

CONSOLIDATED ANNUAL REPORT

OF ELEKTRO GORENJSKA GROUP FOR YEAR **2017**



We carefully enhance the power network to promote sustainable development of the region. We are here for you.

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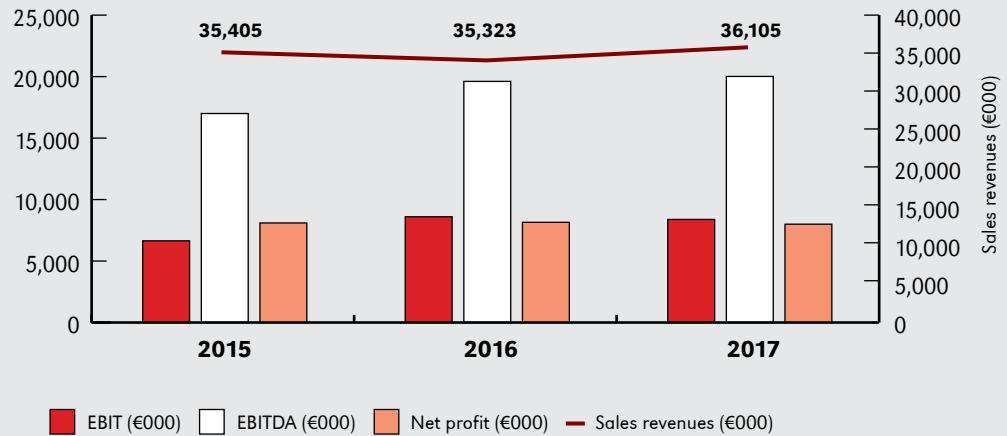
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LIST OF ABBREVIATIONS

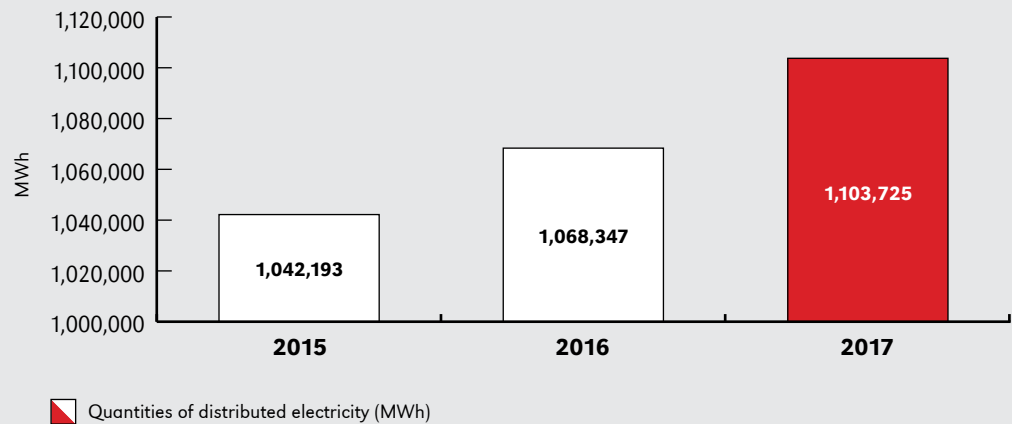
AGEN	Agency of Republic of Slovenia for Energy
AMI	Advanced Meter Infrastructure
BDP	Gross domestic product
BTP	Technical data base
CIM	Common information model
DCV	Distribution management center
VAT	Value Added Tax
DDPO	Corporate Income Tax
DO	Distribution network
DV	Overhead power line
EE	Electricity
EURIBOR	Euro Interbank Offered Rate is an interbank offered rate for deposits in Euro, which is formed on the European interbank market
EZ-1	Energy act
FE	Photovoltaic power station
GJS SODO	Public service obligation relating to the activity of the electricity distribution system operator
HE	Hydroelectric power station
IKT	Information and communication technology
IT	Information technology
KBV	Cable conduit
kW	Kilowatt hour
MHE	Small hydroelectric power station
MM	Measuring point
MWh	Megawatt hour
LV	Low voltage
LVN	Low-voltage network
OS	Fixed assets
OVE	Renewable energy sources
Contract with SODO, d. o. o.	Contract on electricity infrastructure lease and provision of services for electricity distribution system operator
RTP	Transformer substation
SAIDI	System Average Interruption Duration Index
SAIFI	System Average Interruption Frequency Index
SDH	Slovenian Sovereign Holding
MV	Medium voltage
SODO	Distribution network system operator
SPTE	Cogeneration of heat energy
TP	Transformer station
TR	Transformer
HV	High voltage
VZD	Health and safety at work
ZGD-1	Companies act

ACHIEVEMENTS OF ELEKTRO GORENJSKA GROUP

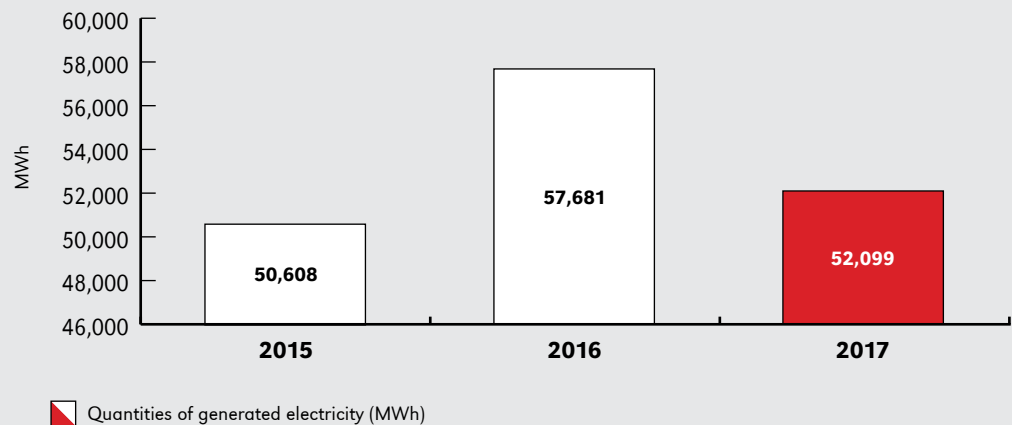
€6.974.762
of realized
net profit



1.103 GWh
of distributed
electricity



52 GWh
of electricity
generated



IMPORTANT INFORMATION ON OPERATION OF ELEKTRO GORENJSKA GROUP

	2015	2016	2017
IMPORTANT FINANCIAL INFORMATION			
Sales revenues (€000)	35,405	35,323	36,105
EBIT (€000)	6,645	8,601	8,384
EBITDA (€000)	16,999	19,611	20,016
Pre-tax profit (€000)	8,098	8,150	7,998
Net profit (€000)	7,239	7,194	6,975
Value added (€000)	28,986	31,960	32,956
Assets (€000)	213,797	222,131	232,099
Capital (€000)	145,144	149,634	155,011
SIGNIFICANT INDICATORS			
Current ratio	0.8	1.0	1.3
Profitability rate of revenue (%)	18.7	19.4	19.1
Share of labour costs in value added (%)	41.4	38.6	39.3
Return on assets (ROA) in %	3.3	3.3	3.1
Return on equity (ROE) in %	5.1	4.9	4.6
NETWORK, PRODUCTION			
SAIDI (average duration time of unplanned interruptions longer than 3 min/customer)	13	15	20
SAIFI (average number of unplanned interruptions longer than 3 min/customer)	0.6	0.6	0.7
Number of customers connected to the distribution network	88,610	88,911	89,361
Quantities of distributed electricity (MWh)	1,042,193	1,068,347	1,103,725
Quantities of generated electricity(MWh)	50,608	57,681	52,099
SHARE DATA			
Total number of shares	17,286,376	17,286,376	17,286,376
Net profit per share (€)	0.4	0.4	0.4
Book value of share (equity/No. of shares) in €	8.4	8.7	9.0
EMPLOYEES			
Costs of education per employee (€)	335	322	498
Share of employees that attended the trainings (%)	76.1	90.6	81.1
Average level of education	6.1	6.2	6.2
Number of employees at the end of the year	305	307	308
Number of employees (average)	309	307	307



Consolidated Business Report

Energy system is one of the main players in the transition to a low-carbon society; most of the changes are and will be in the field of distribution. Distribution companies present a sustainable development infrastructure, which is why we build robust and reliable networks.

1 OVERVIEW OF SIGNIFICANT EVENTS IN ELEKTRO GORENJSKA GROUP IN YEAR 2017

JANUARY

- In Elektro Gorenjska network, the peak load increases strongly due to extremely low temperatures. Record peak power is achieved – 196.4 MW.
- Elektro Gorenjska continues with the AMI project, which brings complete overhaul of the measuring system. In 2016 more than 13,100 meters were replaced, which is by 9 % more than planned.
- Elektro Gorenjska successfully completes the annual review of the implementation of the Family-Friendly Company measures.
- In Gorenjske elektrarne they perform a regular annual overhaul in the largest hydroelectric power station – the Savica hydroelectric power station.

FEBRUARY

- Representatives of Elektro Gorenjska participate in the 4th Energy and Regulation Forum.
- Representatives of Elektro Gorenjska attend the largest conference in the field of distribution and transmission of electricity, gas and water and the Distrubutech trade fair in the USA. At the conference, Elektro Gorenjska presented the approach of comprehensive construction of new information systems, in the concrete case focusing on the integration platforms GIS and CIM.
- Elektro Gorenjska prepares and presents to the Supervisory Commission of the EU the final report, on the basis of which the decision on the successful completion of INCREASE project was issued.
- In the framework of the strategic project Management of Organizational Culture Elektro Gorenjska with a survey concludes the first part of activities for increasing the commitment of employees.
- Gorenjske elektrarne announces three projects for entry into the support scheme on the Public Invitation to register projects for generating electricity from renewable energy sources and in high-efficiency cogeneration: solar power station Merkur 3, hydroelectric power stations Cerklje – 280 and 15 kW and renovation of hydroelectric power station Standard.

MARCH

- Elektro Gorenjska upgrades the internal website Središče EG, which is more user-friendly.
- Gorenjske elektrarne successfully apply for a call for implementation of pilot activities in the field of e-mobility. Received funds will unify the electric charging stations owned by the Elektro Gorenjska Group and conduct activities with the purpose of efficient management of charging stations.

APRIL

- Economic Interest Grouping of Electricity Distribution in Portorož organizes 3. strategic conference of Slovenian electricity distribution companies titled Digital transformation of Slovenian electricity distribution.
- Elektro Gorenjska started with activities for the establishment and certification of the information security system based on meeting the requirements of standard ISO/IEC 27001:2013.
- Elektro Gorenjska participates in 19. Summit of Slovenian Energy Managers –Energy Managers' Days 2017.
- Elektro Gorenjska, through the OEI and OCI questionnaires among its employees, again measures the organizational culture and organizational effectiveness of both companies.

- Elektro Gorenjska attends the international conference ICOLIM2017 (International Conference On Live Maintenance) in Strasbourg, where models of approach and methods of performing live work on all voltage levels from around the world are presented.
- At the solar power plant on the Merkur Primskovo shopping centre in Kranj Gorenjske elektrarne install power optimizers of Israeli manufacturer Solar Edge.

MAY

- Representatives of the Russian delegations from Tatarstan visit Elektro Gorenjska. They are introduced to the company's operation and the SEP remote reading system.
- Elektro Gorenjska switches to the new digital radio system DMR after the test period.
- Elektro Gorenjska Group, with 15 papers, participates in the 13th Slovenian Power Generation Conference CIGRE-CIRED in Maribor.
- Within the strategic project Management of organizational culture, 186 employees from the Elektro Gorenjska Group participate in the second group coaching, which is part of the project (activities) for increasing the commitment of employees (the project is called Employee virtues).
- Gorenjske elektrarne participate in the 26. panel discussion Communal Energy.
- Gorenjske elektrarne attend EUREM education, where they acquire the necessary knowledge and useful tips for more efficient energy management.

JUNE

- In Elektro Gorenjska, training for internal auditors of the ISO/IEC 27001 system, information security management system takes place.
- Representatives of Elektro Gorenjska attend the 24. international biennial conference CIRED, in Glasgow.
- During the Green Week at the Matija Valjevec Primary School Gorenjske elektrarne conduct the lectures on solar power, ways of saving with energy, hydro power plants, comprehensive view of energy and renewable energy sources.
- Gorenjske elektrarne successfully run two projects at the Energy Agency's public call: construction of HE Cerklje with power 280 kW and renovation of energy facility HE Standard with power 340 kW.
- Gorenjske elektrarne at the end of 2016 in cooperation with the Regional Development Agency of the Gorenjska region BSC successfully run on the European project E-trail, which will enable the complete management of the charging infrastructure in Slovenia. At the end of June in Škofja Loka, together with the municipality, they open one of the ten charging stations that are part of the project

JULY

- At the seat of the company Elektro Gorenjska the 23rd regular session of the General Meeting of Elektro Gorenjska takes place, where shareholders decide on the distribution of profits, grant discharge to the Management Board and the Supervisory Board, appoint new members of the Supervisory Board and a certified auditor.
- Elektro Gorenjska issues a leaflet with useful information about the company in Slovenian and English for 2016.
- Elektro Gorenjska issues the Consolidated Annual Report of Elektro Gorenjska Group for year 2016 in English.

AUGUST

- New four-year term begins for the members of the Supervisory Board representing the shareholders of Elektro Gorenjska, d. d.
- Elektro Gorenjska issues the Report on Environmental Management and Health and Safety Report for year 2016.

SEPTEMBER

- A press conference of the Economic Interest Association for the Distribution of Electricity takes place in the Old City Power Station in Ljubljana, where five chairmen of the distribution companies' management boards in Slovenia (Elektro Ljubljana, Elektro Maribor, Elektro Celje, Elektro Primorska, Elektro Gorenjska) highlight the development role and the importance of distribution for implementation of the strategy of the Republic of Slovenia and present proposals

for the development of a sustainable and feasible Energy Concept of Slovenia for the competent ministry.

- Newly established company GEK Vzdrževanje, d. o. o., subsidiary company of Gorenjske elektrarne, starts doing business independently.

OCTOBER

- Elektro Gorenjska successfully passes an external assessment of Integrated Quality Management System: reassessment of ISO 9001:2015, regular assessment of ISO 14001:2004 regular assessment of BS OHSAS 18001:2007, transitional assessment of ISO 14001:2015 and certification assessment – 2.part ISO/IEC 27001:2013.
- Representatives of Elektro Gorenjska attend London's first TDX-ASSIST development project meeting. Key focus of this project is directed to testing and introducing state-of-the-art information and communication technologies in the framework of vertical connections between distribution and transmission network operators.
- Representatives of Elektro Gorenjska attend the third renewal workshop on ways of executing live work on low and medium voltage in Šempeter pri Celju.
- Representatives of Elektro Gorenjska attend the 61st international congress in the field of quality and excellence in Bled, where they present good practice in the company at the lecture titled EFQM model as the key strategic and operational tool towards the digital era.
- Chairmen of management board of the five Slovenian electricity distribution companies meet at the highest level with the representatives of the distribution network operator of the Croatian electricity industry in order to strengthen the already existing cooperation, including the mutual exchange of good practices and participation in the projects.
- Gorenjske elektrarne approach the replacement of the membrane on the soft dam of the hydroelectric power station Sava.
- Gorenjske elektrarne together with Šenčur Municipality successfully complete the project of efficient energy management. Project included optimization of measuring points on school facilities that includes a primary school, a sports hall and a kindergarten.

NOVEMBER

- For the integration of technical information systems (CIM), a two-month trial operation begins, as after successfully passing the takeover testing (SAT tests), Elektro Gorenjska successfully transferred the software from the test environment into the production environment.
- Representatives of Elektro Gorenjska participate with their papers at the 10th panel discussion on informatics in Slovenian energy industry.
- Elektro Gorenjska receives the quality standard ISO 27001 – information security management system.
- Gorenjske elektrarne in cooperation with the municipalities open power charging station in Tržič, Preddvor and Radovljica.

DECEMBER

- At the end of the year Elektro Gorenjska and Gorenjske elektrarne together with their business partners once again allocate funds for business gifts to the program Neodvisen.si.
- Hurricane wind and the broken trees cause problems also on the Elektro Gorenjska network. Wind over Slovenia destroys more than 1.3 million cubic meters of trees. According to the Slovenian Forest Service, it is the case of the worst damage to forests due to wind in the last twenty years.
- By building, using and promoting the electricity in transport in the local communities, Gorenjske elektrarne implements development goals in the field of e-mobility.

2 MANAGEMENT REPORT OF THE PARENT COMPANY

In year 2017, the Elektro Gorenjska Group generated €36 million in sales revenue, and the pre-tax profit amounted to €8 million. It has taken into account the key objectives and recommendations of the operator SDH, d. d., in the management of the investments of electricity distribution companies in 2017. In line with the approved annual plans, it successfully implemented the set goals. For investment projects of over 350, whose main objective is to build a robust and stable network with the help of advanced technologies, it spent €17 million.

Robust and stable network is fundamental for the increased need for electricity

Business operations in 2017 were most influenced by the consistent implementation of the strategy of Elektro Gorenjska. Growth of electricity distribution and increased demand for peak power were also characteristic due to the increased economic intensity and increased use of heat pumps. Compared to 2016, electricity consumption increased by 3.3 %; 1,103 GWh of electricity was distributed to users in Gorenjska region. Share of losses on electricity transferred in year 2017 was 4.31 %, which is 0.86 percentage points less than the planned and recognized losses under the regulatory framework of the Energy Agency.

We build a robust network; 73 % of the network has been built in the underground cable form

By the end of 2017, the share of the medium-voltage network underground was 63 % and the share of the low-voltage network was 83 %. In total, Elektro Gorenjska Company has the largest share of the underground cable network in Slovenia; it amounts to 73 %. In 2017, 52 kilometres of new medium-voltage cables and 95 kilometres of low-voltage cabling were laid. Knowing that electricity consumption will increase in the future, we carefully plan, upgrade and build a robust and stable distribution network that will enable the integration of new electricity consumers (e-mobility, decarbonisation of heating, transport, etc.).

With digitized services, we are more efficient and accessible to the user

In the case of end users, in accordance with plans, we are switching measuring systems and replacing them with advanced ones. We will achieve our goal that in 2021 all users in Gorenjska region will be equipped with advanced measurement systems. By the end of 2017, we have already installed more than half of the meters; more than 12,000 are installed annually. They enable remote data transfer across different communication paths.

We have been dealing with digital transformation and consequently changing of the business model of operations in the company for many years. We upgrade our management, security and control systems and telecommunication systems, we also invest in modern information solutions to digitize, automate and, above all, simplify procedures for end-users. With their help we optimize the operation of the network, increase its efficiency and business economics.

Through proactive involvement in Research and Development projects, we confirm our leading role in the field of introducing new technologies.

Through active participation in international research and development projects we are continuously building the reputation of an innovative and reliable partner. Participation in projects enables us to successfully integrate state-of-the-art technology systems that provide appropriate demonstration environments that are important in the implementation and evaluation of new concepts for the management and operation of distribution networks.

Company currently participates in three projects: STORY (Added value of STORage in distribution sYstems), TDX-ASSIST (Coordination of Transmission and Distribution data eXchanges for renewables integration in the European marketplace through Advanced, Scalable and Secure ICT Systems and Tools) in EASY-RES (Enable Ancillary Services By Renewable Energy Sources).

In the framework of the STORY project, Elektro Gorenjska has foreseen two demonstrations of the use of a larger energy storage, while in the other two R & D projects the partners will pay special attention to the introduction and testing of state-of-the-art information and communication technologies in the framework of vertical connections between distribution and transmission network operators and the potential of exploiting an increasing number of generating units from renewable sources in providing modern system services for the reliable and efficient operation of both distribution and transmission networks.

Strategic Guidelines

Company Elektro Gorenjska follows the adopted strategy 2016-2018, which defines nine strategic goals. Goals are defined by responsible persons, activities and tasks, and enable a comprehensive and systematic system for monitoring the implementation of the strategy with a balanced indicators system. In cooperation with employees and owners, the strategy is revised annually and adapted to the situation on the electricity market. In cooperation with the Supervisory Board, we determine the scope of risks that the company assumes in achieving its objectives. The purpose of risk management is to identify the priority risks (compliance with legislation, project management, quality of service, human security, etc.), address them and take measures to control them within acceptable limits.

In 2018 we will actively continue with the project of organizational culture management, whose key goal is to increase the level of commitment of employees. As the ambassador of corporate integrity we will spread awareness of the importance of doing business in accordance with legislation and ethical standards as one of the basic principles of socially responsible activity in the Slovenian economy in general. Model of business excellence and business in line with the quality policy is a constant of the company, which we continue in 2017. In 2018 we again approached the amendment of strategy for the period 2018-2020.

We strive for excellence and support local development

Elektro Gorenjska is the holder of four quality standards: ISO 9001, ISO 14001, OHSAS 18001 and ISO 27001, which the company successfully certifies each year. In 2017, we successfully passed the ISO standard: IEC 27001 - Information Security Management System. Company owns the full family-friendly company certificate and is the only distribution company that received the highest national award of the Republic of Slovenia for Business Excellence (PRSPO) for achievements in the field of products and services quality and business quality. Every year we perform an annual self-assessment according to the EFQM model, through which we can identify opportunities and improvements in the areas of business.

Company is also recognized in the field of sponsorship and donation projects. In accordance with its capabilities, it helps the general public and returns to the environment in which it operates. In 2017, we sponsored a number of sponsorship and donation projects, thus helping to develop the region. As an important economic entity in Gorenjska, also in 2018 we will participate in socially responsible projects.

Chairman of the Board
mag. Bojan Luskovec



2.1 Corporate governance statement

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

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

In year 2017 companies in the Group have not derogated essentially from the principles, procedures and criteria imposed by the stated SDH documents. Parent company declares that it does not respect code provisions or recommendations in regulating issues that are regulated by the law or that the company regulates in accordance with the provisions of the statute in different way than defined by the codes, or in cases when non-statutory conducts are not prescribed in its acts or when conducts are not determined as legal obligation.

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

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

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

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

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

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

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

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

Control mechanisms referring to individual fields of operation are presented in more detail in chapter *4.3 – Risk management in Elektro Gorenjska Company*. We believe that the current system of internal controls enabled successful operation of Elektro Gorenjska Group, functioning in accordance with the rules and fair and transparent financial reporting.

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

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



2.2 Supervisory Board Report

Supervisory board report on verification of the annual report of elektro gorenjska, d. d., and consolidated annual report of elektro gorenjska group for business year 2017 according to article 282 ZGD-1.

1. Supervisory board operation in year 2017

In 2017, the supervisory board continued with its regular and settled supervision of the company's operations. In addition to regular supervision, it continued to operate in accordance with the new practices introduced, for which it successfully worked throughout the mandate, but still introduced other innovations.

In year 2017, the supervisory board met at thirteen regular sessions and two correspondence session, where it adopted a total of 122 decisions. In their decisions, all members of the Supervisory Board acted independently and in accordance with the statements given and transparently published on the company's website. They prepared appropriately on the topics of the individual sessions, gave constructive proposals and comments, as well as adopted decisions in accordance with their respective responsibilities. Members of the supervisory board carried out their work diligently and responsibly with the duty of careful and conscientious management, in accordance with the fundamental function of supervision over the management of the companies and based on the competences as defined mainly in the Companies Act (ZGD-1), statute of the company and rules of the supervisory board. In its work, the supervisory board members acted in accordance with the recommendations and expectations of the Slovenian Sovereign Holding and Corporate Governance Code for Companies with State capital investment. Management board commented on the fulfilment of the above acts and recommendations in the statement on corporate governance, which is a component part of the annual report.

Successful implementation of good supervisory practices was successfully continued and upgraded, in addition to regular monitoring of the management's reports on the implementation of strategic projects, it paid a great deal of attention to the supervision of investment projects and the implementation of public procurement procedures, on the basis of which it introduced regular half-yearly comprehensive reporting on investments. With this, it will be able to act more swiftly, in accordance with its competences, if necessary. Supervisory board continued with the already established practice of self-assessment and in 2017 conducted another evaluation of its work (the work was evaluated in 2016). Due to certain changes in the composition of the supervisory board that occurred since the last self-assessment, for the employee representative this was the first self-assessment. Based on the analysis of the answers and common findings, decisions and proposals were adopted to the management board, especially regarding education for supervisors in the area of current innovations in the field of energy. Company actively formulates and changes its strategy and adapts to market conditions, which are also the consequences of changes in the functioning and emphasis of content at the SB. Changes are also visible in other areas, and the supervisory board also actively participates. As already pointed out, in addition to regular business operations, the supervisory board also monitored quarterly the condition of seven strategic projects from the company's strategy for the period 2016-2020.

In 2017, status changes were also made in the framework of group companies, since the procedure of the spin-off from the subsidiary Gorenjske elektrarne, d. o. o., to a newly established company GEK Vzdrževanje, d. o. o., which started operations on 1 September, 2017. In the Elektro Gorenjska Group, there are now three companies: Elektro Gorenjska, d. d., Gorenjske elektrarne, d. o. o., and GEK Vzdrževanje, d. o. o. Supervisory board monitors operations in subsidiaries in accordance with their respective competencies and good corporate governance practices. With regard to corporate governance, the management board, based on a review carried out by the external auditor of SB, made recommendations for the introduction of new practices, which the administration gradually started to introduce.

2. Composition of the Supervisory Board in year 2017

In 2017, the supervisory board completed its four-year mandate as the mandate of all four shareholder representatives ended on 27 August 2017. Term of office of members appointed by employees' representatives to the SB on 8 August 2015 expires on 8 August 2019.

Supervisory Board operated in the following composition in year 2017:

- mag. Samo Logar, chairman of the supervisory board,
- mag. Tedo Djekanović, deputy chairman of the supervisory board,
- Andrej Koprivec, member,

- Elvis Duraković, member (from 1. 1. 2017 to 27. 8. 2017),
- Franjo Curanović (from 28. 8. 2017 to 31. 12. 2017),
- mag. Dominik Ovniček (representative of employees) and
- Iztok Štular, member (representative of employees).

At the 23rd regular annual general meeting of the company on 7 July 2017, the former chairman of the supervisory board and his deputy and Andrej Koprivec were reappointed for the new term (2017-2021), and instead of Elvis Duraković, a new member was appointed - Franjo Curanović. This ensured the continuity of the work of the supervisory board, after the voting and appointment among the members of the supervisory board at the founding session of the supervisory board for individual functions in the SB, the continuity of the SB presidency and other functions in the SB was ensured.

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

3. Verification of company's operations and work of the management in year 2017

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

Members of the supervisory board mainly focused on the following:

- 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 procedure of spin-off of maintenance part from subsidiary company Gorenjske elektrarne, d. o. o., to the newly established company GEK Vzdrževanje, d. o. o.,
- monitoring the operations of company ECE, d. o. o., as a major financial investment, which, due to its activity, is also interesting for further consolidation in the field of market and production activities, with which the SB was also acquainted,
- monitoring of the implementation of the general meeting decisions, in particular with regard to the exercise of an authorization to the management board for the purchase of own shares,
- monitoring larger investment projects,
- monitoring of strategic projects after the revision of the strategy for period 2016–2020,
- control over contracts, which need the supervisory board consent according to the provisions of the statute,
- monitoring public procurement procedures,
- forming proposals for the decisions at the regular general meeting,
- monitoring risks.

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

- Supervisory board regularly monitored operations of the group companies, discussed quarterly information and evaluations on group companies' operations, and was devoted to realization of the business plan for year 2017.
- In accordance with the 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 2016, and composed a written report of the supervisory board on verification and approval of the stated reports for business year 2016.
- In accordance with the changes in the statute, the supervisory board participated in preparing the proposals for decisions of the 23rd regular general meeting session, which took place on 7 July 2017. Supervisory board proposed to the general meeting to approve the work of the chairman of the management board for the financial year 2016, and grant a discharge, and proposed the appointment of members to the supervisory board for the next term of office. After the selection procedure of the audit committee it proposed the general meeting a company

BDO Revizija, BDO Revizija, d. o. o., Cesta v Mestni log 1, 1000 Ljubljana for the implementation of the authorized audit in the 2017.

- Supervisory board regularly monitored all nine strategic projects from the renewed strategy of Elektro Gorenjska, d. d., as the parent company in the Elektro Gorenjska Group for the period 2016-2020, which completed some of the strategic projects from the previous strategy, and adding that the new ones, so that the supervisory board now supervised quarterly the strategic projects.
- Supervisory board regularly took note of reports on the review of individual projects in the company and, in particular, in the field of investment projects, recommended to the management board to improve its project management. It also introduced a new reporting practice (twice a year, the management board is obliged to report to the supervisory board on the status of all projects in the business plan).
- Supervisory board was regularly informed about the operations of the group companies and the operations of ECE, d. o. o., which represents a major financial investment.
- Supervisory board continued with the practice of acquainting the supervisory board with public procurement matters, already at the time of the introduction of the PP (in the form of information), to which the supervisory board, in accordance with the statute, gave its consent. In addition, it regularly checked reports on public procurement procedures implemented (including those that did not require the consent of the SB) and recommended to the management board the use of methods and other good practices in the field of public procurement (the introduction of an electronic auction, the introduction of negotiations, the introduction of other PP procedures in accordance with the amendments to the sectoral law), all in order to optimize the assets of the company.
- In accordance with the statute of the company, the supervisory board gave consent to nine legal transactions above the value of €718,980.61 (the entry into force of the statute in 2016 resulted in a decrease in the amount of legal transactions for the prior consent of the SB to the gross value of transactions exceeding 1 % of the company's share capital).
- In accordance with the Energy Act (EZ-1), the supervisory board gave consent to the transmission of 110 kV portable equipment to ELES in accordance with the specified deadline.
- Supervisory board gave its consent to the Charter of Internal Audit in the Elektro Gorenjska Group.
- 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 2017 with a financial projection for the years 2018 and 2019 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, and 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 Bboard appointed other rights of the chairman of the management board and adopted benchmarks for the variable part of the chairman of the management board for 2018.
- Due to the expiration of the term of office of the chairman of the management board in the year 2018, the supervisory board chose the most appropriate procedure for the conduct of the election and the appointment of the chairman of the management board in accordance with the new provisions of the company's statute.

Supervisory board can determine that in given circumstances the management reacted appropriately to economic and natural situation as well as to expressed will of the company's shareholders, above all the majority shareholder, and has led the company successfully. It is also commendable for cross-border assistance in eliminating the consequences of wind damage with the neighbouring Austria, which has also led to the strengthening and integration with energy companies outside Slovenia.

4. Cooperation with the Chairman of the Board

In the past year, supervisory board always worked very well with the chairman of the board. 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, with the introduction of new practices also reports on non-implemented decisions and other reports requested from the management by the supervisory board. Members of the supervisory board had all requested and appropriate reports, information and data available to them, so that based on them they could monitor and control company's operations and made their decisions responsibly.

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

5. Operation of supervisory board committees

In 2017, two committees operated within the supervisory board, whose mandates terminated on 27 August 2017 because their membership was connected to the mandate of the supervisory board. Consequently, the changes in membership in one of the committees were large and the other remained unchanged.

5.1. Audit committee

Permanent audit committee within the supervisory board of the company has been operating successfully since 2011. At its meeting on 3 October, 2013, the supervisory board appointed the audit committee of the supervisory board of Elektro Gorenjska, d. d., with a term of office until 27 August 2017 (second term of office of the audit committee). Following the election of the new SB at the general meeting of shareholders, changes were made to the fact that the newly appointed SB member became also a member of the audit committee, and an external member of the audit committee was also newly appointed. Notwithstanding this fact, the work of the audit committee took place smoothly and continuously, as the chairman of the committee was the same throughout the year.

Composition of the audit committee from 1 January 2017 to 27 August 2017 was as follows:

- Andrej Koprivec, CFA, FCCA, SB member, chairman of the audit committee,
- Elvis Duraković, SB member, member of the audit committee,
- dr. Andrej Baričič, external member of the audit committee.

Third mandate of the audit committee (2017–2021) is composed as follows:

- Andrej Koprivec, CFA, FCCA, SB member, chairman of the audit committee,
- Franjo Curanović, SB member, member of the audit committee,
- prof. dr. Simon Čadež, external member of the audit committee.

Audit committee in the above composition was appointed at the founding session of the supervisory board on 14 September 2017 and it operated until the end of the financial year. In 2017, it met at twelve regular and one correspondence sessions. Committee was chaired by chairman Andrej Koprivec, CFA, FCCA throughout the year. Members of the committee regularly attended the sessions.

Apart from correspondence, to all the sessions of the committee the chairman of the company's management board and the internal auditor were invited, along with individual reporters. In accordance with the Rules of Procedure of the audit committee, the members of the supervisory board were kept informed both by invitations to the meetings of the audit committee and by the minutes of the committee meetings, while the chairman of the audit committee reported quarterly to the supervisory board on the work of the committee.

Below we present the substantive points of the work of the audit committee in the financial year 2017:

Annual report 2016: Committee discussed the annual report of the company Elektro Gorenjska, d. d., annual report of the subsidiary company Gorenjske elektrarne, 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 and audit coordinator of the audit company KPMG and discussed the report of the external auditors.

Business Plan and current operations: Committee discussed the business plans of the parent company and subsidiary for the period 2018-2020 and proposed them to the supervisory board for approval.

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

Internal audit: Audit committee worked closely with the internal auditor. In 2017, the committee discussed the annual report on the work of the internal audit for 2016, 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 2018 and proposed it to the supervisory board for approval. In co-operation with the internal auditor, the committee conducted the process of selecting an external auditor of corporate governance auditing. Audit committee met with the external auditor of the internal audit quality audit and discussed the results of the audit.

Corporate governance: In June and July 2017, an independent external auditor conducted an audit of corporate governance. Audit committee met with the auditor and discussed in detail the audit report. Auditor gave a positive opinion on the corporate governance system of the company and did not find any deficiencies in relation to the functioning of the audit committee.

Selection and cooperation with the external auditor: Audit committee conducted the procedure for selecting an external auditor of the financial statements and forwarded the proposal to the supervisory board. General meeting of the company appointed the proposed contractor – BDO Company - as auditor of the financial statements for 2017.

Risk management: Committee discussed the internal audit report on the functioning of the risk management system and took note of the changes in this area.

Self-assessment: at the beginning of 2017, the audit committee carried out a self-assessment of its work in 2016 and, in this respect, proposed to the supervisory board the adoption of appropriate decisions.

5.2 Nomination Committee

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

- mag. Samo Logar, chairman,
- mag. Tedo Djekanović, member,
- Milena Pervanje, external member.

In year 2017, the Nomination Committee had six sessions, of which five were regular and one correspondence. All members of the committee were present at all sessions, as well as both members of the SB, representatives of employees. Committee adopted a total of 19 decisions.

In the year 2017, the committee focused mainly on:

- processes of identification of successors in the EG group,
- examining the most appropriate ways of appointing the chairman of the management board in accordance with the company's new statute and submitting a proposal to the SB,
- analysis of responses after self-assessment of the work of the supervisory board and preparation of improvements and recommendations for future work,
- determination and proposal of the SB for the adoption of benchmarks for the variable part of the chairman of the management board receipts for 2016.

6. Position of the supervisory board to audit report 2017

At the 9th session of the audit committee on 15 May 2017, when a revised Annual Report of Elektro Gorenjska, d. d. and revised Consolidated Annual Report of Elektro Gorenjska Group for year 2017 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 2017, were present.

At the 10th regular session of the Supervisory Board held on 4 June 2018, 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 2017 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 2017 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 2017 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 2017 are composed in accordance with the provisions of the Companies Act and valid international accounting standards.

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

All Group companies closed the business year with profit. Total distributable profit of Elektro Gorenjska, d. d., for the year 2017 amounts to €2,418,286.50, which represents 1.62 % of the total capital or 3.36 % of the company's share capital as at 31 December 2017. Management board will propose to the general meeting of shareholders that the distributable profit in 2017 is fully paid out to shareholders in the form of dividends in the amount of €0.14, which is more than 2 cents per share or 16.67 % increase in dividends per share compared to last year's pay-out. Management board will propose to the general meeting that the dividend payment will be made on 26 July 2018 to those shareholders who will be listed on the company's share register on 25 July 2018. Supervisory board verified the proposal for the use of accumulated profit, and agrees with the proposal of the management board.

After the supervisory board members verified the annual report and consolidated report of the company for year 2017 and had no comments, the supervisory board adopted this supervisory board report on verification and approval unanimously at the 10th regular session on 4 June 2018.

In Kranj, 4. 6. 2018

mag. Samo Logar.

Chairman of the Supervisory Board



3 PRESENTATION OF ELEKTRO GORENJSKA GROUP

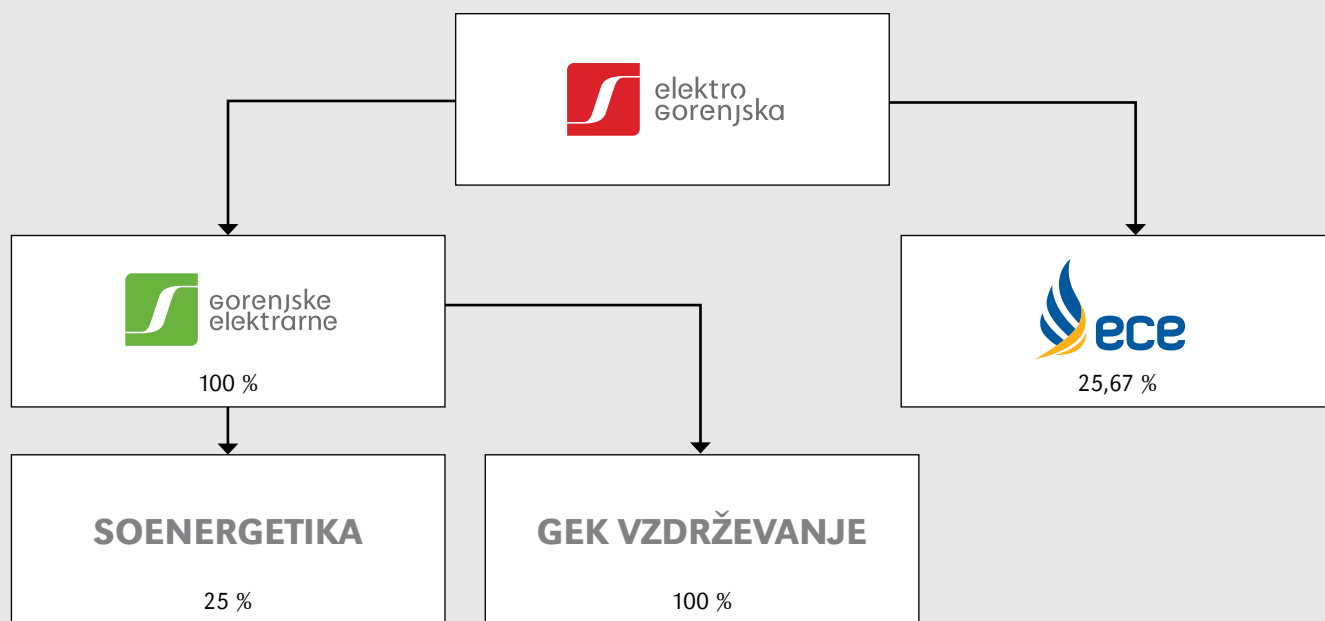
3.1 Structure of Elektro Gorenjska Group and associated companies

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

There was a change in the composition of the group in 2017. Subsidiary company Gorenjske elektrarne established a new subsidiary GEK Vzdrževanje, d. o. o. Cut-off date of the merger by acquisition was on 1 January 2017, while entry in the companies registry on 1 October 2017.

None of the companies in the group has any subsidiaries.

Figure 1: Graphic image of the Group



Management of a directly dependent company is carried out directly on the basis of the founders' decisions, since the subsidiary does not have a supervisory board. In 2017, there were nine decisions of the founder issued for the company Gorenjske elektrarne.

3.1.1 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:	SI 20389264
Core activity code:	35.130 electricity distribution
Legal form:	joint-stock company
Company register entry number:	1/00259/00
Date of company register entry:	27. 1. 1998
Place of court's register entry:	Kranj District Court
Share capital as of 31. 12. 2017:	€71,898,060.69
Number of shares as of 31. 12. 2017:	17,286,376
Chairman of the Board:	mag. Bojan Luskovec
Supervisory board chairman:	mag. Samo Logar

Figure 2: Elektro Gorenjska Company identity card

	31. 12. 2017	31. 12. 2016
Carrying amount of capital	149,685,337	144,131,812
Carrying amount of assets (balance sheet total)	226,097,928	215,661,746
	Year 2017	Year 2016
Net profit of the business year	7,164,584	6,861,669

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



Elektro Gorenjska Group consists of the controlling company Elektro Gorenjska and its controlled company Gorenjske elektrarne, which is in 100 % ownership of Elektro Gorenjska Company, and GEK Vzdrževanje Company, which is in 100 % ownership of Gorenjske elektrarne.

