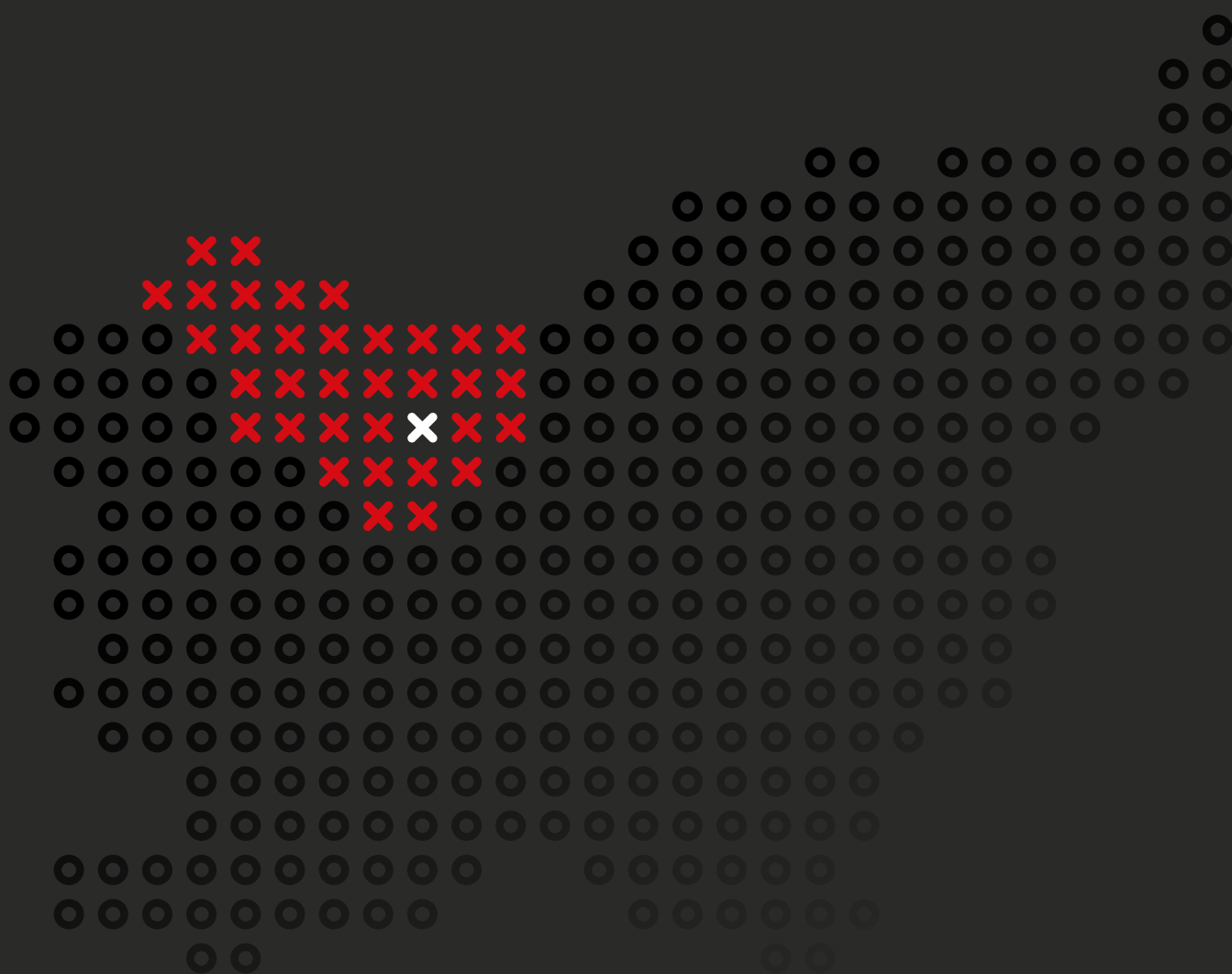


Consolidated Annual Report 2019



Connecting Gorenjska with electricity.








Consolidated Annual Report 2019

Elektro Gorenjska Group







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July 2020

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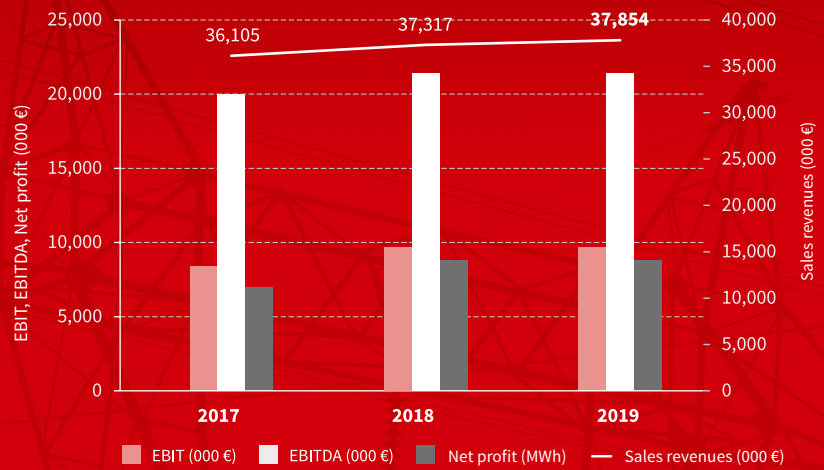
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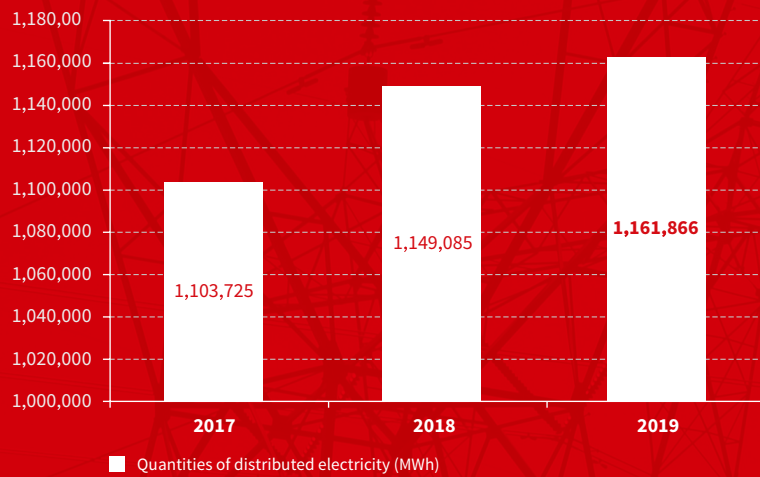
AGEN	Agency of Republic of Slovenia for Energy	MFE	Small photovoltaic power station
AMI	Advanced Metering Infrastructure	MHE	Small hydroelectric power station
BDP	Gross Domestic Product	NN	Low voltage
BTP	Technical Data Base	NNO	Low-voltage network
CIM	Common Information Model	OS	Fixed assets
DA	Diesel aggregate	OVE	Renewable energy sources
DCV	Distribution Management Center	Contract with SODO	Contract on electricity infrastructure lease and provision of services for electricity distribution system operator
DDV	Value Added Tax	RN	Development plan
DDPO	Corporate Income Tax	RP	Distribution station
DO	Distribution Network	RS	Republic of Slovenia
DPN	Live work	RTP	Transformer substation
DV	Overhead power line	SAIDI	System Average Interruption Duration Index
EE	Electricity	SAIFI	System Average Interruption Frequency Index
EG	Elektro Gorenjska, d. d.	SDH	Slovenian Sovereign Holding
ELES	Transmission network system operator	SN	Medium voltage
EURIBOR	Euro Interbank Offered Rate is an interbank offered rate for deposits in Euro, which is formed on the European interbank market	SODO	Distribution network system operator
EZ-1	Energy act	SPTE	Cogeneration of heat energy
FE	Photovoltaic power station	SRO	Environmental Management Council
GIS	Geographic Information System	SUPP	Charging station management system
GJS SODO	Public service obligation relating to the activity of the electricity distribution system operator	iSVK	Quality management system
HE	Hydroelectric power station	TP	Transformer station
IKT	Information and communication technology	VN	High voltage
IT	Information technology	VZD	Health and safety at work
		ZGD-1	Companies act

Achievements of Elektro Gorenjska Group

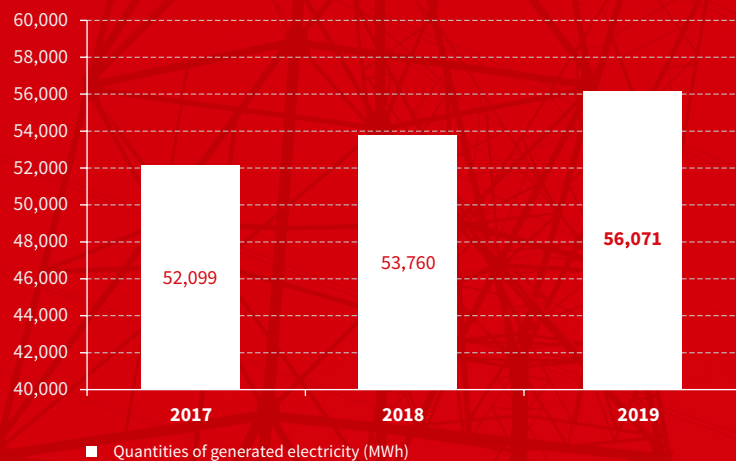
7,260,202 €
of realized Net profit



1,162 GWh
of distributed electricity



56 GWh
of electricity generated



Important information on operation of Elektro Gorenjska Group

	2017	2018	2019
IMPORTANT FINANCIAL INFORMATION			
Sales revenues (000 €)	36,105	37,317	37,854
EBIT (000 €)	8,384	9,682	8,861
EBITDA (000 €)	20,016	21,403	21,290
Pre-tax profit (000 €)	7,998	9,954	8,516
Net profit (000 €)	6,975	8,796	7,260
Value added (000 €)	32,956	34,490	34,817
Assets (000 €)	232,099	238,793	243,141
Capital (000 €)	155,011	161,338	165,914
SIGNIFICANT INDICATORS			
Current ratio	1.3	1.4	1.3
Profitability rate of revenue (%)	18.8	22.3	19.3
Share of labour costs in value added (%)	39.3	37.9	38.9
Return on assets (ROA) in %	3.1	3.7	3.0
Return on equity (ROE) in %	4.6	5.6	4.4
NETWORK, PRODUCTION			
SAIDI (average duration time of unplanned interruptions longer than 3 min/customer)	20	26	18
SAIFI (average number of unplanned interruptions longer than 3 min/customer)	0.7	0.9	0.7
Number of customers connected to the distribution network	89,361	89,963	90,547
Quantities of distributed electricity (MWh)	1,103,725	1,149,085	1,161,866
Quantities of generated electricity (MWh)	52,099	53,760	56,071
SHARE DATA			
Total number of shares	17,286,376	17,286,376	17,273,475
Net profit per share (€)	0.4	0.5	0.4
Book value of share (equity/No. of shares) in €	9.0	9.3	9.6
EMPLOYEES			
Costs of education per employee	498	451	426
Share of employees that attended the trainings	81.1	88.4	76.0
Average level of education	6.2	6.2	6.2
Number of employees at the end of the year	308	311	315
Number of employees (average)	307	309	313

Consolidated Business Report



Overview of significant events in Elektro Gorenjska Group in year 2019



X JANUARY

- › Activities at the 110 kV Kamnik-Visoko powerline are underway at Elektro Gorenjska. Key activities in 2019 are aimed at acquiring the right to build, project documentation is being prepared for obtaining a building permit.
- › Elektro Gorenjska participates in a roundtable at the forum Energy industry and regulation 19.
- › Elektro Gorenjska Group enters the new year with a new strategy and updated visual image. To this end, it publishes a folder with three booklets entitled How we will jointly realize the strategy of the Elektro Gorenjska Group, which all employees received.
- › At the 25th Winter Sports Games of electricity distribution companies of Slovenia, athletes of Elektro Gorenjska Group reach the first place in the overall ranking.
- › Gorenjske elektrarne approach the rehabilitation of the energy facility MHE Standard.

X FEBRUARY

- › In accordance with the amended Decree on the self-supply of electricity from renewable energy sources the Elektro Gorenjska Group connects to the distribution network the first group self-supply plant on the roof of a multi-family residential building in Jesenice.
- › In the Elektro Gorenjska Group results of the satisfaction survey show a high level of satisfaction in all areas.
- › In Jesenice Gorenjske elektrarne successfully connect an e-charging station for electric vehicles on a new location in front of the Merkur Jesenice shopping centre.

X MARCH

- › Chairman of the Board in Elektro Gorenjska takes over the chairmanship of the Slovenian National Committee of the World Energy Council (SNC WEC).
- › Representative of Elektro Gorenjska attends the third EASYRES project development partners meeting in Athens.

X APRIL

- › Elektro Gorenjska presents to the Secretary General of Eurelectric Association Kristian Ruby a pilot project of smart communities and a demonstration of the use of energy storage at TP Suha in Predoslje.
- › In Rogaška Slatina the 5th Strategic Conference of Electricity Distribution Companies in Slovenia, organized annually by the Economic Interest Association of Electricity Distribution, takes place, presenting current topics and the work of the working groups operating within the association. Common thread of the 5th conference was the role of the distribution on the way to a low carbon society.
- › Elektro Gorenjska Group participates in the press conference of the international e-MOTICON project and by signing the letter of support and a memorandum of understanding supports the expansion of e-mobility in Gorenjska region.
- › Representatives of Elektro Gorenjska actively participate in the preparation of the National Energy Climate Plan of Slovenia.
- › Gorenjske elektrarne purchased 100 % share in company Energetika Pogačnik, d. o. o., which owns the SPTU unit on wood gas with a 45 kW gross electric power and 90 kW of heat.

X MAY

- › Elektro Gorenjska Group participates with numerous papers at the 14th CIGRE – CIRED Conference in Laško.
- › At the demonstration ground in Suha near Predoslje Elektro Gorenjska hosts the president of the Republic of Slovenia Borut Pahor and president of the Republic of Finland Sauli Niinistö.
- › In Elektro Gorenjska a course for internal auditors of the integrated quality management system for the following standards ISO 9001:2015, ISO 14001:2015, ISP 45001:2018 and ISO /IEC 27001:2013, takes place.
- › Gorenjske elektrarne with three projects successfully apply for the fourth public invitation of the Energy Agency, namely with two solar power plants on the roof of TC Merkur Nova Gorica with a power of 264 kW, one solar power plant on the roof of TC Merkur Maribor with a power of 250 kW and a renovation of the existing hydro power plant Rudno.

X JUNE

- › Representatives of Elektro Gorenjska attend the 25th CIRED Congress in Madrid.
- › Elektro Gorenjska is visited by the representatives of Croatian distributor HEP. Representatives of the company present to them their experience in the field of inspection and maintenance of power facilities.
- › The 25th Annual General Meeting of Shareholders of Elektro Gorenjska is held at the company's headquarters.
- › Representative of Elektra Gorenjska attends the partner meeting of TDX ASSIST project in Brussels.
- › Elektro Gorenjska Group is visited by the employees of the Ministry of Infrastructure RS, from the Energy Directorate. They take a look at the operations of HPP Lomščica and electricity storage in Suha.
- › Regular annual General Meeting of Shareholders of Soenergetika Company is held at the headquarters of the Gorenjske elektrarne Company.

X JULY

- › Elektro Gorenjska is visited by the representatives of the Austrian company KNG-Kärnten Netz GmbH, electricity and natural gas distribution system operator in Carinthia region. They are presented with the European development project Story and use of the demonstration storage in Suha.
- › Elektro Gorenjska successfully connects into the distribution network a new substation Brnik.
- › In accordance with the Strategy of Elektro Gorenjska Group for period 2018 – 2022 the Elektro Gorenjska approaches the reorganization of Elektro Gorenjska Company, which will be fully implemented from January 1 2020.

X AUGUST

- › Representative of Elektro Gorenjska attends the EUREL professional excursion to Portugal. Participants take a look at some of the most innovative and breakthrough electrical engineering companies in and around Lisbon.

- › In cooperation with the European Institute of Innovation and Entrepreneurship (EIT) the Faculty of Economics of the University of Ljubljana for the first time organizes a summer school in the field of digital technologies where Elektro Gorenjska Group participates with a challenge.
- › Elektro Gorenjska approaches the replacement of the worn out suspension equipment and ropes on the 110 kV power line between Bled and Bohinj.
- › At the Planina Kranj boiler room the main drive unit of the production facility SPTE Planina, whose owner is Soenergetika, d. o. o., which is owned quarterly by Gorenjske elektrarne, is replaced.

X SEPTEMBER

- › Chairman of the Board dr. Ivan Šmon receives the honorary title – Ambassador of Knowledge. Honorary title is awarded once a year by company Life Learning Academia.
- › Energy Agency publishes on its website the Report on the quality of electricity supply for 2018. Elektro Gorenjska Company is once more recognized as the distribution with the most reliable and high-quality electricity supply.
- › Facility RP Brnik, built by Elektro Gorenjska, is visited by the participants of the VAR Partner Day 2019 Conference to take a look at the built-in Siemens equipment.
- › Elektro Gorenjska joins the consortium for the promotion and fostering of Slovenia's green transformation, the purpose of which is to implement research and development projects and joint promotional activities for the transition to a carbon-free society.
- › Consortium of companies Gorenjske elektrarne, Petrol and Domplan presents the results of energy rehabilitation of buildings owned by the Municipality of Kranj.
- › Gorenjske elektrarne carry out sanitation works on the dam of hydro power plant Standard.
- › Consortium of companies Gorenjske elektrarne, Petrol and Domplan was selected by the University of Maribor on the basis of the submitted offer and competitive dialogue for the implementation of the project »Comprehensive energy renovation of buildings at the location Zlato polje in Kranj«.

x › OCTOBER

- › Representatives of Elektro Gorenjska attend the 4th Workshop entitled Implementation of live works on low and medium voltage in Slovenian distribution, organized by the live working (DPN) project group operating within the Economic Interest Grouping for Electricity Distribution.
- › Electricity distribution companies set up a new portal and mobile application called My Electro (Moj elektro), where users get all the data on all metering points in one place.
- › Elektro Gorenjska officially hands over the distribution substation Brnik. Minister of Infrastructure mag. Alenka Bratušek attends the event.
- › Elektro Gorenjska together with the Srednja Vas Mountaineering Society and Bohinj Municipality concludes the construction of electricity infrastructure and connects the Voje alpine cottage to the distribution network.
- › Elektro Gorenjska signs a consortium contract with companies Eles and GEN-i to promote green transformation of Slovenian energy industry with the help of smart grids.
- › Elektro Gorenjska successfully passes an external assessment of standards ISO 9001:2015, ISO 14001:2015, BS OHSAS 18001:2007, transitional assessment of ISO 45001:2018 and regular assessment of ISO/IEC 27001:2013.
- › With October 1 2019 Gorenjske elektrarne start charging for their services of electricity charging in e-charging stations that they own in Gorenjska region.

x NOVEMBER

- › Elektro Gorenjska Group receives the Best Annual report in Communications 2018 award at the Best Annual report 2018 Competition of the Finance Business Academy.
- › Representative of Elektro Gorenjska participates at the roundtable »How to achieve sustainable electricity supply for sensitive mountain areas?«, organized by CCI (Chamber of Commerce and Industry of Slovenia) as part of the Sustainable alpine cottages in Slovenia workshop.
- › Representatives of Elektro Gorenjska Group participate at the 28th Annual SZKO Conference held in Portorož.
- › The 26th Extraordinary Annual General Meeting of Elektro Gorenjska Shareholders is held at the Elektro Gorenjska headquarters.
- › Elektro Gorenjska Group organizes a charity meeting with its business partners in Brdo pri Kranju. Funds are once again allocated to the Neodvisen.si program.

x DECEMBER

- › Elektro Gorenjska Group and its business partners at the end of the year once again allocate the funds to the socially responsible program Neodvisen.si.
- › Gorenjske elektrarne as the first energy company receives by SIQ a new version of the international energy management standard ISO 50001:2018.

2

Management report of the parent company



Dr. Ivan Šmon, Chairman of the Board in Elektro Gorenjska, d. d., evaluates the achievements and results of the Elektro Gorenjska Company and Elektro Gorenjska Group for year 2019. In his talk, he highlights the updated strategy of Elektro Gorenjska Group and especially the role of distribution companies in the transition to a carbon-free society.

How did the distribution company operate and how Elektro Gorenjska Group?

In 2019 the new three-year rules and conditions of regulation, defined by the regulator, came into force. In Elektro Gorenjska we responded to the newly confirmed and foreseen limit conditions by formulating a new strategy for the period 2018 – 2022, in which the main highlights are based on exploiting the synergy effects in the Elektro Gorenjska Group as a whole and not on the operations of the individual Group companies. With the new strategy, we put more emphasis on the areas of innovation, market presence – engineering and market of flexibility services.

Otherwise, Elektro Gorenjska Company ended the year 2019 with 8.2 million € of pre-tax profit. Value of investments exceeded 16 million €. Most investments were intended to increase the robustness of the network, with 7.9 million € intended for the modernization of medium and low voltage network. At the end of 2019, the share of medium-voltage underground network was more than 65 %, while the share of low-voltage network almost 86 %. Total share of underground cable network in Elektro Gorenjska thus amounts to nearly 78 %. In 2019, we distributed 1.16 GWh of electricity in the network, which is by 1.1 % more than in 2018, with connected load increasing by 0.7 % and amounted to 1.508 GW at the end of 2019.

Elektro Gorenjska Group ended the year 2019 with 8.5 million € of profit before tax. Achieved result is lower than in 2018, mainly due to the new rules of regulation applicable to the Elektro Gorenjska Company, and poorer operations of the associated company.

Climate change is already shaping the energy industry. What were the key development activities in year 2019?

Industry, in which distribution companies operate has recently been heavily exposed to the effects of the external environment. Electrification, decentralization, decarbonisation, European legislation and tighter regulatory conditions require additional flexibility and development orientation from distribution companies. Elektro Gorenjska Company has always been the bearer of changes, new working ways and use of advanced technologies. Once more, we recognized the need for changes in the company and approached the implementation of new business models which also require adjustments to the organization of Elektro Gorenjska Group.

In Elektro Gorenjska Group we are establishing an advanced, computerized and innovative business environment and we are also changing our business processes in this direction. At the same time, we are introducing new technological and process improvements as a result of increasing digitalization and introduction of mobile services. In 2019, we introduced a new solution for digitized support of field work (i.e. Task Manager). Year 2019 will also be remembered for many other milestones. We formally handed over the new Brnik distribution substation, which will significantly contribute to the development and reliability of supply to Brnik industrial zone and surrounding areas. We have participated and will participate in development projects in which we test new and advanced technologies and thus upgrade them and ensure higher efficiency. One of these is electricity storage in Suha.

Beginning of 2020 was marked by a global pandemic with the Coronavirus SARS-CoV-2 (COVID-19), which severely affected Slovenian economy as well. What measures have the companies in Elektro Gorenjska Group taken?

Elektro Gorenjska Group, which manages a very important infrastructure, follows the adopted rules in both normal or crisis situations:

- › a plan for the continuous operation of business and process informatics (according to ISO 22301 standard) and
- › a security plan prepared in accordance with the Decree on obligatory setting-up of security service.

In the adoption and implementation of all measures during the crisis situation due to the COVID-19 epidemic, Elektro Gorenjska Group pays special attention to employees and other stakeholders in addition to ensuring the uninterrupted operation of the public utility service, and especially minimizing negative effects on operation and reducing economic damage. We have introduced a number of measures to try to protect the health of our employees as much as possible.

This emergency situation we are witnessing in Slovenia right now (March and April) and consequently measures taken by businessmen and the Government of RS, will have a strong impact on the course of events in the future. It is certainly in our interest to realize the plans we have set for 2020 as far as possible. Due to uncertain situation at the moment, it is still difficult to assess the negative impact on the realization of set goals, indicators and recommendations or the realization of Elektro Gorenjska Group business strategy.

What are your plans in the energy business?

Due to the aggravated economic situation and severely disadvantaged operations of the manufacturing and service sectors, as a result of the spread of Coronavirus, the set goals will certainly be very difficult to achieve. In any case, despite the changed situation, we will try to reach them to the greatest extent possible.

Key challenge for Elektro Gorenjska Group, in addition to eliminating the business consequences caused by the Coronavirus epidemic in 2020, will be the implementation of the set strategy of Elektro Gorenjska Group for 2018-2022, which is aimed at greater exploitation of synergy effects of companies within the Group and greater market presence. We intend to update the strategy in year 2020, especially in the areas of consolidation and launch of engineering activities

on the level of Elektro Gorenjska Group and renovation and optimization of the development of planning processes and implementation of investments and maintenance. New facts are related to the national energy strategies the orientations of which are expected to require significantly higher, according to some forecasts even more than four times higher than today, investments in electricity distribution network. Group wants and must be prepared for such a challenge in time and from all aspects of operation.

But how is this reflected in the investment activity?

Elektro Gorenjska Company plans to invest 14.7 million € in 2020, mostly in energy infrastructure. Despite the difficult economic situation and delays caused by the epidemic, we will try to provide resources for their financing.

Almost 70 % of the funds will be earmarked for the investments in expansion and strengthening of the medium- and low-voltage networks, while 30 % of planned funds will be earmarked for new investments. In investment projects we follow the basic goals of efficient distribution network planning, with which we want to:

- › ensure long-term technically and economically optimal development of the network,
- › ensure long-term stability, reliability and availability of the distribution network,
- › ensure the long-term increase of maintenance of supply quality according to the target level of quality and above all
- › meet the planned and actual consumption and power needs,
- › meet the needs of including the dispersed electricity production,
- › provide a cost-effective network,
- › meet the needs dictated by national energy climate goals.

When implementing investments, we always take into account the current tying and state of the art, which has already been tested in practice. Investments in 2020 and beyond will also incorporate state-of-the-art equipment and devices that will ensure reliable electricity supply with the least downtime possible. Goals of the company are: providing quality and reliable electricity infrastructure with resistance to different weather conditions, growth and successful development of the company, fulfilment and following of the approved strategy.

At the high-voltage level, in 2020, we will allocate 3.1 million € of investment funds for:

- › start of construction of a new 110/20 kV transformer station Škofja Loka, where a new 110 kV switchyard will be built as well. In 2020, we received a building permit, while the works and the construction of facilities themselves should be completed in 2021 – 2022;
- › modernization of several distribution substations, like 110/20 kV substations Labore and Kranjska Gora and RP Naklo;
- › continuation of procedures for the start of construction of a new 110 kV powerline between Visoko and Kamnik.

At the medium-voltage level, we will allocate a total of 4.1 million € of funds. Part of the investment will include a replacement of worn-out cable conduits, as well as worn-out powerlines on wooden poles, and associated transformer stations. Major part of the investment funds will be primarily intended for the renovation and replacement with new 20 kV cable connections, especially in more exposed locations and where due to wear and tear new and more reliable equipment is needed.

On the low-voltage network, funds will be used for the renovation of the network, with emphasis on replacement of conductors with earth cables, and we will also perform reinforcements in parts with poor voltage conditions and necessary reinforcements due to connection of new dispersed energy sources into the network. In 2020, we will continue to follow the municipalities completing their municipal infrastructure for which they have also received European funding. In total, we have 2.4 million € in funding for projects of this type.

At the end users, we continue to replace measuring systems, replacing 12,000 with advanced ones annually. Same trend will be followed for the replacement of measuring devices in years 2020 and 2021, when all users in Gorenjska region are expected to be equipped with advanced measuring systems and integrated into the remote reading system. We have included 60,309 users in the advanced measuring system by the end of 2019, and by the end of 2020 72,300 users or 80 % of all measuring points in Gorenjska region are expected to be included.

Among the strategic orientations, the transformation of the organization and its culture into an even more cooperative and agile system is of special importance. What steps did you take in 2019?

Environment has changed, we are faced with new technologies and business models that are increasingly cohesive.

We are aware of these trends and accept the challenges of the modern environment. We are establishing the culture of embracing changes and promoting diversity. Mobility of employees between projects and project teams as well as between sectors and companies can certainly be a way to such a culture. We are creating a stimulating work environment for the systematic development of modern, technological knowledge and competences, so that we are well prepared for the digital future. It doesn't help us if everyone is the best for themselves. It is more important that we are more successful together as a team. This is not about finding ideals, but about moving closer to mutual understanding, respecting the differences and strengthening relationships, including responsiveness and reliability. Cooperation also outside of the formal organizational forms and thus breaking down the silos is the area where we must make a step forward.

For this purpose, in 2019 we approached the creation of a new organizational structure in Elektro Gorenjska Company, which came to life in 2020. New organization is not designed to dismiss or downgrade the employees' bonuses, but rather it sets new starting points for new business models and consequently it enhances the companies' competitive opportunities. It also seeks to encourage employee innovation and increase employee efficiency and motivation. Reorganization is a logical consequence of a changed vision, goal or strategy of the company. Aim of the reorganization is therefore not only to define new, changed roles and responsibilities of employees, but also to establish an agile organization that will be able to respond quickly to future opportunities.

What is your view on the Group's integration into the social environment?

Elektro Gorenjska Group systematically invests in the social environment and is actively committed to responsible business practices. Number of projects, embedded into the local environment and beyond, show that we are an active member of our community.

We want to remain a reliable business partner and an interesting and reputable employer in the future as well. Achieved results and implementation of outlined strategy are a reflection of the joint work and knowledge of our employees. On behalf of the Management Board I would like to thank all the employees of Elektro Gorenjska Group for their efforts.

2.1 Corporate governance statement

Companies in Elektro Gorenjska Group inform the shareholders and public that they operate in accordance with applicable regulations and acts in force in the companies. Management of the individual company represents the company as well as manages the business independently and at its own risk. In this it adopts the decisions in accordance with the strategic goals of the company and to the benefit of the shareholders. Companies in the Group comply with the documents adopted by the Slovenian Sovereign Holding (hereinafter SDH): Corporate Governance Code for Companies with Capital Assets of the State, Recommendations and expectations by the Slovenian Sovereign Holding, procedures and code of conduct for members of managerial and supervisory bodies in companies with capital investments of the state. Applicable regulations important mainly for the operations of the parent company and parent company statute are published on the company's web site (<https://www.elektro-gorenjska.si/o-podjetju/zakonodaja>). Other acts in force for group companies are available on the web pages of SDH (<https://www.sdh.si/sl-si/o-druzbi/dokumentno-sredisce>).

In year 2010 companies in the Group have not derogated essentially from the principles, procedures and criteria imposed by the stated SDH documents. Parent company declares that it does not respect code provisions or recommendations in regulating issues that are regulated by the law or that the company regulates in accordance with the provisions of the statute in different way than defined by the codes, or in cases when non-statutory conducts are not prescribed in its acts or when conducts are not determined as legal obligation.

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

We do not have recorded a diversity policy in group companies and we do not implement it as stipulated by the Companies Act-1. We have a one-member Management Board, Supervisory Board members from representatives of the shareholders are elected by the General Meeting, while two employee representatives are elected by the Workers' Council. In group companies, candidates for a job and employees in group companies are not discriminated based on gender, age, race and religion. Management Board of each company is responsible for keeping proper accounts and the establishment and provision of internal controls, the selection and application of accounting policies and the safeguarding of company assets.

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

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

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

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

Financial controls are based on the principles of division of responsibilities, truthfulness, updating of records, reconciling the balance in the accounts with the actual situation, separation of records from the implementation of the business and the professionalism and independence of accountants. Accounting controls are closely related to the general and application controls in the field of information technology, which among other things, ensure restricting and monitoring of accesses and the completeness and accuracy of data capture and processing. Control mechanisms referring to individual fields of operation are presented in more detail in chapters *4.3 – Risk management in Elektro Gorenjska Company* and *4.4 – Risk management in Gorenjske elektrarne Company*. We believe that the current system of internal controls enabled successful operation of the Company and Elektro Gorenjska Group, functioning in accordance with the rules and fair and transparent financial reporting. Elektro Gorenjska Company also declares that the management of the controlling company actively followed and directly controlled the operations of the controlled company Gorenjske elektrarne and financial investments of ECE d. o. o., and indirectly the controlled company of the subsidiary Gorenjske elektrarne, GEK Vzdrževanje Company, in accordance with the strategic guidelines with the purpose of reaching the set business goals. In leading and managing the controlled company and its controlled company, it has pursued the same standards of corporate management applicable for the controlling company in Elektro Gorenjska Group. Company Elektro Gorenjska will respect the recommendations of new SDH acts in the future too and in accordance with this it will perfect and improve its management system. In eventual derogation from the given statement on respecting the codes the company will provide for the timely publication.

2.2 Supervisory Board Report

1. Supervisory board operation in year 2019

Operation of the Supervisory Board in 2019 is characterized by the fact that, in addition to regular supervision over the operations of companies, the Supervisory Board continued its efforts to establish new practices. Among other things, this year the Supervisory Board adopted the Annual Work Plan of the Supervisory Board of EG, d. d., and its Committees for 2020 and the financial Calendar of EG, d. d., for 2020, which is published primarily for all shareholders on the Company's official website. This will continue to be a well-established practice in the future, all with the aim of optimizing work of the Supervisory Board and transparent operations from the point of view of all shareholders.

In year 2019, the supervisory board met at fourteen regular sessions and one correspondence session. A total of 114 decisions were adopted, the implementation of which is regularly monitored at the beginning of each regular session. In their decisions, all members of the Supervisory Board acted independently and in accordance with the statements given and transparently published on the company's website. They prepared appropriately on the topics of the individual sessions, gave constructive proposals and comments, as well as adopted decisions in accordance with their respective responsibilities. Members of the Supervisory Board carried out their work diligently and responsibly with the duty of careful and conscientious management, in accordance with the fundamental function of supervision over the management of the companies and based on the competences as defined mainly in the Companies Act (ZGD-1), Statute of the company and Rules of the Supervisory Board. In its work, the Supervisory Board members acted in accordance with the recommendations and expectations of the Slovenian Sovereign Holding and Corporate Governance Code for Companies with State capital investment. Management board commented on the fulfilment of the above acts and recommendations in the statement on corporate governance, which is a component part of the annual report.

Successful implementation of good supervisory practices was successfully continued and upgraded. Management Board's reports on the implementation of eight strategic projects were regularly presented quarterly at the meetings of the Supervisory Board Committees in 2019, based on the authorization of the Supervisory Board. Powers of the Committees regarding the reporting on individual strategic projects were duly harmonized with the rules of procedure of both Committees. In addition to the Company's strategy, the Supervisory Board regularly monitored the reporting on the implementation of the Company's IT strategy.

Company's participation in the adoption of the National Energy and Climate Plan – NEPN was particularly extensively presented at the Supervisory Board.

Supervisory Board paid a lot of attention to the supervision of investment projects (regular semi-annual reporting on the status of major investments) and the implementation of public procurement procedures, and carried out a self-assessment of the work it performs every two years. It regularly monitored changes in the Company's internal organization as a result of the implementation of the Elektro Gorenjska Group's Strategy for the period 2018-2022, which further increased the Company's operations in terms of corporate governance. In 2019, the Supervisory Board operated only digitally, through a special application using passwords, which the Company provided with appropriate technical support.

Key changes in 2019 were in the area of the Company's internal organization, which was previously presented by the Management Boards in accordance with the Company's Statute, and approved by the Supervisory Board as well as agreed in parallel with all involved stakeholders (works council, trade union representations).

Based on the authorization of the 22nd regular general Meeting, the Supervisory Board adopted a resolution on the withdrawal of treasury shares and reduction of share capital, which also resulted in the harmonization of the Statute in the part determining the Company's share capital. General Meeting's authorization to repurchase the Company's own shares expired, so the Company proposed to the Supervisory Board that all treasury shares (12,901) acquired based on the General Meeting's resolutions be withdrawn without further resolution. Share capital decreased by 53,658.26 EUR. In accordance with the resolutions of the 26th (extraordinary) General Meeting of the Company, which was held in November, an increase in share capital was successfully carried out in 2019, which was regularly reported by the Management Board at Supervisory Board sessions. Supervisory Board adopted everything necessary for the preparation of the General Meeting and was previously acquainted in detail with the content of the Company's General Meeting proposed by the Management Board.

Also in 2019, as part of the reporting of companies in the Group, the reporting of the companies Gorenjske elektrarne, d. o. o., and GEK Vzdrževanje, d. o. o., was carried out, as the Supervisory Board monitors the operations of subsidiaries in accordance with its responsibilities and good corporate governance practice.

2. Composition of the Supervisory Board in year 2019

Membership in the Supervisory Board was not changed in 2019, despite the expiration of the term of both members, who are employee representatives. Term of office of both members appointed by the employee representatives in the Supervisory Board expired on August 8 2019. Workers' Council informed the regular General Meeting that the term of office of both was extended until August 8 2023. Members of the Supervisory Board thus operated continuously in the same composition all year round.

Supervisory Board operated in the following composition in year 2019:



mag. Samo Logar,
Chairman of the Supervisory Board,



mag. Tedo Djekanović,
Deputy Chairman of the Supervisory Board,



Andrej Koprivec,
member,



Franjo Curanović,
member,



Borut Jereb,
member, representative of employees,



Iztok Štular,
member.

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

3. Verification of Company's operations and work of the management in year 2019

During the year, the Supervisory Board verified operations of the company mainly based on the quarterly financial reports and reports on implementation of strategic projects of the Company's management and obtained data on operations (monthly evaluations of operations of Group companies).

Members of the Supervisory Board mainly focused on the following:

- › regular business of the companies, mainly the parent company and companies in the Elektro Gorenjska Group, Gorenjske elektrarne, d. o. o., and GEK Vzdrževanje, d. o. o., with an emphasis on the current monitoring of business and financial reporting,
- › monitoring the operations of company ECE, d. o. o., as a major financial investment, which, due to its activity, is also interesting for further consolidation in the field of market and production activities, with which the SB was also acquainted,
- › monitoring of the implementation of the general meeting decisions, in particular with regard to the exercise of an authorization to the management board for the purchase of own shares,
- › implementation of the general meeting's authorization for withdrawal of own shares, reduction of share capital and harmonization of the text in the Company's Statute,
- › monitoring larger investment projects,
- › monitoring of strategic projects according to the strategy of the Group for period 2018–2022,
- › control over contracts, which need the supervisory board consent according to the provisions of the statute,
- › monitoring public procurement procedures,
- › forming proposals for the decisions at the regular general meeting, cooperation and acquaintance with proposals for the extraordinary general meeting,
- › monitoring risks,
- › conducting a self-assessment of the Supervisory Board work in year 2018 (held every two years).

