Elektro Primorska

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ANNUAL REPORT OF ELEKTRO PRIMORSKA D. D. COMPANY AND ELEKTRO PRIMORSKA GROUP FOR YEAR 2017

ANNUAL REPORT
OF ELEKTRO PRIMORSKA, D.D.
AND THE ELEKTRO PRIMORSKA GROUP
FOR THE YEAR 2017

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BUSINESS REPORT

01.

REPORT BY THE MANAGEMENT BOARD

Dear shareholders, business partners, and colleagues,

Elektro Primorska, d.d., is a provider of electricity distribution in the Primorska region. Fundamental mission of Elektro Primorska is ensuring quality and reliable electricity supply in an environmentally friendly and safe manner in accordance with the laws and regulations, securing development and construction of a robust electricity network, following the needs of the economy and the population and fulfilling expectations of the owners and other stakeholders through professional and efficient operations. As in the previous years, we will continue to increase our investments to improve quality and cost efficiency also through digital transformation and business process optimisation projects.

In 2017, we celebrated 70th anniversary of the Company's establishment. The period from 1947 to 1948 is considered the organised start of the electricity distribution in the Primorska region. It was then that the Ministry of Industry, Mining and Electrification of the People's Republic of Slovenia established the Directorate for the Gorizia District, based in Ajdovščina. In turn, the Administration for the Gorizia District set up establishments in Tolmin, Solkan, Ajdovščina and Sežana. In the coastal area, the distribution was run by the electrification section i.e. company Elte until 1955, when Elektro Koper was established. In 1963, all the electricity distribution companies in the Primorska region merged into Elektro Gorica and later into Elektro Primorska, a public enterprise. After independence and subsequent ownership transformation of public electricity distribution companies, Elektro Primorska acquired its current legal status of a public limited company. In 2007, Elektro Primorska assumed its present name and lost its status of a public enterprise. This was ten years ago and since then the Company's progression has been varied and dynamic.

Since its establishment, the Company has strived to upgrade and maintain the electricity distribution network, as only a functioning and faultless network can follow the development plans of the Slovenian economy and the distribution network, and above all, ensure high-quality supply of electricity to end-users. In accordance with its mission, in the next three years Elektro Primorska plans construction of 20 kilowatt cable conduit on the Kobarid-Bovec route, which will ensure improved quality supply of electricity to the upper Posočje region. A cycle path, which is also planned on the route, will be built in collaboration with the municipalities of Kobarid and Bovec.

In 2017, the Company distributed 1,613.6 GWh of electricity through its network. Total electricity distributed in 2017 is 3.1% higher than in 2016 and the third highest quantity recorded in the entire history of the Company. Higher quantities were recorded only in 2006 and 2007, mainly due to rather large transmission of electricity to Italy. Considering consumption on Slovenian market, we can conclude that 2017 was a record year.

In the next financial year, 2018, we are planning completion of the RTPs Tolmin and Postojna, continuation of the RTP Plava construction, renewal of the 20 kV switchyard in the Pivka RTP and replacement of the transformer in Ilirska Bistrica. Total investment cycle is estimated at €15.5 million. These projects are most important in terms of the Company's activities, as modern and powerful network ensures more reliable supply and better quality of electricity supplied to our users. In line with the adopted IT strategy, we are currently upgrading key information systems (ERP, Asset Management, GIS) and installing smart meters and other elements of the network to increase efficiency and meet increasingly demanding requirements of customers and the market. We won public tender of the Ministry of Infrastructure for co-financing of an operation from the EU Cohesion Fund, where the eligible project costs are financed at a 33% participation share. The project began in November 2017 and, according to the co-financing schedule (with the SODO and EDP as participating parties), it should be realised by November 2022. Based on a deployment plan, the project is to be completed in 2025. The system implementation will enable and target the use of DMS, DSM, DR and EMS systems to facilitate the system management and electricity use, acceptance and production.

Our subsidiary E3, d.o.o. failed to perform as successfully in 2017 as we have hoped. While the sale of electricity significantly exceeded the set goals, increased purchase prices of electricity and high costs of variances significantly influenced the amount of net profit.

As ever, the Elektro Primorska Group has pursued all the key objectives and recommendations of SDH, d.d. in the investments management of electricity distribution companies in 2017 and operated in accordance with the approved plan, generating annual pre-tax profit of €7,860,026. In the future, we will focus on business excellence and consolidate our reputation as a serious and trustworthy business partner.

Uroš Blažica,
President of the Management Board

02.

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES

Management has approved the financial statements and business report for the year ending 31 December 2017 and the accompanying accounting policies and notes thereto contained in the proposed annual report.

Management Board is responsible for the preparation of the annual report that gives a true and fair presentation of the financial position of the Company and of its financial performance for the year ended 31 December 2017.

Management Board confirms that the appropriate accounting policies were consistently applied, and that the accounting estimates were made under the principle of prudence and the diligence of a good manager. It also confirms that the financial statements and notes thereto were prepared on a going concern basis and in accordance with the applicable Slovene legislation and Slovene Accounting Standards.

Management Board is also responsible for the appropriate accounting system and adoption of measures to secure the assets, and to prevent and detect fraud and other irregularities and/or illegal acts.

In its business operation the Company strictly abides by the laws and tax regulations and Management Board does not expect any significant obligations in this respect.

The Tax Authorities may, at any time within a period of 5 years after the end of the year for which a tax assessment was due, carry out an audit of the Company's operations, which may lead to assessment of additional tax liabilities, default interest, and penalties with regards to corporate income tax or other taxes and duties. Management is not aware of any circumstances that could give rise to a potentially significant liability in this respect.

Nova Gorica, 8 May 2018

Uroš Blažica,
President of the Management Board

03.

SUPERVISORY BOARD REPORT

Composition of the supervisory board
In the period from 1 January 2017 to 28 August 2017, composition of the Supervisory Board was as follows: mag. Uroš Saksida, Chairman of the Supervisory Board; Massimo Makovac, Deputy Chairman of the Supervisory Board; Dean Kocjančič, Member of the Supervisory Board; Matjaž Bajec, Member of the Supervisory Board; Primož Krnel, Member of the Supervisory Board employee representative; Jernej Kenda, Member of the Supervisory Board employee representative (until 19 April 2017); Ivan Namar, member of the Supervisory Board, employee representative (since 20 April 2017).

Jernej Kenda, Member of the Supervisory Board employee representative handed in his resignation on 1 February 2017. Pursuant to Article 38 of the Articles of Association of Elektro Primorska d.d., the notice period began to run from 1 February 2017 for a maximum of three months or until appointment of a new Supervisory Board member. Thus, Ivan Namar was appointed member of the Supervisory Board, employee representative on 20 April 2017.

Due to the expiration of the term of office of the Supervisory Board, at the 22nd General Meeting of Shareholders of Elektro Primorska on 5 July 2017, the following new members of the Supervisory Board, representatives of shareholders, were appointed for a four-year term of office, starting on 29 August 2017: Stanislav Rijavec, Darko Ličen, mag. Nikolaj Abrahamsberg and Rudolf Pečovnik.

In the period from 29 August to 31 December 2017, the Company's operations were supervised by the Supervisory Board composed of: Stanislav Rijavec, Chairman of the Supervisory Board, mag. Nikolaj Abrahamsberg, Deputy Chairman of the Supervisory Board; Darko Ličen, Member of the Supervisory Board; Rudolf Pečovnik, Member of the Supervisory Board; Primož Krnel, Member of the Supervisory Board, employee representative; and Ivan Namar, Member of the Supervisory Board, employee representative.

The composition of the Supervisory Board is diverse. Members have the appropriate expertise, experience and skills required for the performance of their tasks and duties. Their knowledge and experience are complementary, which ensures appropriate supervision over the Company's operations.

The following members of the Supervisory Board hold function in the management or supervisory bodies of related and unrelated companies:

- Stanislav Rijavec - director of the representative office of Zavarovalnica Sava d.d. in Postojna, member of the Board of Dr. France Dergan General Hospital in Šempeter pri Gorici, and member of the Institute Council „Dom na Krasu Dutovlje;
- mag. Nikolaj Abrahamsberg - member of the Supervisory Board of the Slovenian Air Traffic Control;
- Darko Ličen - director of „Komunala Nova Gorica d.d.", and member of the Board of the Fund for Financing the Decommissioning of the NEK;
- Rudolf Pečnik - not a member of any of the management or supervisory bodies of related or unrelated companies,
- Primož Krnel - not a member of any of the management or supervisory bodies of related or unrelated companies,
- Ivan Namar - not a member of any of the management or supervisory bodies of related or unrelated companies.

Tasks of the supervisory board
In 2017, the Supervisory Board diligently and responsibly supervised the operations of the Company and the Elektro Primorska Group. Supervision of the business involved monitoring of the realisation of business objectives and long-term business and financial development of the Company and the Group. Management Board reported regularly, fairly and thoroughly to the Supervisory Board on the operating results, on the broad terms of business and significant events in the Company and the Group. Supervisory Board believes that cooperation with the Management Board was professional and at appropriate professional level.

The Supervisory Board met in twelve regular and one correspondence sessions in 2017 and adopted a total of 113 decisions and discussed the following important topics:

- Monthly, quarterly and interim reports on the operation of the Company and the Elektro Primorska Group,
- Was regularly informed about the liquidity situation and important information on the Company's current operations;
- Was provided quarterly reports of the internal audit function and reports on comprehensive risk management in the Elektro Primorska Group;
- At its 37th regular meeting on 2 June 2017, it reviewed and approved the audited annual report of Elektro Primorska d.d. and the Elektro Primorska Group for the financial year 2016; took note of the independent auditor's report on the audit of the separate financial statements of Elektro Primorska d.d. and the independent auditor's report on the audit of the consolidated financial statements of the Elektro Primorska Group; and gave its consent to the Management Board's proposal for the appropriation of distributable profit for the year 2016;
- It discussed and approved material for the General Meeting and proposals for resolutions of the General Meeting of Shareholders;
- Members of the Supervisory elected their new Chairman of and appointed new members of the Audit Committee;
- It gave consent to the transactions concluded by the Management Board, which require consent of the Supervisory Board in accordance with the Company's Articles of Association; and
- It discussed potential for structural transformation of subsidiary E 3, d.o.o.

Supervision over the performance of the Company and the Elektro Primorska Group was carried out in accordance with the authorisations and competences defined by the Companies Act and additionally determined by the Company's Articles of Association, Rules of Procedure of the Supervisory Board, Corporate Governance Code of Companies with State capital investment, Recommendations and expectations of Slovenian Sovereign Holding, and in accordance with good business practice.

The meetings were attended by members of the Supervisory Board on a regular basis. All members were actively involved in discussions on individual agenda items.

The Supervisory Board incurred no expenses in connection with its tasks other than costs linked to the decision of the General Meeting on remuneration for the performance of the function. Remuneration of Supervisory Board members is disclosed in Table No. 69 of the Annual Report.

Supervisory board committees
The Audit Committee provided professional support to Supervisory Board in its supervision over the management of the Company's operations. In 2017, the following members of the Audit Committee monitored the Company's operations and legal transactions: Dean Kocjančič, Chairman of the Audit Committee (until 28 August 2017); Maja Curk, external member of the Audit Committee (until 4 September 2017); Aleš Jakin, external member of the Audit Committee (until 4 September 2017); Darko Ličen, Chairman of the Audit Committee (since 5 September 2017); Rudolf Pečovnik, an internal member of the Audit Committee (since 5 September 2017); mag. Matej Loncner, external member of the Audit Committee (since 5 September 2017).

The Audit Committee met at four regular and one correspondence sessions in 2017. The first two regular meetings held in the financial year were aimed at preparing the bases for the Supervisory Board to approve the Company's annual report for the financial year 2016. The Audit Committee discussed the audited annual report and submitted it to the Supervisory Board for approval.

The Audit Committee also focused on the following areas at its meetings:

- Proposal for the selection of the auditor for the financial year 2017,
- Quarterly reports on the operation of the Company and the Elektro Primorska Group,
- Liquidity reports of the Company and the Elektro Primorska Group,
- Quarterly reports on internal audit,
- Quarterly reports on risk management,
- Other matters as requested by the Supervisory Board.

The Audit Committee incurred no costs relating to its performance of tasks, other than administrative costs, which are subject to the decision of the Annual General Meeting regarding remuneration for the performance of the function. Remuneration paid to the internal Audit Committee members are disclosed in Table No. 69 of the Annual Report. Remuneration of external members of the Audit Committee in 2017 amounted to €11,341.

Approval of the annual report and position on the auditor's report

The Supervisory Board at its 8th regular session on 15 May 2018 discussed the Annual Report of Elektro Primorska and Elektro Primorska Group for the financial year 2017, together with the report of external auditors, Ernst & Young Audit, poslovno svetovanje d.o.o., Ljubljana, whereby the certified auditing firm confirms that the financial statements that are an integral part of the annual report give a true and fair view of the financial position of the Company and the Group and of their statements of income, changes in equity and cash flows. The Supervisory board had no comments to the auditor's report.

Based on the review of the annual report and the accompanying auditor's report, the Supervisory Board established that the Annual Report is prepared in accordance with the provisions of the Companies Act and the applicable accounting standards and that the information contained therein is a fair presentation of the Company's operations in the previous financial year.

In accordance with the foregoing considerations and the positive opinion issued by the auditor, the Supervisory Board had no objections and approved the Annual Report of Elektro Primorska and Elektro Primorska Group for the financial year 2017. Thus, the Annual report of Elektro Primorska d. d. and of the Elektro Primorska Group for 2017 was adopted.

In 2017, Elektro Primorska generated net profit of €7,321,231.61. Profit available for distribution in 2017 amounting to €2,549,021 consists of €2,441,958.74 of undistributed net profit generated in 2017 and retained earnings of €107,062.46.

The Supervisory Board supports the Management Board's proposal for the net profit available for distribution in 2017, of €2,549,021.20 to be distributed to shareholders as dividends. The Supervisory Board will jointly with the Management Board submit its proposal for distributable profit appropriation to the General Meeting of Shareholders.

Nova Gorica, 15 May 2018

Stanislav Rijavec,
Chairman of the Supervisory Board

04.

CORPORATE GOVERNANCE STATEMENT

In accordance with provisions of the Companies Act (ZGD-1), the Corporate Governance Statement is an integral part of the 2017 business report.

4.1. Declaration of compliance with the Corporate Governance Code

Elektro Primorska complied with the provisions of the Corporate Governance Code of Companies with State Capital Investment adopted on 19 December 2014 by the Slovenian Sovereign Holding in accordance with provisions of ZSDH-1, as amended on 2 March 2016 and 17 May 2017.

The Code is available on the following website:
https://www.sdh.si/Data/Documents/pravni-akti/KODEKS%20SDH%20-%20maj%202017(1).pdf

4.2. Compliance with the recommendations and expectations of the Slovenian Sovereign Holding

Elektro Primorska meets the recommendations and expectations of the Slovenian Sovereign Holding, , which were adopted in February 2016. The Company will endeavour to implement recommendations and expectations of the Slovenian Sovereign Holding, adopted in March 2018 in the current year.

4. 3. Internal control and risk management system relating to financial reporting and auditing

Ensuring the reliability of financial reporting is crucial for the effective functioning of the corporate governance and management system. Internal controls include all procedures and measures that the Company implemented in order to manage risks and to ensure the preparation of financial statements that present a true and fair view of the financial position and statements of income, cash flows and changes in equity in accordance with relevant accounting standards and applicable regulations.

Internal-audit function of the Company and the Group is carried out in accordance with the Regulations on Internal Audit of Elektro Primorska. The basic task of the internal audit function is to constantly check and make recommendations for improvements in the functioning of the internal control system in terms of managing all types of risks. In accordance with the annual plan of the internal audit function, which was approved by the Supervisory Board, the parent company carried out an internal audit of the implementation processes: a) informatics in Elektro Primorska b) investments in and maintenance of infrastructure of Elektro Primorska and E3 internal audit c) the purchase and sale of electricity and d) investments in and maintenance of infrastructure of E3 .

The financial statement audit of the parent and its subsidiaries was performed by the auditing company Ernst & Young d.o.o., Ljubljana. During the audit of financial statements the external auditor cooperates with the internal audit services. External and Internal Auditors report to the Management Board, Supervisory Board and Audit Committee of the Supervisory Board on their findings.

4. 4. Holding of securities of the company, in terms of achieving a qualifying holding, as defined by the law governing the takeovers, ownership of securities ensuring special control rights, restrictions on voting rights

Elektro Primorska has issued 18,826,797 ordinary registered no-par value shares of one class. The only holder of a qualified share as determined by the Takeover Act, is the Republic of Slovenia, a holder of 14,967,304 shares as at 31 December 2016, corresponding to 79.5% of share capital.

Holders of shares have no special rights of ownership of shares, and no limitations apply to them exercising their voting rights. As at 31 December 2016, the Company had 42,149 treasury shares, accounting for 0.22% of the share capital.

4. 5. Management Board

4.5.1. Appointment and composition

In accordance with the Articles of Association, the Management Board has a single member. The office of the President of the Management Board lasts four years, with possibility for reappointment. Since 30 June 2012, Uroš Blažica has held the office of the President of the Management Board.

The Supervisory Board at its meeting held on 10 May 2016 unanimously appointed Uroš Blažica President of the Management Board of Elektro Primorska for the term of the next four years. The mandate began on 1 July 2016.

4.5.2. Responsibilities and functions

President and CEO manages the operations of the Company for the benefit of the Company independently and on his own responsibility. In accordance with the Company's Articles of Association, the Chairman of the Board requires consent of the Supervisory Board prior to the conclusion of the following transactions:

- establishment, termination or recapitalisation of companies,
- purchase, sale or other disposal, replacement or burdening of real estate and equity investments in excess of the gross value of €50,000.00 (fifty thousand euros), in so far as those transactions are not included in the Company's business plan,
- sale or other disposals and burdens on infrastructure facilities that are an integral part of energy infrastructure,
- all legal transactions (including investments, credit transactions and the like) whose gross value of one transaction or more related transactions in total exceeds 1 (one)% of the Company's share capital, excluding transactions related to short-term cash management, legal transactions related to the method of payments, and transactions for the short-term deposit of cash in the form of deposits with commercial banks, insofar as these transactions are not included in the Company's business plan,
- providing guarantees, securities, comfort letters.

President Chairman of the Management Board reports regularly to the Supervisory Board, informing it of all important business events. President of the Management Board and Chairman of the Supervisory Board consult on the strategy and business development also outside the Supervisory Board meetings.

4.5.3. Remuneration of the Management Board

In accordance with the contract of employment, the CEO is entitled to a basic monthly salary and performance bonus. Basic salary (gross pay, undiminished by taxes and contributions) is set as a multiple of average gross wage paid in the Elektro Primorska Group in the previous financial year. Performance bonus is determined in accordance with the criteria set out in the employment contract by a decision of the Supervisory Board within 30 days after the adoption of the annual report for the financial year for which the bonus is payable. Performance Bonus can amount to a maximum of 15% of the basic monthly salaries paid to the President of the Management Board in the financial year and is paid only if the Company's planned profit was exceeded.

In accordance with the employment contract, the President of the Management Board is also entitled to an annual preventive medical examination, life and accident insurance, use of a company car for business and private purposes and payment of all costs of education.

4.6. Supervisory Board

4.6.1. Appointment and composition

The Supervisory Board of Elektro Primorska has six members. Four members are representatives of shareholders, two are representatives of workers. Members of the Supervisory Board representing the shareholders are elected by the General Meeting, while representatives of workers are elected by the workers council in accordance with the law and its acts. Term of office of the members of the Supervisory Board is four years, with a possibility of reappointment.

Until 20 April 2017, the Supervisory Board of Elektro Primorska was composed of the following: mag. Uroš Saksida, Chairman, Matjaž Bajec, Dean Kocjančič, Massimo Makovac, Jernej Kenda and Primož Krnel, members. Following resignation of Jernej Kenda from the function of a member of the Supervisory Board, the Workers' Council appointed Ivan Namar as a member of the Supervisory Board, employee representative as from 20 April 2017. At the General Meeting of Shareholders on 5 July 2017, the shareholders elected new members of the Supervisory Board, representatives of shareholders, following expiration of the mandate of the previous members. Since 29 August 2017, composition of the Supervisory Board of Elektro Primorska is as follows: Stanislav Rijavec, Chairman of the Supervisory Board, mag. Nikolaj Abrahamsberg, Deputy Chairman; Darko Ličen, member; Rudolf Pečovnik, member; Primož Krnel, member;and Ivan Namar, member.

Elektro Primorska has not adopted a diversity policy.

4.6.2. Competence and functioning

Powers of the Supervisory Board are defined by law and the Articles of Association of Elektro Primorska. The Supervisory Board of Elektro Primorska complied with the provisions of the Corporate Governance Code of Companies with State Capital Investment adopted on 19 December 2014 by the Slovenian Sovereign Holding in accordance with provisions of ZSDH-1, as amended on 2 March 2016 and 17 May 2017.

Newly appointed Supervisory Board held five regular meetings and no correspondence sessions.

Overall, the Supervisory Board met at twelve regular and one correspondence session in 2017. Based on the responsibilities and powers set by law and the Articles of Association, the Supervisory Board of Elektro Primorska regularly monitored and supervised the operations of the parent company and the Elektro Primorska Group.

Until 29 August 2017, the Audit Committee appointed by the Supervisory Board, operated in the following composition: Dean Kocjančič, Chairman, Maja Curk and Aleš Jakin, external members. The Supervisory Board at its meeting on 29 August 2017 appointed new chairman and members of the Audit Committee: Darko Ličen, Chairman of the Audit Committee, Rudolf Pečovnik, member, and mag. Matej Loncner, external member of the Audit Committee.

No other committees were set up by the Supervisory Board.

4.6.3. Remuneration of members of the Supervisory Board and Supervisory Board Committees

Members of the Supervisory Board and members of its Committees are entitled to remuneration for the performance of their function and their regular work, attendance fees and reimbursement of expenses, as decided by the resolution of the General Meeting. At the 16th Annual General Meeting held on 25 August 2011, the decision was made based on which members of the Supervisory Board are entitled to remuneration for performing their duties in the amount of €11,300 gross per year, to an attendance fee in the amount of €275 gross and reimbursement of expenses in connection with the implementation of their functions. Chairman of the Supervisory Board is entitled to 50% higher payments and attendance fees. For correspondence sessions of the Supervisory Board, members of the Supervisory Board are entitled to 80% of the attendance fee.

Members of the Supervisory Board Committees are entitled to a fee for performing the functions, which for each member of the committee amounts to 25% of the basic fee of the Supervisory Board member. Chairman of an individual Committee is also entitled to an additional payment of 50% of remuneration of members of the Supervisory Board, while Deputy Chairman of the Committee is entitled to an additional payment of 10% of remuneration paid to a member of the Supervisory Board Committee. In accordance with the decision of the Supervisory Board, external members of the committee are entitled to remuneration for performing the function in the amount €11,300 gross and attendance fee in the amount of 80% of attendance fee of the Supervisory Board members.

4.7. General Meeting of Shareholders

At the General Meeting, Shareholders of Elektro Primorska exercise their rights arising from the Commercial Companies Act. Voting rights may be exercised by shareholders who are entered in the central registry of securities or the share register on the date of the AGM and have announced their participation at the AGM at least three days before the general meeting, about which the shareholders are specifically warned. No restrictions on voting rights are stipulated in the Articles of Association.

The Annual General Meeting of Shareholders was held on 5 July 2017. At the AGM, the shareholders were informed of the annual report of the Company and the consolidated annual report of Elektro Primorska Group for the financial year 2016, the remuneration of the President of the Management Board and the Chairman of the Supervisory Board, of the independent auditor's opinion, and of the Supervisory Board's report on the examination and approval of annual reports. The shareholders decided on the appropriation of the distributable profit for the year 2016 and appointed new members of the Supervisory Board, representatives of shareholders, as the mandate of the existing members had expired. They also granted discharge to the Management and the Supervisory Boards and appointed Ernst & Young Revizija, poslovno svetovanje, d.o.o., Ljubljana, as the auditor of Elektro Primorska, d.d., for the financial year 2017.

4.8. Management of the parent company and the group

Elektro Primorska has a two-tier governance system. Appointment of members of the Management Board and the Supervisory Board is conducted in accordance with applicable law and with the recommended standards of governance.

The Elektro Primorska Group consists of Elektro Primorska as the parent company, E 3, energetika, ekologija, ekonomija d.o.o.(100% interest held by Elektro Primorska), and Knešca, d.o.o., an associate in which E 3 holds a 47.27% interest.

To ensure enhanced connections and control over the operations of the subsidiary, the Management Board of the parent is also the General Meeting of the subsidiary E 3, energetika, ekologija, ekonomija, d.o.o. Control of the subsidiary operations takes place based on regular reporting and approving transactions in accordance with the provisions of the Articles of Association of E 3, d.o.o.

05.

COMPANY ID

5.1. Company Profile

The company name:	Elektro Primorska, podjetje za distribucijo električne energije, d. d.
Abbreviated name:	Elektro Primorska, d. d.
Registered seat of the Company:	Erjavčeva ulica 22, 5000 Nova Gorica
Phone:	05 339 67 00
Fax:	05 339 67 05
VAT ID number:	37102656
Company number:	5229839
Transaction account:	04750 0000510950 Nova KBM, d. d. 02241 0019980250 Ljubljanska banka, d. d. 03130 1000002961 SKB banka, d. d.

The Company is entered in the register of Companies at the District Court of Nova Gorica under number 1/01335/00.

Share capital:	€78,562,831.75
Ownership as at 31 Dec 2017:	79.5000% Republic of Slovenia 17.1020% PIDs, funds, commercial entities 3.1680% Workers, retired employees, other 0.2300% Treasury shares of Elektro Primorska
Supply area:	SW, W, NW part of Slovenia
Size of the supply area:	4.335 km^2
Number of customers:	133.598
Quantity of electricity supplied:	1.613 GWh
Web site:	http://www.elektro-primorska.si
E-mail address:	ime.priimek@elektro-primorska.si
Supervisory Board:	mag. Uroš Saksida, Chairman of the Supervisory Board until 28 August 2017 Dean Kocjančič, Member until 28 August 2017 Massimo Makovac, Member until 28 August 2017 Matjaž Bajec, Member until 28 August 2017 Jernej Kenda, Member until April 19, 2017 Ivan Namar, Member since 20 April 2017 Primož Krnel, Member since 19 September 2015 Stanislav Rijavec, Chairman since 29 August 2017 mag. Nikolaj Abrahamsberg, Deputy Chairman since 29 August 2017 Darko Ličen, Member since 29 August 2017 Rudolf Pečovnik Member since 29 August 2017

5.2. Mission, vision and business culture of the Company

5.2.1. Mission of the Company

The fundamental mission of Elektro Primorska is to provide quality and reliable supply of electricity in an environmentally friendly and safe manner in accordance with the applicable laws and regulations. The mission of the Company is also to ensure development and construction of electricity network in accordance with the needs of business and household customers. Through professional and efficient operation we aim to meet the expectations of owners and other stakeholders.

This relates to the mission and vision of SODO, which are published on the following website (Http://www.sodo.si/druzba_sodo/vizija):

»Our mission is to ensure a long-term, reliable, quality and efficient supply of electricity to distribution network users.«

»We wish to connect with the customer and become recognisable in our field as a friendly company renowned for its responsible environmental management.«

5.2.2. Vision of the Company

Our vision is to create business environment which enables creation of new solutions and development of infrastructure, sale and new projects by understanding the wishes of our users, and by acting responsibly towards environment and employees.

Companies in the Elektro Primorska Group will achieve business excellence in their relation to customers, employees, business partners, shareholders and other business environment. The group companies will continue to be socially responsible and demonstrate high business culture and excellence of operation. In addition, they will be introducing friendly and innovative services and solutions for customers, buyers and other users of their services. They will achieve all this effectively through quality services and minimum operating costs. The Companies will be flexible, as this will enable them to adapt to changes in the unpredictable business environment.

5.2.3. Business culture

Past experience and general experience confirm that a good business culture is essential for a successful operation of any company. Through constant development of integrated management system in accordance with ISO 9001 standard, responsible attitude towards the environment in accordance with the ISO 14001 standard, vocational health and safety management system in accordance with BS OHSAS 18001 standard, which are verified by regular internal and external audits, we have proven that we cultivate good business culture and exercise social responsibility as part of the Company's business strategy. We regularly carry out self-assessments according to the EFQM Excellence Model, which we believe will lead to sustained excellence.

5.3. The regulatory framework of the Company's activities in the sphere of power supply

Important legal, statutory and contractual regulations governing the electricity business of the Company include:

The Energy Act (EZ-1, Official Gazette RS, no. 17/2014 and 81/2015), which entered into force on 22 March 2014 is an organic law on the functioning of the energy system in the Republic of Slovenia. It transposes into the Slovenian legislation the European legislation in the field of energy market, energy efficiency and renewable energy sources, it increases the transparency of legal arrangements in this area and also complies with the decision of the Constitutional Court of the Republic of Slovenia No. UI-257/09-22 of 14 April 2011. To date, the Act has been amended only once, with amending Act EA-1A, which entered into force on 14 November 2015. However, the bill on amendments to the Energy Act (EZ-1C) EPA 2561-VII is currently being discussed, which aims to establish a legal framework for the introduction of self-supply of electricity from OVE based on virtual net metering, which will allow for community investments in electricity generation capacity from OVE.

The Act provides:

- Principles of the energy policy,
- Rules for the operation of the market of electricity and natural gas,, heat and other fuel gases,
- Transport of carbon dioxide through the pipe transmission networks,
- Resolving consumer complaints,
- Methods and forms of utilities implementation in the energy sector,
- Principles of reliable supply and efficient use of energy,
- Promoting the use of energy from renewable energy sources,
- Requirements for the ecological design of products related to energy,
- Indication of the consumption of energy and other resources of these products with the energy label and product information sheets,
- Terms and conditions for the operation of energy plants,

- Terms and conditions for carrying out energy activities,
- Licensing for the production of energy certificates and energy permits,
- Energy infrastructure,
- Responsibilities, organisation and operation of the Energy Agency
- Powers of other bodies (energy inspectors) performing tasks under this Act.

The Energy Act lays down:

- Terms and conditions for the safe and reliable supply of users with energy services according to market principles, principles of sustainable development, taking into account efficiency, rational utilisation of renewable energy resources and environmental protection;
- Competitiveness in the energy market by the principles of impartiality and transparency, taking into account consumer protection and enforcement of effective control over the energy supply.

Decree on the method of provision of an electricity DSO service of general economic interest and a service of general economic interest of electricity supply to tariff regulates the manner of implementation of the mandatory utilities system operator of the electricity distribution network (hereinafter referred to as the System Operator) and the mandatory utilities, which no longer exists, since the supply to tariff (households) has become entitled users who may freely choose their own supplier of electricity as from 1 July 2007. The Decree provides, in particular:

- Definition of the public service of the system operator,
- Organisational and spatial design of the public service,
- Connection to the distribution network and the disconnection of the distribution network,
- Access to the distribution network,
- Governing relationships with distribution network owner,
- Maintenance of the distribution network,
- Development of the distribution network,
- Ensuring the quality of SODO services,
- Electricity supply measuring,

General Conditions for connection to the electricity distribution system and supply of electricity

Published by SODO from Maribor, pursuant to the fourth paragraph of Article 70 of the Energy Act (Official Gazette of RS, No. 27/07 - official consolidated text) and the Decree on the concession of an electricity DSO service of general economic interest (Official Gazette of RS, no. 39/07), and following the consent granted by the Government of the Republic of Slovenia, which was issued by resolution No. 36001-8/2007/4 of 27 December 2007, based on prior opinion from the Energy Agency of the Republic of Slovenia of 13 November 2007.

General conditions for the supply and consumption of electricity from the electricity distribution network regulate:

- Relations between SODO and consumers,
- Connection to the electricity distribution network (design conditions and consent to the project solutions, the connection approval, a contract on connection, contract for access to the network, or an agreement on the use of the system)
- Consumption and delivery of electricity (start of acceptance or distribution of electricity, interruption or termination of distribution, delivery contract, emergency supply, urgent supply, unjustified consumption),
- Measuring devices and measurement of electricity,
- Billing, method of charging and billing network use,
- Relations between SODO and electricity suppliers,
- Relations between customers and electricity suppliers,
- Records of measuring points,
- Quality of services of the system operator of the electricity distribution network and
- Compensation.

The Network Code

Published by SODO, sistemski operater disctribucijskega omrežja električne energije d.o.o., Maribor, pursuant to the fourth paragraph of Article 70 of the Energy Act (Official Gazette of RS, No. 27/07 - official consolidated text, 70/08 and 22/10) and Article 8 of the Decree on the concession of an electricity DSO service of general economic interest (Official Gazette of RS, no. 39/07), and following the consent granted by the Government of the Republic of Slovenia, which was issued by resolution No. 36001-3/2011/3 of 21 April 20111, and prior consent of the Energy Agency of the Republic of Slovenia no. 535-11/2009-3/EE-06 of 9 November 2009.
The Network Code defines the electricity distribution services through a distribution network, the method of providing ancillary

services to the distribution network, operation and development of the distribution network and technical conditions for connection to the distribution network.

Contract for lease of electricity infrastructure and provision of services of electricity distribution system operator

Elektro Primorska concluded a contract with SODO from Maribor, which is, as already explained, the sole concession holder for the system operator of the distribution network in Slovenia, for the first time in June 2007. In accordance with the contract and annexes thereto (Annex no. 5 to the contract, valid for the period 2016-2018 was signed on 25 January 2017), Elektro Primorska continues to perform most activities related to the implementation of the activities of the distribution system operator, which it has performed since 1 July 2007. These activities (services) include:

- Maintenance of electricity infrastructure and provision of emergency services,
- Management and operation of the electricity distribution network,
- Development, planning and investment in electricity infrastructure,
- Investment preparation and management
- Monitoring and assessing quality of supply,
- Electricity metering and
- Provision of services of access to the distribution network and other services to users.

As from 1 July 2007, Elektro Primorska no longer generates revenue from network charges as this is deemed revenue of the concessionaire. Instead, it generates income from rental of electricity distribution infrastructure and income from the implementation of the above services for SODO from Maribor.

Legal Act on the methodology determining the regulatory framework and network charge for the electricity distribution system, adopted by the Energy Agency on 7 August 2015, published in the Official Gazette of RS no. 66/2015, with amendments to the Act published in the Official Gazette no. 105/2015 and 61/2016, provides the following:

- Methodology for determining regulatory framework and
- Methodology for charging the network charge, namely for the electricity transmission system, electricity distribution system, excessive reactive power, power consumption and other services.

Methodologies are defined in a way that promotes the efficiency of electricity operators and efficient use of the system.

The Act marks the beginning of a new regulatory period from 2016-2018.

5.4. Organisation of the Company

In accordance with the Rules on the internal organisation of Elektro Primorska, which entered into force on 1 January 2013, activities of the Company are performed by the following organisational units:

Sectors:

- Sector for distribution system management (DEES)
- Sector for distribution network (SDO)
- General sector (SS) and
- Finance and accounting sector (FRS).

Special services of the management:

- Information and communication technologies service (IKT) and
- Purchase and procurement service (SNJN).

Regional distribution units:

- Distribution unit Nova Gorica (DU Nova Gorica)
- Distribution unit Koper (DU Koper)
- Distribution unit Sežana (DU Sežana) and
- Distribution unit Tolmin (DU Tolmin).

Management Board has the Cabinet of the president of the board, inclusive of the Administration, Integrated Management System, Internal Audit and Risk Management.

06.

HUMAN RESOURCE MANAGEMENT IN 2017

6.1. General

Efficient human resource management in Elektro Primorska d.d. and the Elektro Primorska Group is aimed at instilling diligent work, responsibility, belonging and mutual cooperation and respect as the values that are a prerequisite for successful development of the Company. By investing in knowledge and vocational health and safety, we strive to create a working environment that enables growth and development of each and every employee.

A total of 478 workers were employed by the Company as at 31 December 2017. Average number of employees in 2017 was 477, which is two more than was the average headcount in 2016. The increase is a consequence of additional recruitment as replacement of workers on prolonged sick leave and new employment due to the handover of duties before the retirement of an employee.

Data on employees in Elektro Primorska, d. d., and the Elektro Primorska Group are presented in the following table:

	Elektro Primorska, d. d.	Elektro Primorska Group
Headcount at 31 Dec 2017	478	527
Average number of employees in the year	477	523
Number of new employees in the year	19	25
Number of departures in the year	17	19
Number of permanent employees	460	500
Number of fixed-term employees	18	27
Number of disabled employees	32	33

Table 1: Overview of information on the status of employees of Elektro Primorska and the Elektro Primorska Group

Activity	Headcount as at 31.12.2016	Structure (%)	Headcount as at 31.12.2017	Structure (%)
Main activity (distribution network sector, electricity system management sector)	368	77,80	370	77,41
Common services (management, financial and accounting sector, general sector, purchasing, information technology)	105	22,20	108	22,59
Total	**473**	**100**	**478**	**100**

Table 2: Overview of employees in Elektro Primorska, d.d.

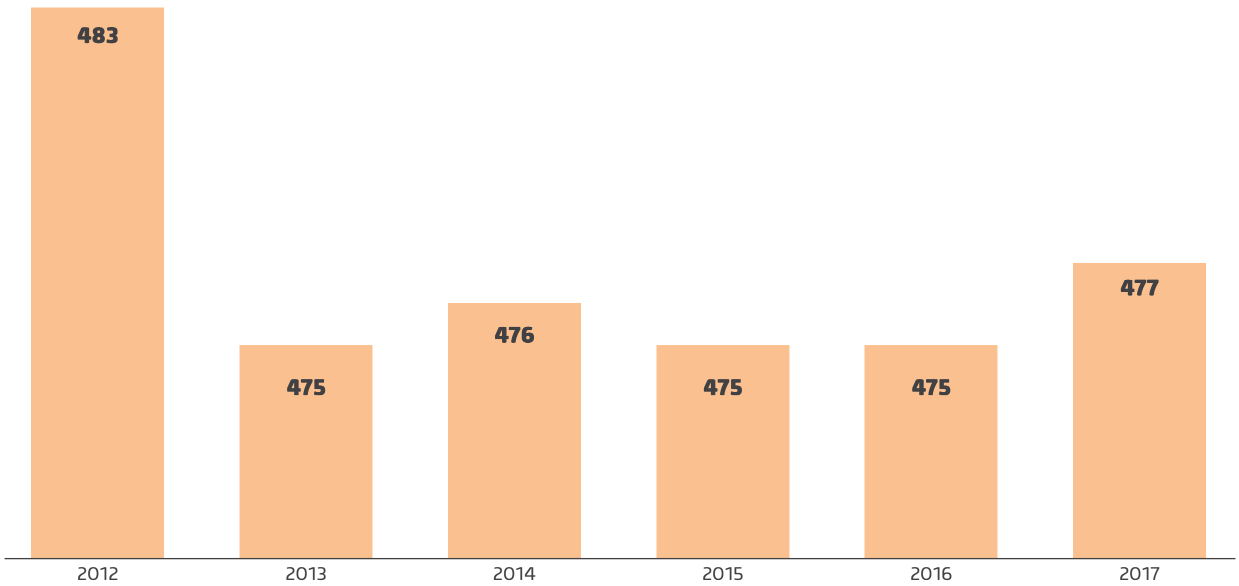


Chart 1: Movements in the average number of employees of Elektro Primorska over the period 2012 - 2017

6.2. Age structure of employees

The average age of employees is 45.36 years, up 0.08 years compared with 2016 data.

No.	Age group	Number of employees
1	up to 20	1
2	Between 21 and 30	42
3	Between 31 and 40	116
4	Between 41 and 50	148
5	Between 51 and 60	151
6	61 and over	20
	Total	**478**

Table 3: The number of employees in Elektro Primorska per individual age group

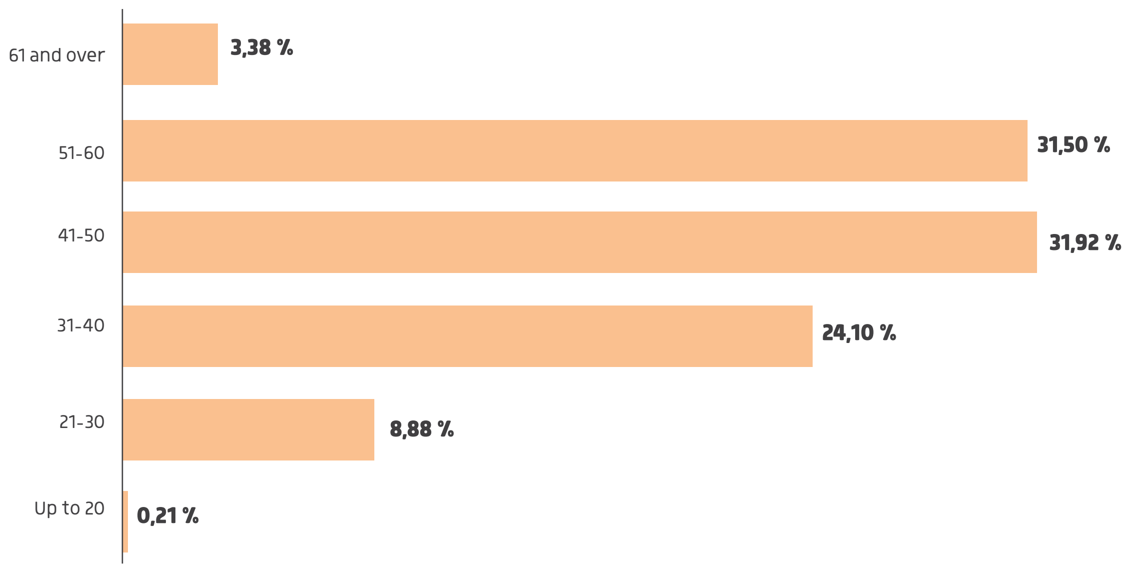


Chart 2: Age structure of employees in Elektro Primorska, d. d.

6.3. Structure of employees according to the years of service

In 2017, more than 61% of employees have completed 20 or more years of service.

No	Years of service	Number of employees
1	up to 5	31
2	Between 6 and 10	41
3	Between 11 and 20	110
4	Between 21 and 30	126
5	Between 31 and 40	159
6	over 40 years	11
	Total	**478**

Table 4: Number of employees in Elektro Primorska, d. d. according to the years of service

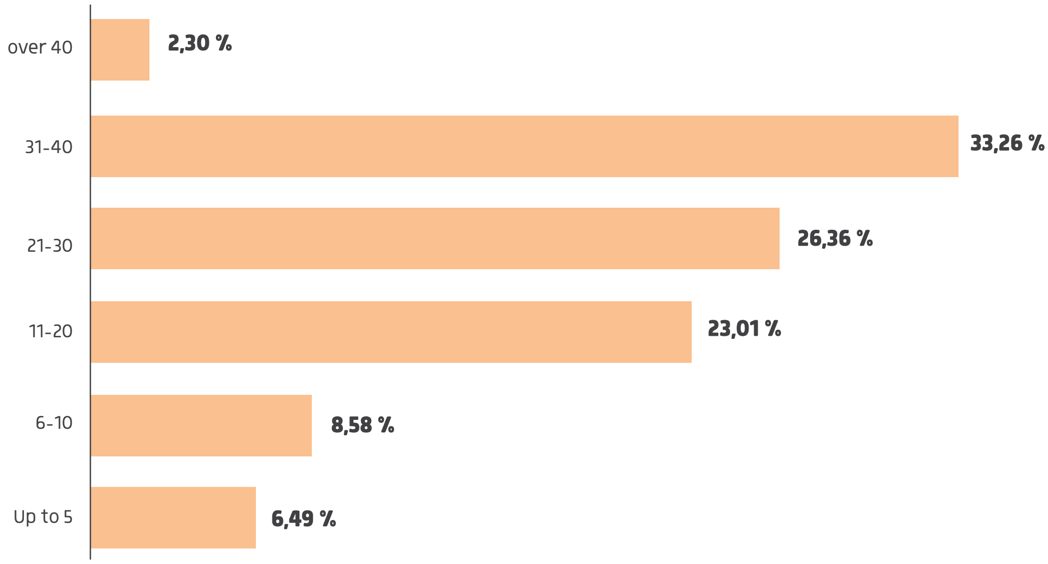


Chart 3: Structure of employees in Elektro Primorska based on seniority

The average length of service per employee in 2017 was 23.95 years, down 0.22 years compared with 2016 data.

6.4. Structure of employees according to gender

The gender ratio does not deviate significantly from one year to the other.

No.	Gender	Number of employees
1	male	402
2	female	76
	Total	**478**

Table 5: The number of employees in Elektro Primorska by gender

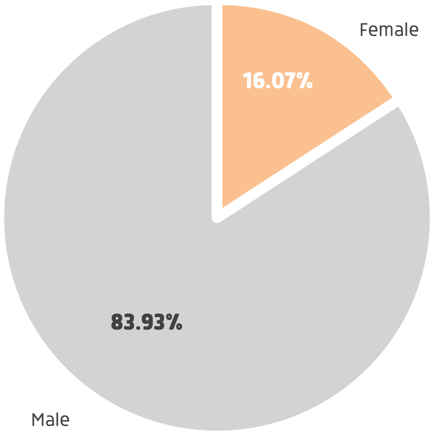


Chart 4: Structure of employees in Elektro Primorska, d. d. according to gender

6.5. Educational structure of employees of Elektro Primorska and the Elektro Primorska Group

Whilst educational level of employees compared to the previous year has not changed significantly, there was a marked increase in the share of employees with educational level 5 and a decrease in the share of employees with educational level 4. This is the result of completed open college course attended by a large group of employees who wished to complete senior school (education level 5).

Level according to BP	Headcount as at 31. 12. 2016	Structure (%)	Headcount as at 31. 12. 2017	Structure (%)
8/2	2	0.42	2	0.42
8/1	3	0.63	5	1.05
7	46	9.73	47	9.83
6/2	43	9.09	46	9.62
6/1	55	11.63	56	11.72
5	146	30.87	164	34.31
4	158	33.40	140	29.29
3	15	3.17	14	2.93
2	4	0.85	3	0.63
1	1	0.21	1	0.21
Total	**473**	**100**	**478**	**100**

Table 6: Educational structure of employees in Elektro Primorska, d.d.

No	Level according to BP	Average number of employees 2016	Average number of employees 2017
1	8/2	2	2
2	8/1	6	8
3	7	52	48
4	6/2	50	61
5	6/1	66	65
6	5	157	170
7	4	180	162
8	3	0	0
9	2	2	2
10	1	5	5
Total		**520**	**523**

Table 7: The average number of employees in the Elektro Primorska Group by level of education

6.6. Employees with disabilities

A total of 32 disabled workers were employed by the Company as at 31 December 2017, of whom 8 were employed on a part-time basis (4 hours), and the remaining 24 were employed on a full-time basis. Percentage of employees with disabilities exceeds 6% of all employees, which fulfils the statutory quota from the Decree establishing employment quota for persons with disabilities - Article 3, Paragraph 3) D. Since May 2015, the Company has been granted the right by the Republic of Slovenia Fund for Promotion of Employment for Disabled Persons to bonuses for exceeding quotas, which the fund pays monthly in the amount of 20 % of the minimum wage for each disabled employee above the statutory quota.

6.7. Education of employees

In 2017, 189 employees attended various forms of training, which included seminars, various courses, refresher courses, professional exams, and internally organised training. A total of 282 working days were devoted to the above activities.

Total 458 employees attended the training and took subsequent exam in the field of vocational health and safety.

The Company has concluded 13 contracts with employees wishing to obtain higher professional education and who are currently attending the relevant education.

A total €183,753.72 was allocated in 2017 to further training and development of employees (tuition, workshops, seminars, courses), which on average equals €385 per employee. This amount includes also costs of employee salaries, which are planned under the cost of wages and salaries.

As from 1 October 2013, the Company is not granting any scholarships. For several years now there has been sufficient number of suitably educated candidates on the labour market, so we devote more funds to practical trainings of high school and university students, who otherwise have no opportunities to obtain specific skills in other companies.
(Practical training information!)

6.8. Care for employees

We strive to create good working conditions, maintain and improve health of our employees, and identify and eliminate adverse events and to this aim we adhere strictly to the labour legislation, regulations in the field of vocational health and safety and ensure careful reconciliation of the professional and family life of employees of Elektro Primorska, d.d. and the Elektro Primorska Group. We are aware that a satisfied and motivated employee can contribute the most to the success of the Company.

Employees are informed about the events and activities within the Company daily through electronic mail, on the Intranet and bulletin boards.

6.9. Health and safety at work

In 2017, we provided and meet conditions for vocational health and safety of our employees and carried out all the necessary activities to reduce and prevent life and health risks at workplaces.

The Company strives to ensure safe and orderly working conditions and to preserve the health of employees:

- By respecting the Occupational Health and Safety Act and all the alternative legal acts (in this respect a register of health and safety at work legislation was made),
- With regular preventive periodic health checks of workers,
- By implementing specific preventive health measures: e.g. vaccinations against TBE and flu, and implementation of preventive measures though promoting health at workplace, providing first-aid training to employees,
- By implementing health and safety at work policy, which is commitment of the company's Management to ensure health and safety at work and sets up a framework for defining objectives of quality, environmental management and vocational health and safety,
- By making and adopting the Declaration of safety with Risk Assessment, which additionally bounds the Company's Management to implement measures, set goals, inform, train, give instructions, ensure appropriate organisation and provide necessary resources,
- By regular periodic checks and care of the working and protective equipment,
- By providing instructions for safe work and control over the implementation of safe work measures,
- By monitoring the condition regarding injuries at work, occupational diseases as well as detecting, mitigating and preventing their causes,
- By training workers for safe work and regular assessments of their knowledge and skills in the field of safety and health at work.