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:	SI 76567788
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. 2017:	€13,684,880.11
Director:	Aleš Ažman, MBA

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

	31. 12. 2017	31. 12. 2016
Carrying amount of capital	17,985,486	18,169,222
Carrying amount of assets (balance sheet total)	18,568,703	19,223,207
	Year 2017	Year 2016
Net profit of the business year	407,545	638,923

3.1.3 GEK Vzdrževanje 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:	SI 53409540
Founder:	Gorenjske elektrarne, d. o. o.
Legal form:	limited liability company
Core activity code:	68.320 management of real estate on a fee or 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. 2017:	€121,050.64
Director:	Matej Kuhar

Figure 4: GEK Vzdrževanje controlled company identity card

	31. 12. 2017
Carrying amount of capital	138,283
Carrying amount of assets (balance sheet total)	383,068
	Year 2017
Net profit of the business year	18,544

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



3.1.4 ECE Company identity card

Figure 5: 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 center: 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:	SI 55722679
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. 2017:	€3,436,767.65
Director:	mag. Sebastijan Roudi

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

	31. 12. 2017	31. 12. 2016
Carrying amount of capital	18,174,005	18,206,204
Carrying amount of assets (balance sheet total)	44,073,765	43,999,432
	Year 2017	Year 2016
Net profit of the business year	2,034,753	1,353,114

3.1.5 Soenergetika 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:	SI 26004330
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. 2017:	€1,020,000.00
Director:	Aleš Ažman, MBA

Figure 6: Soenergetika associated company identity card

	31. 12. 2017	31. 12. 2016
Carrying amount of capital	1,833,993	1,887,749
Carrying amount of assets (balance sheet total)	3,135,261	3,895,850
	Year 2017	Year 2016
Net profit of the business year	546,067	634,839

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



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

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

- distribution of electricity (activity code 35.130),
- construction of other civil engineering projects n.e.c (activity code 42.990),
- 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),
- production of electricity in HE generation facilities (activity code 35.111),
- other production of electricity (activity code 35.119),
- management of real estate on a fee or contract basis (activity code 68.320).

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

- activity of electricity distribution, which is connected with the implementation of contractually agreed services for Company SODO Maribor (hereafter also activity Contract with SODO) and presented in more detail in chapter *3.10.4 – Energy legal environment of group's operation in year 2017*;
- other non-energy market activities, which include mainly execution of new constructions and other services for the needs of the group as well as for external clients or market (hereafter also other services for the market or other activities);
- production of electricity in hydropower stations (HE) and production of electricity in solar or photovoltaic power stations (FE) as well as high-efficiency cogeneration of heat and electric (SPTE);
- solar power stations engineering and monitoring;
- projects of efficient energy use and energy management;
- maintenance of energy devices and other maintenance services.



Elektro Gorenjska Company has its distribution network set on the area of 2,091 km², which amounts to more than 5,000 kilometers of grids and helps providing reliable and quality supply of electricity to more than 89,000 customers.

3.4 Main area of operation

Main area of operation of Elektro Gorenjska Group includes north-eastern part of Slovenia – Gorenjska region. Elektro Gorenjska Company has its distribution network set on the area of 2,091 km², which amounts to more than 5,000 kilometers of grids and helps providing reliable and quality supply of electricity to more than 89,000 customers.

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



Figure 7: Area of supply of electricity distribution companies

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.

3.5 Main technical data

	31. 12. 2017	31. 12. 2016
Powerlines 110 kV	102,340 m	102,323 m
Powerlines 35 kV	20,299 m	20,299 m
Powerlines 20 kV	609,961 m	639,503 m
Powerlines 10 kV	0 m	0 m
Total powerlines	732,600 m	762,125 m
Cable conduits 110 kV	3,319 m	3,319 m
Cable conduits 35 kV	158 m	158 m
Cable conduits 20 kV	993,059 m	942,328 m
Cable conduits 10 kV	6,416 m	6,416 m
Total cable conduits	1,002,952 m	952,221 m
Total LV network	3,317,505 m	3,701,646 m
Total network	5,053,057 m	5,415,992 m
Transformer substations	13	13
Substations	8	7
Transformer stations	1,376	1,370

Table 6: Main technical data on electric power distribution network

Table 7: Main technical data of the production units

	Rated output power PN (kW) 2017	Rated output power PN (kW) 2016
Hydroelectric power stations	12,297	12,297
Solar power stations	3,281	3,281
SPE	1,280	1,280

Source: Gorenjske elektrarne, internal data, 31. 12. 2017

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.

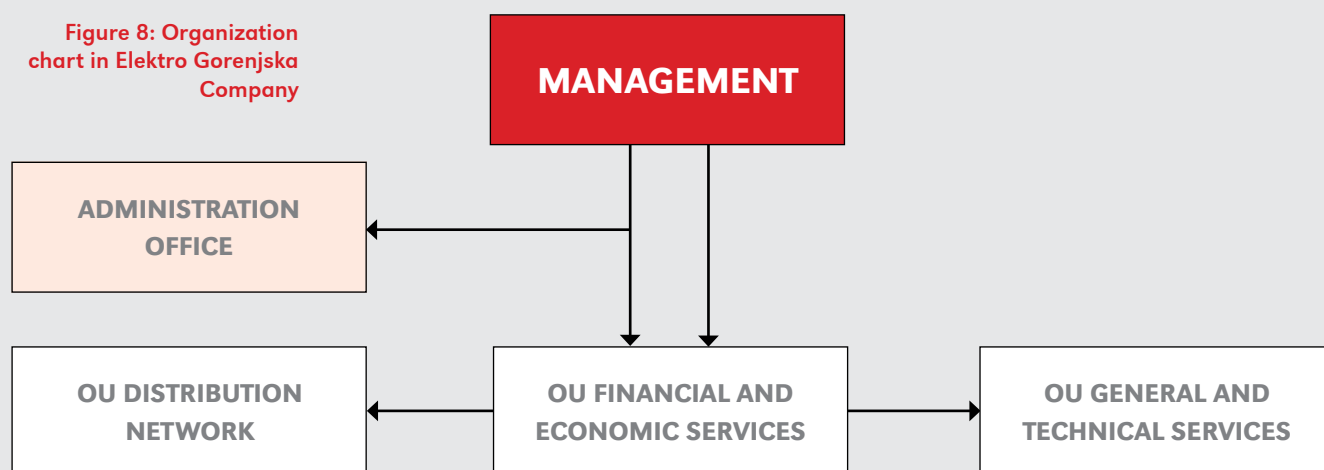
MANAGEMENT

Single-member administration is appointed by the supervisory board of Elektro Gorenjska Company. Management was appointed for a period of four years on 16 September 2014. In accordance with the statute the management is authorized for all issues of organization and managing of the company. Based on the law, statute, and rules of procedure of the supervisory board the management of the company is obliged to exhaustively and exactly introduce to the supervisory board the course of transactions and company's condition at least four times a year.

Chairman of the Board in Elektro Gorenjska Company is mag. Bojan Luskovec.

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

Figure 8: Organization chart in Elektro Gorenjska Company



SUPERVISORY BOARD

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

Based on the decision of the General Meeting the members of the supervisory board in addition to the attendance fees in the amount of €275 receive also monthly payment for performing the function in the amount of €942 per member or €1,412.50 to which the chairman of the supervisory board is entitled. Remuneration of supervisory board members in 2017 are presented in chapter *20.4 – Transactions with management and supervisory board*. To all representatives of capital in the supervisory board the term of office expired on 27 August 2017. Composition of the supervisory board in the period from 1. 1. 2017 to 27. 8. 2017 was as follows:

SUPERVISORY BOARD EG, d. d.	Function	Term of office from	Term of office until
mag. Samo Logar	chairman	27. 8. 2013	27. 8. 2017
mag. Tedo Djekanović	deputy chairman (as a deputy chairman since 3. 9. 2015)	27. 8. 2013	27. 8. 2017
Andrej Koprivec	member	27. 8. 2013	27. 8. 2017
Elvis Duraković	member	27. 8. 2013	27. 8. 2017
mag. Dominik Ovniček	member	8. 8. 2015	8. 8. 2019
Iztok Štular	member	8. 8. 2015	8. 8. 2019

Since 28 August 2017 the composition of the supervisory board has been as follows:

SUPERVISORY BOARD EG, d. d.	Function	Term of office from	Term of office until
mag. Samo Logar	chairman (as a chairman since 14. 9. 2017)	28. 8. 2017	28. 8. 2021
mag. Tedo Djekanović	deputy chairman (as a deputy chairman since 14. 9. 2017)	28. 8. 2017	28. 8. 2021
Andrej Koprivec	member	28. 8. 2017	28. 8. 2021
Franjo Curanović	member	28. 8. 2017	28. 8. 2021
mag. Dominik Ovniček	member	8. 8. 2015	8. 8. 2019
Iztok Štular	member	8. 8. 2015	8. 8. 2019

AUDIT COMMITTEE OF ELEKTRO GORENJSKA SUPERVISORY BOARD

In year 2017 until 27 August 2017 a permanent audit committee of Elektro Gorenjska supervisory board (audit committee) operated. Its mandate started in October 2013 in the following composition:

AUDIT COMMITTEE SB EG d. d.	Function	Term of office from	Term of office until
Andrej Koprivec	chairman	3. 10. 2013	27. 8. 2017
Elvis Duraković	member	3. 10. 2013	27. 8. 2017
dr. Andrej Baričič	member	3. 10. 2013	27. 8. 2017

At its 1st regular session in 2017-2021 mandate the supervisory board on 14 September 2017 adopted a decision on appointment of the Audit Committee of Elektro Gorenjska, d. d. Supervisory Board, 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 2017, until 27 August 2017, a permanent Nomination Committee of Elektro Gorenjska Supervisory Board, whose mandate entered into force in April 2017, operated in the following composition:

KOMISIJA ZA IMENOVANJA IN KADROVSKE ZADEVE NS EG, d. d.	Function	Term of office from	Term of office until
mag. Samo Logar	chairman	17. 4. 2014	27. 8. 2017
mag. Tedo Djekanović	member	17. 4. 2014	27. 8. 2017
Milena Pervanje	member	17. 4. 2014	27. 8. 2017

At the same session as the audit committee was appointed, the supervisory board also adopted a decision appointing the Nomination committee of Elektro Gorenjska supervisory board composed of:

KOMISIJA ZA IMENOVANJA IN KADROVSKE ZADEVE NS 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 year 2017 the management convened one regular session of the general meeting of shareholders, namely on 7 August 2017. There were 87.69 % of all votes of shareholders entitled to vote present at the 23rd regular general shareholders' meeting of Elektro Gorenjska, d. d., Company. At the meeting shareholders voted on six items on the agenda, which was published in the convening of the general meeting on the web portal of the Agency for Public Legal Records and Related Services.

Shareholders of the company got acquainted with the revised annual report and consolidated annual report for year 2016, with the auditor's opinion and written report of the supervisory board on the verification and confirmation of the Elektro Gorenjska Company annual report and consolidated annual report of Elektro Gorenjska Group for the business year 2016.

Shareholders decided on the use of distributable profit, which amounted to €2,170,771.70 as at 31 December 2016. At the meeting the decision was adopted, namely that main part of the distributable profit in the amount of €2,072,951.16 is distributed to the shareholders as dividends in gross amount of 0.12 per share. Remainder of the distributable profit in the amount of €97,820.54 represents the profit brought forward that will be decided on by the general meeting in the coming years. Company paid dividends on 28 September 2017 to those shareholders who, as shareholders of the company, were listed on the company's share register on 27 September 2017.

For business year 2016 a discharge for the management and the supervisory board separately was awarded.

General Meeting also appointed new shareholder representatives to the Supervisory Board.

General Meeting appointed a Certified Auditor for the business year 2017, namely the auditing company BDO Revizija, d. o. o., from Ljubljana.

In accordance with Chapter 3 of Article 247 of the Companies Act, the Management Board informed the Shareholders' Meeting of the Company's report on the purchase of own shares in the business year 2016.

3.6.2 Management and governance of Gorenjske elektrarne Company

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

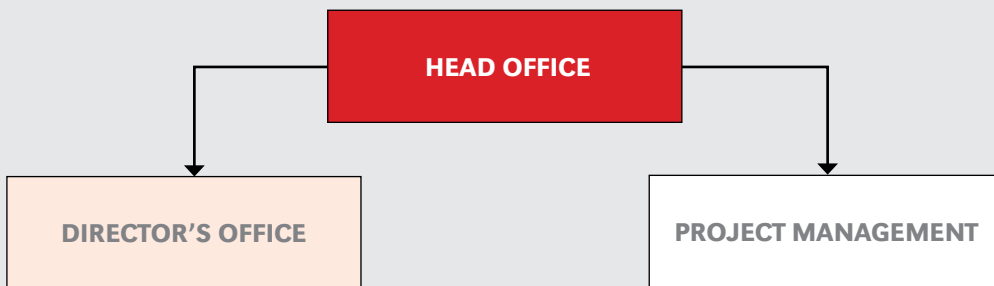


Figure 9: Organization chart of Gorenjske elektrarne Company

Company's director is Aleš Ažman, MBA.

Company's management is carried out directly on the basis of the founders' decisions, since the company does not have a supervisory board. Chairman of the Management Board of the parent company, as well as the General Meeting of Shareholders, regularly monitor the company's operations. In the year 2017, nine 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 consolidated financial statements of the parent company Elektro Gorenjska, which is also the ultimate parent company.

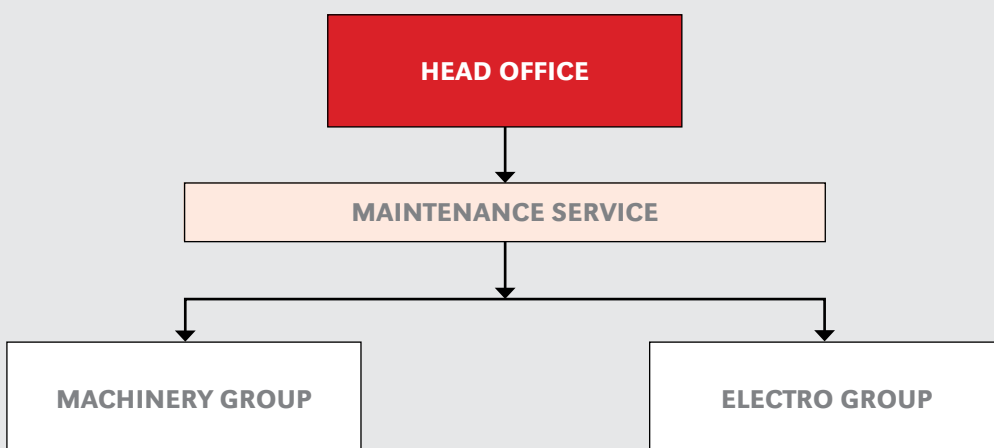


Figure 10: Organization chart of GEK Vzdrževanje Company

Company's director is Matej Kuhar.

Company's management is carried out directly on the basis of the founders' decisions, since the company does not have a supervisory board. Director of Gorenjske elektrarne company, as well as the General Meeting of Shareholders, regularly monitor the company's operations. In the year 2017, five decisions of the founder were issued to the company GEK Vzdrževanje.

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

3.7 Share capital and ownership structure

3.7.1 Share capital and ownership structure of Elektro Gorenjska Company

On 31 December 2017 share capital of Elektro Gorenjska Company amounted to €71,898,061. It is distributed to 17,286,376 of ordinary registered unit shares (designation EGKG). All shares are shares of one category.

On the basis of the decision of the 22nd general meeting, which took place on 23 August 2016, the company until 31 December 2017 purchased from the previous owners 12,901 of own shares (0.075 % of all shares).

Figure 11: Changes in the number of shareholders of Elektro Gorenjska Company from 31. 12. 2013 to 31. 12. 2017

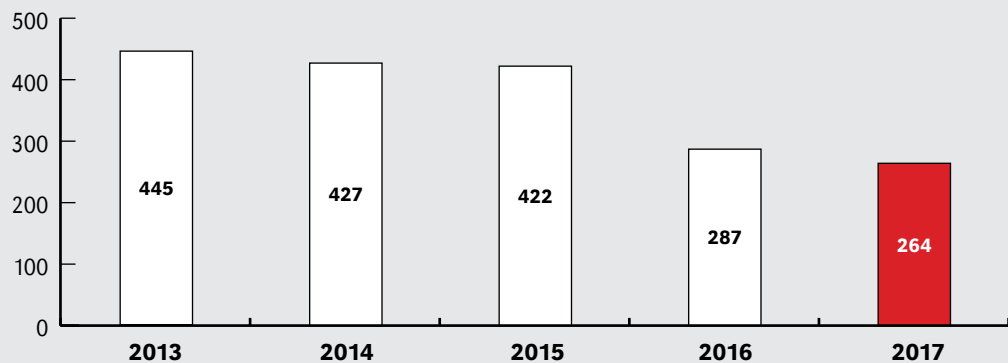
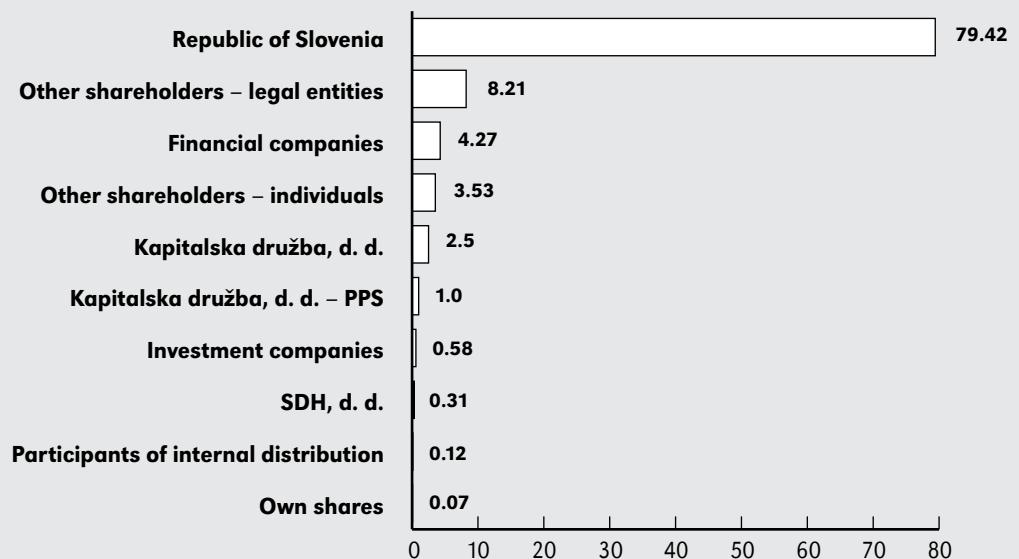


Figure 12: Ownership structure of Elektro Gorenjska Company as of 31. 12. 2017 (in %)



Company has no authorized capital. In 2017 the Elektro Gorenjska Company had no transactions with own shares on a regulated market.

As of 31 December 2017, 96.35 % of company shares were in the ownership of the Republic of Slovenia and legal entities, which represent 16.67 % of all shareholders.

According to the balance as at 31 December 2017 the largest shareholder, holding a 79.42 percent share, is the Republic of Slovenia. It is followed by Kapitalska družba holding 2.50 percent share and Sava Re with 1.62 percent share. As at 31 December 2017 the largest ten owners held a total of 91.23 percent share of the company.

Ownership exceeding 1 %	31. 12. 2017	
	Number of shares	%
Republic of Slovenia	13,728,882	79.42
Kapitalska družba, d. d.	431,933	2.50
Sava Re, d. d.	280,000	1.62
Pivovarna Laško Union, d. o. o.	270,648	1.57
BAU 1, d. o. o.	268,252	1.55
DUTB, d. d.	207,200	1.20
DZS, d. d.	200,000	1.16
Total	15,386,915	89.01

Table 8: Share owners with capital share exceeding 1 percent as of 31. 12. 2017

3.7.2 Share capital and ownership structure of Gorenjske elektrarne Company

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

3.7.3 Share capital and ownership structure of GEK Vzdrževanje Company

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

3.8 Vision, mission and values of the group

Vision of the group

ELEKTRO GORENJSKA

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

GORENJSKE ELEKTRARNE

Gorenjske elektrarne Company's vision is to become the most successful company in the production of electricity on the Slovenian market among companies in the industry, with more than 10 employees, by 2020. Performance is measured by increasing value added per employee, which is the highest in the industry.

GEK VZDRŽEVANJE

We are a competitive company for maintenance of energy facilities in the region.

Mission of the group

ELEKTRO GORENJSKA

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

GORENJSKE ELEKTRARNE

Company's mission is to produce energy in an environmentally friendly manner and provide services in order to increase the efficient use of energy and to provide for a better future coexistence of mankind and nature.

GEK VZDRŽEVANJE

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

EXCELLENCE AND PROFESSIONAL COMPETENCE

We are target-oriented.

KNOWLEDGE AND COOPERATION

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

BUSINESS INNOVATION

We implement services and processes in line with market trends.

KINDNESS AND OPENNESS

We maintain friendship and sociability.

QUALITY AND TRUST

We induce customers' confidence.

RESPONSIBILITY AND DILIGENCE

We assume responsibility.

3.9 Key strategic guidelines of the Group

3.9.1 Key strategic guidelines of Elektro Gorenjska Company

In September 2016 supervisory board of Elektro Gorenjska Company confirmed the strategy of the company for the period 2016-2020. Key elements for implementation of the strategy are strategic projects, which determine concrete tasks and their execution. They are used to define in detail the activities, deadlines, advantages, opportunities and expectations necessary to reach the strategic goals. Advantage of pre-set strategic projects is in quick detection of eventual troubles, additional challenges and meaningful integration with other projects in the company.

Strategy of Elektro Gorenjska Company precisely defines seven strategic projects being implemented in the company. They are:

- Acquisition of own concession for the distribution of electricity,
- Integration of technical information systems (CIM),
- Management of organizational culture,
- Connection of subsidiary and capital investments with strategic partners,
- Implementation of system services for SO (system operator),
- GIS (geographic information system),
- Optimizing IT support with the purpose of further improving the company's operations,
- Acquisition of the status of critical infrastructure for the ICT part of the distribution network,
- Development of the business model of exploitation of advanced metering infrastructure.

3.9.2 Key strategic guidelines of Gorenjske elektrarne Company

Key strategic guidelines of Gorenjske elektrarne Company are:

- increasing the share of environment friendly production,
- restructuring of the company from electricity production company into the energy management company,
- modernization of automation and monitoring in order to increase the efficiency of the existing production facilities,
- implementation of projects on the basis of self-sufficiency system (net metering),
- to become a recognized service provider for increasing energy efficiency,
- to become an important player in the field of e-mobility,
- to exploit new business opportunities associated with energy environmental protection,
- to set up and market its own system for centralized control over data of energy consumption,
- renovation of production facilities with the purpose of including them in the operating supports system.

3.9.3 Key strategic guidelines of GEK Vzdrževanje Company

Key strategic guidelines of GEK Vzdrževanje Company are:

- Reliable maintenance of energy facilities that ensures maximum operational readiness with minimal congestion for our customers at a high level of occupational safety and protection of property.
- Continuous professional training of employees, improvement of processes and services.

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 forecast

Indicators for RS Slovenia	2017	Forecast		
		2018	2019	2020
BDP (real growth, %)	5.0	5.1	3.8	3.2
Employment (growth, %)	2.8	2.4	1.5	0.8
Unemployment (rate %)	9.5	8.0	7.2	6.7
Inflation (DEC/DEC, %)	1.7	1.8	2.1	2.3
Inflation (year average, %)	1.4	1.5	1.9	2.3
Average gross salary per employee (real growth, %)	1.3	2.5	2.6	2.0
Labor productivity - GDP per employee (real growth, %)	2.2	2.7	2.2	2.4

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

Spring Forecast of Economic Trends, prepared by the Office for Macroeconomic Analysis and Development for 2018, envisages high and broadly based economic growth (5.1 %), while the continuation of the conjuncture is forecast for 2019 (3.8 %). Key reasons for this year's continued high growth will continue to be high growth in exports and investment, with higher growth in disposable income, private consumption growth will continue to accelerate. In the coming years, the slowdown in economic growth will be mainly due to a gradual slowdown in the growth of foreign demand and demographic factors, which will be reflected in the lower growth in the employment and consumption of households.

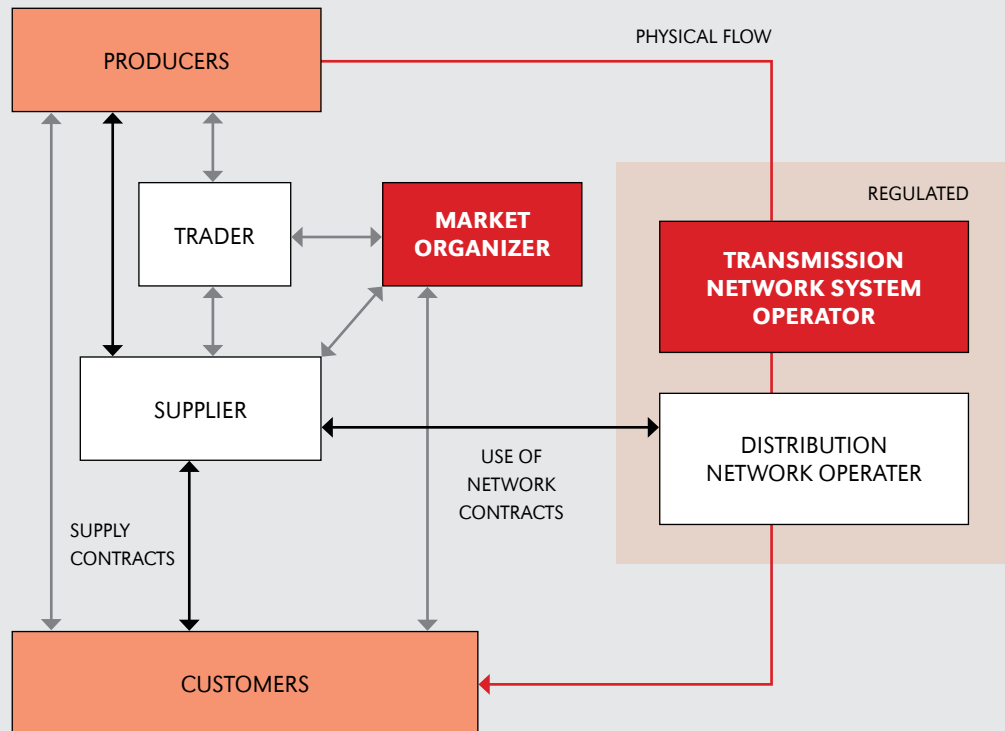
Inflation will remain relatively low this year (1.5 %), while in the next two years it will moderately increase (slightly above 2 %). After a slightly higher inflation last year, which followed a period of very low price growth or deflation, similar price developments on average are expected for this year too. This is mainly due to the relatively low raw material prices. Under the influence of high economic growth and, in particular, personal consumption, basic inflation will rise above 2 % this year.

Based on data for previous years, we find that electricity consumption is largely linked to economic growth or GDP growth. Considering that the Spring Forecast of Economic Trends forecasts a relatively high GDP growth for the next few years, we expect growth in consumption or distribution of electricity as well.

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



Source: Energy Agency

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

Elektro Gorenjska operates in the sector of electricity supply, namely in that business segment of electricity supply which ensures the distribution of electricity to final consumers. Implementation of electricity supply and consequently organization of the market are among other subject to some fundamental characteristics of electricity as a product:

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

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

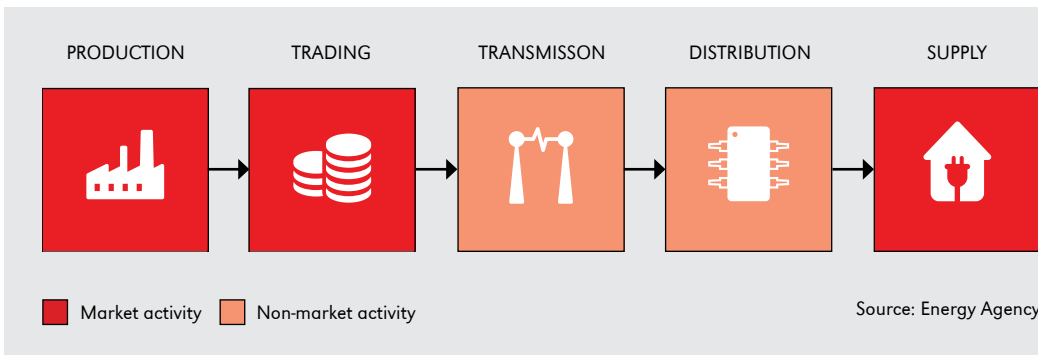


Figure 14: Organization of electricity supply in Slovenia

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

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

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



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

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.

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),
- contribution for energy efficiency (set by the Government),
- contribution for ensuring the production of electricity from renewable energy sources and high-efficiency cogeneration (set by the Government),
- excise duties on electricity (set by the Government),
- value added tax (set by the Government).

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

Price for the network charge and the contributions is the price that the client pays for the use of electricity system and includes the network charge, which is determined by AGEN and contributions laid down by the 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 responsible electricity operator.

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

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

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

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

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

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

3.10.4 Energy legal environment of group's operation in year 2017

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

- Energy Act,
- Companies Act,
- Construction, spatial planning, spatial management and environment protection act,
- General Administrative Procedure Act,
- Directive 2009/72/ES of the European Parliament and of the Council concerning common rules for the internal market in electricity,
- General conditions for supply and consumption of electricity from electricity distribution network,
- Decree on the method for the implementation of public service obligation relating to the electricity distribution system operator, and public service obligation relating to the electricity supply to tariff costumers,

- Decree on the concession for performing public service obligation relating to the activity of the electricity distribution system operator,
- Legal Act on the methodology determining the regulatory framework and network charge for the electricity distribution system,
- Price list for the use of network (network charge and supplements to the network charge),
- Rules on the system operation of electricity distribution network,
- Decree supplementing the Decree laying down the list of goods and services subject to price control measures,
- Decree on energy infrastructure,
- Decree on measures and procedures for the introduction and interoperability of advanced electric power metering systems,
- Legal act on the rules for monitoring the quality of electricity supply,
- Legal Act on the identification of entities in the data exchange among participants in the electricity and natural gas markets,
- Decree on the division of the 110 kV network into the distribution and transmission systems,
- Decree on the terms and conditions and methods of borrowing,
- Waters Act,
- Construction Act,
- Environment Protection Act,
- Excise Duty Act.

3.10.5 Contract with SODO

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

For reasons of transparency on 29 February 2012 a new contract with SODO between SODO and Elektro Gorenjska was signed, which replaced the agreement of 2007, and to which the following five annexes were concluded:

- 18. 9. 2012 annex No. 1,
- 26. 11. 2013 annex No. 2,
- 30. 9. 2014 annex No. 3,
- 27. 1. 2016 annex No. 4 and
- 27. 1. 2017 annex No. 5.

Annex No. 5 to the Contract with SODO refers to the regulatory period from 1 January 2016 to 31 December 2018 and focuses on:

- commitment to making-out and harmonizing the standards for regulated services of both contracting parties,
- method and payment for elaboration of long-term study "forecasts on load and electricity consumption,
- manner of implementation of joint public procurement for the purchase of advanced measuring equipment,
- invoicing, payment and billing of services that EG performs for SODO,
- model of stimulating and penalization of managing the technical losses in the network,
- charging of interim deficit and surplus of the network charge,
- charging of deficit and surplus in the regulatory years 2012, 2013 and 2014,
- monitoring of services performed by EG for SODO,
- charging for the rental of electricity infrastructure that SODO rents from EG.

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

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

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

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

For electricity infrastructure leased and for implementation of services presented before, Company Elektro Gorenjska has been making out bills for rent and implemented services to SODO Company. These revenues represent approximately 79 % of entire company's revenues or 73 % of entire group's revenues.

Elektro Gorenjska charges amounts for rent and services in monthly advance amounts based on annual values of Decision on a regulatory framework for the period 2016 - 2018, issued by the Energy Agency. In March SODO Company carries out a preliminary calculation for the previous year. Calculation is based on the unaudited financial statements. It is followed by the final statement, which is based on audited financial statements prepared by the Agency for Energy. Both accounts are prepared on the basis of the provisions of the Legal Act on the methodology determining the regulatory framework and network charge for the electricity distribution system.

4 MANAGEMENT AND QUALITY SYSTEMS

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

Since year 2011 the 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.

In 2017, the company upgraded the existing iSVK with the requirements of ISO/IEC 27001:2013 standard and now meets the requirements of the following certification systems:



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

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

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

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

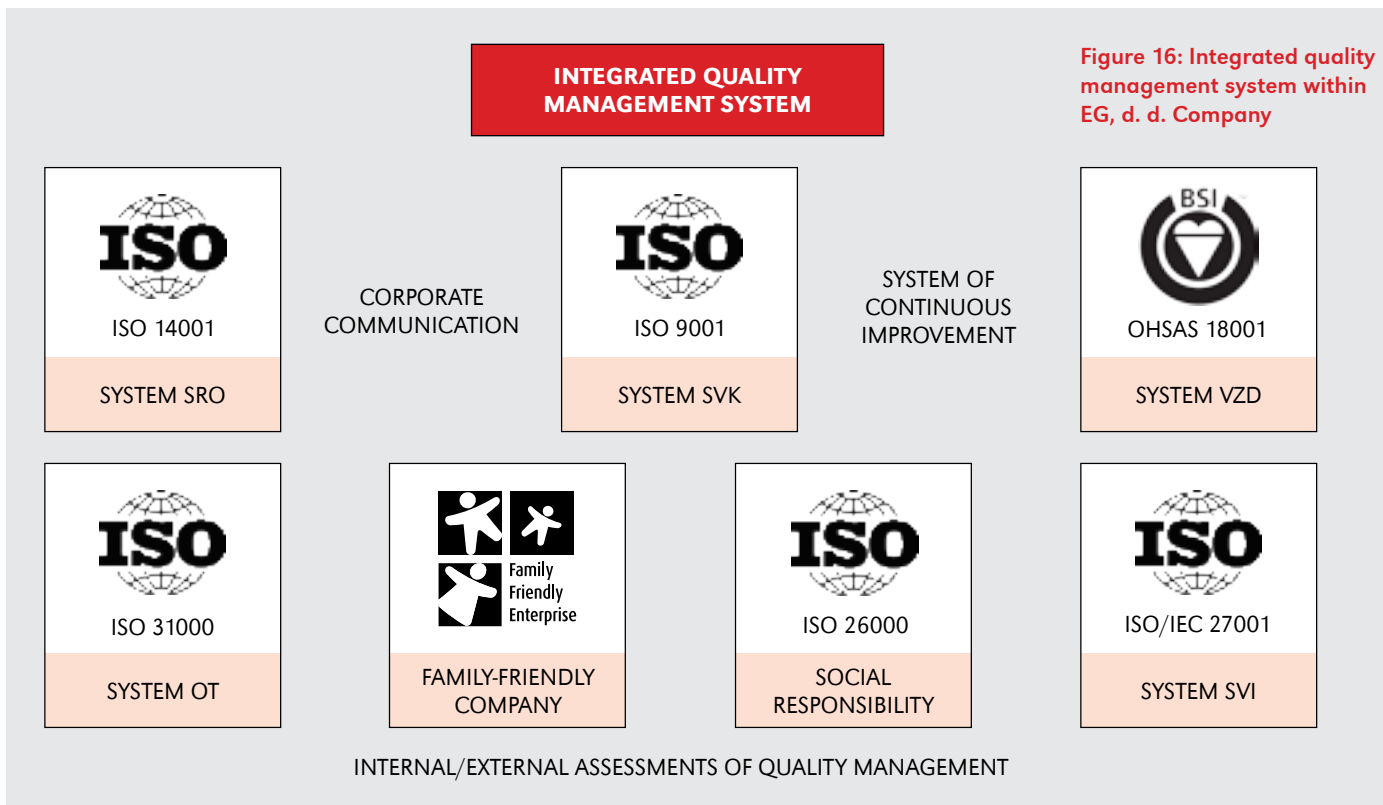


Figure 16: Integrated quality management system within EG, d. d. Company

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

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

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

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

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

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

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

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

Proof of excellence in performance and comparability at European level is also the EFQM certificate, which is why we have been recorded in the database of successful European organizations operating and living according to the EFQM model, which of course means that the company is committed to continuous improvement and to continuous growth on its path to excellence

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

Result of constant activity in all areas of company's operation is checked since 2013 onwards by self-assessment of operation, through which the company monitors its progress and ensures that risks are not realized.



In 2017 the company Elektro Gorenjska, d. d., monitored and controlled its business with the help of 42 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 195 established quality indicators, and 29 identified risks.

In the systematic management of operation iSVK there were 88 improvements / measures given, which proves that the company delivers on the commitment to continuous improvement and to continuous growth. Growth trends of quality of individual business processes of Elektro Gorenjska Company are checked quarterly and are addressed at the Quality Committee, where activities of other management systems are also reported on.

Number of business processes, quality indicators, improvements and risks

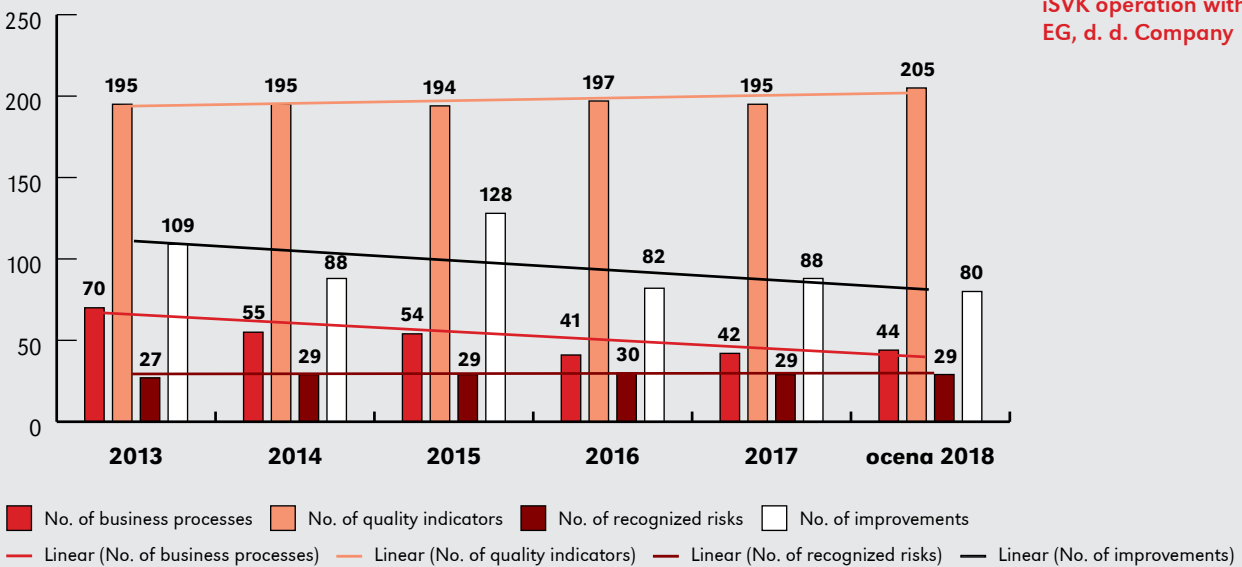


Figure 17: Monitoring of iSVK operation within EG, d. d. Company

In 2017, Elektro Gorenjska Company successfully passed the verification of the relevance of the introduction of new requirements of the ISO 14001:2015 standard and the new system, the information security system (SVI system) based on meeting the requirements of the ISO/IEC 27001:2013 standard.

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



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

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

In 2017 88 proposals – measures, improvements were given, contributing to both the system operation as well as enhancing the employees to look for improvements and additional measures that have a favorable effect on the good performance of the company and encourage further commitment of employees and environmental management.

As every years so far also in 2017 we successfully passed the external audit of certification management systems. In the process of audit of certification management systems only one non-compliance has been established in the field of environmental management. A total of 36 recommendations were made (9 SVK, 8 SRO, 6 VZD and 13 SVI), which we have systematically dealt with and, given their importance also taken into account.



In the field of work-life reconciliation, 2017 marked the end of the three-year implementation period of the Family-Friendly Company project.

On the basis of the prepared report, the auditor confirmed the correctness of the implementation of the measures, made some recommendations and praised our work and the regularity of the documentation in the field of work and family reconciliation. Within the framework of the Family-Friendly Company project, the company performs the measures correctly and in accordance with the set goals.

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

4.2 Integrated quality management system of Gorenjske elektrarne Company

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

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

- quality management system according to requirements of ISO 9001:2015, Q-1864/2017-12-16 and
- energy management system ISO 50001:2011, En-014/2016-11-11.



Focus of the energy management was the integration of standard EN 50001:2001 into the quality management system and thereby establishing a connection with the SIST EN 9001:2015 standard. We are introducing improvements in the monitoring approaches and activities of implementation of the ISO 50001:2011 standard, which we received in the certification process in November 2016.

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

At the end of 2017, we established the quality management system following the revision of the ISO 9001:2015 standard with the expanded requirements of the chapters of the context of organization, leadership, risk and opportunity handling, competence, awareness, evaluation and process changes that resulted from the reorganization of the company by spin-out of maintenance activities in a controlled company GEK Vzdrževanje and establishment of Gorenjske elektrarne Group. Redefining the interconnected processes of both companies in the group and improving is a permanent task in the future.

Quality policy and energy management are continuously communicated to all employees. Company strives that the policy is understood and implemented at all levels of the company.

Company carries out internal audits of quality management systems. Purpose of these audits is twofold, namely:

- continuous checking whether the prescribed procedures are carried out in the manner as specified in the documents. This way we get feedback on any deviation in the earliest possible stage, to be able to act as quickly as possible.

- we are constantly looking for solutions for an even more efficient implementation offset procedures. Audits give us useful information for further improvements.

In the period 2018 - 2020 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.

4.3 Risk management in Elektro Gorenjska Company

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

Risk management system is one part of our integrated quality management system. Management of risks is an important condition for successful and efficient reaching of the set long-term business goals. In 2016 Elektro Gorenjska Company acceded the upgrade and supplement of the risk management system.

