provisions were formed and a reversal of provisions in the amount of EUR 44,954 carried out.

Long-term accrued expenses and deferred revenue regarding fixed assets acquired free of charge were formed

in the amount of EUR 442,418. EUR 607,120 in long-term deferrals and accruals were reversed for fixed assets acquired free of charge and average connection fees, EUR 8,298 for the use of assigned contributions under the Vocational Rehabilitation and Employment of Disabled Persons Act and EUR 97,359 8298 for use of government subsidies for the purchase of fixed assets.

Other provisions as at 31 December 2016 include provisions for lawsuits in the amount of EUR 19,850 formed in

2015 (action for damages due to the disconnection of the neutral line) and additional provisions created in 2016 in the amount of EUR 12,000 (action for damages due to TS ownership). Provisions formed in 2015 due to a lawsuit for payment of balance of the 2015 holiday pay up to the amount 2015 prescribed in Article 128 of the Collective Agreement for Slovenian Electricity Industry amounting to EUR 595,776 were eliminated in 2016 due to the withdrawal of the lawsuit.

Changes in provisions and long-term accrued expenses and deferred revenue

Item (in EUR)	Provisions for long-term benefits	Other provisions	Long-term accrued expenses and deferred revenue	Total
As of 1 January 2015	5,140,088	40,000	13,947,157	19,127,245
Utilisation	-388,182	-31,050	0	-419,232
Recognition	657,462	615,626	474,595	1,747,683
Reversal	0	-8,950	-802,536	-811,486
As of 31 December 2015	5,409,368	615,626	13,619,216	19,644,210
As of 1 January 2016	5,409,368	615,626	13,619,216	19,644,210
Utilisation	-351,360	0	0	-351,360
Recognition	730,746	12,000	450,418	1,193,164
Reversal	-44,954	-595,776	-712,777	-1,353,507
As of 31 December 2016	5,743,800	31,850	13,356,857	19,132,507

15.4.11 Long-term Financial and Operating Liabilities

In 2016, the Company repaid EUR 12,361,695 of the principal of investment loans, with the amount of interest paid disclosed among financial expenses amounting to EUR

554,639. Loans were secured by bills of exchange. The average weighted interest rate on investment loans as at 31 December 2016 amounted to 0.896%. The Company does not in-

sure fluctuations in EURIBOR interest rates with financial instruments. The value of the principal due for payment five years after the balance sheet date amounted to EUR 5,684,572.

Long-term financial and operating liabilities (in EUR)	31 December 2016	31 December 2015
Long-term financial liabilities to banks	33,810,599	33,542,731
Long-term trade payables to suppliers	327,266	0
Total	34,137,865	33,542,731

To finance investments in the period 2015-2017, the Company concluded a loan agreement in the amount of EUR 28 million with the European Investment Bank in 2015, with the credit conditions agreed upon and determined upon absorption of individual tranches (moratorium of 2 to 36 months, maturity up to 15 years, interest rate, etc.). In 2016 the Company took advantage of the revolving credit obtained in 2015 to finance the occasional deficit in liquid assets, with a maturity of three years and three-month EURIBOR interest rate plus 0.85%.

With the acquisition of long-term loans, the Company committed to the achievement of indicators during the financing period, namely in 2016

for the company Elektro Celje: financial debt/equity (lower than 0.40 by 2030) and net financial debt to EBITDA (lower than 2.70 by 2030) and for the Elektro Celje Group: financial debt/EBITDA (less than 2.5), financial debt/equity (less than 0.3), EBITDA/financial expenses from financial liabilities (greater than 12), current ratio (greater than 0.9), net financial debt/EBITDA (less than or equal to 3.5) and equity/liabilities (less than or equal to 55%). The Company had fulfilled all its contractual financial obligations as at the balance sheet date.

The carrying value of long-term debt as at 31 December 2016 was equal to its fair value. Long-term debt is not subject to specific currency and credit

risks. Exposure to interest rate risk only regards the (un)favourable trend of EURIBOR reference interest rates, while the Company has available to it at all times the option of early repayment or refinancing of long-term debt without additional costs (the impact of reduction in margins in 2016 is described in section 15.9.2 Market risk).

Debts for the purchase of software in the amount of EUR 327,266 are shown among long-term operating liabilities. The Company did not have any long-term debts to members of the Management Board, Supervisory Board or internal owners as at 31 December 2016.

15.4.12 Deferred Tax Liabilities

Deferred tax liabilities (in EUR)	31 December 2016	31 December 2015
Financial assets measured at fair value	8,187	7,476
Total	8,187	7,476

Changes in deferred tax liabilities

Item (in EUR)	Financial investments
As of 1 January 2015	0
Recognised in the Comprehensive Income Statement	-7,476
As of 31 December 2015	-7,476
As of 1 January 2016	-7,476
Recognised in the Comprehensive Income Statement	-711
As of 31 December 2016	-8,187

15.4.13 Short-term Financial and Operating Liabilities

Short-term financial liabilities of the Company as at 31 December 2016 in the amount of EUR 11,186,305 referred to short-term portions of long-term bank loans in the amount of EUR 11,182,132 and liabilities for the payment of dividends in the amount of EUR 4,173.

Short-term operating liabilities to group companies in the amount of EUR 49,428 regarded liabilities to the subsidiaries ECE d.o.o. in the amount of EUR 11,965 (EUR 7,148 for supplied electricity and EUR 4,817 for natural gas) and MHE ELPRO in the amount

of EUR 37,463 (EUR 30,907 for supplied thermal energy, EUR 4,501 for electricity, EUR 1,069 for the lease of charging stations and EUR 986 for incorrect remittances).

Short-term operating liabilities in the amount of EUR 9,969,867 refer mainly to trade payables (EUR 1,149,059 for the purchase of fixed assets, EUR 1,428,004 for current assets, EUR 71,157 for the acquisition of fixed assets abroad, EUR 65,324 for non-invoiced material and services), payables to the company SODO (for use of the network in accordance with

the contract), payables to employees (accrued and unpaid wages, compensation for long-service awards in December, together with the liabilities for their contributions) and payables to the state and other institutions (liability for VAT charged in the amount of EUR 429,023, corporate tax in the amount of EUR 200,396, taxes levied on meeting fees, labour contracts and mandatory practical training in the amount of EUR 5,278 and other liabilities to government institutions in the amount of EUR 8,352).

Short-term financial and operating liabilities (in EUR)	31 December 2016	31 December 2015
Short-term financial liabilities to banks	11,182,132	11,837,695
Other short-term financial liabilities	4,173	7,063
Short-term financial liabilities	11,186,305	11,844,758
Short-term trade payables to companies within the corporate group	49,428	686,907
- of which payables for electricity for covering distribution losses	0	643,255
Short-term trade payables to suppliers	2,713,544	3,210,524
Short-term trade payables from operations for third-party account	3,940,329	3,845,389
Short-term trade payables to employees	2,137,316	1,454,486
Short-term trade payables to state and other institutions	643,049	308,472
Short-term trade payables based on advance payments	8,017	65,810
Other short-term trade payables	478,184	408,717
Short-term trade payables	9,969,867	9,980,305
Total	21,156,172	21,825,063

According to the balance sheet as at 31 December 2016, the Company had settled all outstanding trade payables, whereas other current liabilities are due for payment within a period of up to three months after the balance sheet date.

The Company had no other obligations to the Management Board, Supervisory Board and internal owners except for salaries and the meeting fees of the members of the Supervisory Board and Audit Committee of the Supervisory Board for the month

of December 2016. The Company also did not grant any loans, advances or security for liabilities to them. The Company does not have its liabilities secured by real collateral.

15.4.14 Short-term Accrued Expenses and Deferred Revenue

Short-term accrued expenses relate primarily to accrued costs for unused annual leave of employees for 2016 in the amount of EUR 653,308, with

short-term deferred revenue relating to invoiced costs incurred due to cancellations of contractual orders in the amount of EUR 9,966 and received

EU subsidies, intended to cover the costs of the pilot project which will arise in 2017, amounting to EUR 28,778.

Short-term accrued expenses and deferred revenue	31 December 2016	31 December 2015
Short-term accrued costs and expenses	654,049	747,606
Short-term deferred revenue	38,744	47,826
VAT from advance payments made	3,093	3,001
Total	695,886	798,433

15.4.15 Contingent Liabilities

Contingent Liabilities (in EUR)	31 December 2016	31 December 2015
Ongoing litigation procedures	314,072	1,215,349
Bank guarantees given	19,539	5,911
Total	333,611	1,221,260

Contingent liabilities in the amount of EUR 333,611 did not meet the conditions for recognition in the balance sheet items and are included in off-balance sheet records. The amount of contingent liabilities arising from outstanding civil cases where Elektro Celje d.d. is the defendant amounted to EUR 314,072 and compared to the balance on 31 December 2015, was

EUR 901,277 lower; claims for damages in the amount of EUR 934,534 were concluded by the court (a claim by minority shareholders for the payment of additional dividends from the profit for 2014 in the amount of EUR 893,113 represented the major part of the claims), while litigation procedures commenced in 2016 comprised EUR 33,257.

In 2016 the Company formed long-term provisions in the amount of EUR 12,000 in the case of an action for damages in respect to the ownership of the equipment in the TS, which is located on the immovable property of the applicant.

15.4.16 Potential Receivables and Other Off-balance Sheet Items

Assets that were included in off-balance sheet records after the balance sheet of 31 December 2016 do not qualify for recognition among the balance sheet items.

The value of received bank performance guarantees and guarantees for the elimination of defects during the warranty period amounted to EUR 1,617,671. Claims to insurance

companies were not paid in full, and therefore prior to liquidation of the claim by the insurance company (at that time receivables are transferred to the balance sheet total), they could not be realistically evaluated. Their value was estimated at EUR 45,461. The amount of receivables from shareholders of deleted companies increased by EUR 90,909 while tax incentives for employment of people

with disabilities were recognized in the amount of EUR 96,576.

The value of fixed assets transferred to SODO d.o.o. on the basis of a mutual agreement on the transfer and acquisition of fixed assets financed from funds from average connection fee costs and sales contracts amounted to EUR 3,560,947.

Contingent assets and other off-balance-sheet records (in EUR)	31 December 2016	31 December 2015
Contingent assets:		
Bank guarantees received	1,617,671	2,802,156
Damage claims	45,461	81,559
Receivables from partners in companies deleted from the register	266,999	176,090
Allowance for employing disabled persons	96,576	84,777
	2,026,707	3,144,582
Other off-balance-sheet records:		
Infrastructure owned by SODO d. o. o.	3,560,947	3,703,612

15.5 Significant Events After the Balance Sheet Date

There were no events following the balance sheet date and up to the date of the auditor's report which

would materially affect the assets and liabilities of the Company and impair the ability of the balance sheet users

to perform a relevant evaluation and reach an informed decision.

15.6 Disclosure of Items in the Income Statement

The income statement is a fundamental financial statement that provides a faithful and fair account of the income

for the fiscal year. The statement is prepared according to Version I of SAS 21.6, and as such it reports the

costs separately by functional groups in accordance with SAS 21.20:

Type of expenses (in EUR)	Production costs	Overhead	Total
Cost of material	8,485,520	107,645	8,593,165
Cost of services	4,877,180	1,606,151	6,483,331
Labour cost	18,884,602	2,863,988	21,748,590
Amortisation and depreciation	16,888,228	565,737	17,453,965
Other expenses	792,170	200,864	993,034
Total	49,927,700	5,344,385	55,272,085

Operating costs and expenses may be direct, meaning they can be directly linked to arising business impacts (direct costs), or general.

15.6.1 Net Sales Revenue

The Company generated net sales revenue of EUR 49,517,923 in the domestic market and no revenue in international markets.

Net sales revenue (in EUR)	2016	2015
Revenue from lease and maintenance of infrastructure and provision of services for SODO d.o.o.	47,514,713	52,065,913
Revenue from provision of services for customers	1,474,011	1,092,231
Revenue from the sale of services to companies within the corporate group	25,267	97,960
Revenue from lease	418,733	450,194
Revenue from lease to companies within the corporate group	85,199	85,263
Total	49,517,923	53,791,561

Net sales revenue relating mainly to revenues from the lease and maintenance of infrastructure and provision of services for SODO d.o.o. were 7.9% lower in 2016 compared to 2015, when revenue to cover losses of electricity were also included. Purchase of electricity for electricity losses in

the distribution network in the area of Elektro Celje is performed by the company SODO from 1 January 2016 onwards, in accordance with the Network Charges Act.

In accordance with the agreement and related annexes, SODO d.o.o.

prepared a preliminary reconciliation for the 2016 regulatory year in the amount of EUR 2,730,927, which was invoiced in March 2017 and the respective revenue reported for 2016. The invoice will be paid in April 2017.

15.6.2 Capitalised Own Services

The Company generated 20.5% of its revenue in the amount of EUR 13,260,484 through the construction of own fixed assets. The Company does not disclose profit in this regard.

15.6.3 Other Operating Revenue

Other revenue achieved in 2016 was EUR 694,031 higher than in the previous year, mainly due to a reversal of the provisions formed in 2015 due to the request for payment of balance of the 2015 holiday pay annual up to the amount stipulated in Article 128 of the Collective Agreement for Slovenian Electricity Industry (EUR 595,776) and the reversal of provisions for death

allowance (EUR 44,954). Measurement and reversal of provisions and long-term accrued expenses and deferred revenue is explained in section 15.3.h).

Other revenue associated with business effects in the amount of EUR 295,254 include incentives for employment of people with disabilities

and awards for the employment of disabled persons above the statutory quota in the amount of EUR 101,356 (EUR 76,539 in 2015) and revenue from subsidies for staff from EU funds, drawing on government subsidies for fixed assets, grants and repayment of scholarships totalling EUR 193,898 (EUR 158,847 in 2015).

Other operating revenue (in EUR)	2016	2015
Revenue from reversal of provisions	640,730	8,950
Revenue from reversal of long-term accrued expenses and deferred revenue	607,119	597,531
- of which acquisition of fixed assets free of charge	499,127	489,539
- of which average connection fees	107,992	107,992
Other revenue associated with business effects	295,254	235,386
Compensation received from insurance companies and others	140,101	162,782
Operating revenue from revaluation	328,641	313,165
Total	2,011,845	1,317,814

Operating revenue from revaluation in the amount of EUR 328,641 mainly

includes revenue from sales of fixed assets and dismantled material in the

amount of EUR 305,781 (EUR 297,455 in 2015).

15.6.4 Costs of Goods, Materials and Services

Cost of goods and material (in EUR)	2016	2015
Cost of purchase of electricity	0	4,925,127
Cost of material for investments carried out in-house	6,383,999	7,666,485
Cost of fuel and energy	658,883	720,544
Cost of material used in maintenance	623,259	562,939
Cost of material for damage repair	138,093	171,697
Cost of material used in provision of services to customers	527,459	352,063
Write-offs of small tools	182,259	177,291
Other costs of material	79,213	17,892
Total	8,593,165	14,594,038

Purchase of electricity for coverage of electricity losses in the distribution network in the area of Elektro Celje is being performed by SODO from 1 January 2016 onwards in line with the Network Charges Act.

Cost of services (in EUR)	2016	2015
Maintenance service cost	2,002,678	2,134,432
Cost of services of damage repair	100,280	191,553
Cost associated with provision of services to customers	313,978	217,933
Cost of business data processing	1,361,881	1,382,293
Cost of payments, bank services and insurance premiums	1,271,729	1,285,735
Cost of transport services	282,941	267,053
Cost of labour contracts	176,483	162,440
Cost of intellectual and personal services	488,894	568,811
Cost of rent	40,874	41,501
Other cost of services	443,593	480,891
Total	6,483,331	6,732,642

In accordance with Article 57 of the Companies Act, the Company is subject to mandatory audit. BDO Revizija, d.o.o., was appointed as the Company auditor for the annual report of the 2016 fiscal year, and an auditing

contract in the amount of EUR 9,120 (excluding VAT) was signed with said auditing firm. The aforementioned amount also includes the cost of auditing the appropriateness of the criteria for managing separate account-

ing records by individual activities in accordance with the Energy Act (EZ-1) in the amount of EUR 800 (excluding VAT) and the consolidated annual report in the amount of EUR 880 (excluding VAT).

15.6.5 Labour Costs

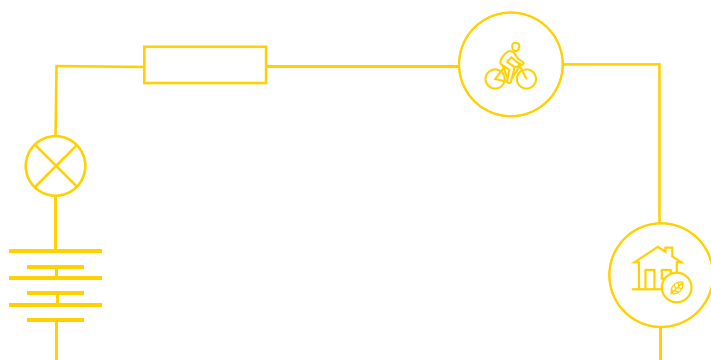
As at the balance sheet date, the Company recognised EUR 562,712 in labour costs from unused annual leave in 2016 and EUR 90,597 from related contributions and other levies payable in this regard.

Labour costs (in EUR)	2016	2015
Cost of salaries	15,441,099	14,974,458
Cost of supplementary employee retirement insurance	773,200	694,363
Cost of employer contributions and other levies on salaries	2,560,094	2,396,291
Other labour costs	2,653,141	2,636,069
Provisions for long-service awards and retirement benefits	321,056	391,904
Total	21,748,590	21,093,085

Other labour costs in the amount of EUR 2,653,141 included EUR 814,822 for meal allowance for employees, EUR 652,152 for travel to and from

work, EUR 1,135,520 for annual leave and EUR 50,647 for other remuneration. The cost of provisions for long-service awards, retirement benefits

and death allowance amounted to EUR 321,056.



The number of employees in the company Elektro Celje in the 2016 business year

Education	No. of employees on 1 January 2016	Share in %	No. of employees on 31 December 2016	Share in %	Average in 2015	Average in 2016
PhD	1	0.2%	1	0.2%	1	1
Master of science	7	1.1%	13	2.1%	7	9
University	96	15.1%	94	14.9%	94	98
Post-secondary	72	11.3%	69	10.9%	74	71
Secondary	229	36.1%	230	36.4%	228	237
Vocational	7	1.1%	7	1.1%	7	7
Highly qualified	10	1.6%	8	1.3%	10	9
Qualified	185	29.1%	185	29.3%	194	186
Semi-qualified	21	3.3%	18	2.8%	21	20
Unqualified	7	1.1%	7	1.1%	7	7
Total	635	100.0%	632	100.0%	643	645

15.6.6 Write-downs and Write-offs

Depreciation amounted to EUR 17,453,965 and represented 31.2% of the total costs and expenses of the Company.

Write-downs and write-offs (in EUR)	2016	2015
Amortisation and depreciation	17,453,965	17,689,500
Operating expenses from revaluation of tangible and intangible fixed assets	460,515	255,756
Operating expenses from revaluation of current assets	164,323	154,911
Total	18,078,803	18,100,167

Depreciation according to groups of assets

Amortisation and depreciation (in EUR)	Intangible non-current assets	Rights in immovable property	Buildings	Equipment	Total
Amortisation and depreciation for 2016	623,139	440	10,645,179	6,185,207	17,453,965
Amortisation and depreciation for 2015	732,251	672	10,933,691	6,022,886	17,689,500

The Commission in order to verify the remaining useful lives of significant fixed assets reviewed the list of buildings valued at EUR 1 million and noted that the expectations regarding the useful lives of certain fixed assets had

changed and differ from the original estimates. The change in the accounting estimate amounted to EUR 5,681 and is recorded as an increase to depreciation costs in this regard.

The expectations regarding the useful lives of certain depreciable groups also changed, with the change in the accounting estimate comprising EUR 25,441, also recorded as an increase to depreciation costs in this regard.

Depreciation group	Useful life of fixed assets from 1 January 2016	Depreciation rate in 2016	Depreciation rate in 2015	Depreciation calculated for 2016 (in EUR)	Estimated depreciation for 2016 (in EUR)	Change in accounting estimate (in EUR)
Electronic meters, timers, MTKs (audio frequency receivers)	16 years	6.25%	6.67%	1,330,760	1,402,384	-71,625
TC hub equipment and concentrators	7 years	14.29%	10.00%	228,099	162,991	65,109
Telecommunication lines (optical cables)	33 years	3.00%	2.50%	114,829	95,865	18,965
Mobile telephone sets	2 years	50.00%	20.00%	20,789	8,914	11,875
Equipment of DTSS, DSs and RCSy - secondary	10 years	10.00%	6.67%	3,355	2,238	1,117
TOTAL				1,697,832	1,672,392	25,441

Operating expenses from revaluation of fixed assets in the amount of EUR 460,515 relate to losses upon the elimination of fixed assets, with the amount of EUR 204,759 higher than in the previous year. Unfinished investments in the amount of EUR 244,867 were written off in 2016 mainly due to difficulties in obtaining easements, lands, sites placement

and opposition by owners regarding construction of overhead power lines.

Operating expenses from revaluation of current assets in the amount of EUR 164,323 were 6.1% higher than in the previous year and included revaluation adjustments to receivables from customers in bankruptcy and compulsory settlement proceedings

for disputed receivables and receivables, which at the balance sheet date were more than 90 days past due in the total amount of EUR 125,053 (EUR 142,775 in 2015) and revaluation adjustments to stocks of materials in the amount of EUR 39,270 (EUR 12,136 in 2015).

15.6.7 Other Operating Expenses

Other operating expenses in the amount of EUR 368,196 (EUR 374,172 in 2015) comprised charges for use

of construction land in the amount of EUR 207,888 (EUR 219,621 in 2015), court fees in the amount of EUR

16,793 (EUR 17,076 in 2015) and other operating expenses.

15.6.8 Financial Income from Shareholdings

Financial income from shareholdings (in EUR)	2016	2015
Financial income from shareholdings in companies within the corporate group	408,791	0
Financial income from shareholdings in other companies	7,430	7,400
Total	416,221	7,400

Financial income from shareholdings for the year 2016 amounted to EUR 416,221, of which EUR 408,791 regarded the payment for participation

in the profit of the subsidiary ECE, with financial revenue from shares in other companies mainly regarding dividends paid out by Zavaroval-

nica Triglav d.d. in the amount of EUR 7,400.

15.6.9 Financial Income from Granted Loans

Interest received from a positive credit balance on transaction accounts and overnight deposits in 2016 amounted to EUR 94 (EUR 1,828 in 2015).

Financial income from granted loans (in EUR)	2016	2015
Financial income from loans granted to companies within the corporate group	0	395
Financial income from loans granted to others	94	1,828
Total	94	2,223

15.6.10 Financial Income from Trade Receivables

Financial income from trade receivables in the amount of EUR 54,111 consisted mainly of financial income from default interest arising from trade re-

ceivables (EUR 34,920), EUR 33,395 from network charges (EUR 50,616 in 2015), EUR 1,405 from services (EUR 6,138 in 2015), EUR 120 from other

trade receivables (EUR 335 in 2015) and EUR 19,182 in financial income arising from the discounting of receivables from SODO.

15.6.11 Financial Expenses from Impairment and Write-downs of Financial Investments

No impairment of long-term financial investments through profit and loss, debited to financial expenses

in 2016 was implemented, and as at the balance sheet 31 December 2015 amounted to EUR 103,508 (impair-

ment of the financial investment in the equity instrument of the company Informatika d.d).

15.6.12 Financial Expenses from Financial Liabilities

Financial expenses from financial liabilities (in EUR)	2016	2015
Financial expenses related to loans from banks	540,474	720,092
Financial expenses related to other financial liabilities	0	150,917
Total	540,474	871,009

Financial expenses from financial liabilities included bank interest on loans.

15.6.13 Financial Expenses from Operating Liabilities

Financial expenses from operating liabilities amounted to EUR 101,880 (EUR 107,675 in 2015) and primarily include expenditures for net interest

in the amount of EUR 101,160 estimated on the basis of an actuarial calculation as at 31 December 2016 and related to the expected present value

of liabilities for long-service awards, retirement benefits and death allowance (EUR 106,917).

15.6.14 Other Income

Other income (in EUR)	2016	2015
Collected receivables from earlier periods, previously written off	891	258
Received payments of court fees, and compensations	6,710	23,468
Other income	1,106	3,128
Total	8,707	26,854

15.6.15 Other Expenses

Other expenses (in EUR)	2016	2015
Compensations	73,056	36,981
Donations	12,800	8,350
Annuities, reimbursement claims	14,427	16,317
Compensation due to breach of supply quality standards	10	0
Fines	0	750
Other expenses	508	1,018
Total	100,801	63,416

15.6.16 Profit or Loss

Operating profit amounted to EUR 9,518,167. Taking into account financial income and expenses, net operating profit from ordinary operation

amounted to EUR 9,346,239. Together with other revenue and expenses from extraordinary operation, and corporate income tax, which amount-

ed to EUR 919,951 and deferred taxes in the amount of EUR 1,101,516, net profit for 2016 amounted to EUR 9,435,710.

15.6.17 Statement of Comprehensive Income

Total comprehensive income for the accounting period amounted to EUR 9,155,766 and was due to changes in

reserves resulting from valuation at fair value (EUR -1,599) and changes in other components of comprehensive

income (EUR -278,345) EUR 279,944 lower than the net profit for the accounting period (EUR 9,435,710).

15.6.18 Income Tax

The Company was liable for payment of corporate tax in the amount of EUR 919,951 in 2016, recognised on the basis of the tax return. The tax rate changed from 17% to 19% in 2016 in

accordance with the Corporate Income Tax Act (Official Gazette of RS, no. 68/2016). In 2016 the Company converted deferred taxes at the rate of 19% and recognised an increase in

deferred tax assets (in the amount of EUR 78,676) and an increase in deferred tax liabilities (in the amount of EUR 151).

15.7 Disclosure of Items in the Statement of Cash Flows

Cash flow for the period January-December 2016 amounted to EUR 156,566. The initial balance of cash and cash equivalents as at 1 January 2016 was EUR 24,123 while the closing balance as at 31 December 2016 was EUR 180,689.

15.7.1 Inflows from Operating Activities

In the accounting period, inflows from operating activities amounted to EUR 100,565,962, with 98.9% of the amount representing revenue from the sale of products and services. The Company achieved the majority

of inflows from operating activities from receivables for lease and services pursuant to the agreement with SODO d.o.o., which amounted to EUR 55,030,558, representing 54.7% of total inflows from operating activities,

with inflows from the use of the network amounting to EUR 39,945,187, inflows from services to customers to EUR 1,146,946, and services to customers on behalf and for the account of SODO d.o.o. to EUR 274,316.

15.7.2 Outflows from Operating Activities

Outflows from operating activities in the amount of EUR 88,253,010 included expenditures for the purchase of materials and services, salaries together with expenditures for contributions and taxes, value added tax and other expenditures. The largest share of outflows from operating activities represented expenditures for purchases of materials and services in the amount of EUR 59,633,329,

representing 67.6% of total outflows from operating activities.

Expenditures for salaries amounted to EUR 20,726,734. Expenditures for duties were 12.2% higher than expenditures for duties in 2015, amounting to EUR 6,829,680 predominantly due to higher VAT payments. Other expenses amounted to EUR 1,063,267 and were 1.6% lower than other ex-

penses in 2015; expenditures for voluntary supplementary retirement insurance represented the largest part (80.1%). In 2016 the Company used the operating surplus of EUR 12,312,952 mainly to settle liabilities related to the repayment of principals and interest related to long-term investment loans.

15.7.3 Inflows from Investing Activities

Inflows from investing activities amounted to EUR 791,226 and include inflows from received interest and shares of profit of other companies in the amount of EUR 416,288

(payment for participation in the profit of the subsidiary ECE in the amount of EUR 408,791, dividends paid out by Zavarovalnica Triglav d.d. in the amount of EUR 7,400, inflows from

received interest on deposits in the amount of EUR 98, etc.) and inflows from the disposal of tangible fixed assets in the amount of EUR 374,938.

15.7.4 Outflows from Investing Activities

Outflows from investing activities in the amount of EUR 7,369,834 comprised expenditures for the acquisition of intangible and tangible fixed assets.

15.7.5 Inflows from Financing Activities

Inflows from financing activities in the amount of EUR 32,736,000 included the use of long-term loans; in 2016 these comprised use of the long-term

loan of EIB to finance investments in the amount of EUR 11 million, inflows from long-term loans to refinance existing loans in the amount

of EUR 5,086,000 and inflows from multiple drawing of the long-term revolving credit in the amount of EUR 16,650,000.

15.7.6 Outflows from Financing Activities

Outflows from financing activities in the amount of EUR 38,313,778 referred to outflows for interest paid in the amount of EUR 554,695, for the purchase of treasury shares in

the amount of EUR 541,883, for repayment of investment loans in the amount of EUR 12,361,695, for refinancing existing loans in the amount of EUR 5,086,000, for repayment

of the leased revolving credit in the amount of EUR 15,676,000 and for dividend pay-outs in the amount of EUR 4,093,555.

15.8 Disclosure of Items in the Statement of Changes in Equity

Share premium in the amount of EUR 62,260,317 was reported on the basis of a reversal of the general revaluation adjustment carried out on equity. Revenue reserves in the amount of EUR 35,266,336 included legal reserves in the amount of EUR

3,035,361 (EUR 471,605 formed in 2015) and other revenue reserves in the amount of EUR 32,230,975 (EUR 5,612,446 formed in 2015).

Reserves arising from valuation at fair value as at the balance sheet date 31

December 2016 amounted to EUR 356,704, decreasing by EUR 275,622 in 2016 (the change is clarified in section 15.4.9)

Distributable profit and proposed allocation:

DISTRIBUTABLE PROFIT (in EUR)		2016	2015
a	Net income/profit for the year	9,435,710	6,808,482
b	Retained net profit/retained net loss (deductible item)	-3,603	1,217
c	Increase in revenue reserves pursuant to decisions by the management and supervisory bodies (legal reserves, reserves for own shares and shareholdings and statutory reserves)	1,013,438	340,424
d	Increase in revenue reserves pursuant to decisions by the management and supervisory bodies (other revenue reserves)	5,612,446	3,234,029
DISTRIBUTABLE PROFIT (a + b - c - d)		2,806,223	3,235,246

The Management Board of Elektro Celje proposes that the distributable profit for 2016 amounting to EUR 2,806,223 be allocated in its entirety for the payment of dividends.

