

Consolidated annual report

of Elektro Gorenjska Group for year 2016



Robust and stable network. This is what we are here for.

For use of advanced technologies an efficient and stable network is of key importance

Year 2016 was more than just a successful business year for company Elektro Gorenjska, d. d. We placed in service a new 110 kV transmission line connection between Železniki and Bohinj, which provided for a sustainable supply of electricity to both valleys. With the completion of more than a decade-long project, we concluded the Gorenjska region energy loop.

Elektro Gorenjska has more than 64 % of its network in underground cable form

Annually we are increasing the share of underground cable network for at least 2 %, which at 5,400 km of network means more than 100 km of new underground cable network each year. By the end of 2016, we laid as much as 68 km of medium voltage cable conduits and reconstructed 66 km of lines in the low voltage network and 31 associated substations. Total share of the underground cable network of Elektro Gorenjska thus amounts to 64 %. For investment projects, whose primary goal is building a robust and stable network with the help of advanced technologies, in 2016 we spent more than 15.6 million €.

With new services we are more accessible to the user

In the company we keep in step with the latest trends. Users are provided with first-class service and advanced technological solutions and for them we maintain and upgrade the energy network in the Gorenjska region. Last year we opened a new distribution management center thus offering users a single phone number with which we are more quickly and easily accessible.

For end users and in accordance with the plan we are replacing the measuring systems with advanced ones every year. Our aim that in 2021 all users in Gorenjska region are equipped with advanced measuring systems will be achieved. By the end of 2016 we have thus installed 44 % of meters, while annually we install more than 12,000. We also update the management systems, security and control systems, telecommunications systems, and we invest a lot in modern IT solutions (DCV, CIM, etc.).

Proactive involvement in development projects

Company monitors and actively participates in research and development projects, which represent the driving force of the future. In 2016, we successfully completed an international research and development project INCREASE. Our company successfully participated in the international consortium with a demonstration of the project goals.

Main objectives of the INCREASE project included modern solutions to increase the integration of dispersed sources in distribution networks. As part of the activities of Elektro Gorenjska in Suha and Predoslje the first voltage regulation distribution transformer in Slovenia was built and a series of measures to provide adequate voltage quality were tested in real-world environment. After the confirmation of the expected results coordinated voltage control will remain in daily operation with a help of managing the OLTC transformer.

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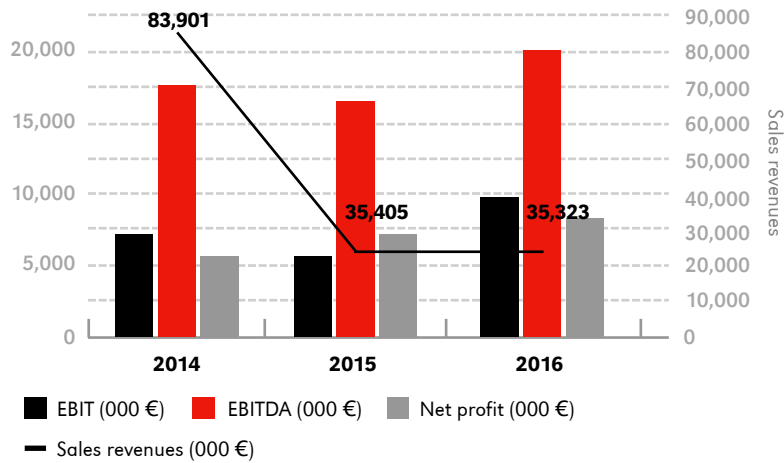
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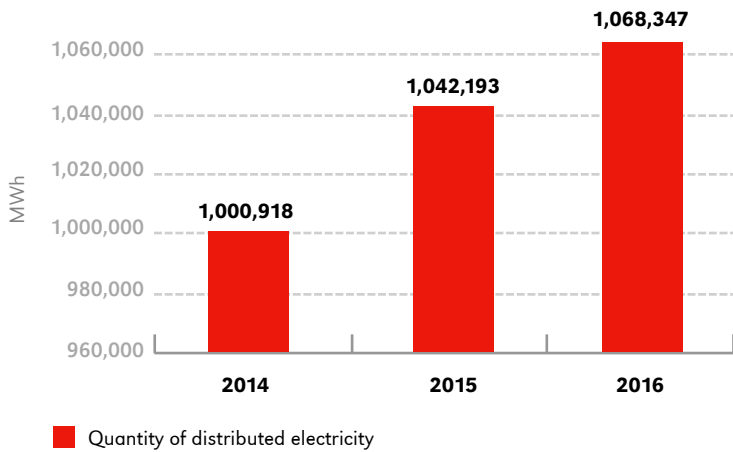
List of abbreviations

Agency	Agency of Republic of Slovenia for Energy	MHE	Small hydroelectric power station
AMI	Advanced Meter Infrastructure	MM	Measuring point
BDP	Gross domestic product	MWh	Megawatt hour
BTP	Technical data base	LV	Low voltage
CIM	Common information model	LVN	Low-voltage network
DA	Diesel generator	SB	Supervisory board
DCV	Distribution management center	OU	Organizational units
DDV	Value Added Tax	OS	Fixed assets
DDPO	Corporate income tax	OVE	Renewable energy sources
DO	Distribution network	Contract with SODO, d. o. o.	Contract on electricity infrastructure lease and provision of services for electricity distribution system operator
DPN	Live work	RTP	Transformer substation
DV	Overhead power line	SAIDI	System Average Interruption Duration Index
EE	Electric energy	SAIFI	System Average Interruption Frequency Index
EG	Elektro Gorenjska	SDH	Slovenian Sovereign Holding
EO	Electric object	MV	Medium voltage
EURIBOR	Euro Interbank Offered Rate is an interbank offered rate for deposits in Euro, which is formed on the European interbank market	SODO	Distribution network system operator
EZ-1	Energy act	SPE	Cogeneration of heat energy Transformer station
FE	Photovoltaic power station	TP	Transformer station
GJS SODO	Public service obligation relating to the activity of the electricity distribution system operator	TR	Transformer
HE	Hydroelectric power station	URE	Efficient use of energy
IKT	Information and communication technologies	HV	High voltage
KBV	Cable conduit	VZD	Health and safety at work
kW	Kilowatt hour	ZGD-1	Companies act

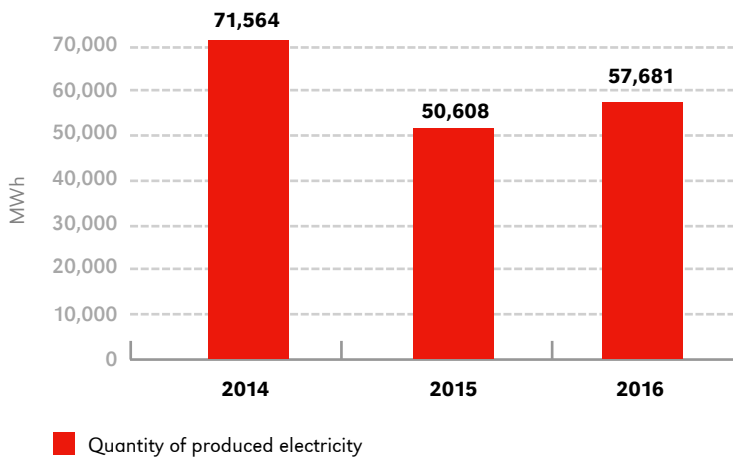
Achievements of Elektro Gorenjska Group



7,194,476 €
of realized net profit



1,068 GWh
of distributed electricity



58 GWh
of electricity generated

Important information on operation of Elektro Gorenjska Group

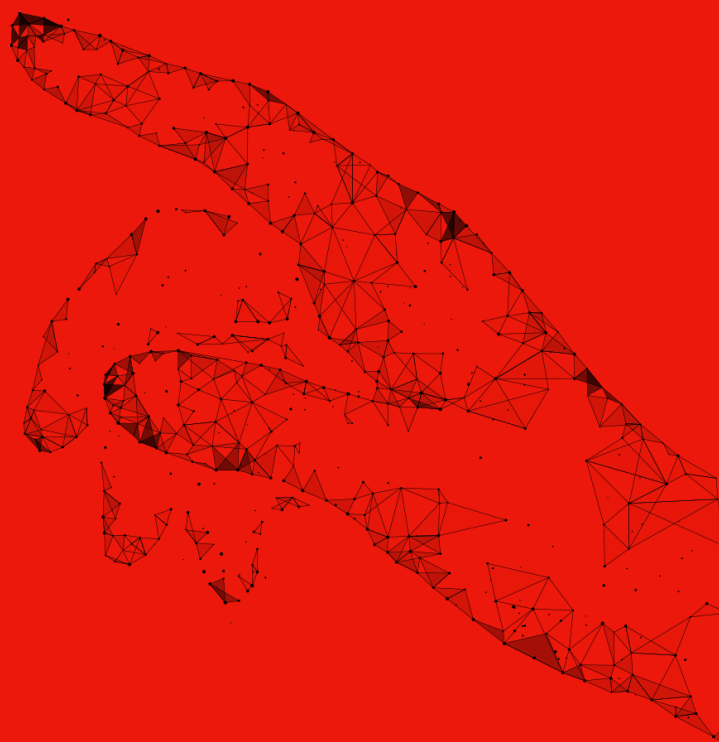
	2014	2015	2016
in 000 €			
Sales revenues (000 €)	83,901	35,405	35,323
EBIT (000 €)	7,373	6,645	8,601
EBITDA (000 €)	17,857	16,999	19,611
Pre-tax profit	6,200	8,098	8,150
Net profit (000 €)	5,477	7,239	7,194
Value added	30,967	28,986	31,960
Assets	218,572	213,797	222,131
Capital	139,848	145,144	149,634
IMPORTANT INDICATORS			
Current ratio	1.1	0.8	1.0
Level of revenue profitability (%)	6.9	18.7	19.1
Share of labour costs in value added (%)	42.3	41.4	38.6
Return on Assets (ROA) in %	2.5	3.3	3.3
Return on Equity (ROE) in %	4.0	5.1	4.9
NETWORK; PRODUCTION			
SAIDI (average time of duration of unannounced interruptions longer than 3 minutes /customer)	123	16	28
SAIFI (average number of unannounced interruptions longer than 3 minutes /customer)	2.5	0.7	1.0
Number of customers connected to distribution network	88,347	88,610	88,911
Quantities of distributed electricity (MWh)	1,000,918	1,042,193	1,068,347
Quantities of produced electricity (MWh)	71,564	50,608	57,681
SHARE INFORMATION			
Total number of shares	17,286,376	17,286,376	17,286,376
Net profit per share (€)	0.3	0.4	0.4
Book value per share (capital/No.of shares) in €	8.1	8.4	8.7
EMPLOYEES			
Costs of education per employee (€)	445	335	322
Share of employees included in education (%)	75.9	76.1	90.6
Average level of education	6.1	6.1	6.2
Number of employees at the end of the year	344	305	307
Average number of employees	342	309	307

There was a change in the composition of the group in 2015. Subsidiary Elektro Gorenjska Prodaja, which was 100 % owned by Elektro Gorenjska Company, was merged with ECE Company. Payment date of the merger was December 31 2014. Company Elektro Gorenjska has a 25.6744 % stake in ECE Company. In 2014, company Elektro Gorenjska Prodaja was considered in the financial statements using the full consolidation method, while the investment in ECE has since 2015 been taken into account using the equity method. In 2016 there were no changes in group structure.

Consolidated business report

With new services we are more accessible to the user

In the company we keep in step with the latest trends. Users are provided with first-class service and advanced technological solutions and for them we maintain and upgrade the energy network in the Gorenjska region. Last year we opened a new distribution management center thus offering users a single phone number with which we are more quickly and easily accessible.



A

1.0

Important events and awards of Elektro Gorenjska Group in year 2016

JANUARY

- Gorenjske elektrarne approach to the implementation of the standard in the field of energy management ISO 50001:2011.
- Within the laboratory work on the subject titled Technique of high voltages and large currents Elektro Gorenjska briefly presents to the students of the Faculty of Energy in Ljubljana the activity of the company and modern measuring vehicle for testing and fault detection on medium voltage power lines.

FEBRUARY

- Gorenjske elektrarne participate in the Technical Green Day in the Križe Primary School and present to the pupils renewable energy sources and operation of solar power plants.

MARCH

- Elektro Gorenjska participate in conferences where it presents to the general public examples of good practice. Representatives of Elektro Gorenjska also participate in the Third Forum on the regulations in the energy sector, the 4th International Conference EPC IV: Rethinking Energy and 35. International Conference on Organizational Science Development.
- Renovated distribution management center starts operating in Elektro Gorenjska.
- Gorenjske elektrarne in cooperation with COPA-DATA Company from Salzburg approach to the implementation of the pilot project on small hydropower plants. Aim of the project is to implement remote control of the small hydropower plant via smartphones.
- Due to outdated equipment that did not allow for safe and reliable operation, Gorenjske elektrarne carried out the replacement of secondary equipment on generators A and B in Sava hydro power plant.

APRIL

- Elektro Gorenjska successfully completed the connection of the 110 kV system to the distribution power line between Železniki and Bohinj. Power line is connected on both ends this way the Gorenjska region energy loop is closed connecting the Bohinjska and Selška valleys.
- At Brdo pri Kranju the 2nd strategic conference of electricity distribution companies in Slovenia organized by the economic interest grouping of Slovenian electricity distribution companies.

MAY

- Elektro Gorenjska officially opened a new distribution management center, which represents the heart and brain of the power system. Opening ceremony is also attended by the European Commissioner for Mobility and Transport Violeta Bulc, M. Sc.
- Representatives of Elektro Gorenjska participate in the En.Grids - conference on smart grids with their contributions.
- During the Green Week at the Matija Valjevec Primary School in Preddvor Gorenjske elektrarne conduct the workshops presenting the ways of saving with energy, renewable sources and operation of hydro power plants.

JUNE

- Elektro Gorenjska in Jezersko includes in operation a new telecommunication facility that will provide more reliable communication in Jezersko and across the entire valley of river Kokra.
- Representative of Elektro Gorenjska, who is the President of the Slovenian section of Eurelectric and member of the Board of Directors in Eurelectric, attends the meeting of the Management Committee and Annual General Meeting of Eurelectric in Latvia.

- Representatives of Elektro Gorenjska participate in the event of Iskra d. d. Company called »Save the date«, where they present the concept of operational metrics.
- Elektro Gorenjska within the recommended activities for improving the organizational culture for its employees conducts a workshop entitled Telephone communication.
- Gorenjske elektrarne complete the project of energy efficiency in lighting replacement in manufacturing company Perutnina Ptuj mesna industrija Zalog d. o. o. New lighting is based on LED technology, which operates more efficiently and sparing.
- Gorenjske elektrarne together with the regional association of veterans of the War for Slovenia of Upper Gorenjska region at the hydro power station Savica unveil the plaque in memory and gratitude for the help during the war for Slovenia. In years 1990-1991 there was a secret weapons depot of the Radovljica Territorial Defence in the facility.

JULY

- Elektro Gorenjska issues a leaflet Useful information about the company Elektro Gorenjska for year 2015 in Slovenian and English.
- Elektro Gorenjska receives gratitude from the General Police Directorate, Police Specialities Directorate, special unit, and bomb disposal section for its engagement in lengthy preparations and checks of the route for bombs during the visit of Russian President Vladimir Putin.

AUGUST

- At the seat of the company Elektro Gorenjska the 22nd regular session of the General Meeting of Elektro Gorenjska takes place, where shareholders decide on the distribution of profits in year 2015 and on ammendments and supplements of the company's statute.
- Elektro Gorenjska Group issues the Consolidated Annual Report of Elektro Gorenjska Group for year 2015 in Slovenian and English.
- Elektro Gorenjska issues the Report on the management of the environment and Report on health and safety at work for year 2015.
- In Elektro Gorenjska a renewed call center starts running, which is friendlier to both operators and customers.

SEPTEMBER

- Elektro Gorenjska officially puts into use a new distribution power line connection between Železniki and Bohinj.
- Elektro Gorenjska within the recommended activities for improving the organizational culture conducts a workshop entitled Telephone communication.
- Elektro Gorenjska completes one of the phases in reconstruction of 35 kV power line between Jesenice and Kranjska Gora.
- Elektro Gorenjska approaches to the implementation of the project Leadership for Commitment. First phase includes the questionnaire on employees commitment, which is measured through 12 statements.
- Elektro Gorenjska with its contribution Quality of electricity supply participates at the expert meeting of business partners SIQ.
- Gorenjske elektrarne carry out the rehabilitation of the inlet channel in HE Sava.
- Gorenjske elektrarne in buildings of the Biotechnical Center Naklo successfully complete the energy management system GEK energija.
- Gorenjske elektrarne sign a contract for the licenced use of the product E2 manager, which complements the energy management with energy accounting.

OCTOBER

- In Elektro Gorenjska an external assessment of three certification systems takes place: Quality Management System (SVK) – regular assessment ISO 9001:2008 and transitional assessment ISO 9001:2015, Environmental management System (SRO) – regular assessment ISO 14001:2004, Safety and Health at Work System (VZD) – reassessment BS OHSAS 18001:2007.
- In Elektro Gorenjska, in Galery Elektra, an exhibition of photographs taken by various authors during the construction of distribution power line between Železniki and Bohinj is revived.
- In Gorenjske elektrarne they clean the pool in HE Lomščica.

NOVEMBER

- Elektro Gorenjska participates in the 25th jubilee conference SZKO titled Quality and Excellence in the Digital Society.
- Elektro Gorenjska receives the award for the best financial report for year 2015.
- Elektro Gorenjska Group organizes the 4th Forum on renewable sources and efficient energy consumption.
- At the end of the year Elektro Gorenjska and Gorenjske elektrarne together with their business partners once again reallocate funds for business gifts to the program Ne-odvisen.si.
- Gorenjske elektrarne as the first company in the electric power system of Slovenia receives from the Slovenian Institute of Quality and Metrology standard ISO 50001 – energy management system.

DECEMBER

- Elektro Gorenjska within the Increase project in addition to cooperation in the development of concepts for management of distribution networks it also provides a demonstration environment for testing and evaluation of regulatory mechanisms, which will enable the installation of a larger number of diffuse sources.
- Elektro Gorenjska concludes the investment projects of construction of RP Trata and connects it into trial operation.
- Gorenjske elektrarne is directed to the implementation of projects of energy management, to energy management systems, to promote and increase self-sufficiency in electricity and other services that bring high added value to the owner, including e-mobility.

2.0

Highlights of Elektro Gorenjska Group operation in year 2016 and goals of the group companies

Year 2016 was very successful in Elektro Gorenjska Group:

1. We operated in accordance with the set quality policy, legislation and achieved the set business objectives

- We have reached 42.6 mio € of revenues and we made 7.2 mio € of net profit.
- All indicators, including operating efficiency ratio and financing and yield ratios, have been showing growth trend since 2008 onwards. ROE amounted to 4.9 %, while ROA to 3.3 %.

2. We increased the reliability of our distribution network. Already 68 % of entire network has been built underground and 44 % of advanced measuring devices have been installed

Annually we increase the share of underground cable network by at least 2 %, which at 5,400 km of network means more than 100 km of new underground cable network each year. By the end of year 2016 we increased the share of underground medium voltage network to 55 %. We also increased the share of underground low voltage network to 69 %.

In 2016 we connected to the high voltage network the 110 and 20 kV distribution power line that connects Železniki and Bohinj, and provides full power in the region. New power line connection completed the Gorenjska energy loop and provides for continuous and reliable supply of electricity. We have completed 379 investment projects and fulfilled the plan of maintenance work on the infrastructure.

In accordance with the plans we are replacing the measuring systems of end users with advanced ones. Our goal to have all users in Gorenjska region equipped with advanced measuring system by year 2021 will be achieved. We install more than 12,000 advanced measuring devices in a year.

3. We revised and adopted the strategy for the next five-year period

In September 2016 the supervisory board confirmed the revised strategy of Elektro Gorenjska Company by year 2020. Strategy explicitly identifies nine strategic projects, to which the company has already acceded. In 2016 we concluded the transition to the independent information system, and connected to operation a new distribution management center.

4. With sponsorship and donation projects we helped in development of many organizations in the fields of sports, culture and education

Elektro Gorenjska Group is recognized in the field of supporting the sponsorship and donation projects, as in accordance with its possibilities it helps the wider public and gives back to the environment it operates in. In year 2016 we supported many sponsorship and donation projects that help in the development of the region.

5. With its efficient use projects the company Gorenjske elektrarne is becoming increasingly more a company for energy management rather than just the company for electricity production

Thanks to good management, Gorenjske elektrarne Company is becoming an important player in the field of energy management and energy sources management with a purpose of achieving energy savings in companies. Among activities with which they deal, they prioritize opportunities for self-sufficiency of supply

with electricity from renewable sources and e - mobility. Within the projects of energy efficiency we have renovated the lighting in PP Mesna industrija Zalog. We have implemented the upgrade of the energy control information system "GEKenergija" and established a system in buildings of Biotechnical Center Naklo, Entrepreneurship center in Kranj and travel agency Alpetour.

Main goals in year 2017

In 2017 we will follow the strategy in accordance with the guidelines and implement activities for realization of nine strategic projects.

Trend over the last 10 years has been the construction of the cable medium and low voltage network, which it has repeatedly proved to be a good solution - especially in the case of natural disasters such as floods, wind and ice. So also in 2017 we will be upgrading the network, which will be resilient and will enable reliable supply to end-users as well as all the conditions for growth and development in the region.

For optimum operation and maintenance of the network also in 2017 efforts will be focused on the acquisition of a concession for the provision of electricity distribution. Business would be more successful in this case. Granting concessions to individual local electricity distribution companies would also allow for a greater impact of the local communities on the development of activities and to further and better listening to the needs of users of the distribution network. At the same time, with the management of the distribution network in the event of major natural disasters and averages, involvement of employees in the local environment and commitment to the group that manages devices or network, is of key significance. This is a prerequisite for fast and high quality elimination of averages.

In 2017, we will actively continue with the project of organizational culture management, whose key objective is to increase the level of employee engagement. As ambassadors of corporate integrity we will spread awareness about the importance of operations in accordance with the law and ethical standards as one of the fundamental principles of social responsibility in the Slovenian economy in general. Model of business excellence and business in accordance with the policy of quality is a constant of group companies, which we will continue following also in 2017.

In 2017 we approached the procedures for receiving the standard 27001, and we will also make the transition to the new version of the environmental management system ISO 14001:2015.

We realize that in the energy industry the impact of computerization and automation of systems is increasing. New business models based on smart distribution networks are coming in the fore. For us these are new business opportunities: smart home applications, net metering, virtual power plants, energy management systems and e-mobility. Our goals for the future are directed to the implementation of projects of energy management, to energy management systems, to promote and increase self-sufficiency in electricity and other services that bring high added value to the owner, including e-mobility. To companies and institutions using our products we want to enable optimal use of energy and thus lower costs. We will also take advantage of opportunities to build new generating capacity using renewable energy sources, which will be economically viable or meaningful.

As an important economic entity in the Gorenjska region, we will also in 2017 participate in socially responsible projects, which are reflected both through sponsorship and donation funds, as well as other forms of group's support.

3.0

Management report of the parent company



Dear shareholders, investors, business partners, and colleagues!

Year 2016 was more than just a successful business year for Elektro Gorenjska Group. Group Elektro Gorenjska generated total revenues in the amount of 35 mio €. Operating profit amounted to 8.6 mio €, which is by 30 % more than in year 2015. Net profit amounted to 7.2 mio €.

In year 2016 parent company Elektro Gorenjska put into service a new 110 kV distribution power line between Železniki and Bohinj. With the completion of more than a decade-long project, we concluded Gorenjska energy loop, which will provide for a stable supply of both valleys with electricity.

We provide the users with the first-class service and advanced technological solutions and maintain and upgrade energy network in the Gorenjska region for them. In the past year we opened a new distribution management center, and offered the users a single telephone number, which makes us easily and quickly accessible to the users. We continue with the installation of advanced metering devices at our end users. Until 2021 all users will be equipped with them and connected to the remote data consumption. Annually we are increasing the share of underground cable network for at least 2 %, which at 5,400 km of network brings more than 100 km of new underground cable network each year. By the end of 2016 we have increased the share of medium-voltage underground network. We have successfully realized 379 electricity investment projects. With as much as 68 % of our network underground we are leading among other Slovenian distributions, which also increase the performance of their networks. Primary purpose of investing in our business is permanently providing reliable, high-quality, secure and stable energy supply, which is only possible with the help of robust and reliable distribution network.

We are aware that the digitization of business is a necessity that we must adapt to all companies in the shortest possible time. Without developing and adapting of our business models to the new trends we cannot survive, so for several years we have been deliberately participating in development projects that will contribute to the overall efficiency of the network and users. In accordance with the plans to end users we have been replacing the measuring systems with advanced ones. Aim to have all users in Gorenjska region equipped with advanced measuring systems by year 2021 will be achieved. By the end of 2016, we have installed 44 % of the meters, annually we install more than 12,000. We have also been updating the management systems, safety and control systems, telecommunications systems, and we also invest a lot in modern IT solutions.

In 2016 we devoted a lot of attention to optimization of business. We moved to the newly independent IT support, which simplified processes, and above all shortened the procedures and time limits for reporting. We have also improved the risk assessment process. We have reduced the costs of maintenance of management

systems, as well as the volume of paperwork. At the same time we constantly strive to ensure that environmental impacts of our operations are minimized.

Gorenjske elektrarne, subsidiary in Elektro Gorenjska Group, which from the classical producer of electricity is becoming a management company of energy, in 2016 as the first company in the power system received from the Slovenian Institute of Quality and Metrology the ISO 50001 - energy management system standard. With its receipt the company also formally proves that it manages the scope of a comprehensive energy management properly. In year 2016 it generated 58 GWh of electricity in hydro power stations, solar power stations and cogenerations.

Both companies successfully perform annual independent external audits for obtained system of standards. In the group Elektro Gorenjska we are aware that helping the social environment in which we operate has a significant impact on our business success and development. We give back to the local communities through partnerships and supporting projects in the fields of sport, culture, education, environment and humanitarianism.

Sustainable operation of the group companies stems from our values and remains a part of our strategic direction in the period 2017-2020. In the new era we are entering with an ambitious agenda and development-oriented objectives. In its relations with stakeholders we recognize new opportunities, with numerous activities we contribute to the development of society and the environment in which we operate. With the continued modernization and upgrade of the distribution network we will improve both access and quality of use of modern electricity services. In 2016 we joined the activities to obtain information security management system ISO 27001, also we made the transition to the new version of ISO 14001 standard. When we planned in autumn 2016 for the financial year 2017, the Group planned for 6.5 million euros of net profit, 19 million euros of EBITDA and more than 15 million euros of electricity investments. Demonstrated results for the year 2016 and currently recorded results in 2017 suggest that the final results for the year 2017 will be at least equal or even exceeded.

In Slovenia we will consolidate our position by upgrading the network, and continue with our efforts to ensure reliable operation in all weather conditions by installation of modern technological equipment and solutions, which has put us for the past few years above other distributions in Slovenia. Strategy for the next five years will be implemented with the help of nine strategic projects that will each constitute a leap in the functioning of the company. In the first period we will innovate and develop our core business, focusing on increasing the value for the user and selectively expanding into new areas. In the second phase we will focus on digitization, simplification and automation of operations, while in the third period, we will create value from the first two periods. With digitization, simplifying operations and automating processes we will focus on our customers and in the following years we will be transformed into a lean and swift operator, which will be able to respond even faster in the energy market.

I sincerely thank you for your trust.

Chairman of the Board
Bojan Luskovec, M. Sc.



3.1 Corporate governance statement

Companies in Elektro Gorenjska Group inform the shareholders and public that they operate in accordance with applicable regulations and acts in force in the companies. Management of the individual company represents the company as well as manages the business independently and at its own risk. In this it adopts the decisions in accordance with the strategic goals of the company and to the benefit of the shareholders. Companies in the Group comply with the documents adopted by the Slovenian Sovereign Holding (hereinafter SDH): Corporate Governance Code for Companies with Capital Assets of the State, Recommendations and expectations by the Slovenian Sovereign Holding, which mainly recommend the principles, procedures and code of conduct for members of managerial and supervisory bodies in companies with capital investments of the state.

Applicable regulations important mainly for the operations of the parent company and parent company statute are published on the company's web site (<http://www.elektro-gorenjska.si/>). Other acts in force for group companies are available on the web pages of SDH <http://www.sdh.si/>.

In year 2016 companies in the Group have not derogated essentially from the principles, procedures and criteria imposed by the stated SDH documents. Parent company declares that it does not respect code provisions or recommendations in regulating issues that are regulated by the law or that the company regulates in accordance with the provisions of the statute in different way than defined by the codes, or in cases when non-statutory conducts are not prescribed in its acts or when conducts are not determined as legal obligation.

Parent company believes that supervisory board members are professional, responsible and independent in performing the tasks in accordance with the provisions of the stated acts by SDH. The parent company informs all supervisory board and committees members about changes and amendments in SDH acts, as well as about trainings organized by SDH free of charge.

We do not have recorded a diversity policy in group companies and we do not implement it as stipulated by the Companies Act-1. We have a one-member Management Board, Supervisory Board members from representatives of the shareholders are elected by the General Meeting, while two employee representatives are elected by the Workers' Council. In practice, candidates for a job and employees in group companies are not discriminated based on gender, age, race and religion.

Management Board of each company is responsible for keeping proper accounts and the establishment and provision of internal controls, the selection and application of accounting policies and the safeguarding of company assets.

Group companies in the establishment and operation of internal controls pursue the following main objectives:

- accuracy, reliability and completeness of the accounting records and the true and fair financial reporting,
- compliance with laws, regulations, internal regulations and
- effectiveness and efficiency of operations.

We strive to provide the control system effective and efficient in terms of risk management and at the same time cost-effective. So we maintain:

- transparent organizational scheme,
- clear accounting policies and their uniform application throughout the Elektro Gorenjska Group,
- effective and full staffed accounting function,
- efficient and modern accounting and business information system,
- regular internal and external audits of business processes and operations of the entire companies.

Financial controls are based on the principles of division of responsibilities, truthfulness, updating of records, reconciling the balance in the accounts with the actual situation, separation of records from the implementation of the business and the professionalism and independence of accountants. Accounting controls are closely related to the general and application controls in the field of information technology, which among other things, ensure restricting and monitoring of accesses and the completeness and accuracy of data capture and processing.

Control mechanisms referring to individual fields of operation are presented in more detail in chapter Risk management. We believe that the current system of internal controls enabled successful operation of Elektro Gorenjska Group, functioning in accordance with the rules and fair and transparent financial reporting.

Elektro Gorenjska Company also declares that the management of the controlling company actively followed and directly controlled the operations of the controlled company Gorenjske elektrarne and financial investments of ECE d. o. o., in accordance with the strategic guidelines with the purpose of reaching the set business goals. In leading and managing the controlled company it has pursued the same standards of corporate management applicable for the controlling company in Elektro Gorenjska Group.

Company Elektro Gorenjska will respect the recommendations of new SDH acts in the future too and in accordance with this it will improve its management system. In eventual derogation from the given statement on respecting the codes the company will provide for the timely publication.

3.2 Supervisory Board Report

SUPERVISORY BOARD Board REPORT ON VERIFICATION OF THE ANNUAL REPORT OF ELEKTRO GORENJSKA, D. D., AND CONSOLIDATED ANNUAL REPORT OF ELEKTRO GORENJSKA GROUP FOR BUSINESS YEAR 2016 (Article 282 CA)

1. Supervisory Board operation in year 2016

In 2016 the Supervisory Board continued with its regular and systematic control over the operations of the company and continued operating in accordance with the new practices it introduced, and in addition also some novelties have been introduced.

In year 2016 Supervisory Board met at twelve regular sessions and three correspondence sessions, and adopted a total of 111 decisions. In their decisions members of Supervisory Board acted independently and prepared appropriately on the topics of the individual sessions, gave constructive proposals and comments, as well as adopted decisions in accordance with their respective responsibilities. Members of the Supervisory Board carried out their work in accordance with the fundamental function of supervision over the management of the companies and duty of diligent and contentious management based on the competences as defined mainly in the Companies Act (ZGD-1), statute of the company and rules of the Supervisory Board. In addition the Supervisory Board members acted in accordance with the Recommendations and expectations of the Slovenian Sovereign Holding and Corporate Governance Code for Companies with State capital investment. Management board commented on the fulfillment of the above acts and recommendations in the statement on corporate governance.

Supervisory Board continued with successful implementation of good supervising practices in the company and regularly monitored the strategic projects as well as actively participated in adopting the amendment of the company's strategy. In the field of Supervisory Board work, there were also some good practices introduced, like for example self-assessment of the Supervisory Board work, which is in accordance with the Rules of Procedure of SB conducted every two years. As the self-assessment was for the first time fully conducted in year 2015, in year 2016 it was not carried out. Changes in the functioning of the Supervisory Board are also visible in other areas, above all with the company actively developing and modifying its strategy and adapting to the market conditions, with Supervisory Board actively participating as well. At its 40th session on September 29 2016 the Supervisory Board gave its consent to the Strategy of Elektro Gorenjska, d. d., as the parent company in Elektro Gorenjska Group for period 2016-2020.

In addition to the regular operations the Supervisory Board has been regularly monitoring the state of seven strategic projects (according to the strategy of the company for period 2014-2017) or nine strategic projects (according to the strategy of period 2016-2020).

2. Composition of the Supervisory Board in year 2016

In year 2016 Supervisory Board operated in the composition of four shareholders representatives appointed at the 19th regular general meeting with a four-year mandate, beginning on August 27 2013, and two representatives of employees with the mandate from August 8 2015 until August 8 2019 in the following composition:

- Samo Logar, M. Sc., chairman of the Supervisory Board,
- Tedo Djekanović, M. Sc., deputy chairman of the Supervisory Board,
- Andrej Koprivec, member,
- Elvis Duraković, member,
- Dominik Ovniček, M. Sc., (representative of employees) and

- Iztok Štular, member (representative of employees).

Supervisory Board is composed in such a way that members have all the necessary professional competences for efficient control over the company's operations, as the members possess relevant expertise, experience, and skills. With their knowledge and experience members complement each other, as they have various technical and theoretical skills. Contribution of both representatives of employees is very important too, as based on their year long experience and skills in the field of electricity distribution and based on their good knowledge of the company they contribute to effective control of operations.

3. Verification of company's operations and work of the management in year 2016

During the year the Supervisory Board verified operations of the company mainly based on the periodical reports from the company's management and obtained data on operations.

Members of the Supervisory Board mainly focused on the following:

- regular business of the companies, mainly the parent company and the company in the Elektro Gorenjska Group Gorenjske elektrarne, d. d., with an emphasis on the current monitoring of business and financial reporting,
- monitoring operations of company ECE, d. o. o., where the company has a significant investment since the company was formed as a merger of market and production activities of two subsidiaries Elektro Gorenjska, d. d., and Elektro Celje, d. d.,
- monitoring the implementation of General Meeting decisions, mainly about the implementation of management powers to repurchase its own shares,
- monitoring larger investment projects (powerline Železniki – Bohinj),
- monitoring reorganization of subsidiary company Gorenjske elektrarne, d. o. o.,
- monitoring of strategic projects (according to the strategy 2014–2017 and amendment for period 2016–2020),
- control over contracts, which need the Supervisory Board consent according to the provisions of the statute,
- forming proposals for the decisions at the regular general meeting,
- monitoring risks.

According to the stated areas of work it is especially necessary to highlight the following activities of the Supervisory Board:

- Supervisory Board regularly monitored operations of the group companies and discussed quarterly information and evaluations on group companies' operations and was devoted to realization of the business plan for year 2016.
- In accordance with the ZDG-1 Supervisory Board verified and approved the audited annual report of Elektro Gorenjska, d. d., and audited consolidated annual report Elektro Gorenjska Group for year 2015, and composed a written report of the Supervisory Board on verification and approval of the stated reports for business year 2015.
- Supervisory Board prepared proposals for decisions for each item of the 22nd regular general meeting session, which took place on August 23 2016 on the recommendation of the majority owner. It agreed with the proposal of the management on the use of distributable profit for year 2015 as well as proposed company KPMG Slovenija, d. o. o., from Ljubljana, for the auditor for year, and proposed statute amendments.
- In September 2016 the Supervisory Board gave its consent to the update of the strategy of the company Elektro Gorenjska, d. d., as the parent company in the Elektro Gorenjska Group for the period 2016–2020, which concluded some of the strategic project from the previous strategy, while adding others, so that now the Supervisory Board controlled nine individual strategic projects quarterly.
- Supervisory Board has regularly been familiarized with the reports on review of individual projects in the company, mainly about AMI project (strategic project) and investment project Construction of 110 and 20 kV power lines RTP Železniki–RTP Bohinj.
- Supervisory Board was regularly acquainted with the operations of subsidiaries Gorenjske elektrarne, d. o. o., and company ECE, d. o. o., which represent an important investment.
- In accordance with the Act Governing the Remuneration of Managers of Companies (ZPPOGD) the Supervisory Board specified other rights of the chairman of the board and adopted benchmark for the variable part of the chairman of the board for year 2017.
- Supervisory Board paid much attention to optimization of costs in the group companies.

- Supervisory Board continued the practice of familiarizing the Supervisory Board with the matters of procurement, namely already at the introduction of public procurement (in the form of information), to which the SB gives its consent in accordance with the Statute.
- In accordance with the company's statute the Supervisory Board gave its consent to four legal transactions above the value of 835,000.00 € (until amendment of the statute on 23. 8. 2016) and four legal transactions above the value of 718,980.61 € (with the introduction of the new statute, the amount of transactions changed and now SB must give consent to all legal transactions whose gross value exceeds 1 % of the share capital of the company).
- In June the Supervisory Board adopted new Rules of Procedure of the Supervisory Board, which was then in October 2016 further amended and supplemented based on the amendments in the statute.
- Following the provisions of the company's statute in the context of discussing the Business Plan of the Company Elektro Gorenjska, d. d., for year 2017 with financial projections for the years 2018 and 2019, and with the Board's assurance that the company will adhere to the Decree on the terms and conditions and methods of borrowing by legal entities from article 87 of the Public finance act and the assurance that the Company is capable of hiring and repaying the planned indebtedness, the Supervisory Board gave its consent to the borrowing of the company.

Supervisory Board can determine that in given circumstances management reacted appropriately to economic and natural situation as well as to expressed will of the company's shareholders, above all the majority shareholder, and has led the company successfully.

4. Cooperation with the Chairman of the Board

In the past year Supervisory Board always worked very well with the chairman of the board. Management submitted materials for the sessions to the Supervisory Board in time, in written, and additionally interpreted them orally at the sessions. For the Supervisory Board the management prepared reports on implementation of decisions regularly, with the introduction of new practices also reports on non-implemented decisions and other reports requested from the management by the Supervisory Board. Members of the Supervisory Board had all requested and appropriate reports, information and data available to them, so that based on them they could monitor and control company's operations and made their decisions responsibly.

Supervisory Board considers the cooperation with the management in the past year to be successful.

5. Operation of Supervisory Board committees

In year 2016 two committees operated within the Supervisory Board:

5.1. Audit Committee

Since 2011 a permanent audit committee has been operating within the company's Supervisory Board; membership is linked to the mandate of the members in the Supervisory Board. At its session on October 3 2013 the Supervisory Board appointed the audit committee of the Supervisory Board in Elektro Gorenjska, d. d. In year 2016 audit committee operated in the following composition (second mandate of the audit committee):

- Andrej Koprivec, CFA, FCCA, SB member, chairman of the audit committee,
- Elvis Duraković, SB member, member of the audit committee,
- Andrej Baričič, PhD, external member of the audit committee.

In 2016 the audit committee met at a total of 9 sessions, of which 8 were regular and one correspondence. Members of the committee attended the sessions regularly. Chairman of the Board and internal auditor, including the individual reporters have been invited to all sessions of the committee other than the correspondence. In accordance with the rules on the work of audit committee members of the Supervisory Board were kept noted with the invitations to the sessions of the audit committee as well as with the minutes of the committee sessions, and chairman of the audit committee reported to the Supervisory Board on the work of the committee quarterly.

Below we present the substantive highlights of the work of the audit committee in the business year 2016:

- Annual report 2015: Committee has considered the annual report of Elektro Gorenjska, d. d., annual report of the subsidiary Gorenjske elektrarne, d. o. o., and the consolidated annual report of Elektro Gorenjska Group. In dealing with the annual report, the Committee met with the coordinating audit partner from the audit company Ernst & Young Revizija, Poslovno svetovanje, d. o. o., and discussed the report of the external auditor.
- Business plan and current operations: Committee has considered the business plans of the parent company

and subsidiary for the period 2017-2019 and proposed them to the Supervisory Board for approval.

- Committee has discussed the operating results of companies in the group Elektro Gorenjska quarterly and reported on this to the Supervisory Board. Committee also discussed the long-term credit agreements concluded with the European Investment Bank and SID Bank.
- Risk management, internal control system and compliance: Committee considered the management report on the functioning of the risk management system and noted the changes in this area. It was also, based on reports from the internal audit and management, informed about the functioning of the system of internal controls and compliance.
- Internal audit: Audit Committee has worked closely with the internal auditor. In 2016 the Committee discussed the annual report on internal audit for 2015 dealt with the report of the internal auditor on all internal audits carried out and followed up on the implementation of the recommendations. It has discussed the work plan of internal audit for the year 2017 and proposed it to the Supervisory Board for approval. In cooperation with the internal auditor of the committee carried out a selection process for outsourced audits of IT solutions. It also carried out the procedure for selecting the contractor for external quality assessment of internal audit and proposed the selection to the Supervisory Board for approval.
- Selection and cooperation with the external auditor: Audit Committee has carried out the selection process of the external auditor of the financial statements and submitted the proposal to the Supervisory Board. General Meeting appointed the proposed contractor, KPMG Slovenija, podjetje za revidiranje, d. o. o., to audit the financial statements for the year 2016.
- Self-assessment: in early 2016 audit committee conducted a self-assessment of its work in 2015.

5.2 Nomination Committee

Since 2014 within the Supervisory Board the Nomination and Human Resources Committee of the Elektro Gorenjska, d. d., Supervisory Board has been operating in the following composition:

- Samo Logar, M. Sc., chairman,
- Tedo Djekanović, M. Sc., member,
- Milena Pervanje, external member.

In year 2016 the Nomination Committee conducted a total of 6 sessions, of which 5 were regular and one correspondence. All meetings were attended by all members of the committee, and meetings are generally also attended by members of the Supervisory Board, employee representatives. In total the committee adopted 21 decisions.

In connection with the work of the committee in 2016 we highlight the following:

- monitoring the quality processes in the area of human resources (annual interviews, management, introduction of succession, transfer of knowledge, rewarding),
- monitoring the strategic project Managing the organizational culture (this project has been recognized as strategic also in the new strategy),
- monitoring the negotiations for the conclusion of collective agreements,
- specification and proposal of SB for the adoption of benchmarks for the variable part of the remuneration of the chairman of the board for year 2017.

6. Position of the Supervisory Board to audit report 2016

At the 39th session of the audit committee on May 15 2017, when a revised Annual Report of Elektro Gorenjska, d. d. and revised Consolidated Annual Report of Elektro Gorenjska Group for year 2016 were discussed, an auditor of the audit firm KPMG Slovenija, d. o. o., from Ljubljana, which audited the financial statements of the Group for year 2016, was present.

At the 49th session on May 29 2017, when a revised Annual Report of Elektro Gorenjska, d. d., and revised Consolidated Annual Report of Elektro Gorenjska Group for year 2016 were discussed, the Supervisory Board got acquainted with the decisions of the audit committee in connection with the reports and established that auditor carried out an audit in accordance with the laws and regulations on auditing. Supervisory Board had no comment on the report of the independent auditor, its position on the audit report was positive.

Audit committee and Supervisory Board established that positive auditor's opinion was issued.

7. Approval of the annual and consolidated report 2016 and proposal for the use of distributable profit

Management of the company submitted the annual report and consolidated annual report, including the audit report, to Supervisory Board for verification within the legal deadline. Audit committee verified the annual and consolidated report and audit report in detail and gave its opinions and views. Based on the regular monitoring of operations of the company and other companies in the group and a detailed verification of the stated reports, the Supervisory Board has established that the report for year 2016 is composed in accordance with the sectoral legislation and regulations and in a clear and transparent manner represents true and fair views of the assets, liabilities, financial position, income statement and comprehensive income of the company. Annual and consolidated reports for year 2016 are composed in accordance with the provisions of the Companies Act and valid international accounting standards.

Besides the parent company the Elektro Gorenjska Group includes another company Gorenjske elektrarne, proizvodnja elektrike, d. o. o., which is in 100 % ownership of the parent company.

Both companies in the group ended the business year with profit. Distributable profit of Elektro Gorenjska, d. d., for year 2016 amounted in total to 2,170,771.70 €, which represents 1.51 % of the entire capital or 3.02 % of the share capital as at December 31 2016. Management Board proposes to the General Meeting that part of the distributable profit of 2016 in the amount of 2,072,951.16 € is used for the payment of dividends in the gross amount of 0.12 € per share. Rest of the distributable profit in the amount of 97,820.54 € represents net profit from previous years. Its use will be decided by the General Meeting in the coming years. Company will pay the dividends on September 28 2017 to those shareholders that are entered in the share register of the company as shareholders on the day of September 27 2017.

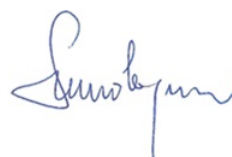
Proposal for using the distributable profit was verified by the Supervisory Board and it agreed with the proposal of the management.

Consent to such use of profit was given at its 4th correspondence session on June 2 2017.

After the Supervisory Board verified the annual report and consolidated report of the company for year 2016 and had no comments, it adopted them unanimously at the 4th correspondence session on June 2 2017, when it also adopted this Supervisory Board report on verification and approval.

In Kranj, June 2 2017

Samo Logar, M. Sc.,
Chairman of the Supervisory Board



4.0

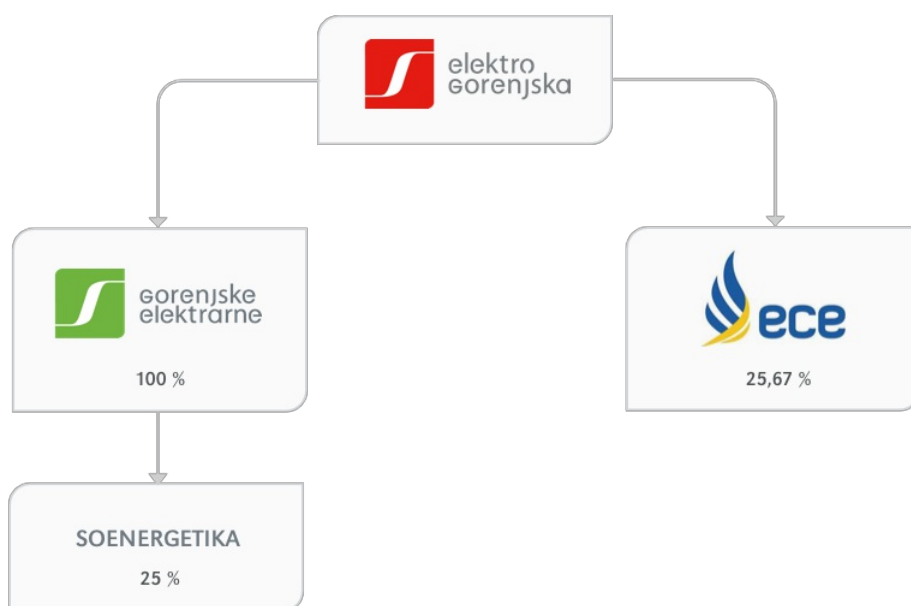
Presentation of Elektro Gorenjska Group

4.1 Structure of Elektro Gorenjska Group and associated companies

Elektro Gorenjska Group consists of the controlling company Elektro Gorenjska and its controlled company Gorenjske elektrarne, which is in 100 % ownership of Elektro Gorenjska Company. As associated companies the group also considers ECE company, where Elektro Gorenjska has a 25.6744 % ownership share, and associated company Soenergetika, where Gorenjske elektrarne has 25 % share. None of the companies in the group has subsidiaries.

Management of the controlled company is implemented directly on the basis of the founder's decision, as the controlled company has no supervisory board. In year 2016 ten founder decisions were issued for Gorenjske elektrarne Company.

Figure 1: Graphic image of the group



4.1.1 Elektro Gorenjska Company identity card

Figure 2: Elektro Gorenjska Company identity card

Name:	ELEKTRO GORENJSKA, podjetje za distribucijo električne energije, d. d.
Abbreviated name:	ELEKTRO GORENJSKA, D. D.
Business address:	Ulica Mirka Vadnova 3 a, 4000 Kranj Call center: 080 30 19 Fax: 04 20 83 600
Web site:	www.elektro-gorenjska.si
E-mail address:	info@elektro-gorenjska.si
Registration number:	5175348000
VAT identification number:	SI 20389264
Core activity code:	35.130 electricity distribution
Legal form:	joint-stock company
Company register entry number:	1/00259/00
Date of company register entry (d. d.):	27. 1. 1998
Place of court's register entry:	Kranj District Court
Share capital as of 31. 12. 2016:	71,898,060.69 €
Number of shares as of 31. 12. 2016:	17,286,376
Chairman of the Board:	Bojan Luskovec, M. Sc.
Supervisory board chairman:	Samo Logar, M. Sc.

Table 1: Other important information on Elektro Gorenjska Company (in €)

	31. 12. 2016	31. 12. 2015
Carrying amount of capital	144,131,812	140,017,288
Carrying amount of assets (balance sheet total)	215,661,746	207,406,340
	2016	2015
Net profit of the business year	6,861,669	5,601,957

4.1.2 Gorenjske elektrarne Company identity card

Figure 3: Gorenjske elektrarne controlled company identity card

Name:	GORENJSKE ELEKTRARNE, podjetje za proizvodnjo električne energije, d. o. o.
Abbreviated name:	GORENJSKE ELEKTRARNE, D. O. O.
Business address:	Stara cesta 3. 4000 Kranj Phone: 04 20 83 531 Fax: 04 20 83 512
Web site:	www.gek.si
E-mail address:	info@gek.si
Registration number:	1658298000
VAT identification number:	SI 76567788
Founder:	Elektro Gorenjska, d. d.
Legal form:	limited liability company
Core activity code:	35.111 production of electricity in HE generation facilities
Company register entry number:	1/06934/00
Date of company register entry:	4. 1. 2002
Place of court's register entry:	Kranj District Court
Share capital as of 31. 12. 2016:	13,684,880.11 €
Director:	Aleš Ažman, MBA

Table 2: Other important information on Gorenjske elektrarne Company (in €)

	31. 12. 2016	31. 12. 2015
Carrying amount of capital	18,169,222	18,013,459
Carrying amount of assets (balance sheet total)	19,223,207	19,336,848
	2016	2015
Net profit of the business year	638,923	539,986

4.1.3 ECE Company identity card

Figure 4: ECE associated company identity card

Name:	ECE, energetska družba, d. o. o.
Abbreviated name:	ECE, D. O. O.
Business address:	Vrunčeva 2a, 3000 Celje Call center: 080 22 04 Fax: 03 62 09 559
Web site:	www.ece.si
E-mail address:	info@ece.si , prodaja@ece.si , podjetja@ece.si
Registration number:	6064892000
VAT identification number:	SI 55722679
Founder:	Elektro Celje, d. d.; Elektro Gorenjska, d. d.
Legal form:	limited liability company
Core activity code:	35.140 trade of electricity
Company register entry number:	2015/37235
Date of company register entry:	1. 10. 2015
Place of court's register entry:	Celje District Court
Share capital as of 31. 12. 2016:	3,436,767.65 €
Director:	Sebastijan Roudi, M. Sc.

Table 3: Other important information on ECE Company (in €)

	31. 12. 2016	31. 12. 2015
Carrying amount of capital	18,206,205	17,384,409
Carrying amount of assets (balance sheet total)	43,999,432	47,350,864
	2016	2015
Net profit of the business year	1,353,114	2,729,274

4.1.4 Soenergetika Company identity card

Figure 5: Soenergetika associated company identity card

Name:	SOENERGETIKA Gorenjske elektrarne, Holding Slovenske Elektrarne, Domplan in Petrol, družba za proizvodnjo elektrike in toplote, d. o. o.
Abbreviated name:	SOENERGETIKA d. o. o.
Business address:	Stara cesta 3, 4000 Kranj
Registration number:	3700054000
VAT identification number:	SI 26004330
Founder:	Elektro Gorenjska, d. d., Holding Slovenske Elektrarne, d. o. o., Domplan, d. d. in Petrol, d. d.
Legal form:	limited liability company
Core activity code:	35.112 Production of electricity in thermal, nuclear power stations
Company register entry number:	2010/6818
Date of company register entry:	26. 2. 2010
Place of court's register entry:	Kranj District Court
Share capital as of 31. 12. 2016:	1,020,000.00 €
Director:	Aleš Ažman, MBA

Table 4: Other important information on SOENERGETIKA Company (in €)

	31. 12. 2016	31. 12. 2015
Carrying amount of capital	1,887,749	1,853,135
Carrying amount of assets (balance sheet total)	3,895,850	4,563,827
	2016	2015
Net profit of the business year	634,839	646,289

4.2 Other related companies or related legal entities

Elektro Gorenjska Company identifies its related persons on the basis of provisions of the International Financial Reporting Standards, mainly the IAS 24 and IAS 28, Companies Act (ZGD -1) and the Corporate Income Tax Act (ZDDPO-2). Transaction with related entities are presented in more detail in the financial section of the annual report – [Chapter 23 – Transactions with related entities](#).

