TOWARDS THE TOP

ANNUAL REPORT 2016

interEnergo

a kelag company

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ANNUAL REPORT 2016

INTERENERGO d. o. o., Ljubljana
FOR 2016

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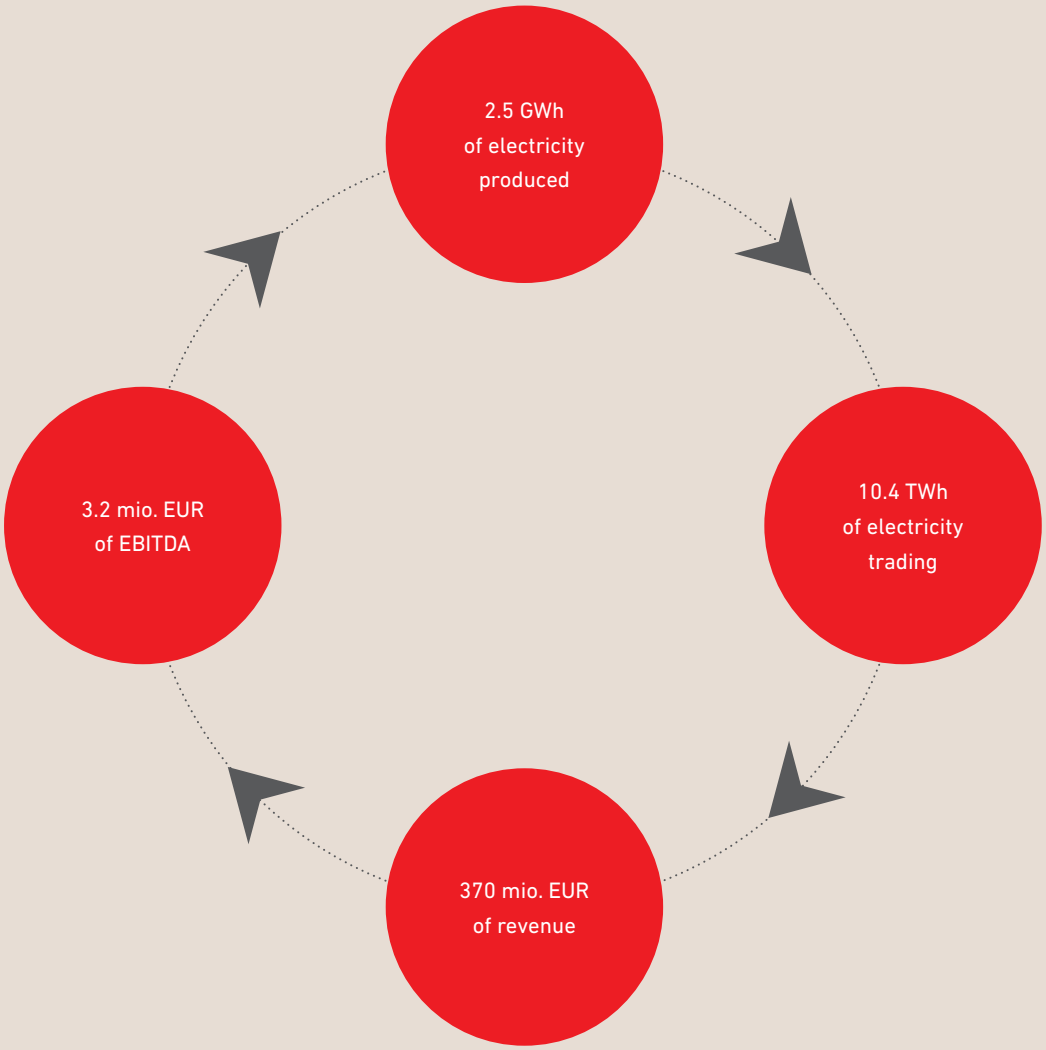
In 2016, Interenergo had more than EUR 370 million in revenue and an operating result (EBIT) amounting to EUR 2.9 million. Compared to the previous year, this shows that through controlled growth we have been able to strengthen our position on the market and at the same time successfully manage risks and cost structure of the Company.

I. INTRODUCTION

2016 HIGHLIGHTS

PICTURE I.1: 2016 Highlights of the Interenergo Company



1 KEY PERFORMANCE HIGHLIGHTS OF THE COMPANY

Performance of Interenergo in 2016 compared to 2015.

TABLE I.1: Performance of Interenergo in 2016 compared to 2015.

Interenergo	2016	2015	Percentage change 2016/2015
Assets (in EUR)	91,775,269	71,558,185	28 %
Equity (in EUR)	18,580,129	28,234,306	-34 %
Revenue (in EUR)	370,551,480	255,831,125	45 %
EBIT (in EUR)	2,883,044	1,360,168	112 %
EBITDA (in EUR)	3,165,571	1,652,870	92 %
Electricity trading (in TWh)	10.4 TWh	7.2 TWh	44 %
Electricity production (in GWh)	2.5 GWh	2.5 GWh	0 %

EBITDA represents the Company's operating result excluding finance income and expenses, taxes, and amortisation and depreciation expense relating to intangible assets and property, plant and equipment assets respectively, as well as revaluation expenses for current receivables.

EBIT represents the Company's operating result excluding finance income, expenses and taxes. In addition to interest on borrowings, finance income and expenses also include profit shares and dividends from associates and revaluation expenses for financial assets respectively.

The results achieved in 2016 confirm that the Company's business model is sufficiently robust and resistant to constant changes, which over the recent years became the only constant.

2 LETTER FROM THE MANAGING DIRECTORS

Christian Schwarz (left) and Anton Papež (right)

In 2016, Interenergo had more than EUR 370 million in revenue and an operating result (EBIT) amounting to EUR 2.9 million. Compared to the previous year, this shows that through controlled growth we have been able to strengthen our position on the market and at the same time successfully manage risks and cost structure of the Company.

The results achieved in 2016 confirm that the Company's business model is sufficiently robust and resistant to constant changes, which over the recent years became the only constant. Production and trading are the foundation for further development of the Company, which makes deliberate choices to gradually transform from an electric into an energy company.

In the area of trade, we again successfully exploited the volatility of electricity prices, which enabled us to create added value in the market. Despite the achieved results, we remain cautious as we are aware that only those companies that will be able to quickly adapt to market needs and make profitable decisions based on the information that gives a competitive advantage over others, will succeed in the long run.

Interenergo's production presents a smaller share of revenue as the production portfolio consists of various small solar power plants in Slovenia, which in 2016 produced electricity in a total of 484 thousand EUR. Investments in subsidiaries engaged in the production of electricity in small hydropower plants (hereinafter referred to as SHPP) are a key part of our investment activity. In 2016, we successfully continued the construction of the Medna SHPP at the LSB Elektrane subsidiary in Republika Srpska, and continued with our efforts to acquire a building permit for the Vrbnica SHPP in Montenegro. Due to the long-term downward trend in electricity prices, we adjusted the value of our long-term investments in subsidiaries whose main activity is the production of electricity from renewable sources. With the aim of demonstrating fair and real state of business, we recognised a necessary impairment of our investments totaling EUR 12.7 million on the Company level. Therefore, after the end of the financial year 2016, the owner recapitalised the Company by paying additional equity amounting to EUR 10 million into the capital surplus. These funds will enable the Company to increase the share capital in liabilities to funding sources, reduce indebtedness, maintain stable credit rating, and strengthen its capital structure.

As we are aware that capable and motivated employees are the key to achieving set goals, we paid special attention to this in 2016. Through active participation, the employees helped shape a value system that they take as their own and that embody the Company's culture.

In 2016, we formed a business strategy until 2020 due to constantly changing industry trends. In 2017, we will add a third business pillar to the production and trading of electricity on the wholesale market. Its emphasis will be on Energy Contracting (ESCO services) and electricity retail. We believe that with our knowledge, resources,

and experience we can create added value for our customers in these two industry segments as well.

Each successfully concluded year challenges us to be even more successful. Committed to the adopted strategy, we are entering a new fiscal year and we are confident that we will again at least achieve, if not exceed, our business goals.

Anton Papež, Managing Director of Interenergo d. o. o.

Christian Schwarz, Managing Director of Interenergo d. o. o.

3 PRESENTATION OF THE COMPANY

Interenergo, energetski inženiring, d. o. o. (hereinafter also referred to as "Interenergo") is an international entity engaged in electricity trading and investing in energy facilities using renewable resources.

3.1 Company profile

COMPANY NAME	INTERENERGO, energetski inženiring, d. o. o.
SHORTENED COMPANY NAME	INTERENERGO, d. o. o.
COMPANY NAME IN ENGLISH	INTERENERGO, energy engineering, Ltd.
SHORTENED COMPANY NAME IN ENGLISH	INTERENERGO Ltd.
REGISTERED OFFICE	Tivolska cesta 48, 1000 Ljubljana, Slovenia
TELEPHONE	+386 (0)1 620 37 00
WEBSITE	www.interenergo.com
E-MAIL	info@interenergo.si
ESTABLISHMENT	25 July 2006
MAIN BUSINESS ACTIVITY	35,111 – Production of electricity in hydropower plants
OWNERSHIP	KI-KELAG INTERNATIONAL, GmbH, 100%
SHARE CAPITAL	10,200,000 EUR
TAX NO.	SI99144590
COMPANY ID NO.	2226405

3.2 Governing bodies of the Company

Interenergo d. o. o. is managed by two managing directors and three holders of procuration, who run the operations and direct the development of both the parent Interenergo Company and its subsidiaries. The Company's operations are supervised and monitored by a three-member Supervisory Board.

Management:

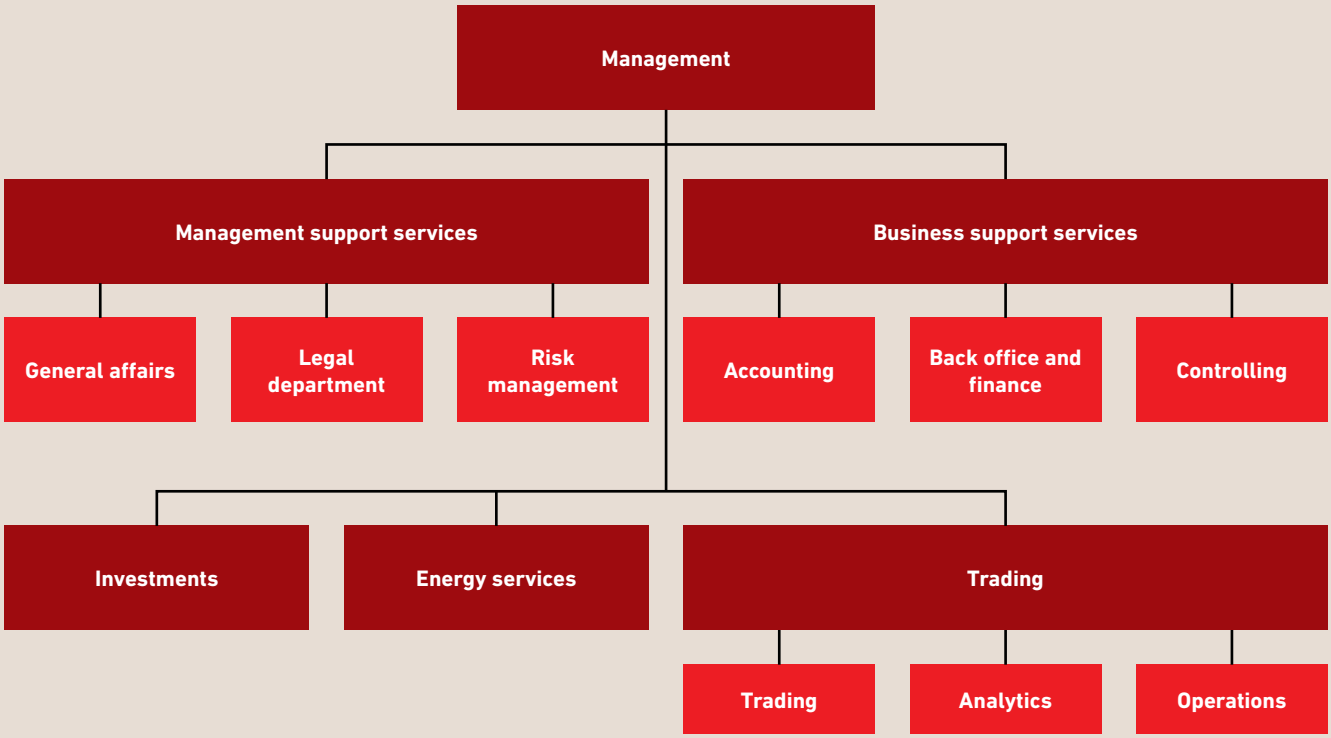
MANAGING DIRECTOR	Anton Papež
MANAGING DIRECTOR	Christian Schwarz
HOLDER OF PROCURATION	Blaž Šterk
HOLDER OF PROCURATION	Marcus Stormanns
HOLDER OF PROCURATION	Ingo Preiss

Supervisory Board:

CHAIRMAN	Armin Wiersma
MEMBER	Wolfgang Lyssy
MEMBER	Gerald Berger

3.3 Organisational scheme of the Company

SCHEME 1.2.:
Organisational scheme of the Interenergo Company



100% acquisition by KI-KELAG International GmbH in 2009 was of key importance for Interenergo's long-term development.

3.4 Milestones of the Interenergo Company

Interenergo d. o. o. started its operations in 2007 and its 100% acquisition by KI-KELAG International GmbH in 2009 was of key importance for its long-term development. In 2012, solar power plants Martex and Mura started operating, and in 2014, the portfolio of solar power plants was expanded by five new facilities.

In 2016, our volume of trading exceeded 10 terawatt hours, and we became a member of four new power exchanges and one new electricity grid.

2007
- Start of operations

2008
- Membership of Europe's largest power exchange (EEX)

2009
- Integration into the Kelag Group (Austria)

2010
- Trading volume exceeds 1 TWh

2011
- Our revenues exceed EUR 200 million

2012
- Membership of Hungarian power exchange (HUPX)
- Installation of and start of production in Martex and Mura solar PPs

2013
- Membership of Italian power exchange (GME)

2014
- Expansion of solar PP network with five new facilities

2015
- Trading volume reaches 7.2 terawatt hours
- Start of trading in Romania directly via Interenergo d. o. o.

2016
- Trading volume exceeds 10 terawatt hours, and revenue exceeds EUR 370 million
- Membership of the following power exchanges: SEEPEX (Serbia), OTE (the Czech Republic), OKTE (Slovakia), CROPEX (Croatia). We also entered Swissgrid, the Swiss electricity grid.

3.5 Business activities of the Company

The Company's main activities include electricity trading, construction and management of energy facilities using renewable sources, and improving energy performance of buildings and industrial facilities.

As part of a network of licenced companies, we engage in electricity trading on wholesale markets. In this way, we contribute to a reliable and competitive electricity supply in our target markets. The Company's volume of electricity trading grew from 3.5 terawatt hours to 10.4 terawatt hours in just five years.

When choosing our partners, we follow the business principles of transparency and long-term trust. Having established such relationships, we take on reliable projects that generate benefits for all the parties involved. Also, when siting our energy systems, we think things through, and we think long-term.

Our future plans are well-thought-out as well. In 2017, we will start providing technical upgrades of buildings and industrial facilities, and in this way help the owners of these buildings achieve energy savings.

3.6 Business policy of the Company

In recent years, the energy sector has been subject to constant change and innovation – on the one hand, this brings new opportunities, and on the other, a number of risks.

For Interenergo, this means that we follow trends which clearly point to the increasing profitability of renewable energy sources, but we are not giving in to short-term excitement. Quality investments in the energy sector are, by definition, long-term and well-thought-out. With its past performance and the link with the KI-KELAG International GmbH parent company, Interenergo ensures both visionary development and a strong capital background.

Similarly, we balance the tension between rapid decisions and a solid background in the area of trade. While our responses are rapid and bold, we avoid speculative traps with no clear scenarios and solutions. This is the cornerstone of our business policy.

3.6.1 Vision

We are gradually transforming from an electric into an energy company.

