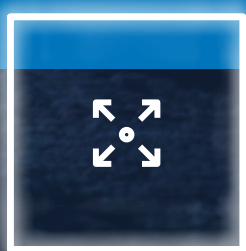




Elektro Celje

ANNUAL REPORT

of the company Elektro Celje
and the Elektro Celje group



Today for tomorrow.

For people and nature.

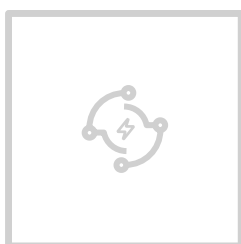
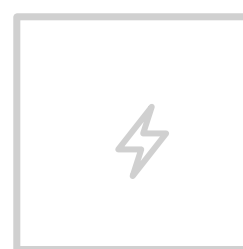
2017



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Today for tomorrow.

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2017

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→ Decentralization

Customers are becoming active participants in the energy circle, requiring significant coordination in the electricity system. Electricity production is increasingly changing, from the production from traditional sources to the production from renewable energy sources.

OPERATION HIGHLIGHTS

of the Company Elektro Celje and the Elektro Celje Group

Company Elektro Celje

+8.0%



GROSS PROFIT

EUR 10 MILLION

+9.6%



CAPEX TO NET REVENUE
FROM SALES

44.4%

+10.3%



REALISED INVESTMENTS

EUR 22.1 MILLION

Number of remote metering points

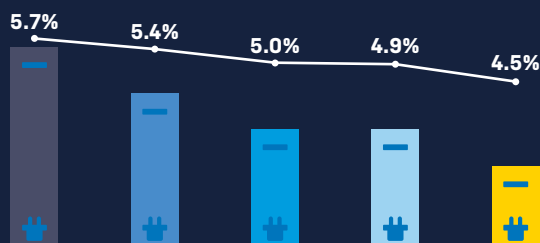
54,640 70,740 90,018 107,408 122,403



2013 2014 2015 2016 2017

Electricity losses in the network (MWh)

106,722 100,613 95,857 95,823 90,870



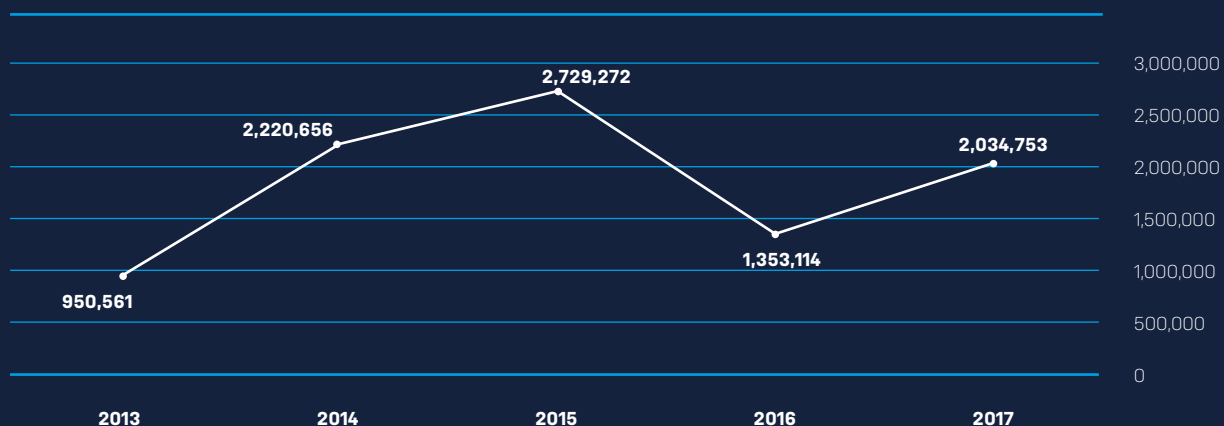
2013 2014 2015 2016 2017

Company Elektro Celje (in EUR)	2013	2014	2015	2016	2017
EBIT	7,802,081	9,749,430	8,539,422	9,518,167	8,688,934
EBITDA	26,450,230	29,124,466	26,639,589	27,596,970	26,982,023
EBITDA margin	38.1%	40.3%	38.4%	42.6%	41.1%
VALUE ADDED	45,685,077	48,943,645	47,732,674	49,345,560	48,958,649
NET PROFIT	5,580,713	8,841,612	6,808,482	9,435,710	9,062,759
EQUITY	186,467,766	192,935,102	196,443,080	200,929,373	207,146,133
ASSETS	262,241,480	264,813,515	272,260,993	276,059,990	279,697,695
Realised investments	24,510,162	23,123,000	21,765,222	20,072,117	22,140,904
Electricity distributed	1,882,792	1,868,300	1,928,787	1,944,411	2,001,430
Number of customers	168,865	169,414	170,006	170,688	171,340

Elektro Celje Group



Net profit of the subsidiary ECE



Elektro Celje group (in EUR)	2013	2014	2015	2016	2017
SALES REVENUE	156,542,174	140,389,018	162,405,192	182,114,244	178,141,232
VALUE ADDED	48,783,276	54,553,794	54,680,314	55,176,463	54,971,932
NET PROFIT	6,639,381	10,733,939	10,233,231	10,747,578	9,843,544
EQUITY	188,478,584	196,839,551	207,638,928	213,314,562	219,770,154
ASSETS	283,699,999	285,713,412	312,244,544	314,273,205	318,122,910



FOREWORD

BY THE CHAIRMAN OF THE MANAGEMENT BOARD

02

THE RESULTS CONFIRM THE SUCCESSFUL OPERATIONS OF THE COMPANY ELEKTRO CELJE

In its operations, the Elektro Celje Public Limited Company followed the key goals of SHH, the company for managing capital assets, in managing the investments of electricity distribution companies in 2017. Operations were executed in accordance with the confirmed Operational Plan and, at the same time, we generated an annual **profit before tax in the amount of EUR 10 million**. We realised investments in the amount of EUR 22.1 million and distributed electricity to 171,340 household and business customers. We have supplied a total of 2,001 GWh of electricity to the distribution network users. The share of losses of electricity in the distribution network in 2017 stood at 4.54 % of the distributed amount, which is more than planned (4.92 %).

Good cooperation with influential public

The communication of the company Elektro Celje with the crucial 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 such as SODO, d.o.o., the Energy Agency, the Slovenian Sovereign Holding, and others. Mr Zdravko Počivalšek, **Minister of Economic Development and Technology** visited us in July. The subject of the conversation was the operations and development plans for the company Elektro Celje. Special emphasis was laid on investment connected with

the economic development in the Koroška region, mainly on the company's activities in relation to the implementation of the investments of the companies LEK and TAB and other business entities in our area of operations. The company's activities and a development plan for ensuring a stable supply of electricity to the enterprise sector and residents in the supply area of the company Elektro Celje were presented to the Minister within the framework of the meeting.

Cabling of the Ravne–Mežica and Ljubno–Nazarje overhead power lines were the most extensive investments in the network

We are building a 20 kV backbone distribution network in the entire Mežica Valley area, which will suffice for the supply of electricity to the

largest industrial customers, such as the companies TAB Mežica and Lek in Prevalje. Several 20 kV cable systems, which will be connected to the already constructed distribution network, are being built additionally on the same route located between Ravne na Koroškem and Prevalje.

In order to follow the needs of a business customer, the company KLS Ljubno, which is planning to increase its electricity consumption, and to improve the reliability of electricity supply in the wider area of Ljubno and the Upper Savinja Valley, a decision was adopted to abandon the existing **overhead power line 2 x 20 kV Nazarje–Ljubno**. The overhead power line referred to was replaced by 20 kV underground cables. One new and five substitute 20/0.4 kV transformer stations were constructed at the same time due to cabling, with two existing 20/0.4 kV transformer substations reorganised.

Digital transformation

The company Elektro Celje has been active in digital transformation and, consequently, the change in the business operation model for several years now. 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 distribution 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 digitalization

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 and EAM IBM Maximo), 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 lifecycle.

The role of distribution in Slovenia's Energy Concept

Slovenia's Energy Concept is a document that Slovenia needs urgently. It will lay down guidelines for the development of the Slovene energy sector for the next 40 years, thus setting the way for strategic investments which can help us meet our objective to become a low-carbon company. The electricity distribution companies have taken a proactive stance in preparing the document, as we believe that this is our duty and responsibility. A joint press conference was organised in September, where the challenges and development orientation of distribution companies were presented. The width and significance of the distribution system were discussed, with special emphasis placed on opportunities brought by Slovenia's Energy Concept. Distribution networks owned and managed by electricity distribution companies must ensure a reliable and high-quality supply of electricity, setting the basic conditions for the quality life of the Slovene citizens, as well as further development of Slovenia. A stable, robust and advanced electricity distribution network, which has to be maintained regularly and planned adequately according to the needs and particularities of the local environment, is crucial for ensuring uninterrupted supply to customers and further development of the elec-

tricity distribution system. In Elektro Celje, we are aware of that and fulfil this mission on a daily basis by strengthening participation in international projects.

Participation in international projects

The company takes part in two international projects: **The Slovene and Japanese Smart Grid 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. Seeking answers and testing potential solutions for the challenges referred to represents the main motivation for implementing the NEDO project. The project covers a considerably wide spectrum of measures which we would like to test on the real site of the distribution network very accurately and in a target-oriented manner. A crucial role of Elektro Celje is to ensure the operation of the network by means of demonstration equipment and information solutions, and evaluate the solution used together with other stakeholders. The project is currently in the final stage of installing the equipment in the MV and LV networks.

We are cooperating with the Japanese agency NEDO and the companies ELES d.o.o. and Kolektor Sisteh d.o.o. within the framework of the Slovene and Japanese Smart Grid Project. The first built-in regulation transformer from a Slovene producer in the electricity distribution network, supplied by Elektro Celje, was presented in November. Advanced technologies in electricity distribution and management are being tested in the project, thus increasing the agility of the company Elektro Celje. Investment in Research and Development referred to confirm the successful deployment of new technologies and management of the risk to development. The regulation transformer and coordinated voltage regulation

will help us improve the voltage conditions in the low voltage network, which will enable us to include a larger proportion of distributed energy resources.

The second project is the **European Flex4Grid Project**, implemented within the framework of the Horizon 2020 Programme. The Flex4Grid Project is focused on developing an open technological system for data management and provision of services, enabling management of the flexibility of distribution network users in both consumption, as well as generation, of electricity. For this purpose, 800 customers, supplied with smart sets, enabling the users to steer and monitor the consumption of electricity for their household appliances by using a mobile device, were included in the project. In cooperation with EA-gen, we have upgraded the project successfully by introducing the pilot

critical peak tariff aimed at regulating or reducing the critical peak power with around 800 peak users.

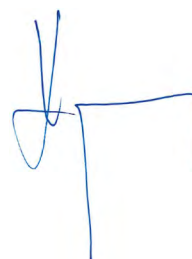
Severe weather conditions

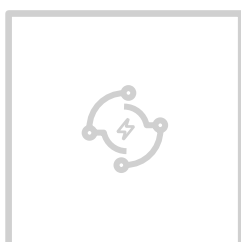
We will remember 2017 for the snow and wind damage caused in December. Wet and heavy snow, combined with a strong wind, caused considerable damage to the distribution network. Most damage was caused in the area of the distribution units Slovenj Gradec, Velenje and Celje. There were 10,700 customers without a supply of electricity. The company Elektro Celje announced severe weather conditions due to the extensive damage. All our electrical installation teams were in the field, correcting failures in the electricity network. We managed to correct major failures in five days, with electricity supplied to the majority of customers without supply by means of aggregates within ten days. Network

rehabilitation will be lengthy due to the demanding terrain. We are looking for new technical solutions in the field, mainly in the sense of cabling the electricity network which will be reflected in long-term improvements.

At this occasion, I would like to thank all employees in the company Elektro Celje for their contribution to the results achieved, and, in particular, to all contributing to the elimination of the effects of the severe weather conditions with their dedication and sacrifices.

Chairman of the Management Board
Boris Kupec, MSc



03 SUPERVISORY BOARD REPORT

I. INTRODUCTION

In 2017, 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

The Supervisory Board of Elektro Celje d.d. operated with a six-member composition in 2017, with four members comprising shareholder representatives and two, employee representatives. The composition of the Supervisory Board changed in 2017 due to the expiry of the four-year mandate of three members of the Supervisory Board.

In 2017 the Supervisory Board comprised:

Four shareholder representatives:

- Mirjan Trampuž, BSc Electrical Engineering, MSM, Chairman of the Supervisory Board until 26 August 2017, Member of the Supervisory Board since 27 August 2017 and Deputy Chairman of the Supervisory Board since 7 September 2017
- Rosana Dražnik, MSc, Member of the Supervisory Board since 27 August 2017 and Chairwoman of the Supervisory Board since 7 September 2017
- Miha Kerin, MSc, Member of the Supervisory Board

- Tatjana Habjan, BA in Economics, Member of the Supervisory Board until 26 August 2017
- Mitja Vatovec, BA in Economics, Deputy Chairman of the Supervisory Board until 29 August 2017
- Drago Štefe, MSc, Member of the Supervisory Board since 30 August 2017

and two employee representatives:

- Tomislav Pajić, BSc in energy technology, Member of the Supervisory Board
- Boris Počivavšek, Electronics Engineer and energetics expert, Member of the Supervisory Board

The Supervisory Board held nine regular and six correspondence meetings in 2017.

Supervisory Board Committees

Audit committee

The Audit Committee consists of three members, the composition of which changed during the year. The Audit Committee carried out its work in the following composition:

- Tatjana Habjan, BA Economics, Chairwoman (until 26 August 2017)
- Mirjan Trampuž, BSc Electrical Engineering, MSM, Member (until 26 August 2017)
- Miha Kerin, MSc, Chairman (since 7 September 2017)
- Darinka Virant, BA Economics, independent external expert member of the Audit Committee in the areas of accounting and finance (continuing work in the Audit Committee of the Supervisory Board in 2017)
- Ignac Dolenšek, MSc, independent external expert member of the Audit Committee in the areas of accounting and finance (since 19 October 2017).

The Audit Committee of the Supervisory Board met at seven regular

meetings, with no meetings by correspondence carried out.

Human Resources Committee

At its session on 19 October 2017, the Supervisory Board established the three-member Human Resources Committee of the Supervisory Board and on 14 December 2017, appointed Drago Štefe, MSc as Chairman, Mr. Tomislav Pajić as Member (employee representative) and Rosano Dražnik, MSc as Member (shareholder representative). The tasks of the Human Resources Committee of the Supervisory Board include in particular the provision of:

- Expert assistance to the Supervisory Board in the preparation and execution of tenders and selection of the Chairman of the Management Board, and establishment of the employment contracts and remuneration policy of the Management Board,
- Expert assistance in evaluating the work of the Management Board and assessment and remuneration of the Management Board, and regarding decisions of the Supervisory Board in the case of examination of reasons for the recall of the Chairman, should they arise,
- Support for self-assessment of the work of the Supervisory Board and concern for the education of Supervisory Board members.

The Human Resources Committee of the Supervisory Board did not hold any meetings in 2017.

Expenses for the operation of the Supervisory Board, the Audit Committee and the Human Resources Committee consists of payment for the performance of their duties, meeting fees, and training and travel costs in accordance with the Resolutions of the Shareholders As-

sembly and are disclosed in Section 15.10.2 of the Company's Annual Report 2017. A contract on cooperation was signed with independent expert members of the Audit Committee, which is subject to the criteria and recommendations of 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 set goals and the efficiency of company operations. Particular attention was paid to the development goals of the Company and with a proactive approach and recommendations, the Company's corporate governance continued to be maintained at the highest level.

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 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:

Strategic planning and business excellence

- The Supervisory Board monitored the realization of the strategic objectives defined in the Company's Strategic Business Plan for the Period 2015-2018 and on 18 April 2017, approved a new Strategic Business Plan for the Period 2017-2020.

- Following orientation of the company to procedures focused on achieving business excellence, the Supervisory Board appointed a trustee to monitor the activities and results of activities for successful participation in the competition for business excellence 2020.

Operations supervision

- The Supervisory Board was presented with the quarterly reports on operations and performance of the Company Elektro Celje, d.d., and subsidiaries ECE d.o.o. and MHE ELPRO d.o.o., which belong to the Elektro Celje Group, management of cash flow, the balance of claims and liabilities and litigation matters, and in particular carefully monitored performance indicators.
- The Supervisory Board also reviewed semi-annual risk management reports for the Company Elektro Celje d.d., drawing attention to the identification and management of risks in individual business areas.
- It gave its consent to the contents of the Amending Business Plan of the Company Elektro Celje d.d. and Elektro Celje Group for the year 2017, with baselines for the years 2018 and 2019.
- The SB approved the Business Plan of the Company Elektro Celje, d.d., and Elektro Celje Group for 2018, complete with the starting points for 2019 and 2020.
- The SB monitored the company's project to buy back its treasury shares.
- It took note of the report on the sale of elements of the 110 kV network to the company Eles.
- It monitored the effects of the severe weather conditions at the end of 2017, expressing support to the Management Board for the adoption of measures to eliminate the consequences thereof.

Company organisation

- The Supervisory Board monitored the reorganisation of business processes, with particular focus on ordering, procurement and human re-

sources processes. It established that the process approach was not yet at the appropriate level, thus recommending improvements and cautioning of potential risks.

- It monitored activities regarding possibilities for integrating subsidiaries with strategic partners.

Digitization

- The Supervisory Board closely monitored preparations for the introduction of the new Microsoft Dynamics AX and Maximo business information systems (ERP – enterprise resource planning).

Contracts

- The SB consented to the execution of important transactions in accordance with the Company's Articles of Association.

Internal audit

- The Supervisory Board gave its consent to the plan for the internal audit activity for 2017, multi-annual work plan of internal audit and the proposal for a Fundamental Charter of Internal Auditing, and reviewed the Annual Report of Internal Audit Activities for 2016.

Shareholders Assembly

- The SB approved the Annual Report of the company Elektro Celje, d.d. for 2016, and the Consolidated Annual Report of the Elektro Celje Group, and adopted the report on the Annual Report audit.
- 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 2017, 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 2016, and approved the proposal of the Management Board for the allocation of distributable profits.

Corporate governance

- Pursuant to the Companies Act (ZGD-1), the Supervisory Board made sure that 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.
- It amended 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.
- Considering the adopted competence profiles for the members of the Supervisory Board of the Company in terms of optimal size and composition of the Supervisory Board, the Supervisory Board proposed to the Company's Shareholders Assembly the appointment of three members to the Supervisory Board, whose mandate had expired.
- It renewed the contents of the Rules of Procedure of the Audit Committee and adopted the Rules of Procedure of the Human Resources Committee.
- It adopted a policy for renewing audit operations for a maximum period of five years.
- It was acquainted with reports on the implementation of corporate integrity, reports of the Corporate Integrity Compliance Officer and communication promotion plan of the Code of Ethics.

V. SUPERVISORY BOARD AUDIT COMMITTEE

Prior to the Supervisory Board meetings, the Audit Committee reviewed business reports for the reporting period and provided its opinion there-

on 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 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 self-assessment of the operation of the Audit Committee for 2017 was not carried out due to the change in its composition in autumn 2017, and will be carried out in May 2018.

The Audit Committee of the Supervisory Board of Elektro Celje submitted a proposal to the Supervisory Board to adopt two guidelines regarding the selection of the external auditor, namely that in case of a positive assessment of the auditor's work regarding the financial statements, the

audit engagement would be renewed for at least three consecutive years up to a maximum of 5 years, and that the tendering for the implementation of statutory audits by external auditors would be performed for a minimum of 5 years. The Supervisory Board adopted a decision confirming both of the aforementioned guidelines.

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 Slovene Sovereign Holding (SSH) referred to as SDH, d.d., 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 representatives 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.

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 and attend educational meetings organised by SSH regularly, 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 results show that the Supervisory Board operates well, whereas in areas where opportunities for improvement are present, it will adopt measures to further improve the situation.

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

Following the conclusion of the financial year 2017, the Supervisory Board paid special attention to the course of transition to the new information system and work related to the Microsoft Dynamics AX and Maximo information systems, risk management, corporate integrity and internal audit activities, familiarized itself with the annual management plan of SDH d.d., acquainted itself with the situation regarding procurement of treasury shares, reviewed the Com-

pany's Annual Report 2017 and monitored the final phase of auditing the Financial Statements 2017.

VII. AUDIT AND APPROVAL OF THE ANNUAL REPORT

The Supervisory Board reviewed the audited Annual Report of the company Elektro Celje, d.d., and the Elektro Celje Group for 2017 at its 4th regular session held on 14 May 2018.

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 26 April 2018, as well as on the Consolidated Annual Report of the Elektro Celje Group for 2017.

In line with good practice, prior to the meeting of the Supervisory Board, the Audit Committee reviewed the audited the Annual Report 2017 with due diligence, including the Audit Report, and submitted a proposal to the Supervisory Board to approve it and adopt a positive position regarding the auditor's report.

The Supervisory Board discovered that the Annual Report of the company Elektro Celje for 2017, 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 2017, of its Profit or Loss and Cash Flows in 2017.

Therefore, based on its own audit of the Annual Reports, the review of the Audit Report issued by the certified auditor for 2017, and the report by the Supervisory Board Audit Committee on the audit of the Annual Report of the company Elektro Celje, d.d., for 2017 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 2017 and the Consolidated Annual Report of the Elektro Celje Group for 2017.
- The Supervisory Board of the company Elektro Celje, d.d., gives a positive opinion on the Audit Report on the companies' operations in 2017, 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 2017, for it judges that the company operations were carried out in conformity with the set goals and the Business Plan for 2017.
- The Supervisory Board hereby adopts the Supervisory Board 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 2017.

Celje, 14 May 2018

Chairwoman of the Supervisory Board
Rosana Dražnik, MSc





→ Renewable Energy Sources

The future of the energy supply will rest on a shift from traditional energy sources to renewable energy sources with unlimited potential for use.

B U S I N E S S R E P O R T



04 OVERVIEW OF MAJOR EVENTS AND AWARDS IN 2017

01

January

- On 1 January 2017, the organisational structure of the company Elektro Celje changed slightly, mainly in order to manage and adapt to the changes in the environment in which the company Elektro Celje operates more rapidly. It is important that the management and employees are able to anticipate or detect changes in the environment and adjust the company's operation accordingly.

02

February

- Amendment no. 5 to the Agreement on the Lease of Electricity Distribution Infrastructure and Provision of Services for the Distribution Network System Operator was signed with the distribution network system operator, the company SODO d.o.o.

03

March

- The Agreement on the Introduction of the EAM (Enterprise Asset Management); Maximo system was signed with the company Informatika d.d.

04

April

- The company Elektro Celje took part in the third strategic Conference of Slovene Electricity Distribution, bringing digitalization and the challenges brought by it to the forefront in cooperation with other EDCs.
- The Strategic Business Plan of Elektro Celje, d.d. for the period 2017–2020 was drawn up.

05

May

- An Agreement was signed with the company Hitachi for a part of the services of Elektro Celje, d.d. in the NEDO Project.

06

July

- At the 22nd regular Shareholders Assembly of Elektro Celje, d.d., the shareholders were informed of the company's operations in 2016 and presented with the reports of the company's Management and Supervisory Boards. The shareholders also adopted the Decision on the use of distributable profit for 2016, on granting a discharge from liability to the company's Management and Supervisory Boards for the work performed in the previous year, and on appointing an authorised auditor for the fiscal year 2017.
- The company's shareholders appointed Mirjan Trampuž, MSM and MSc Energetics and Rosana Dražnik, MSc as Supervisory Board members, effective as of 27 August 2017, as well as Drago Štefe, MSc, effective as of 30 August 2017.
- The company Elektro Celje purchased a shareholding of 6.32% in the company Stelkom d.o.o.
- Following agreement by the Supervisory Board, the Chairman of the Management Board signed a Letter of Intent with the company HSE d.o.o. on connecting the groups HSE, Elektro Celje, Elektro Gorenjska and Elektro Primorska or the group HSE, the company ECE d.o.o. and E 3, d.o.o., (a subsidiary of the company Elektro Primorska, d.d.), which will provide synergy effects to the signatories of this Letter or their subsidiaries, as well as benefit for the purchasers of electricity.

07

August

- Mr Zdravko Počivalšek, Minister of Economic Development and Technology visited the company Elektro Celje. He was welcomed by Boris Kupec, MSc, the Chairman of the Management Board of the company Elektro Celje, with colleagues. The subject of the conversation was the operations and development plans for the company Elektro Celje. Special emphasis was laid on investments connected with the economic development in the Koroška region, with the Ministry wanting to be informed, in particular, on the company's activities in relation to the realisation of the investment in the 2 x 20 kV underground cables Ravne-Mežica, as well as on the implementation of the investments of the companies LEK and TAB and other business entities in our area of operations.

08

September

- At the Press Conference of the representatives of the Economic Interest Association (GIZ) for electricity distribution held on 13 September 2017, five Chairmen of the Management Boards of electricity distribution companies in Slovenia set out the development role and significance of electricity distribution companies for implementing the strategy of the Republic of Slovenia, and presented suggestions for developing a realisable **Slovenia's Energy Concept** which would be sustainable in terms of development. Distribution networks must ensure a reliable and high-quality supply of electricity, ensuring the quality life of the Slovene citizens, as well as further development of Slovenia. The width and significance of the distribution system were discussed, with special emphasis placed on the role of the distribution network and opportunities brought by the Energy Concept, which need to be recognised by those drawing it up in an appropriate manner.

10

October

- A meeting of representatives of the distribution network operator Hrvaško elektrogospodarstvo (HEP-ODS) and all five Slovene electricity distribution companies was organised, in order to strengthen the existing cooperation, including the mutual exchange of good practices and cooperation in projects.
- The testing, inspection and certification firm Bureau Veritas concluded the external recertification assessment of the management systems for all three Standards, ISO 14001:2015, ISO 9001:2015 and OHSAS 18000:2007 in October.
- On 2 October, 2017, the company paid dividends in the amount of EUR 2,636,124, that is in the gross amount of EUR 0.11 per stake, in accordance with the decision adopted at the 22nd regular Shareholders Assembly of Elektro Celje, d.d.
- The Business Plan of the company Elektro Celje and the Elektro Celje Group for 2018, with starting points for 2019 and 2020, was adopted in October.

11

November

- The first built-in regulation transformer from a Slovene producer was presented within the framework of the Japanese and Slovene Smart Grid Project, whose promoter is the Japanese Agency NEDO, and in cooperation with the companies ELES d.o.o., Kolektor Sisteh d.o.o. and Elektro Celje, d.d. The company Elektro Celje, d.d. takes part in the project as the owner of the existing infrastructure and as a user of advanced solutions.

12

December

- Wet and heavy snow combined with a strong wind caused many troubles in the distribution network of the company Elektro Celje as well. Most damage was caused in the area of the distribution units Slovenj Gradec and Velenje. The company Elektro Celje announced severe weather conditions due to extensive damage.
- On 21 December, we received a report on the Assessment of the Soundness of Monitoring the Uninterrupted Electricity Supply from EAgem for 2014.



AWARDS

- **In February**, the company Elektro Celje made it among the finalists at the assessment for the Slovenian Business Excellence Prize for 2016, and in the European category Recognised for excellence – 4 stars.



- **In November** the company Elektro Celje, d.d. received an award for the best Annual Report among large companies which are not public interest entities pursuant to the Companies Act (ZGD) at the Best Annual Report Award Ceremony.



4.1 Major Events at the Company Elektro Celje after the End of the Accounting Period

- On 1 January 2018, the company Elektro Celje introduced two new information systems – MS Dynamics AX and IBM Maximo for supporting operations and for Asset Management.
- On 1 February 2018, the subsidiary MHE - Elpro hired a full-time managing director, also forwarding an application to the court registrar to rename and modify the headquarters of the company.

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 2017, the company Elektro Celje was managed by the Management Board, represented by the Chairman of the Management Board **Boris Kupec, MSc.**

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.

Due to the expiry of the four-year mandate, the Shareholders Assembly appointed two new Supervisory Board members on 4 July 2017, re-appointing one existing Supervisory Board member.

In 2017, the company's Supervisory Board was composed of:

Representatives of shareholders:

- Mirjan Trampuž, MSM and MSc Energetics, MBA – Chairman of the Supervisory Board (until the expiry of his mandate on 26 August 2017); he began his new four-year mandate as an SB member on 27 August 2017, and was appointed as Deputy Chairman of the Supervisory Board on 7 September 2017,
- Mitja Vatovec, BA in Economics – Deputy Chairman of the Supervi-

sory Board (until the expiry of his mandate on 29 August 2017);

- Tatjana Habjan, BA in Economics – a member of the Supervisory Board (until 26 August 2017),
- Miha Kerin, MSc – a member of the Supervisory Board
- Rosana Dražnik, MSc – a member of the Supervisory Board (from 27 August 2017), appointed as Chairman of the Supervisory Board on 7 September 2017,
- Drago Štefe, MSc – a member of the Supervisory Board (since 30 August 2017).

Representatives of employees:

- Tomislav Pajić, BSc in Energy Technology – a member of the Supervisory Board
- Boris Počivavšek, Electronics Engineer – a 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 2017 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 (May 2017, published on the website www.sdh.si).

In its work and operations, Elektro Celje observes and applies voluntarily the Corporate Governance Code for Companies with Capital Assets of the State (May 2017, published on the website of Slovene Sovereign Holding (SSH) www.sdh.si).

The Corporate Government Statement forms an integral part of the 2017 Annual Report and is accessible on the company's website www.elektro-celje.si.

The Management Board represents the company and manages the company'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 of 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 operations. 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 company'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, d.d. 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 2017, 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 not act in accordance with the Code or Recommendations and Expectations fully and coherently, when the provisions of the said code or recommendations 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's 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 2017, 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 acknowledged the proposals from Sections 6.8.3 to 6.8.5.

The Supervisory Board determines the remuneration paid out to the Chairman of the Management Board 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 of the Republic of Slovenia, Nos. 21/10 and 8/11), and the Regulation on Setting the Highest Correlation of Basic Payments and the Rate of Variable Remuneration of Directors (Official Gazette of the Republic of Slovenia, Nos. 34/10 and 52/11).

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 The Slovene Sovereign Holding.

The company also declares that, in 2017, the Management Board of the

controlling company has followed actively and supervised directly the operation 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.

The company Elektro Celje, d. d. 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

Internal controls represent guidelines and procedures that the company Elektro Celje, d. d. 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 management system 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 the books corresponds to the actual balance etc.), and the limitation of authority and responsibility (e.g. separate booking and payment of invoices and obligatory additional approval 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.

By identifying the risks at all levels and fields of the company, assessing and, consequently, addressing them, the company will be able to manage risks at acceptable levels and take the opportunities. This will enable the Management Board to achieve the strategic, operational and financial goals set and adopted for the company as a whole, as well as for all the company's levels.

The Management Boards implements the risk policy and responds to the risks adequately, thus increasing the likelihood of achieving the goals. It enables the risk management process to be an integral part of management incorporated into the company's culture and practices and adapted to the company's business processes. Each decision-making process in the company, notwithstanding its level of importance, includes consideration of risks and the use of risk management to a certain degree. The Management Board is responsible for ensuring orderly risk management for the company Elektro Celje, d. d. in the manner prescribed by the legislation, and in accordance with the requirements of the Asset Manager. It is in charge of adequate organisation and communication in managing risks, as well as the requisite professional competence of employees to ensure quality risk management. It places a responsibility on the Risk Management Committee and empowers it for managing risks, while, at the same time, providing the required financial and other resources for risk management to it.

The company has an established communication mechanism and a defined form and frequency of internal reporting. A framework form and frequency of external reporting are defined by regulations and internal rules. The Management Board additionally establishes an organisational culture promoting the engagement of internal and external stakeholders for managing risks in all fields of the company. The company has a coordinator of risk management activities, responsible for determining and harmonising the necessary activities and reporting on risks. The company discloses significant risks and methods for their management, including a description of the internal control system in its Annual Report.

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, issued in un-certificated form and 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 2017, 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 voting rights.

4. Clarifications concerning all restrictions on 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 2017, 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 2017 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 the 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 32,491 treasury shares in 2017 and, thus, had 260,152 Treasury Shares as at 31 December 2017.

Chairman of the Management Board
Boris Kupec, MSc



7. Activities of the company's General Meeting and its key responsibilities.

In 2017, 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. Podatki o sestavi in delovanju organov vodenja ali nadzora ter njihovih komisij.

A comprehensive presentation of the management and supervisory bodies and their commissions is given in Section 3 of the Annual Report 2017.

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 2017. Corporate integrity and the related risks are integrated into 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 was established for regular and comprehensive identification of corporate integrity risks, their assessment, and a systematic and independent control of risk management efficiency.

The company's corporate integrity is one of our strategic goals and, as such, is integrated into the strategic orientation of the Elektro Celje Group. In this way, we wish to facilitate the attainment of set goals, promote the

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 2017, the Code of Ethics has been in force, 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 Code of Ethics was distributed to all employees in a printed edition and is published on the company's intranet, as well as its website, for the purpose of informing the internal and external public 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 for 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.

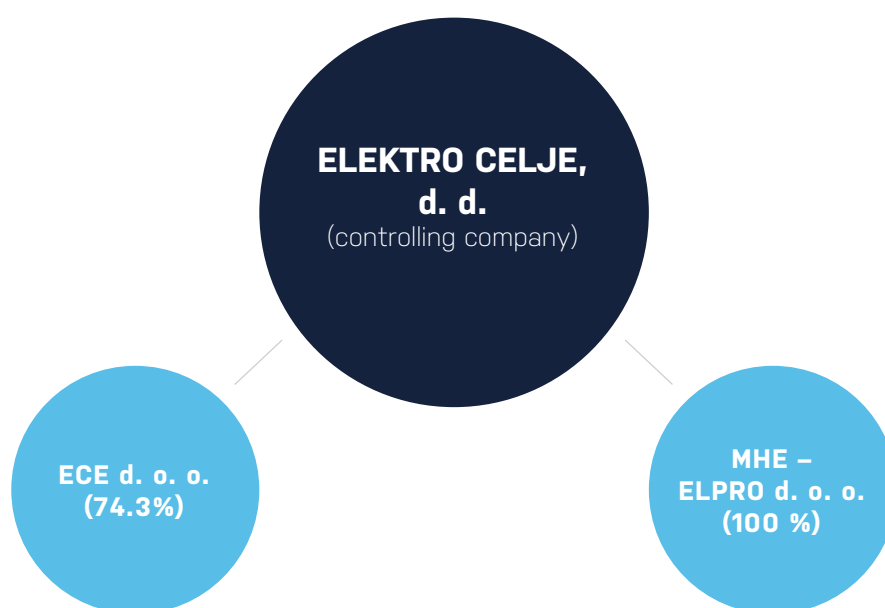
Pursuant to Article 60a of the Companies Act, the Management Board and the Supervisory Board of the company Elektro Celje, d. d., ensure that the Annual Report of the Company Elektro Celje and Elektro Celje Group for 2017 is compiled and published in compliance with the Companies Act and Slovenian Accounting Standards.

Chair of the Supervisory Board
Rosana Dražnik, MSc



06 PRESENTATION OF ELEKTRO CELJE GROUP

ELEKTRO CELJE GROUP



6.1 Controlling Company Elektro Celje

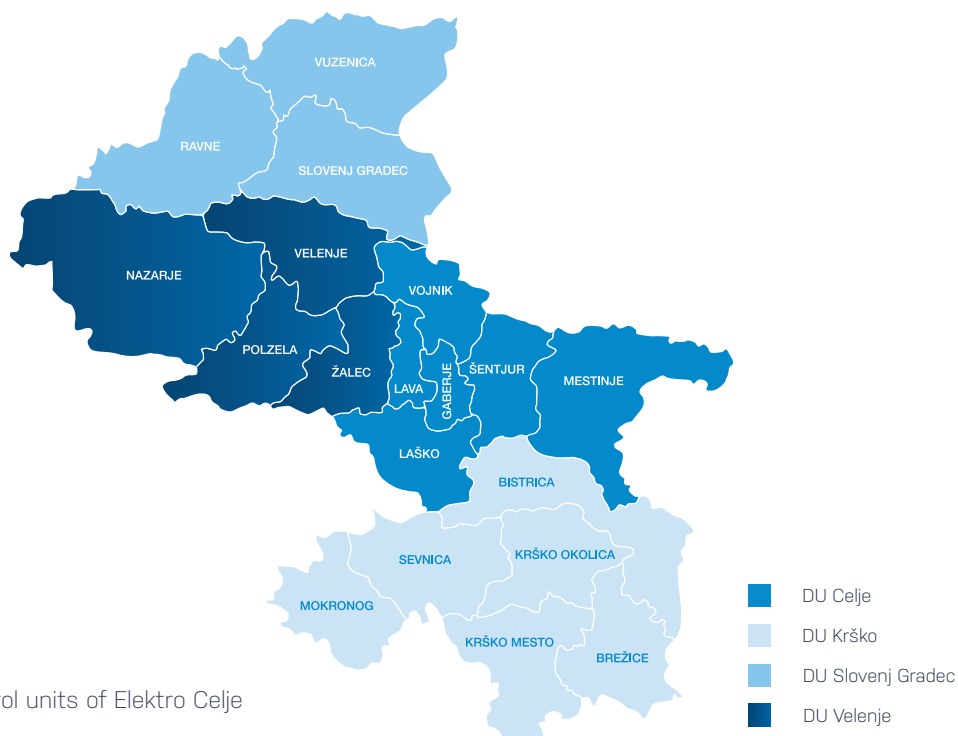
6.1.1 Elektro Celje Company Profile

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 in the Register of Companies 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 13,800 km of low-voltage networks, over 900 km of medium-voltage underground cables, 91 km of 110

kV overhead power lines, over 2,600 km of medium-voltage overhead power lines, 18 distribution transformer substations, 16 distribution substations, and over 3,500 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 customers represent, in view of their 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 UniCredit Bank 02234-0010129952 with NLB 10100-0047650663 with Banka Koper
Company size (according to the provisions of the Companies Act – ZGD-1):	Large company
Number of employees as of 31 December 2017:	628
Distribution area:	Three Slovene regions: Savinjska, Koroška and Spodnjeposavska, with 40 Municipalities in their entirety and 2 in part
Size of distribution area:	4,345 km ²
Number of MWh distributed in 2017:	2,001,430 MWh
Number of customers as of 31 December 2017:	171,340
CONTACT DETAILS FOR ELEKTRO CELJE	
Telephone:	+386 (0)3 42 01 000
Fax:	+386 (0)3 42 01 010
Call centre:	+386 (0)3 42 01 180
Press contact:	+386 (0)3 42 01 435
Website:	http://www.elektro-celje.si
E-mail:	info@elektro-celje.si
Chairman of the Management Board:	Boris Kupec, MSc
Chair of the Supervisory Board:	Mirjan Trampuž, MSM, MSc Energetics and MBA (until 26 August 2017) Rosana Dražnik, MSc (since 7 September 2017)

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.



VISION

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



VALUES

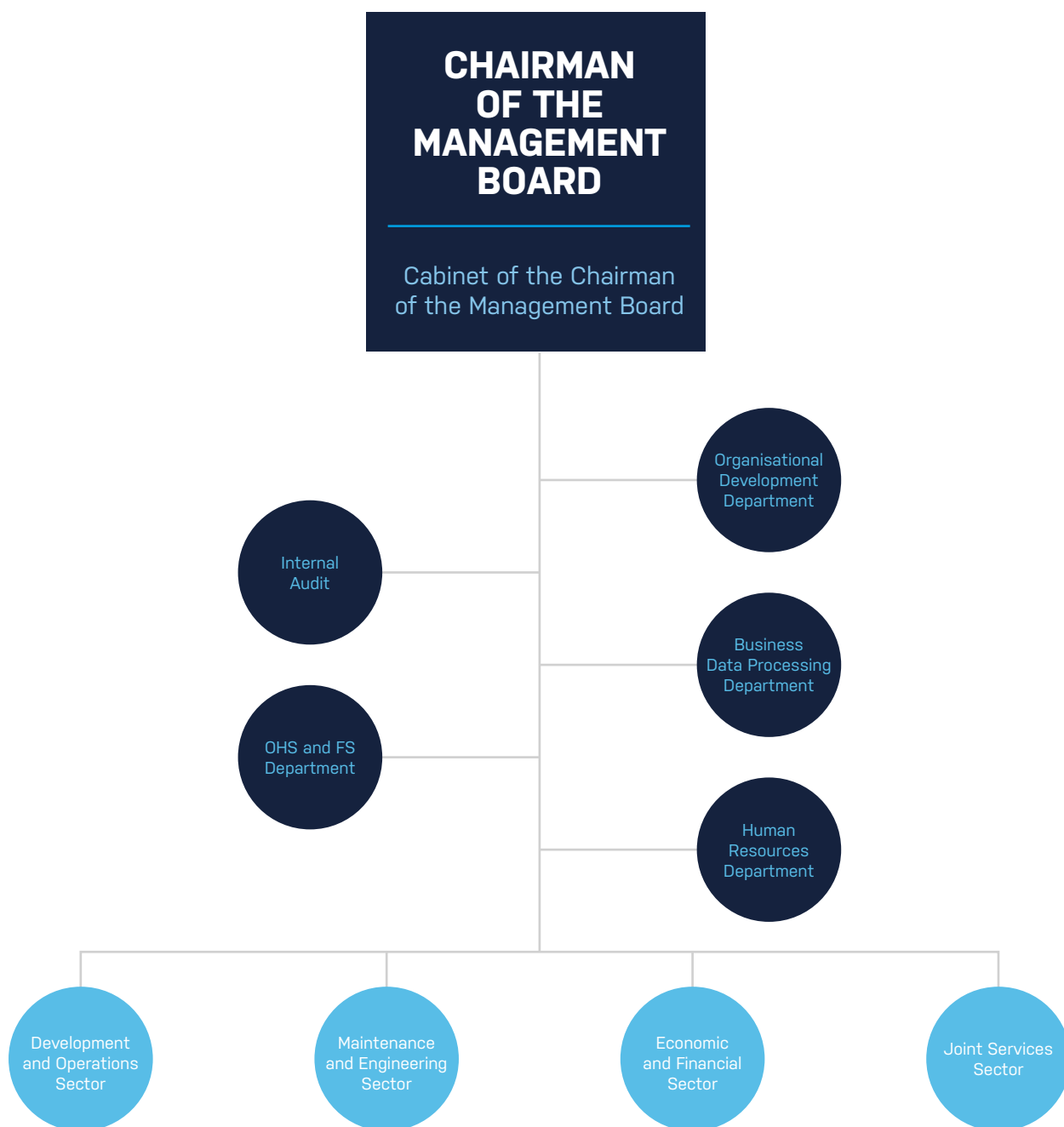
Good faith and fair dealing, professional competence and entrepreneurship, partnership, respect and responsibility, positive communication, equality, healthy lifestyle, safety at work and data protection.

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 effective internal control over the execution of the tasks.



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 the 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 – ZGD-1):	large company
Number of employees as of 31 December 2017:	74
Number of MWh sold in 2017:	2,861,247 MWh
Number of customers as of 31 December 2017:	174,975
CONTACT DETAILS FOR ECE	
Telephone:	+386 (0)80 22 04
Fax:	+386 (0)3 62 09 559
Website:	http://www.ece.si
E-mail:	info@ece.si , prodaja@ece.si , podjetja@ece.si
Managing director:	Sebastijan Roudi, 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 key activities are the purchase and sale of electricity and other energy products to final customers. Natural gas prevails among other energy products, with biomass products, where the sale of wood pellets prevails, also included in the offer.

Since 2016, we have offered different types of merchandise via the online ECE shop, thus promoting the use of economical electrical devices and contributing to greater environmental responsibility.

The greatest share in view of the number of customers is sold in the Savinjska, Gorenjska, Koroška and Spodnje Posavska regions.

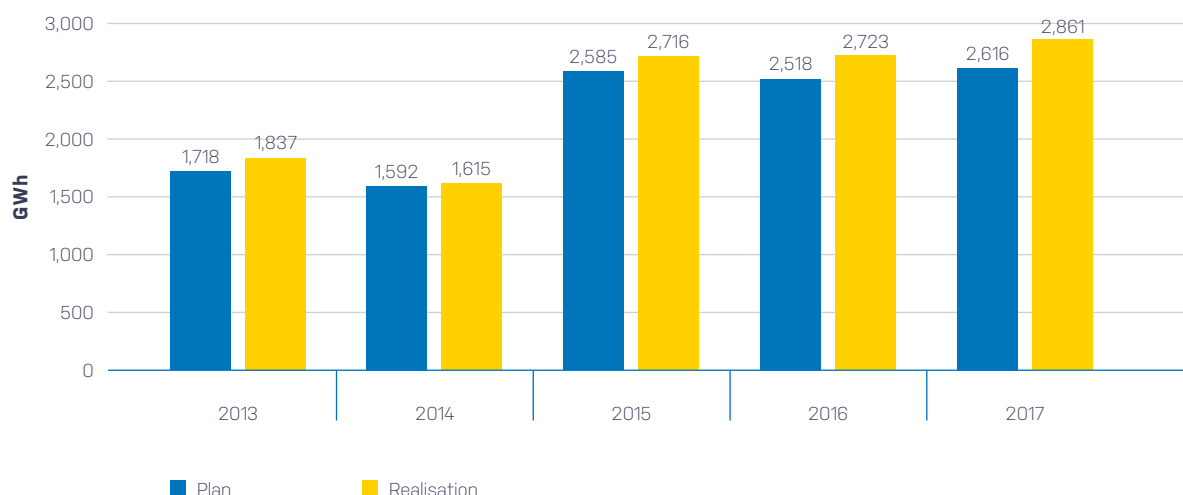
6.2.3.1 Purchase of Electricity

The total purchase of electricity in 2017 was 9.4% higher than planned. In 2017, the purchase of electricity

amounted to 2,861,247 MWh. The amounts for a reconciliation of deviations for 2017 and the difference

between invoiced purchases and invoiced sales must also be taken into account in the purchase.

Purchase of electricity in the period from 2013 to 2017



The share in the structure of electricity purchases amounted to 77.3% for business customers (75.3% in 2016) and 22.7% for households (24.7% in 2016).

6.2.3.2 Sales of Electricity

In 2017, the sales of electricity amounted to 2,861,247 MWh, which is 4.8% more than in 2016. The sales to household customers amounted to 620,572 MWh (5.2% less than in 2016) and those to business customers 2,240,675 MWh (8% more compared to 2016). The sale of electricity to business customers also includes the sale on the Borzen Southpool

Stock Exchange and sale in view of deviations from timetables amounting to 141,611 MWh in total.

Sales of electricity to business customers

Business customers are legal persons purchasing electricity for the needs of their operations. They are classified into large and small busi-

ness customers in view of their annual consumption.

A custom-tailored offer and personal administrators responsible for informing them and for concluding and executing Contracts are available for large business customers. The competition in the Slovene market has been very fierce for several years

now and, in this segment, the customers usually decide to switch to another supplier at an annual level. Consequently, several purchasers switch to the competition each year, but, so far, we have managed to replace them more than successfully with new customers, which was also the case in 2017.

Small business customers are addressed mainly by e-mail and post and, as far as possible, also personally. These are a few thousand customers who we, unfortunately, cannot service at the personal level entirely. However, our goal is to respond to each request for such treatment expressed by the customers. So far, we have managed this successfully, which turned out to be a good decision, as we managed to conclude new Contracts with most customers visited. Due to the increased number of sales agents of the competition and distinctive reduction in sales prices, this segment, which used to be the most profitable

a few years ago, became very comparable to large business customers, which makes it even more difficult to achieve an appropriate operational result.

In 2017, the number of metering points (23,758) in business customers increased slightly compared to 2016, with the number of customers reduced (13,175). We would like to stress that the number of metering points and partners in business customers is not as important as in households, since their energy consumption and, above all, achievement of the difference in price, does not depend on the number of metering points.

Sales of electricity to household customers

In 2017, major emphasis was placed on the renewal of the online shop, which did not yield appropriate sales results in 2016. After analysing the causes, we performed a renewal of processes and optimised it techno-

logically, which yielded considerably better results, in particular in the second half of the year. These more than doubled at the monthly level compared to the beginning of the year. Changes in marketing and communication approaches also formed a significant part.

We offered several types of energy supply with the option of duration lock-in in 2017. This proved to be very useful for retaining customers who would otherwise switch to the competition, and for obtaining customers by engaging external contractual agents.

These activities, and numerous small special offers, helped us retain the number of metering points of household customers at the end of 2017 at 163,350, which is less than expected, but we managed to reduce the number of lost customers compared to 2016, which gives us cause for optimism in the future.

6.2.3.3 Renewable Energy Sources

In 2017, we continued supplying electricity generated entirely 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, where the share of renewable energy must be at least 40 % pursuant to the legislation, with such electricity. Our commitment is

confirmed by redeeming guarantees of origin on the invoice controlled by EAgem proving the origin of the electricity sold. We inform individual customers about this directly.

6.2.3.4 Natural Gas

The natural gas market in Slovenia is 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, at the same time, the division of activities was not implemented in the same way as in electricity. Thus, the distribution and supply activities for this energy product are combined in

the same company, which results in decreased transparency.

A major 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 on the market.

Despite this, customers decide to switch to another supplier to a substantially lesser degree compared to the electricity.

In 2017, 85,160 MWh of natural gas was sold to business customers (including the sale from deviations from timetables), and 16,862 MWh to households, for a combined total of 102,022 MWh.

Volume and value of natural gas sales *	2013	2014	2015	2016	2017
Volume (MWh)	569	48,722	107,108	101,642	102,022
Value (in EUR)	22,376	1,337,119	2,770,986	2,150,443	1,995,075

*The company ECE introduced the sale of natural gas in December 2013. Since 1 January 2017, natural gas is charged in Slovenia in kWh (previously in Sm³).

6.2.3.5 Wood Biomass

In 2017, we continued our offer of two types of wood pellets – A1-quality wood pellets from an Austrian producer and A2-quality wood pellets from a Slovene producer. We have preserved the offer model, including transport, in the pallet price. There were no complaints concerning quality. In spite of a competitive price compared to pellets of the same

type provided by the competition, the sales dropped slightly. We are planning to change the supply cost model, where transport would be charged depending on the distance and volume of transport, in the next season.

Beechwood, wood briquettes and matchwood, so far representing a

negligible portion in the sale of the total biomass, were included in our offer. 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.

Volume and values of wood biomass sales	2013	2014	2015	2016	2017
Volume (t)	1,852	1,672	2,229	2,001	1,842
Value (in EUR)	366,863	346,457	415,981	356,747	346,735

ECE concluded the financial year 2017 with a profit of EUR 2,034,753 (index 150 compared to 2016 and an index of 96 in relation to the annual plan).

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
Legal registration:	Register of Companies of the District Court of Celje, Reg. No. 1/07492/00
Company share capital:	EUR 12,518.78
Registration number:	1700758
VAT identification number:	SI52011429
Current account:	05100-8015241602 with Abanka
Company size (according to the provisions of the Companies Act – ZGD-1):	micro company
Number of employees as of 31 December 2017:	0
Number of MWh produced in 2017:	2,870 MWh
Director:	Gregor Milanez, Diploma in Electrical Engineering (until 1 February 2017) Srečko Mašera, BSEE (since 1 February 2017)

6.3.2 Operations of MHE – Elpro

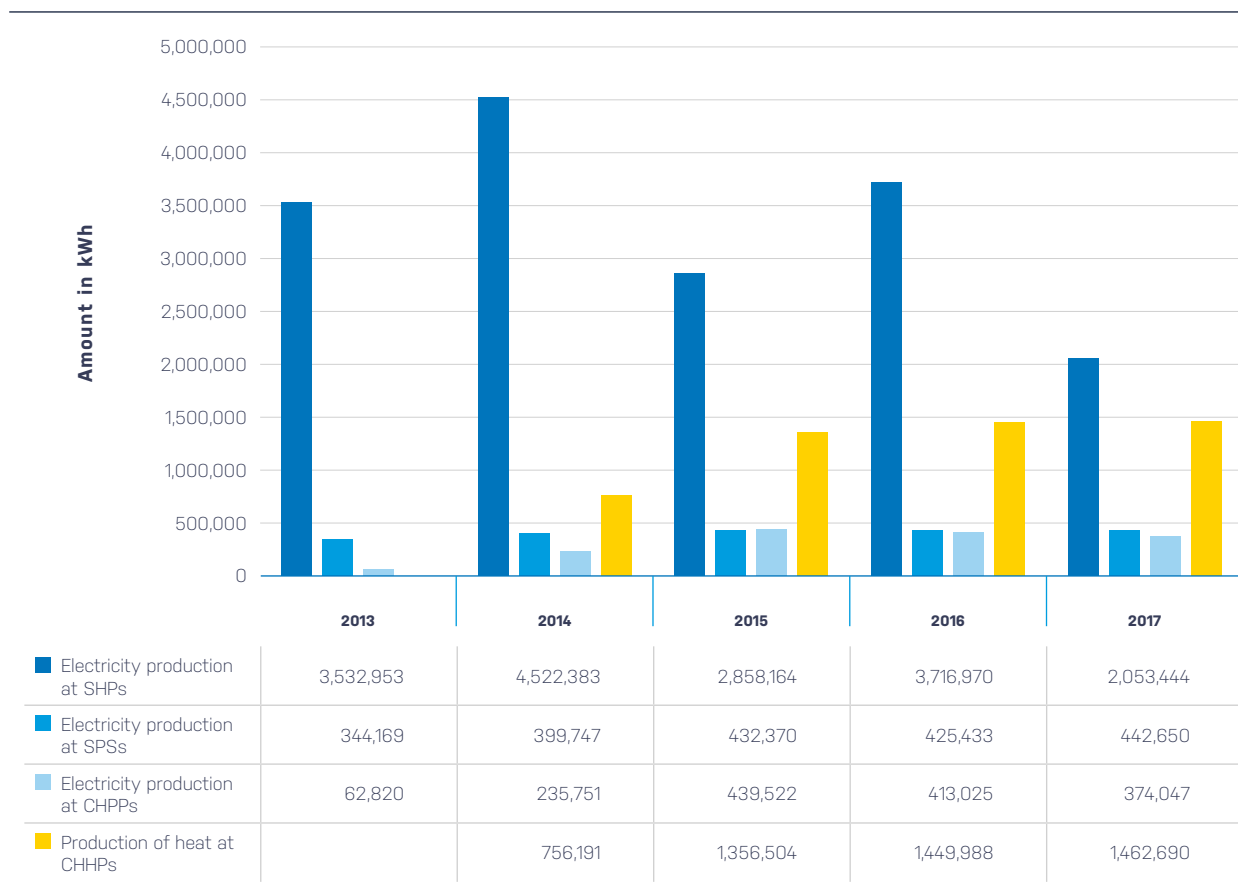
In 2017, the company MHE – ELPRO completed 16 years of operations. Its key values include the efficient and environmentally friendly production of electricity and investment into renewable energy sources. In 2017, company operations included:

- 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.

The company MHE – ELPRO owns 7 electric vehicle charging stations.

A conceptual design for the renovation of the facility of SHP Majcen Mislinja was created, with project documentation prepared for the renovation of SHP Rastke, a Contract for the implementation signed, and key elements supplied for the restoration of the electric part of the facility.

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



The output of **SHPs** depends largely on natural circumstances. Two years stand out in the last five years, namely 2015 and 2017, as very dry years. Extremely low temperatures were recorded in January 2017, with temperatures in other winter and spring months above average.

The volume of produced electricity in **SPSs** depends on the amount of solar radiation, which also changes with the seasons. In 2017, total SPS output was comparable to that of the year before.

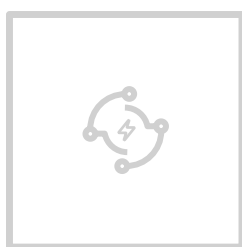
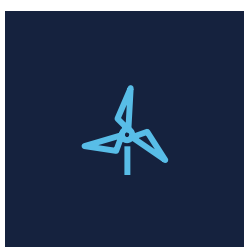
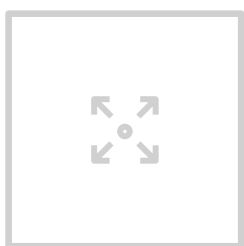
The operation of the Combined Heat and Power Plants (**CHPPs**) is planned

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. Due to higher average temperatures in 2017, 9.4% less electricity was produced compared to the year before.

The electricity produced and fed into the public electricity network by the company MHE – ELPRO in 2017 amounted to **2,870,141 kWh**. The share of electricity produced

by SPSs was 71.6%, the share of SPS-generated electricity 15.4%, and the share of electricity output from CHPPs 13.0%.

The company MHE – ELPRO wrapped up the year 2017 with a profit of EUR 44,827 (index 33 with respect to 2016, and 49 with respect to the Annual Plan).







→ Electrification

In the future, electricity growth is expected in areas where electricity once remained in the background, namely in transport, heating, etc. Therefore, a qualitative and efficient distribution network is a basic variable that can meet those growing needs.

07 DEVELOPMENT STRATEGY

7.1 Strategic Guidelines

Strategic Guidelines Defined until 2020 for the Company Elektro Celje

Strategic guidelines intended for preparing and defining strategic goals, activities and tasks were suggested and adopted in 2017, based on a careful analysis of changes in the internal and external environments and a SWOT analysis.

PROVISION OF QUALITATIVE SERVICES FOR CUSTOMERS BY STRENGTHENING THE DISTRIBUTION NETWORK

The introduction of new technologies, optimization of the electric power supply to customers, improved customer communication, obtaining 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 optimising the delimitation of work performed with the company's own resources, and in cooperation with subcontractors, will have the greatest impact on the successful implementation of these strategic guidelines in the future.

OPTIMIZATION AND INCREASED EFFICIENCY OF BUSINESS PROCESSES

The following are related to optimization and increased operational efficiency: Optimization of costs and the entire business operation, improving warehouse operations and distribution of material to working grounds, improving the work conditions of field workers, optimising 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.

CORPORATE GOVERNANCE OF SUBSIDIARIES AND INVESTMENTS OF THE COMPANY ELEKTRO CELJE

Transparent investment management pursuant to the Management Policy must be ensured for investments of the companies Elektro Celje, d.d. and ECE d.o.o. (a 74.3256% ownership stake) and MHE – ELPRO d.o.o. (a 100% ownership stake). The investment in the company Informatika d.o.o. is strategic. After completing the information support upgrade (ERP, Maximo), the strategy of the investment has to be verified, which will depend on the successful completion of projects. The investment in the company Stelkom d.o.o. must be monitored and monetised at the appropriate moment. For corporate governance of subsidiaries, synergies must be found within the legally possible limits, and the Management Policy of the company Elektro Celje, d.d. must be taken into account.

Amendment or supplement to the corporate strategies requires, in addition to a well-prepared strategy, mainly effective communication or transmission of information regard-

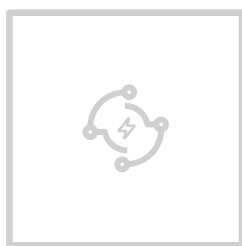
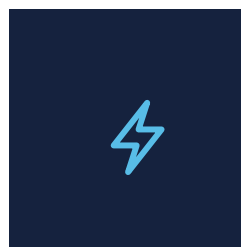
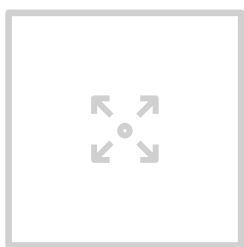
ing the strategy and strategic goals to all stakeholders, and, besides management and supervisory bodies, to the managing team and employees in particular. Constant control of the

implementation of strategic activities and monitoring of achievement of strategic goals by using indicators are required during the implementation of the Strategic Business Plan.