In the context of a systematic approach to improving vocational health and safety in Elektro Primorska d.d., we emphasise the necessity of a responsible attitude of the employees in the field of health and safety at work, including fire protection.

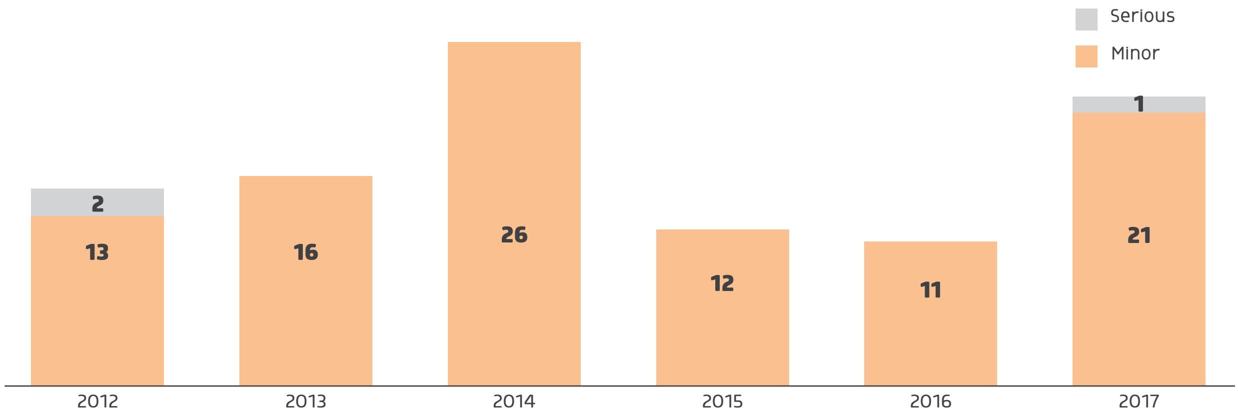


Chart 5: The number of accidents at work in Elektro Primorska in the period 2010 - 2017

6.10. Voluntary supplementary pension insurance

Regulation and realisation of the principles of social security of all our employees is an integral part of the Company's business policy. Elektro Primorska d.d. has been encouraging its employees to join the supplementary pension insurance since 1 December 2001. A total of 99% of all employees are included in the voluntary supplementary pension insurance and the pension scheme. Since 2016, employees are able to choose between two pension scheme providers: Modra zavarovalnica, d.d. and Zavarovalnica Triglav, d.d.

6.11. Accident insurance

All employees of Elektro Primorska are insured for event of accidents or injuries at work and in connection with work.

6.12. Other activities that affect the well-being of employees

We care for the well-being of the employees of Elektro Primorska and the Elektro Primorska Group, and thus we are promoting and creating material conditions for various forms of socializing and spending holidays in holiday facilities owned by the Company. Large number of our employees took part in summer and winter sports games organised by electricity distribution companies. These events provide an opportunity for socializing with colleagues from the Elektro Primorska Group and from other power distribution companies. In 2017, Elektro Primorska donated €13,860 to the Elektro Primorska Sport Association. These funds are dedicated to the promotion and development of sports activities within the Company, organisation of various sports activities for employees, and training of employees for participation in annual EDS games.

07.

REALISATION OF THE ANNUAL GOALS IN 2017

Investments aimed at an increase in power supply continuity
Our efforts in 2017 were primarily devoted to the users of our network and to ensuring proper maintenance and development of electricity infrastructure. By developing the electricity distribution network and investing in infrastructure, we are striving to provide the customers with adequate voltage conditions, improved operational safety and greater reliability of power supply within the prescribed values, voltage quality in accordance with regulations, and protection of the environment in accordance with the legislation.

In order to improve the SAIFI and SAIDI ratios, special attention was placed on our investments aimed at increasing the share of cabled and intermeshed network. Thus, in 2017 we closely followed our development plan by investing in infrastructure to ensure appropriate voltage conditions for our customers, improved operational safety and enhanced reliability of power supply.

Introduction of a job performance management system and a variable employee remuneration system
In 2016, we adopted the new Rules on job systematisation and carried out further training of employees in the area of goal setting and performance review. Based on the analysis of the test results of the assessments resulting from the annual interviews, the amendments to the general acts are in preparation, which will establish criteria and standards for assessing the performance and introduction of a system of variable remuneration of employees. Introduction of the new system is scheduled to take place in 2018

Renovation of key information systems
With the help of an external contractor, in 2015 we developed an IT strategy of the Elektro Primorska Group. In 2017, we successfully completed the deployment of three key systems. Thus, the new enterprise information system (ERP), the new geographic information system (GIS) and the new asset management system have been in use since 1 January 2018.

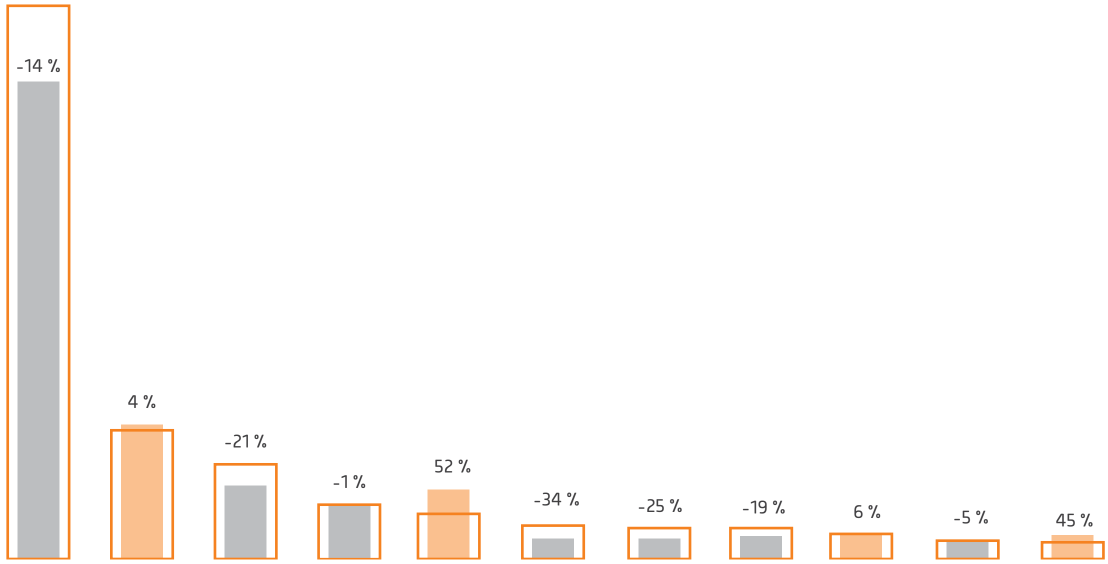
Implementation of the RAST program
In 2012, the Elektro Primorska Group started implementing basic measures in the field of business rationalisation, which were in 2013 upgraded with the implementation of a comprehensive RAST program.

The program is designed for a comprehensive management of costs and revenues. The program provides for implementation of rationalisation measures which can contribute most to the Group's performance and the achievement of its goals.

By the end of 2015, the Elektro Primorska Group completed the basic implementation of the RAST program when the estimated goal of the program was also achieved.

By following the primary purpose of monitoring and conservation of the achieved rationalisation effects, the Group continued with the implementation of the program also in 2017. Compared to 2015, the selected measures introduced by the parent company realised total savings of €484,099 or when compared to the target value of the costs of measures implemented in 2017, total savings of €224,824.

Below is presentation of the financial effects of the selected measures implemented by the parent company per organisational units in 2017.



	ICT	General Sector	Distribution Network	DU Gorica	Adminis-tration	DU Koper	DU Sežana	DU Tolmin	Distribution System Management	Finance & Accounting	Purchase and Procure-ment
Target costs	1.488.480	350.996	257.026	150.602	128.227	96.467	90.349	88.691	72.620	60.124	49.095
Realized costs	1.286.972	363.986	202.980	149.000	195.543	64.058	68.200	72.045	76.736	57.204	71.131

Chart 6: Financial achievement of the RAST program by organisational units in 2017

Completion of the SUNSEED project (Sustainable and Robust Networking for Smart Electricity Distribution)
The SUNSEED project began in February 2014 involving research in the field of smart grids in the context of the European Seventh Framework Program. Smart rids are energy networks of the future. Their aim is to optimise the consumption and production of electricity in order to maximise energy and achieve economic efficiency, thereby creating added value and reducing the impact of man on the environment. Their sustainable functioning requires a new way of connecting and providing services, and thus also establishment of a completely new ecosystem.

In addition to designing examples of use by setting up advanced concepts to increase the awareness of the distribution network, Elektro Primorska's role was to set up a large test area on a suitable part of the distribution network with the installation of phase voltage analysers developed as part of the project. The latter are one of the universal indicators of the state of the power grid in order to increase the awareness of the network's operation. Various access technologies, such as mobile LTE and UMTS networks, optical fibres and satellite communications, were tested during the connection of meters. Based on measurements of voltage phasors and counting measurements from smart meters, the real-time estimator was developed on the test part of the grid and short-term forecasting of electricity consumption and production.

It took a day and a half to present the project's advantages and a representative of the European Commission and both appraisers could not find any faults and assessed the results achieved by the project as excellent. The appraisers were particularly impressed by excellent cooperation between the partners involved and by the overall design and implementation of the test site, which was the responsibility of Elektro Primorska. In the last reporting period, the consortium of partners prepared a total of 1200 pages of concerted documentation and presentations for the formal presentation of the project. Considering such large quantity of submitted documents, it is an exceptional success that none of submitted documents had to be adjusted. The appraisers were extremely satisfied with the quality of the reports and research work, as well as with the project management. The budget for the SUNSEED project was set at just below five million euros, of which three million euros was provided by the European Commission.

*** Introducing advanced measurement system according to the Implementation Plan developed for EDS Slovenia**
Pursuant to the Decree on the Measures and Procedures for the Establishment and Connectivity of Advanced Measuring Systems for Electricity (Official Gazette No. 79/2015) and the Plan for the introduction of the Advanced Measurement System developed by SODO and EDP, we signed with the selected supplier a three-year contract for supply of smart measurement equipment to users and MV/LV transformer stations. We won public tender of the Ministry of Infrastructure for co-financing of an operation from the EU Cohesion Fund, where the eligible project costs are financed in proportion of 33%. The project began in November 2017 and, according to the co-financing schedule (with the SODO and EDP as participating parties), it should be realised by November 2022. Based on a deployment plan, the project is to be completed in 2025. The system implementation will enable and target the use of DMS, DSM, DR and EMS systems to facilitate the system management and electricity use, acceptance and production.

08.

DISTRIBUTION OF ELECTRICITY

The activity was carried out in 2017 in accordance with the Contract on the lease of electricity distribution infrastructure and the provision of the distribution system operator services concluded between Elektro Primorska and SODO. It is implemented in two organisational units: in the distribution network sector - SDO and the electricity distribution system management sector - SUDEES.

In 2017, the electricity system managed by Elektro Primorska reached the following level of technical equipment according to distribution units (DU).

	DU NOVA GORICA	DU KOPER	DU SEŽANA	DU TOLMIN	ELEKTRO PRIMORSKA TOTAL
DV: 10 kV - 110 kV (m)	683,119	274,096	637,276	535,432	2,129,923
KBV: 10 kV - 35 kV (m)	132,852	200,119	191,154	76,334	600,459
NNO + JR (m)	2,000,833	1,095,944	1,170,955	1,265,900	5,533,632
RTP + RP (piece)	16	8	7	8	39
TP (piece)	810	533	584	495	2,422

Table 8: Power devices as at 31 Dec 2017

DV - transmission line, KBV - cable conduit, PPE - low-voltage network, JR - public lighting
RTP - transformer substation, RP - substation, TP - transformer station

8.1. Services for SODO

In 2017, the Company spent €6,601,408 on provision of services for SODO, which amounts for 101.65% of planned funds for this period or 94.84% compared with 2016.

Type of work	Plan (EUR)	Realisation(€)	Realisation(€)	%	%
	2017 Jan-Dec	2017 Jan-Dec	2016 Jan-Dec	2:1	2:3
	1	2	3	4	5
Maintenance of electricity infrastructure	2,999,997	3,078,222	3,102,009	102.61	99.23
Implementation and organisation of emergency service	390,000	401,341	393,037	102.91	102.11
Conducting of operation	494,500	495,293	496,988	100.16	99.66
Process management	360,000	438,305	380,378	121.75	115.23
Telecommunication support	160,000	198,216	188,891	123.89	104.94
Management of protective devices	40,000	32,156	33,192	80.39	96.88
Development	220,000	160,598	198,366	73.00	80.96
Monitoring and establishing quality of supply	30,000	20,983	25,174	69.94	83.35
Electricity metering	1,000,000	957,795	1,346,378	95.78	71.14
Provision of access services	420,000	406,332	405,758	96.75	100.14
Connecting users to distribution network	290,002	312,302	294,960	107.69	105.88
Other services for users	90,000	99,865	95,515	110.96	104.55
TOTAL SERVICES FOR SODO	**6,494,499**	**6,601,408**	**6,960,646**	**101.65**	**94.84**

Table 9: Realisation of services for SODO in 2017

8.1.1. Achievement of the goals and comparison with 2016

The financial implementation of the plan for the provision of services for SODO is higher than planned in the field of Process Management, where, at the time of the introduction of the new Geographic Information System (GIS), we carried out an accelerated physical stock count of low-voltage network at DU Nova Gorica and DU Koper. The costs of maintaining EE infrastructure are also above the plan because in order to reduce risks associated with introduction of the new information system, certain maintenance work planned for the month of January 2018 began as early as December 2017. In some areas, physical realisation of the plan reached between 77% and 123%. Equipment inspection realisation equals 100%; inspection of facilities 83%, and regular replacement of measuring and control devices 123%.

8.2. Investments

Investment activity proceeded in 2017 in accordance with the plan and the relevant changes laid down in the adjusted investment plan. Thus, the investment of €15,500,000 originally planned, was increased by additional €1,000,000 to €16,500,000.

We invested a total of €16,318,421 in the facilities, equipment and preparation of project documentation, accounting for 98.90% of the planned annual resources (in 2016, €15,612,364 was spent on the realisation of the financial plan, which equals 102.54% of the planned funds).

Investment groups	Realised funds	Shares of investment groups
Buildings	€9,541,031	58.47% of all assets
Equipment	€5,682,727	34.82% of all assets
Documentation	€1,094,663	6.71% of all assets
Total	**16.318.421 €**	

Table 10: Investments by major investment groups

The main focus of investment activity in 2017 was joint investment in distribution transformer stations with SODO, investment in installation of advanced measuring devices and implementation of new information systems.

According to individual groups the results are as follows:

Facilities up to 20 kV
Most of the investments in the overhead lines was carried out with the aim of a reconstruction of the medium voltage overhead lines. Major investments in 20 kV overhead lines are:

DV Sedovec - Trnovo (1.60 km), DV Korada - Golo Brdo (1.25 km), DV Idrija Črni vrh (1.10 km), DV Škrbina - Lipa - Temnica (1.66 km), DV TP Kavsovec - Iskra (1.20 km).

Medium-voltage underground lines were being installed in urbanised areas with the objective of increasing the meshes network in the areas where weather phenomena occur that impact the quality of electricity supply (ice, wind), and on routes where frequent defects occur due to wear and tear of the existing cable conduits.

KBV for TP Prade 3 (0.80 km), KBV Nikolaj 1 - 2 - 5 (0.80 km), KBV Malni - Sovič (1.16 km), KBV Tolminska korita (1.10 km), purchase of KBV RTP Cerkno - heat regulator (1.77 km).

By investing in low-voltage networks, we renewed the existing low voltage conduits, eliminated poor voltage conditions and made connections to new customers.

Significant investments in the low-voltage network include: NNO Mrcinje (0.60 km), NNO Lokve (0.90 km), NNO Orehek (0.50 km), NNO Kamno (1.5 km), NNO Polog (0.70 km).

Investments in transformer stations (TP) were aimed at renovating technically obsolescent transformer stations, eliminating poor voltage conditions and allowing connections to new customers. We also began with a major project of installing control measurements in transformer stations.

Significant investments in transformer stations include: TP Trg Ivana Roba, TP Prade 3, TP Korotan, TP Kamno, TP Mačkovec, TP Tolminska Korita.

	2017	2016	2015	2014
Power lines 20 kV	26.23 km	26.91 km	40.20 km	97.56 km
Cable conduits 20 kV	18.14 km	25.35 km	38.15 km	32.48 km
Low-voltage network	30.33 km	41.26 km	41.91 km	47.91 km
Transformer stations	25 pieces	34 pieces	40 pieces	24 pieces

Table 11: Physical indicators of built and renovated devices

110 kV powerlines
As part of this investment group, we continued to acquire easements for the replacement of two existing transmission lines between RTP Pivka and ENP Pivka with one DV 2x110 kV DV RTP Pivka - ENP Pivka. We published a public tender for the construction, which is scheduled to begin in 2018..

Transformer substations (RTP) 110/20 kV
In 2017 we made the following investments in RTP 110/20 kV:

- RTP 110/20 kV Plave - we built a GIS switchyard. The construction works are carried out in cooperation with ELES, SODO and SENG.
- RTP 110/20 kV Cerkno - we bought a part of 110 kV and 20 kV switchyard.
- RTP 110/20 kV Pivka - renovation work started on the 20 kV switchyard.
- RTP 110/35/20 kV Tolmin - jointly with SODO we completed renovation of the 20 kV switchyard.
- RTP 110/20 kV Ilirska Bistrica - in cooperation with SODO we purchased and replaced the power transformer TR 2 110/20 kV 31.5 MVA.
- RTP 110/20 kV Postojna - we completed reconstruction of 110 kV transformer field TR 1 and jointly with SODO also renovation of the 20 kV switchyard.
- RTP 110/20 kV - we installed insulators on 20 kV busbars on transformers.
- RTP 110/20 kV Koper - we installed insulators on 20 kV busbars on transformers and replaced batteries of the uninterruptible power supply system.

Transformer stations RTP 35/20 kV and substations (RP)
In 2017, we made the following investments in RTP 35/20 kV and RPs:

- RTP 35/20 kV Hrpelje - we installed the insulators on 20 kV busbars on transformers.
- RP 20 kV Cerkno - we replaced batteries of the uninterruptible power supply system.
- RP 20 kV Dobrovo - we replaced batteries of the uninterruptible power supply system.
- RP 20 kV Sela - the system indicating the presence of voltage on ducts was updated.
- RP 20 kV Vanganel - we replaced batteries of the uninterruptible power supply system.

Power facilities
Investments in power facilities were carried out in order to ensure reliable supply of electricity to all our customers. A total of €9,197,942 was invested in the power facilities (facilities up to 20 kV and distribution transformer stations); financial realisation amounted to 99.57% of the plan (2016: €8,930,788).

Business and operational facilities
In 2017, we built a new roof of the Šempeter RP and set up the landfill of transformers. In addition, we began reconstruction of the Piran Supervision post and made smaller investments in installations on distribution units. A total €3,350 was invested in business facilities and €339,739 in operational facilities.

TOTAL FACILITIES
A total €9,541,031 was invested in power facilities; financial realisation amounted to 98.73% of the plan (2016: €9,339,096).

Remote control
The following major investments were made:

- Replacement of the protection and remote control of the 20 kV switchyard at RTP 110/20 kV Lucija,
- Installation of new remote-control distribution points,
- Installation of fault current locators,
- Continuation of the project of installing protection of covered conductors,

Telecommunications:
The following major investments were made in telecommunications:

- Start of construction of an optical cable between RTP Nova Gorica and RP Grgar,
- Upgrade of the digital VHF system,
- Purchase of 200 GSM devices for users of the MX system - mobile support and MOWE users - mobile support.

Measuring devices
The following major investments were made in telecommunications:

- We purchased 11,140 direct electricity meters and carried out their installation,
- We purchased 340 industrial meters and ensured their installation,
- We replaced electricity meters at RTP Postojna, RTP Sežana and RTP Koper,
- We pursued the SUNSEED, 3SMART and NEDO projects.

Tools
We purchased the necessary tools and equipment to carry out electrical installation works, replacing technically obsolete tools.

Means of transport
Four new cars, one off-road vehicle, four freight vehicles and one platform to replace the existing one were purchased.

Office supplies
We purchased office equipment that replaced the obsolete equipment..

IT
Purchases included computers and printers, and IT equipment used in the energy generation. We implemented the new Microsoft Dynamics AX and the new IMB Maximo management information systems used in the accounting and finance departments and upgraded the Geographic Information System (GIS).

EQUIPMENT
A total €5,682,727 was invested in equipment, accounting for 97.26% of all planned funds (2016: €5,238,937).

DOCUMENTATION
A total of €1,094,663 was invested in the project documentation or 110.25% of total funds planned (2016: €1,034,330).

No.	Facility, equipment	Version 2 of 2017 plan	Realisation 2017 version 2	Realisation 2016 version 2	%	%
		1	2	3	2:1	2:3
1	POWER LINES	1.594.000	1.612.830	1.768.213	101,18%	91,21%
1.1.	DV 110 kV	120.000	7.897	170.995	6,58%	4,62%
1.2.	DV 35 kV	0	0	0	0,00%	0,00%
1.3.	DV 20 kV	1.474.000	1.604.933	1.597.218	108,88%	100,48%
2	CABLE CONDUITS	1.899.550	1.899.538	2.446.204	100,00%	77,65%
2.1.	KBV 110 kV	0	0	0	0,00%	0,00%
2.2.	KBV 20 kV	1.899.550	1.899.538	2.446.204	100,00%	77,65%
3	LOW-VOLTAGE NETWORK	1.864.250	1.956.440	2.316.809	104,95%	84,45%
3.1.	OVERHEAD LINES 0.4 kV	845.100	1.003.591	1.374.868	118,75%	73,00%
3.2.	CABLE CONDUITS 0.4 kV	1.019.150	952.849	941.941	93,49%	101,16%
4	SUBSTATIONS	3.880.262	3.729.135	2.399.561	96,11%	155,41%
4.1.	RTP 110/20 kV	1.999.000	1.675.199	729.241	83,80%	229,72%
4.2.	RTP 35/20/10 kV	17.000	21.990	34.565	129,35%	63,62%
4.3.	TP 20(10)/0.4 kV	1.635.250	1.783.007	1.334.741	109,04%	133,58%
4.4.	TRANSFORMERS	229.012	248.940	301.015	108,70%	82,70%
	TOTAL FACILITIES UP TO 20 kV (1.3 + 2.2 + 3 + 4.3 + 4.4)	7.102.062	7.492.857	7.995.987	105,50%	93,71%
	TOTAL POWER FACILITIES (1+2+3+4)	9.238.062	9.197.942	8.930.788	99,57%	102,99%
7	BUSINESS FACILITIES	1.500	3.350	79.075	223,33%	4,24%
8	OPERATIONAL FACILITIES	424.600	339.739	329.233	80,01%	103,19%
	TOTAL FACILITIES	9.664.162	9.541.031	9.339.096	98,73%	102,16%
9	REMOTE CONTROL	737.474	772.938	494.367	104,81%	156,35%
11	TELECOMMUNICATIONS	253.750	160.532	212.245	63,26%	75,64%
12	MEASURING DEVICES	1.515.026	1.659.787	1.540.917	109,56%	107,71%
13	MECHANISATION	0	0	0	0,00%	0,00%
14	TOOLS	195.738	167.378	112.932	85,51%	148,21%
15	MEANS OF TRANSPORT	492.000	499.934	674.604	0,00%	0,00%
16	OFFICE SUPPLIES	21.000	13.436	5.782	63,98%	0,00%
17	IT	2.628.000	2.408.723	2.198.091	91,66%	109,58%
	TOTAL EQUIPMENT	5.842.988	5.682.727	5.238.937	97,26%	108,47%
18	DOCUMENTATION	992.850	1.094.663	1.034.330	110,25%	105,83%
	TOTAL DOCUMENTATION	992.850	1.094.663	1.034.330	110,25%	105,83%
	TOTAL	**16.500.000**	**16.318.421**	**15.612.364**	**98,90%**	**104,52%**

Table 12: Overview of the investment plan realisation in 2017

8.2.1. Achievement of the goals and comparison with 2016

Elektro Primorska made investments in accordance with the adopted plan and invested a total €16,500,000 in 2017. Thus, realisation of the investment plan is 1.1% below the planned values. Compared with 2016, the realisation of the planned investments increased by 4.25%.

The development plan for the period 2015-2024 envisaged investments of total €20,437,918. In 2017, Elektro Primorska invested €16,318,421 of funds, while SODO, as a co-investor, invested €1,661,558 in the network in the Elektro Primorska region. In total, we invested €17,979,979, which is only 12% below the development plan.

8.3. Acquired and transmitted electricity in 2017

In 2017, a total 1,566,044.6 MWh of electricity was acquired from the transmission network and 140,186.2 MWh from the electricity producers. In total, 1,696,230.7 MWh of electricity was acquired into the distribution network. Comparison of acquired quantities of electricity between 2017 and 2016 shows a 4.9% increase in the electricity acquisition from the transmission system, and a 10.9% decrease in electricity acquired from qualified producers. Index of total acquired quantities in the distribution network is 1.0337, up 3.37% on 2016. A total 1,612,596.6 MWh of electricity was invoiced to customers in 2017. Index of invoiced electricity compared to quantities from 2016 stands at 1.0345, up 3.45%.

We noted a favourable trend of electricity consumption and acceptance in 2017. Slightly lower quantities of electricity acquired from producers is due to less favourable weather conditions for electricity generation, in particular low hydrology.

Month	Realised in 2017 [kWh]	Realised in 2016 [kWh]	2017 plan [KWh]	Index of output (2017/2016)
January	137.821.416	129.579.206	130.634.654	1,0636
February	127.939.648	126.324.986	119.674.543	1,0128
March	139.067.711	131.147.556	134.459.073	1,0604
April	125.888.148	124.284.478	127.716.677	1,0129
May	134.221.719	130.446.089	124.643.995	1,0289
June	138.664.677	131.703.969	129.855.007	1,0529
July	137.926.556	136.207.954	141.889.900	1,0126
August	134.477.568	127.862.309	131.810.487	1,0517
September	130.376.830	129.288.998	126.932.172	1,0084
October	129.590.787	126.601.478	133.759.465	1,0236
November	136.553.552	129.360.231	129.344.024	1,0556
December	140.067.972	136.018.186	132.867.721	1,0298
Total	**1.612.596.584**	**1.558.825.440**	**1.563.587.718**	**1,0345**

Table 13: Monthly quantities of electricity supplied to customers

In 2017, 90,018.6 MWh of electricity was supplied to customers in Italy: 58,203.2 MWh in the area of Nova Gorica and 31,815.5 MWh in the area of Opčine. Transmission of electricity in Italy is not recorded as a transmission from the distribution system managed by Elektro Primorska d.d, but as the consumption from the transmission system.

Losses in the distribution network amounted to 83,634.1 MWh, or 5.19% of the amount invoiced in 2017.

8.4. Use of the distribution network – access to the distribution network

In 2017 the organisation of the distribution of electricity remained unchanged and so distribution system operator – SODO, based in Maribor remained the holder of the provision of access to the distribution network under the Energy Act, while electricity distribution companies remained providers based on contracts for lease of distribution infrastructure and provision of services for SODO.

As part of performing operational tasks of providing access to the distribution networks, all revenues from network usage are revenues of SODO.

As the owner of the distribution infrastructure and services provider, Elektro Primorska issues monthly invoices for lease of infrastructure and services rendered to SODO. Recognised revenues and, consequently, costs related to the purchase of electricity to cover losses in the distribution network now belong to SODO.

8.4.1. Revenues from the system use

In accordance with the provisions of the Legal Act on the methodology determining the regulatory framework and network charge for the electricity distribution system (Official Gazette RS, No. 66/15, 105/15 and 61/16) network charge tariffs have changed.

The prices of the network use changed slightly in 2017, as the tariff for charging network charge for the transmission system decreased on average by 1%. The common network pricing for system services now includes the pricing for the transmission network and the operation of the Energy Agency of the Republic of Slovenia.

Thus, the distribution system tariffs increased by 1.5%. Also, the network tariffs for excess acceptance of reactive energy increased by 0.5%. This means that the revenue of the electricity distribution system operator also increased. However, Elektro Primorska could not detect any favourable effects of a positive price increase.

Contribution for the provision of support for the production of electricity from high efficiency co-generation and renewable energy resources has not changed and remains the same as in August 2015. Furthermore, contribution for energy efficiency, which is intended to provide energy savings to end customers has not increased either in 2017.

The number of customers connected to the Elektro Primorska distribution network in 2017 increased by 749, amounting to 133.598 as at 31 December 2017.

A total 15,064,002 kW of power and 1,612,596,584 kWh of electricity was invoiced to electricity consumers in the area of Elektro Primorska in 2017. Total revenues from network charges and contributions amounted to €72,142,817. Total revenue index in terms of value recorded in 2016 is 1.029, up 2.9% (source: internal EP reports).

2017	INVOICED QUANTITIES [kW]	INVOICED QUANTITIES [kWh]	USE OF NETWORK [€] Transmission network charge	USE OF NETWORK [€] Distribution network charge	USE OF NETWORK [€] Excessive reactive power	CONTRIBUTIONS [€] Contributions OVE + SPTE	CONTRIBUTIONS [€] Contributions URE	CONTRIBUTIONS [€] Contributions BORZEN	TOTAL USE OF NETWORK AND CONTRIBUTIONS [€]
January	1.240.972	137.821.416	1.110.425	3.737.410	35.513	1.592.344	110.258	17.917	6.603.866
February	1.245.785	127.939.648	1.067.042	3.378.194	31.137	1.591.946	102.352	16.632	6.187.305
March	1.248.465	139.067.711	1.085.055	3.411.864	33.230	1.583.908	111.257	18.079	6.243.392
April	1.244.384	125.888.148	942.422	2.856.236	31.327	1.579.542	100.712	16.365	5.526.605
May	1.250.593	134.221.719	967.170	2.955.951	13.501	1.602.480	107.378	17.449	5.663.931
June	1.266.072	138.664.677	984.560	2.985.379	37.263	1.656.167	110.933	18.026	5.792.328
July	1.263.776	137.926.556	978.777	2.960.020	41.101	1.651.238	110.341	17.930	5.759.408
August	1.259.189	134.477.568	981.266	3.012.303	37.407	1.649.920	107.582	17.482	5.805.959
September	1.263.057	130.376.830	968.237	2.918.549	33.349	1.627.041	104.302	16.949	5.668.426
October	1.252.318	129.590.787	1.054.694	3.240.202	32.766	1.598.994	103.676	16.847	6.047.178
November	1.264.780	136.553.552	1.092.822	3.426.755	31.894	1.622.316	109.243	17.752	6.300.781
December	1.264.611	140.067.972	1.119.580	3.632.096	29.570	1.632.129	112.054	18.209	6.543.638
TOTAL	**15.064.002**	**1.612.596.584**	**12.352.049**	**38.514.957**	**388.059,22**	**19.388.025**	**1.290.089**	**209.638**	**72.142.817**

Table 14: Total invoiced network charge and contributions of all the customers of Elektro Primorska in 2017

NOTE:

- Amounts in EUR excluding VAT.
- Use of the network and contributions are charged to customers at current tariff rates, in accordance with the Legal Act on the methodology determining regulatory framework and network charge for the electricity distribution system. Use of the network is intended to cover the eligible costs of power operators and to providing reserve electricity. Financial support is intended to provide electricity production from renewable energy sources and providing energy savings among final customers. Revenues of Elektro Primorska are not shown in Table No. 14.

8.4.2. Peak of distribution network consumption and operating hours

8.4.3. xcess of acquired reactive power at tg φind = +0.32868 or tg φkap = -0.32868

In 2016, a new method of network charge for the excess received and distributed reactive power was introduced, which is intended to cover the costs of the electricity distribution system operator for the provision of network voltage conditions, while also encouraging users to reduce consumption of reactive power.

Excess of acquired reactive power is the difference between the actual measured reactive power and allowed acquired or delivered reactive energy in the 15-minute measuring interval corresponding to the factor tg φind = +0.32868 or tg φkap = -0.32868. It is calculated on a monthly basis as the sum of all 15-minute absolute values of excess of acquired and delivered reactive energy in the month.

The introduction of the new billing method changed the tariff for network charges relating to excess of acquired reactive energy. In 2017, the price for HV consumption was €0.00310/kWh, and for MV and LV €0.00793/kWh.

In accordance with the lease agreement for the distribution infrastructure and implementation of services for the system operator of the electricity distribution network, Elektro Primorska issues invoices for excess of reactive power in the name and for the account of SODO.

In the same period, 50,184,564 kVArh of excessive reactive energy from electricity networks of all customers in the area of Elektro Primorska was invoiced amounting in total to €388,059.22. Index of excess of acquired reactive power compared to quantities recorded in 2016 amounts to 0.8637. A relatively large reduction in excess of accepted quantities is the result of a refund of invoiced reactive power to producers in 2016 and 2017.

8.4.4. Electricity losses in the distribution network

As a good manager and the supplier of services under this contract, Elektro Primorska is committed to reducing technical and commercial losses. A stimulation or penalisation model is introduced that will stimulate individual distribution to reduce losses. If the distribution has lower losses than a recognised percentage, it will receive the difference between the recognised revenue and the purchase cost as a credit. Otherwise, the individual distribution itself will have to cover the difference between actual costs and recognised revenues.

Losses in the electricity distribution system in 2017 amounted to 83,634,143 kWh, which accounts for 5.19% of the total invoiced electricity to all customers, which is a slight decline in losses compared to previous years. In 2016, losses in the electricity distribution system equalled 5.26% of total electricity invoiced and 5.87% in 2015.

Recognised expenses to cover losses amount to €4,054,345, while the cost of purchase of losses amount to €3,715,029. In accordance with the preliminary settlement for 2016, SODO recognised a credit note to Elektro Primorska in the amount of €339,317.

8.4.5. Peak of distribution network consumption and operating hours

In 2017, the peak consumption of Elektro Primorska distribution system occurred on Thursday, 12 January 2017 at 7 pm and amounted to 282.952 MW. Compared to 2016 (270.110 MW) it increased by 12.842 MW or by 4.75%. Annual operating hours reached 5,994.7 hours.

Monthly peaks in the distribution system of Elektro Primorska in 2017 and the related annual operating hours are presented in Table 15. Chart 7 shows monthly consumption peaks, while Chart 8 is a presentation of monthly quantities of acquired electricity in 2017.

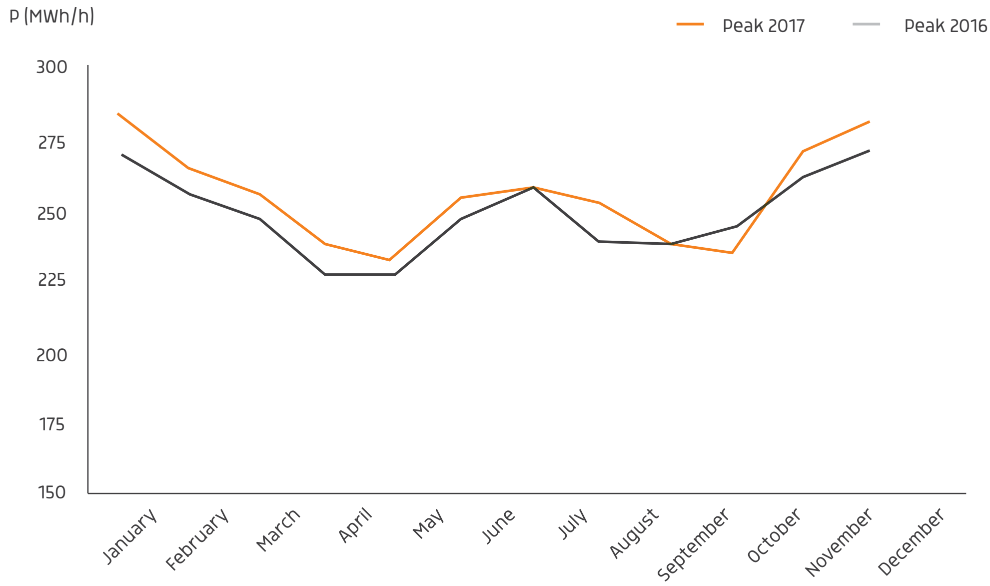


Chart 7: Monthly electricity consumption peaks in 2017

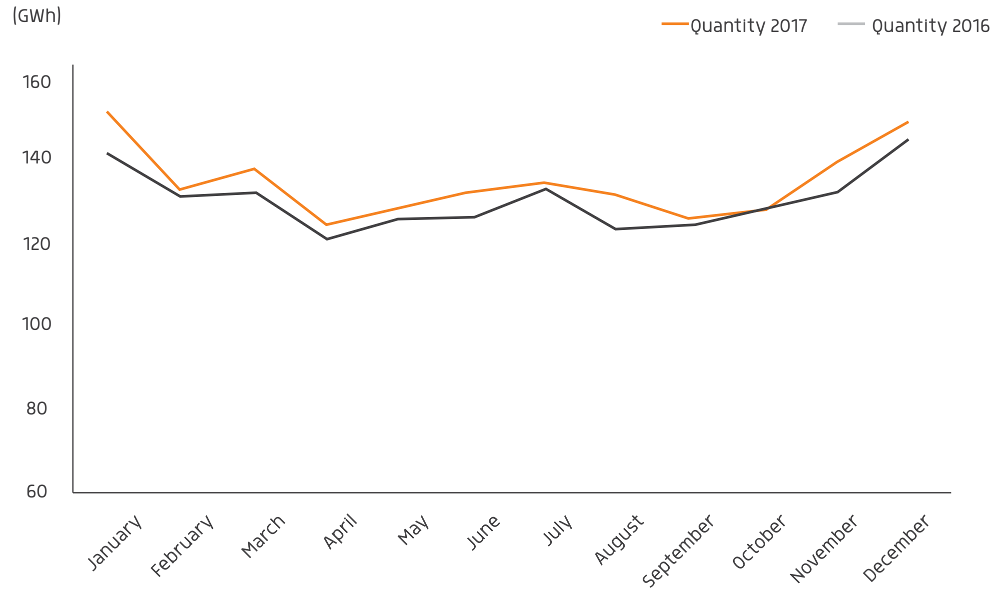


Chart 8: Monthly acquired quantities of electricity in 2017

Month	Monthly peaks			Total acquired EE *	Operating hours - annual **	Monthly peaks 2016	Monthly Peak Ratio 2017 / 2016	Total acquired EE 2016
	[MWh/h]	Date	Hour	[MWh]	[h]	[MWh/h]		[MWh]
January	282,952	12/Jan/2017	12 h	159.809,638	6.650	268,438	1,054	149.266,127
February	264,070	21/Feb/2017	20 h	139.335,895	6.878	255,419	1,034	137.933,628
March	254,715	01/Mar/2017	12 h	144.995,637	7.421	245,988	1,035	138.785,889
April	236,959	20/Apr/2017	21 h	129.990,841	6.674	226,363	1,047	126.832,649
May	232,039	11/May/2017	12 h	133.929,097	6.796	226,548	1,024	131.294,438
June	253,505	23/Jun/2017	14 h	138.678,278	6.656	245,766	1,031	132.423,005
July	256,758	10/Jul/2017	13 h	141.263,211	6.478	257,547	0,997	139.304,449
August	251,286	04/Aug/2017	13 h	138.119,788	6.472	238,107	1,055	129.199,677
September	238,264	01/Sep/2017	13 h	131.696,636	6.725	236,602	1,007	130.157,591
October	234,073	11/Oct/2017	20 h	134.075,873	6.744	243,250	0,962	134.201,967
November	268,914	30/Nov/2017	18 h	146.741,729	6.639	260,769	1,031	138.634,809
December	280,259	08/Dec/2017	13 h	157.573,396	6.620	270,110	1,038	152.846,412
Peak:	**282,952**		**Total:**	**1.696.210,019**	**5.994,7**			**1.640.880,641**

Annual peak 2017	**282,952**
Annual peak 2016	**270,110**
Annual peak index: 2017/2016	**1,048**

Operating hours 2017	**5.994,692**
Operating hours 2016	**6.074,861**
Operating hours index: 2017/2016	**0,987**

In 2017, the EP peak of 282,952 MW occurred on Thursday, 12 January 2017 at 12 o'clock.

NB:
* Total acquired EE represents the total acquired electricity in the distribution network (from the transmission network + from producers) - according to the system of hourly average output values of balance groups, taking into account deviations.
** Monthly values of annual operating hours based on monthly data converted to the annual value.

Table 15: Peak and annual operating hours of Elektro Primorska in 2017

8.4.6. Electricity generated by producers connected to the distribution network

As at 31 December 2017, a total of 484 traditional electricity producers were connected to the distribution network of Elektro Primorska and 90 self-sufficient energy producers from renewable energy resources. The number of traditional producers has been falling over the years due to insufficient support provided for electricity production from OVE and SPTE.

In December 2015, the Government adopted a Decree on self-supply of electricity from the renewable energy sources, which defines a new method of invoicing network and energy charges for household and small business customers, who are also owners of production facilities. Under the Regulation, based on net metering, these customers are able to ensure self-supply of electricity and deliver any surplus of generated electricity to the network and use it from the network when the relevant device fails to produce energy or fails to produce sufficient amount of energy.

Compared to 2016, when 12 self-sufficient suppliers were connected to the network, there was a major increase in the interest in self-supply, which resulted in 78 new self-sufficient suppliers to be connected to the grid. This trend continues to increase further in 2018 and we expect another 100 new self-sufficient electricity producers to be connected to the network. While at present self-sufficiency does not account for a major energy share in the total energy produced, but it may do so in a few years considering the current growth trend. Registered electricity production of all producers amounted to 156,023,452 kWh in 2017, down 9.2% on the amount recorded in 2016. Thus, 140,186,173 kWh or 10.9% less power was supplied to the Elektro Primorska distribution network in 2017 than in 2016. This is due to a reduction in production of hydroelectric power plants, which decreased on average by 15.6% compared to 2016. Annual production of power plants varies the most as it depends on favourable river flow, while other resources provide a more stable supply.

The difference in the quantities of electricity produced and supplied to the distribution network constitutes own consumption of the OVE and SPTE production facilities and transmission of electricity produced into the in-house network of customers. In 2017, it amounted to 15,837,279 kWh.

Vir el. energije	Number of power plants	Production 2017 [kWh]	Production 2016 [kWh]	2017 / 2016
HE SENG	22	65,985,731	79,793,548	0.827
HE Other	69	31,440,026	34,261,260	0.918
Solar power stations	355	38,445,860	35,919,871	1.070
Wind power stations	6	5,716,177	5,778,491	0.989
SPTE	32	14,236,499	15,998,579	0.890
Self-supply*	90	199,159	14,411	13.820
Total	**574**	**156,023,452**	**171,766,160**	**0.91**

NB:
* Self-supply of electricity from renewable energy sources is the fastest growing market of electricity production resources.
* Number of all power stations in the area of EP that are connected to the distribution network or in-house network of customers

Table 16: Electricity production by source of primary energy

8.4.7. Quality of electricity supply

8.4.7.1. Voltage quality

Permanent monitoring of voltage quality in Elektro Primorska is provided by 66 recording devices in 30 network facilities. Data on the quality of the voltage is obtained from 16 high-voltage busbars, from two medium-voltage busbars bordering the neighbouring network, and from 48 medium-voltage busbars representing the main power points in our distribution network.

Results of the permanent measurements in the area of Elektro Primorska in 2017 show an improvement in voltage quality compliance with the requirements of the standard on the HV-level from 97.43% in 2016 to 97.60% in 2017, while on the MV-level there was a decline from 98.96% in 2016 to 98.70% in 2017.

The vast majority of voltage quality deviations in 2017 occurred during summer storms due to lightning strikes and periods of strong north wind.

In 2017, full compliance with the voltage quality requirements of the standard was recorded at 46 measuring points (of total 66) in all measured weeks, while on the remaining 20 measuring points, at least one week of non-compliance with voltage quality standard SIST EN 50160 was recorded. On four measuring points we recorded deviation of effective voltage level, on one measuring point we recorded a deviation of bellows, on fourteen we recorded an increase of flickers, and on six measuring points frequency deviation.

8.4.7.2. Continuity of supply

In the Elektro Primorska area, we recorded 1,156 unplanned interruptions of power that lasted longer than three minutes on high- and medium- voltage electric power plants in 2017, 17 of which were failures of power transformers 110/MV kV and MV/MV kV.

Data in tables 17, 18 and 19 was obtained from the application of the Energy Agency (AE).

For the purposes of the ordinary and extraordinary maintenance of installations, 1,436 disconnections were carried out in 2017, which led to the planned blackout. DCV Elektro Primorska issued 560 messages, 92 for work on power transformers of 110/MV kV and MV/MV kV.

Total number of unplanned and planned interruptions lasting more than three minutes reached 2,592, which is an increase over the previous year.

Number of interruptions lasting more than 3 minutes	In 2017	In 2016	Index 17 / 16
Number of unplanned interruptions	1156	637	1.815
Number of planned interruptions - disconnections	1436	1236	1.162
Total number of planned and unplanned interruptions	2592	1873	1.384

Table 17: Number of interruptions lasting more than 3 minutes

SAIFI (system average interruption frequency index)	In 2017	In 2016	Index 17 / 16
Average number of unplanned interruptions per customer	3.59	1.46	2.46
Average number of planned interruptions - disconnections per customer	0.97	0.88	1.10
Average number of planned and unplanned interruptions per customer	4.56	2.34	1.95

Table 18: SAIFI (system average interruption frequency index)

SAIDI (system average interruption duration index)	In 2017	In 2016	Index 17 / 16
Average interruption duration in hours due to unplanned interruptions	1.90	1.06	1.79
Average interruption duration in hours due to planned interruptions - disconnections	2.16	2.33	0.927
Average interruption duration in hours due to planned and unplanned interruptions	4.06	3.39	1.19

Table 19: SAIDI (system average interruption duration index)

8.4.7.3. Commercial quality

In accordance with the Legal Act on the rules for monitoring the quality of electricity supply (Annex 2 of the Act), the Company regularly monitors commercial quality indicators and reports to the Energy Agency and SODO. Commercial quality indicators for 2017 are within the expected limit values.

09.

SERVICES FOR EXTERNAL CUSTOMERS

Elektro Primorska acquires contracts for the market i.e. for external customers by bidding at public tenders and also by direct negotiations with potential investors.

Services were performed mainly on the facilities and installations of medium and low voltage networks and public lighting. Market business covers the entire scope of work for which Elektro Primorska is specialised, namely the design and preparation of project documentation, construction or reconstruction of cable conduits, transformer stations, production of connectors for new facilities, renovation of public lighting with the reconstruction of switching points and other minor services.

In 2017, we were more successful in our bidding than in 2016, as the realisation of services increased by 26.72% up 16.33% on the plan.

Type of work	Plan (€)	Realisation(€)	Realiszation(€)	%	%
	2017 January-December	2017 January-December	2016 January-December	2:1	2:3
	1	2	3	4	5
Market services	1,700,000	1,897,364	1,373,313	111.61	138.16
Other services	768,000	973,658	892,385	126.78	109.11
TOTAL	**2,468,000**	**2,871,022**	**2,265,698**	**116.33**	**126.72**

Table 20: Realisation of services for external customers in 2017

Below are a few other major services for the market we carried out in 2017:

- Cable conduits and transformer station TP Incom 3
- Transformer station TP ››Sveže testenine Mlinotest‹‹
- Connecting power line and transformer station TP ››Filtracija Avče‹‹
- Reconstruction of transformer station TP ››Galvan‹‹
- Reconstruction of the transformer station TP ››Črpališče Semedela‹‹
- Maintenance of public lighting in the municipality of Izola
- Transformer station TP FB Prestranek
- Cable conduits and transformer station TP Oro Met
- Cable conduits and transformer station TP Počkaj
- Cable conduits and transformer station TP Slavec
- Cable conduits and transformer station TP Industrija pri Kuretu
- Connecting power lines for small hydroelectric power plant Podbela
- Replacement of public lighting in the municipality of Kobarid

These services also include provision of holiday facilities.

10.

INFORMATION SUPPORT AND DEVELOPMENT

Elektro Primorska has an established and certified integrated management system based on the following standards:

- Quality Management System – ISO 9001:2008,
- Environmental Management System – ISO 14001:2015,
- Management System for Safety and Health at Work – BS OHSAS 18001:2007.

Integrated Quality Management System is mastered through the structure of formalised documents: a) the rules of quality management, b) determining the processes, c) process management, d) instructions, e) forms. Quality of processes implementation is monitored by quality indicators. Effectiveness of the integrated management system is regularly checked through management reviews, and by internal and external audits.

Requests for improvements in the integrated management system are managed by a special program that allows all employees to communicate their ideas, comments and suggestions for better management and organisation, as well as other activities. This system also includes management of measures arising from the internal audit recommendations and self-assessment according to the EFQM model.

The integrated management system was reviewed in 2017 as part of the planned internal audits and annual reviews, such as: environmental review, vocational health and safety review and management review. Internal audits of quality management system, environment management system and the system of safety and health at work were conducted on April 24, 25 and 26.

On 6 June 2017, SIQ (external certification company) carried out a regular assessment of the requirements of the ISO 9001:2008 standard; the re-certification of the requirements of the ISO 14001:2004 standard; the re-certification assessment of the requirements of the BS OHSAS 18001:2007 standard; and transitional assessment of the requirements of the ISO 14001:2015 standard, to confirm that the Company implements, maintains and develops its management system in accordance with the requirements of ISO 9001:2008, ISO 14001:2004, ISO 14001:2015 and BS OHSAS 18001:2007 standards.

11.