15.9 Financial Risk Management

The stability of long-term operations is ensured through active risk management. Risk identification is based on the Company's strategic and annual goals. Financial risk management regards management of credit, market, capital, and liquidity risk. Exposure to

individual types of risks and risk management measures are assessed and implemented on the basis of their effects on cash flows and financial expenses. Financial risks, in accordance with the adopted risk management policy are regularly assessed along

with the suitability of the measures implemented to manage them. The method and methodology of financial risk management are presented in more detail in the Business Report under Risk Management section 11.2, and Financial Risks in section 11.2.1.3.

15.9.1 Credit Risk

Maximum exposure to credit risk arises from financial assets, with the most important regarding non-fulfilment by debtors due to non-payment or untimely settlement of liabilities by electricity consumers and customers for services rendered being trade receivables.

Management of receivables and debt recovery is implemented in ac-

cordance with the provisions of the Energy Act (EZ-1), Decree on General Conditions for the Supply and Consumption of Electricity (SPDOEE) and the provisions of the Rules on the financial operations of the Company. Risk management activities are focused on continuous monitoring and accounts receivables insurance and active collection of overdue and unpaid receivables and the charging

of default interest in case of delayed payment. The processes for managing receivables, recovery of debts, the responsible persons and channels and instruments for credit risk management are defined in the Rules on the financial operations of the Company.

Trade receivables (in EUR)	31 December 2016	31 December 2015
Long-term trade receivables	4,733,721	5,934,882
Short-term trade receivables	10,238,293	10,902,286
Total	14,972,014	16,837,168

The volume of trade receivables as at the balance sheet date 31 December 2016 compared to the end of 2015 decreased by 11.1%, mainly due to the partial payment of receivables from the preliminary and final reconciliations of the regulatory year 2014, and applicable interest totalling EUR 1,196,713. The share of trade receivables arising from deviations from the regulatory framework for the years 2012 - 2015 from actual eligible costs of the SODO activity was 41% and lower than in 2015, when it stood at 43.6%. The expected

part of long-term receivables from SOSO, which matures in 2017 in the amount of EUR 1,303,956, was included under short-term trade receivables, comprising 88.4% of the Company's short-term assets.

The policy for insuring receivables in 2016 remained unchanged compared to 2015. In line with the Company's risk management system, insurance of receivables is required from riskier business partners. According to the balance sheet as at 31 December

2016, EUR 34,000 of total receivables were insured based on debt collection instruments, with the balance increasing by another EUR 300,000 in February 2017. The Company did not insure receivables from customers for the network charge as this is not stipulated by SPDOEE.

Exposure to credit risk

As at 31 December 2016 the Company had EUR 784,078 (EUR 788,435 in 2015) of receivables for network charges, services, lease, average

connection fees and late charges for receivables with maturities longer than 365 days (bankruptcies, compulsory settlements, lawsuits and property manager debt under the Housing Act and revaluation adjustment for the aforementioned) and EUR 9,464,103 (EUR 9,905,234 in 2015) of non-matured receivables. The percentage of uncovered receivables from 2015 which remain unsettled one year after their due date is 0.2%.

The maturity structure of receivables takes into account short-term operat-

ing receivables due from group companies and from customers and interest receivables, without revaluation adjustments to the aforementioned. In accordance with SAS, the Company recognises a revaluation for receivables in bankruptcy proceedings and compulsory settlement proceedings, receivables which are the subject of litigation, and receivables overdue by more than 90 days as at the balance sheet date. In 2016, a revaluation adjustment in the amount of EUR 86,228 was performed for receivables, which is 40% less than the

figure in 2015, i.e. EUR 83,080 from value adjustments to receivables and EUR 3148 to interest. In 2016 a revaluation adjustment of EUR 74,570 of receivables was performed for network charges and in accordance with the Network Charges Act recognized as eligible operating and maintenance costs for the regulatory year (i.e. within the scope of 0.2% of the value of the network charges for the distribution system). Receivables amounting to EUR 163,352 were written off. Revaluation adjustments for receivables are explained in section 15.3 (f).

Maturity analysis of current trade receivables due by customers (in EUR):

Maturity	31 December 2016	Share in %	31 December 2015	Share in %
Receivables not yet due	9,464,102	86.7	9,905,235	85.9
Receivables overdue by less than 30 days	484,025	4.4	565,908	4.9
Receivables overdue by 31-60 days	41,967	0.4	64,603	0.6
Receivables overdue by 61-90 days	20,740	0.2	12,063	0.1
Receivables overdue by 91-180 days	29,529	0.3	60,369	0.5
Receivables overdue by 181-365 days	85,817	0.8	133,945	1.2
Receivables overdue by over 365 days	784,078	7.2	788,435	6.8
Total	10,910,258	100.0	11,530,558	100.0

In 2016 EUR 61,809 in invoices for unjustified consumption of electricity was charged, with received payments under this heading amounting to EUR 98,131.

Exposure to non-payment from customers is considered medium.

The Company is also exposed to credit risk from financial investments. Credit risk arising from investments refers to the risk of higher fluctuations

in the value of financial instruments. Reduced creditworthiness affects the liquidity of financial instruments and complicates the possible sale of the investment. In extreme cases, credit risk may lead to an investment being worthless. Financial assets the prices of which are quoted in an active market and whose fair value can be reliably measured, are measured at fair value (i.e. 2,960 shares of Zavarovalnica Triglav d.d. in the amount of EUR 68,672), while others are valued at

cost. On the balance sheet date, the Company's management assesses whether there are objective grounds for impairment assessment of financial investments into an equity instrument. The value that best represents the maximum exposure to such risk is the total value of the investment. Exposure to risk of a reduction in the value of long-term investments below their cost cannot be hedged by financial instruments (described in section 15.3 (c)).

15.9.2 Market Risk

When financing current operations and in the case of necessary investment activities in the context of market risk the Company is most exposed to, risks of changes in interest rates on acquired loans is of utmost importance. Risk arising from fluctuations in market interest rates and the resulting impact on interest sensitive financing liabilities may lead to an increase or decrease in costs in this regard.

Exposure to interest rate risk

Exposure to interest rate risk represents (un) favourable movement of the EURIBOR reference interest rate and has been assessed as small, as only 16.3% of assets were financed with bank loans according to the balance sheet. According to the balance sheet as at 31 December 2016, 68.5% of financing liabilities were tied to a variable interest rate tied to the 1-, 3- and 6- month EURIBOR. The Company does not secure fluctuations in

EURIBOR interest rates by financial instruments.

As a precaution, the Company rejects all terms of contracts that would allow the lender to subsequently change interest rates (increased costs clauses) due to changed conditions in the money and capital markets, changes in regulations and instructions of governmental, fiscal or monetary authorities, changes in the borrower's credit ranking, etc. The Company borrows

in accordance with the Decree on the Terms and Conditions and Methods of Borrowing by Legal Entities referred to in Article 87 of the Public Finance Act. In accordance with the Decree, the consent of the Ministry of Finance is required for commencement of any and each borrowing procedure and for signing of contracts with banks.

The Company cannot fully manage this risk, as the management costs (interest rate hedging) or taking out of loans at a fixed interest rate not based on the EURIBOR would outweigh the benefits. The Company again in 2017 does not expect a major increase in the EURIBOR, which is projected to remain negative, but the Company in the past has managed to reduce the EURIBOR margin several times under the existing contracts. In 2016 the effect of the reduction in mark-ups under existing contracts on profit

before tax amounted to EUR 14,680, or to a total of EUR 137,916 until the expiry of these contracts (in 2015 the effect of the reduction in profit before tax amounted to EUR 123,403 or EUR 584,759 until the expiry of these contracts). However, where a reduction in the mark-up could not be reached, the Company decided to re-finance the existing loan (the effect of lower interest rates amounted to EUR 132,225 until the expiry of the contracts). The average weighted interest rate on investment loans as at 31 December 2016 comprised 0.897% (1.316% in 2015).

Sensitivity analysis

Sensitivity to changes in interest rates is assessed using the sensitivity analysis method. Given the volume of acquired loans as at 31 December 2016, an interest rate change of 0.1% (10 basis points) would result in a EUR

3,005 change in cash flow, an interest rate change of 0.2% (20 basis points) would result in a EUR 5,895 change in cash flow, and an interest rate change of 0.3% (30 basis points) would result in a EUR 16,214 higher expenses for interest paid (the probability of larger change in the EURIBOR is estimated as low). Low sensitivity to changes in interest rates is mainly related to the negative value of the EURIBOR and interest rate clauses in credit agreements, as in the case of a negative value of EURIBOR for the calculation of interest for the interest period the value of EURIBOR = 0 is taken into account, and to an increased volume of loans with a fixed interest rate comprising 31.5% of total loans as at 31 December 2016 (11% of total loans as at 31 December 2015). This analysis assumes that all other variables remain unchanged.

15.9.3 Liquidity Risk

The company Elektro Celje is exposed to liquidity risk in its operations, namely that at any given time it will not be able to meet its obligations. Exposure is measured based on the balance of inflows and outflows.

Exposure to liquidity risk

An important aspect of managing liquidity risk (including short-term risk), which is rated as low, is planning cash flows performed on a daily, weekly, monthly and annual basis

by the Company. The dynamics of investment and volume of collected network charges for the distribution network affect cash flow risk. Due to a deficit in network charges in the years 2014 and 2015, the preliminary reconciliations for contractual obligations to SODO will only be settled in future regulatory periods, when the Energy Agency calculates the tariff items for the network charges which will then be charged to customers. These claims are stated in the Company's financial position statement at

discounted values, which were calculated for the period after inclusion of receivables in the regulatory framework, when in accordance with the Network Charges Act their remuneration will cease. The preliminary reconciliation for 2016 which was sent on 15 March 2017 will be settled within the due date in April 2017 for the volume of collected network charges from users in 2016 is sufficient to cover the eligible costs of the system operator.

Preliminary and final reconciliations (in EUR)		Carrying value as of 31 December 2015	Carrying value as of 31 December 2016	Incorporation into the regulatory framework 2016-2018		Incorporation into the regulatory framework 2019-2021
				2017	2018	
	1	2	3 = 4 + 5 + 6	4	5	6
1.	SODO - 2014 preliminary reconciliation (PRO 2014)	3,860,759	2,681,086	1,286,916	1,394,170	0
2.	SODO - 2015 preliminary reconciliation (PRO 2015)	3,426,391	3,426,391	0	0	3,426,391
3.	SODO - contractual interest for PRO 2014	77,216	51,476	25,740	25,736	0
4.	EAgEn - final reconciliation RF 2012-2014	-26,109	-17,409	-8,700	-8,709	0
5.	Total deviations from the Regulatory Framework (RF)	7,338,257	6,141,544	1,303,956	1,411,197	3,426,391

Since December 2015 the Company can draw from the long-term revolving loan in the amount of EUR 3,145,000 to ensure daily liquidity and for the event of increased liquidity demand. In 2015 the Company signed a con-

tract with the EIB for EUR 28 million to finance investments in the period 2015-2017. By providing appropriate financing sources and favourable values of financial indicators, the Company manages the risk of poor

credit and untimely acquisition of the necessary approvals for loans from sectorial ministries, so that risk is assessed as low. Hedging of loans and financial commitments to banks are explained in section 15.4.11.

Maturity of financial liabilities to banks as of 31 December 2016 (in EUR)		Carrying value as of 31 December 2016	Term		
			Up to 1 year	1 to 5 years	over 5 years
1.	Investment financing loans	43,942,732	10,132,132	28,126,028	5,684,572
2.	Other loans granted	1,050,000	1,050,000	0	0
Total financial liabilities to banks		44,992,732	11,182,132	28,126,028	5,684,572

Maturity of financial liabilities to banks as of 31 December 2015 (in EUR)		Carrying value as of 31 December 2015	Term		
			Up to 1 year	1 to 5 years	above 5 years
1.	Investment financing loans	45,304,426	11,761,695	30,247,682	3,295,049
2.	Other loans granted	76,000	76,000	0	0
Total financial liabilities to banks		45,380,426	11,837,695	30,247,682	3,295,049

15.9.4 Equity Risk

The purpose of equity management is to ensure a high credit rating, long-term solvency, capital adequacy and favourable financing indicators, and to maximize the value of shares and dividends to shareholders. The equity to total liabilities rate in 2016 was 72.78%, and 72.15% in 2015.

Changes in equity are monitored using the financial leverage indicator, calculated by dividing (net) financial

liabilities by equity. The Company includes long-term and short-term liabilities to banks and other financial liabilities, less cash and cash equivalents in net financial liabilities. When making decisions regarding equity management, the Company also observes all the remaining financial commitments pursuant to credit agreements, which are described in section 15.4.11. The Company had fulfilled all contractual financial commit-

ments as at the balance sheet date.

Exposure to equity risk

The Company's net debt to equity ratio is low, which is a good starting point for obtaining a good credit rating, thereby lowering costs of borrowing. The ratio was 0.8% lower compared to the balance sheet state in 2015.

Financial leverage indicator (in EUR)		31 December 2016	31 December 2015
1.	Loans granted and other financial liabilities	44,996,904	45,387,489
2.	Minus cash and cash equivalents	-180,689	-24,123
3.	Net financial liabilities	44,816,215	45,363,366
4.	Equity	200,929,373	196,443,080
5.	Net debt to equity ratio	22.4%	23.1%

15.10 Transactions with Associated Parties

15.10.1 Transactions with Companies within the Corporate Group

Item/year (in EUR)	2016		2015	
	ECE d.o.o.	MHE Elpro, d.o.o.	ECE d.o.o.	MHE Elpro, d.o.o.
Assets:				
Short-term trade receivables from customers	8,868	2,960	8,718	3,054
Accrued revenue and deferred expenses	0	0	637,418	0
Total assets	8,868	2,960	646,136	3,054
Liabilities:				
Short-term operating liabilities to suppliers	11,965	36,477	654,248	32,659
Other operating liabilities	985	0	0	0
Total liabilities	12,950	36,477	654,248	32,659
Income:				
Net revenue from sales	86,081	24,385	158,530	24,693
Financial income	0	0	0	395
Total income	86,081	24,385	158,530	25,088
Costs and expenses:				
Cost of material	75,545	149,503	5,002,467	145,340
Cost of services	5,658	876	86	0
Total costs and expenses	81,203	150,379	5,002,553	145,340

15.10.2 Data on Groups of Persons

The amounts of remuneration granted to groups of persons of Elektro Celje d.d. for 2016 for the performance of functions in the Company are as follow:

Gross receipts of groups of persons (in EUR)	2016	2015
Members of the Management Board	149,258	105,603
Members of the Supervisory Board and Supervisory Board Audit Committee	126,705	114,680
Other employees on individual contracts	396,771	395,163
Total	672,734	615,446

Remuneration of the Management Board of the company

Chairman of the Management Board	Receipts (in EUR)	Total	Salary	Payments for unused annual leave	Retirement benefits
Rade Knežević (until 30 April 2016)	Gross receipts	85,212	59,354	1,840	24,017
	Net receipts	38,308	25,756	717	11,835
Boris Kupec, MSc (since 1 May 2016)	Gross receipts	64,046	64,046	0	0
	Net receipts	32,373	32,373	0	0
Total	Gross receipts	149,258	123,400	1,840	24,017
	Net receipts	70,681	58,129	717	11,835

The employment contract provides for the Chairman of the Management Board in the case of early recall at no fault compensation amounting to six months' salary on the condition

that his/her employment relationship is terminated. The Chairman of the Management Board was not a member of management or supervisory bodies in other companies in 2016.

Cost of benefits and reimbursement of travel expenses for the Chairman of the Management Board arising from the contract of employment and the cost of professional education in 2016 are as follows:

Chairman of the Management Board	Receipts (in EUR)	Travel expenses	Insurance premiums	Use of company vehicle	Professional education	Holiday pay
Rade Knežević	3,231	429	108	2,107	0	587
Boris Kupec	5,153	1,134	157	3,060	803	0
Total	8,384	1,563	265	5,167	803	587

Reimbursement of labour costs is accounted for in accordance with the contract of employment or collective

agreement at company level and includes daily and meal allowances and travel expenses for business trips.

The cost of insurance premiums and the use of Company vehicles represent the creditworthiness of Management Board members.

Basic annual remuneration of members of the Supervisory Board and the Audit Committee of the Supervisory Board:

Basic annual remuneration (in EUR):	Decision of the 21 st Shareholders Assembly (valid since 1 September 2016)	Decision of the 16 th Shareholders Assembly (valid until 31 August 2016)
Chairman of the Supervisory Board	19,500	16,950
Deputy Chairman of the Supervisory Board	14,300	12,430
Member of the Supervisory Board	13,000	11,300
Chairwoman of the Committee	4,875	4,238
Member of the Committee	3,250	2,825

The Supervisory Board has six members, four of whom are shareholder representatives and two who are employee representatives. All Supervisory Board members possess equal rights and duties. The Supervisory Board members are appointed by the Shareholder's Assembly by a simple majority of shareholders present, except members of the Supervisory Board elected by the Workers'

Council. Amendments and supplements to the Articles of Association are adopted by the Assembly by a three-fourths majority of the share capital represented at the General Meeting. The Supervisory Board held 19 sessions in 2016, 4 of which were correspondence meetings.

The Audit Committee of the Supervisory Board operates within the

scope of the Supervisory Board with the members in 2016 comprising Tatjana Habjan as Chairwoman, Mirjan Trampuž, MSM and MSc Energetics and Dejan Božič as members, the latter until 19 June 2016, and Darinka Virant, as an independent external expert. The Audit Committee held seven meetings in 2016.

Name and Surname	Position	Attendance at meeting			Receipts in EUR (net)	Receipts in EUR (gross)	Meeting fees and basic remuneration in EUR	Travel expenses in EUR
		SB meeting	Meeting of SB by correspondence	SB AC meeting				
1	2	3		4	5	6 = 7 + 8	7	8
REPRESENTATIVES OF SHAREHOLDERS:								
Mirjan Trampuž, MSM and MSc Energetics	Chairman of the SB and member of the SB AC	15	4	6	20,418	28,133	27,092	1,041
Dejan Božič	Deputy chairman of the SB and member of the SB AC until 19 June 2016	9	2	4	8,265	11,423	11,043	381
Tatjana Habjan	Member of the SB and Chairwoman of the SB AC	14	4	7	17,238	23,760	22,587	1,173
Mitja Vatovec	Member of the SB from 1 January 2016 to 12 September 2016 and deputy chairman of the SB since 13 September 2016	15	4	0	13,786	19,013	17,258	1,755
Miha Kerin, MSc	Member of the SB since 1 September 2016	4	1	0	4,368	6,006	5,653	353
Darinka Virant	Independent third-party expert, member of the SBAC	0	0	7	3,725	5,121	4,507	615
REPRESENTATIVES OF EMPLOYEES:								
Tomislav Pajić	Member of the SB	14	3	0	11,868	16,377	16,377	0
Boris Počivavšek	Member of the SB	15	4	0	12,228	16,872	16,872	0
TOTAL					91,896	126,705	121,388	5,317

The cost of liability insurance in accordance with the resolution of the Supervisory Board of Elektro Celje d.d. representing the creditworthiness of members of the Supervisory Board represent the cost of other benefits for members of the Supervi-

sory Board in 2016. Members of the Supervisory Board and Supervisory Board Audit Committee in accordance with the resolution of the 21st Shareholder's Assembly of 31 August 2016 are entitled to reimbursement of professional education and training

contextually connected to the performance of control functions and operations of the Company in the total amount of EUR 10,000 per individual financial year.

Name and Surname	Liability insurance (in EUR)	Professional education (in EUR)
REPRESENTATIVES OF SHAREHOLDERS:		
Mirjan Trampuž, MSM and MSc Energetics	157	1,446
Dejan Božič	157	0
Tatjana Habjan	157	295
Mitja Vatovec	157	41
Miha Kerin, MSc	0	41
Darinka Virant	0	41
REPRESENTATIVES OF EMPLOYEES:		
Tomislav Pajić	157	181
Boris Počivavšek	157	41
TOTAL	942	2,086

Membership of members of the Supervisory Board of the Company in the management or supervisory bodies of other companies:

Name and surname	Membership in management or supervisory bodies
Mirjan Trampuž, MSM and MSc Energetics	Member of the Council of the Slovenian Institute for Quality and Metrology - SIQ
Mitja Vatovec	Managing Director of Emigma, d.o.o.
Dejan Božič	/
Tatjana Habjan	<ul style="list-style-type: none"> Independent external expert, member of the Supervisory Board Audit Committee of ERGO Življenjska zavarovalnica, d.d. Director of the European Institute of Compliance and Ethics (EICE) - until 31 March 2016 Entrepreneur (s.p.) - Dodana vrednost, revidiranje in svetovanje, Tatjana Habjan s.p.
Miha Kerin	<ul style="list-style-type: none"> Member of the Management Board of Varnost sistemi, d.o.o. (since January 2016) External member of the Nomination Committee of Telekom Slovenije, d.d. (since June 2016)
Tomislav Pajić	/
Boris Počivavšek	/

The Management Board and Supervisory Board did not receive any remuneration in connection with tasks in subsidiaries. Elektro Celje also did not approve any advances, loans or guarantees to members of the Supervisory Board, the Supervisory Board Audit Committee or the Management

Board and as at 31 December 2016, does not show any receivables from these addresses from them.

Employee remuneration on the basis of contracts which are not subject to the tariff part of the collective agreement

Remuneration to employees on the basis of contracts which are not subject to the tariff part of the collective agreement in 2016 amounted to EUR 396,771 gross or EUR 209,530 net (EUR 395,163 gross or EUR 209,676 net in 2015).

15.11 Disclosures Pursuant to the Energy Act

Elektro Celje d.d. draws up the financial statements of the Company as a whole, and pursuant to Article 109 of the Energy Act and SAS also reports on business segments and activities

in explanatory notes to the financial statements. The activities of the Company include provision of infrastructure and the services of general economic interest of the distribution

network system operator according to the agreement with SODO d.o.o., as well as marketing activities.

15.11.1 Balance Sheet Broken Down by Activities

Transactions affecting the accounts of assets and liabilities are recorded on an accrual basis and by activity, whereby the Company applies the principle of individual valuation of assets and liabilities. The balance sheet by activity - business segments - has the form of a double-entry balance and contains the items identified in the SAS 20.4.

In accordance with the Rules on the criteria for separate accounting recording and reporting by business activities of the company Elektro Celje, assets and liabilities are classified according to their purpose and use according to relevant activities of the Company. The entire distribution

network including the control centres activity is classified directly under the activity of providing power distribution infrastructure and services for the distribution network operator, while the remaining fixed assets of this sector that are not exclusive to one activity are classified in the appropriate category based on the number of hours spent by the sector working on each activity.

The activity of provision of power infrastructure and services is directly allocated short-term and long-term financial liabilities to banks from investment loans, short-term liabilities from operations for a third-party account (SODO), and short-term and long-

term trade receivables for network charges and trade receivables due from the system operator. The market activity is directly allocated into long-term investments into the subsidiary for power generation and distribution, and into the subsidiary company for the marketing of electricity.

Short-term financial investments and available cash and cash equivalents are calculated based on the amount of assets and liabilities of the activity. The amounts of share capital and revenue reserve by activity are determined and do not change, while the changes of other components of capital by individual segments are disclosed and reported in the state-

ments of changes in equity, broken down by activity. The remaining assets and liabilities of the sector that are not exclusive to one activity are

classified into the appropriate category based on the number of hours spent by the sector working on each activity.

With regard to assets and liabilities of shared functions, classification by activity follows these criteria:

Account	Criterion
007, 06, 07, 08, 25, 262, 263, 2655, 2663, 270, 277, 282, 285, 2851 do 2859, 320, 321, 966, 989	1
003, 004, 008, 010, 015, 020, 021, 027, 035, 040, 041, 045, 047, 048, 050, 051, 055, 058, 089, 130, 131, 968	2
120, 129, 1321, 133, 150, 151, 155, 159, 160, 161, 164, 165, 169, 190, 191, 192, 195, 260, 290, 291, 295	3
30, 31, 1320	4
2201, 230, 2212, 224, 2656/8 and 2660/1, 2, 4, 5	5
100, 101, 102, 109, 110, 111, 112, 180, 183, 189, 900, 919, 920, 923, 930, 931, 932, 963	Calculation

- **Criterion 1 – Share of hours worked for a particular activity in the accounting period** is used to allocate long-term financial investments not assigned to a particular activity, long-term loans granted, long-term trade receivables, liabilities related to salaries, short-term liabilities to state and other institutions, other short-term trade payables, small tools inventory, long-term trade payables and retained contributions for employment of persons with disabilities over the mandatory quota. These assets and liabilities are related by content and amount to the number of hours worked or the number of employees (sale of apartments with payment in instalments, small tools inventory purchases, employees' salaries).
- **Criterion 2 – Share of fixed assets current value** is used in classifying fixed assets used within shared functions that serve both activities. Fixed assets are allocated to the appropriated category based on the share of fixed assets pertaining to each activity in the maintenance and investment sector.
- **Criterion 3 – Share of total revenue in the accounting period, excluding revenue from shared functions** is used in classifying short-term receivables, payables for VAT, and short-term accruals and deferrals that are not assigned to a particular activity. The balance of these assets and liabilities depends on the scope of invoicing and the related total revenue.
- **Criterion 4 – Share of material used in the accounting period by individual activity** (excluding the cost of electricity purchased to cover the losses) – is used in classifying the inventory of material. Increased consumption of material requires larger purchases, and consequently a larger inventory.
- **Criterion 5 – Share of cost of material and services by individual activity** (excluding the cost of electricity purchased to cover the losses) – is used in classifying trade payables to suppliers of fixed and current assets. Since these payables are based on the invoices for material and services received, which are recorded upon occurrence at the level of shared functions, they are classified based on a combined criteria of used material and services by the activity from which these payables reasonably derive.