Performance/Beginning	Task description	Operator
January 2017	Presentation of draft Strategic Guidelines and Goals with activities to the Works Council.	Deputy Chairman of the Management Board Chairman of the Management Board
January 2017	Submission of the Strategic Document for confirmation to the Supervisory Board of the company Elektro Celje, d.d.	Chairman of the Management Board
July 2017	Verification of strategy implementation.	Deputy Chairman of the Management Board
Semi-annually	Verification of strategy implementation and reporting the progress achieved to the Supervisory Board of the company Elektro Celje, d.d.	Chairman of the Management Board
November 2020	Review of achieved goals in the strategic period and validation of the Strategic Business Plan for the new strategic period.	Chairman of the Management Board

Strategy Guidelines Defined until 2019 for the Company ECE:

- To remain one of the leading providers of energy products, also in terms of quality and diversity of services,
- To maintain the market share in sales of electricity at above 20%, as well as constant growth in the sales of natural gas and biomass,
- To continue connecting with related companies in the sector, thus strengthening the existing position in the region for further improvement after performing the connection. These are important strategic guidelines, based on which additional synergy effects are expected. This is crucial in the market of sales to the end electricity customers such as that in Slovenia, which is highly fragmented in terms of the number of providers, thus making a serious development activity, requiring a high amount of input, impossible in the existing form.
- To manage risks by introducing the assessment of the future potential of operations of companies which are our end customers to ensure payment of the energy consumed to the greatest extent possible, while, at the same time, refraining from cooperation with bad companies as far as possible.
- To introduce the sale of new products and services for the purchasers of energy products, focused largely on co-operation with other providers of products and services to enable better contents and higher value added to the customers and, thus, maintain them in the long-term,
- To develop the company ECE into a well-organised and high-quality IT-supported company which will attract customers and high-quality, motivated and development-oriented personnel.
- 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..



7.2 Strategic Goals and Strategy Implementation Criteria

Strategic Goals, enabling us to ensure the expected development and successful operations of the company, were set for implementing Strategic Guidelines. Strategic Goals represent an agreement on what we will achieve in the period 2017–2020, dealt with for the realisation of the company's mission and vision. Of course, goals can be achieved successfully only with a clearly elab-

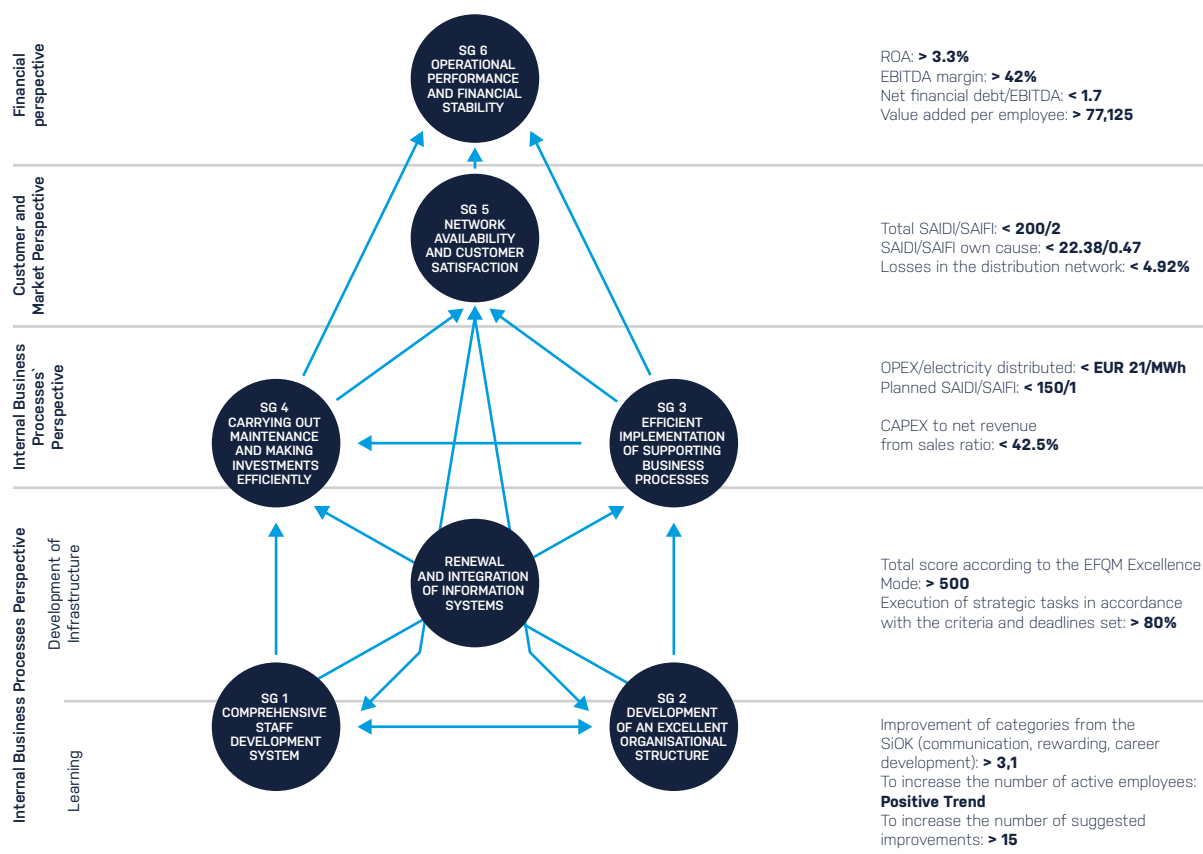
orated strategy on how to reach those goals, that is, which strategic activities will be performed and, until when, as well as, in particular, who is responsible for their successful performance.

A system of balanced indicators (BSC) as an established managerial tool for strategy planning and implementation was used for in-depth

understanding of the strategy, and mainly for ensuring its integrity and consistency. A selection of strategic indicators was defined for monitoring the successful strategy implementation and achieving Strategic Goals.

Interlinks between Strategic Goals (understanding the cause-consequence relation) are shown schematically in the Strategic diagram.

Balance Scorecard – Strategic Diagram and Goals



7.3 Business Goals of the Company Elektro Celje

Operational Goals and their Achievement	Business Plan 2017	Achieved in 2017	Business Plan 2018
SAIDI (System Average Interruption Duration Index)	22.38	30.38	27.78
Share of distributed electricity loss (in %)	4.92	4.54	4.71
OPEX per electricity distributed (in EUR/MWh)	21	21	20
SAIFI (System Average Interruption Frequency Index)	0.47	0.81	0.71
MAIFI (Momentary Average Interruption Frequency Index)	3.46	4.51	3.46
ROA (in %)	3.30	3.26	3.50
EBITDA margin (in %)	42.01	41.11	43.28
Net financial debt/EBITDA	1.65	1.47	1.5
CAPEX to net revenue from sales ratio (in %)	45.41	44.44	44.20
Value added per employee (in EUR 000)	77.63	78.44	79.63
Net profit (in EUR million)	9.1	9.1	9.8
Investment realisation (in EUR million)	22.4	22.1	22.0
Realisation of customer services (in EUR million)	1.0	1.7	1.4
Number of employees as at 31 December.	630	628	628

The business goals for 2018 result from the Business Plan of the company Elektro Celje, d.d., and the Elektro Celje Group for 2018, with the starting points for 2019 and 2020, which was prepared in October 2017. Strategic starting points and goals of the company Elektro Celje for the period 2017–2020, and the Plan for the Development of the Electricity Distribution Network for the Period 2017–2026, formed a basis for its preparation. It was prepared pursuant to the binding regulations and internal documents of Elektro Celje, as well as the applicable regulatory framework of EAgem, and includes

the forecast current macroeconomic developments, expectations and recommendations by the capital assets management of the Republic of Slovenia SDH, d.d., as well as commitments under credit agreements. 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. The company's operations will be in accordance with the Code of Corporate Governance of State-Owned Enterprises and Recommendations and Expectations of the Slovenian Sovereign Holding.


The Management Board believes that the business goals can be achieved if the operating conditions in 2018 will not deviate from the expectations significantly. The risk factors include mainly potential tightening of the regulatory environment by EAgem in the regulatory period 2019–2021, and the frequency of extreme climatic events causing damage on electricity distribution lines and devices owned by the company Elektro Celje. However, the operating conditions and, thus, also results, could be even better than expected.

7.3.1 Ensuring a High-quality Supply of Electricity to Customers and a Safe Network Operation

With regard to ensuring quality electricity supply, the company Elektro Celje achieves all goals laid down, which include: Commercial quality, continuity (reliability) of supply and voltage quality, defined by the Legal Act on the methodology determining the regulatory framework and network charge for the electricity dis-

tribution system (Official Gazette of the Republic of Slovenia, Nos. 66/15, 105/15 and 61/16), and the Legal Act on the rules for monitoring the quality of electricity supply (Official Gazette of the Republic of Slovenia, No. 59/15). The company Elektro Celje will continue planning, operating and maintaining the distribution network

in a qualitative manner, as well as implementing its planned strategic activities (ensuring reliable network operation, efficient management of voltage conditions, cabling and upgrading the automation of the MV network and optical connections) in the future.

	For 2017		For 2018		
	Requirements of EAgem	Achieved	Requirements of EAgem	Plan	
SAIFI (interruption frequency/customer)	1.19	0.81	1.19	0.71	
SAIDI (number of minutes/customer)	45.73	30.38	45.73	27.78	
MAIFI momentary interruption frequency/customer)	–	4.51	–	3.46	

7.4 Planned Development of the Distribution Network

Since the enforcement of the new Energy Act, Slovenia's Energy Concept (hereinafter referred to as SEC), which is presumed to be adopted by the Slovenian Parliament in 2018, represents the basis of energy policy in the Republic of Slovenia. With SEC, goals of reliable, sustainable and competitive supply for the next 20 years and, approximately, for 40

years, as well as liabilities in view of renewable energy sources, will be defined based on projections of the economic, environmental and social development of Slovenia, as well as international commitments. The National Energy and Climate Plan (NECP) and the National Development Energy Plan (NDEP) are also being prepared representing a frame-

work plan of investments in EI. The development of the electricity distribution network and ensuring long-term stable electricity supply in the Republic of Slovenia is specified in the Plan for the Development of the Electricity Distribution Network in the Republic of Slovenia for a Ten-year Period from 2017 to 2026.



FUNDAMENTAL OBJECTIVES FOR EFFICIENT PLANNING OF THE DISTRIBUTION NETWORK:

- Ensure planned and actual consumption of electricity and meet the requirements regarding electrical power
- Satisfy requirements for including distributed production of electricity
- Ensure the network and condition thereof, which corresponds to state of the art
- Ensure a long-term increase in and maintenance of the quality of supply according to the target level of quality
- Meet the requirements dictated by national energy climate objectives
- Ensure the long-term stability, reliability and availability of the distribution network
- Ensure a cost-effective network
- Ensure environmental protection in accordance with legislation

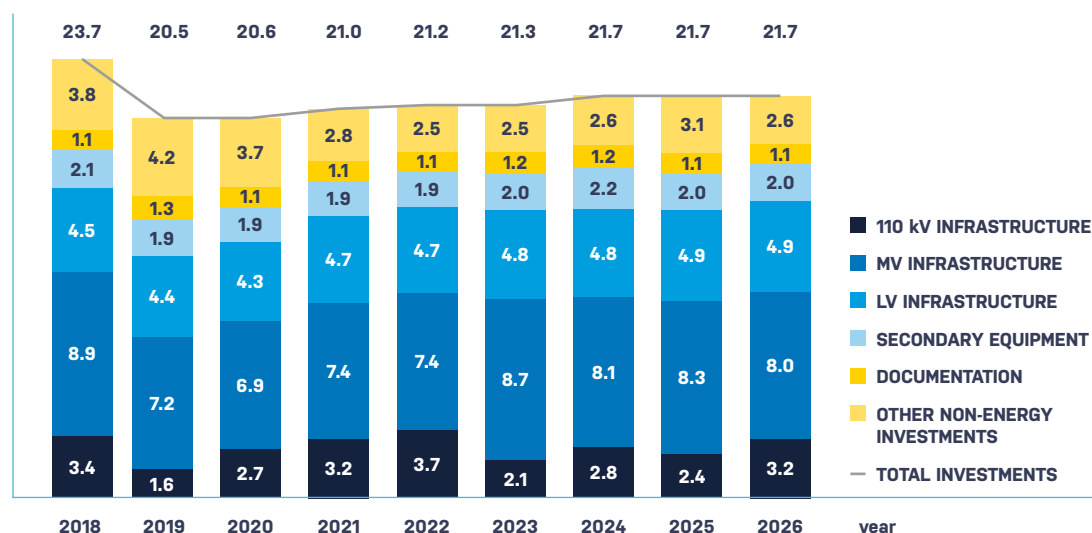
The development of the distribution network of the company Elektro Celje is specified in the Business Plan for 2018, with starting points for 2019 and 2020, as well as the ten-year plan for the development of the electricity distribution network from 2017 to 2026 in a total amount of EUR 213 million. The plan takes into account strategic guidelines of the national energy sector, guidelines and requirements deriving from the applicable Legal Acts and documents from the field of Energy, Electricity

and Electricity Distribution, as well as European Community Directives and Regulations in the field of Electricity Supply and Consumption, with the prescribed methodology also considering long-term consumption and load forecasts, the envisaged development of individual regions, economic planning, network construction and operation, as well as availability of financial resources used in planning.

The allotment of the largest share of total investments into power infra-

structure in the area serviced by the company Elektro Celje in the period from 2018 to 2026 is projected for MV infrastructure (36.6%), followed by investments in LV infrastructure (21.7%), non-energy investments (14.3%), 110 kV infrastructure (13.0%), secondary equipment (9.1%) and the obtaining of project documentation (5.3%). It is expected that 66.2% of the funds will go for new infrastructure and 33.8% for reconstruction.

Structure of investments in the period from 2018 to 2026 (in EUR million):



Frequent extreme weather in 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 considerably less susceptible to weather conditions than overhead lines, improving the quality and reliability of the electricity supply and facilitating siting. The increased use of electric vehicles in transport will bring about increased demands for a high-capacity distribution network and the construction of electric vehicle charging stations. In accordance with the

European Directive regarding the increased share of energy from renewable sources in the final energy consumption, the development of distribution networks must also be adjusted to the inclusion of distributed energy production, necessitating modernisations by using new technologies, including the development of active or smart grids, which also include end users, and installation of advanced metering systems in the network for obtaining accurate and more representative information on electricity consumption.

The largest share of investments in the primary electricity distribution infrastructure for all voltage levels in the period from 2018 to 2026 is projected due to the existing state of the electricity distribution system (i. e. technical or economic obsolescence, physical use, legislative and other usage limitations) in the amount of 38.7%, 34.1% due to increased load, 24.8% for improving the quality of electricity supply, 1.6% for including distributed electricity production resources and 0.8% for purchasing EDI.

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 cables (UC) 110 kV DTS Ravne to DTS Mežica (approx. 0.5 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 quality are planned in certain DTSs. 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, as well as an increase of capacity and renovation of MV and LV lines and devices.
- The construction of DS Ločica 20 kV in 2018 will improve the reliability of supply and ensure standby supply.
- Investments in the MV network are related to the construction of commercial and residential areas, appropriate power supply quality and increased demand for integration of renewable energy sources (solar power plants, Combined Heat and Power Plants, small hydropower plants). New MV power lines are built mainly 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). In 2018, 25 new standard TSs MV/0.4 kV will be constructed.
- 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.
- Replacement and modernization 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 mainly in 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.
- In accordance with the requirements set out in the Energy Act – EZ-1 (Official Gazette of the Republic of Slovenia, No. 17/14), 31,600 electricity meters will be replaced in the next three years to enable electricity to be charged by actual consumption to all customers by 2025 in accordance with the Plan for Implementing the Advanced Metering System in EDS of Slovenia. A security system, data encryption on smart meters, cybersecurity and privacy protection will also have to be introduced 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.

Investments planned for 2018 in the area of the Elektro Celje, d.d. electricity distribution system amount to EUR 23.7 million, of which EUR 22.0 million will be invested by the company Elektro Celje, while SODO is expected to provide EUR 1.7 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. Activities of transfer for value of lines and de-

vices of a 110kV network, having the character of a transmission network, will be performed in 2018 in accordance with the Decree on Ownership Transfer of Transmission Network to the System Operator, the company ELES.

7.4.1 Expected Information System Development

In the period 2018-2020, funds will be allocated for:

- Increased investment in the upgrade of the DMS system (in 2018 and 2019),
- Assurance of compliance with GDPR – establishment of an audit trail of access to personal data and consent register (in 2018),
- Additional functions in the asset management system (EAM – Enterprise Asset Management) – in 2018,
- Establishment of a central data warehouse for business reporting (2018 and 2019),
- Update of server equipment in the secondary data centre (in 2018) and primary data centre (in 2020),
- Upgrade of the remote control platform (AMI – Advanced Meter Infrastructure) with advanced analysis functionality (MDM – Meter Data Management) – in 2020.

7.5 Business Goals of the Elektro Celje Group

Operational Goals and their Achievement	Business Plan 2017	Achieved in 2017	Business Plan 2018
*ROE (in %)	4.82	4.55	4.77
Total equity/liabilities ratio (in %)	69.2	69.1	70.1
Net financial debt/EBITDA	1.4	1.2	1.3
Financial debt/EBITDA	1.4	1.3	1.3
Financial debt/equity	0.2	0.2	0.2
EBITDA/financial expenses from financial liabilities	74	79	85
Current ratio	1.2	1.2	1.3
Sale of electricity (in MWh)	2,615,683	2,861,247	2,575,567
Electricity production (in kWh)	3,737,005	2,870,141	3,897,062
Heat energy production (in kWh)	1,356,000	1,462,690	1,356,032

* Average equity includes net profit in the current year

The future operation of the Group will be oriented towards planning, developing and introducing technological solutions contributing to the environmental protection and a more efficient use of sources of electricity. Concern for sustainable

development, well-being of existing and future customers, responsible and constructive contribution to the creation of the social and natural environments, strengthening the reputation and recognition of the Elektro Celje Group, introduction of advanced

IT support for the operation of the online shop of the company ECE, and ensuring an adequate level of protection of personal data pursuant to the legislative requirements of the Information Commissioner. will be brought to the forefront.

08 OPERATING CONDITIONS

8.1 Business Environment Analysis

Economic trend indicators	2013	2014	2015	2016	2017
GDP (real growth in %)	-1.1	3.0	2.9	2.5	5.0
Registered unemployment rate (in %)	13.5	13.0	12.3	10.8	9.0
Inflation (annual average in %)	1.8	0.2	-0.5	0.1	1.4
Average gross salary in the Republic of Slovenia (nominal growth in %)	-0.1	1.1	0.7	1.8	2.7
Average gross salary in the Republic of Slovenia (real growth in %)	-1.9	0.9	1.2	1.9	1.3

Source: Statistical Office of the Republic of Slovenia and the Employment Service of Slovenia

According to the first estimate (based on the quarterly data), Gross Domestic Product stood at EUR 43,278 million and grew by 5% in real terms compared to 2016, which is 2.1 percentage points higher than what the Institute of Macroeconomic Analysis and Development (UMAR) had predicted.

The unemployment rate decreased in 2017 from 10.8% in 2016 to 9%. Ac-

cording to data from the Employment Agency of the Republic of Slovenia, there were 85,060 registered unemployed persons in Slovenia as of the end of December 2017, which is 14.6% less than in December 2016.

The Slovene Consumer Price Index increased by 1.5% at an annual level (in 2016 by 1.3%). The higher prices of food and electricity, gas and other fuels contributed most to the higher

inflation. The average annual inflation rate equalled 1.4% (0.1% in 2016).

The average monthly gross salary in 2017 in the Republic of Slovenia amounted to EUR 1,626.95, which is more than the average monthly gross salary in 2016: having increased by 2.7% in nominal and 1.3% in real terms.

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

Electricity consumption in its function of meeting personal, social or economic needs, is connected closely to the economic development of the country. The higher the level of development, the higher the electricity consumption, and vice versa, with a high level of development not possible without appropriate energy infrastructure (and available energy). We should also be aware of that when planning further development of the electricity system.

Electricity consumption in Slovenia in December 2017 increased by 4% compared to the same period in

2016. 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, but its consequences, which will take considerably longer to eliminate than the crisis itself, are still felt. In addition to the price policy, opening energy markets and distributed production sources, economic activity, as well as the related extent and structure of the Gross Domestic Product (GDP), have a decisive impact on the extent of electricity consumption in conditions in Slovenia. The analyses

of past developments show that the energy supply rises in the periods of a high GDP growth and falls in the periods of large GDP drops. However, the trend of increasing and decreasing electricity consumption is somewhat slower due to the supply to household customers functioning as a "buffer" against trends. The largest fall in GDP in the last ten years (i.e. in the period of the last great financial and economic crisis) occurred in 2009, namely by 7.8%, with the supply of electricity from the distribution network of the company Elektro Celje, d.d. reducing by 4.7% this year.

Power supply and GDP growth	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Constant prices, reference year 2000 (EUR million)	37,597	38,837	35,809	36,252	36,488	35,514	35,112	36,158	36,975	38,139
Annual change of extent (%)	6.9	3.3	-7.8	1.2	0.6	-2.7	-1.1	3.0	2.3	3.1
Electricity supply from the Slovene distribution network (GWh)	10,310	10,588	10,135	10,515	10,574	10,390	10,418	10,323	10,619	10,821
Annual change (%)	2.7	2.7	-4.3	3.7	0.6	-1.7	0.3	-0.9	2.9	1.9
Electricity supply from the distribution network of Elektro Celje, d.d. (GWh)	1,859	1,903	1,814	1,877	1,912	1,892	1,883	1,868	1,929	1,944
Annual change (%)	1.1	2.4	-4.7	3.5	1.9	-1.1	-0.5	-0.8	3.2	0.8

Source: Development Plan for the Electricity Distribution Network in the Republic of Slovenia for the Ten-year Period from 2017 to 2026

According to the forecasts of economic growth (Umar, Banka Slovenije, European Bank for Reconstruction and Development etc.), introduction of new consumption elements (new

technological processes with control, cooling, heat pumps, e-mobility etc.) and the expected post-crisis recovery (which will also be reflected in gradual realisation of some planned,

but not yet realised, past projects, increased electricity supply and peak power in coming years can be expected.

Electricity supply (output) and peak loads	2018	2019	2020	2021	2022	2023	2024	2025	2026	Average annual growth 2018–2026
Supply in DA (distribution areas) in Slovenia (GWh)	11,400	11,674	11,963	12,251	12,542	12,839	13,145	13,454	13,762	–
Annual growth of supply (in %)	2.4	2.4	2.5	2.4	2.4	2.4	2.4	2.4	2.3	2.4
Loads (MW)	1,743	1,787	1,831	1,876	1,922	1,968	2,015	2,062	2,107	–
Annual growth of loads (in %)	2.6	2.5	2.4	2.5	2.4	2.4	2.4	2.3	2.2	2.4

Source: Development Plan for the Electricity Distribution Network in the Republic of Slovenia for the Ten-year Period from 2017 to 2026

The economic recovery that has been felt since 2015 has already caused higher annual growth in supply. According to the average expected rate of growth of GDP amounting to 2.5% and of electricity consumption, amounting to 2.4% annually, the electricity consumption in 2026 will amount to 2,493 GWh, as predicted in the Network Development Plan for a Ten-year Period in the Supply Area of the company Elektro Celje, d.d. The prediction of consumption is complex and uncertain, since the economic situation in Slovenia is not yet fully stabilised and the foresight processes are based on different methodologies, from experience methods and extrapolation of trends to highly specialised mathematical tools.

The projected rate of electricity consumption growth is 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, also necessitating constant energy investments because they have to be planned in the long-term due to their complex siting and implementation. In accordance with the European Directive on Promoting Energy from Renewable Sources (hereinafter referred to as RES), and the demands for increasing its share in the final energy consumption and transport, the development of distribution networks must also be adjusted to the inclusion of distributed electricity production, necessitating moderniza-

tions by using new technologies, including the development of active or smart grids, which also means higher costs of future development of electricity systems. The demand for increased use of electricity in transport (electric vehicles, increasing consumption on railways) will also have an impact on the development of investments and the growth in electricity consumption in the future.

Weather conditions and outside temperatures causing inter-annual fluctuations in consumption also have short-term effects on electricity consumption. In future, more attention should be devoted to the analysis of the weather impact on the extent of electricity consumption, and on peak loads in particular.

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 sub-

stitute, cannot be stored, and is not freely transferable between countries, for it is limited by the physical

capacity of the network.

Key factors in electricity price growth at European Stock Exchanges in 2017:

- Extremely long periods of low temperatures in winter and heat in summer,
 - Low water levels – it could be said that it was a very dry year,
 - Demand for coal had a strong impact on the price of electricity, with China exacerbating this situation with its high demand,
 - The speculative policy of EDF, experimenting a lot with information on overhauls and shut-downs of nuclear power plants (which usually did not follow the forecasts in terms of time, thus causing price volatility) already at the end of 2016 and in 2017.
 - A considerable increase in demand for energy – to a certain degree due to weather conditions and due mainly to the favourable economic climate,
 - Political tension between the USA and North Korea or general world-wide political uncertainty,
 - 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 due to the high dependency on weather conditions,
 - Growing prices of allowances.
-

High price volatility at a daily level had an impact on the operational risks, due also to uncertainty with regard to the costs of deviations for compensating the necessary purchase of

electricity considering the consumption of final customers at the hourly level. The prices of transmission capacities were stable, as the electricity reference price for Slovenia is set on

the HUDX Hungarian Stock Exchange, where the transmission route from Hungary through Croatia to Slovenia did not present any significant risks in terms of the price.

Key factors that will influence the pricing of electricity and natural gas in the future:

- A reform of the allowance market. The reform is aimed at increasing the price of allowances to EUR 30/t, reflected directly in the price of electricity (thermal power plants have to purchase them),
- The approaching enforcement of the Paris Climate Agreement. The Agreement, which will enter into force in 2020, includes very strong commitments (according to the first studies, all thermal power plants would have to be shut down in Europe by 2030 to reach the goals set out in this Agreement). The reduction in conventional sources of electricity without planning substitute production capacities indicates that the short-term price volatility will remain high for some time,
- Oil price. A power struggle between the USA and the OPEC organisation continues. In 2018, the prices are expected to amount from USD 50 to 60 per barrel (the current price amounts to USD 53.11/barrel),
- Import of liquefied gas into Europe. The realisation is currently below the forecasts. However, such supply would have a strong impact on the reduction of the price of natural gas and, consequently, also the price of electricity in the future (the nearest transshipment terminal is planned to be built on the Island of Krk).
- Unfavourable weather conditions, in particular, hydrological conditions in South-Eastern Europe. In this case, the production from inexpensive production in HPP will decrease and will have to be replaced by more expensive sources.

- Energy orientation of Europe, which varies significantly from the USA policy. Europe is currently placing a great emphasis on renewable sources (wind and sun in particular), whereas the USA is primarily looking for cheap energy products (production of oil by fracturing shales). In spite of an extreme progress in batteries, whose efficiency, resistance and capacity are increasing from month to month, and improvements in photovoltaics, the electricity from renewable sources remains considerably more expensive than the energy from conventional sources, including nuclear, hydro and thermal power plants,
- Oil prices, having the strongest impact, will have to be monitored for future developments of prices of natural gas, at least until other basic elements of natural gas prevail. In addition to the oil price, the estimates of analysts for 2018 predict moderate growth of natural gas prices in the EU as well.

8.2 The Legal and Regulatory Framework of Operation

The role of distribution in the EPS of the Republic of Slovenia is defined in the National Energy Programme (NEP). On the basis 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 the economic, environmental and social development of Slovenia, and international commitments made.

The development of an electricity distribution network and provision of a 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 2017 to 2026.

In its operation in 2017, the Elektro Celje Group complied with all core legislative and regulatory bases.

MAJOR EU DIRECTIVES RELATED TO ENERGY:

- Directive 2009/28/EC of the European Parliament and of the Council of 23 April 2009 on the Promotion of the Use of Energy from Renewable Sources,
- Directive 2009/72/EC of the European Parliament and of the Council of 13 July 2009 concerning Com-

mon Rules for the Internal Electricity market and Repealing Directive 2003/54/EC (Official Gazette of the Republic of Slovenia, No. 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 (Official Gazette of the Republic of Slovenia, No. 33 of 4 February 2006, p. 22) <http://eur-lex.europa.eu/legal-content/SL/TXT/PDF/?uri=CELEX:32005L0089&qid=1412022796746&from=SL>,
- Directive 2012/27/EC of the European Parliament and of the Council of 25 October 2012 on Energy Efficiency.

ACTS RELATED TO ENERGY:

- Energy Act (EZ-1) (Official Gazette of the Republic of Slovenia, Nos. 17/14), 81/15);

EXECUTIVE REGULATIONS RELATED TO ELECTRICITY:

- **Regulations related to electricity distribution**
 - » Rules on the Methodology for Drafting the Development Plans of Operators and other Providers of Energy Sector Activities (Official Gazette of the Republic of Slovenia, No. 56/2016);
 - » 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;
- » Legal Act on the Rules for Monitoring the Quality of Electricity Supply, Official Gazette of the Republic of Slovenia, No. 59/15;
- » 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;
- » 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 the Electricity Distribution Network, Official Gazette of the Republic of Slovenia, Nos. 41/11, 17/14 - EZ-1;
- » 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;
- » Decree on the Division of the 110 kV Network into the Distribution and Transmission Systems (Official Gazette of the Republic of Slovenia, No. 35/15);
- » 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 Concession 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

- Companies Act (ZGD-1), Official Gazette of the Republic of Slovenia, Nos. 65/09 – official consolidated text, 33/11, 91/11, 32/12, 57/12, 44/13 – Decision CC and No. 82/13;
- Construction Act (ZGO-1), Official Gazette of the Republic of Slovenia, No. 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, 22/14 – Decision CC and 19/15;
- 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), 76/14 - Decision CC and 14/15 - ZUUJFO;
- 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 Re-

public 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, 92/13, 38/14, 37/15, 56/15, 102/2015, 30/16 and 42/16;

- 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, 102/15 and 32/16;
- 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-3), Official Gazette of the Republic of Slovenia, No. 91/15;
- Legal Protection in Public Procurement Procedures Act (ZPVPJN), Official Gazette of the Republic of Slovenia, Nos. 43/11, 60/11 - ZTP-D, 63/13, 90/14 – ZDU-1I, 95/14 – ZIPRS1415-C, 96/15 – ZIPRS1617, 80/16 – ZIPRS1718;
- Physical Assets of the State and Local Government Act (ZSPDLS), Official Gazette of the Republic of Slovenia, Nos. 86/10, 75/12, 47/13 - ZDU-1G, 50/14, 90/14 - ZDU-1I, 14/15 – ZUUJFO, 76/15;
- Public Finance Act (ZJF), Official Gazette of the Republic of Slovenia, Nos. 11/11 - official consolidated text, 79/99, 124/00, 79/01, 30/02, 110/02 - ZDT-B, 56/02 - ZJU, 127/06 - ZJZP, 14/07 - ZSPDPO, 109/08, 49/09, 38/10 - ZUKN, 107/10, 110/11 - ZDIU12, 46/13 - ZIPRS1314-A, 101/13, 101/13 - ZIPRS1415, 38/14 - ZIPRS1415-A, 14/15 - ZIPRS1415-D, 55/15 - ZFisP, 96/15 - ZIPRS1617, 80/16 - ZIPRS1718;
- Siting of Spatial Arrangements of National Importance Act (ZUPUD-PP), 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, No. 47/16;
- Value Added Tax Act (ZDDV-1), Official Gazette of the Republic of Slovenia, Nos. 117/06, 52/07, 33/09, 85/09, 85/10, 18/11, 78/11, 38/12, 40/12 - ZUJF, 83/12, 14/13, 46/13 - ZIPRS1314-A, 101/13 - ZIPRS1415, 86/14, 90/15;
- Code of Obligations (OZ), Official Gazette of the Republic of Slovenia, Nos. 83/01, 32/04, 28/06 - Dec. CC, 40/07, 64/16 - Decision CC;
- Law of Property Code (SPZ), Official Gazette of the Republic of Slovenia, Nos. 87/02, 91/13;
- 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.

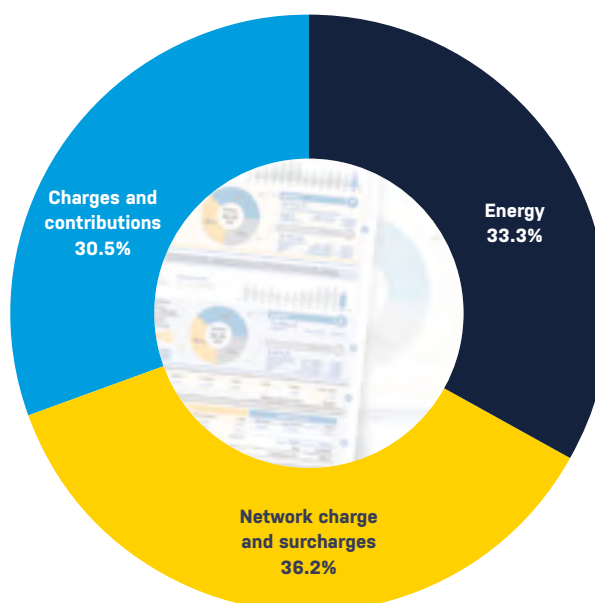
8.3 Composition of the Price of Electricity for the Final Customer

The final price of supplied electricity for a customer who is billed for the network charge and the electricity consumed 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 the provision of support to high-efficiency combined heat and power generation and for energy generation from renewable energy sources (RES and CHPP);
 - » Contribution for efficient energy use (EE);
 - » Contribution for the activity of the 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 of the Republic of Slovenia

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



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 the 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 2017, the Operations and Development Sector started using the upgraded DMS (OMS) V2 software tool by concentrating on actively reducing losses of electricity in the network. Together with our external partners, we are participating successfully in the European Project Flex4Grid.

9.1.1 Development of the Distribution Network

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

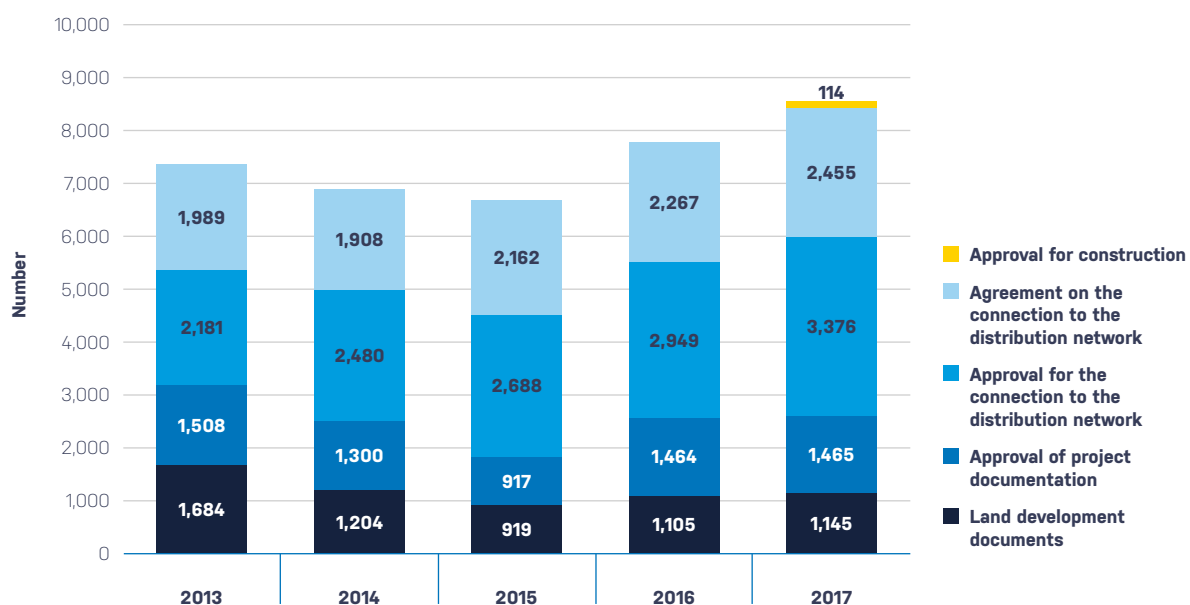
distribution network, while also being responsible for the quality of the electricity supply and network devel-

opment plans.

9.1.1.1 Land Development Documents

Number of land development documents issued in 2017							Total
No.	Type of document	Consumer category	DU Celje	DU Krško	DU Sl. Gradec	DU Velenje	Elektro Celje
1.	Guidelines to the spatial planning document		10	8	7	24	49
2.	Opinion on the spatial planning document		13	13	9	19	54
3.	Terms of project		227	393	183	239	1,042
4.	Approval of project documentation		563	171	220	511	1,465
5.	Approval for construction		37	64	5	8	114
6.	Connection approval:						
		0.4 kV up to 41 kW	289	160	184	205	838
		0.4 kV over 41 kW	71	28	29	43	171
		household customers	612	527	323	470	1,932
		MV (1–35 kV)	3	4	3	9	19
		distributed energy resources - input	58	2	65	58	183
		distributed energy resources - output	60	3	66	42	171
		distributed energy resources - generation	6	35	1	20	62
		Connection approvals in total:	1,099	759	671	847	3,376
7.	Connection agreement:						
		0.4 kV up to 41 kW	169	123	127	144	563
		0.4 kV over 41 kW	56	21	20	30	127
		household customers	489	433	284	365	1,571
		MV (1–35 kV)	4	2	2	8	16
		distributed energy resources	48	31	48	51	178
		Connection agreements in total:	766	610	481	598	2,455
Total			2,715	2,018	1,576	2,246	8,555

Land development documents issued



9.1.1.2 Quality of Electricity Supply and Network Development

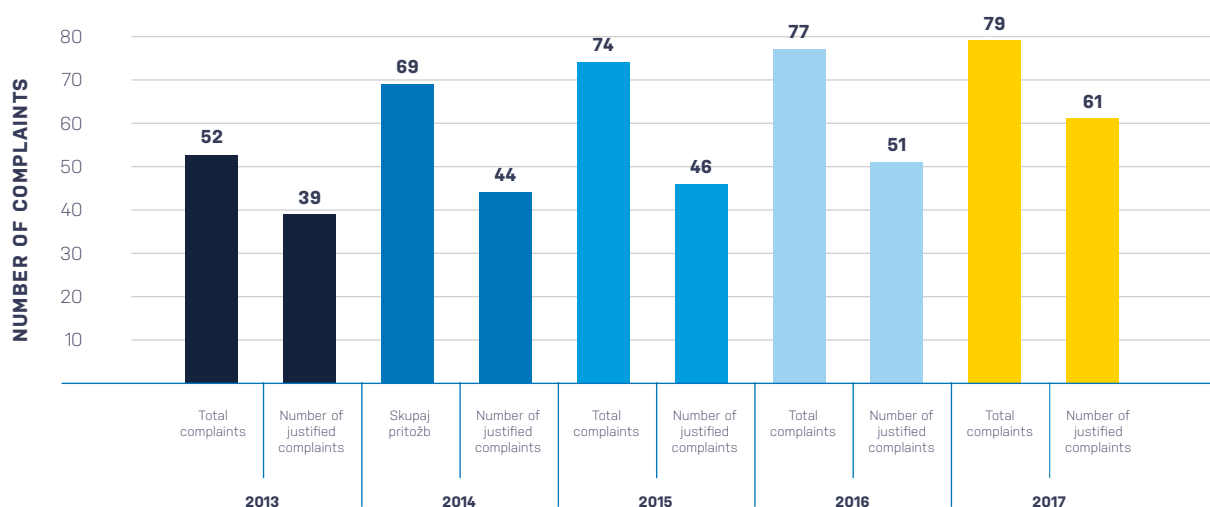
The Development Department plans the network so as to provide a supply of electricity of adequate quality with the possibility of allowing the connection of new consumers. Every two years, updates are performed in the ten-year Development Plan, which provides the basis for the an-

nual 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 mon-

itors 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



By following the reliability indicators (SAIFI, SAIDI and MAIFI), which are also included in the set of strategic indicators of the company Elektro Celje, we monitor the progress towards one of our key strategic goals – reliability and safety of network operation – and the implemen-

tation of strategic activities towards achievement of the following goals: Ensuring reliability of the network operation, efficient control of voltage conditions, MV network automation upgrade, MV network cabling, and optic cable upgrade.

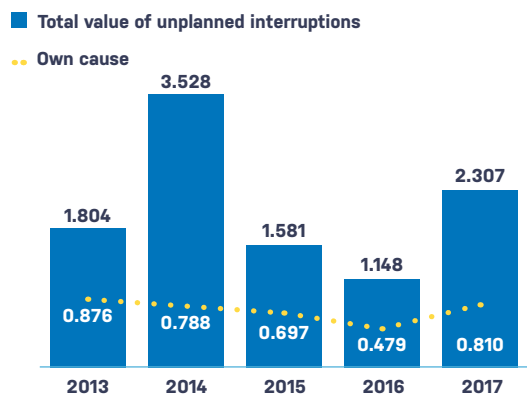
Total values of SAIFI and SAIDI reliability indicators for 2017 at the company's level in view of the cause of interruption are shown below. These indicators show an average number of interruptions and the average duration of supply interruptions per customer.

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	0.436	10.374	0.212	4.804	0.740	55.464	0.377	68.080
Total rural lines	1.156	48.857	0.190	5.984	1.810	202.471	1.336	214.912
Total value	0.810	30.376	0.200	5.417	1.297	131.875	0.876	144.400

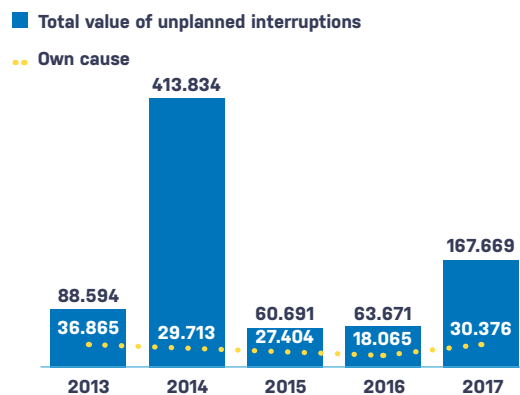
Planned interruptions for the company Elektro Celje for 2017 amounted to:

- The SAIFI indicator: 0.88 interruptions/customer, which is 10% more than the average of EDCs (0.80 interruptions/customer),
- The SAIDI indicator: 144.40 minutes/customer (the average of EDCs is 108.39 minutes/customer).

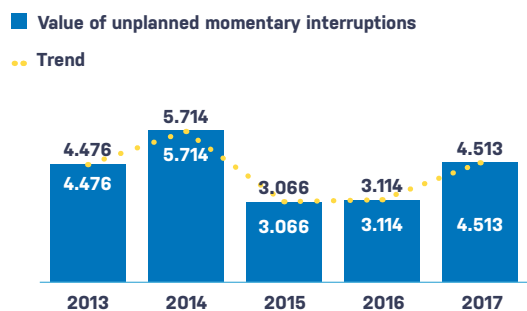
SAIFI – Average number of interruptions per customer



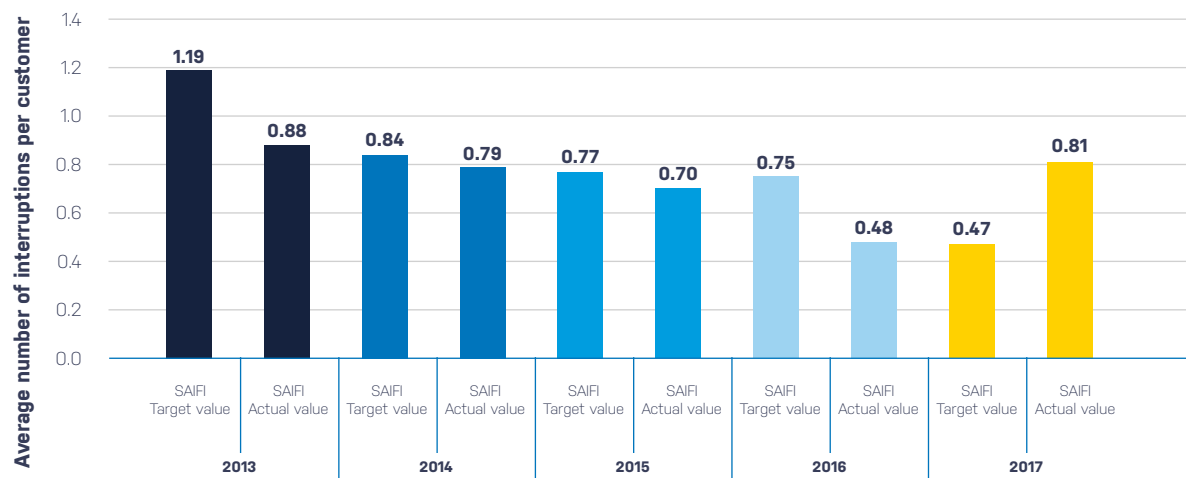
SAIDI – Average duration of interruption per customer in minutes



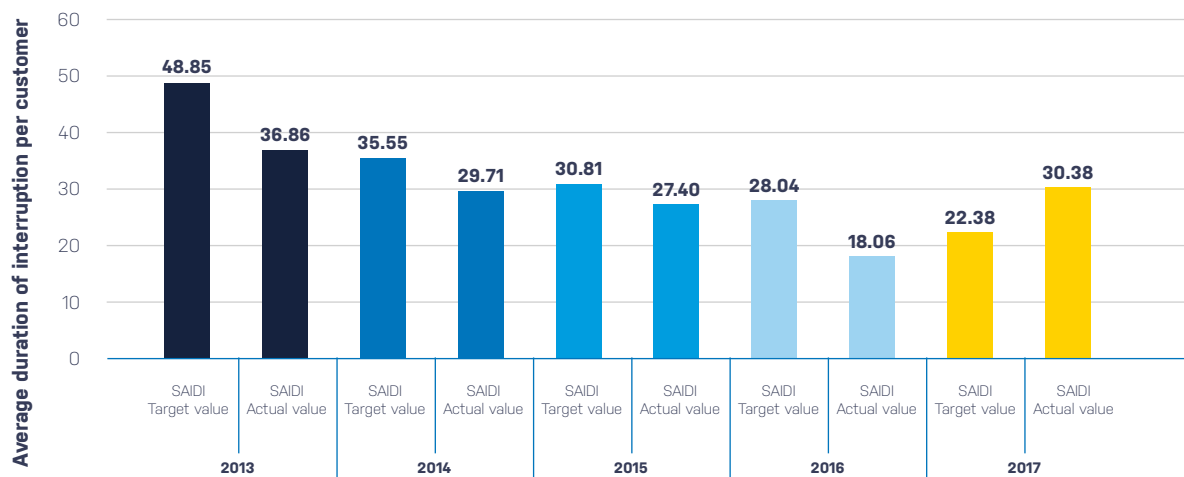
MAIFI – Average number of momentary interruptions per customer



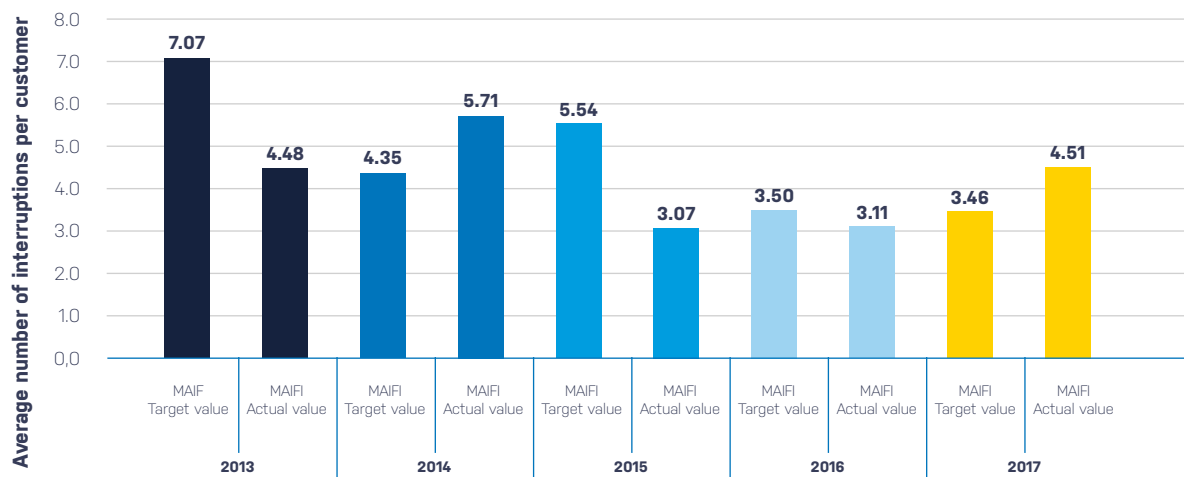
SAIFI value: unplanned interruptions – own cause



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), system engineering and TIS (Technical Information System – GIS).

The key tasks of the Distribution Management Centre are as follows:

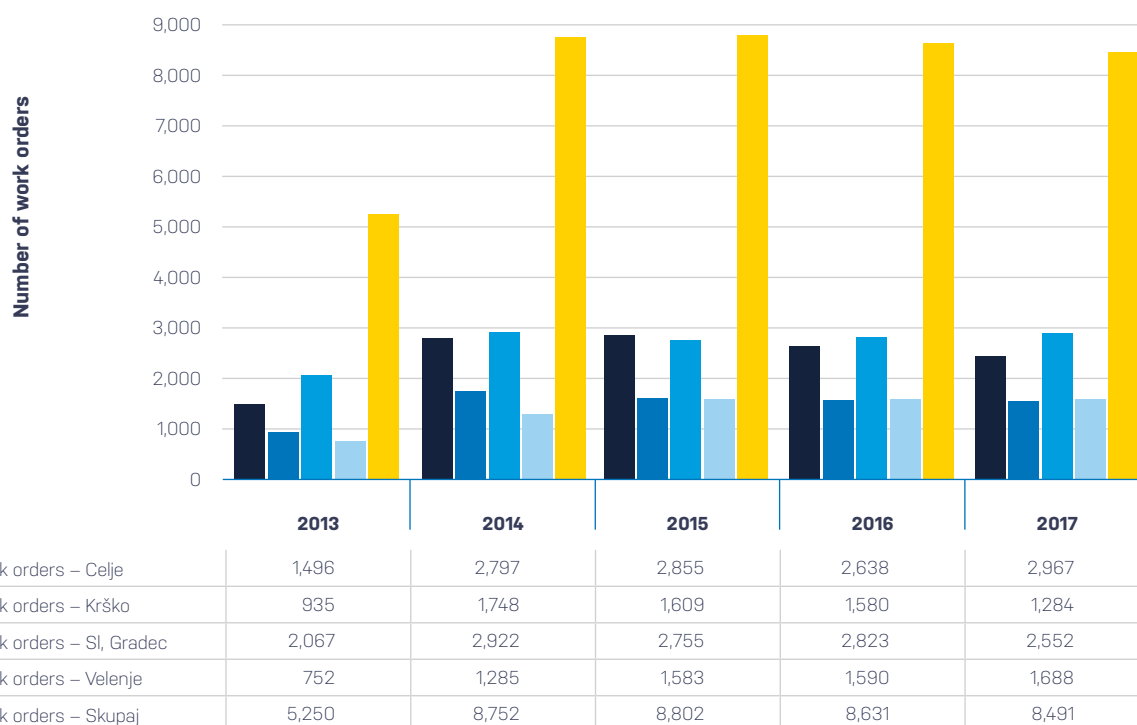
- Remote control, management and provision of safe and reliable operation of the entire Distribution Electricity System (DES), more specifically DTSSs, DSs, remote-controlled TSs and RCSs (Remote-Controlled Switchgears) in the entire area of the company Elektro Celje, d.d.,
- Coordination and plan development 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), as well as 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 network 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



Document preparation for safe work in the DMS (OMS) application was introduced on 1 May 2017.

The key **task of system engineering** in 2017 included the responsibility for network models 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 2017:

- Entry of new facilities in the DMS data model, changes regarding the existing facilities and harmonisation of DTS schemes with the newly drawn ones,
- The connection of new facilities through the TASE.2 communication protocol with SCADA,
- Project Management of the DMS software tool version 2,
- Updating the information on the LV section of TSs by using the CAT function on a daily basis,
- The organisation of training regarding DMS and OMS at the DU level for dispatchers in DCCs and other employees,
- Continuation of the maintenance of the DMS v2 system linked to the

maintenance contract,

- Analysing, reporting and rectifying errors in the DMS/OMS software,
- Preparation of instructions for preparing the planned works, help desk, rectification of deficiencies,
- Preparation of Tender documents for upgrading the DMS software to version 3,
- Preparation of Tender documentation in the form of a public procurement for replacing the SCADA system,
- Maintenance of the video surveillance and anti-theft systems,
- Connecting the anti-theft system to the security and surveillance centre of the company Prosignal.

The following activities were performed in the PSI Control system in 2017:

- TS Žerjav – arrangement of remote control,
- DS Nazarje - an extensive reorganisation of the network and arrangement of control,
- DTS Slovenj Gradec – arrange-

ment of control of MV cells with the replacement of the secondary equipment, and replacement of distance protection relays in the 110 kV bays,

- DS Mežica – partial arrangement of control of MV cells,
- RTP Ravne – upgrading, drawing, testing the remote control for the new sector 4, reorganisation of TR bays for the new control, the arrangement of signalization or neutral point of TR1,
- DS Kostanjevica – arrangement of control of MV cells,
- DTS Lava – replacement of distance protection relays in 110 kV bays with the arrangement of control,
- Siting RCSs in the regular project on the MV network, preliminary tests and start-up,
- TS Sveže meso – arrangement of remote control,
- TS Iverka – arrangement of remote control,
- DS Pristava – preparation of control,

- DTS Velenje – arrangement of signalization for detecting contact with the ground,
- TS Control Unit Šmarje – upgrading the cell with the arrangement of control,
- Active participation in the Slovene and Japanese Project (NEDO), start-up of eleven RCSs within the framework of the Project and preparation of several interfaces for further data exchange,
- The arrangement of data exchange at sections bordering the company Elektro Maribor,
- Developing computer software for acquiring and processing oscillographic data from protection relays,
- Maintenance and editing of the software application Customers (Odjemalci),
- Replacement of the software for the TASE.2 protocol.

The Technical Information System (TIS) Department, having the follow-

ing tasks, has been operating within the framework of the Operations Department since 1 January 2017:

- 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, Advance, Maximo, AX etc.),
- Analysing and preparing data and graphical templates for supporting business processes,
- Preparing data and taking part in the preparation of reports for external institutions (EAgem, DNSO etc.),
- 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 the consolidated cadastre of public service infrastructure,
- Preparing and forwarding network data to external clients.

Data on electric power equipment was recorded in 2017. The Guidance on describing and labelling the elements of the electric power network was prepared, with the names of devices and single-line diagrams updated. We took part in the preparation of the Terms of Reference (TORs), whereby drawing and entering the planned new routes determined by the expert technical commission, we generate the asset codes used in the project server system for managing investments. We participated intensively (preparation of new specifications of the data model, locations, data exchange and testing) in the introduction of the IBM Maximo system.

AMOUNTS OF DATA RECORDED IN GIS IN 2017		
TS (number)	recorded over the year	51
	entered as of 31 December	4,102
	rate – recorded over the year/as of 31 December	1.2 %
HV + MV network (km)	recorded over the year	63
	entered as of 31 December	4,036
	rate – recorded over the year/as of 31 December	1.6 %
LV network (km)	recorded over the year	677
	entered as of 31 December	9,388
	rate – recorded over the year/as of 31 December	7.2 %

The situation of 31 December 2017 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 the company's ownership with the status operating.

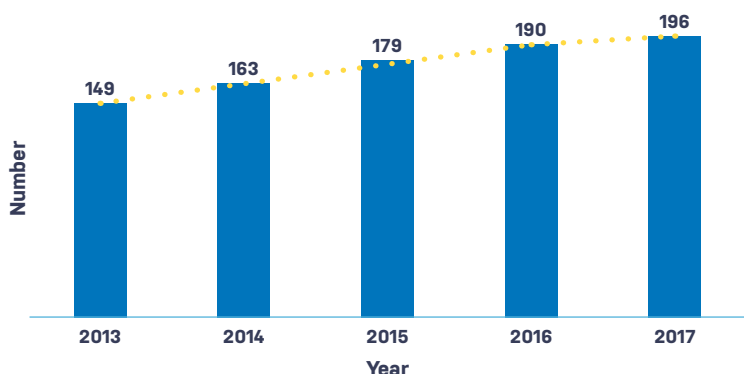
9.1.3 Protection and Remote Control

In 2017, 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. Regular maintenance and replacement of RUPS software systems at DTS Šentjur and DTS Slovenj Gradec, as well as batteries at DTS Šentjur and DTS Podlog, contributed to a more reliable operation.

We installed 6 RCS sets, with TS Sveže meso and TS Iverka automated. Regular maintenance of RCSs and secondary testing of protection contributed to a more reliable operation of the MV network.

Number of remote-controlled switchgears

**The following was realised in 2017 in addition to that:**

- DTS Slovenj Gradec: start-up tests were performed with the replacement of the secondary equipment of MV ducts, with a transition made to the new remote-control system ABB. The primary and secondary equipment of the OPL bay of 110 kV Velenje was replaced;
- DTS Ravne: We took part in the start-up tests of protection and remote control and replaced the existing management unit COM615 with a new unit SYS600C in upgrading sector 4 MV ducts;
- DS Mežica: The renovation and upgrading of the switchyard began, with protection tests performed, and the remote-control system SCU810 (Iskra) replaced with the unit COM615 (ABB). The investment will be completed in 2018;
- DS Kostanjevica and DS Pristava: Start-up tests of protection and remote control were performed. A remote-control test towards DCC Celje will also have to be performed at DS Pristava within the scope of connecting the MV ducts;
- DTS Lava: Secondary equipment was renovated of both overhead power line bays (OPL 110 kV Žalec and OPL 110 kV Šentjur);
- DTS Velenje: The concept of Petersen coils was unified;
- TS Žerjav: The FPC680 unit was installed for protection and remote control of the facility.

9.1.4 Telecommunications

The Telecommunications Department is responsible for the following four main telecommunication networks or systems: An optical network, the IP/MPLS Ethernet network in several redundant 1 GB/10GB rings, a 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 mechanical mechanisms, with the support of software mechanisms for cybersecurity, a microwave connection system, the Polycom video con-

ference system integrated with Microsoft Lync or Skype for Business, 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.).



Optical patch panel
Author: Damjan Bobek



Mislinja Radio repeater at TS Završe
Author: Dušan Juvan

In 2017, special attention was devoted to the integration of cybersecurity in the network process segment. The systems, installed in two power facilities and at a central location, will enable cyber protection of power facilities and the encryption of data be-

tween the facilities and the centre. Cybersecurity, which is becoming increasingly important, is also very complex, as it requires the mastering of advanced tools and knowledge, as well as constant investment in hardware, software and licences. Conse-

quently, it has to be ensured that employees are suitably qualified for mastering cybersecurity systems, in the sense of training at suppliers, integrators and manufacturers of equipment.