Elektro Gorenjska does not have direct or indirect ownership of at least 20 % of value or number of shares or shares in capital, management or control in any other company, except in the ones already mentioned. Company also does not control other companies on the basis of a contract in a way that is different from relations among unrelated persons, or has no significant influence in any of the other companies.

4.3 Main activities and fields of business

Important registered activities of the group according to standard classification are the following:

- distribution of electricity (activity code: 35.130),
- construction of other civil engineering projects n.e.c (activity code: 42.990),
- electrical installation (activity code: 43.210),
- other building completion and finishing (activity code: 43.390),
- wired telecommunications activities (activity code: 61.100),
- renting and operating of own or leased real estate (activity code: 68.200),
- other engineering activities and related technical consultancy (activity code: 71.129),
- production of electricity in HE generation facilities (activity code: 35.111),
- other production of electricity (activity code: 35.119),
- other specialized construction activities n.e.c. (activity code: 43.990).

In general, activities of Elektro Gorenjska Group can be arranged in the following categories:

- activity of electricity distribution, which is connected with the implementation of contractually agreed services for Company SODO Maribor (hereafter also activity Contract with SODO) and presented in more detail in chapter [4.10.4 - Energy legal environment of group's operation in year 2016](#);
- other non-energy market activities, which include mainly execution of new constructions and other services for the needs of the group as well as for external clients or market (hereafter also other services for the market or other activities);
- production of electricity in hydropower stations (HE) and production of electricity in solar or photovoltaic power stations (FE) as well as high-efficiency cogeneration of heat and electric (SPTE);
- solar power stations engineering and monitoring;
- projects of efficient energy use and energy management.

Group is the holder of four quality standards: ISO 9001, ISO14001, OHSAS 18001 and ISO 50001, which are successfully re-certified every year. In year 2014 the company also obtained the full Family Friendly Company certificate. It also participates in the processes of business excellence (PRSP) and is the only distribution company in Slovenia that was awarded the national business excellence award for year 2012. Quality services and activities we have been carrying out for 50 years already, have become even more obvious with the arrival of the competition. In the first place remains the undisturbed, reliable and quality electricity supply.

We follow and actively participate in development projects representing the driving force of the future. In year 2016 we successfully completed the international project INCREASE (Increasing the penetration of renewable energy sources in the distribution grid by developing control strategies and using ancillary services). Aim of the INCREASE project was to complement the existing control systems and expand the range of ancillary services with the aim of better ensuring of quality power supply with the increasing number of diffuse sources in the network.

4.4 Main area of operation

Main area of operation of Elektro Gorenjska Group includes north-eastern part of Slovenia – Gorenjska region. Elektro Gorenjska Company has its distribution network set on the area of 2,091 km², which amounts to more than 5,400 kilometers of grids and helps providing reliable and quality supply of electricity to more than 88,600 customers. In this area we can also find hydropower plants of Gorenjske elektrarne.

Figure 6: Area of supply of electricity distribution companies



Companies Elektro Gorenjska and Gorenjske elektrarne have their headquarters in Kranj. Company Elektro Gorenjska has another plant in Žirovnica and eight local inspectorates: Bohinj, Cerklje - Visoko, Jesenice - Kranjska Gora, Kranj, Radovljica - Bled, Škofja Loka - Medvode, Tržič and Železniki.

4.5 Main technical data

Table 5: Main technical data on electric power distribution network

	31. 12. 2016	31. 12. 2015
Powerlines 110 kV	102,323 m	102,323 m
Powerlines 35 kV	20,299 m	20,299 m
Powerlines 20 kV	639,503 m	679,240 m
Powerlines 10 kV	0 m	0 m
Total powerlines	762,125 m	801,862 m
Cable conduits 110 kV	3,319 m	3,319 m
Cable conduits 35 kV	158 m	158 m
Cable conduits 20 kV	942,328 m	874,101 m
Cable conduits 10 kV	6,416 m	5,694 m
Total conduits	952,221 m	883,272 m
Total LV network	3,701,646 m	3,884,424 m
Total network	5,415,992 m	5,569,558 m
Transformer substations	13	13
Substations	7	7
Transformer stations	1,370	1,360

Source: Elektro Gorenjska, internal data, 31. 12. 2016

Table 6: Main technical data of the production units

	Rated output power PN [kW] 2016	Rated output power PN [kW] 2015
Hydroelectric power stations	12,297	12,297
Solar power stations	3,281	3,281
SPTÉ	1,280	1,280

Source: Gorenjske elektrarne, internal data, 31. 12. 2016

4.6 Management and governance of companies in Elektro Gorenjska Group

4.6.1 Management and governance of Elektro Gorenjska Company

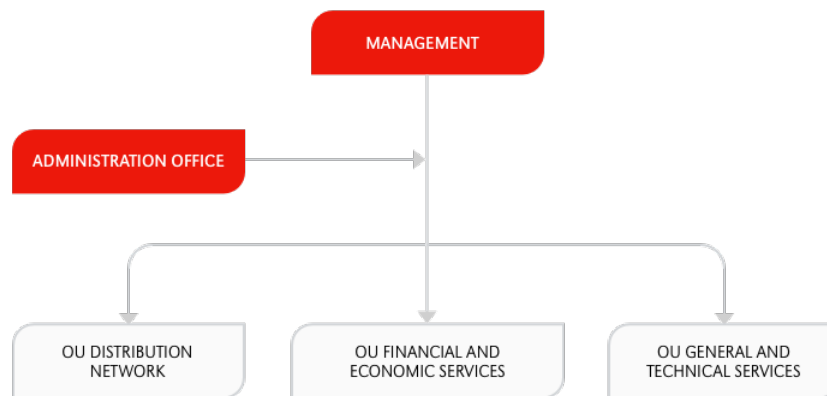
Company management bodies are: management, Supervisory Board, and shareholders' meeting.

Management

Single-member administration is appointed by the Supervisory Board of Elektro Gorenjska Company. Management was appointed for a period of four years on September 16 2014. In accordance with the statute the management is authorized for all issues of organization and managing of the company. Based on the law, statute, and rules of procedure of the Supervisory Board the management of the company is obliged to regularly, exhaustively, and exactly introduce to the Supervisory Board the course of transactions and company's condition at least four times a year.

Chairman of the Board in Elektro Gorenjska Company is Bojan Luskovec, M. Sc.

Figure 7: Organization chart in Elektro Gorenjska Company



Individual organizational units are managed by executive directors. Administration office is comprised of management assistant, technical director, internal auditor, and quality advisor to the management.

Supervisory Board

Competence and composition of the Elektro Gorenjska Company Supervisory Board are defined by the statute of the company. Supervisory Board consists of six members, four of them being representatives of the capital and two of them representatives of the employees. Members of the Supervisory Board are elected for the period of four years and can be re-elected. Members of the Supervisory Board, which are representatives of the capital, are appointed to the Supervisory Board by the shareholders' meeting with a simple majority vote of the present shareholders. Two members representing the employees are appointed by the company's works council.

Based on the decision of the General Meeting the members of the Supervisory Board in addition to the attendance fees in the amount of 275 € receive also monthly payment for performing the function in the amount of 942 € per member or 1,412.50 € to which the chairman of the Supervisory Board is entitled. Remuneration of Supervisory Board members in 2016 are presented in [Chapter 23.4 Transactions with management and Supervisory Board](#).

Composition of the Supervisory Board in year 2016 was as follows:

Supervisory Board EG, d. d.	Function	Term of office from	Term of office until
Samo Logar, M. Sc.	chairman	27. 8. 2013	27. 8. 2017
Tedo Djekanović, M. Sc.	deputy chairman	27. 8. 2013 (as a deputy chairman since 3. 9. 2015)	27. 8. 2017
Andrej Koprivec	member	27. 8. 2013	27. 8. 2017
Elvis Duraković	member	27. 8. 2013	27. 8. 2017
Dominik Ovinček, M. Sc.	member	8. 8. 2015	8. 8. 2019
Iztok Štular	member	8. 8. 2015	8. 8. 2019

Audit committee of Elektro Gorenjska Supervisory Board

In year 2011 based on Article 40 of the Statute Supervisory Board set up the audit committee, while according to the ZGD and its rules of procedure it can also appoint other committees. In year 2016 a permanent audit committee of Elektro Gorenjska, d. d., Supervisory Board (audit committee) operated. Its mandate started in October 2013 in the following composition:

AUDIT COMMITTEE SB EG d. d.	Function	Term of office from	Term of office until
Andrej Koprivec	chairman	3. 10. 2013	27. 8. 2017
Elvis Duraković	member	3. 10. 2013	27. 8. 2017
Andrej Baričič, PhD	member	3. 10. 2013	27. 8. 2017

Nomination committee of Elektro Gorenjska Supervisory Board

At its 9th regular session on April 17 2014 the Supervisory Board adopted a decision appointing the Nomination committee of Elektro Gorenjska, d. d., Supervisory Board (decision No. 3/9), composed of:

NOMINATION AND HUMAN RESOURCES COMMITTEE SB EG d. d.	Function	Term of office from	Term of office until
Samo Logar, M. Sc.	chairman	17. 4. 2014	27. 8. 2017
Tedo Djekanović, M. Sc.	member	17. 4. 2014	27. 8. 2017
Milena Pervanje	member	17. 4. 2014	27. 8. 2017

Term of office of the committee is bound to the term of office of the Supervisory Board, which is also defined in the Rules of procedure of the nomination committee of Elektro Gorenjska, d. d., Supervisory Board.

Shareholders' meeting

In year 2016 the management of Elektro Gorenjska convened one regular session of the general meeting of shareholders, namely on August 23 2016. There were 89.69 % of all votes of shareholders entitled to vote present at the 22nd regular general shareholders' meeting of Elektro Gorenjska, d. d., Company. At the meeting shareholders voted on five items on the agenda, which was published in the convening of the general meeting and on one additional item, the delegation of powers to the management to acquire and dispose its own shares, which was on August 27 2016 published on the web portal of the Agency for Public Legal Records and Related Services, on the proposal of the shareholder the Republic of Slovenia.

Shareholders of the company got acquainted with the revised annual report and consolidated annual report for year 2015, with the auditor's opinion and written report of the Supervisory Board on the verification and

confirmation of the Elektro Gorenjska Company annual report and consolidated annual report of Elektro Gorenjska Group for the business year 2015.

Shareholders decided on the use of distributable profit, which amounted to 2,800,345.76 € as at December 31 2015. At the meeting the decision was adopted, namely that entire distributable profit of year 2015 is distributed to the shareholders as dividends, which will be paid no later than 90 (ninety) days from the date of adoption of the resolution at the General Meeting. Beneficiaries for the dividend payment are all shareholders, who have been entered in the register of shareholders kept by the Central Securities Clearing Corporation (KDD) on the date of the General Meeting.

For business year 2015 a discharge for the management and the Supervisory Board separately was awarded.

General Meeting passed a new statute as well. At the general meeting an authorized auditor for the year 2016 was appointed, namely the auditing firm KPMG, Slovenia, podjetje za revidiranje, d. o. o. from Ljubljana.

At the additional item, the delegation of powers to the management to acquire and dispose its own shares, which was published on the web portal of the Agency for Public Legal Records and Related Services, the following decision was adopted:

"General Meeting in order to maximize the value for shareholders and to increase the value of assets of the Company authorizes the Management Board to purchase, in the period from September 1 2016 to March 31 2018, its own shares at a price not lower than 1.91 euros and not higher than 2.47 euros per share. "

Authorization is valid for the acquisition of a maximum of 1,728,637 of company's own shares, with the total number of shares acquired under this authorization together with other treasury shares that the company already has, shall not exceed 10 % of the share capital (1,728,637 shares).

In year 2016 the management may obtain a maximum of 851,554 of own shares, in 2017 up to 879,292 of own shares and in 2018 up to so many own shares, which is the difference between 1,728,637 shares and own shares obtained in 2016 and 2017 as well as other treasury the shares that the company already had prior to the adoption of this decision of the general meeting, but in 2018 no more than 864,318 shares.

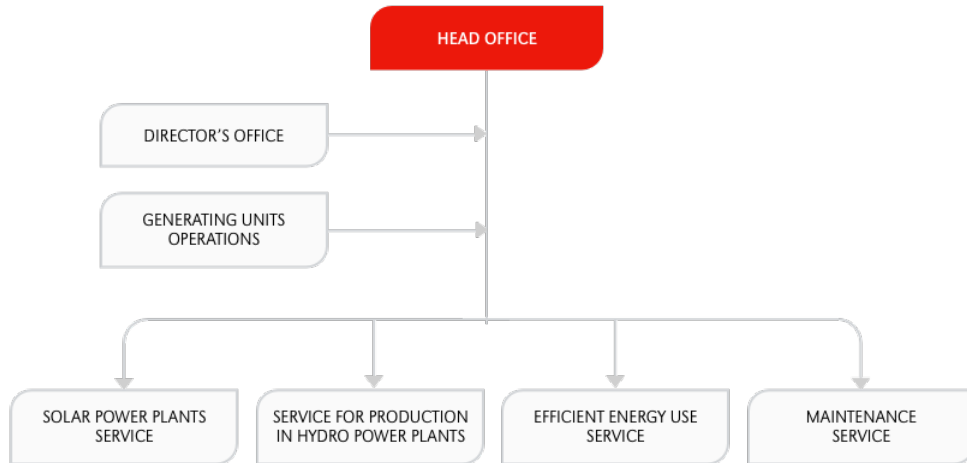
For disposal of own shares acquired by the Company pursuant to this authorization, the pre-emptive right of shareholders is excluded, if own shares on the basis of prior consent of the Supervisory Board were used as an exchange for shares or stakes in other companies or for eventual sale to a strategic investor.

Management Board is hereby authorized by the General Meeting that, upon the prior consent of the Supervisory Board, on the basis of this authorization, may withdraw the acquired shares without any further resolution on reduction of share capital. General Meeting authorizes the Supervisory Board to harmonize the wording of the Statute of the company to a possible reduction of the share capital, which would be carried out due to the withdrawal of own shares, acquired at any time on the basis of this authorization of the General Meeting to the Management Board for the purchase own shares.

4.6.2 Management and governance of Gorenjske elektrarne Company

Since its establishment Gorenjske elektrarne Company has been in 100 % ownership of its founder and sole partner of the company, that is Elektro Gorenjska Company. Company has no controlled companies, but it has a 25 % share in Soenergetika Company, which it controls together with three other equal partners. Financial statements of the company are included in group financial statements of the parent company Elektro Gorenjska which is also the final parent company.

Figure 8: Organization chart of Gorenjske elektrarne Company



Company's director is Aleš Ažman, MBA.

Management of the company is carried out directly on the basis of the conclusions of the founder, as the company has no Supervisory Board. Chairman of the Board of the parent company, as the General Meeting regularly monitors the operations of the company. In 2016, for company Gorenjske elektrarne there were 10 decisions of the founder issued.

Supervisory Board of the parent company is also acquainted with the operations.

4.7 Share capital and ownership structure

4.7.1 Share capital and ownership structure of Elektro Gorenjska Company

On December 31 2016 share capital of Elektro Gorenjska Company amounted to 71,898,061 €. It is distributed to 17,286,376 of ordinary registered unit shares (designation EGKG). All shares are shares of one category.

On the basis of the decision 22 of the general meeting, which took place on August 23 2016, the company in year 2016 purchased from the previous owners 11,783 of own shares (0.068 % of all shares). More on the decision of the meeting is explained in chapter [4.6.1 – Management and governance of Elektro Gorenjska Company, Shareholders' Meeting](#).

Company has no authorized capital. In 2016 the Elektro Gorenjska Company had no transactions with own shares on a regulated market.

As of December 31 2016, 96.70 % of company shares were in the ownership of the Republic of Slovenia and legal entities, which represent 16.03 % of all shareholders.

Figure 9: Changes in the number of shareholders of Elektro Gorenjska Company from 31. 12. 2012 to 31. 12. 2016

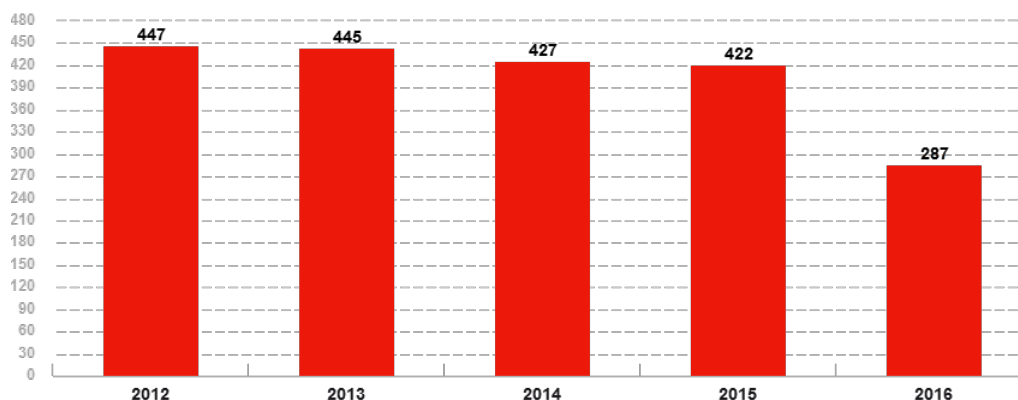
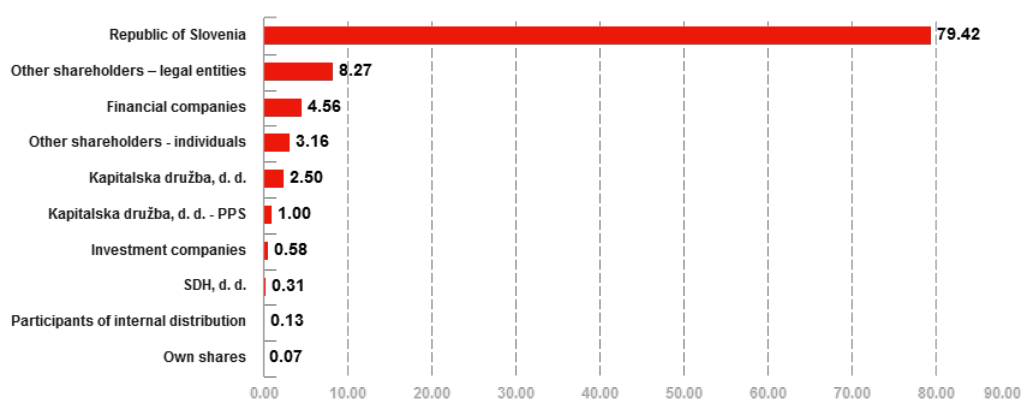


Figure 10: Ownership structure of Elektro Gorenjska Company as of 31. 12. 2016 (in %)



According to the balance as at December 31 2016 the largest shareholder, holding a 79.42 percent share, is the Republic of Slovenia. It is followed by Kapitalska družba holding 2.50 percent share and Sava Re with 1.62 percent share. As at December 31 2016 the largest ten owners held a total of 91.27 percent share of the company.

Table 7: Share owners with capital share exceeding 1 percent as of 31. 12. 2016

Ownership exceeding 1 %	Number of shares	in %
Republic of Slovenia	13,728,882	79.42
Kapitalska družba, d. d.	431,933	2.50
Sava Re, d. d.	280,000	1.62
Pivovarna Laško Union, d. o. o.	270,648	1.57
BAU 1, d. o. o.	246,513	1.43
DUTB, d. d.	207,200	1.20
DZS, d. d.	200,000	1.16
Total	15,365,176	88.89

4.7.2 Share capital and ownership structure of Gorenjske elektrarne Company

Share capital of Gorenjske elektrarne Company (13,684,880 €) represents an investment in the capital and has been in 100 % ownership of the founder and sole partner of the company - Elektro Gorenjska Company, since its establishment.

4.8 Vision, mission and values of the group

Vision of the group

ELEKTRO GORENJSKA

To all of the inhabitants and business in our distribution area we ensure top quality electricity supply in the Republic of Slovenia. We are a company with its own concession for electricity distribution. We guarantee sufficient resources for business, for annual renovations of at least 3 % of electricity power infrastructure and its expansion at least to the extent of 1 % per year. By influencing the regulatory environment and development of additional market activities within Elektro Gorenjska Group we strive for a reasonable return for all shareholders.

GORENJSKE ELEKTRARNE

Gorenjske elektrarne Company's vision is to become the most successful company in the production of electricity on the Slovenian market among companies in the industry, with more than 10 employees, by 2020. Performance is measured by increasing value added per employee, which is the highest in the industry.

Mission of the group

ELEKTRO GORENJSKA

Equitable and reliable access to electricity for all with a superior user experience.

GORENJSKE ELEKTRARNE

Company's mission is to produce energy in an environmentally friendly manner and provide services in order to increase the efficient use of energy and to provide for a better future coexistence of mankind and nature.

Values of the group

<p>KNOWLEDGE AND COOPERATION</p> <p>We share knowledge, experience and positive energy with our colleagues and partners.</p>	<p>EXCELLENCE AND PROFESSIONAL COMPETENCE</p> <p>We are target-oriented.</p>	<p>KINDNESS AND OPENNESS</p> <p>We maintain friendship and sociability.</p>
<p>QUALITY AND TRUST</p> <p>We induce customers' confidence.</p>	<p>RESPONSIBILITY AND DILIGENCE</p> <p>We assume responsibility.</p>	<p>BUSINESS INNOVATION</p> <p>We implement services and processes in line with market trends.</p>

4.9 Key strategic guidelines of the group

4.9.1 Key strategic guidelines of Elektro Gorenjska Company

In September 2016 supervisory board of Elektro Gorenjska Company confirmed the strategy of the company for the the period 2016 - 2020. Key elements for implementation of the strategy are strategic projects, which determine concrete tasks and their execution. They are used to define in detail the activities, deadlines, advantages, opportunities and expectations necessary to reach the strategic goals. Advantage of pre-set strategic projects is in quick detection of eventual troubles, additional challenges and meaningful integration with other projects in the company. Strategy of Elektro Gorenjska Company precisely defines seven strategic projects being implemented in the company. They are:

Project 1:

Acquisition of own concession for the distribution of electricity

Aim of the project is to obtain concessions for the implementation of the public utility service of the distribution operator (hereinafter referred to as the GJS DO), which will enable the development of the company and the realization of a long-term vision of the functioning of the company Elektro Gorenjska and thus reliable and secure supply of electricity on at least current levels. Granting the concession to Elektro Gorenjska as the owner of the electricity infrastructure and to other electricity distribution companies will eliminate also the inefficient implementation of the GJS DO, which was highlighted by the Court of Auditors in 2009 and 2014. With this, the company will save an indicative 500,000 €, while on the level of the entire electricity distribution system about 5 million €. With the acquisition of the concession for the company Elektro Gorenjska there is also no threat of the loss of some of the key tasks of the GJS DO and related revenue, which could ultimately mean job losses.

In years 2014, 2015 and 2016 in line with the main objective of the project main efforts were made in the amendment to the Energy Act and the preparation of bases and proposals for optimal solution of organization of GJS DO. Further activities on this project will depend largely on political decisions over which the company has no influence.

Project 2:

Integration of technical information systems (CIM)

Aim of the project is the introduction of a standardized way of exchanging data and IS integration, integration of existing and future technical information and communication systems. This will achieve optimal operation of the IS, EES and company EG, independence from individual manufacturers, arrangement of data and automation of communication.

In 2016, we carried out the 5th phase of the CIM project. Content of the 5th phase of the implementation of the integration platform (Enterprise Service Bus) in accordance with IEC 61968-100 standard and related software (CIM repository). This is a crucial software, which enables integration based on CIM model. This follows the general strategy of integration of information systems in the electricity distribution companies, which was developed in collaboration with the French EDF. In 2017 we plan to perform additional functionalities whose necessity has been revealed during the implementation of the fifth phase of the project. In the future, the integration of another IS is planned.

Project 3:

Management of organizational culture

Project aims at raising the level of organizational culture, which means to raise constructive behavior and reduce passive defensive and aggressive defensive behavior. This means that the employees are expected integration, mutual cooperation, accountability and goal orientation. Demonstrating those behaviors will contribute to self realization and growth of employees and organizational efficiency. This way we will approach the desired (ideal) organizational culture and remain above the Slovenian average.

Ultimate goal of the project is greater commitment of employees and increasing the level of constructive behaviors. Because we want to pay the most attention to the development of management and leadership, we conducted in the period 2014 - 2016 several workshops in the field of soft skills for the heads of departments and groups, which will continue in 2017 as well.

Project 4:**Connection of subsidiaries and capital investments with strategic partners**

Aim of the strategic project is to ensure economic and financial stability and long-term development of the subsidiary company.

Immediately after the spin-off of sales and production subsidiary companies a few years ago, we in Elektro Gorenjska realized that we have to be concerned about the economies of scale primarily in the business of selling electricity. Production activity is otherwise more manageable and less risky, while the falling of prices of buying production obliges us to find solutions in this area too. Accordingly, in 2015 a horizontal connection of companies Elektro Gorenjska Prodaja and Elektro Celje Energija was conducted.

In 2017 in line with the objective of the project we will continue to seek connectivity options, both in terms of sales, as well as in the field of electricity production.

Project 5:**Implementation of system services for SO (system operator)**

Targets of the project foresee the implementation of commercial services to the needs of the transmission system operator (SO) using existing distribution technology systems of company Elektro Gorenjska.

With mass introduction of dispersed production resources in distribution networks and the new specifics of the operation of the electricity system we create initial conditions for cooperation with transmission system operators. Based on the knowledge of the current situation, in particular, provided the effects of new investments in the field of dispersed production, in the future we can expect increased interest in participation of SO with the distribution companies or system integrators.

Project 6:**GIS (geographic information system)**

Main purpose of the project is the introduction of modern GIS solutions that will meet the needs and requirements of the company. New GIS will be a source of information related to modeling of the network. Thus, all applications using the network model, shall refresh its models from the new GIS.

New GIS will be a source of high quality information on the network, which will enable the realization of the concept of input data in one place, which is important in terms of integration with other key technical systems. Users will be offered a modern tool with a unified user interface, unified access control with configurable analytic functions. Among other things, it also forms the basis of mobile solutions to support the work in the field. It will simplify processes and streamline our work and reduce the possibility of errors, it will ensure better planning and less variation in the implementation of projects.

Project 7:**Optimizing IT support with the purpose of further improving the company's operations**

Purpose of the project implementation is even more efficient management of tasks of the distribution network operator as the basic activity of the company. Effective means a controlled, cost-effective and advanced operations, supported by an optimal IT support.

Information support has all the more important role in the company. On the business processes in which it is included, it has not only the growing influence, but also affects their development. Ultimate goal of the project is comprehensive management of supportive IT solutions and resources (human, financial) for the management of information systems. Company's business strategy will be materialized through consolidation of organizational, mechanical and applicative aspects of IT support.

Major part of the project implementation will take place in 2017, when the optimization of IT support will also be completed.

Project 8:**Acquisition of the status of critical infrastructure for the ICT part of the distribution network**

Aim of the project is to obtain the status of critical infrastructure in the ICT part of the distribution network. Regulated status of critical infrastructure for ICT, which is intended to guide, control and manage the distribution network, would mean a larger, simpler and cheaper options for obtaining the necessary radio frequencies, facilitating the placement of telecommunication facilities in the area, and clearer conditions for the further development of professional ICT systems as component critical part of the electricity distribution

infrastructure. Project also foresees the testing of advanced telecommunications systems that will significantly contribute to proving the eligibility of the allocation of the desired status.

Project 9:

Development of the business model of exploitation of advanced metering infrastructure

Aim of the project, in case that the positive effects of the CBA are established, is preparing tenders for a broader range of infrastructure managers of other energy and water and to explore market opportunities in order to boost market revenues.

4.9.2 Key strategic guidelines of Gorenjske elektrarne Company

Key strategic guidelines of Gorenjske elektrarne Company are:

- increasing the share of environment friendly production,
- restructuring of the company from electricity production company into the energy management company,
- modernization of automation and monitoring in order to increase the efficiency of the existing production facilities,
- implementation of projects on the basis of »net metering« system,
- to become a recognized service provider for increasing energy efficiency,
- to exploit new business opportunities associated with energy environmental protection,
- to set up and market its own system for centralized control over data of energy consumption,
- renovation of production facilities with the purpose of including them in the operating supports system,
- to implement new information system,
- updating of standard ISO 9001:2015 by including the risks and excellence model EFQM
- entry into the e-mobility market.

4.10 Analysis of the environment and its impact on the operations of the group

4.10.1 General economic environment and economic trend forecasts

Table 8: Data and economic trends forecasts

Indicators for Republic of Slovenia	Forecast			
	2016	2017	2018	2019
BDP (real growth, %)	2.5	3.6	3.2	2.6
Employment (growth, %)	2.0	2.2	1.5	1.0
Unemployment (rate %)	11.2	9.7	9.1	8.5
Inflation (Dec./Dec., %)	0.5	2.1	1.9	2.1
Inflation (year average, %)	-0.1	1.8	1.6	2
Average gross salary per employee (real growth, %)	1.9	1.5	1.7	1.3
Labor productivity-GDP per employee (real growth, %)	0.5	1.4	1.7	1.6

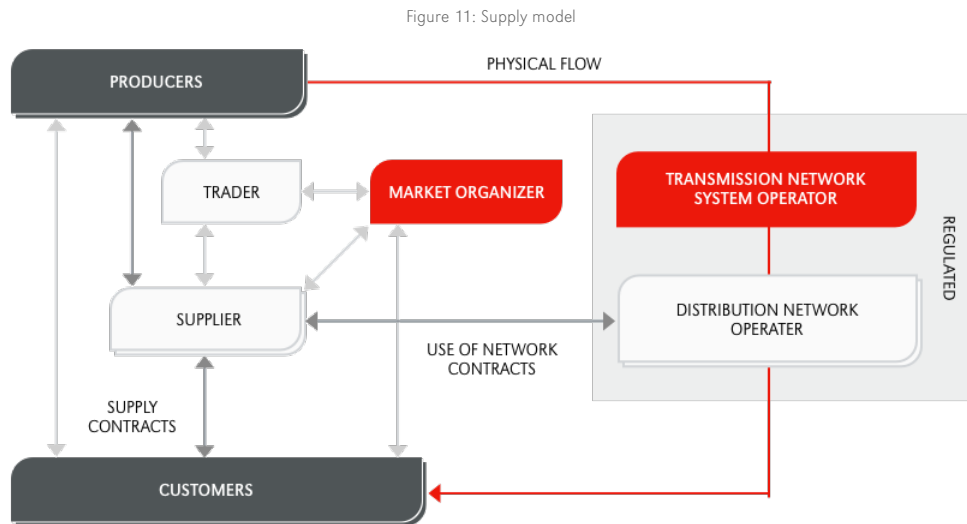
Spring Forecast of Economic trends 2017, UMAR – Institute of Macroeconomic Analysis and Development

Spring forecast of growth in gross domestic product, which was prepared by the Institute of Macroeconomic Analysis and Development, in 2017 envisages strengthening to 3.6 %, while in the next two years it will be around 3 %. Business growth in 2017 remain similar to those in 2016, acceleration compared to the year 2016 will be mainly due to the dynamics of government investments. Furthermore, contribution of domestic consumption will be growing. We can expect further strengthening in household consumption along with a growth at all of the key components of disposable income and higher consumer optimism. Positive trends will continue in the next two years. Growth of government spending will continue as well, but will be lower than in the next two years.

Company's operations largely depend on the movement of gross domestic product. Data for previous years is showing a significant dependence of the movement of distributed quantity of electricity from the movement of gross domestic product. In the coming years we can therefore expect a gradual increase in the volume of electricity distribution.

4.10.2 Presentation of the industry

Participants on the electricity market are producers of electricity, electricity traders, and suppliers supplying electricity to end customers. From electric power stations to customers electricity is transmitted through transmission and distribution networks, which are the responsibility of electricity distribution operators.



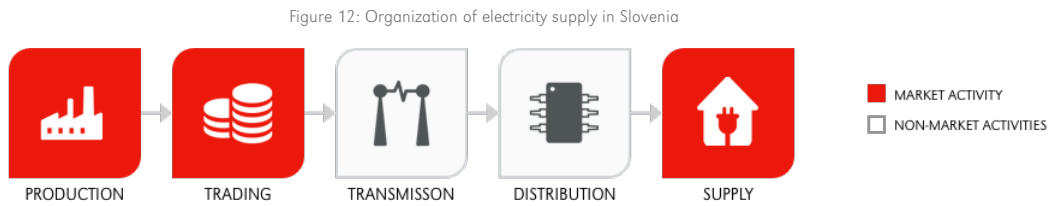
Source: Energy Agency of the Republic of Slovenia

Gorenjske elektrarne Company is engaged mainly in the production of electricity. Electricity is produced by electric power stations, which use different renewable (e.g. water, wind, sun) and non-renewable (e.g. coal, oil, gas, nuclear fuel) sources of energy. Gorenjske elektrarne Company produces electricity in hydro and solar power stations and in heat and electricity co-generation facilities. Opening of the market for household customers enables also selection of electricity in terms of the manner of production or in terms of the used energy source.

Elektro Gorenjska operates in the sector of electricity supply, namely in that business segment of electricity supply which ensures the distribution of electricity to final consumers. Implementation of electricity supply and consequently organization of the market are among other subject to some fundamental characteristics of electricity as a product:

- in general it cannot be replaced with another product (has no substitutes),
- is essential for economic activity and daily life,
- consumption in the long run depends on the level of economic activity,
- current consumption is highly dependent on daylight and temperature,
- storage of electricity is not possible (current knowledge of storage technology is not yet sufficient to significantly change those fundamental properties),
- in principle at any given moment the generated quantity must be equal to the consumed quantity,
- any imbalances between production and consumption have an immediate effect,
- supply options depend on the characteristics of the network (on network restrictions),
- price of electricity among other things is affected by the prices of primary energy used to produce electricity.

Organization of electricity supply in Slovenia is shown in the figure below:



Source: Energy Agency

While electricity generation, electricity trading and supply of electricity to end-customers are market activities, with free competition between suppliers, the management of the transmission system and distribution network management are non-market, regulated activities, and are implemented on the basis of the concession granted by the state.

Tasks of the system operator of the electricity transmission network provides a public company Elektro – Slovenija d. o. o. (ELES). High-voltage network, which includes objects 400, 220 and 110 kV, provides reliable and quality power supply to large customers and distribution companies. ELES carries out tasks related to the maintenance, development and construction of transmission network, management and operation of the transmission network and the provision of ancillary services.

Implementation of tasks of the distribution operator is the responsibility of company SODO d. o. o. Since the company SODO d. o. o. does not have capacity for the implementation of activities (does not have its own infrastructure necessary for the implementation of the electricity distribution system, it does not have its own staff and skills needed to perform the operation, planning and development of the distribution network), it concludes contracts for the lease of the network and the provision of services for the distribution operator with five electricity distribution companies, which operate in a specific geographical area.

Figure 13: Areas of operation of electricity distribution companies in Slovenia



Due to the characteristics resulting from the ownership of the electricity distribution infrastructure, distribution companies do not operate outside their geographic area - in this respect we can speak of a natural monopoly.

4.10.3 Network charge and price of electricity

Final price of supplied electricity for the customer that is charged for consumed electricity together with the network charge by the electricity supplier, is according to EZ-1 composed of the following items:

- electricity price formed freely on the market,
- network charges and contributions:
 - network charge for transmission (set by AGEN),

- network charge for distribution (set by AGEN),
- contribution for market operator operations (set by the Government),
- contribution for energy efficiency prispevka (set by the Government),
- contribution for ensuring the production of electricity from renewable energy sources and high-efficiency cogeneration (set by the Government),
- excise duties on electricity (set by the Government),
- value added tax (set by the Government).

Price of electricity is set by the suppliers of electricity and created freely on the market. Legal relationship between final customers and suppliers is specified in the contract of purchase and sale of electricity and general terms and conditions, which are different depending on household or business consumption.

Price for the network charge and the contributions is the price that the client pays for the use of electricity system and includes the network charge, which is determined by AGEN and contributions laid down by the Government. Network charge is intended for the payment of the public utility distribution system operator. As a basis of the methodology for calculating network AGEN uses the non-transaction method of postage stamps. This stems from the system of uniform tariff items, which are charged to end customers according to the measuring point by the responsible electricity operator.

Contribution for operation of market operator is contribution intended for covering the costs of market operator Borzen, d. o. o., excluding the operation of the Support center.

Contribution for energy efficiency is intended to increase the energy efficiency. It is calculated for each consumed kilowatt hour of electricity in high, low or single tariff.

Contribution for ensuring support for the production of electricity from high-efficiency cogeneration and renewable energy sources (OVE and SPTE) is aimed at promoting the production of electricity from renewable sources and high efficiency cogeneration. It is charged on the billing capacity in kilowatts.

Excise duty on electricity is determined by the Government of the Republic of Slovenia as a state budget income. Excise duty from October 1 2016 onwards amounts to 3.05 €, and 1.8 € for each MWh of consumed electricity for large consumers (above 10,000 MWh).

Value Added Tax (VAT) is determined by the Government of the Republic of Slovenia as a state budget income and is accounted for in the amount of 22 % of the net electricity price (composed of all the elements presented).

Revenues from network charges are, by definition, income of the system operator of the distribution network. Bills for the network charge and contributions to the final customer are issued by the company Elektro Gorenjska. End customers, who have a combined electricity bill, are charged for the network charge and contributions, together with the electricity, by the electricity supplier in its own name and on behalf of SODO as well.

4.10.4 Energy legal environment of group's operation in year 2016

Operations of the Elektro Gorenjska Group are regulated. Main rules and regulations relating to electricity supply and electricity production are:

- Energy Act,
- Companies Act,
- Construction, spatial planning, spatial management and environment protection act,
- General Administrative Procedure Act,
- Directive 2009/72/ES of the European Parliament and of the Council concerning common rules for the internal market in electricity,
- Decree on general conditions for the supply and consumption of electricity,
- General conditions for supply and consumption of electricity from electricity distribution network,
- Decree on the method for the implementation of public service obligation relating to the electricity distribution system operator, and public service obligation relating to the electricity supply to tariff costumers,
- Decree on the concession for performing public service obligation relating to the activity of the electricity distribution system operator,

- Legal Act on the methodology determining the regulatory framework and network charge for the electricity distribution system,
- Price list for the use of network (network charge and supplements to the network charge),
- Rules on the system operation of electricity distribution network,
- Decree supplementing the Decree laying down the list of goods and services subject to price control measures,
- Decree on energy infrastructure,
- Decree on measures and procedures for the introduction and interoperability of advanced electric power metering systems,
- Legal act on the rules for monitoring the quality of electricity supply,
- Decision on the appointment of the electricity transmission system operator,
- Legal Act on the identification of entities in the data exchange among participants in the electricity and natural gas markets,
- Decree on the division of the 110 kV network into the distribution and transmission systems,
- Decree on the terms and conditions and methods of borrowing,
- Environment Protection Act,
- Waters Act,
- Construction Act,
- Excise Duty Act.

4.10.5 Contract with SODO

Company SODO, d. o. o., does not own the electricity infrastructure for the implementation of GJS DO. On June 21 2007 Elektro Gorenjska Company, which owns the electricity infrastructure in the area of Gorenjska, concluded a contract on the lease of electricity distribution infrastructure and the provision of services for the distribution system operator (Contract with SODO). To this agreement three annexes have been concluded, namely on December 28 2007, on April 16 2010 and on October 11 2010.

For reasons of transparency on February 29 2012 a new contract with SODO between SODO and Elektro Gorenjska was signed, which replaced the agreement of 2007, and to which the following five annexes were concluded:

- 18. 09. 2012 Annex No. 1,
- 26. 11. 2013 Annex No. 2,
- 30. 09. 2014 Annex No. 3,
- 27. 01. 2016 Annex No. 4 and
- 27. 01. 2017 Annex No. 5.

Annex No. 5 to the Contract with SODO refers to the regulatory period from January 1 2016 to December 31 2018 and focuses on:

- commitment to making-out and harmonizing the standards for regulated services of both contracting parties,
- method of payment for elaboration of long-term study "forecasts on load and electricity consumption",
- manner of implementation of joint public procurement for the purchase of advanced measuring equipment,
- invoicing, payment and billing of services that EG performs for SODO,
- model of stimulating and penalization of managing the technical losses in the network,
- charging of interim deficit and surplus of the network charge,
- charging of deficit and surplus in the regulatory years 2012, 2013 and 2014,
- monitoring of services performed by EG for SODO,
- charging for the rental of electricity infrastructure that SODO rents from EG.

On the basis of Annex 5 from January 1 2016 onwards Elektro Gorenjska Company no longer performs operations related to the coverage of losses in the distribution network and operations of coverage of electricity supply (electricity purchases for emergency and urgent supply and unjustified consumption). Since that date the company has been stimulated or penalised at the expense of controlling the volume of losses in the network. Amount of stimulation or penalisation is taken into account in the context of services the company performs for SODO.

Under the Contract with SODO Company Elektro Gorenjska is making out the bills for use of network to end users of the distribution network on the basis of the respective in force Act determining the methodology for charging for the network charge, the methodology for setting the network charge, and the criteria for establishing eligible costs for electricity networks, but also in accordance with other regulations, mainly the EZ-1. Elektro Gorenjska Company has been making out these bills on its own behalf and for the account of SODO. End users settle the received bills on the transaction account of the Elektro Gorenjska Company.

Po Pogodbi s SODO družba Elektro Gorenjska izstavlja končnim uporabnikom distribucijskega omrežja račune za uporabo omrežja, na podlagi vsakokrat veljavnega Akta o določitvi metodologije za obračunavanje omrežnine in metodologije za določitev omrežnine in kriterijev za ugotavljanje upravičenih stroškov za elektroenergetska omrežja, pa tudi v skladu z drugimi predpisi, predvsem EZ-1. Družba Elektro Gorenjska te račune izstavlja v svojem imenu in za račun SODO. Končni uporabniki prejete račune poravnajo na transakcijski račun družbe Elektro Gorenjska. Invoiced amounts represent liabilities of the company Elektro Gorenjska to SODO, d. o. o., and therefore do not constitute revenue of Elektro Gorenjska.

In accordance with the Contract with SODO Elektro Gorenjska hires electricity infrastructure to SODO and performs contracted services, which generally can be divided into the following groups:

- maintenance of adequate electricity infrastructure,
- organization and implementation of emergency service,
- management and operation of electricity distribution network,
- network development planning,
- monitoring and establishing the quality of supply,
- electricity measuring,
- implementation of services connected with the distribution network access, and other services for the network users,
- connecting the users,
- other services for the network users.

For electricity infrastructure leased and for implementation of services presented before, Company Elektro Gorenjska has been making out bills for rent and implemented services to SODO Company. These revenues represent approximately 78 % of entire company's revenues.

Elektro Gorenjska charges amounts for rent and services in monthly advance amounts based on annual values of Decision on a regulatory framework for the period 2016 - 2018, issued by the Energy Agency. In March SODO Company carries out a preliminary calculation for the previous year. Calculation is based on the unaudited financial statements. It is followed by the final statement, which is based on audited financial statements prepared by the Agency for Energy. Both accounts are prepared on the basis of the provisions of the Legal Act on the methodology determining the regulatory framework and network charge for the electricity distribution system.

4.10.6 Legislation in the field of electricity production

Under the provisions of the Energy Act, it is required to obtain licenses for carrying out energy activities, including the production of electricity at power plants with a capacity of over 1 MW in a single plant, electricity supply, trade, representation and mediation in the electricity market. Licenses are issued by the National Agency for Energy. Gorenjske elektrarne Company has obtained all the necessary licenses for carrying out energy activities, and the plants have obtained declarations for the electricity generating plants from renewable energy sources (OVE) and combined heat and power generation with high efficiency (SPTE). Power plants are therefore entitled to receive operating supports or operation in the guaranteed purchase system.

Support is implemented in two ways, namely as:

- guaranteed purchase (ZO) of produced electricity supplied to the public network
- as a financial operating aid for other producers (operating support).

In the case of guaranteed purchase Support Center (Borzen) acquires electricity and pays for it the price, which is determined in the decision. With financial support in the form of operating aid (so called operating support), the Center for Support does not assume and does not pay for electricity, but on the basis of produced net quantities of electricity only pays for operating support, which is intended for the production units to compensate for the difference between production costs and the market price that the unit gets on the open market.

Level of operating support or guaranteed purchase is determined on the basis of the reference costs, in accordance with the methodology for determining reference costs of electricity produced from OVE and SPTE. They consist of fixed and variable reference costs.

Fixed part of reference costs shall be determined on the basis of investment costs and operating costs. Once the producer enters the system, for the period of receiving support fixed reference costs remain the same. Variable reference costs are determined only for those OVE generating plants where the input fuel represents a financial cost (eg cost of gas at SPTE). Variable reference costs vary annually based on changes in the reference market price of electricity and price of input energy.

Methodology for determining electricity supports has been completely renovated at the end of year 2016 and was published on the website of the Ministry of Infrastructure, Energy Directorate on December 5 2016.

With the adoption of the new energy Act there have been significant changes in the allocation of supports. Support schemes for the production of electricity from renewable energy sources remains a fundamental instrument for the promotion of renewable energy sources, but it is changing so that incentives receive only those new plants, which will produce energy at the lowest cost. Government determines which technologies will be encouraged, and to what extent. New law also simplifies procedures for obtaining all necessary permits for the construction of energy infrastructure, which will cheaper the investments.

At the end of 2016, following three years of silence in investments in renewable energy, Public call for application of projects of production facilities for the production of electricity from renewable energy sources and cogeneration of heat and electricity with high efficiency for admission to the support scheme for the entry of new generating plants in the system support was announced.

4.10.7 Water act

Water act (Official Gazette RS No. 67/02, 110/02 - ZGO-1, 2/04 - ZZdrI-A, 41/04 - ZVO-1, 57/08, 57/12, 100/13, 40/14, 56/15) regulates water, and water and waterside land management.

Company as the holder of water right is liable to payment of water fee in the pro rata amount of the water right. Manner of determining the amount of the water fee, method of billing, assessments and payment of water fee are defined in more detail in the Decree on the water fee (Official Gazette RS No. 103/2002 and Official RS No. 122/2007). Basis for the calculation of the water fee is potential water energy available for electricity production in accordance with the acquired water right, expressed in MWh. Price for the water fee basis is determined by the Government of RS until December 31 of the current year for the next year.

According to the provisions of the Water act and Decree on the concession to use water for electricity generation at hydroelectric power plants with a maximum rated capacity of 10 MW, company Gorenjske elektrarne holds the relevant concession agreements for its hydro power stations.

Concession fee for water is calculated in the amount of 3 % - 4.2 % of the average sales value of produced electricity, depending on the watercourse. Average sales value per kWh of electricity is determined by the decision of the competent ministry. For year 2016 average sales value per kWh amounted to 0.034 €.

4.10.8 Construction act

Construction act (Official Gazette RS, No. 110/02, 97/03 - Constitutional Court's Decision, 41/04 - ZVO-1, 45/04 - ZVZP-A, 47/04, 62/04 - Constitutional Court's Decision, 92/05 - ZJC-B, 93/05 - ZVMS, 111/05 - Constitutional Court's Decision, 126/07, 108/09, 61/10 - ZRud-1, 76/10 - ZRud-1A, 20/11 - Constitutional Court's Decision, 57/12, 101/13 - ZDavNepr, 110/13, 17/14 - ZUOPŽ, 22/14 - Constitutional Court's Decision, 19/15) regulates the conditions for construction of all kinds of works, sets out the essential requirements and the fulfilment thereof regarding the characteristics of works, prescribes the method and conditions for pursuit of the activities, relating to construction, regulates the organization and field of work of the two professional chambers, regulates inspection and supervision, sets out the sanctions for violations, related to construction of works and regulates other issues related to construction. Construction according to this act includes design, construction and maintenance.

Provisions of this act are especially important in construction of solar and hydro power stations as well as co-generations and refer to design, acquisition of project documentation, acquisition of building permit, construction, acquisition of the operating permit and later maintenance of the building.

4.10.9 Environment protection act

Environment protection act (Official Gazette RS, No.41/04, 17/06 - Official Gazette RS, No. 41/04, 20/06, 49/06 - ZMetD, 66/06 - Constitutional Court's Decision , 33/07 - ZPNačrt, 57/08 - ZFO-1A, 70/08, 108/09, 108/09 - ZPNačrt-A, 48/12, 57/12, 92/13, 56/15, 102/15) regulates protection of environment against the burdening as a prerequisite for sustainable development and in this framework it defines basic principles of environment protection, environment protection measures, monitoring of environment and information about the environment, economic and financial instruments of environment protection, public utilities in environment protection and other environment related issues.

Environment is that part of nature to which the influence of human operation reaches or could reach. Provisions of this act are important for an individual as well as for the company in their everyday lives, as conduct contrary to the laws of nature and principles of this act bring long-term consequences for the environment and with it for the quality of life of all subjects in the environment.

4.10.10 Excise duty

Excise duty on electricity was introduced by the law in 2004. Excise duty act has defined electricity as an excisable good. Basis for calculation of excise duty is produced quantity of electricity in the territory of Slovenia; quantity entered from the territory of EU members and imported quantity from countries which are not EU members.

Excise Duty Act was completely renovated in year 2016 (ZTro-1; UR RS 47/16). Key change in the field of electricity as excise goods brought the introduction of four excise duty rates. For first three categories (from 0 to 20 MWh/year; from 20 to 160 MWh/year and from 160 - 10,000 MWh/year) the law still sets a single rate of 3.05 €/MWh, while for the fourth excise duty category (over 10,000 MWh/year) a new lower rate was introduced, namely 1.8 €/MWh.

5.0

Management and quality systems

Companies in the Elektro Gorenjska group do not have a joint quality management system, as each company performs its own activity.

5.1 Integrated quality management system (iSVK) of Elektro Gorenjska Company

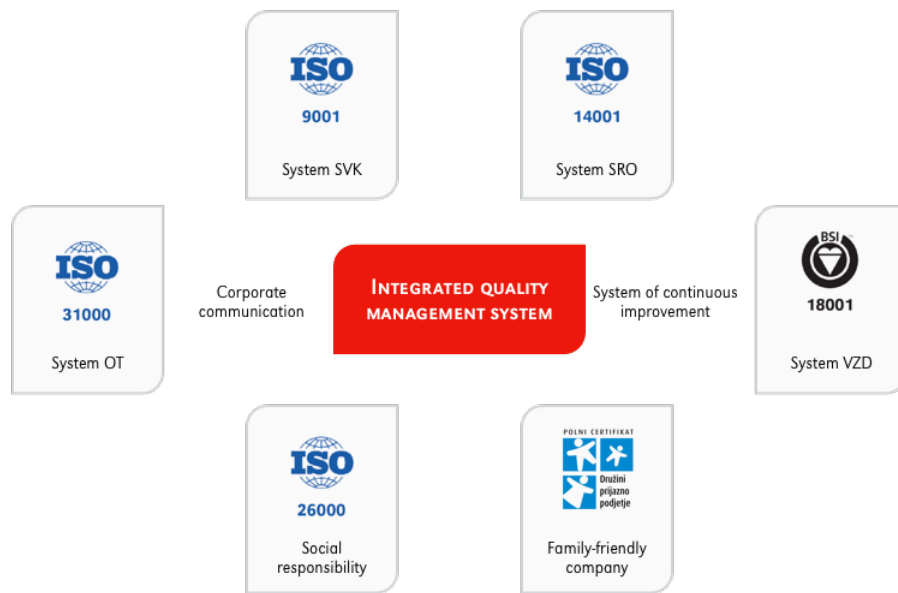
Since year 2011 the Company has an integrated quality management system that links all the activities of the following certified systems:

- quality management system according to the standard ISO 9001 (system SVK, standard ISO 9001),
- environmental management system (system SRO; standard ISO 14001) and
- health and safety at work management system (system VZD; standard BS OHSAS 18001)

and non-certification systems:

- requirements for risk management (system OT, standard ISO 31000),
- requirements for obtaining the Family friendly company certificate (certificate DPP) and
- requirements arising from social responsibility (standard ISO 26000).

Figure 14: Integrated quality management system within EG, d. d., Company



Integrated quality management system is controlled through established bodies within the company, which carefully supervise and control operations of their own field:

- Quality committee,
- Environmental management system council and
- Health and safety at work management system council.

Result of continuous activities in all fields of operation and management of the company was the **highest national award for business excellence** for year 2012, which confirms that Elektro Gorenjska Company meets the demanding criteria of the European model of excellence EFQM and that it operates balanced according to the fundamental principles of business excellence. Improvement processes in accordance with the European model of business excellence (EFQM) are carried out continuously and thus contribute to the ongoing growth on the path of excellence.