We will increase the production of energy from renewable sources, trading in the markets of continental Europe, and provide advanced services and flexible energy supply in the region.

Through smart growth, we will achieve operating profit (EBIT) totalling EUR 12 million by 2020.

3.6.2 Mission

We translate energy trends into smart growth and produce innovative solutions to ensure a high value for stakeholders.

3.6.3 Values

In 2016, we redefined our values. Employees were participating in the process, and helped define and construct new values at workshops.

Targeting: We believe that with a clear vision, objectives, and perseverance anything is possible.

- We ourselves design the process and priorities for achieving those objectives.
- We have high quality standards.
- We are persevering in overcoming obstacles.
- We are able to achieve superior results.

Responsibility: We take responsibility for the results of our work, the results of our employees, and the Company.

- We stand behind our actions.
- We proactively eliminate deficiencies.
- We go above and beyond to achieve success.
- Each employee creates added value.

Growth and development: Quality and professional services are a reflection of our continuing education and investment in knowledge.

- We believe there is always room for improvement.
- We take initiative, and care for personal and professional growth.
- We always look for new solutions.
- We are focused on technologies of the future.

Team work: Each one of us is important, and together we are one step ahead.

- A relaxed atmosphere and transparency create a pleasant working environment.
- We work together, respect, and help each other.
- Individual targets are adjusted to fit common goals.

None of us can not achieve as much as we can achieve together.

“

Key macroeconomic indicators for 2016 point to continued positive economic developments in Slovenia. Slovenian economy continued to have solid growth in 2016. According to Slovenia‘s Statistical Office (SORS), GDP grew by 2.5% in 2016. As in the previous year, the key driver of Slovenia‘s economy in 2016 was export.

II. BUSINESS REPORT OF THE COMPANY

1 ECONOMIC ENVIRONMENT AND ITS IMPACTS ON THE COMPANY IN 2016

In order to be successful in electricity trading, it is important that the Company swiftly adapts to the rapidly changing situation in energy markets. In 2016, the Company operated successfully in the demanding economic situation, which is reflected and proved by both investments in progress and those planned for the future.

Economic environment in Slovenia in 2016

Key macroeconomic indicators for 2016 point to continued positive economic developments in Slovenia. Slovenian economy continued to have solid growth in 2016. According to Slovenia's Statistical Office (SORS), GDP grew by 2.5% in 2016. As in the previous year, the key driver of Slovenia's economy in 2016 was export. This year, domestic demand increased by 2.4% and is thus becoming increasingly important for economic growth. Average confidence in all industries and among consumers was the largest since the beginning of the crisis.

Given the favourable trends in economic activities, the situation on the labour market improved, and the unemployment rate dropped. At the end of 2016, there were 99,615 unemployed people, which is 11.9% less than at the end of 2015.

Improved labour market conditions, rising consumer confidence, and persistently low energy prices have contributed to a sharp increase in private consumption and private investment in the first half of 2016.

Inflation in Slovenia increased in the second half of 2016, and in September turned positive for the first time in two years. In the fourth quarter of 2016, it averaged 0.7%. This increase is a result of energy price developments, and was partly also influenced by prices of unprocessed food. Prices measured with the HICP inflation index decreased by an average of 0.2%. In the second half of 2016, prices started growing again under the influence of a renewed increase in oil prices and stronger private consumption.

Despite the positive outlook, the Bank of Slovenia estimates that there is still a number of risks in the international environment that may cause a slowdown in foreign demand. Risk factors are changes in the political environment in some developed countries, increasing social inequality, mutual sanctions between the EU and Russia as well as geopolitical tensions in the Middle East.

Source of data on the economy in 2016: The Bank of Slovenia (Economic and Financial Developments, January 2017), Institute of Macroeconomic Analysis and Development – IMAD, Statistical Office of the Republic of Slovenia – SORS, European Commission (Country Report 2016).

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Due to impairment of investments in subsidiaries, the owner recapitalised the company by paying additional equity amounting to EUR 10 million into the capital surplus after the end of the financial year 2016, thus increasing the share of equity in total equity and liabilities to 31 percent.

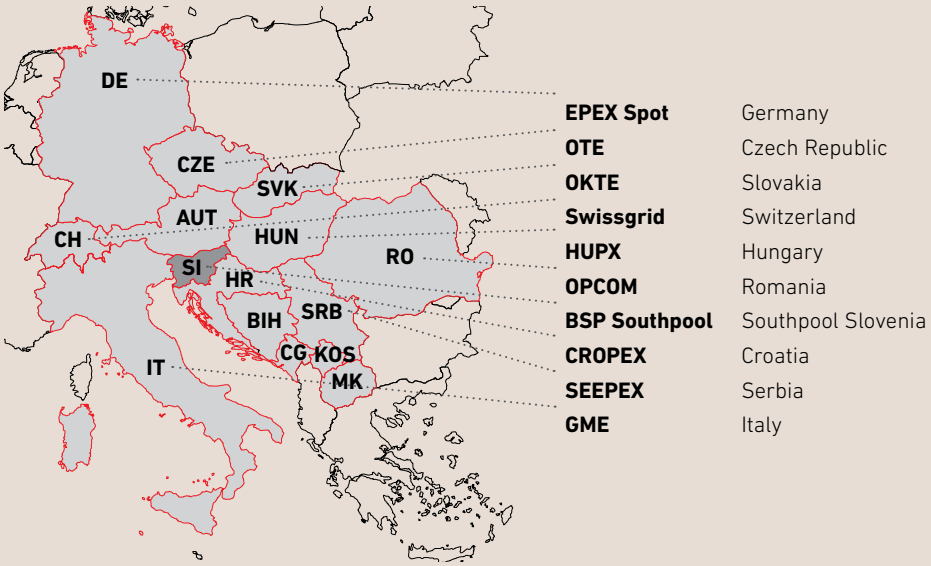
2 PERFORMANCE OF THE COMPANY IN 2016

In 2016, the Company's operations were successful. At Group level, EBITDA margin was 0.85% of revenue or EUR 3.2 million, which is 0.2 percentage points (p.p.) more than in the same period of the previous year.

The amount of assets and liabilities of the Company is above all dependent on the amount of electricity trading-related payables and receivables. At year-end, payables to suppliers and trade receivables relate to electricity purchased and sold in December. The assets of the Company increased by 28%, or EUR 20.2 million at the end of 2016 compared to 2015. The Company obtains all funds in the form of equity or borrowings and loans from the KI-KELAG International GmbH parent company. At the end of 2016, the share of equity in total equity and liabilities decreased by EUR 9.7 million or 19.2 p.p. (to 20.2%) at Company level compared to a year ago. The reason for the reduction of equity is a long-term trend of low electricity prices, because of which it was necessary to impair investments in subsidiaries that invest in renewable energy sources. Therefore, after the end of the financial year 2016, the owner recapitalised the Company by paying additional equity amounting to EUR 10 million into the capital surplus, bringing the share of equity in total equity and liabilities to 31%.

2.1 Trading activities

Trading activities of Interenergo have been growing immensely. The amount of electricity sold at the Company level reached 10.4 terawatt hours, which is a 44% growth compared to 2015. Trading was mainly focused on the short-term and long-term search for opportunities, and constant adaptation to market conditions.



PICTURE II.1: Presence in international markets and power exchanges

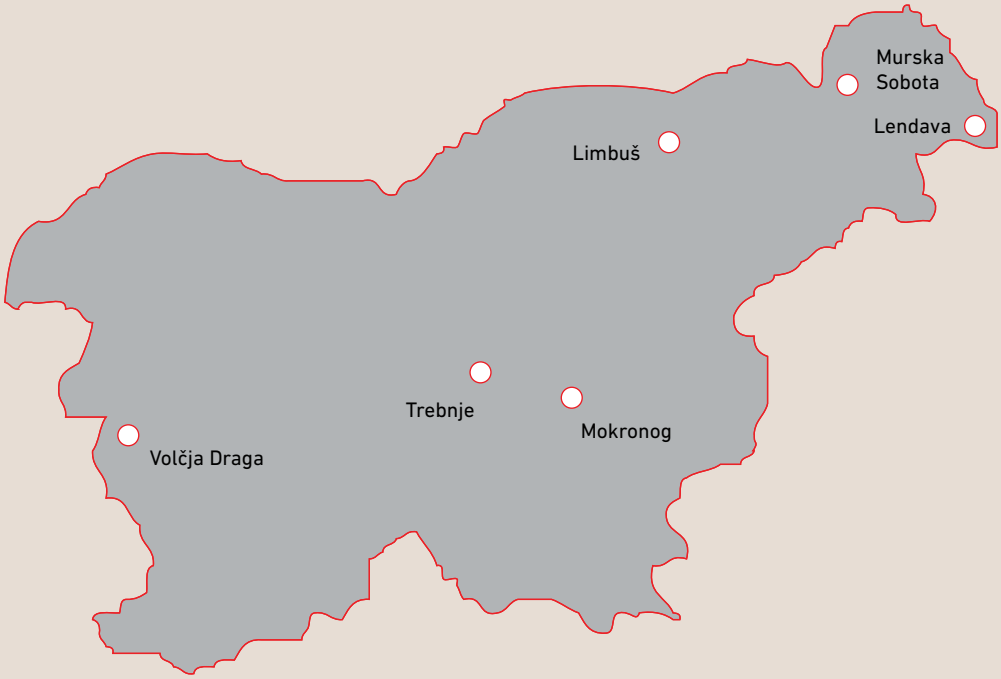
Trading profitability and growth in 2016 were a result of the strengthened electricity trading department, further development of the analytical department, and the improvement of our supporting information system.

All in all, in 2016, we traded in the energy markets of the following countries: Slovenia, Austria, Italy, Germany, Macedonia, Serbia, Montenegro, Bosnia and Herzegovina, Croatia, Hungary, the Czech Republic, Slovakia, Romania and Kosovo. In line with our strategy, we entered the following power exchanges in 2016: SEEPEX (Serbia), OTE (the Czech Republic), OKTE (Slovakia), CROPEX (Croatia), as well as Swissgrid, the Swiss electricity grid. This allows us to better exploit differences in the price of electricity, and increases the flexibility of trading strategies.

2.2 Investment activities and electricity production activities

The portfolio of solar power plants in Slovenia remains the same and comprises seven power plants with a total installed capacity of 2.33 MW, which in 2016 produced a total of 2.5 GWh of electricity. Part of that clean energy also supplied power to our offices in Ljubljana, which has helped reduce harmful environmental impacts.

PICTURE II.2: Locations of solar power plants in Slovenia



3 STRATEGY OF THE COMPANY

In 2016, Interenergo redefined its strategy. In the period 2016–2020, we will convert key trends identified into results and added value for our owner (KI-KELAG International GmbH).

The new strategy is still based on two pillars, namely investment and trade, and we have added a third, namely Sales and Services. The new strategy also takes into account the sustainable aspects of the Company and builds on the areas of sustainable development, which we at Interenergo see as business excellence, environmental responsibility, and social responsibility.

3.1 Focus of the 2016–2020 strategy

Based on trends in the energy sector, we have developed a focused strategy that will help us achieve our strategic objectives.

Our strategic objectives for the period 2016–2020 are shown in the following picture on page 20.

To achieve these objectives, we have set the basic foundations in recent years, and will be upgrading them in line with our strategy over the years to come. We continued to invest, focusing on hydro- and solar power. For the purpose of trading, we entered new power exchanges, and set up a new strategic business activity called Sales and Services.

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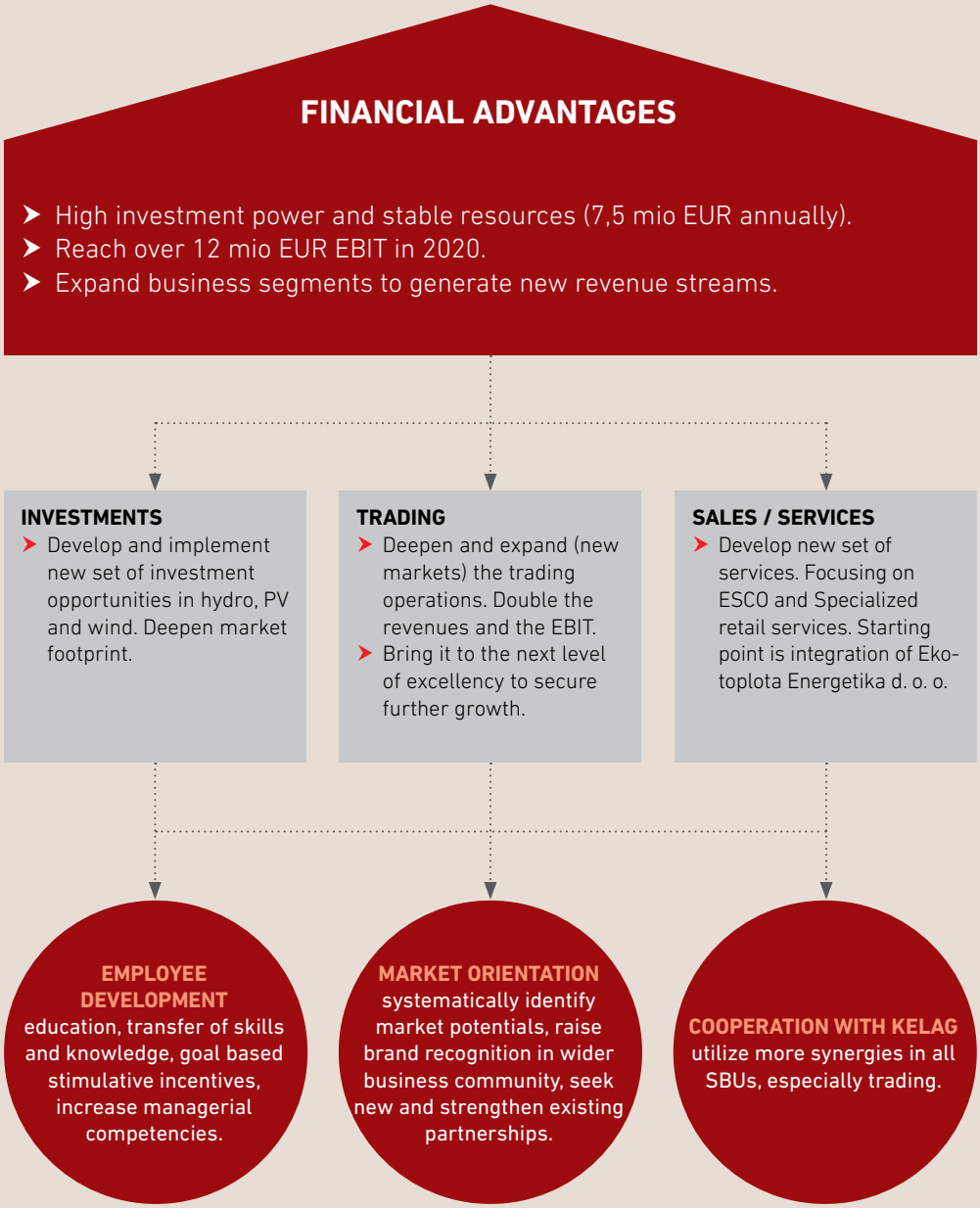
The new strategy is still based on two pillars, namely investment and trading, and adds a third, namely Sales and Services. The new strategy also takes into account the sustainable aspects of the Company and builds on the areas of sustainable development, which we at Interenergo see as business excellence.

PICTURE II.3: Interenergo's strategic objectives for 2016–2020



3.2 Sustainable policy of the Company

In accordance with the new strategy and values, we follow the sustainable development of the Company. We are aware of the responsibilities that we have towards the environment in which we operate. It is with this awareness that we comprehensively approach all stakeholders involved in our business model.