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

- › Supervisory Board regularly monitored operations of the Group companies, discussed quarterly information and evaluations on Group companies' operations, and was devoted to realization of the business plan for year 2018.
- › 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 of Elektro Gorenjska Group for year 2018, and composed a written report of the Supervisory Board on verification and approval of the stated reports for business year 2018.
- › Supervisory Board participated in preparing the proposals for decisions of the 25th regular General Meeting session, which took place on June 27 2019. Supervisory Board proposed to the General Meeting to approve the work of the Chairman of the Management Board for the financial year 2018, and grant a discharge. After the selection procedure of the Audit Committee it proposed the General Meeting a company BDO Revizija, BDO Revizija, d. o. o., Cesta v Mestni log 1, 1000 Ljubljana for the implementation of the authorized audit in 2019.
- › Supervisory Board was acquainted with the proposed resolutions of the Management Board for the 26th (extraordinary) General Meeting of the joint-stock company, which was held on November 28 2019. Based on the interim balance sheet as at August 31 2019, which was audited by the auditor that gave an unqualified opinion, the Management Board proposed to the General Meeting that the share capital of the Company be increased from the Company's assets by transforming other profit reserves into share capital. In addition, the Management Board also proposed some amendments and supplements to the Statute in particular by supplementing activities and possibilities of operation without the stamp.
- › Supervisory board regularly monitored all eight strategic projects from the Strategy of Elektro Gorenjska Group for the period 2018-2022. Based on the authorization of the Supervisory Board, quarterly supervision of three strategic projects in the field of human resources was carried out at the meetings of the Nomination Committee, and of the remaining strategic projects within the Audit Committee.
- › Supervisory Board regularly monitored all procedures related to the new organization in the Company and, in accordance with the Company's Statute, first gave its consent to the new internal organization of the Company in June 2019, as defined in the Rules on Internal Organization.

In accordance with the adopted resolution of the Supervisory Board, the Management Board reported on the next steps at the meetings on the Nomination Committee and at the Supervisory Board. In December 2019, the Supervisory Board gave its consent to the Rules on Internal Organization of Elektro Gorenjska, d. d.

- › Supervisory Board was regularly acquainted with the reports on the review of individual projects in the Company; twice a year, the Management board is obliged to report on the status of all major projects from the Business Plan, as at May 31 and October 31. Reporting was further specified in accordance with the discussions at the meetings.
- › Supervisory board was regularly informed about the operations of the Group companies and the operations of ECE, d. o. o., which represents a major financial investment.
- › Supervisory Board continued with the practice of acquainting the Supervisory Board with public procurement matters, already at the time of the introduction of the PP (in the form of information), to which the SB, in accordance with the Statute, gave its consent. In addition, it quarterly checked reports on public procurement procedures implemented (including those that did not require the consent of the SB). It also welcomes the new practice in the field of public procurement, as the Management Board is already informing the Supervisory Board of any changes in the information on PP, so that there is no ambiguity when considering the prior consent of the Supervisory Board.
- › Until the increase in the share capital in 2019 and in accordance with the Statute of the Company, the Supervisory Board gave consent to seven legal transactions above the value of 718,980.61 € (1% of the Company's share capital), with a total value of these transactions in the amount of 7,666,310.29 € (excluding VAT).
- › On the basis of the provisions of the Company's Statute, within the framework of the consideration of the Business Plan of the company Elektro Gorenjska, d. d. for 2020, together with a financial projection for the years 2021 and 2022, and with the assurance of the Management that the Company will respect the provisions of the Regulation on the conditions and procedures of borrowing of legal persons from Article 87 of the Public Finance Act, as well as with the assurance that the Company is able to hire and repay the planned debt, the Supervisory Board gave its consent to the Company's borrowing.

- › In accordance with the Act Governing the Remuneration of Managers of Companies (ZPPOGD), the Supervisory Board decided on the amount of the variable part of the remuneration of both chairmen of the board, who (individually) acted in year and adopted benchmarks for the variable part of the chairman of the management board for 2019.

Supervisory Board is of the opinion that the Chairman of the Board has taken a very good approach to the implementation of good operations and, above all, to the implementation of the new Strategy, which applies to all the companies in the Group. In given circumstances he reacted appropriately to all perceived conditions of organization in companies, to economic and other situations as well as to expressed will of the Company's shareholders, above all the majority shareholder, and has led the Company very successfully during that period.

4. Cooperation with the Chairman of the Board

In the past year, Supervisory Board worked very well with the Chairman of the Board, dr. Ivan Šmon, MBA, whose four-year term began on June 15 2018. Management submitted materials for the sessions to the Supervisory Board in time, in writing, and additionally interpreted them orally at the sessions. For the Supervisory Board the management prepared reports on implementation of decisions regularly 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 Chairman of the Board in the past year to be

very successful

5. Operation of Supervisory Board Committees

In 2019, two Committees operated within the Supervisory Board, namely without a change of membership.

5.1. Audit Committee

In 2019, the Audit Committee met at eleven regular and one correspondence sessions. Committee was chaired by chairman Andrej Koprivec, CFA, FCCA throughout the year, including Franjo Curanović as a member and prof. dr. Simon Čadež as an external member.



Franjo Curanović
member



Andrej Koprivec,
CFA, FCCA
chairman



prof. dr. Simon
Čadež
external member

Members of the Committee regularly attended the sessions.

To all the sessions of the Committee the Chairman of the Company's Management Board and the internal auditor were invited, along with individual reporters.

In accordance with the Rules of Procedure of the Audit Committee, the members of the Supervisory Board were kept informed both by invitations to the meetings of the Audit Committee and by the minutes of the Committee meetings, while the Chairman of the Audit Committee reported quarterly to the Supervisory Board on the work of the committee.

Below we present the substantive points of the work of the Audit Committee in the financial year 2019:

Annual report 2018: Committee discussed the Annual Report of the company Elektro Gorenjska, d. d., Annual Report of the subsidiary company Gorenjske elektrarne, d. o. o., Annual Report of company GEK Vzdrževanje, d. o. o., and the Consolidated Annual Report of the Elektro Gorenjska Group. Regarding the consideration of the annual report, the Committee met with the partner of the audit company BDO and discussed the report of the external auditor.

Business Plan and current operations: Committee discussed the business plans of the parent company and subsidiaries for the period 2020-2022 and proposed them to the Supervisory Board for approval.

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

Committee also monitored the operations of company ECE, d. o. o. in which the company Elektro Gorenjska, d. d., has 25.67 % ownership share.

Committee reviewed quarterly the implementation of the strategic projects implemented in Elektro Gorenjska Group and reported it to the Supervisory Board.

Internal audit: Audit Committee worked closely with the internal auditor. In 2019, the Committee discussed the Annual Report on the work of the internal audit for 2018, discussed the internal auditor's reports on all conducted internal audits and monitored the implementation of the recommendations made. It discussed the work plan of the internal audit for 2020 and proposed it to the Supervisory Board for approval.

Risk Management System: Committee discussed the management of Company's key risks and took note of the relevant management and internal audit reports.

Selection and cooperation with the external auditor: Audit Committee conducted the procedure for selecting an external auditor of the financial statements and forwarded the proposal to the Supervisory Board. General Meeting of the Company appointed the proposed contractor – BDO Revizija Company - as auditor of the financial statements for 2019.

5.2 Nomination Committee

Within the Supervisory Board, the Nomination and Human Resources Committee of the Elektro Gorenjska, d. d., Supervisory Board, has been operating since 2014 and in the following composition the whole year of 2019:



mag. Tedo Djekanović
member



mag. Samo Logar
chairman



Milena Pervanje
external member

In year 2019, the Nomination Committee had seven regular sessions, where besides members of the Committee other members of the SB were mostly present, usually both representatives of employees. Committee adopted a total of 28 decisions, which were all realized.

In the year 2019, the Committee focused mainly on:

- › regular quarterly monitoring and control over the strategic projects in the areas of the human resources from the Strategy of the EG Group companies for the period 2018-2022, under the authority of the Supervisory Board to monitor three strategic projects (Organizational culture and employee commitment, Corporate governance upgrade in the EG Group and Establishment of an effective project management at the level of EG Group),
- › examination of the fulfilment of the performance criteria of the Chairman of the Management Board in 2018 and proposal of the amount of the variable part of the remuneration to the chairmen of the management board for work performed (in 2018 there were two chairmen of the management board),
- › being regularly acquainted with the reports of the Management Board on further steps in the Company's reorganization, all in accordance with the resolution of the Supervisory Board and proposed to the Supervisory Board the adoption of the Rules on the organizational structure of company Elektro Gorenjska, d. d.
- › determination and proposal of the SB for the adoption of performance criteria for the variable part of the remuneration of the Chairman of the Management Board for 2020,
- › results of the self-assessment of the work of the Supervisory Board, on the basis of which it adopted a report for the Supervisory Board proposing the Supervisory Board to hold a discussion with emphasis on the content of management policy, teamwork and individual contributions.

In 2019, the Nomination Committee continued with new practices that proved to be very successful, especially in monitoring strategic projects in the field of human resources, and was very active in the process of reorganizing the Company as well.

6. Position of the Supervisory Board to audit report 2020

At the 28th session of the Audit Committee on May 14 2020, where a revised Annual Report of Elektro Gorenjska, d. d., and revised Consolidated Annual Report of Elektro Gorenjska Group for year 2019 were discussed, the representatives of the audit firm BDO Revizija, d. o. o. from Ljubljana, which audited the financial statements of the companies for year 2019, were present.

At the 35th regular session of the Supervisory Board held on May 21 2020, at the examination of the audited Annual Report of the company Elektro Gorenjska, d. d., and the audited Consolidated Annual Report of the Elektro Gorenjska Group for 2019, the Supervisory Board was acquainted with the decisions of the Audit Committee regarding the reports, and found that the auditor carried out the audit in accordance with the legislation and the rules on auditing. Supervisory board had no comments on the independent auditor's report, and its position on the audit report was positive.

Audit Committee and the Supervisory Board found that the auditors issued a positive opinion.

7. Approval of the Annual and Consolidated Report 2019 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 2019 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 2019 are composed in accordance with the provisions of the Companies Act and valid international accounting standards.

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

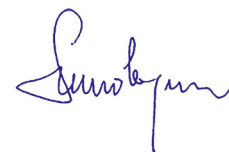
All Group companies closed the business year with profit. Total distributable profit of Elektro Gorenjska, d. d., for the year 2019 amounts to 2,418,286.50 €, which represents 1.51 % of the total capital or 2.32 % of the Company's share capital as at 31 December 2019. Management board will propose to the General Meeting of shareholders that the distributable profit in 2019 is fully paid out to shareholders in the form of dividends in the amount of 0.14 €, which is lower by 1 cent per share or 6.67 % decrease in dividends per share compared to last year's pay-out. Management board will propose to the General Meeting that the dividend payment will be made on 23 July 2020 to those shareholders who will be listed in the Company's share register on 22 July 2020. Supervisory Board verified the proposal for the use of accumulated profit, and agreed with the proposal of the Management Board.

After the Supervisory Board members verified the Annual Report and Consolidated Report of the Company for year 2019 and had no comments, the Supervisory Board adopted this Supervisory Board Report on Verification and Approval unanimously at the 35th regular session on May 21 2020.

In Kranj, May 21 2020

mag. Samo Logar

Chairman of the Supervisory Board



3

Presentation of Elektro Gorenjska Group



3.1 Structure of Elektro Gorenjska Group and associated companies

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

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

None of the companies in the Group has any subsidiaries.

Figure 1: Graphic image of the Group



3.1.1 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:	080 30 19
Fax:	04 20 83 600
Web site:	www.elektro-gorenjska.si
E-mail address:	info@elektro-gorenjska.si
Registration number:	5175348000
VAT identification number:	SI20389264
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. 2019:	104,136,615.39 €
Number of shares as of 31. 12. 2019:	17,273,475
Chairman of the Board:	dr. Ivan Šmon, MBA
Supervisory board chairman:	mag. Samo Logar

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

	31. 12. 2019	31. 12. 2018
Carrying amount of capital	159,773,376	155,364,641
Carrying amount of assets (balance sheet total)	235,643,069	232,048,722
	Year 2019	Year 2018
Net profit of the business year	7,093,511	8,148,808

3.1.2 Gorenjske elektrarne Company identity card



Figure 3: Gorenjske elektrarne controlled Company identity card

Name:	GORENJSKE ELEKTRARNE, podjetje za proizvodnjo električne energije, d. o. o.
Abbreviated name:	GORENJSKE ELEKTRARNE, d. o. o.
Business address:	Stara cesta 3, 4000 Kranj
Phone:	04 20 83 531
Fax:	04 20 83 512
Web site:	www.gek.si
E-mail address:	info@gek.si
Registration number:	1658298000
VAT identification number:	S176567788
Founder:	Elektro Gorenjska, d. d.
Legal form:	limited liability company
Core activity code:	35.111 production of electricity in HE generation facilities
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. 2019:	13,684,880.11 €
Director:	Aleš Ažman, MBA

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

	31. 12. 2019	31. 12. 2018
Carrying amount of capital	18,723,617	18,243,030
Carrying amount of assets (balance sheet total)	19,724,563	18,908,065
	Year 2019	Year 2018
Net profit of the business year	1,111,754	643,275

3.1.3 GEK Vzdrževanje Company identity card



Figure 4: GEK Vzdrževanje controlled Company identity card

Name:	GEK Vzdrževanje, družba za vzdrževanje in storitve, d. o. o.
Abbreviated name:	GEK Vzdrževanje, d. o. o.
Business address:	Stara cesta 3, 4000 Kranj
Phone:	04 20 83 531
Fax:	04 20 83 512
Registration number:	7239360000
VAT identification number:	SI53409540
Founder:	Gorenjske elektrarne, d. o. o.
Legal form:	limited liability company
Core activity code:	68.320 management of real estate on a fee or on contract basis
Date of company register entry:	27. 2. 2017
Place of court's register entry:	Kranj District Court
Share capital as of 31. 12. 2019:	121,050.64 €
Director:	Matej Kuhar

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

	31. 12. 2019	31. 12. 2018
Carrying amount of capital	152,381	142,540
Carrying amount of assets (balance sheet total)	411,658	389,597
	Year 2019	Year 2018
Net profit of the business year	73	6,768

3.1.4 GE LES Company identity card

GE LES

Figure 5: GE LES Company identity card

Name:	GE LES, proizvodnja toplotne in električne energije d. o. o.
Abbreviated:	GE LES d. o. o.
Business address:	Stara cesta 5, 4000 Kranj
Phone:	04 20 83 531
Fax:	04 20 83 512
Registration number:	8474257000
VAT identification number:	SI61444502
Founder:	Gorenjske elektrarne, d. o. o.
Legal form:	limited liability company
Core activity code:	35.119 Other electricity generation
Date of company register entry:	18. 7. 2019
Place of court's register entry:	Kranj District Court
Share capital:	129,686.00 €
Director:	Aleks Jan

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

	31. 12. 2019
Carrying amount of capital	130,084
Carrying amount of assets (balance sheet total)	420,254
	Year 2019
Net profit of the business year	397

3.1.5 ECE Company identity card



Figure 6: ECE associated company identity card

Name:	ECE, energetska družba, d. o. o.
Abbreviated name:	ECE, d. o. o.
Business address:	Vrunčeva 2a, 3000 Celje
Call centre:	080 22 04
Fax:	03 62 09 559
Web site:	www.ece.si
E-mail address:	info@ece.si, prodaja@ece.si, podjetja@ece.si
Registration number:	6064892000
VAT identification number:	SI55722679
Founders:	Elektro Celje, d. d.; Elektro Gorenjska, d. d.,
Legal form:	limited liability company
Core activity code:	35.140 trade of electricity
Company register entry number:	2015/37235
Date of company register entry:	1. 10. 2015
Place of court's register entry:	Celje District Court
Share capital as of 31. 12. 2019:	3,436,767.65 €
Director:	mag. Sebastijan Roudi

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

	31. 12. 2019	31. 12. 2018
Carrying amount of capital	18,406,620	19,694,179
Carrying amount of assets (balance sheet total)	46,501,223	44,801,821
	Year 2019	Year 2018
Net profit of the business year	66,555	2,859,689

3.1.6 Soenergetika Company identity card

SOENERGETIKA

Figure 7: Soenergetika associated company identity card

Name:	SOENERGETIKA Gorenjske elektrarne, Holding Slovenske elektrarne, Domplan in Petrol, družba za proizvodnjo elektrike in toplote, d. o. o.
Abbreviated name:	SOENERGETIKA d. o. o.
Business address:	Stara cesta 3, 4000 Kranj
Registration number:	3700054000
VAT identification number:	SI26004330
Founders:	Elektro Gorenjska, d. d., Holding Slovenske Elektrarne, d. o. o., Domplan, d. d., in Petrol, d. d.
Legal form:	limited liability company
Core activity code:	35.112 Production of electricity in thermal, nuclear power stations
Company register entry number:	2010/6818
Date of company register entry:	26. 2. 2010
Place of court's register entry:	Kranj District Court
Share capital as of 31. 12. 2019:	1,020,000.00 €
Director:	Aleš Ažman, MBA

Table 6: Other important information on SOENERGETIKA Company (in €)

	31. 12. 2019	31. 12. 2018
Carrying amount of capital	1,822,060	1,811,157
Carrying amount of assets (balance sheet total)	2,748,088	2,700,116
	Year 2019	Year 2018
Net profit of the business year	691,738	680,768

3.2 Other related companies or related legal entities

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

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

3.3 Main activities and fields of business

Companies in the Group are implementing three main activities, namely the activity of electricity distribution, which is a regulated activity (contract with SODO), activity of electricity production and other activities (market services).

Distribution activity includes tasks (services) of a public utility service distribution operator, which Elektro Gorenjska Company performs under the contract for the distribution operator:

- › maintenance of adequate electricity infrastructure,
- › organization and implementation of emergency service,
- › management and operation of electricity distribution network,
- › network development planning,
- › preparation and management of investments in electricity infrastructure,
- › monitoring and determining the quality of electricity supply,
- › performing electricity metering,
- › providing access services and other user services,
- › connecting users,
- › providing data to cover electricity losses in the distribution network and SODO supply,
- › other user services.

Production activity includes production of electricity in hydro power plants, in solar and photovoltaic power plants and production in high-efficiency cogenerations.

Other activities carried out for both the regulated activities as well as for the market include:

- › implementation of investments and maintenance,
- › research and development,
- › designing,
- › electricity efficiency projects and energy management and
- › engineering.

Two main registered activities of the Group are distribution of electricity (activity code 35.130) and production of electricity in HE generation facilities (activity code 35.111).

Other important registered activities of the Group are the following:

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

3.4 Main area of operation

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

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

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

90 500

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

1,986 km²

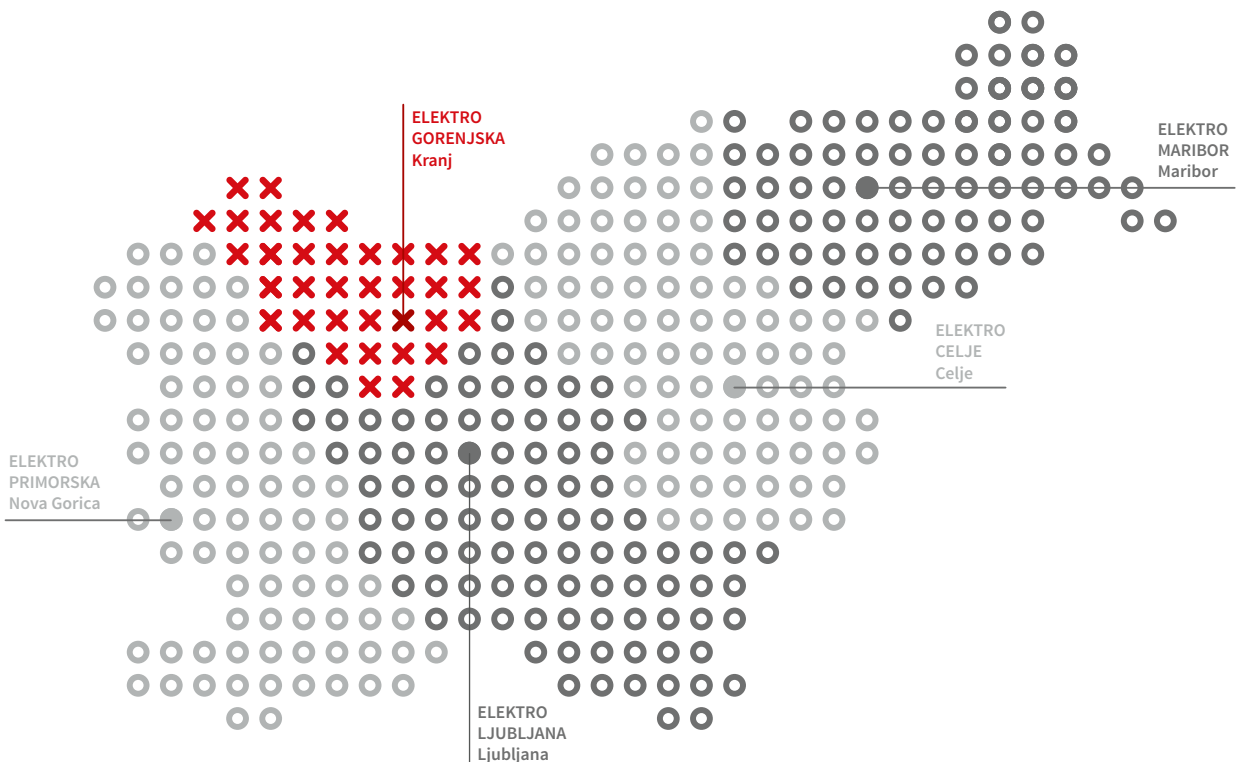
which amounts to more than

5,100 kilometres

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

90,500 customers.

Figure 8: Area of supply of electricity distribution companies



3.5 Main technical data

Table 7: Main technical data on electric power distribution network of Elektro Gorenjska Company

	31. 12. 2019	31. 12. 2018
Powerlines 110 kV	102,363 m	102,363 m
Powerlines 35 kV	20,356 m	20,356 m
Powerlines 20 kV	555,033 m	575,589 m
Powerlines 10 kV	0 m	0 m
Total powerlines	677,752 m	698,308 m
Cable conduits 110 kV	3,349 m	3,349 m
Cable conduits 35 kV	158 m	158 m
Cable conduits 20 kV	1,073,768 m	1,028,921 m
Cable conduits 10 kV	6,416 m	6,416 m
Total cable conduits	1,083,691 m	1,038,844 m
Total LV network	3,454,780 m	3,371,070 m
Total network	5,216,223 m	5,108,222 m
Transformer substations	12	12
Substations	8	8
Transformer stations	1,381	1,379

Source: Elektro Gorenjska, internal data, 31. 12. 2019

3.6 Management and governance of companies in Elektro Gorenjska Group

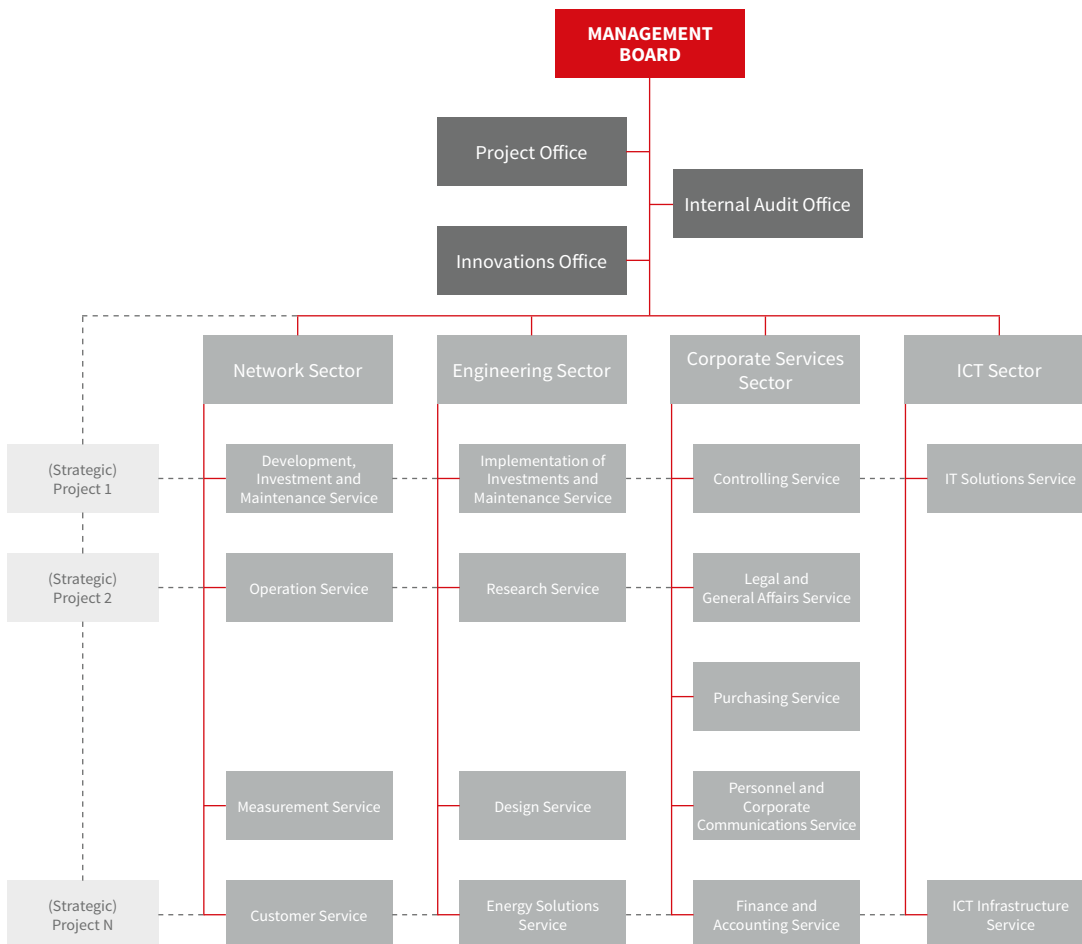
3.6.1 Management and governance of Elektro Gorenjska Company

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

MANAGEMENT

Single-member administration, chairman of the board, is appointed by the supervisory board of Elektro Gorenjska Company. Term of office of the Chairman of the Management Board shall be four years with the possibility of reappointment. Chairman of the Board, dr. Ivan Šmon, MBA, started his four-year term on June 15 2018. In accordance with the Statute, the Management Board of the company has a mandate in relation to all issues related to the organization and management of the company. Based on the law, statute, and rules of procedure of the supervisory board the management of the company is obliged to exhaustively and exactly introduce to the supervisory board the course of transactions and company's condition at least four times a year.

In 2019, the Company was reorganized. Organizational chart as at 31. 12. 2019 was as follows:



Each sector, headed by sector directors, consists of several services. Directly under the Management are the Project and Innovations Office and Internal Audit.

Network Sector manages the tasks of the public utility service distribution operator, which Elektro Gorenjska executes under the contract for SODO Company.

Tasks of the Engineering Sector are to provide services for the Network Sector and other companies in Elektro Gorenjska Group in the segment related to market services.

Corporate Services Sector performs general and financial services, health and safety at work services, and vehicle fleet services for all sectors and companies in Elektro Gorenjska Group. Information and Communication Technologies (ICT) Sector provides information and communication technologies services for all sectors and companies in Elektro Gorenjska Group.

New organizational structure came to life in 2020.

SUPERVISORY BOARD

Competence and composition of the supervisory board are defined by the statute of the company. Supervisory board consists of six members, four of them being representatives of the capital and two of them representatives of the employees. Members of the supervisory board are elected for the period of four years and can be re-elected. Members of the supervisory board, which are representatives of the capital, are appointed to the supervisory board by the shareholders' meeting with a simple majority vote of the present shareholders. Two members representing the employees are appointed by the company's works council. In year 2019 both members of the SB representing the employees were appointed for a further four-year term, so there were no changes in the composition of the supervisory board.

Based on the decision of the General Meeting the members of the supervisory board in addition to the attendance fees in the amount of 275 € receive also monthly payment for performing the function in the amount of 942 € per member or 1,412.50 € to which the chairman of the supervisory board is entitled. Remuneration of supervisory board members in 2019 are presented in Chapter *18.4 – Transactions with management and supervisory board.*

Composition of the supervisory board in 2019 was as follows:

SUPERVISORY BOARD EG, d. d.	Function	Term of office from	Term of office until
mag. Samo Logar	chairman	28. 8. 2017 (as a chairman since 14. 9. 2017)	28. 8. 2021
mag. Tedo Djekanović	deputy chairman	28. 8. 2017 (as a deputy chairman since 14. 9. 2017)	28. 8. 2021
Andrej Koprivec	member	28. 8. 2017	28. 8. 2021
Franjo Curanović	member	28. 8. 2017	28. 8. 2021
Borut Jereb	member	8. 8. 2019	8. 8. 2023
Iztok Štular	member	8. 8. 2019	8. 8. 2023

AUDIT COMMITTEE OF ELEKTRO GORENJSKA SUPERVISORY BOARD

In year 2019 a permanent audit committee of Elektro Gorenjska supervisory board (audit committee) operated in the following composition:

AUDIT COMMITTEE SB EG, d.d.	Function	Term of office from	Term of office until
Andrej Koprivec	chairman	14. 9. 2017	28. 8. 2021
Franjo Curanović	member	14. 9. 2017	28. 8. 2021
dr. Simon Čadež	member	14. 9. 2017	28. 8. 2021

NOMINATION COMMITTEE OF ELEKTRO GORENJSKA SUPERVISORY BOARD

In year 2019 a permanent nomination committee of Elektro Gorenjska supervisory board (nomination committee) operated in the following composition:

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

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

SHAREHOLDERS' MEETING

In 2019, the Management Board convened one regular and one extraordinary session of the General Meeting of Shareholders.

Regular session was held on 27 June 2019. At the 25th regular General Meeting of Shareholders of Elektro Gorenjska, 85.70 % of the voting shareholders were present. At the general meeting, shareholders voted on six items on the agenda, which was published in the convocation of the General Meeting of Shareholders on the web portal of Agency for Public Legal Records and Services.

Company's shareholders were acquainted with the audited annual report and the consolidated annual report for 2018, the auditor's opinion and the written report of the supervisory board on the verification and approval of the annual report of the company Elektro Gorenjska and the consolidated annual report of the Elektro Gorenjska Group for the 2018 financial year.

Shareholders decided on the use the accumulated profit, which stood at 2,591,021.25 € as at 31 December 2018. It was decided that the total accumulated profit was used for the payment of dividends in the gross value of 0.15 per share. Company paid dividends on 26 July 2019 to those shareholders who were on the day 25 July 2019 entered into the company's share register as shareholders of the company.

General Meeting granted a discharge for work in 2018 to both Chairmen of the Board operating in 2018 and specifically to the Supervisory Board members. It further appointed a certified auditor for year 2019, namely the company BDO Revizija, d. o. o., Cesta v Mestni log 1, Ljubljana. In accordance with paragraph 3 of Article 247 of the Companies Act, the Management Board informed the General Meeting of Shareholders of the Company's report on the redemption of treasury shares in the business year 2018. Workers' Council informed the General Meeting of the two employees appointed to the Supervisory Board until 8. 8. 2023.

Extraordinary session of the General Meeting was held on 28. 11. 2019. At the 26th extraordinary General Meeting of Shareholders of Elektro Gorenjska, 80.07 % of the voting shareholders were present. At the general meeting, shareholders voted on three items on the agenda, which was published in the convocation of the General Meeting of Shareholders on the web portal of Agency for Public Legal Records and Services:

1. Opening of the General Meeting and election of working bodies of the General Meeting
2. Increase of share capital from the Company's assets and harmonization of the Articles of Association
3. Amendments to the Company's Articles of Association

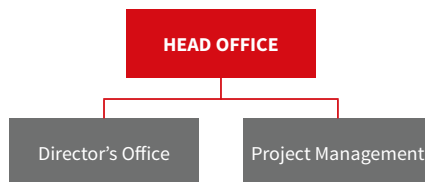
Shareholders decided on the increase in share capital on the basis of the interim balance sheet as at August 31 2019, which was reviewed by the auditor of BDO Revizija d. o. o., Cesta v Mestni log 1, Ljubljana and gave an unqualified opinion in it. It was unanimously decided that the share capital of the company be increased from the Company's assets by transforming other profit reserves in to the share capital in the amount of 32,292,212.96 €, so that the share capital of the Company after the increase amounts to 104,136,615.39 €. Decision on amendments to the Company's Articles of Association, which referred to the operation of the stamp and especially to the supplementation of registered activities, was also adopted unanimously. Due to the adopted Strategy of the companies in the Elektro Gorenjska Group, which foresees the implementation of market activities, new activities of the Company were proposed to the shareholders, so that the Company will be able to follow the adopted Strategy and also implement it.

3.6.2 Management and governance of Gorenjske elektrarne Company

Since its establishment Gorenjske elektrarne Company has been in 100 % ownership of its founder and sole partner of the company, that is Elektro Gorenjska Company. As of 31. 12. 2019 the Company has two controlled companies, namely GEK Vzdrževanje, d. o. o. and GE LES d. o. o.. Both are in 100 % ownership of Gorenjske elektrarne.

Company also has a 25 % share in Soenergetika d. o. o., which it controls together with three other equal partners. Financial statements of the company are included in group financial statements of the parent company Elektro Gorenjska which is also the final parent company.

Figure 9: Organization chart of Gorenjske elektrarne Company



Company's director is Aleš Ažman, MBA.

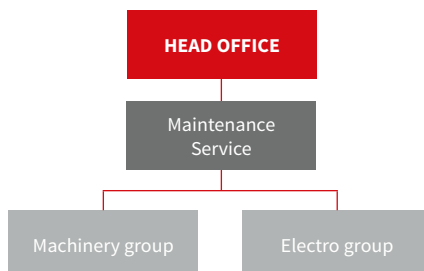
Company's management is carried out directly on the basis of the founders' decisions, since the company does not have a supervisory board. Chairman of the Management Board and the Supervisory Board of the parent company, regularly monitor the company's operations.

In the year 2019, five decisions of the founder were issued to the company Gorenjske elektrarne. Supervisory Board of the parent company is also familiar with the operations.

3.6.3 Management and governance of GEK Vzdrževanje Company

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

Figure 10: Organization chart of GEK Vzdrževanje Company



Company's director is Matej Kuhar.

Company's management is carried out directly on the basis of the founders' decisions, since the company does not have a supervisory board. Director of Gorenjske elektrarne company, as well as the General Meeting of Shareholders, regularly monitor the company's operations. In the year 2019, two decisions of the founder were issued to the company GEK Vzdrževanje.

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

3.7 Share capital and ownership structure

3.7.1 Share capital and ownership structure of Elektro Gorenjska Company

On December 31 2019 share capital of Elektro Gorenjska Company amounted to 104,136,615 €. It is distributed to 17,273,475 of ordinary registered unit shares (designation EGKG). All shares are shares of one category.

In 2019 the Company withdrew its own shares and increased its share capital. More is explained in chapter *12.11 – Capital*.

Company has no authorized capital. In 2019 the Elektro Gorenjska Company had no transactions with own shares on a regulated market.

As of December 31 2019, 96.19 % of company shares were in the ownership of the Republic of Slovenia and legal entities, which represent 18.08 % of all shareholders.

Figure 11: Changes in the number of shareholders of Elektro Gorenjska Company from 31. 12. 2015 to 31. 12. 2019

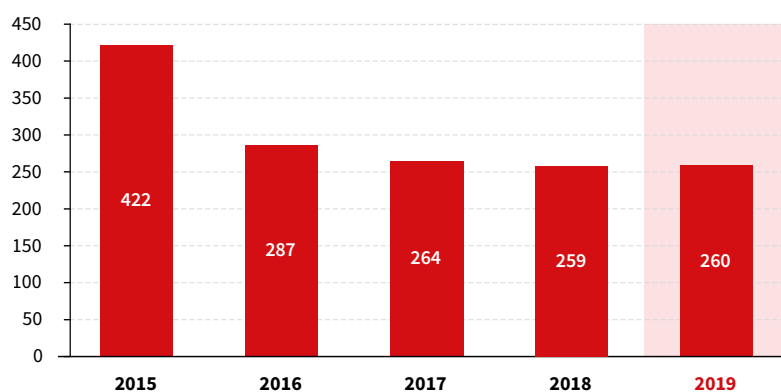
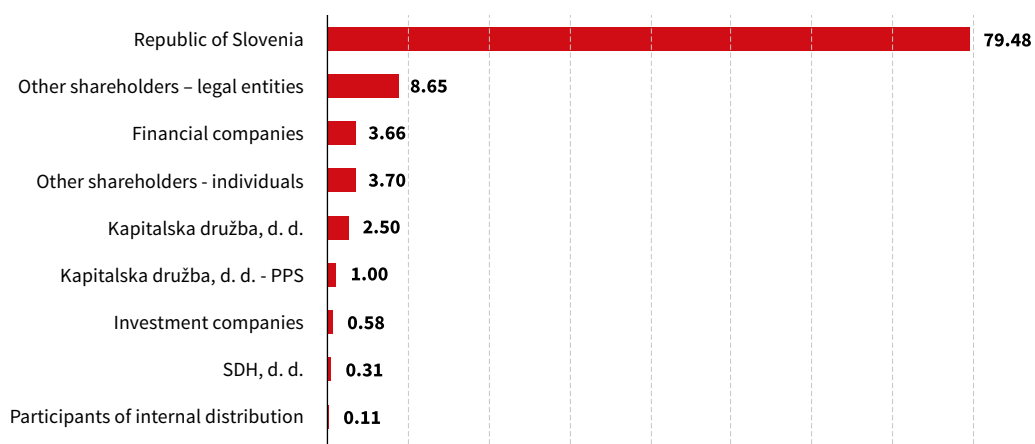


Figure 12: Ownership structure of Elektro Gorenjska Company as of 31. 12. 2019 (in %)



According to the balance as at December 31 2019 the largest shareholder, holding a 79.48 %, is the Republic of Slovenia. It is followed by Kapitalska družba holding 2.50 % and Bau 1, d. o. o., with 1.63 %. As at December 31 2019 the largest 10 owners held a total of 91.46 % of the company.

Table 8: Share owners with capital share exceeding 1 percent as of 31. 12. 2019:

Ownership exceeding 1 %	31. 12. 2019	
	Number of shares	%
Republic of Slovenia	13,728,882	79.48
Kapitalska družba, d. d.	431,933	2.50
BAU 1, d. o. o.	281,620	1.63
Sava Re, d. d.	280,000	1.62
Pivovarna Laško Union, d. o. o.	270,648	1.57
DUTB, d. d.	207,200	1.20
DZS, d. d.	200,000	1.16
Total	15,400,283	89.16

3.7.2 Share capital and ownership structure of Gorenjske elektrarne Company

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

3.7.3 Share capital and ownership structure of GEK Vzdrževanje Company

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

3.7.4 Share capital and ownership structure of GE LES Company

Share capital of GE LES Company (129,686 €) represents an investment in the capital of Gorenjske elektrarne Company at the time of the purchase.



3.8 Vision, mission and values of the Group

Vision of the Group

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

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

Mission of the Group



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



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



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

Values of the Group



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



QUALITY AND TRUST
We induce customers' confidence.



EXCELLENCE AND PROFESSIONAL COMPETENCE
We are target-oriented.