9.1.5 Access to Network and Metering

Before connection, the customer or the producer has to sign an Agreement on the 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.

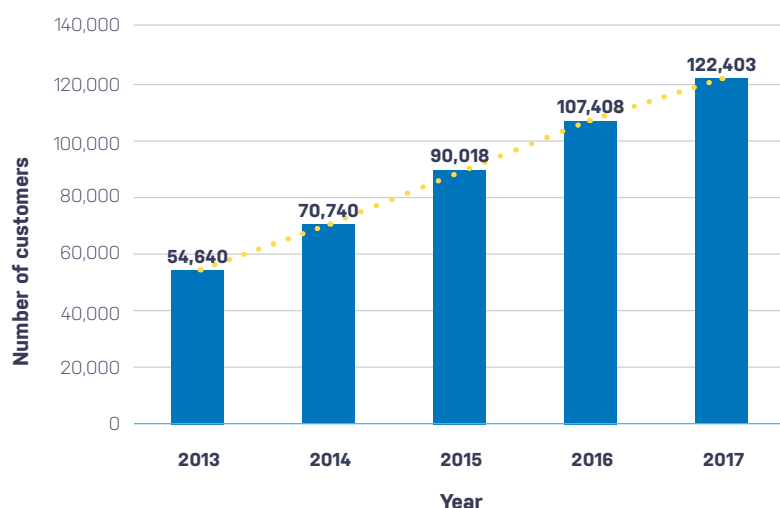
In 2017, 13,096 customers from the distribution area of the company Elektro Celje, d.d. switched to another electricity supplier, which is 3,694 less than in 2016.

At the end of 2017, 1,288 electricity producers were connected to the distribution network of the company Elektro Celje, d.d. (with 144 connected

in 2017 alone). In the remote metering system, there are 2,211 concentrators installed in TSs, representing 63% of all TSs, and 2,855 control meters, representing 81.4% of all TSs, while 122,403 customers (71.4% 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 2017, the total input of electricity into the distribution network of the company Elektro Celje, d.d., amounted to 2,092,320 MWh, which is 2.5% more than in 2016, while maximum peak load reached a limit of 335 MW

in January 2017. The total amount of electricity distributed to customers connected to the distribution network of the company Elektro Celje, d.d. (use of network) in 2017 amounted to 2,001,430 MWh, which is 2.9%

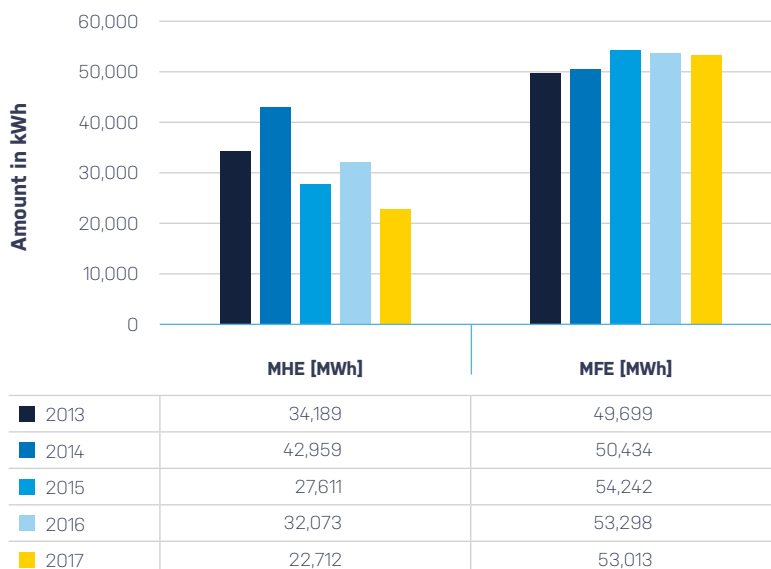
more than in 2016. The percentage of input from the transmission network increased by 2.9%, from 1,868,970 MWh in 2016 to 1,922,865 MWh in 2017.

Input and output (generation and consumption) balance	2013 in MWh	Share in %	2014 in MWh	Share in %	2015 in MWh	Share in %	2016 in MWh	Share in %	2017 in MWh	Share in %
Transmission network	1,850,964	93.03	1,809,644	91.89	1,861,240	91.93	1,868,970	91.61	1,922,865	91.90
Power producers	131,261	6.60	143,781	7.30	143,688	7.10	152,298	7.46	150,118	7.17
Unregulated supply	7,288	0.37	16,005	0.81	19,719	0.97	19,032	0.93	19,337	0.92
Total input into the distribution network	1,989,513	100	1,969,430	100	2,024,647	100	2,040,300	100	2,092,320	100
Total supply (output) of electricity	1,882,792	/	1,868,300	/	1,928,787	/	1,944,411	/	2,001,430	/
Unregulated supply (output)	0.449	/	518	/	3,770	/	66,322	/	19,270	/
Losses	106,722	5.67	100,613	5.39	95,857	4.97	95,823	4.93	90,870	4.54

Electricity losses in the distribution network decreased from 4.93% in 2016 to 4.54 % in 2017, 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, unregistered consumption, unjustified consumption, and other unforeseeable events in the operation of the power distribution system. The reason for lower losses of electric energy in 2017 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.

As 2017 was a very dry year, the production of electricity in SHPs decreased by 29.2% compared to the previous year, while the power production in SPSs was comparable to that of the previous year.

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 Renewable Energy Sources (Official Ga-

zette 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 2017, 144 new solar power stations,

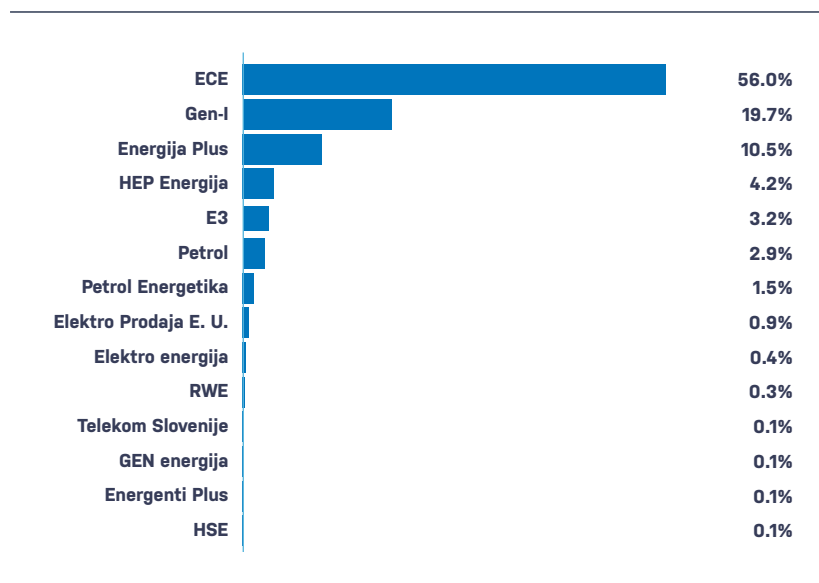
1 hydropower plant and 1 gas-fired power plant were connected. The total number of power plants connected to the distribution network of the company Elektro Celje, d.d. in view of energy source is shown below.

Energy source					
Sun	Water	Biomass	Gas	Wind	Total
1,064	128	10	84	2	1,288

9.1.5.1.2 Electricity Suppliers

ECE and GEN-I hold the largest market shares among electricity suppliers, 56% and 19.7%, respectively, while shares of other suppliers are smaller.

Electricity suppliers



9.1.5.1.3 Electricity Consumers

The number of consumers connected to the distribution network of the company Elektro Celje, d.d. is shown in the Tables below:

Number of electricity consumers					
	2013	2014	2015	2016	2017
Business customers	19,828	19,877	19,929	20,021	20,147
Household customers	149,037	149,537	150,077	150,667	151,193
Total	168,865	169,414	170,006	170,688	171,340

End consumers by category	Number	%
MV	294	0.2
LV with measured power	2,350	1.4
LV without measured power	17,500	10.2
Households	151,193	88.2
Charging EV on AC	3	0.0
Total	171,340	100.0

9.1.5.2 Metering Equipment

In 2017, we continued with the installation of meters that allow remote transmission of data via different communication channels. At the end of the previous year, 138,775 such meters were installed, representing 81% of all customers connected to the distribution network of the company Elektro Celje, d.d. At the end of

2017, the number of customers billed on the basis of actual electricity consumption was 122,403.

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, 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 88,616,679, which is 2.3% more than in 2016.

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	2013	2014	2015	2016	2017
Agreements on access to the distribution network	10,118	11,924	15,463	13,658	14,477
Manual meter reading – annual reading	111,893	99,528	85,511	71,341	52,701
Manual meter reading – monthly reading	100,684	82,154	62,502	44,189	25,988
Remote meter reading – household and business customers	577,204	752,845	947,066	1,172,177	1,401,387
Manual meter reading due to change of supplier	4,693	2,729	4,847	6,570	4,374
Remote meter reading due to change of supplier	1,593	1,892	4,101	8,949	8,722

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 commercial quality indicators:

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

- The 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,
- CallCentre 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 with 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 distribution

units 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

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 carried out primarily 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.

The Tables below show the data on the amount and value of maintenance of electricity infrastructure by type of assets and work for 2017.

Maintenance by type of asset and work (Physical realisation)	Type of work	Unit of measure	DU CELJE	DU KRŠKO	DU SLOVENJ GRADEC	DU VELENJE	TOTAL ELEKTRO CELJE
110 kV infrastructure							
HV overhead power lines	inspection	km	62	34	0	7	103
	removal	km	6	0	0	2	8
DTS 110/MV kV, DS 110 kV	inspection	number	72	56	48	47	223
	revision	number	149	50	26	91	316
MV infrastructure							
MV overhead power lines	inspection	km	772	861	535	738	2.906
	removal	km	127	49	79	81	336
MV underground cables	inspection	km	72	61	38	45	216
DTS MV/MV, DS MV with control and protection	inspection	number	36	40	31	48	155
	revision	number	45	12	22	45	124
TS MV/0.4 kV, TS MV/0.95 kV, TS 0.95/0.4 kV	inspection	number	988	985	772	857	3,602
	revision	number	233	241	187	223	884
LV network							
	inspection	km	870	654	298	597	2,419
	removal	km	68	19	60	76	223

Maintenance by type of asset (Financial realisation)	TOTAL ELEKTRO CELJE		
	Material	Services	Number of hours
HV overhead power lines	577	15,854	2,374
DTS 110/MV kV, DS 110 kV	17,071	203,355	18,219
Total 110 kV infrastructure	17,648	219,209	20,593
MV overhead power lines	134,822	353,815	59,385
MV underground cables	12,959	15,992	9,180
DTS MV/MV, DS MV (with control and protection)	3,321	9,390	4,702
TS MV/0.4 kV, TS MV/0.95 kV, TS 0.95/0.4 kV	77,346	19,167	67,543
Total MV infrastructure	228,449	398,365	140,811
Total LV network infrastructure	258,183	214,326	148,490
TOTAL MAINTENANCE OF LINES AND DEVICES	504,280	831,900	309,894

The Table does not include the costs of material, services and hours of work performed for:

- organisation and provision of emergency services,
- management-operation and process management,
- TC support and operation of protective devices.

In 2017, due to various causes, interruptions and faults occurred on the power distribution equipment, which the personnel at the distribution units repaired in the shortest time possible, with the normal operation of the network being restored. Wind damage at the end of December made the indicators of interruption or faults considerably worse. There were 594 more loss events (1,099)

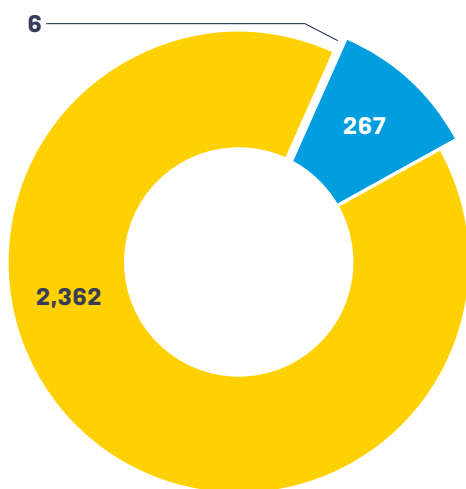
compared to the previous year, more than half of them caused by the storm.

The first great damage caused by a storm incurred on the EI in February. The greatest damage on the network was caused in December, when there was more than half of metre of heavy and wet snow after two excessive natural disasters caused

by snow at the end of November and at the beginning of December in the Logar Valley area, the wider Koroška region, as well as in the Pohorje Mountains, Paški Kozjak and Jurklošter areas. The most problems in repairing the damage were caused by the vast amount of fallen trees disabling access to the routes of our lines, thus extending the time needed to repair the defects.

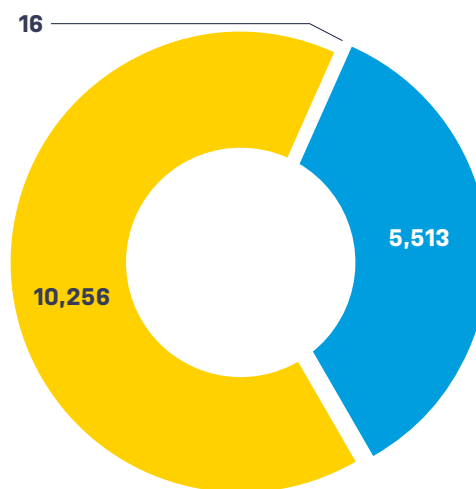
Number of interruptions

■ 110 kV infrastructure
■ MV infrastructure
■ LV network



No. of hours required to repair the faults

■ 110 kV infrastructure
■ MV infrastructure
■ LV network



In the area of **DU Celje**, the number of interruptions on the MV infrastructure increased from 26 to 66 (by 154%) compared to the previous year. The number of interruptions on the LV network compared to 2016 rose from 839 to 1,398 (by 67%), and the time required to repair them increased by 96%.

In the area of **DU Krško**, the number of interruptions on the MV infrastructure increased from 50 to 61 (by 22%), with the number of interruptions on the LV network also increasing (by 45%).

In the area of **DU Slovenj Gradec**, the number of interruptions on the MV infrastructure increased from 37 to 48 (by 30%). Since the faults were major, the time to repair them increased from 555 to 1,447 hours. The number of interruptions on the LV infrastructure increased from 179 to 232 (by 30%).

In the area of **DU Velenje**, the number of interruptions on the MV infrastructure increased from 46 to 92 (by 100%), with the time required to repair them also increasing significantly (from 183 to 1,934 hours). The

number of interruptions on the LV infrastructure increased from 221 to 450 (by 104%), with the time necessary for their repair also increasing.

In 2017, we replaced 32 transformers due to the requirement of increased capacity, and 36 due to faults and wear. We also restored 843 LV connections.

Electricity distribution infrastructure owned by Elektro Celje, d.d. as of 31 December 2017	DU Celje	DU Krško	DU Slovenj Gradec	DU Velenje	Total Elektro Celje
Number of DTSSs	6	4	4	4	18
Number of DSs	4	5	3	4	16
Number of TSs	995	951	728	833	3,507
110 kV OPL (km)	62	22	0	7	91
MV OPL (km)	731	787	439	672	2,629
MV UC (km)	278	244	172	226	920
0.4 kV LV network (km)	4,366	3,567	2,626	3,254	13,813

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

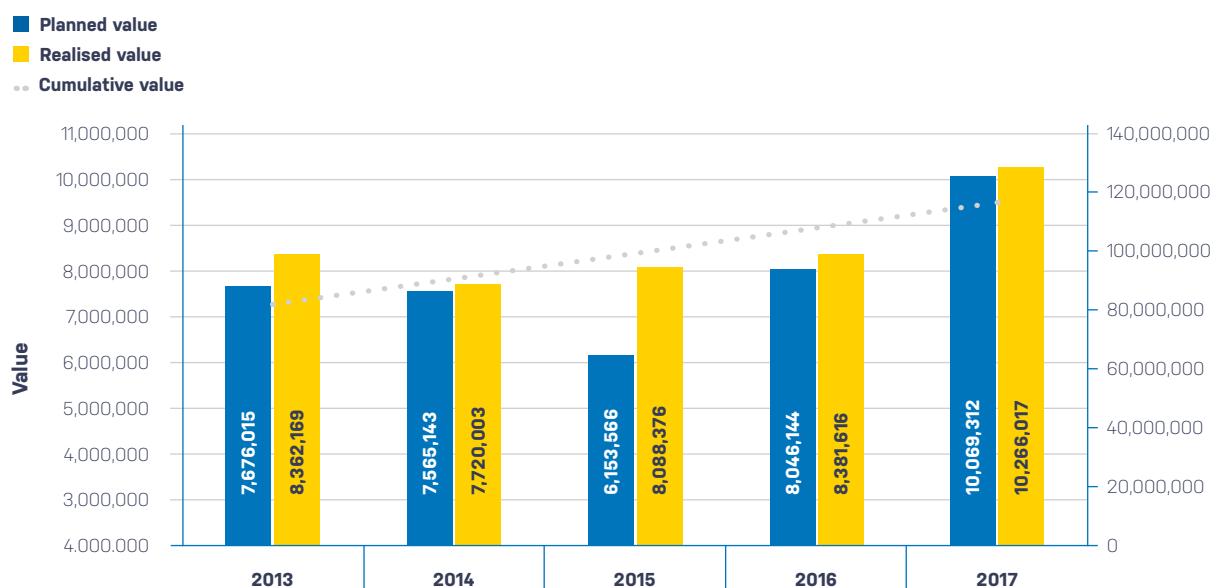
renovated MV/LV transformer stations, MV and LV connection lines, relocations and revisions of power distribution lines and equipment, mechanical protection of lines, etc. Employees devote considerable attention and time to the integration of facilities in the environment, impacts on the environment, matters related to Land Law, coordination regarding electrical power line routes and the location of electricity installations

with land-owners, obtaining data from land-owners, preparation and conclusion of Agreements on Easement and determining Easement compensations. The employees manage investments for new MV and LL infrastructure, and new DTSSs 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

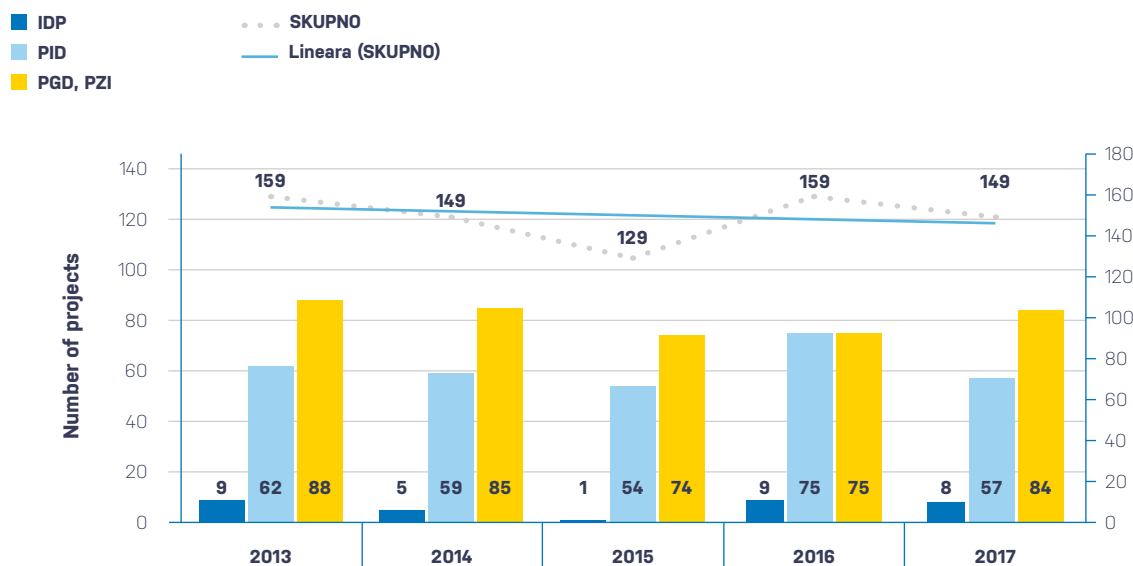
The total investment value of completed BD and DD project documentation in 2017 amounted to EUR 10,266,017.

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



In 2017, a total of 149 designs were prepared, of which 57 were developed for third-party customers (42 BDs and (or) DDs, 7 ADs and 8 PDs).

Number of projects completed by year



In 2017, 321 Contracts on Easement were acquired, 31 landowners' Consents obtained, and 235 appraisals

of Easement compensations drafted. There were 12 damage assessments performed after finished construc-

tion, and 144 claims for payment of compensations under the signed Contracts on Easement settled.

9.2.2.2 Investments

In 2017, investments amounted to EUR 22,140,904 (the value of acquisitions stated in the Tables of Intangible Assets and Tangible Fixed Assets in 2017, minus the value of Tangible Fixed Assets acquired free of charge),

which is equivalent to 98.8% of the annual plan of EUR 22,400,000. The investments were financed with own depreciation assets in the amount of EUR 5,609,799, other own sources in the amount of EUR 10,531,105,

and loans in the amount of EUR 6,000,000. The value of Fixed Assets acquired free of charge in 2017 amounted to EUR 364,248.

Realisation of investments in 2017 (in EUR)	Plan	Achieved	Achieved Plan
New MV and LV structures	9,462,960	8,242,167	87.1%
Replacement, increase of capacity and refurbishment	6,175,640	6,204,094	100.5%
Other energy investments	3,673,000	3,883,142	105.7%
Non-energy investments	3,088,400	3,811,501	123.4%
TOTAL	22,400,000	22,140,904	98.8%

New MV and LV infrastructure

We constructed 29 new TSs (20/0.4 kV), 0.8 km of MV overhead power lines, 77.7 km of MV underground cables, and 22.5 km of LV underground cables.

Renovation, replacement, and an 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 38.5 km of MV overhead power lines, 6.3 km of MV underground cabling, 159.5 km of LV network, replaced MV switching blocks at 16 TSs and LV switching blocks at 33 TSs, replaced 2,258 MV utility poles and 1,418 LV utility poles, as well as 273 MV overvoltage conductors.

Other energy investments

Other energy investments are defined in detail in the Review of Major Investments in the 2017 section.

Review of major investments in 2017

OPL 2 x 110 kV DTS Ravne – DTS Mežica

The initiative to launch the process for implementing the NSP was submitted to the Ministry of Economy.

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

Bases for drawing up the draft NSP were prepared.

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

A BD design was prepared. An application for building permit was submitted to the Ministry.

DS Ločica

A building permit was obtained, as well as the DD and PT documentation prepared.

DS Pristava betonarna

New primary and secondary equipment was installed.

DS Mežica

New primary and secondary equipment was installed, with a new MV C12 cell for the planned 20 kV underground cable in the direction towards DTS Ravne upgraded.

DTS 110/20 kV Lava

Distance protection at 110 kV OPL bays was replaced.

DTS 110/20 kV Brestanica, DTS 110/20 kV Žalec

Two cells for earthing the transformer's neutral point were purchased, with the Petersen's coil upgraded.

DTS 110/20 kV Laško DES, DTS 110/20 kV Rogaška Slatina, DTS 110/20 kV Vuzenica, DTS 110/20 kV Mozirje, DTS 110/20 kV Trnovlje

Separators and oil-collector signalling devices were installed.

DTS 110/20/10 kV Podlog

A separator and oil-collector signalling devices were installed, with the AKU room arranged and AKU batteries replaced.

DTS 110/20 kV Ravne

MV equipment in the IV Sector was upgraded.

DTS 110/20 kV Slovenj Gradec

MV secondary equipment, RUPS and distance protection at 110 kV OPL bays were replaced. A separator and oil-collector signalling devices were installed.

DTS 110/20 kV Sevnica

A separator, oil-collector signalling devices and a UPS were installed.

DTS 110/20 kV Šentjur

A separator and oil-collector sig-

nalling devices were installed, with RUPS and AKU batteries replaced.

DTS 110/20 kV Velenje

The Petersen's coil system was upgraded, and the primary and secondary equipment for the OPL bay replaced (financed by the company SODO d.o.o.)

DS Nazarje 20 kV

J06 and J08 cells were reorganised due to the inclusion of new MV ducts in the direction towards DS Ljubno.

DTS 110/20 kV Brežice

The UPS system was installed.

Metering Devices

Regular and extraordinary substitution activities included the replacement of 19,338 meters.

Telecommunication network

In 2017, the introduction of cybersecurity in the process network began. Cybersecurity devices enabling, among other things, cyber protection of facilities and the encryption of data between DTSs and the centre, were implemented at the central location and in two large DTS power facilities. Prior to that, the network had to be upgraded with the MPLS functionality, enabling connection of security mechanism devices in a more reliable manner.

We purchased Extreme Networks Ethernet switches and robust Siemens/RuggedCom Ethernet switches. We ordered the Ethernet network and cybersecurity equipment for the secondary data centre at DTS Dravograd.

As regards the radio system, the digital radio dispatcher system was upgraded, enabling a better quality of speech transfer and connection of Motorola's microphones directly to the dispatcher console via USB.

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, as well as the NEC MA4000 control system server, including the NEC Expense Management System for tariffing and monitoring phone calls. The NEC technical support for the entire phone system and the Call Centre was ordered for a period of one year.

As regards the optical network, we concluded an Agreement for the provision of services with external contractors, and purchased a large amount of the underground and self-supporting ADSS optical cables, fibre optic closures, and modules for implementing current projects related to the construction of the optical network. The following projects were realised: Optical connection to the underground optical cable for DS Koštanjevic, optical connection to the self-supporting ADSS optical cable from the direction of DTS Brežice in the direction towards Bizeljsko, optical connection with the cabling of the OPL between DS Nazarje and TS Ljubno, underground optical cable (UOC) DTS Trnovlje – TS Sveže meso. Some short optical connections were also implemented for the purposes of marketing optical fibres through the company Stelkom.

A new WiFi system for the Headquarters (the existing access points will be moved from the Headquarters to other locations), was installed in the wireless network. Project documentation for the secondary Data Centre at DTS Dravograd and the Polycom technical support for the video conference system were ordered for a period of three years.

MV network automation

In 2017, we installed 6 RCS sets, automated TS Sveže meso and TS Iverka, and tested protection at 28 remote-controlled switchgears. The pilot project of parallel operation between the facilities of DTS Sevnica and DTS Mokronog is being implemented.



Installation of the self-supporting optical cable Bizeljsko
Author: Davor Lipej

DCC

We renewed the Maintenance Contract for the PSI software tool for 2017. In 2017, a new video wall consisting of ten 60-inch modules was tendered.

Business data processing

Two major information projects were implemented in 2017, namely the introduction of the Microsoft Dynamics AX ERP system (AXEC project) and the IBM Maximo EAM system (MXEC project). Both systems were provided for use at the end of 2017.

The following activities were also performed:

- The introduction of the eIS system for managing the audit trail of access to personal data (at the company Informatika d.d.),
- eIS upgrade (the introduction of GS1, the CPT (critical peak tariff) charging tariff),
- The introduction of the system for making an inventory of Fixed Assets by means of mobile terminals,

- Upgrading the ArcGIS system to a newer version,
- Upgrading the Engineering Base system to a new version,
- Upgrading the eDOC document system with new functionalities and integrations,
- Purchase and replacement of the obsolete firmware.

Business premises and inventory

In 2017, we invested in the reorganisation of business premises in the first and second floors of the Headquarters, with renovation work performed at the Control Units Ravne, Vuzenica and Sevnica, and the system for early fire detection and alarm upgraded on the building of the facility in Krško. Two air conditioners were installed at locations in Lava and Slovenj Gradec, with hydrants placed at the DU Velenje. The warehouse in Selce was reorganised, with the lights in the garage replaced and the roof rehabilitated. Renovation works were performed and air conditioners replaced at vacation homes in Bučanje and at apartments on the island of Pag. Three car parks were purchased at the Barbariga holiday camp.

Means of transport

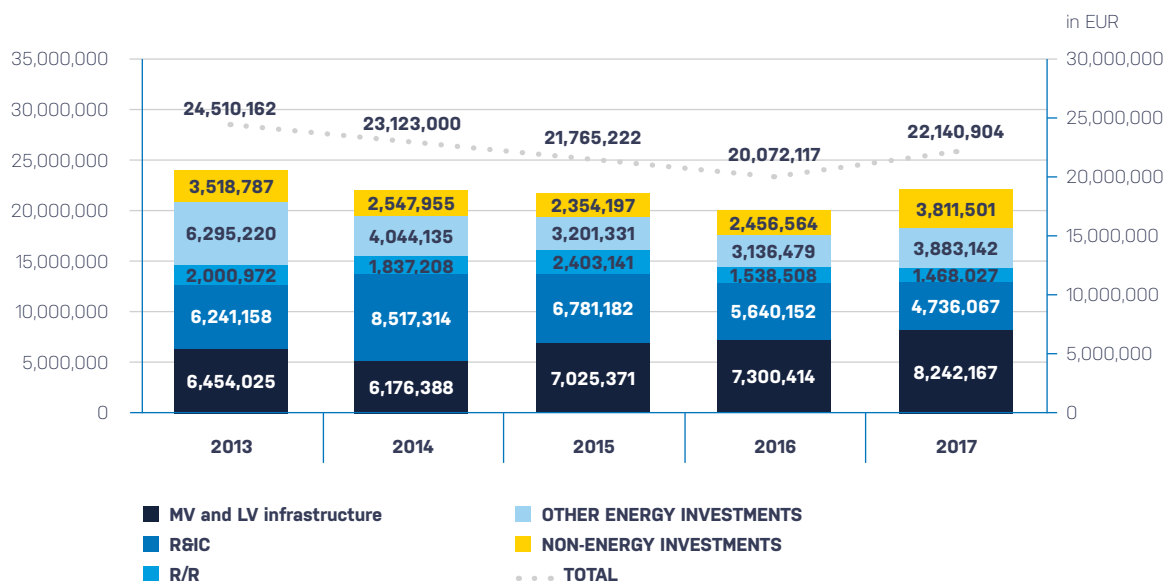
In 2017, 7 passenger vehicles, 17 light-duty vehicles, 1 mobile crane for heavy-duty vehicles and 2 trailers were purchased based on an executed Public Contract.

Ecology investments and major and small tools

Exterior lighting at Lava and Selce Control Units were replaced in 2017. The purchase and replacement of small tools were carried out in accordance with the requirements of distribution units.

The graph on the next page presents the value and structure of investments for the period from 2013 to 2017.

Value and structure of investments



9.2.3 Marketing Services of the Company Elektro Celje

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

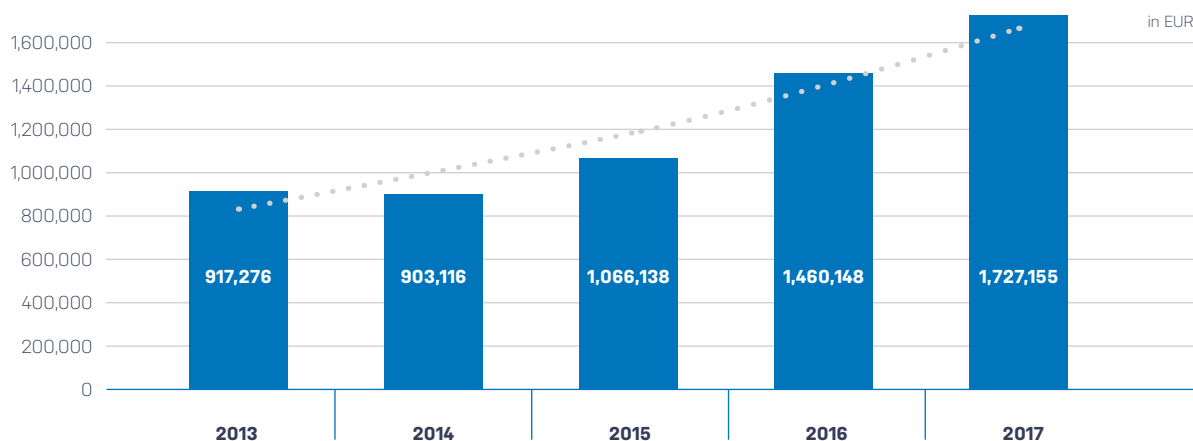
- Project preparation,
- Construction and electric installation works,
- Maintenance of third-party devices,
- Various measurements for customers,
- Other works in non-energy marketing activities (network switchovers, works at metering control devices, supervision during construction of facilities etc.).

In 2017, revenue from the sale of services to customers amounted to EUR 1,727,155, which is 18% more compared to the previous year, or 69% more than planned for 2017. The largest share is held by construction and electric installation works and other works of non-energy marketing activities. It is precisely in these fields that the revenue ratio increased in 2017 compared to 2016.

The planned revenue was exceeded due mainly to:

- The planned execution of preparation of offers and communication with potential subscribers to our services,
- Increased demand for these services, or increased investment of external investors in the construction of the new and renovation of the existing electricity infrastructure.

Revenue from sale of services to customers





→ Sustainable Development

End-users, both business and household customers, new heating modes, gradual electrification of transport and various forms of renewable energy sources require more efficient distribution networks that must be ensured by electricity distribution companies.

Our goal is to build sustainable infrastructure and promote inclusive and sustainable industrialisation, hand in hand with nature, for environmental concern is one of the important factors in the distribution of electricity.



10 OPERATION AND PERFORMANCE ANALYSIS

The Operation and Performance 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

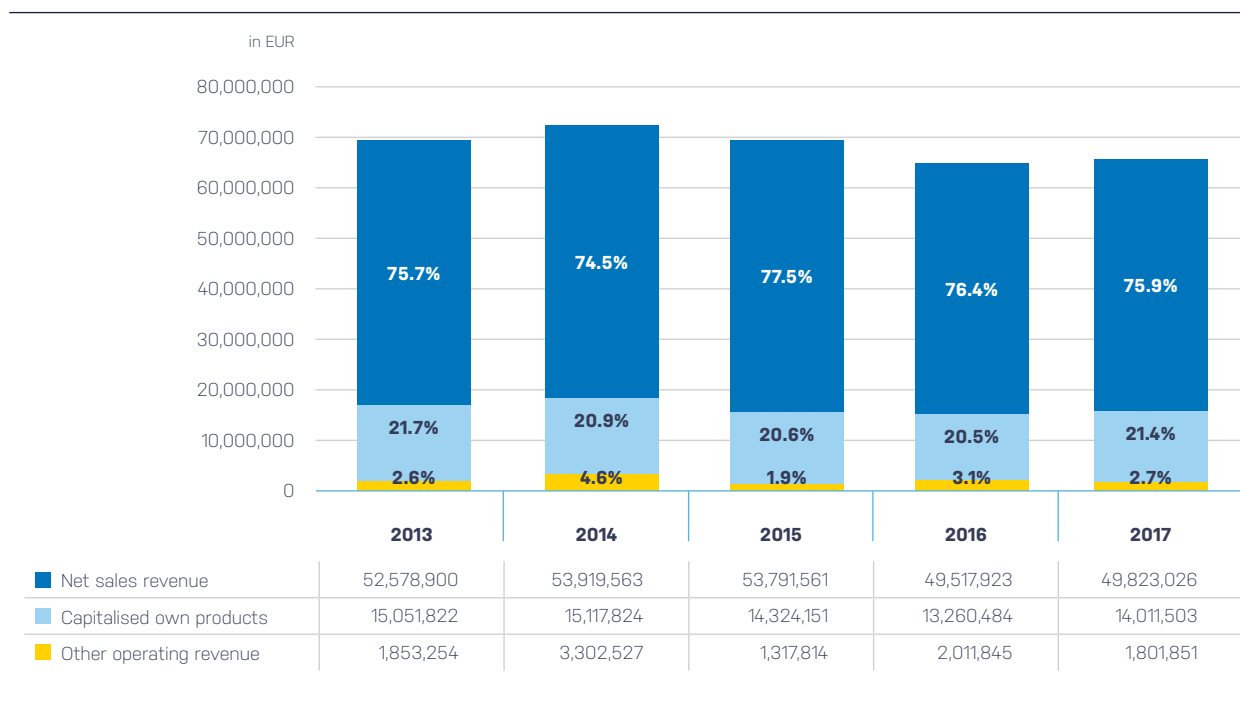
10.1.1 Profit or Loss

Operating revenue of the company Elektro Celje in the amount of EUR 65,636,380 represents 97.3% of the

total income of the company, and includes net revenues from the sale, revenues acquired by building its

own fixed assets, and other operating revenues.

Operating Revenue of the company Elektro Celje



Net sales revenue refers mainly to revenue from lease and maintenance of infrastructure and provision of services for SODO, to revenue from the provision of services to customers and to revenue from the lease.

Revenue from lease and maintenance of infrastructure and provision of services for SODO in the amount of EUR 47,533,168 represents the greatest share in the structure of operating revenue (72.4%), and were generated within the framework of

the plan for this period; from which, EUR 26,002,292 from leasing the infrastructure (reimbursement of the depreciation cost and return on regulatory asset base), and EUR 22,323,119 from provision of services (reimbursement of costs of operation

and maintenance). They also include the reconciliation for the regulatory year 2017 in the amount of EUR 3,074,131, final reconciliations for the regulatory years 2016 (EUR -176,776) and 2015 (EUR 78,632), as well as negative deviation of the reconciliation for 2014 in the amount of EUR 792,243 from incentives reflecting the regulation regarding quality.

Revenue from sales of services in the amount of EUR 2,289,858 includes Lease fees and performance of electric installation services for external clients. The latter was generated in the amount of EUR 1,727,155, which is 68.7% more than planned, and 18.3% more than calculated for the same period of the previous year.

Revenue from the construction of own fixed assets was generated in the amount of EUR 14,011,503, which is 7.2% less than planned for

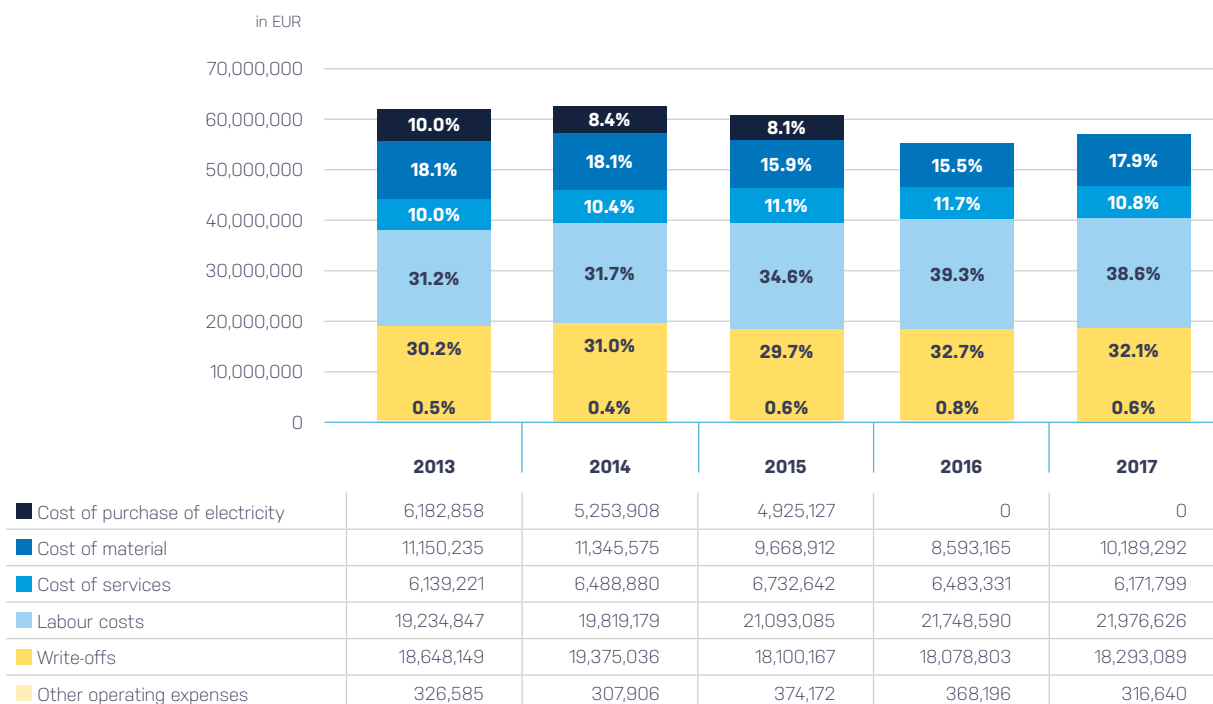
this period. The value of the material used amounted to EUR 7,828,524, the value of work performed to EUR 5,206,788 and the value of the motor vehicle transport to EUR 976,191.

Other operating revenue in the amount of EUR 1,801,851 comprises operating revenue from revaluation, generated with the sale of decommissioned material and the difference between the sales and carrying values in the sale of Fixed Assets (EUR 145,587), reversal of provisions from freely acquired Fixed Assets, and from average connection fees charged and received prior to 1 July 2007 (EUR 617,044), awards and contributions withheld from employment of persons with disabilities over the mandatory quota, to which we are entitled pursuant to the Vocational Rehabilitation and Employment of Disabled Persons Act, and elimination of accruals and deferrals for EU grants

(EUR 232,178), compensation received from the insurance company and others (EUR 784,909), as well as revenue from the reversal of adjustments to receivables and reduction in VAT obligations (EUR 22,133). Other operating revenue was 34.9% higher than planned in 2017 and 10.4% lower than those achieved in 2016. Revenue from the reversal of provisions in 2016 included revenue from the reversal of provisions for the payment of the balance of holiday pay for 2015, amounting to EUR 595,776. Because of the severe weather conditions that affected the electricity distribution area of Elektro Celje at the end of 2017, EUR 644,808 more in compensation was received from the insurance company than in 2016.

Operating expenses of Elektro Celje amounted to EUR 56,947,446 representing a 99.1 percent share of total expenses.

Operating Expenses of the Company Elektro Celje



Cost of material in the amount of EUR 10,189,292 mainly include the following cost of material: implementation of investments carried out in-house of EUR 7,831,140 (EUR 6,383,999 in 2016), fuel and energy in the amount of EUR 713,986 (EUR 658,883 in 2016), performance of services for customers in the amount of EUR 746,230 (EUR 527,459 in 2016), maintenance in the amount of EUR 452,254 (EUR 623,259 in 2016), elimination of damage in the amount of EUR 270,626 (EUR 138,093 in 2016) and acquisition of small tools inventory in the amount of EUR 142,986 (182,259 EUR in 2016). Cost of material increased by 2% compared to the planned amount for 2017 predominantly because of higher material costs related to: services to customers by EUR 440,610 (due to the completion of a larger scope of services to customers in 2017), elimination of damage which was 8.3% higher (elimination of the consequences of the severe weather conditions at the end of 2017), and energy by 4.9% (this amount includes the cost of aggregate fuel in the amount of EUR 47,486 which were used in the rehabilitation of the December damage). Lower cost of material relative to the planned amount was recorded in expenses for purchasing the small tool inventory and packaging (37.2% lower) and maintenance (24.7% lower).

Cost of services in the amount of EUR 6,171,799 predominantly comprise the cost of services: maintenance in the amount of EUR 1,935,898 (EUR 2,002,678 in 2016), payment transactions, banking services and insurance premiums in the amount of EUR 1,275,068 (EUR 1,271,729 in the year 2016), information technology in

the amount of EUR 1,075,465 (EUR 1,361,881 in 2016), intellectual and personal services in the amount of EUR 535,051 (EUR 488,894 in 2016), services related to the provision of services to customers in the amount of EUR 282,069 (EUR 313,978 EUR 2016), services to eliminate damage in the amount of EUR 130,293 (EUR 100,280 in 2016), transport services in the amount of EUR 269,265 (EUR 282,941 in 2016) and the cost of labour contracts in the amount of EUR 179,697 (EUR 176,483 in 2016). They were 4.9% lower than those planned for this period, mainly due to lower costs: IT services (19% lower), cost of developing system studies (43.3% lower), maintenance services (6.2% lower) and elimination of damage (34.9% lower). Cost of services to customers were EUR 144,540 higher than planned due to the larger volume of the services provided to customers in 2017.

Labour costs in the amount of EUR 21,976,626 attained a 38.3 percent share of total expenses and were higher than planned for 2017 (3.3% higher) and higher than achieved for 2016 (1.1% higher). The starting salary in the company at the expense of reconciliation with the growth of retail prices (quarterly reconciliation for 85% inflation) increased by 1.5%, from EUR 611.22 for January 2017 to EUR 620.61 for December 2017. Other labour costs in the amount of EUR 2,844,124 include provisions for long-service bonuses and severance pays in the amount of EUR 320,598 and other labour costs, which include the cost of transport to and from work, reimbursement for meals during work, a proportional part of holiday pay, reimbursement for edu-

cation as well as other benefits and solidarity aid in accordance with the company's collective agreement.

Write-downs and write-offs in 2017 amounted to EUR 18,293,089 and included amortisation and depreciation in the amount of EUR 17,478,892, 2.3% less than planned for the observed period, operating expenses from revaluation of fixed assets (write-downs and write-offs due to incurred damage in the energy infrastructure in the amount of EUR 583,750 and loss for the elimination or sale of fixed assets in the amount of EUR 214,574) in the amount of EUR 798,324 and operating expenses from the revaluation of current assets (write-down, write-offs and adjustments of trade receivables in the process of bankruptcies and receiverships of sued receivables and receivables which at the balance sheet date were more than 90 days past due and value adjustments of inventories of materials) in the amount of EUR 15,873.

Other operating expenses in the amount of EUR 316,640 were 16.1% lower than planned and 14% lower compared to those achieved in the same period of the previous year mainly due to lower compensation costs for the use of building land (19.3% lower), awards to pupils and students (51.1% lower), and costs related to non-business purposes (9.4% lower).

Financing revenue and expenses

The net financial result of Elektro Celje in 2017 has improved considerably compared to the previous year.

Item (in EUR)	Company Elektro Celje				
	Achieved 2013	Achieved 2014	Achieved 2015	Achieved 2016	Achieved 2017
Financial revenue	370,001	632,382	145,345	470,426	1,805,998
Financial expenses	-2,120,567	-1,284,021	-1,082,192	-642,354	-455,770
Net flow	-1,750,566	-651,639	-936,847	-171,928	1,350,228

Financial revenue in the amount of EUR 1,805,998 refers mainly to dividends from the subsidiary ECE in the amount of EUR 1.525 million (EUR 408,791 in 2016) and investments and shares in other companies in the amount of EUR 7,400 (EUR 7,430 in 2016), interest accrued from outstanding final and preliminary regulatory reconciliations for the year 2015 in the amount of EUR 207,157, financial revenue from default interest arising from operating receivables in the amount of EUR 33,412 and default interest for late payment of network charges in the amount of EUR 29,240).

Financial expenses in the amount of EUR 455,770 include mainly interest

on borrowings in the amount of EUR 383,449 (EUR 540,474 in 2016) and EUR 70,519 for net interest expense from provisions for retirement benefits, long-service bonuses and solidarity aid (EUR 101,160 in 2016).

Other revenue from extraordinary activities relates mainly to received reimbursement of legal costs and bailiffs, recovered written-off receivables and other revenue realized in the amount of EUR 10,652.

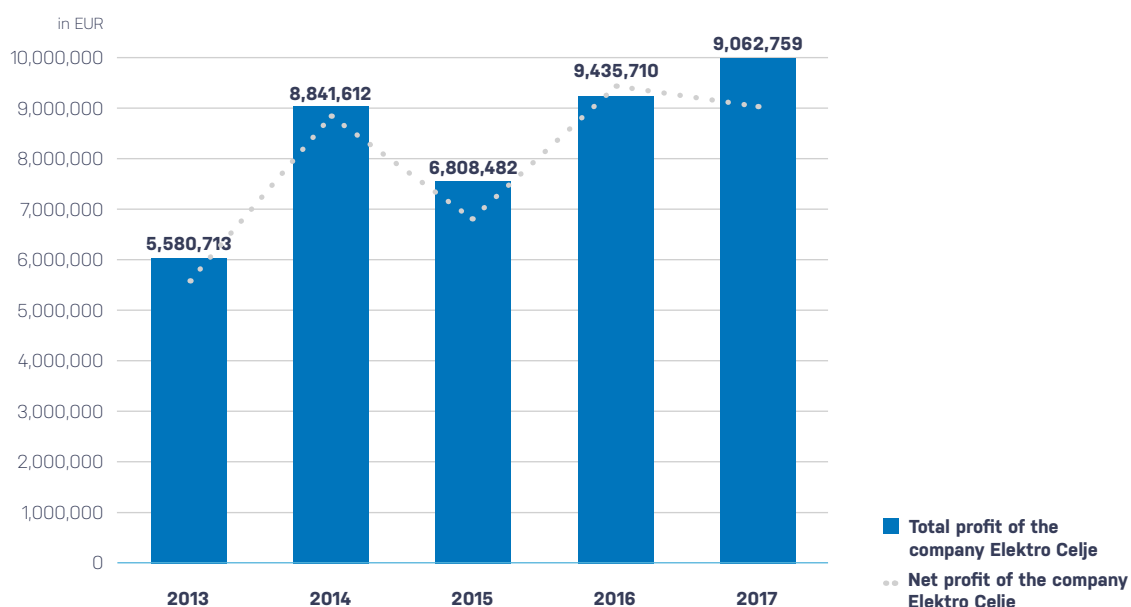
Other expenses from extraordinary activities amounted to EUR 53,348 and include compensation in the amount of EUR 27,604, annuities and recourse claims in the amount of EUR 15,082, donations amounting to

EUR 9650 and other expenses in the amount of EUR 1,012.

Profit or loss

During the period January–December 2017, Elektro Celje operated with a total profit of EUR 9,996,466, which is 8% higher than in the same period last year and 0.2% higher than planned for the year 2017. Total revenue amounted to EUR 67,453,030 (3.3% higher than in the same period last year, and 0.9% higher than planned for 2017), while total expenses amounted to EUR 57,456,564 (2.6% higher than in the same period of the previous year, and 1% higher than planned for 2017).

Profit or Loss of the Company Elektro Celje



10.1.2 Assets and Liabilities

Assets of Elektro Celje as at 31 December 2017 amounted to EUR 279,697,695 and were 1.3% higher than on 31 December 2016.

Assets (in EUR)	The company Elektro Celje				
	31 December 2017	Share (in %)	31 December 2016	Share (in %)	Index 2017/2016
Long-term assets	264,121,289	94.4%	261,663,678	94.8%	101
Intangible assets and long-term deferred expenses and accrued revenue	3,644,997	1.3%	1,544,031	0.6%	236
Tangible fixed assets	247,578,613	88.5%	246,036,537	89.1%	101
Long-term financial investments	7,653,937	2.7%	7,579,228	2.7%	101
Long-term operating receivables	3,552,634	1.3%	4,733,721	1.7%	75
Deferred tax assets	1,691,108	0.6%	1,770,161	0.6%	96
Current assets	11,750,281	4.2%	11,579,999	4.2%	101
Inventories	1,111,563	0.4%	1,161,017	0.4%	96
Short-term operating receivables	10,467,657	3.7%	10,238,293	3.7%	102
Cash	171,061	0.1%	180,689	0.1%	95
Short-term accrued revenue and deferred expenses	3,826,125	1.4%	2,816,313	1.0%	136
Total assets	279,697,695	100.0%	276,059,990	100.0%	101

The value of **long-term property rights** in the year 2017 increased by EUR 2,422,539 compared to the previous year, mainly due to investments in the AX and MX information systems.

Tangible fixed assets, representing 88.5% of the balance sheet total increased by 0.6%. Investments in 2017 reached the amount of EUR 22,140,904, accounting for 98.8% of projected investments.

Long-term investments include investments in the subsidiary companies ECE and MHE - Elpro, and investments in shares of Zavarovalnica Triglav d.d., Informatika d.d. and Stelkom d.o.o., which increased by the value of the acquisition in July in the amount of EUR 57,837. The value of shares of Zavarovalnica Triglav d.d. increased by EUR 16,873 in 2017 due to a revaluation.

Long-term operating receivables amounted to EUR 3,552,634. They were 25% lower than the total in 2016. They relate primarily to long-term receivables from SODO in the amount of EUR 3,440,532 (EUR 4,718,472 in 2016).

Deferred tax assets in the amount of EUR 1,691,108 were formed mainly from long-term accrued expenses and deferred revenue for fixed assets acquired free of charge, provisions for long-term benefits and short-term receivables.

Value of inventories at the balance sheet date was 4.3% lower compared to the previous year. The index of average inventory commitment amounted to 71 days (91 days in 2016), with the average purchase price 3.6% higher than in the previous year.

Short-term operating receivables totalled EUR 10,467,657, a 2.2% increase over the previous year. They relate primarily to short-term trade receivables in the amount of EUR 10,061,055 (EUR 9,954,904 in 2016) and short-term receivables from others in the amount of EUR 348,556 (EUR 210,818 in 2016). They are presented in detail in Section 15.4.6.

Short-term accrued revenue and deferred expenses pertain predominantly to receivables from the insurance company regarding compensation from the December storms (EUR 537,167), revenue from accrued projects (EUR 133,290), accrued expenses (EUR 62,360), the preliminary reconciliation in 2017 (EUR 3,074,131) and one-third of eligible costs which have been recognized in the RF 2012–2014 in the amount of EUR 17,027 and will, in accordance with the Act determining the methodology for charging the network charge, be settled in 2018.

Equity and liabilities (in EUR)	The company Elektro Celje				
	31 December 2017	Share (in %)	31 December 2016	Share (in %)	Index 2017/2016
Equity	207,146,133	74.1%	200,929,373	72.8%	103
Provisions and long-term accrued expenses and deferred revenue	19,740,802	7.1%	19,132,507	6.9%	103
Long-term liabilities	28,630,688	10.2%	34,146,052	12.4%	84
Short-term liabilities	23,452,968	8.4%	21,156,172	7.7%	111
Short-term accrued expenses and deferred revenue	727,104	0.2%	695,886	0.3%	104
Total equity and liabilities	279,697,695	100.0%	276,059,990	100.0%	101

Equity of the company as at 31 December 2017 amounted to EUR 207,146,133, accounting for 74.1% of liabilities. It increased by 3.1% compared to 2016. 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, 3,544,382 shares (14.65%) are held by other legal persons, 784,675 shares (3.25 %) by natural persons and 260,152 shares (1.07%) by the company Elektro Celje.

In 2017, the Company acquired 32,491 treasury shares in the amount of EUR 93,966. In total the company possesses 260,152 treasury shares, representing 1.08% of all shares of the company in the amount of EUR 635,799 (EUR 2.44 per share). Acquired treasury shares are a constituent part of total

equity and are deducted from it.

Provisions (for long-service bonuses, severance pay and lawsuits) and long-term accrued expenses and deferred revenue (from received government grants, acquisitions of fixed assets free of charge and charged average connection costs) were, due to elimination or use of these provisions and creation of new ones, 3.2% higher compared to the state at the end of the previous year.

Long-term liabilities of the company refer to non-current portions of investment loans from banks as at 31 December 2017 and amounted to EUR 27,702,950, financial liabilities arising from financial leases for the software (ERP - MS Dynamics AX) in the amount of EUR 786,206, long-term operating liabilities arising from software licenses (ERP - MS Dynamics AX system) in the amount of EUR 130,139 and deferred

tax liabilities in the amount of EUR 11,393.

Short-term liabilities of the company mainly refer to current portions of long-term bank loans amounting to EUR 11,237,733, short-term liabilities from operations for third-party account (EUR 3,655,124), trade payables (EUR 4,547,882) and short-term liabilities to employees (EUR 3,120,054). They were 10.9% higher compared to the previous year mainly due to an increase in trade payables (67.6% higher than in 2016) and increase in liabilities to employees (46% higher than in 2016).

Short-term accrued expenses and deferred revenue in the amount of EUR 727,104 relate primarily to accrued costs for unused holiday pay of employees for the year 2017 in the amount of EUR 608,586.

10.1.3 Cash Flow Statement

Cash Flow (in EUR)	The company Elektro Celje	
	31 December 2017	31 December 2016
Net operating cash flow	13,565,718	12,312,952
Net investing cash flow	-4,412,196	-6,578,608
Net financing cash flow	-9,163,150	-5,577,778
Change in net cash and cash equivalents	-9.628	156.566

Cash of the company Elektro Celje increased by EUR 9,628 in 2017; positive cash flow from operating activities exceeded the negative cash flow from investing and financing activities.

Cash flow from operating activities increased by EUR 1,252,766 in 2017 compared to 2016, predominantly due to increased inflows from operations due to network charges.

Cash flow from investing activities showed a surplus of outflows over inflows and was EUR 2,166,412 lower compared to the previous year mainly due to higher inflows from participation in the profit of the subsidiary ECE

(EUR 1,532,586) and higher inflows from the disposal of tangible fixed assets (EUR 824,305). The latter also includes transfer of valuable consideration of 110 kV lines and devices to the company ELES d.o.o.

Inflows and repayments of long-term and short-term financial obligations primarily contributed to the negative

cash flow from financing activities; interest payments on borrowings (EUR 380,706), repayment of the long-term revolving credit (the total amount of which is EUR 8.55 million) and repayment of the current part of long-term investment loans (EUR 11,252,048) were implemented. Inflows include the use of the long-term revolving loan granted in the total

amount of EUR 7.75 million and 5th and 6th instalments of the EIB loan in the amount of EUR 6 million. The total amount of financial liabilities to banks from investment loans as at 31 December 2017 amounted to EUR 38,954,483 (with interest comprising EUR 13,800 of the amount).