Stakeholders	What do they care about?	How do they get involved?
Owner	➤ Relevant and timely information ➤ Performance that leads to profit distribution ➤ Effective corporate governance	➤ Supervisory Board meetings ➤ Participation of Kelag's employees in decision-making ➤ Participation in joint projects and workshops ➤ Meetings
Employees	➤ Career development ➤ New knowledge ➤ Professional and effective leadership	➤ We organise team building activities to create a pleasant working environment ➤ Training ➤ Company sports activities
Business partners	➤ Compliance with the agreements ➤ Consistent payment of liabilities ➤ Clear criteria for the selection of subcontractors	➤ Transparent, non-discriminatory processes of electricity/equipment procurement and facility construction ➤ Compliance with the Kelag ethics code
National authorities	➤ Compliance with reguations ➤ Reliable access to electricity	➤ Consistent compliance with applicable regulations ➤ Proper co-operation with energy sector regulators
Local and broader community	➤ Sponsorships and donations as regards business, cultural, scientific, sports and other events ➤ New jobs ➤ Availability of electricity from renewable sources	➤ By expanding our activities and introducing new projects, we create new jobs
Media	➤ Regular and up-to-date information on the performance results of the Company and its subsidiaries ➤ Regular communication on ongoing activities	➤ We maintain a constructive relationship observing the principle that actions speak louder than words

At the heart of our values is the responsibility towards the results of our work, and the results of our employees and the Company. Through continuous, research-based improvements, we try to reduce the impact of our power plants on the environment and the ecosystem.

The strategic pillars of sustainable development are the following:

- business excellence,
- environmental responsibility, and
- social responsibility.

3.2.1 Business excellence

Business excellence is based on the Company's strategic orientation towards reliable electricity supply and reliable production from renewable energy sources.

We act in a transparent and fair manner following the highest ethical standards. As we pursue the new strategy, we believe in the long-term success. Sustainable development of the Company relies on strengthening our position in international electricity trade and investing in renewable energy sources.

Investments are planned and made without borrowing from financial institutions, because all the necessary funds are provided by the parent company in the form of equity or loans. The financial situation of the Company is therefore sound and stable.

With business excellence, which is reflected in good business results, we bear our responsibility towards shareholders.

3.2.2 Environmental responsibility

Responsibility to the environment is at the heart of our activities. We provide clean energy by producing electricity using renewable sources. Such production is without CO2 emissions, which are the main factor causing climate change.

We construct new energy facilities in accordance with the environmental and technical standards of the Kelag Group. In the siting of energy facilities, we comply with the applicable local and European legislative frameworks.

3.2.3 Social responsibility

Since we play an important and successful role in the society, we are aware of the importance of investing in the development of the local communities in which we operate. In 2016, we financially supported organisations in the areas of culture, education and sport.

Through sponsorships, we supported the following:

- Festival Ljubljana (Lithuanian Chamber Orchestra),
- EN-LITE, Association for the Promotion of Energy Literacy,
- TEAM 753 cycling club,
- Water Polo and Swimming Federation of Montenegro / Montenegrin National Water Polo Team.

Donations:

- Rotary Club,
- Slovenian International Ladies Association (SILA).

3.2.4 Employee competences and development

Without highly educated and motivated employees, the Company would not have achieved excellent business results. As at 31 December 2016, the Company had 26 employees.

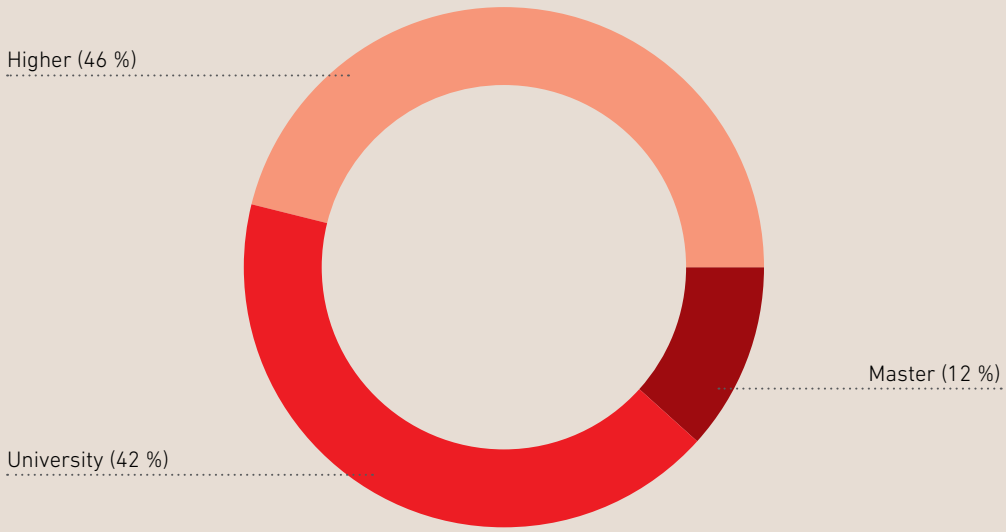
The management of the Company makes certain that employees are offered professional training which is adjusted to the local environments in which we operate, as this improves their good performance.

A stimulating work environment provides our employees opportunities for personal and professional development. Given the nature of their work, our employees regularly participate in various training events and conferences in order to deepen their knowledge and improve their skills.

In the Interenergo Company, salaries have a fixed and variable portion, which allows our employees to see the direct link between their performance and their salary. We have variable remuneration systems in place that are customised to the nature of employees' work to promote proactive performance and dedication.

Being aware that a pleasant work atmosphere is important for successful business operation, we organised five major team building events in 2016: a workshop on creative thinking, team building in Carinthia (the event included a cycling tour of the Mežica mine and a visit to the Dravske Elektrarne power plant), as well as a workshop on co-creating Company values. Together, we also participated in two runs, namely the Business Run Ljubljana and the Ljubljana Marathon.

GRAPH II.1: Education structure of employees of the Company



4 RISK MANAGEMENT BY THE COMPANY

Entrepreneurs agree that there is no opportunity without risk. Therefore, the Company's key objective is to ensure there are appropriate and effective risk identification, monitoring, and management in place at all times. Thus, we set up a risk management system that addresses risks arising from our activities as well as from the market.

The Company-wide rules and minimum standards ensure systematic and uniform risk management. The main objective at the Company level is to manage risks, which are divided into five categories: market, financial, legal, operational, and other risks. Risks are identified and managed for each business division.

4.1 Market risk

Changing energy prices and exchange rate fluctuations constitute the key market risks within the Interenergo company.

Market risk is defined as potential loss resulting from changes in market prices. Within the company, this risk arises out of open positions (electricity traded but not yet supplied) and increases with price volatility. As volatility of commodity prices has a significant effect on company profits, such developments are closely monitored. Trading activities are also closely monitored against the tolerable/acceptable risk exposures set out in various policies, rules and management decisions of the company. The Interenergo company follows a risk averse policy.

Currency risk arises primarily from the sale/purchase of goods with their origin outside the buyer's/seller's currency area. To reduce currency risk, most contracts for buying and selling electricity are denominated in euro. The Company is exposed to currency fluctuations of RON and HUF, which are a result of business operations in Romania and Hungary. When monitoring deals/transactions concluded in foreign currencies, measures are taken to effectively manage and reduce exposure to exchange rate fluctuations.

4.2 Financial risks

Financial risks include credit risk and liquidity risk.

Credit risk is defined as the risk that a contractual party will fail to meet its contractual obligations, thus affecting the company's cash flow. Credit risk exists both for open and closed positions up to the actual settlement date (settlement risk) and up to the contractual delivery date.

We manage credit risk by means of the standard EFET contracts, which lay down the general legal framework. The risk is also managed by checking the counterparty's credit rating and by monitoring its creditworthiness throughout the contractual relationship, the intensity depending on the value of the contract with the counterparty (electricity trader). The required guarantees and trading limits are expressed in absolute terms and in view of the closely monitored limits/credit lines applying to each partner. Partners who are considered more risky are required to submit guarantees.

Liquidity risk is a financial risk relating to the liquidity of an entity or an individual financial instrument.

Liquidity risk of the Company was assessed as small in 2016. With regard to its day-to-day trading activities, the Company can use a loan facility of the UniCredit bank or a short-term loan of the controlling KI Kelag International GmbH company.

The nature of the Company's main activity excludes the possibility of long-deferred payments by buyers, which further contributes to the small liquidity risk. In our wholesale trading we only have a limited number of partners, which in turn act as both buyers and suppliers. For this reason, the majority of accounts receivable and payable can be immediately offset, while the remaining liabilities would get paid within 20 days.

For several years now, we have shown stable and solid liquidity indicators, and have built a reputation of a partner with an impeccable payment discipline.

4.3 Legal risk

Legal risk is defined as the risk of loss caused by non-compliance with applicable laws and regulations. It arises mainly from contracts and agreements not clearly specified or documented.

At Interenergo we have the necessary legal competencies and we cooperate with local law firms if necessary. We use the standard EFET contracts, as well as standard forms for statutory documents (bank guarantees, parent company guarantees, comfort letters, etc.). Legal risk is closely monitored by the risk management and legal departments. Each year, a foreign agency performs an audit of certain Company departments, which is linked to Compliance Rules. If the audit results are adequate, the agency issues a certificate.

4.4 Operational risk

Operational risk is defined as the risk associated with an entity's information technology system, internal controls and employees. If such risk materialises, the entity might suffer a financial loss.

We manage this risk by defining in great detail its business processes, internal controls, job descriptions, etc. Furthermore, employees are continuously trained, and certain business processes follow the four-eye principle.

4.5 Interest rate risk

Interest rate risk is defined as the risk of loss caused by unfavourable developments in market interest rates. The Company has liabilities under a long-term loan contract with the controlling KI-KELAG International GmbH company. The loan bears a fixed interest rate, which eliminates the interest rate risk.

4.6 Other risks

The company is exposed to other risks, such as regulatory risk, political risks, investment risk, etc., which are covered by the company's risk management system and closely monitored by the competent departments.

5 SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

After the end of the financial year 2016, the owner recapitalised the Company by paying additional equity amounting to EUR 10 million into the capital surplus. These funds enabled the Company to increase the share capital in liabilities to funding sources, reduce debt, maintain stable credit rating and strengthen its capital structure.

In March 2017, the Company acquired a solar power plant with a capacity of 456 kWp at Kolodvorska 11 in Ormož. The estimated investment value is EUR 475,000.

6 RELATED PARTY TRANSACTIONS

Considering the circumstances known to us at the time of each and every legal transaction with the controlling company, Interenergo as subsidiary has always received adequate compensation and did not make any legal transactions or take or omit any actions that would be to its detriment.

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Our key objective is to ensure there are appropriate and effective risk identification, monitoring, and management in place at all times.

7 STATEMENT OF MANAGEMENT'S RESPONSIBILITY

The Management Board hereby confirms the financial statements for the year ended 31 December 2016, the notes thereto on pages 29 to 74, as well as the accounting policies applied.

The Management Board is responsible for the preparation of the annual report so that it gives a true and fair view of the financial position of the company and the results of its operations for 2016.

The Management Board hereby confirms that the relevant accounting policies were applied consistently and that the accounting estimates were prepared in compliance with the principles of prudence and due diligence. The Management Board also confirms that the financial statements and the notes thereto were prepared on a going concern basis and in accordance with the applicable legislation and the International Financial Reporting Standards.

Furthermore, the Management Board is responsible for keeping proper accounting records and for taking reasonable measures to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Within five years after the end of the year in which the tax is to be assessed, tax authorities have the right to perform a tax audit, which may consequently lead to additional payments of taxes, late payment interest and fines in relation to the corporate income tax and other taxes and duties. The Management Board is not aware of circumstances that might result in significant liabilities in this respect.

Managing Director:
Christian Schwarz

Managing Director:
Anton Papež

Ljubljana, April 24 2017

8 STATEMENT OF CORPORATE GOVERNANCE

In accordance with provisions of the fifth paragraph of Article 70 of the Companies Act (Official Gazette of the RS No 55/2015), the Interenergo Company hereby gives the following statement of corporate governance as part of its business report.

Reference to the Corporate Governance Code

In 2016, the Interenergo Company followed the Corporate Governance Code for Non-Public Companies (Kodeks upravljanja za nejavne družbe; written by Slovenian Supervisors' Association (Združenje nadzornikov Slovenije), Ministry of Economic Development and Technology, and the Chamber of Commerce and Industry of Slovenia), available at www.gzs.si (hereinafter referred to as the Code).

Information on the extent of deviation from the Corporate Governance Code

In 2016, the Interenergo Company deviated from the following provisions of the Code:

Point 2.1.2. Since Interenergo is a company with a sole shareholder, its articles of incorporation do not provide mechanisms for resolving disputes between shareholders, or options, criteria and procedures for shareholder withdrawal or dismissal.

Point 2.4. Articles of incorporation are published on the website of the Agency of the Republic of Slovenia for Public Legal Records and Related Services, and we therefore believe that further publication on the Company's website is not required.

Point 2.7. Interenergo's objectives are defined in other Company documents, which is why it is not necessary to relist them in the articles of incorporation.

Point 2.8. Key relationships between Company bodies, shareholder and stakeholder relations, as well as the main guidelines for Company management with respect to its long-term objectives are set out in the internal rules and regulations of the Company. We therefore believe that it is not necessary to adopt a corporate management policy.

Point 4.3.2. All members of the Supervisory Board are appointed by the sole shareholder and those who are associated with them or their parent company.

Point 4.6.2. All members of the Supervisory Board are appointed by the sole shareholder and those who are associated with them or their parent company.

Point 4.6.4. In 2016, the supervisory body did not comprise at least 20% of representatives of each gender

Point 5.12. According to the criteria mentioned in the Companies Act, Interenergo is a large company. However, due to a small number of employees and consequently less complex management, we find the establishment of committees unnecessary.

Point 9.2. All members of the supervisory body are adequately trained by the parent company of the sole shareholder, in which they are employed. Therefore, the adoption of a separate training programme by Interenergo is not required.

Point 11.3.5. Internal audit of Interenergo is performed by the internal audit department of the sole shareholder's parent company.

Main features of the internal controls and risk management systems in relation to the financial reporting process

To ensure greater transparency, efficiency and responsible business operations, the Company has established a functioning system of internal controls and risk management, which conforms to the organisational structure. The system of internal controls is supported by an appropriate information system that allows a precise, timely and complete processing of data on a daily, weekly, monthly and annual basis. In this way, the Company business information is complete, and the year-end financial statements show fair and real state of business.

Information about the General Meeting's activities and key powers, and a description and manner of enforcement of shareholdes' rights

Shareholders shall independently decide on amendments and supplements to the articles of incorporation; changes in the status of the Company; adoption of the annual report if the Supervisory Board does not approve the annual report or if the management and the Supervisory Board leave the decision on the adoption of the annual report to shareholders; use of profit or covering of loss; payments and return of subsequent payments; establishment and dismissal of the Supervisory Board; granting discharge to the management and the Supervisory Board, allocation and termination of shares; increase or decrease of the share capital; appointment of an auditor; Company representation in court proceedings against managers; dissolution of the Company; in other matters as provided by law.

Shareholders shall make their decisions by entering them in a register of decisions designed for this purpuse.

Information on the composition and functioning of the management and supervisory bodies, and their committees

Interenergo is managed by two managing directors and three holders of procuration, who run the operations and direct the development of both the Interenergo Company and its subsidiaries. The Company's operations are supervised and monitored by a three-member Supervisory Board.

Management:		**Supervisory Board:**	
MANAGING DIRECTOR	Anton Papež	CHAIRMAN	Armin Wiersma
MANAGING DIRECTOR	Christian Schwarz	MEMBER	Wolfgang Lyssy
HOLDER OF PROCURATION	Blaž Šterk	MEMBER	Gerald Berger
HOLDER OF PROCURATION	Marcus Stormanns		
HOLDER OF PROCURATION	Ingo Preiss		

“

The Internergo company and its subsidiaries are present on energy markets of Central and South-Eastern Europe. The company’s core business goal and fundamental responsibility is a safe and business-efficient supply of electricity, as well as the implementation of investment-related projects that promote economically, environmentally and socially responsible exploitation of renewable energy sources.