RESPONSIBILITY AND DILIGENCE
We assume responsibility.



KINDNESS AND OPENNESS
We maintain friendship and sociability.



BUSINESS INNOVATION
We implement services and processes in line with market trends.

3.9 Key strategic guidelines of the Group

In August 2018 supervisory board of Elektro Gorenjska Company confirmed the strategy of the Elektro Gorenjska Group for the period 2018-2022. Key elements for implementation of the strategy are the following strategic projects:

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

Strategic projects Organizational culture and employee commitment, Development of a comprehensive and advanced innovation system on the level the Group, Establishment of a new business model of energy engineering on the level of the Group and Establishment of effective project management on the level of the Group were concluded in year 2019.

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

3.10.1 General economic environment and economic trend forecasts

Table 9: Data and economic trends forecasts

Indicators for Republic of Slovenia	2019	Forecast		
		2020	2021	2022
GDP (real growth, %)	2.4	1.5	2.2	2.2
Employment (growth %)	2.4	1.1	0.7	0.5
Registered unemployment rate (%)	7.7	7.4	7.1	6.8
Inflation (Dec/Dec, %)	1.9	2.0	2.2	2.0
Inflation (average of the year, %)	1.6	1.7	2.2	2.0
Gross wage per employee (real growth, %)	2.7	2.1	1.5	1.9
Labour productivity–GDP per employee (real growth, %)	0.1	0.4	1.5	1.7

Source: Spring Forecast of Economic trends 2020, UMAR – Institute of Macroeconomic Analysis and Development

Due to the spread of Coronavirus COVID -19 in many countries, the economic consequences are difficult to predict. Due to many unknowns, the forecast is based on the assumption that the spread of the virus in China and European countries will reach a peak in the first half of 2020, and in the second half of the year there will be a gradual stabilization. If Coronavirus spread is gradually restricted and contained in the second half of the year, economic growth will slow to 1.5 % and will be slightly higher in the next two years (2.2 %).

In case of an ongoing epidemic of Coronavirus in Slovenia and other EU countries and absence of stabilization in the second half of the year, economic growth will be lower than projected this year and in 2021. According to the revised Spring Forecast, assuming a tightening of conditions and severely aggravated operation of the manufacturing and services sectors to last for two months, we can expect a GDP fall of 6 to 8 %.

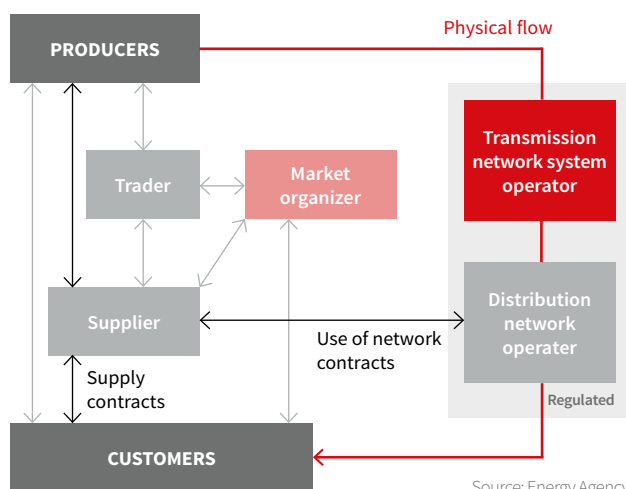
In addition, realization of some of the other risks could contribute to lower GDP. Risk of lower economic growth is posed by at least the following: possible new US protectionist measures, which could be aimed at raising tariffs on imports of cars and car parts in the USA, increasing Chinese imports from the USA at the expense of reducing imports from other partners, significant increase in economic barriers between EU and UK by 2021, when the transitional period of unchanged conditions for economic cooperation expires, as well as climate change and related environmental measures that could hamper growth in individual activities in the short-term.

Based on data for previous years, we find that electricity consumption is largely related to economic growth or GDP growth. Given that the projections for future GDP trends are highly uncertain due to the uncertain conditions surrounding the coronavirus epidemic, electricity consumption is also uncertain. Marketing activities are similarly uncertain.

3.10.2 Presentation of the industry

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

Figure 13: Supply model



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

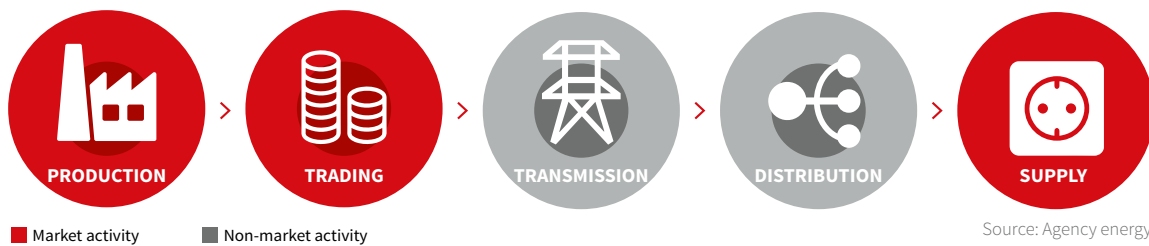
Elektro Gorenjska operates in the sector of electricity supply, namely in that business segment of electricity supply which ensures the distribution of electricity to final consumers.

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

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

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

Figure 14: Organization of electricity supply in Slovenia



Source: Agency energy

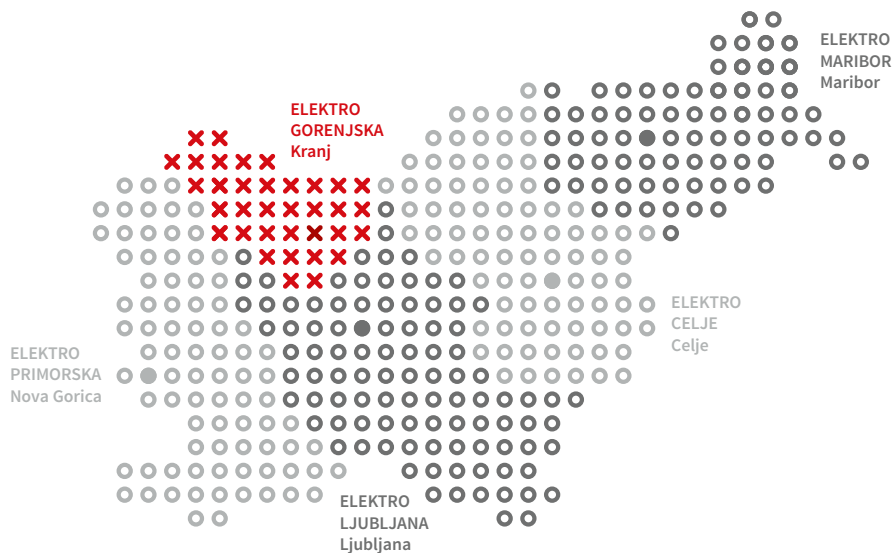
While electricity generation, electricity trading and supply of electricity to end-customers are market activities, with free competition between suppliers, the management of the transmission system and distribution network management are non-market, regulated activities, and are implemented on the basis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

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

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

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

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



3.10.3 Network charge and price of electricity

Final price of supplied electricity

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

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

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

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

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

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

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

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

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

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

3.10.4 Energy legal environment of group's operation in year 2019

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

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

- › Waters Act,
- › Construction Act,
- › Environment Protection Act,
- › Excise Duty Act.

3.10.5 Contract with SODO

SODO, d. o. o., Company owns only a small part of electricity infrastructure for the implementation of the public utility service distribution operator. It has therefore concluded a contract with Elektro Gorenjska Company, which owns the electricity infrastructure in the area of Gorenjska region, on the lease of the electricity distribution infrastructure and the provision of services for the distribution network system operator (hereinafter: Contract with SODO). Annex defining planned values of rent and services for the period 2019-2021 was also made to the last contract, effective from 1. 1. 2019.

In accordance with the Contract with SODO, Elektro Gorenjska leases to SODO Company the electricity infrastructure and provides contractually agreed services related to the public utility service of distribution operator.

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

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

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

3.10.6 Production of electricity

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

Support is implemented in two ways, namely:



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



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

A call for tenders has been introduced for the award of supports, where aid is awarded through a competitive process, which means only the most competitive projects can receive supports. By the end of 2019, Slovenia has made six public calls.

6

In the first two and the fourth one Gorenjske elektrarne Company has submitted a total of 10 projects.

It was successful in applying for

6 projects.

4 Management and quality systems



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

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

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

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



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

- › **system SVK**
(standard ISO 9001:2015),
- › **system SRO**
(requirements of standard ISO 14001:2015),
- › **system VZD**
(requirements of standard ISO 45001:2018) and
- › **system SVI**
(requirements of standard ISO/IEC 27001:2013).



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

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

Figure 16: Integrated quality management system within Elektro Gorenjska Company



Systematic implementation of policies, strategies and objectives and organization plans are enabled by clear and mutually linked processes, which are optimized, managed, controlled and improved every day. In 2019 the company Elektro Gorenjska monitored and controlled its business with the help of 46 identified and interconnected business processes, which it manages through laws, organizational regulations and work instructions. Operation of business processes was monitored with the help of 205 established quality indicators, and 31 identified risks.

In 2019, 76 proposals – measures, improvements, were submitted that helped to improve the functioning of the system and encourage employees to seek improvements and additional measures that have a positive impact on the Company's good operations and encourage additional employee commitment and environmental management. At the same time, it proves that the Company is fulfilling its commitments to continuous improvement and constant growth.

Trend of increasing the quality of implementation of individual business processes of Elektro Gorenjska is reviewed quarterly and discussed at the meetings of the Quality Committee, where activities of other management systems are also reported.

In Elektro Gorenjska we are aware that all employees are responsible for the success of the company. For successful development and growth, their satisfaction and their commitment are crucial, which is also a key goal of the Family Friendly Company Certificate. As a result, since 2015 Elektro Gorenjska Company has been implementing as many as 16 family-friendly measures aimed at improving the overall well-being of its employees in the workplace.

4.2 Integrated quality management system of Gorenjske elektrarne Company

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

As the first company in the electric power system Gorenjske elektrarne Company has established an energy management system according to standard ISO 50001:2011, which improves energy efficiency, while in 2019 it was certified as the first energy company under the new version of the international standard ISO 50001:2018. It currently manages the following two certified systems:



ISO 9001 Q-1864
ISO 50001 En-014

- › **quality management**
according to requirements of ISO 9001:2015, Q-1864, edition 03 / 2019-02-18, annex Q-1864/03 (valid until 16.12.2020) and
- › **energy management system**
ISO 50001:2011, En-014, edition 03 / 2019-11-11, annex En-014/03 (valid until 21. 8. 2021) and ISO 50001:2018, En-014, edition 04 / 2019-11-11, annex En-014/04 (valid until 11. 11. 2022)

Renewed quality management system according to the ISO 9001:2015 standard was integrated into the energy management system according to the ISO 50001:2011 standard. We are still the only company in the power industry and the second in the energy sector that has obtained the ISO 50001 certificate for energy management. A revision of the ISO 50001:2018 standard was adopted as well, which we implemented as the first energy company in 2019 when the three-year term since we have been certified with the ISO 50001 standard for energy management for the first time.

Focus of energy management was to integrate standard SIST EN 50001:2018 into the quality management system and thereby establishing connection with the SIST EN 9001:2015 standard. We are introducing improvements in monitoring approaches and activities in implementation of ISO 50001:2011 standard, which we received in the certification process in November 2016.

Through ISO 50001:2011 standard and ISO 50001:2018 standard, the company has developed and implemented an energy policy and set a framework and targets and action plans which take into account legal requirements and information about significant energy use. Further we are developing new services in the field of energy efficiency and energy management for use in our own and marketing projects. Therefore references represented by quality standards are important and are provided by the standard in the field of energy management.

Interconnection of the processes of the company Gorenjske elektrarne and GEK Vzdrževanje Company and strategic connections in the field of establishing joint energy engineering in the Elektro Gorenjska Group and improvement of technological, business and organizational flows will also be a permanent task in the field of quality management system for the period 2020-2022.

Transition to revised standards 2020 – 2022

In the period 2020 - 2022 the company will continue with its activities in the field of improvements, monitoring of legislation in terms of processes, in terms of energy management and in terms of environmental management and in accordance with the new requirements it will modify and supplement the existing processes.

In 2020 there will be a regular audit of ISO 9001:2015, while in 2022 a regular audit of ISO 50001:2018, in between there will be annual renewal audits conducted by an authorized organization for implementation of external audits of quality management systems.

4.3 Risk management in Elektro Gorenjska Company

Risk management system is one part of our integrated quality management system (iSVK). Systematic management of risks and continuous or regular monitoring of changes that could affect the realization of risk, is an important condition for successful and efficient reaching of the set long-term business goals.

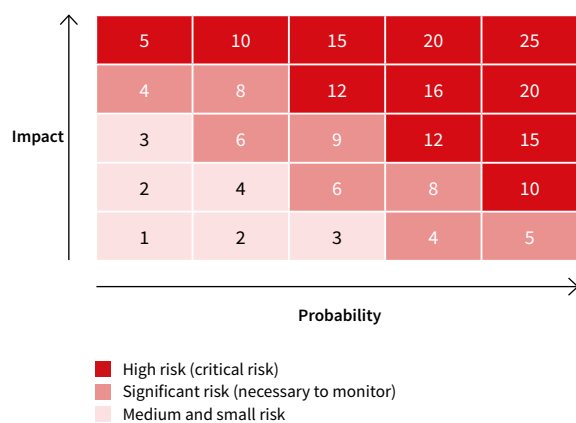
Process of risk management includes the identification, assessment, planning and implementation of responses and information, communication and control of risks and their control measures, including reporting on the risks to which the company is or might be exposed in its operations. In addition to managing the risks already identified, the risk management system must also effectively and timely identify new risks.

Foundation of risk management is their identification by type of risk and assessment of individual risk severity. According to the type of identified risk in Elektro Gorenjska Company we classified them in financial, business and operating risks.

Risk severity is assessed as a product of two dimensions of risk: probability of risk materialization and extent of the damage, which materialization of the risk could represent for the company. Loss or damage adversely affects the business success of the company. Based on the assessment of severity of individual risks, they are classified into three groups, as presented in the figure below.

In 2019 a large part of the identified risks in Elektro Gorenjska Company came from the field of business risks, related to the activity of distribution, which the company implements under the contract with SODO, d. o. o., as the Company makes the majority of its income under this contract. Business risks thus relate to the ability to provide adequate electricity infrastructure, human, material and financial resources for the long-term and stable implementation of the company's core activity (electricity distribution), and are followed by financial and operating risks.

Figure 17: Risk severity assessment matrix



Legend of influence degree:

- 1 potential business loss $\leq 100,000$ €
- 2 potential business loss $> 100,000$ € in ≤ 0.5 mio €
- 3 potential business loss > 0.5 mio € in ≤ 2 mio €
- 4 potential business loss > 2 mio € in ≤ 10 mio €
- 5 potential business loss > 10 mio €

Legend of degree of occurrence probability:

- 1 Occurrence of unwanted events is completely unique. (Frequency: at least once in a 21 year period.)
- 2 Event is not particularly probable, but cannot be excluded. (Frequency: at least once every 10 years.)
- 3 Event can happen only occasionally over a period of time, the more likely it is a random event. (Frequency: at least once during a 6 year period.)
- 4 Event can happen several times over a certain period, it is an often threat. (Frequency: at least once in a 4 year period.)
- 5 Probable event occurs often with a constant risk. (Frequency: at least once every 2 years.)

4.3.1 Significant business risks

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

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

■ Operation of own information system

Due to inadequate operation of its own information system or connections with a single entry point at Informatika, d. d. there may be a failure to fulfil the provisions of legislation and contractual obligations according to the Contract with SODO and inadequate commercial quality. Company manages the operation of its own information system by implementing an information security policy and implementing the activities of the business continuity plan.

■ Risk of information security

Activities of Elektro Gorenjska Company may result in the loss or unauthorized disclosure of business and personal data. Risk is managed by implementing legal requirements, training of employees and implementing of information security policy.

■ Modification of the contract with SODO

Contract with SODO contains increasing number of provisions that are disadvantageous for Elektro Gorenjska. In the future the following might occur: transfer of ownership of EG assets to SODO, transfer of task implementation to SODO, transfer of cash flow to SODO. All of the above reduces the autonomy of EG operation. Company manages the risk through an active dialogue with the stakeholders of the contract with SODO.

■ Defects and averages

Due to weather conditions, faults on devices or unintentional interventions by third parties, defects and averages of different size may occur. Risk is managed primarily through proper network construction and maintenance, as well as fire and machine breakage insurance.

■ Implementation of investments in the network and influence on the quality of supply

To achieve adequate voltage quality it is essential to carry out the necessary investments or follow the long-term Development plan. Risk is managed by appropriate project and financial planning of the implementation of investments, active cooperation with stakeholders and implementation of procurement procedures.

■ Adverse outcome of denationalization processes

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

■ Lack of adequate staff or personnel risk

Risk includes the loss of key personnel, the lack of skilled personnel and the provision of competent personnel. Company manages the risk by carefully recruiting new staff, scholarships, educating employees and developing an organizational culture.

■ Risk of influence on environment

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

■ Attacks on infrastructure, terrorism

Risk represents the possibility of intrusions in the ICT, IT and DCV systems, destruction or damage to individual facilities and theft of parts of the infrastructure. We manage this risk by implementing an information security policy and by physically protecting parts of the infrastructure.

4.3.2 Significant financial risks

■ Risk of investments in subsidiaries

Company Elektro Gorenjska has the following important investments: Gorenjske elektrarne, d. o. o., 100 % share and ECE, d. o. o., 25.6744 % share. Investment values represent an impact risk (positive or negative) on the operating result of the parent company. Company manages the risk of both investments as an active owner.

■ Credit risk of business partners and distribution system users payments

On the basis of the Contract for leasing the electricity distribution infrastructure and the provision of services to the operator, the company collects customer payments in its own name and for the SODO Company account. In doing so, it is exposed to credit risk, because despite any unpaid overdue claims of customers, the company has to settle all its liabilities to SODO. Company also faces the risk of non-payment in the provision of market services. In both cases the risk is first and foremost managed by careful monitoring of receivables and implementation of recovery procedures.

■ Liquidity risk or risk of short-term insolvency

Company could have major liquidity problems, mainly due to uneven inflows and outflows, and long-term procedures for obtaining long-term loans and possibly larger uncontrolled exceeding planned investments. Company manages the risk through implementation of recovery procedures, financial planning, timely implementation of procedures for obtaining debt resources and financial control over the volume of investments.

■ Interest risk

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

■ Inadequate payment of EG services by SODO

Inappropriate payment of EG services by SODO may occur due to: requirements for provision of services that are not subject to a contract with SODO, dispute concerning the quality of the service performed and charged by the Elektro Gorenjska, inadequate decision of the Agency to determine the regulatory framework. We manage this risk by actively negotiating with the parties to the Contract with SODO.

■ Lack of investment funds

Realization of the risk could occur if the company fails to provide funds for the realization of planned investments due to lack of own funds or due to the inability of the company to borrow to the required extent. Company manages the risk through appropriate financial planning and sustainable long-term borrowing.

4.3.3 Significant operating risks

■ Risk of serious injury and death at work

Due to the nature of the work, the company faces the risk of serious injuries and deaths at work, which may be the result of incorrect procedures at work, negligence of employees and external influences. Risk is managed by implementing a comprehensive set of safety and health at work measures and by taking out accident insurance for employees.

■ Public procurement implementation process

Public procurement procedures may result in compliance risks, prolongation of procedures due to complaints by the tenderers, insufficient competition or even collusion between providers. Risk can have the greatest adverse effect on the implementation of investment and maintenance work, and is managed by compliance with the law and proper scheduling and coordination.

■ Impartiality and independence of the Measurement Laboratory

There is a possibility of influencing the result of the control of the measuring laboratory, which would mean a loss of its credibility and functioning. Company manages the risk through appropriate organizational placement and compliance with certification requirements.

4.3.4 Internal Audit

Since 2012 Elektro Gorenjska has established an independent support function of internal audit, which covers the operation area of the entire Group. Organization wise, the internal auditor reports directly to the chairman of the board, while function wise it reports to the audit committee or the supervisory board.

In 2019, the internal audit carried out nine audits. Special attention was paid to the areas of investments, procurement, maintenance, execution of strategic projects, and management and project management of the IT function. In addition, it regularly monitored the implementation of the recommendations made and followed the risk management in Elektro Gorenjska Group.

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

4.4 Risk management in Gorenjske elektrarne Company

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

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

Figure 18: Evaluation of risks

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

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

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

Reduction of supports for electricity generated from OVE

Company recognized as one of the major risks the risk of reducing supports for electricity generated from renewable energy sources. In this context, we evaluate the risk that the government will, in any way, reduce the already approved supports within a single power plant or source of production by means of a regulation or a decree. Indirectly, we can avoid the risk or mitigate its materialization with other revenue sources, especially in the area where revenues are not linked to supports for electricity produced.

Risk of weather conditions

Gorenjske elektrarne Company is decisively linked to weather conditions in its primary activity, electricity production. About 90 % of the volume production comes from hydroelectric plants whose production is decisively affected by the amount of precipitation. It can also swing +/- 25 % around the long-term average. Also, the operation of solar power plants depends on the insolation, and the operation of the SPTE on mild or cold winters. Risks are also associated with changes in climatic conditions due to the warming of the atmosphere. Company manages this risk primarily through a development policy that is intensely focused on diversifying revenue sources and introducing new types of revenues from energy efficiency projects, thus reducing the share of sold electricity in sales revenues in the long run.

Market risk – decrease in the sales price of electricity

Gorenjske elektrarne Company is exposed to fluctuations in the market price of electricity when selling electricity produced. Company manages the risk mainly by the ongoing monitoring of all factors that affect the price and the consequent anticipation of price developments. On the basis of analyses, the Company decides to sell electricity for future periods. Customer is selected on the basis of the best offer. Risk of fluctuations in electricity prices is significantly controlled by the Company by selling the production of individual power plants in the system of operating supports. Borzen, for each kWh produced, adds a difference in the form of support.

Availability of production capacity

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

Impact of Qes requirements

Qes is the economic minimum flow that must be provided when capturing water for generating electricity from the HPPs. Possible change, especially in the direction of the increase in Qes due to the introduction of water permits (previously a concession), would mean a decrease in production capacity in the hydrological sector and a consequent decrease in revenues in this segment. Company manages this risk through an appropriate dialogue with the Ministry of Infrastructure and the Ministry of the Environment and Spatial Planning as well as through a revenue diversification.

IT risk

In the context of IT risk, we identified the following risks: risk of data security against external intrusions and abuses, risk of unreliable business support due to unreliability of the system, risk of quality of IT services by external IT provider. Company manages the risk through a binding contract with an information service provider.

Non-economy of purchases and inadequacy of investments

In the context of the risk of non-economy of purchases, we mainly recognize the risk of purchasing material and services at prices that significantly deviate from average market prices. In the case of investments, we recognize the risk of implementing economically ineligible investments. Company manages the risk through the process of obtaining more bids for the same material or service, and of course with procedural instructions and measures in the entire system of purchasing materials, services and investments.

Risks related to safety and health at work

In this segment, we primarily recognize the risk of serious injuries and death at work. Company manages the risk by compulsory use of protective equipment, training and implementation of other legislative requirements in the field of safety and health at work. In addition, all employees are collectively accidentally insured.

Environmental risks

In operation of hydroelectric power plants, environmental risks arise in terms of the impact of power plants on the environment, groundwater and fish in waters. The greatest risks are the installation of mechanical and electrical devices that contain oils and, where in case of a possible discharge pollution of the environment and water could occur. Company manages environmental risks with high standards in the construction of production facilities and the placement of production facilities into space. Possible interventions in the riverbed are dealt with professionally, on the basis of prepared solutions with the elaboration of a water management company and with minimal environmental impacts. Company has concluded insurance to reduce risks, insofar as all preventive measures would still exceptionally result in ecological damage.

5

Business analysis of the Group



5.1 Production of electricity

In year 2019 the Gorenjske elektrarne Company generated and sold a total of **56,071 MWh** of electricity, which is by 4.3 % more than in year 2018. It generated electricity in 15 hydro power stations (hereinafter: HE), of which one power station the company is renting from the founder Elektro Gorenjska Company since its establishment, as well as in 19 solar power stations (hereinafter: FE). Besides that the company produced heat and electricity in six high-efficient cogenerations (hereinafter: SPTe).

Figure 19: Electricity produced (in MWh) in period 2015–2019

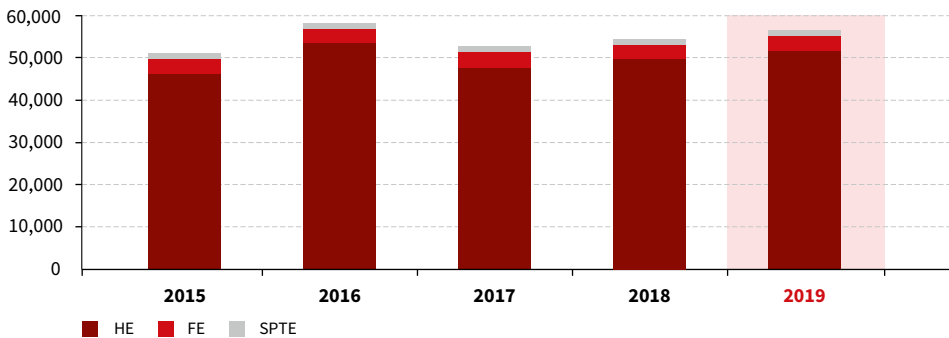


Figure 20: Electricity produced (in MWh) in HE by months of year 2019

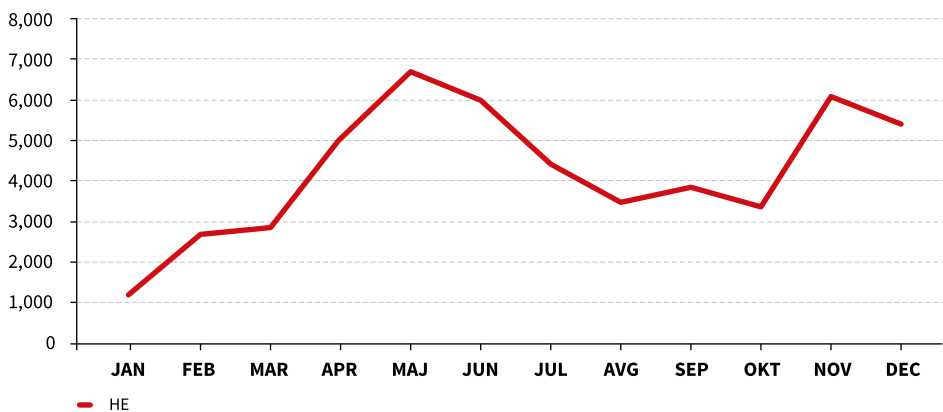
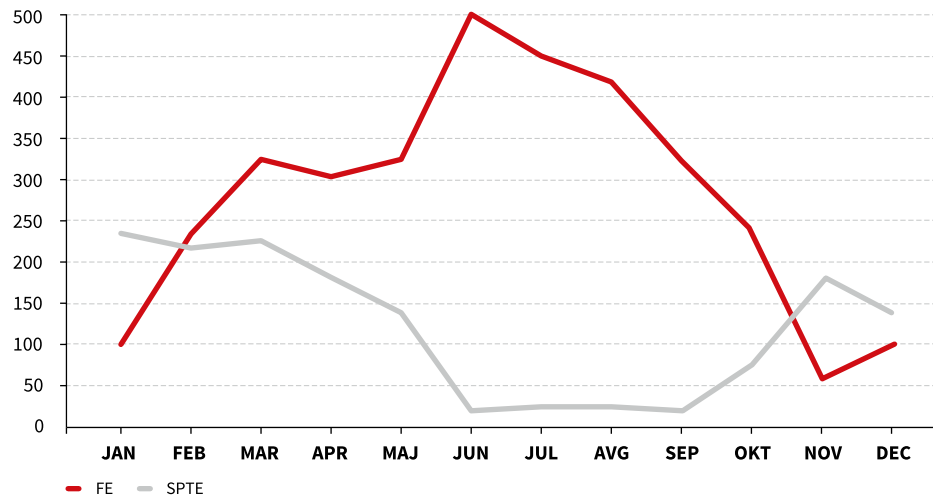


Figure 21: Electricity produced (in MWh) in FE and SPTE by months of year 2019



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

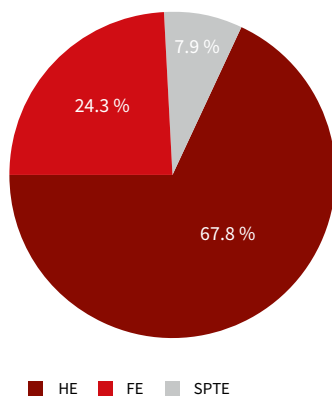
Operation of hydro power stations to a great extent depends on natural resources - current rainfall, which impacts the quantity of water in water courses, as hydro power stations do not have their own accumulations in general. This means that in the event of heavier rainfall high-rise waters spill over 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 (hereinafter: OVE), while its weakness is fluctuation of production according to water availability. Construction of hydro power plants also represents a great intervention in the environment and brings high investment costs. Besides that in the regime of water course utilization we need to consider also requirements set by fishermen and environmentalists.

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

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

Most or 67.8 % of the total revenues from the sale of electricity in Gorenjske elektrarne Company is generated in HE, followed by FE with 24.3 % and SPTE with the smallest share (7.9 %).

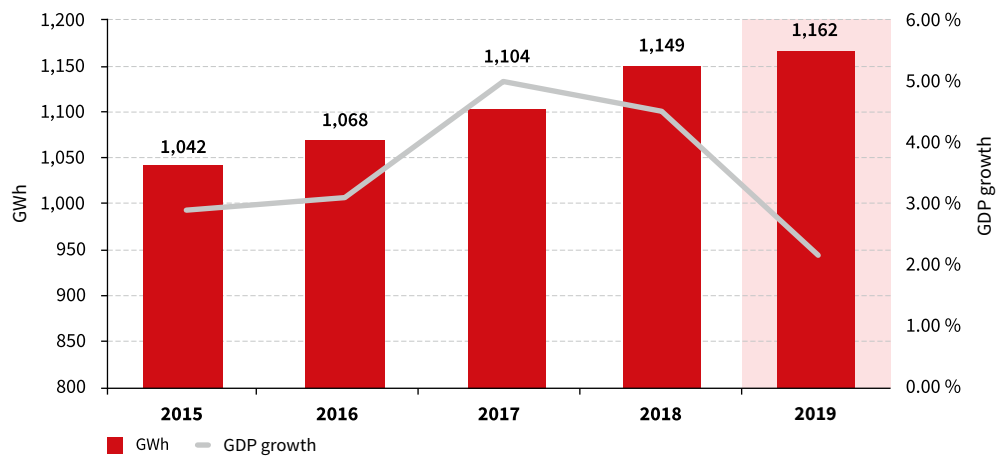
Figure 22: Share of revenues from electricity sales by individual production sources in year 2019



5.2 Quantities of distributed electricity

In year 2019 there were 1,161,866 MWh of distributed electricity through the network of Elektro Gorenjska Company or 1.1 % more than in year 2018 (1,149,085 MWh). As can be seen in the figure below, quantities of distributed electricity have been increasing since 2015. In all these years we also recorded the growth of the GDP.

Figure 23: Changes in distributed quantities of electricity and GDP from year 2015 to year 2019



In year 2019 household customers within the network of Elektro Gorenjska Company were distributed 347,411 MWh of electricity, which is by 0.8 % more than in year 2018 (344,606 MWh). Business users were distributed 814,455 MWh of electricity, which is by 1.2 % more than in year 2018 (804,479 MWh).

5.3 Quality of electricity supply

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

Quality of electricity supply thus includes:

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

Continuity

Continuity has been followed in accordance with the legislation. According to the report from AGEN the the indicators in 2019 are within the prescribed limits. Indicators presented below are defined in the Act for monitoring quality of electric power.

Table 10: Unannounced long-term interruptions according to type of network in year 2019

	Own				Foreign				Force majeure				Total			
	SAIFI [interr./ cust.]	SAIDI [min/ cust.]	CAIFI [interr./ cust.]	CAIDI [min/ interr.]	SAIFI [interr./ cust.]	SAIDI [min/ cust.]	CAIFI [interr./ cust.]	CAIDI [min/ interr.]	SAIFI [interr./ cust.]	SAIDI [min/ cust.]	CAIFI [interr./ cust.]	CAIDI [min/ interr.]	SAIFI [interr./ cust.]	SAIDI [min/ cust.]	CAIFI [interr./ cust.]	CAIDI [min/ interr.]
Total urban	0.337	7.735	0.849	22.977	0.022	0.151	0.355	6.971	-	-	-	-	0.358	7.886	1.558	22.008
Total mixed	0.053	1.558	0.134	29.363	0.002	0.061	0.032	31.332	-	-	-	-	0.055	1.619	0.197	29.433
Total rural	0.342	8.590	0.862	25.122	0.046	1.222	0.760	26.295	0.008	1.887	1.575	249.690	0.396	11.699	2.383	29.547
Total	0.732	17.884	1.844	24.442	0.070	1.433	1.147	20.456	0.008	1.887	1.575	249.690	0.809	21.205	4.566	26.201

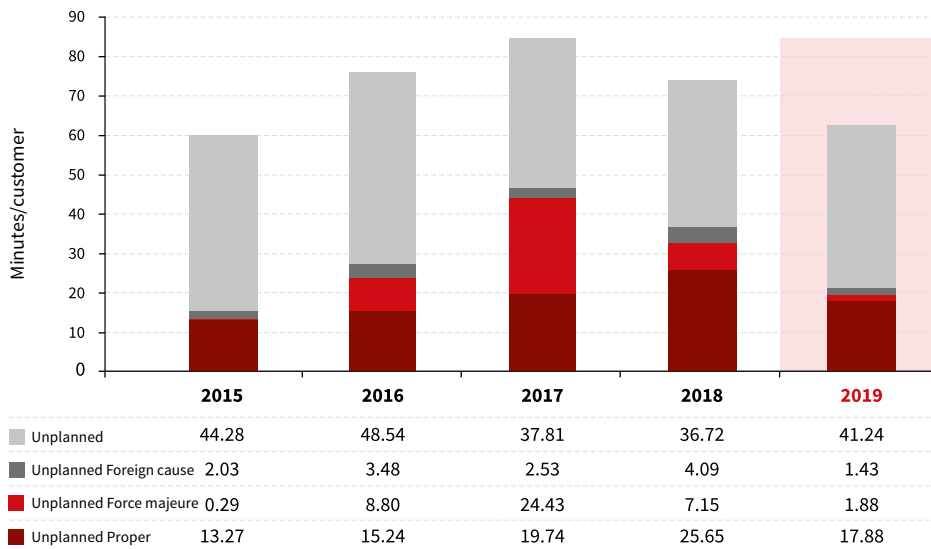
Table 11: Announced long-term interruptions per customer in the year 2019

	SAIFI [interr./cust.]	SAIDI [min/cust.]	CAIFI [interr./cust.]	CAIDI [min/interr.]
Total urban	0.073	8.546	0.307	117.787
Total mixed	0.031	7.319	0.131	236.268
Total rural	0.192	25.375	0.812	132.317
Total	0.295	41.240	1.251	139.652

Table 12: Number of momentary interruptions per user in year 2019

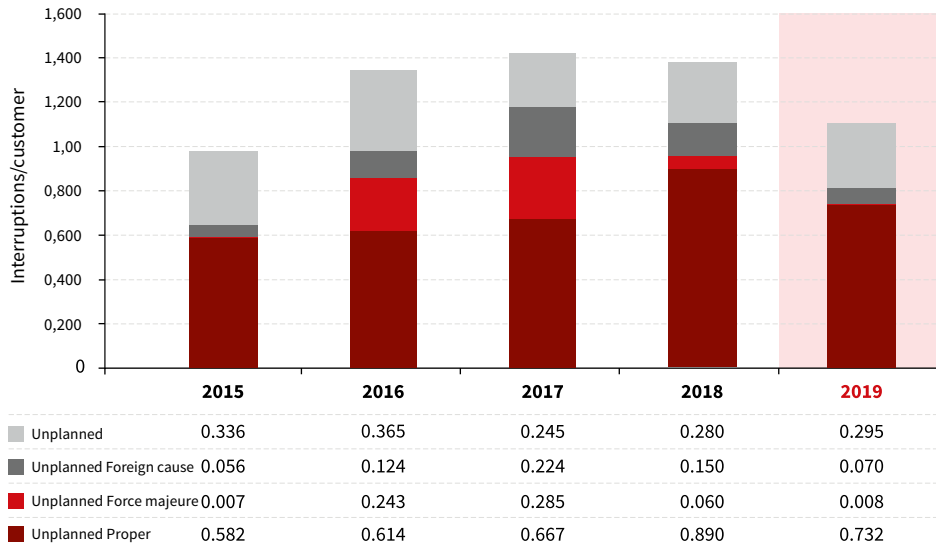
	Rural	Urban	Total 2019
MAIFI	2.1	1.4	3.5
MAIFle	1.4	0.9	2.3

Figure 24: SAIDI - Average time of duration of all unannounced long-term interruptions



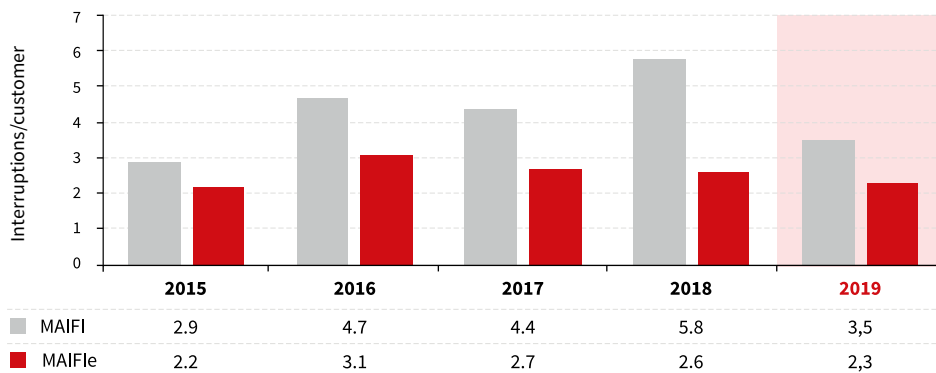
Unannounced values of SAIDI indicator decreased compared to the previous years, but are within comparable limits from years 2015 and 2016. Reasons for the decrease in the duration of unannounced long-term interruptions were more lenient weather influences and faster and better elimination of defective parts of electric power devices (hereinafter EEN) from operation. This was the result of more contemporary EEN, higher number of remotely controlled EEN and better trained staff in the field of electricity system operation in Gorenjska region. Values of planned interruptions have slightly deteriorated, which means that better maintenance will be required in the future, and in the event of not reaching the set goals it will be necessary to implement planned interruptions to a greater extent by oversupplying customers and use of generators.

