

HERE **FOR YOU.**



Continuous and reliable supply of electricity is of key importance for the further development of Gorenjska region

Elektro Gorenjska, d. d., is an electricity distribution company in the Gorenjska region. From the beginning of its operation the company with more than 50-year tradition has put a lot of effort in proper upgrade and maintenance of the electricity network. Only functioning and seamless network can follow the development plans of Gorenjska region and distribution network of Slovenia, and above all can enable final users a quality residence.

For Elektro Gorenjska Company the completed power line represents a new milestone in realizing its main mission, which is to provide reliable and quality supply of electricity to our customers in Gorenjska region.

For more than ten years the company has strived to build a new 20- and 110-kV distribution line between RTP Železniki and RTP Bohinj. Distribution power line, which was completed at the end of 2015, provides a lasting and stable supply of electricity to the inhabitants of Selška and Bohinj Valleys. With it company concluded the Gorenjska region energy distribution loop and set a new milestone in the realization of company's main mission, which is to provide reliable and quality supply of electricity to final customers in Gorenjska region.

Activities for the construction of 20 km long distribution power line, which consists of 115 columns, started in 2005. During these years the responsible for this project took care of the upgrade of the necessary power facilities and network, which allow the inclusion of the new power facility in the Gorenjska region distribution network.

At this point I would particularly highlight the understanding of representatives of Železniki and Bohinj municipalities, and above all the mutual and constructive cooperation with municipal councils, local residents, representatives of local communities and other communities in both valleys, who recognized the benefits that the new distribution power line is bringing to the region. Without their positive consent the works on the construction of the distribution power line were not likely to take place in such timescales. Completed investment is undoubtedly the result of diligence and dedication of employees in Elektro Gorenjska, d.d., external competent institutions and providers, but above all the understanding and support of local community representatives in the past years.

With the new distribution power line connection the Elektro Gorenjska Company is raising the living conditions for residents of Selška and Bohinj Valleys, and at the same time allowing the further development of industry and tourism.

Chairman of the Board
mag. Bojan Luskovec



Detailed information about the distribution power line please find at the following web page of the Elektro Gorenjska Company:
www.elektro.gorenjska.si/Daljnovid

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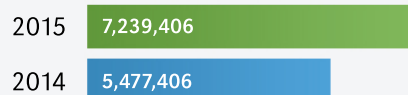
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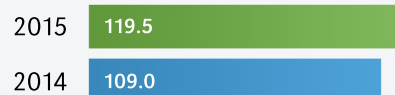
AGENCIJA	Agency for Energy	AMI	Advanced Meter Infrastructure
BDP	Gross domestic product	BTP	Technical data base
CIM	Distribution management center	DCV	Distribution management center
DDV	Value Added Tax	DO	Distribution network
DV	Overhead power line	EURIBOR	Euro Interbank Offered Rate is an interbank offered rate for deposits in Euro, which is formed on the European interbank market
EZ-1	Energy act (Official Gazette RS, No. 17/2014)	FE	Photovoltaic power station
GJS SODO	Public service obligation relating to the activity of the electricity distribution system operator	HE	Hydroelectric power station
KBV	Cable conduit	kW	Kilowatt hour
MHE	Small hydroelectric power station	MM	Measuring point
MWh	Megawatt hour	NN	Low voltage
NNO	Low-voltage network	OPGW	Optical ground wire
OS	Fixed assets	OVE	Renewable energy sources
Pogodba s 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	SN	Medium voltage
SODO	Distribution network system operator	SOPO	Transmission network system operator
SPDOEE	General Conditions for connection to the distribution electric system (Official Gazette RS, No. 126/2007)	SPTE	Cogeneration of heat energy
TP	Transformer station	TR	Transformer
URE	Efficient use of energy	VN	High voltage
VZD	Health and safety at work	ZGD-1	Companies act

Important information on operation of Elektro Gorenjska Group

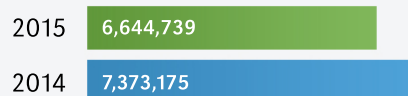
+ Net profit or loss (EUR)



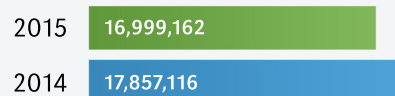
+ Economy of operation (%)



+ EBIT (EUR)



+ EBITDA (EUR)



+ Average number of employees



+ Average level of education



+ Share of employees included in various educations (%)



+ Costs of education per employee (EUR)



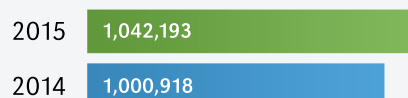
+ SAIDI



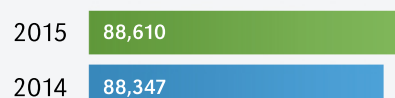
+ SAIFI



+ Quantities of distributed electricity (MWh)



+ Number of customers connected to distribution network



BUSINESS REPORT



Due to the sensitivity of unilateral power supply over a large area between Škofja Loka via Železniki and Bohinj to Bled, and related risks, the power line has been one of the key priorities of the company for many years.

However, placement of linear facilities, especially high-voltage power lines, is very demanding and time-consuming due to the complex Slovenian legislation.

01

Important events and awards of Elektro Gorenjska Group in year 2015

JANUARY

- Elektro Gorenjska started activities to promote health in the workplace.
- Gorenjske elektrarne receive ISO 9001:2008 certificate.

FEBRUARY

- Due to the contribution of companies and individuals of the company during last year's ice damage Elektro Gorenjska received a bronze medal from the Civil Protection of the Republic of Slovenia. Recognition was awarded for successful performance of protection activities, rescue and aid or for single actions.
- Elektro Gorenjska participated at the traditional 6th conference En.grids 015 with two contributions.
- Elektro Gorenjska, Fire & Rescue Service Kranj and Institute of the Republic of Slovenia for Nature Conservation, Kranj Regional Unit, set up a new nesting post for storks in Spodnji Brnik.
- Gorenjske elektrarne successfully carry out the annual regular revision at the largest hydroelectric power plant Savica.

MARCH

- Elektro Gorenjska together with its subsidiary Gorenjske elektrarne became the official supporter of the Basketball Federation of Slovenia.
- In the Elektro Gorenjska gallery the exhibition of photographs by alpinist and mountain enthusiast Urban Ažman opened.
- Gorenjske elektrarne participated at the International Conference on District Energy.
- Norwegian students of Voss jordbrucksulle school visit Gorenjske elektrarne and solar power plant (MFE) Strahinj and hydroelectric plant (HE) Zvirče.

APRIL

- Elektro Gorenjska together with other electricity distribution companies in Maribor organized the first strategic conference of power distribution Slovenia 2015, where they present the operations of distribution companies and above all the benefits of this kind of organization.
- Elektro Gorenjska performed an unusual example of low-voltage grid cable - under water low voltage cable to Bled Island.
- Students and pupils of the Kranj School Center visited Elektro Gorenjska and tour the distribution control center, RTP Primskovo and warehouse.
- On Earth Day Gorenjske elektrarne organized a lecture on renewable energy sources and energy monitoring in Ivan Tavčar Elementary School in Gorenja vas.

MAY

- With many papers representatives of Elektro Gorenjska participated at the 12th Conference of Slovenian Electric Power Engineers CIGRÉ-CIRED in Portorož.
- Employees of Elektro Gorenjska elected new members of works' council for the next four years.
- Gorenjske elektrarne developed a new information system GEKenergija, which is aimed at monitoring and evaluating the production and consumption of energy on the principle of targeted energy use monitoring.
- During Eco Week Gorenjske elektrarne carried out three energy workshops in cooperation with Matija Valjevec Elementary School.

JUNE

- Within the 20th Anniversary of Prešeren Prize Winners Gallery operation Elektro Gorenjska opened an exhibition in Elektra Gallery of Prešeren Prize Winners that are part of the permanent collection of Elektro Gorenjska.
- Elektro Gorenjska participated at the consultation on Business Excellence Prize of RS – PRSPO 2015 as an example of good practice and presented the benefits of EFQM excellence model for the company.

- Elektro Gorenjska Group issued the Consolidated Annual Report of Elektro Gorenjska Group for year 2014 in Slovene and English.

JULY

- At the seat of Elektro Gorenjska Company a regular 21st shareholders meeting of Elektro Gorenjska took place.
- Chairman of the Board in Elektro Gorenjska Bojan Luskovec, M.Sc., took over the management of the Economic Interest Group (GIZ) of electricity distribution for the next two years.
- Elektro Gorenjska issued a brochure Useful information on Elektro Gorenjska Company for year 2014 and Report on Environmental management for year 2014 and Report on Safety and Health at work for year 2014.
- Elektro Gorenjska signed an agreement on debt relief for the poorest with the Ministry of Labor, Family, Social Affairs and equal Opportunities.
- In Gorenjske elektrarne a new service »Energy Management« is formed, intended for companies in service and industrial sectors that do not have their own human resources in the field of energy management.

SEPTEMBER

- Elektro Gorenjska and Gorenjske elektrarne issued brochures for employees titled This is why we are here, which summarize the key policies of both companies.
- Gorenjske elektrarne completed the project work for the implementation of GEENIS system in Perutnina Ptuj Company.

OCTOBER

- Elektro Gorenjska participated at the 7th strategic meeting of business and technological innovation in the energy sector.
- Elektro Gorenjska successfully passed the external assessment for three certificate parts of the integrated management system: Quality management system ISO 9001, Environmental management system ISO 14001, and Health and safety at work system OHSAS 18001.
- Gorenjske elektrarne in HE Cerklje acceded to replacement of the turbine driver due to wear.

NOVEMBER

- Elektro Gorenjska installed in the network of TP Suha at Predoslje the first control transformer 20/0,4 kV in Slovenia. The transformer will be adjustable to nine levels under load and will allow adjusting the voltage on the collectors according to the amount defined by the local production of a large number of photovoltaic power plants connected to the low voltage network.
- Elektro Gorenjska signed an agreement on cooperation in Konektor association with Kranj School Center. Aim of the association is to improve the design of custom trainings for partners and joint participation in Slovenian and international public tenders.
- Gorenjske elektrarne successfully completed the renovation project of the boiler room at the seat of Elektro Gorenjska Company.
- Gorenjske elektrarne and Merkur trgovina ceremoniously opened the Green shopping center of the future. On this occasion, they opened a new smart filling station for electric vehicles at a shopping center Merkur Kranj.
- Gorenjske elektrarne successfully passed the regular external assessment of quality management system according to the standard ISO 9001:2008.

DECEMBER

- At the end of 2015 companies in Elektro Gorenjska and Gorenjske elektrarne together with their business partner re-allocate corporate gifts funds to the Ne-odvisen.si program.
- Elektro Gorenjska in cooperation with EIMV completed development study REDOS 2040, which presents the development of power distribution network in Slovenia from year 2015 to 2040.
- Elektro Gorenjska completed the construction of 110 kV distribution power line between Železniki and Bohinj, the largest investment of the company in the last ten years and connected it into trial operation.
- Gorenjske elektrarne successfully completed the project of establishing its own energy monitoring system GEENIS, which allows control over the consumption and tracking of goals in the field of energy use.
- Gorenjske elektrarne together with Komunala Kranj Company approach the automation of HE Zanjivec. Modernization included the complete replacement of the control system.



In year 2015 the two companies of Elektro Gorenjska Group achieved the set goals, implemented two strategic projects and reached remarkable business results.

Year 2015 was very successful in Elektro Gorenjska Group. Key highlights of its operation can be summarized as follows:

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

We have reached 43.3 mio € of revenues and we made 7.2 mio € of net profit, which is by 32 % more than in year 2014. All indicators, including operating efficiency ratio and financing and yield ratios, have been showing growth trend since 2008 onwards. ROE amounted to 5.1 % (1.1 percentage point more than in year 2014), while ROA 3.3 % (0.8 percentage point more than in year 2014).

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

In year 2015 we successfully completed all those investment projects that were the most important for further development of the Gorenjska region. On the high-voltage network we completed the construction of a 110 and 20 kV distribution powerline, which connected Železniki and Bohinj and enabled integrated power supply in the region. New powerline connection completed the Gorenjska region energy loop and provided for durable and reliable electricity supply.

In the past year we have also accelerated the upgrade of our network and spent 18 million Euro on investments in medium and low-voltage network. Annually we have been increasing the share of underground cable network by at least 2 %, which at 5,800 km of network means another 100 km of new underground cable network each year. Compared to year 2014 we have increased the share of high-voltage cable network from 2.36 to 3.14 %, increased the share of medium-voltage underground network to 55.71 % and increased the share of low-voltage network to 64.35 %.

3. We followed the company's strategy until 2017, in 2015 we completed two strategic projects.

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

- acquisition of own concession for electricity distribution;
- updating of measuring systems (AMI);
- upgrading of distribution control center (DCV);
- integration of technical information systems (CIM);
- Implementation of information system (ERP) for financial accounting services (FRS), material storage operation (MSP), human resources (HRM) and integration with the existing information systems, already in use in the company;

- o organization culture management and
- o connecting the subsidiaries with strategic partner.

In the previous year we switched to the independent information system and successfully connected subsidiary company Elektro Gorenjska Prodaja with a strategic partner ECE. At the end of the year we included in the preliminary running a new distribution control center. Modernization of the accounting measurement system has passed from the development and testing phase into regular and accelerated replacement of the measuring equipment.

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

Elektro Gorenjska Company is recognized in the field of supporting the sponsorship and donation projects, as in accordance with its possibilities it helps the wider public and gives back to the environment it operates in. In year 2015 we once again invited our business partners and supported the Ne-odvisen.si program together.

5. With its efficient use projects the company Gorenjske elektrarne is becoming more a company for energy management rather than just the company for electricity production.

Thanks to good management, Gorenjske elektrarne Company is becoming an important player in the field of energy management and energy sources management with a purpose of achieving energy savings in companies. Among activities with which they deal, they prioritize opportunities for self-sufficiency of supply with electricity from renewable sources and e - mobility. At the end of the year together with the company Merkur trgovina they presented the project of creating the first green shopping center of the future. Shopping center is supplied with electricity produced in their own solar power plant, is energy efficient, and additionally uses renewable sources from local environment, which are also available to drivers of electric vehicles. Next to the center, namely they also installed the electric charging station. Project is the first example of this kind of cooperation in Slovenia and presents opportunities for collaboration of Slovenian companies among themselves.

6. Despite the dry year Gorenjske elektrarne managed to realize the set plans through diversification of production units and projects of efficient use.

Year 2015 was, in terms of hydrology, extremely dry. Revenue from electricity generation in hydro power plants were compared to 2014 lower by more than a million €. Nevertheless, the company almost fully implemented the set plans. Good performance is a result of the streamlining of operations, in particular trend of the company towards projects of energy efficiency and energy management.

MAIN GOALS IN YEAR 2016

Trend over the last 10 years has been the construction of the cable medium and low voltage network, which it has repeatedly proved to be a good solution - especially in the case of natural disasters such as floods, wind and ice. So also in 2016 and 2017 we will be upgrading the network, which will be resilient and will enable reliable supply to end-users as well as all the conditions for growth and development in the region.

In 2016 we will continue, in accordance with the guidelines, with replacing of the so called smart meters, which will be gradually installed to our users by the end of 2020, and continued with the introduction of a standardized model for the exchange of operational data (CIM model).

For optimum operation and maintenance of the network in 2016 efforts will be focused on the acquisition of a concession for the provision of electricity distribution. Business would be more successful in this case. Granting concessions to individual local electricity distribution companies would also allow for a greater impact of the local communities on the development of activities and to further and better listening to the needs of users of the distribution network. At the same time, with the management of the distribution network in the event of major natural disasters and averages, involvement of employees in the local environment and commitment to the Group that manages devices or network, is of key significance. This is a prerequisite for fast and high quality elimination of averages.

In 2016, we will actively continue with the project of organizational culture management, whose key objective is to increase the level of employee engagement. As ambassadors of corporate integrity we will spread awareness about the importance of operations in accordance with the law and ethical standards as one of the fundamental principles of social responsibility in the Slovenian economy in general. Model of business excellence and business in accordance with the policy of quality is a constant of Group companies, which we will continue following also in 2016.

In the first half of 2016, we will approach the audit of strategic documents and define strategic projects for the future.

As an important economic entity in the Gorenjska region, we will also in 2016 participate in socially responsible projects, which are reflected both through sponsorship and donation funds, as well as other forms of company's support.

We will continue with projects of efficient use, and will especially focus on the marketing of services of targeted monitoring of energy use offered to the companies.

Dear shareholders, investors, and partners!

Elektro Gorenjska Group consists of the company for the distribution of energy, Elektro Gorenjska, and company for the production of electricity Gorenjske elektrarne. Operating results, which were achieved by the two companies in 2015 and are presented in detail in the financial report, are better than expected, and consequently fill me with satisfaction and new challenges. Good results are the result of several factors, including but certainly worth mentioning are the efforts and dedication of employees in the Group, which help create a positive work climate and environment.

In 2015 the Group Elektro Gorenjska generated total revenues in the amount of 43 mio €. Net profit amounted to 7.2 mio €, which is by 32.2 % more than in year 2014. All indicators from the operating efficiency ratio to return and financing indicators – show the growth trend from 2008 onwards. ROE amounted to 5.1 % (1.1 percent point more than in year 2014), ROA 3.3 %.

Key objectives we achieved in the companies in 2015 were:

1. We completed the construction of 110 kV distribution power line between Železniki and Bohinj and successfully implemented all planned investment projects.

In the past year in accordance with the plans we completed the construction of new 110 and 20 kV distribution connection between Selška and Bohinjska Valleys and thus concluded the Gorenjska region energy loop. This connection will contribute to sustainable, reliable and quality electricity supply in the area of both valleys and enable further economic and tourist development of both municipalities. With adequate financial support and aim to build an even larger share of the network in underground cable form, the share of cable network at the end of 2015 amounted to more than 60 %. In 2015 we invested 18 million €. In accordance with the strategy by 2017 we will additionally built a robust and resilient network, which will enable further development of Gorenjska region and follow the development and implementation of modern technologies.

2. We upgraded 30 % of measuring systems and exceeded the annual plan of replacements.

In year 2015 in accordance with the investment plans we continued with the replacements of measuring equipment with modern measuring systems AML. Good experience from 2014 helped us to exceed the targets and thus modernized 10,000 measuring points. At the end of the past year we thus equipped 30 % of measuring points with advanced measuring systems. We plan that by 2020 we will equip 80 % of all measuring points with advanced interoperable meters.

3. We have successfully introduced a new information system in our operation.

One of the strategic projects of Elektro Gorenjska was implementation or introduction of new information system. With new and independent information system, which is more user friendly, helps us control business processes, user life cycles, connecting and access of users to the distribution network and calculation of the use of network for individual measuring points more efficiently.

4. We have continued with the project Organizational culture.

Strategy of Elektro Gorenjska Group for period 2014-2017 defines strategic goal of forming the constructive organizational culture among employees in both companies. We expect from our employees integration, cooperation, accountability and goal orientation. Such behaviors will contribute to their self-realization and growth and organizational efficiency. This way passive defensive styles and aggressive defensive styles of behaviors should be represented as little as possible. In 2015 we continued with education of the heads in the field of soft skills, while employees were included in solving business challenges with a help of KAKO (HOW) model. Good response from the employees is a step further towards understanding the significance of the organizational culture.

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

In addition to quality standards, which are annually certified, companies Elektro Gorenjska and Gorenjske elektrarne apply also the business excellence model, which enables them self-assessment of operations and obtaining of objective opinion. This leads to the creation of opportunities and the implementation of action plans of improvements in both companies.

6. We have diversified the production and actively approached the projects of efficient use.

Gorenjske elektrarne Company is becoming an important player in the field of energy management and energy sources management with a purpose of achieving energy savings in companies. Among activities with which they deal, they prioritize opportunities for self-sufficiency of supply with electricity from renewable sources and e – mobility. At the end of the year together with the company Merkur trgovina they presented the project of creating the first green shopping center of the future. Shopping center is supplied with electricity produced in their own solar power plant, is energy efficient, and additionally uses renewable sources from local environment, which are also available to drivers of electric vehicles. Next to the center, namely they also installed the electric charging station. Project is the first example of this kind of cooperation in Slovenia and presents opportunities for collaboration of Slovenian companies among themselves.

7. We have found a strategic partner in the field of electricity sales.

Last year was marked by varied developments in the electricity market. With the aim of creating added value for end customers of electricity, create synergies between companies in the business and market segments, and in particular in order to facilitate further business, the two companies Elektro Gorenjska and Elektro Celje in September 2014 signed a letter of intent aimed at the connection of their respective subsidiary companies for selling electricity (Elektro Gorenjska Prodaja, d.o.o., and Elektro Celje Energija, d.o.o.). On October 1 2015 we successfully merged Elektro Gorenjska Prodaja Company to company Elektro Celje Energija. Result was a new company called ECE, d.o.o. Connection of companies was conducted in accordance with the development strategy of Elektro Gorenjska and subsidiary company Elektro Gorenjska Prodaja.

Employees in the Group Elektro Gorenjska know how to recognize and understand the needs of the environment in which we operate. In order to be successful in the electricity business it is seen as crucial to have a proper dialogue with the local communities, as only mutual understanding provides a comprehensive and orderly development of electricity infrastructure in the Gorenjska region. I believe that foundations of the companies' success are focus on sustainable development, demonstration of social responsibility and active protection.

GOALS IN YEAR 2016

First and foremost we want to provide reliable and quality electricity infrastructure to the users, which will be in the best possible way resistant to various weather conditions. In 2016 we will earmark 15.6 million euros for network upgrade and modernization of power facilities in the medium and low voltage network.

In 2016 we will in accordance with the guidelines continue with replacement of the so called smart meters, which will be gradually built in for the users by the end of 2020. We will continue with the introduction of a standardized model for the exchange of operational data (CIM model) and will be active in other development projects with an emphasis on modern technologies.

For optimum operation and maintenance of the network in 2016 efforts will be focused on the acquisition of a concession for the provision of electricity distribution. Business would be more successful in this case. Granting concessions to individual local electricity distribution companies would also allow for a greater impact of the local communities on the development of activities and to further and better listening to the needs of users of the distribution network. At the same time, with the management of the distribution network in the event of major natural disasters and averages, involvement of employees in the local environment and commitment to the Group that manages devices or network, is of key significance. I believe this is a prerequisite for the progress of the region as well as fast and high quality elimination of averages.

In 2016, we will actively continue with the project of organizational culture management, whose key objective is to increase the level of employee engagement. As ambassadors of corporate integrity we will spread awareness about the importance of operations in accordance with the law and ethical standards as one of the fundamental principles of social responsibility in the Slovenian economy in general.

In 2016 Gorenjske elektrarne will continue with the activities and projects of efficient energy use, and will primarily focus on the promotion and marketing of services of targeted energy monitoring offered to the companies.

In the first half of 2016, we will approach the audit of approved strategic documents and define new strategic projects of both companies.

Dear investors, shareholders and partners, together with our colleagues we will continue to ensure the growth and successful development of the Elektro Gorenjska Group's companies in Gorenjska region. In doing so, we wish for your continued support and creative cooperation. Together with all employees, I sincerely thank you for your trust.

Chairman of the Board
mag. Bojan Luskovec



3.1 Corporate governance statement

Companies in Elektro Gorenjska Group inform the shareholders and public that they operate in accordance with applicable regulations and acts in force in the companies. Management of the individual company represents the company as well as manages the business independently and at its own risk. In this it adopts the decisions in accordance with the strategic goals of the company and to the benefit of the shareholders. Companies in the Group comply with the Corporate Governance Code for Companies with Capital Assets of the State, adopted on December 19 2014 by the Slovenian Sovereign Holding (SDH). In their operations they consider Recommendations and expectations by the Slovenian Sovereign Holding (December 19 2014), which mainly recommend the principles, procedures and code of conduct for members of managerial and supervisory bodies in companies with capital investments of the state.

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

In year 2015 companies in the Group have not derogated essentially from the principles, procedures and criteria imposed by the stated codes and recommendations. Parent company declares that it does not respect code provisions or recommendations in regulating issues that are regulated by the law or that the company regulates in accordance with the provisions of the statute in different way than defined by the codes, or in cases when non-statutory conducts are not prescribed in its acts or when conducts are not determined as legal obligation.

Parent company believes that supervisory board members are professional, responsible and independent in performing the tasks in accordance with the provisions of both stated Codes and Recommendations by SDH. The parent company sent all newly adopted SDH acts to all supervisory board members.

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

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

3.2 Supervisory board report

SUPERVISORY BOARD REPORT ON VERIFICATION OF THE ANNUAL REPORT OF ELEKTRO GORENJSKA, d.d., AND CONSOLIDATED ANNUAL REPORT OF ELEKTRO GORENJSKA GROUP FOR BUSINESS YEAR 2015 (Article 282 CA)

1. Supervisory Board operation in year 2015

In 2015 the Supervisory Board continued with its regular and systematic control over the operations of the company and in addition to the regular control it introduced also some novelties within its functioning.

In year 2015 Supervisory Board met at eleven regular sessions and adopted a total of 96 decisions. In their decisions, members of Supervisory Board acted independently and prepared appropriately on the topics of the individual sessions, gave constructive proposals and comments, as well as adopted decisions in accordance with their respective responsibilities. Members of the Supervisory Board carried out their work in accordance with the fundamental function of supervision over the management of the companies and duty of diligent and contentious management based on the competences as defined mainly in the Companies Act (ZGD-1), statute of the company and rules of the Supervisory Board. In addition the Supervisory Board members acted in accordance with the recommendations and expectations of the Slovenian Sovereign Holding and Corporate Governance Code for Companies with State capital investment. Management Board commented on the fulfillment of the above acts and recommendations in the statement on corporate governance.

Supervisory Board introduced good supervising practices in the company (adoption of company's strategy and regular monitoring of strategic projects, adoption of framework management policy, etc.) and was implementing

them successfully. In the field of Supervisory Board work, there were also some good practices introduced, like for example self-assessment of the Supervisory Board work, which was managed, due to different beginnings of the mandates, to be carried out entirely for the first time in year 2015. Methodology of the Supervisors Association of Slovenia was used. Based on the findings then the Parent Company Management Policy was adopted, which is publicly available on the company website. Changes in the functioning of the Supervisory Board are also visible in other areas: company has been actively developing and modifying its strategy and adapting to the market conditions. In addition to the regular operations the Supervisory Board has been regularly monitoring the state of seven strategic projects, mainly by modernizing the ERP information system, monitoring the AMI and DCV projects that passed into the phase of strategic projects at the end of the year. Supervisory Board has devoted much time to the field of integration of sales and production companies in Elektro Gorenjska, d. d. and Elektro Celje, d. d. One of the strategic projects was also "Connecting subsidiaries with strategic partners". Result was the merger of subsidiary Elektro Gorenjska Prodaja d.o.o. to company ECE, d.o.o., which was conducted on October 1 2015.

2. Composition of the Supervisory Board in year 2015

In year 2015 Supervisory Board operated in the composition of shareholders appointed at the 19th regular general meeting with a four-year mandate, beginning on August 27 2013. Representatives of shareholders were the same throughout 2015. Membership of the two representatives of employees changed during the year. Two representatives elected in 2011 ended their mandate on August 7 2015. Until this date the Supervisory Board operated in the following composition:

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

In year 2015 the Works Council elected two new representatives of employees in the Supervisory Board, with a mandate from August 8 2015 to August 8 2019. Result was change in the composition of Supervisory Board:

- o mag. Samo Logar, chairman of the Supervisory Board,
- o mag. Tedo Djekanović, member; the deputy chairman of the Supervisory Board from September 3 2015,
- o Andrej Koprivec, member,
- o Elvis Duraković, member,
- o mag. Dominik Ovniček, (representative of employees) and
- o Iztok Štular, member (representative of employees).