III. ACCOUNTING REPORT OF THE COMPANY

1 FINANCIAL STATEMENTS OF THE COMPANY

1.1 Statement of Financial Position as at 31 December 2016

	Note	in EUR		
		31 Dec. 2016	31 Dec. 2015 Corrected	1 Jan. 2015 Corrected
ASSETS		**91,775,269**	**71,558,185**	**52,974,623**
Non-current assets		**33,663,912**	**40,896,775**	**32,011,641**
Intangible assets and long-term accrued and deferred items	2.4.1	513,.599	503,.018	503,.375
Property, plant and equipment	2.4.2	2,523,825	2,731,327	2,951,700
Non-current investments	2.4.3	30,506,928	37,557,899	28,301,360
Non-current operating receivables	2.4.4	26,792	16,793	16,792
Deferred tax assets	2.4.5	92,768	87,738	238,414
Current assets		**58,111,357**	**30,661,410**	**20,962,982**
Current investments	2.4.6	729,723	476,351	275,678
Current trade and other receivables	2.4.7	47,971,750	25,567,814	16,151,564
Income tax receivables	2.4.8	0	147,949	6,415
Cash and cash equivalents	2.4.9	6,734,897	3,449,896	3,705,832
Short-term deferred costs and accrued income	2.4.10	2,674,987	1,019,400	823,493
EQUITY AND LIABILITES		**91,775,269**	**71,558,185**	**52,974,623**
Equity	**2.4.11**	**18,580,130**	**28,234,306**	**16,915,121**
Share capital		10,200,000	10,200,000	10,200,000
Capital surplus		25,450,000	25,450,000	15,450,000
Revenue reserves		95,722	95,722	95,722
Retained earnings or losses		-7,511,416	-8,830,601	-3,761,640
Net profit / loss for the period		-9,654,176	1,319,185	-5,068,961
Non-current liabilities	**2.4.12**	**26,261,416**	**20,841,475**	**19,994,165**
Non-current financial liabilities		26,074,000	20,789,000	19,964,000
Long-term accrued costs and deferred income		187,416	52,475	30,165
Current liabilities		**46,933,723**	**22,482,404**	**16,065,337**
Current financial liabilities		0	10,000	0
Current trade and other payables	2.4.13	43,600,449	21,116,399	14,068,836
Income tax payables		367,991	0	0
Short-term accrued costs and deferred income	2.4.14	2,965,283	1,356,005	1,996,501

Accounting policies and notes are a constituent part of the financial statements of the Company.

1.2 Statement of Profit or Loss for 2016

	Note	in EUR 2016	2015
Revenue	2.4.15	370,551,480	255,831,125
Other operating income		18,015	56,006
Costs of goods sold and materials used	2.4.16-18	-363,669,987	-251,432,789
Costs of services	2.4.19	-1,692,587	-1,049,312
Employee benefits expense	2.4.20	-1,948,798	-1,673,452
Write-downs in value	2.4.21	-317,512	-292,702
Other operating expenses	2.4.22	-57,567	-78,707
Operating profit (EBIT)		**2,883,044**	**1,360,168**
Finance income	2.4.23	2,056,626	1,521,132
Finance costs	2.4.24	-13,967,157	-1,298,429
Profit or loss from financing activities		**-11,910,531**	**222,703**
Profit or loss before tax		**-9,027,487**	**1,582,871**
Income tax	2.4.25	-626,689	-263,686
Net profit or loss		**-9,654,176**	**1,319,185**

Accounting policies and notes are a constituent part of the financial statements of the Company.

1.3 Statement of Other Comprehensive Income for 2016

	in EUR 2016	2015
Net profit or loss for the period	-9,654,176	1,319,185
Total comprehensive income for the period	-9,654,176	1,319,185

Accounting policies and notes are a constituent part of the financial statements of the Company.

1.4 Statement of Cash Flows for 2016

	in EUR	
	2016	2015
A. Cash flows from operating activities		
a) Statement of profit or loss		
Profit or loss before tax	-9,027,487	1,582,871
Income tax and other taxes not included in operating expenses	-626,689	-263,686
Adjustments for amortisation/depreciation	282,528	285,201
Adjustment for revaluation expenses	34,984	0
Adjustments for finance income	-2,056,626	-1,514,426
Adjustments for finance expenses	13,966,644	1,298,428
Total items of statement of profit or loss	**2,573,354**	**1,388,389**
b) Changes in net operating assets – items in the statement of financial position		
Opening less closing trade receivables	-22,300,970	-9,557,785
Opening less closing deferred costs and accrued income	-1,653,081	-192,113
Opening less closing deferred tax assets	-5,030	150,676
Closing less opening operating liabilities	22,986,981	7,069,873
Closing less opening accrued costs and deferred income	1,609,278	-640,496
Total items of net operating assets items in the statement of financial position	**637,179**	**-3,169,845**
c) Net cash from operating activities	**3,210,533**	**-1,781,456**
B. Cash flows from investing activities		
a) Cash proceeds from investing activities		
Income on interest and profit shares of others, relating to investments	2,056,626	1,514,426
Cash proceeds from disposal of property, plant and equipment	0	9,576
Cash proceeds from sale of non-current investments	2,508,919.50	8,251,822
Cash proceeds from current investments	2,188,662.32	1,391,193.87
Total cash proceeds from investing activities	**6,754,208**	**11,167,018**
b) Cash disbursements from investing activities		
Acquisition of intangible assets	-47,934	-46,856
Acquisition of property, plant and equipment	-40,179	-30,986
Acquisition of non-current investments	-8,198,920	-17,521,508
Acquisition of current investments	-2,442,034	-1,591,866
Total cash disbursements from investing activities	**-10,729,067**	**-19,191,215**
c) Net cash used in investing activities	**-3,974,859**	**-8,024,198**
C. Cash flows from financing activities		
a) Cash proceeds from financing activities		
Proceeds from paid-in capital	0	10,000,000
Increase in non-current financial liabilities	73,500,000	61,725,000
Increase in current financial liabilities	0	0
Total cash proceeds from financing activities	**73,500,000**	**71,725,000**

	in EUR	
	2016	2015
b) Cash disbursements from financing activities		
Interest expenses for financing activities	-1,225,672	-1,285,282
Repayment of non-current financial liabilities	-68,215,000	-60,900,000
Repayment of current financial liabilities	-10,000	10,000
Total cash disbursements from financing activities	**-69,450,672**	**-62,175,282**
c) Net cash used in financing activities	**4,049,328**	**9,549,718**
D. Closing balance of cash		
a) Net cash inflow or outflow for the period	3,285,001	-255,936
b) Opening balance of cash	3,449,896	3,705,832
c) Closing balance of cash	6,734,897	3,449,896

Accounting policies and notes are a constituent part of the financial statements of the Company.

1.5 Statement of Changes in Equity for 2016

in EUR	Share capital	Capital surplus	Legal reserves	Retained earnigs or losses	Profit or loss for the period	Total equity
A.2 Balance at 31 Dec. 2015 (Corrected)	**10,200,000**	**25,450,000**	**95,722**	**-8,830,601**	**1,319,185**	**28,234,306**
B.1. Changes in equity	0	0	0	0	0	0
d) Additional paid-in capital	0	0	0	0	0	0
B.2. Total comprehensive income for the period	0	0	0	0	-9,654,176	-9,654,176
a) Profit or loss for 2016	0	0	0	0	-9,654,176	-9,654,176
B.3. Changes within equity	0	0	0	1,319,185	-1,319,185	0
a) Allocation of part of loss for the period to other equity components	0	0	0	1,319,185	-1,319,185	0
C. Balance 31 Dec. 2016	**10,200,000**	**25,450,000**	**95,722**	**-7,511,416**	**-9,654,176**	**18,580,130**

Accounting policies and notes are a constituent part of the financial statements of the Company.

1.6 Company's Statement of Changes in Equity for 2015

in EUR	Share capital	Capital surplus	Legal reserves	Retained earnigs or losses	Profit or loss for the period	Total equity
A.1. Balance 1 Jan. 2015 (Originally reported)	**10,200,000**	**15,450,000**	**95,722**	**-2,874,141**	**-5,068,961**	**17,802,620**
b) Correction of an error	0	0	0	-887,499	0	-887,499
A.2. Balance 1 Jan. 2015 (Corrected)	**10,200,000**	**15,450,000**	**95,722**	**-3,761,640**	**-5,068,961**	**16,915,121**
B.1. Changes in equity	0	10,000,000	0	0	0	10,000,000
d) Additional paid-in capital	0	10,000,000	0	0	0	10,000,000
B.2. Total comprehensive income for the period	0	0	0	0	1,319,185	1,319,185
a) Profit or loss for 2015	0	0	0	0	1,319,185	1,319,185
B.3. Changes within equity	0	0	0	-5,068,961	5,068,961	0
a) Allocation of part of loss for the period to other equity components	0	0	0	-5,068,961	5,068,961	0
C. Balance at 31 Dec. 2015 (Corrected)	**10,200,000**	**25,450,000**	**95,722**	**-8,830,601**	**1,319,185**	**28,234,306**

Accounting policies and notes are a constituent part of the financial statements of the Company.

1.7 Statement of Accumulated Loss for 2016

	in EUR	
	2016	2015 Corrected
Net profit or loss for the period	-9,654,176	1,319,185
Retained earnings or losses	-7,511,416	-8,830,601
Accumulated loss	**-17,165,592**	**-7,511,416**

Accounting policies and notes are a constituent part of the financial statements of the Company.

2 ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS OF THE COMPANY

2.1 Reporting entity

Interenergo, energetski inženiring, d. o. o. is headquartered in Slovenia and holds its registered office at Tivolska cesta 48, 1000 Ljubljana, Slovenia. Interenergo d. o. o. is an international company that controls and manages the Interenergo Group. The Internergo company and its subsidiaries are present on energy markets of Central and South-Eastern Europe. The company's core business goal and fundamental responsibility is a safe and business-efficient supply of electricity, as well as the implementation of investment-related projects that promote economically, environmentally and socially responsible exploitation of renewable energy sources.

The accompanying financial statements of the Interenergo company for the financial year ended 31 December 2016 give a true and fair view of the financial position of the company.

2.2 Basis of preparation of the Company's financial statements

2.2.1 Statement of compliance

The financial statements were prepared by observing the fundamental accounting assumptions, i.e. the going concern and accrual basis.

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) promulgated by the International Accounting Standards Board (IASB), and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), as adopted by the European Union, and in accordance with provisions of the Slovenian Companies Act.

The qualitative characteristics of financial statements are understandability, relevance, reliability, and comparability. The same accounting policies were applied as in the previous reporting period.

2.2.2 Basis of measurement

Assets and liabilities of the Company are upon initial recognition measured at cost. The financial statements are prepared by applying the historical cost of individual accounting items.

2.2.3 Functional and presentation currency

The Company's financial statements are presented in EUR, thus in the Company's functional currency. All financial information is presented in EUR.

Assets and liabilities expressed in foreign currency are translated into the local currency as at the reporting date by using the reference exchange rate of the ECB.

2.2.4 Use of estimates and judgements

The preparation of financial statements in conformity with the IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Estimates and judgements primarily refer to:

- estimated useful life of depreciable assets,
- impairment of non-current assets.

On an annual basis the Company verifies whether there is indication of impairment of non-current assets. The Company carried out impairment testing as at 31 December 2016 and 31 December 2015 on the basis of the estimated future cash flows for individual cash flow generating units (CGU). Note 2.4.3.1 lists the key assumptions underpinning the impairment test, which resulted in the impairment of non-current financial investments.

2.3 Basis for preparation of Company's financial statements

2.3.1 Related parties

As at 31 December 2016, the Company had shareholdings in the following subsidiaries:

- Interenergo d. o. o., Zagreb, Trg žrtava fašizma 14, 10000 Zagreb, Croatia (100% owned by Interenergo d. o. o. Ljubljana);
- Interenergo d. o. o., Sarajevo, ul. Fra Anđela Zvizdovića 1, 71000 Sarajevo, Bosnia and Herzegovina (100% owned by Interenergo d. o. o., Ljubljana);
- PLC Interenergo d. o. o. Belgrade, Osmana Đikića 30, 11000 Belgrade, Serbia (100% owned by Interenergo d. o. o., Ljubljana);
- Interenergo Makedonija d. o. o. e. l., Skopje, Gančo Hadžipanzov 32, 1000 Skopje, Macedonia (100% owned by Interenergo d. o. o., Ljubljana);
- EHE d. o. o., Banja Luka, Dunavska 1c, 78000 Banja Luka, Bosnia and Herzegovina (100% owned by Interenergo d. o. o., Ljubljana);
- IEP energija d. o. o., Gornji Vakuf-Uskoplje, Vrbaska 42, 70240 Gornji Vakuf-Uskoplje, Bosnia and Herzegovina (100% owned by Interenergo d. o. o., Ljubljana);
- Inter-Energo d. o. o., Gornji Vakuf-Uskoplje, Vrbaska 42, 70240 Gornji Vakuf-Uskoplje, Bosnia and Herzegovina (100% owned by Interenergo d. o. o., Ljubljana);
- LSB Elektrane d. o. o., Banja Luka, Dunavska 1c, 78000 Banja Luka, Bosnia and Herzegovina (100% owned by Interenergo d. o. o., Ljubljana);
- MHE Vrbnica d. o. o., Podgorica, Ulica 8. marta 74, 81000 Podgorica, Montenegro (70% owned by Interenergo d. o. o., Ljubljana);
- Interenergo Kosova d. o. o., Sali Çeku str., Gogaj Building App. 14, Dečani, Kosovo (100% owned by Interenergo d. o. o., Ljubljana).

In addition, the Company has an indirect stake in the following subsidiaries:

- Hidrowatt d. o. o., Belgrade, Osmana Đikića 30, 11000 Belgrade, Serbia (88.87% owned by PLC Interenergo d. o. o.);

Interenergo Company's financial statements include among transactions with related parties also KI-KELAG International GmbH and KELAG-Kärntner Elektrizitäts-Aktiengesellschaft, which are the parent companies of the Interenergo Company.

The financial statements prepared for the period from 1 January 2016 to 31 December 2016 were approved by the management on 24 April 2017.

The annual report is available at the headquarters of Interenergo d. o. o., Tivolska 48, Ljubljana, while the consolidated annual report of the entire KELAG Group is kept at the headquarters of KELAG-Kärntner Elektrizitäts-Aktiengesellschaft as the parent of a larger group of companies, at Arnulfplatz 2, Postfach 176, Klagenfurt, Austria. Within one month from the publication of the consolidated annual report of the KELAG group, Interenergo d. o.o. will publish its translation.

2.3.2 Financial statements

The overall financial statement of the Company comprises:

- the statement of financial position which shows the value of assets and liabilities at the end of the financial year;
- the statement of profit or loss which shows revenue and expenses, as well as its profit or loss for the financial year;
- the statement of other comprehensive income;
- the statement of cash flows which shows the change in cash over the reporting period;
- the statement of changes in equity which shows changes in equity components in the financial year;
- notes that comprise the overview of all significant accounting policies and explanatory information.

Theoretically possible items that are not relevant to the Company are not presented.

Accounting policies applied during the compilation of financial statements of the Company equal the policies applied in the financial statements for the fiscal year ended 31 December 2015, except the newly adopted or amended standards and interpretations that became effective as of 1 January 2016 and are outlined below.

2.3.3 Statement of cash flows

The statement of cash flows is a fundamental financial statement showing a true and fair view of changes in cash and cash equivalents during a financial year. The statement of cash flows is prepared by using the indirect method in accordance with the IFRS. The cash flow statement includes cash flows from operating, investing and financing activities. Cash flows are generally not presented in offset amounts. Data from the statement of cash flows are derived from the balance sheet and the statement of profit or loss by also considering data required for the adjustment of inflows and outflows.

Revenue of any type was offset against expenses of any type apart from depreciation or amortisation. Instead of these items, profit or loss before tax is included as a new line item in cash flows from operating activities. However, profit or loss before tax as well as income taxes has been adjusted for depreciation and other non-monetary items, and the items whose monetary effects result in cash flows from investing and financing activities. In addition, changes during the period in net operating assets in items of the balance sheet (including accruals and deferrals) have been taken into account.

Information about major line items (cash receipts and cash payments) of the cash flow statement has been obtained:

a) by adjusting operating income and operating expenses, as well as finance income from trade receivables and finance costs of trade payables from the statement of profit or loss, including changes in current operating assets, accruals and deferrals, provisions and deferred taxes during the period;
b) from the Company's books of account (regarding cash flows from financing and investing activities).