Systematic implementation of policies, strategies and objectives and organization plans are enabled by clear and mutually linked processes, which are optimized, managed, controlled and improved every day .

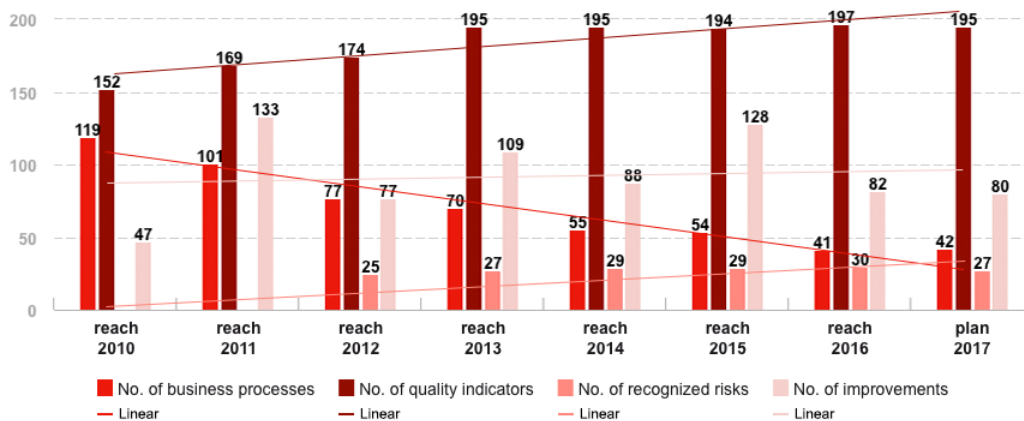
Result of constant activity in all areas of company's operation is checked by self-assessment of operation, through which the company monitors its progress and ensures that risks are reduced or managed.

In 2016 the company monitored and controlled its business with the help of 41 identified and interconnected business processes. Operation of business processes was monitored with the help of 197 established quality indicators, and 30 identified risks. In the systematic management of operation iSVK there were 82 improvements / measures given, which proves that the company delivers on the commitment to continuous improvement and to continuous growth.

In year 2016 the company successfully passed the verification of the appropriateness of introducing new requirements of standard ISO 9001:20015 and was also certified according to the new requirements. It also approached the establishment of a new system, namely the system of information security, which is based on meeting the requirements of standard ISO /IEC 27001:2013.

Growth trends of quality of individual business processes of Elektro Gorenjska Company are checked quarterly and are addressed at the Quality Committee, where activities of other management systems are also reported on.

Figure 15: Monitoring of iSVK operation within EG, d. d., Company



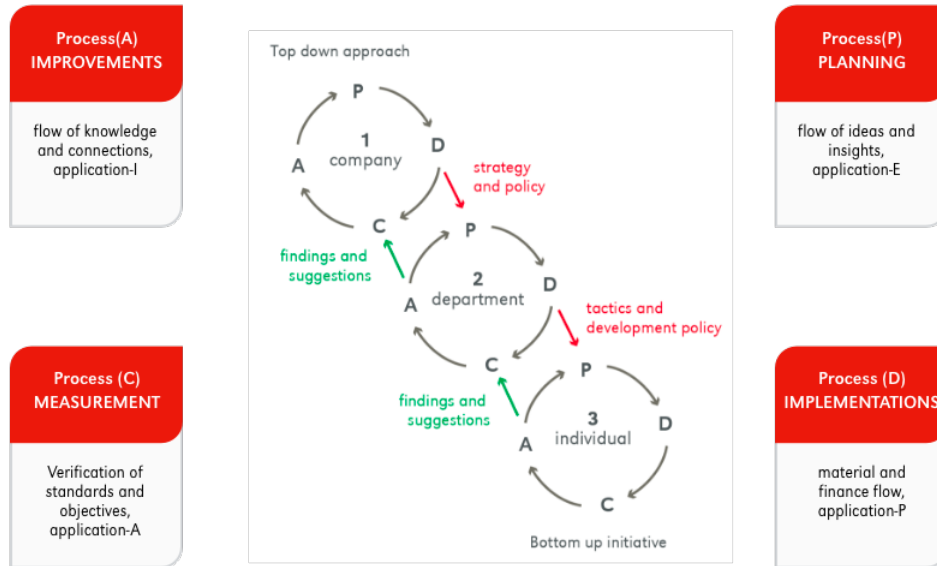
Trend in the number of business processes is in decline, as in year 2012 the company acceded to their optimization. Business processes connected to recognized risks, within which indicators were defined to warn us about the possibility of loss.

With the introduction of an integrated management system all activities are connected into an efficient system that leads to the realization of the vision, strategy and mission and enables management of risks and good business relationship with end customers, employees, shareholders and the local community.

In addition to the good operation of the systems the following also contributes to the efficient system: good communication, constant improvements, regular verification and monitoring of all systems within iSVK.

Improvements that are dictated to us on one side by the quality standards and provided by the Demingo approach (PDCA circle) are treated systematically.

Figure 16:PDCA circle (the Demingo approach in the dynamics of all processes)



In 2016 82 proposals – measures, improvements were given, contributing to both the system operation as well as enhancing the employees to look for improvements and additional measures that have a favourable affect on the good performance of the company and encourage further commitment of employees and environmental management.

Also in 2016 we successfully passed the external audit of certification management systems.

In the process of audit of certification management systems only one non-compliance has been established in the field of environmental management. A total of 26 recommendations were made (12 SVK, 6 SRO, 8 OSH), which we have systematically dealt with and, given their importance also taken into account.

With the quality policy, which is part of the business policy the management of the company commits to a long-term following of the vision and reaching the goals set in accordance with the strategic guidelines. With this it will invoke the corporate culture based on quality, risk management, protection of employees and the environment, investing in employees, ensuring their commitment and their satisfaction over the principles of the reconciliation of work and private life, and ultimately the commitment to continual improvement.

Quality policy is realized by the vision of reaching the following main long-term goals of integrated quality system (iSVK):

- Care for the proper business planning and sustainable development of the company.
- Quality is planned and realized by all employees. Each one is responsible for the quality of his/her own work and this way they contribute to the company's business appearance.
- Realizing quality operation is set towards reducing the operating costs and at the same time high professional level of activity implementation.
- Management enables conditions and methods to establish and maintain a quality system by providing its constant growth.
- Care for the continual improvement in all fields of the integrated quality management system (iSVK), (quality management system (SVK), risk management (OT), responsible environmental management (SRO), health and safety at work quality (VZD) as well as in the field of balancing business and private lives of employees (DPP)).
- Care for constant informing, training, and motivation of all employees, which results in higher employee loyalty and satisfaction.

Besides internal and external assessments we verify the coherence of iSVK operation also by:

- identifying the trends of quality of business processes through reports by executive directors of OU that are forwarded to the management consultant for quality;
- quarterly report by iSKV administrator on achieving the results on business processes quality and are expressed as SVK records for the period;
- reports that specify the situation in areas of identified risks;
- monitoring the key indicators, which are promptly discussed in case of major deviations;
- continuous monitoring of implementation and effectiveness of the processes, where process administrators regularly report to their superiors and results are discussed on meetings with the Heads of services in individual OU.

In the field of reconciling work with private life Elektro Gorenjska in year 2014 successfully fulfilled all requirements of the basic Family Friendly Company certificate, which was confirmed by the external auditor as well. Based on the findings of an external auditor and review of the plan of implementation of new measures for the second triennium, audit committee awarded us with the full Family Friendly Company certificate, in the framework of which the company is implementing 16 measures .



With the selected measures the company strives for general well-being of its employees.

5.2 Integrated quality management system of Gorenjske elektrarne Company

In Gorenjske elektrarne Company quality and excellence are reflected in business processes established according to standard ISO 9001:2008 and excellence model EFQM.

As the first company in the electric power system it has established an energy management system according to standard ISO 50001:2011, which improves energy efficiency. It currently manages the following two certified systems:



- quality management system according to requirements of **ISO 9001:2008, Q-1864 / 2014-12-16** and
- energy management system **ISO 50001:2011, En-014 / 2016-11-11**.

Focus of the energy management was the integration of standard EN 50001:2001 into the quality management system and thereby establishing a connection with the SIST EN 9001:2008 standard. Project Implementation of standard SIST EN ISO 50001:2011, was launched by the company in January 2016 and completed by September 2016 and in the certification process in October and November 2016. Commission for issuing the certificate at the certification organization SIQ, approved the issuance of the certificate En-014 / 2016-11-11 on November 11 2016.

Through ISO 50001:2011 standard, the company has developed and implemented an energy policy and set a framework and targets and action plans which take into account legal requirements and information about significant energy use. Further we are developing new services in the field of energy efficiency and energy management for use in our own and marketing projects. Therefore references represented by quality standards are important and are provided by the standard in the field of energy management.

Competence, training and awareness

Qualifications and competence of employees of the company are ensured through regular further training and education, with active participation in conferences and acquiring of experience in working on projects. It keeps records of the implemented internal training. It periodically organizes a Forum on renewable energy sources of the future, which informs, educates and markets knowledge and energy services. It is working with local communities and institutions in joint projects in the field of energy management.

Communication

Quality policy and energy management are continuously communicated to all employees. Company strives that the policy is understood and implemented at all levels of the company. It uses methods of internal communication (meetings, use of electronic document system EBA, shared disk of documents for ISO and

realization, annual management review, etc.), external communication is carried out via the website www.gek.si.

In the field of energy management important information about the achievements of the company are forwarded to the interested public. Methods for external communication are professional papers on achievements in the field of energy management at conferences, professional papers in professional journals and on the Company's website and on the websites of professional associations. Published information is also a reference for the marketing of energy services. As an energy company it is subject to a number of mandatory reporting to state and local authorities.

Audits and management reviews

Company carries out internal audits of quality management systems. Purpose of these audits is twofold, namely:

- Continuous checking whether the prescribed procedures are carried out in the manner as specified in the documents. This way we get feedback on any deviation in the earliest possible stage, to be able to act as quickly as possible.
- We are constantly looking for solutions for an even more efficient implementation of procedures. Audits give us useful information for further improvements.

Improving the system is oriented in accordance with the methodology of continuous improvement the PDCA cycle (Plan - Do - Check - Act). Proposals for improvements are considered through the process of recording, handling and performance improvements taking place in accordance with the Regulations on innovation and useful improvements.

Transition to the revised standards 2017 - 2019

In the period 2017 - 2019 the company will continue with its activities in the field of improvements, monitoring of legislation in terms of processes, in terms of energy management and in terms of environmental management and in accordance with the new requirements it will modify and supplement the existing processes, and introducing them into practice within the company.

In year 2018 it will establish the environmental management system according to the standard ISO 14001:2015, while in year 2019 the safety and health at work system according to the standard ISO 45001:2017.

5.3 Risk management in Elektro Gorenjska Company

We are also aware that only a comprehensive and systematic risk management can be effective. Risk management system is one part of our integrated quality management system. Management of risks is an important condition for successful and efficient reaching of the set long-term business goals.

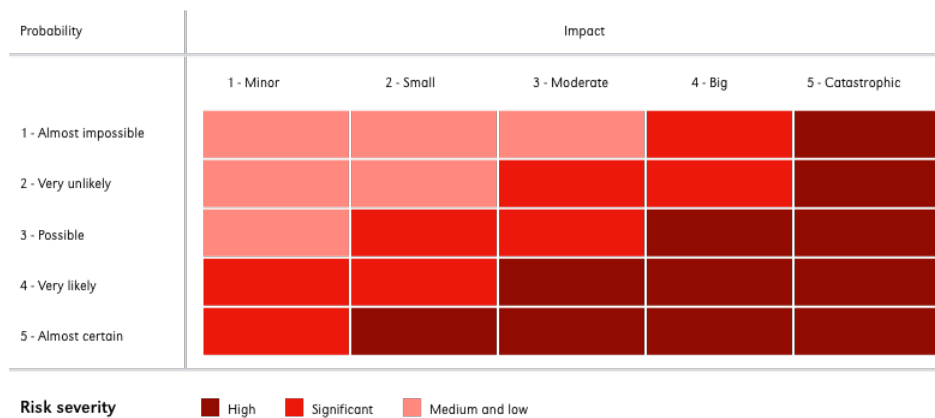
In year 2016 Elektro Gorenjska, d. d., Company acceded to the upgrade and update of the risk management system, so that the company in its operations faces various types of risks, which it successfully manages.

Basic document which lays down rules and procedures for the basic risk identification, assessment and monitoring in the process of identifying and managing risks is »Procedures titled Identifying and assessing the risks in Elektro Gorenjska, d. d.«.

Comprehensive risk management system is recognized as a process and is part of an integrated system of quality management. Process of risk management itself also includes the identification, assessment, planning and implementation of responses and information, communication and control of risks and their control measures, including reporting on the risks to which the company is or might be exposed in its operations.

Foundation of risk management is their identification and assessment of individual risk severity. Risk severity is assessed as a product of two dimensions of risk: probability of risk materialization and extent of the damage, which materialization of the risk could represent for the company.

Figure 17: Risk severity



Constant or regular controlling and systematical risk management are important conditions for successful and efficient reaching of the set long-term business goals.

Highest authority of the risk management in Elektro Gorenjska Company is Committee for Quality. Responsibilities and obligations of the Elektro Gorenjska quality committee include the following:

- definition of new risks identified, including key documents,
- definition of important sources necessary for risk management,
- systematic treatment and assessment of already identified risks,
- approval of measures for risk management.

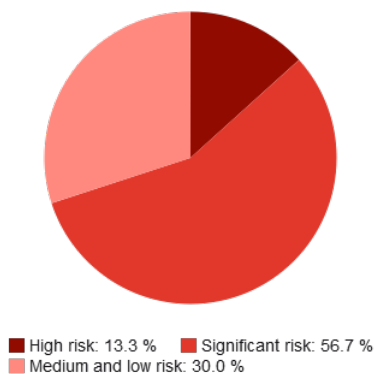
Primary task of the risk management system is a systematic analysis and evaluation of already identified risks, and continual identification of new ones.

In Elektro Gorenjska Company risks are separated according to their area of impact and depending on their severity.

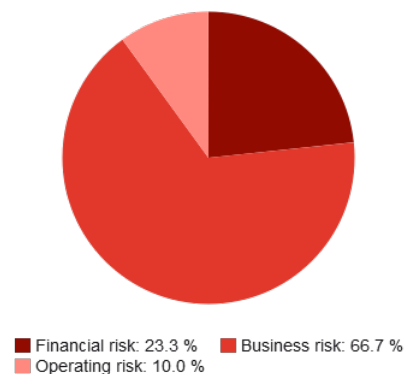
Table 9: Classification of identified risks in Elektro Gorenjska Company

Risks according to SEVERITY	Risks according to TYPE
<p>High risk</p> <ul style="list-style-type: none"> Change of contract with SODO Methodology of Energy Agency and other regulations in the field of electricity distribution Defects and general average Credit risk of customer payments <p>Significant risk</p> <ul style="list-style-type: none"> Non-functioning of internal controls and incidence of fraud Failure to comply with the voltage quality requirements Attacks on infrastructure, terrorism Compliance of implementation of Elektro Gorenjska Company strategy Adverse outcome of denationalization processes Operation of own information system Lack of investment assets Dispute with trade unions Risk of serious injury and death at work Risk of investments in subsidiaries Availability of own information system Public procurement implementation process Information system security and data loss Lack of adequate staff Reduction of network efficiency Inadequate payment of EG services by SODO Liquidity risk <p>Medium and low risk</p> <ul style="list-style-type: none"> Reduction of distributed electricity quantity Extraordinary expenses (penalties) Failure to comply with requirements for continuity of supply Implementation of technically or economically unjustified investments Non-compliance and unethical business Non-compliance with contractual obligations and quality of external contractors services Failure to achieve commercial quality requirements Influence on environment Interest rate risk 	<p>Financial risks</p> <ul style="list-style-type: none"> Credit risk of customer payments Extraordinary expenses (penalties) Interest rate risk Lack of investment assets Risk of investments in subsidiaries Inadequate payment of EG services by SODO Liquidity risk <p>Business risks</p> <ul style="list-style-type: none"> Change of contract with SODO Methodology of Energy Agency and other regulations in the field of electricity distribution Defects and general average Reduction of distributed electricity quantity Failure to comply with requirements for continuity of supply Implementation of technically or economically unjustified investments Non-compliance and unethical business Non-compliance with contractual obligations and quality of external contractors services Failure to achieve commercial quality requirements Influence on environment Failure to comply with the voltage quality requirements Attacks on infrastructure, terrorism Compliance of implementation of Elektro Gorenjska Company strategy Adverse outcome of denationalization processes Operation of own information system Dispute with trade unions Availability of own information system Information system security and data loss Lack of adequate staff Reduction of network efficiency <p>Operating risks</p> <ul style="list-style-type: none"> Non-functioning of internal controls and incidence of fraud Risk of serious injury and death at work Public procurement implementation process

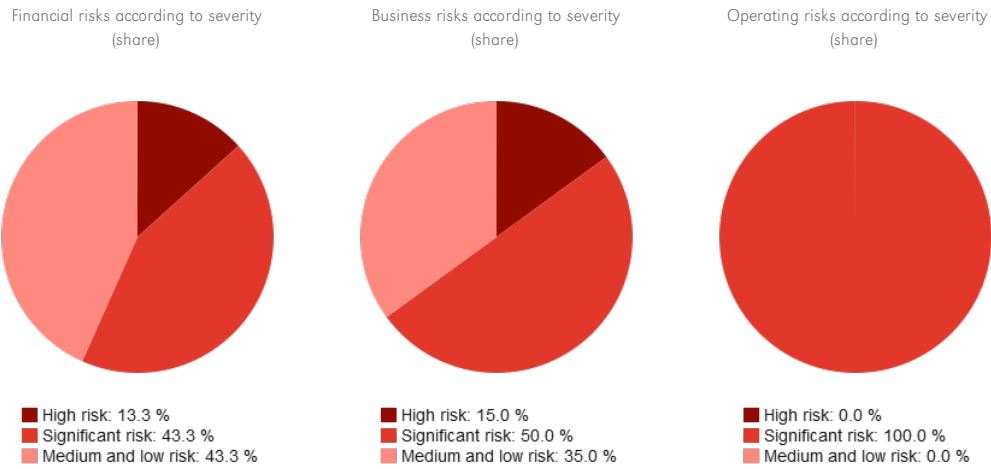
Recognized risks according to severity (share)



Recognized risks according to type (share)

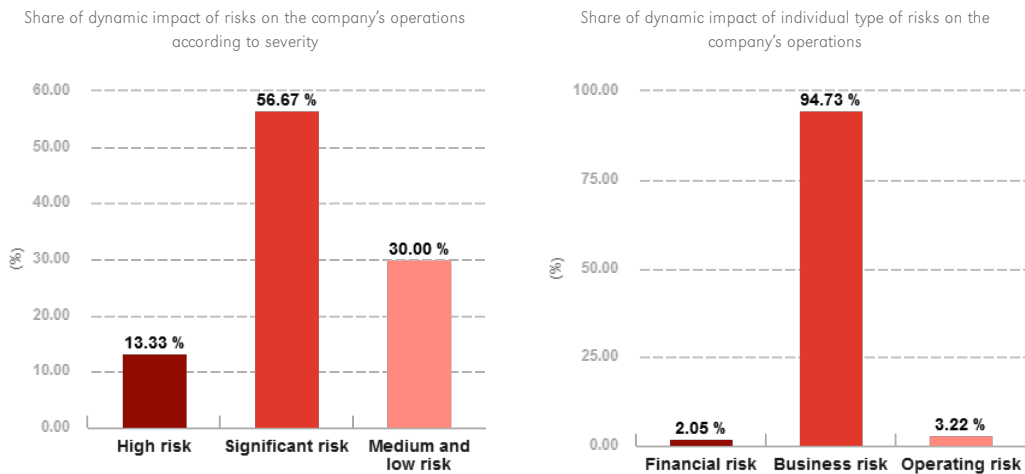


Risks recorded in the catalog of risks are constantly monitored and regularly evaluated according to the following key parameters: probability of occurrence and impact of the emergence of a risk before and after the implementation of measures to reduce exposure.

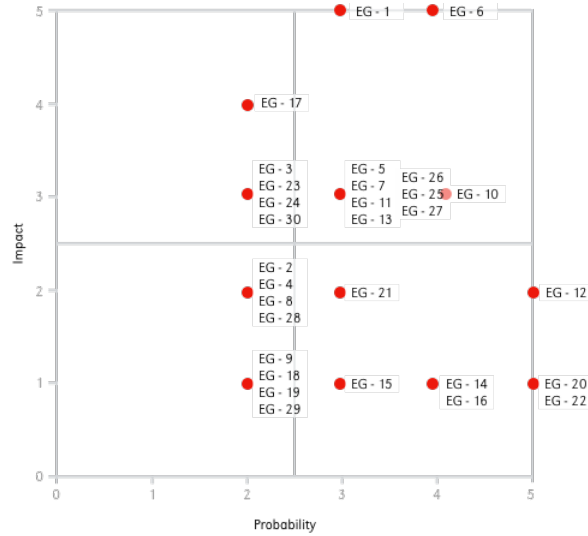


Occurrence of loss or damage resulting from materialization of risk can have negative impacts on the business success of the company.

Aim of Elektro Gorenjska Company is the identification and management of risks in order to gain the opportunities and benefits to increase our competitiveness. For this purpose we, in Elektro Gorenjska, decided to upgrade the risk management system, and in year 2015 we acceded to quantification of risks, which will be our basis for the upgrade of the risk management system with dynamic calculation of the value impact of risks on operation.



Distribution of Elektro Gorenjska d.d. risks after the last assessment in 2016



Legend:

- EG - 1 Methodology of Energy Agency and other regulations in the field of electricity distribution
- EG - 2 Reduction of distributed electricity quantity
- EG - 3 Reduction of network efficiency
- EG - 4 Extraordinary expenses (penalties)
- EG - 5 Inadequate payment of EG services by SODO
- EG - 6 Change of contract with SODO
- EG - 7 Failure to comply with the voltage quality requirements
- EG - 8 Failure to comply with requirements for continuity of supply
- EG - 9 Failure to achieve commercial quality requirements
- EG - 10 Defects and general average
- EG - 11 Attacks on infrastructure, terrorism
- EG - 12 Credit risk of customer payments
- EG - 13 Lack of investment assets
- EG - 14 Liquidity risk
- EG - 15 Interest rate risk
- EG - 16 Lack of adequate staff
- EG - 17 Adverse outcome of denationalization processes
- EG - 18 Non-compliance and unethical business
- EG - 19 Non-compliance with contractual obligations and quality of external contractors services
- EG - 20 Public procurement implementation process
- EG - 21 Risk of serious injury and death at work
- EG - 22 Information system security and data loss
- EG - 23 Operation of own information system
- EG - 24 Availability of own information system
- EG - 25 Compliance of implementation of Elektro Gorenjska Company strategy
- EG - 26 Non-functioning of internal controls and incidence of fraud
- EG - 27 Dispute with trade unions
- EG - 28 Implementation of technically or economically unjustified investments
- EG - 29 Influence on environment
- EG - 30 Risk of investments in subsidiaries

Legend of rates of impact:

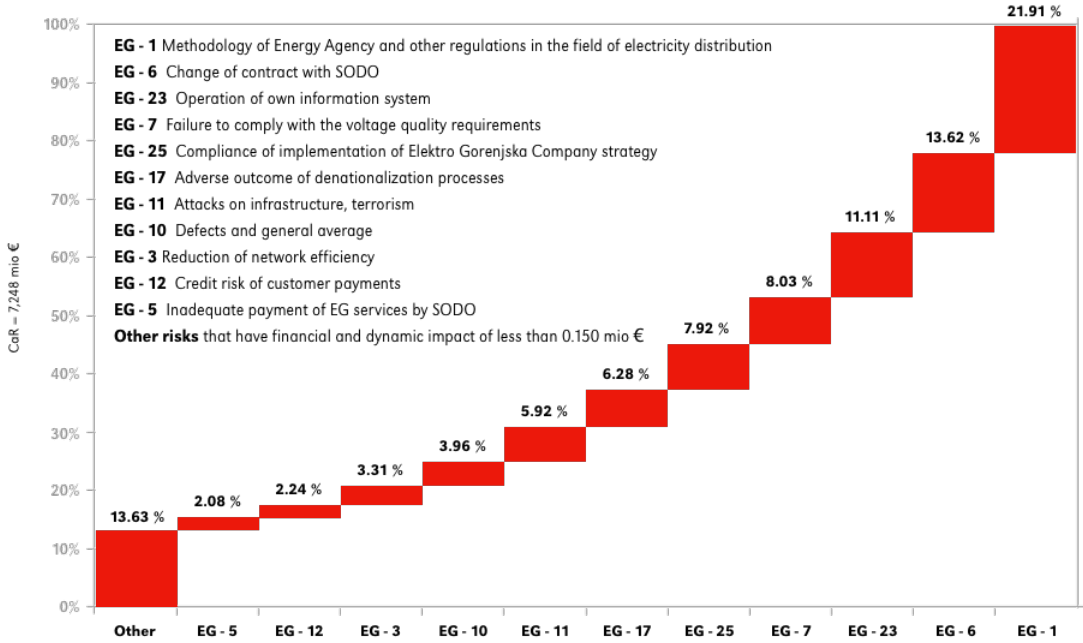
- 1 - Potential damage to operations is \leq 100.000 €
- 2 - Potential damage to operations is $>$ 100,000 € and \leq 0,5 mio €
- 3 - Potential damage to operations is $>$ 0,5 mio € and \leq 2 mio €
- 4 - Potential damage to operations is $>$ 2 mio € and \leq 10 mio €
- 5 - Potential damage to operations is $>$ 10 mio €

Legend of probability of occurrence rates:

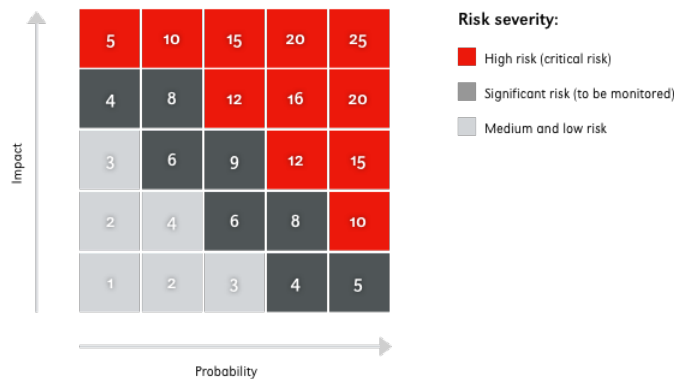
- 1 - Occurrence of adverse events is completely unique (Frequency: at least once over a period of 21 years.)
- 2 - Event is not particularly likely to occur, but cannot be excluded. (Frequency: at least once over a period of 10 years.)
- 3 - Event may occur only occasionally during a given period, it is more likely a random event. (Frequency: at least once over a period of 6 years.)
- 4 - Event can occur several times during a given period, it is a common threat. (Frequency: at least once over a period of 4 years.)
- 5 - Likely event occurs often with a constant threat. (Frequency: at least once over a period of 2 years.)

Dynamic impact of risks on the Company's operations according to their share of impact value (solvency aspect) is shown in the figure below.

Figure 18: Dynamic impact of risks on the Company's operations



According to the obtained assessment of the individual risk severity group which result from the likelihood and impact of risks, the risks are classified into three groups according to the size of the severity treatment and represent a broad direction about the level of the control system, control of risks and their management.



Risk management system in addition to the description and evaluation of risks also includes the management measures as well as criteria and indicators for risk control. With the establishment of systematic monitoring of risks and the involvement of all employees, the risk management process has become part of strategic management of the company.

Identified and assessed risks and recognized internal control system are the basis for the work of internal audit, which provides an estimate of the performance of risk management.

Risks at the system level are managed through compliance with the requirements of the integrated management system, which also includes: quality management system ISO 9001, environment protection system ISO 14001, and health and safety at work system OHSAS 18001.

Identified risks depending on their impact on the operations of the company are combined in three major groups: business risks, financial risks, and operating risks.

Also in 2016, large part of the identified risks in Elektro Gorenjska Company referred to business risks related to activity of implementing the contract on the lease of electricity infrastructure and implementation of services for SODO, d. o. o., as the company creates a vast majority of its revenues under this contract. Business risks thus relate to the ability of long-term and stable provision of adequate electricity infrastructure, human, material and financial resources for the implementation of the core activities of the company (electricity distribution), and are followed by the financial and operating risks.

Below the most important ones are briefly presented.

5.3.1 Business risks

- **Modification of the contracts with SODO**

Annexes to the Contract with SODO contain increasing number of provisions that are disadvantageous for EG. In the future the following might occur (1) transfer of ownership of EG assets to SODO, (2) transfer of task implementation to SODO, (3) transfer of cash flow to SODO. All of the above reduces the autonomy of EG operation. Severity: High risk.

Measures under implementation:

Finding the way to get the concession for implementation of SODO services to EG.

Intended measure:

Strengthening the technical arguments for granting the concession and the assistance of legal experts to determine the necessary steps for granting concessions.

- **Methodology of the Energy Agency and other regulations in the field of electricity distribution**

Revenues referring to infrastructure lease and payments for services rendered are determined by the Agency through Act determining the methodology for charging for the network charge and the criteria for establishing eligible costs for electricity networks and the Decision issued. In accordance with the Act there is a risk of lower income due to: (1) reduction in operational efficiency, (2) changes in legislation or regulations. Severity: significant risk

Measures under implementation:

(1) Adequate and effective planning and implementation and optimization of executive processes, limiting growth (reduction) of the cost of shared services, increasing positive business result of unregulated activities (regulated activities cost relief); (2) Active involvement in the process of drafting regulations, laws and implementing regulations through interest associations.

Intended measures:

(1) Limiting growth (reduction) of the cost of shared services; (2) Increasing the impact on altering the sectorial legislation (recognition of electricity distribution problems with the players of the legislative authorities).

- **Defects and general averages**

Due to weather conditions (1) defects and averages of different size may occur. Severity: high risk.

Measures under implementation:

(1) Appropriate planning, construction and operation of the network. Taking out insurance.

Intended measures:

(1) concentration of all communications which now take place directly between intervention contractors and network users into the appropriate IT call center within DCV .

- **Failure to achieve the requirements of the Energy Agency: commercial quality**

To achieve adequate commercial quality it is necessary to (1) employ the necessary qualified staff and (2) have a sufficient level of resources. Severity: medium and low.

Measures under implementation:

(1) In each plan of personnel foresee the needed development of staff for the next period (employment, scholarships, training); (2) Providing sufficient resources to carry out all necessary activities in the business plan of the company.

Intended measures:

(1) Personnel department introduces career plans for individuals and individual workplaces; (2) Introduce improvements in IT support processes (call center, CRM, integration of IT systems).

• **Non-accomplishment of the Development plan or necessary investments: voltage quality**

To achieve adequate voltage quality it is essential to carry out the necessary investments or follow the long-term Development plan. Deviations in terms of investments may occur due to: (1) lack of investment funds, as annual regulatory framework does not follow the Development plan; (2) late approval of long-term loans to finance investments by regulatory bodies; (3) increase of environmental restrictions that prolong, complicate or prevent the placement of electricity facilities in space; (4) disputes with the owners of the land, which complicates placement of electricity facilities in the space; (5) late approval of investments and provision of conditions for implementation, which is to the greatest extent impacted by the adoption of the annual business plan of EG; (6) possible non-fulfillment of contracts by external contractors and suppliers. Severity: significant risk.

Measures under implementation:

(1) Engagement of all available resources for the realization of the necessary investments in electricity infrastructure; (2 and 5) Quick preparation of business plan and immediate start of the credit approval process; (3 and 4) We cultivate good cooperation with local communities, and coordinate interventions in space with other actors (sewerage system, water distribution system...); (6) Implementing contracts include fuses: penalties for non-performance, possibility of terminating the contract, etc.

Intended measures:

(1) Efforts to change the methodology of the Energy Agency and the regulatory framework that will provide sufficient funds for the realization of Development plan, cost reduction of activities and projects which do not bring added value in terms of electricity infrastructure; (2 and 5) Prepare proposals for the elimination of administrative barriers in obtaining long-term assets, shortening of borrowing procedures; (3 and 4) Strive to change the rigid environmental legislation; (6) Introduce the evaluation of contractors and suppliers, lay down the criteria for evaluating and properly integrate them in the implementation of PP.

• **Reduction of the amount of distributed electricity**

Current operation threatens to reduce the amount of distributed electricity, which is declining due to: (1) economic crisis and / or (2) increasing its own production; Elektro Gorenjska in turn may have the loss of receipts from the interim operations in relation to SODO. Severity: significant risk.

Measures under implementation:

(1) Planning of electricity network by taking into account the impact of economic crises (REDOS); (2) Active involvement in the preparation of regulations governing the connection of generation sources to the distribution network (fair sharing of connection costs, the payment of hot reserve).

Intended measure:

(1) Efforts to change the methodology Energy Agency (network charge should be more dependent on power plant capacity and less of transmitted energy); (2) Change of SODO instructions for connecting the production sources.

Economic trends in the company Elektro Gorenjska are perceived mainly through the following three indicators: movement of electricity consumption, number of issued project conditions and consents issued for the connection. Height and continuity of the basic income of the company depend on the economic power, particularly in Gorenjska region business users.

• **Failure to achieve the maintenance plan: continuity of supply**

Deterioration of continuity indicators may occur due to: (1) lack of maintenance resources; (2) limited employment of qualified staff; (3) insufficient robustness of the network, which is achieved mainly through cabling; (4) insufficient automation of the network. Severity: medium and low risk.

Measures under implementation:

(1) Providing sufficient resources for implementation of all maintenance work in the company; (2) In each plan of personnel foresee the needed development of staff for the next period (employment, scholarships, training); (3) MV power lines and overhead LV network are built and renovated exclusively with ground cables.

Intended measures:

(1) Replacement of individual traditional maintenance methods with modern ones with aim of adequate quality at a lower total cost; (2) Personnel department to introduce career plans for individuals and workplaces; (3) Twinning of long radial lines in the event that it is economically viable and feasible; (4) Expand the automation on TP level.

- **Reduction of network efficiency**

Reduction in the efficiency of the network can occur mainly due to: (1) connection of instable generation sources (e.g. solar power plants), when network has high power and low energy and (2) stranded investments - EG carries out investments in accordance with development plans, due to collapse of the major client infrastructure remains unused, (3) inadequate dynamics of network development (priorities e.g. reinforcement of network). Severity: significant risk.

Measures under implementation:

(1) Connecting production sources with connections deep into the stable point of the network; (2) Close cooperation with municipalities and industry to ensure the highest quality basis for the network development planning; (3) Compliance with operational measurements of TP loads for the needs of network development.

Intended measures:

(1) Reinforcement of the network where increased connection of production sources is expected, DSM measures and forming of internal criteria for determining the production units connection points; (2) Long-term planning with advanced DMS functions of the distribution control center; (3) Upgrading the telemetric system of operating measurements.

5.3.2 Financial risks

These kinds of risks in the company are connected with the ability to create financial income, control financial expenses, maintain the value of financial assets, control financial liabilities and ensure competitive and long-term solvency. Main types of financial risks are:

- **Credit risk or counterparty credit risk**, which represents the possibility that receivables from customers and other business partners resulting from deferred payments will be paid late, only partially or not at all. In times of economic crisis all this is becoming increasingly important. In order to manage these risks we regularly monitor the outstanding debts of the company, limiting the exposure to individual customers, provide benefits in the event of prepayment, we charge interest on late payments, and use an appropriate system of recovery and securing of debt.

Likelihood of materialization of credit risk and extent of damage on the basis of the above factors is assessed as high, hence the severity of the risk is defined as high.

- **Risk of short-term insolvency or liquidity risk** stems from the possibility that the company at any given time will not have sufficient liquidity to meet its current obligations and to maintain normal operations. Liquidity risk is managed primarily with cash management at the level of the group, with careful planning of cash flows, establishment of adequate credit lines for short-term liquidity management and appropriate management of working capital. Severity: significant risk.

This includes the following activities:

- Supervision and coordination among all OU in the field of procurement of goods and services or conclusion of purchase contracts with respect to the expected available cash. This area includes also prioritization of purchases depending on available funds. This applies to all areas of action in the company.
- Monitoring the implementation of open orders or concluded procurement contracts in particular as regards to the date of completion, and the date and amount of the anticipated payment obligations.
- Control over the timeliness of payments of claims, especially with major clients. This includes the establishment of an information system on overdue receivables, and timely mutual information on outstanding receivables between OUs, so that the company takes proper and timely action (issuing timely reminder, court claims...).
- Constant monitoring of the stocks. At the level of company management decisions were adopted, defining the monitoring of stocks in good management. Company finally and fully realizes decisions in connection with the consignment of material and equipment of suppliers. Company further optimizes work processes (in the field of planning - purchasing material - implementation).
- Monitoring of trade receivables as late payments of customers as a result of the deterioration of financial discipline, requests for extension of payment terms and discounts, and higher costs for debt collection, reflect on the poor liquidity of the company. It is also important to shorten payment terms to customers. In times of economic difficulties this activity will not be marked. We believe that it is already the success if payment terms are retained in the current framework. In concluding commercial contracts with customers

of our services special attention is paid to further integration of the relevant payment insurances.

- Severity of liquidity risk is assessed as significant. Due to the established control mechanisms and the implementation of measures, especially cash management at the Group level, we believe that the probability of materialization of illiquidity is very unlikely, but the company is aware that illiquidity can lead to a lot of business damage.

- **Improper payment of EG services by SODO**

Improper payment of EG services by SODO may occur due to: (1) non-existent or inadequate price list of SODO services and (2) requirements for the provision of services which are not subject to a contract with SODO. Currently the price list of SODO services has not been formed, so there may be gaps between the scope of services covered by the contract with SODO and the actual volume of services performed by EG. Severity: Significant risk.

Measures under implementation:

Insisting on upgrading the contract with company SODO, d. o. o.

Intended measures:

(1) Preparation of a proposal of standard SODO services price list (calculations, standards); (2) in the Contract with SODO ensuring additional payment of services that are not stated in the contract, but are ordered by SODO.

- **Interest risk**, which represents the risk of adverse movements in interest rates. As the company has some of the loans raised at variable interest rate (EURIBOR), they are sensitive to interest rate movements. To manage the interest rate risk in year 2012 we protected the longer maturity loans with interest rate swap, which means we changed the variable interest rate into a fixed one. This financial instrument allows a more predictable planning outflows from interest and thus affects the more steady cash flow from financing activities. In years 2015 and 2016 we also implemented part of the borrowing with fixed interest rate. Currently the company has 44 % of loans with predictable cash flow repayment.

Severity of interest risk is assessed as small. Given the current economic situation, significant rise in interest rates is not expected, so that the impact of the risk is assessed as moderate.

5.3.3 Operating risks

They are risks related to design, implementation and control of business processes and activities in the company by providing appropriate functioning of the information systems, mainly computerized ones. Exposure to operating risks in the company is estimated as low as the following standards have been introduced: quality management system ISO 9001, environment protection system ISO 14001 and health and safety at work system OHSAS 18001.

Quality Management System ISO 9001 in addition to the formalization and standardization of business activities and the division of responsibilities for their implementation also provides regular checking of the implementation within external and internal audits. By obtaining the certificate of environmental management system ISO 14001, the company proved that we are aware of how important responsible attitude towards the environment is, and this means that we are eliminating the adverse effects on the environment. Indirectly, by complying with the provisions of the standard, potential risks to the environment reduce. Company already claims a new standard for information security ISO 27001, which will additionally reduce such risks.

In the framework of operating risks the company will continue to focus on the following:

- **Human resources risks**, which include the loss of key personnel, lack of qualified staff and ensuring competent staff, as well as the conduct of employees, which is not in accordance with regulations and internal acts of the company. Risk is managed by ensuring and encouraging continuous education, system of substitutes, training, internal communication, informing all employees, with annual interviews, by measuring the organizational climate and care for safe and healthy work through the system OHSAS 18001, as well as with other measures of internal control system. Risks associated with the conduct of employees, which could cause the company significant damage, are controlled by the company also by concluding contracts with insurance companies on liability insurance in the field of implementation of construction and designing works, and insurance of employees with voluntary collective accident insurance for workers. Company also acquired full Family Friendly Company certificate, which further contributes to improved quality and more efficient spending of work and family time.

Severity of human resources risks is considered significant. Probability of the materialization of this risk is assessed as certain. Departure of key personnel could result in moderate business damage.

- **Legislative (regulatory) risk** is one of the most important risks, since it includes non-market factors such as changes in and the vagueness of the rules which the company cannot control or has very limited impact on these factors. Company should ensure that business is conducted in accordance with them. Risk relates primarily to the reduction in economic benefits (additional costs or reduction in incumbent revenue) due to adaptation to the regulatory changes, but also due to potential inconsistencies in compliance with the rules (penalties).

Regulatory risk is very much present, as the legislation in the energy field is still changing and largely affects the operating results and financial position of the company. Legislative changes are affecting the company in a number of other areas: from general economic regulation, tax system (tax rate of corporation benefit, tax relief, write-downs of assets, VAT rates ...) to environmental protection. In addition to these risks it must also be considered that the Republic of Slovenia is 79.42 - percent shareholder of the company Elektro Gorenjska.

In general, the company tries to manage these risks through timely and appropriate involvement in the procedures for adopting new rules and changing the existing rules. Respecting the rules is controlled by an adequate system of internal control.

Likelihood of company operating outside the legal or regulatory frameworks is assessed as low due to the established system of internal controls. Because we believe that the materialization of this risk would create moderate business damage, the severity of the risk is assessed as medium and low.

- **Risks associated with the implementation of a computerized information system include** the risk of data loss, risk of unauthorized access to data, risk of correct and proper functioning of the system and applications, as planned and in accordance with the applicable regulations, and risk of the undisturbed functioning of the system.

Risk of data loss is assessed as low, because we have systems for archiving both within the company and the outsourcer. Against the risk of unauthorized access of data we are protected with a two-stage system of access checks.

Risk of the proper functioning of the system and applications, as planned and in accordance with the applicable regulations, is estimated as low, as we promptly review all legislative changes. Based on the findings of non-compliances we prepare requirements for the necessary changes in IT support.

Against the risk of disturbances and interruptions in the operation of the system we are protected by the system of ensuring continuous operation and with the backup location.

Since major disruptions in the operation of the information system may give rise to a large operating loss of the company, we estimate the severity of the risks associated with the operation of the computerized information system as high.

- **Risk of minimum stocks of material** means that during major defects or damage events there is a shortage of material for the repair of equipment. Risks are managed by maintaining the levels of emergency stock and by the conclusion of appropriate agreements, which oblige suppliers to the storage of certain materials in stock and therefore to the shortest delivery time.

Severity of this risk is assessed as low, taking into account the slight probability of materialization and moderate business damage, which could subsequently arise.

- **Uniform property insurance policy** in order to eliminate the various risks that could jeopardize the operation of the company and cause major damage. Therefore, the company has contracted property insurances with insurers.

- **Risks associated with disputes** relate primarily to the denationalization processes, individual labor disputes and other civil cases, where the involved party is company Elektro Gorenjska. In the event that the final completion of the procedures will not be resolved in favor of the company, there are financial implications. Company manages this risk so that the system of internal control as far as possible ensures compliance of its operations with the regulations and contracts. Where it considers appropriate and reasonable, the company makes use also of the services of external legal experts.

Company estimates that materialization of the risks associated with disputes is very likely. Since the loss of individual disputes reflect in high business damage, the severity of the risks associated with disputes is high.

- **Risk of serious injury and death at work**

For the company, there is a risk of serious injuries and deaths at work, which may be the result of incorrect procedures at work, negligence of employees and external influences. Likelihood of such an event is common. If the risk materializes, it would have a small financial impact on the operations.

This type of risk is managed by means of the Declaration on security with risk assessment, by meeting the requirements of the standard for safety and health at work of BS OHSAS 18001, trainings, medical examinations and checks of the personal protective equipment.

This field is controlled by the health and safety at work council, within the VZD system and in close collaboration with the Health and Safety at Work Service.

- **Risk of effects on the environment**

Company's operations may directly or indirectly affect the environment. To this end, we have identified environmental aspects which are overseen by the council for environmental management. Risks are managed through the monitoring and compliance with environmental legislation, compliance with the requirements of the standard for environmental management ISO 14001, trainings, and regular audits of operation.

5.4 Audit committee of the Supervisory Board, internal audit, and risk management

In Elektro Gorenjska Group we have established functions of internal audit and risk management.

- **Internal audit function** is managed by the internal auditor, who responds and reports to the Audit Committee of the Supervisory Board, while administratively it reports directly to the Chairman of the Management Board.
- **Risk management system** is managed by the risk management coordinator, who reports to the internal auditor, council of risk management for each area, and the Chairman of the Management Board. This area is coordinated and covered by Advisor to the Board for the quality, who is responsible for the operation of an integrated management system in the company.

Supervisory Board at its second regular session on October 3 2013 appointed Mr. Andrej Koprivec as a member of the Audit Committee from the ranks of the Supervisory Board of Elektro Gorenjska, who is also appointed the Chairman of the Audit Committee of the Supervisory Board of Elektro Gorenjska, and Mr. Elvis Duraković. From the ranks of qualified independent experts in accounting and auditing, which completed the training for becoming certified auditor, auditor, certified accountant, accountant, certified internal auditor, certified tax expert and the like, it appointed Mr. Andrej Baričič, PhD.

Internal audit in the company Elektro Gorenjska operates as an independent function since 2012. Basis for its operation is the Charter of internal audit, which has been confirmed by the Management Board and Supervisory Board of EG. In its work, it is committed to respecting the International Standards for the Professional Practice of Internal Auditing.

Aim of internal audit is to provide assurance on risk management of companies in the group, and to add value by advising on all levels with regard to risk management, protection of property and improvement of the efficiency and quality of operations.

Annual internal audit plan is prepared on the basis of a risk analysis of companies in the group EG. It is adopted by the Management Board and the Supervisory Board of the company. Internal audit reports on its work and the results to the management of EG currently and quarterly to the Audit Committee. Both the management and the audit committee are informed of all audits carried out, their results and the measures or improvements recommended.

In 2016 internal audit conducted nine audits. Special attention was focused on areas of procurement, network maintenance, investments, purchase of information solutions, implementation of market services, credit risk management, and risk management system in subsidiary Gorenjske elektrarne, d. o. o. In addition, it regularly monitored the implementation of recommendations.

Internal audit within individual audits assesses and reviews the adequacy and effectiveness of internal controls. Internal audit evaluates the internal control system in the company is established and appropriate, but there

are possibilities for its improvement, to what it refers with the issuance of recommendations.

As part of its work internal audit also focused on managing the risk of fraud and management of IT risks. On the basis of the reviews carried out it believes that the system of internal controls to prevent significant fraud is in place and functioning. It also considers that the IT risks are appropriately controlled.

After the balance sheet date the internal audit was subject to an independent external quality assessment, which confirmed that the internal audit operates fully in accordance with the International Standards for the Professional Practice of Internal Auditing.

5.5 Risk management in Gorenjske elektrarne Company

Company Gorenjske elektrarne is aware of the necessity of timely and prior recognition of all types of risks. On this basis, the company adopted the Rules for identification and assessment of risks in the company. Risk management is the process of identifying and assessing, managing and monitoring potential events that could have an adverse impact on the company. Risk management involves giving adequate guarantees with a purpose of achieving the objectives of the company.

To assess the impact of a risk in the company we use adjectives minor, small, moderate, big and catastrophic, while on the assessment financial and operational aspects of the business have their influence as well with rates also being financially quantified.

Cornerstone of final risk management is their identification and severity assessment, which the company estimates as a result of the likelihood of the materialization of the risk and impact on the company's performance and is presented graphically in the matrix below.

Figure 19: Risk evaluation

Probability	Impact				
	1 - Minor	2 - Small	3 - Moderate	4 - Big	5 - Catastrophic
1 - Almost impossible	Medium and low	Medium and low	Medium and low	Significant	High
2 - Very unlikely	Medium and low	Medium and low	Significant	Significant	High
3 - Possible	Medium and low	Significant	Significant	High	High
4 - Very likely	Significant	Significant	High	High	High
5 - Almost certain	Significant	High	High	High	High

Risk severity ■ High ■ Significant ■ Medium and low

Company Gorenjske elektrarne has recognized the following risks:

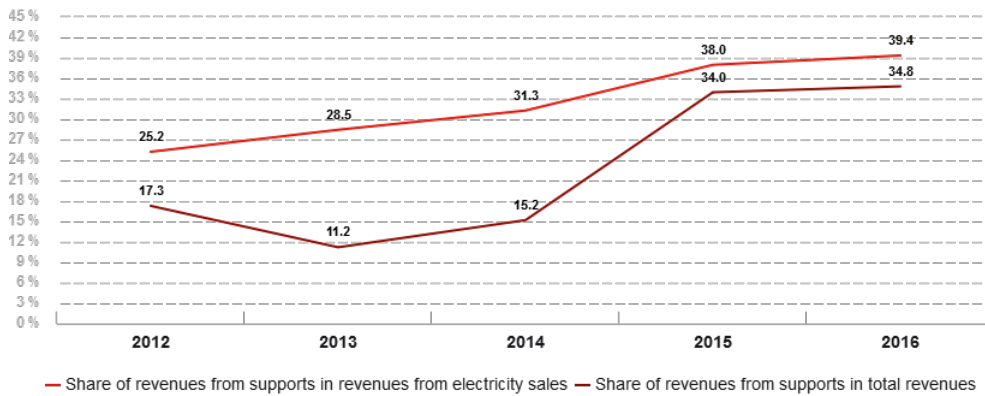
- **Reduction of supports to electricity produced from RES**

As one of the most important risks Gorenjske elektrarne Company recognized the risk of reduction in supports to electricity produced from renewable sources. With this we evaluate as a risk the possibility that the government could in any way, with a decree or implementing regulation, decrease the already approved supports under the individual power plant or source of production. Risk is regarded as significant, but unfortunately the risk falls in the segment to which the company directly has no influence.

In calculating the potential impact on the basis of data for 2016 it was calculated that the general reduction in the supports of 20 % would mean for the company at the annual level by 271,777 € less revenue, while for the general reduction of 40 % already by 543,533 € of revenue less.

Graph below shows the share of revenues from supports in total revenues and in revenues from electricity sales. Due to the falling prices of electricity the graphis showing an upward trend in the share of revenue from supports in (total) revenue.

Figure 20: Share of supports in revenue



Indirectly, company can avoid the risk or alleviate its materialization by other revenue sources, particularly in the field, where revenues are not bound to the supports to the electricity produced.

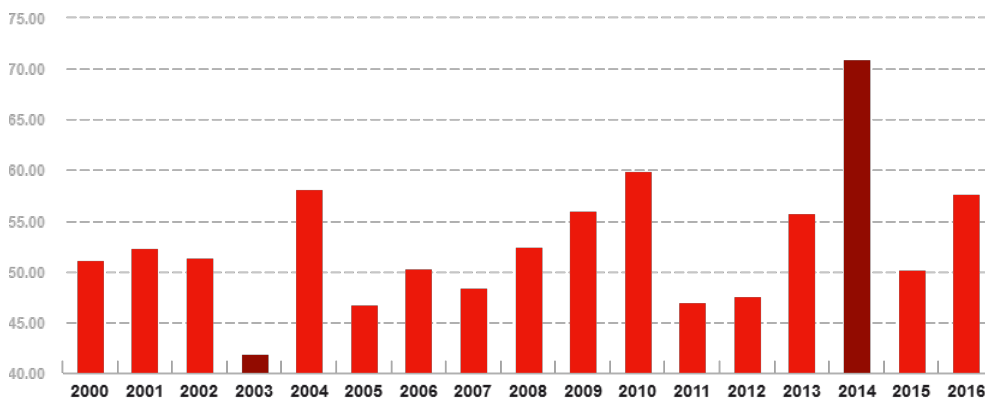
• Risk of weather conditions

Company Gorenjske elektrarne is in its core business, the production of electricity, decisively linked to weather conditions. Around 90 % of the value of production comes from hydro power plants, where rainfall impacts the production decisively. Rainfall can swing +/- 25 % around the long-term average. Operation of solar power plants depends on exposure to the sun, while operation of SPTe on mild or cold winter.

Risks are associated also with changes in climatic conditions due to global warming. Gorenjske elektrarne Company feels climate change in the form of increasing extremes, namely as longer and stronger droughts and more extreme weather events with increased rainfall. Both cases mean lower production of hydroelectric power, as in the case of water disasters they have to stop the operation of HE for security reasons.

Risk of weather conditions is rated as significant, while the maximum annual impact is annually valued at 517,052 €. It is calculated on the basis of the maximum deviations in production from the last 10-year average in each segment (HE, MFE, CHP), taking into account the selling price of electricity in 2016 (also separated according to sources of production).