BALANCE SHEET BY ACTIVITIES as of 31 December 2016

Item (in EUR)	SODO activity	Market activities	Total
1			
A. Non-current assets (I. + II. + III. + IV. + V. + VI.)	253,057,038	8,606,640	261,663,678
I. Intangible assets and long-term accrued revenue and deferred expenses (1 to 6)	1,525,658	18,373	1,544,031
1. Long-term property rights	1,205,256	17,145	1,222,401
4. Intangible assets in development	320,191	1,160	321,351
6. Other long-term accrued revenue and deferred expenses	211	68	279
II. Property, plant and equipment (1 to 4)	244,829,053	1,207,484	246,036,537
1. Land and buildings (a + b)	177,630,034	501,590	178,131,624
a) Land	5,879,685	4,892	5,884,577
b) Buildings	171,750,349	496,698	172,247,047
2. Production equipment and machinery	61,331,265	653,464	61,984,729
3. Other plant and equipment	45,390	42,832	88,222
4. Tangible fixed assets in the course of acquisition (a + b)	5,822,364	9,598	5,831,962
a) Property, plant and equipment under construction	5,822,364	9,598	5,831,962
IV. Long-term financial investments (1 to 2)	199,557	7,379,671	7,579,228
1. Long-term financial investments, excluding loans (a + b + c + d)	199,557	7,379,671	7,579,228
a) Shares and shareholdings in companies within the corporate group	0	7,246,975	7,246,975
c) Other shares and shareholdings	199,557	132,696	332,253
V. Long-term trade receivables (1 to 3)	4,732,609	1,112	4,733,721
2. Long-term trade receivables from customers	4,725,754	0	4,725,754
3. Long-term trade receivables from others	6,855	1,112	7,967
VI. Deferred tax assets	1,770,161	0	1,770,161
B. Current assets (I. + II. + III. + IV. + V.)	10,241,829	1,338,170	11,579,999
I. Inventory (1 to 4)	278,696	882,321	1,161,017
1. Material	278,696	882,321	1,161,017
IV. Short-term trade receivables (1 to 3)	9,938,395	299,898	10,238,293
1. Short-term trade receivables from companies within the corporate group	9,026	2,802	11,828
2. Short-term trade receivables from customers	9,765,710	249,937	10,015,647
3. Short-term trade receivables from others	163,659	47,159	210,818
V. Cash and cash equivalents	24,738	155,951	180,689
C. Short-term accrued revenue and deferred expenses	2,776,655	39,658	2,816,313
TOTAL ASSETS (A + B + C)	266,075,522	9,984,468	276,059,990

Item (in EUR)		SODO activity	Market activities	Total
	1			
A.	Equity	193,953,101	6,976,272	200,929,373
I.	Called-up capital	98,665,077	2,288,124	100,953,201
	1. Share capital	98,665,077	2,288,124	100,953,201
II.	Share premium	60,849,175	1,411,142	62,260,317
III.	Revenue reserve	32,307,302	2,959,034	35,266,336
	1. Legal reserves	2,864,987	170,374	3,035,361
	2. Reserves for own shares and interests	529,552	12,281	541,833
	3. Own shares and interests	-529,552	-12,281	-541,833
	5. Other revenue reserves	29,442,315	2,788,660	32,230,975
IV.	Reserves resulting from valuation at fair value	-293,392	-63,312	-356,704
VII.	Net income/profit for the year	2,424,939	381,284	2,806,223
	1. Undistributed net income/profit for the year	2,424,939	381,284	2,806,223
B.	Provisions and long-term accrued expenses and deferred revenue (1 to 3)	17,464,046	1,668,461	19,132,507
	1. Retirement benefits and similar employee benefits	4,164,256	1,579,544	5,743,800
	2. Other provisions	31,850	0	31,850
	3. Long-term accrued expenses and deferred revenue	13,267,940	88,917	13,356,857
C.	Non-current liabilities (I.+ II.+ III.)	34,066,559	79,493	34,146,052
I.	Non-current financial liabilities (1 to 4)	33,810,599	0	33,810,599
	2. Long-term financial liabilities to banks and companies	33,810,599	0	33,810,599
II.	Non-current operating liabilities (1 to 5)	247,773	79,493	327,266
	2. Long-term trade payables to suppliers	247,773	79,493	327,266
III.	Deferred tax liabilities	8,187	0	8,187
D.	Current liabilities (I.+ II.+ III.)	20,086,274	1,069,898	21,156,172
II.	Current financial liabilities (1 to 4)	11,182,132	4,173	11,186,305
	2. Short-term financial liabilities to banks and companies	11,182,132	0	11,182,132
	4. Other short-term financial liabilities	0	4,173	4,173
III.	Current operating liabilities (1 to 8)	8,904,142	1,065,725	9,969,867
	1. Short-term trade payables to companies within the corporate group	37,422	12,006	49,428
	2. Short-term trade payables to suppliers	2,381,931	331,613	2,713,544
	4. Short-term trade payables from operations for third-party account	3,940,329	0	3,940,329
	5. Short-term trade payables to employees	1,641,385	495,931	2,137,316
	6. Short-term trade payables to state and other institutions	533,242	109,807	643,049
	7. Short-term trade payables based on advances	160	7,857	8,017
	8. Other short-term trade payables	369,673	108,511	478,184
E.	Short-term accrued expenses and deferred revenue	505,542	190,344	695,886
	TOTAL LIABILITIES (A to E)	266,075,522	9,984,468	276,059,990

BALANCE SHEET BY ACTIVITIES as of 31 December 2015

Item (in EUR)	SODO activity	Market activities	Total
1			
A. Non-current assets (I. + II. + III. + IV. + V. + VI.)	250,762,915	8,451,846	259,214,761
I. Intangible assets and long-term accrued revenue and deferred expenses (1 to 6)	1,142,030	14,331	1,156,361
1. Long-term property rights	1,131,915	14,245	1,146,160
4. Intangible assets in development	10,008	43	10,051
6. Other long-term accrued revenue and deferred expenses	107	43	150
II. Property, plant and equipment (1 to 4)	242,853,979	1,050,963	243,904,942
1. Land and buildings (a + b)	173,715,604	37,119	173,752,723
a) Land	5,791,678	4,126	5,795,804
b) Buildings	167,923,926	32,993	167,956,919
2. Production equipment and machinery	61,143,839	943,409	62,087,248
3. Other plant and equipment	46,716	46,777	93,493
4. Tangible fixed assets in the course of acquisition (a + b)	7,947,820	23,658	7,971,478
a) Property, plant and equipment under construction	7,947,820	23,658	7,971,478
IV. Long-term financial investments (1 to 2)	194,760	7,385,356	7,580,116
1. Long-term financial investments excluding loans (a + b + c + d)	194,760	7,385,356	7,580,116
a) Shares and shareholdings in companies within the corporate group	0	7,246,975	7,246,975
c) Other shares and shareholdings	194,760	138,381	333,141
V. Long-term trade receivables (1 to 3)	5,933,686	1,196	5,934,882
2. Long-term trade receivables from customers	5,927,233	0	5,927,233
3. Long-term trade receivables from others	6,453	1,196	7,649
VI. Deferred tax assets	638,460	0	638,460
B. Current assets (I. + II. + III. + IV. + V.)	11,020,743	1,286,195	12,306,938
II. Inventory (1 to 4)	337,488	1,043,041	1,380,529
1. Material	337,488	1,043,041	1,380,529
IV. Short-term trade receivables (1 to 3)	10,680,185	222,101	10,902,286
1. Short-term trade receivables from companies within the corporate group	9,129	2,643	11,772
2. Short-term trade receivables from customers	10,391,791	151,015	10,542,806
3. Short-term trade receivables from others	279,265	68,443	347,708
V. Cash and cash equivalents	3,070	21,053	24,123
C. Short-term accrued revenue and deferred expenses	680,978	58,316	739,294
TOTAL ASSETS (A + B + C)	262,464,636	9,796,357	272,260,993

Item (in EUR)	SODO activity	Market activities	Total
1			
A. Equity	190,439,273	6,003,807	196,443,080
I. Called-up capital	98,665,077	2,288,124	100,953,201
1. Share capital	98,665,077	2,288,124	100,953,201
II. Share premium	60,849,175	1,411,142	62,260,317
III. Revenue reserve	27,697,859	2,377,539	30,075,398
1. Legal reserves	2,446,066	117,690	2,563,756
5. Other revenue reserves	25,251,793	2,259,849	27,511,642
IV. Revaluation surplus	-93,600	12,518	-81,082
V. Retained net profit or loss	899	318	1,217
1. Retained earnings from previous years	899	318	1,217
VI. Net income/profit for the year	3,319,863	-85,834	3,234,029
1. Undistributed net income/profit for the year	3,234,029	0	3,234,029
2. Net loss for the year	85,834	-85,834	0
B. Provisions and long-term accrued expenses and deferred revenue (1 to 3)	18,020,344	1,623,866	19,644,210
1. Provisions for retirement benefits and similar employee benefits	3,921,223	1,488,145	5,409,368
2. Other provisions	560,069	55,557	615,626
3. Long-term accrued expenses and deferred revenue	13,539,052	80,164	13,619,216
C. Non-current liabilities (I.+ II.+ III.)	33,550,207	0	33,550,207
I. Non-current financial liabilities (1 to 4)	33,542,731	0	33,542,731
2. Long-term financial liabilities to banks and companies	33,542,731	0	33,542,731
III. Deferred tax liabilities	7,476	0	7,476
D. Current liabilities (I.+ II.+ III.)	19,885,894	1,939,169	21,825,063
II. Current financial liabilities (1 to 4)	11,837,695	7,063	11,844,758
2. Short-term financial liabilities to banks and companies	11,837,695	0	11,837,695
4. Other short-term financial liabilities	0	7,063	7,063
III. Current operating liabilities (1 to 8)	8,048,199	1,932,106	9,980,305
1. Short-term trade payables to companies within the corporate group	675,510	11,397	686,907
2. Short-term trade payables to suppliers	1,881,002	1,329,522	3,210,524
4. Short-term trade payables from operations for third-party account	3,845,389	0	3,845,389
5. Short-term trade payables to employees	1,092,528	361,958	1,454,486
6. Short-term trade payables to state and other institutions	242,141	66,331	308,472
7. Short-term trade payables based on advances	1,921	63,889	65,810
8. Other short-term trade payables	309,708	99,009	408,717
E. Short-term accrued expenses and deferred revenue	568,918	229,515	798,433
TOTAL LIABILITIES (A to E)	262,464,636	9,796,357	272,260,993

15.11.2 Income Statement Broken Down by Activities

The income statement broken down by activities - business segments – is drawn up pursuant to Version I of SAS 21.6. All revenue, expenses and net income are broken down into the part related to activities providing power distribution infrastructure and rendering services for SODO, and market activities.

Organizational activities are not separated; they are conducted within the maintenance and investment section, development and operations sector, and shared functions. Revenue, costs and expenses that cannot be directly attributed to a particular activity based on the type of work are classified in the appropriate category based on the number of hours spent

by the sector working on each activity. In allocating the revenue, costs and expenses of the shared functions and organizational units within the shared functions, which cannot be directly attributed to a particular activity, the classification under the appropriate category is carried out according to the following criteria:

Account	Criterion
part of 760, 765, 766, 768, 769, 774, 775, 777, 78, 720, 721, 722, 723, 740, 743, 745, 746, 749	Shared functions
40, 41, 43, 47, 48, 75	Individual organisational unit within shared functions

The criteria of shared functions and individual organisational unit within the shared functions are based on the calculation of appropriate ponderers, which include the following categories:

- **revenue activity** (the criterion is calculated based on revenue by activity for the accounting period, minus the revenue from shared functions),
- **current value of fixed assets associated with the activity** (the criterion is calculated based on the current value of fixed assets by activity on the last day of the accounting period),

• **Consumption of material** (the criterion is calculated based on the amounts of material used, excluding the costs of electricity, by activity in the accounting period),

- **number of hours worked by activity** (the criterion is calculated based on the actual hours worked by the employees per individual activity in

the accounting period),

- **cost of business data processing** (the criterion is calculated based on the shares of use of resources according to the price list from the contract signed with Informatika d.d.),
- **transport costs** (the criterion is calculated based on the value of transport by activity in the accounting period).

Net sales revenue by activities (in EUR)	SODO activity	Market activities	Total
From lease and maintenance of infrastructure and provision of services for SODO	47,514,712	0	47,514,712
From the sale of services	449,411	1,553,800	2,003,211
Total	47,964,123	1,553,800	49,517,923

INCOME STATEMENT BY ACTIVITIES for the period January-December 2016

Item (in EUR)		Amount		
		SODO activity	Market activities	Total
	1			
1.	Net sales revenue	47,964,123	1,553,800	49,517,923
	a. In the domestic market	47,964,123	1,553,800	49,517,923
3.	Capitalised own products and services	0	13,260,484	13,260,484
4.	Other operating revenue (including revaluation surplus)	1,569,654	442,191	2,011,845
5.	Costs of goods, materials and services (a + b)	6,854,169	8,222,327	15,076,496
	a. Cost of goods and material	1,340,580	7,252,585	8,593,165
	b. Cost of services	5,513,589	969,742	6,483,331
6.	Labour costs (a + b + c + d)	15,898,246	5,850,344	21,748,590
	a. Cost of salaries	11,232,284	4,208,815	15,441,099
	b. Cost of supplementary employee retirement insurance	577,956	195,244	773,200
	c. Cost of employer contributions and other levies on salaries	1,867,043	693,051	2,560,094
	d. Other labour costs	2,220,963	753,234	2,974,197
7.	Write-downs and write-offs (a + b + c)	17,659,150	419,653	18,078,803
	a. Amortisation and depreciation	17,065,679	388,286	17,453,965
	b. Operating expenses from revaluation of intangible and tangible fixed assets	454,357	6,158	460,515
	c. Operating expenses from revaluation of current assets	139,114	25,209	164,323
8.	Other operating expenses	319,074	49,122	368,196
9.	Financial income from shareholdings (a + b)	0	416,221	416,221
	a. Financial income from shareholdings in companies within the corporate group	0	408,791	408,791
	b. Financial income from shareholdings in other companies	0	7,430	7,430
10.	Financial income from loans granted (a + b)	66	28	94
	b. Financial income from loans to others	66	28	94
11.	Financial income from trade receivables	53,683	428	54,111
	b. Financial income from trade receivables due from third parties	53,683	428	54,111
13.	Financial expenses from financial liabilities (a + b)	539,735	739	540,474
	b. Financial expenses related to loans from banks	539,735	739	540,474
14.	Financial expenses from operating liabilities	77,195	24,685	101,880
	c. Financial expenses from other trade payables	77,195	24,685	101,880
15.	Other revenue	7,600	1,107	8,707
16.	Other expenses	50,704	50,097	100,801
17.	NET PROFIT/LOSS FOR THE PERIOD BEFORE TAXES (1 ± 2 + 3 + 4 – 5 – 6 – 7 – 8 + 9 + 10 + 11 – 12 – 13 – 14 + 15 – 16)	8,196,853	1,057,292	9,254,145
18.	Income tax	814,846	105,105	919,951
19.	Deferred taxes	996,411	105,105	1,101,516
20.	NET PROFIT/LOSS FOR THE PERIOD (1 ± 2 + 3 + 4 – 5 – 6 – 7 – 8 + 9 + 10 + 11 – 12 – 13 – 14 + 15 – 16 – 18 + 19)	8,378,418	1,057,292	9,435,710

INCOME STATEMENT BY ACTIVITIES for the period January-December 2015

Item (in EUR)		Amount		
		SODO activity	Market activities	Total
	1			
1.	Net sales revenue	52,540,046	1,251,515	53,791,561
	a. In the domestic market	52,540,046	1,251,515	53,791,561
3.	Capitalised own products and services	0	14,324,151	14,324,151
4.	Other operating revenue (including revaluation surplus)	1,106,610	211,204	1,317,814
5.	Costs of goods, materials and services (a + b)	12,035,651	9,291,029	21,326,680
	a. Cost of goods and material	6,250,936	8,343,102	14,594,038
	b. Cost of services	5,784,715	947,927	6,732,642
6.	Labour costs (a + b + c + d)	15,197,030	5,896,055	21,093,085
	a. Cost of salaries	10,733,692	4,240,766	14,974,458
	b. Cost of supplementary employee retirement insurance	511,958	182,405	694,363
	c. Cost of employer contributions and other levies on salaries	1,717,132	679,159	2,396,291
	d. Other labour costs	2,234,248	793,725	3,027,973
7.	Write-downs and write-offs (a + b + c)	17,500,191	599,976	18,100,167
	a. Amortisation and depreciation	17,122,756	566,744	17,689,500
	b. Operating expenses from revaluation of intangible and tangible fixed assets	232,253	23,503	255,756
	c. Operating expenses from revaluation of current assets	145,182	9,729	154,911
8.	Other operating expenses	334,190	39,982	374,172
9.	Financial income from shareholdings (a + b)	0	7,400	7,400
	b. Financial income from shareholdings in other companies	0	7,400	7,400
10.	Financial income from loans granted (a + b)	1,549	674	2,223
	a. Financial income from loans to companies within the corporate group	275	120	395
	b. Financial income from loans to others	1,274	554	1,828
11.	Financial income from operating receivables	133,722	2,000	135,722
	b. Financial income from trade receivables due from third parties	133,722	2,000	135,722
12.	Financial expenses from impairment and write-downs of financial investments	72,135	31,373	103,508
13.	Financial expenses from financial liabilities (a + b)	950,753	27,174	977,927
	b. Financial expenses related to loans from banks	720,092	0	720,092
	d. Financial expenses related to other financial liabilities	230,661	27,174	257,835
14.	Financial expenses from trade payables	549	208	757
	c. Financial expenses from other trade payables	549	208	757
15.	Other revenue	19,630	7,224	26,854
16.	Other expenses	59,211	4,205	63,416
17.	NET PROFIT/LOSS FOR THE PERIOD BEFORE TAXES (1 ± 2 + 3 + 4 – 5 – 6 – 7 – 8 + 9 + 10 + 11 – 12 – 13 – 14 + 15 – 16)	7,651,847	–85,834	7,566,013
18.	Income tax	784,969	0	784,969
19.	Deferred taxes	27,438	0	27,438
20.	NET PROFIT/LOSS FOR THE PERIOD (1 ± 2 + 3 + 4 – 5 – 6 – 7 – 8 + 9 + 10 + 11 – 12 – 13 – 14 + 15 – 16 – 18 + 19)	6,894,316	–85,834	6,808,482

15.11.3 Statement of Cash Flows Broken Down by Activities

The statement of cash flows broken down by activities is a financial statement of the Company that faithfully and fairly presents changes in cash and cash equivalents by activity. It refers to the financial year for which it was compiled. It discloses cash flows generated from operating activities, investing activities and financing activities. It is compiled using the direct method, Version I (26.5 SAS) and in the line-by-line form.

The basis for compiling the statement of cash flows by activity includes data from relative underlying documents on cash flows. The allocation of revenue and expenses by activity for the relevant accounting period follows the criteria for allocating assets, liabilities, revenue and expenses.

Cash flows increasing or decreasing the values of the assets and liabilities of a sector and which cannot be di-

rectly attributed to one particular activity are classified under the appropriate category based on the number of hours spent by the sector working on each activity. The allocation of revenue and expenses of shared functions to the appropriate activity follows the criteria defined in the Rules and regulations on the criteria for separate accounting recording and reporting by the business activities of Elektro Celje:

Account	Criterion
06, 07, 08, 25, 263, 2655, 2663, 270, 277, 282, 285, 966	K1
130, 131, 968	K2
120, 1321, 133, 150, 151, 155, 160, 161, 164, 165, 190, 191, 192, 195, 260, 290, 291, 295	K3
2201, 230, 2212, 224, 2656/8, 2660/1,2,4,5, 6, 2203	K5
110, 111, 112, 176, 180, 182, 183, 272, 280	Calculation

Cash flows which increase or decrease the volume of revenue, costs and expenses of activities within the maintenance and investment sector and within the development and operations sector, and which cannot be directly attributed to a particular

activity based on the type of work, are classified under the appropriate category based on the number of hours spent by each sector working on a particular activity. The allocation of revenue, costs and expenses of shared functions and organisational

units within shared functions, which cannot be directly attributed to a particular activity, follows the criteria specified in Articles 14 and 15 of the said Rules:

Account	Criterion
7772, 7773, 7862, 7863, 7460/1,2	Shared functions
4163, 4196, 4821, 4890, 7540, 7580, 7591, 7880, 7890	Individual organisational unit within shared functions

The surplus of inflows from operating activities over the outflows from the activity of providing the power distribution network and rendering of

services for the distribution network operator represents a funding source for investing activities, payments to suppliers, and carrying out own in-

vestments within the Company's non-electricity related activities.

CASH FLOW STATEMENT FOR 2016

Item (in EUR)	SODO activity	Market activities	Total
1	2	3	4
A. Cash flows from operating activities			
a) Inflows from operating activities	98,756,008	17,987,744	116,743,752
Inflows from sale of goods and services	97,947,180	17,702,799	115,649,979
Other operating inflows	808,828	284,945	1,093,773
b) Outflows from operating activities	-74,063,741	-14,189,270	-88,253,010
Purchase of material and services	-52,323,417	-7,309,912	-59,633,329
Salaries and employees' share in the profit	-15,877,552	-4,849,182	-20,726,734
Charges (contributions and other taxes)	-5,049,690	-1,779,990	-6,829,680
Other outflows from operating activities	-813,082	-250,186	-1,063,267
c) Positive or negative net cash flow from operating activities (a + b)	24,692,267	3,798,475	28,490,742
B. Cash flow from investing activities			
a) Inflows from investing activities	321,332	469,894	791,226
Inflows from interests and dividends received relating to investing activities	74	416,214	416,288
Inflows from the disposal of tangible fixed assets	321,258	53,680	374,938
b) Outflows from investing activities	-23,519,989	-27,635	-23,547,624
Purchase of intangible assets	-771,459	-8,385	-779,844
Purchase of property, plant and equipment	-22,748,530	-19,250	-22,767,780
c) Positive or negative net cash flow from investing activities (a + b)	-23,198,657	442,259	-22,756,398
C. Cash flows from financing activities			
a) Inflows from financing activities	32,736,000	16,177,790	48,913,790
Cash proceeds from the increase in long-term financial liabilities	32,736,000	0	32,736,000
Cash proceeds from the increase in short-term financial liabilities	0	16,177,790	16,177,790
b) Outflows from financing activities	-34,207,942	-20,283,626	-54,491,568
Interest paid on financing activities	-554,695	0	-554,695
Cash payments for equity redemption	-529,552	-12,281	-541,833
Cash repayments of long-term financial liabilities	-33,123,695	0	-33,123,695
Cash repayments of short-term financial liabilities	0	-16,177,790	-16,177,790
Paid out dividends and other profit shares	0	-4,093,555	-4,093,555
c) Positive or negative net cash flow from financing activities (a + b)	-1,471,942	-4,105,836	-5,577,778
D. Closing balance	24,738	155,951	180,689
Net cash flow for the period (sum of net cash flows Ac, Bc and Cc)	21,668	134,898	156,566
Opening balance	3,070	21,053	24,123

CASH FLOW STATEMENT FOR 2015

Item (in EUR)	SODO activity	Market activities	Total
1	2	3	4
A. Cash flows from operating activities			
a) Inflows from operating activities	99,069,711	19,148,884	118,218,595
Inflows from sale of goods and services	98,238,981	18,824,056	117,063,037
Other inflows from operating activities	830,730	324,828	1,155,558
b) Outflows from operating activities	-77,174,304	-15,075,230	-92,249,534
Purchase of material and services	-56,548,296	-8,361,093	-64,909,389
Salaries and employees' share in the profit	-15,187,970	-4,984,325	-20,172,295
Charges (contributions and other taxes)	-4,635,516	-1,452,304	-6,087,820
Other outflows from operating activities	-802,522	-277,508	-1,080,030
c) Positive or negative net cash flow from operating activities (a + b)	21,895,407	4,073,654	25,969,061
B. Cash flow from investing activities			
a) Inflows from investing activities	283,360	45,239	328,599
Inflows from interests and dividends received relating to investing activities	1,812	7,815	9,627
Inflows from the disposal of tangible fixed assets	221,548	37,424	258,972
Inflows from the disposal of investments	60,000	0	60,000
b) Outflows from investing activities	-24,988,040	-39,308	-25,027,348
Purchase of intangible assets	-858,347	-10,771	-869,118
Purchase of property, plant and equipment	-24,069,693	-28,537	-24,098,230
Purchase of financial investments	-60,000	0	0
c) Positive or negative net cash flow from investing activities (a + b)	-24,704,680	5,931	-24,698,749
C. Cash flows from financing activities			
a) Inflows from financing activities	18,475,000	17,475,464	35,950,464
Cash proceeds from the increase in long-term financial liabilities	8,775,000	0	8,775,000
Cash proceeds from the increase in short-term financial liabilities	9,700,000	17,475,464	27,175,464
b) Outflows from financing activities	-16,709,176	-20,594,225	-37,303,401
Interest paid on financing activities	-738,609	0	-738,609
Cash repayments of long-term financial liabilities	-6,270,567	0	-6,270,567
Cash repayments of short-term financial liabilities	-9,700,000	-17,475,464	-27,175,464
Paid out dividends and other profit shares	0	-3,118,761	3,118,761
c) Positive or negative net cash flow from financing activities (a + b)	1,765,824	-3,118,761	-1,352,937
D. Closing balance	3,070	21,053	24,123
Net cash flow for the period (sum of net cash flows Ac, Bc and Cc)	-1,043,449	960,824	-82,625
Opening balance	1,046,519	-939,771	106,748

RELATIONSHIP



RESPECT

We strive for good mutual relations. Based on respect, we establish continuous, timely and transparent communication, which contributes to a good working atmosphere and mutual trust.



Elektro Celje

16 CONSOLIDATED FINANCIAL STATEMENTS OF ELEKTRO CELJE GROUP

16.1 Consolidated statement of financial position

Item (in EUR)	Note	Amount		
		As of 31 december 2016	As of 31 december 2015	As of 1 January 2015
ASSETS				
A Non-current assets (1 + 2 + 3 + 4 + 5 + 6)		259,991,388	257,668,990	249,934,024
1. Intangible assets	17.7	2,035,257	1,787,304	1,670,260
2. Property, plant and equipment	17.8	248,417,284	246,489,479	242,253,976
a. Land		5,908,405	5,862,153	5,928,244
b. Buildings		173,224,451	168,972,879	166,746,043
c. Production equipment, machinery and other equipment		63,446,733	63,682,969	64,093,687
d. Property, plant and equipment under construction		5,837,695	7,971,478	5,486,002
3. Investment property	17.9	302,975	321,318	298,773
4. Financial investments	17.10	734,452	684,777	436,944
5. Trade receivables	17.13.1	5,698,675	6,928,016	4,170,788
6. Deferred tax assets	17.11.1	2,802,745	1,458,096	1,103,283
B Current assets (1 + 2 + 3 + 4 + 5 + 6)		54,281,817	54,519,142	35,779,388
1. Available-for-sale assets		0	51,628	0
2. Inventory	17.12	1,169,107	1,426,577	1,451,015
3. Trade receivables from customers	17.13.2	43,991,990	47,167,231	29,407,821
4. Income tax receivables	17.13.3	0	229,977	0
5. Other trade receivables	17.13.2	6,539,713	3,786,860	2,917,003
6. Cash and cash equivalents	17.14	2,581,007	1,856,869	2,003,549
TOTAL ASSETS (A + B)		314,273,205	312,188,132	285,713,412
LIABILITIES				
A Equity (1 + 2 + 3 + 4 + 5)	17.15	213,314,562	207,638,928	196,839,551
1. Share capital		100,953,201	100,953,201	100,953,201
2. Share premium		62,260,317	62,260,317	62,260,317
3. Revenue reserve		35,267,588	30,076,650	25,447,446
a. Legal reserves		3,036,613	2,565,008	2,224,584
b. Reserves for own shares and interests		541,833	0	0
c. Own shares and interests		-541,833	0	0
d. Other revenue reserves		32,230,975	27,511,642	23,222,862
4. Fair value reserves		-302,184	-40,448	76,927
5. Net income/profit		10,401,635	9,925,865	8,101,660
a. Retained net income/profit from previous years		6,690,619	3,903,111	2,009,567
b. Net income/profit for the year		3,711,016	6,022,754	6,092,093
Equity share of non-controlling interests		4,734,005	4,463,343	0
Equity share of controlling interests		208,580,557	203,175,585	196,839,551
B Non-current liabilities (1 + 2 + 3 + 4 + 5)		54,370,651	53,839,229	56,227,963
1. Provisions	17.16	6,818,075	6,587,091	5,510,528
2. Long-term deferred revenue	17.17	13,356,857	13,619,216	13,947,157
3. Financial liabilities	17.18	33,843,699	33,609,060	36,770,278
4. Operating liabilities	17.19	334,925	7,659	0
5. Deferred tax liabilities	17.11.2	17,095	16,203	0
C Current liabilities (1 + 2 + 3 + 4 + 5)		46,587,992	50,709,975	32,645,898
1. Financial liabilities	17.18	11,222,578	13,879,624	6,247,502
2. Trade payables	17.20	17,451,325	18,974,262	12,321,912
3. Trade payables from operations for third-party account	17.20	11,347,268	11,455,151	7,896,043
4. Other trade payables	17.20	6,329,106	6,400,938	5,396,978
5. Income tax liabilities	17.21	237,715	0	783,463
TOTAL LIABILITIES (A + B + C)		314,273,205	312,188,132	285,713,412

16.2 Consolidated income statement

Item (in EUR)		Note	Amount	
			Current year	Previous year
1.	Net sales revenue	17.26	182,114,244	162,405,192
2.	Capitalised own products	17.27	13,260,484	14,324,151
3.	Other operating revenue	17.28	2,582,045	3,061,767
4.	Cost of material	17.29	–130,417,320	–114,250,970
5.	Cost of services	17.29	–9,746,247	–10,040,032
6.	Labour costs	17.30	–24,707,671	–23,094,512
7.	Amortisation and depreciation	17.31	–17,892,902	–18,069,944
8.	Operating expenses from revaluation	17.32	–1,782,654	–1,287,895
9.	Other operating expenses	17.33	–2,361,678	–761,506
OPERATING PROFIT OR LOSS			11,048,301	12,286,251
10.	Financial income	17.34	341,846	346,514
11.	Financial expenses	17.34	–670,278	–1,103,061
PROFIT OR LOSS BEFORE TAXES			10,719,869	11,529,704
12.	Income tax	17.35	–1,286,755	–1,114,450
13.	Deferred taxes	17.35	1,314,464	–182,023
NET PROFIT/LOSS			10,747,578	10,233,231
14.	Net profit share of controlling interests		10,340,503	9,597,207
15.	Net profit share of non-controlling interests		407,075	636,024

16.3 Consolidated comprehensive income statement

Item (in EUR)	Current year	Previous year
1. Net profit or loss for the financial period	10,747,578	10,233,231
2. Items which will later not be reclassified into profit or loss	–258,415	–124,552
a. Actuarial gains/losses in provisions for retirement benefits	–288,600	–135,475
b. Impact of deferred tax on actuarial gains/losses in provisions for retirement benefits	30,185	10,923
3. Items which can later be reclassified into profit or loss	–2,846	22,430
a. Revaluation of financial investments measured at fair value through equity	–1,954	22,430
b. Adjustment to reserves resulting from valuation at fair value for deferred tax liabilities	–892	0
4. Other total comprehensive income in the financial year	–261,261	–102,122
5. Total comprehensive income for the financial period (1 + 4)	10,486,317	10,131,109
of which:		
– equity holders of the controlling company	10,074,445	9,481,049
– non-controlling interests	411,872	650,060

16.4 Consolidated statement of cash flows

Item (in EUR)	Note	Current year	Previous year
A. Cash flows from operating activities			
a) Inflows from operating activities	17.37.1	354,653,888	356,512,724
Inflows from sale of goods and services		352,867,696	354,565,167
Other inflows from operating activities		1,786,192	1,947,557
b) Outflows from operating activities	17.37.2	-339,071,293	-349,999,300
Purchase of material and services		-294,506,951	-306,354,368
Salaries and employees' share in the profit		-23,701,407	-23,049,499
Charges (contributions and other taxes)		-19,604,685	-19,361,929
Other outflows from operating activities		-1,258,250	-1,233,504
c) Positive or negative net cash flow from operating activities (a + b)		15,582,595	6,513,424
B. Cash flow from investing activities			
a) Inflows from investing activities	17.37.3	389,556	758,336
Inflows from interest relating to investing activities		558	11,964
Inflows from participation in others' profits relating to investing activities		14,060	7,400
Inflows from the disposal of tangible fixed assets		374,938	258,972
Inflows from the disposal of investments		0	480,000
b) Outflows from investing activities	17.37.4	-7,494,338	-8,375,124
Purchase of intangible assets		-779,844	-1,201,028
Purchase of property, plant and equipment		-6,714,494	-6,794,096
Purchase of financial investments		0	-380,000
c) Positive or negative net cash flow from investing activities (a + b)		-7,104,782	-7,616,788
C. Cash flows from financing activities			
a) Inflows from financing activities	17.37.5	32,736,000	40,955,055
Inflows from the increase in financial liabilities		32,736,000	40,955,055
b) Outflows from financing activities	17.37.6	-40,489,675	-40,352,095
Interest paid on financing activities		-557,661	-748,163
Cash payments for equity redemption		-541,833	0
Repayment of financial liabilities		-35,155,417	-36,485,172
Paid out dividends and other profit shares		-4,234,764	-3,118,760
c) Positive or negative net cash flow from financing activities (a + b)		-7,753,675	602,960
D. Closing balance		2,581,007	1,856,869
Net cash flow for the period (sum of net cash flows Ac, Bc and Cc)		724,138	-500,404
Opening balance		1,856,869	2,357,273