2.3.4 Newly adopted standards and interpretations

2.3.4.1 Standards, interpretations and amendments to standards issued but not yet effective

New standards and interpretations listed below are not yet in force and were therefore not considered in the preparation of annual financial statements for the year ended 31 December 2016. The Company intends to adopt these standards and interpretations, if applicable, in the preparation of its financial statements when they become effective.

IFRS 9 – Financial Instruments

This standard replaces IAS 39 Financial Instruments: Recognition and Measurement, with the exception that IAS 39 remains in place in the event of hedging the fair value of the portfolio of financial assets or financial liabilities against the risk of changes in interest rates. Companies may decide to use hedge accounting in accordance with IFRS 9 or existing hedge accounting under IAS 39 for all accounting cases.

Although the foundations of the allowable measurement of financial assets – amortised cost, fair value through other comprehensive income, and fair value through profit or loss – are similar to IAS 39, the criteria for determining the appropriate measurement vary significantly.

A financial asset is measured at amortised cost when the following conditions are met:

- resources are managed within a business model that is designed to collect contractual cash flows;
- contractual provisions include the exact dates of the cash flows that are solely payments of principal and interest on the principal outstanding.

Furthermore, the company may irrevocably present subsequent changes in fair value (including positive and negative exchange rate differences) of an equity instrument not intended for trading as part of other comprehensive income. These subsequent changes can in no case be reclassified to profit or loss.

Debt instruments measured at fair value through other comprehensive income, interest income, expected credit losses, and the positive and negative exchange differences are recognised in profit or loss in the same way as assets measured at amortised cost. Other profit and loss is recognised in other comprehensive income, and is reclassified to profit or loss after derecognition.

In accordance with IFRS 9, the impairment calculation model replaces the incurred loss model from IAS 39, which also includes the expected credit loss model. This means that impairments will be recognised even before loss occurs.

IFRS 9 contains a new general model of hedge accounting, which better accommodates accounting to risk management. Different types of hedging relationships – fair value, cash flow, and net investments in foreign companies – remain unchanged, however, further assessment is needed.

The standard introduces new requirements that must be met (continuation and suspension of hedge accounting), and allows additional types of exposures to be treated as hedged items.

Additional extensive disclosures relating to risk management and hedging activities are necessary.

The amendment is effective for annual periods beginning on 1. January 2018. It applies retroactively, except in exceptional circumstances. Earlier application is permitted.

The Company did not assess the impact of the new standard on the Company's operations.

IFRS 15 – Revenue from Contracts with Customers

The new standard provides a framework that replaces the current IFRS guidelines for recognising revenue. Companies use a five-step model to determine exactly when to recognise revenue and to what amount. The new model establishes that revenue is recognised when the Company transfers control of goods and services to the client, in the amount up to which the Company expects to be eligible. With regard to the criteria, revenue is recognised:

- over time and in a manner that shows how the Company operates; or
- at the moment when the goods and services are transferred to the customer.

Also, IFRS 15 establishes principles that bind the Company to ensure informative and extensive disclosures that provide users of financial statements with useful information regarding the type, amount, time aspect, and uncertainty of revenue and cash flows arising from contracts with customers.

The change is effective for annual periods beginning on 1 January 2018. Earlier application is permitted.

The Company has not evaluated the impact of the new standard on the Company's operations.

IFRS 16 – Leases

IFRS 16 replaces IAS 17 – Leases and the related interpretations. The standard eliminates the model of double accounting for leases; instead, the Company is required to account most leases from the balance sheet with a single model, without distinguishing between business and financial leases.

According to IFRS 16, a contract is considered a lease agreement if, in return for payment, it provides the right to use a certain asset for a certain period of time. According to the new model for such an agreement, the lessee shall recognise the right to use the asset and liabilities for the lease. The right to use the asset is depreciated, and the interest is credited to the liabilities. This causes a concentrated sample cost for most leases, even if the lessee pays a fixed annual lease.

The new standard introduces a number of limited exceptions for lessees, including:

- leases of 12 months or less without a purchasing possibility, and
- leases of low-value assets (low-cost/low-priced/"small-ticket" leases).

The introduction of the new standard will not significantly change the lessor's accounting, and the distinction between business and financial leasing remains in force for the lessor.

The change is effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted if IFRS 15 has also been applied.

The Company has not evaluated the impact of the new standard on the Company's operations.

Amendments to IAS 7

The amendment requires additional disclosures that will help users evaluate changes in financial liabilities, including changes in cash flows and non-cash changes (such as the impact of positive and negative exchange rate differences, changes due to acquisition or loss of control over subsidiaries, changes in fair value).

The change is effective for annual periods beginning on 1 January 2017. It applies retroactively. Earlier application is permitted.

The Company has not evaluated the impact of the amendment on the Company's operations.

Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses

The amendment clarifies how and when to account for deferred tax assets, and how to determine the amount of future taxable income to assess the recognition of deferred tax assets.

The change is effective for annual periods beginning on 1 January 2017. It applies retroactively Earlier application is permitted.

The Company has not evaluated the impact of the amendment on the Company's operations.

IFRIC 22 – Foreign Currency Transactions and Advance Consideration

The Interpretation clarifies how to set the date of transaction for the purpose of determining the exchange rate to be applied upon initial recognition of the relevant asset, expense, or income (or part thereof) on derecognition of non-monetary asset or non-monetary liability for a given or received advance in a foreign currency. In this case, the date of transaction is the date of initial recognition of the non-monetary prepayment asset or deferred income liability for a given or received advance.

The change is effective for annual periods beginning on or after 1 January 2018.

The Company has not evaluated the impact of the Interpretation on the Company's operations.

2.3.5 Summary of fundamental accounting policies

Individual categories presented below are in compliance with the International Financial Reporting Standards, which include statutory disclosures and significant matters. The accounting policies applied and the nature and level of disclosures' materiality are defined in internal rules and regulations of individual companies. All significant amounts presented in the financial statements are accompanied by comparable information for the previous year, inclusive of details in terms of figures and notes. Comparable data is adjusted as to comply with the presentation of information in the current year.

Accounting policies that are outlined below were consistently applied in all periods which are outlined in the Company's financial statements.

Intangible assets and long-term deferred costs and accured income

The item of intangible assets includes primarily payments for software development, computer software, and easements for roofs.

An intangible asset shall be recognised if it is probable that the expected future economic benefits that are attributable to the asset will flow to the Company and that the cost of the asset can be measured reliably. An item of intangible assets is initially measured at cost. Upon initial recognition, intangible assets are recorded at cost less accumulated amortisation and impairment losses in compliance with the cost model applied.

An asset meets the identifiability criterion in the definition of an intangible asset when it:

- is separable, i.e. capable of being separated or divided from the Company and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, asset or liability; or
- arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the Company or from other rights and obligations.

The straight-line method of amortisation is applied with intangible assets. Amortisation shall begin when the intangible asset with finite useful life is available for use. The depreciable amount of an intangible asset with finite useful life shall be allocated with regard to its reasonably assessed useful life. The useful life and the method of amortisation are reviewed at each year-end.

The recognition of an intangible asset shall be reversed and eliminated from the books of account on disposal or when no future economic benefits are expected from its further use and subsequent disposal.

In the books of account, an intangible asset shall be carried at its cost, accumulated depreciation and accumulated impairment losses shall be recorded separately; in the statement of financial position, however, intangible assets are disclosed exclusively at their carrying amount.

Property, plant and equipment

An item of property, plant and equipment shall be recognised as an asset in the books of account if it is probable that future economic benefits associated with the item will flow to the entity and the cost of the item can be measured reliably. Upon initial recognition, the cost of an asset comprises its purchase price, including import duties and non-refundable purchase duties less any discounts and rebates, and any directly attributable costs of bringing the asset to the condition necessary for its intended use and management's expectations. Subsequent expenditure related to tangible fixed assets increases the asset purchase price if its future economic benefits are higher than originally assessed. An item of tangible assets is initially measured at cost. Upon initial recognition, tangible assets are recorded at cost less accumulated depreciation and impairment losses in compliance with the cost model applied.

Items of property, plant and equipment are depreciated individually, using the straight-line method without considering the residual value.

In 2015 and 2016, the Company applied the following depreciation rates:

- Solar power plants 6.67–8.89%
- Computers and computer equipment 50%
- Other equipment 20%

Items of property, plant and equipment are depreciated individually, using the straight-line method without considering the residual value.

An item of property, plant and equipment shall be derecognised in the books of account on its disposal or when no future economic benefits are expected from its use or disposal. Difference between the profit on disposal and the carrying amount of the disposed item of property, plant and equipment is included in the statement of profit or loss.

As for the books of account, the cost is disclosed separately and the same applies to accumulated depreciation and accumulated impairment losses, whereas the statement of financial position discloses solely the carrying amount.

Financial instruments

Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Investments in subsidiaries

Long-term investments in subsidiaries are valued at cost. Participation in the profits of a subsidiary is recognised in the Company's statement of profit or loss after receiving the profit participation rights. If the investment is subject to impairment due to a subsidiary's loss, the impairment loss is measured as difference between the investment's carrying amount and the present value of expected future cash flows.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Upon initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses. Loans and receivables include loans granted, as well as operating and other receivables. The collectability of receivables is checked monthly at the Company level for each receivable separately. The Company checks if there is any indication of impairment for each individual receivable on an annual basis. If it is determined that the carrying amount of a receivable exceeds its fair value (i.e. realisable value), the receivable is impaired.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Impairment of assets

Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An estimated value of financial assets is calculated by applying the discounted future cash flow method. The assumptions taken into account were the anticipated proceeds from the sale of electricity produced, estimated based on the production capacity of an individual asset, the duration of integration in the support system, their associated flow duration curves, external forecasts of future electricity prices, the estimated value of the investment in the construction of the facility, the duration of the concession period, the proportion of concession fees, and the structure of operating costs.

At the end of each financial year, the Company assesses whether there is any indication of impairment of financial assets. In doing so, the Company pays attention to the amount of electricity produced by each individual asset, projections of long-term electricity prices, potential changes in the duration of the concession period, changes in the weighted average cost of capital, and operating costs of individual assets.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its amortised cost, and the present value of the estimated future cash flows discounted with the Weighted Average Cost of Capital (WACC). An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its current fair value.

Significant financial assets are tested for impairment on an individual basis. The Company classifies non-current and current investments, and non-current and current receivables as significant financial assets. For account receivables, the Company constantly monitors the operations and liquidity of customers, based on which the required insurance and limits are determined. If the buyer does not pay, the Company first checks whether it is a short-term liquidity or a long-term solvency problem. If the buyer fails to settle obligations over the next 90 days or until the end of the financial year, the Company impairs the unsecured part of the receivable. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss.

Non-financial assets

The carrying amounts of the company's non-financial assets and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

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.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included in the statement of cash flows as a component of cash and cash equivalents.

Short-term accruals and deferrals

Deferred costs and accrued revenue include short-term deferred costs or expenses and short-term accrued revenue.

Short-term deferred costs comprise amounts incurred but not charged against the Company's activity. Short-term accrued revenue arises when payments have not been received and invoices could not have been issued, but where an entity has good reasons to include the revenue in its profit or loss. At the beginning of the month, the Company issues invoices for the produced and sold electricity, and transfer capacities for the previous month. Therefore, short-term deferred costs from accrued income relate to the sale of electricity in December.

Short-term deferred costs are recorded in the statement of profit or loss on a straight-line basis over the period they refer to, while accrued income is transferred to profit or loss based on issued invoices.

Accrued costs and deferred revenue comprise short-term accrued costs and expenses and short-term deferred revenue.

Accrued costs include expected costs, for which we have not yet received invoices, and they refer to the same period as the income statement. At the beginning of the month, the Company receives invoices for the purchased electricity and transfer capacities for the previous month. Therefore, short-term accrued costs from accrued costs/expenses relate to the purchase of electricity in December, and trading-related costs.

Short-term deferred income arises when services are invoiced by the Company but have not yet been performed. Income may also be deferred when the eligibility to revenue recognition is still uncertain at the time of sale.

Accrued costs/expenses are recorded in the income statement based on invoices received, while short-term deferred income is transferred to profit or loss on a straight-line basis over the period they refer to.

Equity

Total equity comprises called-up capital, capital surplus (share premium), revenue reserves and retained earnings or retained losses.

Total comprehensive income for the period consists of the profit or loss for the period and other comprehensive income that includes items of income and expenses not recognised in profit or loss.

Revenue

Revenue is the gross inflow of economic benefits during the period arising in course of the ordinary activities of an entity when those inflows result in increases in equity, other than increases relating to contributions from equity participants.

Revenue is recognised when it is probable that future economic benefits will flow to the entity and these benefits can be measured reliably. Revenue arises on the sale of products, rendering of services and use of company's assets at others that result in interest and dividends.

The item of revenue includes operating income and finance income. The item of operating income comprises revenue from sale of electricity and cross-border transmission capacities and other operating income associated with products and services.

Sales revenue is recognised when the entity has transferred significant risks and rewards of ownership to the buyer, or if a legal title or possession is transferred to the buyer. The amount of revenue can be measured reliably when it is probable that economic benefits associated with the transaction will flow to the entity and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

The Company is engaged in wholesale of electricity. Revenue generated on sale of electricity is recognised when the electricity is supplied to the wholesale dealer and the contractually agreed place of supply, and all the risks are transferred from seller to buyer.

Finance income is income from investing activities. Finance income arises in association with investments and receivables. Finance income comprises interest income on funds invested, dividend income, gains on disposal of available-for-sale financial assets, changes in fair value of financial assets measured at fair value through profit or loss, and exchange gains arising on financing activities that are recognised in profit or loss. Using the effective-interest-rate method, interest income is recognised as it accrues. Dividend income is recognised in profit or loss on the date that the shareholder's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Expenses

Expenses shall be recognised if decreases in economic benefits during the accounting period are associated with decreases in assets or increases in liabilities and such decreases can be measured reliably. Expenses are classified as operating expenses, finance costs and other costs. Operating expenses and finance costs are ordinary expenses.

The Company is engaged in wholesale of electricity. Operating expenses are recognised when the electricity is received at the contractually agreed place of supply, and all the risks are transferred from seller to buyer.

Revaluation operating expenses arise in connection with current assets as a result of their impairment.

Finance costs include costs of financing and costs of investing. The former primarily comprise interest paid, while the latter primarily refer to revaluation finance costs. Finance costs comprise borrowing costs, exchange losses from financing activities, change in fair value of financial assets measured at fair value through profit or loss, and impairment losses on financial assets that are recognised in income statement. Borrowing costs that are not directly attributable to the acquisition of a qualifying asset in construction or production are recognised in income statement using the effective interest method.

Employee benefits

Employee benefits include employment benefits such as salaries and social security contributions, annual and sick leave, vacation bonus, non-monetary benefits and other bonuses, and voluntary supplementary pension insurance.

Income tax expense

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the reporting date, and any adjustment to tax payable in respect of previous financial years.

Deferred tax is recognised using the financial position liability method providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill. The amount of deferred tax bases on the expected way of settling the carrying amount of assets and liabilities, using tax rates enacted at the reporting date. Deferred tax assets and deferred tax liabilities are offset if there is legal right to offset current tax assets with current income tax liabilities and the deferred tax relates to the same taxable person and the same tax body.

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.

In the calculation of deferred tax assets for 2015, the tax rate of 17% was used, and for 2016, the tax rate was 19%.

Operating profit or loss

Operating profit or loss is defined as profit before tax and items from financing activity. Items from financing activity include interest on bank balances, deposits, available-for-sale investments, interest on borrowings, gains or losses from sale of available-for-sale financial instruments, and exchange gains and losses arising on translation of monetary assets and liabilities expressed in foreign currencies.

Fair value

When measuring the fair value of a non-financial asset the company must take into account the counterpart's ability to generate economic benefits by the best possible use of the asset or its sale to another counterpart on the market that shall use the asset at its best.

The Company applies valuation methods that are adequate in given circumstances and for which sufficient information exists, in particular by using proper market input data and a minimum use of non-market data.