Figure 21: Production in GWh from year 2000 to 2016



After year 2000, since the installed capacity of hydropower facilities owned by Gorenjske elektrarne has been comparable, a key role in the achievement of net electricity production have had the hydrological conditions. Lowest production was in the observed period of 2003 and amounted to 41,933 MWh, the highest in 2014, when it amounted to 70,938 MWh.

Company manages this risk primarily with a development policy, which is intensely focused on the diversification of income sources and the introduction of new types of revenue from energy efficiency projects, bringing the proportion of electricity sold in revenues from sale to a long-term decline.

At the operational level, the company managed the risk of fluctuations in production with optimum maintenance of production facilities, thereby minimizing the extent of downtime.

- **Market risk – reduction in the selling price of electricity**

In the sale of the electricity produced the Gorenjske elektrarne Company is exposed to fluctuations in the market price of electricity. These are strongly correlated with economic developments, it can also significantly be affected by the external shocks like for example loss of major production units in the European context or the change of the policy of generating electricity for example abandonment of nuclear power plants. Price of electricity on the Slovenian market is correlated with the prices that are set up in the framework of European stock exchanges. In the observed period, a trend towards falling prices has been observed, as a result of low electricity prices on European stock markets, which are subsequently reflected in the market price of electricity in Slovenia. Decrease in the average price of electricity from hydropower plants could further be affected also by the abolition of subsidies for hydroelectric power facilities older than 15 years. Any change in the selling price of 1 €/MWh is reflected in the financial result in the amount of +/- 50,000 € on the annual indicative quantity produced of 50,000 MWh.

Figure 22: Share of revenues from sales of electricity to wholesaler and end customers in the total revenues of the company and in revenues from sales of electricity

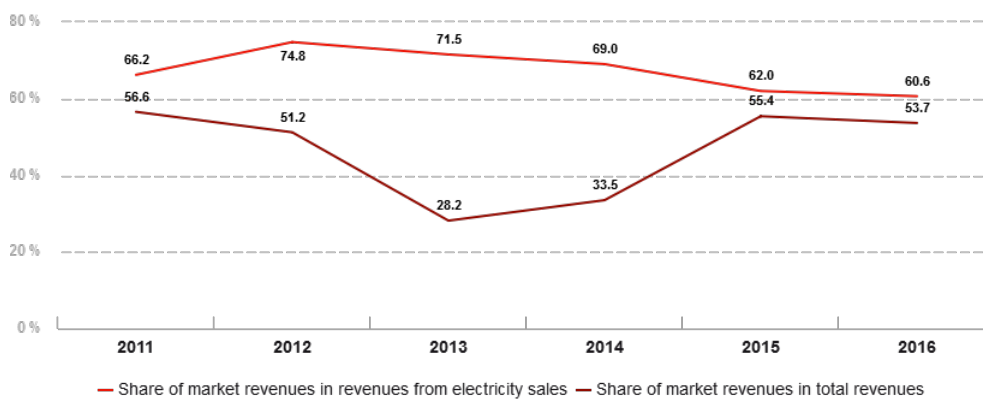


Figure shows that the proportion of revenues from sales of electricity to end customers or wholesaler in total revenues and revenues from electricity sales is declining, which is consistent with the overall global reduction of market prices for electricity.

Company Gorenjske elektrarne controls the market risk or risk of fluctuations in selling prices of electricity primarily by current monitoring of all factors that affect the price and the consequent anticipation of price movements. Based on the analysis, the company decides to sell electricity for future periods, when it considers that the price is favorable. Customer is chosen based on the best deals.

Risk of fluctuations in the price of electricity the company to a significant extent also manages by the sale of production of individual power plants in the system of operating supports. In which the Center for RES/CHP for each kWh produced pays the difference in the form of support. Company through operational support system creates approx. 30 % of all revenues from electricity sales.

- **Availability of production capacities**

As the concessionaire company Gorenjske elektrarne must regularly maintain facilities of water infrastructure and water land in its ownership or possession, in accordance with the Program of operation and maintenance of water infrastructure facilities, adopted by the competent ministry.

Failure of production in combination with machinery breakdown as a result averages, unplanned downtime and poor maintenance can mean for the company significant revenue shortfalls. Company, therefore, with implementation of regular monitoring, enhanced monitoring in the event of adverse weather conditions as well as planned and ongoing maintenance ensures that damage to production units do not occur. In the event that the loss of production however occurs the company by engaging employees and own funds or using external contractors provides for the early elimination of defects. All production facilities also have fire and machinery breakdown insurance, the largest 5 solar power plants are insured even for the event of loss of income arising from machinery breakdown or fire.

- **Impact of Qes requirements**

EAF is an economical minimal flow, which is necessary to ensure in the capture of water for the production of electricity from hydropower plants. Possible change, especially in the direction of raising the Qes as a result of the introduction of water licenses (ex concession) would mean for the company the reduction of production capacities in hydrological part and consequently reduction of revenues in this segment.

For a long time there are ongoing activities in Gorenjske elektrarne Company to manage this risk (cooperation with other producers of electricity from hydropower and dialogue with the Ministry of Infrastructure and the Ministry of Environment and Spatial Planning). At this time, Regulation governing this area has not yet been adopted.

On the other side there is a measure to limit the materialization of the risk in the direction of diversification of revenues, thus creating new types of revenue, currently mainly in the field of energy efficiency.

- **Credit risk**

Gorenjske elektrarne Company in line with the policy of identifying and managing risks recognized also credit risk or customer default risk. Company approached the risk by sending out reminders, individual arranging for payments, compensation, issuance of accounts of default interest and in extreme cases, by recovery process of personal and legal enforcement.

Company is exposed to additional credit risk in the process of investing in the purchase of receivables through an online platform "Borza terjatev". Risk is controlled in such a way that all the purchased receivables are insured by the seller, either by blocking the current account or the instrument of insurance called enforcement draft.

In recent years the company has no overdue receivables. Most claims are paid on the dates or within 30 days after the due date.

- **Foreign exchange risk**

Foreign exchange risk is a financial risk, which means threat of financial loss due to changes in the value of one currency against another.

Company was not exposed to foreign exchange risks in year 2016.

- **Interest risk**

Interest risk means the possibility of loss due to adverse movements in interest rates on the market. Company Gorenjske elektrarne has a received loan tied to 6m EURIBOR, which is contractually changed semi-annually, namely on May 17 and November 17 each year. Company manages interest rate risk arising from financial liabilities, which are linked to interest rate EURIBOR, through interest rate swaps. Interest rate swaps are expected to successfully hedge against cash flow risk. In this way, the company is fully hedged against interest rate risk.

- **Risk of insolvency**

Risk of insolvency is a risk that the company will face difficulties in raising funds to meet its financial obligations. Company did not face this risk in year 2016.

- **IT risk**

In the context of IT risk in the company Gorenjske elektrarne we recognized the following risks: risk of data security against external attacks and abuse, risk of unreliable business support because of the unreliability of the system, risk of the quality of services of the IT services outsourcer.

Company treats the risk as a significant risk, while its impact due to the specificity can not be evaluated. Company manages this risk through a binding contract with the provider of information services.

- **Wastefulness of purchases and inadequacy of investments**

In the context of risk of inefficiency of purchases we recognize in particular the risk of purchases of materials and services at prices that deviate significantly from the average market prices. With the investments we recognize the risk of performance of economically unjustified investments. Risk is treated as a high risk, while the impact itself can not be evaluated.

Company manages this risk with the procedure of acquiring a larger number of bids for the same material or services and procedural guidance, and measures within the entire system of procurement of material, services and investments. To this end, the Company adopted two regulations, namely Regulations on procurement of materials and services as well as a Regulation for risk management of purchases of higher value. Operating in accordance with the mentioned Rules are regularly monitored and reviewed.

- **Risks related to health and safety at work**

In this segment we recognize in particular the risk of serious injuries and deaths in / at work. These risks are assessed as high risk, with the potential impact on an annual basis being estimated at 100.000 €.

Company manages this risk with the mandatory use of protective equipment, training, and implementation of other regulatory requirements in the field of occupational safety and health. Also, all employees are collectively insured against accidents.

- **Environmental risks**

In the operation of hydroelectric power plants environmental risks occur in terms of impact of power plants on the environment, groundwater and fish in the waters. Biggest risks are in the installation of mechanical and electrical devices, containing oil and with the eventual release could lead to the pollution of environment and water.

In operation of cogenerations there are risks due to oil in devices.

With solar power plants it is necessary to predict the environmental risks associated with the decommissioning of photovoltaic modules at the end of their life or if there are unexpected injuries and defects in materials.

In the company's warehouse, we have various oils, which pose a threat to the environment if they were to flow into the groundwater and in the river.

Company manages environmental risks using high standards in the construction of production facilities and the placement of production facilities in the space. In the water threatening zones we install synthetic organic esters MIDEL instead of conventional oils. We work with fishing families who provide us with the knowledge and help to take care of high ecological standards. During the maintenance of hydro mechanical devices we order fishermen to harvest fish. Potential interventions in the riverbed are confronted professionally on the basis of prepared solutions in the expert report of water supply company with minimal environmental impact.

Company has taken out insurance to reduce risks in casen despite all the prevention measures, environmental damage would nevertheless occur.

- **Internal audit**

Internal Audit service was created in the parent company Elektro Gorenjska and also covers subsidiary Gorenjska power.

Internal auditor in planning its work takes into account both risks in the parent company, as in the subsidiary. Annual and medium-term plans of the internal audit, addressed by the Audit Committee and adopted by the Supervisory Board in Elektro Gorenjska, include transactions of both companies.

6.0

Business analysis of the group

6.1 Production of electricity

In year 2016 Gorenjske elektrarne company generated electricity in 14 own hydro power stations (hereafter HE), and one rented power station (which the company has rented from the founder Elektro Gorenjska, d. d., since its establishment), and in one power station the company manages.

Electricity was generated also by 17 solar power stations (hereafter FE) in the area of Gorenjska region and one solar power station in Maribor (which is rented) and one solar power station in Nova Gorica. Besides that the company produced heat and electricity in seven high-efficient cogenerations. Revenue from electricity sale amounted to 3,805,663 €, which is by 2.8 % more than in year 2015, when the company with the sale of electricity generated revenues in the amount of 3,702,068 €.

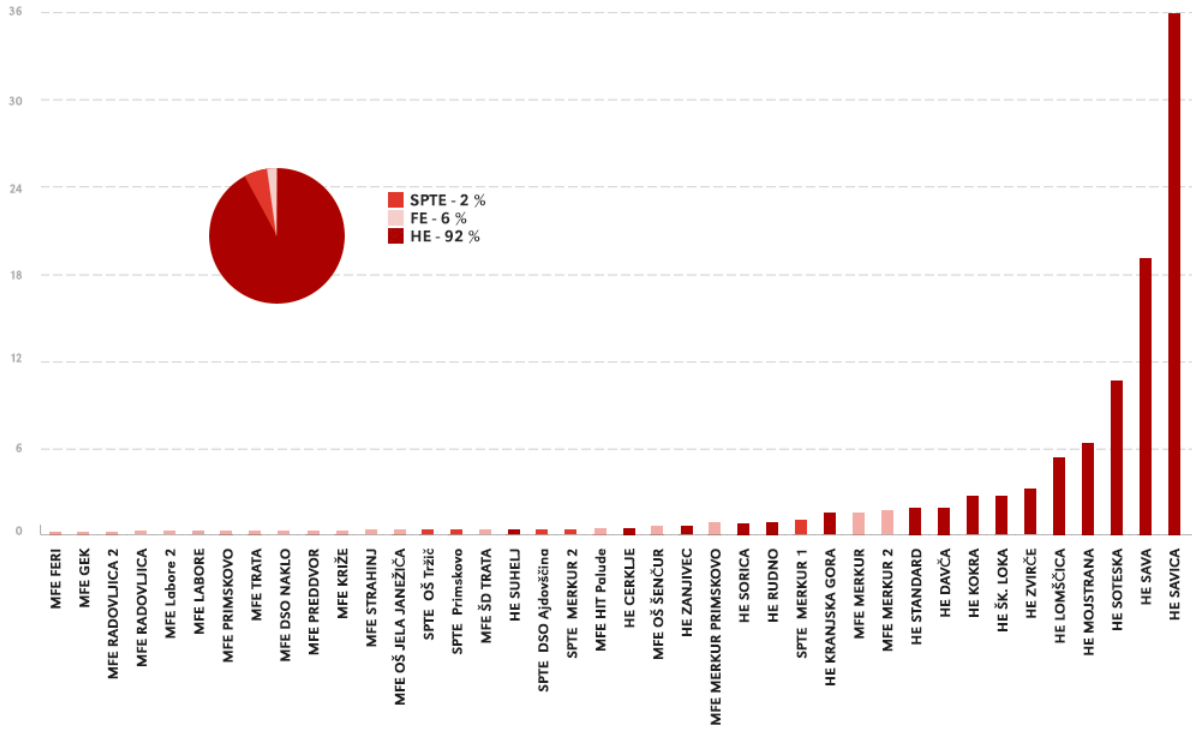
Of renewable energy sources the company uses water sources (hydro power stations) as well as solar energy (solar power stations).

Operation of hydro power stations to a great extent depends on natural resources - current rainfall, which impacts the quantity of water in water courses, as hydro power stations do not have their own accumulations in general (with the exception of Lomščica HE). This means that in the event of heavier rainfall high-rise waters spill over devices, so hydro power stations are not able to utilize high waters for electricity production. In dry seasons water courses dry out heavily, which again means limited and in extreme cases even disabled electricity production. Quantity of produced electricity in hydro power stations does not only depend on the quantity of water, but also on difference in altitude of the water drop, geographical location of individual power station and other characteristics influencing electricity production in hydro power plants. Advantage of utilization of hydro power is mainly the use of renewable energy sources, while its weakness is fluctuation of production according to water availability. Construction of hydro power plants also represents a great intervention in the environment and brings high investment costs. Besides that in the regime of water course utilization we need to consider also requirements set by fishermen and environmentalists.

In solar power plants it is mainly about direct transformation of solar radiation into electricity. Main advantages of solar energy utilization are: environment friendliness, possibility of supply in remote areas, production and consumption at the same location. Main problem of solar energy utilization occurs due to different solar radiation.

Co-generation of electricity and heat is simultaneous production of electricity and heat. It represents the method of converting the fuel energy into electricity, where main part of heat, which occurs as side product during this conversion, is put to good use. Different technologies enable the use of various fuels with different efficiencies. What all technologies have in common is the total more efficient process of converting the energy for the good use of the heat, which is otherwise present in traditional thermal power plants. Advantage of acquiring electricity in this way is mainly in efficient conversion of fuel energy into useful heat and electricity. Mentioned ways also reduce the dependence on the existing ways of acquisition of electrical energy.

Figure 23: Share of individual power stations in total amount of electricity produced in year 2016



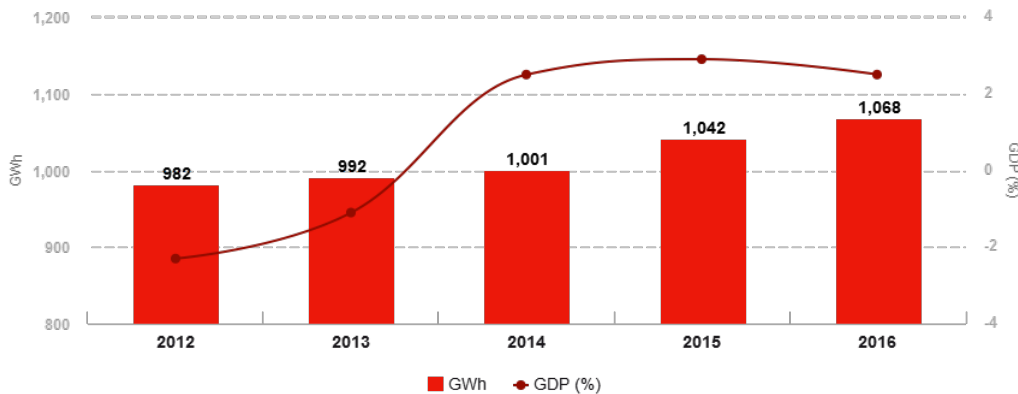
6.2 Quantities of distributed electricity (Contract with SODO)

In year 2016 there were 1,068,347 MWh of distributed electricity through the network of Elektro Gorenjska Company or 2.5 % more than in year 2015 (1,042,193 MWh).

In year 2016 household customers within the network of Elektro Gorenjska Company were distributed 334,300 MWh of electricity, which is by 1.7 % more than in year 2015 (328,787 MWh). Business customers within the company's network were distributed 734,047 MWh of electricity, which is by 2.9 % more than in year 2015 (713,405 MWh).

We believe that the reason for somewhat larger quantities of distributed electricity in year 2016 is further improvement of economic situation compared to year 2015 and thus higher productivity of primarily business customers.

Figure 24: Changes in distributed quantities of electricity and GDP from year 2012 to year 2016



6.3 Quality of electricity supply (Contract with SODO)

Users of electricity expect the electricity to be available when they need it (reliability/continuity of supplies) and that all devices operate safely and satisfactory (power quality). In addition every day new customers appear as well as increasing number of electricity producers, which are connecting to the distribution network or wish to change the conditions of their connection. Number of services are needed, which have to be performed in an expected time and way foreseen by the legislation. Quality of electricity supply thus includes:

- continuity,
- power quality and
- commercial quality or quality of services offered by the company to network users.

Continuity

Continuity has been followed in accordance with the legislation. Analysis has shown that in year 2016 the indicators are within the prescribed limits.

Table 10: Unannounced long-term interruptions according to type of network in year 2016

	Proper				Foreign				Force Majeure				Total			
	SAIFI [inter./ cust.]	SAIDI [min/ cust.]	CAIFI inter./ cust.]	CAIDI [min/ inter.]	SAIFI [inter./ cust.]	SAIDI [min/ cust.]	CAIFI [inter./ cust.]	CAIDI [min/ inter.]	SAIFI [inter./ cust.]	SAIDI [min/ cust.]	CAIFI [inter./ cust.]	CAIDI [min/ inter.]	SAIFI [inter./ cust.]	SAIDI [min/ cust.]	CAIFI [inter./ cust.]	CAIDI [min/ inter.]
Urban	0.226	4.583	0.643	20.275	0.017	0.363	0.175	21.301	0.118	2.126	1.026	17.990	0.361	7.072	0.993	19.576
Mixed	0.078	1.717	0.223	21.939	0.013	0.158	0.134	12.107	0.015	0.087	0.134	5.633	0.107	1.963	0.491	18.376
Rural	0.310	8.935	0.880	28.869	0.094	2.962	0.966	31.496	0.109	6.584	0.946	60.374	0.513	18.482	2.812	36.054
Total	0.614	15.235	1.746	24.821	0.124	3.484	1.275	28.054	0.243	8.798	2.106	36.250	0.981	27.516	5.127	28.058

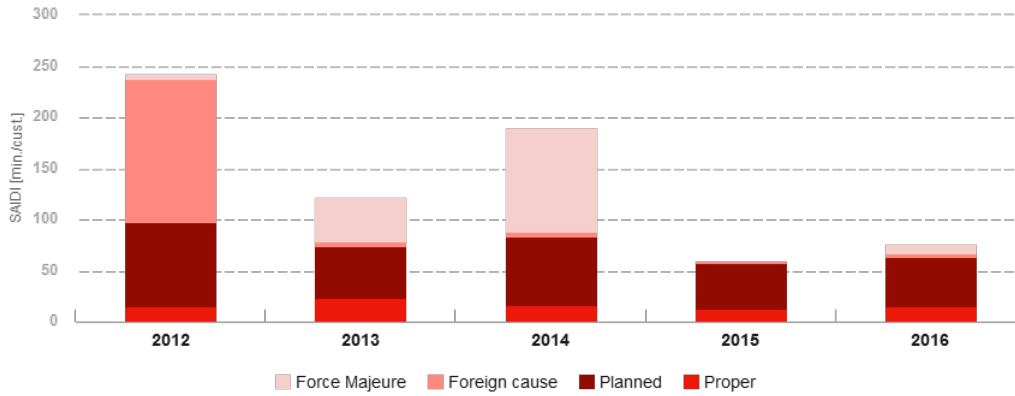
Table 11: Announced long-term interruptions in year 2016

	SAIFI [inter./cust.]	SAIDI [min/cust.]	CAIFI [inter./cust.]	CAIDI [min/inter.]
Total urban	0.086	9.436	0.324	109.779
Total mixed	0.028	3.190	0.105	114.351
Total rural	0.251	35.916	0.946	143.079
Total	0.365	48.542	1.376	133.038

Table 12: Momentary interruptions in year 2016

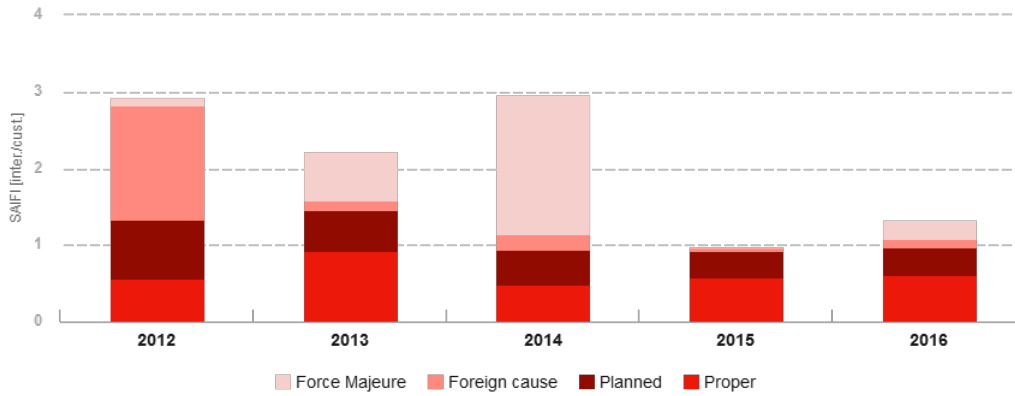
	Rural	Urban	Total 2016
MAIFI	2.9	1.9	4.7
MAIFle	1.9	1.2	3.1

Figure 25: SAIDI - Average time of duration of all unannounced long-term interruptions



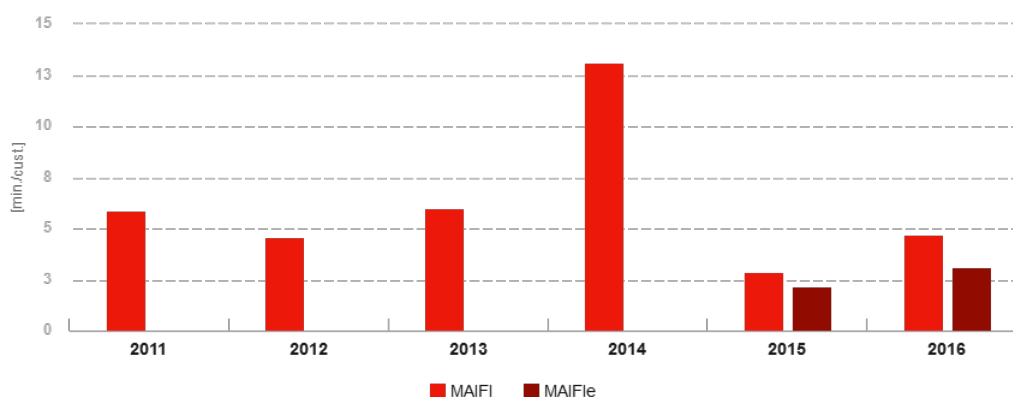
	2012	2013	2014	2015	2016
Proper	15.33	23.58	16.6	13.27	15.24
Planned	82.3	50.9	67.07	44.28	48.54
Foreign cause	139.78	4.68	4.74	2.03	3.48
Force Majeure	6.38	42.85	102.02	0.29	8.8

Figure 26: SAIFI - Average number of all unannounced long-term interruptions



	2012	2013	2014	2015	2016
Proper	0.56	0.93	0.49	0.58	0.61
Planned	0.77	0.53	0.45	0.34	0.36
Foreign cause	1.49	0.12	0.2	0.06	0.12
Force Majeure	0.12	0.64	1.82	0.01	0.24

Figure 27: MAIFI and MAIFle - average number of all momentary interruptions



	2011	2012	2013	2014	2015	2016
MAIFI	5.9	4.6	6	13.1	2.9	4.7
MAIFle	0	0	0	0	2.2	3.1

We find that situation in the field of power quality has not changed substantially compared to year 2015. Cause for inconsistent voltage conditions is mainly the flicker, which is transmitted from transmission 110 kV network and spreads to lower voltage levels. In year 2016 other parameters were throughout the measurement in accordance with the requirements of SIST EN 50160 standard. During the year we received fifteen official complaints on the condition of voltage quality on the low-voltage level, of which seven proved to be justified. We try to eliminate inconsistencies as quickly as possible and within statutory deadlines.

We estimate that voltage quality status in the area of Elektro Gorenjska is good and that with the construction of communication and measuring infrastructure on the LV level we would even further improve the process of establishing and eliminating the inadequate voltage conditions.

Table 13: Consistency of power quality parameters with the SIST EN 50160 standard on high voltage level for year 2016

Facilities	Number of weeks under control	Deviation Uef	Harmonica	Flicker	Imbalance	Signal voltages	Frequency	Drops	Increases	Consistency KEE	
										No. of inconsistent weeks	
RTP Jesenice 110 kV	51	0	0	49	0	0	0	65	21	2	49
RTP Radovljica 110 kV	51	0	0	48	0	0	0	156	10	3	48
RTP Tržič 110 kV	51	0	0	48	0	0	0	69	35	3	48
RTP Primskovo 110 kV	51	0	0	47	0	0	0	71	25	4	47
RTP Zlato polje 110 kV	51	0	0	49	0	0	0	72	26	2	49
RTP Labore - DV Okroglo 110 kV	51	0	0	45	0	0	0	70	26	6	45
RTP Škofja Loka 110 kV - Okroglo	51	0	0	10	0	0	0	76	25	41	10
RTP Škofja Loka - DV Kleče 110 kV	51	0	0	10	0	0	0	74	30	41	10

Commercial quality

In most commercial quality parameters for year 2016 we established that average achieved values of indicators were essentially better than the limits of minimum quality standards. In parameter Average time to issue consent for connection the reason for lower share of services above the limit value (15 %) was the fact that data according to the General Administrative Procedure Act (ZUP) refer to summary and declaratory proceedings together. ZUP defines that in summary proceedings permissible time of issue of the order is 30 days, while in declaratory proceedings, where oral hearing is implemented as well, it is 60 days.

With parameter Average time taken to answer written questions, complaints or requests of users, the share of services over the threshold (6 %) in most cases refers to the complaints of account data associated with the identification of the correct operation of the meter. In these cases it is necessary, before replying to the complaint, for the measurement service to properly check the meter, which may take longer than 8 working days.

With parameter Average time needed to eliminate the defect counter share of implemented services above the threshold (9 %) refers to defects we discovered on our own, without receiving the complaint from the user.

We received no compensation claims in year 2016.

6.4 Investments

In year 2016 Elektro Gorenjska Group invested 18,823,540 € (year 2015: 18,342,130 €). Major investments are presented below.

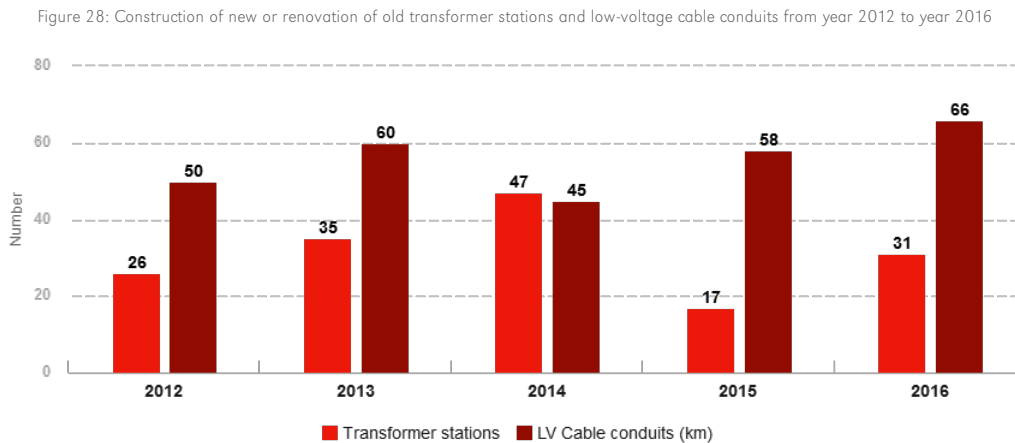
Within investments in high-voltage network which amounted to 1,555,436 €, the major ones are:

- 110 kV DV RTP Jesenice – RTP Kranjska Gora: We continued with activities for reconstruction on the basis of the regulation on maintenance in the public interest. In year 2016 we implemented the installation of 19 new pylons in the area from Podkuže to Belce. In winter time we regulated easements and obtaining consensuses. At the end of the summer there was a physical implementation, and all works have been completed during the months of September and October.
- RTP 110/20 kV Železniki: We implemented the processing of 20 kV switchyard. In spring months the call for replacement of equipment was published. In summer months building renovation was carried out (windows, installations, painting) and preparation of facility, while in autumn months supply and installation of 20 kV cells and associated secondary equipment was carried out. Facility was put into service at the end of the year.
- RP 20 kV Trata: After obtaining a building permit at the beginning of the year we immediately approached to the implementation of the calls for implementation of construction works and supply and installation of 20 kV primary and secondary equipment of the new RP. Facility itself was built and handed over to further use in September. In the month of October 20 kV cells were supplied as well. With good organization of all participants at the end of the year the facility was ready for internal technical review and test operation.

Value of investments in medium and low-voltage network in year 2016 amounted to 10,736,122 €.

- We carried on with certain transformations on the MV network for remediation of the critical parts of the network and providing better network robustness. As a priority we invested in the reconstruction of 20 kV lines with cabling. Most of the funds were earmarked for cabling of the 20 kV network in the valley of Hrastrnica, construction of replacement cable conduits in the areas of Brnik, Dolenja vas, Babni vrt and Bela and completion of 20 kV cable loop from Križe pri Tržiču to Golnik and from the village of Savica to RTP Bohinj. This eliminated some of the most critical points on 20 kV network, where outages often occurred due to wind and also ice.
- On the low voltage facilities greater realization was carried out in particular in the field of arranging the cabling of LV network in parts where we have over the years carried out construction work together with municipalities and thus created a backup cable ducts for future needs. We have also continued with such practices in municipalities that were still building their communal infrastructure with their own or EU funds.
- In addition to cable ducts we have earmarked funds on low-voltage network also for transformations of measuring points in accordance with the typing within AMI project, with which we are simultaneously arranging also measuring points in individual facilities and putting them on the same denominator.
- There were 11 renovated and 20 newly built transformer stations.
- There were approximately 66 km of renovated and newly built low-voltage network in a predominantly cable design.
- Instead of the reconstructing the power lines we reconstructed them by newly built medium-voltage cable conduits in total length of about 68 km.

The following figure shows figures about the construction of new or renovation of old transformer stations and low-voltage cable conduits from year 2012 to year 2016.



Among other investments (4,025,161 €) the following were significant:

- telecommunications and protection (initiating a transition to a new radio system for voice communications),
- measuring devices (AMI project – replacement of 13,044 measuring points),
- business and technical equipment,
- replacement and renovation of DCV,
- implementation of CIM integration platform,
- rehabilitation of the dam and inlet channel and automation of HPP Sava,
- complete renovation of the control system of HPP Lomščica,
- replacement of drivers in HPP Cerklje,
- energy information system Biotechnical Center Naklo,
- replacement of lighting in Perutnina Ptuj, mesna industrija Zalog Ljubljana,
- development of application for targeted monitoring of GE production.

6.5 Maintenance of energy facilities

Elektro Gorenjska implements all tasks of the distribution network system operator in its geographical area. Among these tasks maintenance of electricity infrastructure is of special significance. We implement these tasks successfully mainly due to optimum organization and competences of employees, who are closely connected to everyday developments on the field. Knowing the local environment, local situation and organizing and deciding on all aspects of maintenance are the key to quality electricity supply today and in the future too.

In year 2016 mainly **preventive maintenance** on the infrastructure was performed with the aim of reducing the likelihood of a failure of facility's component part or system, which is achieved with appropriate interventions executed according to the criteria, which are determined in advance.

Preventive maintenance included inspection of electric power devices, execution of clearings in power lines and low-voltage overhead lines corridors, revision of transformer stations, switches, transformers, protection devices, maintenance of machinery and equipment in all hydropower plants, appropriate measurements on solar power plants and cogenerations and execution of control measurements and testing of protection devices functioning. In the field of preventive maintenance we have been trial introducing new diagnostic methods of establishing the energy equipment status and as a result adjustment and suitable planning of maintenance and investment interventions on equipment.

As in 2015 also in the 2016 we continued to actively perform audits of transformer stations with the method of work under tension. Following charts show the share of contribution on the value of the indicators or simulation of the value thereof in the case, it would be necessary to carry out the work without power.

Figure 29: SAIFI – Average number of announced interruptions per customer in years

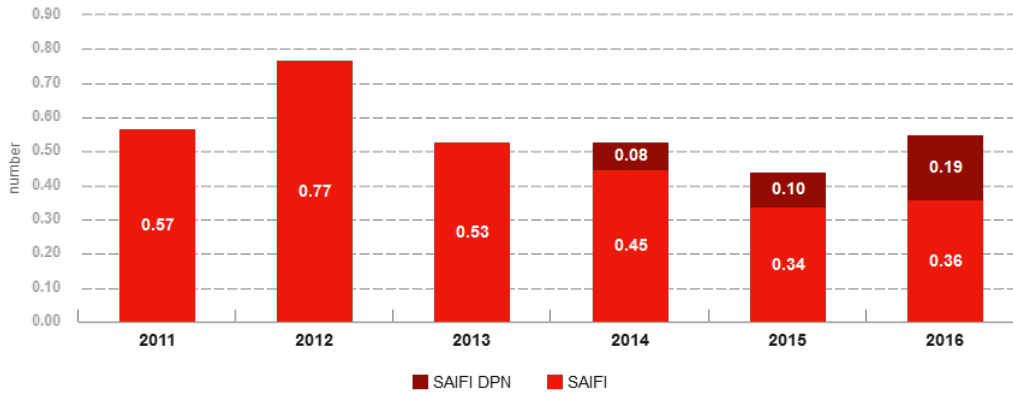
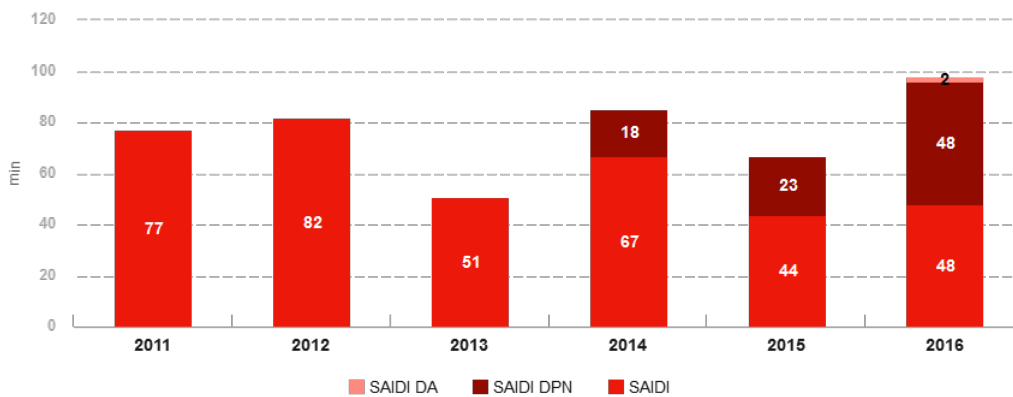


Figure 30: SAIDI - Average time of duration of announced interruptions per customer in years

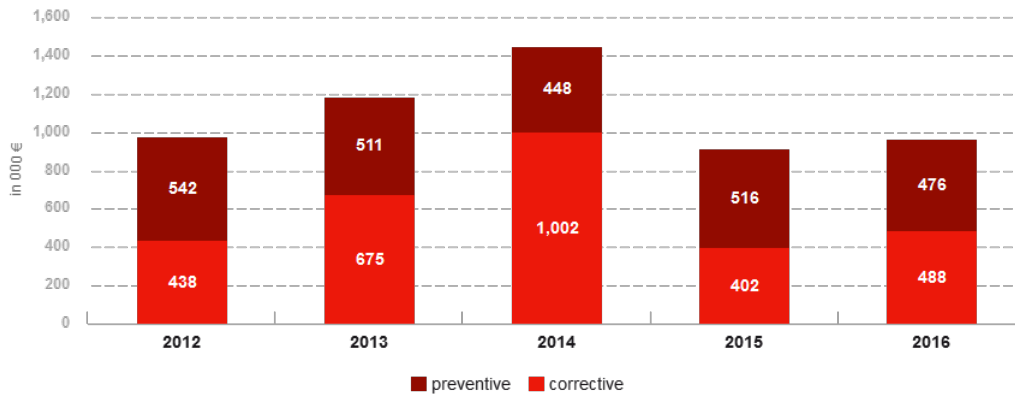


Each year as part of routine maintenance we carry out approximately 300-350 audits transformer stations. As in the past few years, also in 2017, we plan to continue the implementation of audits in transformer stations with DPN method (work under voltage).

Field of **curative maintenance** in year 2016 represented another kind of maintenance, which is unpredictable in terms of time and it can only be roughly estimated based on the past events. Reasons for failures were various, from weather conditions, failure of equipment to cause of damage by a third party. Problems were also caused by local storms and heavier downpours in summer months. Larger and widespread failures were not recorded in year 2016.

We also need to stress the influence of modern technological devices and solutions, which technically ensure fulfillment of strict criteria of reliability of electricity supply and have an indirect effect also on reduction of maintenance costs. They undoubtedly include modern high and medium-voltage equipment, capturing data systems and distribution network remote control (RCC – remote control centers), automation of medium voltage network by remote control switches, systems of power quality registration, telecommunication systems, modern software and similar.

Figure 31: Changes in maintenance costs from year 2012 to year 2016



6.6 Development and design

In the field of research and development of distribution network provision there is a development service organized in Elektro Gorenjska Company. This way the company ensures systematic use of knowledge acquired with research and also practical experience. Work scope provides necessary knowledge for the needs of development of new technologic solutions, systems, and processes of electricity distribution and other services, which the company is obliged to provide in accordance with its mission.

By preparing modern development plans the development service directs the investments in new devices and provides for suitable renovations of the existing devices, mainly by introducing new and modern technologies.

Tasks are performed in the following fields:

- planning the consumption and production of electricity (making of development plans according to EA, data processing for studies, conference papers, justifications and users, cooperation in preparing and processing of BTP and making of consumption and production prognoses),
- development of Elektro Gorenjska network (cooperation in studies, planning, and processing of HV, MV, and LV networks, solutions for larger customers, network formation, studies' reviews and proposals of new ones, cooperation in preparing the conditions for connection to the network and counseling),
- introduction of new technologies and typing (following and introducing new technologies and typing, preparing project works and cooperating in creation of concepts and plans).

In Elektro Gorenjska Group business processes are implemented in accordance with the valid legislation, which prescribes the company to use modern technologies as well. For this purpose the group together with education institutions and companies with research departments in the field of electricity distribution technologies in accordance with the annual investment program introduces also new progressive products. Introduction of new technologies is conditional on the progress in the field of development, current demands of the company, and possibilities within the framework of annual investment programs.

For the purposes of certain investments from the 2016 investment plan of Elektro Gorenjska, different expert studies, preliminary studies, concepts, and different project documentation in the mentioned development fields have been made in cooperation with the education institutions. Investments, which foresaw acquisition of mentioned development documents, are for the most part technologically more demanding and are expected to cover the following investment fields:

- field of 110 kV distribution lines,
- field of 110 kV transformer stations,
- field of 20 kV distribution networks (20 kV DV and cable network),
- field of TP 20/0.4 kV (transformation station of 20 kV network),
- field of LV distribution network,
- field of telecommunications and control systems.

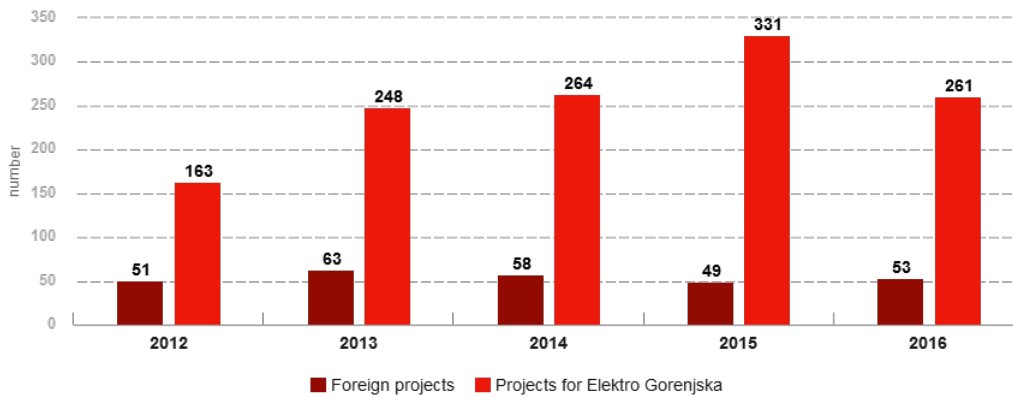
In year 2016 development studies preparation in the following fields were taking place:

- general information model – CIM,
- REDOS 2040: development of electricity distribution network of Slovenia.

In 2016, in accordance with the schedule, we finished the EU research project Increase. Basic objectives of the project INCREASE accounted for modern solutions to increase the integration of dispersed sources in distribution networks.

In the EU development research project Story Elektro Gorenjska Company is responsible for the implementation of two demonstration examples of the use of larger storage of electricity, which will verify the required functionality.

Figure 32: Information on the number of project documentation made from year 2012 to 2016



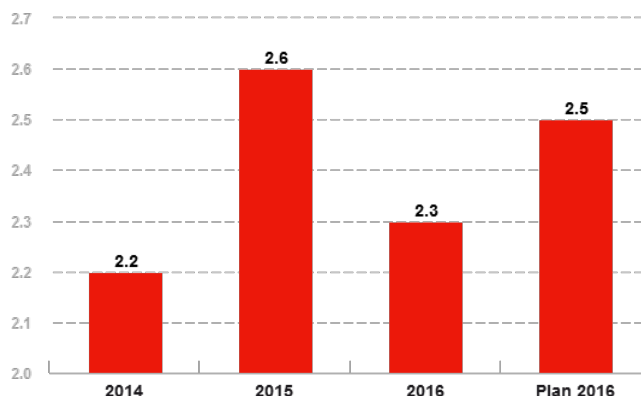
6.7 Financial performance criteria of the group

6.7.1 Significant indicators

In 2015 there was a change in the composition of the Group. Subsidiary Elektro Gorenjska Prodaja, which was 100 % owned by Elektro Gorenjska Company, was merged with ECE Company. Elektro Gorenjska Company has a 25.6744 % stake in ECE Company. In 2014, the company Elektro Gorenjska Prodaja was considered in the financial statements using the full consolidation method, while investment in ECE has since 2015 been taken into account using the equity method. In 2016 there were no changes in Group structure.

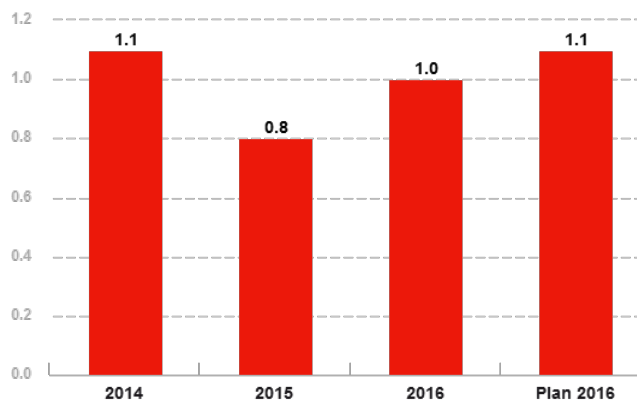
	2014	2015	2016	Plan 2016
credit worthiness net debt (long. + sh.-t. financial liabilities – cash in bank) / EBITDA	2.2	2.6	2.3	2.5
current ratio short-term assets / short-term liabilities	1.1	0.8	1.0	1.1

Safe level of indebtedness of the Group is monitored by the indicator, which expresses the ratio of NET FINANCIAL DEBT / EBITDA. As at December 31 2016 this amounted to 2.3, or 0.3 percentage points less than at the end of 2015. Degree of unacceptable indebtedness represents the value of the indicator that would exceed the value of 3.5. This commitment is used by some of the banks in the existing credit agreements.



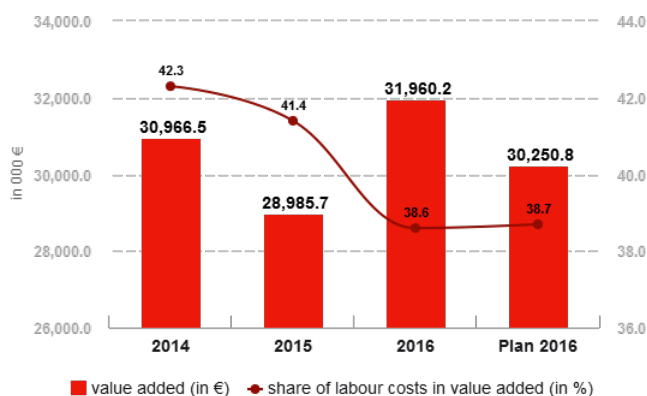
Current ratio shows the solvency. In comparison with 2015 it is by 0.2 percentage points higher. Recommended value of the current ratio is equal to 1. Main activity of the Group is the provision of services for SODO and transmitting electricity infrastructure in the lease, under which we have provided the major part of regular monthly inflows, so we believe that the value of the indicator below 1 is still adequate and would not pose problems to the group in terms of its liquidity.

Value of the indicator is largely influenced by short-term financial obligations, which represent the short-term part of long-term loans (amounts, which in accordance with the depreciation plans of loans mature throughout the next year and are smoothly and without delays settled from a positive operating cash flow), which are hired to provide constant investment in electricity infrastructure and from which, according to the regulation an appropriate yield is recognized as well.



	2014	2015	2016	Plan 2016
level of revenue profitability (in %) pre-tax profit / revenues	6.9	18.7	19.1	19.3
value added (in €) operating revenues-costs of goods, material, services-other operating expenses	30,966,504	28,985,733	31,960,162	30,250,818
share of labour costs in value added (in %) labour costs/value added	42.3	41.4	38.6	38.7

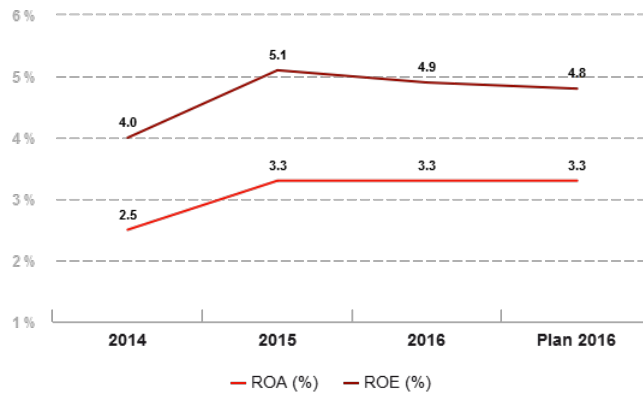
Profit ratios tell us that the group generated profits of 19.1 € to 100 € of achieved revenue, which was 0.4 € of profit more than in 2015. Value added was in the group Elektro Gorenjska in relation to 2015 higher by 10.3 % as a result of higher operating income and lower costs of materials and services. There was also a positive decrease in the share of labor costs in value added.



	2014	2015	2016	Plan 2016
EBITDA (in €) operating revenues - operating expenses + depreciation and f.a. write-offs + revaluation expenses	17,857,116	16,999,162	19,611,128	18,530,154
EBIT (in €) operating revenues - operating expenses	7,373,175	6,644,739	8,601,106	8,164,441
Pre-tax profit (in €) entire revenues - entire expenses	6,199,803	8,098,063	8,150,446	7,970,366
Net profit (in €) entire revenues - entire expenses - corporate income tax	5,477,406	7,239,406	7,194,476	7,109,908
ROA (%) net profit after taxes / average assets	2.5	3.3	3.3	3.3
ROE (%) net profit after taxes / average capital	4.0	5.1	4.9	4.8

EBITDA as a proxy cash flow was in 2016 by 2.6 million € higher than in 2015. EBIT as a result of the operations is by 2.0 million € higher than in 2015. Profit before taxes was by 0.05 million € higher than in 2015. Higher profit before tax, EBIT and EBITDA in 2016 were mainly due to lower costs of goods, materials and services as well as due to higher operating revenues.

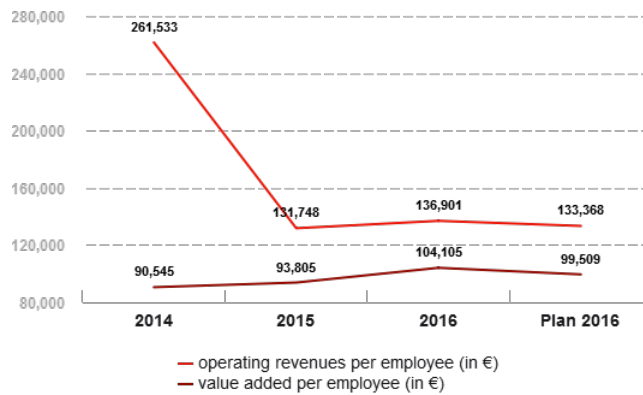
Values of the indicators ROA and ROE is relatively low, but in regards of the industry, and regulation, in which the group operates, they are above average. It is a fact that the values of the indicator ROA adversely affect constant investments. At the same time it must be emphasized that only with constant investments we are able to pursue one of the tasks of the mission namely to provide quality and reliable electricity distribution.



Reliability of power supply on the distribution network is measured by the indicators SAIDI and SAIFI (more on quality is explained in chapter 6.3 - Quality of electricity supply), the value of which is the best among the distribution companies and is the result of constant investment in electricity infrastructure.

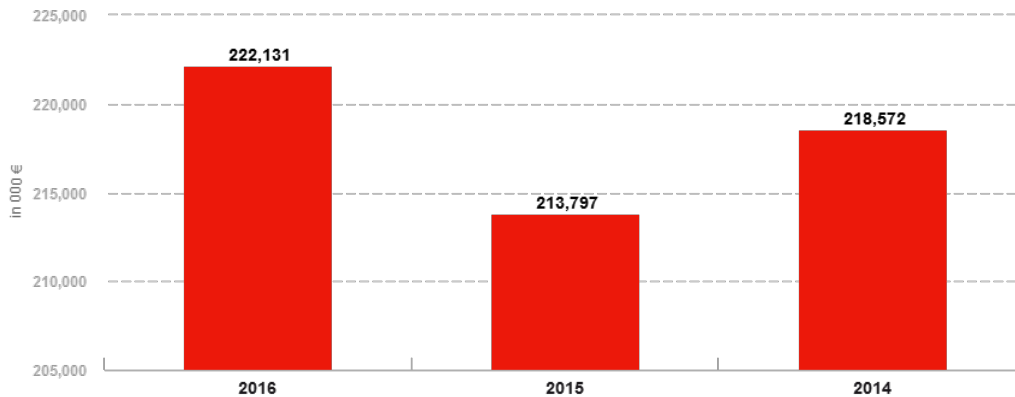
	2014	2015	2016	Plan 2016
operating revenues per employee (in €) operating revenues/average number of employees	261,533	131,748	136,901	133,368
value added per employee (in €) value added/average number of employees	90,545	93,805	104,105	99,509

Operating revenue per employee in year 2016 amounted to 136,901 € and were by 3.9 % higher than in year 2015. Value added per employee in year 2016 amounted to 104,105 € and was by 10.9 % higher than in 2015, which is the result of lower costs of goods, material and services and higher operating revenues.



6.7.2 Structure of assets and liabilities

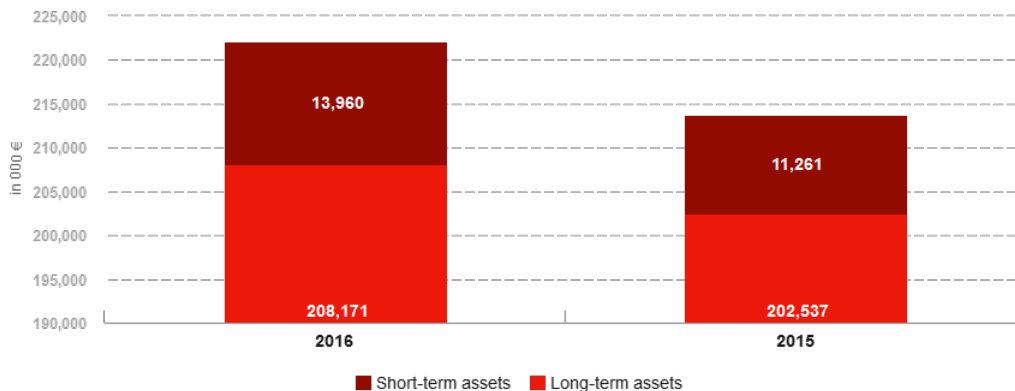
Figure 33: Changes in balance sheet total in the period 2014-2016



Assets

On the last day of year 2016 the assets of Elektro Gorenjska Group amounted to 222,130,774 € (31. 12. 2015: 213,797,402 €) and have increased by 3.9 % compared to the balance on the last day of year 2015. Long-term assets increased by 2.8 % in year 2016, while short-term assets increased by 24.0 %.

