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CONSEQUENCES OF THE GREATEST NATURAL AND ELECTRICITY NETWORK DISASTERS IN SLOVENIA

February snow and ice damage terminated electricity supply on the Elektro Gorenjska distribution network to more than 5,500 customers in Gorenjska region. Damage to the network occurred at more than 250 locations throughout all local inspectorates. The most critical areas, mainly due to the inaccessibility of terrain, were Kokra Valley with Jezersko and part of the Poljanska valley, where supply was provided by aggregates for the longest period of time.

Elimination of errors on the network involved all of our field teams available, organizers, dispatchers, operatives, even employees from offices helped. There were more than 160 workers and external cooperators working in the field. And to ensure our users the supply of electricity as soon as possible, they really worked in dangerous and inhumane conditions.

Despite the fact that Elektro Gorenjska has more than 60% of the distribution network underground (underground cable in implementation; consequently, the damage to the network was significantly lower than in other parts of Slovenia), damage to the network amounted to almost 2.6 million €. After calming down the situation, we immediately joined the project and organized rehabilitation of networks, with the aim that currently affected areas are not only rehabilitated, but also less vulnerable in the future. Elimination of damage and rehabilitation of network took place throughout the year 2014. On account of ice damage Elektro Gorenjska built 20 km of new cable conduit connections in 2014.

In a natural disaster, which hit Slovenia, also our neighbors, the Austrians, came to help. They helped us immediately by providing the generators, while together with representatives of the company KELAG we found a solution for the connection of the distribution network of Elektro Gorenjska with their distribution networks, and thus ensured the people of Jezersko the supply of electricity from the network. We ensured electricity in other critical areas within a few days as well.

To all who have helped in the aftermath of ice damage and all those who have offered additional assistance, we thank sincerely.

 Watch video at: <http://www.elektro-gorenjska.si/za-medije/foto-video-arhiv>

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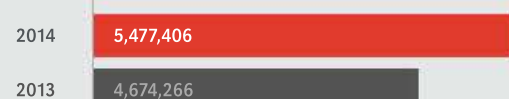
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IMPORTANT INFORMATION ON OPERATION OF ELEKTRO GORENJSKA GROUP



Results

NET PROFIT OR LOSS (€)



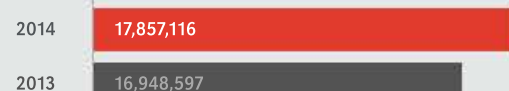
ECONOMY OF OPERATION (%)



EBIT (€)

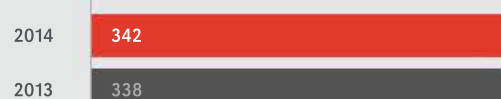


EBITDA (€)



Employees

AVERAGE NUMBER OF EMPLOYEES



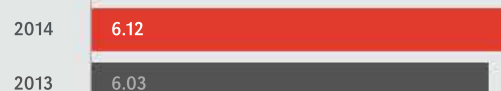
SHARE OF EMPLOYEES INCLUDED IN VARIOUS EDUCATIONS AND TRAININGS



COSTS OF EDUCATION PER EMPLOYEE

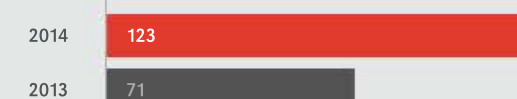


AVERAGE LEVEL OF EDUCATION



Customers

SAIDI (average time of duration of unannounced interruptions longer than 3 minutes /customer)



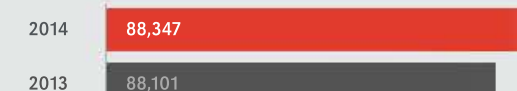
SAIFI (average number of unannounced interruptions longer than 3 minutes /customer)



QUANTITIES OF DISTRIBUTED ELECTRICITY (MWH)



NUMBER OF CUSTOMERS CONNECTED TO DISTRIBUTION NETWORK



A
BUSINESS REPORT

Reliability first.

In Elektro Gorenjska we overcame the consequences of the largest Slovenian catastrophe in record quick time using superhuman effort and dedication of employees.

In the first few days there were more than 250 failures on the network in the area of Elektro Gorenjska.



1 IMPORTANT EVENTS AND AWARDS OF ELEKTRO GORENJSKA GROUP IN YEAR 2014

JANUARY

- Elektro Gorenjska Group organized annual meeting of retired employees.
- In the beginning of the year Elektro Gorenjska Prodaja Company awarded an electricity bonus in the amount of 500 euro to the Sožitje inter-municipal society Škofja Loka. Bonus was intended for the ambassador for the year 2013, but he waived them.
- At the event Grants for (RES and EE) energy projects organized by Energetika.net Elektro Gorenjska Prodaja Company presented its program for achieving energy savings.
- Gorenjske elektrarne Company launched the activities for establishing the quality management system according to the requirements of the ISO 9001 standard.

FEBRUARY

- Slovenia was hit by a severe natural disaster. Ice caused damage on electricity system of Slovenia and in the woods. Although Elektro Gorenjska Company has nearly 60 % of its network underground, there were still more than 250 failures recorded, and during the peak of the damage electricity supply was interrupted for more than 5,500 customers in Gorenjska region. Ice damaged nearly 100 km of power lines, which our teams addressed systematically with the aim of building an even more robust network. On February 19 2014 all our customers in Gorenjska region were supplied with electricity.
- Representatives of Elektro Gorenjska participated in the fifth international conference En.grids 2014, which dealt with topical issues in the field of smart grids.
- Gorenjske elektrarne Company obtained an authorization for issuing energy performance certificates prescribed by the new Energy Act (EZ-1).

MARCH

- New Energy Act (EZ-1), which introduced provisions of ten European Directives into Slovenian legislation and set legislative framework and structure of strategic documents of the new energy policy in Slovenia, was adopted.
- Elektro Gorenjska prepared for its customers a new service for free information on planned electricity shut-offs and set up a new free distribution call center number 080 30 19.

- Elektro Gorenjska together with the consortium of companies Elektroservisi, d. d., and Dalekovod, d. o. o., signed a contract for supply and installation of steel structures and execution of construction and electrical installation works for a new 110 kV power line between Bohinj and Železniki.
- Elektro Gorenjska started with mass replacement of obsolete measuring equipment with new modern AMI measuring systems.
- Elektro Gorenjska Prodaja continued with reducing the prices of electricity for its household customers, as favorable conditions on the electricity market are transferred to final users as well. In the last six months prices have been reduced by an average of more than 3 percent.
- Elektro Gorenjska Prodaja supplemented the offer in Re-energy package with a heat pump for hot water.
- Gorenjske elektrarne in cooperation with Merkur company implemented already seventh project of efficient lighting according to the principle of contractual assurance of energy savings, this time in shopping center Hudinja in Celje.

APRIL

- Elektro Gorenjska acceded to the systematic upgrade of power lines in cable execution on locations, where power lines were completely destroyed due to February ice damage. First investment of this kind was executed in Jezersko. Works will continue in year 2014 on the territories of Kranj, Škofja Loka, Tržič, Bohinj, Bled, Radovljica and Cerklje na Gorenjskem.
- Elektro Gorenjska and Gorenjske elektrarne were classified as excellent credit companies. Elektro Gorenjska Company was rated by a credit rating of A, while Gorenjske elektrarne with a rating of AAA.
- Elektro Gorenjska continued with trainings for work under low voltage. Six employees have already been trained; among them three have also been qualified to work under voltage for cleaning of electricity devices at the medium-voltage level.
- Elektro Gorenjska Prodaja offered its customers a discount of 50 € at the purchase of electrical bicycle Tehnosol.
- Gorenjske elektrarne set up a production facilities management center- first for SCADA control for the field of hydro power stations, while set-up of SCADA system for solar power stations and control of co-generations has been in progress.
- Gorenjske elektrarne put a solar power plant on the roof of its office building. Solar power plant MFE GE has a power of 12.30 kWp, and is composed of sixty 205 W modules and 12 kW inverter.

MAY

- Elektro Gorenjska organized a press conference, where business results of the company for year 2013, extent of damage caused by ice in February, and investment plan of Elektro Gorenjska Company for year 2014, were presented.
- Elektro Gorenjska helped residents of the Balkans affected by catastrophic floods.
- Elektro Gorenjska Prodaja once again reduced electricity prices for household customers. In half-year the prices were already reduced by 6 percent, so customers could save a total of 9 € on their electricity bills in a half-year.
- With a purpose of promoting the use of web application "Moj EPG" Elektro Gorenjska Prodaja launched a monthly prize draw for all that report on their meter status through the application. Promotions have continued until the end of year 2014.
- Elektro Gorenjska Prodaja published two calls for tender for subsidies for increasing the efficiency of energy use of final customers.
- During the traditional Eco week in cooperation with Matija Valjevec elementary school Gorenjske elektrarne carried out three energy workshops.

JUNE

- At the end of the 50th anniversary of the company's operation Elektro Gorenjska organized an event, where they awarded electrical bikes to 17 Mayors of Gorenjska region municipalities, with the purpose of promoting sustainability of Gorenjska region, but above all to search for synergies among different business entities.
- In Elektro Gorenjska Prodaja much attention was paid to forming varied and quality offer for its customers. Free e-invoices were introduced, which are easy to use and environment friendly. All e-invoice users participated in the prize draw on a monthly basis. Customers are enabled also new services – Assistance for homes (Home and Comparative Assistance) and for companies (Paying Assistance).
- At the feast of the Naklo municipality Elektro Gorenjska Prodaja presented its activities and household offer.

JULY

- 20th regular session of the Elektro Gorenjska General Meeting of Shareholders took place at the seat of the Elektro Gorenjska Company, where shareholders decided on the use of distributable profit. Management and Supervisory Board were given a discharge; proposed amendments of the statute were confirmed, as well as share capital of the company reduction.
- Supervisory Board of Elektra Gorenjska once again appointed Bojan Luskovec, MSc chairman of the board for the next four-year period.
- Elektro Gorenjska started the construction of the first 35 standing places (out of a total of 115) on the power line Železniki-Bohinj.
- In its production units in the first half of the year Gorenjske elektrarne generated 36,741,861 kWh of electricity, which is historically the highest reached production for the first half year.

AUGUST

- Supervisory board of Elektro Gorenjska Company confirmed the strategy of the Elektro Gorenjska Company for the period of 2014-2017.
- Elektro Gorenjska Prodaja enabled its customers to settle their electricity bills with no commission in all Delavska hranilnica offices. New expanded offer of wood biomass, prepared in cooperation with its business partner Gatis, was presented.
- Gorenjske elektrarne acceded to the partial automation of HE Sava, which would with acceptable risks enable operation of the facility in stable hydrological conditions without constant presence of employees.

SEPTEMBER

- Elektro Gorenjska laid a foundation stone at Sorica for the construction of a new 110 - and 20 kV distribution connections between Selška and Bohinjska Valley.
- Elektro Gorenjska and Elektro Celje based on the decisions of supervisory boards of both companies signed a letter of intent with the purpose of connecting the two electricity selling subsidiaries (Elektro Gorenjska Prodaja and Elektro Celje Energija).
- Elektro Gorenjska Prodaja issued two brochures: "Znižajte račun za elektriko" (Reduce your electricity bill), which would help households reduce their electricity bills if they followed five saving ideas and "Energija za uspeh" (Energy for Success), which comprehensively presented services and offer for small-sized business buyers. It also prepared a new promotion "Kako pa pri vas doma varčujete z elektriko?" (How do you save on electricity in your home?), for the youngest family members. For owners of heat pumps, who did not meet the criteria for the Re-energy package, they prepared a new Heat Pump package.

- In the period between 2008 and 2014 Gorenjske elektrarne recorded a 2.5 times revenue growth. In its nominal value the revenues thus increased from 4.4 mio € to 11.3 mio €, which put the company among the fastest growing companies in the region.

OCTOBER

- October rains caused some problems on the distribution network of Elektro Gorenjska with electricity supply in the area of Poljanska, Jelendol and Bohinj valleys towards Kobla.
- Elektro Gorenjska successfully passed professional technical inspection and fulfills the condition for inclusion of anew transformer station Jezerski vrh in the high-voltage network. With the inclusion of the transformer station Jezerski vrh the last step is carried out to eliminate the consequences of ice damage in the area of Jezersko, and at the same time in connecting with Austria.
- Elektro Gorenjska participated at the 6th strategic meeting "Inovacija energetike" (Energy Innovation). In the name of GIZ electricity distribution Chairman of the Board in Elektro Gorenjska Bojan Luskovec, MSc presented challenges of the current arrangement of the public utility service distribution operator and a proposal of efficient reorganization in the sense of awarding concessions to five electricity distribution companies.
- At the 9th Summit of Slovenian Economy Elektro Gorenjska with the ceremonial signing of Slovenian corporate integrity guidelines became the ambassador of corporate integrity.
- In group Elektro Gorenjska a new, renovated and updated ethical code entered into force.
- Elektro Gorenjska together with Ne-odvisen.si program makers premiered to the business partners and other interested public an interactive documentary program titled "Izzivalec ulice" (Street challenger).
- In the package "Zakleni cene!" (Lock the Prices!) Elektro Gorenjska Prodaja offered its customers a favorable electricity price, which would not be changed until the end of year 2017. Visitors of the web site www.eg-prodaja.si were enabled quick and comfortable viewing of contents on all portable devices, phones and tablets.

NOVEMBER

- Elektro Gorenjska passed the external assessment for three systems: Quality management system, Health and safety at work system, and Environmental management system.
- Elektro Gorenjska obtained full Family Friendly Company certificate.
- Elektro Gorenjska Prodaja presented the "Dobre stvari je treba deliti" (Good things have to be shared) campaign. In the

campaign customers could reduce their electricity bill by 10 € for every friend, acquaintance, relative, neighbor or co-worker that signed an electricity supply contract for "Zakleni cene!" (Lock the prices) package with Elektro Gorenjska Prodaja.

- Research group from Gorenjske elektrarne participated at the 3. VIVUS 2014 scientific conference.

DECEMBER

- At the end of 2014 companies in Elektro Gorenjska Group together with their business partner re-allocate corporate gifts funds to the Ne-odvisen.si program.
- Elektro Gorenjska introduced an environment friendly e-account, which enables electronic issue of invoices.
- Elektro Gorenjska Prodaja presented its online store "Prijazna energija, prijazne cene", where users can select from quality energy saving appliances (from white goods, audio-video devices to computers and).
- Gorenjske elektrarne passed the external assessment and obtain a certificate of quality ISO 9001.
- Gorenjske elektrarne bought solar power station built on the building of Hit Gorica service facility in Nova Gorica.

2 HIGHLIGHTS OF ELEKTRO GORENJSKA GROUP OPERATION IN YEAR 2014 AND GOALS OF THE GROUP COMPANIES

Year 2014 was very successful in Elektro Gorenjska Group. Key highlights of its operation in year 2014 can be summarized as follows:

1. We operated in accordance with the law and set business objectives

- We have reached 89.9 mio € of revenues.
- We made 5.5 mio € of net profit, which is by 17.2 % more than in year 2013.

All indicators, including operating efficiency ratio and financing and yield ratios, have been showing growth trend since 2008 onwards. ROE amounted to 4.0 % (0.5 percentage point more than in year 2013), while ROA 2.5 %.

2. We adopted the company's strategy until 2017

In August 2014 the supervisory board of Elektro Gorenjska Company confirmed the new strategy of the company for the following four years. Strategy of Elektro Gorenjska Company precisely defines seven strategic projects, which the company already acceded to. They are:

1. Acquisition of own concession for electricity distribution.
2. Updating of measuring systems (AMI).
3. Upgrading of distribution management center (DCV).
4. Integration of technical information systems (CIM).
5. Implementation of information system (ERP) for financial accounting services (FRS), material storage operation (MSP), human resources (HRM) and integration with the existing information systems, already in use in the company.
6. Organization culture management.
7. Connecting the subsidiaries with strategic partner.

3. We completed and eliminated the consequences of ice damage

In February 2015 it passed exactly one year since the glaze ice that damaged 100 km and completely destroyed approximately

22 km of power lines also in the territory of Elektro Gorenjska. Most damaged were power lines in high-altitude and difficult to access places. Damage on the network assessed on the basis of a uniform methodology and in accordance with the Protection Against Natural and Other Disasters Act, amounted to 2,572,735 €.

Rehabilitation of the network was dealt with systematically and project wise. For immediate elimination of failures on the network, in many cases also with temporary solutions, we intended 800,000 €. For a more sustained rehabilitation, where demolished power lines or temporary rehabilitated ones were replaced with cable conduits and we renovated the belonging transformer stations, we allocated 2.4 mio € of investment funds until the end of 2014. Already before the ice damage we have had almost 60 % of our network built underground, which defended us from an even larger damage on the network. We have been increasing the share of underground cable network by at least 2 % in a year, which with 5,500 km of network means more than 100 km of new underground cable network every year.

4. We completed those investment projects that were the most important for further development of the region

We completed those investment projects that were the most important for further development of the Gorenjska region. On the high-voltage network we started with works for the launching of construction of a 110 kV energy loop, which would connect Železniki and Bohinj and enable integrated power supply in the Gorenjska region. Construction of the power line should be finished in year 2015.

In year 2014 more than half of our investment assets were intended for the construction and renovation of medium-and low-voltage network, where we simultaneously with building own cable ducts we cooperated with the municipalities in the cohesion infrastructure projects, which will enable us to execute cable network in the future.

5. We carried out the transition to independent information system in the field of clearing and monitoring the life cycle of user

With new and above all independent information system we can more efficiently control fields of connections and access of users to the distribution network, as well as calculation of network use for individual measuring points.

6. We have become ambassadors of corporate integrity

At the 9th Summit of Slovenian Economy Elektro Gorenjska Company by signing Slovenian guidelines of corporate integrity became the ambassador of corporate integrity. Together with 27 other companies we committed with signature to not only respect and

strengthen corporate integrity in our business, but also spread awareness about the importance of doing business in accordance with the legislation and ethical standards as one of the main principles of socially responsible operation in Slovenian economy in general.

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

Elektro Gorenjska Company is recognized in the field of supporting the sponsorship and donation projects, as in accordance with its possibilities it helps the wider public and gives back to the environment it operates in. In year 2014 we once again invited our business partners and supported the "Ne-odvisen.si" program together.

8. Despite fierce competition we were successful in the field of electricity sale to final customers

Once again we have proved that despite being one of the smaller electricity selling companies, with our commitment and perseverance we can compete with competitive companies. This was the year when we were even more active in the field of selling and marketing campaigns to maintain as well as win new customers. The highest growth of customers was recorded in the "Zaklene cene!" (Lock the prices!) Package, which became the new bestseller with the great price guaranteed until the end of year 2017.

9. Due to diversification of production units and favorable hydrological conditions we have further increased the electricity generation

In year 2014 there were 70,153 MWh of net electricity, which is almost 3% more than in year 2013. We managed to achieve this with diversification of production sources, namely by setting up solar power stations and cogeneration plants for electricity and heat as well as with projects in the field of efficient energy use and other services included in the service portfolio.

Main goals of Elektro Gorenjska Company in year 2015

In Elektro Gorenjska Company we are well aware of the importance of reliable and quality electricity supply and what investments are necessary for suitable functioning of the distribution network. In the beginning of February 2014 Slovenia was affected by a natural catastrophe and under the weight of heavy snow and glaze ice trees and electrical poles were getting broken. These kind of events remind us how important is to suitably plan and invest in electricity network in Slovenia, regardless of whether it is a transmission or distribution network. Despite the fact that Elektro Gorenjska already has 60 % of its network in the underground

cable version, ice damage affected our network too and caused much damage in more than 250 spots.

Strategic goals of Elektro Gorenjska Company is to have as much network underground i.e. cable conduits, which reduces the possibilities of damage due to extreme external and weather conditions. We will follow this goal with our investment activities in year 2015 too.

Other goals of Elektro Gorenjska Company in year 2015 will be focused on the following areas:

- Implementation of investments in our own electricity infrastructure, including the area of eliminating the consequences of ice damage as well as in the field of those investment projects that are of key importance for further progress of Gorenjska region (continuation and completion of the construction of 110 kV power line between Železniki and Bohinj).
- Continuing with the activities of transferring to the new information system on the remaining business part. Entire renovation of the information system will enable the company to manage the company's data efficiently, and in particular it will enable further cost-effectiveness.
- Continuing mass implementation of advanced measuring devices for final users and with it a suitable base for the introduction of advance technologies, which will bring additional benefits to the Distribution Company and final user in the field of efficient energy use.
- Continuing the project of organization culture management with the aim of increasing the rate of current employee commitment.
- Continuing the trend of the business model of business excellence and business in accordance with the policy of quality.
- Participation in various projects, sponsorships and donations with the purpose of sustainable development of the region.

In Elektro Gorenjska Prodaja company main efforts in the future will be aimed at the following:

- To become the best energy seller in Slovenia, but not necessarily the cheapest.
- To put customers at the center of business attention.
- To ensure continuous accessibility of buyers to our employees through all communication channels and quick solution of their requirements.
- To ensure efficient sale that will enable ambitious growth of the company.
- To optimize effects on the purchase side of energy that enables covering of our own costs and achieving target returns.
- To increase the quality of sale and after-sale services.
- To ensure reliable, proper and foreign sources and strategic partnerships, which enable long-term development of the company

and as a result also optimal offer for our customers.

- To develop up-to-date information support for all processes of company's operation and for communication with buyers.
- To increase the effectiveness of the company's operation through modern sales organization.
- Introduction of control systems in all vital processes in the company – purchase, sale, claims and operating results.
- Constant development and introduction of new electricity products for our customers.
- Introducing new products related to energy for cross selling.
- To connect strategically with one of the actors in the field of energy.

For Gorenjske elektrarne company key strategic focus is the following:

- To become a leading producer of environment friendly energy.
- To become a recognized provider of services to increase efficient energy use.
- To expand production activity to foreign markets.
- To take advantage of new business opportunities related to energy environmental protection.
- To set up and market own system for central control over data on power consumption.
- Expansion of business with the acquisition of the MHE ELPRO company.
- Implementation of a new information system.

3 MANAGEMENT REPORT OF THE PARENT COMPANY

Dear shareholders, investors, and partners!

I am pleased to say that companies in Elektro Gorenjska group concluded year 2014 with very good business results, which are explained in more detail in the financial part of the report. There are several factors deserving for good results, among which efforts and dedication of all employees in the group, which co-create positive working climate and environment, are certainly worth mentioning.

For the parent company Elektro Gorenjska year 2014 was rich mainly due to the consequences of extreme weather conditions, when in February entire Slovenia was affected by glaze ice, natural disaster that has paralyzed road, rail and electricity transport. Despite the fact that company already has 60 % of its lines in underground cable version, 100 km of power lines were damaged. The majority of investments in year 2014 were directed in the elimination of ice damage consequences, and at the same time we started implementing projects that will additionally provide for even more robust and resistant distribution network.

Key objectives that companies in Elektro Gorenjska group fulfilled in year 2014 were:

1. We provided reliable and quality electricity supply

Based on the Report on quality of electricity supply by the Energy Agency Elektro Gorenjska Company has compared to other Slovenian distributions been reaching the best quality in the field of uninterrupted electricity supply for several years now. Quality of electricity supply has been clearly seen in practice during extreme weather conditions and damages that occur in such events on the electricity networks.

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

Elektro Gorenjska maintains 5,844 km of electricity network. With planned investments, optimization and careful planning, but particularly with the aim of enabling electrical power infrastructure that will allow further development of Gorenjska region, we concluded all investment projects to eliminate the consequences of ice damage in year 2014.

One of the concluded and significant projects was also inclusion of transformer station Jezerski vrh, With which the last step was carried out to eliminate the consequences of ice damage in the area of Jezersko, and at the same time the next step in connecting with Austria and ensuring higher energy safety of both countries in case such events happen again.

In year 2014 we started with the construction of new 110 - 20 kV distribution connection between Selška and Bohinjska Valley, the so

called Gorenjska region loop, power line between Železniki and Bohinj. This connection will contribute to permanent, reliable and quality electricity supply in the area of both valleys as well as enable further economic and touristic development of both municipalities.

With appropriate financial support and objective to build even larger share of the network in the underground cable version, we will, according to the strategy of the company until 2017, further improve and build a robust and resistant network, which will enable further development of Gorenjska region.

3. We began with mass replacement of advanced measuring systems

In year 2014, in accordance with the investment plans of the company, we began with a mass replacement of measuring equipment with up-to-date measuring systems AMI. In year 2015 we are continuing and planning to replace approximately 10,000 meters with advanced interoperable meters. We are planning to equip 80 % of all measuring points with advanced interoperable meters by the year 2020.

4. We became ambassador of corporate integrity

At the 9th Summit of Slovenian Economy Elektro Gorenjska Company by signing Slovenian guidelines of corporate integrity became the ambassador of corporate integrity. Together with 27 other companies we committed with signature to not only respect and strengthen corporate integrity in our business, but also spread awareness about the importance of doing business in accordance with the legislation and ethical standards as one of the main principles of socially responsible operation in Slovenian economy in general.

5. We operated in accordance with the policy of quality and business excellence

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

6. In year 2014 we reached a historic record production of electricity

In year 2014 subsidiary Gorenjske elektrarne Company produced a historic record quantity of electricity, namely the amount of

electricity emitted into the network amounted to 70,153 MWh. It was the result of extremely favorable hydrological conditions, but also good maintenance and control over the electricity generating facilities, which is the merit of all employees that are indirectly or directly associated with the production process. The performance in 2014 was further helped by energy efficiency projects, introduction of new revenue sources and on the other hand rational cost management of production and employment sources. Company has thus made by 221 thousand € more of net profit than in year 2013.

7. Despite fierce competition we were successful in the field of selling electricity to final customers

For subsidiary Elektro Gorenjska Prodaja year 2014 was very demanding in terms of selling the electricity, as there was fierce competition on the market. The majority of activities were mainly focused on retaining the existing buyers and acquiring new ones, that were offered attractive packages of electricity supply adapted to the needs of final customers, and establishing additional ways for final customers' savings. With the aim of increasing the sale they expanded sales channels, and set up an online shop. By systematically guided sales activities the company generated 631 thousand € of profit.

OPERATING RESULTS

In year 2014 Elektro Gorenjska Group generated total revenue in the amount of 89.9 mio €. Net profit amounted to 5.5 mio €, which is by 17.2 % more than in year 2013. All indicators, from operating efficiency indicator to indicators of return, have shown trend growth from 2008 onwards. ROE amounted to 4.0 % (1.5 percent point more than in year 2013), ROA to 2.5 % (0.3 percent point more than in year 2013). Better operating result than in year 2013, is mainly the consequence of higher revenue from rent and services under the contract with SODO, d. o. o., and larger electricity production.

Success is based on people and their values

With the dedication to the work we are able to recognize and understand also the needs of the environment we operate in. To perform activities within each company in the Elektro Gorenjska Group it is crucial to have proper dialogue with the local communities, with the help of which we provide for a comprehensive and orderly development of electricity infrastructure in Gorenjska region. We believe that focus on sustainable development, demonstrating social responsibility and active protection of environment are based on success and pervasiveness of each company. At the same time we further support excellent results in sports, culture and science with sponsorship and donation funds in the environment we operate in.

Goals of Elektro Gorenjska Group in year 2015

In Elektro Gorenjska Group we have set high business goals for year 2015, but also clear development guidelines presented in the operating strategy of the company until 2017. First and foremost we want to offer our users reliable and quality electricity infrastructure, which will be to the greatest extent resistant to various weather impacts we have been facing in the past years. In the most vulnerable territories we will continue building networks in the underground cable versions with even greater emphasis, although they bring high maintenance costs to the company, but on the other hand enable better resistance at accidents.

For the most optimal functioning and maintenance of the network, the efforts of the Elektro Gorenjska Company in year 2015 will focus on obtaining proper concession for electricity distribution. By awarding local concessions to individual electricity distribution companies larger influence of local communities on the development of the industry would be enabled and this way the needs of the distribution network users would be further listened to. At the same time in the management of the distribution network in the event of major natural disasters and accidents involvement of employees in the local environment is crucial, as well as affiliation to the company that manages the devices or network, as this is the condition for quick and quality elimination of accidents.

In accordance with the guidelines in year 2015 we continue with installing of so called smart meters, which will be installed to our users gradually in the following years. We are continuing with the implementation of software support to the remote control center, and with the introduction of standardized model of operational data exchange (CIM model).

One of the strategic projects of companies in Elektro Gorenjska Group in year 2015 is also updating of ERP information system, which was launched on January 1 2015 in Elektro Gorenjska Company, while in Gorenjske elektrarne Company it will come to life in the second half of year 2015. New and independent ERP information system will facilitate the implementation of companies' strategy, and at the same time be friendly and useful for the final customer.

Developments in the electricity market are varied and in 2015 numerous opportunities are available. Elektro Gorenjska Company and Elektro Celje Company signed a letter of intent in September 2014 with the objective of connecting two subsidiaries for the sale of electricity (Elektro Gorenjska Prodaja and Elektro Celje Energija). Connection is in accordance with the development strategy of Elektro Gorenjska Company and its subsidiary Elektro Gorenjska Prodaja. It will enable the joined companies numerous synergy effects, in the business as well as in market segments, and create higher value added for electricity customers.

At the same time the objectives of the company Elektro Gorenjska Prodaja in 2015 remain committed to the users, as they will still be offered packages with attractive prices of electricity and other benefits, with one of the novelties being also expansion of energy to the area of natural gas.

At the end of year 2014 Gorenjske elektrarne Company reached a new objective in the field of quality policy, namely it obtained the

quality standard ISO 9001 – an international standard for quality management, designed for organizations of various economic sectors and industries who wish to control and improve their operations and increase customer satisfaction. So one of the long-term goals of the company, staying in the foreground also in 2015, will be to establish quality policy involved in the business processes and above all focused on commercial success and competitiveness of the company. In Gorenjske elektrarne Company also in 2015 is aimed at contributing substantially to the sustainable development of the environment they operate in by producing environment friendly energy and implementing services to increase efficient energy use. Other objectives include also increasing the revenues by means of efficient energy use projects.

In year 2015 companies in the group will continue actively with the project of organization culture management, whose key objective is to increase the rate of employee commitment in companies of Elektro Gorenjska group. As ambassadors of corporate integrity we will spread awareness on the significance of operating in accordance with the legislation and ethical standards as one of the basic principles of socially responsible operations within Slovenian economy in general.

Dear investors, shareholders and partners, together with our coworkers we will continue to ensure the growth and successful development of companies within Elektro Gorenjska Group in Gorenjska region. In doing so, we would like your continuing support and constructive cooperation.

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

Chairman of the Board
mag. Bojan Luskovec



3.1 CORPORATE GOVERNANCE STATEMENT

Companies in Elektro Gorenjska Group inform the shareholders and public that they operate in accordance with applicable regulations and acts in force in the companies. Management of the individual company represents the company as well as manages the business independently and at its own risk. In this it adopts the decisions in accordance with the strategic goals of the company and to the benefit of the shareholders. Until the adoption of Corporate Governance Code for Companies with Capital Assets of the State, adopted on December 19 2014 by the Slovenian Sovereign Holding (SDH), companies in Elektro Gorenjska Group have used in their operations the Corporate Governance Code adopted by Ljubljana Stock Exchange d.d., Association of Supervisors of Slovenia and Association Manager. Also until the adoption of Recommendations and expectations by the SDH (December 19 2014) companies strictly respected previous recommendations of the manager of direct and indirect state capital investments of the Republic of Slovenia (Recommendations by SOD), which mainly recommend the principles, procedures and code of conduct for members of managerial and supervisory bodies in companies with capital investments of the state.

Applicable regulations important mainly for the operations of the parent company and parent company statute are published on the company's web site (<http://www.elektro-gorenjska.si/>). Other acts applicable for the parent company are available on the web pages of Ljubljana Stock Exchange, d.d. (<http://www.ljse.si/cgi-bin/jve.cgi?doc=656>) and SDH (<http://www.sdh.si/>).

In reviewing the operations of companies in the Group in year 2014 we have established no essential derogations from the principles, procedures and criteria imposed by the stated codes and recommendations. 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 both stated Codes and Recommendations by SOD or new acts adopted by SDH in December of the last year. The parent company sent all newly adopted SDH acts to all supervisory board members.

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

Companies in Elektro Gorenjska Group will respect the recommendations of the new SDH acts in the future too and in accordance with this they will improve their management systems. In eventual derogation from the given statement on respecting the codes the companies in the group will provide for the timely publication.

3.2 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 2014 (article 282 ca)

Supervisory board operation

In addition to regular and steady control in year 2014 we should expose mainly cooperation in adopting the strategy of the company for the period 2014 - 2017, extension of the mandate of the chairman of the board for further four-year period, and control over intended mergers of market and production activities of the two subsidiaries, Elektro Gorenjska, d. d., and Elektro Celje, d. d.

In year 2014 supervisory board operated in the composition of shareholders appointed at the 19th regular general meeting with a four-year mandate, beginning on August 27 2013, and two representatives of employees elected in 2011:

- Samo Logar, chairman of the supervisory board,
- Leopold Zupan, vice president (representative of employees),
- Andrej Koprivec, member,
- Tedo Djekanović, member,
- Elvis Duraković, member, and
- Vojko Oman, member (representative of employees).

In year 2014 supervisory board met at fifteen regular sessions and adopted a total of 132 decisions. In their decisions members of supervisory board acted independently and prepared appropriately on the topics of the individual sessions, gave constructive proposals and comments, as well as adopted decisions in accordance with their respective responsibilities. Members of the supervisory board carried out their work in accordance with the fundamental function of supervision over the management of the companies and duty of diligent and contentious management based on the competences as defined mainly in the Companies Act

(ZGD-1), statute of the company and rules of the supervisory board. In addition the supervisory board members acted in accordance with the recommendations of the Code of Corporate Governance, recommendations of the Corporate Governance Code for Capital Investments of the Republic of Slovenia, and recommendations of the Slovenian Compensation Company (SOD), in force until the second half of December 2014, when new acts of the Slovenian Sovereign Holding (SDH) were adopted: Recommendations and expectations of the SDH, Corporate Governance Code for Companies with State capital investment, and Management Policy of the SDH. Management board commented on the fulfillment of the above acts and recommendations in the statement on corporate governance.

Supervisory board introduced good supervising practices in the company (adoption of strategy, project management system ...) and was implementing them successfully. In the field of supervisory board work, there were also some good practices introduced, like for example self-assessment of the supervisory board work.

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

Main focus of the supervisory board in the past year was, beside adopting the strategy and implementing the procedure for appointment of new chairman of the board, above all regular monitoring of company's operations in accordance with the planned results, based on the reports prepared by the management of the company.

Members of the supervisory board mainly focused on the following:

- regular business of the companies, mainly the parent company and also other companies in the Elektro Gorenjska Group (Elektro Gorenjska Prodaja, d. o. o., and Gorenjske elektrarne, d. d.) with an emphasis on the current monitoring of business and financial reporting,
- monitoring the proceedings before the intended merger of market and production activities of the two subsidiaries Elektro Gorenjska, d. d., and Elektro Celje, d. d.,
- monitoring larger investment projects,
- monitoring the damage elimination from the ice damage at the beginning of the year and other procedures following (negotiations with insurance company about the payment, collaboration with domestic and foreign stakeholders, options for the payment of state aid ...),
- monitoring of strategic projects,
- control over contracts, which need the supervisory board consent according to the provisions of the statute,
- establishment of a new supervisory board committee for the field of nomination and human resources,
- monitoring negotiations with the majority owner of the company about the dividend policy,

- forming proposals for the decisions at the regular general meeting,
- monitoring risks.

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

- Supervisory board regularly monitored operations of the group companies and discussed quarterly information and evaluations on group companies' operations and was devoted to realization of the business plan for year 2014.
- In accordance with the ZDG-1 supervisory board verified and approved the audited annual report of Elektro Gorenjska, d. d., and audited consolidated annual report Elektro Gorenjska Group for year 2013, and composed a written report of the supervisory board on verification and approval of the stated reports for business year 2013.
- Supervisory board prepared proposals for decisions for each item of the 20th regular general meeting session, which took place on July 2 2014, it agreed with the proposal of the management on the use of distributable profit for year 2013 and statute amendments, as well as proposed company Deloitte revizija, d. o. o., for the auditor for year 2014, and assumed responsibility for realization of the general meeting resolutions.
- Supervisory board confirmed the strategy of the company Elektro Gorenjska, d. d., as the parent company and Elektro Gorenjska group for the period 2014 - 2017, and then controlled the individual strategic projects quarterly.
- Supervisory board regularly monitored the execution of the currently largest investment project, namely the construction of 110 and 20 kV power line RTP Železniki – RTP Bohinj. Audit of the project since 2014 has been implemented as well as a special audit before the actual beginning of the investment.
- Supervisory board was acquainted with the report titled Making of business case and steps for the merger of market and production activities, as well as monitored further steps in the merger of market and production activities of the subsidiaries Elektro Gorenjska, d. d., and Elektro Celje, d. d.
- Supervisory board appointed the nomination and human resources committee as a permanent committee of the supervisory board, which helped in preparing the tender and election of the chairman of the board, in adopting the employment contract with the chairman of the board, and in adopting the performance criteria for the variable part of his salary.
- Supervisory board appointed Bojan Luskovec, M.Sc. Chairman of the Board in the company and extended his mandate for another four years.
- In accordance with the Act Governing the Remuneration of Managers of Companies (ZPPOGD) the Supervisory board defined other rights of the chairman of the board and adopted performance criteria for the variable part for year 2015.
- In preparing the Business plan of Elektro Gorenjska, d. d., for year 2015, the supervisory board proposed amendments to the plan in order to increase the yield, namely in year 2015 yield in the amount of 3 mio € is expected.

- Supervisory board paid much attention to optimization of costs in the group companies.
- Supervisory board proposed changes in the field of company's act referring to public procurement, which were then adopted and new practice of familiarizing the supervisory board with the public procurement matters was introduced.
- In accordance with the company's statute supervisory board gave its consent to six legal transactions above the value of 835 thousand €.
- Based on the provisions of the company's statute the supervisory board gave its consent to the borrowing of the company.

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

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

Cooperation with the Chairman of the Board

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

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

Supervisory board committees

In year 2014 two committees operated within the supervisory:

I. Audit committee

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

- Andrej Koprivec, SB member, chairman of the audit committee,
- Elvis Duraković, SB member, member of the audit committee,
- Duško Kapevski, external member of the audit committee,
- Andrej Baričič, external member of the audit committee.

Operation of the supervisory board audit committee and permanent professional function of the internal audit in the company only improved the operation of the supervisory board. Since April 2014 audit committee has been operated in a reduced composition due to the death of its member Duško Kapevski. Supervisory board did not appoint an alternate member, as according to the rules on audit committee operation that was not necessary.

In the last year the audit committee met at a total of 15 sessions, of which 13 were regular and 2 correspondence. At its sessions it regularly discussed information on the operation of the companies in the group, contracts for the management of liquidity among the group companies, adopted the plan of work of the internal auditor and regularly monitored the work of the internal audit. It verified the revised annual report of Elektro Gorenjska, d. d. and revised consolidated annual report of Elektro Gorenjska Group for year 2013. At the end of the year it verified the proposal of the business plan for year 2015, along with the operation projections for year 2016 and 2017, as well as got acquainted with the business plans of the subsidiaries.

In accordance with the rules on the work of audit committee members of the supervisory board were kept noted with the invitations to the sessions of the audit committee as well as with the minutes of the committee sessions, and chairman of the audit committee reported to the supervisory board on the work of the committee quarterly.

II. Nomination Committee

At its 9th regular session on April 17 2014 the supervisory board appointed another committee, namely the Nomination and Human Resources Committee of the Elektro Gorenjska, d. d., supervisory board, in the following composition:

- Samo Logar, chairman,
- Tedo Djekanović, member,

- Milena Pervanje, external member.

In year 2014 the Nomination Committee adopted a total of 28 decisions at its 10 sessions, where all members of the committee were present.

At its first two sessions the committee prepared professional proposals for the supervisory board in regards with the publication of a tender for the chairman of the board, as on July 15 2015 the mandate for the chairman expired. In accordance with its competences the committee received and verified the completeness of applications for the post of the chairman of the board, held interviews and proposed candidates to be interviewed by the supervisory board.

Committee reported the supervisory board about the proceedings of the tender, and the supervisory board adopted the decision on the selection of the chairman of the board. Committee also submitted a proposal of the draft of the employment contract for the chairman of the board and proposed the supervisory board to adopt the performance criteria for the variable part of the chairman of the board receipts for year 2015.

Position of the supervisory board to audit report 2014

At the 20th session of the audit committee on May 6 2015, when a revised Annual Report of Elektro Gorenjska, d. d. and revised Consolidated Annual Report of Elektro Gorenjska Group for year 2014 were discussed, an auditor of the audit firm Deloitte revizija, d. o. o., which audited the financial statements of the Group for year 2014, was present too. Audit committee and supervisory board got acquainted with the report of an independent auditor and established that positive auditor's opinion was issued.

Supervisory board notes that the auditor performed an audit in accordance with the legislation and according to auditing rules. Supervisory board had no comments on the report of the independent auditor, and its position to the audit report was positive.

Approval of the annual and consolidated report 2014 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 2014 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 2014 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 two other companies Gorenjske elektrarne, proizvodnja elektrike, d. o. o., and Elektro Gorenjska Prodaja, d. o. o., which are both in 100 % ownership of the parent company.

All companies in the group ended the business year with profit. Distributable profit of Elektro Gorenjska, d. d. for year 2014 amounted in total to 2,165,155.98 €. Management of Elektro Gorenjska, d. d., proposed the general meeting of shareholders to pay the distributable profit in the amount of 2,074,365.12 € to the shareholders in the form of dividends, while the remaining amount of the distributable profit of 90,790.86 € would be allocated to other profit reserves. Gross dividend per share amounted to 0.12 €. Proposal for using the distributable profit was verified by the supervisory board and it agreed with the proposal of the management. Consent to such use of profit was given at its 26th regular session on June 3 2015.

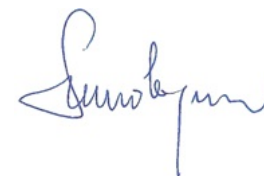
Dividend yield for year 2014 with the adopted proposal of the management and the supervisory board about the use of distributable profit and in accordance with the expectations of the investment manager SDH, would amount to 1.52 % for year 2014.

Supervisory board took note of the proposal to convene the 21st regular session of the general meeting of shareholders, as well as with agenda and proposals of the decisions, and it agrees with the agenda and the proposals of the decisions entirely and proposes the general meeting of shareholders to adopt the decision on granting the discharges to the management and the supervisory board for year 2014.

After the supervisory board verified the annual report and consolidated report of the company for year 2014 and had no comments, it adopted them unanimously at the 26th regular session on June 3 2015, when it also adopted the supervisory board report on verification and approval.

Kranj, June 3 2015

Samo Logar, univ. dipl. prav. (LLB)
Chairman of the Supervisory Board



4 PRESENTATION OF ELEKTRO GORENJSKA GROUP

4.1 STRUCTURE OF ELEKTRO GORENJSKA GROUP AND ASSOCIATED COMPANIES

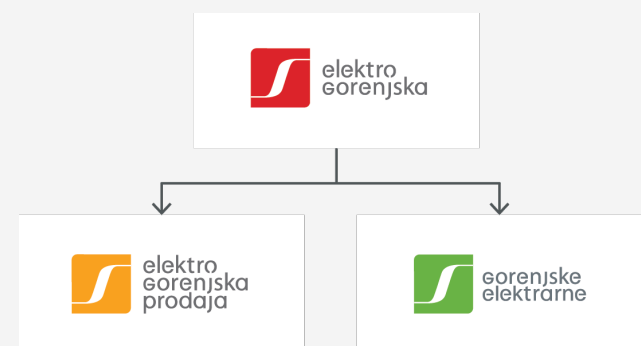
Elektro Gorenjska Group consists of the controlling Elektro Gorenjska, d. d., Company and two of its controlled companies Gorenjske elektrarne, d. o. o., and Elektro Gorenjska Prodaja d. o. o., which are in 100 % ownership of the controlling company, and associated company Soenergetika, where Gorenjske elektrarne has 25 percent share. None of the companies in the group has any subsidiaries.

Management of the controlled companies is implemented directly on the basis of the founder's decision, as none of the controlled companies has a supervisory board.

Elektro Gorenjska Group is constantly striving for development, innovation and environmental efficiency and friendliness. Group is a holder of three quality standards ISO 9001, ISO 14001 and BS OHSAS 18001, which are recertified every year. Since 2011 Elektro Gorenjska Company has been a holder of the full Family-friendly company certificate. It participates in processes of business excellence (PRSP0) and is the only distribution company that received the highest national award for business excellence in Slovenia for year 2012. Quality services and activities we have been implementing for 50 years now became even more obvious with arrival of competition. Undisturbed, reliable and quality supply of electricity is in the first place.

Elektro Gorenjska Company follows and actively participates in development projects, which represent the driver of the future, definitely including development of SMART GRIDS and other support activities. In year 2013 Elektro Gorenjska successfully completed its three-year international project Hiper DNO and joined the two international research projects INCREASE (Increasing the penetration of renewable energy sources in the distribution grid by developing control strategies and using ancillary services) and DERri (Deregulated Energy Resources Research Infrastructure). Objective of the INCREASE project is to supplement the existing control systems and expand the range of system solutions aimed at

Figure 1: Organization chart of Elektro Gorenjska Group



more efficient electricity supply quality at increasing number of dispersed sources in the network. Objective of the company in DERri project is to create generic strategy of integration of technical and information systems for European electricity distribution companies.

4.1.1 ELEKTRO GORENJSKA COMPANY IDENTITY CARD

Figure 2: Elektro Gorenjska company identity card

NAME:	ELEKTRO GORENJSKA, PODJETJE ZA DISTRIBUCIJO ELEKTRIČNE ENERGIJE, D. D.
Abbreviated name:	ELEKTRO GORENJSKA, D. D.
Business address:	Ulica Mirka Vadnova 3 a, 4000 Kranj Phone: 04 20 83 000 Fax: 04 20 83 600 Call center: 080 30 19
Web site:	www.elektro-gorenjska.si
E-mail address:	info@elektro-gorenjska.si
Registration number:	5175348000
VAT identification number:	SI 20389264
Core activity code:	35.130 electricity distribution
Legal form:	joint-stock company
Company register entry number:	1/00259/00
Date of company register entry:	27. 1. 1998
Place of court's register entry:	Kranj District Court
Share capital as of 31. 12. 2014:	71,898,060.69 €
Number of shares as of 31. 12. 2014:	17,286,376
Chairman of the Board:	Bojan Luskovec, M.Sc.
Supervisory board chairman:	Samo Logar

Elektro Gorenjska Company owns a 100 % of Gorenjske elektrarne and Elektro Gorenjska Prodaja, while its associated company is Soenergetika Company, which is in 25 % ownership of Gorenjske elektrarne.

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

	31. 12. 2014	31. 12. 2013
Carrying amount of capital	136,373,781	133,416,895
Carrying amount of assets (balance sheet total)	198,683,980	195,122,085
	Year 2014	Year 2013
Net profit of the business year	4,558,223	3,087,223

4.1.2 ELEKTRO GORENJSKA PRODAJA COMPANY IDENTITY CARD

Figure 3: Elektro Gorenjska Prodaja controlled company identity card

NAME:	ELEKTRO GORENJSKA PRODAJA, PODJETJE ZA PRODAJO ELEKTRIKE, D. O. O.
Abbreviated name:	ELEKTRO GORENJSKA PRODAJA D. O. O.
Business address:	Ulica Mirka Vadnova 3, 4000 Kranj Phone: 04 20 83 660 Fax: 04 20 83 294 Call center: 080 22 04
Web site:	www.eg-prodaja.si
E-mail addresses:	info@eg-prodaja.si za.gospodinjstva@eg-prodaja.si za.podjetja@eg-prodaja.si reenergija@eg-prodaja.si modra.energija@eg-prodaja.si za.racunovodstvo@eg-prodaja.si
Registration number:	3926770000
VAT identification number:	SI 37692186
Legal form:	limited liability company
Founder:	Elektro Gorenjska, d. d.
Company register entry number:	2011/8382
Date of company register entry:	7. 3. 2011
Place of court's register entry:	Kranj District Court
Share capital as of 31. 12. 2014:	3,000,000.00 €
Director:	Rudolf Ogrinc, mag. ekon. in posl. ved

Company Elektro Gorenjska Prodaja has no controlled companies and no investments in capital of associated and controlled companies. Other important information on the company can be found in the following table.

Table 2: Other important information on Elektro Gorenjska Prodaja (in €)

	31. 12. 2014	31. 12. 2013
Carrying amount of capital	3,918,015	3,278,160
Carrying amount of assets (balance sheet total)	19,006,529	22,889,768
	Year 2014	Year 2013
Net profit of the business year	631,659	627,490

4.1.3 GORENJSKE ELEKTRARNE COMPANY IDENTITY CARD

Figure 4: Gorenjske elektrarne controlled company identity card

NAME:	GORENJSKE ELEKTRARNE, PODJETJE ZA PROIZVODNJO ELEKTRIČNE ENERGIJE, D. O. O.
Abbreviated name:	GORENJSKE ELEKTRARNE, D. O. O.
Business address:	Stara cesta 3, 4000 Kranj Phone: 04 20 83 531 Fax: 04 20 83 512
Web site:	www.gek.si
E-mail address:	info@gek.si
Registration number:	1658298000
VAT identification number:	SI 76567788
Founder:	Elektro Gorenjska, d. d.
Legal form:	limited liability company
Core activity code:	35.111 production of electricity in HE generation facilities
Company register entry number:	10693400
Date of company register entry:	4. 1. 2002 (amendment 21. 9. 2004)
Place of court's register entry:	Kranj District Court
Share capital as of 31. 12. 2014:	13,684,880.11 €
Director:	Aleš Ažman, MBA

Table 3: Other important information on Gorenjske elektrarne company (in €)

	31. 12. 2014	31. 12. 2013
Carrying amount of capital	18,261,610	18,024,760
Carrying amount of assets (balance sheet total)	20,635,319	20,341,090
	Year 2014	Year 2013
Net profit of the business year	1,055,804	834,558

4.2 OTHER RELATED COMPANIES OR RELATED LEGAL ENTITIES

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

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

4.3 MAIN ACTIVITIES AND FIELDS OF BUSINESS

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

- distribution of electricity (activity code: 35.130),
- trade of electricity (activity code: 35.140),
- production of electricity in HE generation facilities (activity code: 35.111),
- other production of electricity (activity code: 35.119),
- 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),
- repair of machinery (activity code: 33.120),
- repair of electrical equipment (activity code: 33.140),
- retail sale via mail order houses or via internet (activity code: 47.910).