CARE FOR THE ENVIRONMENT

11.1. Environmental policy

Environmental policy is an important component of the Company's business policy and is integrated into all of its business processes. Our business and our facilities intervene into the space and its intended use, so with the established environmental management system we manage significant environmental aspects associated with the activity of electricity transmission, maintenance and construction of facilities, the operation of electricity metal workshops and vehicle fleet. By adopting environmental programs in accordance with financial capabilities of the Company, we realise framework and implementing environmental objectives.

11.2. The realisation of environmental programs in 2017

In accordance with established environmental objectives, the following activities of environmental programs were performed in 2017:

- We built a replacement transformer substation TN0283 Hotel Ajdovščina outside the facility and thus removed the source of noise and vibrations in a residential building.
- We set up a warehouse for used and waste distribution transformers at DU Nova Gorica and storage area for transformers at DU Tolmin.
- Renovation work began on RTP Pivka, which also includes energy renovation of the building and removal of asbestos cement roofing. The renovation work is expected to be completed in the first half of 2018.
- Reconstruction of the former RTP ››Beli križ‹‹ facility in the Piran Supervision facility, which also included the energy rehabilitation of the facility. Due to the necessary major interventions in the construction of the building, the works were interrupted and continued following approval of the amended the building permit. The works are expected to be completed by the end of March 2018.
- We fitted insulators on the MV collectors of HV/MV transformers in RTP Lucija (2 pcs.), RTP Koper (3 pcs.), and RTP Hrpelje (2 pcs.), and thus completed the insulation program of MV collectors. This means that protection of small animals against impacts has been installed in all distribution transformer stations, which reduces the risk of death and transformer failures.
- In 2017, Elektro Primorska signed a partnership agreement for the project aimed at ensuring proper use of the Karst grasslands and forests for the preservation of selected habitat types and species in the nature 2000 ›› KRAS ‹‹ area. The entire project and individual project activities are responsibility of the Škocjan Caves Regional Park. Elektro Primorska's task in the project is to insulate medium-voltage overhead lines and thus improve the conservation status of the Eurasian Eagle Owl in the Kras region.

12.

RISK MANAGEMENT

Elektro Primorska manages the risks it is exposed to in accordance with the methodology of integrated risk management. All identified risks are classified in accordance with the risk management methodology in one of the four groups that are included in the risk register: financial, operational, strategic and legislative. Risks are evaluated at least monthly on the basis of assessing the implications of the risk and the likelihood of a risk occurring. These risks are managed in the following ways: risk avoidance - abandonment of risky operations; risk mitigation - use of different hedging instruments; transferring risk to a third party; acceptance of risk - accepting the risk that is acceptable. Continuous risk identification is primarily responsibility of the heads of organisational units and other authorised expert staff.

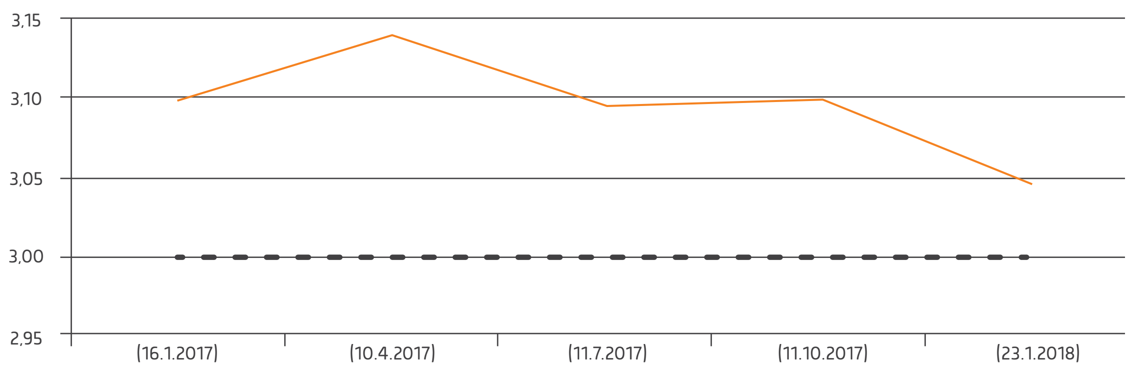
Individual risk status or risk measures are carried out through the portal monthly, quarterly and annually. Internal audit supervises the implementation of the measures and compliance of the reported with the actual situation. Reporting and risk control are an integral part of the Company's integrated management system.

We assess each identified risk from the viewpoint of potential consequences in the range from 1 to 4 and the likelihood of occurrence also in the range from 1 to 4. Severity of the risk is calculated as the product between potential damage V and the likelihood of risk occurring. Risks are therefore classified into: a) a low risk T {1, 2, 3}, b) medium risk T {4, 6}, c) high risk T {8, 9} and d) very high risk T {12, 16}.

V V_e	Almost certainly	Very likely	Possible	Unlikely
Very high	16	12	8	4
High	12	9	6	3
Moderate	8	6	4	2
Low	4	3	2	1

Table 21: Risk matrix in EP

In order to monitor the trend and the balance at the cut-off date, the average level of all risks was introduced in 2013 when the risk management was first introduced. In 2017, the value decreased from the baseline value of 3.10 to 3.05. For all measures that exceed the acceptable level of risk 3.00 (a total of three measures), new measures, persons responsible and deadlines for implementation were determined. These measures are currently being implemented and managed in accordance with the methodology.



	(16.1.2017)	(10.4.2017)	(11.7.2017)	(11.10.2017)	(23.1.2018)
Average level of all risks	3,10	3,14	3,10	3,10	3,05
Acceptable risk level	3	3	3	3	3

Chart 9: Total average level of all risks in Elektro Primorska per individual quarter of 2017

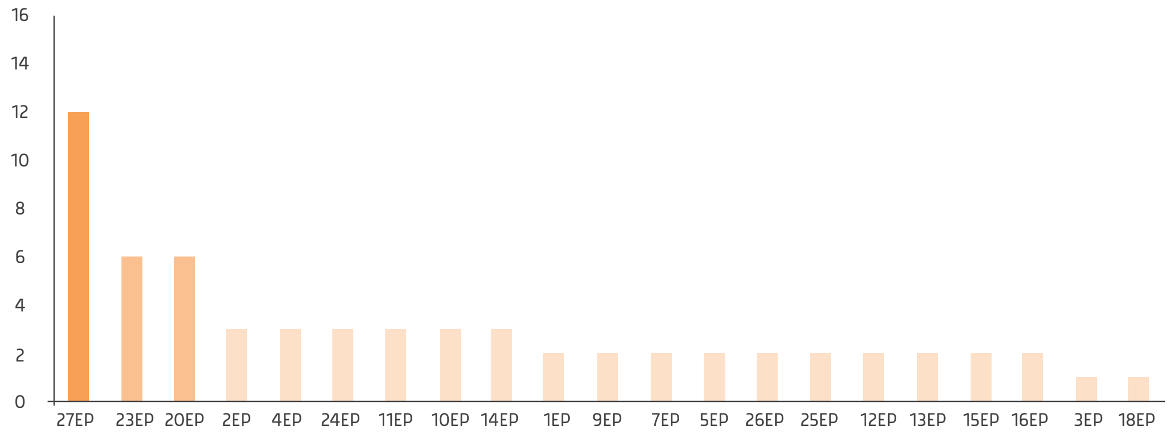


Chart 10: Risks levels in Elektro Primorska at the cut - off date 23 January 2018.

	Risk	No. of measures at reporting date	16 Jan 2017	10 April 2017	11 July 2017	11 Oct 2017	23 Jan 2018
1	Financial -market risk		2.75	3.50	3.00	2.50	2.25
2	Operational* risk	10	3.00	2.80	3.30	3.56	3.80
3	Strategic/business risk	3	4.67	4.67	3.67	3.67	2.67
4	Legislative risk	4	2.50	2.50	2.25	2.25	2.25
	Total	**21**	**3,10>3,00**	**3,14>3,00**	**3,10>3,00**	**3,10>3,00**	**3,05>3,00**

*Increase in measures to mitigate operational risk from 20 to 21
Measure no. 7 - (proving force majeure and foreign causes of power failures)

Table 22: Groups of risks per quarter in 2017

One new risk was included in the risk management system in 2017.

12.1. Financial risks

Financial risks of the Company are those risk factors that directly threaten the achievement of the planned profit and capital adequacy. Significant financial risks include: credit, liquidity, and market risk.

Credit risk arises due to late settlement of receivables. Systematic monitoring of debtors' financial position and use of executive proposals to recover the receivables, mitigate the credit risk of the Company. The Company's exposure to credit risk is assessed as moderate.

Liquidity risk is directly related to the credit risk. The Company manages liquidity risk through cash flow planning and adjusting expenditure to its financing capabilities, draws on bridging loans and plans the dynamics of raising long-term borrowings to fund its investments. The Company's liquidity risk is assessed as low.

Economics of investment is associated with the above two risks due to a potential for exceeding the value of investments and due to deviation of specific planned values for standard investment solutions. The risk is assessed as moderate.

Market risks result from failure to acquire services for the market, which affects the Company's cash flow. Market risks are also assessed as moderate.

12.2. Operational risk

Operational risks are associated with the implementation of business processes in the Company. The Company has updated and certified its business processes in accordance with the ISO 9001 quality management system standards, ISO 14001 environmental management system standards and BS OHSAS 18001 vocational health and safety system standards. Indirectly, by complying with the provisions of those standards, potential for operational risk arising is mitigated. In this area, we are faced with a risk associated with proving force majeure and foreign causes of power failures, which is assessed as very high, and the risks stemming from the provision of information support; the latter risk is assessed as medium.

Human resources risks are associated with the possibility of loss or lack of qualified staff and the emergence of work-related injuries arising from risky working practices in the business of power distribution. Risk is managed through constant training of employees, encouraging further education, communication and information to all employees, liability insurance of employees in the implementation of design, assembly and maintenance work, and collective accident insurance of employees. We continuously improve the safety and health at work, which reduces the risk of injury at work and strive to maintain the health of our employees. The risk is assessed as moderate.

Risks associated with the system operation are related to ensuring the broadest possible availability of facilities, which we ensure with regular planning, construction and maintenance, by implementing activities such as reviews, audits, measurements with the aim of preventing failure of electricity power plants and the occurrence of major damage to devices. Property risk arises from exposure of electrical installations and other Company's assets to environmental influences and other threats. Risks are managed by appropriate planning, building and maintenance, and with adequate property insurance. The risk is assessed as medium. Risks associated with proving force majeure and foreign causes of power failures, especially in the event of an average, as it directly affects the regulation of funds for the implementation of the basic activity of electricity distribution. The risk is assessed as very high.

Information risk is associated with the operation of a computerised information system and includes the risk of data loss, unauthorised access to data, intrusion into the system, and interruption in the system operation. The Company has signed a contract for the provision of key information services with Informatika, a company that provides services to other distribution companies as well. With annual investments in IT equipment, with an appropriate security policy, with the upgrade of the information system in collaboration with Informatika, and with implementation of adopted measures, these risks are well-managed. The risk is assessed as medium.

12.3. Strategic risks

Strategic risks affect the ability to ensure an efficient and competitive continuity of company operations. Among the strategic risks the Company is facing include price, quantity and investment risks, as well as risks related to power supply interruptions of own cause.

Price risks occur in the contractual relationship between SODO and Elektro Primorska, which regulates lease of electricity infrastructure and the provision of services by Elektro Primorska for SODO. They determine the price for rental of infrastructure and the provision of other services. Late conclusion of the contract or annex to the contract for the financial year resents the price risk. Price risks also arise in procurement of materials and equipment used in investment and maintenance works. During the year price risk is managed through public tenders for the procurement of material and equipment and by signing annual contracts for real-time supply. The risk is assessed as moderate.

Quantitative risks arise in the transfer of electricity through the distribution network to customers. They arise from the uncertainty of consumption of electricity and they have short-term impact on revenues from network usage and, consequently, on the amount of the Company's revenue from the provision of services for SODO. Quantitative risks are managed by monthly monitoring of the transferred quantities of electricity through distribution network and corresponding network charges. The risk is assessed as moderate.

Investment risks are reflected in a potential failure to achieve the planned investments. They are managed by real-time verification of realisation and effectiveness of the adopted plans. The risk is assessed as moderate.

12.4. Legislative risks

The essence of managing regulatory risks is ensuring the functioning of the system in accordance with regulations. Responsibility for legitimate business and compliance with the internal workings of Elektro Primorska is specifically defined. Decision-making in the EP is limited to the framework of sectoral legislation. Regulation of the operation resulting from the contractual obligations between SODO and Elektro Primorska, as provider of public utility service, constitutes restrictions, which the Company must respect and are not always economically viable. The risk is assessed as low.

13.

SUBSEQUENT EVENTS

In the current year, business is carried out in accordance with the approved Business Plan of Elektro Primorska for the period 2017-2019. No significant business events occurred after the reporting date that could impact the Company's financial statements.

As from 1 January 2018, the Elektro Primorska Group began to use **the new Microsoft Dynamics AX business information system and the IBM Maximo asset management and investment system.**

14.

PERFORMANCE RATIOS

Indicators that point to the Company's credit rating are divided into the following groups of fundamental accounting ratios:

1. Financing state ratios
2. Investment ratios,
3. Horizontal financial structure ratios
4. Efficiency ratios
5. Profitability ratios.

From the viewpoint of financial performance, the Company has monitored its business results based on the following ratios:

A. THE BASIC INVESTMENT RATIOS	31.12.2017	31.12.2016
equity	150.539.573	145.272.073
liabilities	205.849.194	196.699.463
Equity financing rate	73,13%	73,85%
total equity and long-term debts (including provisions) and		
long-term accruals	189.094.221	181.154.324
liabilities	205.849.194	196.699.463
Long-term financing rate	91,86%	92,10%
debts	54.634.894	50.659.148
liabilities	205.849.194	196.699.463
Debt financing rate	26,54%	25,75%
B. THE BASIC INVESTMENT RATIOS	31.12.2017	31.12.2016
fixed assets (at book values)	178.853.007	176.435.878
assets	205.849.194	196.699.463
Operating fixed assets rate	86,89%	89,70%
long-term and short-term investments	6.846.097	6.823.599
assets	205.849.194	196.699.463
Investment assets rate	3,33%	3,47%
fixed assets and long-term deferred and accrued items		
investment property, long-term investments and long-term operating receivables	185.929.805	183.473.717
assets	205.849.194	196.699.463
Long-term assets rate	90,32%	93,28%
realised investments	16.318.421	15.612.364
planned investments	16.500.000	15.225.000
Investment realisation level	98,90%	102,54%

C. THE BASIC HORIZONTAL FINANCIAL STRUCTURE INDICATORS	31.12.2017	31.12.2016
equity	150.539.573	145.272.073
assets (at book values)	178.853.007	176.435.878
Equity to fixed assets rate	84,17%	82,34%
liquid assets	4.964.407	1.838.689
short-term liabilities	16.080.246	14.776.897
Acid test ratio	30,87%	12,44%
liquid assets and short-term claims	12.700.780	8.772.563
short-term liabilities	16.080.246	14.776.897
Quick ratio	78,98%	59,37%
short-term assets	13.603.130	9.535.423
short-term liabilities	16.080.246	14.776.897
Current ratio	84,60%	64,53%
D. THE BASIC EFFICIENCY RATIOS	31.12.2017	31.12.2016
operating revenue	46.980.868	45.964.756
operating expense	38.800.575	37.765.391
Operating efficiency ratio	1,211	1,217
revenue	47.011.389	46.002.458
expenses	39.242.396	38.321.818
Total efficiency ratio	1,198	1,200
E. PROFITABILITY RATIOS	31.12.2017	31.12.2016
EBITDA (operating income + operating expenses-AM + revaluation)	19.801.353	19.173.815
gross operating yield	46.980.868	45.964.756
EBITDA margin	42,15%	41,71%
EBIT (operating revenue - operating expenses)	8.180.293	7.680.640
gross operating yield	46.980.868	45.964.756
EBIT margin	17,41%	16,71%
net profit or loss	7.231.232	6.661.242
sale revenue	39.086.362	38.299.568
Net return on revenue	18,50%	17,39%
net profit or loss	7.231.232	6.661.242
average assets	201.274.329	195.551.837
Net return on assets ratio (ROA)	3,59%	3,41%
net profit or loss	7.231.232	6.661.242
average capital (excluding net profit or loss for the year)	144.290.207	137.267.373
Net return on equity ratio (ROE)	5,01%	4,85%
sum of dividends for the year	2.066.311	3.142.513
average share capital	78.562.832	78.562.832
Net return on share capital ratio	0,026	0,040
dividend paid in the current year	2.066.311	3.142.513
average capital	144.290.207	143.537.970
Dividend to share capital ratio	1,43%	2,19%
E. SHARES	31.12.2017	31.12.2016
equity	150.539.573	145.272.073
number of shares	18.826.797	18.826.797
number of treasury shares	42.499	42.149
Book value per share (in EUR)	8,01	7,73
net profit or loss	7.231.232	6.661.242
weighted average number of ordinary shares	18.784.638	18.825.064
diluted average number of ordinary shares	18.784.638	18.825.064
Basic and diluted earnings per share (EUR/share)	0,38	0,35

Table 23: Ratios

14.1. The basic financing state ratios

1. THE BASIC FINANCING STATE RATIOS								
No.	**Description**	**2017**	**2016**	**2015**	**2014**	**2013**	**2012**	**2011**
1.	**Equity financing rate** (equity/liabilities)	0,731	0,739	0,729	0,737	0,711	0,717	0,697
2.	**Long-term financing rate** equity, long-term liabilities and provisions / liabilities	0,919	0,921	0,909	0,916	0,887	0,889	0,868
3.	**Debt financing rate** debt/equity and liabilities	0,265	0,258	0,266	0,260	0,285	0,274	0,297

Table 24: The basic financing state ratios

These show the relationships between equity and liabilities and thus they are used to identify the financing structure of assets, while at the same time they express the degree of the company's financial independence.

Financing state ratios show the share of equity, debt and deferred revenues in the structure of all sources of financing. These ratios are particularly important when the company is making its long-term decisions on funding policies (capital structure). High proportion of capital in financing and a low level of short-term funding give creditors information on investment safety.

Equity financing rate shows the share of equity financing of total assets. In 2017, the equity financing rate was 73.1%, which is 0.8 percentage point lower than in 2016. A decreased ratio value is the result of a higher increase in liabilities than the capital, despite the higher amount of profit achieved by the Company in 2017, while at the same time the Company's liabilities also increased compared to 2016 (increase in long-term financial liabilities to banks and short-term operating liabilities), all of which is reflected in a decline in the ratio in 2017.

Debt financing rate shows the debt financing of the Company's assets. In 2017, the ratio stood at 91.9%, down 0.2 percentage points compared to 2016, which is primarily due to an increase in short-term operating liabilities, primarily supplier payables and other operating liabilities, as well as a rise in long-term financial liabilities to banks due to borrowings raised to finance investments in electricity distribution infrastructure.

Since the Company does not possess sufficient amount of own resources (also due to dividend payments) to finance planned and necessary investments, it is forced to raise external, debt sources of financing. Own source of funds for financing investments in energy infrastructure comprises primarily amortisation and depreciation and the generated return, especially the operating result, which the Company expects as it generates regulated revenues, which are mainly revenues from rent and services provided under the Contract with SODO.

Long-term financing rate amounted to 26.5% in 2017, up 0.7 percentage points compared to 2016. This is due to a larger increase in liabilities in the overall structure of liabilities than other components of liabilities. A major increase in liabilities comes from raising long-term borrowings from the European Investment Bank for drawing on the third and the fourth tranche.

14.2. The basic investment ratios

2. THE BASIC INVESTMENT RATIOS								
No.	**Description**	**2017**	**2016**	**2015**	**2014**	**2013**	**2012**	**2011**
1.	**Operating fixed assets rate** fixed assets / assets	0,869	0,897	0,887	0,906	0,881	0,908	0,899
2.	**Investment assets rate** long-term and short-term investments/assets	0,033	0,035	0,035	0,038	0,037	0,038	0,037
3.	**Long-term assets rate** fixed assets, long-term investments and long-term operating receivables/assets	0,903	0,933	0,923	0,944	0,917	0,946	0,936

Table 25: The basic investment ratios

These ratios are used to establish where the company invested its assets and what structure of assets it has according to these investments.

Operating fixed assets rate shows the share of fixed assets in total assets. In 2017, the share of fixed assets accounted for 86.9% of total assets, down 2.8 percentage points compared to 2016. The reason for this decline in the ratio is the fact that the value of fixed assets increased relatively less than the value of other assets of the Company. A high level of operating fixed assets rate is expected for the Company as the industry in which it operates is technologically very intense.
Investment assets rate tells us the share of the company's assets that are involved in the emergence of financial income. At the end of 2017, short-term and long-term investments accounted for 3.3% of the Group's assets and decreased by 0.2 percentage points compared to the previous year, mainly due to the increase in other components of the Company's assets.

Long-term assets rate shows the share of long-term assets, which at the end of 2017 amounted to 90.3%, down 3 percentage points compared to 2016. The reason for the decrease in the ratio is relatively lower increase in the Company's fixed assets compared to the increase in the its total assets, and especially in a large increase in the cash balances on the Company's bank accounts.

14.3. The basic horizontal financial structure ratios

3. THE BASIC RATIOS OF HORIZONTAL FINANCIAL STRUCTURE								
No.	**Description**	**2017**	**2016**	**2015**	**2014**	**2013**	**2012**	**2011**
1.	**Equity to fixed assets ratio** equity/fixed assets	0,842	0,823	0,822	0,814	0,808	0,789	0,776
2.	**Acid test ratio** liquid assets/short-term liabilities	0,309	0,124	0,266	0,006	0,240	0,008	0,036
3.	**Quick ratio** liquid assets+ short-term receivables/short-term liabilities	0,790	0,594	0,730	0,487	0,633	0,377	0,331
4.	**Current ratio** short-term assets/Short-term liabilities	0,846	0,645	0,777	0,553	0,680	0,429	0,393

Table 26: The basic horizontal financial structure ratios

Regarding the long-term financial balance, the Company monitors its horizontal financial structure ratios, the most important of which is the quick ratio, which shows the impact of the amount and structure of current assets compared to current liabilities.

Equity to fixed assets ratio shows the ratio between equity and fixed assets, which amounted to 84.2 in 2017, up 1.9 percentage point compared to 2016. The reason is a relatively higher increase in capital on account of the 2017 profit compared to the Company's fixed assets.

Acid test ratio, quick and current ratios indicate solvency position of the Company.

- Acid test ratio shows how many short-term liabilities a company can settle on a given day with its liquid assets. At the end of 2017, the company could settle 30.9% of its short-term liabilities by cash. Compared to the previous year, the ratio is up by 18.5 percentage points, which is the result of a relatively higher increase in liquid assets than the Company's short-term liabilities.
- Quick ratio shows the Company's ability to cover short-term liabilities with cash and short-term receivables. At the end of the year, the value of this ratio was 0.79, which is by 19.6 percentage points more than its value in 2016. The reason for an increase in the ratio in 2017 is a relatively larger increase in the value of cash and short-term receivables than the increase in short-term liabilities.
- Current ratio expresses the coverage of short-term debts with cash and other short-term assets, including inventories. At the end of the year, it stood at 0.85, which is by 20.1 percentage points more than in the previous year. This is due to a relatively higher value of short-term assets (mainly cash), than short-term liabilities.

Although the recommended value of the current ratio is equal to 1, the value achieved by the Company is acceptable, as the Company invests heavily in the electricity infrastructure and considering regulated activities based on the contract agreed with SODO, it generates regular monthly inflows.

14.4. The basic efficiency ratios

4. THE BASIC EFFICIENCY RATIOS								
No.	**Description**	**2017**	**2016**	**2015**	**2014**	**2013**	**2012**	**2011**
1.	**Operating efficiency ratio** operating revenue/operating expenses	1,211	1,217	1,142	1,093	1,130	1,091	1,060
2.	**Total efficiency ratio** revenue/expenses	1,198	1,200	1,200	1,072	1,111	1,074	1,040

Table 27: The basic efficiency ratios

Efficiency (cost efficiency) ratios are indicators of business success and explain business results in relation to the invested elements of the business process.

Operating efficiency ratio is the ratio between operating income and operating expenses and reflects the efficiency of the company's operations, since the financial income and expenses and other revenues and expenses are excluded from the indicator. In 2017, this ratio amounted to 121.1%, which means that operating revenues exceeded operating expenses by 21.1% and the cost efficiency worsened slightly in comparison with the previous year (by 0.6 percentage points).

Total efficiency ratio is the ratio between total revenue and total expenditure. The ratio stood at 198% in 2017, which is 0.2 percentage points below the ratio reported in the previous year, reflecting a slight decline in overall efficiency. Thus, in 2017 the Company managed well its available assets and ensured profitably.

14.5. The basic profitability ratios

5. THE BASIC PROFITABILITY RATIOS								
No.	**Description**	**2017**	**2016**	**2015**	**2014**	**2013**	**2012**	**2011**
1.	**Net profit margin** net profit/revenue	0,185	0,174	0,145	0,073	0,102	0,073	0,039
2.	**ROA** net profit/average assets	0,036	0,034	0,031	0,015	0,022	0,016	0,008
3.	**ROE** net profit / average equity (net of net profit for the financial year)	0,050	0,049	0,043	0,021	0,031	0,022	0,012

Table 28: The basic profitability ratios

By analysing the ratio of profitability we can see that the Company's operation is viable as it has achieved a positive operating result. Due to the higher net profit in the current year all ratios show growth compared to the previous year.

Net return on revenue shows that the Company generated €18.5 of profit per €100 of revenue, which is by €1.1 more profit than in 2016.

Return on assets ratio (ROA) shows the share of profits that the Company achieves with its own resources and shows how successful the management has been in managing the Company's assets. ROA amounted to 3.6% in 2017, which is by 0.2 percentage points more than in the previous year.

The ratio is relatively low, which is the consequence of heavy investments made by the Company, which is a condition for ensuring high quality and reliable distribution of electricity. This could not be achieved without capital investments. In order for the Company to ensure high-quality electricity supply to all customers in its distribution area, the Company will have to invest heavily also in the future, which means that the ratio will not improve significantly.

Return on equity ratio (ROE) shows how much net profit was generated by the Company based on The average equity invested in the Company. From the viewpoint of the Company owners, profitability of capital is one of the most important ratios as it shows how well the Company's management manages the Company's assets. ROE amounted to 5% in 2017, which is by 0.1 percentage point more than in the previous year. This is due to slightly higher profit achieved in 2017.

B

FINANCIAL STATEMENTS

Building a better working world

This is a translation of the original report in Slovene language

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ELEKTRO PRIMORSKA podjetje za distribucijo električne energije, d.d.

Opinion

We have audited the financial statements of ELEKTRO PRIMORSKA podjetje za distribucijo električne energije, d.d. (the Company), which comprise the balance sheet as at December 31 2017, the income statement, the statement of other comprehensive income, the statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company Elektro Primorska d.d. as at 31 December 2017 and its financial performance and its cash flows for the year then ended in accordance with Slovenian accounting standards.

Basis for opinion

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

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

Other information

Other information comprises the information included in the Annual Report other than the financial statements and auditor's report thereon. Management is responsible for the other information

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. In addition, we assess whether the other information has been prepared, in all material respects, in accordance with applicable law or regulation, in particular, whether the other information complies with law or regulation in terms of formal requirements and procedure for preparing the other information in the context of materiality, i.e. whether any non-compliance with these requirements could influence judgments made on the basis of the other information.

Based on the procedures performed, to the extent we are able to assess it, we report that:

- The other information describing the facts that are also presented in the financial statements is, in all material respects, consistent with the financial statements; and
- The other information is prepared in compliance with applicable law or regulation.

In addition, our responsibility is to report, based on the knowledge and understanding of the Company obtained in the audit, on whether the other information contains any material misstatement. Based on the procedures we have performed on the other information obtained, we have not identified any material misstatement.

Responsibilities of management and those charged with governance for the financial statements

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

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

EY
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The supervisory board and audit committee is responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

Report on other requirements of the legislation

Management is also responsible for the preparation of financial statements with explanatory notes in accordance with Energy Act and the Slovenian Companies Act (regulatory financial statements), which are included in the note 9 of the financial statements and in respect of which a separate auditor's report is issued in accordance with the requirements of the Energy Act.

Ljubljana, 11 May 2018

Sanja Košir Nikašinović
Director
Ernst & Young d.o.o.
Dunajska 111, Ljubljana

ERNST & YOUNG
Revizija, poslovno svetovanje d.o.o., Ljubljana 1

Lidija Šinkovec
Certified auditor

01.

BALANCE SHEET AT 31 DECEMBER 2017

Assets	Notes	31.12.2017	31.12.2016
A. Long-term assets:			
I. Intangible assets and long-term deferred costs	3.1.	3.792.985	2.293.624
1. Long-term rights		3.651.623	1.525.484
2. Long-term deferred development costs		0	0
3. Other long-term deferred costs		90.041	112.084
4. Intangible assets being acquired		51.321	656.056
II. Property, plant and equipment	3.2.	178.853.007	176.435.878
1. Land		5.703.675	5.859.522
2. Buildings		121.226.717	120.211.345
3. Equipment		49.433.251	48.308.054
4. Property, plant and equipment being acquired		2.489.364	2.056.957
III. Investment properties	3.3.	201.975	188.161
IV. Long-term investments	3.4.	6.844.753	6.822.256
1. Investments in shares of group companies		6.522.017	6.522.017
2. Other shares and stakes		322.737	300.239
V. Long-term operating receivables	3.5.	30.069	27.422
1. Other long-term operating receivables		30.069	27.422
VI. Deferred tax assets		557.490	0
Total long-term assets		**190.280.280**	**185.767.341**
B. Current assets:			
I. Inventories	3.6.	901.006	761.517
1. Material		899.905	711.182
2. Unfinished services		0	48.031
3. Products and merchandise		1.101	2.304
II. Short-term investments	3.7.	1.343	1.343
1. Short-term loans to others		1.343	1.343
III. Short-term operating receivables	3.8.	7.736.374	6.933.874
1. Operating receivables due from the group		35.029	79.436
2. Trade receivables		7.333.124	6.654.490
3. Operating receivables due from others		368.222	199.948
IV. Cash and cash equivalents	3.9.	4.964.407	1.838.689
Total current assets		**13.603.130**	**9.535.423**
C. Short-term deferred and accrued items	**3.10.**	**1.965.785**	**1.396.699**
TOTAL ASSETS		**205.849.194**	**196.699.463**

Table 29: Balance sheet (assets)

Equity and liabilities	Notes	31.12.2017	31.12.2016
A. Equity:			
I. Called-up capital		78.562.832	78.562.832
1. Share capital		78.562.832	78.562.832
II. Capital surplus		46.208.187	46.208.187
III. Profit reserves		23.222.514	18.434.172
1. Legal reserves		651.328	651.328
2. Reserves for treasury shares and stakes		79.540	78.609
3. Treasury shares and stakes (as a deductible item)		-79.540	-78.609
5. Other profit reserves		22.571.187	17.782.844
IV. Revaluation surplus		-2.982	-118.256
V. Retained earnings		107.062	-9.073
VI. Net profit or loss for the year		2.441.959	2.194.211
Total capital	**3.11.**	**150.539.573**	**145.272.073**
B. Provisions and long-term accrued costs and deferred revenue	**3.12.**	**13.721.648**	**13.637.251**
1. Provisions		3.600.132	3.512.691
2. Long-term accrued costs and deferred revenue		10.121.516	10.124.560
C. Long-term liabilities	**3.13.**	**24.433.000**	**22.245.000**
I. Long-term financial liabilities		24.433.000	22.245.000
1. Long-term financial liabilities to banks		24.433.000	22.245.000
D. Short-term liabilities	**3.14.**	**16.480.246**	**14.776.897**
I. Short-term financial liabilities		6.717.226	7.283.882
1. Short-term financial liabilities to banks		6.712.000	7.278.657
2. Other short-term financial liabilities		5.226	5.226
II. Short-term operating liabilities		9.763.021	7.493.015
1. Short-term operating liabilities to group companies		26.693	27.235
2. Supplier payables		7.591.935	6.068.927
3. Other short-term operating liabilities		2.144.392	1.396.853
Total liabilities		**54.634.894**	**50.659.148**
D. Short-term accrued costs and deferred revenue	**3.15.**	**674.728**	**768.242**
TOTAL EQUITY AND LIABILITIES		**205.849.194**	**196.699.463**

Table 30: Balance sheet (equity and liabilities)

Notes are an integral part of the financial statements and should be read in conjunction with them.

02.

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2017

in EUR

	Notes	2017	2016
1. Net sales revenue	**4.1.**	**39.086.362**	**38.299.568**
a. on domestic market		39.086.362	38.299.568
2. Change in the value of unfinished services	**4.1.**	**-48.031**	**11.709**
3. Capitalised own products and services	**4.1.**	**7.087.194**	**6.877.785**
4. Other operating revenue	**4.1.**	**855.343**	**775.694**
5. Cost of goods, materials and services	**4.2.**	**-10.082.509**	**-9.780.864**
a. costs of goods and material sold and costs of material used		-4.562.906	-3.862.860
b. costs of services		-5.519.603	-5.918.004
6. Employee benefit costs	**4.2.**	**-16.967.250**	**-16.351.319**
a. costs of salaries		-11.788.543	-11.297.060
b. costs of supplementary pension insurance of employees		-623.688	-601.899
c. social security costs		-2.028.837	-1.942.385
d. other labour costs		-2.526.182	-2.509.975
7. Write-downs	**4.2.**	**-11.621.060**	**-11.493.175**
a. amortisation and depreciation		-11.449.570	-11.303.180
b. operating expenses from revaluation of fixed assets		-122.407	-119.237
c. operating expenses from revaluation of current assets		-49.083	-70.758
8. Other operating expenses	**4.2.**	**-129.757**	**-140.033**
9. Financial income from shares and interests	**4.3.**	**5.920**	**5.920**
a. in other companies		5.920	5.920
10. Financial income from loans	**4.3.**	**67**	**85**
a. given to others		67	85
11. Financial income from operating receivables	**4.3.**	**24.399**	**31.317**
a. due from others		24.399	31.317
12. Financial expenses from investment impairment and write-off	**4.4.**	**0**	**0**
13. Financial expenses from financial liabilities	**4.4.**	**-373.381**	**-426.830**
a. from bank borrowings		-293.714	-327.727
b. from other financial liabilities		-79.666	-99.102
14. Financial expenses from operating liabilities	**4.4.**	**-451**	**-7.981**
a. from liabilities to suppliers and bills of exchange payable		-436	-7.936
b. from other operating liabilities		-14	-46
15. Other revenue	**4.5.**	**134**	**380**
16. Other expenses	**4.6.**	**-67.990**	**-121.616**
PRE-TAX PROFIT OR LOSS OF THE ACCOUNTING PERIOD		7.768.993	7.680.640
17. Income tax	**4.7.**	**-1.088.014**	**-1.019.398**
18. Deferred tax	**4.7.**	**550.253**	**0**
19. NET PROFIT OR LOSS OF THE ACCOUNTING PERIOD	**4.8.**	**7.231.232**	**6.661.242**

Table 31: Profit and loss account

Notes are an integral part of the financial statements and should be read in conjunction with them.

03.

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2017

in EUR

	Notes	2017	2016
20. NET PROFIT OR LOSS OF THE ACCOUNTING PERIOD	**4.9.**	**7.231.232**	**6.661.242**
Fair value reserve		13.498	-710
Other components of comprehensive income		101.777	37.871
Total comprehensive income for the period		**7.346.506**	**6.698.403**

Table 32: Statement of Comprehensive Income

Notes are an integral part of the financial statements and should be read in conjunction with them.

04.

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2017

in EUR

	Notes	2017	2016
A. CASH FLOWS FROM OPERATING ACTIVITIES			
1. Receipts from operating activities	**5.1.**	**73.130.339**	**71.914.447**
a. Proceeds from the sale of products and services		45.690.737	44.218.424
b. Other receipts from operating activities		27.439.602	27.696.023
2. Expenditure from operating activities	**5.2.**	**-59.558.726**	**-59.890.509**
a. Expenditure for purchase of materials and services		-9.839.291	-10.278.612
b. Expenditure for salaries and employees' shares in profits		-17.008.811	-16.428.956
c. Expenditure for all kinds of contributions		-3.930.955	-4.065.847
d. Other expenditure from operating activities		-28.779.670	-29.117.094
3. Net cash from operating activities		**13.571.613**	**12.023.938**
B. CASH FLOWS FROM INVESTING ACTIVITIES			
4. Cash receipts from investing activities	**5.3.**	**1.313.380**	**91.184**
a. Interest and profit shares		26.861	34.436
b. Proceeds from disposal of property, plant and equipment		1.286.519	53.612
c. Proceeds from disposal of long-term investments		0	0
d. Proceeds from disposal of short-term investments		0	3.137
5. Cash disbursements for investing activities	**5.4.**	**-11.008.771**	**-11.558.216**
a. Expenditure for acquisition of intangible assets		-1.788.173	-1.423.307
b. Expenditure for acquisition of property, plant and equipment		-9.211.598	-10.126.409
c. Expenses for acquisition of long-term and short-term investments		-9.000	-8.500
6. Net cash from investing activities		**-9.695.392**	**-11.467.032**
C. CASH FLOWS FROM FINANCING ACTIVITIES			
8. Cash receipts from financing activities	**5.5.**	**12.550.000**	**16.600.000**
a. Receipts from long-term borrowings		9.000.000	8.000.000
b. Receipts from short-term borrowings		3.550.000	8.600.000
9. Cash disbursements from financing activities	**5.6.**	**-13.300.504**	**-19.800.840**
a. Expenditure for interest paid		-306.775	-368.686
b. Expenditure for capital redemption		1.239	-80.000
c. Cash repayments of long-term borrowings		-7.378.657	-7.612.002
d. Cash repayments of short-term borrowings		-3.550.000	-8.600.000
e. Expenditure for dividends		-2.066.311	-3.140.152
10. Net cash from financing activities		**-750.504**	**-3.200.840**
11. Total cash flows		**3.125.718**	**-2.643.934**
CLOSING BALANCE OF CASH AND CASH EQUIVALENTS		**4.964.407**	**1.838.689**
X. Opening balance of cash and cash equivalents		**1.838.689**	**4.482.623**
Y. CASH FLOWS FOR THE PERIOD	**5.7.**	**3.125.718**	**-2.643.934**
Closing balance of cash on the last day of the accounting peri od		**4.964.407**	**1.838.689**

Table 33: Cash flow statement

Notes are an integral part of the financial statements and should be read in conjunction with them.

05.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2017

in EUR

2017	Called-up capital		Rezerve iz dobička							
	Share capital	Capital surplus	Legal reserves	Reserves for treasury shares	Treasury shares	Other profit reserves	Fair value reserve	Retained earnings	Net profit for the year	Total equity
	I/1	II	III/1			III/5	IV	V/1	VI/1	
A.1. At 31 Dec 2016	78.562.832	46.208.187	651.328	78.609	-78.609	17.782.844	-118.256	-9.073	2.194.210	145.272.073
A.2. At 1 Jan 2017	**78.562.832**	**46.208.187**	**651.328**	**78.609**	**-78.609**	**17.782.844**	**-118.256**	**-9.073**	**2.194.210**	**145.272.073**
B.1. Changes in equity - transactions with owners		**0**	**0**	**931**	**-931**	**0**	**0**	**-2.066.311**	**-931**	**-2.067.242**
a) Purchase of treasury shares					-931					-931
b) Formation of reserve for treasury shares				931				0	-931	0
a) Dividend payment	0	0	0			0	0	-2.066.311	0	-2.066.311
B.2. Total comprehensive income for the reporting period	**0**	**0**	**0**			**0**	**115.274**	**0**	**7.231.232**	**7.346.506**
a) Net profit or loss for the reporting period	0	0	0			0	0	0	7.231.232	7.231.232
b) Fair value reserve	0	0	0			0	13.498	0	0	13.498
b) Other components of comprehensive income for the reporting period	0	0	0			0	101.777	0	0	101.777
B.3. Changes within equity	**0**	**0**	**0**			**4.788.342**	**0**	**2.182.446**	**-6.982.552**	**-11.764**
a) Allocation of the remaining net profit of the comparable reporting period to other components of equity	0	0	0			0	0	2.194.210	-2.194.210	0
b) Allocation of part of net profit of the reporting period to other components of equity in accordance with decision of the management and supervisory bodies	0	0	0			4.788.342	0	0	-4.788.342	0
d) Other changes within equity	0	0	0			0	0	-11.764		-11.764
C. At 31 Dec 2017	**78.562.832**	**46.208.187**	**651.328**	**79.540**	**-79.540**	**22.571.186**	**-2.982**	**107.062**	**2.441.959**	**150.539.572**
Distributable profit 2017								**107.062**	**2.441.959**	**2.549.021**

Table 34: Statement of changes in equity 2017

Notes are an integral part of the financial statements and should be read in conjunction with them.

06.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2016

in EUR

2016	Called-up capital		Profit reserves							
	Share capital	Capital surplus	Legal reserves	Reserves for treasury shares	Treasury shares	Other profit reserves	Fair value reserve	Retained earnings	Net profit for the year	Total capital
	I/1	II	III/1			III/5	IV	V/1	VI/1	
A.1. At 31 Dec 2015	78.562.832	46.208.187	651.328			10.663.371	-155.416	-6.388	5.879.952	141.803.866
A.2. At 1 Jan 2016	78.562.832	46.208.187	651.328			10.663.371	-155.416	-6.388	5.879.952	141.803.866
B.1. Changes in equity - transactions with owners	**0**	**0**	**0**	**78.609**	**-78.609**	**0**	**0**	**-3.142.513**	**-78.609**	**-3.221.123**
a) Purchase of treasury shares					-78.609					-78.609
b) Formation of reserve for treasury shares				78.609					-78.609	0
a) Dividend payment	0	0	0			0	0	-3.142.513	0	-3.142.513
B.2. Total comprehensive income for the reporting period	**0**	**0**	**0**			**0**	**37.161**	**0**	**6.661.242**	**6.698.403**
a) Net profit or loss for the reporting period	0	0	0			0	0	0	6.661.242	6.661.242
b) Gains or losses on revaluation of investments	0	0	0			0	-710	0	0	-710
b) Other components of comprehensive income for the reporting period	0	0	0			0	37.871	0	0	37.871
B.3. Changes within equity	**0**	**0**	**0**			**7.119.472**	**0**	**3.139.829**	**-10.268.374**	**-9.073**
a) Allocation of the remaining net profit of the comparable reporting period to other components of equity	0	0	0			0	0	5.879.952	-5.879.952	0
b) Allocation of part of net profit of the reporting period to other components of equity in accordance with decision of the management and supervisory bodies	0	0	0			4.388.421	0	0	-4.388.421	0
c) Allocation of part of net profit to additional reserves in accordance with decisions of the AGM						2.731.051		-2.731.051		0
d) Other changes within equity	0	0	0			0	0	-9.073		-9.073
C. At 31 Dec 2016	**78.562.832**	**46.208.187**	**651.328**	**78.609**	**-78.609**	**17.782.844**	**-118.256**	**-9.073**	**2.194.210**	**145.272.073**
Distributable profit 2016								**-9.073**	**2.194.210**	**2.185.138**

Table 35: Statement of changes in equity 2016

Notes are an integral part of the financial statements and should be read in conjunction with them.

C

NOTES TO FINANCIAL STATEMENTS COMPILED IN ACCORDANCE WITH THE COMPANIES ACT (ZDG) AND SLOVENE ACCOUNTING STANDARDS (SAS)

01.

KEY INFORMATION

The Company generated net profit of €7,231,232, in 2017, which is above the plan and also more than the net profit achieved in the previous year.

02.

BASIS FOR PREPARATION

The financial statements have been prepared in accordance with provisions of Slovene Accounting Standards (SAS 2016), the Energy Act (EZ-1, Official Gazette of the RS no. 17/14) and the Companies Act (ZGD-1).

No adjustments to the financial statements were required following introduction of the new revised SAS 2016 as the revised standards have no impact of the Company's accounting practice.

While the SAS 2016 prescribe accounting policies to be applied by entities, they do allow entities to (in some cases) choose between several permitted accounting policies. In its Accounting Manual, the Company defined more precise rules for accounting treatment of individual categories of the financial statement items in its books of accounts and adopted the selected accounting policies.

The two fundamental accounting assumptions of accrual accounting and going concern were considered in the preparation of these financial statements. The fundamental accounting principles of prudence, substance over form and materiality, were also considered in the financial statement preparation.

The Company declares that the accounting policies and methods used are the same as those applied in the previous financial year.

Basis of measurement

The financial statements have been prepared on the historical cost basis, with the exception of available-for-sale financial assets, where the fair value has been taken into account.

Exchange rate and translation into the local currency

Assets and liabilities expressed in a foreign currency are translated into the functional currency at the reference exchange rate of the European Central Bank at the reporting date as published by the Bank of Slovenia. Transactions denominated in a foreign currency are translated into the functional currency at the reference exchange rate of the ECB on the transaction date. Foreign exchange rate gains and losses resulting from translation are recognised in the profit or loss as an item of financial income or expense.

All data in the annual report is denominated in euro (EUR) with no cents.

On 1 July, 2007, Elektro Primorska, d.d., lost its status of a public corporation and since then, it has been operating as a public limited company. By decision on granting concession, the Government of the Republic of Slovenia granted exclusive concession for the provision of public utility services of the distribution system operator for the entire territory of the Republic of Slovenia to the company SODO, d.o.o, with its seat in Maribor.

SODO concluded an agreement for the lease of the electricity distribution infrastructure and the provision of services of the distribution system operator with Elektro Primorska, as the owner of the electricity distribution infrastructure. 27. 2. A new contract for the lease of the electricity distribution infrastructure and the provision of services of the distribution system operator, was signed between Elektro Primorska d.d. and SODO, d.o.o. on 27 February 2012, and which has been in effect since 1 January 2011.

Based on the contract and annual annexes to the contract, Elektro Primorska:

- leases the infrastructure for rent,
- carries out and charges services described in the annex to the contract to SODO,
- issues invoices for the use of the network to the end-users of the distribution network on behalf of and for the account of SODO,
- charges network charges, installed power and over-standard services on behalf and for the account of SODO.

Legal Act on the methodology determining the regulatory framework and network charge for the electricity distribution system for electricity system operators was published in the Official Gazette of the Republic of Slovenia, no. 66/2015 on 14 September 2015, inclusive of Appendix 1: The parameters for determining the network charge for the regulatory period from 1 January 2016 to 31 December 2018. Pursuant to this Act, the Energy Agency on 15 December 2015, by decision no. 211-58/2015-125/452, laid down the regulatory framework for the distribution system operator's activity during the regulatory period from 1 January 2016 to 31 December 2018. The decision envisages the eligible costs, broken down by individual distribution network areas, which determine the framework of funds in an individual year of the regulatory period.

The new price list of over-standard services for SODO came into effect on 1 February 2016.

03.

NOTES TO THE BALANCE SHEET ITEMS

The Company's balance sheet is compiled in accordance with SAS (2016) 20.4.

3.1. Intangible assets

The items of intangible assets are recognised if: it is likely that economic benefits associated with the assets will flow to the Company and, their cost can be measured reliably.

The intangible assets of the Company comprise development studies and studies being developed. Long-term rights include the right to use holiday facilities and land; the right to use space in the facility for the purpose of the transformer station; and software licences. Other long-term deferred costs comprise the cost of pre-paid rentals.

Cost of an item of intangible asset is comprised of its purchase price or costs of manufacture.

After initial recognition the cost model is used. The items of intangible assets are amortised individually on a straight-line basis, using amortisation rates ranging from 3.33 to 33.3 percent, the same as in 2016. Amortisation of an item of intangible assets with final useful life begins when the asset is made ready for its use. Useful lives of significant items of intangible assets and long-term deferred costs are checked regularly at the end of each financial year.

Subsequent costs associated with an item of intangible assets increase its cost when they increase its future economic benefits in excess of the originally assessed.

The items of intangible assets are derecognised upon disposal or when no economic benefits are expected to flow to the Company from their continued use or subsequent disposal.

The value of intangible long-term assets increased by €3,055,220 of investments made in 2017 (2016: €862,750) in the acquisition and activation of long-term rights primarily relating to software licences, i.e. the new ERP system introduced in the Company to the value of €2,439,162.

Due to complaints in the process of obtaining a building permit, since 2004 the Company has recognised amortisation of studies in progress as the value of invested assets in the planned construction of wind power plants.

Development studies are carried at cost and are written-off against the cost of studies rather than as amortisation at the rate of 20% per annum (the same as in the previous year), depending on the useful life of these assets, which is five years. Individual book values of intangible assets are not relevant to the financial statements as a whole.

The Company has unlimited rights to its intangible assets.

The Company discloses €1,360,207 of trade payables on account intangible assets' acquisition as at 31 December 2017, and also unrecorded liabilities based on contracts agreed for the purchase of licenses amounting to €23,817.