Figure 34: Structure of assets as of 31. 12. 2016 and 31. 12. 2015



Long-term assets represent 93.7 % of all group's assets. Among them tangible fixed assets representing 94.7 % of all long-term assets are the most important. Value of tangible fixed assets increased by 2.6 % or by 5,101,892 € in year 2016.

Besides tangible fixed assets long-term assets also consist of the following categories (explained in more detail in chapter 16 – Notes on profit and loss account):

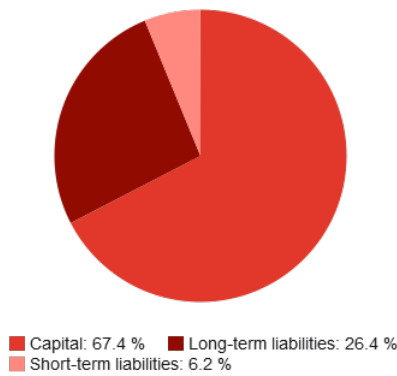
- intangible fixed assets, which increased by 382,700 € in year 2016,
- investment property, whose value increased by 24.6 % or 439,020 €, and
- long-term financial investments, whose value in year 2016 increased by 3.1 % or 218,805 €.

Capital and debts

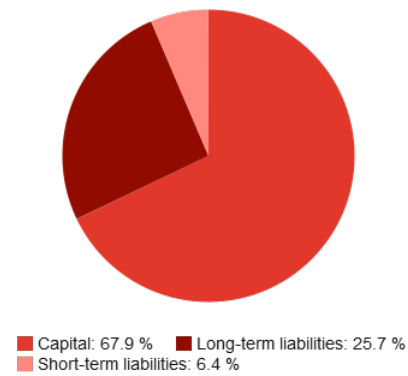
As at December 31 2016 Elektro Gorenjska Group reached a ratio between equity and debt capital in the amount of **2.1:1**, which is the same as at the end of year 2015.

In the structure of liabilities capital represents 67.4 % of the entire balance sheet total. In year 2016, capital increased by 3.1 % or by 4,489,932 €. Long-term liabilities, mostly long-term banking credits, represented as of 31. 12. 2016 26.4 % of all funds. In year 2016 they increased by 6.7 % 3,710,839 €. Short-term liabilities represented 6.2 % of all funds and have increased by 1.0 % or 132,601 € in year 2016.

Figure 35: Structure of funds as of 31. 12. 2016



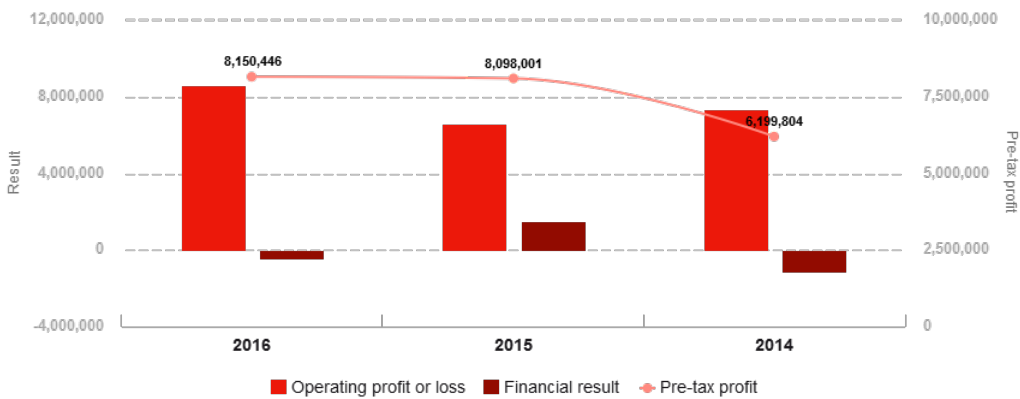
Structure of funds as of 31. 12. 2015



6.7.3 Structure of revenue and expenditure

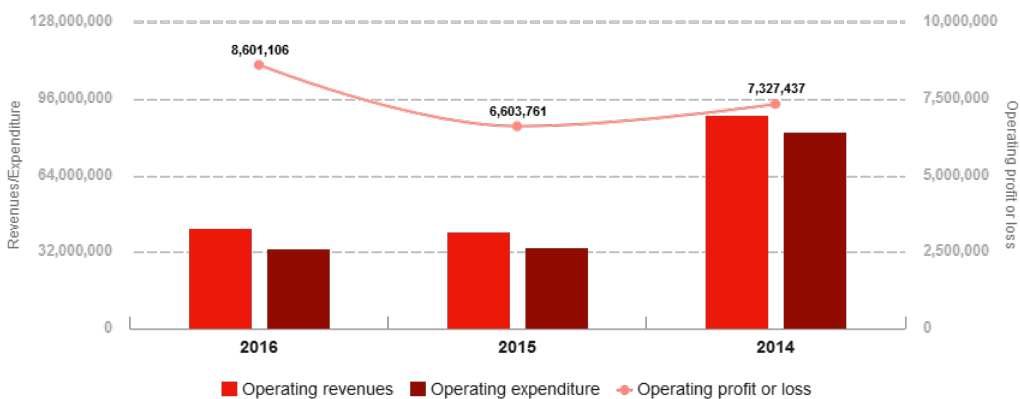
In year 2016 Elektro Gorenjska Group achieved a pre-tax profit in the amount 8,150,446 €.

Figure 36: Composition of profit or loss (in €)



As can be seen from the picture above, profit before tax is mainly affected by the operating profit, above all the basic activities Contract with SODO and electricity production. In year 2014 data also include the purchase and sale of electricity by the company Elektro Gorenjska Prodaja (in 2015, the company Elektro Gorenjska Prodaja merged with ECE Company).

Figure 37: Operating profit or loss (in €) in period 2014-2016

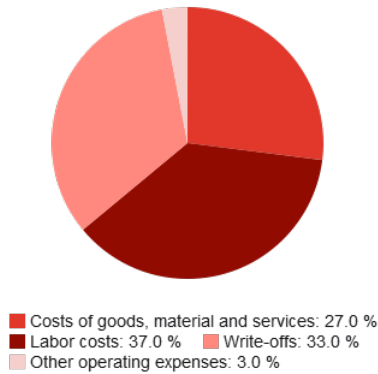


Operating profit or loss for year 2016 amounted to 8,601,106 €. Compared to year 2015 it was by 2.0 mio € higher, both due to higher operating income and lower operating expenses. Improved operating results was

mainly due to the cost-efficiency of the group as well as better hydrology and, consequently, higher production and sale of electricity.

Structure of operating expenditure for years 2016 and 2015 is shown in the figure below:

Figure 38: Structure of operating expenditure in year 2016



Structure of operating expenditure in year 2015

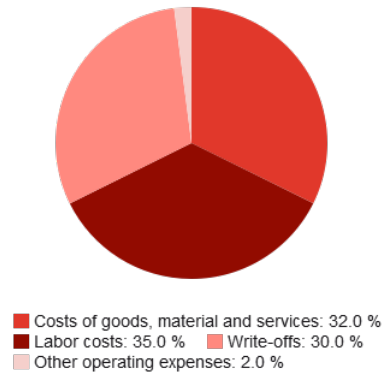
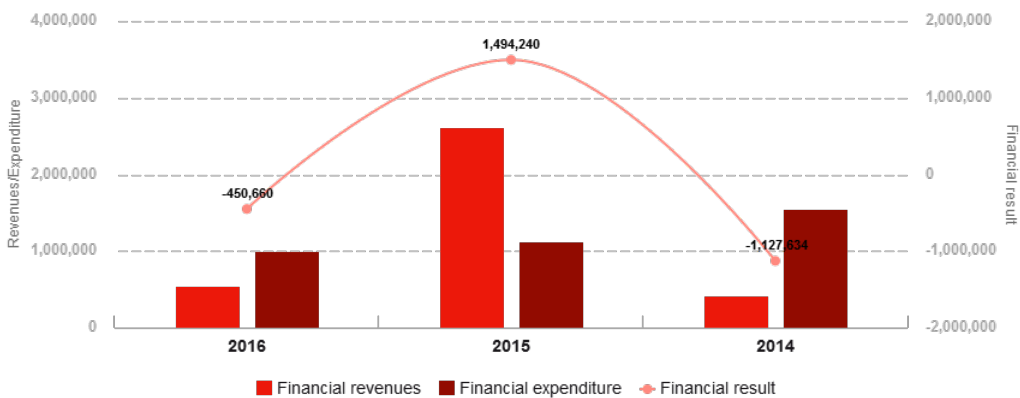
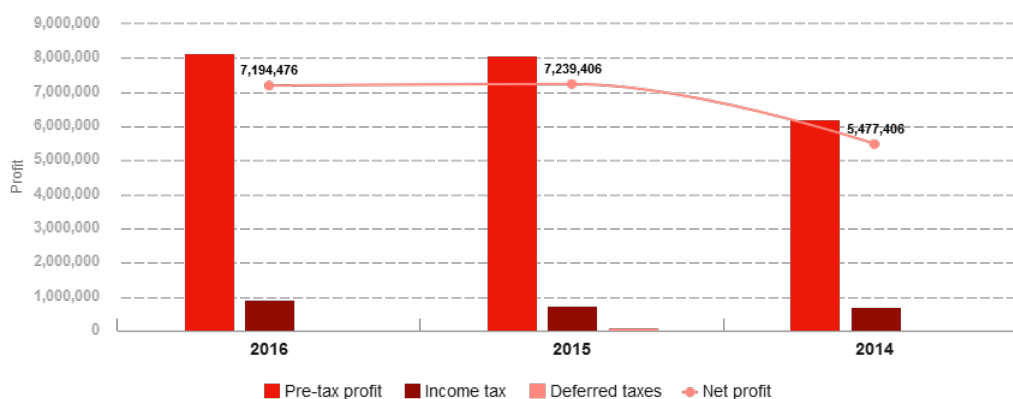


Figure 39: Financial result in period 2014-2016 (in €)



Financial result in year 2016 was negative and it amounted to -450,660 €. Negative result is mainly influenced by interest for loans received from banks for financing investment and interest due to interest rate swap (interest rate hedging). In year 2015 financial result was positive, which was the consequence of the merging of Elektro Gorenjska Prodaja Company to company ECE (financial income also includes 1,687,991 € of revenue related to the loss of control of the company Elektro Gorenjska in the subsidiary Elektro Gorenjska Prodaja).

Figure 40: Net profit in period 2014-2016 (in €)



6.7.4 Cash flow statement

	in €	
	2016	2015
Cash flows from operating activities	18,180,524	16,744,049
Cash flows from investing	-16,816,873	-19,133,899
Cash flows from financing activities	-586,781	762,415
Change in cash and cash equivalents	776,870	-1,627,435

In 2016 Group Elektro Gorenjska increased the value of cash and cash equivalents by 0.8 million €, as it the positive cash flow from operating activities was higher than the negative cash flows from investing and financing activities.

Negative cash flow from investing was due to investments, as the industry in which the Elektro Gorenjska Group operates is technologically very intensive. New acquisitions of intangible and tangible assets were mainly financed by drawing on long-term loans in the amount of 9,999,999 €, and partly funded by the positive cash flow from operations. Outflows from financing activities mainly represent expenditures for the repayment of financial liabilities, and are increased by the payment of dividends and the repurchase of own shares. Proceeds from the financing the group needed to meet the investment plan, while expenses from financing were paid in full with a positive result from operating activities.

7.0

Marketing and sales

In accordance with the development plans we annually carry out the necessary investments in the electricity network to provide reliable and quality supply of electricity to users in the area of Gorenjska region.

Annually we perform more than 350 investment projects in regulated activities, which are aimed at improving the living conditions of customers and allow further economic development and tourism in the region. In the context of market services we provide comprehensive energy solutions such as:

- **Implementation of power checks, energy advisory service and solutions for more efficient use of electricity**

We advise our users, implement various types of energy sources and consumption analysis, we create programs with measures of consumption management and efficient electricity use and prepare appropriate investment documentation. Service is particularly interesting for business users.

- **Implementation of different planning services**

We offer design services, from conceptual design to the as-built design, for all electricity power facilities, underground and overhead power lines of all voltages, transformer stations (TP, RP, RTP), and low-voltage connecting conduits with account measurements. In addition, we advise, help in preparing main files and urbanism of energy facilities, planning of cogeneration units, hydro power and solar power plants, projects for public and street lighting, preparation of projects for electricity infrastructure of industrial, commercial, trade and/or residential zones, and we also cooperate in preparation of electrical installations in buildings.

- **Execution of maintenance and works of power facilities and devices by using modern technologies, knowledge and years of experience .**

We offer competitive services in the field of work performance for all types of transformer stations 10-20/0,4 kV, low- and medium-voltage underground and overhead power lines, low-voltage connections for all types of consumption, relocations, recoveries and reconstructions of electricity power facilities, devices and lines.

In the field of electricity power facilities and devices maintenance we offer contractual implementation of regular checks, measurements and audits of transformer stations, connection-measuring points, devices and lines on the low- and medium-voltage level by monitoring operational state and record keeping.

We offer users also implementation of live work on low-and medium-voltage levels.

- **Implementation of various types of measurements**

We implement voltage quality measurements under the standard SIST EN50160, load diagrams and measurements on electricity power cables using VLF method. We have a special vehicle fitted with fault-finding and diagnostic equipment on LV and MV cable conduits. We also implement calibration and security settings of separation as well as other protection for hydro and solar power plants and other dispersed production, and inspections of electrical power elements by thermo-vision.

- **Efficient energy use projects**

Among the projects of energy efficiency the most important are projects of the so-called contractual assurance of energy savings. Contractual assurance of energy savings is a contractual obligation to exploit the available economic potential for energy savings, including financing measures necessary for efficient

energy use. Contractor shall assume all the costs of the design, financing and implementation of energy efficiency measures, and investments shall be reimbursed in the form of a share in the achieved reduction in energy costs, which is a consequence of the implementation of energy efficiency measures. Contracts are usually concluded for a period of 5 to 15 years, depending on the business interest of the entities. At the end of the contract the owner or the user of the infrastructure gets the entire amount of saved energy costs, while they need to re-assume the costs of operation of the devices. Gorenjske elektrarne have successfully implemented many such projects through several projects of changing the lighting in shopping centers and the project of replacement of compressed air compressors. For most projects, the company also acquired grant funds.

- **»Energy management«**

Within the product the customers are offered identification of measures to reduce consumption and reduce energy costs, the implementation of these measures, implementation and financing of the project at no cost to the client and making recommendations to optimize consumption and reduce energy costs. After the successful implementation the provider and the client share a technically demonstrable savings namely depending on whether the project required investments or not, and for how many years the contract on the implementation of measures is concluded. For this purpose, own information system GEKenergija was also developed, which is designed to control the energy flows in the company and provide support to the energy and environmental management, and allows for continuous cost management. System was successfully completed in Elektro Gorenjska Company, in the building of Gorenjske elektrarne Company, in Biotechnical Center Naklo, in Entrepreneurship Center Kranj and in Alpetour Kranj. In 2016 we signed a contract with our partner company ADESCO on licencing the application for energy accounting E2 Manager, which complements our own application GEKenergija, and together they both represent a unique tool for physical and cost control of energy flows in buildings.

- **E-mobility**

E - mobility represents a relatively new concept of sustainable and environmentally friendly mobility. Strategic development of the infrastructure and networks of electric vehicles are also encouraged by the European Union with the directives and objectives to which they are committed by all EU members, as well as Slovenia with its vision of the transition to a low-carbon society by 2050. Na področju zmanjševanja toplogrednih plinov je eden izmed zastavljenih ciljev Evropske unije (EU) med drugim tudi 20 milijonov električnih vozil na svetovnih cestah do leta 2020. In order to encourage the introduction of electric cars, we decided to buy the first electric car Kangoo, for which we received the approval of Eco Fund subsidies. To drive the electric car we will use green electricity produced from our own production facilities (hydroelectric and solar power plants) with zero carbon footprint. In 2015, we invested in building the first green station for quick charging of electric cars on the location of the shopping center Merkur Primskovo in Kranj.

- **Other market services**

We offer users various rental possibilities like rental of diesel generators to the power of 550 kilowatts, holiday facilities, and working vehicles with a lift or hydraulic platform for working at height.

8.0

Information and communication technologies

Appropriate IT support is a precondition of a successful operation of the company.

In 2016, we paid special attention to the completion of modernization of the information system ERP. Update was an extremely challenging project the company Elektro Gorenjska, which was successfully completed due to high engagement of information system users. With their feedback and suggestions they have significantly contributed to the ultimate user-friendly IT solutions. Company now operates with its own and modern information system that enables efficient and above all more economical management of the company.

Along with updating the information ERP system upgrading of the telecommunications network was carried out as well. In this way reliable and powerful support for business processes was ensured. In accordance with one of the strategic sets we in 2016 approached the final digitization of the entire radio system in Elektro Gorenjska. Process of digitization was started by replacing the system of professional radio voice communications, followed by digitization of connections between base stations. We anticipate that in 2017, with the upgrading of the remote control system, radio system of the company Elektro Gorenjska will become completely digital.

At the end of 2016, the company Elektro Gorenjska raised the platform and launched an IT development strategy. Strategy systematically parts the development of informatics into 11 strategic sets whose implementation will be coordinated within the information college, managed directly by the Management Board.

9.0

Sustainable development

Elektro Gorenjska Group set its sustainable development clearly – with set goals, environmental strategy integrated with the business strategy, and achieved results clearly presented.

Group operates according to the system that we demonstrate our responsibility where we operate.

Today's cooperation must enable conditions for the quality of life to the future generations too. We realize that through energy.

9.1 Care for employees

Carefully planned recruitment policy, striving for continuous development and education of employees, effective reward system, and monitoring the commitment and employee satisfaction and measurement of organizational culture, are the main guidelines of the personnel management in the group Elektro Gorenjska. Our employees are our strategic advantage, so colleagues are stimulated to search opportunities and discover new ways in the times of quick changes. As we want to become learning organizations we stress equality, open information, and organization culture, which stimulates cooperation and with it occurrence of ideas anywhere in group, so we are able to find opportunities faster and adapt to changes. We place great emphasis on interpersonal communication. Collaboration among employees actively creates the best conditions for work, including conditions to facilitate the achievement of personal and business goals.

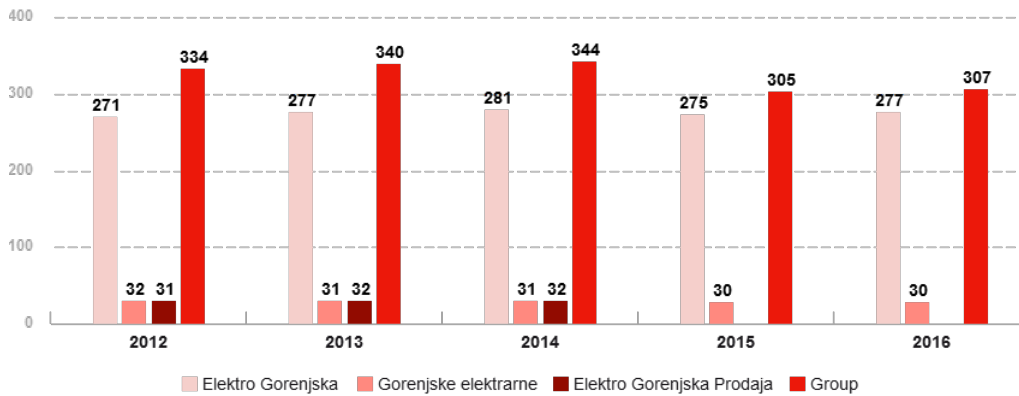
9.1.1 Demographic structure in the group

On December 31 2016 Elektro Gorenjska Group had 307 employees. Compared to the situation as at December 31 2015, number of employees increased by 2 workers. There were nine terminations of employment, of which 5 retirements. In this year we had 11 new employments.

On December 31 2016 the group had 4.23 % employees employed with fixed-term employment, which is by less than 1 percent more than in year 2015.

In year 2017 the number of employees will remain at approximately the same level.

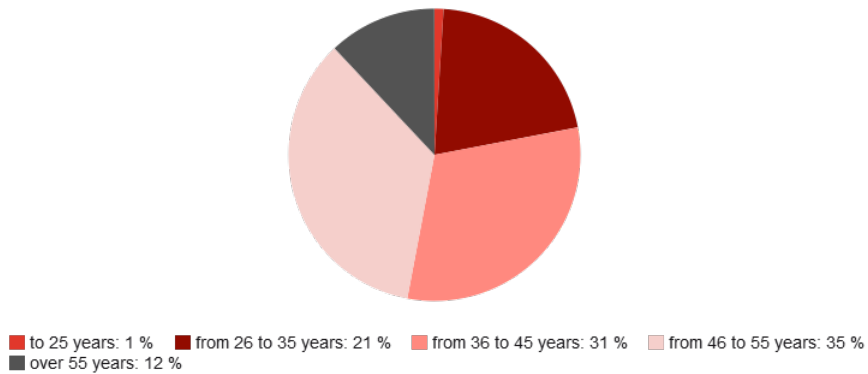
Figure 41: Changes in the number of employees in the period from 2012 to 2016



At the end of year there were 77.85 % of men and 22.15 % of women employed in the group. If we exclude Elektro Gorenjska Prodaja Company, which is no longer a member of the group and whose structure was predominantly female, the percentage is entirely comparable with the previous years and closely connected with the primary activity of the two companies.

Average age of employees in the group is increasing. At the end of the year it was 44.1 years, which is by 0.5 year higher according to the previous year. This shows the fact that employees are retiring later. Analysis of groups of employees according to age shows that in year 2016 there were the most employees in the age group between 46 and 55 years, namely 35 percent of all employees. Older age structure in Gorenjske elektrarne Company has the strongest impact on older age groups as there 57 % of all employees belong to the last two age groups.

Figure 42: Shares of employees in Elektro Gorenjska Group according to age groups in year 2016



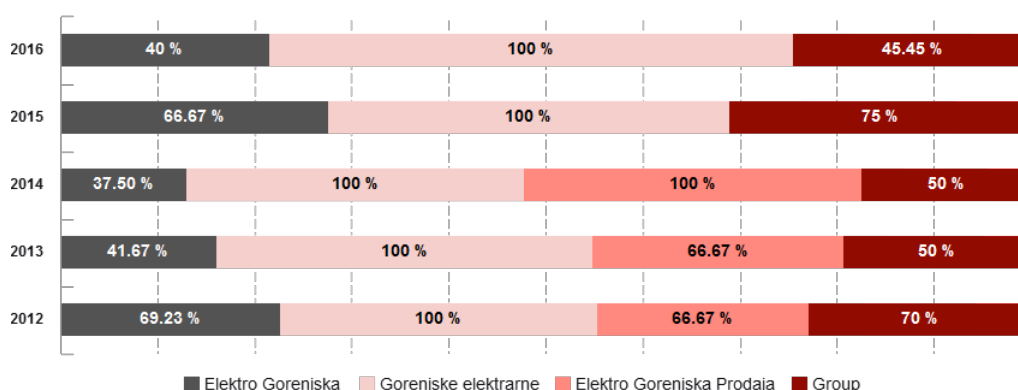
9.1.2 Employment

Human resources planning is a constituent part of strategic and annual plan of the companies. We seek to gain ambitious and professional new workers. In the process of selection and choice of employees to all candidates we provide equal opportunities, regardless of gender or other circumstances. With the purpose of better recognition of job-seekers and possibility of candidate selection we have prepared an employment questionnaire, which can be found on the companies' web sites.

High school and faculty students are given opportunity to do compulsory practical training and occasional student work. This way they get to know the company and work, while we meet potential job candidates.

Development, changes, and needs of the work process request more and more of knowledge and high level of competence of our employees therefore we mainly employ highly educated staff.

Figure 43: Share of new employees with at least high professional level of education at the time of employment



Throughout the years we have been keeping the high share of employees from electro-technical fields in Elektro Gorenjska Company and of electro-technical and engineering fields in Gorenjske elektrarne Company, as they are closely related to the main activities of the companies.

Fluctuation of personnel in the group is small. Fluctuation mainly emerges due to departure of workers for retirement and fixed-term employments, where employments are terminated after the need for increased volume of work is terminated or due to termination of the need for substitution of the worker. Very rarely individuals decide for the termination of the employment contracts on their own.

Table 14: Fluctuation rate in Elektro Gorenjska Group

	2012	2013	2014	2015	2016
Elektro Gorenjska	3.90 %	2.13 %	1.41 %	2.83 %	2.82 %
Gorenjske elektrarne	11.10 %	6.06 %	3.13 %	6.25 %	3.23 %
Elektro Gorenjska Prodaja	11.40 %	5.88 %	3.03 %	-	-
Group	5.38 %	2.87 %	1.72 %	3.17 %	2.86 %

9.1.3 Employment of persons with disabilities

On December 31 2016 there were 7 disabled persons employed in the group. In accordance with the statutory quota of employing disabled persons, which amounts to 5 % in Gorenjske elektrarne and 6 % for Elektro Gorenjska, the group would have to employ approximately 19 disabled persons. In year 2016 by signing the contract with two social enterprises Elektro Gorenjska made use of the possibility of claiming replacement quota fulfillment for 24 disabled persons.

Table 15: Information on disabled employees

	ELEKTRO GORENJSKA		GORENJSKE ELEKTRARNE	
	2015	2016	2015	2016
Number of employed disabled persons as at 31.12.	7	7	0	0
Number of disabled persons for contribution as at 31.12.	10	10	2	2
Amount of contribution in a year	50,923	52,030	13,284	12,177
Number of realized disabled persons in year, based on contracts with social enterprises	28	24	0	0

Worker with a recognized category of disability is secured an appropriate position of employment in accordance with the decision of the Pension and Disability Insurance Institute mainly by the reorganization of the working process. So far we were able to ensure suitable jobs and preserve employments to all disabled persons in the group.

9.1.4 Education

Much attention is given to the appropriate staff education. Employees receive various forms of education and vocational training, with a large proportion of them being in the field of health and safety at work. Because of the branch in which we operate, the employees are obliged to regularly restore the professional examinations required by the work with power supply equipment.

We are proud of our colleagues, who finish education and acquire higher level of education along with their working and family obligations. If only possible, we enable them work at a more demanding position, where new knowledge can be used and they are able to invest into their own progress and the progress of the company. In year 2016 higher level of education was acquired by nine employees. We wish to introduce into the organizational culture a wish for constant, permanent training, improvement, and education. Proof that we have actually stimulated the employees for that is in their great interest for education.

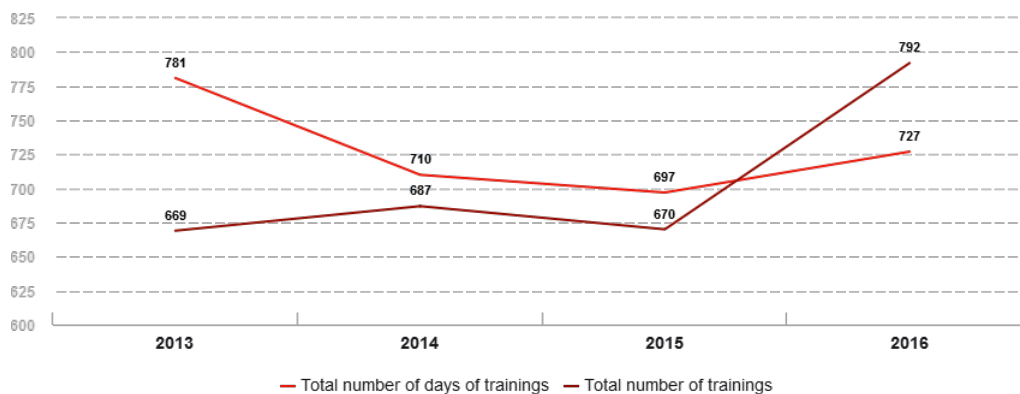
Table 16: Education and trainings in the period from 2014 to 2016

Item description	2014	2015	2016
Employees on trainings (in %)	75.88	76.05	90.55
Average number of training days per average number of employees (days)	2.28 days	2.26 days	2.36 days
Costs of education and training per employee (in €)	445	335	322
Number of employees acquiring higher level of education on the basis of education contract	23	8	9

Within the strategic project Managing of the organizational culture, which is defined also in the revised strategy of Elektro Gorenjska Company 2016-2020, in year 2016 we continued with trainings for the Heads in the field of managing the soft skills, while employees that are in constant contact with the customers received workshops on telephone communication.

In order to optimize financial resources we make use of various offers for free trainings and transfer of knowledge between employees. In the category transfer of knowledge we also include sharing of experiences, familiarizing employees with innovations and cooperation between employees at work. Greater involvement of employees in education with fewer costs is being achieved also through the use of e-learning and encouraging employees to independently search for information or data. We take care of proper filing and accessibility of materials that employees receive on trainings. We have an electronic library, which is located on the internal website and material libraries in individual companies, which store the material obtained by employees in seminars and other kinds of trainings.

Figure 44: Review of the scope of training in the number of days and number of trainings



Satisfaction of participants with trainings and their efficiency is monitored by a questionnaire, which each participant is required to complete.

9.1.5 Educational structure of employees

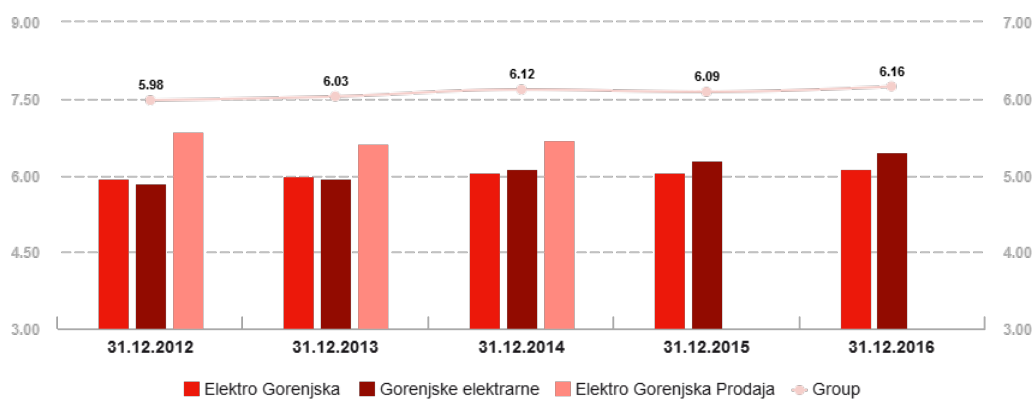
Average level of education has been increasing with years, mainly due to new employments of highly competent workers and education of employees to acquire higher levels of education.

Table 17: Educational structure of employees in Elektro Gorenjska Group as at 31. 12. 2016

Level of education 31. 12. 2016	Elektro Gorenjska		Gorenjske elektrarne		Group	
	Number	Structure (%)	Number	Structure (%)	Number	Structure (%)
doctoral level (9)	2	0.7	1	3.3	3	1.0
master's degree (8)	18	6.5	2	6.7	20	6.5
university level (7/2)	52	18.8	8	26.7	60	19.5
graduate level (7/1)	39	14.1	4	13.3	43	14.0
post-secondary level (6)	42	15.2	3	10.0	45	14.7
secondary level (5)	77	27.8	8	26.7	85	27.7
three-year vocational level (4)	47	17.0	4	13.3	51	16.6
two-year vocational level (3)	0	0.0	0	0.0	0	0.0
primary school (1)	0	0.0	0	0.0	0	0.0
TOTAL EMPLOYEES	277	100	30	100	307	100

Average level of education in Elektro Gorenjska Group as at December 31 2016 amounted to 6.16 - with level 6 representing high-school education. Level of education in the group increased somewhat according to the previous year. Reason is in employment of new workers with higher levels of education than workers that have retired.

Figure 45: Average level of education in companies and Elektro Gorenjska Group in the period from 2012 to 2016



9.1.6 Employee motivation and remuneration

Offering privileges is one of the segments in employee remuneration whose aim is to increase employee satisfaction and improve the quality of work. Employee remuneration is connected also with reassignments. In employees we are looking for creative potentials, that is why knowledge and skills of the employees are remunerated with progress of their professional career. This way we try to preserve high level of motivation and increase competitiveness of the internal labor market. Departures from the companies are mainly substituted by internal reassignments, above all with more demanding, managing or professional posts. This way we preserve internal inclusion of the employees and assuming of larger responsibility. In accordance with the needs of the working process we increase occupancy of more demanding jobs. Changes are much more frequent in Elektro Gorenjska Company than in its subsidiaries due to diversity of activities and higher number of employees.

Whenever there is a need for employment in managerial posts, we usually offer the opportunity to already employed workers. Whenever possible we also try to listen to our coworkers that wish to change the field of work.

Individual worker's performance is established at the annual interview, where the Head and the employee go through the realization of tasks and goals and achievement of requested competences set at the previous annual interview.

From our employees we expect initiative in the field of giving proposals. Based on the systematic measures in this field, mainly in the adopted Rules on innovation, several innovation proposals have occurred.

We also implement mentorship for newly employed workers, who already have experience but do not know the company, its operation and details from their new job, or for workers that change their field of work entirely within the company.

9.1.7 Annual interviews

One of the most scheduled methods of acquiring feedback is definitely annual interview.

Reasons for the implementation of annual interviews are:

- employees can find out how they are doing, where they are, and where they are going;
- it gives employees a chance to express their opinion, ideas, and viewpoints;
- employees get a real opportunity for a detailed interview about their work, can talk about their future in the company, and say how they see their progress;
- employees get acquainted with their opportunities and possibilities in the company and at the same time motivated for better performance;
- Head can establish employees' attitude to work and needs for training, as well as become aware of the employees thinking about what they are doing well and what could be done better;
- annual interviews enable that employees together with the Head discover eventual deficiencies in work processes, which can be improved in the next years by the company.

Interviews are a rough estimate of the achievement of the objectives, tasks and competences for the past year and the setting of objectives for the next year and plan of training and development of employees.

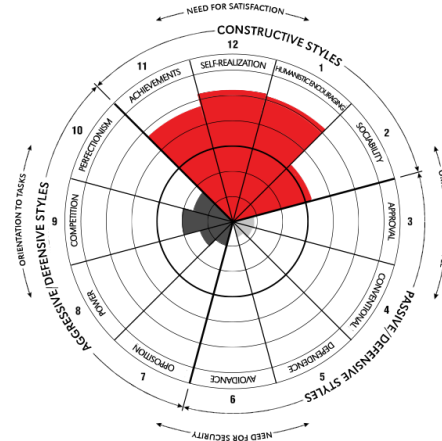
Each year the process of implementation of the annual interviews lasts for 3 months, 94 % of the interviews were carried out.

9.1.8 Organizational culture

Revised Strategy of Elektro Gorenjska Company for period 2016-2020 defines the strategic project Managing of organizational culture, which aims at establishing a constructive organizational culture among employees. Gorenjske elektrarne joined this strategic project as well.

In year 2013 we analyzed the actual situation and we set the concept of ideal organizational culture (figure 46) that we want to achieve. With the help of quality tools the companies' management defined expected behaviors of employees, with emphasis on constructive behaviors styles marked with blue in the figure. This means that we expect inclusion, cooperation, assuming of responsibility and target orientation from our employees. Such behaviors will contribute to their self-realization, growth, and organizational efficiency. Passive defensive styles and aggressive defensive styles (green and red color) of behaviors should be represented as little as possible.

Figure 46: Ideal organizational culture



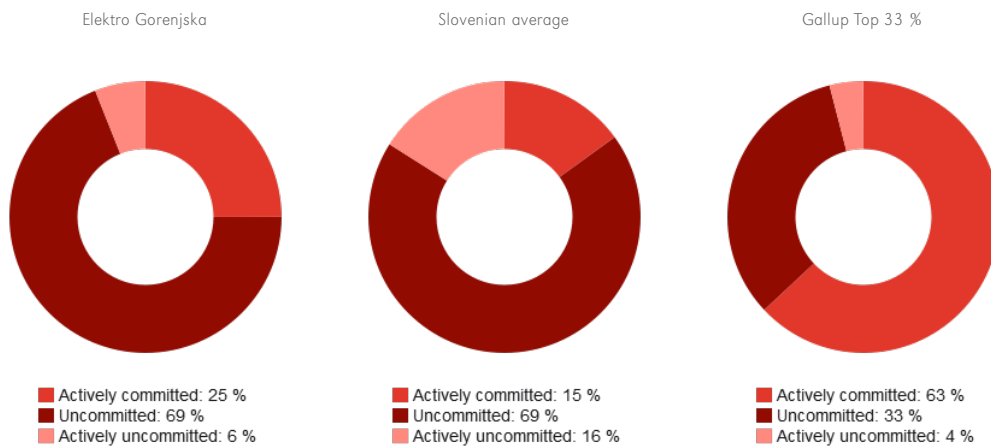
Analysis of the responses from the questionnaires in year 2013 revealed a gap between the ideal and the actual culture. We established that increasing the constructive behavior and reducing passive defensive and aggressive defensive behaviors will be reached most effectively through quality management and highest involvement of employees in solving business challenges, work processes, making decisions and assuming responsibility. That is why in the period of the strategic project we educated the Heads with soft skills trainings. We measured with the M/I tool what their influence on coworkers was. By using the HOW model we try to include all employees in the solving of business challenges. With personal coachings in year 2016 in Elektro Gorenjska we raised the education of management and Heads to a higher level.

9.1.9 Employee satisfaction and commitment

We ensure that employees are satisfied with themselves and feel comfortable in their working environment. Feedback on comprehension of a working environment and relations in the company is received from employees by anonymous survey on the satisfaction. This way with colleagues we actively create optimal conditions for work, thus also the conditions to facilitate the achievement of personal and professional business goals. Our goal is that everyone does what they are the best in. By implementing various measures we try to rectify the established negative effects.

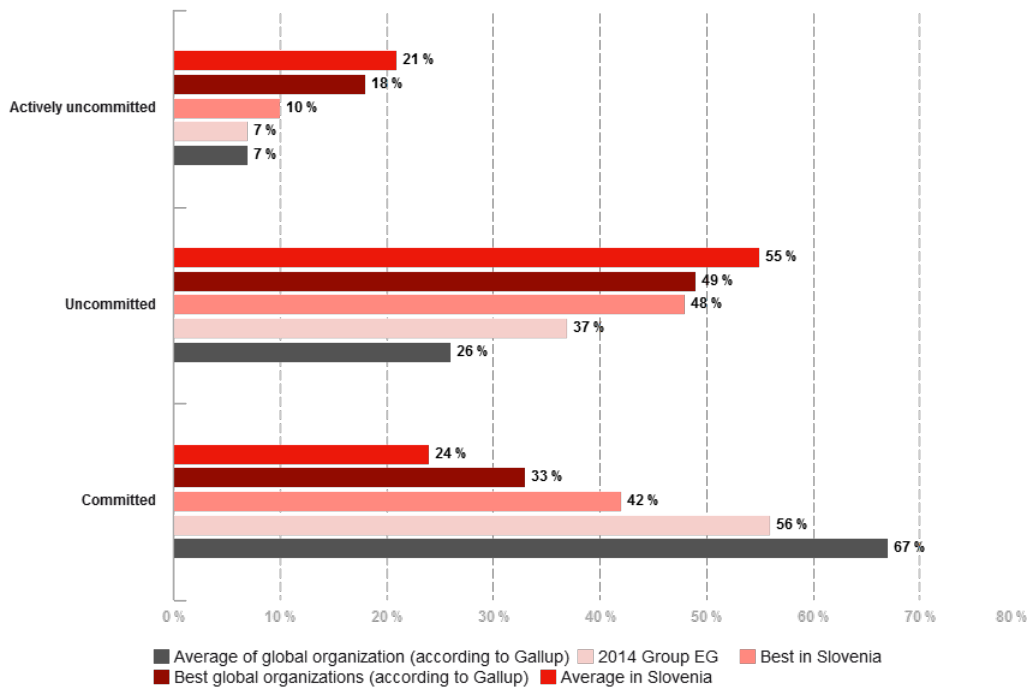
In year 2016 we measured the level of commitment only in Elektro Gorenjska. In recent years, we have measured the commitment criteria alone, while last year we cooperated for the first time with an external partner that in terms of measuring, analyzing and improving employee engagement works with the organization Gallup.

Figure 47: Commitment of employees in Elektro Gorenjska in year 2016, compared with Slovenian and the best global organizations



Gorenjske elektrarne Company was included in the survey for the last time in 2014, so commitment of the employees in the Group is presented for that year.

Figure 48: Commitment of employees in Elektro Gorenjska Group in year 2014, compared with global and Slovenian organizations



Results of the surveys carried out in the group show that compared to Slovenian organizations the company has a higher percentage of committed employees. Committed employees are highly loyal, have a positive attitude to quality and to control processes, while the company provides them with superior working environment with an effective system of education. Compared with the best third of the global companies in the coming years we will try to reduce the actively uncommitted and uncommitted in favor of an increase in the proportion of committed employees.

We certainly contributed to the increase of the employee satisfaction by acquiring the full certificate Family-friendly Company. Subsidiary Gorenjske elektrarne did not accede to obtain the certificate, but it signed a mutual agreement and bound to implementation of all measures Elektro Gorenjska Company adopted.

9.1.10 Employee absence

Absenteeism or longer absence from work due to sick leave is monitored annually. In year 2016 compared to year 2015 in the parent company refunded and non-refunded absences have increased, while in the subsidiary company both categories of absenteeism decreased.

We will continue to strive for regulated working conditions, while employees will be stimulated to a healthy way of life also outside the working environment.

9.1.11 Relations between employees and management in the group

Management pays particular attention to the dialogue with different representations of the employees. There are two unions operating within the group. Each company has formed its works council, which provides for appropriate information and chance of submitting the opinions of all employees. Cooperation with the bodies takes place in the form of regular sessions between the company's management and representatives of union and works council. Sessions are convened at least once in three months, if necessary also more frequently. There are always chairman of the board or the vice president and a member of the management present at the sessions. This way it is additionally taken care of the employee information about the operation of the companies, current activities, and plans for the future. The persons present at these sessions can express their initiatives, opinions, and highlight problems the employees face every day.

Companies have a signed Company agreement with the two unions and an agreement on the manner of cooperation of the workers in company management with the works council. Both documents precisely define the rights and obligations of the partners, which further contributes to good cooperation between the representatives of the union, works council, and management, which all together contributes to better social security of all employees.

9.1.12 Communication with employees

In the group conducting effective internal communication with employees is demanding, since employees are located in different locations, as well as perform various types of work in the field. Consequently, direct and indirect communication channels for communicating with employees are used.

Direct communication is carried out on meetings and events, which are annually organized for employees (Company Day, New Year's employee party, sports games, etc.). Due to the diversity of jobs events are an opportunity for socializing and getting to know the employees who do not work together on a daily basis.

In the group we publish:

- Internal gazette Elgo, which is received by employees, pensioners, and scholarship holders. Once a year it is forwarded also to our business partners. In the Gazette we present current events and projects of the company, and provide also documentary, education, culture, art, sport, and social contents,
- E-monthly is sent to all employees to their electronic inboxes every first Friday of the month. It presents current contents, and it also provides updated information about important events.

To communicate with the employees we use:

- Intranet which is intended for information to employees about activities of the companies in Elektro Gorenjska Group. It serves as a support to the employees by offering them numerous tools, information about the company, accesses etc.
- Traditional notice boards: Due to the diversity of the employees work traditional notice boards are intended for those employees who spent most of their time on site due to the nature of their work (field work).

Gazette of electricity generating industries Naš stik, which is published by Elektro Slovenia, offers the employees a wider perspective on comprehension of energy industry we operate in. Our Head of corporate communication is a member of the newspaper council and it is her task to make sure the company is well presented on its pages.

9.1.13 Connecting the employees and wider community

We stay in touch with our employees even when they retire. We inform them about the novelties through our internal gazette Elgo, we also invite them to different events related with the activities of the companies in the group.

Sustainable development in the group of Elektro Gorenjska was set out clearly – it has clear objectives, environmental strategy is integrated with the business strategy, the results obtained are clearly demonstrated. Group operates according to a system, that responsibility is proven in the area where we operate.

Today's collaboration must enable quality conditions of living for the next generations as well. We achieve this by energy.

9.1.14 Health and safety at work

We had five accidents at work in year 2016. Four injuries were lighter, one injury was serious. In the serious accidents a worker lost a finger on the left hand. With respect to electrical currents, we had one injury, where a worker suffered slight burns on his hand due to arc flame.

Due to work-related injuries workers were absent from work in a total of 354 working days, which is more than in year 2015. Reason for this is an injury that has already occurred in 2015, but an employee was absent because of it the entire year of 2016.

Quality indicator of frequency of injuries telling us what percent of workers were injured stopped at 1.8 percent. Quality indicator telling us the number of lost working days per injury stopped at 70.9.

Charts below represent data showing number of injuries at work, frequency of injuries and gravity of injuries.

Figure 49: Number of accidents at work

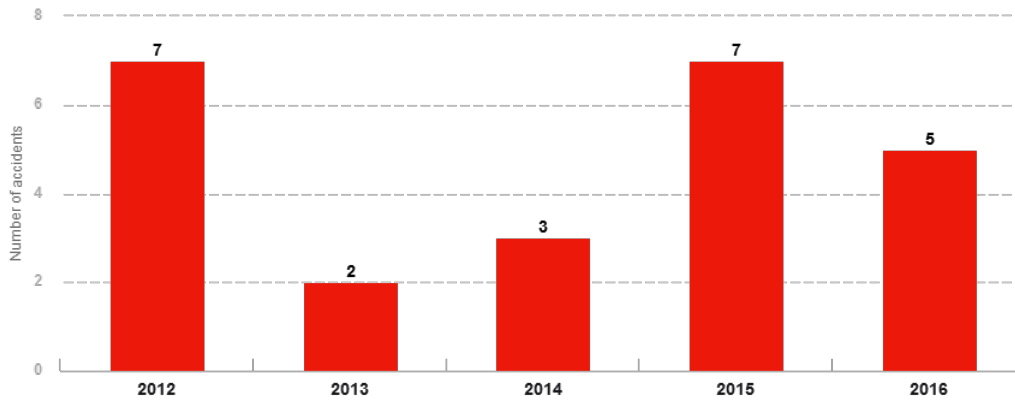


Figure 50: Gravity of injuries

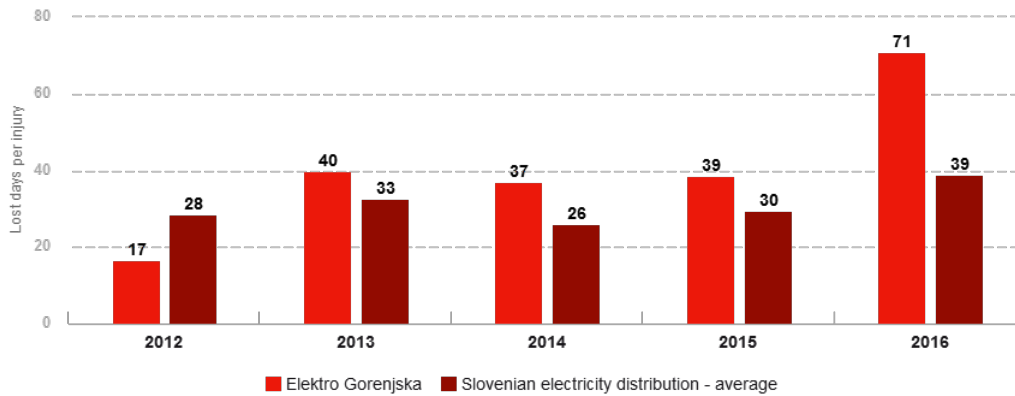
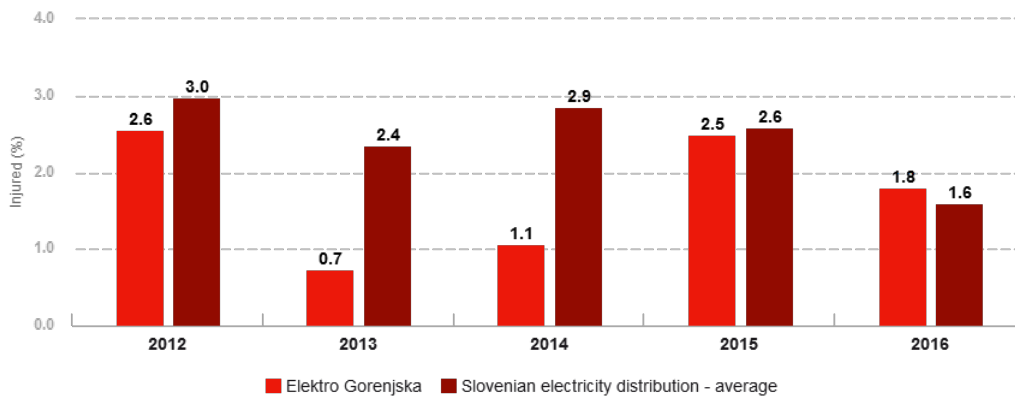


Figure 51: Frequency of injuries



Besides the health and safety at work service in the past year the safety and health at work was watched over also by the Health and Safety at Work Council.

What important things await us in year 2017?

In 2017, we will put emphasis on the overall review of the work equipment that our workers use to work in the field. We will review all power-operated work equipment, all tensioning work equipment, personal protective equipment for working at height, etc.

In the context of health care, we will continue to carry out preventive medical examinations, carry out TBE and influenza vaccinations and inspections of pigment marks on skin intended for field workers who will want it.

We will continue with our efforts of purchasing high quality personal protective equipment which workers will be happy to wear or use.

We will check the knowledge of workers who perform their work live and participate in the elaboration of the new Rules on safety and health at work with electricity.

We will try to bring the level of safety and health at work in the company to an even higher level than it was before. Challenge that awaits us in the future, is mainly to make the point to the workers that health is the greatest wealth and power they have.

9.2 Concern for the environment

Through responsible management and in order to control the negative environmental aspects the group in 2016 continued with activities that help reduce comprehensively the effects of electricity activities on the natural environment. With education and awareness of internal and external publics we ensure that environmental responsibility is respected by employees and suppliers. Our operations are regularly adapted to the requirements of environmental legislation. Progress in this area is monitored by means of measurable environmental indicators. Main directions of the company in the field of environmental protection are compatible with the ISO recommendations, and are reflected in the measurable results that are monitored by environmental indicators.

Systematic approach to the environmental management is implemented in the company based on the principles of the international environmental management standard SIST EN ISO 14001:2004. Implementation of appropriate environmental policy is a responsibility of the Environmental management Council, which is managed by a custodian, while its members are representatives of individual organizational units and are responsible for managing individual environmental aspects and implementation of program aims. Every year we successfully conduct the external assessments of acquired standards.

Objectives of the Environmental Management Council include:

- prevention of environment pollution on locations of power facilities and works related (spills of dangerous oils);
- control of individual effects by measurements and with it taking into account noise, radiation and light pollution;
- rational use of energy, raw material and natural resources;
- separate waste collection and recycling in order to reduce the quantities of the remaining disposed waste and
- continuing education of employees.

9.2.1 Key activities in year 2016

Year 2016 was successful in the field of environmental management and no extraordinary environmental events were recorded.

We updated and expanded our environmental program – discharges of sanitary and rainwater

New Decree on the discharge and treatment of urban wastewater, which entered into force on January 1 2016, prolonged the deadline for connecting buildings to the public sewerage system or arrangement of small wastewater treatment plants and oil traps, namely from September 1 2017 to December 31 2021. As a result, we have updated environmental program no. 14 – discharges of sanitary and rainwater. Under the new program all the buildings owned by Elektro Gorenjska, in addition to energy and commercial buildings including apartments and parking, are included. In all these facilities we will by the end of 2021 regulate the systems for the discharge of wastewater. In 2016 the arrangement of wastewater in business and workshop facility Žirovnica and on facility RTP Zlato polje was completed. In 2017, we plan arrangements of the wastewater discharge in the commercial - residential building Visoko and residential building next to RP Bled.

We have provided for greater transparency and accessibility

With the aim of transparent recording of operations in 2016, we updated the internal instructions for the recording of costs and revenues in the area of SRO. We have improved the process of submitting and sale of useful waste to our contractual transferee Gorenje Surovina, d. o. o. On the intranet, we have more clearly shown the environmental aspects and have associated them with documents that control the specific environmental aspect.

We standardized and regulated the way we are handling dismantled and useful material

Already in 2015, we established that there is no unified management of dismantled and useful materials and equipment. In 2016 we have therefore issued instructions which precisely define the procedures for handling each type of dismantled usable material and maximum stocks and storage locations. Responsible administrators of locations quickly arranged the situation using the instructions, which we observed in the autumn part of the internal audit, which was carried out last year for the first time also on locations of RTPs and RPs.