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

- activity of electricity distribution, which is connected with the implementation of contractually agreed services for Company SODO Maribor (hereafter also activity Contract with SODO Company) and presented in more detail in [chapter 4.9.3 – Energy legal environment](#) of group's operation in year 2014;
- other non-energy market activities, which include mainly execution of new constructions and other services for the needs of the company as well as for external clients or market (hereafter also other services for the market or other activities);
- purchase and sale of electricity for household and business consumers, and trade of electricity;
- production of electricity in hydropower stations (HE) and production of electricity in solar or photovoltaic power stations (FE) as well as high-efficiency cogeneration of heat and electric (SPTE);
- solar power stations engineering and monitoring;
- other projects of efficient energy use;
- sale of wood pellets.

4.4 MAIN AREA OF OPERATION

Main area of operation Main area of operation of Elektro Gorenjska Group includes north-eastern part of Slovenia – Gorenjska region. Elektro Gorenjska Group has been providing for more than 5,400 kilometers of grids and supplying electricity to 88,300 customers on the area of 2,091 km².

Figure 5: Area of supply of electricity distribution companies



4.5 MAIN TECHNICAL DATA

Table 4: Main technical data on electric power distribution network

	31. 12. 2014	31. 12. 2013
Powerlines 110 kV	82,885 m	82,885 m
Powerlines 35 kV	22,303 m	22,083 m
Powerlines 20 kV	680,085 m	721,476 m
Powerlines 10 kV	0 m	0 m
Total power lines	783,273 m	826,444 m
Cable conduits 110 kV	2,007 m	2,007 m
Cable conduits 35 kV	185 m	0 m
Cable conduits 20 kV	832,917 m	785,245 m
Cable conduits 10 kV	6,416 m	6,416 m
Total cable conduits	841,525 m	793,668 m
Total LV network	3,840,708 m	3,817,643 m
Total network	5,465,506 m	5,437,755 m
Transformer substation	13	14
Substation	7	6
Transformer station	1,337	1,333

Source: Elektro Gorenjska, internal data, 31. 12. 2014

4.6 MANAGEMENT AND GOVERNANCE OF COMPANIES IN ELEKTRO GORENJSKA GROUP

4.6.1 MANAGEMENT AND GOVERNANCE OF ELEKTRO GORENJSKA COMPANY

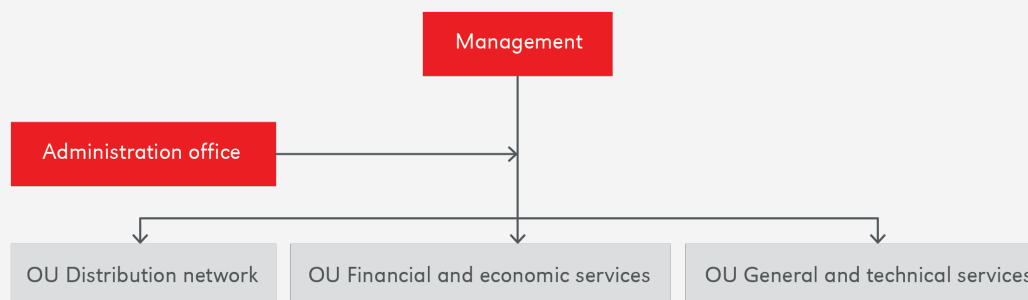
Company management bodies are: management, supervisory board, and shareholders' meeting.

Management

Single-member administration is appointed by the supervisory board of Elektro Gorenjska Company. Management was appointed for a period of four years on September 14 2014. In accordance with the statute the management is authorized for all issues of organization and managing of the company. Based on the law, statute, and rules of procedure of the supervisory board the management of the company is obliged to regularly, exhaustively, and exactly introduce to the supervisory board the course of transactions and company's condition at least four times a year.

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

Figure 6: Organization chart in Elektro Gorenjska Company



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

Supervisory board

Competence and composition of the supervisory board are defined by the statute of Elektro Gorenjska 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. Composition of the supervisory board did not change in year 2014, as a four-year mandate of all shareholders' representatives started, based on the decisions of the 19th general meeting on August 20 2013, while representatives of the employees were elected in year 2011.

Composition of the supervisory board from August 27 2013 was as follows:

SUPERVISORY BOARD EG, D.D.	FUNCTION	TERM OF OFFICE FROM	TERM OF OFFICE UNTIL
Samo Logar	chairman	27. 8. 2013	27. 8. 2017
Leopold Zupan (as a deputy chairman since 12. 9. 2013)	deputy chairman	7. 8. 2011	7. 8. 2015
Andrej Koprivec	member	27. 8. 2013	27. 8. 2017
mag. Tedo Djekanović	member	27. 8. 2013	27. 8. 2017
Elvis Duraković	member	27. 8. 2013	27. 8. 2017
Vojko Oman	member	7. 8. 2011	7. 8. 2015

Audit committee of Elektro Gorenjska, d. d., supervisory board

In year 2011 based on Article 40 of the Statute supervisory board set up the audit committee, while according to the ZGD and its rules of procedure it can also appoint other committees. In year 2014 a permanent audit committee of Elektro Gorenjska, d. d. supervisory board (audit committee) operated. Its mandate started in October 2013 in the following composition:

AUDIT COMMITTEE SB EG, D.D.	FUNCTION	TERM OF OFFICE FROM	TERM OF OFFICE UNTIL
Andrej Koprivec	chairman	3. 10. 2013	27. 8. 2017
Elvis Duraković	member	3. 10. 2013	27. 8. 2017
dr. Andrej Baričič	member	3. 10. 2013	27. 8. 2017
mag. Duško Kapevski	member	3. 10. 2013	7. 4. 2014

Since the termination of office due to death of the external member of the committee Duško Kapevski, Msc, and based on the changes in the Rules of procedure of the audit committee, adopted by the supervisory board at its 10th regular session on May 16

2014, committee has been operating in a three member assembly.

Nomination committee of Elektro Gorenjska, d. d., supervisory board

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

NOMINATION AND HUMAN RESOURCES COMMITTEE SB EG D. D.	FUNCTION	TERM OF OFFICE FROM	TERM OF OFFICE UNTIL
Samo Logar	chairman	17. 4. 2014	27. 8. 2017
mag. Tedo Djekanović	member	17. 4. 2014	27. 8. 2017
Milena Pervanje	member	17. 4. 2014	27. 8. 2017

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

Shareholders' meeting

In year 2014 the management convened one regular session of the general meeting of shareholders, namely on July 2014 there were 88 % of all votes of shareholders entitled to vote present at the 20th regular general shareholders' meeting of Elektro Gorenjska Company. At the meeting shareholders voted on six items on the agenda. Shareholders of the company got acquainted with the revised annual report and consolidated annual report for year 2013, with the auditor's opinion and written report of the supervisory board on the verification and confirmation of the Elektro Gorenjska Company annual report and consolidated annual report of Elektro Gorenjska Group for the business year 2013. General meeting got acquainted with the Report of the supervisory board on implementation of activities in accordance with the recommendation of the Slovenian compensation Company, d. d. (optimization of labor costs).

Shareholders decided on the use of distributable profit, which amounted to 1,466,431.14 € as at 31. 12. 2013. General meeting voted for part of the profit in the amount of 1,384,165.68 € is distributed to the shareholders as dividends. Gross dividend per share amounted to 0.08 €. The remainder of the distributable profit in the amount of 82,265.46 € was allocated to other profit reserves. For business year 2013 a discharge for the management and the supervisory board was awarded.

Due to the partial final decision in the denationalization procedure that returned the denationalization beneficiary several land in kind (port. No. 440/8 k. o. Kranj, and port. No. 445/2 k. o. Kranj in share 932/1067), based on the Article 6 of the company's statute its share capital was reduced by delisting. According to the Article 381 of ZGD-1 share capital of the company reduced by 121,007.92 €, by the delisting of 15,695 ordinary freely transferable no-par value shares of the Republic of Slovenia, which were given free of charge at the disposal of the company, so that the share capital of the company based on this change amounted to

71,898,060.69 € and was distributed to 17,286,376 ordinary freely transferable no-par value shares.

General meeting voted on the complementation of the company's activities (six new activities were added) and on changes and amendments to the company's statute as a result of the share capital reduction and adjustment of certain articles of the statute with the legislation. At the general meeting audit firm Deloitte revizija, d. o. o. was appointed the certified auditor for the business year 2014.

4.6.2 MANAGEMENT AND GOVERNANCE OF ELEKTRO GORENJSKA PRODAJA COMPANY

Company Elektro Gorenjska Prodaja is in 100 % ownership of its founder and sole partner of the company that is Elektro Gorenjska Company. Company has no controlled companies and no investments in the capital of associated and related companies. Financial statements of the company are included in the group financial statements of the parent company Elektro Gorenjska, which is also the final parent company.

Company has been managed by Rudolf Ogrinc, mag. posl. in ekon. ved.

4.6.3 MANAGEMENT AND GOVERNANCE OF GORENJSKE ELEKTRARNE COMPANY

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

Company's director is Aleš Ažman, MBA.

4.7 SHARE CAPITAL AND OWNERSHIP STRUCTURE

4.7.1 SHARE CAPITAL AND OWNERSHIP STRUCTURE OF ELEKTRO GORENJSKA COMPANY

On December 31 2014 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). Each share has the same proportion and appertaining amount in the share capital and equal other rights. All shares are shares of one category.

Elektro Gorenjska shares are not traded on regulated market.

Company has no authorized capital. Like in the previous years, in 2014 the company had no transactions with own shares.

As of December 31 2014 96.95 % of company shares were in the ownership of legal entities, which represent 9.13 % of all shareholders.

Figure 7: Changes in the number of shareholders of Elektro Gorenjska Company from 31. 12. 2010 to 31. 12. 2014

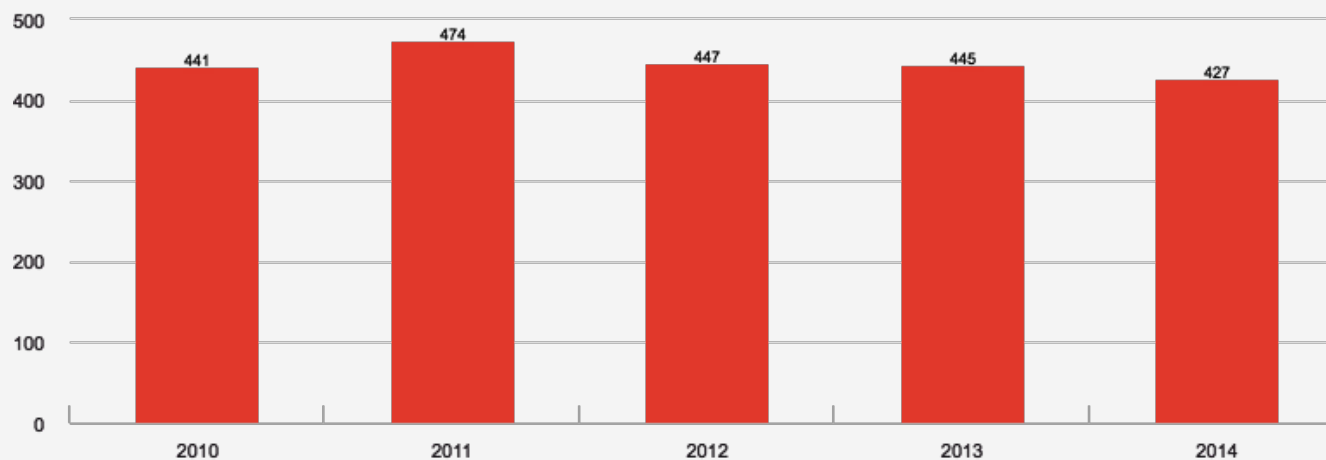
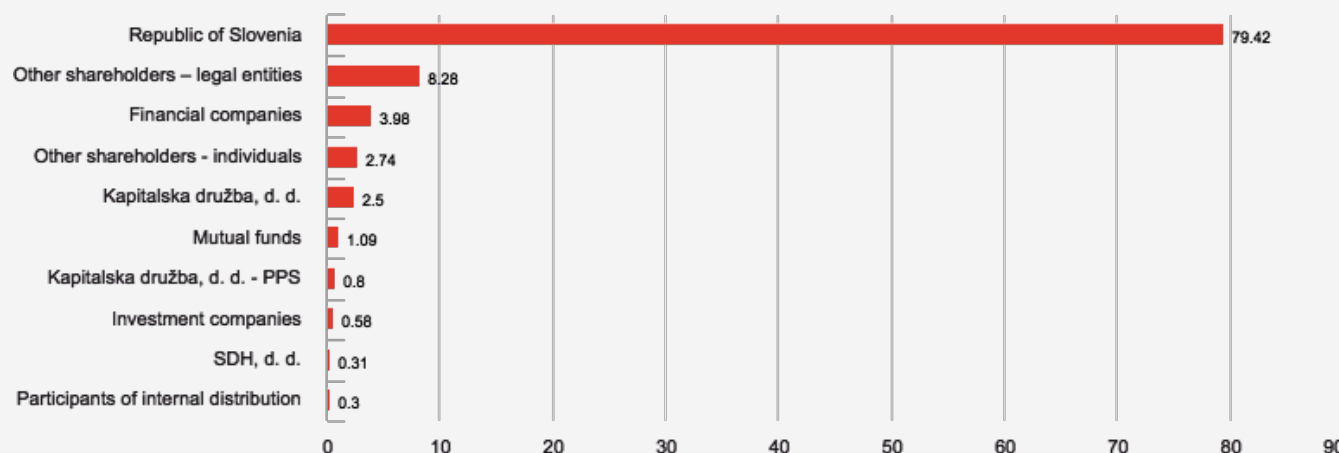


Figure 8: Ownership structure of Elektro Gorenjska Company as of 31. 12. 2014 (in %)



According to the balance as at December 31 2014 the largest shareholder, holding a 79.42 percent share, is the Republic of Slovenia. It is followed by Kapitalska družba holding 2.50 percent share and Sava Re with 1.62 percent share.

Number of owners with a share exceeding 1 % remained the same as in year 2013. As at December 31 2014 the largest ten owners held a total of 91.00 percent share of the company.

Table 5: Share owners with capital share exceeding 1 percent as of 31. 12. 2014

OWNERSHIP EXCEEDING 1 %	NUMBER OF SHARES	IN %
Republic of Slovenia	13,728,882	79.42
Kapitalska družba, d. d.	431,933	2.50
Sava Re d. d.	280,000	1.62
Pivovarna Laško, d. d.	270,648	1.57
Poslovni biro, d. o. o.	236,644	1.37
DUTB, d. d.	207,200	1.20
DZS, d. d.	200,000	1.16
Total	15,355,307	88.83

4.7.2 SHARE CAPITAL AND OWNERSHIP STRUCTURE OF ELEKTRO GORENJSKA PRODAJA COMPANY

Share capital of Elektro Gorenjska Prodaja Company (3,000,000 €) represents an investment in the capital and has been in 100 % ownership of the founder and sole partner of the company - Elektro Gorenjska Company, since its establishment.

4.7.3 SHARE CAPITAL AND OWNERSHIP STRUCTURE OF GORENJSKE ELEKTRARNE COMPANY

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

4.8 VISION, MISSION AND VALUES OF THE GROUP

Vision of the group

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

Mission of the group

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

Values of the group

Knowledge and cooperation

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

Excellence and professional competence

We are target-oriented.

Kindness and openness

We maintain friendship and sociability.

Quality and trust

We induce customers' confidence.

Responsibility and diligence

We assume responsibility.

Business innovation

We implement services and processes in line with market trends.

4.9 ENVIRONMENT ANALYSIS AND ITS IMPACT ON GROUP'S OPERATION

4.9.1 GENERAL ECONOMIC ENVIRONMENT AND FORECASTS OF ECONOMIC TRENDS

Table 6: Data and forecast of economic trends

INDICATORS FOR RS	2014	FORECAST 2015	FORECAST 2016
GDP (growth, %)	2.6	2.4	2.0
Employment (growth, %)	0.7	0.8	0.6
Unemployment (rate %)	13.1	12.5	12.0
Inflation (%)	0.2	0.4	1.4
Average gross salary RS (real growth, %)	0.9	1.1	0.8
Labor productivity – GDP per employee (real growth, %)	2.0	1.5	1.5
Average 3M EURIBOR	0.1	0.4	0.8

4.9.2 KEY STRATEGIC GUIDELINES OF ELEKTRO GORENJSKA GROUP

In August 2014 supervisory board of Elektro Gorenjska Company confirmed the strategy of the company for the next four years. Key elements for implementation of the strategy are strategic projects, which determine concrete tasks and their execution. They are used to define in detail the activities, deadlines, advantages, opportunities and expectations necessary to reach the strategic goals. Advantage of pre-set strategic projects is in quick detection of eventual troubles, additional challenges and meaningful integration with other projects in the company. Strategy of Elektro Gorenjska Company precisely defines seven strategic projects being implemented in the company. They are:

1. Acquisition of own concession for the distribution of electricity

In year 2007 electricity distribution companies lost their status of the public companies. Due to the requirements of the European legislation the concession holder or contractor of the public service of distribution network system operator (GJS SODO) became the company SODO, d. o. o. In practice, this means that all five electricity distribution companies in Slovenia implements most of its services, defined by GJS SODO, in the name and for the account of SODO Company. This way of implementing the public service is financially and organization wise inefficient, every year it causes additional costs and all the more complications to end customers

on one side and electricity distribution companies on the other. It is a fact that electricity distribution is of local character and can only be most efficient when it operates locally. Local distributor, who knows the local area and has its own network, is of key significance for quick elimination of defects and errors. We were able to highly experience the efficiency of electricity distribution companies during the February ice damage, which paralyzed the entire electric power system of Slovenia.

Aim of the strategic project:

With reception of concession for implementation of GJS SODO activities electricity distribution companies will enable end customers significantly more reliable and safe electricity supply, which will not cause any additional and unnecessary costs, while at the same time it will enable long-term cost effective and to individual local environment adapted development of electricity distribution companies.

2. Modernization of calculating measuring systems (AMI)

In the fight against climate change the European Union (EU) committed to reduce the consumption of electricity, increase the share of renewable sources and reduce CO₂ emissions. So the EU requests from the EU member states to equip 80 % of their customers with advanced measuring systems AMI (Advanced Metering Infrastructure) or with smart meters until year 2020, where it is economically possible.

Aim of the strategic project:

By installing the advanced ways of measuring more efficient electricity use will be possible, and it will bring benefits and savings to end customers, distributors and the company that pursues the objective of a low carbon company.

3. Upgrading of distribution management center

Distribution management center (DCV) is an information node of electric power system of Elektro Gorenjska. Its main function is to control and manage the electric power system of the company. Project is of extreme significance for reliable operation of electric power network of entire Gorenjska region. Existing distribution management center in Elektro Gorenjska needs an appropriate upgrade of its hardware and software equipment urgently, as the upgrade would provide further progress, inclusion of new functions and above all additional reliability of operation.

Aim of the strategic project:

Distribution control center should enable reliable, safe and optimal management and control over the Elektro Gorenjska network.

4. Integration of technical information systems

For smooth, and above all high-quality transmission of information, clear and transparent final connection of information systems of various providers and/or suppliers of Elektro Gorenjska Company, is vital. Introduction of integration platform CIM (Common Information Model) will enable greater regularity and transparency of technical data managed with in Elektro Gorenjska. Due to the technology the project is based on, the platform will also enable the possibility of automation of communication and information transfer.

Because of the possibility of international data exchange on the level of transmission the CIM platform has already been established, while on the distribution level it is still in its infancy in Europe. In Elektro Gorenjska by being among the first to set to the integration of technical information systems, we are proving to be one of the most advanced electricity distribution companies in Europe.

Aim of the strategic project:

Aim of the integration of technical information systems is a more orderly and optimal operation of information systems, power systems and Elektro Gorenjska Company, which is independent from individual producers, and above all it enables automation of communication.

5. Modernization of ERP information system

In the past all Slovenian electricity distribution companies, including subsidiaries, dealing with sale and production of electricity, used a uniform information support. With changed conditions in the energy field and spinoff of market parts in year 2011 electricity distribution companies and electricity suppliers got the opportunity to form own business models, which includes also forming a sovereign and independent information support, which will be useful for end users as far as possible. In year 2011 Elektro Gorenjska Company decided to ensure proper information system, which will enable undisturbed implementation of company's strategy. Subsidiary Company Elektro Gorenjska Prodaja (EGP) also acceded to the renovation of the information system aimed at creating an independent information system. In year 2012 and 2013 specific segments of calculating the network charge, including the balances on accounts for network charge, and support to the life cycle of customer. Since 2014 the second stage of the information system renovation has been taking place, which includes renovation of financial and accounting services, renovation of material storage operations, renovation of human resources field and integration of the mentioned system with the existing information systems used in Elektro Gorenjska Company. Renovation of the above mentioned areas will be executed in the same way also in Gorenjske elektrarne Company.

Aim of the strategic project:

With the modernization of information system users will be able to use a proper and up-to-date information ERP system, this will enable more efficient, but above all more economical management of the company.

6. Management of organizational culture

The aim of each company is that employees identify with the company as a whole. This way namely affiliation to the company strengthens, which further contributes to self-realization and growth of employees as well as organization efficiency of the company.

In order to raise the level of organizational culture in companies of the group, strategic project was based with its main goals being the following:

- raise constructive behavior of employees (independence, assuming responsibility, team work, collaboration, goal orientation etc.),
- reduce passive defense behavior (avoiding responsibility etc.),
- reduce aggressive defense behavior (addressing the shortcomings, doubting the decisions, verification of foreign decisions etc.) and
- achieve higher commitment and increase the rate of constructive behavior of employees.

Special attention within the project is put on the development of leading and mentorship, which refers directly to the Heads of Services. One of the goals is to measure the effectiveness of the leaders and their influence on the organizational culture.

Aim of the strategic project:

To increase commitment of employees and increase constructive behaviors and as a result reduce passive and aggressive defense behaviors.

7. Connection of subsidiaries with strategic partners

After the spinoff of subsidiary sale and distribution companies, which the electricity distribution companies had to execute in year 2011 in order to adapt to the European legislation, these companies faced new opportunities and challenges of operation in the competitive environment. In order to achieve economies of scale, and above all for subsidiaries to grow further, the distribution companies started to look for synergistic effects with the possibility of companies interconnection. In year 2012 Elektro Gorenjska Company signed a letter of intent with the objective of connecting the Elektro Gorenjska Prodaja Company with Holding Slovenske elektrarne Company. Due to the different course of events and activities in the energy sector more concrete talks on a merger of

companies did not occur, so in the company we started to look for new connection possibilities. In doing so, we have already in the baseline had most agreement with Elektro Celje Company or its subsidiary Elektro Celje Energija (ECE). In order to form a sustainable and efficient business model, we simultaneously acceded also to horizontal connection of production subsidiaries -- Gorenjske elektrarne and Celje Company MHE ELPRO. In September 2014 the letter of intent was signed for interconnection of companies.

Aim of the strategic project:

Ensure economic and financial stability and long-term development of electricity producing and selling companies by means of strategic connection among companies.

Key strategic guidelines of Elektro Gorenjska Prodaja Company are:

- To achieve economies of scale to the extent that it ensured competitive offer on the market – on our own or in the connection with the strategic partner. This means growth of market share in all segments (GO and PO) and introduction of cross-selling with new products.
- To achieve recognition among customers that EGP is the best supplier for its service, not necessarily price.
- To control risk in purchase and sale of electricity and reach competitive prices both on sales and on the cost sides.
- To ensure company that will be innovative, professional, proactive and flexible by means of suitable personnel and information system.

The detailed objectives and tasks in the future of Gorenjske elektrarne Company are:

- To become a leading producer of environment friendly energy.
- To become a recognized service provider for increasing energy efficiency.
- To expand production activities abroad.
- To exploit new business opportunities associated with energy environmental protection.
- To set up and market its own system for centralized control over data of energy consumption.
- To expand activities by acquisition of MHE ELPRO Company.
- To implement new information system.

4.9.3 ENERGY LEGAL ENVIRONMENT OF GROUP'S OPERATION IN YEAR 2014

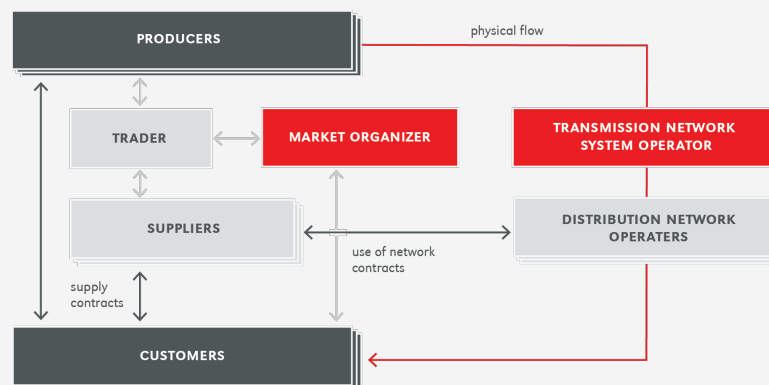
In its operation in year 2014 the group considered the following fundamental legal and other basis:

- 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,
- Act concerning the reporting of data on quality of electricity supply,
- 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,
- Act determining the methodology for setting the network charge and the criteria for establishing eligible costs for electricity networks, and the methodology for charging for the network charge,
- Decision of the Energy Agency of RS (Agency) on the regulatory framework for the holder of activity of the electricity distribution system operator for the period 2013–2015,
- Price list for the use of network (network charge and supplements to the network charge),
- Fee to assure support to security of supply with electricity from domestic primary energy,
- 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 the terms and conditions and methods of borrowing by legal entities from Article 87 of the Public Finance Act,
- Ministry of finance,
- Ministry of infrastructure,

- Ministry of economy ,
- Energy Agency of the Republic of Slovenia,
- Slovenian Sovereign Holding (SDM),
- Capital Assets Management Agency of the Republic of Slovenia,
- Contract with SODO Company and associated annexes,
- Waters Act,
- Construction Act,
- Environment Protection Act,
- Excise Duty Act.

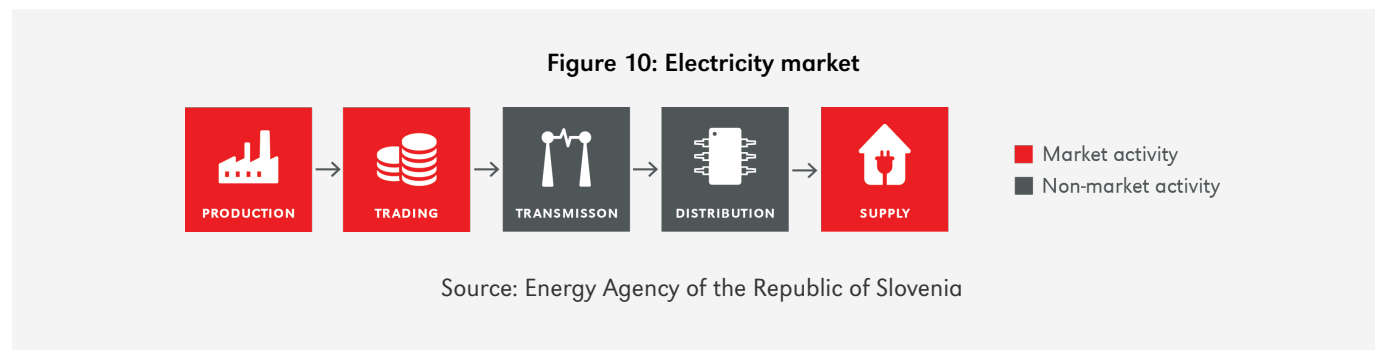
Participants on the electricity market are producers of electricity, electricity traders, and suppliers supplying electricity to end customers. From electric power stations to customers electricity is transmitted through transmission and distribution networks, which are the responsibility of electricity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

Figure 9: Supply model



Source: Energy Agency of the Republic of Slovenia

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. Opening of the market for household customers enables also selection of electricity in terms of the manner of production or in terms of the used energy source.



Final price of supplied electricity for the customer that is charged with the network charge together with the consumed electricity by the electricity supplier is composed of the following:

- electricity price formed freely on the market,
- price for the use of network:
 - network charge for transmission and distribution (determined by the agency),
 - network charge for system services (determined by the agency),
 - additions to the network charge (determined by the government):
 - covering the operating costs of the agency,
 - covering the operating costs of the market organizer, except costs for the execution of activities of the Support Center;
- contributions:
 - contribution for ensuring support for the production of electricity from high-efficiency cogeneration and renewable energy sources (OVE and SPTE) (determined by the agency based on the regulation and government consensus),
 - contribution to increase the efficiency of electricity use (URE) (determined by the government);
- contribution to increase the efficiency of electricity use (URE) (determined by the government);

- value added tax (determined by the government).

Price of electricity is determined by electricity suppliers and is formed freely on the market. The legal relationship between customers and suppliers is determined by contract on purchase and sale of electricity and general conditions, which differ for household and business consumption.

Price for the use of network is price paid by the electricity consumer to access the network, and includes network charge, determined by the agency, and addition to the network charge, determined by the government of RS. Network charge is intended for payment of implementation of provision of an electricity TSO and DSO service of general economic interest and covering the system services costs. Additions to the network charge are intended for covering the costs of agency operation and operation of market organizer Borzen, except costs of implementation of activities of the Support center.

Contribution for ensuring support for the production of electricity from high-efficiency cogeneration and renewable energy sources (OVE and SPTE) is based on the Decree on the method of determining and calculating the contribution for ensuring support for the production of electricity from high-efficiency cogeneration and renewable energy sources (Official Gazette RS, No. 36/2014). Amount of contributions paid by end-users of electricity depends on the power and voltage level of the pick-up-delivery point, category of customer and purpose of electricity use and is calculated per kW of the calculated power of end-user on a monthly basis. Contribution for increasing the electricity use efficiency (URE) is based on the Decree on energy savings at final customers.

Excise duty on electricity is determined by the Government of the Republic of Slovenia as the revenue of the state budget. In year 2014 excise duty for non-business use (household consumption) and business use (industrial consumption) amounted to 3.05 € for each MWh of electricity consumed.

Value added tax (VAT) is determined by the Government of the republic of Slovenia as the revenue of the state budget and is calculated in the amount of 22 % per net price of electricity (composed of all presented elements).

Revenues from network use or network charge are by definition revenue of SODO. Bills are charged to end-users by Elektro Gorenjska, Elektro Gorenjska Prodaja and other suppliers on its own behalf and on behalf of SODO.

4.9.4 CONTRACT WITH SODO COMPANY

At its 3rd extraordinary session on February 27 2012 the supervisory board (composition of SB with a term until August 26 2013) gave its consent to the Contract on electricity infrastructure lease and provision of services for electricity distribution system operator used since January 1 2011 onwards, but under the condition that the management of the Elektro Gorenjska Company, in accordance with the opinion of the law firm, prepares a written proposal for changing certain provisions in the contract that Elektro Gorenjska Company does not agree with as they are in conflict with business interests of the company. More explanation on its reservations can be found in [chapter 14.1 – Transactions with SODO Company](#).

For year 2014 management of the company concluded Annex No.3 to the Contract on electricity infrastructure lease and provision of services for electricity distribution system operator (hereafter Annex No. 3).

Annex No. 3 regulates in more detail the provisional amount of the rent, services, and losses for year 2014 (as a basis for invoices issued to SODO by Elektro Gorenjska), preliminary account of the 2014 regulatory years and implementation of services that Elektro Gorenjska in its own name and on behalf of SODO charges directly to the users (i.e. superior services).

These activities include besides leasing the electricity distribution infrastructure also implementation of contractually agreed services, which in general can be classified into the following categories:

- electricity infrastructure maintenance and organization of emergency service,
- management and operation of electricity distribution network,
- development, planning, and investing in electricity distribution infrastructure,
- preparation and management of investments,
- 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.

Among other services most important are transactions of electricity purchase for sustaining, urgent supplies, unauthorized consumption, and losses. More on the latter is explained in [chapter 4.9.5 - Electricity losses in network](#), while supplies in [4.9.6 - SODO Company supply](#).

Also under this 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. 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 (there are approximately 2,400 separate network charge bills per month; most, namely 66 % of total electricity distributed in the distribution area of Elektro Gorenjska are business customers) on the transaction account of the Elektro Gorenjska Company.

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, which represent revenues from renting the electricity distribution infrastructure and revenues for implementation of different services for SODO Company. Details are presented also in [Chapter 16.1 - Net sales revenues](#)).

4.9.5 ELECTRICITY LOSSES IN NETWORK

Losses of electricity in the network occur due to:

- physical losses of electricity, which are the consequence of transformation, transmission, dynamics and manner of electricity use;
- proper use of electricity, which includes use of electricity for protection and measurements;
- losses due to unauthorized consumption of electricity or electricity theft.

Under the Contract with SODO and in accordance with the regulations (Decision of JARSE on regulatory framework) the company is entitled to appropriate income in regards with the costs of purchase value for purchased electricity for covering losses in its network (please see also Accounting report, [chapter 16.1 - Net sales revenues](#)).

4.9.6 SUPPLY OF SODO COMPANY

Transactions of the GJS SODO, which is implemented within Elektro Gorenjska Company, include also transactions of purchasing the electricity for sustaining supply, urgent supply and for unauthorized consumption. Company has been obliged to implement these kinds of transactions on the basis of the long-term contract with SODO Company as explained in [chapter 4.9.4. - Contract with SODO Company](#).

Contents of transactions of sustaining supply, urgent supply, and unauthorized consumption is defined in detail in regulations, above all in General Conditions for connection to the distribution electricity system (Official Gazette RS, No. 126/2007; hereafter also SPDOEE). SPDOEE defines in detail the methods, conditions, and manner of charging the end users for these services.

Urgent supply is supply of electricity to vulnerable customers which is urgently needed according to the circumstances (season, housing conditions, place of residence, financial conditions...) in order to prevent threatening of life and health of customers and people living with them; all costs of the supplier are covered from the price for the use of network (Article 2 of SPDOEE). According to SPDOEE costs of urgent supply are covered by SODO Company from the network use price.

Sustaining supply is supply of electricity to end users, in accordance with the provisions of the Energy Act and Decree on the method for the implementation of public service obligation relating to the electricity distribution system operator (Article 2 SPDOEE). SODO has to ensure the sustaining electricity supply to those customers, whose supplier terminated the supply contract as the result of the supplier's insolvency. If customer has no supplier, SODO has to ensure the sustaining supply under certain conditions also to the request of a household customer and customer engaged in economic or other activity with less than 50 employees and annual turnover of less than 10 million €. Sustaining supply can last for no more than 60 days, but the customer can ask for extension. According to SPDOEE conditions of sustaining supply and pricelist with prices of sustaining supply electricity are determined by SODO, in accordance with the Energy Act, in advance and through their public notice.

Unauthorized consumption is considered to be, when:

- customer is connected to the network without an appropriate access contract and supply contract, but with conditions for sustaining or urgent supply not being fulfilled,
- user consumes electricity without the requested or agreed measuring devices or pass them or when the user prevents correct registration of measuring data,
- sealing device has been removed from the measuring devices,

- user connects to the network arbitrarily,
- user gives incorrect information for determining the supply category.

In events from the previous paragraph, after the quantities are measured, SODO Company charges the user for electricity used without authority and use of network in quantities measured by the measuring devices and at price equal to the price of electricity of the higher day tariff for sustaining supply on the date of the bill, increased by 30 %. In calculating the use of network the calculated power is considered for the period from the connection to the day of establishing such connection to the network being made. Besides the costs of used electricity and costs of network use SODO Company charges the user with costs of switch off and costs of establishing the unauthorized consumption.

Please see also Accounting Report, [chapter 16.7 – Cost of goods sold and materials used](#) and [chapter 16.1 – Net sales revenues](#).

4.9.7 SCHEDULE DEROGATIONS

Basis for charging schedule derogations is determined by regulations regulating the electricity market.

Derogations of balance groups are established by market organizer through calculating the difference between the entire actual realization of the balance group and announced schedule of the same balance group. Market organizer also establishes derogations for each balance subgroup, namely by calculating the difference between entire realization of the balance subgroup and announced schedule of the same balance subgroup.

It is determined that each delivery points has to belong to exactly one balance group and balance subgroup, but it can have any number of supply contracts with only one of them being an open contract. Balance group derogations between purchased and actually consumed electricity will be charged to the responsible of the balance group on behalf of the transmission network system operator (hereafter SOPO) that balances derogations on the level of electricity system by the electricity market organizer Borzen. SOPO charges for the schedule derogations to the responsible of the balance group. Latter then charges the derogations to its balance subgroup members. Elektro Gorenjska Prodaja Company is included in the balance group Holding Slovenske elektrarne.

Mentioned transactions are presented in Accounting report, in [chapter 14.3 – Accounts of electricity purchase – schedule derogations](#).

4.9.8 GENERAL CONDITIONS FOR THE SUPPLY AND CONSUMPTION OF ELECTRICITY FROM THE DISTRIBUTION NETWORK

General conditions for connection to the distribution electric system are approved by the Government of the Republic of Slovenia (Official Gazette RS, No. 126/07). As relations among the participants of the market changed significantly on July 1 2007 the existing Decree on general conditions for the supply and consumption of electricity was so deficient that new general conditions needed to be adopted which solve the most problematic relations between the contractors.

General conditions determine the following:

- relations between SODO Company and consumers,
- connection to the electricity distribution network,
- consumption and transmission of electricity,
- measuring devices and measurement of electricity,
- billing, billing method and paying for the use of networks,
- relations between SODO Company and electricity suppliers,
- relations between consumers and electricity suppliers,
- records of measuring points and
- quality of SODO Company services.

4.9.9 WATER ACT

Water act (Official Gazette RS 14/2014) regulates water, and water and waterside land management.

Company as the holder of water right is liable to payment of water fee in the pro rata amount of the water right. Manner of determining the amount of the water fee, method of billing, assessments and payment of water fee are defined in more detail in the Decree on the water fee (Official Gazette RS No. 103/2004 and Official RS No. 122/2007). Basis for the calculation of the water fee is potential water energy available for electricity production in accordance with the acquired water right, expressed in MWh. Price for the water fee basis is determined by the Government of RS until December 31 of the current year for the next year.

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

Concession fee for water is calculated in the amount of 3 % - 4.2 % of the average sales value of produced electricity, depending on the watercourse. Average sales value per kWh of electricity is determined by the decision of the competent ministry. For year 2013 average sales value per kWh amounted to 0.04 € (Official Gazette RS No. 96/2013).

4.9.10 CONSTRUCTION ACT

Construction act (Official Gazette RS, 102/04 (ZGO-1-UPB1), 14/05 – corrigendum, 92/05 (ZJC-B), 111/05 (Constitutional Court's Decision), 93/05, 120/06 (Constitutional Court's Decision), 126/07 (ZGO-1B), 108/2009, 57/2012, 101/2013, 110/2013, 17/2014) regulates the conditions for construction of all kinds of works, sets out the essential requirements and the fulfilment thereof regarding the characteristics of works, prescribes the method and conditions for pursuit of the activities, relating to construction, regulates the organization and field of work of the two professional chambers, regulates inspection and supervision, sets out the sanctions for violations, related to construction of works and regulates other issues related to construction. Construction according to this act includes design, construction and maintenance.

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

4.9.11 ENVIRONMENT PROTECTION ACT

Environment protection act (Official Gazette RS, 39/06 (ZVO-1-UPB1), 28/06 (Constitutional Court's Decision), 49/06 (ZMetD), 66/06 (Constitutional Court's Decision), 33/07 (Spatial planning act), 57/08 (ZFO-1A), 70/08 (ZVO-1B), 108/2009, 48/2012, 57/2012, 92/2013) regulates protection of environment against the burdening as a prerequisite for sustainable development and in this framework it defines basic principles of environment protection, environment protection measures, monitoring of environment and information about the environment, economic and financial instruments of environment protection, public utilities in environment protection and other environment related issues.

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

4.9.12 EXCISE DUTY

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

In year 2014 excise duty for electricity for business and non-business use amounted to 3.05 €/MWh (Official Gazette RS, No. 61/10).

5 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.

Quality management system as a system is only established in the parent company Elektro Gorenjska (outlined in 5.1).

Subsidiary Gorenjske elektrarne acceded to establishment of the quality management system according to requirements of ISO 9001 standard in year 2014.

5.1 INTEGRATED QUALITY MANAGEMENT SYSTEM (ISVK) OF ELEKTRO GORENJSKA COMPANY

Beginning of the quality management systems development in Elektro Gorenjska, d. d., Group dates back to year 2001 when we started describing operating processes with which the companies were realizing their mission, vision, objectives and strategies or development policies. Inventory of processes was the basis for setting up the quality management system according to the standard ISO 9001 (system SVK), which establishes requirements and principles of quality management and can be called the basis for establishing systems according to the requirements of other ISO standards.

In year 2006 the group upgraded the quality management system with the environmental management system (system SRO), based on the requirements of standard ISO 14001. System SRO is completely integrated in the quality management system and ensures meeting of environmental legislation requirements and constant improvements by reducing impacts on the environment caused by activities of the company with their operation.

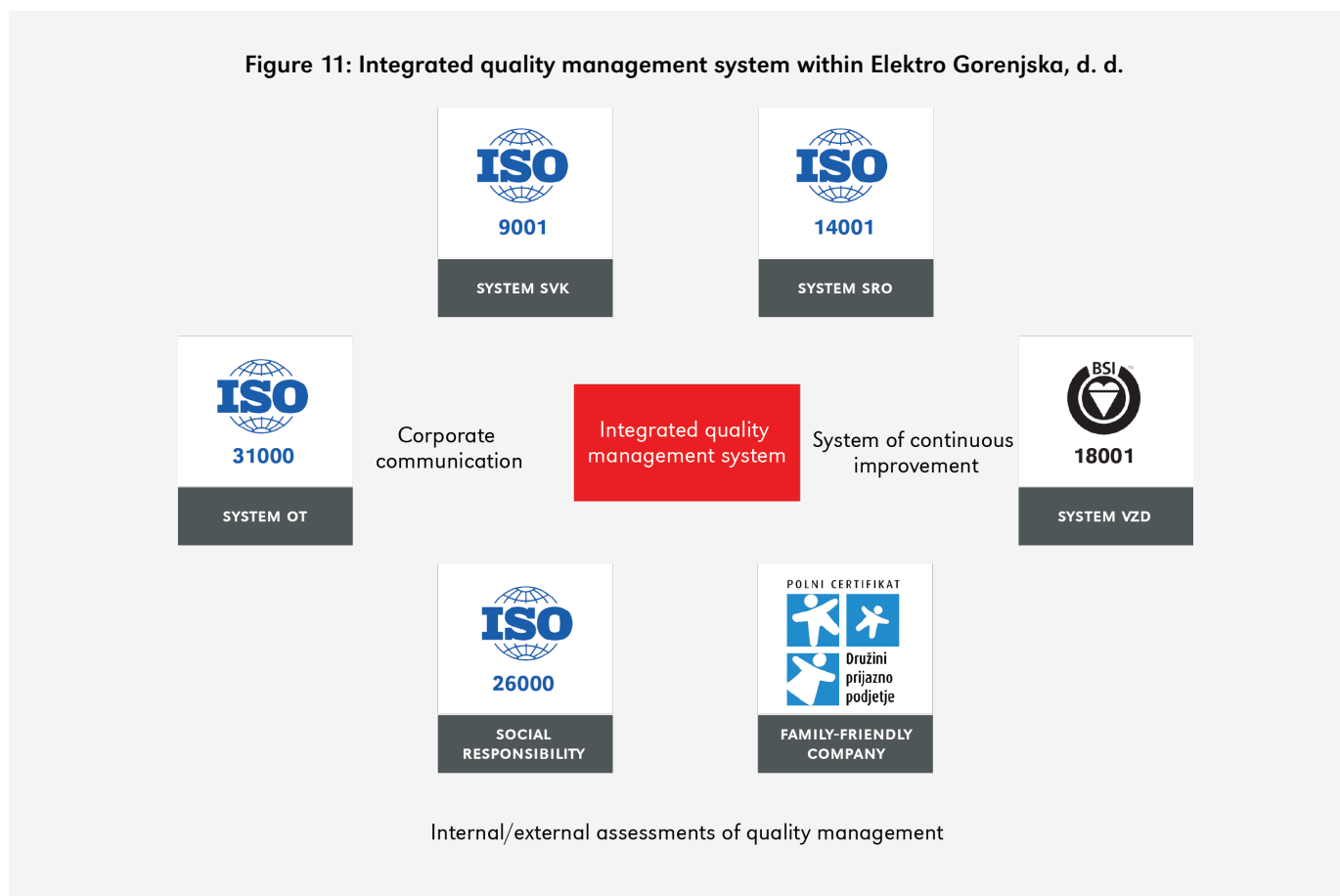
In year 2007 the group upgraded the management system with the health and safety at work management system (system VZD), which is also completely integrated in the existing system and ensures meeting of health and safety at work legislation, additional requirements and objective the company set in this field in accordance with the specifications of standard BS OHSAS 18001.

Besides the above stated requirements of the certification management systems (Systems SVK, SRO and VZD are certification systems, which means that meeting of standard requirements are verified annually by an independent organization (certification)) in year 2011 the group acceded to meeting the requirements of three non-certification systems:

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

With the introduction of integrated management system all activities have been connected into an efficient system, which leads to the realization of the vision, strategy, and mission as well as enables risk management and good business cooperation with final customers, employees, owners and society.

Figure 11: Integrated quality management system within Elektro Gorenjska, d. d.



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

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

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

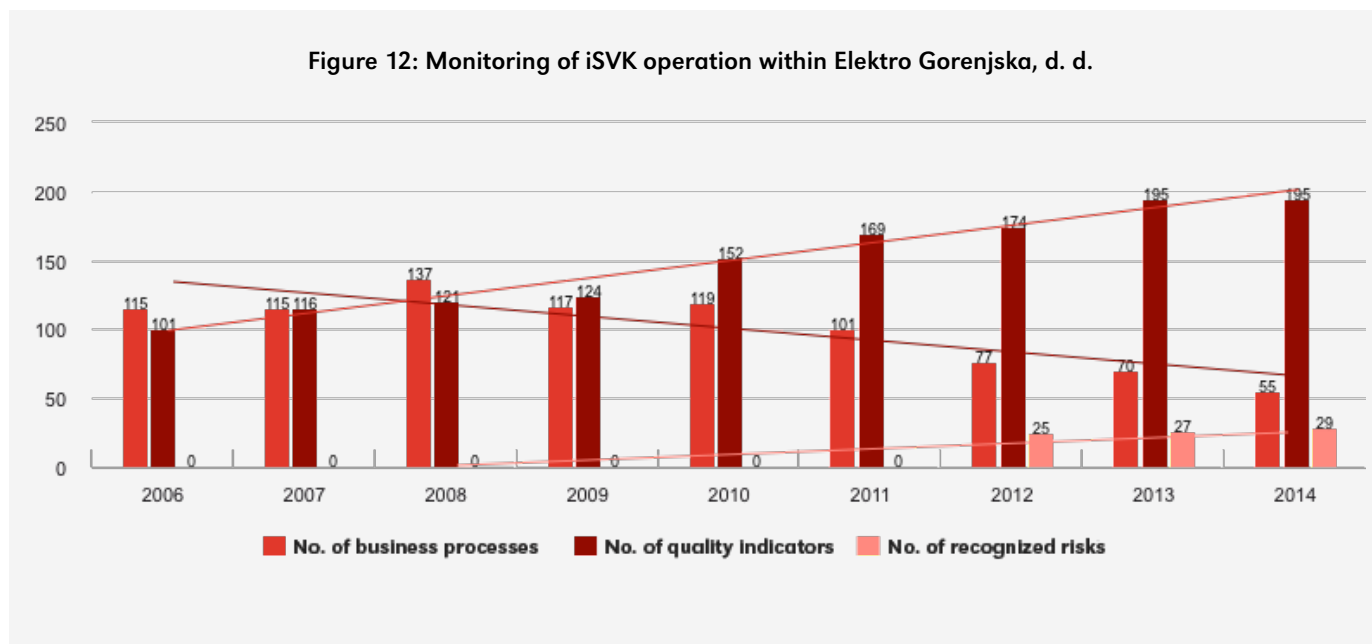


In Elektro Gorenjska Company we continuously implement improvement processes in accordance with the European model of business excellence (EFQM). Proof of our excellence and comparability on the European level is also EFQM certificate, which put us in the base of successful European organizations, which operate and live according to the EFQM model, which of course means the company is committed to constant improvements and constant growth on its way to excellence.

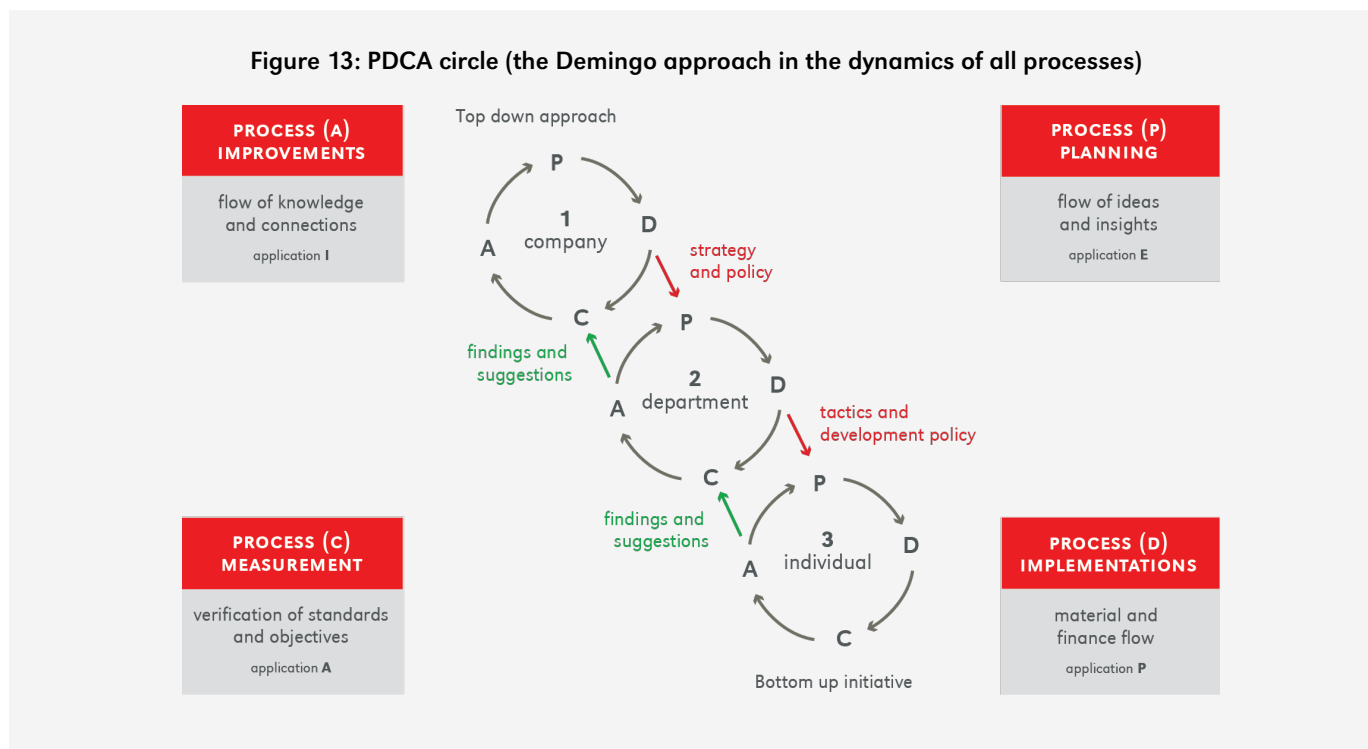
Systematic implementation of policies, strategies and objectives and organization plans are enabled by clear and mutually linked processes, which are optimized, managed, controlled and improved every day. Results of continuous activities in all fields of operation have been verified through self-assessment since 2013 onwards.