Due to changes in the statutes at the general meeting and the new members of the Supervisory Board by the employees' representatives the Supervisory Board in September also elected a new Deputy Chairman.

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

3. Verification of company's operations and work of the management in year 2015

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

Members of the Supervisory Board mainly focused on the following:

- o regular business of the companies, mainly the parent company and also other companies in the Elektro Gorenjska Group (Elektro Gorenjska Prodaja, d. o. o. (until its termination as at 30.9.2015), and Gorenjske elektrarne, d. d.) with an emphasis on the current monitoring of business and financial reporting,
- o monitoring the proceedings before the intended merger of market and production activities of the two subsidiaries Elektro Gorenjska, d. d., and Elektro Celje, d. d.,
- o monitoring larger investment projects (power line RTP Železniki – RTP Bohinj),

- o monitoring of strategic projects,
- o control over contracts, which need the Supervisory Board consent according to the provisions of the statute,
- o monitoring negotiations with the majority owner of the company about the new dividend policy,
- o forming proposals for the decisions at the regular general meeting,
- o monitoring risks.

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

- o Supervisory Board regularly monitored operations of the group companies and discussed quarterly information and evaluations on group companies' operations and was devoted to realization of the business plan for year 2015.
- o In accordance with the ZDG-1 Supervisory Board verified and approved the audited annual report of Elektro Gorenjska, d. d., and audited consolidated annual report Elektro Gorenjska Group for year 2014, and composed a written report of the Supervisory Board on verification and approval of the stated reports for business year 2014.
- o Supervisory Board prepared proposals for decisions for each item of the 21st regular general meeting session, which took place on July 8 2015, it agreed with the proposal of the management on the use of distributable profit for year 2014 and statute amendments, as well as proposed company Ernst & Young Revizija, poslovno svetovanje d.o.o. from Ljubljana, for the auditor for year 2015. General meeting was also acquainted with the process of joining the sales subsidiaries of Elektro Gorenjska and Elektro Celje and with the two new representatives of employees in the Supervisory Board, Dominik Ovniček, M. Sc. and Iztok Štular. Supervisory Board was also responsible for the realization of the general meeting decisions. At the general meeting one of the partners proposed a counter-proposal for the decision on the distribution of profit. As a counter-proposal did not pass the shareholder G.I. Dakota Investments Limited, Limassol, Cyprus announced a challenging action, which was later brought. By the end of year 2015 the judicial process had not been concluded, but dividends were paid to all shareholders.
- o In February 2015 the Supervisory Board confirmed the update of the strategy of the company Elektro Gorenjska, d. d., as the parent company in the Elektro Gorenjska Group for the period 2014-2017, and then controlled the individual strategic projects quarterly.
- o Supervisory Board regularly monitored the execution of the currently largest investment project, namely the construction of 110 and 20 kV power lines RTP Železniki – RTP Bohinj.
- o Supervisory Board got acquainted with the Report on the due diligence of companies Elektro Celje Energija d.o.o. and Elektro Gorenjska Prodaja d.o.o. and with the joining of sales and production subsidiaries Elektro Gorenjska, d.d. and Elektro Celje, d.d., and in the end with the merger of company Elektro Gorenjska Prodaja d.o.o. to company ECE, d.o.o., which was carried out on October 1 2015.
- o In accordance with the Act Governing the Remuneration of Managers of Companies (ZPPOGD) the Supervisory Board defined other rights of the chairman of the Board and adopted performance criteria for the variable part for year 2016.
- o In preparing the Business plan of Elektro Gorenjska, d. d., for year 2016, the Supervisory Board proposed amendments to the plan in order to increase the yield, namely in year 2016 dividend yield in the amount of 2 % is expected.
- o Supervisory Board paid much attention to optimization of costs in the group companies.
- o Supervisory Board continued the practice of familiarizing the Supervisory Board with the matters of procurement, namely already at the introduction of public procurement (in the form of information), to which the Supervisory Board gave its consent in accordance with the Statute.
- o In accordance with the company's statute Supervisory Board gave its consent to three legal transactions above the value of 835,000.00 €.
- o Based on the provisions of the company's statute the Supervisory Board gave its consent to the borrowing of the company.

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

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 written, and additionally interpreted them orally at the sessions. For the Supervisory Board the management prepared reports on implementation of decisions regularly, with the introduction of new practices also reports on non-implemented decisions and other reports requested from the management by the Supervisory Board. Members of the Supervisory Board had all requested and appropriate reports, information and data available to them, so that based on them they could monitor and control company's operations and made their decisions responsibly.

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

5. Operation of Supervisory Board committees

In year 2015 two committees operated within the Supervisory Board:

5.1. Audit committee

Since 2011 a permanent audit committee has been operating within the company's Supervisory Board; membership is linked to the mandate of the members in the Supervisory Board. At its session on October 3 2013 the Supervisory Board appointed the audit committee of the Supervisory Board in Elektro Gorenjska, d. d. In year 2015 audit committee operated in the following composition (second mandate of the audit committee):

- o Andrej Koprivec, Supervisory Board member, chairman of the audit committee,
- o Elvis Duraković, Supervisory Board member, member of the audit committee,
- o dr. Andrej Baričič, external member of the audit committee.

Operation of the Supervisory Board audit committee and permanent professional function of the internal audit in the company only improved the operation of the Supervisory Board.

In the last year the audit committee met at a total of 10 sessions, of which 9 were regular and one correspondence. At its sessions it regularly discussed information on the operation of the companies in the group, contracts for the management of liquidity among the group companies, prepared decision proposals for the Supervisory Board in its respective areas of competence and regularly monitored the work of the internal audit. It verified the revised annual report of Elektro Gorenjska, d. d. and revised consolidated annual report of Elektro Gorenjska Group for year 2014. At the end of the year it verified the proposal of the business plan for year 2016, along with the operation projections for year 2017 and 2018, as well as got acquainted with the business plan of the subsidiary.

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

5.2 Nomination Committee

Since 2014 within the Supervisory Board the Nomination and Human Resources Committee of the Elektro Gorenjska, d. d., Supervisory Board has been operating in the following composition:

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

In year 2015 the Nomination Committee adopted a total of 19 decisions at its 5 sessions, of which 4 were regular and one correspondence, where all members of the committee were present.

In accordance with its competences the committee got acquainted with the presentation of the strategic project Management of the organizational culture and the action plan for this strategic project, further, on the basis of completed questionnaires evaluating the effectiveness of the Supervisory Board following the methodology of the Supervisors Association of Slovenia, it carried out a self-assessment of the Supervisory Board, prepared an action plan and proposed the management certain changes, such as adoption of the umbrella policy of management and implementation of the introduction of the function of new members of the Supervisory Board. In the end it also proposed to the Supervisory Board the adoption of the performance criteria for the variable part of the remuneration of the President of the Management Board for the year 2016.

6. Position of the Supervisory Board to audit report 2015

At the 29th session of the audit committee on May 17 2016, when a revised Annual Report of Elektro Gorenjska, d. d. and revised Consolidated Annual Report of Elektro Gorenjska Group for year 2015 were discussed, an auditor of the audit firm Ernst & Young Revizija, d.o.o., which audited the financial statements of the Group for year 2015, was present. Audit committee and Supervisory Board got acquainted with the report of an independent auditor and established that positive auditor's opinion was issued.

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

7. Approval of the annual and consolidated report 2015 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 2015 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 2015 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.

Both companies in the group ended the business year with profit. Distributable profit of Elektro Gorenjska, d. d. for year 2015 amounted in total to 2,800,345.76 €, which represents 2.00 % of the entire capital or 3.89 % of the share capital as at December 31 2015. Management and Supervisory Board of Elektro Gorenjska, d. d., proposed the general meeting of shareholders to pay the distributable profit for year 2015 entirely to the shareholders in the form of dividends.

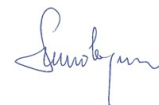
Proposal for using the distributable profit was verified by the Supervisory Board and it agreed with the proposal of the management.

Consent to such use of profit was given at its 37th regular session on June 14 2016.

After the Supervisory Board verified the annual report and consolidated report of the company for year 2015 and had no comments, it adopted them unanimously at the 37th regular session on June 14 2016, when it also adopted this Supervisory Board report on verification and approval.

Kranj, June 14 2016

mag. Samo Logar,
Chairman of the Supervisory Board



04 Presentation of Elektro Gorenjska Group

4.1 Structure of Elektro Gorenjska Group and associated companies

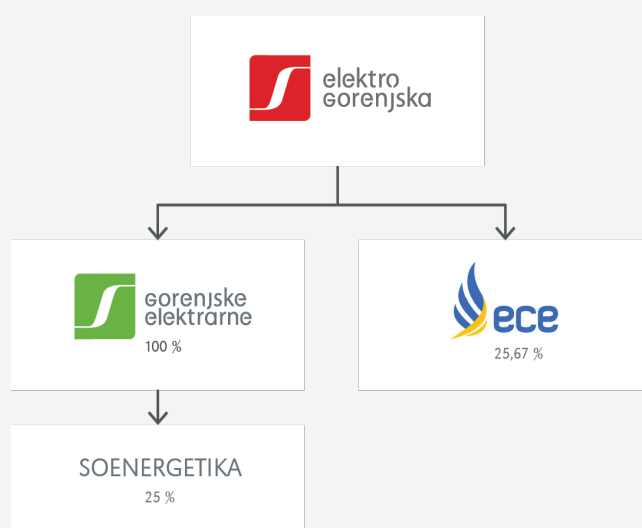
Elektro Gorenjska Group consists of the controlling company Elektro Gorenjska and its controlled company Gorenjske elektrarne, which is in 100 % ownership of Elektro Gorenjska Company. As associated companies the group also considers ECE company, where Elektro Gorenjska has a 25,674 % ownership share, and associated company Soenergetika, where Gorenjske elektrarne has 25 % share.

In year 2015 change occurred in the structure of the group. Subsidiary Company Elektro Gorenjska Prodaja, which was in 100 % ownership of Elektro Gorenjska Company, was merged to company ECE. Valuation date for the purpose of the merger was on December 31 2014, while entry in company register on October 1 2015.

Management of the controlled companies is implemented directly on the basis of the founder's decision, as the controlled companies has no supervisory board. In year 2015 four founder decisions were issued for Gorenjske elektrarne Company.

None of the companies in the group has any subsidiaries.

Figure 1: Graphic image of the Group



4.1.1 Elektro Gorenjska Company identity card

Figure 2: Elektro Gorenjska company identity card

Name:	ELEKTRO GORENJSKA, podjetje za distribucijo električne energije, d. d.
Abbreviated name:	ELEKTRO GORENJSKA, D. D.
Business address:	Ulica Mirka Vadnova 3 a, 4000 Kranj Phone: 04 20 83 000 Fax: 04 20 83 600 Call center: 080 30 19
Web site:	www.elektro-gorenjska.si
E-mail address:	info@elektro-gorenjska.si
Registration number:	5175348000
VAT identification number:	SI 20389264
Core activity code:	35.130 electricity distribution
Legal form:	joint-stock company
Company register entry number:	1/00259/00
Date of company register entry:	27. 1. 1998
Place of court's register entry:	Kranj District Court
Share capital as of 31. 12. 2015:	71,898,060.69 €
Number of shares as of 31. 12. 2015:	17,286,376
Chairman of the Board:	mag. Bojan Luskovec
Supervisory board chairman:	mag. Samo Logar

Elektro Gorenjska Company owns a 100 % of Gorenjske elektrarne, while its associated companies are ECE Company in 25.67 % ownership of Elektro Gorenjska and Soenergetika Company, which is in 25 % ownership of Gorenjske elektrarne.

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

	31. 12. 2015	31. 12. 2014
Carrying amount of capital	140,017,288	136,373,781
Carrying amount of assets (balance sheet total)	207,406,340	198,683,980
	Year 2015	Year 2014
Net profit of the business year	5,601,957	4,558,223

4.1.2 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 addresses:	info@gek.si
Registration number:	1658298000
VAT identification number:	SI 76567788
Legal form:	limited liability company
Founder:	Elektro Gorenjska, d. d.
Core activity code:	35.111 production of electricity in HE generation facilities
Company register entry number:	10693400
Date of company register entry:	4. 1. 2002 (amendment 21. 9. 2004)
Place of court's register entry:	Kranj District Court
Share capital as of 31. 12. 2015:	13,684,880.11 €
Director:	Aleš Ažman, MBA

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

	31. 12. 2015	31. 12. 2014
Carrying amount of capital	18,013,459	18,261,610
Carrying amount of assets (balance sheet total)	19,336,848	20,635,319
	Year 2015	Year 2014
Net profit of the business year	539,986	1,055,804

4.2 Other related companies or related legal entities

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

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

4.3 Main activities and fields of business

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

- distribution of electricity (activity code: 35.130),
- production of electricity in HE generation facilities (activity code: 35.111),
- other production of electricity (activity code: 35.119),
- construction of other civil engineering projects n.e.c (activity code: 42.990),
- electrical installation (activity code: 43.210),
- other building completion and finishing (activity code: 43.390),
- other specialized construction activities n.e.c. (activity code: 43.990),
- wired telecommunications activities (activity code: 61.100),
- renting and operating of own or leased real estate (activity code: 68.200),
- other engineering activities and related technical consultancy (activity code: 71.129),
- repair of machinery (activity code: 33.120),
- repair of electrical equipment (activity code: 33.140).

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 [4.10.4 – Energy legal environment of group's operation in year 2015](#);
- other non-energy market activities, which include mainly execution of new constructions and other services for the needs of the company and 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;
- other projects of efficient energy use.

Group is the holder of three quality standards: ISO 9001, ISO14001 and BS OHSAS 18001, which are successfully re-certified every year. In year 2011 the company also obtained the Family Friendly Company certificate. It also participates in the processes of business excellence (PRSPo) and is the only distribution company in Slovenia that was awarded the national business excellence award for year 2012. Quality services and activities we have been carrying out for 50 years already, have become even more obvious with the arrival of the competition. In the first place remains the undisturbed, reliable and quality electricity supply.

We follow and actively participate in development projects representing the driving force of the future which definitely include the development of SMART GRIDS and other support activities. In year 2013 we successfully completed the three-year international project HiperDNO and acceded to two international research projects: INCREASE (Increasing the penetration of renewable energy sources in the distribution grid by developing control strategies and using ancillary services) and DERri (Deregulated Energy Resources Research Infrastructure). Aim of the INCREASE project is to complement the existing control systems and expand the range of ancillary services with the aim of better ensuring of quality power supply with the increasing number of diffuse sources in the network. Our aim of the DERri project is to produce a generic strategy of integration of technical information systems for European electricity distribution companies.

4.4 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 5,500 kilometers of grids and helps providing reliable and quality supply of electricity to 88,500 customers. In this area we can also find hydropower plants of Gorenjske elektrarne.

“ Elektro Gorenjska has more than 60 % of its network built in underground cable form.

Figure 4: Area of supply of electricity distribution companies



Companies Elektro Gorenjska and Gorenjske elektrarne 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.

4.5 Main technical data

Table 3: Main technical data on electric power distribution network

	31. 12. 2015	31. 12. 2014
Powerlines 110 kV	102,323 m	82,885 m
Powerlines 35 kV	20,299 m	20,303 m
Powerlines 20 kV	679,240 m	680,085 m
Powerlines 10 kV	0 m	0 m
Total powerlines	801,862 m	783,273 m
Cable conduits 110 kV	3,319 m	2,007 m
Cable conduits 35 kV	158 m	185 m
Cable conduits 20 kV	874,101 m	832,917m
Cable conduits 10 kV	5,694 m	6,416 m
Total cable conduits	883,272 m	841,525 m
Total LV network	3,884,424 m	3,840,708 m
Total network	5,569,558 m	5,465,506 m
Transformer substations	13	13
Substations	7	7
Transformer stations	1,360	1,337

Source: Elektro Gorenjska, internal data, 31. 12. 2015

4.6 Management and governance of companies in Elektro Gorenjska Group

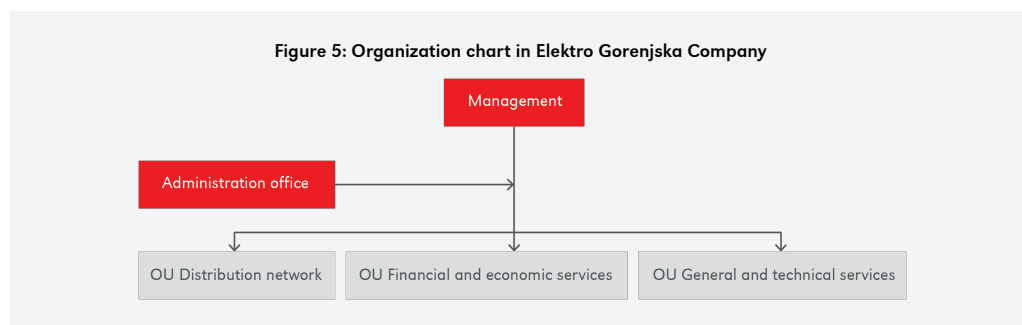
4.6.1 Management and governance of Elektro Gorenjska Company

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

MANAGEMENT

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

Chairman of the Board in Elektro Gorenjska Company is 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.

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. Composition of the supervisory board changed in year 2015, as a four-year mandate of both representatives of the employees ended in August. Two new representatives of the employees were elected.

Composition of the supervisory board in year 2015 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	27. 8. 2013 (as a deputy chairman since 3. 9. 2015)	27. 8. 2017
Leopold Zupan	deputy chairman	7. 8. 2011 (as a deputy chairman since 12. 9. 2015)	7. 8. 2015
Andrej Koprivec	member	27. 8. 2013	27. 8. 2017
Elvis Duraković	member	27. 8. 2013	27. 8. 2017
Vojko Oman	member	7. 8. 2011	7. 8. 2015
mag. Dominik Ovinček	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 2011 based on Article 40 of the Statute supervisory board set up the audit committee, while according to the ZGD and its rules of procedure it can also appoint other committees. In year 2015 a permanent audit committee of Elektro Gorenjska, d. d. supervisory board (audit committee) operated. Its mandate started in October 2013 in the following composition:

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

NOMINATION COMMITTEE OF ELEKTRO GORENJSKA SUPERVISORY BOARD

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

NOMINATION AND HUMAN RESOURCES COMMITTEE SB EG d. d.	Function	Term of office from	Term of office until
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

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

SHAREHOLDERS' MEETING

In year 2015 the management convened one regular session of the general meeting of shareholders, namely on July 8 2015. There were 87.29 % of all votes of shareholders entitled to vote present at the 21st regular general shareholders' meeting of Elektro Gorenjska Company. At the meeting shareholders voted on seven items on the agenda. Shareholders of the company got acquainted with the revised annual report and consolidated annual report for year 2014, 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 2014.

Shareholders decided on the use of distributable profit, which amounted to 2,165,155.98 € as at 31. 12. 2014. At the meeting counter proposal was submitted, namely that entire distributable profit is used for the division to company's shareholders. After the debate, the President of the Assembly gave the first vote on the proposal Decision No. 3.1. of the Management and Supervisory Board, which read:

»Distributable profit as at December 31 2014 amounts to 2,165,155.98 €. Distributable profit for year 2014 in the amount of 2,074,365.12 € is distributed to the shareholders as dividends, the remainder of the distributable profit in the amount of 90,790.86 € is allocated to other profit reserves.

Gross dividend per share amounts to 0.12 €. Dividends will be paid no later than 90 days from the date of adoption of the resolution at the General Meeting. Beneficiaries for the dividend are all shareholders who have been entered in the register of shareholders kept by the Central Securities Clearing Corporation (KDD) on the date of the General Meeting.«

Decision No. 3.1. was passed with 98.471 % of votes cast for and 1.529 % against. Shareholder G.I. Dakota Investments Limited, Limassol Cyprus, announced an action for annulment against this decision, which was then on July 24 2015 filed with the competent court. District Court by a judgment ref. No. I Pg 356/2015 of January 18 2016, which became final on February 13 2016, ruled that the decision no. 3.1., which was passed at the general meeting of the Company is changed so that the distributable profit of the company, which at December 31 2014 amounted to 2,165,155.98 € is used so as to be allocated for the division to the company's shareholders. Defendant is obliged to pay dividends within 15 days from the finality of the judgment to all shareholders who have been entered in the share register on the date of the General Meeting, i.e. July 8 2015.

For business year 2014 a discharge for the management and the supervisory board was awarded.

Shareholders voted also on amendments of the statute, which were proposed in the proposal of SDH, in order to harmonize the statutes of electrical distribution companies. Essential novelty is that the disposition of all the infrastructure facilities now require the consent of the Supervisory Board and not the Government, and the powers of the Chairman have been more specifically defined. At the general meeting an authorized auditor for the year 2015 was appointed, namely the auditing firm Ernst & Young Revizija, poslovno svetovanje, d. o. o. from Ljubljana. General meeting was also informed about the process of merging of sales subsidiaries Elektro Gorenjska and Elektro Celje, and the new employee representatives in the mandate 8. 8. 2015 - 8. 8. 2019, mag. Dominik Ovniček and Iztok Štular.

Individual organizational units are managed by executive directors. Administration office is comprised of management

4.6.2 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 no controlled companies, but it has a 25 % share in Soenergetika Company, which it controls together with three other equal partners. Financial statements of the company are included in group financial statements of the parent company Elektro Gorenjska which is also the final parent company.

Company's director is Aleš Ažman, MBA.

4.7 Share capital and ownership structure

4.7.1 Share capital and ownership structure of Elektro Gorenjska Company

On December 31 2015 share capital of Elektro Gorenjska Company amounted to 71,898,061 €. It is distributed to 17,286,376 of ordinary registered unit shares (designation EGKG). Each share has the same proportion and appertaining amount in the share capital and equal other rights. All shares are shares of one category.

Elektro Gorenjska shares are not traded on regulated market.

Company has no authorized capital. Like in the previous years, in 2015 the company had no transactions with own shares.

As of December 31 2015 96.39 % of company shares were in the ownership of legal entities, which represent 8.53 % of all shareholders.

Figure 6: Changes in the number of shareholders of Elektro Gorenjska Company from 31. 12. 2011 to 31. 12. 2015

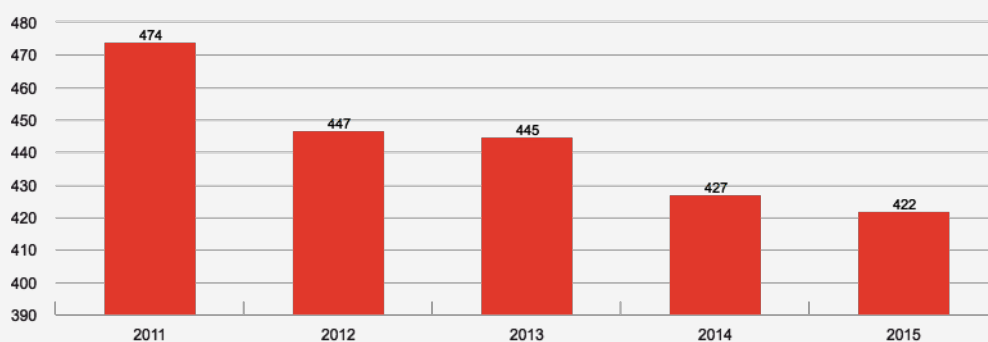
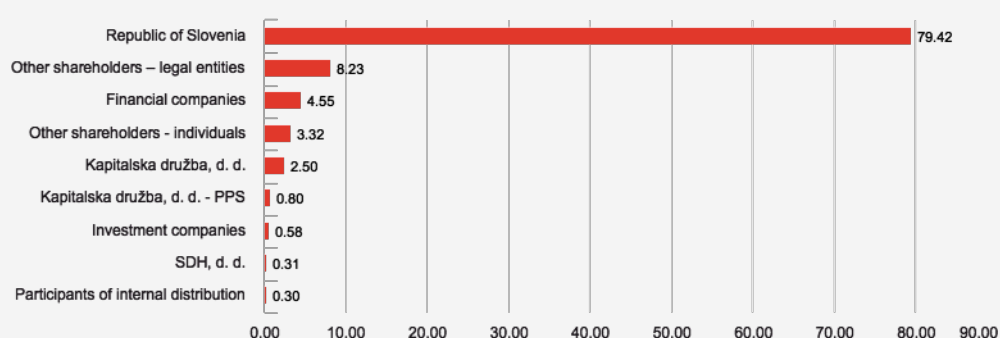


Figure 7: Ownership structure of Elektro Gorenjska Company as of 31. 12. 2015 (in %)



According to the balance as at December 31 2015 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 December 31 2015 the largest ten owners held a total of 91.55 percent share of the company.

Table 4: Share owners with capital share exceeding 1 percent as of 31. 12. 2015

Ownership exceeding 1 %	Number of shares	in %
Republic of Slovenia	13,728,882	79.42
Kapitalska družba, d. d.	431,933	2.50
Sava Re d. d.	280,000	1.62
Pivovarna Laško, d. d.	270,648	1.57
Poslovni biro, d. o. o.	225,728	1.31
Zveza bank reg. z. z. o. j Bank Und Revisions	211,711	1.22
DUTB, d. d.	207,200	1.20
DZS, d. d.	200,000	1.16
Total	15,556,102	89.99

4.7.2 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.

4.8 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.

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.

Values of the group

- **KNOWLEDGE AND COOPERATION**

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

- **EXCELLENCE AND PROFESSIONAL COMPETENCE**

We are target-oriented.

- **KINDNESS AND OPENNESS**

We maintain friendship and sociability.

- **QUALITY AND TRUST**

We induce customers' confidence.

- **RESPONSIBILITY AND DILIGENCE**

We assume responsibility.

- **BUSINESS INNOVATION**

We implement services and processes in line with market trends.

4.9 Key strategic guidelines of the Group

4.9.1 Key strategic guidelines of Elektro Gorenjska Company

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

1. Acquisition of own concession for the distribution of electricity

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

electricity distribution companies on the other. It is a fact that electricity distribution is of local character and can only be most efficient when it operates locally. Local distributor, who knows the local area and has its own network, is of key significance for quick elimination of defects and errors. We were able to highly experience the efficiency of electricity distribution companies during the 2014 ice damage, which paralyzed the entire electric power system of Slovenia.

Aim of the strategic project:

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

2. Modernization of calculating measuring systems (AMI)

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

Aim of the strategic project:

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

3. Upgrading of distribution management center

Distribution management center (DCV) is an information node of electric power system of Elektro Gorenjska. Its main function is to control and manage the electric power system of the company. Project is of extreme significance for reliable operation of electric power network of entire Gorenjska region. At the end of 2015 replacement or renovation of DCV was completed, which has begun a three-month trial operation.

Aim of the strategic project:

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

4. Integration of technical information systems

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

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

Aim of the strategic project:

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

5. Modernization of ERP information system

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

integration of the mentioned system with the existing information systems used in Elektro Gorenjska Company. In year 2015 the project moved to a phase of production test mode, which will be in accordance to the schedule completed after the first quarter of year 2016 when final acceptance of the project is foreseen.