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

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

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

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	Big risk
2-Very unlikely	Medium and low risk	Medium and low risk	Significant risk	Significant risk	Big risk
3-Possible	Medium and low risk	Significant risk	Significant risk	Big risk	Big risk
4-Very likely	Significant risk	Significant risk	Big risk	Big risk	Big risk
5-Almost certain	Significant risk	Big risk	Big risk	Big risk	Big risk

■ Big risk
 ■ Significant risk
 ■ Medium and low risk

Figure 19: Risk severity

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

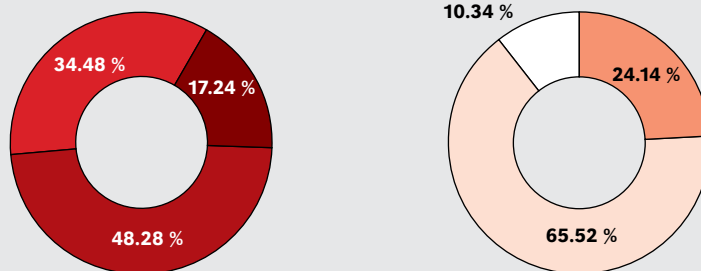
- definition of new risks identified, including key documents,
- definition of important sources necessary for risk management,
- systematic treatment and assessment of already identified risks,
- approval of measures for risk management.

Primary task of the risk management system is a systematic analysis and evaluation of already identified risks, and continual identification of new ones.

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

Left figure 20: Identified risks according to their severity (share)

Right figure 21: Identified risks according to their type (share)



■ High risk ■ Significant risk ■ Medium and low risk ■ Financial risk ■ Business risk □ Operating risk

Figure 22: Classification of identified risks in Elektro Gorenjska Company

Risks according to SEVERITY

High risk

- Operation of own information system
- Methodology of Energy Agency and other regulations in the field of electricity distribution
- Defects and general average
- Change of contract with SODO
- Information security

Significant risk

- Credit risk of customer payments
- Liquidity risk
- Attacks on infrastructure, terrorism
- Non-functioning of internal controls and incidence of fraud
- Failure to comply with the voltage quality requirements
- Adverse outcome of denationalization processes
- Inadequate payment of EG services by SODO
- Lack of investment assets
- Public procurement implementation process
- Compliance of implementation of Elektro Gorenjska Company strategy
- Dispute with trade unions
- Risk of investments in subsidiaries
- Risk of serious injury and death at work
- Reduction of network efficiency

Medium and low risk

- Extraordinary expenses (penalties)
- Implementation of technically or economically unjustified investments
- Failure to achieve commercial quality requirements
- Non-compliance with contractual obligations and quality of external contractors services
- Failure to comply with requirements for continuity of supply
- Non-compliance and unethical business
- Interest rate risk
- Lack of adequate staff
- Influence on environment
- Reduction of distributed electricity quantity

Risks according to TYPE

Financial risks

- Extraordinary expenses (penalties)
- Credit risk of customer payments
- Liquidity risk
- Inadequate payment of EG services by SODO
- Interest rate risk
- Lack of investment assets
- Risk of investments in subsidiaries

Business risks

- Operation of own information system
- Implementation of technically or economically unjustified investments
- Methodology of Energy Agency and other regulations in the field of electricity distribution
- Attacks on infrastructure, terrorism
- Failure to achieve commercial quality requirements
- Non-compliance with contractual obligations and quality of external contractors services
- Failure to comply with the voltage quality
- Failure to comply with requirements for continuity of supply
- Non-compliance and unethical business
- Adverse outcome of denationalization processes
- Defects and general average
- Lack of adequate staff
- Compliance of implementation of Elektro Gorenjska Company strategy
- Dispute with trade unions
- Change of contract with SODO
- Information security
- Influence on environment
- Reduction of distributed electricity quantity
- Reduction of network efficiency

Operating risks

- Non-functioning of internal controls and incidence of fraud
- Public procurement implementation process
- Risk of serious injury and death at work

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

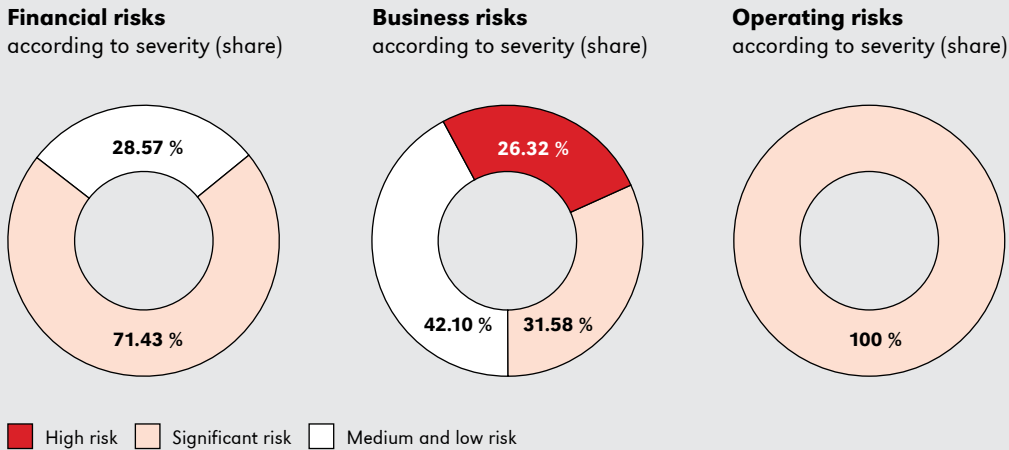


Figure 23: Individual types of risks according to their severity

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

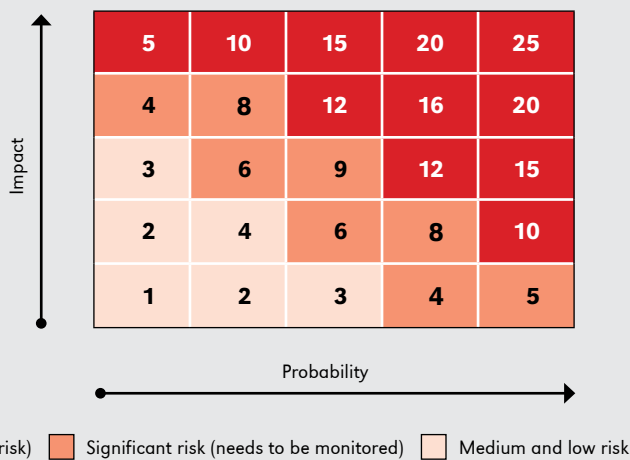


Figure 24: Risk assessment matrix

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

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

Figure 25: Dynamic impact of risks on the Company's operations according to their share of impact value (solvency aspect)

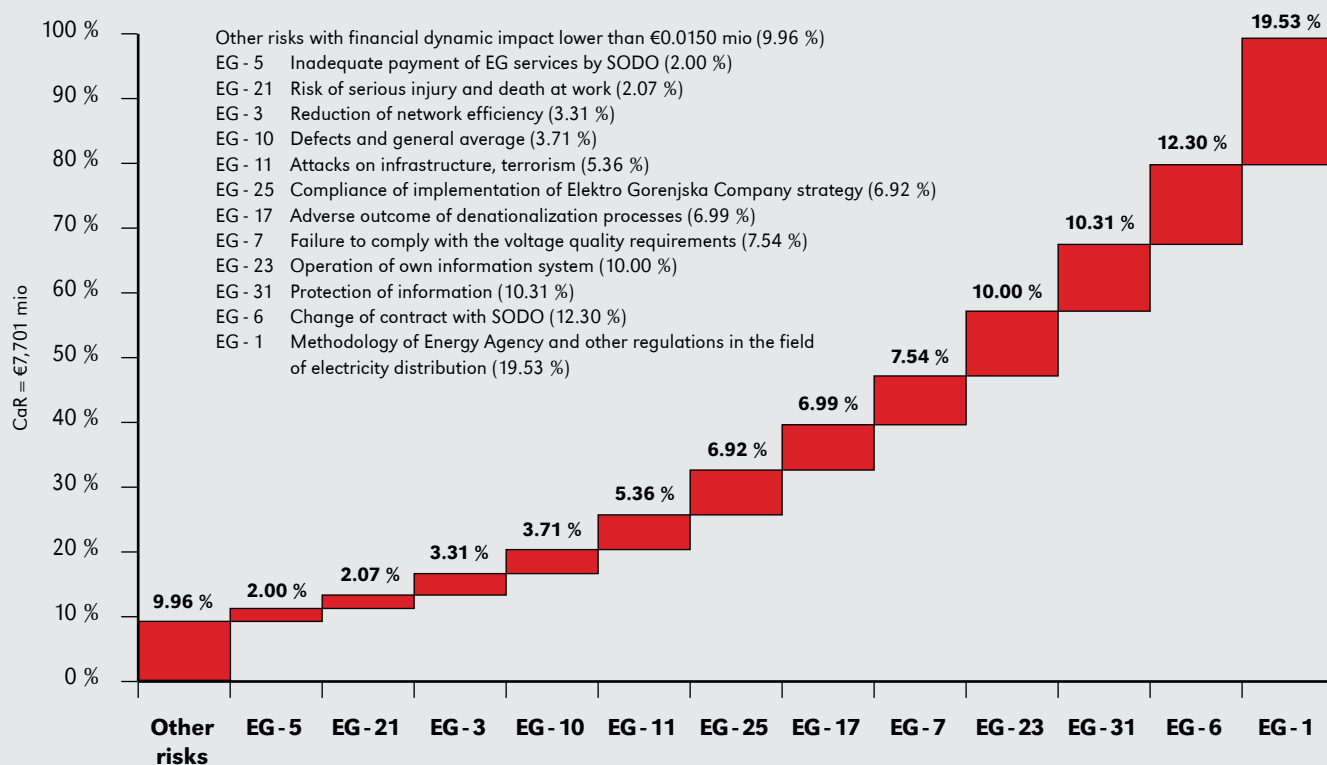


Figure 26: Share of dynamic impact of risks according to their severity

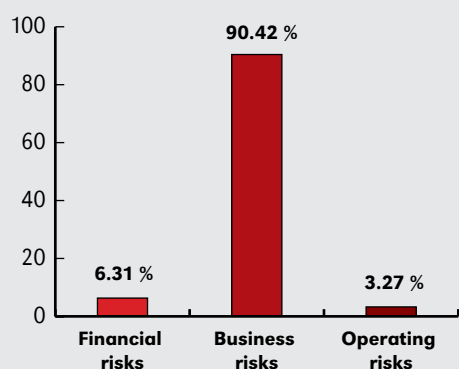
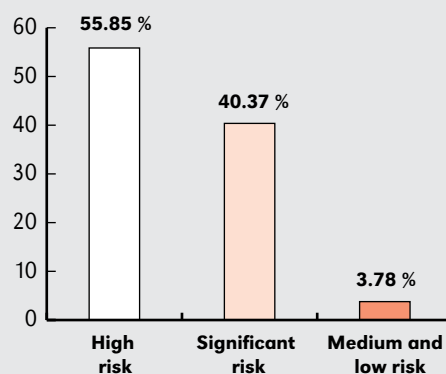


Figure 27: Share of dynamic impact of risks by individual types of risks



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

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

Risks at the system level are managed through compliance with the requirements of the integrated management system, which also includes: quality management system ISO 9001, environment protection system ISO 14001, health and safety at work system OHSAS 18001 and information security management system ISO /IEC 27001.

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

Also in 2017, large part of the identified risks in Elektro Gorenjska Company referred to business risks related to activity of implementing the contract on the lease of electricity infrastructure and implementation of services for SODO, d. o. o., as the company creates a vast majority of its revenues under this contract.

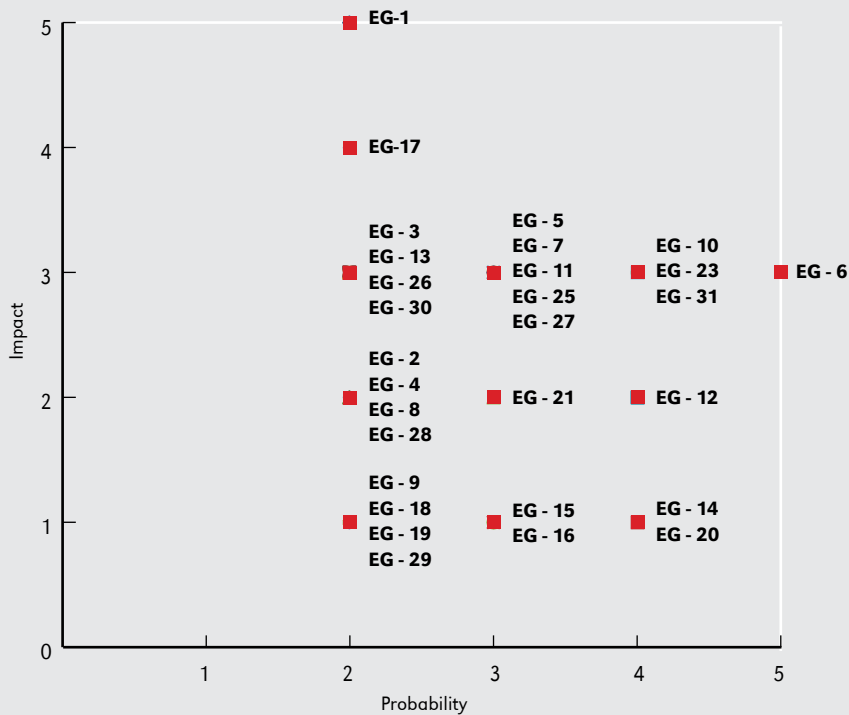


Figure 28: Layout of risks in Elektro Gorenjska, d. d. after the last assessment in 2016

Legend:

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

Legend of influence degree:

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

Legend of degree of probability of occurrence:

- 1** - Occurrence of unwanted events is completely unique. (Frequency: at least once in a period of 21 years.)
- 2** - Event is not particularly probable, but cannot be excluded. (Frequency: at least once in a period of 180 years.)
- 3** - Event can happen only occasionally over a period of time, the more likely it is a random event. (Frequency: at least once in a period of 6 years.)
- 4** - Event can happen several times over a certain period, it is an often threat. (Frequency: at least once in a period of 4 years.)
- 5** - Probable event occurs often with a constant risk. (Frequency: at least once in a period of 2 years.)

Business risks thus relate to the ability of long-term and stable provision of adequate electricity infrastructure, human, material and financial resources for the implementation of the core activities of the company (electricity distribution), and are followed by the financial and operating risks.

4.3.1 Business risks

Modification of the contracts with SODO

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

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

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

Defects and averages

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

Failure to achieve the requirements of the Energy Agency: commercial

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

Non-accomplishment of the Development plan or necessary investments: voltage quality

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

Reducing the amount of energy distributed

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

Failure to achieve the maintenance plan: continuity of supply

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

Reduction of network efficiency

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

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. Severity: significant risk.

Implementation of technically or economically unjustified investments

Risk that the company makes investments that are not technically or economically justified. Severity: medium and low risk.

Adverse outcome of denationalization processes

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

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

Disputes with trade unions

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

Operation of own information system

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

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

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

Risk of information security

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

Compliance of implementation of Elektro Gorenjska Company strategy

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

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 environmental management standard, training and regular performance audits. Severity: medium and low risk.

4.3.2 Financial risks

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

Credit risk of customer payments

On the basis of the Contract for leasing the electricity distribution infrastructure and the provision of services to the operator, the company collects customer payments in its own name and for the SODO, d. o. o.,

account. In addition, the company also carries out marketing services in market activities. There is a higher risk in that, despite the unpaid due customers' claims, the company must settle all liabilities to SODO in accordance with the Contract and its annexes. Based on past experience, there is a likelihood that this event certainly happens. It is estimated that such a situation would have a moderate impact on the business or liquidity, since it is estimated that non-payment may come primarily from business customers in the network charge charging segment. In part, the company has recognized and covered possible write-offs of receivables in accordance with the regulation, but only up to 0.2 % of the charged network charges (approximately €51,000 per year). In the current situation, when the company has never had major expenses from claim revaluation, the largest risk is represented by receivables from market activities, which are not covered by regulation and therefore could have a direct impact on the business. Severity: significant risk.

Risk of short-term insolvency or liquidity risk

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

Inadequate payment of EG services by SODO

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

Interest risk

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

Extraordinary expenses (penalties) represent the risk of receiving: penalties for Energy Act violation and secondary legislation, penalties for maintenance violations, penalties for pollution. Severity: medium and low risk.

Lack of investment funds

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

Risk of investments in subsidiaries

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

4.3.3 Operating risks

In the framework of operating risks the company will continue to focus on the following:

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

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

■ **Public procurement implementation process**

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

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

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

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

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

In the company Elektro Gorenjska, functions of risk management and internal audit are established, which are organized within the parent company and cover the scope of the entire group:

- **Internal audit function** is managed by an internal auditor who functionally responds and reports to the supervisory board's audit committee, and administratively reports directly to the chairman of the parent company's management.
- **Risk management system** is run by a risk management coordinator reporting to the internal auditor, the risk management council for a particular area, and the chairman of the parent company's management. In autumn 2012, the scope of risk management and the role of the coordinator for risk management in the company Elektro Gorenjska was taken over by the Quality Management Advisor, who oversees the operation of the integrated management system in the company.

At its 1st regular meeting on 14 September, 2017, the Supervisory Board appointed Mr. Andrej Koprivec as a member of the Audit Committee from the Supervisory Board of Elektro Gorenjska Company, who was also appointed as Chairman of the Audit Committee of the Supervisory Board of Elektro Gorenjska, and Mr. Franjo Curanović.

From professional experts qualified for accounting and auditing who completed their education for obtaining the title certified auditor, auditor, certified accountant, accounting officer, proven internal auditor, certified taxpayer and similar, was appointed prof. dr. Simon Čadež.

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

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

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

In 2017, the Internal Audit carried out eight audits. It paid special attention to the field of orders, measurements and calculation of electricity, investments and acquisition in the parent company and subsidiary, the management of the car park and the risk management system in the parent company. In addition, it was constantly monitoring the implementation of the recommendations made.

Internal audit within 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, but there are possibilities for its improvement, to which it refers with the issuing of recommendations.

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

4.5 Risk management in Gorenjske elektrarne Company

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

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

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

Figure 29: 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	Big risk
2-Very unlikely	Medium and low risk	Medium and low risk	Significant risk	Significant risk	Big risk
3-Possible	Medium and low risk	Significant risk	Significant risk	Big risk	Big risk
4-Very likely	Significant risk	Significant risk	Big risk	Big risk	Big risk
5-Almost certain	Significant risk	Big risk	Big risk	Big risk	Big risk

■ Big risk
 ■ Significant risk
 ■ Medium and low risk

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

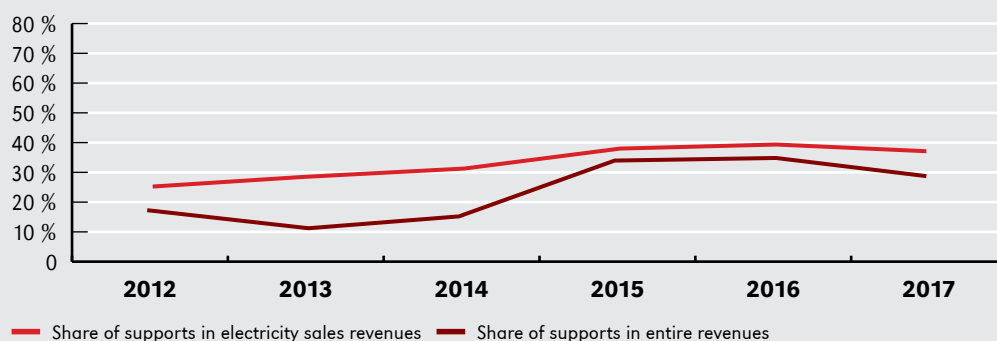
Reduction of supports for electricity generated from RES

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

In the calculation of the potential impact, on the basis of the data for 2017, it was calculated that the general reduction of supports of 20 % for the company at the annual level would amount to €238,852 less revenue, while the general reduction of 40 % already amounts to €461,705 less revenue.

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

Figure 30: Share of supports in revenues



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

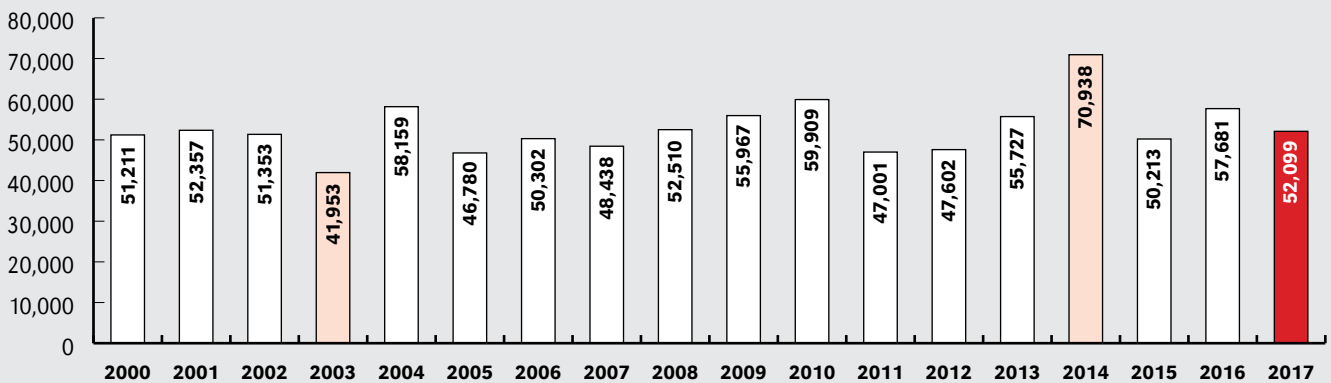
Risk of weather conditions

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

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

Risk of weather conditions is assessed as important, and the annual maximum impact is evaluated annually to €478,962. The latter is calculated on the basis of the established maximum deviations in production from the last ten-year average in each segment (HE, MFE, CHP) and taking into account the selling price of electricity in 2017 (also separately by sources of production).

Figure 31: Production in MWh from 2000 to 2017



After 2000, when the installed power of HPP facilities owned by Gorenjske elektrarne is comparable, the hydrological conditions played a key role in achieving electricity generation at the threshold. The lowest production was in the observed period of 2003, amounting to 41,953 MWh, and the highest in 2014, which amounted to 70,938 MWh.

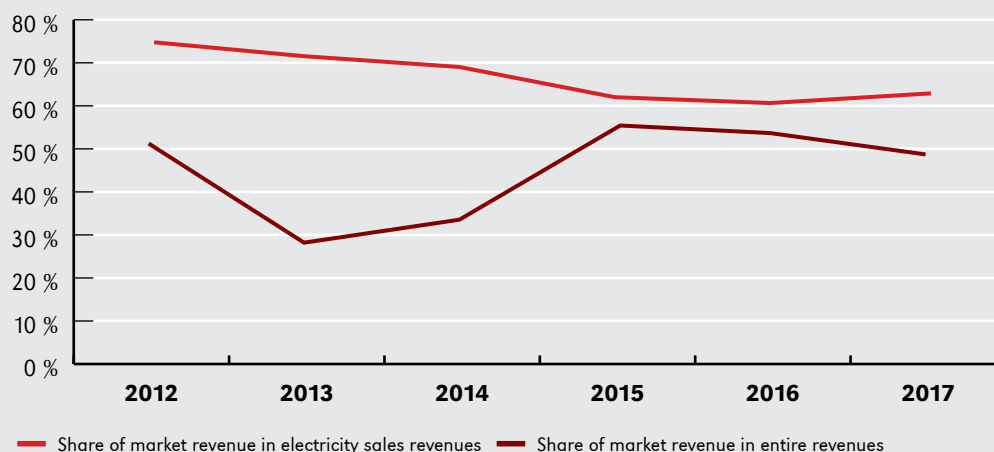
Company manages this risk primarily through a development policy that is intensely focused on diversifying revenue sources and introducing new types of revenues from energy efficiency projects, thus reducing the share of sold electricity in sales revenues in the long run.

At operational level, the Company manages the risk of production volatility by optimizing the maintenance of production facilities, thereby minimizing the extent of production downtime.

Market risk – lowering the sales price of electricity

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

Figure 32: Share of revenues from the sale of electricity to the wholesaler and final customers in the company's total revenues from revenues from the sale of electricity



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

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

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

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

Availability of production capacity

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

Loss of production in combination with the machinery breakdown as a result of average, unplanned downtime and poor maintenance can make a significant loss of revenue for the Company. Therefore, the Company ensures that failure of production units does not occur by performing regular monitoring, enhanced monitoring in case of adverse weather conditions and planned and ongoing maintenance. In the event that a production failure occurs, the Company, by engaging employees and own funds or with the help of outsourcers, ensures the elimination of faults as soon as possible. All production facilities are also mechanically protected and fire protected, while the largest five solar power plants 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 Gorenjske elektrarne has been carrying out activities to manage this risk for a long time (cooperation with other electricity producers from the HPPs and dialogue with the Ministry of Infrastructure and the Ministry of the Environment and Spatial Planning). At the moment, the regulation that governs this area has not yet been adopted.

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

Credit risk

In accordance with the risk identification and risk management policy, the Company Gorenjske elektrarne has also recognized credit risk or the risk of default by customers. Company approached the risk by sending reminders, individually agreeing on payments, compensating, issuing the accounts of default interest and, in extreme cases, through a personal recovery process and legal enforcement.

Company is exposed to the additional credit risk in the process of investing in the purchase of receivables through the online exchange platform »Borza terjatev«. Risk is managed in such a way that all purchased receivables are secured by the seller, either by blocking the TRR or by the insurance instrument – enforcement draft.

In recent years, the Company has no outstanding receivables. Majority of receivables are paid on the due date or within 30 days after the due date.

Currency risk

Currency risk is a financial risk and presents a risk of financial loss due to changes in the value of one currency compared to another.

Company was not exposed to currency risks in 2017.

Interest rate risk

Interest rate risk means the possibility of a loss due to unfavourable interest rates on the market.

Company had a loan received which was fully repaid in May 2017. Since May, the Company has not been in debt, therefore it is not exposed to interest rate risk.

Risk of insolvency

Risk of insolvency is the risk that the Company will face difficulties in collecting the financial resources needed to meet its financial obligations. Company did not face this risk in 2017.

IT-risk

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

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

Non-economy of purchases and inadequacy of investments

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

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

Risks related to safety and health at work

In this segment, we primarily recognize the risk of serious injuries and death at work. We assess the risk as a high risk, and we assess the potential impact on the annual level to €100,000.

Company manages the risk by compulsory use of protective equipment, training and implementation of other legislative requirements in the field of safety and health at work. Similarly, all employees are collectively accidentally insured.

Environmental risks

In operation of hydroelectric power plants, environmental risks arise in terms of the impact of power plants on the environment, groundwater and fish in waters. The greatest risks are the installation of mechanical and electrical devices that contain oils and, where in case of a possible discharge pollution of the environment and water could occur.

In the operation of cogenerations, the risks are due to oils in devices.

In the case of solar power plants we should consider environmental risks in the decomposition of photovoltaic modules at the expiry of their service life or if unexpected damage and material defects occur.

In the Company's storehouse, we have various oils that pose a threat to the environment if an outflow into the groundwater and into the river occurred.

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

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



Company manages environmental risks with high standards in the construction of production facilities and the placement of production facilities into space. In the waterproof areas, instead of conventional oils, the synthetic organic esters MIDEL are installed. We work with fishing clubs that provide us with knowledge and help to ensure high ecological standards.

5 BUSINESS ANALYSIS OF THE GROUP

5.1 Production of electricity

In year 2017 the group generated a total of **52,099 MWh** of electricity, which is by 9.7 % less than in year 2016, which was an above-average water year. It generated electricity in 15 own hydro power stations (hereafter HE), and one power station the company manages. Electricity was generated also by 17 solar power stations (hereafter FE) in the area of Gorenjska region and one solar power station in Maribor (which is rented) and one solar power station in Nova Gorica. Besides that the company produced heat and electricity in five high-efficient cogenerations.



Figure 33: Electricity produced (in MWh) in the period 2015–2017

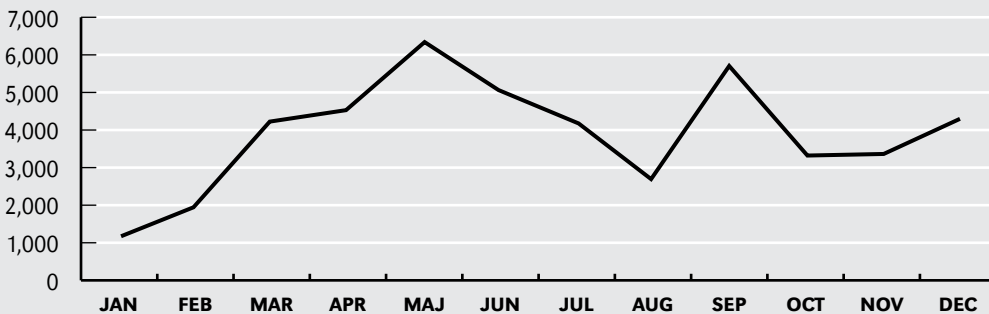


Figure 34: Electricity produced (in MWh) in HE by months of year 2017

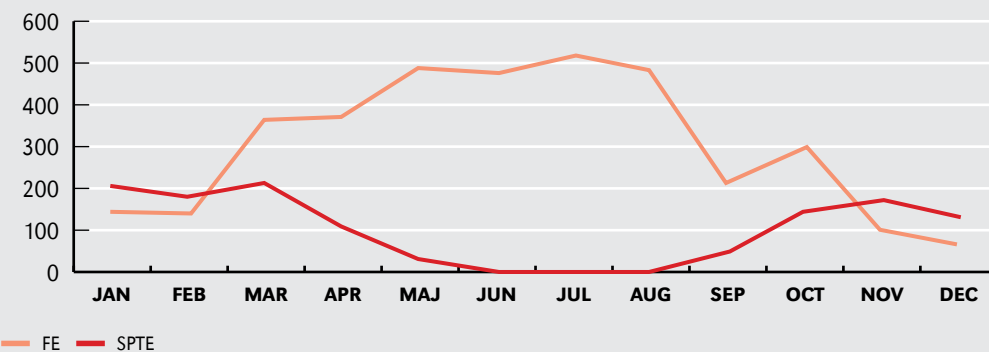


Figure 35: Electricity produced (in MWh) in FE and SPTE by months of year 2017

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

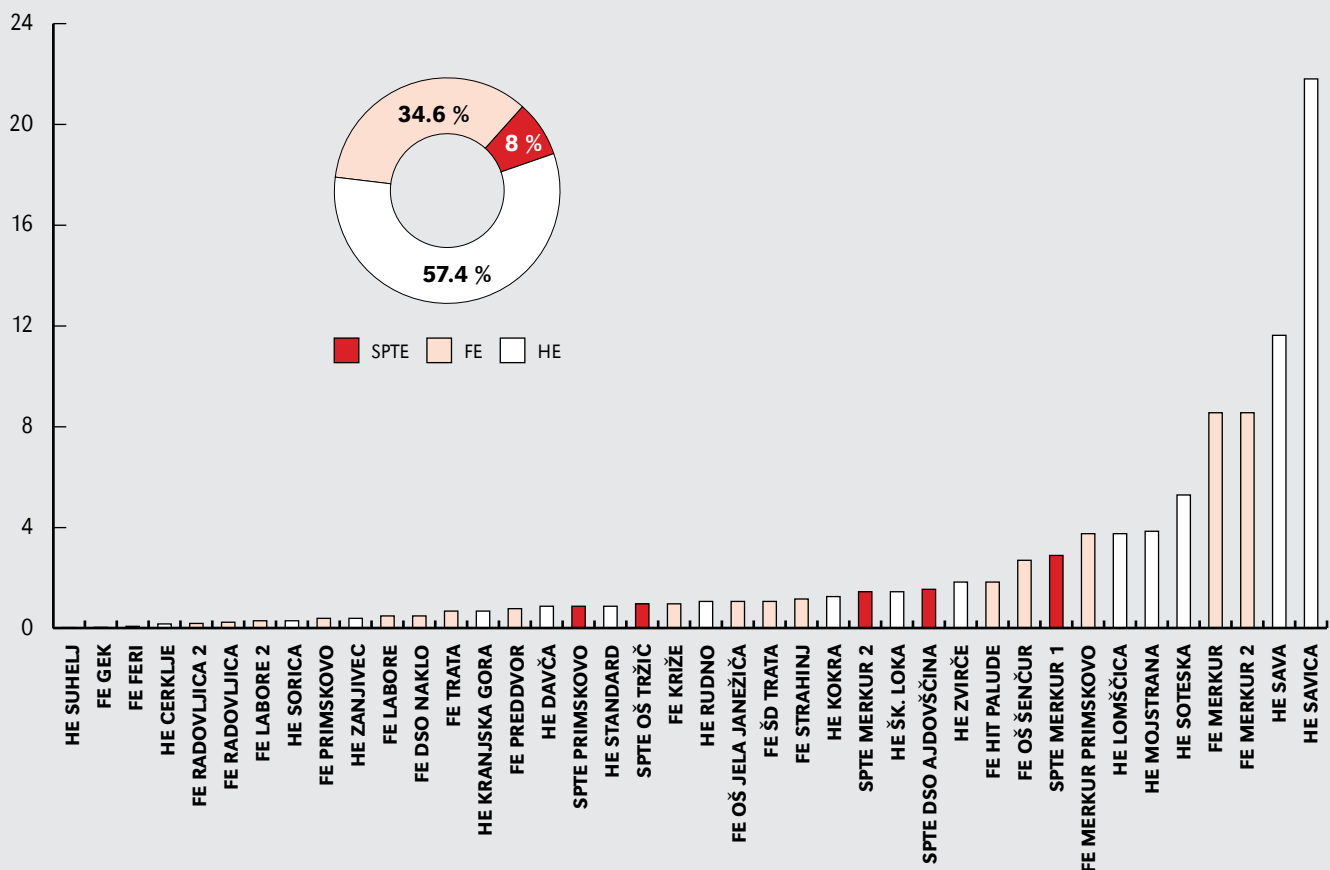
Operation of hydro power stations to a great extent depends on natural resources - current rainfall, which impacts the quantity of water in water courses, as hydro power stations do not have their own accumulations in general (with the exception of Lomščica HE). This means that in the event of heavier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

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

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

Following figure presents the share of individual power plants in total revenues from the sale of electricity for 2017.

Figure 36: Share of individual power stations in total amount of electricity produced in year 2017



5.2 Quantities of distributed electricity

In year 2017 there were 1,103,725 MWh of distributed electricity through the network of Elektro Gorenjska Company or 3.3 % more than in year 2016 (1,068,347 MWh).

In year 2017 household customers within the network of Elektro Gorenjska Company were distributed 340,181 MWh of electricity, which is by 1.8 % more than in year 2016 (334,300 MWh). Business customers within the company's network were distributed 763,544 MWh of electricity, which is by 4.0 % more than in year 2016 (734,047 MWh).

We believe that the reason for somewhat larger quantities of distributed electricity in year 2017 is further improvement of economic situation compared to year 2016 and thus higher productivity of primarily business customers.

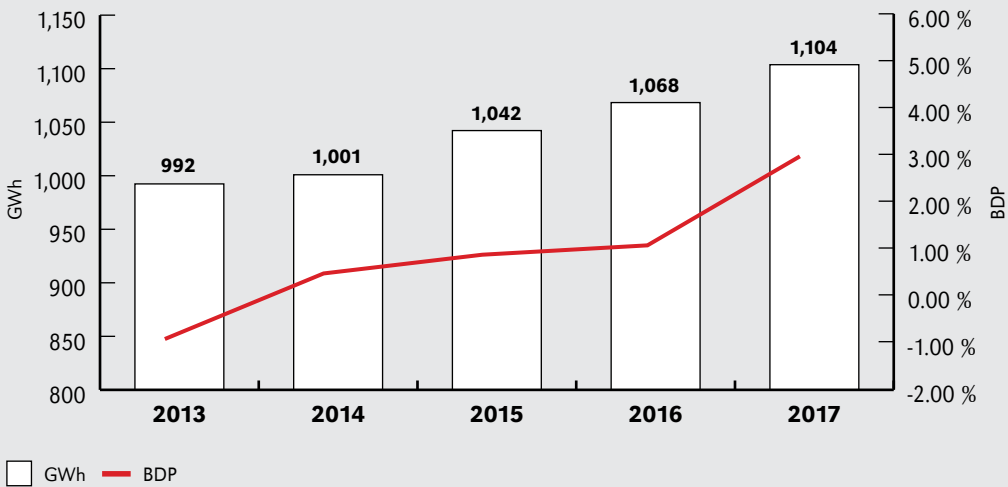


Figure 37: Changes in distributed quantities of electricity and GDP from 2013 to 2017

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

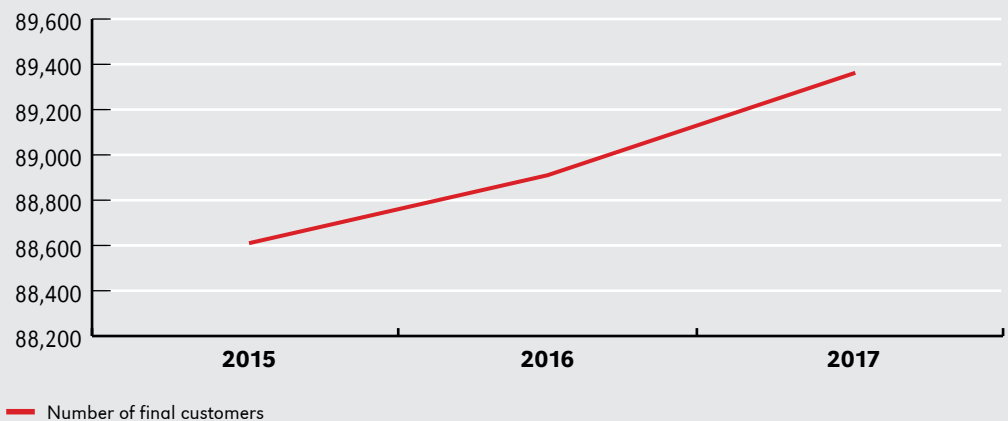


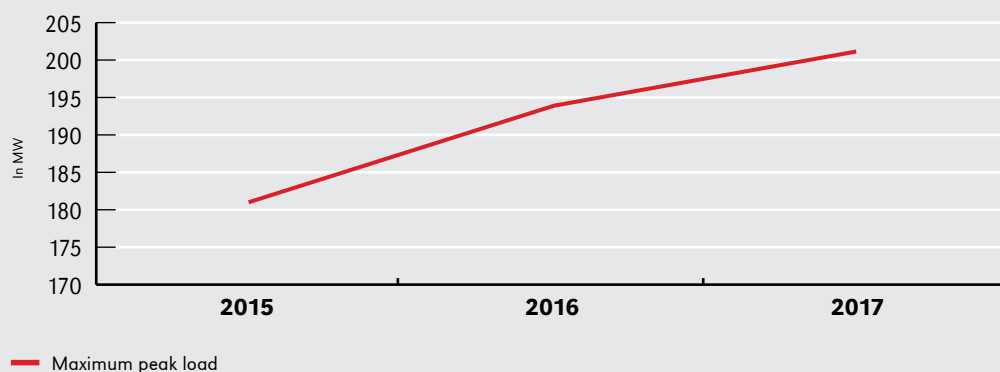
Figure 38: Number of final customers from 2015 to 2017



In year 2017 there were 1,103,725 MWh of distributed electricity through the network of Elektro Gorenjska Company or 3.3 % more than in year 2016.

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

Figure 39: Maximum peak power from year 2015 to year 2017



5.3 Quality of electricity supply (Contract with SODO)

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

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

Continuity

Continuity has been followed in accordance with the legislation. Analysis has shown that in year 2017 the indicators are within the prescribed limits.