Movements in intangible assets in 2017 are presented in the following table:

2017	Deferred costs of development studies	Long-term rights	Other long-term deferred costs	Intangible assets being acquired	Total
Cost					**in EUR**
At 1 Jan	645.721	4.316.097	112.084	1.761.073	6.834.976
Additions in the year	0	0	84.774	2.450.485	2.535.259
Additions from ongoing investments	0	3.055.220	0	-3.055.220	0
Disposals in the year	0	-439.659	-106.817	0	-546.476
At 31 Dec	645.721	6.931.659	90.041	1.156.338	8.823.759
Accumulated amortisation					
At 1 Jan	645.721	2.790.613	0	1.105.017	4.541.351
Amortisation in the year	0	929.081	0	0	929.081
Disposals in the year	0	-439.659	0	0	-439.659
At 31 Dec	645.721	3.280.035	0	1.105.017	5.030.773
Carrying amount					
At 1 Jan	0	1.525.484	112.084	656.056	2.293.624
At 31 Dec	**0**	**3.651.623**	**90.041**	**51.321**	**3.792.985**

Table 36: Movements in intangible assets in 2017

Movements in intangible assets in 2016 are presented in the following table:

2016	Deferred costs of development studies	Long-term rights	Other long-term deferred costs	Intangible assets being acquired	Total
Cost					**in EUR**
At 1 Jan	645.721	3.573.933	218.901	1.105.017	5.543.572
Additions in the year	0	0	0	1.518.807	1.518.807
Additions from ongoing investments	0	862.750	0	-862.750	0
Disposals in the year	0	-120.586	-106.817	0	-227.403
At 31 Dec	645.721	4.316.097	112.084	1.761.073	6.834.976
Accumulated amortisation					
At 1 Jan	645.721	2.108.044	0	1.105.017	3.858.782
Amortisation in the year	0	803.155	0	0	803.155
Disposals in the year	0	-120.586	0	0	-120.586
At 31 Dec	645.721	2.790.613	0	1.105.017	4.541.351
Carrying amount					
At 1 Jan	0	1.465.889	218.901	0	1.684.790
At 31 Dec	**0**	**1.525.484**	**112.084**	**656.056**	**2.293.624**

Table 37: Movements in intangible assets in 2016

3.2. Property, plant and equipment

Property, plant and equipment of the Company include land, buildings and equipment, as well as P,P&E under construction or manufacture. They are reported in the balance sheet at carrying amount as the difference between their cost and written-down value. The Company recognises property, plant and equipment under the cost model.

Cost of an item of property, plant and equipment comprises its purchase price and all costs that are directly attributed to making the asset ready for its intended use.

Subsequent expenditure on an item of property, plant and equipment that increases its future benefits compared with those originally assessed, increases its cost. However, if subsequent cost increases useful life of the asset, the cost of an item of property, plant and equipment is increased and its useful life is extended.

Expenditure on repairs or maintenance of property, plant and equipment is made to restore or maintain future economic benefits expected on the basis of the originally assessed standard of performance of the assets. These expenditures are recognised as costs or operating expenses.

After initial recognition, property, plant and equipment are measured at cost, which provides the basis for the assets' depreciation. Depreciation of the items of property, plant and equipment begins in the month following the month when the assets are made available for their intended use. Property, plant and equipment are depreciated individually on a straight-line basis, using the following depreciation rates, which have not changed compared to those used in the previous year:

	2017	2016
Computer hardware	33,3	33,3
Real estate (land and buildings)	0,00–5,00	0,00–5,00
Transformers	2,86–3,33	2,86–3,33
Electronic counters	4,17–6,67	4,17–6,67
HGV vehicles	8,33	8,33
Cars	12,5	12,5
Other property, plant and equipment	2,50–20,00	2,50–20,00
Artwork	0,00	0,00

Table 38: Depreciation rates of property, plant and equipment

Cost of facilities built in-house is the cost price, which does not exceed the price of similar assets on the market. The cost price consists of the direct costs of material and services, direct labour costs, direct depreciation costs, general production costs and general costs of purchase, administration and selling expenses.

In accordance with SAS (2016) 1.11, the Company breaks down the cost of new acquisitions made in 2017 with different useful lives to components that are significant in relation to the total cost.

Accumulated depreciation of property, plant and equipment is recognised as an adjustment of their value.

The items of property, plant and equipment are revalued to account for their impairment when their carrying amount exceeds their recoverable amount. The recoverable amount is the greater of the net selling price or value in use. Assessment of the value in use encompasses assessment of receipts and expenditure arising from continuing use of the asset and its final disposal, using the relevant discount rate (before tax) that reflects the present market assessment of the time value of money and any potential risks associated with the asset. For assets whose future cash flows depend also on other assets encompassed in individual cash-generating unit, the value in use is assessed in consideration of future cash flows expected from the relevant cash-generating unit. Any impairment losses on an asset are recognised in operating expenses.

Movements in the items of property, plant and equipment in 2017 are presented in the following table:

in EUR

2017	Land	Buildings	Equipment	Fixed assets in acquisition and advances	Total
Cost					
At 1 Jan	5.859.522	381.687.266	149.450.724	2.885.989	539.883.501
Additions in the year	1.680	271.165	169.912	13.851.470	14.294.227
Additions from ongoing investments	34.748	6.878.273	6.506.042	-13.419.063	0
Disposals in the year	-192.274	-4.163.495	-4.250.887	0	-8.606.657
At 31 Dec	5.703.676	384.673.210	151.875.791	3.318.396	545.571.072
Accumulated depreciation					
At 1 Jan	0	261.475.921	101.142.670	829.032	363.447.623
Depreciation in the year	0	5.703.704	4.807.907	0	10.511.611
Disposals in the year	0	-3.733.133	-3.587.158	0	-7.320.291
Additions in the year	0	0	79.121	0	79.121
At 31 Dec	0	263.446.492	102.442.540	829.032	366.718.065
Carrying amount					
At 1 Jan	5.859.522	120.211.345	48.308.055	2.056.957	176.435.879
At 31 Dec	**5.703.676**	**121.226.717**	**49.433.251**	**2.489.364**	**178.853.007**

Table 39: Movements in property, plant and equipment in 2017

Net carrying amount of the items of property, plant and equipment increased by €2,417,129 in 2017 compared to the previous year. (In 2016, the increase amounted to €3,974,269). Movements in property, plant and equipment relate to new acquisitions amounting to €14,294,227 (2016: €14,591,190), depreciation in the amount of €10,511,611 (2016: €10,489,905) and disposals in the carrying amount of €1,286,366 (2016: €127,016).

Value adjustment of fixed assets being acquired of €829,032 refers to invested assets in relation to the planned investment in the construction of wind power plants, which is currently in the process of resolving complaints. Adjustments have been recognised since 2004.

The Company has no fixed assets obtained under financial lease.

The Company reports €2,070,823 of payables to suppliers of property, plant and equipment as at 31 December 2017.

Since 1 July 2007, SODO has been providing commercial public service in the area of Elektro Primorska. In accordance with the agreement between the two, Elektro Primorska has leased to SODO all the relevant infrastructure. The electricity distribution infrastructure granted under operating lease to SODO in accordance with the contract, is reported as an item of property, plant and equipment rather than investment property. The Company believes that such accounting treatment is more appropriate as the essence of the relationship is the ownership use of the assets. Moreover, the assets are not held by the Company to earn rentals or other returns.

As at 31 December 2017, the cost of the leased infrastructure amounted to €480,835,502, depreciation stands at €325,445,296 and the carrying amounts to €155,390,206.

in EUR

	2017	2016
Land	3.515.488	3.416.929
Infrastructure facilities	106.483.662	105.016.689
Infrastructure equipment	44.714.142	43.443.168
Long-term rights	676.914	1.407.532
	155.390.206	**153.284.318**

Table 40: Carrying amount of leased infrastructure

The Company invested €13,851,470 in property, plant and equipment in 2017, which is slightly less than planned. For this reason the Company raised two long-term borrowings of total €9,000,000. Detailed information on the acquisition is presented in the report of the distribution system operator in section 8.2.

Movements in property, plant and equipment in 2016:

in EUR

2016	Land	Buildings	Equipment	P,P&E being acquired and advances	Total
Cost					
At 1 Jan	5.825.472	377.225.646	147.701.622	2.150.377	532.903.117
Additions in the year	813	505.183	6.366	14.078.828	14.591.190
Additions from ongoing investments	36.358	7.595.158	5.708.045	-13.339.560	0
Disposals in the year	-3.121	-3.638.720	-3.965.308	-3.656	-7.610.806
At 31 Dec	5.859.522	381.687.266	149.450.724	2.885.989	539.883.501
Accumulated depreciation					
At 1 Jan	0	259.296.181	100.316.295	829.032	360.441.508
Depreciation in the year	0	5.711.988	4.777.917	0	10.489.905
Disposals in the year	0	-3.532.248	-3.951.542	0	-7.483.790
At 31 Dec	0	261.475.921	101.142.670	829.032	363.447.623
Carrying amount					
At 1 Jan	5.825.472	117.929.465	47.385.327	1.321.345	172.461.609
At 31 Dec	**5.859.522**	**120.211.345**	**48.308.054**	**2.056.957**	**176.435.878**

Table 41: Movements in property, plant and equipment in 2016

3.3. Investment property

Investment property is property (land or buildings), which is held to earn rentals and/or increase its value. On initial recognition, investment property is valued at cost, consisting of purchase price and the costs that can be directly attributable to the acquisition. Subsequent to initial recognition, it is measured under the cost model the same as the items of property, plant and equipment.

Depreciation is recognised on a straight-line basis over the estimated useful lives of the investment property. The depreciation rates used range from 2% to 5%, the same as in 2016.

The cost of depreciation, maintenance and operation of investment property amounted to €55,323 in 2017 (2016: €56,246), of which depreciation of all investment property amounted to €8,877.

The Company generated revenue from lease of the investment property in the amount of €107,704 (2016: €100,055).

Fair value of investment property is equal to its carrying amount. Fair value of investment property is estimated by the Company based on the capitalisation of the standardised cash flow method, whereby cash flows consist mainly of received rentals arising from the lease of investment property. The assumptions used are 0.05 percent growth (the same as in 2016) and the required rate of return of 7.18 percent (the same as in 2016).

in EUR

	Investment property - buildings	P, P&E being acquired and advances	Total
Cost			
At 1 Jan 2017	836.606	0	836.606
Additions during the year	0	22.691	22.691
Additions from ongoing investments	22.691	-22.691	0
At 31 Dec 2017	859.297	0	859.297
Accumulated depreciation			
At 1 Jan 2017	648.445	0	648.445
Depreciation of the year	8.877		8.877
Disposals during the year	0		0
At 31 Dec 2017	657.322	0	657.322
Carrying amount			
At 1 Jan 2017	188.161	0	188.161
At 31 Dec 2017	**201.975**	**0**	**201.975**

Table 42: Fair value of investment property

3.4. Long-term investments

Investments of all categories are initially recognised at fair value. The Company discloses separately long-term and short-term investments.

Long-term investments are those that the investing company intends to hold for a period of more than one year. Long-term investments comprise investments in equity of subsidiaries, in shares and stakes of companies, other financial investments and long-term loans granted.

Short-term investments are held by the company for a period of up to one year and include investments in shares and stakes of companies, other financial investments and short-term loans and deposits.

Investments are recognised on the transaction date. The same applies to the ordinary disposal of investments.

Long-term investments in equity of subsidiaries (with over 50% holding), which are included in the consolidated financial statements of the company and associated where the parent's holding ranges from 20% to 49.9%, are valued at cost. Participation in the profits of a subsidiary is recognised in profit or loss of the parent when a relevant decision is adopted on the appropriation of profits. If the investment in a subsidiary is impaired due to a loss incurred by a subsidiary, the impairment loss is measured as the difference between the investment's carrying amount and the present value of estimated future cash flows.

Long-term investments in equity of others that are not quoted in an active market and whose fair value cannot be determined reliably, are recognised at cost.

On initial recognition, investments in other shares and stakes of companies are designated as available-for-sale financial assets and recognised at fair value through equity.

Investments in loans and deposits are recognised at amortised cost. Initial values of the investments are equal to the amount of cash or other assets invested on the day of individual investment.
Subsequent to initial recognition, they are measured at amortised cost using the effective interest method, less any impairment losses.

The revaluation of investments due to impairment is recognised as soon as compelling reasons arise, but no later than at the end of the accounting period. Impairment is recognised based on objective evidence resulting from events occurring subsequent to initial recognition, such as data on audited carrying amounts of the assets. Objective reasons for investment impairment test arise when fair value of a financial asset on the balance sheet date falls 20 percent below its cost. Investment impairment test is carried out separately for each investment or group of investments.

Loss resulting from permanent impairment of a financial asset rather than a short-term decrease in its fair value is recognised as a financial expense. Impairment loss is the difference between the carrying amount of the investment and the present value of estimated future cash flows.

Change in fair value of available-for-sale financial assets is recognised directly in equity as a revaluation surplus.

In accordance with SAS (2016) 3, which deals with investments, they are classified as available-for-sale financial assets.

Investments consist of the following items:

in EUR

	31.12.2017	31.12.2016
Investments in shares of group companies		
E3, energetika, ekologija, ekonomija, d.o.o.	6.522.017	6.522.017
Total	**6.522.017**	**6.522.017**
Other shares and stakes:		
Informatika Maribor d.d.	240.755	240.755
Banka Koper d. d.	0	0
Zavarovalnica Triglav d.d.	68.435	54.938
Primorski tehnološki park d.o.o.	1.808	1.808
Eldom Ljubljana d.o.o.	0	0
Stelkom d.o.o. Ljubljana	57.837	57.837
VIRS	38.580	29.580
	407.415	384.918
Impairment of investment in Eldom d.o.o.	0	0
Impairment of investment in Informatika d.d.	-78.470	-78.470
Impairment of investment in Stelkom d.o.o.	-6.209	-6.209
	-84.679	-84.679
Total	**322.736**	**300.239**
Total long-term investments	**6.844.753**	**6.822.256**

Table 43: Long-term investments

As at 31 December 2017 subsidiary E3 had €14,188,892 of total capital and generated €106,190 of net profit.

Movements in investments — in EUR

	Investments in shares of group companies	Other shares and stakes	Total
At 1 Jan	6.522.017	300.239	6.822.256
Additions	0		22.498
Disposals	0	0	0
At 31 Dec	**6.522.017**	**322.736**	**6.844.753**

Table 44: Movements in investments

The Company holds an 11.88% of shares of Informatika, d. d., Maribor. The Company adjusted its financial investment in Zavarovalnica Triglav, d.d., to the higher market value by increasing it by €13,498. Revaluation is recognised in other comprehensive income within equity items.

3.5. Long-term operating receivables

		in EUR
	31.12.2017	31.12.2016
Receivables due from the operators of apartment buildings	30.069	27.422
Total	**30.069**	**23.094**

Table 45: Long-term operating receivables

Long-term operating receivables are assets used in the maintenance of facilities, which are according to the Housing Act grouped per operators of apartment buildings.

Receivables of all categories are initially recognised at amounts arising from the relevant documents under the assumption that the amounts owed will be settled.

3.6. Deferred tax assets

Deferred tax assets are the amounts of income tax that will be repaid in the future with respect to deductible temporary differences, the transfer of unused tax losses to the next periods, and the transfer of unused tax credits into subsequent periods.

Deferred tax assets for deductible temporary differences are recognised if it is probable that sufficient amount of taxable profit will be available in future against which deductible temporary differences can be utilised.

Deferred tax assets for all deductible temporary differences arising from investments in subsidiaries, affiliates and associates, as well as from interests in joint ventures are recognised if and only if it is probable that temporary differences will be eliminated in the foreseeable future and taxable profits will be available in the future against which temporary differences can be utilised.

Deferred tax assets for unused tax losses and tax credits are recognised if it is probable that future taxable profits will be available, against which these unused tax losses and unused tax credits can be utilised.

An entity reassesses on each reporting date previously unrecognised deferred tax assets and recognises deferred tax assets if it is probable that future taxable profit will be available against which deferred tax assets can be utilised. An enterprise reduces the carrying amount of deferred tax assets if it is no longer probable that sufficient taxable profit will be available in future against which a part or all of such deferred tax assets can be utilised. Any such reduction is reversed if it becomes probable that sufficient taxable profit will be available.

Deferred tax assets and liabilities are offset if and only if the entity has a legal right to offset current tax receivables and assessed tax liabilities, and deferred tax assets and liabilities relate to corporate income tax payable to the same tax authority.

The Company reports €557,490 of deferred tax assets. The tax rate applied in deferred tax recognition was 19 percent. The Company recognised deferred taxes in its financial statements for the first time in 2017. Assessment of the maturity of receivables for deferred taxes changed, as there is no longer any ambiguity regarding the future status of the Company (based on the decisions of the Ministry of Infrastructure and Slovenian Sovereign Holding d.d.),

which provides an assurance that taxable profits will be available in the foreseeable future.

Effects of differences between the accounting value of items disclosed in the balance sheet and their tax value are calculated in accordance with the balance sheet liability method for all temporary differences. Deferred tax assets are the amounts of tax recognised on account of provisions and allowances for receivables that will be utilised in future periods based on deductible temporary differences, and on account of unused tax losses based on amendments to the Corporate Income Tax Act.

Based on the adopted decisions on the operation of distribution companies in Slovenia and their objectives which the Company is required to achieve in the coming years, the Company's management believes that in the future the Company will have available sufficient taxable profits against which deferred tax assets can be utilised.

Movements in deferred tax assets in 2017

Deferred tax assets				in EUR
	on account of provisions	on account of deferred receivables	on account of investment impairment	Total
At 1 Jan 2017	0	0	0	0
Increase	342.587	199.994	14.909	557.490
Decrease	**0**	**0**	**0**	**0**
At 31 Dec 2017	**342.587**	**199.994**	**14.909**	**557.490**

Table 46: Movements in deferred tax assets

3.7. Inventories

Inventories consist of material, small tools in the warehouse, unfinished services and merchandise.

Inventories also include small tools with useful life of up to one year and those with values of up to EUR 500, whose life period exceeds more than one year. These are means of protection and small tools in stock, which are recognised in the off-balance sheet records once they are issued in use.

Inventories are initially measured at cost, comprising the purchase price and direct costs of acquisition. Purchase price is reduced by obtained discounts.

At the end of the financial year the Company verifies whether inventories should be revalued to account for their impairment. Inventories are revalued due to impairment if their book value exceeds the net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, decreased by the estimated costs of completion and the estimated costs related to the sale.

Declining values of inventories are calculated based on the moving average prices method.

		in EUR
	31.12.2017	31.12.2016
Material	881.484	683.589
Small tools	18.421	27.593
Unfinished services	0	48.031
Merchandise	1.101	2.304
Total	**901.006**	**761.517**

Table 47: Inventories

Largest share of inventories comprise materials intended for the maintenance and construction of electric power facilities and devices. Compared to the previous year, the inventories have increased by 18.32%. This is due to the accelerated purchase of inventories of material for investments made in December 2017. As from the beginning of 2018, the Company implemented the new ERP program, which was expected to somewhat disrupt the procurement process.

Based on a comparison of the value of inventories with the latest known purchase prices, the Company recognised inventory impairment of total €1,340. In the year under review, inventories valued at €81,823 had no movements, which accounts for 9.1% of inventories that are necessary for maintenance of energy facilities and as such were not impaired.

Due to their obsolescence, inventories worth €11,479 were written off.

3.8. Short-term investments

Investments are financial assets held by the company in order to increase its financial revenue. These are investments in financial debts of other companies.

Accounting policies are described in detail in Notes to long-term investments.

Short-term deposit of €1,343 placed with a bank is a dedicated deposit for the reconstruction of the offices as a part of the post-earthquake reconstruction works in Bovec. Cost of reconstruction in excess of the amount of the deposit is co-financed by the Government of the Republic of Slovenia.

Short-term investments		in EUR
	2017	2016
At 1 Jan	1.343	4.480
Repayments	0	-3.137
At 31 Dec	**1.343**	**1.343**

Table 48: Short-term investments

3.9. Short-term operating receivables

A receivable is recognised in the accounting records and the balance sheet as an asset if it is probable that economic benefits associated with it will flow to the entity and if its original value can be determined reliably. Receivables of all categories are initially recognised with the amounts arising from the relevant documents under the assumption that they will be paid. Subsequent increases or decreases in receivables increase or reduce operating or financial revenues or expenses. Subsequent increases or decreases in receivables are primarily changes in the value of receivables due to subsequent discounts, returns of goods sold, recognised complaints or errors found afterwards.

On initial recognition, receivables are measured at amortised cost. Amortised cost of a receivable is the amount at which the receivable is measured at initial recognition less amortisation and impairment due to uncollectibility. Trade receivables falling due in the next twelve months, are disclosed in the balance sheet as short-term trade receivables and those maturing in over twelve months as long-term trade receivables.

Receivables denominated in foreign currencies are translated at the balance sheet date into the local currency at the exchange rate of the European Central Bank on the balance sheet date. Increase in receivables increases financial revenue, while decrease increases financial expenses.

Interest on receivables from external customers is recorded as receivables, for which due to doubt regarding their recovery, allowances are recognised at the same time. Interest income is recognised on the settlement date.

Operating receivables are revalued to account for their impairment when objective reasons occur or at the end of the accounting period. Impairment is recognised on the basis of objective evidence resulting from events occurring subsequent to initial recognition, such as operating data and similar evidence.
Doubtful and disputed receivables include:

- outstanding receivables originating from before year 2017,
- disputed receivables and
- receivables due from business partners undergoing insolvency proceedings and compulsory settlements.

In 2017, the Company also charged €5,080 of ineligible feed of the electricity (2016: €8,854), of which 59% of these receivables was recovered.

		in EUR
	31.12.2017	31.12.2016
Short-term receivables due from sales:		
- group companies	35.029	79.436
- on domestic market	7.487.434	7.186.839
Allowances	**-505.013**	**-547.501**
	7.017.450	**6.718.774**
Interest receivable:		
- from group companies	0	0
- buyers	63.813	65.629
Allowances	**-56.191**	**-57.151**
	7.622	**8.478**
Advances:	**343.080**	**6.674**
Other operating receivables:		
- from group companies	0	0
- from State and other institutions	339.405	167.673
- from employees	95	0
- from others	29.074	32.950
Allowances	**-353**	**-676**
	368.222	**199.948**
Total	**7.736.374**	**6.933.874**

Table 49: Short-term operating receivables

Maturity structure of receivables:

Maturity of receivables:		in EUR
	31.12.2017	31.12.2016
Not past due	6.615.302	6.213.045
Due and outstanding up to 30 days	317.928	429.560
Due and outstanding from 31 to 60 days	73.764	61.252
Due and outstanding from 61 to 90 days	5.412	4.403
Due and outstanding from 91 to 365 days	11.972	18.992
Overdue for more than 365 days	694	
Total	**7.025.072**	**6.727.252**

Table 50: Maturity structure of receivables

As at 31 December 2017, maturity structure of receivables is as follows:

- 94% of outstanding receivables not matured,
- 4.5% of receivables overdue up to 30 days,
- 1% of receivables overdue from 31 to 60 days and
- 0.26% of receivables overdue over 60 days in the amount of €544,252; allowances were recognised for 97% of these receivables amounting to €526,175 as their maturity is more than 365 days or they are disputed or debtors are undergoing insolvency proceedings and compulsory settlements.

Allowances for short-term operating receivables		in EUR
	31.12.2017	31.12.2016
At 1 Jan	605.329	647.488
Written-off receivables later collected	-22.294	-30.823
Final write-off of receivables	-56.050	-66.314
Allowances made in the year	34.571	54.977
At 31 Dec	**561.556**	**605.328**

					in EUR
			Utilisation and reversal		
	At 31 Dec 2016	Formation	Receivables written-off	Receivables recovered	At 31 Dec 2017
Trade receivable allowances	547.501	30.428	51.087	21.829	505.013
Allowances for interest receivables	57.465	3.828	4.576	213	56.504
Allowances for other short-term receivables	362	316	386	252	39
Total receivable allowances	**605.328**	**34.571**	**56.050**	**22.294**	**561.556**

Table 51: Allowances of short-term operating receivables

Doubtful and disputed receivables were impaired according to the individual receivable and business partner. In 2017, the Company recognised 0.45% of receivable allowances. Of total allowances recognised, 3.7% of receivables was recovered and 9.2% was written-off. Receivables are not insured, but most of them are of such a nature that in the event of default, after repeated reminders, we sanction debtors through termination of access to the distribution network.

Majority of operating receivables from the State and other institutions comprise receivables VAT receivables amounting to €310,081. Other operating receivables are mainly due from SODO for overpayment of network charge, receivables on behalf of SODO for the connection power network charge, services provided to SODO and other receivables.

3.10. Cash and cash equivalents

		in EUR
	31.12.2017	31.12.2016
Cash at bank	4.964.407	1.838.689
Total	**4.964.407**	**1.838.689**

Table 52: Cash and cash equivalents

Cash and cash equivalents comprise:

- Cash in hand,
- Deposit money on accounts at banks,
- Cash in transit,
- Cash equivalents are readily available investments which may in the near future be converted into a predetermined amount of cash without any significant risk (e.g. deposits with maturity of up to three months).

Cash comprises cash on hand in the form of bank notes and coins, as well as cheques received.

Deposit money is cash in bank accounts, or deposited with another type of financial institution and may be used for payment purposes.

Cash in transit is the cash being transferred from a cash register or a safe deposit box to a relevant account in a bank or another type of financial institution, and is not credited to that account on that same day.

On initial recognition, cash is carried at amounts arising from the relevant documents. Monetary assets denominated in foreign currencies are translated into local currency at the balance sheet at the reference rate of the European Central Bank. Exchange rate differences resulting from changes in foreign exchange rates are recognised either as a financial income or expense.

3.11. Short-term deferred costs and accrued income

in EUR

	31.12.2017	31.12.2016
VAT in advances received	162.625	145.403
Short-term deferred costs and expenses	1.014.110	1.034.168
Accrued income	2.029.400	1.555.496
Vouchers	787	800
Total	**3.206.923**	**2.735.867**

Table 53: Short-term accrued costs and deferred income

Short-term accruals and prepaid expenditure, comprise VAT included in advances received and overpayments, and deferred costs of invoices received in 2017 for expenses referring to the financial year 2018.

Short-term accrued revenues relate to the short-term part of the preliminary statement of account issued by SODO for rent and services rendered in 2017 in the amount of €1,592,023 (2016: €1,363,206), while €106,800 refers to the statement of account relating to the previous regulatory period. In addition, €181,251 relates to grants for the purchase and installation of smart electronic electricity meters from cohesion; electronic meters were already activated in 2017, while cohesion funds will be transferred in 2018. No comparative item was recognised in 2016.

Planned formation and drawing of accruals and prepaid expenditure does not substantially deviate from the actual situation, except in the preliminary calculation of SODO, which is charged after the end of the business year based on the applicable calculation methodology.

in EUR

	VAT in advances received	Short-term deferred costs	Short-term accrued revenue	Vouchers	Total
At 1 Jan 2016	11.478	13.404	118.959	475	144.316
Increases	869	1.040.548	1.377.356	5.500	2.424.273
Decreases	-11.662	-1.036.093	-118.959	-5.176	-1.171.890
At 31 Dec 2016	684	17.860	1.377.356	800	1.396.699
Increases	40.779	1.068.414	1.941.786	5.000	3.055.979
Decreases	-41.085	-1.063.440	-1.377.356	-5.013	-2.486.893
At 31 Dec 2017	**378**	**22.834**	**1.941.786**	**787**	**1.965.785**

Table 54: Movements in short-term accruals and prepaid expenditure

3.12. Equity

Capital of the company consists of:

- Share capital,
- Capital surplus,
- Legal reserves,
- Reserves for treasury shares and interests
- Treasury shares and interests (as a deductible item)
- Other profit reserves,
- Fair value reserve
- Retained earnings and
- Net profit for the financial year.

in EUR

	31.12.2017	31.12.2016
Share capital	78.562.832	78.562.832
Capital surplus	46.208.187	46.208.187
Legal reserves	651.328	651.328
Reserves for treasury shares and stakes	78.609	78.609
Treasury shares and interests	-79.540	-78.609
Other profit reserves	22.603.627	17.782.844
Fair value reserve	-2.982	-118.256
Retained earnings	107.062	-9.073
Net profit for the year	2.410.391	2.194.211
Total	**150.539.515**	**145.272.073**

Table 55: Equity

The share capital of Elektro Primorska is divided into 18,826,797 ordinary registered no-par value shares. Each share has an equal holding and associated amount in the share capital. Ordinary shares are shares that give their holders:

- right to participate in management of the company,
- right to profit (dividends),
- right to an adequate share of the assets after the liquidation or bankruptcy of the company.

All shares are of one class.

3.13. Treasury shares

If the parent company or its subsidiaries acquire ownership interest in the parent company, the amount paid, including transaction costs net of tax, are deducted from total equity as own shares until such shares are withdrawn, reissued or sold. If treasury shares are subsequently disposed of or re-issued, all payments received are included in equity net of transaction costs and related tax effects.

As at 31 December 2017, the Company had 42,499 treasury shares, accounting for 0.22% of the share capital.

At the 21st General Meeting of Shareholders held on 26 August 2016, the Management Board was granted authorisation for the purchase of treasury shares.

Repurchase of treasury shares in 2017:

in EUR

	Number of shares	Weighted average share price	Value of treasury shares
At 31 Dec 2016	42.149	1,87	78.609
Purchased in 2017	350	2,66	931
At 31 Dec 2017	**42.499**	**1,87**	**79.540**

Table 56: Treasury shares

Average share price includes also purchase fee.

As at 31 December 2017, reserves for treasury shares amounted to €79,540; new treasury share reserves were recognised on account of treasury share repurchased.

Other capital components

Capital surplus derives from a general capital revaluation adjustment that was transformed into capital surplus on transition to the SAS 2006.

Fair value reserves arose on the revaluation of investments to fair value.

Retained earnings are a proportionate part of the reversal of actuarial losses on payment of severance to employees.

All equity components other than the share capital belong to shareholders in proportion to their equity stakes in share capital.

In 2017, the Company generated profit of €7,231,232. Of that, €931 was allocated to treasury reserves. In accordance with the competencies stipulated in the Companies Act and in accordance with the Articles of Association, the Management Board allocated two thirds of the remainder of the net profit of 2017 in the amount of €4,388,421 to profit reserves. The profit available for distribution in 2017 amounting to €2,549,021 consists of undistributed net profit generated in 2017 and retained earnings of €107,062. According to the resolution of the General Meeting of Shareholders of 5 July 2017, the Company allocated €2,066,311 of distributable profit for 2017 to dividends.

The carrying amount of one share stands at €8.01 as at 31 December 2017 (2016: €7.73). Treasury shares are not included in the calculation.

Statement of changes in equity is a presentation of movements in equity in financial years 2016 and 2017.

3.14. Provisions and long-term accrued costs and deferred income

Provisions are made for present obligations arising from obligating past events and are expected to be settled within a period not determined with certainty, and whose amount can be reliably estimated.

Provisions for jubilee awards and severance pay upon retirement have the nature of accrued costs. They are set aside for the settlement of expected obligations that will arise from obligating past events. They are reduced by the incurrence of actual costs for the settlement of which they were created.

Provisions for severance pay and jubilee awards are set aside in accordance with the Slovenian legislation and are paid to employees upon retirement in the amount of estimated future payments discounted at the balance sheet date. When an employee fulfils the requirements set for retirement, he/she is entitled to termination benefits paid in a lump sum. Furthermore, employees are also entitled to jubilee awards for each full ten years of service with the same employer. Provisions for termination benefits and jubilee awards are set aside using the projected unit credit method i.e. the method based on anticipated significance of individual units or the method of accounting for employee benefits in line with the work performed. The following assumptions are considered in the formation of provisions are: the number of employees on the balance sheet date; their gender, age, status, salary level and total length of service and the length of service of each employee on the balance sheet date; the amount of jubilee awards and severance pay in accordance with the relevant collective agreement; staff fluctuation and mortality of employees. The following values were taken into account in 2017: SLO2007; selection factor for the active population 75%; European Social Statistics - Accidents at work and work-related health problems 1994-2000 (2016: modified Slovenian mortality tables 2000-2002), 2.5 percent growth in the average wage in the Republic of Slovenia (2016: 0.5 percent), an annual percentage of wage growth in the Company of 2% (2016: 0.5%), an annual percentage of wage growth in the electricity sector of 2.5%, the employer's contribution rate of 16.1%, and 1.3 percent discount rate for calculating the present value of the Company's future liabilities.

Actuarial gains or losses on termination benefits are recognised directly in equity, whereas actuarial gains or losses from jubilee awards and employee benefit costs are recognised in the profit or loss.

Provisions are directly decreased by costs for the settlement of which they were originally created. Provisions are recognised based on the differences reported as at 31 December based on actuarial calculation.

3.14.1. Provisions

in EUR

	31.12.2017	31.12.2016
At 1 Jan	3.512.691	3.303.414
Formation	496.253	487.920
Utilisation	-326.036	-270.913
Reversal	-82.775	-7.730
At 31 Dec	**3.600.132**	**3.512.691**

Table 57: Provisions

in EUR

	Provisions for jubilee awards	Provisions for severance pay	Total
0.5% decrease in discount rate	55.192	81.575	136.767
0.5% increase in discount rate	-53.400	-78.586	-131.985
0.5% salary increase	55.718	82.555	138.273
0.5% salary decrease	-52.679	-77.385	-130.064

Table 58: Sensitivity analysis

Additional provisions of €496,253 (2016: €487,920) were set aside on account of: payroll costs (€416,587) (2016: €417,383) and interest expense of €79,666 (2016: €99,102). €76,728 of provisions was reversed as an actuarial gain on the revaluation of equity (2016: €28,566).

	Severance pay	Jubilee awards	Total post-employment benefits
At 1 Jan 2016	**2.121.520**	**1.181.894**	**3.303.414**
Current employee benefits	101.537	102.780	204.316
Interest expense	63.646	35.457	99.102
Post-employment benefits paid	-89.532	-181.381	-270.913
Actuarial surplus	-28.566	213.067	184.501
Reversal	-2.292	-5.438	-7.730
At 31 Dec 2016	**2.166.312**	**1.346.379**	**3.512.691**
Current employee benefits	88.508	92.165	180.673
Interest expense	50.426	29.241	79.666
Post-employment benefits paid	-149.278	-176.759	-326.036
Actuarial surplus	-76.728	235.914	159.186
Reversal	-6.047	0	-6.047
At 31 Dec 2017	**2.073.193**	**1.526.940**	**3.600.132**

Table 59: Movements in provisions for post-employment benefits

13.4.2. Long-term accrued costs and deferred revenue

in EUR

	Severance pay	Jubilee awards	Total post-employment benefits
At 1 Jan 2015	**2.036.921**	**1.247.809**	**3.284.729**
Current employee benefits	81.375	85.226	166.601
Interest expense	20.339	8.898	29.237
Post-employment benefits paid	-137.385	-164.425	-301.811
Actuarial surplus	120.270	4.388	124.658

	Assets acquired free-of-charge	Average cost of connection	Co-financing of facility construction	Grants received	Co-financing of meters from cohesion	Other	Total
At 1 Jan 2016	**7.570.650**	**2.214.257**	**162.123**	**169.425**	**0**	**8.104**	**10.124.560**
Formation	272.984	0	0	0	181.251	0	454.235
Reversal	0	0	0	-14.613	0	0	-14.613
Transfer to revenue	-275.364	-110.299	-9.206	-46.613	-1.186	0	-442.667
At 31 Dec 2017	**7.568.271**	**2.103.958**	**152.918**	**108.200**	**180.065**	**8.104**	**10.121.515**

Table 60: Long-term accrued costs and deferred revenue

In 2017, the Company recognised long-term accrued costs and deferred revenues on account of free-of-charge acquisition of energy facilities of legal and natural persons in the amount of €272,984 (2017: €512,363). Utilisation of fixed assets obtained free-of-charge (mainly free-of-charge household connections) and co-financing of construction of facilities and equipment in the amount of €285,755 (2016: €277,096) is equal to the annual depreciation of an individual asset or in a proportion of a co-financed item of fixed assets.

The average costs of connection comprise funds collected from the connection charge to the power grid, which are earmarked for financing of the electricity infrastructure. Deferrals are utilised at the level of 3.33%, which corresponds to an average depreciation rate of power facilities. In 2017, depreciation of these facilities amounted to €110,299, the same as in 2016.

Co-financing of the facility construction is based on dedicated funds for co-financing of the energy facility construction. These funds are drawn in accordance with the charged depreciation of the relevant facility.

In 2014, the Company received state grant in the amount of €30,491 for reconstruction of the facility in Bovec after the earthquake, and European funding for the SUNSEED project of total €191,553 (2016: €23,092). Renovation of the facility in Bovec is now completed as is the SUNSEED project. For completion of the two investments, long-term accruals decreased by €46,613 of depreciation in 2017, which was recognised in other operating revenue (2016: €42,529). The Company returned part of the SUNSEED project funds (€14,613) as after completion of all planned works, the amount of eligible costs was lower than the amount of funds received.

In 2017, the Company was granted European funds from cohesion to co-finance the purchase and installation of smart electricity meters for the period 2017 - 2022, in the proportion of 33% of the cost. Total amount of funds received (€181,251) accounts for 33% of the cost and installation costs of these meters.

Planned formation and drawing of long-term accrued costs does not substantially deviate from their actual formation and drawing.

3.15. Long-term liabilities

Long-term financial liabilities are long-term borrowings raised for investment activity.

Debts are classified into financial and operating debts, while depending on the maturity they are separate into long-term and short-term.

Liabilities are initially recognised in the amounts arising from the corresponding documents about their incurrence, under assumption that creditors demand their payment. Long-term liabilities are increased by accrued interest, for which an agreement with creditors exists, and decreased by repaid amounts and any other settlements in agreement with the creditor. They are also reduced by the amounts, which will have to be repaid in the next twelve months, as they are recognised under current liabilities. Accrued interest on long-term and short-term liabilities is recognised as financial expenses.

Long-term and short-term debts denominated in foreign currencies are translated into local currency at the exchange rate of the European Central Bank on the day of occurrence. Exchange rate differences accrued by the settlement date or the balance sheet date are recognised as either financial income or expense.

Subsequently to initial recognition, short-term liabilities may be directly increased or decreased by the amounts paid or any other settlements in agreement with creditors. Subsequent increases of short-term liabilities increase the relevant operating or financial expenses.

After initial recognition liabilities are usually measured at amortised cost using the effective interest rate to the extent that costs have a significant impact on the change in the effective interest rate. Debts for which the agreed or contractual interest rate does not significantly differ from the effective interest rate, are recognised on the balance sheet at their initial value less amortisation. Liabilities are written-off after the limitation period has expired whereas before that period has elapsed, they may only be written-off if so agreed in writing with the creditor.

Their book value is equal to their initial value, reduced by transfers to short-term liabilities. Interest on long-term liabilities is recorded as financial expenses or as increase in the cost of the underlying asset until it is made ready for its intended use.

	31.12.2017	31.12.2016
Long-term financial liabilities		
BKS Bank AG	3.000.000	4.800.000
SKB, d. d.	1.520.000	3.465.324
Bank Sparkasse, d. d.	3.500.000	5.000.000
Nova Ljubljanska banka, d. d.	0	333.333
Banka Koper d. d.	2.225.000	2.525.000
European investment bank	20.900.000	13.400.000
Total	**31.145.000**	**29.523.657**
Current amounts of long-term liabilities	-6.712.000	-7.278.657
Total	**24.433.000**	**22.245.000**
Total long-term liabilities	**24.433.000**	**22.245.000**

in EUR

Table 61: Long-term liabilities

Long-term financial liabilities are secured by bills and represent borrowings that fall due after 2018. The Ministry of Finance issues consent to the borrowings raised by the Company, after the most favourable bidder was approved and selected.

In the financial year under review, the Company raised borrowings of total €9,000,000.

Total amount of borrowings matures by the end of December 2027. The value of borrowings that fall due over a period of more than five years from the reporting date amounts to €21,045,000.

Interest rates agreed are one-month or three-month EURIBOR and a bank premium ranging from 1% to 1.686%. Two of the borrowings were agreed at a fixed rate of interest. Interest on borrowings is calculated and paid monthly or quarterly.

3.16. Short-term liabilities

Short-term liabilities are disclosed separately as short-term financial liabilities and short-term operating liabilities.

in EUR

	31.12.2017	31.12.2016
SHORT-TERM FINANCIAL LIABILITIES		
Current amount of long-term borrowings	6.712.000	7.278.657
Total short-term financial liabilities to banks	**6.712.000**	**7.278.657**
Dividends payable	5.226	5.226
Total short-term financial liabilities	**6.717.226**	**7.283.883**
SHORT-TERM OPERATING LIABILITIES		
Liabilities to group companies	26.693	27.235
Supplier payables	7.579.756	6.054.836
Payables for advances	12.179	14.091
Total short-term supplier payables	**7.618.628**	**6.096.161**
Payables to employees	1.553.719	1.236.569
Payables to the Sate and other institutions	96.718	154.431
Other liabilities	493.956	5.854
Total other short-term operating liabilities	**2.144.392**	**1.396.853**
Total short-term operating liabilities	9.763.021	7.493.015
TOTAL SHORT-TERM LIABILITIES	**16.480.246**	**14.776.897**

Table 62: Short-term liabilities

Short-term liabilities to banks include instalments of long-term borrowings that mature in 2018.

Operating liabilities increased by €1,703,349 compared to the previous year, mainly as a result of an increase in liabilities arising from assignment (€482,662) and payables to employees (€317,150). Payables to the State fell compared to the previous year by €57,655, due to a reduction in income tax payable.

Short-term liabilities to employees are liabilities for December wages and 2017 performance bonus amounting to €216,735 in accordance with collective agreement for the industry. Final amount of profit of the Company was recognised in the middle of March 2018, when SODO issued a preliminary account settlement for financial year 2017. The difference between the advance payment of bonus for financial year 2017 and the final amount was recognised in costs in December 2017.

Payables to the State consist of liabilities for the value added tax, liabilities for charged income tax and liabilities to the State and other institutions on account of payroll.

3.17. Short-term accrued costs and deferred revenue

		in EUR
	31.12.2017	31.12.2016
VAT in advances granted	2.394	942
Short-term deferred revenue	77.748	0
Accrued costs	594.586	767.300
Total	**674.728**	**768.242**

Table 63: Short-term accrued costs and deferred revenue

Short-term accrued costs and deferred revenues include VAT on advances granted.

Short-term deferred revenues refer to the settlement of the services provided by the parent company to its subsidiary E3 in 2017 amounting to €77,748.

The Company set aside €570,969 of provisions for employee benefit costs in respect of the unused annual leave for financial year 2017.

				in EUR
	VAT in advances granted	Short-term deferred revenue	Accrued costs	Total
At 1 Jan 2016	2.113	54.037	836.054	892.205
Increases	2.974	0	761.128	764.102
Decreases	-4.145	-54.037	-829.882	-888.064
At 31 Dec 2016	942	0	767.300	768.242
Increases	1.452	77.748	592.309	671.508
Decreases	0	0	-765.023	-765.023
At 31 Dec 2017	**2.394**	**77.748**	**594.586**	**674.728**

Table 64: Movements in provisions

Planned formation and drawing of long-term accrued costs does not substantially deviate from their actual formation and drawing.

04.

NOTES TO THE INCOME STATEMENT

The Company compiles its income statement under provisions of SAS (2016) 21.6, Format I.

Revenue is recognised if increases in economic benefits during the accounting period are associated with increases in assets or decreases in liabilities, and those increases can be measured reliably. Revenues and increases of assets or decreases in liabilities are recognised simultaneously.

The Company achieved revenues:

- from rent,
- sale of services,
- capitalised own products and services,
- other operating revenues,
- financial income and
- other revenues.

Use of electricity network is charged to business customers through a special account based on the quantity of transmitted energy and capacity charges. The Company charges the use of the energy network and OVE and SPTE contributions to its customers in its own name and for the account of SODO, within the framework of the services it provides for SODO.

Revenues from the sale of services include electrical installation services and maintenance of devices owned by subscribers. The scope of these revenues depends on customer orders. Revenues generated in 2017 are recognised based on the prices set for supplementary activities in February 2016. The Company also provides services for network users, which include network connections and disconnections, replacement of fuses and additional on-demand read-outs, which are no longer included in the revenue generated by the Company. Instead, as from 1 January 2013, these services are rendered on account of SODO who settles its liabilities on account of these services monthly.

Revenues include rentals from the lease of infrastructure and services provided to the SODO in accordance with the signed contract and annexes to the contract. The amount of rentals and services rendered is based on the regulatory framework defined by the Legal Act on the methodology determining the regulatory framework and network charge for electricity distribution system (Official Gazette of the Republic of Slovenia No. 66/2015 of 14 September 2015). The Legal Act contains Annex 1 - Parameters for setting network charges for the regulatory period from 1 January 2016 to 31 December 2018. Pursuant to this Act, the Energy Agency on 15 December 2015, by decision no. 211-58/2015-125/452, laid down the regulatory framework for the distribution system operator's activity during the regulatory period from 1 January 2016 to 31 December 2018. Annex to the contract was concluded with SODO for the period from 2016 to 2018.

Revenues from capitalised own products and services derive from the preparation of documentation, construction, electro-installation and other works for the construction of facilities by the Company for its own use.

Other operating revenues related to products and services include the drawing of long-term accrued costs and deferred revenue, as well as revaluation operating income arising on disposal of property, plant and equipment, and on recovery of impaired receivables, subsidies received and insurance proceeds.

Financial income and expenses comprise interest and dividend income.

4.1. Operating revenue

in EUR

	2017	2016
Net sales		
- electricity	0	0
- infrastructure rent	16.490.330	16.699.814
- other rent	370.625	348.154
- services SODO	19.863.167	19.378.447
- other services	2.322.454	1.830.602
- merchandise	39.786	42.552
Total	**39.086.362**	**38.299.568**
Change in the value of unfinished services	**-48.031**	**11.709**
Capitalised own products and services	**7.087.194**	**6.877.785**
Other operating revenue from:		
- utilisation of provisions	412.719	394.893
- sale of fixed assets	40.594	41.282
- recovered written-off receivables	23.535	30.945
- subsidies received	52.292	47.590
- insurance proceeds	304.271	176.655
- other operating revenues	21.932	84.330
Total	**855.343**	**775.694**
Total operating revenue	**46.980.868**	**45.964.756**

Table 65: Operating revenue

Net sales revenues increased by €786,794 compared to the previous year, mainly due to an increase in the preliminary settlement of account for SODO services (an increase of €335,617) and an increase in revenues from services rendered for the market (an increase of €491,852). Rentals from infrastructure lease decreased by €209,484. All revenues in 2017 were achieved from sales in the domestic market.

In 2017, capitalised own products and services rose by €209,409.

in EUR

Other operating revenue from utilisation of provisions:	2017	2016
Depreciation of fixed assets acquired free of charge	275.364	267.890
Depreciation of FA built from the average connection costs	110.299	110.299
Use of provisions for co-financing of energy facilities construction	9.206	9.206
Reversal of provisions for jubilee awards and termination benefits	0	7.498
Reversal of provisions for unpaid annual leave	17.850	0
Total	**412.719**	**394.893**

Table 66: Other operating revenues from provision utilisation

Revenues from sale of fixed assets relate to the surplus of sales value over the carrying amount of fixed assets sold.
Collected receivables written-off include an amount of receivables which were already eliminated from accounting records but were settled in 2017.

Subsidies received contain National Award for the employment of disabled workers above the required quota and revenues from the drawing of accruals of the SUNSEED project in the amount equal to the depreciation.

Insurance proceeds relate to claims recognised by insurance companies for damages to energy facilities and cars. They increased by €127,616 in 2017 compared to the previous year.

4.2. Operating expenses

Expenses are recognised when decreases in economic benefits in a period are associated with the reduction in assets or increase in liabilities and these decreases can be measured reliably. Expenses are recognised simultaneously with the recognition of the decrease in assets or increase in liabilities.

Operating expenses include all expenses incurred in the financial year, recorded by natural types, such as costs of materials and services, labour costs, write-downs and other operating expenses, based on documents that prove that they are linked to the economic benefits.

Operating expenses from revaluation arise upon the impairment or disposal of property, plant and equipment and intangible assets, and in relation to current assets due to their impairment.

Analysis of costs by functional group does not include €171.490 of revaluation expenses, which are reported in the income statement as write-offs.

Year	Production costs	Selling expenses	General and administrative expenses	Total
2016	29.254.145	1.175.981	7.145.271	37.575.397
2017	30.095.997	1.755.580	6.543.828	38.395.405

Table 67: Analysis of costs by functional groups

Costs by nature

in EUR

	2017	2016
Cost of goods, materials and services		
Cost of electricity and merchandise sold	17.560	20.711
Costs of materials	4.545.346	3.842.150
Costs of services	5.519.253	5.918.004
Employee benefit costs	16.967.250	16.351.319
Amortisation and depreciation	11.449.570	11.303.180
Other operating expenses	129.757	140.033
Total	38.628.735	37.575.397

Table 68: Costs by primary types

The cost of electricity and goods sold comprise €17,560 of the cost of merchandise sold (2016: €19,858). The did not Company recognise any cost of electricity purchased either in 2017 or 2016 as SODO purchased electricity for both years on account of losses for all electricity distribution companies in Slovenia.

Costs of materials of €3,629,169, relate to spare parts and maintenance materials and the cost of rehabilitation of damages, as well as costs of materials for installation during the provision of services for the Company's own needs and for the market (2016: €2,958,750); the costs of fuel consumed amounted to €408,269 (2016: €391,366); cost of electricity to €176,452 (2016: €166,349); cost of office supplies to €96,851 (2016: €87,395); cost of small tools to €148,370 (2016: €154,109), and cost of auxiliary material.

Costs of services include the cost of the maintenance of property, plant and equipment amounting to €1,667,723 (2016: €2,096,071); costs of health, counselling, legal and educational services and the costs of software and studies of total €535,010 (2016: €728,407); insurance premiums and costs of banking services amounting to €1,080,119 (2016 €967,733); computer processing costs of €813,599 (2016: €841,311); costs of telephone and postal services amounting to €330,438 (2016: €340,771); and other costs related to ordinary operations amounting to €1,092,714 (2016: €943,711).

Costs of services include remuneration paid to six members of the Supervisory Board of total €96,717 (2016: €122,241). This amount includes net payment, fringe benefits, income tax and contributions. The Company did not grant any loans or issued any guarantees to members of the Supervisory Board.