Aim of the strategic project:

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

6. Management of organizational culture

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

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

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

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

Aim of the strategic project:

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

7. Connection of subsidiaries with strategic partners

After the spinoff of subsidiary sale and distribution companies, which the electricity distribution companies had to execute in year 2011 in order to adapt to the European legislation, these companies faced new opportunities and challenges of operation in the competitive environment. In order to achieve economies of scale, and above all for subsidiaries to grow further, the distribution companies started to look for synergistic effects with the possibility of companies interconnection. In year 2012 Elektro Gorenjska Company signed a letter of intent with the objective of connecting the Elektro Gorenjska Prodaja Company with Holding Slovenske elektrarne Company. Due to the different course of events and activities in the energy sector more concrete talks on a merger of companies did not occur, so in the company we started to look for new connection possibilities. In doing so, we have already in the baseline had most agreement with Elektro Celje Company or its subsidiary Elektro Celje Energija (ECE). Merger of the subsidiary was entered into the register on October 1 2015. Company will continue to strive for the optimal integration of the companies in the group.

Aim of the strategic project:

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

4.9.2 Key strategic guidelines of Gorenjske elektrarne Company

Key strategic guidelines of Gorenjske elektrarne Company are:

- 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 »net metering« system,
- to become a recognized service provider for increasing energy efficiency,
- 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,
- to implement new information system,
- entry into the e-mobility market and
- implementation of standard ISO 5001 (Energy efficiency).

4.10 Analysis of the environment and its impact on the operations of the group

4.10.1 General economic environment and economic trend forecasts

Table 5: Data and economic trends forecasts

Indicators for RS	2015	Forecast 2016	Forecast 2017	Forecast 2018
BDP (growth, %)	2.9	1.7	2.4	2.3
Employment (growth, %)	1.4	0.9	0.9	0.7
Unemployment (rate %)	12.3	11.7	11.0	10.3
Inflation (%)	-0.5	0.6	1.2	1.4
Average gross salary per employee (real growth, %)	1.2	2.0	0.7	0.7
Labor productivity / GDP per employee (real growth, %)	1.4	0.8	1.5	1.7

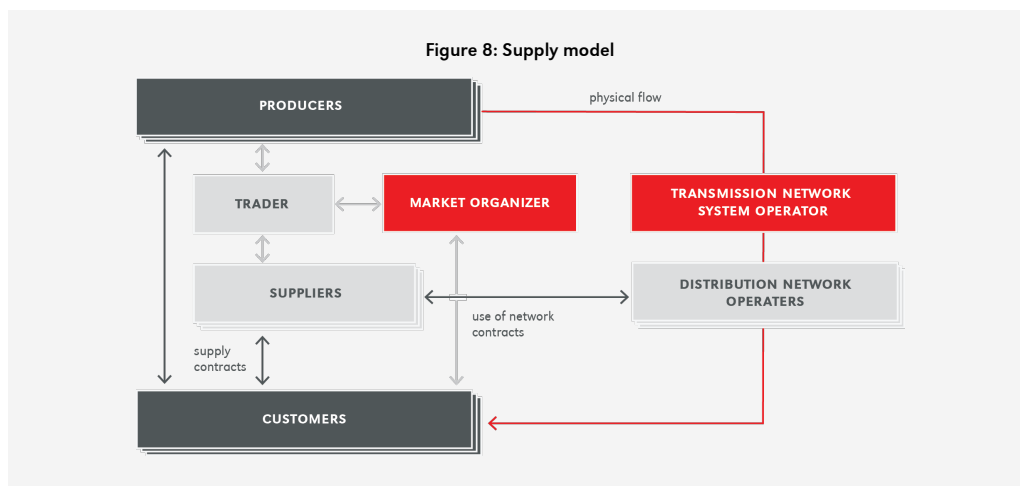
Source: UMAR, Spring Forecast of Economic Trends 2016

In year 2016 projected growth in gross domestic product is 1.7 %, in year 2017 2.4 %. Economic developments in 2016 will be influenced by the relatively subdued growth in foreign demand, significantly changed dynamics of growth in investments after the expiry of the possibility of absorption of EU funds from the previous financial perspective and a further strengthening of private consumption. Slowdown of economic growth in 2015 will be mainly due to the significantly lower volume of state investments. In line with the recovery in activity in the years 2016 and 2017 the recovery in the labor market will continue. Employment, which has started to recover at the end of 2013 will further increase this year, with lower growth in economic activity its growth will be somewhat lower than in 2015. It will be higher again in most activities, most notably in manufacturing and market services. Wage growth will be slightly accelerated this year and next year. Prices in 2016 will be under the impact of lower oil prices, partly also other imported industrial products, but on average will remain at a similar level as last year, while in 2017 we expect a modest increase.

Company's operations largely depend on developments in the gross domestic product. Data for previous years shows significant dependence of movements in distributed quantity of electricity from the movement of gross domestic product. In the coming years we can thus expect a gradual increase in the volume of electricity distribution.

4.10.2 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.



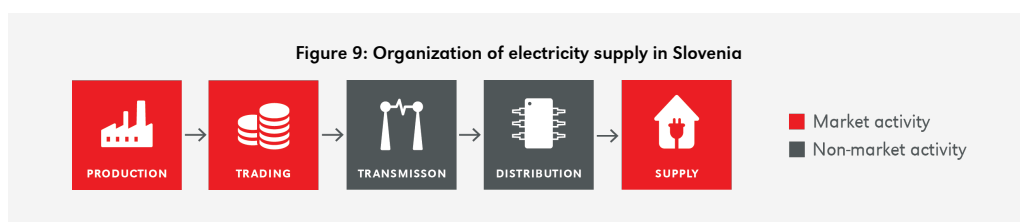
Source: Energy Agency of the Republic of Slovenia

Electricity is produced by electric power stations, which use different renewable (e.g. water, wind, sun) and non-renewable (e.g. coal, oil, gas, nuclear fuel) sources of energy. 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 used energy source.

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:



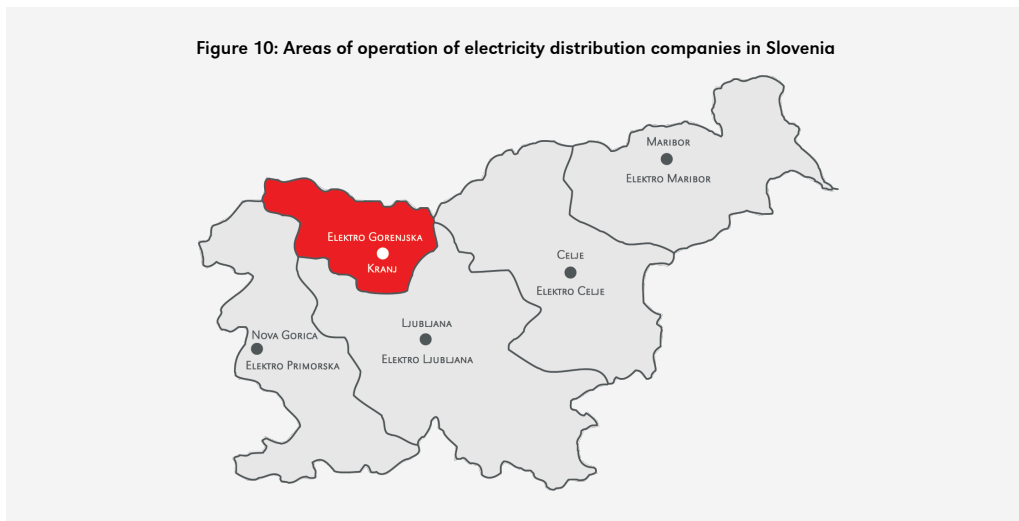
Source: Energy Agency

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.

Activity of managing the transmission network is implemented by the transmission network system operator –company ELES, d. o. o.. Holder of the concession for management of the distribution network is distribution network system operator– 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 and the implementation of other services in the field of electricity distribution), 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 (shown in the figure below).



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.

4.10.3 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 composed of the following items:

- **electricity price** formed freely on the market;
- **network charges:**
 - network charge for transmission and
 - network charge for distribution;
- **contributions:**
 - contribution for ensuring support for the production of electricity from high-efficiency cogeneration and renewable energy sources (OVE and SPTE);
 - contribution to increase the efficiency of electricity use (URE);
 - contribution for market operator operations;
- **excise duties on electricity** and
- **value added tax.**

Individual sections include the following items:

Electricity

Price in this section is defined by the supplier of electricity and is calculated for each consumed kilowatt hour in high (VT), low (MT) or single (ET) tariff.

Network charge

Customers pay for the transmission and distribution of electricity through the electricity network to their point of change of title. Network fee is intended for implementation of activities of the distribution system operator (SODO, d. o. o.), activities of the system operator (ELES, d. o. o.), covering the costs of ancillary services (ELES, d. o. o.) and covering the costs of Energy Agency operation.

Network charge consists of:

- price for the billing capacity in kilowatts, which depends on the power of installed fuses, and
- price for network charge, which is calculated for each consumed kilowatt hour in high (VT), low (MT) or single (ET) tariff.

Contributions

- Contributions OVE and SPTE are contributions set by the Government of RS and aimed at promoting the production of electricity from renewable sources and high efficiency cogeneration. It is charged on the billing capacity in kilowatts.
- Contribution for URE is a contribution set by the Government of RS and is intended to increase the energy efficiency. It is calculated for each consumed kilowatt hour of electricity in high (VT), low (MT) or single (ET) tariff.
- Contribution for operation of market operator is contribution set by the Government of RS and is intended for covering the costs of market operator Borzen, d. o. o., excluding the operation of the Support center.

Excise duty on electricity

It is charged for each consumed kilowatt hour of electricity in high (VT), low (MT) or single (ET) tariff. On the net sum of the above items on each invoice a VAT at 22 % tax rate is charged.

4.10.4 Energy legal environment of group's operation in year 2015

In its operation in year 2015 the group considered the following fundamental legal basis and institutions:

- Energy Act,
- Companies Act,
- Construction, spatial planning, spatial management and environment protection act,
- General Administrative Procedure Act,
- Directive 2009/72/ES of the European Parliament and of the Council concerning common rules for the internal market in electricity,
- General conditions for supply and consumption of electricity from electricity distribution network,
- Act concerning the reporting of data on quality of electricity supply,
- Decree on the method for the implementation of public service obligation relating to the electricity distribution system operator, and public service obligation relating to the electricity supply to tariff costumers,
- Decree on the concession for performing public service obligation relating to the activity of the electricity distribution system operator,
- Act determining the methodology for setting the network charge and the criteria for establishing eligible costs for electricity networks, and the methodology for charging for the network charge,
- Decision of the Energy Agency of RS on the regulatory framework for the holder of activity of the electricity distribution system operator for the period 2013–2015,
- Price list for the use of network (network charge and supplements to the network charge),
- Rules on the system operation of electricity distribution network,
- Decree supplementing the Decree laying down the list of goods and services subject to price control measures,
- Decree on energy infrastructure,
- Decree on the terms and conditions and methods of borrowing by legal entities from Article 87 of the Public Finance Act,
- Legal act on the rules for monitoring the quality of electricity supply,
- Decision on the appointment of the electricity transmission system operator,
- 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.
- Waters Act,
- Construction Act,
- Environment Protection Act,
- Excise Duty Act.

4.10.5 Contract with SODO

At its 3rd extraordinary session on February 27 2012 the supervisory board (composition of SB with a term until August 26 2013) gave its consent to the Contract on electricity infrastructure lease and provision of services for electricity distribution system operator used since January 1 2011 onwards, but under the condition that the management of the Elektro Gorenjska Company, in accordance with the opinion of the law firm, prepares a written proposal for changing certain provisions in the contract that Elektro Gorenjska Company does not agree with as they are in conflict with business interests of the company. More explanation on its reservations can be found in chapter [15.1 – Transactions with SODO Company](#).

For year 2015 management of Elektro Gorenjska company concluded Annex No.4 to the Contract on electricity infrastructure lease and provision of services for electricity distribution system operator (hereafter Annex No. 4).

Annex No. 4 regulates in more detail the provisional amount of the rent, services, and losses for year 2015 (as a basis for invoices issued to SODO Company by Elektro Gorenjska), and account of electricity costs for covering the losses. It also includes an inventory of services that Elektro Gorenjska implements for SODO.

Main services that Elektro Gorenjska implements for SODO are:

- maintenance of primary electricity infrastructure,
- organization and implementation of emergency service,
- management and operation of electricity distribution network,
- network development planning,
- preparation and management of investments in power infrastructure,
- 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,
- provision of electricity for covering the losses in the electricity distribution network and SODO supply,
- other services for the network users.

Among other services most important are transactions of electricity purchase for sustaining, urgent supplies, unauthorized consumption, and losses. More on the latter is explained in chapter [4.10.6 - Electricity losses in network](#), while supplies in [4.10.7 - SODO Company supply](#).

Under the Contract with SODO Company Elektro Gorenjska is making out the bills with separate charges for use of network to end users of the distribution network on the basis of the respective in force Act determining the methodology for charging for the network charge, the methodology for setting the network charge, and the criteria for establishing eligible costs for electricity networks, but also in accordance with other regulations, mainly the EZ. Elektro Gorenjska Company has been making out these bills on its own behalf and for the account of SODO. End users settle the received bills (there are approximately 3,000 separate network charge bills per month; most, namely 68 % of total electricity distributed in the distribution area of Elektro Gorenjska are business customers) on the transaction account of the Elektro Gorenjska Company.

For electricity infrastructure leased and for implementation of services presented before, Company Elektro Gorenjska has been making out bills for rent and implemented services to SODO Company, which represent revenues from renting the electricity distribution infrastructure and revenues for implementation of different services for SODO Company. Details are presented also in Chapter [17.1 – Net sales revenues](#).

4.10.6 Electricity losses in network

Losses of electricity in the network occur due to:

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

Under the Contract with SODO and in accordance with the regulations (Decision of JARSE on regulatory framework) the company is entitled to appropriate income in regards with the costs of purchase value for purchased electricity for covering losses in its network (please see also Accounting report, chapter 17.1 - Net sales revenues).

4.10.7 SODO Supply

Transactions of the GJS SODO include also transactions of purchasing the electricity for sustaining supply, urgent supply and for unauthorized consumption. Company has been obliged to implement these kinds of transactions on the basis of the long-term contract with SODO as explained in chapter 4.10.5 - Contract with SODO Company.

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

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

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

Unauthorized consumption is considered to be, when:

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

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

Please see also Accounting Report, chapter 17.7 – Cost of goods sold and materials used and chapter 17.1 – Net sales revenues.

4.10.8 Schedule derogations

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

In year 2009 balance subgroup SODO was established, which included also company Elektro Gorenjska in relation to the activities of electricity purchase and sale under the Contract with SODO. These activities are covering losses in the network and providing the so called SODO supplies (sustaining and urgent supply, charging for unauthorized consumption and implementation of settlements with faulty measuring devices). Mentioned transactions go through the balance subgroup SODO and are presented also in the Accounting report in chapter 15.3. - [Accounts of electricity purchase for losses in the network and implementation of other activities under the Contract with SODO.](#)

4.10.9 Water act

Water act (Official Gazette RS No. 67/02, 110/02 - ZGO-1, 2/04 - ZZdl-A, 41/04 - ZVO-1, 57/08, 57/12, 100/13, 40/14, 56/15) regulates water, and water and waterside land management.

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

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

Concession fee for water is calculated in the amount of 3 % - 4.2 % of the average sales value of produced electricity, depending on the watercourse. Average sales value per kWh of electricity is determined by the decision of the competent ministry. For year 2015 average sales value per kWh amounted to 0.037 € (Official Gazette RS No. 007-551/2014).

4.10.10 Construction act

Construction act (Official Gazette RS, No. 110/02, 97/03 - Constitutional Court's Decision, 41/04 - ZVO-1, 45/04 - ZVZP-A, 47/04, 62/04 - Constitutional Court's Decision, 92/05 - ZJC-B, 93/05 - ZVMS, 111/05 - Constitutional Court's Decision, 126/07, 108/09, 61/10 - ZRud-1, 76/10 - ZRud-1A, 20/11 - Constitutional Court's Decision, 57/12, 101/13 - ZDavNepr, 110/13, 17/14 - ZUOPŽ, 22/14 - Constitutional Court's Decision, 19/15) regulates the conditions for construction of all kinds of works, sets out the essential requirements and the fulfilment thereof regarding the characteristics of works, prescribes the method and conditions for pursuit of the activities, relating to construction, regulates the organization and field of work of the two professional chambers, regulates inspection and supervision, sets out the sanctions for violations, related to construction of works and regulates other issues related to construction. Construction according to this act includes design, construction and maintenance.

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

4.10.11 Environment protection act

Environment protection act (Official Gazette RS, No.41/04, 17/06 - Official Gazette RS, No. 41/04, 20/06, 49/06 - ZMetD, 66/06 - Constitutional Court's Decision , 33/07 - ZPNačrt, 57/08 - ZFO-1A, 70/08, 108/09, 108/09 - ZPNačrt-A, 48/12, 57/12, 92/13, 56/15, 102/15) regulates protection of environment against the burdening as a prerequisite for sustainable development and in this framework it defines basic principles of environment protection, environment protection measures, monitoring of environment and information about the environment, economic and financial instruments of environment protection, public utilities in environment protection and other environment related issues.

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

4.10.12 Excise duty

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

In year 2015 excise duty for electricity for business and non-business use amounted to 3.05 €/MWh (Official Gazette RS, No. 61/10).

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With an integrated management system we have established an efficient system that leads to the realization of the vision, strategy and mission.

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

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

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

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

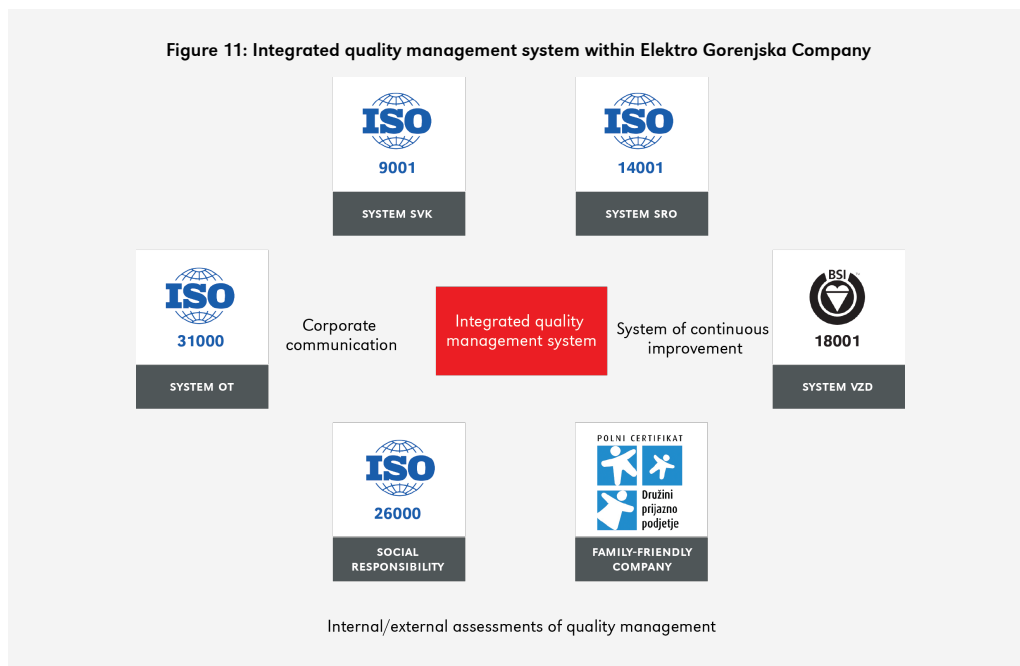
In year 2007 the company upgraded the management system with the health and safety at work management system (system VZD), which is also completely integrated in the existing system and ensures meeting of health and safety at work legislation, additional requirements and objective the company set in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

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

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

With the introduction of integrated management system in year 2011 all activities of the abovementioned systems have been connected into an efficient system, which leads to the realization of the vision, strategy, and mission as well as enables risk management and good business cooperation with final customers, employees, owners and society.

Figure 11: Integrated quality management system within Elektro Gorenjska Company



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

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

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



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

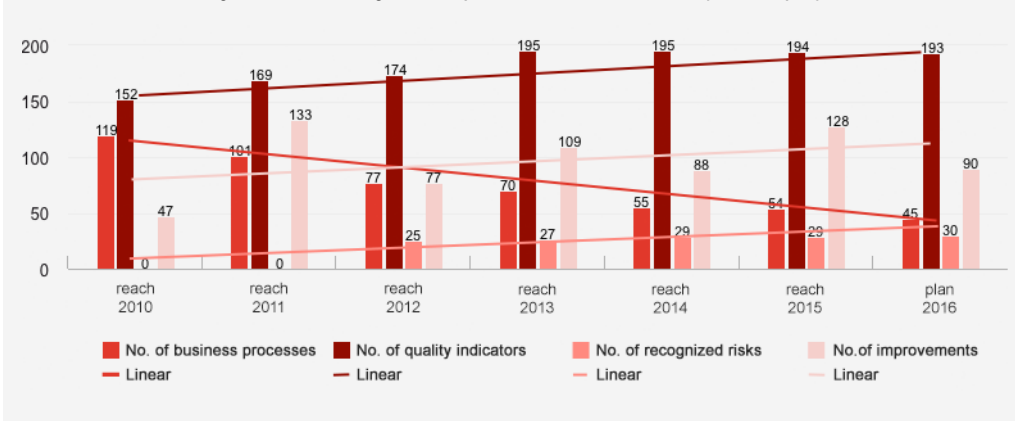
Systematic implementation of policies, strategies and objectives and organization plans are enabled by clear and mutually linked processes, which are optimized, managed, controlled and improved every day.

Results of continuous activities in all fields of operation have been verified through self-assessment since 2013 onwards, through which we monitor the progress of the company and take care of the risk management.

In year 2015 Elektro Gorenjska Company monitored and controlled its business with 54 recognized and mutually connected business processes, which are managed with the help of laws, organization rules and work instructions. Functioning of business processes was monitored with the help of 194 established quality indicators and 29 recognized risks. In the systematic management of iSVK operation there were 128 improvements/measures submitted, which proves that the company delivers on the commitment to continuous improvement and to steady growth.

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

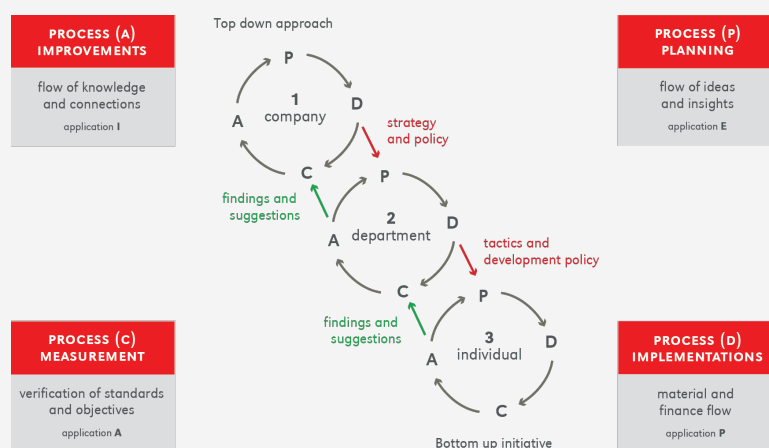
Figure 12: Monitoring of iSVK operation within Elektro Gorenjska Company



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

In addition to the good operation of the systems the following also contributes to the efficient system: good communication, constant improvements, regular verification and monitoring of all systems within iSVK.

Figure 13: 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) are treated systematically.

In year 2015 there were 128 proposals – measures and improvements, submitted contributing to system operation as well as stimulating the employees to seek for improvements and additional measures that have a favorable influence on good business and stimulate additional commitments of the employees and environment management.

Like every year in year 2015 we successfully passed the external assessment of certification management systems. There was one non-compliance established in the field of safety and health at work, and 27 recommendations given, which were systematically discussed and taken into account according to their relevance.

With the quality policy, which is part of the business policy the management of the company commits to a long-term following of the vision and reaching the goals set in accordance with the strategic guidelines. With this it will invoke the corporate culture based on quality, risk management, protection of employees and the environment, investing in employees, ensuring their commitment and their satisfaction over the principles of the reconciliation of work and private life, and ultimately the commitment to continual improvement.

Quality policy was realized by the vision of reaching our set 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 integrated quality management system (iSVK), like: quality management system (SVK), risk management (OT), responsible environmental management (SRO), health and safety at work quality (VZD) 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.

Besides internal and external assessments we verified 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 (even weekly), which are promptly discussed in case of major deviations;
- 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.

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

Majority of measures adopted in 2011 will be implemented in the future too. As we have realized during these three years that certain measures have not given us the desired effects, we replaced them during the procedure of obtaining a full certificate. We added three new measures implemented in year 2015, meaning that Elektro Gorenjska Company is implementing a total of 16 of family friendly measures .



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

5.2 Risk management in Elektro Gorenjska Company

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Risk management is an important condition for the effective and efficient achievement of long-term business objectives.

In Elektro Gorenjska Company we are aware of the risks that are an integral part of our business . We are also aware that only a comprehensive and systematic risk management is effective. For this purpose in year 2011 in Elektro Gorenjska Company we started with establishing the risk management system and:

- adopted the methodology of risk evaluation,
- appointed the risk coordinator,
- established a register of the most significant risks,
- defined the ways of their management and
- determine administrators of the individual risk.

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.

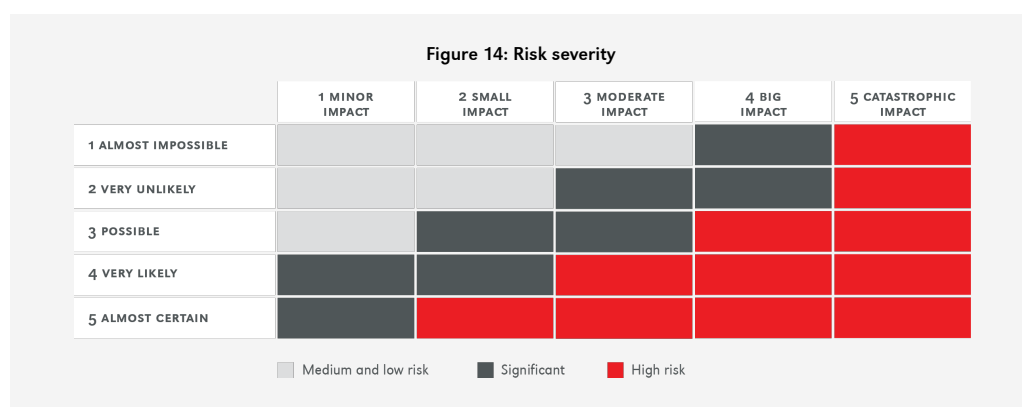
In its operations Elektro Gorenjska Company faces various types of risks, which it also manages successfully:

- financial risk,
- procedural risk,
- market and external risk,
- operating risk,
- strategic and regulatory risk,
- business and other risk,
- law and compliance and
- corporate management.

Basic document which lays down rules and procedures for the primary identification of risks, evaluation and their monitoring in the process of identifying and managing risks is an organizational regulation »Identification and assessment of risks in company Elektro Gorenjska, d. d.«.

Comprehensive risk management system is recognized as part of the integrated management system. Risk management process itself thus includes recognition, assessment, planning and implementation of responds as well as informing, communicating and controlling of risks and measures for their control, including reporting on the risks the company is or could be exposed to in its operation.

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 damage extent, which materialization of the risk could represent for the company.