Assets and liabilities measured or disclosed in the financial statements at fair value are classified pursuant to the fair value hierarchy on the basis of the lowest level of input data that are significant for measuring the whole fair value:

- Level 1 – market prices (unadjusted) on the active market for similar assets and liabilities.
- Level 2 – valuation model that is directly or indirectly founded on market data.
- Level 3 – valuation model that is founded on market data.

As for assets and liabilities that were recognised in the financial statements already in previous periods, the entity establishes at the end of each period whether any level-related changes occurred and thereby reviews the classification of assets by taking into account the lowest level of input data that are significant for measuring the whole fair value.

Fair value hierarchy in view of Company's assets and liabilities is laid down in Note 2.4.25.

Error correction

Errors can arise in respect of the recognition, measurement, presentation, or disclosure of financial statement elements. Any errors in the current period that are discovered in the same period are corrected before the financial statements are authorised for issue. Significant errors discovered in the following period are corrected in the comparative information, presented in the financial statements for the period when an error is detected. A prior period error is corrected retrospectively, unless the effects of the error during the period or the cumulative effects of error are impossible to determine. The Company corrects significant prior-period errors retrospectively in the first set of financial statements, which are authorised for issue after the errors have been discovered. The Company corrects the errors:

a) by restating the comparative amounts for the prior period(s) in which the error occurred, or
b) by restating the opening balances of assets, liabilities, and equity for the earliest prior period presented if the error occurred before the earliest prior period presented.

In prior periods, the Company impaired financial investments in the amount of EUR 10,441,169 and recognised in this respect deferred tax assets in the amount of EUR 887,499. Since taxes from this source can be deferred only after divestment, which is not planned, the Company believes that the period until tax deferral is too long and uncertain. This is why the Company has decided to eliminate deferred taxes from impairment of financial investments in the amount of EUR 887,499.

The error has been corrected by the Company restating the opening balance of assets, liabilities, and equity of the earliest prior period, as presented in the table on page 50.

The impact of error correction on the statement of financial position as at 1 January 2015

in EUR	1 Jan. 2015 Reported	Correction	1 Jan. 2015 Corrected
ASSETS	**53,862,122**	**-887,499**	**52,974,623**
Non-current assets	**32,899,140**	**-887,499**	**32,011,641**
Intangible assets and long-term deferred costs and accrued income	503,375		503,375
Property, plant, and equipment	2,951,700		2,951,700
Non-current investments	28,301,360		28,301,360
Non-current operating receivables	16,792		16,792
Deferred tax assets	1,125,913	-887,499	238,414
Current assets	**20,962,982**	**0**	**20,962,982**
Current investments	275,678		275,678
Current operating receivables	16,151,564		16,151,564
Income tax receivables	6,415		6,415
Cash and cash equivalents	3,705,832		3,705,832
Short-term deferred costs	823,493		823,493
EQUITY AND LIABILITES	**53,862,122**	**-887,499**	**52,974,623**
Equity	**17,802,620**	**-887,499**	**16,915,121**
Share capital	10,200,000		10,200,000
Capital surplus	15,450,000		15,450,000
Revenue reserves	95,722		95,722
Retained earnings or losses	-2,874,141	-887,499	-3,761,640
Net earnings or losses	-5,068,961		-5,068,961
Non-current liabilities	**19,994,165**	**0**	**19,994,165**
Non-current financial liabilities	19,964,000		19,964,000
Long-term accrued costs and deferred income	30,165		30,165
Current liabilities	**16,065,337**	**0**	**16,065,337**
Current financial liabilities	0		0
Current operating liabilities	14,068,836		14,068,836
Income tax payables	0		0
Short-term accrued costs and deferred income	1,996,501		1,996,501

2.4 Notes to the financial statements

2.4.1 Intangible assets and long-term deferred costs and accrued income

in EUR	31 Dec. 2016	31 Dec. 2015
Intangible assets and long-term deferred costs and accrued income	**513,599**	**503,018**
Long-term industrial property rights	261,791	261,587
Long-term deferred costs and accrued income	2,997	5,504
Intangible assets being acquired	248,811	235,927

Long-term industrial property rights include two easements, which were obtained for the period of 15 years for installing solar power plants on the Martex building in the amount of EUR 93,819 (31 December 2015: EUR 102,690) and the Mura building in the amount of EUR 135,605 (31 December 2015: EUR 147,941), whereby the item of intangible assets being acquired refers to the launch of the new trading system.

Movements in Company's intangible assets (IA) and long-term deferred costs and accrued income in 2016

in EUR	Long-term deferred costs and accured income	Industrial property rights	IA being acquired	Total
Balance at 1 Jan. 2016	5,504	404,154	235,927	645,585
Additions	0	35,050	12,884	47,934
Exclusions	-2,507	0	0	-2,507
Balance at 31 Dec. 2016	2,997	439,204	248,811	691,012
Accumulated amortisation				
Balance at 1 Jan. 2016	0	-142,567	0	-142,567
Amortisation	0	-34,846	0	-34,846
Balance at 31 Dec. 2016	0	-177,413	0	-177,413
Carrying amount				
Balance at 1 Jan. 2016	5,504	261,587	235,927	503,018
Balance at 31 Dec. 2016	2,997	261,791	248,811	513,599

Movements in company's intangible assets (IA) and long-term deferred costs and accured income in 2015

in EUR	Long-term deferred costs and accrued income	Industrial property rights	IA being acquired	Total
Cost				
Balance at 1 Jan. 2015	9,298	393,706	199,519	602,523
Additions	0	10,448	36,408	46,856
Exclusions	-3,794	0	0	-3,794
Balance at 31 Dec. 2015	5,504	404,154	235,927	645,585
Accumulated amortisation				
Balance at 1 Jan. 2015	0	-99,148	0	-99,148
Amortisation	0	-43,419	0	-43,419
Balance at 31 Dec. 2015	0	-142,567	0	-142,567
Carrying amount				
Balance at 1 Jan. 2015	9,298	294,558	199,519	503,375
Balance at 31 Dec. 2015	5,504	261,587	235,927	503,018

2.4.2 Property, plant and equipment

	31 Dec. 2016	31 Dec. 2015
Property, plant and equipment	**2,523,825**	**2,731,327**
Solar power plants	2,406,838	2,634,769
Other plant and equipment	116,987	96,558

Changes in property, plant, and equipment for 2016

in EUR	Solar power plants	Other plant and equipment	Total
Cost			
Opening balance at 1 Jan. 2016	3,229,185	164,864	3,394,049
Additions	0	40,179	40,179
Closing balance at 31 Dec. 2016	3,229,185	205,043	3,434,228
Accumulated depreciation			
Opening balance at 1 Jan. 2016	-594,416	-68,305	-662,721
Depreciation	-227,931	-19,751	-247,682
Closing balance at 31 Dec. 2016	-822,347	-88,056	-910,403
Carrying amount			
Opening balance at 1 Jan. 2016	2,634,769	96,559	2,731,327
Closing balance at 31 Dec. 2016	2,406,838	116,987	2,523,825

Changes in property, plant, and equipment for 2015

in EUR	Solar power plants	Other plant and equipment	Total
Cost			
Opening balance at 1 Jan. 2015	3,221,824	150,815	3,372,639
Additions	7,361	23,625	30,986
Disposals	0	-9,576	-9,576
Balance at 31 Dec. 2015	3,229,185	164,864	3,394,049
Accumulated depreciation			
Balance at 1 Jan. 2015	-366,757	-54,182	-420,939
Depreciation	-227,659	-21,624	-249,283
Depreciation – disposals	0	7,501	7,501
Balance at 31 Dec. 2015	-594,416	-68,305	-662,721
Carrying amount			
Balance at 1 Jan. 2015	2,855,067	96,633	2,951,700
Balance at 31 Dec. 2015	2,634,769	96,559	2,731,327

The value of production equipment refers to the value of solar power plants in Slovenia.

The carrying amount of panels and other equipment referring to solar power plants in Slovenia is recorded at EUR 2,406,838 (31 December 2015: EUR 2,634,769). Other fixed assets in the Company are disclosed in the amount of EUR 116,987 (31 December 2015: EUR 96,559). The item of production plant includes the solar power plant in Volčja Draga on the Martex building, the solar power plant on the Mura building in Murska Sobota, and the solar power plants located in Trebnje, Limbuš and Lendava under the name Galaksija. The value of the transformer station at the Martex building is recorded at EUR 42,186 (31 December 2015: EUR 46,172).

The carrying amount of the Martex solar power plant is recorded as at the reporting date at EUR 671,913 (31 December 2015: EUR 735,416) whereby EUR 1,084,027 refers to the solar power plant at the Mura building(31 December 2015: EUR 1,182,638). The carrying amount of power plants under the name Galaksija is disclosed at EUR 650,899 (31 December 2015: EUR 716,713).

All solar power plants are secured and none is under mortgage.

Other plants and equipment relate primarily to computer and office equipment, and cars.

2.4.3 Non-current investments

in EUR	31 Dec. 2016	31 Dec. 2015
Non-current investments	**30,506,928**	**37,557,899**
Investments in subsidiaries and associated entities	3,006,820	11,840,409
Non-current loans	27,500,108	25,717,490

2.4.3.1 Investments in subsidiaries and associated entities

The Company's non-current investments comprise the following subsidiaries:

in EUR	31 Dec. 2016	31 Dec. 2015
EHE d. o. o., Banja Luka, Bosnia and Herzegovina	516,002	6,110,216
Interenergo d. o. o., Sarajevo, Bosnia and Herzegovina	399,105	399,105
IEP energija d. o. o., Gornji Vakuf-Uskoplje, Bosnia and Herzegovina	1,816,100	3,739,794
LSB Elektrane d. o. o., Banja Luka, Bosnia and Herzegovina	0	400,000
Inter-Energo d. o. o. Gornji Vakuf-Uskoplje, Bosnia and Herzegovina	0	1,165,682
Interenergo Makedonija d. o. o. e. l., Skopje, Macedonia	258,613	8,613
MHE Vrbnica d. o. o., Podgorica, Montenegro	7,000	7,000
Interenergo Kosova d. o. o., Dečani, Kosovo	10,000	10,000
PLC Interenergo d. o. o., Beograd, Serbia	0	0
Interenergo d. o. o., Zagreb, Croatia	0	0
Total	**3,006,820**	**11,840,409**

Total equity and profit or loss of subsidiaries

in EUR	Total capital as at 31 Dec. 2016	Profit or loss in 2016
EHE d. o. o., Banja Luka, Bosnia and Herzegovina	5,227,079	-614,316
Interenergo d. o. o., Sarajevo, Bosnia and Herzegovina	454,919	180,661
IEP energija d. o. o., Gornji Vakuf-Uskoplje, Bosnia and Herzegovina	3,771,227	29,410
LSB Elektrane d. o. o., Banja Luka, Bosnia and Herzegovina	12,338	-75,451
Inter-Energo d. o. o., Gornji Vakuf-Uskoplje, Bosnia and Herzegovina	1,028,460	6,003
Interenergo d. o. o., Zagreb, Croatia	290,019	70,063
Interenergo Makedonija d. o. o. e. l., Skopje, Macedonia	69,196	-204,004
PLC Interenergo d. o. o., Belgrade, Serbia	844,017	76,656
MHE Vrbnica d. o. o., Podgorica, Montenegro	-7,311	-11,325
Interenergo Kosova d. o. o., Dečani, Kosovo	7,605	-2,395

As at 31 December 2016, the Company carried out a valuation of individual hydropower plants and established that their carrying amount exceeds their recoverable amount, and consequently it recognised impairment losses. The estimated value was calculated by applying the discounted future cash flow method. Assumptions used in the relevant calculation include (i) the anticipated revenue from the sale of electricity, which was assessed based on flow duration curves, (ii) the estimated value of investments in small hydropower plants, (iii) the duration of concession, (iv) share of the concession fee and structure of other operating expenses (i.e. the industrial standard combined with the historical analysis on other comparable power plants owned by the Company and the Kelag Group). The discount rate was applied and calculated as the weighted

average cost of capital for investments made in small hydropower plants, taking into account also the country's risk.

The investments in the hydropower plants in Bosnia and Herzegovina were made by applying the DBOT business model (Design, Build, Operate, Transfer). This indicates that the duration of the concession period is defined as from the date of signing the concession contract (in the Republika Srpska) or completing the planning and construction of the hydropower plant (in Federation BH), whereby producers of green electricity can choose between the ensured feed-in tariff (grants) or the operating grant at concurrent sale of energy on the market. Upon the lapse of the concession period, the hydropower plant's ownership is planned to be transferred to the concession provider, although the concession period may be prolonged. The producer starts to sell electricity under market conditions not later than once the period for paying out grants for producing green electricity expires.

The Company's investment-related decisions are based on the assumption that the investor shall receive the feed-in tariff in the starting period for electricity produced; at a later stage, market prices will be applied once they exceed the feed-in tariff. The withdrawal from the grants system is anticipated at a later stage due to lower estimated market prices. The previously mentioned development triggered the need for impairing the financial investments in the Company.

Value of investments is assessed using the method of discounted cash flows that were determined in compliance with the duration of the concession period. With power plants starting operations in different time frames, a period of up to 2056 is taken into account.

The recoverable amount is based on the following assumptions:

- Electricity produced on an annual level equals the estimated production volume as confirmed by competent bodies and the parent company. An exception are plants which do not reach the originally planned production when calculating the five-year average production, normalised for one-off events. The production volumes of these plants were reduced accordingly.
- At the beginning, feed-in tariffs were defined as prices for electricity produced. Transition to electricity market price, which is being estimated by an external study, will be conducted after the electricity market prices exceed the feed-in tariff and not later than by the expiry of the feed-in tariff period.
- Operating costs result from the industrial standard, which is calculated based on years of experience constructing hydropower plants by the Kelag Group, and data for 2012–2016.
- The duration of the project equals the concession duration.
- Weighted average cost of capital (WACC) after tax was applied and calculated at 9.29% for the operation of power plants in Bosnia and Herzegovina. WACC before tax is 9.68%.

While the calculation method for estimates of impairments performed by the Company remained the same as in the previous year, the following key changes in impairment assumptions were adopted this year:

- For certain plants, the estimated annual production of electricity was lowered due to a sufficient data time series.

- The calculation of the weighted average cost of capital (WACC) has been updated to incorporate data indicating the current state of the market. Thus, in 2016, the WACC was 0.22 p.p. higher than the previous year.
- The Company has decided to replace an external source for electricity price forecasts, believing that it reflects a more realistic assessment of future long-term price movements.

The Company believes that the above-mentioned changes in assumptions contribute to a more accurate and realistic valuation of non-current investments in subsidiaries.

In accordance with the results of the analysis, which included the above-mentioned changes in assumptions, it was necessary to impair the investment in the company EHE d. o. o., Banja Luka in the amount of EUR 5,594,214, the company Inter-Energo d. o. o., Gornji Vakuf-Uskoplje in the amount of EUR 1,165,682, the company IEP energija d. o. o., Gornji Vakuf-Uskoplje in the amount of EUR 1,923,693, and LSB Elektrane d. o. o., Banja Luka in the amount of EUR 650,000.

It should be noted that, assuming that other variables remain constant, changes in weighted average cost of capital would lead to changes in the value of investments, as shown in the table below. For the companies EHE d. o. o., Banja Luka, LSB Elektrane d. o. o., and Inter-Energo d. o. o., Gornji Vakuf-Uskoplje, Gornji Vakuf, the increase of WACC does not further reduce investment value because its value is 0.