Remuneration of the Supervisory Board members in 2017:

2017										in EUR
		of that:							Social security contributions	
Supervisory Board member	Gross earnings in the accounting year	Remuneration for performing a function in the Supervisory Board	Bonus	Attendance fees Supervisory Board	Reimbursement travel expenses	Remuneration for performing a function in the Audit Committee	Attendance fees Audit Committee	Reimbursement travel expenses	Contributions for PIZ 8,85%	Contributions for injuries sustained at work 0,53%
Uroš Saksida	13.323	11.163		2.145	14				1.179	71
Nikolja Abrahamsberg	4.313	3.208		825	280				382	23
Stanislav Rijavec	5.313	4.307	181	825					470	28
Matjaž Bajec	9.844	7.442		2.145	256				871	52
Matej Loncner	719	408		275	36				64	4
Ivan Namar	9.695	7.550		2.145					750	45
Rudolf Pečovnik	5.261	2.848	181	825	696	204	275	232	424	25
Dean Kocjančič	15.018	7.442		2.145	677	3.531	836	387	1.329	80
Massimo Makovec	11.004	8.186		2.145	641	31			974	58
Darko Ličen	4.379	2.847	181	825		306	220		387	23
Jernej Kenda	4.521	3.421		1.100					400	24
Primož Krnel	13.328	10.358		2.970					1.180	71
Maja Curk	5.863					4.708	1.045	110	519	31
Aleš Jakin	5.478					4.708	770		485	29
SKUPAJ	**108.058**	**69.182**		**18.370**	**2.600**	**13.489**	**3.146**	**729**	**9.413**	**564**

Table 69: Remuneration of the Supervisory Board members

A total of €11,341 of remuneration was paid in 2017 to other members of the Audit Committee.

Cost of the audit, advisory and other financial services in the amount of €76,358 include €10,360 of the audit fee for the audit of the annual report.

Company	Ernst&Young	Ernst&Young
	2017	2016
Audit of the annual report	10.360	9.440
Other assurance services	1.000	1.650
Other non-auditing services	0	855
Total audit fees	**11.360**	**11.945**

Table 70: Cost of the annual report audit

in EUR

	2017	2016
Employee benefit costs		
Payroll cost	11.788.543	11.297.060
Supplementary pension insurance	623.688	601.899
Contributions and other levies on salaries	2.028.837	1.942.385
Other labour costs	2.526.182	2.509.975
Total	**16.967.250**	**16.351.319**

Table 71: Employee benefit costs

Other labour costs include reimbursement to employees, accident insurance, social assistance, and the cost of provisions for severance pay and jubilee awards in the amount of €416,587 (2016: €417,383). Costs of annual leave bonus amounted to €863.540 in 2017 (2016: €833,301). Labour costs include €570,696 of expenses for unused annual leave in the financial year 2017 (2016: €541,140).

According to the collective agreement, 481 employees received salary in 2017. Average number of employees in 2017 was 477, two employees more than was the average headcount in 2016. Ten employees received salary based on the employment contracts, which are not subject to the tariff part of the collective agreement (six in 2016), not including President of the Management Board who in 2017 received total remuneration of €658,809 (2016: €468,528).

Gross remuneration of members of the Management Board in 2017:

in EUR

	Fixed part of salary	Reimbursement of expenses	Bonus - insurance premium	Other revenue and other bonuses	Total
Uroš Blažica	90.991	1.654	208	6.472	99.325

Table 72: Gross remuneration of the Management Board members in 2017

President of the Management Board and employees on individual contracts were not approved any loans or issued any guarantees by the Company.

Write-downs

The Company applies straight-line depreciation method. During the overall useful life of an individual asset, the Company consistently allocates its depreciable amount among the individual accounting periods as depreciation of the period. All assets that are subject to depreciation are classified into depreciation groups. Each group has a technical depreciable fixed period of life, based on which the depreciation rate is calculated. Fixed assets are depreciated individually.

Table below provides an overview of depreciation rates in percentages used for the calculation of depreciation in 2017. The same depreciation rates were also applied in 2016.

	2017	2016
Intangible assets (excluding software)	3,33-20,00	3,33-20,00
Computer hardware and software	33,3	33,3
Real estate (land and buildings)	0,00-5,00	0,00-5,00
Transformers	2,86-3,33	2,86-3,33
Electronic counters	4,17-6,67	4,17-6,67
HGV vehicles	8,33	8,33
Cars	12,5	12,5
Other property, plant and equipment	2,50-20,00	2,50-20,00
Artwork	0,00	0,00

Table 73: Depreciation rates

in EUR

	2017	2016
Write-downs		
Amortisation of intangible assets	929.081	803.155
Depreciation of buildings	5.703.704	5.711.988
Depreciation of equipment	4.807.907	4.777.917
Depreciation of investment property	8.877	10.120
Total amortisation and depreciation	**11.449.570**	**11.303.180**
Revaluation expenses from:		
- fixed assets	122.407	119.237
- current assets	49.083	70.758
Total revaluation expenses	**171.490**	**189.995**
Total write-downs	**11.621.060**	**11.493.175**

Table 74: Write-downs

In 2017, the Company recognised €122,407 of revaluation expenses from intangible assets and property, plant and equipment as a result of inventory write-off of unserviceable assets and their disposal at the lower market price than was the assets' carrying amount.

Operating expenses from revaluation of current assets in the amount of €49,083 relate to depreciation and amortisation, and write-off of receivables for the use of network and services, and receivables for accrued interest. The amount also includes €12,819 of impairment of inventory of material.

in EUR

	2017	2016
Other operating expenses		
Provisions for compensation claims	0	0
Total provisions	**0**	**0**
Duties independent of profit or loss	30.574	43.977
Environmental protection expenditure	89.496	88.717
Fees for students on work experience	9.688	7.339
Total other costs	**129.757**	**140.033**
Total other operating expenses	**129.757**	**140.033**

Table 75: Other operating expenses

Majority of duties that are independent of profit or loss refers to various types of fees. Environmental protection expenditure includes compensation for the use of building land.

4.3. Financial income

Financial income arises in connection with financial investments and receivables in the form of accrued interest. They are recognised when there is no doubt about their size and collectability.

in EUR

	2017	2016
Financial income from shares and interests	5.920	5.920
Financial income from loans	67	85
Financial income from operating receivables	24.399	31.317
Total	**30.387**	**37.322**

Table 76: Financial income

Income from shares and interests comprises accrued dividends from financial investments of Zavarovalnica Triglav, d. d. in the amount of €5,920, the same as in 2016.

Interest is charged to customers using the network and services on late payments and on the amount of receivables outstanding as at 31 December 2017.

4.4. Financial expenses

in EUR

	2017	2016
Expenses from bank borrowings	293.714	327.727
Expenses from other financial liabilities	79.666	99.102
Expenses from operating liabilities	450	7.981
Total	**373.831**	**434.811**

Table 77: Financial expenses

Financial expenses from liabilities to banks are lower than in the previous year and comprise interest charged by the bank on short-term and long-term borrowings raised by the Company. Part of the interest of long-term borrowings increases the cost of investments and is not reported in financial expenses.

Expenses from other financial liabilities constitute interest from actuarial calculations.

4.5. Other revenue

Other revenues and expenses are difficult to forecast as they are not expected to occur regularly. The Company thus discloses extraordinary revenues.

in EUR

	2017	2016
Other revenue	134	380
Total	**134**	**380**

Table 78: Other revenue

Other revenues and expenses arise from events or transactions that do not occur regularly or frequently.

4.6. Other expenses

in EUR

	2017	2016
Compensation paid	7.980	5.104
Other expenses	60.010	116.512
Total	**67.990**	**121.616**

Table 79: Other expenses

Compensations are charged for damage, which were caused during the construction or maintenance of devices, mainly to natural persons on their land.

Other expenses comprise financial aid and donations in the amount of €37,251 (2016: €44,310), rounding up of figures and other expenses not indispensable for business.

4.7. Current tax and deferred tax assets/deferred tax liabilities

Income tax payable by the Company in 2017 amounts to €1,088,014 (2016: €1,019,398).

Current tax is determined in accordance with the tax legislation enacted at the balance sheet date. From time to time the management revises its approach to situations where application of individual tax legislation depends on its interpretation. Wherever suitable, the Company sets aside provisions for tax amounts that the Company anticipates will have to pay to the tax authorities.

Deferred tax assets and liabilities for income taxes are accounted for using the balance sheet liability method. Only deferred tax assets and liabilities arising from temporary differences are recognised. A deferred tax asset is also recognised on account of unused tax losses and unused tax credits carried forward to the next period, if it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilised. Deferred tax is determined on the basis of tax rates and tax legislation enacted on the balance sheet date and for which it is assumed will be in effect when the relating deferred tax assets are realised or deferred tax liabilities are settled, and when taxable profit is available against which temporary differences can be utilised.

On the balance sheet date, deferred tax assets are revised and impaired on account of those tax assets for which it is no longer probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilised.

Deferred tax assets and liabilities arising from transactions recognised directly in equity should be recognised in equity.

In the financial year under review, the Company for the first time recognised deferred tax assets, despite the fact that the materiality threshold under the Internal Accounting Rules (1% of the value of all assets and liabilities of the Company) was not reached. However, management estimates that the amount of these is material considering the profit generated and expects that the Company will have sufficient amount of taxable profits against which temporary differences can be utilised. The reason for first-time recognition of deferred tax assets in the financial statements is described in section 3.6 Deferred tax assets.

Income tax payable		in EUR
	2017	2016
Revenues that reduce the tax base	7.768.993	7.680.640
Expenses that increase the tax base	-29.455	-40.614
Expenses that reduce the tax base	1.073.974	1.062.642
Expenses that reduce the tax base (error elimination)	-210.892	-176.601
Tax base reduction on account of tax relief	0	0
Other	-2.912.033	-2.539.767
5. Other	35.801	10.159
Total tax base	**5.726.389**	**5.996.460**
Rate	19%	17%
Income tax payable	**-1.088.014**	**-1.019.398**
Effective tax rate on current tax	14,00%	13,27%
Increase/decrease in deferred tax	550.253	0
Effective tax rate	**6,92%**	**13,27%**

Table 80: Corporate income tax

As at 31 December 2017, the Company discloses income tax payable of €1,088,014 (2016: €1,019,398). The Company made use of the investment allowances in the amount of €1,918,828 (2016: €1,582,930); the allowance for voluntary supplementary pension insurance in the amount of €620,561 (2016: €600,553); relief for employment of disabled persons in the amount of €331,797 (2016: €306,102); and other allowances in total amount of €40,847 (2016: €50,182).

Reconciliation between actual and computed tax expenditure using effective tax rate

	2017		2016	
Difference between actual and computed tax rate	Rate	Amount	Rate	Amount
Pre-tax profit		**7.768.993**		**7.680.640**
Income tax at applicable tax rate	19,00%	1.476.109	17,00%	1.305.709
Amounts increasing the tax base		210.857	0	182.376
- decrease in expenses to tax recognised level		204.055		180.649
- increase in revenue to taxable level		0		0
- exempt expenses, for exempt dividends		56		50
- change in accounting method		6.746		1.677
Amounts lowering the tax base		45.666		36.926
- increase in expenses to tax recognised level		40.069		30.022
- decrease in revenue to taxable level		5.596		6.904
- change in accounting method		0		0
- elimination of error from the previous period		0		0
Tax relief		553.286		431.760
- applied, decreasing the amount of tax payable		553.286		431.760
Income tax for the year	14,00%	-1.088.014	13,27%	-1.019.398
Increase/decrease in deferred tax		550.253		0
Tax recognised in profit or loss	**6,92%**	**-537.761**	**13,27%**	**-1.019.398**

Table 81: Reconciliation of taxes for the financial year

Corporate income tax and deferred taxes in 2017:

Tax expense recognised in profit or loss			
			in EUR
	10.3.8	2017	2016
Income tax payable for the current year		-1.088.014	-1.019.398
Deferred tax assets/liabilities		550.253	0
Tax expense recognised in profit or loss	**10.3.9**	**-537.761**	**-1.019.398**

Changes in deferred taxes recognised in profit or loss			
			in EUR
	10.3.8	2017	2016
Provisions		335.350	0
Receivables		199.994	0
Investment impairment		14.909	0
Spremembe odloženih terjatev / obveznosti za davek	**10.3.9**	**550.253**	**0**

Changes in deferred taxes recognised in equity			
			in EUR
	10.3.8	2017	2016
At 1 Jan		0	0
Change in the revaluation of deferred taxes on account of provisions		7.237	0
Changes in deferred tax assets/liabilities	**10.3.9**	**7.237**	**0**
At 31 Dec		**7.237**	**0**

4.8. Net profit

	2017	2016
		in EUR
Operating result	8.180.293	8.199.364
Financial result	-343.445	-397.489
Extraordinary operating result	-67.856	-121.236
Pre-tax profit	**7.768.993**	**7.680.640**
Corporate income tax	-1.088.014	-1.019.398
Deferred tax assets	**550.253**	0
Net profit	**7.231.232**	**6.661.242**

Table 82: Net profit

In the financial year 2017, the Company reported net profit of €7,231,232 in its profit and loss account. Profit before tax is 9% higher than planned.

At the time of drawing up the annual report, the Management Board allocated €4,820,821 of net profit to other profit reserves in accordance with Article 11 of the Articles of Association. The difference of €2,410,411 remained unappropriated.

4.9. Total comprehensive income for the period

The Company reports €13,498 of revaluation surplus on available-for-sale financial assets and €101,776 of actuarial gains on employee benefits (€94,539 of actuarial gains on employee benefits recognised in 2017 and revaluation surplus for deferred taxes recognised on actuarial gains from employee benefits of €7,237).

Total comprehensive income for the period thus amounts to €7,346,506.

	Notes	2017	2016
			in EUR
20. NET PROFIT OR LOSS OF THE ACCOUNTING PERIOD	**4.9.**	**7.231.232**	**6.661.242**
Fair value reserve		13.498	-710
Other components of comprehensive income		101.777	37.871
Total comprehensive income for the period		**7.346.506**	**6.698.403**

05.

NOTES TO THE CASH FLOW STATEMENT

Cash flow statement is compiled using the direct method, format I according to SAS (2016) 22.6. Data for the statement of cash flows is derived from records of cash receipts and payments from the Company's accounts.

5.1. Cash receipts from operating activities

Receipts from operating activities consist of inflows to the accounts. These are the receipts from sales of products and services and other income from operations, such as the cost of use, which the Company receives for the account of SODO, compensations, receipts from co-financing, and network charge for power consumption.

5.2. Cash disbursements from operating activities

Operating expenditure are outflows from accounts consisting of operating expenses paid for material, services, salaries, charges and other outflows.

5.3. Cash receipts from investing activities

Receipts from investing are inflows arising from interest paid and shares in profits, as well as revenues from disposal of fixed assets and financial investments.

5.4. Cash disbursements for investing activities

Expenditures for investing comprise outflows for payment of invoices for the acquisition of intangible assets, property, plant and equipment and financial investments.

5.5. Proceeds from financing

Receipts from the financing activities are amounts remitted to the long-term and short-term loans.

5.6. Cash disbursements from financing activities

Expenditures for financing activities comprise payments of interest, dividends and repayment of borrowings.

5.7. Net cash inflow or outflow for the period

The difference between initial and closing balance of cash and cash equivalents in 2017 is the cash inflow of €3,125,718 (2016: cash outflow of €2,643,934).

The Company generated net cash inflow from operating activities in the amount of €13,571,613. Net cash used in investing activities amounts to €9,695,392 and is a result of major investment activity, while net cash outflows for financing activities relate to dividend payment to shareholders.

06.

DISCLOSURE OF RELATED PARTY TRANSACTIONS

The Company reports receivables from and liabilities to the following related parties:

- E 3, d. o. o., Nova Gorica (the parent holds 100% interest),
- Informatika, d. d., Maribor (11.9% equity holding),
- Stelkom, d. o. o., Ljubljana (6.32% holding),
- Knešca, d. o. o., from Most na Soči, an associate of subsidiary E3 d. o. o., and therefore indirectly related also to the parent company Elektro Primorska, d. d.

As at 31 December 2017, Elektro Primorska reports the following receivables from and liabilities to related companies in its balance sheet:

in EUR

Receivables:	At 31 Dec 2017	At 31 Dec 2016
Receivables due from E3, d. o. o.	35.029	79.436
Receivables due from Stelkom, d. o. o.	49.846	47.902
Receivables due from Informatika, d .d.	0	0
Total	**84.875**	**127.338**

Liabilities:	At 31 Dec2017	At 31 Dec 2016
Liabilities to E3, d.o.o.	26.693	27.235
Liabilities to Informatika, d. d.	1.210.400	888.508
Total	**1.237.093**	**915.742**

Table 83: Receivables and liabilities

Elektro Primorska d. d. recognised the following revenues and expenses from transactions with its related parties in the statement of profit or loss:

in EUR

Revenues:	2017	2016
Net revenues from sales to E3, d. o. o.	408.267	443.604
Net revenues from sales to Stelkom, d. o. o.	126.780	113.693
Net revenues from sales to Knešca, d. o. o.	421	4.924
Default interest Knešca d.o.o.	6	0
Total	**535.473**	**562.220**

Expenses:	2017	2016
Costs of purchase of material and services from E3, d. o. o.	188.765	186.607
Costs of services rendered by Informatika, d. d.	850.139	981.077
Total	**1.038.903**	**1.167.684**

Table 84: Revenue and expenses

Management estimates that in relationship with the parent company, no transactions were concluded, which would result in an advantage or disadvantage for any of the related parties.

07.

CONTINGENT LIABILITIES OF THE COMPANY

In the opinion of legal experts, none of the legal action brought against the Company will have a significant impact on the profit or loss. The Company assesses that provisions formed for these purposes are sufficient and would cover contingent liabilities of the Company.

A lien on the property is reported in the off balance sheet records, as are bid bonds and warranty guarantees issued by the banks (on account of rendering services to external clients). In 2017, liabilities arising from pledged real estate were eliminated, and thus none of the Company's properties is either mortgaged or subject to a lien.

in EUR

	31.12.2017	31.12.2016
Liabilities for pledged real estate	0	4.671.176
Bank guarantees issued	100.000	100.000
Total	**100.000**	**4.833.593**

Table 85: Contingencies

08.

SUBSEQUENT EVENTS

In the period subsequent to the reporting date (31 December 2017) and the report of an independent auditor (15 May 2018), the Company received preliminary statement of accounts from SODP for the 2017 regulation year. The statement of accounts is based on non-audited financial statements. It is clear from the preliminary statement of accounts that based on the value of paid advances in 2017, the contractual value of services and rental of electricity infrastructure already charged is lower than the values established on the basis of the preliminary settlement of accounts (rent outstanding in the amount of €427,348 and service charge of €2,019,371). Therefore, the Company increased revenues from services under the contract with SODO in the amount of €2,019,371 and reduced the value of rental income from the lease of energy infrastructure by €427,348.

Over the period from 1 January to 31 March 2018, the Company acquired 400 treasury shares. Thus, at the end of March 2018, Elektro Primorska held 42,899 treasury shares.

No other events occurred after the end of the reporting period and before the compilation of the financial statements that could impact the financial statements for the year ended 31 December 2017 or require additional disclosures to them.

09.

NOTES TO THE FINANCIAL STATEMENTS ACCORDING TO THE ENERGY ACT AND THE COMPANIES ACT

In accordance with Article 38 of the Energy Act, a company must prepare accounts separately for the energy market activities and separately for the other activities of the company. Individual activities are business segments that the company must, in accordance with the general disclosure under the Companies Act, specifically disclose in the annual report.

At the end of the year Elektro Primorska compiles financial statements for the Company as a whole. As an annex to the notes to the financial statements it attaches the statements in accordance with Article 38 of the Energy Act. In this respect the company must distinguish the activity of electricity supply from its other activities.

Below are the criteria for:

- Calculating indirect costs allocation to individual activities and
- criteria according to which assets, liabilities, revenues and expenses are allocated to individual activities.

9.1. Notes to the balance sheet items

The balance sheet is a presentation of assets and liabilities as at 31 December 2017.

The physical distribution of funds per activity was carried out in 2001 by the group of experts from technical field appointed by the Company in cooperation with its financial sector.

The division of assets and liabilities to common activities is carried out and assigned to individual activities in accordance with agreed criteria as at the balance sheet date. The method of calculating the criteria is described below.

The amount of share capital and capital surplus was reported in the balance sheet as at 31 December 2001 and remain unchanged compared to the previous year. The amounts of other components of equity, such as reserves and profit are changing from one year to the other.

In the balance sheet as at December 31 2017, after the allocation of results and an unchanged equity, receivables and liabilities are disclosed among activities that offset the sub-balance activities and are »consolidated« in the balance sheet of the company.

9.2. Notes to the income statement items

In the income statement, revenues and expenditure are disclosed per individual activity. These are direct revenues and expenses of each activity and revenues and expenses of general activities distributed on the basis of agreed criteria displayed.

9.3. Criteria for allocating revenues and expenses, assets and liabilities of common activities to individual activities

Key 1	Share of labour costs	No. of employees from working hours in activity x100 / No. of all employees from working hours
Key 2	Share of present values of intangible assets and property, plant and equipment	Present value of fixed assets in activity x100 / Present value of all fixed assets
Key 3	Share of revenues	Revenues in activity x100 / All revenues
Key 4	Share of material consumption	Consumption of material from the warehouse for activity x 100 / Total consumption of material from the warehouse
Key 5	Share of the cost of materials and services	Consumption of material and services in activity x100 / Total consumption of material and services

9.4. Sub-balance sheet according to the Energy Act as at 31 December 2017

in EUR

	ED infrastructure and services for SODO	Market activities	Total	Criteria for allocation of common activities
Assets				
A. Long-term assets:				
I. Intangible assets	**3.792.860**	**125**	**3.792.985**	
1. Long-term rights	3.651.498	125	3.651.623	Key 2
2. Other long-term deferred costs	90.041	0	90.041	Key 2
3. Intangible assets being acquired	51.321	0	51.321	Key 2
II. Property, plant and equipment	**177.578.936**	**1.274.072**	**178.853.008**	
1. Land	5.021.993	681.682	5.703.675	Key 2
2. Buildings	120.703.236	523.481	121.226.717	Key 2
3. Equipment	49.364.343	68.909	49.433.251	Key 2
4. Property, plant and equipment being acquired	2.489.364	0	2.489.364	Key 2
a.) Property, plant and equipment under construction	2.489.364	0	2.489.364	Key 2
b.) Advances for acquisition of property, plant and equipment	0	0	0	
III. Investment properties	**111.055**	**90.920**	**201.975**	Key 2
IV. Long-term investments	**6.843.785**	**969**	**6.844.753**	
1. Investments in shares of group companies	6.521.094	923	6.522.017	Key 1
2. Other shares and stakes	322.691	46	322.737	Key 1
V. Long-term operating receivables	**30.065**	**4**	**30.069**	
1. Other long-term operating receivables	30.065	4	30.069	Key 1
VI. Deferred tax assets	**546.520**	**10.971**	**557.490**	Key 1,3
Total long-term assets	**188.903.220**	**1.377.060**	**190.280.280**	
B. Current assets:				
I. Inventories	**899.697**	**1.309**	**901.006**	
1. Inventories	899.697	208	899.905	Key 1, 4
2. Nedokončane storitve	0	0	0	
3. Proizvodi in trgovsko blago	0	1.101	1.101	
II. Short-term investments	**1.343**	**0**	**1.343**	
1. Short-term loans to others	1.343	0	1.343	Key 1
III. Short-term operating receivables	**6.909.601**	**826.773**	**7.736.374**	
1. Operating receivables due from the group	0	35.029	35.029	Key 3
2. Trade receivables	6.583.820	749.303	7.333.124	Key 3
3. Operating receivables due from others	325.781	42.441	368.222	Key 3
IV. Cash and cash equivalents	**3.271.636**	**1.692.771**	**4.964.407**	**Key 3**
Total current assets	**11.082.277**	**2.520.853**	**13.603.130**	
C. Short-term deferred and accrued items	**1.902.783**	**63.002**	**1.965.785**	Key 3
D. Receivables due from other activities	**467.489**	**0**	**467.489**	
TOTAL ASSETS	**202.355.769**	**3.960.915**	**206.316.684**	

Table 86: Sub-balance sheet according to the Energy Act as at 31 December 2017

in EUR

	ED infrastructure and services for SODO	Market activities	Total	Criteria for allocation of common activities
Equity and liabilities				
Equity:				
I. Called-up capital	**78.185.730**	**377.102**	**78.562.832**	
1. Share capital	78.185.730	377.102	78.562.832	
II. Capital surplus	**45.787.692**	**420.495**	**46.208.187**	
III. Profit reserves	**21.217.329**	**2.005.186**	**23.222.514**	
1. Legal reserves	741.732	-90.404	651.328	
2. Reserves for treasury shares and stakes	79.159	382	79.540	
3. Treasury shares and stakes (as a deductible item)	-79.159	-382	-79.540	
4. Other profit reserves	20.475.596	2.095.590	22.571.187	
IV. Revaluation surplus	**-2.981**	**0**	**-2.982**	Key 1
V. Retained earnings	**107.047**	**15**	**107.062**	
VI. Net profit or loss for the year	**2.059.751**	**382.208**	**2.441.959**	
Total equity	**147.354.568**	**3.185.005**	**150.539.573**	
B. Provisions and long-term accrued costs and deferred revenue	**13.707.686**	**13.962**	**13.721.648**	
1. Provisions	3.599.623	509	3.600.132	Key 1
2. Long-term accrued costs and deferred revenue	10.108.063	13.453	10.121.516	
C. Long-term liabilities	**24.833.000**	**0**	**24.833.000**	
I. Long-term financial liabilities	24.833.000	0	24.833.000	
1. Long-term financial liabilities to banks	24.833.000	0	24.833.000	
1. Long-term financial liabilities to banks	**15.796.898**	**283.348**	**16.080.246**	
I. Short-term financial liabilities	6.317.225	1	6.317.226	
1. Short-term financial liabilities to banks	6.312.000	0	6.312.000	
2. Other short-term financial liabilities	5.225	1	5.226	Key 1
II. Short-term operating liabilities	**9.479.673**	**283.348**	**9.763.021**	
1. Short-term operating liabilities to group companies	22.848	3.845	26.693	Key 5
2. Supplier payables	7.382.833	196.923	7.579.756	Key 2, 5
3. Short-term operating liabilities from advances	2.855	9.324	12.179	Key 3
4. Other short-term operating liabilities	2.071.137	73.255	2.144.392	Key 1
Total liabilities	**54.337.584**	**297.310**	**54.634.894**	
D. Short-term accrued costs and deferred revenue	**663.617**	**11.111**	**674.728**	Key 3
E. Liabilities to other activities		**467.489**	**467.489**	
TOTAL EQUITY AND LIABILITIES	**202.355.769**	**3.960.915**	**206.316.684**	

Table 87: Sub-balance sheet according to the Energy Act (liabilities) as at 31 December 2017

9.5. Sub-balance sheet according to the Energy Act as at 31 December 2016

in EUR

	ED infrastructure and services for SODO	Market activities	Total	Criteria for allocation of common activities
Assets				
A. Long-term assets:				
I. Intangible assets	**2.288.195**	**5.429**	**2.293.624**	
1. Long-term rights	1.525.137	347	1.525.484	Key 2
2. Other long-term deferred costs	112.084		112.084	Key 2
3. Intangible assets being acquired	650.974	5.083	656.056	Key 2
II. Property, plant and equipment	**175.126.612**	**1.309.266**	**176.435.878**	
1. Land	5.177.840	681.682	5.859.522	Key 2
2. Buildings	119.655.485	555.860	120.211.345	Key 2
3. Equipment	48.237.729	70.326	48.308.054	Key 2
4. Property, plant and equipment being acquired	2.055.559	1.398	2.056.957	Key 2
a.) Property, plant and equipment under construction	2.054.929	1.398	2.056.327	Key 2
b.) Advances for acquisition of property, plant and equipment	630	0	630	
III. Investment property	**116.705**	**71.456**	**188.161**	Key 2
IV. Long-term investments	**6.821.294**	**962**	**6.822.256**	
1. Investments in shares of group companies	6.521.097	919	6.522.017	Key 1
2. Other shares and stakes	300.197	42	300.239	Key 1
V. Long-term operating receivables	**27.419**	**4**	**27.422**	
1. Other long-term operating receivables	27.419	4	27.422	Key 1
Total long-term assets	**184.380.225**	**1.387.116**	**185.767.341**	
B. Current assets:				
I. Inventories	**710.971**	**50.546**	**761.517**	
1. Material	683.589	0	683.589	Key 1, 4
2. Unfinished services	27.382	212	27.593	
3. Products and merchandise	0	50.335	50.335	
II. Short-term investments	**1.343**	**0**	**1.343**	
1. Short-term loans to others	1.343	0	1.343	Key 1
III. Short-term operating receivables	**6.569.909**	**363.965**	**6.933.874**	
1. Operating receivables due from the group	25.831	53.605	79.436	Key 3
2. Trade receivables	6.347.993	306.497	6.654.490	Key 3
3. Operating receivables due from others	196.084	3.863	199.948	Key 3
IV. Cash and cash equivalents	**1.188.221**	**650.469**	**1.838.689**	Key 3
Total current assets	**8.470.443**	**1.064.980**	**9.535.424**	
C. Short-term deferred and accrued items	**1.394.810**	**1.889**	**1.396.699**	Key 3
D. Receivables due from other activities	**0**	**681.525**	**681.525**	
TOTAL ASSETS	**194.245.478**	**3.135.511**	**197.380.989**	

Table 88: Sub-balance sheet according to the Energy Act (assets) as at 31 December 2016

	ED infrastructure and services for SODO	Market activities	Total	Criteria for allocation of common activities
				in EUR
Equity and liabilities				
Equity:				
I. Called-up capital	**78.185.730**	**377.102**	**78.562.832**	
1. Share capital	78.185.730	377.102	78.562.832	
II. Capital surplus	**45.787.692**	**420.495**	**46.208.187**	
III. Profit reserves	**16.451.971**	**1.982.202**	**18.434.172**	
1. Legal reserves	741.732	-90.404	651.328	
2. Reserves for treasury shares and stakes	78.232	377	78.609	
3. Treasury shares and stakes (as a deductible item)	-78.232	-377	-78.609	
4. Other profit reserves	15.710.238	2.072.606	17.782.845	
IV. Revaluation surplus	**-118.240**	**-17**	**-118.256**	Key 1
V. Retained earnings	**-9.071**	**-1**	**-9.073**	
VI. Net profit or loss for the year	**1.981.170**	**213.041**	**2.194.211**	
Total capital	**142.279.252**	**2.992.821**	**145.272.073**	
B. Provisions and long-term accrued costs and deferred revenue	**13.620.739**	**16.512**	**13.637.251**	
1. Provisions	3.512.196	495	3.512.691	Key 1
2. Long-term accrued costs and deferred revenue		16.017	10.124.560	
C. Long-term liabilities	**22.245.000**	**0**	**22.245.000**	
I. Long-term financial liabilities	**22.245.000**	**0**	**22.245.000**	
1. Long-term financial liabilities to banks	22.245.000	0	22.245.000	
D. Short-term liabilities	**16.704.215**	**156.821**	**16.861.036**	
I. Short-term financial liabilities	**7.283.882**	**1**	**7.283.882**	
1. Short-term financial liabilities to banks	7.278.657	0	7.278.657	
2. Other short-term financial liabilities	5.225	1	5.226	Key 1
II. Short-term operating liabilities	**7.374.358**	**118.656**	**7.493.015**	
1. Short-term operating liabilities to group companies	25.132	2.102	27.235	Key 5
2. Supplier payables	5.952.551	102.285	6.054.836	Key 2, 5
3. Short-term operating liabilities from advances	5.490	8.601	14.091	Key 3
4. Other short-term operating liabilities	1.391.185	5.668	1.396.853	Key 1
Total liabilities	**50.523.979**	**135.169**	**50.659.148**	
D. Short-term accrued costs and deferred revenue	**760.721**	**7.521**	**768.242**	Key 3
E. Liabilities to other activities	**681.525**	**0**	**681.525**	
TOTAL EQUITY AND LIABILITIES	**194.245.478**	**3.135.511**	**197.380.989**	

Table 89: Sub-balance sheet according to the Energy Act (liabilities) as at 31 December 2016

9.6. Income statement according to the Energy Act for the year 2017

in EUR

2017	ED infrastructure and services for SODO	Market activities	Total	Criteria for allocation of common activities
1. Net sales revenue	**36.503.063**	**2.583.299**	**39.086.362**	
a. on domestic market	36.503.063	2.583.299	39.086.362	ključ 3
2. Change in the value of inventory of unfinished services	**0**	**-48.031**	**-48.031**	
3. Capitalised own products and services	**7.084.195**	**2.999**	**7.087.194**	
4. Other operating revenue	**851.349**	**3.994**	**855.343**	ključ 1, 2
5. Cost of goods, materials and services	**-8.647.433**	**-1.435.076**	**-10.082.509**	
a. costs of goods and material sold and costs of material used	-3.514.469	-1.048.437	-4.562.906	ključ 1, 5
b. costs of services	-5.132.964	-386.639	-5.519.603	ključ 2, 5
6. Employee benefit costs	**-16.404.780**	**-562.470**	**-16.967.250**	
a. costs of salaries	-11.365.794	-422.748	-11.788.543	ključ 1
b. costs of supplementary pension insurance of employees	-613.833	-9.855	-623.688	ključ 1
c. social security costs	-1.957.895	-70.941	-2.028.837	ključ 1
d. other labour costs	-2.467.257	-58.926	-2.526.182	ključ 1
7. Write-downs	**-11.579.862**	**-41.198**	**-11.621.060**	
a. amortisation and depreciation	-11.410.669	-38.901	-11.449.570	ključ 2
b. operating expenses from revaluation of fixed assets	-122.384	-23	-122.407	ključ 2
c. operating expenses from revaluation of current assets	-46.809	-2.274	-49.083	ključ 3
8. Other operating expenses	**-127.385**	**-2.372**	**-129.757**	ključ 1
9. Financial income from shares and interests	**5.919**	**1**	**5.920**	
a. in other companies	5.919	1	5.920	ključ 1
10. Financial income from loans	**67**	**0**	**67**	
a. granted to others	67	0	67	ključ 1
11. Financial income from operating receivables	**22.222**	**2.177**	**24.399**	
a. due from others	22.222	2.177	24.399	ključ 3
12. Financial expenses from investment impairment and write-off	**0**	**0**	**0**	ključ 6
13. Financial expenses from financial liabilities	**-361.905**	**-11.476**	**-373.381**	
a. from bank borrowings	-293.714	0	-293.714	
b. from other financial liabilities	-68.190	-11.476	-79.666	ključ 5
14. Financial expenses from operating liabilities	**-392**	**-58**	**-451**	
a. from liabilities to suppliers and bills of exchange payable	-380	-56	-436	ključ 5
b. from other operating liabilities	-12	-2	-14	ključ 5
15. Other revenue	**134**	**0**	**134**	ključ 1
16. Other expenses	**-67.370**	**-619**	**-67.990**	ključ 1
PRE-TAX PROFIT OR LOSS OF THE ACCOUNTING PERIOD	7.277.822	491.170	7.768.993	
17. Income tax	**-991.071**	**-96.943**	**-1.088.014**	
18. Deferred tax assets	**539.284**	**10.969**	**550.253**	ključ 1, 3
19. NET PROFIT OR LOSS OF THE ACCOUNTING PERIOD	**6.826.036**	**405.196**	**7.231.232**	

Table 90: Income statement according to the Energy Act for the year 2017

9.7. Income statement according to the Energy Act for the year 2016

in EUR

2016	ED infrastructure and services for SODO	Market activities	Total	Criteria for allocation of common activities
1. Net sales revenue	**36.214.297**	**2.085.271**	**38.299.568**	
a. on domestic market	36.214.297	2.085.271	38.299.568	Key 3
2. Change in the value of inventory of unfinished services	**0**	**11.709**	**11.709**	
3. Capitalised own products and services	**6.876.070**	**1.715**	**6.877.785**	
4. Other operating revenue	**759.492**	**16.203**	**775.694**	**Key 1, 2**
5. Cost of goods, materials and services	**-9.072.597**	**-708.267**	**-9.780.864**	
a. costs of goods and material sold and costs of material used	-3.391.916	-470.944	-3.862.860	Key 1, 5
b. costs of services	-5.680.681	-237.323	-5.918.004	Key 2, 5
6. Employee benefit costs	**-15.763.209**	**-588.110**	**-16.351.319**	
a. costs of salaries	-10.863.999	-433.062	-11.297.060	Key 1
b. costs of supplementary pension insurance of employees	-588.205	-13.694	-601.899	Key 1
c. social security costs	-1.865.634	-76.751	-1.942.385	Key 1
d. other labour costs	-2.445.371	-64.604	-2.509.975	Key 1
7. Write-downs	**-11.449.406**	**-43.769**	**-11.493.175**	
a. amortisation and depreciation	-11.264.714	-38.466	-11.303.180	Key 2
b. operating expenses from revaluation of fixed assets	-119.232	-5	-119.237	Key 2
c. operating expenses from revaluation in current assets	-65.460	-5.298	-70.758	Key 3
8. Other operating expenses	**-137.243**	**-2.790**	**-140.033**	**Key 1**
9. Financial income from shares and interests	**5.919**	**1**	**5.920**	
a. in other companies	5.919	1	5.920	Key 1
10. Financial income from loans	**85**	**0**	**85**	
a. granted to others	85	0	85	Key 1
11. Financial income from operating receivables	**30.313**	**1.004**	**31.317**	
a. due from others	30.313	1.004	31.317	Key 3
12. Financial expenses from investment impairment and write-off	**0**	**0**	**0**	**Key 6**
13. Financial expenses from financial liabilities	**-419.180**	**-7.649**	**-426.830**	
a. from bank borrowings	-327.727	0	-327.727	
b. from other financial liabilities	-91.453	-7.649	-99.102	Key 5
14. Financial expenses from operating liabilities	**-7.366**	**-616**	**-7.981**	
a. from payables to suppliers and bills of exchange	-7.324	-612	-7.936	Key 5
b. from other operating liabilities	-42	-4	-46	Key 5
15. Other revenue	**380**	**0**	**380**	**Key 1**
16. Other expenses	**-121.484**	**-132**	**-121.616**	**Key 1**
PRE-TAX PROFIT OR LOSS OF THE ACCOUNTING PERIOD	6.916.072	764.568	7.680.640	
17. Income tax	**-894.330**	**-125.068**	**-1.019.398**	
18. NET PROFIT OR LOSS OF THE ACCOUNTING PERIOD	**6.021.742**	**639.500**	**6.661.242**	

Table 91: Income statement according to the Energy Act for the year 2016

9.8. Cash flow statement according to the Energy Act for the year 2017

EP d.d., Nova Gorica				in EUR
	ED infrastructure and services for SODO	Market activities	Total EP	Criteria for allocation of common activities
A. CASH FLOWS FROM OPERATING ACTIVITIES				
1. Receipts from operating activities	**69.770.450**	**3.360.889**	**73.131.339**	
a. Proceeds from the sale of products and services	42.335.025	3.355.713	45.690.738	K-1, K-3, K-4, K-5
b. Other receipts from operating activities	27.435.425	5.176	27.440.601	K-1, K-2, K-3, K-5
2. Expenditure from operating activities	**-57.360.189**	**-2.199.538**	**-59.559.726**	
a. Expenditure for purchase of materials and services	-8.467.273	-1.698.650	-10.165.923	K-3, K-4, K-5
b. Expenditure for salaries and employees' shares in profits	-16.759.551	-249.260	-17.008.811	K-1
c. Expenditure for all kinds of contributions	-3.706.866	-224.088	-3.930.955	K-1, K-3
d. Other expenditure from operating activities	-28.426.498	-27.539	-28.454.037	K-4, K-5
3. Net cash from operating activities	**12.410.261**	**1.161.351**	**13.571.613**	
B. CASH FLOWS FROM INVESTING ACTIVITIES				
4. Cash receipts from investing activities	**1.310.240**	**3.139**	**1.313.380**	
a. Interest and profit shares	25.053	1.808	26.861	K-1, K-3
b. Proceeds from disposal of property, plant and equipment	1.285.188	1.331	1.286.519	K-2
c. Proceeds from disposal of short-term investments	0	0	0	K-1
5. Cash disbursements for investing activities	**-10.926.667**	**-82.105**	**-11.008.771**	
a. Expenditure for acquisition of intangible assets	-1.774.818	-13.355	-1.788.173	K-2
b. Expenditure for acquisition of property, plant and equipment	-9.142.850	-68.748	-9.211.598	K-2
d. Expenses for acquisition of long-term investments	-8.999	-1	-9.000	K-1
6. Net cash from investing activities	**-9.616.426**	**-78.965**	**-9.695.392**	
C. CASH FLOWS FROM FINANCING ACTIVITIES				
8. Cash receipts from financing activities	**12.550.000**	**0**	**12.550.000**	
a. Receipts from long-term borrowings	9.000.000	0	9.000.000	
b. Receipts from short-term borrowings	3.550.000	0	3.550.000	
9. Cash disbursements from financing activities	**-13.260.419**	**-40.084**	**-13.300.504**	
a. Interest paid	-266.912	-39.863	-306.775	K-5
b. Repayments of capital	1.168	71	1.239	K-3
c. Cash repayments of long-term borrowings	-7.378.657	0	-7.378.657	
d. Cash repayments of short-term borrowings	-3.550.000	0	-3.550.000	
e. Dividends paid	-2.066.019	-292	-2.066.311	K-1
10. Net cash from financing activities	**-710.419**	**-40.084**	**-750.504**	
11. Net cash inflow or outflow	**2.083.416**	**1.042.302**	**3.125.718**	
CLOSING BALANCE OF CASH AND CASH EQUIVALENTS	**3.271.637**	**1.692.771**	**4.964.407**	
X. Opening balance of cash and cash equivalents	**1.188.221**	**650.469**	**1.838.690**	
Y. CASH FLOWS FOR THE PERIOD	**2.083.416**	**1.042.302**	**3.125.718**	
Closing balance of cash at 31 Dec 2016	**3.271.637**	**1.692.771**	**4.964.407**	

Table 92: Cash flow statement according to the Energy Act for the year 2016

9.9. Cash flow statement according to the Energy Act for the year 2016

in EUR

	ED infrastructure and services for SODO	Market activities	Total EP	Criteria for allocation of common activities
A. CASH FLOWS FROM OPERATING ACTIVITIES				
1. Receipts from operating activities	**70.168.459**	**1.745.988**	**71.914.447**	
a. Proceeds from the sale of products and services	42.479.204	1.739.219	44.218.424	K-1, K-3, K-4, K-5
b. Other receipts from operating activities	27.689.255	6.769	27.696.023	K-1, K-2, K-3, K-5
2. Expenditure from operating activities	**-58.736.121**	**-1.154.388**	**-59.890.509**	
a. Expenditure for purchase of materials and services	-9.362.823	-915.789	-10.278.612	K-3, K-4, K-5
b. Expenditure for salaries and employees' shares in profits	-16.427.829	-1.127	-16.428.956	K-1
c. Expenditure for all kinds of contributions	-3.889.089	-176.758	-4.065.847	K-1, K-3
d. Other expenditure from operating activities	-29.056.380	-60.714	-29.117.094	K-4, K-5
3. Net cash from operating activities	**11.432.338**	**591.600**	**12.023.938**	
B. CASH FLOWS FROM INVESTING ACTIVITIES				
4. Cash receipts from investing activities	**89.723**	**1.461**	**91.184**	
a. Interest and profit shares	33.043	1.393	34.436	K-1, K-3
b. Proceeds from disposal of property, plant and equipment	53.544	68	53.612	K-2
c. Proceeds from disposal of short-term investments	3.137	0	3.137	K-1
5. Cash disbursements for investing activities	**-11.488.595**	**-69.621**	**-11.558.216**	
a. Expenditure for acquisition of intangible assets	-1.413.233	-10.073	-1.423.307	K-2
b. Expenditure for acquisition of property, plant and equipment	-10.066.863	-59.546	-10.126.409	K-2
d. Expenses for acquisition of long-term investments	-8.499	-1	-8.500	K-1
6. Net cash from investing activities	**-11.398.872**	**-68.159**	**-11.467.032**	
C. CASH FLOWS FROM FINANCING ACTIVITIES				
8. Cash receipts from financing activities	**16.600.000**	**0**	**16.600.000**	
a. Receipts from long-term borrowings	8.000.000	0	8.000.000	
b. Receipts from short-term borrowings	8.600.000	0	8.600.000	
9. Cash disbursements from financing activities	**-19.768.197**	**-32.644**	**-19.800.840**	
a. Interest paid	-340.023	-28.663	-368.686	K-5
b. Repayments of capital	-76.462	-3.538	-80.000	K-3
c. Cash repayments of long-term borrowings	-7.612.002	0	-7.612.002	
d. Cash repayments of short-term borrowings	-8.600.000	0	-8.600.000	
e. Dividends paid	-3.139.709	-443	-3.140.152	K-1
10. Net cash from financing activities	**-3.168.197**	**-32.644**	**-3.200.840**	
11. Net cash inflow or outflow	**-3.134.731**	**490.797**	**-2.643.934**	
CLOSING BALANCE OF CASH AND CASH EQUIVALENTS	**1.188.221**	**650.469**	**1.838.689**	
X. Opening balance of cash and cash equivalents	**4.322.952**	**159.672**	**4.482.623**	
Y. CASH FLOWS FOR THE PERIOD	**-3.134.731**	**490.797**	**-2.643.934**	
Closing balance of cash at 31 Dec 2016	**1.188.221**	**650.469**	**1.838.689**	

Table 93: Cash flow statement according to the Energy Act for the year 2016

D

BUSINESS REPORT OF THE ELEKTRO PRIMORSKA GROUP

01.

PERFORMANCE ANALYSIS OF THE ELEKTRO PRIMORSKA GROUP

Elektro Primorska Group closed the 2017 financial year with net profit **of €7,346,342 , which is less than planned and achieved in 2016, mainly due to the failure to achieve the operating plans set by the subsidiary. The Group's revenues amounted to €118,443,409 in 2017, which is €7,980,297 or 7.22% more than in 2016. The largest group of revenues represent operating revenues amounting to €118,261,078, accounting for 99.85% of total revenues of the Group. The largest increase was recorded in the net sales revenues, particularly from the sale of electricity by the subsidiary.**

The Group incurred €110,574,484 of expenses in 2017, down €9,130,331 compared to 2016. The largest group of expenses are operating expenses amounting to €110,179,996, while the largest share of operating expenses is taken by the costs of goods and materials, which account for 71.31% of the total operating expenses and amount to €78,571,353 in 2017, down €8,806,821 compared to 2016.

The value of assets of Elektro Primorska increased to €231,337,409 as at 31 December 2017, with the largest increase reported in intangible assets (an increase of €3,712,527) and at the year-end they amount to €186,180,807. Major increase is due to €16,984,489 of investments realised in 2017. The largest share of current assets represent trade receivables amounting to €26,767,160 as at 31 December 2017, up €2,273,972 on the previous year, mainly due to increased receivables on account of the sale of electricity by the subsidiary.

The Group's equity amounted to **€158,674,327** as at 31 December 2017, an increase of €5,370,693 compared to the previous year. The share of equity in total liabilities of the Group at the end of 2017 amounted to 68.59%, down 0.9 percentage point compared to the previous year. At the year-end, long-term liabilities of the Group amounted to €39.570.837, up €2,181,371 compared to the previous year, mainly due to the increase in long-term financial liabilities to banks. Short-term liabilities of the Group of €33,092,246 increased by €3,164,109 compared to the previous year. The largest increase is reported in short-term operating liabilities to suppliers.

A. THE BASIC FINANCING STATE RATIOS	**31.12.2017**	**31.12.2016**
equity	158.674.327	153.303.633
liabilities	231.337.409	220.621.236
Equity financing rate	**68,59%**	**69,49%**
total equity and long-term debts (including provisions) and		
long-term accruals	198.245.163	190.693.099
liabilities	231.337.409	220.621.236
Long-term financing rate	**85,70%**	**86,43%**
debts	72.663.082	67.317.602
liabilities	231.337.409	220.621.236
Debt financing rate	31,41%	30,51%
B. THE BASIC MAIN INVESTMENT RATIOS	**31.12.2017**	**31.12.2016**
assets (at book values)	189.893.334	186.180.807
assets	231.337.409	220.621.236
Operating fixed assets rate	**82,09%**	**84,39%**
long-term and short-term investments	1.255.972	1.263.190
assets	231.337.409	220.621.236

Investment assets rate	**0,54%**	**0,57%**
non-current assets	192.741.606	188.326.361
assets	231.337.409	220.621.236
Long-term assets rate	**83,32%**	**85,36%**
C. THE BASIC HORIZONTAL FINANCIAL STRUCTURE RATIOS	**31.12.2017**	**31.12.2016**
equity	158.674.327	153.303.633
assets (at book values)	189.893.334	183.534.146
Equity to fixed assets rate	**83,56%**	**83,53%**
liquid assets	6.167.489	3.162.992
short-term liabilities	33.092.246	29.928.137
Acid test ratio	**18,64%**	**10,57%**
liquid assets and short-term receivables	34.486.531	28.796.148
short-term liabilities	33.092.246	29.928.137
Quick ratio	**104,21%**	**96,22%**
short-term assets	38.595.803	32.294.875
short-term liabilities	33.092.246	29.928.137
Current ratio	**116,63%**	**107,91%**
D. THE BASIC EFFICIENCY RATIOS	**31.12.2017**	**31.12.2016**
operating revenue	118.261.078	110.171.189
operating expense	110.179.996	100.981.297
Operating efficiency ratio	**1,073**	**1,091**
revenue	118.443.409	110.463.113
expenses	110.574.484	101.444.153
Total operating efficiency ratio	**1,071**	**1,089**
E. PROFITABILITY RATIOS	**31.12.2017**	**31.12.2016**
EBITDA (operating income + operating expenses-AM + revaluation)	20.757.401	22.054.818
gross operating yield	118.261.078	110.171.189
EBITDA margin	**17,55%**	**20,02%**
EBIT (operating revenue - operating expenses)	8.081.082	9.189.892
gross operating yield	118.261.078	110.171.189
EBIT margin	**6,83%**	**8,34%**
net profit or loss	7.346.342	7.822.141
sale revenue	109.913.672	102.017.001
Net return on revenue	**6,68%**	**7,67%**
net profit or loss	7.346.342	7.822.141
average assets	225.979.323	219.171.098
Net return on assets ratio (ROA)	**3,25%**	**3,57%**
net profit or loss	7.346.342	7.822.141
average capital (excluding net profit or loss for the year)	152.315.809	147.104.343
Net return on equity ratio (ROE)	**4,82%**	**5,32%**
sum of dividends for the year	2.066.311	3.142.513
average share capital	78.562.832	78.562.832
Dividend to share capital ratio	**0,026**	**0,040**
dividend paid in the current year	2.066.311	3.142.513
average capital	152.315.809	147.104.343
Dividend to share capital ratio	**1,36%**	**2,14%**
E. SHARES	**31.12.2017**	**31.12.2016**
equity	158.674.327	153.303.633
number of shares	18.826.797	18.826.797
number of treasury shares	**42.499**	**42.149**
Book value per share (in EUR)	**8,45**	**8,16**
Net profit or loss	7.346.342	7.822.141
Weighted average number of ordinary shares	18.784.638	18.825.064
Diluted average number of ordinary shares	18.784.638	18.825.064
Basic and diluted earnings per share (EUR/share)	**0,39**	**0,42**

Table 94: Main performance indicators of Elektro Primorska

02.