16.5 Consolidated statement of changes in equity

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY from 1 January 2016 to 31 December 2016 (in EUR)		Called-up capital	Share premium	Revenue reserve				Reserves resulting from valuation at fair value	Retained net profit or loss		Net income/ profit for the year	Equity share of controlling interests	Total equity
				Legal reserves	Reserves for treasury shares	Treasury shares	Other revenue reserves		Retained net profit	Retained net loss			
A.1.	Balance at the end of the previous reporting period	100,953,201	62,260,317	2,565,008	0	0	27,511,642	-40,448	3,903,111	0	6,022,754	4,463,343	207,638,928
a)	Retrospective adjustments	0	0	0	0	0	0	0	0	0	0	0	0
A.2.	Opening balance	100,953,201	62,260,317	2,565,008	0	0	27,511,642	-40,448	3,903,111	0	6,022,754	4,463,343	207,638,928
B.1.	Changes in equity – transactions with shareholders	0	0	0	0	-541,833	-893,113	0	-3,234,527	0	0	-141,210	-4,810,683
a)	Purchase of own shares and interests	0	0	0	0	-541,833	0	0	0	0	0	0	-541,833
b)	Payment of dividends	0	0	0	0	0	-893,113	0	-3,234,527	0	0	-141,210	-4,268,850
B.2.	Total comprehensive income in the reporting period	0	0	0	0	0	0	-261,736	-719	-3,603	10,340,503	411,872	10,486,317
a)	Input of net profit/loss from the reporting period	0	0	0	0	0	0	0	0	0	10,340,503	407,075	10,747,578
b)	Changes in reserves resulting from valuation of financial investments at fair value	0	0	0	0	0	0	-2,526	0	0	0	-320	-2,846
c)	Other components of comprehensive income in the reporting period	0	0	0	0	0	0	-259,210	-719	-3,603	0	5,117	-258,415
B.3.	Changes in equity	0	0	471,605	541,833	0	5,612,446	0	6,022,754	3,603	-12,652,241	0	0
a)	Allocation of the remainder of net profit in the comparative reporting period to other equity components	0	0	0	0	0	0	0	6,022,754	0	-6,022,754	0	0
b)	Allocation of a part of net profit in the reporting period to other equity components pursuant to decisions by the management and supervisory bodies	0	0	471,605	0	0	5,612,446	0	0	0	-6,084,051	0	0
c)	Allocation of a part of net profit into building up additional reserves pursuant to the decision by the Shareholders Assembly	0	0	0	0	0	0	0	0	0	0	0	0
č)	Offsetting of loss as an equity deduction item	0	0	0	0	0	0	0	0	3,603	-3,603	0	0
d)	Creation of reserves for own shares and interests from other equity components	0	0	0	541,833	0	0	0	0	0	-541,833	0	0
C.	Balance at the end of the reporting period	100,953,201	62,260,317	3,036,613	541,833	-541,833	32,230,975	-302,184	6,690,619	0	3,711,016	4,734,005	213,314,562

Explanatory notes to the Consolidated Statement of Changes in Equity are provided in section 17.15.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY from 1 January 2015 to 31 December 2015 (in EUR)		Called-up capital	Share pre- mium	Revenue reserve		Revaluation surplus	Retained net profit or loss	Net income/ profit for the year	Total equity of owners of the controlling company	Equity share of non- controlling interests	Total
				Legal reserves	Other revenue reserves			Net profit for the year			
A.1.	Balance at the end of the previous reporting period	100,953,201	62,260,317	2,224,584	23,222,862	76,927	2,009,567	6,092,093	196,839,551	0	196,839,551
A.2.	Balance at the beginning of the reporting period	100,953,201	62,260,317	2,224,584	23,222,862	76,927	2,009,567	6,092,093	196,839,551	0	196,839,551
B.1.	Changes in equity – transactions with shareholders	0	0	0	0	0	-3,145,015	0	-3,145,015	3,813,283	668,268
a)	Payment of dividends	0	0	0	0	0	-3,145,015	0	-3,145,015	0	-3,145,015
b)	Effects of the merger by acquisition	0	0	0	0	0	0	0	0	3,813,283	3,813,283
B.2.	Total comprehensive income in the reporting period	0	0	0	0	-116,158	0	9,597,207	9,481,049	650,060	10,131,109
a)	Input of net profit/loss from the reporting period	0	0	0	0	0	0	9,597,207	9,597,207	636,024	10,233,231
b)	Change in the revaluation surplus from revaluation of financial investments	0	0	0	0	22,430	0	0	22,430	10,433	32,863
c)	Adjustment of the revaluation surplus - actuarial gains	0	0	0	0	-138,588	0	0	-138,588	3,603	-134,985
B.3.	Changes in equity	0	0	340,424	4,288,780	-1,217	5,038,559	-9,666,546	0	0	0
a)	Allocation of the remainder of net profit for 2014 to other equity components	0	0	0	0	0	6,092,093	-6,092,093	0	0	0
b)	Allocation of a part of net profit in 2015 to other equity components pursuant to decisions by the management and supervisory bodies	0	0	340,424	3,234,029	0	0	-3,574,453	0	0	0
c)	Allocation of a part of net profit into building up additional reserves pursuant to the decision by the Shareholders Assembly	0	0	0	1,054,751	0	-1,054,751	0	0	0	0
č)	Other changes in equity	0	0	0	0	-1,217	1,217	0	0	0	0
C.	Balance at the end of the reporting period	100,953,201	62,260,317	2,565,008	27,511,642	-40,448	3,903,111	6,022,754	203,175,585	4,463,343	207,638,928

Explanatory notes to the Consolidated Statement of Changes in Equity are provided in section 17.15.

17 EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

17.1 Reporting Company

The Elektro Celje Group, (hereinafter Group), consists of the parent company Elektro Celje d.d. (hereinafter: Parent Company), as well as its subsidiaries ECE, energetska družba, d.o.o., podjetje za prodajo električne energije in drugih energentov, svetovanje in storitve (hereinafter: the company ECE), and MHE – ELPRO, družba za

proizvodnjo in trženje električne energije, d.o.o (hereinafter: the company MHE - ELPRO). The Group companies were founded and operate in Slovenia, with their registered Head Office at Vrunčeva 2a in Celje.

The key tasks of the Group are to deliver a reliable, safe and efficient elec-

tricity supply to its customers in the area of Elektro Celje, as well as the purchase and sale of electricity and other energy products to end customers, electricity and heat generation, and Investments in renewable energy sources.

17.2 Bases for the Preparation of Consolidated Financial Statements

a) Declaration of Conformity

The Consolidated Financial Statements of the Elektro Celje Group have been prepared in compliance with International Financial Reporting Standards (hereinafter IFRS) as adopted by the European Union, and Explanations, adopted by the International Financial Reporting Interpretations Committee (IFRIC) as well as the European Union, and in accordance with the provisions of the Companies Act (ZGD-1). The Group does not disclose information for which it may reasonably estimate that such disclosure could cause significant damage.

At the Balance Sheet date there are no differences in the Group's accounting policies between the IFRS used and those adopted by the European Union in terms of the process of confirming standards adopted by the European Union.

The Consolidated Financial Statements were confirmed by the Management Board on 21 April 2017.

b) Basis of measurement

The Consolidated Financial Statements present an understandable and appropriate account of the financial position, financial performance and cash flows of the Group. They are prepared by observing the assumptions of accruals and the going concern basis, with the information presented ensuring reliability, and are complete in terms of significance and costs. The fiscal year is the calendar year from 1 January to 31 December 2016.

Significant assets and liabilities of the Group	Measurement method
Non-current assets	
Intangible assets	At cost
Tangible fixed assets	At cost
Investment property	At cost
Financial Investments:	At cost
- of which Investments measured at cost	At cost
- of which Investments measured at fair value through equity	At fair value
Deferred tax assets	At undiscounted amount measured by tax rates
Short-term deferred expenses and short-term accrued revenue	At cost
Current assets	
Assets for disposal	At cost
Inventory	At lower value, whether at cost or net realisable value
Operating and other receivables	At amortised cost
Short-term deferred expenses and accrued revenue	At cost
Cash and cash equivalents	At cost
Long-term Liabilities	
Provisions	
- of which provisions for post-employment and other benefits	At present value of evaluated future payments based on actuarial calculation
- of which provisions for lawsuits	At present value of evaluated future settlements
Long-term deferred revenue	At cost
Financial liabilities	At amortised cost
Operating liabilities	At amortised cost
Deferred tax liabilities	At undiscounted amount measured by tax rates
Short-term liabilities	
Financial liabilities	At amortised cost
Business and other obligations	At amortised cost
Short-term deferred revenue and accrued expenses	At cost

c) Functional and presentation currency

The Consolidated Financial Statements are presented in Euros (EUR), which are the functional currency of the Parent Company. All financial data presented in Euros are shown as rounded-off figures. Due to rounding off, differences between Financial Statements and amounts in explanatory notes may occur.

d) Use of estimates and assessments and significant uncertainty in operations

Due to uncertainty of future business events forming a part of operations and their impact on the Group, many items in the Financial Statements cannot be measured accurately, but are instead estimated. Thus, assessment based on the best knowledge of current and future events, experience,

information, as well as taking potential changes in business environment into consideration, is used in accounting estimates. The preparation of Financial Statements in compliance with the IFRS is, consequently, based on certain estimates and assumptions that affect the residual value of reported assets and liabilities of the Group on the reporting date, and the amount of revenue, costs and expenses in the period ending at the Balance Sheet date.

Estimates and assumptions are reviewed regularly, with the changes in accounting estimates recognised in the period of the change and in all future periods which the changes affect. Estimates and assumptions are present in the following assessments:

- Note 17.4 (c), 17.4 (d) and Accounting Policy 17.7, 17.8 – Determining the

useful lives of depreciable assets,

- Note 17.4 (r) and Accounting Policy 17.11.1, 17.11.2 - Deferred taxes,
- Note 17.4 (m), 17.4 (l) and Accounting Policy 17.17, 17.16 – Measurement and estimated value of long-term deferred revenue, provisions for post-employment benefits of employees and lawsuits,
- Note 17.4 (g), 17.4 (h) and Accounting Policy 17.10 – Valuation of investments,
- Note 17.4 (g), 17.4 (h) and Accounting Policy 17.13 in 17.38.1 – Revaluation adjustments to receivables
- Note 17.4 (k) and Accounting Policy 17.12 - Revaluation adjustments to inventory.

e) Amendments to accounting policies

The Group did not amend its accounting policies in 2016.

17.3 Transition to IFRS

The Group's Consolidated Financial Statements for the financial year 2015 ending on 31 December, 2015, were prepared in accordance with the Slovenian Accounting Standards 2006 (hereinafter: SAS 2006). The Financial Statements for the financial year ending on 31 December 2016, are drawn up in accordance with the requirements of the IFRS as adopted by the EU, and notes adopted by the International Financial Reporting Interpretations Committee (IFRIC), as well as by the European Union. The transition took place on 1 January 2015. The accounting policies applied by the Group in preparing the Financial Statements, taking into account the SAS 2006, are also in line with the requirements of the IFRS as adopted by the EU and, therefore, there were no differences due to the transition to IFRS.

Due to the reporting requirements in the transition to the IFRS, the Finan-

cial Statements include figures for the reporting period that ended on 31 December 2016, for the comparative period, which ended on 31 December 2015, and at the date of transition to the IFRS, i.e. on 1 January 2015. These are the first Annual Financial Statements prepared in accordance with the IFRS.

In the opening Balance Sheet under the IFRS, individual items of statements which the Group used to prepare in accordance with SAS, are classified in accordance with the requirements of the IFRS. The transition from SAS to IFRS did not affect the financial position, financial performance, equity and cash flows of the Group, and the following reclassifications were carried out:

- Income tax receivables and liabilities are reported separately from other short-term operating receivables and liabilities;
- Accrued revenue and deferred ex-

penses were reclassified to other short-term operating receivables;

- Deferred revenue and accrued expenses were reclassified to other short-term operating liabilities;
- Other income and other expenses were reclassified to other operating and other income, as well as to other operating and other expenditure.

Since the Group used a different scheme of fundamental Financial Statements in the past, a review of the reclassifications is neither possible nor sensible.

The Group did not use exceptions permitted by IFRS 1 for the first use of IFRS in relation to the retrospective application.

Accounting estimates, used by situation as of 1 January 2015, and 31 December 2015, comply with the estimates made on these two dates, pursuant to SAS.

17.4 Significant Accounting Policies

The Financial Statements of Group companies are prepared for the same reporting period as the Financial Statements of the Parent Company, using the same accounting policies. The Elektro Celje Group uses the same accounting policies for all periods presented in the Consolidated Financial Statements.

At the Balance Sheet date, 31 December 2016, there were no differences in the accounting policies of the Group between the IFRS and IFRS adopted by the European Union.

a) The newly adopted Standards and Explanatory Notes which came into effect on 1 January, 2016

In the current accounting period, the following amendments to existing Standards and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), as well as adopted by the EU, are in force:

- Amendments to IFRS 11 - Joint Ar-

rangements: Accounting for the purchase of shares

- Amendments to IAS 16 and IAS 38 – Explanation regarding acceptable methods of depreciation calculation
- Amendments to IAS 16 and IAS 41 - Agriculture: Bearer Plants
- The amendments to Standards and interpretations adopted in the period 2012-2014
- Amendments to IAS 27 - Equity method in separate Financial Statements
- Amendments to IAS 1 - Presentation of Financial Statements: Disclosures Initiative

The adoption of these amendments to the existing Standards and interpretations has not led to significant changes in the Financial Statements of the Group.

b) Newly adopted Standards and Explanations, which have not yet entered into force

The new Standards and interpretations listed below are not yet in force

and, during the preparation of the Annual Financial Statements on the 31 December 2016, these were not taken into account:

IFRS 9 Financial Instruments (2014)

Effective for annual accounting periods, beginning on 1 January 2018; applied retroactively, unless there are exceptional circumstances. Conversion of earlier periods is not necessary and is permitted as long as the information is available and without the use of findings. Earlier application is permitted. This Standard replaces IAS 39 Financial Instruments: Recognition and Measurement, with the exception that IAS 39 remains in place in the event of hedging the fair value of the portfolio of financial assets or financial liabilities against the risk of changes in interest rates; companies have the option to choose between the use of hedge accounting in accordance with IFRS 9 or existing hedge accounting under IAS 39 in all cases of accounting.

Although the foundations of allowable measurement of financial assets - amortised cost, Fair Value through Other Comprehensive Income (FVO-Cl) and Fair Value through Profit or Loss (FVPL) - are similar to IAS 39, the criteria for determining the appropriate measurement vary significantly. A financial asset is measured at amortised cost when the following conditions are met:

- Assets are managed within a business model aimed at collecting contractual cash flows and
- Contractual provisions include the exact dates of the cash flows that are solely payments of principal and interest on the unpaid principal.

Further, a group may present subsequent changes in Fair Value (including positive and negative exchange rate differences) of an equity instrument not intended for trading, irrevocably in the context of other comprehensive income. These subsequent changes can, in no case, no longer be reclassified to profit or loss. Debt instruments measured at Fair Value through other comprehensive income, interest income, expected credit losses, as well as positive and negative exchange differences, are recognised in profit or loss in the same manner as assets measured at amortised cost. Other profit or loss is recognised in other comprehensive income and is, once derecognised, reclassified to profit or loss.

The model of impairment calculation, in accordance with IFRS 9, replaces the model of incurred losses, as it is known by IAS 39, which also includes a model of expected credit losses; the latter means that the impairment may be recognised before the loss has even been incurred. IFRS 9 contains a new general model of hedge accounting which accommodates such accounting better to risk management. Different types of hedging relationships - Fair Value, Cash Flow and net investments in foreign companies - remain unchanged, but further assessment is needed. The Standard contains new requirements, which need to be met (continuation and cessation of hedge accounting), and allows additional types of exposures to be treated as hedged items. Additional extensive disclosures are

required regarding risk management and hedging activities.

The Group anticipates that IFRS 9 will not affect the Financial Statements significantly. Classification and measurement of financial instruments of the company will not change significantly due to compliance with IFRS 9.

IFRS 15 Revenue from contracts with customers

Effective for annual accounting periods beginning on 1 January 2018. Earlier application is permitted. The Standard has not yet been approved by the EU, but the latter confirmed IFRS 15 Revenue from Contracts with foreigners, including the effective date of IFRS 15. The new Standard provides a framework that replaces the existing instructions for revenue recognition under IFRS. The Group uses a five-step model to determine exactly when to recognise revenue and to what amount. The new model clarifies that revenue is recognised at the time, or when the Group transfers the control over goods and services to the client, namely, in the amount to which the Group expects to be eligible. With regard to the criteria met, revenue is recognised:

- Over time, and in a way that shows the operations of the company, or
- At the moment when the control over the goods and services is transferred to the customer

IFRS 15 also establishes principles that bind the Group to ensure quality and extensive disclosures which provide useful information to users of the Financial Statements regarding the type, amount, time aspect and uncertainty of revenue and cash flows arising from Contracts with customers. Although the initial estimate of the potential impact of IFRS 15 on the Group's Financial Statements is not yet fully completed, the management assumes that the Standard, on the date of first use, will not have a significant impact on those Financial Statements.

The Group does not foresee that the timing and measurement of its income under IFRS 15 will change significantly due to the nature of its operations and the types of income.

Amendments to IAS 40 Investment Property

Effective for annual accounting periods beginning on 1 January 2018, or later, and used for the future. Amendments strengthen the principle, set out in IAS 40 Investment Property, concerning the transfer into the investment property or from it, so that they now provide that such a transfer is made only if there is a change in the use of the property. In accordance with changes, the transfer is made only and exclusively when there is a real change in use - i.e. the asset starts or ceases to meet the definition of an investment property, and there is evidence of the change of use. A change in the intent of management alone is not a reason for transfer.

The Group anticipates that changes, on the date of the first use, will not affect the Financial Statements significantly.

IFRS 16 Leases

Effective for annual accounting periods beginning on 1 January 2019, or later. Earlier application is allowed if a group also uses IFRS 15. The amendment is not yet approved by the EU. IFRS 16 supersedes IAS 17 Leases and the related explanations. The Standard eliminates the existing model of dual accounting for leases and, instead demands that the group presents most of the leases in the statement of financial position with a single model, without distinguishing between business and financial leasing. According to IFRS 16, the Contract of Lease is considered to be a Contract which grants the right to use certain assets in return for payment for a specified time period. A new model for such agreements provides that the tenant shall recognise the right to use the assets and liabilities from the Lease. The right to use the asset is depreciated, with interest credited to the liabilities. This leads to concentrated sample of cost for a majority of Leases, even if the tenant pays fixed annual rents.

The new Standard for tenants introduces a number of limited exceptions, including:

- Leases for a period of 12 months or less, with no purchase option, and
- Leases where the asset has a low

value (cheap/affordable low-rent/small-ticket leases).

With the introduction of the new Accounting Standard, the Lease calculation for the lessor will not be changed significantly, and the distinction between the business and financial leasing remains in force for them.

The Group is still examining the impact of the new Standard on its Financial Statements.

Amendment to IFRS 2: Classification and measurement of share-based payments

Effective for annual accounting periods beginning on 1 January 2018. It is used retroactively. Earlier application is permitted. The amendment has not yet been approved by the EU.

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

- The effects of compulsory and optional conditions regarding the measurement of share-based payments that are settled in cash;
- Share-based payments with a settlement option in case of the obligations of tax withheld at the source, and
- Changes in conditions of share-based payments relating to the classification of payments settled in cash into payments settled with equity.

The Group anticipates that the new Standard, at the date of first use, will not affect the Financial Statements significantly.

Amendments to IAS 7

Effective for annual accounting periods beginning on 1 January 2017. It is used retroactively. Earlier application is permitted. The amendment is not yet approved by the EU. The amendment requires additional disclosures that will help users to evaluate the changes in financial liabilities, including changes in cash flows and non-monetary changes (e.g. the impact of positive and negative exchange rate differences, changes in the acquisition or loss of control over subsidiaries, changes in Fair Value).

The Group anticipates that the new

Standard, at the date of first use, will not affect the Financial Statements significantly.

IFRIC 22 Transactions in foreign currencies and advances

Effective for annual accounting periods beginning on 1 January 2018, or later. The Interpretation clarifies how to determine the date of the transaction for the purpose of determining the exchange rate to be applied upon initial recognition of the related asset, expense or income (or a part thereof) on derecognition of non-monetary assets or non-monetary liabilities in relation to given or received advances in a foreign currency. In this case, the transaction date is the date on which the company first recognises a non-cash asset or a non-monetary liability in relation to a given or received advance.

The Group anticipates that the explanation on the day of its first use will not have a significant impact on its Financial Statements as, at initial recognition of non-monetary assets or liabilities in connection with the given or received advances, it uses an exchange rate that is in effect on the date of the transaction.

Supplement to IAS 12: Recognition of deferred tax receivables in connection with unrealised losses

Effective for annual accounting periods beginning on 1 January 2017. It is used retroactively. Earlier application is permitted. The amendment has not yet been approved by the EU. The amendment specifies more clearly how and when, in certain cases, deferred tax liabilities should be calculated, and how to determine the amount of future taxable income for the purpose of assessing the recognition of deferred tax liabilities.

The Group anticipates that the new Standard, at the date of first use, will not affect the financial statements significantly.

Amendments to IFRS 10 and IAS 28 Sale or investment of assets between investors and its affiliated companies or joint ventures

Day of entry into force has not yet been fixed by the IASB; early application is permitted. The amendment

clarifies that, in the transactions with affiliated companies or joint ventures, the amount of recognised gains or losses depends on whether the sold or invested asset is part of a transaction wherein the total gain or loss is recognised when the transaction concluded between the investor and its affiliated companies or joint ventures includes the transfer of asset or assets representing the company (irrespective of whether the asset is located in a subsidiary or not), while the partial gain or loss is recognised when the transaction concluded between the investor and its affiliated companies or joint ventures includes the asset, which does not represent the company, irrespective of whether such an asset is located in a subsidiary.

The Group anticipates that the new Standard, at the date of first use, will not affect the Financial Statements significantly.

a) Basis of consolidation

Basis of consolidation and transactions eliminated from consolidation

The Consolidated Financial Statements have been prepared on the basis of the separate Financial Statements of the Parent Company and its subsidiaries as at 31 December 2016. The Financial Statements of the Group are combined into the Consolidated Financial Statements based on the full consolidation method, by adding related items of assets, liabilities, equity, income and expenses, taking into account the consolidation adjustments.

In preparing the Consolidated Financial Statements, financial investments of the Parent Company into the equity of the subsidiaries and associated shares of the parent company in the equity of subsidiaries have been eliminated, as well as all balances, profits and losses or income and expenses arising from intra-group transactions.

Subsidiary companies

Subsidiaries are entities controlled by the parent company. Control exists when the parent company has the ability to affect the financial and business decisions of a company in the group to obtain benefits from its activities. In assessing the influence,

the existence and impact of potential voting rights which can currently be used or exchanged, are taken into account. The Financial Statements of subsidiaries are included in the Consolidated Financial Statements from the date when control commences until the date it ceases.

b) Foreign currency conversion

Transactions denominated in a foreign currency shall be converted into the appropriate functional currency of the companies within the Group at the exchange rate on the date of the transaction. Positive or negative exchange differences are the differences between the amortised cost in the functional currency on the date of the transaction and in the amortised cost in foreign currency, calculated at the exchange rate at the time of payment, and are recognised in the Profit and Loss Statement.

c) Intangible assets

Intangible assets are non-monetary assets without physical existence and are recognised by companies in the group when it is probable that the economic benefits associated with such assets will flow into the group. Recognition is carried out on dispos-

al, or when no more economic benefits are expected from its use and subsequent disposal.

Intangible assets are, upon initial recognition, evaluated at cost, which also includes import and non-refundable purchase fees, after deducting all discounts, and directly attributable expenditure from the preparation of the asset for its intended use. The cost is later reduced by depreciation adjustments. As a rule, the Group re-values intangible long-term assets immediately, when their book value exceeds the recoverable value.

Intangible long-term assets of the group relate to property rights (investment into software, real rights in immovable property, and substantive rights to facility use), such assets in development, and other long-term accrued revenue and deferred expenses.

Subsequent costs

The subsequent costs related to the intangible assets are capitalised only in cases when it is likely that future economic benefits, associated with the work of this asset, will flow into the group, and if the cost can

be measured reliably. All other costs are recognised in the Profit and Loss statement as costs as soon as they are generated.

Depreciation and useful life

All intangible assets are depreciable assets with finite useful lives. The straight-line depreciation method is used, with the depreciation basis equal to the acquisition value of intangible assets. Amortization of intangible assets begins on the first day of the following month after the asset becomes available for use. IAS 38 requires that the depreciation begin when an asset is available for use. The Group estimates that the differences due to differences in the start date of depreciation calculation are irrelevant.

Depreciation, charged for each accounting period, shall be recognised as a cost or an operating expense of the period and declared in the Profit and Loss Statement under the item Depreciation. The group checks the useful life in accordance with IAS 38 and, if necessary, carries out an adjustment.

Significant groups of depreciable assets	Estimated useful life in years	Depreciation rate in %	
		Minimum	Maximum
Computer software	2–3	33.33	50.00
Real rights in immovable property	100	1.00	1.00
Right to use facilities	30	3.33	3.33

d) Tangible fixed assets

Tangible fixed assets, which are owned by the companies in the group, are recognised when it is probable that the economic benefits associated with them will flow into the group, and their cost can be measured reliably. Groups of tangible fixed assets are immoveable property (land, buildings), equipment and other tangible fixed assets as well as investments in the acquisition of such assets and receivables for advances in this respect. Some types of small tools with useful lives longer than one year (hand tools and devices) are also considered tangible fixed assets.

Upon initial recognition, they are valued at cost, which consists of

the purchase price, import duties and non-refundable purchase fees and costs that can be attributed directly to the preparation for their intended use. Cost is also made up of rental costs, relating to the acquisition of a new tangible fixed asset, for those assets where the period from the date of the performance of service of the first invoice for construction - assembly services or equipment to the preparation of the assets for the use, is longer than a year.

Land is valued at acquisition cost, which includes costs of real estate turnover taxes and land registry fee. The acquisition cost of buildings comprises expenditures to cover the purchase, construction or upgrading of

facilities, project and other documentation on the basis of which the acquisition was made, construction or upgrades for land development for the necessary permits for the manufacture of connections and other costs that can be directly attributable to preparing them for use. Expenditures for the acquisition of land on which buildings are situated and expenditures for the acquisition of land intended for access to buildings or for other needs regarding their use are not included in the acquisition cost. The acquisition cost of equipment comprises expenditures to cover the purchase, manufacture or elaboration of equipment, costs of delivery, installation and other expenses arising during purchase, manufacture or elaboration.

The acquisition cost of tangible fixed assets constructed or produced in the Company consists of costs originating from their construction or manufacture and indirect costs of construction or manufacture that can be attributed to the asset. The cost of such fixed assets cannot be higher than the same or similar fixed assets on the market. Investments carried out in the Parent Company are divided into renovations (major repairs of fixed assets due to wear), replacements, and increase in capacity (investment in replacing or increasing the capacity of the existing fixed assets) and new investments (investments in new fixed assets). Here, the fixed assets acquired free of charge are valued at cost, and if this is not known, at fair value as determined in the free acquisition agreement.

If the cost of the fixed asset is significant, it shall be divided into its parts. If these parts have different useful life and/or samples of use significant in the relation to the complete cost of the fixed asset, every part is dealt with individually.

Measurement after recognition and subsequent costs

In evaluating tangible fixed assets,

the Group uses the cost model and carries them at cost, less accumulated depreciation and accumulated impairment losses.

Subsequent costs incurred for repairs and maintenance related to tangible fixed assets are recognized as maintenance costs when they are incurred in the process of restoring and maintaining future economic benefits based on the initial estimated level of the asset's efficiency. Estimated costs of regular inspections or repairs of tangible fixed assets are treated as parts of tangible fixed assets.

A fixed asset is derecognised when disposed of or if no further economic benefits may be expected from its use or disposal. Gains and losses from the sale or disposal, which are determined in such a way that the proceeds from the sale are compared to the book value, are included in the Profit and Loss Statement of the group.

Depreciation and useful life

The Group uses the straight-line amortisation method, taking into account the useful life of each individual (constituent) part of the tangible fixed assets, which depends on the expected

physical wear, technical and economic ageing, and expected legal and other restrictions of use, considering the shortest one. Useful life of the fixed assets of the Parent Company shall be determined by the joint commission of electricity distribution companies, appointed specifically for that purpose, and for the assets of the subsidiaries, by the commission of the Parent Company. Depreciation is calculated individually, until the amount fully replaces the value that forms the basis for the calculation of depreciation. Accumulated depreciation of fixed assets is carried out for the amount of depreciation, which is determined in the final annual accounts of depreciation. Depreciation is not calculated for land, fixed assets of cultural, historical or artistic significance, fixed assets permanently out of use, investing in the acquisition of fixed assets until they are available for use, and advances for the acquisition of fixed assets. Depreciation of tangible fixed assets begins on the first day of the following month after the asset is available for use. IAS 38 requires that the depreciation begin when an asset is available for use. The Group estimates that the differences due to differences in the start date of depreciation calculation are irrelevant.

Significant groups of depreciable assets	Estimated useful life in years	Depreciation rate in %	
		Minimum	Maximum
Energy infrastructure buildings	20–40	2.50	5.00
Other buildings	20–40	2.50	5.00
Energy infrastructure equipment	3–33,33	3.00	33.33
Other equipment	2–33,33	3.00	50.00
Vehicles	8–20	5.00	12.50
Equipment in the SHP	15–20	5.00	6.67

The group checks the useful life of fixed assets in accordance with IAS 36, with the depreciation rate converted accordingly, if expectations differ significantly from the estimates. The effect of the restatement is treated as a change in the accounting estimate and shall be presented in the notes. Impairment of assets is described in Section 17.4 (s).

e) Investment property

Investment property is real-estate owned by the Group with the purpose of bringing in rent. Investment

property is defined as a commercial building, provided for single or multiple instances of operating lease, or an empty commercial building, available for rent.