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

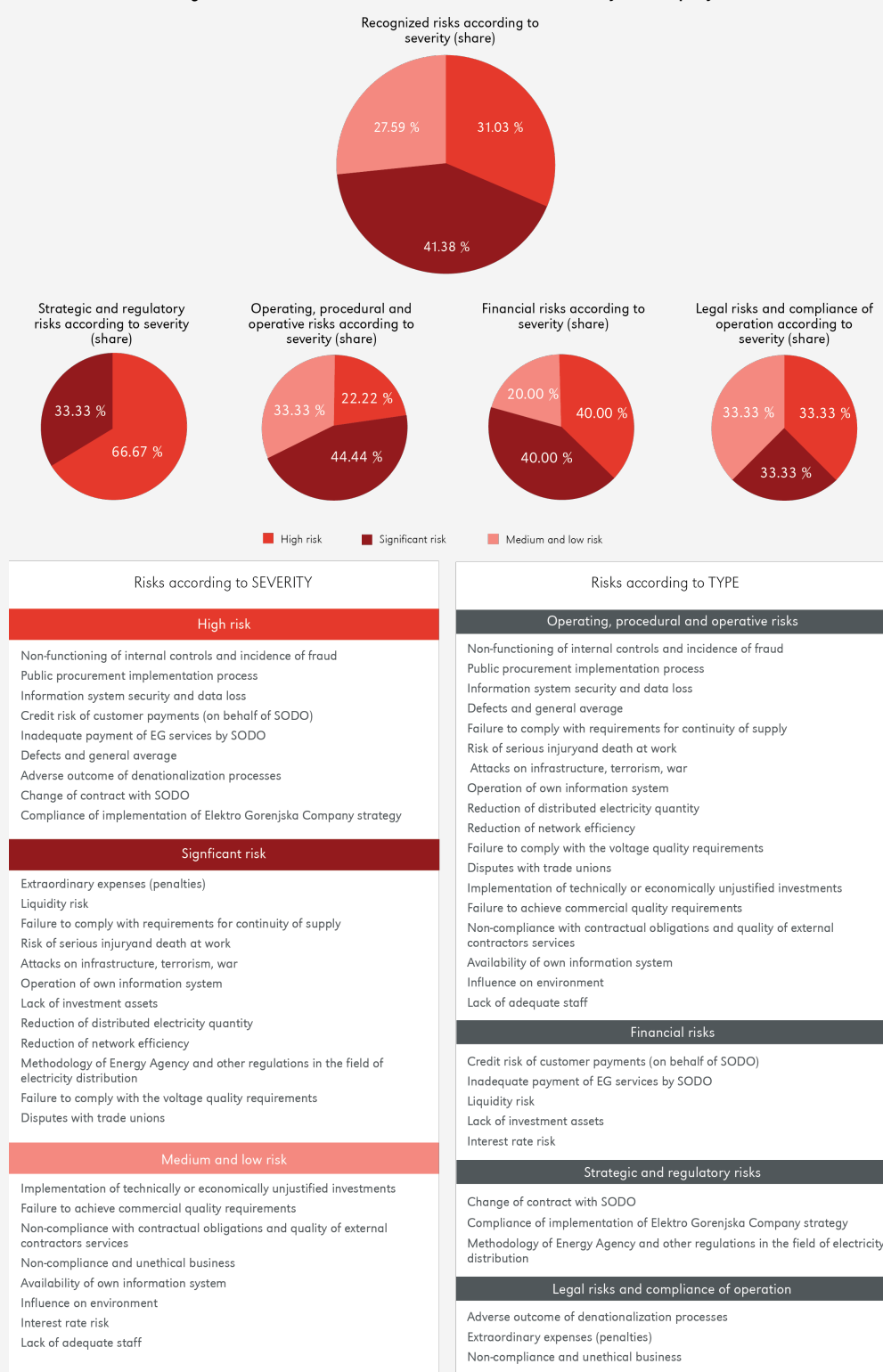
The highest authority of the risk management in Elektro Gorenjska Company is Committee for Quality.

Responsibilities and obligations of the Elektro Gorenjska quality committee include the following:

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

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

Figure 15: Classification of identified risks in Elektro Gorenjska Company



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.

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

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 monitoring risks and the involvement of all employees, the risk management process has become part of a sound 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.

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. In year 2015 we acceded to quantification of risks, which will be our basis for the upgrade of the risk management system with dynamic calculation of the value impact of risks on operation.

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, and health and safety at work system OHSAS 18001.

As in 2014, also in 2015, 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.

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.

Below the most important of them are briefly presented:

5.2.1 Business risks

- **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: (1) reduction in operational efficiency, (2) changes in legislation or regulations. Severity: significant risk.

Measures under implementation:

(1) Adequate and effective planning and implementation and optimization of executive processes, limiting growth (reduction) of the cost of shared services, increasing positive business result of unregulated activities (regulated activities cost relief); (2) Active involvement in the process of drafting regulations, laws and implementing regulations through interest associations.

Intended measures:

(1) Limiting growth (reduction) of the cost of shared services; (2) Increasing the impact on altering the sectorial legislation (recognition of electricity distribution problems with the players of the legislative authorities).

- **Reducing the amount of energy distributed**

Company's revenues may be reduced at the expense of smaller quantities of electricity distributed in the previous year. Quantity was lower due to: (1) economic crisis; Consequently, EG realized lower revenue from the services under the contract with SODO, while the costs of EG were not in decline, as it had to continue to maintain the existing electricity infrastructure. Severity: Low risk.

Measures under implementation:

(1) Planning of electricity networks by taking into account the impact of economic crisis (REDOS); (2) Active involvement in the preparation of regulations governing the connection of generation sources to the distribution network (fair sharing of connection costs, payment of hot stand-by).

Intended measures:

(1) Efforts to change the methodology of the Energy Agency (network charge should be more dependent on the capacity of the device than transmitted energy); (2) Change of SODO instructions for connecting the generation sources.

Economic trends in the company Elektro Gorenjska are perceived primarily through the following three indicators: movement of electricity consumption, number of issued project requirements and issued approvals for connection. Height and continuity of the main income of the company depends on economic strength, particularly of Gorenjska region business users.

- **Reduction of network efficiency**

Reduction in the efficiency of the network can occur mainly due to: (1) connection of instable generation sources (e.g. solar power plants), when network has high power and low energy and (2) stranded investments - EG carries out investments in accordance with development plans, due to collapse of the major client infrastructure remains unused, (3) inadequate dynamics of network development (priorities e.g. reinforcement of network). Severity: significant risk.

Measures under implementation:

(1) Connecting production sources with connections deep into the stable point of the network; (2) Close cooperation with municipalities and industry to ensure the highest quality basis for the network development planning; (3) Compliance with operational measurements of TP loads for the needs of network development.

Intended measures:

(1) Reinforcement of the network where increased connection of production sources is expected, DSM measures and forming of internal criteria for determining the production units connection points; (2) Long-term planning with advanced DMS functions of the distribution control center; (3) Upgrading the telemetric system of operating measurements.

- **Extraordinary expenses**

It includes mainly various penalties: (1) penalties for infringement of Energy Act and implementing regulations, (2) penalties for offences relating to the maintenance, (3) penalties for pollution and for (4) emergence of unsecured claims. Because of the disproportionate insurance premiums costs EG does not have all fixed assets secured, this is particularly true for LV network. Severity: significant risk.

Measures under implementation:

(1) Organization of OU Distribution network, concern for the professional development of employees, supervision of implementation of all procedures foreseen by the EA; (2) implementation of programs according to OHSAS 18001; (3) implementation of programs according to ISO 14001; (4) Optimum security of infrastructure.

Intended measures:

(1) Creating a multi-annual plan of maintenance activities on electricity infrastructure, which will include all the legislation planned activities and ensure adequate resources for the implementation; (2) Defining the process and responsibilities of contractors in the field of maintenance during the construction of facilities; (3) Implementation of improvements based on SRO programs; (4) On the basis of statistical data and experience improve the optimal range and types of collateral at each call for securing the infrastructure.

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

Inappropriate payment of EG services by SODO may occur due to: (1) non-existent and inadequate pricelist of SODO services and (2) due to requirements for provision of services that are not subject to a contract with. Currently the price list of SODO services is not formed, which can result in a gap between the scope of services covered by the contract with SODO and the actual volume of services performed by EG. Severity: high risk.

Measures under implementation:

(1) Insisting on the upgrade of the contract with SODO Company, d. o. o.

Intended measure:

(1) Drafting the proposal of a pricelist for standard SODO services (calculations, norms).

- **Revision of the contract with SODO**

Annual contracts with SODO contain increasing number of provisions that are disadvantageous for EG. In the future the following might occur (1) transfer of ownership of EG assets to SODO, (2) transfer of task implementation to SODO, (3) transfer of cash flow to SODO. All of the above reduces the autonomy of EG operation. Severity: High risk.

Measures under implementation:

(1, 2 in 3) Finding the way to get the concession for implementation of SODO services to EG.

Intended measures:

(1, 2 in 3) Preparation of reasons for concession grant.

- **Non-accomplishment of the Development plan of 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: (1) lack of investment funds, as annual regulatory framework does not follow the Development plan; (2) late approval of long-term loans to finance investments by regulatory bodies; (3) increase of environmental restrictions that prolong, complicate or prevent the placement of electricity facilities in space; (4) disputes with the owners of the land, which complicates placement of electricity facilities in the space; (5) 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; (6) possible non-fulfillment of contracts by external contractors and suppliers. Severity: high risk.

Measures under implementation:

(1) Engagement of all available resources for realization of urgent investments in electricity infrastructure; (2 and 5) Timely preparation of the Business plan and immediate opening of the credit approval process; (3 and 4) We cultivate good cooperation with local communities, coordinate intervention in the space with other actors (sewage, water supply...); (6) Implementing contracts contain safety provisions: penalties for non-performance, possibility of terminating the contract, etc.

Intended measures:

(1) Efforts to change the methodology of the Energy Agency and regulatory framework that will ensure adequate resources for realization of the Development plan, reducing the costs of activities and project that do not bring value added in terms of electricity infrastructure; (2 and 5) Prepare proposals for the elimination of administrative barriers in obtaining long-term assets, shortening of the borrowing procedures; (3 and 4) efforts to change the rigid environmental legislation; (6) Introduce the evaluation of contractors and suppliers, define the criteria for evaluation and properly integrate them in the implementation of the public plan.

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

Deterioration of continuity indicators may occur due to: (1) lack of maintenance resources; (2) limited employment of qualified staff; (3) insufficient robustness of the network, which is achieved mainly through cabling; (4) insufficient automation of the network. Severity: significant risk.

Measures under implementation:

(1) Providing sufficient resources for implementation of all maintenance work in the company; (2) In each plan of personnel foresee the needed development of staff for the next period (employment, scholarships, training); (3) MV power lines and overhead LV network are built and renovated exclusively with ground cables; (4) Automation of RTP, RP and MV network is satisfactory.

Intended measures:

(1) Replacement of individual traditional maintenance methods with modern ones with aim of adequate quality at a lower total cost; (2) Personnel department to introduce career plans for individuals and workplaces; (3) Twinning of long radial lines in the event that it is economically viable and feasible; (4) Expand the automation on TP level.

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

To achieve adequate commercial quality it is necessary to (1) employ the necessary qualified staff and (2) have a sufficient level of resources. Severity: Significant risk.

Measures under implementation:

(1) In each plan of personnel foresee the needed development of staff for the next period (employment, scholarships, training); (2) Providing sufficient resources to carry out all necessary activities in the business plan of the company.

Intended measures:

(1) Personnel department introduces career plans for individuals and individual workplaces; (2) Introduce improvements in IT support processes (call center, CRM, integration of IT systems).

● **Defects and general averages**

Due to weather conditions (1) defects and averages of different size may occur. Severity: high risk.

Measures under implementation:

(1) Appropriate planning, construction and operation of the network. Taking out insurance.

Intended measures:

(1) concentration of all communications which now take place directly between intervention contractors and network users into the appropriate IT call center within DCV.

5.2.2 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. Main types of financial risks are:

- **Credit risk or counterparty credit risk**, which represents the possibility that receivables from customers and other business partners resulting from deferred payments will be paid late, only partially or not at all. In times of economic crisis all this is becoming increasingly important. In order to manage these risks we regularly monitor the outstanding debts of the company, limiting the exposure to individual customers, we charge interest on late payments, and use an appropriate system of recovery.

For the parent company credit risk reduced strongly with the spin-off of activity of purchase and sale of electricity in the subsidiary company in year 2011.

Likelihood of materialization of credit risk and extent of damage on the basis of the above factors is assessed as medium, hence the severity of the risk is defined as medium.

- **Liquidity risk** stems from the fact that the company 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 cash management at the level of the group, with careful planning of cash flows, the establishment of adequate credit lines for short-term liquidity management and appropriate management of working capital. This includes the following activities:
 - Supervision and coordination among all OU in the field of procurement of goods and services or to 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 company
 - 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.
 - Monitoring the stocks in the manner of good management.
 - Monitoring of trade receivables as late payments of customers as a result of the deterioration of financial discipline and higher costs for debt collection, reflect on the poor liquidity of the company. It is also important to shorten payment terms to customers.

Severity of liquidity risk is assessed as big. 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.

- **Interest risk**, which represents the risk of adverse movements in interest rates. Before 2012 the company had most of the loans raised at variable interest rate (EURIBOR). 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. In year 2015 we also 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.

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.

5.2.3 Operating risks

They are risks related to design, implementation and control of business processes and activities in the company by providing appropriate functioning of the information systems. Exposure to operating risks in the company is estimated as low as the following standards have been introduced: quality management system ISO 9001, environment protection system ISO 14001 and health and safety at work system OHSAS 18001.

Quality Management System ISO 9001 in addition to the formalization and standardization of business activities and the division of responsibilities for their implementation also provides regular checking of the implementation within external and internal audits. By obtaining the certificate of environmental management system ISO 14001, the company proved that we are aware of how important responsible attitude towards the environment is, and this means that we are eliminating the adverse effects on the environment. Indirectly, by complying with the provisions of the standard, potential risks to the environment reduce.

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

- **Human resources risks**, which include the loss of key personnel, lack of qualified staff and ensuring competent staff, as well as the conduct of employees, which is not in accordance with regulations and internal acts of the company. Risk is managed by ensuring and encouraging continuous education, system of substitutes, training, internal communication, informing all employees, with annual interviews, by measuring the organizational climate and care for safe and healthy work through the system OHSAS 18001, as well as with other measures of internal control system. Risks associated with the conduct of employees, which could cause the company significant damage, are controlled by the company also by concluding contracts with insurance companies on liability insurance in the field of implementation of construction and designing works, and insurance of employees with voluntary collective accident insurance for workers. In 2014 the company acquired full Family Friendly Company certificate, on the basis of which it adopted sixteen measures that will contribute to improved quality and more efficient spending of work and family time.

Severity of human resources risks is considered significant. Probability of the materialization of this risk is assessed as certain, and we are aware that the departure of key personnel could result in moderate business damage.

- **Legislative (regulatory) risk** is one of the most important risks, since it includes non-market factors such as changes in and the vagueness of the rules which the company cannot control or has very limited impact on these factors. Company should ensure that business is conducted in accordance with them. Risk relates primarily to the reduction in economic benefits (additional costs or reduction in incumbent revenue) in order due to adaptation to the regulatory changes, but also due to potential inconsistencies in compliance with the rules (penalties).

Regulatory risk is very much present, as the legislation in the energy field is still changing and largely affects the operating results and financial position of the company. Legislative changes are affecting the company in a number of other areas: from general economic regulation, tax system (tax rate of corporation benefit, tax relief, write-downs of assets, VAT rates ...) to environmental protection. In addition to these risks it must also be considered that the Republic of Slovenia is 79.42 - percent shareholder of the company Elektro Gorenjska.

In general, the company seeks to manage these risks through timely and appropriate involvement in the procedures for adopting new rules and changing the existing rules. Respecting the rules is controlled by an adequate system of internal control.

Likelihood of company operating outside the legal or regulatory frameworks is assessed as low due to the established system of internal controls. Because we believe that the materialization of the risks would create moderate business damage, the severity of the risk is assessed as significant.

- **Risks associated with the implementation of a computerized information system include** the risk of data loss, risk of unauthorized access to data, risk of correct and proper functioning of the system and applications, as planned and in accordance with the applicable regulations, and risk of the undisturbed functioning of the system.

Risk of data loss is assessed as low, because we have systems for archiving both within the company and backup location. Against the risk of unauthorized access of data we are protected with a two-stage system of access checks.

Risk of the proper functioning of the system and applications, as planned and in accordance with the applicable regulations, is estimated as low, as we promptly review all legislative changes. Based on the findings of non-compliances we prepare requirements for the necessary changes in IT support.

Against the risk of interruptions in the operation of the system we are protected by the system of ensuring continuous operation and with the backup location.

Since major disruptions in the operation of the information system may give rise to a large operating loss of the company, we estimate the severity of the risks associated with the operation of the computerized information system as high.

- **Risk of minimum stocks of material** means that during major defects or damage events there is a shortage of material for the repair of equipment. Risks are managed by the conclusion of appropriate agreements, which oblige suppliers to the storage of certain materials in stock and therefore to the shortest delivery time, and by method of consignment in material supply.

Severity of this risk is assessed as low, taking into account the slight probability of materialization and moderate business damage, which could subsequently arise.

- **Uniform property insurance policy** in order to eliminate the various risks that could jeopardize the operation of the company and cause major damage. Therefore, the company has contracted property insurances with insurers.
- **Risks associated with disputes** relate primarily to the denationalization processes, individual labor disputes and

other civil cases, where the involved party is company Elektro Gorenjska. In the event that the final completion of the procedures will not be resolved in favor of the company, there are financial implications. Company manages this risk so that the system of internal control as far as possible ensures compliance of its operations with the regulations and contracts. Where it considers appropriate and reasonable, the company makes use also of the services of external legal experts.

Company estimates that materialization of the risks associated with disputes is very likely. Since the loss of individual disputes reflect in high business damage, the severity of the risks associated with disputes is high.

- **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. If the risk materializes, it would have a small financial impact on the operations.

This type of risk is managed by means of the Declaration on security with risk assessment, by meeting the requirements of the standard for safety and health at work of BS OHSAS 18001, trainings, medical examinations and checks of the personal protective equipment.

This risk is controlled by the health and safety at work council, within the VZD system and in close collaboration with the Health and Safety at Work Service.

- **Risk of effects on the environment**

Company's operations may directly or indirectly affect the environment. To this end, we have identified environmental aspects over which are overseen by the council for environmental management. Risks are managed through the monitoring and compliance with environmental legislation, compliance with the requirements of the standard for environmental management ISO 14001, trainings, and regular audits of operation.

5.3 Establishment of an internal audit, audit committee of the supervisory board and functions of risk management

In September 2011 Elektro Gorenjska Company, in accordance with the decisions of the general meeting and the requirements of the majority owner, began the process of establishing a comprehensive, formalized risk management system and internal audit.

Elektro Gorenjska Company has already had a well-functioning risk management system, as demonstrated by its successful and reliable operation. Nevertheless, it was necessary to formalize a system, strengthen and upgrade it with the introduction of the internal audit function and the establishment of the Audit Committee of the Supervisory Board.

On the basis of a resolution on the establishment of the organization of internal controls at the 34th regular session of the college of the management, CEOs, consultants of the management and the Board of Directors of Elektro Gorenjska group on October 6 2011, the risk management function and internal audit were established, which were organized in the framework of the parent company and cover the area of operation of the entire group:

- **Internal audit function** is managed by the internal auditor, who responds and reports to the Audit Committee of the Supervisory Board, while administratively it reports directly to the CEO of the parent company.
- **Risk management system** is managed by the risk management coordinator, who reports to the internal auditor, council of risk management for each area, and the President of the Management Board of the parent company. In autumn 2012, the area of risk management and the role of coordinator for risk management in the company Elektro Gorenjska was taken over by Advisor to the Board for the quality, who is responsible for the operation of an integrated management system in the company.

Supervisory Board at its second regular session on 10. 3. 2013 appointed Mr. Andrej Koprivec as a member of the Audit Committee from the ranks of the Supervisory Board of Elektro Gorenjska, who is also appointed the Chairman of the Audit Committee of the Supervisory Board of Elektro Gorenjska, and Mr. Elvis Duraković.

From the ranks of qualified independent experts in accounting and auditing, which completed the training for becoming certified auditor, auditor, certified accountant, accountant, certified internal auditor, certified tax expert and the like, it appointed Mr. Andrej Baričič, PhD.

Internal audit in the company Elektro Gorenjska operates as an independent function since 2012. Basis for its operation is the Charter of internal audit, which has been confirmed by the Management Board and Supervisory Board of Elektro Gorenjska.

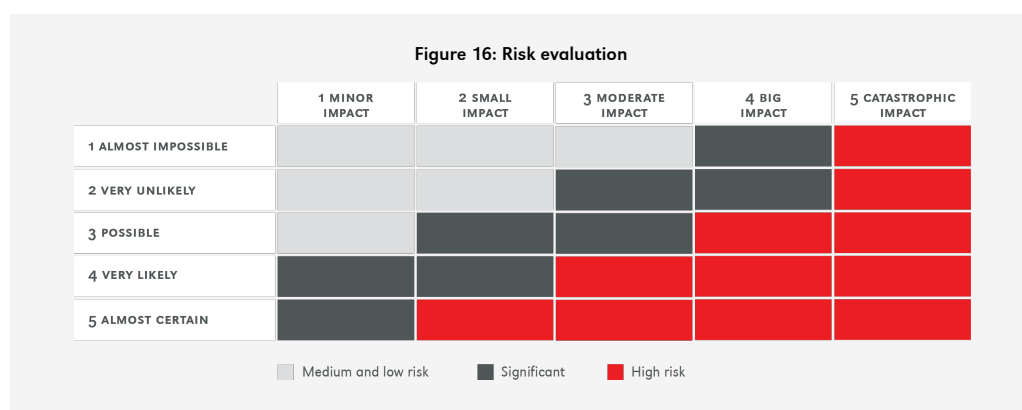
Aim of internal audit is to provide assurance on risk management of companies in the group, and to add value by advising on all levels with regard to risk management, protection of property and improvement of the efficiency and quality of operations.

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

In 2015 internal audit conducted nine audits. Special attention was focused on areas of procurement and investment and credit risk management. In addition, it regularly monitored the implementation of recommendations.

5.4 Risk management in company Gorenjske elektrarne

Regular monitoring and risk management is an important condition for the effective and efficient achievement of long-term business objectives. Company in its operations faces various types of risks. Occurrence of the loss or damage that occurs as a result of the materialization of the risks may adversely affect the success of the company. Cornerstone of risk management is their identification and severity assessment, which the company estimates as a result of the likelihood of the materialization of the risk and impact on the company's performance.



Company Gorenjske elektrarne has recognized the following risks:

- **Denationalization procedures in progress**

HE Kranjska Gora

Gorenjske elektrarne Company are in the process of property restitution to the UE Jesenice liable for repayment in case ref. No. 321-31 / 97. Agrarian community Kranjska Gora - Log has set a claim for restitution in kind for SHP Jasna or Kranjska Gora. Expert opinion was made, which showed that the investments in the facility from Gorenjske elektrarne Company were in majority (about 90 %), based on which a partial decision was issued by the Administrative Unit Jesenice No. 321-31 / 97 dated 08/10/2015, which rejected the request of the Agrarian Community Kranjska Gora - Log for the restitution of property in kind for Plots No. 806/3, 806/4, 806/2, 808/268 and 808/270 k.o. Kranjska Gora. Agrarian community Kranjska Gora - Log on October 26 2015 lodged an appeal against that part of the appeal. Ministry of Agriculture, Forestry and Food by Decision No. 490-53 / 2015/4 dated 17/12/2015 dismissed the appeal and partial decision of the Administrative Unit Jesenice No. 321-31 / 97 dated 08/10/2015 has become final in January 2016.

HE Jelendol

Denationalization process also takes place in relation to HE Jelendol, in respect of which the beneficiaries request the return in kind. Gorenjske elektrarne Company does not own the property, but only of movable property, this is the mechanical equipment in this HPP. Temporary injunction on the return of HE was issued, which was worded in

person to the Municipality of Tržič, which is the legal successor to the registered owner of the property on which HE is standing and running. Company acquired the mentioned HE at establishment through in-kind contribution. Administrative Unit Tržič issued a decision on May 19 2008 on the surrender to temporary use to the beneficiaries of the engine room in HE Jelendol and on June 6 2008 the decision authorizing the enforcement. Therefore, the HPP, together with movable property was handed over to the beneficiary on August 8 2008. Against the order the Gorenjske elektrarne Company filed the appropriate legal means to the Ministry of Environment and Spatial Planning, which dismissed the appeal against the decision to surrender to temporary use. Company has appealed against the decision, which was followed by the Administrative Court of the Republic of Slovenia, which annulled the decision and remitted the case for a new procedure.

AU Tržič in the reopening of the process returned HE Jelendol to the temporary use of denationalization claimants, which was followed by confirmation to the complaint of Gorenjske elektrarne Company by the Ministry of Environment and Spatial Planning (MOP). Company appealed against the decision of the Administrative Unit Tržič (and decision of MOP) and filed a lawsuit at the Administrative Court of the Republic of Slovenia. In connection with the return of movable property, this is the mechanical equipment, the company filed a lawsuit for the return of the mechanical equipment and payment of charges for use and damages against the denationalization beneficiary and temporary user. On February 15 2016 the AU Tržič issued a partial decision, by which the property was returned to the beneficiary, with municipality Tržič being liable for the repayment, while the claim of Gorenjske elektrarne for the equipment not to be returned was granted. Against the decision an appeal has been filed. Procedures have not yet been completed.

- **Risk of weather conditions**

Company Gorenjske elektrarne is in its core business, the production of electricity, decisively linked to weather conditions. 64 % of the value of production comes from hydro power plants, where rainfall impacts the production decisively. Rainfall can swing +/- 20 % around the long-term average . Difference in annual electricity production of the particularly abundant and drought years can be as much as 17,000 MWh, which at the price of 40 € / MWh represents 680,000 € of revenue.

Company manages this risk primarily with development policy, which has been intensely focused on the diversification of production by adding new MFE and CHP generation capacity , thus the share of hydropower in total revenues from the sale should decline in the long-term. Company also focuses on other projects of efficient energy use, which further affect the stability of cash flows and reduce dependence on weather conditions.

At the operational level, the company managed the risk of fluctuations in production with optimum maintenance of production facilities, thereby minimizing the extent of downtime.

- **Market risk**

In the sale of the electricity produced the company is exposed to fluctuations in the market price of electricity. These are strongly correlated with economic developments, it can also significantly be affected by the external shocks like for example loss of major production units in the European context or the change of the policy of generating electricity for example abandonment of nuclear power plants.

Company controls the market risk or risk of fluctuations in selling prices of electricity primarily by current monitoring of all factors that affect the price and the consequent anticipation of price movements. Based on the analysis, the company decides to sell electricity in future periods, when it considers that the price is favorable. Customer is chosen based on the best deals.

In the segment of electricity produced by CHP market risk was controlled by simultaneous correlation of the purchase price to the movement of prices of natural gas as an energy source.

Also, the company is trying to avoid the risks of changes in electricity prices through other projects of energy efficiency, which are not directly linked to the price of electricity.

In the long term the company expects rise in the price of electricity produced from renewable energy sources, which would have a positive effect on the profit of the company. Practice of the so-called green certificates or premium on the price of electricity generated from green sources is already a standard abroad, while in Slovenia such a product does not exist yet.