PROFILE OF THE GROUP

2.1. Composition of the Group

The Elektro Primorska Group comprises the following entities:

- Elektro Primorska as the parent company
- E 3, d.o.o. as a subsidiary, in which the parent company holds a 100% stake
- Knešca, d.o.o. located at Most na Soči, in which E3, d.o.o. holds a 47.27% stake, making it an associated company.

The following entities are included in the consolidation: the parent company Elektro Primorska and subsidiary E 3 are fully consolidated, while associated company Knešca is consolidated under the equity method.

The parent company Elektro Primorska reports €150,539,573 of equity as at 31 December 2017. The Company generated net profit of €7,231,232 in 2017.

The subsidiary E 3 ended the financial year 2017 with a net profit of €106,190. As at 31 December 2017, its capital amounts to €14,188,892. Knešca generated net profit of €153,372 in 2017, and reports €1,348,782 of capital as at 31 December 2017.

2.2. Profile of the subsidiary E 3, d.o.o.

The subsidiary E3 energetika, ekologija, ekonomija, d.o.o. was established on 15 November 2004 by Elektro Primorska as the only shareholder. The basis for the establishment of the company was the Energy Act, which called for a legal separation of regulated market and production activities.

The company name:	E3 energetika, ekologija, ekonomija, d.o.o.
Short company name:	E3, d.o.o.
The registered seat of the company:	Erjavčeva ulica 24, Nova Gorica
VAT ID number:	17851262
Company number:	2010593
Transaction accounts are held at the following banks:	04750-0001095763 Nova KBM dd 02945-0259665734 NLB, d. d.

The subsidiary is registered in the register of Companies at the District Court in Nova Gorica under the number 1/04504/00.

Share capital:	€6,522,016.72	
Owner of the company:	Elektro Primorska holds a 100% stake	
The company representative:	Darko Pahor	
	KNEŠCA, d. o. o.	
Associated company:	- E 3, d.o.o., Nova Gorica	47.27% holding
	- (9) individuals	52.73% holding

E3 began regular operations on 1 January 2005, after it obtained a license for performance of energy activities of electricity production and trading on 3 December 2004.

The company E 3, d.o.o. is composed of three organisational units, namely:

- Purchase and sale of energy division,
- Production and services division, and
- General services division

The company began providing commercial public service of the heat distribution system operator in the municipality Šempeter - Vrtojba on 1 May 2010. In accordance with the concession agreement, the company assumed the task of supplying heat to the Podmark residential complex.

On 1 January 2011, the company merged with the carved part of Elektro Primorska, which is engaged in the purchase and sale of electricity. The company has a license for performing energy-related activities, namely in the field of electricity generation, heat production and distribution, and supply, trade, representation and mediation in the electricity market.

In total, the company had 49 employees at the end of 2017, 4 more than in the previous year.

An appraisal of the value of the long-term assets of the production and services divisions was carried out in 2015 and 2016 for financial reporting purposes (as at 1 January 2015 and 31 December 2015). The assessment was made of the recoverable value using the present value of expected future cash flows in accordance with the Hierarchy of Rules of Valuation (Official Gazette of the RS No. 106/2010). No signs of impairment of long-term assets were detected in 2017.

Estimated free cash flow has been discounted with a required rate of return on total capital of the company before taxes (WACC) amounting to 9.8% as at 31 December 2016 (in 2015 WACC before taxes of 9.06% was used as at 1 January 2015 and 8.88% as at 31 December 2015).

The valuation showed negative deviation of the estimated recoverable amount against the carrying amount of individual cash-generating units of total €240,831 (impairments in the amount of €1,240,424 were recognised as at 1 January 2015 and further impairments and impairment reversal of total €315 828 as at 31 January 2015).

No signs of impairment of long-term assets were detected in 2017.

The basic ratios of operating efficiency and profitability are less favourable in the year under review due to a lower profit compared to the previous year and the plan. The company generated net profit of €106,190 in 2017.

2.3. Profile of the associate Knešca, d.o.o.

In June 2006, subsidiary E 3, d.o.o. acquired a 23.61% stake in the company Knešca and in July of the same year, it further acquired stakes held by four (4) natural persons, amounting to 23.66% stake, making it a total 47.27% stake in the company). The stake was subsequently (in 2012) transferred as a contribution in kind to subsidiary JOD, d.o.o.

On 1 January 2017, E 3 merged its subsidiary and transferred the contribution in kind from JOD to E 3.

In comparison with other (9) individual owners, E3 holds a significant 47.27% stake in Knešca d.o.o.

The company name:	Knešca, d.o.o., Proizvodnja električne energije
Short company name:	KNEŠCA d.o.o.
The registered seat of the company:	Kneža 78, Most na Soči
VAT ID number:	92002307
Company number:	5617383
Transaction accounts are held at the following banks:	27000-0000204363
The company is registered in the register of Companies at the District Court in Nova Gorica under the number RC-065-2005/224.	
Share capital:	€129,361
Owners of the company:	E 3, d.o.o. 47.04%
	Natural entities 52.73%
Director of the company:	Vincenc Hozjan

The company performed well in 2017 and generated €189,348 of pre-tax profit (2016: €416,592). It recognised €35,976 of income tax payable (2016: €70,939), bringing the net profit for the year to €153,372 (2016: €345,652). As at 31 December 2017, the company reported €1,348,782 of equity (2016: €1,395,905).

In the consolidated financial statements, the company is reported as an associate and included in the consolidation of the Group under the equity method in accordance with the relevant IAS.

03.

RISK MANAGEMENT

Risks are managed in accordance with the integrated risk management methodology of the Elektro Primorska Group. Subsidiary E3 buys and sells electricity and as such is exposed to high market risk, which could indirectly weaken the capital adequacy of the parent Elektro Primorska.

The Elektro Primorska Group is exposed to various risks, all of which are monitored on a regular basis, and adopts relevant measures to control the risks and ensure stable operating conditions.

Risk management is one of the key tasks of the management of Elektro Primorska.

It is primarily subsidiary E3 that is exposed to market risk. The risks result from uncertain price movements on the domestic and foreign electricity markets, where the company is present, and from the open positions of its trading portfolio. An open position that is exposed to market risk arises when the aggregate quantity of electricity purchased at a fixed price over a given accounting period deviates from the quantities sold at a fixed price. In doing so, this risk is managed largely by ensuring that each sale has an appropriate purchase transaction, and vice versa. To hedge open positions, the company uses the option of purchasing electricity through several „open" contracts, which allow optimum electricity purchase in several markets in addition to contracts with delivery at a fixed price, and by limits that prevent open positions to exceed the percentage quantities of electricity as provided by the Regulation. The risk is assessed as medium.

Quantitative risk. This type of risk is more pronounced in the subsidiary primarily as a result of risks arising from the difference between the forecast (leased) and the actual quantities of supplied electricity. Quantity risks are borne by the company in open agreements, that is, in all contracts with end customers and qualified producers. The company manages the risk through a comprehensive information support used for long and short-term forecasting of electricity consumption and delivery, and active daily monitoring of deviations at all measurement points included in the subgroup. Quantitative risk of E 3 s assessed as medium.

Price risk is associated with increased competition in the electricity market and the volatility of the market prices. The EP Group manages price risks through appropriate pricing policies and coordinated maturity of the sales and purchase agreements. The price risk of the Group is assessed as medium.

Credit risk arises as a result of losses due to untimely fulfilment or even default on the part of customers. The Group limits credit risk by carefully checking the creditworthiness of its customers, continuous monitoring, managing credit exposure to individual customers according to the set limits and monitoring outstanding receivables. To reduce the credit risk, sale transactions in the electricity sector are mostly secured by instruments, including appropriate collateral. Risk management is not only associated with collateral, but mainly with the defined contractual terms and conditions of sale, which the Company enforces for all types of transactions. The risk is assessed as medium.

Liquidity risk arises if the group companies are unable to meet their financial obligations on maturity. As the companies ensure daily monitoring and planning of short- and long-term solvency provided by regular coordination and planning of cash flows, the liquidity risk capacity is within the range of acceptable parameters and is manageable. The risk is assessed as medium.

Legislative risk results from changes in market rules or legislation on the Slovenian and foreign electricity markets, and may affect business results. Developments in the relevant legislation is monitored by the parent company and its subsidiary E 3 to ensure prompt response to any potential changes by adjusting the trading and production activities. The risk is assessed as low.

Operational risk is present in all business operations carried out by the group companies. The risk of a financial losses may arise due to lack of efficacy of information technology, quality processes and control processes. The risks are mitigated by the control system based on the principle that all the major operations are performed under control of at least two persons, permanent improvements in the upgrading of the information structure, and automatic control of the individual stages of processes. In addition, the group companies endeavour to mitigate the risk by precisely specifying all the processes, clearly defining the roles of individuals, including their powers, responsibilities and policies. Operational risks are mitigated by highly professional, experienced and motivated employees. The risk is assessed as medium.

Human resources risk is associated with the possibility of the loss of, or the lack of qualified personnel. The group companies employed 527 employees as at 31 December 2017 (2016: 518 employees); 422 men (2016: 416) and 105 women (2016: 102). The companies manage the risk by continuous training of employees by creating good working conditions, providing accident insurance, financing supplementary pension schemes, and facilitating secondary activities that affect the well-being of employees. The risk is assessed as moderate.

04.

PERFORMANCE OF THE ELEKTRO PRIMORSKA GROUP

Companies in the Elektro Primorska Group are engaged in various activities. The most important of those are implemented by the parent company, as its main activities are electricity distribution and management of the network grid, and by subsidiary E 3. A subsidiary E 3 is mainly engaged in the purchase and sale of electricity, as well as in electricity production from renewable resources, and co-generation and supply of steam and hot water, which is within the scope of its public services of heat supply.

The two companies individually and collectively achieved and exceeded all planned objectives.

The Group closed the business year with a profit however, the result did not reach the plan and is also below the one achieved in the previous year. This is due to slight drop in performance of the subsidiary.

Elektro Primorska has not adopted a diversity policy.

05.

SUBSEQUENT EVENTS

As a result of more successful than expected operation in the household sector, E 3 had to increase the bank guarantee granted to SODO. No significant business events occurred in the Group after the balance sheet date, which would have an impact on the Group's operations and financial statements.

As from 1 January 2018, the Elektro Primorska Group began to use **the new Microsoft Dynamics AX business information system and the IBM Maximo asset management and investment system.**

06.

CONSOLIDATED FINANCIAL STATEMENTS

INDEPENDENT AUDITOR'S REPORT

This is a translation of the original report in Slovene language

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ELEKTRO PRIMORSKA podjetje za distribucijo električne energije, d.d.

Opinion

We have audited the consolidated financial statements of Group Elektro Primorska (the Group), which comprise the consolidated statement of financial position as at 31 December 2017, the consolidated income statement, the consolidated statement of other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group Elektro Primorska as at 31 December 2017 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA). Our responsibilities under those rules are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the 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

Other information comprises the information included in the consolidated Annual Report other than the consolidated financial statements and auditor's report thereon. Management is responsible for the other information.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. In addition, we assess whether the other information has been prepared, in all material respects, in accordance with applicable law or regulation, in particular, whether the other information complies with law or regulation in terms of formal requirements and procedure for preparing the other information in the context of materiality, i.e. whether any non-compliance with these requirements could influence judgments made on the basis of the other information.

Based on the procedures performed, to the extent we are able to assess it, we report that:

- The other information describing the facts that are also presented in the consolidated financial statements is, in all material respects, consistent with the consolidated financial statements; and
- The other information is prepared in compliance with applicable law or regulation.

In addition, our responsibility is to report, based on the knowledge and understanding of the Group obtained in the audit, on whether the other information contains any material misstatement. Based on the procedures we have performed on the other information obtained, we have not identified any material misstatement.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, 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 the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or

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has no realistic alternative but to do so. The supervisory board and audit committee are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA 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 audit rules, 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 controls;
- 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 auditor's 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 auditor's 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 the supervisory board and audit committee 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.

Ljubljana, 11 May 2018

Sanja Košir Nikašinović
Director
Ernst & Young d.o.o.
Dunajska 111, Ljubljana

Lidija Šinkovec
Certified auditor

ERNST & YOUNG
Revizija, poslovno
svetovanje d.o.o., Ljubljana 1

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6.1. Consolidated statement of financial position of the Group as at 31 December 2017

in EUR

Assets	Notes	31.12.2017	31.12.2016
Non-current assets			
Intangible assets	6.2.1.1.	4.057.775	2.646.661
Property, plant and equipment	6.2.1.2.	185.835.559	183.534.146
Investment property	6.2.2	201.975	188.161
Investments in associates	6.2.3	913.236	942.951
Other shares and stakes	342.737	320.239	
Financial receivables	6.2.4	82.979	82.979
Operating receivables	6.2.5	156.945	27.422
Non-current deferred costs	6.2.6	90.041	112.084
Deferred tax assets	6.2.7	1.060.359	471.717
Total non-current assets		**192.741.606**	**188.326.361**
Current assets			
Inventories	6.2.8.1.	901.006	761.517
Financial receivables	6.2.8.2.	1.343	1.343
Operating receivables	6.2.6.3.	26.767.160	24.493.188
Income tax credits		50.793	0
Other receivables		1.501.088	1.139.968
Other current assets		3.206.923	2.735.867
Cash and cash equivalents	6.2.8.4.	6.167.489	3.162.992
Total current assets		**38.595.803**	**32.294.875**
Total assets		**231.337.409**	**220.621.236**

Table 95: Consolidated statement of financial position of the Group as at 31 December 2017 (assets)

in EUR

	Notes	31.12.2017	31.12.2016
Equity and liabilities			
Equity			
Share capital		78.562.832	78.562.832
Capital surplus		46.208.187	46.208.187
Legal reserves		768.501	768.501
Reserves for treasury shares		79.540	78.609
Treasury shares		-79.540	-78.609
Other profit reserves		30.133.850	24.691.698
Fair value reserve		-67.045	-174.387
Net profit b/f from previous years		0	0
Retained earnings		3.068.002	3.246.803
Total capital	**6.2.9.**	**158.674.327**	**153.303.633**
Non-current liabilities			
Provisions for post-employment and other long-term employee benefits	6.2.10.	3.930.263	3.823.923
Deferred revenue		10.849.240	10.895.543
Financial liabilities	6.2.11.	24.791.334	22.670.000
Total non-current liabilities		**39.570.837**	**37.389.466**
Short-term liabilities	**6.2.12.**		
Financial liabilities		6.790.892	7.357.549
Operating liabilities		25.083.987	21.001.768
Income tax payable		43.630	159.168
Other liabilities	6.2.13.	1.173.736	1.409.652
Total short-term liabilities		**33.092.246**	**29.928.137**
Total liabilities		**72.663.082**	**67.317.602**
Total equity and liabilities		**231.337.409**	**220.621.236**

Table 96: Consolidated statement of financial position of the Group as at 31 December 2017 (equity and liabilities)

Notes to the financial statements are an integral part thereof and should be read in conjunction with them.

6.2. Consolidated profit and loss account for the financial year ended on 31 December 2017

EUR	Notes	2017	2016
Net sales	6.3.1	109.913.672	102.017.001
Change in inventories of work in progress		-48.031	11.709
Capitalised own products and services	6.3.1	7.155.536	6.895.837
Other operating revenue	6.3.1	1.239.900	1.246.643
Cost of goods and material	6.3.2	-68.349.795	-58.932.796
Cost of services		-10.221.558	-10.831.737
Employee benefits	6.3.2	-18.667.697	-18.027.613
Amortisation and depreciation		-12.233.112	-12.092.719
Impairments and write-off		-443.208	-772.207
c. operating expenses from revaluation in current assets		-359.493	-404.380
Other operating expenses	6.3.3	-264.627	-324.225
Operating profit or loss		**8.081.082**	**9.189.892**
The share of operating profit or loss from investments valued under the equity method		64.831	158.943
Financial income	6.3.4	117.501	132.980
Financial expenses	6.3.5	-394.488	-462.856
Financial profit or loss		**-276.987**	**-329.876**
Profit or loss before tax		**7.868.926**	**9.018.959**
Income tax	**6.3.6**	**-1.103.155**	**-1.083.755**
Deferred tax		**580.572**	**-113.063**
Income tax payable		**-522.584**	**-1.196.819**
Net profit or loss for the year	**6.3.7**	**7.346.342**	**7.822.141**
Basic earnings per share (in EUR)		0,39	0,42
Diluted earnings per share (in EUR)		0,39	0,42

Table 97: Consolidated profit and loss account for the financial year ended on 31 December 2017

Notes to the financial statements are an integral part thereof and should be read in conjunction with them.

6.3. Consolidated statement of comprehensive income for the year ended 31 December 2017

EUR	2017	2016
Net profit	**7.346.342**	**7.822.141**
Other comprehensive income for the year		
Other comprehensive income for the year, to be recognised in profit or loss at a future date		
Fair value reserve	13.498	-710
Deferred tax effect		
Net other comprehensive income for the year, to be recognised in profit or loss at a future date	**13.498**	**-710**
Other comprehensive income for the year that will never be recognised in profit or loss		
Restatement of post-employment benefits	85.775	-19.905
Deferred tax effect	8.070	5.531
Net other comprehensive income for the year that will never be recognised in profit or loss	**93.845**	**-14.374**
Total other comprehensive income for the year (net of tax)	**107.343**	**-15.084**
Total comprehensive income for the year (net of tax)	**7.453.685**	**7.807.057**

Table 98: Consolidated statement of comprehensive income for the year ended 31 December 2017

Notes to the financial statements are an integral part thereof and should be read in conjunction with them.

6.4. Consolidated cash flow statement for the year ended 31 December 2017

in EUR

	Notes	2017	2016
A. CASH FLOWS FROM OPERATING ACTIVITIES			
1. Receipts from operating activities		**222.577.528**	**205.492.330**
a. Proceeds from the sale of products and services		194.274.664	177.232.460
b. Other receipts from operating activities		28.302.864	28.259.869
2. Expenditure from operating activities		**-208.699.877**	**-193.152.280**
a. Expenditure for purchase of materials and services		-91.920.968	-85.963.766
b. Expenditure for salaries and employees' shares in profits		-18.720.526	-18.084.389
c. Expenditure for all kinds of contributions		-9.156.933	-8.349.810
d. Corporate income tax paid		-1.159.791	-958.698
e. Other expenditure from operating activities		-87.741.658	-79.795.617
3. Net cash from operating activities		**13.877.651**	**12.340.050**
B. CASH FLOWS FROM INVESTING ACTIVITIES			
4. Cash receipts from investing activities		**1.507.171**	**230.059**
a. Interest received		75.982	95.394
b Shares in the profit		100.466	77.707
c. Proceeds from disposal of property, plant and equipment		1.330.723	53.822
d. Proceeds from disposal of long-term investments		0	3.137
e. Proceeds from disposal of short-term investments		0	0
5. Cash disbursements for investing activities		**-11.550.408**	**-9.478.779**
a. Expenditure for acquisition of intangible assets		-1.965.372	-1.441.506
b. Expenditure for acquisition of property, plant and equipment		-9.576.036	-8.028.774
c. Expenses for acquisition of long-term and short-term investments		-9.000	-8.500
6. Net cash from investing activities		**-10.043.237**	**-9.248.720**
7. Net cash from operating and investing activities		**3.834.414**	**3.091.330**
C. CASH FLOWS FROM FINANCING ACTIVITIES			
8. Cash receipts from financing activities		**29.650.000**	**33.850.000**
a. Receipts from long-term borrowings		9.000.000	8.000.000
b. Receipts from short-term borrowings		20.650.000	25.850.000
9. Cash disbursements from financing activities		**-30.479.917**	**-38.713.204**
a. Interest paid		-319.521	-385.979
b. Expenditure for capital redemption		1.239	-80.000
c. Cash repayments of long-term borrowings		-7.445.323	-7.678.669
d. Cash repayments of short-term borrowings		-20.650.000	-27.459.500
e. Dividends paid		-2.066.311	-3.109.056
10. Net cash from financing activities		**-829.917**	**-4.863.204**
11. Total cash flows		**3.004.497**	**-1.771.874**
CLOSING BALANCE OF CASH AND CASH EQUIVALENTS		**6.167.489**	**3.162.992**
X. Opening balance of cash and cash equivalents		**3.162.992**	**4.934.866**
Y. CASH FLOWS FOR THE PERIOD	**6.4.**	**3.004.497**	**-1.771.874**
Closing balance of cash on the last day of the accounting period		**6.167.489**	**3.162.992**

Table 99: Consolidated cash flow statement for the year ended 31 December 2017

Notes to the financial statements are an integral part thereof and should be read in conjunction with them.

6.5. Consolidated statement of changes in equity for the year ended 31 December 2017

2017										in EUR
	Called-up capital		Profit reserves							
	Share capital	Capital surplus	Legal reserves	Reserves for treasury shares	Treasury shares	Other profit reserves	Fair value reserve	Retained earnings	Net profit for the year	Total capital
	I/1	II	III/1			III/5	IV	V/1	VI/1	
A.1. At 31 Dec 2016	78.562.832	46.208.187	768.501	78.609	-78.609	24.691.698	-174.387	439.702	2.807.101	153.303.634
A.2. At 1 Jan 2017	78.562.832	46.208.187	768.501	78.609	-78.609	24.691.698	-174.387	439.702	2.807.101	153.303.634
B.1. Changes in equity - transactions with owners		**0**	**0**	**931**	**-931**	**0**	**0**	**-2.066.311**	**-931**	**-2.067.242**
a) Purchase of treasury shares					-931					-931
b) Formation of reserve for treasury shares				931					-931	0
a) Dividend payment	0	0	0			0	0	-2.066.311	0	-2.066.311
B.2. Total comprehensive income for the reporting period		**0**	**0**			**0**	**107.342**	**0**	**7.346.342**	**7.453.684**
a) Net profit or loss for the reporting period	0	0	0			0	0	0	7.346.342	7.346.342
b) Fair value reserve	0	0	0			0	5.565	0	0	5.565
b) Other components of comprehensive income for the reporting period	0	0	0			0	101.777	0	0	101.777
B.3. Changes within equity	**0**	**0**	**0**			**5.442.152**	**0**	**2.178.460**	**-7.636.362**	**-15.750**
a) Allocation of the remaining net profit of the comparable reporting period to other components of equity	0	0	0			602.708	0	2.194.210	-2.796.918	0
b) Allocation of part of net profit of the reporting period to other components of equity in accordance with decision of the management and supervisory bodies	0	0	0			4.788.342	0	0	-4.788.342	0
c) Allocation of part of net profit to additional reserves in accordance with decisions of the AGM						51.102		0	-51.102	0
d) Other changes within equity	0	0	0			0	0	-15.750		-15.750
C. At 31 Dec 2017	**78.562.832**	**46.208.187**	**768.501**	**79.540**	**-79.540**	**30.133.850**	**-67.045**	**551.851**	**2.516.150**	**158.674.326**
Distributable profit 2017								**551.851**	**2.516.150**	**3.068.001**

Table 100: Consolidated statement of changes in equity for the year ended 31 December 2017

Notes to the financial statements are an integral part thereof and should be read in conjunction with them.

6.6. Consolidated statement of changes in equity for the year ended 31 December 2016

2016										in EUR
	Called-up capital		Rezerve iz dobička							
	Share capital	Capital surplus	Legal reserves	Reserves for treasury shares	Treasury shares	Other profit reserves	Fair value reserve	Retained earnings	Net profit for the year	Total capital
	I/1	II	III/1			III/5	IV	V/1	VI/1	
A.1. At 31 Dec 2015	78.562.832	46.208.187	768.501	0	0	16.502.771	-159.303	442.807	6.401.398	148.727.193
A.2. At 1 Jan 2016	78.562.832	46.208.187	768.501			16.502.771	-159.303	442.807	6.401.398	148.727.193
B.1. Changes in equity - transactions with owners	**0**	**0**	**0**	**78.609**	**-78.609**	**0**	**0**	**-3.142.513**	**-78.609**	**-3.221.123**
a) Purchase of treasury shares					-78.609					-78.609
b) Formation of reserve for treasury shares				78.609					-78.609	0
a) Dividend payment	0	0	0			0	0	-3.142.513	0	-3.142.513
B.2. Total comprehensive income for the reporting period	**0**	**0**	**0**			**0**	**-15.084**	**0**	**7.822.141**	**7.807.057**
a) Net profit or loss for the reporting period	0	0	0			0	0	0	7.822.141	7.822.141
b) Gains or losses on revaluation of investments	0	0	0			0	-710	0	0	-710
b) Other components of comprehensive income for the reporting period	0	0	0			0	-14.374	0	0	-14.374
B.3. Changes within equity	**0**	**0**	**0**			**8.188.927**	**0**	**3.139.409**	**-11.337.829**	**-9.493**
a) Allocation of the remaining net profit of the comparable reporting period to other components of equity	0	0	0			544.426	0	5.879.952	-6.424.378	0
b) Allocation of part of net profit of the reporting period to other components of equity in accordance with decision of the management and supervisory bodies	0	0	0			4.913.450	0	0	-4.913.450	0
c) Allocation of part of net profit to additional reserves in accordance with decisions of the AGM						2.731.051		-2.731.051		0
d) Other changes within equity	0	0	0			0	0	-9.493		-9.493
C. At 31 Dec 2016	**78.562.832**	**46.208.187**	**768.501**	**78.609**	**-78.609**	**24.691.698**	**-174.387**	**439.702**	**2.807.101**	**153.303.634**
Distributable profit 2016								**439.702**	**2.807.101**	**3.246.803**

Table 101: Consolidated statement of changes in equity for the year ended 31 December 2016

Notes to the financial statements are an integral part thereof and should be read in conjunction with them. Retrospective error adjustment is explained in Note 6.1.1.1.

07.

FINANCIAL REPORT OF THE ELEKTRO PRIMORSKA GROUP

7. 1. General notes and disclosures

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") as endorsed by the EU Regulation, and which were adopted by the International Financial Reporting Interpretations Committee of the IASB ("IFRIC"), as endorsed by the European Union, and in compliance with provisions of the Companies Act (ZGD). These consolidated financial statements have been prepared in accordance with IFRS.

Basis of preparation of consolidated financial statements and significant accounting policies

Declaration of Conformity
The Management Board approved the separate financial statements of the Company and consolidated financial statements of the Group on 8 May 2017.

The consolidated financial statements of the Elektro Primorska have been prepared in accordance with International Financial Reporting Standards ("IFRS"), and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB ("IFRIC"), as adopted by the European Union, and in compliance with the Companies Act.

Basis of measurement
The consolidated financial statements of the Group have been prepared on a historical cost basis, except for available-for-sale assets which are recognised at fair value. Methods applied in the measurement of fair value are presented in Note 6.7.

Functional and presentation currency
The financial statements contained in this report are presented in EUR (€) without cents, which is the functional and presentation currency of the Group. Due to rounding of figures, insignificant deviations may occur in the sums contained in the tables.

Transactions in foreign currencies are translated into EUR at the exchange rate of the European Central Bank (ECB) on the date of the transaction. Exchange rate differences between the date of the transaction and the date of payment are recognised in profit or loss as a financial expense or income.

Segment Reporting
The Company is not required to apply provisions of IFRS 8 and therefore its data is not disclosed by segment.

The use of estimates and judgements
In the preparation of financial statements, management makes certain estimates, judgements and assumptions which impact the accounting policies used and the carrying value of assets and liabilities, revenues and expenses. Pricing and related assumptions and uncertainties are disclosed in the notes to the separate financial statement items.

Those estimates, judgements and assumptions are regularly revised. Since estimates and assumptions are subject to subjective judgement and some degree of uncertainty, subsequent actual results may differ from the estimates. Any changes in accounting estimates are recognised in the period when the change occurred, providing the change only affects that particular period; however, when the change also impacts future periods, they are recognised in the period of the change occurring and future periods.

Estimates and assumptions are used primarily when making the following judgements:

Assessment of useful lives of depreciable assets (notes 6.2.1. and 6.2.2)
Economic life of an asset is assessed in consideration of expected physical wear and tear, technical and functional obsolescence and expected legal and other restrictions of use. The Group revises economic lives of all significant assets to determine whether due to changed circumstances, the asset's assessed economic life has changed resulting in the revaluation of the amortisation/depreciation of an asset.

Assets' impairment testing
Information on significant estimates about uncertainty and critical judgements in applying accounting policies that have the most significant impact on the amounts recognised in the financial statements is presented below:

- Investment in associates (Note 6.2.3)
- Available-for-sale financial assets (Note 6.2.3),
- Financial receivables (Notes 6.2.4 and 6.2.8.2).

Fair value estimates of the assets (Note 6.7)
Financial assets measured at fair value through profit or loss are recognised at fair value. All other items in the financial statements are recognised at cost or amortised cost.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 - quoted (unadjusted) market prices in active markets for identical assets or liabilities
Level 2 - valuation techniques for which the lowest level input is directly or indirectly observable
Level 3 - valuation techniques for which the lowest level input is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the reporting period.

The fair value measurement hierarchy of the Group's assets and liabilities is presented in Note 6.7, while accounting policies used for individual items in the financial statements are explained in Note 3.p.

The Group regularly reviews the impact assessment in joint ventures and associates if there has been a change in control, thus ensuring that investments in the financial statements are adequately addressed.

In particular, evidence of investors' significant influence is shown by one or more of the following facts, namely:

- representation on the Board of Directors or equivalent decision-making body of the company in which the Group/Company has invested,
- participation in policy-making processes, including participation in decisions about dividends,
- material transactions between the investor and the company in which the Group has invested.

Assessment of provisions for legal disputes (Note 6.2.10)
Individual Group companies have filed multiple lawsuits and the Group ensures regular estimate of the need for provisions for these legal disputes. A provision is recognised when companies have present obligations (legal or constructive) as a result of past events, a reliable estimate can be made of the amount of obligation, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Contingent liabilities are not recognised in the financial statements as their actual existence will be confirmed only upon the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of these companies.

Management of individual companies continually assess contingent liabilities to determine whether an outflow of resources embodying economic benefits has become probable. In this case, a provision is recognised in the financial statements of the period in which the change in probability occurs.

Provisions for post-employment benefits and other non-current employee benefits (Note 6.2.10)

Defined benefit obligations include the present value of termination benefits on retirement and jubilee awards. They are recognised on the basis of the actuarial calculation approved by the management. The actuarial calculation is made by using assumptions and estimates effective at the time of the calculation, and may, as a result of future changes, differ from actual assumptions applicable at that future time. This applies primarily to determination of the discount rate, assessment of employee turnover, mortality assessment, as well as assessment of the increase in salaries. Due to the complexity of the actuarial calculation and the long-term nature of the item, defined benefit obligations are sensitive to changes in the above estimates and assessments.

The assumptions are detailed in the Notes 6.2.10.

Assessment of potential utilisation of deferred tax assets

The Group recognises deferred tax assets arising from provisions for anniversary bonuses and retirement benefits, impairment of receivables and tax losses.

On the reporting date, the Group verifies the amount of disclosed deferred tax assets and liabilities. A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Changes in accounting policies

The Group made no changes to its accounting policies in 2017.

NEW STANDARDS AND INTERPRETATIONS EFFECTIVE FROM 1 JANUARY 2016

ANNUAL IMPROVEMENTS TO STANDARDS AND INTERPRETATIONS – 2012 – 2014 CYCLE

Amendments to IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations

Assets (or disposal groups) are generally disposed of either through sale or distribution to the owners. The amendment clarifies that changing from one of the disposal methods to the other (through sale or through distribution to the owners) should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is therefore no interruption of the application of the requirements in IFRS 5. This amendment is applied prospectively.

IFRS 7 – Financial Instruments: Disclosures

The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendments.

IAS 19 – Employee Benefits:

The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. This amendment is applied prospectively.

The Group did not apply early any new standards and interpretations that have been adopted, but are not yet effective.

The standards and interpretations described below have not come into effect by the date of the consolidated financial statements and have not been endorsed by the EU. The Group will apply the new and revised standards and interpretations when they come into force. The Group did not early adopt any standards.

IFRS 9 Financial Instruments:

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments, bringing together the requirements of all individual phases of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. The standard is applied for annual periods beginning on or after 1 January 2018. Early adoption is permitted. The amendments are to be applied retrospectively, however presentation of comparative data is not obligatory. Early adoption of the previous versions of IFRS 9, published in 2009, 2010 and 2013 is permitted providing, the entity has made a transfer to IFRS at any-time before 1 February 2015.

The Group does not expect the amendments will have a significant impact on its consolidated financial statements due to the following reasons:

- Financial assets that are currently classified as available-for-sale qualify for fair value classification through other comprehensive income. Therefore, the accounting for these assets will not change. Investments that are currently measured at fair value through profit or loss will continue to be measured on the same basis in accordance with IFRS 9.
- Debt instruments, currently measured at amortised cost, qualify for classification at amortised cost in accordance with IFRS 9.

The new impairment model requires the recognition of impairment provisions based on expected credit losses, rather than merely realised credit losses, as required by IAS 39. The Group expects to increase the provision for impairment, as the existing system of receivable allowances does not provide sufficient amount of allowances in accordance with the new IFRS 9.

The Group does not expect the amendments will have a significant impact on its consolidated financial statements.

IFRS 15 Revenue from Contracts with Customers

In May 2014 the IASB issued IFRS 15 which establishes a five-step model that will apply to revenue earned from a contract with a customer. Under IFRS **15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring** goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. The new standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Full application of the new standard is applied for annual periods beginning on or after 1 January 2018, whereas a modified application must be used retrospectively. Early adoption is permitted.

Under the new standard, the Group has two options: to apply the new standard retrospectively or prospectively. The Group will apply the new standard in the compilation of its consolidated financial statements for financial year 2018 using the prospective option and presentation of total effects of the transition in equity.

The Group does not expect significant differences in the recognition of revenues from the sale of goods and services. It follows from the analysis of the customer contracts that they meet criteria for revenue recognition under the new standard. The performance obligations are properly defined in the contracts, which allows their classification and measurement, as well as the timing of their fulfilment. Contracts with customers include sales of goods and services that the Group discloses separately in the financial statements.

The Group does not expect the amendments will have a significant impact on its consolidated financial statements.

Majority of the revenue arises from contracts that are defined as a simple supply of goods and services. Contracts do not contain separately identifiable liabilities and we consider that the applicable accounting policy for recognition of revenue is in accordance with the new requirements of IFRS 15. The Group identified a minor amount of revenues recognised on the basis of contracts with customers and for which a financial component was identified. The disclosure of the revenues associated with financing will not have a significant impact on the Group's financial statements.

The Group does not expect the amendments will have a significant impact on its consolidated financial statements.

IFRS 15 contains specific criteria for determining which contractual costs can be capitalised and distinguishes between costs related to the acquisition of the contract and the costs associated with the fulfilment of contracts. The Group estimates that there are no significant costs of contract fulfilment.

The Group does not expect the amendments will have a significant impact on its consolidated financial statements.

Clarifications to IFRS 15 - Revenue form the Contracts with Customers

The clarifications are effective for annual periods beginning on or after 1 January 2018. Early adoption is permitted. The objective of the Clarifications is to clarify the IASB's intentions when developing the requirements in IFRS 15 Revenue from Contracts with Customers, particularly the accounting of identifying performance obligations amending the wording of the "separately identifiable" principle, of principal versus agent considerations including the assessment of whether an entity is a principal or an agent, as well as applications of control principle and of licensing providing additional guidance for accounting of intellectual property and royalties. The Clarifications also provide additional practical expedients for entities that either apply IFRS 15 fully retrospectively or that elect to apply the modified retrospective approach.

Management has assessed the impact of clarifications and believes they will have no significant impact on the consolidated financial statements of the Group.

IFRS 16 Leases

The IFRS 16 scope relates to leases of all assets, with some exceptions. Lessees are required to account for all leases under a single on-balance sheet model similar to the accounting for finance lease under IAS 17. The standard includes two recognition exceptions for lessees - lease of „low value assets" (e.g. personal computers) and short-term leases (e.g. leases with a lease term of 12 months or less).

At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-to-use asset. Lessees will be also required to re-measure the lease liability upon the occurrence of certain events (e.g. a change in the lease term, a change in future lease payments resulting from a changes in an index or rate used to determine those payment). The lessee will generally recognise the amount of the re-measurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from existing accounting under IAS 17. The standard is applied for annual periods beginning on or after 1 January 2019. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transitional provisions permit certain relief. Early application is permitted, but not before the lessee applies IFRS 15.

The Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

Amendments to IFRS 10 and IAS 28:

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively.

The Group does not expect the amendments will have a significant impact on its consolidated financial statements.

IFRS 2: Classification and Measurement of Share-based Payment Transactions (amendments)

These amendments are effective for annual periods beginning on or after 1 January 2018 Early adoption is permitted. The Amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, for share-based payment transactions with a net settlement feature for withholding tax obligations and for modifications to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. The standard has so far not been endorsed by the EU.

The Group does not expect the amendments will have a significant impact on its consolidated financial statements.

Amendments to IAS 40: Transfers of Investment property

The amendments clarify the requirements on transfer to, or from, investment property.

Amendments are applied to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments.

Retrospective application is also permitted if that is possible without the use of a hindsight.

The amendments are effective prospectively for annual periods beginning on or after 1 January 2018. Early adoption is permitted.

The Group is currently assessing the impact of the amendments and will adopt them on the required effective date. The Group does not expect the standard to have a significant impact on its consolidated financial statements.

Amendments to IFRS 9: Prepayment Features with Negative Consideration

These amendments are effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted. The Amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract (so that, from the perspective of the holder of the asset there may be 'negative compensation'), to be measured at amortised cost or at fair value through other comprehensive income. The standard has so far not been endorsed by the EU.

The Group does not expect the standard to have a significant impact on its consolidated financial statements.

Amendments to IAS 28: Investments in Associates and Joint Ventures.

Amendments clarify that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organisation, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis upon initial recognition.
The amendments are effective prospectively for annual periods beginning on or after 1 January 2018. The Group does not expect the standard to have a significant impact on its consolidated financial statements.

The Group is currently assessing the impact of the amendments and will adopt them on the required effective date. The Group does not expect the standard to have a significant impact on its consolidated financial statements.

IFRIC Interpretation 22: Foreign Currency Transactions and Advance Consideration

Interpretation addresses the exchange rate to use in transactions that involve advance consideration paid or received in a foreign currency. The interpretation covers foreign currency transactions when an entity recognises a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration before the entity recognises the relates asset, expense or income. It does not apply when an entity measures the related asset, expense or income on initial recognition at fair value or at the fair value of the consideration received or paid at a date other than the date of initial recognition of the non-monetary asset or non-monetary liability.

Also, the interpretation need not be applied to income taxes, insurance contracts or reinsurance contracts.

The Interpretations are effective for annual periods beginning on or after 1 January 2018, with early adoption permitted.

The Interpretations can be applied either prospectively to all foreign currency assets, expenses and income in the scope of the interpretation initially recognised on or after the beginning of the reporting period an entity first applies the interpretation or the beginning of a prior reporting period presented as comparative information.

The Group is assessing the potential impact of the amendments and will apply it on its effective date. The Group does not expect the standard to have a significant impact on its consolidated financial statements.

Amendments to standards and interpretations effective from 1 January 2017

Amendments to IAS 7: Disclosure Initiative

The amendments to IAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising financing activities, including both changes arising from cash flows and non-cash changes such as exchange rate gains and losses.

The amendments are effective prospectively for annual periods beginning on or after 1 January 2017. On initial application of the amendment, entities are not required to provide comparative information for preceding periods. Early adoption is permitted.

The Group has adequately disclosed the effects of the amendment in its Annual Report.

Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses

International Accounting Standards Committee (IASC) issued amendments to IAS 12 Income Tax to clarify recognition of deferred tax assets for unrealised losses from debt instruments measured at fair value.

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how and entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

The amendments are effective for annual periods beginning on or after 1 January 2017, with early adoption permitted. On initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognised in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying the relief must disclose that fact.

The Group is currently assessing the impact of the amendments and will adopt them on the required effective date. The Group does not expect the standard to have a significant impact on its consolidated financial statements.

Annual improvements 2014-2016 Cycle

The IASB has issued the Annual Improvements to IFRSs 2014 - 2016 Cycle, which is a collection of amendments to IFRSs. The following annual improvements have not been endorsed by the EU. These improvements have no impact of the consolidated financial statements of the Group.

IFRS 12: Disclosures of Interests in Other Entities

The amendments clarify that the disclosure requirements in IFRS 12, other than those of summarised financial information for subsidiaries, joint ventures and associates, apply to an entity's interest in a subsidiary, a joint venture or an associate that is classified as held for sale, as held for distribution, or as discontinued operations in accordance with IFRS 5.

The Group is currently assessing the impact of the amendments and will adopt them on the required effective date. The Group does not expect the standard to have a significant impact on its consolidated financial statements.

Amendments to IFRS 1: First-time Adoption of International Financial Reporting Standards:

The amendments deleted short-term exemptions in paragraphs E3-E7 of IFRS 1, because they have now served their intended purpose. The amendments are effective prospectively for annual periods beginning on or after 1 January 2018.

The Group does not expect the amendments will have an impact on its consolidated/separate financial statements.

Amendments to IAS 28: Investments in Associates and Joint Ventures

Amendments clarify that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organisation, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

The Group does not expect the amendments will have an impact on its consolidated/separate financial statements.

7.1.1.7. Significant accounting policies

Measurement of economic categories presented in the financial statements is based on historical and final fair values recorded in books of accounts. The following are the main accounting policies.

a. The process of consolidation

Consolidation includes parent company Elektro Primorska d. d., subsidiary E 3, and associate Knešca.

Consolidated financial statements comprise:

- Consolidated statement of financial position
- Consolidated profit and loss account,
- Consolidated statement of comprehensive income
- Consolidated cash flow statement,
- Consolidated statement of changes in equity, and
- Notes to consolidated financial statements.

Companies in the Elektro Primorska Group are committed to their individual calculation of corporate income tax liability.

In the consolidated financial statements, the Elektro Primorska Group is addressed as a single entity. The consolidated financial statements are compiled based on original financial statements of the group companies, with relevant consolidating adjustment, which are not posted in the financial statements of the group companies.

Consolidated financial statements are compiled based on full consolidation of subsidiary E 3 and the equity method applied in the consolidation of the associate Knešca.

Consolidation procedures are applied to:

- settlement of the parent company's financial investments with the capital of the subsidiary,
- elimination of intercompany receivables and liabilities,
- elimination of intercompany revenue and expenses
- elimination of intercompany inflows and outflows,
- increase of the investment in associated company by the attributable amount of capital, less dividends paid and the relevant financial revenue and expenses.

b) Business Combinations

Business combinations are accounted for using the purchase method at the date of the merger, which is the acquisition date, i.e. the date when the Group obtains control. Control means that the Group has the power to decide on the financial and operating policies of a company so as to obtain benefits from its activities.

The Group measures goodwill at the fair value of the consideration transferred, increased by the recognised amount of any non-controlling interest in the acquiree, and the fair value of any existing shares in the capital of the acquired company (gradual merger), less the net recognised value of acquired assets and liabilities measured at the date of acquisition. If the surplus is negative, the effect is recognised directly in profit or loss. Acquisition costs, other than costs associated with the issuance of equity or debt instruments incurred in connection with a business combination, are recognised when they are incurred.

Contingent liabilities in a business combination are recognised at fair value at the acquisition date. If a contingent liability is classified as equity, it is not re-measured and its settlement is accounted for within equity. The Group recognises subsequent changes in fair value of contingent liabilities in profit or loss.

Accounting for acquisitions of minority interests

The Group accounts for purchases of non-controlling interests where there is no change in control of the company, as transactions with owners and therefore no goodwill is recognised. Changes in non-controlling interests are based on the proportionate share of the net assets of the subsidiary. Any surplus or the difference between the cost of the additional investment and the carrying amount of the assets is recognised in equity.

Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when:

- the investor is entitled to variable returns from its involvement in the business of the investee,
- has the ability to affect the return on the basis of its control of the investee or the recipient of the investment,
- there is a link between power and return.

The financial statements of subsidiaries are included in the consolidated financial statements from the date the control commences until the date the control ceases. Accounting policies of subsidiaries are consistent with those of the Group.

After loss of control, the Group derecognises the assets and liabilities of the subsidiary, non-controlling interests and the other components of equity related to the subsidiary. Any surpluses or deficits that arise from the loss of control are recognised in profit or loss. If the Group retains an interest in a subsidiary, this interest is measured at fair value at the date when control is lost. Subsequently, it is accounted for as investment in associate (accounted for under the equity method) or as available-for--sale financial asset depending on the level of control. Changes in equity interest of the parent company in a subsidiary that do not result in loss of control are accounted for as equity transactions (i.e. transactions with owners) and recognised as other profit reserves.

Investments in associates and joint ventures

Associates are those entities in which the Group has significant influence, but does not control their financial and operating policies. Joint ventures are those entities over whose activities the Group has joint control and which are based on contractual agreement requiring unanimous consent for financial and operating decisions. On initial recognition, investments in associates and joint ventures are measured at cost; after the initial recognition they are accounted for under the equity method. The consolidated financial statements include the Group's share in the profits and losses of jointly controlled companies accounted for using the equity method (after relevant adjustments in the accounting policies) from the date that significant influence commences and until the date it ceases. If the Group's share of losses in an associate or jointly controlled entity is greater than its stake, the carrying amount of the Group's interest is reduced to nil and its share in any further losses is no longer recognised.

Transactions eliminated from the consolidated financial statements

Balances, profits and losses arising from intra-group transactions have been eliminated in the compilation of consolidated financial statements of the Group. Unrealised gains arising from transactions with associates (accounted for under the equity method) are eliminated to the extent of the Group's stake in the associate. Unrealised losses are eliminated in the same way as unrealised gains, provided that there is no evidence of impairment.

c) Foreign currency translation

Foreign currency transactions

Transactions in foreign currencies are translated into the functional currency of the Group entities at exchange rates prevailing on the transaction date. At the end of reporting period, monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the applicable exchange rate. Foreign exchange rate gains or losses are differences between amortised cost denominated in the functional currency at the beginning of the period adjusted for effective interest and payments made during the period, and the amortised cost in foreign currency translated at the exchange rate prevailing at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated into the functional currency at the exchange rate prevailing at the date when the fair value is determined. Non-monetary items denominated in foreign currencies that are reported at cost are translated in to the functional currency at the exchange rate applicable on the transaction date. All differences arising from the translation of foreign currency are recognised in profit or loss.

Financial statements of the Group companies

The consolidated financial statements are presented in euros. For the purpose of the consolidated financial statements, items of each individual company in the Group that is included in the consolidation are translated into the reporting currency as follows:

- Assets and liabilities in each individual statement of financial position (including goodwill), are translated at the ECB exchange rate prevailing at the reporting date,
- Revenues and expenses of foreign operations are translated into euros at the exchange rates prevailing at the date of conversion.

Foreign exchange differences are recognised in other comprehensive income as translation reserve and as a component of equity. The relevant share of foreign exchange rate differences arising from foreign subsidiaries that are not wholly owned, are allocated to non-controlling interest. When a foreign operation is disposed of in part or in full, the relevant amount in the translation reserve is reclassified to profit or loss as revenue or expense arising from disposal. If the Group disposes of only one part of its interest in a subsidiary that includes a foreign operation while maintaining control, the relevant share of the amount is reclassified to non-controlling interest. If the Group disposes of only one part of its investment in an associate or jointly controlled entity that includes a foreign operation, and maintains significant influence or joint control, the relevant share of the amount is reclassified to profit or loss.

d. Financial instruments

Financial instruments include the following:

- non-derivative financial assets
- non-derivative financial liabilities
- derivative financial instruments

Impairment of financial assets is explained in detail in Note k1.

d1. Non-derivative financial assets

Non-derivative financial assets of the Group include cash and cash equivalents, receivables, loans, and investments. Accounting policies applied to investments in joint ventures and associates are presented in Note a.

Loans, receivables and deposits are initially recognised by the Group on the transaction date. Other financial assets are initially recognised on the trade date or when the Group becomes a party to the contractual provisions of the financial instrument. A financial asset is derecognised when contractual rights to cash flows from the asset are discontinued or when the rights to contractual cash flows from the financial asset are transferred in a transaction in which all risks and benefits from the ownership of the financial asset are transferred.