Investment property of the Group is measured at cost upon initial recognition, which includes the purchase price and the costs that are attributable to it. Upon initial recognition, they are valued at cost less depreciation amount, identified in the final Annual statement of Depreciation. The Group uses the straight-line depreciation

method, taking into account an expected useful life of 50 years. Impairment of assets is described in Section 17.4 (i).

f) Assets received and provided into lease

A Lease is a contractual relationship in which the landlord, in return for a payment or series of payments, transfers the right to use an asset for an agreed time to the lessee. In a Finance Lease, all relevant forms of risks and rewards associated with ownership are transferred onto the

lessee, with all other Leases treated as *Operating Leases*. In accordance with the criteria defined in the Accounting Standards, the Group assesses whether there is a Business or a Finance Lease.

The Group recognises Lease costs (excluding the cost of services such as insurance, maintenance etc.) on a straight-line basis in the Profit or Loss Statement under the item of Service Expenses.

Assets provided by the Group into an Operating lease, are demonstrated among its tangible assets; rental income is recognised on a straight-line basis in the Profit or Loss Statement under the Operating Revenue item in the rental period.

g) Financial instruments

Financial instruments relate to investments into equity, operating and other receivables, cash and cash equivalents, loans received and given, as well as operating and other liabilities. Upon initial recognition, the Group classifies them as Financial Assets or Financial Liabilities measured at Fair Value through Profit or Loss, loans given and receivables, available-for-sale financial assets and financial liabilities measured at amortised cost. The classification depends on the purpose for which the instrument has been obtained.

Financial assets

Financial Assets of the Group include cash and cash equivalents, receivables, loans given, and investments. The Group initially recognises loans and receivables, while cash and its equivalents are recognised on the day of their creation, with other Financial Assets recognised initially on the day of trading or settlement. Financial Assets are derecognised by the Group when it no longer has any contractual obligations in respect to the cash flows from a particular asset, or when all the risks and rewards of ownership of the Financial Assets are transferred to a third party.

Available-for-sale financial assets are, upon initial recognition, measured at Fair Value plus transaction costs arising directly out of the purchase or issue of the Financial Asset.

Investments in the shares and shareholdings of companies that are classified as Available-for-sale Financial Assets and that are listed on the Stock Exchange, are displayed by the Group at Fair Value. The Fair Value is measured according to the closing Stock Exchange price. Gains or losses from the revaluation are shown directly in Equity (i.e. in the reserve for Fair Value), in an amount that has already been reduced by deferred taxes, and are recognised in the Statement of other comprehensive income. Reversal of investment also means reversal of loss or profit, previously recognised in the Fair Value reserve and recognises it in the Profit or Loss Statement. The Fair Value of investments which are not dealt in on a Stock Exchange cannot be determined reliably, therefore it is recognised at cost. The Group, at the end of the year, on the Balance Sheet date, evaluates these investments to determine whether there is objective evidence for their impairment.

Exposure to various types of risks, especially the risk of reduction in the value of financial investments below their cost is not hedged with financial instruments. The value that best represents the maximum exposure to such risk is the total value of the investment.

Loans given and receivables are, depending on their maturity, classified as Current Financial Assets (maturity of up to 12 months after the date of the Statement of Financial Position) or long-term Financial Assets (maturity over 12 months after the date of the Statement of Financial Position). The Group recognises them initially at their historical cost, plus direct transaction costs. Upon initial recognition, receivables and loans are measured at amortised cost using the method of the applicable interest rate reduced due to impairment or increased as a result of their reversal. The exception are long-term trade receivables from customers undergoing compulsory settlement procedures bearing interest pursuant to the decisions on compulsory settlements, operating receivables from the company SODO, bearing interest in accordance with Article 84 Item 5.3 of the Network Charge Act (Official Gazette of the

Republic of Slovenia, no. 81, of 29 October, 2012), and non-interest-bearing receivables of significant amount recognised at the discounted amount, taking into account the interest rate equal to the average interest rate of all long-term credits.

Cash and cash equivalents include cash on current accounts and deposits at commercial banks (investments which, in the near future, can be converted quickly to an amount of cash, known in advance, and which are subject to an insignificant risk of changes in value). They are recognised in the amounts derived from the relevant documents after verification that they have such a nature. Current account overdrafts at banks, which can be settled on call and are an integral part of the Group's cash, are included among the components of cash and cash equivalents in the Statement of Cash Flows.

Financial liabilities

Among financial liabilities, the Group also shows recognised received loans, recognised when the Group becomes a Contractual Party related to a particular instrument. The group derecognises such items when the obligations specified in the Contract or other legal act are met, annulled, revoked or expired.

Financial liabilities are recognised initially with the amounts from the relevant documents on their creation, plus costs directly attributable to the transaction. Received loans are measured at amortised cost. At least once a year, prior to drawing up Financial Statements, the Group estimates the Fair Value of short-term liabilities based on Contracts, and, if the book value is lower than the established Fair Values, it increases their value. Received loans are increased by accrued interest and reduced by the liquidated amounts or any potential other settlements. Depending on the maturity, Financial Liabilities are classified as short-term (maturity of up to 12 months after the date of the Statement of Financial Position), or long-term (maturity over 12 months after the date of the Statement of Financial Position).

The Group has, on the Balance Sheet

date, 31 December 2016, concluded Contracts for the purchase of electricity for the years 2017 and 2018, which are in its possession for the purpose of receiving or providing non-financial assets in accordance with the expected purchase, sale or use. The group does not deal with them as derivatives, but took the view that they are normal Contracts of Sale and Purchase (depending on the purpose of the purchase of electricity, management of the operations related to electricity, whether there is a physical delivery etc.) and they therefore do not fall within the scope of the IAS 39 Standard.

Among other Financial Liabilities, the Group also shows the liabilities relating to the distribution of income (dividends). Dividends are recognised as a liability in the period and at the level approved by the Assembly.

h) Impairment of financial assets

A Financial Asset is deemed to be impaired if there is objective evidence which shows that, due to one or multiple events, a reduction in the expected future cash flows from this asset has occurred, and can be measured reliably.

Objective evidence of an impairment of Financial Assets can be as follows: Receivables which are the subject of litigation, receivables more than 90 days past maturity on the Balance Sheet date, indications that the debtor will initiate compulsory settlement or bankruptcy, disappearance of an active market for this kind of instrument etc. The Group also checks whether the market for an individual financial investment works, or whether sufficient transactions have been concluded to reflect its Fair Value. In the case of investments that are not quoted in an active market, such checks are performed also if there are objective reasons for tests assessing impairment of such investments, if any of the investments is losing value significantly or permanently, or if there is objective evidence that indicates permanent impairment of investments (e.g. future business plans).

Impairment of available-for-sale financial assets

The Group revalues investments to

their Fair Value at the end of the financial year. If the recorded book value of a long-term investment is higher than the market value calculated according to the last published Stock Exchange price, impairment is carried out. Proven losses from changes in Fair Value of a Financial Asset Available for sale is recognised directly in equity as a reduction in reserves (loss) resulting from Fair-Value based evaluation. Financial investments which are not listed on an active market are impaired to the extent that their reported book value is higher than the proven realisable value. On Balance Sheet date, the Group assesses whether there is objective evidence of the impairment of a financial investment. When testing investments in shares or shareholdings for the purpose of assessment whether impairment was present or not, significant or prolonged decline in value of these investments below their acquisition cost for a period longer than 12 months should also be considered. The Group companies carry out a test to assess the impairment of the investment in an equity instrument not measured at Fair Value if the book value of such investments on the cut-off Balance Sheet date is more than 20% above the proportional part of the book value of the total equity of the company, and if future plans of the company's operation indicate permanent impairment of investments. If the book value of total equity is not (yet) published or otherwise publicly available, other, less reliable evidence of the book value of the total equity can also be used on the Balance Sheet date (assessment).

The amount of loss is measured as the difference between the book value of the investments on Balance Sheet date and the present value of expected future cash flows of the investment, discounted at the current market rate of return (recoverable value), which applies to similar Financial Assets, and recognised in the Income Statement as a Financial Expense. Such impairment losses may not be reversed.

Expenses due to impairment of Available-for-sale Financial Assets are recognised in a way where any cumulative loss, previously recognised

in other comprehensive income of the period, and presented in the Fair Value Reserve, is transferred to the Profit or Loss Statement. Any subsequent increase in the Fair Value of an impaired equity security that is available for sale is recognised in other comprehensive income of the period, or in the Fair Value Reserve.

Impairment of receivables

The Group assesses evidence of an impairment of receivables and carries out a revaluation adjustment for total receivables in bankruptcy proceedings, for receivables which are the subject of litigation, and for receivables more than 90 days past maturity on the Balance Sheet date. For receivables in compulsory settlement procedures, a revaluation adjustment is carried out in accordance with the Decisions on such settlements, or in the amount of 80% if the compulsory settlement has not yet been confirmed. Adjustments are reduced by payments and write-offs of receivables based on supporting documents: A Compulsory Settlement Decision, Bankruptcy Proceedings Decision and other documents.

Losses due to adjustments or impairment of receivables are recognised in Profit or Loss Statements among Expenses. When, due to later events, the amount of impairment loss is decreased, the decrease in impairment loss is reversed through Profit and Loss.

i) Impairment of non-financial assets

The Group verifies the book value of significant Non-financial Assets in order to determine whether there are indications of impairment. If such indications exist, the recoverable amount of the asset is estimated. The recoverable amount is Fair Value less costs of sale, or value in use, whichever is higher. As a rule, the Group revalues Non-financial Assets immediately, when their book value exceeds the recoverable value due to impairment. Impairment is shown in the Profit and Loss Statement.

A substantial change in circumstances of operations as regards Tangible Fixed Assets are such that, the assumptions used in estimating the value in use and Fair Value less costs

of sale, change by more than 5% in a single year. A review of impairments is decided based on a significant asset with the longest useful life; the Group defines a significant asset as an asset whose acquisition cost is more than 0.5% of the total cost of Tangible Fixed Assets. A decrease in value of depreciable assets due to impairment is treated as an Operating Expense.

The value of land, buildings, distribution equipment and investment property is assessed by certified appraisers. Based on the Fair Value of investment property resulting from the official assessment of GURS, the Group identifies potential impairment indications.

j) Equity

Equity is the liability to owners of Group companies, which is due for payment when the company goes out of business. It is defined in the amounts invested by the owners and the amounts generated during operation that belong to the owners. Equity is reduced by loss from operations and payment of dividends. Total equity consists of share capital, share premium, revenue reserves, retained net profit and Fair Value Reserves.

Called-up or share capital

Called-up Capital of the Group refers to the share capital of the Parent Company, divided into 24,192,425 ordinary freely transferable shares. Called-up Capital is defined as the share capital in the Parent Company registered in court and paid by its owners. Ordinary shares provide holders with the right to participate in the management of the Parent Company, to a share of profit and a proportional share of the assets remaining after liquidation or bankruptcy of the Parent Company. Dividends on ordinary shares are recognised as a liability in the period in which they were approved at the Assembly.

Share premium

Share premium of the Group consist of amounts of reversals of the general capital revaluation adjustment and are formed in accordance with the purpose of use pursuant to Article 64 of the Companies Act (ZGD-1).

Profit reserves

Profit reserves include statutory reserves, reserves for treasury shares, acquired treasury shares, and other profit reserves. Profit reserves are formed in the amount and under the conditions laid down in Article 64 of the Companies Act (ZGD-1) and the Articles of Association of the Parent Company, from net profit amounts of the financial year and retained profit.

Other profit reserves may be used for any purpose, except in the case of the fifth paragraph of Article 64 of the Companies Act or if the Company's Articles of Association provide otherwise. Capital and statutory reserves may pursuant to the Companies Act be used to cover net loss for the year if it cannot be covered from retained profit or other profit reserves and for coverage of retained loss, if it cannot be covered by net profit for the year or from other profit reserves. If the total amount of these reserves is higher than the statutory prescribed percent of share capital (10%), they can also be used to increase share capital from the Parent Company's assets and to cover net and retained loss for the business year if profit reserves are not used for the distribution of profit to shareholders.

- Statutory reserves

Statutory reserves are the amounts which are retained from profits from previous years purposefully, in particular for the settlement of potential future losses.

- Reserves for treasury shares

If the companies in the Group buy back their Treasury Shares, in the statement of Financial Position, in accordance with the Articles of Association and paragraph 5 Article 64 of the Companies Act (ZGD-1) the reserves for Treasury Shares are formed from the net profit of the business year. Acquired Treasury Shares (i.e. equal to the amount paid, including costs relating to the purchase) are an integral part of total equity and are deducted from it. Reserves for Treasury Shares may be released only if Treasury Shares have been alienated or withdrawn.

- Other profit reserves

Other profit reserves are formed from the profits in the amount and under the conditions defined by the

law and the Articles of Association of Group companies.

Reserves for fair value

Reserves for Fair Value contain the effects of the valuation of the Available-for-sale Financial Assets at Fair Value, as well as actuarial gains and losses related to the provisions for post-employment and other long-term employee benefits.

k) Inventory

The Group's inventory includes the material, small tools with useful lives of up to a year, which has the characteristics of inventory, but also with the useful life of more than one year if its individual cost does not exceed EUR 500, and merchandise. Small tools of the Group include protective equipment and tools.

An inventory unit is recognised at cost consisting of the purchase price, less any discount obtained, import and other non-refundable purchase fees (excise duties) as well as the direct costs of acquisition (transport costs, the costs of loading, unloading, handling and transport insurance cost etc.). Inventory of material is valued at cost or net realisable value, specifically, the lesser of the two. Inventory of merchandise is held by retail prices including VAT, and are recorded at cost or net realisable value, the lesser of the two, in the Statement of Financial Position. Consumption of inventory of material is valued according to the moving average price method, with merchandise valued at the most recent average cost.

Inventory of materials and merchandise is revalued due to the impairment if their book value exceeds the net realisable value. Write-offs of damaged and obsolete inventories are carried out regularly during the year and during inventory-taking by the Group.

l) Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event (legal or indirect), the amount of which can be estimated reliably, and it is likely that, in the settlement of the commitment, an outflow of the factors providing economic benefits will be necessary. The

amount recognized as a provision is the best estimate of the expenditures (includes risks and uncertainties) required for settlement of usually long-term commitments existing on the date of the statement of financial position and is equal to the value of the expenditures expected to be required to settle the obligation. If the effect of the time value of money is material, the expected expenditures must be appropriately discounted to their present value. Provisions are not revalued. At the end of the accounting period, they are adjusted in such a way that their value is equal to the present value of the expenditure expected to be required to settle the obligation.

Provisions for post-employment and other long-term benefits of employees

Long-term provisions of the Group are formed for long-service awards to employees, severance upon their retirement and allowance in the case of the death of employees in the amount of estimated future payments for severance and long-service awards discounted at the end of the reporting period. The calculation is made for each employee in a way which takes the costs of the severance pay on retirement and the cost of all expected long-service awards to retirement into account. A calculation using the Projected Unit Credit method based on the multiple decrement model, which takes into account the cost of the current service, interest expense, payment of earnings, and actuarial gains/losses incurred as a result of changes in actuarial assumptions adjustments based on experience, is prepared by the authorised Actuary. Payments of severance upon retirement and payments of long-service awards reduce the provisions formed. In the Profit and Loss Statement, the Group recognises revenue or expenses in connection with the adjustment of provisions for retirement severance (service costs, interest expenses), while actuarial gains and losses in respect of retirement severance commitments are recognised in equity in the context of the reserves for Fair Value. The revenue and expenditure in connection with the adjustment of the provision for long-service awards and allowance payments in the case

of death of an employee (service costs, interest costs, actuarial gains/losses) are recognised in the Profit and Loss Statement.

Other liabilities arising from post-employment benefits of employees do not exist.

Lawsuit provisions

The Group discloses lawsuit provisions in which the companies act as the defendant. Every year, the eligibility of provisions formed is assessed in relation to the state of disputes and the likelihood of a favourable or unfavourable resolution. The amount of the provisions is determined by the known amount of compensation claims or according to the anticipated amount if the claim amount is not yet known.

m) Long-term deferred revenue

Long-term deferred revenue for Fixed Assets acquired free of charge

The Group recognises long-term deferred revenue for Fixed Assets acquired free of charge, classified in categories according to the rate of depreciation of the acquired assets. Deferred revenue is reallocated to revenue in proportion to the depreciation rate of those depreciable assets. Acquisition of fixed assets free of charge relates mainly to the connections of customers which the Company assumed as tangible fixed assets with a commitment to maintain and restore them, in accordance with regulations (Official Gazette of RS, no. 126/07, General conditions for connection to the distribution electric system).

Long-term deferred revenue for average connection costs charged

The Group recognises long-term deferred revenue also for average connection costs charged pursuant to the Decision on determining the network charge for use of the electricity networks of the Energy Agency of the Republic of Slovenia, for the period up to 30 June, 2007, relate to the dedicated payment of connections to the network or increase in coupling strength (financing investments in network expansion). Deferred Revenue is reallocated to Operating Revenue in proportion to the depreciation rate of those depreciable assets

equal to the prevailing level of Fixed Assets of electricity infrastructure, i.e. 3%.

Long-term deferred revenue for government support

Government grants, received to cover expenses, are recognised as income over the periods in which the expenses in question which should be replaced by these supports are produced.

n) Operating and other Liabilities

The Group discloses financial and operating liabilities depending on the maturity of the payment, as long-term or short-term. Short-term liabilities mature into payment within a period shorter than one year. Liabilities, upon initial recognition, are shown at cost, whereas after recognition, they are measured at amortised cost. Impairment of short-term liabilities is not identified or disclosed by the Group. Short-term liabilities denominated in foreign currencies at the Balance Sheet date are converted into national currency according to the reference rate of the European Central Bank.

o) Short-term accrued and deferred revenue and expenses

Short-term deferred costs (Expenses) are those expected to be realised in the following year, and the formation of which is likely, with the size being estimated reliably, and which do not yet affect the profit or loss, while accrued revenue includes revenue, for which payment has not been received and was not possible to charge yet.

Accrued costs (Expenses) are formed on the basis of the steady burden of Profit and Loss with expected costs (Expenses) which have not yet appeared. Short-term deferred revenue is generated in the case of not yet carried out, but already charged or even paid service, but that does not create normal liabilities to customers, which would be considered as advances obtained.

p) Revenue

Net revenue from sales includes revenue from the sale of electricity, charged rent and maintenance of the infrastructure, and the provision of services for SODO, revenue from the

sale of other energy products (sale of wood pellets, natural gas), and other net income from services rendered (revenue from services rendered to customers, rent). They are measured on the basis of sales prices stated in the invoices and other documents, reduced by refunds and rebates granted at the time of sale, or later as a result of the earlier payments, excluding Value Added Tax.

Net proceeds from the sale are recognised at the time of the sale of goods or services, if it is reasonably expected that the sale will lead to income, if these are not yet realised when they are created. Revenue from services rendered is recognised based on the stage of completion of the transaction at the reporting date.

Sales of services to SODO

The Parent Company, as the owner of the electricity distribution infrastructure, signed the Agreement on the Lease of Electricity Distribution Infrastructure and Provision of Services for the Distribution Network System Operator SODO d.o.o., which is the exclusive holder of the concession for performing the compulsory public service of Distribution System Operator in the Republic of Slovenia. Pursuant to the provisions of said Agreement, the parties sign an amendment to the Agreement each year for the current year, which defines the amount of Lease payments and the volume of services to be rendered by the Parent Company Elektro Celje, d.d. for SODO d.o.o. in the power distribution area of Elektro Celje. The Energy Agency, which is, on the basis of Article 116 of the Energy Act (EZ-1), competent for determining a methodology for charging the network charge and the eligible costs of DNSO operators, defined, with Decision No. 211-58/2015-122/452 the regulatory framework for the period 2016-2018. The Parent Company's revenue from leasing the electricity distribution infrastructure and the provision of services for SODO is recognised on a monthly basis of issued advance invoices, while the basis for the recognition of total and actual revenue from the lease of electricity infrastructure and services rendered during the period is preliminary reconciliation submitted by the company

SODO on the basis of unaudited data from the Financial Statements to the Parent Company by 15 March after the end of the accounting year.

Sale of services

Revenue from sales of services is recognised in the accounting period in which they are carried out if it is reasonably expected that the sale will lead to income, if said income is not yet realised upon creation. In the case of long-term projects, the Group recognises revenue from services rendered by using the method of completion level of works at the Balance Sheet date of the Group company.

Capitalised own services

Capitalised own services are services rendered for the Company's own needs and capitalised among tangible fixed assets or intangible non-current assets. The Group recognises revenue in the amount of expenses, required for the construction or production of an asset which, however, shall not exceed the cost of similar assets that the Group may buy on the market.

Proceeds from the sale of electricity and energy products

Operating income is recognised at the time of the sale of electricity and energy products if it is reasonably expected that the sale will lead to benefits, if they are not implemented upon the sale itself. Electricity billing is carried out in three ways, namely:

- According to actual consumption on a monthly basis for the calendar month – larger customers are provided with partial invoices for electricity consumed during a month, which are taken into account in the final monthly invoice (representing a 3-percent share of annual turnover of electricity);
- According to actual consumption on a monthly basis, where the invoices are issued from the 1st up to 8th business day of each month for the preceding calendar month, the amount of consumption is taken monthly (64% of the annual turnover of electricity);
- Annual invoicing, when informative calculations are issued during the year based on average daily consumption of the previous account-

ing period, while, once annually, meters are recorded and an invoice is created - household customers (33% share of the annual turnover of electricity). A network charge is also included in these invoices.

VAT and excise duty, and the network charge on shared invoices shall not be considered as income from sale, but rather as withdrawal liabilities.

Other operating revenue

This includes revenue from reversal of provisions (mostly for fixed assets acquired free of charge), the revenue related to business effects (received compensation, subsidies, grants etc.), operating revenue achieved from the sale of Fixed Assets and uninstalled material, the revenue from write-off liabilities and the reversal of adjustments to receivables, and unusual items, for which it is not expected that they will occur regularly or frequently (recovered written off receivables from previous years, received reimbursement of court costs and damages,...)

q) Financial revenue and expenditure

Financial Revenue includes revenue from dividend payments, proceeds from disposals of financial assets, interest received from deposits, assets of the accounts and loans granted, exchange gains, income, and interest on late payment of electricity, network charges and services. Interest income is recognised as it accrues, using the effective interest rate, income from dividends on the date when the shareholder's right to receive payment is enforced, whereas interest on late payment of electricity, network charges and service are recognised when charged, if there is no doubt about their size and date of maturity.

Financial Expenses comprise costs of borrowing (if these are not capitalised), expenses due to impairment and write-off of investments, interest from operating liabilities and negative exchange rate differences. They are recognised in the Profit and Loss Statement, if a decrease in economic benefits during the accounting period is associated with the reduction of assets or increase in debt, and if this

reduction can be measured reliably. Financial expenses are recognized at settlement irrespective of the payments associated with them. Borrowing costs are recognized by the Group in the income statement using the effective interest method, except for those costs that are capitalized and attributable to tangible fixed assets in the course of construction or development.

r) Income tax

Income Taxes from the business year include current and deferred tax.

Income Tax is shown in the Profit and Loss Statement, except for the part that is associated with the items disclosed directly in the Comprehensive Income.

Current tax is charged from the taxable profit of the Group for the financial year according to the tax rates applicable at the reporting date, and any adjustments to tax liabilities in

relation to the previous fiscal years. Taxable profit differs from the net profit reported in the Profit and Loss Statement, because it excludes items of income or expense that are taxable or deductible in other years, as well as items that are never taxable or deductible.

Deferred tax is reported using the method of the liabilities under the Statement of Financial Position, taking into account the temporary differences arising between the tax values of assets and liabilities and their book values in the separate Financial Statements of Group companies. The amount of the deferred tax is based on the expected mode of reimbursement or settlement of the book value of assets and liabilities, using tax rates (and laws), which are expected to be used when the deferred tax asset is realised or the deferred tax liability will be cleared.

A deferred tax asset is recognised in

the amount of probable future taxable profits available, against which the deferred assets can be used in the future. Deferred tax assets are reduced by the amount for which it is no longer likely that tax relief, associated with an asset, can be claimed.

s) Earnings per share

The Group discloses the basic profitability of shares, which is calculated by dividing the profit accruing to the holders of the controlling interest in net profit by the weighted average number of ordinary shares for the financial year; the Group's own shares are thereby excluded.

t) Cash flow statement

The Cash Flow Statement of the Group is prepared according to the direct method and shows truly and fairly income and expenses from operating, investing and financing activities explaining changes in the movement of cash.

17.5 Determination of Fair Value

According to the accounting policies of the Group, it is necessary, in certain cases, to determine the Fair Value of financial and non-financial assets and liabilities. Fair Value is the amount for which an asset could be sold or a liability exchanged, between knowledgeable, willing parties in an arm's length transaction. The Fair Value of the Group, for the purpose of measurement or reporting, is set by the methods below:

Tangible fixed assets

The Fair Value of land, buildings, distribution equipment, and investment property is estimated by authorised Assessors of property and equipment values.

Investment property

In determining the Fair Value of the investment property owned by the Group, it adheres to the Fair Value

stemming from the official evaluation of GURS.

Investments available for sale

The Fair Value of financial assets available for sale that are listed on a Stock Exchange is determined on the basis of the final stock on the reporting date.

Financial investments which are not listed on an active market and the Fair Value of which cannot be estimated reliably, are assessed by the Group on Balance Sheet date to decide whether there is impartial evidence of their impairment. It identifies whether significant or longer-term reduction of value of these financial investments is present, dropping below their cost in a period exceeding 12 months, and a test is carried out to evaluate the impairment of a financial investment into an equity instrument (if the book value of such a financial

investment, on cut-off Balance Sheet date, exceeds the proportionate part of book value of the total equity of the company by 20%, if the future business plans indicate a lasting impairment of the investment etc.).

Operating and other receivables

Short-term Operating Receivables, due to being short-term, are not discounted, but the impairment of the Fair Value is taken into consideration. All receivables are subject to interest, except SODO receivables, in respect of the outstanding preliminary reconciliations, which are only subject to interest until their inclusion in the regulatory framework. These are receivables of significant value, thus they are shown in the Balance Sheet at their discounted value, whereby the interest rate, equal to the average interest rate of all long-term loans, is taken into consideration.

17.6 Composition of the Elektro Celje Group

The Elektro Celje Group consists of the **Parent Company Elektro Celje, d.d.** and subsidiaries:

- **ECE d.o.o.**, Vrnčeva 2a, Celje, the activity of which is the buying and selling of electricity and other energy products to end customers, both household and business consumers. The company was founded by the companies Elektro Celje and Elektro Gorenjska, with the shareholder Elektro Gorenjska, d.d. entering the company in the process of a merger of its subsidiary company Elektro Gorenjska Prodaja to the company Elektro Celje Energija.
- **MHE – ELPRO, d.o.o.**, Vrnčeva 2a, Celje, whose activity comprises production of electrical and thermal energy in SHPs, SPSs and CHPP.

The company Elektro Celje d.d. is the Parent Company of ECE d.o.o., based on the rights stemming from the Shareholders Agreement. The company ECE d.o.o. operates as a part of the Elektro Celje Group. Thereby, the risks, stemming from the operations of the subsidiary, are managed in a unified manner. The company Elektro Celje d.d., as a majority shareholder in accordance with paragraph 2 of Article 25 of the Social Contract, nominates and dismisses the Manager - Director of the subsidiary. The shareholder, as a body, influences the operations of the company, as ZGD-1 does not demand the independence of management in their management activities. Management decisions are tied to the consent of the Assembly, but the shareholder as a body may also issue binding instructions to the

management. The information right of every shareholder is, irrespective of their ownership share, almost unlimited in content, whereby it may be implemented outside the Assembly, or independently of the agenda of the Assembly. In addition, the shareholder as a body has broad possibilities of direct control of the company's operations, as no Supervisory Board has been organised in the company. The majority shareholder manages its investment through coordinating meetings with the Director of the subsidiary, giving binding instructions on current issues, allowing for faster defining of actions to address the potential problems, while supervising the operations and the work of the Director regularly and effectively.

Subsidiaries	Equity interest (in %)			Book value of equity (in EUR)			Profit or loss (in EUR)	
	31 December 2016	31 December 2015	1 January 2015	31 December 2016	31 December 2015	1 January 2015	31 December 2016	31 December 2015
ECE d.o.o.	74.3256%	74.3256%	100%	18,206,205	17,384,409	9,036,403	1,353,114	2,729,274
MHE – ELPRO, d.o.o.	100%	100%	100%	2,355,618	2,220,487	2,115,022	135,131	105,464

17.7 Intangible Assets

The property rights of the Group consist of investments into software in the amount of EUR 1,645,942 (EUR

1,560,181 in 2015), real rights in immovable property in the amount of 42,521 EUR (41,195 EUR in 2015), and

substantive rights for the use of vacation apartments amounting to EUR 25,165 (EUR 28,519 in 2015).

Intangible non-current assets (in EUR)	31 December 2016	31 December 2015	1 January 2015
Property rights	1,713,627	1,629,895	1,627,731
Intangible assets in development	321,351	157,259	41,907
Other long-term accrued revenue and deferred expenses	279	150	622
Total	2,035,257	1,787,304	1,670,260

For the acquisition of Intangible Assets, the Group had, on 31 December 2016, operating liabilities disclosed in the amount of EUR 543,690.

