

# Consolidated Annual Report 2018



**Connecting Gorenjska with electricity.**

# Consolidated Annual Report 2018

Elektro Gorenjska Group

Published by: Elektro Gorenjska, d. d.  
Text: Elektro Gorenjska, d. d.  
Design: Luka Kern s. p.

July 2019

# Table of contents

|             |   |           |
|-------------|---|-----------|
| <b>A</b>    | <b>CONSOLIDATED BUSINESS REPORT</b>   | <b>15</b> |
| <b>1</b>    | <b>OVERVIEW OF SIGNIFICANT EVENTS IN ELEKTRO GORENJSKA GROUP IN YEAR 2018</b>       | <b>17</b> |
| <b>2</b>    | <b>MANAGEMENT REPORT OF THE PARENT COMPANY</b>                                      | <b>20</b> |
| 2.1         | Corporate governance statement  | 22        |
| 2.2         | Supervisory Board report  | 24        |
| <b>3</b>    | <b>PRESENTATION OF ELEKTRO GORENJSKA GROUP</b>                                      | <b>30</b> |
| <b>3.1</b>  | <b>Structure Of Elektro Gorenjska Group and associated companies</b>                | <b>30</b> |
| 3.1.1       | Elektro Gorenjska Company identity card   | 31        |
| 3.1.2       | Gorenjske elektrarne Company identity card  | 32        |
| 3.1.3       | GEK Vzdrževanje Company identity card   | 33        |
| 3.1.4       | ECE Company identity card   | 34        |
| 3.1.5       | Soenergetika Company identity card  | 35        |
| <b>3.2</b>  | <b>Other related companies or related legal entities</b>                            | <b>36</b> |
| <b>3.3</b>  | <b>Main activities and fields of business</b>                                       | <b>36</b> |
| <b>3.4</b>  | <b>Main area of operation</b>   | <b>37</b> |
| <b>3.5</b>  | <b>Main technical data</b>  | <b>38</b> |
| <b>3.6</b>  | <b>Management and governance of companies in Elektro Gorenjska Group</b>            | <b>39</b> |
| 3.6.1       | Management and governance of Elektro Gorenjska Company                              | 39        |
| 3.6.2       | Management and governance of Gorenjske elektrarne Company                           | 42        |
| 3.6.3       | Management and governance of GEK Vzdrževanje Company                                | 42        |
| <b>3.7</b>  | <b>Share capital and ownership structure</b>  | <b>43</b> |
| 3.7.1       | Share capital and ownership structure of Elektro Gorenjska Company                  | 43        |
| 3.7.2       | Share capital and ownership structure of Gorenjske elektrarne Company               | 44        |
| 3.7.3       | Share capital and ownership structure of GEK Vzdrževanje Company                    | 44        |
| <b>3.8</b>  | <b>Vision, mission and values of the Group</b>                                      | <b>45</b> |
| <b>3.9</b>  | <b>Key strategic guidelines of the Group</b>  | <b>46</b> |
| <b>3.10</b> | <b>Analysis of the environment and its impact on the operations of the Group</b>    | <b>46</b> |
| 3.10.1      | General economic environment and economic trend forecasts                           | 46        |
| 3.10.2      | Presentation of the industry  | 47        |
| 3.10.3      | Network charge and price of electricity   | 49        |
| 3.10.4      | Energy legal environment of group's operation in year 2018                          | 50        |
| 3.10.5      | Contract with SODO  | 50        |
| 3.10.6      | Production of electricity   | 51        |
| <b>4</b>    | <b>MANAGEMENT AND QUALITY SYSTEMS</b>   | <b>53</b> |
| <b>4.1</b>  | <b>Integrated quality management system (iSVK) of Elektro Gorenjska Company</b>     | <b>53</b> |
| <b>4.2</b>  | <b>Integrated quality management system of Gorenjske Elektrarne Company</b>         | <b>57</b> |
| <b>4.3</b>  | <b>Risk management in Elektro Gorenjska Company</b>                                 | <b>57</b> |
| 4.3.1       | Business risks  | 63        |
| 4.3.2       | Financial risks   | 65        |
| 4.3.3       | Operating risks   | 66        |
| <b>4.4</b>  | <b>Audit committee of the supervisory Board, internal audit and risk management</b> | <b>67</b> |
| <b>4.5</b>  | <b>Risk management in Gorenjske Elektrarne Company</b>                              | <b>68</b> |
| <b>5</b>    | <b>BUSINESS ANALYSIS OF THE GROUP</b>   | <b>74</b> |
| <b>5.1</b>  | <b>Production of electricity</b>  | <b>74</b> |
| <b>5.2</b>  | <b>Quantities of distributed electricity</b>  | <b>77</b> |
| <b>5.3</b>  | <b>Quality of electricity supply</b>  | <b>78</b> |
| <b>5.4</b>  | <b>Investments</b>  | <b>86</b> |
| <b>5.5</b>  | <b>Maintenance of energy facilities</b>   | <b>88</b> |
| <b>5.6</b>  | <b>Development and design</b>   | <b>90</b> |

|            |  |            |
|------------|--|------------|
| <b>5.7</b> | <b>Financial performance criteria of the Group</b>           | <b>92</b>  |
| 5.7.1      | Significant indicators                                       | 92         |
| 5.7.2      | Structure of assets and liabilities                          | 93         |
| 5.7.3      | Structure of revenue and expenditure                         | 95         |
| 5.7.4      | Cash flow statement  | 97         |
| <b>6</b>   | <b>MARKETING AND SALES</b>                                   | <b>98</b>  |
| <b>7</b>   | <b>INFORMATION AND COMMUNICATION TECHNOLOGIES</b>            | <b>100</b> |
| <b>8</b>   | <b>SUSTAINABLE DEVELOPMENT</b>                               | <b>101</b> |
| <b>8.1</b> | <b>Care for employees</b>                                    | <b>101</b> |
| 8.1.1      | Demographic structure in the Group                           | 101        |
| 8.1.2      | Employment   | 102        |
| 8.1.3      | Employment of persons with disabilities                      | 103        |
| 8.1.4      | Education  | 103        |
| 8.1.5      | Educational structure of employees                           | 105        |
| 8.1.6      | Employee motivation and remuneration                         | 106        |
| 8.1.7      | Annual interviews  | 106        |
| 8.1.8      | Organizational culture                                       | 107        |
| 8.1.9      | Employee satisfaction and commitment                         | 108        |
| 8.1.10     | Absence of employees   | 109        |
| 8.1.11     | Relations between employees and management in the Group      | 110        |
| 8.1.12     | Care for employees and related groups outside working hours  | 110        |
| 8.1.13     | Communication with employees                                 | 110        |
| 8.1.14     | Connecting the employees and wider community                 | 111        |
| 8.1.15     | Health and safety at work                                    | 111        |
| <b>8.2</b> | <b>Concern for the natural environment</b>                   | <b>113</b> |
| 8.2.1      | Management of important environmental aspects in year 2018   | 113        |
| 8.2.2      | Environmental communication                                  | 116        |
| <b>8.3</b> | <b>Care for the public interest – social responsibility</b>  | <b>117</b> |
| 8.3.1      | Communication with local community and social responsibility | 117        |
| 8.3.2      | Communication with business partners                         | 117        |
| 8.3.3      | Communication with media                                     | 117        |
| 8.3.4      | Communication with users                                     | 118        |
| 8.3.5      | Communication with shareholders and financial public         | 118        |
| 8.3.6      | Communication with influential public                        | 118        |
| <b>9</b>   | <b>EVENTS AFTER THE BALANCE SHEET DATE</b>                   | <b>119</b> |

|   |            |
|---|------------|
| <b>B CONSOLIDATED FINANCIAL REPORT</b>  | <b>121</b> |
| <b>10 MANAGEMENT RESPONSIBILITY STATEMENT</b>   | <b>123</b> |
| <b>11 AUDITOR ´S REPORT</b>   | <b>124</b> |
| <b>12 FINANCIAL STATEMENT OF ELEKTRO GORENJSKA GROUP FOR BUSINESS YEAR ENDED AS AT 31. 12. 2018</b>                       | <b>126</b> |
| <b>12.1 Statement of financial position od Elektro Gorenjska Group as at 31. 12. 2018</b>                                 | <b>126</b> |
| <b>12.2 Profit or loss account of Elektro Gorenjska Group for business year ended as at 31. 12. 2018</b>                  | <b>128</b> |
| <b>12.3 Statement of other comprehensive income of Elektro Gorenjska Group for business year ended as at 31. 12. 2017</b> | <b>129</b> |
| <b>12.4 Cash flow statement of Elektro Gorenjska Group for business year ended as at 31. 12. 2018</b>                     | <b>130</b> |
| <b>12.5 Statement of changes in equity of Elektro Gorenjska Group for the business year ended as at 31. 12. 2018</b>      | <b>131</b> |
| <b>13 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT</b>   | <b>133</b> |
| <b>13.1 Reporting company and group structure</b>   | <b>133</b> |
| <b>13.2 Basis for compiling the consolidated financial statements</b>   | <b>133</b> |
| 13.2.1 Statement of compliance  | 133        |
| 13.2.2 Basis for measurement  | 133        |
| 13.2.3 Functional and presentation currency   | 133        |
| 13.2.4 Use of significant estimates and judgements  | 134        |
| 13.2.5 New accounting standards and interpretations not yet in force  | 135        |
| <b>13.3 Summary of significant accounting policies</b>  | <b>136</b> |
| 13.3.1 Basis for consolidation  | 136        |
| 13.3.2 Intangible assets  | 136        |
| 13.3.3 Tangible fixed assets  | 137        |
| 13.3.4 Investment property  | 138        |
| 13.3.5 Assets received and leased   | 139        |
| 13.3.6 Financial instruments  | 139        |
| 13.3.7 Stocks   | 141        |
| 13.3.8 Other assets   | 141        |
| 13.3.9 Capital  | 141        |
| 13.3.10 Provisions  | 142        |
| 13.3.11 Assets acquired free of charge  | 142        |
| 13.3.12 Other liabilities   | 143        |
| 13.3.13 Deferred tax liabilities and tax receivables and income tax   | 143        |
| 13.3.14 Revenues  | 143        |
| 13.3.15 Expenditure   | 143        |
| 13.3.16 Consolidated cash flow statement  | 144        |
| 13.3.17 Net profit per share  | 144        |
| <b>13.4 Determination of fair value</b>   | <b>144</b> |
| <b>14 NOTES TO THE STATEMENT OF FINANCIAL POSITION</b>  | <b>145</b> |
| <b>14.1 Intangible assets</b>   | <b>145</b> |
| <b>14.2 Tangible fixed assets</b>   | <b>146</b> |
| <b>14.3 Investment property</b>   | <b>149</b> |
| <b>14.4 Long-term financial investments</b>   | <b>152</b> |
| <b>14.5 Assets (group for disposal) for sale</b>  | <b>155</b> |
| <b>14.6 Stocks</b>  | <b>155</b> |
| <b>14.7 Short-term financial investments</b>  | <b>155</b> |

|       |  |     |
|-------|--|-----|
| 14.9  | Other current assets   | 157 |
| 14.10 | Cash and cash equivalents  | 157 |
| 14.11 | Capital  | 157 |
| 14.12 | Provisions   | 159 |
| 14.13 | Long-term liabilities  | 162 |
| 14.14 | Other long-term liabilities  | 164 |
| 14.15 | Deferred tax liability   | 166 |
| 14.16 | Short-term financial liabilities   | 166 |
| 14.17 | Short-term operating liabilities   | 166 |
| 14.18 | Other short-term liabilities   | 167 |
| 14.19 | Off-balance sheet records  | 167 |
| 15    | NOTES ON PROFIT AND LOSS ACCOUNT ITEMS   | 168 |
| 15.1  | Net sales revenues   | 168 |
| 15.2  | Capitalized own products and own services  | 168 |
| 15.3  | Other operating revenues   | 169 |
| 15.4  | Acquisition cos tof goods sold and cos tof material used                             | 169 |
| 15.5  | Costs of services  | 170 |
| 15.6  | Labour cost  | 171 |
| 15.7  | Write-offs   | 171 |
| 15.8  | Other operating expenses   | 172 |
| 15.9  | Financial expenses from financial liabilities  | 172 |
| 15.10 | Recognized profit or loss for investments valued using the equity                    | 172 |
| 15.11 | Income tax   | 173 |
| 15.12 | Deferred tax liabilities and deferred taxes  | 173 |
| 16    | NOTES ON OTHER COMPREHENSIVE INCOME ITEMS  | 174 |
| 17    | NOTES ON CASH FLOW ITEMS   | 175 |
| 18    | FAIR VALUES  | 176 |
| 19    | CAPITAL MANAGEMENT   | 178 |
| 20    | TRANSACTIONS WITH AFFILIATES   | 179 |
| 20.1  | Transactions with Group companies  | 179 |
| 20.2  | Transactions with the Republic of Slovenia   | 179 |
| 20.3  | Transactions with companies directly or indirectly owned by the Republic of Slovenia | 180 |
| 20.4  | Transactions with management and supervisory board                                   | 181 |
| 21    | AUDITING COSTS   | 183 |
| 22    | FINANCIAL RISKS  | 184 |
| 23    | EVENTS AFTER THE BALANCE SHEET DATE  | 189 |



## Index of Figures

|            |   |    |
|------------|---|----|
| Figure 1:  | Graphic image of the Group  | 30 |
| Figure 2:  | Elektro Gorenjska company identity card   | 31 |
| Figure 3:  | Gorenjske elektrarne controlled company identity card   | 32 |
| Figure 4:  | GEK Vzdrževanje controlled company identity card  | 33 |
| Figure 5:  | ECE associated company identity card  | 34 |
| Figure 6:  | Soenergetika associated company identity card   | 35 |
| Figure 7:  | Area of supply of electricity distribution companies  | 37 |
| Figure 8:  | Organization chart in Elektro Gorenjska Company   | 39 |
| Figure 9:  | Organization chart of Gorenjske elektrarne Company  | 42 |
| Figure 10: | Organization chart of GEK Vzdrževanje Company   | 42 |
| Figure 11: | Changes in the number of shareholders of Elektro Gorenjska Company from 31. 12. 2014 to 31. 12. 2018  | 43 |
| Figure 12: | Ownership structure of Elektro Gorenjska Company as of 31. 12. 2018 (in %)  | 43 |
| Figure 13: | Supply model  | 47 |
| Figure 14: | Organization of electricity supply in Slovenia  | 48 |
| Figure 15: | Areas of operation of electricity distribution companies in Slovenia  | 48 |
| Figure 16: | Integrated quality management system within EG, d. d. Company   | 54 |
| Figure 17: | Monitoring of iSVK operation within EG, d. d. Company   | 55 |
| Figure 18: | PDCA circle (the Demingo approach in the dynamics of all processes)   | 56 |
| Figure 19: | Risk severity assessment matrix   | 58 |
| Figure 20: | Identified risks according to their severity (share)  | 58 |
| Figure 21: | Identified risks according to their type (share)  | 58 |
| Figure 22: | Classification of identified risks in Elektro Gorenjska Company   | 59 |
| Figure 23: | Individual types of risks according to their severity   | 60 |
| Figure 24: | Dynamic impact of risks on the Company's operations according to their share of impact value (solvency aspect)  | 61 |
| Figure 25: | Share of dynamic impact of risks by individual types of risks   | 61 |
| Figure 26: | Share of dynamic impact of risks according to their severity  | 61 |
| Figure 27: | Layout of risks in Elektro Gorenjska, d. d. after the last assessment in 2019   | 62 |
| Figure 28: | Evaluation of risks   | 68 |
| Figure 29: | Share of supports in revenues   | 69 |
| Figure 30: | Production in MWh from year 2000 to 2018  | 70 |
| Figure 31: | Share of revenues from the sale of electricity to the wholesaler and final customers in the company's total revenues from revenues from the sale of electricity | 71 |
| Figure 32: | Electricity produced (in MWh) in period 2015–2018   | 74 |
| Figure 33: | Electricity produced (in MWh) in HE by months of year 2018  | 74 |
| Figure 34: | Electricity produced (in MWh) in FE and SPTE by months of year 2018   | 75 |
| Figure 35: | Share of individual power stations in total amount of electricity produced in year 2018   | 76 |
| Figure 36: | Changes in distributed quantities of electricity and GDP from year 2014 to year 2018  | 77 |
| Figure 37: | Number of final customers from 2016 to 2018   | 77 |
| Figure 38: | Maximum peak power from year 2016 to year 2018  | 77 |
| Figure 39: | SAIDI – Average time of duration of all unannounced long-term interruptions   | 79 |
| Figure 40: | SAIFI – Average number of all unannounced long-term interruptions   | 79 |
| Figure 41: | MAIFI in MAIFle – average number of all momentary interruptions   | 80 |
| Figure 42: | Share of losses in the network from year 2016 to year 2018  | 84 |
| Figure 43: | Parameter SAIDI for unplanned long-term interruptions (own causes) in the period 2014–2018  | 84 |
| Figure 44: | Parameter SAIFI for unplanned long-term interruptions (own causes) in the period 2014–2018  | 85 |
| Figure 45: | Share of the network in the cable design from 2016 to year 2018   | 87 |
| Figure 46: | Construction of new or renovation of old transformer stations and low-voltage cable conduits from year 2014 to year 2018  | 87 |
| Figure 47: | Share of measuring points in the remote measurement system in years 2016, 2017 and 2018   | 87 |
| Figure 48: | Sources of investment financing in 2018   | 88 |
| Figure 49: | Movement of regulated activity investments (CAPEX) and share of investments in regulated activity in net revenues from the sale of regulated activities         | 88 |
| Figure 50: | SAIFI – Average number of announced interruptions per customer in years   | 89 |

|   |     |
|---|-----|
| Figure 51: SAIDI – Average time of duration of announced interruptions per customer in years  | 89  |
| Figure 52: Changes in maintenance costs from year 2014 to year 2018 (in €)  | 89  |
| Figure 53: Information on the number of project documentation made from year 2014 to 2018   | 91  |
| Figure 54: Changes in balance sheet total in the period 2016–2018   | 93  |
| Figure 55: Structure of assets as of 31. 12. 2018 and 31. 12. 2017  | 94  |
| Figure 56: Structure of funds as of 31. 12. 2018 and 31. 12. 2017   | 94  |
| Figure 57: Composition of profit or loss (in €)   | 95  |
| Figure 58: Operating profit or loss (in €) in period 2016–2018  | 95  |
| Figure 59: Structure of operating expenditure   | 96  |
| Figure 60: Financial result in period 2016–2018 (in €)  | 96  |
| Figure 61: Net profit in period 2016–2018 (in €)  | 97  |
| Figure 62: Changes in the number of employees in the period from 2014 to 2018   | 101 |
| Figure 63: Shares of employees in Elektro Gorenjska Group according to age groups   | 102 |
| Figure 64: Share of new employees with at least high professional level of education at the time of employment  | 102 |
| Figure 65: Review of the scope of training in the number of days and number of trainings  | 104 |
| Figure 66: Average level of education in companies and Elektro Gorenjska Group in the period from 2014 to 2018  | 105 |
| Figure 67: Ideal organizational culture   | 107 |
| Figure 68: Commitment of employees in year 2018, compared with Slovenian and the best global organizations  | 108 |
| Figure 69: Average marks in the survey of employee satisfaction for Elektro Gorenjska Group   | 109 |
| Figure 70: Number of accidents at work  | 111 |
| Figure 71: Gravity of injuries  | 111 |
| Figure 72: Frequency of injuries  | 112 |
| Figure 73: Shares of electricity generation from renewable sources in Gorenjske elektrarne in the period 2005 – 2018 (%)  | 114 |
| Figure 74: Environmental savings of reduction of CO <sub>2</sub> emissions due to production of electricity in hydro power stations, solar power stations and co-generation units in the period 2005–2018 | 115 |
| Figure 75: Environmental saving of CO <sub>2</sub> emission reduction due to production of electricity in solar power stations in period 2005–2018  | 116 |
| Figure 76: Sponsorships and donations of the Group in year 2018   | 117 |

## Index of Tables

|   |     |
|---|-----|
| Table 1: Other important information on Elektro Gorenjska Company (in €)  | 31  |
| Table 2: Other important information on Gorenjske elektrarne Company (in €)   | 32  |
| Table 3: Other important information on GEK Vzdrževanje Company (in €)  | 33  |
| Table 4: Other important information on ECE Company (in €)  | 34  |
| Table 5: Other important information on SOENERGETIKA Company (in €)   | 35  |
| Table 6: Main technical data on electric power distribution network   | 38  |
| Table 7: Main technical data of the production units  | 38  |
| Table 8: Share owners with capital share exceeding 1 percent as of 31. 12. 2018                                       | 44  |
| Table 9: Data and economic trends forecasts   | 46  |
| Table 10: Unannounced long-term interruptions according to type of network in year 2018                               | 78  |
| Table 11: Announced long-term interruptions in year 2018  | 78  |
| Table 12: Number of momentary interruptions per customer in year 2018   | 79  |
| Table 13: Consistency of power quality parameters with the SIST EN 50160 standard on high voltage level for year 2018 | 81  |
| Table 14: Commercial quality parameters for year 2018   | 83  |
| Table 15: Change in cash and cash equivalents   | 97  |
| Table 16: Fluctuation rate in Elektro Gorenjska Group   | 103 |
| Table 17: Information on disabled employees   | 103 |
| Table 18: Education and trainings in the period from 2016 to 2018   | 104 |
| Table 19: Educational structure of employees in Elektro Gorenjska Group as at 31. 12. 2018                            | 105 |

## List of Abbreviations

|                 |   |              |   |
|-----------------|---|--------------|---|
| <b>AGENCIJA</b> | Agency of Republic of Slovenia for Energy   | <b>kW</b>    | Kilowatt hour                               |
| <b>AMI</b>      | Advanced Meter Infrastructure   | <b>MHE</b>   | Small hydroelectric power station           |
| <b>BDP</b>      | Gross domestic product  | <b>MM</b>    | Measuring point                             |
| <b>BTP</b>      | Technical data base   | <b>MWh</b>   | Megawatt hour                               |
| <b>CIM</b>      | Common information model  | <b>NN</b>    | Low voltage                                 |
| <b>DCV</b>      | Distribution management centre  | <b>NNO</b>   | Low-voltage network                         |
| <b>DDV</b>      | Value Added Tax   | <b>OOS</b>   | Tangible fixed assets                       |
| <b>DDPO</b>     | Corporate Income Tax  | <b>OS</b>    | Fixed assets                                |
| <b>DO</b>       | Distribution network  | <b>OT</b>    | Operational Technology                      |
| <b>DPN</b>      | Live work   | <b>OVE</b>   | Renewable energy sources                    |
| <b>DA</b>       | Diesel generator  | <b>RTP</b>   | Transformer substation                      |
| <b>DV</b>       | Overhead power line   | <b>SAIDI</b> | System Average Interruption Duration Index  |
| <b>EE</b>       | Electricity   | <b>SAIFI</b> | System Average Interruption Frequency Index |
| <b>EURIBOR</b>  | Euro Interbank Offered Rate is an interbank offered rate for deposits in Euro, which is formed on the European interbank market | <b>SDH</b>   | Slovenian Sovereign Holding                 |
| <b>EZ-1</b>     | Energy act  | <b>SN</b>    | Medium voltage                              |
| <b>FE</b>       | Photovoltaic power station  | <b>SODO</b>  | Distribution network system operator        |
| <b>GJS SODO</b> | Public service obligation relating to the activity of the electricity distribution system operator                              | <b>SPTE</b>  | Cogeneration of heat energy                 |
| <b>HE</b>       | Hydroelectric power station   | <b>TP</b>    | Transformer station                         |
| <b>IKT</b>      | Information and communication technology  | <b>TR</b>    | Transformer                                 |
| <b>IT</b>       | Information technology  | <b>VN</b>    | High voltage                                |
| <b>KBV</b>      | Cable conduit   | <b>VZD</b>   | Health and safety at work                   |
|                 |   | <b>ZGD-1</b> | Companies act                               |

# Elektro Gorenjska Group set up new foundations in year 2018

Changes are a constant in life and are inevitable. In fact, changes are absolutely necessary, as without them we would stagnate in place. We often meet them in good faith in order to get something new, fresh and better. To ensure progress and growth, the company must keep pace with trends, take advantage of new opportunities, and introduce changes.

Strategy of Elektro Gorenjska Group from 2018 to 2022 is based on a greater connection between the companies Elektro Gorenjska, Gorenjske elektrarne and GEK Vzdrževanje, and consequently the exploitation of the synergistic effects that companies can create among themselves.

An important step in the implementation of the new strategy was the renewal of the visual image of the companies in the Elektro Gorenjska Group. With its help, we have put the companies in the Group on a single and common denominator.

Visual image of the company is important because with it the company expresses its identity, mission, values and vision. Thus, the logo of the company, in addition to the name and slogan, is the basic tool of the whole system of visual image of the company or the most effective tool in its communication.

## Evolution

Symbol "Elektro Gorenjska" is derived from the hysteresis curve or hysteresis loop of ferromagnetics, which provides magnetic alternating current magnetization states. All variants of characters that have been formed over the years maintain a hysteresis curve in the role of the main visual image carrier.



1963 – 1981



1981 – 2004



2004 – 2019



2019 –

## Who is Elektro Gorenjska Group?

Renewed image of the Elektro Gorenjska Group makes it easier to understand the interconnectedness of companies within the Group and builds a better visibility of the various activities performed by the companies in the Elektro Gorenjska Group.

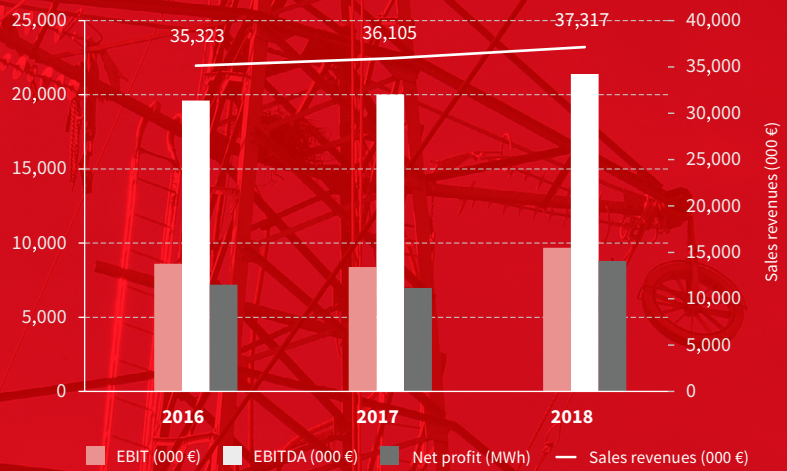


New logo of the Elektro Gorenjska Group preserves the past, stability and reliability. It demonstrates the vision of the Group, dictates new trends and interconnections of companies. It respects immateriality of electricity (the basic move of the letter E and G is invisible). Hysteresis literally connects the letter E (Elektro) with G (Gorenjska). Symbol rounds up the basic message completely:

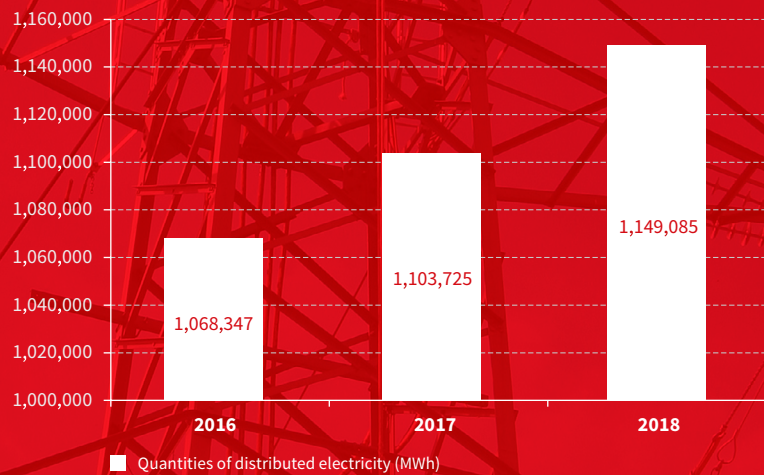
**we are the Elektro Gorenjska Group; we connect the Gorenjska region with electricity.**

# Achievements of Elektro Gorenjska Group

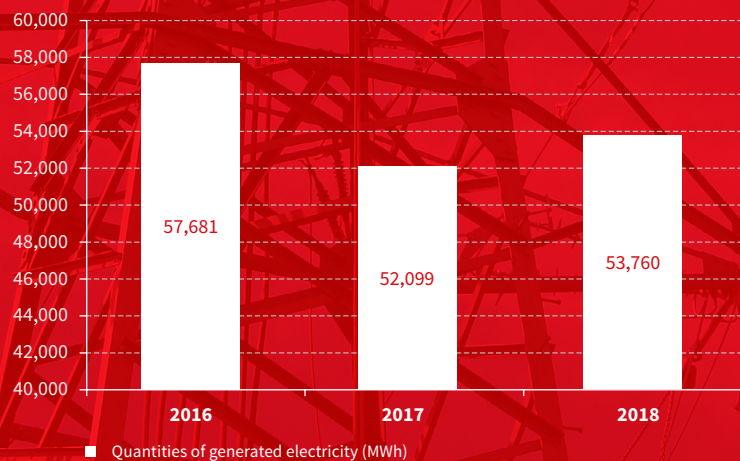
**8,796,285 €**  
of realized Net profit



**1,149 GWh**  
of distributed electricity



**54 GWh**  
of electricity generated



# Important information on operation of Elektro Gorenjska Group

|  | 2016    | 2017    | 2018    |
|--|---------|---------|---------|
| <b>IMPORTANT FINANCIAL INFORMATION</b> |         |         |         |
| Sales revenues (000 €)                 | 35,323  | 36,105  | 37,317  |
| EBIT (000 €)                           | 8,601   | 8,384   | 9,682   |
| EBITDA (000 €)                         | 19,611  | 20,016  | 21,403  |
| Pre-tax profit (000 €)                 | 8,150   | 7,998   | 9,954   |
| Net profit (000 €)                     | 7,194   | 6,975   | 8,796   |
| Value added (000 €)                    | 31,960  | 32,956  | 34,490  |
| Assets (000 €)                         | 222,131 | 232,099 | 238,793 |
| Capital (000 €)                        | 149,634 | 155,011 | 161,338 |

|  |      |      |      |
|--|------|------|------|
| <b>SIGNIFICANT INDICATORS</b>            |      |      |      |
| Current ratio                            | 1.0  | 1.3  | 1.4  |
| Profitability rate of revenue (%)        | 19.4 | 18.8 | 22.3 |
| Share of labour costs in value added (%) | 38.6 | 39.3 | 37.9 |
| Return on assets (ROA) in %              | 3.3  | 3.1  | 3.7  |
| Return on equity (ROE) in %              | 4.9  | 4.6  | 5,6  |

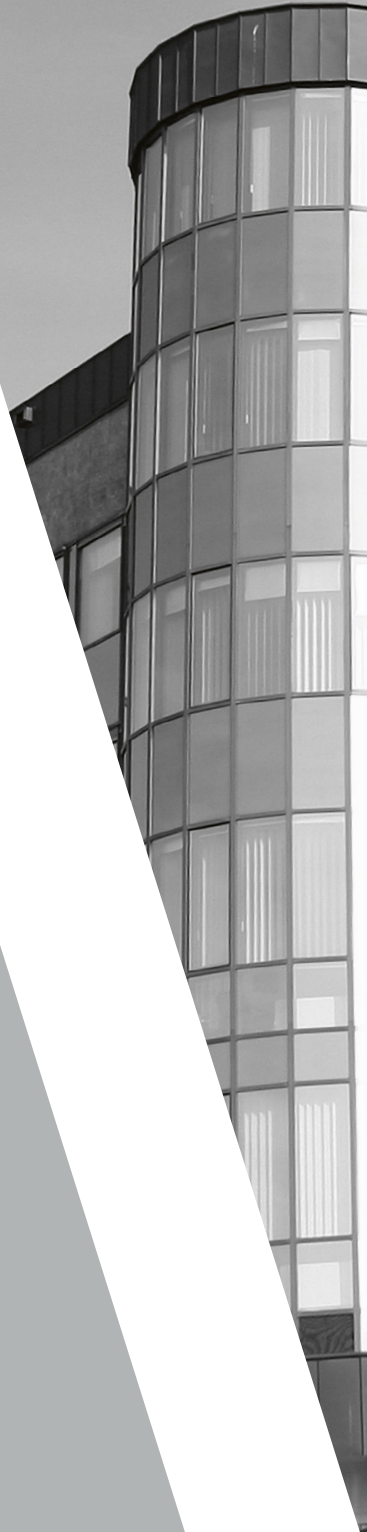
|   |           |           |           |
|---|-----------|-----------|-----------|
| <b>NETWORK, PRODUCTION</b>  |           |           |           |
| SAIDI (average duration time of unplanned interruptions longer than 3 min/customer) | 15        | 20        | 26        |
| SAIFI (average number of unplanned interruptions longer than 3 min/customer)        | 0.6       | 0.7       | 0.9       |
| Number of customers connected to the distribution network                           | 88,911    | 89,361    | 89,963    |
| Quantities of distributed electricity (MWh)   | 1,068,347 | 1,103,725 | 1,149,085 |
| Quantities of generated electricity (MWh)   | 57,681    | 52,099    | 53,760    |

|   |            |            |            |
|---|------------|------------|------------|
| <b>SHARE DATA</b>                               |            |            |            |
| Total number of shares                          | 17,286,376 | 17,286,376 | 17,286,376 |
| Net profit per share (€)                        | 0.4        | 0.4        | 0.5        |
| Book value of share (equity/No. of shares) in € | 8.7        | 9.0        | 9.0        |

|  |      |      |      |
|--|------|------|------|
| <b>EMPLOYEES</b>                                   |      |      |      |
| Costs of education per employee (€)                | 322  | 498  | 451  |
| Share of employees that attended the trainings (%) | 90.6 | 81.1 | 88.4 |
| Average level of education                         | 6.2  | 6.2  | 6.2  |
| Number of employees at the end of the year         | 307  | 308  | 311  |
| Number of employees (average)                      | 307  | 307  | 309  |

---

# **Consolidated Business Report**









# 1 Overview of significant events in Elektro Gorenjska Group in year 2018

## ○ JANUARY

- › In Elektro Gorenjska, a new organizational unit of Informatics Services started operating.
- › Elektro Gorenjska received the recognition of the Information Commissioner for obtaining a certificate according to the ISO / IEC 27001: 2013 Information Security Management Standard and the related efforts to protect personal data.
- › Elektro Gorenjska Group established communication with its users on the social network of Facebook.
- › Gorenjske elektrarne as a contractor, together with Preddvor municipality, opened a new charging station for electric vehicles.
- › Gorenjske elektrarne within the framework of the European project e-MOTICON / e-TRAIL - JN1 / 2017, together with the Regional Development Agency BSC Kranj, organized a study visit of project partners and stakeholders, where they visited the rear office and its assistance in managing e-charging stations.

## ○ FEBRUARY

- › Representatives of Elektro Gorenjska took part in the second meeting of partners in project TDX-ASSIST in Paris.
- › Elektro Gorenjska received an acknowledgement from the Municipality of Jezersko for quick and selfless help in the time of a natural disaster in December 2017.
- › First aid training takes place in Elektro Gorenjska, where the participants get acquainted with the general work of first aid, the most frequent diseases and measures, injuries and the care of the injured person and the use of ADR.

## ○ MARCH

- › Representatives of Elektro Gorenjska took part in the first meeting of research and development project EASY RES in Thessaloniki.
- › For its contribution to business excellence in Slovenia on the occasion of the 20th anniversary of PRSPO, presented with its own example and reputation, Elektro Gorenjska, as the winner of the Business Excellence Award in the Republic of Slovenia in 2012, received an acknowledgment.
- › In order to strengthen international cooperation, including the exchange of good practices, representatives of Elektro Gorenjska in Klagenfurt attended meetings with representatives of KNG - Kärnten Netz – Kelag.

- › Gorenjske elektrarne signed a contract on the provision of services by the energy manager of all public buildings in the municipality of Radovljica.

## ○ APRIL

- › The 4th Strategic Conference of Electricity Distribution Companies in Slovenia was held in Ljubljana, organized by the Economic Interest Grouping of Electricity Distribution.
- › Companies in the Elektro Gorenjska Group organized a meeting with journalists presenting business operations in 2017 and key investment projects and activities in which they participate (e-mobility, sustainable development, energy management, etc.).

## ○ MAY

- › At the 9th regular session, the Supervisory Board of Elektro Gorenjska appointed a new Chairman of the Management Board of Elektro Gorenjska, who became dr. Ivan Šmon, MBA. His term of office of four years entered into force from 15 June 2018 to 14 June 2022.
- › Non-governmental organization Ekvilib Inštitut gave Elektro Gorenjska a special acknowledgment for spreading the culture of a family-friendly company in Slovenia.
- › Representatives of Elektro Gorenjska presented to the students of the Kranj School Centre the distribution management center, energy facility Primoskovo RTP and development projects.
- › Representatives of Elektro Gorenjska attended the regular annual CIRED conference in Croatia, where they presented the concept of performing live work in Elektro Gorenjska and how to put effective implementation into practice.
- › Storms caused damage to the electricity network of Elektro Gorenjska and energy facilities of Gorenjske elektrarne.
- › With the introduction of GDPR, the Elektro Gorenjska Group coordinated all segments of the organization's activities technically and organisationally and provided for the preparation of the new Information Security Policy.
- › Elektro Gorenjska Group adopted the Rules of Ethics.

## ◉ JUNE

- › Radovljica transformer station was successfully connected to the distribution system of Elektro Gorenjska.
- › Representatives of the Croatian electricity distribution company HEP ODS and their educational centre HEP NOC, at the headquarters of Elektro Gorenjska, observed an example of good business practice in the field of carrying out live work in the company.
- › Within the cycling system KRskOLESOM, at the parking lot at the headquarters of the company Elektro Gorenjska in Kranj, a new station was set up where users can borrow bicycles.
- › Representatives of Gorenjske elektrarne participated in traditional energy workshops at the primary school Matija Valjavec in Preddvor.
- › Municipality of Kranj and consortium of companies Petrol, d. d., Domplan, d. d., and Gorenjske elektrarne, d. o. o., signed a contract with which a public-private partnership was concluded for the implementation of the energy renovation of buildings owned by the Municipality of Kranj.

## ◉ JULY

- › At the company's seat, the 24th Annual General Meeting of Shareholders of Elektro Gorenjska was held, at which shareholders were acquainted with the audited annual report of the company Elektro Gorenjska for 2017 and the audited consolidated annual report of the Elektro Gorenjska Group for 2017. They adopted a resolution on the use of the total accumulated profit, the Management Board and the Supervisory Board were granted a discharge for the work performed in the previous year, and they also appointed a certified auditor for the financial year 2018.
- › Elektro Gorenjska issued the Report on Environmental Management and the Report on Safety and Health at Work for 2017.
- › Elektro Gorenjska participated in the renewal and upgrading of the single-system 110 kV transmission line Pivka-ENP Pivka RTP, whose owner and operator is Elektro Primorska.
- › Gorenjske elektrarne received a decision approving the preliminary design of the renovation of the energy facility of Sava Kranj from the Energy Agency.

## ◉ AUGUST

- › Elektro Gorenjska officially submitted to its purpose the bicycle station KRskOLESOM to the Municipality of Kranj.
- › Elektro Gorenjska participated in various development projects. Within the framework of the Story project, the electricity storage at the TP Suha near Predoslje was successfully installed.
- › Gorenjske elektrarne began with the comprehensive energy rehabilitation of Najdihojca kindergarten.
- › Gorenjske elektrarne undertook a larger and more extensive repair of the HE Zvirče facility, as well as a complete turbine overhaul.

## ◉ SEPTEMBER

- › Elektro Gorenjska set up a new telecommunication facility in Lajnar on Soriška planina.
- › Representatives of Elektro Gorenjska took part in the third meeting of partners in development project TDX-ASSIST in Germany.
- › Representatives of Elektro Gorenjska attended the 5th international conference of live working in the Czech Republic.

## ◉ OCTOBER

- › Elektro Gorenjska on 110 and 20 kilovolt transmission line RTP Labore - RTP Primskovo completed the replacement of conductors and hanging equipment.
- › In Elektro Gorenjska an external audit of quality management systems took place: regular assessment ISO 9001:2015, BS OHSAS 18001:2007, ISO/IEC 27001:2013 and re-assessment ISO 14001:2015.
- › Elektro Gorenjska officially submitted to its purpose the energy facility RTP Radovljica with a new 110 kilovolt GIS switchyard.
- › On the Elektro Gorenjska electricity distribution network strong winds and precipitations caused problems in the area of Tržič, more precisely in Jelendol and Lom. High waters also caused damage to hydroelectric power plants of Gorenjske elektrarne in the mentioned area and consequently loss of production on damaged facilities.

## NOVEMBER

- › In the framework of the 4th conference on maintenance in electricity, held in Nova Gorica, Elektro Gorenjska participated with the contribution regarding the choice of protective equipment for protecting installers from electric arcs, especially when performing maintenance work under voltage (DPN).
- › At the 20th anniversary of the SCALAR system, Elektro Gorenjska presented a user experience with a system in the field of electricity distribution.
- › In the area of energy contracting, Gorenjske elektrarne together with consortium partners Petrol and Domplan submitted an offer for the public tender of the Municipality of Kranj, which included a comprehensive energy renovation of school facilities in Zlato polje in Kranj.
- › Elektro Gorenjska entered the e-mobility path with two Zoe electric vehicles.

## DECEMBER

- › At the end of the year, Elektro Gorenjska and Gorenjske elektrarne together with their business partners again allocated funds to the NEODVISEN.SI program. Together they raised more than 9,000 euros.
- › Companies in Elektro Gorenjska Group introduced a new and more uniform corporate graphic identity.
- › Gorenjske elektrarne with company Gajles, d. o. o., signed a contract for the purchase of a 80 % stake in the wood biomass boiler in Tržič. With the new investment, the company is expanding its portfolio of production sources.



## 2 Management report of the parent company



### Dear shareholders, investors and partners!

Year 2018 was extremely dynamic, as we carried out quite some significant projects. In the middle of the year, the mandate expired to the Chairman of the Board mag. Bojan Luskovac, I took over the management of the company as the Chairman of the Board for the next four years on June 15, 2018. My first task in 2018 was the adoption of the new strategy of the Elektro Gorenjska Group for the period from 2018 to 2022, which was approved by the Supervisory Board in August 2018.

New strategy is based on ensuring equal and reliable access with a superior user experience. It takes into account the starting points with the goals and expectations of the majority owner, SDH, d. d., the baseline of the new upcoming European energy legislation and the baseline of a new regulatory framework for the period 2019-2021. Strategy places more emphasis on the market for flexibility services and, consequently, on the synergies generated by the companies in the Elektro Gorenjska Group (Elektro Gorenjska, Gorenjske elektrarne and GEK Vzdrževanje). Fact is that the regulation, which will apply from 2019 to 2021, reduces the company's return on assets and thus revenues by approximately 3 % on an annual level. At the same time, European regulation will introduce the so called market of flexibility services, in which the Elektro Gorenjska Group as a whole can be present, namely Elektro Gorenjska on the demand side, and the Gorenjske elektrarne on the supply side. New strategy places more emphasis on the areas of innovation and market presence – engineering.

In the second half of the year, we implemented important investment projects that will contribute to the development of municipalities in Gorenjska region. Among them, I would like to point out the construction of a new distribution transformer station and a new 110 kV gas-insulated GIS switchyard in Radovljica, construction of the Bled distribution station and numerous cabling and upgrades of the distribution network in Gorenjska region.

### Key goals that were fulfilled by the companies in the Elektro Gorenjska Group in 2018 are:

#### 1. We have completed investment projects that are crucial for the further development of the region

Elektro Gorenjska maintains 5,844 km of the electricity network. With planned investment and optimal planning, and above all with the aim of providing both the electricity infrastructure that will enable the further development of the Gorenjska region and the connection of new users, we completed more than 350 investment projects in the electricity infrastructure in 2018.

#### 2. Elektro Gorenjska has more than 76 % of the network in underground cable mode

By the end of 2018, the share of the medium-voltage network underground was 65 % and the share of the low-voltage network was 85 %. In total, Elektro Gorenjska has the largest share of the underground cable network in Slovenia; it amounts to 76 %. Knowing that electricity consumption is increasing, we are upgrading and building a robust and stable distribution network that will enable connection of new electricity consumers.

#### 3. We continued with the replacement of advanced measurement systems

In line with the plans, we continued with the replacement of advanced measuring equipment for our end users. We will achieve our aim that in 2021 all users in the Gorenjska region are equipped with advanced measuring systems. By the end of 2018, more than half of users in Gorenjska region had been included in remote reading.

#### 4. By participating in research and development projects, we confirm our leading role in introducing new technologies

Through active participation in international research and development projects, the company persistently builds the reputation of an innovative and reliable partner. Participation in projects also enables us to successfully integrate state-of-the-art technology systems that provide appropriate demonstration environments, important for the implementation and evaluation of new concepts of managing and operating distribution networks. Company currently participates in three projects: STORY (Added value of STORage in distribution sYstems), TDx-ASSIST (Coordination of Transmission and Distribution data eXchanges for renewables integration in the European marketplace through Advanced, Scalable and Secure ICT Systems and Tools) and EASY-RES (Enable Ancillary Services By Renewable Energy Sources).

## **5. We operated in accordance with quality and business excellence policies**

In addition to the quality standards, Elektro Gorenjska has been using the model of business excellence since 2007, which provides the company with an opportunity for self-assessment and acquisition of an objective opinion, which in turn enables the creation of opportunities and the implementation of action plans for improvements in the company.

## **6. We have created a new corporate graphic image of Elektro Gorenjska Group**

Strategy of Elektro Gorenjska Group for years 2018 to 2022 is based on the greater connection between the companies Elektro Gorenjska, Gorenjske elektrarne and GEK Vzdrževanje, and the use of synergic effects. With the goal of positioning the companies in the Elektro Gorenjska Group as a recognizable player, representing one of the most important and credible pillars of sustainable development (at least) in the Gorenjska region, we approached the creation of a uniform corporate identity image of the companies in the Elektro Gorenjska Group, and we also created an independent image of the Group Elektro Gorenjska. With its help, the companies in the Elektro Gorenjska Group were placed on a common denominator.

New logo illustrates the unity of all the companies in the Elektro Gorenjska Group. Symbol preserves the past, stability and reliability. It demonstrates the vision of the Group, dictates new trends and connections of companies among themselves. Respects insolubility of electricity (the basic stroke of letters E and G is not seen). Hysteresis literally connects the letter E (Elektro) to G (Gorenjska). Symbol seamlessly completes the basic message: We are Elektro Gorenjska Group, we connect Gorenjska region through electricity.

## **7. We work with local communities in various fields**

In Elektro Gorenjska Group, we support to our capacities the development of young and promising sports groups, we support the culture and art of different generations, with donations we contribute to better conditions for education and transfer of knowledge into practice. We don't turn a deaf ear to humanitarian projects and helping different societies. We work with local communities in the field of investment projects, which ensure the connection of our region and economic development.

## **Business results**

In year 2018, Elektro Gorenjska Group generated 37.3 million euro of net sales revenues, while the net profit amounted to 8.8 million euro. In comparison with 2017, electricity consumption increased by as much as 4.1 %, in total we provided 1,149.1 GWh of electricity to users in Gorenjska region. Group allocated 18.5 million € for investment projects.

## **Group goals in year 2019**

In year 2019, for the most optimal operation and maintenance of the network, the company's efforts will be focused on obtaining its own concession for performing electricity distribution activities. By granting local concessions to individual power distribution companies, the local communities will have a greater influence on the development of activities, thus further and even better listening to the needs of the users of the distribution network. At the same time, in managing the distribution network in the event of major natural disasters and averages, involvement of employees in the local environment and their commitment to the company that manages devices or network are crucial, as these are prerequisites for the rapid and high quality removal of the damage.

In Elektro Gorenjska Group for the next four-year period we set high business goals and clear developmental orientations that are presented in the strategy of Elektro Gorenjska Group from 2018 to 2022. We want to provide users with reliable and high-quality electricity infrastructure that will to the best of our ability resist various weather influences we have witnessed in recent years. With even greater emphasis, in the most vulnerable areas, we will build networks in underground cable form, which cause higher investment costs to the company, while on the other hand, they allow for greater sustainability in the event of damage.

Vision by 2022 obliges us that Elektro Gorenjska Group will be a modern, innovative and publicly recognized key player in the development of the flexibility market. In parallel with the increasing dynamics of deployment and incorporation of new technologies, it will ensure 100% connectivity of all network users. In addition to the highest quality electricity supply in Slovenia, it will also provide customers with a modern and comprehensive user experience. It will create clean energy for sustainable development. All participants in the value chain will represent a quality, trusted and desirable business partner. It will quickly and efficiently adapt to the contemporary challenges, trends and various external factors. In addition, it will increase its presence in the market environment, continuously improving its economic indicators and reducing business, development, security, regulatory and environmental risks.

## Success is built by people and their values

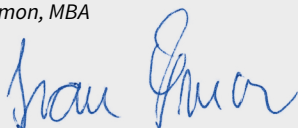
In 2019, in the companies in the Group we will actively continue with the organizational culture management project, whose key objective is to increase the level of commitment of employees in the companies of Elektro Gorenjska Group. As the ambassador of corporate integrity we will spread the awareness of the importance of doing business in accordance with legislation and ethical standards as one of the basic principles of socially responsible activity in the Slovenian economy in general.

By devotion to work we can recognize and understand the needs of the environment in which we operate. In order to carry out activities within an individual company in the Elektro Gorenjska Group, an appropriate dialogue with the local communities is crucial, through which we ensure the integral and orderly development of the electricity infrastructure in the Gorenjska region. We believe that the focus on sustainable development, demonstration of social responsibility and active protection of the environment are the foundations of success and penetrability of each company.

Dear investors, shareholders and partners, together with our colleagues, we will continue to take care of the growth and successful development of the companies in Elektro Gorenjska Group in Gorenjska region. In doing so, we want your further support and creative cooperation.

Together with all employees, I would like to thank you for your trust in our company.

Chairman of the Board  
*dr. Ivan Šmon, MBA*



## 2.1 Corporate governance statement

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

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

In year 2018 companies in the Group have not derogated essentially from the principles, procedures and criteria imposed by the stated SDH documents. Parent company declares that it does not respect code provisions or recommendations in regulating issues that are regulated by the law or that the company regulates in accordance with the provisions of the statute in different way than defined by the codes, or in cases when non-statutory conducts are not prescribed in its acts or when conducts are not determined as legal obligation.

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

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

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

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

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

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

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

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

Control mechanisms referring to individual fields of operation are presented in more detail in chapter *4 Management and quality systems*. We believe that the current system of internal controls enabled successful operation of Elektro Gorenjska Group, functioning in accordance with the rules and fair and transparent financial reporting.

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

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

## 2.2 Supervisory Board Report

### Supervisory Board Report on verification of the Annual report of Elektro Gorenjska, d. d., and Consolidated Annual Report of Elektro Gorenjska Group for business year 2018 according to Article 282 ZGD-1

#### 1. Supervisory board operation in year 2018

In 2018, the supervisory board continued with its regular and settled supervision of the company's operations. In addition to regular supervision, it continued to operate in accordance with the new practices introduced, for which it successfully worked throughout the mandate, but still introduced other innovations. Most important task, which the supervisory board did in 2018, was the appointment of the new chairman of the board.

In year 2018, the supervisory board met at fourteen regular sessions and two correspondence session, where it adopted a total of 106 decisions. In their decisions, all members of the supervisory board acted independently and in accordance with the statements given and transparently published on the company's website. They prepared appropriately on the topics of the individual sessions, gave constructive proposals and comments, as well as adopted decisions in accordance with their respective responsibilities. Members of the supervisory board carried out their work diligently and responsibly with the duty of careful and conscientious management, in accordance with the fundamental function of supervision over the management of the companies and based on the competences as defined mainly in the Companies Act (ZGD-1), statute of the company and rules of the supervisory board. In its work, the supervisory board members acted in accordance with the Recommendations and Expectations of the Slovenian Sovereign Holding and Corporate Governance Code for Companies with State capital investment. Management board commented on the fulfilment of the above acts and recommendations in the statement on corporate governance, which is a component part of the annual report.

Successful implementation of good supervisory practices was successfully continued and upgraded, in addition to regular monitoring of the management's reports on the implementation of strategic projects, it paid a great deal of attention to the supervision of investment projects and the implementation of public procurement procedures, on the basis of which it introduced regular half-yearly comprehensive reporting on investments. With this, it will be able to act more swiftly, in accordance with its competences, if necessary.

Supervisory Board is pleased to note that the company actively formulates, changes its strategy, and adapts to market conditions, which are also the consequences of changes in the performance and emphasis of content at the SB. In 2018, the supervisory board proactively participated in the adoption of the new strategy, since the new strategy was discussed at three meetings of the supervisory board in the period from April to August 2018. First, it was discussed in the form of a workshop at the 8th meeting on April 12 2018, when the draft of a new strategy was presented under the moderator of an external expert who was involved in the preparation. At the 11th regular session of the supervisory board on 13 June 2018, the SB was briefed on the draft strategy and the new strategic projects. Based on the discussion, the SB proposed to the management board specific initiatives and proposals, which were then included in the final content of the strategy. In accordance with its competencies from the Statute, at its 12th regular meeting on August 9, 2018, the supervisory board adopted the final Strategy of the Elektro Gorenjska Group for the period 2018-2022, which further increased its operations in terms of corporate governance.

In the year 2018, the supervisory board also changed the way the supervisory board worked, as it introduced the digital operations of the supervisory board in accordance with the new guidelines. The so-called "paper transactions" were abolished and materials are now available for the supervisory board members through the e-Supervisory Board application, using individual passwords. At the supervisory board, the digital business of the supervisory board was presented, the company provided technical support for monitoring at sessions, and the introduction into the work with the application was carried out. In the month of October 2018, after the introductory period, the amendments and supplements to the Rules of Procedure on the work of the Supervisory Board were finally adopted, so this is now a regular practice.

Changes are also visible in other areas, and the supervisory board actively participates. In addition to regular operations, the supervisory board also monitored quarterly the state of nine strategic projects from the company's strategy for the period 2016-2020, and after the adoption of the Strategy of companies in the EG Group in August, it has already begun monitoring eight new strategic projects.

In the year 2018, within the reporting of companies in the Group we implemented also the reporting of Gorenjske elektrarne, d. o. o., and GEK Vzdrževanje, d. o. o. Supervisory board monitors operations in subsidiaries in accordance with its respective competences and good corporate governance practice.



## 2. Composition of the supervisory board in year 2018

In the year 2018, the supervisory board changed its composition slightly due to the statement of resignation of one member, employee representative. All SB members, representatives of the capital, operated throughout the year. At the 12th regular session of the SB on August 9, 2018, a member mag. Dominik Ovniček informed the other members of the supervisory board and the management that he will make a resignation statement due to the incompatibility of the function under Article 58 of the Rules of Procedure of the SB EG, d. d. His term of office ended on August 14, 2018, when he delivered the resignation. In his place, the Workers' Council appointed Borut Jereb, who took office on 19 September 2018. Term of office of both members, appointed by employees representatives in the SB, expires on August 8, 2019.

Supervisory board operated in the following composition in year 2018:



**mag. Samo Logar,**  
chairman of the supervisory board,

**mag. Tedo Djekanović,**  
deputy chairman of the supervisory board,

**Andrej Koprivec,**  
member,

**Franjo Curanović,**  
member,

**mag. Dominik Ovniček**  
(representative of employees, from 1. 1. 2018 to 14. 8. 2018),

**Borut Jereb**  
(representative of employees, from 19. 9. 2018 to 31. 12. 2018)

**Iztok Štular,**  
member (representative of employees).

Members of the supervisory board with their knowledge and experience complement each other, since different professional and theoretical competences are represented. Supervisory board is composed in such a way that members have all the necessary professional competences for effective control over the company's operations. Contribution of both employees' representatives, who show great commitment in following the sessions of the supervisory board and supervisory board committees, should be emphasized, and based on good knowledge of the company, they contribute to efficient supervision of the business. Continuity was also ensured in the

event of the resignation of a member of the SB representing the workers, since both SB members representing the workers were not present only at one of the SBs meetings (at the time of election of a new SB member in the workers' council).

## 3. Verification of company's operations and work of the management in year 2018

During the year, the supervisory board verified operations of the company mainly based on the quarterly reports from the company's management and obtained data on operations (monthly evaluations of operations of Group companies).