In year 2014 Elektro Gorenjska Company monitored and controlled its business with 55 recognized and mutually connected business processes, which are managed with the help of laws, organization rules and work instructions. Functioning of business processes was monitored with the help of 195 established quality indicators and 29 recognized risks.

Trends of quality implementation of individual business processes in Elektro Gorenjska Company are verified quarterly and discussed at the quality committee, where it is also reported on activities of other management systems.



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



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

In year 2014 there were 80 proposals –measures and improvements, submitted contributing to system operation as well as stimulating the employees to seek for improvements and additional measures that have a favorable influence on good business and stimulate additional commitments of the employees and environment management. Like every year in year 2014 we successfully passed the external assessment of certification management systems. There were no non-compliances established, and 24 recommendations given, which were systematically discussed and taken into account.

Quality policy was realized by the vision of reaching our set long-term goals:

- introduction of standards for quality and reliable supply of final customers with electricity in their distribution area, which is the main goal of Elektro Gorenjska, d. d.,
- gradual reduction of operating costs and improvement of business processes,

- systematic increase of quality management through the introduced standard ISO 9001/2008,
- commitment to quality increase in the field of environment management system ISO 14001,
- commitment to increase of quality in the field of health and safety at work OHSAS 18001/2012,
- customer-friendliness and increase of customer satisfaction,
- increasing employee satisfaction, which is established also by annual interviews and surveys,
- commitment to systematic analysis and assessment of already recognized risks and constant recognition of new ones,
- commitment to continuous improvements in all certified quality systems,
- systematic management of identified risks.

Long-term goals of the company in the field of quality management system are thus the following:

- Care for constant informing, training, and motivation of all employees, which results in higher employee loyalty.
- Realizing quality operation is set towards reducing the operating costs and at the same time high professional level of activity implementation.
- 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.
- Management enables conditions and methods to establish and maintain a quality system by providing constant quality.
- Constant maintenance of the continual improvement system on the quality management system (SVK), quality environmental management system (SRO), health and safety at work quality system (VZD) as well as on the risk management system (OT).
- Company's operation and development planning.
- Continual education, training, and targeted training for employees.

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



Majority of measures adopted in 2011 will be implemented in the future too. As we have realized during these three years that certain measures have not given us the desired effects, we replaced them during the procedure of obtaining a full certificate. We added three new measures meaning that in the following three years we will be implementing a total of 16 of family friendly

measures.

Certificate holder is Elektro Gorenjska Company, but due to equal policy in the field of social responsibility also the two subsidiaries Gorenjske elektrarne and Elektro Gorenjska Prodaja committed to implementation of all measures.

With the selected measures the company strives for general well-being of its employees at their workplace and with it is giving them the message that it cares for them and that they were the contributors to the joint achievements and successes.

5.2 RISK MANAGEMENT

Risk management Management of risks is an important condition for successful and efficient reaching of the set long-term business goals. Comprehensive risk management system thus includes recognition, assessment, planning and implementation of responds as well as informing, communicating and controlling of risks and measures for their control, including reporting on the risks the individual company is or could be exposed to in its operation.

Companies within the Elektro Gorenjska Group meet various risks in their operations, but they manage them each in its own way.

Foundation of risk management is their identification and assessment of individual risk severity. Risks recorded in the catalog of risks are constantly monitored and regularly assessed in terms of their severity. Risk severity is assessed as a product of two dimensions of risk: probability of risk materialization and damage extent, which materialization of the risk could represent for the company. Occurrence of loss or damage as a result of risk materializations can have negative influence on the business success of the company.

All companies in the group have adopted formal policy for recognition, evaluation and controlling the risks.

Figure 14: Risk severity

	1 MINOR IMPACT	2 SMALL IMPACT	3 MODERATE IMPACT	4 BIG IMPACT	5 CATASTROPHIC IMPACT
1 ALMOST IMPOSSIBLE	Medium and low risk	Medium and low risk	Medium and low risk	Significant	High risk
2 VERY UNLIKELY	Medium and low risk	Medium and low risk	Significant	Significant	High risk
3 POSSIBLE	Medium and low risk	Significant	Significant	High risk	High risk
4 VERY LIKELY	Significant	Significant	High risk	High risk	High risk
5 ALMOST CERTAIN	Significant	High risk	High risk	High risk	High risk

Medium and low risk
 Significant
 High risk

The highest authority of the risk management in Elektro Gorenjska Company is Committee for Quality. In subsidiaries the main authority of risk management is collegiate body of the company's director.

Responsibilities and obligations of the Elektro Gorenjska quality committee or college of director in subsidiary companies include the following:

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

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

Assessment of the effectiveness of risk management and internal controls is given by the internal auditor.

Identified risks can be combined into five groups according to their contents or sphere of influence:

- strategic and regulatory risks,
- financial risks,
- procedural and operating risks,
- market and external risks, and
- legal risks and compliance risks.

Strategic and regulatory risks

Legislation and regulations have a key influence on the operation of Elektro Gorenjska Group. Group companies, above all the parent company and Gorenjske elektrarne, operate in industries in which revenues depend significantly on existing regulations.

For the parent company, which realizes majority of its revenues from regulated activity of the implementation of the tasks of the distribution network operator, the two key risks in terms of regulations are:

- Methodology of AGEN-RS and other regulations in the electricity distribution field: Income from rental of infrastructure, payments of electricity for losses and payment for services rendered are defined by JARSE with the Act determining the methodology for setting 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 reduction of business efficiency of the company or change in legislation or regulations. Company controls this risk by optimizing its business processes, limiting the rise in the cost of common services and actively involving in the processes of drafting the rules, laws and regulations through interest groups.
- Amendment to the contract with SODO: Annual modifications of the Contract with SODO contain more and more provisions which are unfavorable for the company. In the future transfer of ownership of the company's assets to SODO could occur or transfer of cash flows of the company to SODO. All mentioned has been reducing the autonomy of EG business. In the company we strive to obtain concessions for the implementation of SODO activities.

For Gorenjske elektrarne significant impact could represent the eventual change in regulations in the field of production supports for electricity from renewable energy sources and co-generations. Company produces electricity in water and solar power plants and cogenerations, and is thus eligible for production supports which amounted to 14 % of company's revenues in year 2014.

Financial risks

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

- foreign exchange risks of customer payments;
- liquidity risks;
- interest risks;
- improper payment of EG services by SODO.

Most important measures for controlling financial risks include:

- ongoing monitoring of outstanding receivables and proactivity in their recovery;
- optimization of stock;
- security for claims and charging interest on late payments;
- establishment of a system for managing liquidity among companies in the group;
- interest rate swaps and maintenance of relatively low levels of debt financing.

Procedural and other operating risks

They are risks related to design, implementation and control of business processes and activities in the company by providing appropriate functioning of the information systems. The most important ones for the companies in the group are the following:

- non-compliance with requirements of voltage quality, continuity and commercial quality;
- reduction of quantities of electricity distributed;
- failures and averages on the Elektro Gorenjska network and Gorenjske elektrarne production plants;
- security, performance and availability of the proper information system;
- lack of adequate staff;
- reduction of network efficiency;
- risk of serious injury and death at work;
- risk of weather conditions in production of electricity.

Companies in the group control the mentioned risks by:

- constructing quality distribution network based on long-term development plans and implementation of necessary maintenance;
- planned maintenance and continuous monitoring of production facilities;
- planning the development of the network in close cooperation with local communities, thereby ensuring that maximum utilization of the network;
- systematic human resources policy, which is implemented for all companies in the group by human resources service of the parent company;
- compliance with safety regulations, use of adequate personal protection equipment and continuous education of employees about safe work;
- two-stage system checks of the access to the information system, ensuring continuous operation, backup location and implementation of penetration tests;
- diversification of production resources which reduces dependence of Gorenjske elektrarne revenues from hydrological conditions.

Market and external risks

They refer to the risk of market price changes (for example electricity price) or additional external factors, which can affect the group (for example labor market changes). Subsidiary companies Elektro Gorenjska Prodaja and Gorenjske elektrarne are primarily exposed to the market risk.

Elektro Gorenjska Prodaja faces market risks due to uncertainties regarding the quantities of sold electricity and changes in purchase and selling prices. Company controls the risk by announcing consumption and time spread purchase based on analysis of market trends and use of futures contracts for electricity purchase and sale. Gorenjske elektrarne are exposed to market risk due to fluctuations in selling prices of electricity. Company controls the risk by determining the moment of sale based on the ongoing monitoring of market trends. In the SPTE segment the company controls the risk by selling in the guaranteed purchase system and by simultaneous correlation of the purchase price to changes in the price of natural gas as an energy source.

Legal risks and compliance

Legal risk means potential loss due to uncertainty in legal procedures. It refers mainly to denationalization procedures, individual labor disputes and other litigation matters, where one of the companies in the Elektro Gorenjska Group is involved as a party.

Compliance includes risk of legal and regulatory sanctions, which can cause material and financial losses or loss of reputation of the company due to non-compliance with rules, regulations, related standards, codes of conduct, recommendations and internal company rules.

Companies control legal risks primarily through the legal department of the parent company. Where they deem it appropriate and reasonable they also use services of external legal experts. To ensure compliance of operation in addition to companies' managements all individual heads are responsible as well.

As the most important legal risk we expose risk of unfavorable result of the denationalization procedures in progress, which could impact operation of the parent company and Gorenjske elektrarne. Risk is presented also in the financial report in [chapter 14.2 – Disputes in progress and related provisions](#).

Internal audit

Internal audit within Elektro Gorenjska Company has operated as an independent service since 2012. Functionally it reports to the audit committee of the supervisory board, and administratively directly to the chairman of the board. It is responsible for all companies in EG group. Basis for its operation is a document on internal audit confirmed by the management and supervisory board of EG.

Goals of the internal audit's operation are to provide assurances regarding risk management in group companies and adding value by counselling on all levels of risk management, protection of property and improvement of efficiency and quality of operation.

Annual plan of internal audit's operation is prepared on the basis of risk analysis of companies in EG group. It is adopted by the management and supervisory board of the company. Internal audit reports on its work and findings regularly to the management of EG and quarterly to the audit committee. This way the management and audit committee are informed about all audits, their findings and recommended measures or improvements.

In year 2014 internal audit conducted nine audits. Special attention was put in the field of orders and investments as well as management of credit and market risks. Besides that it regularly monitored realization of submitted recommendation.

6 BUSINESS ANALYSIS OF THE GROUP

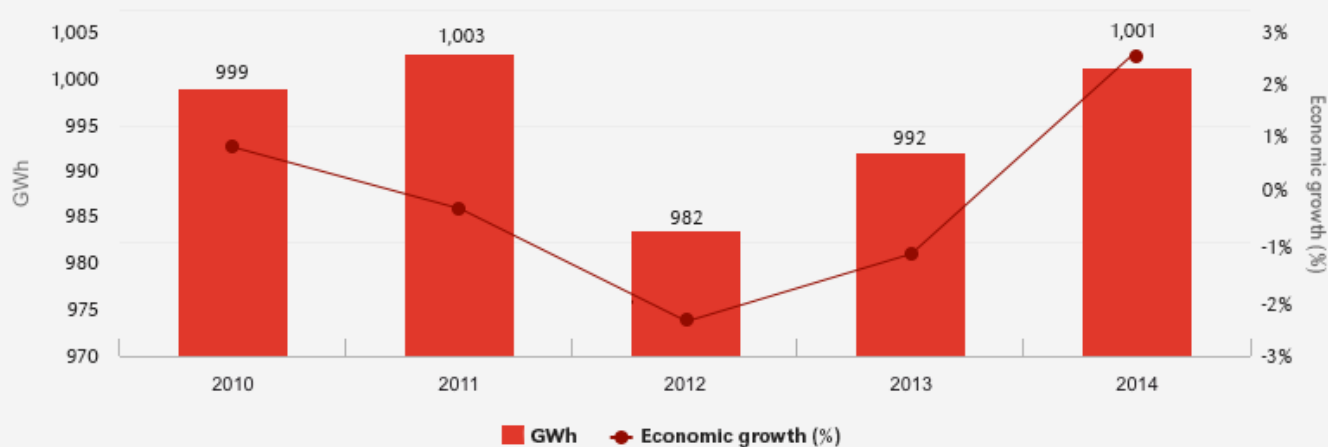
6.1 QUANTITIES OF DISTRIBUTED ELECTRICITY

In year 2014 there were 1,000,918 MWh of distributed electricity through the network of Elektro Gorenjska Company or 0.9 % more than in year 2013 (992,370 MWh).

In year 2014 household customers within the network of Elektro Gorenjska Company were distributed 321,506 MWh of electricity, which is by 3.1 % less than in year 2013 (331,724 MWh). Business customers within the company's network were distributed 679,412 MWh of electricity, which is by 2.8 % more than in year 2013 (660,646 MWh).

We estimate that the reason for somewhat larger quantities of distributed electricity in year 2014 is improvement of economic situation.

Figure 15: Changes in distributed quantities of electricity from year 2010 to year 2014



6.2 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 as usually in accordance with the legislation. Set of parameters followed has not changed in the last two years. Analysis has shown that the number of long-term interruptions were high due to increase in unannounced interruptions as a consequence of ice damage in the month of February 2014. Despite that, on an annual level values of continuity indicators are within the prescribed limits.

Table 7: Unannounced long-term interruptions according to type of network in year 2014

	[UNANNOUNCED - PROPER]				[UNANNOUNCED - FOREIGN]				[UNANNOUNCED - FORCE MAJEURE]				TOTAL ACCORDING TO TYPES AND CAUSE
	URBAN	MIXED	COUNTRYSIDE	TOTAL	URBAN	MIXED	COUNTRYSIDE	TOTAL	URBAN	MIXED	COUNTRYSIDE	TOTAL	
SAIDI [min./cust.]	3.791	0.690	12.122	16.603	1.093	0.000	3.646	4.739	11.084	8.374	82.560	102.018	123.360
SAIFI [interr./cust.]	0.090	0.022	0.378	0.490	0.079	0.000	0.118	0.197	0.322	0.136	1.366	1.824	2.511
CAIDI [min./interr.]	42.029	31.331	32.099	33.893	13.773	0.000	30.933	24.027	34.388	61.435	60.453	55.921	49.119
CAIFI [interr./cust.]	0.080	0.020	0.337	0.437	0.071	0.000	0.105	0.176	0.288	0.122	1.218	1.628	2.893

Table 8: Announced long-term interruptions in year 2014

	URBAN	MIXED	COUNTRYSIDE	TOTAL
SAIDI [min./cust.]	12.296	7.096	47.681	67.073
SAIFI [interr./cust.]	0.142	0.039	0.268	0.449
CAIDI [min./interr.]	86.516	180.448	178.046	149.300
CAIFI [interr./cust.]	0.127	0.035	0.239	0.401

Table 9: Momentary interruptions in year 2014

	TOTAL URBAN	TOTAL MIXED	TOTAL COUNTRYSIDE	TOTAL
MAIFI [interr./cust.]	0.000	0.026	0.403	0.428

Figure 16: SAIDI - Average time of duration of all unannounced interruptions (longer than three minutes)

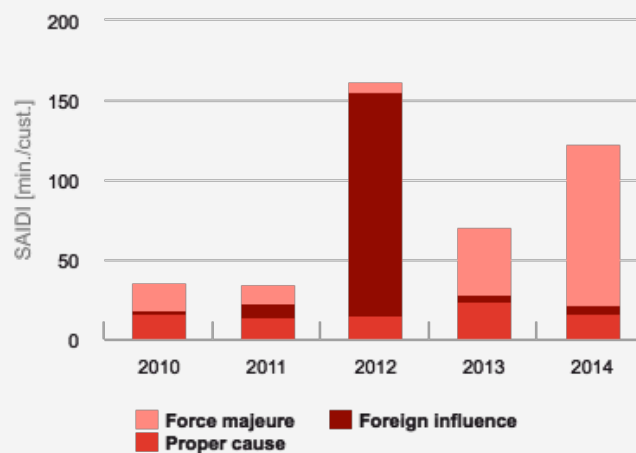
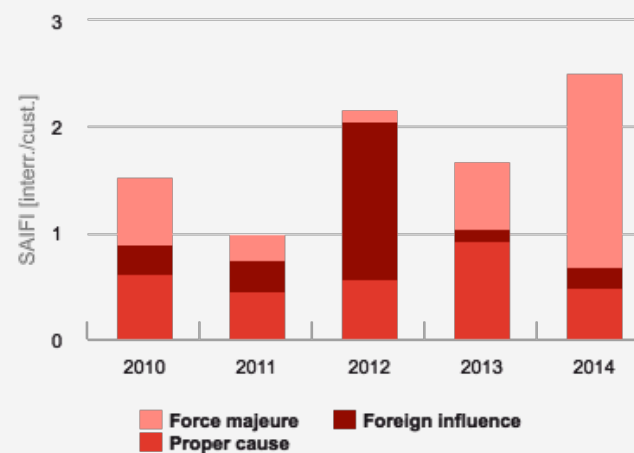


Figure 17: SAIFI - Average number of all unannounced long-term interruptions (longer than three minutes)



We find that situation in the field of power quality has not changed substantially compared to year 2013. 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 2014 other parameters were throughout the measurement in accordance with the requirements of SIST EN 50160 standard. During the year we received ten official complaints on the condition of voltage quality on the low-voltage level, of which three proved to be justified. We try to eliminate inconsistencies as quickly as possible and within statutory deadlines.

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

Table 10: Consistency of power quality parameters with the SIST EN 50160 standard on high voltage level for year 2014

OBJECT RTP 110/X	NUMBER OF WEEKS UNDER CONTROL	NUMBER OF INCONSISTENT WEEKS						NUMBER OF VOLTAGE DROPS	NUMBER OF VOLTAGE INCREASES	CONSISTENCY KEE	
		SIZE OF SUPPLY VOLTAGE	HARMONICS	FLICKER	IMBALANCE	SIGNAL VOLTAGE	FREQUENCY			NUMBER OF CONSISTENT WEEKS	NUMBER OF INCONSISTENT WEEKS
RTP Jesenice 110kV	51	0	0	50	0	0	0	82	14	1	50
RTP Radovljica 110kV	51	0	0	50	0	0	0	193	4	1	50
RTP Tržič 110kV	50	0	0	49	0	0	0	87	17	1	49
RTP Primskovo 110kV	51	0	0	50	0	0	0	89	20	1	50
RTP Zlato polje 110kV	51	0	0	50	0	0	0	88	16	1	50
RTP Labore–DV Okroglo 110kV	51	0	0	50	0	0	0	92	16	1	50
RTP Škofja loka 110kV–Okroglo	51	0	0	34	0	0	0	94	34	17	34
RTP Škofja Loka–DV Kleče 110kV	51	0	0	34	0	0	0	94	33	17	34

Commercial quality

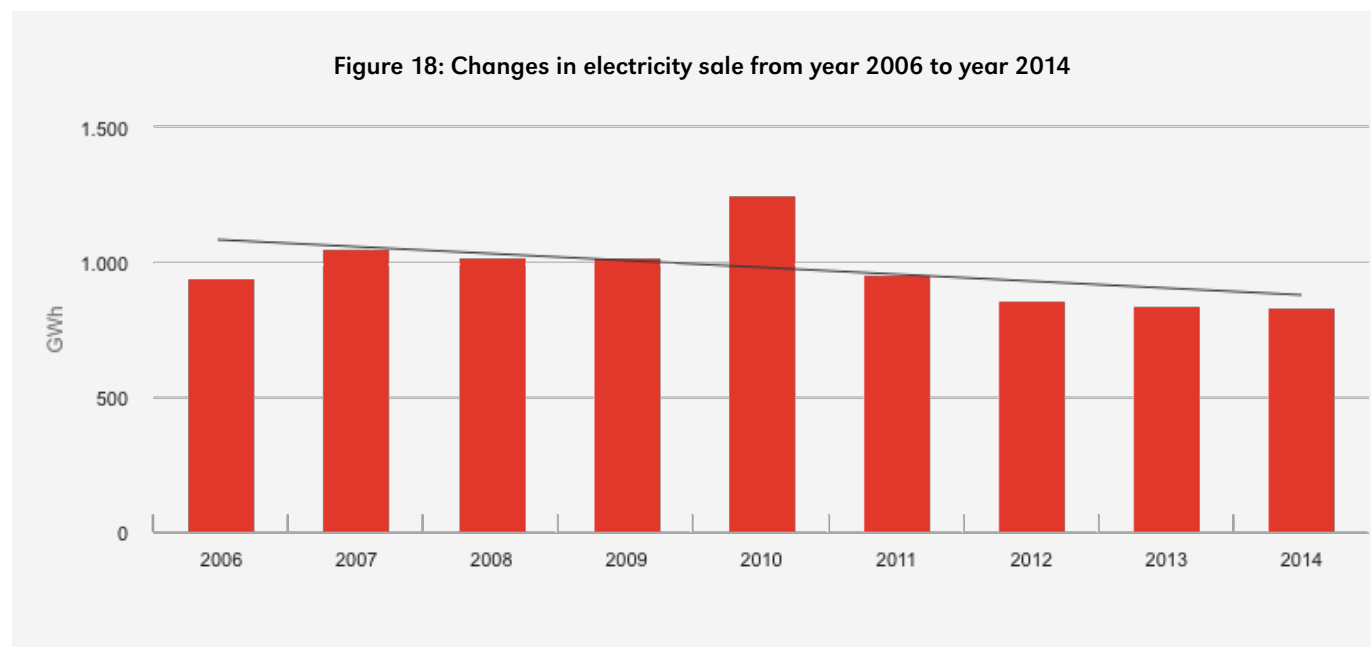
In most commercial quality parameters for year 2014 we established that achieved values of indicators were better than the limits of minimum quality standards. In issuing consents for connection (parameter 1.1.) the reason for lower share of services above the limit value was the fact that data according to the General Administrative Procedure Act refer to summary and declaratory proceedings together. In summary proceedings permissible time of issue of the order was 30 days, while in declaratory proceedings, where oral hearing is implemented as well, it was 60 days. In parameter 2.1. (average time required to answer written questions, complaints or requirements of users) reasons for exceeding limit values in some cases arise mainly from claims of billing data which are connected to correct functioning of the meter. In these cases meters have to be appropriately checked by measuring service, which takes approximately 30 days before replying to the complaint. Reasons for justifiable exemptions in parameter No. 3.3. (time needed to answer to complaint regarding the voltage quality) is based on the fact that in case of one of the complaints we implemented more extensive and longer determining of voltage conditions in agreement with the user. Reasons for justifiable exemptions in parameter No. 4.2. (average time to reconnection after disconnection due to late payment) are based on the coordination of the time of connection of the measuring point with the presence of the user, which means that time of service implementation was prolonged in agreement with the user. Most complaints were again recorded the field of meter or measuring devices functioning, where 45 % of complaints were justifiable. Complaints refer mainly to incorrectly measured quantities of electricity due to failure of controls or timers, which are technically in a pretty bad condition. Solution of the problem is planned by

gradual introduction of AMI meters. We received no compensation claims from our users in year 2014.

6.3 QUANTITIES OF PURCHASED AND SOLD ELECTRICITY

For the needs of the buyers in year 2014 the Elektro Gorenjska Prodaja Company **bought** from suppliers of electricity a total of **738,475 MWh** of electricity and **94,148 MWh** for the purposes of trading. In total purchase derogations from schedules for year 2014 are also included, namely in the amount of -10,792 MWh. Values of purchased quantities are presented in accounting report in [chapter 16.7 – Costs of goods sold and materials used](#) . In terms of quantity total purchase for the needs of buyers was by 410 MWh or 0.1 % lower than in year 2013.

In year **2014** Elektro Gorenjska Prodaja Company **sold** a total of **834,265 MWh** of electricity to its buyers, which is by 1 % less than in year 2013. Information includes also trading and sale of purchased electricity surpluses to larger electricity traders in the country and the European Union. Values of sold quantities are presented in the Accounting report [chapter 16.1 – Net sales revenues](#) .



Excluding the trade the company Elektro Gorenjska Prodaja sold its final (household and business) customers 737,192 MWh of electricity, which is by 1 % more than in year 2013.

227,892 MWh of electricity of the above amount or 12 % less than in year 2013 refer to household customers, while 509,300 MWh of electricity was sold to business customers, which is by 8 % more than in year 2013.

In year 2014 it continued to market the Blue Energy. Blue Energy is electricity generated from environment friendly, renewable sources of energy. Details referring to the Blue Energy are explained in [chapter 7 – Marketing and sale](#).

6.4 PRICES OF ELECTRICITY

Final price of electricity for an average household in Slovenia increased by 6 percent in year 2013. AN this despite the fact that electricity prices on the European stock market of electricity have been at the lowest level in the last ten years. Main reason for this is in the increase of state contributions, that is state taxes. In the month of February 2013 the contribution for renewable energy sources (OVE) – including wind, solar and water energy, tide energy, geothermal energy and energy from biomass - increased by more than 300 percent.

Increase occurred because Slovenia has committed to increase the share of renewable sources in energy consumption to 25 percent by the year 2020. For this reason the state increasingly stimulated investments in renewable sources through subsidies. So there has been a flood of investments, mainly into solar powerplants, as with decrease of investment costs the state offered great price and price guarantee for the next 15 years. According to last data from the Statistical Office of Slovenia the share of electricity from renewable sources in Slovenia in year 2013 amounted to already 22 percent of electricity. That is above the EU average.

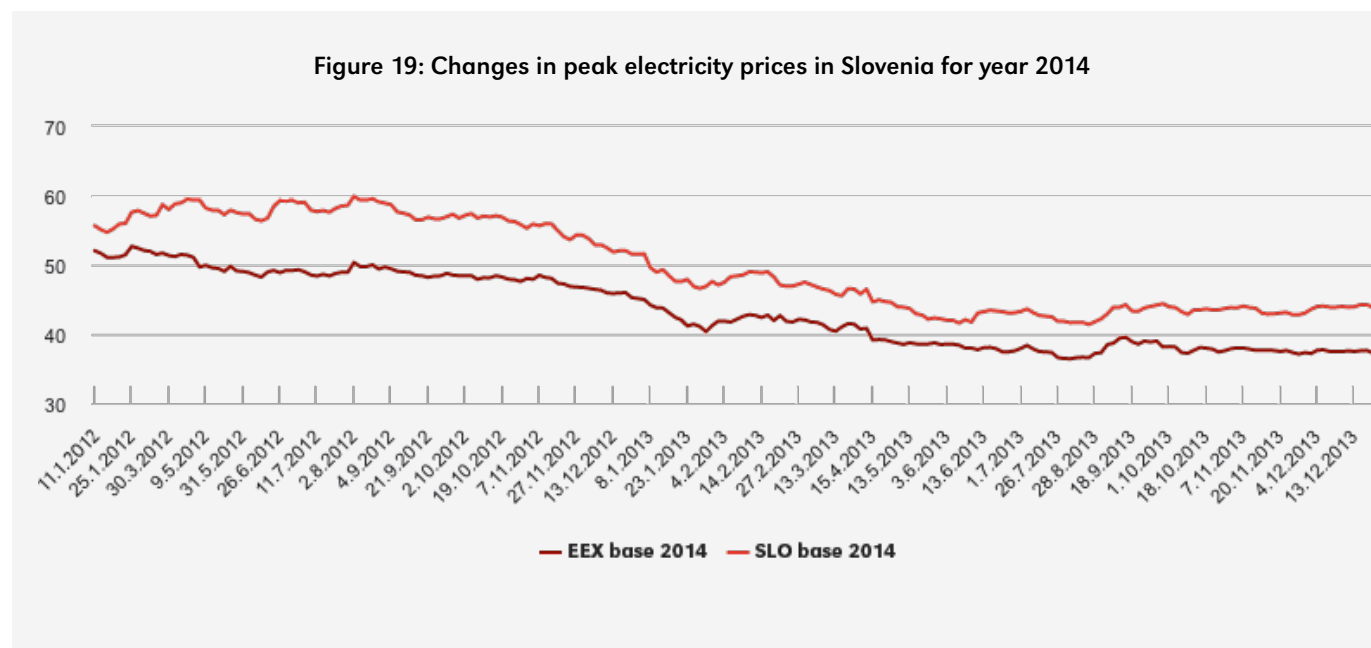
In Slovenia prices of electricity from 1992 to 1998 were increasing mainly with the aim of achieving the level, which would cover corporate and external costs of electricity production and gradual introduction of market pricing of energy. Since the beginning of introduction and opening of the market in the country prices of electricity in industry decreased and have stabilized by year 2005. After year 2006 prices began to increase in real terms, mainly as the result of changes in prices on the wider EU market, where they were increasing due to larger demand, impact of carbon credits value and high prices of petroleum products in the world market.

Prices of electricity for final customers are determined based on forward electricity prices for the individual year of supply, hourly electricity prices that are formed on the daily market and estimated hourly load diagram of the buyer.

Electricity market is divided in forward, daily and balancing market. On the forward market it is traded by long-term products for purchase and sale of products for supplies in the future and this market is the basis for determining retail prices for final customers. Daily market is intended for balancing daily needs of individual balance groups of either production or consumption, and on this market quantities that represent the difference between short-term announced quantities of production or consumption and long-term concluded contracts are traded. Market is intended for balancing the derogations between production or consumption realization and long-term and short-term transactions. Prices of electricity in Slovenia are formed depending on the changes in prices of electricity on the electricity commodities exchanges EEX in Leipzig, EPEX SPOT in Paris, HUPX in Budapest and BSP Southpool in Ljubljana. There it is traded with forward products, which reflect expectations of market players on the changes in future prices. As electricity cannot be stored, there is always a partial imbalance between supply and demand present on the market that is why the prices are subject to large fluctuations. They depend on the changes in production sources structure, energy balance of a certain price area, limited cross-border transmission capacity, variability in the prices of other energy, weather, hydrology, power stations repairs, current occupancy of transmission capacity and projected economic growth.

Elektro Gorenjska Prodaja Company purchased electricity on the Slovenian wholesale market. Achieved purchase prices reached by Elektro Gorenjska Prodaja are market prices. Main seller is HSE Company, from which the company purchased most of the electricity in year 2014. On the other side retail prices are also very transparent and Elektro Gorenjska Prodaja d. o. o. sells electricity here at market prices as well.

In year 2013 when most of the purchases for year 2014 were made, falling trend of prices on purchasing market prevailed. By distribution of risks and gradual purchasing we reached significantly more favorable purchase prices than those in year 2013. Low prices trend continued in year 2014 as well, when we were purchasing lacking quantities on the daily market. This had additional favorable effect on the purchase prices. Following chart is showing changes in peak energy prices at the EEX.



6.5 PRODUCTION OF ELECTRICITY

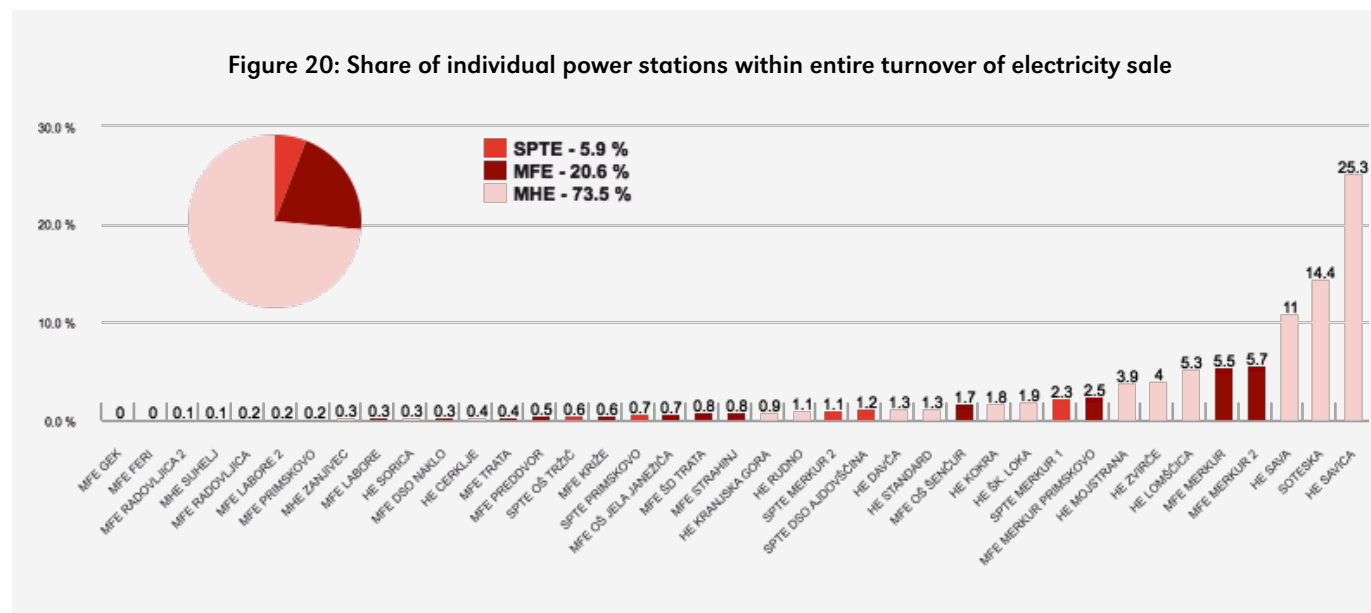
In year 2014 Gorenjske elektrarne Company generated electricity in 14 own hydro power stations (hereafter HE) and 17 solar power stations (hereafter FE) in the area of Gorenjska region and one solar power station in Maribor and since December 2014 also one solar power station in Nova Gorica. Besides that the company produced heat and electricity in seven high-efficient cogenerations. Since its establishment the company has had an operating lease with the founder, Elektro Gorenjska, d. d., Company, also on HE Sava.

Of renewable energy sources the Gorenjske elektrarne Company uses water sources (hydro power stations) as well as solar energy (solar power stations). Operation of 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 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.

The following figure presents share of individual power stations within entire turnover of electricity sale including the production supports for year 2014:



6.6 OTHER ACTIVITIES

In recent years Gorenjske elektrarne Company has strived to diversification of revenue with the intention of reducing its dependence on weather conditions. With this purpose the company implemented several efficient energy use projects in the recent years, it successfully carried out short-term electricity trading on Italian market, while in year 2014 it also obtained an authorization from the competent ministry to issue energy performance certificates. Company penetrated the final users market also with the sale of wood pellets. In years 2013 and 2014 part of revenue in companies Elektro Gorenjska Prodaja and Gorenjske elektrarne was made by electricity trade on the Italian market. Trade was implemented through partner company HSE: Companies registered at GME (Gestore dei Mercati energetici; Italian Exchange of electrical energy) and TERNI (Italian electricity system operator) as customers and a cooperation agreement was signed with both partners. Companies bought electricity from HSE Company and then sold it on the Italian market back to HSE.

Among the efficient energy use project the most important are the so called contractual assurance of energy savings projects. Contractual assurance of energy savings means contractual obligation to exploit available economic potential to save energy, including financing the necessary measure of efficient energy use. Contractor assumes all costs of planning, financing and implementation of measures of efficient energy use, while their investments are returned in the form of share in achieved reduction of energy costs resulting from executed efficient energy use measures. Contracts are usually signed for the period of 5 to 15 years, depending on the business interest of the entities. At the end of the contract period the owner or user of infrastructure is left with the entire amount of saved energy costs, while at the same time it has to readmit the costs of devices operation. Gorenjske elektrarne successfully implemented several of such projects, namely several projects of lighting replacement in shopping centers and project of replacement of compressed air compressors. For majority of projects the company obtained grants.

Energy act defines the obligation to obtain Energy Performance Certificates for all buildings built and at the same time sold or rented to a tenant that had no permanent or temporary residence registered in the building or certain parts of it before renting. Energy Performance Certificate is a public document with information on energy efficiency of the building with recommendations to increase energy efficiency. Owner of the building or its part must submit a valid energy performance certificate of the building or its part at its sale or lease before signing the contract at the latest. In year 2014 Gorenjske elektrarne obtained an authorization at the competent ministry to issue energy performance certificates.

6.7 INVESTMENTS

In year 2014 Elektro Gorenjska Group invested 14,764,515 € (year 2013: 17,169,882 €). Major investments are presented below.

Within investments in high-voltage network, which amounted to 4,420,591 €, significant were the following:

- 110 kV DV RTP Železniki–RTP Bohinj: all public procurement procedures for construction, electrical installation work and equipment were executed (rope, hanging equipment, OPGW and cable). In the beginning of the year all clearings were completed, terrain probes were executed. In the mid-year we acceded to the execution of construction works. Project was implemented with two types of foundation (classic and pilot foundations), for which appropriate testing was implemented as well. Construction works are executed in accordance with the expected timetable, including individual problems that have been regularly eliminated (above all the high amount of water in certain areas). 80/115 standing places were executed by the end of the year.
- 110 kV DV RTP Jesenice–RTP Kranjska Gora: We continued with reconstruction activities based on the regulation on maintenance in the public interest. In year 2014 we executed 19 new standing places in the area of Belce. In winter time we

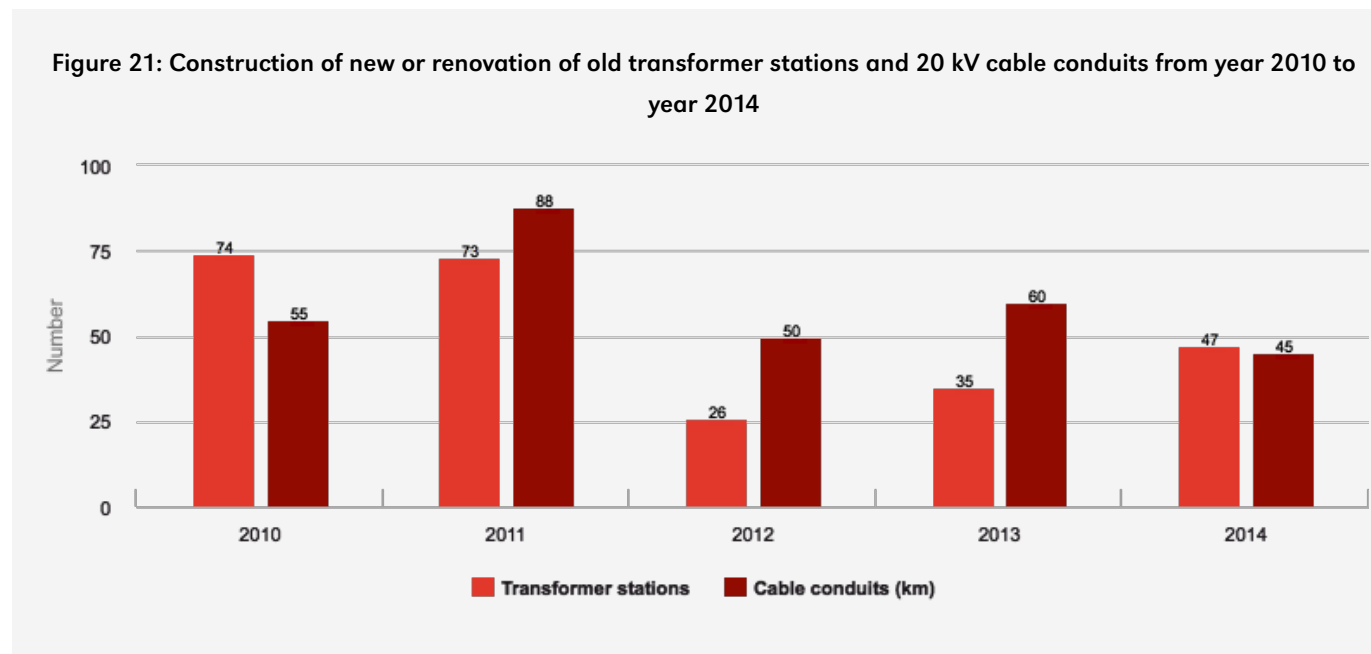
were governing easements and obtaining consents. At the end of summer physical execution according to the established procedure started. Works were completed in September and October.

- RTP Bohinj 110/20 kV: We obtained all the necessary documentation for operating license, which was issued in spring after a successful technical review.
- RTP 110/20 kV Jesenice: After ice damage and falling down of the greater part of 35 kV DV to RTP Ukove we decided for its cancellation. We executed the establishment of 35 kV level in RTP Jesenice for the connection with RTP Kranjska Gora. For the most part we used 35 kV equipment from RTP Bohinj and partly abandoned RTP Ukova. Works were completed in the month of October.

Value of investments in medium-and low-voltage network in year 2014 amounted to 7,535,998 €. In this context we:

- Since the ice damage we allocated funds to rehabilitate critical network parts. We made a priority investment in reconstruction of 20 kV lines by cabling, for which we obtained additional funds by revising internal reserves. The most notable were cable conduits in the Valley of Kokra River from Celar to Kanonir in the length of approximately v 8 km and cable conduit Zg. Besnica-Njivica in length 3.5 km. Other include: Pšata-Šenturška gora-Ambrož-Krvavec, Bohinjska Bela-Obrne-PL Pokljuka, Bohinjska Bistrica-Jereka, part of Hrastnica Valley, Zadruga-Žiganja vas, Sp. Lancovo-Zg.Lancovo, Begunje-Žaga-Draga etc.
- We followed municipalities and simultaneously acceded to the building of own sewerage network for ongoing and future cabling and development of electricity network. Realization at the end of the year amounted to 150 %, according to the provided funding plan. Construction in larger volumes took place and still does in the following municipalities: Škofja Loka, Šenčur, Preddvor, Kranj, Naklo and Bohinj.
- Besides cable ducts we allocated funds on low-voltage network also to replacement of measuring points in accordance with the standardization within AMI project, which includes concomitant regulation of measuring points in individual facilities and putting them on the same denominator.
- Renovated 25 and built 22 new transformer stations.
- Renovated and newly built about 45 km of low-voltage network in mainly cable alternative.

The following figure shows figures about the construction of new or renovation of old transformer stations and 20 kV cable conduits from year 2010 to year 2014.



Among other investments (2,807,926 €) the following were significant:

- telecommunications and protection (new base station Kranjska Gora, telecommunication equipment, radio network, WiMax system ...),
- measuring devices (AMI project – replacement 7,500 MP),
- business- technical equipment (transition to a new information system),
- replacement and renovation of DCV,
- construction of MFE GE on the roof of the administrative building of Gorenjske elektrarne,
- purchase of MFE HIT in Nova Gorica,
- partial automation of HE SAVA,
- building of cleaning machine in HE Zvirče and trafficable platform in HE Soteska,
- replacement of lighting in the shopping centers Merkur Jesenice in Merkur Celje Hudinja,

- completion of the control center for hydro power plants - 3rd stage.

6.8 MAINTENANCE OF ENERGY FACILITIES

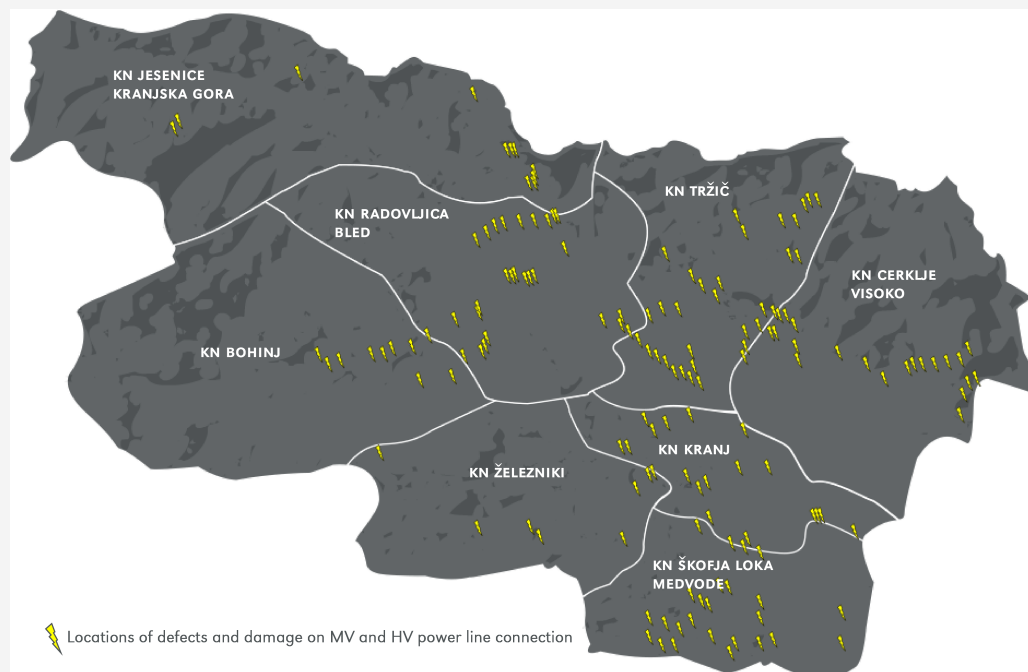
Elektro Gorenjska, d. d., implements all tasks of the distribution network system operator in its geographical area. Among these tasks maintenance of electricity infrastructure is of special significance. We implement these tasks successfully mainly due to optimum organization and competences of employees, 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 2014 mainly **planned (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 switches, transformers, protection devices and execution of control measurements and testing of protection devices functioning. In the field of preventive maintenance we have been trial introducing new diagnostic methods of establishing the energy equipment status and as a result adjustment and suitable planning of maintenance and investment interventions on equipment.

Field of **unplanned (curative) maintenance** in year 2014 was strongly marked by winter harm in the beginning of February. In the first half of February all available teams (including external contractors) took care of basic supply to customers. In March and April mainly maintenance works resulting from final rehabilitation of ice damage were being executed.

Figure 22: Locations of failures on MV level in the period between February 1 and February 14 2014



The worst consequences of ice damage were largely eliminated also with replacing the power lines with new cable conduits. In autumn months strong wind caused us some problems as well as heavy rain with floods, mainly in the area of Poljanska dolina. Plan of maintenance services costs was adjusted to the volume of failures.

We also need to stress the influence of modern technological devices and solutions, which technically ensure fulfillment of strict criteria of reliability of electricity supply and have an indirect effect also on reduction of maintenance costs.

They undoubtedly include modern high and medium-voltage equipment, capturing data systems and distribution network remote control (RCC – remote control centers), automation of medium voltage network by remote control switches, systems of power quality registration, telecommunication systems, modern software and similar.

In year 2014 Gorenjske elektrarne Company implemented planned maintenance on its energy infrastructure, which can be equated with preventive maintenance. Purpose of such maintenance is reducing the probability of failure of component part of a device or a

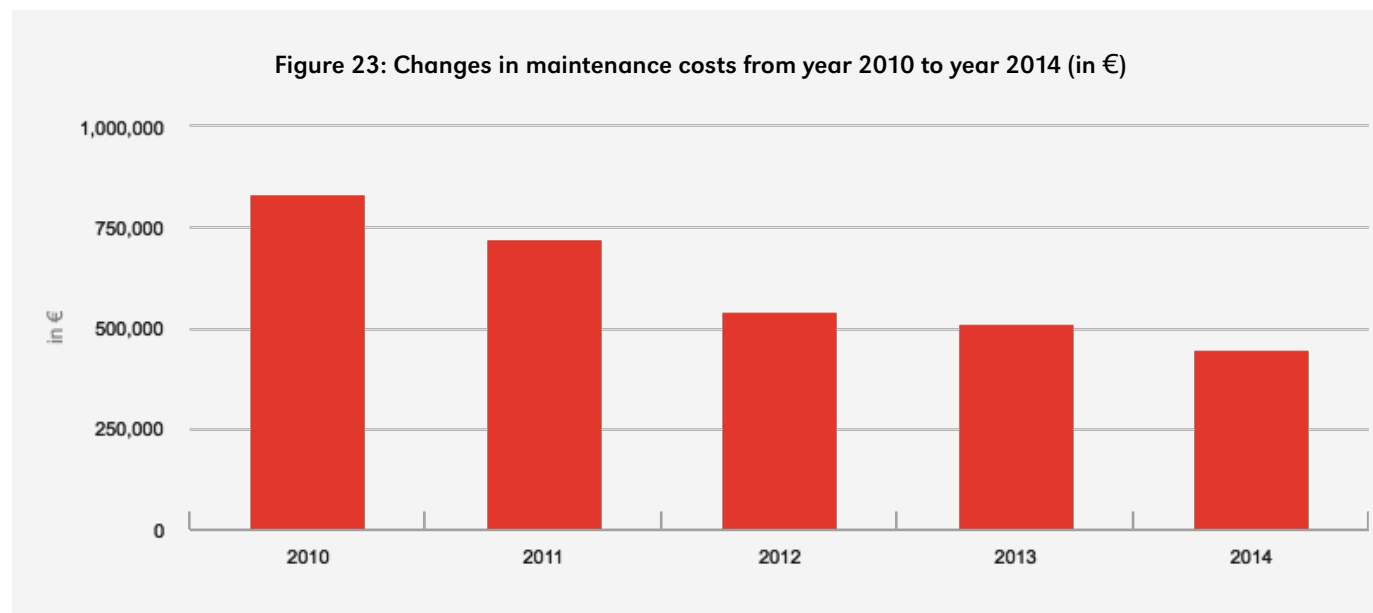
system, which is achieved with appropriate interventions implemented in advance according to defined criteria.

According to the program for year 2014 planned maintenance works on machinery and devices in all hydro power plants were carried out. Planned preventive maintenance has the purpose of reducing the probability of a failure of component part of a device or a system, which is achieved with appropriate interventions implemented in advance according to defined criteria.

Preventive maintenance included examining the state of electric power devices, revision of machinery and equipment in hydroelectric power plants and execution of control measurements, functional testing of appliances and testing of protection devices in the power plants.

Current maintenance as elimination of consequences of errors (e.g. curative maintenance) represented in 2014 other kind of maintenance differing from the planned maintenance mainly in being time unpredictable and difficult to plan. Compared to year 2013 the scope of current maintenance increased somewhat due to wear of certain component parts in HE.

Changes in maintenance costs in Elektro Gorenjska Group (including damage etc. glaze ice and windfall), which represent costs of maintenance services and costs of maintenance material from year 2010 to year 2014, are shown in the following figure.



6.9 DEVELOPMENT AND DESIGN

In the field of research and development of distribution network provision there is a development service organized in Elektro Gorenjska Company. This way the company ensures systematic use of knowledge acquired with research and also practical experience. Work scope provides necessary knowledge for the needs of development of new technologic solutions, systems, and processes of electricity distribution and other services, which the company is obliged to provide in accordance with its mission. Costs of scientific research, connected with development and design, are presented also in the accounting report, [chapter 16.8 – Costs of services](#).