10.1.4 Performance Indicators of the Company Elektro Celje

A. FINANCING INDICATORS (INVESTMENTS)

in EUR	31 Dec. 2014	31 Dec. 2015	31 Dec. 2016	Plan 2017	31 Dec. 2017	Graphical comparison
Equity	192,935,102	196,443,080	200,929,373	204,961,729	207,146,133	
Liabilities	264,813,515	272,260,993	276,059,990	278,718,612	279,697,695	
Equity financing rate	72.86%	72.15%	72.78%	73.54%	74.06%	
Equity plus long-term debt (including provisions) and long-term accrued expenses and deferred revenue	248,731,690	249,637,497	254,207,932	258,064,081	255,517,623	
Liabilities	264,813,515	272,260,993	276,059,990	278,718,612	279,697,695	
Long-term financing rate	93.93%	91.69%	92.08%	92.59%	91.35%	

B. INVESTMENT INDICATORS

in EUR	31 Dec. 2014	31 Dec. 2015	31 Dec. 2016	Plan 2017	31 Dec. 2017	Graphical comparison
Fixed assets (carrying values)	239,718,420	243,946,137	246,036,537	249,310,624	247,578,613	
Assets	264,813,515	272,260,993	276,059,990	278,718,612	279,697,695	
PP&E to total assets ratio	90.52%	89.60%	89.12%	89.45%	88.52%	
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	252,843,429	258,576,301	259,893,517	262,445,402	262,430,181	
Assets	264,813,515	272,260,993	276,059,990	278,718,612	279,697,695	
Long-term assets rate	95.48%	94.97%	94.14%	94.16%	93.83%	
in EUR	2014	2015	2016	Plan 2017	2017	
Actual investment	23,123,000	21,765,222	20,072,117	22,400,000	22,140,904	
Planned investment	21,500,000	20,300,000	20,000,000	22,400,000	22,400,000	
Investment realisation rate	107.55%	107.22%	100.36%	100.00%	98.84%	
Investing cash flow	23,123,000	21,765,222	20,072,117	22,400,000	22,140,904	
Net revenue from sales	53,919,563	53,791,561	49,517,923	49,328,934	49,823,026	
CAPEX to net revenue from sales ratio*	42.88%	40.46%	40.54%	45.41%	44.44%	

* Selected indicators for SSH for 2017 are calculated in accordance with the methodology of SSH

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

C. HORIZONTAL FINANCIAL STRUCTURE RATIOS						
in EUR	31 Dec. 2014	31 Dec. 2015	31 Dec. 2016	Plan 2017	31 Dec. 2017	Graphical comparison
Equity	192,935,102	196,443,080	200,929,373	204,961,729	207,146,133	
Fixed assets (carrying values)	239,718,420	243,946,137	246,036,537	249,310,624	247,578,613	
Equity to operating fixed assets ratio	0.805	0.805	0.817	0.822	0.837	
Liquid assets	106,748	24,123	180,689	361,688	171,061	
Current liabilities	15,213,956	21,825,063	21,156,172	20,034,531	23,452,968	
Liquid assets to short-term liabilities ratio	0.007	0.001	0.009	0.018	0.007	
in EUR	31 Dec. 2014	31 Dec. 2015	31 Dec. 2016	Plan 2017	31 Dec. 2017	
Sum of liquid assets and short-term receivables	8,915,432	10,926,409	10,418,982	11,051,688	10,638,718	
Current liabilities	15,213,956	21,825,063	21,156,172	20,034,531	23,452,968	
Acid-test ratio	0.586	0.501	0.492	0.552	0.454	

D. ECONOMIC INDICATOR						
in EUR	2014	2015	2016	Plan 2017	2017	Graphical comparison
Operating revenue	72,339,914	69,433,526	64,790,252	65,764,964	65,636,380	
Operating expenses	62,590,484	60,894,104	55,272,085	56,310,730	56,947,446	
Operating efficiency ratio	1.156	1.140	1.172	1.168	1.153	

* Selected indicators for SSH for 2017 are calculated in accordance with the methodology of SSH

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

E. PROFITABILITY INDICATORS

in EUR	2014	2015	2016	Plan 2017	2017	Graphical comparison
EBITDA	29,124,466	26,639,589	27,596,970	27,624,774	26,982,023	
Gross operating profit	72,339,914	69,433,526	64,790,252	65,764,964	65,636,380	
EBITDA margin*	40.26%	38.37%	42.59%	42.01%	41.11%	
EBIT	9,749,430	8,539,422	9,518,167	9,454,234	8,688,934	
Gross operating profit	72,339,914	69,433,526	64,790,252	65,764,964	65,636,380	
EBIT margin	13.48%	12.30%	14.69%	14.38%	13.24%	
Net profit	8,841,612	6,808,482	9,435,710	9,112,577	9,062,759	
Average equity (excl. net income from the current year)	185,280,628	191,284,850	193,968,372	198,843,552	199,039,520	
Net return on equity (ROE)	4.77%	3.56%	4.86%	4.58%	4.55%	
Net profit	8,841,612	6,808,482	9,435,710	9,112,577	9,062,759	
Average assets	263,527,498	268,537,254	274,160,492	276,521,470	277,878,843	
Return on assets (ROA)*	3.36%	2.54%	3.44%	3.30%	3.26%	
in EUR	31 Dec, 2014	31 Dec, 2015	31 Dec, 2016	Plan 2017	31 Dec, 2017	
Sum of dividends for the fiscal year	2,419,242	3,145,015	3,234,527	2,806,223	2,636,124	
Average share capital	100,953,201	100,953,201	100,953,201	100,953,201	100,953,201	
Dividends to share capital ratio	0.024	0.031	0.032	0.028	0.026	
Dividend paid out in the year	2,419,242	3,145,015	3,234,527	2,806,650	2,636,124	
Average equity	189,701,434	194,689,091	198,686,227	203,399,840	204,037,753	
Dividend to equity ratio	1.28%	1.62%	1.63%	1.38%	1.29%	

F. LABOUR PRODUCTIVITY INDICATOR

in EUR	2014	2015	2016	Plan 2017	2017	Graphical comparison
Gross value added	48,943,645	47,732,674	49,345,560	48,909,594	48,958,649	
Number of employees per hours worked	635	633	631	630	624	
Gross value added per employee*	77,077	75,407	78,202	77,634	78,443	

* Selected indicators for SSH for 2017 are calculated in accordance with the methodology of SSH

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

G. TECHNICAL INDICATORS						
	2014	2015	2016	Plan 2017	2017	Graphical comparison
SAIDI (System Average Interruption Duration Index)*	29.71	27.40	18.06	22.38	30.38	
SAIFI (System Average Interruption Frequency Index)*	0.79	0.70	0.48	0.47	0.81	
MAIFI (Momentary Average Interruption Frequency Index)	5.71	3.07	3.11	3.46	4.51	
Losses (MWh)	100,613	95,857	95,823	96,000	90,870	
Electricity distributed (MWh)	1,868,300	1,928,787	1,944,411	1,951,000	2,001,430	
Losses to electricity distributed ratio*	5.39%	4.97%	4.93%	4.92%	4.54%	
Electricity supplied in the time interval (MW)	225	231	232	234	239	
Peak power in the time interval (MW)	309	306	316	308	335	
Load factor (LF)	0.73	0.75	0.74	0.76	0.71	
Electricity distributed (MWh)	1,868,300	1,928,787	1,944,411	1,951,000	2,001,430	
Standardised network length (km)**	585	599	591	560	584	
Power distribution per standardised network length	3.194	3.220	3.290	3.484	3.427	
Number of connection approvals issued by consumer category						
– MV (1–35 kV)	24	33	38	37	16	
– 0.4 kV measured power	132	158	157	155	145	
– 0.4 kV without measured power	728	774	813	785	857	
– households	1,449	1,704	1,856	1,822	1,405	
in EUR	2014	2015	2016	Plan 2017	2017	Graphical comparison
Standardised network length (km)**	585	599	591	560	584	
Number of employees	632	632	632	630	628	
Standardised network length per employee	0.93	0.95	0.94	0.89	0.93	

* Selected indicators for SSH for 2017 are calculated in accordance with the methodology of 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	2014	2015	2016	Plan 2017	2017	Graphical comparison
Operating expenses of regulated activity (in EUR)	45,993,267	45,067,062	40,730,638	40,327,385	41,169,008	
Electricity distributed (MWh)	1,868,300	1,928,787	1,944,411	1,951,000	2,001,430	
OPEX per electricity distributed*	25	23	21	21	21	
Operating expenses of regulated activity (in EUR)	45,993,267	45,067,062	40,730,638	40,327,385	41,169,008	
Standardised network length (km)**	585	599	591	560	584	
OPEX per standardised network length	78,621	75,237	68,918	72,013	70,495	
Investment in regulated activity (in EUR)	22,605,214	21,279,340	19,875,252	22,315,266	21,606,689	
Electricity distributed (MWh)	1,868,300	1,928,787	1,944,411	1,951,000	2,001,430	
Investment per electricity distributed	12	11	10	11	11	
Labour costs of regulated activity (in EUR)	14,279,828	15,196,660	15,898,245	15,237,838	16,297,584	
Number of customers	169,414	170,006	170,688	171,269	171,340	
Labour costs per customer (in EUR)	84	89	93	89	95	
Operating revenue of regulated activity (in EUR)	55,960,882	53,646,613	49,533,777	49,545,147	49,676,656	
Electricity distributed (MWh)	1,868,300	1,928,787	1,944,411	1,951,000	2,001,430	
Operating revenue per electricity distributed	30	28	25	25	25	

* Selected indicators for SSH for 2017 are calculated in accordance with the methodology of 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	2014	2015	2016	Plan 2017	2017	Graphical comparison
Financial debt	42,881,872	45,387,489	44,996,904	46,060,600	39,730,756	
Equity	192,935,102	196,443,080	200,929,373	204,961,729	207,146,133	
Financial debt/Equity	0.222	0.231	0.224	0.225	0.192	
Financial debt	42,881,872	45,387,489	44,996,904	46,060,600	39,730,756	
EBITDA (for a period of 12 months)	29,124,466	26,639,589	27,596,970	27,624,774	26,982,023	
Financial debt/EBITDA	1.472	1.704	1.631	1.667	1.472	
EBITDA (for a period of 12 months)	29,124,466	26,639,589	27,596,970	27,624,774	26,982,023	
Financial expenses from financial liabilities (for a period of 12 months)	1,280,888	977,927	540,474	430,000	383,449	
EBITDA/Financial expenses from financial liabilities	23	27	51	64	70	
Current assets	10,308,179	12,306,938	11,579,999	12,219,610	11,750,281	
Current liabilities	15,213,956	21,825,063	21,156,172	20,034,531	23,452,968	
Current ratio	0.678	0.564	0.547	0.610	0.501	
Financial debt	42,881,872	45,387,489	44,996,904	46,060,600	39,730,756	
Average equity	189,701,434	194,689,091	198,686,227	203,399,840	204,037,753	
Financial debt/Equity (SID bank)	0.226	0.233	0.226	0.226	0.195	
Net financial debt	42,775,124	45,363,366	44,816,215	45,698,912	39,559,695	
EBITDA	29,124,466	26,639,589	27,596,970	27,624,774	26,982,023	
Net financial debt/EBITDA (SID bank)*	1.469	1.703	1.624	1.654	1.466	

* Selected indicators for SSH for 2017 are calculated in accordance with the methodology of SSH

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

Financing indicators point to the share of equity, debt and accruals in the structure of total equity in liabilities and are important when adopting long-term decisions on the funding policy. Long-term financing in liabilities amounted to 91.4%, while equity in liabilities accounted for 74.1%.

The investment indicators are important mainly when adopting decisions on investment projects. Values achieved in 2017 were lower compared to 2016. The share of tangible fixed assets in total assets was 88.5%, which is 0.6 percentage points less than in 2016. The reason is the simultaneous increase of value of fixed assets (by 0.6%) and of total assets (by 1.3%). Total long-term assets accounted for 93.8% of total assets with actual investment amounting to 98.8 % of the annual plan.

The indicators of horizontal financial structure were appropriate. The equity to fixed asset ratio shows that as of 31 December 2017, 83.7% of property, plant and equipment was covered by equity, a higher proportion than in 2016. The liquid assets to short-term liabilities and acid-test ratios indicate the Company's solvency. The liquid assets to short-term liabilities ratio decreased compared to the previous year mainly due to higher short-term financial liabilities.

The operating efficiency ratio refers to the ratio between operating revenue and operating expenses. It stood at 1.2 for 2017 which is 1.3% lower than projected or 1.6% lower than achieved in 2016.

The EBITDA margin (ratio between operating revenue and operating expenses less depreciation) is a benchmark for business performance and profitability. It amounted to 41.1% in 2017. In 2017, ROA stood at 3.3%, ROE at 4.6%, and dividend to equity ratio at 1.3%.

Value added per employee in 2017 amounted to EUR 78,443, and was higher than planned (EUR 809 higher) and higher than achieved in the previous year (EUR 241 higher). The indicator value has improved due to the lower average number of employees per hours worked (an average of 7 employees less than in 2016).

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 2017 point to less favourable (higher) values than planned and higher than achieved in

2016. The reasons are listed in Section 11.2.1.2 (System operation risk).

The share of losses per unit of electricity distributed in 2017 stood at 4.54%, while recognised losses as per the Energy Agency regulatory framework amounted 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, with those measured per 1 km of standardised network length amounting to EUR 70,495. Labour cost of regulated activity per customer amounted to EUR 95, 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 would be sufficient to liquidate Company's total financial liabilities in 1.5 years. In 2016, that would have taken 1.6 years. The debt ratio in 2017 stood at 0.19.

Indicators referring to the Company's commitment to banks show that in 2017, the Company maintained an appropriate financial position and fulfilled all its financial commitments under contracts concluded with banks.

10.2 Performance Analysis of the Elektro Celje Group

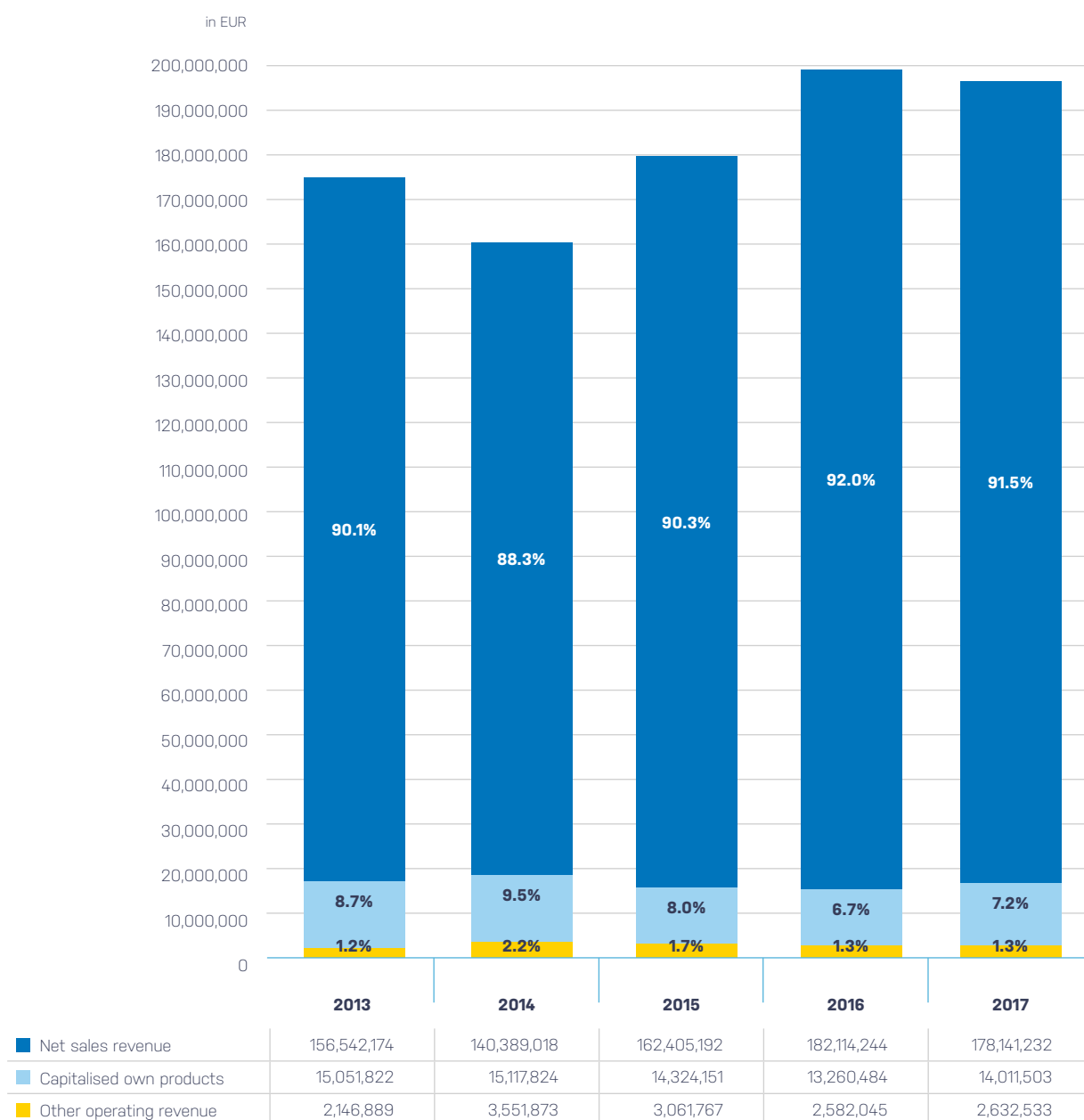
10.2.1 Profit or Loss

Operating revenue of the Elektro Celje Group in the amount of EUR 194,785,268 represent 99.7% of to-

tal revenue and include net revenue from sales, revenue from construction of own fixed assets and other

operating revenue.

Poslovni prihodki Skupine Elektro Celje



Net revenue from sales relate predominantly to revenue from electricity trading, leasing and maintenance of infrastructure and provision of services for SODO and revenue from the provision of services to customers. They are 2.2% lower compared to the previous year, mainly due to lower revenue from electricity sales (3.1% lower than in 2016).

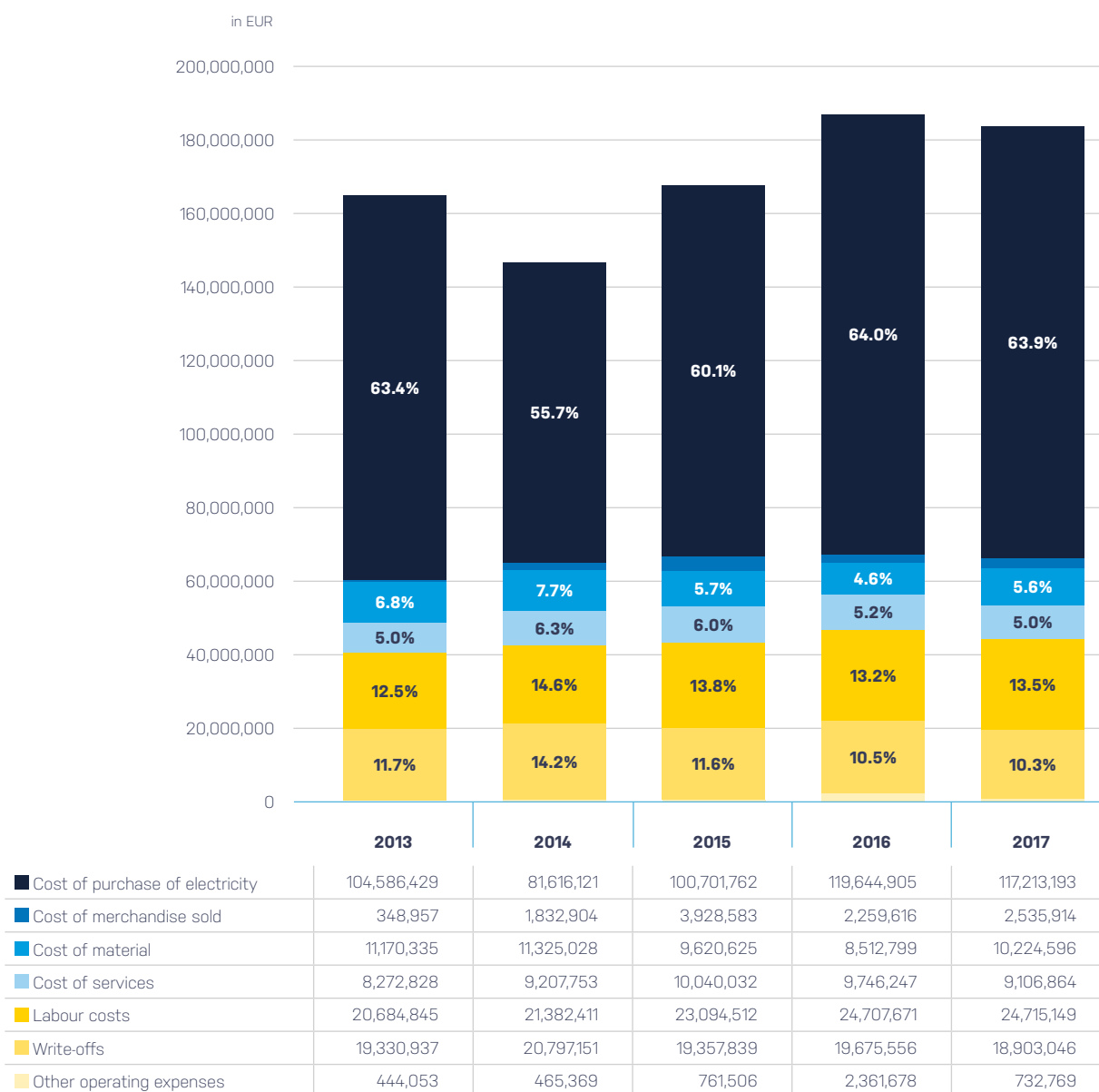
Revenue from construction of own fixed assets created by the parent company were 5.7% higher than in 2016.

Other operating revenue in the amount of EUR 2,632,533 were 2% higher than in 2016, primarily due to higher compensation received. Received compensation in the amount of EUR 1,219,957 (EUR 140,641 in 2016) primarily include revenue arising from

settlement with the IT company in the amount of EUR 320,000 and insurance compensation received for material damage from the extreme weather conditions in December in the amount of EUR 637,168.

Operating expenses of the Elektro Celje Group amounted to EUR 183,431,531, representing a 99.7 per cent share of total expenses

Operating Expenses of the Elektro Celje Group



The cost of purchasing electricity

made up the largest share of operating expenses and were 2% lower compared to the previous year.

Cost of material in the amount of EUR 10,224,596 were 20.1% higher than in 2016, predominantly due to higher material costs: own implementation of investments (22.7% higher than in 2016), implementation of services to customers (41.5% higher than in 2016) and cost of material for the elimination of damage incurred due to the extreme weather conditions in December (96% higher than in 2016).

Cost of services in the amount of EUR 9,106,864 were 6.6% lower than those achieved in 2016, primarily due to lower cost of services to customers (10.2% lower) and transportation services (6.3% lower).

Labour costs in the amount of EUR 24,715,149 attained a 13.4 percent share of total expenses and are comparable to the previous year.

Depreciation and amortisation in 2017 amounted to EUR 18,903,046 and include EUR 17,974,202 of amortisation and depreciation, EUR 846,142 of operating expenses from revaluation of fixed assets and EUR 82,702 from operating expenses from revaluation of current assets. In comparison to the previous year, depreciation and amortisation decreased by 3.9%, mainly due to lower expenses arising from revaluation (47.9% lower than in 2016).

Other operating expenses in the amount of EUR 732,769 were 69% lower than those achieved in 2016, mainly due to lower costs of incentives for efficient energy use, achieved in the amount of EUR 57,817 (EUR 1,212,028 in 2016).

Financing Revenue and Expenses

The net financial result of the company Elektro Celje in 2017 has improved compared to the previous year.

Financial revenue in the amount of EUR 540,960 increased by 58.2% compared to 2016 primarily due to higher revenue from default interest (EUR 168,046 more than in 2016) and higher revenue from dividends (EUR 31,178 more than in 2016).

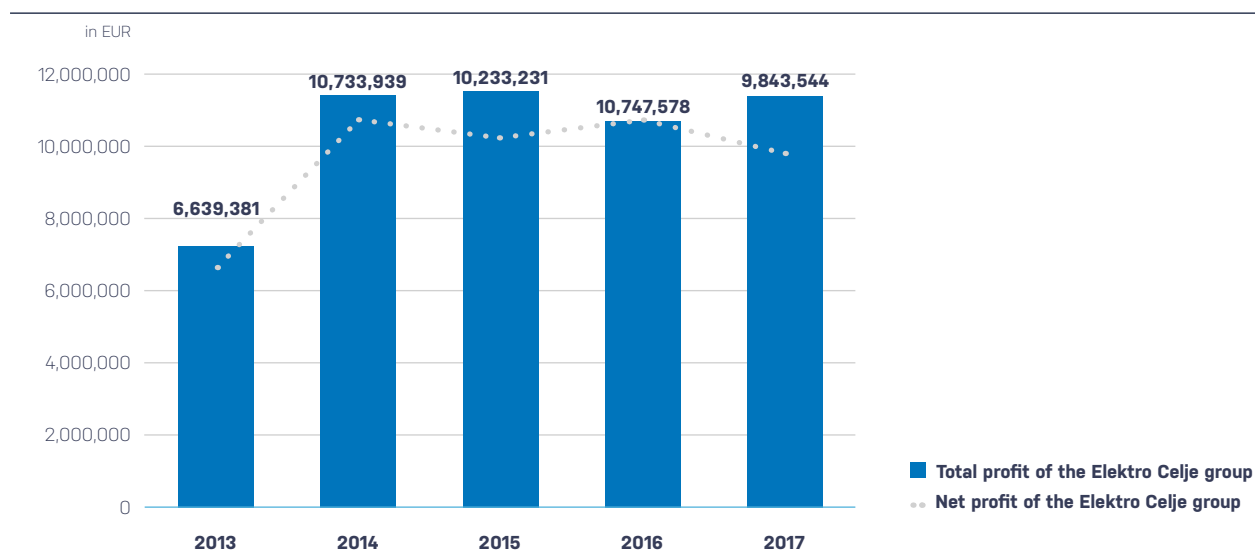
Financial expenses in the amount of EUR 464,216 were 30.8% lower compared to the previous year, predominantly due to lower interest expenses from loans and lower expenses from operating liabilities.

Profit or Loss

The Elektro Celje Group operated with a total profit of EUR 11,430,481 in the period January–December 2017, which is 6.6% higher than in the same period last year and 7.2% lower than planned for 2017. Total revenue amounted to EUR 195,326,228 (1.5% lower than in the same period last year and 5.8% higher than planned for 2017), while total expenses amounted to EUR 183,895,747 (2% lower than in the same period of the previous year and 6.7% higher than planned for 2017).

Item (in EUR)	Elektro Celje Group				
	Achieved 2013	Achieved 2014	Achieved 2015	Achieved 2016	Achieved 2017
Financial revenue	468,272	294,983	346,514	341,846	540,960
Financial expenses	-2,119,060	-1,307,696	-1,103,061	-670,278	-464,216
Net flow	-1,650,788	-1,012,713	-756,547	-328,432	76,744

Profit or Loss of the Elektro Celje Group



10.2.2 Assets and Liabilities

The value of the assets of the Elektro Celje Group increased by 1.2% compared to the previous year and as at 31 December amounted to EUR 318,122,910.

Assets (in EUR)	The Elektro Celje group				
	31 December 2017	Share (in %)	31 December 2016	Share (in %)	Index 2017/2016
Long-term assets	261,536,356	82.2%	259,991,388	82.7%	101
Intangible assets	3,899,732	1.2%	2,035,257	0.6%	192
Tangible fixed assets	250,054,522	78.6%	248,417,284	79.0%	101
Investment property	232,533	0.1%	302,975	0.1%	77
Financial investments	751,323	0.2%	734,452	0.2%	102
Operating receivables	4,042,348	1.3%	5,698,675	1.8%	71
Deferred tax assets	2,555,898	0.8%	2,802,745	0.9%	91
Current assets	56,586,554	17.8%	54,281,817	17.3%	104
Inventory	1,124,611	0.4%	1,169,107	0.4%	96
Trade receivables	45,526,003	14.3%	43,991,990	14.0%	103
Income tax receivables	24,079	0.0%	0	0.0%	0
Other operating receivables	6,105,839	1.9%	6,539,713	2.1%	93
Cash and cash equivalents	3,806,022	1.2%	2,581,007	0.8%	147
Total assets	318,122,910	100.0%	314,273,205	100.0%	101

The value of *intangible assets* in 2017 increased by EUR 1,864,475 compared to the previous year, primarily due to the investments in the AX and MX information systems.

Tangible fixed assets, representing 78.6 % of the balance sheet total increased by 0.7 %. Investments of the Elektro Celje Group amounted to EUR 22,487,596 in 2017, and were 10.6% higher than in 2016. Investments of the parent company are detailed in Section 9.2.2.2. In the subsidiaries, the majority of investments were earmarked for the modernisation of computer equipment, renovation of business premises and reconstruction of SHPs.

Long-term operating receivables amounted to EUR 4,042,348 and relate mainly to long-term receivables from SODO (EUR 3,540,235).

Equity of the Group as at 31 December 2017 amounted to EUR 219,770,154, accounting for 69% of liabilities. It increased by 3.0% compared to 2016.

Long-term liabilities of the Group in the amount of EUR 49,478,706 relate to long-term portions of investment bank loans, which as at 31 December 2017 amounted to EUR 27,702,950, financial liabilities financial leases for the software (ERP - MS Dynamics AX) in the amount of EUR 786,206,

long-term operating liabilities arising from software licenses (ERP – MS Dynamics AX system) in the amount of EUR 130,139, deferred tax liabilities in the amount of EUR 20,944, provisions in the amount of EUR 7,839,985, and long-term deferred revenue that relate primarily to fixed assets acquired free of charge (EUR 9,788,045) and connection fees (EUR 2,350,329).

Short-term liabilities of the Group primarily include current parts of long-term bank loans in the amount of EUR 11,272,417, short-term liabilities from operations for third-party accounts (EUR 10,996,343) and trade payables (EUR 18,982,225).

Equity and liabilities (in EUR)	The Elektro Celje group				
	31 December 2017	Share (in %)	31 December 2016	Share (in %)	Index 2017/2016
Equity	219,770,154	69.0%	213,314,562	67.9%	103
Long-term liabilities	49,478,706	15.6%	54,370,651	17.3%	91
Short-term liabilities	48,874,050	15.4%	46,587,992	14.8%	105
Total equity and liabilities	318,122,910	100.0%	314,273,205	100.0%	101

10.2.3 Cash Flow Statement

Cash flow (in EUR)	The Elektro Celje group	
	31 December 2017	31 December 2016
Net operating cash flow	17,139,195	15,582,595
Net investing cash flow	-6,188,197	-7,104,782
Net financing cash flow	-9,725,983	-7,753,675
Change in net cash and cash equivalents	1,225,015	724,138

Cash of the Elektro Celje Group increased by EUR 1,225,015 in 2017 due to positive cash flow from operating activities exceeding negative cash flow from investing and financing activities.

Cash flow from operating activities increased by EUR 1,556,600 in 2017 compared to 2016, mainly due to low-

er expenditure for purchasing material and services.

Cash flow from investing activities recorded an excess of outflows over inflows and were EUR 916,585 lower than in the previous year, predominantly due to higher inflows from the disposal of tangible fixed assets - the latter also included the transfer of

valuable consideration of 110 kV lines and equipment to the company Eles d.o.o. and higher expenditure for the acquisition of intangible fixed assets.

The negative cash flow from financing activities is mainly attributed to the inflows and payment of long-term and short-term financial liabilities.

10.2.4 Performance Indicators of the Elektro Celje Group



A. FINANCING INDICATORS (INVESTMENTS)						
in EUR	31 Dec. 2014	31 Dec. 2015	31 Dec. 2016	Plan 2017	31 Dec. 2017	Graphical comparison
Equity	196,839,551	207,638,928	213,314,562	218,415,046	219,770,154	
Liabilities	285,713,412	312,244,544	314,273,205	315,473,225	318,122,910	
Equity financing rate (Unicredit bank)	68.89%	66.50%	67.88%	69.23%	69.08%	
Equity plus long-term debt (including provisions) and long-term accrued expenses and deferred revenue	253,067,514	261,478,157	267,685,213	272,587,533	269,248,860	
Liabilities	285,713,412	312,244,544	314,273,205	315,473,225	318,122,910	
Long-term financing rate	88.57%	83.74%	85.18%	86.41%	84.64%	

* The selected indicator for SSH for 2017 is calculated in accordance with the methodology of SSH, which differs from SAS (net income from the current year is taken into account in the calculation of average equity).

**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. The indicators for 2017 are adjusted to IFRS (current assets include accrued revenue and deferred expenses, non-current liabilities include provisions and accrued expenses and deferred revenue, with receivables and liabilities for corporate income tax offset).

B. INVESTMENT INDICATORS

in EUR	31 Dec. 2014	31 Dec. 2015	31 Dec. 2016	Plan 2017	31 Dec. 2017	Graphical comparison
Fixed assets (carrying values)	242,253,976	246,489,479	248,417,284	252,287,907	250,054,522	
Assets	285,713,412	312,244,544	314,273,205	315,473,225	318,122,910	
PP&E to total assets ratio	84.79%	78.94%	79.05%	79.97%	78.60%	
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	248,830,741	256,210,894	257,137,015	260,237,884	258,980,458	
Assets	285,713,412	312,244,544	314,273,205	315,473,225	318,122,910	
Long-term assets rate	87.09%	82.05%	81.82%	82.49%	81.41%	
in EUR	2014	2015	2016	Plan 2017	2017	
Actual investment	23,689,059	21,923,723	20,328,477	23,017,320	22,487,596	
Planned investment	22,270,000	20,800,000	20,470,000	23,017,320	23,017,320	
Investment realisation rate	106.37%	105.40%	99.31%	100.00%	97.70%	
Investing cash flow	23,689,059	21,923,723	20,328,477	23,017,320	22,487,596	
Net revenue from sales	140,389,018	162,405,192	182,114,244	167,680,901	178,141,232	
CAPEX to net revenue from sales ratio	16.87%	13.50%	11.16%	13.73%	12.62%	

C. HORIZONTAL FINANCIAL STRUCTURE RATIOS

in EUR	31 Dec. 2014	31 Dec. 2015	31 Dec. 2016	Plan 2017	31 Dec. 2017	Graphical comparison
Equity	196,839,551	207,638,928	213,314,562	218,415,046	219,770,154	
Fixed assets (carrying values)	242,253,976	246,489,479	248,417,284	252,287,907	250,054,522	
Equity to operating fixed assets ratio	0.813	0.842	0.859	0.866	0.879	
Liquid assets	2,003,549	1,856,869	2,581,007	2,583,650	3,806,022	
Current liabilities	30,519,657	48,742,355	45,406,030	42,885,692	48,874,050	
Liquid assets to short-term liabilities ratio	0.066	0.038	0.057	0.060	0.078	
in EUR	31 Dec. 2014	31 Dec. 2015	31 Dec. 2016	Plan 2017	31 Dec. 2017	
Sum of liquid assets and short-term receivables	33,489,753	52,617,989	49,619,370	48,961,062	55,461,943	
Current liabilities	30,519,657	48,742,355	45,406,030	42,885,692	48,874,050	
Acid-test ratio	1.097	1.080	1.093	1.142	1.135	

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D. ECONOMIC INDICATOR						
in EUR	2014	2015	2016	Plan 2017	2017	Graphical comparison
Operating revenue	158,913,110	179,625,613	197,537,341	184,211,931	194,785,268	
Operating expenses	146,538,878	167,397,650	186,744,105	171,747,904	183,431,531	
Operating efficiency ratio	1.084	1.073	1.058	1.073	1.062	

E. PROFITABILITY INDICATORS						
in EUR	2014	2015	2016	Plan 2017	2017	Graphical comparison
EBITDA	33,171,383	31,585,802	30,468,792	32,007,839	30,256,783	
Gross operating profit	158,913,110	179,625,613	197,537,341	184,211,931	194,785,268	
EBITDA margin	20.87%	17.58%	15.42%	17.38%	15.53%	
EBIT	12,374,232	12,227,963	10,793,236	12,464,027	11,353,737	
Gross operating profit	158,913,110	179,625,613	197,537,341	184,211,931	194,785,268	
EBIT margin	7.79%	6.81%	5.46%	6.77%	5.83%	
Net profit	10,733,939	10,233,231	10,747,578	10,493,179	9,843,544	
Average equity (excl. net income from the current year)	187,292,098	197,122,624	205,102,956	212,303,548	210,827,118	
Net return on equity (ROE)	5.73%	5.19%	5.24%	4.94%	4.67%	
Net profit	10,733,939	10,233,231	10,747,578	10,493,179	9,843,544	
Average equity	192,659,068	202,239,240	210,476,745	217,550,137	216,542,358	
Net return on equity (ROE)	5.57%	5.06%	5.11%	4.82%	4.55%	
Net profit	10,733,939	10,233,231	10,747,578	10,493,179	9,843,544	
Average assets	284,706,706	298,978,978	313,230,669	313,113,642	316,198,058	
Return on assets (ROA)	3.77%	3.42%	3.43%	3.35%	3.11%	
in EUR	31 Dec. 2014	31 Dec. 2015	31 Dec. 2016	Plan 2017	31 Dec. 2017	
Sum of dividends for the fiscal year	2,419,242	3,145,015	3,234,527	2,806,223	2,636,124	
Average share capital	100,953,201	100,953,201	100,953,201	100,953,201	100,953,201	
Dividends to share capital ratio	0.024	0.031	0.032	0.028	0.026	
Dividend paid out in the year	2,419,242	3,145,015	3,234,527	2,806,650	2,636,124	
Average equity	192,659,068	202,239,240	210,476,745	217,550,137	216,542,358	
Dividend to equity ratio	1.26%	1.56%	1.54%	1.29%	1.22%	

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F. LABOUR PRODUCTIVITY INDICATOR

in EUR	2014	2015	2016	Plan 2017	2017	Graphical comparison
Gross value added	54,553,794	54,680,314	55,176,463	55,948,731	54,971,932	
Number of employees per hours worked	683	689	710	708	694	
Gross value added per employee	79,874	79,362	77,713	79,024	79,184	

G. TECHNICAL INDICATORS

	2014	2015	2016	Plan 2017	2017	Graphical comparison
SAIDI (System Average Interruption Duration Index)	29.71	27.40	18.06	22.38	30.38	
SAIFI (System Average Interruption Frequency Index)	0.79	0.70	0.48	0.47	0.81	
MAIFI (Momentary Average Interruption Frequency Index)	5.71	3.07	3.11	3.46	4.51	
Losses (MWh)	100,613	95,857	95,823	96,000	90,870	
Electricity distributed (MWh)	1,868,300	1,928,787	1,944,411	1,951,000	2,001,430	
Losses to electricity distributed ratio	5.39%	4.97%	4.93%	4.92%	4.54%	
Electricity supplied in the time interval (MW)	225	231	232	234	239	
Peak power in the time interval (MW)	309	306	316	308	335	
Load factor (LF)	0.73	0.75	0.74	0.76	0.71	
Electricity distributed (MWh)	1,868,300	1,928,787	1,944,411	1,951,000	2,001,430	
Standardised network length (km)**	585	599	591	560	584	
Power distribution per standardised network length	3.194	3.220	3.290	3.484	3.427	
Number of connection approvals issued by consumer category						
– MV (1–35 kV)	24	33	38	37	16	
– 0.4 kV measured power	132	158	157	155	145	
– 0.4 kV without measured power	728	774	813	785	857	
– households	1,449	1,704	1,856	1,822	1,405	
in EUR	2014	2015	2016	Plan 2017	2017	
Standardised network length (km)**	585	599	591	560	584	
Number of employees	632	632	632	630	628	
Standardised network length per employee	0.93	0.95	0.94	0.89	0.93	

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H. TECHNICAL ECONOMIC INDICATORS OF REGULATED ACTIVITY						
in EUR	2014	2015	2016	Plan 2017	2017	Graphical comparison
Operating expenses of regulated activity (in EUR)	45,993,267	45,067,062	40,730,638	40,327,385	41,169,008	
Electricity distributed (MWh)	1,868,300	1,928,787	1,944,411	1,951,000	2,001,430	
OPEX per electricity distributed	25	23	21	21	21	
Operating expenses of regulated activity (in EUR)	45,993,267	45,067,062	40,730,638	40,327,385	41,169,008	
Standardised network length (km)**	585	599	591	560	584	
OPEX per standardised network length	78,621	75,237	68,918	72,013	70,495	
Investment in regulated activity (in EUR)	22,605,214	21,279,340	19,875,252	22,315,266	21,606,689	
Electricity distributed (MWh)	1,868,300	1,928,787	1,944,411	1,951,000	2,001,430	
Investment per electricity distributed	12	11	10	11	11	
Labour costs of regulated activity (in EUR)	14,279,828	15,196,660	15,898,245	15,237,838	16,297,584	
Number of customers	169,414	170,006	170,688	171,269	171,340	
Labour costs per customer (in EUR)	84	89	93	89	95	
Operating revenue of regulated activity (in EUR)	55,960,882	53,646,613	49,533,777	49,545,147	49,676,656	
Electricity distributed (MWh)	1,868,300	1,928,787	1,944,411	1,951,000	2,001,430	
Operating revenue per electricity distributed	30	28	25	25	25	

* The selected indicator for SSH for 2017 is calculated in accordance with the methodology of SSH, which differs from SAS (net income from the current year is taken into account in the calculation of average equity).

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I. INDICATORS OF COMPLIANCE WITH BANK COMMITMENTS

in EUR	2014	2015	2016	Plan 2017	2017	Graphical comparison
Financial debt	43,017,780	47,488,684	45,066,277	46,093,700	39,765,440	
Equity	196,839,551	207,638,928	213,314,562	218,415,046	219,770,154	
Financial debt/Equity (EIB)	0.219	0.229	0.211	0.211	0.181	
Financial debt	43,017,780	47,488,684	45,066,277	46,093,700	39,765,440	
EBITDA (for a period of 12 months)	33,171,383	31,585,802	30,468,792	32,007,839	30,256,783	
Financial debt/EBITDA (EIB)	1.297	1.503	1.479	1.440	1.314	
EBITDA (for a period of 12 months)	33,171,383	31,585,802	30,468,792	32,007,839	30,256,783	
Financial expenses from financial liabilities (for a period of 12 months)	1,305,291	985,557	543,229	433,370	384,811	
EBITDA/Financial expenses from financial liabilities (EIB)	25	32	56	74	79	
Current assets	34,940,768	54,096,194	50,840,105	52,653,313	56,586,554	
Current liabilities	30,519,657	48,742,355	45,406,030	42,885,692	48,874,050	
Current ratio (EIB)	1.145	1.110	1.120	1.228	1.158	
Financial debt	43,017,780	47,488,684	45,066,277	46,093,700	39,765,440	
Average equity	192,659,068	202,239,240	210,476,745	217,550,137	216,542,358	
Financial debt/Equity	0.223	0.235	0.214	0.212	0.184	
Net financial debt	41,014,231	45,631,815	42,485,270	43,510,050	35,959,418	
EBITDA	33,171,383	31,585,802	30,468,792	32,007,839	30,256,783	
Net financial debt/EBITDA (Unicredit bank)	1.236	1.445	1.394	1.359	1.188	

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 84.6%, with the share of equity in liabilities amounting to 69.1%.

Investment indicator values achieved in 2017 were lower than those achieved in 2016. The share of total long-term assets in total value of assets amounted to 81.5%, which is 0.4 percentage points lower than in 2016. The reason for this is in the simultaneous increase in the value of long-term assets (by 0.7 %) and that of total assets (by 1.2%).

The indicators of horizontal financial structure were adequate. The equity to fixed asset ratio shows that as at 31 December 2017, 87.9 % of property, plant, and equipment were covered by equity, which is 2.3% more than the year before. The liquid assets to short-term liabilities ratio is higher compared to the previous year, primarily due to the increase in cash (47.5% higher than in 2016).

The operating efficiency ratio (1.062) is higher than the ratio for 2016 (1.058) mainly due to lower operating expenses (1.8% lower).

The EBITDA margin in 2017 amounted to 15.5%, and is comparable to the previous year. Due to lower net profit (8.4% lower than in the previous year), return on assets (ROA) decreased by 9.3 percentage points and net return on equity (ROE) by 10.9%.

Added value per employee amounted to EUR 79,184 in 2017, representing a EUR 1,471 increase over 2016, mainly due to the lower average number of employees for total hours in the Elektro Celje Group (on average 16 fewer employees than in 2016).

* The selected indicator for SSH for 2017 is calculated in accordance with the methodology of SSH, which differs from SAS (net income from the current year is taken into account in the calculation of average equity).

**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.

The indicators for 2017 are adjusted to IFRS (current assets include accrued revenue and deferred expenses, non-current liabilities include provisions and accrued expenses and deferred revenue, with receivables and liabilities for corporate income tax offset).

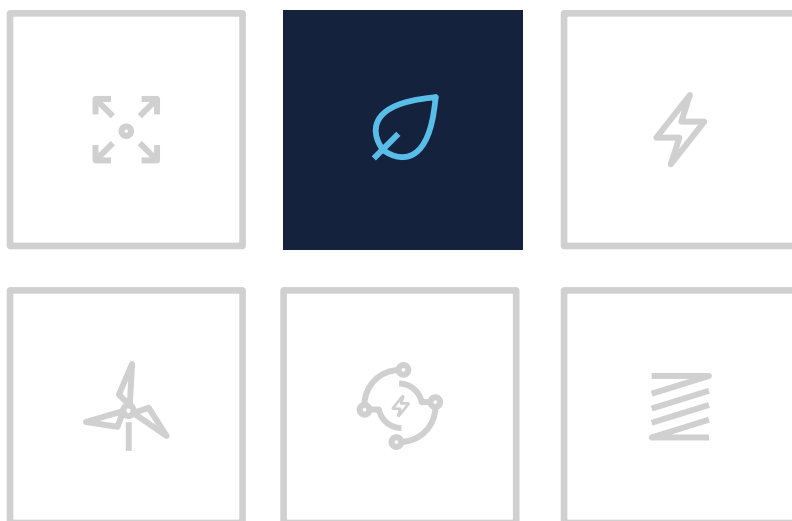
The technical indicators and technical economic indicators of regulated activity are calculated for the parent company and described in Section 10.1.4.

Indicators referring to commitments to banks show that the Group main-

tained a suitable financial position in 2017 and had fulfilled all its commitments to banks. A comparison of net financial debt to EBITDA shows that the gross cash flow generated by the Elektro Celje Group would be sufficient to allow the repayment of all financial commitments within 1.2

years, whereas the repayment period in 2016 required 1.4 years.

The debt ratio in 2017 amounted to 0.18 (0.21 in 2016). The debt ratio improved in comparison to the previous year, predominantly due to lower long-term financial liabilities.





11 ORGANISATIONAL DEVELOPMENT

11.1 Management Systems

Quality Management System – QMS and Environmental Management System – EMS

Elektro Celje successfully organized and completed the audit of the transition to the new version of standards of the ISO 9001:2015 quality management system and ISO 14001:2015 environmental management system. A recertification audit of the occupational health and safety management system was also carried out during the above audit. This enabled the company to set up a standardised certification cycle. Preparatory work also commenced on the certification of the IT security management system in the company.

The management system at Elektro Celje, d.d. functions in accordance with the ISO 9001:2015 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 14001:2015 and were not integrated into a uniform management system in 2017. 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. The umbrella document defining the management system, the processes and procedures, is referred to as »Poslovniki 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, 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 14001:2015 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).

Business Excellence

In 2016, Elektro Celje, d.d. carried out a self-appraisal following the EFQM excellence model in the most demanding manner, with the simulation of cooperation within the scope of the Business Excellence Prize of the Republic of Slovenia (PRSPÖ). 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 PRSPÖ. On the basis of the achieved assessment,

we applied for participation in the competition for recognition of Business Excellence in the Republic of Slovenia, desiring to confirm the results of the self-assessment and acquire a set of opportunities for improvement from external evaluators. The assessment showed us to be a company recognized for its commitment to excellence, enabling us to gain a valuable set of opportunities for improvement.

Occupational Health and Safety System

Due to the company's activities, our employees are exposed to a higher risk of injuries at work and occupational diseases, which is why we give special attention to the protection of our employees' health and industrial safety. We have also committed ourselves to this area by systematically preventing occupational accidents, injuries and disorders, defining safety measures to tackle the source of dangers, defining and demanding the use of personal safety equipment, and conveying relevant information and instructions for occupational safety and encouraging a culture where each individual watches out for themselves and others so as to prevent the risk of accidents and negative health impacts. As employees, we have committed ourselves to respecting the occupational

health and safety policy, bringing it to the attention of all working under the supervision of the company, and constantly improving the safety of the working environment. The company has a certified system for occupational health and safety in accordance with the OHSAS 18001:2007 standard in place.

In 2017, we registered 7 accidents at work, and documented and investigated 7 dangerous events, 2 of which were connected to the use of or work at electricity installations and risk of exposure to electric currents and electric shock. On the basis of legislative regulations and the approved Statement on Safety and Risk Assessment, we carried out periodic checks of work and personal safety equipment and random checks of electric power facilities, and work and building sites. On 1 March 2017, a revision of the Statement on Safety with Risk Assessment was implemented, together with attachments.

We conduct the protection of our workers in accordance with the occupational health requirements defined in the Statement on Safety and Risk Assessment and in cooperation with contractual occupational health providers. Newly employed workers were referred to preliminary medical examinations. Periodic health checks

were carried out on all technical operations workers, while workers with limitations had to undergo the prescribed control checks. Workers in exposed positions were administered a second dose of vaccinations against tick-borne encephalitis and the company organised a vaccination against influenza.

On 31 December 2017, Elektro Celje employed 57 disabled persons.

In 2017, we implemented theoretical and practical training to the test of knowledge of OHS, FS and EMS for all newly employed workers, workers who had been redeployed to other jobs, trainees and apprentices. We increased the number of skilled workers for the provision of first aid in the workplace. We commenced the training of workers for safe work at heights, with an emphasis on practical work in the polygon for workers in supervising and electrical installation teams, which will be completed in the year 2018.

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 employee's health in the company.

11.2 Risk Management at the Company Elektro Celje

In 2017 Elektro Celje once again updated its risk management system, which was first introduced in 2012. The system was adapted to the requirements of existing and new management systems: ISO 9001:2015 quality management, ISO 14001:2015 environmental protection, OHSAS 18001:2007 occupational safety and health, and ISO 31000:2011 risk management - Principles and guidelines.

The coordinator responsible for risk management is responsible for improvement of the methodology of assessment and treatment of risk and management of the risk register. Risk administrators are, in their respective fields, responsible for identifying, assessing and addressing risks and taking measures to reduce risks. Risk administrators make up the Risk Management Committee, which operates

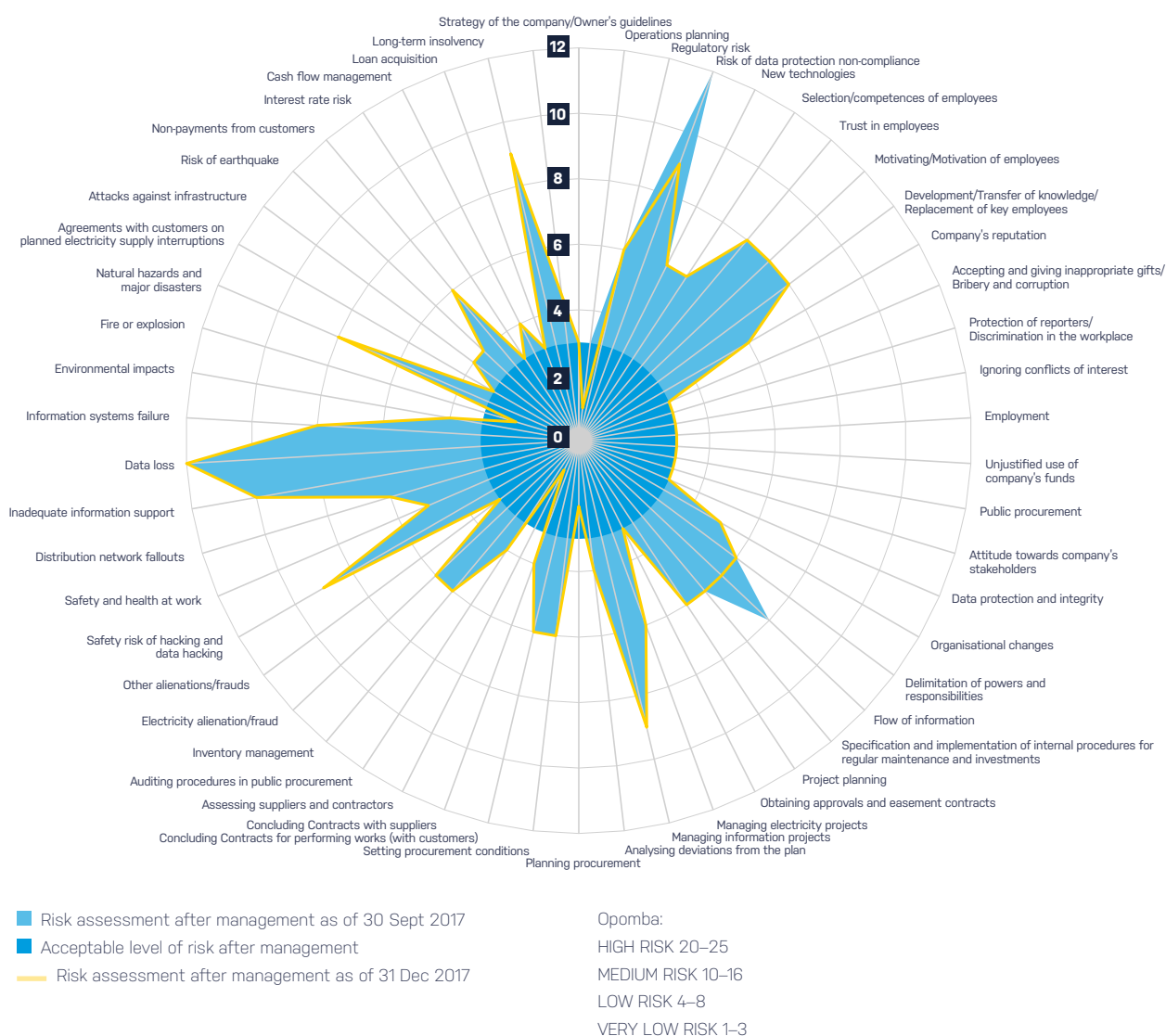
as a separate independent body that reports directly to the Management Board. The Committee provides advises the Management Board on key areas of operations in terms of risk management and is responsible for the planning, operation and control of the risk management process.

The risk management system is recognized as a sub-process of Company Management. It covers systematic communication and consultation, creation of environment, risk identification, risk analysis, risk assessment and risk treatment. The entire process is monitored, reviewed and improved. In managing risks, the company decides whether each perceived risk is acceptable, avoided if the cost of dealing with the risks outweigh the benefits or transferred (predominantly to insurance compa-

nies). The most common approach to risk management are measures adopted to reduce the risks. Risks are evaluated using a 5 x 5 matrix showing their effects on profit or loss, health of employees, quality of services for customers and impact on the environment. The probability of occurrence is calculated so that the year in which the event occurred is assessed and monitored for a period of up to 20 years. The probability of a recurrence is expressed as a percentage for one year.

At Elektro Celje, d.d. on 31 December 2017, the most numerous risks are those deemed as low risk, followed by very low and medium risk. The company does not record high risks. Very low risks are deemed acceptable by the Management Board with no additional measures expected to be required. For all other risks, additional measures with a view to diminishing risks in the long term are expected from the risk administrators.

Graphic presentation of assessed risk at the end of the third and fourth quarters of 2017 and acceptable level of risk (management board)



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

Strategic risks, which are described below, were rated as low or very low in 2017.

Strategy and regulations

Due to the regulated activities of Elektro Celje d.d., external stakeholders have the main influence on the company's operations.

- SSH, as the representative of the majority shareholder,
- SODO as the concession owner and
- 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 are dependent on achieving costs that are lower from eligible costs and the level of supply quality achieved.

Operational planning is based on the strategy and adopted annual business plans. 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.

Legal changes in the energy sector and other fields also impact the company Elektro Celje greatly. The company adapted adequately to all regulatory changes and, consequently, managed all risks connected to the strategy of the company Elektro Celje, d.d.

Development risk

The company is involved in a large number of development projects. The two most important projects that should be noted are Flex4grid, a pilot project dealing with critical peak tariffs and NEDO, which is carried out jointly by Slovenia and Japan. The above-mentioned projects are aimed at seeking solutions to lower peak loads and the imbalance between consumption and distributed energy production, and test more advanced technologies for the distribution and management of electricity.

Human resources risk

This risk is connected with the selection of employees, evaluation of their competences, motivation, knowledge transfer, and replacement of key employees. Elektro Celje successfully reduces risk by conducting annual employee plans, 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, and annual discussions and SiOK analysis. The response of employees in the SiOK analysis, which was conducted in early 2017, was 74 percent, which is slightly above the Slovenian average. Key advantages of the company in the field of organizational climate are reflected primarily in quality, loyalty to the organization, motivation and commitment, innovation and initiative, as well as in the field of internal relations. Risks/opportunities are primarily reflected in the field of internal

communication and employee notification, reward and development of careers, knowledge and professional training of employees.

Risk to reputation

Reputation is both a threat and an opportunity. The company enhances its reputation through quick intervention during storm periods and annual improvement of the quality of services for customers, concern for the safe work of employees and concern for the environment. The company also broadens its reputation through participation at various congresses and acquisition of awards such as recognition from the Republic of Slovenia for business excellence and award for the best annual report for the year 2016 among large companies that are not public interest entities under the Companies Act, etc.

Corporate integrity risk

In 2017, numerous trainings for employees in accordance with the communication plan for the area Code of Ethics and Corporate Integrity were organized. The established system of corporate integrity ensures that these values will be respected during daily operations and in relations within the company Elektro Celje. Employees have a variety of options available for giving notification of detected irregularities in the company's operations, through which they can report non-compliance to the authorised person for corporate integrity. There were no reports of non-compliance or other irregularities in 2017.

11.2.1.2 Groups of Operational Risks

Employee behaviour

Among the most important risk of employee behaviour in 2017 was the risk of introducing **IT projects and security risk related to IT intrusion and data theft**. The company began introducing the new IT ERP (Microsoft Dynamics AX) and EAM (IBM Maximo) systems in 2016. The introduction took place as a project and included the management and a wide range of employees. The introduction was accompanied by a project board. Risks related to the projects AX and MX were continually identified by the project managers with discussions and actions taken to reduce them. Key users who participated in the trainings with contractors and integration testing later shared their acquired knowledge with their colleagues. Before moving into production in 2018, process administrators together with key users prepared work instructions. Planned activities were carried out within the prescribed extent, in accordance with the project plan.

Introduction of the new ERP and EAM information systems involved a number of changes in the company's processes, due to which somewhat slowed pace of work is expected with possible delays in the implementation of investment and maintenance, which at least at the beginning of the year, will also require increased inventories. Due to the lack of understanding during the process of harmonising functional requirements, all solutions are unlikely to be optimal for the company, with the subsequent integration of functionality possibly requiring additional resources.

Security risks for data intrusion, data theft or loss are reduced by the adoption of the Security Policy of Elektro Celje, d.d. In order to ensure cyber security, we already have security mechanisms integrated in the

company to prevent access to critical company infrastructure from external networks. The Business Data Processing Department introduced a number of security measures in the first half of the year, mainly due to the possibility of a 'Pass-the-hash' attack and to reduce the risk of other types of attacks:

- LAPS (Local Administrator Password Solution),
- "Tiering" - introduction of security zones in the domain,
- Tightening of security rules on the servers (server security hardening),
- Introduction of complex passwords in the domain,
- Establishment of the AppLocker mechanism to restrict running applications on domain computers,
- Establishment of ATA - Advanced Threat Analytics,
- Establishment of the InTune platform for mobile device management.

To reduce the company's vulnerability, we also regularly update the systems - both the servers and workstations. Security is also partially provided via the company Informatika d.d.

At the company Elektro Celje, we take great care in managing **occupational health and safety as well as fire safety risks**. We minimise risks through internal and external audits, control of 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.

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 the ISO 14001:2015 stand-

ard.

Systems operation

The systems operation risk refers to electricity and information systems. Failures in the distribution network cause interruption of the electricity supply to customers, thus reducing the quality of electricity. Elektro Celje monitors the continuity of supply and commercial quality indicators and acts accordingly whenever necessary. In 2017 there was a deviation in realization (SAIDI and SAIFI) in comparison with the plan due to the following adverse events:

- An outage occurred at DTS 110/20/10 kV Trnovlje in the DU Celje in June due to a disruptive discharge in the 20 kV MV cells. During this time the area was experiencing a large storm, with a very large number of lightning strikes,
- DU Krško is experiencing big problems with the achievement of the planned SAIDI indicator due to a large number of medium-sized birds at Krško-Brežiško field that rest on the overhead power lines, causing major disruption,
- Failure of DTS Velenje due to interruption of the 110 kV disconnector.