Members of the supervisory board mainly focused on the following:

- › procedure for appointing a new management, following the agreed timetable and on the basis of pre-defined stages of the procedure,
- › active participation in the adoption of a new strategy for all companies in the Group,
- › consideration of the new Act on network charge and its issues,
- › regular business of the companies, mainly the parent company and companies in the Elektro Gorenjska Group, Gorenjske elektrarne, d. o. o., and GEK Vzdrževanje, d. o. o., with an emphasis on the current monitoring of business and financial reporting,
- › monitoring the operations of company ECE, d. o. o., as a major financial investment, which, due to its activity, is also interesting for further consolidation in the field of market and production activities, with which the SB was also acquainted,
- › monitoring of the implementation of the general meeting decisions, in particular with regard to the exercise of an authorization to the management board for the purchase of own shares,
- › monitoring larger investment projects,
- › monitoring of strategic projects according to the strategy for period 2016–2020,
- › control over contracts, which need the supervisory board consent according to the provisions of the statute,
- › monitoring public procurement procedures,
- › forming proposals for the decisions at the regular general meeting and
- › monitoring risks.

According to the stated areas of work, it is especially necessary to highlight the following activities of the supervisory board:

- › Supervisory board regularly monitored operations of the Group companies, discussed quarterly information and evaluations on Group companies' operations, and was devoted to realization of the business plan for year 2017.
- › In accordance with the ZGD-1 supervisory board verified and approved the audited annual report of Elektro Gorenjska, d. d., and audited consolidated annual report of Elektro Gorenjska Group for year 2017, and composed a written report of the supervisory board on verification and approval of the stated reports for business year 2017.
- › In accordance with the changes in the statute, the supervisory board participated in preparing the proposals for decisions of the 24th regular general meeting session, which took place on July 5 2018. Supervisory board proposed to the general meeting to approve the work of the chairman of the management board for the financial year 2017, and grant a discharge. After the selection procedure of the audit committee it proposed the general meeting a company BDO Revizija, BDO Revizija, d. o. o., Cesta v Mestni log 1, 1000 Ljubljana for the implementation of the authorized audit in the 2018.
- › Until the adoption of a new strategy, the supervisory board regularly monitored all nine strategic projects from the Strategy of Elektro Gorenjska, d. d., as the parent company in the Elektro Gorenjska Group for the period 2016-2020. Following the adoption of the new Strategy of the Elektro Gorenjska Group for the period 2018-2022, which concluded most of the strategic projects from the previous strategy, as well as continued quarterly supervision of new strategic projects.
- › Supervisory board regularly took note of reports on the review of individual projects in the company and, in particular, in the field of investment projects, recommended to the management board to improve its project management, and to introduce a new reporting practice (twice a year, it is obliged to report on the status of all projects in the business plan, according to the balance as at May 31 and October 31).
- › Supervisory board was regularly informed about the operations of the Group companies and the operations of ECE, d. o. o., which represents a major financial investment.
- › Supervisory board continued with the practice of acquainting the supervisory board with public procurement

matters, already at the time of the introduction of the PP (in the form of information), to which the supervisory board, in accordance with the statute, gave its consent. In addition, it quarterly checked reports on public procurement procedures implemented (including those that did not require the consent of the SB). It also welcomes the new practice in the field of public procurement, to which the company has acceded - joining the PP with other electricity distributions.

- › In accordance with the statute of the company, the supervisory board gave consent to four legal transactions above the value of 718,980.61 €, with a total value of these transactions amounting to 6,778,191.20 € (exclusive of VAT).
- › In accordance with the ZGD-1 Amendment, the supervisory board adopted criteria for assessing the individual performance of the internal auditor and the model for calculating the amount of the individual performance reward.
- › On the basis of the company's Statute, the supervisory board discussed the Business Plan of Elektro Gorenjska, d. d. for 2019 with a financial projection for 2020 and 2021 with the assurance of the management that the company will respect the provisions of the Regulation on the conditions and procedures for borrowing of legal persons from Article 87 of the Public Finance Act, and with the assurance that the company is able to hire and to repay the planned debt, gave consent to the company's borrowing.
- › In accordance with the Act Governing the Remuneration of Managers of Companies (ZPPOGD), the supervisory board decided on the amount of the variable part of the remuneration of the chairman of the board for 2017 and adopted benchmarks for the variable part of the chairman of the management board for 2019.
- › Supervisory board successfully carried out the procedure for the election of the new chairman of the management board in accordance with the timetable for each phase, in close cooperation with the nomination committee of the SB. Due to the consensual early termination of the term of office of the chairman of the board, it also adopted appropriate related documentation.

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

#### 4. Cooperation with the chairmen of the board

In the past year, the supervisory board worked very well with the two chairmen of the management board, both with the previous one, who prematurely terminated the function in agreement with the supervisory board (the term of office expired on September 15, 2018), as well as with the newly appointed chairman of the board. Supervisory board adopted the Agreement on Early Termination of the Mandate and the Regulation of Mutual Rights with the chairman of the board, mag. Bojan Luskovec, and thus completely transparently regulated all mutual rights and duties related to the early termination.



Until June 14, 2018, the function of the chairman of the board was performed by mag. Bojan Luskovec,

followed by a four-year mandate by dr. Ivan Šmon, MBA, appointed by the SB to this position at its 9th regular meeting on 22 May 2018.

Both management boards forwarded the materials for meetings to the supervisory board in a timely manner, in writing, and were additionally interpreted at the sessions. Reports on the implementation of resolutions were regularly prepared for the supervisory board, reports on non-executed decisions and other reports requested by the supervisory board from the management board were introduced on the introduction of new good practices. Members of the supervisory board had all the required and relevant reports, information and data available, so that they were able to monitor and supervise the operations of the company responsibly and to make their decisions.

Supervisory board considers the cooperation with both chairmen of the board in the past year to be very successful.

#### 5. Operation of supervisory board committees

In 2018, two committees operated within the supervisory board, without changes in membership.

##### 5.1. Audit committee

In 2018, the audit committee of the supervisory board met at nine regular sessions. Committee was chaired by chairman Andrej Koprivec, CFA, FCCA throughout the year, with Franjo Curanović as a member and prof. dr. Simon Čadež as an external member.



*Franjo Curanović*  
member

*Andrej Koprivec,*  
CFA, FCCA  
chairman

*prof. dr. Simon*  
*Čadež*  
external member

Members of the committee regularly attended meetings.

Apart from correspondence, to all the sessions of the committee the chairman of the company's management board and the internal auditor were invited, along with individual reporters.

In accordance with the Rules of Procedure of the audit committee, the members of the supervisory board were kept informed both by invitations to the meetings of the audit committee and by the minutes of the committee meetings, while the chairman of the audit committee reported quarterly to the supervisory board on the work of the committee.

Below we present the substantive points of the work of the audit committee in the financial year 2018:

**Annual report 2017:** Committee discussed the annual report of the company Elektro Gorenjska, d. d., annual report of the subsidiary company Gorenjske Elektrarne, d. o. o., annual report of the company GEK Vzdrževanje, d. o. o., and the consolidated annual report of the Elektro Gorenjska Group. Regarding the consideration of the annual report, the committee met with the audit partner, the audit company BDO and discussed the report of the external auditor.

**Business Plan and current operations:** Committee discussed the business plans of the parent company and subsidiary companies for the period 2019-2021 and proposed them to the supervisory board for approval.

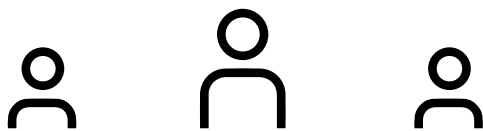
Committee reviewed quarterly business results of the companies in the Elektro Gorenjska Group and reported it to the supervisory board.

**Internal audit:** Audit committee worked closely with the internal auditor. In 2018, the committee discussed the annual report on the work of the internal audit for 2017, discussed the internal auditor's reports on all conducted internal audits and monitored the implementation of the recommendations made. Committee carried out the selection of an external auditor of the Internal Audit Tax Review and took note of the findings of the review. It discussed the work plan of the internal audit for 2019 and proposed it to the supervisory board for approval.

**Selection and cooperation with the external auditor:** Audit committee conducted the procedure for selecting an external auditor of the financial statements and forwarded the proposal to the supervisory board. General meeting of the company appointed the proposed contractor – BDO Company - as auditor of the financial statements for 2018.

## 5.2 Nomination Committee

Within the supervisory board since 2014, the nomination and human resources committee of the Elektro Gorenjska, d. d., has been operating regularly, and it has been operating the whole year 2018 in the following composition:



*mag. Tedo Djekanović*  
member

*mag. Samo Logar*  
chairman

*Milena Pervanje*  
external member

In year 2018, the Nomination Committee had 8 sessions, of which 7 were regular and one correspondence. All members of the committee were present at all sessions, as well as both members of the SB, representatives of employees. Committee adopted a total of 27 decisions.

In the year 2018, the committee focused mainly on:

- › procedures related to the election of the chairman of the board (invitations to the candidates for the position of the chairman of the board on the proposal of the members of the supervisory board and on the proposal of the committee, implementation of the assessment, presentation of the reports for the SB),
- › chairman of the board election procedure,
- › examination of the fulfilment of the benchmarks for 2017 and the proposal for the amount of the variable part of the payment to the chairman of the board for the work done,
- › participation in the preparation of documents with the early termination of the term of office of the chairman of the board,
- › participation in the preparation of a contract of employment for the new chairman of the board,
- › succession procedures and assessment of competencies in the EG Group,
- › getting familiar with strategic projects from the field of human resources on the basis of the new Company strategy in the EG Group for the period 2018-2022 (presentation, action plan for implementation),
- › determination and proposal of the SB for the adoption of benchmarks for the variable part of the chairman of the management board receipts for year 2019.

In 2018, the nomination committee introduced some new practices that proved to be very successful (the election of the chairman of the board, monitoring of strategic projects from area of human resources).

## 6. Position of the supervisory board to audit report 2018

At the 17th session of the audit committee on May 13 2018, when a revised Annual Report of Elektro Gorenjska, d. d. and revised Consolidated Annual Report of Elektro Gorenjska Group for year 2018 were discussed, the representatives of the audit firm BDO Revizija, d. o. o. from Ljubljana, which audited the financial statements of the Group companies for year 2018, were present.

At the 22nd regular session of the supervisory board held on May 23 2019, at the examination of the audited Annual Report of the company Elektro Gorenjska, d. d., and the audited Consolidated Annual Report of the Elektro Gorenjska Group for 2018, the supervisory board was acquainted with the decisions of the audit committee regarding the reports, and found that the auditor carried out the audit in accordance with the legislation and the rules on auditing. Supervisory board had no comments on the independent auditor's report, and its position on the audit report was positive.

Audit committee and the supervisory board found that the auditors issued a positive opinion.

## 7. Approval of the annual and consolidated report 2018 and proposal for the use of distributable profit

Management of the company submitted the annual report and consolidated annual report, including the audit report, to supervisory board for verification within the legal deadline. Audit committee verified the annual and consolidated report and audit report in detail and gave its opinions and views. Based on the regular monitoring of operations of the company and other companies in the Group and a detailed verification of the stated reports, the supervisory board has established that the report for year 2018 is composed in accordance with the regional legislation and regulations and in a clear and transparent manner represents true and fair views of the assets, liabilities, financial position, income statement and comprehensive income of the company. Annual and

consolidated reports for year 2018 are composed in accordance with the provisions of the Companies Act and valid international accounting standards.

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

All Group companies closed the business year with profit. Total distributable profit of Elektro Gorenjska, d. d., for the year 2018 amounts to 2,591,021.25 €, which represents 1.67 % of the total capital or 3.60 % of the company's share capital as at 31 December 2018. Management board will propose to the general meeting of shareholders that the distributable profit in 2018 is fully paid out to shareholders in the form of dividends in the amount of 0.15 €, which is more than 1 cents per share or 7.14 % increase in dividends per share compared to last year's pay-out. Management board will propose to the general meeting that the dividend payment will be made on 26 July 2019 to those shareholders who will be listed on the company's share register on 25 July 2019. Supervisory board verified the proposal for the use of accumulated profit, and agreed with the proposal of the management board.

After the supervisory board members verified the annual report and consolidated report of the company for year 2018 and had no comments, the supervisory board adopted this supervisory board report on verification and approval unanimously at the 22nd regular session on May 23 2019.

In Kranj, May 23 2019

*mag. Samo Logar*  
Chairman of the Supervisory Board



## 3 Presentation of Elektro Gorenjska Group

### 3.1 Structure of Elektro Gorenjska Group and associated companies

Elektro Gorenjska Group consists of the controlling company Elektro Gorenjska and its controlled company Gorenjske elektrarne, which is in 100 % ownership of Elektro Gorenjska Company, and GEK vzdrževanje Company, which is in 100 % ownership of Gorenjske elektrarne. As associated companies the group also considers ECE company, where Elektro Gorenjska has a 25.6744 % ownership share, and associated company Soenergetika, where Gorenjske elektrarne has 25 percent share.

In addition to the listed companies, the Elektro Gorenjska Group is also composed of Informatika d.d. in which Elektro Gorenjska owns a 9.56 % stake. We do not include the stated company in the consolidated financial statements of the Group due to irrelevance.

None of the companies in the group has any subsidiaries.

Figure 1: Graphic image of the Group



Management of a directly dependent company is carried out directly on the basis of the founders' decisions, since the subsidiary does not have a supervisory board. In 2018, there were five decisions of the founder issued for the company Gorenjske elektrarne.

### 3.1.1 Elektro Gorenjska Company identity card



Figure 2: Elektro Gorenjska company identity card

|   |   |
|---|---|
| <b>Name:</b>                                | <b>ELEKTRO GORENJSKA, podjetje za distribucijo električne energije, d. d.</b> |
| <b>Abbreviated name:</b>                    | ELEKTRO GORENJSKA, D. D.  |
| <b>Business address:</b>                    | Ulica Mirka Vadnova 3 a, 4000 Kranj   |
| <b>Phone:</b>                               | 080 30 19   |
| <b>Fax:</b>                                 | 04 20 83 600  |
| <b>Web site:</b>                            | www.elektro-gorenjska.si  |
| <b>E-mail address:</b>                      | info@elektro-gorenjska.si   |
| <b>Registration number:</b>                 | 5175348000  |
| <b>VAT identification number:</b>           | SI 20389264   |
| <b>Core activity code:</b>                  | 35.130 electricity distribution   |
| <b>Legal form:</b>                          | joint-stock company   |
| <b>Company register entry number:</b>       | 1/00259/00  |
| <b>Date of company register entry:</b>      | 27. 1. 1998   |
| <b>Place of court's register entry:</b>     | Kranj District Court  |
| <b>Share capital as of 31. 12. 2018:</b>    | 71,898,060.69 €   |
| <b>Number of shares as of 31. 12. 2018:</b> | 17,286,376  |
| <b>Chairman of the Board:</b>               | dr. Ivan Šmon, MBA  |
| <b>Supervisory board chairman:</b>          | mag. Samo Logar   |

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

|   | <b>31. 12. 2018</b> | <b>31. 12. 2017</b> |
|---|---------------------|---------------------|
| Carrying amount of capital                      | 155,364,641         | 149,685,337         |
| Carrying amount of assets (balance sheet total) | 232,048,722         | 226,097,928         |
|   | <b>Year 2018</b>    | <b>Year 2017</b>    |
| Net profit of the business year                 | 8,148,808           | 7,164,584           |

### 3.1.2 Gorenjske elektrarne Company identity card



Figure 3: Gorenjske elektrarne controlled company identity card

|  |   |
|--|---|
| <b>Name:</b>                             | GORENJSKE ELEKTRARNE, podjetje za proizvodnjo električne energije, d. o. o. |
| <b>Abbreviated name:</b>                 | GORENJSKE ELEKTRARNE, D. O. O.  |
| <b>Business address:</b>                 | Stara cesta 3, 4000 Kranj   |
| <b>Phone:</b>                            | 04 20 83 531  |
| <b>Fax:</b>                              | 04 20 83 512  |
| <b>Web site:</b>                         | www.gek.si  |
| <b>E-mail address:</b>                   | info@gek.si   |
| <b>Registration number:</b>              | 1658298000  |
| <b>VAT identification number:</b>        | SI 76567788   |
| <b>Founder:</b>                          | Elektro Gorenjska, d. d.  |
| <b>Legal form:</b>                       | limited liability company   |
| <b>Core activity code:</b>               | 35.111 production of electricity in HE generation facilities                |
| <b>Date of company register entry:</b>   | 4. 1. 2002 (amendment 21. 9. 2004)  |
| <b>Place of court's register entry:</b>  | Kranj District Court  |
| <b>Share capital as of 31. 12. 2018:</b> | 13,684,880.11 €   |
| <b>Director:</b>                         | Aleš Ažman, MBA   |

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

|   | 31. 12. 2018     | 31. 12. 2017     |
|---|------------------|------------------|
| Carrying amount of capital                      | 18,243,030       | 17,985,486       |
| Carrying amount of assets (balance sheet total) | 18,908,065       | 18,568,703       |
|   | <b>Year 2018</b> | <b>Year 2017</b> |
| Net profit of the business year                 | 643,275          | 407,545          |



### 3.1.3 GEK Vzdrževanje Company identity card



Figure 4: GEK Vzdrževanje controlled company identity card

|  |  |
|--|--|
| <b>Name:</b>                             | GEK Vzdrževanje, družba za vzdrževanje in storitve, d. o. o. |
| <b>Abbreviated name:</b>                 | GEK Vzdrževanje, D. O. O.                                    |
| <b>Business address:</b>                 | Stara cesta 3, 4000 Kranj                                    |
| <b>Phone:</b>                            | 04 20 83 531   |
| <b>Fax:</b>                              | 04 20 83 512   |
| <b>Registration number:</b>              | 7239360000   |
| <b>VAT identification number:</b>        | SI53409540   |
| <b>Founder:</b>                          | Gorenjske elektrarne, d. o. o.                               |
| <b>Legal form:</b>                       | limited liability company                                    |
| <b>Core activity code:</b>               | 68.320 management of real estate on a fee or contract basis  |
| <b>Date of company register entry:</b>   | 27. 2. 2017  |
| <b>Place of court's register entry:</b>  | Kranj District Court   |
| <b>Share capital as of 31. 12. 2018:</b> | 121,050.64 €   |
| <b>Director:</b>                         | Matej Kuhar  |

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

|   | 31. 12. 2018 | 31. 12. 2017 |
|---|--------------|--------------|
| Carrying amount of capital                      | 142,540      | 138,283      |
| Carrying amount of assets (balance sheet total) | 389,597      | 383,068      |
|   | Year 2018    | Year 2017    |
| Net profit of the business year                 | 6,768        | 18,544       |

## 3.1.4 ECE Company identity card



Figure 5: ECE associated company identity card

|  |   |
|--|---|
| <b>Name:</b>                             | ECE, energetska družba, d. o. o.                |
| <b>Abbreviated name:</b>                 | ECE, D. O. O.                                   |
| <b>Business address:</b>                 | Vrunčeva 2a, 3000 Celje                         |
| <b>Phone:</b>                            | 080 22 04                                       |
| <b>Fax:</b>                              | 03 62 09 559                                    |
| <b>Web site:</b>                         | www.ece.si                                      |
| <b>E-mail address:</b>                   | info@ece.si, prodaja@ece.si, podjetja@ece.si    |
| <b>Registration number:</b>              | 6064892000                                      |
| <b>VAT identification number:</b>        | SI 55722679                                     |
| <b>Founders:</b>                         | Elektro Celje, d. d.; Elektro Gorenjska, d. d., |
| <b>Legal form:</b>                       | limited liability company                       |
| <b>Core activity code:</b>               | 35.140 trade of electricity                     |
| <b>Company register entry number:</b>    | 2015/37235                                      |
| <b>Date of company register entry:</b>   | 1. 10. 2015                                     |
| <b>Place of court's register entry:</b>  | Celje District Court                            |
| <b>Share capital as of 31. 12. 2018:</b> | 3,436,767.65 EUR                                |
| <b>Director:</b>                         | mag. Sebastijan Roudi                           |

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

|   | 31. 12. 2018     | 31. 12. 2017     |
|---|------------------|------------------|
| Carrying amount of capital                      | 142,540          | 138,283          |
| Carrying amount of assets (balance sheet total) | 389,597          | 383,068          |
|   | <b>Year 2018</b> | <b>Year 2017</b> |
| Net profit of the business year                 | 6,768            | 18,544           |

## 3.1.5 Soenergetika Company identity card

## SOENERGETIKA

Figure 6: Soenergetika associated company identity card

|  |   |
|--|---|
| <b>Name:</b>                             | <b>SOENERGETIKA Gorenjske elektrarne, Holding Slovenske elektrarne, Domplan in Petrol, družba za proizvodnjo elektrike in toplote, d. o. o.</b> |
| <b>Abbreviated name:</b>                 | SOENERGETIKA d. o. o.   |
| <b>Business address:</b>                 | Stara cesta 3, 4000 Kranj   |
| <b>Registration number:</b>              | 3700054000  |
| <b>VAT identification number:</b>        | SI 26004330   |
| <b>Founders:</b>                         | Elektro Gorenjska, d. d., Holding Slovenske Elektrarne, d. o. o., Domplan, d. d., in Petrol, d. d.  |
| <b>Legal form:</b>                       | limited liability company   |
| <b>Core activity code:</b>               | 35.112 Production of electricity in thermal, nuclear power stations   |
| <b>Company register entry number:</b>    | 2010/6818   |
| <b>Date of company register entry:</b>   | 26. 2. 2010   |
| <b>Place of court's register entry:</b>  | Kranj District Court  |
| <b>Share capital as of 31. 12. 2017:</b> | 1,020,000.00 EUR  |
| <b>Director:</b>                         | Aleš Ažman, MBA   |

Table 5: Other important information on SOENERGETIKA Company (in €)

|   | <b>31. 12. 2018</b> | <b>31. 12. 2017</b> |
|---|---------------------|---------------------|
| Carrying amount of capital                      | 1,811,157           | 1,833,993           |
| Carrying amount of assets (balance sheet total) | 2,700,116           | 3,135,261           |
|   | <b>Year 2018</b>    | <b>Year 2017</b>    |
| Net profit of the business year                 | 680,768             | 546,067             |

### 3.2 Other related companies or related legal entities

Elektro Gorenjska Company identifies its related persons on the basis of provisions of the International Financial Reporting Standards, mainly the IAS 24 and IAS 28, Companies Act (ZGD -1) and the Corporate Income Tax Act (ZDDPO-2).

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

### 3.3 Main activities and fields of business

Two main activities of the Group are:

- › distribution of electricity (activity code 35.130) and
- › production of electricity in HE generation facilities (activity code 35.111).

Other important registered activities of the Group are the following:

- › construction of other civil engineering projects n.e.c (activity code 42.990),
- › electrical installation (activity code 43.210),
- › other building completion and finishing (activity code 43.390),
- › other specialized construction activities n.e.c. (activity code 43.990),
- › wired telecommunications activities (activity code 61.100),
- › renting and operating of own or leased real estate (activity code 68.200),
- › other engineering activities and related technical consultancy (activity code 71.129),
- › other production of electricity (activity code 35.119),
- › management of real estate on a fee or contract basis (activity code 68.320).

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

- › activity of electricity distribution, which is connected with the implementation of contractually agreed services for Company SODO and presented in more detail in chapter *3.10.4 – Energy legal environment of group's operation in year 2018*;
- › other non-energy market activities, which include mainly execution of new constructions and other services for the needs of the Group as well as for external clients or market;
- › production of electricity in hydropower stations and production of electricity in solar or photovoltaic power stations as well as high-efficiency cogeneration of heat and power;
- › solar power stations engineering and monitoring;
- › projects of efficient energy use and energy management;
- › maintenance of energy devices and other maintenance services.

### 3.4 Main area of operation

Main area of operation of Elektro Gorenjska Group includes north-eastern part of Slovenia – Gorenjska region.

In this area we can also find hydropower plants of Gorenjske elektrarne.

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

**Elektro Gorenjska Company has its distribution network set on the area of**

**2,091** km<sup>2</sup>

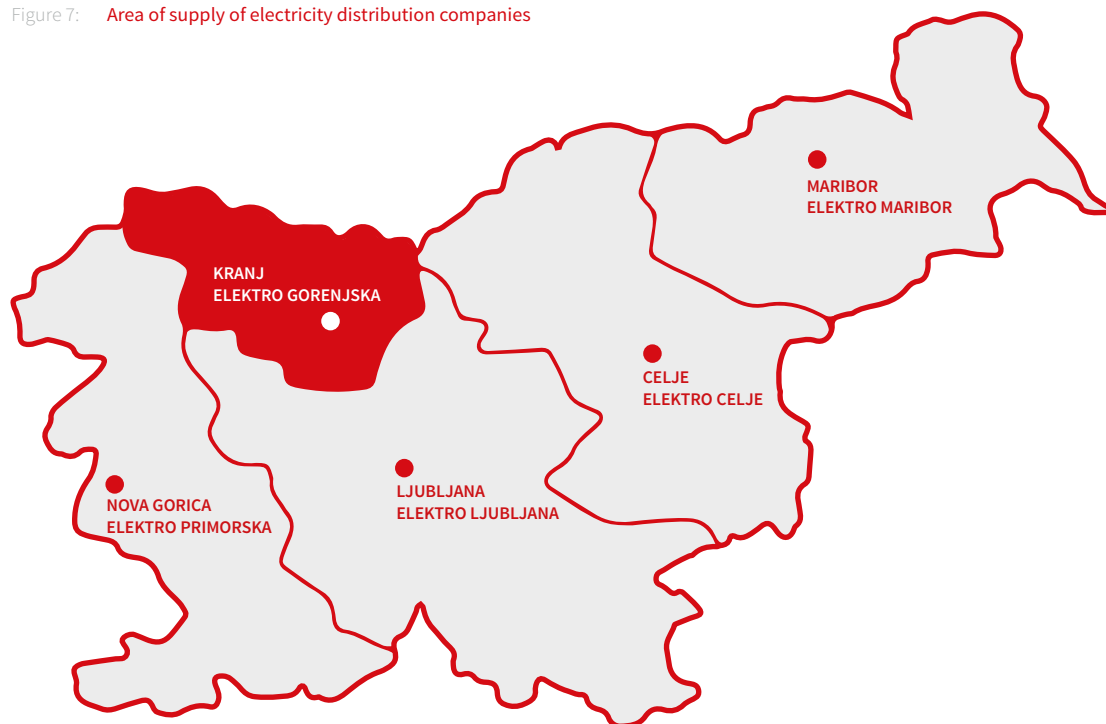
which amounts to more than

**5,100** kilometers

of grids and helps providing reliable and quality supply of electricity to more than

**89,900** customers.

Figure 7: Area of supply of electricity distribution companies



### 3.5 Main technical data

Table 6: Main technical data on electric power distribution network

|                             | 31. 12. 2018       | 31. 12. 2017       |
|-----------------------------|--------------------|--------------------|
| Powerlines 110 kV           | 102,363 m          | 102,340 m          |
| Powerlines 35 kV            | 20,356 m           | 20,299 m           |
| Powerlines 20 kV            | 575,589 m          | 609,961 m          |
| Powerlines 10 kV            | 0 m                | 0 m                |
| <b>Total powerlines</b>     | <b>698,308 m</b>   | <b>732,600 m</b>   |
| Cable conduits 110 kV       | 3,349 m            | 3,319 m            |
| Cable conduits 35 kV        | 158 m              | 158 m              |
| Cable conduits 20 kV        | 1,028,921 m        | 993,059 m          |
| Cable conduits 10 kV        | 6,416 m            | 6,416 m            |
| <b>Total cable conduits</b> | <b>1,038,844 m</b> | <b>1,002,952 m</b> |
| Total LV network            | 3,371,070 m        | 3,317,505 m        |
| Total network               | 5,108,222 m        | 5,053,057 m        |
| Transformer substations     | 12                 | 13                 |
| Substations                 | 8                  | 8                  |
| Transformer stations        | 1,379              | 1,376              |

Table 7: Main technical data of the production units

|                              | Rated output power PN [kW]<br>2018 | Rated output power PN [kW]<br>2017 |
|------------------------------|------------------------------------|------------------------------------|
| Hydroelectric power stations | 12,297                             | 12,297                             |
| Solar power stations         | 3,281                              | 3,281                              |
| SPTE                         | 1,280                              | 1,280                              |

## 3.6 Management and governance of companies in Elektro Gorenjska Group

### 3.6.1 Management and governance of Elektro Gorenjska Company

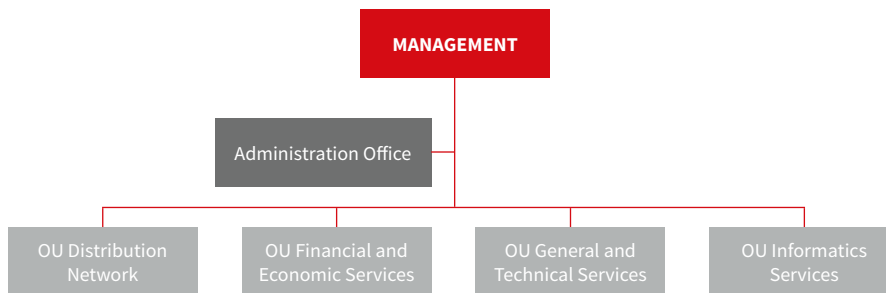
Company management bodies are: management, supervisory board, and shareholders' meeting.

#### MANAGEMENT

Single-member administration, chairman of the board, is appointed by the supervisory board of Elektro Gorenjska Company. Term of office of the Chairman of the Management Board shall be four years with the possibility of reappointment. In accordance with the Statute, the Management Board of the company has a mandate in relation to all issues related to the organization and management of the company. Based on the law, statute, and rules of procedure of the supervisory board the management of the company is obliged to exhaustively and exactly introduce to the supervisory board the course of transactions and company's condition at least four times a year.

On the basis of an agreement on the early termination of the mandate, the mandate of the former Chairman of the Board, mag. Bojan Luskovac expired on 14 June 2018. New Chairman of the Board, dr. Ivan Šmon, MBA, took up a four-year term on June 15, 2018.

Figure 8: Organization chart in Elektro Gorenjska Company



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

#### SUPERVISORY BOARD

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

Based on the decision of the General Meeting the members of the supervisory board in addition to the attendance fees in the amount of 275 € receive also monthly payment for performing the function in the amount of 942 € per member or 1,412.50 € to which the chairman of the supervisory board is entitled. Remuneration of supervisory board members in 2018 are presented in Chapter 20.4 Transactions with management and supervisory board.

Composition of the supervisory board in the period from 1. 1. 2018 to 31. 12. 2018 was as follows:

| <b>SUPERVISORY BOARD EG, d. d.</b> | <b>Function</b>    | <b>Term of office from</b>                              | <b>Term of office until</b> |
|------------------------------------|--------------------|---|-----------------------------|
| mag. Samo Logar                    | chairman           | 28. 8. 2017<br>(as a chairman since 14. 9. 2017)        | 28. 8. 2021                 |
| mag. Tedo Djekanović               | deputy<br>chairman | 28. 8. 2017<br>(as a deputy chairman since 14. 9. 2017) | 28. 8. 2021                 |
| Andrej Koprivec                    | member             | 28. 8. 2017   | 28. 8. 2021                 |
| Franjo Curanović                   | member             | 28. 8. 2017   | 28. 8. 2021                 |
| mag. Dominik Ovniček               | member             | 8. 8. 2015  | 20. 8. 2018                 |
| Borut Jereb                        | member             | 19. 9. 2018   | 8. 8. 2019                  |
| Iztok Štular                       | member             | 8. 8. 2015  | 8. 8. 2019                  |

Changes were made only with mag. Dominik Ovniček, a member of the SB who was a representative of the workers. On 20 August 2018, he gave his resignation on the basis of which he terminated his term of office on that date. In his place, Borut Jereb was appointed by the workers for the period from 19 September 2018 to 8 August 2019.

#### **AUDIT COMMITTEE OF ELEKTRO GORENJSKA SUPERVISORY BOARD**

In year 2018 a permanent audit committee of Elektro Gorenjska supervisory board (audit committee) operated in the following composition:

| <b>AUDIT COMMITTEE SB EG d. d.</b> | <b>Function</b> | <b>Term of office from</b> | <b>Term of office until</b> |
|------------------------------------|-----------------|----------------------------|-----------------------------|
| Andrej Koprivec                    | chairman        | 14. 9. 2017                | 28. 8. 2021                 |
| Franjo Curanović                   | member          | 14. 9. 2017                | 28. 8. 2021                 |
| dr. Simon Čadež                    | member          | 14. 9. 2017                | 28. 8. 2021                 |



**NOMINATION COMMITTEE OF ELEKTRO GORENJSKA SUPERVISORY BOARD**

In year 2018 a permanent nomination committee of Elektro Gorenjska supervisory board (nomination committee) operated in the following composition:

| <b>NOMINATION AND HUMAN RESOURCES COMMITTEE SB EG d. d.</b> | <b>Function</b> | <b>Term of office from</b> | <b>Term of office until</b> |
|---|-----------------|----------------------------|-----------------------------|
| mag. Samo Logar   | chairman        | 14. 9. 2017                | 28. 8. 2021                 |
| mag. Tedo Djekanović  | member          | 14. 9. 2017                | 28. 8. 2021                 |
| Milena Pervanje   | member          | 14. 9. 2017                | 28. 8. 2021                 |

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

**SHAREHOLDERS' MEETING**

In 2018, the Management Board convened one regular session of the General Meeting of Shareholders held on 5 July 2018. At the 24th regular General Meeting of Shareholders of Elektro Gorenjska, 87.67 % of the voting shareholders were present. At the general meeting, shareholders voted on six items on the agenda, which was published in the convocation of the General Meeting of Shareholders on the web portal of Agency for Public Legal Records and Services.

Company's shareholders were acquainted with the audited annual report and the consolidated annual report for 2017, the auditor's opinion and the written report of the supervisory board on the verification and approval of the annual report of the company Elektro Gorenjska and the consolidated annual report of the Elektro Gorenjska Group for the 2017 financial year.

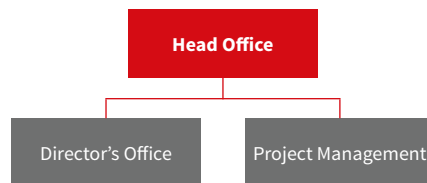
Shareholders decided on the use the accumulated profit, which stood at 2,418,286.50 € as at 31 December 2017. It was decided that the total accumulated profit was used for the payment of dividends in the gross value of 0.14 per share. Company paid dividends on 26 July 2018 to those shareholders who were on the day 25 July 2018 entered into the company's share register as shareholders of the company.

General Meeting granted a discharge for work in 2017 to the Management Board and specifically to the Supervisory Board members. In accordance with paragraph 3 of Article 247 of the Companies Act, the Management Board informed the General Meeting of Shareholders of the Company's report on the redemption of treasury shares in the business year 2017. In order to maximize the value for shareholders and in order to increase the value of the company's assets, the general meeting authorized the management board, for the period from 6 July 2018 to 31 December 2018, to purchase own shares, under the aforementioned conditions, which are evident from the minutes of the General Meeting of Shareholders.

### 3.6.2 Management and governance of Gorenjske elektrarne Company

Since its establishment Gorenjske elektrarne Company has been in 100 % ownership of its founder and sole partner of the company, that is Elektro Gorenjska Company. Company has one controlled company, namely GEK Vzdrževanje Company with 100 % share, and it also has a 25 % share in Soenergetika Company, which it controls together with three other equal partners. Financial statements of the company are included in group financial statements of the parent company Elektro Gorenjska which is also the final parent company.

Figure 9: Organization chart of Gorenjske elektrarne Company



Company's director is Aleš Ažman, MBA.

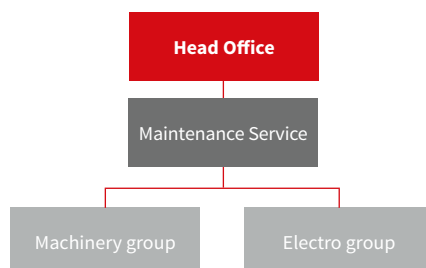
Company's management is carried out directly on the basis of the founders' decisions, since the company does not have a supervisory board. Chairman of the Management Board of the parent company, as well as the General Meeting of Shareholders, regularly monitor the company's operations. In the year 2018, five decisions of the founder were issued to the company Gorenjske elektrarne.

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

### 3.6.3 Management and governance of GEK Vzdrževanje Company

GEK Vzdrževanje Company was established by the spin-out of maintenance activities from the company Gorenjske elektrarne and is 100% owned by the company Gorenjske elektrarne. Financial statements of the company are included in the group financial statements of the parent company Elektro Gorenjska, which is also the ultimate parent company.

Figure 10: Organization chart of GEK Vzdrževanje Company



Company's director is Matej Kuhar.

Company's management is carried out directly on the basis of the founders' decisions, since the company does not have a supervisory board. Director of Gorenjske elektrarne company, as well as the General Meeting of Shareholders, regularly monitor the company's operations. In the year 2018, five decisions of the founder were issued to the company GEK Vzdrževanje.

Supervisory Board of Elektro Gorenjska is also familiar with the operations.

### 3.7 Share capital and ownership structure

#### 3.7.1 Share capital and ownership structure of Elektro Gorenjska Company

On December 31 2018 share capital of Elektro Gorenjska Company amounted to 71,898,061 €. It is distributed to 17,286,376 of ordinary registered unit shares (designation EGKG). All shares are shares of one category.

On the basis of the decision of the 22nd general meeting, which took place on August 23 2016, the company until December 31 2017 purchased from the previous owners 12,901 of own shares (0.075 % of all shares). In 2018 there was no buyout of own shares.

Company has no authorized capital. In 2018 the Elektro Gorenjska Company had no transactions with own shares on a regulated market.

As of December 31 2018, 96.38 % of company shares were in the ownership of the Republic of Slovenia and legal entities, which represent 17.76 % of all shareholders.

Figure 11: Changes in the number of shareholders of Elektro Gorenjska Company from 31. 12. 2014 to 31. 12. 2018

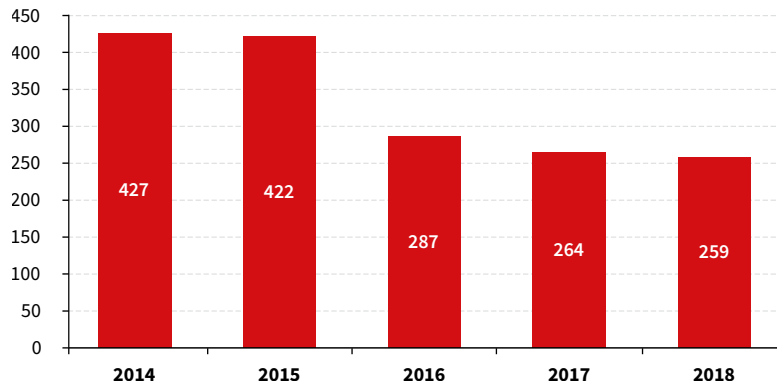
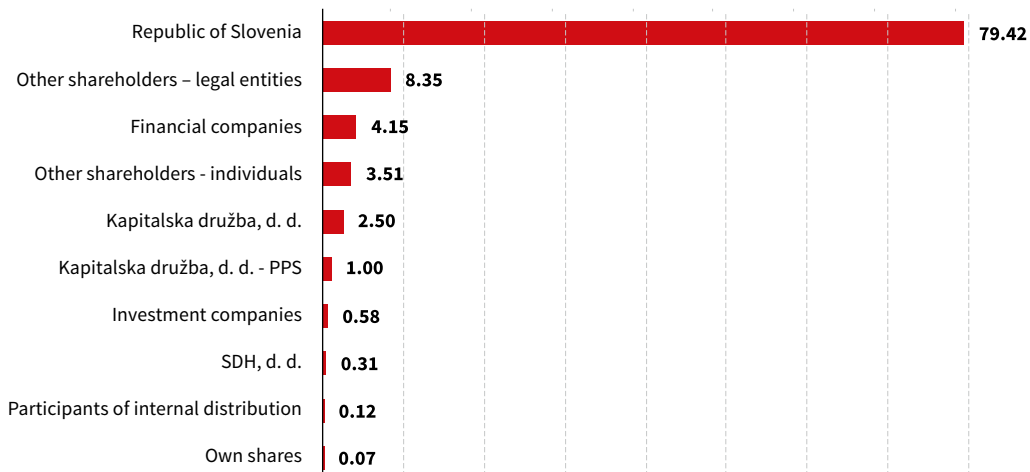


Figure 12: Ownership structure of Elektro Gorenjska Company as of 31. 12. 2018 (in %)



According to the balance as at December 31 2018 the largest shareholder, holding a 79.42 percent share, is the Republic of Slovenia. It is followed by Kapitalska družba holding 2.50 percent share and Bau 1 d. o. o. and Sava Re d. o. o. with 1.62 percent share. As at December 31 2018 the largest 10 owners held a total of 91.39 percent share of the company.

Table 8: Share owners with capital share exceeding 1 percent as of 31. 12. 2018

| Ownership exceeding 1 %         | 31. 12. 2018      |              |
|---------------------------------|-------------------|--------------|
|                                 | Number of shares  | %            |
| Republic of Slovenia            | 13,728,882        | 79.42        |
| Kapitalska družba, d. d.        | 431,933           | 2.50         |
| BAU 1, d. o. o.                 | 280,302           | 1.62         |
| Sava Re, d. d.                  | 280,000           | 1.62         |
| Pivovarna Laško Union, d. o. o. | 270,648           | 1.57         |
| DUTB, d. d.                     | 207,200           | 1.20         |
| DZS, d. d.                      | 200,000           | 1.16         |
| <b>Total</b>                    | <b>15,398,965</b> | <b>89.08</b> |

### 3.7.2 Share capital and ownership structure of Gorenjske elektrarne Company

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

### 3.7.3 Share capital and ownership structure of GEK Vzdrževanje Company

Share capital of GEK Vzdrževanje Company (121,051 €) represents an investment in the capital and has been in 100 % ownership of the founder and sole partner of the company Gorenjske elektrarne Company, since its establishment.

### 3.8 Vision, mission and values of the Group

#### Vision of the Group

Elektro Gorenjska Group is a modern, innovative and in the public positively identified key player in the development of services flexibility market. In parallel with the increasing dynamics of deployment and incorporation of new technologies, we ensure 100 % connectivity of all network users. In addition to the highest quality electricity supply in the Republic of Slovenia, we also provide our customers with a modern and comprehensive user experience.

We create clean energy for sustainable development. To all participants in the value chain we signify a quality, trustworthy and desirable partner. Fast and efficiently we are able to adapt to all modern challenges, trends and various external factors. We are increasing our presence in the market environment, continuously improving our economic indicators and reducing business, development, security, regulatory and environmental risks.

#### Values of the Group



##### **KNOWLEDGE AND COOPERATION**

**We share knowledge, experience and positive energy with our colleagues and partners.**



##### **QUALITY AND TRUST**

**We induce customers' confidence.**



##### **EXCELLENCE AND PROFESSIONAL COMPETENCE**

**We are target-oriented.**



##### **RESPONSIBILITY AND DILIGENCE**

**We assume responsibility.**



##### **KINDNESS AND OPENNESS**

**We maintain friendship and sociability.**



##### **BUSINESS INNOVATION**

**We implement services and processes in line with market trends.**

#### Mission of the Group



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



Mission of the company is to provide an environmentally friendly way of energy production and services to increase the efficient use of energy to provide a better future for the coexistence of mankind and nature.



With professional and efficient services we achieve customer satisfaction. With our knowledge and experience, we increase the production of renewable energy sources.

### 3.9 Key strategic guidelines of the Group

In August 2018 supervisory board of Elektro Gorenjska Company confirmed the strategy of the Elektro Gorenjska Group for the period 2018 - 2022. Key elements for implementation of the strategy are strategic projects, which determine concrete tasks and their execution. They are used to define in detail the activities, deadlines, advantages, opportunities and expectations necessary to reach the strategic goals. Advantage of pre-set strategic projects is in quick detection of eventual troubles, additional challenges and meaningful integration with other projects in the company.

Strategy of Elektro Gorenjska Group defines the following key projects:

- › Acquisition of own concession for the distribution of electricity
- › Organizational culture and employee commitment
- › Development of a comprehensive and advanced innovation system on the level of Elektro Gorenjska Group
- › Establishment of a new business model of energy engineering on the level of Elektro Gorenjska Group
- › Introducing Business Intelligence (BI) in Elektro Gorenjska Group
- › Establishing corporate governance in Elektro Gorenjska Group
- › Establishment of effective project management on the level of Elektro Gorenjska Group
- › Optimal planning and implementation of investments

### 3.10 Analysis of the environment and its impact on the operations of the Group

#### 3.10.1 General economic environment and economic trend forecasts

Table 9: Data and economic trends forecasts

| Indicators for Republic of Slovenia                   | 2018 | Forecast |      |      |
|---|------|----------|------|------|
|   |      | 2019     | 2020 | 2021 |
| GDP (real growth, %)                                  | 4.5  | 3.4      | 3.1  | 2.8  |
| Employment (growth, %)                                | 3.0  | 2.0      | 1.0  | 0.6  |
| Registered unemployment rate (%)                      | 8.2  | 7.6      | 7.0  | 6.4  |
| Inflation (Dec/Dec, %)                                | 1.4  | 2.2      | 2.2  | 2.2  |
| Inflation (average of the year, %)                    | 1.7  | 1.6      | 1.9  | 2.2  |
| Gross wage per employee (real growth, %)              | 1.6  | 3.3      | 3.5  | 3.2  |
| Labour productivity–GDP per employee (real growth, %) | 1.5  | 1.4      | 2.1  | 2.2  |

Spring Forecast of Economic trends 2018, UMAR – Institute of Macroeconomic Analysis and Development

With the economic slowdown in the international environment, economic growth in the year 2019 (3.4 %) and in the next two years (3.1 % and 2.8 %) will gradually ease; the significance of domestic consumption will be greater, while exports will be less likely to contribute to economic growth. Export growth will continue to moderate mainly due to a slowdown in economic growth in trading partners. Investment growth will also moderate somewhat, but remain relatively high, with a further high growth in construction investment. Growth of private consumption will accelerate somewhat this year, with the continued favourable conditions in the labour market, and then, with a lower growth in employment, will also gradually slow down.

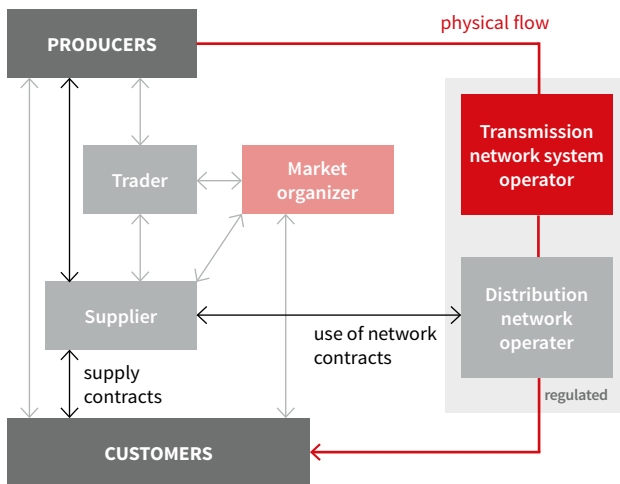
Inflation will remain moderate at slightly higher growth of prices of services and non-energy goods. Gradual strengthening of price pressures will affect inflation, but in 2019, assuming lower oil prices, it will remain similar to that of 2018, and in the next two years (2020-2021) it will moderately increase (around 2 %). In particular, further growth in price growth in the segment of services is expected, and in the coming years it will be more noticeable for non-energy goods.

Based on data for previous years, we find that electricity consumption is largely related to economic growth or GDP growth. Given that the Spring Forecast of Economic Trends also predicts moderate GDP growth in the coming years, we expect a moderate growth of electricity consumption and a stable price. Weather influences the price of electricity to a large extent, and on the other hand, a number of other factors, such as, oil and gas prices, coal prices, political activity of world powers, etc.

### 3.10.2 Presentation of the industry

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

Figure 13: Supply model



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

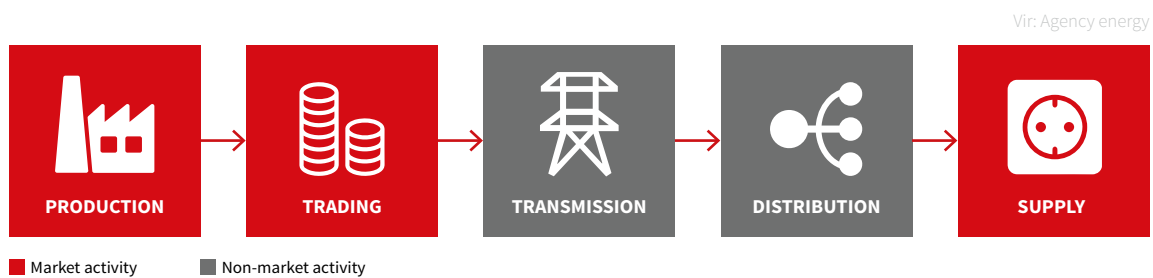
Elektro Gorenjska operates in the sector of electricity supply, namely in that business segment of electricity supply which ensures the distribution of electricity to final consumers.

Implementation of electricity supply and consequently organization of the market are among other subject to some fundamental characteristics of electricity as a product:

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

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

Figure 14: Organization of electricity supply in Slovenia



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

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

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

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

Figure 15: Areas of operation of electricity distribution companies in Slovenia





### 3.10.3 Network charge and price of electricity

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

- › electricity price formed freely on the market,
- › network charges and contributions:
  - network charge for transmission (set by AGENCIJA),
  - network charge for distribution (set by AGENCIJA),
  - contribution for market operator operations (set by the Government),
  - contribution for energy efficiency (set by the Government),
  - contribution for ensuring the production of electricity from renewable energy sources and high-efficiency cogeneration (set by the Government),
- › excise duties on electricity (set by the Government),
- › value added tax (set by the Government).

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

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

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

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

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

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

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

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

### 3.10.4 Energy legal environment of group's operation in year 2018

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

- › Energy Act,
- › Companies Act,
- › Construction, spatial planning, spatial management and environment protection act,
- › General Administrative Procedure Act,
- › Directive 2009/72/ES of the European Parliament and of the Council concerning common rules for the internal market in electricity,
- › General conditions for supply and consumption of electricity from electricity distribution network,
- › Decree on the method for the implementation of public service obligation relating to the electricity distribution system operator, and public service obligation relating to the electricity supply to tariff costumers,
- › Decree on the concession for performing public service obligation relating to the activity of the electricity distribution system operator,
- › Legal Act on the methodology determining the regulatory framework and network charge for the electricity distribution system,
- › Price list for the use of network (network charge and supplements to the network charge),
- › Rules on the system operation of electricity distribution network,
- › Decree supplementing the Decree laying down the list of goods and services subject to price control measures,
- › Decree on energy infrastructure,
- › Decree on measures and procedures for the introduction and interoperability of advanced electric power metering systems,
- › Legal act on the rules for monitoring the quality of electricity supply,
- › Legal Act on the identification of entities in the data exchange among participants in the electricity and natural gas markets,
- › Decree on the division of the 110 kV network into the distribution and transmission systems,
- › Decree on the terms and conditions and methods of borrowing,
- › Waters Act,
- › Construction Act,
- › Environment Protection Act,
- › Excise Duty Act.

### 3.10.5 Contract with SODO

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

For reasons of transparency on February 29 2012 a new contract with SODO between SODO and Elektro Gorenjska was signed, which replaced the agreement of 2007, and to which five more annexes were concluded. The last fifth annex related to the regulatory period between January 1 2016 and December 31 2018.

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

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

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

Under the Contract with SODO Company Elektro Gorenjska is making out the bills for use of network to end users of the distribution network on the basis of the respective in force Act determining the methodology for charging for the network charge, the methodology for setting the network charge, and the criteria for establishing eligible costs for electricity networks, but also in accordance with other regulations, mainly the EZ-1. Elektro Gorenjska Company has been making out these bills on its own behalf and for the account of SODO. End users settle the received bills on the transaction account of the Elektro Gorenjska Company. Invoiced amounts represent liabilities of the company Elektro Gorenjska to SODO d. o. o. and therefore do not constitute revenue of Elektro Gorenjska.

For electricity infrastructure leased and for implementation of services presented before, Company Elektro Gorenjska has been making out bills for rent and implemented services to SODO Company. These revenues represent approximately 79 % of entire company's revenues or 72 % of entire Group's revenues.

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

### 3.10.6 Production of electricity

Under the provisions of the Energy Act, the company must acquire the appropriate licenses for performing energy activities, including the production of electricity in power plants with a power exceeding 1 MW in a single power plant, electricity supply, trading, representation and transmission on the electricity market. Licenses are issued by the Energy Agency of the Republic of Slovenia. Company Gorenjske elektrarne has obtained all the necessary licenses for performing energy activities, and the power plants have received declarations for generating installations of electricity from renewable sources and high-efficiency cogeneration of heat and power. Power plants are therefore entitled to receive operating supports or operation in the guaranteed purchase system.

Support is implemented in two ways, namely:



guaranteed purchase (ZO) of generated electricity delivered to the public network or



as financial support for operating activities for other producers (operational support).

Granting of support to production facilities was "frozen" on September 22 2014. Government of the Republic of Slovenia in the Energy Balance, adopted at the 159th Coordinating Session on 3 September 2014, did not announce, in the framework of the Electricity Support Scheme for Electricity from RES and CHP, additional permitted increase in funds to meet the anticipated annual targets of this support scheme. In 2016, the European Commission approved Slovenia amendments to the support scheme for electricity from renewable energy sources and from high-efficiency cogeneration in accordance with the EU state aid rules. Revised scheme allows an increase in the share of electricity produced from renewable sources (RES), which is in line with the EU's energy objectives and, according to the European Commission's findings, this is not an undue distortion of competition.

One of the most important changes was the introduction of a tender procedure where aid is granted on the basis of a competitive procedure. Only the most competitive projects can get the support. Process ensures competition between potential beneficiaries as well as individual technologies. This is in line with the Commission's guidelines on state aid for environmental protection and energy for the period 2014-2020, which require that state aid from January 2017 can only be awarded on the basis of a clear, transparent and non-discriminatory competitive process that should be open to all producers of renewable electricity.

By changing the support scheme, Slovenia introduced a competitive procedure for the selection of projects for production facilities on renewable sources and high-efficiency co-products, as required by the European Commission's state aid rules to producers of electricity produced from renewable sources and in high-efficiency cogeneration, defined in the Guidelines on State aid for environmental protection and energy for the period 2014-2020. This way of selecting projects ensures that the support will be given to the most efficient projects for the production of electricity from renewable sources and from high-efficiency cogeneration.

After the confirmation of the notified changes by the European Commission, the Government of the Republic of Slovenia, on 26 November 2016, implemented the Rules on support for electricity generated from renewable energy sources and from high-efficiency cogeneration (hereinafter: the Rules), which details the implementation of the Support Scheme: public invitation to investors to apply for projects for RES and CHP generating plants, selection of projects for entering the support scheme, granting of support, sustainable criteria for electricity generation from RES and CHP, and other special conditions that producers with completed projects must fulfil for successful call for entry or to obtain support.

Slovenia has already made two public calls. At the first public call, the investors registered 275 projects for RES and CHP generating plants, of which 243 projects were registered for new production facilities and 32 projects for the restoration of existing production facilities, while 232 projects for production facilities arrived at the second public call, of which 216 projects for the implementation of new production facilities and 16 projects for reconstruction of production facilities.

**In the first two calls, the company Gorenjske elektrarne notified a total of**

**seven** projects.

It was successful in the tender in the application for three energy production facilities.



## 4 Management and quality systems

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

### 4.1 Integrated quality management system (iSVK) of Elektro Gorenjska Company

Since year 2011 the Elektro Gorenjska Company has an integrated quality management system (iSVK) in the framework of which it meets the quality policy commitments of Elektro Gorenjska, d. d.

With the quality policy, which is part of the business policy, the company's management is committed to following the vision in the long run and achieving the set goals in line with strategic orientations. In doing so, it will promote the culture of a company based on quality, risk management, information protection, employee and environmental protection, investing in employees, ensuring their commitment and satisfaction through the principles of reconciling professional and private life and ultimately committing to constant improvement.



Through established and managed iSVK it meets the requirements of the following certification systems:

- › **system SVK**  
(standard ISO 9001:2015),
- › **system SRO**  
(requirements of standard ISO 14001:2015)
- › **system VZD**  
(standard BS OHSAS 18001:2007) and
- › **system SVI**  
(requirements of standard ISO / IEC 27001:2013).

# +3

iSVK does not only meet the requirements of the certification systems, but also integrates and ensures the coherent operation of the company also with the requirements three non-certification systems:

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

Figure 16: Integrated quality management system within EG, d. d. Company



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

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

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

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

Understanding and managing interconnected processes as well as requirements of iSVK contributes to the company's success and effectiveness in achieving vision, strategy and mission, as it enables risk management and good business cooperation with final customers, employees, owners and the environment.