- **Risks in connection with the new regulations in obtaining supports**

On the basis of EZ-C in year 2011 all HE, except HE Soteska, HE Rudno and HE Zvirče, lost their rights to received supports, as they were all older than 15 years. HE Zvirče will be eligible for support until 2017, HE Soteska by mid-2016, HE Rudno until November 2019. Solar power plant s are entitled to supports in different ways, namely until

2020 or 2027, while cogenerations until 2020 or 2023.

Additional risk also arises for facilities that are otherwise contractually eligible for support. Budget of the Centre for supports for renewable energy sources annually accumulates around 90 million euros, but due to a large increase in power facilities this amount no longer covers the many needs.

These risks are managed through the construction of new production facilities, and in recent years also by seeking and implementing other energy efficiency projects, which are not tied to the national support and by finding other revenue sources.

- **Risk of production downtime and loss of revenue**

Loss of production, especially in combination with machinery breakdown, may mean a significant loss of revenue for the company. Company therefore took care through implementation of regular monitoring, enhanced monitoring in the event of adverse weather conditions as well as planned and ongoing maintenance that there were no failures in the production units.

- **Risk arising from ensuring compliance with concession contracts**

Gorenjske elektrarne Company as a concessionaire regularly maintained the facilities of water infrastructure and water land owned or held by the company, in accordance with the Program of operation and maintenance of water infrastructure facilities adopted by the competent ministry.

- **Risks due to changes in climate conditions due to global warming**

Risks of electricity production, as well as future investments in HE and FE are associated with changes in climatic conditions due to global warming, which is now actually present phenomenon. Gorenjske elektrarne Company feel climate change in the form of increasing extremes. Thus, we have longer and stronger droughts and more extreme weather events with an extremely increased rainfall. Both cases mean lower production of hydroelectric power, as in the case of water disasters HEs have to stop operating due to security reasons. What climate change to expect in the future nobody knows.

Company manages the risk of climate change mainly by adaptation, e.g. diversification of its production sources and the appropriate design solutions that enable operation of production facilities or prevent damage in adverse weather conditions.

- **Credit risk**

Credit risk represents the possibility (probability) of losses due to failure to fulfill contractual obligations of the debtor to the creditor. Related is the unwillingness or inability of the debtor, which may be temporary (illiquidity) or permanent (insolvency), to meet its financial obligations within the agreed deadline.

Company has not been exposed to credit risk in terms of higher amounts. Amount of the unpaid debts from the total turnover in 2015 was insignificant. Receivables are monitored monthly and defaulted obligors are alerted at default, as we send them accounts of default interest or begin the process of judicial recovery against them, and we terminate the contract on cooperation with the buyer.

- **Foreign exchange risk**

Foreign exchange risk is a financial risk, which means danger of financial loss due to changes in the value of one currency against another. Company was not exposed to foreign exchange risks in year 2015.

- **Interest risk**

Interest risk means the possibility of loss due to adverse movements in interest rates on the market. Company manages interest rate risk arising from financial liabilities, which are linked to interest rate EURIBOR, through interest rate swaps. Interest rate swaps are expected to successfully hedge against cash flow risk. In this way, the company is fully hedged against interest rate risk.

- **Risk of insolvency**

Risk of insolvency is a risk that the company will face difficulties in raising funds to meet its financial obligations. Company did not face this risk in year 2015.

6.1 Production of electricity



Gorenjske elektrarne Company remains loyal to renewable energy sources, projects of self-sufficiency in electricity, e-mobility and achieving energy savings in companies.

In year 2015 Gorenjske elektrarne Company generated electricity in 14 own hydro power stations (hereafter HE), and one rented power station (which the company has rented from the founder Elektro Gorenjska, d.d., since its establishment), and in 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 seven high-efficient cogenerations.

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

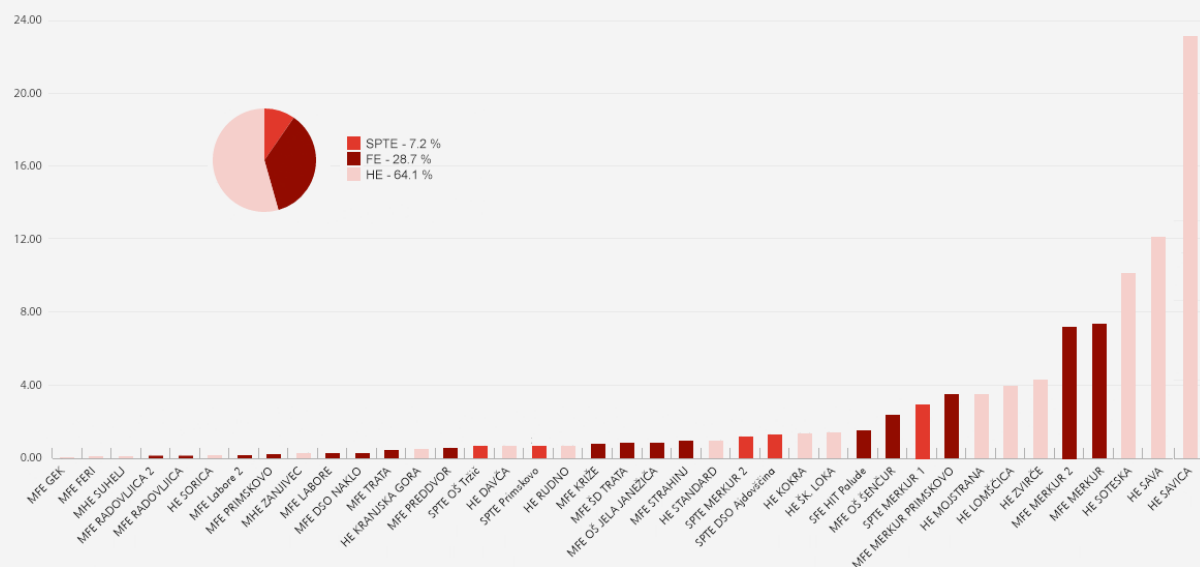
Operation of hydro power stations to a great extent depends on natural resources - current rainfall, which impacts the quantity of water in water courses, as hydro power stations do not have their own accumulations in general (with the exception of Lomščica HE). This means that in the event of heavier 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 represents the method of converting the fuel energy into electricity, where main part of heat, which occurs as side product during this conversion, is put to good use. Different technologies enable the use of various fuels with different efficiencies. What all technologies have in common is the total more efficient process of converting the energy for the good use of the heat, which is otherwise present in traditional thermal power plants. Advantage of acquiring electricity in this way is mainly in efficient conversion of fuel energy into useful heat and electricity. Mentioned ways also reduce the dependence on the existing ways of acquisition of electrical energy.

The following figure presents share of individual power stations within entire turnover of electricity sale including the production supports for year 2015.

Figure 17: Share of individual power stations within entire turnover of electricity sale



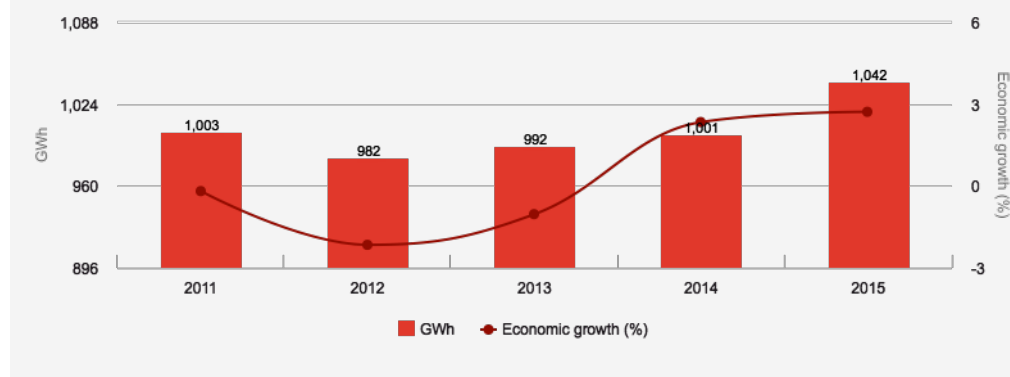
6.2 Quantities of distributed electricity

In year 2015 there were 1,042,193 MWh of distributed electricity through the network of Elektro Gorenjska Company or 4.1 % more than in year 2014 (1,000,918 MWh).

In year 2015 household customers within the network of Elektro Gorenjska Company were distributed 328,787 MWh of electricity, which is by 2.3 % more than in year 2014 (321,506 MWh). Business customers within the company's network were distributed 713,405 MWh of electricity, which is by 5.0 % more than in year 2014 (679,412 MWh).

We estimate that the reason for somewhat larger quantities of distributed electricity in year 2015 is improvement of economic situation.

Figure 18: Changes in distributed quantities of electricity from year 2011 to year 2015



6.3 Quality of electricity supply

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

Quality of electricity supply thus includes:

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

Continuity

Continuity has been followed as usually in accordance with the legislation. In the last year the set of parameters followed was added another short-term indicator MAIFI. Analysis has shown that in year 2015 the indicators are within the prescribed limits.

Table 6: Unannounced long-term interruptions according to type of network in year 2015

	[Unannounced - Proper]			[Unannounced - Foreign]			[Unannounced - Force majeure]			Total
	Rural	Urban	Total	Rural	Urban	Total	Rural	Urban	Total	
SAIDI [min./cust.]	4.548	8.720	13.268	1.734	0.295	2.029	0.000	0.292	0.292	15.589
SAIFI [interr./cust.]	0.183	0.398	0.582	0.049	0.007	0.056	0.000	0.007	0.007	0.645
CAIDI [min./interr.]	24.807	21.888	22.808	35.036	43.338	36.040	0.000	40.103	40.103	24.157
CAIFI [interr./cust.]	0.592	1.286	1,878	0.160	0.022	0.182	0.000	0.023	0.023	2.083

Table 7: Announced long-term interruptions in year 2015

	Rural	Urban	Total
SAIDI [min./odj.]	34.004	10.277	44.281
SAIFI [prek./odj.]	0.234	0.102	0.336
CAIDI [min./prek.]	145.449	100.587	131.805
CAIFI [prek./odj.]	0.968	0.423	1.391

Table 8: Momentary interruptions in year 2015

	Total rural	Total urban	Total company
MAIFI [interr./cust.]	1.624	1.247	2.871

Figure 19: SAIDI - Average time of duration of all unannounced interruptions

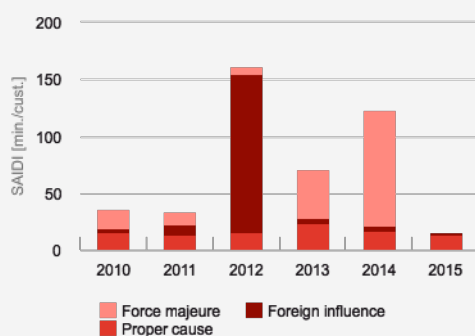
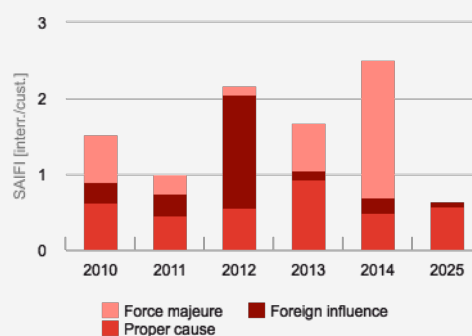


Figure 20: SAIFI - Average number of all unannounced long-term interruptions (longer than three minutes)



We find that situation in the field of power quality has not changed substantially compared to year 2014. 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 2015 other parameters were throughout the measurement in accordance with the requirements of SIST EN 50160 standard. During the year we received six official complaints on the condition of voltage quality on the low-voltage level, of which three proved to be justified. We try to eliminate inconsistencies as quickly as possible and within statutory deadlines.

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

Table 9: Consistency of power quality parameters with the SIST EN 50160 standard on high voltage level for year 2015

Object RTP 110/X	Number of weeks under control	Number of inconsistent weeks						Number of voltage drops	Number of voltage increases	Consistency KEE	
		Size of supply voltage	Harmonics	Flicker	Imbalance	Signal voltage	Frequency			Number of consistent weeks	Number of inconsistent weeks
RTP Jesenice 110 kV	51	0	0	51	0	0	0	64	23	0	51
RTP Radovljica 110 kV	51	0	0	50	0	0	0	166	4	1	50
RTP Tržič 110 kV	50	0	0	49	0	0	0	67	20	2	49
RTP Primskovo 110 kV	51	0	0	49	0	0	0	68	21	2	49
RTP Zlato polje 110 kV	51	0	0	49	0	0	0	56	20	2	49
RTP Labore–DV Okroglo 110 kV	51	0	0	48	0	0	0	69	20	3	48
RTP Škofja loka 110 kV - Okroglo	51	0	0	31	0	0	0	74	22	20	31
RTP Škofja Loka–DV Kleče 110 kV	51	0	0	33	0	0	0	66	29	18	33

Commercial quality

In most commercial quality parameters for year 2015 we established that average achieved values of indicators were essentially better than the limits of minimum quality standards. In parameter 1.1. Average time to issue consent for connection (parameter 1.1.) the reason for lower share of services above the limit value (12 %) was the fact that data according to the General Administrative Procedure Act refer to summary and declaratory proceedings together. In summary proceedings permissible time of issue of the order was 30 days, while in declaratory proceedings, where oral hearing is implemented as well, it was 60 days.

With parameter 4.1. (Average time needed to eliminate the defect counter) share of implemented services above the threshold (10 %) refers to defects we discovered on our own, without receiving the complaint from the user. In the future we are planning improvements in this field by sending alerts to responsible persons.

Reasons for 23 justifiable exemptions in parameter No. 4.2. (average time to reconnection after disconnection due to late payment) are based on the coordination of the time of connection of the measuring point with the presence of the user, which means that time of service implementation was prolonged in agreement with the user.

Most complaints were again recorded the field of meter or measuring devices functioning, where 63 % of complaints were justifiable. Complaints refer mainly to incorrectly measured quantities of electricity due to failure of controls or timers, which are technically in a pretty bad condition. Solution of the problem is planned by gradual introduction of AMI meters. We received no compensation claims from our users in year 2015.

6.4 Investments

In year 2015 Elektro Gorenjska Group invested 18,342,130 € (year 2014: 14,764,515 €). Major investments are presented below.

Within investments in high-voltage network which amounted to 7,016,750 €. The major one are:

- 110 kV DV RTP Železniki – RTP Bohinj: By the summer all construction works have been carried out, including the connecting 110 and 20 kV cable conduits. Before the completion of the construction works electrical installation works have started with setting all 115 pylons, which were completed by autumn. This was followed by installation of 110 and 20 kV slings equipment, cables and OPGW completed in the month of November. In December the necessary testing of equipment and functioning was carried out and a professional technical inspection followed by a connection.
- 110 kV DV RTP Jesenice – RTP Kranjska Gora: We continued with activities for reconstruction on the basis of the

regulation on maintenance in the public interest. In year 2015 we implemented the installation of 9 new pylons in the area from Podkuže to Belce. In winter time we regulated easements and obtaining consensuses. At the end of the summer there was a physical implementation according to the already established procedure. All works have been completed during the months of September and October.

- RTP 110/20 kV Tržič and Primskovo: In the beginning of the year tender for replacement of a throttle and resistance in RTP Tržič and Primskovo was successfully implemented. Project was implemented in the autumn time and was successfully completed by the end of the year by putting it into service.

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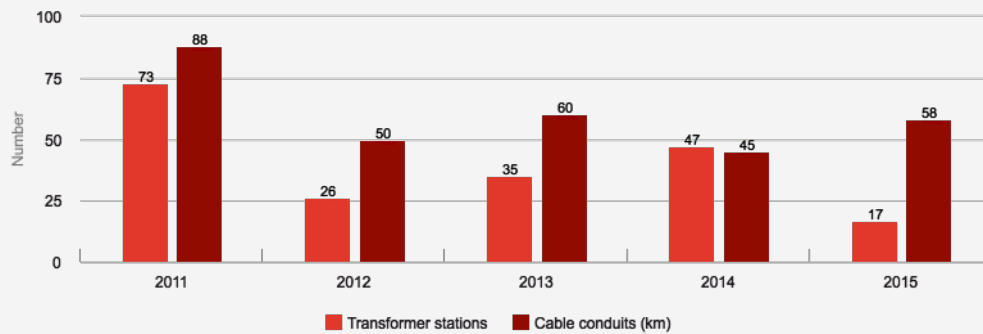
One third of the investment funds have been allocated for the completion of the Gorenjska region energy loop construction, a 110 kV distribution line between Železniki and Bohinj.

Value of investments in medium and low-voltage network in year 2015 amounted to 7,670,674 €. In this context we:

- We still carried on with certain transformations on the MV network for remediation of the critical parts of the network and providing better network robustness. As a priority we invested in the reconstruction of 20 kV lines with cabling. Most of the funds were earmarked for cabling of the 20 kV network from Kranjska Gora towards Rateče, from RTP Škofja Loka along the new bypass into Poljanska Valley with outlets in the valleys of Hrastnica and Sopotnica. Other lines include: Žiganja vas – Novaki, Sebenje – Senično, 20 kV cable conduits in Gorje and lower Bohinjska Valley, Železniki – Planšak, Rovte – Lenart, Kanonir – Hudin,...
- We followed the municipalities and together with them acceded to the construction of our own sewerage network for current and future cabling and development of electricity network. In year 2015 it was possible to feel the re-growth of new constructions, which reflected mainly in the field of new low-voltage connections. Construction on a larger scale took place and still takes place in the following municipalities: Škofja Loka, Šenčur, Preddvor, Kranj, Bohinj and Bled.
- In addition to cable ducts we have earmarked funds on low-voltage network also for transformations of measuring points in accordance with the typing within AMI project, with which we are simultaneously arranging also measuring points in individual facilities and putting them on the same denominator.
- There were 8 renovated and 9 newly built transformer stations.
- There were approximately 58 km of renovated and newly built low-voltage network in a predominantly cable design.
- Instead of the reconstructing the power lines we reconstructed them by newly built medium-voltage cable conduits in total length of about 48 km.

The following figure shows figures about the construction of new or renovation of old transformer stations and low-voltage cable conduits from year 2011 to year 2015.

Figure 21: Construction of new or renovation of old transformer stations and low-voltage cable conduits from year 2011 to year 2015



Among other investments (3,654,706 €) the following were significant:

- telecommunications and protection (new base station Jezersko, telecommunications equipment, radio network, WiMax system...),
- measuring devices (AMI project – replacement of 10,000 measuring points),
- business and technical equipment (new information system),
- replacement and renovation of DCV,
- arrangement of the outdoor areas of the administrative building,
- construction of electricity charging station next to Merkur Primskovo shopping center,
- development of our own information energy system GEKenergija,
- renovation of the boiler room in parent company Elektro Gorenjska, d. d.,
- renovation of the turbine in HE Davča
- purchase of the electric vehicle Kangoo ZE and a travelling workshop to facilitate implementation of maintenance works on production facilities located in the entire Gorenjska region.

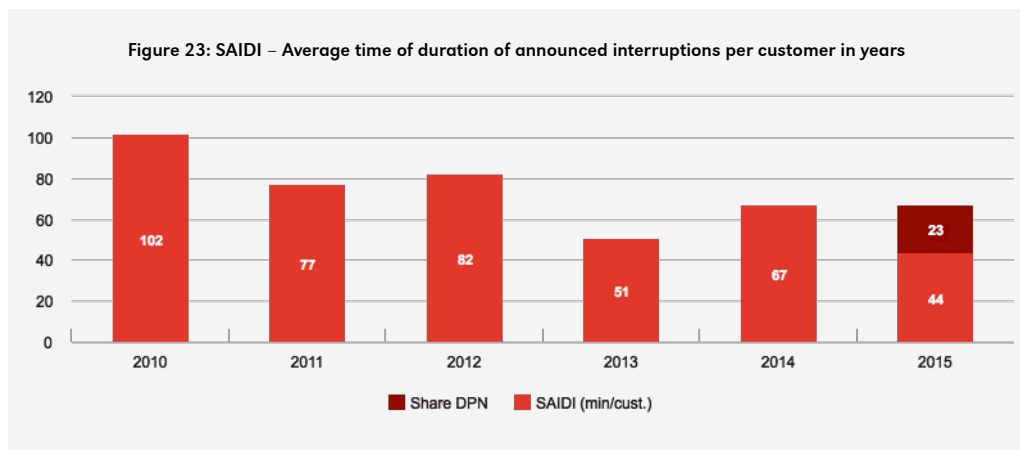
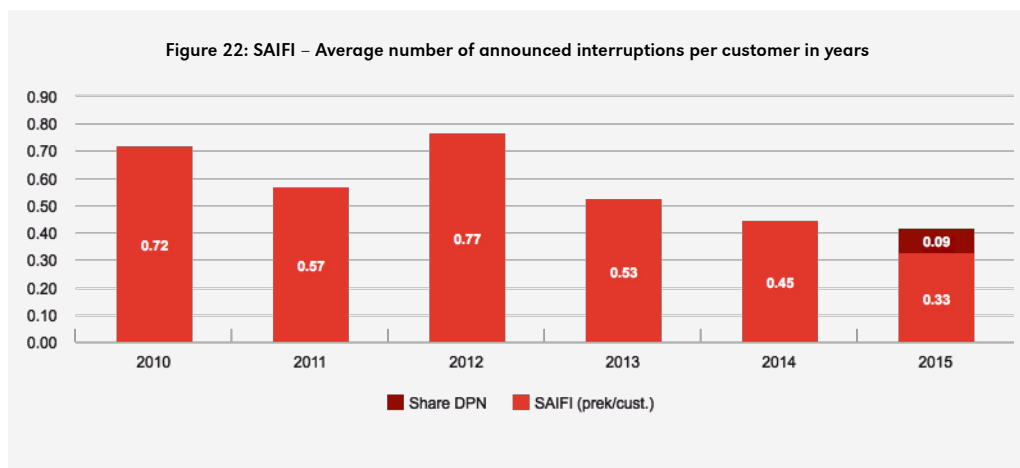
6.5 Maintenance of energy facilities

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 2015 mainly **planned (preventive) maintenance** on the infrastructure was performed with the aim of reducing the likelihood of a failure of facility's component part or system, which is achieved with appropriate interventions executed according to the criteria, which are determined in advance.

Preventive maintenance included inspection of electric power devices, execution of clearings in power lines and low-voltage overhead lines corridors, revision of transformer stations, switches, transformers, protection devices and execution of control measurements and testing of protection devices functioning. In the field of preventive maintenance we have been trial introducing new diagnostic methods of establishing the energy equipment status and as a result adjustment and suitable planning of maintenance and investment interventions on equipment.

By performing maintenance work using the method of live work (DPN) we managed in the past year to achieve the best indicators of continuity of supply for announced interruptions. In the two figures below a contribution to improvement of value due to implementation of live work is shown in red.



Field of **unplanned (curative) maintenance** in year 2015 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. Larger and widespread failures were not recorded in year 2015.

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

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

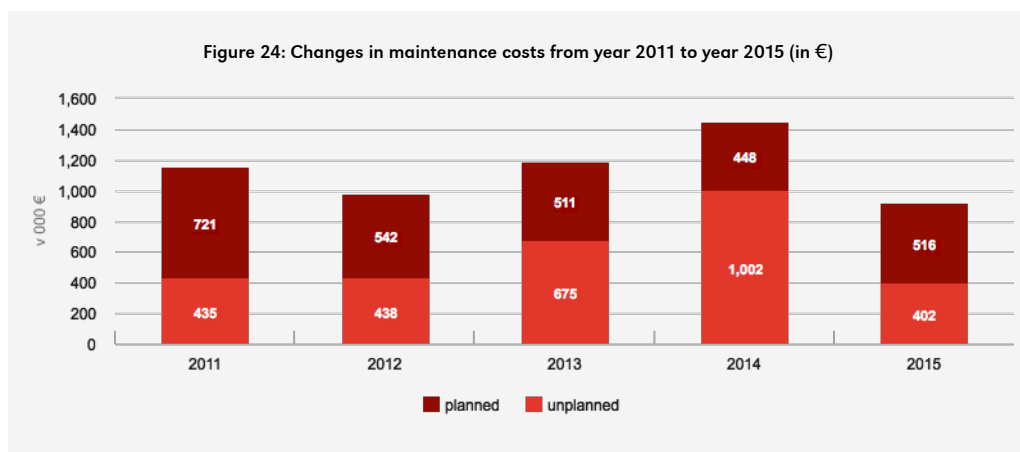
In year 2015 Gorenjske elektrarne Company implemented planned maintenance on its energy infrastructure, which can be equated with preventive maintenance. Purpose of such maintenance is reducing the probability of failure of component part of a device or a system, which is achieved with appropriate interventions implemented in advance according to defined criteria.

According to the program for year 2015 planned maintenance works on machinery and devices in all hydro power plants were carried out as well as appropriate measurements in solar power plants and cogenerations.

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

Current maintenance as elimination of consequences of errors (e.g. curative maintenance) represented in 2015 other kind of maintenance differing from the planned maintenance mainly in being time unpredictable and difficult to plan.

Changes in maintenance costs in Elektro Gorenjska Group (excluding unplanned maintenance costs, which result from e.g. glaze ice or windfall), which represent costs of maintenance services and costs of maintenance material from year 2011 to year 2015, are shown in the following figure.



6.6 Development and design



In year 2015 Elektro Gorenjska Company produced 25 % more of project documentation than in year 2014.

In the field of research and development of distribution network provision there is a development service organized in Elektro Gorenjska Company. This way the company ensures systematic use of knowledge acquired with research and also practical experience. Work scope provides necessary knowledge for the needs of development of new technologic solutions, systems, and processes of electricity distribution and other services, which the company is obliged to provide in accordance with its mission. Costs of scientific research, connected with development and design, are presented also in the accounting report, chapter 17.8 – Costs of services.

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

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

In Elektro Gorenjska Group business processes are implemented in accordance with the valid legislation, which prescribes the company to use modern technologies as well. For this purpose the 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.

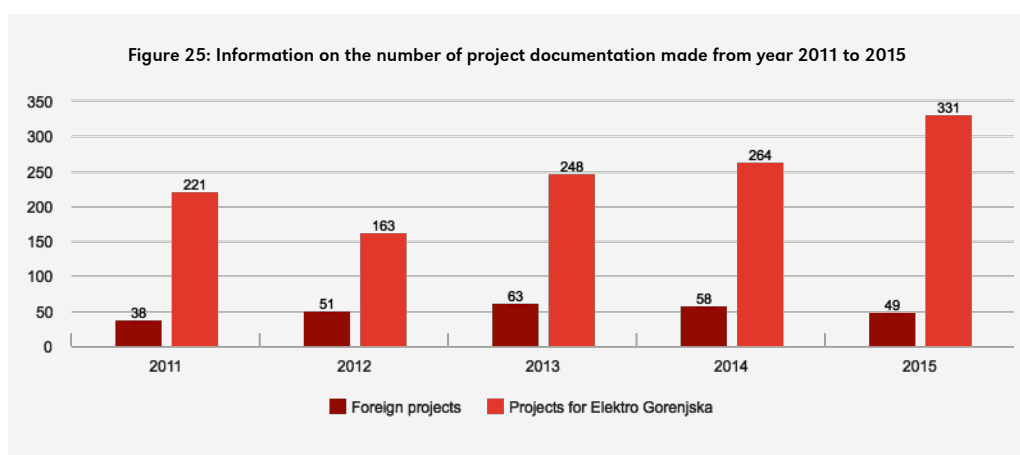
For the purposes of certain investments from the 2015 investment plan of Elektro Gorenjska, different expert studies,

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

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

In year 2015 development studies preparation in the following fields were taking place:

- Determination of the maximum value of the earth impedance TP and the determination of contact voltage depending on the duration of the fault current,
- general information model – CIM,
- REDOS 2040: development of electricity distribution network of Slovenia, fixed five-year contract.