By preparing modern development plans the development service, organized within Elektro Gorenjska Company, directs the investments in new devices and provides for suitable renovations of the existing devices, mainly by introducing new and modern technologies. Tasks are performed in the following fields:

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

In Elektro Gorenjska Group business processes are implemented in accordance with the valid legislation, which prescribes the company to use modern technologies as well. For this purpose the Elektro Gorenjska Company 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 2014 investment plan of Elektro Gorenjska, different expert studies, preliminary studies, concepts, and different project documentation in the mentioned development fields have been made in cooperation with the education institutions. Investments, which foresaw acquisition of mentioned development documents, are for the most part

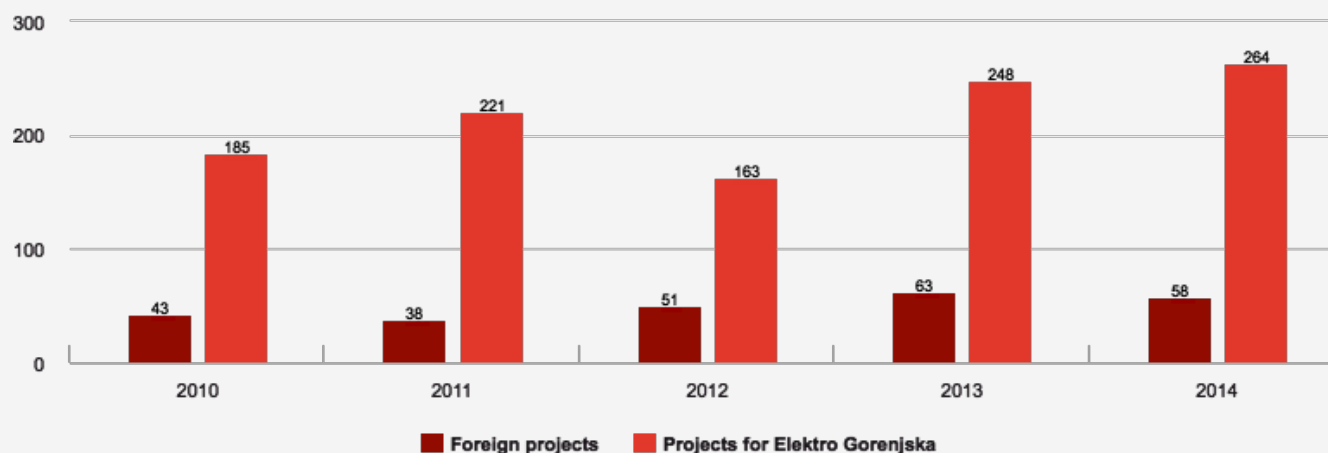
technologically more demanding and are expected to cover the following investment fields:

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

In year 2014 development studies preparation in the following fields were taking place:

- adjustment distribution RTP presence of dispersed sources in the network,
- improvement of GREDOS software package for the analysis of connecting the dispersed sources in the network,
- general information model – CIM,
- REDOS 2040: development of electricity distribution network of Slovenia, fixed five-year contract.

Figure 24: Information on the number of project documentation made from year 2010 to 2014



6.10 FINANCIAL PERFORMANCE CRITERIA OF THE GROUP

6.10.1 LIST OF SIGNIFICANT INDICATORS

Business achievements from the viewpoint of financial valuation have been followed by the group with the following indicators:

INDICATOR CONTENTS		31. 12. 2014	31. 12. 2013
1	FINANCING INDICATORS		
	a) equity financing rate (in %) capital / liabilities	64.0	62.0
	b) debt financing rate (in %) debts / liabilities	29.0	30.8
	c) short-term financing rate (in %) short-t. debts (including sh.-t. accrued costs and deferred revenues) / liabilities	13.1	15.8
	d) long-term financing rate (in %) capital + long-term debts (incl. provisions) + l.-t. accrued costs and def. rev. / liabilities	86.9	84.2
	e) initial capital rate (in %) initial capital / capital	51.4	53.0
	f) creditworthiness net debt (long. + sh.-t. financial liabilities - cash in bank) / EBITDA	2.2	2.3
2	INVESTING INDICATORS		
	a) operating fixed assets rate (in %) fixed assets (at accounting value) / assets	84.9	83.4
	b) long-term assets rate (in %) fixed assets and l.t. accruals and pre-paid expenditure (at acc. value) + l.t. fin. inv. + l.t. oper. claims / assets	86.5	84.0
3	HORIZONTAL FINANCIAL STRUCTURE INDICATORS		
	a) equity to operating fixed assets (in %) capital / fixed assets (at accounting value)	0.7	0.7
	b) immediate solvency ratio liquid assets / short-term liabilities	0.19	0.17
	c) quick ratio liquid assets + short-term claims / short-term liabilities	1.0	1.0
	d) current ratio short-term assets / short-term liabilities	1.1	1.1
4	INDICATORS OF ECONOMY AND RETURN		
	a) operating efficiency ratio (in %) operating revenues / operating expenses	109.0	106.9
	b) entire efficiency ratio (in %) entire revenues / entire expenses	107.4	105.4
	c) level of revenue profitability (in %) pre-tax profit / revenues	6.9	5.2

INDICATOR CONTENTS		31. 12. 2014	31. 12. 2013
	d) value added (in €) operating revenues-costs of goods, material, services-other operating expenses	30,966,504	29,723,134
5	TURNOVER INDICATORS		
	a) total assets turnover ratio revenues / average assets	0.4	0.5
	b) operating claims turnover ratio operating revenues / average operating claims	3.5	4.3
6	INDICATORS OF RETURN		
	a) EBITDA (in €) operating revenues - operating expenses + depreciation and f.a. write-offs + revaluation expenses	17,857,116	16,948,597
	b) EBIT (in €) operating revenues - operating expenses	7,373,175	6,254,667
	c) financial result (in €) financial revenues - financial expenses	-1,127,633	-1,158,945
	d) pre-tax profit (in €) entire revenues - entire expenses	6,199,803	5,047,888
	e) net profit (in €) entire revenues - entire expenses - corporate income tax	5,477,406	4,674,266
	f) ROA (%) net profit after taxes / average assets	2.5	2.2
	g) ROE (%) net profit after taxes / average capital	4.0	3.5
7	EQUITY		
	a) number of shares number of registered shares	17,302,071	17,302,071
	b) book value of share (in €) capital / number of shares	8.08	7.86
	c) net profit per share (in €) net profit / number of shares	0.32	0.27
8	INDICATORS OF RETURN		
	a) average number of employee	342	338
	b) operating revenues per employee (in €) operating revenues/average number of employees	261,533	287,824
	c) value added per employee (in €) value added/average number of employees	90,545	87,938

Following is the analysis of the changes in indicators, which are used to monitor the operations of Elektro Gorenjska Group.

6.10.2 FINANCING INDICATORS

With indicators of financing condition we are interested in share of capital, debts, and accruals in the structure of all financing sources. Indicators are important for the group mainly in long-term decisions about financing policy (capital structure). High share of capital in financing and low level of short-term financing give creditors some information about the security of investments.

- **Equity financing rate** shows the share of equity financing of all company's assets. Indicator shows that in year 2014 the equity financing rate was 64.0 %, which is by 2.0 percent point more than in year 2013. Higher value of the indicator is the result of higher equity as the consequence of achieved profit of the group.
- **Debt financing rate** indicates debt financing of the group's assets. In year 2014 the indicator amounted to 29.0 % and was by 1.8 percentage point lower than in year 2013, which is the consequence of lower short-term operating liabilities. Short-term operating liabilities are lower due to lower accounts payable.
- **Short-term financing rate** presents the share of short-term debts in the assets. In year 2014 the short-term financing rate amounted to 13.1 % and was by 2.7 percentage point lower than in year 2013. Lower rate was mainly the consequence of lower short-term debts, which decreased by 15.2 %.
- **Long-term financing rate** in year 2014 amounted to 86.9 % and was by 2.7 percentage point higher than in year 2013. Reason for that is in the increase of capital from profit from operations.
- **Initial capital rate** presents the share of initial capital in entire capital. Compared with the year 2013 the share decreased somewhat, it presents 51.4 % of the entire capital. Reason for that is in the fact that compared to year 2013 share capital did not change in year 2014, while entire capital increased due to profit achieved.
- **Creditworthiness:** safe level of indebtedness is followed by the indicator showing the NET FINANCIAL DEBT/ EBITDA ratio. On December 31 2014 this indicator was 2.2, while at the end of year 2013 this indicator amounted to 2.3. For the group level of indebtedness not acceptable would be indicator value that would surpass 4. For the company this would mean it was no longer able to cover current interest on debt from the operating profit EBITDA. This commitment is used by some banks in already existing credit contracts. Indicator value to a great extent depends on the operation of the main activity (positive result in year 2014 is presented also in [chapter 6.10.9 – Structure of revenue and expenditure](#)), as larger derogations from planned operating revenues and expenditure would negatively increase the value of the indicator. In the event of smaller revenue or bigger costs by 2 million € the indicator would worsen by 0.3. In case of additional indebtedness by 2 million € (at the same revenue and expenditure) the value of the indicator would go down by 0.2.

6.10.3 INVESTMENT INDICATORS

For the group indicators of investment condition are important mainly for decisions on investment projects.

- **Operating fixed assets rate** shows the share of fixed assets in all assets. In year 2014 the share of fixed assets represented 85.9 % of all assets, which was by 2.6 percentage point more than in year 2013. High operating fixed assets rate was expected for Elektro Gorenjska Group, as the line of business the group operates in, is technologically very intensive. Reason for increase of indicator value in year 2014 compared to year 2013 was in the fact that value of fixed assets increased by 2.7%, while value of all assets decreased by 0.4 %.
- **Long-term assets rate** was 86.5 % at the end of the year, which is by 2.6 percentage point more than in year 2013. Reason for the increase in the value of the indicator in year 2014 compared to 2013 is the increase of fixed assets.

6.10.4 HORIZONTAL FINANCIAL STRUCTURE INDICATORS

In regards with the long-term financial balance the group follows horizontal financial structure indicators, the most important of them being quick ratio, with which the group acknowledges the effect of the amount and structure of current assets according to the current liabilities.

- **Equity to operating fixed assets** is a ratio between capital and fixed assets and in year 2014 it amounted to 0.7, which is the same as in year 2013.
- **Immediate solvency, quick, and current ratios** show the solvency. Immediate solvency ratio was higher compared to year 2013, which is the consequence of lower short-term liabilities compared to December 31 2013. Value of quick ratio is 1.0 and current ratio 1.1, which is the same as at the end of year 2013. Higher values of the ratios are mainly the result of lower short-term liabilities.

6.10.5 INDICATORS OF ECONOMY OR RETURN

For efficient use of assets in evaluating the quality of operation we follow different indicators of economy or return.

- **Operating efficiency ratio** is a ratio between operating revenues and operating expenses and for Elektro Gorenjska Group in year 2014 it amounted to 109.0 %, which is by 2.1 percentage points more than in year 2013, and is mainly the result of higher revenues from rent and services under the contract with SODO, lower costs of electricity purchase and higher electricity production.
- **Entire efficiency ratio** is ratio between entire revenues and entire expenses. In year 2014 it amounted to 107.4 %, which is by 2 percentage points more than last year.
- **Level of revenue profitability** tells us that the group made 6.9 € of profit per 100 € of achieved revenues, which is by 1.7 € of profit more than in year 2013.
- **Value added** of Elektro Gorenjska Group in year 2014 amounted to 30,966,504 € and increased by 1,243,370 € compared with year 2013.

6.10.6 ASSET TURNOVER INDICATORS

Asset turnover indicators express the amount of revenues the group creates with existing assets. They are influenced by production technology, share of fixed assets in all assets, nature of products etc. Group monitors the following indicators:

- **Total assets turnover ratio** shows how quickly the assets of the group turnover or how much revenue the group creates with existing assets. At the end of the year 2014 the ratio amounted to 0.4 and was by 0.1 percentage point lower than in year 2013.
- **Operating claims turnover ratio** shows how many times a year operating claims turnover to money. At the end of year 2014 it amounted to 3.5, which means that money was tied with buyers for 105 days on average, which is 19 days longer than in year 2013. Higher value of the indicator is influenced by trading business, which was held at the end of year 2014, and as a result claims were higher as 31. 12. 2014.

6.10.7 RETURN INDICATORS

- **EBITDA** in year 2014 amounted to 17,857,116 € and was by 908,519 € higher than in year 2013, which is mainly the result of higher revenues from rent and services under the contract with SODO, lower costs of electricity purchase and higher electricity production, as already explained for operating efficiency ratio.
- **EBIT** represents the difference between operating revenues and operating expenses. In year 2014 it amounted to 7,373,175 €, which is by 1.1 million € more than in year 2013. As previously mentioned the main reasons for improvement of this indicator are higher revenues from rent and services under the contract with SODO, lower costs of electricity purchase and higher electricity production.
- **Net increase/decrease in cash and cash equivalents** was negative for Elektro Gorenjska Group in year 2014 and it amounted to -1,127,633 €, which is by 31 thousand € more than in year 2013, which is the result of higher revenues from operating receivables to other, mainly interest received on late payments.
- **Pre-tax profit** for Elektro Gorenjska Group in year 2014 amounted to 6,199,803 €, which is by 1.1 mio € more than the pre-tax profit achieved in year 2013. Increase in pre-tax profit in year 2014 compared to year 2013 is mainly the result of higher revenues from rent and services under the contract with SODO, lower costs of electricity purchase and higher electricity production.
- **Net profit** in year 2014 amounted to 5,477,406 €, while in year 2013 it was 4,674,266 €.
- **Number of shares** did not change throughout the year 2014. Book value per share amounted to 8.08 € at the end of year 2014, while net profit per share amounted to 0.32 €.
- **Average number of employees** in year considered was 342, which are 4 employees more than in year 2013. Changes in the number of employees are explained in [chapter 8.1.1 – Demographic structure in the group](#).
- **Operating revenues per employee** in year 2014 amounted to 261,533 €, which is by 9.1 % less than in year 2013. Reasons are mainly lower income from electricity sale.
- **Value added per employee** in Elektro Gorenjska Group in year 2014 amounted to 90,545 €. Compared with the year 2013 value added was by 3.0 % higher.
- **ROA:** Value of indicator amounts to 2.5 %, which is better than the expectations of the Slovenian Sovereign Holding (2.1 %). Value of the indicator is relatively low, which is the result of constant investing of the group, as among other things mission of the group is also ensuring quality and reliable electricity supply. We could not achieve this without investments in intangible and tangible assets. We should mention that quality and reliability of electricity supply on distribution network are measured by

SAIDI and SAIFI indicators (more on the quality in [chapter 6.2 – Quality of electricity supply](#)), and have been preserved in the recent years and according to Agency RS for energy represents Slovenian reference level according to statutory requirements. So in the future it is not expected from the group to invest less in its fixed assets than so far, which means that amounts of intangible and tangible assets (they represent more than 85 % of the balance sheet total in the assets) will not be reducing. This further means that value of the indicator depends mainly on the business results or revenues that company receives under the contract with SODO Company and whose regulatory values depend mainly on the regulator Agency RS for energy and costs of operation and maintenance the group has (excluding financial expenditure due to borrowing).

- **ROE** shows what percent of net profit belongs to the owners according to their ownership share. For Elektro Gorenjska group return on equity amounted to 4.0 % at the end of the year. Indicator depends on the financing structure: higher indicator means bigger risk on the account of high indebtedness. Elektro Gorenjska Company has very limited possibilities of managing performance activities, as under the Contract with SODO Company it is obliged to execution of many activities which bring various costs (expenses), while on the other side it is limited in controlling its revenues, which belong to it according to this Contract (Please see also Financial report, [chapter 14.1 – Transactions with SODO Company](#)).

6.10.8 STRUCTURE OF ASSETS AND LIABILITIES

Assets

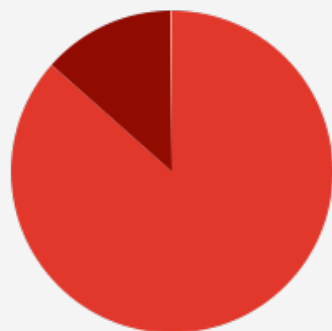
On the last day of year 2014 the assets of Elektro Gorenjska Group amounted to 218,571,629 € (31. 12. 2013: 219,438,433 €) and have decreased by 0.4 % in year 2014. Long-term assets increased by 2.7 % in year 2014, while short-term assets decreased by 15.2 %.

Long-term assets represent 86.5 % of all group's assets. Among them tangible fixed assets representing 97.7 % of all long-term assets are the most important. Value of tangible fixed assets increased by 2.4 % or by 4,407,594 € in year 2014.

Besides tangible fixed assets long-term assets also consist of the following categories (explained in more detail in [chapter 15 – Notes on profit and loss account](#)):

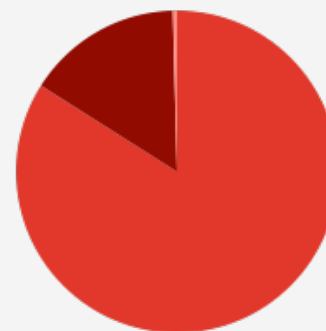
- intangible fixed assets, which increased by 559,681 € in year 2014 mainly as a result of investment in the new information system ERP.
- investment property, whose value decreased by 2.3 % or 45,577 € as a result of a depreciation of these assets, and
- long-term financial investments, whose value in year 2014 decreased by 2.9 % or 39,684 € mainly due to transfer of one of the investment to assets for sale and due to impairment of the other investment.

Figure 25: Structure of assets as of 31. 12. 2014



■ Long-term assets: 86.5 % ■ Short-term assets: 13.3 %
■ Short-term accruals and prepaid expenditure: 0.1 %

Structure of assets as of 31. 12. 2013



■ Long-term assets: 84.0 % ■ Short-term assets: 15.6 %
■ Short-term accruals and prepaid expenditure: 0.4 %

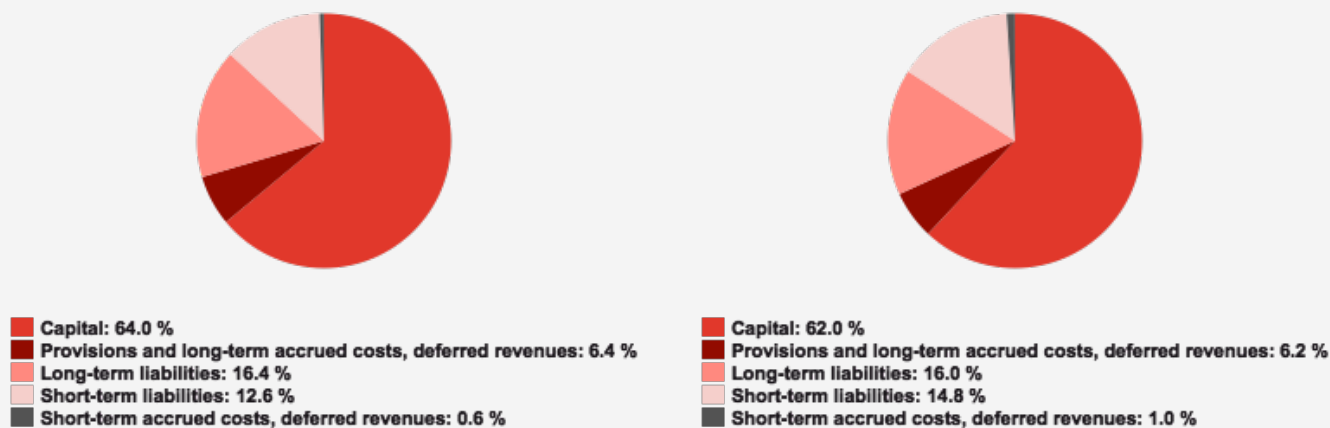
Capital and debts

As at December 31 2014 Elektro Gorenjska Group reached a ratio between equity and debt capital in the amount of **1.8:1**, while in year 2013 this ratio was 1.6 : 1.

In the structure of liabilities capital represents 64.0 % of the entire balance sheet total. In year 2014, capital increased by 2.8 % or by 3,858,128 €. Long-term liabilities, mostly long-term banking credits, represented as of 31. 12. 2014 16.4 % of all funds. In year 2014 they increased by 2.2 % or 779,161 €. Short-term liabilities represented 12.6 % of all funds and have decreased by 15.2 % or 4,918,019 € in year 2014. Provisions and long-term accrued costs and deferred revenues represented 6.4 % of funds at the end of year 2014. In year 2014 they increased by 3.6 % or by 483,487 €. Short-term accrued costs and deferred revenues contributed 0.6 % to funds at the end of year 2014 and decreased by 47 % or by 1,069,561 € compared to the year before.

Figure 26: Structure of funds as of 31. 12. 2014

Structure of funds as of 31. 12. 2013



6.10.9 STRUCTURE OF REVENUE AND EXPENDITURE

In year 2014 Elektro Gorenjska Group achieved a pre-tax profit in the amount of **6,199,803 €**.

Table 11: Composition of profit or loss by business segments (in €)

ITEM DESCRIPTION	2014	2013
Operating profit or loss	7,373,175	6,254,667
Financial result	-1,127,634	-1,158,946
Extraordinary profit or loss	-45,737	-47,833
Pre-tax profit	6,199,803	5,047,888

Decisive contribution to positive business in year 2014 was made by the positive operating profit or loss, above all activities of the Contract with SODO and electricity sale and production, while the financial result in year 2014 was negative as expected, as the line of business the group mostly operates in is technologically very intensive, which reflects in the increase of long-term assets, above all tangible fixed assets in energy infrastructure and new production capacities financed mainly through debt resources.

Table 12: Operating profit or loss in years 2014 and 2013 (in €)

ITEM DESCRIPTION	2014	2013
Operating revenues	89,444,365	97,284,530
Operating expenditure	82,071,190	91,029,863
Operating profit or loss	7,373,175	6,254,667

Operating profit or loss for year 2014 amounted to 7,373,175 €. Compared to year 2013 it was by 1,118,508 € higher. Better operating profit compared to year 2013 is the result of higher revenues from rent and services under the contract with SODO and higher electricity production.

Structure of operating expenditure for year 2014 is shown in the figure below:

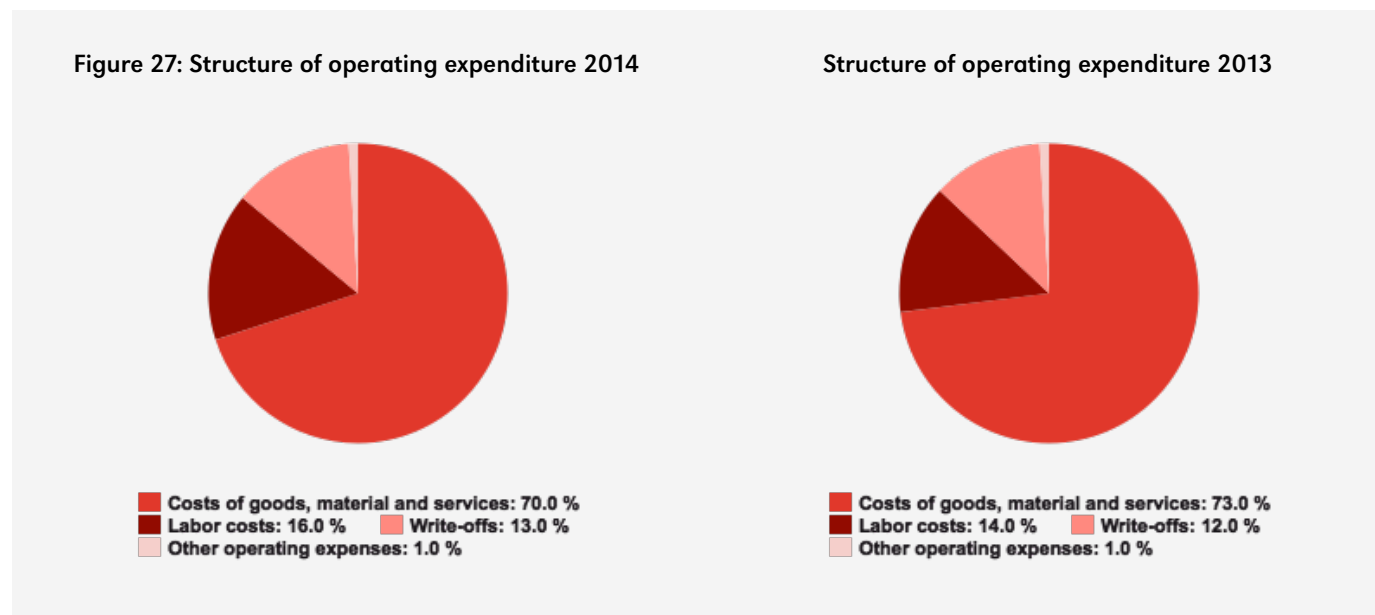


Table 13: Financial result in years 2014 and 2013 (in €)

ITEM DESCRIPTION	2014	2013
Financial revenues	426,038	387,851
Financial expenditure	1,553,672	1,546,797
Financial result	-1,127,634	-1,158,946

Financial result was expected to be negative, as the group makes positive results with operating profit or loss or operation within its basic activities. Negative result was mainly influenced by interest for loans received from banks for financing investment and interest due to interest rate swap (interest rate hedging).

Compared to year 2013 financial result is better by 31,311 €.

Table 14: Result from extraordinary operations in years 2014 and 2013 (in €)

ITEM DESCRIPTION	2014	2013
Other revenues	227	155
Other expenditure	45,965	47,988
Extraordinary result	-45,737	-47,833

Other expenditure is mainly donations, which are described in more detail in [chapter 8.3.1. – Communication with local community and social responsibility](#).

Table 15: Net profit in years 2014 and 2013 (in €)

ITEM DESCRIPTION	2014	2013
Pre-tax profit	6,199,803	5,047,888
Income tax	722,397	373,622
Net profit	5,477,406	4,674,266

7 MARKETING AND SALES

Elektro Gorenjska Company has been providing reliable and quality supply of electricity in the area of 2,091 km² in the northeastern part of Slovenia. Besides provision of reliable and quality electricity operation of distribution network, which provides reliable supply 24 hours a day every day of the year, we also implement services, necessary in construction and maintenance of electricity infrastructure.

In the context of integrated solutions the following services are the most useful for end users:

- **Energy advisory service and more efficient use of electricity, and implementation of power checks**

Power checks represent the basis for preparing the program of consumption control and efficient electricity use. 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.

- **Implementation of different planning services**

We offer design services, from conceptual design to the as-built design, for all electricity power facilities, including transformer substations – RTP 110/20 kV, distribution stations – RP, transformer stations – TP, medium – voltage and low-voltage cable conduits, low-voltage connecting conduits with account measurements. In addition, we advise, help in preparing main files and urbanism of energy facilities, planning of cogeneration units, hydro power and solar power plants, projects for public and street lighting, preparation of projects for electricity infrastructure of industrial, commercial, trade and/or residential zones, and we also cooperate in preparation of electrical installations in buildings.

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

We offer competitive services in the field of work performance for all types of transformer stations 10-20/0,4 kV, low- and medium-voltage underground and overhead power lines, low-voltage connections for all types of consumption, relocations, recoveries and reconstructions of electricity power facilities, devices and lines. In the field of electricity power facilities and devices maintenance we offer contractual implementation of regular checks, measurements and audits of transformer stations, connection-measuring points, devices and lines on the low- and medium-voltage level by monitoring operational state and record keeping. We are trained for live work on low-and medium-voltage levels for the segment of cleaning the medium-voltage devices and plant.

- **Implementation of various types of measurements**

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

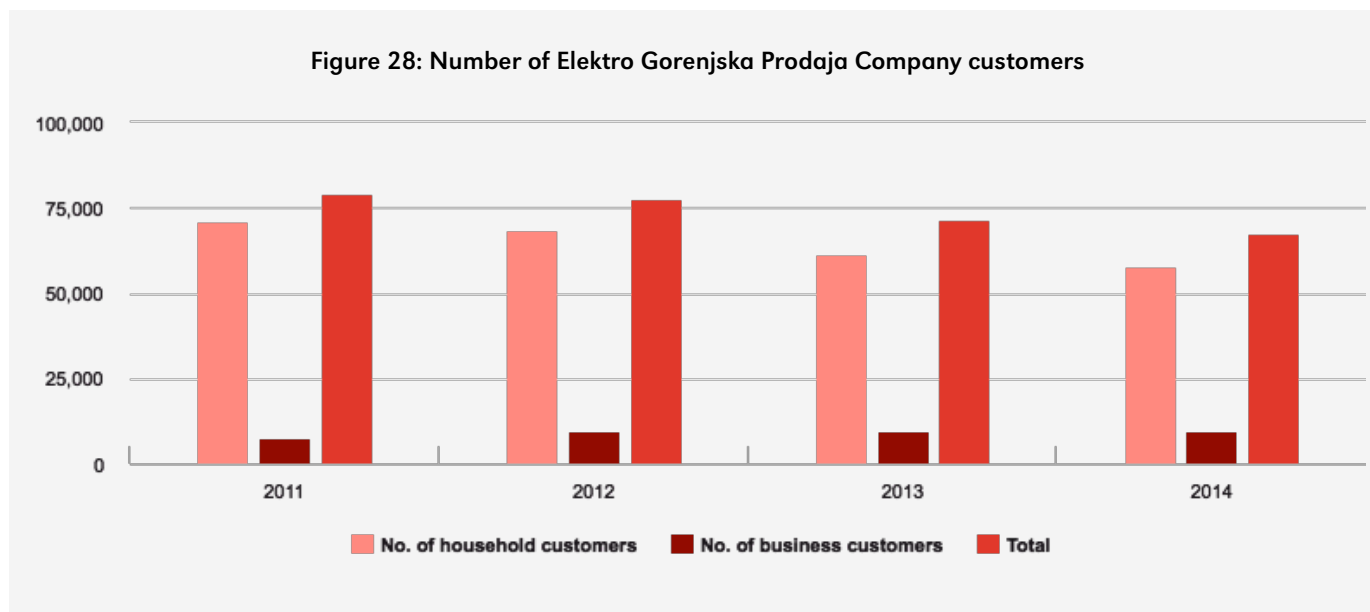
- **Other market services**

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

Elektro Gorenjska Prodaja Company puts satisfaction of its customers first. Partnership relations with them are built through quality and competitive offer of electricity supply. By stimulating efficient electricity use, use of renewable sources and advising it helps them reduce energy costs. It is the only electricity supplier that rewards household customers for more efficient electricity use. We like to listen to our business partners and their proposals for cooperation in other fields related to electricity supply too.

Customers are classified into individual marketing segments that include customers with similar requests and needs. Segmentation of customers enables us to adjust and meet their requests better.

In year 2014 Elektro Gorenjska Prodaja Company supplied electricity to 67,553 customers mainly in the region of Gorenjska. They are categorized in business customers and household customers. Following is the presentation of the number of Elektro Gorenjska Prodaja customers by years.



Main goal of the Elektro Gorenjska Prodaja Company is to maintain the competitiveness in both segments with a focus on key factors of choice in individual groups.

In the segment of business customers key factors of choice are: good prices, advice on the right moment for purchase, quality services to ensure an overview of the consumption, and provision of counseling regarding the rational use of electricity. Much attention is paid to larger customers; we have developed a system of administrators for key buyers. We enable larger and more demanding buyers also a structures purchase of electricity.

In the segment of household customers the company mainly strives to form quality and competitive offers in order to maintain its market.

Business customers

Customers in this group can freely choose the most favorable electricity supplier since July 1 2004. In balance subgroup of Elektro Gorenjska Prodaja this segment represents 14 percent share of all measuring points or 64 % of final electricity consumption. According to the quantity of the consumption they are categorized into three categories:

- large industrial or key customers,
- medium sized companies and

- small crafts and trades and other business customers.

Customers of the categories of large industrial and medium sized companies are dealt with individually, they have their own administrator, and their offers are formed in accordance with their wishes and needs. Customers from the category of small crafts and trades and other business customers are increasingly being dealt with individually as well.

Household customers

Customers in this segment can freely choose their electricity supplier since July 1 2007. With the complete opening of the electricity market as of July 1 2007 the efforts of the company in the field of satisfaction of the customers have increased. Besides simplified operation and forming of customer-friendlier services household customers are offered new services, which stimulate them to efficient use of electricity and use of renewable energy sources. In year 2009 the household customers were offered a new package I spend, what I need (Porabim, kar rabim) and an economy program 10 steps to a more efficient electricity use while in year 2010 we offered the Re-energy package with affordable offer of quality products for the use of renewable sources. Additional offers for purchase of heat pumps and electricity from renewable sources Blue Energy for heat pumps were presented in year 2011. In year 2012 discontinued addition for high consumption and enabled customers to ensure themselves unchanged prices for a selected period with our new package Lock the prices! (Zakleni cene!). We also presented our loyalty program, through which we offered additional benefits to our customers in cooperation with business partners. In year 2013 we rewarded our customers for their long time loyalty and reduced their electricity price in November and December. Prices were further reduced in year 2014, and customers were offered two more new packages of electricity supply with very low prices –Heat Pump and 2015 Holiday package. In year 2014 customers were presented several new services: assistance for home, e-invoice, paying the bills with no commission in Delavska hranilnica offices, advice for lower electricity bills and Good things need to be shared (Dobre stvari je treba deliti).

Services for business customers

Besides sale of electricity Elektro Gorenjska Prodaja Company in year 2014, in accordance with its mission, offered its business customers also additional services, adapted to their needs. Business customers have been able to select among various packages of data and advisory services. They could also decide for purchase of electricity from renewable sources. In year 2013 the company presented also its program for improving energy efficiency of final consumers, while for smaller business customers, they prepared the offer of heat pumps and other benefits for them to save on electricity bills.

Data services include four different packages. Each package is adapted to the needs of different groups of buyers and technical capacities of their measuring points:

- Basic package is received by all buyers and is free of charge. This package includes the annual overview of electricity consumption for individual measuring point.
- Standard package includes two annual overviews of electricity consumption for an individual measuring point.
- Package EG gives buyer access to load diagrams online.
- Package EG PLUS includes all characteristics of the basic, standard and EG packages. It also provides buyers with electric power analysis of loads based on the measuring data and counseling on rational use of energy with instructions to use economical electricity consumers.

Consultancy services are divided in two packages:

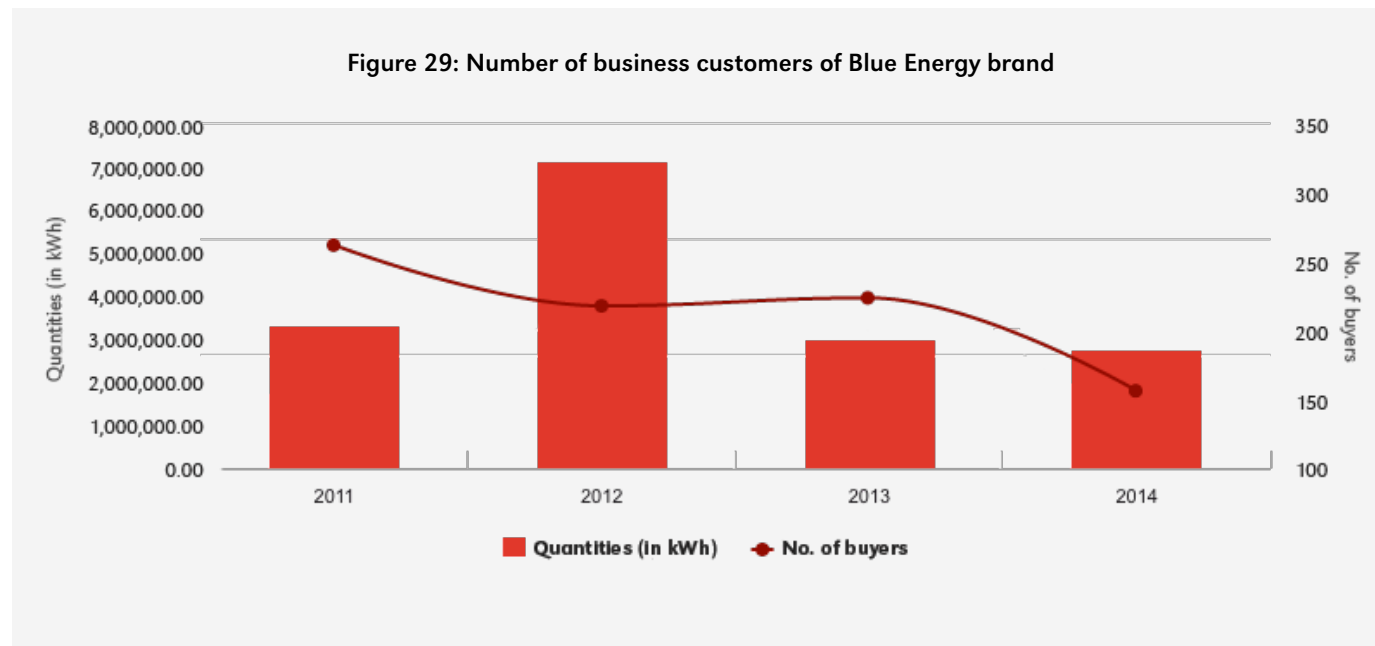
- Basic package, which is standardized and includes calculation of estimated electricity costs, and
- Personal package, which takes into consideration individual wishes and needs of the individual customer and includes counseling on rational energy use, electric power analysis of loads and research of consumption optimization possibilities.

Through counseling Elektro Gorenjska Prodaja Company executes detailed calculations and analysis of consumption for the customers. Calculations include estimated costs of electricity for the following period and possibilities of rationalization of consumption and costs.

Blue energy

Since 2005 Elektro Gorenjska Prodaja Company has been stimulating customers to purchase the Blue Energy and offering them the possibility and choice to contribute themselves to a cleaner environment and reduction of greenhouse gases, which are main causers of global warming of our planet. Blue Energy is a brand of energy acquired from renewable sources of large Slovenian rivers. Holder of the brand is HSE (Holding Slovenske elektrarne), Elektro Gorenjska Prodaja has the role of an agent in sale to end buyers. Buyers, who decide for Blue Energy, pay an addition to the price of electricity. Funds are collected in the Blue Fund. Blue Fund is intended to promote energy generation from renewable sources, research in the field of promoting the energy production from renewable sources, and for the renovation and building of units, which generate energy from renewable sources.

Every year buyers of Blue energy receive a certificate as a proof of use, they ensure themselves a publication on the website www.modra-energija.si, and they can use its logo in marketing their products and services.



Re-energy offer

Since year 2013 the Elektro Gorenjska Prodaja Company has been presenting benefits when purchasing products for use of renewable energy sources to its business customers as well. This way business customer can also reduce their energy costs through Re-energy offer and obtain electricity bonus.

Program for improving energy efficiency

Since year 2013 Elektro Gorenjska Prodaja has introduced co-financing of investments in increasing energy efficiency of buildings.

Within the program for achieving energy savings for final customers the company executed two tenders, which granted 309,543 € of non-refundable funds.

Second tender was published on May 23 2014. Financial incentives were intended for installation of energy efficient lighting systems, installation of heat pumps for heat generation, for equipment to implement operational monitoring and energy management operators and replacement of boilers for all fuels with new boilers on wood biomass, natural gas or UNP.

For the second year in a row Elektro Gorenjska Prodaja thus promoted energy efficiency by awarding grants. In this year a set of measures to ensure savings was further expanded. To ensure savings of energy for final customers in year 2014 a total of 353,400 € has already been allocated.

In year 2014 the company expanded its suite of measures to provide savings and devoted its resources to the following measures:

- installation of heat generating heat pumps,
- installation of energy efficient lighting systems,
- equipment to implement operational monitoring and energy management operators,
- replacement of various fuel boilers with new biomass, natural gas or UNP boilers,
- programs of energy checks implementation and
- information and awareness programs.

For the second year in a row Elektro Gorenjska Prodaja thus promoted energy efficiency by awarding grants. To ensure savings of energy for final customers in years 2013 and 2014 a total of 662,943 € has already been allocated.

Assistance for companies

In year 2014 Elektro Gorenjska Prodaja Company presented to Small business customers the so called Payment assistance, which helps companies protect their business against defaulted obligors and saves their time and money. Within the Payment assistance service the company offers preventive and curative assistance. Companies can verify the solvency of partner companies, based on which they are able to estimate the company's health, reduce operating risks and avoid the eventual defaulted obligors. It also assists companies in dealing with obligors they already have. For them Elektro Gorenjska Prodaja arranges factoring, chain compensations, files pre-trial and judicial recoveries, as well as prepares criminal complaints to file to the Police.

Simplified ways of operation

In year 2014 Elektro Gorenjska Prodaja Company introduced environmental friendly and modern **e-invoice**, which enables customers to receive invoices directly into the web bank.

Services for household customers

With establishment of changed market conditions Elektro Gorenjska Prodaja Company adapted and supplemented its offer of services for household customers wishing that also in the future we would be able to build mutual trust and strengthen good business relations.

Package "Zakleni cene!" (Lock the prices!)

Since 2012 all household customers have been able to ensure unchanged prices of electricity for the period they selected through the package. Due to favorable prices mainly price-sensitive customers decide for this package, and their number is increasing with years. In year 2014 the company ensured unchanged prices to the end of year 2017.

Package Re-energy

Package Re-energy joins the offer of the Elektro Gorenjska Company in the field of renewable sources utilization, which was prepared together with partners. They are intended for the individuals, who are prepared to participate actively in the attitude towards environment.

By making the decision to use renewable sources from Re-energy package customers can choose from quality offer, promoting environment friendly use of energy at best conditions. Besides that they also save on electricity, as the prices in Re-energy package are especially attractive, and they can save through additional bonus for electricity that they receive with the purchase.

Current offer in year 2014 included:

- heat pumps for domestic hot water Vesttherm,
- heat pumps for space heating Thermia,
- solar kits Tehnosol and
- electric bicycles Tehnosol.

In year 2014 in Re-energy package a fixed electricity bonus was introduced instead of the existing linked to the consumption. In the new package higher quality heat pumps for hot water of Vesttherm brand were introduced.

Package "Porabim, kar rabim" (I spend, what I need) and saving program

Elektro Gorenjska Prodaja Company is the only electricity distributor that rewards its household customers for more efficient use of electricity. Ever since year 2009 our household customers have been offered a saving program I spend, what I need – with 10 steps to efficient electricity use, which was prepared in cooperation with the Energy Efficiency Center at the Jožef Stefan Institute. Within the saving program they explain household customers what are the biggest consumers of electricity in their households, and how and how much they can save on their use. In order to help them monitor and control their electricity consumption they have prepared also control chart and chart for daily monitoring of consumption. With these prepared measures they direct them on their way towards more efficient power consumption. Saving program is presented in more detail on web site www.porabimkarrabim.si.

In year 2013 the saving program I spend, what I need – 10 steps to efficient electricity use was updated with current structures of electricity consumption in households, new technologies and electricity prices. They have also prepared a new range of indicators of electricity use efficiency, which will additionally clarify the understanding of their energy use and published a revised brochure.

As assuming the habits of more efficient electricity use depends on the savings evident on the bills for electricity, saving program is linked to the I spend, what I need package, where customers have undertaken to report monthly their meter status and thus pay their electricity according to the actual and not average consumption. Customers that reduce their annual consumption by at least 10 % are additionally rewarded for their efficient use with a bonus of 10 €.

Elektro Gorenjska Prodaja Company offers its household customers also rental of electricity consumption meters free of charge, which help the customers establish which electricity consumers are most uneconomical.

Blue energy for heat pumps

In year 2011 Elektro Gorenjska Prodaja acceded to the all Slovenian Blue energy for heat pumps campaign in order to enable the benefits of the campaign to our household customers as well. Blue energy for heat pumps campaign, which took place in the first half of year 2014 as well, is intended to promote efficient heating and cooling with renewable energy sources. It takes place within the campaign "You are the energy, be efficient", whose initiator is Holding Slovenske elektrarne, while campaign's manager is Informa Echo.

Campaign took place on web portal www.pozitivnaenergija.si, where customers could get acquainted with participating heat pump sellers and heat pumps on offer. In year 2014 the offer included heat pumps for space heating and also heat pumps for domestic hot water. Household customers could purchase heat pumps with discounts from 5 to 13 % during the campaign. With the purchase they received a voucher for cheaper electricity which they could claim with their electricity supplier in order to charge them with electricity according to the prices of the Blue energy for heat pumps package. In the package customers obtained 10 %

discount on the price of electricity in their own basic package for the period of two years and got Blue energy for the price of regular one. When they bought heat pumps for domestic hot water, discount on electricity price amounted to 5 % for two years. Three vouchers were realized during the campaign.

In the second half of year 2014 Elektro Gorenjska Prodaja Company withdrew from the campaign Blue energy for heat pumps and offered the customers an alternative package Heat pump.

Package Heat pump

In the month of September Elektro Gorenjska Prodaja Company presented the package Heat pump designed for all owners of heat pumps irrespective of which brand the pump was and when it was installed. Owners need to complete a declaration on cooperation to access the Heat pump package and they need to attach the photos of their installed heat pump. Prices of electricity in the package are very attractive, fixed and valid until the end of the year 2015, so owners of heat pumps will be able to use an even cheaper heating.

Christmas package 2015

In Decemebr 2014 Elektro Gorenjska Prodaja Company presented its special electricity offer. In the package the company offered the lowest prices of electricity in Slovenia until the end of the year 2015 and so it offered its customers even higher saving than campaign "Zamenjaj in prihrani" (Change and Save), organized by the Slovenian Consumers' Association. Average household reduced its monthly electricity bills by selecting the 2015 package and was able to save about 80 € in a year. The package was available for the customers only until December 31 2014.

Assistance for Home

Within the assistance for home Elektro Gorenjska Prodaja Company presented its household customers Home and Comparative Assistance. Home assistance helps customers cope with unexpected problems. In the event of a failure at their home (effusion of water, broken lock, heating failure, and short circuit in the electrical system, etc.) customers can contact a craftsman that will eliminate their problem as soon as possible.

Comparative assistance facilitates customers in getting offers from various contractors for a planned investment in their home. They can receive several offers by only one phone call, compare them and choose the most favorable.

Advice for lower electricity bills

Elektro Gorenjska Prodaja Company prepared a brochure "Znižajte račun za elektriko" (Lower your electricity bill), which presented the customers five ways to reduce their electricity bill, namely by appropriate fuse, using "cheaper current", replacement of old

wasteful household appliances, changing paper for e-invoice and paying bills with no commission. With each advice informative calculation of the saving was shown too.

Paying the bill with no commission

Since August 2014 customers of Elektro Gorenjska Prodaja have been able to settle their electricity bills with no commission in offices of Delavska hranilnica and save up to 25.20 € per year.

Fees for the payment of bills differ greatly. By paying just one bill at the gas station, post office, in a store or at the bank, buyer can pay from 0.65 to 2.10 €. Customers of Elektro Gorenjska Prodaja that will pay their electricity bills in Delavska hranilnica offices, can save up to 25.20 € per year on electricity only. They can settle their electricity bills regardless of whether they were customers of Delavska hranilnica or not. Delavska hranilnica has three offices in Gorenjska region: in Kranj, Jesenice and Kamnik. Customers can settle the electricity bills of Elektro Gorenjska Prodaja with no commission in any of the 28 offices in Slovenia.

Loyalty program

In Elektro Gorenjska Prodaja Company satisfaction of customers is in the first place, they appreciate loyalty and trust. In the framework of quality and competitive offer to household customers they are offered an opportunity for favorable purchase and additional benefits in electricity price, and they constantly looking for solutions and forming offers that help customers to reduce their electricity costs.

In year 2014 Elektro Gorenjska Prodaja Company continued with rewarding the longtime loyalty of its customers with lower electricity prices. Due to favorable conditions on the wholesale electricity market Elektro Gorenjska Prodaja adjusted the retail prices for households in February and May to lower purchase prices. Within six months prices fell four times, in total of 6 %.

In year 2014 within the loyalty program they enabled customers favorable purchases of wood pellets in Gorenjske elektrarne Company, purchase of wood pellets, briquettes and wood in Gatis Company, and energy saving household appliances at action prices and interest free installment repayment at 12 months in on line shop named "Prijazna energija, prijazne cene".

In the first half of the year they offered our customers purchase of wood pellets in Gorenjske elektrarne. When they purchased one pallet from the Gorenjske elektrarne offer the customers of Elektro Gorenjska Prodaja gained 5 € bonus on electricity. In the second half of the year we expanded the offer of wood pellets in cooperation with Gatis Company. They offered the customers also purchase of quality briquettes and wood.

Campaign "Dobre stvari je treba deliti" (Good things have to be shared)

In the campaign "Dobre stvari je treba deliti", which took place from October to December, customers could reduce their electricity

bills by 10 € for each friend, acquaintance, relative, neighbor or coworker that became their customer and signed a contract on electricity supply in the "Zakleni cene!" package.

Elektro Gorenjska Prodaja customers could recommend their friends with a coupon received by mail or personally at the seat of the company. Besides electricity bonus in the amount of 10 € for each new buyer, customers also received one month of free use of Assistance services (Home and Comparative Assistance).

In the campaign "Dobre stvari je treba deliti" new buyers could also reduce their electricity bills with a great price in the "Zakleni cene!" package and with the additional 10 € electricity bonus, which they could take advantage of with their first bill. They could also reduce their bills with numerous other benefits that Elektro Gorenjska Prodaja offers to its customers. They also received half-year free use of Home and Comparative Assistance.

Online shop "Prijazna energija, prijazne cene" (Friendly energy, friendly prices)

On December 1 2014 Elektro Gorenjska Prodaja Company presented its new offer of energy saving household appliances in the online shop "Prijazna energija, prijazne cene" (Friendly energy, friendly prices).

In the online shop users can select among quality energy saving appliances, from white goods, audio and video devices to computers and printers. All appliances in the online catalog were carefully selected and are energy saving. Energy saving appliances consume less electricity and are electricity bill friendly. With the replacement of old wasteful appliances with energy more efficient households can save tens of euros per year.

Customers can buy in the online shop at special prices. Selected products can be bought in 12 instalments without interest and other costs of financing. Individual installments are calculated on electricity bills. Delivery for all products in the online shop is free of charge.

Procedure for dealing with complaints

From year 2012 Elektro Gorenjska Prodaja Company has presented two-step procedure for dealing with complaints. When customer is not satisfied with the response to the complaint on the first level, their complaint will be considered by an independent and impartial party on the second level of the extrajudicial procedure.