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

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

Result of continuous activities in all fields of operation and management of the company was the **highest national award for business excellence** for year 2012, which confirms that Elektro Gorenjska Company meets the demanding criteria of the European model of excellence EFQM and that it operates balanced according to the fundamental principles of business excellence.

Improvement processes in accordance with the European model of business excellence (EFQM) are carried out continuously in Elektro Gorenjska Company. Proof of excellence in performance and comparability at European level is also the EFQM certificate, which is why we have been recorded in the database of successful European organizations operating and living according to the EFQM model, which of course means that the company is committed to continuous improvement and to continuous growth on its path to excellence.

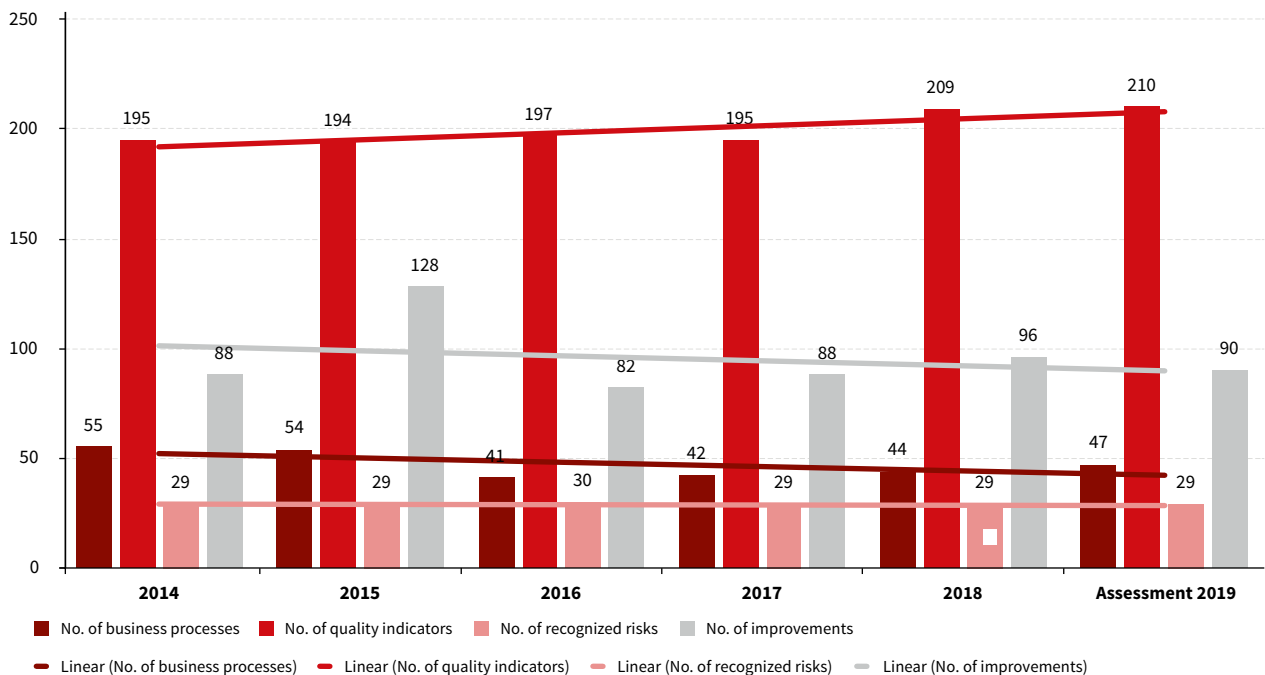
Systematic implementation of policies, strategies and objectives and organization plans are enabled by clear and mutually linked processes, which are optimized, managed, controlled and improved every day.

In 2018 the company Elektro Gorenjska, d. d., monitored and controlled its business with the help of 44 identified and interconnected business processes, which it manages through laws, organizational regulations and work instructions. Operation of business processes was monitored with the help of 209 established quality indicators, and 29 identified risks.

In the systematic management of operation iSVK there were 96 improvements / measures given, which proves that the company delivers on the commitment to continuous improvement and to continuous growth. Growth trends of quality of individual business processes of Elektro Gorenjska Company are checked quarterly and are addressed at the Quality Committee, where activities of other management systems are also reported on.



Figure 17: Monitoring of iSVK operation within EG, d. d. Company



Besides good functioning of the systems efficiency of the system is contributed also by good communication, regular checking and monitoring of the functioning of all systems within iSVK, and, ultimately, continuous improvement.

Continuous improvements are carried out in a planned and unplanned manner:

- › Planned improvements as a result of analyses and facts are triggered by the responsible process operators within their planned actions.
- › Unplanned improvements can be submitted as improvement proposals by individuals or groups.

Improvements that are dictated to us on one side by the quality standards and provided by the Demingo approach (PDCA circle, which helps the company make sure to support its processes with relevant resources, manages them and identify potential improvement opportunities and takes appropriate action) are treated systematically.

In 2018, 96 proposals – measures, improvements were given, contributing to both the system operation as well as enhancing the employees to look for improvements and additional measures that have a favorable effect on the good performance of the company and encourage further commitment of employees and environmental management.

As every year so far also in 2018 we successfully passed the external audit of certification part of integrated management systems.

In the process of audit of certification management systems no non-compliances have been established. A total of 38 recommendations were made (7 SVK, 6 SRO, 14 VZD and 11 SVI), which we have systematically dealt with and, given their importance also taken into account.

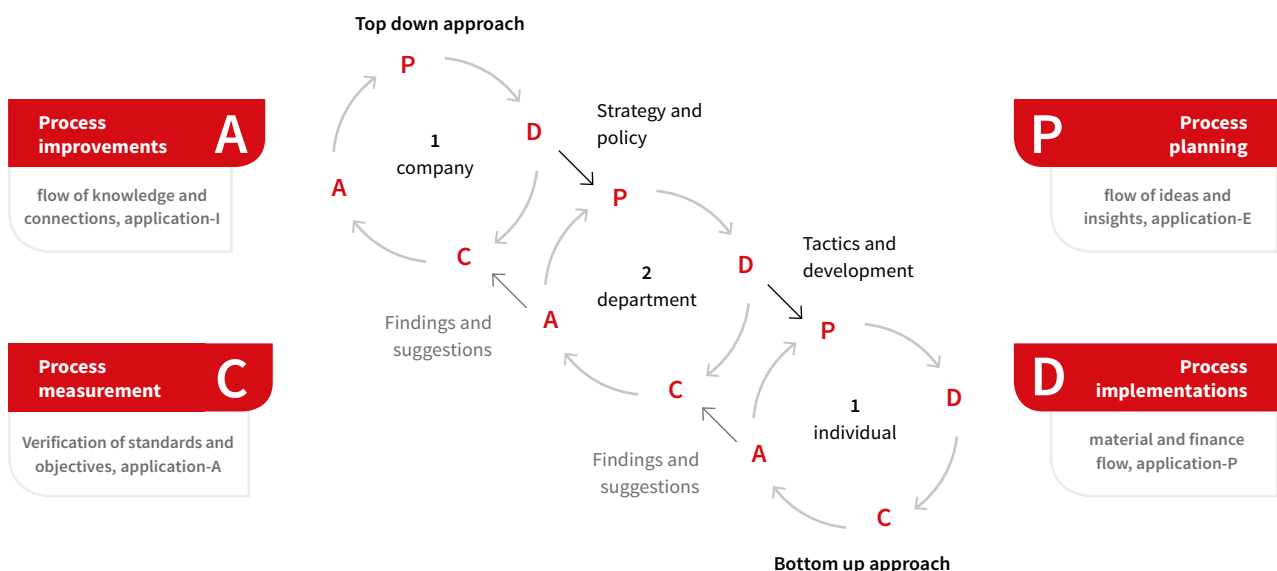
Since 2015 company Elektro Gorenjska, d. d. , has been carrying out 16 family-friendly measures. With the chosen measures, we strive for the overall well-being of our employees at the workplace, thereby informing them that they care for them and that they are co-creators of joint achievements and successes.

Certificate Family-friendly company is an advisory-audit process and has been developed as one of the tools for efficient and quality management of human resources within companies and organizations in the context of reconciliation of professional and private life of employees. As such, it represents one of the various possibilities for a socially responsible business or organization.

Companies and organizations are increasingly aware of our social responsibility and influence, as well as information that we communicate with our business to the employees and the general public.

We are aware that the company’s performance are not only leaders, but also employees that are crucial in a particular work process. For their successful development and growth, their satisfaction and their commitment are crucial, which is also a key goal of the Family Friendly Company Certificate.

Figure 18: PDCA circle (the Demingo approach in the dynamics of all processes)





## 4.2 Integrated quality management system of Gorenjske elektrarne Company

In the Company quality and excellence are reflected in business processes established according to revised standard ISO 9001:2015 and excellence model EFQM.

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



- › **quality management system** according to requirements of ISO 9001:2015, Q-1864, edition 03 / 2019-02-18, annex Q-1864/03 and
- › **energy management system** ISO 50001:2011, En-014, edition 02 / 2019-02-18, annex En-014/02.

In 2018 Gorenjske elektrarne received from the Slovenian Institute of Quality and Metrology SIQ Ljubljana International Association IQNet two new certificates according to standards of quality management and energy management Q-1864 for the scope of “Production and sales of electricity from renewable energy sources and the development and management of efficient use and energy management projects” for a company with business premises, maintenance workshops and 15 dislocated production sites.

Renewed quality management system according to the ISO 9001: 2015 standard was an integrated energy management system according to the ISO 50001: 2011 standard. We are still the only company in the power industry and the second in the energy sector that has obtained the ISO 50001 certificate for energy management. A revision of the ISO 50001: 2018 standard was adopted as well, which will be implemented in 2019.

Through ISO 50001: 2011 standard, the company has developed and implemented an energy policy and set a framework and targets and action plans which take into account legal requirements and information about significant energy use.

Further we are developing new services in the field of energy efficiency and energy management for use in our own and marketing projects. Therefore references represented by quality standards are important and are provided by the standard in the field of energy management.

Interconnection of the processes of the company Gorenjske elektrarne, d. o. o. and GEK Vzdrževanje, d. o. o. and strategic connections in the field of establishing joint energy engineering in the Elektro Gorenjska Group and improvement of technological, business and organizational flows will also be a permanent task in the field of quality management system for the period 2018-2022.

### Transition to revised standards 2018 – 2022

In the period 2018 - 2022 the company will continue with its activities in the field of improvements, monitoring of legislation in terms of processes, in terms of energy management and in terms of environmental management and in accordance with the new requirements it will modify and supplement the existing processes and putting it into practice within the company.

## 4.3 Risk management in Elektro Gorenjska Company

In Elektro Gorenjska, d. d., Company we are aware of the risks that are a component part of our operation. We are also aware that only a comprehensive and systematic risk management can be effective. For this purpose, in 2011, the company Elektro Gorenjska started to set up a risk management system.

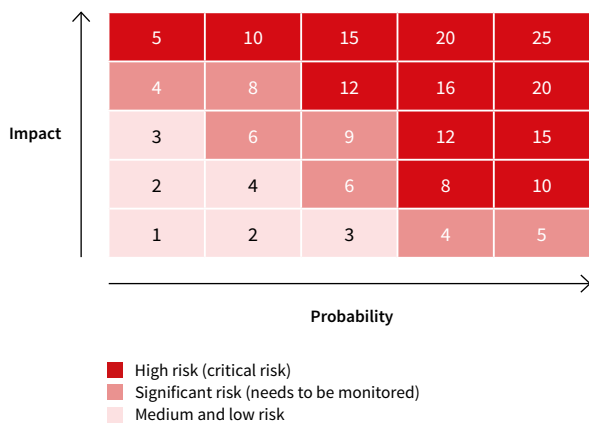
Risk management system is one part of our integrated quality management system (iSVK). Management of risks is an important condition for successful and efficient reaching of the set long-term business goals.

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

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

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

Figure 19: Risk severity assessment matrix



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

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

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

Primary task of the risk management system is a systematic analysis and evaluation of already identified risks, and continual identification of new ones. Last systematic review of the risk management system was on January 14 2019.

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

Figure 20: Identified risks according to their severity (share)

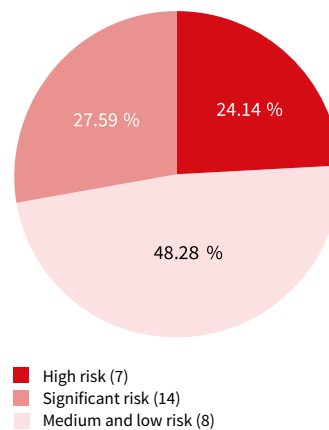


Figure 21: Identified risks according to their type (share)

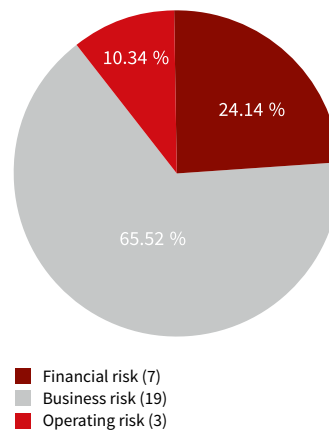


Figure 22: Classification of identified risks in Elektro Gorenjska Company

| Risks according to SEVERITY   | Risks according to TYPE   |
|---|---|
| <b>High risk</b>  | <b>Financial risks</b>  |
| › Methodology of Energy Agency and other regulations in the field of electricity distribution | › Inadequate payment of EG services by SODO   |
| › Operation of own information system   | › Risk of investments in subsidiaries   |
| › Compliance of implementation of Elektro Gorenjska Company strategy                          | › Lack of investment assets   |
| › Information security  | › Extraordinary expenses (penalties)  |
| › Change of contract with SODO  | › Credit risk of customer payments  |
| › Dispute with trade unions   | › Interest rate risk  |
| › Defects and general average   | › Liquidity risk  |
| <b>Significant risk</b>   | <b>Business risks</b>   |
| › Failure to comply with the voltage quality requirements                                     | › Methodology of Energy Agency and other regulations in the field of electricity distribution |
| › Adverse outcome of denationalization processes  | › Operation of own information system   |
| › Attacks on infrastructure, terrorism  | › Compliance of implementation of Elektro Gorenjska Company strategy                          |
| › Reduction of network efficiency   | › Information security  |
| › Inadequate payment of EG services by SODO   | › Change of contract with SODO  |
| › Risk of serious injury and death at work  | › Failure to comply with the voltage quality requirements                                     |
| › Lack of adequate staff  | › Adverse outcome of denationalization processes  |
| › Non-compliance and unethical business   | › Attacks on infrastructure, terrorism  |
| › Risk of investments in subsidiaries   | › Dispute with trade unions   |
| › Lack of investment assets   | › Defects and general average   |
| › Non-functioning of internal controls and incidence of fraud                                 | › Reduction of network efficiency   |
| › Credit risk of customer payments  | › Lack of adequate staff  |
| › Public procurement implementation process   | › Non-compliance and unethical business   |
| › Liquidity risk  | › Reduction of distributed electricity quantity   |
| <b>Medium and low risk</b>  | › Failure to comply with requirements for continuity of supply                                |
| › Reduction of distributed electricity quantity   | › Non-compliance with contractual obligations and quality of external contractors services    |
| › Extraordinary expenses (penalties)  | › Implementation of technically or economically unjustified investments                       |
| › Failure to comply with requirements for continuity of supply                                | › Failure to achieve commercial quality requirements  |
| › Non-compliance with contractual obligations and quality of external contractors services    | › Influence on environment  |
| › Interest rate risk  | <b>Operating risks</b>  |
| › Implementation of technically or economically unjustified investments                       | › Risk of serious injury and death at work  |
| › Failure to achieve commercial quality requirements  | › Non-functioning of internal controls and incidence of fraud                                 |
| › Influence on environment  | › Public procurement implementation process   |

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

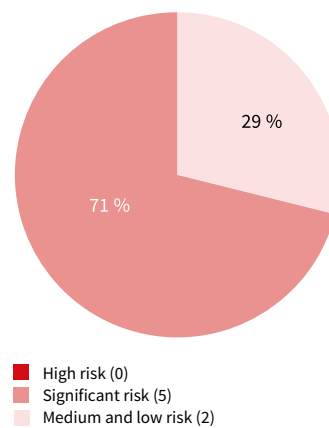
According to the obtained assessment of the individual severity group of risks, which are products of the likelihood of risk occurrence and impact, we classify risks into three groups according to their size of severity of treatment and represent a rough orientation regarding the level of the control system, the monitoring of risks or their control.

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

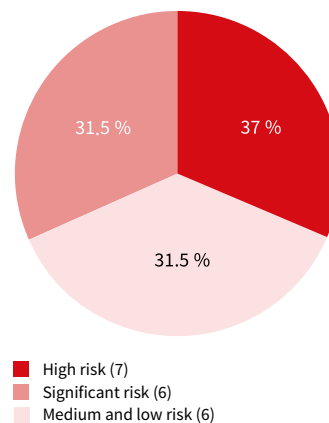
Aim of Elektro Gorenjska Company is the identification and management of risks in order to gain the opportunities and benefits to increase our competitiveness. For this purpose we, in Elektro Gorenjska, decided to upgrade the risk management system, and in year 2015 we acceded to quantification of risks, which was our basis for the upgrade of the risk management system with dynamic calculation of the value impact of risks on operation, which was implemented in 2016. As a rule, the dynamic impact of risks on the company's operations is updated at least once a year or compulsorily with a major change, which could consequently have an impact on the company's operations.

Figure 23: Individual types of risks according to their severity

**Financial risks** according to severity (share)



**Business risks** according to severity (share)



**Operating risks** according to severity (share)

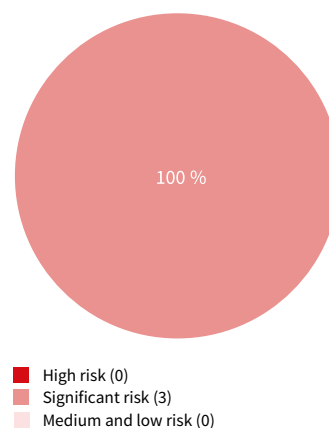


Figure 24: Dynamic impact of risks on the Company's operations according to their share of impact value (solvency aspect)

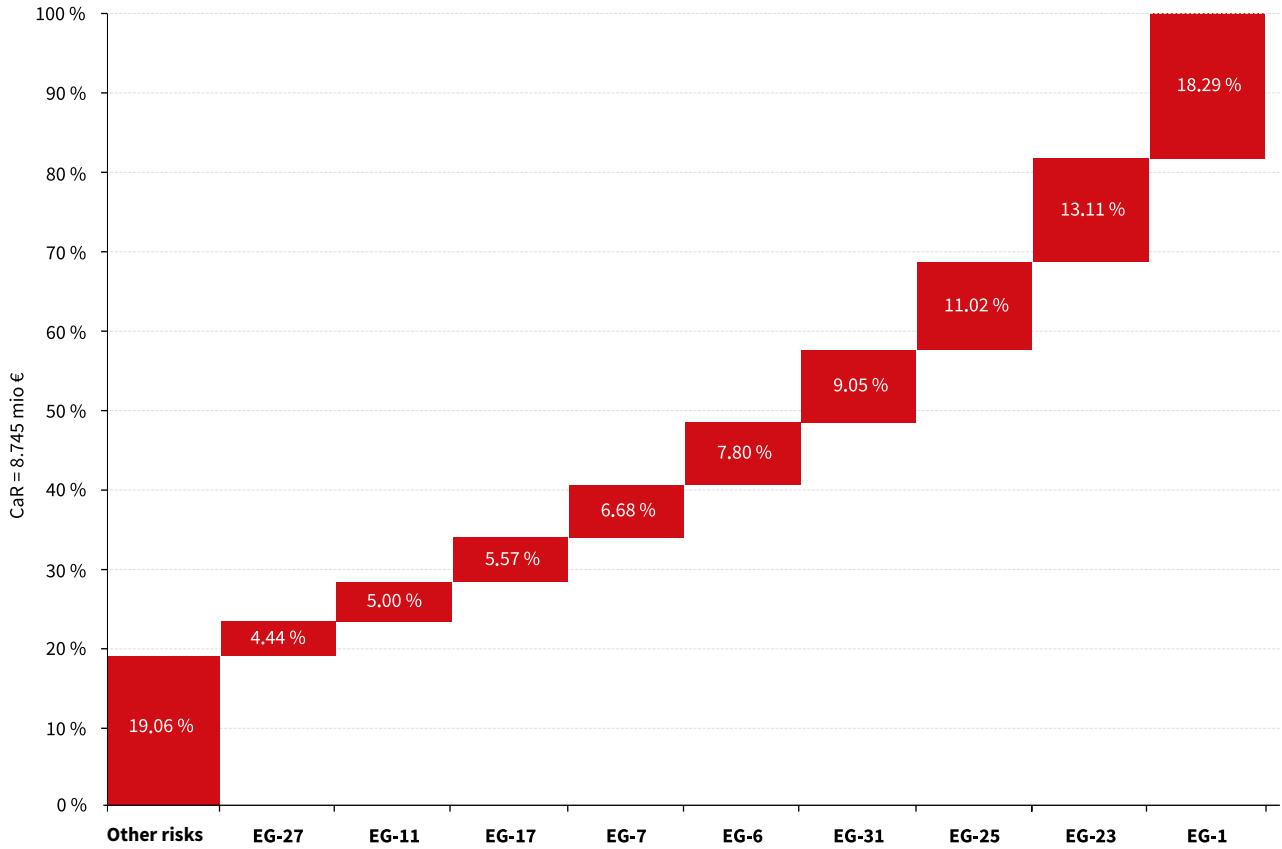


Figure 25: Share of dynamic impact of risks by individual types of risks

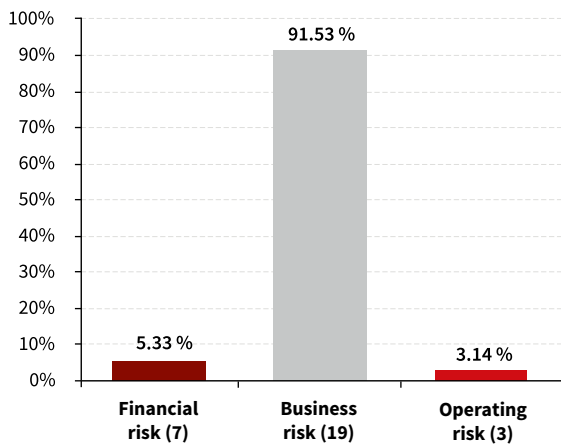


Figure 26: Share of dynamic impact of risks according to their severity

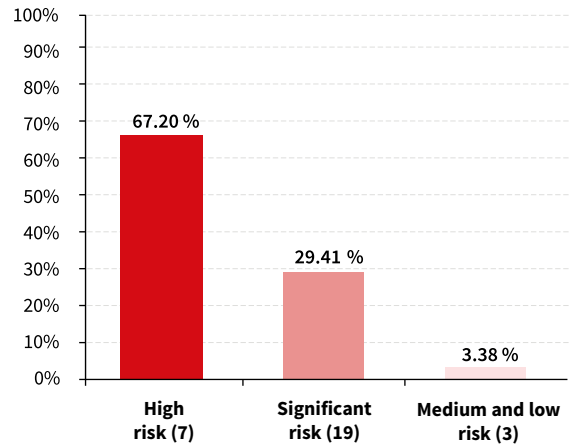
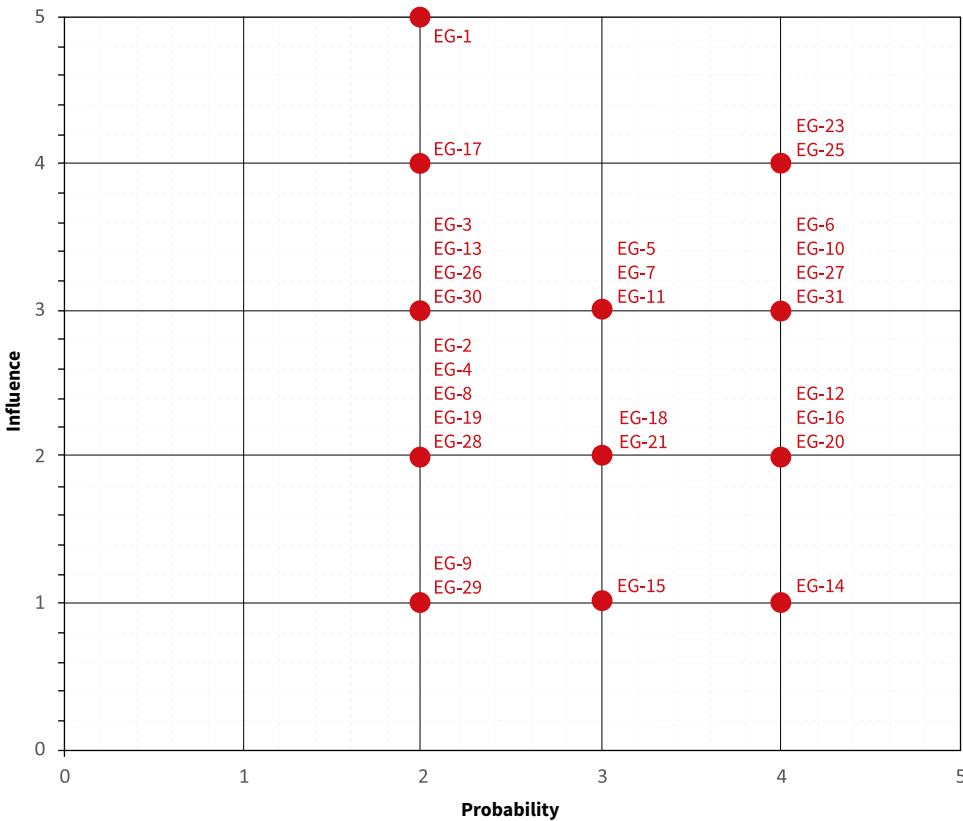


Figure 27: Layout of risks in Elektro Gorenjska, d. d. after the last assessment in 2019



Legend:

- EG - 1 Methodology of Energy Agency and other regulations in the field of electricity distribution
- EG - 2 Reduction of distributed electricity quantity
- EG - 3 Reduction of network efficiency
- EG - 4 Extraordinary expenses (penalties)
- EG - 5 Inadequate payment of EG services by SODO
- EG - 6 Change of contract with SODO
- EG - 7 Failure to comply with the voltage quality requirements
- EG - 8 Failure to comply with requirements for continuity of supply
- EG - 9 Failure to achieve commercial quality requirements
- EG - 10 Defects and general average
- EG - 11 Attacks on infrastructure, terrorism
- EG - 12 Credit risk of customer payments
- EG - 13 Lack of investment assets
- EG - 14 Liquidity risk
- EG - 15 Interest risk
- EG - 16 Lack of adequate staff
- EG - 17 Adverse outcome of denationalization processes
- EG - 18 Non-compliance and unethical business
- EG - 19 Non-compliance with contractual obligations and quality of external contractors services
- EG - 20 Public procurement implementation process
- EG - 21 Risk of serious injury and death at work
- EG - 23 Operation of own information system
- EG - 25 Compliance of implementation of Elektro Gorenjska Company strategy
- EG - 26 Non-functioning of internal controls and incidence of fraud
- EG - 27 Dispute with trade unions
- EG - 28 Implementation of technically or economically unjustified investments
- EG - 29 Influence on environment
- EG - 30 Risk of investments in subsidiaries
- EG - 31 Protection of information

Legend of influence degree:

- 1 Potential business loss is  $\leq$  100,000 €
- 2 Potential business loss is  $>$  100,000 € and  $\leq$  0.5 mio €
- 3 Potential business loss is  $>$  0.5 mio € and  $\leq$  2 mio €
- 4 Potential business loss is  $>$  2 mio € and  $\leq$  10 mio €
- 5 Potential business loss is  $>$  10 mio €

Legend of degree of probability of occurrence:

- 1 Occurrence of unwanted events is completely unique.
- 2 Event is not particularly probable, but cannot be excluded.
- 3 Event can happen only occasionally over a period of time, the more likely it is a random event.
- 4 Event can happen several times over a certain period, it is an often threat.
- 5 Probable event occurs often with a constant risk.

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

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

Risks at the system level are managed through compliance with the requirements of the integrated management system, which also includes:

- › quality management system ISO 9001:2015,
- › environment protection system ISO 14001:2015,
- › health and safety at work system – BS OHSAS 18001:2007,
- › information security management system ISO/IEC 27001:2013.

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

Also in 2018, large part of the identified risks in Elektro Gorenjska Company referred to business risks related to activity of implementing the contract on the lease of electricity infrastructure and implementation of services for SODO, d. o. o., as the company creates a vast majority of its revenues under this contract. Business risks thus relate to the ability of long-term and stable provision of adequate electricity infrastructure, human, material and financial resources for the implementation of the core activities of the company (electricity distribution), and are followed by the financial and operating risks.

#### 4.3.1 Business risks

##### HIGH RISK

##### ■ Methodology of the Energy Agency and other regulations in the field of electricity distribution

Revenues referring to infrastructure lease and payments for services rendered are determined by the Agency through Act determining the methodology for charging for the network charge and the criteria for establishing eligible costs for electricity networks. In accordance with the Act there is a risk of lower income due to: failure to achieve the required cost-effectiveness, changes in legislation or regulations.

##### ■ Operation of own information system

Due to inadequate operation of its own information system or connections with a single entry point at Informatika, d. d. (PERUN IIS portal) there may be a failure to fulfil the provisions of legislation and contractual obligations (SODO - EG contract) in managing processes and recording changes in the life cycle of the user, the preparation of measurement and accounting data, and the invoicing of network usage and contributions according to Energy Act. Consequently, incorrect connections or user disconnections, wrong financial flow between actors (users - EG - SODO - suppliers - ELES - Energy Agency - Borzen) and claims for damages can also occur.

##### ■ Compliance of implementation of Elektro Gorenjska Company strategy

EG Company has a strategy set up. Strategy is based on the orientations of the company's business model, the electricity distribution strategy and the orientations given by the key actors (SDH, the competent ministry) that are integrated into the company's operations.

##### ■ Risk of information security

Within the activities of the company Elektro Gorenjska, d. d., loss of, disclosure or the invasion of business and personal data may occur, which may lead to a violation of the law, and in the worst case it may jeopardize the company's performance.

##### ■ Modification of the contract with SODO

Annual contracts with SODO contain increasing number of provisions that are disadvantageous for EG. In the future the following might occur: transfer of ownership of EG assets to SODO, transfer of task implementation to SODO, transfer of cash flow to SODO. All of the above reduces the autonomy of EG operation.

■ **Disputes with trade unions**

Company may suffer loss of revenue or damage due to disagreements between the administration and the demands of workers (strike) and other causes, such as, for example, the activities of managing the company according to the requirements of the owners, which can trigger the dissatisfaction of the workers.

■ **Defects and averages**

Due to weather conditions, faults on devices or unintentional interventions by third parties, defects and averages of different size may occur.

**SIGNIFICANT RISK**

■ **Non-accomplishment of the DP or necessary investments: voltage quality**

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

■ **Adverse outcome of denationalization processes**

Denationalization procedures for MHE Sava, MHE Jelendol and MHE Pristava cause additional costs related to extended court procedures and additional financial requirements of the new owner. Company is at the stage of problem solving, which can have a significant financial impact in the event of return of objects in kind and payment of compensation to new owners.

■ **Attacks on infrastructure, terrorism**

Risk represents the possibility of intrusions in the ICT, IT and DCV systems, destruction or damage to individual facilities and theft of parts of the infrastructure.

■ **Reduction of network efficiency**

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

■ **Personnel risk or lack of adequate staff**

Through reorganization and retirement, which is not replaced by new employees, the company faces a reduction in the number of employees. This increases the workload of employees who remain in the company. Because of the overload of individuals, the possibilities for errors increase. There may also be desires for departures. We try to fill the departures from the company with internal resources, which do not always have an adequate educational structure. This may be the reason for the poor quality of work. Individuals who are unmotivated and therefore less successful in their work do not perform their work within the deadlines or they perform it unprofessionally, they also have a negative impact on the performance of individual projects. These events are happening almost certainly, and the impact on the business is insignificant. Risk includes the loss of key personnel, the lack of skilled personnel and the provision of competent personnel, as well as the conduct of employees who are not in compliance with the regulations and internal acts of the company.

■ **Non-compliance and unethical business**

In the event that the company did not meet the requirements of the regulator, legislation, regulations, valid recommendations, internal regulations, good business practices and principles of ethical business, and monitored their changes, economic damage could result from penalties, actions or loss of reputation.



## MEDIUM AND LOW RISK

■ **Reducing the amount of energy distributed**

Company's revenues may be reduced at the expense of smaller quantities of electricity distributed which is reducing due to: economic crisis and/or increasing own production and self-sufficiency (net-metering). Consequently, SODO realizes lower revenue from network charge, which is the basis for payment of rent and services to the distribution companies according to the Agency decision. Costs of EG are not in decline, as it has to continue to maintain the existing electricity infrastructure.

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

Deterioration of continuity indicators may occur due to: lack of maintenance resources; limited employment of qualified staff; insufficient robustness of the network, which is achieved mainly through cabling; insufficient automation of the network.

■ **Non-compliance with contractual obligations and quality of external contractors services**

Risk constitutes that the supplier does not deliver or otherwise fails to meet its contractual obligations (supplier's bankruptcy, poor quality of the material, etc.), which results in a delayed implementation of the project or a problem in ensuring the distribution of electricity. Impact of such an event on the company would be insignificant, but there is a likelihood of this happening.

■ **Implementation of technically or economically unjustified investments**

Risk that the company makes investments that are not technically or economically justified.

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

To achieve adequate commercial quality it is necessary to employ the necessary qualified staff and have a sufficient level of resources.

■ **Risk of influence on environment**

Company can have an indirect or direct impact on the environment through its operation. To this end, environmental aspects are identified, over which watches the environment management council. Risks are managed by monitoring and compliance with environmental legislation, meeting the requirements of the ISO 14001:2015 environmental management standard, training and regular performance audits.

## 4.3.2 Financial risks

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

## SIGNIFICANT RISK

■ **Inadequate payment of EG services by SODO**

Inappropriate payment of EG services by SODO may occur due to: requirements for provision of services that are not subject to a contract with SODO, dispute concerning the quality of the service performed and charged by the EG, inadequate decision of the Agency to determine the regulatory framework.

■ **Risk of investments in subsidiaries**

Company Elektro Gorenjska has the following important investments: Gorenjske elektrarne 100 % share; ECE 25.6744 % share; Informatika 9.56 % share. Investment values represent an impact risk (positive or negative) on the operating result of the parent company. Bad business result of investments has a potential impact on the profit or loss of the parent company or the owner.

■ **Lack of investment funds**

Company fails to provide funds for the realization of planned investments due to the lack of own funds and the inability of the company to borrow to the necessary extent. There is a likelihood that the event happens almost certainly, especially if the distributed energy is lower than planned, which consequently affects the result of operations. Investment funds can also be reduced due to the payment of dividends to owners. Such an event would have little impact on the company's financial position. In the long term, however, this risk is increased, as, due to smaller investments in infrastructure, there could be a lower quality of voltage, greater power interruptions and poorer commercial quality.

■ **Credit risk of customer payments**

On the basis of the Contract for leasing the electricity distribution infrastructure and the provision of services to the operator, the company collects customer payments in its own name and for the SODO, d. o. o., account. In addition, the company also carries out marketing services in market activities. There is a higher risk in that, despite the unpaid due customers' claims, the company must settle all liabilities to SODO in accordance with the Contract and its annexes.

Based on past experience, there is a likelihood that this event certainly happens. It is estimated that such a situation would have a moderate impact on the business or liquidity, since it is estimated that non-payment may come primarily from business customers in the network charge charging segment. In part, the company has recognized and covered possible write-offs of receivables in accordance with the regulation, but only up to 0.2 % of the charged network charges (approximately 51,000 € per year). In the current situation, when the company has never had major expenses from claim revaluation, the largest risk is represented by receivables from market activities, which are not covered by regulation and therefore could have a direct impact on the business.

■ **Liquidity risk or risk of short-term insolvency**

Company could have major liquidity problems, mainly due to uneven inflows and outflows, and long-term procedures for obtaining long-term loans and possibly larger uncontrolled exceeding planned investments. In the event of an inability to pay major obligations, the impact on the business would be moderate. In the event of a late acquisition of a long-term loan, there is a high likelihood of such an event occurring.

**MEDIUM AND LOW RISK**

■ **Extraordinary expenses (penalties)**

It represents the risk of receiving: penalties for Energy Act violation and secondary legislation, penalties for maintenance violations, penalties for pollution.

■ **Interest risk**

Company borrowed more than half of long-term loans at a variable interest rate that could increase in the event of a greater economic activity and measures of central banks in the EU, which would have a direct negative impact on the result of operations due to higher financing costs. The event may occur in the following years.

### 4.3.3 Operating risks

Within the framework of operating risks, the company shall continue to focus on the following:

**SIGNIFICANT RISK**

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

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

■ **Non-functioning of internal controls and incidence of fraud**

Due to insufficient internal controls, the company can lose revenue or has damage.

■ **Public procurement implementation process**

Public procurement procedures may entail the submission of audit requests by tenderers, delays in the initiation of public procurement procedures, causing a delay and a threat to investment. There is also the risk that an inadequate number of tenderers who meet the tender conditions will apply to the tender. There may also be arrangements between providers that increase the costs of the company.

In order to eliminate various risks that could jeopardize the company's performance and cause greater material damage, the company has concluded property insurance with insurance companies (**single policy of property insurance**).

#### 4.4 **Audit Committee of the Supervisory Board, Internal Audit and Risk Management**

Company Elektro Gorenjska has established functions of risk management and internal audit that are organized within the parent company and cover the scope of operations of the entire Group:

- › **Internal audit function** is managed by an internal auditor who reports to the Supervisory Board's audit committee, and administratively reports directly to the chairman of the board of the parent company.
- › **Risk management system** is managed by a risk management coordinator reporting to the internal auditor, the risk management council for each area, and to the chairman of the board of the parent company. In autumn of 2012, the field of risk management and the role of the coordinator for risk management in the company Elektro Gorenjska was taken over by the Quality Management Advisor, which takes care of the operation of the system of an integrated management system in the company.

At its 1st regular meeting held on September 14, 2017, the Supervisory Board appointed Mr. Andrej Koprivec as member of the Audit Committee of the Supervisory Board of Elektro Gorenjska; he was also appointed Chairman of the Audit Committee of the Supervisory Board of Elektro Gorenjska; and Mr. Franjo Curanovič.

Among professional experts qualified for accounting and auditing who completed their training for obtaining the title of certified auditor, auditor, certified accountant, accounting officer, certified internal auditor, certified tax officer and the like, prof. dr. Simon Čadež was appointed.

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

Objective of the internal audit activity is to provide assurances regarding the risk management of companies in the Group and to add value with advice at all levels regarding risk management, asset protection and improvement of efficiency and quality of operations.

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

In 2018, the internal audit carried out nine audits. Special attention was paid to the areas of investment in the parent company, taxes, wage calculations, sponsorships and donations, commercial quality, safety and health at work and maintenance, electricity sales and trade in receivables in a subsidiary. In addition, it regularly monitored the implementation of the recommendations made.

Internal audit in the framework of individual audits assesses and checks the adequacy and effectiveness of the operation of internal controls. Internal audit estimates that the internal control system in the company is in place and appropriate, and there are possibilities for its improvement, to which it refers with the issuing of recommendations.

In the context of its work, the internal audit also focused on managing the risk of fraud and the management of IT risks. On the basis of the examinations carried out, it estimates that the internal control system is in place and functioning to prevent significant fraud. It also estimates that IT risks are properly managed.

## 4.5 Risk management in Gorenjske elektrarne Company

Company is aware of the need for timely and up-to-date identification of all types of risks. On this basis, the Company adopted the Rules for the Identification and Assessment of Risks. Risk management is a process for identifying and evaluating, managing and controlling possible events that could have an adverse impact on the company. Risk management involves providing appropriate assurances in order to achieve the company's objectives.

In order to assess the impact of risks in the company, we use adjectives insignificant, small, moderate, high and disastrous, with the financial and operational aspect of the business being influenced by the rating, and the rates are also financially quantified.

Basis of the final risk management is their identification and assessment of the severity that the company assesses as a product of the probability of risk materialization and effects on the company's operations and is graphically depicted in the matrix below.

Figure 28: Evaluation of risks

| Probability         | Impact  |         |            |       |                |
|---------------------|---------|---------|------------|-------|----------------|
|                     | 1-Minor | 2-Small | 3-Moderate | 4-Big | 5-Catastrophic |
| 1-Almost impossible |         |         |            |       |                |
| 2-Very unlikely     |         |         |            |       |                |
| 3-Possible          |         |         |            |       |                |
| 4-Very likely       |         |         |            |       |                |
| 5-Almost certain    |         |         |            |       |                |

Risk severity: ■ High risk ■ Significant risk ■ Medium and low risk

In the Company the following risks are considered the key ones:

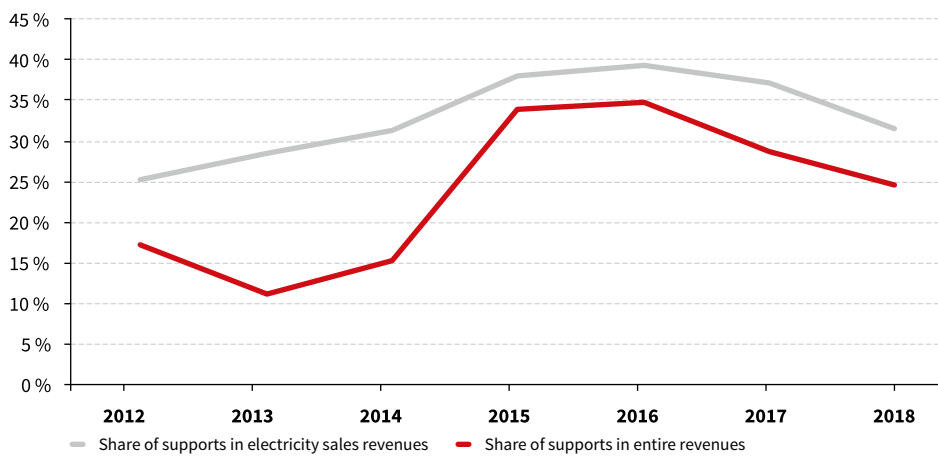
### Reduction of supports for electricity generated from RES

Company recognized as one of the major risks the risk of reducing supports for electricity generated from renewable energy sources. In this context, we evaluate the risk that the government will, in any way, reduce the already approved supports within a single power plant or source of production by means of a regulation or a decree. We consider the risk as significant; unfortunately, the risk belongs to a segment that we cannot directly influence.

In the calculation of the potential impact, on the basis of the data for 2018, it was calculated that the general reduction of supports of 20 % for the company at the annual level would amount to 209,199 € less revenue, while the general reduction of 40 % already amounts to 418,399 € less revenue.

Graph below shows the share of revenue from supports in total revenues and in revenues from the sale of electricity. Due to the declining electricity price, the graph shows the trend of increasing the share of revenues from supports in (total) revenues from 2013 to 2016. Trend has been reversed since 2017.

Figure 29: Share of supports in revenues



Indirectly, we can avoid the risk or mitigate its materialization with other revenue sources, especially in the area where revenues are not linked to supports for electricity produced.

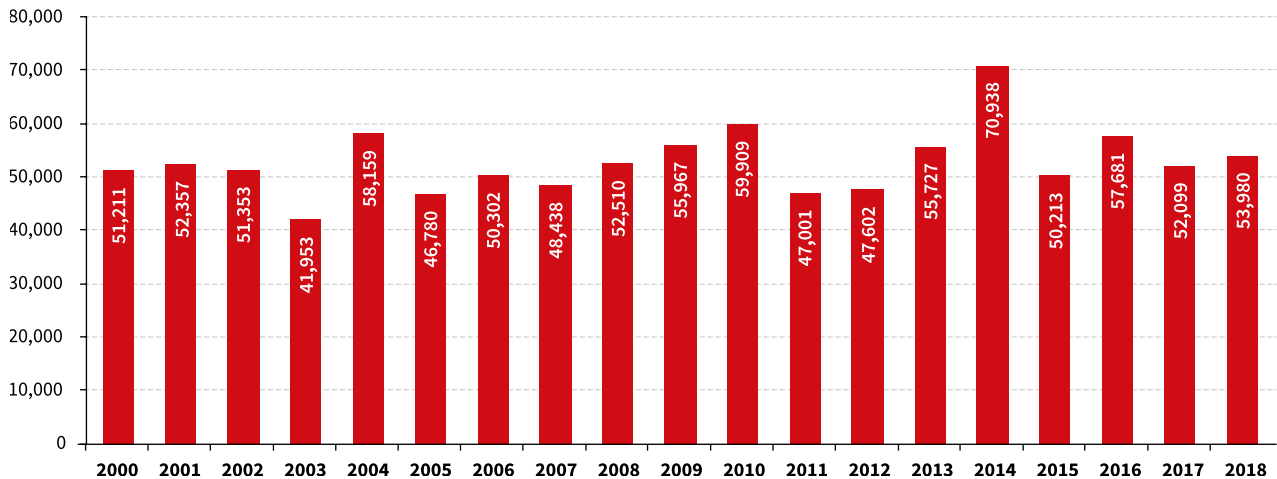
#### Risk of weather conditions

Gorenjske elektrarne Company is decisively linked to weather conditions in its primary activity, electricity production. About 90 % of the volume production comes from hydroelectric plants whose production is decisively affected by the amount of precipitation. It can also swing +/- 25 % around the long-term average. Also, the operation of solar power plants depends on the insolation, and the operation of the SPTE on mild or cold winters.

Risks are also associated with changes in climatic conditions due to the warming of the atmosphere. Company Gorenjske elektrarne is experiencing climate change in the form of growing extremes. Thus, we have longer and stronger drought periods and several weather events with extremely high precipitation. Both cases mean lower production for HPPs, because in the event of flash floods, HPPs should be stationary for safety reasons.

Risk of weather conditions is assessed as significant, and the annual maximum impact is evaluated annually to 440,376 €. The latter is calculated on the basis of the established maximum deviations in production from the last ten-year average in each segment (HE, MFE, CHP) and taking into account the selling price of electricity in 2018 (also separately by sources of production).

Figure 30: Production in MWh from year 2000 to 2018



After 2000, the hydrological conditions played a key role in achieving electricity generation at the threshold. The lowest production was in the observed period of 2003, amounting to 41,953 MWh, and the highest in 2014, which amounted to 70,938 MWh.

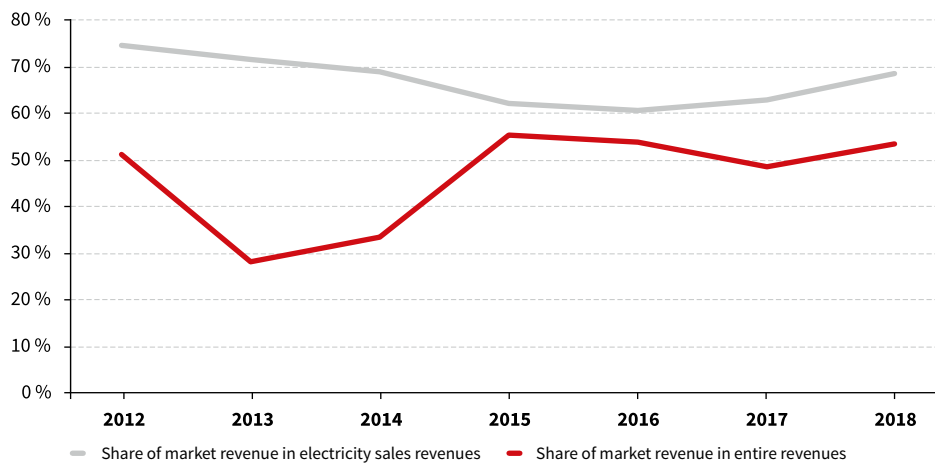
Company manages this risk primarily through a development policy that is intensely focused on diversifying revenue sources and introducing new types of revenues from energy efficiency projects, thus reducing the share of sold electricity in sales revenues in the long run. At operational level, the Company manages the risk of production volatility by optimizing the maintenance of production facilities, thereby minimizing the extent of production downtime.

#### Market risk – decrease in the sales price of electricity

Gorenjske elektrarne Company is exposed to fluctuations in the market price of electricity when selling electricity produced. It moves in correlation with economic trends, and it can also be significantly influenced by external shocks, such as the failure of major production units in the European context, or a change in the policy guidelines for electricity generation, for example, the abandonment of production in nuclear power plants. Price of electricity in the Slovenian market is in correlation with the prices formed within the European stock exchanges. In the observed period of the year until 2017, a downward trend was observed as a result of low electricity prices on European stock exchanges, which is also reflected in the market price of electricity in Slovenia. Reduction in the average price of electricity sold from HPPs is further influenced by the abolition of supports for HE facilities over 15 years old. Any change in the selling price of 1 €/ MWh is reflected in the business result of +/- 50,000 € per indicative annual output of 50,000 MWh.

It is evident from the figure below showing the Share of revenues from the sale of electricity to the wholesaler and final customers in the company's total revenues from revenues from the sale of electricity that the share of revenues from the sale of electricity to final customers or wholesaler in total revenues or in electricity sales revenue is reducing, which is in line with the general global decrease in the market price of electricity.

Figure 31: Share of revenues from the sale of electricity to the wholesaler and final customers in the company's total revenues from revenues from the sale of electricity



Company manages the market risk or risk of fluctuations in electricity sales prices mainly by the ongoing monitoring of all factors that affect the price and the consequent anticipation of price developments. On the basis of analyses, the Company decides to sell electricity for future periods when it considers the price to be favourable. Customer is selected on the basis of the best offer.

Risk of fluctuations in electricity prices is significantly controlled by the Company by selling the production of individual power plants in the system of operating supports. Borzen, for each kWh produced, adds a difference in the form of support. Through the system of operating supports, the Company generates approximately 35 % of total electricity sales revenue.

Price of electricity again rose in 2018 and 2019. Company, however, actively placed itself on the brink of falling electricity prices and, following the example of foreign companies, began to restructure its core business and operations. In order to further grow and achieve satisfactory returns for the owner, the transformation of a company from the electricity generation company to the energy management company is of key importance.

#### Availability of production capacity

As a concessionaire, the Gorenjske elektrarne Company must regularly maintain water infrastructure facilities and aquatic land owned by it, in accordance with the Program for the operation and maintenance of water infrastructure facilities, which is adopted by the competent ministry.

Loss of production in combination with the machinery breakdown as a result of average, unplanned downtime and poor maintenance can make a significant loss of revenue for the Company. Therefore, the Company ensures that failure of production units does not occur by performing regular monitoring, enhanced monitoring in case of adverse weather conditions and planned and ongoing maintenance. In the event that a production failure occurs, the Company, by engaging employees and own funds or with the help of outsourcers, ensures the elimination of faults as soon as possible. All production facilities are also mechanically protected and fire protected, while the largest five solar power plants and five largest hydro power plants are insured also in the event of a loss of income from the machinery breakdown or fire.

**Impact of Qes requirements**

Qes is the economic minimum flow that must be provided when capturing water for generating electricity from the HPPs. Possible change, especially in the direction of the increase in Qes due to the introduction of water permits (previously a concession), would mean a decrease in production capacity in the hydrological sector and a consequent decrease in revenues in this segment.

Company has been carrying out activities to manage this risk for a long time (cooperation with other electricity producers from the HPPs and dialogue with the Ministry of Infrastructure and the Ministry of the Environment and Spatial Planning). At the moment, the regulation that governs this area has not yet been adopted.

On the other hand, the measure in terms of limiting the materialization of the risk is towards the diversification of revenues that is the generation of new types of revenue, currently primarily in the area of efficient energy use.

**Credit risk**

In accordance with the risk identification and risk management policy, the Company has also recognized credit risk or the risk of default by customers. Company approached the risk by sending reminders, individually agreeing on payments, compensating, issuing the accounts of default interest and, in extreme cases, through a personal recovery process and legal enforcement. In recent years, the Company has no outstanding receivables. Majority of receivables are paid on the due date or within 30 days after the due date.

**Currency risk**

Currency risk is a financial risk and presents a risk of financial loss due to changes in the value of one currency compared to another. Company was not exposed to currency risks in 2018.

**Interest rate risk**

Interest rate risk means the possibility of a loss due to unfavourable interest rates on the market. Company has not been in debt, therefore it is not exposed to interest rate risk.

**Risk of insolvency**

Risk of insolvency is the risk that the Company will face difficulties in collecting the financial resources needed to meet its financial obligations. Company did not face this risk in 2018.

**IT risk**

In the context of IT risk, we identified the following risks: risk of data security against external intrusions and abuses, risk of unreliable business support due to unreliability of the system, risk of quality of IT services by external IT provider.

Company considers the risk as a significant risk, however, due to its specificity, the influence cannot be evaluated. Company manages the risk through a binding contract with an information service provider.

**Non-economy of purchases and inadequacy of investments**

In the context of the risk of non-economy of purchases, we mainly recognize the risk of purchasing material and services at prices that significantly deviate from average market prices. In the case of investments, we recognize the risk of implementing economically ineligible investments. We consider the risk as a high risk, but the impact itself cannot be evaluated.

Company manages the risk through the process of obtaining more bids for the same material or service, and of course with procedural instructions and measures in the entire system of purchasing materials, services and investments. To this end, the Company adopted two rules, namely Rules on Procurement of Materials and Services, and the Organizational Regulation for risk management of high value purchases. Operation in accordance with these rules is regularly monitored and checked.

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

In this segment, we primarily recognize the risk of serious injuries and death at work. We assess the risk as a high risk, and we assess the potential impact on the annual level to 100,000 €. Company manages the risk by compulsory use of protective equipment, training and implementation of other legislative requirements in the field of safety and health at work. Similarly, all employees are collectively accidentally insured.



**Environmental risks**

In operation of hydroelectric power plants, environmental risks arise in terms of the impact of power plants on the environment, groundwater and fish in waters. The greatest risks are the installation of mechanical and electrical devices that contain oils and, where in case of a possible discharge pollution of the environment and water could occur. In the Company's storehouse, we have various oils that pose a threat to the environment if an outflow into the groundwater and into the river occurred. In the operation of cogenerations, the risks are due to oils in devices. In the case of solar power plants we should consider environmental risks in the decomposition of photovoltaic modules at the expiry of their service life or if unexpected damage and material defects occur.

Company manages environmental risks with high standards in the construction of production facilities and the placement of production facilities into space. In the waterproof areas, instead of conventional oils, the synthetic organic esters MIDEL are installed. We work with fishing clubs that provide us with knowledge and help to ensure high ecological standards. With the maintenance requirements of hydraulic devices, we order a fish catch at the fishermen. Possible interventions in the riverbed are dealt with professionally, on the basis of prepared solutions with the elaboration of a water management company and with minimal environmental impacts.

Company has concluded insurance to reduce risks, insofar as all preventive measures would still exceptionally result in ecological damage.

# 5 Business analysis of the Group

## 5.1 Production of electricity

In year 2018 the Gorenjske elektrarne Company generated and sold a total of 53,760 MWh of electricity, which is by 3.2 % more than in year 2017. It generated electricity in 14 own hydro power stations, and one power station the company is renting from the founder Elektro Gorenjska, d. d., Company since its establishment. Electricity was generated also by 17 solar power stations in the area of Gorenjska region and one solar power station in Maribor (which is rented) and one solar power station in Nova Gorica. Besides that the company produced heat and electricity in five high-efficient cogenerations.