Changes in intangible assets

Intangible non-current assets (in EUR)	Property rights	Intangible assets in development	Other long-term accrued revenue and deferred expenses	Total
Cost				
As of 1 January 2015	8,463,130	41,907	622	8,505,659
Increase	441,783	664,037	201	1,106,021
Carry-over from ongoing investments	548,685	-548,685	0	0
Decrease	-772,467	0	-673	-773,140
As of 31 December 2015	8,681,131	157,259	150	8,838,540
As of 1 January 2016	8,681,131	157,259	150	8,838,540
Increase	0	1,056,995	129	1,057,124
Carry-over from ongoing investments	892,903	-892,903	0	0
Decrease	-397,898	0	0	-397,898
As of 31 December 2016	9,176,136	321,351	279	9,497,766
Revaluation adjustment				
As of 1 January 2015	6,835,399	0	0	6,835,399
Amortisation and depreciation	984,949	0	0	984,949
Rentals from holiday facilities	3,355	0	0	3,355
Decrease	-772,467	0	0	-772,467
As of 31 December 2015	7,051,236	0	0	7,051,236
As of 1 January 2016	7,051,236	0	0	7,051,236
Amortisation and depreciation	805,817	0	0	805,817
Rentals from holiday facilities	3,355	0	0	3,355
Decrease	-397,900	0	0	-397,900
As of 31 December 2016	7,462,508	0	0	7,462,508
Carrying value				
As of 1 January 2015	1,627,731	41,907	622	1,670,260
As of 31 December 2015	1,629,895	157,259	150	1,787,304
As of 1 January 2016	1,629,895	157,259	150	1,787,304
As of 31 December 2016	1,713,627	321,351	279	2,035,257

Intangible Assets in the Group do not have limited property rights and are free of burdens. The information system for supporting operations, which

is subject to a Finance Lease, will become the permanent property of the Group after the contractual obligations will have been met.

64% of Intangible Assets in use were, on 31 December 2016, fully depreciated. The share is calculated according to their cost.

17.8 Tangible Fixed Assets

Property, plant and equipment (in EUR)	31 December 2016	31 December 2015	1 January 2015
Land	5,908,405	5,862,153	5,928,244
Buildings	173,224,451	168,972,879	166,746,043
Equipment	63,446,733	63,682,969	64,093,687
Property, plant and equipment in the course of acquisition	5,837,695	7,971,478	5,486,002
Total	248,417,284	246,489,479	242,253,976

Changes in property, plant and equipment

Property, plant and equipment (in EUR)	Land	Buildings	Equipment	Ongoing investments	Advance- payments for PP&E	Total
Cost						
As of 1 January 2015	5,928,244	549,954,615	158,594,960	5,486,002	0	719,963,821
Increase	1,038	0	313,625	21,794,584	2,548	22,111,795
Carry-over from ongoing investments	22,025	13,414,149	5,872,934	-19,309,108	0	0
Decrease	-89,154	-5,461,869	-3,751,100	0	-2,548	-9,304,671
As of 31 December 2015	5,862,153	557,906,895	161,030,419	7,971,478	0	732,770,945
As of 1 January 2016	5,862,153	557,906,895	161,030,419	7,971,478	0	732,770,945
Transfers to assets	0	-301,772	301,772	0	0	0
Increase	0	0	0	19,566,693	0	19,566,693
Carry-over from ongoing investments	46,831	15,344,330	6,064,448	-21,455,609	0	0
Decrease	-579	-5,114,499	-2,864,814	-244,867	0	-8,224,759
As of 31 December 2016	5,908,405	567,834,954	164,531,825	5,837,695	0	744,112,879
Revaluation adjustment						
As of 1 January 2015	0	383,208,572	94,501,273	0	0	477,709,845
Amortisation and depreciation	0	10,976,259	6,387,590	0	0	17,363,849
Decrease	0	-5,250,815	-3,541,413	0	0	-8,792,228
As of 31 December 2015	0	388,934,016	97,347,450	0	0	486,281,466
As of 1 January 2016	0	388,934,016	97,347,450	0	0	486,281,466
Transfers to assets	0	-6,640	6,640	0	0	0
Amortisation and depreciation	0	10,687,680	6,381,061	0	0	17,068,741
Decrease	0	-5,004,553	-2,650,059	0	0	-7,654,612
As of 31 December 2016	0	394,610,503	101,085,092	0	0	495,695,595
Carrying value						
As of 1 January 2015	5,928,244	166,746,043	64,093,687	5,486,002	0	242,253,976
As of 31 December 2015	5,862,153	168,972,879	63,682,969	7,971,478	0	246,489,479
As of 1 January 2016	5,862,153	168,972,879	63,682,969	7,971,478	0	246,489,479
As of 31 December 2016	5,908,405	173,224,451	63,446,733	5,837,695	0	248,417,284

Significant activation of electricity infrastructure in 2016 related to the construction of the underground cable for 20 Kv TS Bukovšek Cerjak (EUR 180,844 EUR), underground cable for 20 kV DTS Žalec - Novo Celje (EUR 192,422), underground cable for 20 kV DTS Žalec - Varioform (EUR 200,470), underground cable for 20 kV TS Solčava – TS Solčava hunting lodge (EUR 204,965), underground cable for 20 kV TS Brstovnica item 36 - TS Gračnica (EUR 209,843), underground cables for 2 x 20 kV DTS Vuzenica – DS Radlje (EUR 442,838), underground cable for 20 kV TS Arnežsko - TS Lokve (EUR 229,52), underground cable for OPL 2 x 20 kV Nazarje - Ljub-

no to TS Rečica trg (EUR 231,386) and reconstruction of the 20 kV overhead power line for DTS Šentjur - DS Podplat (EUR 233,114), and replacement of the equipment for the supply and transformer bay (EUR 205,380) in the 110 kV switchyard of DTS Vuzenica. In subsidiaries, the majority of investments were earmarked for the modernisation of rolling stock (EUR 29,840) and updating of the information support (EUR 12,837).

The book value of long-term Intangible and Tangible Fixed Assets which the Group, based on the Agreement on the Lease of Electricity Distribution Infrastructure and Provision of Services

for the Distribution Network System Operator, and associated annexes, leased to the company SODO d.o.o. amounted, on 31 December, 2016, to EUR 218,905,578 (EUR 214,469,851 in 2015), while the remaining assets amounted to EUR 21,306,367 (EUR 21,568,221 in 2015);

The cost of in-house construction and manufacture of Tangible Fixed Assets amounted to EUR 13,260,484 in 2016 (EUR 14,324,151 in 2015).

Borrowing costs attributed to the newly activated engineering structures in 2016 amounted to EUR 9,888 (EUR 7,257 in 2015), new equipment to EUR

800 (EUR 862 in 2015), and they are shown according to the weighted interest rate for investment credits during the period for which interest is calculated.

For the acquisition of Tangible Fixed Assets the Group disclosed on 31 December 2016, liabilities amounting to EUR 942,594.

The Group, according to the situation as of 31 December 2016, did not disclose any tangible assets with limited right to property, nor were any of them pledged as security for liabilities.

All tangible assets owned by the Group were, on 31 December 2016, in use, of which 28% of all the buildings and

equipment were fully depreciated on 31 December 2016. The share is calculated in relation to the cost of buildings and equipment. For Fixed Assets that have been damaged (partially or fully), the Group received EUR 113,289 in damages from insurance companies.

17.9 Investment Property

Changes in investment property (in EUR)	Amount
Cost	
As of 1 January 2015	917,182
Increase	40,889
As of 31 December 2015	958,071
As of 1 January 2016	958,071
As of 31 December 2016	958,071
Revaluation adjustment	
As of 1 January 2015	618,409
Amortisation and depreciation	18,344
As of 31 December 2015	636,753
As of 1 January 2016	636,753
Amortisation and depreciation	18,343
As of 31 December 2016	655,096
Carrying value	
As of 1 January 2015	298,773
As of 31 December 2015	321,318
As of 1 January 2016	321,318
As of 31 December 2016	302,975

Investment Property relates to a commercial building leased to individuals or other companies by the Group. According to official evaluations of GURS, the market value of the property amounts to EUR 489,909 which,

according to our estimates, is a good approximation of the Fair Value, while the Group itself did not obtain an evaluation of investment property from an authorised Assessor of property. Proceeds from rent amounted

to EUR 7,296 in 2016 (EUR 6,410 in 2015), with the related costs amounting to EUR 7,383 (EUR 7,080 in 2015), and relating to the current maintenance of the property.

17.10 Financial Investments

Financial investments (in EUR)	31 december 2016	Number of shares	31 december 2015	Number of shares	1 january 2015	Number of shares
Gorenjska banka, d.d.	288,766	2,350	288,766	2,350	0	0
Zavarovalnica Triglav, d.d.	130,477	5,624	132,430	5,624	69,855	2,960
Informatika, d.d.	206,987	2,479	206,987	2,479	310,495	2,479
Stelkom, d. o. o	108,222	0	108,222	0	56,594	0
Total	734,452	10,453	736,405	10,453	436,944	5,439

All investments in stocks and shares are allocated as financial investments, available for sale.

The value of financial investments amounts to EUR 734,452, of which EUR 130,477 (EUR 132,430 on 31 December 2015) refers to financial investments listed on the Stock Exchange, and are, thus, valued at their

Fair Values. The Fair Value of the shares of Zavarovalnica Triglav, d.d., on 31 December 2016, compared to 31 December 2015, was reduced by EUR 1,953 due to revaluation.

Other investments are valued at cost because they are not listed on a Stock Exchange, and for them, the Group cannot obtain information in order

to assess the Fair Value. The Group took the view that there are no objective reasons for their impairment in 2016. Shares of Gorenjska Banka are valued at a price that represents 20% of the last known audited book value of the share. A financial investment in the company Stelkom in the amount of EUR 51,628 is planned for sale in 2017.

Changes in financial investments (in EUR)	Znesek
Carrying value as of 1 January 2015	436,944
Increase due to merger by acquisition	403,265
Adjustment to market value	-103,804
Carrying value as of 31 December 2015	736,405
Carrying value as of 1 January 2016	736,405
Adjustment to market value	-1,953
Carrying value as of 31 December 2016	734,452

Financial investments do not serve as insurance and are burden free.

17.11 Deferred Tax Assets and Liabilities

In 2016, the tax rates have changed in accordance with the Act amending the Corporate Income Tax Act (*Official Gazette of the Republic of Slovenia*,

no. 68/2016), namely from 17% to 19%. The Group's deferred taxes in 2016 were recalculated at a rate of 19%, with the increase in the Deferred Tax

Assets recognised in favour of Profit or Loss and an increase in Deferred Tax Liabilities charged to Equity.

17.11.1 Deferred Tax Assets

Deferred tax assets (in EUR)	31 December 2016	31 December 2015	1 January 2015
Trade receivables	1,174,479	925,765	617,862
Provisions for post-employment and other benefits of employees	585,856	493,914	485,421
Investments	19,667	17,597	0
Long-term deferred revenue	1,022,743	0	0
Deferred tax assets for tax loss from merger by acquisition	0	20,820	0
Total	2,802,745	1,458,096	1,103,283

Changes in deferred tax assets (in EUR)	Trade receivables	Provisions for post-employment and other benefits of employees	Financial investments	Long-term deferred revenue for fixed assets acquired free of charge	Deferred tax assets for tax loss from merger by acquisition	Total
As of 1 January 2015	617,862	485,421	0	0	0	1,103,283
Deferred tax assets from merger by acquisition	153,005	20,347	0	0	352,561	525,913
Recognised in the Income Statement	154,898	9,715	17,597	0	0	182,210
Recognised in the Comprehensive Income Statement	0	10,923	0	0	0	10,923
Reversed in the Income Statement	0	-32,492	0	0	-331,741	-364,233
As of 31 December 2015	925,765	493,914	17,597	0	20,820	1,458,096
As of 1 January 2016	925,765	493,914	17,597	0	20,820	1,458,096
Recognised in the Income Statement	248,714	61,757	2,070	1,022,743	0	1,335,284
Recognised in the Comprehensive Income Statement	0	30,185	0	0	0	30,185
- from which tax rate recalculation from 17% to 19%	125,078	61,669	2,070	0	0	188,817
Reversed in the Income Statement	0	0	0	0	-20,820	-20,820
As of 31 December 2016	1,174,479	585,856	19,667	1,022,743	0	2,802,745

17.11.2 Deferred Tax Liabilities

Deferred tax liabilities (in EUR)	31 December 2016	31 December 2015	1 January 2015
Investments	17,095	16,203	0
Total	17,095	16,203	0

Deferred Tax Liabilities relate to the change in the value of financial assets available for sale.

Changes in deferred tax liabilities (in EUR)	Amount
As of 1 January 2015	0
Recognised in the Comprehensive Income Statement	16,203
As of 31 December 2015	16,203
As of 1 January 2016	16,203
Recognised in the Comprehensive Income Statement	892
- from which tax rate recalculation from 17% to 19%	151
As of 31 December 2016	17,095

17.12 Inventory

In 2016, the Group identified a deficit of EUR 5,575 and surplus of EUR 3,823 in the materials inventory, which was calculated in the context

of expenditure or revenue of the company. Due to obsolescence or changes in quality of material, inventory in the amount of EUR 39,270 was

written off in 2016. The Group had no inventories pledged as security for its obligations.

Inventory (in EUR)	31 December 2016	31 December 2015	1 January 2015
Material	1,082,705	1,274,534	1,294,096
Small tools	78,311	105,995	98,651
Merchandise	8,091	46,048	58,268
Total	1,169,107	1,426,577	1,451,015

17.13 Trade Receivables

17.13.1 Long-term Trade Receivables

Long-term receivables from the company SODO on 31 December, 2016, amounted to EUR 4,718,472 and relate to the long-term portion of receivables from preliminary reconciliations for the regulatory year 2014 in the amount of EUR 1,394,170 and 2015, amounting to EUR 3,426,391, to discounting the two receivables in the amount of EUR -119,116, a third of final RF reconciliations for 2012,

2013, 2014, and to accrued interest in respect of the outstanding deficits from the preliminary and final reconciliations of those years, up to inclusion into the 2016 - 2018 regulatory framework, amounting to EUR 17,027. Receivables from SODO from the preliminary reconciliations of the regulatory frameworks for the years 2014 and 2015, which following inclusion in the regulatory frameworks

will no longer bear interest, were recorded at their discounted values, with the method of remuneration of deficits and surpluses from Article 85 of the Network Charges Act (Official Gazette of RS, no. 66/2015 dated 14 September 2015) and an interest rate equal to the average fixed interest rate on investment loans on 31 December 2016 in the amount of 0.896% taken into account.

Long-term trade receivables (in EUR)	31 December 2016	31 December 2015	1 January 2015
Long-term trade receivables from customers	6,383,365	7,649,457	304,391
- revaluation adjustment to trade receivables from customers	-195,751	-37,188	-23,470
- discounted receivables	-132,653	-124,265	0
- short-term portion of long-term trade receivables from customers	-365,500	-568,285	-143,604
	5,689,461	6,919,719	137,317
Long-term trade receivables from others	9,214	8,297	4,033,471
- revaluation adjustment to trade receivables from others	0	0	0
- short-term portion of long-term trade receivables from others	0	0	0
	9,214	8,297	4,033,471
Total	5,698,675	6,928,016	4,170,788

Long-term Operating Receivables include receivables from mobile phone set buyers in the amount of EUR 869,909 (of which EUR 362,474

relates to the short-term portion), whereas a part represents receivables from companies in compulsory settlements. Long-term receivables

are not collateralised nor pledged as collateral for liabilities of the Group.

17.13.2 Short-term Trade Receivables from Customers and Other Trade Receivables

Short-term trade receivables (in EUR)	31 December 2016	31 December 2015	1 January 2015
Trade receivables from customers	49,553,687	52,518,098	32,939,150
- revaluation adjustment to trade receivables from customers	-5,672,397	-5,470,778	-3,638,730
- discounted receivables	-12,619	-26,653	0
Late charge receivables	314,864	409,867	310,899
- revaluation adjustment to late charge receivables	-259,649	-343,938	-258,702
Advance payments made	68,104	80,635	55,632
- revaluation adjustment to advance payments made	0	0	-428
Trade receivables from customers	43,991,990	47,167,231	29,407,821
Other trade receivables	6,790,710	3,863,648	3,100,574
- revaluation adjustment to short-term receivables from others	-250,997	-76,788	-183,571
Other trade receivables	6,539,713	3,786,860	2,917,003
Total	50,531,703	50,954,091	32,324,824

Most of the trade receivables from customers, in a share of 77.3%, are shown by the subsidiary ECE (mainly for the sale of electricity to business and household customers), the Parent Company shows 22.6% (of this amount, receivables from customers for the network charge amounting to EUR 3,704,402, with receivables for maintenance and lease of electricity infrastructure and provision of services for SODO d.o.o. in the amount of EUR 5,866,595), with the share of the subsidiary SHP - ELPRO amount-

ing to 0.1%. The maturity profile of trade receivables and their insurance is presented in Section 17.38.1 (Credit Risk Exposure).

Short-term deferred expenses and accrued revenue

Short-term deferred expenses and accrued revenue in the amount of EUR 3,493,340 are included among other trade receivables. Short-term deferred expenses are related mainly to the deferred cost of sponsorships (EUR 93,612), with short-term accrued

revenue referring to uncharged projects in 2016 (EUR 32,549), the preliminary reconciliation for 2016 (EUR 2,730,926), a third of the eligible costs recognised in the regulatory period 2012-2014 which will be in accordance with the Act determining the methodology for charging for the network charge settled in 2017 (EUR 17,040), and to deviations calculated for electricity (EUR 383,915). Items in the Statement of Financial Position are realistic and do not contain any hidden reserves.

Item (in EUR)	31 December 2016	31 December 2015	1 January 2015
Short-term deferred expenses	158,245	40,505	41,908
Short-term accrued revenue	3,167,923	273,655	735,300
VAT from advance payments received	1,305	4,098	61,412
VAT from overpayment of electricity	165,867	161,102	0
Total	3,493,340	479,360	838,620

17.13.3 Income Tax Receivables

Income tax receivables (in EUR)	31 December 2016	31 December 2015	1 January 2015
Total	0	229,977	0

17.14 Cash and Cash Equivalents

Cash and cash equivalents (in EUR)	31 December 2016	31 December 2015	1 January 2015
Cash in current accounts	2,433,729	1,847,082	1,147,749
Cash items in the process of collection	3,906	1,598	21,013
Overnight deposits	143,372	8,189	834,787
Total	2,581,007	1,856,869	2,003,549

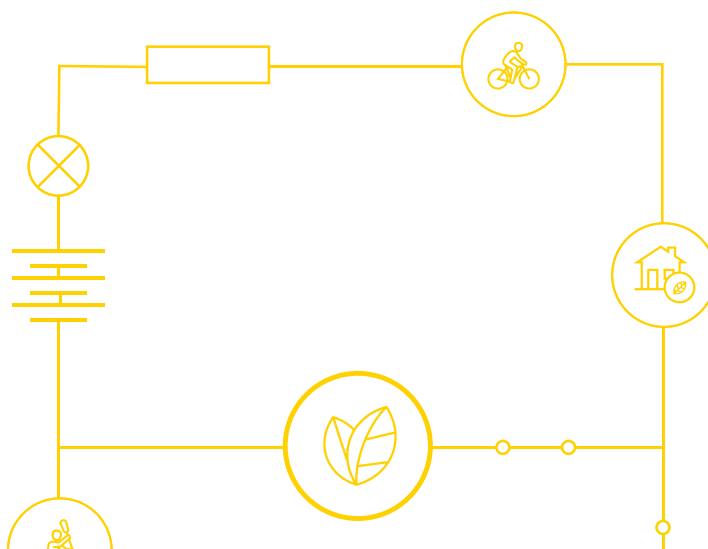
Cash on accounts with commercial banks is subject to interest rates for positive balances of up to 0.01%.

The Group signed Contracts with commercial banks on the use of a negative balance on transaction accounts in the amount of EUR 1 million

(EUR 915,000 in 2015). On 31 December 2016, the limit was entirely unused, which means that there was no negative balance on the bank accounts.

To ensure daily liquidity, and in case of increased liquidity needs, the Parent

Company may, from December 2015 onwards, exploit a long-term revolving credit in the amount of EUR 3.145 million, which was, on 31 December, 2016, exploited in the amount of EUR 1.05 million.



17.15 Equity and Reserves

The status of the individual components of the Group's equity on 1 January 2016, and 31 December 2016, and the change in individual equity components in 2016 are shown in Table 16.5 and explained in Section 17.4 (j).

Equity (in EUR)	31 December 2016	31 December 2015	1 January 2015
Equity share of controlling interest	208,580,557	203,175,585	196,839,551
Share capital	100,953,201	100,953,201	100,953,201
Share premium	62,260,317	62,260,317	62,260,317
Revenue reserve	35,267,588	30,076,650	25,447,446
Legal reserves	3,036,613	2,565,008	2,224,584
Reserves for treasury shares	541,833	0	0
Treasury shares	-541,833	0	0
Other revenue reserves	32,230,975	27,511,642	23,222,862
Fair value reserves	-302,184	-40,448	76,927
Reserves for fair value of financial instruments	65,646	68,170	44,274
Reserves for actuarial deficits and surpluses	-367,830	-108,619	32,653
Net income/profit	10,401,635	9,925,865	8,101,660
Retained net income/profit from previous years	6,690,619	3,903,111	2,009,567
Net income/profit for the year	3,711,016	6,022,754	6,092,093
Minority interest	4,734,005	4,463,343	0
Total	213,314,562	207,638,928	196,839,551

Share capital

The Group's share capital, amounting to EUR 100,953,201, is divided into 24,192,425 no-par value or-

dinary freely transferrable shares. Each share has the same share and corresponding amount in the share capital. All shares are shares of the

same class and fully paid up. In 2016, there were no changes regarding the number of shares issued (described in Section 17.4.(j)).

Ownership profile	31 December 2016		31 December 2015		1 January 2015	
	Number of shares	Shareholding in %	Number of shares	Shareholding in %	Number of shares	Shareholding in %
Republic of Slovenia	19,232,978	79.50%	19,232,978	79.50%	19,232,978	79.50%
Kapitalska družba	192,429	0.80%	192,429	0.80%	192,429	0.80%
Financial corporations, insurance companies and funds	1,267,348	5.24%	1,475,702	6.10%	1,714,667	7.09%
Slovene legal persons	662,095	2.74%	725,957	3.00%	1,012,457	4.19%
Foreign legal persons	1,840,628	7.61%	1,882,635	7.78%	1,358,624	5.62%
Natural persons	769,286	3.18%	682,724	2.82%	681,270	2.82%
Treasury shares	227,661	0.94%	0	0.00%	0	0.00%
Total	24,192,425	100.00%	24,192,425	100.00%	24,192,425	100.00%

Treasury shares

Shareholders of the Parent Company authorised the management, at the 21st Shareholders Assembly, in order to maximise the value for shareholders and to increase the value of the company's assets, to acquire Treasury Shares in the company, in accordance with the Article of Association of the Parent Company and Article 247 of the Companies Act (ZGD-1). The overall share of Treasury Shares acquired may not exceed 10% of the share capital of the Parent Company, i.e. 2,419,242 shares, and the purchase price must not be lower than EUR 2.38 and higher than EUR 3.43 per share. In 2016, the Parent Company could acquire up to 790,068 Treasury Shares, whereas, in 2017, up to 781,443, and in 2018, up to 847,731 shares can be purchased. On 31 December 2016, the Parent Company had 227,661 Treasury Shares acquired in the period from 10 November 2016, to 9 December 2016, at a price of EUR 2.38, which amounts to a total of EUR 541,833. In 2015, the Group did not hold its Treasury Shares.

The Parent Company may, in accordance with the Article of Association, with the prior consent of the Supervisory Board, withdraw Treasury Shares acquired pursuant to this authorisation without any further decision on reduction of share capital or exchange them for shares or stakes in other companies or offer them for sale to a potential strategic investor.

Reserves

The Group's Reserves are comprised of share premium, profit reserves and reserves for Fair Value. Profit reserves include statutory reserves, reserves for Treasury Shares, acquired Treasury Shares, and other profit reserves. Creation, purpose of creation,

and utilisation of individual reserves is described in Section 17.4(j).

Share premium of the Group include a general equity revaluation adjustment in the amount of EUR 62,260,317, which was, upon transition to IFRS, included in the share premium. Share premium is not distributable and can be used under the terms and for the purposes provided by law.

Statutory reserves are formed from the Net Profit of the financial year and, on 31 December 2016, amounted to EUR 3,036,613, EUR 471,605 more than on 31 December 2015. They can be used under the terms and for the purposes provided by law.

Reserves for treasury shares are formed from the Net Profit for the financial year 2016 in the amount of purchase of Treasury Shares, and, on 31 December 2016, amounted to EUR 541,833.

Other profit reserves, as at 31 December 2016, amounted to EUR 32,230,975, which is EUR 4,719,333 more than on 31 December 2015, and were formed out of profit in the amount and under the conditions laid down by law and the Articles of Associations of the companies in the Group.

Fair value reserves for financial instruments in 2016, in comparison with the previous year, decreased by EUR 2,526 and, on 31 December 2016, amounted to EUR 65,646. The change is due to the decrease in the Fair Value of financial assets available for sale by EUR 1,680 and a reduction in deferred tax effect in connection with the change in value of these investments by EUR 846.

Reserves for actuarial deficits and surpluses on 31 December, 2016, amounted to EUR -367,830, and include a change of the present value of post-employment benefits in the amount of EUR -259,210, of which reduction, as a result of converted post-employment benefits, amounts to EUR -289,395, and the increase of the impact of deferred taxes due to the restatement of post-employment benefits amounts to EUR 30,185.

Retained net profit or loss and dividend per share

Retained Net Profit or Loss in the amount of EUR 10,401,635 includes retained profit of previous years (EUR 6,690,619) and Net Profit of the current year (EUR 3,711,016).

On 31 August, 2016, shareholders of the Parent Company adopted a Decision on the allocation of distributable profit in the amount of EUR 3,235,246; EUR 3,234,527 was intended for the payment of the dividends, which was EUR 0.1337 per share (in 2014 dividends were paid for 2014 in the amount of EUR 3,145,015, which was EUR 0.13 per share), while EUR 719 remained non-distributed. The proposed payment of dividends for 2016 amounts to EUR 2,806,223, representing EUR 0.116 per share.

Equity share of non-controlling interest

Equity share of non-controlling interest pertains to the company Elektro Gorenjska, which entered the company ECE as a partner in the process of merger with acquisition of its subsidiary Elektro Gorenjska Prodaja as the company acquired by the company Elektro Celje Energija on 1 October 2015.

Minority shareholder's interest	Non-controlling interest in %			Minority shareholder's equity (in EUR)			Minority shareholder's net profit (in EUR)		
	31 December 2016	31 December 2015	1 January 2015	31 December 2016	31 December 2015	1 January 2015	31 December 2016	31 December 2015	1 January 2015
Elektro Gorenjska, d.d., a minority shareholder of the subsidiary ECE d.o.o.	25.6744%	25.6744%	0%	4,734,005	4,463,343	0	407,075	636,024	0

17.16 Provisions

Provisions (in EUR)	31 December 2016	31 December 2015	1 January 2015
Liabilities related to post-employment benefits of employees	6,282,476	5,971,465	5,470,528
Provisions for lawsuits	535,599	615,626	40,000
Total	6,818,075	6,587,091	5,510,528

Provisions for post-employment and other long-term employee benefits

The actuarial calculation on 31 December 2016 took into account the following assumptions: the statistical probability of death and disability, retirement in accordance with the law and staff turnover (4% until the age of 40 and 1% probability between the

ages of 41 to 50, 0% for those over 51 years old), 1.31% discount rate, 2% salary growth in the Republic of Slovenia and the electricity sector, 2.25% salary growth in the Company, valid employer contribution rate of 16.1% and 0.5% growth in the amounts provided for in Decree on the levels of reimbursed work-related expenses and of

certain income not to be included in the tax base (Official Gazette of RS, nos. 140/2006, 76/2008).

Benefit payments amounted to EUR 398,022, additional recognition to EUR 463,570, and the actuarial surplus of the Group to EUR 245,463.

Liabilities related to long-term employment benefits (in EUR)	Long-service awards	Retirement benefits	Death allowance	Total
As of 1 January 2015	1,804,750	3,490,557	175,221	5,470,528
Liabilities related to long-term benefits of employees of the company acquired	91,252	150,104	0	241,356
Current service costs	134,665	184,979	19,160	338,804
Interest expense	36,837	78,473	3,593	118,903
Payments of benefits	-258,774	-152,956	-15,518	-427,248
Actuarial surplus/deficit	66,798	145,906	16,418	229,122
As of 31 December 2015	1,875,528	3,897,063	198,874	5,971,465
As of 1 January 2016	1,875,528	3,897,063	198,874	5,971,465
Current service costs	131,032	211,014	10,055	352,101
Interest expense	32,282	75,209	3,978	111,469
Payments of benefits	-261,420	-136,602	0	-398,022
Actuarial surplus/deficit	16,040	288,599	-59,176	245,463
As of 31 December 2016	1,793,462	4,335,283	153,731	6,282,476

Lawsuit provisions

Other provisions on 31 December, 2016, include provision for lawsuits in the amount of EUR 19,850, formed in 2015 (action for damages due to the disconnection of a neutral line) and further created reservations in 2016:

In respect of an action for damages by a private individual due to the ownership of the TS in the amount of EUR 12,000 and passive actions amounting to EUR 503,749. Provisions formed in 2015 due to a lawsuit for payment of balance of the

2015 holiday pay up to the amount 2015 prescribed in Article 128 of the Collective Agreement for Slovenian Electricity Industry amounting to EUR 595,776 were eliminated in 2016 due to the withdrawal of the lawsuit.

Changes in provisions (in EUR)	Liabilities for post-employment and other long-term benefits	Provisions for lawsuits	Total
As of 1 January 2015	5,470,528	40,000	5,510,528
Liabilities related to long-term benefits of employees of the company acquired	241,355	0	241,355
Utilisation	-427,248	-31,050	-458,298
Recognition	686,830	615,626	1,302,456
Reversal	0	-8,950	-8,950
As of 31 December 2015	5,971,465	615,626	6,587,091
As of 1 January 2016	5,971,465	615,626	6,587,091
Utilisation	-398,022	0	-398,022
Recognition	757,830	515,749	1,273,579
Reversal	-48,797	-595,776	-644,573
As of 31 December 2016	6,282,476	535,599	6,818,075

17.17 Long-term Deferred Revenue

In 2016, the Group formed EUR 442,418 worth of long-term accrued expenses and deferred revenue in respect of fixed assets acquired free of charge.