Table 10: Unannounced long-term interruptions according to type of network in year 2017

	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	0.186	3.570	0.473	19.149	0.108	1.238	0.536	11.437	0.005	1.369	0.044	291.680	0.299	6.177	1.546	20.633
Total mixed	0.067	1.882	0.170	28.055	0.028	0.171	0.139	6.106	0.022	3.219	0.204	147.544	0.117	5.272	0.448	45.081
Total rural	0.414	14.288	1.051	34.515	0.088	1.119	0.437	12.697	0.259	19.842	2.423	76.638	0.761	35.249	1.925	46.318
Total	0.667	19.741	1.695	29.574	0.224	2.528	1.112	11.266	0.285	24.430	2.671	85.594	1.177	46.699	5.478	39.664

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	0.056	7.959	0.297	141.503
Total mixed	0.055	10.914	0.292	197.648
Total rural	0.133	18.934	0.704	142.314
Total	0.245	37.807	1.293	154.624

Table 11: Announced long-term interruptions in year 2017

	Rural	Urban	Total 2017
MAIFI	2.7	1.7	4.4
MAIFle	1.8	0.9	2.7

Table 12: Number of momentary interruptions per customer in year 2017

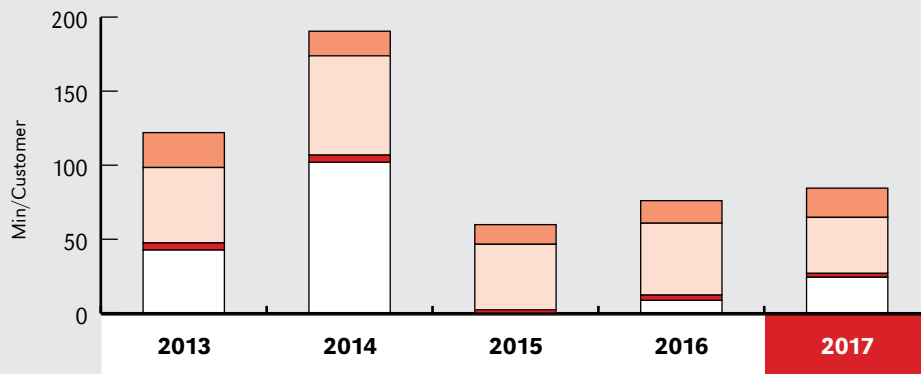


Figure 40: SAIDI – Average time of duration of all unannounced long-term interruptions

	2013	2014	2015	2016	2017
Proper	23.58	16.60	13.27	15.24	19.74
Planned	50.90	67.07	44.28	48.54	37.81
Foreign cause	4.68	4.47	2.03	3.48	2.53
Force majeure	42.85	102.02	0.29	8.80	24.43

Force majeure Foreign cause Planned Proper

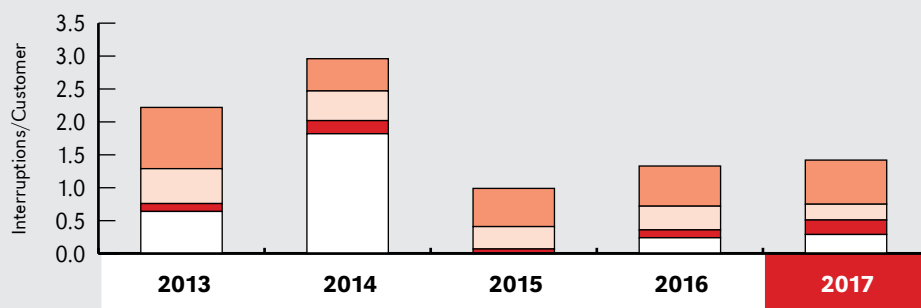
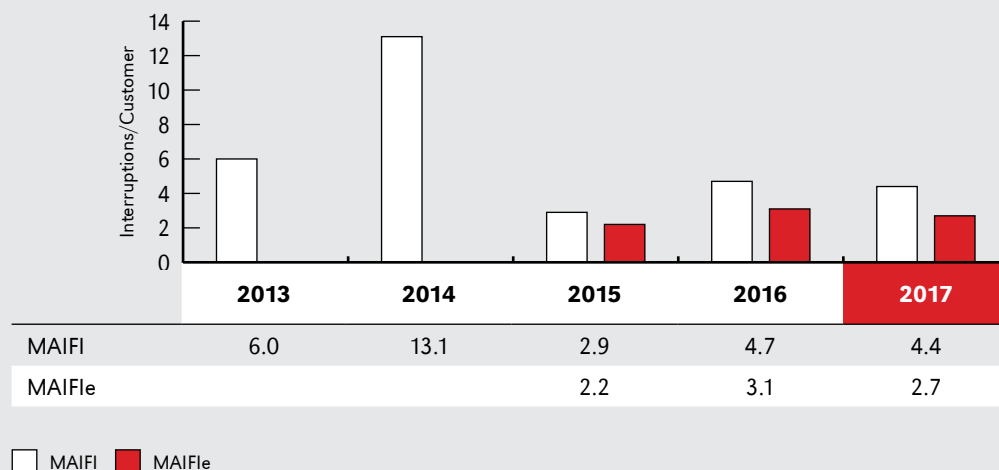


Figure 41: SAIFI – Average number of all unannounced long-term interruptions

	2013	2014	2015	2016	2017
Proper	0.93	0.49	0.58	0.61	0.67
Planned	0.53	0.45	0.34	0.36	0.24
Foreign cause	0.12	0.20	0.06	0.12	0.22
Force majeure	0.64	1.82	0.01	0.24	0.29

Force majeure Foreign cause Planned Proper

Figure 42: MAIFI and MAIFle – average number of all momentary interruptions



We find that situation in the field of power quality has not changed substantially compared to year 2016. Cause for inconsistent voltage conditions is mainly the flicker, which is transmitted from transmission 110 kV network and spreads to lower voltage levels. In year 2017 other parameters were throughout the measurement in accordance with the requirements of SIST EN 50160 standard. During the year we received thirteen official complaints on the condition of voltage quality on the low-voltage level, of which five proved to be justified. We try to eliminate inconsistencies as quickly as possible and within statutory deadlines.

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

Table 13: Consistency of power quality parameters with the SIST EN 50160 standard on high voltage level for year 2017

Facilities	Number of weeks under control	Deviation Uef	Harmonica	Fliker	Imbalance	Signal voltages	Frequency	No. of voltage drops	No. of voltage increases	Consistency KEE	
										Number of inconsistent weeks	
RTP Jesenice 110kV	50	0	0	49	0	0	0	79	25	1	49
RTP Radovljica 110kV	50	0	0	49	0	0	0	199	11	1	49
RTP Tržič 110kV	50	0	0	48	0	0	0	76	33	2	48
RTP Primskovo 110kV	50	0	0	47	0	0	0	83	34	3	47
RTP Zlato polje 110kV	50	0	0	48	0	0	0	82	37	2	48
RTP Labore - DV Okroglo 110kV	50	0	0	47	0	0	0	79	34	3	47
RTP Škofja loka 110kV - Okroglo	50	0	0	21	0	0	0	103	39	29	21
RTP Škofja Loka - DV Kleče 110kV	50	0	0	23	0	0	0	102	43	27	23

Commercial quality

In most commercial quality parameters for year 2017 we established that average achieved values of indicators were essentially better than the limits of minimum quality standards. In parameter Average time to issue consent for connection the reason for lower share of services above the limit value (15 %) was the fact that data according to the General Administrative Procedure Act (ZUP) refer to summary and declaratory proceedings together. ZUP otherwise defines that in summary proceedings permissible time of issue of the order is 30 days, while in declaratory proceedings, where oral hearing is implemented as well, it is 60 days.

With parameter Average time taken to answer written questions, complaints or requests of users, the share of services over the threshold (10 %) in most cases refers to the complaints of account data associated with the identification of the correct operation of the meter. In these cases it is necessary, before replying to the complaint, for the measurement service to properly check the meter, which may take longer than eight working days.

With parameter Average time needed to eliminate the defect counter share of implemented services above the threshold (15 %) refers to defects we discovered on our own, without receiving the complaint from the user.

Quality of network also relates to the share of network losses, which decreases from year to year. In 2015 the share of losses on the transferred electricity amounted to 4.65 %, in 2016 it reduced to 4.58 %, while in 2017 it amounted to 4.31 %.

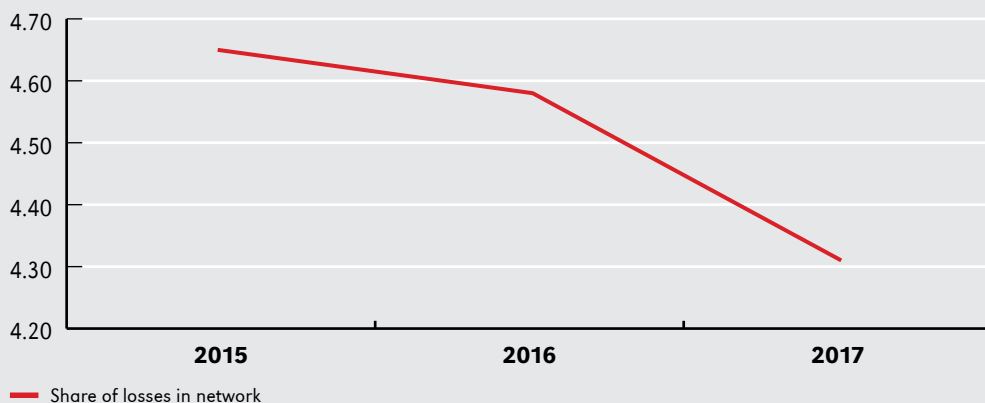


Figure 43: Share of losses in the network from 2015 to 2017

Comparison with data from other distribution companies in Slovenia and data from other European countries

Elektro Gorenjska Company constantly strives to ensure the highest possible level of quality of customer care. From the company's annual reports for 2016 and the data provided by individual companies in 2017 and the reports on the quality of electricity supply in 2015 (the latest known data), which measures quality based on data on power continuity, it follows that in this area Elektro Gorenjska is the most successful among all distribution companies. This is illustrated in the following two figures.

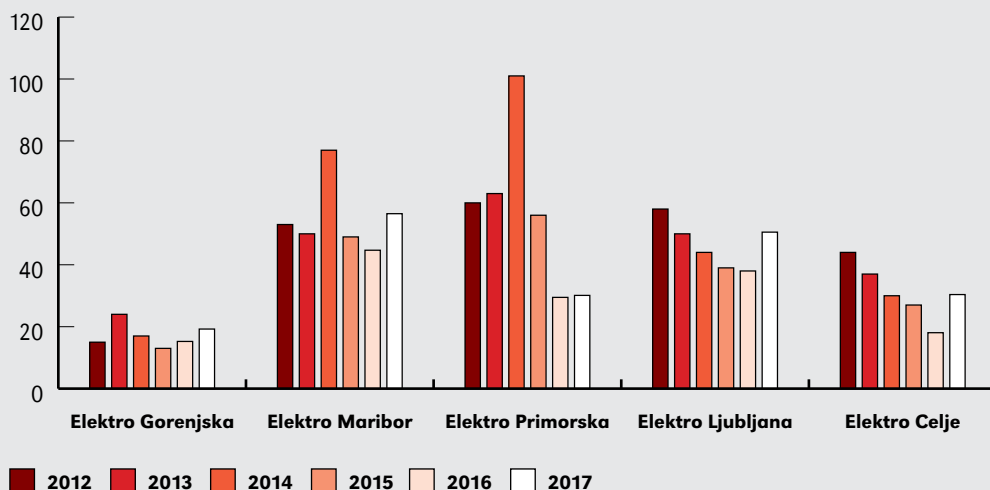


Figure 44: Parameter SAIDI for unplanned long-term interruptions (own causes) in the period 2012–2017

5.4 Investments

In year 2017 Elektro Gorenjska Group invested €17.03 mio. 97 % of entire realization refers to investments of the regulated activity. Major investments are presented below.

Within investments in high-voltage network which amounted to €4 mio, the major ones are:

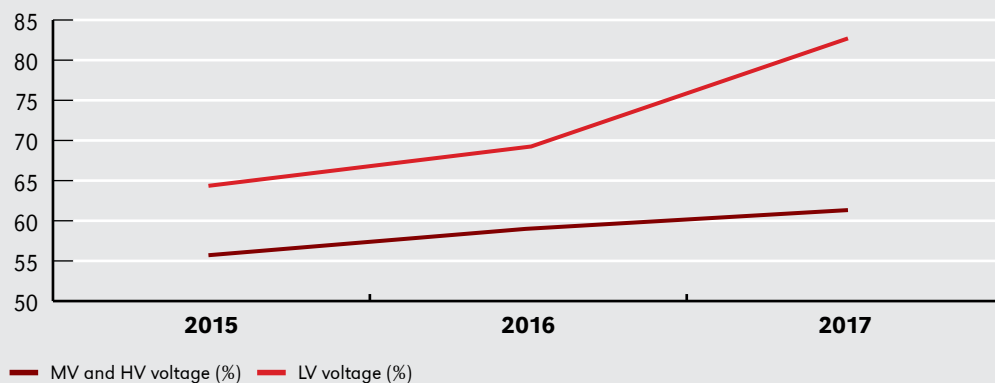
- 110 kV DV RTP Jesenice–RTP Kranjska Gora: We continued with the activities for reconstruction on the basis of the maintenance regulation for the public benefit. In 2017 we thus carried out the installation of the new 16 standing places in the area of Dovško polje. In winter, we arranged easements and gained consensus. At the end of the summer, however, there was a physical implementation according to the already established procedure. Works were done in full in August and September.
- RTP 110/20 kV Radovljica: In the first quarter we started construction works for the new 110 kV switchyard. After pre-preparation of the construction site with the injection of the supporting wall, we proceeded to excavate the construction pit, followed by the base plate, the basement part and the first panel, and then the remaining skeletal part and the roof. Building was completed and ready for installment of GIS equipment in the second quarter of the year. In addition to the building, we also built a cable kinetic up to 20 kV part and arranged the exterior of the building. In the third quarter, 110 kV GIS equipment was delivered and installed. A high-voltage test of 110 kV part was carried out, and at the end of the year of secondary equipment and 110 kV connections.
- RP 20 kV Bled: At the beginning of the year, a building permit was obtained for the reconstruction of the building. Demolition of the roof part with the clamp for the DV was carried out. Barrier between the “living” and “dead” part of the switchboard was made inside the switchboard. This was followed by demolition of partition walls, excavation of walls, sub-foundation of existing foundations and excavation for cable cellar part. In the renovated and reconstructed facility, new MV-cells and derived connections to the new switchboard were installed in the autumn. In 2019 we are still waiting for rehabilitation and reconstruction of the second part of the building. Facility will now be treated as RP.

Value of investments in medium and low-voltage network in year 2017 amounted to €9 mio.

- In 2017 we carried out the expansion and processing of the MV network, in particular the remediation of critical areas of the network, in order to provide better robustness of the network. A large part of the funds were spent for the connection of a new client Messer oxygen production plant with a peak power of 6 MVA on Trata, which was included in the new 20 kV loop between Škofja Loka RTP and RP Trata. Within the Brnik airport complex, we have built a new 18-pipe cable sewage for the needs of both new and existing customers, which will be powered by the new Brnik RP that will be built in 2018. Priority was also invested in the reconstruction of 20 kV lines by cabling. Funds were allocated for the cabling of the 20 kV network in the area of Sorica, from Gosteče to Sora near Medvode, from Cerklje to Češnjevka and the villages below Krvavec, for cableway to Šmarjetna Gora, from Podljubelj to Ljubelj, etc. By doing this, we eliminated some of the most critical points on the 20 kV network, where frequent power failures occurred due to wind and ice.
- Due to a somewhat smaller realization at HV facilities, we have increased the realization on low voltage facilities, especially in the field of regulating LVN cables in parts, where we carried out construction works in the past together with municipalities, thus creating a backup cable duct for subsequent needs. We also continued with this practice in municipalities that have already built their own communal infrastructure with their own or European funds.
- In 2017, the trend of the increase in the number of new buildings and the increase in the connection power continued, which affected the larger extent of the expansion and strengthening of parts of the LV-network. Funds were also devoted to the processing of measuring points in accordance with the typification within the AMI project, thus simultaneously regulating the measuring points by individual facilities in accordance with the accepted typification.
- There were 17 renewed and 22 new or replacement transformer stations built.
- Around 95 km of low-voltage network in a predominantly cable version was renovated and newly built.
- Instead of renewal of the power lines, they were reconstructed with newly constructed medium-voltage cables with a total length of about 52 km.

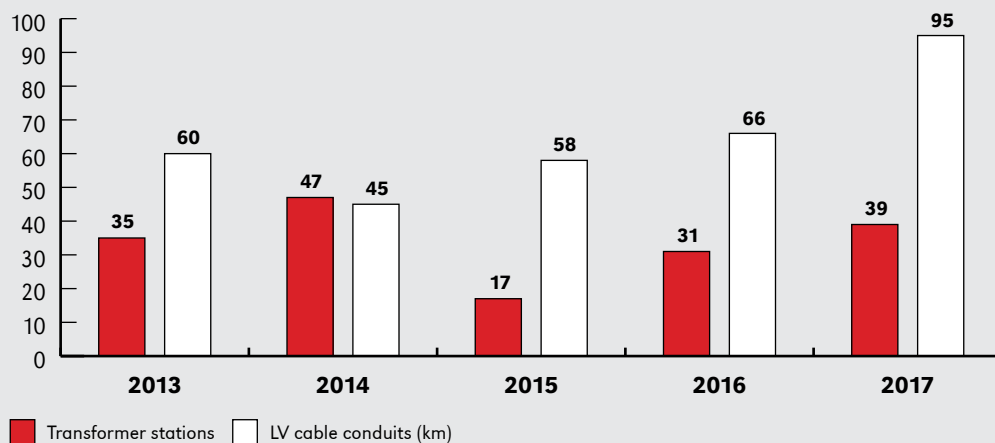
Result of constant and targeted investments is also reflected, among other things, in increasing the share of the network in the cable design.

Figure 47: Share of the network in the cable design from 2015 to 2017



The following figure shows figures about the construction of new or renovation of old transformer stations and low-voltage cable conduits from year 2013 to 2017.

Figure 48: Construction of new or renovation of old transformer stations and low-voltage cable conduits from 2013 to 2017

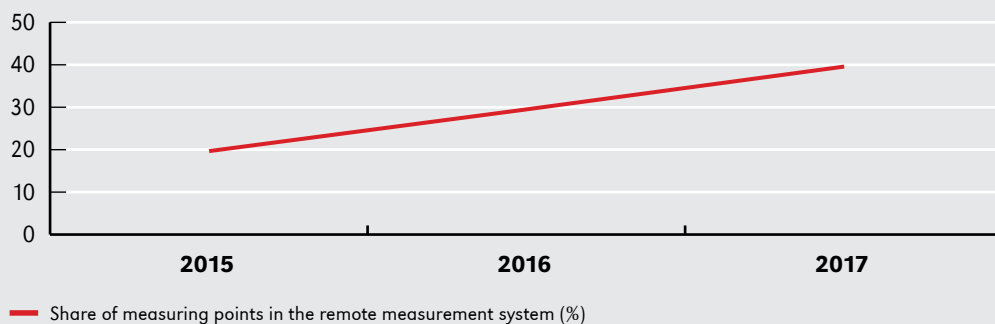


Among other investments (€4 mio) the following were significant:

- telecommunications and protection (initiating a transition to a new digital radio system for voice communications),
- measuring devices (AMI project),
- business and technical equipment,
- implementation of CIM integration platform,
- beginning of the renovation or integration of the new GIS,
- automation of HE Sava and HE Škofja Loka,
- installation of optimizers at MFE.

As illustrated in the following figure, the group each year increases the share of measuring points in the remote measurement system. Growth of the share in year 2017 was 10.22 percentage points.

Figure 49: Share of measuring points in the remote measurement system in years from 2015-2017



Sources for financing investments in year 2017 were the following:

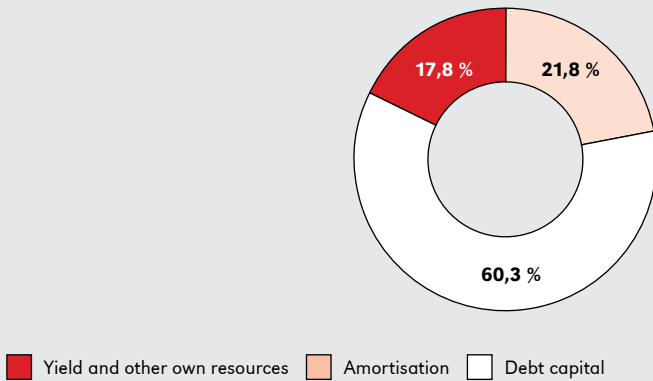


Figure 50: Sources of investment financing in 2017

5.5 Maintenance of energy facilities

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

In year 2017 mainly **preventive maintenance** on the infrastructure was performed with the aim of reducing the likelihood of a failure of facility's component part or system, which is achieved with appropriate interventions executed according to the criteria, which are determined in advance.

Preventive maintenance included inspection of electric power devices, execution of clearings in power lines and low-voltage overhead lines corridors, revision of transformer stations, switches, transformers, protection devices, carrying out control measurements and operating tests of protective devices and maintenance of machinery and equipment in all hydropower plants, while appropriate measurements were executed also on solar power plants and cogenerations. Preventive maintenance included inspection of the state of electric power devices, revision of machines and devices in hydroelectric power stations, as well as the implementation of control measurements, functional tests of the operation of devices and tests of the operation of protective devices in power plants.

As in previous years also in the 2017 we continued to actively perform audits of transformer stations with the method of work under tension (DPN). Following charts show the share of contribution on the value of the indicators or simulation of the value thereof in the case, it would be necessary to carry out the work without power.

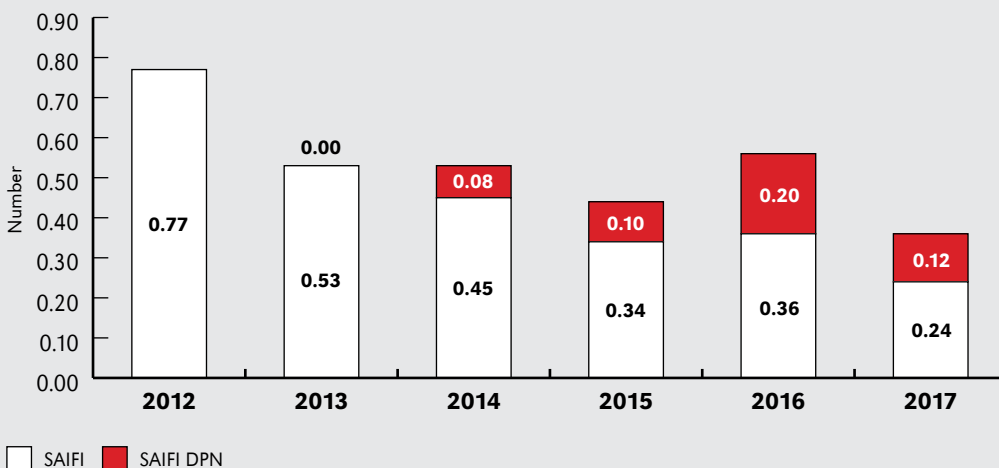
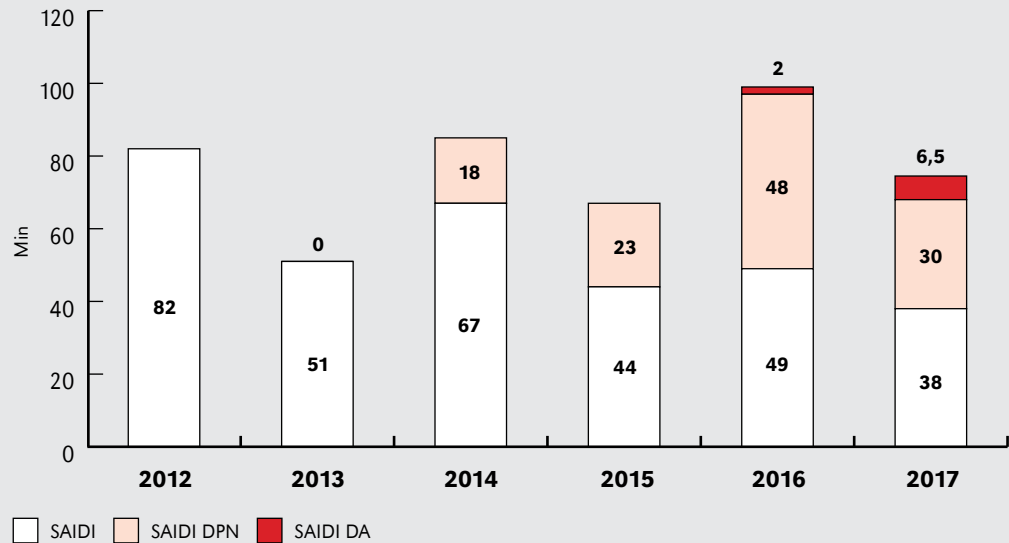


Figure 51: SAIFI – Average number of announced interruptions per customer in years

Figure 52: SAIDI – Average time of duration of announced interruptions per customer in years

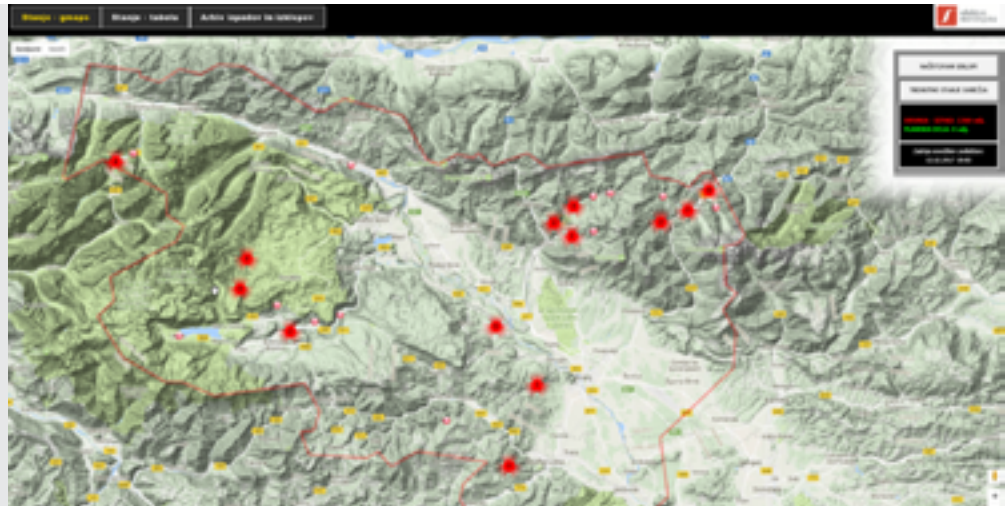
DPN – live work
DA – diesel generator



Each year as part of routine maintenance we carry out approximately 300-350 audits transformer stations. As in the past few years, also in 2018, we plan to continue the implementation of audits in transformer stations with DPN method (work under voltage).

Field of **curative maintenance** in year 2017 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. In 2017, due to strong winds in December, major defects occurred in the area of Jezersko and Bohinj.

Figure 53: Geographical view of the network status on 12. 12. 2017



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



Each year as part of routine maintenance we carry out approximately from 300 to 350 audits transformer stations.

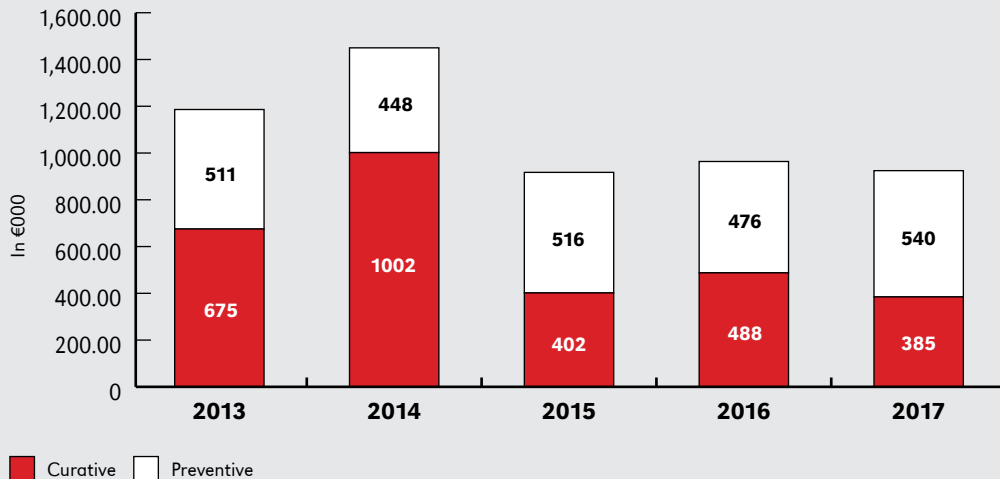


Figure 54: Changes in maintenance costs from 2013 to 2017 (in €)

5.6 Development and design

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

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

Tasks are performed in the following fields:

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

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

For the purposes of certain investments from the 2017 investment plan, different expert studies, preliminary studies, concepts, and different project documentation in the mentioned development fields have been made in cooperation with the education institutions. Investments, which foresaw acquisition of mentioned development documents, are for the most part technologically more demanding and are expected to cover the following investment fields:

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

In year 2017 preparation of development study REDOS 2040: development of electricity distribution network of Slovenia was taking place.

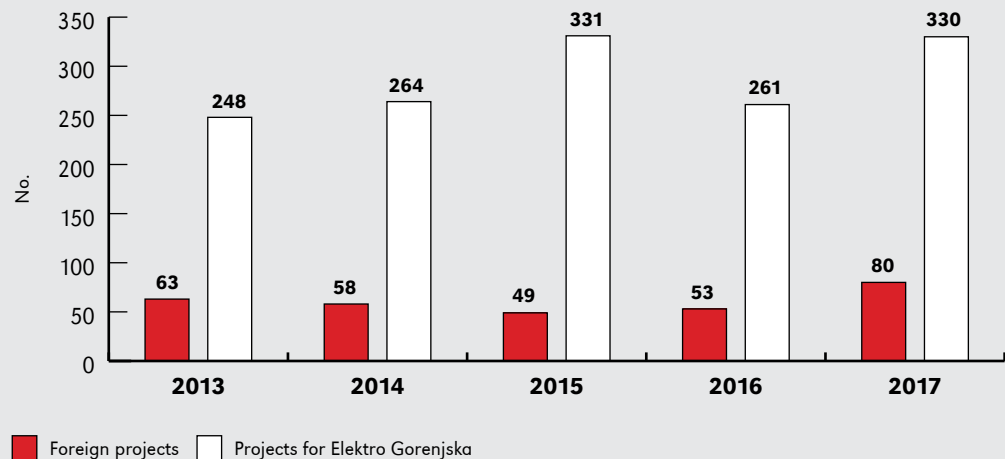
In the field of development and implementation of modern distribution technologies, Elektro Gorenjska continues to actively participate in a series of research and development projects co-financed by the European Union. In 2017, the Story and TDX-ASSIST research and development project took place.

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

In 2017, Elektro Gorenjska in a consortium of 13 partners started the TDX-ASSIST project (Coordination of Transmission and Distribution Data for eXchanges for renewable integration in the European marketplace through Advanced, Scalable and Secure ICT Systems and Tools), with particular attention to introducing and testing of state-of-the-art information and communication technologies in the framework of vertical connections between distribution and transmission network operators. Project envisages the two-phase implementation of the project objectives in a practical case of unloading the distribution network, also called Conservation Voltage Reduction (CVR) or Dynamic Voltage Management (DVM). In the first phase, for the implementation of the foreseen functionalities an integration of existing technological systems will be carried out, and in the second phase the solution will be realized through the introduction of the CIM platform and the most up-to-date communication protocol MQTT. Demonstration example will allow real-time advanced system services to be provided and at the same time answer questions related to the practical implementation of information-communication solutions for the future.

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

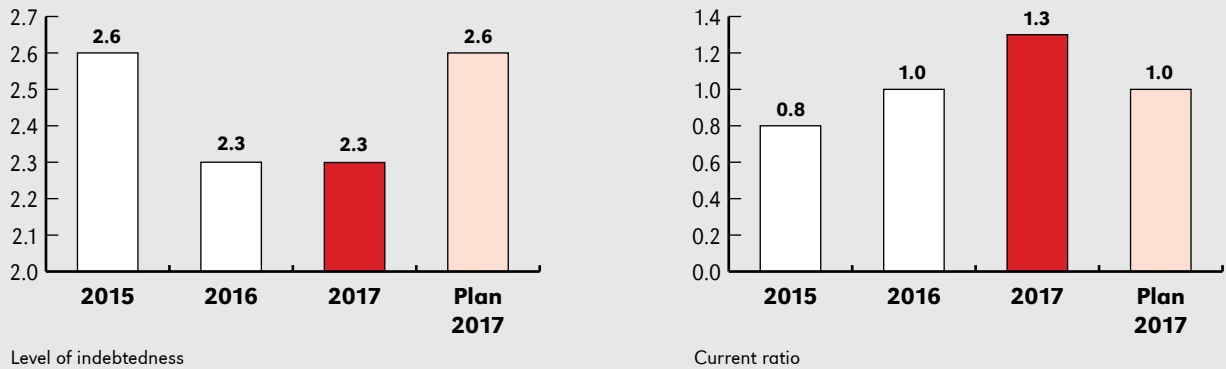
Figure 55: Information on the number of project documentation made from 2013 to 2017



5.7 Financial performance criteria of the group

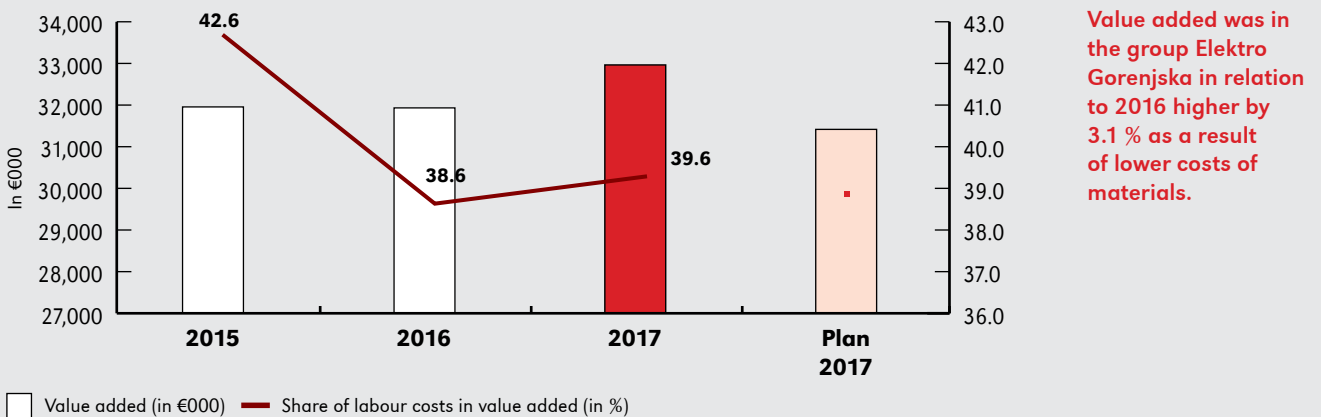
5.7.1 Significant indicators

Safe level of indebtedness of the Group is monitored by the indicator, which expresses the ratio of NET FINANCIAL DEBT / EBITDA. As at 31 December 2017 this amounted to 2.3, which is the same as at the end of 2016. 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.



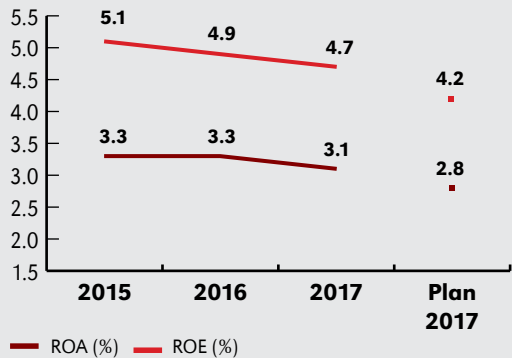
Current ratio shows the solvency. In comparison with 2016 it is by 0.3 percentage points higher. Recommended value of the current ratio is equal to 1. Main activity of the Group is the provision of services for SODO and transmitting electricity infrastructure in the lease, under which we have provided the major part of regular monthly inflows, so we believe that the value of the indicator below 1 is still adequate and would not pose problems to the group in terms of its liquidity. Value of the indicator is largely influenced by short-term financial obligations, which represent the short-term part of long-term loans (amounts, which in accordance with the depreciation plans of loans mature throughout the next year and are smoothly and without delays settled from a positive operating cash flow), which are hired to provide constant investment in electricity infrastructure and from which, according to the regulation an appropriate yield is recognized as well.

Profit ratios tell us that the group generated profits of €18.8 to €100 of achieved revenue, which was €0.3 of profit less than in 2016. Value added was in the group Elektro Gorenjska in relation to 2016 higher by 3.1 % as a result of lower costs of materials. Share of labor costs in value added was compared to 2016 higher by 0.6 percentage point.

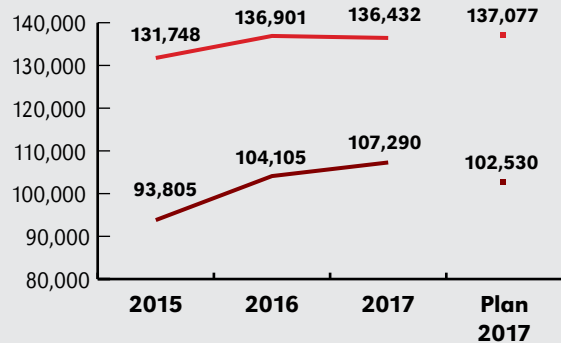


EBITDA as a proxy cash flow was in 2017 by €0.4 million higher than in 2016. EBIT as a result of the operations is by €0.2 million lower than in 2016. Profit before taxes was by €0.15 million lower than in 2016. Lower profit before tax, EBIT and EBITDA in 2017 were mainly due to lower operating revenues.

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 (Contract with SODO)*), 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 €0.2 mio higher net profit or decrease the assets of the company by €4 mio.



Vrednost kazalnikov ROA in ROE



Operating revenue and value added per employee

Operating revenue per employee in year 2017 amounted to €136,432 and were by 0.3 % lower than in year 2016. Value added per employee in year 2017 amounted to €107,290 and was by 3.1 % higher than in 2016, which is the result of lower costs material and lower average number of employees.

5.7.2 Structure of assets and liabilities

Figure 56: Changes in balance sheet total in the period 2015–2017



Assets

On the last day of year 2017 the assets of Elektro Gorenjska Group amounted to €232,098,882 (31. 12. 2016: €222,130,774) and have increased by 4.5 % compared to the balance on the last day of year 2016. Long-term assets increased by 2.6 % in year 2017, while short-term assets increased by 32.9 %.

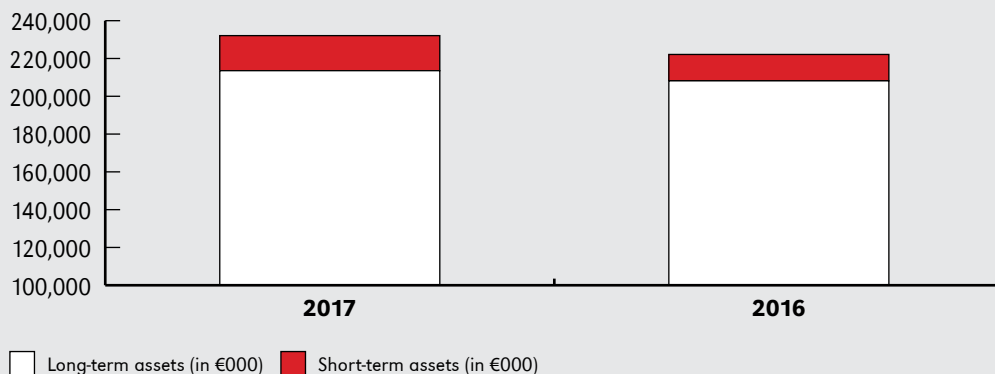


Figure 57: Structure of assets as of 31. 12. 2017 and 31. 12. 2016

Long-term assets represent 92.0 % of all group’s assets. Among them tangible fixed assets representing 94.7 % of all long-term assets are the most important. Value of tangible fixed assets increased by 2.5 % or by €4,988 thousand in year 2017.

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

- intangible fixed assets, which increased by €235 thousand in 2017,
- investment property, whose value decreased by 2.3 % or €52 thousand,
- long-term financial investments, whose value in year 2017 decreased by 0.3 % or by €23 thousand, and
- long-term operating receivables, whose value increased by €235 thousand,
- other long-term assets which decreased by 46.3 % or €38 thousand, and
- deferred tax assets in the amount of €29 thousand.

Capital and debts

As at 31 December 2017 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 2016.

In the structure of liabilities capital represents 66.8 % of the entire balance sheet total. In year 2017, capital increased by 3.6 % or by €5,377 thousand. Long-term liabilities, mostly long-term banking credits, represented as of 31. 12. 2017 27.0 % of all funds. In year 2017 they increased by 6.7 % €3,954 thousand. Short-term liabilities represented 6.2 % of all funds and have increased by 4.6 % or €637 thousand in year 2017.

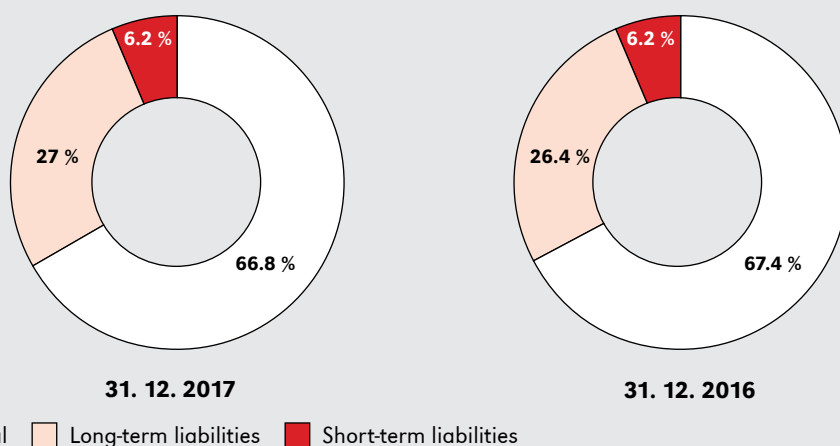
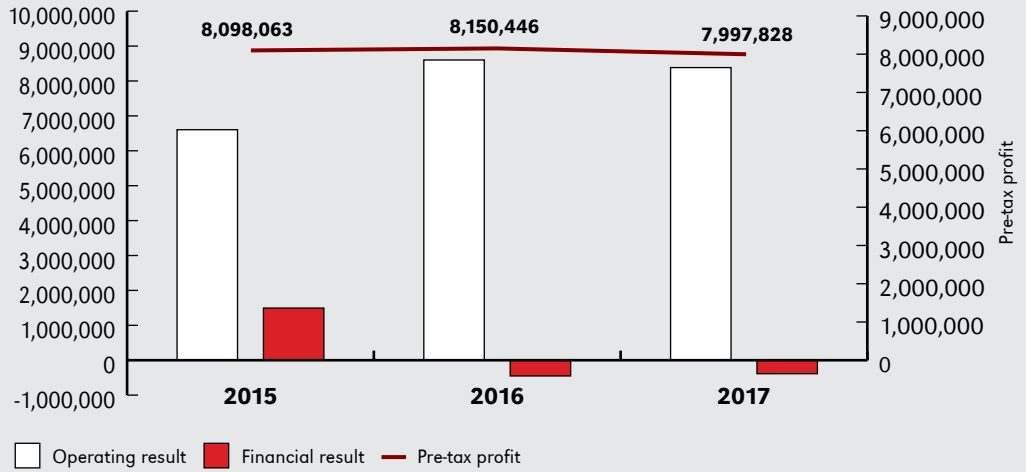


Figure 58: Structure of funds as of 31. 12. 2017 and 31. 12. 2016

5.7.3 Structure of revenue and expenditure

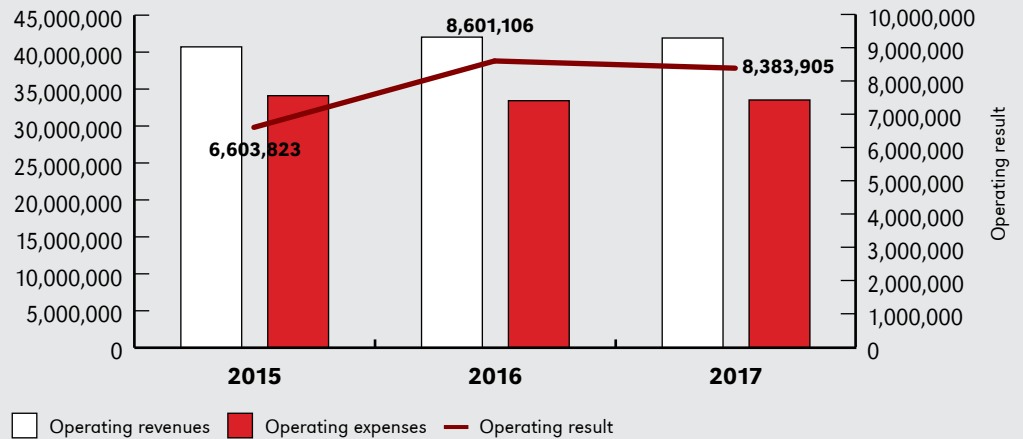
In year 2017 Elektro Gorenjska Group achieved a pre-tax profit in the amount **€7,997,828**.