Figure 32: Electricity produced (in MWh) in period 2015–2018

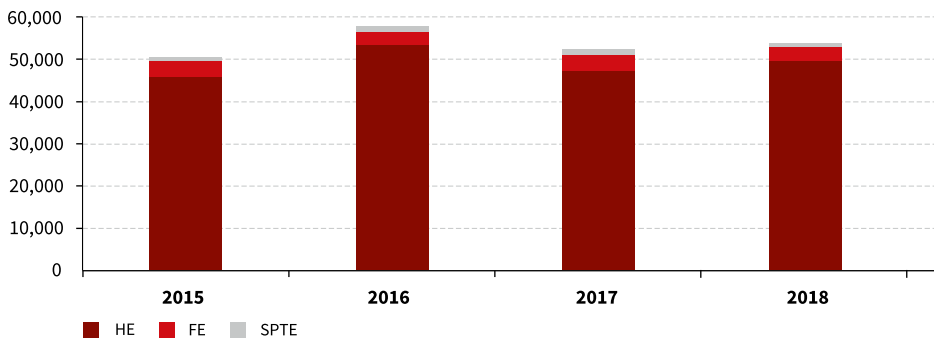


Figure 33: Electricity produced (in MWh) in HE by months of year 2018

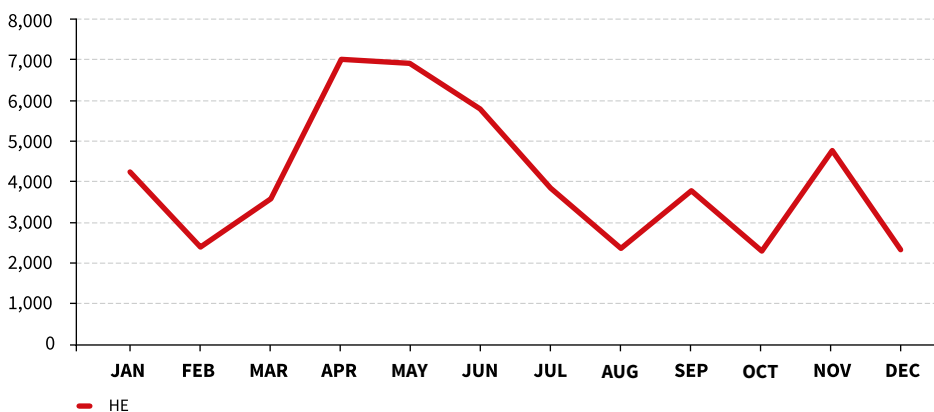
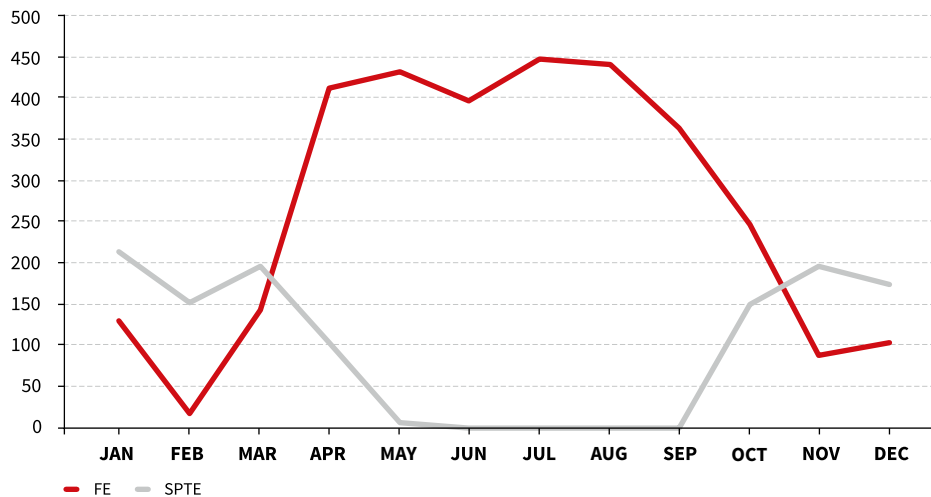


Figure 34: Electricity produced (in MWh) in FE and SPTE by months of year 2018



Of renewable energy sources the company Gorenjske elektrarne uses water sources (hydro power stations) as well as solar energy (solar power stations) and natural gas (cogenerations).

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

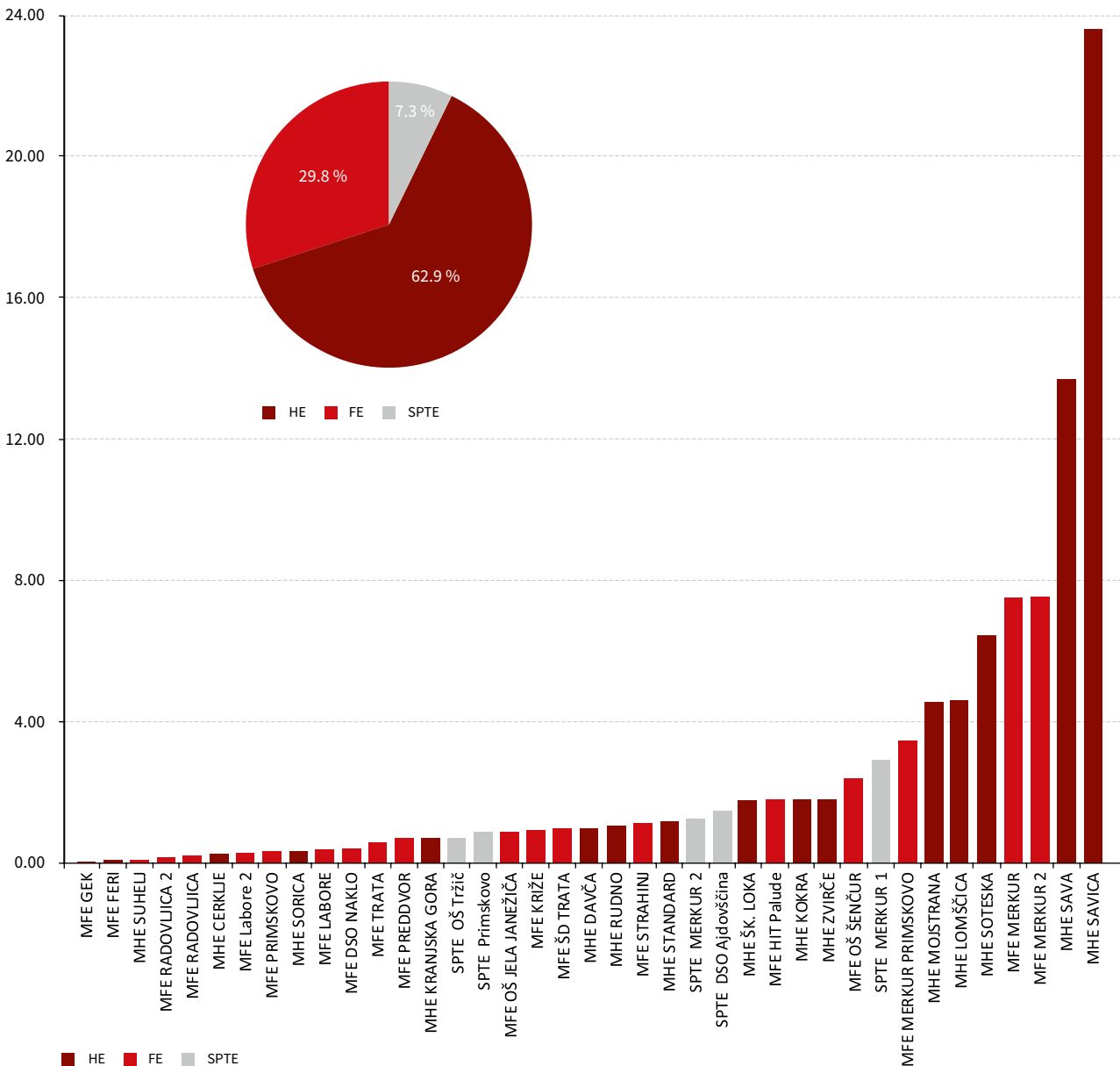
In solar power plants it is mainly about direct transformation of solar radiation into electricity. Main advantages of solar energy utilization are: environment friendliness, possibility of supply in remote areas, production and consumption at the same location. Main problem of solar energy utilization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

Co-generation of electricity and heat is simultaneous production of electricity and heat. It represents the method of converting the fuel energy into electricity, where main part of heat, which occurs as side product during this conversion, is put to good use.

Different technologies enable the use of various fuels with different efficiencies. What all technologies have in common is the total more efficient process of converting the energy for the good use of the heat, which is otherwise present in traditional thermal power plants. Advantage of acquiring electricity in this way is mainly in efficient conversion of fuel energy into useful heat and electricity. Mentioned ways also reduce the dependence on the existing ways of acquisition of electrical energy.

Following figure presents the share of individual power plants in total revenues from the sale of electricity for 2018.

Figure 35: Share of individual power stations in total amount of electricity produced in year 2018



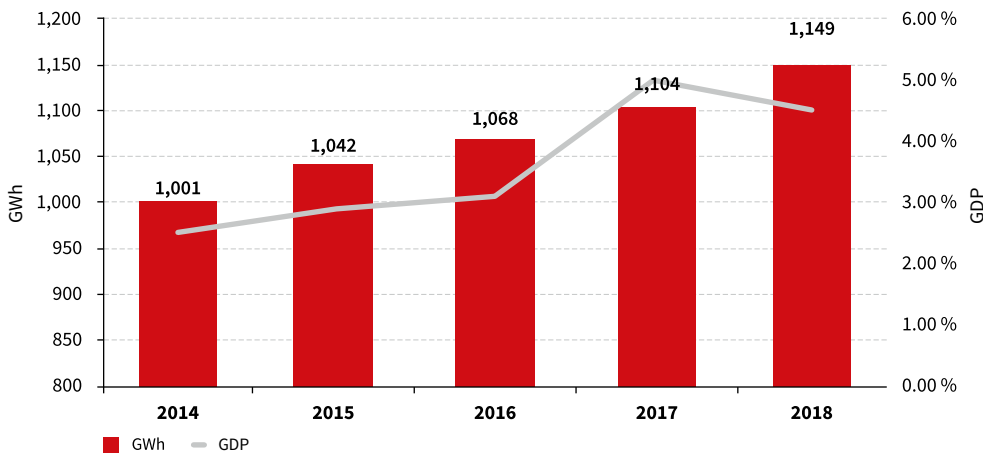
## 5.2 Quantities of distributed electricity

In year 2018 there were 1,149,085 MWh of distributed electricity through the network of Elektro Gorenjska Company or 4.1 % more than in year 2017 (1,103,725 MWh).

In year 2018 household customers within the network of Elektro Gorenjska Company were distributed 344,606 MWh of electricity, which is by 1.3 % more than in year 2017 (340,181 MWh). Business customers within the company’s network were distributed 804,479 MWh of electricity, which is by 5.4 % more than in year 2017 (763,544 MWh).

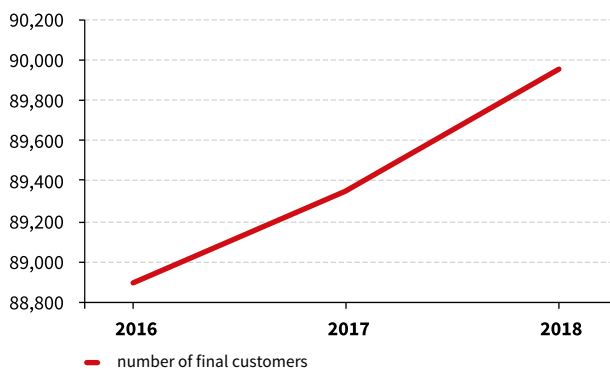
We believe that the reason for somewhat larger quantities of distributed electricity in year 2018 is further improvement of economic situation compared to year 2017 and thus higher productivity of primarily business customers.

Figure 36: Changes in distributed quantities of electricity and GDP from year 2014 to year 2018



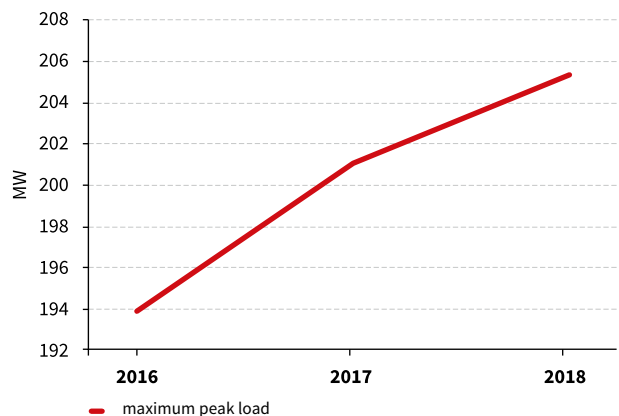
Distributed quantities of electricity as well as the number of final customers in the distribution area of Elektro Gorenjska are growing each year.

Figure 37: Number of final customers from 2016 to 2018



Maximum peak loads per year are shown in the following figure.

Figure 38: Maximum peak power from year 2016 to year 2018



### 5.3 Quality of electricity supply

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

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

#### Continuity

Continuity has been followed in accordance with the legislation. Analysis has shown that in year 2018 the indicators are within the prescribed limits.

Table 10: Unannounced long-term interruptions according to type of network in year 2018

|                    | Own                |                 |                    |                 | Foreign            |                 |                    |                 | Force majeure      |                 |                    |                 | Total              |                 |                    |                 |
|--------------------|--------------------|-----------------|--------------------|-----------------|--------------------|-----------------|--------------------|-----------------|--------------------|-----------------|--------------------|-----------------|--------------------|-----------------|--------------------|-----------------|
|                    | SAIFI              | SAIDI           | CAIFI              | CAIDI           | SAIFI              | SAIDI           | CAIFI              | CAIDI           | SAIFI              | SAIDI           | CAIFI              | CAIDI           | SAIFI              | SAIDI           | CAIFI              | CAIDI           |
|                    | [inerr./<br>cust.] | [min/<br>cust.] | [inerr./<br>cust.] | [min/<br>cust.] | [inerr./<br>cust.] | [min/<br>cust.] | [inerr./<br>cust.] | [min/<br>cust.] | [inerr./<br>cust.] | [min/<br>cust.] | [inerr./<br>cust.] | [min/<br>cust.] | [inerr./<br>cust.] | [min/<br>cust.] | [inerr./<br>cust.] | [min/<br>cust.] |
| <b>Total urban</b> | 0,244              | 6,237           | 0,613              | 25,565          | 0,068              | 0,406           | 0,769              | 5,947           | 0                  | 0,014           | 0,003              | 123,45          | 0,312              | 6,657           | 2,151              | 21,313          |
| <b>Total mixed</b> | 0,116              | 4,412           | 0,293              | 37,92           | 0,012              | 0,409           | 0,133              | 34,66           | 0,013              | 3,46            | 0,321              | 258,99          | 0,142              | 8,281           | 0,559              | 58,518          |
| <b>Total rural</b> | 0,53               | 15,001          | 1,332              | 28,326          | 0,075              | 3,277           | 0,84               | 43,925          | 0,047              | 3,677           | 1,119              | 79,044          | 0,651              | 21,955          | 3,012              | 33,741          |
| <b>Total</b>       | <b>0,89</b>        | <b>25,65</b>    | <b>2,238</b>       | <b>28,824</b>   | <b>0,155</b>       | <b>4,092</b>    | <b>1,742</b>       | <b>26,457</b>   | <b>0,06</b>        | <b>7,151</b>    | <b>1,443</b>       | <b>119,2</b>    | <b>1,105</b>       | <b>36,893</b>   | <b>5,422</b>       | <b>33,401</b>   |

Table 11: Announced long-term interruptions in year 2018

|                    | SAIFI<br>[interr./cust.] | SAIDI<br>[min./cust.] | CAIFI<br>[interr./cust.] | CAIDI<br>[min./cust.] |
|--------------------|--------------------------|-----------------------|--------------------------|-----------------------|
| <b>Total urban</b> | 0.070                    | 9.360                 | 0.359                    | 134.457               |
| <b>Total mixed</b> | 0.050                    | 6.057                 | 0.257                    | 121.696               |
| <b>Total rural</b> | 0.156                    | 21.301                | 0.805                    | 136.507               |
| <b>Total</b>       | <b>0.275</b>             | <b>36.718</b>         | <b>1.421</b>             | <b>133.312</b>        |

Table 12: Number of momentary interruptions per customer in year 2018

|               | Rural | Urban | Total 2018 |
|---------------|-------|-------|------------|
| <b>MAIFI</b>  | 4.4   | 1.4   | 5.8        |
| <b>MAIFle</b> | 2.0   | 0.6   | 2.6        |

Figure 39: SAIDI – Average time of duration of all unannounced long-term interruptions

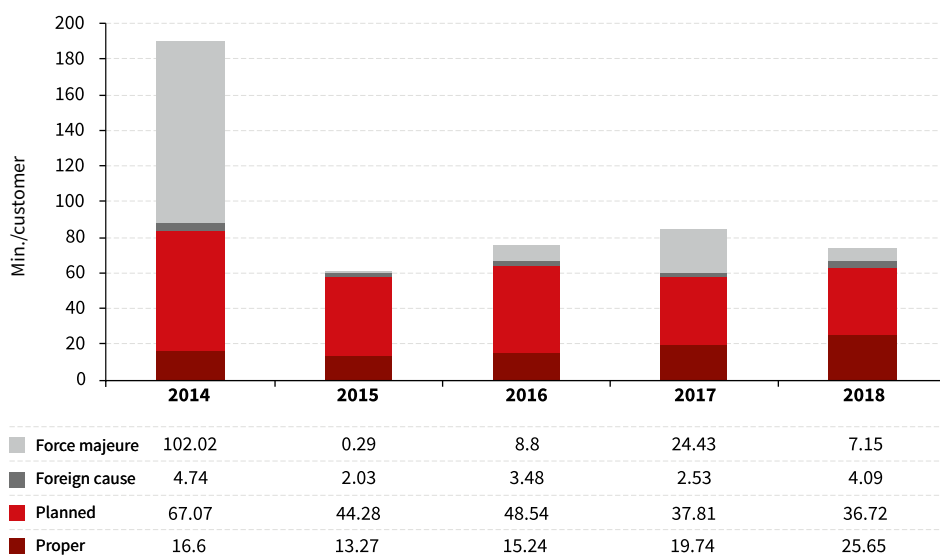
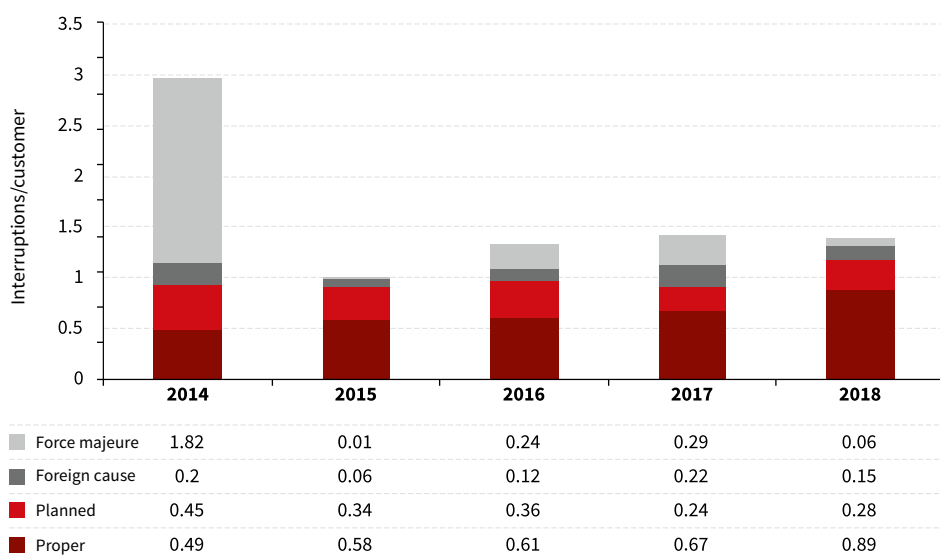
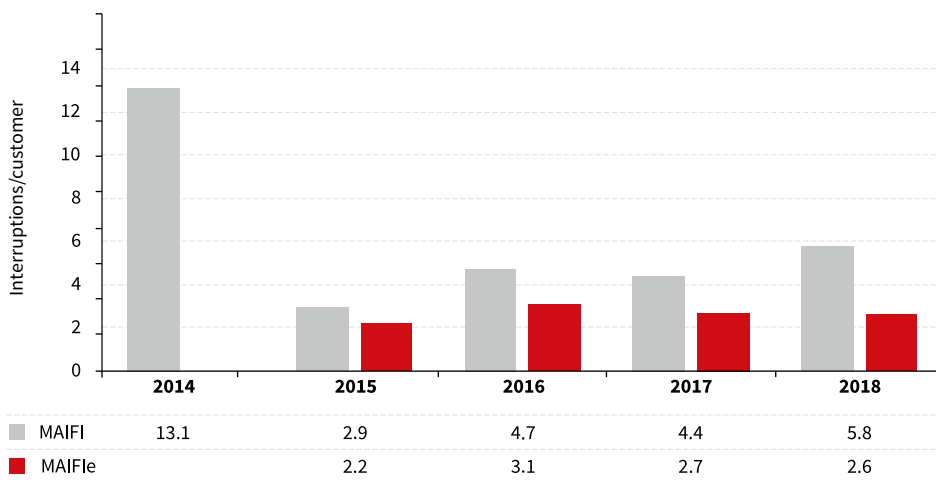


Figure 40: SAIFI – Average number of all unannounced long-term interruptions



Figures 40 and 41 show that the values of the SAIDI and SAIFI indicators (own cause) in 2018 are slightly worse than in 2017. Reasons are weather inconveniences in October (hurricane wind and rain), due to which we have recorded several more interruptions in the period from October 27 to October 30 2018. Due to the classification rules laid down by the Energy Agency, all interruptions could not be recorded under force majeure.

Figure 41: MAIFI in MAIFle – average number of all momentary interruptions



We find that situation in the field of power quality has not changed substantially compared to year 2017. Cause for inconsistent voltage conditions is mainly the flicker, which is transmitted from transmission 110 kV network and spreads to lower voltage levels. In year 2018 other parameters were throughout the measurement in accordance with the requirements of SIST EN 50160 standard. During the year we received nine official complaints on the condition of voltage quality on the low-voltage level, of which two proved to be justified. We try to eliminate inconsistencies as quickly as possible and within statutory deadlines.

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



Table 13: Consistency of power quality parameters with the SIST EN 50160 standard on high voltage level for year 2018

| Facilities                        | Number of weeks under control | Deviation Uef                | Harmonica | Flicker | Imbalance | Signal voltages | Frequency | Voltage drops | Voltage increases | Consistency KEE |                         |
|-----------------------------------|-------------------------------|------------------------------|-----------|---------|-----------|-----------------|-----------|---------------|-------------------|-----------------|-------------------------|
|                                   |                               | Number of inconsistent weeks |           |         |           |                 |           |               |                   |                 | No. of consistent weeks |
| RTP Jesenice 110 kV               | 51                            | 0                            | 0         | 50      | 0         | 0               | 0         | 77            | 29                | 1               | 50                      |
| RTP Radovljica 110 kV             | 49                            | 0                            | 0         | 46      | 0         | 0               | 0         | 183           | 14                | 3               | 46                      |
| RTP Tržič 110 kV                  | 51                            | 0                            | 0         | 50      | 0         | 0               | 0         | 80            | 27                | 1               | 50                      |
| RTP Primskovo 110 kV              | 51                            | 0                            | 0         | 47      | 0         | 0               | 0         | 78            | 25                | 4               | 47                      |
| RTP Zlato polje 110 kV            | 51                            | 0                            | 0         | 49      | 0         | 0               | 0         | 76            | 26                | 2               | 49                      |
| RTP Labore 110 kV DV Okroglo      | 51                            | 0                            | 0         | 46      | 0         | 0               | 0         | 77            | 26                | 5               | 46                      |
| RTP Škofja Loka 110 kV DV Okroglo | 51                            | 0                            | 0         | 13      | 0         | 0               | 0         | 86            | 34                | 38              | 13                      |
| RTP Škofja Loka 110 kV DV Kleče   | 51                            | 0                            | 0         | 14      | 0         | 0               | 0         | 85            | 41                | 37              | 14                      |
| RTP Bohinj 110 kV                 | 49                            | 0                            | 0         | 38      | 0         | 0               | 0         | 117           | 31                | 11              | 38                      |

**Commercial quality**

In most commercial quality parameters for year 2018 we established that average achieved values of indicators were essentially better than the limits of minimum quality standards. In parameter 1.1. Average time to issue consent for connection the reason for lower share of services above the limit value (21 %) was the fact that data according to the General Administrative Procedure Act (ZUP) refer to summary and declaratory proceedings together. ZUP otherwise defines that in summary proceedings permissible time of issue of the order is 30 days, while in declaratory proceedings, where oral hearing is implemented as well, it is 60 days.

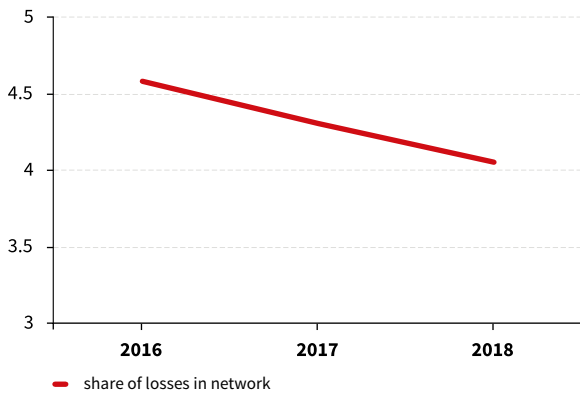
With parameter 2.1. (Average time taken to answer written questions, complaints or requests of users), the share of services over the threshold (14 %) in most cases refers to the complaints of account data associated with the replacement, error elimination or identification of the correct operation of the meter. In these cases it is necessary, before replying to the complaint, for the measurement service to replace, eliminate the error or properly check the meter, which may take longer than eight working days.

With parameter 4.1. (Average time needed to eliminate the defect counter) share of implemented services above the threshold (7 %) refers to defects we discovered on our own, without receiving the complaint from the user.

Table 14: Commercial quality parameters for year 2018

| GROUP                     | ID_ PARAMETRA | PARAMETER   | DESIGNATED BY AGEN-RS (CONFIGURATION PART) |                              |             | DATA BY DATA TRANSMISSION PROVIDER |                                 |  |                 |                    |                            |      |
|---------------------------|---------------|---|--|------------------------------|-------------|------------------------------------|---------------------------------|--|-----------------|--------------------|----------------------------|------|
|                           |               |   | System / guaranteed standard               | Required level of compliance | Limit value | Unit                               | Number of all required services | Number of eligible exemptions (force majeure, foreign cause) | Indicator value | Standard deviation | Share of services rendered |      |
| Connection to the network | 1.1           | Average time needed to issue a consent for the connection (days)  | S  | 95 %                         | 20          | working days                       | 1751                            | 0  | 15.0            | 26.4               | 0.79                       | 0.21 |
|                           | 1.2           | Average time required to issue cost estimates (prepayments) for simple work (days)                      | Z  | -                            | 10          | working days                       | 457                             | 0  | 3.8             | 5.5                | 0.95                       | 0.05 |
|                           | 1.3           | Average time needed to issue an agreement on connection to the LV network (days)                        | S  | 95 %                         | 20          | working days                       | 1688                            | 0  | 1.0             | 2.7                | 0.99                       | 0.01 |
|                           | 1.4           | Average time needed to activate the connection to the electricity network (days)                        | Z  | -                            | 10          | working days                       | 1886                            | 0  | 2.1             | 7.1                | 0.97                       | 0.03 |
| Customer care             | 2.1           | Average time needed to answer written questions, complaints or user requests (days)                     | Z  | -                            | 8           | working days                       | 450                             | 0  | 5.0             | 4.2                | 0.86                       | 0.14 |
|                           | 2.2           | Average call hold time in call centre (s)   | -  | -                            | -           | -                                  | 48834                           | 0  | 15.0            | 11.2               |                            |      |
|                           | 2.3           | Call centre service level indicator (%)   | -  | -                            | -           | -                                  | 48834                           | 0  | 91.1            |                    |                            |      |
| Technical services        | 3.1           | Average time to restore power in the event of a fault on the current limiting device (6: 00-22: 00) (h) | Z  | -                            | 5           | hours                              | 1646                            | 0  | 1.0             | 0.6                | 1.00                       | 0.00 |
|                           | 3.2           | Average time to restore power in the event of a fault on the current limiting device (22: 00-6: 00) (h) | Z  | -                            | 8           | hours                              | 6                               | 0  | 1.9             | 1.0                | 1.00                       | 0.00 |
|                           | 3.3           | Time needed to answer a complaint regarding the quality of the voltage (days)                           | S  | 95 %                         | 30          | working days                       | 9                               | 0  | 11.7            | 4.3                | 1.00                       | 0.00 |
|                           | 3.4           | Time needed to solve voltage deviations (months)  | S  | 50 %                         | 6           | months                             | 2                               | 0  | 14.6            | 4.2                | 1.00                       | 0.00 |
| Measuring and billing     | 4.1           | Average time needed to eliminate meter failure (days)   | Z  | -                            | 8           | working days                       | 915                             | 0  | 3.2             | 8.3                | 0.93                       | 0.07 |
|                           | 4.2           | Average time to restore power after disconnection due to non-payment (days)                             | Z  | -                            | 3           | working days                       | 390                             | 0  | 1.0             | 4.6                | 0.98                       | 0.02 |

Figure 42: Share of losses in the network from year 2016 to year 2018



**Comparison with data from other distribution companies in Slovenia**

Elektro Gorenjska Company constantly strives to ensure the highest possible level of quality of customer care. From the company’s annual reports and the data provided by individual companies in 2018, it follows that in this area Elektro Gorenjska is the most successful among all distribution companies. This is illustrated in the following two figures.

Figure 43: Parameter SAIDI for unplanned long-term interruptions (own causes) in the period 2014–2018

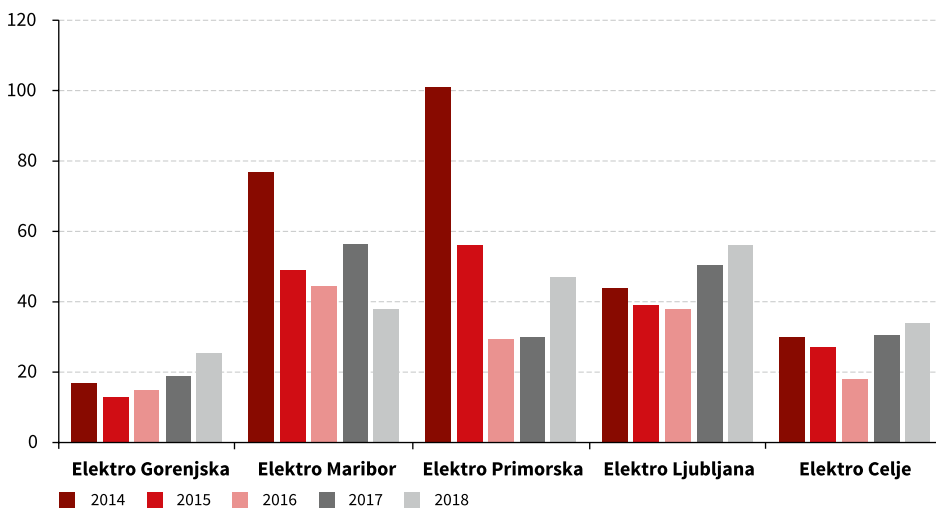
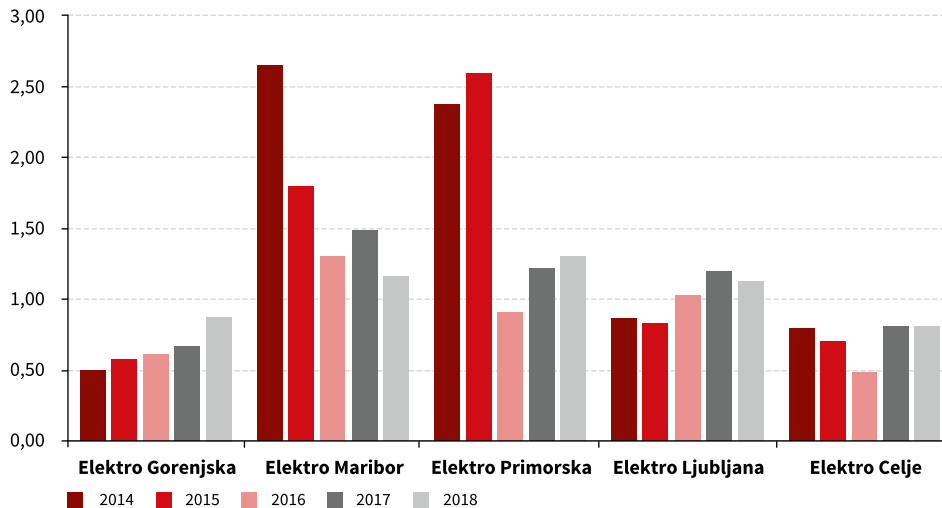


Figure 44: Parameter SAIFI for unplanned long-term interruptions (own causes) in the period 2014–2018



Fact that Elektro Gorenjska Company is very successful in the field of quality of supply is also confirmed by the information that the company reaches significantly lower values of SAIDI and SAIFI indicators for unplanned long-term interruptions of its own cause than those defined in the Act on the methodology for determining the regulatory framework and the methodology for charging the network charge for Electricity Operators (Act) issued by the Energy Agency. SAIDI target level of the SAIDI parameter specified in the Act is 90 min / customer, and the target level of the SAIFI indicator is 2.35 interrupt / client. SAIDI indicator reached the value of 19.74 min / customer in 2017 and the value of the SAIFI indicator was 0.67 interruptions / customers.

Figures show that the indicators achieved in 2018 were generally slightly worse than in previous years. The reason for the lower values of the indicators of the company Elektro Gorenjska in 2018 are the damages. Of the 198 different failures, 15 were those that had more than 50 % impact on the value of the indicators. The aforementioned defects were due to snow (in January and February), storms and local storms. It should be stressed that the methodology of the Agency regarding the recognition, proving and classification of defects after the conducted assessment by the electricity distribution companies has been supplemented and substantially aggravated.

## 5.4 Investments

In year 2018 Elektro Gorenjska Group invested 18.5 mio €. 87 % of entire realization refers to investments of the activity of electricity distribution. Major investments are presented below.

Within investments in high-voltage network which amounted to somewhat less than 5 mio €, the major ones are:

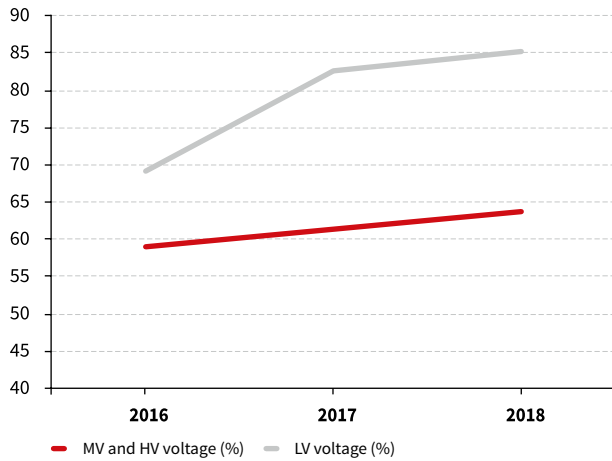
- › 110 kV DV RTP Jesenice–RTP Kranjska Gora: We continued with the activities for reconstruction on the basis of the maintenance regulation for the public benefit. In 2018, additional funds were granted for the reconstruction of this power line, so the replacement of all remaining poles was initiated. Work was completed in full in 2018. In 2019, a number of rehabilitation works will have to be done in connection with the regulation of the terrain in the original state and anticorrosion protection of the pillars.
- › 110 kV DV RTP Labore – RTP Primskovo: In 2018 we carried out the replacement of hanging equipment and conductors, including the lightning rod. Works were carried out according to plan and ended in October 2018.
- › RTP 110 /20 kV Brnik: In 2018 a building permit was obtained for the new RP - RTP Brnik. After the implementation of tenders for construction and electro-installation works and the supply of equipment in the spring months, the implementation began. Construction of the building started in May. Construction work was completed in November. Supply and installation of the equipment followed, followed by a technical inspection at the end of the year. In 2019, tests and connection in the 20 kV network will be carried out, as well as obtaining of the operating permit.
- › RTP 110/20 kV Radovljica: We completed the construction of a new 110 kV switchyard. A 110 kV network connection was made. Whole surroundings were completely arranged and the TR boxes were restored. In 2019 we will also obtain the operating permit for the new facility.
- › RP 20 kV Bled: In 2018, the construction of the second part of the switchyard was carried out according to the same procedure as in 2017. Facility was completely finished in the second half of the year and put into functional use.

Value of investments in medium and low-voltage network in year 2018 amounted to 9.4 mio €.

- › In 2018 we carried out the expansion and processing of the MV network, in particular remediation of the critical areas of the network or to ensure better robustness of the network. Large part of the funds was spent on the construction of a new cable network and the associated cable ducts in the Brnik Airport complex. We carried out cabling in the valley of Kokra from Jablance to Celar and from Jezerski vrh to Ravne. Intensity of cabling was also taking place in the area of the Bled ring road and the Alples complex in Železniki. We also financed funds for the cabling of the 20 kV network in the area of Studeno, Golo brdo and Begunje. By doing this, we eliminated some of the most critical points on the 20 kV network, where there were frequent downtime from the wind and also ice. In 2018, we laid 53 km of MV cables and newly built 16 transformer stations.
- › With additionally approved funds for investment needs, we increased the realization on low voltage facilities, especially in the field of regulating LV cables in parts where we carried out construction works in the past years together with the municipalities. We continued this practice in municipalities that were still building their communal infrastructure. In 2018 we placed 82 km of LV cable lines.
- › In 2018, the trend of growth in the number of new buildings and the increase in the connected load increased, which affected the increased scope of expansion and strengthening of parts of the LV network. Funds were also devoted to the processing of measuring points in accordance with standardization within the AMI project, thus simultaneously regulating the measuring points by individual facilities in accordance with the accepted standardization.

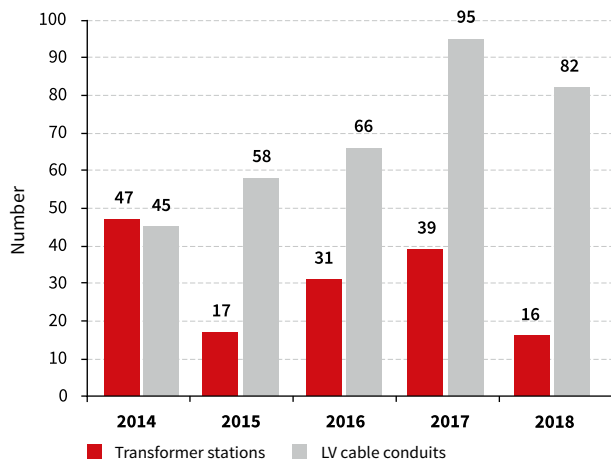
Result of constant and targeted investments is also reflected, among other things, in increasing the share of the network in the cable design.

Figure 45: Share of the network in the cable design from 2016 to year 2018



The following figure shows figures about the construction of new or renovation of old transformer stations and low-voltage cable conduits from year 2014 to 2018.

Figure 46: Construction of new or renovation of old transformer stations and low-voltage cable conduits from year 2014 to year 2018

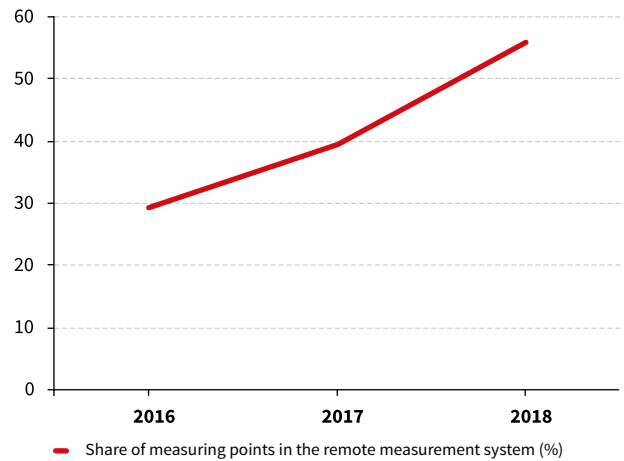


Among other investments (4.5 mio €) the following were significant:

- › telecommunications and protection (new RR Lajnar, installation of a test LTE network and redundant DATA centre),
- › measuring devices (AMI project – 14,281 meters in year 2018),
- › business and technical equipment (renovation of KN Tržič),
- › implementation of CIM integration platform,
- › continuation of the renovation or integration of the new GIS,
- › rehabilitation of buildings owned by the Municipality of Kranj.

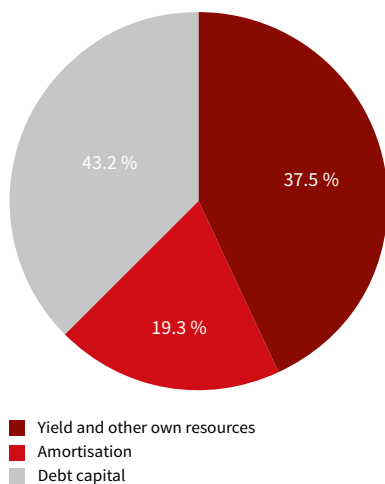
As illustrated in the following figure, the group each year increases the share of measuring points in the remote measurement system. Growth of the share in year 2018 was 16.32 percentage points.

Figure 47: Share of measuring points in the remote measurement system in years 2016, 2017 and 2018



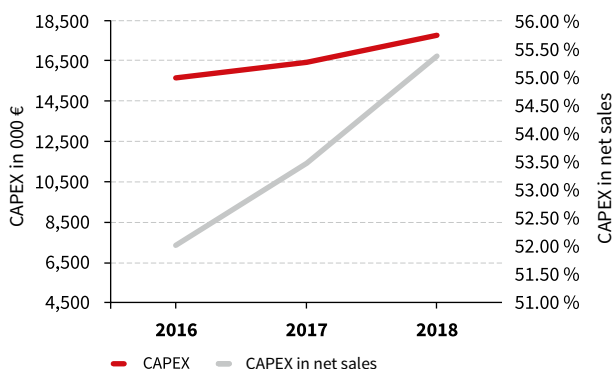
Sources for financing investments in year 2018 were the following:

Figure 48: Sources of investment financing in 2018



We pay special attention to investment activities. As can be seen from the following figure, investments in regulated activities amount to an average of 16.6 € million per year, reaching half or more than half of net sales revenues.

Figure 49: Movement of regulated activity investments (CAPEX) and share of investments in regulated activity in net revenues from the sale of regulated activities



## 5.5 Maintenance of energy facilities

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

In year 2018 mainly **preventive maintenance** on the infrastructure was performed with the aim of reducing the likelihood of a failure of facility's component part or system, which is achieved with appropriate interventions executed according to the criteria, which are determined in advance.

Preventive maintenance included inspection of electric power devices, execution of clearings in power lines and low-voltage overhead lines corridors, revision of transformer stations, switches, transformers, protection devices, carrying out control measurements and operating tests of protective devices and maintenance of machinery and equipment in all hydropower plants, while appropriate measurements were executed also on solar power plants and cogenerations. For the purpose of preventing unplanned interruptions, in the past year we started with the systematic implementation of diagnostic measurements on MV cables. Preventive maintenance included inspection of the state of electric power devices, revision of machines and devices in hydroelectric power stations, as well as the implementation of control measurements, functional tests of the operation of devices and tests of the operation of protective devices in power plants.

As in previous years also in the 2018 we continued to actively perform audits of transformer stations with the method of work under tension (DPN). Following charts show the share of contribution on the value of the indicators or simulation of the value thereof in the case, it would be necessary to carry out the work without power. Consequently, more than 10,000 electricity consumers did not feel the implementation of maintenance work on the network.



Figure 50: Average number of announced interruptions per customer in years

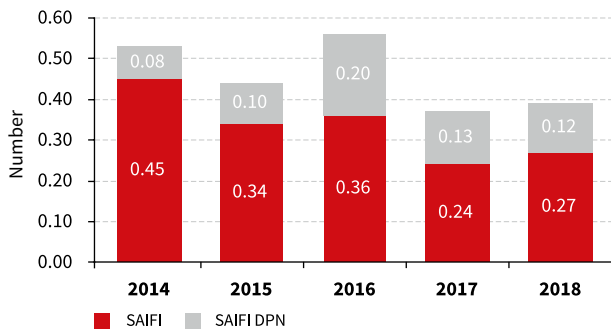
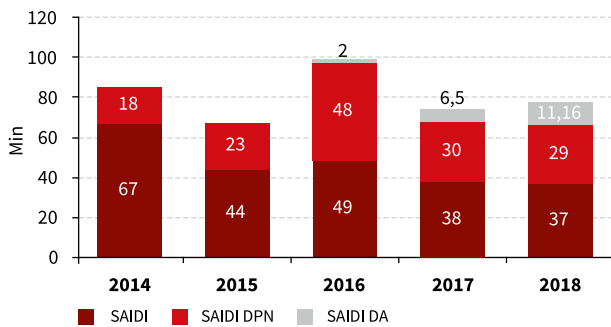


Figure 51: SAIDI – Average time of duration of announced interruptions per customer in years

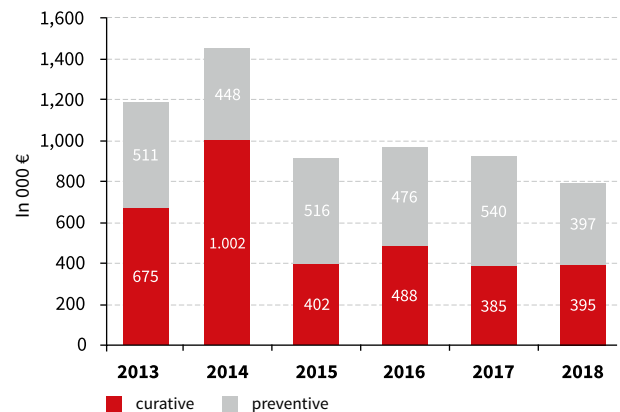


Each year as part of routine maintenance we carry out approximately 300-350 audits transformer stations. As in the past few years, also in 2019, we plan to continue the implementation of audits in transformer stations with DPN method (work under voltage).

Field of **curative maintenance** in year 2018 represented another kind of maintenance, which is unpredictable in terms of time and it can only be roughly estimated based on the past events. Reasons for failures were various, from weather conditions, failure of equipment to cause of damage by a third party. Problems were also caused by local storms and heavier downpours in summer months.

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

Figure 52: Changes in maintenance costs from year 2014 to year 2018 (in €)



## 5.6 Development and design

In the field of research and development of distribution network provision there is a development service organized in Elektro Gorenjska Company within its business processes. This way the company ensures systematic use of knowledge acquired with research and also practical experience. Work scope provides necessary knowledge for the needs of development of new technologic solutions, systems, and processes of electricity distribution and other services, which the company is obliged to provide in accordance with its mission. Costs of scientific and research work related to development and design are presented also in the accounting report, chapter *15.5 – Costs of services*.

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

Tasks are performed in the following fields:

- › planning the consumption and production of electricity (making of development plans according to EZ-1, data processing for studies, conference papers, justifications and users, cooperation in preparing and processing of BTP and making of consumption and production prognoses),
- › development of Elektro Gorenjska network (cooperation in studies, planning, and processing of HV, MV, and LV networks, solutions for larger customers, network formation, studies' reviews and proposals of new ones, cooperation in preparing the conditions for connection to the network and counseling),
- › introduction of new technologies and typing (following and introducing new technologies and typing, preparing project works and cooperating in creation of concepts and plans).

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

For the purposes of certain investments from the 2018 investment plan, different expert studies, preliminary studies, concepts, and different project documentation in the mentioned development fields have been made in cooperation with the education institutions. Investments, which foresaw acquisition of mentioned development documents, are for the most part technologically more demanding and are expected to cover the following investment fields:

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

In 2018, an important development study of REDOS 2040 was carried out: the development of the electricity distribution network of Slovenia, and a study entitled Influence of mass electrification of personal transport and heating on the development of the distribution network, made by the EIMV manufacturer, was also completed.

In the field of development and implementation of modern distribution technologies, Elektro Gorenjska Company continues to actively participate in a series of research development projects co-financed by the European Union. In 2018, work on research and development projects Story and TDX - ASSIST continued, and at the same time started the implementation of the EASY RES project, for which the application was prepared and approved already in 2017.

In the Story project, company Elektro Gorenjska is in charge of the realization of two demonstration examples of the use of a larger electricity storage. Project is implemented by a consortium of 18 European partners on the basis of the obtained co-financing on the tender of the EU Commission - H2020-LCE-2014-3, Topic LCE-08-2014, Local / Small scale storage. Project explores and practically demonstrates state-of-the-art ways of storing energy in distribution networks. In the framework of the project, Elektro Gorenjska provides a demonstration environment for testing the technological solutions for the use of a storage tank, which will in the future be indispensable for ensuring reliable and at the same time economically efficient distribution of electricity in conditions of high penetration of diffuse sources.

Elektro Gorenjska in a consortium of 13 partners also carries out the TDX-ASSIST project (Coordination of Transmission and Distribution Data for eXchanges for renewable integration in the European marketplace through Advanced, Scalable and Secure ICT Systems and Tools), which focuses on the introduction and testing of state-of-the-art information-communication technologies in the framework of vertical connections between distribution and transmission network operators. Project envisages the two-phase implementation of the project objectives in a practical case of load rejection of the distribution network, also called Conservation Voltage Reduction (CVR) or Dynamic Voltage Management (DVM). In the first phase, for the implementation of the foreseen functionalities integration of the existing technological systems will be carried out, and in the second phase the solution will be realized with the introduction of the CIM platform and the most up-to-date MQTT communication protocol. Demonstration example will enable real-time advanced system services, and at the same time answer questions related to the practical implementation of information and communication solutions for the future.

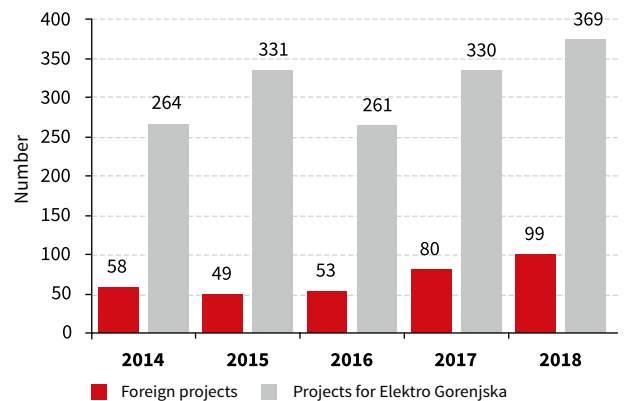
EASY RES project (Enable Ancillary Services By Renewable Energy Sources) is designed to study the various dispersed energy sources in an environment with a large number of dispersed sources. Elektro Gorenjska cooperates as a partner, which provides the preparation of data on the network and related measurements, which are necessary for carrying out simulations in the development environments of research partners. Project is coordinated by Thessaloniki University, and there are ten partners in addition to Elektro Gorenjska.

In 2018 we signed a contract with our partner NGEN d. o. o. for the start of a research and development project in the field of power storage, under which a smaller electricity storage facility will be installed in the NNO TP Suha in 2019.

Elektro Gorenjska also actively participated in the preparation of project documentation and candidacy on one of the EU Horizon 2020 tenders.

Large majority of the documentation for the implementation of investment and maintenance projects is also prepared within the Group.

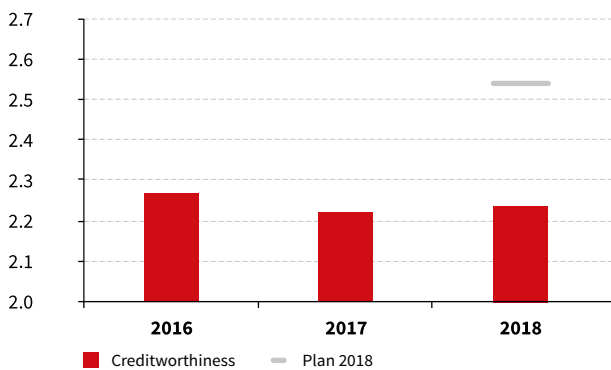
Figure 53: Information on the number of project documentation made from year 2014 to 2018



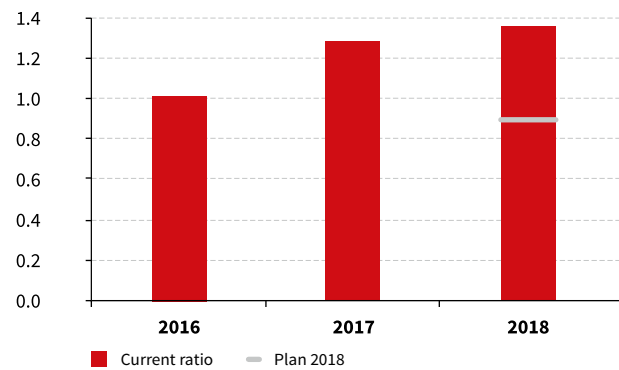
## 5.7 Financial performance criteria of the Group

### 5.7.1 Significant indicators

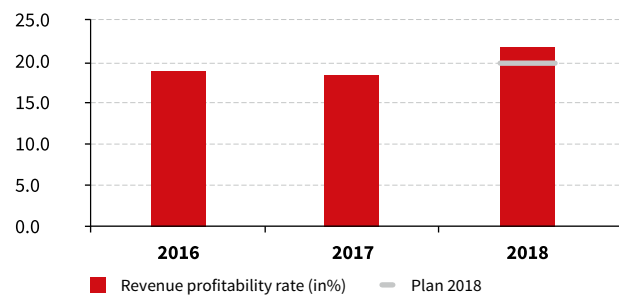
Safe level of indebtedness of the Group is monitored by the indicator, which expresses the ratio of NET FINANCIAL DEBT / EBITDA. As at December 31 2018 this amounted to 2.3, which is the same as at the end of 2017. Degree of unacceptable indebtedness represents the value of the indicator that would exceed the value of 3.5. This commitment is used by some of the banks in the existing credit agreements.



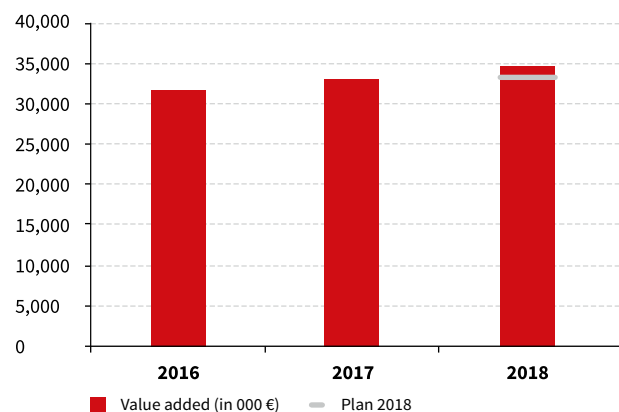
**Current ratio** shows the solvency. In comparison with 2017 it is by 0.1 percentage points higher. Recommended value of the current ratio is equal to 1. Main activity of the Group is the provision of services for SODO and transmitting electricity infrastructure in the lease, under which we have provided the major part of regular monthly inflows, so we believe that the value of the indicator below 1 is still adequate and would not pose problems to the Group in terms of its liquidity. Value of the indicator is largely influenced by short-term financial obligations, which represent the short-term part of long-term loans (amounts, which in accordance with the depreciation plans of loans mature throughout the next year and are smoothly and without delays settled from a positive operating cash flow), which are hired to provide constant investment in electricity infrastructure and from which, according to the regulation an appropriate yield is recognized as well.



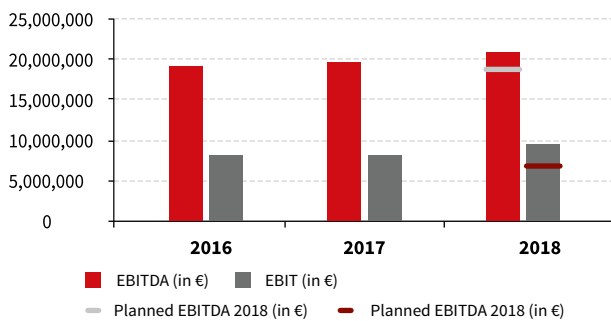
**Profit ratios** tell us that the Group generated profits of 22.3 € per 100 € of achieved revenue, which was 3.5 € of profit more than in 2017.



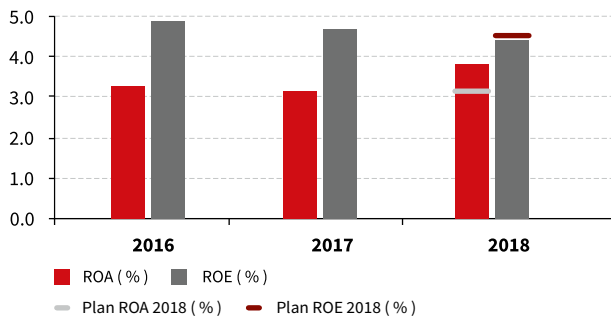
**Value added** was in the group Elektro Gorenjska in relation to 2017 higher by 4.7 % as a result of higher revenues under the contract with SODO. Share of labor costs in value added in 2018 was compared to 2017 lower by 1.3 percentage point as a result of higher value added.



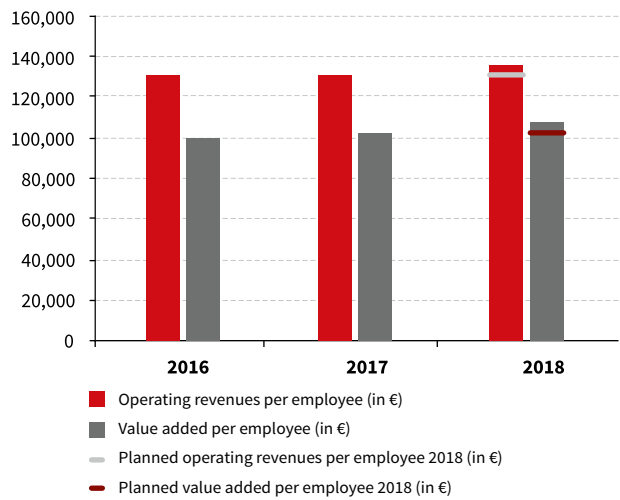
**EBITDA** as a proxy cash flow was in 2018 by 1.4 million € higher than in 2017. **EBIT** as a result of the operations is by 1.3 million € higher than in 2017. Profit before taxes was by 2.0 million € higher than in 2017. Higher profit before tax, EBIT and EBITDA in 2018 were mainly due to higher operating revenues, namely the revenues under the contract with SODO.