Figure 25: SAIFI – Average number of all unannounced long-term



Unannounced values of SAIFI indicator have also decreased compared to the previous year, but they are within comparable limits from 2015. Reasons for the decrease in the number of unannounced long-term interruptions were more lenient weather influences and faster and better elimination of defective parts of electric power devices from operation. As with the SAIDI indicator, recommendations from the previous indicator will have to be taken into account also with indicator SAIFI.

Figure 26: MAIFI in MAIFle – average number of all momentary interruptions



Unannounced values of indicators MAIFI and MAIFle have decreased compared to the previous year, but are within comparable limits from 2015. Reasons for the decrease in the number of unannounced short-term interruptions were more lenient weather influences and additional transition from above-ground to the cable network on medium-voltage level.

Voltage quality

We find that situation in the field of power quality has not changed substantially compared to year 2018. Cause for inconsistent voltage conditions is mainly the flicker, which is transmitted from high voltage transmission 110 kV network (hereinafter: HV) and spreads to lower voltage levels. In year 2019 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 (hereinafter: LV), of which two proved to be justified. We try to eliminate inconsistencies as quickly as possible and within statutory deadlines.

Table 13: Consistency of power quality parameters with the SIST EN 50160 standard on high voltage level for year 2019

Facilities	Number of weeks under control	Deviation Uef	Harmonica	Flicker	Imbalance	Signal voltages	Frequency	Voltage drops	Voltage increases	Consistency KEE	
		Number of inconsistent weeks									No. of consistent weeks
RTP Jesenice 110 kV	51	0	0	48	0	0	0	50	25	3	48
RTP Radovljica 110 kV	51	0	0	48	0	0	0	160	7	3	48
RTP Tržič 110 kV	51	0	0	48	0	0	0	48	27	3	48
RTP Primskovo 110 kV	51	0	0	48	0	0	0	48	21	3	48
RTP Zlato polje 110 kV	51	0	0	48	0	0	0	49	28	3	48
RTP Labore 110 kV DV Okroglo	51	0	0	47	0	0	0	52	22	4	47
RTP Škofja Loka 110 kV DV Okroglo	51	0	0	10	0	0	0	56	16	41	10
RTP Škofja Loka 110 kV DV Kleče	51	0	0	13	0	0	0	57	24	38	13
RTP Bohinj 110 kV	51	0	0	38	0	0	0	16	2	13	38

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

Commercial quality

In most commercial quality parameters for year 2019 we established that average achieved values of indicators were essentially better than the limits of minimum quality standards. In some indicators, there were deviations of individual cases above limit values. Share of more than 10 % of services provided above the limit value was exceeded in parameters No. 1.1, 1.2, 2.1 and 3.3.

In parameter 1.1. "Average time to issue consent for connection" the reason for lower share of services above the limit value (25 %) was the fact that data according to the General Administrative Procedure Act (ZUP) refer to summary and declaratory proceedings together. ZUP otherwise defines that in summary proceedings permissible time of issue of the order is 30 days, while in declaratory proceedings, where oral hearing is implemented as well, it is 60 days.

For parameter no. 1.2. reason for delays in issuing some of the pro forma invoices was the insufficient staffing given the high volume of demand.

With parameter 2.1. "Average time taken to answer written questions, complaints or requests of users", the share of services over the threshold (15 %) in most cases refers to the complaints of account data associated with the replacement, error elimination or identification of the correct operation of the meter. In these cases it is necessary, before replying to the complaint, for the measurement service to replace, eliminate the error or properly check the meter, which may take longer than eight working days.

For parameter no. 3.3. in one of the procedures of rehabilitation of voltage conditions, where a new part of the distribution system had to be built, we were not able to get the consent of the landowners in time, which was the reason for the delay in the implementation of investment.

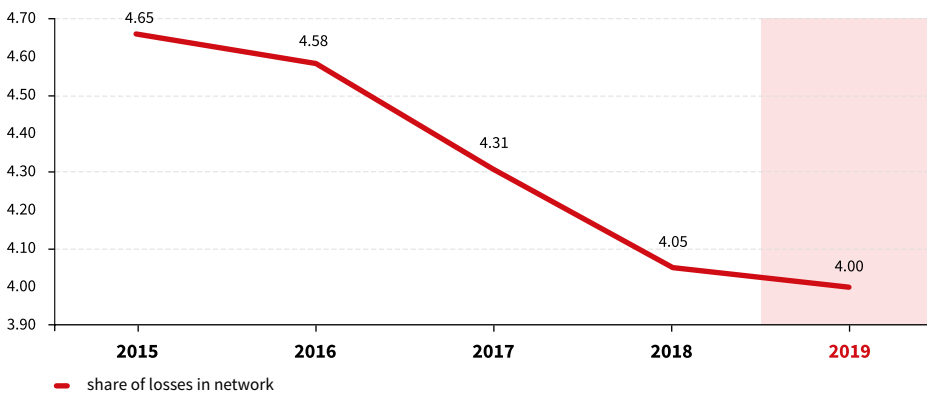
Table 14: Commercial quality parameters for year 2019

PARAMETER ID	PARAMETER	Minimum quality standards (MQS)			Achieved values			Share of services rendered			
		System / guaranteed standard	Required level of compliance [%]	Limit value	Unit	Number of all required or executed services	Number of eligible exemptions (force majeure, foreign cause)	Parameter value	Standard deviation	Up to and including the limit value [%]	Above the limit value [%]
1.1	Average time needed to issue a consent for the connection	S	95	20	Working days	1669	0	18.00	53.80	75.00	25.00
1.2	Average time required to issue cost estimates (prepayments) for simple work	Z	100	8	Working days	426	0	6.00	12.20	88.00	12.00
1.3	Average time needed to issue an agreement on connection to the LV network	S	95	20	Working days	1626	0	1.00	3.04	99.00	1.00
1.4	Average time needed to activate the connection to the system	Z	100	8	Working days	2143	0	2.20	12.66	97.00	3.00
2.1	Average time needed to answer written questions, complaints or user requests	Z	100	8	Working days	487	0	5.10	0.70	85.00	15.00
2.2	Average call hold time in call centre	-	0	0	-	48988	0	15.00	11.24	-	-
2.3	Call centre service level parameter	-	0	0	-	48988	0	93.09	-	-	-
3.1	Average time to restore power in the event of a fault on the current limiting device (6:00-22:00)	Z	100	4	Hours	2341	0	0.89	1.20	99.00	1.00
3.2	Average time to restore power in the event of a fault on the current limiting device (22:00-6:00)	Z	100	6	Hours	36	0	1.00	0.92	100.00	0.00
3.3	Average time needed to answer a complaint regarding the quality of the voltage	S	95	30	Working days	10	0	14.10	3.70	100.00	0.00
3.4	Average time needed to solve voltage quality deviations	S	50	6	Months	3	0	22.90	19.50	66.00	34.00
4.1	Average time needed to eliminate meter failure	Z	100	8	Working days	619	0	2.71	6.00	93.00	7.00
4.2	Average time to restore power due to non-payment of user	Z	100	3	Working days	316	0	0.20	0.91	100.00	0.00

Losses in the distribution network

Share of losses in the distribution network is lower year by year. In 2019, losses were 4.0 %, which is the lowest loss to date.

Figure 27: Share of losses in the network from 2015 to 2019



Comparison with data from other distribution companies in Slovenia

Elektro Gorenjska Company constantly strives to ensure the highest possible level of quality of customer care. From the company’s annual reports and the data provided by individual companies in 2019, it follows that in this area Elektro Gorenjska is the most successful among all distribution companies. This is illustrated in the following figures.

Figure 28: Parameter SAIDI for unplanned long-term interruptions (own causes) in the period 2015–2019

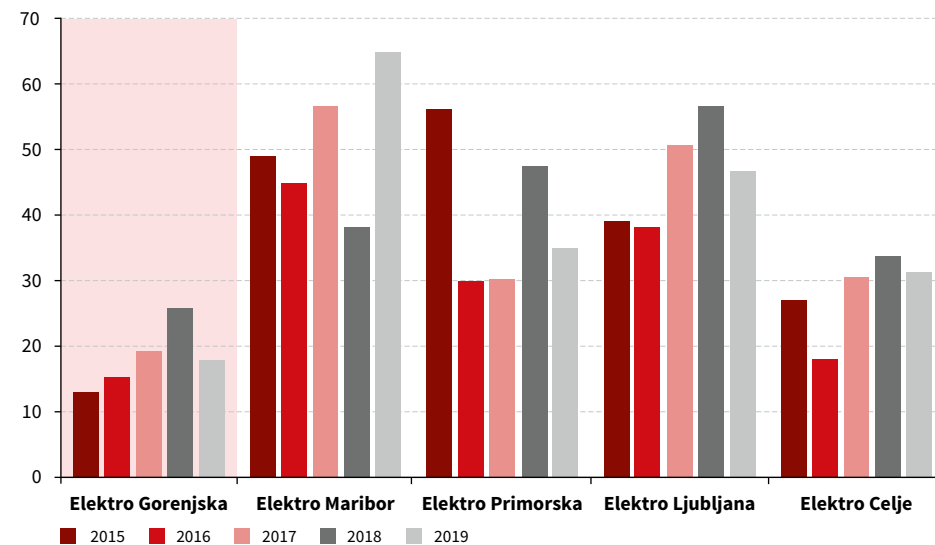
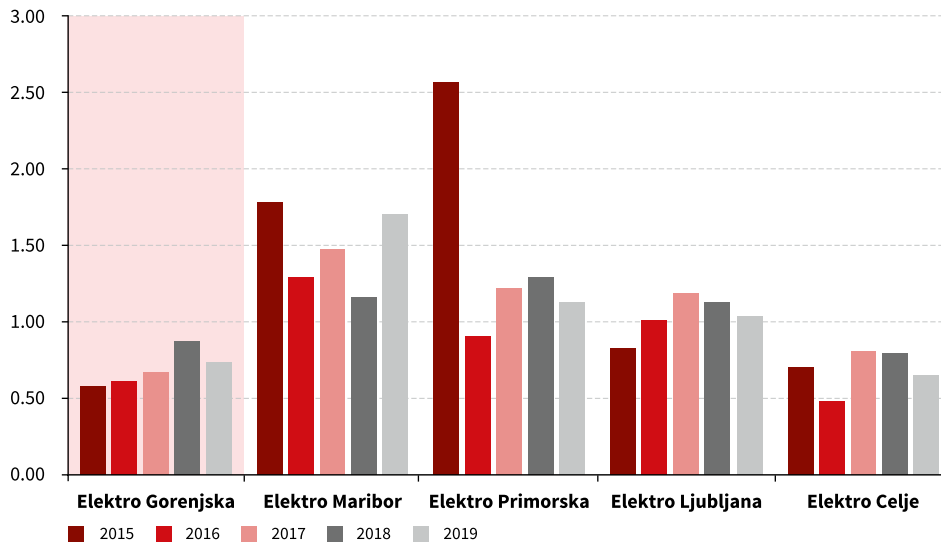


Figure 29: Parameter SAIFI for unplanned long-term interruptions (own causes) in the period 2015–2019



Fact that Elektro Gorenjska Company is very successful in the field of quality of supply is also confirmed by the information that the company reaches significantly lower values of SAIDI and SAIFI indicators for unplanned long-term interruptions of its own cause than those defined in the Act on the methodology for determining the regulatory framework and the methodology for charging the network charge for Electricity Operators issued by the Energy Agency. SAIDI target level of the SAIDI parameter specified in the Act is 90 min/ user, and the target level of the SAIFI indicator is 2.35 interrupt / client. In Elektro Gorenjska SAIDI indicator reached the value of 17.8 min/ user in 2019 and the value of the SAIFI indicator was 0.73 interruptions / user.

Achieved values are significantly below the AGEN target values, but above all they are better than the achieved values in 2018.

5.4 Investments

In year 2019 Elektro Gorenjska Group invested 16.9 million €. Major investments are presented below.

Within investments in high-voltage network which amounted to somewhat less than 3.4 million €, the major ones are:

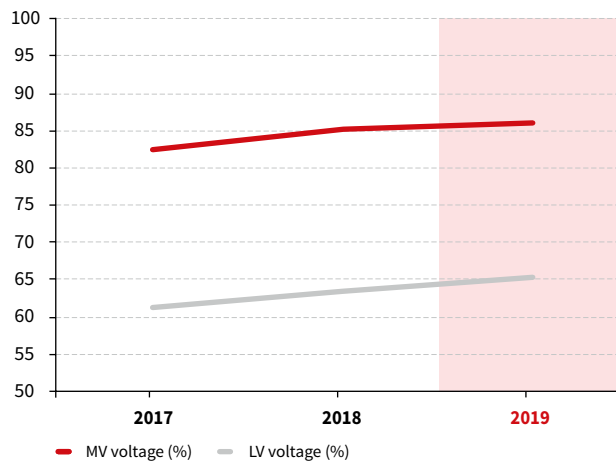
- › 2x110 kV power line (hereinafter: DV) Kamnik - Visoko: In 2019, we started the procedures for obtaining a building permit. We prepared a project with the necessary studies for obtaining consents, carried out land valuation and started concluding easement agreements, and about half of them have already been implemented.
- › 110 kV DV Soteska – transformer station (hereinafter: RTP) Bohinj: Due to age and consequent poor condition, it was necessary to replace the DV ropes. According to development studies, this one was planned in 2023, but in 2018, when we restored or reconstructed two DV poles as a result of the windbreak, it turned out that it makes a lot of sense to replace DV equipment and ropes due to their wear. Works were fully completed by the end of 2019. In 2020, the final takeover will follow after deficiencies have been eliminated.
- › RTP 110 /20 kV Brnik: In 2018, a building permit was obtained for a new distribution station (hereinafter: RP) – RTP Brnik. This was followed by the construction of the facility, the supply and installation of equipment, and at the end of the year a technical inspection. In 2019, tests and connection to the 20 kV network took place. Obtaining a use permit is planned for 2020.
- › RTP 110/20 kV Bohinj: In 2019, a renovated power transformer from RTP Zlato polje was supplied and installed, and an additional sector of 20kV cells with control and protection was installed in the substation, which we purchased and brought from the abandoned RTP Sava.
- › RTP 110/20 kV Kranjska Gora: In 2019, the extension of the existing 20 kV switchyard to the third sector was planned. Reason is the constant increase in consumption and load in the area of Kranjska Gora in recent years (especially the construction of a new Nordic Centre in Planica and artificial snow production, and the construction of a cable car for Vitranc).
- › RTP 110/20 kV Škofja Loka: In 2018, we started the process of obtaining a building permit for a new 110 KV switchyard. At the same time, the 20 kV cell sector was upgraded to expand the 20 kV network in the Škofja Loka area. In 2019, the assembly of cells followed.

Value of investments in medium (hereinafter: MV) and low-voltage network (hereinafter: LV) in year 2019 amounted to 9.7 million €.

- › In 2019, we carried out expansions and renovation of the MV network, especially the rehabilitations of critical part of the network or to ensure better robustness of the network. In 2019, we also spent a large share of financial resources on the construction of a new cable network and associated cable duct in the area of the Brnik airport complex. We continued with the cabling in the Kokra valley from Jablanca to Celar and from Jezerski vrh to Ravne. Intensive cabling also took place in the municipalities of Bled and Radovljica, Bohinj and Škofja Loka. With this, we eliminated some of the most critical points on the 20kV network, where there were frequent outages due to wind and also ice. In 2019, we laid 41.5 km of MV cable conduits and newly built 21 transformer stations (hereinafter: TP).
- › With additional funds approved for investment needs, we increased realization on the low voltage facilities, especially in the field of arranging the LV network cabling in parts where we have carried out construction work together with municipalities in recent years. We continued this practice in municipalities that were still building their municipal infrastructure. In 2019, we laid 69 km of LV cable conduits.
- › In 2019, the growth trend in the number of new constructions and the increase in the connected load further increased, which affected the greater scope of expansion and strengthening of parts of the LV network. Funds were also intended for the processing of measuring points in accordance with the typing within AMI project, which at the same time also regulates measuring points by individual facilities in accordance with the adopted typing.

Result of constant and targeted investments is also reflected, among other things, in increasing the share of the network in the cable design. At the end of 2019, 65.3 % of the entire MV network and 86 % of the entire LV network were in the cable version. Compared to the end of 2018, the share of HV and MV network in cable implementation increased by 1.5 percentage points, and the share of LV network by 0.8 percentage points.

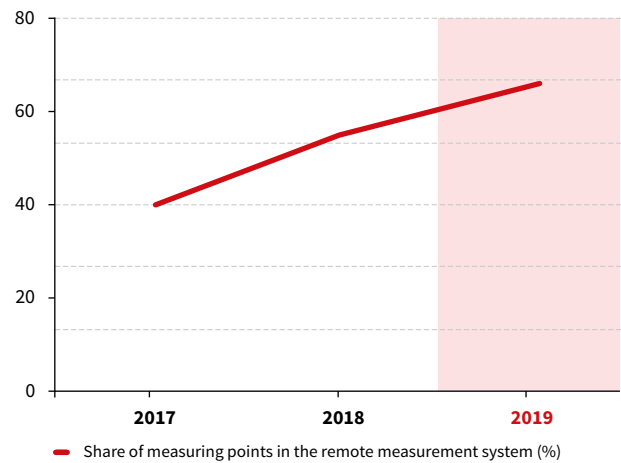
Figure 30: Share of the network in the cable design from year 2017 to year 2019



Among other investments (3.3 million €) the following were significant:

- › telecommunications and protection (new optical connection between RTP Primskovo and RTP Zlato polje),
- › measuring devices (AMI project – 11,592 meters in year 2019),
- › business and technical equipment,
- › integration of the new Geographical Information System (hereinafter: GIS),
- › renovation of HE Standard,
- › energy rehabilitation of the Najdihojca Kindergarten within the consortium with Municipality of Kranj.

Figure 31: Share of measuring points in the remote measurement system in years 2017, 2018 in 2019



Each year Elektro Gorenjska Company increases the share of measuring points (MM) in the remote measurement system. Growth of the share at the end of year 2019 was 66.6 %, while growth of the share compared to year 2018 amounted to 10.7 percentage points.

5.5 Maintenance of energy facilities

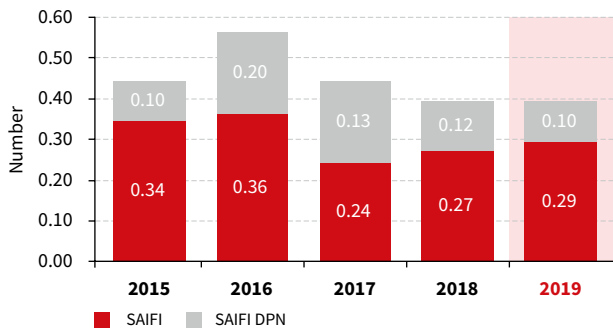
Elektro Gorenjska implements all tasks of the distribution network system operator in its geographical area. Among these tasks maintenance of electricity infrastructure is of special significance. We implement these tasks successfully mainly due to optimum organization and competences of employees, who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

In year 2019 mainly preventive maintenance on the infrastructure was performed with the aim of reducing the likelihood of a failure of facility's component part or system, which is achieved with appropriate interventions executed according to the criteria, which are determined in advance.

Preventive maintenance included inspection of electric power devices, execution of clearings in power lines and low-voltage overhead lines corridors, revision of transformer stations, switches, transformers, protection devices, carrying out control measurements and operating tests of protective devices. For the purpose of preventing unplanned interruptions, in the past year we started with the systematic implementation of diagnostic measurements on MV cables.

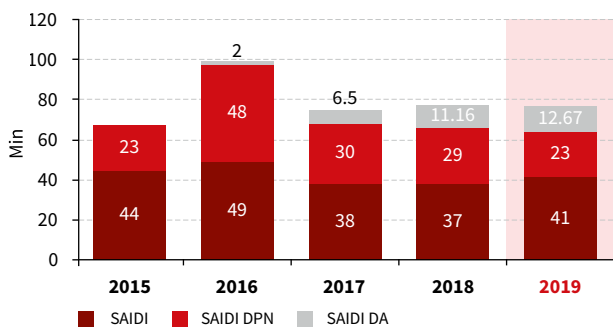
As in previous years also in the 2019 we continued to actively perform audits of transformer stations with the method of work under tension (hereinafter: DPN). Following charts show the share of contribution of DPN and use of alternative power supply with diesel generators (hereinafter: DA) on the value of the indicators or simulation of the value thereof in the case, it would be necessary to carry out the work without power.

Figure 32: SAIFI - Average number of announced interruptions per user in years



Share of SAIFI DPN of 0.1 in practice means that in year 2019 more than 8,500 electricity consumers did not feel the implementation of maintenance work on the network. If the works were not carried out using the DPN method, the value of the indicator would be 0.39 and not the actually reached 0.29.

Figure 33: SAIDI - Average number of announced interruptions per user in years



Using the DPN method we managed to reduce the average duration of the interruption per user by 23 minutes, and by providing replacement power supply with DA another 13 minutes. Instead of 77 minutes we thus reached an average time of interruption duration per customer to 41 minutes.

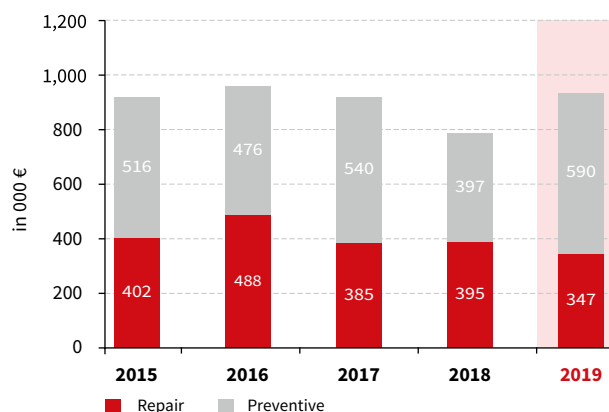
Each year as part of routine maintenance we carry out approximately 300-350 audits transformer stations. As in the past few years, also in 2020, we plan to continue the implementation of audits in transformer stations with DPN method (work under voltage).

Field of repair maintenance in year 2019 represented another kind of maintenance, which is unpredictable in terms of time and it can only be roughly estimated based on the past events. Reasons for failures were various, from weather conditions, failure of equipment to cause of damage by a third party. Problems were also caused by local storms and heavier downpours in summer months.

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

Repair maintenance costs in 2019 amounted to 347 thousand € and were the lowest in the last five years.

Figure 34: Changes in maintenance costs from y 2015 to 2019 (in €)



5.6 Development and design of the power system

Development of the electricity system in Elektro Gorenjska Company is organized within the joint Service for Development, Investments and Maintenance. Work scope provides necessary knowledge for the needs of development of new technologic solutions, systems, and processes of electricity distribution and other services, which the company is obliged to provide in accordance with its mission.

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

Tasks are performed in the following fields:

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

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

For the purposes of certain investments from the 2019 investment plan, different expert studies, preliminary studies, concepts, and different project documentation in the mentioned development fields have been made in cooperation with the education institutions. Investments, which foresaw acquisition of mentioned development documents, are for the most part technologically more demanding and cover all investment fields implemented.

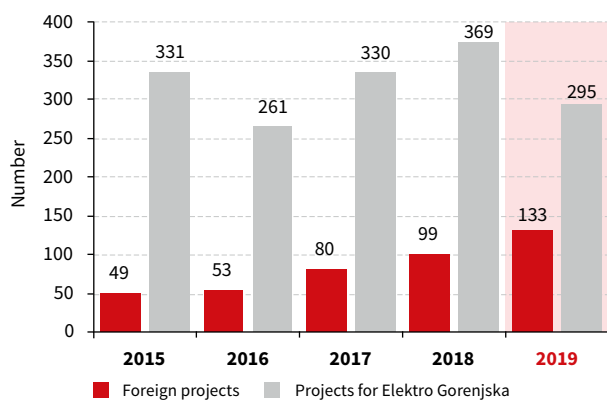
In 2019, an important development study of REDOS 2040: the development of the electricity distribution network of Slovenia continued.

In the field of development and implementation of modern distribution technologies, Elektro Gorenjska Company continues to actively participate in a series of research development projects co-financed by the European Union. In 2019, work on research and development projects Story, TDX - ASSIST and EASY RES continued.

- › In the Story project, company Elektro Gorenjska is in charge of the realization of two demonstration examples of the use of a larger electricity storage. Project explores and practically demonstrates state-of-the-art ways of storing energy in distribution networks.
- › Project TDX-ASSIST (Coordination of Transmission and Distribution data eXchanges for renewables integration in the European marketplace through Advanced, Scalable and Secure ICT Systems and Tools) focuses on the introduction and testing of state-of-the-art information-communication technologies in the framework of vertical connections between distribution and transmission network operators.
- › Project EASY RES (Enable Ancillary Services By Renewable Energy Sources) is designed to study the various dispersed energy sources in an environment with a large number of dispersed sources.

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

Figure 35: Information on the number of project documentation made from 2015 to 2019



5.7 Other services under the Contract with SODO

In addition to development, investments and maintenance Elektro Gorenjska Company also performs the following activities under the Contract with SODO:

› **Management and operation of the electricity distribution network**

In the field of announced customer interruptions we focused on optimizing the shutdowns and joining the work into one planned shutdown. We encouraged maintenance by the method of live work (DNP) and thus significantly influence the continuity of supply indicators (*5.5 Maintenance of energy facilities*). In 2019 we started processing the calculation of power supply continuity indicators on a daily basis. As the first of all Slovenian electricity distribution companies, we succeeded in calculating daily uninterrupted power supply indicators at the beginning of 2020. In this way we will also calculate indicators for year 2019.

› **Implementation of electricity measurement**

In the field of electricity measuring, we continued with the accelerated installation of AMI meters in accordance with the plan for the introduction of the advanced metering system. Thus, in 2019, we installed an additional 11,592 of advanced electronic meters with G3 technology. At the end of the year, 67,021 measuring points were included in the system of remote reading and monthly billing. Share of remotely read measuring points thus reached 66.6 %. As part of the maintenance plan for measuring devices, regular replacement of meters or statistical sampling was executed, where populations successfully passed all tests.

› **Implementation of access services and other services for the user, connection of users**

In the field of user connection, in 2019, the company provided services on average in significantly shorter periods than prescribed by law. Connection of self-sufficient power plants was a special challenge, mainly due to frequent changes and amendments to sectoral legislation. We were the first in Slovenia to carry out the procedure of connecting a group self-sufficiency. Number of issued documents in the connection procedures in 2019 was by 6 % lower than in 2018, but still by 30 % higher than in 2015. Fast course of procedures is the result of optimizing the procedures of issuing the documents and employee commitment. In the field of network access, the Company provided network charge billing and data change services at metering points in accordance with sectoral legislation. Number of services provided is comparable with the number of services in previous year. Based on improvements in information support and work processes, we increased the quality and speed of services provided.

5.8 Market services

In accordance with the development plans, we are making the necessary investments in the electricity network, with which we are providing a reliable and quality electricity supply to users in Gorenjska region.

Both EU and Slovenia have committed themselves to relatively ambitious goals in the field of efficient energy use (hereinafter: URE), increasing the use of renewable energy sources (hereinafter: OVE) and reducing greenhouse gas emissions. In accordance with the guidelines, Elektro Gorenjska Group also offers various market services to end users, and in the coming years the range of comprehensive energy solutions that will promote URE and OVE will be further increased.

Market services offered by Elektro Gorenjska Group are classified in the following sections:

› **Comprehensive design services**

For users we create complete project documentation for all electricity power facilities, underground and overhead power lines of all voltages, transformer stations (TP, RP, RTP), and low-voltage connecting conduits with account measurements. We advise and help in preparing main files and urbanism of energy facilities, planning of cogeneration units, hydro power and solar power plants, projects for public and street lighting, preparation of projects for electricity infrastructure of industrial, commercial, trade and/or residential zones, and we also cooperate in preparation of electrical installations in buildings.

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

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

In the field of electricity power facilities and devices maintenance we offer contractual implementation of regular checks, measurements and audits of transformer stations, connection-measuring points, devices and lines on the low- and medium-voltage level by monitoring operational state and record keeping. Currently, we have concluded 82 such contracts, on the basis of which we maintain 79 transformer stations and 49 low voltage connecting and measuring stations of foreign ownership. We offer users also implementation of live work on low-and medium-voltage levels.

› **Implementation of various types of measurements**

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

› **Efficient energy use projects**

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

› **Energy management**

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

In 2017, we upgraded the application in terms of a reporting system in order to make the application a unique tool for physical and cost management of energy flows in buildings. Currently, the system is in the process of further development of an application that will also provide energy accounting services.

› **E-mobility**

E - mobility represents a relatively new concept of sustainable and environmentally friendly mobility. Strategic development of the infrastructure and networks of electric vehicles are also encouraged by the European Union with the directives and objectives to which they are committed by all EU members, as well as Slovenia with its vision of the transition to a low-carbon society by 2050. In the area of greenhouse gas reduction, one of the European Union's (EU) targets is also 20 million electric vehicles on world roads by 2020. In 2015, we invested in building the first green station for quick charging of electric cars on the location of the shopping centre Merkur Primskovo in Kranj. In addition to this charging station, there are 19 more stations that we own or operate. In 2017 we established a back office and connected to the SUPP system managed by Elektro Ljubljana. We plan to further increase of our own network of e-charging stations, and offer the e-charging stations management also to the wider market. In 2019, a billing system for e-charging stations was set up named "Let's go for electricity" ("Gremo na elektriko").

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

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

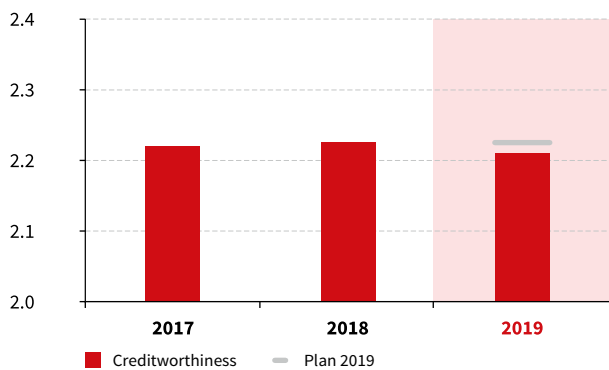
› **Other market services**

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

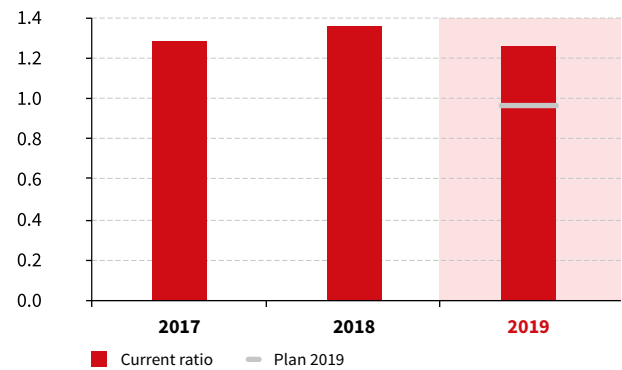
5.9 Financial performance criteria of the Group

5.9.1 Significant indicators

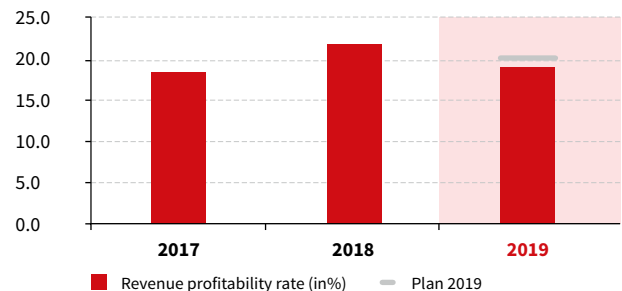
Safe level of indebtedness of the Group is monitored by the indicator, which expresses the ratio of **NET FINANCIAL DEBT / EBITDA**. As at December 31 2019 this amounted to 2.2, which is by 0.1 percentage point less than at the end of 2018 and on the level of planned. Degree of unacceptable indebtedness represents the value of the indicator that would exceed the value of 3.5. This commitment is used by some of the banks in the existing credit agreements.



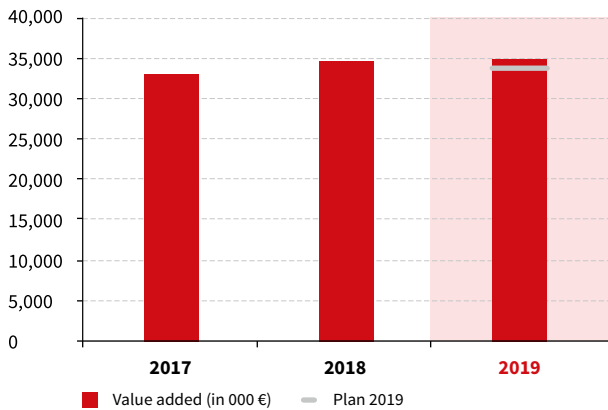
Current ratio shows the solvency. In comparison with 2018 it is by 0.1 percentage points lower and by 0.3 percentage points higher than plan for 2019. Recommended value of the current ratio is equal to 1. Main activity of the Group is the provision of services for SODO and transmitting electricity infrastructure in the lease, under which we have provided the major part of regular monthly inflows, so we believe that the value of the indicator below 1 is still adequate and would not pose problems to the Group in terms of its liquidity. Value of the indicator is largely influenced by short-term financial obligations, which represent the short-term part of long-term loans (amounts, which in accordance with the depreciation plans of loans mature throughout the next year and are smoothly and without delays settled from a positive operating cash flow), which are hired to provide constant investment in electricity infrastructure.



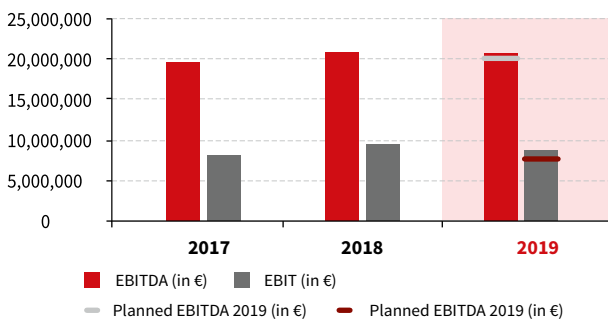
Profit ratios tell us that the Group generated profits of 19.3 € per 100 € of achieved revenue, which was 3.0 € of profit less than in 2018 and 1.2 € of profit less than planned.



Value added was in the group Elektro Gorenjska in relation to 2018 higher by 0.1% as a result of higher revenues from the sale of electricity. Compared with the planned one it is by 2.9 % higher, which is the result of higher revenues from the sale of electricity, higher revenues from construction for the market and lower costs of goods, material and services. Share of labour costs in value added in 2019 amounted to 37.9 % and was compared to 2018 lower by 1.3 percentage point as a result of higher value added.

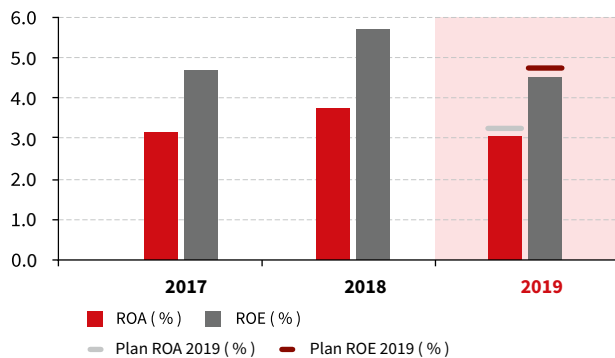


EBITDA as a proxy cash flow was in 2019 by 113 thousand € lower than in 2018 and by 465 thousand € higher than planned. **EBIT** as a result of the operations is by 821 thousand € lower than in 2018 and by 22 thousand € higher than planned. Profit before taxes was by 1,438 thousand € lower than in 2018 and by 409 thousand € lower than planned. Lower profit before tax, EBIT and EBITDA in 2019 compared to year 2018 were mainly due to lower operating revenues, namely the revenues under the contract with SODO (because of the new Legal Act on the methodology for determining the regulatory framework and network charges for the electricity distribution system).



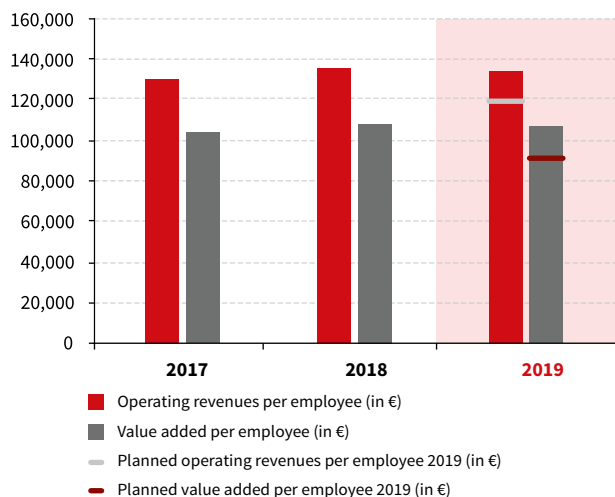
Values of the indicators **ROA** and **ROE** is relatively low, but in regards of the industry, and regulation, in which the Group operates, they are above average. It is a fact that the values of the indicator ROA adversely affect constant investments. At the same time it must be emphasized that only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

Reliability of power supply on the distribution network is measured by the indicators SAIDI and SAIFI (more on quality is explained in chapter 5.3 - *Quality of electricity supply*), the value of which is the best among the distribution companies and is the result of constant investment in electricity infrastructure. In order for the Group to achieve value of ROA indicator higher by 0.1, it should realize either by 0.15 million € higher net profit or decrease the assets of the company by 3 million €.



Operating revenue per employee in year 2019 amounted to 140,040 € and were by 1.3 % lower than in year 2018 and by 2.6 % higher than planned. Compared to the ones reached in 2018, they are lower due to lower revenues under the Contract with SODO (because of the new Legal Act on the methodology for determining the regulatory framework and network charges for the electricity distribution system).

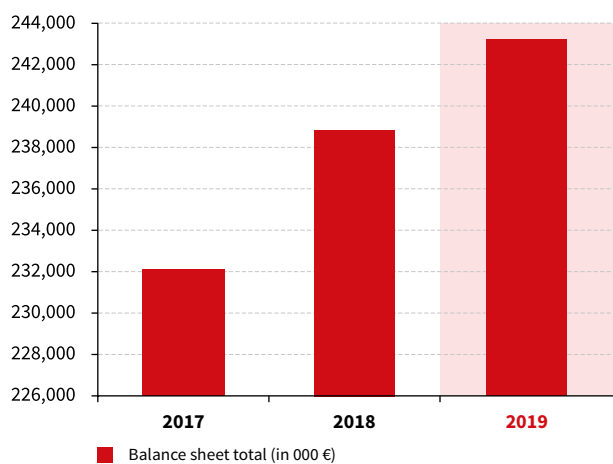
Value added per employee in year 2019 amounted to 111,176 € which is similar to the one in 2018 and by 1.9 % more than planned.