In addition to these aforementioned events age and wear of materials also effect the indicators.

The risk of data loss is still perceived as a major risk. A policy for continuity of operations was drawn up. A tender project for the construction of a backup data centre in the premises of DTS Dravograd was prepared. At the same time, computer infrastructure (temporarily at the primary location) and a continuity of operations plan – procedures for the transfer of service delivery to the backup location were prepared. This measure has not yet been completed due to other priority projects. Such risks are also reduced through the use of the One Drive application.

External events

Among external events, bad weather has the greatest impact on the electricity system. In December, heavy snow and storms caused large-scale destruction of the electricity network in the areas of the Upper Savinja Valley, Črna na Koroškem, Ravne, Prevalje, Dravograd and a wider area of Radlje. Due to the aforementioned

events and the sheer size of the destruction of the network, the company declared severe weather conditions. In the initial phase, 10,700 customers were without electricity, therefore it was necessary first of all to seek a solution by laying temporary power supply lines and supplying power through generators. The severe weather conditions will have

significant financial implications for the company. The EAgem with the latest act on network charges covers substantially less costs than in the past (only 10% of the cost of damage). The risk of extreme weather events is therefore partially transferred to insurance companies and at the same time minimised through cabling.

11.2.1.3 Financial Risks

Financial risks were suitably controlled in 2017.

The credit risk is the risk of non-payment of debtors' contractual obligations. Receivable management and recovery of receivables from debtors are conducted in accordance with the provisions of the Slovenian Energy Act (EZ – 1), the Regulation on the General Conditions of the Supply and Distribution of Electricity (SPDOEE) and internal company regulations. Short-term receivables are only partially secured with debt collection instruments, as trade receivables for network charges cannot be secured 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 current assets and liabilities of the company, which could cause insolvency. The basic frameworks of the financial policy are determined in an annual operating plan, defining the extent of revenue and expenses 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 possess an adequate amount of long-term sources of financing in regard to the size and type of business that it conducts. The management monitors and verifies the company's achievement of equity 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 because he or she indirectly defines the regulatory environment and can affect the company's financial results and fulfilment of financial commitments on equity adequacy 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

Risks of the Elektro Celje Group are divided into: strategic risk, financial risk and reputation risk. These risks are reduced through measures/control activities which Elektro Celje as the co-owner implements (may carry out) in accordance with applicable legislation to ensure that the operations of its subsidiaries are as successful as possible and that the financial impact on the company Ele-

ktro Celje and the entire group would be as low as possible.

Strategic risks:

Subsidiary management risk

Elektro Celje d.d., as the majority owner of ECE d.o.o. and 100% owner of MHE – Elpro d.o.o. directs and monitors the operations of both companies. The company directors give their owners at the latter's oral or

written request, explanations regarding operations and provide them with requested documentation. The owners of the subsidiaries may at any time request an audit of the companies' operations.

Two "supervisory colleges" were established to monitor the operations of the subsidiaries. The supervisory college at the subsidiary ECE com-



prises the Chairmen of the Management Board of Elektro Celje, d.d. and Elektro Gorenjska, d.d., Director of the Joint Services Sector from Elektro Celje, d.d. and the controller from Elektro Gorenjska, d.d. The supervisory college at the subsidiary MHE Elpro comprises the Chairman of the Management Board of Elektro Celje, d.d., as well as Director of the Development and Operations Sector and Director of the Joint Services Sector, both from Elektro Celje, d.d.

The supervisory colleges meet as necessary, with the aim of resolving outstanding issues, and at least quarterly, with the aim of becoming familiar with the operations of each subsidiary.

A suitably conceived management system for the subsidiaries may, with the preparation and implementation of strategies and business plans, provide an opportunity for long-term stable operation thereof.

Risks of Strategic orientation of the owner/State

The owner may direct the subsidiary more or less only in the medium term. Expectations of SDH, d.d. from the company Elektro Celje, which are set in the Annual Management Plan of Equity Investments for 2017 for the Group, are that the company Elektro Celje company strategically connect/sell the companies involved in the sale and production of electricity with energy pillars owned by the government. To this end, new potential partners are being sought.

Financial risks:

Risk of poor operations of ECE d.o.o. (especially due to price or credit risk) and MHE - Elpro d.o.o., would result in lower financial revenue for the company Elektro Celje and lower profits, which would affect the performance indicators (ROA, ROE) and potential failure to comply with the expectations of SDH, d.d. In the long run, poor performance could have an impact on the value of the investments

of Elektro Celje. The risk is managed through supervision of the subsidiaries.

Risks associated with the sale of investments

would arise in the event of a non-cash sale of the investment in ECE d.o.o., as capital gain from the sale would not lead to cash flow, which would result in additional borrowing by Elektro Celje for the payment of dividends and taxes and could endanger the fulfilment of obligations to banks.

Credit risk would arise in the case of lending assets to the subsidiaries and if the subsidiaries would not be able to repay the loans. On 31 December 2017 Elektro Celje did not finance its subsidiaries.

Risk to reputation:

The weakened reputation of the companies in the group could due to various reasons, result in the poorer reputation of the parent company and the entire group.

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 acquisition of a deeper understanding of the company's operation.

Internal audit carries out its mission in accordance with the medium-term and annual work plans in accordance with standards (International Standards for the Professional Practice of Internal Auditing, Code of Ethics, Basic Principles of Professional Conduct, Definition of Internal Auditing). The bases for the operation of an internal audit are defined in the fundamental charter of the activity of internal audits, which defines the purpose, jurisdiction, responsibilities and duties of internal audits in Elektro Celje, d.d., in accordance with the compulsory components of the

International Professional Practices Framework.

The company has established an internal audit – the head of internal audit is administratively responsible to the Chairman of the Management Board, and functionally to the Supervisory Board Audit Committee (SB AC), or the Supervisory Board (SB). The aim of internal auditing is to contribute to increasing benefits and enhancing the operations of the company by encouraging a systematic and disciplined approach to the evaluation and improvement of risk management processes and management thereof.

Internal audit carries out its duties on the basis of the multi-annual and annual operations plans of internal audit activities, which it submits to the company's Management and Su-

pervisory Boards for adoption and to the Supervisory Board Audit Committee for review.

Internal audit, within the context of individual internal audit transactions and tasks, verified and evaluated the adequacy and effectiveness of internal controls. To assess adequacy, COSO (Committee of Sponsoring Organizations of the Treadway Commission) methodology was used, a professionally recognized method for comprehensive monitoring of risk management.

Internal audits were, in 2017, carried out in the field of investment planning, efficiency of rolling stock, replacement of equipment in DTSs, strategy communication, adequacy of authorisations and responsibilities and the regularity of payments to employees (overtime work).

The introduction of the AX and MX projects were priority tasks in 2017. Given the importance of both projects for the entire operation of the company, an interim audit of the appropriateness of testing was carried out. The final audit of the assessment of the appropriateness of software support to key processes will be carried out in 2018.

Within the framework of the internal audit operations, attention was given to the possibility of fraud. A system of preventive internal controls for preventing larger frauds in areas that were audited by the internal audit

has been established and is functioning successfully. The inspections did not identify any risks of increasing levels of fraud.

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, categorized by level of risk, and their implementation is controlled regularly.

The Management Board ensures adequate conditions for quality and

independent work of the internal audit. In 2017, quarterly reports on the function of internal audit activities which were reviewed by the Supervisory Board Audit Committee and the Supervisory Board were prepared in accordance with the Companies Act (ZGD-1), along with an annual report.

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, Supervisory Board Audit Committee and the Supervisory Board.

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.

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 to act correctly.

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 comprehensive 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 online 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.





→ Digitalization

We have been encountering digital transformation in electricity distribution for quite some time now. Renewable energy sources, dispersed production, growth of electric filling stations and smart grids pose challenges to the future performance of the energy system, triggering new business models and regulatory frameworks.

Digitization provides an opportunity for greater control over the functioning of the energy system, also enabling automatic optimization of consumption and production (in real time) and interaction with customers.

12 SUSTAINABLE DEVELOPMENT

Elektro Celje follows sustainable development, based on the security of operations in the broadest sense. 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 small diffuse power plants are connected to the distribution network managed by Elektro Celje, d.d.

At Elektro Celje, the environment policy regulates environment protection, with the entire company dedicated to observing environmental legislation, regulations, agreements and standards. By adopting an environment policy, we have committed ourselves to understanding the environmental management policy and bringing it to the attention of all those 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, and thorough verification

of the use of dangerous materials in the company, which we will gradually eliminate.

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 publicly available 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 14001:2015 standard in place.

12.1 Research and Development Investment and Other 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 of 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 elec-

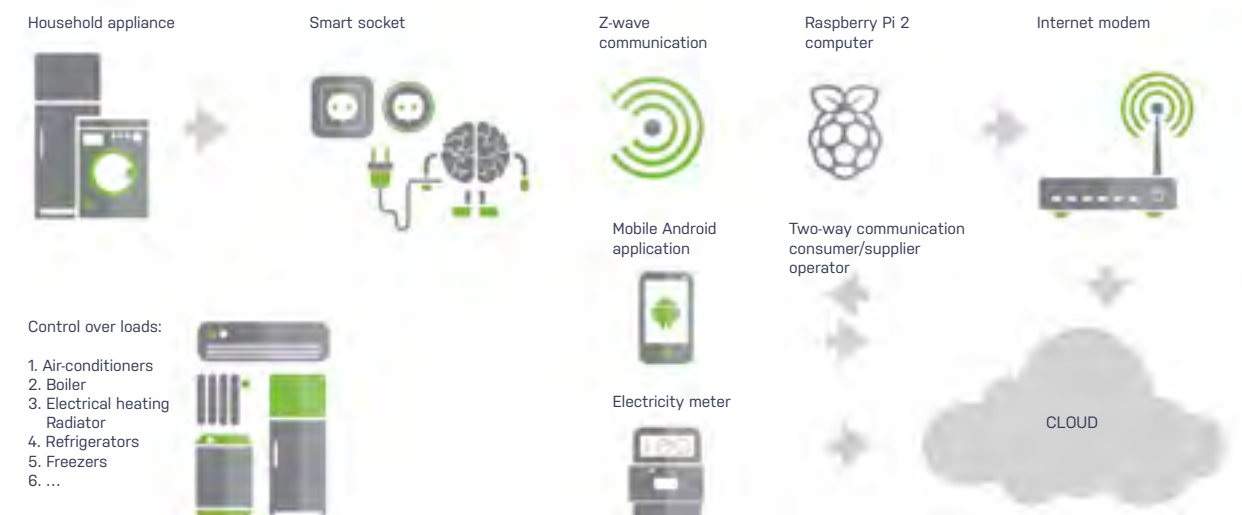
tricity. User flexibility means that the user is able to adapt the consumption or generation to the needs of other participants of the system, for which the user could be rewarded. Power distribution companies will be able to use this flexibility to lower peak loads and the imbalance between the consumption 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 were 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.

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.





Pilot Project Dealing with the Critical Peak Tariff

In 2016 the EAgEn recognized the project Flex4Grid as a pilot project in the field of smart grids and ranked it in the scheme of implementation incentives in smart grids, enabling the upgrade of the project using the pilot critical peak tariff. The implementation incentives with the use of dynamic tariffing, focus on testing the efficiency of active inclusion of consumers into consumption adjustment programmes. The project commenced in mid-2017, when slightly fewer than 11,000 electricity customers from the area of Elektro Celje, d.d. were invited to participate. A total of 782 customers registered, who were allowed to participate in a tailor-made consumption programme based on a pilot dynamic network tariff in a transparent manner by the end of 2018.

Within the Flex4Grid, so-called Flex4Grid (HAMS) smart kits were allocated to the participants. Smart kits consist of a communicator and two smart sockets. They are designed for managing household appliances and to display the power consumption of connected appliances.

Smart kits can be managed by users with the help of the Flex4Grid mobile application for Android and iOS.



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 func-



tions 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 as well as a platform and 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 2017, we received EU grants for co-financing the Flex4Grid project in the amount of EUR 28,778 EUR.

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 7.4.

12.2 Societal and Social Aspects

12.2.1 Responsibility towards Employees

The cornerstone for our work with employees is respect for labour legislation and concern for occupational health and safety and for an appropriate working environment. In our work, we not only follow the economic effects of our business, but also act in accordance with the highest ethical and moral values and take into account professional standards of operation.

We are aware that the success and results of the company depend on the employees and their achievement of goals, so the key role of managers is to encourage employees, connect them, coordinate with them and, of course, retain and develop their skills. Employees ensure that the activities

of individual business processes are running as required, so it is necessary to define their work and clearly outline the objectives. In managing employees, we take measures that facilitate the reconciliation of work and family life.

Human resource planning is a part of the strategic and annual plan of the company. Social partners are informed of all relevant activities in the field of employee management, with cooperation also carried out with them. By investing in the development of our employees, we care for their personal and professional development, so we have set ourselves a vision to be recognized in society as

the carrier of an increased quality of life with responsibility towards the environment and our employees.

Supplementary Pension Insurance

Elektro Celje established a retirement plan of supplementary pension insurance in 2001. All employees are included in the second pension pillar. Premiums for supplementary pension insurance are paid by the company Elektro Celje (EUR 772,758 in 2017) in a contractually defined share of the maximum premium amount. Employees have the option of making additional payments to their share of the premium.

12.2.1.1 Number and Structure of Employees

In 2017, employee fluctuation in the Elektro Celje Group was 4.6%, arising primarily due to the retirement of employees and temporary employment. In the parent company, 17 male employees retired due to age, while

there were no retirements due to disability. In the past year, an increasing trend of retirement has been observed, with a trend where older employees opt not to retire immediately after meeting the first condition no-

ticed usually. This is due mainly to stimulative legislation, which financially rewards continuation of work, and the fact that pensions are lower than wages.

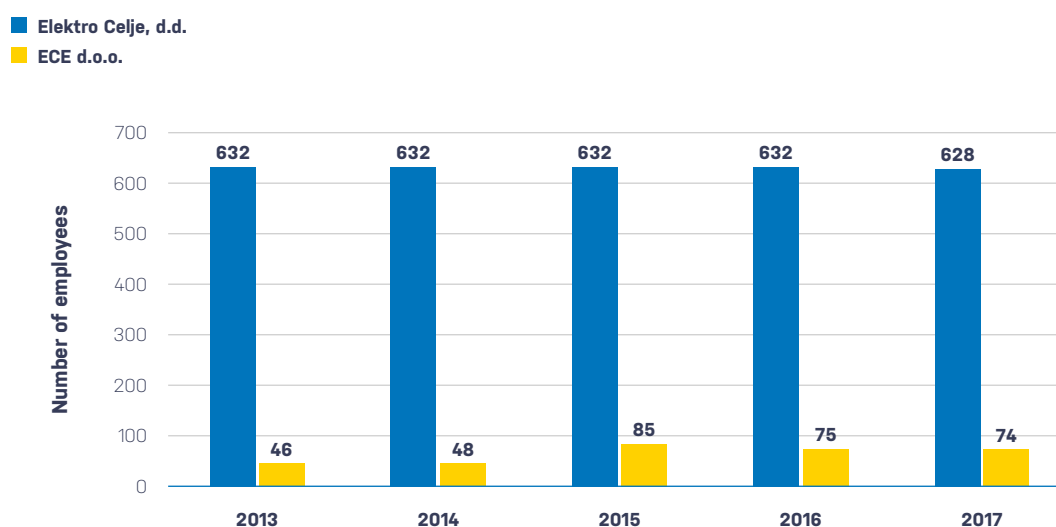
Employment vacancy notices are publicly available on the websites of the parent company and the subsidiaries, and at the Employment Service of Slovenia. When selecting our employees, we pay attention not only to expertise, but also to commitment, target-orientation and the ethics of the candidates. In planning for new employment, we follow the policy of recruiting highly qualified, ambitious and competent staff. Through this endeavour, we strive for the future, which even in traditional industries

such as ours, brings significant changes to technological development. Only in this way can we continue to ensure competitiveness, follow the requirements and development of the electricity profession and operate in accordance with the mission and values of the company.

On 31 December 2017, the Elektro Celje Group employed 702 people, with the average number of employees in the parent company amounting to 631 and in the subsidiary ECE

73. The number of employees increased compared to previous years due to the merger of Elektro Gorenjska Prodaja with the subsidiary ECE in 2015. The subsidiary MHE - Elpro has no employees. To carry out its activities, the subsidiary makes use of 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 employees are employed full-time, with only 2% of employees possessing a part-time contract of employment. These are

mainly employees with the status of disabled workers or those exercising the right of part-time employment due to parenting.

The table shows the number of employees in the Elektro Celje Group with regard to employment status as at 31 December 2017):

Item (in EUR)	Elektro Celje, d. d.	ECE d. o. o.	Elektro Celje Group
Number of permanently employed workers	612	70	682
Number of temporarily employed workers	16	4	20
Total number of employees as at 31 December 2017	628	74	702

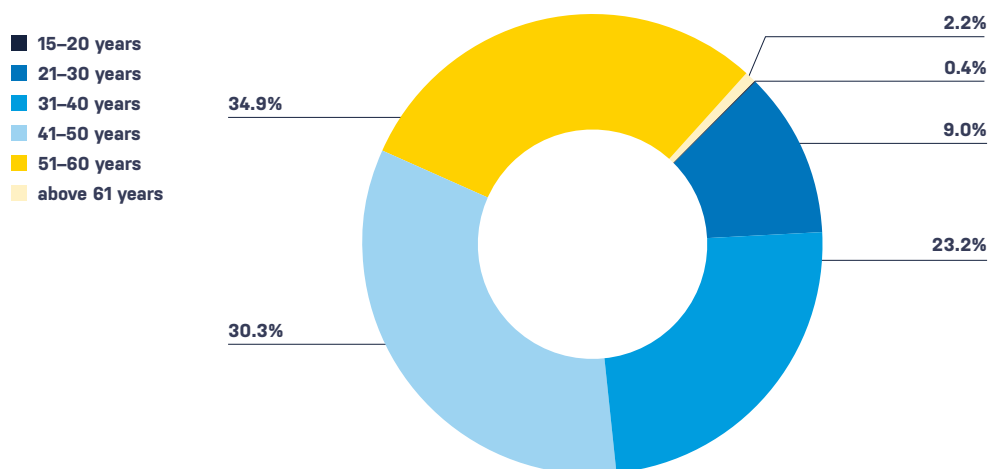
The age structure of employees remains similar to that of previous years. Although in recent years a trend of rising average age by a half year has been visible at Elektro Celje, in 2017 the average age no longer increased. The average age of employees in the company Elektro Celje

has remained the same as in 2016, 45 years of age. The average age of employees in the subsidiary ECE was 43 years (one year greater than the previous year).

The gender composition in the parent company consists of 86% male

and 14% female employees, with the situation at the subsidiary reversed: 23% male and 77% female employees. The proportion of female employees in the subsidiary increased by 4%, while the ratio of employees by gender in Elektro Celje has not changed.

Composition of employees by age



Elektro Celje company exceeds the share of employees with the status of disabled person, as regulated by the Decree Establishing an Employment Quota for Persons with Disabilities in the field of Electricity Supply. In the past year, we have increased the number of disabled employees, resulting in a 9 percent share of employees with disability status, which is 3% higher than stipulated by the aforementioned Decree. As of the

end of 2017, the company Elektro Celje employed 57 disabled persons, with the company ECE employing 1 disabled person. We ensure our disabled employees and those with various health limitations continuation of work even after disability occurs, by adapting the work process or post and relocating them to a more fitting post, which is adjusted to their work capabilities. We also encourage re-training of those who can no longer

perform their work, taking active part in it.

Absenteeism due to illness is monitored and health promotion activities implemented at Elektro Celje. In 2017, sick leave amounted to 4.9% (proportion of hours in relation to hours worked in 2017, which includes refundable and non-refundable hours), showing a decline over 2016 (5.1%).

12.2.1.2 Employee Education and Training

Knowledge and competencies that support the vision and strategic goals of the company Elektro Celje and the Elektro Celje Group are developed systematically. The employee development programme is based on balancing their talents, skills and ambitions and the Company's objectives and requirements. In 2017, we devoted an average of 22 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	20
UNIVERSITY	126
POST-SECONDARY	78
SECONDARY	257
VOCATIONAL	7
HIGHLY QUALIFIED	8
QUALIFIED	182
SEMI-QUALIFIED	17
UNQUALIFIED	8
TOTAL	704

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 2017, we organized trainings regarding values and responsibility, promotion of the Code of Ethics and employee awareness of our ethical values. We again implemented a cycle of courses for the acquisition of knowledge of the Word, Excel and AutoCAD programmes. In accordance with the transition to the new ISO 9001:2015 and ISO 14001: 2015 standards, more than 100 employees received education regarding the standards and were acquainted with new features and changes in this area. In the field of electrical engineering and energy, employees in addition to participation in various

professional training courses, also received training regarding work under voltage, engaged in professional exams under the Companies Act, and exams for operators of energy installations and NVQ exams. Workshops on effective leadership and communication were organized for employee managers.

A great deal of attention is paid to occupational health and safety. At Elektro Celje d.d., we are aware of the importance of strengthening the health and welfare of employees, so we conducted a survey on the lifestyles, psychosocial risk factors and health status of employees and their interest in specific activities to maintain and improve their health and well-being. The survey involved 67 employees.

Employees also took part in various seminars, workshops and conferences, as well as functional education, which is essential for the work process. In addition, our employees also attend free trainings provided by our contractors. Internal trainings are carried out as a way of transferring

knowledge among employees and optimising financial resources. In 2017 internal trainings covered various areas of the IT system, implementation of annual development interviews and meter measurements. Feedback regarding satisfaction with education and training is obtained based on reports and training efficiency assessments. According to these assessments, employees were satisfied with the implemented trainings. Employees that leave who are in more demanding management or professional positions are replaced mostly through internal redistribution. We thus cultivate knowledge transfer among employees and enable career advancement for employed staff.

The development of intellectual capital and education of the company's own staff is of key importance for successful operations and the development and growth of the company. Timely recruitment of new employees is important, which germinate in our midst, while contributing to the progress of operations with their knowledge and passion.

12.2.1.3 Concern for Employee Development

We are a company with a long tradition and rich human capital, so, due to the specifics of the industry, it is important that we manage the expertise that builds up over the years. There is a lot of practical knowledge generated in the field, for we have groups of employees who are rather dislocated; group leaders, who are for the most part co-workers in the older age group, play an important role in identifying needs and transferring knowledge.

We develop professionalism, knowledge, entrepreneurship, partnership, respect and responsibility carefully. We provide new employment and career development to employees under equal conditions, without discrimination. We do not tolerate any

form of violence or mobbing among our employees. Every employee has the right to protection of privacy in the workplace and a safe and healthy working environment. In forming teams or work groups, we take into account that different individuals with different knowledge, experience and ways of thinking in the process of cooperation achieve better objectives.

Change of the management culture and development of leadership skills, various forms of mentoring and encouragement of life-long learning represent key challenges in the field of human resource management and are given priority. Through comprehensive human resource management, we pay particular attention

to identifying talent and the area of management and development of key personnel, which is of strategic importance for our organization. In the context of succession, the key objectives are to identify and train key personnel. 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. In this way, the company ensures succession and fills new key positions.

We consider a number of aspects in organizing work processes and placing employees. Recognizing that already during the stage of schooling, it is important to gain practical knowl-

edge and learn about careers in the real environment (at the same time, a great opportunity for the company to get to know the candidates for the job), students and pupils are included in the work process while obtaining practical training. At the beginning of their career path, new employees are employed as trainees.

Annual development interviews

are an important instrument for the targeted management of human resources in modern organisations striving for excellence. A cycle of annual development interviews (ADI) has been conducted at Elektro Celje since 2014, and also successfully carried out in 2017. The annual development interview is approached systematically – with the implementation of workshops for managers: Following the interviews, the company conducts a workshop with the managers to present them with results and provide them with guidelines for further work with colleagues. The annual development interview is an in-depth dialogue regarding current tasks, implemented work, results, objectives and tasks for the future, and the employee's personal development and career path. Feedback on work performance has a significant

impact on productivity.

Research on climate and employee satisfaction

In February 2017, we measured organizational climate by means of an SiOK (Slovenian Organizational Climate) questionnaire, which allows comparisons between enterprises in Slovenia and comparison with results of measured organizational climate of the company in previous years. The results of the measurements are presented to all employees, especially managers. In this way, we have begun building management culture, in which it is important that managers at all levels realise their role in the process of managing employees. This was followed by a preparation of an action plan of measures based on the measured findings.

The overall organizational climate index was 3.18 in 2017. Key advantages of the company in the field of organizational climate are reflected primarily in relation to quality, loyalty to the organization, motivation and commitment, innovation and initiative, as well as in the field of internal relations. Employees are satisfied with the continuity of employment and working hours and feel responsible for the

quality of their work. They are generally satisfied with their work and colleagues. Employees share knowledge with others and are willing to put in extra effort whenever required from their work and are also satisfied with their superiors. Key challenges based on the measurement primarily regard the area of internal communication and notification of employees, remuneration and career development.

Communication with employees

Open and regular communication between 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.

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



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

Among the purposes pursued by the company in the field of internal communication is the adoption and implementation of the **Code of Ethics** which defines the principles of ethics and ethical rules of conduct and be-

haviour of the company management and all employees. The Code of Ethics of the company is permanently available on the company's website.

Through our **Intranet site**, we regularly notified all employees of events and activities at the company in a transparent manner. A total of 146 press releases were published. Immediate superiors play a major role in internal communication, therefore we strive to ensure that information

from superiors are forwarded to all employees.

Communication with social partners

The Worker Council represents a link between employees and managers. Members represent all organizational units of the company. Employees can take this opportunity to ask questions and put forward proposals.

12.2.2 Responsibility towards Investors and the Financial Public

Communication with shareholders 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 by OECD in the procedure of the accession of the Republic of Slovenia that put emphasis on three main principles of corporate governance significant for an active shareholder concept: 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 regulations presenting the main mission.

12.2.3 Responsibility towards Customers

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

Communication with customers

Two call centres are available to Elektro Celje customers. **Call Centre** of Elektro Celje d.d., which operates within the Network Charge Department and the call centre of the subsidiary ECE. Call Centre operators receive and handle complaints, consumer notifications regarding meter faults, meter statuses required for annual billing, 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.





Flex4Grid project

At Elektro Celje, we are aware that efficient energy use in the long term for customers means providing more reliable supply and lower electricity costs.

Customers themselves can affect costs through active involvement. In 2017, a great deal of communication activities was focused on invit-



ing customers to participate in the European project Flex4Grid, the purpose of which is to help customers by using the modified price list for the network charge, influence the reduction of consumption and consequently lower the cost of electricity in households.

Those who have chosen to participate in the Flex4Grid project, have also been entered in the sweepstakes.

The **website of Elektro Celje** is used as a tool for communicating with the public.

The website contains all information required by SDH, d.d. and the Public Information Act regarding company



notifications.

Notification of customers on planned power supply interruptions

is necessary and essential for the safe performance of all necessary work on electricity installations 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. Noti-

fications of planned power supply interruptions are published on the company website, and announced via radio and local TV stations.

Communication with the local community

Our guideline regarding **media relations** is based on transparent and updated communication. Media communication predominantly regards the company's operations, new ser-



vices and sponsorship agreements, network developments and completion of major electricity distribution infrastructure. We are regular contributors to the Slovenia power industry newsletter, **Naš stik (Our Contact)**, publishing news and contributions

and informing the wider professional community of the activities implemented at the company Elektro Celje.

Communication with the influential public

We communicate with the key influ-

ential public, which includes the government institutions of the Republic of Slovenia as the majority owner of the company, the line ministries and other important institutions (EAgem, SDH, d.d. etc.) about topics related to the regulation and legislation.

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 9001:2015, ISO 14001:2015, 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 everyday 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.

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 signing deals related to the Company's expenditure including sponsorship and donation funds. In 2017, we supported 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.



POLNI CERTIFIKAT



12.3 Environmental Aspect

We prepare and use our own technical guidelines for the installation of electrical equipment and materials. Elektro Celje follows good practices of environmental protection and complies sensibly with the guidelines of local communities and population in siting electricity installations and their operation. The electricity network is systematically equipped with transformers that use 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. has been reducing its energy consumption for many years. Low energy refurbishment was carried out in many installations through the installation of heat pumps and devices for co-generation of heat and electrical power, insulation and high-quality joinery.

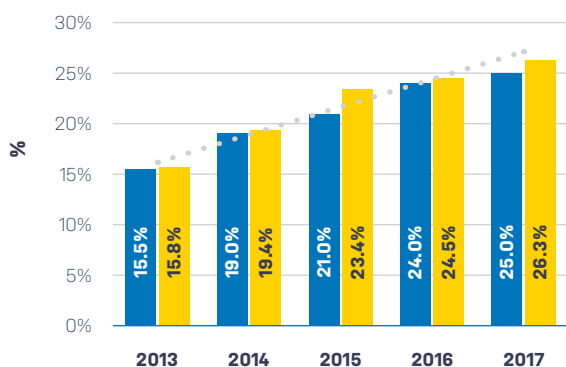
Consumption and costs of drinking water are reduced through improvement of the control of the water supply system and reducing technical losses in the water supply network and use of rainwater for domestic and process water.

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

We care for the natural environment through prudent and environmentally sound siting of power facilities in space, respect for legislation regarding electromagnetic radiation of electricity installations, noise and light pollution, and strive to minimize the impact of electricity installations on the environment and people. Wastes are collected separately, with contractual partners responsible for their removal; wastes suitable for continued use are sold.

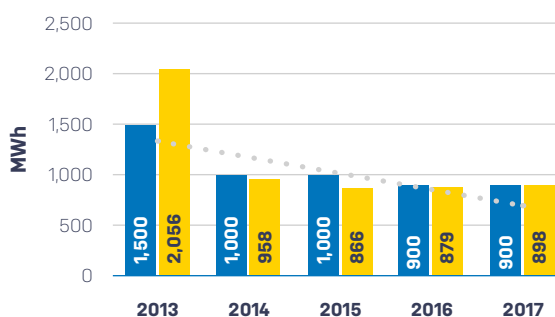
Share of transformers with environmentally sound oil (in %)

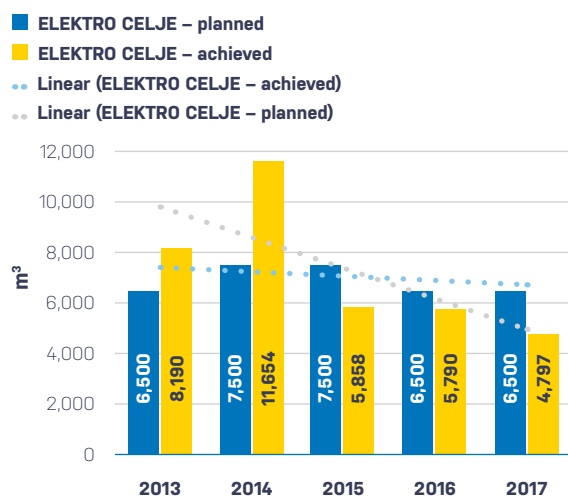
■ ELEKTRO CELJE – planned
■ ELEKTRO CELJE – achieved
... Linear (ELEKTRO CELJE – achieved)



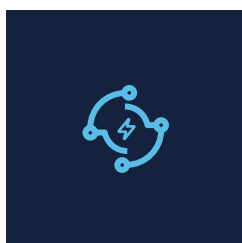
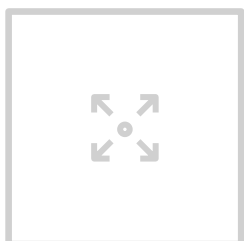
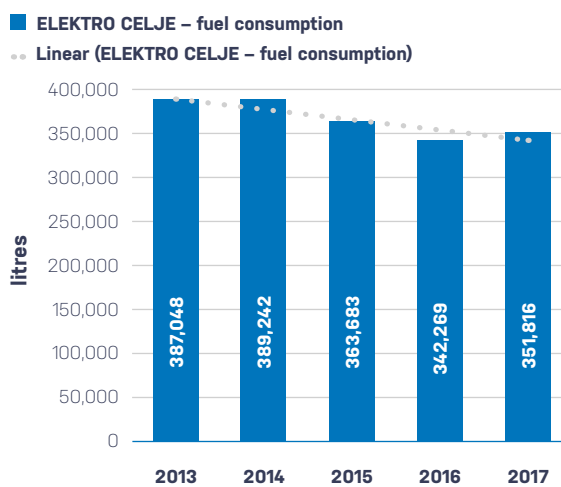
Electricity consumption (in MWh)

■ ELEKTRO CELJE – planned
■ ELEKTRO CELJE – achieved
... Linear (ELEKTRO CELJE – achieved)



Water consumption (in m³)

Consumption of fuel for transport means (in l)



→ Flexibility

Flexibility of the electricity system means the ability to adjust the production and consumption of electricity to ensure reliable network operation and a secure energy supply.



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, 2017 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, 2017, 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 introductory part and 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. We have received other information before the date of auditor's report, except the supervisory board report, which was made available later. 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, regulatory requirements 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. With regards to these procedures we report on the following:

- Other information is consistent with audited financial statements in all respect
- Other information is prepared in line with regulatory requirements and
- Based on our knowledge and understanding of the company and its environment, obtained during the audit, no material inconsistencies were found in relation to other information.

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 SAs, 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 26, 2018



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Maruša Hauptman,
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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, 2017 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, 2017, 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 introductory part and in the business report of the annual report of the Group but does not include the financial statements and our auditor's report thereon. We have received other information before the date of auditor's report, except the supervisory board report, which was made available later. 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 consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with consolidated financial statements, regulatory requirements 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. With regards to these procedures we report on the following:

- Other information is consistent with audited consolidated financial statements in all respect
- Other information is prepared in line with regulatory requirements and
- Based on our knowledge and understanding of the company and its environment, obtained during the audit, no material inconsistencies were found in relation to other information.

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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

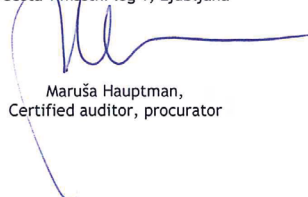
We communicate with Audit Committee and Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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 26, 2018



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


Maruša Hauptman,
Certified auditor, procurator

14 FINANCIAL STATEMENTS OF ELEKTRO CELJE

14.1 Balance sheet

Item (in EUR)		Note	Amount	
			As of December 31, 2017	Stanje na dan December 31, 2016
ASSETS				
A.	Long-term assets (I. + II. + III. + IV. + V. + VI.)		264,121,289	261,663,678
I.	Intangible assets and long-term accrued revenue and deferred expenses (1 to 6)	15.4.1	3,644,997	1,544,031
	1. Long-term property rights		3,644,940	1,222,401
	4. Intangible assets in development		0	321,351
	6. Other long-term accrued revenue and deferred expenses		57	279
II.	Property, plant and equipment (1 to 4)	15.4.2	247,578,613	246,036,537
	1. Land and buildings (a + b)		179,068,772	178,131,624
	a) Land		5,945,419	5,884,577
	b) Buildings		173,123,353	172,247,047
	2. Production equipment and machinery		60,718,155	61,984,729
	3. Other plant and equipment		90,785	88,222
	4. Tangible fixed assets in the course of acquisition (a + b)		7,700,901	5,831,962
	a) Property, plant and equipment under construction		7,680,901	5,831,962
	b) Advances for the acquisition of tangible fixed assets		20,000	0
IV.	Long-term financial investments (1 to 2)	15.4.3	7,653,937	7,579,228
	1. Long-term financial investments excluding loans (a + b + c + d)		7,653,937	7,579,228
	a) Shares and shareholdings in companies within the corporate group		7,246,975	7,246,975
	c) Other shares and shareholdings		406,962	332,253
V.	Long-term operating receivables (1 to 3)	15.4.6.1	3,552,634	4,733,721
	2. Long-term trade receivables		3,544,119	4,725,754
	3. Long-term operating receivables due from others		8,515	7,967
VI.	Deferred tax assets	15.4.4	1,691,108	1,770,161
B.	Current assets (I. + II. + III. + IV. + V.)		11,750,281	11,579,999
II.	Inventory (1 to 4)	15.4.5	1,111,563	1,161,017
	1. Material		1,111,563	1,161,017
IV.	Short-term operating receivables (1 to 3)	15.4.6.2	10,467,657	10,238,293
	1. Short-term operating receivables from companies within the corporate group		17,275	11,828
	2. Short-term trade receivables		10,101,826	10,015,647
	3. Short-term operating receivables due from others		348,556	210,818
V.	Cash	15.4.7	171,061	180,689
C.	Short-term accrued revenue and deferred expenses	15.4.8	3,826,125	2,816,313
TOTAL ASSETS (A + B + C)			279,697,695	276,059,990

Item (in EUR)		Note	Amount	
			As of December 31, 2017	Stanje na dan December 31, 2016
LIABILITIES				
A.	Equity	15.4.9	207,146,133	200,929,373
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	41,242,219	35,266,336
	1. Legal reserves		3,488,499	3,035,361
	2. Reserves for own shares and interests		635,799	541,833
	3. Own shares and interests		-635,799	-541,833
	5. Other revenue reserves		37,753,720	32,230,975
V.	Reserves resulting from valuation at fair value	15.4.9	-454,619	-356,704
VI.	Retained earnings	15.4.9	152,105	0
	1. Retained earnings from previous years		152,105	0
VII.	Net income/profit for the year	15.4.9	2,992,910	2,806,223
	1. Undistributed net income/profit for the year		2,992,910	2,806,223
B.	Provisions and long-term accrued expenses and deferred revenue (1 to 3)	15.4.10	19,740,802	19,132,507
	1. Provisions for pensions and similar liabilities		5,915,537	5,743,800
	2. Other provisions		826,783	31,850
	3. Long-term accrued expenses and deferred revenue		12,998,482	13,356,857
C.	Long-term liabilities (I.+ II.+ III.)	15.4.11	28,630,688	34,146,052
I.	Long-term financial liabilities (1 to 4)	15.4.11	28,489,156	33,810,599
	2. Long-term financial liabilities to banks		27,702,950	33,810,599
	4. Other long-term financial liabilities		786,206	0
II.	Long-term operating liabilities (1 to 5)	15.4.11	130,139	327,266
	2. Long-term trade payables		130,139	327,266
III.	Deferred tax liabilities	15.4.12	11,393	8,187
Č.	Short-term liabilities (I.+ II.+ III.)	15.4.13	23,452,968	21,156,172
II.	Short-term financial liabilities (1 to 4)	15.4.13	11,241,600	11,186,305
	2. Short-term financial liabilities to banks		11,237,733	11,182,132
	4. Other short-term financial liabilities		3,867	4,173
III.	Short-term operating liabilities (1 to 8)	15.4.14	12,211,368	9,969,867
	1. Short-time operating liabilities to companies within the corporate group		48,675	49,428
	2. Short-time trade payables		4,547,882	2,713,544
	4. Short-time operating liabilities from operations for third-party account		3,655,124	3,940,329
	5. Short-time liabilities to employees		3,120,054	2,137,316
	6. Short-time liabilities to state and other institutions		200,971	643,049
	7. Short-time operating liabilities based on advances		94,289	8,017
	8. Other short-time operating liabilities		544,373	478,184
D.	Short-term accrued expenses and deferred revenue	15.4.14	727,104	695,886
TOTAL LIABILITIES (A + B + C + D + E)			279,697,695	276,059,990

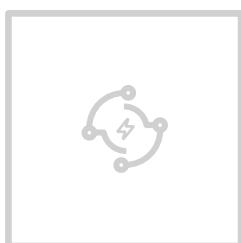
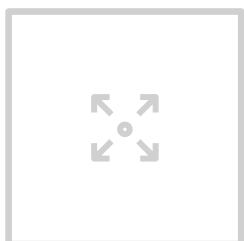
14.2 Income statement

Item (in EUR)		Note	Amount	
			Current year	Previous year
1.	Net sales revenue (a + b)	15.6.1	49,823,026	49,517,923
	a. In the domestic market		49,823,026	49,517,923
3.	Capitalised own products and services	15.6.2	14,011,503	13,260,484
4.	Other operating revenue (including revaluation surplus)	15.6.3	1,801,851	2,011,845
5.	Costs of goods, materials and services (a + b)	15.6.4	16,361,091	15,076,496
	a. Cost of goods and material		10,189,292	8,593,165
	b. Cost of services		6,171,799	6,483,331
6.	Labour costs (a + b + c + d)	15.6.5	21,976,626	21,748,590
	a. Cost of salaries		15,760,859	15,441,099
	b. Pension insurance costs		2,201,338	2,178,378
	c. Other social security costs		1,170,305	1,154,916
	d. Other labour costs		2,844,124	2,974,197
7.	Write-downs and write-offs (a + b + c)	15.6.6	18,293,089	18,078,803
	a. Amortisation and depreciation		17,478,892	17,453,965
	b. Operating expenses from revaluation of intangible and tangible fixed assets		798,324	460,515
	c. Operating expenses from revaluation of current assets		15,873	164,323
8.	Other operating expenses	15.6.7	316,640	368,196
9.	Financial revenue from shares (a + b + c)	15.6.8	1,532,400	416,221
	a. Financial revenue from shares in companies within the corporate group		1,525,000	408,791
	b. Financial revenue from shares in other companies		7,400	7,430
10.	Financial revenue from loans granted (a + b)	15.6.9	186	94
	b. Financial revenue from loans to others		186	94
11.	b. Financial revenue from operating receivables (a + b)	15.6.10	273,412	54,111
	b. Financial revenue from operating receivables due from third parties		273,412	54,111
13.	Financial expenses from financial liabilities (a + b + c + d)	15.6.11	383,449	540,474
	b. Financial expenses related to loans from banks		383,449	540,474
14.	Financial expenses from operating liabilities (a + b + c)	15.6.12	72,321	101,880
	b. Financial expenses from trade payables and bills payable		1,110	0
	c. Financial expenses from other operating liabilities		71,211	101,880
15.	Other revenue	15.6.13	10,652	8,707
16.	Other expenses	15.6.14	53,348	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)	15.6.15	9,996,466	9,254,145
18.	Income tax	15.6.17	842,941	919,951
19.	Deferred taxes	15.6.17	90,766	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)	15.6.15	9,062,759	9,435,710

14.3 Statement of other comprehensive income

Item (in EUR)		Current year	Previous year
1.	Net profit or loss for the financial period	9,062,759	9,435,710
3.	Changes in reserves resulting from valuation at fair value	13,666	-1,599
a.	Revaluation of financial investments measured at fair value through equity	16,872	-888
b.	Adjustment to reserves resulting from valuation at fair value for deferred tax liabilities	-3,206	-711
5.	Other components of comprehensive income	-129,575	-278,345
a.	Actuarial gains/losses in provisions for severance pays	-141,288	-308,530
c.	Impact of deferred tax on actuarial gains/losses in provisions for severance pays	11,713	30,185
6.	Total comprehensive income for the financial period (1 + 2 + 3 + 4 + 5)	8,946,850	9,155,766

Notes to the Statement of Comprehensive Income are shown in Section 15.6.16.



14.4 Statement of cash flows

Item (in EUR)	Note	Current year	Previous year
1	2	3	4
A. Cash flows from operating activities			
a) Inflows from operating activities	15.7.1	104,882,469	100,565,962
Inflows from sale of goods and services		103,718,034	99,472,189
Other inflows from operating activities		1,164,435	1,093,773
b) Outflows from operating activities	15.7.2	-91,316,751	-88,253,010
Purchase of material and services		-62,161,162	-59,633,329
Salaries and employees' share in the profit		-20,438,975	-20,726,734
Charges (contributions and other taxes)		-7,599,328	-6,829,680
Other outflows from operating activities		-1,117,286	-1,063,267
c) Positive or negative net cash flow from operating activities (a + b)		13,565,718	12,312,952
B. Cash flow from investing activities			
a) Inflows from investing activities	15.7.3	2,356,891	791,226
Inflows from interests and dividends received relating to investing activities		1,532,586	416,288
Inflows from disposal of property, plant and equipment		824,305	374,938
b) Outflows from investing activities	15.7.4	-6,769,087	-7,369,834
Cash payments for the acquisition of intangible assets		-1,965,850	-779,844
Purchase of property, plant and equipment		-4,745,400	-6,589,990
Purchase of financial investments		-57,837	0
c) Positive or negative net cash flow from investing activities (a + b)		-4,412,196	-6,578,608
C. Cash flows from financing activities			
a) Inflows from financing activities	15.7.5	13,750,000	32,736,000
Inflows from the increase in financial liabilities		13,750,000	32,736,000
b) Outflows from financing activities	15.7.6	-22,913,150	-38,313,778
Interest paid on financing activities		-380,706	-554,695
Cash payments for equity redemption		-93,966	-541,833
Repayment of financial liabilities		-19,802,048	-33,123,695
Dividends and other profit shares paid		-2,636,430	-4,093,555
c) Positive or negative net cash flow from financing activities (a + b)		-9,163,150	-5,577,778
D. Closing balance	15.7	171,061	180,689
Net cash flow for the period (sum of net cash flows Ac, Bc and Cc)	15.7	-9,628	156,566
Opening balance	15.7	180,689	24,123

14.5 Statement of changes in equity

STATEMENT OF CHANGES IN EQUITY from 1 January 2017 to 31 December 2017 (in EUR)		Called-up capital	Share premium	Revenue reserve				Reserves resulting from val- uation at fair value	Retained net profit or loss		Net profit or loss for the year	Total
				Legal reserves	Reserves for own shares and interests	Own shares and interests	Other revenue reserves		Retained net profit	Retained net loss		
A.1.	Balance at the end of previous period	100,953,201	62,260,317	3,035,361	54,1833	-54,1833	32,230,975	-356,704	0	0	2,806,223	200,929,373
A.2.	"Balance at the beginning of the reporting period	100,953,201	62,260,317	3,035,361	54,1833	-54,1833	32,230,975	-356,704	0	0	2,806,223	200,929,373
B.1.	Changes in equity – transactions with shareholders	0	0	0	0	-93,966	0	0	-2,636,124	0	0	-2,730,090
a)	Purchase of own shares and interests	0	0	0	0	-93,966	0	0	0	0	0	-93,966
b)	Dividends paid	0	0	0	0	0	0	0	-2,636,124	0	0	-2,636,124
B.2.	Total comprehensive income in the financial year	0	0	0	0	0	0	-115,909	0	0	9,062,759	8,946,850
a)	Input of net profit/loss from the reporting period	0	0	0	0	0	0	0	0	0	9,062,759	9,062,759
b)	Changes in reserves resulting from valuation of financial investments at fair value	0	0	0	0	0	0	13,666	0	0	0	13,666
c)	Other components of comprehensive income in the reporting period	0	0	0	0	0	0	-129,575	0	0	0	-129,575
B.3.	Changes in equity	0	0	453,138	93,966	0	5,522,745	17,994	2,788,229	0	-8,876,072	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	2,806,223	0	-2,806,223	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	453,138	93,966	0	5,522,745	0	0	0	-6,069,849	0
d)	Other changes in equity	0	0	0	0	0	0	17,994	-17,994	0	0	0
C.1.	Balance at the end of the reporting period	100,953,201	62,260,317	3,488,499	635,799	-635,799	37,753,720	-454,619	152,105	0	2,992,910	207,146,133
DISTRIBUTABLE PROFIT		0	0	0	0	0	0	0	152,105	0	2,992,910	3,145,015

Notes to the Statement of Changes in Equity are shown in Section 15.8.

STATEMENT OF CHANGES IN EQUITY from 1 January 2016 to 31 December 2016		Called-up capital	Share premium	Revenue reserve				Reserves resulting from valuation at fair value	Retained net profit or loss		Net profit or loss for the year	
				Legal reserves	Reserves for own shares and interests	Own shares and interests	Other revenue reserves		Retained net profit	Retained net loss	Net profit for the year	Total
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 reporting period	0	0	0	0	0	0	-279.944	0	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	-1599	0	0	0	-1599
c)	Other components of comprehensive income in the reporting period	0	0	0	0	0	0	-278.345	0	0	0	-278.345
B.3.	Changes in equity	0	0	471.605	541.833	0	5.612.446	4.322	3.233.310	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
d)	Other changes in equity	0	0	0	0	0	0	4.322	-719	-3.603	0	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.

15 EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS

15.1 Reporting Company

Elektro Celje, d.d. is the parent company of the Elektro Celje Group.

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 El-

ektro Celje, it ensures the long-term performance of the network, as well reliable, safe and efficient electricity supply to customers.

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 2017. 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 also prepare a consolidated annual report.

15.2 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 the 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 30 March 2018.

b) Reporting by business and 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 Company

does not have any geographical segments. The balance sheet, income statement, statement of cash flows and criteria and standards for allocating direct and indirect costs, expenses, revenue, and assets and sources of assets 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 meas-

ured 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 recognised 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 long-service bonuses 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

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 defined for 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 for the distribution companies, as was prescribed in previous years. Controlled eligible costs of operation and maintenance (hereinafter: CCOM) are determined based on the average realised eligible costs in the period 2011–2013. Significant changes which also affect the amount of revenue in the regulatory period 2016–2018 comprise the changed conditions of recognition of the cost of insurance premiums as they are no longer recognised 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 period of three years, the costs 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 recognised 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%. Assuring the reliability and quality of the electricity supply and its efficient use requires constant investment in research and development (smart grid, advanced metering infrastructure, effective information - communications technology support), however, the Network Charges Act fails to provide financial incentives for pilot projects, while the cost and expenses of pilot projects in line with the 14th indent of paragraph 2 of Article 18 of the Act possess the nature of costs and expenses which are the result of one-time business events and are exempted from recognised CCOM. Costs and expenses of transfer of the 110 kV network to the system operator are also exempted.

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 revenue and expenses under this heading, with the contractual clause between the Company and SODO d.o.o. regulating stimulation or penalization under the heading of managing quantities of electricity losses in the network valid. Revenue under this heading for the year 2017 amounted to EUR 1.031.034 (EUR 666,235 in 2016).

Operations with SODO

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 provisions of the Agreement, the contracting 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 2018, the Company received a preliminary reconciliation of the regulatory year 2017 from SODO in accordance with the Contract and the annexes thereto, which was carried out on the basis of data from not-yet completed financial statements of the Company. From the offset it is seen that the already charged contractual value of services and lease in 2017 was EUR 3,074,131 less than the value determined on the basis of the provisions of the Network Act. The Company issued an invoice in the calculated amount of the deficit in March with payment due in April

2018 and in the amount of established difference, recognised additional revenue to SODO for 2017. The final calculation for the regulatory year 2017 will be based on audited figures from both contracting parties and the decision issued by the Energy Agency.

In 2017, the Company received a calculation from the distribution network system operator of the final deviation for the regulatory year 2015 (EUR 80,205) and 2016 (EUR -176,776 EUR), contractual interest from the

preliminary reconciliation for 2015 (EUR 205,58), and the calculation of the final deviation for the regulatory year 2014 (EUR -792,243), which is included in revenue for the financial year. Contractual interest, surpluses and deficits, received in 2017 as well as the deficit from the preliminary reconciliation of 2015 (i.e. EUR 3,426,391) will most likely be included in the regulatory period 2019–2021, when they will be charged by the Energy Agency under tariff items for the network charge charged to customers at the time.

In 2018, one third of the deficit of the preliminary reconciliation for the year 2014 (EUR 1,286,916) and of the eligible costs which were recognised in the regulatory period 2012–2014 (EUR 17,027) fall due for payment, while part of the deficit of the preliminary reconciliation for the year 2014 (EUR 107,254) will be paid in 2019.

f Amendments in accounting policies

The company did not amend its accounting policies in 2017.

15.3 Significant Accounting Policies

The Company has been using SAS 2016 for the presentation and valuation of items in the financial statements from 1 January 2016 onwards directly. The Company does not apply accounting policies which do not comply with individual accounting standards of SAS 2016.

Items for which SAS 2016 offer the Company the choice between different valuation methods, are identified with the accounting policies disclosed in the annual report for each item.

According to the provisions of SAS 2016, the Company discloses all significant items, with the importance of individual items defined in the accounting rules; in disclosing information, which form the basis for the preparation of the balance sheet and the individual balance sheet items, these are values of significant transactions or business events that exceed 2% of the value of the assets or liabilities at the balance sheet date, and in the preparation of the income statement, those that exceed 10% of total revenue or expenses of the Company in the financial year.

a) Intangible fixed 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 fixed asset. The Company discloses long-term property rights (mainly investment in software), such assets under preparation and accrued revenues and deferred expenses (long-term deferred expenses) among the intangible fixed assets. 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 recognised 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 recognised as a cost or operating expense for the period. Due to impairment, intangible fixed assets are usually revalued as soon as their book value exceeds their recoverable value.

Significant groups of depreciable assets	Estimated useful life in years	Depreciation rate in %
Computer software	3	33.33
Real rights in immovable property	100	1.00
Right to use facilities	30	3.33

Long-term accrued revenue and deferred expenses include amounts of deferred costs and expenses relating to a period longer than one year and are not yet charged to the profit or loss.

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 administrative 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 recognised 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, whereby for each individual

investment, the capitalisation rate is calculated, taking into account the average weighted interest rate deducted from investment loans in the current year. 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 divid-

ed 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. Derecognition and disposal of tangible fixed assets arise from new investments, investments in reconstruction and restoration, technical, economic or physical obsolescence of fixed assets, disposal and loss events, and primarily due to extreme weather events. Gains and losses upon disposal or elimination, which is determined by comparing sales revenue to the book 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 recognised 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, change 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.

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

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 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.

The Company verifies the useful lives of significant fixed assets whose cost exceeds EUR 1 million at least every two years, with deprecia-

tion rates recalculated accordingly, 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 revenue 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 financial investments. Long-term financial investments that mature within one year after the balance sheet date are reclassified 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. Received profit pay-outs from long-term investments are recognised 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 recognised 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 recognises 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 is recognised directly in equity

as an increase (gain) or a reduction (loss) in reserves resulting from valuation at fair value.

A financial investment/group of financial investments carried at cost by the Company is impaired (long-term) which causes losses if objective evidence of impairment for a financial investment/group of financial investments exists and their recorded book value is higher than the proven realizable value due to an event/events after initial recognition of the investment. On the balance sheet date, the Company carries out a test to assess the impairment of financial investments in equity instruments, 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 due to impairment.

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 recognised in the balance sheet of the Company and transactions and other business events in the period in question, recognised in the financial statements of the Company).

Deferred tax assets are the amounts of income taxes recoverable in fu-

ture periods and recognised 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 realised 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 reassessment of the recoverability of deferred tax assets or changes in the expected manner of recovery of the assets, the resulting deferred tax is recognised in profit or loss, except to the extent that it relates to items previously recognised outside profit or loss.

e) Inventory

Inventory comprises 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 inventory

Stocks of materials in the accounting records and the balance sheet are recognised 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 inventory 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 inventory

Stocks of materials are revalued due to impairment if their book value exceeds their net realisable 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 recognised as short-term receivables. Receivables that arise in the Company are mainly trade receivables, receivables from employees, from the state, from suppliers for advance payments 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 recognised 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 amortised 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 valuation 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 composition proceedings, the Company carries out a valuation adjustment depending on the decisions of compulsory compositions or in the amount of 80% if compulsory composition has not yet

been confirmed. Valuation adjustments are reduced by payments and write-offs of receivables on the basis of supporting documents: court decision, decision on compulsory composition, 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 operating receivables from SODO are remunerated in accordance with the Network Charges Act; by 2015 in accordance with Article 84 and section 5.3 (*Official Gazette of RS, no. 81, dated 29 October 2012*) and from 2016 onwards in accordance with Article 85 and the third section of Annex 1 (*Official Gazette of RS, no. 66, dated 14 September 2015*). 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

Cash of the Company include scriptural money (i.e. money in the transactions accounts listed in Section 15.4.7) 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 converted to known amounts of cash quickly or 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. It consists of called-up capital, capital reserves, profit reserves, revaluation reserves, reserves resulting from valuation at fair value, retained net earnings from previous years, 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 dematerialised 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 its share capital.

The Company's capital reserves consist of amounts of reversals of the general capital revaluation adjustment and are formed in accordance with item 15 of the Introduction to SAS 2006 (transitional provisions) 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 (ZGD-1) and Articles of Association of the Company from net profit amounts for the business year. Reserves for treasury shares are formed in accordance with the Articles of Association of the Company in the following order: from the net profit for the year, retained earnings and from other profit reserves, which exceed the amount of any losses brought forward, which could not be offset against net profit for the year. Other profit reserves are established in the amount and under the conditions laid down by the law and Articles of Association of the Company. The Management Board may establish other profit reserves in the proportion of 2/3 of the remaining net profit for the year that remains after legal reserves and reserves for treasury shares are formed, unless they already amount to one half of share capital; other profit reserves form own source of investment financing. 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 net 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. Reserves arising from revaluation at fair value are 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 accrued 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 recognised if due to a past event a current obligation exists (with probability 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 recognised 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. 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 Company determines and in the income statement recognises revenue 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 recognised 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 revenue. 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 recognises long-term accrued expenses and deferred revenue for the calculation of average costs of connection 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 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 depreciation 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 recognised obligations associated with the financing of own assets, which must be repaid or settled, mainly 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 recognised 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, and 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 amortised 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 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, recognised 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 ac-

crued revenue include short-term deferred costs/expenses, which are expected to be realised 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 recognised when it is probable that during the period for which they were created, such revenue and costs/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 recognised. 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 are 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 liabil-

ities in respect of previous business years.

m) Revenue

Revenue is broken down into operating, financial and other revenue. Operating and financial revenue are regular revenue.

Operating revenue comprises net sales revenue, capitalised own products and services and other operating revenue associated with business effects.

Net sales revenue includes revenue of SODO from the lease of electricity infrastructure and the provision of related services, revenue from the provision of services to customers in the market, from rental of premises and the Company's vacation facilities. Amounts that have been invoiced in the name and for the account of SODO d.o.o. are not shown under revenue, but among operating liabilities towards SODO. 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 revenue 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 revenue. Revenue from interest is recognised on the date of its occurrence using the effective interest rate, revenue 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 recognised 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 recognised 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 in-

clude 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 revenue.

Other expenses include unusual items and other expenses reducing profit. (fines, compensation, annuities, etc.).

Recognition of expenses

Costs and expenses are recognised if decreases in economic benefits during the accounting period are associated with decreases in assets or increases in liabilities and if these decreases can be reliably measured. Operating expenses from revaluation are recognised when the adequate revaluation is performed. Financial expenses are recognised at settlement irrespective of the payments associated with them. Borrowing costs are recognised in the income statement using the effective interest method, except for those costs that are capitalised 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 current assets due to their revaluation to a lower value, and in relation to the sale or other disposal of fixed assets and their derecognition.

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 revenue and expenses that are not recognised 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 cash balance 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.