Figure 59: Composition of profit or loss (in €)



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

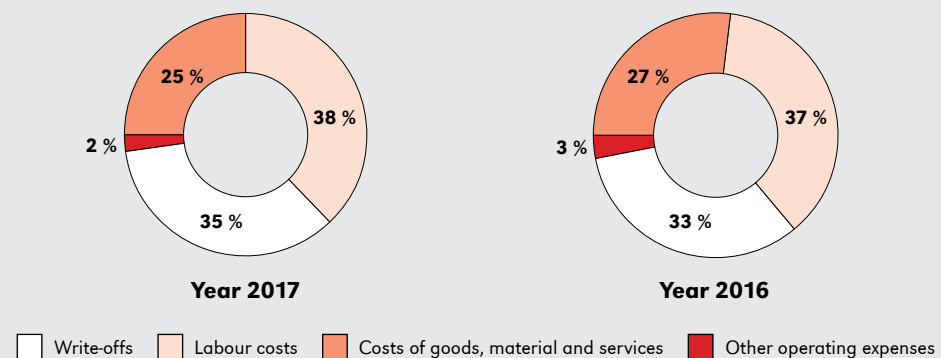
Figure 60: Operating profit or loss (in €) in the period 2015–2017



Operating profit or loss for year 2017 amounted to €8,383,905. Compared to year 2016 it was by €217 thousand lower, both due to lower operating income and higher operating expenses. Somewhat worse operating results was mainly due to worse hydrology and, consequently, lower production and sale of electricity.

Structure of operating expenditure for years 2017 and 2016 is shown in the figure below:

Figure 61: Structure of operating expenditure



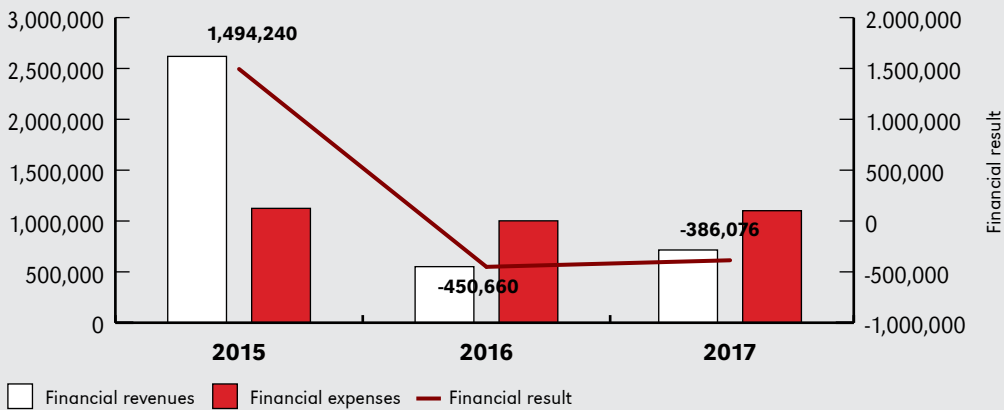


Figure 62: Financial result in the period 2015–2017 (in €)

Financial result in year 2017 was negative and it amounted to €-386,076. Negative result is mainly influenced by interest for loans received from banks for financing investment and interest due to interest rate swap (interest rate hedging).

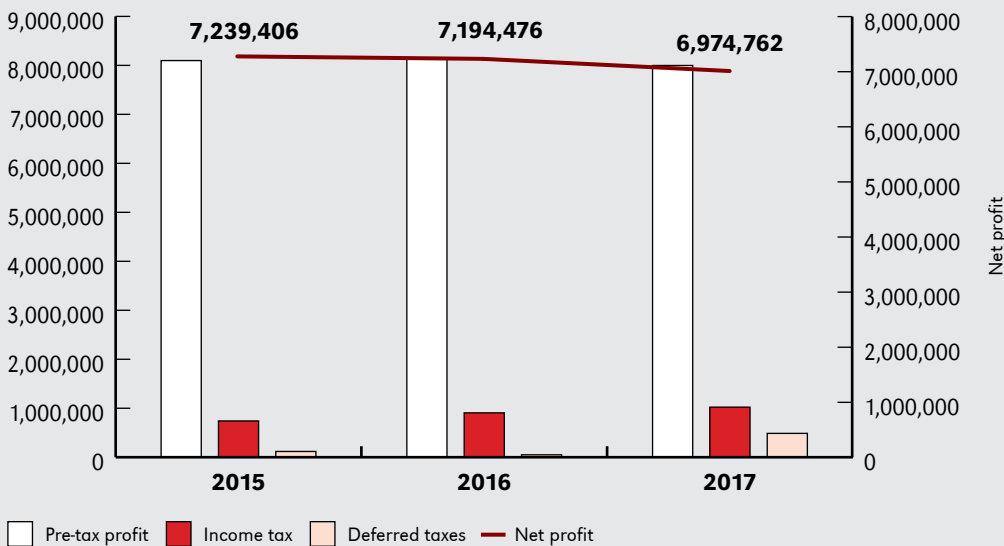


Figure 63: Net profit in the period 2015–2017 (in €)

5.7.4 Cash flow statement

	in €	
	2017	2016
Cash flows from operating activities	18,692,934	18,180,524
Cash flows from investing	-15,231,292	-16,816,873
Cash flows from financing activities	889,956	-586,781
Change in cash and cash equivalents	4.351,598	776,870

Table 14: Change in cash and cash equivalents

In 2017 Group Elektro Gorenjska increased the value of cash and cash equivalents by €3.6 million, as it the positive cash flow from operating and financing activities was higher than the negative cash flows from investing. Negative cash flow from investing was due to investments, as the industry in which the Elektro Gorenjska Group operates is technologically very intensive. New acquisitions of intangible and tangible assets were mainly financed by drawing on long-term loans in the amount of €10 mio, and partly funded by the positive cash flow from operations. Outflows from financing activities mainly represent expenditures for the repayment of financial liabilities, and are increased by the payment of dividends and the repurchase of own shares. Proceeds from the financing the group needed to meet the investment plan.

6 MARKETING AND SALES

In accordance with the development plans we carry out the necessary investments in the electricity network to provide reliable and quality supply of electricity to users in the area of Gorenjska region. Annually we perform more than 350 investment projects in regulated activities, which are aimed at improving the living conditions of customers and allow further development in the Gorenjska region.

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

- **Implementation of power checks, energy advisory service and solutions for more efficient use of electricity**

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. Service is particularly interesting for business users.

- **Implementation of different planning 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. In 2017, the impact of economic growth was also reflected in the number of prepared design services. We carried out 330 projects for our own needs and 80 for external subscribers.

- **Execution of maintenance and works of power facilities and devices by using modern technologies, knowledge and years of experience**

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

In the field of electricity power facilities and devices maintenance we offer contractual implementation of regular checks, measurements and audits of transformer stations, connection-measuring points, devices and lines on the low- and medium-voltage level by monitoring operational state and record keeping.

We offer users also implementation of live work on low-and medium-voltage levels. This method acquires significance over the years, in 2017 we carried out 61 live works, of which 26 on the LV level, and 35 on the MV level, where we were cleaning the MV devices.

- **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 vehicle fitted with fault-finding and diagnostic equipment on LV and MV cable conduits. We also implement calibration and security settings of separation as well as other protection for hydro and solar power plants and other dispersed production, and inspections of electrical power elements by 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. Gorenjske elektrarne 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 most projects, the company also acquired grant funds.

■ Energy management

Within the product the customers are offered identification of measures to reduce consumption and reduce energy costs, the implementation of these measures, implementation and 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 is designed to control the energy flows in the company and provide support to the energy and environmental management, and allows for continuous cost management. In 2018 we will continue developing the application in terms of reporting system with the purpose of the application representing a unique tool for physical and cost control of energy flows in buildings.

■ 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 order to encourage the introduction of electric cars, we decided to buy the first electric car Kangoo ZE, for which we received the approval of Eco Fund subsidies. To drive the electric car we will use green electricity produced from our own production facilities with zero carbon footprint. In 2015, we invested in building the first green station for quick charging of electric cars on the location of the shopping center Merkur Primskovo in Kranj. In year 2017 we added this one another ten own e-charging stations, and started managing another four. In 2017 we established a back office and connected to the SUPP system managed by Elektro Ljubljana. We plan further increase of our own network of e-charging stations, and offer the e-charging stations management also to the wider market.

■ Other market services

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



In accordance with the development plans we carry out the necessary investments in the electricity network to provide reliable and quality supply of electricity to users in the area of Gorenjska region. Annually we perform more than 350 investment projects in regulated activities, which are aimed at improving the living conditions of customers and allow further development in the Gorenjska region.

7 INFORMATION AND COMMUNICATION TECHNOLOGIES

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

In 2017 we successfully carried out the transition to the new information system ERP in the company GEK Vzdrževanje and started the switch to a new information system in the subsidiary company Gorenjske elektrarne. In year 2018, all companies in Elektro Gorenjska Group will operate with their own and modern information system, which enables more efficient and, in particular, more economical management of the group. The CIM project has been successfully completed, which will enable Elektro Gorenjska to connect data from all IT solutions into a common data bus in the future.

In addition to the aforementioned project, it is necessary to emphasize the successful integration of information support for the segment of insolvent procedures and enforcement, where we successfully completed the computerization of both processes. We have also successfully informatised the information of users during maintenance work and the process of determining the design list. In 2017 the company also started the renovation of the information platform of the geographic information system.

Along with the modernization of the ERP information system, the upgrade of the disk array and the replacement of server equipment were performed at the central location of the controlling company. Replaced equipment will be used as spare equipment at a spare location.

In addition to the information, the company also upgraded the telecommunication network. In 2017, the digitalization of the radio part of the communication network was entirely completed. At the base stations, the (digitized) remote control system was upgraded. System of radio-based voice communications was completely replaced. Almost all microwave radio connections between base stations were replaced and updated. Latter offer the data backbone for further upgrade of communication with terminal devices (counters, measuring centres, remote control ...) through the new M2M BWA system. A project has also begun to renovate both communication technologies and terminal devices for the needs of protection and management of the high and medium voltage network. With the implementation of the tender for the supply and installation of the container data centre, which was carried out in 2017, we will contribute significantly to the reliability of the operation of both the communication and information system.

At the end of 2017, in the framework of the reorganization of the company, we established an independent organizational unit of Informatics Services, thus laying the foundation for even greater orientation of the group towards informatization, automation of processes in the company, and the digitization of the company and the group.



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

8 SUSTAINABLE DEVELOPMENT

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

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

8.1 Care for employees

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

8.1.1 Demographic structure in the group

On 31 December 2017 Elektro Gorenjska Group had 308 employees. Compared to the situation as at 31 December 2016, number of employees increased by 1 workers. There were ten terminations of employment, of which 4 retirements. In this year we had 11 new employments.

On 31 December 2017 the group had 6.16 % employees employed with fixed-term employment, which is by less than 2 percent more than in year 2016.

In year 2018 the number of employees will remain at approximately the same level.

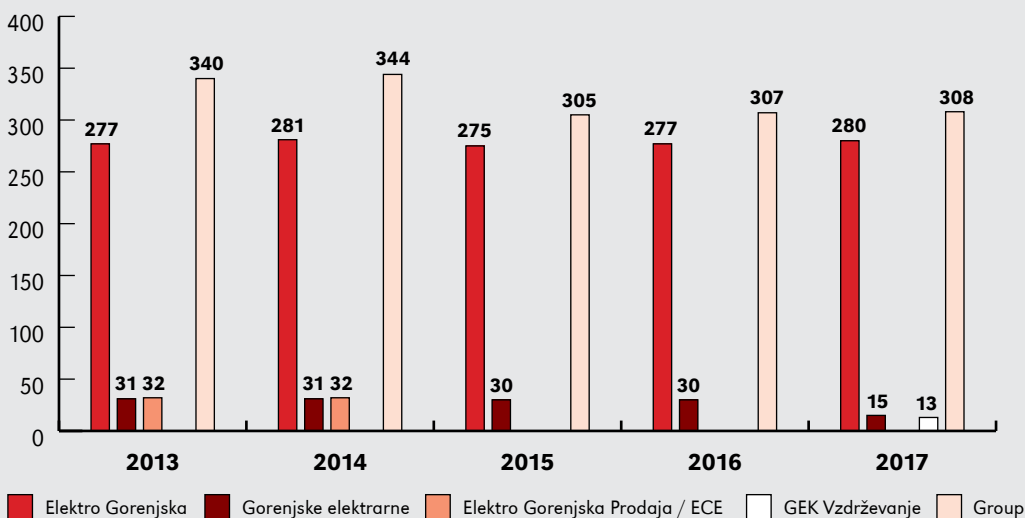
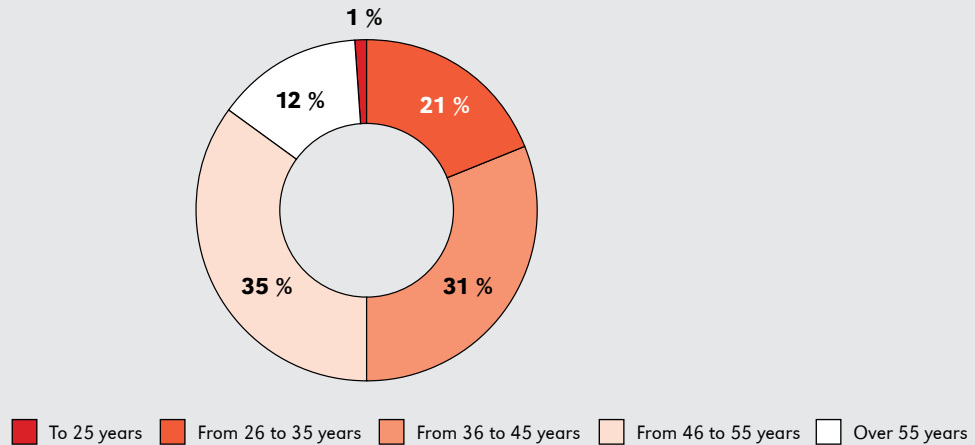


Figure 64: Changes in the number of employees from 2013 to 2017

On 1 January 2017 part of activities (GEK Vzdrževanje) was spin-out of Gorenjske elektrarne. Besides the parent company Elektro Gorenjska and subsidiary Gorenjske elektrarne the Group includes also GEK Vzdrževanje. At the end of year there were 78.25 % of men and 21.75 % of women employed in the Group. If we exclude Elektro Gorenjska Prodaja Company, which is no longer a member of the group and whose structure was predominantly female, the percentage is entirely comparable with the previous years and closely connected with the primary activity of all three companies.

Average age of employees in the group is increasing. At the end of the year it was 44.8 years, which is by 0.7 year higher according to the previous year. This shows the fact that employees are retiring later. Analysis of groups of employees according to age shows that in year 2017 there were the most employees in the age group between 46 and 55 years, namely 35 % of all employees. Older age structure in GEK Vzdrževanje Company has the strongest impact on older age groups as there 85 % of all employees belong to the last two age groups.

Figure 65: Shares of employees in Elektro Gorenjska Group according to age groups



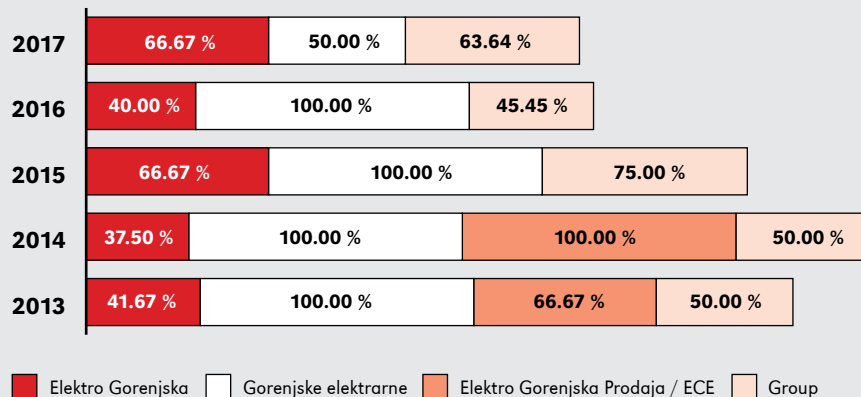
8.1.2 Employment

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

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

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

Figure 66: Share of new employees with at least high professional level of education at the time of employment



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

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

	2013	2014	2015	2016	2017
Elektro Gorenjska	2.13 %	1.41 %	2.83 %	2.82 %	2.10 %
Gorenjske elektrarne	6.06 %	3.13 %	6.25 %	3.23 %	11.76 %
Elektro Gorenjska Prodaja	5.88 %	3.03 %	–	–	–
GEK Vzdrževanje	–	–	–	–	13.33 %
Group	2.87 %	1.72 %	3.17 %	2.86 %	3.14 %

Table 15: Fluctuation rate in Elektro Gorenjska Group

8.1.3 Employment of persons with disabilities

On 31. 12. 2017 there were 7 disabled persons employed in the group. In accordance with the statutory quota of employing disabled persons, which amounts to 6 % for Elektro Gorenjska, the group would have to employ approximately 17 disabled persons. In year 2017 by signing the contract with two social enterprises Elektro Gorenjska made use of the possibility of claiming replacement quota fulfilment for 33 disabled persons. Companies Gorenjske elektrarne and GEK Vzdrževanje both employed less than 20 workers in 2017, so they were not subject to the quota.

	ELEKTRO GORENJSKA		GORENJSKE ELEKTRARNE		GEK VZDRŽEVANJE	
	2016	2017	2016	2017		2017
Number of employed disabled persons as at 31. 12.	7	7	0	0		0
Number of disabled persons for contribution as at 31. 12.	10	10	2	0		0
Amount of contribution in a year	52,030	49,022	12,177	0		0
Number of realized disabled persons in year, based on contracts with social enterprises	24	33	0	0		0

Table 16: Information on disabled employees

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

8.1.4 Education

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

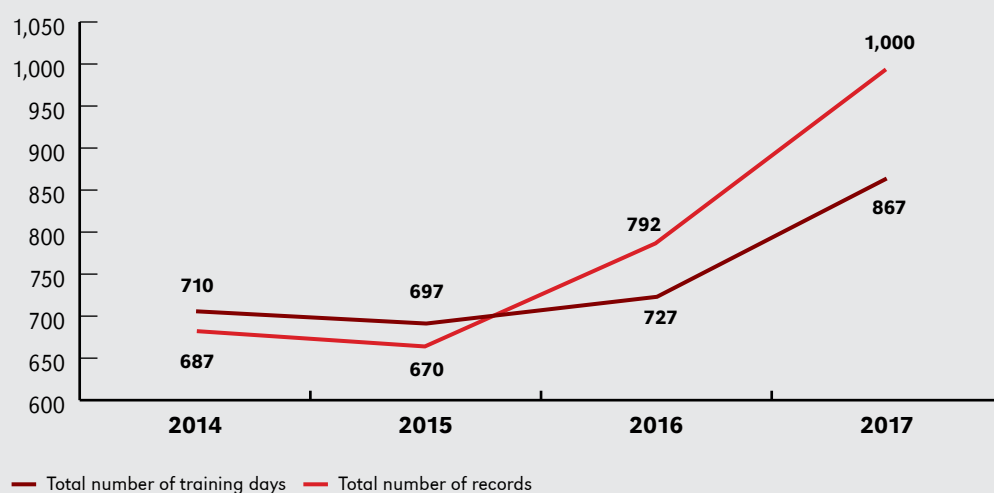
We are proud of our colleagues, who finish education and acquire higher level of education along with their working and family obligations. If only possible, we enable them work at a more demanding position, where new knowledge can be used and they are able to invest into their own progress and the progress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

Table 17: Education and trainings from 2015 to 2017

Item description	2015	2016	2017
Employees on trainings (in %)	76.05	90.55	81.11
Average number of training days per average number of employees (days)	2.26 days	2.36 days	2.82 days
Costs of education and training per employee (in €)	335	322	398
Number of employees acquiring higher level of education on the basis of education contract	8	9	10

Within the strategic project *Managing of the organizational culture*, which is defined also in the revised strategy of Elektro Gorenjska Company 2016-2020, in year 2017 we continued with trainings for the Heads in the field of managing the soft skills, while employees that are in constant contact with the customers received workshops on telephone communication.

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

Figure 67: Review of the scope of training in the number of days and number of trainings

Satisfaction of participants with trainings and their efficiency is monitored by a questionnaire, which each participant is required to complete.



Within the strategic project *Managing of the organizational culture*, which is defined also in the revised strategy of Elektro Gorenjska Company 2016-2020, in year 2017 we continued with trainings for the Heads in the field of managing the soft skills.

8.1.5 Educational structure of employees

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

Table 18: Educational structure of employees in Elektro Gorenjska Group as at 31. 12. 2017

Level of education 31. 12. 2017	Elektro Gorenjska		Gorenjske elektrarne		GEK Vzdrževanje		Group	
	Number	Structure (%)	Number	Structure (%)	Number	Structure (%)	Number	Structure (%)
Doctoral level (9)	2	0.7 %	1	6.7 %	0	0.0 %	3	1.0 %
Master's degree (8)	18	6.4 %	2	13.3 %	0	0.0 %	20	6.5 %
University level (7/2)	54	19.3 %	6	40.0 %	1	7.7 %	61	19.8 %
Graduate level (7/1)	39	13.9 %	3	20.0 %	1	7.7 %	43	14.0 %
Post-secondary level (6)	44	15.7 %	2	13.3 %	0	0.0 %	46	14.9 %
Secondary level (5)	74	26.4 %	1	6.7 %	8	61.5 %	83	26.9 %
Three-year vocational level (4)	49	17.5 %	0	0.0 %	3	23.1 %	52	16.9 %
Two-year vocational level (3)	0	0.0 %	0	0.0 %	0	0.0 %	0	0.0 %
Primary school (1)	0	0.0 %	0	0.0 %	0	0.0 %	0	0.0 %
Total employees	280	100.0 %	15	100.0 %	13	100.0 %	308	100.0 %

Average level of education in Elektro Gorenjska Group as at 31 December 2017 amounted to 6.16 - with level 6 representing high-school education. Level of education in the group stayed the same according to the previous year.

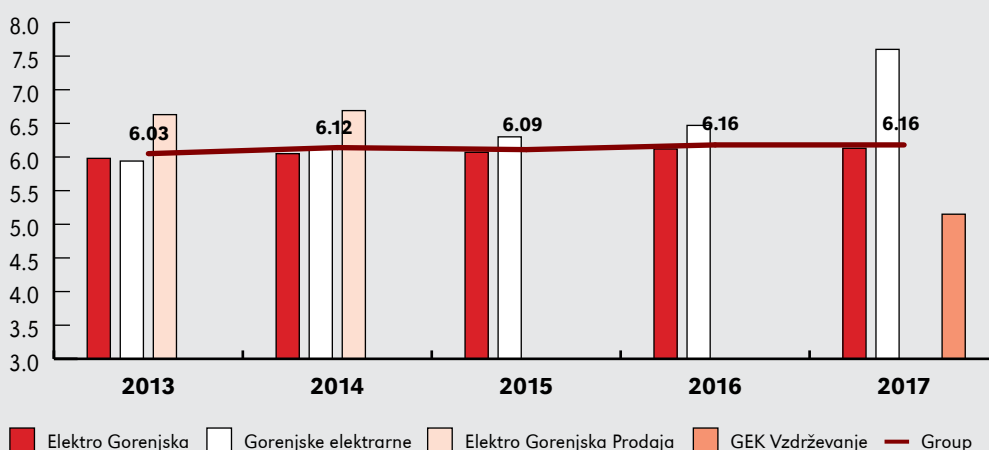


Figure 68: Average level of education in companies and Elektro Gorenjska Group from 2013 to 2017

8.1.6 Employee motivation and remuneration

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

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

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

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

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

8.1.7 Annual interviews

One of the most scheduled methods of acquiring feedback is definitely annual interview. Reasons for the implementation of annual interviews are:

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

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

Each year the process of implementation of the annual interviews lasts for 3 months, 96 % of the interviews were carried out.

8.1.8 Organizational culture

Strategy of Elektro Gorenjska Company for period 2016-2020 defines the strategic project *Managing of organizational culture*, which aims at establishing a constructive organizational culture among employees. Gorenjske elektrarne and GEK Vzdrževanje joined this strategic project as well.

In year 2013 we analyzed the actual situation and we set the concept of ideal organizational culture that we want to achieve. With the help of quality tools the companies' management defined expected behaviors of employees, with emphasis on constructive behaviors styles marked with orange in the figure. We measured organizational culture once again in year 2017, this time we made no changes to the ideal culture and we are still following the one set out in 2013. This means that we expect inclusion, cooperation, assuming of responsibility and target orientation from our employees. Such behaviors will contribute to their self-realization, higher commitment and growth, and organizational efficiency. Passive defensive styles and aggressive defensive styles of behaviors should be represented as little as possible.

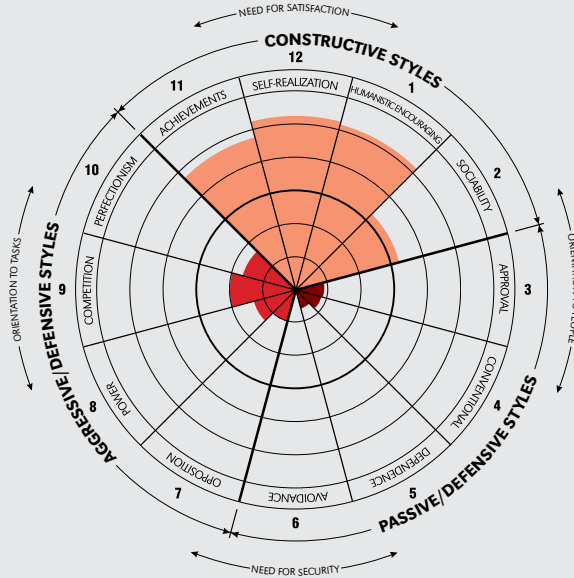


Figure 69: Ideal organizational culture

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

8.1.9 Employee satisfaction and commitment

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

In year 2017 we measured the level of commitment only in Elektro Gorenjska. In recent years, we have measured the commitment criteria alone, while in 2016 we have for the first time used the Gallup methodology. 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.

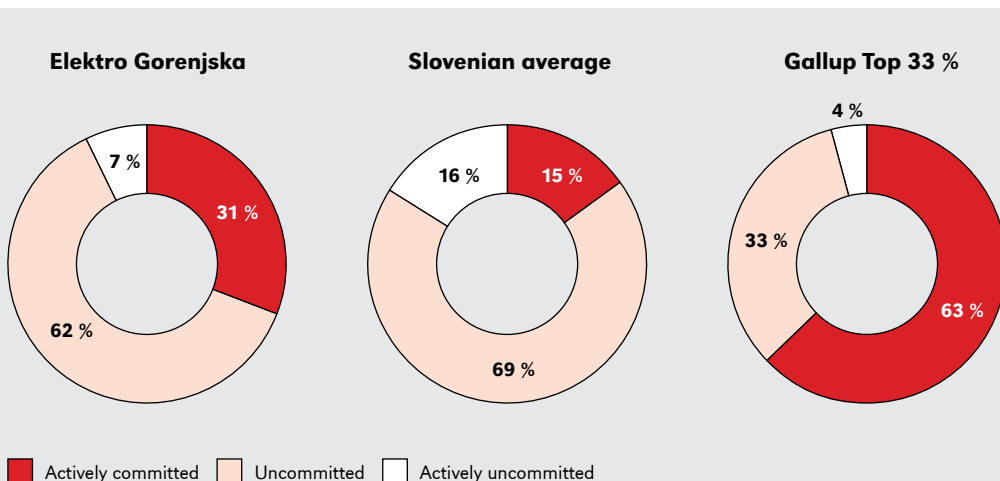
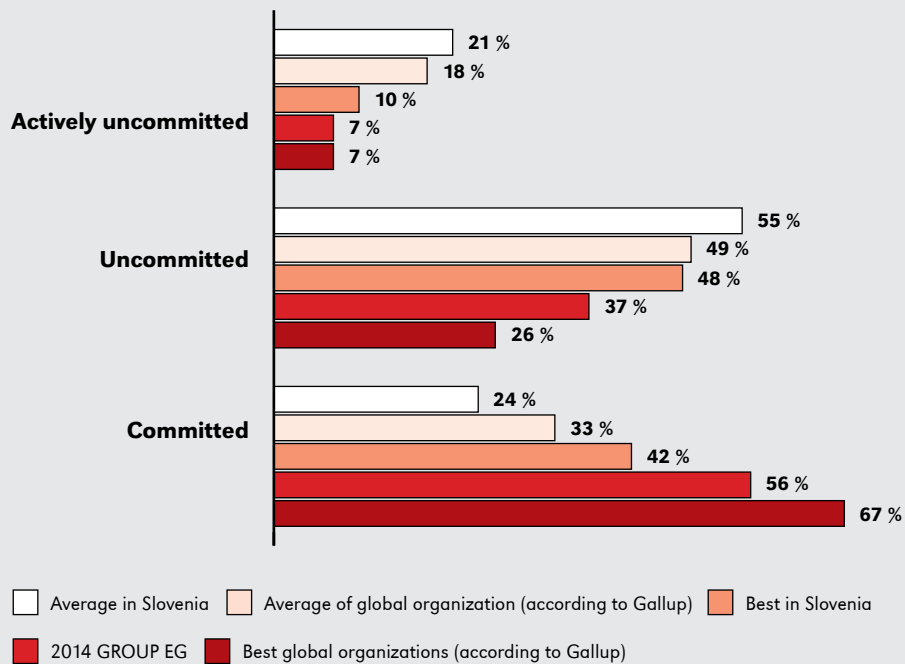


Figure 70: Commitment of employees in Elektro Gorenjska in year 2017, compared with Slovenian and the best global organizations

Gorenjske elektrarne Company was included in the survey for the last time in 2014, so commitment of the employees in the Group is presented for that year.

Figure 71: Commitment of employees in Elektro Gorenjska Group in year 2014, compared with global and Slovenian organizations



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

We certainly contributed to the increase of the employee satisfaction by acquiring the full certificate Family-friendly Company. Company Gorenjske elektrarne did not accede to obtain the certificate, but it signed a mutual agreement and bound to implementation of all measures parent company adopted.

8.1.10 Relations between employees and management in the Group

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

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

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

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

8.1.11 Care for employees and related groups outside working hours

In the Elektro Gorenjska Group, in 2017, support was provided to employees in various ways, including in activities outside the working environment. We paid particular attention to the children of employees and pensioners. The regulation and implementation of the principle of social security of employees is part of the group's business policy. One of the segments that takes care of the good social status of employees is also the joint decision of the partners to agree on the financing of supplementary pension insurance for employees in the energy sector and thus also in the Elektro Gorenjska Group. All employees in the group are also accidentally insured.

Inclusion in the retirement plan (PN1 K) - voluntary supplementary pension insurance - increases the social security of employees in retirement age.

8.1.12 Communication with employees

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

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

In the Group we publish:

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

To communicate with the employees we use:

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

8.1.13 Connecting the employees and wider community

We stay in touch with our employees even when they retire. We inform them about the novelties through our internal gazette Elgo, we also invite them to different events related with the activities of the companies.

8.1.14 Health and safety at work

Safe and health innocuous work contributes significantly to the company's successful operations and improves performance. Bad conditions in workplaces can lead to undesirable consequences: injuries at work, health disorders, illness, excessive stress, etc. The Health and Safety at Work Service of Elektro Gorenjska is therefore constantly in charge of adequate and safe working conditions, and draws attention to compliance with safety rules at work that employees perform.

We had five accidents at work in Elektro Gorenjska, d.d., in year 2017. All injuries were lighter. Cause of the four injuries was mechanical factors, such as falls of objects, work equipment and walking. One injury occurred due to electric shock when the worker came into contact with the low voltage section at the transformer station.

Due to work-related injuries workers were absent from work in a total of 105 working days, which is less than in year 2016.

Quality indicator of frequency of injuries telling us what percent of workers were injured amounted to 1.7 %. Quality indicator telling us the number of lost working days per injury amounted to 21 days.

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

Figure 72: Number of accidents at work

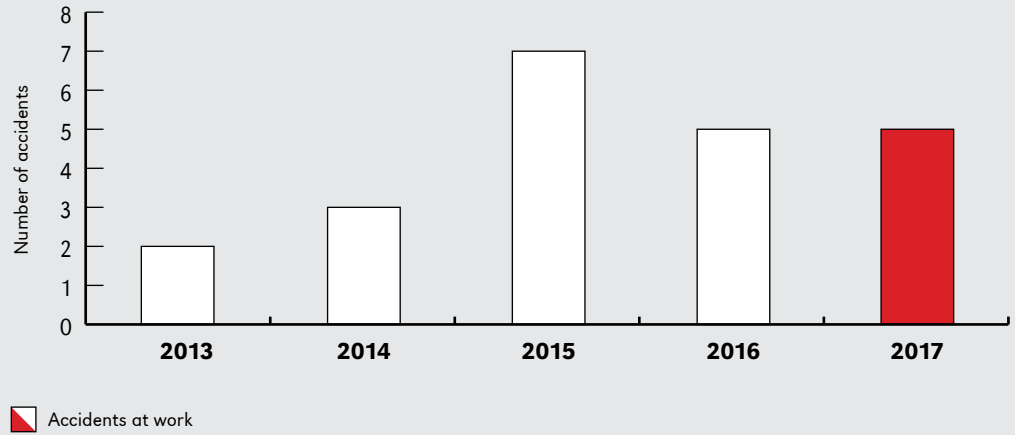


Figure 73: Gravity of injuries

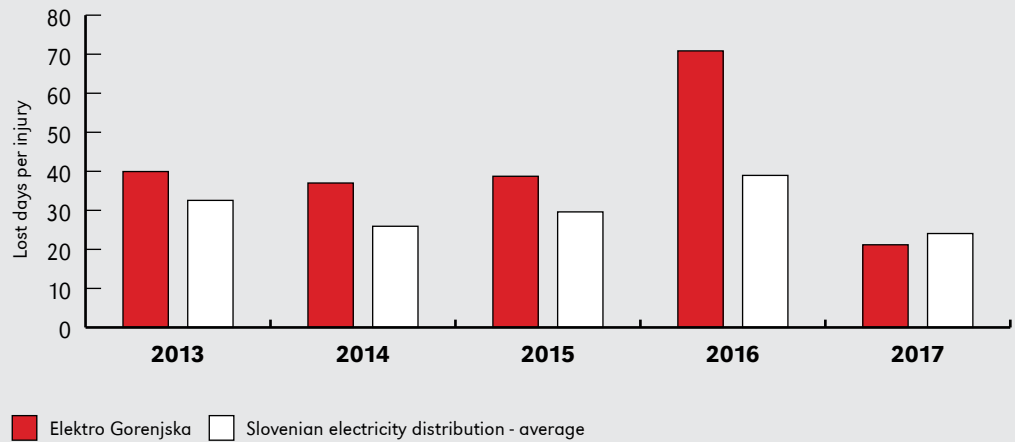
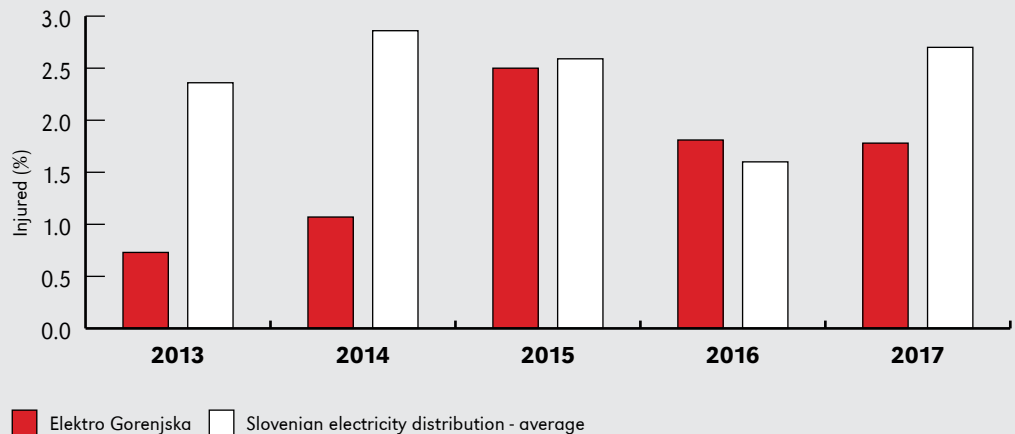


Figure 74: Frequency of injuries



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

- discussed new legislation in the field of occupational safety and health and integrated it into the company's working environment,
- address dangerous events and propose measures to remedy irregularities and deficiencies,
- dealt with injuries at work occurring in our and other power distribution companies,
- carried out an internal audit in terms of safety and health at work and realized all recommendations of external and internal assessment.

What important things await us in year 2018?

In the field of training from the point of view of safe and healthy work, in 2018, we are waiting for the examination of theoretical and practical knowledge in the field of occupational safety and health and the extension of worker authorization. Based on job risk assessment, certain employees will also be trained to provide first aid at workplaces.

In the field of work equipment checks we are waiting for an overview of all work equipment used for safe operation on power plants. These are voltage testers, grounding sets and insulation bars. We are also awaiting annual reviews of personal protective equipment for work at height, vehicles with lifting baskets, mobile cranes and a bridge lift in a warehouse.

In the context of health care, we will continue to carry out preventive medical examinations, carry out TBE and influenza vaccinations and inspections of pigment marks on skin intended for field workers who will want it.

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

Within the framework of the Task Force on Safety and Health at Work and Fire Safety (within GIZ), we will work together to develop new Safety Rules for Construction and Assembly Work and Safety Guidelines.

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

8.2 Concern for the environment

Proper and responsible environmental management is included in the strategic guidelines of Elektro Gorenjska Company. It is based on adopted environmental policies and sustainable development guidelines; results and progress in this area are monitored through measurable environmental indicators. Systematic approach to environmental management is provided within the Environmental Management Council on the basis of the principles of the ISO 14001 standard, and the success of the results can be influenced by every employee in their everyday work, taking into account internal instructions. An external assessments of the acquired standards are conducted annually in the company.

Objectives of the Environmental Management Council (SRO) include:

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

8.2.1 Management of important environmental aspects in year 2017

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, the most important achievement in 2017 was the adaptation of the environmental management system to the new standard ISO 14001:2015. Certificate was received in November after the successfully implemented external assessment of quality management system in October. An important novelty

required by the new standard in comparison with the previous standard ISO 14001:2004 is monitoring the life cycle of the product or service. It covers the entire life cycle from the extraction of raw materials and the processing of materials, transport, manufacture, distribution, use, maintenance and repairs all the way to the final disposal at the landfill or decommissioning.

In the company Elektro Gorenjska, we monitor 14 environmental indicators, which were not significantly changed in the previous year. Their values are mostly within the intended objectives. In examining and assessing environmental aspects for 2018, we will also identify the possibilities of fulfilment and optimization of the life cycle in each aspect in order to reduce the overall environmental impact as much as possible.

Waste management

We provide for integrated control of useful and useless waste. Useful waste is forwarded to agents, which use them for further processing. Similarly organized is also collection of paper and cardboard packaging as well as used toners and cartridges, which are sent for ecologic further processing. Costs of utilities are followed with the quality indicator.

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

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

At the end of 2017 we recorded an extraordinary environmental event. On 13 December, 2017, when Kazina Jezersko transformer station was due to interruption on the 20 kV power line due to wind for a few days supplied through a diesel engine, in the automatic pumping of fuel from a tank into an aggregate due to a fault on the automation of the pumping system, about 400 litres of oil was spilled. Rehabilitation of the contaminated area was carried out by a special firefighting unit for the neutralization of hazardous substances from Kranj. In order to prevent the possibility of spill in the future, an additional pipe will be installed between the unit and the tank, which, in the event of a failure of pumping automation, will ensure the oil spill from the generator back to the tank.

Noise, electromagnetic radiation and light pollution of energy devices

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

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

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

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

In 2017, we continued with the realization of the objectives of the environmental program, which refers to the outflows of sanitary and rain waters. Objectives of the program are adapted to the requirements of the Decree on the Discharge and Cleaning of Municipal Waste Water, which by 31 December 2021 specifies the deadline for connecting facilities to the public sewage network or the arrangement of small treatment plants and oil catchers. In 2017, a connection to the public sewerage network of the facility KN Cerklje, business-residential building Visoko and RP Trata was carried out. For the RP Naklo, a watertight septic tank and rainwater driers were arranged, and for the RP Bled facility a demarcation to the energy and non-energy part (or business-residential building), which also included the reconstruction of the waste water discharge system. In 2018, we plan to continue the activities at the facilities of RTP Škofja Loka and RTP Labore.