5.9.2 Structure of assets and liabilities

Group's balance sheet total of 243 million € at the end of 2019 is increasing year by year.

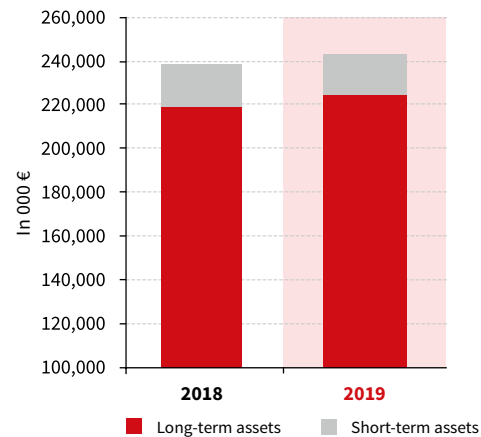
Figure 36: Changes in balance sheet total in the period 2017-2019



Assets

On the last day of year 2019 the assets of Elektro Gorenjska Group amounted to 243,140,554 € (31. 12. 2018: 238,792,693 €) and have increased by 1.8 % compared to the balance on the last day of year 2018. Long-term assets increased by 2.3 % in year 2019, while short-term assets decreased by 3.8 %.

Figure 37: Structure of assets as of 31. 12. 2018 and 31. 12. 2019



Long-term assets represent 92.8 % of all Group's assets. Among them tangible fixed assets representing 95.0 % of all long-term assets are the most important. Value of tangible fixed assets increased by 2.3 % or by 4,869 thousand € in year 2019.

Besides tangible fixed assets long-term assets also consist of the following categories (explained in more detail in chapter *12 – Notes on statement of financial position*):

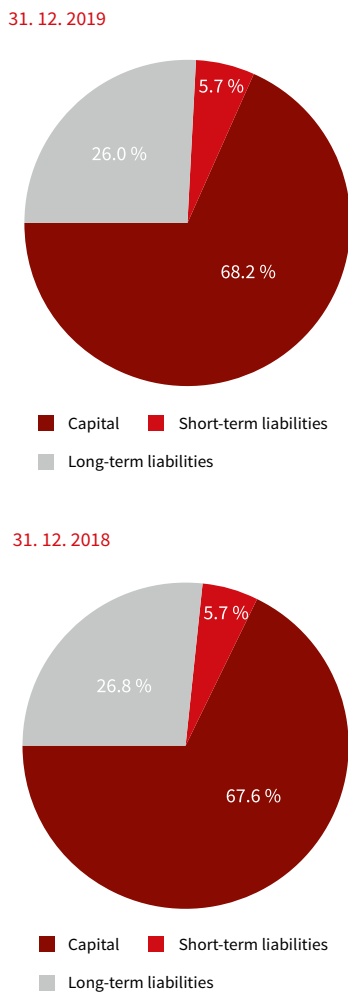
- › intangible fixed assets, which increased by 28.5 % or by 402 thousand € in 2019,
- › investment property, whose value decreased by 2.8 % or 51 thousand € in 2019,
- › long-term financial investments, whose value decreased by 3.5 % or by 264 thousand € in 2019,
- › long-term operating receivables, which increased by 165.4 % or by 133 thousand € and
- › other long-term assets in the amount of 88 thousand €.

Capital and debts

As at December 31 2019 Elektro Gorenjska Group reached a ratio between equity and debt capital in the amount of **2 : 1**, which is similar as at the end of year 2018.

In the structure of liabilities capital represents 68.2 % of the entire balance sheet total. In year 2019, capital increased by 2.8 % or by 4,576 thousand €. Long-term liabilities, mostly long-term banking credits, represented as of 31. 12. 2019 26.0 % of all funds. In year 2019 they decreased by 1.0 % . 660 thousand €. Short-term liabilities represented 5.7 % of all funds and have increased by 3.2 % or 432 thousand € in year 2019.

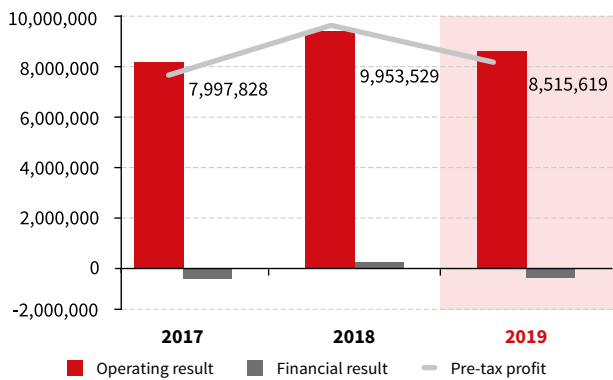
Figure 38: Structure of funds as of 31. 12. 2019 and 31. 12. 2018



5.9.3 Structure of revenue and expenditure

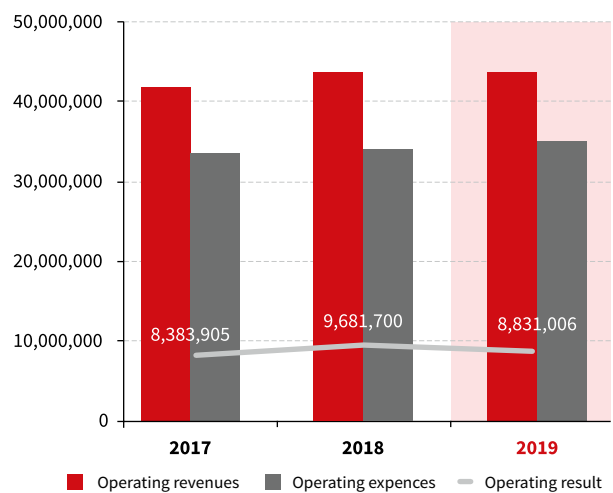
In year 2019 Elektro Gorenjska Group achieved a pre-tax profit in the amount **8,515,619 €**.

Figure 39: Composition of profit or loss (in €)



As can be seen from the picture above, profit before tax is mainly affected by the operating profit, above all the distribution activities which Elektro Gorenjska Company implements under the Contract with SODO and electricity production.

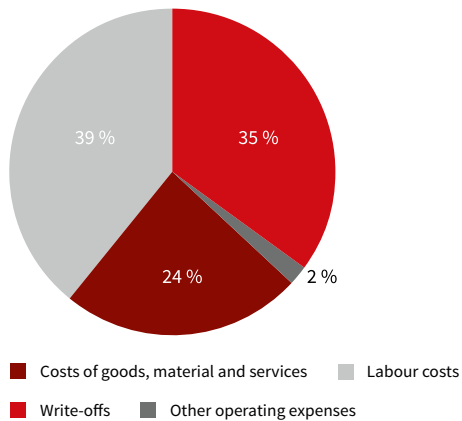
Figure 40: Operating profit or loss in period 2017-2019 (in €)



Operating profit or loss for year 2019 amounted to 8,861,006 €. Compared to year 2018 it was by 821 thousand € lower, due to higher operating expenses. Somewhat worse operating result was mainly due to higher labor costs and higher write-off of values.

Structure of operating expenditure for years 2019 and 2018 is shown in the figure below:

Figure 41: Structure of operating expenditure 2019



2018

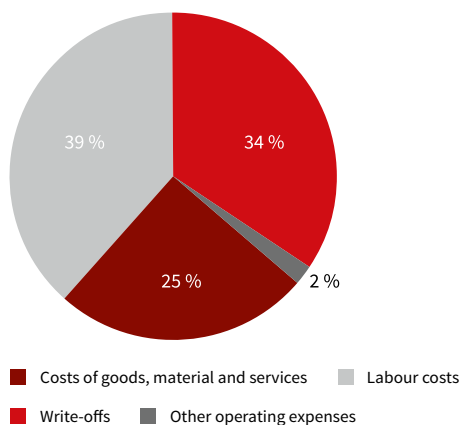
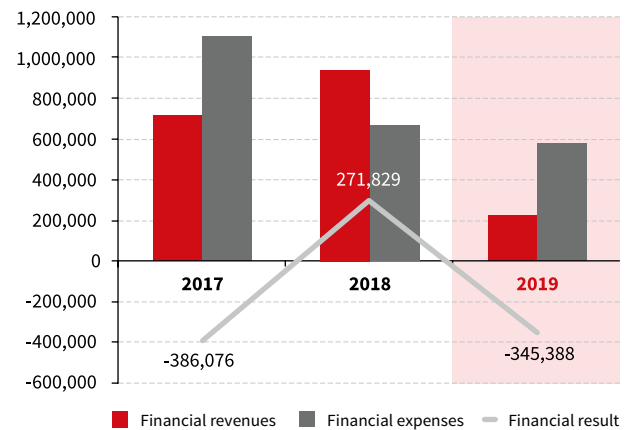
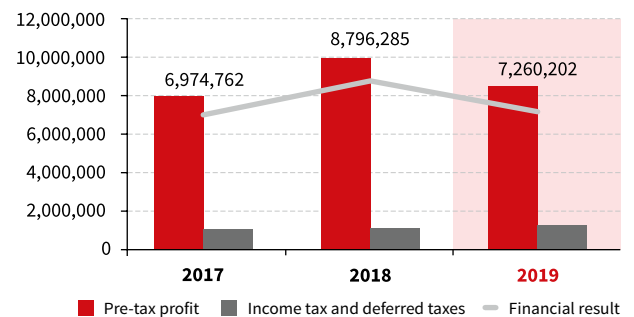


Figure 42: Financial result in period 2017–2019 (in €)



Financial result in year 2019 was negative and it amounted to 345,388 €. Negative result in years 2019 and 2017 was mainly influenced by interest for loans received from banks for financing investment. In 2018 the group realized a positive financial result in the amount of 271,829 €. Positive result is mainly influenced by recognized profit or loss of investments, valued using the equity method.

Figure 43: Net profit in period 2017–2019 (in €)



Pre-tax profit and net profit of the Group in 2019 were slightly lower than in 2018 and higher than in 2017.

5.9.4 Cash flow statement

Table 15: Change in cash and cash equivalents

	2019	In € 2018
Cash flows from operating activities	21,288,235	20,568,391
Cash flows from investing	-15,945,912	-21,020,051
Cash flows from financing activities	-3,823,448	-1,872,677
Change in cash and cash equivalents	1,518,875	-2,324,337

In 2019 Group Elektro Gorenjska increased the value of cash and cash equivalents by 1.5 million €, as the positive cash flow from operating activities was higher than the negative cash flows from investing and financing activities.

Negative cash flow from investing was due to investments, as the industry in which the Elektro Gorenjska Group operates is technologically very intensive. New acquisitions of intangible and tangible assets were mainly financed by drawing on a long-term loan (6 million €), and by the positive cash flow from operations. Outflows from financing activities mainly represent expenditures for the repayment of loans and interest, and payment of dividends.

6

Sustainable development



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

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

6.1 Care for employees

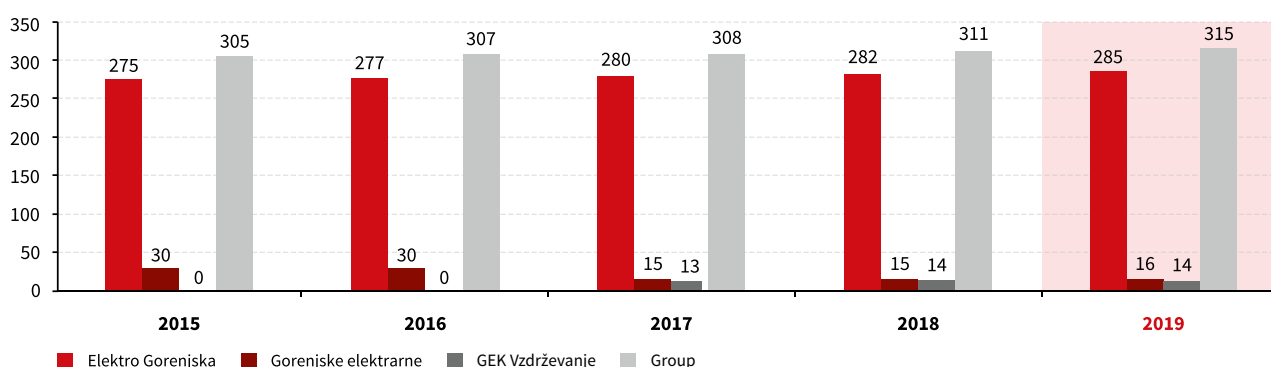
Carefully planned recruitment policy, striving for continuous development and education of employees, effective reward system, and monitoring the commitment and employee satisfaction, are the main guidelines of the personnel management in the group Elektro Gorenjska. Our employees are our strategic advantage, so colleagues are stimulated to follow the Group's strategy and to be innovative in searching for new opportunities and discovering new ways. This way we are able to identify opportunities more quickly and adapt to change. We respect equality, open information and mutual cooperation. We place great emphasis on interpersonal communication. Collaboration among employees actively creates the best conditions for work, including conditions to facilitate the achievement of personal and business goals. We want every employee in the Group to do what they are best at.

6.1.1 Demographic structure in the Group

On December 31 2019 Elektro Gorenjska Group had 315 employees. Compared to the situation as at December 31 2018, number of employees increased by four workers. On December 31 2019 the Group had 6.67 % of employees employed with fixed-term employment, which is by a poor 1 percent less than in year 2018.

At the end of year there were 78.73 % of men and 21.27 % of women employed in the Group. Percentage is entirely comparable with the previous years and closely connected with the primary activity of all three companies. Average age of employees in the Group has been increasing in the past years. At the end of the year it was 45.4 years, which is by 0.8 year more according to the previous year. Analysis of groups of employees according to age shows that in year 2019 there were the most employees in the age group between 46 and 55 years, namely 33 % of all employees.

Figure 44: Changes in the number of employees in the period from 2015 to 2019



6.1.2 Employment

Human resources planning is a constituent part of strategic and annual plan. We seek to gain ambitious and professional new workers. In the process of selection and choice of employees to all candidates we provide equal opportunities, regardless of gender or other circumstances.

Development, advanced technologies, changes, and needs of the work process request more and more of knowledge and high level of competence of our employees therefore we mainly employ highly educated staff. Throughout the years we have been keeping the high share of employees from electro-technical fields and of electro-technical and engineering fields in Gorenjske elektrarne Company and GEK Vzdrževanje Company, as they are closely related to the main activities of the companies.

Fluctuation of personnel in the Group is small. Fluctuation mainly emerges due to departure of workers for retirement and to lower extent also due to fixed-term employments.

Table 16: Fluctuation rate in Elektro Gorenjska Group

	2015	2016	2017	2018	2019
Elektro Gorenjska	2.83 %	2.82 %	2.10 %	2.77 %	1.42 %
Gorenjske elektrarne	6.25 %	3.23 %	11.76 %	6.25 %	0.00 %
GEK Vzdrževanje	--	--	13.33 %	7.14 %	6.67 %
Group	3.17 %	2.86 %	3.14 %	3.73 %	1.56 %

On 31. 12. 2019 there were eight disabled persons employed in the Group. In accordance with the statutory quota of employing disabled persons, which amounts to 6 % for electricity supply activity, Elektro Gorenjska Company would have to employ 17 disabled persons monthly. In year 2019 by signing the contract with two social enterprises Elektro Gorenjska made use of the possibility of claiming replacement quota fulfilment for a total of 44 disabled persons.

6.1.3 Education and educational structure of employees

Much attention is given to the appropriate staff education. Employees receive various forms of education and vocational training, with a large proportion of them being in the field of health and safety at work. Because of the specific branch in which we operate, the employees are obliged to regularly restore the professional examinations required by the work with power supply equipment. Within the strategic project Managing of the organizational culture 2016 – 2020 or the strategic projects Organizational culture and committed employees in the revised strategy of the Group 2018-2022, in year 2019 we continued with trainings for the Heads in the field of managing the soft skills.

Table 17: Educational structure of employees in Elektro Gorenjska Group as at 31. 12. 2019

Level of education 31. 12. 2019	Elektro Gorenjska		Gorenjske elektrarne		GEK Vzdrževanje		Group	
	Number	Structure (%)	Number	Structure (%)	Number	Structure (%)	Number	Structure (%)
doctoral level (9)	3	1.1 %	1	6.3 %	0	0.0 %	4	1.3 %
master's degree (8)	17	6.0 %	2	12.5 %	0	0.0 %	19	6.0 %
university level (7/2)	56	19.6 %	8	50.0 %	1	7.1 %	65	20.6 %
graduate level (7/1)	43	15.1 %	2	12.5 %	1	7.1 %	46	14.6 %
post-secondary level (6)	50	17.5 %	2	12.5 %	0	0.0 %	52	16.5 %
secondary level (5)	70	24.6 %	1	6.2 %	8	57.1 %	79	25.1 %
three-year vocational level (4)	46	16.1 %	0	0.0 %	4	28.6 %	50	15.9 %
two-year vocational level (3)	0	0.0 %	0	0.0 %	0	0.0 %	0	0.0 %
primary school (1)	0	0.0 %	0	0.0 %	0	0.0 %	0	0.0 %
TOTAL EMPLOYEES	285	100.0 %	16	100.0 %	14	100.0 %	315	100.0 %

Average level of education in Elektro Gorenjska Group as at December 31 2019 amounted to 6.22 - with level 6 representing high-school education.

6.1.4 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 and development opportunities, that is why knowledge and skills of the employees are remunerated by measuring their competences, advising and with progress of their professional career. This way we try to preserve high level of motivation and increase competitiveness of the internal labor market.

We have been conducting annual interviews, which are an opportunity for an in-depth conversation with a colleague at least once a year, for more than a decade. Interviews are a rough estimate of the achievement of the objectives, tasks and competences for the past period and the setting of objectives for the next year as well as a plan of training and development of employees.

Individual work performance of employees is determined on the basis of an assessment after an annual interview. Level of achievement of set goals, expected behaviours and knowledge and competencies is determined.

We encourage employees to innovations and finding new solutions. Level of self-initiative in the field of making rationalization or innovation proposals has significantly increased due to the adopted systematic measures in this field, in particular the adopted rules on innovation and additional stimulation.

6.1.5 Organizational culture and employee commitment

We are carefully following the recruitment of competent, creative and highly committed employees at all levels. In accordance with the Strategy of the Elektro Gorenjska Group for the period 2018-2022 in year 2019 we paid special attention to the strategic project Organizational culture and the commitment of employees, whose goal is to create a constructive organizational culture among the employees. This means that we expect co-workers to get involved, cooperate with each other, take responsibility and focus on goals. We create an environment where employees live the values of the company, Heads know the features of their colleagues and guide them individually and accordingly, thus contributing to the implementation of the strategy.

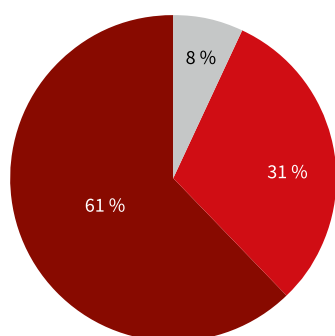
We make sure that employees feel comfortable in their working environment. Good atmosphere and wellbeing helps us to be successful, creative and precise in our work. Feedback on comprehension of a working environment and relations in the company is received from employees by anonymous survey on the satisfaction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

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

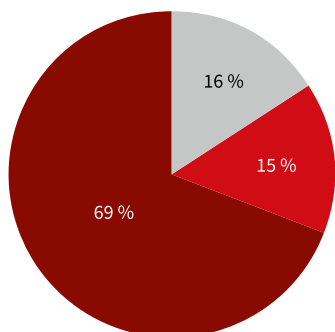
Level of commitment is measured for the entire Elektro Gorenjska Group, as for individual companies in the Group we measure in which percentile the company ranks, compared to the global database on commitment. Based on the performed measurements, the Group has a higher percentage of committed employees compared to other Slovenian organizations. Compared to the top third of the world's companies, we still have quite a few opportunities for improvement.

Figure 45: Commitment of employees rate at last measurement, compared with Slovenian and the best global organizations

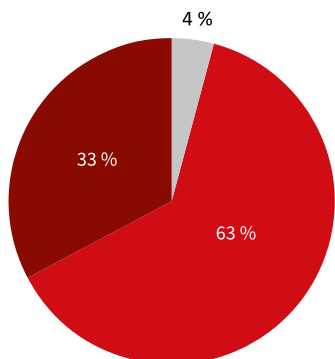
Elektro Gorenjska Group



Slovenian average



Gallup Top 33 %



■ Actively committed
■ Actively uncommitted
■ Uncommitted

6.1.6 Absence of employees

Absenteeism or longer absence from the workplace for the purpose of using sick leave is monitored annually. In 2019, in comparison with 2018, the value of refunded absences decreased by less than 18 % in Elektro Gorenjska Company. Non-refunded absences increased by more than 7 % compared to the previous year. In 2019 more employees benefited from sick leave at least once a year than in previous year, but these absences were of shorter nature. Compared to 2018, all types of absences in Gorenjske elektrarne decreased significantly, non-refunded to almost a third and refunded to 20 % of the past value. Compared to 2018, the values of absences in GEK Vzdrževanje Company almost doubled, mainly due to a larger number of long-term absences due to injuries outside work.

6.1.7 Relations between employees and management of individual companies

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

6.1.8 Communication with employees

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

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

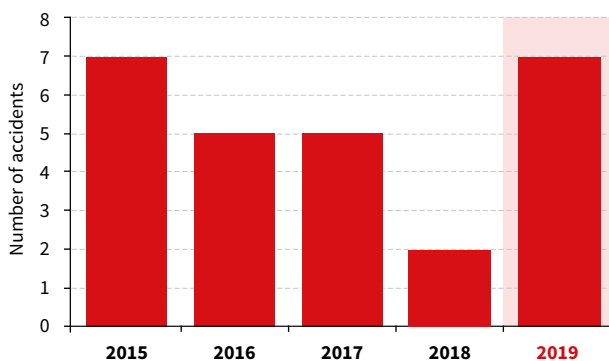
6.1.9 Health and safety at work

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

In 2019, seven injuries at work occurred in Elektro Gorenjska. They were all slight physical injuries. We would point out two injuries at work that happened while lifting the shaft covers with the fingers of workers being squeezed. Based on these two accidents, and in order to avoid further damage, we purchase a shaft lifting device that allows the shaft covers to be lifted without worker. We had no electrical accidents.

Following figure shows the number of accidents at work in Elektro Gorenjska Company in the past five years.

Figure 46: Number of accidents at work



6.2 Concern for the natural environment

Responsibility and care for the space in which the Elektro Gorenjska Group operates is one of our core values.

Proper and responsible environmental management is included in the strategic guidelines of Elektro Gorenjska Company. It is based on adopted environmental policies and sustainable development guidelines. Systematic approach to environmental management is provided within the Environmental Management Council on the basis of the principles of the ISO 14001:2015 standard, and the success of the results can be influenced by every employee in their everyday work, taking into account internal instructions. Results and progress in this area are monitored through 14 measurable environmental indicators. In 2019, we did not change them significantly. Most of their values are within the intended goals.

Objectives of the Environmental Management Council (SRO) are clear:

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

In addition to regular activities that include monitoring of changes in environmental legislation, introduction of necessary changes and optimizations in implementation processes, awareness raising of employees and external operators and implementation of environmental programs objectives, in year 2019 we successfully passed the external assessment according to standard ISO 14001:2015. Internal regulations in the field of environment were also reviewed and optimized in accordance with the strategic project of the company.

In 2019, we performed a minor rationalization of environmental aspects. Environmental aspect »Technological waste from work on measuring and control devices« was included in the environmental aspect »Construction and electrical waste«, which was expanded at the end of the year with effects of larger construction sites (noise, dust). We considered the potential environmental impacts of the new car air conditioning charging device in the vehicle fleet and found that they can be managed within the environmental aspect »Fluorinated greenhouse gas emissions«. For environmental impacts of electricity storage in the distribution network, which is temporarily connected to the transformer station TP Suha, we found that they are identical to the environmental impacts of batteries used for own use of larger power facilities and we already have them identified.

In 2019, we continued with the realization of environmental program goals relating to the sanitary and rainwater discharge. Objectives of the program are adjusted to the Decree on the discharge and treatment of urban wastewater, which from 31. 12. 2021 sets a deadline for the connection of facilities to the public sewerage network or the arrangement of small treatment plants and oil traps. In 2019, the discharge of waste water for the RP Naklo facility was arranged, including the waterproof septic tank and rainwater drainage. At the end of 2020, we plan to continue construction activities at the RTP Škofja Loka facility and in a nearby residential building, within which the arrangement of the wastewater drainage system is also planned. At the RTP/KN Tržič facility, the connection to the public network will be carried out after the construction of the municipal sewerage system.

Our successful work in the field of the environment in the past year is also shown in the fact that we did not record any extraordinary environmental events.

6.3 Care for the public interest – social responsibility

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

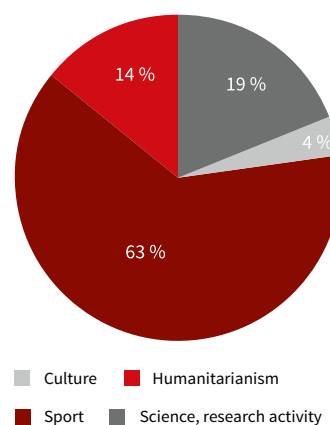
Sponsorships and donations

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

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

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

Figure 47: Sponsorships and donations of Elektro Gorenjska Group in year 2019



In year 2019 there was a total of 23,085 € of funds allocated to sponsorships and a total of 35,530 € to donation projects.

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

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

We communicate with our end users through:

- › free telephone line 080 30 19, which operates continuously 24 hours a day, every day of the year,
- › traditional and electronic mail and
- › application Moj EG account, available on the web site <https://racun.elektro-gorenjska.si/prijava>, with the help of which business users can govern activities in the field of network activity.

Contents is communicated to end users through media, our website and social media.

In accordance with accepted good corporate governance practices as defined by the governance codes, we follow the recommendations of the majority owner or the investment manager, as well as the current legislation, so all company's data, concluded deals, and sponsorship and donation projects are reported on the web site www.elektro-gorenjska.si/za_delnicarje and www.elektro-gorenjska.si/o-podjetju/katalog-informacij-javnega-znacaja.

Contents related to regulation and legislation, as well as arrangements between different institutions, is regularly and openly communicated with key influential public.

7

Events after the balance sheet date



There were no major events, except those presented in the Financial report (Chapter 21 - *Events after the balance sheet date*).

Consolidated Financial Report



8

Management responsibility statement



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



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

Management board of Elektro Gorenjska Company approved the financial statements of the Group prepared for the financial year 2019 on April 8 2020.

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

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

Kranj, April 8 2020

Chairman of the Board:
dr. Ivan Šmon, MBA



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 Slovenija

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

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

Opinion

We have audited the financial statements of Elektro Gorenjska group (the group), which comprise the statement of financial position of the group as at December 31, 2019 and the profit and loss account of the group, statement of other comprehensive income of the group, statement of changes in equity the group and statement of cash flows of the group for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion the accompanying financial statements present fairly, in all material respects, the financial position of Elektro Gorenjska group as at December 31, 2019, and its financial performance, comprehensive income and cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by EU.

Basis for Opinion

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

Other information

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

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

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

Responsibilities of Management and Supervisory Board for the Financial Statements

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

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

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



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

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

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

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

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

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

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

Ljubljana, April 17, 2020

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

(Signature on original Slovene independent auditor's report)

Maruša Hauptman,
Certified auditor, procurator

10 Financial statement of Elektro Gorenjska Group for business year ended as at 31. 12. 2019



10.1 Statement of financial position of Elektro Gorenjska Group as at 31. 12. 2019

ITEM	Note	In €	
		31. 12. 2019	31. 12. 2018
ASSETS			
Long-term assets		225,585,936	220,543,223
Intangible assets	12.1	1,809,794	1,408,216
Tangible fixed assets	12.2	214,353,345	209,484,786
1. Land and buildings		155,033,490	150,354,413
2. Production plant and equipment		56,033,924	55,773,388
3. Other plant and equipment		538,843	542,029
4. Tangible fixed assets in acquisition		2,747,088	2,814,956
Investment property	12.3	1,762,990	1,813,588
Long-term financial investments	12.4	7,358,730	7,622,874
1. Long-term financial investments, excluding loans		7,152,115	7,480,076
b) Financial investments calculated using the equity method		7,152,115	7,480,076
c) Other shares and stakes		0	0
2. Long-term loans		206,615	142,798
b) Long-term loans to others		206,615	142,798
Long-term operating receivables		213,402	80,408
Other long-term assets		87,675	104,847
Deferred tax assets		0	28,504
Short-term assets		17,554,618	18,249,470
Assets (group for disposal) for sale	12.5	138,796	381,264
Stocks	12.6	601,289	363,106
Short-term financial investments	12.7	988,632	1,800,835
1. Short-term financial investments, excluding loans		181,670	835
2. Short-term loans		806,962	1,800,000
b) Short-term loans to others		806,962	1,800,000
Short-term operating claims	12.8	7,689,979	9,220,679
Other short-term assets	12.9	240,686	118,144
Cash and cash equivalents	12.10	7,895,236	6,365,442
TOTAL ASSETS		243,140,554	238,792,693

Statement of financial position of Elektro Gorenjska Group as at 31. 12. 2019 (continued from previous page)

ITEM	Note	In €	
		31. 12. 2019	31. 12. 2018
LIABILITIES			
Capital	12.11	165,914,359	161,338,484
Called-up capital		104,136,615	71,898,061
Capital reserves		45,973,479	45,944,898
Profit reserves		9,162,865	37,099,229
Other reserves		-267,183	-163,464
Retained profit or loss		6,908,583	6,559,760
Long-term liabilities		63,298,016	63,957,608
Provisions	12.12	8,942,104	8,827,319
Long-term financial liabilities	12.13	46,910,199	48,332,599
Long-term operating liabilities		363,728	17,969
Other long-term liabilities	12.14	6,803,353	6,540,190
Deferred tax liabilities	12.15	278,632	239,531
Short-term liabilities		13,928,179	13,496,601
Short-term financial liabilities	12.16	7,699,711	6,574,020
Short-term operating liabilities	12.17	4,975,068	5,792,670
Liabilities for income tax		166,642	176,640
Other short-term liabilities	12.18	1,086,758	953,271
TOTAL LIABILITIES		243,140,554	238,792,693

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

10.2 Profit or loss account of Elektro Gorenjska Group for business year ended as at 31. 12. 2019

ITEM	Note	2019	In € 2018
Net sales revenue	13.1	37,853,514	37,316,975
Capitalized own products and services	13.2	5,033,533	5,325,998
Other operating revenues	13.3	969,348	1,111,025
Costs of goods, material, and services		8,502,446	8,553,687
a. Costs of goods sold and material used	13.4	4,715,848	4,673,486
b. Costs of services	13.5	3,786,598	3,880,201
Labor costs	13.6	13,527,188	13,087,130
Amortization/depreciation expense	13.7	12,428,932	11,720,804
Other operating expenses	13.8	536,822	710,676
Financial revenues from shares		6,991	6,901
č. Financial revenues from other investments		6,991	6,901
Financial revenues from given loans		2,059	729
Financial revenues from operating claims		21,194	26,500
Financial expenses from impairments and financial investment write-offs		0	30,105
Financial expenses from financial liabilities	13.9	514,787	582,994
Financial expenses from operating liabilities		50,754	53,716
Recognized profit or loss of investments, valued using the equity method	13.10	189,909	904,513
ENTIRE PROFIT OR LOSS		8,515,619	9,953,529
Income tax	13.11	1,187,812	1,114,004
Deferred taxes	13.12	67,605	43,240
NET PROFIT OR LOSS OF THE ACCOUNTING PERIOD		7,260,202	8,796,285

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

10.3 Statement of other comprehensive income of Elektro Gorenjska Group for business year ended as at 31. 12. 2019

TITLE	2019	In € 2018
1. Net profit or loss of the accounting period	7,260,202	8,796,285
2. Items of other comprehensive income (other than amounts under the equity method) that will not be subsequently reclassified to profit or loss	-91,077	-66,447
- Actuarial gains and losses	-91,077	-66,447
3. Items of other comprehensive income (excluding amounts under the equity method) that will subsequently be reclassified to profit or loss on the basis of the fulfillment of special conditions	0	14,156
- Effective portion of gains and losses from hedging instruments in hedging cash flows from risk	0	14,156
4. Share of other comprehensive income of associates and joint ventures accounted for using the equity method, which will not be subsequently reclassified to profit or loss	-2,229	1,519
TOTAL COMPREHENSIVE INCOME OF THE ACCOUNTING PERIOD	7,166,896	8,745,513

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

10.4 Cash flow statement of Elektro Gorenjska Group for business year ended as at 31. 12. 2019

ITEM	Year 2019	In € Year 2018
A. OPERATING CASH-FLOW		
a. Operating receipts	46,592,471	46,012,694
1. Receipts from sales of products and services	45,593,907	45,232,112
2. Receipts from income tax	0	66,094
3. Other operating receipts	998,564	714,488
b. Operating expenditure	-25,304,236	-25,444,303
1. Expenditure for purchase of material and services	-6,634,806	-8,220,719
2. Expenditure for salaries and employees profit shares	-9,823,369	-9,417,431
3. Expenses for income tax	-1,197,810	-1,090,065
4. Expenditure for other duties	-4,165,694	-3,440,225
5. Other operating expenditure	-3,482,557	-3,275,863
c. Positive or negative cash flows from operating activities (a+b)	21,288,235	20,568,391
B. CASH FLOWS IN INVESTING ACTIVITIES		
a. Receipts in investing activities	3,040,226	3,123,193
1. Receipts from received interest and profit shares of others	538,278	550,740
3. Receipts from disposal of tangible fixed assets	57,429	70,265
4. Receipts from disposal of investment property	579,764	167,042
5. Receipts from disposals of financial investments	1,864,755	2,335,146
b. Expenditure in investing activities	-18,986,138	-24,143,244
1. Expenses for acquisition of intangible assets	-522,902	-467,624
2. Expenses for acquisition of tangible fixed assets	-17,103,189	-20,586,866
3. Expenses for acquisition of investment property	-81,327	-60,424
4. Expenses for acquisition of financial investments	-1,124,912	-3,028,330
5. Expenses for purchase of subsidiaries	-153,808	0
c. Positive or negative cash flow from investing activities (a+b)	-15,945,912	-21,020,051
C. CASH FLOWS IN FINANCING ACTIVITIES		
a. Receipts in financing activities	6,038,320	18,315,000
2. Receipts from increase in financial liabilities	6,038,320	18,315,000
b. Expenditure in financing activities	-9,861,768	-20,187,677
1. Expenditure for given interest referring to financing activ.	-524,236	-908,411
3. Expenditure for repayment of financial liabilities	-6,746,511	-16,860,979
4. Expenditure for dividend and other profit share payment	-2,591,021	-2,418,287
c. Positive or negative cash flow from financing activities (a+b)	-3,823,448	-1,872,677
Č. CLOSING CASH BALANCE	7,895,236	6,365,442
x. CASH FLOW FOR THE PERIOD (Ac+Bc+Cc)	1,518,875	-2,324,337
y. CASH GAINED BY MERGER	10,919	0
y. OPENING CASH BALANCE	6,365,442	8,689,779

Explanatory notes in Chapter 15. – *Notes to the cash flow statement* are part of the financial statements and should be read in conjunction with them.

10.5 Statement of changes in equity of Elektro Gorenjska Group for the business year ended as at 31. 12. 2019

a) From January 1 2019 to December 31 2019:

	Capital reserves					Profit reserves			Other reserves	Retained profit or loss		TOTAL CAPITAL	
	I./1.	II.		III./1.	III./2.	III./3.	III./4.	III./5.		IV./3.	V.		
		Share premium account	Cap. res. from reduction of share cap. by withdrawal of shares								General capital valuation adjustment		Statutory reserves
Events in individual capital													
Balance as of december 31 2018	71,898,061	1	0	45,944,897	25,077	-25,077	34,084,984	34,084,984	-163,464	3,090,186	3,469,574	161,338,484	
Balance as of January 1 2019	71,898,061	1	0	45,944,897	25,077	-25,077	34,084,984	34,084,984	-163,464	3,090,186	3,469,574	161,338,484	
Changes in equity capital – transactions with owners	0	0	0	0	0	0	0	0	0	-12,964	-2,578,057	-2,591,021	
Dividend payment		0	0	0	0	0	0	0	0	-12,964	-2,578,057	-2,591,021	
Total comprehensive income of reporting period	0	0	0	0	0	0	0	0	-93,306	0	7,260,202	7,166,896	
Entry of net profit or loss for the reporting period	0	0	0	0	0	0	0	0	0	0	7,260,202	7,260,202	
Items of other comprehensive income (except under the equity method) that will not be reclassified to profit or loss later	0	0	0	0	0	0	0	0	-91,077	0	0	-91,077	
Actuarial gains and losses	0	0	0	0	0	0	0	0	-91,077	0	0	-91,077	
Share of other comprehensive income calculated under the equity method that will not be reclassified to profit or loss later	0	0	0	0	0	0	0	0	-2,229	0	0	-2,229	
Changes within capital	32,238,554	0	28,581	0	-25,077	25,077	-28,315,467	917,941	-10,413	-5,238,299	0	0	
Allocation of remaining part of net profit of the comparative reporting period to other capital items	0	0	0	0	0	0	9,066	0	0	882,451	-891,517	0	
Allocation of part of net profit of reporting period to other items of capital following the decision of the management and control	0	0	0	0	0	0	3,967,679	0	0	0	-4,346,782	0	
Release of reserves for own shares and allocation into other components of capital	0	0	0	0	-25,077	0	0	0	0	25,077	0	0	
Increase in share capital from other profit reserves	32,292,212	0	0	0	0	0	-32,292,212	0	0	0	0	0	
Withdrawal of own shares - decrease in share capital by withdrawal of own shares into capital reserves	-53,658	0	28,581	0	0	25,077	0	0	0	0	0	0	
Transfer of actuarial gains/losses due to departures of employees, to profit/loss brought forward	0	0	0	0	0	0	0	0	-10,413	10,413	0	0	
BALANCE AS OF DECEMBER 31 2019	104,136,615	1	28,581	45,944,897	0	3,393,348	0	5,769,517	-267,183	3,995,163	2,913,420	165,914,359	

Explanatory notes in Chapter 12.11 – Capital are part of the financial statements and should be read in conjunction with them.

b) From January 1 2018 to December 31 2018:

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

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Notes to the Consolidated financial statement



11.1 Reporting company and Group structure

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

Consolidated financial statements of Elektro Gorenjska Group for the year ended as at 31. 12. 2019, include:

- › 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. 2019 amounted to 18,723,617 €, €, net profit for year 2019 was 1,111,754 €,
- › company GEK vzdrževanje, Stara cesta 3, 4000 Kranj, which is in 100 % ownership of company Gorenjske elektrarne; capital of this company as at 31. 12. 2019 amounted to 152,381 €, net profit for year 2019 was 73 €,
- › company GE LES, Stara cesta 5, 4000 Kranj, which is in 100 % ownership of company Gorenjske elektrarne; capital of this company as at 31. 12. 2019 amounted to 130,084 €, net profit for year 2019 was 397 €,
- › associate company ECE, Vrnčeva 2a, Celje, which is in 25.6744 % ownership of the controlling company; capital of this company as at 31. 12. 2019 amounted to 18,406,620 €, net profit for year 2019 was 66,555 €,
- › associate company Soenergetika, Stara cesta 3, Kranj, which is in 25 % ownership of company Gorenjske elektrarne; capital of this company as at 31. 12. 2019 amounted to 1,822,059 €, net profit for year 2019 was 691,738 €.