Simplified methods of operation

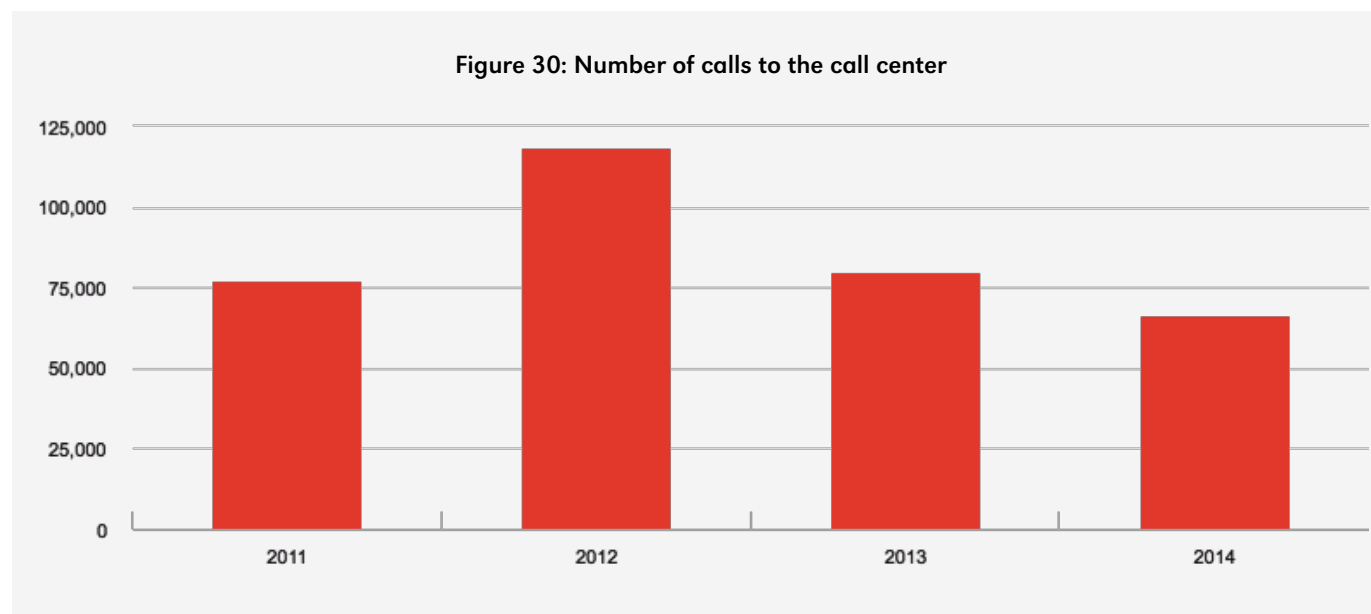
In the web application "Moj EGP" Elektro Gorenjska Prodaja joins in one place all electronic services available to the customers 24 hours a day, 7 days a week. Use of website center is simple and free of charge.

Web application, which household customers have access to from all company's web sites www.eg-prodaja.si,

www.porabimkarrabim.si and www.reenergija.si, offers complete overview and control over electricity consumption on individual measuring point. Customers can use the web application to submit their meter readings for electricity account, review electricity consumption at the measuring point and made out charges and received payments in the current accounting period, as well as check the technical data of their measuring point. In the web application they can access archive of received e-bills and make out control bill and a copy of the bill, as their use of the web application is free of charge. Number of "Moj EGP" web application is increasing constantly. It is used by 31 % of all customers.

Call center is an important contact point of the customer with the company, where phone calls supported by computer automation are being processed. Call center can process a large quantity of calls simultaneously and can review the calls and deliver them to the qualified person. Call center typically records the entire event.

Company pays great attention to shortening queues, and in the month of December it introduced extended working hours of the call center, namely every working day from 7 a.m. until 5 p.m.



Customer communication

In communicating services and products Elektro Gorenjska Prodaja Company have used different communication tools: advertising, sale promotion, and direct ways of communication – using the back sides of the bills information brochures attached to the bills,

direct mailing, presentations at local events and web sites www.eg-prodaja.si, www.porabimkarrabim.si and www.reenergija.si and "Moj EGP".

Development of new services

Elektro Gorenjska Prodaja is preparing numerous novelties in the year 2015:

- expansion of offer to other energy, above all natural gas,
- changing of business model and expansion of offer of heat pumps, wood biomass and IR-panels,
- expansion of offer and attractive purchases in the online store,
- development of new, more up-to-date and customer friendlier services (smart phone application, submission of meter status through text message),
- forming new, price attractive packages for electricity supply,
- development of new services in the field of energy counselling,
- development of a portal to support large business customers.

In year 2015 offer and services of Elektro Gorenjska Prodaja will be marked by a planned merger with Elektro Celje Energija Company.

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 that through energy.

8.1 CARE FOR EMPLOYEES

The ideal organizational culture in Elektro Gorenjska Group represents values in the sense of behaviors we expect from our colleagues and stimulate in order for them to develop, while companies achieve highest possible operating effectiveness. Our employees are our strategic advantage, so colleagues are stimulated to search opportunities and discover new ways in the times of quick changes. We try to awake an entrepreneurial potential in our employees and keep the company competitive. We appreciate basic human values, their knowledge and achievements in our colleagues. Enabling new challenges, personal initiative, promotion, education and training are factors we use continuously to try and attach the co-workers to the companies in the group and convince them to stay. As we want to become learning organizations we stress equality, open information, and organization culture, which stimulates cooperation and with it occurrence of ideas anywhere in group, so we are able to find opportunities faster and fight with changes and crisis situations. We enhance communication by including everyone in solving the problems, which enables the companies to experiment all the time, improve and increase their capacities, while their employees to reach their own and consequently also joint goals.

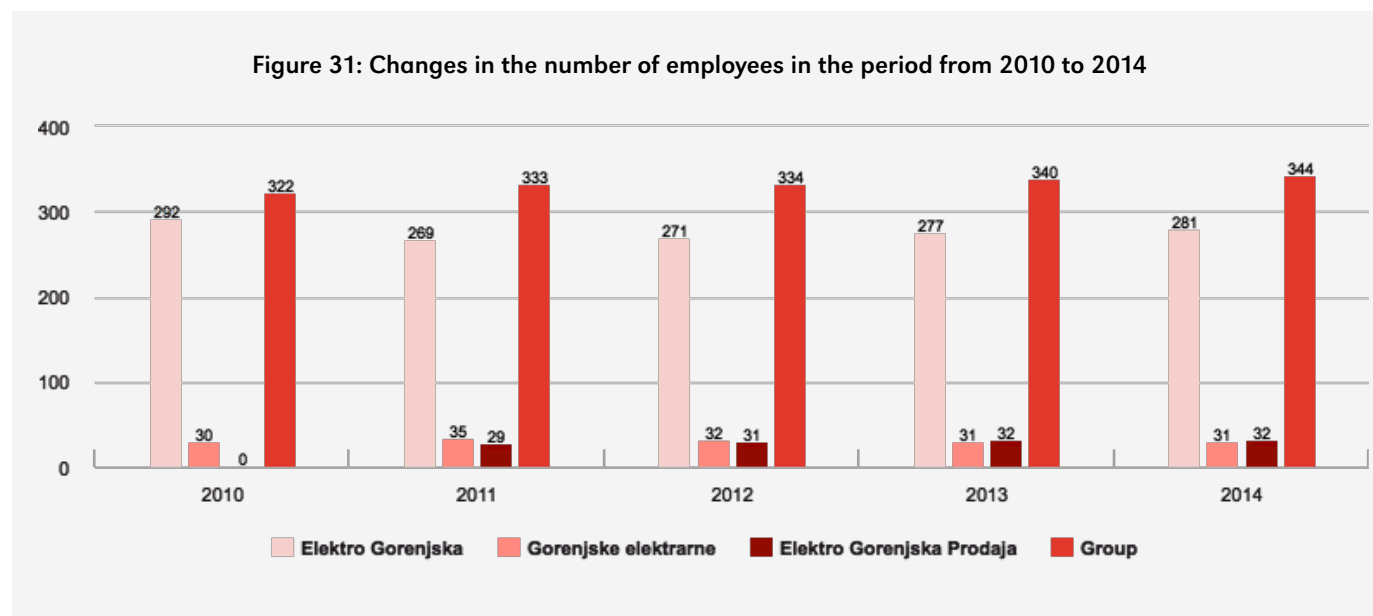
With the intention of reaching the group's goals of permanent development in the field of working with employees, we have been creating a supporting environment that stimulates motivation and efficiency:

- we stimulate constructive behavior of employees, which will bring us closer to our ideal organizational culture,
- we are family friendly companies,
- with scheduled employment and education we raise educational structure of our employees above the set goal,
- we carry out workshops in the field of management and communication,
- at the website of the human resources employees are offered answers to frequently asked questions and the website is also regularly updated.

8.1.1 DEMOGRAPHIC STRUCTURE IN THE GROUP

On December 31 2014 Elektro Gorenjska Group had 344 employees. Compared to the situation as at December 31 2013, number of employees increased by four workers. In year 2014 we have had a total of six terminations of employment and ten new employments.

At the end of year 2014 the group had 5.81 % employees employed with fixed-term employment, which is a bit less than in year 2013. In year 2015 the number of employees will remain at approximately the same level.



At the end of year there were 72.7 % of men and 27.3 % of women employed in Elektro Gorenjska Group which is entirely comparable with the previous years and closely connected with the primary activity of the two companies. Gender ration in Company Gorenjske elektrarne has been derogating from groups' data every year, as this company has predominantly male population employed.

Average age of employees in the group is 42.6 years, which is slightly higher according to the previous years. This shows the fact that employees are retiring later. Analysis of groups of employees according to age shows that in year 2014 there were the most

employees in the age group between 46 and 55 years, namely 35 percent of all employees. Older age structure in Gorenjske elektrarne Company has the strongest impact on older age groups as there 64 % of all employees belong to the last two age groups.

Figure 32: Shares of employees in Elektro Gorenjska Group according to age groups

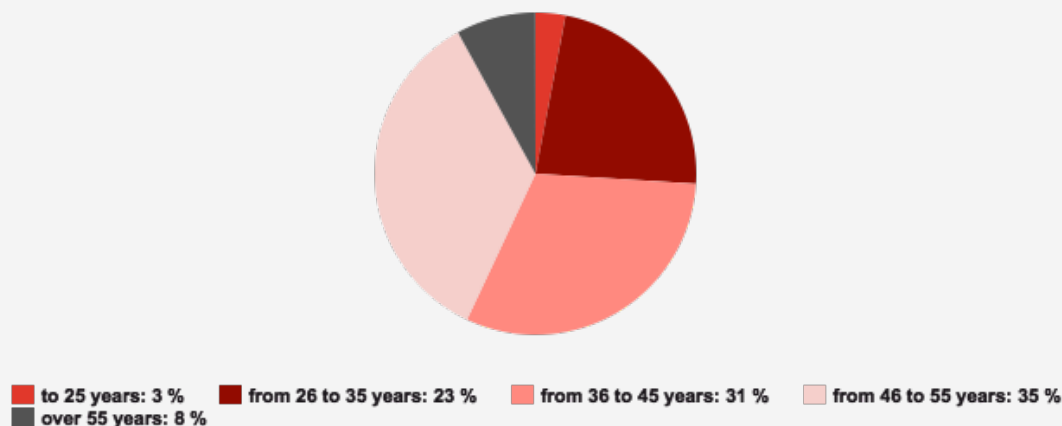


Table 16: Elektro Gorenjska Group employee information for the period from 2013 to 2014

	ELEKTRO GORENJSKA		GORENJSKE ELEKTRARNE		ELEKTRO GORENJSKA PRODAJA		GROUP	
	2013	2014	2013	2014	2013	2014	2013	2014
average number of employees	275	280	32	31	31	32	338	343
average age (years)	41.8	42.3	47.2	47.8	38.2	39.8	41.9	42.6
average years of service in the group	16.6	17.0	21.1	21.2	12.1	13	16.5	17.1

8.1.2 EMPLOYMENT

Human resources planning is a constituent part of strategic and annual plan of the companies. Human resources in the Group are planned in accordance with these goals by an annual business plan and implementation plan of human resources and education. We seek to gain ambitious and professional new workers. New employees are won by invitations to tenders and publications on web

sites. All job applications send by jobseekers are saved and used when there is a need to recruit new employees.

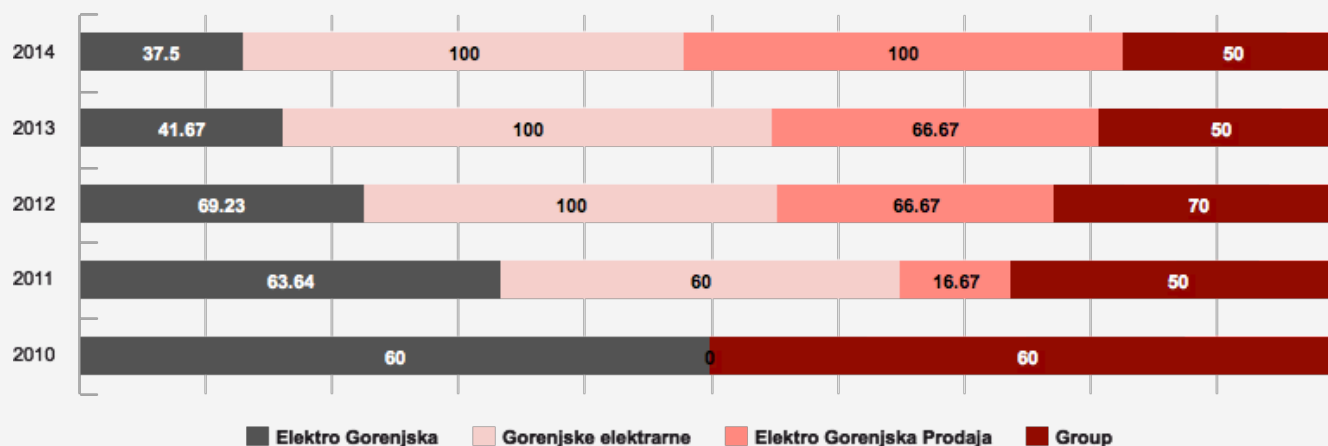
Wishing to win young and ambitious co-workers we use different forms of presenting the companies and their operation. We take advantage of opportunities offered by individual student organizations, faculties and secondary schools covering this field. We believe that interesting presentation of a job and perspectives are important for students deciding on their professions. In promoting these jobs support of the educational sphere is most welcome.

Students are given opportunity to do compulsory practical training and occasional student work. This way they get to know the Company and work, while we meet potential job candidates.

With the purpose of better recognition of job-seekers and possibility of candidate selection we have prepared an employment questionnaire, which can be found on the companies' web sites.

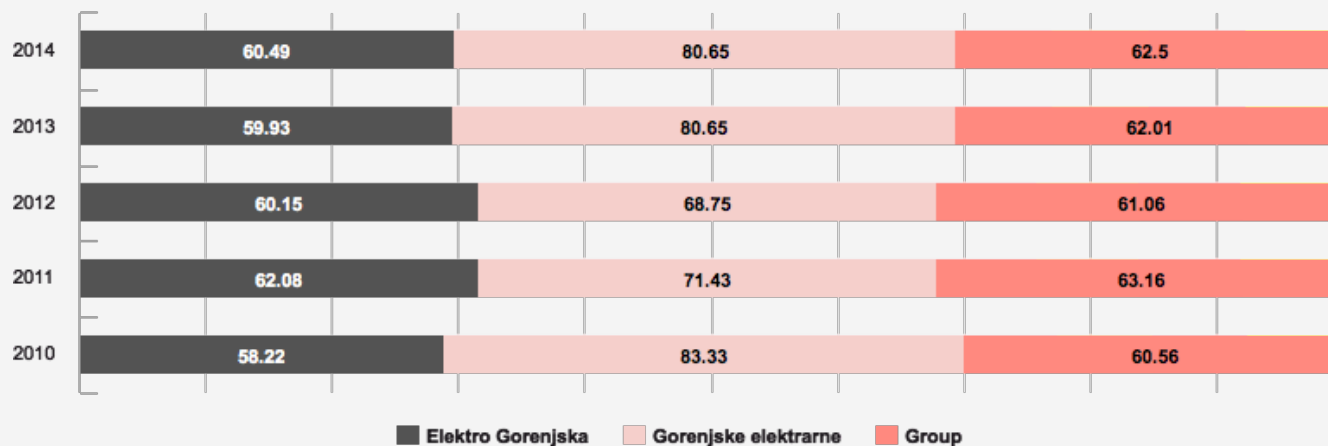
Development, changes, and needs of the work process request more and more of knowledge and high level of competence of our employees that is why we employ highly educated staff.

Figure 33: Share of new employees with at least high professional level of education at the time of employment



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

Figure 34: Share of employees with electro-technical or engineering education in the period between 2010 and 2014



Fluctuation of personnel in the Elektro Gorenjska Group is small and has been decreasing further in the last three years. Fluctuation mainly emerges due to departure of workers for retirement and fixed-term employments, where employments are terminated after the need for increased volume of work is terminated or due to termination of the need for substitution of the worker. Very rarely individuals decide for the termination of the employment contracts on their own. In year 2010 the fluctuation rate was extremely high due to a great number of retirements, which were not replaced by new employments, while in year 2011 the rate fell back to the level of previous years. As Gorenjske elektrarne and Elektro Gorenjska Prodaja are small companies in terms of the number of employees, every employment termination, which is not replaced by a new employment, has a great impact on the higher percentage of fluctuation, which reflected in both companies in year 2012.

Table 17: Fluctuation rate in Elektro Gorenjska Group

	2010	2011	2012	2013	2014
Elektro Gorenjska	12.31 %	2.54 %	3.90 %	2.13 %	1.41 %
Gorenjske elektrarne	6.25 %	0.00 %	11.10 %	6.06 %	3.13 %
Elektro Gorenjska Prodaja	–	2.54 %	11.40 %	5.88 %	3.03 %
Group	11.54 %	2.06 %	5.38 %	2.87 %	1.72 %

8.1.3 EMPLOYMENT OF PERSONS WITH DISABILITIES

As at December 31 2014 there were seven disabled persons employed in the group. In accordance with the statutory quota of employing disabled persons, which amounts to 5 % in Gorenjske elektrarne and Elektro Gorenjska Prodaja and 6 % for Elektro Gorenjska, the group would have to employ approximately twenty-one disabled persons. In year 2014 by signing the contract with a social enterprise for the period of eight months Elektro Gorenjska made use of the possibility of claiming replacement quota fulfillment for eighteen disabled persons. We plan to continue with this practice in the future years too.

Table 18: Information on disabled employees

	ELEKTRO GORENJSKA		GORENJSKE ELEKTRARNE		ELEKTRO GORENJSKA PRODAJA	
	2013	2014	2013	2014	2013	2014
Number of employed disabled persons as at 31. 12.	8	7	1	0	0	0
Number of disabled persons for contribution as at 31. 12.	9	10	1	2	2	2
Amount of contribution in a year (in €)	57,050	51,375	6,583	12,702	13,165	13,257
Number of realized disabled persons in year, based on contracts with social enterprises	11	18	0	0	0	0

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

8.1.4 EDUCATION

Investing into knowledge is investing into the future that is why the Group devotes a lot of attention to appropriate development of human resources. By offering them possibilities of education and other forms of training we foster a caring relation to employees. Employees, who are noted to be lacking knowledge, are directed to appropriate educations and trainings. High share in trainings belongs to the field of health and safety at work and all the time we are also renewing professional exams, which mainly employees working with electricity power devices need to take. 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. 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 group. In the past year higher level of education was acquired by six employees. In year 2012 most of the employees took part in trainings for use of internal applications and trainings in the field of safety and health at work, while in year 2013 we carried out a workshop on communication with difficult clients and sale, which is why in these two years we record high percentage of employees on training.

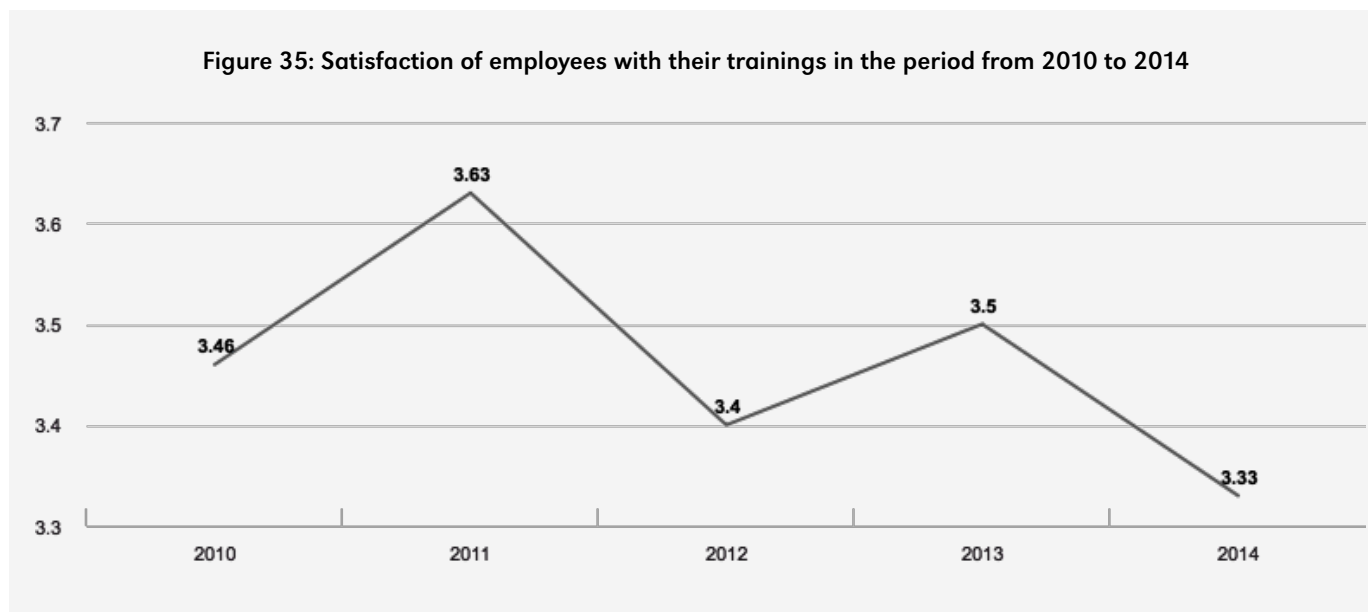
Table 19: Education in the period from 2012 to 2014

ITEM DESCRIPTION	2012	2013	2014
Employees on trainings (in %)	80.42	79.29	76.68
Average number of training days per average number of employees (days)	2.28	2.43	2.39
Costs of education and training per employee (in €)	459	586	445
Number of employees acquiring higher level of education on the basis of education contract	34	28	23
Number of scholarship holders	3	1	1

The success of the company depends also on the proper management and treatment of people at work. As the survey on organizational culture carried out in 2013 has shown that there are still possibilities for improvements in the field of management of staff and relations with customers, in year 2014 we executed three workshops on management and treatment of people at work and a workshop on communication with clients. We will continue having these kinds of trainings in the following years as well.

We successfully use the possibilities of free trainings offered by providers. Transfer of knowledge among employees further contributes to optimization of financial assets for trainings. This means that one or two workers are deployed to a certain specific training who transfer the knowledge gained to their colleagues. Transfer of knowledge also includes transfer of experience, familiarizing the staff with novelties and interaction at work. In year 2013 we started monitoring the transfer of knowledge systematically. Higher inclusion of employees in training with less cost is achieved also through use of e-learning and by stimulating employees to search for information and data independently.

After the completed training employees complete a survey, which establishes the satisfaction of participants with the training. Analyses have shown that employees are satisfied with trainings they are directed to, as average marks on the scale of 1 to 4 have been moving above the mark 3 for several years. Besides that employees after completing the education write a report on education, where new skills are described in order for all the interested to get acquainted with them. For year 2014 questionnaire was slightly supplemented, as we wish to establish also effectiveness of trainings our employees take part in. Individual units also have libraries of materials that employees get at seminars or other kinds of training, available to anyone interested in a certain topic. This is also one of the ways to stimulate knowledge transfer among employees. Since year 2014 intranet page has a link prepared for electronic library, where employees are able to save materials from trainings that are quickly accessible to all employees.



To stimulate self-learning and research we established a direct link to the website offering useful tips and tricks on using the Microsoft Office tools for our employees on the web site of human resources. This kind of learning also brings savings in financial assets.

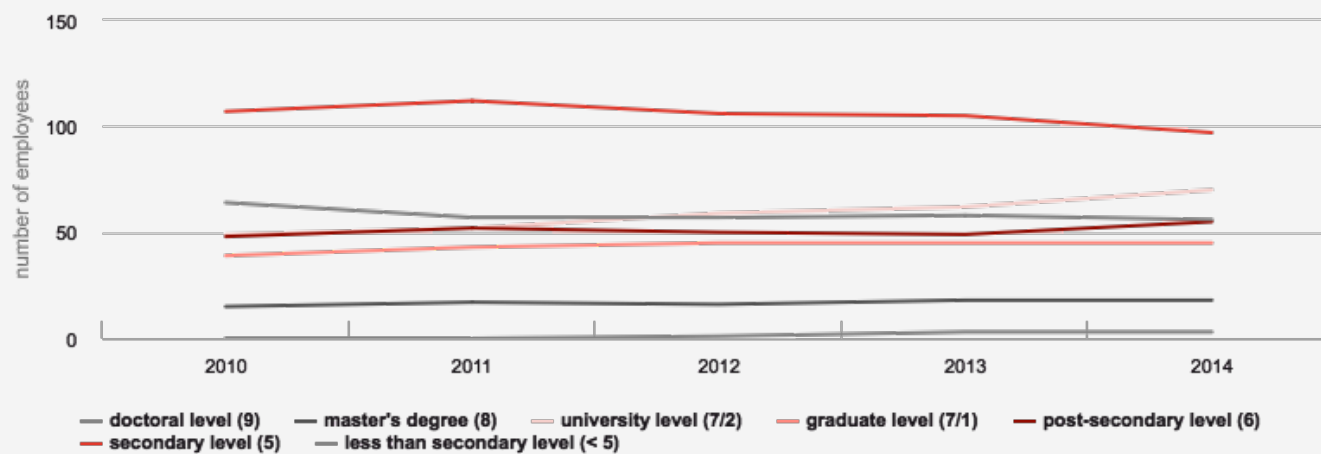
8.1.5 EDUCATIONAL STRUCTURE OF EMPLOYEES

With the employments of highly competent workers and education of employees to acquire higher levels of education level of education in individual companies and as a result also in the group has been increasing very quickly.

Table 20: Educational structure of employees in Elektro Gorenjska Group as at 31. 12. 2014

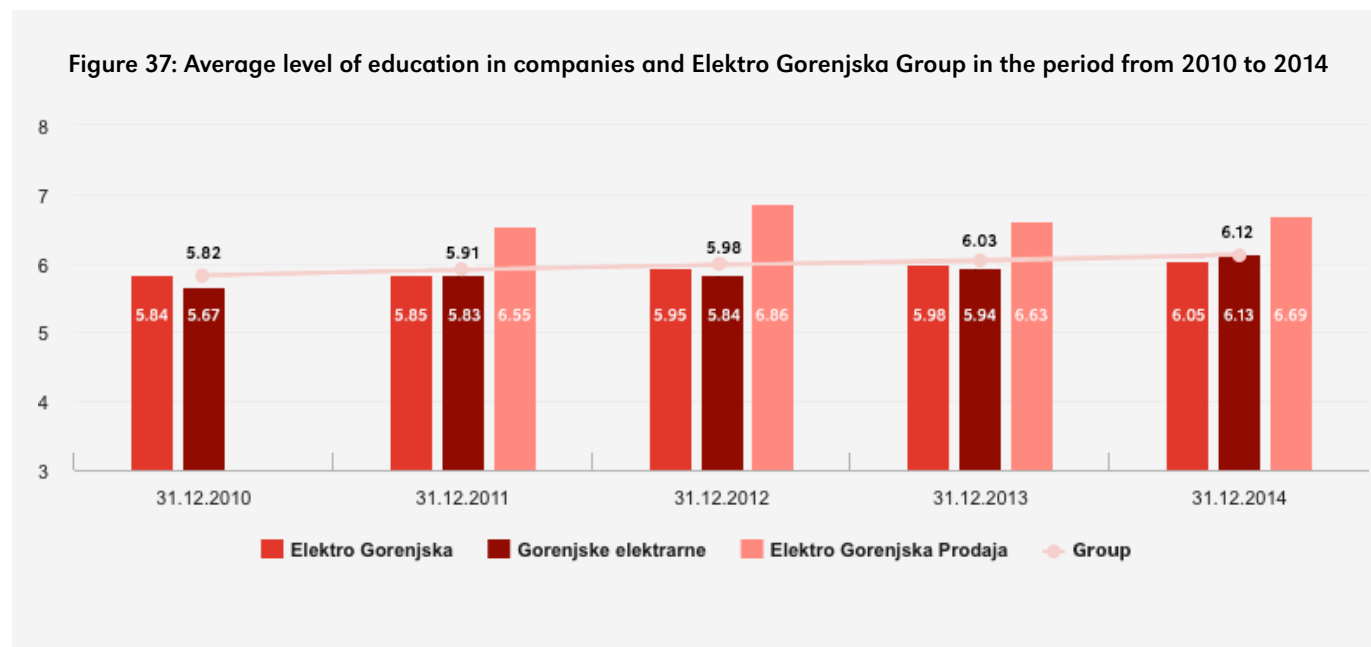
LEVEL OF EDUCATION 31. 12. 2014	ELEKTRO GORENJSKA		GORENJSKE ELEKTRARNE		ELEKTRO GORENJSKA PRODAJA		GROUP	
	NUMBER	STRUCTURE (%)	NUMBER	STRUCTURE (%)	NUMBER	STRUCTURE (%)	NUMBER	STRUCTURE (%)
doctoral level (9)	2	0.7	1	3.2	0	0	3	0.9
master's degree (8)	13	4.6	1	3.2	4	12.5	18	5.2
university level (7/2)	56	19.9	7	22.6	7	21.9	70	20.3
graduate level (7/1)	35	12.5	4	12.9	6	18.8	45	13.1
post-secondary level (6)	47	16.7	3	9.7	5	15.6	55	16
secondary level (5)	77	27.4	10	32.3	10	31.2	97	28.2
three-year vocational level (4)	50	17.8	4	12.9	0	0	54	15.7
two-year vocational level (3)	1	0.4	1	3.2	0	0	2	0.6
primary school (1)	0	0	0	0	0	0	0	0
TOTAL EMPLOYEES	281	100	31	100	32	100	344	100

Figure 36: Changes in educational structure of employees in Elektro Gorenjska Group in period from 2010 to 2014



Average level of education in Elektro Gorenjska Group as at December 31 2014 amounted to 6.12 - with level 6 representing high-school education. Gorenjske elektrarne Company has all these years had somewhat lower level of average education, as smaller share of employees there holds a university level of education and higher share of employees has a secondary level of education. In the last year it already equalized with Elektro Gorenjska, which can be attributed to fact that one coworker with IV. level of education left and a new one with VII/2 level was employed. Average level of education in Elektro Gorenjska Prodaja is very high.

Figure 37: Average level of education in companies and Elektro Gorenjska Group in the period from 2010 to 2014



8.1.6 SCHOLARSHIPS

In year 2014 we gave scholarship to one student.

8.1.7 EMPLOYEE MOTIVATION AND REMUNERATION

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

Whenever there is a need for employment in managerial posts, we usually offer the opportunity to already employed workers. In year 2014 we announced one managerial post and employed an external candidate. Whenever possible we also try to listen to our coworkers that wish to change the field of work.

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

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

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

8.1.8 ANNUAL INTERVIEWS

The most scheduled method of acquiring feedback is definitely annual interview. In Elektro Gorenjska Company and Elektro Gorenjska Prodaja we have carried out annual interviews for the tenth time in the past year, while in Gorenjske elektrarne employees took part in the interview for the sixth time. Reasons for the implementation of annual interviews in Elektro Gorenjska Group are:

- employees can find out how they are doing, where they are, and where they are going,

- it gives employees a chance to express their opinion, ideas, and viewpoints,
- employees get a real opportunity for a detailed interview about their work, can talk about their future in the company, and say how they see their progress,
- employees get acquainted with their opportunities and possibilities in the company and at the same time motivated for better performance,
- Head can establish employees' attitude to work and needs for training, as well as become aware of the employees thinking about what they are doing well and what could be 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.

In Elektro Gorenjska Group annual interviews are being implemented also because they improve working relations and climate, quality of work and interest of the employees. They also enable us to discover potentials in people, discover key staff and talents.

For easier preparation and execution of the annual interview of the worker as well as manager all employees can access video trainings for the execution of the annual interview. Entire video training includes almost seven hours seminar with the possibility of examination. Advantage of the video training is that it is always available and divided in several few-minute rounded content parts, which can be viewed many times.

Heads can also use articles on various subjects (communication, delegation, team work, praising ...), which are published by the personnel service on the internal web page in section for the Heads.

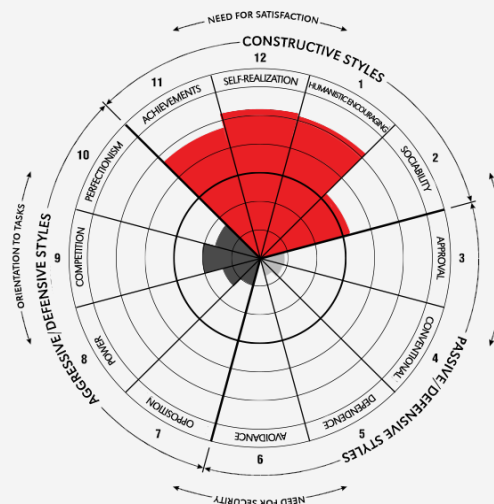
8.1.9 ORGANIZATIONAL CULTURE

Strong organizational culture is a business advantage, which helps create and maintain competitive advantages too. Key to success in organizational culture is the understanding that behavior and thinking of employees are equally important as formal mechanisms of organization management. With healthy organizational culture it is possible to manage organizational structures, systems, technologies, skills and quality of every day work much better. If these factors are in balance with the values of the companies it is possible to establish a good organizational culture, which enables high effectiveness and efficiency of the companies.

In year 2013 in Elektro Gorenjska and Gorenjske elektrarne we actively approached to setting ideal organizational culture (figure 43) that we want for our companies. With the help of quality tools the companies' management defined expected behaviors of employees, with emphasis on constructive behaviors styles marked with blue in the figure. This means that we expect inclusion,

interaction and target orientation from our employees. Such behaviors will contribute to their self-realization, growth, and organizational efficiency. Passive defensive styles and aggressive defensive styles (green and red color) of behaviors should be represented as little as possible. Certain level of perfectionism, competition, expression of power, argumentative objections and avoidance is acceptable, but there should be as little as possible of such behavior among employees.

Figure 38: Ideal organizational culture



Vir: Human Synergetics

Besides setting the ideal organizational culture we distributed questionnaires among employees to establish the actual organizational culture of the companies as well. Analysis of the responses revealed a gap between the ideal and the actual culture. We established that increasing the constructive behavior and reducing passive defensive and aggressive defensive behaviors will be reached most effectively through quality management and highest involvement of employees in solving problems, work processes, making decisions and assuming responsibility. That is why in year 2014 we organized three workshops for Heads and in favor of their future development, we measured with the M/I tool what their influence on coworkers was. In the past year we implemented this research for eight Heads. In order to include the employees even more we introduced solving of problems using the model KAKO (HOW).

8.1.10 EMPLOYEE SATISFACTION AND COMMITMENT

Group can only be successful with motivated and loyal employees who want to work hard and are proud of their successes. They are the employees who know that they are not working for the company, but are the company themselves. We ensure that staff are comfortable with each other and feel well in their working environment. These co-workers can actively deal with changes and give their best. Appropriate quality of work of each individual contributes significantly to the success of the company, but it also depends on the satisfaction and commitment of the employees. Feedback on comprehension of a working environment and relations in group companies is received from employees also by anonymous survey on the satisfaction and commitment of employees, which are carried out every three years. In previous years only Elektro Gorenjska and Elektro Gorenjska Prodaja were included in these research, while in year 2014, when measuring the commitment of employees, we expanded the survey to Gorenjske elektrarne as well.

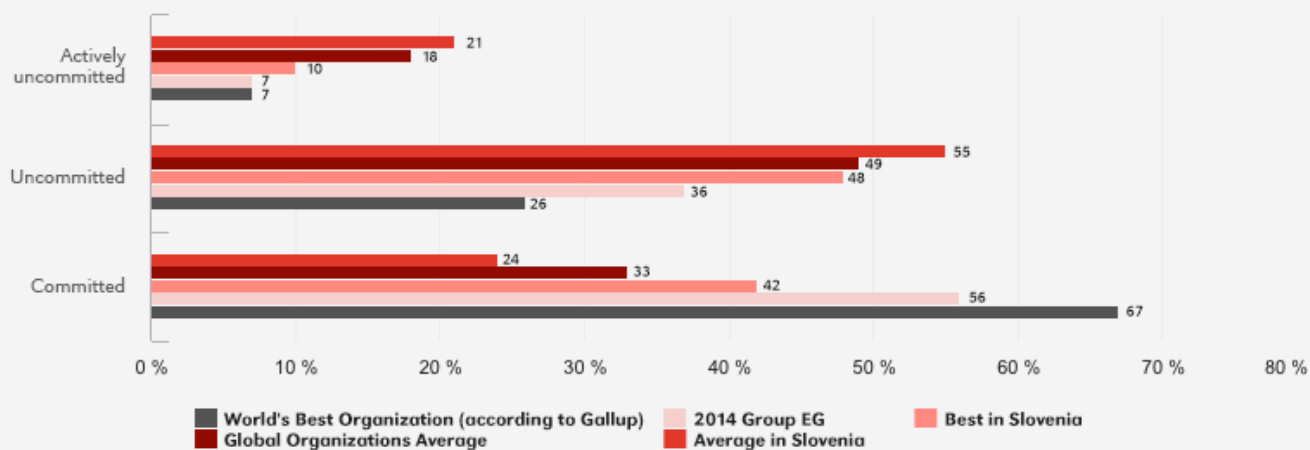
Acquired data is analyzed, while with implementation of different measures we then try to remove the established negative influences. From the results of the survey so far it is evident that employees feel strong affiliation to the companies, have positive attitude to quality and process control, while companies ensure employees an above average working environment with efficient system of education.

In year 2012, when we measured commitment as well as satisfaction of employees, we managed to raise the results in almost all areas, with the highest growth of ratings in the field of management, internal relations and communication.

Figure 39: Average scores in the fields of the survey



Figure 40: Commitment of employees in Elektro Gorenjska Group



We have established that there is high rate of committed employees in the company, and that it was very encouraging that there were increasingly less of the uncommitted ones. In the future years we will try to reduce the share of uncommitted employees in favor of increasing the share of committed employees.

With the purpose of informing the employees and rationalizing certain human resources procedures we created a web site of the personnel service. It enables workers a direct insight into labor legislation, current regulation and organization of the companies, human resources overviews and forms with short explanations and instruction for completion. Employees often have questions about claiming tax relief for surviving dependents, using the extraordinary holiday for education, applications for training and educations, student work and procedures at termination of employment. As workers usually are able to find answers to their question directly on the new web page and fulfill personnel forms electronically, work of the personnel service is facilitated.

Web site has been well equipped with instructions for implementation of regular annual interviews and is being upgraded with useful advice in the field of management and communication.

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

8.1.11 EMPLOYEE ABSENCE

Absenteeism is the absence from the workplace due to utilization of sick leave. Such absences may represent a serious problem, as frequent absences from work are connected with high costs (payment of compensation for sick leave and additional payment to workers substituting the absent ones), lower working efficiency of employees, disturbed working process and increased burden on employees present at the workplace. Sick leaves are analyzed annually and compared to previous years. As working conditions are well regulated in the companies, there are not many absences due to injuries at work. More detailed analysis has shown that in year 2014 in Elektro Gorenjska Company there were fewer absences over 30 days as well as less absences of up to 30 days. In Gorenjske elektrarne the scope of absences increased slightly compared to year 2013, but there were less employees in the last year there so absences per employee is somewhat higher. In Elektro Gorenjska Prodaja absences of up to 30 days increased slightly, while total values of all other absences decreased substantially, above all due to the return of four female workers from their maternity leaves. We will continue to strive for regulated working conditions, while employees will be stimulated to a healthy way of life also outside the working environment.

8.1.12 RELATIONS BETWEEN EMPLOYEES AND MANAGEMENT IN THE COMPANY

Management board of Elektro Gorenjska and directors of subsidiaries pay special attention to cooperation with the trade unions and work council. There are two unions operating within Elektro Gorenjska Group, namely the SDE and EDS. Each company has formed its work council, which provides for appropriate information and chance of submitting the opinions of all employees. Cooperation of both bodies takes place in the form of regular sessions between the company's management and representatives of union and work council. Sessions are convened at least once in three months, if necessary also more frequently. We have to stress that management meets with each body separately. 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 work 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. Process of the changed way of operation of Elektro Gorenjska Group within the project of a spin-off of electricity purchase and sale market activity required even closer cooperation with the representatives of work council and unions. Both labor bodies have been actively included in the process, while cooperation of the employer with employees and social dialogue were taking place according to the established principles of negotiation and consultation. Representatives of the employees were provided with regular and timely information in accordance with the existing legislation.

Representative of employees and trade union representatives actively participated in negotiating the employment rights, in organization and changes of acts and took care of the employees in accordance with their way of working.

Beside the established regular legal rights, trade unions also took care of the social side of the employees lives.

8.1.13 CARE FOR EMPLOYEES AND RELATED GROUPS OUTSIDE WORKING HOURS

Elektro Gorenjska Company pays special attention to employees in Group and their children as well as retired colleagues also out of their working environment. In our companies we have been active in the following ways:

- we supported the pensioners' association of Elektro Gorenjska Company and other interest associations,
- at the end of the year we gave presents to pre-school and school children of up to 10 years of age,
- we provided for recreation by leasing various sports facilities and organizing recreational activities for our employees,
- we enabled the employees to spend their holidays in holiday facilities of Elektro Gorenjska at the seaside, in the hills or spas. In year 2012 we aimed at increasing the number of employees that spend their holiday in our facilities and we reached this objective.

Managing and realizing the principles of social security of our employees is part of the group's business policy. One of the segments, which care for the good social situation of employees, is also joint decision of the partners for an agreement on financing the voluntary pension insurance for employees in the energy sector including Elektro Gorenjska Group. All employees in the companies are insured against accidents.

Inclusion in the retirement plan (PN1 K) – voluntary supplementary pension insurance – increases social security of employees during the time of their retirement.

8.1.14 COMMUNICATION WITH EMPLOYEES

Open and fair communication including care for our employees, are our sustained activities aimed at increasing the commitment and motivation of employees. It is of essential significance to have efficient internal communication, so our employees in all companies of the group are acquainted with the novelties, internal acts, and other information on the company:

- directly on the meetings,
- short news and notices through email, on intranet or on notice boards,
- with posts on the intranet and website,
- with the publication of a quarterly – internal gazette ELGO,

- with the publication of electronic internal monthly and
- through organization of events for employees, where we provide for informal socializing, but also for informing the employees and including them in current activities of the entire Elektro Gorenjska Group.

Leading a successful internal communication with employees in the Elektro Gorenjska Group is demanding, as employees are situated on different locations, many of them have no access to electronic mail and computer due to the works they execute on the field. As a result we use different channels of communication with the employees:

- Internal gazette Elgo, which Elektro Gorenjska Group employees, pensioners, and scholarship holders receive quarterly. Once a year it is forwarded also to our business partners. Gazette informs the employees and expert public about business and working events. Besides information this internal paper brings also documentary, education, culture, art, sport, and social contents.
- In year 2014 we marked the 50th anniversary of the company with various communication elements. Among other with special annex 50 year, which was published together with the internal gazette Elgo and within five thematic editions, which summarized milestones achieved during the 50 years of the company, while at the same time it indicated the future development of the company.
- E-monthly is sent to all employees of Elektro Gorenjska Group to their electronic inboxes every first Friday of the month. It presents all current contents that have marked the companies in the group the most on the monthly level, and it also serves as an additional support in informing about various events and activities foreseen for the next month. Employees have received the monthly very well, as it provides for updated information on current events.
- Intranet is an internal web site intended for updated information to employees about current activities of the companies in Elektro Gorenjska Group, while at the same time it serves as a support to the employees as it brings numerous information about the company, individual services etc.
- Traditional notice boards: Due to the diversity of the employees work the company uses traditional notice boards as a channel of communicating, which 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 group is well presented on its pages. Gazette presents also our achievements, good practice examples, awarded innovation proposals and other.
- Organizing events for employees: throughout the year we organize numerous meetings for our employees, from company's day

to gifts for employees' children, sports games, New Year meetings etc. Events are also important because of the variety of work places and are an opportunity for socializing of employees that do not work together every day.

8.1.15 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 activities of the Elektro Gorenjska Pensioners' Association, which has been operating since 2006. They organize various activities for their members. They organize informative and sports trips, they visit the ill and elder members and help their relatives in different ways.

8.1.16 HEALTH AND SAFETY AT WORK

Year 2014 will be remembered for catastrophically bad weather conditions. We were marked by strong wind and glaze ice, which caused a lot of damage on our electricity network. Work conditions were dangerous and difficult, so we are especially glad no major injuries at work occurred. Workers have done their job perfectly.

In total there were three injures at work in year 2014. All injuries were of easier nature and were related to mechanical factors. Accidents related to electric current did not occur. Due to injuries at work the workers were absent from work a total of 111 working days.

Quality indicator of frequency of injuries telling us what percent of workers were injured stopped at 1.07 percent. Quality indicator telling us the number of lost working days per injury stopped at 37.

Charts below represent data showing number of injuries at work, frequency of injuries and gravity of injuries also in comparison to the Electricity distribution of Slovenia.

Figure 41: Number of accidents at work

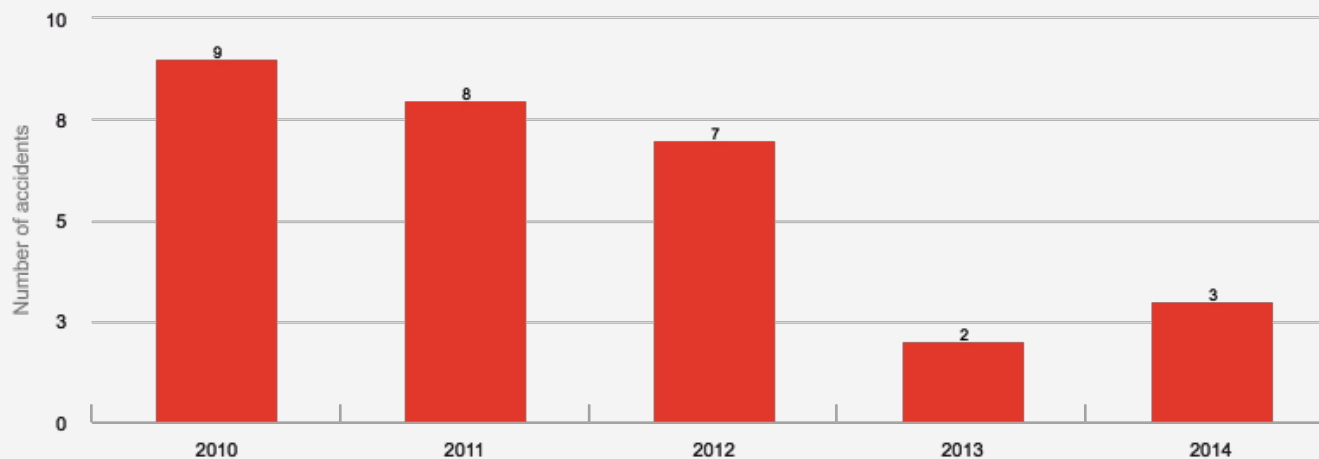
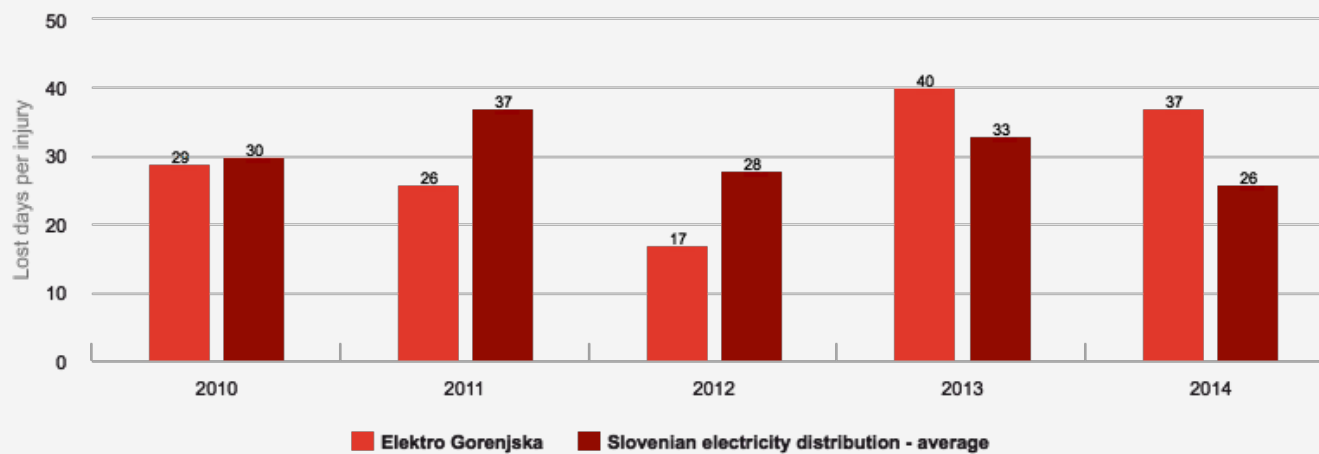
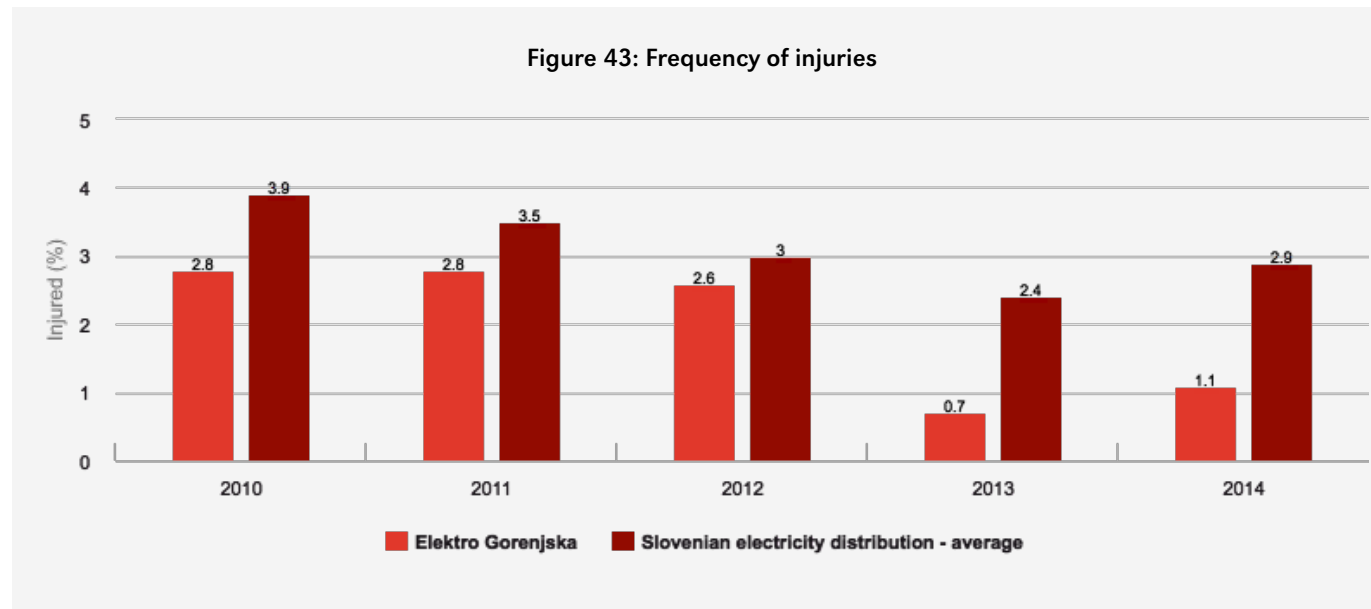


Figure 42: Gravity of injuries





In year 2014 the health and safety at work management system council implemented the following activities:

- We discussed the new legislation in the field of health and safety at work and integrated it in the working environment.
- We discussed two annual reports on injuries at work in Electro distribution Slovenia and Elektro Gorenjska.
- We discussed the annual report in the field of OHS and proposed changes and additions.
- We cooperated in preparing the financial plan for the field of health and safety at work management OHSAS 18001.
- We discussed irregularities and deficiencies happening during the elimination of consequences of ice damage. For all dangerous events we proposed measures to eliminate irregularities and deficiencies and took care of their execution.
- We carried out an internal audit in terms of health and safety at work. Audit was implemented in all room and all locations of the company. There were 39 recommendations submitted to eliminate irregularities and deficiencies.
- Based on the recommendation of an external audit we prepared new rules on personal tools.
- We realized all recommendations of the external audit.