Inflows 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 2017. It is com-

posed 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 dif-

ference 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

Intangible long-term assets (in EUR)	31 December 2017	31 December 2016
Long-term property rights	3,644,940	1,222,401
Intangible long-term assets in development	0	321,351
Other long-term accrued revenue and deferred expenses	57	279
Total	3,644,997	1,544,031

Changes in intangible fixed assets

Intangible fixed assets (in EUR)	Long-term property rights	Intangible assets in development	Long-term accrued revenue and deferred expenses	Total
Cost				
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
As of 1 January 2017	8,066,063	321,351	279	8,387,693
Increase	0	2,823,949	57	2,824,006
Carry-over from ongoing investments	3,145,300	-3,145,300	0	0
Decrease	-59,625	0	-279	-59,904
As of 31 December 2017	11,151,738	0	57	11,151,795
Revaluation adjustment				
As of 1 January 2016	6,251,031	0	0	6,251,031
Amortisation and depreciation	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
As of 1 January 2017	6,843,662	0	0	6,843,662
Amortisation and depreciation	719,406	0	0	719,406
Rentals from holiday facilities	3,355	0	0	3,355
Decrease	-59,625	0	0	-59,625
As of 31 December 2017	7,506,798	0	0	7,506,798
Carrying value				
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
As of 1 January 2017	1,222,401	321,351	279	1,544,031
As of 31 December 2017	3,644,940	0	57	3,644,997

Property rights predominantly represent investments in software in the amount of EUR 3,623,130. The value of new acquisitions in 2017 amounted to EUR 2,823,949 (EUR 1,055,230 in 2016), while activation amounted to EUR 3,145,300 (EUR 743,930 in 2016). The majority of resources were earmarked by the Company for the MS Dynamics AX (EUR 1,573,303) and IBM Maximo (EUR 1,116,648) information systems. For the investment in the MS Dynamics AX information system, the cost and current value of which as at 31 December 2017

amounted to EUR 1,573,30, the Company concluded a financial lease contract for the accrued portion of the total value of the contract, disclosing long-term liabilities in the amount of EUR 786,206 according to the balance sheet as at 31 December 2017.

The acquisition cost 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 46,487 as at 31 December 2017 (EUR 44,175

on 31 December 2016), while the revaluation adjustment of those rights amounted to EUR 2,104 (EUR 1,655 on 31 December 2016). Rights in rem on immovable property under acquisition amounted to EUR 876 as at 31 December 2017.

Trade payables for the acquisition of intangible assets amounted to EUR 1,658,005 as at 31 December 2017 (EUR 543,690 on 31 December 2016) and the Company did not have any intangible assets pledged as security for the repayment of debts.

15.4.2 Tangible Fixed Assets

Property, Plant and Equipment (in EUR)	31 December 2017	31 December 2016
Land	5,945,419	5,884,577
Buildings	173,123,353	172,247,047
Equipment	60,808,940	62,072,951
Property, plant and equipment in the course of acquisition	7,680,901	5,831,962
Advance payments for tangible fixed assets	20,000	0
Total	247,578,613	246,036,537

The carrying value of tangible fixed assets as at 31 December 2017 in the amount of EUR 247,578,613 represented 88.5% of balance sheet total of the Company. Advances for tangible fixed assets in the amount of EUR 20,000 were given for the purchase of land in the Bučanje tourist village.

Significant activation of the energy infrastructure in 2017 relating to the first phase of construction of the 20 kV underground cables in the length of 3.2 km between DTS Ravne and DS Mežica (EUR 723,189), the replacement of 2 x 20 kV overhead power lines, which connect Nazarje and

Ljubno with 3 x 20 kV underground cables (EUR 683,947), renovation of the existing 20 kV overhead power line in the Logar valley (EUR 185,979) and construction of new underground cables: 2.2 km between OPL 20 kV Tičevo and OPL 20 kV Lipoglav (EUR 151,824), 1.8 km between OPL 20 kV Jurklošter and TS Lipni dol with the transformer substation Lipni dol (EUR 147,080) and 1.4 km between OPL 20 kV Škrlevo and OPL 20 kV Hom (EUR 147,080). New equipment was constructed in the 20 kV switchyard of DTS Ravne (EUR 177,900), primary and secondary equipment replaced in the 110 kV switchyard of DTS

Slovenj Gradec (EUR 159,737 EUR) and protection and control equipment replaced in the 20 kV switchyard of DTS Slovenj Gradec (EUR 120,463). A new 20kV switching block (EUR 103,911) was constructed at DS Pristava, while in the remote-control centre decrepit wall displays were replaced, which dispatchers require to manage and control remotely-controlled DTSSs, DSs, TSs and RCSs (EUR 126,410). In 2017, 13,637 different electricity meters were replaced and newly installed in the amount of EUR 1,403,747 (mainly 3-phase smart meters).

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 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	0	0	0	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
As of 1 January 2017	5,886,232	566,273,044	161,911,082	5,831,962	0	739,902,320
transfer from account 021 to 040	0	-28,273	28,273	0	0	0
Increase	0	0	0	19,681,203	20,000	19,701,203
Carry-over from ongoing investments	65,100	12,514,108	5,253,056	-17,832,264	0	0
Decrease	-3,808	-7,574,221	-3,860,757	0	0	-11,438,786
As of 31 December 2017	5,947,524	571,184,658	163,331,654	7,680,901	20,000	748,164,737
Revaluation adjustment						
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 and depreciation	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
As of 1 January 2017	1,655	394,025,997	99,838,131	0	0	493,865,783
transfer from account 021 to 040	0	-11,388	11,388	0	0	0
Amortisation and depreciation	450	10,490,082	6,268,954	0	0	16,759,486
Decrease	0	-6,443,386	-3,595,759	0	0	-10,039,145
As of 31 December 2017	2,105	398,061,305	102,522,714	0	0	500,586,124
Carrying amount						
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
As of 1 January 2017	5,884,577	172,247,047	62,072,951	5,831,962	0	246,036,537
As of 31 December 2017	5,945,419	173,123,353	60,808,940	7,680,901	20,000	247,578,613

The cost of fixed assets also includes borrowing costs 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 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, whereby the capitalisation rate was calculated for each investment, taking into account the weighted in-

terest rate of withdrawals from the investment credit facility with the European Central Bank in the current year. Borrowing costs which in 2017 were attributed to newly activated engineering structures amounted to EUR 4,330 (EUR 12,518 in 2016) and to new equipment in the amount of EUR 839 (EUR 800 in 2016); Investments in progress include EUR 2,792 of interest (EUR 4,106 in 2016).

The rate of depreciation of buildings amounted to 69.7% (69.6% in 2016) and software 62.8% (61.7% in 2016).

Significant individual alienation (disposal) of electricity infrastructure as a result of investments in new investments, reconstruction and restoration and technical, economic or physical obsolescence of fixed assets relate to fixed assets that no longer have current values, and therefore the cost and value adjustments were reduced by the same amount: a digital telecommunications network, which was installed in the DTSs Slovenj Gradec, Vuzenica, Ravne and Velenje (EUR 560,029), NEO 2000 equipment in DTS Ravne

(EUR 317,779), wall displays in DCCs (EUR 191,385), OPL 2 x 20 kV between the DS Nazarje and DS Ljubno (EUR 143,954) and DS 20 kV Dravograd - Vuzenica (EUR 84,730). The write-off of fixed assets due to storms in 2017 amounted to EUR 583,750.

In accordance with Article 512 of the Energy Act (EZ-1 – Official Gazette of RS, no. 17/14 dated 7 March 2014) and the Regulation on the delimitation of the 110 kV network in the distribution and transmission system (Official Gazette of RS, no. 35/15 dated 22 May 2015), the Company in 2017 transferred the high voltage 110 kV transmission network to the system operator at amortised cost of EUR 530,988; the cost of fixed assets on the transfer date amounted to EUR 2,675,091, while the current value is EUR 526,034 (OPL 2 x 110 kV NEK Krško – DTS Brežice, OPL 1 x 110 kV DTS Krško – NEK Krško, 2 x OPGW on the OPL 110 kV NEK Krško – DTS

Brežice, optic cables on the OPL 110 kV NEK Krško – DTS Brežice, 110 kV switchyard at DTS Brežice.

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 leased to SODO d.o.o. based on the Contract on leasing of the electricity distribution infrastructure and provision of services for the system operator and associated annexes on 31 December 2017 amounted to EUR 219,030,331 (EUR 218,905,578 in 2016) with other assets amounting to EUR 23,269,750 (EUR 21,306,367 in 2016); out of this amount, intangible fixed assets amounted to EUR 3,625,948 (EUR 1,205,256 in 2016) and tangible fixed assets EUR 238,674,133 (EUR 239,006,689 in 2016). The calculated value of reve-

nue from leases to SODO for the financial year 2017 in the preliminary reconciliation of the regulatory year 2017 amounted to EUR 26,024,332 (EUR 25,588,834 in 2016).

The cost of the construction and manufacture of tangible fixed assets for the Company's own account in 2017 amounted to EUR 14,011,503 (EUR 13,260,484 in 2016), purchases from suppliers EUR 5,305,451 (EUR 5,758,418 in 2016), and acquisitions free of charge EUR 364,248 (EUR 442,418 in 2016). The Company disclosed recorded liabilities in the amount of EUR 1,111,346 (EUR 942,594 in 2016) for the acquisition of tangible fixed assets on 31 December 2017. The Company as at 31 December 2017 did not have any tangible fixed assets acquired through financial leasing or any tangible fixed assets pledged as security for liabilities.

15.4.3 Long-term Financial Investments

Long-term financial 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 as at 31 December 2017 amounted to EUR 18,174,005. In 2017, the Company operated with a net profit of EUR 2,034,753.

- 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. Total equity of the Company as at 31 December 2017 amounted to EUR 2,400,445 with net profit for 2017 amounting to EUR 44,827.

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. Reserves arising from the valuation at fair value through equity, which as at 31 December 2016 amounted to EUR 43,090, increased by EUR 16,872 due to revaluation of the shares of Zavarovalnica Triglav, d.d. and as at 31 December 2017 amounted to EUR 59,962. For investments carried at cost and whose price is not quoted on an active market, the Company has estimated that in 2017 there was no need for their revaluation.

Other shares and shareholdings (in EUR):	31 December 2017	Number of shares or shareholdings	31 December 2016	Number of shares or shareholdings
Zavarovalnica Triglav, d. d.,	85,544	2.960	68,672	2.960
Informatika, d. d.,	206,987	2.479	206,987	2.479
Stelkom, d. o. o.,	114,431	12.64%	56,594	6.32%
Total	406,962		332,253	

Changes in long-term financial investments in 2017

Item (in EUR)	Investments into companies within the corporate group	Other investments	Total
Carrying value as of 1 January 2016	7,246,975	333,141	7,580,116
Changes in the other comprehensive income	0	-888	-888
Carrying value as of 31 December 2016	7,246,975	332,253	7,579,228
Carrying value as of 1 January 2017	7,246,975	332,253	7,579,228
Increase	0	57,837	57,837
Changes in the other comprehensive income	0	16,872	16,872
Carrying value as of 31 December 2017	7,246,975	406,962	7,653,937

The financial investment in the company Stelkom d.o.o. has increased in 2017 by the value of the share purchase in the amount of EUR 57,837 and as at 31 December amounted to EUR 114,431.

The Company has in recent years

carried out financial investment impairment for its investment in the company Informatika d.d., in which it has a 12.64% stake in the share capital in the amount of 33% of the investment, and on 31 December 2015, the Company carried out an impairment in the amount of EUR 103,508.

The investment in the equity of the Stelkom company was also impaired by EUR 1,243 in 2004.

The Company did not hold stakes in other companies for which it possessed unlimited 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 and 2017, with the same rate expected to be used in the coming years.

As at 31 December 2017, 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.

Deferred Tax Assets (in EUR)	31 December 2017	31 December 2016
Short-term receivables	151,939	177,336
Long-term receivables	15,154	14,561
Provisions for long-term benefits	550,146	535,854
Financial assets measured at cost	19,667	19,667
Long-term accrued expenses and deferred revenue for fixed assets acquired free of charge	952,237	1,022,743
Depreciation and amortisation calculated above tax deductible one	1,965	0
Total	1,691,108	1,770,161

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	Depreciation and amortisation calculated above tax deductible one	Total
As of 1 January 2016	167,030	6,322	447,511	17,597	0	0	638,460
Recognised in the Income Statement	10,306	8,239	58,158	2,070	1,022,743	0	1,101,516
Recognised in the Comprehensive Income Statement	0	0	30,185	0	0	0	30,185
Reversed in the Income Statement	0	0	0	0	0	0	0
As of 31 December 2016	177,336	14,561	535,854	19,667	1,022,743	0	1,770,161
As of 1 January 2017	177,336	14,561	535,854	19,667	1,022,743	0	1,770,161
Recognised in the Income Statement	-25,397	593	2,579	0	-70,506	1,965	-90,766
Recognised in the Comprehensive Income Statement	0	0	11,713	0	0	0	11,713
Reversed in the Income Statement	0	0	0	0	0	0	0
As of 31 December 2017	151,939	15,154	550,146	19,667	952,237	1,965	1,691,108

15.4.5 Inventory

Inventory (in EUR)	31 December 2017	31 December 2016
Material	1,019,117	1,082,705
Small tools	92,446	78,312
Total	1,111,563	1,161,017

During the regular annual inventory, which was carried out according to the state on 30 November 2017, the Company established a EUR 1,574 deficit (EUR 5,575 in 2016) and a EUR

1,214 surplus (EUR 3,823 in 2016), which was calculated within the scope of expenditures and revenue of the Company. Due to obsolescence or changes in the quality of

materials, EUR 9,604 worth of inventories were written off in 2017 (EUR 39,270 in 2016). The Company had no inventories pledged as security for its obligations.

15.4.6 Receivables

Total receivables of the Company as at 31 December 2017 amounted to EUR 14,020,291, of which EUR 10,467,657 comprised short-term operating re-

ceivables. The revaluation adjustment of receivables on 31 December 2017 amounted to EUR 799,853, while revenue from a reversal of adjustments

to receivables amounted to EUR 5,575. Security for receivables and maturity analysis are presented in Section 15.9.1 – Credit risk.

Changes in revaluation adjustments to short-term receivables for 2017

Item (in EUR)	As of 1 January 2017	Write-downs and write-offs	Reconciliation		As of 31 December 2017
			Increase	Reversal	
Adjustments to trade receivables - network charge	720,909	-82,073	0	18,784	620,052
Adjustments to trade receivables - services	116,676	-19,506	8,508	0	105,678
Adjustments to trade receivables - other	14,940	0	1,327	0	16,267
A Total adjustments to trade receivables	852,525	-101,579	9,835	18,784	741,997
Adjustments to late charge - network charge	61,381	-22,937	786	0	39,230
Adjustments to late charge - services	6,689	-2,880	324	0	4,133
Adjustments to late charge - other	3,612	-100	0	0	3,512
B Total adjustments to late charge	71,682	-25,917	1,110	0	46,875
Adjustments to misc. short-term receivables	9,315	-618	2,284	0	10,981
C Total adjustments to misc. short-term receivables	9,315	-618	2,284	0	10,981
Č Adjustments to short-term advance payments made	0	0	0	0	0
TOTAL (A + B + C)	933,522	-128,114	13,229	18,784	799,853

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 receivables - network charge	795,875	-146,654	71,688	0	720,909
Adjustments to receivables - services	113,355	-5,216	8,537	0	116,676
Adjustments to receivables - other	13,880	0	1,060	0	14,940
A Total adjustments to 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
Č Adjustments to short-term advance payments made	0	0	0	0	0
TOTAL (A + B + C)	1,010,646	-163,352	86,228	0	933,522

15.4.6.1 Long-term Operating Receivables

Long-term operating receivables (in EUR)	31 December 2017	31 December 2016
Long-term trade receivables	3,718,827	4,924,530
Minus revaluation adjustment	-172,871	-195,751
Short-term portion of long-term trade receivables	-1,837	-3,025
	3,544,119	4,725,754
Long-term operating receivables from others	8,515	7,967
Total	3,552,634	4,733,721

Total long-term operating receivables of the Company as at 31 December 2017 in the amount of EUR 3,552,634 included:

- Long-term trade receivables, which are in compulsory composition in the amount of EUR 3,884,
- Long-term operating receivables from others in the amount of EUR 8,515,
- Long-term receivables from SODO in the amount of EUR 3,440,532; long-term receivables from SODO from the preliminary reconciliation for the regulatory year 2015 in the amount of EUR 3,426,391 and preliminary reconciliation for 2014 in the amount of EUR 107,254, discounting both receivables in the amount of EUR -93,113,
- Accrued interest from the uncovered deficit of the preliminary reconciliation for 2015 until incorpora-

tion into the regulatory framework 2019–2021 in the amount of EUR 205,584,

- Surpluses and deficits in network charges from the final reconciliations of the years 2014, 2015 and 2016 in the total amount of EUR - 105,881, which will most likely be included in the regulatory period 2019–2021, when they will be charged by the Energy Agency to customers under tariff items for the network charge charged to customers at the time.

Receivables towards 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 in the amount of 0.779% taken into account.

Part of the long-term operating receivables in the amount of EUR 1,837 maturing in 2018 was transferred to short-term operating receivables. A revaluation adjustment of long-term receivables was carried out on 31 December 2017 in the amount of EUR 172,871 (with discounted receivables towards SODO comprising EUR 93,113 of the amount).

Long-term receivables of the Company were not insured or pledged as security for liabilities of the Company.

15.4.6.2 Short-term Operating Receivables

On 31 December 2017 the Company disclosed short-term operating receivables in the amount of EUR 10,467,657; these comprise receivables from group companies rep-

resenting 0.2%, trade receivables representing 96.5% and receivables from others representing 3.3%. Short-term operating receivables from group companies in the amount

of EUR 17,275 refer to receivables from network charges, leases and services to its subsidiaries.

Short-term trade receivables (in EUR)	31 December 2017	31 December 2016
Short-term operating receivables from companies within the corporate group	17,275	11,828
Short-term trade receivables	10,808,855	10,820,048
- revaluation adjustment to trade receivables	-741,997	-852,525
- discounted trade receivables from SODO	-5,803	-12,619
Late charge receivables	52,960	78,382
- revaluation adjustment to late charge receivables	-46,875	-71,682
Advance payments made	34,686	54,043
Short-term trade receivables	10,101,826	10,015,647
Short-term operating receivables due from others	359,537	220,133
(of which short-term portion of long-term operating receivables)	1,837	3,025
- revaluation adjustment to short-term receivables from others	-10,981	-9,315
Short-term operating receivables due from others	348,556	210,818
Total	10,467,657	10,238,293

Short-term trade receivables in the amount of EUR 10,061,055 included:

- Receivables for maintenance and lease of the electricity infrastructure and provision of services for SODO d.o.o. in the amount of EUR 6,106,636, all fully non-matured;
- Trade receivables for network charges in the amount of EUR 3,660,612;
- Trade receivables for services in the amount of EUR 196,017;
- Trade receivables for leases, average connection costs, sold fixed assets and waste material in the amount of EUR 103,593;
- Discounted value of receivables from SODO from the preliminary reconciliation of the regulatory year 2014 in the amount of EUR -5,803;

Short-term interest receivables, less revaluation of interest receivables in the amount of EUR 6,085 regarded receivables for default interest for network charges in the amount of EUR 5,279 and receivables for default interest for services in the amount of EUR 806.

Receivables from others in the total amount of EUR 348,556 include re-

ceivables for input VAT (EUR 127,964), receivables from state institutions (EUR 101,498), tax receivables from corporate income tax (EUR 99,557) and other short-term operating receivables from others (EUR 19,537).

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 network charge and electricity.

15.4.7 Cash

The Company had concluded a short-term contract with a commercial bank for an overdraft on its transaction account in the amount of EUR

400,000, valid until 29 December 2017 (EUR 415,000 in 2016), meaning the transaction accounts did not show a negative balance at the

end of the year. kar pomeni, da na transakcijskih računih konec leta ni bilo negativnega stanja.

Cash (in EUR)	31 December 2017	31 December 2016
Cash in current accounts	16,267	37,317
Overnight deposits	154,794	143,372
Total	171,061	180,689

15.4.8 Accrued Revenue and Deferred Expenses

Short-term accrued revenue and deferred expenses (in EUR)	31 December 2017	31 December 2016
Short-term deferred expenses	62,360	35,517
Short-term accrued revenue	670,457	32,549
Short-term accrued revenue – SODO	3,091,158	2,747,966
VAT from advance payments received	2,099	253
VAT from overpayment of network charge	51	28
Skupaj	3,826,125	2,816,313

Accrued revenue as at 31 December 2017 include EUR 133,290 for accrued projects in 2017 (in the amount of EUR 89,251 for the Slovenian-Japanese NEDO project), EUR 537,167 in received compensation from in-

surance companies, the preliminary reconciliation for 2017 in the amount of EUR 3,074,131 and a third of the eligible costs in the amount of EUR 17,027, which were recognised in the regulatory period 2012–2014 and will,

in accordance with the Act on the methodology for setting the network charge, be settled in 2018. Balance sheet items are real and do not contain hidden reserves.

15.4.9 Equity

Total equity of the Company as at 31 December 2017 amounted to EUR 207,146,133 and was 3.1% higher compared to the state of equity on 31 December 2016. The book value per share as at 31 December 2017 amounted to EUR 8.35 (EUR 8.31 on 31 December 2016), with earnings per share amounting to EUR 0.37 (EUR 0.39 on 31 December 2016). The state of individual items of equity from 1 January 2017 and 31 December 2017 and changes in individual components of equity in 2017 are 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). The ownership structure is presented in Section 10.1.2.

Share premium includes a general equity revaluation adjustment in the amount of EUR 62,260,317. Profit reserves in the amount of EUR 41,396,577 include: legal reserves in the amount of EUR 3,488,499 (5% of net profit for the years 2003–2016, with EUR 453,138 of profit reserves

formed in 2017), reserve for acquired treasury shares and other profit reserves amounted to EUR 37,753,720 (EUR 5,522,745 formed in 2017).

In 2017, the Company acquired 32,491 treasury shares in the amount of EUR 93,966. In total, on the balance sheet date the Company held 260,152 treasury shares, representing 1.08% of all Company shares at a cost of EUR 635,799 (EUR 2.44 per share). Acquired treasury shares are a constituent part of total equity and are deducted from it. 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. During the period of acquiring treasury shares from 1 September 2016 and 31 March 2018, the Company can acquire 2,419,242 treasury shares, representing 10% of the share capital of the Company. The acquisition of treasury shares was implemented in accordance with the Programme for Acquisition of Treasury Shares of Elektro Celje published. In acquiring

treasury shares, the Company in accordance with the Articles of Association and paragraph 5 of Article 64 of the Companies Act (ZGD-1), formed reserves for treasury shares from net profit for the financial year in the balance sheet, which as at 31 December 2017 amounted to EUR 635,799 (EUR 93,966 formed in 2017).

Reserves arising from revaluation at fair value as at 31 December 2017 amounted to EUR 454,619. In 2017 they decreased by EUR 144,494 (EUR 141,288 from actuarial gains identified in forming provisions for retirement benefits and EUR 3,206 due to value adjustments of surpluses from revaluation of financial investments for deferred tax) and increased by EUR 46,579 (i.e. by EUR 16,872 from revaluation of shares of Zavarovalnica Triglav, d.d., namely EUR 17,994 from the transfer of a proportionate part of actuarial losses recorded while forming provisions for retirement benefits to retained earnings and by EUR 11,713 due to deferred tax arising from actuarial losses).

Remaining net profit for the financial year amounted to EUR 2,992,910.

15.4.10 Provisions and Long-term Accrued Expenses and Deferred Revenue

Provisions for long-term service, retirement benefits and death allowance to employees in the amount of

EUR 5,915,537 accounted for 2.1% in the structure of liabilities and were formed in the amount of estimated

future payments, discounted on 31 December 2017.

Provisions and long-term accrued expenses and deferred revenue (in EUR)	31 December 2017	31 December 2016
Long-term provisions for severance pays and long-service awards	5,915,537	5,743,800
Provisions for lawsuits	43,850	31,850
Provisions for deviations in the final AP 2014	782,933	0
Long-term accrued expenses and deferred revenue		
- from received government grants (state aid)	860,108	965,686
- fixed assets acquired free of charge	9,788,045	9,932,849
- from connection fees	2,350,329	2,458,322
Total	19,740,802	19,132,507

Liabilities related to long-term employment benefits

Item (in EUR)	Long-service awards	Severance pays	Death allowance	Total
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
As of 1 January 2017	1,618,609	3,983,797	141,394	5,743,800
Current service costs	113,783	201,158	9,557	324,498
Interest expense	18,754	50,018	1,747	70,519
Payments of benefits	-186,997	-165,657	-8,014	-360,668
Actuarial surplus	-5,878	141,288	1,978	137,388
As of 31 December 2017	1,558,271	4,210,604	146,662	5,915,537

The actuarial calculation on 31 December 2017 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, salary growth in the electricity sector (2%), salary growth in the Company (2.5%) and in the Republic of Slovenia (2.5%), valid employer contribution rate (16.1%) and growth (0.5%) in the amounts provided for in Decree on

the tax treatment of reimbursement of costs and other income from employment (Official Gazette of RS, nos. 140/2006, 76/2008).

The expected present value of liabilities also includes actuarial gains/losses due to changes in financial and demographic assumptions and adjustments for experience. During 2017, EUR 360,668 worth of provisions were used based on actual costs incurred for long-term employee benefits with EUR 532,405 of additional provisions formed.

Long-term accrued expenses and deferred revenue regarding fixed assets acquired free of charge were formed in the amount of EUR 364,247. EUR 617,044 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 97,280 for use of government subsidies for the purchase of fixed assets.

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 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
As of 1 January 2017	5,743,800	31,850	13,356,857	19,132,507
Utilisation	-360,668	0	0	-360,668
Recognition	532,405	794,933	364,247	1,691,585
Reversal	0	0	-722,622	-722,622
As of 31 December 2017	5,915,537	826,783	12,998,482	19,740,802

Other provisions include provisions amounting to EUR 782,933, which were formed on 31 December 2017 and reduce operating revenue by the amount of envisioned deviation in the final reconciliation of the regulatory year 2014. The Company received the calculation on 6 February 2018 in the context of established

facts concerning deviations, namely calculation of the factor "q" after performing an assessment of the accuracy of the monitoring of supply continuity, which the Energy Agency conducted in December 2017, issuing the associated report on 20 December 2017. Other provisions as at 31 December 2017 include provisions

formed and debited to operating expenses for lawsuits in the amount of EUR 43,850 (in 2015 provisions were formed in the amount of EUR 19,850 - action for damages due to disconnection of the neutral line, and EUR 12,000 in both the years 2016 and 2017 - an action for damages due to TS land ownership).

15.4.11 Long-term Financial and Operating Liabilities

Long-term financial and operating liabilities (in EUR)	31 December 2017	31 December 2016
Long-term financial liabilities to banks	27,702,950	33,810,599
Long-term financial lease liabilities	786,206	0
Long-term trade payables	130,139	327,266
Total	28,619,295	34,137,865

In 2017, the Company repaid EUR 11,252,049 of the principal of investment loans, with the amount of interest paid disclosed among financial expenses amounting to EUR 380,705. Loans were secured by bills of exchange. The average weighted interest rate on loans as at 31 December 2017 amounted to 0.907% (0.896% on 31 December 2016). The Company does not secure fluctuations in EURIBOR interest rates by financial instruments. The value of the principal due for payment five years after the balance sheet date amounted to EUR 6,129,095.

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 determined upon absorption of individual tranches (moratorium of 2 to 36 months, maturity up to 15 years, interest rate etc.). In 2017 the Company took advantage of the revolving credit amounting to up to EUR 3.145 million under the contract concluded 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 by 2030 for the company Elektro Celje: financial debt/equity (lower than 0.40) and net financial debt to EBITDA (lower than 2.70) 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 (greater 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 2017 is described in Section 15.9.2 Market risk).

Long-term finance lease liabilities relate to the part not yet billed under the contract on the lease of the ERP Microsoft Dynamics AX system in the amount of EUR 786,206, for which the company Informatika d.d. will issue invoices to the Company in monthly instalments until June 2021. Debts for the purchase of software licenses (ERP – MS Dynamics AX system) in the amount of EUR 130,139 (with the amount of EUR 48,803 falling due in 2019 and 2020, and the remainder in 2021, are shown among long-term operating liabilities. The Company as at 31 December 2017 did not have any long-term debts to members of the Management Board, Supervisory Board or internal owners.

15.4.12 Deferred Tax Liabilities

Deferred tax liabilities (in EUR)	31 December 2017	31 December 2016
Financial assets measured at fair value	11,393	8,187
Total	11,393	8,187

A tax rate of 19% was used for the calculation of deferred tax liabilities in 2017, which is expected to also be used in future years (the same as in 2016).

Changes in deferred tax liabilities

Item (in EUR)	Financial investments
As of 1 January 2016	7,476
Recognised in the Comprehensive Income Statement	711
As of 31 December 2016	8,187
As of 1 January 2017	8,187
Recognised in the Comprehensive Income Statement	3,206
As of 31 December 2017	11,393

15.4.13 Short-term Financial and Operating Liabilities

Short-term financial and operating liabilities (in EUR)	31 December 2017	31 December 2016
Short-term financial liabilities to banks	11,237,733	11,182,132
Other short-term financial liabilities	3,867	4,173
Short-term financial liabilities	11,241,600	11,186,305
Short-term liabilities to companies within the corporate group	48,675	49,428
Short-time trade payables	4,547,882	2,713,544
Short-time operating liabilities from operations for third-party account	3,655,124	3,940,329
Short-time liabilities to employees	3,120,054	2,137,316
Short-time liabilities to state and other institutions	200,971	643,049
Short-term liabilities based on advance payments	94,289	8,017
Other short-time operating liabilities	544,373	478,184
Short-term operating liabilities	12,211,368	9,969,867
Total	23,452,968	21,156,172

Short-term financial and operating liabilities of the Company as at 31 December 2017 in the amount of EUR 11,241,600 referred to short-term portions of long-term bank loans in the

amount of EUR 11,237,733 and liabilities for the payment of dividends in the amount of EUR 3,867.

Short-term operating liabilities to

group companies in the amount of EUR 48,675 regarded liabilities to the subsidiaries ECE d.o.o. in the amount of EUR 16,914 (EUR 11,836 for supplied electricity, EUR 4,370 for gas

and EUR 708 for incorrect remittances) and MHE ELPRO in the amount of EUR 31,761 (EUR 25,880 for supplied thermal energy, EUR 4,812 for electricity and EUR 1,069 for the lease of charging stations).

Short-term operating liabilities also include trade payables (EUR 2,639,212 for the purchase of fixed assets, EUR 1,848,639 for the acquisition of current assets, EUR 57,609 for the acquisition of current assets abroad, with EUR 2,422 for non-invoiced material and services), payables to the company SODO (EUR 3,655,124 for use of the network in accordance with the contract), payables to employees (EUR 3,120,054 for accrued and unpaid wages, compensation for long-service awards in December,

together with the liabilities for their contributions), payables to the state and other institutions (liability for VAT charged in the amount of EUR 193,458, taxes from meeting fees, contracts on labour and mandatory practical training in the amount of EUR 5,452 and other liabilities to government institutions in the amount of EUR 2,061), short-term operating liabilities arising from advances (EUR 94,289) and other short-term operating liabilities (mainly from deposits given by providers from public tenders in the amount of EUR 259,236 and liabilities for voluntary supplementary pension insurance in the amount of EUR 112,254).

According to the balance sheet as at 31 December 2017, the Company

had settled all outstanding trade payables and other short-term liabilities due for payment within a period of up to three months after the balance sheet date, except for the liabilities arising from deposits of providers which mature in accordance with the contract.

The Company had no other liabilities to the Management Board, Supervisory Board and internal owners except for salaries and the attendance fees of the members of the Supervisory Board and Audit Committee of the Supervisory Board for December 2017. The Company also did not grant any loans, advances or guarantees 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 and deferred revenue	31 December 2017	31 December 2016
Short-term accrued costs and expenses	714,003	654,049
Short-term deferred revenue	9,967	38,744
VAT from advance payments made	3,134	3,093
Total	727,104	695,886

Short-term accrued expenses relate primarily to accrued labour costs for unused annual leave of employees for 2017 in the amount of EUR 608,586 (EUR 653,308 in 2016), accrued cost of salaries from yet unpaid bonuses for successful operations of the

Company under the corporate collective agreement in the amount of EUR 96,263 and accrued interest expenses of banks in the amount of EUR 9,012 (EUR 740 in 2016), with short-term deferred revenue relating to invoiced costs incurred due to

cancellations of contractual orders in the amount of EUR 9,967. Received EU subsidies in the amount of EUR 28,778, which were included among short-term deferred revenue in 2016, were used for covering the costs of the pilot project in 2017.

15.4.15 Contingent Liabilities

Contingent liabilities which on 31 December 2017 did not meet the conditions for recognition in the balance sheet items are included in off-balance sheet records.

Contingent Liabilities (in EUR)	31 December 2017	31 December 2016
Ongoing litigation procedures	1,734,304	314,072
Bank guarantees given	52,086	19,539
Total	1,786,390	333,611

The value of bank performance guarantees has increased by EUR 32,547, representing the bank guarantee amount, given for the good performance of undertaken commitments from the Slovenian-Japanese demonstration project. The amount of contingent liabilities arising from outstanding civil cases where Elektro Celje d.d. is the defendant amounted to EUR 1,734,304; a claim for damages in the amount of EUR 35,000 was concluded by the court in favor of

the Company, while litigation procedures initiated in 2017 amounted to EUR 1,455,232.

The minority shareholder Adriatic Slovenica, d.d. challenged the resolutions adopted at the 22nd Annual General Meeting of the company Elektro Celje, d.d. with a lawsuit, whereby the shareholders decided that a portion of the distributable profit for 2016, amounting to EUR 2,636,124.04 would be used for the payment of

dividends and the remainder of profit amounting to EUR 170,098.92 would remain undistributed. The plaintiff is requesting that an additional EUR 1,402,004 be allocated for the pay-out of dividends; the Company has identified the claim for this amount as a contingent liability, which in the event of a negative outcome for the Company Elektro Celje, would not affect the current profit, but the equity of the Company.

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 2017 do not qualify for recognition among the balance sheet items.

Contingent assets and other off-balance-sheet records (in EUR)	31 December 2017	31 December 2016
Contingent assets:		
Bank guarantees received	2,100,723	1,617,671
Damage claims	2,220,306	45,461
Receivables from partners in companies deleted from the register	285,912	266,999
Allowance for employing disabled persons	108,886	96,576
	4,715,827	2,026,707
Other off-balance-sheet records:		
Infrastructure owned by SODO d. o. o.	3,418,282	3,560,947

The value of received bank performance guarantees and guarantees for the elimination of defects during the warranty period amounted to EUR 2,100,723. Claims to insurance companies, which by 31 December 2017 had not been paid in full are shown as an off-balance sheet item prior to liquidation of the claim by the insurance company (at that time receivables amounting to the value of recognised compensation are transferred

to the balance sheet total). Their value was estimated at EUR 2,220,306 and predominantly comprises compensation claims due to snow and wind damage in December 2007 in the amount of EUR 1,800,872; the undisputed part of the settlement (incomplete) concluded following the balance sheet date amounted to EUR 637,168. The amount of receivables from shareholders of deleted companies increased by EUR 18,913 while

tax incentives for employment of people with disabilities were recognised in the amount of EUR 108,886.

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 3,418,282.

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 thus 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 2017. 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	10,081,546	107,746	10,189,292
Cost of services	4,985,416	1,186,383	6,171,799
Labour costs	18,601,891	3,374,735	21,976,626
Amortisation and depreciation	17,112,686	366,206	17,478,892
Revaluation expenses	798,134	16,063	814,197
Other expenses	221,325	95,315	316,640
Total	51,800,998	5,146,448	56,947,446

Operating costs and expenses from revaluation may be direct, meaning they can be directly linked to arising business impacts (direct costs), or general.

15.6.1 Net Sales Revenue

Net sales revenue (in EUR)	2017	2016
Revenue from lease and maintenance of infrastructure and provision of services for SODO d. o. o.	47,533,168	47,514,713
Revenue from provision of services for customers	1,745,992	1,474,011
Revenue from the sale of services to companies within the corporate group	32,204	25,267
Revenue from lease	420,628	418,733
Revenue from lease to companies within the corporate group	91,034	85,199
Total	49,823,026	49,517,923

The Company generated net sales revenue in the amount of EUR 49,823,026 in the domestic market and no revenue in international markets. Sales revenue mainly include revenue from regulated activities according to the contract and pertaining annexes with SODO d.o.o. for 2017

in the amount of EUR 48,424,310; EUR 26,024,333 for lease and maintenance of the electricity infrastructure and EUR 22,399,977 for implementation of the services for SODO, with EUR 3,074,131 comprising a deviation in 2017, identified through the preliminary reconciliation. Reve-

nue for SODO also include deviations from past years, received in 2017: EUR 78,632 from the final reconciliation in 2015, EUR -177,531 from the preliminary and final reconciliations for 2016 and EUR -792,243 of envisioned deviation for the final reconciliation of the 2014 regulatory year.

15.6.2 Capitalised Own Services

The Company generated 20.8% of its revenue in the amount of EUR 14,011,503 (EUR 13,260,484 in 2016) through the construction of own fixed assets. The Company does not disclose profit in this regard.

15.6.3 Other Operating Revenue

Other operating revenue (in EUR)	2017	2016
Revenue from reversal of provisions	0	640,730
Revenue from reversal of long-term accrued expenses and deferred revenue	617,044	607,119
– of which acquisition of fixed assets free of charge	509,052	499,127
– of which average connection fees	107,992	107,992
Other revenue associated with business effects	232,178	295,254
Compensation received from insurance companies and others	784,909	140,101
Operating revenue from revaluation	167,720	328,641
Total	1,801,851	2,011,845

Other revenue associated with products and services in the amount of EUR 232,178 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

103,464 (EUR 101,356 in 2016) and subsidies for staff from EU funds, drawing on government subsidies for fixed assets and grants totalling EUR 128,714 (EUR 193,898 in 2016). Compensation received relate mainly to the settlement of insurance claims

for material damage from the December storm in the amount of EUR 637,168, with operating revenue from revaluation relating to revenue from the sale of fixed assets and dismantled material in the amount of EUR 145,587 (EUR 305,781 in 2016).

15.6.4 Costs of Goods, Materials and Services

Cost of material (in EUR)	2017	2016
Cost of material for investments carried out in-house	7,831,140	6,383,999
Cost of material used in provision of services to customers	746,230	527,459
Cost of fuel and energy	713,986	658,883
Cost of material used in maintenance	452,254	623,259
Cost of material for damage repair	270,626	138,093
Write-offs of small tools	142,986	182,259
Other cost of material	32,070	79,213
Total	10,189,292	8,593,165

Cost of services (in EUR)	2017	2016
Maintenance service cost	1,935,898	2,002,678
Cost of payments, bank services and insurance premiums	1,275,068	1,271,729
Cost of business data processing	1,075,465	1,361,881
Cost of intellectual and personal services	535,051	488,894
Cost associated with provision of services to customers	282,069	313,978
Cost of transport services	269,265	282,941
Cost of labour contracts	179,697	176,483
Cost of services of damage repair	130,293	100,280
Cost of rent	40,897	40,874
Other cost of services	448,096	443,593
Total	6,171,799	6,483,331

In accordance with Article 57 of the Companies Act (ZGD-1), the Company is subject to mandatory audit. BDO Revizija, d.o.o., was appointed as the

company auditor for the annual report of the 2017 fiscal year. An auditing contract for the consolidated annual report in the amount of EUR

8,320 (excluding VAT) was signed with said auditing firm. Cost of other services comprising guarantees amounted to EUR 960.

15.6.5 Labour Costs

As at the balance sheet date, the Company recognised EUR 524,191 in labour costs from unused annual leave in 2017 (EUR 562,712 in 2016) and EUR 84,395 from related contributions and other levies payable in

this regard (EUR 90,597 in 2016).

Other labour costs in the amount of EUR 2,523,526 included EUR 781,595 for meal allowance for employees, EUR 640,688 for travel to and from

work, EUR 1,018,677 for annual leave and EUR 82,566 for other remuneration. The cost of provisions for long-service awards, severance pays and death allowance amounted to EUR 320,598.

Labour costs (in EUR)	2017	2016
Cost of salaries	15,760,859	15,441,099
Cost of supplementary employee retirement insurance	772,758	773,200
Cost of employer contributions and other levies on salaries	2,598,885	2,560,094
Other labour costs	2,523,526	2,653,141
Provisions for long-service awards and severance pays	320,598	321,056
Total	21,976,626	21,748,590

The number of employees in the company Elektro Celje in the 2017 business year

Education	No. of employees on 1 January 2017	Share in %	No. of employees on 31 December 2017	Share in %	Average in 2017
PhD	1	0.2%	1	0.2%	1
Master of science	13	2.1%	13	2.1%	13
University	95	15.0%	102	16.2%	98
Post-secondary	69	10.9%	70	11.1%	69
Secondary	231	36.5%	229	36.5%	231
Vocational	7	1.1%	7	1.1%	7
Highly qualified	8	1.3%	7	1.1%	8
Qualified	184	29.1%	178	28.3%	180
Semi-qualified	18	2.8%	15	2.4%	17
Unqualified	7	1.1%	6	1.0%	7
Total	633	100.0%	628	100.0%	631

15.6.6 Write-downs and Write-offs

Write-downs and write-offs (in EUR)	2017	2016
Amortisation and depreciation	17,478,892	17,453,965
Operating expenses from revaluation of tangible and intangible fixed assets	798,324	460,515
Operating expenses from revaluation of current assets	15,873	164,323
Total	18,293,089	18,078,803

Amortisation comprised EUR 17,478,892 and represents 30.4% of the total costs and expenses of the Company.

Depreciation according to groups of assets (in EUR)	Intangible fixed assets	Rights in immovable property	Buildings	Equipment	Total
Amortisation and depreciation for 2017	719,406	450	10,490,082	6,268,954	17,478,892
Amortisation and depreciation for 2016	623,139	440	10,645,179	6,185,207	17,453,965

Operating expenses from revaluation of fixed assets in the amount of EUR 798,324 relate to losses upon the elimination of fixed assets and also include write-offs of fixed assets or parts of fixed assets in the amount of EUR 583,750, primarily due to the winter storm at the end

of 2017.

Operating expenses from revaluation of current assets in the amount of EUR 15,873 included revaluation adjustments to stocks of materials in the amount of EUR 9,604 (EUR 39,270 in 2016), long-term receiva-

bles in the amount of EUR 3,143 (EUR 39,447 in 2016), and the write-off of short-term trade receivables in the amount of EUR 3,126, with no revaluation adjustments of short-term trade receivables (EUR 85,606 in 2016).

15.6.7 Other Operating Expenses

Other operating expenses in the amount of EUR 316,640 (EUR 368,196 in 2016) comprised charges for use

of construction land in the amount of EUR 168,218 (EUR 207,888 in 2016), court fees in the amount of EUR

18,192 (EUR 16,793 in 2016) and other operating expenses.

15.6.8 Financial Revenue from Shares

Financial revenue from shares (in EUR)	2017	2016
Financial revenue from shares in Group companies	1,525,000	408,791
Financial revenue from shares in other companies	7,400	7,430
Total	1,532,400	416,221

Financial revenue from shares for the year 2017 amounted to EUR 1,532,400, of which EUR 1,525,000 regarded the payment for participa-

tion in the profit of the subsidiary ECE, with financial revenue from shares in other companies mainly regarding dividends paid out by Za-

varovalnica Triglav d.d. in the amount of EUR 7,400.

15.6.9 Financial Revenue from Granted Loans

Interest received from a positive credit balance on transaction accounts and overnight deposits in 2017 amounted to EUR 186 (EUR 94 in 2016).

15.6.10 Financial Revenue from Operating Receivables

Financial revenue from operating receivables in the amount of EUR 273,412 (EUR 54,111 in 2016) consisted mainly of financial revenue from the discounting of receivables from SODO in the amount of EUR 32,820

(EUR 19,182 in 2016), interest accrued from still outstanding final and preliminary regulatory reconciliations for the year 2015 in the amount of EUR 207,157 and financial revenue from default interest arising from op-

erating receivables in the amount of EUR 33,412; for network charge EUR 29,240 (EUR 33,395 in 2016), for services EUR 4,136 (EUR 1,405 in 2016) and for other operating receivables EUR 36 (EUR 120 in 2016).

15.6.11 Financial Expenses from Financial Liabilities

Financial expenses from financial liabilities include bank interest on loans in the amount of EUR 383,449 (EUR 540,474 in 2016).

15.6.12 Financial Expenses from Operating Liabilities

Financial expenses from operating liabilities amounted to EUR 72,321 (EUR 101,880 in 2016) and primarily include expenditures for net interest in the

amount of EUR 70,519 calculated according to the actuarial estimation as at 31 December 2017 and regard the expected present value of liabilities

for long-service awards, severance pays and solidarity aid (EUR 106,917 in 2016).

15.6.13 Other Revenue

Other income (in EUR)	2017	2016
Collected receivables from earlier periods, previously written off	1,879	891
Received payments of court fees, and compensations	7,825	6,710
Other income	948	1,106
Total	10,652	8,707

15.6.14 Other Expenses

Other expenses (in EUR)	2017	2016
Compensations	27,604	73,056
Donations	9,650	12,800
Annuities, reimbursement claims	15,082	14,427
Fines	800	0
Other expenses	212	518
Total	53,348	100,801

15.6.15 Profit or Loss

Operating profit amounted to EUR 8,688,934. Taking into account financial revenue and expenses, net operating profit from ordinary oper-

ation amounted to EUR 10,039,162. Together with other revenue and expenses from extraordinary operation, and corporate income tax, which

amounted to EUR 842,941 and deferred taxes in the amount of EUR 90,766, net profit for 2017 amounted to EUR 9,062,759.

15.6.16 Statement of Comprehensive Income

Total comprehensive income for the accounting period amounted to EUR 8,946,850 and due to changes in reserves resulting from valuation at fair

value (EUR 13,666) and changes in other components of comprehensive income (EUR -129,575), total comprehensive income was EUR 115,909

lower than the net profit for the accounting period (EUR 9,062,759).

15.6.17 Income Tax

The Company was liable for payment of corporate tax in the amount of EUR 842,941 in 2017, recognised

on the basis of the tax return. The corporate tax rate in Slovenia comprised 19% in 2017 (17% in 2016) in

accordance with the Act Amending the Corporate Income Tax Act (Official Gazette of RS, no. 68/2016).

15.7 Disclosure of Items in the Income Statement

Net cash flow for the period January–December 2017 amounted to EUR-

9,628. The opening cash balance as at 1 January 2017 was EUR 180,689

while the closing cash balance as at 31 December 2017 was EUR 171,061.

15.7.1 Inflows from Operating Activities

In the accounting period, inflows from operating activities amounted to EUR 104,882,469, with 98.9% of the amount representing inflows 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 58,404,860, representing 55.7% of total inflows from operating activities (EUR 55,030,558 in 2016), with inflows from the use of the network amounting to EUR 40,488,353 EUR (EUR 39,945,187 in 2016), inflows from services to customers in the amount of EUR 1,460,356 EUR (EUR 1,146,946

in 2016), sales of fixed assets and scrap material in the amount of EUR 824,305 (EUR 374,938 EUR in 2016), receivables from leases in the amount of EUR 596,353 (EUR 595,200 in 2016) and services to customers on behalf and for the account of SODO d.o.o. in the amount of EUR 324,487 EUR (277,677 EUR in 2016).

15.7.2 Outflows from Operating Activities

Outflows from operating activities in the amount of EUR 91,316,751 primarily comprise expenditures for the purchase of materials and services in the amount of EUR 62,161,162 (EUR 59,633,329 in 2016), salaries together with expenditures for contributions and taxes in the amount of EUR 20,438,975 (EUR 20,726,734 in

2016), value added tax in the amount of EUR 6,124,126 (EUR 5,634,936 in 2016), corporate income tax in the amount of EUR 1,142,894 (EUR 790,368 in 2016) and other expenditures

Other expenditures amounted to 1,117,286 EUR (1,063,267 EUR in

2016); the largest part (80.1%) represented expenditures for voluntary supplementary pension insurance (EUR 852,506 EUR). The Company used the operating surplus of EUR 13,565,718 in 2017 to settle obligations related to repayment of principal and interest from long-term investment loans (11,632,689 EUR).

15.7.3 Inflows from Investing Activities

Inflows from investing activities amounted to EUR 2,356,891 and include inflows from received interest and shares of profit of other companies in the amount of EUR 1,532,586

(payment for participation in the profits of the subsidiary ECE in the amount of EUR 1,525,000, dividends received from Zavarovalnica Triglav d.d. in the amount of EUR 7,400, in-

flows from received interest on deposits in the amount of EUR 186) and inflows from the disposal of tangible fixed assets in the amount of EUR 824,305.

15.7.4 Outflows from Investing Activities

Outflows from investing activities in the amount of EUR 6,769,087 comprised expenditures for the acquisition of intangible and tangible fixed assets (EUR 7,369,834 in 2016).

15.7.5 Inflows from Financing Activities

Inflows from financing activities in the amount of EUR 13,750,000 include the use of long-term loans from EIB for financing investments in the amount of EUR 6,000,000 and receipts from multiple drawing of the long-term revolving credit facility in the amount of EUR 7,750,000.

15.7.6 Outflows from Financing Activities

Outflows from financing activities in the amount of EUR 22,913,150 refer to outflows for interest paid in the amount of EUR 380,706, the purchase of the Company's treasury shares in the amount of EUR 93,966, for repayment of investment loans in the amount of EUR 11,252,048, for repayment of the leased revolving credit facility in the amount of EUR 8,550,00 and for dividend pay-outs in the amount of EUR 2,636,430.

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 capital revaluation adjustment carried out on equity. Profit reserves in the amount of EUR 41,396,577 included legal reserves in the amount of EUR 3,488,499 (in 2017 in the amount of EUR 453,138), reserves for treasury shares in the amount of EUR 635,799 (in 2017 in the amount of EUR 93,966), deduction item for treasury shares in the amount of EUR 635,799 and other profit reserves in the amount of EUR 37,753,720.

Elektro Celje must comply with the

rules of the profession to provide quality and reliable electric power supply and sustainable operation, maintenance and development of an efficient electric power distribution system. Long-term access to the distribution network, sufficient transmission capacity of the network, reliability of supply, adequate voltage quality, short circuit control and safe and reliable operation are only possible through continuous investment in the development of the distribution network. The need to ensure resources for the realization of the planned volume of investments, among which other profit reserves

are important and in accordance with the provisions of the Companies Act (ZGD-1) and the Articles of Association of the Company, other profit reserves in the amount of EUR 5,522,745 were formed in 2017.

Retained earnings amount to EUR 152,105. Reserves arising from valuation at fair value as at the balance sheet date 31 December 2017 amounted to EUR 454,619, decreasing by EUR 97,915 in 2017 (the change is clarified in Section 15.4.9).

Distributable profit and proposed allocation:

DISTRIBUTABLE PROFIT (in EUR)		2017	2016
a	Net income/profit for the year	9,062,759	9,435,710
b	Retained net profit/retained net loss (deductible item)	152,105	-3,603
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)	547,104	1,013,438
č	Increase in revenue reserves pursuant to decisions by the management and supervisory bodies (other revenue reserves)	5,522,745	5,612,446
DISTRIBUTABLE PROFIT (a + b - c - d)		3,145,015	2,806,223

The Management Board of Elektro Celje proposes that the distributable profit for 2017 amounting to EUR 3,145,015 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, equity, 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 man-

age 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 accordance 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 security

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.

Operating receivables (in EUR)	31 December 2017	31 December 2016
Long-term operating receivables	3,552,634	4,733,721
Short-term operating receivables	10,467,657	10,238,293
Total	14,020,291	14,972,014

The volume of operating receivables as at the balance sheet date 31 December 2017 compared to the end of 2016 decreased by 6.4%, mainly due to the partial payment of receivables from the preliminary reconciliation of the regulatory year 2014, and final reconciliations and corresponding interest from the years 2012–2014 totalling EUR 1,303,956. A part of long-term receivables from SODO, which matures in 2018 (in the amount of EUR 1,303,943) was included under short-term operating receivables, comprising 89.1% of the Company's short-term assets.

The policy for insuring receivables in 2017 remained unchanged compared to 2016. Trade receivables for the network charge are not insured as it is not envisioned by SPDOEE. In line with the Company's risk management system, insurance of receiva-

bles is required from riskier business partners. According to the balance sheet as at 31 December 2017, EUR 335,362 (EUR 34,000 of receivables in 2016) of total receivables were insured based on debt collection instruments.

Exposure to credit risk

As at 31 December 2017 the Company had EUR 734,174 (EUR 784,078 in 2016) of receivables for network charges, services, lease, average connection fees and late charges with maturities longer than 365 days (bankruptcies, compulsory compositions, lawsuits and property manager debt under the Housing Act and revaluation adjustment for the aforementioned) and EUR 9,567,425 (EUR 9,464,102 in 2016) of non-matured receivables. The percentage of unrecovered receivables from 2016 which remain unsettled one year af-

ter their due date is 0.13%. Following control, the risk of exposure from customer non-payment is **low**.

The maturity structure of receivables takes into account short-term operating receivables due from group companies, 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 composition proceedings, receivables which are the subject of litigation, and receivables overdue by more than 90 days as at the balance sheet date. In 2017, a revaluation adjustment of short-term receivables in the amount of EUR 13,229 was performed, with a reversal of revaluation of EUR 18,784 implemented on short-term receivables, (in 2016 additional revaluation

adjustments in the amount of EUR 86,228 were made). EUR 128,114 of receivables were written off in 2017 (EUR 163,352 of receivables in 2016). Revaluation adjustments and write-off of receivables are explained in Section 15.3 (f).

Maturity analysis of short-term trade receivables (in EUR):

Maturity	31 December 2017	Share in %	31 December 2016	Share in %
Receivables not yet due	9,567,425	87.9	9,464,102	86.7
Receivables overdue less than 30 days	460,453	4.2	484,025	4.4
Receivables overdue by 31-60 days	44,305	0.4	41,967	0.4
Receivables overdue by 61-90 days	10,611	0.1	20,740	0.2
Receivables overdue by 91-180 days	6,962	0.1	29,529	0.3
Receivables overdue by 181-365 days	55,160	0.5	85,817	0.8
Receivables overdue by over 365 days	734,174	6.7	784,078	7.2
Total	10,879,090	100.0	10,910,258	100.0

In 2017, EUR 71,197 in invoices for unjustified consumption of electricity was charged (EUR 61,809 in 2016), with received payments under this heading amounting to EUR 68,288 (EUR 98,131 in 2016).

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 creditworthi-

ness 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 85,544), while others are valued at cost. On the balance sheet date, the

Company's management assesses whether there are objective grounds for impairment of financial investments into an equity instrument. The value that 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 investment activities in the context of market risk the Company is exposed to, risks of changes in interest rates on acquired loans is of utmost importance. Risk arising from fluctuations in 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 **very low**, as only 13.9% of assets were financed with bank loans according to the balance sheet. According to

the balance sheet as at 31 December 2017, 56.7% of financial liabilities were tied to an interest rate tied to the 1-, 3- or 6- month EURIBOR. The Company does not secure fluctuations in EURIBOR interest rates by financial instruments.

As a precaution, the Company rejects all provisions 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 any 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 all loans at a higher fixed interest rate not based on the EURIBOR would outweigh the benefits. The Company again in 2018 does not expect a major increase in the EURIBOR, which is projected to remain negative, but the Company again in 2017 as well as many times in past years managed to reduce the EURIBOR margin

under the existing contracts. In 2017 the effect of the concluded annex for the reduction of interest rates on profit before tax amounted to EUR 1,084 (EUR 14,680 in 2016), or to a total of EUR 39,470 to the expiry of these contracts (EUR 137,916 in 2016). The average weighted interest rate on loans as at 31 December 2017 amounted to 0.907% (0.897% in 2016). The increase in average interest rates is a result of drawing loans with a fixed interest rate from the EIB.

Cash flow 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 2017, a change in interest rate of 0.1% (10 basis points) would result in a EUR 2,168 change in cash flow, an IR change of 0.2% (20 basis points) would result in a EUR 4,581 change in cash flow, and an interest rate change of 0.3% (30 basis points) would result in a EUR 8,895 higher expenses for interest paid (the probability of larger change in the EURI-

BOR 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 43% of total loans as at 31 December 2017 (31.5% of total loans as at 31 December 2016). 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.

Preliminary and final reconciliations received (in EUR as of 31 Dec.)		Carrying value as of 31 December 2016	Carrying value as of 31 December 2017	Payment in the regulatory year 2018	Payment in the regulatory year 2019	Incorpor- ation into the regulatory framework 2019–2021
	1	2	3 = 4 + 5	4	4	5
1.	SODO - 2014 preliminary reconciliation (PRO 2014)	2,681,086	1,394,170	1,286,916	107,254	0
2.	SODO - 2015 preliminary reconciliation (PRO 2015)	3,426,391	3,426,391	0	0	3,426,391
3.	SODO - 2016 preliminary reconciliation (PRO 2016)	2,229,344	0	0	0	0
5.	SODO - 2017 preliminary reconciliation (PRO 2017)	0	3,074,131	3,074,131	0	0
6.	SODO - contractual interest for PRO 2014	51,476	25,736	25,736	0	0
7.	SODO - contractual interest for PRO 2015	0	205,584	0	0	205,584
8.	Final reconciliation RF 2012–2014	-17,409	-8,709	-8,709	0	0
9.	Final reconciliation RF 2015	0	80,205	0	0	80,205
10.	Final reconciliation RF 2016	0	-176,776	0	0	-176,776
11.	Total deviations from the Regulatory Framework (RF)	8,370,888	8,020,732	4,378,074	107,254	3,535,404

The dynamics of investment and volume of collected network charges for the distribution network impact cash flow risk, as due to a deficit in network charges in 2015, the preliminary reconciliation for contractual obligations to SODO will not be settled until the next regulatory period, when the Energy Agency calculates the tariff items for the network charges which will then be charged to customers. In addition, the preliminary

reconciliation included in the regulatory period 2015–2018 due to a deficit in network charges in 2014 has not been fully settled yet, with the amount of EUR 1,286,916 most likely settled in 2018 and EUR 107,254 in 2019. 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 2017 which was sent on 15 March 2018 will be settled within the due date of April 2018 for the volume of collected network charges from users in 2017 is sufficient to cover the eligible costs of the system operator.

The expected final reconciliation for 2014 in the amount of EUR -782,933

will be included in the regulatory period 2019–2021.

The risk of long-term insolvency represents the lost lawsuit against the minority shareholders for distribution of profits in the amount of 4% of the share capital, resulting in an increase of expenditure for payment of dividends by EUR 1.5 million, which are

earmarked for financing investments. 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 in the event of increased liquidity needs. In 2015 the Company signed a contract with the EIB for EUR 28 million to finance investments in the period 2015-2017. By providing ap-

propriate financing sources and favorable values of financial indicators, the Company manages liquidity risk and the risk of failure to implement financial commitments, so that risk is assessed as **very low**. Hedging of loans and financial commitments to banks is explained in Section 15.4.11.

Maturity of financial liabilities to banks as of 31 December 2017 (in EUR)		Carrying value as of 31 December 2017	Term		
			Up to 1 year	1 to 5 years	above 5 years
1.	Investment financing loans	38,690,683	10,987,733	21,573,855	6,129,095
2.	Other loans granted	250,000	250,000	0	0
Total financial liabilities to banks		38,940,683	11,237,733	21,573,855	6,129,095

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	above 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

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 2017 was 74.1%, and 72.8% in 2016.