Sensitivity analysis of investments in subsidiaries and associated entities as at 31 December 2016

Weighted average cost of capital	7.29 %	8.29 %	9.29 %	10.29 %	11.29 %
EHE, d. o. o, Banja Luka	-2,185,659	-4,042,289	-5,594,214	-6,110,216	-6,110,216
IEP energija, d. o. o., Gornji Vakuf – Uskoplje	-1,774,549	-1,853,668	-1,923,693	-1,985,864	-2,041,233
LSB Elektrane, d. o. o., Banja Luka	729,833	-650,000	-650,000	-650,000	-650,000
Inter – Energo, d. o. o., Gornji Vakuf – Uskoplje	-1,165,682	-1,165,682	-1,165,682	-1,165,682	-1,165,682
Total	**-5,125,890**	**-7,711,639**	**-9,333,589**	**-9,911,762**	**-9,967,131**

Movement of investments in subsidiaries and associates

in EUR	Value at 1 Jan. 2016	Additional payments/ disbursements	Impairment	Value at 31 Dec. 2016
EHE d. o. o., Banja Luka	6,110,216	0	-5,594,214	516,002
Interenergo d. o. o., Sarajevo	399,105	0	0	399,105
IEP energija d. o. o., Gornji Vakuf-Uskoplje	3,739,794	0	-1,923,693	1,816,100
LSB Elektrane d. o. o., Banja Luka	400,000	250,000	-650,000	0
Inter-Energo d. o. o. Gornji Vakuf-Uskoplje	1,165,682	0	-1,165,682	0
Interenergo Makedonija d. o. o. e. l., Skopje	8,613	250,000	0	258,613
MHE Vrbnica d. o. o., Podgorica	7,000	0	0	7,000
Interenergo Kosova d. o. o. Dečani	10,000	0	0	10,000
PLC Interenergo d. o. o., Beograd	0	0	0	0
Interenergo d. o. o., Zagreb	0	0	0	0
Total	**11,840,409**	**500,000**	**-9,333,589**	**3,006,820**

Movement of investments in subsidiaries and associates in 2015

in EUR	Value at 1 Jan. 2015	Additional payments/ disbursements	Impairment	Value at 31 Dec. 2015
EHE d. o. o., Banja Luka	6,110,216	0	0	6,110,216
Interenergo d. o. o., Sarajevo	399,105	0	0	399,105
IEP energija d. o. o., Gornji Vakuf-Uskoplje	3,739,794	0	0	3,739,794
LSB Elektrane d. o. o., Banja Luka	400,000	0	0	400,000
Inter-Energo d. o. o. Gornji Vakuf-Uskoplje	1,165,682	0	0	1,165,682
Interenergo Makedonija d. o. o. e. l., Skopje	8,613	0	0	8,613
MHE Vrbnica d. o. o., Podgorica	7,000	0	0	7,000
Interenergo Kosova d. o. o., Dečani	0	10,000	0	10,000
PLC Interenergo d. o. o., Beograd	0	0	0	0
Interenergo d. o. o., Zagreb	0	0	0	0
IE electric d. o. o., Banja Luka	460	0	-460	0
Total	**11,830,869**	**10,000**	**-460**	**11,840,409**

2.4.3.2 Non-current loans granted

The Company discloses loans granted to subsidiaries, which bear interest at market rates and are unsecured, as non-current loans. In 2016, new loan agreements were concluded with the companies MHE Vrbnica in Montenegro and Interenergo Kosova in Kosovo.

in EUR	31 Dec. 2016	31 Dec. 2015
Non-current loans	**27,500,108**	**25,717,490**
Non-current loans to subsidiaries	27,500,108	25,717,490

Non-current loans granted are not exposed to interest rate risk as the loans bear fixed interest rates and are thus not impacted by market interest rate fluctuations. The interest rate risk is normally accompanied also by credit risk if the debtor fails to settle his liabilities. Loans granted are not used as collateral for Company's liabilities. The loans are due in 2030.

The requirement for impairing the loans was assessed together with the investment impairment testing in view of the discounted future cash flows (Note 2.4.3.1). In accordance with the results of the analysis, it was necessary to impair the investment of the companies Inter-Energo d. o. o., Gornji Vakuf-Uskoplje in the amount of EUR 1,548,570, and LSB Elektrane d. o. o., Banja Luka in the amount of EUR 1,858,813.

It should be noted that, assuming that other variables remain constant, changes in weighted average cost of capital would lead to changes in the value of non-current loans granted to subsidiaries, as shown in the table below.

Sensitivity analysis of the value of non-current loans to subsidiaries

Weighted average cost of capital	7.29 %	8.29 %	9.29 %	10.29 %	11.29 %
EHE d. o. o., Banja Luka	0	0	0	-793,251	-1,907,569
IEP energija d. o. o., Gornji Vakuf-Uskoplje	0	0	0	0	0
LSB Elektrane d. o. o., Banja Luka	0	-397,404	-1,858,813	-3,072,872	-4,091,370
Inter-Energo d. o. o., Gornji Vakuf-Uskoplje	-1,059,679	-1,319,639	-1,548,570	-1,751,012	-1,930,757
Total	**-1,059,679**	**-1,717,043**	**-3,407,382**	**-5,617,135**	**-7,929,696**

2.4.4 Non-current operating receivables

in EUR	31 Dec. 2016	31 Dec. 2015
Non-current operating receivables	**26,793**	**16,793**
Non-current operating receivables due from third parties	26,793	16,793

Long-term securities granted for renting office space are classified as long-term trade liabilities, and they amounted to EUR 26,793 as at 31 December 2016 (2015: EUR 16,792).

2.4.5 Deferred tax assets

in EUR	31 Dec. 2016	31 Dec. 2015 Corrected	1 Jan. 2015 Corrected
Deferred tax assets arising on	**92,768**	**87,738**	**238,414**
tax losses	0	0	87,291
revaluation of trade receivables	92,768	77,056	77,405
impairment of investments	0	0	12,580
unutilised tax reliefs	0	10,682	61,138

Deferred tax assets were reduced in 2016 due to utilisation of unused tax reliefs from previous years, and increased due to the revaluation of trade receivables.

Changes in deferred tax assets

in EUR	31 Dec. 2016	31 Dec. 2015 Corrected
Change in deferred tax assets as the result of	**5,030**	**-150,676**
tax loss carryforwards	0	-87,291
revaluation of trade receivables	15,712	-349
impairment of investments	0	-12,580
unutilised tax reliefs	-10,682	-50,456

The net effect of deferred tax assets amounted to EUR -5,030 in the reporting period.

2.4.6 Current investments

in EUR	31 Dec. 2016	31 Dec. 2015
Current investments	**729,723**	**476,351**
Current loans to subsidiaries	164,000	14,000
Current loans to third parties	5,070	5,126
Current interest receivables from loans	560,653	457,225

2.4.7 Trade and other receivables

in EUR	31 Dec. 2016	31 Dec. 2015
Current operating receivables	**47,971,750**	**25,567,814**
Current trade receivables due from customers	31,587,407	19,424,241
- domestic market	9,583,242	5,739,358
- foreign markets	22,004,165	13,684,883
Current trade receivables due from subsidiaries and parent companies	15,261,686	6,421,840
Value adjustment for current receivables	-452,595	-417,611
Advances to domestic suppliers	108,611	150
Collaterals granted	1,457,291	136,695
Other receivables	9,348	2,499

The Company discloses operating receivables due from customers, advances given for trading in the power exchanges, and advances to domestic companies as current operating receivables. Current trade receivables due from customers refer to the obligations related to the purchase of electricity in December 2016. Since the sale of electricity in December 2016 was 97% higher than in the same month of the previous year, the relevant receivables are also proportionally higher.

Current receivables due from subsidiaries and parent companies amount to EUR 7,519,525 as receivables due from the Kelag parent company (31 December 2015: EUR 610,629), and EUR 7,742,161 due from subsidiaries (31 December 2015: EUR 5,811,211).

Advances and other assets include advances given for trading in the power exchanges, advances to domestic companies, and granted short-term securities.

In 2016, the Company revaluated receivables in the amount of EUR 34,984.

As at 31 December 2016 and 31 December 2015, the Company records no receivables due from members of the Management Board, the Supervisory Board, and internal owners.

As at 31 December 2016, 10% of trade receivables were secured (2015: 12%).

2.4.8 Cash and cash equivalents

in EUR	31 Dec. 2016	31 Dec. 2015
Cash and cash equivalents	6,734,897	3,449,896
Bank balances	229,349	2,497
Cash on electricity trading bank accounts	4,042,053	1,366,904
Short-term deposits	2,463,495	2,080,495

The Company has the option to use a bank overdraft at the UniCredit banka d.d. in the amount of EUR 1.5 million.

2.4.9 Short-term deferred costs and accrued income

in EUR	31 Dec. 2016	31 Dec. 2015
Short-term deferred costs and accrued income	**2,674,987**	**1,019,400**
Short-term deferred costs and expenses	92,311	449,239
Short-term accrued income	60,554	287,201
Accrued income on electricity sold	2,182,122	60,960
Accrued income to subsidiaries and parent companies	340,000	222,000

At the end of the financial year 2016, the Company recorded not yet invoiced revenue from sales in December. The Company issues invoices to its customers at the beginning of the month following the sale, and the due date is generally the 20th of the following month (pursuant to the EFET standard contract).

Accrued income relates to revenue from sales in Slovenia and abroad, and sales to subsidiaries and parent companies in December 2016. It consists mostly of accrued revenue from electricity sales on power exchanges in December 2016 (EUR 1,992,847). The Company has accured revenues realised on the basis of trading data captured from the trading system.

Short-term deferred costs refer to cross-border transmission capacities, and annual subscriptions and insurance.

2.4.10 Equity

in EUR	31 Dec. 2016	31 Dec. 2015 Corrected
Equity	**18,580,130**	**28,234,306**
Share capital	10,200,000	10,200,000
Capital surplus	25,450,000	25,450,000
Revenue reserves	95,722	95,722
Retained earnings or losses	-7,511,416	-8,830,601
Net profit or loss for the period	-9,654,176	1,319,185

As at 31 December 2016, the net loss for the financial year 2016 in the amount of EUR 9,654,176 was transferred to the item of retained earnings.

As at 31 December 2016, capital surplus of the parent company was recorded at EUR 25,450,000 and refers to subsequent capital contributions paid by the owners.

2.4.11 Non-current liabilities

in EUR	31 Dec. 2016	31 Dec. 2015
Non-current liabilities	**26,261,416**	**20,841,475**
Non-current financial liabilities	26,074,000	20,789,000
Long-term accrued costs and deferred income	187,416	52,475

Company's non-current financial liabilities comprise the borrowing extended by the company KI-KELAG International GmbH in the amount of EUR 26,074,000 (31 December 2015: EUR 20,789,000), which bears a market interest rate and is not secured. The borrowing matures at the end of 2030. The borrowing is earmarked for financing investments made in projects relating to renewable energy sources or primarily small hydropower plants and to provide for Group's liquidity in electricity trading.

2.4.12 Current trade and income tax payables

in EUR	31 Dec. 2016	31 Dec. 2015
Current operating liabilities	**43,600,448**	**21,116,399**
Current trade payables to suppliers	43,002,037	20,709,518
- domestic market	7,525,150	3,003,618
- foreign markets	25,318,706	12,914,462
- due from subsidiaries and parent companies	10,158,181	4,791,438
Advances received	197,500	47,500
Other current operating liabilities	400,911	359,381
- tax payables	229,172	234,054
- other payables to employees and the state	171,739	125,327

Current operating liabilities due from suppliers refer to the obligations and costs related to purchasing electricity in December 2016. Since the purchase of electricity in December 2016 was 96% higher than in the same month of the previous year, the relevant liabilities are also proportionally higher.

Other current operating liabilities include mostly undue payables to employees for wages and salaries accounted, and the VAT payable for December.

2.4.13 Short-term accrued costs and deferred income

in EUR	31 Dec. 2016	31 Dec. 2015
Short-term accrued costs and deferred income	**2,965,283**	**1,356,005**
Accrued costs of transfer capacities and trading costs	571,175	242,241
Accrued costs for electricity purchased	2,067,473	826,458
Accrued costs of wages and salaries	324,712	285,383
Deferred income	1,923	1,923

The Company's item of short-term accrued costs and deferred income mostly consists of accrued costs and expenses for the electricity purchased, trading costs, and transfer-capacity costs for December 2016. Since the purchase of electricity in December 2016 was 96% higher than in the same month of the previous year, the relevant accrued costs for electricity purchased and transfer cross-border transmission capacities are also proportionally higher.

2.4.14 Revenue

in EUR	2016	2015
Revenue	**370,569,496**	**255,887,131**
Revenue from electricity trading	368,303,890	253,896,621
Revenue from sales of electricity produced	484,330	498,438
Revenue from sales of services	1,763,261	1,436,066
Other revenue	18,015	56,006

in EUR	2016	2015
Revenue	**370,551,480**	**255,831,125**
Revenue from sales on the domestic market	63,646,375	57,798,588
Revenue from sales on foreign markets	306,905,105	198,032,537

Compared to the previous year, the Company's revenue increased by 44.8%. The increase was mainly attributable to a higher revenue from electricity trading on foreign markets. In addition to an increased trading volume in certain foreign markets, in 2016, the Company also entered several new markets that further facilitated the aforementioned revenue growth.

In 2016, the Company's revenue amounted to EUR 38,642,070 from the sales to subsidiaries (2015: EUR 38,691,103) and EUR 26,314,825 from the sales to the Kelag parent company (2015: EUR 6,149,472).

Revenue from sales of services includes trading services and billed engineering supervision of construction of small hydropower plants.

2.4.15 Costs of goods sold and material used

in EUR	2016	2015
Costs of goods sold	**-363,616,329**	**-251,380,116**
- costs of electricity sold	-358,156,648	-244,839,134
- costs of transfer capacities	-4,572,241	-5,995,348
- cost of other goods	0	-25,743
- trading costs	-887,440	-519,891
Costs of material used	**-53,658**	**-52,673**

Cost of goods sold is the cost of purchased electricity and trading costs, whereof EUR 48,971,262 of electricity was purchased from subsidiaries in 2016 (2015: EUR 40,754,000) and EUR 27,934,720 from the Kelag parent company (2015: EUR 11,733,203).

2.4.16 Costs by function

in EUR	2016	2015
Costs of goods sold and materials used	-363,669,987	-251,432,789
Selling expenses	-2,474,321	-1,779,951
General and administrative expenses	-1,542,143	-1,314,223
Total costs by function	**-367,686,451**	**-254,526,963**

Costs of goods sold include the purchase of electricity, costs of transfer capacities, and trading costs.

2.4.17 Costs of material

in EUR	2016	2015
Costs of material	**-53,658**	**-52,673**
Costs of office stationary	-5,219	-4,800
Costs of professional literature	-4,281	-3,502
Other costs of material	-44,158	-44,371

Other material costs include fuel costs, energy consumption, and the write-off of small inventory.

2.4.18 Costs of services

in EUR	2016	2015
Total costs of services	**-1,692,587**	**-1,049,312**
Professional and personal services	-629,535	-199,044
Reimbursements of work-related costs to employees	-69,246	-68,365
Rents	-210,876	-188,828
Costs of bank services	-243,214	-156,054
Audit costs	-21,500	-17,100
Other costs of services	-518,216	-419,921

In line with the development of the Company, which, in 2016, significantly increased the volume of trade in electricity (45%) and developed a strategy of entering new market segments, there was also an increase in costs for intellectual services, especially the costs for studies and projects (2016: EUR 410,349; 2015: EUR 108,321), costs of consulting services (2016: EUR 91,599; 2015: EUR 7,986), and costs of HR services (2016: EUR 66,507; 2015: EUR 33,844). Banking costs have also increased proportionally with trading volumes (2016: EUR 243,214; 2015: EUR 156,054).

Larger amounts among Company's costs of services include the cost of student work (2016: EUR 118,883; 2015: EUR 66,434), advertising and entertainment costs (2016: EUR 77,449; 2015: EUR 72,577), and maintenance costs (2016: EUR 88,966; 2015: EUR 57,363).

In 2016, audit costs amounted to EUR 21,500 (2015: EUR 17,100).

2.4.19 Employee benefits expense

in EUR	2016	2015
Employee benefits expense	**-1,948,798**	**-1,673,452**
Wages and salaries	-1,554,430	-1,327,557
Other social security costs	-113,490	-95,301
Pension insurance / security costs	-179,581	-154,353
Other employee benefits expense	-101,297	-96,241

As at 31 December 2016, the Company had 26 full-time employees (2015: 23). The Company has no provisions for severance payments and jubilee benefits because the amount is insignificant in relation to the number and age of employees.