Most emphasis in year 2015 will be placed on the training of workers regarding safe and healthy work and review of work equipment. Based on the needs that were shown among averages, hotline staff will be trained for safe work with auto baskets and chainsaws. Several trainings will refer to offering first aid in the workplace. We will check the knowledge of six workers that work under voltage. We will check 315 pieces of work equipment, including pole MV- and HV indicators, two-pole indicators of in-process voltage, insulating rods for operation and insulating protective plates. In the car fleet we will check auto baskets, auto lifts and aggregates. We will also check the entire personal protective equipment serving for the safe performance of work at height.

8.2 CONCERN FOR THE ENVIRONMENT

Responsible environmental management is integrated into the strategic guidelines of Elektro Gorenjska group. It is based on the adopted environmental policy and guidelines for sustainable development. Progress in this field is followed by measurable environmental indicators. Fundamental guidelines in the field of environment protection are in line with the recommendations ISO standards. They are:

- setting of environmental friendly strategic and implementation objectives in balance with the specifics of our business and development;
- planned prevention and reduction of impacts of our activity on the environment and habitat;
- continuous improvements of environment protection;
- regular monitoring of resources use, above all consumption of energy and costs;
- transfer of the best proper and other good environmental practices on the companies within Elektro Gorenjska Group;
- following and meeting requirements of Slovenian and European law, and
- meeting normative and ethical environmental commitments exceeding the regulatory frameworks.

8.2.1 ENVIRONMENTAL POLICY

In companies of the group we constantly strive for reduction of impacts of our activities on the environment. By educating and raising awareness we take care that environmental responsibility is respected by all employees as well as our suppliers. Our operations are regularly adapted to the requirements of the environmental legislation. Systematic approach to the environmental management is implemented in the company based on the principles of the international environmental management standard SIST EN ISO 14001:2004. Implementation of appropriate environmental policy is a responsibility of the Environmental management Council, which is managed by a custodian, while its members are representatives of individual organizational units and are responsible for managing individual environmental aspects and implementation of program aims.

Priority objectives of the Environmental Management Council include:

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

With consistent implementation of tasks and programs in the long-term we will be able to prevent or minimize eventual threats to the environment we operate in, respond appropriately to the requests of the business partners, owners, and interested public, as well as additionally take care of the sustainable development of Elektro Gorenjska Company.

8.2.2 ACHIEVEMENTS IN THE FIELD OF ENVIRONMENT PROTECTION IN YEAR 2014

In the field of environmental management Elektro Gorenjska Company reached all of its set goals in year 2014. We successfully passed the external assessment and thus confirmed harmonization of operation with ISO 14001 standard. There were no extraordinary environmental situation recorded, which shows that the company controls environmental impacts appropriately and that employees consider the environment protection measures in their everyday work.

In year 2014 we completed several years' long arrangement of outdoor lighting around overhead junctures of transformer stations and parking lots, in accordance with the Decree on limit values due to light pollution of environment and goals of the environment program, No. 16. Based on the measurements of light pollution, first special studies were made, and then replacement of all inappropriate lights was carried out, which helped reducing the intensity of light pollution to a permissible level.

We made contact and joint visits with potential interested for takeover or purchase of wood waste on the felling routes from overhead lines with the purpose of processing them into biomass, which is one of the goals of the environmental program, No. 20. Quantities of wood waste are small, very dispersed in location and somewhere also difficult to access, so there is no large interest for biomass removal currently. Nevertheless, in February 2014 removal or sale of approximately 180 cubic meters of biomass on the route of foreseen 110 kV of RTP Železniki - RTP Bohinj power line.

We continued with the rearrangement of waste water discharge systems in accordance with the Decree on the emission of substances and heat in the discharge of wastewater into waters and public sewage system and goals of environmental program, No. 14. Last year the situation was arranged on the location of business facility Kranj with final installation of oil catchers and in the facilities of RTP Primskovo and RTP/KN Jesenice, where rehabilitation of errors was executed. In year 2015 arrangement of facilities RTP/KN Tržič and RTP Labore is foreseen.

With a more intensive implementation of measuring point processing in the scope of the project of installing advanced meters (AMI) in year 2014 due to changes in measuring points standardization a larger amount of waste tariff breakers type DDI and LV surges occurred. In Kranj special container was provided for collection of waste tariff breakers, which are thus separated from other electricity installation waste. Suitable removal of the mentioned waste material has been set up as well.

From the part of the external assessment of the quality management system in year 2014 six recommendations were given to the Council for the environmental management. Within the Council we later decided that the recommendation referring to recording oral environmental complaints is not taken into consideration, as we believe that we can always request from a customer to submit the complaint in written or electronic form. Activities related to realization of the remaining five recommendations were for the most

part completed in year 2014 already.

In public there are still various opinions and dilemmas about the harmfulness of electromagnetic radiation of the electricity devices. On the Elektro Gorenjska web page (<http://www.elektro-gorenjska.si/distribucijsko-omrezje/vplivi-na-okolje>) we provide for clear, and above all simple presentation of two key areas: electromagnetic radiation and noise, namely in the form of question & answer, and we added a special brochure on impacts of electromagnetic radiations, published by EMS project forum. In year 2014 field of environmental management was included in the risk management system, where risk EG-29 (influence on the environment) was recognized. Based on the assessment we established that the environmental risk is properly controlled.

8.2.3 GOALS IN ENVIRONMENT PROTECTION IN YEAR 2015

In the field of environment protection we will pay great attention to individual environmental aspects also in year 2015. Our key goals set for year 2015 within the framework of SRO organized in Elektro Gorenjska Company are the following:

- Formation of system for the recording of costs and revenues referring to the scope of the environmental management, and its establishment with appropriate instructions and procedures for correct financial management.
- We will provide for adequate rising of awareness of the employees on environmental problematic and continue with environmental campaigns within and out of the company. Adequate care for the environment is a long term process, which the employees in the company must be well aware of.
- Continuation of rearranging the systems of waste water discharge in accordance with the Decree on the emission of substances and heat in the discharge of wastewater into waters and public sewage system and goals of the environmental program, number 14. In year 2015 we have foreseen also arrangement of facilities for RTP/KN Tržič and RTP Labore.

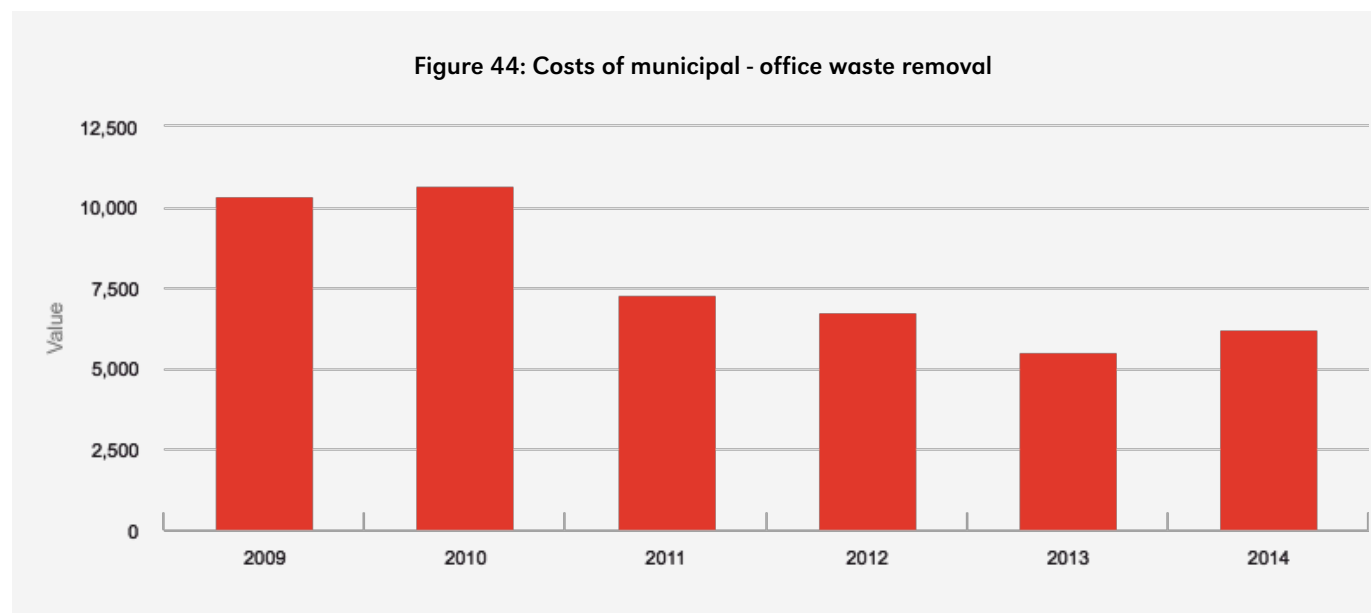
8.2.4 MANAGEMENT OF VARIOUS ENVIRONMENTAL ASPECTS IN YEAR 2014

To manage important environmental aspects appropriately we in Elektro Gorenjska and Elektro Gorenjska Prodaja companies have established quality indicators which show how successful we are in managing the quality standard 14001. Following we present key indicators.

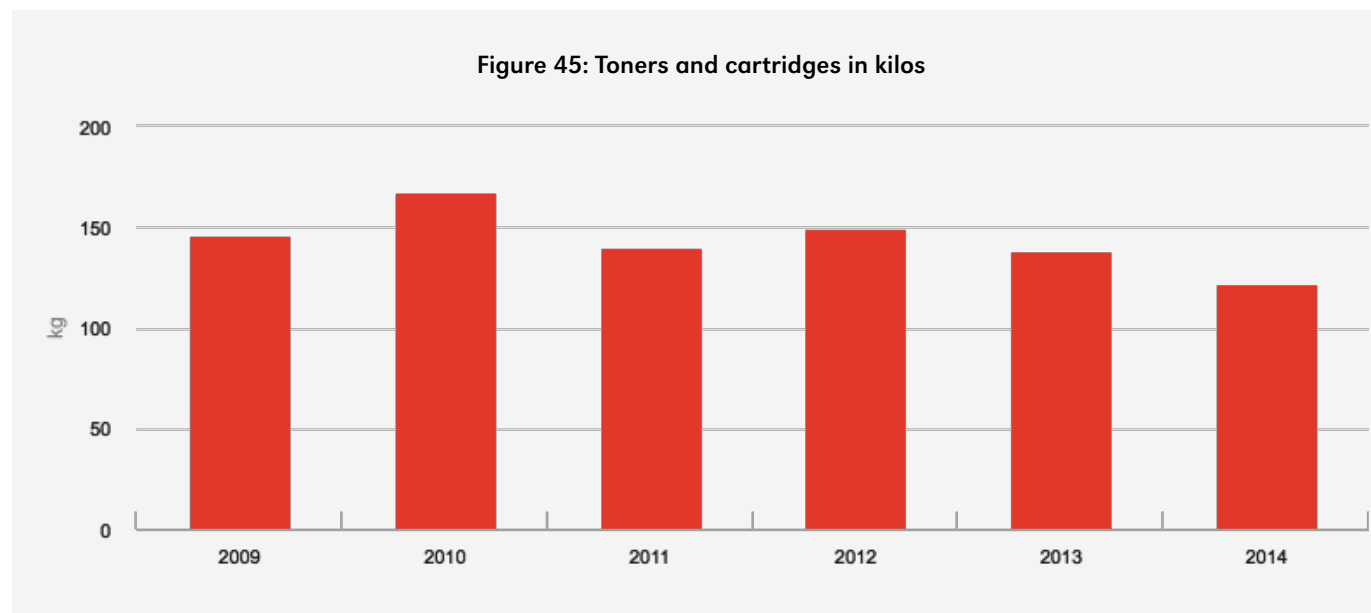
Waste management

We have an organized system of separated collection of all kinds of waste, which we use to provide for integrated control of useful and useless waste. Useful waste is forwarded to agents, which use them for further processing. During this process we issue records, which serve as a transparent illustration of delivered waste. 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 within the framework of quality indicator (KK 223 – quantity of all waste), and the trend of cost decrease is presented below.



Waste toners and cartridges are collected and sent to an authorized company. In year 2014 we collected 122 kg of toners and cartridges.



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

In the past years the company has adopted numerous measures in regards of correct storage and transport of dangerous substances; as a result no spills of dangerous substances were recorded in the company during transport.

Gorenjska region is exposed to different extreme weather impacts, so the company provides for planned development of network in the underground cable form. 60 percent of Elektro Gorenjska distribution network has been built underground, which puts the company in the first in Slovenia.

Despite the extremely robust network of Elektro Gorenjska, individual events cause faults and eventual environmental impacts on the distribution network. In 2014 ice, which affected Slovenia in February, damaged almost 100 km of Elektro Gorenjska network. There were no accidents during the event that would include spills of dangerous substances.

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. Share of returned waste oils is monitored by the quality indicator, with no dangerous events being recorded in year 2014.

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 (EMR) 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.

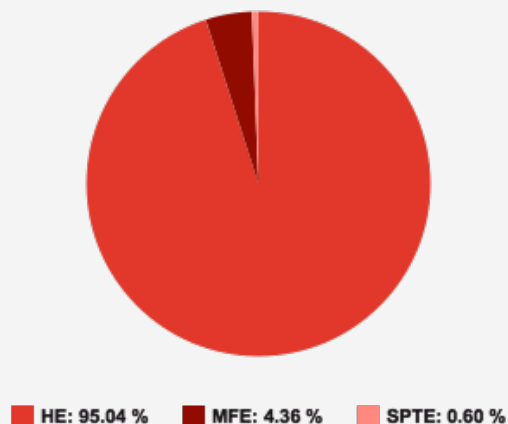
According to the previous EMR measurements we have established that excessive levels do not occur outside of protected areas of energy devices, so no additional measures of protection against radiation are necessary. Despite that we execute periodical measurements of EMR in transformer stations (RTP)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

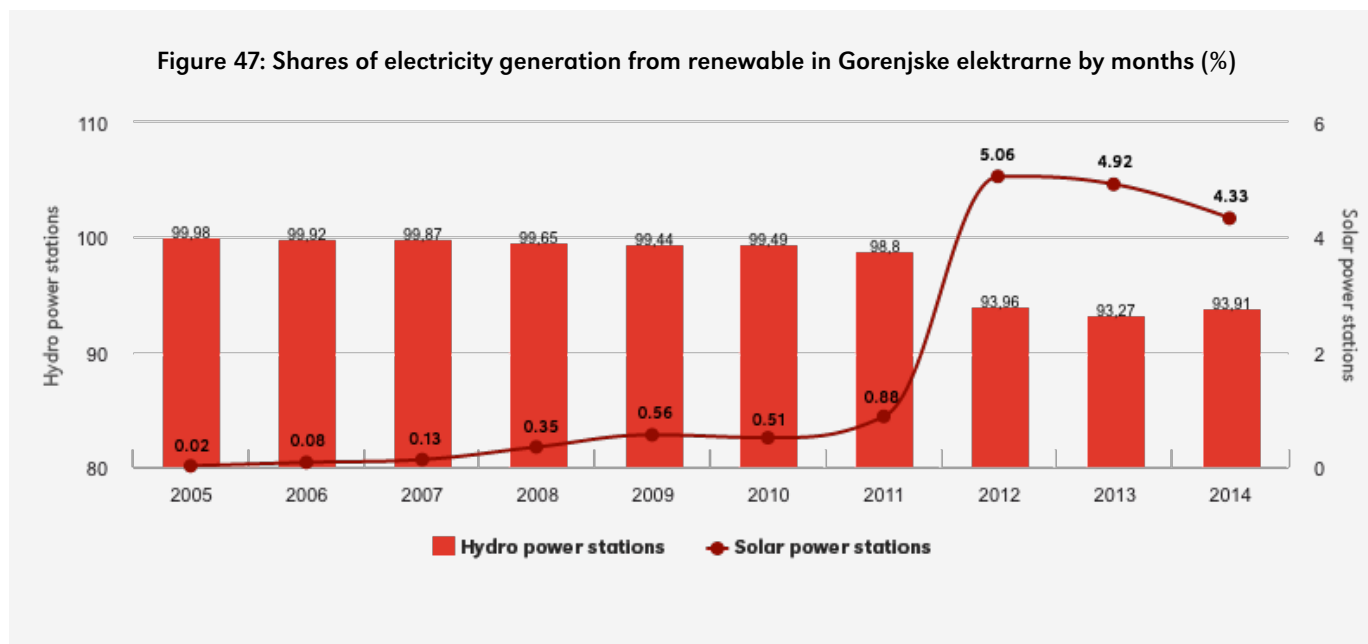
In accordance with the law in year 2012 the program was adopted with the help of which the company systematically and in line with the law in year 2014 finally regulated the system of outdoor lighting for RTP junctures and commercial buildings yards.

Environmental savings from hydro power stations

In Gorenjske elektrarne generation of electricity in hydro power stations amounts to 95.04 % of the production, solar power stations make up to 4.36 % share and co-generations 0.60 % share.

Figure 46: Shares of electricity generation from renewable sources in Gorenjske elektrarne (%)

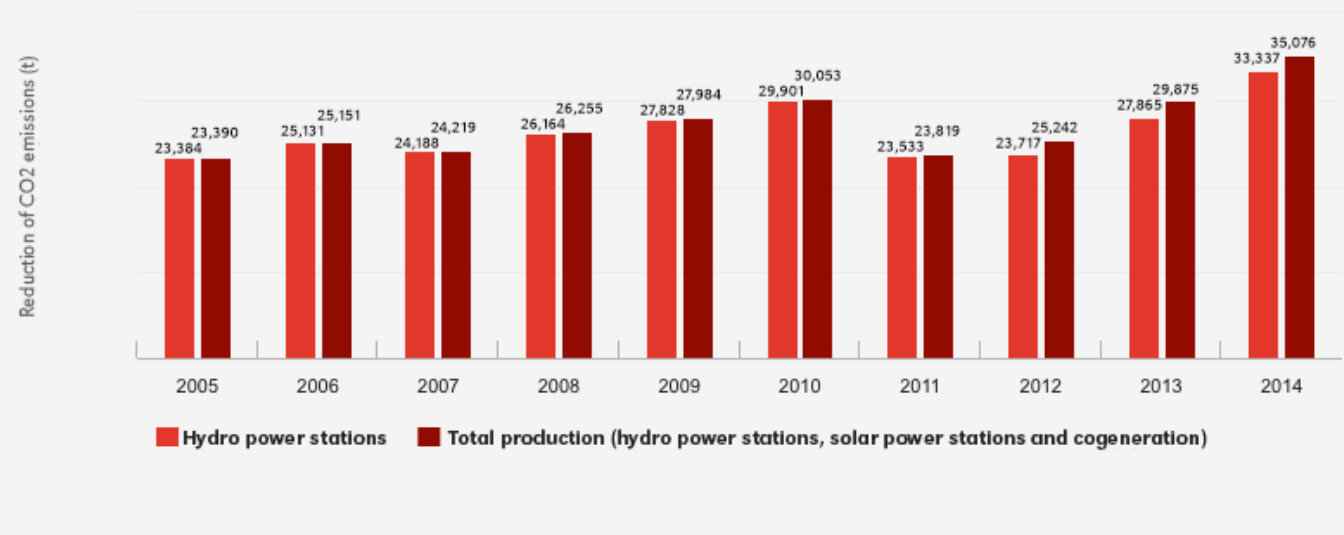




In year 2014 total production of ecologically clean electricity in 15 hydro power stations of Gorenjske elektrarne was 70,152,711 kWh.

Electricity produced in hydro power stations gives environmental savings, namely according to the methodology of the Energy Efficiency Center from Jožef Stefan Institute in CO₂ calculation (0.5 kg CO₂/kWh) for year 2014 there was a reduction of 33,337 tons of CO₂ emissions. In year 2013 the saving was 27,865 tons of CO₂ emissions and in year 2012 23,717 tons of CO₂ emissions.

Figure 48: Environmental savings of reduction of CO₂ emissions due to production of electricity in hydro power stations and together in hydro and solar power stations and co-generation units



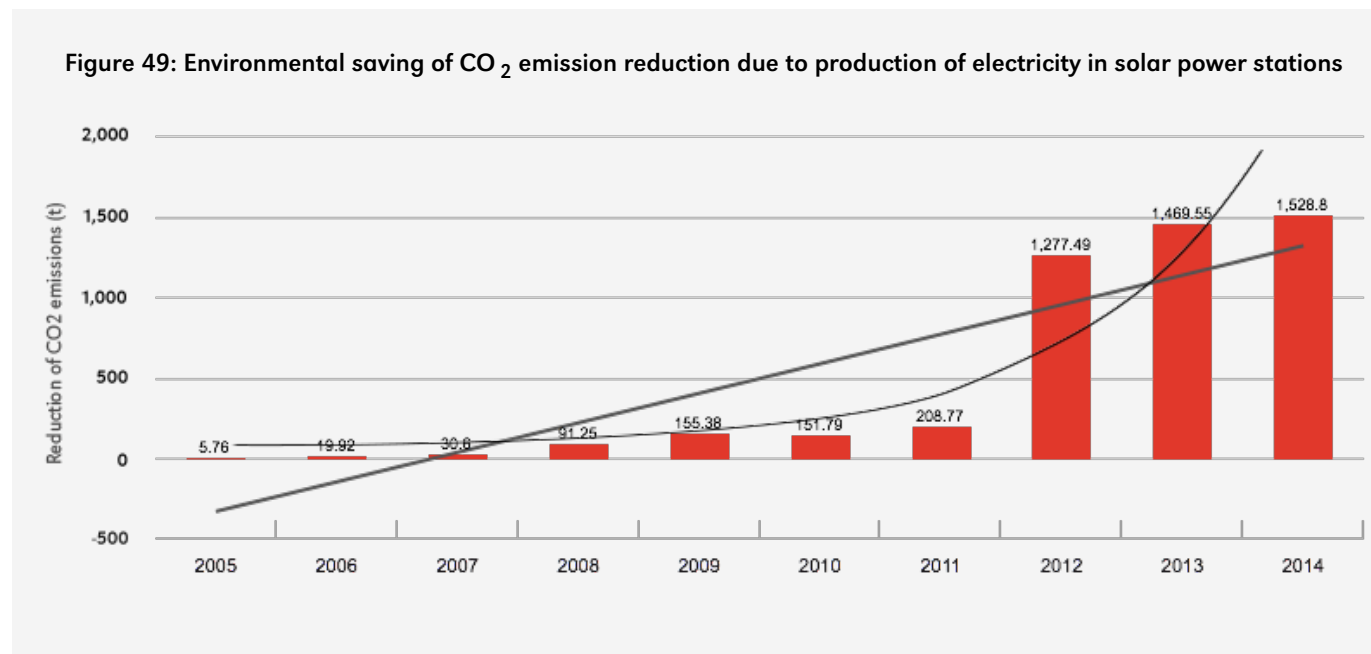
Total CO₂ reduction from hydro power stations, solar power stations and co-generation of electricity and heat in Gorenjske elektrarne in year 2014 was by 35,076 tons of CO₂ emissions. In year 2013 the reduction was by 29,875 tons of CO₂ emissions and in year 2012 25,242 tons of CO₂ emissions.

Environmental savings from solar power stations

In year 2014 total production of electricity from solar power stations of Gorenjske elektrarne Company was 3,057,593 kWh, which represents 4.36 % share in total electricity produced in Gorenjske elektrarne. For comparison: in year 2013 the share was 4.92 %, in year 2012 it was 5.06 %. Electricity produced in solar power stations gives environmental savings, namely according to the methodology of the Energy Efficiency Center from Jožef Stefan Institute in CO₂ calculation (0.5 kg CO₂/kWh) for year 2014 by 1,529 tons of CO₂ emissions. In year 2013 the environmental saving was reduced by 1,4670 tons of CO₂ emissions, in year 2012 by 1,277 tons of CO₂ emissions.

Cumulative environmental saving of CO₂ emissions from solar power stations of Gorenjske elektrarne from year 2005 to the end of

2014 was 4,939 tons of CO₂ emissions.



Environmental savings from co-generation units

In year 2014 total production of electricity from cogeneration units using natural gas of Gorenjske elektrarne Company was 420,968 kWh (1,088,467 kWh in year 2013, 494,543 kWh in year 2012), which represents 1.76 % share (1.81 % in year 2013, 0.98 % share in year 2012) of all electricity produced in Gorenjske elektrarne.

8.2.5 ENVIRONMENTAL COMMUNICATION

Part of the environment protection is also environmental communication with employees, local and wider community. By raising awareness and education we grow high environmental awareness and responsibility of all employees:

- Contents on the correct and responsible environmental management are included in the program of the introductory seminar for new employees.
- Approaches and ways of protecting the environment are regularly mentioned in the internal gazette, on the internal web

pages, and in the electronic newsletter E-monthly.

- External and internal public is acquainted with our activities for environment protection through publications on the web site, in media and at various consultations and roundtables.
- We cooperate with professional, scientific and educational organizations.
- When siting major electric power facilities in space or during maintenance work on power facilities we cooperate with local communities, appropriate institutions, experts and other public, as we are aware that constant and transparent communication enables opportunities for development of individual area and simultaneously provides for correct environmental management.

8.3 CARE FOR THE PUBLIC INTEREST – SOCIAL RESPONSIBILITY

Quality, reliable and functioning distribution network is of extraordinary significance for every state. This is evidenced by the events which have strongly marked the activity of distribution companies in Slovenia in 2014. Slovenia was affected by a natural disaster, trees, road, rail and electricity infrastructure were falling under the weight of ice. Ice damage affected also Gorenjska region, where due to higher exposure to extreme weather conditions the company has been systematically and in accordance with financial possibilities building a more robust network for decades. 60 % of Elektro Gorenjska distribution network has been built in the underground cable form, which puts the company to the first place among distribution companies in the field ensuring the network security.

We are well aware of our role in relation to various publics that is why we provide for the systematic, clear and above all constant communication with individual groups of stakeholders. Goals of the company include building positive dialogue and ensuring transparent informing of different stakeholders.

Main principles considered in communicating are: fair and equal treatment of employees, ethical and fair operation, respect for fundamental human rights, responsible environmental management in the sense of care for future generations, care in relation to the local community and society at large. Special attention in communicating important business decisions, operating novelties and novelties in the field of services and products is paid to the following groups of stakeholders: employees, local community, business partners, media, shareholders and financial public and other influential public (state, regulators). Productive, efficient, clear and transparent communication with individual groups of stakeholders is responsibility of the management, sector directors, individual professionals and corporate communication service.

Communication with employees is reported in more detail in [chapter 8.1 – Care for employees](#).

8.3.1 COMMUNICATION WITH LOCAL COMMUNITY AND SOCIAL RESPONSIBILITY

Every intervention in the environment that electricity power infrastructure in Gorenjska region needs for its operation is conditional to successful, clear and above all transparent communication with local and interest groups, local political power and local media. Understandable communication with citizens and clear presentation of aims and consequences are the key highlights followed with every intervention in the environment. We report about our plans on the web site, we are regularly in contact with different publics and inform them about individual activities. We collaborate with municipalities in projects of building comprehensive infrastructures.

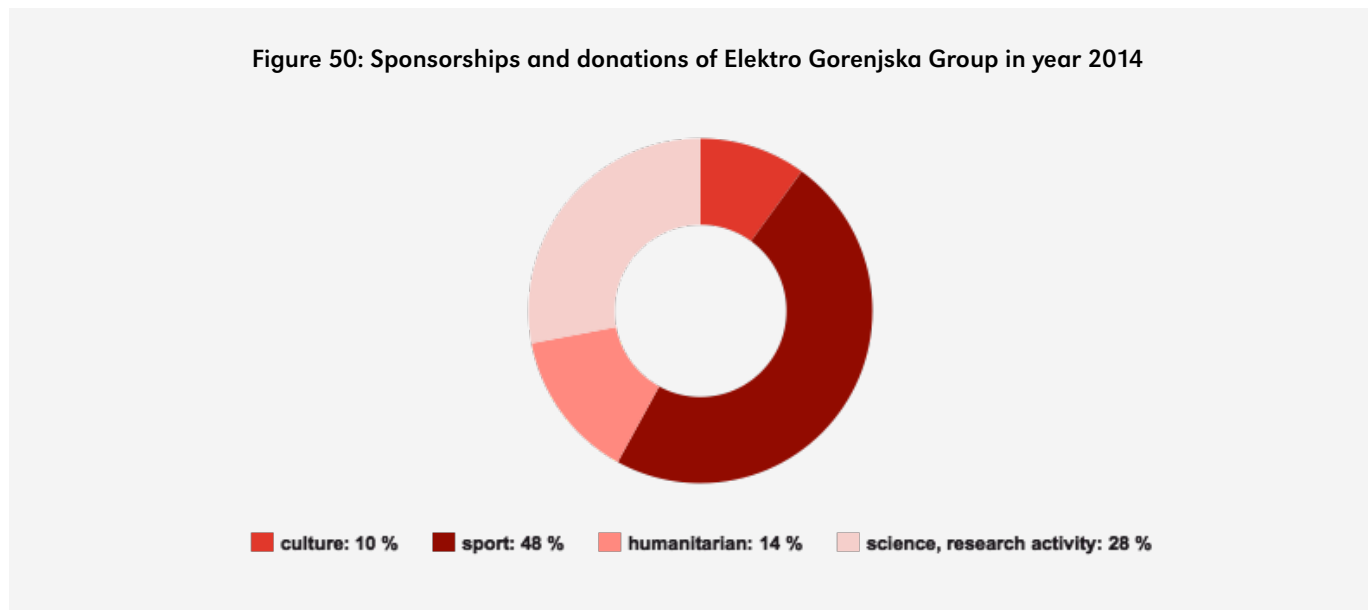
Sponsorships and donations

In Elektro Gorenjska Group we actively recognize opportunities where we can, with our knowledge, financial resources and other resources, contribute to the development of social and economic environment. We realize them by stimulating and developing positive impacts on society, which include supporting sports, cultural, educational, humanitarian and environmental projects, respecting human rights, rejecting all forms of discrimination, responsible attitude to users and respecting the statutory legislation and regulation. We exhibit our social responsibility by:

- supporting science and education, sports and culture, the weakest and environmental conservation.

Projects that we support financially and professionally 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 company, local community and nature.

Figure 50: Sponsorships and donations of Elektro Gorenjska Group in year 2014



In year 2014 Elektro Gorenjska allocated funds to supporting sponsorship and donation projects instead of various forms of advertising. In the Group there was a total of 63,670 € allocated to sponsorships and a total of 45,250 € to donation projects.

8.3.2 COMMUNICATION WITH BUSINESS PARTNERS

In accordance with good business customs the group provides for the permanent communication with its business partners. Besides the personal approach we provide for communication with our business partners also by means of the internal gazette Elgo. In year 2014 Elektro Gorenjska celebrated its 50th anniversary by organizing various activities, among which the most notable was awarding 17 electric bicycles to all Gorenjska region municipalities, with the aim of promoting electro-mobility directly into the local environment. For business partners we organized a charity event at the end of the year and informed them about the history and progress of the company in special editions annexed to Elgo gazette titled "50 let vami", which they received to their company's address.

8.3.3 COMMUNICATION WITH MEDIA

In the group we provide for regular and pro-active communication with the media and we use a wide range of tools for it. Besides regular press conferences, where we present business reports, we also prepare different meetings with the journalists on other important occasions. We communicate with the media also through web media. On our web site <http://www.elektro-gorenjska.si> we regularly submit information on our subpage "For media". We answer media questions actively and on time. On the basis of an annual media analysis we set up annual communication goals, which are reflected also in the number of media publications and share of negative publications.

In year 2014 there were 604 publications about Elektro Gorenjska group recorded in the media, compared to year 2013 the number increased by 76 %. Of the three companies parent company Elektro Gorenjska appears in media most frequently, although in most cases it is mentioned in the secondary light, mainly covering the ice damage and its removal on the distribution network in year 2014. Media classified Elektro Gorenjska among the largest and most successful Slovenian companies, but many times Elektro Gorenjska was mentioned in relation to the ice damage and company's operation. Extremely positive publications on the company referred mainly to social responsibility. Media publications were for the most part neutral, as the topics reported were of a very neutral character too.

8.3.4 COMMUNICATION WITH CUSTOMERS

We communicate with our customers through different communication channels, key ones for Elektro Gorenjska Company being the following:

- traditional mail;
- electronic mail info@elektro-gorenjska.si, where we collect offers of different companies as well as user letters (applications, claims, complaints, etc.);
- free telephone line 080 30 19, which operates continuously 24 hours a day, every day of the year. On the phone number we accept user notifications on power outages, and we forward different information about the network;
- 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, 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 FINAL CUSTOMERS

In accordance with vision and mission of the Group we provide quality and competitive offer and friendly service of environment friendly electricity distributor.

We communicate with our customers through different communication channels:

- in person at the head offices of the company where we advise them kindly and help them with taking care of their business;
- through free phone number of the call center Elektro Gorenjska Prodaja Company 080 22 04;
- by means of the following web sites www.eg-prodaja.si, www.porabimkarrabim.si and www.reenergija.si and electronic mail addresses info@eg-prodaja.si, za.gospodinjstva@eg-prodaja.si, za.podjetja@eg-prodaja.si, za.racunovodstvo@eg-prodaja.si, spletna.trgovina@eg-prodaja.si, reenergija@eg-prodaja.si, modra.energija@eg-prodaja.si and razpis.ure@eg-prodaja.si;
- by means of annexes to the monthly bills, where we inform them and give different kinds of information;
- by means of the Moj EPG website center, which joins all electronic services. With the use of the web application customers can report on monthly meter status, monitor their consumption, invoices and payments received as well as other information about their measuring point. In the website center they are quickly and simply informed about the novelties in the offers of the company and at the same time they were able to participate in various promotions, which offered them additional rewards in the form of electricity bonuses.

We follow and regularly reply to commendations, complaints and suggestions of the buyers, which we receive personally, by mail, electronic mail or over the phone. We try to preserve the satisfaction of customers and their loyalty.

In year 2014 we continued with workshops for employees in the field of personal sale, with which we were able to successfully resist the pressures of the competition.

8.3.6 COMMUNICATION WITH SHAREHOLDERS AND FINANCIAL PUBLIC

Annual report is one of the most important sources of communication with shareholders and financial public, where transparency, timeliness, and accuracy of information on operation and business plans in accordance with the provisions of valid regulations are the main mission. We strive for a regular, open and exact communication with shareholders and other financial public. We consider the recommendations of the owner, so all company's data, concluded deals, and sponsorship and donation projects are reported on the web site www.elektro-gorenjska.si/za_delnicarje and on www.elektro-gorenjska.si/o-podjetju/katalog-informacij-javnega-znacaja.

8.3.7 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, line ministries and other important institutions like Agency RS for energy, Capital Assets Management Agency later SOD, SDH and other.

8.3.8 COMMUNICATION WITH OTHER INTERESTED PUBLIC

Purpose of communicating with business and household customers is constant and correct information and awareness, so by forming buyer relevant messages we gain and above all maintain their trust. Key messages we forwarded to final customers in year 2014 through different communication channels (web presentations, backs of the bills, brochures) are:

- increase awareness among customers about company's offer of price competitive packages of electricity supply;
- enhancing the use of e-invoices and preauthorized debit;
- education about the benefits of monitoring the electricity consumption, reporting on meter status and use of "Moj EGP" website center, where users can monitor their consumption, review invoices and payments received;
- advise on possible savings on electricity bills;
- teaching customers to use electricity more efficiently by using different products and services from the company's offer;
- stimulating customers to use renewable energy sources.

In year 2014 we formed a wide offer of services and products, which enabled buyers to save on purchase of products that stimulate efficient energy use or use of renewable energy sources, and additionally gain various benefits for purchases or electricity.

Within the framework of the program for improving energy efficiency among final customers, the company prepared two tenders, which offered benefits to the interested in the form of financial incentives. Both tenders awarded a total amount of 662, 943 € of grants to different projects with emphasis on: installation of solar energy receivers, heat pumps and other devices for heat generation, installation of energy efficient lighting systems, replacement of boilers using all types of fuels with new biomass and natural gas boilers, as well as programs of energy checks implementation and informing and raising awareness.

Aiming to adapt to the needs of our customers even more, in year 2014, we:

- enabled our customers to pay their monthly liabilities through e-invoice, which brings benefits to final customers as well as to the company,
- introduced the option of paying their monthly bills with no commission in offices of Delavska hranilnica,
- set up an online store, where buyers can select from a wide range of energy saving products , which are even more favorable for the customers of Elektro Gorenjska Prodaja,
- organized various promotions that enabled the participants to create additional savings (monthly reporting on meter status, raising awareness of children etc.).

9 EVENTS AFTER THE BALANCE SHEET DATE

After the balance sheet date (31. 12. 2014) and until the date of the auditor's opinion (24. 4. 2015) two events occurred, which had a significant influence on the financial statements for 2014 business year.

Preliminary settlement of SODO for the 2014 regulatory year

In March 2015 Elektro Gorenjska Company received from SODO Company the preliminary calculation of the regulatory year 2014. SODO implemented the preliminary settlement for year 2014 based on the unaudited financial statements. It is evident from the document that in year 2014 the already charged contractual value of services, rent and losses was by 2.322 € lower than the value arising from the preliminary settlement. Based on that in year 2014 the company recognized additional revenues in respect of rent and services under the contract with SODO in the amount of 2,322 €.

Final settlement of SODO for the 2013 regulatory year

In March 2015 Elektro Gorenjska Company received from SODO Company the final calculation of the regulatory year 2013. In accordance with the fifth paragraph of Article 60 of the Contract on electricity infrastructure lease and provision of services for electricity distribution system operator SODO implemented the final settlement of the 2013 regulatory year, which was assessed by Agency RS for energy in accordance with the provisions of the Act determining the methodology for charging for the network charge and the criteria for establishing eligible costs for electricity networks and the methodology for setting the network charge. Final settlement has shown that the already charged value of services, rent and losses for year 2013 was by 223,024 € higher than the values arising from the preliminary settlement. Interest on deficit for rent and services amount to 4,460 €. Incomes in the total amount of 227,484 € were recognized by the company in year 2014, when conditions for recognition were complied with.

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 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 2014 on April 7 2015.

Management board of Elektro Gorenjska is responsible for appropriate accounting in the group, for establishment and maintenance of the appropriate internal control system related to the preparation and fair representation of consolidated financial statements, which do not contain significantly wrong statements due to fraud or error, 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 Slovene Accounting Standards, which were adopted by the Slovenian Institute of Auditors.

As a Chairman of the Board in Elektro Gorenjska Company, I am acquainted with the contents of the component parts of consolidated annual report and with it also with the entire consolidated annual report of Elektro Gorenjska Group. I hereby certify and I agree with it with my signature.

Kranj, April 7 2015

Chairman of the Board:
mag. Bojan Luskovec





B

FINANCIAL REPORT

Effective and successful operation
in year 2014.

All companies in the Group faced the challenges
efficiently and ended the year with profit.

Group closed the year 2014 with 5.5 mio Eur of net
profit, which is by 17.2 percent more than in year 2013.

11 AUDITOR'S REPORT

Deloitte.

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INDEPENDENT AUDITOR'S REPORT to the owners of ELEKTRO GORENJSKA D.D.

Report on the Financial Statements

We have audited the accompanying financial statements of the company Elektro Gorenjska d.d., which comprise the balance sheet as at 31 December 2014, the income statement, statement of other comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Slovenian Accounting Standards. The management is also responsible for the level of internal control required in its opinion to prepare financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Ime Deloitte se nanaša na Deloitte Touche Tohmatsu Limited, pravno osebo, ustanovljeno v skladu z zakonodajo Združenega kraljevstva Velike Britanije in Severne Irske tv izvirniku »UK private company limited by guarantee«, in medlo rjenih članic, od katerih je vsaka ločena in samostojna pravna oseba. Podroben opis pravne organiziranosti združenja Deloitte Touche Tohmatsu Limited in njenih družih članic je na voljo na www.deloitte.com/si/nasa-druzba.

Member of Deloitte Touche Tohmatsu Limited

Opinion

In our opinion, the financial statements in all material respects give a true and fair view of the financial position of the company Elektro Gorenjska d.d. as at 31 December 2014, and its financial performance and its cash flows for the year then ended in accordance with Slovenian Accounting Standards.

Emphasis of Matter

The company Elektro Gorenjska d.d. is the controlling company in the Elektro Gorenjska Group. The consolidated financial statements of Elektro Gorenjska Group, prepared in accordance with Slovenian Accounting Standards, are presented separately. We audited the consolidated financial statements of the Elektro Gorenjska Group and issued an unmodified opinion on 24 April 2015.

Our opinion is not modified in respect of this matter.

Report on Other Legal and Regulatory Requirements

The management is also responsible for the preparation of the business report in accordance with the requirements of the Companies Act (ZGD-1). Our responsibility is to provide an assessment of whether the business report is consistent with the audited financial statements. Our procedures have been conducted in accordance with the International Standard on Auditing 720 and are limited solely to assessing of whether the business report is consistent with the audited financial statements. In our opinion, the business report is consistent with the audited financial statements.

DELOITTE REVIZIJA d.o.o.

Martin Železnik
Certified Auditor

Deloitte.

Yuri Sidorovich
President of the Board

DELOITTE REVIZIJA D.O.O.
Ljubljana, Slovenija 3

For signature please refer to the original Slovenian version.

Ljubljana, 24 April 2015

TRANSLATION ONLY – SLOVENIAN ORIGINAL PREVAILS

12 FINANCIAL STATEMENTS OF ELEKTRO GORENJSKA GROUP FOR BUSINESS YEAR ENDED AS AT 31. 12. 2014

12.1 BALANCE SHEET OF ELEKTRO GORENJSKA GROUP AS AT 31. 12. 2014

In €. Explanatory notes in chapters 15. - 18. are part of the financial statements and should be read in conjunction with them.

	ITEM	NOTE	31.12.2014	31.12.2013
	ASSETS			
A.	Long-term assets		189,163,568	184,260,223
I.	Intangible assets and LT accruals and pre-paid expenditure	15.1	1,304,896	745,215
	1. Long-term property rights		1,067,136	678,011
	6. Other LT accruals and pre-paid expenditure		237,760	67,204
II.	Tangible fixed assets	15.2	184,564,506	180,156,911
	1. Land and buildings		120,288,277	117,879,832
	a) Land		7,835,325	7,703,792
	b) Buildings		112,452,952	110,176,040
	2. Production plant and equipment		53,404,621	55,886,387
	3. Other plant and equipment		677,047	558,510
	4. Tangible fixed assets in acquisition		10,194,561	5,832,182
	a) Tangible fixed assets in construction or production		10,078,628	5,802,707
	b) Advances for acquisition of tangible fixed assets		115,933	29,475
III.	Investment property	15.3	1,957,898	2,003,475
IV.	Long-term financial investments	15.4	1,314,937	1,354,622
	1. Long-term financial investments, excluding loans		968,779	1,011,823
	b) Shares ad stakes in associates		451,671	427,134
	c) Other shares and stakes		517,108	584,689
	2. Long-term loans		346,158	342,799
	b) Long-term loans to others		346,158	342,799
V.	Long-term operating receivables		21,332	0
	3. Long-term receivable due from others		21,332	0
B.	Short-term assets		29,089,754	34,303,625
I.	Assets for sale	15.5	150,330	100,103
II.	Stocks	15.6	197,259	218,182
	1. Material		187,182	216,790
	3. Products and merchandise		10,077	1,392

	ITEM	NOTE	31.12.2014	31.12.2013
III.	Short-term financial investments	15.7	200,840	200,000
	2. Short-term loans		200,840	200,000
	b) Short-term loans to others		200,840	200,000
IV.	Short-term operating claims	15.8	23,352,579	28,203,229
	2. Short-term operating accounts receivable		22,350,570	26,874,583
	3. Short-term operating claims on others		1,002,009	1,328,646
V.	Monetary assets	15.9	5,188,746	5,582,111
C.	Short-term accruals and pre-paid expenditure	15.10	318,306	874,585
	TOTAL ASSETS		218,571,629	219,438,433

In €. Explanatory notes in chapters 15. - 18. are part of the financial statements and should be read in conjunction with them.

	ITEM	NOTE	31.12.2014	31.12.2013
	LIABILITIES			
A.	Capital	15.11	139,847,972	135,989,844
I.	Called-up capital		71,898,061	71,898,061
	1. Share capital		71,898,061	72,019,069
	2. Uncalled capital		0	121,008
II.	Capital reserves		45,944,898	45,944,898
III.	Profit reserves		20,307,445	18,240,414
	1. Statutory reserves		1,629,087	1,388,027
	5. Other profit reserves		18,678,358	16,852,387
IV.	Revaluation surplus		-855,438	-620,326
V.	Net profit or loss from previous periods		962,682	0
VI.	Net profit or loss of the business year		1,590,324	526,797
B.	Provisions and LT accrued costs and deferred revenues	15.12	14,064,693	13,581,206
	1. Provisions for pensions and similar liabilities		2,952,260	2,787,833
	2. Other provisions		4,763,047	4,565,078
	3. Long-term accrued costs and deferred revenues		6,349,386	6,228,295
C.	Long-term liabilities		35,924,154	35,144,993
I.	Long-term financial liabilities	15.13	35,907,768	35,130,691
	2. Long-term financial liabilities to banks		35,016,874	34,477,928
	4. Other long-term financial liabilities		890,894	652,763
II.	Long-term operating liabilities		7,659	7,659
	4. Long-term operating liabilities based on advances		7,659	7,659
III.	Deferred tax liabilities		8,727	6,643
Č.	Short-term liabilities		27,528,476	32,446,495
II.	Short-term financial liabilities	15.14	7,691,381	9,246,077
	2. Short-term financial liabilities to banks and companies		7,561,053	9,054,329
	4. Other short-term financial liabilities		130,328	191,748

	ITEM	NOTE	31.12.2014	31.12.2013
III.	Short-term operating liabilities	15.15	19,837,095	23,200,418
	2. Short-term operating liabilities to suppliers		11,712,028	16,614,702
	7. Short-term operating liabilities based on advances		617,740	506,242
	8. Other short-term operating liabilities		7,507,327	6,079,474
D.	Short-term accrued costs and deferred revenues	15.16	1,206,334	2,275,895
	TOTAL LIABILITIES		218,571,629	219,438,433

12.2 PROFIT OR LOSS ACCOUNT OF ELEKTRO GORENJSKA GROUP FOR BUSINESS YEAR ENDED AS AT 31. 12. 2014

In €. Explanatory notes in chapters 15. - 18. are part of the financial statements and should be read in conjunction with them.

	ITEM	NOTE	2014	2013
1.	Net sales revenue	16.1	83,901,176	92,615,005
	a. on domestic market		83,868,384	92,313,955
	b. on foreign markets		32,792	301,050
3.	Capitalized own products and services	16.2	4,052,208	3,792,950
4.	Other operating revenues (including operating revenues from revaluation)	16.3	1,490,981	876,575
5.	Costs of goods, material, and services		57,815,503	66,834,699
	a. Costs of goods sold and material used	16.7	51,670,636	61,030,225
	b. Costs of services	16.8	6,144,867	5,804,474
6.	Labor costs	16.9	13,109,388	12,774,538
	a. Costs of salaries		8,968,973	8,415,066
	b. Social security costs		1,969,747	1,972,299
	b.1 of which pension insurance costs		1,270,870	1,267,753
	c. Other labor costs		2,170,668	2,387,173
7.	Amortization/depreciation expense	16.10	10,483,941	10,693,930
	a. Depreciation		10,146,656	10,207,136
	b. Operating expenses from revaluation in intang. and tang. fixed assets		230,215	294,079
	c. Operating expenses from revaluation in current assets		107,070	192,715
8.	Other operating expenses	16.11	662,358	726,697
9.	Financial revenues from shares	16.4	179,078	175,180
	b. Financial revenues from shares in associates		174,549	169,852
	č. Financial revenues from other investments		4,529	5,328
10.	Financial revenues from given loans	16.5	53,583	53,545
	b. Financial revenues from loans given to others		53,583	53,545

	ITEM	NOTE	2014	2013
11.	Financial revenues from operating claims	16.6	193,377	159,127
	b. Financial revenues from operating claims on others		193,377	159,127
12.	Financial expenses from impairments and financial investment write-offs	16.12	28,208	118,629
13.	Financial expenses from financial liabilities	16.13	1,448,106	1,420,044
	b. Financial expenses from loans, received from banks		1,448,106	1,420,044
14.	Financial expenses from operating liabilities		77,358	8,124
	b. Financial expenses from liab. to suppliers and bill of exchange I.		1,284	6,380
	c. Financial expenses from other operating liabilities		76,074	1,744
15.	Other revenues		227	155
16.	Other expenses	16.14	45,965	47,988
17.	NET PRE-TAX PROFIT OR LOSS OF THE ACCOUNTING PERIOD		6,199,803	5,047,888
18.	Income tax	16.16	722,397	373,622
19.	Deferred taxes	16.17	0	0
20.	NET PROFIT OR LOSS OF THE ACCOUNTING PERIOD		5,477,406	4,674,266

12.3 STATEMENT OF OTHER COMPREHENSIVE INCOME OF ELEKTRO GORENJSKA GROUP FOR BUSINESS YEAR ENDED AS AT 31. 12. 2014

In €. Explanatory notes in chapters 15. - 18. are part of the financial statements and should be read in conjunction with them.