6.7 Financial performance criteria of the group

6.7.1 List of significant indicators

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

Indicator contents		31. 12. 2015	31. 12. 2014
1 FINANCING INDICATORS			
a) equity financing rate (in %) capital / liabilities		67.9	64.0
b) debt financing rate (in %) debts / liabilities		25.0	29.0
c) short-term financing rate (in %) short-t. debts (including sh.-t. accrued costs and deferred revenues) / liabilities		6.4	13.1
d) long-term financing rate (in %) capital + long-term debts (incl. provisions) + l.-t. accrued costs and def. rev. / liabilities		93.6	86.9
e) initial capital rate (in %) initial capital / capital		49.5	51.4
f) creditworthiness net debt (long. + sh.-t. financial liabilities – cash in bank) / EBITDA		2.6	2.2
2 INVESTING INDICATORS			
a) operating fixed assets rate (in %) fixed assets (at accounting value) / assets		90.6	85.0
b) long-term assets rate (in %) fixed assets and l.t. accruals and pre-paid expenditure (at acc. value) + l.t. fin. inv.+ l.t. oper. claims / assets		94.8	86.5
3 HORIZONTAL FINANCIAL STRUCTURE INDICATORS			
a) equity to operating fixed assets (in %) capital / fixed assets (at accounting value)		0.7	0.7
b) immediate solvency ratio liquid assets / short-term liabilities		0.28	0.19
c) quick ratio liquid assets + short-term claims / short-term liabilities		0.8	1.0
d) current ratio short-term assets / short-term liabilities		0.8	1.1
4 INDICATORS OF ECONOMY AND RETURN			
a) operating efficiency ratio (in %) operating revenues / operating expenses		119.5	109.0
b) entire efficiency ratio (in %) entire revenues / entire expenses		123.0	107.4
c) level of revenue profitability (in %) pre-tax profit / revenues		18.7	6.9
d) value added (in €) operating revenues-costs of goods, material, services-other operating expenses		28,985,733	30,966,504
5 TURNOVER INDICATORS			
a) total assets turnover ratio revenues / average assets		0.2	0.4
b) operating claims turnover ratio operating revenues / average operating claims		2.7	3.5
6 INDICATORS OF RETURN			
a) EBITDA (in €) operating revenues - operating expenses + depreciation and f.a. write-offs + revaluation expenses		16,999,162	17,857,116
b) EBIT (in €) operating revenues - operating expenses		6,644,739	7,373,175
c) financial result (in €) financial revenues - financial expenses		1,494,241	-1,127,633
d) pre-tax profit (in €) entire revenues - entire expenses		8,098,063	6,199,803

Indicator contents		31. 12. 2015	31. 12. 2014
e) net profit (in €) entire revenues - entire expenses - corporate income tax		7,239,406	5,477,406
f) ROA (%) net profit after taxes / average assets		3.3	2.5
g) ROE (%) net profit after taxes / average capital		5.1	4.0
7 EQUITY			
a) number of shares number of registered shares		17,302,071	17,302,071
b) book value of share (in €) capital / number of shares		8.4	8.08
c) net profit per share (in €) net profit / number of shares		0.4	0.32
8 INDICATORS OF RETURN			
a) average number of employee		309	342
b) operating revenues per employee (in €) operating revenues/average number of employees		131,748	261,533
c) value added per employee (in €) value added/average number of employees		93,805	90,545

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

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In year 2015 net profit amounted to 7,239,406 €, while in year 2014 it amounted to 5,477,406 €.

6.7.2 Financing indicators

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

- **Equity financing rate** shows the share of equity financing of all assets. Indicator shows that in year 2015 the equity financing rate was 67.9, which is by 3.9 percent point more than in year 2014. Higher value of the indicator is the result of higher equity as the consequence of achieved profit of the group.
- **Debt financing rate** indicates debt financing of the group's assets. In year 2015 the indicator amounted to 25.0 % and was by 4.0 percentage point lower than in year 2014, which is the consequence of lower short-term operating liabilities. Short-term operating liabilities are lower due to lower accounts payable.
- **Short-term financing rate** presents the share of short-term debts in the assets. In year 2015 the short-term financing rate amounted to 6.4 % and was by 6.7 percentage point lower than in year 2014. Lower rate was mainly the consequence of lower short-term debts, which decreased by 52.9 %
- **Long-term financing rate** in year 2015 amounted to 93.6 % and was by 6.7 percentage point higher than in year 2014. Reason for that is in the increase of capital from profit from operations and increase in long-term financial liabilities due to the constant investments in the electricity infrastructure. Since the group does not have sufficient own resources (also due to payment of dividends) for financing planned or necessary investments, it must acquire foreign, debt financing sources. Own resources to finance investments in energy infrastructure consist mainly of generated income, mainly profit, which is expected, since the parent company generates regulated revenues, which include revenues from rents and services rendered under the Contract with SODO. These revenues are explained in more detail in chapter [17.1 – Net sales revenues](#) and chapter [15.1 – Transactions with SODO Company](#).
- **Initial capital rate** presents the share of initial capital in entire capital. Compared with the year 2014 the share decreased somewhat, it presents 49.5 % of the entire capital. Reason for that is in the fact that compared to year 2014 share capital did not change in year 2015, while entire capital increased due to profit achieved.
- **Creditworthiness:** safe level of indebtedness is followed by the indicator showing the NET FINANCIAL DEBT/EBITDA ratio. On December 31 2015 this indicator was 2.6, while at the end of year 2014 this indicator amounted to 2.2. For the group level of indebtedness not acceptable would be indicator value that would surpass 3.5. For the company this means that it would take more than three years and a half to cover all financial liabilities with generated cash flow. This commitment is used by some banks in already existing credit contracts. Indicator value to a great extent depends on the operation of the main activity (positive result in year 2015 is presented also in chapter [6.17.9 – Structure of revenue and expenditure](#)), as larger derogations from planned operating revenues and expenditure would negatively increase the value of the indicator. In the event of smaller revenue or bigger costs by 2 million Euros the indicator would worsen by 0.3. In case of additional indebtedness by 2 million Euros (at the same revenue and expenditure) the value of the indicator would go down by 0.2. Compared to year 2014 the value of the indicator is higher mainly due to higher investments in electricity infrastructure than foreseen in the Business plan (increase by 2.5 mio €). Consequently, the cash decreased and operating liabilities to suppliers in parent company increased. Investments are presented in more detail also in chapter [6.4. – Investments](#).

6.7.3 Investment indicators

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

- **Operating fixed assets rate** shows the share of fixed assets in all assets. In year 2015 the share of fixed assets represented 90.6 % of all assets, which was by 5.6 percentage point more than in year 2014. High operating fixed assets rate was expected for Elektro Gorenjska Group, as the line of business the group operates in, is technologically very intensive. Reason for increase of indicator value in year 2015 compared to year 2014 was in the fact that value of fixed assets increased by 7.3 %, while value of all assets decreased by 2.2 %.
- **Long-term assets rate** was 94.8 % at the end of the year, which is by 8.3 percentage point more than in year 2014. Reason for the increase in the value of the indicator in year 2015 compared to 2014 is the increase of fixed assets and increase in long-term financial investments.

6.7.4 Horizontal financial structure indicators

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

- **Equity to operating fixed assets** is a ratio between capital and fixed assets and in year 2015 it amounted to 0.7, which is the same as in year 2014.
- **Immediate solvency, quick, and current ratios** show the solvency. Immediate solvency ratio was higher compared to year 2014, which is the consequence of lower short-term liabilities compared to December 31 2014. Value of quick ratio and current ratio 0.8, which is somewhat lower than as at the end of year 2014. Lower values of the ratios are mainly the result of lower short-term receivables.

6.7.5 Indicators of economy or return

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

- **Operating efficiency ratio** is a ratio between operating revenues and operating expenses and for Elektro Gorenjska Group in year 2015 it amounted to 119.5 %, which is by 10.5 percentage points more than in year 2014.
- **Entire efficiency ratio** is ratio between entire revenues and entire expenses. In year 2015 it amounted to 123.0 %, which is by 15.6 percentage points more than last year.
- **Level of revenue profitability** tells us that the group made 18.7 € of profit per 100 € of achieved revenues, which is by 11.8 € of profit more than in year 2014.
- **Value added** of Elektro Gorenjska Group in year 2015 amounted to 28,985,733 € and decreased by 1,980,771 € compared with year 2014.

6.7.6 Asset turnover indicators

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

- **Total assets turnover ratio** shows how quickly the assets of the group turnover or how much revenue the group creates with existing assets. At the end of the year 2015 the ratio amounted to 0.2 and was by 0.2 percentage point lower than in year 2014.
- **Operating claims turnover ratio** shows how many times a year operating claims turnover to money. At the end of year 2015 it amounted to 2.7, which means that money was tied with buyers for 135 days on average, which is 30 days longer than in year 2014.

6.7.7 Return indicators

- **EBITDA** in year 2015 amounted to 16,999,162 € and was by 857,954 € lower than in year 2014, which is mainly the result of lower revenues sale of electricity due to significantly worse hydrology in year 2015 compared to year 2014 and change in the composition of the group (explained in chapter 14.1 General accounting framework).
- **EBIT** represents the difference between operating revenues and operating expenses. In year 2015 it amounted to 6,644,739 €, which is by 728,436 € less than in year 2014 for the same reason as with EBITDA indicator.
- **Net increase/decrease in cash and cash equivalents** was positive for Elektro Gorenjska Group in year 2015 and it amounted to 1,494,241 €. It was by 2,621,874 € higher than in year 2014, which is mainly the result of revenues, which refer to the loss of control in subsidiary company Elektro Gorenjska Prodaja, which occurred by a merger to ECE Company (explained in chapter 16.4 - Long-term financial investments).
- **Pre-tax profit** for Elektro Gorenjska Group in year 2015 amounted to 8,098,063 €, which is by 1.9 mio € more than the pre-tax profit achieved in year 2014. Increase in pre-tax profit in year 2015 compared to year 2014 is mainly the result of better efficiency of the group and financial revenues from interests (as explained at financial result).
- **Net profit** in year 2015 amounted to 7,239,406 €, while in year 2014 it was 5,477,406 €.

- **Number of shares** in Elektro Gorenjska Company did not change throughout the year 2015. Book value per share amounted to 8.4 € at the end of year 2015, while net profit per share amounted to 0.4 €.
- **Average number of employees** in year considered was 309, which are 33 employees less than in year 2014. Changes in the number of employees are explained in chapter [9.1.1 – Demographic structure in the Group](#).
- **Operating revenues per employee** in year 2015 amounted to 131,748 €, which is by a half less than in year 2014. Reasons are changed composition of the group and restrictions on the foreign market, due to which a trading business was not carried out, which in year 2014 brought by 10.4 mio € of revenues.
- **Value added per employee** in Elektro Gorenjska Group in year 2015 amounted to 93,805 €. Compared with the year 2014 value added was by 3.6 % higher.
- **ROA:** Value of indicator amounts to 3.3 %, which is better than the expectations of the Slovenian Sovereign Holding (2.1 %). Value of the indicator is relatively low, which is the result of constant investing of the group, as among other things mission of the group is also ensuring quality and reliable electricity supply. We could not achieve this without investments in intangible and tangible assets. We should mention that quality and reliability of electricity supply on distribution network are measured by SAIDI and SAIFI indicators (more on the quality in chapter [6.3 – Quality of electricity supply](#)), and have been preserved in the recent years and according to JARSE represents Slovenian reference level according to statutory requirements. So in the future it is not expected from the group to invest less in its fixed assets than so far, which means that amounts of intangible and tangible assets (they represent more than 90 % of the balance sheet total in the assets) will not be reducing. This further means that value of the indicator depends mainly on the business results or revenues that company receives under the contract with SODO Company and whose regulatory values depend mainly on the regulator JARSE and costs of operation and maintenance the company has (excluding financial expenditure due to borrowing).
- **ROE** shows what percent of net profit belongs to the owners according to their ownership share. For Elektro Gorenjska group return on equity amounted to 5.1 % at the end of the year 2015. Indicator depends on the financing structure: higher indicator means bigger risk on the account of high indebtedness. Elektro Gorenjska Company has very limited possibilities of managing performance activities, as under the Contract with SODO it is obliged to execution of many activities which bring various costs (expenses), while on the other side it is limited in controlling its revenues, which belong to it according to this Contract (Please see also Financial report, Chapter [15.1 – Transactions with SODO Company](#)).

6.7.8 Structure of assets and liabilities

Assets

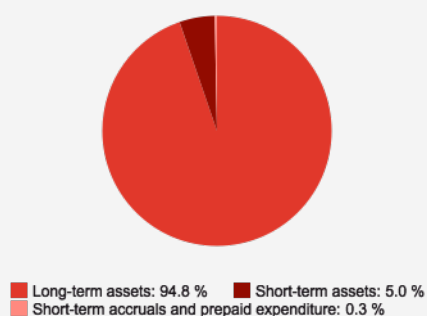
On the last day of year 2015 the assets of Elektro Gorenjska Group amounted to 213,797,402 € (31. 12. 2014: 218,571,629 €) and have decreased by 2.2 % in year 2015. Long-term assets increased by 7.1 % in year 2015, while short-term assets decreased by 63.4 %.

Long-term assets represent 94.8 % of all group's assets. Among them tangible fixed assets representing 95.1 % of all long-term assets are the most important. Value of tangible fixed assets increased by 4.4 % or by 8,047,149 € in year 2015.

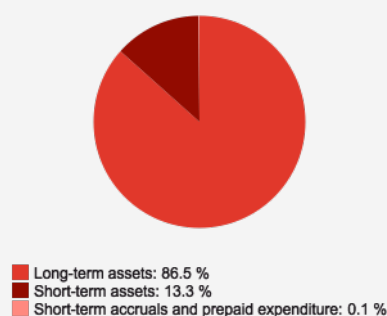
Besides tangible fixed assets long-term assets also consist of the following categories (explained in more detail in chapter [16 – Notes on profit and loss account](#)):

- intangible fixed assets, which decreased by 161,890 € in year 2015 mainly as a result of the annual depreciation of these assets,
- investment property, whose value decreased by 9.7 % or 190,599 € as a result of a depreciation of these assets, and
- long-term financial investments, whose value in year 2015 increased by 5.4 times or 5,727,819 €. Reason for increase is mainly the merger of subsidiary company Elektro Gorenjska Prodaja to ECE Company. Due to the merger, the value of long-term financial investments of the group increased by the value of investment held by Elektro Gorenjska Company in ECE Company. Investment in ECE Company is recorded under shares in associates and in the group's financial accounts recognized using the equity method.

Figure 26: Structure of assets as of 31. 12. 2015



Structure of assets as of 31. 12. 2014

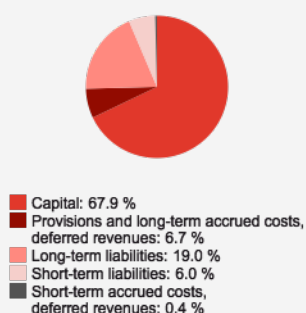


Capital and debts

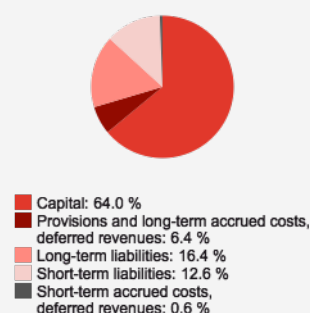
As at December 31 2015 Elektro Gorenjska Group reached a ratio between equity and debt capital in the amount of **2.1 : 1**, while in year 2014 this ratio was 1.8 : 1.

In the structure of liabilities capital represents 67.9 % of the entire balance sheet total. In year 2015, capital increased by 3.8 % or by 5,296,130 €. Long-term liabilities, mostly long-term banking credits, represented as of 31. 12. 2015 19 % of all funds. In year 2015 they increased by 13.2 % 4,751,286 €. Short-term liabilities represented 6.7 % of all funds and have decreased by 53.8 % or 14,807,323 € in year 2015. Provisions and long-term accrued costs and deferred revenues represented 6.7 % of funds at the end of year 2015. In year 2015 they increased by 1.8 % or by 260,131 €. Short-term accrued costs and deferred revenues contributed 0.4 % to funds at the end of year 2015 and decreased by 22.8 % or by 274,451 € compared to the year before.

Figure 27: Structure of funds as of 31. 12. 2015



Structure of funds as of 31. 12. 2014



6.7.9 Structure of revenue and expenditure

In year 2015 Elektro Gorenjska Group achieved a pre-tax profit in the amount **8,098,063 €**.

Table 10: Composition of profit or loss by business segments (in €)

Item description	2015	2014
Operating profit or loss	6,644,739	7,373,175
Financial result	1,494,240	-1,127,634
Extraordinary profit or loss	-40,916	-45,737
Pre-tax profit	8,098,063	6,199,803

Decisive contribution to positive business in year 2015 was made by the positive operating profit or loss, above all activities of the Contract with SODO and electricity production. In year 2015 net increase/decrease in cash and cash equivalents was also positive, which was mainly the result of a merger of Elektro Gorenjska Prodaja Company to ECE Company. Financial revenues include proportionate share of net profit of associate companies ECE and Soenergetika, which are consolidated by equity method and revenues in the amount of 1,687,991 €, which refer to the loss of control in the subsidiary company Elektro Gorenjska Prodaja, which occurred with the merger to ECE Company. Financial result in year 2014 was negative as expected, as the line of business the group mostly operates in is technologically very

intensive and is financed mainly through debt resources.

Table 11: Operating profit or loss in years 2015 and 2014 (in €)

Item description	2015	2014
Operating revenues	40,710,245	89,444,365
Operating expenditure	34,065,506	82,071,190
Operating profit or loss	6,644,73	7,373,175

Operating profit or loss for year 2015 amounted to 6,644,739 €. Compared to year 2014 it was by 728,436 € lower. Lower operating profit compared to year 2014 is the result of lower electricity production and merger of Elektro Gorenjska Prodaja Company to ECE Company as already explained.

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

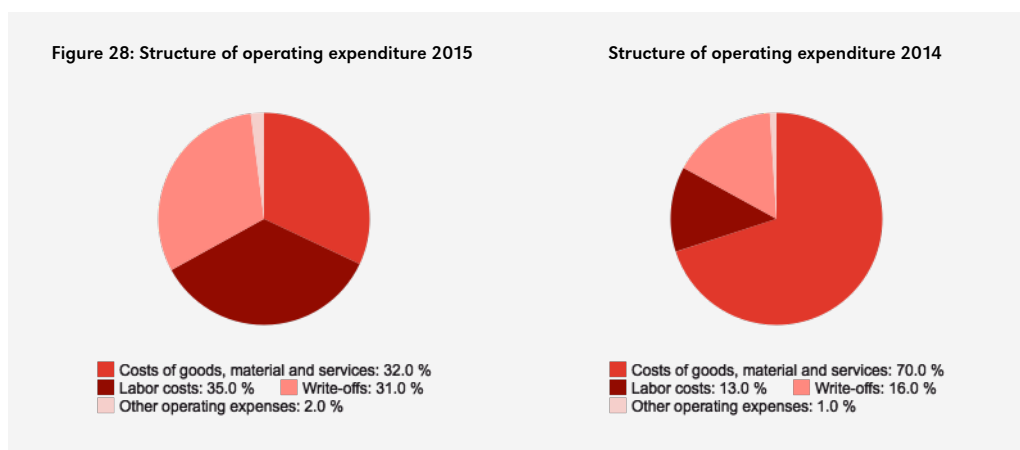


Table 12: Financial result in years 2015 and 2014 (in €)

Item description	2015	2014
Financial revenues	2,618,676	426,038
Financial expenditure	1,124,436	1,553,672
Financial result	1,494,240	-1,127,634

Financial result was positive in year 2015 and amounted to 2,618,676 € (reasons previously explained). Financial result in year 2014 was negative. 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).

Table 13: Result from extraordinary operations in years 2015 and 2014 (in €)

Item description	2015	2014
Other revenues	62	227
Other expenditure	40,978	45,965
Extraordinary result	-40,916	-45,737

Other expenditure is mainly donations, which are described in more detail in chapter 9.3.1. – [Communication with local community and social responsibility](#).

Table 14: Net profit in years 2015 and 2014 (in €)

Item description	2015	2014
Pre-tax profit	8,098,063	6,199,803
Income tax	740,948	722,397
Deferred taxes	117,709	0
Net profit	7,239,406	5,477,406

07 Marketing and sales

“

For more than fifty years Elektro Gorenjska Company has been providing reliable and quality supply of electricity to more than 88,500 users.

For more than fifty year Elektro Gorenjska Company has been providing reliable and quality supply of electricity in the area of 2,091 km in the northeastern part of Slovenia to more than 88,500 users. In addition to careful planning and the annual investment in the electricity network we offer our users a variety of energy services.

Services and products

As part of the comprehensive solution we offer our end users:

- **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**

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

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

- **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 in shopping centers and the project of replacement of compressed air compressors. 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 GEENIS 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.

- **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 order to encourage the introduction of electric cars , we decided to buy the first electric car Kangoo, 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 (hydroelectric and solar power plants) 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, where on the roof of the building already operates our photovoltaic power plant. Market opportunity is in the expansion of green charging stations.

- **Other market services**

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

In the group Elektro Gorenjska we are aware of the advantages that the use of information - communication technologies brings. We are aware that the appropriate IT support is a precondition of a successful operation of the group.

Year 2015 was marked by the renovation of the second part of the information system (ERP), which includes renovation of information system for:

- financial and accounting services (FRS),
- material storage operation (MRP),
- human resources field (HRM),
- base of technical data (BTP) and construction and
- integration of the system with the existing IT systems that will be used in the future too (MOWE, ŽCO, network charge accounts, EBA, health and safety at work, arrangement of working time).

Therefore, in year 2015, with the goal of increased system integration, we successfully established the following information - communication technologies:

- project management system integration,
- making the system for design and demonstration of technical documentation projects,
- upgrade of the system room at the backup location,
- upgrade of the automatic archiving of data,
- a new environment for the renovated parts of the information system,
- setting up the test system for the transfer of operational data in Kranjska Gora.

In 2015 special attention was paid to providing and enhancing information security. At the end of 2014 the security was reviewed. Test results, which were presented at the end of 2015, have shown that the Internet network security of companies in the group Elektro Gorenjska was at an appropriately high level. With the ongoing aim of raising awareness of employees about the importance of proper handling of information, especially about the importance of taking into account the information security, we carried out trainings in the field of information security. On the internal website, we have prepared for employees a special security corner, which presents a variety of security tips and information. Information about the importance of safety policies are included in the internal e - monthly, and also in the internal newspaper of the company.

With the construction of 110 kV and 20 kV transmission line Bohinj - Železniki we completed the Gorenjska energy and optical loop and also raised the reliability of a telecommunications distribution network at a significantly higher level.

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.

“

We are aware that investing in employee skills is a prerequisite for the successful operation of the company.

9.1 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 search opportunities and discover 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 fight with changes and crisis situations. We enhance communication by including everyone in solving the problems, which enables the companies to experiment all the time, improve and increase their capacities, while their employees to reach their own and consequently also joint goals.

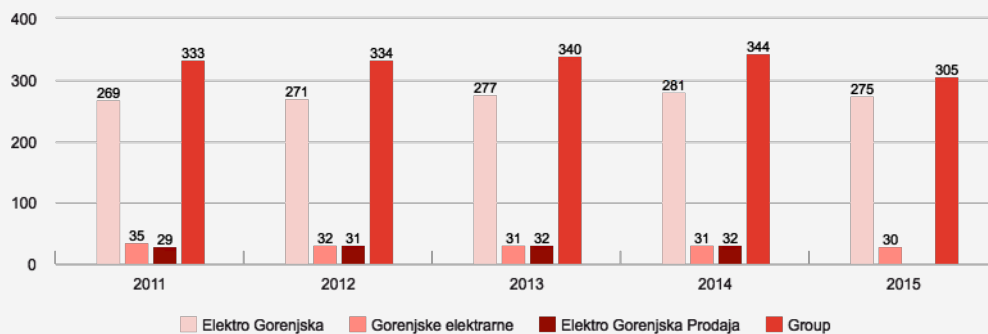
9.1.1 Demographic structure in the group

On December 31 2015 Elektro Gorenjska Group had 305 employees. Compared to the situation as at December 31 2014, number of employees decreased by 39 workers. Due to changes in the group the number of employees dropped by 32, there were 5 terminations of employment and 6 retirements. In this year we had 4 new employments.

At the end of year 2015 the group had 3.28 % employees employed with fixed-term employment, which is by 2 percent less than in year 2014.

In year 2016 the number of employees will remain at approximately the same level.

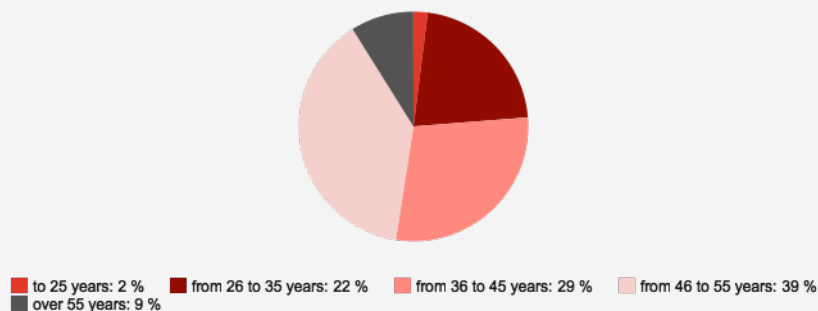
Figure 29: Changes in the number of employees in the period from 2011 to 2015



At the end of year there were 77.38 % of men and 22.62 % of women employed in Elektro Gorenjska Group. If we exclude Elektro Gorenjska Prodaja Company, which was merged with ECE company and which structure was predominantly female, the percentage is entirely comparable with the previous years and closely connected with the primary activity of the two companies.

Average age of employees in the group is 43.6 years, which is by 1 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 2015 there were the most employees in the age group between 46 and 55 years, namely 39 percent of all employees. Older age structure in Gorenjske elektrarne Company has the strongest impact on older age groups as there 60 % of all employees belong to the last two age groups.

Figure 30: Shares of employees in Elektro Gorenjska Group according to age groups



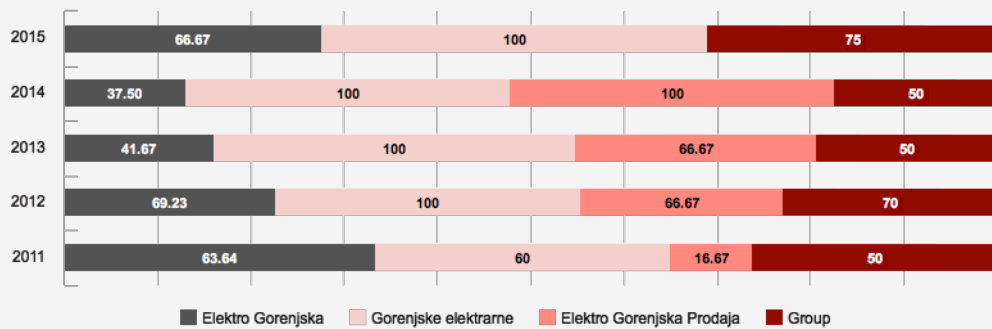
9.1.2 Employment

Human resources planning is a constituent part of strategic and annual plan of the companies. Human resources in the group are planned in accordance with these goals by an annual business plan and implementation plan of human resources and education. We seek to gain ambitious and professional new workers. 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 companies' 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 that is why we employ highly educated staff.