Educational structure

Education	No. of employees		Average no. of employees	
	31 Dec. 2016	31 Dec. 2015	2016	2015
Secondary school education	0	1	0.5	1
College education	12	7	9.5	7.5
University education	11	12	11.5	11
Master's Degree	3	3	3	2.5
Total	**26**	**23**	**24.5**	**22**

Total amount of earnings recorded by individual groups of persons

in EUR	2016	2015
Total amount of earnings recorded by individual groups of persons	**-644,282**	**-719,878**
Members of the Management Board and holder of procuration	-266,557	-266,415
Other employees under individual contracts	-377,725	-453,463

2.4.20 Write-downs in value

in EUR	2016	2015
Write-downs in value	**-317,512**	**-292,702**
Expenses from revaluation of working capital	-34,984	0
Amortisation of intangible assets	-34,846	-43,419
Depreciation of property, plant and equipment	-247,682	-249,284

2.4.21 Other operating expenses

in EUR	2016	2015
Other operating expenses	**-57,567**	**-78,707**
Donations	-1,379	-2,087
Membership fees	-3,597	-2,050
Charges, non-refundable levies	-4,118	-4,369
Exchange losses	-20,042	-48,099
Other costs	-28,431	-22,103

2.4.22 Finance income

in EUR	2016	2015
Finance income	**2,056,626**	**1,521,132**
Finance income on loans to subsidiaries	2,054,806	1,509,445
Finance income on loans to third parties	30	0
Exchange gains	0	6,706
Finance income on trade receivables	1,790	4,981

Finance income on loans to others includes interest received on deposits and other interest-related income.

2.4.23 Finance costs

in EUR	2016	2015
Finance costs	**-13,967,157**	**-1,298,429**
Costs of impairment and write-off of financial assets	-12,740,972	-13,146
Costs of borrowings from the parent company	-1,222,086	-1,277,731
Costs of bank borrowings	-3,585	-7,552
Exchange losses	-514	0

Financial expenses from impairments and investment write-offs refer to impairment of non-current investments in the amount of EUR 9,333,589 (Note 2.4.3.1) and impairment of non-current loans in the amount of EUR 3,407,383 (Note 2.4.3.2).

Finance costs arising under financial liabilities include interest expenses on borrowings from the parent company KI-KELAG International GmbH and interest on permitted overdrafts from banks.

2.4.24 Income tax

in EUR	2016	2015
Current tax	631,720	113,010
Deferred tax	-5,030	150,676
Total income tax	**626,690**	**263,686**
Profit or loss before tax	-9,027,487	1,582,871
Tax calculated at a 17% tax rate	-1,534,673	269,088
Tax on tax reliefs	-20,461	-145,964
Tax on income that lowers the taxable base	0	-21,224
Tax on expenses that increases the taxable base	2,186,853	11,110
Tax on expenses that decreases the taxable base	0	0
Impact of changed tax rate on deferred taxes	-9,765	0
Impact of changed deferred taxes	-5,947	12,929
Impact of tax loss carryforwards on deferred taxes	0	87,291
Impact of unused reliefs on deferred taxes	10,682	50,456
Other	0	0
Total income tax	**626,690**	**263,686**
Effective tax rate (in %)	**-6.94%**	**16.66%**

2.4.25 Financial instrument and risk management

Credit risk

In relation to its business partners, the Company pursues an active credit risk management and financial exposure management, which is founded on a consistent implementation of internal rules that are adopted by the Kelag Group. The latter comprise well-defined procedures for identifying credit risks and assessing the exposure, for determining the limits of exposure and procedures for the ongoing monitoring of Company's exposure in view of individual business partners.

in EUR	31 Dec. 2016	31 Dec. 2015
Loans granted and interest receivables	28,229,830	26,193,841
Investments	3,006,820	11,840,409
Receivables exclusive of receivables due from state and advances given	46,396,499	25,428,470
- whereof trade receivables (including subsidiaries)	46,396,499	25,428,470
Cash and cash equivalents	6,734,897	3,449,896
Total	**84,368,046**	**66,912,617**

Trade receivables account for the largest share among financial assets exposed to credit risk. In 2016, 10% of trade receivables excluding subsidiaries and parent companies were secured (2015: 12%).

Aging structure of receivables as at 31 December 2016 excluding receivables due from the state and advances given

in EUR	Gross value 31 Dec. 2016	Value adjustment 31 Dec. 2016	Gross value 31 Dec. 2015	Value adjustment 31 Dec. 2015
Not past due	46,475,546		24,042,351	0
Past due up to 20 days	-173,660		1,269,775	0
Past due from 21 to 50 days	-421,469		35,542	0
Past due from 51 to 180 days	323,972	-34,984	80,691	0
Past due over 180 days	644,703	-417,611	417,611	-417,611
Total	**46,849,093**	**-452,595**	**25,845,970**	**-417,611**

Movements in value adjustments from loans granted

in EUR	31 Dec. 2016	31 Dec. 2015
Balance at 1 January	**0**	**24,000**
Formation of value adjustments	3,407,383	2,500
Reversal of value adjustments formed	0	-26,500
Balance at 31 December	**3,407,383**	**0**

Movements in value adjustments for receivables exclusive of receivables due from state and advances given

in EUR	31 Dec. 2016	31 Dec. 2015
Balance at 1 January	**417,611**	**418,817**
Formation of value adjustments	34,984	0
Write-off of impaired receivables	0	-1,207
Balance at 31 December	**452,595**	**417,611**

In 2016, the Company revaluated receivables from the Transenergo company for the value of the unsecured part of the receivable (EUR 34,984).

Liquidity risk

The Company is engaged in wholesale of electricity, hence the number of customers and suppliers is low. Accordingly, the exposure to liquidity risk is well managed and efficiently assessed. The exposure limit is defined for each business partner on the basis of its credit rating, which is monitored by competent departments on a regular and ongoing basis.

The current market exposure and the payment obligations of business partners are monitored as well.

Financial liabilities are outlined below by maturity.

Company's liabilities by maturity as at 31 December 2016

in EUR	Carrying amount	Total	Past due from 0 to 6 months	Past due from 6 t o 12 months	Past due from 1 to 5 years	Past due over 5 years
Non-current borrowings and anticipated interest	26,074,000	**43,946,206**	0	1,291,967	5,167,867	37,486,373
Long-term accrued costs and deferred income	187,416	**187,416**	0	1,923	176,680	8,814
Trade payables	43,002,038	**43,002,038**	43,002,038	0	0	0

Company's liabilities by maturity as at 31 December 2015

in EUR	Carrying amount	Total	Past due from 0 to 6 months	Past due from 6 t o 12 months	Past due from 1 to 5 years	Past due over 5 years
Non-current borrowings and anticipated interest	20,789,000	**37,270,519**	0	1,030,095	4,120,380	32,120,044
Long-term accrued costs and deferred income	52,475	**52,475**	20,352	8,123	24,000	0
Trade payables	20,709,518	**20,709,518**	20,709,518	0	0	0

Interest rate risk

The Company discloses receivables and liabilities for non-current borrowings with a fixed interest rate. Changes in reference interest rate fluctuations have no impact on the Company's costs of financing.

Exposure to interest rate risk

in EUR	31 Dec. 2016	31 Dec. 2015
Loans granted	27,669,178	25,736,616
Borrowings	26,074,000	20,789,000
Deposits granted	2,463,495	2,080,485

Fair value sensitivity analysis for financial instruments bearing a fixed interest rate

Non-current loans granted

in EUR	31 Dec. 2016	31 Dec. 2015
Non-current loans	27,500,108	25,717,490
– whereof short-term portion	0	0
Average balance of non-current loans	28,312,490	20,964,990
Interest	2,050,278	1,508,997
Effective interest rate of non-current loans	7.2%	7.2%
Currency structure of non-current loans		
– EUR	27,500,108	25,717,490
Structure of non-current loans by interest rate		
– variable interest rate	0	0
– fixed interest rate	27,500,108	25,717,490

Non-current borrowings

in EUR	31 Dec. 2016	31 Dec. 2015
Non-current borrowings	26,074,000	20,789,000
– whereof short-term portion	0	0
Average balance of non-current borrowings	23,431,500	20,376,500
Interest	1,222,087	1,277,731
Effective interest rate of non-current borrowings	5.2%	6.3%
Structure of non-current borrowings by currency		
– EUR	26,074,000	20,789,000
Structure of non-current borrowings by interest rate		
– variable interest rate	0	0
– fixed interest rate	26,074,000	20,789,000

Book values and fair value of financial instruments

	31 Dec. 2016		31 Dec. 2015	
in EUR	Book value	Fair value	Book value	Fair value
Financial assets at amortised cost				
Financial receivables	28,229,830	28,229,830	26,193,841	26,193,841
Total financial assets	**28,229,830**	**28,229,830**	**55,072,207**	**55,072,207**
Financial liabilities at amortised cost				
Borrowings and other financial liabilities	26,074,000	26,074,000	20,789,000	20,789,000
Current financial liabilities	0	0	10,000	10,000
Total financial liabilities	**26,074,000**	**26,074,000**	**41,508,518**	**41,508,518**

Financial assets and liablilites disclosed at fair value in terms of fair value hierarchy

Given their fair value, financial assets are classified as follows:

- Level 1 – assets at market price;
- Level 2 – assets not classified as Level 1, whereas their value is defined directly or indirectly on the basis of comparable market data;
- Level 3 – assets whose value does not base on the active market data.

Fair value hierarchy

	31 Dec. 2016			31 Dec. 2015		
in EUR	**Level 1**	**Level 3**	**Total**	**Level 1**	**Level 3**	**Total**
Assets measured at cost with the fair value disclosed						
Non-current loans granted	0	27,500,108	**27,500,108**	0	25,717,490	**25,717,490**
Current loans granted and interest receivables	0	729,723	**729,723**	0	476,351	**476,351**
Liabilities measured at cost with the fair value disclosed						
Current financial liabilities	0	0	**0**	0	10,000	**10,000**
Borrowings and interest	0	26,074,000	**26,074,000**	0	20,789,000	**20,789,000**

2.4.26 Related party transactions

The tables below outline sales and purchases with related companies listed in Section 2.3.1. They include transactions with KI-KELAG International GmbH, the direct parent company, and Kelag, the most superior parent company. Related party transactions of the Company are carried out by applying market conditions that apply to transactions with non-Group entities.

Sales

in EUR	Related entity	2016	2015
Sale of electricity	**Total**	**63,195,557**	**43,414,390**
	INTERENERGO ZAGREB	16,066,948	12,575,710
	KELAG	26,142,374	5,947,045
	PLC INTERENERGO	20,986,235	24,891,636
Services rendered	Total	**1,761,338**	**1,426,185**
	EHE BANJA LUKA	52,080	222,863
	EKO TOPLOTA ENERGETIKA	23,244	20,637
	HIDROWATT	0	15,399
	IEP ENERGIJA	799	8,177
	INTER-ENERGO GORNJI VAKUF	5,528	24,244
	INTERENERGO MAKEDONIJA	179,010	143,563
	INTERENERGO SARAJEVO	259,507	178,314
	INTERENERGO ZAGREB	259,507	178,314
	KELAG	172,451	192,993
	KI KELAG	0	9,435
	LSB ELEKTRANE	242,846	196,715
	MHE VRBNICA	226,364	0
	PLC INTERENERGO	340,003	235,532
Interest on loans granted	Total	**2,054,806**	**1,509,445**
	EHE BANJA LUKA	1,285,722	1,084,591
	IE ELECTRIC	0	449
	INTER-ENERGO GORNJI VAKUF	129,690	151,571
	INTERENERGO MAKEDONIJA	2,560	17,379
	INTERENERGO SARAJEVO	14,483	11,575
	INTERENERGO ZAGREB	0	642
	LSB ELEKTRANE	617,823	243,097
	MHE VRBNICA	4,528	142
Total sales to related parties		**67,011,701**	**46,350,021**

Purchases

in EUR	Related entity	2016	2015
Purchase of electricity	**Total**	**76,905,982**	**53,140,739**
	INTERENERGO ZAGREB	31,625,857	29,969,461
	INTERENERGO MAKEDONIJA	0	337,325
	KELAG	27,934,720	11,733,203
	PLC INTERENERGO	17,345,405	11,100,750
Other expenses	**Total**	**270,520**	**180,385**
	EHE BANJA LUKA	12,076	7,647
	KELAG	83,119	63,850
	KI KELAG	175,326	108,888
Interest on borrowings received	**KI KELAG**	**1,222,087**	**1,277,731**
Total purchases from related parties		**78,398,589**	**54,598,855**

Receivables

in EUR	Related entity	2016	2015
Non-current loans granted	**Total**	**30,907,490**	**25,717,490**
	EHE BANJA LUKA	17,611,490	17,211,490
	INTER-ENERGO GORNJI VAKUF	1,872,000	1,875,000
	INTERENERGO MAKEDONIJA	0	337,000
	INTERENERGO SARAJEVO	150,000	180,000
	LSB ELEKTRANE	11,274,000	6,114,000
Current loans granted	**MHE VRBNICA**	**164,000**	**14,000**
Current trade receivables	**Total**	**15,261,686**	**6,421,840**
	EHE BANJA LUKA	70	15,620
	EKO TOPLOTA ENERGETIKA	2,088	4,435
	HIDROWATT	0	15,399
	INTER-ENERGO GORNJI VAKUF	1,942	4,618
	INTERENERGO SARAJEVO	296,130	126,768
	INTERENERGO ZAGREB	2,147,254	616,671
	KELAG	7,519,525	610,629
	LSB ELEKTRANE	55,203	25,697
	MHE VRBNICA	226,364	0
	PLC INTERENERGO	5,013,111	5,002,003
Current interest receivables	**Total**	**560,653**	**457,225**
	EHE BANJA LUKA	324,759	82,340
	INTER-ENERGO GORNJI VAKUF	30,900	327,398
	INTERENERGO MAKEDONIJA	0	8,706
	INTERENERGO SARAJEVO	4,841	2,277
	LSB ELEKTRANE	195,481	36,361
	MHE VRBNICA	4,671	142
Total receivables from related parties		**46,893,829**	**32,610,555**

Liabilities

in EUR	Related entity	2016	2015
Non-current borrowings	**KI KELAG**	**26,074,000**	**20,789,000**
Current trade payables	**Total**	**10,158,181**	**4,791,438**
	EHE BANJA LUKA	2,700	1,435
	INTERENERGO MAKEDONIJA	0	398,043
	INTERENERGO ZAGREB	2,099,175	2,253,475
	KELAG	6,641,801	963,289
	KI KELAG	89,191	108,888
	PLC INTERENERGO	1,325,314	1,066,308
Total liabilities to related parties		**36,232,181**	**25,580,438**

2.4.27 Contingent liabilities

Contingent liabilities recorded by the Company refer to bank and corporate guarantees issued to partners for the purpose of electricity trading and to institutions in charge of the electricity market in the required amount of insurance. At the end of 2016, the corporate guarantees issued amounted to EUR 22,765,448, and the amount of bank guarantees issued was recorded at EUR 15,650,193.

2.4.28 Events after the reporting period

After the end of the financial year 2016, the owner recapitalised the company by paying additional equity amounting to EUR 10 million into the capital surplus. These funds enabled the Company to increase the share capital in liabilities to funding sources, reduce debt, maintain stable credit rating and strengthen its capital structure.

In March 2017, the Company acquired a solar power plant with a capacity of 456 kWp at Kolodvorska 11 in Ormož. The estimated investment value is EUR 475,000.

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After the end of the financial year 2016, the owner recapitalised the company by paying additional equity amounting to EUR 10 million into the capital surplus. These funds enabled the Company to increase the share capital in liabilities to funding sources, reduce debt, maintain stable credit rating and strengthen its capital structure.

3 INDEPENDENT AUDITOR'S REPORT OF THE COMPANY

KPMG

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Independent Auditors' Report

To the owners of the Interenergo d.o.o.

Opinion

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

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

Basis for Opinion

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

Other Information

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

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

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

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

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

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

KPMG

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

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

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

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

Auditor's Responsibility for the Audit of Financial Statements

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional 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 auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

On behalf of the auditing company

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

Damjan Ahčin, FCCA
Certified auditor

Danilo Bukovec
Certified auditor
Director

Ljubljana, 24 April 2017

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

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Interenergo, d. o. o.,
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