Environmental care in work processes

In 2017, we were raising awareness of employees in the group about the rational use of energy products and the proper disposal of waste generated in work processes. With the help of the services provided by the subsidiary company Gorenjske elektrarne, in 2017 we finalized the system of regulation and control of the heating and cooling system of the office building at the location of the head office of the parent company.

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

Environmental savings from hydro power stations

Production of electricity delivered into the network and into the internal network of end users from hydro power stations represents 90.55 % share of production, from solar power stations 7.06 % share and from cogeneration 2.39 % share of entire production.

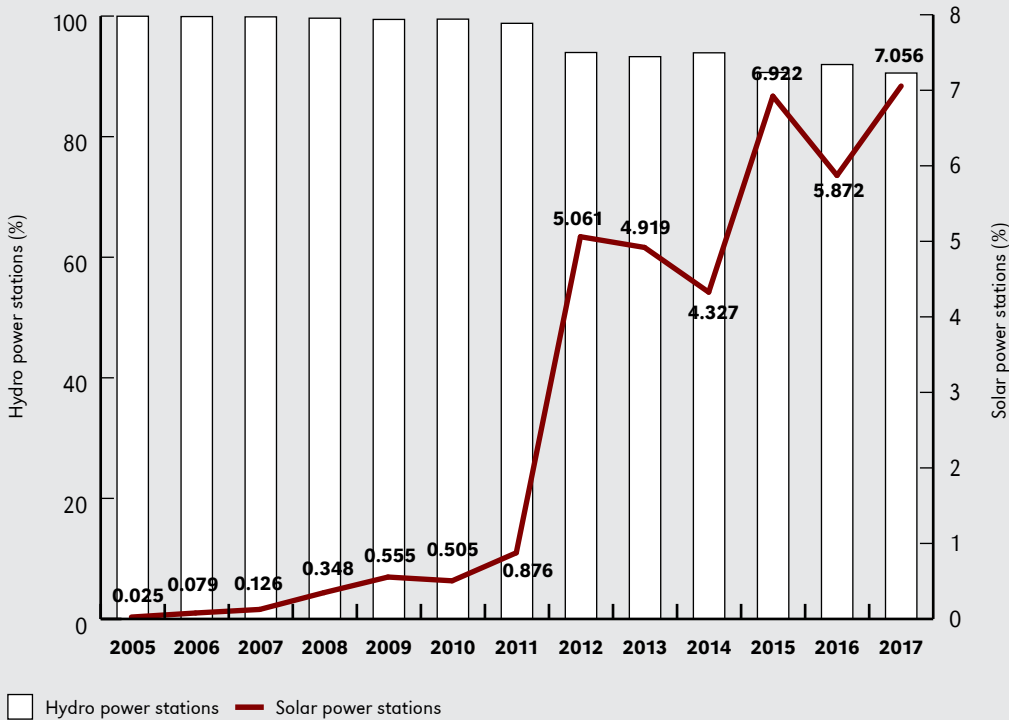


Figure 75: Shares of electricity generation from renewable sources in Gorenjske elektrarne in the period 2005-2017 (%)

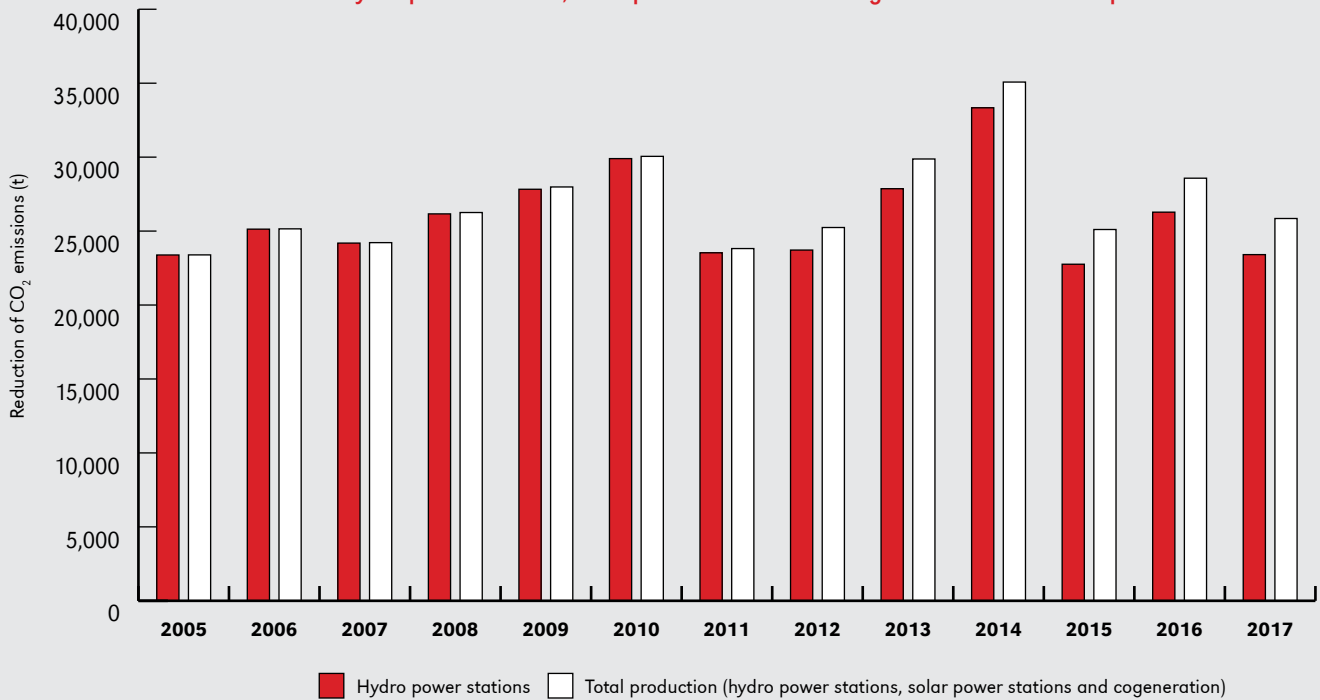
In year 2017 total production of ecologically clean electricity in hydro power stations of Gorenjske elektrarne was 46,818 MWh. Electricity produced in hydro power stations gives environmental savings, namely according to the methodology of the Energy Efficiency Center from Jožef Stefan Institute in CO₂ calculation (0.5 kg CO₂/kWh) for year 2017 there was a reduction of 23,409 tons of CO₂ emissions.

Total CO₂ reduction from hydro power stations, solar power stations and co-generation of electricity and heat of Gorenjske elektrarne Company in year 2017 was by 25,851 tons of CO₂ emissions.



Total CO₂ reduction from hydro power stations, solar power stations and co-generation of electricity and heat of Gorenjske elektrarne Company in year 2017 was by 25,851 tons of CO₂ emissions.

Figure 76: Environmental savings of reduction of CO₂ emissions due to production of electricity in hydro power stations, solar power stations and co-generation units in the period 2005–2017



Environmental savings from co-generation units

In year 2017 total production of electricity from cogeneration units using natural gas into the distribution network and internal network of final customers was 1,236 MWh, which represents 2.39 % share of all electricity produced in Gorenjske elektrarne.

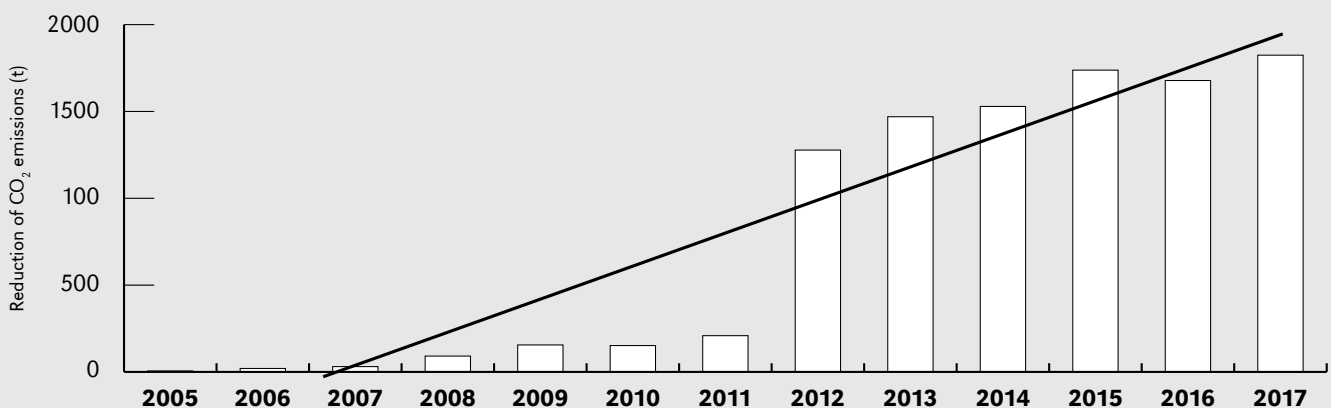
Environmental savings from co-generation of electricity are reduction of 617.6 tons of CO₂ emissions.

Environmental savings from solar power stations

In year 2017 total production of electricity from solar power stations into the distribution network and internal network of final customers in Gorenjske elektrarne Company was 3,648 MWh, which represents 7.06 % share in total electricity produced in Gorenjske elektrarne.

Electricity produced in solar power stations gives environmental savings, namely according to the methodology of the Energy Efficiency Center from Jožef Stefan Institute in CO₂ calculation (0.5 kg CO₂/kWh) for year 2017 by 1,824 tons of CO₂ emissions. Cumulative environmental saving of CO₂ emissions from solar power stations from year 2005 to the end of 2017 was 10,179.3 tons of CO₂ emissions.

Figure 77: Environmental saving of CO₂ emission reduction due to production of electricity in solar power stations in the period 2005–2017



8.2.2 Environmental communication

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

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

In the framework of the Environmental Management Council, also in 2018, with advice and actions, we will take care of reducing the amount of waste, as well as for more efficient use of energy products in the company. On the internal website we publish manuals on the proper separation of waste, which are of additional help to the employees.

8.3 Care for the public interest – social responsibility

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

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

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.

We report about communication with employees in more detail also in chapter *8.1.12. – Communication with employees*.

8.3.1 Communication with local community and social responsibility

Sponsorships and donations

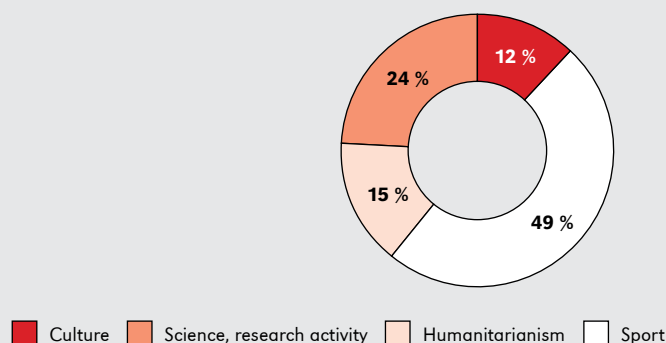
Companies in Elektro Gorenjska Group are strongly integrated into the local environment. Projects that we financially support, follow the identity of the group companies and approved strategy. Through projects in various fields we recognize opportunities where with our knowledge, financial resources 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.

In year 2017 there was a total of €44,627 of funds in the group allocated to sponsorships and a total of €60,430 to donation projects.

Figure 78: Sponsorships and donations of the Group in year 2017



8.3.2 Communication with business partners

In accordance with good business customs the group provides for the permanent communication with its 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 Group regularly in the internal gazette, through financial publications and other communication channels that we use.

At the end of the year, the Group carried out the traditional charity meeting where together with the business partners they gathered financial resources and allocated them to the program Neodvisen.si for its operation in year 2018 in Gorenjska region. Socially responsible program informs the young and the elderly population of the traps of different forms of addiction and in particular presents solutions that modern society forgets.

8.3.3 Communication with media

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

Effectiveness of our relationship with the media is measured in the company by annual media analysis, daily content analysis and in-depth analysis based on qualitative and quantitative evaluation of the relevant posts. In year 2017 there were 191 posts in media mentioning Elektro Gorenjska Company.

8.3.4 Communication with customers

We communicate with our customers through:

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

8.3.5 Communication with shareholders and financial public

We follow the recommendations of the 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. We provide for a regular, open and exact communication with all interested public.

8.3.6 Communication with influential public

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

9 EVENTS AFTER THE BALANCE SHEET DATE

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





B



Consolidated Financial Report

Key challenges in the energy sector will be dictated by the growth in demand for electricity and higher consumption.

10 MANAGEMENT RESPONSIBILITY STATEMENT

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

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

Management board of Elektro Gorenjska Company approved the financial statements of the group prepared for the financial year 2017 on 17 April 2018.

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, 17 April 2018

Chairman of the Board
Bojan Luskovec, M. Sc.



11 AUDITOR'S REPORT



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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, 2017 and the profit and loss account of the group, statement of other comprehensive income of the group, statement of changes in equity of 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, 2017, 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 matter

Financial statements for the year, ended December 31, 2016 were audited by another auditor, who issued an unmodified opinion as at May 12, 2017.

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.

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, May 11, 2018



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

(Signature on original Slovene independent auditor's report)

Maruša Hauptman,
Certified auditor, procurator

12 FINANCIAL STATEMENTS OF ELEKTRO GORENJSKA GROUP FOR BUSINESS YEAR ENDED AS AT 31. 12. 2017

12.1 Statement of financial position of Elektro Gorenjska Group as at 31. 12. 2017

in €

Item	Note	31. 12. 2017	31. 12. 2016
ASSETS			
Long-term assets		213,544,958	208,170,512
Intangible assets	14.1	1,606,459	1,360,011
Tangible fixed assets	14.2	202,183,662	197,207,403
1. Land and buildings		143,787,529	139,916,755
2. Production plant and equipment		54,468,405	53,285,232
3. Other plant and equipment		433,768	485,940
4. Tangible fixed assets in acquisition		3,493,960	3,519,476
Investment property	14.3	2,170,669	2,222,372
Long-term financial investments	14.4	7,239,015	7,261,561
1. Long-term financial investments, excluding loans		7,095,377	7,117,083
b) Financial investments calculated using the equity method		6,971,222	6,992,928
c) Other shares and stakes		124,155	124,155
2. Long-term loans		143,638	144,478
b) Long-term loans to others		143,638	144,478
Long-term operating receivables		246,719	37,480
Other long-term assets		69,930	81,685
Deferred tax assets		28,504	0
Short-term assets		18,495,186	13,960,262
Assets (group for disposal) for sale		141,669	0
Stocks	14.5	296,344	244,832
Short-term financial investments	14.6	1,100,480	1,544,144
1. Short-term financial investments, excluding loans		299,640	143,304
2. Short-term loans		800,840	1,400,840
Short-term operating claims	14.7	5,932,990	6,078,218
Other short-term assets	14.8	2,333,924	1,754,887
Cash and cash equivalents	14.9	8,689,779	4,338,181
TOTAL ASSETS		232,040,144	222,130,774

Statement of financial position of Elektro Gorenjska Group as at 31. 12. 2017 (continued from previous page)

Item	Note	in €	
		31. 12. 2017	31. 12. 2016
LIABILITIES			
Capital	14.10	155,011,258	149,634,034
Called-up capital		71,898,061	71,898,061
Capital reserves		45,944,898	45,944,898
Profit reserves		31,753,733	27,296,161
Other reserves		-115,419	-579,667
Retained profit or loss		5,529,985	5,074,581
Long-term liabilities		62,664,681	58,711,103
Provisions	14.11	8,373,952	8,131,914
Long-term financial liabilities	14.12	47,404,666	43,935,698
Long-term operating liabilities		62,785	54,005
Other long-term liabilities	14.13	6,626,987	6,422,187
Deferred tax liabilities	14.14	196,291	167,299
Short-term liabilities		14,364,205	13,785,637
Short-term financial liabilities	14.15	6,360,047	6,290,313
Short-term operating liabilities	14.16	6,785,751	6,432,422
Liabilities for income tax		86,607	227,178
Other short-term liabilities	14.17	1,131,800	835,724
TOTAL LIABILITIES		232,040,144	222,130,774

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

12.2 Profit or loss account of Elektro Gorenjska group for business year ended as at 31. 12. 2017

in €

Item	Note	2017	2016
Net sales revenue	15.1	36,104,833	35,323,241
Capitalized own products and services	15.2	5,159,305	5,817,010
Other operating revenues	15.3	643,786	888,414
Costs of goods, material, and services		8,356,792	9,109,680
a. Costs of goods sold and material used	15.4	4,528,530	5,284,242
b. Costs of services	15.5	3,828,262	3,825,438
Labor costs	15.6	12,940,861	12,349,034
Amortization/depreciation expense	15.7	11,631,647	11,010,022
Other operating expenses	15.8	594,719	958,824
Financial revenues from shares	15.9	23,663	2,354
č. Financial revenues from other investments		23,663	2,354
Financial revenues from given loans		6,019	3,735
Financial revenues from operating claims		26,563	39,061
Financial expenses from impairments and financial investment write-offs		284,142	33,449
Financial expenses from financial liabilities	15.10	768,486	876,202
Financial expenses from operating liabilities		48,621	92,272
Recognized profit or loss of investments, valued using the equity method	15.11	658,927	506,114
ENTIRE PROFIT OR LOSS		7,997,828	8,150,446
Income tax	15.12	1,022,579	906,380
Deferred taxes	15.13	487	49,590
NET PROFIT OR LOSS OF THE ACCOUNTING PERIOD		6,974,762	7,194,476

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

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

		in €	
Title	2017	2016	
1. Net profit or loss of the accounting period	6,974,762	7,194,476	
2. Items of other comprehensive income (other than amounts under the equity method) that will not be subsequently reclassified to profit or loss	10,995	-74,356	
- Actuarial gains and losses	10,995	-74,356	
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	470,841	187,922	
- Effective portion of gains and losses from hedging instruments in hedging cash flows from risk	470,841	187,922	
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	-3,686	5,061	
5. Share of other comprehensive income of associates and joint ventures accounted for using the equity method, which will be reclassified to profit or loss on the basis of the fulfillment of special conditions	-165	-320	
TOTAL COMPREHENSIVE INCOME OF THE ACCOUNTING PERIOD	7,452,747	7,312,783	

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

12.4 Cash flow statement of Elektro Gorenjska group for business year ended as at 31. 12. 2017

in €

Item	Year 2017	Year 2016
A. OPERATING CASH-FLOW		
a. Operating receipts	42,595,804	40,085,112
1. Receipts from sales of products and services	42,157,708	39,746,462
3. Other operating receipts	438,096	338,650
b. Operating expenditure	-23,902,870	-21,904,588
1. Expenditure for purchase of material and services	-6,830,308	-5,474,946
2. Expenditure for salaries and employees profit shares	-8,984,815	-9,021,213
3. Expenses for income tax	-1,163,150	-773,715
4. Expenditure for other duties	-3,742,601	-3,388,428
5. Other operating expenditure	-3,181,996	-3,246,286
c. Positive or negative cash flows from operating activities (a+b)	18,692,934	18,180,524
B CASH FLOWS IN INVESTING ACTIVITIES		
a. Receipts in investing activities	5,794,221	1,481,794
1. Receipts from received interest and profit shares of others	734,499	339,383
3. Receipts from disposal of tangible fixed assets	644,611	156,327
4. Receipts from disposal of investment property		313,485
5. Receipts from disposals of financial investments	4,415,111	672,599
b. Expenditure in investing activities	-21,025,513	-18,298,667
1. Expenses for acquisition of intangible assets	-491,251	-718,640
2. Expenses for acquisition of tangible fixed assets	-16,448,573	-15,174,512
3. Expenses for acquisition of investment property	-118,541	-192,557
4. Expenses for acquisition of financial investments	-3,967,148	-2,212,958
c. Positive or negative cash flows from investing activities (a+b)	-15,231,292	-16,816,873
C. CASH FLOWS IN FINANCING ACTIVITIES		
a. Receipts in financing activities	10,000,001	9,999,999
2. Receipts from increase in financial liabilities	10,000,001	9,999,999
b. Expenditure in financing activities	-9,110,045	-10,586,780
1. Expenditure for given interest referring to financing activ.	-863,289	-887,159
3. Expenditure for repayment of financial liabilities	-6,170,835	-6,800,517
4. Expenditure for dividend and other profit share payment	-2,073,349	-2,876,598
5. Expenses for the purchase of own shares	-2,571	-22,506
c. Positive or negative cash flows from financing activities (a+b)	889,956	-586,781
Č. CLOSING CASH BALANCE	8,689,779	4,338,181
x. CASH FLOW FOR THE PERIOD (Ac+Bc+Cc)	4,351,598	776,870
y. OPENING CASH BALANCE	4,338,181	3,561,311

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

12.5 Statement of changes in equity of Elektro Gorenjska group for the business year ended as at 31. 12. 2017

a) From 1 January 2017 to 31 December 2017:

Events in individual capital items	in €											
	Called-up capital	Capital reserves		Profit reserves					Other reserves		Retained profit or loss	Total capital
	I.	II.		III.			IV.		V.			
Share capital		Share premium account	General capital valuation adjustment	Statutory reserves	Reserves for own shares and own shareholdings	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./2.	III./1.	III./2.	III./3.	III./5.	IV./2.	IV./3.	V./1.	V./2.	
Balance as of 31 December 2016	71.898.061	1	45.944.897	2.245.163	22.506	-22.506	25.050.998	-484.997	-94.670	2.253.493	2.821.088	149.634.034
Balance as of 1 January 2017	71.898.061	1	45.944.897	2.245.163	22.506	-22.506	25.050.998	-484.997	-94.670	2.253.493	2.821.088	149.634.034
Changes in equity capital – transactions with owners	0	0	0	0	0	-2.571	0	0	0	-5.412	-2.067.540	-2.075.523
Purchase of own shares and own shareholdings						-2.571				-5.412	-2.067.540	-2.072.952
Dividend payment												
Total comprehensive income of reporting period	0	0	0	0	0	0	0	470.841	7.144	0	6.974.762	7.452.747
Entry of net profit or loss for the reporting period											6.974.762	6.974.762
Items of other comprehensive income (except under the equity method) that will not be reclassified to profit or loss later	0	0	0	0	0	0	0	0	10.995	0	0	10.995
Items of other comprehensive income (except under the equity method) that will be reclassified to profit or loss later	0	0	0	0	0	0	0	470.841	0	0	0	470.841
Share of other comprehensive income calculated under the equity method that will not be reclassified to profit or loss later												
Share of other comprehensive income calculated under the equity method that will be reclassified to profit or loss later												
Share of other comprehensive income calculated under the equity method that will be reclassified to profit or loss later												
Share of other comprehensive income calculated under the equity method that will be reclassified to profit or loss later												
Changes within capital	0	0	0	349.035	2.571	0	4.108.537	0	-13.737	1.099.592	-5.545.998	0
Allocation of remaining part of net profit of the comparative reporting period to other capital items										1.085.855	-1.085.855	0
Allocation of part of net profit of reporting period to other items of capital following the decision of the management and control				349.035	2.571		4.108.537				-4.460.143	0
Other changes within capital										13.737		0
Balance as of 31 December 2017	71.898.061	1	45.944.897	2.594.198	25.077	-25.077	29.159.535	-14.156	-101.263	3.347.673	2.182.312	155.011.258

Explanatory notes in chapter 14.10 – Capital are part of the financial statements and should be read in conjunction with them.

b) From 1 January 2016 to 31 December 2016:

Events in individual capital items	in €												
	Called-up capital	Capital reserves		Profit reserves					Other reserves		Retained profit or loss		Total capital
		II.		III.		IV.			V.		Total capital		
		I./1.	II./2.	Share premium account	General capital valuation adjustment	Statutory reserves	Reserves for own shares and own shareholdings	Own shares and own shareholdings	Other profit reserves	Reserves for risk hedging		Reserves for fair value	
	I./1.	II./2.	Share premium account	General capital valuation adjustment	Statutory reserves	Reserves for own shares and own shareholdings	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	Total capital
Balance as of 31 December 2015	71,898,061	1 45,944,897	1 45,944,897	1,896,184	0	0	0	21,049,094	-672,918	23,980	200,216	4,804,587	145,144,102
Balance as of 1 January 2016	71,898,061	1 45,944,897	1,896,184	0	0	0	0	21,049,094	-672,918	23,980	200,216	4,804,587	145,144,102
Changes in equity capital – transactions with owners	0	0	0	0	0	-22,506	0	0	0	0	-7,348	-2,792,997	-2,822,851
Purchase of own shares and own shareholdings	0	0	0	0	0	-22,506	0	0	0	0	0	0	-22,506
Dividend payment	0	0	0	0	0	0	0	0	0	0	-7,348	-2,792,997	-2,800,345
Total comprehensive income of reporting period	0	0	0	0	0	0	0	0	187,922	-69,615	0	7,194,476	7,312,763
Entry of net profit or loss for the reporting period	0	0	0	0	0	0	0	0	0	0	0	7,194,476	7,194,476
Items of other comprehensive income (except under the equity method) that will not be reclassified to profit or loss later	0	0	0	0	0	0	0	0	0	-74,356	0	0	-74,356
Items of other comprehensive income (except under the equity method) that will be reclassified to profit or loss later	0	0	0	0	0	0	0	0	187,922	0	0	0	187,922
Share of other comprehensive income calculated under the equity method that will not be reclassified to profit or loss later	0	0	0	0	0	0	0	0	0	5,061	0	0	5,061
Share of other comprehensive income calculated under the equity method that will be reclassified to profit or loss later	0	0	0	0	0	0	0	0	0	-320	0	0	-320
Changes within capital	0	0	0	348,979	22,506	0	4,001,904	0	-49,035	2,060,625	-6,384,979	0	0
Allocation of remaining part of net profit of the comparative reporting period to other capital items	0	0	0	0	0	0	0	0	0	0	2,011,590	-2,011,590	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	348,979	22,506	0	4,001,904	0	0	0	0	-4,373,389	0
Other changes within capital	0	0	0	0	0	0	0	0	0	-49,035	49,035	0	0
Balance as of 31 December 2016	71,898,061	1 45,944,897	2,245,163	22,506	22,506	-22,506	25,050,998	-484,997	-94,670	2,253,493	2,821,088	149,634,034	149,634,034

13 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT

13.1 Reporting company and group structure

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

Consolidate financial statements of Elektro Gorenjska Group for the year ended as at 31. 12. 2017, include:

- company Elektro Gorenjska, Ulica Mirka Vadnova 3a, Kranj,
- company Gorenjske elektrarne, Stara cesta 3, Kranj, which is in 100 % ownership of the controlling company; capital of this company as at 31. 12. 2017 amounted to €17,985,486, net profit for year 2017 was €407,545,
- 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. 2017 amounted to €138,283, net profit for year 2017 was €18,544,
- associate company ECE, Vrnčeva ulica 2a, Celje, which is in 25.6744 % ownership of the controlling company; capital of this company as at 31. 12. 2017 amounted to €18,174,005, net profit for year 2017 was €2,034,753, and
- associate company Soenergetika, Stara cesta 3, Kranj, which is in 25 % ownership of company Gorenjske elektrarne; capital of this company as at 31. 12. 2017 amounted to €1,833,993, net profit for year 2017 was €546,067.

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

13.2 Basis for compiling the consolidated financial statements

13.2.1 Statement of compliance

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

Management of Elektro Gorenjska Company approved the consolidated financial statements on 17 April 2018.

13.2.2 Basis for measurement

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

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

13.2.3 Functional and presentation currency

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

Exchange rate differences, which occur in settlements of monetary items or with transference of monetary items at exchange rates different from those at which they were transferred at initial

recognition in the period, are recognized in profit and loss for the period they occur in. In order to convert values in foreign currencies, the group uses the reference rate of the European Central Bank published by the Bank of Slovenia.

13.2.4 Use of significant estimates and judgements

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

Assumptions and estimates

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

- Determination of useful lives of intangible and tangible fixed assets (please see chapters [13.3.2 – Intangible assets](#) and [13.3.3 – Tangible fixed assets](#))
- Adjustments of doubtful debts (please see chapter [13.3.6 – Financial instruments](#))
- Provisions estimate (please see chapter [13.3.10 – 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](#).

In March 2018 the Elektro Gorenjska Company received a preliminary settlement of the regulatory year 2017 from SODO. Preliminary settlement for year 2017 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 2017 was by €2,121,116 lower than the value established on the basis of the preliminary settlement. On this basis the company in 2017 recognized short-term accrued revenues in the amount of €2,121,116. In year 2016 revenues established on the basis of preliminary settlement of the regulatory year 2016 were by €1,577,187 higher than the already charged ones during the year. In year 2016 the Elektro Gorenjska Company therefore recognized short-term accrued revenues in the amount of €1,577,187.

Elektro Gorenjska received the final settlement for the regulatory year 2016 after the date of approval of the financial statements for the year 2016. From the final settlement, based on the audited financial statements for the year 2016, it results that the already charged value of rents and services was by €34,939 lower than the value of the final settlement. Settlement will be considered in the financial statements for 2017.

Final settlement for regulatory year 2017 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.

Newly adopted standards and notes that came into force as at 1. 1. 2017

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 and taken into account by the Group in the preparation of the consolidated financial statements, although they did not have a significant effect on them.

Amendment to IAS 12 – Income tax: Recognition of deferred tax assets in relation to unrealized losses

Amendment, adopted by the EU on 6 November 2017 (applies to periods beginning on or after 1 January 2017), explains in more detail how and when in certain cases the deferred tax asset is calculated and how to determine the amount of future taxable income for the purpose of assessing the recognition of deferred tax assets.

Amendment to IAS 7 – Cash flow statement: Disclosure initiative

Amendment adopted by the EU on 6 November 2017 (effective for annual periods beginning on or after 1 January 2017) requires additional disclosures to help users evaluate changes in financing obligations, including changes in cash flows and non-monetary changes (eg. the impact of positive and negative exchange rate differences, changes in the takeover or loss of control over branches, changes in fair value).

Amendments to various standards - Improvements to IFRS for the period 2014–2016

Changes arise from the annual IFRS Improvement Project (IFRS 1, IFRS 12 and IAS 28), in particular with a view to eliminating inconsistencies and interpretation of the text - adopted by the EU on 8 February 2018 (amendments to IFRS 12 apply to annual periods beginning on 1 January 2017 or later).

Amendment to IFRS 12: Disclosure of shares in other companies

Amendments clarify that disclosure requirements in IFRS 12 (other than those summarized in the financial statements of subsidiaries, joint ventures and associated companies) are considered to be the shares of the company in a subsidiary, joint venture or associated company, classified as assets held for sale, for distribution or as discontinued operations in accordance with IFRS 5

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

13.2.5 New accounting standards and interpretations not yet in force

New standards and interpretations, which are presented below, are not yet in force and were not taken into account during the preparation of annual financial statements as at 31 December 2017:

IFRS 9 Financial instruments

EU adopted the standard on 22 November 2016 and it applies to the annual accounting periods that begin on 1 January 2018; it shall apply retroactively, except by way of exception. Conversion of previous periods is not necessary and is permitted, insofar as data are available and without the use of knowledge. This Standard replaces IAS 39 Financial Instruments: Recognition and Measurement, with the exception that IAS 39 remains in force in the event of hedging the fair value of a portfolio of financial assets or financial liabilities against the interest rate risk; companies have the option of deciding on the use of accounting hedging in accordance with IFRS 9 and the existing hedge accounting under IAS 39 in all accounting cases. Although the basis of the permitted measurement of financial assets - amortized cost, fair value through other comprehensive income (PVDVD) and fair value through profit or loss (PVPI) - is similar to IAS 39, the criteria for determining the relevant measurement vary significantly.

Financial asset is measured at amortized cost when the following conditions are met:

- assets are managed in the context of a business model that is intended to collect contractual cash flows, and
- contracts contain precise cash flow dates, which are merely payments of principal and interest from unpaid principal.

Group may irrevocably present its subsequent changes in fair value (including positive and negative foreign exchange differences) of an equity instrument not intended for trading in the context of other comprehensive income. In any case, the subsequent amendments can no longer be reclassified to profit or loss. Debt instruments measured at fair value through other comprehensive income, interest income, expected credit losses and foreign exchange differences are recognized in profit or loss in the same way as assets measured at amortized cost. Other gains and losses are recognized in other comprehensive income and are reclassified as a result of the de-recognition. Impairment model in accordance with IFRS 9 replaces the incurred loss model as recognized in IAS 39, which also includes the model of expected credit losses; the latter means that the impairment can be recognized even before the loss is incurred. IFRS 9 contains a new general hedge accounting model that better adapts billing to risk management. Different types of hedge accounting - fair value, cash flow and net investment in foreign companies - remain unchanged, but an additional estimate is needed. Standard contains new requirements that

need to be met (continuation and termination of hedge accounting), and allows additional types of exposure to be treated as hedged items. Additional comprehensive disclosures are needed in relation to risk management and hedging activities.

On 22 March 2018, the EU adopted amendments to IFRS 9 - Elements of Advance Payment with Negative Compensation. EU adopted the amendments on 22 March 2018 and they apply to annual periods beginning on or after 1 January 2019.

Group anticipates that IFRS 9 will not significantly affect the financial statements. Classification and measurement of financial instruments of the company will not change significantly, considering the IFRS 9.

IFRS 15 Revenue from customer contracts

EU has adopted the standard and amended the IFRS on 22 September 2016, and amendments to IFRS 15 - Notes to IFRS 15 on 31 October 2017 and apply to annual accounting periods beginning on 1 January 2018. New standard provides a framework replacing existing guidance on recognition of income under IFRS. Group uses a five-step model to determine when to accurately recognize revenue and to what extent. New model specifies that revenue is recognized when the Group transfers control of goods and services to the customer in the amount that the group expects to be eligible. Regarding the criteria, revenue is recognized:

- over time and in a way that shows the company's business, or
- in the moment the control of goods and services is transferred to the buyer.

Similarly, IFRS 15 introduces principles that oblige the Group to provide quality and comprehensive disclosures that give users of financial statements useful information regarding the type, amount, time frame and uncertainty of revenue and cash flows arising from customer contracts.

Notes to IFRS 15 Revenue from customer contracts

Notes to the standard apply for annual periods beginning on or after 1 January 2018. Purpose of the interpretations is to explain the requirements of IFRS 15.

Group does not expect significant differences in the recognition of revenues from the sale of goods and services.

IFRS 16 Leases

EU adopted the standard on 31 October 2017 and applies to annual accounting periods beginning on or after 1 January 2019. Application before that date is permitted if the Group also applies IFRS 15. IFRS 16 replaces IAS 17 Leases and Related Interpretations. Standard eliminates the existing model of dual lease accounting and instead requires the Group to calculate most of the leases from the statement of financial position with a single model without distinction between business and financial leasing.

In accordance with IFRS 16, a lease contract is a contract that for a certain period gives the right to use a particular asset in exchange for payment. New model for such contracts stipulates that the lessee recognizes the right to use the asset and the lease obligation. Right to use the asset is amortized and interest is attributed to the liability. This leads to a concentrated cost model for most of the rentals, even if the tenant pays regular annual rentals. A new standard for tenants introduces a number of exceptions that include:

- leases for a period of 12 months or less, without a call option, and
- leases where the asset in question has a low value (cheap / low leases/«small-ticket» leases).

By introducing a new standard, leasing accounting for the lessor will not change significantly, and the distinction between business and financial leasing remains in force.

Group assumes that IFRS 16 will not significantly affect the financial statements.

Amendment to IFRS 4: Use of IFRS 9, Financial Instruments, in conjunction with IFRS 4, Insurance Contracts

Amendments were adopted by the EU on 3 November 2017 and are valid for periods beginning on or after 1 January 2018 or at the time of first application of IFRS 9. Amendments address issues related to the introduction of the new financial instruments standard IFRS 9 before by the introduction of a new standard for insurance contracts, which the Committee is preparing instead of IFRS 4. There are two options for companies that issue insurance contracts: temporary exemption from the application of IFRS 9 and the simultaneous use.

Provisional exemption is first applied for the reporting period beginning on or after 1 January 2018.

Company may opt for simultaneous use at the first application of IFRS 9 and apply this approach retrospectively to financial assets designated at the time of transition to IFRS 9. Company adjusts comparative information that reflects concurrent use only if it adjusts comparative information using IFRS 9.

Amendments to different standards IFRS improvements for period 2014–2016

Amendments arise from the annual IFRS Improvement Project (IFRS 1, IFRS 12 and IAS 28), in particular with a view to eliminating inconsistencies and interpretation of the text - adopted by the EU on 8 February 2018 (amendments to IFRS 1 and IAS 28 apply to annual periods starting on 1 January 2018 or later).

Amendment to IAS 28: Financial investments in associates and joint ventures

Amendments clarify that the measurement of a financial investment in an associate or a joint venture owned by a company that is a venture capital organization or another eligible entity can be selected at fair value through profit or loss on initial recognition for each financial investment in an associate or a joint venture, each of which is treated separately. Amendments apply for annual periods beginning on or after 1 January 2018.

Amendment to IFRS 1: First-time adoption of International Financial Reporting Standards

Amendments removed the short-term exceptions in Articles E3-E7 of IFRS 1 as they fulfilled their purpose. Amendments apply to annual periods beginning on or after 1 January 2018.

Group does not expect these amendments to affect its consolidated financial statements.

Amendment to IAS 40 Investment property

Amendments were adopted by the EU on 14 March 2018 and are effective for annual periods beginning on or after 1 January 2018 and are applied forwards. Amendments reinforce the principle in IAS 40 Investment property relating to transfers to investment property or from them, so that it now provides that such a transfer is made only if a change in the use of the property occurs. In line with the changes, the transfer is made when and only when there is a real change in use - i.e. the asset begins or ceases to comply with the definition of investment property, and there is evidence of the change in use. Mere change in the purpose of management is not the reason for the transfer.

Group assumes that changes on the day of first use shall not materially affect the financial statements as transferring the property to investment property or from them only occurs when there is a real change in the use of the property.

Amendment to IFRS 2: Classification and measurement of share-based payments

Amendment was adopted by the EU on 26 February 2018 and applies to annual accounting periods beginning on 1 January 2018. It is applied retrospectively. Use before that date is allowed. Amendment specifies share-based payments for the following areas:

- effects of mandatory and optional terms on the measurement of share-based payments settled in cash;
- share-based payments with a settled option in the case of liabilities with a withholding tax and
- changes in the terms and conditions of share payments concerning the classification of payments settled in cash for payment, settled in equity.

Group assumes that the new standard will not have a significant effect on the financial statements on the day of the first use.

IFRIC 22 Transactions in foreign currencies and advances

Amendment was adopted by the EU on 28 March 2018 and applies to annual accounting periods beginning on or after 1 January 2018. Interpretation note explains how to determine the transaction date for the purpose of determining the exchange rate to be used on initial recognition of the related asset, expense or income (or part thereof) of the related asset, upon de-recognition of a non-monetary asset or non-monetary liability in respect of a given or received advance in foreign currency. In such a case, the transaction date is the same as the date on which the company first recognizes a non-monetary asset or a non-monetary liability in respect of a given or received advance.

Group assumes that the interpretation on the day of first use shall not have a significant effect on its financial statements.

Accounting Standards and Interpretations issued by the IASC by the end of 2017, but not yet adopted by the EU by 3 April 2018

IFRS 14 – Statutory postponement of payment of invoices

It applies to annual periods beginning on or after 1 January 2016. EU has decided that it will not start the process of confirming this intermediate standard and will wait for the issue of its final version.

IFRS 17 – Insurance contracts

It applies to annual periods beginning on or after 1 January 2021 or later.

IFRIC 23 Uncertainty when dealing with income tax

Interpretation deals with the calculation of income tax when tax treatment involves uncertainty that affects the application of IAS 12 Income Tax. Interpretation introduces guidelines for: accounting for uncertain tax treatments separately or in combination; inspections of tax authorities; using an appropriate method that reflects these uncertainties while taking into account changes in facts and circumstances.

Amendments apply for annual periods beginning on or after 1 January 2019. Early application of additions is permitted.

Amendment to IAS 28: Long-term investments in associates and joint ventures

Amendments address the question whether the measurement of long-term investments (in particular from the point of view of the requirements for impairment of long-term investments in associates and joint ventures that are substantially part of the »net investment« in an associate or a joint venture) belongs to the context of IFRS 9, IAS 28 or a combination both. Amendments clarify that company should, when recognizing long-term investments not measured using the equity method, apply the provisions of IFRS 9 Financial Instruments before applying IAS 28. In applying IFRS 9, the company does not take into account any adjustments to the carrying amount of long-term investments that are derived from the IAS 28.

Amendments apply for annual periods beginning on or after 1 January 2019. Early application of additions is permitted.

Amendments to different standards IFRS improvements (period 2015–2017)

Changes arise from an annual project to improve IFRSs (IFRS 3, IFRS 11, IAS 12 and IAS 23), in particular with a view to eliminating inconsistencies and interpretation of the text, and apply to annual periods beginning on or after 1 January 2019.

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

13.3 Summary of significant accounting policies

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

13.3.1 Basis for consolidation

Financial statements of the group have been prepared on the basis of the financial statements of Elektro Gorenjska Company and its 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 from the date that control commences until the date that control ceases. Accounting policies of subsidiaries are consistent with the policies of the Group.

b. Associated companies

Associated companies are those companies in which the Group has significant influence, but not control over their financial and operating policies. Significant influence exists when the Group owns 20

to 50 per cent of the voting rights in another company. Investments in associates at initial recognition are stated at cost and then accounted for under the equity method. Consolidated financial statements include the Group's share in the profits and losses of associates from the date that significant influence commences until the date when it ends.

c. Transactions eliminated from the consolidated financial statements

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

d. Assumptions used in preparation of consolidated financial statements

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

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

13.3.2 Intangible assets

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

Group recognizes an intangible fixed asset when, and only when, it is probable that the expected future economic benefits will flow to the Group, and its value can be reliably measured. After initial recognition, the Group 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	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.