Figure 31: Share of new employees with at least high professional level of education at the time of employment



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

Fluctuation of personnel in the Elektro Gorenjska Group is small. Fluctuation mainly emerges due to departure of workers for retirement and fixed-term employments, where employments are terminated after the need for increased volume of work is terminated or due to termination of the need for substitution of the worker. Very rarely individuals decide for the termination of the employment contracts on their own. As Gorenjske elektrarne is a small company in terms of the number of employees, every employment termination, which is not replaced by a new employment, has a great impact on the higher percentage of fluctuation, which reflected in year 2015 as well, when two workers retired and only one new employed.

Table 15: Fluctuation rate in Elektro Gorenjska Group

	2011	2012	2013	2014	2015
Elektro Gorenjska	2.54 %	3.90 %	2.13 %	1.41 %	2.83 %
Gorenjske elektrarne	0.00 %	11.10 %	6.06 %	3.13 %	6.25 %
Elektro Gorenjska Prodaja	2.54 %	11.40 %	5.88 %	3.03 %	-
Skupina	2.06 %	5.38 %	2.87 %	1.72 %	3.17 %

9.1.3 Employment of persons with disabilities

On the last day of the year there were 7 disabled persons employed in the group. In accordance with the statutory quota of employing disabled persons, which amounts to 5 % in Gorenjske elektrarne and 6 % for Elektro Gorenjska, the group would have to employ approximately 19 disabled persons. In year 2015 by signing the contract with a social enterprise for the period of eight months Elektro Gorenjska made use of the possibility of claiming replacement quota fulfillment for 28 disabled persons. We plan to continue with this practice in the future years too.

Table 16: Information on disabled employees

	ELEKTRO GORENJSKA		GORENJSKE ELEKTRARNE	
	2014	2015	2014	2015
Number of employed disabled persons as at 31. 12.	7	7	0	0
Number of disabled persons for contribution as at 31. 12.	10	10	2	2
Amount of contribution in a year	51,374	50,923	12,702	13,284
Number of realized disabled persons in year, based on contracts with social enterprises	18	28	18	28

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

9.1.4 Education

We are aware that investing in employee skills is a prerequisite for the successful operation of the company. Much attention is given to the appropriate staff development. Employees receive various forms of education and vocational training, and a large proportion of them is in the field of health and safety at work. Because of the branch in which we operate, the employees have the option to 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 group. In year 2015 higher level of education was acquired by eight employees.

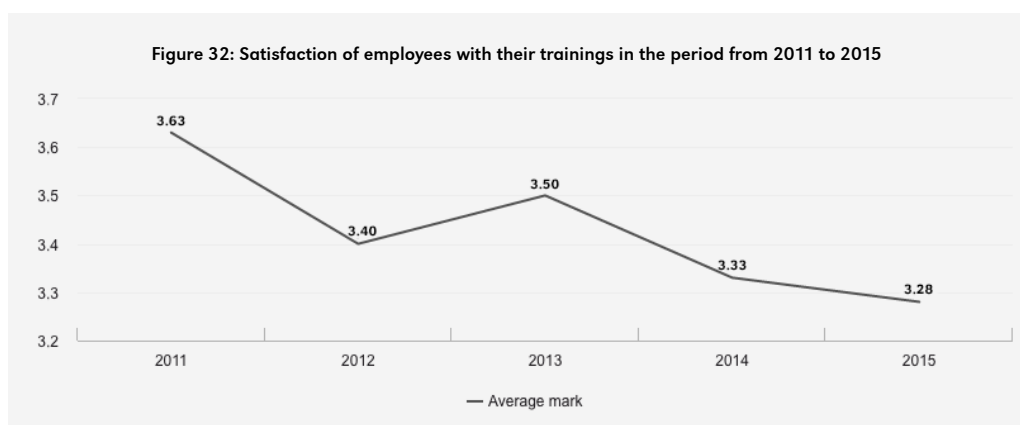
We wish to introduce into the organizational culture a wish for constant, permanent training, improvement, and education. Proof that we have actually stimulated the employees for that is in their great interest for education.

Table 17: Education in the period from 2013 to 2015

Item description	2013	2014	2015
Employees on trainings (in %)	79.29	76.68	77.02
Average number of training days per average number of employees (days)	2.43	2.39	2.25
Costs of education and training per employee (in €)	586	445	333
Number of employees acquiring higher level of education on the basis of education contract	28	23	8
Number of scholarship holders	1	1	0

Within the strategic project, which is defined in the Elektro Gorenjska Company's strategy 2014-2017 and includes also employees of Gorenjske elektrarne Company, management of organizational culture, in year 2015 we continued with trainings for the Head in the field of managing the soft skills, while employees that are in constant contact with the customers received workshops on communication with difficult clients.

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 units or companies, which store the material obtained by employees in seminars and other kinds of trainings.



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

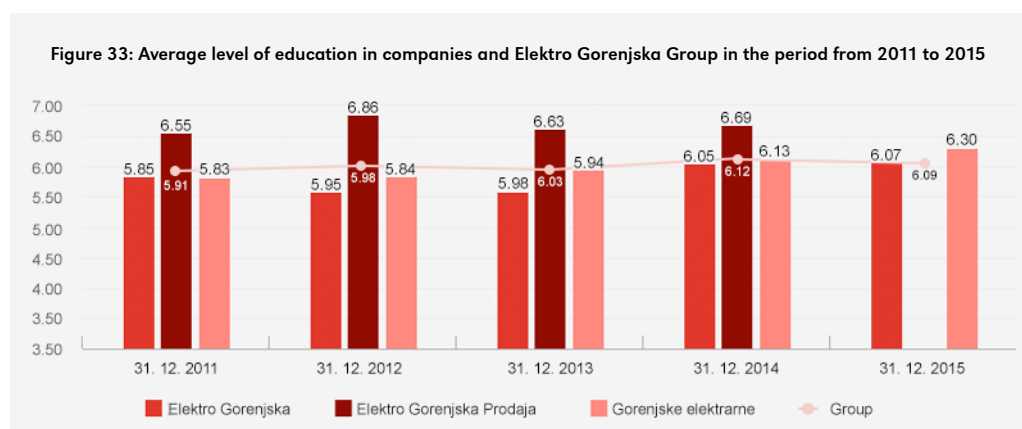
9.1.5 Educational structure of employees

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

Table 18: Educational structure of employees in Elektro Gorenjska Group as at 31. 12. 2015

Level of education 31. 12. 2015	Elektro Gorenjska		Gorenjske elektrarne		Group	
	Number	Structure (%)	Number	Structure (%)	Number	Structure (%)
doctoral level (9)	2	0.7	1	3.3	3	1.0
master's degree (8)	14	4.6	1	3.3	15	4.9
university level (7/2)	53	19.9	7	23.3	60	19.7
graduate level (7/1)	38	12.5	5	16.7	43	14.1
post-secondary level (6)	43	16.7	3	10.0	46	15.1
secondary level (5)	74	27.4	9	30.0	83	27.2
three-year vocational level (4)	50	17.8	4	13.3	54	17.7
two-year vocational level (3)	1	0.4	0	0.0	1	0.3
primary school (1)	0	0	0	0.0	0	0.0
TOTAL EMPLOYEES	275	100	30	100	305	100

Average level of education in Elektro Gorenjska Group as at December 31 2015 amounted to 6.09 - with level 6 representing high-school education. Level of education in the group decreased somewhat according to the previous year. Reason is in disregarding the Elektro Gorenjska Prodaja, where average rate always stood out from the average. In terms of individual companies, the average level of education increased in both.



9.1.6 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 company are mainly substituted by internal reassignments, above all with more demanding, managing or professional posts. This way we preserve internal inclusion of the employees and assuming of larger responsibility. In accordance with the needs of the working process we increase occupancy of more demanding jobs. Changes are much more frequent in Elektro Gorenjska Company than in its subsidiaries due to diversity of activities and higher number of employees.

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

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

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

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

9.1.7 Annual interviews

The most scheduled method of acquiring feedback is definitely annual interview. Reasons for the implementation of annual interviews in Elektro Gorenjska Group are:

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

Annual interviews are an opportunity to improve working relations and climate, quality of work and interest of the employees. They also enable us to discover potentials in people, discover key staff and talents.

Results of the interviews are a rough estimate of the achievement of the objectives, tasks and competences for the preceding period and the setting of objectives for the next year and plan of training and development of employees.

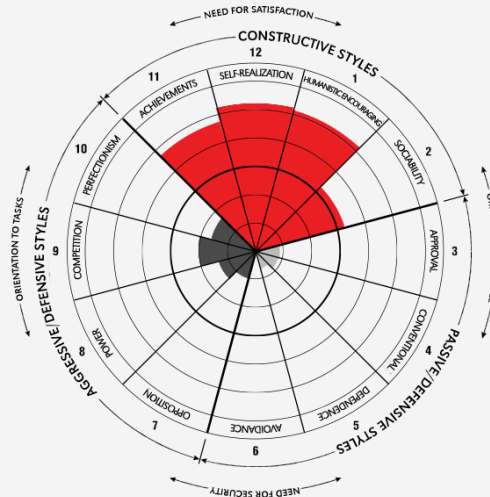
Each year the process of implementation of the annual interviews lasts for 3 months, 94% of the interviews were carried out.

9.1.8 Organizational culture

Strategy of Elektro Gorenjska Group for period 2014-2017 defines strategic goal of forming the constructive organizational culture among employees in both companies. In the project are involved Elektro Gorenjska and Gorenjske elektrarne Company. We expect from our employees integration, cooperation, accountability and goal orientation. Such behaviors will contribute to their self-realization and growth and organizational efficiency.

In year 2013 we analyzed the actual situation and we set the concept of ideal organizational culture that we want for our group. With the help of quality tools the companies' management defined expected behaviors of employees, with emphasis on constructive behaviors styles marked with red in the figure. This means that we expect inclusion, cooperation, assuming of responsibility and target orientation from our employees. Such behaviors will contribute to their self-realization, growth, and organizational efficiency. Passive defensive styles and aggressive defensive styles (dark grey and light grey) of behaviors should be represented as little as possible.

Figure 34: Ideal organizational culture

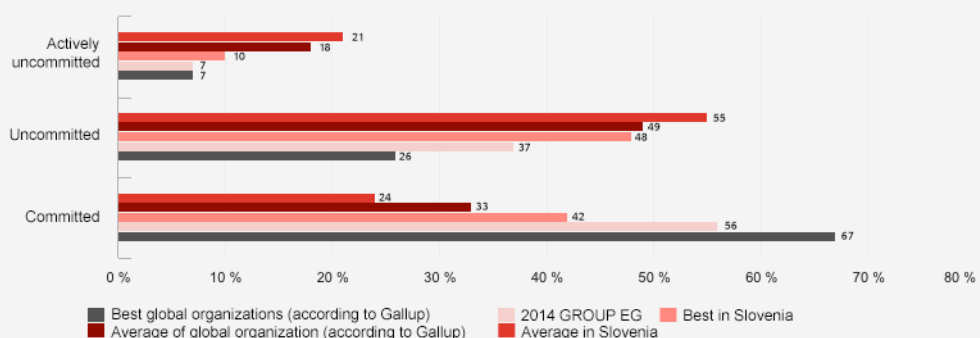


Analysis of the responses from the questionnaires in year 2013 revealed a gap between the ideal and the actual culture. We established that increasing the constructive behavior and reducing passive defensive and aggressive defensive behaviors will be reached most effectively through quality management and highest involvement of employees in solving problems, work processes, making decisions and assuming responsibility. That is why in year 2015 we continued with soft skills trainings for the Heads. 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.

9.1.9 Employee satisfaction and commitment

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

Figure 35: Commitment of employees in Elektro Gorenjska Group compared with global and Slovenian organizations



Results of the surveys carried out in the Group show that compared to global and Slovenian organizations the company has a high level of committed employees. In the following years we will try to reduce the share of actively uncommitted and uncommitted employees in favor of the increase in the share of committed employees.

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

9.1.10 Employee absence

Absenteeism or longer absence from work due to sick leave is monitored annually and compared to past years. In year 2015 compared to year 2014 almost all types of absence in the company increased.

Besides sick leave employees also utilize maternity leave, and paternity and parental leaves. Considering absence due to sick leave and the stated leaves in Elektro Gorenjska in year 2015 average absence per employee was more than 10 days and in Gorenjske elektrarne more than 13 days.

We will continue to strive for regulated working conditions, while employees will be stimulated to a healthy way of life also outside the working environment.

9.1.11 Relations between employees and management in the company

There are two unions operating within Elektro Gorenjska 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. We have to stress that management meets with each body separately. There are always chairman of the board or the vice president and a member of the management present at the sessions. This way it is additionally taken care of the employee information about the operation of the companies, current activities, and plans for the future. The persons present at these sessions can express their initiatives, opinions, and highlight problems the employees face every day.

Companies have a signed Company agreement with the two unions and an agreement on the manner of cooperation of the workers in company management with the 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.

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

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

9.1.12 Care for employees and related groups outside working hours

Elektro Gorenjska Group pays special attention to employees' children as well as retired colleagues also out of their working environment. In year 2015:

- we supported the pensioners' association of Elektro Gorenjska and prepared a New Year social meeting,
- at the end of the year we gave presents to pre-school and school children of up to 10 years of age,
- we enabled the employees with children and retired colleagues to spend their holidays in holiday facilities of Elektro Gorenjska at the seaside, in the hills or spas.

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

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

9.1.13 Communication with employees

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

- directly on the meetings,
- short news and notices through email, on intranet or on notice boards,
- with posts on the intranet and website,
- with the publication of a quarterly – internal gazette ELGO,
- with the publication of electronic internal monthly and
- through organization of events for employees, where we provide for informal socializing, but also for informing the employees and including them in current activities of the entire Elektro Gorenjska group.

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

- Internal gazette Elgo, which Elektro Gorenjska Group employees, pensioners, and scholarship holders receive quarterly. Once a year it is forwarded also to our business partners. Gazette informs the employees and expert public about business and working events. Besides information this internal paper brings also documentary, education, culture, art, sport, and social contents.
- In year 2014 we marked the 50th anniversary of the company with various communication elements. Among other with special annex 50 year, which was published together with the internal gazette Elgo and within five thematic editions, which summarized milestones achieved during the 50 years of the company, while at the same time it indicated the future development of the company.
- E-monthly is sent to all employees of Elektro Gorenjska Group to their electronic inboxes every first Friday of the month. It presents all current contents that have marked the companies in the group the most on the monthly level, and it also serves as an additional support in informing about various events and activities foreseen for the next month. Employees have received the monthly very well, as it provides for updated information on current events.
- Intranet is an internal web site intended for updated information to employees about current activities of the companies in Elektro Gorenjska group, while at the same time it serves as a support to the employees as it brings numerous information about the company, individual services etc.
- Traditional notice boards: Due to the diversity of the employees work the company uses traditional notice boards as a channel of communicating, which are intended for those employees who spent most of their time on site due to the nature of their work (field work).
- Gazette of electricity generating industries Naš stik, which is published by Elektro Slovenia, offers the employees a wider perspective on comprehension of energy industry we operate in. Our Head of corporate communication is a member of the newspaper council and it is her task to make sure the company is well presented on its pages. Gazette presents also our achievements, good practice examples, awarded innovation proposals and other.
- Organizing events for employees: throughout the year we organize numerous meetings for our employees, from company's day to gifts for employees' children, sports games, New Year meetings etc. Events are also important because of the variety of work places and are an opportunity for socializing of employees that do not work together every day.

9.1.14 Connecting the employees and wider community

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

9.1.15 Health and safety at work

From the perspective of health and safety at work we have a difficult year behind us. We will remember year 2015 for two work accidents, which fortunately ended without serious consequences, but could have ended tragically as well. One accident has occurred due to an unknown failure of the lift basket from which a worker fell into a depth of eight meters, while the second occurred due to electric shock on medium voltage. Both workers were recovering well and can continue to perform their work undisturbed.

Statistically speaking we had seven accidents at work in year 2015. Six injuries were lighter, one injury was serious. We had one accident in connection with electric current. Due to work-related injuries workers were absent from work in a total of 271 working days.

Quality indicator of frequency of injuries telling us what percent of workers were injured stopped at 2.5 percent. Quality indicator telling us the number of lost working days per injury stopped at 38.37.

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

Figure 36: Number of accidents at work

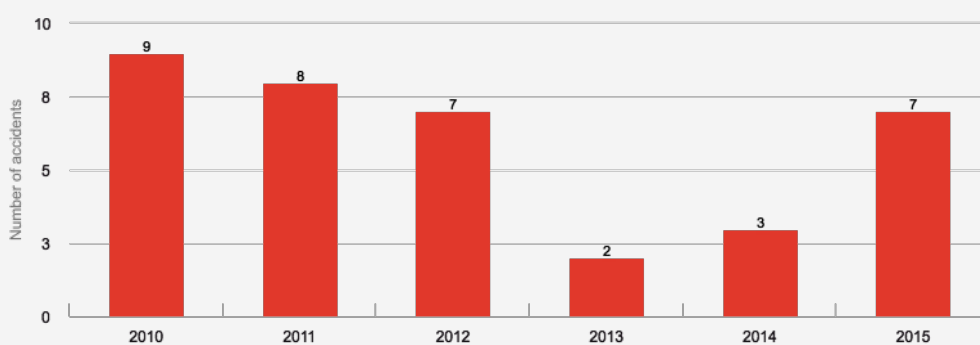


Figure 37: Gravity of injuries

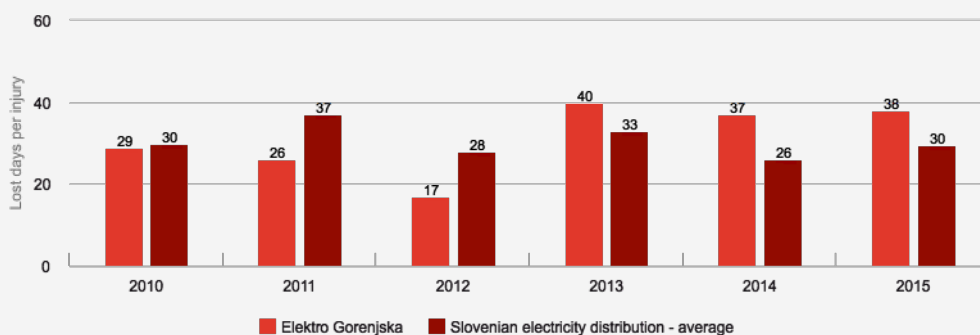
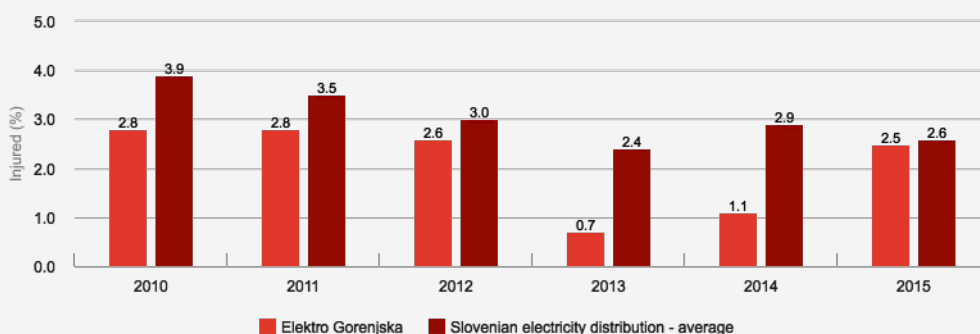


Figure 38: Frequency of injuries



Besides the health and safety at work service in the past year in Elektro Gorenjska Company the safety and health at work was watched over also by the Health and Safety at Work Council. It carried out the following tasks:

- Discussed the new legislation on safety and health at work and integrated it into our working environment.
- Discussed the annual reports on injuries at work in Distribution of Electricity Slovenia and Elektro Gorenjska.
- Discussed the dangerous events and proposed measures to eliminate the irregularities and deficiencies.
- Created a new program to reduce the risk of injury due to exposure to UV solar radiation. Program has set the implementing objectives relating to familiarization and awareness of employees about the risks of exposure to UV radiation, it defined the personal protective equipment to protect against UV radiation and provided the possibility of health checks for workers of SIVG and KN.
- Two serious accident at work which have occurred in year 2015 were dealt with in detail. Proposals for improvement have been given in order for such events to not happen again.
- A lot of work has been done on the draft of the new Rules on safety and health at work against the dangers of electric current, which is being renovated. Proposals of amendments and policy changes have been prepared. Proposals have been submitted to the Electro technical Association of Slovenia.
- It was saving the problems of equipment in newly purchased vehicle, and adopted a resolution that it is required prior to submission of the vehicle in use to equip the work vehicle in such a way that work equipment and working materials in transit or in case of a traffic accident will not endanger the safety of the driver and passengers.
- It was discussing the issue of the disposal of materials and tools in lifting baskets used to carry out work at height, and adopted a decision that in lift baskets shelves for tools and materials are installed.
- Internal audit in terms of safety and health at work was implemented. Audit was carried out in all facilities and at all locations of the company.
- It realized all recommendations of the external assessment.

In year 2016 we will test the knowledge, in terms of safety and health at work, of all employees working in dangerous working places. Verification will be done theoretically and practically. Practical part will be carried out on field by direct superiors of the workers heads, while theoretical part will take place in the classroom by the health and safety at work service.

In the framework of work equipment check-ups we will review in terms of safety and health at work the work equipment used by workers when working at height and depth (climbing shoes, personal protective equipment for work at height, gas meters, lift baskets).

Also in 2016, we will strive to provide for our workers safe and healthy workplaces, which are a prerequisite for good and quality work.

9.2 Concern for the environment

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

Priority objectives of the Environmental Management Council include:

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

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

9.2.1 Achievements in the field of environment protection in year 2015

Council for Environmental Management, which is organized in Elektro Gorenjska Company, in the past year continued the good work in the field of environmental management. Members were following innovations with environmental legislation and ensured implementation of the requirements in everyday practice, as demonstrated by the successful completion of external audit according to standard ISO 14001. In the middle of the year, we conducted an internal audit, and its recommendations have been realized within the agreed deadlines. With the majority of the 14 quality indicators in the field of environmental management the value achieved was within the planned value. Extraordinary environmental events in 2015 were not recorded.

1. Took care of the promotion, helped with the cleaning action

In year 2015 the council members had the opportunity to present and then also get acquainted with a way of managing the activities defined by the quality standard ISO 14001 in the telecommunications company Si.mobil d. d. Such visits are not only the opportunity of information on the functioning of environmental systems in individual companies, but are also an excellent tool for self-assessment and opportunity for new already verified approaches for implementing the activities. Key responsibility of the council is responsible environmental management and, consequently, also last year we provided technical assistance to Kranj scouts in the cleaning action Clean Kranj, which is carried out every year. We will offer the same assistance with this campaign also in the future.

2. Improved the way of monitoring environmental income and expenses

In 2015, in order to improve we updated the Instructions for recording the costs and revenues in the field of environment management system and introduced additional control of the proper accounting.

3. Took care of employees' awareness, acceded to the organized collection of plastic bottle caps

Separate waste collection is a standard practice in the company, by means of which we take care of the responsible attitude towards the natural environments and create benefits at the same time. In year 2015 we upgraded the system of waste collection with organized collection of plastic bottle caps in all locations and we supplemented the Instructions on waste separation for employees.

4. Environmental aspects presented on the internal web site

Employees are the ones who live the values of the company. As environmental aspects are strongly embedded into business itself, they need to be identified and recognized by all employees. They are now presented on the intranet page Središče EG in a more transparent way, with links to all relevant documents and legislation of the individual environmental aspect.

5. Wastewater discharge system at the location of Žirovnica in the final stage

In accordance with the environmental program No. 14 – spills of sanitary and storm water, in 2015 we continued with the construction of waste water discharge system on the location of Žirovnica plant, which is foreseen to be completed in year 2016 with the connection to the public sewerage network. In 2016 the regulation of waste water in facilities RTP/KN Tržič and RTP Labore is foreseen.

9.2.2 Goals in environment protection in year 2015

In 2016 key focus of the Environmental Management Council, which is organized in Elektro Gorenjska Company, will be on the following activities:

- **Integrated management regime with dismantled and still usable material**

In 2015, individual locations (local inspectorates, warehouses, workshops, etc.) began to store large quantities of dismantled, but still usable material (power lines, SKS cables), which is partly the result of extensive rehabilitation activities as a consequence of ice damage in 2014. Way of handling dismantled and useful material is otherwise defined in internal instructions, while type, quantity and locations of storage are not defined. In 2016 we will therefore issue special instructions where we will more accurately define the procedure for action and maximum stocks and storage locations for each type of dismantled usable material.

- **Cooperation with external contractors for waste generated by investments and maintenance works**

Accurate recording of the deposited waste is important for transparent calculation of costs and also for annual reporting on the volume of individual waste. As a result external contractors will have to undertake to waste management in accordance with the legislation and ensure continuous recording through records sheets.

- **Updating the internal guidelines in the field of environmental management**

Except for program No. 14, which defines discharge of sanitary and storm water, all other environmental programs were completed entirely. Consequently we will include the continuous activities in the existing guidelines in force and constantly inform the employees about it.

- **Gradual adjustment of the operations to the new standard ISO 14001:2015**

In year 2015 a new version of standard ISO 14001:2015 was issued. In the month of April in Elektro Gorenjska Company an in-house training for internal auditors of management systems will take place to introduce them the novelties the standard brings.

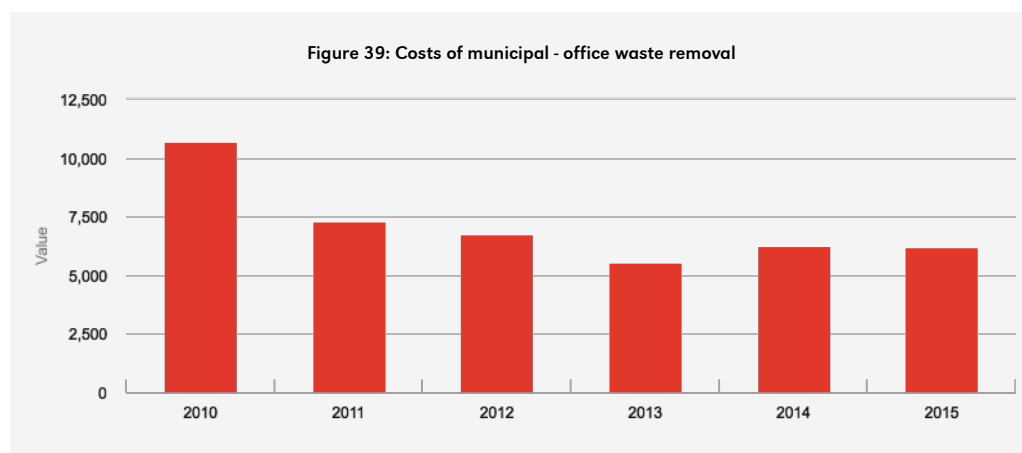
- **In accordance with the past practice, we will ensure adequate awareness of employees**

9.2.3 Management of various environmental aspects in year 2015

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

Waste management

We have an organized system of separated collection of all kinds of waste, which we use to provide for integrated control of useful and useless waste. Useful waste is forwarded to agents, which use them for further processing. During this process we issue records, which serve as a transparent illustration of delivered waste. Similarly organized is also collection of paper and cardboard packaging as well as used toners and cartridges, which are sent for ecologic further processing. Costs of utilities are followed within the framework of quality indicator, and the trend of cost decrease is presented below.