Values of the indicators **ROA and ROE** is relatively low, but in regards of the industry, and regulation, in which the Group operates, they are above average. It is a fact that the values of the indicator ROA adversely affect constant investments. At the same time it must be emphasized that only with constant investments we are able to pursue one of the tasks of the mission namely to provide quality and reliable electricity distribution. Reliability of power supply on the distribution network is measured by the indicators SAIDI and SAIFI (more on quality is explained in chapter 5.3 - *Quality of electricity supply*), the value of which is the best among the distribution companies and is the result of constant investment in electricity infrastructure. In order for the Group to achieve value of ROA indicator higher by 0.1, it should realize either by 0.15 mio € higher net profit or decrease the assets of the company by 3 mio €.

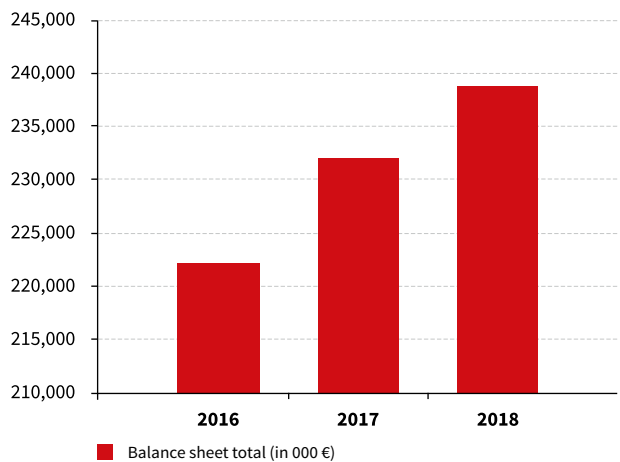


**Operating revenue per employee** in year 2018 amounted to 141,828 € and were by 4.0 % higher than in year 2017. Value added per employee in year 2018 amounted to 111,798 € and was by 4.2 % higher than in 2017, which is the result of higher operating revenues.



### 5.7.2 Structure of assets and liabilities

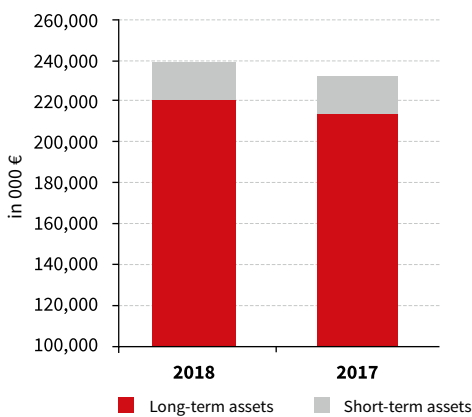
Figure 54: Changes in balance sheet total in the period 2016–2018



**Assets**

On the last day of year 2018 the assets of Elektro Gorenjska Group amounted to 238,792,693 € (31. 12. 2017: 232,040,144 €) and have increased by 2.9 % compared to the balance on the last day of year 2017. Long-term assets increased by 3.3 % in year 2018, while short-term assets increased by 1.3 %.

Figure 55: Structure of assets as of 31. 12. 2018 and 31. 12. 2017



Long-term assets represent 92.4 % of all Group’s assets. Among them tangible fixed assets representing 95.0 % of all long-term assets are the most important. Value of tangible fixed assets increased by 3.6 % or by 7,301 thousand € in year 2018.

Besides tangible fixed assets long-term assets also consist of the following categories (explained in more detail in chapter 14 – Notes on statement of financial position):

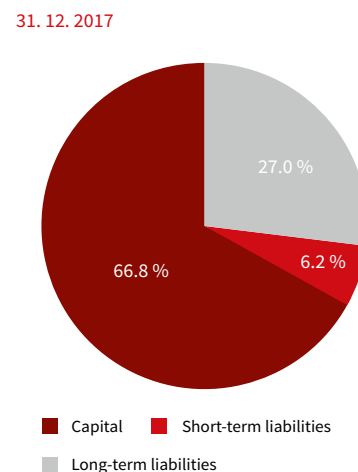
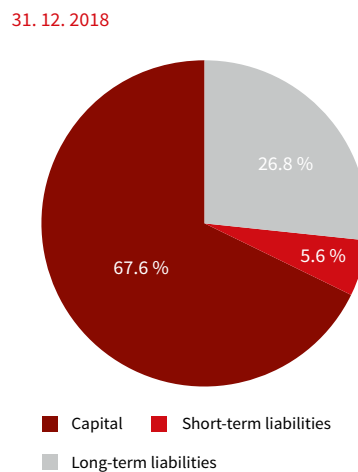
- › intangible fixed assets, which decreased by 198 thousand € in 2018,
- › investment property, whose value decreased by 16.5 % or 357 thousand €,
- › long-term financial investments, whose value in year 2018 increased by 5.3 % or by 384 thousand €, and
- › long-term operating receivables, whose value decreased by 166 thousand €,
- › other long-term assets which increased by 49.9 % or 35 thousand €, and
- › deferred tax assets in the amount of 29 thousand €.

**Capital and debts**

As at December 31 2018 Elektro Gorenjska Group reached a ratio between equity and debt capital in the amount of 2:1, which is similar as at the end of year 2017.

In the structure of liabilities capital represents 67.6 % of the entire balance sheet total. In year 2018, capital increased by 4.1 % or by 6,327 thousand €. Long-term liabilities, mostly long-term banking credits, represented as of 31. 12. 2018 26.8 % of all funds. In year 2018 they increased by 2.1 % 1,293 thousand €. Short-term liabilities represented 5.6 % of all funds and have decreased by 6.0 % or 868 thousand € in year 2018.

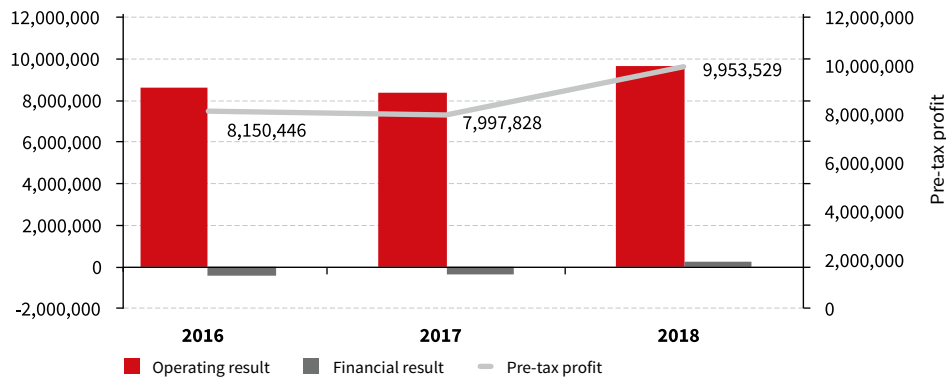
Figure 56: Structure of funds as of 31. 12. 2018 and 31. 12. 2017



### 5.7.3 Structure of revenue and expenditure

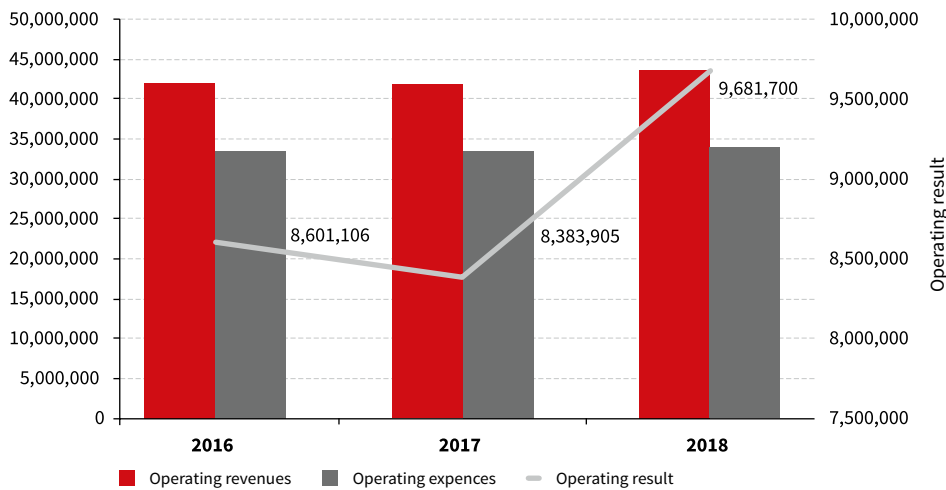
In year 2018 Elektro Gorenjska Group achieved a pre-tax profit in the amount **9,953,529 €**.

Figure 57: Composition of profit or loss (in €)



As can be seen from the picture above, profit before tax is mainly affected by the operating profit, above all the basic activities Contract with SODO and electricity production.

Figure 58: Operating profit or loss (in €) in period 2016–2018



Operating profit or loss for year 2018 amounted to 9,681,700 €. Compared to year 2017 it was by 1,298 thousand € higher, due to higher operating income. Somewhat better operating results was mainly due to higher revenues under the contract with SODO and better hydrology and, consequently, higher production and sale of electricity.

Structure of operating expenditure for years 2018 and 2017 is shown in the figure below:

Figure 59: Structure of operating expenditure

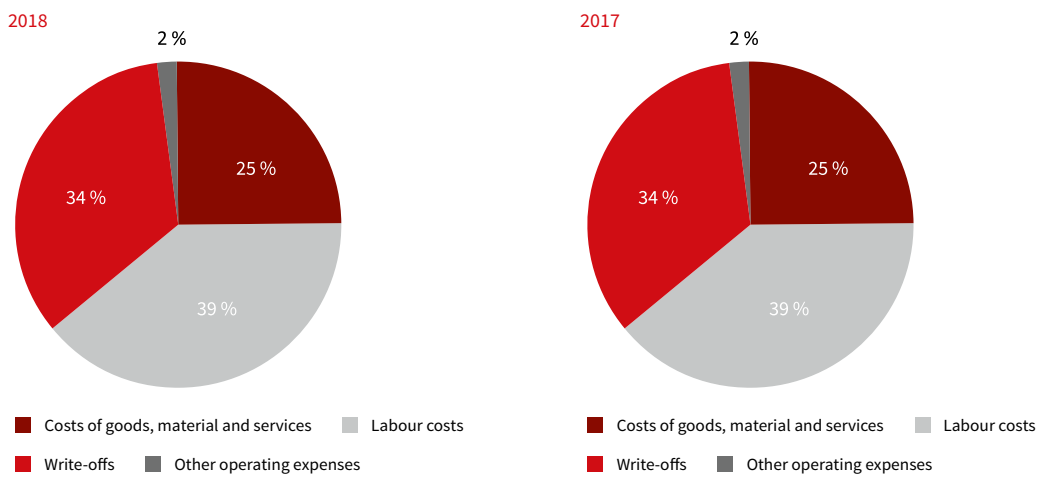
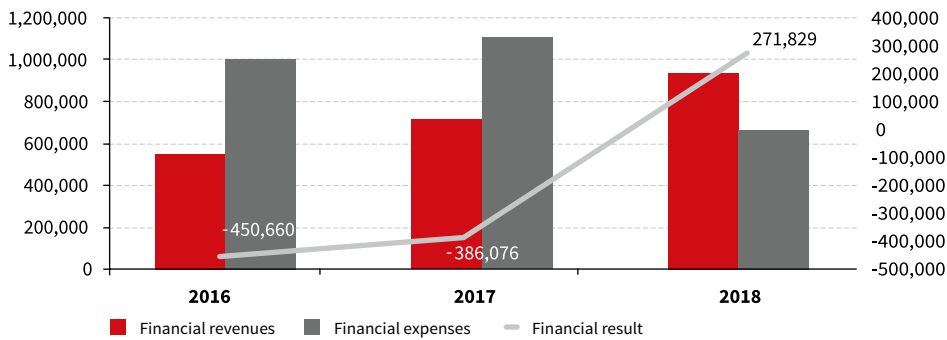


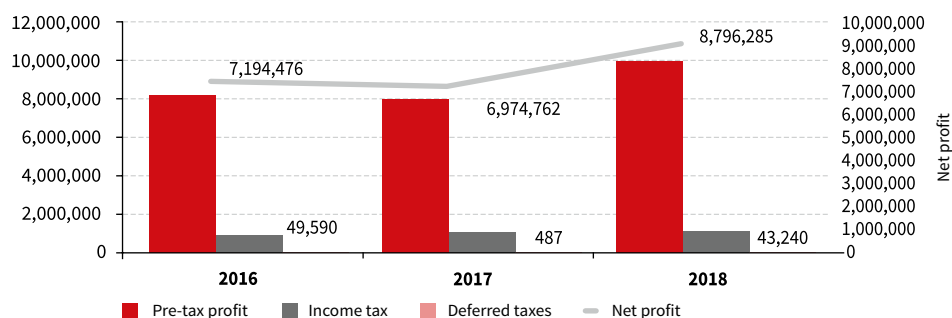
Figure 60: Financial result in period 2016–2018 (in €)



Financial result in year 2018 was positive and it amounted to 271,829 €. Positive result is mainly influenced by recognized profit or loss of investments, valued using the equity method. Negative result in years 2016 and 2017 was mainly influenced by interest for loans received from banks for financing investment and interest due to interest rate swap (interest rate hedging).



Figure 61: Net profit in period 2016–2018 (in €)



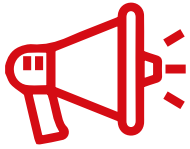
#### 5.7.4 Cash flow statement

Table 15: Change in cash and cash equivalents

|  | 2018              | 2017             |
|--|-------------------|------------------|
| Cash flows from operating activities       | 20,568,391        | 18,692,934       |
| Cash flows from investing                  | -21,020,051       | -15,231,292      |
| Cash flows from financing activities       | -1,872,677        | 889,956          |
| <b>Change in cash and cash equivalents</b> | <b>-2,324,337</b> | <b>4,351,598</b> |

In 2018 Group Elektro Gorenjska decreased the value of cash and cash equivalents by 6.7 million €, as the positive cash flow from operating activities was lower than the negative cash flows from investing and financing activities.

Negative cash flow from investing was due to investments, as the industry in which the Elektro Gorenjska Group operates is technologically very intensive. New acquisitions of intangible and tangible assets were mainly financed by drawing on long-term loans (18.3 mio €), and partly funded by the positive cash flow from operations. Outflows from financing activities mainly represent expenditures for the repayment of financial liabilities, and are increased by the payment of dividends. Proceeds from the financing the Group needed to meet the investment plan.



6

## Marketing and sales

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

**We offer end-users marketing services in different areas, namely:**

› **comprehensive design services**

For users we create complete project documentation for all electricity power facilities, underground and overhead power lines of all voltages, transformer stations (TP, RP, RTP), and low-voltage connecting conduits with account measurements.

› **Execution of maintenance and works of power facilities and devices by using modern technologies**

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

In the field of electricity power facilities and devices maintenance we offer contractual implementation of regular checks, measurements and audits of transformer stations, connection-measuring points, devices and lines on the low- and medium-voltage level by monitoring operational state and record keeping. Currently, we have concluded 77 such contracts, on the basis of which we maintain 70 transformer stations and 49 low voltage connecting and measuring stations of foreign ownership.

In 2018, 606 marketing services were realized in the field of maintenance and construction.

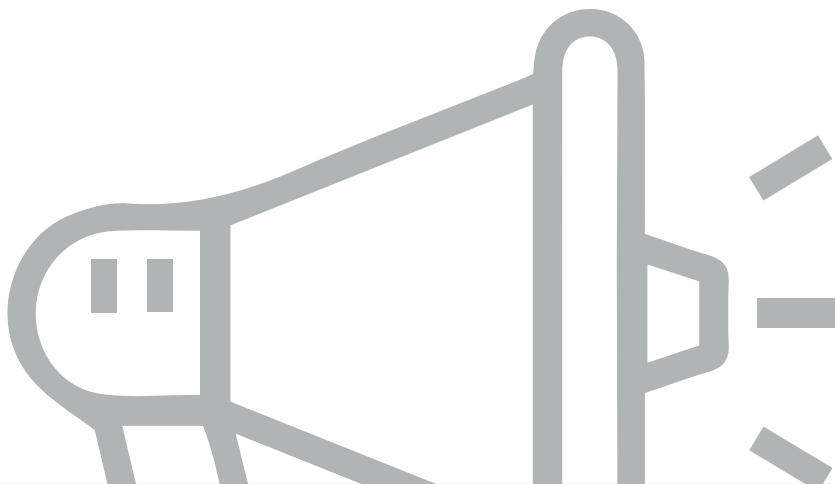
We offer users also implementation of live work on low- and medium-voltage levels. This method acquires significance over the years, in 2018 we carried out 63 live works, of which half on the MV level, where we were cleaning the energy equipment and devices in 94 transformer stations.

› **We advise and help in preparing main files**

and urbanism of energy facilities, planning of cogeneration units, hydro power and solar power plants, projects for public and street lighting, preparation of projects for electricity infrastructure of industrial, commercial, trade and/or residential zones, and we also cooperate in preparation of electrical installations in buildings. In 2018 we carried out 369 projects for our own needs and 99 for external clients.

› **Efficient energy use projects**

Among the projects of energy efficiency the most important are projects of the so-called contractual assurance of energy savings. Contractual assurance of energy savings is a contractual obligation to exploit the available economic potential for energy savings, including financing measures necessary for efficient energy use. Contractor shall assume all the costs of the design, financing and implementation of energy efficiency measures, and investments shall be reimbursed in the form of a share in the achieved reduction in energy costs, which is a consequence of the implementation of energy efficiency measures. Contracts are usually concluded for a period of 5 to 15 years, depending on the business interest of the entities. At the end of the contract the owner or the user of the infrastructure gets the entire amount of saved energy costs, while they need to re-assume the costs of operation of the devices. We have successfully implemented many such projects through several projects of changing the lighting, replacement of compressed air compressors and in the field optimization of measuring points. For larger projects, the company also acquired grant funds.



› **Energy management**

Within the product energy management the customers are offered identification of measures to reduce consumption and reduce energy costs, the implementation of these measures, financing of the project at no cost to the client and making recommendations to optimize consumption and reduce energy costs. After the successful implementation the provider and the client share a technically demonstrable savings namely depending on whether the project required investments or not, and for how many years the contract on the implementation of measures is concluded. For this purpose, own information system GEKenergija was also developed, which provides support to the energy and environmental management, and allows for continuous cost management.

› **Implementation of various types of measurements**

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

› **Implementation of power checks, energy advisory service and forming solutions for more efficient use of electricity for business users**

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

› **E-mobility**

E - mobility represents a relatively new concept of sustainable and environmentally friendly mobility. Strategic development of the infrastructure and networks of electric vehicles are also encouraged by the European Union with the directives and objectives to which they are committed by all EU members, as well as Slovenia with its vision of the transition to a low-carbon society by 2050. In the area of greenhouse gas reduction, one of the European Union's (EU) targets is also 20 million electric vehicles on world roads by 2020. In 2015, we invested in building the first green station for quick charging of electric cars on the location of the shopping centre Merkur Primskovo in Kranj. In addition to this charging station, there are 18 more stations that we own or operate. In 2017 we established a back office and connected to the SUPP system managed by Elektro Ljubljana. We plan to further increase of our own network of e-charging stations, and offer the e-charging stations management also to the wider market.

› **Other market services**

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



## 7 Information and Communication technologies

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



In 2018, a new organizational unit of the Informatics Service was launched. New unit is organized in two departments: Information Solutions Service, which manages information solutions and the IT infrastructure service that provides for IT infrastructure and comprehensive information security.

Main mission of the organizational unit IT services is to enable the management and employees of the Elektro Gorenjska Group to effectively achieve goals with the optimal use of IT. By actively cooperating with management in the planning and implementation of company strategy, knowledge of business processes, recognition of modern trends and proposals of new business models and providing comprehensive information security, the OU IT Services provides access to information that enable better business decision making, more efficient work and modern customer service.

In 2018 we continued the transition of the companies in the Elektro Gorenjska Group to the new ERP information system. In the beginning of 2018 we carried out the transition to the company Gorenjske elektrarne, and at the end of the year for the company Soenergetika. In all companies in the Elektro Gorenjska Group, we are now operating with our own, unified and modern information system, which enables more efficient, but above all, more economical management of the Group.

A lot of activities were also dedicated to security, both physical and information. Revised document of physical security was issued, and information security was completely revised. At the end of the year, penetration tests were carried out to check resilience to potential information threats and risks. Several activities were dedicated to ensuring compliance with the new GDPR Regulation.

Business operations in the Elektro Gorenjska Group were also facilitated by switching to Office 365, for the safe use of mobile devices, we introduced the mobile device management system (MDM - Mobile Device Management).

Project of setting up a secondary data centre was completed. Secondary centre provides redundancy for the scope of IT services,

for the field of OT services (SCADA), as well as for the area of communication services of the Elektro Gorenjska Group. As part of the installation, a plan for the continuous operation of IT services was also prepared. Plan of continuous operation of OT services will be prepared in 2019, which must be prepared also due to the Information Security Act and the Critical Infrastructure Act.

In addition to the aforementioned projects, we spent a lot of time on projects that are still underway, namely the development of a new information solution to support work in the field, so called Task Manager, participation in the project of introducing the new GIS system and cooperation on the upgrade project Single entry point, the SEDMp (System for single access to measurement data).

As part of the reorganization, the Information and Communication Technology Service was renamed Telecommunication Technologies Service, the tasks of which remained the same as before the reorganization. Service is responsible for the design, development, management and maintenance of telecommunications infrastructure for all areas of the Elektro Gorenjska Group, both for IT and OT. Its main goal is to maintain and upgrade information communication systems so that they will always be in "excellent condition" and "in step with the time."

In 2018, most of the time was spent testing new telecommunication technologies that would replace existing ones. Technologies were checked both on the radio as well as on the optical network. Parallel to this, a new base station was installed at Lajnar, which provides significantly better quality of communication services in the area of the KN Železniki and KN Bohinj. System of targeted radio communications has been updated. With this in relation to the radio system, the upgraded network is now ready for the most likely installation of a private 4G network, which has proven through the tests as the far most suitable technology.

In addition, we must not forget the constant concern for the information and cyber security of all areas of the Group.



## 8 Sustainable development

**Elektro Gorenjska Group set its sustainable development clearly – with set goals, environmental strategy integrated with the business strategy, and achieved results clearly presented. Group operates according to the system that we demonstrate our responsibility where we operate.**

**Today’s cooperation must enable conditions for the quality of life to the future generations too. We realize and connect that with energy.**

### 8.1 Care for employees

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

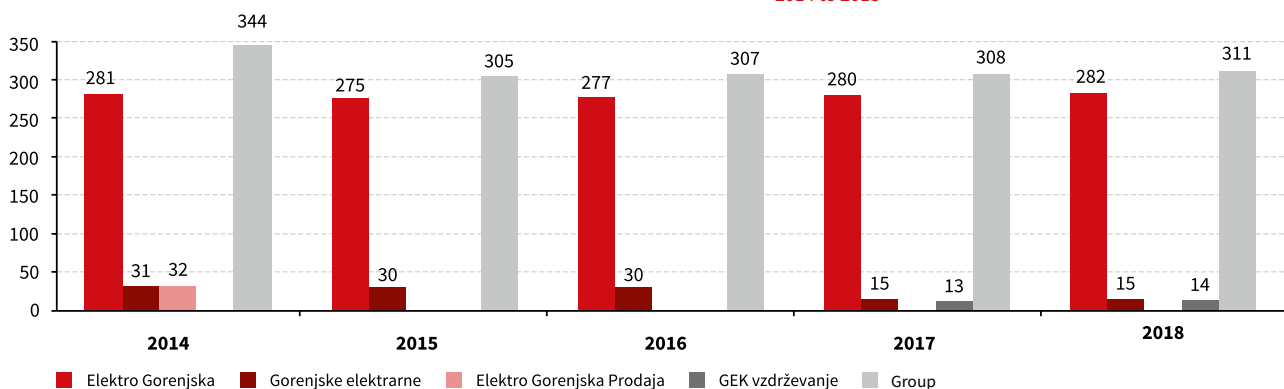
#### 8.1.1 Demographic structure in the Group

On December 31 2018 Elektro Gorenjska Group had 311 employees. Compared to the situation as at December 31 2017, number of employees increased by three workers. There were twelve terminations of employment, of which ten retirements. In this year we had fifteen new employments.

On December 31 2018 the Group had 7.4 % of employees employed with fixed-term employment, which is by more than 1 percent more than in year 2017.

Number of employees in the Group will be adapted to the implementation of the Group’s strategy in the next year, or we plan to keep the number at a similar level.

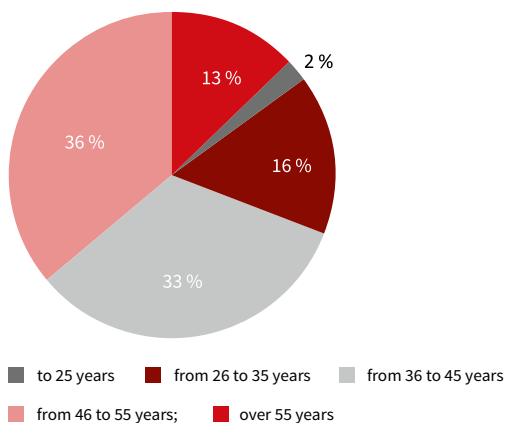
Figure 62: Changes in the number of employees in the period from 2014 to 2018



On January 1 2017 part of activities (GEK Vzdrževanje) was spin-out of Gorenjske elektrarne. Besides the parent company Elektro Gorenjska and subsidiary Gorenjske elektrarne the Group includes also GEK Vzdrževanje. At the end of year there were 78.46 % of men and 21.54 % of women employed in the Group. If we exclude Elektro Gorenjska Prodaja Company, which is no longer a member of the group and whose structure was predominantly female, the percentage is entirely comparable with the previous years and closely connected with the primary activity of all three companies.

Average age of employees in the Group has been increasing in the past years, while last years it dropped a bit as a result of employment, replacing retired workers with younger colleagues. At the end of the year it was 44.6 years, which is by 0.2 year less according to the previous year. Analysis of groups of employees according to age shows that in year 2018 there were the most employees in the age group between 46 and 55 years, namely 36 % of all employees. Older age structure in GEK Vzdrževanje Company has the strongest impact on older age groups as there 79 % of all employees belong to the last two age groups.

Figure 63: Shares of employees in Elektro Gorenjska Group according to age groups



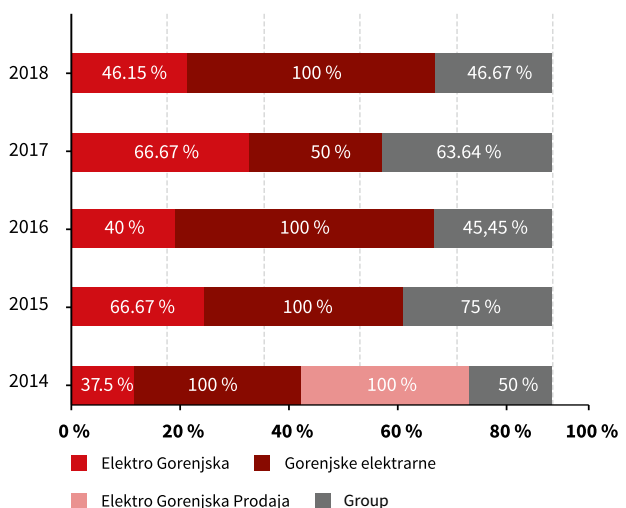
### 8.1.2 Employment

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

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

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

Figure 64: Share of new employees with at least high professional level of education at the time of employment



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

Fluctuation of personnel in the Group is small. Fluctuation mainly emerges due to departure of workers for retirement and to lower extent also due to fixed-term employments. Fixed-term employments are used with increased volume of work or due to substitution of the worker. Very rarely individuals decide for the termination of the employment contracts on their own.

Table 16: Fluctuation rate in Elektro Gorenjska Group

|                           | 2014   | 2015   | 2016   | 2017    | 2018   |
|---------------------------|--------|--------|--------|---------|--------|
| Elektro Gorenjska         | 1.41 % | 2.83 % | 2.82 % | 2.10 %  | 2.77 % |
| Gorenjske elektrarne      | 3.13 % | 6.25 % | 3.23 % | 11.76 % | 6.25 % |
| Elektro Gorenjska Prodaja | 3.03 % | -      | -      | -       | -      |
| GEK Vzdrževanje           | -      | -      | -      | 13.33 % | 7.14 % |
| Group                     | 1.72 % | 3.17 % | 2.86 % | 3.14 %  | 3.73 % |

### 8.1.3 Employment of persons with disabilities

In accordance with legislation, companies are obliged to provide a certain amount of employment to disabled workers. Companies Gorenjske elektrarne and GEK Vzdrževanje both employed less than 20 workers in 2018, so they were not subject to the quota for employing disabled persons. On 31. 12. 2018 there were 7 disabled persons employed in the Group. In accordance with the statutory quota of employing disabled persons, which amounts to 6 % for Elektro Gorenjska, the group would have to employ approximately 17 disabled persons. In year 2018 by signing the contract with two social enterprises Elektro Gorenjska made use of the possibility of claiming replacement quota fulfilment for 38 disabled persons.

Table 17: Information on disabled employees

|   | ELEKTRO GORENJSKA |        |
|---|-------------------|--------|
|   | 2017              | 2018   |
| Number of employed disabled persons as at 31. 12.                                       | 7                 | 7      |
| Number of disabled persons for contribution as at 31. 12.                               | 10                | 10     |
| Amount of contribution in a year  | 49,022            | 48,376 |
| Number of realized disabled persons in year, based on contracts with social enterprises | 33                | 38     |

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

### 8.1.4 Education

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

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

Table 18: Education and trainings in the period from 2016 to 2018

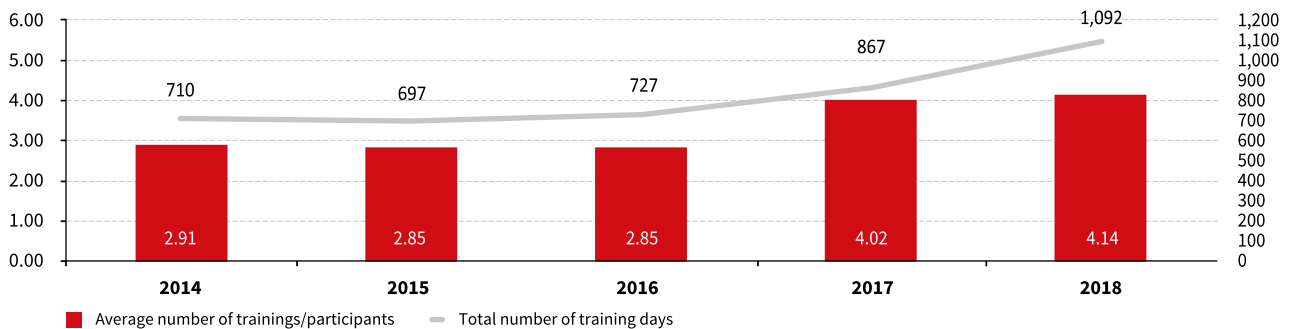
| Item description   | 2016      | 2017      | 2018      |
|--|-----------|-----------|-----------|
| Employees on trainings (in %)  | 90.55     | 81.11     | 88.35     |
| Average number of training days per average number of employees (days)                     | 2.36 days | 2.82 days | 3.53 days |
| Costs of education and training per employee (in €)  | 322       | 498       | 451       |
| Number of employees acquiring higher level of education on the basis of education contract | 9         | 10        | 10        |

Within the strategic project Managing of the organizational culture 2016 – 2020 or the strategic projects organizational culture and committed employees in the revised strategy of the Group 2018-2022, in year 2018 we continued with trainings for the Heads in the field of managing the soft skills. Our employees from the reception office that are in frequent contact with the customers received trainings on the topic of

communication with our network users, with a group of six employees, who are constantly involved in the maintenance of facilities, and for new investments, we carried out a multi-monthly communication training session in the project team.

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

Figure 65: Review of the scope of training in the number of days and number of trainings





### 8.1.5 Educational structure of employees

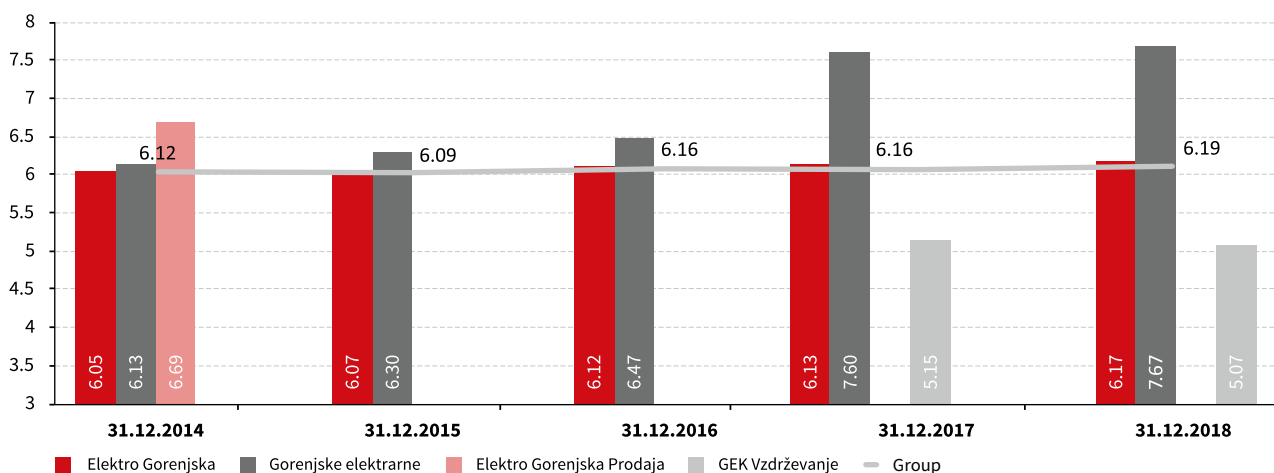
Average level of education has been increasing with years, mainly due to new employments of highly competent workers and education of employees to acquire higher levels of education.

Table 19: Educational structure of employees in Elektro Gorenjska Group as at 31. 12. 2018

| Level of education 31. 12. 2018 | Elektro Gorenjska |                | Gorenjske elektrarne |                | GEK Vzdrževanje |                | Group      |                |
|---------------------------------|-------------------|----------------|----------------------|----------------|-----------------|----------------|------------|----------------|
|                                 | Number            | Structure (%)  | Number               | Structure (%)  | Number          | Structure (%)  | Number     | Structure (%)  |
| doctoral level (9)              | 2                 | 0.7 %          | 1                    | 6.7 %          | 0               | 0.0 %          | 3          | 1.0 %          |
| master's degree (8)             | 18                | 6.4 %          | 2                    | 13.3 %         | 0               | 0.0 %          | 20         | 6.5 %          |
| university level (7/2)          | 53                | 18.8 %         | 7                    | 46.7 %         | 1               | 7.1 %          | 61         | 19.8 %         |
| graduate level (7/1)            | 43                | 15.2 %         | 2                    | 13.3 %         | 1               | 7.1 %          | 46         | 14.0 %         |
| post-secondary level (6)        | 49                | 17.4 %         | 2                    | 13.3 %         | 0               | 0.0 %          | 51         | 14.9 %         |
| secondary level (5)             | 70                | 24.8 %         | 1                    | 6.7 %          | 8               | 57.1 %         | 79         | 26.9 %         |
| three-year vocational level (4) | 47                | 16.7 %         | 0                    | 0.0 %          | 4               | 28.6 %         | 51         | 16.9 %         |
| two-year vocational level (3)   | 0                 | 0.0 %          | 0                    | 0.0 %          | 0               | 0.0 %          | 0          | 0.0 %          |
| primary school (1)              | 0                 | 0.0 %          | 0                    | 0.0 %          | 0               | 0.0 %          | 0          | 0.0 %          |
| <b>TOTAL EMPLOYEES</b>          | <b>282</b>        | <b>100.0 %</b> | <b>15</b>            | <b>100.0 %</b> | <b>14</b>       | <b>100.0 %</b> | <b>311</b> | <b>100.0 %</b> |

Average level of education in Elektro Gorenjska Group as at December 31 2018 amounted to 6.19 - with level 6 representing high-school education. Level of education in the Group stayed the same according to the previous year.

Figure 66: Average level of education in companies and Elektro Gorenjska Group in the period from 2014 to 2018



### 8.1.6 Employee motivation and remuneration

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

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

From our employees we expect initiative in the field of giving proposals. Based on the systematic measures in this field, mainly in the adopted Rules on innovation and additional stimulation, number of innovation proposals has increased.

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

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

### 8.1.7 Annual interviews

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

Reasons for the implementation of annual interviews are:

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

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

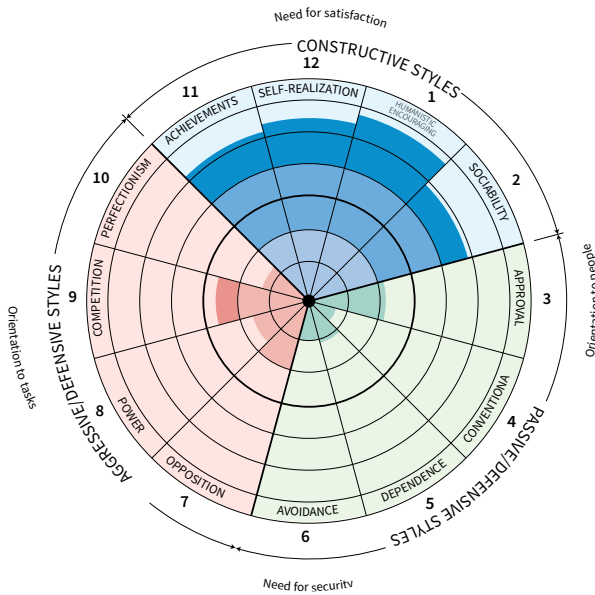
### 8.1.8 Organizational culture

We are carefully following the recruitment of competent, creative and highly committed employees at all levels. Revised strategy of the Elektro Gorenjska Group for the period 2018-2022 also defines the strategic project *Organizational culture and the commitment of employees*, whose goal is to create a constructive organizational culture among the employees. This means that we expect co-workers to get involved, cooperate with each other, take responsibility and focus on goals. We create an environment where employees live the values of the company, Heads know the characteristics of their colleagues and guide them individually, thus contributing to the implementation of the strategy.

In 2013, for the first time, we analysed the actual situation and set up the concept of an ideal organizational culture (Figure 67), which we want to achieve. With the help of quality tools, management has defined the expected behaviour of employees based on constructive behavioural patterns (in the image marked with blue). Passive defensive and aggressive defence styles (green and red) of behaviour should be represented as little as possible. Organizational culture was again measured in 2017, this time we did not change the ideal culture and we are still following the one set in the year 2013.

Analysis of the responses from the questionnaires in year 2013 and 2017 revealed a gap between the ideal and the actual culture. Based on the results of the survey conducted in 2017, this gap is smaller, but it still exists. We established that increasing the constructive behavior and reducing passive defensive and aggressive defensive behaviors will be reached most effectively through quality management and highest involvement of employees in solving business challenges, work processes, making decisions and assuming responsibility. That is why in the period of the strategic project we educated the Heads with soft skills trainings. By using the HOW model we try to include all employees in the solving of business challenges. With personal coaching in year 2016 in Elektro Gorenjska we raised the education of management and Heads to a higher level. We continued with this practice in the following years by including more Heads on lower levels as well and in form of team coaching sessions, we expanded that to more than a half of the employees.

Figure 67: Ideal organizational culture



### 8.1.9 Employee satisfaction and commitment

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

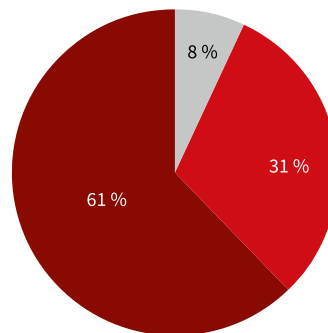
Satisfaction is measured by ourselves, and the commitment with Gallup's methodology is measured in cooperation with external experts. Gallup is one of the best and most experienced global companies in the field of analysing and increasing the commitment of employees, which has been present in over 20 world countries for more than 80 years and has more knowledge in this field than any other company in the world.

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

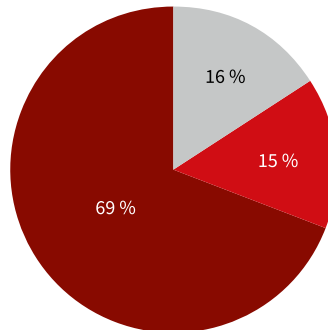
We certainly contributed to the increase of the employee satisfaction by acquiring the full certificate Family-friendly Company for the parent company and by respecting the agreement on implementation of measures in the Group subsidiaries. Since November 2014 Elektro Gorenjska has been the owner of the full Family-friendly Company certificate. Project team of 10 employees from different fields of work and from different age groups created 13 measures in 2011, which were introduced by 2014. With the acquisition of the full certificate, five new measures were added, two of which were introduced in the first three-year period, we have abolished.

Figure 68: Commitment of employees in year 2018, compared with Slovenian and the best global organizations

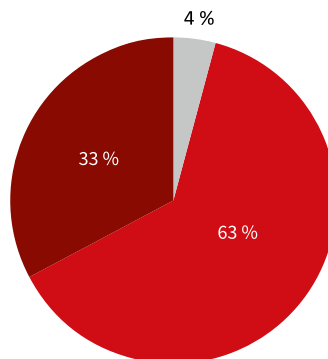
Elektro Gorenjska Group



Slovenian average



Gallup Top 33 %

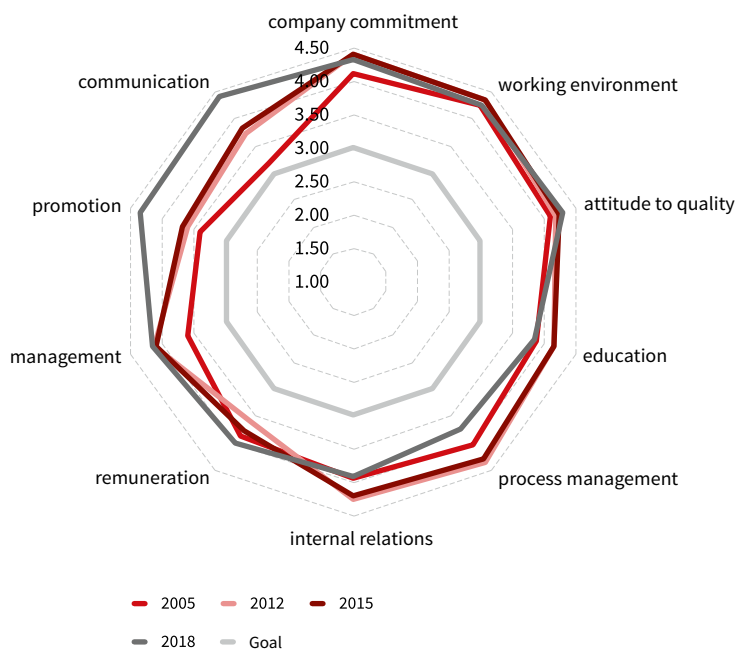


■ Actively committed  
■ Actively uncommitted  
■ Uncommitted

New implementation plan thus contains 16 measures. Key benefits of the employees we provide are: flexible working hours when children enter school or kindergarten, the parents of new-borns receive a gift certificate, for parents of children between 11 and 15 years of age we finance the holiday activity, we let our parents have a shorter presence of children on the premises of the company. Topic of reconciliation of professional and family life is also included in annual interviews. In the parent company there is a commissioner for the coordination of work and family who receives suggestions from employees from the field mentioned and sends them to the management. She explains the purpose and method of using individual measures for employees. Employees are pleased with the measures and take advantage of them.

In 2018, in Elektro Gorenjska Group we once again measured the satisfaction of employees. After the analysis, it is evident that the target values are exceeded in all areas measured. Compared to previous measurements, the results of almost all areas have slightly increased or remained at the same level as in the previous period (Figure 69).

Figure 69: Average marks in the survey of employee satisfaction for Elektro Gorenjska Group



### 8.1.10 Absence of employees

Absenteeism or longer absence from the workplace for the purpose of using sick leave is monitored annually. In 2018, in comparison with 2017, the value of non-refunded absences increased by more than 7% in the parent company. Average values of refunded absences were also increased by 12% compared to the previous year. In Gorenjske elektrarne, total absences increased, mainly due to the longer absence of one worker. In GEK Vzdrževanje, total absences decreased in comparison with 2017, mainly due to the lower number of long-term absences. Let us also mention that, in the companies of Gorenjske elektrarne and GEK Vzdrževanje, due to the small number of employees, every absence has a significant influence on the average values.

In addition to sick leave, employees benefit from maternity and paternity leaves. Taking into account absence due to illness and mentioned leaves, in Elektro Gorenjska in 2018 the average absence per employee was less than 10 days, in Gorenjske elektrarne over 17 days and in GEK Vzdrževanje 15 days.

We will continue to strive for orderly working conditions and we will encourage our employees to healthy lifestyle also outside the working environment.

### 8.1.11 Relations between employees and management in the Group

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

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

Representatives of employees and trade union representatives actively participated in agreeing on rights from employment, organizing and amending acts and taking care of employees in accordance with their way of working.

In addition to enforcing regular legal rights, trade unions also take care of the social life of employees.

### 8.1.12 Care for employees and related groups outside working hours

Support to the employees in the Group is provided in various ways, including in activities outside the working environment. In 2018 we paid particular attention to the children of employees and pensioners.

Regulation and implementation of the principle of social security of employees is part of the Group's business policy. One of the segments that takes care of the good social status of employees is also the joint decision of the partners to agree on the financing of supplementary pension insurance

for employees in the energy sector and thus also in the Elektro Gorenjska Group. All employees in the group are also accidentally insured.

Inclusion in the voluntary supplementary pension insurance increases the social security of employees in times of retirement.

### 8.1.13 Communication with employees

In the Group conducting effective internal communication with employees is demanding, since employees are located in different locations, as well as perform various types of work in the field. Consequently, direct and indirect communication channels for communicating with employees are used. Direct communication is carried out on meetings and events, which are annually organized for employees (Company Day, New Year's employee party, sports games, etc.). Due to the diversity of jobs events are an opportunity for socializing and getting to know the employees who do not work together on a daily basis.

In the Group we publish:

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

To communicate with the employees we use:

- › **Intranet** which is intended for information to employees about activities of the companies in Elektro Gorenjska group. It serves as a tool to access key programs and applications, presents information and content about the company that employees need daily to perform their tasks.
- › Due to the diversity of the employees work **traditional notice boards** are intended for those employees who spent most of their time on site due to the nature of their work (field work).
- › **Gazette of electricity generating industries Naš stik**, which is published by Elektro Slovenia, offers the employees a wider perspective on comprehension of energy industry we operate in. Our Head of corporate communication is a member of the newspaper council and it is her task to make sure the company is well presented on its pages.

**8.1.14 Connecting the employees and wider community**

We stay in touch with our employees even when they retire. We inform them about the novelties through our internal gazette Elgo, we also invite them to different events related with the activities of the companies. We promote and financially support the activities of the Pensioners' Association of Elektro Gorenjska, which has been operating since 2006. For their members, they organize various activities. They organize information and sports trips, visit sick and elderly members and help their relatives in various ways.

**8.1.15 Health and safety at work**

Health is the basis for a good and successful life and work - for both the individual as well as the organization. Care for preserving and improving the health of employees is useful because healthy and satisfied workers working in a safe and stimulating working environment are more productive and creative, they are less likely to get sick and less likely to take sick leave and remain faithful to the organization or employer. Employer, who offers a good and stimulating working environment, is better able to employ better quality staff and gain public reputation. Therefore, the Health and Safety at Work Service of Elektro Gorenjska is constantly taking care of adequate and safe working conditions, and draws attention to the observance of safety rules at work performed by employees.

In 2018, the company adopted three important measures from the point of view of occupational health and safety related to the health of employees. The first relates to the vaccination of all employees against tick-borne meningitis, the second to the examination of skin pigment marks, and the third to the training of all employees for first aid in the workplace.

We had two accidents at work in Elektro Gorenjska, d. d., in year 2018. Both injuries were lighter.

Quality indicator frequency of injuries tells us what percent of workers were injured amounted to 0.71 % of injured workers. Quality indicator telling us the number of lost working days per injury amounted to 95.5 days.

Following charts below represent data showing number of injuries at work in Elektro Gorenjska, gravity of injuries and frequency of injuries compared to electricity distribution of Slovenia.

Figure 70: Number of accidents at work

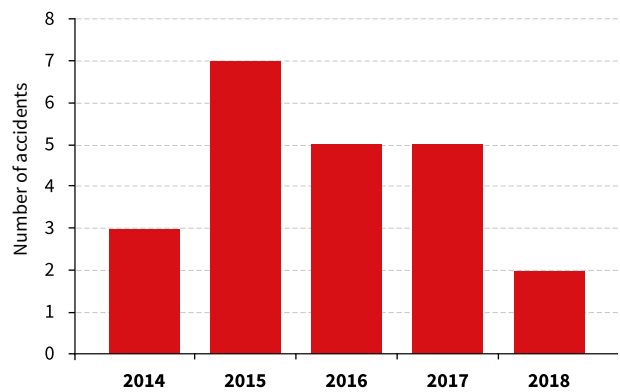


Figure 71: Gravity of injuries

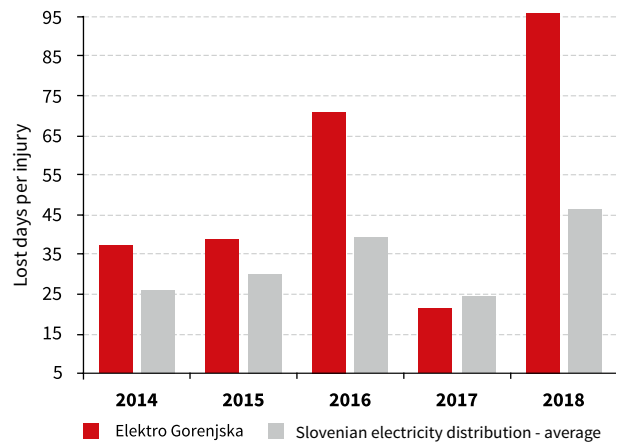
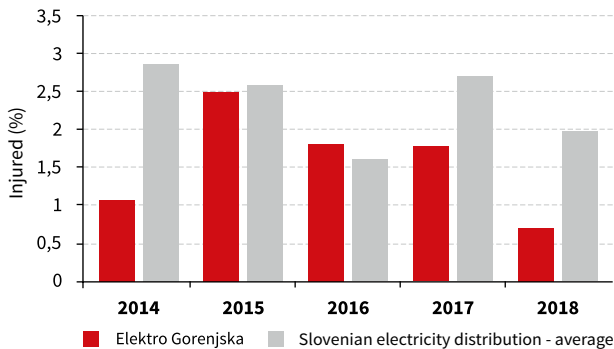


Figure 72: Frequency of injuries



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

- › We warned of the overburdening of certain individuals and services in order to ensure a smooth running of work in the event of unexpected sick absences.
- › We warned about timely planning of staff in services, where the average age of employees is higher. In doing so, it is necessary to take into account a sufficiently long deployment period, which is a condition for the transfer of knowledge and experience from colleagues prior to retirement. This measure would, in the future, avoid any serious injury at work and other major costs associated with it.
- › We informed all employees about the content, interpretation and importance of “trigonics”.
- › We have taken the decision to provide workers with a recognized category of disability with appropriate working equipment and means of transport. On the basis of this decision, in order to facilitate his work, a worker’s smaller vehicle was with a larger one.
- › Discussed new legislation in the field of occupational safety and health and integrated it into the company’s working environment.
- › Addressed dangerous events and proposed measures to remedy irregularities and deficiencies.
- › Dealt with injuries at work occurring in Elektro Gorenjska and other power distribution companies.
- › Carried out an internal audit in terms of safety and health at work. Audit was carried out in all premises and on all locations of the company.
- › Realized all recommendations of external and internal assessment.

### What important things await us in year 2019?

In the field of training from the point of view of safe and healthy work, in 2019, we are waiting for safety and health at work training for office workers, training for safe working with welding machines, training for safe work at a height, training for safe work with truck lifts and training for live work.

In the field of work equipment inspections, we are awaiting examinations of grounding sets, hand tensioners, lifting and sliding doors, sliding racks in the warehouse, ladders, climbers, pressure vessels, work equipment for DPN and personal protective equipment for work at a height

In the context of health care, we will continue to carry out preventive medical examinations, carry out TBE and influenza vaccinations and inspections of pigment marks on skin.

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

Within the framework of the Task Force on Safety and Health at Work and Fire Safety (within GIZ), we will work together to develop new Safety Rules for Construction and Assembly Work and Safety Guidelines and cooperate in amending and revising the Rules on safety at work with regard to electric current hazards (official Gazette RS, No. 29/92).

We will try to lift the level of health and safety at work to a an even higher level than so far. Challenge that awaits us in the future is to make sure the employees feel in their hearts and understand that health is our greatest asset and the energy that they possess.



## 8.2 Concern for the natural environment

Proper and responsible environmental management is included in the strategic guidelines of Elektro Gorenjska Company. It is based on adopted environmental policies and sustainable development guidelines; results and progress in this area are monitored through measurable environmental indicators.

Systematic approach to environmental management is provided within the Environmental Management Council on the basis of the principles of the ISO 14001 standard, and the success of the results can be influenced by every employee in their everyday work, taking into account internal instructions. An external assessments of the acquired standards are conducted annually.

Objectives of the Environmental Management Council (SRO) include:

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

### 8.2.1 Management of important environmental aspects in year 2018

In addition to regular activities that include monitoring of changes in environmental legislation, introduction of necessary changes and optimizations in implementation processes, awareness raising of employees and external operators and implementation of environmental programs objectives, in year 2018 we successfully passed the external re-assessment according to standard ISO 14001:2015.

In the Company we monitor 14 environmental indicators, which were not significantly changed in the previous year. Their values are mostly within the intended objectives. In examining and assessing environmental aspects for 2019, in each aspect, we will pay more attention to the environmental impacts in the event of emergencies, and we will also explore the possibility of combining, sharing some environmental aspects.

### Waste management

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

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

Despite the extremely robust network of Elektro Gorenjska, namely more than 73 % of our distribution network goes underground, individual events and weather inconveniences still can cause faults and eventual environmental impacts also on the distribution network and surroundings. All identified dangerous substances are stored in appropriate boxes and facilities, which ensure high level of control and security. Procedures and manners of storing and transporting dangerous substances are well defined. Every two years we remove waste oils that are collected in special containers in the ecological island (collection point).

In year 2018 we recorded three extraordinary environmental events. In the middle of June, the reconstruction of the object caused the spillage of insulating oil. Intervention of the fire service was necessary for the rehabilitation. Reason for the outburst was the negligence of an external contractor when loading dismantled equipment of the old 110 kV switchyard.

In autumn during the theft of transformers from transformer stations, two deliberate spillages of transformer oil occurred. With the help of external contractors, we immediately implemented the necessary environmental sanitation.

### Noise, electromagnetic radiation and light pollution of energy devices

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

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

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

**In the energy facilities, the area of sanitary and rain water was regulated**

In 2018, we continued with the realization of the objectives of the environmental program No. 14, which refers to the outflows of sanitary and rain waters. Objectives of the program are adapted to the requirements of the Decree on the Discharge and Cleaning of Municipal Waste Water, which by 31 December 2021 specifies the deadline for connecting facilities to the public sewage network or the arrangement of small treatment plants and oil catchers.

In 2018, the waste water discharge for the RTP Labore facility was arranged with a watertight septic tank and a rainwater percolation shaft. In 2019, we plan to continue the activities at the RTP Škofja Loka facility and a nearby residential building.