We have improved the method of recording waste

In the field of investments recording of waste and management of costs related to disposal have been improved. Rules on waste management, which is one of the most important internal acts of the company in the field of SRO, was updated. With its help the specifics and exceptions regarding the location of the delivery of waste and recording of waste with identification cards are defined in more detail.

We focused on updating the content of projects PGD and PZI. It is very important that the designer produces a quality plan, since operators in the implementation phase of the project in waste management allows the utmost account of the provisions of the project, so as to ensure the proper disposal of waste. Project manager must ensure that any disposal of waste generated by the project implementation are adequately recorded also in writing.

We systematically approached the introduction of a new version of standard ISO 14001: 2015. In order to get acquainted with the new requirements of standard ISO 14001: 2015, and the guidelines for the introduction, in April 2016 an in-house training for internal auditors of management systems was held. Compliance of SRO with the new standards will be implemented in the first half of 2017, because the internal and external audit for 2017 will already be implemented under the new standard.

9.2.2 Management of important environmental aspects in year 2016

To manage important environmental aspects appropriately we have established quality indicators which show how successful we are in managing the quality standard 14001. Following we present key areas referring to the activity of the group.

Waste management

We provide for integrated control of useful and useless waste. Useful waste is forwarded to agents, which use them for further processing. Similarly organized is also collection of paper and cardboard packaging as well as used toners and cartridges, which are sent for ecologic further processing. Costs of utilities are followed with the quality indicator No. 220.

Management of dangerous substances (oils, fuel, other liquids)

Despite the extremely robust network of Elektro Gorenjska, namely more than 64 % of our distribution network has been built underground and we have been installing power transformers with eco-friendly liquid, individual events and weather inconveniences still can cause faults and eventual environmental impacts on the remaining distribution network. In 2016 there were no exceptional circumstances that would affect the natural environment.

All identified dangerous substances are stored in appropriate boxes and facilities, which ensure high level of control and security. Procedures and manners of storing and transporting dangerous substances are well defined. Every two years we remove waste oils that are collected in special containers in the ecological island (collection point).

Noise, electromagnetic radiation and light pollution of energy devices

In designing and installing new electricity power facilities the company considers the law, which defines harmful impacts on the environment, like noise, electromagnetic radiation (EMS) and light pollution.

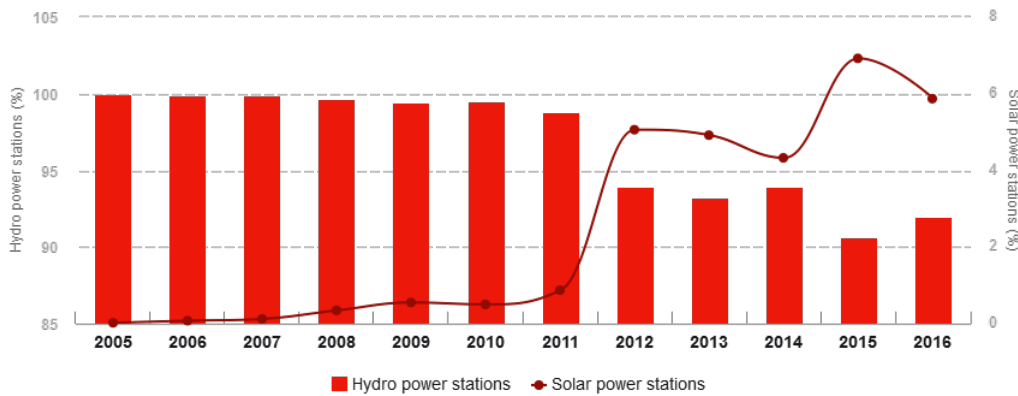
Noise caused by the transformers in transformer stations (MV/LV) does not exceed the limits defined by the existing rules. According to the law in transformer stations (HV/MV) noise monitoring is executed every five years, wherever it is necessary.

According to the previous EMR measurements we have established that excessive levels do not occur outside of protected areas of energy devices, so no additional measures of protection against radiation were necessary. Despite that we execute periodical measurements of EMR in transformer stations (RTP) according to the law and raise public awareness on electromagnetic radiation.

Environmental savings from hydro power stations

Production of electricity delivered into the network and into the internal network of end users from hydro power stations represents 91.97 % share of production, from solar power stations 5.87 % share and from cogeneration 2.16 % share of entire production.

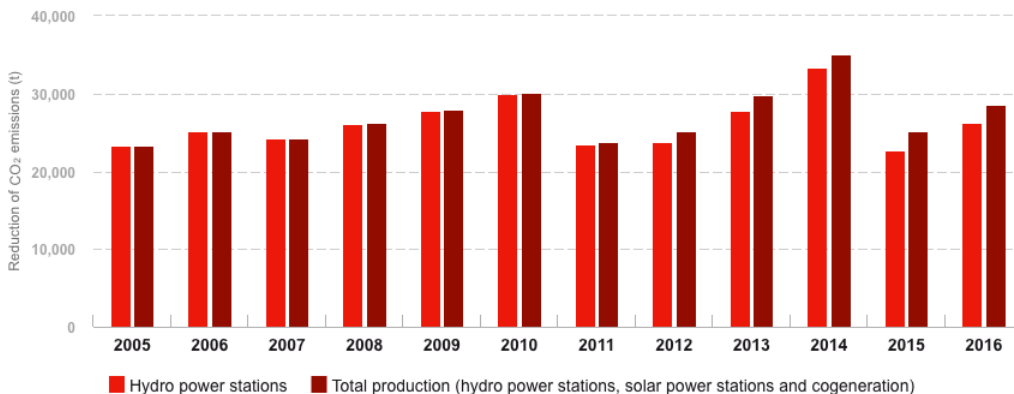
Figure 52: Shares of electricity generation from renewable sources in Gorenjske elektrarne in the period 2005 - 2016 (%)



In year 2016 total production of ecologically clean electricity in hydro power stations was 57,681 MWh. Electricity produced in hydro power stations gives environmental savings, namely according to the methodology of the Energy Efficiency Center from Jožef Stefan Institute in CO₂ calculation (0.5 kg CO₂/kWh) for year 2015 there was a reduction of 26,280 tons of CO₂ emissions.

Total CO₂ reduction from hydro power stations, solar power stations and co-generation of electricity and heat in year 2016 was by 22,759 tons of CO₂ emissions.

Figure 53: Environmental savings of reduction of CO₂ emissions due to production of electricity in hydro power stations, solar power stations and co-generation units in the period 2005-2016



Environmental savings from co-generation units

In year 2016 total production of electricity from cogeneration units using natural gas into the distribution network and internal network of final customers was 1,236 MWh, which represents 2.16 % share of all electricity produced.

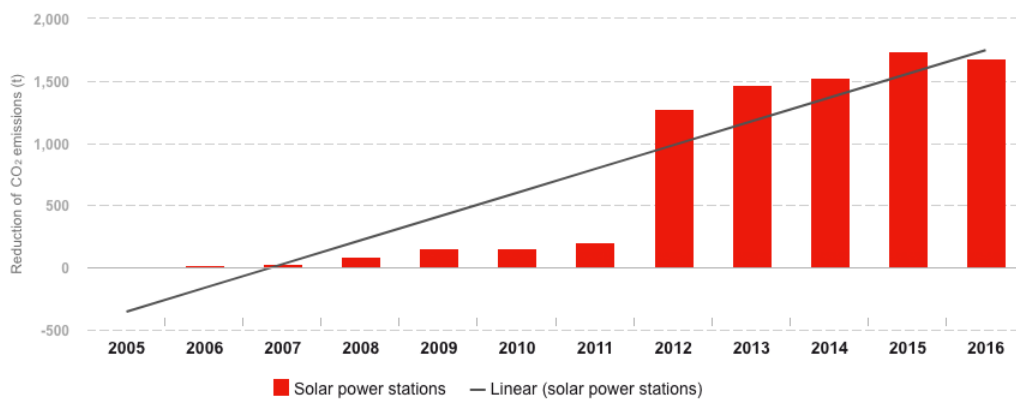
Environmental savings from co-generation of electricity are reduction of 618 tons of CO₂ emissions.

Environmental savings from solar power stations

In year 2016 total production of electricity into the distribution network and internal network of final customers was 3,356.2 MWh, which represents 5.87 % share in total electricity produced.

Electricity produced in solar power stations gives environmental savings, namely according to the methodology of the Energy Efficiency Center from Jožef Stefan Institute in CO₂ calculation (0.5 kg CO₂/kWh) for year 2016 by 1,678 tons of CO₂ emissions. Cumulative environmental saving of CO₂ emissions from solar power stations from year 2005 to the end of 2016 was 8,355.3 tons of CO₂ emissions.

Figure 54: Environmental saving of CO₂ emission reduction due to production of electricity in solar power stations in period 2005 - 2016



9.2.3 Environmental communication

By raising awareness and educating various public we build high environmental awareness and responsibility of all employees:

- Contents on correct and responsible environmental management are included in the introductory training for new employees.
- We regularly write about approaches and methods to protect the environment in the internal magazine and on internal websites.
- We acquaint the public with environmental topics through publications on our website, in the media and various consultations and roundtables.
- We work with professional, scientific and educational organizations.
- When siting major power facilities in the area we also prepare meetings with the residents, and they also learn about activities, results and plans related to responsible environmental management.

9.3 Care for the public interest – social responsibility

In communication with different stakeholders of the public Elektro Gorenjska Group follows the two core objectives, to create a positive dialogue and to provide clear and transparent information to the public, with which it cooperates.

In communicating important business decisions, business developments and innovations in the field of services and products our professional services provide targeted communications activities both with internal and external public. Productive, efficient, clear and transparent communication with individual stakeholder groups are the responsibility of the management, executive directors of organizational units, individual professional

workers and service for corporate communications.

We report about communication with employees in more detail also in chapter [9.1. – Care for employees.](#)

9.3.1 Communication with local community and social responsibility

Siting of electricity infrastructure is a lengthy and demanding process. Understandable communication with citizens and clear presentation of aims and consequences are the key highlights followed with every intervention in the environment. We provide for transparent publication of information on websites, and we also actively work with representatives of local communities.

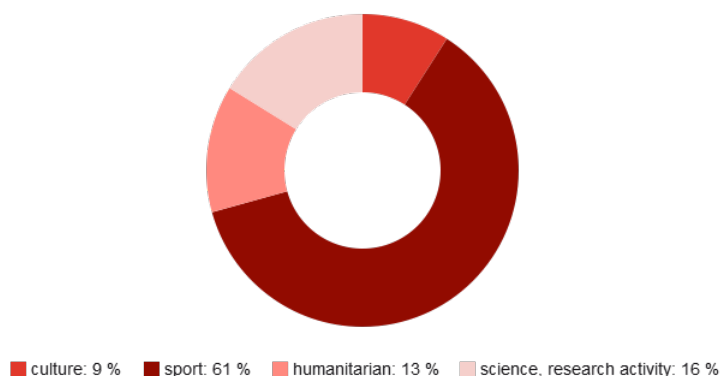
Sponsorships and donations

We are aware of our involvement in the wider social and local environment. Projects that we financially support, follow the identity of the group companies and approved strategy. Through projects in various fields we recognize opportunities where with our knowledge, financial resources or other resources we can contribute to progress.

We support the work of non-profit organizations, associations, societies and clubs in the field of sport, culture and education, health, humanitarian projects and other socially useful activities.

Projects are selected on the basis of the internal rules, which define quality criteria and social relevance of the project. We consider short-term as well as long-term positive effects on companies in the group, local community and environment we operate in.

Figure 55: Sponsorships and donations of Elektro Gorenjska Group in year 2016



In year 2016 there was a total of 41,870 € of funds in the group allocated to sponsorships and a total of 63,986 € to donation projects.

9.3.2 Communication with business partners

In accordance with good business customs the group provides for the permanent communication with its business partners. With our key partners we strengthen our relations at the charity event at the end of the year, and we inform them about the activities of the companies in the group regularly in the internal gazette, through financial publications and other communication channels.

At the end of the year, the group carried out the traditional charity meeting where together with the business partners they gathered financial resources and allocated them to the program Neodviseni.si for its operation in year 2017 in Gorenjska region. Socially responsible program informs the young and the elderly population of the traps of different forms of addiction and in particular presents solutions that modern society forgets.

9.3.3 Communication with media

Professional services in this field ensure regular and proactive communication with the media. They encourage positive and neutral presence in the media and understanding of the electricity contents with regular answers

to journalists' questions, socially responsible content and by proactively identifying and communicating the more complex topics.

Effectiveness of our relationship with the media is measured in the company by annual media analysis, daily content analysis and in-depth analysis based on qualitative and quantitative evaluation of the relevant posts. Media coverage of the group Elektro Gorenjska was in 2016 largely neutral. We have seen quite a few positive publications, topics were related to investments. Among them, the most prominent was the ceremonial handover of a new 110 kV distribution power line between Bohinj and Železniki, which took place in September on the Soriška planina. There were 85 positive posts, two more than in 2015. We are especially pleased that in the past year in the media there was not one negative post, which would mention any of the companies in the group.

9.3.4 Communication with customers

We communicate with our customers through:

- traditional and electronic mail (info@elektro-gorenjska.si, info@gek.si), where we collect offers of different companies as well as user letters (applications, claims, complaints, etc),
- free telephone line 080 30 19, which operates continuously 24 hours a day, every day of the year. On the phone number we accept user notifications on power outages, and we forward different information about the network that final end users need,
- company's website www.elektro-gorenjska.si, where users besides other information can follow schedules of planned disconnections of electricity on the Elektro Gorenjska distribution network;
- application Moj EG account, available on the web site www.elektro-gorenjska.si, with the help of which business users can govern activities in the field of network activity (they can obtain data on past consumption, submit consumption status and other);

9.3.5 Communication with shareholders and financial public

We follow the recommendations of the owner or the investment manager, as well as the current legislation, so all company's data, concluded deals, and sponsorship and donation projects are reported on the web site www.elektro-gorenjska.si/za_delnicarje and www.elektro-gorenjska.si/o-podjetju/katalog-informacij-javnega-znacaja.

We provide for a regular, open and exact communication with all interested public.

9.3.6 Communication with influential public

Contents related to regulation and legislation, as well as arrangements between different institutions, is regularly and openly communicated with key influential public. They include government institutions of the republic of Slovenia as the majority owner, Ministry of Infrastructure, Ministry of Finance and other important institutions.

10.0

Events after the balance sheet date

There were no major events, except those presented in the Financial report (Chapter 26 - Events after the balance sheet date).



Consolidated financial report

Proactive involvement in development projects

Company monitors and actively participates in research and development projects, which represent the driving force of the future. In 2016, we successfully completed an international research and development project INCREASE. Our company successfully participated in the international consortium with a demonstration of the project goals.

B

11.0

Management responsibility statement

Management board of Elektro Gorenjska hereby approves the financial statements published and presented in this annual report and all other component parts of the consolidated annual report. Consolidated annual report provides a true and fair picture of the financial condition of the group.

Management board of Elektro Gorenjska company certifies that International Financial Reporting Standards were used and relevant accounting principles were applied in drafting the consolidated financial statements and that accounting estimates were prepared according to the principles of prudence and due diligence.

Management board of Elektro Gorenjska Company approved the financial statements of the group prepared for the financial year 2016 on April 12 2017.

Management board of Elektro Gorenjska is responsible for appropriate accounting in the company, for adoption of appropriate measures to protect the property and other assets, and hereby certifies that financial statements were prepared on a going concern basis and in line with the relevant legislation and International Financial Reporting Standards as adopted by the European Union.

At any time within 5 years after the year in which it was necessary to levy the tax, tax authorities may check the company's operations, which may result in an additional tax liability, default interest and penalties for corporate income tax or other taxes and charges. Management of the company has not been acquainted with any circumstances that could cause eventual significant liability in this respect.

Kranj, April 12 2017

Chairman of the Board:
Bojan Luskovec, M. Sc.



12.0

Auditor's report



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 Slovenija Internet: <http://www.kpmg.si>

Independent Auditors' Report¹

To the owners of the ELEKTRO GORENJSKA, d.d.

Opinion

We have audited the consolidated financial statements of the Elektro Gorenjska, d.d. and its subsidiaries («the Group»), which comprise the consolidated statement of financial position as of 31 December 2016, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of cash flows, and the consolidated statement of changes in equity for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

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

Basis for Opinion

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

Other Information

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

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

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

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

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

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



Responsibility of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the IFRS as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of 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 Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using of the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibility for the Audit of 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 auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated 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 Group'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 Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated 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 those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

On behalf of the auditing company

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

Primož Koder
Certified auditor

Tomaž Mahnič, FCCA
Certified auditor
Director

Ljubljana, 12 May 2017

KPMG Slovenija, d.o.o.

¹ The Independent Auditor's Report hereof is a translation of the original Independent Auditor's Report in Slovene, issued on the financial statements and the notes thereto in Slovene and is not to be signed. This translation is provided for reference purposes only.

13.0

Introduction notes to the preparation of consolidated financial statements of the group

In accordance with paragraph 10 of Article 54 of the Companies Act-1 the consolidated financial statements and notes for the year 2016 were for the first time prepared in accordance with the International Financial Reporting Standards (IFRS), as adopted by the European Union. Transition date to IFRS was January 1 2015. On that day, the Group Elektro Gorenjska prepared opening statement of financial position in accordance with IFRS. Until year 2016, the group prepared its consolidated financial statements in accordance with Slovenian Accounting Standards. Effects of the transition are presented in [chapter 15.5](#).

14.0

Financial statements of Elektro Gorenjska Group for business year ended as at 31. 12. 2016

14.1 Statement of financial position of Elektro Gorenjska Group as at 31. 12. 2016

in €

ITEM	NOTE	31. 12. 2016	31. 12. 2015	1. 1. 2015
ASSETS				
Long-term assets		208,170,512	202,536,886	193,904,750
Intangible assets	16.1	1,360,011	977,311	810,336
Tangible fixed assets	16.2	197,207,403	192,544,532	184,212,734
1. Land and buildings		139,916,755	136,346,194	120,205,636
2. Production plant and equipment		53,285,232	52,774,738	53,265,404
3. Other plant and equipment		485,940	583,069	677,047
4. Tangible fixed assets in acquisition		3,519,476	2,840,531	10,064,647
Investment property	16.3	2,222,372	1,783,352	2,053,482
Long-term financial investments	16.4	7,261,561	7,042,756	6,569,306
1. Long-term financial investments, excluding loans		7,117,083	6,897,438	6,223,147
b) Investments accounted for using the equity method		6,992,928	6,773,283	6,057,676
c) Other shares and stakes		124,155	124,155	165,471
2. Long-term loans		144,478	145,318	346,159
b) Long-term loans to others		144,478	145,318	346,159
Long-term operating receivables		37,480	23,240	21,332
Other long-term assets		81,685	165,695	237,560
Short-term assets		13,960,262	11,260,516	12,213,524
Assets (of the group for disposal) for sale		0	42,320	98,702
Stocks	16.5	244,832	275,407	197,258
Short-term financial investments	16.6	1,544,144	840	100,840
1. Short-term financial investments, except loans		143,304	0	0
2. Short-term loans		1,400,840	840	100,840
Short-term operating claims	16.7	6,078,218	6,828,840	6,480,321
Other short-term assets	16.8	1,754,887	551,798	501,380
Cash and cash equivalents	16.9	4,338,181	3,561,311	4,835,023
TOTAL ASSETS		222,130,774	213,797,402	206,118,274

Statement of financial position of Elektro Gorenjska Group as at 31. 12. 2016 (continued from previous page)

in €

ITEM	NOTE	31. 12. 2016	31. 12. 2015	1. 1. 2015
LIABILITIES				
Capital	16.10	149,634,034	145,144,102	141,450,482
Called-up capital		71,898,061	71,898,061	71,898,061
Capital reserves		45,944,898	45,944,898	45,944,898
Profit reserves		27,296,161	22,945,278	20,307,445
Other reserves		-579,667	-648,938	-855,438
Retained profit		5,074,581	5,004,803	4,155,516
Long-term liabilities		58,711,103	55,000,264	49,801,390
Provisions	16.11	8,131,914	7,842,917	7,473,951
Long-term financial liabilities	16.12	43,935,698	40,526,928	35,907,769
Long-term operating liabilities		54,005	30,802	0
Other long-term liabilities	16.13	6,422,187	6,481,907	6,334,190
Deferred tax liabilities	16.14	167,299	117,710	85,480
Short-term liabilities		13,785,637	13,653,036	14,866,402
Short-term financial liabilities	16.15	6,290,313	6,783,667	7,689,606
Short-term operating liabilities	16.16	6,432,422	5,820,054	6,189,885
Income tax liabilities		227,178	117,432	326,013
Other short-term liabilities	16.17	835,724	931,883	660,898
TOTAL LIABILITIES		222,130,774	213,797,402	206,118,274

Explanatory notes are part of the financial statements and should be read in conjunction with them.

14.2 Profit or loss account of Elektro Gorenjska Group for business year ended as at 31. 12. 2016

in €

ITEM	NOTE	2016	2015
Net sales revenue	17.1	35,323,241	35,404,931
Capitalized own products and services	17.2	5,817,010	4,563,225
Other operating revenues	17.3	888,414	742,151
Costs of goods, material, and services		9,109,680	11,025,500
a. Costs of goods sold and material used	17.4	5,284,242	6,394,215
b. Costs of services	17.5	3,825,438	4,631,285
Labor costs	17.6	12,349,034	11,986,571
Amortization/depreciation expense	17.7	11,010,022	10,354,423
Other operating expenses	17.8	958,824	739,990
Financial revenues from shares	17.9	2,354	1,687,990
b. Financial revenues from shares in associates		0	1,687,990
č. Financial revenues from other investments		2,354	0
Financial revenues from given loans		3,735	7,267
Financial revenues from operating claims		39,061	61,122
Financial expenses from impairments and financial investment write-offs		33,449	41,317
Financial expenses from financial liabilities	17.10	876,202	1,026,706
Financial expenses from operating liabilities		92,272	56,413
Recognized profit of investments valued using the equity method	17.11	506,114	862,297
TOTAL PROFIT		8,150,446	8,098,063
Income tax	17.12	906,380	740,948
Deferred taxes	17.13	49,590	117,709
NET PROFIT OR LOSS OF THE ACCOUNTING PERIOD		7,194,476	7,239,406

Explanatory notes are part of the financial statements and should be read in conjunction with them.

14.3 Statement of other comprehensive income of Elektro Gorenjska Group for business year ended as at 31. 12. 2016

in €

Title	2016	2015
1. Net profit or loss of the accounting period	7,194,476	7,239,406
2. Items of other comprehensive income (except amounts using equity method) that will later not be reclassified in profit and loss:	-74,356	594
- Actuarial gains and losses	-74,356	594
3. Items of other comprehensive income (except amounts using equity method) that will later be reclassified in profit and loss based on the fulfillment of special conditions:	187,922	217,976
- Effective share of gains and losses from hedging instruments in hedging of cash flow hedges	187,922	217,976
4. Share of other comprehensive income of associated companies and joint ventures charged using equity method) that will later not be reclassified in profit and loss	5,061	3,310
5. Share of other comprehensive income of associated companies and joint ventures charged using equity method) that will later be reclassified in profit and loss based on the fulfillment of special conditions	-320	0
TOTAL COMPREHENSIVE INCOME	7,312,783	7,461,286

Explanatory notes are part of the financial statements and should be read in conjunction with them.

14.4 Cash flow statement of Elektro Gorenjska Group for business year ended as at 31. 12. 2016

in €

ITEM	Year 2016	Year 2015
A. OPERATING CASH-FLOW		
a. Operating receipts	40,085,112	42,577,140
1. Receipts from sales of products and services	39,746,462	42,032,199
3. Other operating receipts	338,650	544,941
b. Operating expenditure	-21,904,588	-25,833,091
1. Expenditure for purchase of material and services	-5,474,946	-9,764,928
2. Expenditure for salaries and employees profit shares	-9,021,213	-8,777,922
3. Expenditure for income tax	-773,715	-990,854
4. Expenditure for other duties	-3,388,428	-3,378,095
5. Other operating expenditure	-3,246,286	-2,921,292
c. Positive or negative operating cash flow (a+b)	18,180,524	16,744,049
B CASH FLOWS IN INVESTING ACTIVITIES		
a. Receipts in investing activities	1,481,794	816,023
1. Receipts from received interest and profit shares of others referring to investing activities	339,383	209,955
3. Receipts from disposal of tangible fixed assets	156,327	63,728
4. Receipts from disposal of investment property	313,485	241,500
5. Receipts from disposals of financial investments	672,599	300,840
b. Expenditure in investing activities	-18,298,667	-19,949,922
1. Expenses for acquisition of intangible assets	-718,640	-470,712
2. Expenses for acquisition of tangible fixed assets	-15,174,512	-19,027,894
3. Expenses for acquisition of investment property	-192,557	-97,592
4. Expenses for acquisition of financial investments	-2,212,958	-353,724
c. Positive or negative cash flow in investing (a+b)	-16,816,873	-19,133,899
C. CASH FLOWS IN FINANCING ACTIVITIES		
a. Receipts in financing activities	9,999,999	36,805,000
2. Receipts from increase in financial liabilities	9,999,999	36,805,000
b. Expenditure in financing activities	-10,586,780	-36,042,585
1. Expenditure for given interest referring to financing activ.	-887,159	-1,127,169
3. Expenditure for repayment of financial liabilities	-6,800,517	-32,867,146
4. Expenditure for dividend and other profit share payment	-2,876,598	-2,048,270
5. Expenditure for purchase of own shares	-22,506	0
c. Positive or negative cash flow in financing (a+b)	-586,781	762,415
Č. CLOSING CASH BALANCE	4,338,181	3,561,311
x. CASH FLOW FOR THE PERIOD (Ac+Bc+Cc)	776,870	-1,627,435
y. OPENING CASH BALANCE	3,561,311	5,188,746

Explanatory notes are part of the financial statements and should be read in conjunction with them.

14.5 Statement of changes in equity of Elektro Gorenjska Group for the business year ended as at 31. 12. 2016

a) From January 1 2016 to December 31 2016:

in €

Events in individual capital items	Called-up capital			Capital reserves			Profit reserves			Other reserves			Retained profit		Total capital
	I.			II.			III.			IV.			V.		
	Share capital	Share premium account	General capital valuation adjustment	Statutory reserves	Own shares and stakes reserves	Own shares and stakes reserves	Other profit reserves	Reserves for hedging	Fair value reserves	Net profit or loss brought forward	Net profit or loss of the business year	Net profit or loss of the business year	Net profit or loss of the business year	Net profit or loss of the business year	
I./1.	II./1.	II./2.	III./1.	III./2.	III./3.	III./5.	IV./2.	IV./3.	V./1.	V./2.	V./2.	V./2.	V./2.		
Balance as of December 31 2016	71,898,061	1	45,944,897	1,896,184	0	0	21,049,094	-672,918	23,980	200,216	4,804,587	145,144,102			
Balance as of January 1 2016	71,898,061	1	45,944,897	1,896,184	0	0	21,049,094	-672,918	23,980	200,216	4,804,587	145,144,102			
Changes in equity capital – transactions with owners	0	0	0	0	0	-22,506	0	0	0	-7,348	-2,792,997	-2,822,851			
Purchase of own shares and stakes	0	0	0	0	0	-22,506	0	0	0	0	0	-22,506			
Dividend payment	0	0	0	0	0	0	0	0	0	-7,348	-2,792,997	-2,800,345			
Total comprehensive income of reporting period	0	0	0	0	0	0	0	187,922	-69,615	0	7,194,476	7,312,783			
Entry of net profit or loss for the reporting period	0	0	0	0	0	0	0	0	0	0	7,194,476	7,194,476			
Items of other comprehensive income (excluding using equity method) that will later not be reclassified to profit or loss	0	0	0	0	0	0	0	0	-74,356	0	0	-74,356			
Items of other comprehensive income (excluding using equity method) that will later be reclassified to profit or loss	0	0	0	0	0	0	0	187,922	0	0	0	187,922			
Share of other comprehensive income charged using equity method) that will later not be reclassified to profit or loss	0	0	0	0	0	0	0	0	5,061	0	0	5,061			
Share of other comprehensive income charged using equity method) that will later be reclassified to profit or loss	0	0	0	0	0	0	0	0	0	0	0	0			
Changes within capital	0	0	0	348,979	22,506	0	4,001,904	0	-49,035	2,060,625	-6,384,979	0			
Allocation of the remaining part of net profit of the comparative reporting period to other items of capital	0	0	0	0	0	0	0	0	0	2,011,590	-2,011,590	0			
Allocation of part of net profit of reporting period to other items of capital following the decision of the management and control	0	0	0	348,979	22,506	0	4,001,904	0	0	0	-4,373,389	0			
Other changes within capital	0	0	0	0	0	0	0	0	-49,035	49,035	0	0			
Balance as of December 31 2016	71,898,061	1	45,944,897	2,245,163	22,506	-22,506	25,050,998	-484,997	-94,670	2,253,493	2,821,088	149,634,034			

Explanatory notes are part of the financial statements and should be read in conjunction with them.

b) From January 1 2015 to December 31 2015:

in €

Events in individual capital items	Called-up capital		Capital reserves			Profit reserves			Other reserves			Retained profit		Total capital
	I.		II.		III.			IV.		V.				
	Share capital	Share premium account	General capital valuation adjustment	Statutory reserves	Other profit reserves	Reserves for hedging	Fair value reserves	Net profit or loss brought forward	Net profit or loss of the business year					
	I./1.	II./1.	II./2.	III./1.	III./5.	IV./2.	IV./3.	V./1.	V./2.					
Balance as of December 31 2014	71,898,061	1	45,944,897	1,629,087	18,678,358	-890,894	35,456	962,682	1,590,324	139,847,972				
Balance as of January 2015	71,898,061	1	45,944,897	1,629,087	18,678,358	-890,894	35,456	962,682	1,590,324	139,847,972				
Changes in equity capital – transactions with owners	0	0	0	0	0	0	0	0	-2,165,156	-2,165,156				
Dividend payment	0	0	0	0	0	0	0	0	-2,165,156	-2,165,156				
Total comprehensive income of reporting period	0	0	0	0	0	217,976	3,904	0	7,239,406	7,461,286				
Entry of net profit or loss for the reporting period	0	0	0	0	0	0	0	0	7,239,406	7,239,406				
Items of other comprehensive income (excluding using equity method) that will later not be reclassified to profit or loss	0	0	0	0	0	0	594	0	0	594				
Items of other comprehensive income (excluding using equity method) that will later be reclassified to profit or loss	0	0	0	0	0	217,976	0	0	0	217,976				
Share of other comprehensive income charged using equity method) that will later not be reclassified to profit or loss	0	0	0	0	0	0	3,310	0	0	3,310				
B.3. Changes within capital	0	0	0	267,097	2,370,736	0	-15,381	-762,465	-1,859,987	0				
Allocation of the remaining part of net profit of the comparative reporting period to other items of capital	0	0	0	0	203,014	0	0	-777,846	574,832	0				
Allocation of part of net profit of reporting period to other items of capital following the decision of the management and control	0	0	0	267,097	2,167,722	0	0	0	-2,434,819	0				
Other changes within capital	0	0	0	0	0	0	-15,381	15,381	0	0				
Balance as of December 31 2015	71,898,061	1	45,944,897	1,896,184	21,049,094	-672,918	23,980	200,216	4,804,587	145,144,102				

Explanatory notes are part of the financial statements and should be read in conjunction with them.

15.0

Notes to the consolidated financial statement

15.1 Reporting company and group structure

Elektro Gorenjska Company is the parent company of Elektro Gorenjska Group. Business address of the parent company is Ulica Mirka Vadnova 3a, Kranj.

Consolidate financial statements of Elektro Gorenjska Group for the year ended as at 31. 12. 2016, include:

- controlling company Elektro Gorenjska, Ulica Mirka Vadnova 3a, Kranj,
- controlled company Gorenjske elektrarne, Stara cesta 3, Kranj, which is in 100 % ownership of the controlling company; capital of this company as at 31. 12. 2016 amounted to 18,169,222 €, net profit for year 2016 was 638,923 €,
- associate company ECE, Vrnčeva ulica 2a, Celje, which is in 25.6744 % ownership of the controlling company; capital of this company as at 31. 12. 2016 amounted to 18,206,204 €, net profit for year 2016 was 1,353,114 €, and
- associate company Soenergetika, Stara cesta 3, Kranj, which is in 25 % ownership of company Gorenjske elektrarne; capital of this company as at 31. 12. 2016 amounted to 1,887,749 €, net profit for year 2016 was 643,839 €.

Elektro Gorenjska Group is engaged in the production, sale and distribution of electricity.

15.2 Basis for compiling the consolidated financial statements

15.2.1 Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union, and the notes adopted by the Committee for Interpretations of International Financial Reporting Standards (OMSRP) and in accordance with the requirements of the Companies Act (ZGD-1) and the Energy Act (EZ-1).

Management of Elektro Gorenjska Company approved the consolidated financial statements on April 12 2017.

15.2.2 Basis for measurement

Consolidated financial statements have been prepared on a historical cost basis, except in the case of receivables, which are recorded at amortized cost and interest rate hedging, which is measured at fair value. Methods used to measure fair value are described in [Chapter 15.4. - Determination of fair value](#).

Consolidated financial statements have been prepared assuming that the group will continue with its operations in the future. Operations of the group are not seasonal in nature.

15.2.3 Functional and presentation currency

Presented financial statements of Elektro Gorenjska Group are presented in €. Degree of accuracy in reporting is 1 €.

Exchange rate differences, which occur in settlements of monetary items or with transference of monetary items at exchange rates different from those at which they were transferred at initial recognition in the period, are recognized in profit and loss for the period they occur in. In order to convert values in foreign currencies, the group uses the reference rate of the European Central Bank published by the Bank of Slovenia.

15.2.4 Use of significant estimates and judgements

In the application of presented accounting policies and guidelines, the company must carry out a number of estimates and assumptions about the carrying amounts of assets and liabilities that are not readily available from other sources. Estimates and associated assumptions are based on historical experience and factors that the company believes to be appropriate. Estimates and assumptions used are continuously reviewed. Actual results may differ from these estimates. Checks to accounting estimates are recognized in the period in which the estimate is checked, but also in future periods if the revised estimate affects both current and future periods. Following are the main assessments, besides already presented, carried out by the company in applying accounting policies that have a significant effect on the amounts recognized in the financial statements.

Assumptions and estimates

Assumptions and estimates that have the biggest impacts on amounts in the financial statements are:

- Determination of useful lives of intangible and tangible fixed assets (please see chapters [15.3.2 Intangible assets](#) and [15.3.3. Tangible fixed assets](#))
- Adjustments of doubtful debts (please see chapter [15.3.6 Financial instruments](#))
- Provisions estimate (please see chapter [15.3.10 Provisions](#))

Transactions with SODO Company

Transactions with company SODO are generally regulated by the Contract with SODO, which is presented in more detail also in the Business report, in [chapter 4.10.4](#).

In March 2017 the company received a preliminary settlement of the regulatory year 2016 from SODO. Preliminary settlement for year 2016 was executed by SODO on the basis of the unaudited financial statements. Settlement shows that the already charged contractual value of services and rent in year 2016 was by 1,577,187 € lower than the value established on the basis of the preliminary settlement. On this basis the company in 2016 recognized accrued income in the amount of 1,577,187 €. In year 2015 revenues established on the basis of preliminary settlement of the regulatory year 2015 were by 252,252 € higher than the already charged ones during the year. In year 2015 the company therefore recognized additional accrued income in the amount of 252,252 €.

Elektro Gorenjska received the final settlement for the regulatory year 2015 after the date of approval of the financial statements for the year 2016. From the final settlement, based on the audited financial statements for the year 2015, it results that the already charged value of rents and services, together with interest was by 22,113 € higher than the value of the final settlement. Settlement will be considered in the financial statements for 2017.

Final settlement for regulatory year 2016 will be executed by SODO on the basis of the decision by the Energy Agency, which will take into account the revised data of both contracting parties. In case Energy Agency issued a decision in which it established different surpluses or deficits than the ones established by SODO, both contracting parties are bound to consider the Energy Agency decision.

Disputes in progress and related provisions

There are several disputes in progress, including important denationalization procedures, where Elektro Gorenjska Company acts as the liable party. Company does not disclose details regarding these disputes, as it estimates that such disclosures might threaten the benefits of the company.

15.2.5 New accounting standards and interpretations not yet in force

New standards and interpretations, which are presented below, are not yet in force and were not taken into account during the preparation of annual financial statements for the year ended on December 31 2016.

IFRS 9 Financial instruments

In July 2014 the International Accounting Standards Board published the final version of IFRS 9 - Financial Instruments, which contains all the requirements of each phase of the project of renovation of IAS 9 and replaces IAS 39 - Financial Instruments: Recognition and Measurement, as well as all previous versions of IFRS 9. Revised standard introduces new requirements for classifying and measuring financial assets and liabilities, recognition of their impairment and hedge accounting. Revised standard IFRS 9 is effective for annual periods starting on January 1 2018 or later. Earlier application is permitted.

Group anticipates that the revised standard will not have a significant impact on its financial statements.

IFRS 15 Revenue from contracts with customers

New standard provides a framework that replaces existing guidance for revenue recognition under IFRS. Companies use a five-step model to determine exactly when to recognize revenue and to what level. New model clarifies that revenue is recognized when the company transfers control of goods and services to the customer, namely in the amount of up to which the company expects to be eligible. IFRS 15 is effective for annual periods starting on January 1 2018 or later. Earlier application is permitted. Notes to the IFRS 15 had not yet been approved by the European Union.

Group is reviewing the impact of the new standard and will use it when it enters into force.

IFRS 16 Leases

IFRS 16 replaces IAS 17 Leases and the related notes. Standard eliminates the existing model of dual accounting for leases and instead from the company / group requires that most of the leases in the balance sheet are accounted for by a single model without distinguishing between the business and financial leasing. According to IFRS 16, the contract of lease is considered a contract that for a certain period of time gives the right to use certain assets in return for payment. New model for such an agreement provides that the tenant shall recognize the right to use the assets and liabilities of the lease. Right to use the asset is depreciated, interest is credited to the liabilities. This leads to concentrated sample of cost for most leases, even if the tenant pays a fixed annual rent. IFRS 16 is effective for annual periods starting on January 1 2018 or later. Earlier application is permitted. Notes to the IFRS 15 had not yet been approved by the European Union.

Group anticipates that the standard will not have a significant impact on its financial statements.

Amendment to IFRS 2: Clarifications of classification and measurement of share based payment transactions

Amendment defines more precisely the share-based payments, namely the effects of mandatory and optional conditions on the measurement of share-based payments that are settled in cash; share-based payments with a settlement option in case of obligations of withholding tax; and changes in conditions of share-based payments relating to the classification of payments settled in cash to payments settled with equity. Amendment is effective for annual periods beginning on January 1 2018. Earlier application is permitted. Amendment has not yet been approved by the European Union.

Group anticipates that the new standard on the date of the first use will not have a significant effect on its financial statements because the group does not enter into transactions which shall be paid in shares.

Amendment to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts

Amendment addresses the issues arising from the implementation of IFRS 9 before the scheduled replacement standard that the IASB is preparing for IFRS 4. Amendment introduces two possible solutions. First is a temporary exception to the application of IFRS 9 on the basis of which the application of some insurers is postponed. Another solution indicates a different approach to the presentation which would help and mitigate the volatility that may arise from the application of IFRS 9 prior to the planned standard on insurance contracts. Amendment is effective for annual periods beginning on January 1 2021. Amendment has not yet been

approved by the European Union.

Group is not a provider of insurance and therefore amendment will not affect the financial statements.

Amendments to IFRS10 and IAS 28 Sales or contributions of assets between an investor and its associate/joint venture

Amendment clarifies that in the transactions with affiliated companies or joint ventures the amount of recognized gains or losses depends on whether the sold or invested asset is part of a transaction wherein the total gain or loss recognized when the transaction is concluded between the applicant and its affiliated companies or joint ventures involves the transfer of funds or assets representing the company (irrespective of whether the asset is located in a branch or not), while the partial gain or loss is recognized when the transaction is concluded between the applicant and its affiliated companies or joint ventures includes asset that does not represent the company, even if this means they are located in the branch. Day of use has not yet been fixed by the IASB.

Group anticipates that the amendment will not have a significant impact on its financial statements.

Amendment to IAS 7

Amendment requires additional disclosures that will help users to evaluate the changes in financial liabilities including changes in cash flows and non-monetary changes (eg. the impact of positive and negative exchange rate differences, changes in the acquisition or loss of control over subsidiaries, changes in fair value). Amendment is effective for annual periods beginning on January 1 2017. Amendment has not yet been approved by the European Union.

Group anticipates that the amendment will not have a significant impact on its financial statements.

Amendment to IAS 12: Recognition of deferred tax assets for unrealized losses

Amendment specifies more clearly how and when in certain cases we should account for deferred tax assets, and how to determine the amount of future taxable income for the purpose of assessing the recognition of deferred tax assets. Amendment is effective for annual periods beginning on January 1 2017. Amendment has not yet been approved by the European Union.

Group anticipates that the amendment will not have a significant impact on its financial statements.

Amendment to IAS 40 Investment property

Amendments strengthen the principle set out in IAS 40 Investment Property concerning the transfer of the investment property or from them, so that it now provides that such a transfer is made only if there is a change in the use of the property. In accordance with changes the transfer is made, and only when there is a real change in use - ie. asset starts or ceases to meet the definition of an investment property and there is evidence about the change of use. Mere change of purpose by the management is not the reason for the transfer. Amendment is effective for annual periods beginning on January 1 2018. Amendments have not yet been approved by the European Union.

Group anticipates that changes will not have a significant impact on its financial statements as property is transferred to investment property or from them only when there is a real change in the use of property.

IFRIC 22 Foreign Currency Transactions and Advance Consideration

Interpretation clarifies how to determine the date of the transaction for the purpose of determining the exchange rate to be applied upon initial recognition of the related asset, expense or income (or part thereof) on derecognition of non-monetary assets or non-monetary obligations in relation to a given or received advances in foreign currency. In this case the transaction date is the date on which the company first recognized a non-cash asset or a non-monetary obligation in relation to a given or received advance. Interpretation is effective for annual periods beginning on January 1 2018. Amendments have not yet been approved by the European Union.

Group anticipates that the interpretation will not have a significant impact on its financial statements, as the Group upon initial recognition of non-cash assets or non-cash obligations in respect of advances given or received uses the exchange rate in effect on the transaction date.

15.3 Summary of significant accounting policies

Financial statements of the group have been prepared on the basis of accounting policies presented below.

15.3.1 Basis for consolidation

Financial statements of the group have been prepared on the basis of the financial statements of Elektro Gorenjska Company and its subsidiary and associated companies.

a. Subsidiaries

Subsidiaries are companies controlled by the group. Control exists when the parent company has the power to govern financial and business operating policies of the company to obtain benefits from its activities. Financial statements of subsidiaries are included in the consolidated financial statements of the group from the date that control commences until the date that control ceases.

Accounting policies of subsidiaries are consistent with the policies of the group.

b. Associated companies

Associated companies are those companies in which the group has significant influence, but not control over their financial and operating policies. Significant influence exists when the group owns 20 to 50 per cent of the voting rights in another company. Investments in associates at initial recognition are stated at cost and then accounted for under the equity method. Consolidated financial statements include the group's share in the profits and losses of associates from the date that significant influence commences until the date when it ends.

c. Transactions eliminated from the consolidated financial statements

In preparing the consolidated financial statements we eliminate balances, unrealized gains and losses resulting from intra-group transactions. Unrealized gains on transactions with associated companies (accounted for under the equity method) are eliminated to the extent of the group's share in this company. Unrealized losses are eliminated in the same way as unrealized gains, provided that there is no evidence of impairment.

d. Assumptions used in preparation of consolidated financial statements

In preparing the consolidated financial statements the following assumptions have been used:

- Assumption of a single company; consolidated group accounts show the assets, financial condition and results of operations and changes in financial position and changes in equity of the group companies as if it were one company.
- Assumption of demonstrating the true asset and financial position and profit or loss.
- Assumption of the group's completeness.
- Assumption of the completeness of the financial statements and their uniform scope.
- Assumption of the same date.
- Assumption of consistent consolidation methods.
- Assumption of clarity and transparency.
- Assumption of economy.
- Assumption of significance.

15.3.2 Intangible assets

Intangible asset is an identifiable non-monetary asset, which does not exist physically.

As its accounting policy for intangible assets the group has decided on the use the acquisition cost model. Intangible assets after initial recognition are recognized at their acquisition cost, reduced by accumulated depreciation and accumulated losses due to impairment. Impairment of intangible assets with determinable useful life are carried out in the same way as it applies to tangible assets.

Useful life is the period in which the group expects that the intangible asset will be available for use. Useful life of intangible assets in the group is finite and intangible assets are depreciated. Depreciable amount of an

intangible asset with a finite useful life the group strictly allocates to the entire period of its useful life. Amortization of intangible assets is calculated individually based on the straight-line depreciation method. Depreciation charge for each period shall be recognized in profit or loss account. Useful lives and depreciation rates of larger groups of depreciable assets are:

Significant categories of depreciable assets	Estimated useful life (in years)	Depreciation rate (in %)
Computer software equipment	3	33.33
Other rights	3	33.33

15.3.3 Tangible fixed assets

Tangible fixed assets are assets held by the group to be used in the production or supply of goods or services, for rental to others, or for administrative purposes and are expected to be used for this purpose in more than one period.

Tangible fixed assets that qualify for recognition as an asset is measured at its acquisition cost. Acquisition cost of a tangible fixed asset includes:

- its purchase price, including import duties and non-refundable purchase taxes, after deducting all tradediscounts and rebates;
- all costs directly attributable to bringing the asset to the location and to condition, in which it is capable of operating in the manner expected by the management, and
- directly attributable costs:
 - costs of earnings arising directly from the construction or acquisition of tangible fixed assets;
 - costs of site preparation (excavation, ballast, drainage) land;
 - delivery and handling costs;
 - installation and assembly costs;
 - costs of testing the operation of assets after deducting the net proceeds from the sale of any product which occurred while bringing the asset to its location and appropriate condition (such as samples produced when testing the equipment) and;
 - fees;
- borrowing costs related to the acquisition of tangible fixed asset until it is ready for use, if produced for more than one year.

Borrowing costs are attributed at the completion of the investment, in case the investment is not completed in the current year, they are attributed on the last day of the accounting period to the items of the project (investment items), which are named in the contract of lending, and those items of the project, which name is not listed, but their planned value exceeds 400,000 €.

If the newly acquired and recognized building, which is part of tangible fixed assets due to the construction of new building, which will be part of the tangible fixed assets, is disposed, the carrying value of the existing building is the cost of site preparation, which is included in the cost of the new building.

Acquisition cost of business premises that are part of a building (condominium unit) and are obtained on the basis of a construction contract, purchase contract or other legal basis, also includes the value of the share in the corresponding land, which is directly intended for the use of the building, without which the building is not useful for the intended purpose.

Acquisition cost of a tangible fixed asset constructed or produced in group companies include costs that are directly related to it, and the general costs of construction, which can be attributed to that asset. Costs not related to its construction or making, and costs that the market does not recognize are not included in the acquisition price. Acquisition cost of such tangible fixed asset can not be greater than the acquisition cost of an identical or similar tangible fixed assets on the market. Acquisition cost of tangible fixed asset constructed or produced in group companies thus consists of outsourcing services, hours of direct labor, material costs (valued at the weighted average price at the level OE) and other direct production costs (depreciation of labor resources, administrative and legal fees, notary services...).

Group estimates that it has no significant obligations for decommissioning and disposal of tangible fixed assets, restoration of sites and similar obligations.

For measuring the tangible fixed asset after recognition the group uses the cost model.

Under tangible fixed assets and not investment property we record also the electricity distribution infrastructure leased under operating lease to SODO under the Contract with SODO. Group considers that such disclosure is more appropriate, since it is in content the case of ownership use of assets. Group does not originally possess them in order to earn rental income or other returns.

At the end of the financial year it is determined whether there are signs indicating that the asset may be impaired. In doing so, the signs from external and internal sources of information are checked. Through the commission in charge of fixed assets, the group annually checks internal and external circumstances (significant technological changes, market changes, obsolescence or physical condition of an individual tangible asset), which could be an important indicator of the (in)appropriateness of the useful life or the need for impairment of tangible fixed assets. Tangible fixed asset is impaired if its carrying value exceeds the recoverable amount. Recoverable amount of an asset or cash-generating unit is fair value reduced by the costs at disposal, or the value in use of the smallest cash-generating unit, whichever is greater. Value in use is estimated as the present value of expected future cash flows, where these are discounted to their present value using a discount rate before taxes. Impairment is recognized in the income statement as other operating expenses.

Depreciable amount of tangible fixed assets is equal to their acquisition cost, reduced by any eventual impairment, which is systematically allocated throughout the useful life.

If subsequently incurred costs related to tangible fixed assets, increase its future benefits compared to the originally estimated, its cost increases. However, if the costs are increasing the useful life of the asset, the acquisition cost of tangible fixed asset is increased for the value of these costs and the useful life is extended.

Costs related to tangible fixed assets, which arose later and are necessary to operate normally, are disclosed as maintenance costs.

Depreciation of tangible fixed assets is calculated individually based on the straight-line method over the entire estimated useful life of assets. Average useful lives and depreciation rates of larger groups of depreciable assets are:

Significant categories of depreciable assets	Estimated useful life (in years)	Depreciation rate (in %)
Buildings of energy infrastructure	25-40	2.5-4
Buildings of hydroelectric power stations	5-40	2.5-20
Solar power stations	12-25	4-8.33
Other buildings	15-50	2-6.67
Equipment of energy infrastructure	10-35	2.86-10
Computer hardware equipment	3	33.33
Equipment of hydro power stations	3-30	3.33-33.33
Other equipment	2-20	5-50
Investments in foreign tangible fixed assets	4-25	4-25
Vehicles	8-12	8.33-12.5

Group annually verifies useful lives and other values of significant items of tangible fixed assets, depreciation rates are then converted to current and future periods if expectations differ significantly from the estimates. Effect of change in estimate is then explained by the group in the notes in the accounting period in which it occurred.

15.3.4 Investment property

Investment property is property owned by the group in order to bring rent and/or increase the value of long-term investment or both.

They are mainly:

- land held for increasing the value of long-term investment rather than for short-term sale in the ordinary course of business;
- land that has no future use determined by the group;
- building in single or multiple operational leasing;
- vacant buildings the company owns to hire out in single or multiple operational leasing;
- property that is being constructed or developed for future use as investment property.

Investment property does not include:

- real estate used by employees in the group (for example apartments hired out for operational leasing to the employees);
- real estate hired out for a long-term operational leasing to company SODO Maribor, on the basis of a long-term contract with SODO;
- property comprising Sava HE, in connection with which a denationalization dispute is in progress. Until the dispute is resolved Sava HE is under long-term operating lease of the controlled company Gorenjske elektrarne.

All of the above listed real estate is treated as a component part of the tangible fixed assets.

For measuring investment property after recognition model of acquisition value is used, reduced by depreciation and eventual impairments.

Straight-line depreciation method is used. Useful lives of larger groups of depreciable assets are between 30 and 50 years, while depreciation rates between 2 and 3.33 %. Useful life of investment property is the same as for tangible fixed assets of the same kind.

Group evaluates signs of impairment in the same way as with tangible fixed assets.

15.3.5 Assets received and leased

Lease is an agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time. Finance lease is a lease that transfers all the significant risks and benefits associated with ownership of the asset. Right to property can pass to the other side or not. Operating lease is a lease other than financial lease and for which the leased assets are not recognized in the balance sheet. Start of the lease is the date that the tenant may exercise its right to use the leased asset.

In accordance with the criteria defined by the accounting standards, the group assesses whether there exists an operating lease or financial lease.

All leases of assets in which the group receives in rent, are defined as operating leases. In an operating lease the costs of hiring are recognized by the group on a straight-line basis in the income statement under the item cost of services.

Assets placed on operating leases by the group are recognized in its tangible assets. Rental income are recognized on a straight-line basis as net operating income in the period of the lease. All costs associated with the assets leased (including depreciation) are recognized as expenses in the period.

15.3.6 Financial instruments

a. Financial investments

Financial investments are financial assets which are recognized in the statement of financial position as long-term and short-term investments. Those long-term investments in financial debts that fall due within one year after the balance sheet date are transferred in the balance sheet to short-term investments.

All long-term financial investments in equity of other companies are classified in fourth category - financial assets available for sale.

In a regular way of purchase or sale of financial assets in the accounting records and statement of financial position such financial asset is recognized taking into account the trade date (trade), this is the date on which the group commits to purchase or sell the asset.

Upon initial recognition, the investment is measured at fair value. Initial value is added also transaction costs arising from the acquisition or issue of financial assets, except for investments classified as financial assets at fair value through profit or loss.

Those investments in equity instruments that are not quoted in an active market and whose fair value can not be reliably measured are measured at acquisition cost.

Investments in subsidiaries and associate companies and joint ventures are measured using the cost model.