Non-derivative financial instruments of the Group are on initial recognition classified into one of the following groups: financial assets at fair value through profit or loss, held-to-maturity financial assets, loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the instrument was acquired.

Financial assets at fair value through profit or loss

A financial asset is classified at fair value through profit or loss if it is held for trading or is designated as such upon its initial recognition. Financial assets are designated at fair value through profit or loss provided that the Group is able to manage such funds and also to decide on their purchase and sale based on the fair values. Upon initial recognition, attributable transaction costs are recognised in profit or loss when incurred. Financial assets at fair value through profit or loss are measured at fair value, and the amount of fair value change is recognised in profit or loss.

Financial assets at fair value through profit or loss mainly consist of unrealised derivative financial instruments, which are assessed at each reporting date.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets designated as available for sale that are not classified as loans and receivables or financial assets at fair value through profit or loss.

They are measured at fair value if fair value can be determined and the resulting gains or losses are recognised directly in other comprehensive income as fair value reserve, except for impairment losses and gains or losses from foreign exchange differences, until the financial asset is derecognised. On derecognition of available-for-sale financial assets, the cumulative gains and losses in other comprehensive income are transferred to profit or loss.

If the fair value cannot be measured reliably because the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reliably determined, the financial asset is measured at cost. Explanation of financial assets carried at cost is included in the relevant disclosure.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Depending on their maturity, they are classified as short-term financial assets (maturity of up to 12 months of the reporting date) or long-term financial assets (maturity of more than 12 months of the reporting date). Initially, loans and receivables are recognised at fair value increased by directly attributable costs of transaction. After initial recognition, loans and receivables are measured at amortised cost using the effective interest method less any impairment losses.

Cash and cash equivalents

Cash and cash equivalents include cash, bank deposits with maturity up to three months and other short-term highly liquid investments with original maturities of three months or less.

d2. Non-derivative financial liabilities

Non-derivative financial liabilities of the Group include debt securities issued and borrowings. Initially, the Group recognises debt securities issued on the transaction date. All other financial liabilities are initially recognised on the trade date, when the Group becomes a party to the contractual provisions of the financial instrument. A financial liability is derecognised only when the contractual obligation is fulfilled, cancelled or expired.

Non-derivative financial liabilities are initially carried at fair value plus transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest rate method. Depending on their maturity, they are classified as short-term financial assets (maturity of up to 12 months of the reporting date) or long-term financial assets (maturity of more than 12 months of the reporting date).

d3. Derivative financial instruments

Derivative financial instruments are initially recognised at fair value. Costs associated with the transaction are recognised in profit or loss when incurred. Subsequent to initial recognition, derivative financial instruments are measured at fair value, and changes therein are accounted for as described below.

- When a derivative financial instrument designated as a hedge instrument to hedge against exposure to variability of cash flows that are attributable to a particular risk associated with a recognised asset or liability, or a highly probable forecast transaction that could impact profit or loss, the effective part of changes in the fair value of the derivative is recognised in other comprehensive income as the hedging reserve. Any ineffective part of changes in fair value of the derivative is immediately recognised in profit or loss. The Group discontinues hedge accounting if the instrument classified as a hedge instrument no longer meets the criteria for hedge accounting, or if the hedging instrument is sold, terminated or utilised. The cumulative gain or loss previously recognised in other comprehensive income is recognised in the hedging reserve until the forecast transaction impacts profit or loss. If the forecast transaction is no longer expected to occur, the amount in other comprehensive income is immediately recognised in profit or loss. In all other cases the amount recognised in other comprehensive income is transferred to profit or loss in the same period in which the hedged item affects profit or loss.
- Effects of other derivative financial instruments not designated as hedging of exposure to variability of cash flows and, which cannot be attributed to a particular risk associated with a recognised asset or liability, are recognised in profit or loss.

The Group does not use derivative financial instruments.

e. Equity

Total capital of the company is its liability towards its owners which falls due if the company ceases to operate. It is determined by the amounts invested by owners and the amounts generated in the course of operation that belong to the owners.

Total capital consists of:

Called-up capital

Called-up capital of the parent company Elektro Primorska, Nova Gorica, is the share capital, which is defined in the Articles of Association, registered at the Court and paid by the owners. Dividends paid on ordinary shares are recognised as a liability in the period in which they are approved at the General Meeting.

Legal reserves

Legal reserves are amounts of retained profit from previous years, earmarked mainly for the settlement of potential future losses. They are recognised on their occurrence by the body responsible for preparation of the annual report, or based on the decision of the relevant authority.

The fair value reserve comprises effects of measurement of available-for- sale financial assets at fair value and actuarial gains and losses from provisions for post-employment and other long-term employee benefits.

Reserves for treasury shares

If the parent company or its subsidiaries acquire an ownership interest in the parent company, the amount paid, including transaction costs less tax, is deducted from total equity as treasury shares until such shares are cancelled, reissued or disposed of. If treasury shares are subsequently sold or reissued, the consideration received net of transaction costs and related tax effects is included in capital surplus.

Dividends

Dividends are recognised in the consolidated financial statements of the Group in the period in which the General Meeting adopted the resolution on their payment.

f. Intangible assets

Goodwill

The Group recognises goodwill arising from business combinations. Initial measurement of goodwill is explained in point a.

Goodwill is recognised at cost less any accumulated impairment losses. The carrying amount of goodwill from investments accounted for under the equity method is included in the carrying amount of the investment, while any impairment losses on an investment is allocated neither to any asset nor goodwill that is a part of the carrying amount of an investment recognised using the equity method.

Developmental studies and long-term rights

Development studies and long-term rights include the design and production of new or substantially improved software applications. The Group capitalises development costs of software solutions providing the following conditions are met: the costs can be measured reliably; the development of software solution is technically and commercially feasible; there is likelihood of future economic benefits flowing to the entity; the Group has sufficient resources to complete the development and aims to use the relevant software solution. Capitalised development costs of software solutions include direct costs of labour and other costs that can be directly attributed to making the asset ready for its intended use.

Other intangible assets

Other intangible assets with limited useful lives are carried at cost less accumulated amortisation and accumulated impairment losses. The cost of an item of property, plant and equipment includes expenditure that is directly attributable to the acquisition of the asset. Borrowing costs that are directly attributable to the acquisition or production of a qualifying asset are recognised as part of the cost of the asset. Intangible assets are subsequently measured using the cost model. In addition to goodwill and rights arising from the concession for construction of gas networks and distribution described below, the majority of the Group's intangible assets comprise software. The Group has no intangible assets with indefinite useful life other than goodwill.

Subsequent expenditure

Subsequent expenditures on an item of intangible assets are added to the carrying amount of the asset if it is reasonable to believe that the future economic benefits from the asset will flow to the Group and if its costs can be reliably measured. All other expenditure is recognised in profit or loss when incurred.

Amortisation and depreciation

Amortisation is recognised according to the straight-line method in the period of the estimated expected functional life periods of individual items of intangible asset. Depreciation begins when the asset becomes available for its use.

The estimated useful lives of the current and comparative periods are presented below:

	2017	2016
Intangible assets (excluding software)	3.33-20.00	3.33-20.00
Software	33.3	33.3

Table 102: Amortisation rates applied to intangible assets

Impairment of assets is explained in detail in point k2.

g. Property, plant and equipment

The items of property, plant and equipment are reported at cost less accumulated depreciation and accumulated impairment losses, except for land which is recognised at cost less accumulated impairment losses. The cost of an item of property, plant and equipment includes expenditure that is directly attributable to the acquisition of the asset. Parts of property, plant and equipment that have different useful lives are accounted for as separate items of the assets. Borrowing costs that are directly attributable to the acquisition or production of a qualifying asset are recognised as part of the cost of the asset. The items of property, plant and equipment are subsequently measured using the cost model.

Subsequent expenditure

Subsequent expenditures on an item of property, plant and equipment are added to the carrying amount of the asset if it is reasonable to believe that the future economic benefits from the asset will flow to the Group and if its costs can be reliably measured. All other expenditure (e.g. regular maintenance) is recognised in profit or loss when incurred.

Amortisation and depreciation

Depreciation is accounted for using the straight line method, taking into account the useful life of each individual (component) part of an asset. Leased assets are depreciated over the term of the lease and their useful lives. Land is not depreciated. Depreciation begins when the asset becomes available for its use. Construction in progress is not depreciated.

Assessed useful lives of property, plant and equipment in the current and past financial period are presented below:

	2017	2016
Real estate (land and buildings)	0.00-5.00	0.00-5.00
Computer hardware	33.3	33.3
Transformers	2.86-3.33	2.86-3.33
Electronic meters	4.17-6.67	4.17-6.67
Transport vehicles	8.33	8.33
Cars	12.5	12.5
Other property, plant and equipment	2.50-20.00	2.50-20.00
Works of art	0.00	0.00

Table 103: Depreciation rates of property, plant and equipment

The assets' residual values and useful lives are reviewed annually and adjusted as and when necessary.

Gains and losses on disposal or elimination of the assets are determined by comparison of the proceeds from sale and their carrying amount. Gains and losses on disposal are recognised in profit or loss. The items of property, plant and equipment that are available for sale are recognised separately from other assets. Depreciation of those assets is not accounted for in the year of their disposal.

Impairment of assets is explained in detail in point k2.

h. Investment property

Investment properties are properties which are held by the Group to earn rental income or for their appreciation or both. Investment properties are recognised at cost less accumulated depreciation and accumulated impairment losses. Investment properties are measured at cost.

Depreciation method and rates are the same as applied to other property, plant and equipment. Impairment of assets is explained in detail in point k2.

i. Leased assets

A lease is classified as a finance lease if substantially all the risks and rewards of ownership are transferred to the lessee. All other leases are considered operating leases where leased assets (lease of assets) or long-term financial receivables (assets leased out) are not recognised in the consolidated statement of financial position of the Group.

Finance lease

- Group as a lessor
Amounts due from lessees under finance leases are recognised as receivables in the amount of the leased asset. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on a leased asset.

- Group as a lessee
Assets acquired under finance lease are measured at the lower of fair value or sum of minimum payments until the end of the lease, less accumulated depreciation and impairment losses. Finance lease expenses are recognised under the effective interest rate method.

Operating lease

Lease payments under an operating lease are recognised as costs (leased assets) or revenue (assets leased out) in profit or loss on a straight-line basis.

j. Inventories

ZInventories of merchandise and materials are measured at the lower of their cost or net realisable value.

Historical cost includes the asset's purchase price, import duties and direct costs of purchase. Any discounts received are deducted from the purchase price. Direct costs of acquisition comprise transport costs, costs of loading, reloading and unloading, transport insurance costs, costs of monitoring the goods, agency costs and similar costs incurred to the initial storage if they are borne by the buyer and non-refundable taxes (excise duty). Purchase price discounts include those listed on the invoice as well those obtained subsequently in relation to a specific purchase.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and estimated costs of sale. The Group assesses the net realisable value of inventories at each reporting date. If the net realisable value of inventories is lower than their carrying amount, the Group recognises impairment of inventories. Write-down of damaged, expired and obsolete inventories is made regularly during the year for individual items of inventories.

The declining values of inventories are accounted for using the weighted average price method.

k. Impairment of assets

k1. Financial assets

A financial asset is considered impaired if there is objective evidence to show that the expected, reliably measurable future cash flows arising from this assets have been decreased due to one or more events.

Objective evidence of impairment of financial assets include the following:

default or breach by a debtor; restructuring of amounts due to the Group by other debtors providing the Group agrees; signs that the debtor will enter bankruptcy; disappearance of an active market for an individual financial instrument. Objective evidence of impairment of investments in equity securities is either a significant or prolonged decline in the fair value below their cost.

Impairment of receivables and loans

The Group considers evidence of impairment of receivables individually or collectively. All significant receivables are assessed for specific impairment. If it is assessed that the carrying amount of an asset exceeds its fair value i.e. its recoverable amount, the receivable is impaired. Receivables, which are assumed not be settled in due time or in full amount are deemed doubtful, while receivables which are subject to litigation are deemed disputable.

Receivables that are not individually significant are assessed collectively for impairment by inclusion in a group of receivables with similar risk characteristics. Individual groups of receivables are based on their maturity structure. In assessing collective impairment, the Group recognises impairment of all receivables with maturity of more than one year.

The accounting treatment relating to receivable impairment did not change in 2017.

Impairment of doubtful receivables is charged and recognised in the revaluation operating expenses.

The Group considers evidence of impairment of loans individually for each significant loan. An impairment loss in respect of a financial asset measured at amortised cost is the difference between the asset's carrying amount and the estimated future cash flows discounted at the interest rate prevailing on the transaction date. Impairment losses are recognised in profit or loss.

When due to a subsequent event the amount of impairment losses decreased, the decrease in impairment loss is reversed through profit or loss.

Impairment of available-for-sale financial assets

Impairment losses on available-for-sale financial assets are recognised by transferring any cumulative losses previously recognised in other comprehensive income as fair value reserve, to profit or loss. Any subsequent increase in the fair value of an impaired equity security that is available for sale is recognised in other comprehensive income as fair value reserve.

k2. Non-financial assets

The carrying amounts of the Group's significant non-financial assets are reassessed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the Group assesses the asset's recoverable amount.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For impairment testing purposes, the assets that cannot be tested individually are grouped into the smallest cash generating groups from continued use and which are predominantly independent of cash generated by other assets or groups of assets (cash generating unit).

The impairment of an asset or a cash-generating unit is recognised when the carrying amount exceeds its recoverable amount. Impairment loss is recognised in profit or loss. Impairment loss on a cash-generating unit is allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to the other assets of the unit (group of units) in proportion to the carrying amount of each asset in the unit.

Impairment loss of goodwill is not reversed. At the end of the reporting period, the Group assesses losses due to impairment in previous periods to establish whether the loss has decreased or even ceased to exist. An impairment loss is reversed if there has been a change in the estimates used to determine the asset's recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would be determined, net of depreciation or amortisation, if no impairment loss was recognised in the previous periods.

Goodwill that is part of the carrying amount of the investment in the associate or joint venture using the equity method is not recognised separately and is not tested for impairment separately. Instead, the total amount of investment in an associate is tested for impairment as a single asset when there is objective evidence that an investment in an associate is impaired.

l. Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows using a pre-tax discount rate that reflects current market assessments of the time value of money, and risks specific to the liability.

The most significant provisions are:

Provisions for post-employment and other non-current employee benefits

Pursuant to the legislation, collective agreement and internal rules, the Group is liable to pay to its employees anniversary bonuses and termination benefits upon retirement. For these purposes the Group sets aside relevant amount of provisions. The Group has no other obligations relating to post-employment benefits.

Provisions are determined by discounting, at the reporting date, the estimated future benefits in respect of retirement benefits and anniversary bonuses paid to employees. The obligation is calculated by estimating the costs of retirement benefits upon retirement and the costs of all expected anniversary bonuses until retirement. They are calculated by a certified actuary using the projected unit credit method. Payments made for retirement benefits and jubilee awards reduce the amount of provisions set aside.

Employee benefit costs and interest charges are recognised in profit or loss, whereas the restatement of post-employment benefits or unrealised actuarial gains or losses arising from severance payments are recognised in other comprehensive income as a revaluation surplus.

Provisions for disputes

A provision for disputes is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Contingent liabilities are not recognised in the financial statements as their existence will be confirmed by future events which cannot be predicted.

m. Long-term deferred revenues

Government grants and other subsidies received to cover costs are recognised as revenue in the periods in which the costs to be compensated by those grants and subsidies are incurred. Other revenue is recognised when it is reasonable to expect that it will result in receipts.

Long-term deferred revenues

Long-term deferred revenue includes primarily deferred revenues from fixed assets acquired free-of-charge, which are decreased in line with their depreciation, and Government grants, which are transferred to revenues in accordance with the contract.

n. Revenue recognition

Revenues comprise the selling price of goods sold and services rendered during the period.

Sales revenue is recognised at fair value of the received payment or corresponding receivables less returns and discounts, trade allowances and quantity discounts. Revenue is recognised in net amounts, excluding value added tax or any other levies.

Revenue is disclosed when a buyer has assumed all significant risks and benefits related to the ownership of the asset, when there is certainty in relation to recoverability of a receivables and related costs and when the Group no longer has any impact on the decision regarding the goods sold.

Revenue is recognised on account of:

Sale of goods

Sale of goods is recognised when the Group delivers the goods to the customer; the customer accepts the goods, and collectibility of the related receivable is reasonably assured.

When levies paid on the purchase of goods or services are not recoverable, they are recognised as part of the cost of goods and charged upon the sale of goods. Sales revenues include the amounts of excise duty, which are recognised also in the cost of goods sold.

Sale of services

Sales of services are recognised in the accounting period in which the services are rendered, by reference to completion of the transaction estimated on the basis of the actual service provided as a proportion of total services to be performed.

Revenue from services relating to projects continuing over an extended period of time is recognised using the percentage of completion method as at the reporting date. Under this method, revenue is recognised in the accounting period in which the services are rendered.

o. Financial income and expenses

Financial income comprises interest income from financial assets, income from disposal of available-for-sale financial assets, recovered written-off or impaired receivables, change in fair value of financial assets designated at fair value through profit or loss, foreign exchange gains, and gains from hedging instruments which are recognised in profit or loss. Interest income is recognised as it accrues using the applicable statutory interest rate method.

Financial expenses include borrowing costs (unless they are capitalised), foreign exchange losses, changes in fair value of financial assets designated at fair value through profit or loss, impairment losses recognised on financial assets, and receivable impairments recognised in profit or loss.

Borrowing costs are recognised in profit or loss using the effective interest rate method.

p. Taxation

Taxes include current tax and deferred tax. Taxes are recognised in profit or loss, except to the extent they relate to business combinations or items recognised directly in other comprehensive income.

The current tax liabilities are calculated based on taxable profit for the year. The taxable profit differs from net profit reported in the profit or loss because it does not include the items of revenue or expenses that are taxable or deductible in other financial years, nor items that are never taxable or deductible. The current tax liability of the Group is assessed using tax rates applicable at the reporting date.

Deferred tax is disclosed entirely using the „balance sheet" liability method based on temporary differences as the difference between the amount attributed to an asset or liability for tax purposes (tax base) and the carrying amount of that asset or liability in the separate financial statements of the group companies. Deferred income tax is calculated based on tax rates (and legislation) effective as at the reporting date and which are expected to be in use when the deferred tax asset is realised or the deferred tax liability settled.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the deferred tax asset can be utilised. Deferred tax assets and deferred tax liabilities are offset when there is a legal right to offset tax assets and tax liabilities and deferred taxes relate to the same taxable entity and the same taxation authority.

r. Determination of fair value

According to the adopted accounting policies, the Group determines fair value of non-financial and financial assets and liabilities, either for the purpose of measuring individual assets (valuation techniques or a business combination) or for additional disclosure of fair values.

Fair value is the estimated price at which an asset can be sold or a liability transferred in an orderly transaction between knowledgeable buyer and knowledgeable seller in an arm's length transaction. In determining the fair value of financial instruments, the Group observes the following fair value hierarchy in accordance with IFRS 13:

- Level 1 – values based on quoted prices in active markets for identical assets or liabilities,
- Level 2 – values other than quoted prices from Level 1, but which can be obtained directly from the market (prices for identical or similar assets or liabilities in a less active or inactive markets) or indirectly (e.g. values derived from quoted prices in an active market based on interest rates and yield curves, implied volatilities and credit spreads),
- Level 3 – inputs that are not based on observable market data, however unobserved data must reflect the assumptions that market participants would use in pricing the asset or liability, including risk assumptions

The Group applies quoted prices to determine fair values of its financial instruments. If a financial instrument is not quoted on a regulated market or the market is considered inactive, the Group applies level 2 or level 3 inputs to determine the fair value of a financial instrument.

When further information about the assumptions made in determining fair values is required, it is disclosed in the notes specific to that asset or liability.

Techniques applied in determining fair values of individual groups of assets are disclosed below.

Intangible assets

Fair value of intangible assets is determined using the future discounted cash flows expected to be derived from the use or sale of the assets.

Property, plant and equipment

Fair value of property, plant and equipment is their market value. Market value of property is the estimated amount for which a property could be sold on the valuation date. Market value of equipment is based on quoted market prices for similar assets.

Investment property

Fair value of investment property is assessed using the total value of expected cash flows from lease of the property. In determining fair value of property, a yield that reflects the risk specific to the asset is considered in the calculation based on the annual discounted net cash flows.

Inventories

Fair value of inventories acquired in a business combination is determined based on the estimated selling price achieved in the ordinary course of business, less estimated costs to sell.

Financial assets at fair value through profit or loss and available-for-sale financial assets

Fair value of financial assets at fair value through profit or loss and available-for-sale financial assets is determined in accordance with a predetermined fair value hierarchy of financial instruments. If the fair value cannot be measured reliably because the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reliably determined, the financial asset is measured at cost.

Loans and receivables

Fair value of loans and receivables is computed as the present value of future cash flows, discounted at the market interest rate at the end of the reporting period. The assessment takes into account credit risk specific to financial assets.

Non-derivative financial liabilities

For reporting purposes, fair value is calculated as the present value of future principal and interest payments discounted at the market interest rate at the end of the reporting period. In accordance with IFRS 7, fair value of short-term financial liabilities is not determined as the carrying amounts of these liabilities are a reasonable approximation of their fair value.

s. Net earnings per share

The Group discloses basic and diluted earnings per share. Basic earnings per share is calculated by dividing profit or loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year. Diluted earnings per share is calculated by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding in the financial period for the effects of all potential ordinary shares, which are convertible bonds and stock options granted to employees. As the Group has no convertible bonds or share options granted to employees, the basic earnings per share is equal to diluted earnings per share.

t. Cash flow statement

The cash flow statement comprises cash flows from operating, investing and financing activities.
The cash flow statement is compiled using the direct method.

Cash flows from operating activities comprise inflows from the sale of products and services, as well as inflows from other receipts from operations, and operating costs paid in the financial year such as costs of materials, services, salaries, levies and other outflows from operating activities.

Cash flows from investing activities comprise payments in connection with acquisition and disposal of intangible assets and property, plant and equipment, and materials for the acquisition of property, plant and equipment.

Cash flows from financing activities present changes in the amount or composition of equity, increase or decrease of debts, and dividend payments.

7.2. Notes to consolidated statement of financial position

Consolidated statement of financial position comprises assets, equity and liabilities of the parent Elektro Primorska, its subsidiary E 3 and the associated company.

7.2.1.1. Intangible assets

Intangible assets of the parent company include deferred costs of development studies and rights to use holiday facilities and land, as well as use of space in the transformer station facility. Rights to computer software use of the parent and its subsidiaries are also included in intangible assets.

Cost of an item of intangible asset is comprised of its purchase price or costs of manufacture. Intangible assets are recognised under the cost model.

After initial recognition the cost model is used. They are amortised individually on a straight-line basis, using amortisation rates of 2 to 33 percent, the same as in 2016.

	2017	2016
Intangible assets (excluding software)	3.33-20.00	3.33-20.00
Software	33.3	33,3

Table 104: Amortisation rates applied to intangible assets

Amortisation of an item of intangible assets with final useful life begins when the asset is made ready for its use. Useful lives of significant items of intangible assets and long-term deferred costs are checked regularly at the end of each financial year.

Subsequent costs associated with an item of intangible assets increase its cost when they increase its future economic benefits in excess of the originally assessed.

The items of intangible assets are derecognised upon disposal or when no economic benefits are expected from their continued use or subsequent disposal.

The value of intangible assets increased in 2017 for the acquisition of long-term rights in the amount of EUR 2,572,655 (2016: €1,758,462), mostly on account of the new ERP software.

Reduction in intangible assets being acquired relates to their transfer to development studies or long-term rights.

Due to complaints in the process of obtaining a building permit, since 2014 the Group has recognised amortisation of studies in progress as the value of invested assets in the planned construction of wind power plants.
The Group has unlimited rights to its intangible assets.

Movements in intangible assets in 2017 are presented in the following table:

in EUR

2017	Deferred costs of development studies	Long-term rights	Intangible assets being acquired	Total
Cost				
At 1 Jan	671.681	5.505.196	1.827.601	8.004.478
Additions during the year	0	0	2.572.655	2.572.655
Additions from ongoing investments	46.631	3.180.508	-3.227.139	0
Disposals during the year	0	-439.659	0	-439.659
At 31 Dec	718.312	8.246.046	1.173.118	10.137.475
Accumulated amortisation				
At 1 Jan	647.451	3.605.349	1.105.017	5.357.818
Amortisation of the year	4.853	1.156.688	0	1.161.541
Disposals during the year	0	-439.659	0	-439.659
At 31 Dec	652.304	4.322.379	1.105.017	6.079.700
Carrying amount				
At 1 Jan	24.230	1.899.847	722.584	2.646.661
At 31 Dec	**66.008**	**3.923.667**	**68.101**	**4.057.775**

Table 105: Movements in intangible assets in 2017

The following are the most significant items of intangible assets held by the Group:

- IBM software for the new ERP system,
- Software for GIZ data and
- Licenses for the new AX ERP system and Maximo.

The Group reports no commitments for the acquisition of intangible assets as at 31 December 2017 or 31 December 2016.

Movements in intangible assets in 2016 are presented in the following table:

in EUR

2016	Deferred costs of development studies	Long-term rights	Intangible assets being acquired	Total
Cost				
At 1 Jan	645.721	4.531.548	1.189.334	6.366.603
Additions during the year	0	0	1.758.462	1.758.462
Transfers	0	0	0	0
Additions from ongoing investments	25.960	1.094.234	-1.120.194	0
Disposals during the year	0	-120.586	0	-120.586
At 31 Dec	671.681	5.505.196	1.827.601	8.004.478
Accumulated amortisation				
At 1 Jan	645.721	2.748.755	1.105.017	4.499.493
Amortisation of the year	1.730	977.180	0	978.911
Transfer of long-term deferred costs to expenditure	0	0	0	0
Write-off during the year	0	0	0	0
Disposals during the year	0	-120.586	0	-120.586
At 31 Dec	647.451	3.605.349	1.105.017	5.357.818
Carrying amount				
At 1 Jan	0	1.782.793	84.317	1.867.110
At 31 Dec	**24.230**	**1.899.847**	**722.584**	**2.646.661**

Table 106: Movements in intangible assets in 2016

7.2.1.2. Property, plant and equipment

Property, plant and equipment of the Group include land, buildings and equipment, as well as P,P&E under construction or manufacture. They are reported in the statement of financial position at carrying amount as the difference between their cost and written-down value. The Group recognises property, plant and equipment under the cost model.

Cost of an item of property, plant and equipment comprises its purchase price and all costs that are directly attributed to making the asset ready for its intended use.

Subsequent expenditure on an item of property, plant and equipment that increases its future benefits compared with those originally assessed, increases its cost. However, if subsequent cost increases useful life of the asset, the cost of an item of property, plant and equipment is increased and its useful life is extended.

Expenditure on repairs or maintenance of property, plant and equipment is made to restore or maintain future economic benefits expected on the basis of the originally assessed standard of performance of the asset. These expenditures are recognised as costs or operating expenses.

After initial recognition, the items of property, plant and equipment are measured at cost, which provides the basis for the assets' depreciation. Depreciation of the items of property, plant and equipment begins in the month following the month when the assets are made available for their intended use. Property, plant and equipment are depreciated individually on a straight-line basis, using the following depreciation rates, which have not changed compared to those used in 2016:

	2017	2016
Computer hardware	33.3	33.3
Real estate (land and buildings)	0.00-5.00	0.00-5.00
Transformers	2.86-3.33	2.86-3.33
Electronic meters	4.17-6.67	4.17-6.67
Transport vehicles	8.33	8.33
Cars	12.5	12.5
Other property, plant and equipment	2.50-20.00	2.50-20.00
Works of art	0.00	0.00

Table 107: Depreciation rates

Cost of facilities built in-house is the cost price, which does not exceed the price of similar assets on the market. The cost price consists of direct costs of materials and services used in production, direct labour costs and production overheads.

The items of property, plant and equipment are revalued to account for their impairment when their carrying amount exceeds their recoverable amount. The recoverable amount is the greater of the net selling price or value in use. Assessment of the value in use encompasses assessment of receipts and expenditure arising from continuing use of the asset and its final disposal, using the relevant discount rate (before tax) that reflects the present market assessment of the time value of money and any specific risks associated with the asset. For assets whose future cash flows depend also on other assets encompassed in individual cash-generating unit, the value in use is assessed in consideration of future cash flows expected from that cash-generating unit. Any impairment losses on an asset are recognised in operating expenses.

At each reporting day, the Company checks the items of property, plant and equipment for signs of impairment and if such signs exist, the recoverable amount of the assets is assessed.

In 2015 and 2016, the Group carried out an impairment test of cash-generating units.

The valuation report was prepared for the financial reporting purposes (impairment test in accordance with IAS 36 and SAS 17). The assessment was made of the recoverable value of long-term assets i.e. the value in use in terms of cash-generating unit, in accordance with the Hierarchy of Valuation Rules (Official Gazette No. 106/2010)

Impairment test was made as at 1 January 2015 and 31 December 2015, and at 31 December 2016.

For the purposes of the income approach assessment, projections were made for individual cash-generating unit based on business results of the past two years and the 2017 and 2018 plans. Operating projections were prepared for each co-generation for different, but a limited period. Period of projections coincides with the validity of contracts for the electricity support concluded with Borzen.

Value assessment in terms of DUE was based on the going concern assumption that uses assets in the ordinary course of business. Business projections were prepared for each co-generation for different, but a limited period. Period of projections coincides with the validity of contracts for the electricity support concluded with Borzen.

Estimated free cash flow was discounted using a required rate of return on total capital of the company E3 (WACC) amounting to 9.8% as at 31 December 2016 (in 2015 WACC of 9.06% was used as at 1 January 2015 and 8.88% as at 31 December 2015).

As no indications of impairment were identified in 2017, the assessment was not made for the financial year 2017.

The Elektro Primorska Group reports the following property, plan and equipment:

in EUR

	31.12.2017	31.12.2016
Land	5.872.473	5.952.325
Buildings	125.056.718	124.031.726
Equipment	52.155.778	51.239.367
Property, plant and equipment being acquired	2.750.590	2.310.099
Advances for property, plant and equipment	0	630
Total property, plant and equipment	**185.835.559**	**183.534.146**

Table 108: Property, plant and equipment

Movements in property, plant and equipment in 2017:

in EUR

2017	Land	Buildings	Equipment	P, P&E being acquired and advances	Total
Cost					
At 1 Jan	5.952.325	386.838.211	155.614.528	3.139.761	551.544.824
Additions during the year	1.680	271.165	169.912	14.222.247	14.665.004
Additions from ongoing investments	72.020	7.025.786	6.776.993	-13.782.385	92.414
Disposals during the year	-153.552	-4.163.495	-4.880.397	0	-9.197.444
Accumulated depreciation					
At 1 Jan		262.806.485	104.375.161	829.032	368.010.678
Depreciation of the year	0	5.841.597	5.221.102	0	11.062.699
Disposals during the year	0	-3.733.133	-4.150.126	0	-7.883.259
Additions during the year	0	0	79.121	0	79.121
At 31 Dec		264.914.949	105.525.258	829.032	371.269.239
Carrying amount					
At 1 Jan	5.952.325	124.031.726	51.239.367	2.310.729	183.534.146
At 31 Dec	**5.872.473**	**125.056.718**	**52.155.778**	**2.750.590**	**185.835.559**

Table 109: Movements in property, plant and equipment in 2017

The items of property, plant and equipment of the Group increased due to new purchases made in 2017 amounting to €14,290,350 (2016: €14,290,350). The largest investment of €14,010,941 was made in the electricity infrastructure.

Accumulated depreciation of property, plant and equipment of the Group increased in 2017 by the amount of annual depreciation of €11,062,699 (2016: €11,103,688) and reduced by the assets' disposal and impairment.

Depreciation of property, plant and equipment being acquired was made in the past on account of investments in the construction of wind power plants.

None of the Elektro Primorska Group's assets were acquired under finance lease and all the assets are in use.

All of the Group's assets are free of liens, while in 2016 some of the property was pledged against payment of a bank guarantee issued as collateral for payments due from the subsidiary of total €8,325,948.

As at 31 December 2013, financial commitments for acquisition of property, plant and equipment stand at €31,570,000 (2016: €30,015,323).

A further €6,240,574 of commitments as at 31 December 2017 relates to contracts for the supply of fixed assets.

Movements in property, plant and equipment in 2016:

in EUR

2016	Land	Buildings	Equipment	Fixed assets being acquired and advances	Total
Cost					
At 1 Jan	5.918.275	382.538.427	153.918.038	2.314.465	544.689.205
Additions during the year	813	505.183	6.366	14.290.350	14.802.713
Additions from ongoing investments	36.358	7.595.158	5.833.259	-13.461.399	3.376
Disposals during the year	-3.121	-3.638.720	-3.997.625	-3.656	-7.643.123
Impairment of assets	0	-161.836	-145.511	0	-307.347
Transfers	0	0	0	0	0
At 31 Dec	5.952.325	386.838.211	155.614.528	3.139.761	551.544.824
Accumulated depreciation					
At 1 Jan	0	260.507.406	103.141.791	829.032	364.478.229
Depreciation of the year	0	5.853.025	5.250.663	0	11.103.688
Disposals during the year	0	-3.532.248	-3.972.475	0	-7.504.723
Impairment of assets	0	-21.698	-44.818	0	-66.516
At 31 Dec		262.806.485	104.375.161	829.032	368.010.678
Carrying amount					
At 1 Jan	5.918.275	122.031.021	50.776.247	1.485.433	180.210.976
At 31 Dec	**5.952.325**	**124.031.726**	**51.239.367**	**2.310.729**	**183.534.146**

Table 110: Movements in property, plant and equipment in 2016

7.2.2. Investment property

Investment property is property (land or buildings), which is held to earn rentals and/or increase its value. Upon initial recognition, investment property is valued at cost, consisting of purchase price and the costs that can be directly attributable to the acquisition. Subsequent to initial recognition, investment property is measured under the cost model as are the items of property, plant and equipment.

The Group generated €74,100 of income from lease of investment property (2016: €100.055).

in EUR

	Investment property - buildings	Fixed assets in acquisition and advances	Total
Cost			
At 1 Jan 2016	836.606	0	836.606
Additions in the year	0	22.691	22.691
Additions from ongoing investments	22.691	-22.691	0
At 31 Dec 2017	859.297	0	859.297
Accumulated depreciation			
At 1 Jan 2016	648.445	0	648.445
Depreciation in the year	8.877		8.877
Decreases in the year	0		0
At 31 Dec 2017	657.322	0	657.322
Carrying amount			
At 1 Jan 2016	188.161	0	188.161
At 31 Dec 2017	**201.975**	**0**	**201.975**

Table 111: Investment property in 2017

Increase in investment property is on account of investments in holiday facilities owned by the parent company

in EUR

	Investment property - buildings	P, P&E being acquired and advances	Total
Cost			
At 1 Jan 2016	821.246	0	821.246
Additions during the year	0	15.359	15.359
Additions from ongoing investments	15.359	-15.359	0
At 31 Dec 2016	836.606	0	836.606
Accumulated depreciation			
At 1 Jan 2016	638.325	0	638.325
Depreciation of the year	10.120		10.120
Disposals during the year	0		0
At 31 Dec 2016	648.445	0	648.445
Carrying amount			
At 1 Jan 2016	182.921	0	182.921
At 31 Dec 2016	**188.161**	**0**	**188.161**

Table 112: Investment property in 2016

According to official estimates of the Surveying and Mapping Authority of the Republic of Slovenia (GURS), the market value of the property is €1,908,567, which is, according to our estimates, a close approximation of the fair value. The Group did not obtain valuation of its investment property from a certified assessor of real estate.

7.2.3. Long-term investments

In accordance with IFRS 28 Financial Investments, the Group classifies its long-term investments as available for sale.

Investments of all categories are initially recognised at fair value. Long-term and short-term investments are reported separately. Long-term investments are those that the investing company intends to hold for a period of more than one year. Long-term investments comprise investments in equity of subsidiaries, in shares and stakes of companies, other financial investments and long-term loans.

Short-term investments are held by the company for a period of up to one year and include investments in shares and stakes of companies, other financial investments and short-term loans and deposits.

Investments are recognised on the trading date. The same applies to recognition of an ordinary disposal of investments.

Long-term investments in equity of subsidiaries (with stakes above 50%), and stakes from 20% to 49.9% are measured at cost. Participation in the profit of a subsidiary is recognised in profit or loss of the controlling company when an appropriate resolution referring to profit distribution has been adopted. If the investment is required to be impaired due to subsidiary's loss, the amount of loss due to impairment is measured as the difference between the carrying amount and the present value of expected future cash flows.

Long-term investments in equity of others that are not quoted in an active market and whose fair value cannot be determined reliably, are recognised at cost.

On initial recognition, investments in other shares and stakes of companies are designated as available-for-sale financial assets and recognised at fair value through equity.

Investments in loans and deposits are recognised at amortised cost. Initial values of the investments are equal to the amount of cash or other assets invested on the day of individual investment.

Subsequent to initial recognition, they are measured at amortised cost using the effective interest method, less any impairment losses.

Investments are revalued to account for their impairment when objective reasons occur or at least at the end of the accounting period. Impairment is recognised on the basis of objective evidence resulting from events occurring subsequent to initial recognition, such as data on audited carrying amount of the assets. Objective reasons for impairment testing of individual financial assets appear when at the reporting date, fair value of a financial asset falls 20 percent below its cost. Impairment testing is applied to each individual investment or a group of investments.

Losses resulting from an asset's permanent impairment other than a temporary decline in its fair value, are recognised as financial expenses. The amount of loss due to impairment is measured as the difference between the carrying amount of the investment and the present value of expected future cash flows.

Change in fair value of available-for-sale financial assets is recognised directly in equity as a revaluation surplus.

Investments in subsidiaries are eliminated from the Group's consolidated financial statements. A detailed overview of the Group companies is summarised in Chapter 1.

Long-term financial investments of the Elektro Primorska Group include investments in stakes and shares of other companies amounting to €322,737 (2016: €300,239), investments in the Aeronautical Museum in Nova Gorica in the amount of €20,000, and investments in the associate company Knešca, amounting to €913.236.

in EUR

	31.12.2017	31.12.2016
Investments in shares of associates:		
Knešca d.o.o.	913.236	942.951
Total	**913.236**	**942.951**
Other shares and stakes:		
Informatika Maribor d.d.	240.756	240.756
Zavarovalnica Triglav d.d.	68.435	54.938
Primorski tehnološki park d.o.o.	1.808	1.808
Stelkom d.o.o. Ljubljana	57.837	57.837
VIRS	38.580	29.580
Aeronavtični muzej Nova Gorica	20.000	20.000
	427.416	**404.918**
Impairment of investment in Informatika d.d.	-78.470	-78.470
Impairment of investment in Stelkom d.o.o.	-6.209	-6.209
	-84.679	-84.679
Total	**342.737**	**320.239**
Total long-term investments	**1.255.973**	**1.263.190**

Table 113: Investments of the Group

In accordance with the equity method, the Group attributed to the associate Knešca the corresponding profit in the amount of €72,499 reduced by €94,546 of dividends received from the profit of the previous year and by €7,668 of fringe benefits paid to the director of the associated company.

Available-for-sale financial assets are investments in stakes and shares of companies and investments in mutual funds and bonds.

Movements in available-for-sale financial assets:

in EUR

At 1 Jan 2016	55.647
Adjustment to market value	-709
At 31 Dec 2016	54.938
At 1 Jan 2017	54.938
Adjustment to market value	13.498
At 31 Dec 2017	**68.435**

Table 114: Movements in available-for-sale financial assets

Adjustment of the value of non-current investments, i.e. available-for-sale financial assets to market or fair value is recognised in other comprehensive income in the amount of €13,498 (2016: €-709). The Group made no adjustments in 2017 or 2016 that would be recognised in profit or loss.

7.2.4. Non-current financial receivables (long-term loans issued)

Long-term loans include a loan granted to Gostol-Gopan amounting to €78,779 and a long-term deposit of €4,200 placed with Nova KBM.

Long-term loan to Gostol-Gopan was granted for the funding of the construction of the hot water connection and a thermal power station, co-funded by subsidiary E 3. The loan was granted for a period of 5 years, and the borrower pays contractually agreed interest monthly based on the invoice for the supply of heat. After the expiry of the period, the loan granted will be offset by the transfer of ownership of the hot water connection and thermal power station to E 3.

in EUR

Long-term loans to others	**31.12.2017**	**31.12.2016**
Long-term loans issued	78.779	78.779
Long-term deposit	4.200	4.200
Total long-term loans issued	**82.979**	**82.979**

Table 115: Long-term loans to others

7.2.5. Non-current operating receivables

Long-term operating receivables of €156,945 (2016: €27,422) comprise receivables for assets used in the maintenance of buildings, which are, according to the housing act, kept by the managers of buildings amounting to €30,070, and the long-term amount of receivables from the sale of the fixed assets of the subsidiary that mature in a period of more than twelve months after the reporting date amounting to €126,875.

7.2.6. Non-current deferred costs

in EUR

	31.12.2017	31.12.2016
Deferred cost of rent	1.641	1.658
Preliminary settlement	88.400	110.426
Total	**90.041**	**112.084**

Table 116: Non-current deferred costs

Non-current deferred costs of the Group comprise pre-paid rent in the amount of €1,641 and long-term amount of the preliminary invoice for the year 2014 issued by SODO amounting to €88,400.

Costs that are transferred to profit or loss within 12 months after the reporting date, are recognised as current costs.

7.2.7. Deferred tax assets

Deferred tax assets of €1,060,358 (2016: €471,717) are recognised as long-term assets. Deferred tax assets increased by €588,641 in 2017. The increase is due to a modified management assessment of the availability of expected future taxable profits.

The parent company assessed that there is no longer any confusion about the future of the Company's status, which also ensures the existence of taxable profits in the predictable future, against which deferred tax assets can be utilised.

Deferred tax assets are calculated based on the future income tax rate of 19%.

Deferred tax assets — in EUR

	deductible temporary differences	unutilised tax losses	unutilised tax relief	Total
At 1 Jan 2016	**427.232**	**125.063**	**26.954**	**579.249**
Increase	39.012	0	0	39.012
Decrease	0	-119.590	-26.954	-146.544
At 31 Dec 2016	**466.245**	**5.473**	**0**	**471.717**
At 1 Jan 2017	**466.245**	**5.473**	**0**	**471.717**
Increase	594.114	0	0	594.114
Decrease	0	-5.473	0	-5.473
At 31 Dec 2017	**1.060.359**	**0**	**0**	**1.060.358**

Table 117: Deferred tax assets

Effects of differences between the accounting value of items disclosed in the statement of financial position and their tax value are calculated in accordance with the balance sheet liability method for all temporary differences. Deferred tax assets are the amounts of tax recognised on account of provisions and allowances for receivables that will be utilised in future periods based on deductible temporary differences, and on account of unused tax losses.

Tax expense recognised in profit or loss		in EUR
	2017	2016
Income tax payable for the current year	-1.103.155	-1.083.755
Deferred tax assets/liabilities	580.572	-113.063
Other taxes not reported under other items		
Tax expenses recognised in profit or loss	**-522.584**	**-1.196.819**

Table 118: Tax expense recognised in profit or loss

Changes in deferred taxes recognised in profit or loss		in EUR
	2017	2016
Provisions	336.313	4.735
Receivables	234.802	28.746
Tax losses	-5.473	-119.590
Unused investment allowances and grants	0	-26.954
Investment impairment	14.909	0
Receivables for elimination of gains from sale of inventories	20	0
Changes in deferred tax assets/liabilities	**580.572**	**-113.063**

Table 119: Movements in deferred taxes recognised in profit or loss

Changes in deferred taxes recognised in equity			in EUR
	10.3.8	2017	2016
At 1 Jan		5.531	361
Change in deferred tax revaluation on account of provisions		8.070	5.531
Receivables		0	0
Tax losses		0	0
Changes in deferred tax assets/liabilities	10.3.9	8.070	5.531
At 31 Dec		**13.601**	**5.531**

Table 120: Movements in deferred taxes recognised in equity

					in EUR
Deferred tax	**1.1.2017**	**Formation**	**Utilisation**	**Reversal**	**31.12.2017**
Temporary differences arising from revaluation of receivables	438.604	258.972	-9.541	-14.628	673.406
Temporary differences arising from provisions	27.641	346.216	-1.518	-315	372.023
Temporary differences from investment impairment	0	14.909	0	0	14.909
Temporary differences arising from tax losses	5.473	0	-5.473	0	0
Temporary differences from intermediate profits	0	20			20
Total	**471.717**	**620.096**	**-16.532**	**-14.943**	**1.060.358**

Table 121: Movements in deferred tax assets in 2017

The Group estimates that it will have sufficient future taxable profits against which total amount of deferred tax assets can be utilised.

The Group did not recognise any deferred tax liabilities.

7.2.8. Current assets

7.2.8.1. Inventories

Inventories consist of material, small tools kept in the warehouse, unfinished services and merchandise.

Inventories also include small tools with useful life of up to one year and those with values of up to EUR 500, whose life period exceeds more than one year. These include protective equipment and inventory of small tools kept in the off balance sheet records when they are released into use.

Inventories are initially measured at cost, comprising the purchase price and direct costs of acquisition. Any discounts received are

deducted from the purchase price.
At the end of the financial year the Group verifies whether there is any need for inventory impairment. Inventories of material are impaired when their carrying amount exceeds their net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and estimated costs of sale.

Declining values of inventories are calculated based on a moving average prices method.
No inventories have been pledged as collateral for liabilities of the Group.

The Group checks at the end of each year the net realisable value of inventories and compares it to their cost. If the net realisable value of inventories is lower than their cost, the inventories are impaired. Inventory impairments and write-off amounted to €12,819 in 2017 (2016: €9,514).

in EUR

	31.12.2017	31.12.2016
Materials	881.484	683.589
Small tools	18.421	27.593
Unfinished services	0	48.031
Merchandise	1.101	2.304
Total	**901.006**	**761.517**

Table 122: Inventories

7.2.8.2. Short-term investments

The Group discloses short-term deposit earmarked for the reconstruction of the facility in the amount of €1,343, the same as in 2016, and a short-term loan granted by the subsidiary amounting to €15,416 the same as in 2016, which was fully impaired in 2015.

7.2.8.3. Trade and other receivables

in EUR

	31.12.2017	31.12.2016
Operating receivables	26.767.160	24.493.188
Current tax credits	50.793	0
Other receivables	1.501.088	1.139.968
Total trade and other receivables	**28.319.041**	**25.633.156**

Table 123: Trade and other receivables

in EUR

	31.12.2017	31.12.2016
Short-term receivables due from sales:		
- on domestic market	28.393.959	26.430.175
- on foreign markets	575.058	479.263
Allowances	**-2.605.703**	**-2.501.980**
	26.363.314	**24.407.458**
Interest receivable		
- from other customers	315.012	298.267
Allowances	**-257.524**	**-235.473**
	57.488	**62.794**
Advances	**364.020**	**40.600**
Allowances	**-17.663**	**-17.663**
	346.358	**22.937**
Operating receivables from others:		
- from government and other institutions	1.504.235	1.085.401
of which tax credits	50.793	0
- from employees	95	0
- from others	63.044	70.383
Allowances	**-15.493**	**-15.816**
	1.551.882	**1.139.968**
Total	**28.319.042**	**25.633.156**

Table 124: Short-term operating receivables of the Group

A receivable is recognised in the accounting records and the statement of financial position as an asset if it is probable that economic benefits associated with it will flow to the entity and if their original values can be determined reliably. Receivables of all kinds are initially recognised at the amount arising from the relevant documents under the assumption that they will be collected. Subsequent increase or decrease in receivables increases or reduces operating or financial revenues or expenses. Subsequent increase or decrease arises primarily from changes in the value of receivables due to subsequent discounts granted, returns of goods sold, recognised customer complaints or errors found subsequently.

Subsequent to initial recognition, receivables are measured at amortised cost. Amortised cost of a receivable is the amount at which the receivable is measured on initial recognition, less repayments and impairment due to uncollectibility of the receivable. Trade receivables falling due in the next twelve months are recognised in the statement of financial position as short-term trade receivables, while receivables maturing over a period of more than twelve months are recognised as long-term operating receivables.

Receivables denominated in foreign currencies are translated at the reporting date into the local currency at the exchange rate of the European Central Bank prevailing on the balance sheet date. Increase in receivables increases the financial revenue, while their decrease increases financial expenses.

Operating receivables are revalued to account for their impairment when objective reasons occur or at the end of the accounting period. Impairment is recognised on the basis of objective evidence resulting from events occurring subsequent to initial recognition, such as operating data and similar evidence.

Short-term operating receivables of the Group are up 10.5% compared to the previous year, mainly due to the increased sales of electricity by the subsidiary. Part of the receivables for the supply of electricity to corporate clients is secured with Zavarovalnica Triglav insurance undertaking, while the remainder of receivables is not secured. However, in the event of default and after repeated reminders, the customer's access to the power grid or supply of heat is suspended or else an enforcement procedure is filed against the relevant customer.

According to the receivable maturity at the end of the year the Group reports:		in EUR
	31.12.2017	31.12.2016
Not past due	23,199,853	21,211,711
Due and outstanding up to 30 days	2,156,320	1,985,440
Due and outstanding from 31 to 60 days	604,882	531,937
Due and outstanding from 61 to 90 days	198,115	210,038
Due and outstanding from 91 to 365 days	218,070	371,500
Overdue for more than 365 days	43,562	159,625
Total	**26,420,802**	**24,470,252**

Table 125: Maturity structure of trade receivables and interest

The Elektro Primorska Group recognises allowances of individual receivables per individual business partner for all receivables believed not to be settled. These include:

- Outstanding receivables from before 2017,
- Disputed receivables and
- Receivables due from business partners undergoing bankruptcy and compulsory settlement.