**Environmental care in work processes**

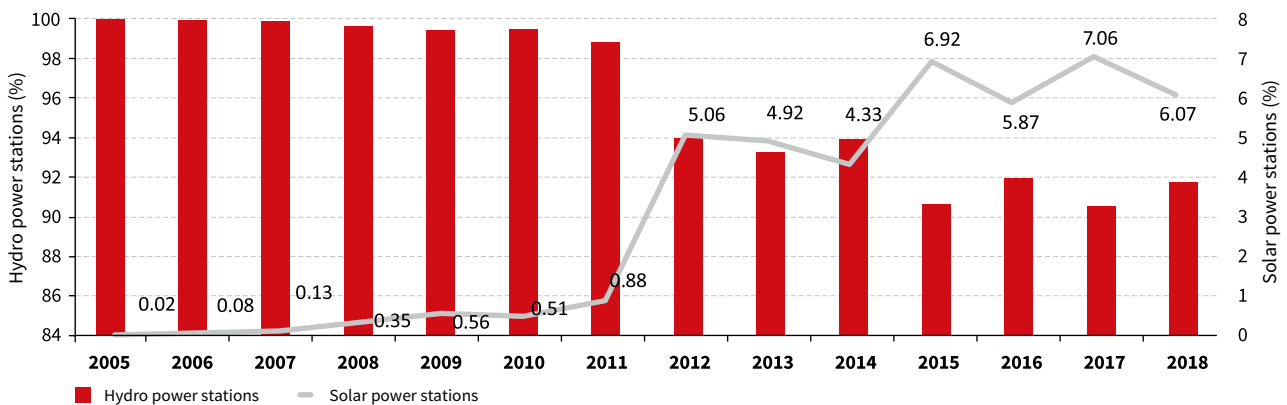
In 2018, we were raising awareness of employees about the rational use of energy products and the proper disposal of waste generated in work processes. With the help of the services provided by the subsidiary company Gorenjske elektrarne, in 2018 we finalized the system of regulation and control of the heating and cooling system of the office building in Kranj.

Most newly-acquired official gasoline powered vehicles have a lower carbon dioxide emissions into the atmosphere, thus implementing the European Commission’s guidelines for maximum permissible emissions of 95 g / km by 2020. Environmental criteria are also part of the selection process of suppliers.

**Environmental savings from hydro power stations**

Production of electricity delivered into the network and into the internal network of end users from hydro power stations represents 91.72 % share of production, from solar power stations 6.07 % share and from cogeneration 2.21 % share of entire production.

Figure 73: Shares of electricity generation from renewable sources in Gorenjske elektrarne in the period 2005 – 2018 (%)



In year 2018 total production of ecologically clean electricity in hydro power stations of Gorenjske elektrarne was 49,427 MWh. Electricity produced in hydro power stations gives environmental savings, namely according to the methodology of the Energy Efficiency Center from Jožef Stefan Institute in CO<sub>2</sub> calculation (0.5 kg CO<sub>2</sub>/kWh) for year 2018 there was a reduction of 24,713 tons of CO<sub>2</sub> emissions.

Total CO<sub>2</sub> reduction from hydro power stations, solar power stations and co-generation of electricity and heat of Gorenjske elektrarne Company in year 2018 was by 26,945 tons of CO<sub>2</sub> emissions.

**Environmental savings from co-generation units**

In year 2018 total production of electricity from cogeneration units using natural gas into the distribution network and internal network of final customers was 1,191 MWh, which represents 2.39 % share of all electricity produced in Gorenjske elektrarne.

Environmental savings from co-generation of electricity are reduction of 596 tons of CO<sub>2</sub> emissions.

**Environmental savings from solar power stations**

In year 2018 total production of electricity from solar power stations into the distribution network and internal network of final customers in Gorenjske elektrarne Company was 3,272 MWh, which represents 67.06 % share in total electricity produced in Gorenjske elektrarne.

Electricity produced in solar power stations gives environmental savings, namely according to the methodology of the Energy Efficiency Center from Jožef Stefan Institute in CO<sub>2</sub> calculation (0.5 kg CO<sub>2</sub>/kWh) for year 2018 by 1,636 tons of CO<sub>2</sub> emissions. Cumulative environmental saving of CO<sub>2</sub> emissions from solar power stations from year 2005 to the end of 2018 was 11,815 tons of CO<sub>2</sub> emissions.

Figure 74: Environmental savings of reduction of CO<sub>2</sub> emissions due to production of electricity in hydro power stations, solar power stations and co-generation units in the period 2005–2018

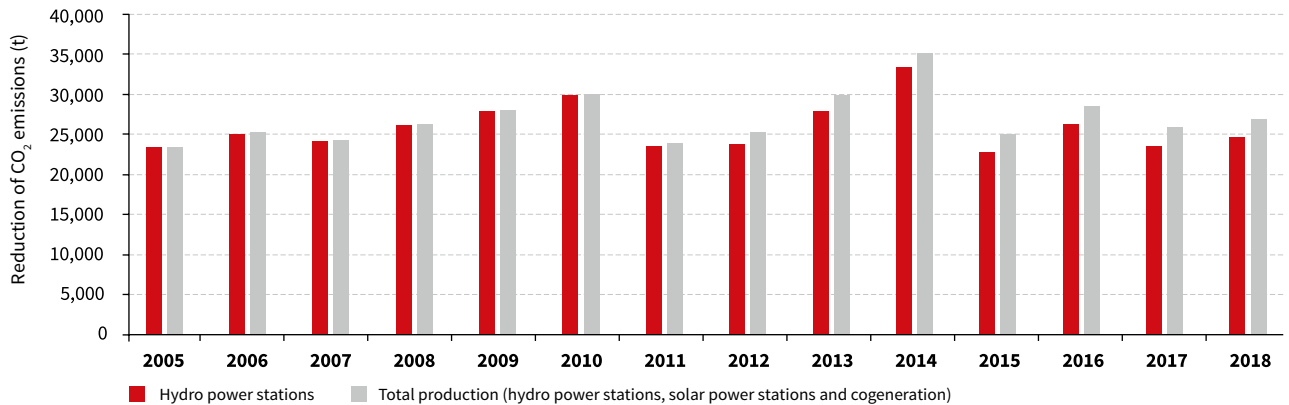
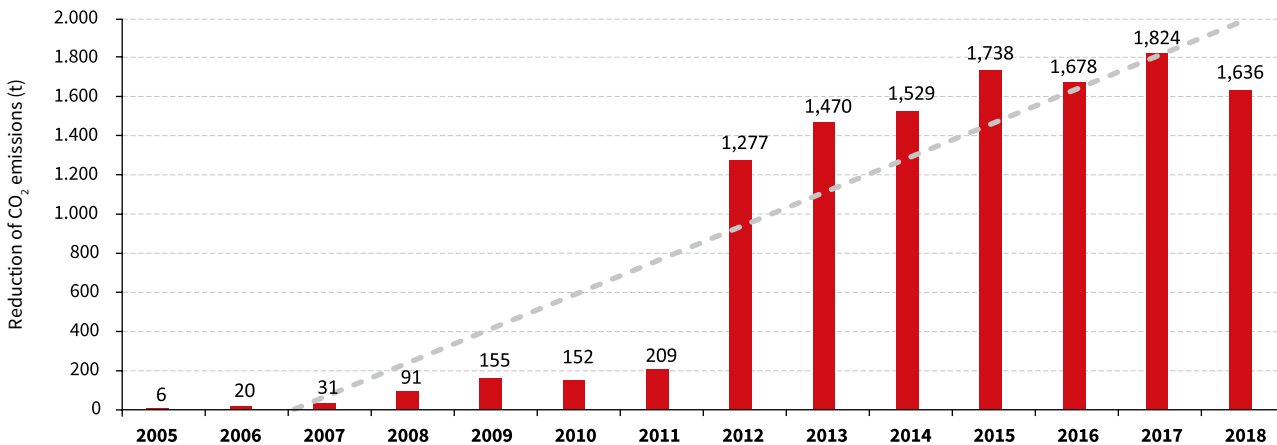


Figure 75: Environmental saving of CO<sub>2</sub> emission reduction due to production of electricity in solar power stations in period 2005–2018



### 8.2.2 Environmental communication

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

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

In the framework of the Environmental Management Council, also in 2019, with advice and actions, we will take care of reducing the amount of waste, as well as for more efficient use of energy products in the company. On the internal website we publish manuals on the proper separation of waste, which are of additional help to the employees.

### 8.3 Care for the public interest – social responsibility

Placement of electricity infrastructure is a lengthy and demanding process. Understandable communication with residents and a clear presentation of the ultimate benefits for the inhabitants are a key emphasis we are following in any space intervention. We provide for the transparent publication of data on web pages, and we also actively cooperate with representatives of local communities.

In communication with different stakeholders of the public we follow the two core objectives - to provide clear and transparent information to the public, with which it cooperates and to create a positive dialogue with the public.

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

We report about communication with employees in more detail also in chapter 8.1.13. – *Communication with employees.*

#### 8.3.1 Communication with local community and social responsibility

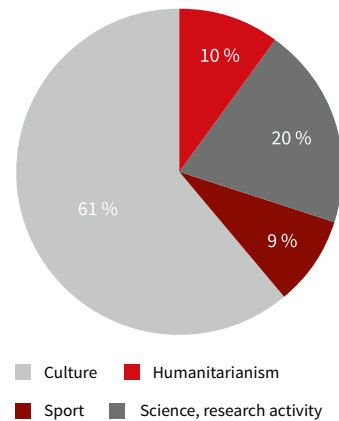
##### Sponsorships and donations

Projects that we financially support, follow the identity of the Group companies and approved strategy. Through projects in various fields we recognize opportunities where with our knowledge, financial resources or other resources we can contribute to progress.

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

Projects are selected on the basis of the internal rules, which define quality criteria and social relevance of the project. We consider short-term as well as long-term positive effects on companies in the Group, local community and environment we operate in. We also consider recommendations of the majority owner or investment manager as well as the legislation in force.

Figure 76: Sponsorships and donations of the Group in year 2018



In year 2018 there was a total of 46,720 € of funds allocated to sponsorships and a total of 82,086 € to donation projects.

#### 8.3.2 Communication with business partners

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

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

#### 8.3.3 Communication with media

Professional services in this field ensure regular and proactive communication with the media. They encourage positive and neutral presence in the media and understanding of the electricity contents with regular answers to journalists' questions, socially responsible content and by proactively identifying and communicating the more complex topics.

Effectiveness of our relationship with the media is measured in the company by annual media analysis, daily content analysis and in-depth analysis based on qualitative and quantitative evaluation of the relevant posts. In year 2018 there were 283 posts in media mentioning Elektro Gorenjska Company.

### 8.3.4 Communication with users

We communicate with our end users through:

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

### 8.3.5 Communication with shareholders and financial public

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

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

### 8.3.6 Communication with influential public

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



## 9 Events after the balance sheet date

There were no major events, except those presented in the Financial report (*Chapter 23 – Events after the balance sheet date*).







# **Consolidated Financial Report**

# **B**



---

# 10

## Management responsibility statement

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

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

Management board of Elektro Gorenjska Company approved the financial statements of the group prepared for the financial year 2018 on April 2 2019.

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

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

Kranj, April 2 2019

Chairman of the Board:  
*dr. Ivan Šmon, MBA*





# 11 AUDITOR'S REPORT



Tel: +386 1 53 00 920  
Fax: +386 1 53 00 921  
info@bdo.si  
www.bdo.si

Cesta v Mestni log 1  
SI-1000 Ljubljana  
Slovenija

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

To the owners of  
ELEKTRO GORENJSKA, d.d.  
Ulica Mirka Vadnova 3A  
4000 Kranj

### Opinion

We have audited the financial statements of Elektro Gorenjska group (the group), which comprise the statement of financial position of the group as at December 31, 2018 and the profit and loss account of the group, statement of other comprehensive income of the group, statement of changes in equity the group and statement of cash flows of the group for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion the accompanying financial statements present fairly, in all material respects, the financial position of Elektro Gorenjska group as at December 31, 2018, and its financial performance, comprehensive income and cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by EU.

### Basis for Opinion

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

### Other information

Management is responsible for the other information. The other information comprises the information included in the business report of the annual report of Elektro Gorenjska group but does not include the financial statements and our auditor's report thereon. We have received other information before the date of auditor's report except of the report of supervisory board, which will be available later. Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with consolidated financial statements, regulatory requirements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. With regards to these procedures we report on the following:

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

### Responsibilities of Management and Supervisory Board for the Financial Statements

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

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

BDO Revizija d.o.o., slovenska družba z omejeno odgovornostjo, je članica BDO International Limited, britanske družbe "limited by guarantee" in je del mednarodne BDO mreže med seboj neodvisnih družb članic.  
Okrožno sodišče v Ljubljani, vl. št. 1/26892/00, osnovni kapital: 9.736,66 EUR, matična št.: 5913691, ID št. za DDV: SI94637920.



Supervisory board is responsible for overseeing the group's financial reporting process and confirmation of audited consolidated annual report.

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

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

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

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

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

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

Ljubljana, April 26, 2019

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

(Signature on original Slovene independent auditor's report)

Maruša Hauptman,  
Certified auditor, procurator



# 12

## Financial statement of Elektro Gorenjska Group for business year ended as at 31. 12. 2018

### 12.1 Statement of financial position of Elektro Gorenjska Group as at 31. 12. 2018

| ITEM  | Note  | in €               |                    |
|---|-------|--------------------|--------------------|
|   |       | 31. 12. 2018       | 31. 12. 2017       |
| <b>ASSETS</b>   |       |                    |                    |
| <b>Long-term assets</b>                                     |       | <b>220,543,223</b> | <b>213,544,958</b> |
| Intangible assets   | 14.1  | 1,408,216          | 1,606,459          |
| Tangible fixed assets                                       | 14.2  | 209,484,786        | 202,183,662        |
| 1. Land and buildings                                       |       | 150,354,413        | 143,787,529        |
| 2. Production plant and equipment                           |       | 55,773,388         | 54,468,405         |
| 3. Other plant and equipment                                |       | 542,029            | 433,768            |
| 4. Tangible fixed assets in acquisition                     |       | 2,814,956          | 3,493,960          |
| Investment property   | 14.3  | 1,813,588          | 2,170,669          |
| Long-term financial investments                             | 14.4  | 7,622,874          | 7,239,015          |
| 1. Long-term financial investments, excluding loans         |       | 7,480,076          | 7,095,377          |
| b) Financial investments calculated using the equity method |       | 7,480,076          | 6,971,222          |
| c) Other shares and stakes                                  |       | 0                  | 124,155            |
| 2. Long-term loans  |       | 142,798            | 143,638            |
| b) Long-term loans to others                                |       | 142,798            | 143,638            |
| Long-term operating receivables                             |       | 80,408             | 246,719            |
| Other long-term assets                                      |       | 104,847            | 69,930             |
| Deferred tax assets   |       | 28,504             | 28,504             |
| <b>Short-term assets</b>                                    |       | <b>18,249,470</b>  | <b>18,495,186</b>  |
| Assets (group for disposal) for sale                        | 14.5  | 381,264            | 141,669            |
| Stocks  | 14.6  | 363,106            | 296,344            |
| Short-term financial investments                            | 14.7  | 1,800,835          | 1,100,480          |
| 1. Short-term financial investments, excluding loans        |       | 835,000            | 299,640            |
| 2. Short-term loans   |       | 1,800,000          | 800,840            |
| b) Short-term loans to others                               |       | 1,800,000          | 800,840            |
| Short-term operating claims                                 | 14.8  | 9,220,679          | 8,129,934          |
| Other short-term assets                                     | 14.9  | 118,144            | 136,980            |
| Cash and cash equivalents                                   | 14.10 | 6,365,442          | 8,689,779          |
| <b>TOTAL ASSETS</b>   |       | <b>238,792,693</b> | <b>232,040,144</b> |

Statement of financial position of Elektro Gorenjska Group as at 31. 12. 2018  
(continued from previous page)

| ITEM                             | Note  | in €               |                    |
|----------------------------------|-------|--------------------|--------------------|
|                                  |       | 31. 12. 2017       | 31. 12. 2017       |
| <b>LIABILITIES</b>               |       |                    |                    |
| <b>Capital</b>                   | 14.11 | <b>161,338,484</b> | <b>155,011,258</b> |
| Called-up capital                |       | 71,898,061         | 71,898,061         |
| Capital reserves                 |       | 45,944,898         | 45,944,898         |
| Profit reserves                  |       | 37,099,229         | 31,753,733         |
| Other reserves                   |       | -163,464           | -115,419           |
| Retained profit or loss          |       | 6,559,760          | 5,529,985          |
| <b>Long-term liabilities</b>     |       | <b>63,957,608</b>  | <b>62,664,681</b>  |
| Provisions                       | 14.12 | 8,827,319          | 8,373,952          |
| Long-term financial liabilities  | 14.13 | 48,332,599         | 47,404,666         |
| Long-term operating liabilities  |       | 17,969             | 62,785             |
| Other long-term liabilities      | 14.14 | 6,540,190          | 6,626,987          |
| Deferred tax liabilities         | 14.15 | 239,531            | 196,291            |
| <b>Short-term liabilities</b>    |       | <b>13,496,601</b>  | <b>14,364,205</b>  |
| Short-term financial liabilities | 14.16 | 6,574,020          | 6,360,047          |
| Short-term operating liabilities | 14.17 | 5,792,670          | 6,785,751          |
| Liabilities for income tax       |       | 176,640            | 86,607             |
| Other short-term liabilities     | 14.18 | 953,271            | 1,131,800          |
| <b>TOTAL LIABILITIES</b>         |       | <b>238,792,693</b> | <b>232,040,144</b> |

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

## 12.2 Profit or loss account of Elektro Gorenjska Group for business year ended as at 31. 12. 2018

| ITEM   | Note  | 2018             | in €<br>2017     |
|--|-------|------------------|------------------|
| Net sales revenue  | 15.1  | 37,316,975       | 36,104,833       |
| Capitalized own products and services                                    | 15.2  | 5,325,998        | 5,159,305        |
| Other operating revenues   | 15.3  | 1,111,025        | 643,786          |
| Costs of goods, material, and services                                   |       | 8,553,687        | 8,356,792        |
| a. Costs of goods sold and material used                                 | 15.4  | 4,673,486        | 4,528,530        |
| b. Costs of services   | 15.5  | 3,880,201        | 3,828,262        |
| Labor costs  | 15.6  | 13,087,130       | 12,940,861       |
| Amortization/depreciation expense  | 15.7  | 11,720,804       | 11,631,647       |
| Other operating expenses   | 15.8  | 710,676          | 594,719          |
| Financial revenues from shares   |       | 6,901            | 23,663           |
| č. Financial revenues from other investments                             |       | 6,901            | 23,663           |
| Financial revenues from given loans                                      |       | 729              | 6,019            |
| Financial revenues from operating claims                                 |       | 26,500           | 26,563           |
| Financial expenses from impairments and financial investment write-offs  |       | 30,105           | 284,142          |
| Financial expenses from financial liabilities                            | 15.9  | 582,994          | 768,486          |
| Financial expenses from operating liabilities                            |       | 53,716           | 48,621           |
| Recognized profit or loss of investments, valued using the equity method | 15.10 | 904,513          | 658,927          |
| <b>ENTIRE PROFIT OR LOSS</b>   |       | <b>9,953,529</b> | <b>7,997,828</b> |
| Income tax   | 15.11 | 1,114,004        | 1,022,579        |
| Deferred taxes   | 15.12 | 43,240           | 487,000          |
| <b>NET PROFIT OR LOSS OF THE ACCOUNTING PERIOD</b>                       |       | <b>8,796,285</b> | <b>6,974,762</b> |

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



### 12.3 Statement of other comprehensive income of Elektro Gorenjska Group for business year ended as at 31. 12. 2017

| TITLE   | 2018             | in €<br>2017     |
|---|------------------|------------------|
| 1. Net profit or loss of the accounting period  | 8,796,285        | 6,974,762        |
| 2. Items of other comprehensive income (other than amounts under the equity method) that will not be subsequently reclassified to profit or loss:   | -66,447          | 10,995           |
| - Actuarial gains and losses  | -66,447          | 10,995           |
| 3. Items of other comprehensive income (excluding amounts under the equity method) that will subsequently be reclassified to profit or loss on the basis of the fulfillment of special conditions:                | 14,156           | 470,841          |
| - Effective portion of gains and losses from hedging instruments in hedging cash flows from risk  | 14,156           | 470,841          |
| 4. Share of other comprehensive income of associates and joint ventures accounted for using the equity method, which will not be subsequently reclassified to profit or loss                                      | 1,519            | -3,686           |
| 5. Share of other comprehensive income of associates and joint ventures accounted for using the equity method, which will be reclassified to profit or loss on the basis of the fulfillment of special conditions | 0                | -165             |
| <b>TOTAL COMPREHENSIVE INCOME OF THE ACCOUNTING PERIOD</b>  | <b>8,745,513</b> | <b>7,452,747</b> |

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

## 12.4 Cash flow statement of Elektro Gorenjska Group for business year ended as at 31. 12. 2018

| ITEM  | Year 2018          | Year 2017          |
|---|--------------------|--------------------|
| in €  |                    |                    |
| <b>A. OPERATING CASH-FLOW</b>   |                    |                    |
| <b>a. Operating receipts</b>  | <b>46,012,694</b>  | <b>42,595,804</b>  |
| 1. Receipts from sales of products and services                           | 45,232,112         | 42,157,708         |
| 2. Receipts from income tax   | 66,094             | 0                  |
| 3. Other operating receipts   | 714,488            | 438,096            |
| <b>b. Operating expenditure</b>   | <b>-25,444,303</b> | <b>-23,902,870</b> |
| 1. Expenditure for purchase of material and services                      | -8,220,719         | -6,830,308         |
| 2. Expenditure for salaries and employees profit shares                   | -9,417,431         | -8,984,815         |
| 3. Expenses for income tax  | -1,090,065         | -1,163,150         |
| 4. Expenditure for other duties   | -3,440,225         | -3,742,601         |
| 5. Other operating expenditure  | -3,275,863         | -3,181,996         |
| <b>c. Positive or negative cash flows from operating activities (a+b)</b> | <b>20,568,391</b>  | <b>18,692,934</b>  |
| <b>B. CASH FLOWS IN INVESTING ACTIVITIES</b>                              |                    |                    |
| <b>a. Receipts in investing activities</b>                                | <b>3,123,193</b>   | <b>5,794,221</b>   |
| 1. Receipts from received interest and profit shares of others            | 550,740            | 734,499            |
| 3. Receipts from disposal of tangible fixed assets                        | 70,265             | 644,611            |
| 4. Receipts from disposal of investment property                          | 167,042            | 0                  |
| 5. Receipts from disposals of financial investments                       | 2,335,146          | 4,415,111          |
| <b>b. Expenditure in investing activities</b>                             | <b>-24,143,244</b> | <b>-21,025,513</b> |
| 1. Expenses for acquisition of intangible assets                          | -467,624           | -491,251           |
| 2. Expenses for acquisition of tangible fixed assets                      | -20,586,866        | -16,448,573        |
| 3. Expenses for acquisition of investment property                        | -60,424            | -118,541           |
| 4. Expenses for acquisition of financial investments                      | -3,028,330         | -3,967,148         |
| <b>c. Positive or negative cash flows from investing activities (a+b)</b> | <b>-21,020,051</b> | <b>-15,231,292</b> |
| <b>C. CASH FLOWS IN FINANCING ACTIVITIES</b>                              |                    |                    |
| <b>a. Receipts in financing activities</b>                                | <b>18,315,000</b>  | <b>10,000,001</b>  |
| 2. Receipts from increase in financial liabilities                        | 18,315,000         | 10,000,001         |
| <b>b. Expenditure in financing activities</b>                             | <b>-20,187,677</b> | <b>-9,110,045</b>  |
| 1. Expenditure for given interest referring to financing activ.           | -908,411           | -863,290           |
| 3. Expenditure for repayment of financial liabilities                     | -16,860,979        | -6,170,835         |
| 4. Expenditure for dividend and other profit share payment                | -2,418,287         | -2,073,349         |
| 5. Expenses for the purchase of own shares                                | 0                  | -2,571             |
| <b>c. Positive or negative cash flows from financing activities (a+b)</b> | <b>-1,872,677</b>  | <b>889,956</b>     |
| <b>Č. CLOSING CASH BALANCE</b>  | <b>6,365,442</b>   | <b>8,689,779</b>   |
| x. CASH FLOW FOR THE PERIOD (Ac+Bc+Cc)                                    | -2,324,337         | 4,351,598          |
| y. OPENING CASH BALANCE   | 8,689,779          | 4,338,181          |

Explanatory notes in Chapter 17 *Notes to the cash flow statement* are part of the financial statements and should be read in conjunction with them.

**12.5 Statement of changes in equity of Elektro Gorenjska Group for the business year ended as at 31. 12. 2018**

a) From January 1 2018 to December 31 2018:

|   | Called-up Capital |                       | Capital reserves      |                                      | Profit reserves    |  |                                   | Other reserves        |                           | Retained profit or loss |                                    | TOTAL CAPITAL<br>in € |   |
|---|-------------------|-----------------------|-----------------------|--------------------------------------|--------------------|--|-----------------------------------|-----------------------|---------------------------|-------------------------|------------------------------------|-----------------------|---|
|   | I.                |                       | II.                   |                                      | III.               |  |                                   | IV.                   |                           | V.                      |                                    |                       |   |
|   | Share capital     | Share premium account | Share premium account | General capital valuation adjustment | Statutory reserves | Reserves for own shares and own share-holdings | Own shares and own share-holdings | Other profit reserves | Reserves for risk hedging | Reserves for fair value | Net profit or loss brought forward |                       | Net profit or loss of the business year |
| I./1.   | II./1.            | II./1.                | II./2.                | III./1.                              | III./2.            | III./3.  | III./5.                           | IV./2.                | IV./3.                    | V./1.                   | V./2.                              |                       |   |
| Balance as of December 31 2017  | 71,898,061        | 1                     | 45,944,897            | 45,944,897                           | 2,594,198          | 25,077   | -25,077                           | 29,159,535            | -14,156                   | -101,263                | 3,015,367                          | 2,514,618             | 155,011,258                             |
| Balance as of January 1 2018  | 71,898,061        | 1                     | 45,944,897            | 45,944,897                           | 2,594,198          | 25,077   | -25,077                           | 29,159,535            | -14,156                   | -101,263                | 3,015,367                          | 2,514,618             | 155,011,258                             |
| Changes in equity capital – transactions with owners  | 0                 | 0                     | 0                     | 0                                    | 0                  | 0  | 0                                 | 0                     | 0                         | 0                       | -105,376                           | -2,312,911            | -2,418,287                              |
| Dividend payment  | 0                 | 0                     | 0                     | 0                                    | 0                  | 0  | 0                                 | 0                     | 0                         | 0                       | -105,376                           | -2,312,911            | -2,418,287                              |
| Total comprehensive income of reporting period  | 0                 | 0                     | 0                     | 0                                    | 0                  | 0  | 0                                 | 0                     | 14,156                    | -64,928                 | 0                                  | 8,796,285             | 8,745,513                               |
| Entry of net profit or loss for the reporting period  | 0                 | 0                     | 0                     | 0                                    | 0                  | 0  | 0                                 | 0                     | 0                         | 0                       | 0                                  | 8,796,285             | 8,796,285                               |
| Items of other comprehensive income (except under the equity method) that will not be reclassified to profit or loss later          | 0                 | 0                     | 0                     | 0                                    | 0                  | 0  | 0                                 | 0                     | 0                         | 0                       | 0                                  | -66,447               | -66,447                                 |
| - Actuarial gains and losses  | 0                 | 0                     | 0                     | 0                                    | 0                  | 0  | 0                                 | 0                     | 0                         | 0                       | 0                                  | -66,447               | -66,447                                 |
| Items of other comprehensive income (except under the equity method) that will be reclassified to profit or loss later              | 0                 | 0                     | 0                     | 0                                    | 0                  | 0  | 0                                 | 0                     | 14,156                    | 0                       | 0                                  | 0                     | 14,156                                  |
| - Effective portion of gains and losses from hedging instruments in hedging cash flows from risk                                    | 0                 | 0                     | 0                     | 0                                    | 0                  | 0  | 0                                 | 0                     | 14,156                    | 0                       | 0                                  | 0                     | 14,156                                  |
| Share of other comprehensive income calculated under the equity method that will not be reclassified to profit or loss later        | 0                 | 0                     | 0                     | 0                                    | 0                  | 0  | 0                                 | 0                     | 0                         | 1,519                   | 0                                  | 0                     | 1,519                                   |
| Changes within capital  | 0                 | 0                     | 0                     | 0                                    | 420,047            | 0  | 0                                 | 4,925,449             | 0                         | 2,727                   | 180,195                            | -5,528,418            | 0                                       |
| Allocation of remaining part of net profit of the comparative reporting period to other capital items                               | 0                 | 0                     | 0                     | 0                                    | 0                  | 0  | 0                                 | 29,526                | 0                         | 0                       | 172,181                            | -201,707              | 0                                       |
| Allocation of part of net profit of reporting period to other items of capital following the decision of the management and control | 0                 | 0                     | 0                     | 0                                    | 420,047            | 0  | 0                                 | 4,895,923             | 0                         | 0                       | 10,741                             | -5,326,711            | 0                                       |
| Other changes within capital  | 0                 | 0                     | 0                     | 0                                    | 0                  | 0  | 0                                 | 0                     | 0                         | 2,727                   | -2,727                             | 0                     | 0                                       |
| <b>BALANCE AS OF DECEMBER 31 2018</b>   | <b>71,898,061</b> | <b>1</b>              | <b>45,944,897</b>     | <b>45,944,897</b>                    | <b>3,014,245</b>   | <b>25,077</b>                                  | <b>-25,077</b>                    | <b>34,084,984</b>     | <b>0</b>                  | <b>-163,464</b>         | <b>3,090,186</b>                   | <b>3,469,574</b>      | <b>161,338,484</b>                      |

|   | in €              |               |                       |                  |                                      |                    |   |                |                                  |                  |                       |                           |                         |        |               |                    |
|---|-------------------|---------------|-----------------------|------------------|--------------------------------------|--------------------|---|----------------|----------------------------------|------------------|-----------------------|---------------------------|-------------------------|--------|---------------|--------------------|
|   | Called-up Capital |               | Capital reserves      |                  |                                      | Profit reserves    |   |                |                                  |                  | Other reserves        |                           | Retained profit or loss |        | TOTAL CAPITAL |                    |
|   | I.                | Share capital | Share premium account | II.              | General capital valuation adjustment | Statutory reserves | Reserves for own shares and own shareholdings | III./2.        | Own shares and own shareholdings | III./3.          | Other profit reserves | Reserves for risk hedging | IV./2.                  | IV./3. |               | V./1.              |
|   | I./1.             | II./1.        | II./2.                | III./1.          | III./2.                              | III./3.            | III./5.                                       | IV./2.         | IV./3.                           | V./1.            | V./2.                 |                           |                         |        |               |                    |
| <b>Events in individual capital items</b>   |                   |               |                       |                  |                                      |                    |   |                |                                  |                  |                       |                           |                         |        |               |                    |
| Balance as of December 2016   | 71,898,061        | 1             | 45,944,897            | 2,245,163        | 22,506                               | -22,506            | 25,050,998                                    | -484,997       | -94,670                          | 2,253,493        | 2,821,088             |                           |                         |        |               | 149,634,034        |
| Balance as of January 1 2017  | 71,898,061        | 1             | 45,944,897            | 2,245,163        | 22,506                               | -22,506            | 25,050,998                                    | -484,997       | -94,670                          | 2,253,493        | 2,821,088             |                           |                         |        |               | 149,634,034        |
| Changes in equity capital – transactions with owners  | 0                 | 0             | 0                     | 0                | 0                                    | -2,571             | 0   | 0              | 0                                | -5,412           | -2,067,540            |                           |                         |        |               | -2,075,523         |
| Purchase of own shares and own shareholdings  | 0                 | 0             | 0                     | 0                | 0                                    | -2,571             | 0   | 0              | 0                                | 0                | 0                     |                           |                         |        |               | -2,571             |
| Dividend payment  | 0                 | 0             | 0                     | 0                | 0                                    | 0                  | 0   | 0              | 0                                | -5,412           | -2,067,540            |                           |                         |        |               | -2,072,952         |
| <b>Total comprehensive income of reporting period</b>   | 0                 | 0             | 0                     | 0                | 0                                    | 0                  | 0   | 470,841        | 7,144                            | 0                | 6,974,762             |                           |                         |        |               | 7,452,747          |
| Entry of net profit or loss for the reporting period  | 0                 | 0             | 0                     | 0                | 0                                    | 0                  | 0   | 0              | 0                                | 0                | 6,974,762             |                           |                         |        |               | 6,974,762          |
| Items of other comprehensive income (except under the equity method) that will not be reclassified to profit or loss later          | 0                 | 0             | 0                     | 0                | 0                                    | 0                  | 0   | 0              | 10,995                           | 0                | 0                     |                           |                         |        |               | 10,995             |
| - Actuarial gains and losses  | 0                 | 0             | 0                     | 0                | 0                                    | 0                  | 0   | 0              | 10,995                           | 0                | 0                     |                           |                         |        |               | 10,995             |
| Items of other comprehensive income (except under the equity method) that will be reclassified to profit or loss later              | 0                 | 0             | 0                     | 0                | 0                                    | 0                  | 0   | 470,841        | 0                                | 0                | 0                     |                           |                         |        |               | 470,841            |
| - Effective portion of gains and losses from hedging instruments in hedging cash flows from risk                                    | 0                 | 0             | 0                     | 0                | 0                                    | 0                  | 0   | 470,841        | 0                                | 0                | 0                     |                           |                         |        |               | 470,841            |
| Share of other comprehensive income calculated under the equity method that will not be reclassified to profit or loss later        | 0                 | 0             | 0                     | 0                | 0                                    | 0                  | 0   | 0              | -3,686                           | 0                | 0                     |                           |                         |        |               | -3,686             |
| Share of other comprehensive income calculated under the equity method that will be reclassified to profit or loss later            | 0                 | 0             | 0                     | 0                | 0                                    | 0                  | 0   | 0              | -165                             | 0                | 0                     |                           |                         |        |               | -165               |
| <b>Changes within capital</b>   | 0                 | 0             | 0                     | 349,035          | 2,571                                | 0                  | 4,108,537                                     | 0              | -13,737                          | 767,286          | -5,213,692            |                           |                         |        |               | 0                  |
| Allocation of remaining part of net profit of the comparative reporting period to other capital items                               | 0                 | 0             | 0                     | 0                | 0                                    | 0                  | 0   | 0              | 0                                | 753,549          | -753,549              |                           |                         |        |               | 0                  |
| Allocation of part of net profit of reporting period to other items of capital following the decision of the management and control | 0                 | 0             | 0                     | 349,035          | 2,571                                | 0                  | 4,108,537                                     | 0              | 0                                | 0                | -4,460,143            |                           |                         |        |               | 0                  |
| Other changes within capital  | 0                 | 0             | 0                     | 0                | 0                                    | 0                  | 0   | 0              | -13,737                          | 13,737           | 0                     |                           |                         |        |               | 0                  |
| <b>BALANCE AS OF DECEMBER 31 2017</b>   | <b>71,898,061</b> | <b>1</b>      | <b>45,944,897</b>     | <b>2,594,198</b> | <b>25,077</b>                        | <b>-25,077</b>     | <b>29,159,535</b>                             | <b>-14,156</b> | <b>-101,263</b>                  | <b>3,015,367</b> | <b>2,514,618</b>      |                           |                         |        |               | <b>155,011,258</b> |

From January 1 2017 to December 31 2017:



# 13 Notes to the Consolidated financial statement

## 13.1 Reporting company and group structure

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

Consolidate financial statements of Elektro Gorenjska Group for the year ended as at 31. 12. 2018, include:

- › company Elektro Gorenjska, Ulica Mirka Vadnova 3a, Kranj,
- › company Gorenjske elektrarne, Stara cesta 3, Kranj, which is in 100 % ownership of the controlling company; capital of this company as at 31. 12. 2018 amounted to 18,243,030 €, net profit for year 2018 was 643,275 €,
- › company GEK Vzdrževanje, Stara cesta 3, 4000 Kranj, which is in 100 % ownership of company Gorenjske elektrarne; capital of this company as at 31. 12. 2018 amounted to 142,540 €, net profit for year 2018 was 6,768 €,
- › associate company ECE, Vrnčeva ulica 2a, Celje, which is in 25.6744 % ownership of the controlling company; capital of this company as at 31. 12. 2018 amounted to 19,694,179 €, net profit for year 2018 was 2,859,689 €, and
- › associate company Soenergetika, Stara cesta 3, Kranj, which is in 25 % ownership of company Gorenjske elektrarne; capital of this company as at 31. 12. 2018 amounted to 1,811,157 €, net profit for year 2018 was 680,768 €.

Beside above mentioned companies Group of Elektro Gorenjska also consist company Informatika, which is in 9.56 % ownership of company Elektro Gorenjska.

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

## 13.2 Basis for compiling the consolidated financial statements

### 13.2.1 Statement of compliance

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

Management of Elektro Gorenjska Company approved the consolidated financial statements on April 2 2019.

### 13.2.2 Basis for measurement

Consolidated financial statements have been prepared on a historical cost basis, except in the case of receivables, which are recorded at amortized cost and interest rate hedging, which is measured at fair value. Methods used to measure fair value are described in Chapter 13.4. - *Determination of fair value*.

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

### 13.2.3 Functional and presentation currency

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

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

### 13.2.4 Use of significant estimates and judgements

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

#### Assumptions and estimates

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

- › Determination of useful lives of intangible and tangible fixed assets (please see chapters Intangible assets and Tangible fixed assets)
- › Adjustments of doubtful debts (please see chapter Financial instruments)
- › Provisions estimate (please see chapter Provisions).

#### Transactions with SODO Company

Transactions with company SODO are generally regulated by the Contract with SODO, which is presented in more detail also in the Business report, in chapter 3.10.5.

In March 2019 the Elektro Gorenjska Company received a preliminary settlement of the regulatory year 2018 from SODO. Preliminary settlement for year 2018 was executed by SODO on the basis of the unaudited financial statements. Settlement shows that the already charged contractual value of services and rent in year 2018 was by 2,172,781 € lower than the value established on the basis of the preliminary settlement. On this basis the company in 2018 recognized short-term accrued revenues in the amount of 2,172,781 €. In year 2017 revenues established on the basis of preliminary settlement of the regulatory year 2017 were by 2,121,116 € higher than the already charged ones during the year.

In year 2017 the Elektro Gorenjska Company therefore recognized short-term accrued revenues in the amount of 2,121,116 €.

Elektro Gorenjska received the final settlement for the regulatory year 2017 after the date of approval of the financial statements for the year 2017. From the final settlement, based on the audited financial statements for the year 2017, it results that the already charged value of rents and services was by 77,593 € lower than the value of the final settlement. Settlement will be considered in the financial statements for 2018.

Final settlement for regulatory year 2018 will be executed by SODO on the basis of the decision by the Energy Agency, which will take into account the revised data of both contracting parties. In case the Energy Agency issued a decision in which it established different surpluses or deficits than the ones established by SODO, both contracting parties are bound to consider the Energy Agency decision.

#### Disputes in progress and related provisions

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

#### Transition to IFRS 9 – Financial instruments and IFRS 15 – Revenue from customer contracts

With regard to IFRS 9 - Financial Instruments, the Group found that, in accordance with the definition in that Standard, financial instruments are classified as financial assets at amortized cost.

In relation to IFRS 15 - Revenue from customer contracts, the Group reviewed open contracts, following a standardized five-step model of revenue recognition. Based on the review, it was found that for the vast majority of contracts, the key moment is the moment of transfer of control over the transfer of goods or services, and that only a negligible part of the revenue of such nature is recognized over the period.

Based on the above, we find that these two standards have no impact on the Group's operations.

### Newly adopted standards and notes that came into force as at 1. 1. 2018

In 2018, the following standards issued by the International Accounting Standards Committee (IASC) and adopted the EU, came into force:

- › IFRS 9 – Financial instruments,
- › IFRS 15 - Revenue from customer contracts,
- › Amendment to IFRS 2 – Share-based payment– Classification and measurement of share-based payments,
- › Amendment to IFRS 4 – Insurance contracts – Use of IFRS 9, Financial Instruments, in conjunction with IFRS 4, Insurance Contracts,
- › Amendment to IFRS 15 - Revenue from customer contracts – Notes to IFRS 15 Revenue from customer contracts,
- › Amendment to IFRS 40 – Investment property – Transfer of investment property,
- › Amendment to IFRS 1 and IAS 28 Improvements IFRS (period 2014-2016), arising from the annual IFRS improvements projects (IFRS 1, IFRS 12, IAS 28), in particular with the purpose of eliminating inconsistencies and text interpretations and
- › IFRIC 22 - Transactions and prepayment of foreign currency compensation.

Adoption of new standards, amendments to existing standards and interpretations did not lead to significant changes in the Group's financial statements.

### 13.2.5 New accounting standards and interpretations not yet in force

At the date of approval of these financial statements, they have already been issued, but have not yet entered into force, the following new standards and amendments to existing ones issued by the IASC and adopted by the EU:

- › IFRS 16 – Leases, effective for annual periods beginning on or after January 1 2019;
- › Amendment to IFRS 9 – Financial instruments – Items of prepayment with negative compensation; effective for annual periods beginning on or after January 1 2019;
- › IFRIC 23 – Uncertainty when dealing with income tax; effective for annual periods beginning on or after January 1 2019;
- › Amendment to IAS 28 – Investments in associates and joint ventures – Long-term stakes in associates and joint ventures; effective for annual periods beginning on or after January 1 2019.

Group did not decide to apply these standards earlier. These new accounting standards and interpretations that have not yet entered into force will not have a significant impact on the Group's financial statements.

### Accounting Standards and Interpretations issued by the IASC, but not yet adopted by the EU by 28 February 2019

- › IFRS 14 - Statutory postponement of payment of invoices, It applies to annual periods beginning on or after 1 January 2016. European Commission decided not to start the process of confirming this intermediate standard and to wait for the issue of its final version.
- › IFRS 17 – Insurance contracts, which applies to annual periods beginning on or after 1 January 2021 or later.
- › Amendment to IFRS 3 – Business combinations – Definition of a business entity in force for business combinations for which the acquisition date is the same as the date of the beginning of the first annual reporting period beginning on or after 1 January 2020 and the acquisition of assets that occur at the beginning of or after that period.
- › Amendment to IFRS 10 – Consolidated financial statements and IAS 28 - Investments in associates and joint ventures – Selling or contributing funds between the investor and its associate or joint venture and subsequent amendments, the date of entry into force is postponed indefinitely until the completion of the research project relating to the equity method.
- › Amendment to IAS 1 – Presentation of financial statements and IAS 8 - Accounting policies, changes in accounting estimates and errors – Definition of materiality applies to annual periods beginning on or after 1 January 2020.
- › Amendment to IAS 19 – Employee benefits – Plan of changes, restrictions and settlements apply to annual periods beginning on or after 1 January 2019.
- › Amendments in different standards Improvements to IFRSs (period 2015-2017) that arise from the annual IFRS improvements project (IFRS 3, IFRS 11, IAS 12 and IAS 23), in particular with a purpose of removing inconsistencies and text interpretations, apply to annual periods starting on or after January 1, 2019.
- › Amendments to references to the conceptual framework in IFRS, apply to annual periods beginning on 1 January 2020 or later.

Group anticipates that the introduction of new standards, amendments to existing standards and new interpretations during the initial period of application will not have a significant impact on its financial statements.

### 13.3 Summary of significant accounting policies

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

#### 13.3.1 Basis for consolidation

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

##### a. Subsidiaries

Subsidiaries are companies controlled by the Group. Control exists when the controlling company has the opportunity to decide on the financial and operating policies of the company in order to obtain benefits from its operations. Financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Accounting policies of subsidiaries are consistent with the policies of the Group.

##### b. Associated companies

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

##### c. Transactions eliminated from the consolidated financial statements

In preparing the consolidated financial statements we eliminate balances, unrealized gains and losses resulting from intra-group transactions. Unrealized gains on transactions with associated companies (accounted for under the equity method) are eliminated to the extent of the Group's share in this company. Unrealized losses are eliminated in the same way as unrealized gains, provided that there is no evidence of impairment.

##### d. Assumptions used in preparation of consolidated financial statements

In preparing the consolidated financial statements the following assumptions have been used:

- › Assumption of a single company (consolidated group accounts show the assets, financial condition and results of operations and changes in financial position and changes in equity of the group companies as if it were one company).
- › Assumption of demonstrating the true asset and financial position and profit or loss.
- › Assumption of the group's completeness.
- › Assumption of the completeness of the financial statements and their uniform scope.
- › Assumption of the same date.
- › Assumption of consistent consolidation methods.
- › Assumption of clarity and transparency.
- › Assumption of economy.
- › Assumption of significance.

#### 13.3.2 Intangible assets

Intangible asset is an identifiable non-monetary asset, which does not exist physically. It is recognizable when it is identifiable, detachable, it can be replaced, transferred or sold. Intangible asset managed by the Group has the power to receive future economic benefits and limit the access of others to these benefits.

Group recognizes an intangible fixed asset when, and only when, it is probable that the expected future economic benefits will flow to the Group, and its value can be reliably measured. After initial recognition, the Group manages intangible assets according to the cost model. Intangible assets are initially recognized at cost, less accumulated amortization and accumulated impairment losses. Impairment of intangible assets with a definite useful life is carried out in the same way as for tangible fixed assets.



Useful life is the period in which the Group expects that the intangible asset will be available for use. Useful life of all intangible assets in the group is finite and intangible assets are depreciated. Depreciable amount of an intangible asset with a finite useful life the group strictly allocates to the entire period of its useful life. Amortization of intangible assets is calculated individually based on the straight-line depreciation method. Depreciation charge for each period shall be recognized in profit or loss account. Useful lives and depreciation rates of larger groups of depreciable assets are:

| Significant categories of depreciable assets | Estimated useful life (in years) | Depreciation rate (in %) |
|--|----------------------------------|--------------------------|
| Computer software equipment                  | 3 - 7                            | 14.29 - 33.33            |
| Other rights                                 | 3                                | 33.33                    |

For major items of intangible assets, the Group reviews annually the period and method of depreciation and the residual value of assets. Effect of the change in the assessment the Group describes in the notes in the accounting period in which it occurred.

Recognition of the intangible asset is eliminated by the Group upon disposal or when it does not expect any economic benefits from its use.

### 13.3.3 Tangible fixed assets

Tangible fixed assets are assets owned by the Group that it uses in the production or supply of products, when providing services, leasing them to others, or using them for office purposes. They are expected to use them for these purposes in more than one accounting period. Group recognizes an asset as a fixed asset solely on the condition that future economic benefits will flow and the cost of the asset can be reliably measured.

Tangible fixed asset that qualifies for recognition as an asset is measured at cost. Cost of a tangible fixed asset corresponds to the price of money on the day of recognition. Cost includes its purchase price, non-refundable purchase taxes, discounts, costs incurred to enable the asset to operate in accordance with management expectations, and direct costs that can be attributed to purchase value.

If the Group postpones the payment of acquisition cost for a longer period of time, the difference between the cash equivalents and the total consideration is recognized as interest and accrued. Therefore, among costs that increase the acquisition cost of a fixed asset, the Group also includes borrowing costs related to the acquisition of a tangible fixed asset, until it is ready for use if it is produced for more than one year.

Borrowing costs are attributed to the acquisition costs at the completion of the investment. In case the investment is not completed in the current year, they are attributed on the last day of the accounting period to the items of the project (investment items). Items are named in the contract of lending, and those items of the project, which name is not listed, but their planned value exceeds 400,000 €.

If the newly acquired and recognized building, which is part of tangible fixed assets due to the construction of new building, which will be part of the tangible fixed assets, is disposed, the carrying value of the existing building is the cost of site preparation, which is included in the cost of the new building.

Acquisition cost of a tangible fixed asset constructed or produced in its own context is determined by the group using the same principles as with the asset purchased. Group companies that produce its own assets in the acquisition cost include costs that are directly related to it, and the general costs of construction, which can be attributed to that asset. Costs not related to its construction or making, and costs that the market does not recognize are not included in the acquisition price. Acquisition cost of such tangible fixed asset cannot be greater than the acquisition cost of an identical or similar tangible fixed assets on the market. Acquisition cost of tangible fixed asset constructed or produced in group companies thus consists of outsourcing services, hours of direct labor, material costs (valued at the weighted average price at the level OE) and other direct costs (depreciation of labor resources, administrative and legal fees, notary services...).

Group estimates that it has no significant obligations for decommissioning and disposal of tangible fixed assets, restoration of sites and similar obligations.

Under tangible fixed assets and not investment property we record also the electricity distribution infrastructure leased under operating lease to SODO under the Contract with SODO. In terms of content, this is a proprietary use of assets, but the group does not originally have it in order to earn rent or other returns, but in order to carry out its activity.

If subsequently incurred costs related to tangible fixed assets, increase its future benefits compared to the originally estimated, its cost increases. However, if the costs are increasing the useful life of the asset, the acquisition cost of tangible fixed asset is increased for the value of these costs and the useful life is extended.

Costs related to tangible fixed assets, which arose later and are necessary to operate normally, are disclosed as maintenance costs.

Depreciation of tangible fixed assets is calculated individually based on the straight-line method over the entire estimated useful life of assets. Average useful lives and depreciation rates of larger groups of depreciable assets are:

| Significant categories of depreciable assets | Estimated useful life (in years) | Depreciation rate (in %) |
|--|----------------------------------|--------------------------|
| Buildings of energy infrastructure           | Depreciation rate (in %)         | 2.5–4                    |
| Buildings of hydroelectric power stations    | 5–40                             | 2.5–20                   |
| Solar power stations                         | 12–25                            | 4–8.33                   |
| Other buildings                              | 15–50                            | 2–6.67                   |
| Equipment of energy infrastructure           | 10–35                            | 2.86–10                  |
| Computer hardware equipment                  | 3                                | 33.33                    |
| Equipment of hydro power stations            | 3–30                             | 3.33–33.33               |
| Other equipment                              | 2–20                             | 5–50                     |
| Investments in foreign tangible fixed assets | 4–25                             | 4–25                     |
| Vehicle                                      | 8–12                             | 8.33–12.5                |

Depreciable amount of tangible fixed assets is equal to their acquisition cost, reduced by any eventual impairment, which is systematically allocated throughout the useful life.

Group annually verifies useful lives and other values of significant items of tangible fixed assets, depreciation rates are then converted to current and future periods if expectations differ significantly from the estimates. Effect of change in estimate is then explained by the group in the notes in the accounting period in which it occurred.

### 13.3.4 Investment property

In recognizing investment property the Group considers the same conditions as with tangible fixed assets, reliability of measuring the acquisition value and inflow of economic benefits.

Investment property is property owned by the group in order to bring rent and/or increase the value of long-term investment or both. Investment property in the group generates cash flows independently of other assets held by the Group.

They are mainly:

- › land held for increasing the value of long-term investment rather than for short-term sale in the ordinary course of business;
- › land that has no future use determined by the group;
- › building in single or multiple operational leasing;
- › vacant buildings the company owns to hire out in single or multiple operational leasing;
- › property that is being constructed or developed for future use as investment property.

Investment property does not include:

- › real estate used by employees in the group (for example apartments hired out for operational leasing to the employees);
- › real estate hired out for a long-term operational leasing to company SODO Maribor, on the basis of a long-term contract with SODO;
- › property comprising Sava HE, in connection with which a denationalization dispute is in progress. Until the dispute is resolved Sava HE is under long-term operating lease of the controlled company Gorenjske elektrarne.

All of the above listed real estate is treated as a component part of the tangible fixed assets. For measuring investment property after recognition model of acquisition value is used, reduced by depreciation and eventual impairments.

Group transfers funds from the account or to the investment property account only when the use is changed and there is evidence of a change in use. Such a case is a sale that is probable within a period of one year, a transfer to a disposal group, or among assets intended for sale.

Group used straight-line depreciation method. Useful life of investment property is the same as for tangible fixed assets of the same kind.

### 13.3.5 Assets received and leased

Lease is a contractual relationship that grants the right to control the use of a defined asset for an agreed period of time, namely in return for payment.

Leases are classified by the Group on the basis of the extent of the risks and benefits associated with the ownership of the leased asset that are borne by the lessor or the lessee. They are classified into two groups, namely as a finance lease if almost all the risks and rewards of ownership are transferred to the lessee, and an operating lease if there is no significant transfer of risks and rewards of ownership. Lease is classified at the time of the contractual relationship. Commencement of the lease is the date on which the tenant can start to exploit the right to use the leased asset.

Leases of assets leased out by the Group are classified as financial or operating leases. Financial leases are recognized in the statement of financial position as assets and liabilities at the fair value of the leased asset. Financial lease causes depreciation costs of depreciable assets and financial expense in the accounting period. Group uses the same policies in the amortization of the leased assets as for own funds. For operating leases, rental expenses are recognized on a straight-line basis throughout the lease term, in the profit and loss statement.

All contractual relationships where the Group acts as a lessor for assets are concluded as an operating lease. Group discloses the assets among its tangible assets. Revenue from rentals during the lease term is recognized equally in time between net operating revenues. All costs related to assets leased out (including depreciation) are recognized in the expenses of the period.

### 13.3.6 Financial instruments

Financial instruments include the following items:

- › non-derivative financial assets,
- › non-derivative financial liabilities and
- › derivative financial instruments.

#### Non-derivative financial assets

Non-derivative financial assets are:

- › financial investments recorded in the statement of financial position as long-term and short-term financial investments,
- › receivables and loans,
- › cash and cash equivalents.

#### Financial investments

At initial recognition, non-derivative financial instruments are classified into one of the following categories: financial assets at fair value through other comprehensive income, financial assets through amortized costs and financial asset at fair value through profit or loss account. Classification depends on the purpose for which the instrument was acquired.

All long-term financial investments in capital of other companies are classified in group of financial assets through amortized costs.

In a regular way of purchase or sale of financial assets in the accounting records and statement of financial position such financial asset is recognized taking into account the trade date (trade), this is the date on which the Group commits to purchase or sell the asset.

Upon initial recognition, the financial investment is measured at fair value. Initial value is added also transaction costs arising from the acquisition or issue of financial assets, except for investments classified as financial assets at fair value through profit or loss.

Investments in subsidiaries and associate companies and joint ventures are measured using the capital model. If there is an objective evidence that an impairment loss occurred these investments are tested for impairment in accordance with MRS 36 – Impairment of assets.

### Claims

Claims are rights based on property and other relations to require from a certain person to pay the debt, or in the case of given advances supply goods or implement a service.

Claims are initially recognized in amounts that originate from suitable documents assuming that they will be paid. Later, they can increase or decrease due to subsequent rebates, returns due to inadequate quality, for received payments and other forms of settlement.

After their initial recognition claims are measured at their amortized cost.

In the statement of financial position long-term claims, which are already due (but not yet settled), and long-term claims, which are due in one year after the balance sheet date at the latest, are recognized as short-term claims.

At least quarterly, before compiling the quarterly statement of accounts, we verify the suitability of individual recognized claim's amounts. Receivables, which are assumed to not be settled wholly or partially, are recognized as doubtful; if they result in legal proceedings or there is a dispute about their pay, they are recognized as disputable. To this end, the Group has established appropriate records. In the records of disputable claims it classifies all claims:

- › in the execution procedures based on the execution title;
- › in the execution procedures based on the authentic document (e.g. action) and
- › in the insolvency proceedings (composition proceedings, simplified composition proceedings, and bankruptcy proceedings).

Value adjustment of short-term operating receivables to group companies is formed on the basis of the criterion of maturity and collateral. Thus, the estimate obtained is corrected by individual assessment with regard to the creditworthiness of the customer and the internal and external signs of impairment.

### Cash and cash equivalents

Monetary assets include:

- › cash on transactional and foreign currency accounts in banks or other financial institutions that can be used to make payments, and
- › cash equivalents.

Cash equivalents are investments that can be readily converted to known amounts of cash and which are subject to an insignificant risk of changes in value. Group also includes deposits, bank deposits and loans among the companies in the group with a maturity of up to three months, and receipts from their disposals, among cash equivalents.

Group has transactional accounts in following commercial banks:

| Current account number | Bank of current account            | Company              |
|------------------------|------------------------------------|----------------------|
| 07000-0000641939       | Gorenjska banka, Kranj             | Elektro Gorenjska    |
| 07000-0000542805       | Gorenjska banka, Kranj             | Gorenjske elektrarne |
| 19100-0011259911       | Deželna banka Slovenije, Ljubljana | Elektro Gorenjska    |
| 29000-0001824912       | Unicredit banka, Ljubljana         | Elektro Gorenjska    |
| 30000-0003480687       | Sberbank, Ljubljana                | Elektro Gorenjska    |
| 07000-0003208559       | Gorenjska banka, Kranj             | GEK Vzdrževanje      |

All current accounts are kept in Euros, only current account No. 07000-0000641939 in Gorenjska bank Kranj is opened also as foreign currency account. Account in Sberbank represents a saving account.

Revaluation of monetary assets is a change of their carrying value and can be done at the end of the financial year or during the year. Revaluation occurs only in case of assets in foreign currencies if exchange rate changes at the first recognition. Exchange rate difference, which occurs in this situation, either increases or reduces the original recognized value and in first case it represents financial revenue related to monetary assets or in the second case a financial expenditure related to monetary assets.