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 commitments 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 14.3% lower compared to the balance sheet state in 2016. Equity risk over a longer period is estimated as **medium, if the Company bought 10% of its treasury shares**.

Financial leverage indicator (in EUR)		31 December 2017	31 December 2016
1.	Loans granted and other financial liabilities	39,730,755	44,996,904
2.	Minus cash and cash equivalents	-171,061	-180,689
3.	Net financial liabilities	39,559,694	44,816,215
4.	Equity	207,146,133	200,929,373
5.	Net debt to equity ratio	19.2%	22.4%

15.10 Transactions with Associated Parties

15.10.1 Transactions with Group Companies

Item/year (in EUR)	2017		2016	
	ECE d. o. o.	MHE – ELPRO d. o. o.	ECE d. o. o.	MHE – ELPRO d. o. o.
Assets:				
Short-term trade receivables	10,357	6,918	8,868	2,960
Accrued revenue and deferred expenses	0	0	0	0
Total assets	10,357	6,918	8,868	2,960
Liabilities:				
Short-term trade payables	16,914	31,761	11,965	36,477
Other operating liabilities	0	0	985	0
Total liabilities	16,914	31,761	12,950	36,477
Revenue:				
Net sales revenue	93,193	30,046	86,081	24,385
Financial revenue	1,525,000	0	0	0
Total revenue	1,618,193	30,046	86,081	24,385
Costs and expenses:				
Cost of material	91,716	129,544	75,545	149,503
Cost of services	0	876	5,658	876
Total costs and expenses	91,716	130,420	81,203	150,379

15.10.2 Data on Groups of Persons

The amounts of remuneration granted to groups of persons of Elektro Celje d.d. for 2017 for the performance of functions in the Company are as follow:

Gross receipts of groups of persons (in EUR)	2017	2016
Member of the Management Board	103,552	149,258
Members of the Supervisory Board and Supervisory Board Audit Committee	128,560	126,705
Other employees on individual contracts	415,264	396,771
Total	647,376	672,734

Remuneration of the Management Board of the Company

Name and surname	Position	Receipts (in EUR)	Salary
Boris Kupec, MSc	Chairman of the Management Board of Elektro Celje, d.d.	Gross receipts	103,552
		Net receipts	50,071

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 2017.

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 2017 are as follows:

Name and surname	Receipts (in EUR)	Travel expenses	Insurance premiums	Use of company vehicle	Professional education	Holiday pay
Boris Kupec, MSc	16,795	1,993	145	9,097	3,954	1,606

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 the Management Board.

Remuneration of members of the Company's Supervisory Board and the Audit Committee of the Supervisory Board

The Supervisory Board has six members, four of whom are shareholder representatives and two who are employee representatives. All Company's Supervisory Board members possess equal rights and duties. The Supervisory Board members are appointed by the Shareholder's As-

sembly 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 equity represented at the General Meeting. The Supervisory Board held 15 sessions in 2017, 6 of which were correspondence meetings.

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 + 9	8	9
REPRESENTATIVES OF SHAREHOLDERS:								
Drago Štefe, MSc	Member of the SB since 30 August 2017	3	2	0	4,589	6,289	5,904	385
Miha Kerin, MSc	Member of the SB since 1 September 2016 and Chairman of the SB AC since 3 October 2017	8	6	1	13,567	18,709	17,933	776
Mirjan Trampuž, MSM and MSc Energetics	Chairman of the SB until 26 August 2017, member of the SB from 27 August 2017 to 6 September 2017, Deputy Chairman since 7 September 2017, member of the SB AC until 26 August 2017	9	6	6	18,714	25,785	24,935	850
Mitja Vatovec, BA in Economics	Member of the SB from 1 January 2016 to 12 September 2016 and Deputy Chairman of the SB from 13 September 2016 to 29 August 2017	5	4	0	9,308	12,852	11,711	1,141
Rosana Dražnik, MSc	Member of the SB from 27 August 2017 to 6 September 2017 and Chair of the SB since 7 September 2017	3	2	0	6,150	8,456	8,184	272
Tatjana Habjan, BA in Economics	Member of the SB and Chair of the SB AC until 26 August 2017	6	4	6	11,886	16,397	15,526	871
REPRESENTATIVES OF EMPLOYEES:								
Tomislav Pajić, BSc in energy technology	Member of the SB since 1 September 2014	9	6	0	12,290	16,952	16,952	0
Boris Počivavšek, electronics engineer	Member of the SB since 1 September 2014	9	6	0	12,175	16,795	16,795	0
INDEPENDENT THIRD-PARTY EXPERTS, MEMBERS OF THE SB AC:								
Ignac Dolenšek, MSc	Member of the SB AC since 19 October 2017	0	0	1	719	989	875	114
Darinka Virant, BA in Economics	Independent third-party expert, member of the SB AC since 9 December 2013	0	0	7	3,881	5,336	4,790	546
TOTAL					93,279	128,560	123,605	4,955

The Audit Committee of the Supervisory Board operates within the scope of the Supervisory Board with the members in 2017 until 26 August 2017 comprising Tatjana Habjan as Chairwoman,

Mirjan Trampuž, MSM and MSc Energetics, Darinka Virant, as member and independent external expert, from 3 October 2017 onwards Miha Kerin, MSc as Chairman of the Audit Committee

and from 19 October 2017, Ignac Dolenšek, MSc joined the Audit Committee as an external member, alongside member and independent external expert Darinka Virant.

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)
Chairman of the Supervisory Board	19,500
Deputy Chairman of the Supervisory Board	14,300
Member of the Supervisory Board	13,000
Chairman of the Committee	4,875
Member of the Committee	3,250

The cost of liability insurance in accordance with the resolution of the Supervisory Board of Elektro Celje d.d. presented in the credit rating of members of the Supervisory Board represent the cost of other benefits for members of the Supervisory

Board in 2017. 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 the costs 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:		
Drago Štefe, MSc	0	0
Miha Kerin, MSc	145	0
Mirjan Trampuž, MSM and MSc Energetics	145	435
Mitja Vatovec, BA in Economics	145	87
Rosana Dražnik, MSc	0	0
Tatjana Habjan, BA in Economics	145	904
REPRESENTATIVES OF EMPLOYEES:		
Tomislav Pajić, BSc in energy technology	145	360
Boris Počivavšek, electronics engineer	145	0
INDEPENDENT THIRD-PARTY EXPERTS, MEMBERS OF THE SB AC:		
Ignac Dolenšek, MSc	0	306
Darinka Virant, BA in Economics	0	350
TOTAL	870	2,442

Membership of members of the Supervisory Board of the Company in the management or supervisory bodies of other companies:

Name and surname	Membership in the management or supervisory bodies
Drago Štefe, MSc	Member of the SB of HSE d.o.o. (until 1 September 2017);
Miha Kerin, MSc	Member of the Management Board of the company Varnost sistemi, d.o.o. (since January 2016);
Mirjan Trampuž, MSM and MSc Energetics	/
Mitja Vatovec	Director of the company Emigma d.o.o.
Rosana Dražnik, MSc	Director of the company Finera svetovanje d.o.o., sole trader, Rosana Dražnik s.p., Intax;
Tatjana Habjan	Independent external expert, member of the SB AC of the company ERGO življenjska zavarovalnica, d.d. until 1 March 2017; sole trader (s.p.) Dodana vrednost, revidiranje in svetovanje, Tatjana Habjan;
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 2017, does not show any receivables under this heading 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 2017 amounted to EUR 415,264 gross or EUR 227,448 net (EUR 396,771 gross or EUR 209,530 net in 2016).

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 (EZ-1) and SAS also reports on business segments or ac-

tivities 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 into 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 in the subsidiary for power generation and distribution, and into the subsidiary company for the marketing of electricity.

Short-term financial investments and available cash are calculated based on the amount of assets and liabilities of the activity. The amounts of share capital and capital reserves 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 statements of changes in equity, broken down by activity. The remaining assets 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, 975, 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

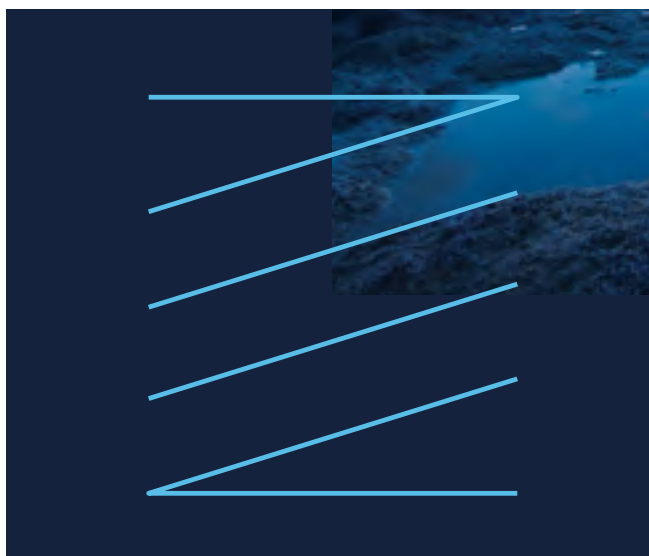
• **Criterion 1 – Share of hours worked for a particular activity in the accounting period** is used to allocate long-term financial investments not assigned to a particular activity, long-term loans granted, long-term operating receivables, liabilities related to salaries, short-term liabilities to state and other institutions, other short-term operating liabilities, small tools inventory, long-term operating liabilities, long-term liabilities from financial lease 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).

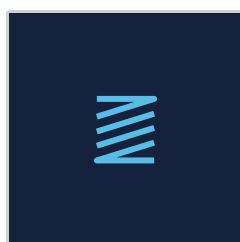
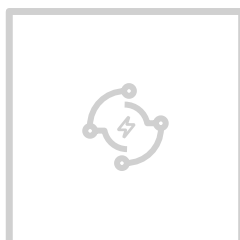
• **Criterion 2 – Share of fixed assets current value** is used in classifying fixed assets used within shared functions that serve both activities. Fixed assets are allocated to the appropriate category based on the share of fixed assets pertaining to each activity in the maintenance and investment 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 criterion of used material and services by the activity from which these payables reasonably derive.





BALANCE SHEET BY ACTIVITY as at 31 December 2017

Item (in EUR)	SODO activity	Market activities	Total
1	2	3	4
A. Long-term assets (I. + II. + III. + IV. + V. + VI.)	255,355,031	8,766,258	264,121,289
I. Intangible assets and long-term accrued revenue and deferred expenses (1 to 6)	3,625,991	19,006	3,644,997
1. Long-term property rights	3,625,948	18,992	3,644,940
6. Other long-term accrued revenue and deferred expenses	43	14	57
II. Property, plant and equipment (1 to 4)	246,392,753	1,185,860	247,578,613
1. Land and buildings (a + b)	178,540,160	528,612	179,068,772
a) Land	5,940,692	4,727	5,945,419
b) Buildings	172,599,468	523,885	173,123,353
2. Production equipment and machinery	60,127,409	590,746	60,718,155
3. Other plant and equipment	46,234	44,551	90,785
4. Tangible fixed assets in the course of acquisition (a + b)	7,678,950	21,951	7,700,901
a) Property, plant and equipment under construction	7,659,046	21,855	7,680,901
b) Advance payments for the acquisition of tangible fixed assets	19,904	96	20,000
IV. Long-term financial investments (1 to 2)	243,699	7,410,238	7,653,937
1. Long-term financial investments excluding loans (a + b + c + d)	243,699	7,410,238	7,653,937
a) Shares and shareholdings in Group companies	0	7,246,975	7,246,975
c) Other shares and shareholdings	243,699	163,263	406,962
V. Long-term operating receivables (1 to 3)	3,551,480	1,154	3,552,634
2. Long-term trade receivables	3,544,119	0	3,544,119
3. Long-term operating receivables due from others	7,361	1,154	8,515
VI. Deferred tax assets	1,541,108	150,000	1,691,108
B. Current assets (I. + II. + III. + IV. + V.)	8,981,034	2,769,247	11,750,281
II. Inventory (1 to 4)	258,433	853,130	1,111,563
1. Material	258,433	853,130	1,111,563
IV. Short-term operating receivables (1 to 3)	10,203,751	263,906	10,467,657
1. Short-term operating receivables from Group companies	13,799	3,476	17,275
2. Short-term trade receivables	9,927,135	174,691	10,101,826
3. Short-term operating receivables due from others	262,817	85,739	348,556
V. Cash	-1,481,150	1,652,211	171,061
C. Short-term accrued revenue and deferred expenses	3,675,999	150,126	3,826,125
TOTAL ASSETS (A + B + C)	268,012,064	11,685,631	279,697,695

Item (in EUR)		SODO activity	Market activities	Total
	1	2	3	4
A.	Equity	198,845,300	8,300,833	207,146,133
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	38,074,207	3,168,012	41,242,219
	1. Legal reserves	3,234,323	254,176	3,488,499
	2. Reserves for own shares and interests	621,388	14,411	635,799
	3. Own shares and interests	-621,388	-14,411	-635,799
	5. Other revenue reserves	34,839,884	2,913,836	37,753,720
IV.	Reserves resulting from valuation at fair value	-390,156	-64,463	-454,619
VI.	Retained earnings	119,012	33,093	152,105
	1. Retained earnings from previous years	119,012	33,093	152,105
VII.	Net income/profit for the year	1,527,985	1,464,925	2,992,910
	1. Undistributed net income/profit for the year	1,527,985	1,464,925	2,992,910
B.	Provisions and long-term accrued expenses and deferred revenue (1 to 3)	18,252,693	1,488,109	19,740,802
	1. Retirement benefits and similar employee benefits	4,485,161	1,430,376	5,915,537
	2. Other provisions	826,783	0	826,783
	3. Long-term accrued expenses and deferred revenue	12,940,749	57,733	12,998,482
C.	Long-term liabilities (I.+ II.+ III.)	28,397,723	232,965	28,630,688
I.	Long-term financial liabilities (1 to 4)	28,299,051	190,105	28,489,156
	2. Long-term financial liabilities to banks	27,702,950	0	27,702,950
	4. Other long-term financial liabilities	596,101	190,105	786,206
II.	Long-term operating liabilities (1 to 5)	98,672	31,467	130,139
	2. Long-term trade payables	98,672	31,467	130,139
III.	Deferred tax liabilities	0	11,393	11,393
Č.	Short-term liabilities (I.+ II.+ III.)	21,963,187	1,489,781	23,452,968
II.	Short-term financial liabilities (1 to 4)	11,237,733	3,867	11,241,600
	2. Short-term financial liabilities to banks	11,237,733	0	11,237,733
	4. Other short-term financial liabilities	0	3,867	3,867
III.	Short-term operating liabilities (1 to 8)	10,725,454	1,485,914	12,211,368
	1. Short-time operating liabilities to Group companies	36,905	11,770	48,675
	2. Short-time trade payables	4,068,013	479,869	4,547,882
	4. Short-time operating liabilities from operations for third-party account	3,655,124	0	3,655,124
	5. Short-time liabilities to employees	2,398,427	721,627	3,120,054
	6. Short-time liabilities to state and other institutions	147,420	53,551	200,971
	7. Short-time operating liabilities based on advances	355	93,934	94,289
	8. Other short-time operating liabilities	419,210	125,163	544,373
D.	Short-term accrued expenses and deferred revenue	553,161	173,943	727,104
TOTAL LIABILITIES (A to D)		268,012,064	11,685,631	279,697,695

BALANCE SHEET BY ACTIVITIES as of 31 December 2016

Item (in EUR)	Dejavnost SODO	Tržne dejavnosti	Skupaj
1	2	3	4
A. Long-term 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 Group companies	0	7,246,975	7,246,975
c) Other shares and shareholdings	199,557	132,696	332,253
V. Long-term operating receivables (1 to 3)	4,732,609	1,112	4,733,721
2. Long-term trade receivables	4,725,754	0	4,725,754
3. Long-term operating receivables due 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
II. Inventory (1 to 4)	278,696	882,321	1,161,017
1. Material	278,696	882,321	1,161,017
IV. Current operating receivables (1 to 3)	9,938,395	299,898	10,238,293
1. Short-term operating receivables from Group companies	9,026	2,802	11,828
2. Short-term trade receivables	9,765,710	249,937	10,015,647
3. Short-term operating receivables due from others	163,659	47,159	210,818
V. Cash	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)		Dejavnost SODO	Tržne dejavnosti	Skupaj
	1	2	3	4
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.	Long-term liabilities (I.+ II.+ III.)	34,066,559	79,493	34,146,052
I.	Long-term 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.	Long-term operating liabilities (1 to 5)	247,773	79,493	327,266
	2. Long-term trade payables	247,773	79,493	327,266
III.	Deferred tax liabilities	8,187	0	8,187
Č.	Short-term liabilities (I.+ II.+ III.)	20,086,274	1,069,898	21,156,172
II.	Short-term 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.	Short-term operating liabilities (1 to 8)	8,904,142	1,065,725	9,969,867
	1. Short-time operating liabilities to Group companies	374,222	12,006	49,428
	2. Short-time trade payables	2,381,931	331,613	2,713,544
	4. Short-time operating liabilities from operations for third-party account	3,940,329	0	3,940,329
	5. Short-time liabilities to employees	1,641,385	495,931	2,137,316
	6. Short-time liabilities to state and other institutions	533,242	109,807	643,049
	7. Short-time operating liabilities based on advances	160	7,857	8,017
	8. Other short-time operating liabilities	369,673	108,511	478,184
D.	Short-term accrued expenses and deferred revenue	505,542	190,344	695,886
TOTAL LIABILITIES (A to D)		266,075,522	9,984,468	276,059,990

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.

Organisational 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 organisational 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 an individual organisational unit within the shared functions are based on the calculation of appropriate ponderers, which include the following categories:

- **Activity revenue** (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	47,533,168	0	47,533,168
From the sale of services	458,935	1,830,923	2,289,858
Total	47,992,103	1,830,923	49,823,026

INCOME STATEMENT BY ACTIVITY for 2017

Item (in EUR)		Amount		
		SODO activity	Market activities	Total
	1	2	3	4
1. Net sales revenue		47,992,103	1,830,923	49,823,026
a. In the domestic market		47,992,103	1,830,923	49,823,026
3. Capitalised own products and services		0	14,011,503	14,011,503
4. Other operating revenue (including revaluation surplus)		1,684,553	117,298	1,801,851
5. Costs of goods, materials and services (a + b)		6,703,350	9,657,741	16,361,091
a. Cost of goods and material		1,352,629	8,836,663	10,189,292
b. Cost of services		5,350,721	821,078	6,171,799
6. Labour costs (a + b + c + d)		16,297,584	5,679,042	21,976,626
a. Cost of salaries		11,624,558	4,136,301	15,760,859
b. Pension insurance costs		1,637,757	563,581	2,201,338
c. Other social security costs		864,581	305,724	1,170,305
d. Other labour costs		2,170,688	673,436	2,844,124
7. Write-downs and write-offs (a + b + c)		17,882,452	410,637	18,293,089
a. Amortisation and depreciation		17,076,149	402,743	17,478,892
b. Operating expenses from revaluation of intangible and tangible fixed assets		793,336	4,988	798,324
c. Operating expenses from revaluation of current assets		12,967	2,906	15,873
8. Other operating expenses		285,622	31,018	316,640
9. Financial revenue from shares (a + b)		0	1,532,400	1,532,400
a. Financial revenue from shares in Group companies		0	1,525,000	1,525,000
b. Financial revenue from shares in other companies		0	7,400	7,400
10. Financial revenue from loans granted (a + b)		134	52	186
b. Financial revenue from loans to others		134	52	186
11. Financial revenue from operating receivables		272,341	1,071	273,412
b. Financial revenue from operating receivables due from third parties		272,341	1,071	273,412
13. Financial expenses from financial liabilities (a + b)		380,645	2,804	383,449
b. Financial expenses related to loans from banks		380,645	2,804	383,449
14. Financial expenses from operating liabilities		54,722	17,599	72,321
b. Financial expenses from trade payables and bills payable		799	311	1,110
c. Financial expenses from other operating liabilities		53,923	17,288	71,211
15. Other revenue		8,880	1,772	10,652
16. Other expenses		47,061	6,287	53,348
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)		8,306,575	1,689,891	9,996,466
18. Income tax		830,435	12,506	842,941
19. Deferred taxes		-89,414	-1,352	-90,766
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)		7,386,726	1,676,033	9,062,759

INCOME STATEMENT BY ACTIVITY for 2016

Item (in EUR)		Amount		
		SODO activity	Market activities	Total
	1	2	3	4
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		1,602,734	575,644	2,178,378
c. Cost of employer contributions and other levies on salaries		842,265	312,651	1,154,916
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 revenue from shares (a + b)		0	416,221	416,221
a. Financial revenue from shares in Group companies		0	408,791	408,791
b. Financial revenue from shares in other companies		0	7,430	7,430
10. Financial revenue from loans granted (a + b)		66	28	94
b. Financial revenue from loans to others		66	28	94
11. Financial revenue from operating 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 operating liabilities		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

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 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 directly 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
007, 06, 07, 08, 25, 262, 263, 2655, 2663, 270, 277, 282, 285, 2851 do 2859, 320, 321, 966, 975, 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	Criterion

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 infrastructure and rendering

of services for the distribution network operator represents a funding source for investing activities, payments to suppliers, and carrying out

own investments within the Company's non-electricity related activities.

STATEMENT OF CASH FLOWS BY ACTIVITY for 2017

Item (in EUR)	SODO activity	Market activities	Total
1	2	3	4
A. Cash flows from operating activities			
a) Inflows from operating activities	102,720,873	18,110,136	120,831,009
Inflows from sale of goods and services	101,798,094	17,868,480	119,666,574
Other operating inflows	922,779	241,656	1,164,435
b) Outflows from operating activities	-73,829,274	-17,487,477	-91,316,751
Purchase of material and services	-51,723,466	-10,437,696	-62,161,162
Salaries and employees' share in the profit	-15,748,228	-4,690,747	-20,438,975
Charges (contributions and other taxes)	-5,500,585	-2,098,743	-7,599,328
Other outflows from operating activities	-856,995	-260,291	-1,117,286
c) Positive or negative net cash flow from operating activities (a + b)	28,891,599	622,659	29,514,258
B. Cash flow from investing activities			
a) Inflows from investing activities	796,713	1,560,178	2,356,891
Inflows from interests and dividends received relating to investing activities	138	1,532,448	1,532,586
Receipts from the disposal of tangible fixed assets	796,575	27,730	824,305
b) Outflows from investing activities	-22,670,669	-46,958	-22,717,627
Cash payments for the acquisition of intangible assets	-1,955,607	-10,243	-1,965,850
Purchase of property, plant and equipment	-20,671,210	-22,730	-20,693,940
Purchase of financial investments	-43,852	-13,985	-57,837
c) Positive or negative net cash flow from investing activities (a + b)	-21,873,956	1,513,220	-20,360,736
C. Cash flows from financing activities			
a) Inflows from financing activities	13,750,000	0	13,750,000
Inflows from the increase in financial liabilities	13,750,000	0	13,750,000
b) Outflows from financing activities	-22,273,531	-639,619	-22,913,150
Interest paid on financing activities	-380,706	0	-380,706
Cash payments for equity redemption	-91,836	-2,130	-93,966
Cash repayments of financial liabilities	-19,802,048	0	-19,802,048
Paid out dividends and other profit shares	-1,998,941	-637,489	-2,636,430
c) Positive or negative net cash flow from financing activities (a + b)	-8,523,531	-639,619	-9,163,150
Č. Closing balance	-1,481,150	1,652,211	171,061
Net cash flow for the period (sum of net cash flows Ac, Bc and Cc)	-1,505,888	1,496,260	-9,628
Opening balance	24,738	155,951	180,689

STATEMENT OF CASH FLOWS BY ACTIVITY 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
Inflows from the increase in financial liabilities	32,736,000	16,177,790	48,913,790
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 financial liabilities	-33,123,695	-16,177,790	-49,301,485
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

Gratitude to our Employees

To ensure successful operations and growth, a company needs employees who with their knowledge and work, contribute to the added value of the company, increasing its competitive advantage on the market.

At Elektro Celje we are aware of this, and on this occasion we would like to thank all the employees who contributed their share to the overall success of the company.



THANK YOU



16 CONSOLIDATED FINANCIAL STATEMENTS OF ELEKTRO CELJE GROUP

16.1 Consolidated Statement of Financial Position

Item (in EUR)		Note	Amount	
			As of 31 December 2017	As of 31 December 2016
ASSETS				
A	Long-term assets (1 + 2 + 3 + 4 + 5 + 6)		261,536,356	259,991,388
1.	Intangible assets	17.6	3,899,732	2,035,257
2.	Property, plant and equipment	17.7	250,054,522	248,417,284
	a. Land		5,974,525	5,908,405
	b. Buildings		174,103,508	173,224,451
	c. Production equipment, machinery and other equipment		62,101,217	63,446,733
	d. Property, plant and equipment under construction		7,875,272	5,837,695
3.	Investment property	17.8	232,533	302,975
4.	Financial investments	17.9	751,323	734,452
5.	Operating receivables	17.11	4,042,348	5,698,675
6.	Deferred tax assets	17.33.1	2,555,898	2,802,745
B	Current assets (1 + 2 + 3 + 4 + 5 + 6)		56,586,554	54,281,817
2.	Inventory	17.10	1,124,611	1,169,107
3.	Trade receivables	17.11.2	45,526,003	43,991,990
4.	Income tax receivables	17.33	24,079	0
5.	Other operating receivables	17.11.2	6,105,839	6,539,713
6.	Cash and cash equivalents	17.12	3,806,022	2,581,007
TOTAL ASSETS (A + B)			318,122,910	314,273,205
LIABILITIES				
A	Equity (1 + 2 + 3 + 4 + 5)	17.13	219,770,154	213,314,562
1.	Share capital		100,953,201	100,953,201
2.	Share premium		62,260,317	62,260,317
3.	Revenue reserve		45,820,296	35,267,588
	a. Legal reserves		3,489,751	3,036,613
	b. Reserves for own shares and interests		635,799	541,833
	c. Own shares and interests		-635,799	-541,833
	d. Other revenue reserves		42,330,545	32,230,975
4.	Fair value reserves		-411,374	-302,184
5.	Net income/profit		6,362,305	10,401,635
	a. Retained net income/profit from previous years		3,170,692	6,690,619
	b. Net income/profit for the year		3,191,613	3,711,016
Equity share of non-controlling interests			4,785,409	4,734,005
Equity share of controlling interests			214,984,745	208,580,557
B	Non-current liabilities (1 + 2 + 3 + 4 + 5)		49,478,706	54,370,651
1.	Provisions	17.14	7,839,985	6,818,075
2.	Long-term deferred revenue	17.15	12,998,482	13,356,857
3.	Financial liabilities	17.16	28,489,156	33,843,699
4.	Operating liabilities	17.17	130,139	334,925
5.	Deferred tax liabilities	17.33.2	20,944	17,095
C	Short-term liabilities (1 + 2 + 3 + 4 + 5)		48,874,050	46,587,992
1.	Financial liabilities	17.16	11,276,284	11,222,578
2.	Trade payables	17.18	18,982,226	17,451,325
3.	Liabilities from operations for third-party account	17.18	10,996,343	11,347,268
4.	Other operating liabilities	17.18	7,619,197	6,329,106
5.	Income tax liabilities	17.33	0	237,715
TOTAL LIABILITIES (A + B + C)			318,122,910	314,273,205

16.2 Consolidated Income Statement

Item (in EUR)		Note	Amount	
			Current year	Previous year
1.	Net sales revenue	17.24	178,141,232	182,114,244
2.	Capitalised own products	17.25	14,011,503	13,260,484
3.	Other operating revenue	17.26	2,632,533	2,582,045
4.	Cost of material	17.27	-129,973,703	-130,417,320
5.	Cost of services	17.27	-9,106,864	-9,746,247
6.	Labour costs	17.28	-24,715,149	-24,707,671
7.	Amortisation and depreciation	17.29	-17,974,202	-17,892,902
8.	Operating expenses from revaluation	17.30	-928,844	-1,782,654
9.	Other operating expenses	17.31	-732,769	-2,361,678
	OPERATING PROFIT OR LOSS		11,353,737	11,048,301
10.	Financial revenue	17.32	540,960	341,846
11.	Financial expenses	17.32	-464,216	-670,278
	PROFIT OR LOSS BEFORE TAXES		11,430,481	10,719,869
12.	Income tax	17.33	-1,328,377	-1,286,755
13.	Deferred taxes	17.33	-258,560	1,314,464
	NET PROFIT/LOSS		9,843,544	10,747,578
14.	Net profit share of controlling interests		9,261,462	10,340,503
15.	Net profit share of non-controlling interests		582,082	407,075

16.3 Consolidated Comprehensive Income Statement

Item (in EUR)		Current year	Previous year
1.	Net profit or loss for the financial period	9,843,544	10,747,578
2.	Items which will later not be reclassified into profit or loss	-144,102	-258,415
a.	Actuarial gains/losses in provisions for severance pays	-157,789	-288,600
b.	Impact of deferred tax on actuarial gains/losses in provisions for severance pays	13,687	30,185
3.	Items which can later be reclassified into profit or loss	13,023	-2,846
a.	Revaluation of financial investments measured at fair value through equity	16,872	-1,954
b.	Adjustment to reserves resulting from valuation at fair value for deferred tax liabilities	-3,849	-892
4.	Other total comprehensive income in the financial year	-131,079	-261,261
5.	Total comprehensive income for the financial period (1 + 4)	9,712,465	10,486,317
	of which:		
	- equity holders of the controlling company	9,134,278	10,074,445
	- non-controlling interests	578,187	411,872

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	17.35.1	350,385,076	354,653,888
Inflows from sale of goods and services		349,042,371	352,867,696
Other operating inflows		1,342,705	1,786,192
b) Outflows from operating activities	17.35.2	-333,245,881	-339,071,293
Purchase of material and services		-290,253,098	-294,506,951
Salaries and employees' share in the profit		-23,075,585	-23,701,407
Charges (contributions and other taxes)		-18,641,498	-19,604,685
Other outflows from operating activities		-1,275,700	-1,258,250
c) Positive or negative net cash flow from operating activities (a + b)		17,139,195	15,582,595
B. Cash flow from investing activities			
a) Inflows from investing activities	17.35.3	877,984	389,556
Inflows from interest relating to investing activities		421	558
Inflows from participation in others' profits relating to investing activities		45,063	14,060
Inflows from the disposal of tangible fixed assets		832,500	374,938
b) Outflows from investing activities	17.35.4	-7,066,181	-7,494,338
Purchase of long-term intangible assets		-1,965,850	-779,844
Purchase of property, plant and equipment		-5,100,331	-6,714,494
c) Positive or negative net cash flow from investing activities (a + b)		-6,188,197	-7,104,782
C. Cash flows from financing activities			
a) Inflows from financing activities	17.35.5	13,750,000	32,736,000
Inflows from the increase in financial liabilities		13,750,000	32,736,000
b) Outflows from financing activities	17.35.6	-23,475,983	-40,489,675
Interest paid on financing activities		-382,150	-557,661
Cash payments for equity redemption		-93,966	-541,833
Repayment of financial liabilities		-19,836,654	-35,155,417
Paid out dividends and other profit shares		-3,163,213	-4,234,764
c) Positive or negative net cash flow from financing activities (a + b)		-9,725,983	-7,753,675
D. Closing balance	17.35	3,806,022	2,581,007
Net cash flow for the period (sum of net cash flows Ac, Bc and Cc)	17.35	1,225,015	724,138
Opening balance	17.35	2,581,007	1,856,869

16.5 Consolidated Statement of Changes in Equity

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY from 1 January 2017 to 31 December 2017 (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 non-controlling interests	Total equity
	Share capital		Legal reserves	Reserves for treasury shares	Treasury shares	Other revenue reserves					
A.1. Balance at the end of the previous reporting period	100,953,201	62,260,317	3,036,613	541,833	-541,833	32,230,975	-302,184	6,690,619	3,711,016	4,734,005	213,314,562
A.2. Opening balance	100,953,201	62,260,317	3,036,613	541,833	-541,833	32,230,975	-302,184	6,690,619	3,711,016	4,734,005	213,314,562
B.1. Changes in equity – transactions with shareholders	0	0	0	0	-93,966	0	0	-2,636,124	0	-526,783	-3,256,873
a) Purchase of own shares and interests	0	0	0	0	-93,966	0	0	0	0	0	-93,966
b) Payment of dividends	0	0	0	0	0	0	0	-2,636,124	0	-526,783	-3,162,907
B.2. Total comprehensive income in the reporting period	0	0	0	0	0	0	-127,184	0	9,261,462	578,187	9,712,465
a) Input of net profit/loss from the reporting period	0	0	0	0	0	0	0	0	9,261,462	582,082	9,843,544
b) Changes in reserves resulting from valuation of financial investments at fair value	0	0	0	0	0	0	13,188	0	0	-165	13,023
c) Other components of comprehensive income in the reporting period	0	0	0	0	0	0	-140,372	0	0	-3,730	-144,102
B.3. Changes in equity	0	0	453,138	93,966	0	10,099,570	17,994	-865,809	-9,780,865	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	3,711,016	-3,711,016	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	453,138	0	0	5,522,745	0	0	-5,975,883	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	4,576,825	0	-4,576,825	0	0	0
d) Creation of reserves for own shares and interests from other equity components	0	0	0	93,966	0	0	0	0	-93,966	0	0
e) Other changes in equity	0	0	0	0	0	0	17,994	-17,994	0	0	0
C. Balance at the end of the reporting period	100,953,201	62,260,317	3,489,751	635,799	-635,799	42,330,545	-411,374	3,188,686	3,191,613	4,785,409	219,770,154

Explanatory notes to the Consolidated Statement of Changes in Equity are provided in Section 17.13.

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 non-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.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	-54,1833	-893,113	0	-3,234,527	0	0	-141,210	-4,810,683
a)	Purchase of own shares and interests	0	0	0	0	-54,1833	0	0	0	0	0	0	-54,1833
b)	Payment of dividends	0	0	0	0	0	-893,113	0	-3,234,527	0	0	-141,210	-4,288,850
B.2.	Total comprehensive income in the financial year	0	0	0	0	0	0	-266,058	0	0	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	-263,532	0	0	0	5,117	-258,445
B.3.	Changes in equity	0	0	471,605	541,833	0	5,612,446	4,322	6,022,035	0	-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)	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
e)	Other changes in equity	0	0	0	0	0	0	4,322	-719	-3,603	0	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 17.13.

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 electricity 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 were confirmed by the Management Board on 6 April 2018.

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 Explanatory Notes, 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 in the European Union.

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 2017.

Significant assets and liabilities of the Group	Measurement method
Long-term assets	
Intangible assets	At cost
Tangible fixed assets	At cost
Investment property	At cost
Financial investments:	
- 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
Current assets	
Inventory	At lower value, whether at cost or net realisable value
Operating and other receivables	At amortised cost
Cash and cash equivalents	At amortised 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
Operating and other obligations	At amortised 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, some 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 es-

timates. 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 of the Group 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:

- Explanatory note 17.3 (c), 17.3 (d) and Accounting Policy 17.6, 17.7 - Determining the useful lives of depreciable assets;
- Explanatory note 17.3 (r) and Accounting Policy 17.32.1, 17.32.2 - Deferred taxes;

- Explanatory note 17.3 (m), 17.3 (l) and Accounting Policy 17.14, 17.15) - Measurement and estimated value of long-term deferred revenue, provisions for post-employment benefits of employees and lawsuits;
- Explanatory note 17.3 (g), 17.3 (h) and Accounting Policy 17.9 - vrednotenje finančnih naložb;
- Explanatory note 17.3 (g), 17.3 (h) and Accounting Policy 17.11 in 17.35.1 - Valuation of investments;
- Explanatory note 17.3. (k) and Accounting Policy 17.10 - Revaluation adjustments to inventory;

e) Amendments to accounting policies

The Group did not amend its accounting policies in 2017.

17.3 Significant Accounting Policies

The Elektro Celje Group uses the same accounting policies for all periods presented in the enclosed Consolidated Financial Statements. 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 accounting policies and the calculation methods used are the same as for the last annual reporting, except for the newly adopted standards and explanatory notes as shown below.

A. Newly adopted standards and explanatory notes which came into effect on 1 January 2017

The following amendments to existing standards and new explanatory notes were issued by the International Financial Reporting Interpretations Committee (IFRIC) and adopted by the EU, which came into force in the current accounting period:

Amendment to IAS 7: Disclosure Initiative (cash flow statement)

The amendment was adopted by the European Union on 6 November 2017 and is effective for annual periods, beginning on or after 1 January 2017. Companies must comply with the amendments to disclose the revised amount of liabilities arising from financing, including changes arising from cash flow, and non-cash changes such as positive or negative exchange rate differences, changes in the acquisition or loss of control over subsidiaries, and changes in fair value. Upon initial application of the revised standard, companies did not have to provide comparative information for prior periods.

The amendments to IAS 7 do not affect the consolidated financial statements.

Amendment to IAS 12: Recognition of deferred tax receivables arising

from unrealised losses

The amendment was adopted by the European Union on 6 November 2017 and is effective for annual periods beginning on or after 1 January 2017. The IASB published the amendment to IAS 12 Income Tax, to clarify accounting for deferred tax receivables arising from unrealised losses on debt instruments measured at fair value. The amendments clarify that a company needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. Upon initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognised in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Companies that have used this relief must disclose such fact.

Amendments to IAS 12 do not affect the consolidated financial statements.

Amendments to various standards - improvements to IFRS for the period 2014–2016

Amendments arising from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28), primarily with a view to removing inconsistencies and clarifying wording, were adopted by the EU on 8 February 2018.

Amendments to IFRS 12: Disclosure of interests in other entities

The amendments clarify the scope of use of the standard as they provide that the disclosure requirements

of the standard apply to a company's interests as listed in Article 5, which are in accordance with IFRS 5. Non-current assets available for sale and discontinued operations are classified as assets available for sale, assets for distribution to owners or discontinued operations, however, the amendments do not apply to the disclosure requirements under Articles B10–B16.

Amendments to IFRS 12 do not affect the consolidated financial statements.

B. Newly adopted standards and explanatory notes, which have not yet entered into force

The new standards and explanatory notes listed below are not yet in force. The Group will use the relevant standards and explanatory notes in the preparation of its annual financial statements upon their entry into force; the Group did not begin using any of the standards early.

IFRS 9: Financial Instruments

The Standard adopted by the European Union on 22 November 2016 is 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 (FVOCI) 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 and 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

The European Union adopted the standard and amendment to IFRS 15 "Effective date of IFRS 15" on 22 September 2016, and the amendments to IFRS 15 - Explanatory notes to the IFRS 15 on 31 October 2017, with both effective for annual accounting periods beginning on 1 January 2018. 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 esti-

mate 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.

Amendment to IFRS 15: Revenue from contracts with customers

The new explanatory notes for the standard apply to annual periods beginning on or after 1 January 2018. The amendments do not change the requirements of IFRS 15, but further clarify them. The amendments:

- Clarify when promised goods or services are not in accordance with the content of a contract,
- Clarify how the company should take into account the relationship between the principal and agent, including a standard unit of estimation, and how the company can apply the principle of control over service transactions and redesign indicators,
- Clarify when the activities of a company have a significant impact on intellectual property (IP) to which the buyer is entitled, which is the determining factor in deciding whether a company recognises revenue from license fees over a longer period of time, or at a precisely defined moment,
- Clarify the scope of the royalty exemption from the sale or use of intellectual property licenses (royalty limit) in respect to other promised goods or services covered by a contract,
- And contain two practical tools for complying with the transitional provisions of IFRS 15 for concluded contracts under the scope of full transition, recognition approach for past periods and adjustment of contracts upon transition to a new standard.

The Group must apply these amendments retrospectively; early use is permitted and must be disclosed by the company.

The Group does not expect the explanatory notes to IFRS 15 to have a significant impact on the consolidated financial statements.

IFRS: 16 Leases

The Standard adopted by the European Union on 31 October 2017 is effective for annual accounting periods beginning on 1 January 2019, or later. Earlier application is allowed if a group also uses IFRS 15. IFRS 16 supersedes IAS 17 Leases and the related explanatory notes. 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.

With the introduction of the new 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 4: Application of IFRS 9 Financial Instruments connected with IFRS 4 Insurance Contracts

The amendments were adopted by the European Union on 3 November 2017 and are effective for periods beginning on or after 1 January 2018 and upon initial application of IFRS 9. The amendments address concerns arising from implementing the new financial instruments standard (IFRS 9) prior to implementing the new standard for insurance contracts, which replaces IFRS 4. The amendments provide two options for companies issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach. The temporary exemption is first used for reporting periods beginning on or after 1 January 2018. The company may also simultaneously use a decision on the first application of IFRS 9 and this approach is then applied retrospectively for the financial assets provided for upon transition to IFRS 9. The company adjusts the comparative information using IFRS 9.

The Group does not expect the amendments to IFRS 4 to impact the consolidated financial statements.

Amendments to various standards "Improvements to IFRS for the period 2014–2016"

Amendments arising from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording were adopted by the European Union on 8 February 2018 (amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on 1 January 2018 or later).

Amendments to IAS 28: Investments in associates and joint ventures

The amendments clarify that for the measurement of a financial investment in an associate or joint venture owned by the company, which is an organization that deals with venture capital or other eligible entity, a selec-

tion can be made for each investment in an associate or joint venture upon initial recognition at fair value through profit or loss, whereby each investment is considered separately. The amendments apply to annual periods beginning on or after 1 January 2018.

The Group does not expect the amendments to IAS 28 to impact the consolidated financial statements.

Amendments to IFRS 1: First-time adoption of IFRS

Short-term exemptions in paragraphs E3–E7 of IFRS 1 were deleted because they have served their intended purpose. The amendments apply to annual periods beginning on or after 1 January 2018.

The Group does not expect the amendments to IFRS 1 to impact the consolidated financial statements.

Amendments to IAS 40: Investment property

The European Union adopted the amendments on 14 March 2018, which apply to annual accounting periods beginning on or after 1 January 2018, and will be used in the future. The amendments strengthen the principle set out in IAS 40 Transfers of Investment Property, concerning transfers to or from investment property, so that they now define that such transfers are only carried out if there is a change in the use of the property. In accordance with the amendments, the transfer is only carried out 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 a change of use thereof. A change in the intent of management alone is not a reason for transfer.

The Group does not expect the amendments to IAS 40 to have a significant impact on the consolidated financial statements.

Amendment to IFRS 2: Classification and measurement of share-based payment transactions

The European Union adopted the amendment on 26 February 2018, which applies to annual accounting periods, beginning on or after 1 January 2018. Comparatively they are to be used retroactively. Earlier application is permitted. The amendment has not yet been confirmed by the EU. The amendment defines share-based payment transactions more precisely in the following areas:

- Effects of mandatory and non-mandatory conditions on the measurement of a cash-settled share-based payment transaction,
- Share-based payments with a settlement option in case of the obligations of tax withheld at the source,
- Changes in conditions of share-based payments relating to the classification of payments settled in cash into payments settled with equity.

The Group does not expect the new standard to have an effect on the financial statements on its first day of use.

IFRIC 22 Transactions in foreign currencies and advances

The Explanatory note was adopted by the European Union on 28 March 2018 and is effective for annual accounting periods beginning on 1 January 2018, or later. The Explanatory Note 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 Explanatory Note on the day of its first use will have no 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.

C. Standards and explanatory notes issued by the IASB by the end of 2017, but which until 6 April 2018 had not yet been adopted by the European Union**IFRS 14 - Regulatory Deferral Accounts**

Effective for annual periods beginning on and after 1 January 2018. The European Union has adopted a decision not to start the validation process for this interim standard, and will wait for the publication of its final version.

IFRS 17 - Insurance Contracts

Effective for annual periods beginning on and after 1 January 2018.

Explanatory note to IFRIC 23: Uncertainty over Income Tax Payments

The explanatory note addresses the accounting of income tax when the tax treatment involves uncertainty that affect the application of IAS 12 Income Tax. The explanatory note establishes guidelines for: accounting for uncertain tax treatment separately or together, inspections of the tax authorities, and use of an appropriate method that reflects the uncertainty and at the same time, takes into account changes in facts and circumstances. The explanatory note is applicable beginning on or after 1 January 2019, with early application permitted.

The Group does not expect the explanatory note to IFRIC 23 to have a significant impact on the consolidated financial statements.

Amendments to IAS 28: Long-term Investments in Associates and Joint Ventures

The amendments treat the question of whether the measurement of long-term investments (particularly in terms of the requirements for impairment of long-term investments in associates and joint ventures, which are by content a part of "net investment" in the associated company or joint venture) falls within the scope of IFRS 9, IAS 28 or a combination of both. The amendments clarify that the company when recognising long-term investments that are not measured using the equity method must apply IFRS 9 Financial Instruments before commencing application of IAS 28; in the application of IFRS 9, the company does not take into account any adjustment to the carrying value of long-term investments that arise from IAS 28. The amendments apply from 1 January 2019 onwards, with early application permitted.

The Group does not expect the amendments to IAS 28 to have a significant impact on the consolidated financial statements.

Amendments to various standards "Improvements to IFRS (period 2015–2017)"

The amendments originate from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23), primarily with a view to removing inconsistencies and clarifying wording, and are effective for annual periods beginning on 1 January 2019 or later.

**a) Basis of consolidation
Basis of consolidation**

The consolidated financial statements include the financial statements of the Parent Company and its subsidiaries as at 31 December 2017, which are combined into the Consolidated Financial Statements based on the full consolidation method, by adding related items of assets, liabilities, equity, revenue and expenses, taking into account consolidation adjustments.

Transactions eliminated from consolidation

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 revenue 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 disposal, 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 revalues intangible fixed assets immediately, when their book value exceeds the recoverable value.

Intangible fixed assets of the Group

relate to property rights (mainly investment into software), such as 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 a part 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.

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 years	33.33	50.00
Real rights in immovable property	100 years	1.00	1.00
Right to use facilities	30 years	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 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. 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. The cost also comprises borrowings costs 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 to bringing the fixed asset for use is longer than one year, and namely for the period from the payment deadline of each invoice until the date of bringing the fixed asset

into use, whereby the capitalisation rate is calculated for each individual investment, taking into account the weighted average rate of withdrawals of investment loans for the period for which interest is calculated.

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 tangible 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 recognised 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 sales revenues 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.

Significant groups of depreciable assets	Estimated useful life in years	Depreciation rate in %	
		Minimum	Maximum
Energy infrastructure buildings	20–40 years	2.50	5.00
Other buildings	20–40 years	2.50	5.00
Energy infrastructure equipment	3–33.33 years	3.00	33.33
Other equipment	2–33.33 years	3.00	50.00
Vehicles	5–12.5 years	8.00	20.00
Equipment in the SHP	15–20 years	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 explanatory notes. Impairment of assets is described in Section 17.3 (i).

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 17.3 (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 and 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 Finan-

cial 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 exceptions are long-term trade receivables from customers undergoing compulsory composition procedures bearing interest pursuant to the decisions on compulsory

compositions, 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*) until 2015, and pursuant to Article 85 Item 3 of Annex 1 (*Official Gazette of the Republic of Slovenia, no. 66, of 14 September 2015*) from 2016 onwards, as well as non-interest-bearing receivables of significant amount recognised at the discounted amount.

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 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 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).

As at the balance sheet date 31 December 2017, the Group had forward contracts concluded for the purchase of electricity for the years 2018 and 2019. The contracts were concluded for the purpose of receipt or delivery of non-financial assets in accordance with the expected purchase, sale or use thereof, and are therefore treated as ordinary purchase contracts by the Company on the basis of IAS 39.5 and not as derivatives (seeing the purpose of purchase and manner of managing operations involving electricity, physical delivery is not present etc.).

The Group has, on the Balance Sheet date, 31 December 2017, concluded Forward Contracts for the purchase of electricity for the years 2018 and 2019. The Contracts are concluded for the purpose of receiving or providing non-financial assets in accordance with the expected purchase, sale or use and are therefore, pursuant to IAS 39.5, considered by the Company as normal Contracts of Sale and Purchase rather than derivatives (depending on the purpose of the purchase of electricity, management of the operations related to electricity, whether there is a physical delivery etc.).

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 composition 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 car-

ries 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 composition procedures, a revaluation adjustment is carried out in accordance with the Decisions on such settlements, or in the amount of 80% if the compulsory composition has not yet been confirmed. Adjustments are reduced by payments and write-offs of receivables based on supporting documents: A Compulsory Composition 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 is 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, profit 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's Articles of Association, 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 net 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 the Companies Act (ZGD-1) the reserves for Treasury Shares are formed from the net profit of the business year. Acquired Treasury Shares 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 recognised 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 and experience adjustments, 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 also relates to the connections of customers which the Parent Company assumed as tangible fixed assets with a commitment to maintain and restore them, in accordance with regulations, General conditions for connection to the distribution

electric system (Official Gazette of RS, no. 126/07).

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, relating 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 in the amount of 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 Network 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 the company Elektro Celje. The Energy Agency, which is, on the basis 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 its decision the regulatory framework for the period 2016–2018. The Parent Company's revenue from leasing the electricity distribution infrastructure and 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 a deviations settlement, performed following the conclusion of the regulatory year.

The preliminary reconciliation is prepared by SODO based on data from not-yet completed financial statements for the regulatory year and then forwarded to the Parent Company by 15 March, following conclusion of the accounting period with the final reconciliation based on revised data for the regulatory year, only forwarded until the preliminary reconciliation of the next year is issued.

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.

Revenue from the sale of electricity and energy products

Operating revenue 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 based on consumption in the previous month 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, with the amount of consumption 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 accounting 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 revenue 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 of 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 expenses

Financial Revenue includes revenue from dividend payments, revenue 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 revenue is recognised as it accrues, using the effective interest rate, revenue 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 services 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 recognised at settlement irrespective of the payments associated with them. Borrowing costs are recognised by the Group in the income statement using the effective interest method, except for those costs that are capitalised 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 and 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 revenue or expenses that are taxable or deductible in other years, as well as items that are never taxable nor 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 is cleared.

A deferred tax asset is recognised in the amount of probable future tax-

able 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 treasury 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 revenue and expenses from operating, investing and financing activities explaining changes in the movement of cash.

17.4 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:

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

The Fair Value of financial assets that are listed on a Stock Exchange is determined on the basis of the fi-

nal share price 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 over 20%, if the future business plans of the company indicate a lasting impairment of the investment etc.).

Operating and other receivables and operating and other liabilities

Short-term operating receivables, due to their short-term nature, are not discounted, but the impairment of their fair value is taken into consideration. All receivables are subject to interest, except for SODO receivables, which due to outstanding preliminary reconciliations 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 amortised cost.

As with short-term operating receivables, operating and other liabilities are also carried at amortised cost. Their fair value is not disclosed because in accordance with IFRS 7, amortised cost is a good approximation of fair value.

17.5 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 an acquisition of its subsidiary company Elektro Gorenjska Prodaja by 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 CHPPs.

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 Shareholders Agreement, 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 in-

dependence 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. Through a supervisory college, 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.

The company Elektro Celje, d.d. is also the Parent Company of the company MHE - ELPRO d.o.o based on the rights as founder, and sole shareholder arising from the Articles of Association. The company MHE-ELPRO d.o.o. operates as a part of the Elektro Celje Group. In doing so, risks, stemming from the operations of the subsidiary, are managed in a unified manner. The company Elektro Celje d.d., as sole shareholder in accord-

ance with paragraph 2 of Article 12 of the Articles of Association, nominates and dismisses the managing director of the subsidiary. The sole shareholder as a body influences the operations of the subsidiary, as all management decisions are tied to the prior consent of the sole shareholder, and the latter may issue as a body, binding instructions to the management. The managing director of the subsidiary also has a limit regarding the conclusion of legal transactions in excess of EUR 50,000 and regarding the conclusion of real estate transactions, for which in accordance with paragraph 2 of Article 14 of the Articles of Association, the managing director must acquire the written consent of the Management Board of the Parent Company. The information right of every shareholder is, irrespective of their ownership share, unlimited in content. The sole shareholder has the option of direct control of the company's operations, as no supervisory board has been organised in the company. The sole shareholder manages its investment through a supervisory college, by coordinating meetings with the Managing Director of the subsidiary, giving binding instructions on current issues, allowing for faster definition of actions to address potential problems, while supervising the operations and the work of the managing director of the subsidiary regularly and effectively.

Subsidiaries	Equity interest (in %)		Book value of equity (in EUR)		Profit or loss (in EUR)	
	31 Dec. 2017	31 Dec. 2016	31 Dec. 2017	31 Dec. 2016	31 Dec. 2017	31 Dec. 2016
ECE d. o. o.	74.3256%	74.3256%	18,174,005	18,206,205	2,034,753	1,353,114
MHE – ELPRO d. o. o.	100%	100%	2,400,445	2,355,618	44,827	135,131

17.6 Intangible Assets

The property rights of the Group consist of investments into software, real rights in immovable property, and substantive rights for the use of holiday apartments.

Intangible fixed assets (in EUR)	31 December 2017	31 December 2016
Property rights	3,898,799	1,713,627
Intangible assets in development	876	321,351
Other long-term accrued revenue and deferred expenses	57	279
Total	3,899,732	2,035,257

For the acquisition of intangible assets, the Group, as at 31 December 2017 reported operating liabilities in the amount of EUR 1,658,005 (EUR 543,690 on 31 December 2016) and

had no intangible assets pledged as security for the repayment of debts. The Group has a contract concluded for the period 2016–2018 for the purchase, lease and maintenance of

licenses for Microsoft software, with the contractual amount for 2018 amounting to EUR 79,166.

Changes in intangible assets

Intangible fixed assets (in EUR)	Property rights	Intangible assets in development	Other long-term accrued revenue and deferred expenses	Total
Cost				
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
As of 1 January 2017	9,176,136	321,351	279	9,497,766
Increase	0	2,827,137	57	2,827,194
Carry-over from ongoing investments	3,147,612	–3,147,612	0	0
Decrease	–65,379	0	–279	–65,658
As of 31 December 2017	12,258,369	876	57	12,259,302
Revaluation adjustment				
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
As of 1 January 2017	7,462,508	0	0	7,462,508
Amortisation and depreciation	959,084	0	0	959,084
Rentals from holiday facilities	3,355	0	0	3,355
Decrease	–65,378	0	0	–65,378
As of 31 December 2017	8,359,569	0	0	8,359,569
Carrying value				
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
As of 1 January 2017	1,713,627	321,351	279	2,035,257
As of 31 December 2017	3,898,799	876	57	3,899,732

The majority of resources were earmarked by the Company for the MS Dynamics AX (EUR 1,573,303) and IBM Maximo (EUR 1,116,648) information systems. The information system for which as at 31 December

2017 the Group disclosed long-term financial liabilities from financial leases in the amount of EUR 786,206, will following the fulfilment of contractual obligations become the permanent property of the Group.

A total of 51.1% of intangible assets in use as at 31 December 2017, have been fully depreciated (64% in 2016). The share is calculated according to their cost.

17.7 Tangible Fixed Assets

Property, plant and equipment (in EUR)	31 December 2017	31 December 2016
Land	5,974,525	5,908,405
Buildings	174,103,508	173,224,451
Equipment	62,101,217	63,446,733
Property, plant and equipment in the course of acquisition	7,783,902	5,837,695
Advance payments for tangible fixed assets	91,370	0
Total	250,054,522	248,417,284

Significant activation of the energy infrastructure in 2017 relate to the first phase of construction of the 20 kV underground cables in the length of 3.2 km between DTS Ravne and DS Mežica (EUR 723,189), the replacement of 2 x 20 kV overhead power lines, which connect Nazarje and Ljubno with 3 x 20 kV underground cables (EUR 683,947), renovation of the existing 20 kV overhead power line in the Logar valley (EUR 185,979) and construction of new underground cables: 2.2 km between OPL 20 kV Tičevo and OPL 20 kV Lipoglav (EUR 151,824), 1.8 km between OPL 20 kV Jurklošter and TS Lipni dol with the transformer substation Lipni dol (EUR 147,080) and 1.4 km between OPL 20 kV Škrlevo and OPL 20 kV Hom (EUR 147,080). New equipment was constructed in the 20 kV switchyard of DTS Ravne (EUR 177,900), primary and secondary equipment replaced in the 110 kV switchyard of DTS Slovenj Gradec (EUR 159,737 EUR) and protection and control equipment replaced in the 20 kV switchyard of DTS Slovenj Gradec (EUR 120,463). A new 20kV switching block (EUR 103,911) was constructed at DS Pristava, while in the remote-control centre decrepit wall displays were replaced, which

dispatchers require to manage and control remotely-controlled DTSs, DSs, TSs and RCSs (EUR 126,410). The majority of investments in the subsidiaries were allocated to the upgrade of rolling stock (EUR 53,340) and renovation of premises and acquisition of new equipment for the archives of the subsidiaries (EUR 38,328).

With the transfer of a part of investment property to tangible fixed assets in use, the amount of tangible fixed assets increased by EUR 52,899.

The carrying 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. as at 31 December 2017, amounted to EUR 242,300,081 (EUR 240,211,945 in 2016).

The cost of in-house construction and manufacture of tangible fixed assets amounted to EUR 14,011,503 in 2017 (EUR 13,260,484 in 2016).

Borrowing costs, which in 2017 were attributed to newly activated engineering structures amounted to EUR 4,330 (EUR 12,518 in 2016) and new equipment to EUR 839 (EUR 800 in 2016); investments in progress include interest in the amount of EUR 2,792 (EUR 4,106 in 2016).

The Group as at 31 December 2017 recorded liabilities for the acquisition of tangible fixed assets totalling EUR 1,111,346 (EUR 942,594 on 31 December 2016).

The Group, according to the situation as of 31 December 2017, did not disclose any tangible fixed assets with limited right to property, nor were any of them pledged as security for liabilities.

All tangible fixed assets owned by the Group as at 31 December 2017 were in use, with 30.7% of all buildings and equipment fully depreciated as at 31 December 2017 (28% in 2016). The share is calculated based on the cost of buildings and equipment. The Group received EUR 824,134 in compensation from insurance companies for fixed assets that were damaged (partially or fully).

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 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
As of 1 January 2017	5,908,405	567,834,954	164,531,825	5,837,695	0	744,112,879
Transfers to assets	7,139	131,867	28,273	0	0	167,279
Increase	0	0	0	19,946,917	91,370	20,038,287
Carry-over from ongoing investments	62,788	12,514,107	5,423,815	-18,000,710	0	0
Decrease	-3,807	-7,574,221	-3,978,897	0	0	-11,556,925
As of 31 December 2017	5,974,525	572,906,707	166,005,016	7,783,902	91,370	752,761,520
Revaluation adjustment						
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
As of 1 January 2017	0	394,610,503	101,085,092	0	0	495,695,595
Transfers to assets	0	102,992	11,388	0	0	114,380
Amortisation and depreciation	0	10,533,090	6,464,485	0	0	16,997,575
Decrease	0	-6,443,386	-3,657,166	0	0	-10,100,552
As of 31 December 2017	0	398,803,199	103,903,799	0	0	502,706,998
Carrying value						
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
As of 1 January 2017	5,908,405	173,224,451	63,446,733	5,837,695	0	248,417,284
As of 31 December 2017	5,974,525	174,103,508	62,101,217	7,783,902	91,370	250,054,522

17.8 Investment Property

Changes in investment property (in EUR)	Amount
Cost	
As of 1 January 2016	958,071
As of 31 December 2016	958,071
As of 1 January 2017	958,071
Transfer to tangible fixed assets	-167,279
As of 31 December 2017	790,792
Value adjustment	
As of 1 January 2016	636,753
Amortisation and depreciation	18,343
As of 31 December 2016	655,096
As of 1 January 2017	655,096
Amortisation and depreciation	17,543
Transfer to tangible fixed assets	-114,380
As of 31 December 2017	558,259
Carrying value	
As of 1 January 2016	321,318
As of 31 December 2016	302,975
As of 1 January 2017	302,975
As of 31 December 2017	232,533

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. Revenue from leases in 2017 amounted to EUR 10,763 (EUR 7,296 in 2016), with related costs amounting to EUR 5,824 (EUR 7,383 in 2016) related to

the current maintenance of property. Reductions regard the transfer of assets into use for the needs of ECE d.o.o. (archives), and only regards a transfer from investment property to tangible fixed assets in use.