In the Elektro Primorska Group, receivable allowances were recognised by the parent company and subsidiary E 3. The share of receivable allowances accounts for 10% of total receivables. In 2017, receivable write-downs and impairments recognised in operating expenses amounted to €346,674 (2016: €394,867).

Allowances of short-term operating receivables		in EUR
	31.12.2017	31.12.2016
At 1 Jan	2.770.932	2.911.427
Collected written-off receivables	-71.586	-151.838
Final write-off of receivables	-149.668	-383.524
Allowance formation in the year	346.703	394.867
At 31 Dec	**2.896.382**	**2.770.932**

Table 126: Movement in trade receivable allowances

Of total trade receivables reported by the Elektro Primorska Group, 2% is due from foreign customers.

Other short-term receivables
Of total other short-term receivables amounting to €1,551,882 (2016: €1,139,968), the largest amount is due from the government for VAT refund amounting to €1,423,246 (2016: €1,060,197). The remaining amount comprises other receivables.

Other current assets

Other short-term assets of the Group comprise deferred costs and expenses and short-term accrued revenue as presented in the table below:

in EUR

	31.12.2017	31.12.2016
VAT in advances received	162.625	145.403
Short-term deferred costs and expenses	1.014.110	1.034.168
Accrued income	2.029.400	1.555.496
Vouchers	787	800
Total	**3.206.923**	**2.735.867**

Table 127: Deferred costs and accrued revenue

Short-term deferred costs or expenses and short-term accrued revenues amounting to €3,206,923 (2016: €2,735,867 include the following:

- VAT on advances received and overpayments;
- Short-term deferred costs comprise: accrued costs of sponsorship in the amount of €5,083; deferred marketing costs of €6,787; and deferred costs of commission due on contracts for the supply of electricity of €858,757, which are expensed proportionally over the entire period of the contract (2016: €1,005,487); costs of heating oil amounting to €12,434 and other deferred costs (insurance premiums);
- short-term accrued revenue consists of: revenues from the preliminary invoice from the SODO for rent and services rendered in 2017 amounting to €1,698,823 (2016: €1,363,206); revenues from excise duty refunds in the amount of €36,759 (2016: €164,850); cohesion funds in the amount of €181,251; and €61,712 of revenue not yet charged on work completed in 2017; provisions for electricity supplied by HSE in the amount of €29,090 (2016: €27,530); for the supply of heat for which invoices were issued in January 2018 amounting to €51,089; accrued income from subsidy received for the 3 Smart project, which was completed in 2017 amounting to €48,422, and insurance claims due from Zavarovalnica Triglav amounting to €42,225.

7.2.8.4. Cash and cash equivalents

Cash and cash equivalents comprise:

- cash in hand,
- deposit money on accounts at banks,
- cash in transit,
- cash equivalents are readily available investments which may in the near future be converted into a predetermined amount of cash without any significant risk (eg. deposits with maturity of up to three months).

Cash comprises cash on hand in the form of bank notes and coins, as well as cheques received.

Deposit money is cash in bank accounts, or deposited with another type of financial institution and may be used for payment purposes.

Cash in transit is the cash being transferred from a cash register or a safe deposit box to a relevant account in a bank or another type of financial institution, and is not credited to that account on that same day.

Cash is initially recognised at the amount arising from the relevant documents. Cash denominated in foreign currencies is translated into the local currency at the exchange rate of the European Central Bank effective on the reporting date. Exchange rate differences resulting from changes in foreign exchange rates are recognised either as a financial income or expense.

Cash also includes cash on transaction accounts held by group companies at commercial banks.

in EUR

	31.12.2017	31.12.2016
Cash at bank	6.167.489	3.162.992
Total	**6.167.489**	**3.162.992**

Table 128: Cash and cash equivalents of the Group

7.2.9. Equity

The Group's equity of €158,674,327 as at 31 December 2017 is composed of:

- Share capital,
- Capital surplus,
- Legal reserves,
- Reserves for treasury shares
- Other profit reserves,
- Fair value reserve
- Retained earnings and
- Net profit for the year

in EUR

	31.12.2017	31.12.2016
Share capital	78.562.832	78.562.832
Capital surplus	46.208.187	46.208.187
Legal reserves	768.501	768.501
Reserves for treasury shares and stakes	79.540	78.609
Treasury shares and stakes (as a deductible item)	-79.540	-78.609
Other profit reserves	30.133.850	24.691.698
Fair value reserve	-67.045	-174.387
Net profit b/f from previous years	551.851	439.702
Retained earnings	2.516.150	2.807.101
Total	**158.674.327**	**153.303.633**

Table 129: Equity of the Group

Share capital of the Elektro Primorska Group consists of the equity of the parent, which is divided into 18,826,797 ordinary registered no-par value shares. Each share has an equal interest and attributable amount in the share capital. The share capital has been paid in full.

Capital surplus of the Group originates from the general capital revaluation adjustment of the parent company, which was transferred to the capital surplus on transition to SAS 2006. Capital surplus may be used under the terms and for the purposes provided by law. There were no movements in capital surplus of the Group in 2017.

Profit reserves - legal and other profit reserves are amounts of retained profit from previous years, mainly to cover potential future losses. Based on the proposal of the Management Board of the Group, the Supervisory Board when adopting the annual report, allocated €4,788,342 of the net profit for the year to other profit reserves in accordance with Article 230 of the Companies Act (ZGD-1) and paid dividends to shareholders of total €2,066,311.

Treasury shares - If the parent company or its subsidiaries acquire an ownership interest in the parent company, the amount paid, including transaction costs less tax, is deducted from total equity as treasury shares until such shares are cancelled, reissued or disposed of. If treasury shares are subsequently sold or reissued, the consideration received net of transaction costs and related tax effects is included in equity.

As at 31 December 2017, the parent company had 42,499 treasury shares, accounting for 0.23% of the share capital (2016: 42,149).

At the 21st General Meeting of Shareholders on 26 August 2016, the Management Board was granted authorisation for the purchase of treasury shares. The total amount of all treasury shares may not exceed 10% of the share capital of the parent i.e. 1,882,680 shares.

In 2017, the purchase price of an individual share was €2.64.

in EUR

	Number of shares	Weighted average share price	Value of treasury shares
At 31 Dec 2016	42.149	1,87	78.609
Purchased in 2017	350	2,66	931
At 31 Dec 2017	**42.499**	**1,87**	**79.540**

Table 130: Treasury shares

The average price of the share includes commission fee.

In 2017, €931 of additional reserves for treasury shares were created and thus, as at 31 December 2017, total amount of reserves for treasury shares amounted to €79,540.

Fair value reserve includes the cumulative change in the fair value of available-for-sale financial assets and post-employment benefits. Compared to the previous period, the fair value reserve decreased by €107,343 and amounted to €-67,045 as at 31 December 2017. The total change results from a decrease in the fair value of available-for-sale financial assets by €13,498); a reduction of €85,779 on account of restatement of post-employment benefits; and an increase of €8,070 referring to the related deferred tax effect due to the restatement of post-employment benefits.

Undistributed net profit for the financial year of €2,516,150 (2016: €2,807,101) consists of the profits of the parent company and the subsidiary E3, and the attributed profits of the associated company Kneščа, in the amount of €72,499 (2016: €163,390). The total profit of the associated company Kneščа amounted to €153,372 in 2017 (2016: €345,652), reduced by €94,546 of the profit shares paid (2016: €61,455) and fringe benefits paid to the director amounting to €7,668 (2016: €4,447).

Compared to the previous year, retained earnings decreased by €290,951 in 2017. Retained earnings comprise €7,346,342 of profit achieved in 2017, decreased by the appropriation of the distributable profit to dividends according to the resolution of the 22nd General Meeting held on 5 July 2017 amounting to €2,066,311, and the creation of reserves for treasury shares due to the purchase of treasury shares of the controlling company amounting to €931.

Movements in equity of the Group in 2016 and 2017 are shown in the statement of changes in equity.

Dividend per share - In 2017, the gross dividend per share amounted to €0.13 (2016: €0.11.

Earnings per share - basic earnings per share amounted to €0.39 in 2017, down 5.88% compared to 2016, when it stood at €0.42. Profit of the Group amounting to €7,346,342 (2016: €7,822,141) was considered in the calculation. The weighted average number of issued shares (excluding treasury shares) was considered for the financial year 2017 i.e. 18,784,638 shares (2016: 18,825,064 shares).

Basic earnings per share is calculated by dividing the net profit belonging to the owners by the weighted average number of ordinary shares (excluding treasury shares). The Group has no diluted ordinary shares and, therefore there is no difference between basic and diluted earnings per share.

in EUR

	31.12.2017	31.12.2016
Net profit or loss (in EUR)	7.346.342	7.822.141
Number of shares issued	18.826.797	18.826.797
Number of treasury shares at the beginning of the year	42.149	0
Number of treasury shares at the end of the year	42.499	42.149
Weighted average number of ordinary shares	18.784.638	18.825.064
Diluted average number of ordinary shares	18.784.638	18.825.064
Basic and diluted earnings per share (EUR/share)	**0,39**	**0,42**

Table 131: Earnings per share

All shares issued by the controlling company are ordinary registered shares.

Distributable profit

The Group recognised distributable profit in accordance with the provisions of the Companies Act and also the prescribed amount of legal reserves. The Management Board of the Group proposed that some of the profit be allocated to other profit reserves and some for distribution to shareholders. The appropriation of the distributable profit is decided by the General Meeting based on the proposal of the Management and the Supervisory Boards.

Final amount of dividends for the year ended 31 December 2017 has not yet been proposed or confirmed by the General Meeting and therefore, no liabilities for dividends are reported in the financial statements.

7.2.10. Provisions and long-term deferred revenue

Provisions are made for present obligations arising from obligating past events and are expected to be settled within a period that cannot be determined with certainty, and whose size can be reliably estimated.

in EUR

	31.12.2017	31.12.2016
At 1 Jan	**3.823.923**	**3.528.091**
Formation	534.449	601.139
Utilisation	-342.019	-296.941
Reversal	-86.088	-8.367
At 31 Dec	**3.930.263**	**3.823.923**

Table 132: Provisions of the Group

The Group reports €3,909,987 (2016: €3,803,646) of provisions for post-employment and other long-term employee benefits, as well as €20,276 (the same as in the previous year) of provisions for overestimated amount of electricity by the subsidiary.

7.2.10.1. Provisions for post-employment and other long-term employee benefits

Provisions for post-employment and other long-term employee benefits consist of provisions for retirement benefits and jubilee awards. Provisions are made in the amount of estimated future payments of severance pay and jubilee benefits discounted at the end of the financial year. The obligation is calculated by estimating the costs of retirement benefits upon retirement and the costs of all expected anniversary bonuses until retirement.

Actuarial gains or losses on termination benefits are recognised directly in equity, whereas actuarial gains or losses from jubilee awards and employee benefit costs are recognised in the profit or loss.

In accordance with IAS 19, provisions for termination and jubilee benefits were recognised in the Elektro Primorska Group by the parent and its subsidiary E 3. The assumptions used in the actuarial calculation are based on data supplied to the actuary by the two entities regarding staff turnover, salary growth, the amount of severance paid, the information on the amount of jubilee awards paid in the past five years, and provisions of the collective agreement relating to long-term employee benefits.

Provisions are directly decreased by costs for the settlement of which they were originally created. Provisions are recognised based on the differences reported as at 31 December of each year.

Provisions for obligations to employees arising from post-employment and other long-term benefits are based on actuarial calculation using the following assumptions:

- annual discount rate of 1.30% for the parent company and 1.50% for the subsidiary was considered in the calculation of the present value of the company's future liabilities (2016: 2.50%);
- the current amount of severance payments and anniversary bonuses as defined by internal rules and regulations;
- staff turnover, which depends largely on their age;
- mortality based on the latest available mortality tables: modified Slovenian mortality tables 2000-2002;
- 2 percent wage growth in the parent company and 1 percent in the subsidiary (2016: 0.5%);
- 0.5 percent annual wage increase due to staff promotions (2016: 0.1 percent).

	Jubilee awards	Jubilee awards	Total
At 1 Jan 2017	**1.444.730,54**	**2.358.915,69**	**-11.447,80**
Post-employment benefit costs	-4.234,59	-7.213,21	211.580,80
Current employee benefit costs	103.598,90	107.981,90	85.485,48
Interest expense	31.207,55	54.277,93	-79.285,91
Actuarial gains	-2.557,65	-76.728,26	248.830,47
Actuarial losses	235.913,90	12.916,57	-342.019,77
Fringe benefits	-180.363,37	-161.656,40	-755,61
Reversal of provisions in excess of payment	-239,42	-516,19	3.916.033,89
At 31 Dec 2017	**1.628.055,86**	**2.287.978,03**	**3.916.033,89**

Table 133: Provisions for post-employment benefits

Additional provisions of €534,449 (2016: €601,139) were set aside on account of: payroll costs (€436,047) (2016: €466,273); interest expenses of €85,485 (2016: €67,320); and €12,917 (2016: €258,315) of actuarial losses recognised in equity as the revaluation reserve.

Sensitivity analysis

			in EUR
	Provisions for jubilee awards	Provisions for severance pay	Total
0.5% decrease in discount rate	59.744,09	94.897,52	154.641,61
0.5% increase in discount rate	-57.625,57	-90.782,24	-148.407,81
0.5% salary increase	51.389,74	70.313,46	121.703,20
0.5% salary decrease	-48.052,82	-64.133,14	-112.185,96

Table 134: Sensitivity analysis of the post-employment benefits

7.2.10.2. Long-term deferred revenue

	Assets acquired free-of-charge	Average cost of connection	Co-financing of facility construction	Compensation claims	Co-financing of meters from cohesion	Donations and grants received	Total
At 1 Jan 2017	7.570.651	2.214.257	162.123	8.104	0	940.408	10.895.543
Formation	272.984	0	0	0	181.251	0	454.235
Reversal	0	0	0	0	0	-14.613	-14.613
Transfer to revenue	-275.364	-110.299	-9.206	0	-1.186	-89.872	-485.927
At 31 Dec 2017	**7.568.271**	**2.103.958**	**152.917**	**8.104**	**180.065**	**835.924**	**10.849.240**

	Assets acquired free-of-charge	Average cost of connection	Co-financing of facility construction	Compensation claims	Donations and grants received	Total
At 1 Jan 2016	7.327.180	2.324.556	171.329	49.145	997.511	10.869.721
Formation	512.363	0	0	0	28.151	540.513
Reversal	-1.001	0	0	-21.000	0	-22.001
Transfer to revenue	-267.890	-110.299	-9.206	-20.041	-85.254	-492.690
At 31 Dec 2016	**7.570.651**	**2.214.257**	**162.123**	**8.104**	**940.408**	**10.895.543**

Table 135: Long-term deferred revenue in 2017 and 2016

In 2017, the parent company recognised long-term deferred revenue on account of free-of-charge acquisition of energy facilities of natural and legal persons. The average cost of connection is drawn in line with the actual depreciation of individual energy facilities; in 2017, these costs amounted to €110,299, the same as in 2016.

Long-term deferred revenue from fixed assets acquired free-of-charge and co-financing the construction of facilities is drawn in line with annual amount of depreciation of individual assets acquired free-of-charge or a share of the asset that is co-financed.

No additional liabilities are reported by the Group on account of long-term deferred income from compensation claims.

The Group recognised long-term deferred revenues for co-financing of the purchase and installation of smart electricity meters from the EU Cohesion Fund equal to one third of the cost of the assets. The amount of co-financing utilised equals depreciation recognised on an individual asset.

Government grants were received from the Ministry of Economy of RS for co-financing construction of the project for remote heating using biomass. The amount of grants received was reduced in line with depreciation of the assets received.

7.2.11. Non-current financial liabilities

		in EUR
	31.12.2017	31.12.2016
Long-term financial liabilities	31.570.000	30.015.323
Current amount of long-term liabilities	-6.778.667	-7.345.324
Long-term financial liabilities	24.791.334	22.670.000
Total long-term liabilities	**24.791.334**	**22.670.000**

Table 136: Non-current financial liabilities

Borrowings are classified as financial and operating and, according to maturity, as long-term and short-term.
Long-term financial liabilities include liabilities to banks for borrowings raised by the parent company and its subsidiary E 3.

Long-term financial liabilities are secured with bills of exchange. All borrowings are due and payable by no later than December 2027. €21,253,333 of borrowings falls due more than 5 years from the reporting date (2016: €7,758,333).

In the current financial year, the Group raised borrowings of total €9,000,000.
Interest rates agreed are one-month or three-month EURIBOR and a bank premium ranging from 1% to 1.5%. Two borrowings were agreed at a fixed rate of interest. Interest on borrowings is calculated and paid either monthly or quarterly.

7.2.12. Short-term liabilities

in EUR

	31.12.2017	31.12.2016
Short-term financial liabilities		
Short-term financial liabilities to others	7.000	7.000
Current amount of long-term borrowings	6.778.667	7.345.324
Dividends payable	5.226	5.226
Total short-term financial liabilities	**6.790.892**	**7.357.549**
Supplier payables	21.567.199	18.437.326
Payables for advances	930.749	836.021
Total short-term supplier payables	**22.497.948**	**19.273.347**
Payables to employees	1.705.162	1.358.572
Payables to the State and other institutions (excluding income tax)	372.098	346.599
Other liabilities	552.411	23.250
Total other short-term operating liabilities	2.586.040	1.728.420
Total short-term operating liabilities	**25.083.987**	**21.001.768**
Corporate income tax payable	**43.630**	**159.168**
Total	25.127.618	21.160.936
Total short-term liabilities	**31.918.510**	**28.518.485**

Table 137: Short-term liabilities of the Group

Short-term financial liabilities of the Group include short-term borrowings raised from others and current amounts of long-term borrowings raised by the parent company and subsidiary E 3, all of which fall due in 2017.

Payables to suppliers of €3,224,600 (2016: €739,764) are up 16.7% on the previous year. Both, the parent as well as its subsidiary report increase in supplier payables. Liabilities are not collateralised and the company has not pledged any of its assets or issued guarantees for its liabilities.

Payables to the State are slightly higher than in the previous year.

Short-term liabilities to employees are obligations for the December salaries and for one part of the bonus payable for successful performance in 2017.

7.2.13. Other liabilities

in EUR

	31.12.2017	31.12.2016
VAT in advances granted	2.422	2.713
Short-term deferred revenue	0	0
Accrued costs	1.171.314	1.406.938
Total	**1.173.736**	**1.409.652**

Table 138: Other liabilities

Other liabilities include deferred revenue and short-term accrued expenses, as well as VAT in advances granted.
Accrued expenses comprise:

- Provisions on account of annual leave not utilised in 2017 in the amount of €639,769 (2016: €601,029).
- The cost of purchased electricity for subsidiaries amounting to €488,593 (2016: €502,474).
- Accrued expenses on account of grants received of €9,652 (2016: €29,050) by subsidiary E 3. While the relevant conditions have been met and contracts concluded, the payment has yet to be made.
- Concession fee payable in the amount of €8,000 (2016: €24,000) for the financial year 2017.
- Accrued interest expense of €1,376 and interest payable on borrowings of €21,613 (2016: €14,631).

7.2.14. Contingencies and guarantees issued

In the opinion of legal experts, none of the legal actions brought against the Group will have a significant impact on its profit or loss. The Group has assessed that provisions set aside for these purposes are sufficient to cover any contingencies.

A lien on the property is reported in the off balance sheet records, as are bid bonds and warranty guarantees issued by the banks (on account of rendering services to external clients). As at 31 December, the value of bank guarantees is recognised as a liability of the Group for which guarantees were issued.

The highest amount of a bank guarantee was issued by the Group to SODO against payment of liabilities by the subsidiary for use of the power grid amounting to €11,500,000 (2016: €9,577,644).

in EUR

	31.12.2017	31.12.2016
Small tools and protective gear in use	7.143	8.302
Liabilities for pledged real estate	0	8.325.948
Bank guarantees issued	11.803.301	10.085.945
Real estate recognised by Eco Atminvest	1.750.616	1.750.616
Total	**13.561.060**	**20.170.812**

Table 139: Contingencies of the Group

7.3. Notes to consolidated profit or loss account

A total €532,679 (2016: €652,239) of revenue and €571,294 (2016: €631,205) of expenses were eliminated from the consolidation in 2017.

7.3.1 Operating revenue

in EUR

	2017	2016
Net sales	109.913.672	102.017.001
Capitalised own products and services	7.155.536	6.895.837
Other operating revenue	1.239.900	1.246.643
Total operating revenue	**118.309.108**	**110.159.480**

Table 140: Operating revenue of the Group

Net sales revenues consist of:

in EUR

	2017	2016
Revenue from the sale of products	65.824.499	63.566.076
- on domestic market	61.555.108	58.384.873
- on foreign markets	4.269.391	5.181.204
Revenue from the rendering of services	44.036.290	38.400.515
Revenue from the sale of merchandise	52.883	50.410
Total operating revenue	**109.913.672**	**102.017.001**

Table 141: Net sales revenue

Majority of revenues from capitalised own products and services and other operating revenues was recognised by the parent company. Revenues from capitalised own products and services were earned from project documentation design and from participation in construction of investment facilities.

Other operating revenues comprise revenues from drawing on accrued depreciation of assets acquired free-of-charge, co-financing of facility construction and average connection costs. A large part of other operating income relates to insurance proceeds for damages incurred on the assets in the amount of €342,767 (2016: €157,859).

in EUR

Other operating revenue from:	2017	2016
- utilisation of provisions	460.187	461.861
- sale of fixed assets	80.154	42.049
- recovered written-off receivables	73.752	152.837
- other revaluation revenue	0	5.988
- subsidies received	100.715	64.811

- insurance proceeds, compensation	410.412	208.184
- revenue from refund of excise duty	36.759	164.850
- revenues from reminders	65.791	59.476
- other operating revenues	12.129	86.586
Total	**1.239.900**	**1.246.643**

Table 142: Other operating revenue of the Group

Of total operating revenues of the Group, €46,309,934 or 39% was earned by the parent (2016: €46,309,934 or 41%), and 61% or €71,624,702 to subsidiary (2016: 59% or €64,677,178). Of total Group revenues, 6% was achieved on foreign markets.

7.3.2. Operating expenses

Costs by nature		in EUR
	2017	**2016**
Cost of electricity sold	62.524.572	53.229.185
Costs of materials and services	16.046.781	16.535.348
Employee benefits	18.667.697	18.027.613
Write-downs	12.676.320	12.864.926
Other operating expenses	264.627	324.225
Total	**110.179.996**	**100.981.297**

Table 143: Operating expenses of the Group

Operating expenses include costs recognised per individual types, such as costs of electricity, materials and services, employee benefit costs, write-downs and other operating expenses.

Operating expenses of the Group increased by €9,198,699 compared to the previous year, and relate mainly to the purchase of electricity for supply to the final customers of the subsidiary.

Cost of materials		in EUR
	2017	**2016**
Energy costs	1.666.612	2.246.508
Cost of materials	65.459.358	55.644.159
Costs of ancillary material	74.712	81.130
Costs of spare parts and maintenance material	755.227	586.765
Write-off of small tools	152.578	159.510
Costs of stationery and professional literature	204.914	188.311
Cost of goods and materials sold	27.875	21.748
Other cost of materials	8.519	4.663
Total costs of materials	**68.349.795**	**58.932.796**

Table 144: Costs of materials of the Group

Cost of services		in EUR
	2017	**2016**
Cost of services in the production of products and rendering of services	111.711	57.424
Costs of transport services	337.205	416.433
Cost of maintenance services	1.818.901	2.267.186
Rent	213.615	133.565
Reimbursement of work-related expenses to employees	33.786	17.027
Cost of banking services and insurance premiums	1.372.338	1.215.097
Fee and commission paid	2.107.995	2.106.018
Costs of intellectual and personal services	717.925	1.062.837
Costs of trade fairs, publicity and hospitality	350.737	517.981
Costs of services of individuals, including duties	223.565	240.669
Cost of other services	2.933.780	2.797.502
Total costs of services	**10.221.558**	**10.831.737**

Table 145: Cost of services of the Group

The cost of services fell in 2017 by €610.179 or 5.66% compared to the previous year, mainly due to lower maintenance costs of the parent company, reduction in marketing costs incurred by the subsidiary and lower licensing costs.

The Elektro Primorska Group expenses include meeting fees paid to members of supervisory boards of the group companies. In 2017, total remuneration of the Supervisory Boards amounted to €96,717 (2016: €122,241) and was paid in the parent company.

The costs of intellectual and personal services include fees paid for the audit of the annual report of the Group in the amount of €16,484 (2016: €18,695).

Company	Ernst & Young	Ernst & Young
	2017	2016
Audit of the annual report	15.484	15.690
Other assurance services	1.000	2.150
Other non-auditing services	0	855
Total audit fees	**16.484**	**18.695**

Table 146: Fees paid for the audit of the annual report of the Group

Employee benefits		in EUR
	2017	2016
Gross wages and salaries and continued pay	12.998.353	12.482.748
Pension insurance costs	681.465	658.285
Other social insurance costs	2.237.197	2.141.729
Reimbursement of transportation cost	449.912	456.863
Reimbursement of costs of meals during working hours	838.525	838.840
Holiday pay	947.192	912.135
Post-employment benefits and other non-current employee benefits	436.047	466.273
Other reimbursements and substitutes	79.004	70.741
Total employee benefit costs	**18.667.697**	**18.027.613**

Table 147: Employee benefit costs of the Group

Individual Management Boards of Group companies have a single member. In total they received €180,160 (2016: €182,880) of remuneration.

On average, the Elektro Primorska Group had 523 employees in 2017 (2016: 520).

Level of education	Average headcount 2016	Average headcount 2017
Level VIII/2.	2	2
Level VIII/1.	6	8
Level VII	52	48
Level VI/2.	50	61
Level VI/1.	66	65
Level V	157	170
Level 4	180	162
Level III	0	0
Level II	2	2
Level I	5	5
Total	**520**	**523**

Table 148: Headcount per level of formal education

Members of the Management Board and employees on individual employment contracts were not approved any loans or granted any surety for their obligations.

Amortisation and depreciation		in EUR
	2017	2016
Amortisation of intangible assets	1.161.541	978.911
Depreciation of property, plant and equipment - facilities	5.841.597	5.853.026
Depreciation of property, plant and equipment - equipment	5.221.096	5.250.663
Depreciation of investment property	8.877	10.120
Total amortisation and depreciation	**12.233.112**	**12.092.719**

Table 149: Depreciation costs of the Group

A total €12,233,112 (2016: €12,092,719) of depreciation was recognised by the Group in 2017. Of that, €11,449,570 relates to the parent company (2016: €11,303,180).

Impairments and write-off		in EUR
	2017	2016
Operating expenses from revaluation of intangible assets and P, P&E	83.715	367.827
Operating expenses from revaluation of current assets	359.493	404.380
Total revaluation expenses	**443.208**	**772.207**

Table 150: Impairments and write-off

€443,208 of write-off (2016: €772,207) relates to the write-off and impairment of intangible assets, property, plant and equipment, and working capital. Of that, €83,715 (2016: €367,827) relates to impairment and write-off of fixed assets, 346,703 to receivable allowances (2016: €394,867) and €12,789 (2016: €9,514) to allowances for inventories.

7.3.3. Other operating expenses

in EUR

Other operating expenses	2017	2016
Sponsorships and donations	64.677	57.151
Charges for environmental protection and duties independent of business activities	169.136	159.329
Other operating expenses	**30.814**	**107.745**
Total other operating expenses	**264.627**	**324.225**

Table 151: Other operating expenses of the Group

Charges independent of profit or loss relate to the land and water contribution in the amount of €92,591 (2016: €92,827); accrued compensation for damage caused by the parent company Elektro Primorska primarily to individuals on their land during the facility construction or maintenance; financial aid and grants; administrative and legal fees; and other expenses that are not essential to the business.

7.3.4. Financial income

Financial income of the Elektro Primorska Group amounted to €117,501 (2016: €132,980), of which €5,920 (the same as in 2016) relates to income from stakes and the rest to interest income. Compared to the previous year, this is a reduction of €15,479 due to a decline in financial income from operating receivables.

in EUR

Financial income:	2017	2016
Financial income from shares and interests	5,920	5,920
Financial income from loans	5,037	5,053
Financial income from operating receivables	106,543	122,007
Total	**117,501**	**132,980**

Table 152: Financial income of the Group

7.3.5. Financial expenses

Financial expenses amounting to €394,488 (2016: €462,856) consist of interest on short- and long-term bank borrowings, default interest charged by suppliers, and interest from actuarial calculations. In comparison with the previous year, financial expenses from bank borrowings decreased by €38,804, interest on late payment to suppliers fell by €7,404, while interest from actuarial calculations dropped by €19,749.

in EUR

Financial expenses:	2017	2016
Expenses from investment impairment and write-off	0	0
Expenses from financial liabilities to banks	302,587	341,391
Expenses from financial liabilities from actuarial calculations	85,485	105,234
Expenses from financial liabilities to suppliers	6,386	13,790
Expenses from financial liabilities to others	29	2,440
Total	**394,488**	**462,856**

Table 153: Financial expenses of the Group

7.3.6. Current tax and deferred tax assets/deferred tax liabilities

Corporate income tax expense for the financial year encompasses current and deferred tax. Tax is recognised in profit or loss unless it relates to the items that are recognised in other comprehensive income or directly in equity.

The Elektro Primorska Group recognised income tax payable of €1,103,155 (2016: €1,083,755). Corporate income tax rate in 2017 was 19% compared to 17% applicable in 2016.

The Group recognised €580,572 of deferred tax assets in 2017 compared to the previous financial year when €113,063 of deferred tax assets was reversed.

Increase in deferred tax assets is due to the fact that the parent company recognised deferred tax assets in its financial assets for the first time in the financial year 2017. The parent company has assessed that there is no longer any confusion about the future of the Company's status, which also ensures the existence of taxable profits in the predictable future, against which deferred tax assets can be utilised.

in EUR

	2017	2016
Provisions	336.313	4.735
Receivables	234.802	28.746
Tax losses	-5.473	-119.590
Unused investment allowances and grants	0	-26.954
Investment impairment	14.909	0
Receivables for elimination of gains from sale of inventories	20	0
Changes in deferred tax assets/liabilities	**580.572**	**-113.063**

Table 154: Movements in deferred tax assets

Movements in deferred tax assets are shown in Note 6.2.7.

7.3.7. Net profit or loss

The Group achieved pre-tax profit of €7,868,926 in 2017 (2016: €9,018,959), and net profit of €7,346,342 (2016: €7,822,141).

Tax expense recognised in profit or loss — in EUR

	2017	2016
Current year's income tax	-1.103.155	-1.083.755
Deferred tax	580.572	-113.063
Other taxes not reported under other items		
Income tax payable	**-522.584**	**-1.196.819**
Profit or loss before tax	7.868.926	9.018.959
Tax calculated at the applicable tax rate of 19%	1.495.096	1.533.223
Adjustment of revenue to the level of tax-deductible	-175.792	-247.790
Adjustment of expenses to the level of tax-deductible	1.216.375	1.274.394
Utilisation of tax relief	-3.128.407	-3.574.911
Other (change in accounting method)	32.160	-19.445
Total tax base	**5.813.262**	**6.451.207**
Taxes	-522.584	-1.196.819
Effective tax rate	**6,64%**	**13,27%**

Table 155: Corporate income tax

7.4. Notes to consolidated cash flow statement

The consolidated cash flow statement is compiled under the indirect method based on data and balances reported in books of account, showing movements in cash flows during the accounting period.

The difference between initial and closing balance of cash and cash equivalents in 2017 is the cash inflow of €3,004,497 (2016: cash outflow of €1,771,877).

While the Group achieved net cash inflow from operating activities, it reports net cash outflows from investing and financing activities.

7.5. Financial instruments and risk management

This section includes disclosures relating to financial instruments and financial risks, and risk management, while risk management procedures and controls are explained in the business report in section „Risk Management".

The Group is exposed to liquidity risk, credit risk and market risk, which contains the interest rate risk associated with existing assets and liabilities, and anticipated future transactions, as well as price risk.

The Group does not use derivative financial instruments to hedge against these risks.

7.5.1. Credit risk

The process of receivable recovery is a key element of working capital management of the Elektro Primorska Group. The credit control process, powers for authorisation of payment terms extension and control over receivable recovery are defined in internal acts. The system of regular reporting on trade receivable maturity and customer's payment discipline is an integral part of credit control. The reporting system enables timely detection of customers with an increased risk of default and ensures effective credit risk management.

In 2017, the Group actively monitored its trade receivable balances and pursued its adopted policy of granting limited sales on hire purchase and requiring relevant quality collateral.

In addition to the internal receivable recovery system, the Group ensures receivable recovery by engaging help of qualified agencies, in particular for receivables of the subsidiary for which all means of receivable recovery were exhausted.

The maximum exposure to credit risk is equal to the carrying amount of financial assets. The carrying amounts of financial assets as at 31 December 2017 are shown in the table below:

in EUR

	31.12.2017	31.12.2016
Available-for-sale financial assets	913.236	942.951
Non-current financial receivables	82.979	82.979
Non-current operating receivables	156.945	27.422
Short-term financial receivables	1.343	1.343
Short-term operating receivables (net of receivables due from the State)	26.420.802	24.470.252
Cash and cash equivalents	6.167.489	3.162.992
Total	**33.742.794**	**28.687.939**

Table 156: The carrying amount of financial assets as at 31 December 2017

At the reporting date, short-term receivables are mostly exposed to the credit risk. Compared to the end of 2016, they have increased nominally by 7.97 percent. The reason for this is primarily an increase in sales i.e. invoiced sales in 2017 by a subsidiary for the sale of electricity; consequently, the amount of outstanding receivables has also increased.

in EUR

	Not-past due	Due and outstanding up to 30 days	Due and outstanding from 31 to 60 days	Due and outstanding from 61 to 90 days	Due and outstanding from 91 to 365 days	Due and outstanding in excess of 365 days	Total
Trade receivables	23.199.853	2.156.320	604.882	198.115	218.070	43.562	26.420.802
Other receivables (excluding receivables from the State)	22.739	3.386	1.060	343	1.260	18.762	47.551
Total at 31 Dec 2017	**23.222.592**	**2.159.706**	**605.942**	**198.458**	**219.330**	**62.324**	**26.468.353**

in EUR

	Not-past due	Due and outstanding up to 30 days	Due and outstanding from 31 to 60 days	Due and outstanding from 61 to 90 days	Due and outstanding from 91 to 365 days	Due and outstanding in excess of 365 days	Total
Trade receivables	21.211.711	1.985.440	531.937	210.038	371.500	159.625	24.470.252
Other receivables (excluding receivables from the State)	19.953	4.320	534	360	678	28.723	54.567
Total at 31 Dec 2016	**21.231.663**	**1.989.760**	**532.471**	**210.398**	**372.178**	**188.349**	**24.524.818**

Table 157: Maturity structure of trade and other short-term operating receivables

in EUR

	Trade receivable allowances	Interest receivable allowances	Other short-term receivable allowances (excluding receivables from the State)	Total
At 1 Jan 2016	2.613.171	264.579	16.014	2.893.764
Receivable allowances	307.472	75.434	612	383.517
Reversal of receivable allowances	-138.941	-12.535	-362	-151.838
Write-off	-279.722	-92.005	-448	-372.175
At 31 Dec 2016	**2.501.980**	**235.473**	**15.816**	**2.753.268**
At 1 Jan 2017	2.501.980	235.473	15.816	2.753.268
Receivable allowances	295.232	34.530	316	330.077
Reversal of receivable allowances	-70.518	-816	-252	-71.586
Write-off	-120.991	-11.663	-386	-133.040
At 31 Dec 2017	**2.605.703**	**257.524**	**15.493**	**2.878.719**

Table 158: Movements in receivable allowances

Collateralised receivables - as from 2016, €23,000,000 of receivables due from major buyers of electricity to the subsidiary is collateralised.

7.5.2. Liquidity risk

Liquidity risk is the risk that the company will not be able to meet its liabilities on maturity. The aim of the company is to always have at disposal sufficient liquid assets to meet its obligations, both under normal operating conditions, as well as in the event of unexpected circumstances.

The Elektro Primorska Group pursues a policy of strict payment discipline and stable cash flows. In 2017, the Group only occasionally had to draw on its short-term borrowings. The Group settles all of its liabilities regularly and within agreed deadlines. Liquidity risk is assessed by the Group as medium.

in EUR

	Carrying amount of liabilities	Contractual cash flows				
		Liabilities	0 to 6 months	7 to 12 months	1-5 years	More than 5 years
Non-current financial liabilities	24.791.334	24.791.334	0	0	14.474.667	10.316.667
Short-term financial liabilities	6.790.892	6.790.892	3.351.558	3.439.333	0	0
Supplier payables (excluding advances)	21.567.199	21.567.199	21.301.773	118	259.902	5.407
Other liabilities excluding amounts owed to the State, to employees and advances	552.411	552.411	549.701	0	2.710	0
Total liabilities at 31 Dec 2017	**53.701.836**	**53.701.835**	**25.203.032**	**3.439.451**	**14.737.278**	**10.322.074**

in EUR

	Carrying amount of liabilities	Contractual cash flows				
		Liabilities	0 to 6 months	7 to 12 months	1-5 years	More than 5 years
Non-current financial liabilities	22.670.000	25.213.483	0	0	18.055.578	7.157.905
Short-term financial liabilities	7.357.549	7.684.029	4.051.494	3.632.535	0	0
Supplier payables (excluding advances)	18.437.326	18.437.326	18.386.073	6.213	44.744	295
Other liabilities excluding amounts owed to the State, to employees and advances	23.250	23.250	20.540	2.710	0	0
Total liabilities at 31 Dec 2016	**48.488.125**	**51.358.088**	**22.458.107**	**3.641.458**	**18.100.323**	**7.158.200**

Table 159: Maturity structure of liabilities

7.5.3. Interest rate risk

Interest rate risk is the risk of a loss arising due to unfavourable interest rate fluctuations. Exposure to interest rate risk is mainly associated with the increase in the Euribor reference rate, as the Group's borrowings are tied to Euribor. Interest rate risk is assessed as low and hence the company does not use any hedging instruments. The Group is exposed to interest rate risk associated with borrowings raised at a variable Euribor rate.

Exposure to interest rate risk of the Group:

Financial instruments at fixed rate of interest		in EUR
	31.12.2017	31.12.2016
Financial liabilities	20.900.000	13.400.000
Net financial instruments at fixed rate of interest	**20.900.000**	**13.400.000**

Table 160: Financial instruments at fixed rate of interest

Financial instruments at variable rate of interest		in EUR
	31.12.2017	31.12.2016
Financial receivables	84.322	84.322
Financial liabilities	10.682.225	16.627.549
Net financial instruments at variable rate of interest	**10.766.547**	**16.711.871**

Table 161: Financial instruments at variable rate of interest

As at the reporting date, a change in interest rates by 100 or 200 base points would increase/decrease net profit by the amounts reported below. Cash flow sensitivity analysis associated with financial instruments at variable rates of interest assumes that all other variables remain unchanged.

An increase of 100 base points would have the following effect on the profit or loss	in EUR
	31.12.2017
Net cash flow variability - 100bt	87,779
Net cash flow variability + 100bt	-

7.5.4. Currency risk

Financial and operating receivables and liabilities as at 31 December 2017 and 31 December 2016 are denominated in euros and therefore, the Group's exposure to currency risk is assessed as low and as such is not disclosed.

7.6. Capital management

The key purpose of capital management is to ensure capital adequacy of the Group and the greatest possible financial stability and solvency for the purpose of financing operations, as well as increasing the value of group companies for the shareholders. Hence, the Group pursues a stable dividend policy.

The Group uses net debt to equity ratio to monitor its capital adequacy. The net financial debt comprises borrowings less cash and cash equivalents.

The Group is financially stable, as evidenced by the net debt to equity ratio.

			in EUR
	31.12.2017	31.12.2016	31.12.2015
Non-current financial liabilities	24.791.334	22.670.000	22.015.324
Short-term financial liabilities	6.790.892	7.357.549	9.298.033
Total financial liabilities	31.582.226	30.027.549	31.313.357
Total capital	158.674.327	153.303.633	148.727.193
Debt/equity	0,199	0,196	0,211
Cash and cash equivalents	3.162.992	3.162.992	4.934.865
Net financial liabilities	28.419.234	26.864.557	26.378.492
Net debt/equity	**0,179**	**0,175**	**0,177**

Table 162: Net debt/equity ratio

7.7. Fair value and carrying amounts of financial instruments

in EUR

	31.12.2017		31.12.2016	
	Carrying value	Fair amount	Carrying value	Fair amount
Non-derivative financial assets at fair value				
Available-for-sale financial assets	68.435	68.435	54.938	54.938
Non-derivative financial assets at amortised cost				
Financial receivables	84.323	84.323	84.323	84.323
Short-term operating receivables (net of receivables due from the State)	26.468.448	26.468.448	24.524.818	24.524.818
Non-current operating receivables	156.945	156.945	27.422	27.422
Cash and cash equivalents	6.167.489	6.167.489	3.162.992	3.162.992
Total non-derivative financial assets	**32.945.640**	**32.945.640**	**27.854.493**	**27.854.493**
Non-derivative financial liabilities at amortised cost				
Bank borrowings and other financial liabilities	-31.582.226	-31.582.226	-30.027.549	-30.027.549
Operating liabilities (excluding other long-term liabilities and liabilities to the State and employees, and advances)	0	0	0	0
liabilities to the State and employees, and advances)	**-31.582.226**	**-31.582.226**	**-30.027.549**	**-30.027.549**

Table 163: The fair value and carrying amounts of financial instruments

In terms of fair value, assets and liabilities are classified in three levels:

Level 1 - assets at market price;
Level 2 - assets not classified within level 1 and the value of which is determined directly or indirectly based on observable market data;
Level 3 - assets the value of which cannot be determined using observable market data.

Fair values of financial assets according to the fair value hierarchy:

in EUR

	31.12.2017			31.12.2016		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Assets at fair value						
Available-for-sale financial assets	68.435	0	0	54.938	0	0
Total assets at fair value	**68.435**	**0**	**0**	**54.938**	**0**	**0**
Assets for which fair value is disclosed						
Non-current financial receivables	0	0	82.979	0	0	82.979
Short-term financial receivables	0	0	1.343	0	0	1.343
Non-current operating receivables	0	0	156.945	0	0	27.422
Short-term operating receivables (net of receivables due from the State)	0	0	26.468.448	0	0	24.524.818
Cash and cash equivalents	0	0	6.167.489	0	0	3.162.992
Total assets for which fair value is disclosed	**0**	**0**	**32.877.205**	**0**	**0**	**27.799.555**

Table 164: Fair values of financial assets according to the fair value hierarchy

Fair values of financial liabilities according to the fair value hierarchy

in EUR

	31.12.2017			31.12.2016		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Assets at fair value						
Liabilities for which fair value is disclosed						
Non-current financial liabilities	0	0	-24.791.334	0	0	-22.670.000
Short-term financial liabilities	0	0	-6.790.892	0	0	-7.357.549
Non-current operating liabilities	0	0	0	0	0	0
Operating liabilities (excluding other long-term liabilities and payables to the State and employees, and advances)	0	0	-22.119.610	0	0	-18.460.576
Total liabilities for which fair value is disclosed	**0**	**0**	**-53.701.836**	**0**	**0**	**-48.488.125**

Table 165: Fair values of financial liabilities according to the fair value hierarchy

7.8. Subsequent events

No events occurred after the reporting date that could have a significant impact on the financial statements for the year ended 31 December 2017.

In the period subsequent to the reporting date (31 December 2017) and the report of the independent auditor (15 May 2018), the Group received preliminary statement of accounts for the 2017 regulation year from SODO. The statement of accounts is based on non-audited financial statements. It is clear from the preliminary statement of accounts that in 2017 the contractual value of services and rental of electricity infrastructure already charged is lower than the values established on the basis of the preliminary statement of accounts (rent outstanding in the amount of €427,348 and service charge of €2,019,371, according to the value of advance payments made during the year). Therefore, the Group increased revenues from services under the contract with SODO in the amount of €2,019,371, and reduced the value of rental income from the lease of energy infrastructure by €427,348.

Over the period 1 January to 31 March 2018, the Group acquired 400 treasury shares. Thus, at the end of March 2018, the Elektro Primorska Group held 42,899 treasury shares.

No other events occurred after the end of the reporting period and before the compilation of the financial statements that could impact the financial statements for the year ended 31 December 2017 or require additional disclosures to them.

7.9. Operating lease liabilities and assets

7.9.1. Group as a lessee

The Group recognised liabilities from operating leases of property, plant and equipment, which primarily relate to lease of business premises, fibre optic for telecommunications, and lease of electricity infrastructure for the provision of public service of electricity distribution.

in EUR

Maturity	31.12.2017	31.12.2016
Up to 1 year	199.788	153.864
From 1 up to and including 5 years	641.439	540.929
Total	**841.227**	**694.793**

Table 166: Operating lease liabilities for lease of property, plant and equipment

Property (primarily offices) are leased for periods ranging from one to five years, while equipment and car lease is agreed for a period of up to 12 months.

Lease agreements are concluded for an indefinite period of time (for duration of services provision), while lease of electricity infrastructure has been agreed for a period of 30 years with an option of extension.

In 2017, the Group recognised €213,615 of operating lease costs (2016: €157,363).

7.9.2. Group as a lessor

The Group discloses receivables for operating lease of property, plant and equipment. They relate to rental of apartments, commercial premises, and above all electricity infrastructure of the parent company.

in EUR

Maturity	31.12.2017	31.12.2016
Up to 1 year	16.785.509	16.972.522
From 1 up to and including 5 years	83.927.547	84.862.609
Total	**100.713.056**	**101.835.131**

Table 167: Receivables for operating lease of property, plant and equipment

Lease contracts are mostly concluded for an indefinite period, while lease of energy infrastructure is agreed for the duration of the concession agreement (until 30 June 2057) granted to the infrastructure lessee SODO by the Republic of Slovenia.

The Group recognised rental income of €16,785,509 in its profit or loss in 2017 (2016: €16,972,522), reported as revenue from sale of services on the domestic market.

7.10. Financial liabilities

in EUR

Movements in financial liabilities	At 1 Jan 2017	Cash flow		Non-monetary changes	At 31.12.2017
		Inflows	Outflows		
Borrowings from banks	30.015.323	29.650.000	-28.095.323	0	31.570.000
Dividends	5.226		-2.066.311	2.066.311	5.226
Treasury shares	0		-931	931	0
Interest payable on credits	14.622		-319.521	314.584	9.685
Total	**30.035.171**	**29.650.000**	**-30.482.086**	**2.381.827**	**31.584.911**

Table 168: Financial liabilities

08.

STATEMENT OF MANAGEMENT RESPONSIBILITY – GROUP OPERATIONS

The Management has approved the financial statements of the Group for financial year 2017 and the business report of the Group for the period from 1 January to 31 December 2017 and the accounting policies used and notes thereto contained in this annual report.

The Management Board is responsible for the preparation of the annual report that gives a true and fair presentation of the financial position of the Group and of its financial performance for the year ended 31 December 2017.

The Management Board confirms that the appropriate accounting policies were consistently applied, and that the accounting estimates were made under the principle of prudence and the diligence of a good manager. Furthermore, the Management Board confirms that the financial statements and notes thereto have been compiled under the assumption of a going concern, and in accordance with the applicable legislation and International Financial Reporting Standards as endorsed by the EU.

The Management Board is also responsible for the appropriate accounting system and adoption of measures to secure the assets, and to prevent and detect fraud and other irregularities and/or illegal acts.

In its operations the Group strictly abides by the laws and tax regulations, and the Management Board does not expect any significant obligations in this respect.

The Tax Authorities may, at any time within a period of 5 years after the end of the year for which a tax assessment was due, carry out an audit of the Company's operations, which may lead to assessment of additional tax liabilities, default interest, and penalties with regards to corporate income tax or other taxes and duties. The Management is not aware of any circumstances that may result in a significant tax liability.

Nova Gorica, 8 May 2018

Uroš Blažica,
President of the Management Board

Contents

List of Abbreviations

AUKN	Capital Assets Management Agency of the Republic of Slovenia
BDP	gross domestic product
CUO	price for network use
COT	comprehensive risk management
D	electricity distribution
DU	distribution unit
DCV	remote control centre
DV	transmission line
DVPLM	remotely controlled switch point
DVE	domestic energy sources
EFQM	The European Foundation for Quality Management
EIMV	Elektroinštitut Milan Vidmar
ERP	enterprise resource planning
EBIT	earnings before interest and tax
GIS	geographic information system
GIZ	economic interest grouping
I	investments
IIS	integrated information system
ISV	integrated management system
JR	public lighting
KBV	cable conduit
KEE	quality of electricity
NIS	network information system
NN	low voltage
NR	internal audit
OVE	renewable energy resources
RAST	program of operating costs rationalisation
REDOS	development of Slovenian electricity distribution network
RP	substation
RS	Republic of Slovenia
RTP	transformer substation
SAIDI	average interruption duration index
SAIFI	average interruption frequency index
SCADA	distribution networks system monitoring
SDH	Slovenian Sovereign Holding
SM	standing place
SN	medium voltage
SOD	Slovenian Compensation Fund
SODO	distribution network system operator
SODO EP	activity of Elektro Primorska d. d., implementing a service for SODO
SPTE	co-generation of heat and electricity
TP	transformer station
UDO	distribution network management
URE	efficient use of electricity
UMAR	Institute of Macroeconomic Analysis and Development
UKV	ultra-short waves
VN	high voltage
VZD	maintenance
ZSDH	Slovenian Sovereign Holding Act