13.3.3 Tangible fixed assets

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

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

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

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

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

Acquisition cost of a tangible fixed asset constructed or produced in its own context is determined by the group using the same principles as with the asset purchased. Group companies that produce its own assets in the acquisition cost include costs that are directly related to it, and the general costs of construction, which can be attributed to that asset. Costs not related to its construction or making, and costs that the market does not recognize are not included in the acquisition price. Acquisition cost of such tangible fixed asset cannot be greater than the acquisition cost of an identical or similar tangible fixed assets on the market. Acquisition cost of tangible fixed asset constructed or produced in group companies thus consists of outsourcing services, hours of direct labor, material costs (valued at the weighted average price at the level OE) and other direct 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.

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.

Group, through a special commission for fixed assets, annually reviews external and internal circumstances (important technological changes, market changes, obsolescence or the physical condition of an individual tangible asset), which could be an important indicator of (non) appropriateness of the useful life or the need to impair tangible fixed assets. In this, signs from external and internal sources of information are assessed. Tangible fixed asset is impaired if its carrying amount exceeds the recoverable amount. Recoverable amount of the asset is the fair value less costs of disposal, or the value

in use, whichever is greater. Value in use is estimated as the present value of expected future cash flows, discounted to the present value using a pre-tax discount rate. Impairment is recognized in the profit and loss statement among other operating expenses.

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	25-40	2.5-4
Buildings of hydroelectric power stations	5-40	2.5-20
Solar power stations	12-25	4-8.33
Other buildings	15-50	2-6.67
Equipment of energy infrastructure	10-35	2.86-10
Computer hardware equipment	3	33.33
Equipment of hydro power stations	3-30	3.33-33.33
Other equipment	2-20	5-50
Investments in foreign tangible fixed assets	4-25	4-25
Vehicles	8-12	8.33-12.5

Depreciable amount of tangible fixed assets is equal to their acquisition cost, reduced by any eventual impairment, which is systematically allocated throughout the useful life.

Group annually verifies useful lives and other values of significant items of tangible fixed assets, depreciation rates are then converted to current and future periods if expectations differ significantly from the estimates. Effect of change in estimate is then explained by the group in the notes in the accounting period in which it occurred.

13.3.4 Investment property

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

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

They are mainly:

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

Investment property does not include:

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

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

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

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

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

13.3.5 Assets received and leased

Lease is a contractual relationship that grants the right to control the use of a defined asset for an agreed period of time, namely in return for payment.

Leases are classified by the Group on the basis of the extent of the risks and benefits associated with the ownership of the leased asset that are borne by the lessor or the lessee. They are classified into two groups, namely as a finance lease if almost all the risks and rewards of ownership are transferred to the lessee, and an operating lease if there is no significant transfer of risks and rewards of ownership. Lease is classified at the time of the contractual relationship. Commencement of the lease is the date on which the tenant can start to exploit the right to use the leased asset.

Leases of assets leased out by the Group are classified as financial or operating leases. Financial leases are recognized in the statement of financial position as assets and liabilities at the fair value of the leased asset. Financial lease causes depreciation costs of depreciable assets and financial expense in the accounting period. Group uses the same policies in the amortization of the leased assets as for own funds. For operating leases, rental expenses are recognized on a straight-line basis throughout the lease term, in the profit and loss statement.

All contractual relationships where the Group acts as a lessor for assets are concluded as an operating lease. Group discloses the assets among its tangible assets. Revenue from rentals during the lease term is recognized equally in time between net operating revenues. All costs related to assets leased out (including depreciation) are recognized in the expenses of the period.

13.3.6 Financial instruments

Financial instruments include the following items:

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

Non-derivative financial assets

Non-derivative financial assets are:

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

Financial investments

At initial recognition, non-derivative financial instruments are classified into one of the following categories: financial asset at fair value through profit or loss, financial assets held-to-maturity, liabilities and receivables and financial assets available-for-sale. Classification depends on the purpose for which the instrument was acquired.

All long-term financial investments in equity of other companies are classified in fourth category - financial assets available for sale.

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.

Those investments in equity instruments that are not quoted in an active market and whose fair value cannot be reliably measured are measured at acquisition cost.

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 in the financial investment in an equity instrument which is not quoted in an active market and which are not recognized at fair value, but at cost because its fair value cannot be reliably measured, or derivative financial instrument that is linked to and must be settled by delivery of equity instruments that are not quoted in an active market, the amount of the impairment loss is measured as the difference between the carrying value of the asset and the present value of expected future cash flows discounted at the current market rate of return for similar financial assets, and is recognized as a financial expense from revaluation.

Claims

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

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

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

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

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

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

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

Cash and cash equivalents

Monetary assets include:

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

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

Group has transactional accounts in following commercial banks:

Current account number	Bank of current account	Company
07000-0000641939	Gorenjska banka, Kranj	Elektro Gorenjska
07000-0000542805	Gorenjska banka, Kranj	Gorenjske elektrarne
19100-0011259911	Deželna banka Slovenije, Ljubljana	Elektro Gorenjska
29000-0001824912	Unicredit banka, Ljubljana	Elektro Gorenjska
30000-0003480687	Sberbank, Ljubljana	Elektro Gorenjska
07000-0003208559	Gorenjska banka, Kranj	GEK Vzdrževanje

All current accounts are kept in Euros, only current account No. 07000-0000641939 in Gorenjska bank Kranj is opened also as foreign currency account. Account in Sberbank represents a saving account.

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

a. Non-derivative financial liabilities

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

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

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

After initial recognition, liabilities are measured at amortized cost.

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

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

b. Derivative financial instruments

Group uses derivative financial instruments to hedge its exposure to interest rate risk.

In accordance with the risk management policy for changes in interest rates for hedging cash flows (liabilities) arising from long-term loans the Group uses simple interest rate swaps. With interest rate swaps, the fair value at the date of the statement of financial position is valued by discounting the future cash flows.

Aim of hedging policy are predictable financial expenses in the amount of the fixed rate of interest from rate swaps increased by interest margin from the credit agreement. Hedging relationship is maintained until the maturity of the hedged item. Fair value of interest rate swaps at the end hedging equals €0.

In hedging the cash flows and net investments, the portion of the gain or loss from the hedging risk instrument, which is defined as an effective hedge is recognized in other comprehensive income and the ineffective portion of the profit is recognized in profit or loss.

Profit or loss from the hedging instrument relating to the effective portion of the hedge that has been recognized in other comprehensive income must be reclassified to profit or loss as a reclassification adjustment in the same period or periods during which the announced hedged cash flows affect the profit or loss (for example, when a forecast sale occurs) or at the disposal or partial disposal of a foreign operation.

13.3.7 Stocks

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

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

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

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

13.3.8 Other assets

Other assets include accrued income and deferred expenses.

Accrued income are revenues that are considered in the income statement, although they have not yet been charged.

Deferred expenses are amounts that when incurred are not yet charged to the profit and loss account.

13.3.9 Capital

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

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

13.3.10 Provisions

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

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

Contingent liabilities are not considered provisions.

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

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

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).

Severance pay on termination of fixed-term employment is recognized by the group as a short-term deferred costs and not as a provision.

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

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

13.3.11 Assets acquired free of charge

Assets acquired free of charge include:

- connections of customers that the group took over into its tangible fixed assets together with its commitment to care for their maintenance and reconstruction, in accordance with the regulations, General conditions for connection to the distribution electric system,
- free acquisitions of other fixed assets,
- assets acquired through government support or donation and
- assets acquired through received monetary assets intended for the construction or purchase of a fixed asset.

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

13.3.12 Other liabilities

Other liabilities include deferred revenues and cost provisions or expenses.

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

13.3.13 Deferred tax liabilities and tax receivables and income tax

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

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

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

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

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

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

13.3.14 Revenues

Revenue is recognized by the Group when it is probable that future economic benefits will flow to the group and that these benefits can be measured reliably. 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 the revaluation of operating revenues. These occur mainly on the sale of tangible fixed assets and investment property at a price that exceeds their book value, or as a result of adjustment of receivables.

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

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

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

13.3.15 Expenditure

Expenditure is classified into operating and financial expenses.

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

Financial expenses are financing expenses and investment expenses. First consist primarily of interest, while second are primarily of revaluation financial expenses nature. Latter are due to impairment of

financial investments and due to the sale or other disposal at a price that is lower than their book value. Interest expenses are recognized according to the elapsed time and the applicable interest rate.

13.3.16 Consolidated cash flow statement

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

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

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

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

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

13.3.17 Basic return 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.

13.4 Determination of fair value

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

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

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

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

To determine the fair value of interest rate swaps data, provided to the companies in the Group by the banks with which they have concluded individual swaps, is used.

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

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

14 NOTES TO THE STATEMENT OF FINANCIAL POSITION

14.1 Intangible assets

Following tables present changes in intangible assets in years 2017 and 2016.

in €				
2017	Computer software equipment	Other rights	Property rights in acquisition	Total intangible assets
1	2	3	4	5 = 2+3+4
Acquisition cost				
Balance 1. 1. 2017	5,157,671	7,090	11,704	5,176,465
New acquisitions	279,163	0	409,174	688,337
Disposals, withdrawals, transfers	-222,012	0	0	-222,012
Completion of ongoing investments	233,368	0	-233,368	0
Balance 31. 12. 2017	5,448,190	7,090	187,510	5,642,790
Value adjustment				
Balance 1. 1. 2017	3,810,273	6,182	0	3,816,455
Increase (depreciation)	441,651	236	0	441,887
Disposals, withdrawals, transfers	-222,012	0	0	-222,012
Balance 31. 12. 2017	4,029,912	6,418	0	4,036,330
Carrying amount				
Balance 1. 1. 2017	1,347,398	908	11,704	1,360,011
Balance 31. 12. 2017	1,418,278	672	187,510	1,606,459

in €				
2016	Computer software equipment	Other rights	Property rights in acquisition	Total intangible assets
1	2	3	4	5 = 2+3+4
Acquisition cost				
Balance 1. 1. 2016	5,289,917	7,090	69,861	5,366,867
New acquisitions	149,080	0	523,494	672,574
Disposals, withdrawals, transfers	-862,976	0	0	-862,976
Completion of ongoing investments	581,651	0	-581,651	0
Balance 31. 12. 2016	5,157,671	7,090	11,704	5,176,465
Value adjustment				
Balance 1. 1. 2016	4,383,610	5,946	0	4,389,556
Increase (depreciation)	289,639	236	0	289,875
Disposals, withdrawals, transfers	-862,976	0	0	-862,976
Balance 31. 12. 2016	3,810,273	6,182	0	3,816,455
Carrying amount				
Balance 1. 1. 2016	906,306	1,144	69,861	977,311
Balance 31. 12. 2016	1,347,398	908	11,704	1,360,011

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. 2017, 60 % were fully depreciated, which is the same as on 31. 12. 2016. Share is calculated according to the acquisition cost of intangible assets.

As at 31 December 2017 the Group had no financial obligations in respect of acquiring intangible fixed assets.

14.2 Tangible fixed assets

As at 31 December 2017 tangible fixed assets amounted to €202,183,662, which represents 87 % of balance sheet total of the Group. Compared to the balance as at 31 December 2016 their value is by €5 mio or 2.5 % higher.

Presentation of changes in tangible fixed assets in year 2017:

in €					
2017	Land	Buildings	Equipment	Tangible fixed assets in building	Total tangible fixed assets
1	2	3	4	5	6=2+3+4+5
Acquisition cost					
Balance 1. 1. 2017	7,996,397	295,659,285	133,636,523	3,519,476	440,811,682
New acquisitions	33,193	109,329	2,424,375	13,937,494	16,504,392
Disposals, separations, transfers	-12,069	-14,277,731	-5,018,450	-8,821	-19,317,071
Transfer from investments in progress	12,974	9,386,467	4,554,748	-13,954,189	0
Transfer from/to investment property	0	0	0	0	0
Balance 31. 12. 2017	8,030,495	290,877,351	135,597,196	3,493,961	437,999,003
Valuation adjustment					
Balance 1. 1. 2017	0	163,738,927	79,865,351	0	243,604,278
Increase (depreciation)	0	5,383,403	5,385,264	0	10,768,667
Disposals, separations, transfers	0	-14,002,014	-4,555,591	0	-18,557,605
Transfer from/to investment property	0	0	0	0	0
Balance 31. 12. 2017	0	155,120,316	80,695,024	0	235,815,340
Carrying amount					
Balance 1. 1. 2017	7,996,397	131,920,359	53,771,173	3,519,476	197,207,403
Balance 31. 12. 2017	8,030,495	135,757,035	54,902,173	3,493,961	202,183,662

Presentation of changes in tangible fixed assets in year 2016:

in €					
2016	Land	Buildings	Equipment	Tangible fixed assets in building	Total tangible fixed assets
1	2	3	4	5	6=2+3+4+5
Acquisition cost					
Balance 1. 1. 2016	8,099,473	293,881,877	129,563,207	2,840,531	434,385,088
New acquisitions	141,614	42,339	2,141,177	13,365,797	15,690,926
Disposals, separations, transfers	-10,008	-7,452,109	-1,328,643	-72	-8,790,832
Transfer from investments in progress	22,701	9,403,298	3,260,783	-12,686,781	0
Transfer from/to investment property	-257,382	-216,118	0	0	-473,500
Balance 31. 12. 2016	7,996,397	295,659,286	133,636,523	3,519,476	440,811,683
Valuation adjustment					
Balance 1. 1. 2016	0	165,635,155	76,205,401	0	241,840,556
Increase (depreciation)	0	5,350,868	4,825,695	0	10,176,562
Disposals, separations, transfers	0	-7,117,450	-1,165,745	0	-8,283,195
Transfer from/to investment property	0	-129,644	0	0	-129,644
Balance 31. 12. 2016	0	163,738,928	79,865,350	0	243,604,278
Carrying amount					
Balance 1. 1. 2016	8,099,473	128,246,723	53,357,807	2,840,531	192,544,532
Balance 31. 12. 2016	7,996,397	131,920,358	53,771,172	3,519,476	197,207,403

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

Individually significant acquisitions are:

Buildings:

- investment in GD RTP Radovljica GIS (€276,358),
- investment in GD RP Bled (€214,442) and
- investment in 35 kV DV Podkuže-Kr. Gora (€207,454).

Equipment:

- EO RTP Radovljica (€1,838,159),
- EO RP Bled (€690,293),
- measuring devices project AMI (€1,011,702).

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:

- Hardware and software DCV (reduction of acquisition cost by €1,988,027 and revaluation adjustment by €1.988.027),

- Overhead line Hrastnica (reduction of acquisition cost by €558,934 and revaluation adjustment by €558,934),
- Overhead line Gabrk (reduction of acquisition cost by €283,477 and revaluation adjustment by €283,477) and
- Overhead line Pirniče (reduction of acquisition cost by €212,377 and revaluation adjustment by €212,377).

Items infrastructure fully refer to electricity distribution infrastructure as defined in the Decree on energy infrastructure (Official Gazette RS, No. 22/2016). It includes buildings and equipment as well as part of the land. Book value of electricity distribution infrastructure as at 31 December 2017 amounted to €171,348,911 (31. 12. 2016: €165,756,030). For the needs of implementation of system operator activity, which SODO implements on the basis of the concession contract for implementation of public utility service of distribution network system operator, SODO has hired from Elektro Gorenjska Company complete electricity infrastructure.

In years from 2012 to 2016 Gorenjske elektrarne Company leased for a ten- to twelve-year period renovated lighting systems in shopping centres, which are owned by the tenant. As the investor the company entirely renovated the lighting systems and gave them renovated to the operating lease. In this regard, all significant risks related to the subject of the lease remained with the lessor - the company. Book value of all leased assets amounted to €316,604. In year 2017 rental income amounted to €17,525.52, in the next five years they will amount to additional €81,532 and in the last three years they amounted to €24,388.

Group discloses under its tangible fixed assets also assets (equipment) referring to HPS Jelendol. In connection to which a denationalization procedure is in progress, where beneficiaries demand a return. Company does not own the property, only movable property, which is hardware in this HE.

Of all tangible assets that were in use as at 31.12.2017, 23.7 % were fully depreciated (as at 31. 12. 2016 these assets were 25.6 %). 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 2017 and previous years, whose balance on 31. 12. 2017 amounted to €53,428,264 (31. 12. 2016: €49,614,008). Please see also chapter *14.12 - Long-term liabilities*.

14.3 Investment property

At the end of 2017 investment property amounted to **€2,170,669**. Changes in their acquisition value, valuation adjustment and their carrying amount in years 2017 and 2016 are presented in the following tables.

Presentation of changes in investment property in year 2017:

in €				
2017	Land	Buildings	Investment property in acquisition	Total investment property
1	2	3	4	5=2+3+4
Acquisition cost				
Balance 1. 1. 2017	762,888	2,538,292	0	3,301,180
New acquisitions	5,304	0	85,886	91,190
Disposals, transfers	0	0	0	0
Transfer to assets for sale	-35,271	-146,716	0	-181,986
Transfer from ongoing investments	0	83,436	-83,436	0
Transfer from/to intangible FA	0	0	0	0
Balance 31. 12. 2017	732,921	2,475,012	2,450	3,210,383
Value adjustment				
Balance 1. 1. 2017	0	1,078,807	0	1,078,807
Depreciation	0	54,101	0	54,101
Disposals, transfers	0	0	0	0
Transfer to assets for sale	0	-93,193	0	-93,193
Transfer from/to intangible FA	0	0	0	0
Balance 31. 12. 2017	0	1,039,715	0	1,039,715
Carrying amount				
Balance 1. 1. 2017	762,888	1,459,485	0	2,222,372
Balance 31. 12. 2017	732,921	1,435,298	2,450	2,170,669

Presentation of changes in investment property in year 2016:

in €				
2016	Land	Buildings	Investment property in acquisition	Total investment property
1	2	3	4	5=2+3+4
Acquisition cost				
Balance 31. 12. 2015	509,498	2,178,129	16,053	2,703,680
Impairment	0	0	0	0
New acquisitions	11,285	11,600	157,187	180,072
Disposals, transfers	-15,278	-40,794	0	-56,072
Transfer from ongoing investments	0	173,240	-173,240	0
Transfer from/to intangible FA	257,382	216,118	0	473,500
Balance 31. 12. 2016	762,888	2,538,292	0	3,301,180
Value adjustment				
Balance 31. 12. 2015	0	920,328	0	920,328
Impairment	0	0	0	0
Depreciation	0	48,414	0	48,414
Disposals, transfers	0	-19,579	0	-19,579
Transfer from/to intangible FA	0	129,644	0	129,644
Balance 31. 12. 2016	0	1,078,808	0	1,078,808
Carrying amount				
Balance 31. 12. 2015	509,498	1,257,801	16,053	1,783,352
Balance 31. 12. 2016	762,888	1,459,485	0	2,222,372

Following is the presentation of investment property structure.

Item	in €	
	31. 12. 2017	31. 12. 2016
Apartments	436,714	451,260
Holiday facilities	751,979	689,600
Other buildings	246,604	318,624
Land	732,921	762,888
Investment property in acquisition	2,450	0
Total investment property	2,170,669	2,222,372

On 31. 12. 2015 valuation of the investment property was performed. Valuation was conducted by a certified appraiser of real estate in the Slovenian Audit Institute. Valuation was conducted in accordance with the Hierarchy of valuation rules (Official Gazette RS No. 106/2010, with amendment), International valuation standards (MSOV 2013), Slovene Accounting Standard No. 2 (estimating the value of property rights, Official Gazette RS, No. 106/2013) and Law of Property Code (Official Gazette RS, No. 87/2002, 91/2013).

Based on this valuation fair value of investment property the Group stated in its balance on 31. 12. 2017 amounted to €3,246,697. A revaluation of investment property was not carried out in 2017, but important assumptions for valuation were verified, which did not change significantly.

Revenues from rent in investment property amount to €187,687 (in year 2016: €181,332).

Direct operating expenses (including repairs and maintenance), originating from investment property, which made revenues from rents in year 2017, and direct operating expenses, which did not make revenues from rents in year 2017 consist of depreciation costs (€54,101) and costs of material and services (€90,695). In year 2016 costs of depreciation were €48,414 and costs of material and services €90,332.

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

Important acquisition within investment property in year 2017 represents the renovation of the holiday facility on Vogel.

In 2017, the building in Bled, together with land, was reclassified as non-current assets held for sale.

14.4 Long-term financial investments

On 31 December 2017 long-term financial investments of the Group amounted to **€7,239,015**. Compared to the balance as at 31. 12. 2016 (€7,261,561) their value did not change significantly.

Largest item under long-term financial investments is an investment in ECE (€6,512,724). Investment was recognized in 2015, the value of the investment then amounted to €5,606,005. Investment is taken into account in the consolidated financial statements using the equity method. This means that the value of the investment at the end of each accounting period increases by a proportion of the net profit and direct changes in the capital of this company, and decreases by the amount of profit paid.

From ECE Company the Group received by €526,783 of dividends in 2017. More important data from the ECE Company's accounts for year 2017 are the following:

in €	
Item	31. 12. 2017 or year 2017
Current assets	40,799,513
Non-current assets	3,274,252
Current liabilities	24,792,544
Non-current liabilities	19,281,221
Revenues	129,410,421
Net profit or loss	2,034,753
Other comprehensive income	-15,170
Total comprehensive income	2,019,583

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

Long-term invested assets in Eldom Maribor represent assets invested in joint holiday facilities of electricity companies, managed by Eldom.

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

Changes in long-term financial investments in 2017 and 2016 are presented in the two tables below.

Investment description	Share designation	Number of shares (% of interests)		Share in the ownership (in %)		Balance 1. 1. 2017	Increases in year 2017		Decreases in year 2017		Balance 31. 12. 2017
		1. 1. 2017	31. 12. 2017	1. 1. 2017	31. 12. 2017		Change in value (equity method)	New acquisitions or redistributions	Change in value (equity method)	Sale or segregation	
Soenergetika, d. o. o.	-	-	-	25.00 %	25.00 %	471,937	0	0	-13,439	0	458,498
ECE d. o. o.				25.6744 %	25.6744 %	6,520,991	0	0	-8,267	0	6,512,724
Total investments in shares and interests in associates						6,992,928	0	0	-13,439	0	6,971,222
Informatika, d. d., Maribor	INFG	1,562	1,562	9.56 %	9.56 %	124,155	0	0	0	0	124,155
Total other shares and interests						124,155	0	0	0	0	124,155
Total long-term financial investments, except loans						7,117,083	0	0	-13,439	0	7,095,376
Long-term invested assets (Eldom Maribor)						142,798	0	0	0	0	142,798
Employees						1,680	0	0	0	-840	840
Total long-term loans						144,478	0	0	0	-840	143,638
TOTAL LONG-TERM FINANCIAL INVESTMENTS						7,261,561	0	0	-13,439	-840	7,239,015

in €

Investment description	Share designation	Number of shares (% of interests)		Share in the ownership (in %)		Balance 1. 1. 2016	Increases in year 2016		Decreases in year 2016		Balance 31. 12. 2016
		1. 1. 2016	31. 12. 2016	1. 1. 2016	31. 12. 2016		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 %	463,284	8,653	0	0	0	471,937
ECE d. o. o.				25.6744 %	25.6744 %	6,309,999	210,992	0	0	0	6,520,991
Total investments in shares and interests in associates						6,773,283	219,645	0	0	0	6,992,928
Informatika, d. d., Maribor	INFG	1,562	1,562	9.56 %	9.56 %	124,155	0	0	0	0	124,155
Total other shares and interests						124,155	0	0	0	0	124,155
Total long-term financial investments, except loans						6,897,438	219,645	0	0	0	7,117,082
Long-term invested assets (Eldom Maribor)						142,798	0	0	0	0	142,798
Employees						2,520	0	0	0	-840	1,680
Total long-term loans						145,318	0	0	0	-840	144,478
TOTAL LONG-TERM FINANCIAL INVESTMENTS						7,042,756	219,645	0	0	-840	7,261,561

in €

14.5 Stocks

Value of stocks of material, small tools, and merchandise as at 31. 12. 2017 amounted to a total **€296,344**. Compared to the balance as at 31. 12. 2016 they have increased by €51,512. Group estimates that net realizable value of stocks is at least equal to their book value. Movement of material stocks in years 2017 and 2016 is shown in the following table.

	in €	
Item description	2017	2016
Material stocks at the beginning of the period 1. 1.	244,833	275,407
Purchases	3,798,673	4,499,671
Consumption	-3,590,263	-4,397,556
Sale	-55	-22,620
Write-offs	0	-5,214
Inventory surpluses	0	6,479
Impairments and cancellation of impairments	0	0
Transfer of small tools in use	-156,843	-111,336
Material stocks at the end of the period 31. 12.	296,344	244,832

In stocktaking as at 31. 10. 2017 there were no surpluses or shortages established. In stocktaking in year 2016 a surplus of €6,479 was established. Write-downs of inventories in 2016 amounted to €5,214.

Group has no pledged stocks as security for its liabilities.

14.6 Short-term financial investments

According to the balance as at 31. 12. 2017 the Group records **€1,100,480** of short-term financial investments. Of which €0.8 mio refers to deposits fixed for a period exceeding three months. At the end of year 2016 the Group recognized €1.5 mio of such investments.

14.7 Short-term operating receivables

Short-term operating receivables as at 31. 12. 2017 amounted to **€5,932,990** and have decreased by €137 thousand compared to the balance as at 31. 12. 2016.

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

	in €	
Item description	31. 12. 2017	31. 12. 2016
Short-term accounts receivable	6,135,687	5,921,794
Short-term advances	5,163	33,343
Adjustment of short-term accounts receivable	-428,273	-226,091
Short-term accounts receivable	5,712,578	5,729,045
Short-term operating receivables from others	238,294	371,850
Adjustment of short-term receivables from others	-17,881	-22,677
Short-term operating receivables from others	220,413	349,174
Short-term operating receivables	5,932,990	6,078,218

Short-term accounts receivable represent 96 % 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 31 December 2017 according to maturity terms is shown in the following presentation:

							in €	
Item description	not yet due	up to 30 days	31-60 days	61-90 days	more than 90 days	Total amount due	Total accounts receivable	
Claims on buyers of electricity, network charge and services	5,544,438	163,534	9,968	7,174	396,221	576,897	6,121,335	
Default interest claims	4,868	837	145	102	8,399	9,484	14,352	
Total	5,549,306	164,371	10,114	7,276	404,620	586,381	6,135,687	

Changes in valuation adjustment of claims in year 2017 are presented in the next table.

							in €	
Item description	Balance 1. 1. 2017	New formations		Withdrawal (use) and elimination			Balance 31. 12. 2017	
		Chargeable to expenses	Chargeable to claims	Claims write-off	Paid interest – transfer to revenues	Elimination of excess valuation adjustments		
Valuation adjustment of accounts receivable	213,795	71,188	159,328	25,230		0	419,082	
Valuation adjustment of interest claims	12,296	0	845	3,425	480	46	9,191	
Valuation adjustment of other short-term claims	22,677			4,797			17,881	
Total valuation adjustment of claims	248,768	71,188	160,173	33,451	480	46	446,154	

14.8 Other current assets

Value of other current assets as at 31. 12. 2017 amounted to €2,333,924. Their structure is shown in the table below.

			in €	
Item description	31. 12. 2017	31. 12. 2016		
Short-term deferred costs or expenses	108,562	82,073		
Short-term accrued income	2,208,978	1,653,015		
Concession fee for water use	1,158	0		
Refund of excise duties, environmental charge, dues	13,906	17,024		
Other	1,320	2,775		
Total	2,333,924	1,754,887		

Biggest item of short-term deferred costs is accrued income, in which the largest share represents accrued income based on preliminary accounts for the year 2017 in the amount of €2,121,116. Preliminary calculation is presented in detail in chapter *13.2.4 – Use of significant estimates and judgements*.

14.9 Cash and cash equivalents

As at 31. 12. 2017 Elektro Gorenjska Group had **€8,689,779** of cash on the commercial banks accounts and short-term redeemable deposits in banks in the state.

14.10 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. 2017 amounted to **€155,011,258** and was higher by €5,377,225 or 3.6 % compared with the balance of capital as at 31. 12. 2016.

Called-up capital of Elektro Gorenjska Company is the same as share capital (€71,898,061). It is divided in 17,286,376 ordinary registered unit shares, of which 17,274,593 are ordinary registered shares and 12,901 own shares. Number of shares compared to the balance as at 31. 12. 2013 did not change. All shares are paid-up entirely. Since the company on the basis of Decision 22 of the General Meeting in 2016 carried out the purchase of own shares, in accordance with Article 249 of the Companies Act-1, it does not have any rights in this respect. Each share has an equal share and associated amount in the share capital, while the rights arising therefrom are provided by ZGD-1. Ordinary shares are shares, which give their holders the right to interest, right to part of profit (dividends), and right to appropriate part of remaining property after the liquidation or bankruptcy of the company. All shares are of the same class. Shares are issued in dematerialized form and are managed in KDD – Central Securities Clearing Corporation, d. d., in accordance with regulations. Other details in respect with the share capital and ownership structure of the capital are explained also in Business report, chapter *3.7 – Share capital and ownership structure*.

Profit reserves (€31,753,733) include capital reserves, statutory reserves, reserves for own shares and other profit reserves.

Capital reserves in the amount of €45,944,898 were formed from the general revaluation equity adjustment. They are applied in accordance with the Article 64 of ZGD-1.

Statutory reserves as at 31. 12. 2017 amount to **€2,594,198** and are formed in accordance to the Article 64 of ZGD-1.

Reserves for own shares as at 31 December 2017 amounted to **€25,077**. Elektro Gorenjska Company has 12,901 of own shares, representing 0.075% of all shares. All own shares were acquired in 2016 and 2017. At the 22nd regular session of the General Meeting of Elektro Gorenjska Company the decision was adopted that the General Meeting with a purpose of increasing the company's assets authorizes the Management Board to purchase own shares at a price not lower than €1.91 and no higher than €2.47 per share during the period from 1 September 2016 to 31 March 2018. Authorization is valid for the acquisition of a maximum of 1,728,637 of company's own shares. Implemented purchases of own shares in 2017 are shown according to days in the following table.

Date	Number of shares	Price of share in €	Value in €
25. 08. 2017	426	2.3	980
22. 09. 2017	4	2.3	9
5. 10. 2017	442	2.3	1,017
18. 10. 2017	246	2.3	566
Total	1,118		2,571

Other profit reserves amount to **€29,159,535**. They are formed from net profit of the business years and used by the Group according to Article 11 of the Elektro Gorenjska Company Statute.

Other reserves (€-115,419) represent reserves arising from the valuation at fair value. They include negative fair value of interest rate swaps (€-14,156), post-employment benefits – severance pay upon retirement (€-97,092) and the change in fair value of financial assets available for sale (€-4,171). Changes in reserves resulting from the valuation at fair value for the year 2017 are presented in the table below.

in €									
Item	Balance 1. 1. 2017	Change in the fair value of inrest rate swap	IRS settlement –transfer to current profit or loss	Change in the fair value of financial investments	Eliminaton of actuarial gains/losses	Change in actuarial assump- tions	New formation of actuarial gains/losses	Transfer to profit or loss brought forward (departures of employees 2017)	Balance 31. 12. 2017
Reserve for the fair value of inrest rate swap	-484,997	186,349	284,492						-14,156
Actiarial gains/losses	-94,350				7,283	9,712	-6,001	-13,737	-97,092
Change in fair value of financial investment available for sale (associate company)	-320			-3,851					-4,171
Total	-579,666	186,349	284,492	-3,851	7,283	9,712	-6,001	-13,737	-115,419

Group in accordance with the risk management policy of changes in interest rates for hedging the cash flows (liabilities) arising from long-term loans uses **simple interest rate swaps**, which means that in recording of these it uses the methodology defined by IAS as »hedge accounting«.

In the financial recording of interest rate swaps, the Group uses the assumption of the absence of inefficiency. This means that changes in the cash flows of the hedged items are completely neutralized by cash flows from interest rate swaps or that changes in the fair value of interest rate swaps correspond to changes in the value of the cash flows of the hedged item (underlying instruments). Changes in fair value of derivative financial instruments are recognized by the Group as a positive or a negative fair value reserve. Risks relating to interest rate swaps are presented in the context of interest rate risk in chapter 22 – *Financial risks*.

In 2017, due to inefficiency, the fair value of interest rate swaps in the amount of €284,482 was transferred to the current operating result.

Retained profit or loss amounted to €5,529,985. According to the balance as at 31. 12. 2017 Company Elektro Gorenjska recognized the remainder of net profit of the business year in the amount of €2,312,911. Distributable profit in year 2017 amounted to €2,418,287. Management Board proposes to the General Meeting that the entire accumulated profit is to be used for the payment of dividends in the gross value of €0.14 per share. Decision on the actual use of distributable profit is the responsibility of the General Meeting.

Company Gorenjske elektrarne on the last day of 2017 recognized the remaining net profit of the business year amounting to €387,168. Its allocation is the responsibility of the owner, this is Elektro Gorenjska Company.

Company GEK Vzdrževanje as at 31. 12. 2017 recognized €17,617 of remaining net profit of the business year. Its allocation is within the competence of the owner, that is Gorenjske elektrarne Company.

Return on share in year 2017 amounted to €0.40, which is by €0.02 less than in year 2016. 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 2017	Year 2016
Net profit or loss of the business year	6,974,762	7,194,476
Weighted average number of ordinary shares	17,274,287	17,285,304
Return per share, basic/adjusted	0.40	0.42

14.11 Provisions

As at 31 December 2017 provisions amounted to **€8,373,952**. Compared to their balance as at 31 December 2016 they increased by €242 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. 2017 takes into account the following actuarial assumptions:

- mortality tables of population of Slovenia from year 2007, reduced by 10 %;
- linearly decreasing fluctuation from 1.5 % at 15 years of age to 0.5 % at 55 years, then constant 0.5 % fluctuation; total on employees as at 31.12.2017 this means fluctuation of 0.8 % a year for next business year;
- Expected date of retirement for individual employee is calculated based on gender, date of birth and achieved total length of service as at 31. 12. 2017 in accordance with the Article 27 of ZPIZ-2 and indent 3 of paragraph 1 of Article 28 in ZPIZ-2, at the same time, it is also considered that women will not retire before the age of 56 and men not before the age of 58, regardless of their total length of service;
- growth of average earnings in RS for years 2018 and 2019, resulting from the Autumn forecasts of economic trends 2018 (UMAR); from 2020 onwards average salary in RS will increase annually by 2 % inflation and by real growth of 1,0 %. It is assumed that the amounts from the Decree will not keep increasing in years 2018 and 2019, while later the growth of these amounts in accordance with the inflation are predicted;
- Increase in starting and basic salaries and variable part of salaries in the company in the amount of annual inflation, from 2020 onwards increased also by real growth in the amount of 0.2 %. Increase in average salaries in electricity sector is assumed in the amount of growth in basic salaries of the company increased by 0.5 %;
- Growth of salaries due to promotion is linearly decreasing, namely from 3 % at 15 years to 0.5 % at 45 years, then constant 0.5 % annually, as a total on employees as at 31 December 2017 this means 0.8 % annually for next year;
- Length of service allowance in the amount of 0.5 % from the basic salary for each year of service is taken into account for employees under the collective agreement.
- Yield curve, which reflects the estimated timing of earning payments.
- Inflation yield curve is calculated for all government bonds for Euro zone countries (spot rates) as at 29. 12. 2017. Used yield curve is published on the following web page <http://www.ecb.eu/stats/money/yc/html/index.en.html>. From year 30 onwards the curve is extrapolated by a formula which reflects the relationship between the forward and spot rates wherein the forward rate for 30 years is used. Yield curve represents the relationship between market yields on government bonds in the euro area and the time remaining to maturity, therefore, the time structure of interest rates.

While actuary calculation as at 31. 12. 2016 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 31.12.2016 this means fluctuation of 0.8 % a year for next business year (according to the number of employees);
- 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. 2016 in accordance with the Article 27 of ZPIZ-2 and indent 3 of paragraph 1 of Article 28 in ZPIZ-2;
- growth of average earnings in RS for years 2017 and 2018, resulting from the Autumn forecasts of economic trends (2016); from 2019 onwards average salary in RS will increase annually by 2 % inflation and by real growth of 0.5 %. It is assumed that the amounts from the Decree will not keep increasing in years 2017 and 2018, 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 2021 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 31 December 2016 this means 0.9 % annually for next year;
- length of service allowance in the amount of 0.5 % from the basic salary for each year of service is taken into account for employees under the collective agreement.
- Yield curve, which reflects the estimated timing of earning payments.
- Inflation yield curve is calculated for all government bonds for Euro zone countries (spot rates) as at 30. 11. 2016. Used yield curve is published on the following web page <http://www.ecb.eu/stats/money/yc/html/index.en.html>. From year 30 onwards the curve is extrapolated by a formula which reflects the relationship between the forward and spot rates wherein the forward rate for 30 years is used. Yield curve represents the relationship between market yields on government bonds in the euro area and the time remaining to maturity, therefore, the time structure of interest rates.

Provisions for severance pays at retirement and similar increased by €40 thousand in year 2017.

Provisions for compensation in connection to the denationalization and other claims increased by €202 thousand compared to the balance on the last day of 2016. In year 2017 provisions have been additionally formed in the amount of €197,969.

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 2017 and 2016.

in €

Item description	Beginning of the period 1. 1. 2017	Increases (formations)		Decreases (withdrawals, elimination)			End of the period 31. 12. 2017
		Chargeable to costs (expenses)	Recognition chargeable or credit to capital or revenues	Credit to operating revenues	Credit to liabilities or short-term accrued charges	Derecognition chargeable or credit to capital	
Provisions for long-service bonuses	928,755	97,315	0	19,576	122,421	0	884,073
Provisions for severance pay at retirement	1,953,886	156,672	12,895	45,219	16,015	23,890	2,038,328
Total provisions for long-service bonuses and severance pay	2,882,641	253,987	12,895	64,795	138,436	23,890	2,922,401
Provisions for damages in connection with denationalization claims	5,249,273	197,969	0	0	0	0	5,447,242
Provisions for possible losses in disputes in progress	0	4,309	0	0	0	0	4,309
Total other provisions	5,249,273	202,278	0	0	0	0	5,451,550
Total provisions	8,131,914	456,265	12,895	64,795	138,436	23,890	8,373,952

in €

Item description	Beginning of the period 1. 1. 2016	Increases (formations)		Decreases (withdrawals, elimination)			End of the period 31. 12. 2016
		Chargeable to costs (expenses)	Recognition chargeable or credit to capital or revenues	Credit to operating revenues	Credit to liabilities or short-term accrued charges	Derecognition chargeable or credit to capital	
Provisions for long-service bonuses	946,960	96,067	0	41,917	68,692	3,664	928,755
Provisions for severance pay at retirement	1,776,882	148,927	76,183	20,028	26,252	1,827	1,953,886
Total provisions for long-service bonuses and severance pay	2,723,843	244,995	76,183	61,945	94,943	5,491	2,882,641
Provisions for damages in connection with denationalization claims	5,088,327	358,640	0	0	197,694	0	5,249,273
Provisions for possible losses in disputes in progress	30,748	0	0	0	30,748	0	0
Total other provisions	5,119,075	358,640	0	0	228,442	0	5,249,273
Total provisions	7,842,917	603,635	76,183	61,945	323,385	5,491	8,131,914

14.12 Long-term liabilities

As at 31. 12. 2017 Elektro Gorenjska Group had **€47,404,666** of long-term financial liabilities, which is by €3.5 mio more than as at 31. 12. 2016. All long-term financial liabilities have the maturity of more than five years. Majority (99 %) of all long-term financial liabilities represent liabilities to banks.

In year 2017 we redeemed €6,185,745 worth of principals. Costs of interest amounted to €768,486 (interest in connection to long-term loans and related interest rate swaps). Interest in the amount of €14,911 was capitalized.

In year 2016 we redeemed €6,806,549 worth of principals. Costs of interest amounted to €876.202 (interest in connection to long-term loans and related interest rate swaps). Interest in the amount of €6,031 was capitalized.

Balance of received loans as at 31. 12. 2017 amounted to €53,428,264, while at the end of 2016 to €49,614,008.

Contractual interest rate in most loans is the result of collecting the offers of interested deposit money banks in acquiring the loan, in accordance with the Decree on the terms and conditions and methods of borrowing by legal entities from Article 87 of the Public Finance Act (Official Gazette RS, No. 23/04, 56/05, 65/06, 65/09). Interest rate of all the loans is floating rate, bound by three or six month EURIBOR. Add-on to the three or six month EURIBOR is between 0.60 and 1.85 percent point. Majority of financial liabilities are secured by bills of exchange, detailed overview of credit insurances can be found in the table below.

Balance of received loans to finance tangible fixed assets as at 31. 12. 2017 amounted to €53,428,264.

In connection with long-term financial liabilities the Group is exposed mainly to the interest risk, as the long-term loans raised by the companies in the Group are loans with a floating interest rate (EURIBOR + add-on). Future cash flows being uncertain the companies in the group decided to secure the cash flow by purchasing the interest rate swap. As at 31 December 2017 there were 48 % of long-term loans secured with the fixed interest rate, which represents the amount of €25,491,071. Fair value of interest rate swap as at 31.12.2017 amounted to €267,405, of which a part in the amount of €14,156 refers to an efficient interest swap and thus recognized within other reserves, while part in the amount of €253,249 relates to interest swap, which became inefficient in 2017 and thus burden to the current profit and loss of year 2017. Exposure to risks and hedging systems are explained in the Business report, in chapter *4 – Management and quality systems*.