### a. Non-derivative financial liabilities

Non-derivative financial liabilities are recognized obligations associated with the financing of own assets, which must be repaid or settled in cash. As a special type of debt deferred tax liabilities are considered.

In the statement of financial position long-term debts that have already fallen overdue (but not yet settled) and long-term debts

due and payable not later than one year after the balance sheet date, are recognized as short-term debts.

Debts can be financial (borrowings under the loan agreements, liabilities to lessors in finance lease) or business (purchased materials and services from suppliers, liabilities to employees, liabilities to the state, liabilities to customers for advances and securities).

After initial recognition, liabilities are measured at amortized cost.

They are increased by implied interest and decreased by paid amounts and any other settlements, agreed upon with creditors.

Recognition of debts in the accounting records and the balance sheet shall be eliminated when the obligation specified in the contract or another legal instrument is discharged, canceled or expired (and the organization does not intend to settle).

#### **b. Derivative financial instruments**

Group uses derivative financial instruments to hedge its exposure to interest rate risk.

In accordance with the risk management policy for changes in interest rates for hedging cash flows (liabilities) arising from long-term loans the Group uses simple interest rate swaps. With interest rate swaps, the fair value at the date of the statement of financial position is valued by discounting the future cash flows.

Aim of hedging policy are predictable financial expenses in the amount of the fixed rate of interest from rate swaps increased by interest margin from the credit agreement. Hedging relationship is maintained until the maturity of the hedged item. Fair value of interest rate swaps at the end hedging equals 0 €.

In hedging the cash flows and net investments, the portion of the gain or loss from the hedging risk instrument, which is defined as an effective hedge is recognized in other comprehensive income and the ineffective portion of the profit is recognized in profit or loss.

Profit or loss from the hedging instrument relating to the effective portion of the hedge that has been recognized in other comprehensive income must be reclassified to profit or loss as a reclassification adjustment in the same period or periods during which the announced hedged cash flows affect the profit or loss (for example, when a forecast sale occurs) or at the disposal or partial disposal of a foreign operation.

### **13.3.7 Stocks**

Stocks are assets that are held for sale in the ordinary course of business, which are being used in the process of production for such sale, or in the form of materials to be consumed in the production or provision of services.

Quantity units of stock materials (including small tools and packaging) are initially recognized at the purchase price. Cost comprises of the purchase price, import and non-refundable charges (including value added tax, which is not reimbursed) and direct acquisition costs.

Costs of material kept in stocks before use are recognized at moving average price method at the level of OE. Moving average price is calculated on a daily basis.

Group values stocks at their original value. Group continuously or at least once a year, during the inventory, verifies the real value of stocks and impairs it, if their book value exceeds the net realizable value, which is the estimated selling price.

### **13.3.8 Other assets**

Other assets include accrued income and deferred expenses.

Accrued income are revenues that are considered in the income statement, although they have not yet been charged. Deferred expenses are amounts that when incurred are not yet charged to the profit and loss account.

### **13.3.9 Capital**

Entire capital of the group consists of called-up capital, capital reserves, profit reserves, other reserves and retained profit.

All other components of entire capital belong to the capital owners in proportion of their ownership shares in the capital stock.

### 13.3.10 Provisions

Group recognizes provisions if due to past events it has a legal or indirect obligation that can be reliably estimated and future events occur that may affect the amount required to settle the obligation. Before forming provisions the Group first assesses the likelihood of future events. It is noted that the future event really occurred, if there is material evidence about it at the time of the assessment (eg. action lodged, denationalisation claim made,...).

Accounting value of provisions is equal to their original value, reduced by spent amounts until the need for their increase or reduction occurs.

Contingent liabilities are not considered provisions.

Significant provisions include long-term employee benefits, which are divided into:

- › long-service bonus, which belongs to other long-term employee benefits and
- › severance pay upon retirement, which belongs to post-employment benefits.

Calculations for provisions for severance pays at retirement and long service bonuses are prepared by an authorized actuary and are formed in the amount of estimated future payments discounted on the balance sheet date, taking into consideration also costs of service for the current year, costs of interest and actuarial surplus or deficits resulting from changes in actuarial assumptions and experiential adjustments.

On the balance sheet date the Group establishes and in the profit or loss account recognizes revenues or expenses in connection with the adjustment of provisions for retirement benefits from:

- › amount of additional provisions for current service costs relating to severance pays for the current year;
- › amount of the increase or decrease in the provisions already made in the event of the introduction or modification of the program (amendment of past service costs);
- › accrued interest in respect of the provisions (as additional cost of provisions);
- › effects of all limitations or shrinking of provisions for severance pay upon retirement.

Actuarial gains and losses from severance pays upon retirement are not recognized in the income statement, but directly in equity under other reserves, which can also be negative. Reserves created under this title are eliminated in the net profit or loss from previous periods in the actual amounts, when for the employees who left or retired, the recognition of provisions for retirement is eliminated.

Long service bonuses are classified as other long-term employee benefits. On the balance sheet date the Group determines and recognizes in the profit or loss revenues or expenses in connection with the adjustment of provisions for long-service bonuses (including actuarial gains and losses).

Recognition of provisions in accounting records and the balance sheet is eliminated when the created opportunities for which the provisions were formed, have already been used out or there no longer is a need for them.

Provisions for accrued costs and expenses are directly reduced by the costs and expenses for which they were made. Therefore, during the spending of provisions the costs or expenses no longer appear in the income statement.

### 13.3.11 Assets acquired free of charge

Assets acquired free of charge include:

- › connections of customers that the group took over into its tangible fixed assets together with its commitment to care for their maintenance and reconstruction, in accordance with the regulations, General conditions for connection to the distribution electric system,
- › free acquisitions of other fixed assets,
- › assets acquired through government support or donation and
- › assets acquired through received monetary assets intended for the construction or purchase of a fixed asset.

Assets acquired free of charge are initially recognized in the financial statements as deferred income under other long-term liabilities. Later in the income statement they are recognized as other operating income over the useful life of each asset.

### 13.3.12 Other liabilities

Other liabilities include deferred revenues and cost provisions or expenses.

Deferred revenue is revenue received to cover costs and is recognized consistently as revenue over the periods in which they arise. Other income is recognized when the Group expects to receive benefits. Cost provisions are amounts that have not yet occurred, but already have an impact on profit.

### 13.3.13 Deferred tax liabilities and tax receivables and income tax

Deferred tax assets and tax liabilities are calculated using the balance sheet liability method, which focuses on temporary differences. They relate to those items of income or expense that are taxable or deductible in the coming years.

Deferred tax assets are recognized for deductible temporary differences, unused tax losses carried forward and unused tax credits carried forward to be transferred to the next period, when it is probable that in the future taxable income will be available against which it will be possible to use the unused tax losses and unused tax credits.

Receivables and deferred tax liabilities are not recognized in the accounting records if the amounts of deferred tax assets and deferred tax liabilities are individually or jointly insignificant for the Group.

Deferred income tax is determined using tax rates (and laws) that are in effect at the balance sheet date and which are expected to be in effect when the related deferred tax asset is realized or the deferred tax liabilities settled and when a taxable profit against which it will be possible to eliminate temporary differences is available.

At the end of each reporting period the Group reassesses unrecognized deferred tax assets and recognizes a previously unrecognized deferred tax asset if it is probable that future profit will allow the coverage of deferred tax assets.

Current tax expense is the amount of tax that is payable (recoverable) according to the taxable profit (tax loss) for the period, using tax rates enacted on the reporting date, and any adjustments to tax payable in respect of previous years.

### 13.3.14 Revenues

Group recognizes revenues when transferring the control of goods or services to the buyer in an amount reflecting the consideration that the Group considers will be entitled to receive in return for such goods or services. Only a negligible portion of revenues is recognized over a period of time.

Revenues are recognized from the sale of products, the provision of services, and the use of Group assets that bring interest, royalties and dividends to others. Revenues in the books are broken down into operating and financial revenues.

Operating revenue is revenues from sales, capitalized own products and services, and other operating revenues associated with business impact. Latter include operating revenues that occur mainly on the sale of tangible fixed assets and investment property at a price that exceeds their book value, or as a result of adjustment of receivables.

Financial revenue arises in relation to investments, as well as in association with receivables. They consist of accrued interest and profit shares as well as other financial revenues from revaluation.

Interest on unpaid claims are not recognized as revenue but increase the value adjustment of receivables because there is reasonable doubt about the payment of claims until the principal is paid.

Amounts collected on behalf of SODO in operations on their own behalf and the account of SODO are not recognized as revenue, but as operating liabilities to SODO.

### 13.3.15 Expenditure

Expenditure is classified into operating and financial expenses.

Operating expenses include all costs incurred in the period and operating expenses from revaluation. Latter occur mainly due to the impairment of tangible fixed assets, intangible assets, investment property, accounts receivable and stocks, as well as the sale or other disposal of tangible fixed assets and investment property at a price that is lower than their carrying value.

Financial expenses are financing expenses and investment expenses. First consist primarily of interest, while second are primarily of revaluation financial expenses nature. Latter are due to impairment of financial investments and due to the sale or other disposal at a price that is lower than their book value. Interest expenses are recognized according to the elapsed time and the applicable interest rate.

### 13.3.16 Consolidated cash flow statement

Group presents its cash flows from operating activities, investing and financing activities in a manner that best suits its business. Statement of cash flows is prepared using the direct method.

For the purpose of preparation of cash flows cash equivalents are classified as monetary assets as well. These are short term, highly liquid investments that are readily convertible to known amounts of cash and where the risk of changes in value is insignificant. Group treats as cash equivalents the short-term deposits and deposits with banks and loans between companies in the Group with a maturity of up to three months after the acquisition, and receipts from their disposal.

For each group of assets (of e.g. intangible assets and tangible fixed assets) as an increase (expenses) are treated the paid acquisition costs of the newly acquired assets, and as a reduction (income) the received payments for the value of assets disposed.

Cash flows relating to capitalized development costs and self-constructed tangible fixed assets are classified as cash flows from investing activities.

Cash flows from interest received and paid and dividends the Group classifies based on the contents of the transaction under cash flows from operating, investing and financing activities.

### 13.3.17 Net profit per share

Net profit per share is calculated by the Group by dividing the profit attributable to ordinary shareholders by the weighted average number of ordinary shares in the business year. Corrected net profit per share equals the basic, as all of the shares belong to the same class of ordinary registered shares.

## 13.4 Determination of fair value

Financial instruments are recorded at fair value. Fair value is the amount at which the asset could be sold or a liability exchanged between knowledgeable, willing parties in an arm's length transaction.

In determining the fair value of financial instruments, the following hierarchy of levels for determination of fair value is considered:

- › first level includes quoted prices (unadjusted) in active markets for identical assets or liabilities,
- › second level includes values other than quoted prices included within the first level, but it is nevertheless possible to obtain directly from the market (prices for identical or similar assets or liabilities in a less active or inactive markets) or indirectly (e.g. values derived from quoted prices in an active market based interest rates and yield curves),
- › third level includes inputs for the asset or liability that are not based on observable market data, while unobserved data must reflect the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk.

As a base for the fair value of financial instruments the Group uses quoted prices. If a financial instrument is not quoted on a regulated market or the market is considered inactive, the Group in order to assess the fair value of the financial instrument uses the input data of the second and third level.

To determine the fair value of interest rate swaps data, provided to the companies in the Group by the banks with which they have concluded individual swaps, is used.

In the investment property the Group discloses the fair value. Fair value results from the valuation of investment property, which is carried out every 3-5 years.

Operating and other receivables are not discounted due to their short-term character, whereas impairments of the fair value are taken into account.





# 14 Notes to the Statement of financial position

## 14.1 Intangible assets

Following tables present changes in intangible assets in years 2018 and 2017.

|                                   |                  |                                |                         | in € |
|-----------------------------------|------------------|--------------------------------|-------------------------|------|
| 2018                              | Property rights  | Property rights in acquisition | Total intangible assets |      |
| 1                                 | 2                | 3                              | 4 = 2+3                 |      |
| <b>Aquisition cost</b>            |                  |                                |                         |      |
| Balance 1. 1. 2018                | 5,455,281        | 187,510                        | 5,642,791               |      |
| New acquisitions                  | 22,011           | 318,711                        | 340,722                 |      |
| Disposals, withdrawals, transfers | -279,125         | 0                              | -279,125                |      |
| Completion of ongoing investments | 236,737          | -236,737                       | 0                       |      |
| <b>Balance 31. 12. 2018</b>       | <b>5,434,903</b> | <b>269,484</b>                 | <b>5,704,388</b>        |      |
| <b>Value adjustment</b>           |                  |                                |                         |      |
| Balance 1. 1. 2018                | 4,036,330        | 0                              | 4,036,330               |      |
| Increase (depreciation)           | 538,966          | 0                              | 538,966                 |      |
| Disposals, withdrawals, transfers | -279,125         | 0                              | -279,125                |      |
| <b>Balance 31. 12. 2018</b>       | <b>4,296,171</b> | <b>0</b>                       | <b>4,296,171</b>        |      |
| Carrying amount                   |                  |                                |                         |      |
| Balance 1. 1. 2018                | 1,418,950        | 187,510                        | 1,606,459               |      |
| <b>Balance 31. 12. 2018</b>       | <b>1,138,733</b> | <b>269,484</b>                 | <b>1,408,216</b>        |      |
|                                   |                  |                                |                         | in € |
| 2017                              | Property rights  | Property rights in acquisition | Total intangible assets |      |
| 1                                 | 2                | 3                              | 4 = 2+3                 |      |
| <b>Aquisition cost</b>            |                  |                                |                         |      |
| Balance 1. 1. 2017                | 5,164,761        | 11,704                         | 5,176,465               |      |
| New acquisitions                  | 279,163          | 409,174                        | 688,337                 |      |
| Disposals, withdrawals, transfers | -222,012         | 0                              | -222,012                |      |
| Completion of ongoing investments | 233,368          | -233,368                       | 0                       |      |
| <b>Balance 31. 12. 2017</b>       | <b>5,455,280</b> | <b>187,510</b>                 | <b>5,642,790</b>        |      |
| <b>Value adjustment</b>           |                  |                                |                         |      |
| Balance 1. 1. 2018                | 3,816,455        | 0                              | 3,816,455               |      |
| Increase (depreciation)           | 441,887          | 0                              | 441,887                 |      |
| Disposals, withdrawals, transfers | -222,012         | 0                              | -222,012                |      |
| <b>Balance 31. 12. 2017</b>       | <b>4,036,330</b> | <b>0</b>                       | <b>4,036,330</b>        |      |
| Carrying amount                   |                  |                                |                         |      |
| Balance 1. 1. 2017                | 1,348,306        | 11,704                         | 1,360,011               |      |
| <b>Balance 31. 12. 2017</b>       | <b>1,418,950</b> | <b>187,510</b>                 | <b>1,606,459</b>        |      |

Intangible assets refer mainly to long-term property rights, which represent rights to use computer software solutions or licenses.

Property rights in acquisition include investments in renovation and modernization of computer software equipment.

Of all intangible assets that were in use as at 31. 12. 2018, 56 % were fully depreciated (as at 31. 12. 2017 these assets were 60 %). Share is calculated according to the acquisition cost of intangible assets.

As at December 31 2018 the Group had no financial obligations in respect of acquiring intangible fixed assets.

## 14.2 Tangible fixed assets

As at December 31 2018 tangible fixed assets amounted to **209,484,786 €**, which represents 88 % of balance sheet total of the Group. Compared to the balance as at December 31 2017 their value is by 7,3 mio € or 3.6 % higher.

Presentation of changes in tangible fixed assets in year 2018:

| 2018                              | in €             |                    |                    |                                   |                             |
|-----------------------------------|------------------|--------------------|--------------------|-----------------------------------|-----------------------------|
|                                   | Land             | Buildings          | Equipement         | Tangible dixed assets in building | Total tangible fixed assets |
| 1                                 | 2                | 3                  | 4                  | 5                                 | 6=2+3+4+5                   |
| <b>Aquisition cost</b>            |                  |                    |                    |                                   |                             |
| Balance 1. 1. 2018                | 8,030,495        | 290,877,351        | 135,597,195        | 3,493,960                         | 437,999,002                 |
| New aquisitions                   | 49,334           | 33,548             | 2,339,117          | 16,088,921                        | 18,510,919                  |
| Transfer to assets for sale       | -420             | -2,293,468         | -3,398,038         | 0                                 | -5,691,927                  |
| Transfer from ongoing investments | 13,732           | 12,199,464         | 4,554,729          | -16,767,925                       | 0                           |
| <b>Balance 31. 12. 2018</b>       | <b>8,093,140</b> | <b>300,816,894</b> | <b>139,093,003</b> | <b>2,814,957</b>                  | <b>450,817,994</b>          |
| <b>Valuation adjustment</b>       |                  |                    |                    |                                   |                             |
| Balance 1. 1. 2018                | 0                | 155,120,317        | 80,695,024         | 0                                 | 235,815,341                 |
| Depreciation                      | 0                | 5,486,882          | 5,251,749          | 0                                 | 10,738,631                  |
| Transfer to assets for sale       | 0                | -2,051,578         | -3,169,185         | 0                                 | -5,220,763                  |
| <b>Balance 31. 12. 2018</b>       | <b>0</b>         | <b>158,555,621</b> | <b>82,777,588</b>  | <b>0</b>                          | <b>241,333,209</b>          |
| <b>Carrying amount</b>            |                  |                    |                    |                                   |                             |
| Balance 1. 1. 2018                | 8,030,495        | 135,757,034        | 54,902,172         | 3,493,961                         | 202,183,660                 |
| <b>Balance 31. 12. 2018</b>       | <b>8,093,140</b> | <b>142,261,273</b> | <b>56,315,417</b>  | <b>2,814,956</b>                  | <b>209,484,786</b>          |

## Presentation of changes in tangible fixed assets in year 2017:

in €

| 2017                                  | Land             | Buildings          | Equipment          | Tangible fixed assets in building | Total tangible fixed assets |
|---------------------------------------|------------------|--------------------|--------------------|-----------------------------------|-----------------------------|
| 1                                     | 2                | 3                  | 4                  | 5                                 | 6=2+3+4+5                   |
| <b>Aquisition cost</b>                |                  |                    |                    |                                   |                             |
| Balance 1. 1. 2017                    | 7,996,397        | 295,659,285        | 133,636,523        | 3,519,476                         | 440,811,682                 |
| New acquisitions                      | 33,193           | 109,329            | 2,424,375          | 13,937,494                        | 16,504,392                  |
| Disposals, separations, transfers     | -12,069          | -14,277,731        | -5,018,450         | -8,821                            | -19,317,071                 |
| Transfer from investments in progress | 12,974           | 9,386,467          | 4,554,748          | -13,954,189                       | 0                           |
| <b>Balance 31. 12. 2017</b>           | <b>8,030,495</b> | <b>290,877,351</b> | <b>135,597,196</b> | <b>3,493,961</b>                  | <b>437,999,003</b>          |
| <b>Valuation adjustment</b>           |                  |                    |                    |                                   |                             |
| Balance 1. 1. 2017                    | 0                | 163,738,927        | 79,865,351         | 0                                 | 243,604,278                 |
| Increase (depreciation)               | 0                | 5,383,403          | 5,385,264          | 0                                 | 10,768,667                  |
| Disposals, separations, transfers     | 0                | -14,002,014        | -4,555,591         | 0                                 | -18,557,605                 |
| <b>Balance 31. 12. 2017</b>           | <b>0</b>         | <b>155,120,316</b> | <b>80,695,024</b>  | <b>0</b>                          | <b>235,815,340</b>          |
| <b>Carrying amount</b>                |                  |                    |                    |                                   |                             |
| Balance 1. 1. 2017                    | 7,996,397        | 131,920,359        | 53,771,173         | 3,519,476                         | 197,207,403                 |
| <b>Balance 31. 12. 2017</b>           | <b>8,030,495</b> | <b>135,757,034</b> | <b>54,902,172</b>  | <b>3,493,961</b>                  | <b>202,183,662</b>          |

New acquisitions are presented in the business report, in chapter [5.4 – Investments](#).

#### Individually significant acquisitions are:



##### Buildings:

- › investment in 35 kV DV Podkuže – Kranjska Gora (1,454,087 €),
- › investment in GD RTP Brnik (352,126 €) and
- › investment in 110 KV DV RTP Labore – RTP Primskovo (320,939 €).



##### Equipment:

- › measuring devices project AMI (1,103,242 €),
- › EO RTP Brnik (1,055,464 €),
- › transformer RT 31500/110 in the switchboard 110 KV Zlato Polje (608,899 €).

Disposals and withdrawals of tangible fixed assets are the consequence of new investments, investments in modernization and renovation (reconstruction) of existing assets.

Individually significant disposals (withdrawals) connected to energy facilities are the following buildings:

- › Electrical equipment RP Bled (reduction of acquisition cost by 1,009,013 € and revaluation adjustment by 1,009,013 €),
- › Electrical equipment RP Ukova (reduction of acquisition cost by 616,055 € and revaluation adjustment by 616,055 €),
- › 20 KV DV RTP Labore – Jeprca – RTP Medvode (reduction of acquisition cost by 580,387 € and revaluation adjustment by 580,387 €) and
- › transformer 8 MVA 20/10 (reduction of acquisition cost by 237,857 € and revaluation adjustment by 237,857 €).

Items infrastructure fully refer to electricity distribution infrastructure as defined in the Decree on energy infrastructure (Official Gazette RS, No. 22/2016). It includes buildings and equipment as well as part of the land. Book value of electricity distribution infrastructure as at December 31 2018 amounted to 179,729,601 € (31. 12. 2017: 171,348,911 €). For the needs of implementation of system operator activity, which SODO implements on the basis of the concession contract for implementation of public utility service of distribution network system operator, SODO has hired from Elektro Gorenjska Company complete electricity infrastructure.

In years from 2012 to 2016 Gorenjske elektrarne Company leased for a ten- to twelve-year period renovated lighting systems in shopping centres, which are owned by the tenant. As the investor the company entirely renovated the lighting systems and gave them renovated to the operating lease. In this regard, all significant risks related to the subject of the lease remained with the lessor - the company.

Book value of all leased assets amounted to 272,391 €. In year 2018 rental income amounted to 17,526 €, in the next five years they will amount to additional 88,394 €.

Group discloses under its tangible fixed assets also assets (equipment) referring to HPS Jelendol. In connection to which a denationalization procedure is in progress, where beneficiaries demand a return. Company does not own the property, only movable property, which is hardware in this hydroelectric power plant.

Of all tangible assets that were in use as at 31. 12. 2018, 22.3 % were fully depreciated (as at 31. 12. 2017 these assets were 23.7 %). Share is calculated according to the acquisition cost of intangible assets.

To finance new acquisitions of fixed assets the group took several long-term loans in year 2018 and previous years, whose balance on 31. 12. 2018 amounted to 54,880,387 € (31. 12. 2017: 53,428,264 €). Please see also chapter [14.12 - Long-term liabilities](#).

### 14.3 Investment property

At the end of 2018 investment property amounted to **1,813,588 €**. Changes in their acquisition value, valuation adjustment and their carrying amount in years 2018 and 2017 are presented in the following tables.

Presentation of changes in investment property in year 2018:

|                                   | in €           |                  |                                       |                              |
|-----------------------------------|----------------|------------------|---------------------------------------|------------------------------|
| 2018                              | Land           | Buildings        | Investment property<br>in acquisition | Total investment<br>property |
| 1                                 | 2              | 3                | 4                                     | 5=2+3+4                      |
| <b>Aquisition cost</b>            |                |                  |                                       |                              |
| Balance 1. 1. 2018                | 732,921        | 2,475,012        | 2,450                                 | 3,210,383                    |
| New acquisitions                  | 0              | 0                | 54,826                                | 54,826                       |
| Transfer to assets for sale       | -248,803       | -492,600         | 0                                     | -741,404                     |
| Transfer from ongoing investments | 0              | 53,036           | -53,036                               | 0                            |
| <b>Balance 31. 12. 2018</b>       | <b>484,118</b> | <b>2,035,448</b> | <b>4,240</b>                          | <b>2,523,805</b>             |
| <b>Value adjustment</b>           |                |                  |                                       |                              |
| Balance 1. 1. 2018                | 0              | 1,039,715        | 0                                     | 1,039,715                    |
| Depreciation                      | 0              | 52,845           | 0                                     | 52,845                       |
| Disposals, transfers              | 0              | 0                | 0                                     | 0                            |
| Transfer to assets for sale       | 0              | -382,343         | 0                                     | -382,343                     |
| <b>Balance 31. 12. 2018</b>       | <b>0</b>       | <b>710,218</b>   | <b>0</b>                              | <b>710,218</b>               |
| <b>Carrying amount</b>            |                |                  |                                       |                              |
| Balance 1. 1. 2018                | 732,921        | 1,435,298        | 2,450                                 | 2,170,669                    |
| <b>Balance 31. 12. 2018</b>       | <b>484,118</b> | <b>1,325,230</b> | <b>4,240</b>                          | <b>1,813,588</b>             |

Presentation of changes in investment property in year 2017:

| 2017                              | in €           |                  |                                       |                              |
|-----------------------------------|----------------|------------------|---------------------------------------|------------------------------|
|                                   | Land           | Buildings        | Investment property<br>in acquisition | Total investment<br>property |
| 1                                 | 2              | 3                | 4                                     | 5=2+3+4                      |
| <b>Aquisition cost</b>            |                |                  |                                       |                              |
| Balance 1. 1. 2017                | 762,888        | 2,538,292        | 0                                     | 3,301,180                    |
| New acquisitions                  | 5,304          | 0                | 85,886                                | 91,190                       |
| Transfer to assets for sale       | -35,271        | -146,716         | 0                                     | -181,986                     |
| Transfer from ongoing investments | 0              | 83,436           | -83,436                               | 0                            |
| <b>Balance 31. 12. 2017</b>       | <b>732,921</b> | <b>2,475,012</b> | <b>2,450</b>                          | <b>3,210,383</b>             |
| <b>Value adjustment</b>           |                |                  |                                       |                              |
| Balance 1. 1. 2017                | 0              | 54,101           | 0                                     | 54,101                       |
| Depreciation                      | 0              | 5,486,882        | 5,251,749                             | 10,738,631                   |
| Transfer to assets for sale       | 0              | -93,193          | 0                                     | -93,193                      |
| <b>Balance 31. 12. 2017</b>       | <b>0</b>       | <b>1,039,715</b> | <b>0</b>                              | <b>1,039,715</b>             |
| <b>Carrying amount</b>            |                |                  |                                       |                              |
| Balance 1. 1. 2017                | 762,888        | 1,459,485        | 0                                     | 2,222,372                    |
| <b>Balance 31. 12. 2017</b>       | <b>732,921</b> | <b>1,435,298</b> | <b>2,450</b>                          | <b>2,170,669</b>             |

Following is the presentation of investment property structure.

| Item                               | in €             |                  |
|------------------------------------|------------------|------------------|
|                                    | 31. 12. 2018     | 31. 12. 2017     |
| Apartments                         | 413,928          | 436,714          |
| Holiday facilities                 | 782,201          | 751,979          |
| Other buildings                    | 129,102          | 246,604          |
| Land                               | 484,118          | 732,921          |
| Investment property in acquisition | 4,240            | 2,450            |
| <b>Total investment property</b>   | <b>1,813,588</b> | <b>2,170,669</b> |

On 31. 12. 2015 valuation of the investment property was performed. Valuation was conducted by a certified appraiser of real estate in the Slovenian Audit Institute. Valuation was conducted in accordance with the Hierarchy of valuation rules (Official Gazette RS No. 106/2010, with amendment), International valuation standards (MSOV 2013), Slovene Accounting Standard No. 2 (estimating the value of property rights, Official Gazette RS, No. 106/2013) and Law of Property Code (Official Gazette RS, No. 87/2002, 91/2013).

Based on this valuation fair value of investment property the Group stated in its balance on 31. 12. 2018 amounted to 2,389,182 €. A revaluation of investment property was not carried out in 2018, but important assumptions for valuation were verified, which did not change significantly.

Revenues from rent in investment property amount to 194,952 € (in year 2017: 187,687 €).

Direct operating expenses (including repairs and maintenance), originating from investment property, which made revenues from rents in year 2018, and direct operating expenses, which did not make revenues from rents in year 2018 consist of depreciation costs (52,845 €) and costs of material and services (100,377 €). In year 2017 costs of depreciation were 54,101 € and costs of material and services 90,695 €.

All investment properties are owned by the Group and are not pledged as security for debts.

There were no significant acquisitions in the year 2018.

In 2018, the building in Zlato Polje, together with land, was reclassified as non-current assets held for sale.

## 14.4 Long-term financial investments

On December 31 2018 long-term financial investments of the Group amounted to **7,622,874 €**. Compared to the balance as at 31. 12. 2017 (7,239,015 €) their value did not change significantly.

Largest item under long-term financial investments is an investment in ECE (6,903,132 €). Investment was recognized in 2015, the value of the investment then amounted to 5,606,005 €. Investment is taken into account in the consolidated financial statements using the equity method. This means that the value of the investment at the end of each accounting period increases by a proportion of the net profit and direct changes in the capital of this company, and decreases by the amount of profit paid.

From ECE Company the Group received by 345,431 € of dividends in 2018. More important data from the ECE Company's accounts for year 2018 are the following:

| ITEM                       | in €<br>31. 12. 2018 / year 2018 |
|----------------------------|----------------------------------|
| Current assets             | 41,639,371                       |
| Non-current assets         | 2,465,200                        |
| Current liabilities        | 24,397,120                       |
| Non-current liabilities    | 20,404,701                       |
| Revenues                   | 132,296,137                      |
| Net profit or loss         | 2,859,689                        |
| Other comprehensive income | 5,917                            |
| Total comprehensive income | 2,865,606                        |

Within financial investments accounted for using the equity method, investments in ECE and Soenergetika companies were recorded.

Long-term invested assets in Eldom Maribor represent assets invested in joint holiday facilities of electricity companies, managed by Eldom.

With regard to long-term investments, the Group is primarily exposed to the risk of adverse changes in the fair value of long-term investments. Group does not possess special financial instruments to hedge from this risk. Exposure to risks and hedging systems are explained in the Business Report, Chapter *4 - Management and Quality Systems*.



Changes in long-term financial investments in 2018 and 2017 are presented in the two tables below.

in €

| Investment description   | Share designation | Number of shares (% of interest) |              | Share in the ownership (in %) |              | Balance 1. 1. 2018 | Increases in year 2018          |                                     | Decreases in year 2018          |                     | Balance 31. 12. 2018 |
|--|-------------------|----------------------------------|--------------|-------------------------------|--------------|--------------------|---------------------------------|-------------------------------------|---------------------------------|---------------------|----------------------|
|  |                   | 1. 1. 2018                       | 31. 12. 2018 | 1. 1. 2018                    | 31. 12. 2018 |                    | Change in value (equity method) | New acquisitions or redistributions | Change in value (equity method) | Sale or segregation |                      |
| Soenergetika, d. o. o.   | -                 | -                                | -            | 25.00 %                       | 25.00 %      | 458,498            | 0                               | 0                                   | -5,709                          | 0                   | 452,789              |
| ECE d. o. o.   |                   |                                  |              | 25.674 %                      | 25.674 %     | 6,512,724          | 390,409                         | 0                                   | 0                               | 0                   | 6,903,132            |
| Informatika, d. d., Maribor                                    | INFG              |                                  | 1,562        | 0                             | 9.56 %       | 0                  | 0                               | 124,155                             | 0                               | 0                   | 124,155              |
| <b>Total investments in shares and interests in associates</b> |                   |                                  |              |                               |              | <b>6,971,222</b>   | <b>390,409</b>                  | <b>124,155</b>                      | <b>-5,709</b>                   | <b>0</b>            | <b>7,480,076</b>     |
| Informatika, d. d., Maribor                                    | INFG              | 1,562                            |              | 9.56 %                        |              | 124,155            | 0                               | 0                                   | 0                               | -124,155            | 0                    |
| <b>Total other shares and interests</b>                        |                   |                                  |              |                               |              | <b>124,155</b>     | <b>0</b>                        | <b>0</b>                            | <b>0</b>                        | <b>-124,155</b>     | <b>0</b>             |
| <b>Total long-term financial investments, except loans</b>     |                   |                                  |              |                               |              | <b>7,095,376</b>   | <b>390,409</b>                  | <b>124,155</b>                      | <b>-5,709</b>                   | <b>-124,155</b>     | <b>7,480,076</b>     |
| Long-term invested assets (Eldom Maribor)                      |                   |                                  |              |                               |              | 142,798            | 0                               | 0                                   | 0                               | 0                   | 142,798              |
| Employees  |                   |                                  |              |                               |              | 840                | 0                               | 0                                   | 0                               | -840                | 0                    |
| <b>Total long-term loans</b>                                   |                   |                                  |              |                               |              | <b>143,638</b>     | <b>0</b>                        | <b>0</b>                            | <b>0</b>                        | <b>-840</b>         | <b>142,798</b>       |
| <b>TOTAL LONG-TERM FINANCIAL INVESTMENTS</b>                   |                   |                                  |              |                               |              | <b>7,239,015</b>   | <b>390,409</b>                  | <b>124,155</b>                      | <b>-5,709</b>                   | <b>-124,995</b>     | <b>7,622,874</b>     |

in €

| Investment description   | Share designation | Number of shares (% of interest) |              | Share in the ownership (in %) |              | Balance          | Increases in year 2017          |                                     | Decreases in year 2017          |                     | Balance          |
|--|-------------------|----------------------------------|--------------|-------------------------------|--------------|------------------|---------------------------------|-------------------------------------|---------------------------------|---------------------|------------------|
|  |                   | 1. 1. 2017                       | 31. 12. 2017 | 1. 1. 2017                    | 31. 12. 2017 |                  | Change in value (equity method) | New acquisitions or redistributions | Change in value (equity method) | Sale or segregation |                  |
| Soenergetika, d. o. o.   | -                 | -                                | -            | 25.00 %                       | 25.00 %      | 471,937          | 0                               | 0                                   | -13,439                         | 0                   | 458,498          |
| ECE d. o. o.   |                   |                                  |              | 25.674 %                      | 25.674 %     | 6,520,991        | 0                               | 0                                   | -8,267                          | 0                   | 6,512,724        |
| <b>Total investments in shares and interests in associates</b> |                   |                                  |              |                               |              | <b>6,992,928</b> | <b>0</b>                        | <b>0</b>                            | <b>-13,439</b>                  | <b>0</b>            | <b>6,971,222</b> |
| Informatika, d. d., Maribor                                    | INFG              | 1.562                            | 1.562        | 9.56 %                        | 9.56 %       | 124,155          | 0                               | 0                                   | 0                               | 0                   | 124,155          |
| <b>Total other shares and interests</b>                        |                   |                                  |              |                               |              | <b>124,155</b>   | <b>0</b>                        | <b>0</b>                            | <b>0</b>                        | <b>0</b>            | <b>124,155</b>   |
| <b>Total long-term financial investments, except loans</b>     |                   |                                  |              |                               |              | <b>7,117,083</b> | <b>0</b>                        | <b>0</b>                            | <b>-13,439</b>                  | <b>0</b>            | <b>7,095,376</b> |
| Long-term invested assets (Eldom Maribor)                      |                   |                                  |              |                               |              | 142,798          | 0                               | 0                                   | 0                               | 0                   | 142,798          |
| Employees  |                   |                                  |              |                               |              | 1,680            | 0                               | 0                                   | 0                               | -840                | 840              |
| <b>Total long-term loans</b>                                   |                   |                                  |              |                               |              | <b>144,478</b>   | <b>0</b>                        | <b>0</b>                            | <b>0</b>                        | <b>-840</b>         | <b>143,638</b>   |
| <b>TOTAL LONG-TERM FINANCIAL INVESTMENTS</b>                   |                   |                                  |              |                               |              | <b>7,261,561</b> | <b>0</b>                        | <b>0</b>                            | <b>-13,439</b>                  | <b>-840</b>         | <b>7,239,015</b> |

### 14.5 Assets (group for disposal) for sale

On December 31 2018 assets for sale of the Group amounted to **381,264 €**. All represent investment properties which are in the process of sale. At the end of 2017, the value of these assets amounted to 141,669 €.

### 14.6 Stocks

Value of stocks of material, small tools, and merchandise as at 31. 12. 2018 amounted to a total **363,106 €**. Compared to the balance as at 31. 12. 2017 they have increased by 66,762 €. Group estimates that net realizable value of stocks is at least equal to their book value. Movement of material stocks in years 2018 and 2017 is shown in the following table.

| Item description  | in €           |                |
|---|----------------|----------------|
|   | 2018           | 2017           |
| Material stocks at the beginning of the period 1. 1.    | 296,344        | 244,833        |
| Purchases   | 3,802,543      | 3,798,673      |
| Transfer from FA  | 103,104        | 0              |
| Consumption   | -3,633,761     | -3,590,263     |
| Sale  | -4,603         | -55            |
| Impairments and cancellation of impairments             | -45,335        | 0              |
| Transfer of small tools in use                          | -155,186       | -156,843       |
| <b>Material stocks at the end of the period 31. 12.</b> | <b>363,106</b> | <b>296,344</b> |

Group has no pledged stocks as security for its liabilities.

### 14.7 Short-term financial investments

According to the balance as at 31. 12. 2018 the Group records **1,800,835 €** of short-term financial investments. They mostly represent deposits fixed for a period exceeding three months. At the end of year 2017 the Group recognized 1,1 mio € of such investments.

### 14.8 Short-term operating receivables

Short-term operating receivables as at 31. 12. 2018 amounted to **9,220,679 €** and have increased by 1,1 mio € compared to the balance as at 31. 12. 2017.

Following table represents the structure of short-term operating receivables:

| Item description                                    | in €             |                  |
|---|------------------|------------------|
|   | 31. 12. 2018     | 31. 12. 2017     |
| Short-term accounts receivable                      | 8,956,086        | 8,332,631        |
| Short-term advances                                 | 1,110            | 5,163            |
| Adjustment of short-term accounts receivable        | -228,928         | -428,273         |
| <b>Short-term accounts receivable</b>               | <b>8,728,268</b> | <b>7,909,522</b> |
| Short-term operating receivables from others        | 503,421          | 238,294          |
| Adjustment of short-term receivables from others    | -11,009          | -17,881          |
| <b>Short-term operating receivables from others</b> | <b>492,412</b>   | <b>220,413</b>   |
| <b>Short-term operating receivables</b>             | <b>9,220,679</b> | <b>8,129,934</b> |

Short-term accounts receivable represent 97 % of all short-term operating receivables.

Short-term operating receivables are entirely unsecured.

Breakdown of short-term claims for electricity, network charge and services including receivables referring to default interest as of December 31 2018 according to maturity terms is shown in the following presentation:

| Item description   |                  |                |              |               |                   | in €             |                           |
|--|------------------|----------------|--------------|---------------|-------------------|------------------|---------------------------|
|  | not yet due      | up to 30 days  | 31-60 days   | 61-90 days    | more than 90 days | Total amount due | Total accounts receivable |
| Claims on buyers of electricity, network charge and services | 8,459,856        | 272,934        | 3,523        | 14,898        | 193,432           | 484,786          | 8,944,642                 |
| Default interest claims                                      | 2,897            | 625            | 14           | 63            | 7,847             | 8,548            | 11,444                    |
| <b>Total</b>   | <b>8,462,753</b> | <b>273,558</b> | <b>3,536</b> | <b>14,960</b> | <b>201,278</b>    | <b>493,333</b>   | <b>8,956,086</b>          |

Changes in valuation adjustment of claims in year 2018 are presented in the next table.

| Item description                                | Balance<br>1. 1. 2018 | New formations            |                         | Withdrawal (use) and elimination |  |  | Balance<br>31. 12. 2018 |
|---|-----------------------|---------------------------|-------------------------|----------------------------------|--|--|-------------------------|
|   |                       | Chargeable<br>to expenses | Chargeable<br>to claims | Claims<br>write-off              | Paid<br>interests -<br>transfer to<br>revenues | Elimination<br>of excess<br>valuation<br>adjustments |                         |
| Valuation adjustment of accounts receivable     | 419,081               | 8,336                     | 29,115                  | 169,407                          | 66,700   | 0  | 220,426                 |
| Valuation adjustment of interest claims         | 9,191                 | 0                         | 1,521                   | 1,644                            | 466  | 100  | 8,502                   |
| Valuation adjustment of other short-term claims | 17,881                | 0                         | 0                       | 6,872                            | 0  | 0  | 11,009                  |
| <b>Total valuation adjustment of claims</b>     | <b>446,154</b>        | <b>8,336</b>              | <b>30,637</b>           | <b>177,922</b>                   | <b>67,166</b>                                  | <b>100</b>   | <b>239,937</b>          |

### 14.9 Other current assets

Value of other current assets as at 31. 12. 2018 amounted to **118,144 €**. The biggest item represent short-term deferred costs or expenses.

### 14.10 Cash and cash equivalents

As at 31. 12. 2018 Elektro Gorenjska Group had **6,365,442 €** of cash on the commercial banks accounts and short-term redeemable deposits in banks in the state. The higher amount of cash at the end of 2017 was the result of the fact that the planned redemption of own shares in the company Elektro Gorenjska in 2017 was not realized.

### 14.11 Capital

Entire capital of the Group consists of the called-up capital, capital reserves, profit reserves, other reserves, and retained profit. Balance of the entire capital as at 31. 12. 2018 amounted to **161,338,484 €** and was higher by 6,3 mio € or 4 % compared with the balance of capital as at 31. 12. 2017.

**Called-up capital** of Elektro Gorenjska Company is the same as share capital (71,898,061 €). It is divided in 17,286,376 ordinary registered unit shares, of which 17,273,475 are ordinary registered shares and 12,901 own shares. Number of shares compared to the balance as at 31. 12. 2013 did not change. All shares are paid-up entirely. Since the company on the basis of Decision 22 of the General Meeting in 2016 carried out the purchase of own shares, in accordance with Article 249 of the Companies Act-1, it does not have any rights in this respect. Each share has an equal share and associated amount in the share capital, while the rights arising therefrom are provided by ZGD-1. Ordinary shares are shares, which give their holders the right to interest, right to part of profit (dividends), and right to appropriate part of remaining property after the liquidation or bankruptcy of the company. All shares are of the same class. Shares are issued in dematerialized form and are managed in KDD – Central Securities Clearing Corporation, d. d., in accordance with regulations. Other details in respect with the share capital and ownership structure of the capital are explained also in Business report, chapter *3.7 – Share capital and ownership structure*.

**Capital reserves in the amount of 45,944,898 €** were formed from the general revaluation equity adjustment. They are applied in accordance with the Article 64 of ZGD-1.

Profit reserves (37,099,229 €) include capital reserves, statutory reserves, reserves for own shares and other profit reserves.

**Statutory reserves** as at 31. 12. 2018 amount to **3,014,245 €** and are formed in accordance to the Article 64 of ZGD-1.

**Reserves for own shares** as at December 31 2018 amounted to **25,077 €**. Elektro Gorenjska Company has 12,901 of own shares, representing 0.075 % of all shares. All own shares were acquired in 2016 and 2017.

**Other profit** reserves amount to **34,084,984 €**. They are formed from net profit of the business years and used by the Group according to Article 11 of the Elektro Gorenjska Company Statute.

**Other reserves (-163,464 €)** represent reserves arising from the valuation at fair value. They include post-employment benefits – severance pay upon retirement (-160,795 €) and the change in fair value of financial assets available for sale (-2,668 €). The instrument of exchange swaps was due in 2018. Changes in reserves resulting from the valuation at fair value for the year 2018 are presented in the next table.

| Item  |                     |   |  |   |  |   | in €                  |
|---|---------------------|---|--|---|--|---|-----------------------|
|   | Balance<br>1.1.2018 | Change in<br>the fair value<br>of interest<br>rate swap | Change in<br>the fair value<br>of financial<br>investments | Elimination<br>of actuarial<br>gains/losses | New<br>formation<br>of actuarial<br>gains/losses | Transfer<br>to profit or<br>loss brought<br>forward | Balance<br>31.12.2018 |
| Reserve for the fair value of interest rate swap                                    | -14,156             | 14,156  |  |   | 0  |   | 0                     |
| Actuarial gains/losses  | -97,092             |   |  | 3,078                                       | -69,526  | 2,745   | -160,795              |
| Change in fair value of financial investment available for sale (associate company) | -4,171              |   | 1,519  |   |  | -17   | -2,668                |
| <b>Total</b>  | <b>-115,419</b>     | <b>14,156</b>   | <b>1,519</b>   | <b>3,078</b>                                | <b>-69,526</b>                                   | <b>2,728</b>  | <b>-163,464</b>       |

Retained profit or loss amounted to 6,559,760 €.

**Return on share** in year 2018 amounted to 0.51 €, which is by 0.11 € more than in year 2017. Controlling company has no preference shares, therefore basic and adjusted returns per share are equal.

Basis for the calculation of the indicators of return on share are the net profit for the year and the weighted average number of ordinary shares in the period. Calculation is shown in the following table.

| Item                                       | in €       |            |
|--|------------|------------|
|  | Year 2018  | Year 2017  |
| Net profit or loss of the business year    | 8,796,285  | 6,974,762  |
| Weighted average number of ordinary shares | 17,274,287 | 17,274,287 |
| Return per share, basic/adjusted           | 0.51       | 0.40       |

## 14.12 Provisions

As at December 31 2018 provisions amounted to **8,827,319 €**. Compared to their balance as at December 31 2017 they increased by 453 thousand €.

Provisions for long-service bonuses and severance pay at retirement are formed in the amount of estimated future payments on the basis of actuary report on calculation of provisions for long-term earnings according to IAS 19.

Actuary calculation as at 31. 12. 2018 takes into account the following actuarial assumptions:

- › mortality tables of population of Slovenia from year 2007, reduced by 10 %;
- › linearly decreasing fluctuation from 1.5 % at 15 years of age to 0.5 % at 55 years, then constant 0.5 % fluctuation; total on employees as at 31. 12. 2018 this means fluctuation of 0.7 % a year for next business year;
- › Expected date of retirement for individual employee is calculated based on gender, date of birth and achieved total length of service as at 31. 12. 2018 in accordance with the Article 27 of ZPIZ-2 and indent 3 of paragraph 1 of Article 28 in ZPIZ – 2, at the same time, it is also considered that women will not retire before the age of 56 and men not before the age of 58, regardless of their total length of service;
- › growth of average earnings in RS for years 2019 and 2020, resulting from the Autumn forecasts of economic trends 2018 (UMAR); from 2021 onwards average salary in RS will increase annually by 2 % inflation and by real growth of 1,0 %. It is assumed that the amounts from the Decree will not keep increasing till year 2020, while later the growth of these amounts in accordance with the inflation are predicted;
- › Increase in starting and basic salaries and variable part of salaries in the company in the amount of annual inflation, from 2020 onwards increased also by real growth in the amount of 0.2 %. Increase in average salaries in electricity sector is assumed in the amount of growth in basic salaries of the company increased by 0.5 %;
- › Growth of salaries due to promotion is linearly decreasing, namely from 3 % at 15 years to 0.5 % at 45 years, then constant 0.5 % annually, as a total on employees as at December 31 2018 this means 0.8 % annually for next year;
- › Length of service allowance in the amount of 0.5 % from the basic salary for each year of service is taken into account for employees under the collective agreement. Women employee with more than 25 length of service. For women employee with more than 25 years of service, the length-of-service allowance is increased by 0,25 % of the salary.
- › Yield curve, which reflects the estimated timing of earning payments;
- › Inflation yield curve is calculated for all government bonds for Euro zone countries (spot rates) as at 28. 12. 2018. Used yield curve is published on the following web page <http://www.ecb.eu/stats/money/yc/html/index.en.html>. From year 30 onwards the curve is extrapolated by a formula which reflects the relationship between the forward and spot rates wherein the forward rate for 30 years is used. Yield curve represents the relationship between market yields on government bonds in the euro area and the time remaining to maturity, therefore, the time structure of interest rates.

While actuary calculation as at 31. 12. 2017 took into account the following actuarial assumptions:

- › mortality tables of population of Slovenia from year 2007, reduced by 10 %;
- › linearly decreasing fluctuation from 1.5 % at 15 years of age to 0.5 % at 55 years, then constant 0.5 % fluctuation; total on employees as at 31. 12. 2017 this means fluctuation of 0.8 % a year for next business year;
- › Expected date of retirement for individual employee is calculated based on gender, date of birth and achieved total length of service as at 31. 12. 2017 in accordance with the Article 27 of ZPIZ-2 and indent 3 of paragraph 1 of Article 28 in ZPIZ – 2, at the same time, it is also considered that women will not retire before the age of 56 and men not before the age of 58, regardless of their total length of service;
- › growth of average earnings in RS for years 2018 and 2019, resulting from the Autumn forecasts of economic trends 2017 (UMAR); from 2020 onwards average salary in RS will increase annually by 2 % inflation and by real growth of 1,0 %. It is assumed that the amounts from the Decree will not keep increasing in years 2018 and 2019, while later the growth of these amounts in accordance with the inflation are predicted;
- › Increase in starting and basic salaries and variable part of salaries in the company in the amount of annual inflation, from 2020 onwards increased also by real growth in the amount of 0.2 %. Increase in average salaries in electricity sector is assumed in the amount of growth in basic salaries of the company increased by 0.5 %;
- › Growth of salaries due to promotion is linearly decreasing, namely from 3 % at 15 years to 0.5 % at 45 years, then constant 0.5 % annually, as a total on employees as at December 31 2017 this means 0.8 % annually for next year;
- › Length of service allowance in the amount of 0.5 % from the basic salary for each year of service is taken into account for employees under the collective agreement;
- › Yield curve, which reflects the estimated timing of earning payments;
- › Inflation yield curve is calculated for all government bonds for Euro zone countries (spot rates) as at 29. 12. 2017. Used yield curve is published on the following web page <http://www.ecb.eu/stats/money/yc/html/index.en.html>. From year 30 onwards the curve is extrapolated by a formula which reflects the relationship between the forward and spot rates wherein the forward rate for 30 years is used. Yield curve represents the relationship between market yields on government bonds in the euro area and the time remaining to maturity, therefore, the time structure of interest rates.

Provisions for severance pays at retirement and similar increased by 106 thousand € in year 2018.

Amount of other claims increased by 347 thousand € compared to the balance on the last day of 2017. In year 2018 provisions have been additionally formed for damages in connection with denationalization in the amount of 351,558 €.

There were no significant differences between planned and realized forming and drawing on individual category of provisions.



Following tables present changes in provisions in years 2018 and 2017.

in €

| Item description   | Beginning of the period<br>1. 1. 2018 | Increases (formations)         |   | Decreases (withdrawals, elimination) |   |   | End of the period<br>31. 12. 2018 |
|--|---------------------------------------|--------------------------------|---|--------------------------------------|---|---|-----------------------------------|
|  |                                       | Chargeable to costs (expenses) | Recognition chargeable or credit to capital or revenues | Credit to operating revenues         | Credit to liabilities or short-term accrued charges | Derecognition chargeable or credit to capital |                                   |
| Provisions for long-service bonuses                                | 884,073                               | 130,979                        |   | 2,607                                | 104,180   | 0   | 908,265                           |
| Provisions for severance pay at retirement                         | 2,038,329                             | 159,881                        | 80,666  | 54,550                               | 89,853  | 14,219  | 2,120,254                         |
| <b>Total provisions for long-service bonuses and severance pay</b> | <b>2,922,402</b>                      | <b>290,861</b>                 | <b>80,666</b>   | <b>57,157</b>                        | <b>194,032</b>                                      | <b>14,219</b>                                 | <b>3,028,520</b>                  |
| Provisions for damages in connection with denationalization claims | 5,447,242                             | 351,558                        |   |                                      |   |   | 5,798,799                         |
| Provisions for possible losses in disputes in progress             | 4,309                                 |                                |   |                                      | 4,309   |   | 0                                 |
| <b>Total other provisions</b>                                      | <b>5,451,550</b>                      | <b>351,558</b>                 |   |                                      | <b>4,309</b>  |   | <b>5,798,799</b>                  |
| <b>Total provisions</b>  | <b>8,373,952</b>                      | <b>642,419</b>                 | <b>80,666</b>   | <b>57,157</b>                        | <b>198,341</b>                                      | <b>14,219</b>                                 | <b>8,827,319</b>                  |

in €

| Item description   | Beginning of the period<br>1. 1. 2017 | Increases (formations)         |   | Decreases (withdrawals, elimination) |   |   | End of the period<br>31. 12. 2017 |
|--|---------------------------------------|--------------------------------|---|--------------------------------------|---|---|-----------------------------------|
|  |                                       | Chargeable to costs (expenses) | Recognition chargeable or credit to capital or revenues | Credit to operating revenues         | Credit to liabilities or short-term accrued charges | Derecognition chargeable or credit to capital |                                   |
| Provisions for long-service bonuses                                | 928,755                               | 97,315                         | 0   | 19,576                               | 122,421   | 0   | 884,073                           |
| Provisions for severance pay at retirement                         | 1,953,886                             | 156,672                        | 12,895  | 45,219                               | 16,015  | 23,890  | 2,038,328                         |
| <b>Total provisions for long-service bonuses and severance pay</b> | <b>2,882,641</b>                      | <b>253,987</b>                 | <b>12,895</b>   | <b>64,795</b>                        | <b>138,436</b>                                      | <b>23,890</b>                                 | <b>2,922,401</b>                  |
| Provisions for damages in connection with denationalization claims | 5,249,273                             | 197,969                        | 0   | 0                                    | 0   | 0   | 5,447,242                         |
| Provisions for possible losses in disputes in progress             | 0                                     | 4,309                          | 0   | 0                                    | 0   | 0   | 4,309                             |
| <b>Total other provisions</b>                                      | <b>5,249,273</b>                      | <b>202,278</b>                 | <b>0</b>  | <b>0</b>                             | <b>0</b>  | <b>0</b>                                      | <b>5,451,550</b>                  |
| <b>Total provisions</b>  | <b>8,131,914</b>                      | <b>456,265</b>                 | <b>12,895</b>   | <b>64,795</b>                        | <b>138,436</b>                                      | <b>23,890</b>                                 | <b>8,373,952</b>                  |

### 14.13 Long-term liabilities

As at 31. 12. 2018 Elektro Gorenjska Group had **48,332,599 €** of long-term financial liabilities, which is by one million € more than as at 31. 12. 2017. Long-term financial liabilities in amount of 17,941,447 € have a maturity of more than five years.

In year 2018 we redeemed 16,862,877 € worth of principals from which 10,3 mio € refer on refinancing. Costs of interest amounted to 582,994 €. Interest in the amount of 1,466 € was capitalized.

In year 2017 we redeemed 6,185,745 € worth of principals. Costs of interest amounted to 768.486 €. Interest in the amount of 14,911 € was capitalized.

Balance of received loans as at 31. 12. 2018 amounted to 54,880,387 €, while at the end of 2017 to 53,428,264 €.

Contractual interest rate in most loans is the result of collecting the offers of interested deposit money banks in acquiring the loan, in accordance with the Decree on the terms and conditions and methods of borrowing by legal entities from Article 87 of the Public Finance Act (Official Gazette RS, No. 23/04, 56/05, 65/06, 65/09). Interest rate of all the loans is floating rate, bound by three or six month EURIBOR. Add-on to the three or six month EURIBOR is between 0.58 and 1.85 percent point. Majority of financial liabilities are secured by bills of exchange, detailed overview of credit insurances can be found in the table below.

Balance of received loans to finance tangible fixed assets as at 31. 12. 2018 amounted to 53,880,387 €.

In connection with long-term financial liabilities the Group is exposed mainly to the interest risk, as the long-term loans raised by the companies in the Group are loans with a floating interest rate (EURIBOR + add-on).

In previous years the Group had cash flow secured by interest rate swap instruments. In 2018, one interest rate swap instrument was sold, while another instrument was due in that year. As at 31 December 2018, the company does not show any interest rate swaps.

As at December 31 2018 there were 34 % of long-term loans secured with the fixed interest rate, which represents the amount of 18,571,429 €. Exposure to risks and hedging systems are explained in the Business report, in chapter 4.

The Group has no long-term debts to the members of the management (management), members of the supervisory board and internal owners.