In addition to the listed companies, Elektro Gorenjska Group also consists of the company Informatika d. d., in which the company Elektro Gorenjska holds 9.56 % stake. Due to insignificance, this company is not included in the consolidated financial statements of the Group.

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

11.2 Basis for compiling the consolidated financial statements

11.2.1 Statement of compliance

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

Management of Elektro Gorenjska Company approved the consolidated financial statements on April 8 2020.

11.2.2 Basis for measurement

Consolidated financial statements have been prepared on a historical cost basis, except in the case of receivables, which are recorded at amortized cost. Methods used to measure fair value are described in Chapter *11.4 – Determination of fair value*.

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

11.2.3 Functional and presentation currency

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

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

11.2.4 Use of significant estimates and judgements

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

Assumptions and estimates

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

- › Determination of useful lives of intangible and tangible fixed assets (please see chapters [11.3.2 – Intangible assets](#) and [11.3.3 – Tangible fixed assets](#))
- › Value adjustments of receivables (please see chapter [11.3.6 – Financial instruments](#))
- › Provisions estimate (please see chapter [11.3.10 – Provisions](#)).

Transactions with SODO Company

Transactions with company SODO are generally regulated by the Contract with SODO, which is presented in more detail also in the Business report, in chapter [3.10.5 – Contract with SODO](#).

In March 2020 the Elektro Gorenjska Company received a preliminary settlement of the regulatory year 2019 from SODO. Preliminary settlement for year 2019 was executed by SODO on the basis of the unaudited financial statements. Settlement shows that the already charged contractual value of services and rent in year 2019 was by 1,222,443 € lower than the value established on the basis of the preliminary settlement. On this basis the company in 2019 recognized additional revenue (short-term accrued revenues) in the amount of 1,222,443 €.

In year 2018 revenues established on the basis of preliminary settlement of the regulatory year 2018 were by 2,172,781 € higher than the already charged ones during the year. In year 2018 the Elektro Gorenjska Company therefore recognized additional revenue (short-term accrued revenues) in the amount of 2,172,781 €.

Elektro Gorenjska has not yet received the final settlement for the regulatory year 2018, but after the balance sheet date for 2019 it was informed of the facts before the decision was issued. From the established facts before the issue of the decision it results that the already charged value of rents and services was by 155,421 € higher than the value of the final settlement. As Elektro Gorenjska Company agreed with the established facts, it reasonably expects the final settlement of the regulatory year in the amount stated. On this basis, Elektro Gorenjska reduced its revenues by 155,421 € (long-term deferred revenues).

Final settlements for regulatory years 2018 and 2019 will be executed by SODO on the basis of the decision by the Energy Agency, which will take into account the revised data of both contracting parties. In case JARSE 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 JARSE decision.

Disputes in progress and related provisions

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

Adopted standards and interpretations that came into force as at 1. 1. 2019

In the current accounting period, the following amendments to existing standards and new interpretations issued by the International Accounting Standards Board (IASB) and adopted by the EU apply:

- › IFRS 16 – Leases (apply to annual periods beginning on or after January 1 2019),
- › Amendments to IFRS 9 – Financial instruments – Advance payment elements with negative compensation (apply to annual periods beginning on or after January 1 2019),
- › Amendments to IAS 19 – Employee benefits – Modification, limitation or settlement of the program (apply to annual periods beginning on or after January 1 2019),
- › Amendments to IAS 28 – Financial investments in associates and joint ventures – Long-term interest in associates and joint ventures (apply to annual periods beginning on or after January 1 2019),
- › Amendments to different standards due to IFRS Improvements (period 2015 – 2017), arising from the annual IFRS Improvement Project (IFRS 3, IFRS 11, IAS 12 and IAS 23), with primary purposes of eliminating the inconsistencies and interpreting the text (apply to annual periods beginning on or after January 1 2019),
- › IFRIC 23 – Uncertainty when dealing with income tax (apply to annual periods beginning on or after January 1 2019).

Adoption of these standards, changes to existing standards and interpretations did not entail significant changes to the Elektro Gorenjska Group's financial statements.

11.2.5 New accounting standards and interpretations not yet in force

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

- › Amendments to IAS 1 – Presentation of financial statements and IAS 8 – Accounting policies, changes in accounting estimates and errors – Definition of Material, adopted by EU on November 29 2019 (apply to annual periods beginning on or after January 1 2019),
- › Amendments to IFRS 9 – Financial instruments, IAS 39 – Financial instruments: recognition and measurement and IFRS 7 – Financial instruments: disclosures – Reform of reference interest rates adopted by the EU on January 15 2020 (apply to annual periods beginning on or after January 1 2019),
- › Amendments to the references to the conceptual framework in IFRS, adopted by the EU on November 29 2019 (apply to annual periods beginning on or after January 1 2019).

Elektro Gorenjska Group does not expect that the mentioned interpretations and amendments will have a significant effect on its consolidated financial statements.

Accounting Standards and Interpretations issued by the IASC, but not yet adopted by the EU

At present, the IFRS, as adopted by the EU, do not differ significantly from the regulations adopted by the International Accounting Standards Board (IASB), with the exception of the following new standards and amendments to existing standards, which were not yet adopted in the EU on April 9 2020 (the effective dates set out below apply to IFRS as issued by the IASB):

- › IFRS 17 – Insurance contracts (apply to annual periods beginning on or after January 1 2019),
- › Amendments to IFRS 3 – Business combinations – Definition of a business entity (effective for business combinations for which the acquisition date is the same as the start date of the first annual reporting period beginning on or after January 1 2020 and the acquisition of assets occurring at or after the beginning of that period).

We anticipate that the introduction of these new standards and amendments to existing standards during the period of initial application will not have a significant impact on the financial statements of Elektro Gorenjska Group.

Brief descriptions of new standards and amendments to new standards and interpretations

- › **IFRS 14 – Statutory postponement of payment of invoices**, issued by IASB on January 30 2014. Objective of the standard is to enable first-time IFRS adopters who currently recognize statutory deferrals in accordance with previous generally accepted accounting principles to continue with such recognition upon transition to IFRS.
- › **IFRS 16 – Leases**, issued by IASB on January 13 2016. Lessee recognized the right to use the asset and the lease liabilities in accordance with IFRS 16. Right to use an asset is treated in a similar way to other non-financial assets and is amortised accordingly. Lease liability is initially measured at the present value of the lease payments paid during the lease term, discounted at the implicit interest rate, if it can be determined immediately. If this rate cannot be determined immediately, the lessee must apply the assumed borrowing rate. As in IAS 17, which was replaced by IFRS 16, the lessor defines a lease as operating or financial depending on the nature of the lease. Lease is classified as finance lease if it transfers substantially all the risks and benefits connected to the ownership of the asset. All leases that are not financial are operating leases. In a finance lease, the lessor recognizes finance income over the lease term on a sample basis that reflects a constant periodic rate of return on the net investment. Payments made under operating leases are recognized by the lessor as revenue on a straight-line basis or, if the pattern previously reflects a reduction in the benefits or using the asset, using another systematic method.
- › **IFRS 17 – Insurance contracts**, issued by IASB on May 18 2017. New standard requires the measurement of insurance liabilities at the current values of performance and provides a more uniform method of measurement and presentation for all insurance contracts. Purpose of the requirements is to ensure consistent and principle-based accounting for insurance contracts. IFRS 17 replaces IFRS 4 – Insurance contracts and related interpretations.
- › **Amendments to IFRS 3 – Business combinations – Definition of a business entity**, issued by IASB on October 22 2018. Changes were introduced to improve the definition of a business entity. Amended definition highlights that the business entity's purpose is to provide goods and services to customers, while previous definition emphasized dividend returns, lower costs and other economic benefits for investors and other stakeholders. In addition to the amended wording, the Committee provided additional guidance on the definition.

- › **Amendments to IFRS 9 – Financial instruments – Advance payment elements with negative compensation**, issued by IASB on October 12 2017. Existing requirements of IFRS 9 regarding the right to terminate the contract are amended to allow measurement at amortized cost (or at fair value through other comprehensive income, depending on the business model) even in the case of negative compensation payments. According to the changes, signing the amount of the advance payment is not important – depending on the prevailing interest rate at the time of the interruption, the payment can also be made in favour of the contracting party who makes the early payment. Calculation of the compensation must be the same in the case of a penalty for early repayments well as in the case of a reward for early repayment. Amendments also include clarifications regarding the accounting for changes in financial liabilities that do not result in elimination of recognition. In this case, the carrying amount is adjusted for the result recognized in comprehensive income. Effective interest rate is not recalculated.
- › **Amendments to IFRS 9 – Financial instruments, IAS 39 – Financial instruments: recognition and measurement and IFRS 7 – Financial instruments: disclosures – Reform of reference interest rates**, issued by IASB on September 26 2019. Amendments in the reference interest rate reform:
 - a. amend the specific hedge accounting requirements so that companies can account for hedging assuming that the reference interest rate on which the hedged cash flows and cash flows from the hedging instrument are based will not change as a result of the reform of the reference interest rates;
 - b. are mandatory for all hedging relations directly affected by the reference interest rates reform;
 - c. are not intended to mitigate other consequences of the reference interest rates reform (if the hedging relation no longer meets the requirements for hedge accounting for reasons other than those specified in the amendments, hedge accounting should be discontinued) and
 - d. require specific disclosures about the extent to which amendments to the reform affect the hedging relations between the companies.

- › **Amendments to IFRS 10 – Consolidated financial statements and IAS 28 – Investments in associates and joint ventures – Sale or contribution of assets between an investor and its associate or joint venture**, published by IASB on September 11 2014. Amendments refer to the divergence of the requirements under IAS 28 and IFRS 10 and clarify that the scope of recognition of profit or losses in a transaction with an associate or in a joint venture depends on whether sold or the contributed assets represent a business entity.
- › **Amendments to IAS 1 – Presentation of financial statements and IAS 8 – Accounting policies, changes in accounting estimates and errors– Definition of Material**, published by IASB on October 31 2018. Amendments clarify the definition of the term material and how it should be included in the guidance on the definition.
- › **Amendments to IAS 19 – Employee benefits – Modification, limitation or settlement of the program**, issued by IASB on February 7 2018. Amendments require the use of updated re-measurement assumptions to determine current service cost and net interest for the remainder of the reporting period following the program change.
- › **Amendments to IAS 28 – Investments in associates and joint ventures – Long-term interest in associates and joint ventures**, published by IASB on October 12 2017. Amendments are intended to clarify that an entity applies IFRS 9, including impairment requirements, for long-term interests in an associate or joint venture that are part of a net investment in an associate or joint venture and for which the equity method does not apply. Amendments also eliminate paragraph 41, as in the Committee's view it merely repeated the requirements of IFRS 9 and caused confusion regarding the accounting for long-term interests.
- › **Amendments to different standards due to IFRS Improvements (period 2015 – 2017)**, published by IASB on December 12 2017. Amendments to different standards arise from the annual IFRS Improvement Project (IFRS 3, IFRS 11, IAS 12 and IAS 23), with primary purposes of eliminating the inconsistencies and interpreting the text.

Amendments contain the following interpretations: the entity re-measures its previous interest in the joint venture when it acquires control of the entity (IFRS 3); if an entity acquires joint control of a business entity, it shall not re-measure its previous interest in the joint venture (IFRS 11); company calculates all consequences of the payment of dividends on income tax in the same way (IAS 12); and the entity treats, as part of general loans, any loans that were originally intended to develop an asset, such as an asset capable of being used or sold.

- › **Amendments to the references to the conceptual framework in IFRS**, issued by IASB on March 29 2018. Due to the revision of the conceptual framework for IFRS, the IASB has updated the reference to it in IFRS. Document contains amendments IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22 and SIC-32. Purpose of amendments is to support the transition to a revised conceptual framework for companies that use this framework to develop their accounting policies when no IFRS standard applies to a particular transaction.
- › **IFRIC 23 – Uncertainty when dealing with income tax**, issued by IASB on June 7 2017. There may be uncertainty as to how tax law applies to a particular transaction or circumstance or whether the tax authority will accept the tax treatment in the company. IAS 12 Income tax sets out how current and deferred tax should be calculated, and not how the effects of the uncertainty should be reflected. IFRIC 23 complements the requirements of IAS 12 by specifying how the effect of uncertainty should be reflected in the calculation of income tax.

We anticipate that the introduction of the above new standards, amendments to existing standards and new interpretations during the period of initial application will not have a significant impact on the Group's financial statements.

11.3 Summary of significant accounting policies

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

11.3.1 Basis for consolidation

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

a. Subsidiaries

Subsidiaries are companies controlled by the Group. Control exists when the controlling company has the opportunity to decide on the financial and operating policies of the company in order to obtain benefits from its operations. Financial statements of subsidiaries are included in the consolidated financial statements of the Group from the date that control commences until the date that control ceases.

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

b. Associated companies

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

c. Transactions eliminated from the consolidated financial statements

In preparing the consolidated financial statements we eliminate balances, unrealized gains and losses resulting from intra-Group transactions. Unrealized gains on transactions with associated companies (accounted for under the equity method) are eliminated to the extent of the Group's share in this company. Unrealized losses are eliminated in the same way as unrealized gains, provided that there is no evidence of impairment.

d. Assumptions used in preparation of consolidated financial statements

In preparing the consolidated financial statements the following assumptions have been used:

- › Assumption of a single company (consolidated Group accounts show the assets, financial condition and results of operations and changes in financial position and changes in equity of the Group companies as if it were one company).
- › Assumption of demonstrating the true asset and financial position and profit or loss.
- › Assumption of the Group's completeness.
- › Assumption of the completeness of the financial statements and their uniform scope.
- › Assumption of the same date.
- › Assumption of consistent consolidation methods.
- › Assumption of clarity and transparency.
- › Assumption of economy.
- › Assumption of significance.

11.3.2 Intangible assets

Intangible asset is a non-monetary asset, which does not exist physically. It is recognizable when it is identifiable, detachable, it can be replaced, transferred or sold. Intangible asset managed by the Group has the power to receive future economic benefits and limit the access of others to these benefits.

Group recognizes an intangible fixed asset when, and only when, it is probable that the expected future economic benefits will flow to the Group, and its value can be reliably measured. After initial recognition, the Group has the selected accounting policy as the cost model. Intangible assets are initially recognized at cost, less accumulated amortization and accumulated impairment losses. Impairment of intangible assets with a definite useful life is carried out in the same way as for tangible fixed assets.

Useful life is the period in which the Group expects that the intangible asset will be available for use. Useful life of all intangible assets in the Group is finite and intangible assets are depreciated. Depreciable amount of an intangible asset with a finite useful life the Group strictly allocates to the entire period of its useful life. Amortization of intangible assets is calculated individually based on the straight-line depreciation method. Depreciation charge for each period shall be recognized in profit or loss account.

Useful lives and depreciation rates of larger groups of depreciable assets are:

Significant categories of depreciable assets	Estimated useful life (in years)	Depreciation rate (in %)
Computer software equipment	3 - 7	14.29 – 33.33
Other rights	3	33.33

For major items of intangible fixed assets, the Group reviews annually the period and method of depreciation and the residual value of assets. Effect of the change in the assessment the Group describes in the notes in the accounting period in which it occurred.

Recognition of the intangible asset is eliminated by the Group upon disposal or when it does not expect any economic benefits from its use.

11.3.3 Tangible fixed assets

Tangible fixed assets are assets owned by the Group that it uses in the production or supply of products, when providing services, leasing them to others, or using them for office purposes. They are expected to use them for these purposes in more than one accounting period. Group recognizes an asset as a fixed asset solely on the condition that future economic benefits will flow and the cost of the asset can be reliably measured.

Carrying amounts of tangible fixed assets and thus the basis for depreciation of these assets acquired upon the establishment of companies in the Group with in-kind contributions, were initially recognized at the estimated fair value determined with the participation of a certified appraiser.

Tangible fixed asset that qualifies for recognition as an asset is measured at cost. Cost of a tangible fixed asset corresponds to the price of money on the day of recognition. Cost includes its purchase price, non-refundable purchase taxes, discounts, costs incurred to enable the asset to operate in accordance with management expectations, and direct costs that can be attributed to purchase value.

If the Group postpones the payment of acquisition cost for a longer period of time, the difference between the cash equivalents and the total consideration is recognized as interest and accrued. Therefore, among costs that increase the acquisition cost of a fixed asset, the Group also includes borrowing costs related to the acquisition of a tangible fixed asset, until it is ready for use if it is produced for more than one year.

Borrowing costs are attributed to the acquisition costs at the completion of the investment. In case the investment is not completed in the current year, they are attributed on the last day of the accounting period to the items of the project (investment items). Items are named in the contract of lending, and those items of the project, which name is not listed, but their planned value exceeds 400,000 €.

If the newly acquired and recognized building, which is part of tangible fixed assets due to the construction of new building, which will be part of the tangible fixed assets, is disposed, the carrying value of the existing building is the cost of site preparation, which is included in the cost of the new building.

Acquisition cost of a tangible fixed asset constructed or produced in its own context is determined by the Group using the same principles as with the asset purchased. Group companies that produce its own assets in the acquisition cost include costs that are directly related to it, and the general costs of construction, which can be attributed to that asset. Costs not related to its construction or making, and costs that the market does not recognize are not included in the acquisition price.

Acquisition cost of such tangible fixed asset cannot be greater than the acquisition cost of an identical or similar tangible fixed assets on the market. Acquisition cost of tangible fixed asset constructed or produced in Group companies thus consists of outsourcing services, hours of direct labor, material costs (valued at the weighted average price at the level OE) and other direct production costs (depreciation of labor resources, administrative and legal fees, notary services...).

Group estimates that it has no significant obligations for decommissioning and disposal of tangible fixed assets, restoration of sites and similar obligations.

Tangible fixed assets acquired through state aid or a donation are stated at cost upon acquisition. Donations or government grants are not deducted from their acquisition cost, but are included in deferred revenues and are used in accordance with the charged depreciation.

For measuring the tangible fixed asset after recognition the Group uses the cost model.

Under tangible fixed assets and not investment property we record also the electricity distribution infrastructure leased under operating lease to SODO under the Contract with SODO. In terms of content, this is a proprietary use of assets, but the Group does not originally have it in order to earn rent or other returns, but in order to carry out its activity.

If subsequently incurred costs related to tangible fixed assets, increase its future benefits compared to the originally estimated, its cost increases. However, if the costs are increasing the useful life of the asset, the acquisition cost of tangible fixed asset is increased for the value of these costs and the useful life is extended.

Costs related to tangible fixed assets, which arose later and are necessary to operate normally, are disclosed as maintenance costs.

Depreciation of tangible fixed assets is calculated individually based on the straight-line method over the entire estimated useful life of assets.

Average useful lives and depreciation rates of larger groups of depreciable assets are:

Significant categories of depreciable assets	Estimated useful life (in years)	Depreciation rate (in %)
Buildings of energy infrastructure	25–50	2–4
Buildings of hydroelectric power stations	5–40	2.5–20
Solar power stations	7–30	3.33–13.13
Other buildings	20–50	2–5
Equipment of energy infrastructure	10–35	2.86–10
Computer hardware equipment	3–4	25–33.33
Equipment of hydro power stations	3–30	3.33–33.33
Equipment SPTE	6–10	10–16.21
Other equipment	2–20	5–50
Investments in foreign tangible fixed assets	1.5–30	3.33–70
Vehicles	6–12	8.33–16.67

Depreciable amount of tangible fixed assets is equal to their acquisition cost, reduced by any eventual impairment, which is systematically allocated throughout the useful life. Group annually verifies useful lives and other values of significant items of tangible fixed assets, depreciation rates are then converted to current and future periods if expectations differ significantly from the estimates.

At the end of the financial year the Group assesses whether there are any indications that assets may be impaired. In doing so, indications from external and internal sources of information are assessed. Impairment loss is the amount by which the carrying amount of an asset or cash-generating unit exceeds its recoverable amount and is generally recognized in profit or loss as an operating expense.

11.3.4 Investment property

In recognizing investment property the Group considers the same conditions as with tangible fixed assets, reliability of measuring the acquisition value and inflow of economic benefits.

Investment property is property owned by the Group in order to bring rent, to increase the value of long-term investment or both. Investment property in the Group generates cash flows independently of other assets held by the Group.

Investment properties in the Group include mainly:

- › land held for increasing the value of long-term investment rather than for short-term sale in the ordinary course of business;
- › land that has no future use determined by the Group;
- › building in single or multiple operational leasing;
- › vacant buildings owned to hire out in single or multiple operational leasing;
- › property that is being constructed or developed for future use as investment property.

Investment property does not include:

- › real estate used by employees (for example apartments hired out for operational leasing to the employees);
- › real estate hired out for a long-term operational leasing to company SODO Maribor, on the basis of a long-term contract with SODO;
- › property comprising Sava HE, in connection with which a denationalization dispute is in progress. Until the dispute is resolved Sava HE is under long-term operating lease of the controlled company Gorenjske elektrarne.

All of the above listed real estate is treated as a component part of the tangible fixed assets.

For measuring investment property after recognition model of acquisition value is used, reduced by depreciation and eventual impairments.

Group transfers funds from the account or to the investment property account only when the use is changed and there is evidence of a change in use. Such a case is a sale that is probable within a period of one year, a transfer to a disposal group, or among assets intended for sale.

Straight-line depreciation method is used. Useful life of investment property is the same as for tangible fixed assets of the same kind.

11.3.5 Assets received and leased

When concluding a contract, the Group assesses whether it is a lease contract or whether the contract contains a lease. Contract is a lease if it transfers the right-of-use control of a particular asset for a specified period of time in return for payment. Lessee must have the right to derive all significant economic benefits from the use of the assets and the right to direct the use of the asset.

For all such contracts, the Group recognizes the right to use the assets and the related lease obligation when concluding the lease. This equates the accounting treatment of leases for both operating and finance leases.

Exceptions are short-term leases and leases in which the leased asset is of small value. For these leases, the Group recognizes lease payments as a cost of services (rent costs) on a straight-line basis over the term of the lease or on any other systematic basis that best reflects the pattern of benefits received.

Group defines the assets it leases as operating or financial, depending on the nature of the lease. Lease is classified as finance lease if it transfers substantially all the risks and benefits connected to the ownership of the asset. All leases that are not financial are operating leases. In a finance lease, the lessor recognizes finance income over the lease term on a sample basis that reflects a constant periodic rate of return on the net investment. Payments made under operating leases are recognized by the lessor as revenue on a straight-line basis or, if the pattern previously reflects a reduction in the benefits or using the asset, using another systematic method.

Group discloses assets leased under operating leases under its own assets and calculates depreciation from their purchase value in accordance with the guidelines, while the amounts charged for the use of the asset are included in rental income.

All contractual relationships where the Group acts as a lessor are concluded as operating leases. Group discloses assets among its assets. Rental income over the lease term is recognized on a straight-line basis over net operating income. All costs associated with leased assets (including depreciation) are recognized as expenses of the period.

As at 1. 1. 2019, due to the requirements of IFRS 16, there were no effects on the Group's financial statement because the Group has no contracts that would meet the conditions for recognizing the right to use.

11.3.6 Financial instruments

Financial instruments include the following items:

- › non-derivative financial assets,
- › non-derivative financial liabilities and
- › derivative financial instruments.

Non-derivative financial assets

Non-derivative financial assets are:

- › financial investments recorded in the statement of financial position as long-term and short-term financial investments,
- › receivables and loans,
- › cash and cash equivalents.

Financial investments

At initial recognition, non-derivative financial instruments are classified into one of the following categories: financial asset at fair value through other comprehensive income, financial assets at amortized cost and financial asset at fair value through profit or loss. Classification depends on the purpose for which the instrument was acquired.

All long-term loans and short-term financial investments are classified in the group of financial assets at amortized cost.

In a regular way of purchase or sale of financial assets in the accounting records and statement of financial position such financial asset is recognized taking into account the trade date (trade), this is the date on which the Group commits to purchase or sell the asset.

Upon initial recognition, the financial investment is measured at fair value. Initial value is added also transaction costs arising from the acquisition or issue of financial assets, except for investments classified as financial assets at fair value through profit or loss.

Investments in subsidiaries and associate companies and joint ventures are measured using the cost model. If there is an objective evidence that an impairment loss occurred the stated investment is tested for impairment in accordance with the IAS 36 – Asset impairment.

Claims

Claims are rights based on property and other relations to require from a certain person to pay the debt, or in the case of given advances supply goods or implement a service.

Claims are initially recognized in amounts that originate from suitable documents assuming that they will be paid. Later, they can increase or decrease due to subsequent rebates, returns due to inadequate quality, for received payments and other forms of settlement.

After their initial recognition claims are measured at their amortized cost.

In the statement of financial position long-term claims, which are already due (but not yet settled), and long-term claims, which are due in one year after the balance sheet date at the latest, are recognized as short-term claims.

At least quarterly, before compiling the quarterly statement of accounts, we verify the suitability of individual recognized claim's amounts. Receivables, which are assumed to not be settled wholly or partially, are recognized as doubtful; if they result in legal proceedings or there is a dispute about their pay, they are recognized as disputable. To this end, the Group has established appropriate records. In the records of disputable claims it classifies all claims:

- › in the execution procedures based on the execution title;
- › in the execution procedures based on the authentic document (e.g. action) and
- › in the insolvency proceedings (composition proceedings, simplified composition proceedings, and bankruptcy proceedings).

Value adjustment of short-term operating receivables to Group companies is formed on the basis of the criterion of maturity and collateral. Thus, the estimate obtained is corrected by individual assessment with regard to the creditworthiness of the customer and the internal and external signs of impairment.

Cash and cash equivalents

Monetary assets include:

- › cash on transactional and foreign currency accounts in banks or other financial institutions that can be used to make payments, and
- › cash equivalents.

Cash equivalents are investments that can be readily converted to known amounts of cash and which are subject to an insignificant risk of changes in value. Group also includes deposits, bank deposits and loans among the companies in the Group with a maturity of up to three months, and receipts from their disposals, among cash equivalents.

Group has transactional accounts in following commercial banks:

Current account number	Bank of current account	Company
SI56 0700 0000 0641 939	Gorenjska banka, Kranj	Elektro Gorenjska
SI56 0700 0000 0542 805	Gorenjska banka, Kranj	Gorenjske elektrarne
SI56 1910 0001 1259 911	Deželna banka Slovenije, Ljubljana	Elektro Gorenjska
SI56 2900 0000 1824 912	Unicredit banka, Ljubljana	Elektro Gorenjska
SI56 3000 0000 3480 687	Sberbank, Ljubljana	Elektro Gorenjska
SI56 3000 0000 8793 959	Sberbank, Ljubljana	Gorenjske elektrarne
SI56 0700 0000 3208 559	Gorenjska banka, Kranj	GEK Vzdrževanje
SI56 6100 0002 2664 688	Delavska hranilnica, Ljubljana	GE LES

All current accounts are kept in Euros, only current account No. SI 56 0700 0000 0641 939 in Gorenjska bank Kranj is opened also as foreign currency account. Accounts in Sberbank represent saving accounts.

Revaluation of monetary assets is a change of their carrying value and can be done at the end of the financial year or during the year. Revaluation occurs only in case of assets in foreign currencies if exchange rate changes at the first recognition. Exchange rate difference, which occurs in this situation, either increases or reduces the original recognized value and in first case it represents financial revenue related to monetary assets or in the second case a financial expenditure related to monetary assets.

Non-derivative financial liabilities

Non-derivative financial liabilities are recognized obligations associated with the financing of own assets, which must be repaid or settled in cash. As a special type of debt deferred tax liabilities are considered.

In the statement of financial position of the Group long-term debts that have already fallen overdue (but not yet settled) and long-term debts due and payable not later than one year after the balance sheet date, are recognized as short-term debts.

Debts can be financial (borrowings under the loan agreements, liabilities to lessors in finance lease) or business (purchased materials and services from suppliers, liabilities to employees, liabilities to the state, liabilities to customers for advances and securities).

After initial recognition, liabilities are measured at amortized cost.

They are increased by implied interest and decreased by paid amounts and any other settlements, agreed upon with creditors.

Recognition of debts in the accounting records and the balance sheet shall be eliminated when the obligation specified in the contract or another legal instrument is discharged, canceled or expired (and the organization does not intend to settle).

11.3.7 Stocks

Stocks are assets that are held for sale in the ordinary course of business, which are being used in the process of production for such sale, or in the form of materials to be consumed in the production or provision of services.

Quantity units of stock materials (including small tools and packaging) are initially recognized at the purchase price. Cost comprises of the purchase price, import and non-refundable charges (including value added tax, which is not reimbursed) and direct acquisition costs.

Costs of material kept in stocks before use are recognized at moving average price method at the level of OE. Moving average price is calculated on a daily basis.

Group values stocks at their original value. Group continuously or at least once a year, during the inventory, verifies the real value of stocks and impairs it, if their book value exceeds the net realizable value, which is the estimated selling price.

11.3.8 Other assets

Other assets of the Group include accrued income and deferred expenses.

Accrued income are revenues that are considered in the income statement, although they have not yet been charged. In accordance with IFRS 15 they are recognized as assets under the contracts with buyers. Deferred expenses are amounts that when incurred are not yet charged to the profit and loss account.

11.3.9 Capital

Entire capital of the Group consists of called-up capital, capital reserves, profit reserves, other reserves and retained profit.

All other components of entire capital belong to the capital owners in proportion of their ownership shares in the capital stock.

11.3.10 Provisions

Group recognizes provisions if due to past events it has a legal or indirect obligation that can be reliably estimated and future events occur that may affect the amount required to settle the obligation. Before forming provisions the Group first assesses the likelihood of future events. It is noted that the future event really occurred, if there is material evidence about it at the time of the assessment (eg. action lodged, denationalisation claim made,...).

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

Contingent liabilities are not considered provisions.

Significant provisions include long-term employee benefits, which are divided into:

- › long-service bonus, which belongs to other long-term employee benefits, and
- › severance pay upon retirement, which belongs to post-employment benefits.

Calculations for provisions for severance pays at retirement and long service bonuses are prepared by an authorized actuary and are formed in the amount of estimated future payments discounted on the balance sheet date, taking into consideration also costs of service for the current year, costs of interest and actuarial surplus or deficits resulting from changes in actuarial assumptions and experiential adjustments.

On the balance sheet date the Group establishes and in the profit or loss account recognizes revenues or expenses in connection with the adjustment of provisions for retirement benefits from:

- › amount of additional provisions for current service costs relating to severance pays for the current year;
- › amount of the increase or decrease in the provisions already made in the event of the introduction or modification of the program (amendment of past service costs);
- › accrued interest in respect of the provisions (as additional cost of provisions);
- › effects of all limitations or shrinking of provisions for severance pay upon retirement.

Actuarial gains and losses from severance pays upon retirement are not recognized in the income statement, but directly in equity under other reserves, which can also be negative. Reserves created under this title are eliminated in the net profit or loss from previous periods in the actual amounts, when for the employees who left or retired, the recognition of provisions for retirement is eliminated.

Long service bonuses are classified as other long-term employee benefits. On the balance sheet date the Group determines and recognizes in the profit or loss revenues or expenses in connection with the adjustment of provisions for long-service bonuses (including actuarial gains and losses).

Recognition of provisions in accounting records and the balance sheet is eliminated when the created opportunities for which the provisions were formed, have already been used out or there no longer is a need for them.

Provisions for accrued costs and expenses are directly reduced by the costs and expenses for which they were made. Therefore, during the spending of provisions the costs or expenses no longer appear in the income statement.

11.3.11 Assets acquired free of charge

Assets acquired free of charge include:

- › connections of customers that the group took over into its tangible fixed assets together with its commitment to care for their maintenance and reconstruction, in accordance with the regulations, namely the General conditions for connection to the distribution electric system,
- › free acquisitions of other fixed assets,
- › assets acquired through government support or donation and
- › earmarked funds for co-financing the construction of tangible fixed assets.

Assets acquired free of charge are initially recognized in the financial statements as deferred income under other long-term liabilities. They are recognized as other operating income over the useful life of each asset.

11.3.12 Other liabilities

Other liabilities include deferred revenues and cost provisions or expenses.

Deferred revenue is revenue received to cover costs and is recognized consistently as revenue over the periods in which they arise. Other income is recognized when the Group expects to receive benefits. Cost provisions are amounts that have not yet occurred, but already have an impact on profit.

11.3.13 Deferred tax liabilities and tax receivables and income tax

Deferred tax assets and tax liabilities are calculated using the balance sheet liability method, which focuses on temporary differences. They relate to those items of income or expense that are taxable or deductible in the coming years.

Deferred tax assets are recognized for deductible temporary differences, unused tax losses carried forward and unused tax credits carried forward to be transferred to the next period, when it is probable that in the future taxable income will be available against which it will be possible to use the unused tax losses and unused tax credits.

Receivables and deferred tax liabilities are not recognized in the accounting records if the amounts of deferred tax assets and deferred tax liabilities are individually or jointly insignificant for the Group.

Deferred income tax is determined using tax rates (and laws) that are in effect at the balance sheet date and which are expected to be in effect when the related deferred tax asset is realized or the deferred tax liabilities settled and when a taxable profit against which it will be possible to eliminate temporary differences is available.

At the end of each reporting period the Group reassesses unrecognized deferred tax assets and recognizes a previously unrecognized deferred tax asset if it is probable that future profit will allow the coverage of deferred tax assets.

Current tax expense is the amount of tax that is payable (recoverable) according to the taxable profit (tax loss) for the period, using tax rates enacted on the reporting date, and any adjustments to tax payable in respect of previous years.

11.3.14 Revenues

Revenue is recognized by the Group when an increase in economic benefits is connected to the increase in an asset or a decrease in the debt and that this increase can be measured reliably. Group recognizes revenue when transferring control of the goods or services to the customer in an amount that reflects the compensation for which the Group considers it will be entitled to in return for those goods or services. Only a negligible portion of revenue is recognized over time period.

Revenues are recognized from the sale of goods, provision of services and the use of the assets of the Group, which bring interest, royalties and dividends of others. Revenues in the books are divided into operating and financial revenues.

Operating revenue is revenues from sales, capitalized own products and services and other operating revenues associated with business impact. These include also operating revenues that occur mainly on the sale of tangible fixed assets and investment property at a price that exceeds their book value, or as a result of adjustment of receivables.

Financial revenue arises in relation to financial investments, as well as in association with receivables. They consist of accrued interest and profit shares as well as other financial revenues from revaluation.

Interest on unpaid claims are not recognized as revenue but increase the value adjustment of receivables because there is reasonable doubt about the payment of claims until the principal is paid.

Majority of revenue is generated by the Group on the basis of Contract with SODO, from the lease of electricity infrastructure and provision of services for SODO.

Amounts collected on behalf of SODO in operations on their own behalf and the account of SODO are not recognized as revenue, but as operating liabilities to SODO.

Group also generates revenue by building real estate for the market. Contract is usually concluded within a period of less than 12 months. Therefore, the Group recognizes revenue gradually over the construction period with respect to the measuring of the progress towards the complete fulfilment of the obligation. To measure the progress it uses the input method. This is based on the ratio of the costs actually incurred and estimated ones. Company estimates that there is no significant component of financing in this construction contracts.

11.3.15 Expenditure

Expenditure is classified into operating and financial expenses.

Operating expenses include all costs incurred in the period and operating expenses from revaluation. Latter occur mainly due to the impairment of tangible fixed assets, intangible assets, investment property, accounts receivable and stocks, as well as the sale or other disposal of tangible fixed assets and investment property at a price that is lower than their carrying value.

Financial expenses are financing expenses and investment expenses. First consist primarily of interest, while second are primarily of revaluation financial expenses nature. Latter are due to impairment of financial investments and due to the sale or other disposal at a price that is lower than their book value. Interest expenses are recognized according to the elapsed time and the applicable interest rate.

11.3.16 Consolidated cash flow statement

Group presents its cash flows from operating activities, investing and financing activities in a manner that best suits its business. Statement of cash flows is prepared using the direct method.

For the purpose of preparation of cash flows cash equivalents are classified as monetary assets as well. These are short term, highly liquid investments that are readily convertible to known amounts of cash and where the risk of changes in value is insignificant. Group treats as cash equivalents the short-term deposits and deposits with banks and loans between companies in the Group with a maturity of up to three months after the acquisition, and receipts from their disposal.

For each group of assets (of e.g. intangible assets and tangible fixed assets) as an increase (expenses) are treated the paid acquisition costs of the newly acquired assets, and as a reduction (income) the received payments for the value of assets disposed.

Cash flows relating to capitalized development costs and self-constructed tangible fixed assets are classified as cash flows from investing activities.

Cash flows from interest received and paid and dividends the Group classifies based on the contents of the transaction under cash flows from operating, investing and financing activities.

11.3.17 Earnings per share

Basic return per share is calculated by the Group by dividing the profit attributable to ordinary shareholders by the weighted average number of ordinary shares in the business year. Corrected return per share equals the basic, as all of the shares belong to the same class of ordinary registered shares.

11.4 Determination of fair value

Financial instruments are recorded at fair value. Fair value is the amount at which the asset could be sold or a liability exchanged between knowledgeable, willing parties in an arm's length transaction.

In determining the fair value of financial instruments, the following hierarchy of levels for determination of fair value is considered:

- › first level includes quoted prices (unadjusted) in active markets for identical assets or liabilities,
- › second level includes values other than quoted prices included within the first level, but it is nevertheless possible to obtain directly from the market (prices for identical or similar assets or liabilities in a less active or inactive markets) or indirectly (e.g. values derived from quoted prices in an active market based interest rates and yield curves),
- › third level includes inputs for the asset or liability that are not based on observable market data, while unobserved data must reflect the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk.

As a base for the fair value of financial instruments the Group uses quoted prices. If a financial instrument is not quoted on a regulated market or the market is considered inactive, the Group in order to assess the fair value of the financial instrument uses the input data of the second and third level.

In the investment property the Group discloses the fair value. Fair value results from the valuation of investment property, which is carried out every 3-5 years.

Operating and other receivables are not discounted due to their short-term character, whereas impairments of the fair value are taken into account.

11.5 Business combinations

In 2019, Gorenjske elektrarne Company acquired 100 % stake in companies Energetika Pogačnik, d. o. o. and GE LES, d. o. o. based on the Agreement on the purchase and sale of business shares. Purchase price for both companies amounted to 153,808 €, net payment, taking into account the cash and cash equivalents acquired with the purchase, was 129,843 €.