Changes in long-term financial liabilities in year 2017 are presented in the following table:

in €												
1	2	3	4	5	6	7	8	9	10=7,+8+9	11=part 10	12=part 10	13=part 10
Title	Year of approval	Year of maturity	Purpose of loan	Insurance of loan	Interest rate hedge	Balance 31. 12. 2016	Increases due to new leases	Amortizations 2017	Balance 31. 12. 2017	Short-term part of long-term loans 31. 12. 2017	Long-term part of loans 31. 12. 2017	Due from 31. 12. 2017 to 31. 12. 2022
credit 1	2009	2017	investments	blank bills	yes	1,214,286	0	-1,214,286	0	0	0	0
credit 2	2010	2018	investments	blank bills	yes	2,057,143	0	-1,028,571	1,028,571	1,028,571	0	1,028,571
credit 3	2011	2023	investments	blank bills	yes	5,312,500	0	-850,000	4,462,500	850,000	3,612,500	4,250,000
credit 4	2012	2023	investments	blank bills	no	3,150,000	0	-450,000	2,700,000	450,000	2,250,000	2,250,000
credit 5	2014	2025	investments	blank bills	no	7,290,000	0	-810,000	6,480,000	810,000	5,670,000	4,050,000
credit 6	2015	2024	investments (refinancing)	blank bills	no	8,981,052	0	-1,122,632	7,858,420	1,122,632	6,735,788	5,613,161
credit 7	2015	2030	investments	blank bills	no	8,166,667	0	-601,227	7,565,440	601,227	6,964,213	3,006,135
credit 8	2015	2028	investments	-	no	13,333,332	6,666,668	0	20,000,000	1,428,571	18,571,429	11,714,286
credit 9	2017	2029	investments	blank bills	no	0	3,333,333	0	3,333,333	0	3,333,333	1,083,333
credit 10	2012	2018	investments	mortgage, assignment of the claim	yes	109,029		-109,029	0	0	0	0
Total long-term loans						49,614,008	10,000,001	-6,185,745	53,428,264	6,291,001	47,137,262	32,995,487

14.13 Other long-term liabilities

On the last day of year 20167 Elektro Gorenjska Group had by **€6,626,987** of other long-term liabilities. Structure and changes in other long-term liabilities in years 2017 and 2016 are shown in the two tables below.

Structure and changes in other long-term liabilities in year 2017:

							in €
Item description	Beginning of the period 31. 12. 2016	Increases (formations)		Decreases (withdrawals, elimination)			End of the period 31. 12. 2017
		Recognition chargeable to assets or s/t accrued charges	Recognition chargeable or to the benefit of capital or revenues	Credit to operating revenues	Credit to liabilities or short-term accrued charges	To the benefit of appropriate assets	
Fixed assets acquired free of charge	662,874	0	0	43,846	0	0	619,028
Free acquisition of connections	3,816,467	178,406	0	136,683	0	0	3,858,190
Tangible fixed assets received free of charge	4.479.341	178.406	0	180.529	0	0	4.477.218
Appropriations to cover disproportionate costs GJS	0	150,894	0	0	0	0	150,894
Long-term deferred revenue-rentals and user charges	99,310	15,732	0	14,849	0	0	100,193
Deferred revenue from the average connection costs	1,610,832	0	0	85,319	0	0	1,525,513
Long-term deferred revenue-rentals and SODO services	38,004	22,113	0	0	38,004	0	22,113
Project TDX-ASSIST – deferred assets	0	218,750	0	29,541	0	0	189,209
Project STORY-long-term deferred revenue	63,129	38,985	0	31,898	0	0	70,216
Project INCREASE – long-term deferred revenue	16,519	0	0	1,992	14,527	0	0
Received state benefits	102,524	0	0	15,134	2,470	0	84,920
Other long-term accrued costs	12,529	2,117	0	0	4,104	3,831	6,711
Total other long-term liabilities	6,422,187	626,997	0	359,262	59,104	3,831	6,626,987

Structure and changes in other long-term liabilities in year 2016:

in €

Item description	Beginning of the period 1. 1. 2016	Increases (formations)		Decreases (withdrawals, elimination)		End of the period 31. 12. 2016
		Chargeable to costs (expenses)	Recognition chargeable to assets	Credit to operating revenues	Credit to liabilities or short-term accrued charges	
Fixed assets acquired free of charge	712,319	0	12,749	62,194	0	662,874
Free acquisition of connections	3,729,274	0	213,225	126,032	0	3,816,467
Long-term deferred revenue-rentals and user charges	4,796	0	103,704	9,191	0	99,310
Deferred revenue from the average connection costs	1,696,151	0	0	85,319	0	1,610,832
Right to use	8,120	0	-8,120	0	0	0
Long-term deferred revenue-rentals and SODO services	76,009	0	0	0	38,005	38,004
Project STORY-long-term deferred revenue	56,455	0	47,983	41,310	0	63,129
Project INCREASE-long-term deferred revenue	57,961	0	0	41,442	0	16,519
Received state benefits	136,990	0	0	34,466	0	102,524
Other long-term accrued costs	3,831	8,698	0	0	0	12,529
Total other long-term liabilities	6,481,907	8,698	369,541	399,954	38,005	6,422,187

Biggest items of other long-term liabilities are free acquisitions of connections and other fixed assets (total €4,477,218) and long-term deferred revenue from average connection costs (€1,525,513).

Tangible fixed assets acquired free of charge consist of connections of customers that the company Elektro Gorenjska took over into its tangible fixed assets together with its commitment to care for their maintenance and reconstruction, in accordance with the regulations, above all the General conditions for connection to the distribution electric system (Official Gazette of RS No. 126/07, 37/11) and free acquisition of other fixed assets.

Long-term deferred revenue from average connection costs were formed until 30 June 2007 regarding the implementation of GJS SODO, on the basis and in accordance with the regulations, particularly the Act determining the methodology for charging for the network charge, the methodology for setting the network charge, and the criteria for establishing eligible costs for electricity networks (Official Gazette of RS, no. 121/2005 and forwards). Average cost of a connection is a one-off amount paid for connection to the network or to increase the installed capacity. It is a dedicated source of funding for investment in network expansion.

Group has no long-term debts to members of the Board (of management), members of the Supervisory Board or internal owners.

14.14 Deferred tax liability

Deferred tax liabilities as at 31. 12. 2017 amounted to **€196,291**, while on 31. 12. 2016 they amounted to €167.299. Deferred taxes are calculated on the basis of temporary differences using the balance sheet liability method and expected tax rates.

14.15 Short-term financial liabilities

Short-term financial liabilities as at 31. 12. 2017 amounted to **€6,360,047** and are by €100 thousand higher than as at 31. 12. 2016. Short-term financial liabilities to banks refer to the short-term part of long-term loans.

in €		
Item description	31. 12. 2017	31. 12. 2016
Short-term financial liabilities to banks	6,291,002	6,163,306
Other short-term financial liabilities	69,045	127,007
Total short-term financial liabilities	6,360,047	6,290,313

14.16 Short-term operating liabilities

At the end of 2017 short-term operating liabilities in the amount of **€6,785,751** were by €353 thousand higher than compared to the balance on the last day of 2016 mainly due to higher accounts payable (for own account).

Detailed review of the short-term operating liabilities is presented in the following table.

in €		
Item description	31. 12. 2017	31. 12. 2016
Liabilities to suppliers for own account	3,534,269	3,158,635
Liabilities to other suppliers on its own behalf and for third party account	1,828,874	1,779,977
- liabilities to SODO, d.o.o.	1,828,874	1,779,977
- to others	0	0
Other liabilities	1,422,609	1,493,811
- to workers	1,027,815	1,016,426
- to state and other institutions	100,283	167,516
- for received advances and collaterals	18,520	88,344
- other (interests, employee deductions, capital company ...)	275,991	221,525
Total short-term liabilities from operating activities	6,785,751	6,432,422

14.17 Other short-term liabilities

Other short-term liabilities as at 31. 12. 2017 amounted to **€1,131,800** and represent mainly the accrued liabilities. Compared to the balance as 31. 12. 2016 they are higher by €296 thousand.

14.18 Off-balance sheet records

Off-balance sheet assets or liabilities as at 31. 12. 2017 amounted to **€6,168,723**. They were lower by €6.7 mio compared to the balance as at 31. 12. 2016 due to drawing of long-term loan.

Potential assets amount to €3,936,245, with received guarantees representing the highest value. Potential liabilities in the amount of €7,293 represent the given guarantees and bills. Other off-balance record include fixed assets owned by SODO (€2,223,443) and retained amount of dividends paid (€1,742). 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.

	in €	
Item description	31. 12. 2017	31. 12. 2016
Foreign material in warehouse	240,674	249,539
Received guarantees	3,081,421	2,935,161
Easements	614,150	677,501
Total potential assets	3,936,245	3,862,201
Issued guarantees, bills of exchange	7,293	5,817
Total potential liabilities	7,293	5,817
Fixed assets in the property of SODO	2,223,443	2,324,771
Undrawn loan amount	0	6,666,668
Retained amount from paid dividends	1,742	0
Total other	2,225,185	8,991,439
Total off-balance sheet assets and liabilities	6,168,723	12,859,457

Group does not have any potential off-balance liabilities as defined by ZGD-1.

15 NOTES ON PROFIT AND LOSS ACCOUNT ITEMS

15.1 Net sales revenues

In year 2017 net sales revenues amounted to **€36,104,833**. Their structure is presented in the following table.

Item description	in €	
	2017	2016
Revenues from electricity sale	3,116,424	3,805,663
Revenues from rent and services in relation to SODO	31,281,496	30,054,767
Revenues from rents	459,788	469,371
Revenues from construction and assembly works	813,871	552,798
Revenues from sale of other business effects	433,254	440,643
Total net sales revenues from sale of business effects	36,104,833	35,323,241

Majority of net sales revenues of the group (91 %) represent revenues of the controlling company. Major item of net sales revenues of the Group in year 2017 represent revenues from rent and services related to SODO (€31,281,496). As in 2016, in year 2017, revenue from services in relation to SODO also includes revenues related to the company's efficiency in the field of quality and network losses. Incentives reflecting quality regulation were €138,071 in 2017, and in 2016 €137,989. At the expense of efficiency in the area of losses, the Group generated €420,970 in 2017 and €281,140 in 2016 - see also chapters *3.10.5 - Contract with SODO* and *15.4 - Acquisition cost of goods sold and material used*.

Revenues from rent in relation to SODO will amount to €17,314,938 in accordance with the Decision of the Energy Agency in 2018. 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.

15.2 Capitalized own products and own services

In year 2017 capitalized own effects amounted to **€5,159,305**. They were mostly investments in tangible fixed assets – energy infrastructure. Compared to year 2016 the amount of capitalized own effects was by €658 thousand lower.

Item description	in €	
	2017	2016
Direct material costs	3,267,331	4,081,930
Direct costs of others' services in the production of products and the provision of services	94,363	46,035
Direct labour costs	1,478,933	1,302,797
Total direct costs of material, services and labour	4,840,627	5,430,763
Total indirect costs of material, services, work and depreciation	318,678	386,247
Total costs in the manufacture of products and the provision of services in relation to capitalized own effects	5,159,305	5,817,010

15.3 Other operating revenues

Other operating revenues in the amount of **€643,786** consist of:

		in €	
Item description	2017	2016	
Revenues from reversal of provisions	26,853	0	
Revaluation operating revenues	146,215	363,388	
Revenue from the transfer of long-term deferred revenue to regular operating revenues:	344,925	389,703	
– free acquisition of FA	43,846	62,194	
– free acquisition of connections	136,683	126,032	
– average connecting costs	85,319	85,319	
– other	79,077	116,159	
Damages recovered from insurance companies	69,646	71,211	
Other operating revenues	56,148	64,113	
Total other operating revenues	643,786	888,414	

Revenues from transfer of long-term deferred revenues to regular revenues are explained also in chapter *14.13 – Other long-term liabilities*.

15.4 Acquisition cost of goods sold and cost of material used

Acquisition cost of sold goods and material used consists of:

		in €	
Item description	2017	2016	
Acquisition cost of goods and materials sold	10,258	34,438	
Costs of material:	4,518,271	5,249,804	
– material costs of maintenance	218,012	217,724	
– costs of materials in connection with capitalized own effects, market services	3,528,380	4,328,613	
– energy costs	458,624	470,213	
– small tool write-off	156,838	111,338	
– costs of office supplies	76,105	83,367	
– other material costs	80,312	38,549	
Acquisition cost of goods sold and costs of material used	4,528,530	5,284,242	

Compared to 2016, the cost of goods sold, together with the costs of materials decreased by €756 thousand.

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 2017:

€3,528,380 and year 2016: €4,328,613) include the value of the material, which is then treated by the Group as a component part of:

- acquisition cost of tangible fixed assets constructed or made in the Group for the purposes of the Group (capitalized own effects), which is explained in more detail in chapter *15.2 – Capitalized own products and own services*;
- value of services (construction, electrical installation and similar services), sold on the market (please see also note *15.1 – Net sales revenues*).

15.5 Costs of services

In 2017 costs of services amounted to €3,828,262, in 2016 they were €3,825,438. Reduction of costs is mainly the result of lower costs of services related to the maintenance of electricity infrastructure and other tangible fixed assets and lower costs of information services. More detailed structure of service costs is provided in the following table.

in €

Item description	2017	2016
Costs of service in creating products and implementing services	140,937	84,157
Costs of transport services	161,423	153,322
Costs of services in respect of maintenance of electric power infrastructure and other tangible fixed assets	1,226,551	1,514,162
Rents	154,964	156,957
Reimbursements of work related costs to employees	54,156	42,281
Costs of payment transactions, banking services and insurance premiums	596,994	581,956
Costs of intellectual and personal services	439,529	439,462
Costs of advertising and representation	96,197	113,265
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...)	155,637	160,542
Costs of information and other services	801,874	579,332
Total costs of services	3,828,262	3,825,438

Biggest cost within the cost of services is the costs of services related to the maintenance of the electricity infrastructure and other tangible fixed assets. Maintenance of electricity infrastructure is also presented in the Business Report, chapter *5.5 – Maintenance of energy devices*.

Costs of services in the creation of products and the provision of services (2017: €140,937 and 2016: €84,157) comprise the value of construction services, electro-installation services, design services and other similar services, which the Group then considers as an integral part of:

- acquisition cost of tangible fixed assets, built or made in the Group for the needs of the Group (capitalized own effects), which is explained in more detail in chapter *15.2 – Capitalized own products and own services*;
- value of services (construction, electro-installation and similar services) sold on market (please see also note *15.1 – Net sales revenues*).

Cost of intellectual services consists of costs for the needs of scientific research, which is also presented in the business report, chapter *5.6 – Development and design*, education costs, and related costs of tuition and the costs of additional professional training presented in the Business Report, in chapter *8.1.4 – Education*.

Costs of advertising and representation also include the costs of sponsoring, which are presented in more detail in the chapter *8.3.1 – Communication with local community and social responsibility*.

Costs of other services are primarily the costs associated with the computer information system and include the care for the smooth and safe operation of the Group's information system, e-mail, access to the World Wide Web, ensuring an adequate level of data and service security, implementation of a common security policy, data processing, computerized data processing and other computer software maintenance services.

15.6 Labour costs

Costs of labour in the amount of **€12,940,861** consist of:

	in €	
Item description	2017	2016
Salary costs	8,622,648	8,399,276
Costs of voluntary pension insurance of employees	432,512	420,774
Costs of employer's contributions and other benefits from salaries	1,558,844	1,480,478
Other labour costs	2,326,857	2,048,506
Total labour costs	12,940,861	12,349,034

Costs of supplementary pension insurance are presented also in Business report, chapter *8.1.11 – Care for employees and related groups outside working hours*.

Other labour costs include reimbursement of transport and food expenses during work, provisions for long-service benefits and severance pay, holiday pay, benefits, insurance costs for employees and payment to intern students.

Number of employees and their educational structure and other information related to employees are presented in more detail in the Business Report, chapter *8.1 – Care for employees*.

Remuneration of the Management and Supervisory Boards are presented in *20.4 – Transactions with management and supervisory board*.

15.7 Write-offs

In 2017 write-offs amounted to **€11,631,647**. Their composition is as follows:

	in €	
Item description	2017	2016
Depreciation of intangible fixed assets	441,888	289,875
Depreciation of tangible fixed assets	10,772,496	10,176,562
Depreciation of investment property	54,101	48,414
Total depreciation costs	11,268,485	10,514,851
Operating expenses from revaluation of fixed assets and investment property	311,295	446,697
Operating expenses from revaluation of current assets	51,867	48,474
Total write-offs	11,631,647	11,010,022

Costs of depreciation of intangible fixed assets (€441,888) are presented also in chapter *14.1 – Intangible assets*; costs of depreciation of tangible fixed assets (€10,772,496) in chapter *14.2 – Tangible fixed assets*; costs of depreciation of investment property (€54,101) in chapter *14.3 – Investment property*. Operating expenses from revaluation of tangible fixed assets and investment property arise from the sale or write-off of these assets.

15.8 Other operating expenses

Other operating expenses in the amount of **€594,719** consist of:

Item description	in €	
	2017	2016
Contribution for promotion of employment of persons with disabilities	54,093	64,207
Contribution for urban land	89,493	98,234
Contribution for contaminated water	40,242	10,995
Concession for water use	17,934	52,315
Provisioning	202,278	358,640
Other expenses (environment protection costs, compensations ...)	190,680	374,432
Total other operating expenses	594,719	958,824

Employment of persons with disabilities and policy of scholarships are presented in more detail in the Business report, chapter *8.1.3 – Employment of persons with disabilities* or chapter *8.1.4 – Education*.

Provisioning refers to the damages related to denationalisation proceedings and is explained in more detail in chapter *14.11 – Provisions*.

15.9 Financial revenue from shares

In year 2017 the Group realized by **€23,663** of revenues from shares, while in year 2016 these revenues amounted to €2,354.

15.10 Financial expenses from financial liabilities

In year 2017 the Group realized by **€768 thousand** of financial expenses from financial liabilities, of which €621 thousand represent expenses for received loans in commercial banks, and €147 thousand interest expenses from interest rate swaps.

Item description	in €	
	2017	2016
Expenses from interests for received loans in commercial banks	620,820	626,603
Expenses from interest – interest rate swap	147,666	249,599
Total financial expenses from financial liabilities	768,486	876,202

15.11 Recognized profit or loss for investments valued using the equity

In 2017 the profit or loss for investments valued using the equity method amounted to **€658,927**, while in year 2016 it was €506,114. It represents a pro rata portion of the net profits of associated companies ECE and Soenergetika.

15.12 Income tax

Accrued income tax for business year 2017 amounts to **€1,022,579** (year 2016: €906,380). In the years 2017 and 2016, 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:

	in €	
Item description	2017	2016
Pre-tax profit	8,613,740	8,456,561
Revenues reducing the tax base	-1,324,429	-864,375
Expenses increasing the tax base	896,199	844,271
Expenses reducing the tax base	-318,896	-439,311
Reduction of the tax base on the basis of relief	-2,477,386	-2,619,300
Other	-7,232	-46,200
Tax base	5,381,997	5,331,647
Tax rate	19%	17%
Income tax	1,022,579	906,380
Tax base for deferred taxes	2,563	291,706
Tax rate	19%	17%
Deferred taxes	487	49,590
Entire tax (income tax and deferred taxes)	1,023,066	955,970

15.13 Deferred tax liabilities and deferred taxes

Deferred tax liabilities as at 31. 12. 2017 amounted to **€196,291**. Compared to the balance as at 31. 12. 2016 they increased by €28,992. They refer to taxable temporary differences arising from the merger of Elektro Gorenjska Prodaja Company to ECE Company and small inventory in fixed assets.

In 2017 the Group recognized by €28,504 of deferred tax assets. These assets refer to the event that will most likely be realized in year 2018. Other deferred tax assets, which according to the balance as at 31. 12. 2017 amount to €734,259, the Group did not recognise in accordance with point 7 of the Introduction to SAS (uncertainty about future taxable profits).

16 NOTES ON OTHER COMPREHENSIVE INCOME ITEMS

Total comprehensive income in addition to the net profit or loss for the period (€6,974,762) includes also:

- actuarial gains and losses of the parent company, subsidiary and associated companies in the total amount of €7,309,
- effective portion of changes in fair values of interest rate swap in total amount of €470,841 (of which €284,492 of the effective portion was transferred to profit and loss) and
- share of other comprehensive income of associate company in the amount of €- 165.

Individual items of other comprehensive income are presented also in chapter *14.10 – Capital* (table fair value changes).

17 NOTES ON CASH FLOW ITEMS

In year 2017 Elektro Gorenjska Group had €58,390,026 of receipts and €54,038,428 of expenditures. Receipts and expenditures include appropriate amounts of duties, mainly VAT and excise duties, in accordance with the issued invoices and received invoices. Cash flow in year 2017 was positive and amounted to €4,351,598.

As at 31. 12. 2017 the Group had on transaction accounts in banks and in the form of short-term deposits or deposits redeemable in the amount of €8,689,779, while the balance of these assets on 31.12.2016 amounted to €4,338,181.

Net cash from operating activities in year 2017 exceeded expenditure by €18,692,934, which means that the Group operates positively with its main activity and creates a positive cash flow. This way in year 2017 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 €7,034,124, settle all liabilities related to payment of dividends and purchase of own shares in the amount of €2,075,921, 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 2017 amounted to €15,231,292. Industry the Elektro Gorenjska Group operates in is technologically very intense and in order to provide quality supply to its customers in the area of Elektro Gorenjska distribution network large and constant investments are required (explained mainly in chapter *14.2 – Tangible fixed assets*). New acquisitions of intangible and tangible assets were mainly financed by drawing from long-term credit in the amount of €10 mio (explained in chapter *14.12 – Long-term liabilities*), while partly they were financed also by positive net cash from operating activities.

Expenditure in financing mainly consists of expenditure on the repayment of short-term and long-term financial liabilities and interest paid referring to financing (€7,034,124), but is increased by the payment of dividends in the amount of €2,073,349 and the purchase of own shares in the amount of €2,571. Financial result, which was positive in 2017, amounted to €889,956. Group needed the revenues in financing to meet the investment plan, while the expenditure on financing was fully settled with a positive operating result, as has already been explained.

18 FAIR VALUES

Overview of fair value and carrying amount of assets and liabilities:

	in €			
	31. 12. 2017		31. 12. 2016	
	Book value	Fair value	Book value	Fair value
Non-derivative financial assets at amortized cost				
Long-term and short-term financial receivables	1,119,964	1,119,964	1,688,623	1,688,623
Long-term and short-term trade receivables	5,959,296	5,959,296	5,766,525	5,766,525
Cash and cash equivalents	8,689,779	8,689,779	4,338,181	4,338,181
Total non-derivative financial assets	15,769,039	15,769,039	11,793,328	11,793,328
Non-derivative financial liabilities at amortized cost				
Bank loans and other financial liabilities	-53,764,713	-53,764,713	-50,226,012	-50,226,012
Short-term operating liabilities to suppliers for their own and foreign accounts	-5,363,143	-5,363,143	-4,938,612	-4,938,612
Total non-derivative financial liabilities	-59,127,856	-59,127,856	-55,164,624	-55,164,624
Derivatives at fair value				
Derivatives (liabilities)	-267,405	-267,405	-484,997	-484,997
Total derivatives	-267,405	-267,405	-484,997	-484,997
Total	-43,626,221	-43,626,221	-43,856,293	-43,856,293

Estimated fair value of short-term assets and liabilities is equal to their book value.

Among financial investments the company recognized €7,095,376 worth of investments in associate companies that are measured using the equity method and €124,155 worth of investments measured at cost.

Fair value scale

Fair value and method of valuation of assets:

	31. 12. 2017				31. 12. 2016				in €
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total	
Assets measured at fair value									
Total assets measured at fair value	0	0	0	0	0	0	0	0	0
Assets for which fair value is disclosed									
Long-term and short-term financial claims	0	0	1,119,964	1,119,964	0	0	1,688,623	1,688,623	
Long-term and short-term trade receivables	0	0	5,959,296	5,959,296	0	0	5,766,525	5,766,525	
Cash and cash equivalents	0	0	8,689,779	8,689,779	0	0	4,338,181	4,338,181	
Total assets for which fair value is disclosed	0	0	15,769,039	15,769,039	0	0	11,793,328	11,793,328	
Total	0	0	15,769,039	15,769,039	0	0	11,793,328	11,793,328	

Fair value and method of valuation of liabilities:

	31. 12. 2017				31. 12. 2016				in €
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total	
Liabilities measured at fair value									
Derivatives	0	-267,405	0	-267,405	0	-484,997	0	-484,997	
Liabilities measured at fair value total	0	-267,405	0	-267,405	0	-484,997	0	-484,997	
Liabilities for which fair value is disclosed									
Bank loans and other financial liabilities	0	0	-53,764,713	-53,764,713	0	0	-50,226,012	-50,226,012	
Short-term trade payables	0	0	-5,363,143	-5,363,143	0	0	-4,938,612	-4,938,612	
Total liabilities for which fair value is disclosed	0	0	-59,127,856	-59,127,856	0	0	-55,164,624	-55,164,624	
Total	0	-267,405	-59,127,856	-59,395,260	0	-484,997	-55,164,624	-55,649,621	

19 CAPITAL MANAGEMENT

Key factor in the success of Elektro Gorenjska Group is a long-term orientation towards the customer and constant adaptability to external operating conditions (national interest, regulatory and legislative changes, major technological changes, ...). Main purpose of capital management in Elektro Gorenjska is therefore to ensure capital adequacy, high financial stability and solvency, and not forgetting also the appropriate value for shareholders.

Group monitors the long-term financial stability with the ratio between net financial debt and EBITDA. Policy of the Group is that it does not exceed the value of 3.5, which allows the Group long-term stable operation (more explained in chapter *5.7.1 – Significant indicators*). For control of the capital, the Group uses a leverage ratio, which indicates the proportion of net debt to equity. Indicator was in 2017 at a similar level as in 2016, which confirms the fact that the Group manages capital economically and stable.

Financial stability of companies in the Group is also evident from the rating GVIN. Credit rating of the parent company Elektro Gorenjska is currently B 1++, which is very well according to the very technologically intensive activity in which the company operates. Other electricity distribution companies in Slovenia have the same rating, except one, which has a rating of C 1 ++. Rating of the subsidiary Gorenjska elektrarne is A1 ++, which is well above average in relation to similar companies in the industry.

Elektro Gorenjska Company in 2017 continued with the implementation of the Strategic Plan, which recognized as many as 11 strategic projects that will have a significant impact on the growth of the Group's capital in the future as well.

in €

Item description	Note	31. 12. 2017	31. 12. 2016
Long-term financial liabilities	14.12	47,404,666	43,935,698
Short-term financial liabilities	14.15	6,360,047	6,290,313
Total financial liabilities		53,764,713	50,226,011
Capital	14.10	155,011,258	149,634,034
Debt/Capital		0.35	0.34
Cash and cash equivalents	14.9	8,689,779	4,338,181
Net financial liability		45,074,934	45,887,830
Net debt/capital		0.29	0.31

20 TRANSACTIONS WITH AFFILIATES

Below we present transactions with related parties, namely transactions with group companies, transactions with the Republic of Slovenia, transactions with companies owned by the Republic of Slovenia and the operations of the Management Board and the Supervisory Board. On the basis of the statements we have received from the Chairman of the Management Board in controlling company, Director of subsidiary and members of the Supervisory Board, transactions with related parties on the basis of connections individual - the company, as defined by IAS 24, are irrelevant.

20.1 Transactions with group companies

Among transactions of the controlling company with the subsidiary Gorenjske elektrarne, which in 2017 amounted to €963 thousand, besides the paid profit in the amount of €609,965 (payment of the subsidiary to the controlling company) the most important were the following:

Item description	Gorenjske elektrarne	in €
Revenues from general services (costs of affiliates)		160,027
Revenues from rents (costs for rents of affiliates)		140,054

Among the transactions between the Gorenjske elektrarne Company and GEK Vzdrževanje more significant transaction is transaction for maintenance services in the amount of €605 thousand.

Other transactions did not reach significant values.

All transactions with group companies were implemented under normal market conditions.

As a controlling company Elektro Gorenjska Company did not obstruct or impair operations of company Gorenjske elektrarne as the controlled company.

20.2 Transactions with the Republic of Slovenia

Most important transactions of the parent company and its subsidiary with the Republic of Slovenia were in 2017 the following:

Item	Payments in year 2017	in €
Dividends		1,647,466
Corporate income tax (tax and advance payments)		1,104,412
Other duties (VAT, employer contributions)		4,516,386
Total		7,268,263

20.3 Transactions with companies directly or indirectly owned by the Republic of Slovenia

Table below shows significant transactions with companies in which the state has directly or indirectly a dominant influence.

in €					
Business partner	Open receivables on 31. 12. 2017	Open liabilities on 31. 12. 2017	Expenditure in year 2017	Revenues in year 2017	Dividend payment in year 2017
SODO d. o. o.	2,942,418	1,828,545		31,281,496	
Modra zavarovalnica d. d.		36,561	386,593		
Zavarovalnica Sava d. d.		23,512	499,097		
NLB d. d.		6,480,000	89,023		
SID d. d.		7,565,440	107,606		
Kapitalska družba d. d.					51,832
Sava RE d. d.					33,600
DUTB, d. d.					24,864
Total	2,942,418	15,934,059	1,082,319	31,281,496	110,296

Outstanding liabilities to SODO Company represent payables for the account of third parties.

Transactions with other companies in which the State has a dominant influence do not represent a significant amount.

20.4 Transactions with management and supervisory board

In year 2017 Elektro Gorenjska Group paid the group of persons stated below the following gross or net receipts:

in €					
Receipts of chairman of the board	Earning	Operating performance	Pay for annual leave	Reimbursements of costs	Total
1. Elektro Gorenjska					
gross receipts	92,400	4,027	0	3,131	99,558
net receipts	45,468	1,956	0	3,131	50,555
2. Gorenjske elektrarne					
gross receipts	53,909	0	2,553	1,627	58,089
net receipts	32,215	0	1,722	1,627	35,565

Reimbursement of costs (so called material costs) include: daily allowances, transfer to work, meals and costs of official journeys. They are charged in accordance with the employment contracts or company's collective agreement.

Benefits of the Chairman of the Board in the controlling company and director of the controlled company arising from the employment contract were the following in year 2017:

in €

Chairman of the Board / Company Director	Insurance premiums	Use of company car	Use of mobile phone	Supple- mentary education
Elektro Gorenjska	1,201	10,461	414	839
Gorenjske elektrarne	1,099	6,559	192	918

Supervisory board

Gross and net receipts of the supervisory board members in year 2017 are shown in table below. As some members are members of supervisory board committees as well, receipts for participation in the committees are included as well. Remuneration policy of the members of the Supervisory Board is presented in chapter *3.6.1 – Management and Governance of Elektro Gorenjska Company*.

in €

	Gross/net	Payment for the perfor- mance of the function	Attendance fee SB	Attendance fee committee	Travel expenses	Total
Shareholders representatives						
mag. Samo Logar	gross	21,188	4,510	1,232	534	27,463
	net	15,410	3,280	896	388	19,974
Andrej Koprivec	gross	15,538	3,549	2,596	744	22,426
	net	11,301	2,581	1,888	541	16,311
mag. Tedo Djekanović	gross	15,255	3,960	1,232	44	20,491
	net	11,095	2,880	896	32	14,904
Elvis Duraković	gross	10,442	2,915	1,716		15,073
	net	7,594	2,120	1,248		10,963
Franjo Curanović	gross	3,551	1,045	660	14	5,270
	net	2,582	760	480	10	3,833
Employee representatives						
mag. Dominik Ovniček	gross	11,300	4,235			15,535
	net	8,219	3,080			11,299
Iztok Štular	gross	11,300	4,510			15,810
	net	8,219	3,280			11,499

Gross and net receipts of members of the Audit and Nomination Committees are shown in the table below.

					in €
	Gross/net	Payment for the performance of the function	Attendance fee committee	Travel expenses	Total
External members of committees					
dr. Andrej Baričič	gross	4,177	2,156	273	6,605
	net	2,552	1,317	167	4,036
Milena Pervanje	gross	5,650	1,232		6,882
	net	4,109	896		5,005
dr. Simon Čadež	gross	1,208	660	102	1,970
	net	879	480	74	1,433

Costs of other supervisory board members' benefits in year 2017 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
Shareholders representatives	
mag. Samo Logar	879
Andrej Koprivec	879
mag. Tedo Djekanović	879
Elvis Duraković	673
Franjo Curanović	206
Employee representatives	
mag. Dominik Ovniček	879
Iztok Štular	879

Board of directors and the supervisory board did not receive any receipts in respect of performing the functions in controlled companies. Elektro Gorenjska Group received and also approved no advances, loans, or guarantees to groups of people mentioned in this chapter and did not disclose any claims on them in this respect as of 31 December 2017.

21 AUDITING COSTS

Under Article 57 of the Companies Act (ZGD-1) Elektro Gorenjska Group is subject to annual report audit. Contractual amount for auditing the annual report of companies within the group and Elektro Gorenjska Group for year 2017 amounted to €16,210. In addition, the auditor who has audited the annual report has been paid an additional €4,000 for other assurance services.

22 FINANCIAL RISKS

In Elektro Gorenjska Group we are aware of the risks that are an integral part of our operations. We are also aware that only a comprehensive and systematic risk management can be effective. Risk management system is one part of our integrated quality management system. Management of risks is an important condition for successful and efficient reaching of the set long-term business goals.

Financial risks are connected with the ability to create financial income, control financial expenses, maintain the value of financial assets, control financial liabilities and ensure competitive and long-term solvency. In the group Elektro Gorenjska, we are exposed to numerous financial risks, which include, in particular: credit risk of customer payments, extraordinary expenses (penalties), interest rate risk, lack of investment funds, risk of investments in subsidiaries, inadequate payment of EG services by SODO and liquidity risk. Main types of financial risk are credit risk, liquidity risk and interest rate risk. Other aforementioned financial risks are described in the business report, in chapter *4 - Management and Quality Systems*.

Credit risk

Carrying amount of financial assets represents a maximum exposure to credit risk. Maximum exposure to credit risk at the reporting date were:

	in €	
	2017	2016
Long-term receivables	272,821	37,480
Short-term financial investments	1,100,480	1,544,144
Short-term receivables	6,118,963	6,078,218
- of which trade receivables	5,678,767	5,729,045
Cash	8,689,779	4,338,182
	16,182,042	11,998,023

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.

Group also engages in other commercial activities, representing 13 % of total Group revenues.

Breakdown of short-term receivables for the network charge, electricity and services and interest receivable as at 31. 12. 2017 and 31. 12. 2016 are shown by maturity in the following table:

	in €	
	2017	31. 12. 2016
Receivables non past due	5,549,306	5,287,961
Overdue to 30 days	164,371	346,861
Overdue from 31-60 days	10,114	35,935
Overdue from 61-90 days	7,276	5,078
Overdue over 90 days	404,620	245,959
Overdue receivables	586,381	633,833
Share of overdue receivables in open ones	10 %	11 %
Total	6,135,687	5,921,794

Changes in valuation adjustment of claims in years 2017 and 2016 are presented in the next table.

	in €	
	2017	2016
Opening balance 1. 1.	248,768	207,468
New formations	231,361	57,798
Drawing and elimination	33,977	16,497
Closing balance 31. 12.	446,154	248,768

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. 2017 amounted to €2,942,418, which means 48 % of all accounts receivable. Biggest buyer has the highest possible credit rating.

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 €56 thousand, with the range of losses in case of realization going from a minimum of €0 to a maximum of €150 thousand.

Liquidity risk

Risk of short-term insolvency or liquidity risk stems from the possibility that the Group at any given time will not have sufficient liquidity to meet its current obligations and to maintain normal operations.

Liquidity risk is managed primarily with the following activities:

- Supervision and coordination among all OU in the field of procurement of goods and services or conclusion of purchase contracts with respect to the expected available cash. This area includes also prioritization of purchases depending on available funds. This applies to all areas of action in the Group.
- Monitoring the implementation of open orders and concluded procurement contracts in particular as regards the date of completion, and the date and amount of the anticipated payment obligations.
- Control over the timeliness of payments of claims, especially with major clients. This includes the establishment of an information system on overdue receivables, and timely mutual information on outstanding receivables between individual OUs, so that appropriate and timely action is taken (issuing timely reminder, court claims ...).
- Constant monitoring of the stocks. At the level of the management decisions were adopted, defining the monitoring of stocks. Group finally and fully realizes the decisions in connection with the consignment of material and equipment suppliers. Group further optimizes working processes (in the field of planning – purchasing material – implementation).
- Monitoring of trade receivables as late payments of customers as a result of the deterioration of financial discipline, requests for extension of payment terms and discount, and higher costs for debt collection, reflect on the poor liquidity of the Group. It is also important to shorten payment terms to customers. In concluding commercial contracts with customers of our services special attention is paid to further integration of the relevant insurance of payments.
- Severity of liquidity risk is assessed as significant. Due to the established control mechanisms and the implementation of measures, especially cash management, at the Group level, we believe that the probability of materialization of illiquidity is small, but the company is aware that illiquidity could cause great business damage.

Liquidity risk is closely associated with investment risks. Liquidity risk management is the implementation of investment financing in accordance with the business plan, in a way that ensures sufficient resources to avoid delays in the implementation of investments, since the processes of borrowing can be long lasting.

In the Group we have set up cash management, whose main objective is to optimize the liquidity situation and the need for utilization of short-term external debt financing. Source of financing the short-term deficits of a certain company is excess cash of one of the group companies. This is to achieve the best conditions for both of borrowing as investment funds, in particular, in a way that exploits the synergistic effects of the group as a whole.

Much attention is given to the preparation and monitoring of cash flows plan. Effective planning of liquidity enables us to optimally manage any short-term surpluses or deficits of liquid assets.

Following table shows financial liabilities to banks and other long-term financial liabilities (fair value of interest rate swap as at 31. 12. 2017 or 31.12. 2016) by maturity.

2017	MATURITY			TOTAL
	within 1 year	from 2 to 5 years	over 5 years	
Financial liabilities to banks	6,291,001	26,704,486	20,432,777	53,428,264
Other long-term financial liabilities	14,156	0	253,249	267,405

in €

in €

2016	MATURITY			TOTAL
	within 1 year	from 2 to 5 years	over 5 years	
Financial liabilities to banks	6,163,306	23,557,452	19,893,253	49,614,008
Other long-term financial liabilities	11,590	54,423	418,983	484,996

Short-term operating receivables according to maturity were following:

in €

2017	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	3,495,958	34,870	53	3,388	38,311	3,534,269
Short-term operating liabilities from advances	18,520	0	0	0	0	18,520
Short-term operating liabilities for a foreign account	1,828,874	0	0	0	0	1,828,874
Short-term liabilities for salaries	1,036,245	0	0	0	0	1,036,245
Liabilities to state and other institutions	91,853	0	0	0	0	91,853
Other short-term operating liabilities	275,989	0	0	0	0	275,989
	6,747,439	34,870	53	3,388	38,311	6,785,751

in €

2016	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	3,122,164	32,158	1,000	3,317	36,475	3,158,638
Short-term operating liabilities from advances	88,344	0	0	0	0	88,343
Short-term operating liabilities for a foreign account	1,779,977	0	0	0	0	1,779,976
Short-term liabilities for salaries	1,016,426	0	0	0	0	1,016,425
Liabilities to state and other institutions	167,516	0	0	0	0	167,515
Other short-term operating liabilities	221,525	0	0	0	0	221,524
	6,395,952	32,158	1,000	3,317	36,475	6,432,423

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. To manage the interest rate risk in year 2012 we protected the longer maturity loans with interest rate swap, which means we changed the variable interest rate into a fixed one. Also in year 2017 we implemented part of the borrowing with fixed interest rate. This financial instrument allows us a more predictable planning of outflows from interest and a more steady cash flow from financing activities. Currently, the Group has 48 % of predictable cash flow (at the end of year 2016 it had 44 %).

Exposure to interest rate risk was as follows:

	in €	
	2017	2016
Financial liabilities with fixed interest rate	25,491,071	22,026,290
Financial liabilities with variable interest rate	27,937,193	27,587,719
	53,428,264	49,614,008

Elektro Gorenjska Group has entered into interest rate swaps to hedge the cash flow for the duration of the loan. It intends to hold the financial instruments until maturity. They will, at their maturity, when entire obligations under the loan agreement will be repaid, have a value of 0. Interest rate swaps hedged the following financial liabilities:

	in €	
	2017	2016
Financial liabilities hedged with interest rate swap	5,491,071	8,692,958

Change in interest rates for financial instruments with a variable interest rate by 50 basis points at the reporting date would have increased or decreased the Group's profit for the amounts shown below. In the analysis of the obligations at variable interest rate reduced by the liabilities for which the interest rate swaps (IRS) were concluded. Some loan agreements include provisions that the variable interest rate equals zero, if the EURIBOR is negative.

	in €			
	Impact on profit or loss 2017		Impact on profit or loss 2016	
	increase by 50 bt	decrease by 50 bt	increase by 50 bt	decrease by 50 bt
Financial liabilities with variable interest rate	-119,422	56,768	-132,750	67,089

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 €31 thousand, with the range of losses in case of realization going from a minimum of €0 to a maximum of €110 thousand.

Foreign exchange risk

Operations are conducted in euros, therefore the Group is not exposed to the risk of exchange rate changes.

23 EVENTS AFTER THE BALANCE SHEET DATE

After the balance sheet date (31. 12. 2017) and until the auditor's report date (11. 5. 2018) Elektro Gorenjska Company received from SODO the preliminary account of the regulatory year 2017. Preliminary account for year 2017 was implemented by SODO on the basis of unrevised financial statements. From the account it is clear that in year 2017 the already charged contractual value of services and rent was by €2,121,116 lower than the values established on the basis of the preliminary account. Based on this the Elektro Gorenjska Company in year 2017 recognized by €2,121,116 of short-term accrued revenues.

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