Long-term deferred revenue (in EUR)	31 December 2016	31 December 2015	1 January 2015
For government support received	965,686	1,063,344	1,174,144
For fixed assets acquired free of charge	9,932,849	9,989,558	10,098,707
For assets received from connection fees	2,458,322	2,566,314	2,674,306
Total	13,356,857	13,619,216	13,947,157

Changes in long-term deferred revenue (in EUR)	Amount
As of 1 January 2015	13,947,157
Recognition	474,595
Reversal	-802,536
As of 31 December 2015	13,619,216
As of 1 January 2016	13,619,216
Recognition	450,418
Reversal	-712,777
As of 31 December 2016	13,356,857

Reversals of long-term accrued expenses and deferred revenue for fixed assets acquired free of charge and average connection fees amount-

ed to EUR 607,120, reversals intended for the use of assigned contribution as per the Decree on Employment of Persons with Disabilities amounted to

EUR 8,298, with reversals for drawing State aids for the acquisition of fixed assets amounting to EUR 97,359.

17.18 Loans Received and Other Financial Liabilities

Loans received refer to the Group's financial liabilities to the banks of the Parent Company in the amount of EUR 44,992,731 (investment loans in the amount of EUR 43,942,731, and a revolving loan in the amount of EUR 1.05 million), two long-term bank loans granted to the subsidiary MHE-ELPRO totalling EUR 69,373 with a maturity of 23 months and interest rate of six-month EURIBOR plus 2.9% per annum (for investment in CHPP

SRCE and a Solar Power Plant in Mes-tinje). The average weighted interest rate on investment loans of the Parent Company on 31 December 2016 amounted to 0.896%. Exposure to interest rate risk is presented in the note Market Risk, Section 17.38.2.

To finance investments in the period 2015-2017, the Parent Company concluded a loan agreement in the amount of EUR 28 million with the Eu-

ropean Investment Bank in 2015, with the credit conditions agreed upon and determined upon absorption of individual tranches (moratorium of 2 to 36 months, maturity up to 15 years, interest rate, etc.). To finance the occasional deficit in liquid assets, the Parent Company, in 2016, used the revolving credit which was taken in 2015, with the repayment deadline of 31 January 2019, interest rate three-month EURIBOR plus 0.85%.

Loans received (in EUR)	31 December 2016	31 December 2015	1 January 2015
Long-term loans received			
Loans received from banks	33,843,699	33,609,060	36,770,278
Total long-term portion	33,843,699	33,609,060	36,770,278
Short-term loans received			
Loans received from banks	0	2,000,000	0
Short-term portion of long-term loans from banks	11,218,405	11,872,561	6,241,623
Total short-term portion	11,218,405	13,872,561	6,241,623
Total	45,062,104	47,481,621	43,011,901

Maturing instalments of principal and interest are settled within the time limits. All loans within the Group are secured by Bills of Exchange. The value of the principals, which are due after five years from the date of the Balance Sheet, amounts to EUR 5,684,572.

Commitments of the Group to take long-term loans relate to monitoring the indicators, which are defined at the level of the Consolidated Financial Statements of the Group: Financial debt/EBITDA (lower than 2.5), financial debt/equity (lower than 0.3), EBITDA/financial expenses from fi-

nancial liabilities (higher than 12), current ratio (higher than 0.9), net financial debt/EBITDA (equal to or lower than 3.5) and equity/liabilities (equal to or higher than 55%). At Balance Sheet date the Group meets all contractual financial commitments.

Other financial liabilities

Other short-term trade payables (in EUR)	31 December 2016	31 December 2015	1 January 2015
Payables for dividends paid out	4,173	7,063	5,879

17.19 Long-term Operating Liabilities

Long-term trade payables (in EUR)	31 December 2016	31 December 2015	1 January 2015
Trade payables for purchasing software	327,266	0	0
Trade payables based on advance payments	7,659	7,659	0
Total	334,925	7,659	0

17.20 Short-term Operating and Other Liabilities

Short-term trade payables (in EUR)	31 December 2016	31 December 2015	1 January 2015
Trade payables for purchasing electricity	14,059,294	14,470,117	8,742,886
Trade payables to suppliers	3,392,031	4,504,145	3,579,026
Trade payables from operations for third-party account	11,347,268	11,455,151	7,896,043
Trade payables to employees	2,376,393	1,725,717	1,536,620
Trade payables to state and other institutions	1,387,443	1,387,443	1,387,443
Trade payables based on advance payments	943,283	970,217	429,827
Other trade payables	1,621,987	2,317,561	2,043,088
Total	35,127,699	36,830,351	25,614,933

Short-term operating liabilities are comprised mainly of liabilities for the purchase of electricity, liabilities from operations for third-party account (trade payables to SODO d.o.o. for using the network in accordance with the Agreement), trade payables for purchase of fixed assets, materials and services and trade payables to employees and the State.

Short-term deferred revenue and accrued costs and expenses

Other operating liabilities include short-term deferred revenue and accrued costs and expenses. Short-term accrued expenses in the amount of EUR 1,138,610 refer mainly to the accrued labour costs for unused annual leave of employees for 2016 (EUR 737,429) and uncharged electricity

purchased (EUR 305,925), with short-term deferred revenue in the amount of EUR 38,744 referring to charged costs incurred due to cancellations of contractual orders in the amount of EUR 9,966 and received EU grants intended to cover the costs of the pilot project, which will be incurred in 2017, amounting to EUR 28,778.

Item (in EUR)	31 December 2016	31 December 2015	1 January 2015
Short-term accrued costs and expenses	1,138,610	1,737,099	1,876,034
Short-term deferred revenue	38,744	282,007	244,148
VAT from advance payments made	4,608	4,926	6,059
Total	1,181,962	2,024,032	2,126,241

17.21 Income Tax Liabilities

Income tax liabilities (in EUR)	31 December 2016	31 December 2015	1 January 2015
Total	237,715	0	783,463

17.22 Contingent Liabilities

Contingent liabilities in the amount of EUR 19,594,467 failed to comply with the conditions for the recognition as Balance Sheet items, and are included in off-Balance Sheet items.

Bank guarantees given amount to EUR 19,280,395 and, for the most part, relate to guarantees given to SODO for the severity of the payment

and the guarantee of the severity of business.

The amount of contingent liabilities arising from outstanding civil cases where the Group is the defendant amounted to EUR 314,072 and compared to the balance on 31 December 2015, was EUR 901,277 lower; claims for damages in the amount of EUR

934,534 were concluded by the court (a claim by minority shareholders for the payment of additional dividends from the profit for 2014 in the amount of EUR 893,113 represented the major part of the claims), while litigation procedures commenced in 2016 comprised EUR 33,257.

Contingent liabilities (in EUR)	31 December 2016	31 December 2015	1 January 2015
Ongoing litigation procedures	314,072	1,215,349	566,568
Bank guarantees given	19,280,395	29,896,911	17,318,109
Total	19,594,467	31,112,260	17,884,677

Liabilities and receivables from Operating Leases

a) Group Companies as tenants

The Group signed Contracts on an Operating Lease of electronic communications facilities, optical fibre and optical spectrum of the optical fibre, the maturity of which is expected to be determined for an indefinite period, or until there will be the need for a Lease. Cumulatively, rental costs for existing Contracts in 2016 amounted to EUR 30,097, and the same amount is planned for the coming period, until the Contract termination.

With the inclusion of the small photovoltaic plant KC Brdo into the system, in 2007, a Contract for the Lease of the roof for a period of 25 years was concluded with the Public Commercial Institute for Protocol Services of the Republic of Slovenia from Kranj. The cost of the rent of a solar power plant that converts solar radiation into electricity depends on the quantities of electricity generated and amounted to EUR 173 in 2016.

With the merger of the company Elektro Gorenjska Prodaja with the company Elektro Celje Energija in 2015, the Group also rented premises from the company Elektro Gorenjska. The Contract is concluded for an indefinite period of time, with the cost of the Lease amounting to EUR 83,067 per year.

b) Group companies as landlords

Proceeds from renting business premises (investment property), which the Group rents to interested individuals or companies, amounted to EUR 7,269 in 2016, with costs arising from it amounting to EUR 7,383. Business premises are rented for a fixed or indefinite period, with the possibility of termination in accordance with the contractual provisions.

The Government of the Republic of Slovenia issued, by Decision No. 36001-4 / 2007/5 dated 14 June, 2007, a concession to the company SODO d. o. o. for a period of 50 years from the date of conclusion of the Concession Contract (Decree on the Concession of an Electricity DSO Service of General Economic Interest, Official Gazette of the Republic of Slovenia No. 39/07 dated 4 May, 2007. The Group, as owner of the electricity distribution infrastructure, concluded the Agreement on 21 February, 2012, with the distribution network system operator SODO d.o.o. on the Lease of Electricity Distribution Infrastructure and Provision of Services for the Distribution Network System Operator, and, in accordance with the provisions of the Agreement, the parties have concluded annexes for the current year in which they define the amount of the Lease and the extent of the provision of services in the distribution network in the area of Elektro Celje. Mutual relations for

the regulatory period 2016-2018 shall be governed by the Amendment No. 5, which was signed at the beginning of 2017. In 2016, on the basis of the Agreement, income from lease of the electricity infrastructure in the amount of EUR 25,588,834 was generated, accounting for 14.1% of the Group's net revenue from sales.

Revenue from lease of electricity infrastructure depends on the regulatory framework established by the Energy Agency on the basis of the provisions on the methodology for determining regulatory framework and methodology for charging the network charge from the Network Charge Act valid for the duration of the regulatory framework. The Act lays down the method for calculating the amount of the eligible costs, the cover of which is provided through the network charge. Revenue from leases of electricity infrastructure is planned in accordance with the Network Charge Act and the business plan for 2017, the starting points for 2018 and 2019 and is as follows: EUR 25,506,767 for 2017, EUR 26,710,645 for 2018 and EUR 26,893,735 for 2019. The amount of revenue from the Lease of Electricity Infrastructure for future regulatory periods will depend on regulatory frameworks provided by the Energy Agency, determined based on the current Network Charge Act.

17.23 Contingent Assets and Other Off-balance-sheet Records

Item (in EUR)	31 December 2016	31 December 2015	1 January 2015
Contingent assets:			
Bank guarantees received	1.617.671	2.802.156	2.618.671
Damage claims against insurance companies	45.461	81.559	202.301
Receivables from partners in companies deleted from the register	1.031.774	297.201	230.463
Allowance for employing disabled persons	96.576	84.777	78.860
	2.791.482	3.265.693	3.130.295
Other off-balance-sheet records:			
Infrastructure owned by SODO d. o. o.	3.560.947	3.703.612	3.846.276

The value of the bank guarantees received for good performance and elimination of defects in the warranty period on 31 December, 2016, amounted to 1.617.671 EUR, with claims for damages against insurance

companies that were not paid in full and, therefore, cannot be valued realistically prior to the liquidation of the claim by the insurance company amounting to EUR 45,461, receivables from partners in companies removed

from the Register to EUR 1,031,774, tax allowances for employing people with disabilities to EUR 96,576 and fixed assets financed from funds of average connection costs transferred to SODO d.o.o. to EUR 3.560.947.

17.24 Determination of Fair Value

The Group included assets and financial liabilities measured at Fair Value for which the Fair Value is also disclosed in the Table.

Book and fair value of financial instruments (in EUR)	31 December 2016		31 December 2015		1 January 2015	
	Book value	Fair value	Book value	Fair value	Book value	Fair value
Investments available for sale	130,477	130,477	132,430	132,430	69,855	69,855
Cash and cash equivalents	2,581,007	2,581,007	1,856,869	1,856,869	2,003,549	2,003,549
Loans received	-45,062,104	-45,062,104	-47,481,621	-47,481,621	-43,011,901	-43,011,901
Total	-42,350,620	-42,350,620	-45,492,322	-45,492,322	-40,938,497	-40,938,497

The group did not include Trade Receivables and Payables which, in accordance with IFRS 7, are considered as a good approximation of Fair Value. The Table also does not contain financial investments, which the Group values at cost. Their value on 31 December 2016, amounted to EUR

603,975 (EUR 603,975 on 31 December 2015, and EUR 418 717 on 1 January 2015).

The assets and liabilities, based on the calculation of their Fair Value, are classified into:

- Level 1 - assets at market price;
- Level 2 - assets whose value is determined directly or indirectly on the basis of comparable market data;
- Level 3 - Assets and liabilities whose values cannot be obtained from market data.

Fair value of assets and liabilities (in EUR)	31 December 2016				31 December 2015				1 January 2015			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Investments available for sale	130,477	0	0	130,477	132,430	0	0	132,430	69,855	0	0	69,855
Cash and cash equivalents	0	0	2,581,004	2,581,004	0	0	1,856,869	1,856,869	0	0	2,003,549	2,003,549
Loans received	0	0	-45,062,104	-45,062,104	0	0	-47,481,621	-47,481,621	0	0	-43,011,901	-43,011,901

17.25 Important Events Following the Date of the Group's Statement of Financial Position

There were no events following the balance sheet date and up to the date of the auditor's report which

would materially affect the assets and liabilities of the Group and impair the ability of the balance sheet users to

perform a relevant evaluation and reach an informed decision.

17.26 Net Sales Revenue

Revenue from the leasing and maintenance of the infrastructure and the provision of service to SODO d.o.o. were, in 2016, 8.7% lower compared to 2015, when they were also included in the revenue for covering losses of electricity. Purchase of electricity for electricity losses in the distribution

network in the area of Elektro Celje is performed by the company SODO from 1 January 2016 onwards, in accordance with the Network Charges Act.

In accordance with the agreement and related annexes, SODO d.o.o.

prepared a preliminary reconciliation for the 2016 regulatory year in the amount of EUR 2,730,927, which was invoiced in March 2017 and the respective revenue reported for 2016. The invoice will be paid in April 2017.

Net sales revenue (in EUR)	2016	2015
Revenue from trade in electricity	129,929,484	104,349,129
Revenue from lease of electricity infrastructure and provision of services for SODO	47,514,713	52,065,913
Revenue from the sale of electricity and heat generated	182,556	191,076
Revenue from the sale of biomass	369,474	1,421,476
Revenue from the sale of natural gas	2,088,976	2,698,506
Revenue from the sale of other energy products	94,727	0
Revenue from the sale of services	1,934,314	1,679,092
Total	182,114,244	162,405,192

In 2016, 2,728,918 MWh of electricity were sold, which is 0.5% more than in the previous year, with revenue generated in this regard amounting to EUR 129,929,484.

17.27 Capitalised Own Products

Capitalised own services are the services provided by the Group for its own needs and capitalised among the Tangible Fixed Assets or Intangible

Assets. The value of consumed materials amounted to EUR 6,383,999, the value of the work performed to EUR 5,829,663 and the cost of car travel

to EUR 1,046,822. The Group does not show profit in this regard.

Capitalised own products and services (in EUR)	2016	2015
In-house construction of electricity infrastructure	13,260,484	14,324,151

17.28 Other Operating Revenue

Explanations to reversal of provisions and long-term deferred revenue are presented in Sections 17.16 and 17.17. Other Operating Revenue in the

amount of EUR 542,364 relates principally to the revenue of the subsidiary ECE (in particular the reversal of accruals and deferrals for previously

charged deferred receivables from the companies Lesna TIP and Garant Polzela).

Other operating revenue (in EUR)	2016	2015
Income from reversal and utilisation of provisions	640,730	8,959
Income from reversal of long-term deferred revenue	607,120	597,531
Profit from selling tangible fixed assets and dismantling material	313,504	297,455
Other revenue associated with business effects	337,686	914,732
Compensation received	140,641	162,782
Other operating revenue	542,364	1,080,308
Total	2,582,045	3,061,767

17.29 Costs of Materials and Services

Cost of merchandise and material (in EUR)	2016	2015
Costs of purchase of electricity	119,644,905	100,701,762
Cost of goods sold	2,259,616	3,928,583
Cost of material for investments carried out in-house	6,383,999	7,666,485
Cost of material used in maintenance	623,259	566,127
Cost of fuel and energy	517,651	517,188
Cost of material for damage repair	138,093	171,697
Cost of small tools	198,831	189,418
Other costs of material	650,966	509,710
Total	130,417,320	114,250,970

In 2016, 2,723,116 MWh of electricity were purchased, with the cost of purchasing electricity in the Group amounting to EUR 119,644,905.

Cost of services (in EUR)	2016	2015
Maintenance service cost	2,144,501	2,289,458
Cost of intellectual and personal services	1,407,823	1,488,008
Cost of insurance premiums and payments	1,480,070	1,628,994
Cost of transport services	1,139,691	961,453
Cost of fairs, advertising and representation costs	695,837	822,480
Cost of services for damage repair	100,280	191,553
Cost of rent	157,711	104,034
Cost of labour contracts	200,232	189,637
Cost of other services	2,420,102	2,364,415
Total	9,746,247	10,040,032

17.30 Labour Costs

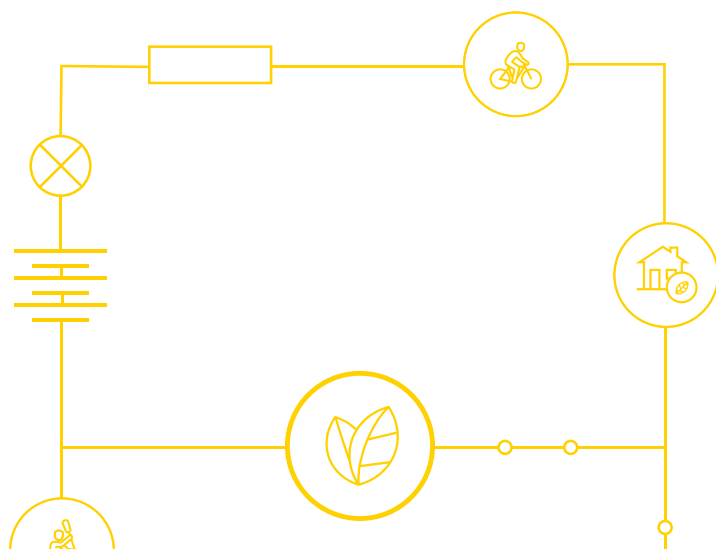
Labour costs (in EUR)	2016	2015
Cost of salaries	17,514,063	16,481,894
Cost of supplementary employee retirement insurance	847,227	749,645
Cost of employer contributions and other levies on salaries	2,906,986	2,639,158
Other labour costs	3,085,478	2,801,796
Post-employment and other long-term benefits	353,917	422,019
Total	24,707,671	23,094,512

Retirement insurance costs in 2016 amounted to EUR 2,443,088, with the cost of other social security amounting to EUR 1,311,125.

The number of employees in the Group in the financial year 2016

Education	No. of employees on 1 January 2016	Share in %	No. of employees on 31 December 2016	Share in %	Average in 2016
PhD	1	0.1%	1	0.1%	1
Master of science	15	2.1%	20	2.8%	16
University	126	17.6%	124	17.5%	126
Post-secondary	83	11.6%	79	11.2%	81
Secondary	259	36.1%	255	36.1%	268
Vocational	7	1.0%	7	1.0%	7
Highly qualified	10	1.4%	8	1.1%	9
Qualified	187	26.1%	187	26.4%	188
Semi-qualified	21	2.9%	18	2.5%	20
Unqualified	8	1.1%	8	1.1%	8
Total	717	100.0%	707	100.0%	724

Labour costs include labour costs accrued for unused annual leave in 2016 of the Group employees.



17.31 Amortisation and Depreciation

Depreciation according to the groups of assets

Amortisation and depreciation (in EUR)	Intangible assets	Buildings	Equipment	Investment properties	Total
Amortisation and depreciation for 2016	805,817	10,687,680	6,381,061	18,344	17,892,902
Amortisation and depreciation for 2015	928,363	10,976,258	6,146,979	18,344	18,069,944

The Commission in order to verify the remaining useful lives of significant fixed assets reviewed the list of buildings valued at EUR 1 million and noted

that the expectations regarding the useful lives of certain fixed assets had changed and differ from the original estimates. The change in the ac-

counting estimate amounted to EUR 5,681 and is recorded as an increase to depreciation costs in this regard.

Depreciation group	Useful life of fixed assets from 1 January 2016	Depreciation rate in 2016	Depreciation rate in 2015	Depreciation calculated for 2016 (in EUR)	Estimated depreciation for 2016 (in EUR)	Change in accounting estimate (in EUR)
Electronic meters, timers, MTKs (audio frequency receivers)	16 years	6.25%	6.67%	1,330,760	1,402,384	-71,625
TC hub equipment and concentrators	7 years	14.29%	10.00%	228,099	162,991	65,109
Telecommunication lines (optical cables)	33 years	3.00%	2.50%	114,829	95,865	18,965
Mobile telephone sets	2 years	50.00%	20.00%	20,789	8,914	11,875
Equipment of DTSS, DSs and RCSy - secondary	10 years	10.00%	6.67%	3,355	2,238	1,117
TOTAL				1,697,832	1,672,392	25,441

The expectations regarding the useful lives of certain depreciable groups

also changed, with the change in the accounting estimate comprising EUR

25,441, also recorded as an increase to depreciation costs in this regard.

17.32 Operating Expenses from Revaluation

Revaluation expenses (in EUR)	2016	2015
Operating expenses from revaluation of intangible and tangible fixed assets	480,254	256,951
Operating expenses from revaluation of current assets	1,302,400	1,030,944
Total	1,782,654	1,287,895

Operating expenses from revaluation of Intangible and Fixed Assets relate to losses from write-offs of Fixed Assets. In 2017, incomplete investments in the amount of EUR 244,867 were written off, mainly due to difficulties in obtaining easements,

lands, sites` placement and opposition by owners regarding construction of overhead power lines.

Operating expenses from revaluation of Current Assets included revaluation adjustments to receivables

from customers in bankruptcy and compulsory settlement proceedings for disputed receivables and receivables which, at the Balance Sheet date, were more than 90 days past due, as well as revaluation adjustments to stocks of materials.

17.33 Other Operating Expenses

Other operating expenses (in EUR)	2016	2015
Cost of efficient energy use	1,212,028	162,318
Cost of charges for use of construction land	207,888	225,390
Compensations and annuities	87,483	53,298
Cost of court fees	44,055	84,803
Donations and solidarity aid	36,404	8,350
Cost of promoting employment of people with disabilities	33,771	26,015
Other operating expenses	740,050	201,332
Total	2,361,678	761,506

17.34 Financial income and financial expenses

Financial income and expenses (in EUR)	2016	2015
Financial income from shareholdings in other companies	14,090	7,400
Financial income from loans granted to others	494	4,333
Financial income from trade receivables from others	327,262	334,781
Total financial income	341,846	346,514
Financial expenses from impairment and write-downs of financial investments	0	-103,508
Financial expenses from bank loans received	-543,229	-727,722
Financial expenses from other financial liabilities	0	-257,835
Financial expenses from trade payables	-1,321	-398
Financial expenses from other operating liabilities	-125,728	-13,598
Total financial expenses	-670,278	-1,103,061
Net flow	-328,432	-756,547

Dividends received by the Group amounted to EUR 14,060 (EUR 7,400 in 2015).

17.35 Income Tax

The Group was liable for payment of Corporate Tax in the amount of EUR 1,286,755 in 2016, recognised on the

basis of the tax return.

A demonstration of the harmoniza-

tion of tax expense with tax calculated from the accounting profit before tax is as follows:

Income tax (in EUR)	2016	2015
Current tax	1,286,755	1,114,450
Deferred tax	-1,314,464	182,023
Total income tax	-27,709	1,296,473
Profit before tax	10,896,246	10,939,693
Tax levied theoretically (17%)	1,852,362	1,859,747
Tax from increase in expenses	-168,414	-123,501
Tax from tax-non-deductible expenses	437,406	347,716
Tax from tax reliefs	-732,499	-966,971
Tax from income reducing tax basis	-165,623	-83,615
Tax from income increasing tax basis	6,579	303
Difference in deferred tax due to changed tax rate	-173,963	0
Change in temporary differences	-138,577	-182,210
Income from deferred tax arising from previously unrecognised temporary differences	-1,001,923	364,233
Other	56,943	80,772
Income tax	-27,709	1,296,473
Effective tax rate	0	11.9%

In 2016, the Corporate Income Tax Act in Slovenia was amended (Official Gazette of the Republic of Slovenia, No. 68/2016) changing the tax rate

from 17% to 19%. In accordance with the change in tax rates, the Group recognised an increase in deferred tax asset in favour of profit and an in-

crease in liabilities for deferred taxes charged to equity (explained in Section 17.11).

17.36 Earnings per Share

Basic earnings per share are calculated by dividing the net profit for the period attributable to owners of the controlling share, divided by the

weighted average number of ordinary shares outstanding during the period. Treasury Shares are excluded from the calculation. Basic earnings

per share in 2016 amounted to EUR 0.43 and were 7.5% higher than in 2015, when they amounted to EUR 0.40 per share.

17.37 Disclosure of Items in the Consolidated Statement of Cash Flows

The net cash flow in the period January-December 2016 amounted to EUR 724,138. The opening balance

on 1 January 2016 amounted to EUR 1,856,869, with the closing balance as of 31 December 2016, amounting

to EUR 2,581,007.

17.37.1 Inflows from Operating Activities

Inflows from Operating Activities in 2016 amounted to EUR 354,653,888, which is 91.5% of the total inflows of the Group. They refer mainly to inflows from sales of electricity in the

amount of EUR 253,452,963, inflows from the Lease and Service Agreement concluded with SODO d.o.o. in the amount of EUR 55,030,558, and inflows from the use of the network

in the amount of EUR 39,945,187. Other inflows from Operating Activities of the Group amounted to EUR 1,786,192. They included mainly inflows from compensations.

17.37.2 Outflows from Operating Activities

Outflows from Operating Activities in the amount of EUR 339,071,293 include outflows for the purchase of materials and services, salaries, including contributions and taxes, and other expenses. The largest share is held by outflows for the purchase of

materials and services and expenses for salaries (93.8%).

The surplus of inflows from Operating Activities stood at EUR 15,582,595. The Group's operation, within its main activity, was in the black and, in 2016,

the Group was able to settle all its liabilities related to the repayment of principal and interest of long-term investment loans, and partly investment expenses, as well.

17.37.3 Inflows from Investing Activities

Inflows from Investing Activities amounted to EUR 389,556 and included inflows from received inter-

est on deposits and shares of profit of other companies in the amount of EUR 14,618 and inflows from dis-

posal of Tangible Fixed Assets in the amount of EUR 374,938.

17.37.4 Outflows from Investing Activities

Outflows from Investing Activities in the amount of EUR 7,494,338 included expenses for the acquisition of Intangible and Tangible Fixed Assets.

17.37.5 Inflows from Financing Activities

Inflows from financing activities in the amount of EUR 32,736,000 included the use of long-term loans; in 2016 these comprised use of the long-term

loan of EIB to finance investments in the amount of EUR 11 million, inflows from long-term loans to refinance existing loans in the amount

of EUR 5,086,000 and inflows from multiple drawing of the long-term revolving credit in the amount of EUR 16,650,000.

17.37.6 Outflows from Financing Activities

Outflows from Financing Activities in the amount of EUR 40,489,675 include outflows for interest paid in the amount of EUR 557,661, outflows for purchasing Treasury Shares in the amount of EUR 541,833, repayments

of investment loans in the amount of EUR 12,393,417, repayments for refinancing existing loans in the amount of EUR 5,086,000, repayments of the revolving loan taken amounting to EUR 15,676,000, the repayment

of short-term loans totalling EUR 2 million and outflows for the payment of dividends in the amount of EUR 4,234,764.

17.38 Financial Risk Management

Exposure to individual risks and appropriate management are assessed and implemented based on the effects on cash flows and financing

expenses. The Group assesses them regularly and verifies the suitability of their management. The method and methodology of Financial Risk Man-

agement are presented in more detail in the Business Report in the section on Risk Management and Risk Types in the Elektro Celje Group, item 11.2.2.

17.38.1 Credit Risk

Credit risk in trade receivables (risk of loss due to non-fulfilment of debtors' liability) is related to the non-payment or late payment by electricity consumers and by recipients of the services rendered by the Group. Management of receivables and debt recovery is implemented in accordance with the provisions of Article 76 of the Energy Act (EZ-1), Article 42 of the Decree on General Conditions for the Supply and Consumption of Electricity (SPDOEE) and the provisions of the Rules on the financial operations of the Parent Company. Risk management activities are focused on continuous monitoring and accounts receivables insurance and active collection of overdue and unpaid receivables and the charging of default interest in case of delayed payment.

Short-term trade receivables in the Group after the Balance Sheet of

31 December 2016, compared to the end of 2015, decreased by 6.1%. The policy of receivables' insurance in 2016 remained unchanged. Receivables due from large customers of ECE d.o.o. are insured with a Contract with the insurance company SID - Prva kreditna zavarovalnica d.d., Ljubljana, whereas trade receivables from household customers are not insured with hedging instruments, as this is not anticipated in the Decree on General Conditions for the Supply and Consumption of Electricity. The amount of granted insurance limits as of 31 December 2016, amounted to EUR 2,715,652. Receivables for electricity due from some higher-risk business partners are secured with Bills of Exchange, bank guarantees or debt collection instruments. The insurance of short-term trade receivables from customers by means of debt collection instruments in the Par-

ent Company amount to EUR 34,000 of receivables, whereas, in February 2017, they increased by another EUR 300,00, while other receivables are not insured (trade receivables for network charges due from customers are not secured, as this is not anticipated in the SPDOEE).