Energetika Pogačnik

Based on the Agreement on the purchase and sale of business shares concluded in January 2019, company Gorenjske elektrarne acquired 100% share in company Energetika Pogačnik, d. o. o. Company's primary activity is the production of electricity and heat in high-efficiency cogeneration (SPTE) (cogeneration of heat and electricity). Company owns one cogeneration plant. Plant uses wood biomass as its primary energy source, while producing heat and electricity. Primary activity thus coincides with the main activity of Gorenjske elektrarne Company.

Company Gorenjske elektrarne also merged the company Energetika Pogačnik immediately after the purchase. Accounting day of the merger was 31. 12. 2018. Consequently, from that day onwards (i.e. from January 1 2019 inclusive) actions of the transferring company Energetika Pogačnik, d. o. o. were performed entirely on behalf of the acquiring company Gorenjske elektrarne, d. o. o. Merger was entered in the court register on 1. 4. 2019.

In accordance with IFRS 3 the acquiring company based on the acquired business books, enters the acquired assets and liabilities in its own business books as at the balance on the day of the settlement of the merger, that is the balance as at 31. 12. 2018 in the amounts that the acquired company recognized on the day of the merger, that is on 31. 12. 2018, and recalculates these amounts at their fair value on the date of the settlement of the merger (date of the acquisition).

Fair value of tangible fixed assets was assessed using the return-based method. In the assessment of the value projections of the future cash flows for the period until the end of the operational support to which the SPTE plant is entitled (until 2025), were used.

Statement of financial position of the Company on the day that Gorenjske elektrarne acquired the controlling influence, is shown in the following table:

ITEM	In €	
	Fair value	Book value
Tangible fixed assets	186,408	162,000
Short-term operating claims	18,830	18,830
Cash and cash equivalents	10,919	10,919
TOTAL ASSETS	216,377	191,968
Long-term financial liabilities	126,992	126,992
Short-term operating liabilities	21,944	21,944
TOTAL LIABILITIES	148,936	148,936
NET ASSETS OF THE ACQUISITION	67,441	43,032

In 2019 the plant SPTE Pogačnik made 111,427.95 € of revenues, of which 25,840.31 € in the period from 1. 1. 2019 until the entry of the merger in the court register.

GE LES

Based on the Agreement on the purchase and sale of business shares concluded in September 2019, company Gorenjske elektrarne acquired 100 % share in company GE LES, d. o. o. Company's primary activity is the production of electricity and heat in high-efficiency cogeneration (SPTE) (cogeneration of heat and electricity). Company owns one cogeneration plant with two engines. Plant uses wood biomass as its primary energy source, while producing heat and electricity. Primary activity thus coincides with the main activity of Gorenjske elektrarne Company. Conditions for recognizing a new investment in financial statements of Gorenjske elektrarne Company and for its control were met on 20. 9. 2019.

Statements of company GE LES, d. o. o. are included in the consolidated financial statements of Elektro Gorenjska Group.

Upon acquiring a controlling position in GE LES, d. o. o. the fair value verification of the acquired net assets was made, on the basis of which the Group recognized assets at fair value in its consolidated financial statements. Fair value of tangible fixed assets was assessed using the return-based method. In the assessment of the value projections of the future cash flows for the period until the end of the operational support to which the SPTE plant is entitled (until 2030), were used.

Statement of financial position of the Company on the day that Gorenjske elektrarne acquired the controlling influence, is shown in the following table:

ITEM	In €	
	Fair value	Book value
Tangible fixed assets	384,210	384,210
Short-term operating claims	22,998	22,998
Cash and cash equivalents	13,046	13,046
TOTAL ASSETS	420,254	420,254
Long-term financial liabilities	175,388	175,388
Short-term financial liabilities	76,201	76,201
Short-term operating liabilities	38,581	38,581
TOTAL LIABILITIES	290,170	290,170
NET ASSETS OF THE ACQUISITION	130,084	130,084

Within four months since the acquisition of the Company Elektro Gorenjska Group has generated revenues in the amount of 57,032 €, while net profit before tax was negative in the amount of 2,817 €. If control had occurred on January 1 2019, the Group's revenues would be higher by 180,302 €, and net profit of the Group would be higher by 1,011 €.

Notes to the Statement of financial position



12.1 Intangible assets

Following tables present changes in intangible assets in years 2019 and 2018.

In €			
2019	Property rights	Property rights in acquisition	Total intangible assets
1	2	3	4 = 2+3
Acquisition cost			
Balance 1. 1. 2019	5,434,903	269,484	5,704,388
New acquisitions	541,221	403,235	944,456
Disposals, withdrawals, transfers	-791,867	0	-791,867
Completion of ongoing investments	582,108	-582,108	0
Balance 31. 12. 2019	5,766,366	90,611	5,856,977
Value adjustment			
Balance 1. 1. 2019	4,296,171	0	4,296,171
Increase (depreciation)	542,878	0	542,878
Disposals, withdrawals, transfers	-791,867	0	-791,867
Balance 31. 12. 2019	4,047,182	0	4,047,182
Carrying amount			
Balance 1. 1. 2019	1,138,733	269,484	1,408,216
Balance 31. 12. 2019	1,719,184	90,611	1,809,794

In €			
2018	Property rights	Property rights in acquisition	Total intangible assets
1	2	3	4 = 2+3
Acquisition cost			
Balance 1. 1. 2018	5,455,281	187,510	5,642,791
New acquisitions	22,011	318,711	340,722
Disposals, withdrawals, transfers	-279,125	0	-279,125
Completion of ongoing investments	236,737	-236,737	0
Balance 31. 12. 2018	5,434,903	269,484	5,704,388
Value adjustment			
Balance 1. 1. 2018	4,036,330	0	4,036,330
Increase (depreciation)	538,966	0	538,966
Disposals, withdrawals, transfers	-279,125	0	-279,125
Balance 31. 12. 2018	4,296,171	0	4,296,171
Carrying amount			
Balance 1. 1. 2018	1,418,950	187,510	1,606,459
Balance 31. 12. 2018	1,138,733	269,484	1,408,216

Intangible assets refer mainly to long-term property rights, which represent rights to use computer software solutions or licenses.

Property rights in acquisition include investments in renovation and modernization of computer software equipment.

Of all intangible assets that were in use as at 31. 12. 2019, 50 % were fully depreciated. On the last day of 2018 there were 56 % of all intangible assets fully depreciated. Share is calculated according to the acquisition cost of intangible assets.

As at December 31 2019 the Group had no financial obligations in respect of acquiring intangible fixed assets.

12.2 Tangible fixed assets

As at December 31 2019 tangible fixed assets amounted to **214,353,345 €**, which represents 88 % of balance sheet total of the Group. Compared to the balance as at December 31 2018 their value is by 4.9 million € or 2.3 % higher.

Presentation of changes in tangible fixed assets in year 2019:

2019	Land	Buildings	Equipment	Tangible fixed assets under construction	Total tangible fixed assets
In €					
Acquisition cost					
Balance 31. 12. 2018	8,093,140	300,816,894	139,093,004,06	2,814,956	450,817,994
Amalgamation	0	0	162,000	0	162,000
Balance 1. 1. 2019	8,093,140	300,816,894	139,255,004	2,814,956	450,979,995
New acquisitions	139,741	16,056	2,291,189	13,546,951	15,993,937
Purchase of Company	0	0	422,000	0	422,000
Disposals, separations, transfers	-3,688	-1,605,909	-1,793,670	-104,250	-3,507,516
Transfer from investments in progress	11,791	10,383,302	3,115,477	-13,510,569	0
Transfer from/to investment property	0	-23,584	0	0	-23,584
Balance 31. 12. 2019	8,240,984	309,586,760	143,290,000	2,747,088	463,864,832
Valuation adjustment					
Balance 31. 12. 2018	0	158,555,621	82,777,588	0	241,333,209
Amalgamation	0	0	0	0	0
Balance 1. 1. 2019	0	158,555,621	82,777,588	0	241,333,209
Increase (depreciation)	0	5,745,448	5,655,751	0	11,401,199
Disposals, separations, transfers	0	-1,487,675	-1,716,106	0	-3,203,781
Transfer from/to investment property	0	-19,140	0	0	-19,140
Balance 31. 12. 2019	0	162,794,254	86,717,233	0	249,511,487
Carrying amount					
Balance 1. 1. 2019	8,093,140	142,261,273	56,315,417	2,814,956	209,484,786
Balance 31. 12. 2019	8,240,984	146,792,506	56,572,767	2,747,088	214,353,345

Presentation of changes in tangible fixed assets in year 2018:

In €

2018	Land	Buildings	Equipment	Tangible fixed assets under construction	Total tangible fixed assets
1	2	3	4	5	6=2+3+4+5
Acquisition cost					
Balance 1. 1. 2018	8,030,495	290,877,351	135,597,195	3,493,960	437,999,002
New acquisitions	49,334	33,548	2,339,117	16,088,921	18,510,919
Disposals, separations, transfers	-420	-2,293,468	-3,398,038	0	-5,691,927
Transfer from investments in progress	13,732	12,199,464	4,554,729	-16,767,925	0
Balance 31. 12. 2018	8,093,140	300,816,894	139,093,003	2,814,957	450,817,994
Valuation adjustment					
Balance 1. 1. 2018	0	155,120,317	80,695,024	0	235,815,341
Increase (depreciation)	0	5,486,882	5,251,749	0	10,738,631
Disposals, separations, transfers	0	-2,051,578	-3,169,185	0	-5,220,763
Balance 31. 12. 2018	0	158,555,621	82,777,588	0	241,333,209
Carrying amount					
Balance 1. 1. 2018	8,030,495	135,757,034	54,902,172	3,493,961	202,183,660
Balance 31. 12. 2018	8,093,140	142,261,273	56,315,417	2,814,956	209,484,786

New acquisitions are presented in the business report, in chapter [5.4 – Investments](#).

Individually significant acquisitions are:



Buildings:

- › investment in 2x110 KV DV Bled – Soteska D281 – 20 KV (547,362 €),
- › investment in 2x110 KV DV Soteska – RTP Bitnje (337,342 €) and
- › investment in GD RP Naklo 110/35/20 KV (162,261 €)



Equipment:

- › measuring devices project AMI (1,145,122 €),
- › EO RTP Škofja Loka 20 kV switchyard (479,417 €),
- › EO T1233 RTP Brnik - secondary (289,481 €).

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:

- › 20 kV DV D1000 D0902 – Jezerski vrh (reduction of acquisition cost by 245,343 € and revaluation adjustment by 245,343 €),
- › Power equipment RTP Brnik Airport - primary (reduction of acquisition cost by 238,015 € and revaluation adjustment by 225,600 €) in
- › Power equipment RTP Brnik Airport - secondary (reduction of acquisition cost by 118,552 € and revaluation adjustment by 116,209 €).

Important part of tangible fixed assets represents electricity distribution infrastructure as defined in the Decree on energy infrastructure (Official Gazette RS, No. 22/2016). It includes buildings and equipment as well as part of the land. Book value of electricity distribution infrastructure as at December 31 2019 amounted to 185,344,653 € (31. 12. 2018: 179,729,601 €).

For the needs of implementation of system operator activity, which SODO implements on the basis of the concession contract for implementation of public utility service of distribution network system operator, SODO has hired from Elektro Gorenjska Company complete electricity infrastructure.

Group does not have any assets under its fixed assets that would represent the right to use the assets under IFRS 16.

Of all tangible assets that were in use as at 31. 12. 2019, 22.6 % were fully depreciated (as at 31. 12. 2018 these assets were 22.3 %). Share is calculated according to the acquisition cost of intangible assets.

To finance new acquisitions of fixed assets the Group took several long-term loans in year 2019 and previous years, whose balance on 31. 12. 2019 amounted to 54,566,451 € (31. 12. 2018: 54,880,386 €). Please see also chapter [12.13 – Long-term liabilities](#).

12.3 Investment property

At the end of 2019 investment property amounted to **1,762,990 €**. Changes in their acquisition value, valuation adjustment and their carrying amount in years 2019 and 2018 are presented in the following tables.

Presentation of changes in investment property in year 2019:

2019	Land	Buildings	Investment property in acquisition	In €
				Total investment property
1	2	3	4	5=2+3+4
Acquisition cost				
Balance 1. 1. 2019	484,118	2,035,448	4,240	2,523,805
New acquisitions	0	0	126,081	126,081
Disposals, transfers	-13,883	-281,899	0	-295,782
Transfer from ongoing investments	0	130,321	-130,321	0
Transfer from/to intangible FA	0	23,584	0	63,915
Balance 31. 12. 2019	470,235	1,907,454	0	2,418,020
Value adjustment				
Balance 1. 1. 2019	0	710,218	0	710,218
Depreciation	0	42,935	0	42,935
Disposals, transfers	0	-157,594	0	-157,594
Transfer from/to intangible FA	0	19,140	0	19,140
Balance 31. 12. 2019	0	614,699	0	614,699
Carrying amount				
Balance 1. 1. 2019	484,118	1,325,230	4,240	1,813,588
Balance 31. 12. 2019	470,235	1,292,755	0	1,762,990

Presentation of changes in investment property in year 2018:

2018	Land	Buildings	Investment property in acquisition	In €
				Total investment property
1	2	3	4	5=2+3+4
Acquisition cost				
Balance 1. 1. 2018	732,921	2,475,012	2,450	3,210,383
New acquisitions	0	0	54,826	54,826
Disposals, transfers	-248,803	-492,600	0	-741,404
Transfer from ongoing investments	0	53,036	-53,036	0
Transfer from/to intangible FA	0	0	0	0
Balance 31. 12. 2018	484,118	2,035,448	4,240	2,523,805
Value adjustment				
Balance 1. 1. 2018	0	1,039,715	0	1,039,715
Depreciation	0	52,845	0	52,845
Disposals, transfers	0	-382,343	0	-382,343
Transfer from/to intangible FA	0	0	0	0
Balance 31. 12. 2018	0	710,218	0	710,218
Carrying amount				
Balance 1. 1. 2018	732,921	1,435,298	2,450	2,170,669
Balance 31. 12. 2018	484,118	1,325,230	4,240	1,813,588

Following is the presentation of investment property structure.

Item description	In €	
	31. 12. 2019	31. 12. 2018
Apartments	329,891	413,928
Holiday facilities	845,182	782,201
Other buildings	117,681	129,102
Land	470,235	484,118
Investment property in acquisition	0	4,240
Total investment property	1,762,990	1,813,588

Based on the appraisal carried out by a certified appraiser of real estate in the Slovenian Audit Institute, fair value of investment property that Elektro Gorenjska Company stated in its balance on 31. 12. 2019 amounted to 2,458,826 €. A revaluation of investment property was not carried out in 2019, but important assumptions for valuation were verified, which did not change significantly.

Revenues from rent in investment property amount to 189,924 € (in year 2018: 194,952 €).

Direct operating expenses (including repairs and maintenance), originating from investment property, which made revenues from rents in year 2019, and direct operating expenses, which did not make revenues from rents in year 2019 consist of depreciation costs (42,935 €) and costs of material and services (90,454 €). In year 2018 costs of depreciation were 52,845 € and costs of material and services 100,377 €.

All investment properties are owned by the Group and are not pledged as security for debts.

12.4 Long-term financial investments

On December 31 2019 long-term financial investments of the Group amounted to **7,358,730 €**. Compared to the balance as at 31. 12. 2018 (7,622,874 €) their value did not change significantly.

Largest item under long-term financial investments is an investment in ECE (6,572,446 €). Investment was recognized in 2015, the value of the investment then amounted to 5,606,005 €. Investment is taken into account in the consolidated financial statements of the Group using the equity method. This means that the value of the investment at the end of each accounting period increases by a proportion of the net profit and direct changes in the capital of this company, and decreases by the amount of profit paid.

From ECE Company the Group received by 345,432 € of dividends in 2019. More important data from the ECE Company's accounts for year 2019 are the following:

Item	In € 31. 12. 2019 or year 2019
Current assets	43,855,578
Non-current assets	2,645,645
Current liabilities	27,053,418
Capital, provisions and non-current liabilities	19,447,805
Revenues	174,849,062
Net profit or loss	66,555
Other comprehensive income	-8,683
Total comprehensive income	57,872

Within financial investments accounted for using the equity method, investments in ECE and Soenergetika companies were recorded.

Long-term invested assets represent assets invested in joint holiday facilities, managed by Eldom Maribor and finance lease receivables.

With regard to long-term financial investments, the Group is primarily exposed to the risk of adverse changes in the fair value of long-term financial investments. Group does not possess special financial instruments to hedge from this risk. Exposure to risks and hedging systems are explained in the Business Report, Chapter 4 – *Management and Quality System*.

Changes in long-term financial investments in 2019 and 2018 are presented in the two tables below.

In €

Investment description	Share designation	Number of shares		Share in the ownership (in %)		Balance 1. 1. 2019	Increases in year 2019		Decreases in year 2019		Balance 31. 12. 2019
		1. 1. 2019	31. 12. 2019	1. 1. 2019	31. 12. 2019		Change in value (equity method)	New acquisitions or redistributions	Change in value (equity method)	Sale or segregation	
Soenergetika, d. o. o.	-	-	-	25.00 %	25.00 %	452,789	0	0	2,726	0	455,515
ECE, d. o. o.				25.6744 %	25.6744 %	6,903,132	-330,686	0	0	0	6,572,446
Informatika, d. d., Maribor	INFG	1,562	1,562	9.56 %	9.56 %	124,155	0	0	0	0	124,155
Total investments in shares and interests in associates						7,480,076	-330,686	0	2,726	0	7,152,115
Total long-term financial investments, except loans						7,480,076	-330,686	0	2,726	0	7,152,115
Long-term invested assets (Eldom Maribor)						142,798	0	0	0	0	142,798
Long-term financial lease receivables						0	0	63,817	0	0	63,817
Total long-term loans						142,798	0	63,817	0	0	206,615
TOTAL LONG-TERM FINANCIAL INVESTMENTS						7,622,874	-330,686	63,817	2,726	0	7,358,730

In €

Investment description	Share designation	Number of shares		Share in the ownership (in %)		Balance 1. 1. 2018	Increases in year 2018			Decreases in year 2018			Balance 31. 12. 2018
		1. 1. 2018	31. 12. 2018	1. 1. 2018	31. 12. 2018		Change in value (equity method)	New acquisitions or redistributions	Change in value (equity method)	Sale or segregation			
Soenergetika, d. o. o.	-	-	-	25.00 %	25.00 %	458,498	0	0	-5,709	0	0	0	452,789
ECE, d. o. o.				25.6744 %	25.6744 %	6,512,724	390,409	0	0	0	0	0	6,903,132
Informatika, d. d., Maribor	INFG	1,562		9.56 %	9.56 %	0	0	124,155	0	0	0	0	124,155
Total investments in shares and interests in associates						6,971,222	390,409	124,155	-5,709	0	0	0	7,480,076
Informatika, d. d., Maribor	INFG	1,562		9.56 %		124,155	0	0	0	0	-124,155	0	0
Total other shares and interests						124,155	0	0	0	0	-124,155	0	0
Total long-term financial investments, except loans						7,095,376	390,409	124,155	-5,709	-124,155			7,480,076
Long-term invested assets (Eldom Maribor)						142,798	0	0	0	0	0	0	142,798
Employees						840	0	0	0	0	0	-840	0
Total long-term loans						143,638	0	0	0	0	-840	-840	142,798
TOTAL LONG-TERM FINANCIAL INVESTMENTS						7,239,015	390,409	124,155	-5,709	-124,995			7,622,874

12.5 Assets (disposal groups) for sale

Assets for sale, which amounted to 138,796 € at the end of 2019, represent investment properties, which are in the process of being sold. At the end of 2018 value of these assets was 381,264 €.

12.6 Stocks

Value of stocks of material, small tools, and merchandise as at 31. 12. 2019 amounted to a total **601,289 €**. Compared to the balance as at 31. 12. 2018 they have increased by 238 thousand €. Group estimates that net realizable value of stocks is at least equal to their book value. Movement of material stocks in years 2019 and 2018 is shown in the following table.

Item description	In €	
	2019	2018
Material stocks at the beginning of the period 1. 1.	363,106	296,344
Purchases	3,888,407	3,802,543
Transfer from fixed assets	0	103,104
Consumption	-3,494,561	-3,633,761
Sale	-118	-4,603
Impairments and cancellation of impairments	0	-45,335
Transfer of small tools in use	-155,545	-155,186
Material stocks at the end of the period 31. 12.	601,289	363,106

Group has no pledged stocks as security for its liabilities.

12.7 Short-term financial investments

According to the balance as at 31. 12. 2019 the Group records **988,632 €** of short-term financial investments. Of which the major part refers to deposits fixed for a period exceeding three months. At the end of year 2018 the Group recognized 1.8 million € of such investments.

12.8 Short-term operating receivables

Short-term operating receivables as at 31. 12. 2019 amounted to **7,689,979 €** and have decreased by 1.5 million € compared to the balance as at 31. 12. 2018.

Following table represents the structure of short-term operating receivables:

Item description	In €	
	31. 12. 2019	31. 12. 2018
Short-term accounts receivable	7,860,123	8,956,086
Short-term advances	27,337	1,110
Adjustment of short-term accounts receivable	-321,213	-228,928
Short-term accounts receivable	7,566,248	8,728,268
Short-term operating receivables from others	216,994	503,421
Adjustment of short-term receivables from others	-93,262	-11,009
Short-term operating receivables from others	123,732	492,412
Short-term operating receivables	7,689,979	9,220,679

Short-term accounts receivable represent 98 % of all short-term operating receivables.

Short-term operating receivables are entirely unsecured.

Breakdown of short-term claims for electricity, network charge and services including receivables referring to default interest as of December 31 2019 according to maturity terms is shown in the following presentation:

Item description	In €						Total accounts receivable
	Not yet due	Up to 30 days	31-60 days	61-90 days	More than 90 days	Total amount due	
Claims on buyers of electricity, network charge and services	7,361,974	162,682	32,869	13,493	278,368	487,412	7,849,386
Default interest claims	1,767	627	233	9	8,101	8,970	10,737
TOTAL	7,363,741	163,308	33,102	13,502	286,469	496,382	7,860,123

Changes in valuation adjustment of claims in year 2019 are presented in the next table.

Item description	Balance 1. 1. 2019	New formations		Withdrawal (use) and elimination			Balance 31. 12. 2019
		Chargeable to expenses	Chargeable to claims	Claims write-off	Paid interest – transfer to revenues	Elimination of excess valuation adjustments	
Valuation adjustment of accounts receivable	220,426	67,391	29,115	4,471	0	0	312,460
Valuation adjustment of interest claims	8,502	145	651	109	438	0	8,752
Valuation adjustment of other short-term claims	11,009	93,263	0	6,797	4,212	0	93,263
Total valuation adjustment of claims	239,936	160,799	29,767	11,377	4,650	0	414,475

12.9 Other current assets

Value of other current assets as at 31. 12. 2019 amounted to **240,686 €**. The largest item under other current assets is short-term deferred costs or expenses.

12.10 Cash and cash equivalents

As at 31. 12. 2019 Elektro Gorenjska Group had **7,895,236 €** of cash on the commercial banks accounts and short-term redeemable deposits in banks in the state.

12.11 Capital

Entire capital of the Group consists of the called-up capital, capital reserves, profit reserves, other reserves, and retained profit. Balance of the entire capital as at 31. 12. 2019 amounted to **165,914,359 €** and was higher by 4.6 million € or 2.8 % compared with the balance of capital as at 31. 12. 2018.

Called-up capital of Elektro Gorenjska Company is the same as share capital (**104,136,615 €**). It is divided in 17,273,475 ordinary registered unit shares. All shares are fully paid up. Shares are issued in dematerialized form and are managed in KDD – Central Securities Clearing Corporation, d. d., in accordance with regulations.

In 2019, in accordance with paragraph 6 of Article 381 of ZGD- 1, the company Elektro Gorenjska withdrew 12,901 ordinary freely transferable unit shares of the holder Elektro Gorenjska Company (treasury shares), which it acquired in the period from 1. 9. 2016 to 31. 3. 2018 in accordance with the resolution of the General Meeting. On this basis the share capital decreased by 53,658 €. After the decrease, the share capital amounted to 71,844,402 € and was divided into 17,273,475 ordinary freely transferable unit shares.

Company then, on the basis of the interim balance sheet as at 31. 8. 2019, which was reviewed by the auditor BDO Revizija d. o. o. and gave an unqualified opinion on it, increased its share capital from the Company's assets by transforming 32,292,213 € of other profit reserves into the Company's share capital. After the increase, the share capital of the Company amounts to 104,136,615 €. It is divided to 17,273,475 ordinary registered unit shares. Other details in respect with the share capital and ownership structure of the capital are explained also in Business report, chapter *3.7 – Share capital and ownership structure*.

Capital reserves in the amount of **45,973,479 €** were formed on 1.1.2006 in accordance with the transitional provisions item No. 15 Introduction to 2006 SAS, from the hitherto general revaluation equity adjustment, while a part in the amount of 28,581 € results from the withdrawal of treasury shares in 2019. They are applied in accordance with the Article 64 of ZGD-1.

Statutory reserves as at 31. 12. 2019 amount to **3,393,348 €** and are formed in accordance to the Article 64 of ZGD-1.

Other profit reserves amount to **5,769,517 €** and represent other profit reserves in the Group, taking into account the distribution of profits of parent companies. Group uses them in accordance with the Articles of Association of the joint-stock company Elektro Gorenjska and Articles of Association of companies.

Other reserves (-267,183 €) represent reserves arising from the valuation at fair value. They include mainly post-employment benefits – severance pay upon retirement (-270,644 €).

Item						In €
	Balance 1. 1. 2019	Change in the fair value of financial investments	Elimination of actuarial gains/ losses	New formation of actuarial gains/losses	Transfer to profit or loss brought forward	Balance 31. 12. 2019
Actuarial gains/losses	-169,154		1,710	-92,786	-10,414	-270,644
Change in fair value of financial investment available for sale (associate company)	5,690	-2,229				3,461
Total	-163,464	-2,229	1,710	-92,786	-10,414	-267,183

Retained profit or loss amounted to 6,908,583 €.

Return on share in year 2019 amounted to 0.42 €, which is by 0.09 € less than in year 2018.

Controlling company has no preference shares, therefore basic and adjusted returns per share are equal.

Basis for the calculation of the indicators of return on share are the net profit for the year and the weighted average number of ordinary shares in the period. Calculation is shown in the following table.

Item	In €	
	Year 2019	Year 2018
Net profit or loss of the business year	7,260,202	8,796,285
Weighted average number of ordinary shares	17,273,475	17,273,475
Return per share, basic/adjusted	0.42	0.51

12.12 Provisions

As at December 31 2019 provisions amounted to **8,942,104 €**. Compared to their balance as at December 31 2018 they increased by 115 thousand €.

Provisions for long-service bonuses and severance pay at retirement are formed in the amount of estimated future payments on the basis of actuary report on calculation of provisions for long-term earnings according to IAS 19.

Actuary calculation as at 31. 12. 2019 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 18 years of age to 0.5 % at 58 years, then constant 0.0 % fluctuation; total on employees as at 31. 12. 2019 this means fluctuation of 0.8 % a year for next business year;
- › estimated retirement date, given by the companies in the Group; earlier or later retirement depending on the date of retirement is not taken into account. In the event that an employee is entitled to the long-service bonus within three months after the expected date of retirement, provisions for this long-service bonus are formed as well.
- › growth of average earnings in RS for years 2020 and 2021, resulting from the Autumn forecasts of economic trends 2019 (UMAR); from 2022 onwards average salary in RS will increase annually by 2.0 % inflation and by real growth of 1.0 %. It is assumed that the amounts from the Decree will not keep increasing until 2021, while later the growth of these amounts in accordance with the inflation are predicted;
- › increase in starting and basic salaries and variable part of salaries in the company in the amount of 85 % of annual inflation. Increase in average salaries in electricity sector is assumed in the amount of annual inflation increased by 0.2 % or 0.5 % from 2022 onwards;
- › growth of salaries due to promotion is linearly decreasing, namely from 3.0 % at 15 years to 0.5 % at 45 years, then constant 0.5 % annually, as a total on employees as at December 31 2019 this means 0.8 % annually for next year;
- › length of service allowance in the amount of 0.5 % from the basic salary for each year of service is taken into account for employees under the collective agreement. Female workers with more than 25 years of service get a 0.25 % pay increase;
- › yield curve, which reflects the estimated timing of earning payments.

Used inflation yield curve is calculated for all government bonds for Euro zone countries (spot rates) as at 30. 12. 2019 and published on the following web page <http://www.ecb.eu/stats/money/yc/html/index.en.html>. From year 30 onwards the curve is extrapolated by a formula which reflects the relationship between the forward and spot rates wherein the forward rate for 30 years is used. Yield curve represents the relationship between market yields on government bonds in the euro area and the time remaining to maturity, therefore, the time structure of interest rates.

While actuary calculation as at 31. 12. 2018 took into account the following actuarial assumptions:

- › mortality tables of population of Slovenia from year 2007, reduced by 10 %;
- › linearly decreasing fluctuation from 1.5 % at 15 years of age to 0.5 % at 55 years, then constant 0.5 % fluctuation; total on employees as at 31. 12. 2018 this means fluctuation of 0.7 % a year for next business year;
- › expected date of retirement for individual employee is calculated based on gender, date of birth and achieved total length of service as at 31. 12. 2018 in accordance with the Article 27 of ZPIZ-2 and indent 3 of paragraph 1 of Article 28 in ZPIZ – 2; at the same time it is taken into account that women will not retire before the age of 56 and men before the age of 58, regardless of total length of service;
- › growth of average earnings in RS for years 2019 and 2020, resulting from the Autumn forecasts of economic trends 2018 (UMAR); from 2021 onwards average salary in RS will increase annually by 2 % inflation and by real growth of 1.0 %. It is assumed that the amounts from the Decree will not keep increasing until 2020, while later the growth of these amounts in accordance with the inflation are predicted;
- › increase in basic salaries and variable part of salaries in the company in the amount of the annual inflation, from 2020 onwards increased also by real growth in the amount of 0.2 %. Increase in average salaries in electricity sector is assumed in the amount of growth in basic salaries of the company increased by 0.5 %;
- › growth of salaries due to promotion is linearly decreasing, namely from 3 % at 15 years to 0.5 % at 45 years, then constant 0.5 % annually, as a total on employees as at December 31 2018 this means 0.8 % annually for next year;

- › length of service allowance in the amount of 0.5 % from the basic salary for each year of service is taken into account for employees under the collective agreement. Female workers with more than 25 years of service get a 0.25 % pay increase;
- › yield curve, which reflects the estimated timing of earning payments.

Used inflation yield curve is calculated for all government bonds for Euro zone countries (spot rates) as at 28. 12. 2018 and published on the following web page <http://www.ecb.eu/stats/money/yc/html/index.en.html>. From year 30 onwards the curve is extrapolated by a formula which reflects the relationship between the forward and spot rates wherein the forward rate for 30 years is used. Yield curve represents the relationship between market yields on government bonds in the euro area and the time remaining to maturity, therefore, the time structure of interest rates.

Provisions for severance pays at retirement and similar increased by 363 thousand € in year 2019. Balance of other provisions compared to the balance on the last day of 2018 decreased by 248 thousand €.

There were no significant differences between planned and realized forming and drawing on individual category of provisions.

Following tables present changes in provisions in years 2019 and 2018.

In €

Item description	Beginning of the period 1. 1. 2019	Increases (formations)		Decreases (withdrawals, elimination)			End of the period 31. 12. 2019
		Chargeable to costs (expenses)	Recognition chargeable or credit to	Credit to operating revenues	Credit to liabilities or short-term accrued charges	Derecognition chargeable or credit to capital	
Provisions for long-service bonuses	908,265	206,018		2,500	92,904	0	1,018,879
Provisions for severance pay at retirement	2,120,254	169,082	95,464	139	10,060	1,710	2,372,892
Total provisions for long-service bonuses and severance pay	3,028,520	375,100	95,464	2,639	102,964	1,710	3,391,771
Provisions for damages in connection with denationalization claims	5,798,799	197,969			453,637		5,543,132
Other provisions		7,201					7,201
Total other provisions	5,798,799	205,170			453,637		5,550,333
Total provisions	8,827,319	580,270	95,464	2,639	556,600	1,710	8,942,104

In €

Item description	Beginning of the period 1. 1. 2018	Increases (formations)		Decreases (withdrawals, elimination)			End of the period 31. 12. 2018
		Chargeable to costs (expenses)	Recognition chargeable or credit to	Credit to operating revenues	Credit to liabilities or short-term accrued charges	Derecognition chargeable or credit to capital	
Provisions for long-service bonuses	884,073	130,979		2,607	104,180	0	908,265
Provisions for severance pay at retirement	2,038,329	159,881	80,666	54,550	89,853	14,219	2,120,254
Total provisions for long-service bonuses and severance pay	2,922,402	290,861	80,666	57,157	194,032	14,219	3,028,520
Provisions for damages in connection with denationalization claims	5,447,242	351,558					5,798,799
Provisions for possible losses in disputes in progress	4,309				4,309		0
Total other provisions	5,451,550	351,558			4,309		5,798,799
Total provisions	8,373,952	642,419	80,666	57,157	198,341	14,219	8,827,319

12.13 Long-term financial liabilities

As at 31. 12. 2019 Elektro Gorenjska Group had **46,910,199 €** of long-term financial liabilities, which is by 1.4 million € less than as at 31. 12. 2019. All long-term financial liabilities in the amount of 16,133,043 € have the maturity of more than five years.

In year 2019 we redeemed 6,489,325 € worth of principals. Costs of interest amounted to 514,582 €. Interest in the amount of 6,670 € was capitalized.

In year 2018 we redeemed 16,862,877 € worth of principals, of which 10.3 million € refers to refinancing. Costs of interest amounted to 582,994 €. Interest in the amount of 1,466 € was capitalized.

Balance of received loans as at 31. 12. 2019 amounted to 54,566,451 €, while at the end of 2018 to 54,880,387 €.

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) and subsequent negotiations with banks. Interest rate of three of the loans is fixed, while all other loans have a floating rate, bound by three or six month EURIBOR. Add-on to EURIBOR is between 0.58 and 1.70 percent point. Majority of financial liabilities are secured by bills of exchange.

Balance of received loans to finance tangible fixed assets as at 31. 12. 2019 amounted to 54,566,451 €.

In connection with long-term financial liabilities the Group is exposed mainly to the interest risk, as the long-term loans raised are loans with a floating interest rate (EURIBOR + add-on).

As at December 31 2019 there were 29 % of long-term loans secured with the fixed interest rate, which represents the amount of 16 million €.

Exposure to risks and hedging systems are explained in the Business report, in chapters

4.3 – Risk management in Elektro Gorenjska Company and *4.4 – Risk management in Gorenjske elektrarne Company.*

Group has no long-term debts to the members of the management board (management), members of the supervisory board and internal owners.

Changes in long-term financial liabilities in year 2019 are presented in the following table:

Title	Year of approval	Year of maturity	Purpose of loan	Insurance of loan	Balance 31.12.2018	Increases	Amortizations 2019	Balance 31.12.2019	Short-term part of long-term loans 31.12.2019	Long-term part of loans 31.12.2019	Part of loan due from	
											10=part 9	11=part 9
1	2	3	4	5	6	7	8	9=6+7+8	10=part 9	11=part 9	12=part 9	
Credit 1	2012	2023	Investments	blank bills	2,250,000	0	-450,000	1,800,000	450,000	1,350,000		1,800,000
Credit 2	2015	2024	Investments (refinancing)	blank bills	6,735,787	0	-1,122,632	5,613,155	1,122,632	4,490,522		5,613,155
Credit 3	2015	2030	Investments	blank bills	6,964,213	0	-601,227	6,362,986	601,227	5,761,759		3,006,135
Credit 4	2015	2028	Investments	-	18,571,429	0	-2,571,428	16,000,000	2,571,428	13,428,572		12,857,143
Credit 5	2017	2029	Investments	blank bills	3,333,333	0	-83,333	3,250,000	333,333	2,916,666		1,666,667
Credit 6	2018	2029	Investments	blank bills	8,000,000	0	0	8,000,000	800,000	7,200,000		4,000,000
Credit 7	2018	2024	Investments (refinancing)	blank bills	9,025,625	0	-1,719,167	7,306,458	1,719,167	5,587,292		7,306,458
Credit 8	2014	2023	Investments	Bills of exchange, mortgage on land, assignment of the claim	0	292,313	58,463	233,851	58,463	175,388		233,851
Credit 9	2019	2031	Investments	blank bills	0	6,000,000	0	6,000,000	0	6,000,000		1,950,000
Total long-term loans					54,880,387	6,292,313	-6,489,325	54,566,451	7,656,250	46,910,199		38,433,408

12.14 Other long-term liabilities

On the last day of year 2019 Elektro Gorenjska Group had by **6,803,353 €** of other long-term liabilities. Structure and changes in other long-term liabilities in years 2019 and 2018 are shown in the two tables below.

Structure and changes in other long-term liabilities in year 2019:

In €

Item description	Beginning of the period 31. 12. 2018	Increases (formations)			Decreases (withdrawals, elimination)		End of the period 31. 12. 2019
		Chargeable to costs (expenses)	Recognition chargeable to assets	Recognition chargeable to assests	Credit to operating revenues	Credit to liabilities or short-term accrued charges	
Fixed assets acquired free of charge	580,515	0		0	41,491	0	539,023
Free acquisition of connections	3,952,853	0	275,174	0	167,703	0	4,060,324
Total tangible fixed assets received free of charge	4,533,368	0	275,174	0	192,927	0	4,599,347
Dedicated funds to cover disproportionate costs	150,894	0	53,300	0	601	0	203,592
Long-term deferred revenue-rentals and user charges	248,758	0	89,008	0	34,149	0	303,617
Deferred revenue from the average connection costs	1,440,194	0	0	0	85,319	0	1,354,875
Long-term deferred revenue-rentals and SODO RO services	14,742	0	0	0	0	14,742	0
Project STORY- long-term deferred revenue	37,204	0	55,990	0	12,132	0	81,061
Project TDX ASSIST - long-term deferred revenue	34,364	0	21,875	0	54,313	0	1,926
Project STORY- long-term deferred revenue	0	0	86,863	0	84,986	0	1,877
Received state benefits	69,434	0	0	193,872	25,203	0	238,102
Other long-term accrued costs	11,233	5,856	6,406	0	353	4,186	18,956
Total other long-term liabilities	6,540,190	5,856	588,615	193,872	506,251	18,928	6,803,353

Structure and changes in other long-term liabilities in year 2018:

In €

Item description	Beginning of the period 31. 12. 2017	Increases (formations)		Decreases (withdrawals, elimination)			End of the period 31. 12. 2018
		Chargeable to costs (expenses)	Recognition chargeable to assets	Credit to operating revenues	Credit to operating revenues	Credit to appropriate assets	
Fixed assets acquired free of charge	619,028	0	4,900	43,414	0	0	580,515
Free acquisition of connections	3,858,190	0	244,177	149,513	0	0	3,952,853
Total tangible fixed assets received free of charge	4,477,218	0	249,077	192,927	0	0	4,533,368
Dedicated funds to cover disproportionate costs	150,894	0	0	0	0	0	150,894
Long-term deferred revenue-rentals and user charges	100,193	0	175,803	27,238	0	0	248,758
Deferred revenue from the average connection costs	1,525,513	0	0	85,319	0	0	1,440,194
Long-term deferred revenue-rentals and SODO RO services	22,113	0	0	0	7,371	0	14,742
Project EASY RES- long-term deferred revenue	0	0	86,638	49,433	0	0	37,204
Project TDX ASSIST - long-term deferred revenue	189,209	0	-54,688	100,158	0	0	34,364
Project STORY- long-term deferred revenue	70,216	0	0	70,216	0	0	0
Received state benefits	84,920	0	0	15,487	0	0	69,434
Other long-term accrued costs	6,711	9,116	0	0	0	4,594	11,233
Total other long-term liabilities	6,626,987	9,116	456,830	525,291	7,371	4,594	6,540,190

Biggest items of other long-term liabilities are free acquisitions of connections and other fixed assets (total 4,599,347 €) and long-term deferred revenue from average connection costs (1,354,875 €).