If there is an objective evidence that an impairment loss occurred in the investment in an equity instrument which is not quoted in an active market and which are not recognized at fair value, but at cost because its fair value can not be reliably measured, or derivative financial instrument that is linked to and must be settled by delivery of equity instruments that are not quoted in an active market, the amount of the impairment loss is measured as the difference between the carrying value of the asset and the present value of expected future cash flows discounted at the current market rate of return for similar financial assets, and is recognized as a financial expense from revaluation.

Group companies treat futures contracts based on IAS 39.5. as regular purchase contracts and not as derivative financial instruments, except with concluding the futures contracts for the purposes of trading. In these cases futures are dealt with as derivative instruments.

b. Claims

Claims are rights based on property and other relations to require from a certain person to pay the debt, or in the case of given advances supply goods or implement a service.

Claims are initially recognized in amounts that originate from suitable documents assuming that they will be paid. Later, they can increase or decrease due to subsequent rebates, returns due to inadequate quality, for received payments and other forms of settlement.

After their initial recognition claims are measured at their amortized cost.

In the statement of financial position long-term claims, which are already due (but nit yet settled) and long-term claims, which are due in one year after the balance sheet date at the latest, are recognized as short-term claims.

At least quarterly, before compiling the quarterly statement of accounts, we verify the suitability of individual recognized claim's amounts. Receivables, which are assumed to not be settled wholly or partially, are recognized as doubtful; if they result in legal proceedings or there is a dispute about their pay, they are recognized as disputable. To this end, the group has established appropriate records. In the records of disputable claims it classifies all claims:

- in the execution procedures based on the execution title;
- in the execution procedures based on the authentic document (e.g. action) and
- in the insolvency proceedings (composition proceedings, simplified composition proceedings, and bankruptcy proceedings).

Value adjustment of short-term operating receivables to group companies is formed on the basis of the criterion of maturity and collateral. Thus, the estimate obtained is corrected by individual assessment with regard to the creditworthiness of the customer and the internal and external signs of impairment.

c. Cash and cash equivalents

Monetary assets include:

- cash on transactional and foreign currency accounts in banks or other financial institutions that can be used to make payments, and
- cash equivalents.

Cash equivalents are investments that can be readily converted to known amounts of cash and which are subject to an insignificant risk of changes in value. Group also includes deposits, bank deposits and loans among the companies in the group with a maturity of up to three months, and receipts from their disposals, among cash equivalents.

Group has transactional accounts in following commercial banks:

Current account number	Bank of the account	Company
07000-0000641939	Gorenjska banka, Kranj	Elektro Gorenjska
07000-0000542805	Gorenjska banka, Kranj	Gorenjske elektrarne
19100-0011259911	Deželna banka Slovenije, Ljubljana	Elektro Gorenjska
29000-0001824912	Unicredit banka, Ljubljana	Elektro Gorenjska
04331-0002033138	NKBM, Kranj	Gorenjske elektrarne
30000-0003480687	Sberbank, Ljubljana	Elektro Gorenjska

All current accounts are kept in Euros, only current account No. 07000-0000641939 in Gorenjska bank Kranj is opened also as foreign currency account. Account in Sberbank represents a saving account.

Revaluation of monetary assets is a change of their carrying value and can be done at the end of the financial year or during the year. Revaluation occurs only in case of assets in foreign currencies if exchange rate changes at the first recognition. Exchange rate difference, which occurs in this situation, either increases or reduces the original recognized value and represents financial revenue or financial expenditure.

d. Debts

Debts are recognized obligations associated with the financing of own assets, which must be repaid or settled in cash. As a special type of debt deferred tax liabilities are considered.

In the statement of financial position long-term debts that have already fallen overdue (but not yet settled) and long-term debts due and payable not later than one year after the balance sheet date, are recognized as short-term debts.

Debts can be financial (borrowings under the loan agreements, liabilities to lessors in finance lease) or business (purchased materials and services from suppliers, liabilities to employees, liabilities to the state, liabilities to customers for advances and securities).

After initial recognition, liabilities are measured at amortized cost.

The are increased by implied interest and decreased by paid amounts and any other settlements, agreed upon with creditors.

Recognition of debts in the accounting records and the balance sheet shall be eliminated when the obligation specified in the contract or another legal instrument is discharged, canceled or expired (and the organization does not intend to settle).

e. Derivative financial instruments

Group uses derivative financial instruments to hedge its exposure to interest rate risk.

In accordance with the risk management policy for changes in interest rates for hedging cash flows (liabilities) arising from long-term loans the group uses simple interest rate swaps. This means that in their recording methodology is used which the International Accounting Standards define as hedge accounting.

Aim of hedging policy are predictable financial expenses in the amount of the fixed rate of interest from rate swaps increased by interest margin from the credit agreement. Hedging relationship is maintained until the maturity of the hedged item. Fair value of interest rate swaps at the end hedging equals 0 €.

In hedging the cash flows and net investments, the portion of the gain or loss from the hedging risk instrument, which is defined as an effective hedge is recognized in other comprehensive income and the ineffective portion of the profit is recognized in profit or loss.

Profit or loss from the hedging instrument relating to the effective portion of the hedge that has been recognized in other comprehensive income must be reclassified to profit or loss as a reclassification adjustment in the same period or periods during which the announced hedged cash flows affect the profit or loss (for example, when a forecast sale occurs) or at the disposal or partial disposal of a foreign operation.

15.3.7 Stocks

Stocks are assets that are held for sale in the ordinary course of business, which are being used in the process of production for such sale, or in the form of materials to be consumed in the production or provision of services.

Quantity units of stock materials (including small tools and packaging) are initially recognized at the purchase price. Cost comprises of the purchase price, import and non-refundable charges (including value added tax, which is not reimbursed) and direct acquisition costs.

Costs of material kept in stocks before use are recognized at moving average price method at the level of OE. Moving average price is calculated on a daily basis.

Group continuously or at least once a year, during the inventory, verifies the real value of stocks and impairs it,

if their book value exceeds the net realizable value, which is the estimated selling price.

15.3.8 Other assets

Other assets include accrued income and deferred expenses.

Accrued income are revenues that are considered in the income statement, although they have not yet been charged.

Deferred expenses are amounts that when incurred are not yet charged to the profit and loss account.

15.3.9 Capital

Entire capital of the group consists of called-up capital, capital reserves, profit reserves, other reserves and retained profit.

All other components of entire capital belong to the capital owners in proportion of their ownership shares in the capital stock.

15.3.10 Provisions

Amount of provisions indicates future events that may affect the amount required to settle the obligation. Before forming provisions the group first assesses the likelihood of future events. It is noted that the future event really occurred, if there is material evidence about it at the time of the assessment (eg. action lodged, denationalisation claim made,...).

Accounting value of provisions is equal to their original value, reduced by spent amounts until the need for their increase or reduction occurs.

Contingent liabilities are not considered provisions.

Provisions include long-term employee benefits, which in accordance with IAS 19 are divided into:

- long-service bonus, which belongs to other long-term employee benefits,
- severance pay upon retirement, which belongs to post-employment benefits and
- severance pay upon termination of employment, which belongs to severance pays.

Provisions for long service bonuses and for severance pays at retirement are formed in the amount of estimated future payments based on the actuarial report on measuring the long-term incomes according to IAS 19.

Calculations for provisions for severance pays at retirement and long service bonuses were prepared by an authorized actuary and are formed in the amount of estimated future payments discounted on the balance sheet date, taking into consideration also costs of service for the current year, costs of interest and actuarial surplus or deficits resulting from changes in actuarial assumptions and experiential adjustments.

On the balance sheet date the group establishes and in the profit or loss account recognizes revenues or expenses in connection with the adjustment of provisions for retirement benefits from:

- amount of additional provisions for current service costs relating to severance pays for the current year;
- amount of the increase or decrease in the provisions already made in the event of the introduction or modification of the program (amendment of past service costs);
- accrued interest in respect of the provisions (as additional cost of provisions);
- effects of all limitations or shrinking of provisions for severance pay upon retirement.

Actuarial gains and losses from severance pays upon retirement are not recognized in the income statement, but directly in equity under other reserves, which can also be negative. Reserves created under this title are eliminated in the net profit or loss from previous periods in the actual amounts, when for the employees who left or retired, the recognition of provisions for retirement is eliminated.

Long service bonuses are classified as other long-term employee benefits. On the balance sheet date the group determines and recognizes in the profit or loss revenues or expenses in connection with the adjustment of

provisions for long-service bonuses (including actuarial gains and losses).

Severance pay on termination of fixed-term employment is recognized by the group as a short-term deferred costs and not as a provision.

Recognition of provisions in accounting records and the balance sheet is eliminated when the created opportunities for which the provisions were formed, have already been used out or there no longer is a need for them.

Provisions for accrued costs and expenses are directly reduced by the costs and expenses for which they were made. Therefore, during the spending of provisions the costs or expenses no longer appear in the income statement.

Long-term deferred revenue from tangible fixed assets acquired free of charge consist of connections of customers that the company took over into its tangible fixed assets together with its commitment to care for their maintenance and reconstruction, in accordance with the regulations, General conditions for connection to the distribution electric system and free acquisition of other fixed assets.

15.3.11 Assets acquired free of charge

Assets acquired free of charge include:

- connections of customers that the company took over into its tangible fixed assets together with its commitment to care for their maintenance and reconstruction, in accordance with the regulations, General conditions for connection to the distribution electric system,
- free acquisitions of other fixed assets,
- assets acquired through government support or donation and
- assets acquired through received monetary assets intended for the construction or purchase of affixed asset.

Assets acquired free of charge are initially recognized in the financial statements as deferred income under other long-term liabilities. Later in the income statement they are recognized as other operating income over the useful life of each asset.

15.3.12 Other liabilities

Other liabilities include deferred revenues and cost provisions or expenses.

Deferred revenues are revenues that will cover the estimated income during the period when they occur. Cost provisions are amounts that have not yet occurred, but already have an impact on profit.

15.3.13 Deferred tax liabilities and tax receivables and income tax

Deferred tax assets and tax liabilities are calculated using the balance sheet liability method, which focuses on temporary differences.

Deferred tax assets are recognized for deductible temporary differences, unused tax losses carried forward and unused tax credits carried forward to be transferred to the next period, when it is probable that in the future taxable income will be available against which it will be possible to use the unused tax losses and unused tax credits.

Receivables and deferred tax liabilities are not recognized in the accounting records if the amounts of deferred tax assets and deferred tax liabilities are individually or jointly insignificant for the group.

Deferred income tax is determined using tax rates (and laws) that are in effect at the balance sheet date and which are expected to be in effect when the related deferred tax asset is realized or the deferred tax liabilities settled and when a taxable profit against which it will be possible to eliminate temporary differences is available.

At the end of each reporting period the group reassesses unrecognized deferred tax assets and recognizes a previously unrecognized deferred tax asset if it is probable that future profit will allow the coverage of deferred tax assets.

Current tax expense is the amount of tax that is payable (recoverable) according to the taxable profit (tax loss) for the period, using tax rates enacted on the reporting date, and any adjustments to tax payable in respect of previous years.

15.3.14 Revenue

Revenue is recognized by the group when it is probable that future economic benefits will flow to the group and that these benefits can be measured reliably. Revenues are recognized from the sale of goods, provision of services and the use of the assets of the group, which bring interest, royalties and dividends of others. Revenues in the books are divided into operating and financial revenues.

Operating revenue is revenues from sales, capitalized own products and services and other operating revenues associated with business impact. These include the revaluation of operating revenues. These occur mainly on the sale of tangible fixed assets and investment property at a price that exceeds their book value, or as a result of adjustment of receivables.

Financial revenue arises in relation to investments, as well as in association with receivables. They consist of accrued interest and profit shares as well as other financial revenues from revaluation.

Interest on unpaid claims are not recognized as revenue but increase the value adjustment of receivables because there is reasonable doubt about the payment of claims until the principal is paid.

Amounts collected on behalf of SODO in operations on their own behalf and the account of SODO are not recognized as revenue, but as operating liabilities to SODO.

15.3.15 Expenditure

Expenditure is classified into operating and financial expenses.

Operating expenses include all costs incurred in the period and operating expenses from revaluation. Latter occur mainly due to the impairment of tangible fixed assets, intangible assets, investment property, accounts receivable and stocks, as well as the sale or other disposal of tangible fixed assets and investment property at a price that is lower than their carrying value.

Financial expenses are financing expenses and investment expenses. First consist primarily of interest, while second are primarily of revaluation financial expenses nature. Latter are due to impairment of financial investments and due to the sale or other disposal at a price that is lower than their book value. Interest expenses are recognized according to the elapsed time and the applicable interest rate.

15.3.16 Consolidated cash flow statement

Group presents its cash flows from operating activities, investing and financing activities in a manner that best suits its business. Statement of cash flows is prepared using the direct method.

For the purpose of preparation of cash flows cash equivalents are classified as monetary assets as well. These are short term, highly liquid investments that are readily convertible to known amounts of cash and where the risk of changes in value is insignificant. Group treats as cash equivalents the short-term deposits and deposits with banks and loans between companies in the group with a maturity of up to three months after the acquisition, and receipts from their disposal.

For each group of assets (of eg. intangible assets and tangible fixed assets) as an increase (expenses) are treated the paid acquisition costs of the newly acquired assets, and as a reduction (income) the received payments for the value of assets disposed.

Cash flows relating to capitalized development costs and self-constructed tangible fixed assets are classified as cash flows from investing activities.

Cash flows from interest received and paid and dividends the group classifies based on the contents of the transaction under cash flows from operating, investing and financing activities.

15.3.17 Basic return per share

Basic return per share is calculated by Elektro Gorenjska Group by dividing the profit attributable to ordinary shareholders by the weighted average number of ordinary shares in the business year. Corrected return per share equals the basic, as all of the shares belong to the same class of ordinary registered shares.

15.4 Determination of fair value

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

In determining the fair value of financial instruments, the following hierarchy of levels for determination of fair value is considered:

- first level includes quoted prices (unadjusted) in active markets for identical assets or liabilities,
- second level includes values other than quoted prices included within the first level, but it is nevertheless possible to obtain directly from the market (prices for identical or similar assets or liabilities in a less active or inactive markets) or indirectly (eg. values derived from quoted prices in an active market based interest rates and yield curves),
- third level includes inputs for the asset or liability that are not based on observable market data, while unobserved data must reflect the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk.

As a base for the fair value of financial instruments the group uses quoted prices. If a financial instrument is not quoted on a regulated market or the market is considered inactive, the group in order to assess the fair value of the financial instrument uses the input data of the second and third level.

To determine the fair value of interest rate swaps data, provided to the companies in the group by the banks with which they have concluded individual swaps, is used.

In the investment property the group discloses the fair value. Fair value results from the valuation of investment property, which is carried out every 3-5 years.

Operating and other receivables are not discounted due to their short-term character, whereas impairments of the fair value are taken into account.

15.5 Effects of the transition to IFRS

Consolidated financial statements in accordance with IFRS were for the first time prepared for the year 2016. In accordance with IFRS 1 the transition date was January 1 2015, it was therefore necessary to ensure comparability, as one of the fundamental principles of IFRS, and convert, reclassify and produce financial statements for the year 2015 in accordance with IFRS. No differences have been identified, but there are individual items of assets and liabilities, income and expenses in the consolidated financial statements in accordance with IFRS that are displayed differently than in the consolidated financial statements in accordance with SAS 2006. Reclassifications in the consolidated income statement for 2015 and the consolidated statement of financial position as at January 1 2015 are presented below. There were no effects of the transition in the cash flow statement for the year 2015, other comprehensive income and the harmonization of capital as at December 31 2015 and January 1 2015.

Group has not applied the exceptions as determined by the IFRS 1 at the first application of IFRS in relation to the retrospective application. Estimates used for balance as at January 1 2015 and December 31 2015 are consistent with estimates made on these dates in accordance with SAS.

15.5.1 Profit and loss statement of the group for year 2015

Table below shows the effects of the transition from SAS to IFRS.

in €

ITEM	SAS 2015	Effect of adjustments	IFRS 2015
Other operating income	742,089	62	742,151
Other operating expenses	699,012	40,978	739,990
Financial revenues from shares	2,550,287	-862,297	1,687,990
1. Financial revenues from shares in associates	2,550,287	-862,297	1,687,990
Recognized profit of investments valued using the equity method		862,297	862,297
Other income	62	-62	0
Other expenses	40,978	-40,978	0

- Other income in the amount of 62 € are recognized under Other operating income.
- Other expenses in the amount of 40,978 € are recognized under Other operating expenses.
- Recognized profit of investments valued using the equity method in the amount of 862,297 € is shown in a separate item of the profit and loss statement (previously under financial shares in associated companies).

15.5.2 Statement of financial position of the group as at 1. 1. 2015

Table below shows the effects of the transition from SAS to IFRS.

in €

ITEM	SAS 1. 1. 2016	Transition effect	IFRS 1. 1. 2015
ASSETS			
Intangible assets and LT accruals and pre-paid expenditure	237,560	-237,560	0
1. Other LT accruals and pre-paid expenditure	237,560	-237,560	0
Tangible fixed assets	10,194,561	-129,915	10,064,646
1. Tangible fixed assets in construction or production	10,078,628	-13,982	10,064,646
2. Advances for acquisition of tangible fixed assets	115,933	-115,933	0
Investment property	2,039,500	13,982	2,053,482
Other long-term assets	0	237,560	237,560
Short-term operating claims	6,038,547	115,933	6,154,479
1. Short-term operating accounts receivable	6,038,547	115,933	6,154,479
Other short-term assets	0	501,380	501,380
Short-term accruals and pre-paid expenditure	501,380	-501,380	0
LIABILITIES			
Provisions and LT accrued costs and deferred revenues	13,808,141	-13,808,141	0
1. Provisions for pensions and similar liabilities	2,710,905	-2,710,905	0
2. Other provisions	4,763,047	-4,763,047	0
3. Long-term accrued costs and deferred revenues	6,334,190	-6,334,190	0
Provisions	0	7,473,951	7,473,951
1. Provisions for pensions and similar liabilities	0	2,710,905	2,710,905
2. Other provisions	0	4,763,047	4,763,047
Other long-term liabilities	0	6,334,190	6,334,190
Short-term operating liabilities	6,515,897	-326,012	6,189,885
1. Income tax short-term liabilities	326,012	-326,012	0
Income tax liabilities	0	326,012	326,012
Other short-term liabilities	0	660,898	660,898
Short-term accrued costs and deferred revenues	660,898	-660,898	0

- Long-term accruals and pre-paid expenditure in the amount of 237,560 € are shown under item Other long-term assets.
- Investment property in acquisition in the amount of 13,982 € are shown under item Investment property (previously under item Tangible fixed assets in course of construction).
- Advance for tangible fixed assets in the amount of 115,933 € are shown under item Short-term operating receivables.
- Short-term accruals and pre-paid expenditure in the amount of 501,380 € are shown under item Other current assets.
- Provisions including Provisions for pensions and similar liabilities and other provisions in total amount of 7,473,951 € are included under Long-term liabilities.

- Long-term accruals and deferred income in the amount of 6,334,190 € are shown under item Other long-term liabilities.
- Short-term accruals and deferred income in the amount of 660,898 € are shown under item Other short-term liabilities.
- Liabilities for income tax in the amount of 326,012 € are shown in a separate item of the statement of financial position (previously under other short-term operating liabilities).

16.0

Notes to the statement of financial position

16.1 Intangible assets

Following tables present changes in intangible assets in years 2016 and 2015.

in €

2016	Computer software equipment	Other rights	Property rights in acquisition	Total intangible assets and long-term accruals and pre-paid expenditure
1	2	3	4	5 = 2+3+4
Acquisition cost				
Balance 1. 1. 2016	5,289,917	7,090	69,861	5,366,867
New acquisitions	149,080	0	523,494	672,574
Disposals, withdrawals, transfers	-862,976	0	0	-862,976
Completion of ongoing investments	581,651	0	-581,651	0
Balance 31. 12. 2016	5,157,671	7,090	11,704	5,176,465
Value adjustment				
Balance 1. 1. 2016	4,383,610	5,946	0	4,389,556
Increase (depreciation)	289,639	236	0	289,875
Disposals, withdrawals, transfers	-862,976	0	0	-862,976
Balance 31. 12. 2016	3,810,273	6,182	0	3,816,455
Carrying amount				
Balance 1. 1. 2016	906,306	1,144	69,861	977,311
Balance 31. 12. 2016	1,347,398	908	11,704	1,360,011

in €

2015	Computer software equipment	Other rights	Property rights in acquisition	Total intangible assets and long-term accruals and pre-paid expenditure
1	2	3	4	5 = 2+3+4
Acquisition cost				
Balance 1. 1. 2015	4,964,882	7,090	302,864	5,274,836
New acquisitions	97,980	0	325,512	423,492
Disposals, withdrawals, transfers	-331,461	0	0	-331,461
Completion of ongoing investments	558,516	0	-558,516	0
Balance 31. 12. 2015	5,289,916	7,090	69,861	5,366,867
Value adjustment				
Balance 1. 1. 2015	4,458,790	5,710	0	4,464,500
Increase (depreciation)	256,281	236	0	256,517
Disposals, withdrawals, transfers	-331,461	0	0	-331,461
Balance 31. 12. 2015	4,383,610	5,946	0	4,389,556
Carrying amount				
Balance 1. 1. 2015	506,092	1,380	302,864	810,336
Balance 31. 12. 2015	906,306	1,144	69,861	977,311

Intangible assets refer mainly to long-term property rights, which represent rights to use computer software solutions or licenses.

Property rights in acquisition include investments in renovation and modernization of computer software equipment.

Of all intangible assets that were in use as at 31. 12. 2016, 60 % were fully depreciated (on 31. 12. 2015 such intangible assets were 82 %). Share is calculated according to the acquisition cost of intangible assets.

As at 31. 12. 2016 the group had no financial obligations in respect of acquiring intangible fixed assets.

16.2 Tangible fixed asset

As at 31. 12. 2016 tangible fixed assets amounted to **197,207,403 €**, which represents 89 % of balance sheet total of the group. Compared to the balance as at 31. 12. 2015 their value is by 4,662,871 € or 2.4 % higher.

Presentation of changes in tangible fixed assets in year 2016:

in €

2016	Land		Buildings		Equipment			Tangible fixed assets in building	Total tangible fixed assets		
	1	2	3	4	5	6	7			8	9
Acquisition cost											
Balance 1. 1. 2016		8,099,473	263,570,599	16,104,696	14,206,582	98,751,457	18,248,095	12,563,655	2,840,531	434,385,088	
New acquisitions		141,614	24,521	2,480	15,338	1,732,514	0	408,662	13,365,797	15,690,926	
Disposals, separations, transfers		-10,008	-7,325,586	2,803	-129,326	-634,864	-118,649	-575,130	-72	-8,790,832	
Transfer from investments in progress		22,701	9,111,101	124,548	167,648	2,997,693	221,456	41,634	-12,686,781	0	
Transfer from/to investment property		-257,382	0	0	-216,118	0	0	0	0	-473,500	
Balance 31. 12. 2016		7,996,397	265,380,635	16,234,527	14,044,125	102,846,801	18,350,902	12,438,820	3,519,476	440,811,682	
Valuation adjustment											
Balance 1. 1. 2016		0	150,679,014	10,633,374	4,322,767	56,395,817	9,441,720	10,367,865	0	241,840,556	
Increase (depreciation)		0	4,609,496	447,843	293,529	3,374,889	828,258	622,548	0	10,176,562	
Disposals, separations, transfers		0	-6,992,067	486	-125,869	-481,374	-39,871	-644,500	0	-8,283,195	
Transfer from/to investment property		0	0	0	-129,644	0	0	0	0	-129,644	
Balance 31. 12. 2016		0	148,296,442	11,081,702	4,360,784	59,289,331	10,230,107	10,345,912	0	243,604,279	
Carrying amount											
Balance 1. 1. 2016		8,099,473	112,891,585	5,471,323	9,883,815	42,355,641	8,806,375	2,195,791	2,840,531	192,544,532	
Balance 31. 12. 2016		7,996,397	117,084,192	5,152,825	9,683,341	43,557,469	8,120,795	2,092,908	3,519,476	197,207,403	

Presentation of changes in tangible fixed assets in year 2015:

in €

2015	Land		Buildings		Equipment			Tangible fixed assets in building	Total tangible fixed assets
	2	3	4	5	6	7	8		
Acquisition cost									
Balance 1. 1. 2015	7,835,325	244,375,966	16,027,088	14,050,038	95,496,200	17,653,987	12,953,471	10,064,646	418,456,720
New acquisitions	206,800	121,535	0	0	1,315,016	8,912	570,947	15,766,922	17,990,133
Impairment	0	0	0	-26,159	0	0	0	0	-26,159
Disposals, separations, transfers	26,162	-1,475,703	77,608	-4,547	-150,325	432,706	-960,763	0	-2,054,862
Transfer from investments in progress	11,932	20,548,800	0	187,249	2,090,566	152,491	0	-22,991,037	0
Transfer from/to investment property	19,254	0	0	0	0	0	0	0	19,254
Balance 31. 12. 2015	8,099,472	263,570,599	16,104,696	14,206,582	98,751,457	18,248,095	12,563,655	2,840,531	434,385,087
Valuation adjustment									
Balance 1. 1. 2015	0	147,889,993	10,172,280	4,020,509	53,366,934	8,458,290	10,335,981	0	234,243,987
Increase (depreciation)	0	4,217,176	448,194	318,631	3,169,651	808,935	730,457	0	9,693,043
Impairment	0	0	0	-11,826	0	0	0	0	-11,826
Disposals, separations, transfers	0	-1,428,156	12,900	-4,547	-140,768	174,494	-698,573	0	-2,084,649
Balance 31. 12. 2015	0	150,679,014	10,633,374	4,322,767	56,395,817	9,441,719	10,367,865	0	241,840,555
Carrying amount									
Balance 1. 1. 2015	7,835,325	96,485,973	5,854,809	10,029,530	42,129,266	9,195,697	2,617,490	10,064,646	184,212,734
Balance 31. 12. 2015	8,099,472	112,891,585	5,471,323	9,883,815	42,355,641	8,806,376	2,195,790	2,840,531	192,544,532

New acquisitions are presented in the business report, in [chapter 6.4](#).

Individually significant acquisitions are:

Buildings:

- investment in 35 kV DV Podkuže – Kranjska Gora (271,866 €),
- investment in GD RP Trata, Škofja Loka (250,993 €) and
- investment in LVN T129 – Radovna (106,807 €).

Equipment:

- EO RP Trata, Škofja Loka (587,898 €),
- EO RTP Železniki 100/20 KV (563,833 €),
- remote conduct DCV (329,112 €) and
- measuring devices project AML (1,138,965 €).

Disposals and withdrawals of tangible fixed assets are the consequence of new investments, investments in modernization and renovation (reconstruction) of existing assets.

Individually significant disposals (withdrawals) connected to energy facilities are the following buildings:

- LV bare line Jesenovc (reduction of acquisition cost by 260,578 € and revaluation adjustment by 260,578 €),
- LV bare line Luša (reduction of acquisition cost by 219,780 € and revaluation adjustment by 219,780 €) and
- LV bare line Železniki II (reduction of acquisition cost by 196,337 € and revaluation adjustment by 196,337 €).

Items infrastructure fully refer to electricity distribution infrastructure as defined in the Decree on energy infrastructure (Official Gazette RS, No. 22/2016). It includes buildings and equipment as well as part of the land. Book value of electricity distribution infrastructure as at December 31 2016 amounted to 165,759,290 € (31. 12. 2015: 160,344,526 €). For the needs of implementation of system operator activity, which SODO implements on the basis of the concession contract for implementation of public utility service of distribution network system operator, SODO has hired from Elektro Gorenjska Company complete electricity infrastructure.

Two solar power station owned by Gorenjske elektrarne in net current value of 1,576,042 € are pledged as security for a long-term loan.

Group discloses under its tangible fixed assets also assets (equipment) referring to HPS Jelendol. In connection to which a denationalization procedure is in progress, where beneficiaries demand a return. Company does not own the property, only movable property, which is hardware in this HE.

In years from 2012 to 2015 Gorenjske elektrarne Company leased for a ten- to twelve-year period renovated lighting systems in shopping centers, which are owned by the tenant. As the investor the company entirely renovated the lighting systems and gave them renovated to the operating lease. In the same way in year 2013 the system for the production of compressed air with another client was renovated and given to a ten-year lease. Book value of all leased assets amounted to 392,452 €. In year 2015 rental income amounted to 22,325 €, in the next five years they will amount to additional 87,171 € and in the last four years they amounted to 36,276 €.

To finance new acquisitions of fixed assets the group took several long-term loans in year 2016 and previous years, whose balance on 31. 12. 2016 amounted to 49,614,008 € (31. 12. 2015: 46,420,559 €). Please see also [chapter 16.12 - Long-term liabilities](#).

16.3 Investment property

At the end of 2016 investment property amounted to **2,222,372 €**. Changes in their acquisition value, valuation adjustment and their carrying amount in years 2016 and 2015 are presented in the following tables.

Presentation of changes in investment property in year 2016:

in €

2016	Land	Buildings	Investment property in acquisition	Total investment property
1	2	3	4	5=2+3+4
Acquisition cost				
Balance 31. 12. 2015	509,498	2,178,129	16,053	2,703,680
Impairment	0	0	0	0
New acquisitions	11,285	11,600	157,187	180,072
Disposals	-15,278	-40,794	0	-56,072
Transfer from ongoing investments	0	173,240	-173,240	0
Transfer from/to intangible FA	257,382	216,118	0	473,500
Balance 31. 12. 2016	762,888	2,538,292	0	3,301,180
Value adjustment				
Balance 31. 12. 2015	0	920,328	0	920,328
Impairment	0	0	0	0
Depreciation	0	48,414	0	48,414
Disposals	0	-19,579	0	-19,579
Transfer from/to intangible FA	0	129,644	0	129,644
Balance 31. 12. 2016	0	1,078,808	0	1,078,808
Carrying amount				
Balance 31. 12. 2015	509,498	1,257,801	16,053	1,783,352
Balance 31. 12. 2016	762,888	1,459,485	0	2,222,372

Presentation of changes in investment property in year 2015:

in €

2015	Land	Buildings	Investment property in acquisition	Total investment property
1	2	3	4	5=2+3+4
Acquisition cost				
Balance 1. 1. 2015	806,062	2,475,076	13,982	3,295,120
Impairment	-52,179	-6,347	0	-58,526
New acquisitions	64	0	87,291	87,355
Disposals	-225,195	-375,822	0	-601,017
Transfer from ongoing investments	0	85,221	-85,221	0
Transfer from/to intangible FA	-19,254	0	0	-19,254
Balance 31. 12. 2015	509,498	2,178,128	16,052	2,703,679
Value adjustment				
Balance 1. 1. 2015	0	1,241,638	0	1,241,638
Impairment	0	-2,436	0	-2,436
Depreciation	0	44,735	0	44,735
Disposals	0	-363,609	0	-363,609
Balance 31. 12. 2015	0	920,328	0	920,328
Carrying amount				
Balance 1. 1. 2015	806,062	1,233,438	13,983	2,053,482
Balance 31. 12. 2015	509,498	1,257,800	16,052	1,783,352

Following is the presentation of investment property structure.

in €

Item description	31. 12. 2016	31. 12. 2015
Apartments	451,260	392,703
Holiday facilities	689,600	566,377
Other buildings	318,624	298,721
Land	762,888	509,498
Investment property in acquisition	0	16,053
Total investment property	2,222,372	1,783,352

On 31. 12. 2015 valuation of the investment property was performed. Valuation was conducted by a certified appraiser of real estate in the Slovenian Audit Institute. Valuation was conducted in accordance with the Hierarchy of valuation rules (Official Gazette RS No. 106/2010, with amendment), International valuation standards (MSOV 2013), Slovene Accounting Standard No. 2 (estimating the value of property rights, Official Gazette RS, No. 106/2013) and Law of Property Code (Official Gazette RS, No. 87/2002, 91/2013).

Based on this valuation fair value of investment property the group stated in its balance on 31. 12. 2016 amounted to 3,380,832 €.

Revenues from rent in investment property amount to 181,332 € (in year 2015: 169,517 €).

Direct operating expenses (including repairs and maintenance), originating from investment property, which made revenues from rents in year 2016, and direct operating expenses, which did not make revenues from rents in year 2016 consist of depreciation costs (48,414 €) and costs of material and services (90,332 €). In year 2015 costs of depreciation were 44,735 € and costs of material and services 91,256 €.

All investment properties are owned by the group and are not pledged as security for debts.

Important acquisition within investment property in year 2016 represents the renovation of the holiday facility in Dajla (161,061 €). In year 2016 there were no significant eliminations or disposals of investment properties. Important acquisition within investment property in year 2015 was the renovation of the holiday facility in Izola (85,221 €), while significant eliminations or disposals of investment properties referred to the buildings and land on the location of Partizanska cesta in Kranj (reduction of acquisition cost by 365,264 € and valuation adjustment by 171,001 €).

In year 2016 we transferred from intangible fixed assets to investment property land at the acquisition cost of 257,382 € and buildings at the acquisition cost of 216,118 € (revaluation at the transfer amounted to 129,644 €). It is the case of those assets that the company no longer uses for its primary activity, but leases them out or it intends to hire out in operating lease.

16.4 Long-term financial investments

On 31. 12. 2016 long-term financial investments of the group amounted to **7,261,561 €**. Compared to the balance as at 31. 12. 2015 (7,042,756 €) their value increased by 219 thousand € at the expense of investments accounted for using the equity method.

Within financial investments accounted for using the equity method, investments in ECE and Soenergetika companies were recorded.

Long-term invested assets in Eldom Maribor represent assets invested in joint holiday facilities of electricity companies, managed by Eldom.

With regard to long-term investments, the group is primarily exposed to the risk of adverse changes in the fair value of long-term investments. Group does not possess special financial instruments to hedge from this risk. Exposure to risks and hedging systems are explained in the Business Report, [Chapter 5 - Management and Quality Systems](#).

Changes in long-term financial investments in 2016 are presented in the table below.

in €

Investment description	Share designation	Number of shares (% of interests)		Share in the ownership (in %)		Balance 1. 1. 2016	Increases in year 2016			Decreases in year 2016		Balance 31. 12. 2016
		1. 1. 2016	31. 12. 2016	1. 1. 2016	31. 12. 2016		Valuation adjustments	New acquisitions or redistributions	Valuation adjustments	Sale or segregation		
Soenergetika, d. o. o.	-	-	-	25.00 %	-	463,284	8,653	0	0	0	0	471,937
ECE d. o. o.				-	25.6744 %	6,309,999	210,992	0	0	0	0	6,520,991
Total investments in shares and interests in associates						6,773,283	219,645	0	0	0	0	6,992,928
Informatika, d. d., Maribor	INFG	1,562	1,562	9.56 %	9.56 %	124,155	0	0	0	0	0	124,155
Total other shares and interests						124,155	0	0	0	0	0	124,155
Total long-term financial investments, except loans						6,897,438	219,645	0	0	0	0	7,117,082
Long-term invested assets (Eldom Maribor)						142,798	0	0	0	0	0	142,798
Employees						2,520	0	0	0	0	-840	1,680
Total long-term loans						145,318	0	0	0	0	-840	144,478
TOTAL LONG-TERM FINANCIAL INVESTMENTS						7,042,756	219,645	0	0	0	-840	7,261,561

Changes in long-term financial investments in 2015 are presented in the table below.

in €

Investment description	Share designation	Number of shares (% of interests)		Share in the ownership (in %)		Balance 1. 1. 2015	Increases in year 2015		Decreases in year 2016		Balance 31. 12. 2015
		1. 1. 2015	31. 12. 2015	1. 1. 2015	31. 12. 2015		Valuation adjustments	New acquisitions or redistributions	Valuation adjustments	Sale or segregation	
Soenergetika d. o. o.				25.00 %	25.00 %	451,671	11,613	0	0	0	463,284
ECE d. o. o.				-	25.6744 %	5,606,005	703,994	0	0	0	6,309,999
Total investments in shares and interests in associates						6,057,676	715,607	0	0	0	6,773,283
Informatika, d. d., Maribor	INFG	1,562	1,562	9.56 %	9.56 %	165,472	0	0	-41,317	0	124,155
Total other shares and interests						165,472	0	0	-41,317	0	124,155
Total long-term financial investments, except loans						6,223,148	715,607	0	-41,317	0	6,897,437
Banka Koper - long-term deposit						200,000	0	0	0	-200,000	0
Long-term invested assets (Eldom Maribor)						142,798	0	0	0	0	142,798
Employees						3,360	0	0	0	-840	2,520
Total long-term loans						346,158	0	0	-200,840	0	145,318
TOTAL LONG-TERM FINANCIAL INVESTMENTS						6,569,306	715,607	0	-41,317	-200,840	7,042,756

16.5 Stocks

Value of stocks of material, small tools, and merchandise as at 31. 12. 2016 amounted to a total **244,832 €**. Compared to the balance as at 31. 12. 2015 they have decreased by 30,575 €. Group estimates that net realizable value of stocks is at least equal to their book value. Movement of material stocks in years 2016 and 2015 is shown in the following table.

in €

Item description	Year 2016	Year 2015
Material stocks at the beginning of the period 1. 1.	275,407	187,182
Purchases	4,499,671	3,263,529
Consumption	-4,397,556	-3,058,712
Sale	-22,620	-14,763
Write-offs	-5,214	-4,412
Inventory surpluses	6,479	0
Impairments and cancellation of impairments	0	30,445
Transfer of small tools in use	-111,336	-127,864
Material stocks at the end of the period 31. 12.	244,832	275,407

In stocktaking a surplus of 6,479 € was established. Write-downs of inventories amounted to 5,214 €. In year 2015 there were no surpluses or shortages established, but elimination of impairment of stocks in the amount of 30,445 € was realized.

Group has no pledged stocks as security for its liabilities.

16.6 Short-term financial investments

According to the balance as at 31. 12. 2016 the group records 1,544,144 € of short-term financial investments. Of which 1.4 mio € refers to deposits fixed for a period exceeding three months. At the end of year 2015 the group recognized 840 € of such investments.

16.7 Short-term operating receivables

Short-term operating receivables as at 31. 12. 2016 amounted to **6,078,218 €** and have decreased by 751 thousand € compared to the balance as at 31. 12. 2015.

Following table represents the structure of short-term operating receivables:

in €

Item description	31. 12. 2016	31. 12. 2015
Short-term accounts receivable	5,921,794	6,722,857
Short-term advances	33,343	57,127
Adjustment of short-term accounts receivable	-226,091	-191,282
Short-term accounts receivable	5,729,045	6,588,702
Short-term operating receivables from others	371,850	256,324
Adjustment of short-term receivables from others	-22,677	-16,186
Short-term operating receivables from others	349,174	240,139
Short-term operating receivables	6,078,218	6,828,840

Short-term accounts receivable represent 94 % of all short-term operating receivables.

Short-term operating receivables are entirely unsecured.

Breakdown of short-term claims for electricity, network charge and services including receivables referring to default interest as of 31. 12. 2016 according to maturity terms is shown in the following presentation:

in €

Item description	not yet due	up to 30 days	31-60 days	61-90 days	more than 90 days	Total amount due	Total accounts receivable
Claims on buyers of electricity, network charge and services	5,284,333	344,660	34,963	4,975	234,463	619,061	5,903,394
Default interest claims	3,627	2,201	972	103	11,496	14,772	18,400
TOTAL	5,287,961	346,861	35,935	5,078	245,959	633,833	5,921,794

Changes in valuation adjustment of claims in year 2016 are presented in the next table.

in €

Item description	Balance 1. 1. 2016	New formations		Withdrawal (use) and elimination			Balance 31. 12. 2016
		Chargeable to expenses	Chargeable to claims	Claims write-off	Paid receivables – transfer to revenues	Elimination of excess valuation adjustments	
Valuation adjustment of accounts receivable	175,854	47,872	0	9,931	0	0	213,795
Valuation adjustment of interest claims	15,428	94	1,742	1,075	3,892	0	12,296
Valuation adjustment of other short-term claims	16,186	0	8,091	0	1,600	0	22,677
Total valuation adjustment of claims	207,468	47,966	9,833	11,005	5,492	0	248,768

16.8 Other current assets

Value of other current assets as at 31. 12. 2016 amounted to **1,754,887 €**. Their structure is shown in the table below.

in €

Item description	31. 12. 2016	31. 12. 2015
Short-term deferred costs or expenses	82,073	368,330
Short-term accrued income	1,653,015	87,366
Refund of excise duties, environmental charge, dues	17,024	65,343
Other	2,775	30,759
Total	1,754,887	551,798

Biggest item of short-term deferred costs is accrued income, in which the largest share represents accrued income based on preliminary accounts for the year 2016 in the amount of 1,577,187 €. Preliminary calculation is presented in detail in [chapter 15.2.4. Use of significant estimates and judgements](#). Short-term deferred costs or expenses in comparison with the balance as at 31. 12. 2015 reduced by 286,257 €. Main reason is the fact that company Elektro Gorenjska since 1. 1. 2016 onwards does not perform more transactions relating to the coverage of losses in the distribution network, in relation to which it had on the last day of the previous year 252,535 € of short-term deferred costs.

16.9 Cash and cash equivalents

As at 31. 12. 2016 Elektro Gorenjska Group had **4,338,181 €** of cash on the commercial banks accounts and short-term redeemable deposits in banks in the state.

16.10 Capital

Entire capital of the group consists of the share capital, capital reserves, profit reserves, other reserves, and retained profit. Balance of the entire capital as at 31. 12. 2016 amounted to **149,634,034 €** and was higher by 3 % or 4,489,932 € compared with the balance of capital as at 31. 12. 2015.

Share capital of Elektro Gorenjska Company (71,898,061 €) is divided in 17,286,376 ordinary registered unit shares, of which 17,274,593 are ordinary registered shares and 11,783 own shares. Number of shares compared to the balance as at 31. 12. 2015 did not change. All shares are paid-up entirely. Since the company on the basis of Decision 22 of the General Meeting in 2016 carried out the purchase of own shares, in accordance with Article 249 of the Companies Act-1, it does not have any rights in this respect. Each share has an equal share and associated amount in the share capital, while the rights arising therefrom are provided by ZGD-1. Ordinary shares are shares, which give their holders the right to interest, right to part of profit (dividends), and right to appropriate part of remaining property after the liquidation or bankruptcy of the company. All shares are of the same class. Shares are issued in dematerialized form and are managed in KDD – Central Securities Clearing Corporation, d. d., in accordance with regulations. Other details in respect with the share capital and ownership structure of the capital are explained also in Business report, chapter 4.7 – [Share capital and ownership structure](#).

Capital reserves in the amount of 45,944,898 € were formed from the general revaluation equity adjustment. They are applied in accordance with the Article 64 of ZGD-1.

Statutory reserves as at 31. 12. 2016 amount to 2,245,163 € and are formed in accordance to the Article 64 of ZGD-1.

Reserves for own shares as at 31. 12. 2016 amounted to 22,506 €. Elektro Gorenjska Company has 11,783 of own shares, representing 0.068 % of all shares. All own shares were acquired in 2016. At the 22nd regular session of the General Meeting of Elektro Gorenjska Company the decision was adopted that the General Meeting with a purpose of increasing the company's assets authorizes the Management Board to purchase own shares at a price not lower than 1.91 € and no higher than 2.47 € per share during the period from 1. 9. 2016 to 31. 3. 2018. Authorization is valid for the acquisition of a maximum of 1,728,637 of company's own shares. Implemented purchases of own shares in 2016 are shown according to days in the following table.

Date	Number of shares	Price of share in €	Value in €
21. 11. 2016	1,342	1.91	2,563
22. 11. 2016	2,283	1.91	4,361
23. 11. 2016	1,356	1.91	2,590
24. 11. 2016	1,557	1.91	2,974
25. 11. 2016	186	1.91	355
28. 11. 2016	173	1.91	330
30. 11. 2016	1,650	1.91	3,152
1. 12. 2016	1,320	1.91	2,521
5. 12. 2016	280	1.91	535
8. 12. 2016	553	1.91	1,056
14. 12. 2016	320	1.91	611
15. 12. 2016	437	1.91	835
19. 12. 2016	326	1.91	623
Total	11,783	1.91	22,506

Other profit reserves amount to 25,050,998 €. They are formed from net profit of the business years and used by the group according to Article 11 of the Elektro Gorenjska Company Statute.

Other reserves (-579.667 €) represent reserves arising from the valuation at fair value. They include negative fair value of interest rate swaps (-484,997 €), post-employment benefits – severance pay upon retirement (-94,350 €) and the change in fair value of financial assets available for sale (-320 €). Changes in reserves resulting from the valuation at fair value for the year 2016 are presented in the table below.

in €

Item	Balance 1. 1. 2016	Change in fair value of interest rate swaps	Change in fair value of financial investment	Transfer to current profit	Transfer to retained profit	Elimination of actuarial gains/losses	New formation of actuarial gains/losses	Transfer to net profit/loss from previous periods (employee departs 2016)	Balance 31. 12. 2016
Reserve for fair value of interest rate swaps	-672,918	154,473	0	33,449	0	0	0	0	-484,997
Actuarial gains/losses	-16,654	0	0	0	0	1,548	-70,843	-8,400	-94,350
Change in fair value of investments available for sale (associated company)	0	0	-320	0	0	0	0	0	-320
Loss of control in subsidiary	40,635	0	0	0	-40,635	0	0	0	0
Total	-648,938	154,473	-320	33,449	-40,635	1,548	-70,843	-8,400	-579,667

Group in accordance with the risk management policy of changes in interest rates for hedging the cash flows (liabilities) arising from long-term loans uses **simple interest rate swaps**, which means that in recording of these it uses the methodology defined by IAS as "hedge accounting«.

In the financial recording of interest rate swaps, the group uses the assumption of the absence of inefficiency. This means that changes in the cash flows of the hedged items are completely neutralized by cash flows from interest rate swaps or that changes in the fair value of interest rate swaps correspond to changes in the value of the cash flows of the hedged item (underlying instruments). Changes in fair value of derivative financial instruments are recognized by the group as a positive or a negative fair value reserve. Risks relating to interest rate swaps are presented in the context of interest rate risk in [Chapter 25 - Financial risks](#).

Retained profit amounts to 5,074,581 €. Elektro Gorenjska Company as at 31. 12. 2016 recognizes the remaining net profit of the business year in the amount of 2,165,360 €. Distributable profit in year 2016 amounted to 2,170,772 €. Management Board proposes to the General Meeting for the part of the distributable profit in the amount 2,072,952 € to be used for payment of dividends in gross amount of 0.12 € per share, while remaining distributable profit in the amount of 97,821 € represents the net profit from previous periods. Decision on the actual use of the distributable profit is within the competence of the General Meeting.

Company Gorenjske elektrarne on the last day of 2016 recognized the remaining net profit of the business year amounting to 606,977 €. Its allocation is the responsibility of the owner, this is Elektro Gorenjska Company.

Return on share in year 2016 amounted to 0.42 €, which is the same as in year 2015. Company has no preference shares, therefore basic and adjusted returns per share are equal.

Basis for the calculation of the indicators of return on share are the net profit for the year and the weighted average number of ordinary shares in the period. Calculation is shown in the following table.

Item	Year 2016	Year 2015
Net profit or loss for the period	7,194,476	7,239,406
Weighted average number of ordinary shares	17,285,304	17,286,376
Return on share, basic/adjusted	0.42	0.42

16.11 Provisions

As at 31. 12. 2016 provisions amounted to **8,131,914 €**. Compared to their balance as at 31. 12. 2015 they increased by 288,997 €.

Provisions for long-service bonuses and severance pay at retirement are formed in the amount of estimated future payments on the basis of actuary report on calculation of provisions for long-term earnings according to IAS 19.

Actuary calculation as at 31. 12. 2016 takes into account the following actuarial assumptions:

- mortality tables of population of Slovenia from year 2007, reduced by 10 %;
- linearly decreasing fluctuation from 1.5 % at 15 years of age to 0.5 % at 54 years, then constant 0.5 % fluctuation; total on employees as at 31. 12. 2016 this means fluctuation of 0.8 % a year for next business year (depending on the number of employees);
- Expected date of retirement for individual employee is calculated based on gender, date of birth and achieved total length of service as at 31. 12. 2016 in accordance with the Article 27 of ZPIZ-2 and indent 3 of paragraph 1 of Article 28 in ZPIZ - 2;
- growth of average earnings in RS for years 2017 and 2018, resulting from the Autumn forecasts of economic trends (2016); from 2019 onwards average salary in RS will increase annually by 2 % inflation and by real growth of 0,5 %. It is assumed that the amounts from the Decree will not keep increasing in years 2017 and 2018, while later the growth of these amounts in accordance with the inflation are predicted;
- Increase in starting and basic salaries and variable part of salaries in the company in the amount of annual inflation, from 2021 onwards increased also by real growth in the amount of 0.2 %. Increase in average salaries in electricity sector is assumed in the amount of growth in basic salaries of the company increased by 0.5 %;
- Growth of salaries due to promotion is linearly decreasing, namely from 3 % at 15 years to 0.5 % at 45 years, then constant 0.5 % annually, as a total on employees as at December 31 2016 this means 0.9 % annually for next year;
- Length of service allowance in the amount of 0.5 % from the basic salary for each year of service is taken into account for employees under the collective agreement.
- Yield curve, which reflects the estimated timing of earning payments. Inflation yield curve is calculated for all government bonds for Euro zone countries (spot rates) as at 30. 11. 2016. Used yield curve is published on the following web page <http://www.ecb.eu/stats/money/yc/html/index.en.html>. From year 30 onwards the curve is extrapolated by a formula which reflects the relationship between the forward and spot rates wherein the forward rate for 30 years is used. Yield curve represents the relationship between market yields on government bonds in the euro area and the time remaining to maturity, therefore, the time structure of interest rates.

While actuary calculation as at 31. 12. 2015 took into account the following actuarial assumptions:

- mortality tables of population of Slovenia from year 2007, reduced by 10 %;
- linearly decreasing fluctuation from 1.5 % at 15 years of age to 0.5 % at 55 years, then constant 0.5 % fluctuation; total on employees as at 31. 12. 2015 this means fluctuation of 0.8 % a year for next business year;
- Expected date of retirement for individual employee is calculated based on gender, date of birth and achieved total length of service as at 31. 12. 2015 in accordance with the Article 27 of ZPIZ-2 and indent 3 of paragraph 1 of Article 28 in ZPIZ - 2;
- growth of average earnings in RS for years 2016 and 2017, resulting from the Autumn forecasts of economic trends (2015); from 2017 onwards average salary in RS will increase annually by 2 % inflation and by real growth of 0,5 %;
- Increase in basic salaries and variable part of salaries in the company in the amount of 85 % of annual inflation, from 2020 onwards increased also by real growth in the amount of 0.5 %;
- Growth of salaries due to promotion is linearly decreasing, namely from 3 % at 15 years to 0.5 % at 45 years, then constant 0.5 % annually, as a total on employees as at 31. 12. 2015 this means 0.9 % annually for next year;
- Inflation yield curve is calculated for all government bonds for Euro zone countries (spot rates) as at 30. 11. 2015. Used yield curve is published on the following web page <http://www.ecb.eu/stats/money/yc/html/index.en.html>. From year 30 onwards the curve is extrapolated by a formula which reflects the relationship between the forward and spot rates wherein the forward rate for 30 years is used. Yield curve represents the relationship between market yields on government bonds in the euro area and the time remaining to maturity, therefore, the time structure of interest rates. Used average discount rate for long-service bonuses amounts to 1.3 %, for severance pays to 1.5 %.

Provisions for long-service bonuses and severance pays increased by 158,799 € in year 2016.

Provisions for compensation in connection to the denationalization and other claims increased by 130,198 € compared to the balance on the last day of 2015. In year 2016 provisions have been additionally formed in the amount of 358,640 € and due to the payment of compensation eliminated the provisions in the amount of 197,694 €.

There were no significant differences between planned and realized forming and drawing on individual category of provisions.