TITLE	2014	2013
Net profit or loss of the accounting period	5,477,406	4,674,266
Changes in the surplus from the revaluation of financial assets available for sale	10,171	-1,089,592
Other components of comprehensive income	-245,283	467,950
TOTAL COMPREHENSIVE INCOME	5,242,294	4,052,624

12.4 CASH FLOW STATEMENT OF ELEKTRO GORENJSKA GROUP FOR BUSINESS YEAR ENDED AS AT 31. 12. 2014

In €. Explanatory notes in chapters 15. - 18. are part of the financial statements and should be read in conjunction with them.

ITEM	YEAR 2014	YEAR 2013
A. OPERATING CASH-FLOW		
a. Operating receipts	124,894,601	131,326,514
1. Receipts from sales of products and services	123,377,772	128,820,556
2. Other operating receipts	1,516,829	2,505,958
b. Operating expenditure	-110,013,543	-119,929,010
1. Expenditure for purchase of material and services	-87,967,695	-98,261,417
2. Expenditure for salaries and employees profit shares	-11,538,997	-10,764,135
3. Expenditure for duties of all kinds	-7,701,671	-8,562,858
4. Other operating expenditure	-2,805,180	-2,340,600
c. Excess of operating receipts or expenditure	14,881,059	11,397,504
B CASH FLOWS IN INVESTING ACTIVITIES		
a. Receipts in investing activities	2,601,142	588,876
1. Receipts from received interest and profit shares of others referring to investing activities	1,066,610	147,316
3. Receipts from disposal of tangible fixed assets	13,532	19,060
4. Receipts from disposal of investment property	21,000	22,500
6. Receipts from disposal of short-term financial investments	1,500,000	400,000
b. Expenditure in investing activities	-13,174,787	-8,053,743
1. Expenses for acquisition of intangible assets	-634,138	-228,472

ITEM	YEAR 2014	YEAR 2013
2. Expenses for acquisition of tangible fixed assets	-11,036,449	-7,016,595
3. Expenses for acquisition of investment property		-8,676
4. Expenses for acquisition of long-term financial investments	-4,200	-200,000
5. Expenses for acquisition of short-term financial investments	-1,500,000	-600,000
c. Excess of receipts or expenditure in investing activities	-10,573,645	-7,464,867
C. CASH FLOWS IN FINANCING ACTIVITIES		
a. Receipts in financing activities	10,544,000	13,654,000
1. Receipts from paid-up capital		
2. Receipts from increase in long-term financial liabilities	8,100,000	7,200,000
3. Receipts from increase in short-term financial liabilities	2,444,000	6,454,000
b. Expenditure in financing activities	-15,244,779	-13,426,814
1. Expenditure for given interest referring to financing activ.	-1,571,217	-1,417,238
2. Expenditure for capital repayment		
3. Expenditure for repayment of long-term financial liabilities	-7,054,329	-6,145,335
4. Expenditure for repayment of short-term financial liabilities	-4,444,000	-4,454,000
5. Expenditure for dividend and other profit share payment	-2,175,233	-1,410,241
c. Excess of receipts or expenditure in financing activ.	-4,700,779	227,186
Č. CLOSING CASH BALANCE	5,188,746	5,582,111
x. CASH FLOW FOR THE PERIOD	-393,365	4,159,823
y. OPENING CASH BALANCE	5,582,111	1,422,288

12.5 STATEMENT OF CHANGES IN EQUITY OF ELEKTRO GORENJSKA GROUP FOR THE BUSINESS YEAR ENDED AS AT 31. 12. 2014

a) From January 1 2014 to December 31 2014:

In €. Explanatory notes in chapters 15. - 18. are part of the financial statements and should be read in conjunction with them.

EVENTS IN INDIVIDUAL CAPITAL ITEMS	CALLED-UP CAPITAL		CAPITAL RESERVES	PROFIT RESERVES		REVALUATION SURPLUS	NET PROFIT OR LOSS BROUGHT FORWARD		NET PROFIT OR LOSS OF THE BUSINESS YEAR	TOTAL CAPITAL
	I		II	III		IV	V		VI	
	SHARE CAPITAL	UNCALLED CAPITAL	CAPITAL RESERVES	STATUTORY RESERVES	OTHER PROFIT RESERVES	REVALUATION SURPLUS	NET PROFIT BROUGHT FORWARD	NET LOSS BROUGHT FORWARD	NET PROFIT OF THE BUSINESS YEAR	
	I/1	I/2	II	III/1	III/5	IV	V/1	V/2	VI/1	
a.1 Balance as of December 31 2013	72,019,069	-121,008	45,944,898	1,388,027	16,852,387	-620,326	0	0	526,797	135,989,844
a.2 Balance as of January 1 2014	72,019,069	-121,008	45,944,898	1,388,027	16,852,387	-620,326	0	0	526,797	135,989,844
b.1 Changes in equity capital – transactions with owners	0	0	0	0	0	0	0	0	-1,384,166	-1,384,166
g. Dividend payment									-1,384,166	-1,384,166
b.2 Total comprehensive income of reporting period	0	0	0	0	0	-235,112	0	0	5,477,406	5,242,294
a. Entry of net profit or loss for the reporting period									5,477,406	5,477,406
č. Changes in surplus from financial investments revaluation						10,171				10,171
d. Other items in comprehensive income of reporting period						-245,283				-245,283
b.3 Changes within capital	-121,008	121,008	0	241,060	1,825,971	0	962,682	0	-3,029,713	0
a. Allocation of remaining part of net profit of the comparative reporting period to other capital items										0
b. Allocation of part of net profit of reporting period to other items of capital following the decision of the management and control				241,060	1,788,562				-2,029,622	0
c. Allocation of part of net profit for additional provisioning under the decision of the annual general meeting					82,265				-82,265	0
č. Settlement of loss as deductible capital item								1,857,460	-1,857,460	0
f. Other changes within capital	-121,008	121,008			-44,856		962,682	-1,857,460	939,634	0
c. Balance as of December 31 2014	71,898,061	0	45,944,898	1,629,087	18,678,358	-855,438	962,682	0	1,590,324	139,847,972
Distributable profit 2014							962,682	0	1,590,324	2,553,006

b) From January 1 2013 to December 31 2013:

In €. Explanatory notes in chapters 15. - 18. are part of the financial statements and should be read in conjunction with them.

EVENTS IN INDIVIDUAL CAPITAL ITEMS	CALLED-UP CAPITAL		CAPITAL RESERVES	PROFIT RESERVES		REVALUATION SURPLUS	PRENESENI ČISTI POSLOVNI IZID	NET PROFIT OR LOSS OF THE BUSINESS YEAR	TOTAL CAPITAL
	I		II	III		IV	V	VI	
	SHARE CAPITAL	UNCALLED CAPITAL	CAPITAL RESERVES	STATUTORY RESERVES	OTHER PROFIT RESERVES	REVALUATION SURPLUS	NET LOSS BROUGHT FORWARD	NET PROFIT OF THE BUSINESS YEAR	
	I/1	I/2	II	III/1	III/5	IV	V/2	VI/1	
a.1 Balance as of december 31 2012	72,019,069	0	45,944,898	1,191,938	15,223,801	1,316	0	-938,629	133,442,393
a.2 Balance as of january 1 2013	72,019,069	0	45,944,898	1,191,938	15,223,801	1,316	0	-938,629	133,442,393
b.1 Changes in equity capital – transactions with owners	0	-121,008	0	0	0	0	0	-1,384,166	-1,505,174
g. Dividend payment								-1,384,166	-1,384,166
i. Other changes in equity capital		-121,008							-121,008
b.2 Total comprehensive income of reporting period	0	0	0	0	0	-621,642	0	4,674,266	4,052,624
a. Entry of net profit or loss for the reporting period								4,674,266	4,674,266
č. Changes in surplus from financial investments revaluation						-1,089,592			-1,089,592
d. Other items in comprehensive income of reporting period						467,950			467,950
b.3 Changes within capital	0	0	0	196,089	1,628,586	0	0	-1,824,675	0
a. Allocation of remaining part of net profit of the comparative reporting period to other capital items					104,189			-104,189	0
b. Allocation of part of net profit of reporting period to other items of capital following the decision of the management and control				196,089	1,466,431			-1,662,520	0
č. Settlement of loss as deductible capital item							2,484,950	-2,484,950	0
f. Other changes within capital					57,966		-2,484,950	2,426,984	0
c. Balance as of December 31 2013	72,019,069	-121,008	45,944,898	1,388,027	16,852,387	-620,326	0	526,797	135,989,844
Distributable profit 2013							0	526,797	526,797

13 SIGNIFICANT ACCOUNTING POLICIES

13.1 GENERAL ACCOUNTING FRAMEWORK

Elektro Gorenjska Group is keeping its books and drawing up financial accounts in accordance with the Slovenian Accounting Standards (hereinafter SRS), Companies Act (ZGD-1) and Energy Act. In preparing them, two basic accounting assumptions are taken into consideration: going concern and occurrence of event. In accounting policies the following basic accounting principles are considered: prudence, advantage of substance over form, and significance.

In accordance with Article 56 of ZGD-1 company based in Slovenia, which is a parent company to one or more companies in Republic of Slovenia or abroad, has to compose a consolidated annual report. Elektro Gorenjska Group consists of:

- controlling company Elektro Gorenjska, Ul. 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. 2014 amounted to 18,261,610 €, net profit for year 2014 was 1,055,804 €,
- company Elektro Gorenjska Prodaja, Ulica Mirka Vadnova 3, Kranj which is in 100 % ownership of the controlling company; capital of this company as at 31. 12. 2014 amounted to 3,918,015 €, net profit or loss for year 2014 was 631,659 €,
- associate company Soenergetika, Stara cesta 3, Kranj, which is in 25 % ownership of company Gorenjske elektrarne; capital of this company as at 31. 12. 2014 amounted to 1,806,683 €, net profit for year 2014 was 698,196 €.

Group does not disclose data, for which there is reason to believe their disclosure might cause significant damage.

Business year of the group is equal to the calendar year.

Degree of accuracy in reporting is 1 €.

13.2 RECOGNIZING EXCHANGE RATE DIFFERENCES

Presentation currency and functional currency is Euro (€). 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 Bank of Slovenia.

13.3 REPORTING IN GEOGRAPHICAL AND BUSINESS SEGMENTS

Group reports in the following **geographical segments**: Slovenia, other countries in EU, other countries outside EU.

13.4 SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

13.4.1 INTANGIBLE ASSETS AND LONG-TERM ACCRUALS AND PRE-PAID EXPENDITURE

Intangible asset is an identifiable non-monetary asset, which as a rule does not exist physically. As a rule it appears as intangible long-term asset. Long-term accruals and pre-paid expenditure are long-term deferred costs.

For measuring the intangible asset under recognition a model of acquisition cost is used.

All intangible assets are depreciable assets. Depreciation basis of depreciable long-term assets is equal to their acquisition cost, reduced by eventual impairment.

Straight-line depreciation method is used. Useful lives and depreciation rates of larger groups of depreciable assets are the following:

SIGNIFICANT CATEGORIES OF DEPRECIABLE ASSETS	ESTIMATED USEFUL LIFE (IN YEARS)	DEPRECIATION RATE (IN %)
Computer software equipment	3	33.33
Other rights	3	33.33

13.4.2 TANGIBLE FIXED ASSETS

Tangible fixed assets is an asset, which the company in the group owns or has under finance lease or controls in another way and uses it in creating products or implementing services or leasing or for office purposes and is expected to use it for these purposes in more than one accounting period.

Acquisition cost of tangible fixed asset consists of its purchase value, import and non-refundable duties and all costs, which can be directly attributed to its qualification for intended use or costs of building or making and indirect costs of its building or making, if fixed asset was built or made in the group. Acquisition cost of fixed assets acquired free of charge is measured at initial recognition at their estimated fair value. Acquisition value consists also of borrowing costs in connection with the acquisition of the tangible fixed asset until its restoration for use.

In case the existing building part of the tangible fixed assets is removed due to the construction of a new building, which will be part of the tangible fixed assets, the book value of the existing building equals the cost of site preparation, which can be included in the acquisition cost of the new building.

Group estimates that it has no significant obligations for decommissioning, restoration and similar obligations.

Electric distribution infrastructure, hired out to operational leasing to SODO under the Contract with SODO is also disclosed under tangible fixed assets and not under investment property. Group believes that such disclosure is more suitable as it is substantially the case of ownership use of assets. Group does not originally own them in order to bring rent or other return.

For measuring tangible fixed assets after recognition model of acquisition value is used.

At least once a year eventual impairment of tangible fixed assets is checked; impairment signs are considered to be physical damage, obsolescence, and change in the manner or extent of use.

Depreciation basis for depreciable tangible fixed assets is equal to their acquisition value, reduced by eventual impairments.

Costs incurred in connection with tangible fixed assets will increase its acquisition value if they increase its future benefits compared to the originally estimated.

Costs of repairs and maintenance of tangible fixed assets intended for renewal or preservation of future economic benefits, which are expected on the basis of initially estimated rate of assets efficiency, are usually recognized as costs or operating expenditure.

Straight-line depreciation method is used. Average useful lives and depreciation rates of larger groups of depreciable assets are the following:

SIGNIFICANT CATEGORIES OF DEPRECIABLE ASSETS	ESTIMATED USEFUL LIFE (IN YEARS)	DEPRECIATION RATE (IN %)
Buildings of energy distribution infrastructure	25-40	2.5-4
Buildings of hydroelectric power stations	5-40	2.5-20
Solar power stations	12-25	4-8.33
Other buildings	15-50	2-6.67
Equipment of energy infrastructure	10-35	2.86-10
Computer hardware equipment	3	33.33
Equipment of hydro power stations	3-30	3.33-33.33
Other equipment	2-20	5-50
Investments in foreign tangible fixed assets	4-25	4-25
Vehicles	8-12	8.33-12.5

13.4.3 INVESTMENT PROPERTY

Investment property is property owned by the company in order to bring rent and/or increase the value of long-term investment. They are mainly:

- land, which is not meant for sale in the near future within regular operation, and those that have no future use determined,
- buildings in operational leasing, and
- vacant buildings the company plans to hire out in operational leasing.

Investment property does not include:

- real estate used by employees (for example apartments hired out for operational leasing to the employees),
- real estate hired out for a long-term operational leasing to SODO Company, 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.

Depreciation basis of the buildings or depreciable investment property is equal to their acquisition value, reduced by eventual impairments. Straight-line depreciation method is used. Useful lives of larger groups of depreciable assets are between 30 and 50 years, while depreciation rates between 2 and 3.33 %.

13.4.4 LONG-TERM FINANCIAL EQUITY INVESTMENTS IN OTHER COMPANIES AND INTEREST RATE SWAP

Long-term financial investment is a financial investment which is to be kept for more than a year and should not be traded. All other financial investments are recognized in the balance sheet as short-term ones.

All long-term financial investments in equity of other companies are classified in fourth category - financial assets available for sale. Financial investments are recognized on the day the company commits to purchase or sell the asset.

If fair value of investments in shares cannot be measured reliably they are **using the model of acquisition cost**. Measuring financial investments at their acquisition cost means that they are recognized in financial statements at their acquisition cost increased by transaction costs and decreased by eventual impairment, during the entire period of their recognition. On every day of the balance sheet it has to be estimated whether there was an objective evidence of an eventual impairment of such financial investment. Financial investment (or a group of financial investments) is impaired (long-term) and this causes losses, if there is objective evidence of the impairment due to an event or events after initial recognition of investment. Amount of loss due to impairment is measured as a difference between the value of the financial investment in books on a balance sheet date and the current value of the expected future cash flows of this investment, discounted according to current market return (recoverable amount) of a similar financial investment.

Difference established in this way is immediately recognized in the profit and loss account as financial expense. Such losses due to impairment under SAS 3 and IAS 39 are not to be reversed. Stated rule also means that the company needs to test the financial investments in shares for impairment. Recoverable amount is measured at fair value, reduced by costs of sale or by value in use, depending on which one is higher:

- a) fair value, reduced by costs of sale is an amount, which can be achieved by selling the assets in an arm's length transaction between knowledgeable and willing parties after reduction for direct additional costs of disposal;
- b) value in use is a current value of estimated future cash flow for which it is expected to appear due to continuous use of asset and its disposal at the end of its useful life.

In establishing the recoverable amount companies derive from a basic premise that recoverable amount of investment or share is defined as the one which usually does not exceed the audited book value of the capital value of the company in which the company has the financial investment. In testing financial investments in shares and in relation to the assessment whether there is a case of impairment or not, significant or long lasting reduction of value of these financial investments under their acquisition value in a period longer than 12 months should also be considered. Company makes a test of assessing the impairments of financial investment in capital instrument, which is not measured at fair value, when accounting value of such financial investment on a cut-off balance day is by more than 20 % larger than proportional part of accounting value of the entire capital of the company, where the company has its investment on that day. If accounting value of entire capital has not (yet) been published or otherwise available, other less reliable evidence on the accounting value of entire capital on the balance sheet date (for example: estimation of accounting value on the balance sheet day) can be used.

In accordance with the SAS 3.5 financial investments include also investments in the **derived financial instruments**. In accordance with the politics of controlling the risks of interest rate changes for protection of cash flows (liabilities) in respect of long-term loans raised the group uses simple interest rate swaps, which means that in recording these methodology defined as hedge accounting by the IAS is used.

In accounting of interest rate swaps group companies use the assumption on the absence of inefficiency. This means that changes of cash flows of secured items are completely neutralized by cash flows in respect of interest rate swaps or that changes of fair values of interest rate swap meet the changes of values of secured items cash flows (basic instruments). Conditions that made interest rate swaps have to meet in accordance with the international accounting standards refer to the so called equality of critical variables; these are elements defining the basic instrument and appropriate interest rate swaps.

If a group company does not meet criteria for successful hedging, hedge accounting is terminated on the last day that compliance with the hedging success has been shown. If the company recognizes an event or change of conditions due to which the hedging

relationship was not successful or did not meet the criteria of success and it is proven that hedging was successful prior to this event or change of conditions, the company terminates the hedge accounting on the day the event or change of conditions took place.

Group companies treat futures contracts based on IAS 39.5. as regular purchase contracts and not as derivative financial instruments, except with concluding the futures contracts for the purposes of trading. In these cases futures are dealt with as derivative instruments.

13.4.5 ASSETS FOR SALE

Assets which do not meet the definition of current assets are non-current assets. Group company classifies non-current asset (or disposal group, including assets that will be disposed by sale or in other way together as a group, by one transaction) for sale, if its book value will be settled mainly through sale and not by further use. Such a situation arises when the asset (or group for disposal) is available for immediate sale in its current state and depending only on the usual conditions of sale of such assets (or disposal groups), wherein its sale must be highly probable.

Sale will be highly probable in case that appropriate level of management transactions consistently meet and follow the asset (or group for disposal) selling plan and that the entire plan and activity plan for finding the buyer is already in progress. Furthermore, asset (or group for disposal) needs to be actively marketable for reaching the price that meets its current fair value.

Due to special events or circumstances period for concluding the sale can be prolonged for more than a year. Extension of the period to complete the sale does not disable the classification of the asset (or group for disposal) into assets for sale, if delay is caused by events or circumstances outside the company's control, but there is sufficient evidence that the company is consistently meeting the plan of selling the asset (or group for disposal).

Asset is no longer depreciated when it is defined as non-current assets for sale or classified in the group for disposal for sale or when recognition is eliminated, depending on what occurs first. Such non-current asset or group for disposal for sale is measured according to book value or fair value, reduced by the costs of sale, namely according to the lower one (SAS 1.54).

13.4.6 STOCKS

Stocks represent part of current assets in a tangible form, which will be used in creating products, performing the services or in production for sale.

Costs of material kept in stocks before their use, are recognized using the method of floating average prices on the level of an individual group company.

In all stocks of parts, spare parts, material, small tools, and support material the group forms revaluation value adjustments due to impairments in the following amounts:

- for stocks of spare parts, material, small tools, and support material, older than 3 years: 60 % of the acquisition cost,
- for stocks of spare parts, material, small tools, and support material, from 2 to 3 years old: 40 % of acquisition cost,
- for stocks of spare parts, material, small tools, and support material, from one to 2 years old: in the amount of 20 %.

13.4.7 CLAIMS

Claims are rights based on property and other relations to require from a certain person to pay the debt, supply goods or implement a service. Claims of all kinds are initially recognized in amounts that originate from suitable documents assuming that they will be paid.

Part of long-term claims, which are due in one year after the balance sheet date at the latest, is recognized as short-term claims.

At least once a year, namely before the composition of the annual statement of accounts, companies in the group verify the adequacy of the recognized amounts of individual claim. In assessing the risks of certain claims not being paid companies in the group classify claims to disputed and doubtful claims. For these purposes appropriate records are established. Records of disputed claims include all claims proposed for enforcement, bankruptcy or compulsory settlement. Records of doubtful claims include claims older than 90 days, excluding claims in respect of electricity and default interest related to electricity (electricity balance accounts), which are doubtful when they are overdue for more than 180 days.

Group companies can reduce valuation adjustment based on the verification of claim value according to individual business

partners in the following cases:

- payments until the date of data preparation,
- agreements between business partners on the deferment of payments,
- security for claims,
- other reasonable grounds.

Based on reasonable grounds that individual claims will not be settled or settled entirely, group companies can classify under doubtful claims also claims that are overdue for less than 90 or 180 days. Receivables from group companies are eliminated from the doubtful claims records.

13.4.8 MONETARY ASSETS

Monetary assets of the group include deposits with commercial banks and deposit money; that is money on transactional accounts in following commercial banks:

CURRENT ACCOUNT NUMBER	BANK OF THE ACCOUNT	COMPANY
07000-0000641939	Gorenjska banka, Kranj	Elektro Gorenjska, d. d.
07000-0001282527	Gorenjska banka, Kranj	Elektro Gorenjska Prodaja, d. o. o.
07000-0000542805	Gorenjska banka, Kranj	Gorenjske elektrarne, d. o. o.
19100-0011259911	Deželna banka Slovenije, Ljubljana	Elektro Gorenjska, d. d.
29000-0001824912	Unicredit banka, Ljubljana	Elektro Gorenjska, d. d.
03138-1000716780	SKB banka, Ljubljana	Elektro Gorenjska Prodaja, d. o. o.
04331-002033138	NKBM, Kranj	Gorenjske elektrarne, d. o. o.
3000-0003480687	Sberbank, Ljubljana	Elektro Gorenjska, d. d.
3700-00000253392	Zveza bank, Ljubljana	Elektro Gorenjska, d. d.
1910-00010322018	DBS d. d.	Elektro Gorenjska Prodaja, d. o. o.
3000-00008783095	Sberbank, Ljubljana	Elektro Gorenjska Prodaja, d. o. o.

All current accounts are kept in Euros, only current account No. 07000-0000641939 in Gorenjska banka Kranj is opened also as foreign currency account.

Monetary assets include also 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 and bank deposits with a

maturity of up to three months among cash equivalents.

Revaluation of monetary assets in currencies outside of € zone is executed if exchange rate changes at the first recognition. Exchange rate difference, which occurs in this situation, either increases or reduces the original recognized value and represents financial revenue or financial expenditure.

13.4.9 SHORT-TERM ACCRUALS AND PREPAID EXPENDITURE

Short-term accruals and prepaid expenditure include short-term deferred expenses, which have no effect on the profit or loss yet, short-term accrued revenues, derivatives and VAT from advances received.

13.4.10 CAPITAL

Entire capital of the group consists of called-up capital, capital reserves, profit reserves, revaluation surplus, and residual of net profit of the business year or unsettled net loss of the business year.

All components of capital out of capital stock belong to the initial capital owners in proportion of their ownership shares in the capital stock.

13.4.11 PROVISIONS AND LONG-TERM ACCRUED COSTS AND DEFERRED REVENUES

Provisions are formed for current obligations, which result from obligatory past events and will be according to the forecasts settled in the period, which is not determined with certainty and whose size can be reliably estimated. Amount, recognized as provision is the best estimation of expenditure necessary for settlement on the balance sheet date of the existing and usually long-term obligation. In estimating the uncertainty experience in similar circumstances and opinion of the experts are taken into consideration.

Provisions for long service bonuses and for severance pays at retirement are formed in the amount of estimated future payments based on the actuarial report on measuring the long-term incomes according to IAS 19. In accordance with the termination of force of the explanatory Note 1 in IAS 10 (2006), this ceased to be in force for the business year starting on January 1 2014 (Decision of termination; Official Gazette RS, No. 20/14 as at 21. 3. 2014, retroactively), in year 2014 the companies in the group for the first

time formed provisions for severance pay at retirement and long-service bonuses in accordance with IAS 19 – Employee 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 according to the IAS 19 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.

Accounting value of provisions is equal to their original value, reduced by spent amounts until the need for their increase or reduction occurs.

Long-term accrued costs and deferred revenues are deferred revenues, which will cover the anticipated expenses in the period of more than one year. Long-term deferred revenues also include tangible fixed assets acquired free of charge, received assets – contributions for average costs of connection. They are intended for covering the depreciation costs of these assets and are spent with transferring to operating revenues, in accordance with the charged depreciation.

13.4.12 LONG-TERM DEBTS

Long-term debts are recognized as liabilities referring to financing the assets, which have to be returned or settled in a period longer than one year, especially in cash. Long-term debts are financial and business. Long-term financial debts are recognized on the day of the settlement.

At initial recognition long-term debts are evaluated with amounts from appropriate documents about their occurrence. They are increased by imputed interests and reduced by redeemed amounts and other possible settlements, if there is an agreement with creditor about it.

Accounting value of long-term debts is equal to their original value, reduced by principal repayment and transfers to short-term debts.

13.4.13 SHORT-TERM DEBTS

Short-term debts are recognized short-term liabilities, which originate in appropriate documents on their occurrence and in case of short-term debts prove the receipt of monetary assets or repayment of the debt, while in case of short-term operating debts they

prove the receipt of products or services.

Accounting value of short-term debts is equal to their original value. Later they can increase directly or not, and according to the payment being made or different settlement they can also reduce for the amount of which there exists an agreement with the creditors.

13.4.14 SHORT-TERM ACCRUED COSTS AND DEFERRED REVENUES

Short-term accrued costs and deferred revenues include short-term accrued costs or expenditures and revenues deferred in short-term and VAT from advances given.

13.4.15 REVENUES

Revenues are classified in operating revenues, financial revenues and other revenues. Operating and financial revenues are regular revenues.

Operating revenues are sales revenues, capitalized own products and services and other operating revenues connected with commercial effects. The latter also include operating revenues from revaluation. They occur mostly with sales of tangible fixed assets and investment property at the price exceeding their accounting value.

Amounts, collected on behalf of SODO Company in operation on the behalf and for the account of SODO Company, are not recognized as revenues, but as operating liabilities to SODO Company.

Financial revenues occur in connection with financial investments, lending and claims. They consist of accrued interest and shares in profits of others, but also as financial revenues from revaluation. Latter occur mainly with the sale of long-term financial investments at a price which exceeds their accounting value.

Revenues for default interest are temporarily deferred at their occurrence, until there is reasonable doubt of their payment. Doubt on the payment of interest is considered to be reasonable until the principal is paid.

Other revenues include unusual items and other revenues increasing the profit and loss.

13.4.16 COSTS AND EXPENDITURE

Expenditure is classified in operating expenses, financial expenses, and other expenses. Operating expenses and financial expenses are regular expenses.

Operating expenses consist of all costs of the period and operating expenses from revaluation. Latter occur mainly due to impairments of tangible fixed assets, claims, and stocks, but also with the sale or other disposal of tangible fixed assets and investment property at the price, which is lower than their accounting value.

Financial expenses are expenses for financing and expenses for investing activities. The first consist mainly of interest costs, while the second have the nature of financial expenses from revaluation. Latter occur due to impairments of financial investments and due to sale or other disposal at a price, which is lower than their accounting value. Financial expenses for interests are recognized in accordance with the time that has passed and contractually agreed interest rate.

Other expenses consist of unusual items and other expenses that reduce the profit and loss.

13.4.17 CASH- FLOW STATEMENT

Cash-flow statement has a successive ordinal form and is composed according to a direct method (version I). With it receipt for acquisition of short-term financial investments, which are represented by the deposits in deposit money banks, loans among companies in the group and income from their disposal, are considered cash equivalents.

13.4.18 CLAIMS AND LIABILITIES FOR DEFERRED TAX

Claims and liabilities for deferred tax are recognized and canceled in accounting registers, when amounts of claims and liabilities for deferred tax are individually or together significant for the company in the group, or are not recognized or cancelled if they are insignificant for the company individually or jointly or there are no convincing evidence about the availability of future taxable profit.

14 SIGNIFICANT SOURCES OF UNCERTAINTY AND ASSUMPTIONS AND BASES USED IN ASSESSING THESE UNCERTAINTIES AND ESTIMATES

In applying the accounting policies and guidelines presented before, companies in the group have to implement many estimates and assessments about accounting values of assets and liabilities, which are not always available from other sources. Estimates and assumptions referring to them are based on past experience and factors the company considers to be suitable. Estimates and used assumptions are verified constantly. Actual results can differ from these estimates. Verifications of accounting estimates are recognized in the period the estimate was verified in, but also in future periods, if a modified estimate influences current as well as future periods. Following are significant assessments, besides the ones already presented, which the group companies made in applying the accounting policies and which have a significant influence on the amounts recognized in the financial statements.

14.1 TRANSACTIONS WITH SODO COMPANY

Transactions with company SODO are generally regulated by the Contract with SODO, which is presented in more detail also in the Business report, in [chapter 4.9.4 – Contract with SODO Company](#).

In March 2015 Elektro Gorenjska Company received a preliminary settlement of the regulatory year 2014 from SODO Company. Preliminary settlement for year 2014 was executed by SODO on the basis of the unaudited financial statements. Settlement shows that the already charged contractual value of services, rent, and losses in year 2014 was by 2,322 € lower than the value established on the basis of the preliminary settlement. On this basis, in year 2014 Elektro Gorenjska recognized additional revenues in the amount of 2,322 €.

Final settlement for regulatory year 2014 will be executed by SODO on the basis of revised data of both contracting parties. In case Agency RS for energy 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 Agency RS for energy.

As explained in [Chapter 4.9.4 – Contract with SODO Company](#), on February 29 2012 the company signed a Contract for the hire of electricity distribution infrastructure and implementation of services for distribution network system operator with the duration of the contract being subject to the duration of the concession contract signed between the Republic of Slovenia as a concession provider and SODO Company as the concession operator. Management of the company did this to reduce the threatening financial harm, which would arise in case of non-signing of the contract.

As previously explained, on the proposal of the management the then supervisory board of Elektro Gorenjska Company gave its consent to the Contract under the condition that the company informs SODO Company about the constraints to implementation and compliance with certain contractual provisions, which the company could not comply and implement for objective reasons. Individual provisions impose on the company obligations which are exceedingly burdening and as a consequence disproportionate according to the purpose of regulating the relation between the two companies, which is quality and efficient implementation of the public utility service of the electricity distribution network system operator. Beside that certain provisions of the contract are substantially too open and allow the possibility of exceedingly wide interpretation of company's obligations.

Key provisions of the contract, which the company cannot accept as binding due to already explained objective reasons or due to disproportionate burdening according to the purpose of the contract, refer to charges "on behalf and for the account of SODO Company", accessing data, data transmission, legitimating in court proceedings, essential breaches of contract and monitoring the implementation of the contract.

14.2 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.

14.3 ACCOUNTS OF ELECTRICITY PURCHASE – DEROGATIONS FROM SCHEDULES

Company Elektro Gorenjska Prodaja has not yet received a final statement of costs of electricity purchase for year 2014 from its electricity supplier HSE, which is the responsible of the balance group that balance subgroup Elektro Gorenjska Prodaja is also a part of. Based on the records on purchase and sale of electricity in year 2014 and based on the best assessment of prices for derogations the company estimates that final statement of derogations for year 2014 will establish that an amount of under-charged costs of electricity purchase for derogations will amount to 232,356 €. As at December 31 2014 this assessment is recognized in the financial statements of the company under accrued costs (please see [chapter 15.16 – Short-term accrued costs and deferred revenues](#)).

15 NOTES TO THE BALANCE SHEET ITEMS

15.1 INTANGIBLE ASSETS AND LONG-TERM ACCRUALS AND PRE-PAID EXPENDITURE

Following table presents changes in intangible assets and long-term accruals and pre-paid expenditure in years 2014 and 2013.

In €

2014	COMPUTER SOFTWARE EQUIPMENT	OTHER RIGHTS	PROPERTY RIGHTS IN ACQUISITION	OTHER LONG-TERM ACCRUALS AND PRE-PAID EXPENDITURE	TOTAL INTANGIBLE ASSETS AND LONG-TERM ACCRUALS AND PRE-PAID EXPENDITURE
1	2	3	4	5	6 = 2+3+4+5
Acquisition cost					
Balance 1. 1. 2014	4,837,658	7,090	57,834	67,204	4,969,786
New acquisitions	321,075	0	587,243	234,074	1,142,392
Disposals, withdrawals, transfers	5,426	0	-298,105	-63,517	-356,196
Completion of ongoing investments	106,758	0	-36,758	0	70,000
Balance 31. 12. 2014	5,270,918	7,090	310,214	237,760	5,825,982
Value adjustment					
Balance 1. 1. 2014	4,219,098	5,474	0	0	4,224,572
Increase (depreciation)	304,939	236	0	0	305,175
Disposals, withdrawals, transfers	-8,661	0	0	0	-8,661
Balance 31. 12. 2014	4,515,376	5,710	0	0	4,521,086
Carrying amount					
Balance 1. 1. 2014	618,561	1,616	57,834	67,204	745,215
Balance 31. 12. 2014	755,542	1,380	310,214	237,760	1,304,896

In €

2013	COMPUTER SOFTWARE EQUIPMENT	OTHER RIGHTS	PROPERTY RIGHTS IN ACQUISITION	OTHER LONG-TERM ACCRUALS AND PRE-PAID EXPENDITURE	TOTAL INTANGIBLE ASSETS AND LONG-TERM ACCRUALS AND PRE-PAID EXPENDITURE
1	2	3	4	5	6 = 2+3+4+5
Acquisition cost					
Balance 1. 1. 2013	4,366,903	7,090	184,877	123,413	4,682,283
New acquisitions	21,197	0	306,275	5,372	332,844
Disposals, withdrawals, transfers	0	0	0	-61,581	-61,581
Completion of ongoing investments	449,558	0	-433,318	0	16,240
Balance 31. 12. 2013	4,837,659	7,090	57,834	67,204	4,969,787
Value adjustment					
Balance 1. 1. 2013	3,837,219	5,238	0	0	3,842,457
Increase (depreciation)	381,879	236	0	0	382,115
Disposals, withdrawals, transfers	0	0	0	0	0
Balance 31. 12. 2013	4,219,098	5,474	0	0	4,224,572
Carrying amount					
Balance 1. 1. 2013	529,684	1,852	184,877	123,413	839,826
Balance 31. 12. 2013	618,561	1,616	57,834	67,204	745,215

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.

As at December 31 2014 the group had no financial obligations in respect of acquiring intangible fixed assets.

15.2 TANGIBLE FIXED ASSETS

As at December 31 2014 tangible fixed assets amounted to **184,564,506 €**, which represents 84 % of balance sheet total of the group. Compared to the balance as at December 31 2013 their value is by 4,407,595 € higher.

Presentation of changes in tangible fixed assets in year 2014 (in €):

2014	LAND	BUILDINGS			EQUIPMENT			TANGIBLE FIXED ASSETS IN BUILDING	ADVANCES	TOTAL TANGIBLE FIXED ASSETS
		INFRASTRUCTURE	ELECTRIC POWER PLANTS	OTHER BUILDINGS	INFRASTRUCTURE	ELECTRIC POWER PLANTS	OTHER EQUIPMENT			
1	2	3	4	5	6	7	8	9	10	11=2+3+4+5+6+7+8+9-10
Acquisition cost										
Balance 1.1.2014	7,703,792	239,011,452	16,003,882	14,041,555	94,614,145	16,941,908	13,137,268	5,802,707	29,475	407,286,184
New acquisitions	86,269	367,409	0	26,946	272,910	398,023	401,886	12,821,847	329,437	14,704,726
Disposals, separations, transfers	3,782	-1,873,743	0	29,446	-557,169	-11,647	-293,485	0	-242,979	-2,945,796
Transfer from investments in progress	41,482	6,870,847	23,206	81,978	1,166,314	325,703	21,428	-8,545,926	0	-14,968
Balance 31.12.2014	7,835,325	244,375,966	16,027,088	14,179,924	95,496,200	17,653,987	13,267,097	10,078,628	115,933	419,030,148
Valuation adjustment										
Balance 1.1.2014	0	145,429,290	9,710,561	3,741,000	50,610,555	7,678,360	9,959,509	0	0	227,129,275
Increase (depreciation)	0	4,178,763	461,719	295,922	3,234,447	783,599	843,305	0	0	9,797,755
Disposals, separations, transfers	0	-1,718,060	0	30,832	-478,068	-3,669	-292,423	0	0	-2,461,388
Balance 31.12.2014	0	147,889,993	10,172,280	4,067,754	53,366,934	8,458,290	10,510,391	0	0	234,465,642
Carrying amount										
Balance 1.1.2014	7,703,792	93,582,162	6,293,321	10,300,555	44,003,590	9,263,548	3,177,758	5,802,707	29,475	180,156,911
Balance 31.12.2014	7,835,325	96,485,973	5,854,809	10,112,171	42,129,266	9,195,697	2,756,706	10,078,628	115,933	184,564,506

Presentation of changes in tangible fixed assets in year 2013 (in €):

2013	LAND	BUILDINGS			EQUIPMENT			TANGIBLE FIXED ASSETS IN BUILDING	ADVANCES	TOTAL TANGIBLE FIXED ASSETS
		INFRASTRUCTURE	ELECTRIC POWER PLANTS	OTHER BUILDINGS	INFRASTRUCTURE	ELECTRIC POWER PLANTS	OTHER EQUIPMENT			
1	2	3	4	5	6	7	8	9	10	11=2+3+4+5+6+7+8+9-10
Acquisition cost										
Balance 31.12.2012	7,731,326	237,262,986	16,081,703	13,940,452	90,075,251	16,403,054	15,308,167	5,433,238	37,469	402,273,646
New acquisitions	89,419	278,338	1,769	8,581	1,311,281	143,327	572,322	8,389,424	18,991	10,813,454
Disposals, separations, transfers	-147,760	-4,151,710	-79,590	-69,003	1,637,602	-124,927	-2,774,559	-40,937	-26,985	-5,777,869
Transfer from investments in progress	30,806	5,621,837		161,525	1,590,011	520,454	31,338	-7,979,019	0	-23,048
Balance 31.12.2013	7,703,792	239,011,452	16,003,882	14,041,555	94,614,145	16,941,908	13,137,268	5,802,707	29,475	407,286,184
Valuation adjustment										
Balance 31.12.2012	0	145,388,960	9,260,634	3,517,610	46,044,240	6,936,726	11,462,910	0	0	222,611,080
Increase (depreciation)	0	4,148,742	464,809	289,624	3,298,094	756,470	822,193	0	0	9,779,931
Disposals, separations, transfers	0	-4,108,412	-14,883	-66,234	1,268,221	-14,836	-2,325,594	0	0	-5,261,737
Balance 31.12.2013	0	145,429,290	9,710,561	3,741,000	50,610,555	7,678,360	9,959,509	0	0	227,129,273
Carrying amount										
Balance 31.12.2012	7,731,326	91,874,026	6,821,069	10,422,842	44,031,011	9,466,328	3,845,256	5,433,238	37,469	179,662,568
Balance 31.12.2013	7,703,792	93,582,162	6,293,321	10,300,555	44,003,591	9,263,548	3,177,759	5,802,707	29,475	180,156,911

New acquisitions are presented in the business report, in [chapter 6.7](#).

Individually significant acquisitions are:

Buildings:

- investment in 20 kV KBV TP Celar-TP Fužine Kokra (348,925 €),
- investment in 20 KBV TP Njivica (237,088 €),
- investment in 35 kV DV Podkuže-Kr. Gora (161,844 €).

Equipment:

- equipment for RTP Jesenice (74,831 €) and
- equipment for TP Jezerski vrh (56,823 €).

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:

- 35 KV DV RTP Ukova–Podkuže (reduction of acquisition cost by 367,847 € and revaluation adjustment by 330,681 €) and
- low-voltage non-insulated line Slavnik–Radovljica (reduction of acquisition cost by 91,433 € and revaluation adjustment by 91,433 €).

Items **infrastructure** fully refer to electricity distribution infrastructure as defined in the Decree on energy infrastructure (Official Gazette RS, No. 62/2003 and forwards). It includes buildings and equipment as well as part of the land. Book value of electricity distribution infrastructure as at December 31 2014 amounted to 143,638,580 € (31. 12. 2013: 142,226,940 €). For the needs of implementation of system operator activity, which SODO Company implements on the basis of the concession contract for implementation of public utility service of distribution network system operator, SODO Company has hired from Elektro Gorenjska Company complete electricity infrastructure.

Two solar power station in net current value of 1,758,612 € are pledged as security for a long-term loan.

Elektro Gorenjska Group discloses under its tangible fixed assets also hydro power station (HE) Sava and assets (equipment) referring to HE Jelendol. In connection to the mentioned fixed assets denationalization disputes have begun in the past years, which have not yet been concluded until the date of the preparation of this report.

In years 2012, 2013 and 2014 Gorenjske elektrarne Company leased for a ten- to twelve-year period renovated lighting systems in shopping centers, which are owned by the tenant. As the investor the company entirely renovated the lighting systems and gave them renovated to the operating lease. In the same way in year 2013 the system for the production of compressed air with another client was renovated and given to a ten-year lease. In year 2014 rental income amounted to 26,181 €, in the next four years they will amount to additional 104,782 € and in the last five years they amounted to 41,543 €.

To finance new acquisitions of fixed assets the group took several long-term loans in year 2014 and previous years, whose balance on 31. 12. 2014 amounted to 41,959,062 € (31. 12. 2013: 42.370.427 €). Please see also [chapter 15.13 - Long-term liabilities](#).

15.3 INVESTMENT PROPERTY

At the end of 2014 investment property amounted to 1,957,898 €. Changes in their acquisition value, valuation adjustment and their carrying amount in years 2014 and 2013 are presented in the following tables.

Presentation of changes in investment property in year 2014:

2014	LAND	BUILDINGS	TOTAL INVESTMENT PROPERTY
1	2	3	4=2+3
Acquisition cost			
Balance 1.1.2014	803,481	2,385,970	3,189,451
New acquisitions	0	0	0
Disposals	0	-52,128	-52,128
Transfer from ongoing investments	3,619	11,348	14,967
Balance 31.12.2014	807,100	2,345,190	3,152,291
Value adjustment			
Balance 1.1.2014	0	1,185,976	1,185,976
Depreciation	0	43,724	43,724
Disposals	0	-35,308	-35,308
Balance 31.12.2014	0	1,194,393	1,194,393
Carrying amount			
Balance 1.1.2014	803,481	1,199,994	2,003,475
BALANCE 31.12.2014	807,100	1,150,798	1,957,898

Presentation of changes in investment property in year 2013:

2013	LAND	BUILDINGS	TOTAL INVESTMENT PROPERTY
1	2	3	4=2+3
Acquisition cost			
Balance 1.1.2013	819,212	2,369,176	3,188,388
Spin-off	0	0	0
New acquisitions	6,652	1,917	8,569
Disposals	-22,383	-8,170	-30,553
Transfer from ongoing investments	0	23,048	23,048
Balance 31.12.2013	803,481	2,385,970	3,189,451
Value adjustment			
Balance 1.1.2013	0	1,147,005	1,147,005
Depreciation	0	45,090	45,090
Disposals	0	-6,118	-6,118
Balance 31.12.2013	0	1,185,976	1,185,976
Carrying amount			
Balance 1.1.2013	819,212	1,222,171	2,041,383
BALANCE 31.12.2013	803,481	1,199,994	2,003,475

Following is the presentation of investment property structure.

ITEM DESCRIPTION	31.12.2014	31.12.2013
Apartments	325,529	352,491
Holiday facilities	496,280	499,642
Other buildings	328,988	347,862
Land	807,100	803,481
Total investment property	1,957,898	2,003,475

On August 31 2010 valuation of most of the investment property was performed. Based on this valuation or comparable market price, fair value of investment property amounted to 4,635,708 €. We estimate that book value of investment property does not exceed their fair value also on 31.12.2013.

Revenues from rent in investment property amount to 154,298 €.

Direct operating expenses (including repairs and maintenance), originating from investment property, which made revenues from rents in year 2014, and direct operating expenses, which did not make revenues from rents in year 2014 consist of depreciation costs (43,724 €) and costs of material and services (98,039 €).

There were no significant separations or disposals of investment property in year 2014.

15.4 LONG-TERM FINANCIAL INVESTMENTS

On December 31 2014 long-term financial investments of the group amounted to **1,314,937 €**. Compared to the balance as at 31. 12. 2013 (1,354,622 €) their value did not change significantly. Long-term financial investment in Soenergetika Company is recognized in the group financial statements using the equity method. Soenergetika Company started its business in year 2010. In 2010 and 2011 its operations represented a preparation stage, that is why the company did not make any sales revenues yet, while since year 2012 onwards the company operated with a profit.

Long-term financial investments were revaluated to fair value. Revaluation surplus according to the balance as at 31. 12. 2014 amounted to 51,336 € and was reduced for deferred tax in the amount of 8,727 €. Shares of Zavarovalnica Triglav were revalued to the price of the last trading day on the Ljubljana Stock Exchange, which is 23.60 €. Value of the long-term financial investment and on the other side the value of capital increased for the revaluation amount, through surplus from revaluation of long-term investments.

In connection with the long-term financial investments the group is mostly exposed to the risks of unfavorable changes in the fair value of long-term financial investments. Group does not possess any special financial instruments to protect itself from this risk. Exposure to the risks and hedging systems are explained in the business report, in [chapter 5 – Management and quality systems](#).

Related party transactions are presented in [chapter 20 – Transactions with affiliates](#).

In consolidation of long-term financial investments, investment of the controlling company in the shares of the group companies (18,818,484 €), was offset against the fixed capital of the controlled companies in the amount of 16,684,880 €, and capital reserves in the amount of 2,133,604 €.

Changes in long-term financial investments are presented in the table below.

In €

INVESTMENT DESCRIPTION	SHARE DESIGNATION	NUMBER OF SHARES (% OF INTERESTS)		SHARE IN THE OWNERSHIP (IN %)		STANJE	INCREASES IN YEAR 2014		DECREASES IN YEAR 2014		BALANCE 31.12.2014
		1.1.2014	31.12.2014	1.1.2014	31.12.2014		1.1.2014	VALUATION ADJUSTMENTS	NEW ACQUISITIONS OR REDISTRIBUTIONS	VALUATION ADJUSTMENTS	
Soenergetika, d.o.o.				25.00%	25.00%	427,134	24,537	0	0	0	0
Total investments in shares and interests in associates						427,134	24,537	0	0	0	451,671
Informatika, d.d., Maribor	INFG	1,562	1,562	9.56%	9.56%	193,680	0	0	-28,208	0	165,472
Gorenjska banka, d.d., Kranj	GBKR	2,350	2,350	0.71%	0.71%	288,766	0	0	0	0	288,766
Zavarovalnica Triglav, d.d., Ljubljana	ZVTG	2,664	2,664	0.01%	0.01%	50,616	12,254	0	0	0	62,870
Stelkom, d.o.o., Ljubljana		-	-	9.90%	6.32%	51,628	0	0	0	-51,628	0
Total other shares and interests						584,688	12,254	0	-28,208	-51,628	517,107
Total long-term financial investments, except loans						1,011,822	36,791	0	-28,208	-51,628	968,778
Banka Koper - long-term deposit						0	0	200,000	0	0	200,000
Eldom Maribor						142,798	0	0	0	0	142,798
Employees						0	0	4,200	0	-840	3,360
Total long-term loans						142,799	0	204,200	0	-840	346,158
TOTAL LONG-TERM FINANCIAL INVESTMENTS						1,154,620	36,791	204,200	-28,208	-52,468	1,314,937

15.5 ASSETS FOR SALE

Assets for sale in the amount of 150,330 € represent a share in Stelkom Company and tangible fixed assets, for which it is reasonably expected that they will be settled mainly through sale and not by further use.

15.6 STOCKS

Value of stocks of material, small tools, and merchandise as at 31. 12. 2014 amounted to a total of **197,259 €**. Compared to the balance as at 31. 12. 2013 they have decreased by 9.6 % or by 20,923 €. Group estimates that net realizable value of stocks is at least equal to their book value.

In €

ITEM DESCRIPTION	LETO 2014	LETO 2013
Material stocks at the beginning of the period 1. 1.	216,790	162,393
Purchases	3,368,264	3,250,002
Consumption	-3,193,389	-3,074,785
Impairments and cancellation of impairments	1,035	25,409
Transfer of small tools in use	-205,518	-146,228
Material stocks at the end of the period 31. 12.	187,182	216,790

In stocktaking as at 31. 10. 2014 and 31.10.2013 no surpluses or deficits were established. In year 2014 stocks were impaired by 1,035 €, while in year 2013 realized impairment of stocks amounted to 25,409 €. Structure of stocks is shown in the following table.

In €

ITEM DESCRIPTION	31.12.2014	31.12.2013
Material and raw materials	180,102	178,438
Small tools	7,080	38,351
Total	187,182	216,790

Stocks in the amount of 10,077 € represent stocks of merchandise (wood pellets).

Group has no pledged stocks as security for its liabilities.

15.7 SHORT-TERM FINANCIAL INVESTMENTS

According to the balance as at 31. 12. 2014 the group records 200,840 € of short-term loans to others. They refer to two short-term deposits in Banka Koper. Deposits are pledged as collateral for the guarantee received by counter-guarantee in favor of GME (Gestore dei Mercati energetici).

15.8 SHORT-TERM OPERATING RECEIVABLES

Short-term operating receivables as at 31. 12. 2014 amounted to **23,352,579 €** and have decreased by 4.9 mio € compared to the balance as at 31. 12. 2013.

Following table represents the structure of short-term operating receivables:

In €

OPIS POSTAVKE	31.12.2014	31.12.2013
Short-term accounts receivable	23,736,507	28,581,506
Short-term advances	43,503	19,253
Short-term securities	50,000	0
Adjustment of short-term accounts receivable	-1,479,440	-1,726,176
Short-term accounts receivable	22,350,570	26,874,583
Short-term operating receivables from others	997,626	1,331,455
Adjustment of short-term receivables from others	-5,364	-2,808
Short-term advances	9,746	0
Short-term operating receivables from others	1,002,009	1,328,646
Short-term operating receivables	23,352,579	28,203,229

Short-term accounts receivable represent 96 % of all short-term operating receivables.