Changes in long-term financial liabilities in year 2018 are presented in the following table:

| 1                            | Title | 2    | 3    | 4                         | 5           | 6   | 7          | 8          | 9          | 10=7+8+9   | 11=del 10 | 12=del 10  | 13=del 10         | in €              |                    |                   |                   |                     |                      |
|------------------------------|-------|------|------|---------------------------|-------------|-----|------------|------------|------------|------------|-----------|------------|-------------------|-------------------|--------------------|-------------------|-------------------|---------------------|----------------------|
|                              |       |      |      |                           |             |     |            |            |            |            |           |            |                   | Year of approval  | Year of maturity   | Purpose of loan   | Insurance of loan | Interest rate hedge | Balance 31. 12. 2017 |
| credit 1                     |       | 2010 | 2018 | investments               | blank bills | yes | 1,028,571  | 0          | -1,028,571 | 0          | 0         | 0          | 0                 | 0                 | 0                  | 0                 |                   |                     |                      |
| credit 2                     |       | 2011 | 2023 | investments               | blank bills | yes | 4,462,500  | 0          | -4,462,500 | 0          | 0         | 0          | 0                 | 0                 | 0                  | 0                 |                   |                     |                      |
| credit 3                     |       | 2012 | 2023 | investments               | blank bills | no  | 2,700,000  | 0          | -450,000   | 2,250,000  | 450,000   | 1,800,000  | 2,250,000         | 2,250,000         | 2,250,000          | 0                 |                   |                     |                      |
| credit 4                     |       | 2014 | 2025 | investments               | blank bills | no  | 6,480,000  | 0          | -6,480,000 | 0          | 0         | 0          | 0                 | 0                 | 0                  | 0                 |                   |                     |                      |
| credit 5                     |       | 2015 | 2024 | investments (refinancing) | blank bills | no  | 7,858,420  | 0          | -1,122,632 | 6,735,787  | 1,122,632 | 5,613,154  | 6,735,787         | 5,613,154         | 5,613,161          | 0                 |                   |                     |                      |
| credit 6                     |       | 2015 | 2030 | investments               | blank bills | no  | 7,565,440  | 0          | -601,227   | 6,964,213  | 601,227   | 6,362,986  | 6,964,213         | 6,362,986         | 3,006,135          | 0                 |                   |                     |                      |
| credit 7                     |       | 2015 | 2028 | investments               | -           | no  | 20,000,000 | 0          | -1,428,571 | 18,571,429 | 2,571,428 | 16,000,000 | 18,571,429        | 16,000,000        | 12,857,143         | 0                 |                   |                     |                      |
| credit 8                     |       | 2017 | 2029 | investments               | blank bills | no  | 3,333,333  | 0          | 0          | 3,333,333  | 83,333    | 3,250,000  | 3,333,333         | 3,250,000         | 1,416,667          | 0                 |                   |                     |                      |
| credit 9                     |       | 2018 | 2029 | investments               | blank bills | no  | 0          | 8,000,000  | 0          | 8,000,000  | 0         | 8,000,000  | 8,000,000         | 8,000,000         | 3,200,000          | 0                 |                   |                     |                      |
| credit 10                    |       | 2018 | 2024 | investments (refinancing) | blank bills | no  | 0          | 10,315,000 | -1,289,375 | 9,025,625  | 1,719,167 | 7,306,458  | 9,025,625         | 7,306,458         | 8,595,833          | 0                 |                   |                     |                      |
| <b>Total long-term loans</b> |       |      |      |                           |             |     |            |            |            |            |           |            | <b>53,428,264</b> | <b>18,315,000</b> | <b>-16,862,877</b> | <b>54,880,387</b> | <b>6,547,788</b>  | <b>48,332,599</b>   | <b>36,938,939</b>    |

### 14.14 Other long-term liabilities

On the last day of year 2018 Elektro Gorenjska Group had by **6,540,190 €** of other long-term liabilities. Structure and changes in other long-term liabilities in years 2018 and 2017 are shown in the two tables below.

Structure and changes in other long-term liabilities in year 2018:

| Item description                                     | Beginning of the period<br>31. 12. 2017 | Increases (formations)         |                                  | Decreases (withdrawals, elimination) |   |                                      | End of period<br>31. 12. 2018 |
|--|---|--------------------------------|----------------------------------|--------------------------------------|---|--------------------------------------|-------------------------------|
|  |   | Chargeable to costs (expenses) | Recognition chargeable to assets | Credit to operating revenues         | Credit to liabilities or short-term accrued charges | To the benefit of appropriate assets |                               |
| Fixed assets acquired free of charge                 | 619,028                                 | 0                              | 4,900                            | 43,414                               | 0   | 0                                    | 580,515                       |
| Free acquisition of connections                      | 3,858,190                               | 0                              | 244,177                          | 149,513                              | 0   | 0                                    | 3,952,853                     |
| Tangible fixed assets received free of charge        | 4,477,218                               | 0                              | 249,077                          | 192,927                              | 0   | 0                                    | 4,533,368                     |
| Appropriations to cover disproportionate cost GJS    | 150,894                                 | 0                              | 0                                | 0                                    | 0   | 0                                    | 150,894                       |
| Long-term deferred revenue-rentals and user charges  | 100,193                                 | 0                              | 175,803                          | 27,238                               | 0   | 0                                    | 248,758                       |
| Deferred revenue from the average connection costs   | 1,525,513                               | 0                              | 0                                | 85,319                               | 0   | 0                                    | 1,440,194                     |
| Long-term deferred revenue-rentals and SODO services | 22,113                                  | 0                              | 0                                | 0                                    | 7,371   | 0                                    | 14,742                        |
| Project EASY-RES-long-term deferred revenue          | 0                                       | 0                              | 86,638                           | 49,433                               | 0   | 0                                    | 37,204                        |
| Project TDx-ASSIST-long-term deferred revenue        | 189,209                                 | 0                              | -54,688                          | 100,158                              | 0   | 0                                    | 34,364                        |
| Project STORY-long-term deferred revenue             | 70,216                                  | 0                              | 0                                | 70,216                               | 0   | 0                                    | 0                             |
| Received state benefits                              | 84,920                                  | 0                              | 0                                | 15,487                               | 0   | 0                                    | 69,434                        |
| Other long-term accrued costs                        | 6,711                                   | 9,116                          | 0                                | 0                                    | 0   | 4,594                                | 11,233                        |
| <b>Total other long-term liabilities</b>             | <b>6,626,987</b>                        | <b>9,116</b>                   | <b>456,830</b>                   | <b>525,291</b>                       | <b>7,371</b>  | <b>4,594</b>                         | <b>6,540,190</b>              |

## Structure and changes in other long-term liabilities in year 2017:

in €

| Item description                                     | Beginning of the period<br>31. 12. 2016 | Increases<br>(formations)              | Decreases (withdrawals, elimination) |  |  | End of the period<br>31. 12. 2017 |
|--|---|--|--------------------------------------|--|--|-----------------------------------|
|  |   | Recognition<br>chargeable to<br>assets | Credit to<br>operating<br>revenues   | Credit to<br>liabilities or<br>short-term<br>accrued charges | To the benefit<br>of appropriate<br>assets |                                   |
| Fixed assets acquired free of charge                 | 662,874                                 | 0                                      | 43,846                               | 0  | 0  | 619,028                           |
| Free acquisition of connections                      | 3,816,467                               | 178,406                                | 136,683                              | 0  | 0  | 3,858,190                         |
| Tangible fixed assets received free of charge        | 4,479,341                               | 178,406                                | 180,529                              | 0  | 0  | 4,477,218                         |
| Appropriations to cover disproportionate cost GJS    | 0                                       | 150,894                                | 0                                    | 0  | 0  | 150,894                           |
| Long-term deferred revenue-rentals and user charges  | 99,310                                  | 15,732                                 | 14,849                               | 0  | 0  | 100,193                           |
| Deferred revenue from the average connection costs   | 1,610,832                               | 0                                      | 85,319                               | 0  | 0  | 1,525,513                         |
| Long-term deferred revenue-rentals and SODO services | 38,004                                  | 22,113                                 | 0                                    | 38,004   | 0  | 22,113                            |
| Project TDX-ASSIST-long-term deferred revenue        | 0                                       | 218,750                                | 29,541                               | 0  | 0  | 189,209                           |
| Project STORY-long-term deferred revenue             | 63,129                                  | 38,985                                 | 31,898                               | 0  | 0  | 70,216                            |
| Project INCREASE-long-term deferred revenue          | 16,519                                  | 0                                      | 1,992                                | 14,527   | 0  | 0                                 |
| Received state benefits                              | 102,524                                 | 0                                      | 15,134                               | 2,470  | 0  | 84,920                            |
| Other long-term accrued costs                        | 12,529                                  | 2,117                                  | 0                                    | 4,104  | 3,831                                      | 6,711                             |
| <b>Total other long-term liabilities</b>             | <b>6,422,187</b>                        | <b>626,997</b>                         | <b>359,262</b>                       | <b>59,104</b>  | <b>3,831</b>                               | <b>6,626,987</b>                  |

Biggest items of other long-term liabilities are free acquisitions of connections and other fixed assets (total 4,533,368 €) and long-term deferred revenue from average connection costs (1,440,194 €).

Tangible fixed assets acquired free of charge consist of connections of customers that the company Elektro Gorenjska took over into its tangible fixed assets together with its commitment to care for their maintenance and reconstruction, in accordance with the regulations, above all the General conditions for connection to the distribution electric system (Official Gazette of RS No. 126/07, 37/11) and free acquisition of other fixed assets.

Long-term deferred revenue from average connection costs were formed until June 30 2007 regarding the implementation of GJS SODO, on the basis and in accordance with the regulations, particularly the Act determining the methodology for charging for the network charge, the methodology for setting the network charge, and the criteria for establishing eligible costs for electricity networks (Official Gazette of RS, no. 121/2005 and forwards). Average cost of a connection is a one-off amount paid for connection to the network or to increase the installed capacity. It is a dedicated source of funding for investment in network expansion.

Group has no long-term debts to members of the Board (of management), members of the Supervisory Board or internal owners.

#### 14.15 Deferred tax liability

Deferred tax liabilities as at 31. 12. 2018 amounted to **239,531 €**, while on 31. 12. 2017 they amounted to 196.291 €. Deferred taxes are calculated on the basis of temporary differences using the balance sheet liability method and expected tax rates.

#### 14.16 Short-term financial liabilities

Short-term financial liabilities as at 31. 12. 2018 amounted to **6,574,020 €** and are by 214 thousand € higher than as at 31. 12. 2017. Short-term financial liabilities to banks refer to the short-term part of long-term loans.

| Item description                              | in €             |                  |
|---|------------------|------------------|
|   | 31. 12. 2018     | 31. 12. 2017     |
| Short-term financial liabilities to banks     | 6,547,788        | 6,291,002        |
| Other short-term financial liabilities        | 26,232           | 69,045           |
| <b>Total short-term financial liabilities</b> | <b>6,574,020</b> | <b>6,360,047</b> |

#### 14.17 Short-term operating liabilities

At the end of 2018 short-term operating liabilities in the amount of **5,792,670 €** were by one million € lower than compared to the balance on the last day of 2017 mainly due to higher accounts payable (for own account).

Detailed review of the short-term operating liabilities is presented in the following table.

| Item description   | in €             |                  |
|--|------------------|------------------|
|  | 31. 12. 2018     | 31. 12. 2017     |
| Liabilities to suppliers for own account                                     | 1,723,784        | 3,534,269        |
| Liabilities to other suppliers on its own behalf and for third party account | 2,069,709        | 1,828,874        |
| - liabilities to SODO, d.o.o.  | 2,069,709        | 1,828,874        |
| <b>Other liabilities</b>   | <b>1,999,177</b> | <b>1,422,609</b> |
| - to workers   | 1,069,779        | 1,027,815        |
| - to state and other institutions  | 411,676          | 100,283          |
| - for received advances and collaterals                                      | 119,013          | 18,520           |
| - other (interests, employee deductions, capital company ...)                | 398,709          | 275,991          |
| <b>Total short-term liabilities from operating activities</b>                | <b>5,792,670</b> | <b>6,785,751</b> |

### 14.18 Other short-term liabilities

Other short-term liabilities as at 31. 12. 2018 amounted to **953,271 €** and represent mainly the accrued liabilities. Compared to the balance as 31. 12. 2017 they are lower by 179 thousand €.

### 14.19 Off-balance sheet records

Off-balance sheet assets or liabilities as at 31. 12. 2018 amounted to **5,970,902 €**. They were lower by 197 thousand € compared to the balance as at 31. 12. 2017 due to drawing of long-term loan.

Potential assets amount to 3,921,131 €, with received guarantees representing the highest value. Potential liabilities represent the given guarantees and bills. Other off-balance record include fixed assets owned by SODO (2,044,703 €) and retained amount of dividends paid (3,011 €). Elektro Gorenjska Company is liable to keep records of assets financed from average connection costs, which were after the balance as at 31. 8. 2010 transferred to the ownership and indirect property of SODO or sold to SODO in year 2011, in the off-balance sheet in accordance with the Contract with SODO or contract of sale.

| Item description                                      | 31. 12. 2018     | 31. 12. 2017     |
|---|------------------|------------------|
| Foreign material in warehouse                         | 101,695          | 240,674          |
| Received guarantees                                   | 3,268,637        | 3,081,421        |
| Easements   | 550,799          | 614,150          |
| <b>Total potential assets</b>                         | <b>3,921,131</b> | <b>3,936,245</b> |
| Issued guarantees, bills of exchange                  | 2,056            | 7,293            |
| <b>Total potential liabilities</b>                    | <b>2,056</b>     | <b>7,293</b>     |
| Fixed assets in the property of SODO                  | 2,044,703        | 2,223,443        |
| Retained amount from paid dividends                   | 3,011            | 1,742            |
| <b>Total other</b>                                    | <b>2,047,714</b> | <b>2,225,185</b> |
| <b>Total off-balance sheet assets and liabilities</b> | <b>5,970,902</b> | <b>6,168,723</b> |

Group does not have any potential off-balance liabilities as defined by ZGD – 1.



## 15 Notes on Profit and Loss Account Items

### 15.1 Net sales revenues

In year 2018 net sales revenues amounted to **37,316,975 €**. Their structure is presented in the following table.

| Item description  | in €              |                   |
|---|-------------------|-------------------|
|   | 2018              | 2017              |
| Revenues from electricity sale                                | 3,323,012         | 3,116,424         |
| Revenues from rent and services in relation to SODO           | 32,035,238        | 31,281,496        |
| Revenues from rents   | 582,870           | 459,788           |
| Revenues from construction and assembly works                 | 911,920           | 813,871           |
| Revenues from provided services                               | 152,574           | 0                 |
| Revenues from sale of other business effects                  | 311,363           | 433,254           |
| <b>Total net sales revenues from sale of business effects</b> | <b>37,316,975</b> | <b>36,104,833</b> |

Majority of net sales revenues of the group (91 %) represent revenues of the controlling company. Major item of net sales revenues of the Group in year 2018 represent revenues from rent and services related to SODO (32,035,238 €). As in 2017, in year 2018, revenue from services in relation to SODO also includes revenues related to the company's efficiency in the field of quality and network losses. At the expense of efficiency in the area of losses, the Group generated 570,408 € in 2018 and 420,970 € in 2017 - see also chapters [3.10.5 - Contract with SODO](#) and [15.4 - Acquisition cost of sold goods and material used](#).

Revenues from rent in relation to SODO will amount to 17,625,553 € in accordance with the Decision of the Energy Agency in 2019. This is a data based on a set regulatory framework that takes into account the planned values and parameters for the calculation. Actual revenues from this item will depend on the realized values.

Revenues from customer contracts amounted to 18,658 thousand € in 2018, and other revenues to 18,659 thousand €.

### 15.2 Capitalized own products and own services

In year 2018 capitalized own effects amounted to **5,325,998 €**. They were mostly investments in tangible fixed assets – energy infrastructure. Compared to year 2017 the amount of capitalized own effects was by 167 thousand € higher.

| Item description   | in €             |                  |
|--|------------------|------------------|
|  | 2018             | 2017             |
| Direct material costs  | 3,267,352        | 3,267,331        |
| Direct costs of others' services in the production of products and the provision of services                           | 120,773          | 94,363           |
| Direct labour costs  | 1,493,742        | 1,478,933        |
| <b>Total direct costs of material, services and labour</b>   | <b>4,881,867</b> | <b>4,840,627</b> |
| Total indirect costs of material, services, work and depreciation  | 444,131          | 318,678          |
| <b>Total costs in the manufacture of products and the provision of services in relation to capitalized own effects</b> | <b>5,325,998</b> | <b>5,159,305</b> |



### 15.3 Other operating revenues

Other operating revenues in the amount of **1,111,025 €** consist of:

| Item description   | in €             |                |
|--|------------------|----------------|
|  | 2018             | 2017           |
| Revenues from reversal of provisions   | 57,157           | 26,853         |
| Revaluation operating revenues   | 178,212          | 146,215        |
| Revenue from the transfer of long-term deferred revenue to regular operating revenues: |                  |                |
| - free acquisition of FA   | 43,414           | 43,846         |
| - free acquisition of connections  | 149,513          | 136,683        |
| - average connecting costs   | 85,319           | 85,319         |
| - other  | 234,175          | 79,077         |
| Damages recovered from insurance companies   | 244,894          | 69,646         |
| Other operating revenues   | 118,342          | 56,148         |
| <b>Total other operating revenues</b>  | <b>1,111,025</b> | <b>643,786</b> |

Revenues from transfer of long-term deferred revenues to regular revenues are explained also in chapter *14.13 – Other long-term liabilities*.

### 15.4 Acquisition cost of goods sold and cost of material used

Acquisition cost of sold goods and material used consists of:

| Item description   | in €             |                  |
|--|------------------|------------------|
|  | 2018             | 2017             |
| Acquisition cost of goods and materials sold                                     | 0                | 10,258           |
| Costs of material:   | 4,673,486        | 4,518,271        |
| - material costs of maintenance  | 211,061          | 218,012          |
| - costs of materials in connection with capitalized own effects, market services | 3,647,744        | 3,528,380        |
| - energy costs   | 469,641          | 458,624          |
| - small tool write-off   | 155,186          | 156,838          |
| - costs of office supplies   | 78,504           | 76,105           |
| - other material costs   | 111,351          | 80,312           |
| <b>Acquisition cost of goods sold and costs of material used</b>                 | <b>4,673,486</b> | <b>4,528,530</b> |

Costs of material used in maintenance of tangible fixed assets are presented also in the Business Report, chapter *5.5. – Maintenance of energy facilities*.

Costs of material in connection to the capitalized own effects and services for the market (year 2018: 3,647,744 € and year 2017: 3,528,380 €) include the value of the material, which is then treated by the Group as a component part of:

- › acquisition cost of tangible fixed assets constructed or made in the Group for the purposes of the Group (capitalized own effects), which is explained in more detail in chapter *15.2 – Capitalized own products and own services*;
- › value of services (construction, electrical installation and similar services), sold on the market (please see also note *15.1 – Net sales revenues*).

## 15.5 Costs of services

In 2018 costs of services amounted to **3,880,201 €**, in 2017 they were 3,828,262 €. More detailed structure of service costs is provided in the following table.

| Item description  | in €             |                  |
|---|------------------|------------------|
|   | 2018             | 2017             |
| Costs of service in creating products and implementing services   | 74,814           | 140,937          |
| Costs of transport services   | 174,248          | 161,423          |
| Costs of services in respect of maintenance of electric power infrastructure and other tangible fixed assets  | 1,159,211        | 1,226,551        |
| Rents   | 167,587          | 154,964          |
| Reimbursements of work related costs to employees   | 42,381           | 54,156           |
| Costs of payment transactions, banking services and insurance premiums  | 614,058          | 596,994          |
| Costs of intellectual and personal services   | 593,864          | 439,529          |
| Costs of advertising and representation   | 87,228           | 96,197           |
| Costs of services of individuals not performing the activity, including duties chargeable to the company (costs under work contracts, authorship contracts, meeting fees of supervisory board members...) | 162,495          | 155,637          |
| Costs of information and other services   | 804,314          | 801,874          |
| <b>Total costs of services</b>  | <b>3,880,201</b> | <b>3,828,262</b> |

Biggest cost within the cost of services is the costs of services related to the maintenance of the electricity infrastructure and other tangible fixed assets. Maintenance of electricity infrastructure is also presented in the Business Report, chapter *5.5 - Maintenance of energy devices*.

Costs of services in the creation of products and the provision of services (2018: 74,814 € and 2017: 140,937 €) comprise the value of construction services, electro-installation services, design services and other similar services, which the Group then considers as an integral part of:

- › acquisition cost of tangible fixed assets, built or made in the Group for the needs of the Group (capitalized own effects), which is explained in more detail in chapter *15.2 - Capitalized own products and services*;
- › value of services (construction, electro-installation and similar services) sold on market (please see also note *15.1 - Net sales revenues*).

Cost of intellectual services consists of costs for the needs of scientific research, which is also presented in the business report, chapter *5.6 - Development and design, education costs, and related costs of tuition* and the costs of additional professional training presented in the Business Report, in chapter *8.1.4 - Education*.

Costs of advertising and representation also include the costs of sponsoring, which are presented in more detail in the chapter *8.3.1 - Communication with local community and social responsibility*.

Costs of other services are primarily the costs associated with the computer information system and include the care for the smooth and safe operation of the Group's information system, e-mail, access to the World Wide Web, ensuring an adequate level of data and service security, implementation of a common security policy, data processing, computerized data processing and other computer software maintenance services.

## 15.6 Labour cost

Costs of labour in the amount of **13,087,130 €** consist of:

| Item description   | in €              |                   |
|--|-------------------|-------------------|
|  | 2018              | 2017              |
| Salary costs   | 8,798,835         | 8,622,648         |
| Costs of voluntary pension insurance of employees                  | 449,042           | 432,512           |
| Costs of employer's contributions and other benefits from salaries | 1,574,448         | 1,558,844         |
| Other labour costs   | 2,264,805         | 2,326,857         |
| <b>Total labour costs</b>  | <b>13,087,130</b> | <b>12,940,861</b> |

Costs of supplementary pension insurance are presented also in Business report, chapter *8.1.12 – Care for employees and related groups outside working hours*.

Other labour costs include reimbursement of transport and food expenses during work, provisions for long-service benefits and severance pay, holiday pay, benefits, insurance costs for employees and payment to intern students.

Number of employees and their educational structure and other information related to employees are presented in more detail in the Business Report, chapter *8.1 – Care for employees*.

Remuneration of the Management and Supervisory Boards are presented in *20.4 – Transactions with management and supervisory board*.

## 15.7 Write-offs

In 2018 write-offs amounted to **11,720,804 €**. Their composition is as follows:

| Item description  | in €              |                   |
|---|-------------------|-------------------|
|   | 2018              | 2017              |
| Depreciation of intangible fixed assets                                     | 537,545           | 441,888           |
| Depreciation of tangible fixed assets                                       | 10,738,632        | 10,772,496        |
| Depreciation of investment property   | 52,845            | 54,101            |
| <b>Total depreciation costs</b>   | <b>11,329,022</b> | <b>11,268,485</b> |
| Operating expenses from revaluation of fixed assets and investment property | 336,033           | 311,295           |
| Operating expenses from revaluation of current assets                       | 55,749            | 51,867            |
| <b>Total write-offs</b>   | <b>11,720,804</b> | <b>11,631,647</b> |

Costs of depreciation of intangible fixed assets (537,545 €) are presented also in chapter *14.1 – Intangible assets*; costs of depreciation of tangible fixed assets (10,738,632 €) in chapter *14.2 – Tangible fixed assets*; costs of depreciation of investment property (52,845 €) in chapter *14.3 – Investment property*.

## 15.8 Other operating expenses

Other operating expenses in the amount of **710,676 €** consist of:

| Item description  | in €           |                |
|---|----------------|----------------|
|   | 2018           | 2017           |
| Contribution for promotion of employment of persons with disabilities | 48,376         | 54,093         |
| Contribution for urban land   | 89,364         | 89,493         |
| Contribution for contaminated water                                   | 14,371         | 40,242         |
| Concession for water use  | 18,822         | 17,934         |
| Provisioning  | 351,558        | 202,278        |
| Other expenses (environment protection costs, compensations ...)      | 188,186        | 190,680        |
| <b>Total other operating expenses</b>                                 | <b>710,676</b> | <b>594,719</b> |

Employment of persons with disabilities and policy of scholarships are presented in more detail in the Business report, chapter *8.1.3 – Employment of persons with disabilities* or chapter *8.1.4 – Education*.

Provisioning refers to the damages related to denationalisation proceedings and is explained in more detail in chapter *14.11 – Provisions*.

## 15.9 Financial expenses from financial liabilities

In year 2018 the Group realized by **583 thousand €** of financial expenses from financial liabilities, of which 569 thousand € represent expenses for received loans in commercial banks, and 14 thousand € interest expenses from interest rate swaps.

| Item description   | in €           |                |
|--|----------------|----------------|
|  | 2018           | 2017           |
| Expenses from interests for received loans in commercial banks | 568,974        | 620,820        |
| Expenses from interest – interest rate swap                    | 14,019         | 147,666        |
| <b>Total financial expenses from financial liabilities</b>     | <b>582,994</b> | <b>768,486</b> |

## 15.10 Recognized profit or loss for investments valued using the equity

In 2018 the profit or loss for investments valued using the equity method amounted to **904,513 €**, while in year 2017 it was 658,927 €. It represents a pro rata portion of the net profits of associated companies ECE and Soenergetika.

### 15.11 Income tax

Accrued income tax for business year 2018 amounts to **1,114,004 €** (year 2017: 1,022,579 €). In the years 2018 and 2017, all Group companies disclosed income tax liability. An overview of the calculation of the income tax for each year is given in the following table:

| Item description                                  | in €             |                  |
|---|------------------|------------------|
|   | 2018             | 2017             |
| Pre-tax profit                                    | 9,956,095        | 8,613,740        |
| Revenues reducing the tax base                    | -961,088         | -1,324,429       |
| Expenses increasing the tax base                  | 943,247          | 896,199          |
| Expenses reducing the tax base                    | -490,032         | -318,896         |
| Reduction of the tax base on the basis of relief  | -3,555,677       | -2,477,386       |
| Other   | -29,367          | -7,232           |
| Tax base  | 5,863,178        | 5,381,997        |
| Tax rate  | 19 %             | 19 %             |
| <b>Income tax</b>                                 | <b>1,114,004</b> | <b>1,022,579</b> |
| Tax base for deferred taxes                       | 227,579          | 2,563            |
| Tax rate  | 19 %             | 19 %             |
| <b>Deferred taxes</b>                             | <b>43,240</b>    | <b>487</b>       |
| <b>Entire tax (income tax and deferred taxes)</b> | <b>1,157,244</b> | <b>1,023,066</b> |

### 15.12 Deferred tax liabilities and deferred taxes

Deferred tax liabilities as at 31. 12. 2018 amounted to **239,531 €**. They refer to taxable temporary differences arising from the merger of Elektro Gorenjska Prodaja Company to ECE Company and small inventory in fixed assets.

In 2018 the Group recognized by 28,504 € of deferred tax assets. These assets refer to the event that will be realized in year 2019. Other deferred tax assets, which according to the balance as at 31. 12. 2018 amount to 660,649 €, the Group did not recognise in accordance with point 7 of the Introduction to SAS (uncertainty about future taxable profits).



## 16

# Notes on Other comprehensive income items

Total comprehensive income in addition to the net profit or loss for the period (8,796,285 €) includes also:

- › actuarial gains and losses of the parent company, subsidiary and associated companies in the total amount of -64,928 €,
- › effective portion of changes in fair values of interest rate swap in total amount of 14,156 €.

Individual items of other comprehensive income are presented also in chapter [14.10 Capital](#) (table fair value changes).



## 17 Notes on Cash flow items

In year 2018 Elektro Gorenjska Group had 67,450,886 € of receipts and 69,775,224 € of expenditures. Receipts and expenditures include appropriate amounts of duties, mainly VAT and excise duties, in accordance with the issued invoices and receipted invoices. Cash flow in year 2018 was negative and amounted to -2,324,337 €.

As at 31. 12. 2018 the Group had on transaction accounts in banks and in the form of short-term deposits or deposits redeemable in the amount of 6,365,442 €, while the balance of these assets on 31. 12. 2017 amounted to 8,689,779 €.

Net cash from operating activities in year 2018 exceeded expenditure by 20,568,391 €, which means that the Group operates positively with its main activity and creates a positive cash flow. This way in year 2018 the Group was able to settle all its liabilities (expenditure) referring to the repayment of the principals and interests in respect of long-term credits in the amount of 17,769,390 €, settle all liabilities related to payment of dividends in the amount of 2,418,287 €, and could partly finance new acquisitions of intangible and tangible assets. The largest revenues were revenues received under the Contract with SODO for implementation of services and rents for electric power infrastructure.

Negative net cash used in investing activities in year 2018 amounted to 21,020,051 €. Industry the Elektro Gorenjska Group operates in is technologically very intense and in order to provide quality supply to its customers in the area of Elektro Gorenjska distribution network large and constant investments are required (explained mainly in chapter *14.2 – Tangible fixed assets*). New acquisitions of intangible and tangible assets were mainly financed by drawing from long-term credit in the amount of 8 mio € (explained in chapter *14.12 – Long-term liabilities*), while partly they were financed also by positive net cash from operating activities.

Receipts in financing activities in year 2018 amounted to 18,315,000 €, expenditure in financing activities in year 2018 amounted to 20,187,677 €. Among receipts and expenditure financial activities 10,315 thousand € refers on refinancing loans with higher interest rate from currently expected on market.



## 18 Fair values

Overview of fair value and carrying amount of assets and liabilities:

in €

|  | 31. 12. 2018       |                    | 31. 12. 2017       |                    |
|--|--------------------|--------------------|--------------------|--------------------|
|  | Book value         | Fair value         | Book value         | Fair value         |
| <b>Non-derivative financial assets at amortized cost</b>                         |                    |                    |                    |                    |
| Long-term and short-term financial receivables                                   | 1,943,633          | 1,943,633          | 1,244,119          | 1,244,119          |
| Long-term and short-term trade receivables                                       | 8,808,676          | 8,808,676          | 8,156,240          | 8,156,240          |
| Cash and cash equivalents  | 6,365,442          | 6,365,442          | 8,689,779          | 8,689,779          |
| <b>Total non-derivative financial assets</b>                                     | <b>17,117,751</b>  | <b>17,117,751</b>  | <b>18,090,138</b>  | <b>18,090,138</b>  |
| <b>Non-derivative financial liabilities at amortized cost</b>                    |                    |                    |                    |                    |
| Bank loans and other financial liabilities                                       | -54,906,619        | -54,906,619        | -53,764,713        | -53,764,713        |
| Short-term operating liabilities to suppliers for their own and foreign accounts | -3,793,493         | -3,793,493         | -5,363,143         | -5,363,143         |
| <b>Total non-derivative financial liabilities</b>                                | <b>-58,700,112</b> | <b>-58,700,112</b> | <b>-59,127,856</b> | <b>-59,127,856</b> |
| <b>Derivatives at fair value</b>   |                    |                    |                    |                    |
| Derivatives (liabilities)  | 0                  | 0                  | -267,405           | -267,405           |
| <b>Total derivatives</b>   | <b>0</b>           | <b>0</b>           | <b>-267,405</b>    | <b>-267,405</b>    |
| <b>Total</b>   | <b>-41,582,361</b> | <b>-41,582,361</b> | <b>-41,305,122</b> | <b>-41,305,122</b> |

Estimated fair value of short-term assets and liabilities is equal to their book value.



## Fair value scale

Fair value and method of valuation of assets:

|   | 31. 12. 2018 |         |            |            | 31. 12. 2017 |         |            |            |
|---|--------------|---------|------------|------------|--------------|---------|------------|------------|
|   | Level 1      | Level 2 | Level 3    | Total      | Level 1      | Level 2 | Level 3    | Total      |
| <b>Assets measured at fair value</b>                  |              |         |            |            |              |         |            |            |
| <b>Total assets measured at fair value</b>            | 0            | 0       | 0          | 0          | 0            | 0       | 0          | 0          |
| <b>Assets for which fair value is disclosed</b>       |              |         |            |            |              |         |            |            |
| Long-term and short-term financial claims             | 0            | 0       | 1,943,633  | 1,943,633  | 0            | 0       | 1,244,119  | 1,244,119  |
| Long-term and short-term trade receivables            | 0            | 0       | 8,808,676  | 8,808,676  | 0            | 0       | 8,156,240  | 8,156,240  |
| Cash and cash equivalents                             | 0            | 0       | 6,365,442  | 6,365,442  | 0            | 0       | 8,689,779  | 8,689,779  |
| <b>Total assets for which fair value is disclosed</b> | 0            | 0       | 17,117,751 | 17,117,751 | 0            | 0       | 18,090,138 | 18,090,138 |
| <b>Total</b>  | 0            | 0       | 17,117,751 | 17,117,751 | 0            | 0       | 18,090,138 | 18,090,138 |

Fair value and method of valuation of liabilities:

|  | 31. 12. 2018 |         |             |             | 31. 12. 2017 |          |             |             |
|--|--------------|---------|-------------|-------------|--------------|----------|-------------|-------------|
|  | Level 1      | Level 2 | Level 3     | Total       | Level 1      | Level 2  | Level 3     | Total       |
| <b>Liabilities measured at fair value</b>                  |              |         |             |             |              |          |             |             |
| Derivatives  | 0            | 0       | 0           | 0           | 0            | -267,405 | 0           | -267,405    |
| <b>Liabilities measured at fair value total</b>            | 0            | 0       | 0           | 0           | 0            | -267,405 | 0           | -267,405    |
| <b>Liabilities for which fair value is disclosed</b>       |              |         |             |             |              |          |             |             |
| Bank loans and other financial liabilities                 | 0            | 0       | -54,906,619 | -54,906,619 | 0            | 0        | -53,764,713 | -53,764,713 |
| Short-term trade payables                                  | 0            | 0       | -3,793,493  | -3,793,493  | 0            | 0        | -5,363,143  | -5,363,143  |
| <b>Total liabilities for which fair value is disclosed</b> | 0            | 0       | -58,700,112 | -58,700,112 | 0            | 0        | -59,127,856 | -59,127,856 |
| <b>Total</b>   | 0            | 0       | -58,700,112 | -58,700,112 | 0            | -267,405 | -59,127,856 | -59,395,260 |



## 19 Capital management

Key factor in the success of Elektro Gorenjska Group is a long-term orientation towards the customer and constant adaptability to external operating conditions (national interest, regulatory and legislative changes, major technological changes, ...). Main purpose of capital management in Elektro Gorenjska is therefore to ensure capital adequacy, high financial stability and solvency, and not forgetting also the appropriate value for shareholders.

Group monitors the long-term financial stability with the ratio between net financial debt and EBITDA. Policy of the Group is that it does not exceed the value of 3.5, which allows the Group long-term stable operation (more explained in chapter *5.7.1 – Significant indicators*). For control of the capital, the Group uses a leverage ratio, which indicates the proportion of net debt to equity. Indicator was in 2018 at a similar level as in 2017, which confirms the fact that the Group manages capital economically and stable.

Financial stability of companies in the Group is also evident from the rating GVIN. Credit rating of the parent company Elektro Gorenjska is currently B 1++, which is very well according to the very technologically intensive activity in which the company operates. Other electricity distribution companies in Slovenia have the same rating, except one, which has a rating of C 1 ++.

Elektro Gorenjska Company in 2018 continued with the implementation of the Strategic Plan for the period 2018 - 2022, which recognized as many as 8 strategic projects that will have a significant impact on the growth of the Group's capital in the future as well.

| Item description                 | Note  | in €         |              |
|----------------------------------|-------|--------------|--------------|
|                                  |       | 31. 12. 2018 | 31. 12. 2017 |
| Long-term financial liabilities  | 14.13 | 48,332,599   | 47,404,666   |
| Short-term financial liabilities | 14.16 | 6,574,020    | 6,360,047    |
| Total financial liabilities      |       | 54,906,619   | 53,764,713   |
| Capital                          | 14.11 | 161,338,484  | 155,011,258  |
| Debt/Capital                     |       | 0.34         | 0.35         |
| Cash and cash equivalents        | 14.10 | 6,365,442    | 8,689,779    |
| Net financial liability          |       | 48,541,177   | 45,074,934   |
| Net debt/capital                 |       | 0.30         | 0.29         |



20

## Transactions with affiliates

Below we present transactions with related parties, namely transactions with group companies, transactions with the Republic of Slovenia, transactions with companies owned by the Republic of Slovenia and the operations of the Management Board and the Supervisory Board. On the basis of the statements we have received from the Chairman of the Management Board in controlling company, Director of subsidiary and members of the Supervisory Board, transactions with related parties on the basis of connections individual - the company, as defined by IAS 24, are irrelevant.

### 20.1 Transactions with group companies

Among transactions of the controlling company with the subsidiary Gorenjske elektrarne, which in 2018 amounted to 702 thousand €, besides the paid profit in the amount of 387,168 € (payment of the subsidiary to the controlling company) the most important were the following:

| Item description  | Gorenjske elektrarne |
|---|----------------------|
| Revenues from general services<br>(costs of affiliates) | 124,143              |
| Revenues from rents<br>(costs for rents of affiliates)  | 146,161              |

Among the transactions between the Gorenjske elektrarne Company and GEK Vzdrževanje more significant transaction is transaction for maintenance services in the amount of 488 thousand €.

The Group had a total of 213,911 € of transactions with the associated company Soenergetika in 2018, among which the most important transaction is the transfer of profit to the company Gorenjske elektrarne in the amount of 150 thousand €.

The Group had a total of 856,774 € of transactions with the other associated company ECE in 2018, among which the most important transactions are the transfer of profit to the company Elektro Gorenjska in the amount of 345,431 € and payment of purchased electricity to Gorenjske elektrarne in the amount of 303,129 €.

Other transactions did not reach significant values.

All transactions with group companies were implemented under normal market conditions.

As a controlling company Elektro Gorenjska Company did not obstruct or impair operations of company Gorenjske elektrarne as the controlled company.

### 20.2 Transactions with the Republic of Slovenia

Most important transactions of the parent company and its subsidiary with the Republic of Slovenia were in 2018 the following:

| Item   | Payments in year 2018 |
|--|-----------------------|
| Dividends  | 1,922,043             |
| Corporate income tax<br>(tax and advance payments) | 1,082,709             |
| Other duties<br>(VAT, employer contributions)      | 4,831,850             |
| <b>Total</b>                                       | <b>7,836,603</b>      |

### 20.3 Transactions with companies directly or indirectly owned by the Republic of Slovenia

Table below shows significant transactions with companies in which the state has directly or indirectly a dominant influence.

| Business partner          | Open receivables on<br>31. 12. 2018 | Open liabilities on<br>31. 12. 2018 | Expenditure in year<br>2018 | Revenues in year<br>2018 | Dividend payment in<br>year 2018 |
|---------------------------|-------------------------------------|-------------------------------------|-----------------------------|--------------------------|----------------------------------|
| SODO d. o. o.             | 3,007,664                           | 2,069,525                           |                             | 32,035,238               |                                  |
| Modra zavarovalnica d. d. |                                     | 39,985                              | 446,846                     |                          |                                  |
| Zavarovalnica Sava d. d.  |                                     | 2,964                               | 509,421                     |                          |                                  |
| NLB d. d.                 |                                     |                                     | 34,382                      |                          |                                  |
| SID d. d.                 |                                     | 6,964,213                           | 99,379                      |                          |                                  |
| Kapitalska družba d. d.   |                                     |                                     |                             |                          | 60,471                           |
| Sava RE d. d.             |                                     |                                     |                             |                          | 39,200                           |
| DUTB, d. d.               |                                     |                                     |                             |                          | 29,008                           |
| <b>Total</b>              | <b>3,007,664</b>                    | <b>9,076,687</b>                    | <b>1,090,028</b>            | <b>32,035,238</b>        | <b>128,679</b>                   |

Outstanding liabilities to SODO Company represent payables for the account of third parties.

Transactions with other companies in which the State has a dominant influence do not represent a significant amount.

## 20.4 Transactions with management and supervisory board

In year 2018 Elektro Gorenjska Group paid the group of persons stated below the following gross or net receipts:

|                                   |                |                       |               |                      |              |                        | in €    |
|-----------------------------------|----------------|-----------------------|---------------|----------------------|--------------|------------------------|---------|
| Receipts of chairman of the board | Gross receipts | Operating performance | Severance pay | Pay for annual leave | Net receipts | Reimbursement of costs | Bonuses |
| mag. Bojan Luskovec*              | 49,867         | 15,980                | 46,200        | 0                    | 54,599       | 1,734                  | 4,041   |
| dr. Ivan Šmon, MBA*               | 44,743         | 0                     | 0             | 0                    | 22,516       | 1,508                  | 3,994   |
| Aleš Ažman                        | 56,529         | 3,605                 | 0             | 1,850                | 37,094       | 1,584                  | 2,554   |
| Matej Kuhar                       | 53,909         | 0                     | 0             | 2,553                | 33,938       | 1,428                  | 4,783   |

\* mag. Bojan Luskovec held the function of the President of the Management Board of Elektro Gorenjska until 14 June 2018, dr. Ivan Šmon, MBA, from 15 June 2018 onwards.

Reimbursement of costs (so called material costs) include: daily allowances, transfer to work, meals and costs of official journeys. They are charged in accordance with the employment contracts or company's collective agreement.

The bonuses include insurance premiums, use of the official vehicle and medical examination. Gross and net receipts of the supervisory board members in year 2018 are shown in table below. As some members are members of supervisory board committees as well, receipts for participation in the committees are included as well. Remuneration policy of the members of the Supervisory Board is presented in Chapter 3.6.1 - *Management and Governance of Elektro Gorenjska Company*.

|                                     |   |                           |                                  |             | in €            |
|-------------------------------------|---|---------------------------|----------------------------------|-------------|-----------------|
|                                     | Payment for the performance of the function (gross) | Attendance fee SB (gross) | Attendance fee committee (gross) | Total (net) | Travel expenses |
| <b>Shareholders representatives</b> |   |                           |                                  |             |                 |
| mag. Samo Logar                     | 21,188  | 3,685                     | 1,936                            | 19,498      | 512             |
| Andrej Koprivec                     | 15,538  | 3,685                     | 1,965                            | 15,410      | 580             |
| mag. Tedo Djekanović                | 16,255  | 3,960                     | 1,936                            | 15,383      | 266             |
| Curanović Franjo                    | 14,125  | 3,960                     | 1,760                            | 14,433      | 43              |
| <b>Employee representatives</b>     |   |                           |                                  |             |                 |
| mag. Dominik Ovniček                | 7,959   | 3,135                     |                                  | 8,068       |                 |
| Iztok Štular                        | 11,300  | 3,960                     |                                  | 11,099      |                 |
| Jereb Borut                         | 2,260   | 550                       |                                  | 2,044       |                 |

Gross and net receipts of members of the Audit and Nomination Committees are shown in the table below.

|                                       | Payment for the performance of the function (gross) | Attendance fee committee (gross) | Total (net) | Travel expenses |
|---------------------------------------|---|----------------------------------|-------------|-----------------|
| in €                                  |   |                                  |             |                 |
| <b>External members of committees</b> |   |                                  |             |                 |
| Milena Pervanje                       | 5.650   | 1.936                            | 5.517       |                 |
| dr. Simon Čadež                       | 5.650   | 1.980                            | 5.549       | 229             |

Costs of other supervisory board members' benefits in year 2018 refer to the liability insurance in accordance with the decision of the 16th shareholders meeting of Elektro Gorenjska Company. These benefits represent the bonuses of the supervisory board members.

|                                     | Liability insurance |
|-------------------------------------|---------------------|
| in €                                |                     |
| <b>Shareholders representatives</b> |                     |
| mag. Samo Logar                     | 723                 |
| Andrej Koprivec                     | 723                 |
| mag. Tedo Djekanović                | 723                 |
| Franjo Curanović                    | 723                 |
| <b>Employee representatives</b>     |                     |
| mag. Dominik Ovniček                | 507                 |
| Iztok Štular                        | 723                 |
| Borut Jereb                         | 146                 |

Board of directors and the supervisory board did not receive any receipts in respect of performing the functions in controlled companies. Elektro Gorenjska Group received and also approved no advances, loans, or guarantees to groups of people mentioned in this chapter and did not disclose any claims on them in this respect as of December 31 2018.



21

## Auditing costs

Under Article 57 of the Companies Act (ZGD-1) Elektro Gorenjska Group is subject to annual report audit. Contractual amount for auditing the annual report of companies within the group and Elektro Gorenjska Group for year 2018 amounted to 16,210 €. In addition, the auditor who has audited the annual report has been paid an additional 4,000 € for other assurance services.



## 22 Financial risks

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

Financial risks are connected with the ability to create financial income, control financial expenses, maintain the value of financial assets, control financial liabilities and ensure competitive and long-term solvency. In the group Elektro Gorenjska, we are exposed to numerous financial risks, which include, in particular: credit risk of customer payments, extraordinary expenses (penalties), interest rate risk, lack of investment funds, risk of investments in subsidiaries, inadequate payment of EG services by SODO and liquidity risk. Main types of financial risk are credit risk, liquidity risk and interest rate risk. Other aforementioned financial risks are described in the business report, in Chapter 4 - *Management and Quality Systems*.

### Credit risk

Carrying amount of financial assets represents a maximum exposure to credit risk. Maximum exposure to credit risk at the reporting date were:

|                                  | in €              |                   |
|----------------------------------|-------------------|-------------------|
|                                  | 2018              | 2017              |
| Long-term receivables            | 80,408            | 246,719           |
| Short-term financial investments | 1,800,835         | 1,100,480         |
| Short-term receivables           | 9,220,679         | 8,129,934         |
| - of which trade receivables     | 8,728,267         | 7,909,521         |
| Cash                             | 6,365,442         | 8,689,779         |
|                                  | <b>17,467,364</b> | <b>18,166,912</b> |

Under the Contract on the lease of electricity distribution infrastructure and the provision of services for the distribution system operator the Group collects customer payments on its own behalf and on behalf of SODO d. o. o. There is a higher risk, as the Group despite unpaid claims of customers has to settle all liabilities to SODO. In part, the Group in accordance with the control has recognized and covered potential write-offs, but only up to 0.2 % of charged network charges, which is approx. 51,000 € annually.

Breakdown of short-term receivables for the network charge, electricity and services and interest receivable as at 31. 12. 2018 and 31. 12. 2017 are shown by maturity in the following table:

|   | in €             |                  |
|---|------------------|------------------|
|   | 31. 12. 2018     | 31. 12. 2017     |
| Receivables non past due                  | 6,253,492        | 5,549,306        |
| Overdue to 30 days                        | 273,558          | 164,371          |
| Overdue from 31-60 days                   | 3,536            | 10,114           |
| Overdue from 61-90 days                   | 14,960           | 7,276            |
| Overdue over 90 days                      | 201,278          | 404,620          |
| Overdue receivables                       | 493,333          | 586,381          |
| Share of overdue receivables in open ones | 7 %              | 10 %             |
| <b>Total</b>                              | <b>6,746,825</b> | <b>6,135,687</b> |



Changes in valuation adjustment of claims in years 2018 and 2017 are presented in the next table.

|                               | 2018           | 2017           |
|-------------------------------|----------------|----------------|
|                               | in €           |                |
| Opening balance 1. 1.         | 446,154        | 248,768        |
| New formations                | 38,973         | 231,361        |
| Drawing and elimination       | 245,188        | 33,977         |
| <b>Closin balance 31. 12.</b> | <b>239,937</b> | <b>446,154</b> |

Receivables are reviewed regularly and monthly in the Group. Recovery is conducted regularly to all customers under the same criteria. We recover also default interest consistently. Accuracy of the records and the recovery has brought us to a good result. Largest debtors or non-payers of network charge are discussed at the regular monthly meetings, where for the individual debtor we make the plan of activities, which should lead to the highest possible recovery. It is an individual treatment. We also review the credit rating of the debtors. We also use telephone recovery, possibility of granting payments in installments, search options for compensation, assignment, etc. In the case of an installment debt repayment, contract of assignment of claim, we always include in the contract the accrued default interest. When closing the outstanding receivables we respect the provisions of the general part of the contract on access to distribution networks. When we have exhausted all possible instruments of "soft" recovery, in the event of non-payment of the network charge, we send a notice of disconnecting the user system. In the event that a party despite the notice still does not settle the debt within the time limit specified in the notice, disconnection of the measuring point follows. In this way, the company prevents further damage to the business or financial indiscipline, which would otherwise lead to higher outstanding receivables.

Receivable from the biggest buyer as at 31. 12. 2018 amounted to 3,007,664 €, which means 43 % of all accounts receivable.

According to the assessment, credit risk has a moderate impact on the business or liquidity. Assuming a 25 % annual probability of risk realization, an individual assessment of risky rates on business amounts to 57 thousand €, with the range of losses in case of realization going from a minimum of 0 € to a maximum of 150 thousand €.

### Liquidity risk

Risk of short-term insolvency or liquidity risk stems from the possibility that the Group at any given time will not have sufficient liquidity to meet its current obligations and to maintain normal operations.

Liquidity risk is managed primarily with the following activities:

- › Supervision and coordination among all OU in the field of procurement of goods and services or conclusion of purchase contracts with respect to the expected available cash. This area includes also prioritization of purchases depending on available funds. This applies to all areas of action in the Group.
- › Monitoring the implementation of open orders and concluded procurement contracts in particular as regards the date of completion, and the date and amount of the anticipated payment obligations.
- › Control over the timeliness of payments of claims, especially with major clients. This includes the establishment of an information system on overdue receivables, and timely mutual information on outstanding receivables between individual OUs, so that appropriate and timely action is taken (issuing timely reminder, court claims ...).
- › Constant monitoring of the stocks. At the level of the management decisions were adopted, defining the monitoring of stocks. Group finally and fully realizes the decisions in connection with the consignment of material and equipment suppliers. Group further optimizes working processes (in the field of planning – purchasing material – implementation).
- › Monitoring of trade receivables as late payments of customers as a result of the deterioration of financial discipline, requests for extension of payment terms and discount, and higher costs for debt collection, reflect on the poor liquidity of the Group. It is also important to shorten payment terms to customers. In concluding commercial contracts with customers of our services special attention is paid to further integration of the relevant insurance of payments.

Severity of liquidity risk is assessed as significant. Due to the established control mechanisms and the implementation of measures, especially cash management, at the Group level, we believe that the probability of materialization of illiquidity is small, but the company is aware that illiquidity could cause great business damage.

Liquidity risk is closely associated with investment risks. Liquidity risk management is the implementation of investment financing in accordance with the business plan, in a way that ensures sufficient resources to avoid delays in the implementation of investments, since the processes of borrowing can be long lasting.

In the Group we have set up cash management, whose main objective is to optimize the liquidity situation and the need for utilization of short-term external debt financing. Source of financing the short-term deficits of a certain company is excess cash of one of the group companies. This is to achieve the best conditions for both of borrowing as investment funds, in particular, in a way that exploits the synergistic effects of the group as a whole.

Much attention is given to the preparation and monitoring of cash flows plan. Effective planning of liquidity enables us to optimally manage any short-term surpluses or deficits of liquid assets.

Following table shows financial liabilities to banks and other long-term financial liabilities (fair value of interest rate swap as at 31. 12. 2018 or 31 .12. 2017) by maturity.

| 2018                           | MATURITY      |                   |              | TOTAL      |
|--------------------------------|---------------|-------------------|--------------|------------|
|                                | within 1 year | from 2 to 5 years | over 5 years |            |
| Financial liabilities to banks | 6,547,788     | 30,391,151        | 17,941,447   | 54,880,386 |

in €

| 2017                                  | MATURITY      |                   |              | TOTAL      |
|---------------------------------------|---------------|-------------------|--------------|------------|
|                                       | within 1 year | from 2 to 5 years | over 5 years |            |
| Financial liabilities to banks        | 6,291,001     | 26,704,486        | 20,432,777   | 53,428,264 |
| Other long-term financial liabilities | 14,156        | 0                 | 253,249      | 267,405    |

in €

Short-term operating receivables according to maturity were following:

|   | in €             |                          |                      |                     |               |                      |
|---|------------------|--------------------------|----------------------|---------------------|---------------|----------------------|
| 2018  | Non past due     | Due from<br>0 to 30 days | Due<br>31 to 90 days | Due<br>over 90 days | Total due     | Total<br>liabilities |
| Short-term trade payables                             | 1,705,799        | 10,080                   | 7,697                | 207                 | 17,984        | 1,723,783            |
| Short-term operating liabilities from advances        | 119,013          | 0                        | 0                    | 0                   | 0             | 119,013              |
| Short-term operatin liabilities for a foreign account | 2,069,221        | 0                        | 0                    | 0                   | 0             | 2,069,221            |
| Short-term liabilities for salaries                   | 1,069,780        | 0                        | 0                    | 0                   | 0             | 1,069,780            |
| Liabilities to state and other institutions           | 404,347          | 0                        | 0                    | 0                   | 0             | 404,347              |
| Other short-term operatin liabilities                 | 406,528          | 0                        | 0                    | 0                   | 0             | 406,528              |
|   | <b>5,774,688</b> | <b>10,080</b>            | <b>7,697</b>         | <b>207</b>          | <b>17,984</b> | <b>5,792,670</b>     |

|   | in €             |                          |                      |                     |               |                      |
|---|------------------|--------------------------|----------------------|---------------------|---------------|----------------------|
| 2017  | Non past due     | Due from<br>0 to 30 days | Due<br>31 to 90 days | Due<br>over 90 days | Total due     | Total<br>liabilities |
| Short-term trade payables                             | 3,495,958        | 34,870                   | 53                   | 3,388               | 38,311        | 3,534,269            |
| Short-term operating liabilities from advances        | 18,520           | 0                        | 0                    | 0                   | 0             | 18,520               |
| Short-term operatin liabilities for a foreign account | 1,828,874        | 0                        | 0                    | 0                   | 0             | 1,828,874            |
| Short-term liabilities for salaries                   | 1,036,245        | 0                        | 0                    | 0                   | 0             | 1,036,245            |
| Liabilities to state and other institutions           | 91,853           | 0                        | 0                    | 0                   | 0             | 91,853               |
| Other short-term operatin liabilities                 | 275,989          | 0                        | 0                    | 0                   | 0             | 275,989              |
|   | <b>6,747,439</b> | <b>34,870</b>            | <b>53</b>            | <b>3,388</b>        | <b>38,311</b> | <b>6,785,751</b>     |

Severity of liquidity risk is assessed as significant. Due to the established control mechanisms and the implementation of measures, especially cash management at the Group level, we believe that the probability of materialization of illiquidity is small, although we are aware that illiquidity could cause a great business damage. Assuming a 25 % annual probability of risk realization an individual assessment of risk situations on operations amounts to 8 thousand €, with the range of losses in the case of realization going from a minimum of 0 € to a maximum of 20 thousand €.

**Interest risk**

Interest rate risk is the danger in the event of unfavorable movements in interest rates. Since the Group has certain loans contracted at a variable interest rate (EURIBOR), they are sensitive to movements in interest rates. At the end of year 2018 the Group has 66 % of predictable cash flow (at the end of year 2017 it had 48 %).

Exposure to interest rate risk was as follows:

|   | 2018              | 2017              |
|---|-------------------|-------------------|
| Financial liabilities with fixed interest rate    | 36,308,958        | 25,491,071        |
| Financial liabilities with variable interest rate | 18,571,429        | 27,937,193        |
|   | <b>54,880,386</b> | <b>53,428,264</b> |

Elektro Gorenjska Group in previous years had entered into interest rate swaps to hedge the cash flow for the duration of the loan. Interest rate swaps hedged the following financial liabilities:

|  | 2018 | 2017      |
|--|------|-----------|
| Financial liabilities hedged with interest rate swap | 0    | 5.491.071 |

Change in interest rates for financial instruments with a variable interest rate by 50 basis points at the reporting date would have increased or decreased the Group's profit for the amounts shown below. In the analysis of the obligations at variable interest rate reduced by the liabilities for which the interest rate swaps (IRS) were concluded. Some loan agreements include provisions that the variable interest rate equals zero, if the EURIBOR is negative.

|   | Impact on profit or loss 2018 |                      | Impact on profit or loss 2017 |                      |
|---|-------------------------------|----------------------|-------------------------------|----------------------|
|   | increase by<br>50 bt          | decrease by<br>50 bt | increase by<br>50 bt          | decrease by<br>50 bt |
| Financial liabilities with variable interest rate | -51,994                       | 89,020               | -119,422                      | 56,768               |

Severity of interest risk is assessed as small. Given the current economic situation, significant rise in interest rates is not expected, so that the impact of the risk is assessed as moderate. Assuming a 17 % annual probability of risk realization an individual assessment of risky rate (with 95 % of confidence level) on operations amounts to 30 thousand €, with the range of losses in case of realization going from a minimum of 0 € to a maximum of 110 thousand €.

**Foreign exchange risk**

Operations are conducted in euros, therefore the Group is not exposed to the risk of exchange rate changes.



## 23 Events after the balance sheet date

After the balance sheet date (31. 12. 2018) and until the auditor's report date (26. 4. 2019) Elektro Gorenjska Company received from SODO the preliminary account of the regulatory year 2018. Preliminary account for year 2018 was implemented by SODO on the basis of unrevised financial statements. From the account it is clear that in year 2018 the already charged contractual value of services and rent was by 2,172,781 € lower than the values established on the basis of the preliminary account. Based on this the Elektro Gorenjska Company in year 2018 recognized by 2,172,781 € of short-term accrued revenues.