Following tables present changes in provisions in years 2016 and 2015.

in €

Item description	Beginning of the period	Increases (formations)			Decreases (withdrawals, elimination)				End of the period
	1. 1. 2016	Chargeable to costs (expenses)	Recognition chargeable to assets	Recognition chargeable or credit to capital or revenues	Credit to operating revenues	Credit to liabilities or short-term accrued charges	Derecognition chargeable or credit to capital	Credit to relevant assets	31. 12. 2016
Provisions for long-service bonuses	946,960	96,067	0	0	41,917	68,692	3,664	0	928,755
Provisions for severance pay at retirement	1,776,882	148,927	0	76,183	20,028	26,252	1,827	0	1,953,886
Total provisions for long-service bonuses and severance pay	2,723,843	244,995	0	76,183	61,945	94,943	5,491	0	2,882,641
Provisions for damages in connection with denationalization claims	5,088,327	358,640	0	0	0	197,694	0	0	5,249,273
Provisions for possible losses in disputes in progress	30,748	0	0	0	0	30,748	0	0	0
Total other provisions	5,119,075	358,640	0	0	0	228,442	0	0	5,249,273
Total provisions	7,842,917	603,635	0	76,183	61,945	323,385	5,491	0	8,131,914

in €

Item description	Beginning of the period	Increases (formations)			Decreases (withdrawals, elimination)			End of the period
	1. 1. 2015	Chargeable to costs (expenses)	Recognition chargeable to assets	Recognition chargeable or credit to capital or revenues	Credit to operating revenues	Credit to liabilities or short-term accrued charges	Derecognition chargeable or credit to capital	31. 12. 2015
Provisions for long-service bonuses	993,131	96,856	0	-19,701	6,369	113,946	3,010	946,960
Provisions for severance pay at retirement	1,717,775	140,775	0	-118	25,905	55,166	477	1,776,883
Total provisions for long-service bonuses and severance pay	2,710,905	237,631	0	-19,819	32,275	169,113	3,487	2,723,843
Provisions for damages in connection with denationalization claims	4,763,047	325,280	0	0	0	0	0	5,088,327
Provisions for possible losses in disputes in progress	0	30,748	0	0	0	0	0	30,748
Total other provisions	4,763,047	356,028	0	0	0	0	0	5,119,075
Total provisions	7,473,951	593,659	0	-19,819	32,275	169,113	3,487	7,842,917

16.12 Long-term liabilities

As at 31. 12. 2015 Elektro Gorenjska Group had **43,935,698 €** of long-term financial liabilities, which is by 3.4 mio € more than as at 31. 12. 2015. All long-term financial liabilities have the maturity of more than five years. Majority (98 %) of all long-term financial liabilities represent liabilities to banks.

In year 2016 we redeemed **6,806,549 €** worth of **principals**. Costs of interest amounted to **854,542 €** (interest in connection to long-term loans and related interest rate swaps). Interest in the amount of 6,031 € was capitalized.

In year 2015 we redeemed 18,322,369 € worth of principals, of which due to refinancing we prepaid 10,655,000 € worth of principals. Costs of interest amounted to 1,026,655 € (interest in connection to long-term loans and related interest rate swaps). Interest in the amount of 95,224 € was capitalized.

Balance of received loans as at 31. 12. 2016 amounted to 49,614,008 €, while at the end of 2015 to 46,420,558 €.

Contractual interest rate in most loans is the result of collecting the offers of interested deposit money banks in acquiring the loan, 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 (Official Gazette RS, No. 23/04, 56/05, 65/06, 65/09). Interest rate of all the loans is floating rate, bound by three or six month EURIBOR. Add-on to the three or six month EURIBOR is between 1 and 1.85 percent point. Majority of financial liabilities are secured by bills of exchange, detailed overview of credit insurances can be found in the table below.

Balance of received loans to finance tangible fixed assets as at 31. 12. 2016 amounted to 49,614,008 €.

In connection with long-term financial liabilities the group is exposed mainly to the interest risk, as the long-term loans raised by the group are loans with a floating interest rate (EURIBOR + add-on). Future cash flows being uncertain the companies in the group decided to secure the cash flow by purchasing the interest rate swap. As at 31. 12. 2016 there were 44 % of long-term loans secured with the fixed interest rate, which represents the amount of 22,026,290 €. Fair value of interest rate swap as at 31. 12. 2016 amounted to - 484,996 €. Exposure to risks and hedging systems are explained in the Business report, in [chapter 5 – Management and quality systems](#).

Changes in long-term financial liabilities in year 2016 are presented in the following table:

in €

Title	Year of approval	Year of maturity	Purpose of loan	Insurance of loan	Interest rate hedge	Balance 31. 12. 2015	Increases due to new leases	Amortizations 2016	Balance 31. 12. 2016	Short-term part of long-term loans 31. 12. 2016	Long-term part of loans 31. 12. 2016	Due from 31. 12. 2016 to 31. 12. 2021
1	2	3	4	5	6	7	8	9	10=7+8-9	11=del 10	12=del 10	13=del 10
credit 1	2009	2017	investments	blank bills	yes	2,428,571	0	-1,214,286	1,214,286	1,214,286	0	0
credit 2	2008	2016	investments	blank bills	no	1,004,470	0	-1,004,470	0	0	0	0
credit 3	2010	2018	investments	blank bills	yes	3,085,714	0	-1,028,571	2,057,143	1,028,571	1,028,570	2,057,142
credit 4	2011	2023	investments	blank bills	yes	6,162,500	0	-850,000	5,312,500	850,000	4,462,500	4,250,000
credit 5	2012	2023	investments	blank bills	no	3,600,000	0	-450,000	3,150,000	450,000	2,700,000	2,250,000
credit 6	2012	2018	investments	mortgage, assignment of the claim	yes	435,619	0	-326,590	109,029	86,590	22,439	109,029
credit 7	2014	2025	investments	blank bills	no	8,100,000	0	-810,000	7,290,000	810,000	6,480,000	4,050,000
credit 8	2015	2024	investments (refinancing)	blank bills	no	10,103,684	0	-1,122,632	8,981,052	1,122,632	7,858,421	5,613,161
credit 9	2015	2030	investments	blank bills	no	4,833,334	3,333,333	0	8,166,667	601,227	7,565,440	3,006,135
credit 10	2015	2025	investments	-	ne	6,666,666	6,666,666	0	13,333,332	0	13,333,332	7,142,856
Total long-term loans						46,420,558	9,999,999	-6,806,549	49,614,008	6,163,307	43,450,702	28,478,324

16.13 Other long-term liabilities

Year 2016 Elektro Gorenjska Group had by 6,422,187 € of other long-term liabilities. Structure and changes in other long-term liabilities in years 2016 and 2015 are shown in the two tables below.

Structure and changes in other long-term liabilities in year 2016:

in €

Item description	Beginning of the period	Increases (formations)		Decreases (withdrawals, elimination)		End of the period
	1. 1. 2016	Chargeable to costs (expenses)	Recognition chargeable to assets	Credit to operating revenues	Credit to liabilities or short-term accrued charges	31. 12. 2016
Fixed assets acquired free of charge	712,319	0	12,749	62,194	0	662,874
Free acquisition of connections	3,729,274	0	213,225	126,032	0	3,816,467
Long-term deferred income - rent	4,796	0	103,704	9,191	0	99,310
Deferred revenues in respect of average connection costs	1,696,151	0	0	85,319	0	1,610,832
Right to use	8,120	0	-8,120	0	0	0
Long-term deferred income- rent and services SODO – RO 2014	76,009	0	0	0	38,005	38,004
Project STORY – long-term deferred revenues	56,455	0	47,983	41,310	0	63,129
Project INCREASE – long-term deferred revenues	57,961	0	0	41,442	0	16,519
Received state benefits	136,990	0	0	34,466	0	102,524
Other long-term accrued costs	3,831	8,698	0	0	0	12,529
Total other long-term liabilities	6,481,907	8,698	369,541	399,954	38,005	6,422,187

Structure and changes in other long-term liabilities in year 2015:

in €

Item description	Beginning of the period	Increases (formations)		Decreases (withdrawals, elimination)		End of the period
	1. 1. 2015	Chargeable to costs (expenses)	Recognition chargeable to assets	Credit to operating revenues	Credit to liabilities or short-term accrued charges	31. 12. 2015
Fixed assets acquired free of charge	684,253	0	74,437	46,371	0	712,319
Free acquisition of connections	3,667,454	0	176,856	115,036	0	3,729,274
Long-term deferred income - rent	8,633	0	0	3,837	0	4,796
Deferred revenues in respect of average connection costs	1,781,470	0	0	85,319	0	1,696,151
Right to use	8,700	0	0	580	0	8,120
Long-term deferred income- rent and services SODO – RO 2014	0	0	114,014	0	38,005	76,009
Project STORY – long-term deferred revenues	0	0	85,919	29,464	0	56,455
Project INCREASE – long-term deferred revenues	53,356	0	37,201	32,596	0	57,961
Received state benefits	130,325	0	21,801	15,135	0	136,991
Other long-term accrued costs	0	3,831	0	0	0	3,831
Total other long-term liabilities	6,334,190	3,831	510,228	328,338	38,005	6,481,907

Biggest items of other long-term liabilities are free acquisitions of connections and other fixed assets (total 4,479,341 €) and long-term deferred revenue from average connection costs (1,610,832 €).

Tangible fixed assets acquired free of charge consist of connections of customers that the company Elektro Gorenjska took over into its tangible fixed assets together with its commitment to care for their maintenance and reconstruction, in accordance with the regulations, above all the General conditions for connection to the distribution electric system (Official Gazette of RS No. 126/07, 37/11) and free acquisition of other fixed assets.

Long-term deferred revenue from average connection costs were formed until June 30 2007 regarding the implementation of GJS SODO, on the basis and in accordance with the regulations, particularly the Act determining the methodology for charging for the network charge, the methodology for setting the network charge, and the criteria for establishing eligible costs for electricity networks (Official Gazette of RS, no. 121/2005 and forwards). Average cost of a connection is a one-off amount paid for connection to the network

or to increase the installed capacity. It is a dedicated source of funding for investment in network expansion. Group has no long-term debts to members of the Board (of management), members of the Supervisory Board or internal owners.

16.14 Deferred tax liability

Deferred tax liabilities as at 31. 12. 2016 amounted to 167,299 €, while on 31. 12. 2015 they amounted to 117,710 €. Deferred taxes are calculated on the basis of temporary differences using the balance sheet liability method and expected tax rates.

16.15 Short-term financial liabilities

Short-term financial liabilities as at 31. 12. 2016 amounted to **6,290,313 €** and are by 0.5 mio € lower than as at 31. 12. 2015. Short-term financial liabilities to banks refer to the short-term part of long-term loans.

in €

Item description	31. 12. 2016	31. 12. 2015
Short-term financial liabilities to banks	6,163,306	6,566,549
Other short-term financial liabilities	127,007	217,118
Total short-term liabilities from financing activities	6,290,313	6,783,667

16.16 Short-term operating liabilities

At the end of 2016 short-term operating liabilities in the amount of **6,432,422 €** were by 0.6 mio € higher than compared to the balance on the last day of 2015 mainly due to higher accounts payable.

Short-term operating liabilities mainly refer to payables (for own account) and to SODO company (for third party account). Detailed review of the short-term operating liabilities is presented in the following table.

in €

Item description	31. 12. 2016	31. 12. 2015
Liabilities to suppliers for own account	3,158,635	2,137,478
Liabilities to other suppliers on its own behalf and for third party account	1,779,977	1,802,892
- liabilities to SODO, d.o.o.	1,779,977	1,802,831
- to others	0	62
Other liabilities	1,493,811	1,879,684
- to workers	1,016,426	995,534
- to state and other institutions	167,516	326,235
- for received advances and collaterals	88,344	25,810
- other (interests, employee deductions, pension fund management ...)	221,525	532,106
Total short-term liabilities from operating activities	6,432,422	5,820,054

16.17 Other short-term liabilities

Other short-term liabilities as at 31. 12. 2016 amounted to **835,724 €** and represent mainly the accrued liabilities. Compared to the balance as 31. 12. 2015 they are lower by 96 thousand €.

16.18 Potential assets, liabilities and off-balance sheet records

Off-balance sheet assets or liabilities as at 31. 12. 2016 amounted to **12,859,457 €**. They were lower by 16.2 mio € compared to the balance as at 31. 12. 2015 mainly due to unused parts of long-term loans and reduction in the value of given guarantees.

Potential assets amount to 3,862,201 €, with received guarantees representing the highest value. Contingent liabilities decreased substantially in year 2016 and amount to 5,817 €. Other off-balance record include unused parts of loans in the amount of 6,666,668 € and fixed assets owned by SODO (2,324,771 €). Elektro Gorenjska Company is liable to keep records of assets financed from average connection costs, which were after the balance as at 31. 8. 2010 transferred to the ownership and indirect property of SODO or sold to SODO in year 2011, in the off-balance sheet in accordance with the Contract with SODO or contract of sale.

in €

Item description	31. 12. 2016	31. 12. 2015
Foreign material in warehouse	249,539	254,700
Received guarantees	2,935,161	2,534,917
Easements	677,501	740,866
Total potential assets	3,862,201	3,530,483
Issued guarantees, bills of exchange	5,817	6,461,431
Total potential liabilities	5,817	6,461,431
Fixed assets in the property of SODO	2,324,771	2,426,099
Undrawn loan amount	6,666,668	16,666,667
Total other	8,991,439	19,092,766
Total off-balance sheet assets and liabilities	12,859,457	29,084,680

17.0

Notes on profit and loss account items

17.1 Net sales revenues

In year 2016 net sales revenues amounted to **35,323,241 €**. Their structure is presented in the following table.

in €

Item description	2016	2015
Revenues from electricity sale	3,805,663	3,702,068
Revenues from electricity sale – SODO supplies	0	13,242
Revenues from rent and services in relation to SODO	30,054,767	27,205,179
Revenues for covering the losses of electricity in relation to SODO	0	3,085,012
Revenues from rents	469,371	479,125
Revenues from construction and assembly works	552,798	379,200
Revenues from sale of other business effects	440,643	541,104
Total net sales revenues from sale of business effects	35,323,241	35,404,931

Majority of net sales revenues of the group (88 %) represent revenues of the parent company. Major item of net sales revenues of the group in year 2016 represent revenues from rent and services related to SODO (30,054,767 €). Compared with 2015 and despite the fact that the company Elektro Gorenjska in 2016 no longer implemented electricity supply transactions and related business by covering losses in the distribution network under contract with SODO, revenues were on a very similar level. In 2016, consequently, in relation to transactions covering the losses in the distribution network and supplies it did not realize income and expenses. In accordance with Annex 5 to the Contract with SODO, valid from 1. 1. 2016 onwards, the company Elektro Gorenjska for the efficiency of operations in the field of network losses was penalised (losses lower or higher than recognized on the basis of the decision of the Energy Agency). In 2016, the company Elektro Gorenjska was stimulated, the amount of stimulation amounted to 281,140 € and was included in income from services in relation with SODO - see also [chapter 4.10.5 - Contract with SODO](#) and [17.4 - Cost of goods and materials sold and cost of material used](#).

17.2 Capitalized own products and own services

In year 2016 capitalized own effects amounted to **5,817,010 €**. They were mostly investments in tangible fixed assets – energy infrastructure. Compared to year 2015 the amount of capitalized own effects was by 1.3 mio € higher.

in €

Item description	2016	2015
Direct material costs	4,081,930	2,760,361
Direct costs of services of others in making of products and implementing of services	46,035	138,021
Direct labour costs	1,302,797	1,257,579
Total direct material, services and labour costs	5,430,763	4,155,962
Total indirect costs of material, services, labour and depreciation	386,247	407,263
Total cost for the production of goods and provision of services relating to capitalized own effects	5,817,010	4,563,225

17.3 Other operating revenues

Other operating revenues in the amount of **888,414 €** consist of:

	in €	
Item description	2016	2015
Operating revenues from revaluation	363,388	259,782
Revenues in respect of transferring long-term deferred revenues to regular operating revenues:	389,703	323,469
- delivery of fixed assets free of charge	62,194	46,371
- delivery of connections free of charge	126,032	115,036
- average connection costs	85,319	85,319
- other	116,159	76,744
Recovered damages from insurance company	71,211	49,382
Other operating revenues	64,113	109,519
Total other operating revenues	888,414	742,151

Revenues from transfer of long-term deferred revenues to regular revenues are explained also in [chapter 16.13](#) – [Other long-term liabilities](#).

17.4 Acquisition cost of goods sold and cost of material used

Acquisition cost of sold goods and material used consists of:

	in €	
Item description	2016	2015
Acquisition cost of goods and materials sold	34,438	24,532
Electricity purchase – losses and SODO supplies	0	2,502,661
Costs of material:	5,249,804	3,867,023
- material for maintenance	217,724	230,091
- costs of materials in connection with capitalized own effects, market services	4,328,613	2,877,235
- energy costs	470,213	504,178
- small tool write-off	111,338	127,874
- costs of office supplies	83,367	77,443
- other material costs	38,549	40,202
Costs of goods sold and expenses	5,284,242	6,394,215

Compared to 2015, the cost of goods sold, together with the costs of materials decreased by 1.1 million €. Since the company Elektro Gorenjska in 2016 no longer implemented transactions relating to the coverage of losses in the distribution network operations and supplies, provided by the end of 2015 under the contract with SODO, it did not realize the cost of this title. More in connection with these transactions is explained in [chapter 17.1 - Net sales revenues](#).

Costs of material used in maintenance of tangible fixed assets are presented also in the Business Report, [chapter 6.5. – Maintenance of energy facilities](#).

Costs of material in connection to the capitalized own effects and services for the market (year 2016: 4,328,613 € and year 2015: 2,887,235 €) include the value of the material, which is then treated by the group as a component part of:

- acquisition cost of tangible fixed assets constructed or made in the group for the purposes of the group (capitalized own effects), which is explained in more detail in [chapter 17.2 – Capitalized own products and own services](#);
- value of services (construction, electrical installation and similar services), sold on the market (please see also note [17.1 – Net sales revenues](#)).

17.5 Cost of services

Cost of services in year 2016 amounted to 3,825,438 €, in year 2015 to 4,631,285 €. Reduction in costs of services is primarily the result of lower costs of services relating to the maintenance of electricity infrastructure and other tangible fixed assets, and lower costs of IT services. More detailed structure of costs of services is shown in the following table.

in €		
Item description	2016	2015
Costs of service in creating products and implementing services	84,157	145,483
Costs of transport services	153,322	159,148
Costs of services in respect of maintenance of electric power infrastructure and other tangible fixed assets	1,514,162	1,828,825
Rents	156,957	175,623
Reimbursements of work related costs to employees	42,281	46,715
Costs of payment transactions, banking services and insurance premiums	581,956	691,719
Costs of intellectual and personal services	439,462	442,897
Costs of advertising and representation	113,265	126,518
Costs of services of individuals not performing the activity, including duties chargeable to the company (costs under work contracts, authorship contracts, meeting fees of supervisory board members...)	160,542	156,010
Costs of information and other services	579,332	858,348
Total costs of services	3,825,438	4,631,285

Biggest cost in the framework of costs of services represent costs of services relating to the maintenance of electricity infrastructure and other tangible fixed. Maintenance of electricity infrastructure is presented also in Business report, [chapter 6.5 – Maintenance of energy facilities](#).

Cost of services for the creation of products and provision of services (year 2016: 84,157 €; year 2015: 145,483 €) include values of construction services, electrical installation services, design services and other similar services treated by the group as an integral part of:

- acquisition costs of tangible fixed assets, constructed or manufactured within the group for the purposes of the group (capitalized own effects), which are presented in more detail in [chapter 17.2 – Capitalized own products and own services](#))
- value of services (construction, electrical installation and similar services), sold on market (please see also note [17.1 – Net sales revenues](#)).

Costs of intellectual services include costs for the purposes of scientific research, presented also in business report, [chapter 6.6 – Development and design](#), costs of education and related costs of scholarships and costs of additional professional training, presented in the business report, [chapter 9.1.4 - Education](#).

Costs of advertising and entertainment include costs of sponsorships and are presented in more detail in the business report, [chapter 9.3.1 – Communication with local community and social responsibility](#).

Costs of other services represent mainly costs related to computer information system, and include concern for the smooth and safe operation of the information system of the group, e-mail, access to the World Wide Web, providing an adequate level of data protection and services, implementation of a common security policy, data processing, storage of computerized data and other services of maintenance of computer software.

17.6 Labour costs

Labour costs in the amount of **12,349,034 €** consist of:

in €		
Item description	2016	2015
Salary costs	8,399,276	8,079,929
Costs of voluntary pension insurance of employees	420,774	412,724
Costs of employer's contributions and other benefits from salaries	1,480,478	1,450,406
Other labour costs	2,048,506	2,043,511
Total labor costs	12,349,034	11,986,571

Costs of additional pension insurance are presented also in Business report, [chapter 9.1.12 – Care for](#)

employees and related groups outside working hours.

Number of employees and their educational structure as well as other information in connection to the employees are presented in more detail in Business report, chapter 9.1 – Care for employees.

Remuneration of management and supervisory board is presented in chapter 23.4 – Transactions with management and supervisory board.

17.7 Write-offs

Write-offs in year 2016 amounted to **11,010,022 €**. Their structure is as follows:

	in €	
Item description	2016	2015
Depreciation of intangible fixed assets	289,875	256,518
Depreciation of tangible fixed assets	10,176,562	9,693,043
Depreciation of investment property	48,414	44,735
Total depreciation costs	10,514,851	9,994,296
Operating expenses from revaluation of fixed assets and investment property	446,697	341,698
Operating expenses from revaluation of current assets:	48,474	18,429
Total write-offs	11,010,022	10,354,423

Depreciation costs of intangible fixed assets (289,875 €) are presented also in chapter 16.1 – Intangible assets; depreciation costs of tangible fixed assets (10,176,562 €) in chapter 16.2 – Tangible fixed assets; depreciation costs of investment property (48,414 €) in chapter 16.3 – Investment property. Operating expenses from revaluation of tangible fixed assets and investment property arise from the sale or write-off of these assets.

17.8 Other operating expenses

Other operating expenses in the amount of **958,824 €** include:

	in €	
Item description	2016	2015
Contribution for promotion of employment of persons with disabilities	64,207	64,207
Contribution for urban land	98,234	101,853
Contribution for contaminated water	10,995	10,995
Concession for water use	52,315	50,219
Provisioning	358,640	356,028
Other expenses (environment protection costs, compensations ...)	374,432	156,689
Total other operating expenses	958,824	739,990

Employment of persons with disabilities and scholarship policy are explained in more detail in the Business report, chapter 9.1.3 – Employment of persons with disabilities or chapter 9.1.4 – Education.

Formation of provisions relates to compensations in connection to denationalization procedures and are explained in more detail in chapter 16.11 – Provisions.

17.9 Financial revenue from shares

In year 2016 the group realized by 2,354 € of revenue from shares, while in year 2015 these revenues amounted to 1,687,990 €. Revenues in year 2015 referred to the loss of control in subsidiary Elektro Gorenjska Prodaja, which was merged with ECE Company in 2015.

17.10 Financial expenses from financial liabilities

Financial expenses from financial liabilities in year 2016 amounted to 876,202 €. As can be seen from the table below, they are mainly composed of interest expense for received long-term loans from commercial banks.

	in €	
Item description	2016	2015
Expenses from interests for received loans in commercial banks	626,603	742,150
Expenses from interest – interest rate swap	249,599	284,504
Expenses from interests for received loans from other companies	0	51
Total financial expenses from financial liabilities	876,202	1,026,706

17.11 Recognized profit or loss on investments valued using the equity method

Profit or loss on investments valued using the equity method in year 2016 amounted to 506,114 €, while in year 2015 to 862,297 €. It represents the proportionate share of net profit in associated companies ECE and Soenergetika.

17.12 Income tax

Charged income tax for business year 2016 amounted to **906,380 €** (year 2015: 740,948 €). In years 2016 and 2015 both companies in the group recognized liabilities for income tax. Overview of the calculation of income tax for individual year is shown in the following table:

	in €	
Item description	2016	2015
Pre-tax profit	8,456,561	7,000,600
Revenues reducing the tax base	-864,375	-1,489,276
Expenses increasing the tax base	844,271	810,882
Expenses reducing the tax base	-439,311	-156,841
Reduction of the tax base on the basis of relief	-2,619,300	-1,784,214
Other	-46,200	-22,636
Tax base	5,331,647	4,358,516
Tax rate	17 %	17 %
Income tax	906,380	740,948
Effective tax rate	11 %	11 %

17.13 Deferred tax liabilities and deferred taxes

Deferred tax liabilities as at 31. 12. 2016 amount to 167,299 €. They relate to taxable temporary differences arising from the merger of Elektro Gorenjska Prodaja Company to the ECE Company and from small tools in fixed assets. Compared to the situation on 31. 12. 2015 they increased by 49,590 €.

Deferred tax assets, which as at 31. 12. 2016 amounted to 768,611 €, the group due to the uncertainty regarding future taxable profits did not recognize.

18.0

Notes on other comprehensive income items

Total comprehensive income in addition to the net profit or loss for the period (7,194,476 €) includes also:

- actuarial gains and losses of the parent company, subsidiary and associated companies in the total amount of - 69.295 €,
- effective portion of changes in fair values of interest rate swap in total amount of 187,922 € (of which 33,449 € of the effective portion was transferred to profit and loss) and
- share of other comprehensive income of associate company in the amount of - 320 €.

Individual items of other comprehensive income are presented also in [chapter 16.10 Capital](#) (table fair value changes).

19.0

Notes on cash flow items

In year 2016 Elektro Gorenjska Group had 51,566,906 € of receipts and 50,790,036 € of expenditures. Receipts and expenditures include appropriate amounts of duties, mainly VAT and excise duties, in accordance with the issued invoices and received invoices. Cash flow in year 2016 was positive and amounted to 776,870 €.

As at 1. 1. 2016 the group had on transaction accounts in banks and in the form of short-term deposits or deposits redeemable in the amount of 3,561,311 €, while the balance of these assets on 31. 12. 2016 amounted to 5,188,746 €.

Net cash from operating activities in year 2016 exceeded expenditure by 18,180,524 €, which means that the group operates positively with its main activity and creates a positive cash flow. This way in year 2016 the group was able to settle all its liabilities (expenditure) referring to the repayment of the principals and interests in respect of long-term credits in the amount of 7,687,676 €, has settled all expenses related to the payment of dividends and purchase of own shares in the amount of 2,899,094 € and could partly finance new acquisitions of intangible and tangible assets. The largest revenues were revenues received under the Contract with SODO for implementation of services and rents for electric power infrastructure.

Negative net cash used in investing activities in year 2016 amounted to 16,816,873 €. Industry the Elektro Gorenjska Company operates in is technologically very intense and in order to provide quality supply to its customers in the area of Elektro Gorenjska distribution network large and constant investments are required (explained mainly in [chapter 16.2 - Tangible fixed assets](#)). New acquisitions of intangible and tangible assets were mainly financed by acquisition of new long-term credit in the amount of 9,999,999 € (explained in [chapter 16.12 - Long-term liabilities](#)), while partly they were financed also by positive net cash from operating activities. Outflows from financing activities mainly represent expenditures for the repayment of short-term and long-term financial liabilities and interest paid relating to financing activities (7,687,676 €), and are increased by the payment of dividends in the amount of 2,876,598 € and purchase of own shares in the amount of 22,506 €. Negative cash flow from financing activities in 2016 amounted to 586,781 €. Group needed proceeds from financing in order to meet the investment plan, while expenses from financing were paid in full by a positive result from operating activities, as already explained.

In order to make the most understandable and relevant presentation of cash flows group Elektro Gorenjska in 2016 prepared a cash flow statement somewhat differently than in previous years. By the end of 2015, the expenditure for investments in own account were reported as operating expenditure and expenditure from financing. This has been reducing cash flow from operating activities and financing activities. In 2016, the expenditure relating to the own investments are recognized under expenditure in investing. Consequently, the Group has by 4,410,378 € higher positive cash flow from operations, by 95,224 € higher positive cash flow from financing activities and by 4,505,602 € higher negative cash flow from investing.

Detailed items of reclassifications and differences that have occurred as a result, are shown in the following table:

in €

ITEM	After the change January-December 2015	Before the change January-December 2015	Difference
A. OPERATING CASH-FLOW			
b. Operating expenditure			4,410,378
1. Expenditure for purchase of material and services	-9,764,928	-12,916,517	3,151,589
2. Expenditure for salaries and employees profit shares	-8,777,922	-10,035,443	1,257,521
3. Expenditure for income tax	-990,854	-911,591	-79,263
4. Expenditure for other duties	-3,378,095	-3,457,418	79,323
5. Other operating expenditure	-2,921,292	-2,922,500	1,208
B CASH FLOW IN INVESTING			
b. Expenditure in investing activities			-4,505,602
1. Expenses for acquisition of intangible assets	-470,712	-384,425	-86,287
2. Expenses for acquisition of tangible fixed assets	-19,027,894	-14,612,122	-4,415,772
3. Expenses for acquisition of investment property	-97,592	-94,049	-3,543
C. CASH FLOWS IN FINANCING ACTIVITIES			
b. Expenditure in financing activities			95,224
3. Expenditure for repayment of financial liabilities	-32,867,146	-32,962,369	95,224

20.0

Note on the gap between the information in the statement of financial position and statement of changes in equity as at 1. 1. 2015

On 1. 1. 2015 Elektro Gorenjska in the process of acquisition acquired a share in the company Elektro Celje Energija (ECE acquiring company) in return for the 100 % business share in company Elektro Gorenjska Prodaja (acquired company). With this, the company Elektro Gorenjska lost control of the subsidiary. Entry of the merger into the court register was on 1. 10. 2015. Difference in the initial state of capital reflects the time lag between the loss of control (1. 1. 2015) and the date of entry of the merger into the court register (1. 10. 2015) and represents the difference between the fair value of the investment in ECE Company and the net asset value of the company Elektro Gorenjska Prodaja, adjusted for deferred tax, booked directly to equity. In the statement of financial position all the effects of a loss of control are taken into account as at 1. 1. 2015, while in the statement of changes in equity the profit in the group at the loss of control (1,602,510 €) is recognized in the context of changes during the year 2015. From and including on 31. 12. 2015, the value of total capital in both statements is aligned.

21.0

Fair values

Overview of fair value and carrying amount of assets and liabilities:

in €

	31. 12. 2016		31. 12. 2015	
	Carrying value	Fair value	Carrying value	Fair value
Non-derivative financial assets at amortised cost				
Long-term and short-term financial claims	8,805,705	8,805,705	7,043,596	7,043,596
Short-term trade receivables	5,729,045	5,729,045	6,588,702	6,588,702
Cash and cash equivalents	4,338,181	4,338,181	3,561,311	3,561,311
Total non-derivative financial assets	18,872,930	18,872,930	17,193,609	17,193,609
Non-derivative financial liabilities at amortised cost				
Bank loans and other financial liabilities	-50,226,012	-50,226,012	-47,310,595	-47,310,595
Short-term trade payables for own and third party account	-4,938,612	-4,938,612	-3,940,370	-3,940,370
Total non-derivative financial liabilities	-55,164,624	-55,164,624	-51,250,965	-51,250,965
Derivative financial instruments at fair value				
Derivative financial instruments (liabilities)	-484,997	-484,997	-672,889	-672,889
Total derivative financial instrument	-484,997	-484,997	-672,889	-672,889
Total	-36,776,691	-36,776,691	-34,730,245	-34,730,245

Estimated fair value of short-term assets and liabilities is equal to their book value.

Fair value scale

Fair value and method of valuation of assets:

in €

	31. 12. 2016				31. 12. 2015			
	1. level	2. level	3. level	Total	1. level	2. level	3. level	Total
Assets at fair value								
Total assets at fair value	0	0	0	0	0	0	0	0
Assets for which fair value is disclosed								
Long-term and short-term financial claims	0	0	8,805,705	8,805,705	0	0	7,043,596	7,043,596
Short-term trade receivables	0	0	5,729,045	5,729,045	0	0	6,588,702	6,588,702
Cash and cash equivalents	0	0	4,338,181	4,338,181	0	0	3,561,311	3,561,311
Total assets for which fair value is disclosed	0	0	18,872,930	18,872,930	0	0	17,193,609	17,193,609
Total	0	0	18,872,930	18,872,930	0	0	17,193,609	17,193,609

Fair value and method of valuation of liabilities:

in €

	31. 12. 2016				31. 12. 2015			
	1. level	2. level	3. level	Total	1. level	2. level	3. level	Total
Liabilities at fair value								
Derivative financial instruments	0	-484,997	0	-484,997	0	-672,889	0	-672,889
Total liabilities at fair value	0	-484,997	0	-484,997	0	-672,889	0	-672,889
Liabilities for which fair value is disclosed								
Bank loans and other financial liabilities	0	0	-50,226,012	-50,226,012	0	0	-47,310,595	-47,310,595
Short-term trade payables	0	0	-4,938,612	-4,938,612	0	0	-3,940,370	-3,940,370
Total liabilities for which fair value is disclosed	0	0	-55,164,624	-55,164,624	0	0	-51,250,965	-51,250,965
Total	0	-484,997	-55,164,624	-55,649,621	0	-672,889	-51,250,965	-51,923,854

22.0

Capital management

Key factor in the success of Elektro Gorenjska Group is a long-term orientation towards the customer and constant adaptability to external operating conditions (national interest, regulatory and legislative changes, major technological changes, ...). Main purpose of capital management in Elektro Gorenjska is therefore to ensure capital adequacy, high financial stability and solvency, and not forgetting also the appropriate value for shareholders.

Group monitors the long-term financial stability with the ratio between net financial debt and EBITDA. Policy of the group is that it does not exceed the value of 3.5, which allows a group long-term stable operation (more explained in [chapter 6.7.1](#)). For control of the capital, the group uses a leverage ratio, which indicates the proportion of net debt to equity. Indicator was in 2016 at a similar level as in 2015, which confirms the fact that the group manages capital economically and stable.

Financial stability of both companies in the group is also evident from the rating GVIN. Credit rating of the parent company Elektro Gorenjska, d. d. is currently B 1 + +, which is very well according to the very technologically intensive activity in which the company operates. Other electricity distribution companies in Slovenia have the same rating. Rating of the subsidiary Gorenjska elektrarne is A 1 + +, which is well above average in relation to similar companies in the industry.

Elektro Gorenjska Company in 2016 continued with the implementation of the updated Strategic Plan, which recognized as many as 11 strategic projects that will have a significant impact on the growth of the Group's capital in the future as well.

In €

Item description	Note	31. 12. 2016	31. 12. 2015
Long-term financial liabilities	16.12	43,935,698	40,526,928
Short-term financial liabilities	16.15	6,290,313	6,783,667
Total financial liabilities		50,226,011	47,310,595
Capital	16.10	149,634,034	145,144,102
Debt/Capital		0.34	0.33
Cash and cash equivalents	16.9	4,338,181	3,561,311
Net financial liability		45,887,830	43,749,284
Net debt/capital		0.31	0.30

23.0

Transactions with affiliates

Below we present transactions with related parties, namely transactions with group companies, transactions with the Republic of Slovenia, transactions with companies owned by the Republic of Slovenia and the operations of the Management Board and the Supervisory Board. On the basis of the statements we have received from the Chairman of the Management Board, Director of subsidiaries and members of the Supervisory Board, transactions with related parties on the basis of connections individual - the company, as defined by IAS 24, are irrelevant.

23.1 Transactions with group companies

In year 2016 parent company Elektro Gorenjska was doing business with a subsidiary Gorenjske elektrarne.

Among transactions with the subsidiary the most important are the following two:

Item description	Amount
Revenues from general services (revenues of parent company)	177,787
Revenues from rents (revenues of parent company)	142,441

in €

Subsidiary Gorenjske elektrarne paid the controlling company Elektro Gorenjska 521,019 € of profit.

Among the transactions with the associated company ECE revenues from electricity sales in the amount of 2,624,847 € (revenues of the subsidiary) are important.

All transactions with group companies were implemented under normal market conditions.

As a controlling company Elektro Gorenjska Company did not obstruct or impair operations of company Gorenjske elektrarne as the controlled company.

23.2 Transactions with the Republic of Slovenia

Most important transactions of the parent company and its subsidiary with the Republic of Slovenia were in 2016 the following:

Item	Payments in year 2016
Dividends	2,296,148
Corporate income tax (tax and prepayments)	796,634
Other dues (VAT, employer's contributions)	4,661,558
Total	7,754,340

in €

23.3 Transactions with companies directly or indirectly owned by the Republic of Slovenia

Table below shows significant transactions with companies in which the state has directly or indirectly a dominant influence.

in €

Business partner	Outstanding claims as at 31. 12. 2016	Outstanding liabilities as at 31. 12. 2016	Expenditure in year 2016	Revenue in year 2016	Dividend payment in year 2016
SODO d. o. o.	2,843,393	1,784,592	0	30,054,767	0
Modra zavarovalnica d. d.	0	33,663	374,902	0	0
Zavarovalnica Sava d. d.	0	65	460,384	0	0
NLB d. d.	0	7,290,000	139,126	0	0
SID d. d.	0	8,166,667	72,338	0	0
Kapitalska družba d. d.	0	0	0	0	72,241
Sava RE d. d.	0	0	0	0	46,830
DUTB, d. d.	0	0	0	0	34,654
Total	2,843,393	17,274,987	1,046,749	30,054,767	153,725

Outstanding liabilities to SODO Company represent payables for the account of third parties.

Transactions with other companies in which the State has a dominant influence do not represent a significant amount.

23.4 Transactions with management and Supervisory Board

In year 2016 Elektro Gorenjska Group paid the group of persons stated below the following gross or net receipts:

in €

Receipts of the Chairman of the Board	Earning	Operating performance	Terminal leave pay	Solidarity aid	Pay for annual leave	Reimbursements of costs	Total
1. Elektro Gorenjska							
gross receipts	79,689	3,535	0	0	1,581	3,206	88,011
net receipts	36,881	1,713	0	0	1,030	3,206	42,830
2. Gorenjske elektrarne							
gross receipts	53,909	0	0	0	2,553	1,627	58,089
net receipts	32,215	0	0	0	1,722	1,627	35,565

Reimbursement of costs (so called material costs) include: daily allowances, transfer to work, meals and costs of official journeys. They are charged in accordance with the employment contracts or company's collective agreement.

Benefits of the Chairman of the Board in the controlling company and director of the controlled company arising from the employment contract were the following in year 2016:

in €

Chairman of the Board / Company Director	Insurance premiums	Use of company car	Use of mobile phone	Professional education
Elektro Gorenjska	1,415	11,208	397	269
Gorenjske elektrarne	1,415	6,777	332	1,696

Supervisory Board

Gross and net receipts of the Supervisory Board members in year 2016 are shown in table below. As some members are members of Supervisory Board committees as well, receipts for participation in the committees are included as well. Remuneration policy for Supervisory Board members is presented in [chapter 4.6.1 – Management and governance of Elektro Gorenjska Company](#).

in €

	Gross/net	Payment for the performance of the function	Attendance fee SB	Attendance fee committee	Travel expenses	Total
Shareholders representatives						
Samo Logar, M. Sc.	gross	21,188	3,465	1,276	502	26,430
	net	15,410	2,520	928	365	19,223
Andrej Koprivec	gross	15,538	3,465	2,156	590	21,749
	net	11,300	2,520	1,568	429	15,818
Tedo Djekanović, M. Sc.	gross	15,255	2,915	1,276	0	19,446
	net	11,095	2,120	928	0	14,143
Elvis Duraković	gross	14,125	3,465	1,716	0	19,306
	net	10,273	2,520	1,248	0	14,041
Employee representatives						
Dominik Ovniček, M. Sc.	gross	11,300	3,190	0	0	14,490
	net	8,218	2,320	0	0	10,539
Iztok Štular	gross	11,300	3,465	0	0	14,765
	net	8,218	2,520	0	0	10,739

Gross and net receipts of members of Audit and Nomination Committees are shown in table below.

in €

	Gross/net	Payment for the performance of the function	Attendance fee committee	Travel expenses	Total
External members of committees					
Andrej Baričič, PhD	gross	5,650	2,156	273	8,079
	net	3,452	1,317	167	4,936
Milena Pervanje	gross	5,650	1,276	0	6,926
	net	4,109	928	0	5,037

Costs of other Supervisory Board members' benefits in year 2016 refer to the liability insurance in accordance with the decision of the 16th shareholders meeting of Elektro Gorenjska Company. These costs amounted in total to 6,756 € and represent the creditworthiness of the Supervisory Board members.

in €

	Liability insurance
Shareholders representatives	
Samo Logar, M. Sc.	1,126
Andrej Koprivec	1,126
Tedo Djekanović, M. Sc.	1,126
Elvis Duraković	1,126
Employee representatives	
Dominik Ovniček, M. Sc.	1,126
Iztok Štular	1,126

Board of directors and the Supervisory Board did not receive any receipts in respect of performing the functions in controlled companies. Elektro Gorenjska Group received and also approved no advances, loans, or guarantees to groups of people mentioned in this chapter and did not disclose any claims on them in this respect as of December 31 2016.

24.0

Auditing costs

Under Article 57 of the Companies Act (ZGD-1) Elektro Gorenjska Group is subject to annual report audit. Contractual amount for auditing the financial statements of companies within the group and Elektro Gorenjska Group for year 2016 amounted to 15,472 €. In addition, the auditor who has audited the annual report has been paid an additional € 5,544 for the agreed-upon procedures.

25.0

Financial risks

In Elektro Gorenjska Group we are aware of the risks that are an integral part of our operations. We are also aware that only a comprehensive and systematic risk management can be effective. Risk management system is one part of our integrated quality management system. Management of risks is an important condition for successful and efficient reaching of the set long-term business goals.

Financial risks are connected with the ability to create financial income, control financial expenses, maintain the value of financial assets, control financial liabilities and ensure competitive and long-term solvency. In the group Elektro Gorenjska, we are exposed to numerous financial risks, which include, in particular: credit risk of customer payments, extraordinary expenses (penalties), interest rate risk, lack of investment funds, risk of investments in subsidiaries, inadequate payment of EG services by SODO and liquidity risk. Main types of financial risk are credit risk, liquidity risk and interest rate risk. Other aforementioned financial risks are described in the business report, in [Chapter 5 - Management and Quality Systems](#).

Credit risk

Carrying amount of financial assets represents a maximum exposure to credit risk. Maximum exposure to credit risk at the reporting date were:

	2016	2015
Long-term operating receivables	37,480	23,240
Short-term financial investments	1,544,144	840
Short-term operating receivables	6,078,218	6,828,840
Of which trade receivables	5,729,045	6,588,702
Monetary assets	4,338,181	3,561,311
	11,998,023	10,414,232

in €

Under the Contract on the lease of electricity distribution infrastructure and the provision of services for the distribution system operator the group collects customer payments on its own behalf and on behalf of SODO, d. o. o. There is a higher risk, as the group despite unpaid claims of customers has to settle all liabilities to SODO. In part, the group in accordance with the control has recognized and covered potential write-offs, but only up to 0.2 % of charged network charges, which is approx. 51,000 € annually.

Group also engages in other commercial activities, representing 29 % of total group revenues.

Breakdown of short-term receivables for the network charge, electricity and services and interest receivable as at 31. 12. 2016 and 31. 12. 2015 are shown by maturity in the following figure:

	31. 12. 2016	31. 12. 2015
Not yet due	5,287,961	5,796,953
Due up to 30 days	346,861	393,012
Due from 31 - 60 days	35,935	254,454
Due from 61 - 90 days	5,078	66,874
Due over 90 days	245,959	211,562
Total amount due	633,833	925,902
Share of outstanding receivables in collectable	11 %	14 %
Total	5,921,794	6,722,857

in €

Changes in valuation adjustment of claims in years 2016 and 2015 are presented in the next table.

	2016	2015
Opening balance 1. 1.	207,468	216,550
New formation	57,798	25,631
Withdrawal and elimination	16,497	34,713
Final balance 31. 12.	248,768	207,468

in €

Receivables are reviewed regularly and monthly in the group. Recovery is conducted regularly to all customers under the same criteria. We recover also default interest consistently. Accuracy of the records and the recovery has brought us to a good result. Largest debtors or non-payers of network charge are discussed at the regular monthly meetings, where for the individual debtor we make the plan of activities, which should lead to the highest possible recovery. It is an individual treatment. We also review the credit rating of the debtors. We also use telephone recovery, possibility of granting payments in installments, search options for compensation assignment, etc. In the case of an installment debt repayment, contract of assignment of claim, we always include in the contract the accrued default interest. When closing the outstanding receivables we respect the provisions of the general part of the contract on access to distribution networks. When we have exhausted all possible instruments of "soft" recovery, in the event of non-payment of the network charge, we send a notice of disconnecting the user system. In the event that a party despite the notice still does not settle the debt within the time limit specified in the notice, disconnection of the measuring point follows. In this way, the company prevents further damage to the business or financial indiscipline, which would otherwise lead to higher outstanding receivables.

Receivable from the biggest buyer as at 31. 12. 2016 amounted to 2,843,393 €, which means 48 % of all accounts receivable. Biggest buyer has the highest possible credit rating.

According to the assessment, credit risk has a moderate impact on the business or liquidity. Assuming a 50 % annual probability of risk realization, an individual assessment of risky rates on business amounts to 162 thousand €, with the range of losses in case of realization going from a minimum of 0 € to a maximum of 450 thousand €.

Liquidity risk

Risk of short-term insolvency or liquidity risk stems from the possibility that the company at any given time will not have sufficient liquidity to meet its current obligations and to maintain normal operations.

Liquidity risk is managed primarily with the following activities:

- Supervision and coordination among all OU in the field of procurement of goods and services or conclusion of purchase contracts with respect to the expected available cash. This area includes also prioritization of purchases depending on available funds. This applies to all areas of action in the group.
- Monitoring the implementation of open orders and concluded procurement contracts in particular as regards the date of completion, and the date and amount of the anticipated payment obligations.
- Control over the timeliness of payments of claims, especially with major clients. This includes the establishment of an information system on overdue receivables, and timely mutual information on outstanding receivables between individual OUs, so that appropriate and timely action is taken (issuing timely reminder, court claims ...).
- Constant monitoring of the stocks. At the level of the management decisions were adopted, defining the monitoring of stocks. Group finally and fully realizes the decisions in connection with the consignment of material and equipment suppliers. Group further optimizes working processes (in the field of planning - purchasing material - implementation).
- Monitoring of trade receivables as late payments of customers as a result of the deterioration of financial discipline, requests for extension of payment terms and discount, and higher costs for debt collection, reflect on the poor liquidity of the group. It is also important to shorten payment terms to customers. In concluding commercial contracts with customers of our services special attention is paid to further integration of the relevant insurance of payments
- Severity of liquidity risk is assessed as significant. Due to the established control mechanisms and the implementation of measures, especially cash management, at the group level, we believe that the probability of materialization of illiquidity is small, but the company is aware that illiquidity could cause great business damage.

Liquidity risk is closely associated with **investment risks**. Liquidity risk management is the implementation of investment financing in accordance with the business plan, in a way that ensures sufficient resources to avoid delays in the implementation of investments, since the processes of borrowing can be long lasting.

In the group we have set up cash management, whose main objective is to optimize the liquidity situation and the need for utilization of short-term external debt financing. Source of financing the short-term deficits of a certain company is excess cash of one of the group companies. This is to achieve the best conditions for both of borrowing as investment funds, in particular, in a way that exploits the synergistic effects of the group as a whole.

Much attention is given to the preparation and monitoring of cash flows plan. Effective planning of liquidity enables us to optimally manage any short-term surpluses or deficits of liquid assets.

Following table shows financial liabilities to banks and other long-term financial liabilities (fair value of interest rate swap as at 31. 12. 2016 or 31. 12. 2015) by maturity.

in €

2016	MATURITY			TOTAL
	In 1 year	From 2 to 5 years	Over 5 years	
Financial liabilities to banks	6,163,306	23,557,452	19,893,253	49,614,008
Other long-term financial liabilities	11,590	54,423	418,983	484,996

in €

2015	MATURITY			TOTAL
	In 1 year	From 2 to 5 years	Over 5 years	
Financial liabilities to banks	6,566,549	20,267,993	19,586,018	46,420,558
Other long-term financial liabilities	0	150,724	522,195	672,919

Short-term operating receivables according to maturity were following:

in €

2016	Not yet due	Due from 0 to 30 days	Due from 31 to 90 days	Due from 90 to 180 days	Due from 181 to 365 days	Total amount due	Total accounts receivable
Short-term accounts payable	3,122,164	32,158	1,000	0	3,317	36,475	3,158,638
Short-term operating liabilities arising from advances	88,344	0	0	0	0	0	88,343
Short-term lpayables for the account of third parties	1,779,977	0	0	0	0	0	1,779,976
Short-term liabilities for wages	1,016,426	0	0	0	0	0	1,016,425
Liabilities to government and other institutions	167,516	0	0	0	0	0	167,515
Other short-term operating liabilities	221,525	0	0	0	0	0	221,524
	6,395,952	32,158	1,000	0	3,317	36,475	6,432,423

in €

2015	Not yet due	Due from 0 to 30 days	Due from 31 to 90 days	Due from 90 to 180 days	Due from 181 to 365 days	Total amount due	Total accounts receivable
Short-term accounts payable	2,110,336	21,050	1,757	923	3,412	27,142	2,137,479
Short-term operating liabilities arising from advances	25,809	0	0	0	0	0	25,809
Short-term lpayables for the account of third parties	1,802,891	0	0	0	0	0	1,802,891
Short-term liabilities for wages	995,534	0	0	0	0	0	995,534
Liabilities to government and other institutions	326,235	0	0	0	0	0	326,235
Other short-term operating liabilities	532,106	0	0	0	0	0	532,106
	5,792,911	21,050	1,757	923	3,412	27,142	5,820,054

Table below shows the major part of off-balance sheet assets / liabilities by maturity (except for fixed assets owned by SODO and foreign material in the warehouse):

in €

2016	MATURITY			TOTAL
	In 1 year	From 2 to 5 years	Over 5 years	
Received guarantees	822,489	2,099,949	12,723	2,935,161
Issued guarantees	5,817	0	0	5,817
Undrawn loan amount	6,666,668	0	0	6,666,668
Easement	63,365	316,824	297,313	677,502

in €

2015	MATURITY			TOTAL
	In 1 year	From 2 to 5 years	Over 5 years	
Received guarantees	1,663,285	871,632	0	2,534,917
Issued guarantees	4,998	5,000	3,000	12,998
Sureties to guarantees issued	6,456,433	0	0	6,456,433
Undrawn loan amount	9,999,999	6,666,668	0	16,666,667
Easement	63,365	316,824	360,677	740,866

Severity of liquidity risk is assessed as big. Due to the established control mechanisms and the implementation of measures, especially cash management at the group level, we believe that the probability of materialization of illiquidity is small, although we are aware that illiquidity could cause a great business damage. Assuming a 25 % annual probability of risk realization an individual assessment of risk situations on operations amounts to 8 thousand €, with the range of losses in the case of realization going from a minimum of 0 € to a maximum of 20 thousand €.

Interest risk

Interest rate risk is the danger in the event of unfavorable movements in interest rates. Since the group has certain loans contracted at a variable interest rate (EURIBOR), they are sensitive to movements in interest rates. To manage the interest rate risk in year 2012 we protected the longer maturity loans with interest rate swap, which means we changed the variable interest rate into a fixed one. Also in year 2016 we implemented part of the borrowing with fixed interest rate. This financial instrument allows us a more predictable planning of outflows from interest and a more steady cash flow from financing activities. Currently, the group has 44 % of predictable cash flow (in year 2015 it had 40 %).

Exposure to interest rate risk was as follows:

in €

	2016	2015
Financial liabilities with fixed interest rate	22,026,290	18,779,072
Financial liabilities with variable interest rate	27,587,719	27,641,489
	49,614,008	46,420,558

Elektro Gorenjska Group has entered into interest rate swaps to hedge the cash flow for the duration of the loan. It intends to hold the financial instruments until maturity. They will, at their maturity, when entire obligations under the loan agreement will be repaid, have a value of 0. Interest rate swaps hedged the following financial liabilities:

in €

	2016	2015
Financial liabilities hedged with interest rate swap	8,692,958	12,112,405

Change in interest rates for financial instruments with a variable interest rate by 50 basis points at the reporting date would have increased or decreased the Group's profit for the amounts shown below. In the analysis of the obligations at variable interest rate reduced by the liabilities for which the interest rate swaps (IRS) were concluded. Some loan agreements include provisions that the variable interest rate equals zero, if the EURIBOR is negative.

in €

	Impact on profit 2016		Impact on profit 2015	
	Increase by 50 bt	Decrease by 50 bt	Increase by 50 bt	Decrease by 50 bt
Financial liabilities with variable interest rate	-132,750	67,089	-133,170	84,776

Severity of interest risk is assessed as low. Given the current economic situation, significant rise in interest rates is not expected, so that the impact of the risk is assessed as moderate. Assuming a 17 % annual probability of risk realization an individual assessment of risky rate on operations amounts to 3 thousand €, with the range of losses in case of realization going from a minimum of 0 € to a maximum of 10 thousand €.

Foreign exchange risk

Operations are conducted in euros, therefore the group is not exposed to the risk of exchange rate changes.

26.0

Events after the balance sheet date

After the balance sheet date (31. 12. 2016) and until the auditor's report date (12. 5. 2017) Elektro Gorenjska Company received from SODO the preliminary account of the regulatory year 2016. Preliminary account for year 2016 was implemented by SODO on the basis of unrevised financial statements. From the account it is clear that in year 2016 the already charged contractual value of services and rent was by 1,577,187 € lower than the values established on the basis of the preliminary account. Based on this the Elektro Gorenjska Company in year 2016 recognized by 1,577,187 € of accrued income.

After the date of approval of the financial statements for year 2016 (21. 3. 2017) and until the date of the auditor's report, the company received from SODO final statement for the regulatory year 2015. Final account, based on the audited financial statements for year 2015, it follows that the already charged value of the rent and services, together with interest was by 22,113 € higher than the value resulting from the final account. Settlement will be taken into account in the financial statements for 2017.

On 27. 2. 2017 the subsidiary company Gorenjske elektrarne established a subsidiary GEK vzdrževanje d. o. o., to which it will spin-out the maintenance activity.