Due to increased number of debtors the Elektro Gorenjska Prodaja Company already in 2012 approached the preparation of new rules on checking the creditworthiness of customers and insurance against defaults in the process of concluding contracts. Rules define procedural rules on checking the creditworthiness and eventual debt of the customer before concluding a contract, criteria for classification of business customers in individual categories according to size and credit assessment as well as hedging

instruments, which are requested from the customers at the stage of concluding the contract in case of default. At the end of 2013 process of checking the credit assessments of customers and other information arising from AJPES registers – on account blockages, on commenced bankruptcy proceedings, compulsory settlements or striking off the register, was computer-supported.

Receivables from some business partners are secured with a bill of exchange, guarantee statement, enforcement draft or non-land security right, otherwise they are entirely unsecured.

Breakdown of short-term claims for electricity, network charge and services including receivables referring to default interest as of December 31 2014 according to maturity terms is shown in the following presentation:

In €

ITEM DESCRIPTION	NOT YET DUE	UP TO 30 DAYS	31-60 DAYS	61-90 DAYS	MORE THAN 90 DAYS	TOTAL AMOUNT DUE	TOTAL ACCOUNTS RECEIVABLE
Claims on buyers of electricity, network charge and services	19,951,245	1,572,011	543,547	93,524	1,430,664	3,639,746	23,590,991
Default interest claims	20,291	17,177	12,317	4,896	90,834	125,224	145,515
TOTAL	19,971,536	1,589,188	555,864	98,420	1,521,498	3,764,970	23,736,507

Changes in valuation adjustment of claims are presented in the next table.

In €

ITEM DESCRIPTION	BALANCE 1.1.2014	NEW FORMATIONS			WITHDRAWAL (USE) AND ELIMINATION		BALANCE 31.12.2014
		CHARGEABLE TO EXPENSES OR REVENUES	CHARGEABLE TO CLAIMS	CLAIMS WRITE-OFF	PAID INTEREST – TRANSFER TO REVENUES	ELIMINATION OF EXCESS VALUATION ADJUSTMENTS	
Valuation adjustment of accounts receivable	1,548,348	284,819	0	247,247	256	208,354	1,377,309
Valuation adjustment of other short-term claims	177,829	4,209	13,694	55,788	20,288	17,526	102,130
Valuation adjustment of interest claims	2,808	2,056	2,500	0	2,000	0	5,364
Total valuation adjustment of claims	1,728,984	291,084	16,194	303,035	22,544	225,879	1,484,804

15.9 MONETARY ASSETS

As at 31. 12. 2014 Elektro Gorenjska Group had **5,188,746 €** of cash on the commercial banks accounts and short-term redeemable deposits in banks in the state.

15.10 SHORT-TERM ACCRUALS AND PRE-PAID EXPENDITURE

Short-term accruals and pre-paid expenditure Accruals and pre-paid expenditure as at 31. 12. 2013 amount to **318,306 €**. Their structure is shown in the next table.

In €

ITEM DESCRIPTION	31.12.2014	31.12.2013
Short-term deferred costs or expenses	160,566	654,312
Short-term accrued income	60,603	160,158
Refund of excise duties, contributions from natural gas consumption in 2014	37,587	0
Other	59,550	60,116
Total	318,306	874,585

Short-term deferred costs or expenses as at 31. 12. 2014 are by 556,279 € lower than they were on the last day of the previous year. On the last day of 2013 the main item of the short-term deferred costs were costs in respect of the distribution network losses in the amount of 431,993 €. Group did not record these costs according to the balance as at 31. 12. 2014 as they occurred during the operation among companies in the Group.

15.11 CAPITAL

Entire capital of the Group consists of the share capital, capital reserves, statutory reserves, other reserves, surplus from revaluation and net profit or loss. Balance of the entire capital as at 31. 12. 2014 amounted to **139,847,972 €** and was higher by 2.8 % or 3,858,128 € compared with the balance of capital as at 31. 12. 2013.

Share capital of Elektro Gorenjska Company (71,898,061 €) is divided in 17,286,376 ordinary registered unit shares. All shares are paid-up entirely. Each share has an equal share and associated amount in the share capital. Ordinary shares are shares, which give their holders the right to interest, right to part of profit (dividends), and right to appropriate part of remaining property after the liquidation or bankruptcy of the company. All shares are of the same class. Shares are issued in dematerialized form and are managed in KDD – Central Securities Clearing Corporation, d. d., in accordance with regulations. Other details in respect with the share capital and ownership structure of the capital are explained also in Business report, [chapter 4.7 – Share capital and ownership structure](#).

Uncalled capital of the company according to the balance as at December 31 2013 (121,008 €) referred to the denationalization process related to HE Sava.

In the denationalization process of HE Sava the Republic of Slovenia, Administrative Unit Kranj, issued a partial decision No. 301-58/1992-133, which has allowed the claim for the return of nationalized property to be part of the assets HE Sava returned to the ownership and possession of the denationalization claimants. Object of the denationalization was returned in kind.

Assets of HE Sava, which are subject of partial decision and whose book value at the end of December 2013 amounted to 121,008 €, have been eliminated from the accounts as Elektro Gorenjska Company no longer possesses or controls them and no longer has economic benefits of them.

Until their return in kind assets of HE Sava, which are subject of partial decision, were owned by Elektro Gorenjska company and were part of its capital as established for the purposes of the ownership transformation of company Elektro Gorenjska Kranj into Elektro Gorenjska Company, which is evident from The decision of the Agency of the Republic of Slovenia for Restructuring and Privatization as at October 16 1996 and Ownership Transformation Program, which was an integral part of this decision.

With regard to the denationalization claims the Ownership transformation program also determined that property subject to denationalization refers to "assets or capital of the company, **which is owned by the Republic of Slovenia etc.** After completing the denationalization procedures in relation to the property of denationalization claimants the final decision of the competent authorities in charge of denationalization procedures will be taken into account. Statute of Elektro Gorenjska Company mutatis mutandis defines that the company "for all assets that will be in accordance with the interim measures and decisions subject of denationalization, **will issue shares to the state, which commits to return the share after the size of the denationalization property is finally established in the amount equal to the value of the denationalization property, while the company will remove the shares to the burden of state capital in case a real segregation of property subject of the denationalization claims occurs**". Conditions for the return of the shares of Elektro Gorenjska owned by the Republic of Slovenia were fulfilled with the finality of the decision on the recovery of part of the assets of HE Sava in kind.

Arrangements for the refund and cancellation of shares in accordance with Article 6 of the Statute were being implemented in year 2014.

Simultaneously with the return of part of HE Sava assets and elimination of their recognition from the accounts Elektro Gorenjska company recognized uncalled capital as a deduction from equity for the carrying amount of the returned property. After the realization of Article 6 of the Statute or implemented return of the shares by the Republic of Slovenia and elimination of these shares the equity of the company shall be reduced to the burden of uncalled capital. Calculated from the book value of the Elektro Gorenjska share on the day of the elimination of the object of denationalization, which amounted to 7.71 €, and book value of the

returned property of HE Sava number of shares the Republic of Slovenia will return to the company for the purposes of elimination amounts to 15,695. As a result, relative ownership structure of shareholders in the company changed as well.

Capital reserves in the amount of 45,944,898 € were formed on 1. 1. 2006 in accordance with the transitional provisions (point No 15 of the Introduction to SRS 2006) from the incumbent general revaluation equity adjustment. They are applied in accordance with the Article 64 of ZGD-1.

Statutory reserves as at 31. 12. 2014 amount to 1,629,087 € and are formed in accordance to the Article 64 of ZGD-1.

Other profit reserves amount to 18,678,358 €. They are formed from net profit of the business years and used by the Company according to Article 11 of the Statute.

Revaluation surplus (855,438 €) arises from revaluation of long-term financial investments (42,609 €), as explained in [chapter 15.4 – Long-term financial investments](#), and negative fair value of interest rate swap (–890,895 €), and negative revaluation surplus referring to post-employment income – severance pay upon retirement (–7,152 €).

Distributable profit of the group or the remaining net profit of the business year amounted to 2,553,006 €. According to the balance as at 31. 12. 2014 Elektro Gorenjska company recognized the remaining net profit of the business year in the amount of 2,165,156 €. Allocation of this profit is the responsibility of the shareholders meeting. On the last day of year 2014 company Gorenjske elektrarne recognized remaining net profit of the business year in the amount of 1,003,014 €. Its allocation is the responsibility of the owner Elektro Gorenjska Company. In year 2014 Elektro Gorenjska Prodaja recognized net profit in the amount of 631,659 €. Profit was entirely intended to cover losses brought forward from year 2012. Distribution of distributable profit of Elektro Gorenjska for year 2013 was determined with the decision of the general meeting as of July 2 2014 (see also Business report, [chapter 4.6.1 – Management and governance of Elektro Gorenjska company](#)). In accordance with the decision of the general meeting distributable profit in the amount of 1,384,166 € was intended for payment of dividends to the owners, while the remaining amount of 82,265 € was allocated to other profit reserves. In accordance with the decision of the founder, Elektro Gorenjska Company, entire distributable profit of Gorenjske elektrarne Company for year 2013 (792,830 €) was paid out to the founder. In year 2014 net profit or loss after tax with respect to the cumulative growth factor of prices would amount to 4,392,890 €.

In €

ITEM DESCRIPTION	CAPITAL AS AT 31. 12. 2014	% OF GROWTH	CALCULATED EFFECT	PROFIT OR LOSS WITH REVALUATION EFFECT
Capital	139,847,972	0.2	279,696	4,392,890

15.12 PROVISIONS AND LONG-TERM ACCRUED COSTS AND DEFERRED REVENUES

As at December 31 2014 provisions and long-term accrued costs and deferred revenues amounted to **14,064,693 €**. Compared to their balance as at December 31 2013 they increased by 483,487 €.

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. In accordance with the termination of force of the explanatory Note 1 in IAS 10 (2006) that ceased to be in force for the business year starting on January 1 2014 (Decision of termination; Official Gazette RS, No. 20/14 as at 21. 3. 2014, retroactively), in year 2014 the companies in the group for the first time formed provisions for severance pay at retirement and long-service bonuses in accordance with IAS 19 – Employee Benefits.

Actuary calculation takes into account the following actuarial assumptions:

- mortality tables of population of Slovenia from year 2007, reduced by 10 %;
- linearly decreasing fluctuation from 1.5 % at 15 years of age to 0.5 % at 54 years, then constant 0.5 % fluctuation; total on employees as at 31.12.2013 this means fluctuation of 0.8 % a year for year 2015;
- 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. 2014 in accordance with the Article 27 and indent 3 of paragraph 7 of Article 28 in ZPIZ – 2;
- growth of average earnings in RS for years 2015 and 2016, resulting from the Autumn forecasts of economic trends (2014); from 2017 onwards average salary in RS will increase annually by 2 % inflation and by real growth of 0.5 %;
- Increase in basic salaries and variable part of salaries in the company in the amount of 85 % of annual inflation, from 2016 onwards increased also by real growth in the amount of 0.5 %;
- Growth of salaries due to promotion is linearly decreasing, namely from 5 % at 15 years to 0.5 % at 45 years, then constant 0.5 % annually, as a total on employees as at December 31 2014 this means 1.3 % annually for year 2015;
- Increase in average salary in the electricity sector in the amount of average salary growth in the Republic of Slovenia, increased by 1%;
- Inflation yield curve is calculated for all government bonds for Euro zone countries (spot rates) as at 17. 12. 2014.

Provisions for compensation in connection to the denationalization claims have been additionally formed in the amount of

197,969 €.

Tangible fixed assets received free of charge consist of customer connections, which the company took over to its tangible fixed assets together with its commitment to care for their maintenance and renovation, in accordance with regulations, above all the General conditions for the supply and consumption of electricity from the distribution electricity network (Official Gazette RS No. 126/07, 37/11), and free acquisition of other fixed assets.

Long-term deferred revenues in respect of average connection costs were formed until June 30 2007 in connection with implementation of GJS SODO on the basis and in accordance with the regulations, above all the Act determining the methodology for the calculation of network charge and methodology for setting the network charge, and the criteria for determining eligible costs for electricity networks (Official Gazette RS, No. 121/2005 and onwards). Average cost of connection is a lump-sum amount, paid for the connection to the network or to increase the connection power. It is a dedicated source for financing investments in network expansion.

There were no significant differences between planned and realized forming and drawing on individual category of provisions and long-term accrued costs and deferred revenues.

The following table presents the changes in provisions and long-term accrued costs and deferred revenues in year 2014.

In €

ITEM DESCRIPTION	BEGINNING OF THE PERIOD	INCREASES (FORMATIONS)			DECREASES (WITHDRAWALS, ELIMINATION)		END OF THE PERIOD
	1.1.2014	CHARGEABLE TO COSTS (EXPENSES)	RECOGNITION CHARGEABLE TO ASSETS	RECOGNITION CHARGEABLE TO CAPITAL	CREDIT TO OPERATING REVENUES	CREDIT TO LIABILITIES OR SHORT-TERM ACCRUED CHARGES	31.12.2014
Provisions for long-service bonuses	1,065,088	108,002	0	0	0	88,707	1,084,383
Provisions for severance pay at retirement	1,722,746	166,037	0	7,139	0	28,044	1,867,877
Total provisions for long-service bonuses and severance pay	2,787,834	274,039	0	7,139	0	116,751	2,952,260
Provisions for damages in connection with denationalization claims	4,565,078	197,969	0	0	0	0	4,763,047
Total other provisions	4,565,078	197,969	0	0	0	0	4,763,047
Total provisions	7,352,912	472,008	0	7,139	0	116,751	7,715,307
Fixed assets acquired free of charge	731,206	0	0	0	46,952	0	684,254
Free acquisition of connections	3,406,364	0	367,409	0	106,320	0	3,667,453
Received tangible fixed assets free of charge	4,137,570	0	367,409	0	153,272	0	4,351,707

ITEM DESCRIPTION	BEGINNING OF THE PERIOD	INCREASES (FORMATIONS)			DECREASES (WITHDRAWALS, ELIMINATION)		END OF THE PERIOD
		1.1.2014	CHARGEABLE TO COSTS (EXPENSES)	RECOGNITION CHARGEABLE TO ASSETS	RECOGNITION CHARGEABLE TO CAPITAL	CREDIT TO OPERATING REVENUES	
Deferred revenues in respect of average connection costs	1,866,789	0	0	0	85,319	0	1,781,470
Long-term accrued costs and deferred revenues – right to use	9,280	0	0	0	580	0	8,700
Long-term deferred income - rent	0	0	12,150	0	3,517	0	8,633
Received state benefits	130,402	0	12,180	0	12,257	0	130,325
Received assets for Re-energy Fund	15,196	0	0	0	0	0	15,196
Other	69,059	0	0	0	15,703	0	53,356
Total long-term accrued costs and deferred revenues	6,228,295	0	391,739	0	270,648	0	6,349,386
Total provisions and long-term accrued costs and deferred revenues	13,581,206	472,008	391,739	7,139	270,648	116,751	14,064,693

The following table presents the changes in provisions and long-term accrued costs and deferred revenues 2013.

In €

ITEM DESCRIPTION	BEGINNING OF THE PERIOD	INCREASES (FORMATIONS)			DECREASES (WITHDRAWALS, ELIMINATION)		END OF THE PERIOD
		1.1.2013	CHARGEABLE TO COSTS (EXPENSES)	RECOGNITION CHARGEABLE TO ASSETS	RECOGNITION CHARGEABLE TO CAPITAL	CREDIT TO LIABILITIES OR SHORT-TERM ACCRUED CHARGES	
Provisions for long-service bonuses	1,083,873	57,722	0	1,890	63,849	10,769	1,065,088
Provisions for severance pay at retirement	1,764,905	22,953	0	20,847	44,265	0	1,722,746
Total provisions for long-service bonuses and severance pay	2,848,778	80,675	0	22,736	108,114	10,769	2,787,834
Provisions for damages in connection with denationalization claims	4,367,109	197,969	0	0	0	0	4,565,078
Total other provisions	4,367,109	197,969	0	0	0	0	4,565,078
Total provisions	7,215,886	278,644	0	22,736	108,114	10,769	7,352,911
Fixed assets acquired free of charge	1,059,844	0	0	328,638	0	0	731,206
Free acquisition of connections	3,268,999	0	272,826	135,461	0	0	3,406,364
Received tangible fixed assets free of charge	4,328,843	0	272,826	464,098	0	0	4,137,570
Deferred revenues in respect of average connection costs	1,952,108	0	0	85,319	0	0	1,866,789

ITEM DESCRIPTION	BEGINNING OF THE PERIOD	INCREASES (FORMATIONS)		DECREASES (WITHDRAWALS, ELIMINATION)			END OF THE PERIOD
	1.1.2013	CHARGEABLE TO COSTS (EXPENSES)	RECOGNITION CHARGEABLE TO ASSETS	RECOGNITION CHARGEABLE TO CAPITAL	CREDIT TO LIABILITIES OR SHORT-TERM ACCRUED CHARGES	CREDIT TO APPROPRIATE ASSETS	31.12.2013
Long-term accrued costs and deferred revenues – right to use	9,860	0	0	580	0	0	9,280
Rent and services SODO – RO account	0	0	24,449	0	24,449	0	0
Received state benefits	42,757	0	96,789	0	0	9,144	130,402
Received assets for Re-energy Fund	15,196	0	0	0	0	0	15,196
Other	3,927	0	78,572	9,514	3,927	0	69,059
Total long-term accrued costs and deferred revenues	6,352,690	0	472,636	559,511	28,376	9,144	6,228,295
Total provisions and long-term accrued costs and deferred revenues	13,568,576	278,644	472,636	582,247	136,490	19,914	13,581,206

15.13 LONG-TERM LIABILITIES

As at 31. 12. 2014 Elektro Gorenjska Group had **35,907,768 €** of long-term financial liabilities, which is by 2.2 % more than compared to the balance as at 31. 12. 2013. All long-term financial liabilities have the maturity of more than five years. Majority (98 %) of all long-term financial liabilities represent liabilities to banks.

In year 2014 we redeemed **7,054,329 €** worth of principals and paid **1,165,610 €** of interest (interest in connection to long-term loans and related interest rate swaps). Interest in the amount of 63,259 € was capitalized.

In year 2013 we redeemed by 6,145,334 € of principals and paid 1,351,076 € of interest. Balance of raised loans as of December 31 2014 amounted to 42,577,927 €, while at the end of year 2013 it was 41,532,257 €.

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 0.3 and 3.6 percent point.

All financial liabilities are secured by bills of exchange. Balance of received loans to finance tangible fixed assets as at 31. 12. 2014 amounted to 41,959,062 €.

In connection with long-term financial liabilities the group is exposed mainly to the interest risk, as the long-term loans raised by the group are loans with a floating interest rate (EURIBOR + add-on). Future cash flows being uncertain the group decided to secure the cash flow by purchasing the interest rate swap. As at December 31 2014 there were 37 % of long-term loans secured with the fixed interest rate, which represents the amount of 15,923,346 €. Fair value of interest rate swap as at 31.12.2014 amounted to -890,894 €. Exposure to risks and hedging systems are explained in the Business report, in [chapter 5 – Management and quality systems](#).

Deferred tax liabilities as at 31. 12. 2014 amounted to 8,727 €, while on the last day of year 2013 they amounted to 6,644 €.

Changes in long-term financial liabilities in year 2014 are presented in the following:

In €

TITLE	YEAR OF APPROVAL	YEAR OF MATURITY	PURPOSE OF LOAN	INSURANCE OF LOAN	INTEREST RATE HEDGE	OPENING BALANCE 1.1.2014	INCREASES DUE TO NEW LEASES	AMORTIZATIONS 2014	CLOSING BALANCE 31.12.2014	SHORT-TERM PART OF LONG-TERM LOANS 31.12.2014	LONG-TERM PART OF LOANS 31.12.2014	DUE FROM 31.12.2014 TO 31.12.2019
1	2	3	4	5	6	7	8	9	10=7+8+9	11=part of 10	12=part of 10	13=part of 10
credit 1	2009	2017	investments	blank bills	yes	4,857,143	0	-1,214,286	3,642,857	1,214,286	2,428,571	3,642,857
credit 2	2008	2016	investments	blank bills	no	3,013,409	0	-1,004,470	2,008,939	1,004,470	1,004,469	2,008,939
credit 3	2007	2014	investments, current assets	blank bills	no	238,453	0	-238,453	0	0	0	0
credit 4	2007	2015	investments, current assets	blank bills	no	2,491,285	0	-1,245,642	1,245,642	1,245,642	0	1,245,642
credit 5	2006	2014	investments, current assets	blank bills	no	417,351	0	-417,351	0	0	0	0
credit 6	2010	2018	investments	blank bills	yes	5,142,857	0	-1,028,571	4,114,286	1,028,571	3,085,715	4,114,286
credit 7	2011	2023	investments	blank bills	yes	7,862,500	0	-850,000	7,012,500	850,000	6,162,500	4,250,000
credit 8	2012	2023	investments	blank bills	no	4,500,000	0	-450,000	4,050,000	450,000	3,600,000	2,250,000
credit 9	2012	2023	investments	blank bills	no	4,500,000	0	-450,000	4,050,000	450,000	3,600,000	2,250,000
credit 10	2013	2024	investments	blank bills	no	7,200,000	0	0	7,200,000	720,000	6,480,000	3,600,000
credit 11	2012	2022	investments	mortgage, assignment of the claim	yes	1,309,259	0	155,556	1,153,703	598,084	555,619	944,444
credit 12	2014	2025	investments	blank bills	no	0	8,100,000	0	8,100,000	0	8,100,000	3,240,000
Total long-term loans						41,532,257	8,100,000	-7,054,329	42,577,927	7,561,053	35,016,874	27,546,169

15.14 SHORT-TERM FINANCIAL LIABILITIES

Short-term financial liabilities as at 31. 12. 2014 amounted to **7,691,381 €** and are by 1.5 mio € lower than as at 31. 12. 2013. Short-term financial liabilities to banks as at 31. 12. 2014 refer to the short-term part of long-term loans and according to the balance as at 31. 12. 2013 include also short-term loan in the amount of 2 mio €.

In €

ITEM DESCRIPTION	31. 12. 2014	31. 12. 2013
Short-term financial liabilities to banks and companies	7,561,053	9,054,329
Other short-term financial liabilities	130,328	191,748
Total short-term liabilities from financing activities	7,691,381	9,246,077

15.15 SHORT-TERM OPERATING LIABILITIES

At the end of 2014 short-term operating liabilities in the amount of **19,837,095 €** were by 3.3 mio € lower than compared to the balance on the last day of 2013. They mainly refer to payables (for own account) and to SODO company (for third party account). Detailed review of the short-term operating liabilities is presented in the following table.

In €

ITEM DESCRIPTION	31. 12. 2014	31. 12. 2013
Liabilities to suppliers for own account	11,720,617	16,614,702
to other suppliers in the country	11,720,617	16,614,702
Liabilities to other suppliers on its own behalf and for third party account	4,458,023	4,400,864
liabilities to SODO, d.o.o.	4,457,987	4,397,735
to others	36	3,130
Other liabilities, of which:	3,658,455	2,184,852
to workers	1,073,959	1,006,334
to state and other institutions	848,071	377,777
for received advances and collaterals	602,139	500,351
other (interests, employee deductions, pension fund management ...)	1,134,286	300,391
Total short-term liabilities from operating activities	19,837,095	23,200,418

15.16 SHORT-TERM ACCRUED COSTS AND DEFERRED REVENUES

As at 31. 12. 2014 accrued costs and deferred revenues amounted to **1,206,334 €**. Compared to their balance as at 31. 12. 2013 they are by 1 mio € lower.

Amount of short-term accrued costs and deferred revenues was significantly higher at the end of year 2013 due to short-term deferred revenues referring to preliminary calculation of rent and services for year 2013 in the amount of 875,681 €. At the end of year 2014 short-term accrued costs and deferred revenues in this title were not formed, as explained in [Chapter 14.1 – Transactions with SODO Company](#).

15.17 POTENTIAL ASSETS, LIABILITIES AND OFF-BALANCE SHEET RECORDS

Off-balance sheet assets or liabilities as at 31. 12. 2014 amounted to **15,058,600 €**. They were lower by 2.1 mio € compared to the balance as at 31. 12. 2013.

Potential assets amount to 4,251,791 €, with received guarantees representing the highest value. Potential liabilities in the amount of 7,145,017 € are guarantees issued to a subsidiary. Other off-balance record include small tools (1,134,364 €) and fixed assets in the property of SODO Company (2,527,427 €). 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 Company or sold to SODO Company in year 2011, in the off-balance sheet in accordance with the Contract with SODO Company or contract of sale.

In €

ITEM DESCRIPTION	31. 12. 2014	31. 12. 2013
Foreign material in warehouse	172,286	123,334
Received guarantees	3,305,824	3,053,114
Easements	773,681	835,153
Total potential assets	4,251,791	4,011,601
Pledged deposits	307,263	302,427
Issued guarantees, bills of exchange	6,837,754	9,180,620
Total potential liabilities	7,145,017	9,483,046
Small tools	1,134,364	1,101,965
Fixed assets in the property of SODO	2,527,427	2,628,755
Total other	3,661,791	3,730,720
Total off-balance sheet assets and liabilities	15,058,600	17,225,367

16 NOTES ON PROFIT AND LOSS ACCOUNT ITEMS

16.1 NET SALES REVENUES

In year 2014 net sales revenues amounted to **83,901,176 €**. 99.9 % of net sales revenues were achieved on the domestic market. Their structure is presented in the following table.

In €

ITEM DESCRIPTION	YEAR 2014	YEAR 2013
Revenues from electricity sale	52,218,131	61,622,147
Revenues from electricity sale – SODO supplies	23,467	19,620
Revenues from rent and services in relation to SODO	26,825,566	26,118,300
Revenues for covering the losses of electricity in relation to SODO	2,985,241	3,260,505
Revenues from rents	375,714	361,696
Revenues from construction and assembly works	493,904	356,428
Revenues from other sale	979,153	876,309
Total net sales revenues	83,901,176	92,615,005

Majority of net sales revenues in year 2014 represent revenues from electricity sale (52,218,131 €), revenues from rent and services related to SODO Company (26,825,566 €) and revenues for covering electricity losses in relation to SODO Company (2,985,241 €).

Quantities of sold electricity are presented in the Business report, [chapter 6.3 – Quantities of purchased and sold electricity](#).

Revenues from rent and services in relation to SODO and revenues for covering the electricity losses in relation to SODO are achieved on the basis of a long-term contract with company SODO on lease of electricity distribution infrastructure and implementation of services of distribution electricity network operator. Contract with SODO is explained in [chapter 4.9.4](#).

Transactions in connection with revenues for losses of electricity in network of the company are presented also in the Business report – [chapter 4.9.5. – Electricity losses in network](#).

16.2 CAPITALIZED OWN PRODUCTS AND OWN SERVICES

In year 2014 capitalized own effects amounted to **4,052,208 €**. They were mostly investments in tangible fixed assets – energy infrastructure. Compared to year 2013 amount of capitalized own effects was by 259,258 € higher.

16.3 OTHER OPERATING REVENUES

Other operating revenues in the amount of **1,490,981 €** consist of:

In €

ITEM DESCRIPTION	YEAR 2014	YEAR 2013
Revenues from reversal of provisions	0	22,736
Operating revenues from revaluation	75,623	71,636
Revenues in respect of transferring long-term deferred revenues to regular operating revenues:	267,084	558,110
– delivery of fixed assets free of charge	46,952	328,638
– delivery of connections free of charge	106,320	135,461
– average connection costs	85,319	85,319
– other	28,493	8,693
Recovered damages from insurance company	1,026,063	72,110
Other operating revenues	122,212	151,983
Total other operating revenues	1,490,981	876,575

Revenues from transfer of long-term deferred revenues (long-term accrued costs and deferred revenues) to regular revenues and **revenues from reversal of provisions** are explained also in [chapter 15.12 – Provisions and accrued costs and deferred revenues](#).

16.4 FINANCIAL REVENUES FROM SHARES

In year 2014 Elektro Gorenjska Group realized by **179,078 €** of financial revenues from shares. Revenues in the amount of 174,549 € represent pro-rata net profit of the associated company Soenergetika, which is consolidated by the equity method, while revenues in the amount of 4,529 € refer to received dividends.

16.5 FINANCIAL REVENUES FROM LOANS

Financial revenues from given loans consist of:

In €

ITEM DESCRIPTION	YEAR 2014	YEAR 2013
Received interest for short-term deposits in money deposit banks	53,583	53,545
Total financial revenues from loans	53,583	53,545

16.6 FINANCIAL REVENUE FROM OPERATING RECEIVABLES

In year 2014 Elektro Gorenjska Group realized **193,377 €** of financial revenue from operating receivables. As shown in the following table main part were default interest on receivables from electricity and network charge.

In €

ITEM DESCRIPTION	YEAR 2014	YEAR 2013
Default interest on receivables from electricity and network charge	171,137	149,617
Interest on other receivables	22,239	9,510
Total financial revenues from operating receivables	193,377	159,127

16.7 COSTS OF GOODS SOLD AND MATERIALS USED

Costs of goods sold and materials used include:

In €

ITEM DESCRIPTION	YEAR 2014	YEAR 2013
Acquisition cost of goods and materials sold	56,727	29,102
Electricity purchase	44,742,721	54,136,739
Electricity purchase – losses and SODO supplies	2,530,128	2,826,306
Costs of material:	4,341,060	4,038,078
– material costs of maintenance	530,723	333,698
– costs of materials in connection with capitalized own effects, market services	2,859,542	2,764,461
– energy costs	576,683	627,683
– small tool write-off	205,548	146,104
– costs of office supplies	105,066	106,528
– other material costs	63,498	59,603
Costs of goods sold and expenses	51,670,636	61,030,225

Biggest item within the costs of goods sold and materials used are costs of electricity purchase. Costs of electricity purchase were lower due to lower quantities purchased as well as due to lower average price. Average purchase prices and quantities are explained in Business report [chapter 6.4](#).

Transactions of purchases for losses are presented also in the Business report, [chapter 4.9.5 – Electricity losses in network](#).

Transactions of supplies with electricity are explained in more detail in the Business report in [chapter 4.9.6 – Supply of SODO Company](#).

Costs of material used in maintenance of tangible fixed assets are presented also in the Business report, in [chapter 6.8 – Maintenance of energy facilities](#).

Costs of materials related to capitalized own effects and market services (year 2014: 2,859,542 € and year 2013: 2,764,461 €) include values of material, which the group then treats as a component part of:

- acquisition values of tangible fixed assets, built or made in the company for the needs of the company (capitalized own effects), which is explained in more detail in [chapter 16.2 - Capitalized own products and own services](#);

- values of own services (construction, on-site assembly and similar services), sold on the market (please see also [chapter 16.1 – Net sales revenues](#)).

16.8 COSTS OF SERVICES

In year 2014 costs of services amounted to **6,144,867 €**, while in year 2013 they amounted to 5,804,474 €. Biggest cost within costs of services represent costs of services related to maintenance of energy infrastructure and other tangible fixed assets. Detailed structure of service costs can be found in the following table.

In €

ITEM DESCRIPTION	YEAR 2014	YEAR 2013
Costs of service in creating products and implementing services	152,225	76,687
Costs of transport services	512,677	514,265
Costs of services in respect of maintenance of electric power infrastructure and other tangible fixed assets	2,083,907	1,808,122
Rents	205,386	165,457
Reimbursements of work related costs to employees	31,130	40,126
Costs of payment transactions, banking services and insurance premiums	667,407	649,748
Costs of intellectual and personal services	716,596	653,853
Costs of advertising and representation	234,883	147,384
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...)	173,357	151,709
Costs of information and other services	1,367,299	1,597,124
Total costs of services	6,144,867	5,804,474

Costs of services in creating products and implementing services (year 2014: 152,225 €; year 2013: 76,687 €) include values of construction services, electricity on-site assembly, designing and other similar services, which the group then treats as a component part of:

- acquisition costs of tangible fixed assets, built or made in the company for the needs of the company (capitalized own effects), which is explained in more detail in [chapter 16.2 - Capitalized own products and own services](#);
- values of services (construction, electricity on-site assembly and similar services) sold on market (see also [chapter 16.1 – Net sales revenues](#)).

Maintenance of electricity infrastructure is presented also in Business report, [chapter 6.8 – Maintenance of energy facilities](#).

Costs of intellectual services include costs of scientific and research work also presented in the business report in [chapter 6.9 – Development and design](#), and costs of education and related costs of tuition fees and costs of additional professional education of employees presented in the business report in [chapter 8.1.4 - Education](#).

Costs of advertising and representation include also costs of sponsorships explained in more detail also in the business report, [chapter 8.3.1 – Communication with local community and social responsibility](#).

Costs of other services include mainly costs related to computer information system, which include concern for undisturbed and safe operation of group's information system, electronic mail, access to World Wide Web, ensuring appropriate level of data and services security, implementation of joint security policy, data processing, storage of computer-generated data and other services of computer software equipment maintenance.

16.9 LABOR COSTS

Labor costs in the amount of **13,109,388 €** consist of:

In €

ITEM DESCRIPTION	YEAR 2014	YEAR 2013
Salary costs	8,968,973	8,415,066
Costs of voluntary pension insurance of employees	439,652	407,722
Costs of employer's contributions and other benefits from salaries	1,530,095	1,564,577
Costs of transport allowances	2,170,668	2,387,173
Total labor costs	13,109,388	12,774,538

Share of the parent Elektro Gorenjska Company in labor costs is 80 %.

Costs of voluntary pension insurance are presented also in the Business report, [chapter 8.1.13 – Care for employees and related groups outside working hours](#).

Costs of employer's contributions and other salary benefits include also contributions for pension and disability insurance: year 2014 in the amount of 831,218 €; year 2013 in the amount of 860,032 €.

Number of employees and their education structure and other information in connection with the employees are presented in more detail in the Business report, [chapter 8.1 – Care for employees](#).

Receipts of the management, supervisory board and employees according to individual contracts are presented in more detail in [Chapter 20.2 – Transactions with the management](#), supervisory board and employees under contract for which tariff part of the collective agreement does not apply.

16.10 AMORTIZATION / DEPRECIATION EXPENSES

Amortization /depreciation expenses in year 2014 amounted to **10,483,941 €**. Their structure is the following:

In €

ITEM DESCRIPTION	YEAR 2014	YEAR 2013
Depreciation of intangible fixed assets	305,175	382,115
Depreciation of tangible fixed assets	9,797,756	9,776,923
Depreciation of investment property	43,724	48,098
Total depreciation costs	10,146,656	10,207,136
Operating expenses from revaluation of fixed assets and investment property	230,215	294,079
Operating expenses from revaluation of current assets	107,070	192,715
Total write-offs	10,483,941	10,693,930

Costs of depreciation of intangible fixed assets (305,175 €) are presented also in [chapter 15.1 – Intangible assets and long-term accruals and prepaid expenditure](#); costs of depreciation of tangible fixed assets (9,797,756 €) in [chapter 15.2. – Tangible fixed assets](#); and costs of depreciation of investment property (43,724 €) in [chapter 15.3. – Investment property](#).

16.11 OTHER OPERATING EXPENSES

Other operating expenses in the amount of **662,358 €** include:

In €

ITEM DESCRIPTION	YEAR 2014	YEAR 2013
Contribution for promotion of employment of persons with disabilities	82,315	76,799
Contribution for urban land	116,047	114,412
Contribution for contaminated water	10,995	10,995
Concession for water use	79,674	137,592
Provisioning	197,969	197,969
Other expenses (environment protection costs, compensations ...)	175,358	188,932
Total other operating expenses	662,358	726,697

Employment of persons with disability and policy of scholarships are presented in more detail in the Business report, [chapter 8.1.3 – Employment of persons with disabilities](#) or in [chapter 8.1.4 – Education](#).

Provisioning is explained in more detail also in [chapter 15.12 - Provisions and long-term accrued costs and deferred revenues](#).

16.12 FINANCIAL EXPENSES FROM IMPAIRMENTS AND FINANCIAL INVESTMENT WRITE-OFFS

In year 2014 the group had by 28,208 € of financial expenses from impairments of long-term financial investments in shares of Informatika, d. d. In year 2013 these expenses amounted to 118,629 €, above all as a consequence of termination of share capital and invalidation of Nova Ljubljanska bank shares in the month of December 2013.

16.13 FINANCIAL EXPENSES FROM FINANCIAL LIABILITIES

In year 2014 financial expenses from financial liabilities amounted to **1,448,106 €**. As shown in the table below, they mainly include expenses from interest for received long-term loans in commercial banks.

In €

YEAR	YEAR 2014	YEAR 2013
Expenses from interests for received long-term loans in commercial banks	1,085,354	985,418
Expenses from interests for received short-term credit in commercial bank	56,682	68,968
Expenses from interest – interest rate swap	306,069	365,658
Total financial expenses from financial liabilities	1,448,106	1,420,044

16.14 OTHER EXPENSES

Other expenses consist of donations and other expenses. In year 2014 they amounted to **45,965 €**, while in year 2013 to 47,988 €.

16.15 BREAKDOWN OF COSTS BY FUNCTIONAL GROUPS

Breakdown of costs by functional groups is shown in the following table:

In €

ITEM DESCRIPTION	YEAR 2014	YEAR 2013
Costs of operating effects sold	72,894,909	81,991,269
Costs of general activities	6,528,636	6,448,165
Costs of sales	2,310,360	2,103,636
Total	81,733,905	90,543,070

16.16 INCOME TAX

Charged income tax for 2014 business year amounted to **722,397 €** (year 2013: 373,622 €). In year 2014 and 2013 all companies in the Group recorded liability for income tax. Overview of the calculation of income tax for individual year is in the following table:

In €

ITEM DESCRIPTION	YEAR 2014	YEAR 2013
Pre-tax profit	6,968,084	4,922,893
Revenues reducing the tax base	-978,830	-79,722
Expenses increasing the tax base	731,762	634,777
Expenses reducing the tax base	-108,510	-233,752
Reduction of the tax base on the basis of relief	-2,078,429	-2,786,028
Other	-284,680	-260,393
Tax base	4,249,397	2,197,776
Tax rate	17%	17%
Income tax	722,397	373,622
Effective tax rate	10%	8%

Main reason for higher effective tax rate in year 2014 is lower value of tax relief for investing in equipment compared to year 2013.

16.17 DEFERRED TAX LIABILITIES AND DEFERRED TAXES

Deferred tax liabilities as at 31. 12. 2014 amounted to 8,727 € and refer entirely to the revaluation of long-term financial investments. Liabilities for deferred tax which amounted to 1,228,663 € as at 31. 12. 2014, were not recognized in accordance with SRS 5.16 by the Group (uncertainty about future taxable profits).

17 NOTES ON OTHER COMPREHENSIVE INCOME ITEMS

Change in the revaluation surplus of financial assets, available for sale in the amount of 10,171 €, consists of revaluation of long-term financial investment to higher fair value (12,254 €) and consequently increase of the deferred tax liabilities (-2,083 €). Other components of the comprehensive income in the amount of -245,283 € refer to the increase of the negative fair value of the interest rate swap (-238,132 €) and post-employment income of employees referring to severance pay at retirement (-7,151 €).

18 NOTES ON CASH FLOW ITEMS

In year 2014 Elektro Gorenjska Group had 138,039,743 € of receipts and 138,433,108 € 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 2014 was negative and amounted to -393,365 €.

As at 1. 1. 2014 the group had on transaction accounts in banks monetary assets in the form of short-term deposits or deposits redeemable in the amount of 5,582,111 €, while the balance of these assets on 31.12.2014 amounted to 5,188,746 €.

Net cash from operating activities in year 2014 amounted to 14,881,059 €, which means that companies in the group operate positively with their main activity and create a positive cash flow. This way in year 2014 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 and could partly finance new acquisitions of intangible and tangible assets. The largest revenues were revenues from customers for payment of electricity and revenues received under the Contract with SODO Company for implementation of services and rents for electric power infrastructure.

Net cash used in investing activities in year 2014 amounted to 10,573,645 €. Industry the Elektro Gorenjska Company operates in is technologically very intense and in order to provide quality supply to its customers in the area of Elektro Gorenjska distribution network large and constant investments are required (explained mainly in [chapter 15.2 – Tangible fixed assets](#)). New acquisitions of intangible and tangible assets were mainly financed by acquisition of new long-term credit in the amount of 8,100,000 € (explained in [chapter 15.13 – Long-term liabilities](#)), while partly they were financed also by net cash from operating activities. Net cash used in financing activities amounted to -4,700,779 €.

19 CONTINGENT LIABILITIES

Besides liabilities recognized in long-term provisions, Elektro Gorenjska Group acts as a defendant party in some other cases, but they are not disputes of bigger values and the group expects no significant expenses or losses in connection to these disputes. Contingent liabilities of the Group are shown also in [chapter 15.17 - Potential assets, liabilities and off-balance sheet records](#).

20 TRANSACTIONS WITH AFFILIATES

20.1 TRANSACTIONS WITH GROUP COMPANIES IN YEAR 2014

In year 2014 parent Elektro Gorenjska Company was doing business with two subsidiaries, Gorenjske elektrarne and Elektro Gorenjska Prodaja.

Among transactions within the group, which were eliminated from the consolidated balance sheet, the most important are liabilities (claims) in respect of purchase of electricity for losses in the amount 576,272 € and short-term accruals and prepaid expenditure and accruals and deferred income in respect of costs of losses in the amount of 275,685 €.

Significant transactions within the Group that were eliminated from the consolidated profit/loss account include the following:

In €

ITEM DESCRIPTION	AMOUNT
Costs of electricity purchase for losses (revenues of controlled company)	2,530,140
Revenues from general services of controlling company (costs of controlled company)	449,108
Revenues from rents (costs of controlled company rents)	226,283

All transactions with controlled companies were implemented under normal market conditions.

As a controlling company Elektro Gorenjska Company did not obstruct or impair operations of companies Gorenjske elektrarne and Elektro Gorenjska Prodaja as the controlled companies.

20.2 TRANSACTIONS WITH MANAGEMENT, SUPERVISORY BOARD AND EMPLOYEES UNDER CONTRACT FOR WHICH TARIFF PART OF THE COLLECTIVE AGREEMENT DOES NOT APPLY

Chairman of the Board in the controlling company and directors of the controlled companies

In year 2014 Elektro Gorenjska Group paid persons stated below the following gross or net receipts:

In €

CHAIRMAN OF THE BOARD/COMPANY DIRECTOR	EARNING	OPERATING PERFORMANCE	TERMINAL LEAVE PAY	LONG-SERVICE BONUS	PAY FOR ANNUAL LEAVE	PAYMENT OF UNUSED ANNUAL LEAVE	REIMBURSEMENTS OF COSTS	TOTAL
1. Elektro Gorenjska								
gross receipt	73,333	0	0	0	0	0	3,157	76,490
net receipt	35,337	0	0	0	0	0	3,157	38,494
2. Elektro Gorenjska Prodaja								
gross receipt	66,000					5,041	2,910	73,951
net receipt	33,297					2,595	2,910	38,802
3. Gorenjske elektrarne								
gross receipt	74,652	0	0	0	0	0	1,810	76,462
net receipt	40,277	0	0	0	0	0	1,810	42,087

Reimbursement of costs (so called material costs) include: daily allowances, transfer to work, meals and costs of official journeys. They are charged in accordance with the employment contracts or company's collective agreement.

Benefits of the Chairman of the Board in the controlling company and directors of the controlled companies arising from the employment contract were the following in year 2014:

In €

CHAIRMAN OF THE BOARD / COMPANY DIRECTOR	INSURANCE PREMIUMS	USE OF COMPANY CAR	USE OF MOBILE PHONE	SUPPLEMENTARY EDUCATION
Elektro Gorenjska	1,370	11,324	828	933
Elektro Gorenjska Prodaja	1,370	5,332	505	3,523
Gorenjske elektrarne	1,304	6,774	352	2,695

Supervisory board

In year 2014 supervisory board held a total of 15 sessions, namely on the following dates 14. 1. 2014, 6. 2. 2014, 27. 3. 2014, 17. 4. 2014, 16. 5. 2014, 28. 5. 2014, 20. 6. 2014, 4. 7. 2014, 24. 7. 2014, 25. 7. 2014, 29. 8. 2014, 26. 9. 2014, 24. 10. 2014, 28. 11. 2014 in 17. 12. 2014. On three of the regular sessions one supervisory board member was missing, and on one of the sessions two members were absent. Within the supervisory board audit committee and nomination committee have been operating.

Audit committee, whose members have been Andrej Koprivec, dr. Andrej Baričič, Dušan Kapevski, MSc and Elvis Duraković (until April 7 2014) held in year 2014 twelve regular sessions (29. 1. 2014, 19. 3. 2014, 24. 3. 2014, 22. 4. 2014, 13. 5. 2014, 23. 5. 2014, 20. 6. 2014, 26. 6. 2014, 2. 8. 2014, 12. 9. 2014, 17. 11. 2014 in 21. 11. 2014), and two correspondence sessions (14. 2. 2014 and 4. 9. 2014). One of the members was not present at one of the regular sessions.

Nomination committee, whose members have been Samo Logar, Tedo Djekanović, MSc and Milena Pervanje, held 10 regular sessions in year 2014. Sessions took place on the following dates 22. 4. 2014, 20. 5. 2014, 3. 7. 2014, 10. 7. 2014, 11. 7. 2014, 21. 8. 2014, 19. 9. 2014, 20. 10. 2014, 11. 11. 2014 and 8. 12. 2014. All members of the committee were present at all sessions.

Gross and net receipts of the supervisory board members in year 2014 are shown in table below (for those also members of supervisory board committees, receipts for participation in the committees are included as well). From the table attendance of individual members at the meetings is also evident.

In €

	GROSS/NET	PARTICIPATION AT THE SESSION OF SB		PARTICIPATION AT THE COMMITTEE		PAYMENT FOR THE PERFORMANCE OF THE FUNCTION	ATTENDANCE FEE SB	ATTENDANCE FEE COMMITTEE	TRAVEL EXPENSES	TOTAL
		NO. OF SESSIONS	ATTENDANCE	NO. OF SESSIONS	ATTENDANCE					
Shareholders representatives										
Samo Logar	gross	15	15	10	10	19,587	3,945	1,980	577	26,089
	net					13,960	2,869	1,440	420	18,689
Andrej Koprivec	gross	15	14	14	14	15,538	3,373	2,772	714	22,397
	net					11,015	2,453	2,016	519	16,003
mag. Tedo Djekanović	gross	15	13	10	10	13,058	3,575	1,980	0	18,613
	net					9,211	2,600	1,440	0	13,251
Elvis Duraković	gross	15	14	14	13	14,125	3,593	2,552	25	20,296
	net					9,987	2,613	1,856	19	14,475
Employee representatives										
Vojko Oman	gross	15	14			11,300	3,850	0	0	15,150
	net					7,933	2,800	0	0	10,733
Leopold Zupan	gross	15	15			12,430	4,125	0	0	16,555
	net					8,755	3,000	0	0	11,755

Gross and net receipts and attendance of external members of the audit and nomination committees can be found in the table below:

External members of committees

In €

	GROSS/NET	PARTICIPATION IN THE COMMITTEE		PAYMENT FOR THE PERFORMANCE OF THE FUNCTION	ATTENDANCE FEE COMMITTEE	TRAVEL EXPENSES	TOTAL
		NO. OF SESSIONS	ATTENDANCE				
dr. Andrej Baričič	gross	14	14	5,650	3,212	294	9,156
	net			4,109	2,336	214	6,659
mag. Duško Kapevski (until 7. 4. 2014)	gross	4	4	1,993	1,042	57	3,091
	net			1,450	757	41	2,248
Milena Pervanje	gross	10	10	5,991	1,980	123	8,094
	net			4,357	1,440	89	5,886

As explained in [chapter 4.6.1 – Management and governance of Elektro Gorenjska Company](#), besides the attendance fees they have been receiving also monthly payments for the performance of the function.

Costs of other supervisory board members' benefits in year 2014 are shown in the following table.

In €

	INSURANCE COSTS
Shareholders representatives	
Samo Logar	1,048
Andrej Koprivec	1,048
mag. Tedo Djekanović	1,048
Elvis Duraković	1,048
Employee representatives	
Vojko Oman	1,048
Leopold Zupan	1,048

Following table presents memberships of the company's supervisory board members in other managerial and supervisory bodies.

	MEMBERSHIP
1. Shareholders representatives	
Samo Logar	Supervisory board Snežnik,d.d.
Andrej Koprivec	Management – KOPRICO d.o.o.
mag. Tedo Djekanović	management board member Triglav int. d.d.
Elvis Duraković	Chairman of the football club NK Sava Kranj
2. Employee representatives	
Vojko Oman	-
Leopold Zupan	-

Board of directors and the supervisory board did not receive any receipts in respect of performing the functions in controlled companies. Companies in Elektro Gorenjska group received and also approved no advances, loans, or guarantees to persons mentioned in this chapter or groups of people and did not disclose any claims on them in this respect as of December 31 2014.

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 financial statements of companies within the group and Elektro Gorenjska Group for year 2014 amounted to 24,100 €. In year 2015 we recorded also 5,500 € of costs for non-auditing services referring to year 2014.

22 EVENTS AFTER THE BALANCE SHEET DATE

Events after the balance sheet date are presented in the Business report ([Chapter 9 – Events after the balance sheet date](#)).

23 LIST OF ABBREVIATIONS

AMI	Advanced Meter Infrastructure	BTP	Technical data base
CIM	Common information model	Contract with SODO, d. o. o.	Contract on electricity infrastructure lease and provision of services for electricity distribution system operator
DCV	Distribution management center	DV	Overhead power line
DVE	Local energy sources	EE	Efficient use of energy
EURIBOR	Euro Interbank Offered Rate is an interbank offered rate for deposits in Euro, which is formed on the European interbank market	EZ-1 FE	Energy act (Official Gazette RS, No. 17/2014) Photovoltaic power station
GDP	Gross domestic product	GIS	Gas isolated Substation
GJS SODO	Public service obligation relating to the activity of the electricity distribution system operator	HE	Hydroelectric power station
HV	High voltage	KBV	Cable conduit
kWh	Kilowatt hour	LV	Low voltage
MFE	Small solar power station	MHE	Small hydroelectric power station
MP	Measuring point	MV	Medium voltage
MWh	Megawatt hour	NNO	Low-voltage network
OHS	Health and safety at work	OU	Organization unit
RES	Renewable energy sources	RTP	Transformer substation
SAIDI	System Average Interruption Duration Index	SAIFI	System Average Interruption Frequency Index
SDH	Slovenian Sovereign Holding	SOD	Slovenian Compensation Company
SODO	Distribution network system operator	SOPO	Transmission network system operator
SPDOEE SPTE	General Conditions for connection to the distribution electric system (Official Gazette RS, No. 126/2007) Cogeneration of heat energy	TR	Transformer
VAT	Value Added Tax	ZGD-1	Companies act