17.9 Financial Investments

Financial investments (in EUR)	31 December 2017	Number of shares or shareholdings	31 December 2016	Number of shares or shareholdings
Gorenjska banka, d. d.	288,766	2,350	288,766	2,350
Zavarovalnica Triglav, d. d.	147,348	5,624	130,477	5,624
Informatika, d. d.	206,987	2,479	206,987	2,479
Stelkom, d. o. o.	108,222	12.64%	108,222	6.32%
Total	751,323		734,452	

All investments in stocks and shares are classified as investments available for sale under IAS 39, and amounted to EUR 751,323, with EUR 147,348 of the amount comprising in-

vestments in listed securities which are therefore measured at fair value (EUR 130,477 on 31 December 2016). The fair value of shares of Zavarovalnica Triglav, d.d. as at 31 Decem-

ber 2017 compared to 31 December 2016, increased by EUR 16,871 due to revaluation.

Changes in financial investments (in EUR)	Amount
Carrying value as of 1 January 2016	736,405
Adjustment to market value	-1,953
Carrying value as of 31 December 2016	734,452
Carrying value as of 1 January 2017	734,452
Adjustment to market value	16,871
Carrying value as of 31 December 2017	751,323

Other investments are valued at cost because they are not listed on a stock exchange, and information needed to assess their fair value cannot be obtained by the Group. The Group took the view that there are no objec-

tive reasons for their impairment in 2017. Shares of Gorenjska Banka are valued at a price of EUR 122.88 per share that represents 21.7% of the last known audited book value of the share. In 2017, the company ECE sold

off its stake in Stelkom in the amount of EUR 51,628 to its parent company.

Financial investments do not serve as security for liabilities and are burden free.

17.10 Inventory

In 2017, the Group identified a deficit of EUR 1,574 (EUR 5,575 in 2016) and a surplus of EUR 1,214 (EUR 3,823 in 2016) in the materials inventory,

which was calculated in the context of expenditure or revenue of the company. Due to obsolescence or changes in the quality of materials,

EUR 9,604 worth of inventories were written off in 2017 (EUR 39,270 in 2016). The Group had no inventories pledged as security for its liabilities.

Inventory (in EUR)	31 December 2017	31 December 2016
Material	1,019,117	1,082,705
Small tools	92,446	78,311
Merchandise	13,048	8,091
Total	1,124,611	1,169,107

17.11 Operating Receivables

17.11.1 Long-term Operating Receivables

Long-term operating receivables from SODO as at 31 December 2017 amounted to EUR 3,540,235 and include long-term receivables from the preliminary reconciliation for 2015 in the amount of EUR 3,426,391 and preliminary reconciliation for 2014 in the amount of EUR 107,254 and their discounting in the amount of EUR -93,113, accrued

interest from outstanding deficits from the preliminary reconciliation for 2015 in the amount of EUR 205,584, and surpluses and deficits from network charges from the final reconciliations for the years 2014, 2015 and 2016, amounting to EUR -105,881. 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 disclosed at their discounted values, with the method of remuneration of deficits and surpluses from Article 85 of the Network Charges Act and an interest rate of 0.779% taken into account.

Long-term operating receivables (in EUR)	31 December 2017	31 December 2016
Long-term trade receivables	4,614,586	6,383,365
- revaluation adjustment to trade receivables	-168,960	-195,751
- discounted receivables	-93,113	-132,653
- short-term portion of long-term trade receivables	-320,292	-365,500
	4,032,221	5,689,461
Long-term operating receivables from others	10,127	9,214
Total	4,042,348	5,698,675

Long-term operating receivables include receivables from customers' mobile phones in the amount of EUR 431,297, with a portion related to

receivables from companies undergoing compulsory composition and long-term operating receivables from others. Long-term receivables are not

collateralised nor pledged as collateral for liabilities of the Group.

17.11.2 Short-term Trade Receivables and Other Operating Receivables

Short-term operating receivables (in EUR)	31 December 2017	31 December 2016
Trade receivables	49,831,946	49,553,687
- revaluation adjustment to trade receivables	-4,396,918	-5,672,397
- discounted receivables	-5,803	-12,619
Late charge receivables	234,738	314,864
- revaluation adjustment to late charge receivables	-181,981	-259,649
Advance payments made	44,021	68,104
Trade receivables	45,526,003	43,991,990
Other operating receivables	6,654,467	6,790,710
- revaluation adjustment to short-term receivables from others	-548,628	-250,997
Other operating receivables	6,105,839	6,539,713
Total	51,631,842	50,531,703

The majority of trade receivables, in a share of 77.7%, are shown by the subsidiary ECE (mainly for the sale of electricity to business and household customers), with the Parent Company disclosing 22.2% (of this amount, trade receivables for the network charge amounted to EUR 3,660,612, with receivables for maintenance and lease of the electricity infrastructure and provision of services for SODO d.o.o. amounting to EUR 6,106,636), with the share of the subsidiary MHE - ELPRO comprising 0.1%. The maturity profile of trade receivables and their insurance are

presented in Section 17.35.1 (Credit Risk Exposure).

Short-term deferred expenses and accrued revenue

Short-term deferred expenses and accrued revenue in the amount of EUR 4,127,220 (EUR 3,493,340 in 2016), which are included in other operating receivables mainly relate to deferred costs of sponsorships in the amount of EUR 105,362 (EUR 93,612 in 2016), with accrued revenue relating to accrued projects in 2017 in the amount of EUR 133,290 (EUR 32,549 in 2016), the preliminary reconcilia-

tion for 2017 in the amount of EUR 3,074,131 (EUR 2,730,926 in 2016), a third of the eligible costs recognised in the regulatory period 2012–2014, which in accordance with the Act determining the methodology for charging for the network charge, will be settled in 2017 in the amount of EUR 17,027 (EUR 17,040 in 2016) and EUR 537,167 from received insurance compensation for the elimination of loss events caused by severe weather conditions in December. Items in the Statement of Financial Position are realistic and do not contain any hidden reserves.

Item (in EUR)	31 December 2017	31 December 2016
Short-term deferred expenses	185,894	158,245
Short-term accrued revenue	3,765,642	3,167,923
VAT from advance payments received	19,031	1,305
VAT from overpayment of electricity	156,653	165,867
Total	4,127,220	3,493,340

17.12 Cash and Cash Equivalents

Cash and cash equivalents (in EUR)	31 December 2017	31 December 2016
Cash in current accounts	3,649,429	2,433,729
Cash items in the process of collection	1,799	3,906
Overnight deposits	154,794	143,372
Total	3,806,022	2,581,007

Cash and cash equivalents on accounts with commercial banks are 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 900,000 in 2017 (EUR 1 million in 2016), with EUR 400,000 possessing a validity period of 29

December 2017. As at 31 December 2017, there were no negative balances on transaction accounts.

17.13 Equity and Reserves

The state of individual components of the Group's equity structure as at 1 January 2017 and 31 December 2017, and change in individual equity components in 2017 are shown in Table 16.5 and explained in Section 17.3 (j).

Equity (in EUR)	31 December 2017	31 December 2016
Equity share of controlling interest	214,984,745	208,580,557
Share capital	100,953,201	100,953,201
Share premium	62,260,317	62,260,317
Revenue reserve	45,820,296	35,267,588
Legal reserves	3,489,751	3,036,613
Reserves for treasury shares	635,799	541,833
Treasury shares	-635,799	-541,833
Other revenue reserves	42,330,545	32,230,975
Fair value reserves	-411,374	-302,184
Reserves for fair value of financial instruments	78,834	65,646
Reserves for actuarial deficits and surpluses	-490,208	-367,830
Net income/profit	6,362,305	10,401,635
Retained net income/profit from previous years	3,170,692	6,690,619
Net income/profit for the year	3,191,613	3,711,016
Minority interest	4,785,409	4,734,005
Total	219,770,154	213,314,562

Share capital

The Group's share capital, amounting to EUR 100,953,201, is divided into 24,192,425 no-par value ordi-

nary 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 2017, there were no changes regarding the number of shares issued (described in Section 17.3.j).

Ownership structure	31 December 2017		31 December 2016	
	Number of shares	Shareholding in %	Number of shares	Shareholding in %
Republic of Slovenia	19,232,978	79.50%	19,232,978	79.50%
Kapitalska družba	192,442	0.80%	192,429	0.80%
Financial corporations, insurance companies and funds	1,286,108	5.32%	1,267,348	5.24%
Slovene legal persons	975,335	4.03%	662,095	2.74%
Foreign legal persons	1,460,735	6.04%	1,840,628	7.61%
Natural persons	784,675	3.24%	769,286	3.18%
Treasury shares	260,152	1.08%	227,661	0.94%
Total	24,192,425	100.00%	24,192,425	100.00%

Treasury shares

The shareholders of the Parent Company authorised management, at the 21st Shareholders Assembly, to acquire treasury shares in the company in accordance with the Articles 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, while the purchase price must not be lower than EUR 2.38 or higher than EUR 3.43 per share. As at 31 December 2017, the parent company had 260,152 treasury shares in the purchase value of EUR 635,799 (EUR 2.44 per share), of which 32,491 treasury shares were purchased for a purchase price of EUR 93,966 in 2017. The Parent Company may, in accordance with the Articles of Association and 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 legal reserves, reserves for treasury shares, acquired treasury shares and other profit reserves. Creation, purpose of creation, and utilisation of individual reserves are described in Section 17.3.j.

Share premium of the Group includes a general equity revaluation adjustment in the amount of EUR 62,260,317, and are not intended for division, but may be used under the conditions and for the purposes specified by law.

Statutory reserves are formed from the net profit of the financial year and as at 31 December 2017, amounted to EUR 3,489,751, showing a EUR 453,138 increase over 31 December 2016. They can be used under the conditions and for the purposes provided by law.

Reserves for treasury shares were formed from the net profit for the financial year 2017 in the amount of the purchase of treasury shares, and as at 31 December 2017, amounted to EUR 635,799.

Other profit reserves as at 31 December 2017, amounted to EUR 42,330,545, showing an increase of EUR 10,099,570 over 31 December 2016, and were formed from the profits in the amount and under the conditions defined by the law and the Articles of Association of the Group companies.

Fair value reserves for financial instruments in 2017 increased by EUR 13,188 in comparison with the previous year, and as at 31 December 2017, amounted to EUR 78,834. The change is due to the EUR 16,872 increase in the fair value of financial assets available for sale and the

EUR 3,684 reduction due to the deferred tax effect in connection with the change in value of these investments.

Reserves for actuarial deficits and surpluses as at 31 December 2017, amounted to EUR -490,208, and include a change in the present value of post-employment benefits in the amount of EUR -122,378, which comprises a reduction of EUR -134,092 due to the converted post-employment benefits, and a EUR 11,714 increase due to the impact of deferred taxes due to the restatement of post-employment benefits.

Retained net profit or loss and dividend per share

Retained net profit or loss in the amount of EUR 6,362,305 includes retained profit of previous years (EUR 3,170,692) and net profit of the current year (EUR 3,191,613).

On 4 July 2017, shareholders of the Parent Company adopted a decision regarding the allocation of distributable profit in the amount of EUR 2,806,223; EUR 2,636,124 was allocated for the payment of the dividends, namely EUR 0.11 per share (in 2016 dividends were paid for 2015 in the amount of EUR 3,234,527 at EUR 0.1337 per share), while EUR 170,099 remained non-distributed. The proposed payment of dividends for 2017 amounts to EUR 3,145,015, representing EUR 0.13 per share.

Equity share of non-controlling interest

Equity share of non-controlling inter-

est pertains to the company Elektro Gorenjska, which entered the company ECE as a partner in the process of merger with acquisition of its subsid-

iary 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 Dec. 2017	31 Dec. 2016	31 Dec. 2017	31 Dec. 2016	31 Dec. 2017	31 Dec. 2016
Elektro Gorenjska, d.d., a minority shareholder of the subsidiary ECE d.o.o.	25.6744%	25.6744%	4,785,409	4,734,005	582,082	407,075

17.14 Provisions

Provisions (in EUR)	31 December 2017	31 December 2016
Liabilities related to post-employment benefits of employees	6,509,452	6,282,476
Provisions for lawsuits	1,330,533	535,599
Total	7,839,985	6,818,075

Provisions for post-employment and other long-term employee benefits

Liabilities related to long-term employment benefits (in EUR)	Long-service awards	Severance pays	Death allowance	Total
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
As of 1 January 2017	1,793,462	4,335,283	153,731	6,282,476
Current service costs	132,914	234,982	10,864	378,760
Interest expense	20,902	54,622	1,887	77,411
Payments of benefits	-197,898	-165,657	-9,627	-373,182
Actuarial surplus/deficit	-14,751	155,815	2,923	143,987
As of 31 December 2017	1,734,629	4,615,045	159,778	6,509,452

The actuarial calculation on 31 December 2017 took into account the following assumptions: A 75% statistical probability of death and disability, retirement in accordance with the law and staff turnover (4% probability until the age of 40, 1% probability between the ages of 41 and 50, 0% for those over 51 years of age),

a 1.30% discount rate, 2.5% salary growth in the Republic of Slovenia and 2% growth in the electricity sector, 2.5% salary growth in the company, a valid employer contribution rate of 16.1% and a 0.5% growth in the amounts provided for in the Decree on the tax treatment of reimbursement of costs and other income from

employment (*Official Gazette of RS, nos. 140/2006, 76/2008*).

Benefit payments amounted to EUR 373,182, additional recognition to EUR 456,171, and the actuarial surplus of the Group to EUR 143,987.

Sensitivity analysis	Discount rate		Salary growth		Staff turnover	
Change in the percentage point	0.25	-0.25	0.50	-0.50	1.00	-1.00
Impact on the state of liabilities (in EUR)	-151,703	158,023	317,285	-295,550	-585,517	233,785

Lawsuit provisions

Other provisions include provisions amounting to EUR 782,933, which were formed on 31 December 2017 and reduce operating revenue by the amount of envisioned deviation in the final reconciliation of the regulatory year 2014. The Company received the calculation on 6 February 2018 in the context of established

facts concerning deviations, namely calculation of the factor "q" after performing an assessment of the accuracy of the monitoring of supply continuity, which the Energy Agency conducted in December 2017, issuing the associated report on 20 December 2017. Other provisions as at 31 December 2017 include provisions formed and debited to operating ex-

penses for lawsuits in the amount of EUR 43,850 (in 2015 provisions were formed in the amount of EUR 19,850 - action for damages due to disconnection of the neutral line, and EUR 12,000 in both the years 2016 and 2017 - an action for damages due to TS land ownership).

Changes in provisions (in EUR)	Liabilities for post-employment and other long-term benefits	Provisions for lawsuits	Total
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
As of 1 January 2017	6,282,476	535,599	6,818,075
Utilisation	-373,182	0	-373,182
Recognition	609,031	794,934	1,403,965
Elimination	-8,873	0	-8,873
As of 31 December 2017	6,509,452	1,330,533	7,839,985

17.15 Long-term Deferred Revenue

Long-term deferred revenue (in EUR)	31 December 2017	31 December 2016
For government support received	860,108	965,686
For fixed assets acquired free of charge	9,788,045	9,932,849
For assets received from connection fees	2,350,329	2,458,322
Total	12,998,482	13,356,857

In 2017, the Group formed EUR 364,247 worth of long-term accrued expenses and deferred revenue related to fixed assets acquired free of charge (EUR 442,418 in 2016).

Changes in long-term deferred revenue (in EUR)	Amount
As of 1 January 2016	13,619,216
Recognition	450,418
Reversal	-712,777
As of 31 December 2016	13,356,857
As of 1 January 2017	13,356,857
Recognition	364,247
Reversal	-722,622
As of 31 December 2017	12,998,482

Reversals of long-term accrued expenses and deferred revenue for fixed assets acquired free of charge and average connection fees amounted to EUR 617,044 (EUR 607,120 in 2016), reversals of long-term accrued

expenses and deferred revenue for the use of assigned contribution as per the Vocational Rehabilitation and Employment of Disabled Persons Act amounted to EUR 8,298 (EUR 8,298 in 2016), with reversals of long-term

accrued expenses and deferred revenue for drawing State aids for the acquisition of fixed assets amounting to EUR 97,280 (EUR 97,359 in 2016).

17.16 Loans Received and Other Financial Liabilities

Loans received (in EUR)	31 December 2017	31 December 2016
Long-term loans received		
Loans received from banks	27,702,950	33,843,699
Total long-term portion	27,702,950	33,843,699
Short-term loans received		
Short-term portion of long-term loans from banks	11,272,417	11,218,405
Total short-term portion	11,272,417	11,218,405
Total	38,975,367	45,062,104

Loans received by the Group include financial liabilities to banks in the amount of EUR 38,975,367 (investment loans in the amount of EUR 38,725,367 and a revolving loan amounting to EUR 250,000), which also comprise a loan to the subsidiary MHE-ELPRO in the amount of EUR 34,684, with a six-month EURIBOR interest rate plus an annual premium of 2.9% with maturity in 2018 (for investments in CHPP SRCE and the solar power plant in Mestinje). The average weighted interest rate on loans of the Parent Company on 31 December 2017 amounted to 0.907% (0.896% on 31 December 2016). Exposure to interest-rate risk is presented in the note Market Risk, Section 17.35.2. The maturities of financial liabilities are presented in the note to Liquid Risk, Section 17.35.3.

In 2017, the Company repaid EUR 11,286,655 of the principal of investment loans, with the amount of interest paid disclosed among financial expenses amounting to EUR 382,149.

To finance investments in the period 2015–2017, the Parent Company concluded a loan agreement in the amount of EUR 28 million with the European Investment Bank in 2015, with the credit conditions determined upon absorption of individual tranches (moratorium of 2 to 36 months, maturity up to 15 years, interest rate etc.). In order to finance occasional deficit in liquid assets, the Parent Company used a long-term revolving loan in the amount of EUR 3,145,000 in 2017 with a repayment period of 31 January 2019, with a three-month EURIBOR interest rate and premium of 0.85%; as at 31 December 2017, EUR 250,000 of the loan had been utilised.

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 6,129,095.

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 financial 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

Long-term finance lease liabilities relate to the part not yet billed under the contract on the lease of the ERP Microsoft Dynamics AX system in the amount of EUR 786,206, for which the company Informatika d.d. will issue invoices to the Company in monthly instalments until June 2021.

Other financial liabilities (in EUR)	31 December 2017	31 December 2016
Long-term financial lease liabilities	786,206	0
Short-term payables for dividends paid out	3,867	4,173
Total	790,073	4,173

17.17 Long-term Operating Liabilities

Long-term operating liabilities (in EUR)	31 December 2017	31 December 2016
Operating liabilities for purchasing software	130,139	327,266
Operating liabilities based on advance payments	0	7,659
Total	130,139	334,925

17.18 Short-term Operating and Other Liabilities

Short-term Operating and Other Liabilities (in EUR)	31 December 2017	31 December 2016
Liabilities for purchasing electricity	14,080,113	14,059,294
Trade payables	4,902,112	3,392,031
Liabilities from operations for third-party account	10,996,343	11,347,268
Liabilities to employees	3,305,632	2,376,393
Liabilities to state and other institutions	1,177,871	1,387,443
Liabilities based on advance payments	972,483	943,283
Other operating liabilities	2,163,212	1,621,987
Total	37,597,766	35,127,699

Short-term operating liabilities are comprised mainly of liabilities for the purchase of electricity, liabilities from operations for third-party account (liabilities 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 liabilities 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. Accrued expenses in the amount of EUR 1,585,458 refer mainly to accrued li-

bour costs for unused annual leave of Group employees for 2017 (EUR 697,390) and electricity purchased but not yet invoiced (EUR 576,389), and deferred revenue in the amount of EUR 9,967 regarding invoiced costs incurred due to cancellations of contracted orders.

Item (in EUR)	31 December 2017	31 December 2016
Short-term accrued costs and expenses	1,585,458	1,138,610
Short-term deferred revenue	9,967	38,744
VAT from advance payments made	3,134	4,608
Total	1,598,559	1,181,962

17.19 Contingent Liabilities

Contingent liabilities in the amount of EUR 1,734,304 failed to comply with the conditions for recognition as balance sheet items.

The amount of contingent liabilities arising from outstanding civil cases where the Group is the defend-

ant amounted to EUR 1,734,304 and compared to the balance on 31 December 2016, had increased by EUR 1,420,232; claims for damages in the amount of EUR 35,000 were concluded by the court while litigation procedures initiated in 2017 amounted to EUR 1,455,232 (a claim

by minority shareholders for the payment of additional dividends from the profit for 2016 in the amount of EUR 1,402,004 represented the major part of the claims), which in the case of a negative outcome will not affect the Group's profit/loss, but its equity).

Contingent liabilities (in EUR)	31 December 2017	31 December 2016
Ongoing litigation procedures	1,734,304	314,072
Total	1,734,304	314,072

The Group does not have off-balance sheet contingent liabilities as defined by the Companies Act (ZGD-1).

17.20 Contingent Assets and Other Off-balance-sheet Records

Item (in EUR)	31 December 2017	31 December 2016
Contingent assets:		
Bank guarantees received	2,100,723	1,617,671
Damage claims against insurance companies	2,220,306	45,461
Receivables from partners in companies deleted from the register	1,015,082	1,031,774
Allowance for employing disabled persons	108,886	96,576
Total	5,444,997	2,791,482
Other off-balance-sheet records:		
Infrastructure owned by SODO d. o. o.	3,418,282	3,560,947

The value of the bank guarantees received for good performance and elimination of defects in the warranty period on 31 December 2017, amounted to EUR 2,100,723, with claims for damages against insurance companies, which by 31 December 2017 had not been paid in full and are therefore, prior to the liquidation of the claim by the insurance company,

recorded as off balance sheet items in the amount of EUR 2,220,306 (EUR 1,800,872 relate to the claims for snow and wind damage caused by extreme weather conditions in December; the undisputed part of the uncompleted settlement, which was concluded after the balance sheet date, amounts to EUR 637,168), receivables from shareholders from

companies removed from the Register amounting to EUR 1,015,082, tax allowances for the employment of people with disabilities to EUR 108,886 and fixed assets financed from funds of average connection costs transferred to SODO d.o.o. amounting to EUR 3,418,282.

17.21 Assets Received and Given into Lease

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 2017 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 155 in 2017 (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 49,817 in 2017.

Other long-term contractual leases from 2017, amounting to EUR 21,383, for the most part do not have maturities and relate to material rights and rights in rem, with EUR 228,014 of short-term leases relating to the leasing of software.

b) Group companies as landlords

Proceeds from renting business premises (investment property), which the Group rents to interested

individuals or companies, amounted to EUR 10,763 in 2017 (EUR 7,269 in 2016), with costs arising from them amounting to EUR 5,824 (EUR 7,383 in 2016). Business premises are rented for a fixed or indefinite period, with the possibility of termination in accordance with contractual provisions.

The Group generated EUR 92,388 from the short-term rentals of holiday facilities and car rentals in 2017, with long-term rental of the energy infrastructure and real estate, primarily for an indefinite period, generating EUR 340,059.

The Government of the Republic of Slovenia issued, by Decision No. 360014 / 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 and other assets required for performing the DNSO activity, 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 for the period of the duration of the concession, 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 2017, on the basis

of the Agreement, income from lease of the electricity infrastructure and other assets required for performing the DNSO activity in the amount of EUR 26,024,332 (EUR 25,588,834 in 2016) was generated, accounting for 14.6% of the Group's net revenue from sales.

The amount of revenue from leasing the electricity infrastructure and other assets in future periods will depend on future regulatory frameworks established by the Energy Agency, based on the provisions on the methodology determining the regulatory framework and 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 eligible costs, the coverage of which is provided for by network charges. The year 2018 is the last year of the regulatory period 2016–2018, and revenue from leasing the electricity infrastructure, defined by the Energy Agency in accordance with the provisions of the current Network Charge Act amount to EUR 25,328,839 in 2018. The Network Charge Act for the next regulatory period (probably 2019–2021) is expected to be issued by the Energy Agency in the second half of 2018, at which time it will also determine the regulatory framework for the distribution operator SODO as well as the amount of the lease fee for the landlords of the electricity infrastructure and other assets needed for the operation of SODO.

c) Assets under Financial Lease

As at 31 December 2017, the Group discloses long-term financial liabilities arising from financial leases in the amount of EUR 786,206 – for the information system which upon fulfilment of contractual obligations will pass into permanent ownership of the Group.

17.22 Determination of Fair Value

Book and fair value of financial instruments (in EUR)	31 December 2017		31 December 2016	
	Book value	Fair value	Book value	Fair value
Investments available for sale	147,348	147,348	130,477	130,477
Loans received	-38,975,367	-38,975,367	-45,062,104	-45,062,104
Total	-38,828,019	-38,828,019	-44,931,627	-44,931,627

The table includes assets and financial liabilities measured at fair value for which the fair value is also disclosed. The Group did not include cash and cash equivalents and op-

erating receivables and liabilities in the table, which in accordance with IFRS 7 are considered as a good approximation of fair value. The table also does not include financial invest-

ments which are valued at cost by the Group. Their total value as at 31 December 2017, amounted to EUR 603,975, and is identical to the total on 31 December 2016.

Assets and liabilities with respect to the determination of their fair value:

Financial instruments measured at fair value (in EUR)	31 December 2017				31 December 2016			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Investments available for sale	147,348	0	0	147,348	130,477	0	0	130,477

Financial instruments where fair value is disclosed (in EUR)	31 December 2017				31 December 2016			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Loans received	0	0	-38,975,367	-38,975,367	0	0	-45,062,104	-45,062,104

Assets and liabilities with respect to the determination of their fair value are classified into:

- Level 1 - assets at market price:

- Level 2 - assets whose values is determined directly or indirectly from comparable market data;

- Level 3 - assets and liabilities whose values cannot be obtained from market data.

Financial instruments by categories:

Financial assets (in EUR)	31 December 2017		31 December 2016	
	Loans and receivables	Financial assets available for sale	Loans and receivables	Financial assets available for sale
Financial investments	0	751,323	0	734,452
Operating receivables	55,674,190	0	56,230,378	0
Cash and cash equivalents	3,806,022	0	2,581,007	0
Total	59,480,212	751,323	58,811,385	734,452

Assets available for sale include EUR 603,975 worth of investments measured at cost (with an identical amount recorded on 31 December 2016).

Financial liabilities measured at amortized cost (in EUR)	31 December 2017	31 December 2016
Financial liabilities	39,765,440	45,066,277
Operating liabilities	37,727,905	35,462,624
Total	77,493,345	80,528,901

17.23 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.

17.24 Net Sales Revenue

In 2017, 2,850,782 MWh of electricity was sold, representing a 4.5% increase over the previous year, but due to lower energy prices, both the sales and purchasing areas of the Group generated less revenue from electricity trading in 2017 compared

to 2016, with adverse weather conditions in early 2017 also contributing to a greater difference in prices. Revenue from the leasing and maintenance of infrastructure and provision of services for SODO d.o.o. in the amount of EUR 47,533,168 also

include the preliminary reconciliation for the regulatory year 2017 in the amount of EUR 3,074,131, which was invoiced in March 2018 with revenue recorded for 2017. The invoice will be paid in April 2018.

Net sales revenue (in EUR)	2017	2016
Revenue from trade in electricity	125,876,447	129,929,484
Revenue from lease of electricity infrastructure and provision of services for SODO	47,533,168	47,514,713
Revenue from the sale of electricity and heat generated	166,968	182,556
Revenue from the sale of biomass	358,746	369,474
Revenue from the sale of natural gas	1,947,079	2,088,976
Revenue from the sale of other energy products	14,017	94,727
Revenue from the sale of services	2,244,807	1,934,314
Total	178,141,232	182,114,244

17.25 Capitalised Own Products

Capitalised own services are services provided by the Group for its own needs and capitalised among tangible fixed assets or intangible

assets. The value of consumed materials amounted to EUR 7,828,524, the value of the work performed EUR 5,206,788 and the cost of car trav-

el EUR 976,191. The Group does not show profit in this regard.

Capitalised own products and services (in EUR)	2017	2016
In-house construction of electricity infrastructure	14,011,503	13,260,484

17.26 Other Operating Revenue

Explanation regarding the reversal of long-term deferred revenue is presented in Section 17.15. Compensation received in the amount of EUR 1,219,957 primarily includes rev-

enue from the settlement received from the information company in the amount of EUR 320,000 and received insurance compensation for material damage caused by severe

weather conditions in December in the amount of EUR 637,168, while other operating revenue comprised a reversal of overstated liabilities to SODO in the amount of EUR 45,505.

Other operating revenue (in EUR)	2017	2016
Revenue from reversal and utilisation of provisions	151	640,730
Revenue from reversal of long-term deferred revenue	682,024	607,120
Profit from selling tangible fixed assets and dismantling material	159,351	313,504
Other revenue associated with business effects	400,403	337,686
Compensation received	1,219,957	140,641
Other operating revenue	170,647	542,364
Total	2,632,533	2,582,045

17.27 Costs of Materials and Services

Costs of merchandise and material (in EUR)	2017	2016
Cost of purchase of electricity	117,213,193	119,644,905
Cost of material for investments carried out in-house	7,831,140	6,383,999
Cost of merchandise sold	2,535,914	2,259,616
Cost of material used in provision of services to customers	746,230	527,459
Cost of material used in maintenance	465,289	623,259
Cost of fuel and energy	598,072	517,651
Cost of material for damage repair	270,626	138,093
Cost of small tools	143,076	198,831
Other cost of material	170,163	123,507
Total	129,973,703	130,417,320

In 2017, 2,850,782 MWh of electricity was purchased, representing a 4.5% increase over the previous year, with the cost of electricity purchases amounting to EUR 117,213,193.

Costs of services (in EUR)	2017	2016
Maintenance service costs	2,203,681	2,144,501
Cost of intellectual and personal services	1,007,591	1,407,823
Cost of insurance premiums and payments	1,357,436	1,480,070
Cost of transport services	1,067,703	1,139,691
Cost of fairs, advertising and representation costs	440,159	695,837
Cost of material used in provision of services to customers	282,069	313,978
Cost of services of damage repair	130,293	100,280
Rents	464,017	157,711
Cost of labour contracts	238,213	200,232
Cost of other services	1,915,702	2,106,124
Total	9,106,864	9,746,247

17.28 Labour Costs

Retirement insurance costs in 2017 amounted to EUR 2,450,386, with the cost of other social security

amounting to EUR 1,312,070. Labour costs include labour costs accrued for unused annual leave by em-

ployees in the Group in 2017 in the amount of EUR 697,390.

Labour costs (in EUR)	2017	2016
Salaries	17,763,105	17,514,063
Cost of supplementary employee retirement insurance	848,754	847,227
Cost of employer contributions and other levies on salaries	2,913,702	2,906,986
Other labour costs	2,822,656	3,085,478
Post-employment and other long-term benefits	366,932	353,917
Total	24,715,149	24,707,671

The number of employees in the Group in the financial year 2017:

Education	No. of employees on 1 January 2017	Share (in %)	No. of employees on 31 December 2017	Share (in %)	Average in 2017
PhD	1	0.1%	1	0.1%	1
Master of science	20	2.8%	19	2.7%	20
University	124	17.5%	131	18.7%	126
Post-secondary	79	11.2%	79	11.3%	78
Secondary	257	36.3%	256	36.5%	257
Vocational	7	1.0%	7	1.0%	7
Highly qualified	8	1.1%	7	1.0%	8
Qualified	186	26.3%	180	25.6%	182
Semi-qualified	18	2.5%	15	2.1%	17
Unqualified	8	1.1%	7	1.0%	8
Total	708	100.0%	702	100.0%	704

17.29 Amortisation and Depreciation

Depreciation according to the groups of assets

Amortisation and depreciation (in EUR)	Intangible assets	Buildings	Equipment	Investment property	Total
Amortisation and depreciation for 2017	959,084	10,533,090	6,464,485	17,543	17,974,202
Amortisation and depreciation for 2016	805,817	10,687,680	6,381,061	18,344	17,892,902

17.30 Operating Expenses from Revaluation

Revaluation expenses (in EUR)	2017	2016
Operating expenses from revaluation of intangible and tangible fixed assets	846,142	480,254
Operating expenses from revaluation of current assets	82,702	1,302,400
Total	928,844	1,782,654

Operating expenses from revaluation of intangible and fixed assets refer to losses from the elimination of fixed assets and also include write-offs of fixed assets and parts of fixed assets in the amount of EUR 583,750, mainly due to losses

caused by severe weather conditions in the winter at the end of 2017.

Operating expenses from revaluation of Current Assets included revaluation adjustments to receivables from customers in bankruptcy and

compulsory composition 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.

17.31 Other Operating Expenses

Other operating expenses (in EUR)	2017	2016
Cost of efficient energy use	57,817	1,212,028
Cost of charges for use of construction land	172,858	207,888
Compensations and annuities	64,098	87,483
Cost of court and administrative fees	18,222	44,055
Donations and solidarity aid	41,749	36,404
Cost of promoting employment of people with disabilities	51,736	33,771
Other operating expenses	326,289	740,050
Total	732,769	2,361,678

17.32 Financial Revenue and Expenses

Financial revenue and expenses (in EUR)	2017	2016
Revenue from shares in other companies	45,268	14,090
Financial revenue from loans granted to others	384	494
Financial revenue from operating receivables from others	495,308	327,262
Total financial revenue	540,960	341,846
Financial expenses from loans from banks	-384,811	-543,229
Financial expenses from trade payables	-1,228	-1,321
Financial expenses from other operating liabilities	-78,177	-125,728
Total financial expenses	-464,216	-670,278
Net flow	76,744	-328,432

Dividends received by the Group amounted to EUR 45,268 (EUR 14,060 in 2016).

17.33 Income Tax

In 2017, the applicable income tax rate in the Republic of Slovenia was 19 percent (Official Gazette of RS, no. 68/2016). As at 31 December 2017,

the Group had EUR 115,174 of income tax receivables and a EUR 91,095 of income tax liabilities, which were offset in the consolidation process.

The Group was liable for the payment of corporate tax in the amount of EUR 1,328,377 in 2017, recognised on the basis of the tax return.

Income tax (in EUR)	31 December 2017	31 December 2016
Income tax receivables	115,174	0
Income tax liabilities	-91,095	-237,715
Total	24,079	-237,715

Income tax (in EUR)	2017	2016
Current tax	1,328,377	1,286,755
Deferred tax	258,560	-1,314,464
Total income tax	1,586,937	-27,709
Profit before tax	12,729,276	10,896,246
Tax levied theoretically (19%)	2,418,562	1,852,362
Tax from increase in expenses	-149,835	-168,414
Tax from tax-non-deductible expenses	321,160	437,406
Tax from tax reliefs	-892,291	-732,499
Tax from income reducing tax basis	-388,064	-165,623
Tax from income increasing tax basis	18,844	6,579
Difference in deferred tax due to changed tax rate	0	-173,963
Change in temporary differences	258,560	-138,577
Revenue from deferred tax arising from previously unrecognised temporary differences	0	-1,001,923
Other	0	56,943
Income tax	1,586,937	-27,709
Effective tax rate	12.5%	0.0%

17.33.1 Deferred Tax Receivables

Deferred tax assets (in EUR)	31 December 2017	31 December 2016
Operating receivables	976,707	1,174,479
Provisions for post-employment and other benefits of employees	605,322	585,856
Investments	19,667	19,667
Long-term deferred revenue	952,237	1,022,743
Depreciation and amortisation calculated above tax deductible one	1,965	0
Total	2,555,898	2,802,745

Changes in deferred tax assets (in EUR)	Operating 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	Depreciation and amortisation calculated above tax deductible one	Total
As of 1 January 2016	925,765	493,914	17,597	0	20,820	0	1,458,096
Recognised in the Income Statement	248,714	61,757	2,070	1,022,743	0	0	1,335,284
Recognised in the Comprehensive Income Statement	0	30,185	0	0	0	0	30,185
- from which tax rate recalculation from 17% to 19%	125,078	61,669	2,070	0	0	0	188,817
Reversed in the Income Statement	0	0	0	0	-20,820	0	-20,820
As of 31 December 2016	1,174,479	585,856	19,667	1,022,743	0	0	2,802,745
As of 1 January 2017	1,174,479	585,856	19,667	1,022,743	0	0	2,802,745
Recognised in the Income Statement	-197,772	7,753	0	-70,506	0	1,965	-258,560
Recognised in the Comprehensive Income Statement	0	11,713	0	0	0	0	11,713
As of 31 December 2017	976,707	605,322	19,667	952,237	0	1,965	2,555,898

17.33.2 Deferred Tax Liabilities

Deferred tax liabilities (in EUR)	31 December 2017	31 December 2016
Investments	20,944	17,095
Total	20,944	17,095

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 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
As of 1 January 2017	17,095
Recognised in the Income Statement	643
Recognised in the Comprehensive Income Statement	3,206
As of 31 December 2017	20,944

17.34 Earnings per Share

Basic earnings per share are calculated by dividing net profit for the period attributable to owners of the controlling share (EUR 9,261,462) by

the weighted average number of ordinary shares outstanding during the period (EUR 23,948,519). Treasury shares are excluded from the calculation.

Basic earnings per share in 2017 amounted to EUR 0.39 and were 9.9% lower than in 2016, when they amounted to EUR 0.43 per share.

17.35 Disclosure of Items in the Consolidated Statement of Cash Flows

Net cash flow for the period January–December 2017 amounted to EUR 1,225,015. The opening balance as at 1 January 2017 amounted to EUR 2,581,007, while the closing balance as at 31 December 2017 amounted to EUR 3,806,022.

17.35.1 Inflows from Operating Activities

Inflows from operating activities in 2017 amounted to EUR 350,385,076, representing 96% of the total inflows of the Group. They refer mainly to in-

flows from sales of electricity and other energy products in the amount of EUR 244,593,674, inflows from the lease and services under the agree-

ment concluded with SODO d.o.o. in the amount of EUR 58,404,860, and inflows from the use of the network in the amount of EUR 40,488,353.

17.35.2 Outflows from Operating Activities

Outflows from operating activities in the amount of EUR 333,245,881 include outflows for the purchase of materials and services, salaries, contributions and taxes, and other expenses. The largest share is held by outflows for the purchase of materials and services and expenses for salaries (94%).

Expenditures for duties include expenses for VAT (EUR 8,772,398), excise duty on electricity (EUR 7,443,155), fees for environmental pollution due to gas (EUR 309,840) and other duties.

The surplus of inflows from operating activities stood at EUR 17,139,195. The Group's operation, within its main activity, was in the black and, in 2017, the Group was able to settle all its liabilities related to the repayment of principal and interest of long-term investment loans, and investment expenses in part, as well.

17.35.3 Inflows from Investing Activities

Inflows from investing activities amounted to EUR 877,984 and included inflows from received interest

on deposits and shares of profit of other companies in the amount of EUR 45,484 and inflows from the dis-

posal of tangible fixed assets in the amount of EUR 832,500.

17.35.4 Outflows from Investing Activities

Outflows from investing activities in the amount of EUR 7,066,181 included expenses for the acquisition of intangible and tangible fixed assets.

17.35.5 Inflows from Financing Activities

Inflows from financing activities in the amount of EUR 13,750,000 include the use of long-term loan from

EIB for financing investments in the amount of EUR 6,000,000 and receipts from multiple drawing of the

long-term revolving credit facility in the amount of EUR 7,750,000.

17.35.6 Outflows from Financing Activities

Outflows from financing activities in the amount of EUR 23,475,983 include outflows for interest paid in the amount of EUR 382,150, outflows for

the purchase of treasury shares in the amount of EUR 93,966, outflows for the repayment of investment loans in the amount of EUR 11,286,654, outflows

for repayment of the leased revolving credit in the amount of EUR 8,550,000 and outflows for dividend pay-outs in the amount of EUR 3,163,213.

17.36 Financial Risk Management

Exposure to individual risks and measures for their 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 the effects for their management. The method and methodology of Financial Risk Management 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.

17.36.1 Credit Risk

Credit risk in operating 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 Com-

pany. 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 as at the balance sheet date of 31 December 2017 showed an increase of 3.5% compared to the end of 2016. Short-term operating receivables, which relate to large customers and represent 2.6% of all short-

term trade receivables in the Group are secured by a contract with the insurance company SID - Prva kreditna zavarovalnica d.d., while 1.6% of all short-term trade receivables in the Group which relate to receivables from certain critical business customers are secured with bills or through debt collection instruments. Other receivables are not insured by the Group as the Regulation on general conditions for the supply and distribution of electricity (SPDOEE) does not provide for this.

Exposure to credit risk

Maturity analysis of short-term trade receivables (in EUR):

Maturity	31 December 2017	Share in %	31 December 2016	Share in %
Receivables not yet due	42,918,751	85.7	41,499,622	83.2
Receivables overdue less than 30 days	2,659,367	5.3	2,762,144	5.5
Receivables overdue by 31-60 days	442,714	0.9	495,838	1.0
Receivables overdue by 61-90 days	77,427	0.2	105,261	0.2
Receivables overdue by 91-180 days	41,610	0.1	166,334	0.3
Receivables overdue by 181-365 days	106,521	0.2	238,262	0.5
Receivables overdue by over 365 days	3,820,294	7.6	4,601,090	9.2
Total	50,066,684	100.0	49,868,551	100.0

As at 31 December 2017, the Group had EUR 3,995,870 of receivables with maturities longer than 181 days (bankruptcies, compulsory compositions, lawsuits, and property manager debt as per the Housing Act, and a revaluation adjustment recognised for these receivables) and EUR 42,814,133 of receivables not yet due for network charges, services, lease, average connection fees, electricity and other energy products, and late charges.

The maturity profile of receivables of Group companies takes into account short-term trade receivables and interest receivables (without revaluation adjustments and advances). Compliant with the SAS, the companies in the Group recognise a revaluation adjustment for receivables in bankruptcy and compulsory composition proceedings, receivables which are subject of legal disputes, and receivables overdue by more than 90 days as at the balance

sheet day. Revaluation adjustment of receivables is explained further in Section 17.3 (h) within the framework of the accounting policies for receivables (measurement upon initial recognition). In 2017, EUR 71,197 in invoices for unjustified consumption of electricity was charged (EUR 61,809 in 2016), with received payments under this heading amounting to EUR 68,288 (EUR 98,131 in 2016).

Revaluation adjustments of receivables for the Group in 2017 amounted to EUR 309,485, with their reversal amounting

to EUR 337,414. The total revaluation adjustment carried out on receivables of the Group as at 31 December 2017

amounted to EUR 5,127,527.

Changes in revaluation adjustments to short-term receivables for 2017

Item (in EUR)	As of 1 January 2017	Write-downs and write- offs	Reconciliation			As of 31 December 2017
			Recognition	Transfer between accounts	Reversal	
Adjustments to receivables - energy products	4,819,872	-840,149	244,597	-279,643	-289,756	3,654,921
Adjustments to receivables - network charge	720,909	-82,073	0	0	-18,784	620,052
Adjustments to receivables - services	116,676	-19,506	8,508	0	0	105,678
Adjustments to receivables - other	14,940	0	1,327	0	0	16,267
A Total adjustments to receivables	5,672,397	-941,728	254,432	-279,643	-308,540	4,396,918
Adjustments to late charge - network charge	61,381	-22,937	786	0	0	39,230
Adjustments to late charge - services	6,689	-2,880	324	0	0	4,133
Adjustments to late charge - other	191,579	-49,021	24,934	0	-28,874	138,618
B Total adjustments to late charge	259,649	-74,838	26,044	0	-28,874	181,981
Adjustments to misc. short-term receivables	250,998	-11,022	29,009	279,643	0	548,628
C Total adjustments to misc. short-term receivables	250,998	-11,022	29,009	279,643	0	548,628
TOTAL (A + B + C + D)	6,183,044	-1,027,588	309,485	0	-337,414	5,127,527

Item (in EUR)	As of 1 January 2016	Write-downs and write- offs	Reconciliation		As of 31 December 2016
			Recognition	Reversal	
Adjustments to receivables - energy products	4,547,668	-670,575	942,779	0	4,819,872
Adjustments to receivables - network charge	795,875	-146,654	71,688	0	720,909
Adjustments to receivables - services	113,355	-5,216	8,537	0	116,676
Adjustments to receivables - other	13,880	0	1,060	0	14,940
A Total adjustments to 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

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. 5,624 shares of Zavarovalnica Triglav d.d. in the amount of EUR 147,348), 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 as-

essment 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 17.3 (h)).

17.36.2 Market Risk

Within 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 does insure against fluctuations of EURIBOR interest rates with financial instruments, with exposure to interest rate risk for the Group estimated as **low**, as only 12.5% of assets are financed by bank loans. In 2018, the Group again does not expect any major increases in the EURIBOR, which is projected to remain negative, with the Group, as several times in the past, managing to reduce the EURIBOR margin under existing contracts in 2017. In 2017, the effect of the concluded annex for lowering the interest rate on profit before tax amounted to EUR 1,084 EUR (EUR 14,680 in 2016), or a total of EUR 39,470 until the expiry of these

contracts (EUR 137,916 in 2016). The average weighted interest rate on loans as at 31 December 2017 comprised 0.907% (0.897% in 2016). The increase in average interest rates is a result of drawing loans with a fixed interest rate from the EIB.

Cash flow 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 2017, an interest rate change of 0.1% (10 basis points) would result in a EUR 2,168 change in cash flow, an interest rate change of 0.2% (20 basis points) would result in a EUR 4,581 change in cash flow, and an interest rate change of 0.3% (30 basis points) would result in an increase of EUR 8,905 in expenses for interest paid (the probability of a 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 Parent 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.

17.36.3 Liquidity Risk

The Elektro Celje Group measures 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 the distribution network, 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 2017, amounted to EUR 4,820,561, will only be made in future regulatory years, EUR 1,286,916 in

2018, EUR 107,254 in 2019 and EUR 3,426,391 in the regulatory period 2019–2021, and by thirds when the Energy Agency calculates them into tariff rates for network charges payable by customers. The regulatory period 2019–2021 will also include the final reconciliations for 2015 (EUR 80,205), 2016 (EUR -176,776), contractual interest to SODO for 2015 (EUR 205,584) and the envisaged final reconciliation for 2014 (EUR -792,243). Long-term liquidity risk also includes the potential loss of the lawsuit against minority shareholders of the Parent Company for the

payment of profit in the amount of 4% of the share capital, which would result in an increase of EUR 1.5 million in dividend payouts, intended for the financing of investments.

To ensure daily liquidity and for the event of increased liquidity demand, the Group had a long-term bank credit agreement for revolving credit amounting to EUR 3.145 million in 2017, and for the purpose of financing investments during the 2015–2017 period, the Group concluded a contract with the EIB for EUR 28 million in 2015.

Maturity of financial liabilities to banks as of 31 December 2017 (in EUR)		Carrying value as of 31 December 2017	Term		
			Up to 1 year	1 to 5 years	above 5 years
1.	Investment financing loans	38,725,367	11,022,417	21,573,855	6,129,095
2.	Other loans granted	250,000	250,000	0	0
Total financial liabilities to banks		38,975,367	11,272,417	21,573,855	6,129,095

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	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
Total financial liabilities to banks	45,062,104	11,218,405	28,159,127	5,684,572

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.

The Group's operating liabilities fall due within three months following the date of the consolidated statement of financial position, except for deposit liabilities of providers that fall due in accordance with the contract and long-term obligations arising from financial lease, relating to the not yet

invoiced portion under the lease contract for the Microsoft Dynamics AX ERP system in the amount of EUR 786,206, for which the company Informatika d.d. will issue invoices to the company on a monthly basis until June 2021.

17.36.4 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 80.14% 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 companies owning electricity distribution infrastructure in 2016, acceded to the implementation of the programme of acquisition of Treasury Shares.

Lenders require that the Group meet financial commitments specified in loan agreements, whereby failure

to achieve the prescribed limits may result in early maturity of loans. As at 31 December 2017, all contractual provisions at the Group level had been achieved (financial debt/equity < 0.3 and equity/liabilities ≥ 55%).

The Group in 2018 again plans to meet all its financial commitments to banks and achieve a net return on equity (ROE) of 4.77%.

Financial leverage indicator (in EUR)	31 December 2017	31 December 2016
1. Loans granted and other financial liabilities	39,765,440	45,066,277
2. Equity	219,770,154	213,314,562
Debt to equity ratio	0.181	0.211

Equity to total liabilities ratio indicator (in EUR)	31 December 2017	31 December 2016
1. Equity	219,770,154	213,314,562
2. Liabilities	318,122,910	314,273,205
Equity to total liabilities ratio	69.08%	67.88%

17.37 Transactions with Associated Parties

17.37.1 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

provides services of public utility service – electricity distribution and, thus, the Republic of Slovenia classified the investment as strategic. The

dividends received from the Parent Company in 2017 amounted to EUR 2,115,628.

17.37.2 Transactions of the Parent Company with Group Subsidiaries

Group companies participated on the basis of concluded contracts of sale/purchase, whereby market prices for services, goods and materials (rental of business premises, supply of natu-

ral gas, electricity and heat, provision of services), insurance and methods of settlement, which are characteristic of normal market conditions, were used in transactions among associ-

ated parties. Dividends paid within the Group in 2017 amounted to EUR 1,525,000 (EUR 408,781 in 2016).

Item/year (in EUR)	2017		2016	
	ECE d. o. o.	MHE – ELPRO d. o. o.	ECE d. o. o.	MHE – ELPRO d. o. o.
Assets:				
Short-term trade receivables	10,357	6,918	8,868	2,960
Accrued revenue and deferred expenses	0	0	0	0
Total assets	10,357	6,918	8,868	2,960
Liabilities:				
Short-term trade payables	16,914	31,761	11,965	36,477
Other operating liabilities	0	0	985	0
Total liabilities	16,914	31,761	12,950	36,477
Revenue:				
Net sales revenue	93,193	30,046	86,081	24,385
Financial revenue	1,525,000	0	0	0
Total revenue	1,618,193	30,046	86,081	24,385
Costs and expenses:				
Cost of material	91,716	129,544	75,545	149,503
Cost of services	0	876	5,658	876
Total costs and expenses	91,716	130,420	81,203	150,379

17.37.3 Data on Groups of Natural Persons

Amounts of remuneration granted to groups of persons for 2017 for the performance of functions in the Group are as follow:

Gross receipts of groups of persons (in EUR)	2017	2016
Members of the Management Board	184,401	340,991
Procurators	60,118	93,149
Receipts under management contracts	14,548	10,500
Members of the Supervisory Board and Supervisory Board Audit Committee	128,560	126,705
Other employees on individual contracts	490,892	422,008
Total	878,519	993,353

Receipts of the member of the Management Board of the company Elektro Celje and the Managing Director and Procurator of the subsidiary ECE:

Name and surname	Position	Receipts (in EUR)	Total	Remuneration
Boris Kupec, MSc	Chairman of the Management Board of Elektro Celje, d.d.	Gross receipts	103,552	103,552
		Net receipts	50,071	50,071
Sebastijan Roudi, MSc	Managing Director of the company ECE	Gross receipts	80,849	80,849
		Net receipts	42,969	42,969
Erik Dobnik, MSc	Procurator of the company ECE	Gross receipts	60,118	60,118
			34,934	34,934
Skupaj		Gross receipts	244,519	244,519
		Net receipts	127,974	127,974

The employment contract provides compensation amounting to six months' salary to the Chairman of the Management Board in the case of early recall at no fault, on the condition that his/her employment relationship is terminated. The Chair-

man of the Management Board of the Parent Company, and managing directors and procurators of the subsidiaries were not members of management or supervisory bodies in other companies in 2017.

The cost of benefits and reimbursements of travel costs arising from Employment Contracts and the costs of professional education in 2017 are as follows:

Name and surname	Receipts (in EUR)	Travel expenses	Insurance premiums	Use of company vehicle	Professional education	Holiday pay
Boris Kupec, MSc	16,795	1,993	145	9,097	3,954	1,606
Sebastijan Roudi, MSc	9,422	1,310	1,810	4,556	140	1,606
Erik Dobnik, MSc	7,483	1,400	916	3,561	0	1,606
Total	33,700	4,703	2,871	17,214	4,094	4,818

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.

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 + 9	8	9
REPRESENTATIVES OF SHAREHOLDERS:								
Drago Štefe, MSc	Member of the SB since 30 August 2017;	3	2	0	4,589	6,289	5,904	385
Miha Kerin, MSc	Member of the SB since 1 September 2016 and Chairman of the SB AC since 3 October 2017;	8	6	1	13,567	18,709	17,933	776
Mirjan Trampuž, MSM and MSc Energetics	Chairman of the SB until 26 August 2017, member of the SB from 27 August 2017 to 6 September 2017, Deputy Chairman since 7 September 2017, member of the SB AC until 26 August 2017;	9	6	6	18,714	25,785	24,935	850
Mitja Vatovec, BA in Economics	Member of the SB from 1 January 2016 to 12 September 2016 and Deputy Chairman of the SB from 13 September 2016 to 29 August 2017;	5	4	0	9,308	12,852	11,711	1,141
Rosana Dražnik, MSc	Member of the SB from 27 August 2017 to 6 September 2017 and Chair of the SB since 7 September 2017;	3	2	0	6,150	8,456	8,184	272
Tatjana Habjan, BA in Economics	Member of the SB and Chair of the SB AC until 26 August 2017;	6	4	6	11,886	16,397	15,526	871
REPRESENTATIVES OF EMPLOYEES:								
Tomislav Pajić, BSc in energy technology	Member of the SB since 1 September 2014;	9	6	0	12,290	16,952	16,952	0
Boris Počivavšek, electronics engineer	Member of the SB since 1 September 2014;	9	6	0	12,175	16,795	16,795	0
INDEPENDENT THIRD-PARTY EXPERTS, MEMBERS OF THE SB AC:								
Ignac Dolenšek, MSc	Member of the SB AC since 19 October 2017;	0	0	1	719	989	875	114
Darinka Virant, BA in Economics	Independent third-party expert, member of the SB AC since 9 December 2013;	0	0	7	3,881	5,336	4,790	546
TOTAL					93,279	128,560	123,605	4,955

The Supervisory Board of the Parent Company 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 15 sessions in 2017, 6 of which were correspondence meetings. The Audit Committee of the Supervisory Board operates within the scope of the Supervisory Board with the members in 2017 until 26 August 2017 comprising Tatjana Habjan as Chairwoman, Mirjan Trampuž, MSM and MSc Energetics, Darinka Virant, as member and independent external expert, from 3 October 2017 onwards Miha Kerin, MSc as Chairman of the Audit Committee and from 19 October 2017, Ignac Dolenšek, MSc joined the Audit Committee as an external member, alongside member and independent external expert Darinka Virant.

Basic annual remuneration of members of the SB and the SB AC for the performance of functions:

Basic annual remuneration (in EUR):	Decision of the 21 st Shareholders Assembly (valid since 1 September 2016)
Chairman of the Supervisory Board	19,500
Deputy Chairman of the Supervisory Board	14,300
Member of the Supervisory Board	13,000
Chairman of the Committee	4,875
Member of the Committee	3,250

The cost of liability insurance in accordance with the resolution of the Supervisory Board of Elektro Celje d.d. presented in the credit rating of members of the Supervisory Board represent the cost of other benefits for

members of the Supervisory Board in 2017. 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 enti-

tled 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:		
Drago Štefe, MSc	0	0
Miha Kerin, MSc	145	0
Mirjan Trampuž, MSM and MSc Energetics	145	435
Mitja Vatovec, BA in Economics	145	87
Rosana Dražnik, MSc	0	0
Tatjana Habjan, BA in Economics	145	904
REPRESENTATIVES OF EMPLOYEES:		
Tomislav Pajić, BSc in energy technology	145	360
Boris Počivavšek, electronics engineer	145	0
INDEPENDENT THIRD-PARTY EXPERTS, MEMBERS OF THE SB AC:		
Ignac Dolenšek, MSc	0	306
Darinka Virant, BA in Economics	0	350
TOTAL	870	2,442

Membership of members of the Supervisory Board of the Company in the management or supervisory bodies of other companies:

Name and surname	Membership in the management or supervisory bodies
Drago Štefe, MSc	Member of the SB of HSE d.o.o. (until 1 September 2017);
Miha Kerin, MSc	Member of the Management Board of the company Varnost sistemi, d.o.o. (since January 2016);
Mirjan Trampuž, MSM and MSc Energetics	/
Mitja Vatovec	Director of the company Emigma d.o.o.
Rosana Dražnik, MSc	Director of the company Finera svetovanje d.o.o., sole trader, Rosana Dražnik s.p., Intax;
Tatjana Habjan	Independent external expert, member of the SB AC of the company ERGO življenjska zavarovalnica, d.d. until 1 March 2017; sole trader (s.p.) Dodana vrednost, revidiranje in svetovanje, Tatjana Habjan;
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 2017, 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 2017 amounted to EUR 490,892 gross or EUR 266,400 net (EUR 422,008 gross or EUR 222,684 net in 2016).

17.38 Auditor Costs

The contractual value for auditing the Annual Reports of the Group, conducted by the auditing firm BDO Re-

vizija d.o.o. in 2017, amounted to EUR 15,300, excluding VAT (EUR 15,300 in 2016), with the value of assurance

services amounting to EUR 1,460, excluding VAT (EUR 1,300 in 2016).

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, and that the Financial Statements of Elektro Celje are in accordance with Slovenian Accounting Standards and the Consolidated Financial Statements of the Elektro Celje Group are in accordance with International Financial Reporting Standards.

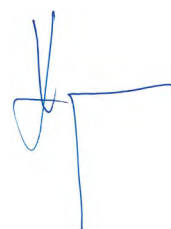
The Management Board of Elektro Celje is responsible for compiling the Financial Statements and presenting them to the interested public in such a way that the statements present a faithful and fair account of the financial position and performance of the company Elektro Celje and the Elektro Celje Group.

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.

On 30 March 2018, the Management Board of the company approved and adopted the Financial Statements of the company Elektro Celje, and on 6 April 2018, the consolidated Financial Statements of the Elektro Celje Group and on 24 April 2018 the Annual Report of the Elektro Celje Company and Group for the year 2017.

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)
OMS	Outage Management System
OPL	Overhead Power Line
PD	Preliminary Design (IDP)
PQ	Power Quality
PRSPPO	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
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



ANNUAL REPORT

OF THE COMPANY ELEKTRO CELJE and
THE ELEKTRO CELJE GROUP

2017



Elektro Celje