Tangible fixed assets acquired free of charge consist of connections of customers that the company Elektro Gorenjska took over into its tangible fixed assets together with its commitment to care for their maintenance and reconstruction, in accordance with the regulations, above all the General conditions for connection to the distribution electric system (Official Gazette of RS No. 126/07 et seq.) and free acquisition of other fixed assets.

Long-term deferred revenue from average connection costs were formed until June 30 2007 regarding the implementation of GJS SODO. Average cost of a connection is a one-off amount paid for connection to the network or to increase the installed capacity. It is a dedicated source of funding for investment in network expansion.

Group has no long-term debts to members of the Board (of management), members of the Supervisory Board or internal owners.

12.15 Deferred tax liability

Deferred tax liabilities as at 31. 12. 2019 amounted to **278,632 €**, while on 31. 12. 2018 they amounted to 239,531 €. Deferred taxes are calculated on the basis of temporary differences using the balance sheet liability method and expected tax rates.

12.16 Short-term financial liabilities

Short-term financial liabilities as at 31. 12. 2019 amounted to **7,699,711 €** and are by 1.1 million € higher than as at 31. 12. 2018. Main part of short-term financial liabilities refer to the short-term financial liabilities to banks or to short part of long-term loans and interest.

12.17 Short-term operating liabilities

At the end of 2019 short-term operating liabilities in the amount of **4,975,068 €** were by 0.8 million € lower than compared to the balance on the last day of 2018.

Detailed review of the short-term operating liabilities is presented in the following table.

Item description	In €	
	31. 12. 2019	31. 12. 2018
Liabilities to suppliers for own account	1,659,186	1,723,784
Liabilities to other suppliers on its own behalf and for third party account	1,769,800	2,069,709
- liabilities to SODO, d. o. o.	1,767,454	2,069,709
- to others	2,346	0
Other liabilities	1,546,082	1,999,177
- to workers	922,898	1,069,779
- to state and other institutions	375,387	411,676
- for received advances and collaterals	120,665	119,013
- other (interests, employee deductions, capital company ...)	127,132	398,709
Total short-term liabilities from operating activities	4,975,068	5,792,670

12.18 Other short-term liabilities

Other short-term liabilities as at 31. 12. 2019 amounted to **1,086,758 €** and represent mainly the accrued liabilities. Compared to the balance as 31. 12. 2018 they are higher by 133 thousand €.

12.19 Off-balance sheet records

Off-balance sheet assets or liabilities as at 31. 12. 2019 amounted to **5,838,168 €**. They were lower by 133 thousand € compared to the balance as at 31. 12. 2018.

Contingent assets amount to 3,836,893 €, with received guarantees representing the highest value. Contingent liabilities represent the given guarantees and bills. Other off-balance record include fixed assets owned by SODO (1,950,538 €). Elektro Gorenjska Company is liable to keep records of assets financed from average connection costs, which were after the balance as at 31. 8. 2010 transferred to the ownership and indirect property of SODO or sold to SODO in year 2011, in the off-balance sheet in accordance with the Contract with SODO or contract of sale.

Item description	In €	
	31. 12. 2019	31. 12. 2018
Foreign material in warehouse	0	101,695
Received guarantees	3,349,275	3,268,637
Easements	487,618	550,799
Total potential assets	3,836,893	3,921,131
Issued guarantees, bills of exchange	50,736	2,056
Total potential liabilities	50,736	2,056
Fixed assets in the property of SODO	1,950,538	2,044,703
Undrawn loan amount	0	0
Retained amount from paid dividends	0	3,011
Total other	1,950,538	2,047,714
Total off-balance sheet assets and liabilities	5,838,168	5,970,902

Group does not have any contingent off-balance liabilities as defined by ZGD – 1.

Notes on Profit and Loss Account Items



13.1 Net sales revenues

In year 2019 net sales revenues amounted to **37,853,514 €**. Their structure is presented in the following table.

Item description	In €	
	2019	2018
Revenues from electricity sale	4,157,714	3,323,012
Revenues from rent and services in relation to SODO	31,582,738	32,035,238
Revenues from rents	505,842	582,870
Revenues from construction and assembly works	937,144	911,920
Revenues from services rendered	188,700	152,574
Revenues from sale of other business effects	481,378	311,363
Total net sales revenues from sale of business effects	37,853,514	37,316,975

Majority of net sales revenues of the Group (88 %) represent revenues of the controlling company. Major item of net sales revenues of the Group in year 2019 represent revenues from rent and services related to SODO (31,582,738 €).

Revenues from rent in relation to SODO will amount to 18,112,920 € in accordance with the Decision of the Energy Agency in 2020. This is a data based on a set regulatory framework that takes into account the planned values and parameters for the calculation. Actual revenues from this item will depend on the realized values.

In 2019 revenues from contracts with customers amounted to 18,488 thousand €, and other revenues 19,366 thousand €. In 2018 revenues from contracts with customers amounted to 18,658 thousand €, and other revenues 18,659 thousand €.

13.2 Capitalized own products and own services

In year 2019 capitalized own effects amounted to **5,033,533 €**. They were mostly investments in tangible fixed assets – energy infrastructure. Compared to year 2018 the amount of capitalized own effects was by 292 thousand € lower.

Item description	In €	
	2019	2018
Direct material costs	3,057,841	3,267,352
Direct costs of others' services in the production of products and the provision of services	63,100	120,773
Direct labour costs	1,595,722	1,493,742
Total direct costs of material, services and labour	4,716,663	4,881,867
Total indirect costs of material, services, work and depreciation	316,870	444,131
Total costs in the manufacture of products and the provision of services in relation to capitalized own effects	5,033,533	5,325,998

13.3 Other operating revenues

Other operating revenues in the amount of **969,348 €** consist of:

Item description	In €	
	2019	2018
Revenues from reversal of provisions	4,659	57,157
Revaluation operating revenues	258,904	178,212
Revenue from the transfer of long-term deferred revenue to regular operating revenues:		
-free acquisition of FA	41,491	43,414
-free acquisition of connections	167,703	149,513
-average connecting costs	85,319	85,319
-other	194,978	234,175
Damages recovered from insurance companies	180,976	244,894
Other operating revenues	35,317	118,342
Total other operating revenues	969,348	1,111,025

Revenues from transfer of long-term deferred revenues to regular revenues are explained also in chapter [12.14 – Other long-term liabilities](#).

13.4 Acquisition cost of goods sold and cost of material used

Acquisition cost of sold goods and material used consists of:

Item description	In €	
	2019	2018
Costs of material:	4,715,850	4,673,486
– material costs of maintenance	300,599	211,061
– costs of materials in connection with capitalized own effects, market services	3,498,200	3,647,744
– energy costs	560,161	469,641
– small tool write-off	155,545	155,186
– costs of office supplies	70,586	78,504
– other material costs	130,759	111,351
Acquisition cost of goods sold and costs of material used	4,715,850	4,673,486

Costs of material used in maintenance of tangible fixed assets are presented also in the Business Report, chapter [5.5 – Maintenance of energy facilities](#).

Costs of material in connection to the capitalized own effects and services for the market (year 2019: 3,498,200 € and year 2018: 3,647,744 €) include the value of the material, which is then treated by the Group as a component part of:

- › acquisition cost of tangible fixed assets constructed or made in the Group for the purposes of the Group (capitalized own effects), which is explained in more detail in chapter [13.2 – Capitalized own products and own services](#);
- › value of services (construction, electrical installation and similar services), sold on the market (please see also note [13.1 – Net sales revenues](#)).

13.5 Costs of services

In 2019 costs of services amounted to **3,786,598 €**, in 2018 they were 3,880,201 €. More detailed structure of service costs is provided in the following table.

Item description	In €	
	2019	2018
Costs of service in creating products and implementing services	62,220	74,814
Costs of transport services	178,958	174,248
Costs of services in respect of maintenance of electric power infrastructure and other tangible fixed assets	1,311,627	1,159,211
Rents	147,650	167,587
Reimbursements of work related costs to employees	63,098	42,381
Costs of payment transactions, banking services and insurance premiums	607,789	614,058
Costs of intellectual and personal services	460,341	593,864
Costs of advertising and representation	75,111	87,228
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...)	157,293	162,495
Costs of information and other services	722,511	804,314
Total costs of services	3,786,598	3,880,201

Biggest cost within the cost of services is the costs of services related to the maintenance of the electricity infrastructure and other tangible fixed assets. Maintenance of electricity infrastructure is also presented in the Business Report, chapter *5.5 – Maintenance of energy devices*.

The most important part of payment transactions, banking services and insurance premiums costs are insurance premiums from insurance of electricity infrastructure.

Cost of intellectual services consists of costs for the needs of scientific research, tuition fees and costs of additional professional training, which is also presented in the business report, chapter *5.6 – Development and design of the power system*.

Costs of advertising and representation also include the costs of sponsoring, which are presented in more detail in the chapter *6.3 – Care for the public interest - social responsibility*.

Costs of other services are primarily the costs associated with the computer information system and include the care for the smooth and safe operation of the Group's information system, e-mail, access to the World Wide Web, ensuring an adequate level of data and service security, implementation of a common security policy, data processing, storage of computer-processed data and other computer software maintenance services.

13.6 Labour costs

Costs of labour in the amount of **13,527,188 €** consist of:

Item description	In €	
	2019	2018
Salary costs	9,100,766	8,798,835
Costs of voluntary pension insurance of employees	464,982	449,042
Costs of employer's contributions and other benefits from salaries	1,599,143	1,574,448
Other labour costs	2,362,297	2,264,805
Total labour costs	13,527,188	13,087,130

Other labour costs include reimbursement of transport and food expenses during work, provisions for long-service benefits and severance pay, holiday pay, benefits, insurance costs for employees and payment to intern students.

Number of employees and their educational structure and other information related to employees are presented in more detail in the Business Report, chapter *6.1 – Care for employees*.

Remuneration of the Management and Supervisory Boards are presented in *18.4 – Transactions with management and supervisory board*.

13.7 Write-offs

In 2019 write-offs amounted to **12,428,932 €**. Their composition is as follows:

Item description	In €	
	2019	2018
Depreciation of intangible fixed assets	542,878	537,545
Depreciation of tangible fixed assets	11,370,218	10,738,632
Depreciation of investment property	42,935	52,845
Total depreciation costs	11,956,031	11,329,022
Operating expenses from revaluation of fixed assets and investment property	312,445	336,033
Operating expenses from revaluation of current assets	160,456	55,749
Total write-offs	12,428,932	11,720,804

Costs of depreciation of intangible fixed assets (542,878 €) are presented also in chapter *12.1 – Intangible assets*; costs of depreciation of tangible fixed assets (11,370,218 €) in chapter *12.2 – Tangible fixed assets*; costs of depreciation of investment property (42,935 €) in chapter *12.3 – Investment property*.

13.8 Other operating expenses

Other operating expenses in the amount of **536,822 €** consist of:

Item description	In €	
	2019	2018
Contribution for promotion of employment of persons with disabilities	47,169	48,376
Contribution for urban land	87,738	89,364
Contribution for contaminated water	14,371	14,371
Provisioning	205,170	351,558
Other expenses (environment protection costs, compensations ...)	182,374	207,008
Total other operating expenses	536,822	710,676

Provisioning refers to the damages related to denationalisation proceedings and is explained in more detail in chapter [12.12 – Provisions](#).

13.9 Financial expenses from financial liabilities

In year 2019 the Group realized by **514,787 €** of financial expenses from financial liabilities, of which the majority represent interest expenses for received loans in commercial banks.

13.10 Recognized profit or loss for investments valued using the equity method

In 2019 the profit or loss for investments valued using the equity method amounted to **189,909 €**, while in year 2018 it was 904,513 €. It represents a pro rata portion of the net profits of associated companies ECE and Soenergetika.

13.11 Income tax

Accrued income tax for business year 2019 amounts to **1,187,812 €** (year 2018: 1,114,004 €). In the years 2019 and 2018, all Group companies disclosed income tax liability. An overview of the calculation of the income tax for each year is given in the following table:

Item description	In €	
	2019	2018
Pre-tax profit	9,461,152	9,956,095
Revenues reducing the tax base	-1,192,470	-961,088
Expenses increasing the tax base	1,130,811	943,247
Expenses reducing the tax base	-435,390	-490,032
Reduction of the tax base on the basis of relief	-2,718,448	-3,555,677
Other	5,981	-29,367
Tax base	6,251,644	5,863,178
Tax rate	19 %	19 %
Income tax	1,187,812	1,114,004
Tax base for deferred taxes	355,814	227,579
Tax rate	19 %	19 %
Deferred taxes	67,605	43,240
Entire tax (income tax and deferred taxes)	1,255,417	1,157,244

13.12 Deferred tax liabilities and deferred taxes

Deferred tax liabilities as at 31. 12. 2019 amounted to **278,632 €**. They refer to taxable temporary differences arising from the merger of Elektro Gorenjska Prodaja Company to ECE Company and small inventory in fixed assets. Compared to the balance as at 31. 12. 2018 they increased by 39,101 €.

In 2019 the Group eliminated by 28.504 € of deferred tax assets as the event in respect of which the claims were created was realized in 2019.

Deferred tax assets, which according to the balance as at 31. 12. 2019 amount to 763,231 €, the Group did not recognise due to uncertainty about the future taxable profits.

Notes on Other comprehensive income items



Total comprehensive income in addition to the net profit or loss for the period (7,166,896 €) includes also actuarial gains and losses of the parent company and subsidiary as well as the effect of impairment of the long-term financial investment in the associate company in the total amount of - 93,306 €.

Individual items of other comprehensive income are presented also in chapter [12.11 - Capital](#) (table fair value changes).

Notes on Cash flow items



In year 2019 Elektro Gorenjska Group had 55,671,017 € of receipts and 54,152,141 € of expenditures. Receipts and expenditures include appropriate amounts of duties, mainly VAT and excise duties, in accordance with the issued invoices or receipted invoices. Cash flow in year 2019 was positive and amounted to 1,518,875 €.

As at 31. 12. 2019 the Group had on transaction accounts in banks and in the form of short-term deposits or deposits redeemable monetary assets in the amount of 7,895,236 €, while the balance of these assets on 31.12.2018 amounted to 6,365,442 €.

Net cash from operating activities in year 2019 exceeded expenditure by 21,288,235 €, which means that the Group operates positively with its main activity and creates a positive cash flow. The largest revenues were revenues received under the Contract with SODO for implementation of services and rents for electric power infrastructure. With operating cash flow surplus in year 2019 the Group was able to settle all its liabilities (expenditure) referring to the repayment of the principals and interests in respect of long-term credits in the amount of 7,270,747 €, settle all liabilities related to payment of dividends in the amount of 2,591,021 €, and could partly finance new acquisitions of intangible and tangible assets.

The largest revenues were revenues received under the Contract with SODO for implementation of services and rents for electric power infrastructure.

Negative net cash used in investing activities in year 2019 amounted to 15,945,912 €. Industry the Elektro Gorenjska Group operates in is technologically very intense and in order to provide quality supply to its customers in the area of Elektro Gorenjska distribution network large and constant investments are required. New acquisitions of intangible and tangible assets were mainly financed by drawing from long-term credit in the amount of 6 million € (explained in chapter *12.13 – Long-term financial liabilities*), and also by positive net cash from operating activities.

Cash flow from financing activities in the period considered was -3,823,448 €.



Overview of fair value and carrying amount of assets and liabilities:

In €

	31. 12. 2019		31. 12. 2018	
	Book value	Fair value	Book value	Fair value
Non-derivative financial assets at amortized cost				
Long-term and short-term financial receivables	1,195,247	1,195,247	1,943,633	1,943,633
Long-term and short-term trade receivables	7,706,733	7,706,733	8,808,676	8,808,676
Cash and cash equivalents	7,895,236	7,895,236	6,365,442	6,365,442
Total non-derivative financial assets	16,797,216	16,797,216	17,117,751	17,117,751
Non-derivative financial liabilities at amortized cost				
Bank loans and other financial liabilities	-54,609,910	-54,609,910	-54,906,619	-54,906,619
Short-term operating liabilities to suppliers for their own and foreign accounts	-3,428,986	-3,428,986	-3,793,493	-3,793,493
Total non-derivative financial liabilities	-58,038,896	-58,038,896	-58,700,112	-58,700,112
Total	-41,241,680	-41,241,680	-41,582,361	-41,582,361

Estimated fair value of short-term assets and liabilities is equal to their book value.

Fair value scale

Fair value and method of valuation of assets:

	31. 12. 2019				31. 12. 2018				In €
	1. Level	2. Level	3. Level	Total	1. Level	2. Level	3. Level	Total	
Assets measured at fair value									
Total assets measured at fair value	0	0	0	0	0	0	0	0	
Assets for which fair value is disclosed									
Long-term and short-term financial claims	0	0	1,195,247	1,195,247	0	0	1,943,633	1,943,633	
Long-term and short-term trade receivables	0	0	7,706,733	7,706,733	0	0	8,808,676	8,808,676	
Cash and cash equivalents	0	0	7,895,236	7,895,236	0	0	6,365,442	6,365,442	
Total assets for which fair value is disclosed	0	0	16,797,216	16,797,216	0	0	17,117,751	17,117,751	
Total	0	0	16,797,216	16,797,216	0	0	17,117,751	17,117,751	

Fair value and method of valuation of liabilities:

	31. 12. 2019				31. 12. 2018				In €
	1. Level	2. Level	3. Level	Total	1. Level	2. Level	3. Level	Total	
Liabilities measured at fair value									
Liabilities measured at fair value total	0	0	0	0	0	0	0	0	
Liabilities for which fair value is disclosed									
Bank loans and other financial liabilities	0	0	-54,609,910	-54,609,910	0	0	-54,906,619	-54,906,619	
Short-term trade payables	0	0	-3,428,986	-3,428,986	0	0	-3,793,493	-3,793,493	
Total liabilities for which fair value is disclosed	0	0	-58,038,896	-58,038,896	0	0	-58,700,112	-58,700,112	
Total	0	0	-58,038,896	-58,038,896	0	0	-58,700,112	-58,700,112	

Capital management



Key factor in the success of Elektro Gorenjska Group is a long-term orientation towards the customer and constant adaptability to external operating conditions (national interest, regulatory and legislative changes, major technological changes, ...). Main purpose of capital management in Elektro Gorenjska Group is therefore to ensure capital adequacy, high financial stability and long-term solvency, and appropriate value for shareholders.

Group monitors the long-term financial stability with the ratio between net financial debt and EBITDA. Policy of the Group is that it does not exceed the value of 3.5, which allows the Group long-term stable operation (more explained in chapter [5.9.1 – Significant indicators](#)). For control of the capital, the Group uses a leverage ratio, which indicates the proportion of net debt to equity. Indicator was in 2019 at a similar level as in 2018, which confirms the fact that the Group manages its capital stably.

Financial stability of companies in the Group is also evident from the rating GVIN. Credit rating of the parent company Elektro Gorenjska and its subsidiary Gorenjske elektrarne is currently B 1++, which is very well according to the very technologically intensive activity in which the company operates. Other electricity distribution companies in Slovenia have the same rating or ratings B1+ or C1+.

Item description	Note	In €	
		31. 12. 2019	31. 12. 2018
Long-term financial liabilities	12.13	46,910,199	48,332,599
Short-term financial liabilities	12.16	7,699,711	6,574,020
Total financial liabilities		54,609,910	54,906,619
Capital	12.11	165,914,359	161,338,484
Debt/Capital		0,33	0,34
Cash and cash equivalents	12.10	7,895,236	6,365,442
Net financial liability		46,714,674	48,541,177
Net debt/capital		0,28	0,30

In 2018 the Elektro Gorenjska Group's Strategy for period 2018-2022 was revised, identifying strategic projects that will significantly influence the Group's capital growth in the future as well.

Transactions with affiliates



Below we present transactions with related parties, namely transactions with Group companies, transactions with the Republic of Slovenia, transactions with companies owned by the Republic of Slovenia and the operations of the Management Board and the Supervisory Board. On the basis of the statements we have received from the Chairman of the Management Board in controlling company, Director of subsidiary and members of the Supervisory Board, transactions with related parties on the basis of connections individual - the company, as defined by IAS 24, are irrelevant.

18.1 Transactions with Group companies

Among transactions of the controlling company with the subsidiary Gorenjske elektrarne, which in 2019 amounted to 977 thousand €, besides the paid profit in the amount of 642,075 € (payment of the subsidiary to the controlling company) the most important were the following:

Item description	In € 2019
Revenues from general services (costs of affiliates)	93,324
Revenues from rents (costs for rents of affiliates)	157,587

Among the transactions between the Gorenjske elektrarne Company and GEK Vzdrževanje more significant transaction is transaction for maintenance services in the amount of 587 thousand €.

The most important transaction of Gorenjske elektrarne with associate company Soenergetika in 2019 was the transfer of profit to Gorenjske elektrarne in the amount of 170 thousand €.

Among the transactions with the associated company ECE the important one was the purchase of electricity from the associate company Soenergetika in the amount of 627 thousand € and the sale of natural gas to the associate company Soenergetika in the amount of 2.2 million €. In 2019, the associated company ECE remitted the profit in the amount of 345 thousand € to Elektro Gorenjska Company.

Other transactions did not reach significant values.

All transactions with Group companies were implemented under normal market conditions.

As a controlling company Elektro Gorenjska Company did not obstruct or impair operations of company Gorenjske elektrarne as the controlled company.

18.2 Transactions with the Republic of Slovenia

Most important transactions of the parent company and its subsidiary with the Republic of Slovenia were in 2019 the following:

Item	In € Payments in year 2019
Dividends	2,059,332
Corporate income tax (tax and advance payments)	1,197,810
Other duties (VAT, employer contributions)	5,601,381
Total	8,858,523

18.3 Transactions with companies directly or indirectly owned by the Republic of Slovenia

Table below shows significant transactions with companies in which the state has directly or indirectly a dominant influence.

Business partner	In €				
	Open receivables on 31. 12. 2019	Open liabilities on 31. 12. 2019	Expenditure in year 2019	Revenues in year 2019	Dividend payment in year 2019
SODO, d. o. o.	2,984,829	1,767,455		31,582,738	
Modra zavarovalnica, d. d.		37,277	443,985		
Zavarovalnica Sava, d. d.		735	513,701		
SID, d. d.		6,362,986	91,152		
Kapitalska družba, d. d.					64,790
Sava RE, d. d.					42,000
DUTB, d. d.					31,080
Total	2,984,829	8,168,452	1,048,838	31,582,738	137,870

Outstanding liabilities to SODO Company represent payables for the account of third parties.

Transactions with other companies in which the State has a dominant influence do not represent a significant amount.

18.4 Transactions with Management and Supervisory Board

In year 2019 Elektro Gorenjska Group paid the management (employees under individual contracts) the following receipts:

Receipts of chairman of the board or directors	Fixed earning (gross salary)	Operating performance (gross)	Pay for annual leave (gross)	Reimburse-ments of costs	In € Bonuses
Chairman of the BoardElektra Gorenjska	97,200	3,056	0	2,828	7,685
Director Gorenjskih elektrarn	56,625	8,204	1,907	1,697	2,192
Director GEK Vzdrževanja	55,383	0	1,907	1,462	4,043

Part of the receipts of Elektro Gorenjska Chairman of the Board for business performance in the amount of 649 € refers to the period before taking up this position.

Reimbursement of 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.

Bonuses include insurance premiums, use of a company car and medical examination. Gross remuneration of Supervisory Board members in 2019 are shown in the following table. As some members are also members of the committees of SB remuneration for participation in the committees is also included.

Remuneration policy of Supervisory Board members is presented in chapter [3.6.1 – Management and governance of Elektro Gorenjska Company](#).

	Payment for the performance of the function (gross)	Attendance fee SB (gross)	Attendance fee committee (gross)	Gross total	In € Travel expenses
	1	2	3	4=1+2+3	5
Representatives of capital					
mag. Samo Logar	21,188	3,520	1,100	25,808	452
Andrej Koprivec	15,538	3,450	2,200	21,188	672
mag. Tedo Djekanović	15,255	3,494	1,320	20,069	207
Franjo Curanović	14,125	3,875	1,980	19,980	53
Employee representatives					
Iztok Štular	11,300	4,070		15,370	
Jereb Borut	11,300	3,795		15,095	

Gross receipts of external members of the Audit and Nomination Committees are shown in the table below.

	Payment for the performance of the function (gross)	Attendance fee committee (gross)	Gross total	In € Travel expenses
	1	2	3=1+2	4
External committee members				
Milena Pervanje	5,650	1,100	6,750	0
dr. Simon Čadež	5,650	1,980	7,630	229

In 2019 the Supervisory Board held a total of 15 sessions, of which 14 were regular and one correspondence. Mag. Samo Logar was present at 13 sessions, Mr. Borut Jereb and mag. Tedo Djekanović at 14, other members of the Supervisory Board were present at all sessions.

Nomination Committee held a total of 7 regular sessions in 2019. Mag. Samo Logar and Mrs. Milena Pervanje were present at six sessions, while mag. Tedo Djekanović at all seven.

Audit Committee held a total of 12 sessions in 2019, 11 regular and one correspondence. Dr. Simon Čadež was present at 10 sessions, Mr. Franjo Curanović at 11 sessions, Mr. Andrej Koprivec at all sessions.

Costs of other supervisory board members' benefits in year 2019 refer to the liability insurance in accordance with the decision of the 16th shareholders meeting of Elektro Gorenjska Company. These benefits represent the creditworthiness of the supervisory board members.

	In € Liability insurance
Representatives of capital	
mag. Samo Logar	730
Andrej Koprivec	730
mag. Tedo Djekanović	730
Franjo Curanović	730
Employee representatives	
Iztok Štular	730
Borut Jereb	730

Board of Directors and the Supervisory Board did not receive any receipts in respect of performing the functions in controlled companies. Elektro Gorenjska received and also approved no advances, loans, or guarantees to groups of people mentioned in this chapter and did not disclose any claims on them in this respect as of December 31 2019.

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Auditing costs

Under Article 57 of the Companies Act (ZGD-1) Elektro Gorenjska Group is subject to annual report audit. Contractual amount for auditing the annual report of companies within the Group and Elektro Gorenjska Group for year 2019 amounted to 16,210 €. In addition, the auditor who has audited the annual report has been paid an additional 6,050 € for other auditing services and another 2,400 € for assurance services.

In Elektro Gorenjska Group we are aware of the risks that are an integral part of our operations. We are also aware that only a comprehensive and systematic risk management can be effective. Management of risks is an important condition for successful and efficient reaching of the set long-term business goals.

Financial risks are connected with the ability to create financial income, control financial expenses, maintain the value of financial assets, control financial liabilities and ensure competitive and long-term solvency. In the Group Elektro Gorenjska, we are exposed to numerous financial risks, which include, in particular: credit risk of customer payments, extraordinary expenses (penalties), interest rate risk, lack of investment funds, risk of investments in subsidiaries and associates, inadequate payment of EG services by SODO and liquidity risk.

Credit risk

Carrying amount of financial assets represents a maximum exposure to credit risk. Maximum exposure to credit risk at the reporting date were:

	2019	2018
Long-term receivables	213,402	80,408
Short-term financial investments	988,632	1,800,835
Short-term receivables	7,689,979	9,220,679
- of which trade receivables	7,566,246	8,728,267
Cash	7,895,236	6,365,442
Total	16,787,249	17,467,364

Under the Contract on the lease of electricity distribution infrastructure and the provision of services for the distribution system operator the Group collects customer payments on its own behalf and on behalf of SODO, d. o. o. There is a higher risk, as the Group despite unpaid claims of customers has to settle all liabilities to SODO. In part, the Group in accordance with the control has recognized and covered potential write-offs, but only up to 0.2% of charged network charges, which is approx. 51,000 € annually.

Breakdown of short-term receivables for the network charge, electricity and services and interest receivable as at 31. 12. 2019 and 31. 12. 2018 are shown by maturity in the following table:

	31. 12. 2019	31. 12. 2018
Receivables non past due	7,363,741	8,462,753
Overdue to 30 days	163,308	273,558
Overdue from 31-60 days	33,102	3,536
Overdue from 61-90 days	13,502	14,960
Overdue over 90 days	286,469	201,278
Overdue receivables	496,382	493,333
Share of overdue receivables in open ones	6 %	6 %
Total	7,860,123	8,956,086

Changes in valuation adjustment of claims in years 2019 and 2018 are presented in the next table.

	2019	2018
Opening balance 1. 1.	239,937	446,154
New formations	190,566	38,973
Drawing and elimination	16,027	245,188
Closing balance 31. 12.	414,475	239,937

Receivables are reviewed regularly and monthly in the Group. Recovery is conducted regularly to all customers under the same criteria. We recover also default interest consistently. Accuracy of the records and the recovery has brought us to a good result. Largest debtors or non-payers of network charge are discussed at the regular monthly meetings, where for the individual debtor we make the plan of activities, which should lead to the highest possible recovery. It is an individual treatment. We also review the credit rating of the debtors. We also use telephone recovery, possibility of granting payments in installments, search options for compensation, assignment, etc. In the case of an installment debt repayment, contract of assignment of claim, we always include in the contract the accrued default interest. When closing the outstanding receivables we respect the provisions of the general part of the contract on access to distribution networks. When we have exhausted all possible instruments of "soft" recovery, in the event of non-payment of the network charge, we send a notice of disconnecting the user system. In the event that a party despite the notice still does not settle the debt within the time limit specified in the notice, disconnection of the measuring point follows. In this way, the company prevents further damage to the business or financial indiscipline, which would otherwise lead to higher outstanding receivables.

Receivable from the biggest buyer as at 31. 12. 2019 amounted to 2,984,829 €, which means 39 % of all accounts receivable.

According to the assessment, credit risk has a moderate impact on the business or liquidity. Assuming a 25 % annual probability of risk realization, an individual assessment of risky rates on business amounts to 57 thousand €, with the range of losses in case of realization going from a minimum of 0 € to a maximum of 150 thousand €.

Liquidity risk

Risk of short-term insolvency or liquidity risk stems from the possibility that the Group at any given time will not have sufficient liquidity to meet its current obligations and to maintain normal operations.

Liquidity risk is managed primarily with the following activities:

- › Supervision and coordination among all OU in the field of procurement of goods and services or conclusion of purchase contracts with respect to the expected available cash. This area includes also prioritization of purchases depending on available funds. This applies to all areas of action in the Group.
- › Monitoring the implementation of open orders and concluded procurement contracts in particular as regards the date of completion, and the date and amount of the anticipated payment obligations.
- › Control over the timeliness of payments of claims, especially with major clients, as late payments of customers as a result of worsened financial discipline, requests for extension of payment deadlines and discounts as well as higher costs for the recovery of arrears, all reflect in the poorer liquidity of the Group. This includes the establishment of an information system on overdue receivables, and timely mutual information on outstanding receivables between individual OUs, so that appropriate and timely action is taken (issuing timely reminder, court claims ...). In concluding commercial contracts with customers of our services special attention is paid to further integration of the relevant insurance of payments. Customers with overdue receivables are regularly and monthly reminded.
- › Constant monitoring of the stocks. At the level of the management decisions were adopted, defining the monitoring of stocks. Group finally and fully realizes the decisions in connection with the consignment of material and equipment suppliers. Group further optimizes working processes (in the field of planning - purchasing material - implementation).
- › Established cash management system at the Group level, on the basis of which companies borrow cash from each other. Main objective of managing the monetary assets in Elektro Gorenjska Group is to optimize the liquidity of Group companies. It is a matter of short-term cash management, that is the covering of short-term deficits and short-term placement of cash surpluses among companies in the Group.

Severity of liquidity risk is assessed as significant. Due to the established control mechanisms and the implementation of measures, especially cash management, at the Group level, we believe that the probability of materialization of illiquidity is small, but the company is aware that illiquidity could cause great business damage.

Liquidity risk is closely associated with investment risks. Liquidity risk management is the implementation of investment financing in accordance with the business plan, in a way that ensures sufficient resources to avoid delays in the implementation of investments, since the processes of borrowing can be long lasting.

In the Group we have set up cash management, whose main objective is to optimize the liquidity situation and the need for utilization of short-term external debt financing. Source of financing the short-term deficits of a certain company is excess cash of one of the Group companies. This is to achieve the best conditions for both of borrowing as investment funds, in particular, in a way that exploits the synergistic effects of the Group as a whole.

Much attention is given to the preparation and monitoring of cash flows plan. Effective planning of liquidity enables us to optimally manage any short-term surpluses or deficits of liquid assets.

Following table shows financial liabilities to banks and other long-term financial liabilities by maturity.

2019	Maturity			TOTAL
	Within 1 year	From 2 to 5 years	Over 5 years	
Financial liabilities to banks	7,656,464	30,777,158	16,133,043	54,566,665

2018	Maturity			TOTAL
	Within 1 year	From 2 to 5 years	Over 5 years	
Financial liabilities to banks	6,547,788	30,391,151	17,941,447	54,880,386

Short-term operating receivables according to maturity were following:

2019						In €	
	Non past due	Due from 0 to 30 days	Due 31 to 90 days	Due over 90 days	Total due	Total liabilities	
Short-term trade payables	1,634,550	2,519	22,117	0	24,636	1,659,186	
Short-term operating liabilities from advances	120,665	0	0	0	0	120,665	
Short-term operating liabilities for a foreign account	1,769,800	0	0	0	0	1,769,800	
Short-term liabilities for salaries	800,031	0	0	0	0	800,031	
Liabilities to state and other institutions	498,700	0	0	0	0	498,700	
Other short-term operating liabilities	126,684	0	0	0	0	126,684	
Total	4,950,431	2,519	22,117	0	24,636	4,975,068	

2018						In €	
	Non past due	Due from 0 to 30 days	Due 31 to 90 days	Due over 90 days	Total due	Total liabilities	
Short-term trade payables	1,705,799	10,080	7,697	207	17,984	1,723,783	
Short-term operating liabilities from advances	119,013	0	0	0	0	119,013	
Short-term operating liabilities for a foreign account	2,069,221	0	0	0	0	2,069,221	
Short-term liabilities for salaries	1,069,780	0	0	0	0	1,069,780	
Liabilities to state and other institutions	404,347	0	0	0	0	404,347	
Other short-term operating liabilities	406,528	0	0	0	0	406,528	
Total	5,774,688	10,080	7,697	207	17,984	5,792,670	

Severity of liquidity risk is assessed as significant. Due to the established control mechanisms and the implementation of measures, especially cash management at the Group level, we believe that the probability of materialization of illiquidity is small, although we are aware that illiquidity could cause a great business damage. Assuming a 25% annual probability of risk realization an individual assessment of risk situations on operations amounts to 8 thousand €, with the range of losses in the case of realization going from a minimum of 0 € to a maximum of 20 thousand €.

Interest risk

Interest rate risk is the danger in the event of unfavorable movements in interest rates. Since the Group has certain loans contracted at a variable interest rate (EURIBOR), they are sensitive to movements in interest rates. At the end of 2019, the Group had 71 % of unpredictable cash flow (at the end of year 2018 it had 66 %).

Exposure to interest rate risk was as follows:

	In €	
	2019	2018
Financial liabilities with variable interest rate	38,566,664	36,308,958
Financial liabilities with fixed interest rate	16,000,001	18,571,429
Total	54,566,665	54,880,386

Change in interest rates for financial instruments with a variable interest rate by 50 basis points at the reporting date would have increased or decreased the Group's profit for the amounts shown below. Some loan agreements include provisions that the variable interest rate equals zero, if the EURIBOR is negative.

	In €			
	Impact on profit or loss 2019		Impact on profit or loss 2018	
	Increase by 50 bt	Decrease by 50 bt	Increase by 50 bt	Decrease by 50 bt
Financial liabilities with a variable interest rate	-86,897	41,196	-51,994	89,020

Severity of interest risk is assessed as small. Given the current economic situation, significant rise in interest rates is not expected, so that the impact of the risk is assessed as moderate. Assuming a 17% annual probability of risk realization an individual assessment of risky rate (with 95 % of confidence level) on operations amounts to 30 thousand €, with the range of losses in case of realization going from a minimum of 0 € to a maximum of 110 thousand €.

Foreign exchange risk

Operations are conducted in euros, therefore the Group is not exposed to the risk of exchange rate changes.

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Events after the balance sheet date



After the balance sheet date (31. 12. 2019) and until the date of the auditor's report (17. 4. 2020) Elektro Gorenjska Company was informed by the Energy Agency of the established facts before issuing the decision regarding the final statement for year 2018. It follows from the established facts before the decision was issued that the already charged value of rent and services was by 155,421 € higher than the value from the final statement. As the Company agreed with the established facts, it has reasonable ground to expect the final settlement of the regulatory year to be in the stated amount. On this basis the Elektro Gorenjska Company in 2019 reduced the revenues by 155,421 € (long-term deferred revenues).

In March 2020 Elektro Gorenjska Company received from SODO the preliminary account of the regulatory year 2019. Preliminary account for year 2019 was implemented by SODO on the basis of unrevised financial statements. From the account it is clear that in year 2019 the already charged contractual value of services and rent was by 1,222,443 € lower than the values established on the basis of the preliminary account. Based on this the Elektro Gorenjska Company in year 2019 recognized by 1,222,443 € of additional revenues (short-term accrued revenues).

Beginning of 2020 was marked by a global pandemic with the Coronavirus SARS-CoV-2 (COVID-19), which has also severely affected the Slovenian economy. According to the currently known information, the impact of the pandemic in the operations of the companies in Elektro Gorenjska Group cannot be assessed, but we do not expect significant deviations from the set plans.