Exposure to credit risk

As of 31 December, 2016, the Group has EUR 4,839,352 of trade receivables for network charges, services, lease, average connection fees, electricity and other energy-generating products, and late charges payable within a period longer than 181 days (bankruptcies, compulsory settlements, lawsuits, and property manager debt as per the Housing Act, and a revaluation adjustment recognised for such) and EUR 41,499,623 of trade receivables not yet due.

Maturity profile of current trade receivables due by customers (in EUR)

Maturity	31 December 2016	Share in %	31 December 2015	Share in %	1 January 2015	Share in %
Receivables not yet due	41,499,623	83.2	41,853,331	79.1	25,082,416	75.4
Receivables overdue by less than 30 days	2,762,144	5.5	3,906,193	7.4	2,834,531	8.5
Receivables overdue by 31-60 days	495,838	1.0	1,004,451	1.9	730,512	2.2
Receivables overdue by 61-90 days	105,261	0.2	374,791	0.7	169,800	0.5
Receivables overdue by 91-180 days	166,334	0.3	525,283	1.0	397,741	1.2
Receivables overdue by over 181 days	4,839,352	9.7	5,263,916	9.9	4,035,049	12.1
Total	49,868,552	100.0	52,927,965	100.0	33,250,049	100.0

The maturity profile of trade receivables of Group companies reports short-term operating receivables to customers and interest receivables (without revaluation adjustments). Compliant with the SAS, the companies in the Group recognise the revaluation adjustment for trade receivables in bankruptcy and compulsory settlement proceedings, receivables which are subject of legal dispute,

and receivables overdue by more than 90 days as of the Balance Sheet day. Revaluation adjustment of trade receivables is explained further in Section 17.4 (h) within the framework of the accounting policies for receivables (measurement upon initial recognition). In 2016 EUR 61,809 in invoices for unjustified consumption of electricity was charged, with received payments under this heading

amounting to EUR 98,131.

Revaluation adjustments of receivables for the Group in 2016 amounted to EUR 1,222,084, with their reversal amounting to EUR 20,638. The total adjustment to the receivables of the Group as at 31 December 2016 amounted to EUR 6,183,044.

Changes in revaluation adjustments to short-term receivables for 2016

Item (in EUR)	As of 1 January 2016	Write-downs and write-offs	Reconciliation		As of 31 December 2016
			Increase	Reversal	
Adjustments to trade receivables - energy products	4,547,668	-670,575	942,779	0	4,819,872
Adjustments to trade receivables - network charge	795,875	-146,654	71,688	0	720,909
Adjustments to trade receivables - services	113,355	-5,216	8,537	0	116,676
Adjustments to trade receivables - other	13,880	0	1,060	0	14,940
A Total adjustments to trade receivables	5,470,778	-822,445	1,024,064	0	5,672,397
Adjustments to late charge - network charge	68,888	-10,388	2,882	0	61,382
Adjustments to late charge - services	6,688	-205	206	0	6,689
Adjustments to late charge - other	268,362	-68,148	12,002	-20,638	191,578
B Total adjustments to late charge	343,938	-78,741	15,090	-20,638	259,649
Adjustments to misc. short-term receivables	76,788	-8,720	182,930	0	250,998
C Total adjustments to misc. short-term receivables	76,788	-8,720	182,930	0	250,998
TOTAL (A + B + C + D)	5,891,504	-909,906	1,222,084	-20,638	6,183,044

Changes in revaluation adjustments to short-term receivables for 2015

Item (in EUR)	As of 1 January 2015	Write-downs and write-offs	Reconciliation			As of 31 December 2015
			Increase	Transfer between accounts	Reversal	
Adjustments to trade receivables - energy products	3,912,645	-368,390	859,543	143,870	0	4,547,668
Adjustments to trade receivables - network charge	775,344	-95,438	115,969	0	0	795,875
Adjustments to trade receivables - services	111,753	-1,428	3,030	0	0	113,355
Adjustments to trade receivables - other	31,853	-221	0	0	-17,752	13,880
A Total adjustments to trade receivables	4,831,595	-465,477	978,542	143,870	-17,752	5,470,778
Adjustments to late charge - network charge	60,174	-13,522	22,236	0	0	68,888
Adjustments to late charge - services	8,539	-156	0	0	-1,695	6,688
Adjustments to late charge - other	269,871	-22,753	167,967	-143,870	-2,853	268,362
B Total adjustments to late charge	338,584	-36,431	190,203	-143,870	-4,548	343,938
Adjustments to misc. short-term receivables	183,571	-3,836	-102,947	0	0	76,788
C Total adjustments to misc. short-term receivables	183,571	-3,836	-102,947	0	0	76,788
D Revaluation adjustment to advance payments made	428	-428	0	0	0	0
TOTAL (A + B + C + D)	5,354,178	-506,172	1,065,798	0	-22,300	5,891,504

Credit risk arising from investments refers to the risk of higher fluctuations in the value of financial instruments. Reduced creditworthiness affects the liquidity of financial instruments and complicates the possible sale of the investment. In extreme cases, credit risk may lead to an investment being worthless. Financial assets the prices of which are quoted in an active mar-

ket and whose fair value can be reliably measured, are measured at fair value (i.e. 5,624 shares of Zavarovalnica Triglav d.d. in the amount of EUR 130,477), while others are valued at cost. On the Balance Sheet date, the management of a Group company establishes whether there are any objective reasons for impairment assessment of a financial investment

into an equity instrument. The value that best represents the maximum exposure to such risk is the total value of the investment. Hedging instruments cannot be used for reducing the exposure to the risk of decrease in the value of long-term financial investments below their cost (presented in section 17.4 (h)).

17.38.2 Market Risk

Within the market risks, the Group is most exposed to the risk of changes in interest rates on loans received. Exposure to interest rate risk represents (un) favourable movement of the EURIBOR reference interest rate. The group Company does not secure fluctuations in EURIBOR interest rates by financial instruments. The interest rate risk of the Group has been assessed as low, as only 15.1% of the assets are financed with bank loans. In 2017, the Group also does not expect any major increase in EURIBOR, which is projected to remain negative, but the Group has, in the past, managed to reduce the EURIBOR margin several times under the existing Contracts. In 2016 the effect of the reduction in mark-ups under existing contracts on profit before tax amounted to EUR 14,680, or to a total of EUR 137,916 until the expiry of these contracts (in 2015 the effect of the reduction in profit before tax amounted to EUR 123,403 or EUR

584,759 until the expiry of these contracts). However, where a reduction in the mark-up could not be reached, the Parent Company decided to refinance the existing loan (the effect of lower interest rates amounted to EUR 132,225 until the expiry of the contracts).

Sensitivity analysis

Sensitivity to changes in interest rates is assessed using the sensitivity analysis method. Given the volume of acquired loans as at 31 December 2016, an interest rate change of 0.1% (10 basis points) would result in a EUR 3,005 change in cash flow, an interest rate change of 0.2% (20 basis points) would result in a EUR 5,895 change in cash flow, and an interest rate change of 0.3% (30 basis points) would result in a EUR 16,269 higher expenses for interest paid (the probability of larger change in the EURIBOR is estimated as low).

The analysis rests on the assumption that all other variables remain the same.

As a precaution, the Group rejects all terms of Contracts that would allow the lender to change interest rates (increased costs clauses) subsequently due to changed conditions in the money and capital markets, changes in Regulations and instructions by any governmental, fiscal or monetary authorities, changes in the borrower's credit ranking, etc. The controlling company acts in accordance with the Decree on the Terms and Conditions and Methods of Borrowing by Legal Entities from Article 87 of the Public Finance Act. Pursuant to the Decree, consent by the Ministry of Finance is required for any and each borrowing procedure and signing agreements with banks.

17.38.3 Liquidity Risk

Elektro Celje Group measures the exposure to Liquidity Risk based on the balance of cash inflows and cash outflows, while an important element in Liquidity Risk Management is also cash flow planning. The Group's cash flow risk is affected by the amount of collected network charges, for, due to the deficit in network charges for 2014 and 2015, the payments pursuant to the preliminary reconciliations of

SODO contractual liabilities which, on 31 December, 2016, amounted to EUR 6,107,477, will only be made in future regulatory periods, EUR 1,286,916 in 2017, EUR 1,394,170 in 2018 and EUR 3,426,391 in the regulatory period 2019-2021 (in thirds) when the Energy Agency calculates them into Tariff Rates for network charges payable by the customers.

To ensure daily liquidity and for the event of increased liquidity demand, in 2016, the Group signed a long-term bank credit agreement for a revolving credit amounting to EUR 3.145 million. In 2015, the Parent Company entered into a Contract with the EIB for EUR 28 million to finance investments in the period 2015-2017.

Maturity of financial liabilities as of 31 December 2016 (in EUR)		Carrying value as of 31 December 2016	Term		
			Up to 1 year	1 to 5 years	above 5 years
1.	Investment financing loans	44,012,104	10,168,405	28,159,127	5,684,572
2.	Other loans granted	1,050,000	1,050,000	0	0
3.	Total financial liabilities	45,062,104	11,218,405	28,159,127	5,684,572

Maturity of financial liabilities as of 31 December 2015 (in EUR)		Carrying value as of 31 December 2015	Term		
			Up to 1 year	1 to 5 years	above 5 years
1.	Posojila za financiranje investicij	45,405,621	11,796,561	30,314,011	3,295,049
2.	Prejeta druga posojila	2,076,000	2,076,000	0	0
3.	Skupaj finančne obveznosti	47,481,621	13,872,561	30,314,011	3,295,049

Maturity of financial liabilities as of 1 January 2015 (in EUR)		Carrying value as of 1 January 2015	Term		
			Up to 1 year	1 to 5 years	above 5 years
1.	Investment financing loans	43,011,901	6,241,623	28,896,595	7,873,683
2.	Total financial liabilities	43,011,901	6,241,623	28,896,595	7,873,683

By providing appropriate financing sources and favourable values of financial indicators, the Company

manages the risk of poor credit and untimely acquisition of the necessary approvals for loans from sectorial

ministries

17.38.4 Capital Risk

The Republic of Slovenia has, together with Kapitalska družba d.d. and DUTB d.d., in the Parent Company, which provides services of public utilities (electricity distribution) an 80.1% stake which is defined as a strategic investment. In accordance with paragraph 5, item 6.1.1 of the Ordinance on State Asset Management, which the government adopted at its session on 17 July, 2015, the Group, in terms of acquiring 100 percent ownership of the Republic of Slovenia in com-

panies owning electricity distribution infrastructure in 2016, acceded to the implementation of the programme of acquisition of Treasury Shares.

Banks, as lenders, require that the Group maintain debt covenants regarding equity adequacy specified in Loan Agreements, where the failure to achieve the prescribed limits may result in early maturity of loans. On 31 December 2016, all contract provisions at Group level were achieved

(financial debt/ Equity < 0.3 and equity/liabilities ≥ 55%). The Group's net debt to equity ratio is relatively low, which is a good starting point for achieving an adequate credit rating and, thus, lower borrowing costs.

The Group, in 2017, plans to meet all financial commitments given to banks, as well as the expectations of SSH, in view of the net Return on Equity (ROE) of 4.62%.

Financial leverage indicator (in EUR)		31 December 2016	31 December 2015	1 January 2015
1.	Loans granted and other financial liabilities	45,066,277	47,488,684	43,017,780
2.	Equity	213,314,562	207,638,928	196,839,551
3.	Debt to equity ratio	0.211	0.229	0.219

Equity to total liabilities ratio indicator (in EUR)		31 December 2016	31 December 2015	1 January 2015
1.	Equity	213,314,562	207,638,928	196,839,551
2.	Liabilities	314,273,205	312,244,544	285,713,412
3.	Equity to total liabilities ratio	67.88%	66.50%	68.89%

17.39 Transactions with Associated Parties

17.39.1 Transactions with Owners

The largest shareholder of the Parent Company, the Republic of Slovenia, has a 79.5% stake in the company Elektro Celje. The Parent Company pro-

vides services of public utility service, electricity distribution and, thus, the Republic of Slovenia classified the investment as strategic. The dividends

to the Parent Company received in 2016 amounted to EUR 3,281,474.

17.39.2 Transaction of Parent Company with Group Subsidiaries

Group companies participated on the basis of Contracts of Sale and Purchase concluded, whereby market prices for services, goods and materials (rental of business premises,

supply of natural gas, electricity and heat, provision of services), insurance and methods of settlement, which are characteristic of normal market conditions, were used in transactions

among associated parties. The dividends paid within the Group in 2016 amounted to EUR 408,781 (in 2015 they were not paid).

Item/year (in EUR)	2016		2015	
	ECE d.o.o.	MHE – ELPRO, d.o.o.	ECE d.o.o.	MHE – ELPRO, d.o.o.
Assets:				
Short-term trade receivables	8,868	2,960	8,718	3,054
Accrued revenue and deferred expenses	0	0	637,418	0
Total assets	8,868	2,960	646,136	3,054
Liabilities:				
Short-term operating liabilities to suppliers	11,965	36,477	654,248	32,659
Other operating liabilities	985	0	0	0
Total liabilities	12,950	36,477	654,248	32,659
Income:				
Net sales revenue	86,081	24,385	158,530	24,693
Financial income	0	0	0	395
Total income	86,081	24,385	158,530	25,088
Costs and expenses:				
Cost of material	75,545	149,503	5,002,467	145,340
Cost of services	5,658	876	86	0
Total costs and expenses	81,203	150,379	5,002,553	145,340

17.39.3 Data on Groups of Natural Persons

Amounts of remuneration granted to groups of persons for 2016 for the performance of functions in the Group are as follow:

Gross receipts of groups of persons for 2016 (in EUR)	2016	2015
Members of the Management Board	340,991	200,958
Procurators	93,149	67,500
Receipts under contract of services	10,500	6,400
Members of the Supervisory Board and Supervisory Board Audit Committee	126,705	114,680
Other employees on individual contracts	422,008	468,747
Total	993,353	858,285

Remuneration of the Management Board

The Employment Contract provides for members of Management Boards

in the case of early recall at no fault, compensation amounting to six months' salary on the condition that their employment relationship is ter-

minated. The Chairpersons of Management Boards were not members of management or supervisory bodies in other companies in 2016.

Name and Surname	Position	Receipts (in EUR)	Total	Remuneration	Payments for unused annual leave	Retirement benefits
Rade Knežević (until 30 April 2016)	Chairman of the Management Board of Elektro Celje, d.d.	Gross receipts	85,212	59,354	1,840	24,017
		Net receipts	38,308	25,756	717	11,835
Boris Kupec, MSc (since 1 May 2016)	Chairman of the Management Board of Elektro Celje, d.	Gross receipts	64,046	64,046	0	0
		Net receipts	32,373	32,373	0	0
Mitja Terče (until 12 August 2016)	Managing Director of ECE	Gross receipts	160,888	84,833	0	76,055
		Net receipts	90,053	41,845	0	48,208
Sebastijan Roudi (since 12 August 2016)	Managing Director of ECE	Gross receipts	30,845	30,845	0	0
		Net receipts	15,210	15,210	0	0
Rudolf Ogrinc (until 9 September 2016)	Procurator of the company ECE	Gross receipts	73,044	50,134	4,909	18,000
		Net receipts	42,509	23,783	2,015	16,710
Erik Dobnik (since 9 September 2016)	Procurator of the company ECE	Gross receipts	20,105	20,105	0	0
		Net receipts	12,258	12,258	0	0
Total		Gross receipts	434,139	309,318	6,749	118,072
		Net receipts	230,711	151,226	2,732	76,753

Stroški ugodnosti in povračil potnih stroškov, ki izhajajo iz pogodb o zaposlitvi, ter stroški strokovnega izobraževanja v letu 2016 so naslednji:

Name and Surname	Receipts (in EUR)	Travel expenses	Insurance premiums	Use of company vehicle	Professional education	Holiday pay
Rade Knežević	3,231	429	108	2,107	0	587
Boris Kupec	5,153	1,134	157	3,060	803	0
Mitja Terče	8,103	2,246	477	3,087	531	1,762
Sebastijan Roudi	4,936	581	627	1,966	0	1,762
Rudolf Ogrinc	8,393	2,319	1,074	3,049	189	1,762
Erik Dobnik	3,509	1,575	172	0	0	1,762
Total	33,324	8,284	2,615	13,268	1,523	7,635

Reimbursement of labour costs is accounted for in accordance with the contract of employment or collective agreement at company level and includes daily and meal allowances and travel expenses for business trips. The cost of the insurance premiums and the use of a company vehicle represent creditworthiness.

The Supervisory Board has six members, four of whom are shareholder representatives and two who are employee representatives. All Supervisory Board members possess equal rights and duties. The Supervisory Board members are appointed by the Shareholder's Assembly by a simple majority of shareholders present, except members of the Super-

visory Board elected by the Workers' Council. Amendments and supplements to the Articles of Association are adopted by the Assembly by a three-fourths majority of the share capital represented at the General Meeting. The Supervisory Board held 19 sessions in 2016, 4 of which were correspondence meetings.

Basic annual remuneration of members of the SB and the SB AC of the Parent Company for the performance of functions

Basic annual remuneration for performing the function (in EUR)	Decision of the 21 st Shareholders Assembly (valid since 1 September 2016)	Decision of the 16 th Shareholders Assembly (valid until 31 August 2016)
Chairman of the Supervisory Board	19,500	16,950
Deputy Chairman of the Supervisory Board	14,300	12,430
Member of the Supervisory Board	13,000	11,300
Chairwoman of the Committee	4,875	4,238
Member of the Committee	3,250	2,825

The Audit Committee of the Supervisory Board operates within the scope of the Supervisory Board with the members in 2016 comprising Tat-

jana Habjan as Chairwoman, Mirjan Trampuž, MSM and MSc Energetics and Dejan Božič as members, the latter until 19 June 2016, and Darinka

Virant, as an independent external expert. The Audit Committee held seven meetings in 2016.

Name and Surname	Position	Attendance at meeting			Receipts (net)	Receipts (gross)	Meeting fees and basic remuneration for performing the function	Travel expenses
		SB meeting	Meeting of SB by correspondence	SB AC meeting				
1	2	3		4	5	6 = 7 + 8	7	8
REPRESENTATIVES OF SHAREHOLDERS:								
Mirjan Trampuž, MSM and MSc Energetics	Chairman of the SB and member of the SB AC	15	4	6	20,418	28,133	27,092	1,041
Dejan Božič	Deputy chairman of the SB and member of the SB AC until 19 June 2016	9	2	4	8,265	11,423	11,043	381
Tatjana Habjan	Member of the SB and Chairwoman of the SB AC	14	4	7	17,238	23,760	22,587	1,173
Mitja Vatovec	Member of the SB from 1 January 2016 to 12 September 2016 and Deputy Chairman of the SB since 13 September 2016	15	4	0	13,786	19,013	17,258	1,755
Miha Kerin, MSc	Member of the SB since 1 September 2016	4	1	0	4,368	6,006	5,653	353
Darinka Virant	Independent third-party expert, member of the SB AC	0	0	7	3,725	5,121	4,507	615
REPRESENTATIVES OF EMPLOYEES:								
Tomislav Pajić	Member of the SB	14	3	0	11,868	16,377	16,377	0
Boris Počivavšek	Member of the SB	15	4	0	12,228	16,872	16,872	0
TOTAL					91,896	126,705	121,388	5,317

The cost of liability insurance in accordance with the resolution of the Supervisory Board of Elektro Celje d.d. representing the creditworthiness of members of the Supervisory Board represent the cost of other benefits for members of the Supervi-

sory Board in 2016. Members of the Supervisory Board and Supervisory Board Audit Committee in accordance with the resolution of the 21st Shareholder's Assembly of 31 August 2016 are entitled to reimbursement of professional education and training

contextually connected to the performance of control functions and operations of the Company in the total amount of EUR 10,000 per individual financial year.

Name and Surname	Liability insurance (in EUR)	Professional education (in EUR)
REPRESENTATIVES OF SHAREHOLDERS:		
Mirjan Trampuž, MSM and MSc Energetics	157	1,446
Dejan Božič	157	0
Tatjana Habjan	157	295
Mitja Vatovec	157	41
Miha Kerin, MSc	0	41
Darinka Virant	0	41
REPRESENTATIVES OF EMPLOYEES:		
Tomislav Pajić	157	181
Boris Počivavšek	157	41
TOTAL	942	2,086

Membership of members of the Supervisory Board of the Company in the management or supervisory bodies of other companies

Name and surname	Membership in management or supervisory bodies
Mirjan Trampuž, MSM and MSc Energetics	Member of the Council of the Slovenian Institute for Quality and Metrology - SIQ
Mitja Vatovec	Managing Director of Emigma d.o.o.
Dejan Božič	/
Tatjana Habjan	<ul style="list-style-type: none"> Independent external expert, member of the Supervisory Board Audit Committee of ERGO Živiljenjska zavarovalnica, d.d. Director of the European Institute of Compliance and Ethics (EICE) - until 31 March 2016 Entrepreneur (s.p.) - Dodana vrednost, revidiranje in svetovanje, Tatjana Habjan s.p.
Miha Kerin	<ul style="list-style-type: none"> Member of the Management Board of Varnost sistemi, d.o.o. (since January 2016) External member of the Nomination Committee of Telekom Slovenije, d.d. (since June 2016)
Tomislav Pajić	/
Boris Počivavšek	/

The Management Board and Supervisory Board of the Parent Company did not receive any remuneration in connection with tasks in subsidiaries. Elektro Celje also did not approve any advances, loans or guarantees to members of the Supervisory Board, the Supervisory Board Audit Committee or the Management Board and as at 31 December 2016, does not show

any receivables from these addresses from them. The Group's liabilities to its Management Board, Supervisory Board and employee shareholders only include liabilities from salaries and meeting fees of the SB members for December 2016.

Employee remuneration on the basis of contracts which are not sub-

ject to the tariff part of the collective agreement

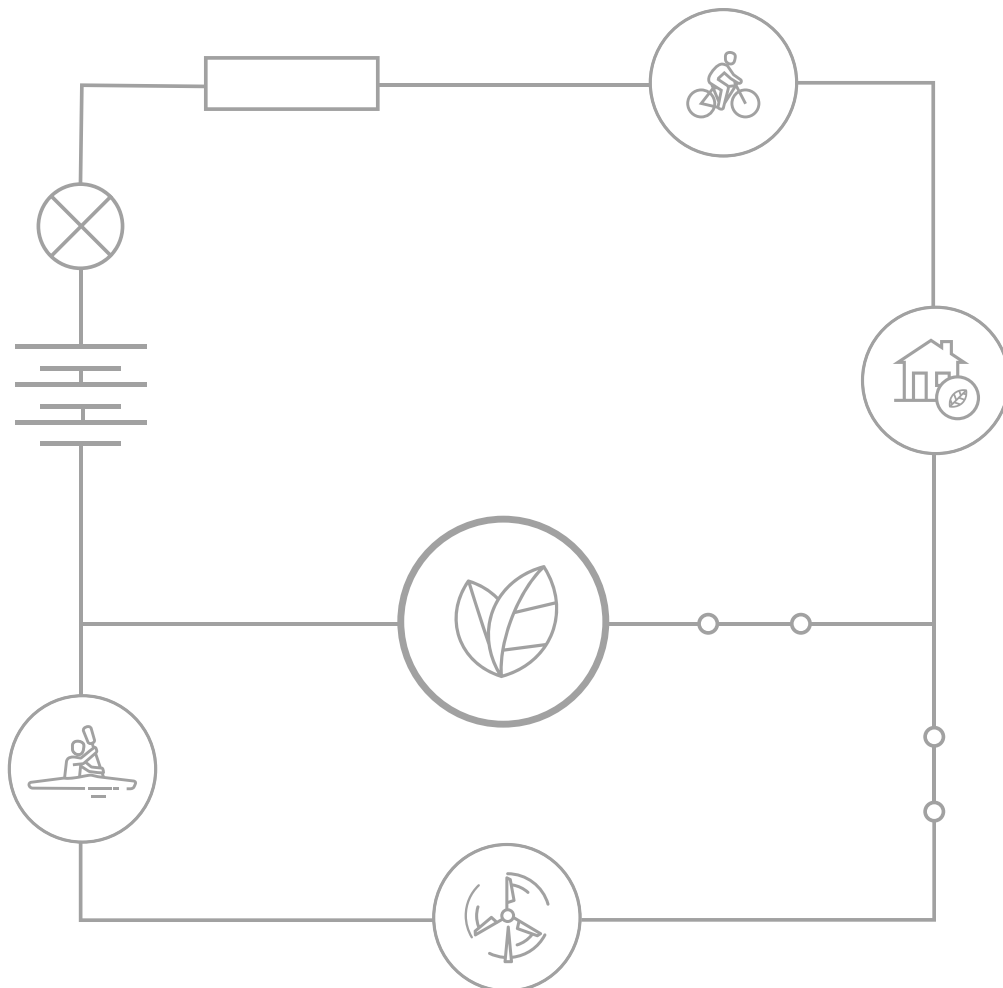
Remuneration to employees on the basis of contracts which are not subject to the tariff part of the collective agreement in 2016 amounted to EUR 422,008 gross or EUR 222,684 net (EUR 395,163 gross or EUR 209,676 net in 2015).

17.40 Auditor Costs

The contractual value of Annual Report auditing services performed for the Group by the company BDO Revizija d.o.o. in 2016, amounted to EUR 15,300 excl. VAT (EUR 14,320 in 2015),

with the value of assurance services amounting to EUR 1,300 excl. VAT (auditing the appropriateness of the criteria for managing separate accounting records by individual ac-

tivities in accordance with the Energy Act (EZ-1) and auditing the Report on Relations to Related Companies).



18 STATEMENT OF THE MANAGEMENT BOARD

The Management Board of the company Elektro Celje hereby confirms the Financial Statements disclosed and presented in this Annual Report, and all other components thereof.

The Management Board of Elektro Celje is responsible for compiling the Financial Statements and presenting them to the interested public in such a way that the statements present a faithful and fair account of the financial position and performance of the company Elektro Celje and the Elektro Celje Group.

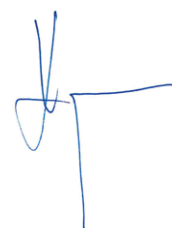
The Management Board hereby declares that:

- All Financial Statements have been compiled in compliance with professional standards and legislation regulating operation, accounting, taxation, and finance;
- The Financial Statements of the company and group have been prepared under the assumption of going concern;
- The selected accounting policies are implemented consistently, and any changes in such policies are duly disclosed;
- The accounting estimates are prepared with the prudence and diligence befitting a good manager;

- The Financial Statements do not include any material or immaterial errors made in order to achieve a particular presentation of the company's financial position, financial performance or cash flows.

On 21 April 2017, the company Management Board confirmed and adopted the Financial Statements and the Annual Report for the year 2016.

Chairman of the Management Board
Boris Kupec, MSc



LIST OF ABBREVIATIONS

AD	As-built Design
AMI	Advanced Meter Infrastructure
BD	Basic Design (PGD)
BDoc	Bidding Documents
CA	Construction Act
CApp	Connection Approval
CD	Conceptual Design (IDZ)
CHPP	Combined Heat and Power Plant
D.D.	Public Limited Company (Joint-Stock Company)
D.O.O.	Limited Liability Company
DCC	Distribution Control Centre
DD	Detailed Design (PZI)
DER	Distributed Energy Resources
DMD	Dynamic Mimic Diagram
DMS	Distribution Management System
DNSO	Distribution Network System Operator
DS	Distribution Substation
DTD	Database of Technical Data
DTS	Distribution Transformer Substation
DU	Distribution Unit
EA	Energy Act
EAgen	Energy Agency of the Republic of Slovenia
EAM	Enterprise Asset Management
EDC	Electricity Distribution Company
EDI	Electricity Distribution Infrastructure
EDS	Electricity Distribution System
EIB	European Investment Bank
EIMV	Milan Vidmar Electric Power Research Institute
ELES	Elektro – Slovenija, d.o.o. (ELES, Ltd., Electricity Transmission System Operator)
EMS	Environmental Management System
EP	Electric Power
EPS	Electric Power System of the Republic of Slovenia
ERP	Enterprise Resource Planning
FS	Fire Safety
GDP	Gross Domestic Product
GIS	Geographic Information System
GPS	Global Positioning System
GURS	Surveying and Mapping Authority of the Republic of Slovenia
GWh	Gigawatt Hour
HEP	Hrvatska elektroprivreda d.d. (Croatian National Electricity Company – HEP d.d.)
HV	High Voltage
HVUC	High-voltage Underground Cable
IP	Internet Protocol

ISO	International Organization for Standardization
km	Kilometre
kV	Kilovolt
kW	Kilowatt
kWh	Kilowatt Hour
LV	Low Voltage
LVUC	Low-voltage Underground Cable
MDSP	Municipal Detailed Spatial Plan
MV	Medium Voltage
MW	Megawatt
MWh	Megawatt Hour
NEP	National Energy Programme
OHS	Occupational Health and Safety
OHSAS	Occupational Health and Safety Management Systems (BS OHSAS 18001) 18001
OMS	Outage Management System
OPL	Overhead Power Line
PD	Preliminary Design (IDP)
PQ	Power Quality
PRSP	Slovenian Business Excellence Prize
PSI	Software Solution for Distribution Control Centres
PUS	Public Utility Service
PX3	A scheme where the generation source produces electricity for its own consumption
QMS	Quality Management System
RCC	Regional Control Centre
RCC	Regional Control Centre
RCS	Remote-Controlled Switchgear
RCSy	Remote control system
RES	Renewable Energy Sources
RS	Republic of Slovenia
SAIDI	System Average Interruption Duration Index
SAIFI	System Average Interruption Frequency Index
SB	Supervisory Board
SB AC	Supervisory Board Audit Committee
SCADA	Supervisory Control and Data Acquisition
SCS	Security and Control System
SHP	Small Hydropower Plant
SICAD	Geographic Information System Software Solution
SPS	Small-scale Photovoltaic System
SSH	Slovenski državni holding, d.d. (Slovenian Sovereign Holding)
TC	Telecommunication
TIS	Technical Information System
TR	Transformer
TS	Transformer Substation
UC	Underground Cable





DISTRIBUTION



RELATIONSHIP



Elektro Celje