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

Gorenjska region is exposed to different extreme weather impacts, so the company provides for planned development of network in the underground cable form. More than 60 percent of Elektro Gorenjska distribution network has been built underground. Despite the extremely robust network of Elektro Gorenjska, individual events cause faults and eventual environmental impacts on the distribution network. In 2015 there were no exceptional circumstances that would affect the natural environment.

All identified dangerous substances are stored in appropriate boxes and facilities, which ensure high level of control and security. Procedures and manners of storing and transporting dangerous substances are well defined. Share of returned waste oils is monitored by the quality indicator, with no dangerous events being recorded in year 2015.

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.

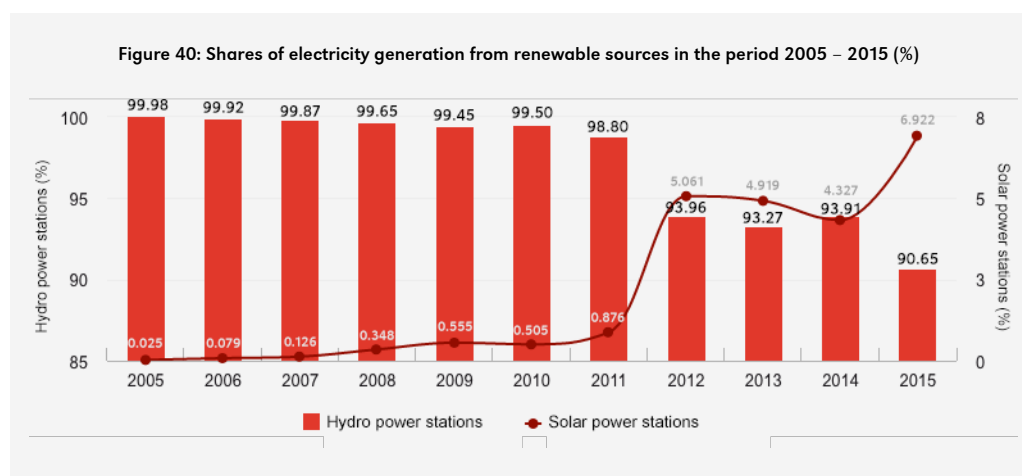
Noise caused by the transformers in transformer stations (MV/LV) does not exceed the limits defined by the existing rules. According to the law in transformer stations (HV/MV) noise monitoring is executed every five years, wherever it is necessary.

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 are necessary. Despite that we execute periodical measurements of EMR in transformer stations (RTP) according to the law and raise public awareness on electromagnetic radiation.

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

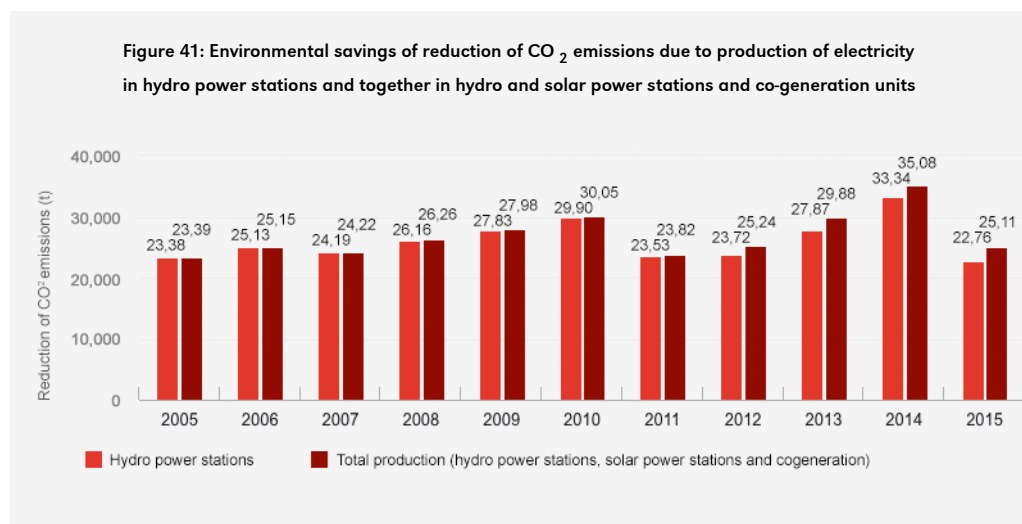
Environmental savings from hydro power stations

Year 2015 was hydrologically less favorable for the production of electricity in hydro power plants and in terms of sunshine favorable for the production of electricity in solar power plants.



In year 2015 total production of ecologically clean electricity in hydro power stations was 45,517 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 2015 there was a reduction of 22,759 tons of CO₂ emissions. In year 2014 the saving was 33,337 tons of CO₂ emissions and in year 2013 27,864 tons of CO₂ emissions.

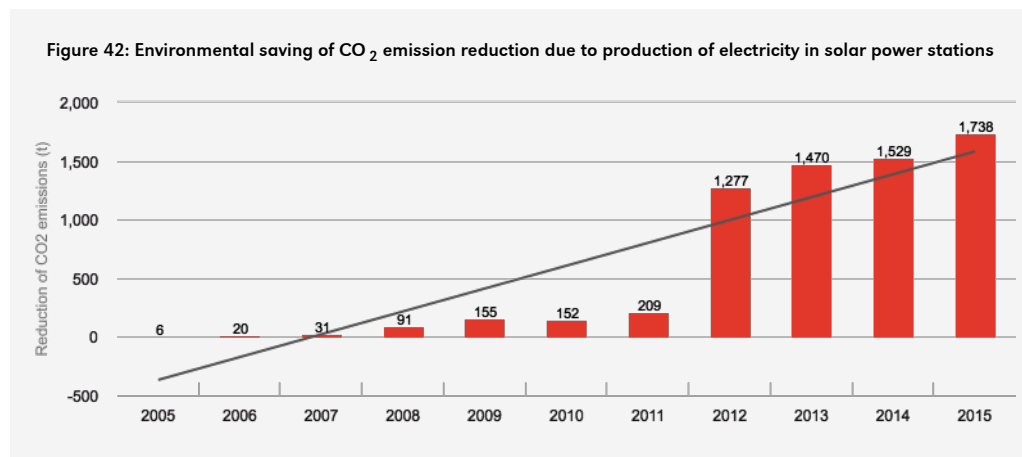
Total CO₂ reduction from hydro power stations, solar power stations and co-generation of electricity and heat in year 2015 was by 25,107 tons of CO₂ emissions. In year 2014 the reduction was by 35,076 tons of CO₂ emissions and in year 2013 29,875 tons of CO₂ emissions.



Environmental savings from solar power stations

In year 2015 total production of electricity into the distribution network and internal network of final customers was 3,475 MWh, which represents 6.92 % share in total electricity produced.

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 2015 by 1,738 tons of CO₂ emissions. Cumulative environmental saving of CO₂ emissions from solar power stations from year 2005 to the end of 2015 was 6,677 tons of CO₂ emissions.



Environmental savings from co-generation units

In year 2015 total production of electricity from cogeneration units using natural gas into the distribution network and internal network of final customers was 1,220 MWh, which represents 2.43 % share of all electricity produced.

Environmental savings from co-generation of electricity are reduction of 610 tons of CO₂ emissions.

9.2.4 Environmental communication

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

- Contents on the correct and responsible environmental management are included in the program of the introductory seminar for new employees.
- Approaches and ways of protecting the environment are regularly mentioned in the internal newspaper and on the internal web pages.
- Public is acquainted with our activities for environment protection through publications on the web site, in media and at various consultations and roundtables.
- We cooperate with professional, scientific and educational organizations.
- When siting major electric power facilities in space (e.g. powerline between Bohinj and Železniki, Kamnik - Visoko) we organize meetings with local people, where we acquaint them with activities, results and plans related to the environment protection.

9.3 Care for the public interest – social responsibility

In Elektro Gorenjska Group we provide for the systematic, clear and above all constant communication with individual groups of stakeholders. Goals of the company include building positive dialogue and ensuring transparent informing of different stakeholders.

Special attention in communicating important business decisions, operating novelties and novelties in the field of services and products is paid to the internal as well as external public. Productive, efficient, clear and transparent communication with individual groups of stakeholders is responsibility of the management, sector directors, individual professionals and corporate communication service.

Communication with employees is reported in more detail in chapter 9.1 – Care for employees.

9.3.1 Communication with local community and social responsibility

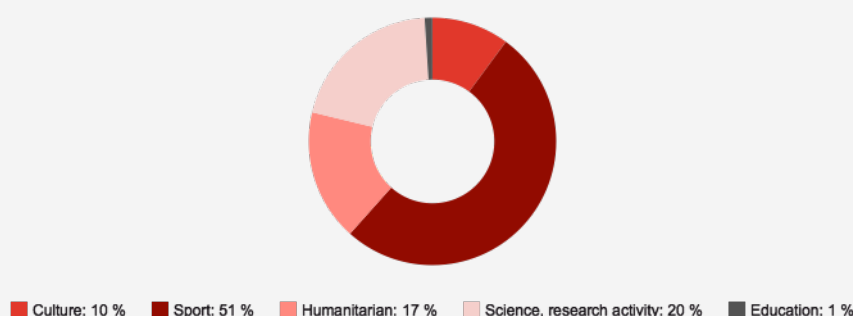
Every intervention in the environment that electricity power infrastructure in Gorenjska region needs for its operation is conditional to successful, clear and above all transparent communication with local and interest groups, local political power and local media. Understandable communication with citizens and clear presentation of aims and consequences are the key highlights followed with every intervention in the environment.

Sponsorships and donations

We actively recognize opportunities where we can, with our knowledge, financial resources and other resources, contribute to the development of social and economic environment. We realize them by stimulating and developing positive impacts on companies in the group, which include supporting sports, cultural, educational, humanitarian and environmental projects, by responsible attitude to users and respecting the statutory legislation and regulation.

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.

Figure 43: Sponsorships and donations of Elektro Gorenjska Group in year 2015



In year 2015 there was a total of 48,951 € of funds in the group allocated to sponsorships and a total of 40,942 € to donation projects.

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 Neodvise.si for its operation in year 2016 in Gorenjska region. Socially responsible program informs the young and the elderly population of the traps of different forms of addiction and in particular represents solutions that modern society forgets.

9.3.2 Communication with business partners

In accordance with good business customs the group provides for the permanent communication with its business partners. Besides the personal approach we provide for communication with our business partners also by means of the internal gazette Elgo, financial publications and other communication channels.

9.3.3 Communication with media

In the group we provide for regular and pro-active communication with the media. Besides regular press conferences, where we present business reports, we also prepare different meetings with the journalists on other important occasions. We communicate with the media also through web media. On our web site <http://www.elektro-gorenjska.si> we regularly submit information on our subpage "For media". We answer media questions correctly and on time. Appearance of the company in the media is followed through an annual media analysis, which is our annual basis for setting up communication goals in the field of media communication. Media publications on companies in Elektro Gorenjska group in year 2015 were for the most part of a neutral or favorable tone.

Investment projects, social responsibility and corporate contents left positive imprint, and last but not least number of publications as well as share of planned publications both increased compared with year 2013. In year 2015 the number of publications compared to year 2013 (year 2014 was left out in comparison due to ice damage) increased by 25 %.

Elektro Gorenjska Group is recognized by the media as a reputable company, for which credit definitely goes to successful business results, quality of services and care for the local environment we operate in.

9.3.4 Communication with customers

We communicate with our customers through different communication channels:

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

9.3.5 Communication with shareholders and financial public

We strive for a regular, open and exact communication with shareholders and other financial public. We consider the recommendations of the owner, so all company's data, concluded deals, and sponsorship and donation projects are reported on the web site www.elektro-gorenjska.si/za_delnicarje and on www.elektro-gorenjska.si/o-podjetju/katalog-informacij-javnega-znacaja.

9.3.6 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, line ministries and other important institutions.

10

Events after the balance sheet date

There were no major events, except those presented in the Financial report (Chapter 24 – events after the balance sheet date).

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

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

Management board of Elektro Gorenjska Company approved the financial statements of the group prepared for the financial year 2015 on April 7 2016.

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 Slovene Accounting Standards.

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

Kranj, April 7 2016

Chairman of the Board
mag. Bojan Luskovec



FINANCIAL REPORT



Important role for successfully managed project to place the power line in space has been played by an approach of the company to the local community.

Since the beginning of the project management, we have put utmost effort to inform and involve the local community, including representatives of municipal structures and local community, as well as owners of the land on which the route will take place.

12 Auditor's report



This is a translation of the original report in Slovene language

INDEPENDENT AUDITOR'S REPORT

To the owner of ELEKTRO GORENJSKA d.d.

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Elektro Gorenjska Group, which comprise the consolidated statement of financial position as at December 31, 2015, and the consolidated income statement, consolidated statement of other comprehensive income, consolidated statement of changes in shareholder's equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Slovenian Accounting Standards, 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.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Elektro Gorenjska Group, as of December 31, 2015, and its financial performance and cash flows for the year then ended in accordance with Slovenian Accounting Standards.

Other matter

The consolidated financial statements as at December 31, 2014 were audited by another auditor, who issued an unqualified opinion on April 24, 2015.

Report on Other Legal and Regulatory Requirements

Management is also responsible for preparing the business report in accordance with the Slovenian Companies Act. Our responsibility is to assess whether the business report is consistent with the audited financial statements. Our work regarding the business report is performed in accordance with ISA 720, and restricted to assessing whether the business report is consistent with the financial statements and does not include reviewing other information originated from non-audited financial records.

The business report is consistent with the audited financial statements.

Ljubljana, April 25, 2016

Sanja Košir Nikašinovič
Director
Ernst & Young d.o.o.
Dunajska 111, Ljubljana



ERNST & YOUNG
Revizija, poslovno
svetovanje d.o.o., Ljubljana 1


Lidija Šinkovec
Certified Auditor

13

Financial statements of Elektro Gorenjska Group for business year ended as at 31. 12. 2015

13.1 Balance sheet of Elektro Gorenjska Group as at 31. 12. 2015

In €

	ITEM	NOTE	31. 12. 2015	31. 12. 2014
	ASSETS			
A.	Long-term assets		202,587,956	189,163,569
I.	Intangible assets and LT accruals and pre-paid expenditure	16.1	1,143,006	1,304,896
	1. Long-term property rights		977,311	1,067,136
	5. Other LT accruals and pre-paid expenditure		165,695	237,760
II.	Tangible fixed assets	16.2	192,611,655	184,564,506
	1. Land and buildings		136,346,194	120,288,277
	a) Land		8,099,472	7,835,325
	b) Buildings		128,246,722	112,452,952
	2. Production plant and equipment		52,774,738	53,404,621
	3. Other plant and equipment		583,069	677,047
	4. Tangible fixed assets in acquisition		2,907,654	10,194,561
	a) Tangible fixed assets in construction or production		2,856,584	10,078,628
	b) Advances for acquisition of tangible fixed assets		51,070	115,933
III.	Investment property	16.3	1,767,299	1,957,898
IV.	Long-term financial investments	16.4	7,042,756	1,314,937
	1. Long-term financial investments, excluding loans		6,897,438	968,779
	b) Shares ad stakes in associates		6,773,283	451,671
	c) Other shares and stakes		124,155	517,108
	2. Long-term loans		145,318	346,158
	b) Long-term loans to others		145,318	346,158
V.	Long-term operating receivables		23,240	21,332
	3. Long-term receivable due from others		23,240	21,332
B.	Short-term assets		10,657,648	29,089,754
I.	Non-current assets for sale	16.5	42,320	150,330
II.	Stocks	16.6	276,127	197,259
	1. Material		275,407	187,182
	3. Products and merchandise		0	10,077
	4. Advances for stocks		720	0
III.	Short-term financial investments	16.7	840	200,840
	2. Short-term loans		840	200,840
	b) Short-term loans to others		840	200,840
IV.	Short-term operating claims	16.8	6,777,050	23,352,579
	2. Short-term operating accounts receivable		6,536,912	22,350,570
	3. Short-term operating claims on others		240,138	1,002,009
V.	Monetary assets	16.9	3,561,311	5,188,746
C.	Short-term accruals and pre-paid expenditure	16.10	551,798	318,306
	TOTAL ASSETS		213,797,402	218,571,629

Balance sheet of Elektro Gorenjska Group as at 31. 12. 2015 (continued from previous page)

	ITEM	NOTE	31. 12. 2015	31. 12. 2014
	LIABILITIES			
A.	Capital	16.11	145,144,102	139,847,972
I.	Called-up capital		71,898,061	71,898,061
	1. Share capital		71,898,061	71,898,061
II.	Capital reserves		45,944,898	45,944,898
III.	Profit reserves		22,945,278	20,307,445
	1. Statutory reserves		1,896,184	1,629,087
	5. Other profit reserves		21,049,094	18,678,358
IV.	Revaluation surplus		-648,938	-855,438
V.	Net profit or loss from previous periods		200,216	962,682
VI.	Net profit or loss of the business year		4,804,587	1,590,324
B.	Provisions and LT accrued costs and deferred revenues	16.12	14,324,824	14,064,693
	1. Provisions for pensions and similar liabilities		2,723,842	2,952,260
	2. Other provisions		5,119,075	4,763,047
	3. Long-term accrued costs and deferred revenues		6,481,907	6,349,386
C.	Long-term liabilities		40,675,440	35,924,154
I.	Long-term financial liabilities	16.13	40,526,928	35,907,768
	2. Long-term financial liabilities to banks		39,854,009	35,016,874
	4. Other long-term financial liabilities		672,919	890,894
II.	Long-term operating liabilities		30,802	7,659
	4. Long-term operating liabilities based on advances		29,802	7,659
	5. Other long-term operating liabilities		1,000	0
III.	Deferred tax liabilities		117,710	8,727
Č.	Short-term liabilities		12,721,153	27,528,476
II.	Short-term financial liabilities	16.14	6,783,667	7,691,381
	2. Short-term financial liabilities to banks		6,566,549	7,561,053
	4. Other short-term financial liabilities		217,118	130,328
III.	Short-term operating liabilities	16.15	5,937,486	19,837,095
	2. Short-term operating liabilities to suppliers		2,137,478	11,712,028
	5. Short-term operating liabilities based on advances		25,810	617,740
	6. Other short-term operating liabilities		3,774,198	7,507,327
D.	Short-term accrued costs and deferred revenues	16.16	931,883	1,206,334
	TOTAL LIABILITIES		213,797,402	218,571,629

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

13.2 Profit or loss account of Elektro Gorenjska Group for business year ended as at 31. 12. 2015

In €

	ITEM	NOTE	2015	2014
1.	Net sales revenue	17.1	35,404,931	83,901,176
	a. on domestic market		35,395,228	83,868,384
	b. on foreign markets		9,703	32,792
3.	Capitalized own products and services	17.2	4,563,225	4,052,208
4.	Other operating revenues (including operating revenues from revaluation)	17.3	742,089	1,490,981
5.	Costs of goods, material, and services		11,025,500	57,815,503
	a. Costs of goods sold and material used	17.7	6,394,215	51,670,636
	b. Costs of services	17.8	4,631,285	6,144,867

	ITEM	NOTE	2015	2014
6.	Labor costs	17.9	11,986,571	13,109,388
	a. Costs of salaries		8,079,929	8,968,973
	b. Social security costs		1,863,131	1,969,747
	b.1 of which pension insurance costs		1,203,771	1,151,595
	c. Other labor costs		2,043,511	2,170,668
7.	Amortization/depreciation expense	17.10	10,354,423	10,483,941
	a. Depreciation		9,994,296	10,146,656
	b. Operating expenses from revaluation in intang. and tang. fixed assets		341,698	230,215
	c. Operating expenses from revaluation in current assets		18,429	107,070
8.	Other operating expenses	17.11	699,012	662,358
9.	Financial revenues from shares	17.4	2,550,287	179,078
	b. Financial revenues from shares in associates		2,550,287	174,549
	č. Financial revenues from other investments		0	4,529
10.	Financial revenues from given loans	17.5	7,267	53,583
	b. Financial revenues from loans given to others		7,267	53,583
11.	Financial revenues from operating claims	17.6	61,122	193,377
	b. Financial revenues from operating claims on others		61,122	193,377
12.	Financial expenses from impairments and financial investment write-offs	17.12	41,317	28,208
13.	Financial expenses from financial liabilities	17.13	1,026,706	1,448,106
	b. Financial expenses from loans, received from banks		1,026,655	1,448,106
	č. Financial expenses from other financial liabilities		51	0
14.	Financial expenses from operating liabilities		56,413	77,358
	b. Financial expenses from liab. to suppliers and bill of exchange l.		776	1,284
	c. Financial expenses from other operating liabilities		55,637	76,074
15.	Other revenues		62	227
16.	Other expenses	17.14	40,978	45,965
17.	NET PRE-TAX PROFIT OR LOSS OF THE ACCOUNTING PERIOD		8,098,063	6,199,803
18.	Income tax	17.16	740,948	722,397
19.	Deferred taxes	17.17	117,709	0
20.	NET PROFIT OR LOSS OF THE ACCOUNTING PERIOD		7,239,406	5,477,406

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

13.3 Statement of other comprehensive income of Elektro Gorenjska Group for business year ended as at 31. 12. 2015

In €		
Title	2015	2014
NET PROFIT OR LOSS OF THE ACCOUNTING PERIOD	7,239,406	5,477,406
Changes in the surplus from the revaluation of financial assets available for sale	0	10,171
Other components of comprehensive income	221,880	-245,283
TOTAL COMPREHENSIVE INCOME	7,461,286	5,242,294

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

13.4 Cash flow statement of Elektro Gorenjska Group for business year ended as at 31. 12. 2015

In €

ITEM	Year 2015	Year 2014
A. OPERATING CASH-FLOW		
a. Operating receipts	42,577,140	124,894,601
1. Receipts from sales of products and services	42,032,199	123,377,772
2. Other operating receipts	544,941	1,516,829
b. Operating expenditure	-30,243,469	-110,013,543
1. Expenditure for purchase of material and services	-12,916,517	-87,967,695
2. Expenditure for salaries and employees profit shares	-10,035,443	-11,538,997
3. Expenditure for duties of all kinds	-4,369,009	-7,701,671
4. Other operating expenditure	-2,922,500	-2,805,180
c. Excess of operating receipts or expenditure	12,333,671	14,881,059
B CASH FLOWS IN INVESTING ACTIVITIES		
a. Receipts in investing activities	816,023	2,601,142
1. Receipts from received interest and profit shares of others referring to investing activities	209,955	1,066,610
3. Receipts from disposal of tangible fixed assets	63,728	13,532
4. Receipts from disposal of investment property	241,500	21,000
5. Receipts from disposals of long-term financial investments	200,840	0
6. Receipts from disposal of short-term financial investments	100,000	1,500,000
b. Expenditure in investing activities	-15,444,320	-13,174,787
1. Expenses for acquisition of intangible assets	-384,425	-634,138
2. Expenses for acquisition of tangible fixed assets	-14,612,122	-11,036,449
3. Expenses for acquisition of investment property	-94,049	0
4. Expenses for acquisition of long-term financial investments	-353,724	-4,200
5. Expenses for acquisition of short-term financial investments	0	-1,500,000
c. Excess of receipts or expenditure in investing activities	-14,628,297	-10,573,645
C. CASH FLOWS IN FINANCING ACTIVITIES		
a. Receipts in financing activities	36,805,000	10,544,000
2. Receipts from increase in long-term financial liabilities	22,165,000	8,100,000
3. Receipts from increase in short-term financial liabilities	14,640,000	2,444,000
b. Expenditure in financing activities	-36,137,809	-15,244,779
1. Expenditure for given interest referring to financing activ.	-1,127,169	-1,571,217
3. Expenditure for repayment of long-term financial liabilities	-18,322,369	-7,054,329
4. Expenditure for repayment of short-term financial liabilities	-14,640,000	-4,444,000
5. Expenditure for dividend and other profit share payment	-2,048,270	-2,175,233
c. Excess of receipts or expenditure in financing activ.	667,191	-4,700,779
Č. CLOSING CASH BALANCE	3,561,311	5,188,746
x. CASH FLOW FOR THE PERIOD	-1,627,435	-393,365
y. OPENING CASH BALANCE	5,188,746	5,582,111

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

13.5 Statement of changes in equity of Elektro Gorenjska Group for the business year ended as at 31. 12. 2015

a) From January 1 2015 to December 31 2015:

In €

Events in individual capital items	Called-up capital	Capital reserves		Profit reserves		Revaluation surplus	Net profit or loss brought forward	Net profit or loss of the business year	Total capital
	I	II		III		IV	V	VI	
	Share capital	Share premium account	General capital valuation adjustment	Statutory reserves	Other profit reserves	Revaluation surplus	Net profit brought forward	Net profit of the business year	
	I/1	II/1	II/2	III/1	III/5	IV	V/1	VI/1	
A. 1 Balance as of December 31 2014	71,898,061	1	45,944,897	1,629,087	18,678,358	-855,438	962,682	1,590,324	139,847,972
A. 2 Balance as of January 1 2015	71,898,061	1	45,944,897	1,629,087	18,678,358	-855,438	962,682	1,590,324	139,847,972
B. 1 Changes in equity capital - transactions with owners	0	0	0	0	0	0	0	-2,165,156	-2,165,156
g. Dividend payment								-2,165,156	-2,165,156
B. 2 Total comprehensive income of reporting period	0	0	0	0	0	221,880	0	7,239,406	7,461,286
a. Entry of net profit or loss for the reporting period								7,239,406	7,239,406
d. Other componentst of comprehensive income of reporting period						221,880			221,880
B. 3 Changes within capital	0	0	0	267,097	2,370,736	-15,381	-762,465	-1,859,987	0
a. Allocation of the remaining part of net profit of the comparative reporting period to other items of capital					203,014		-777,846	574,832	0
b. Allocation of part of net profit of reporting period to other items of capital following the decision of the management and control				267,097	2,167,722			-2,434,819	0
f. Other changes within capital	0					-15,381	15,381		0
C. Balance as of december 31 2015	71,898,061	1	45,944,897	1,896,184	21,049,094	-648,939	200,216	4,804,587	145,144,102
Distributable profit 2015							200,216	4,804,587	5,004,804

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

b) From January 1 2014 to December 31 2014:

Events in individual capital items	Called-up capital		Capital reserves	Profit reserves		Revaluation surplus	Net profit or loss brought forward		Net profit or loss of the business year	Total capital
	I		II	III		IV	V		VI	
	Share capital	Uncalled capital	General capital valuation adjustment	Statutory reserves	Other profit reserves	Revaluation surplus	Net profit brought forward	Net loss brought forward	Net profit of the business year	
	I/1	I/2	II/2	III/1	III/5	IV	V/1	V/2	VI/1	
A. 1 Balance as of December 31 2013	72,019,069	-121,008	45,944,898	1,388,027	16,852,387	-620,326	0	0	526,797	135,989,844
A. 2 Balance as of January 1 2014	72,019,069	-121,008	45,944,898	1,388,027	16,852,387	-620,326	0	0	526,797	135,989,844
B. 1 Changes in equity capital - transactions with owners	0	0	0	0	0	0	0	0	-1,384,166	-1,384,166
g. Dividend payment									-1,384,166	-1,384,166
B. 2 Total comprehensive income of reporting period	0	0	0	0	0	-235,112	0	0	5,477,406	5,242,294
a. Entry of net profit or loss for the reporting period									5,477,406	5,477,406
č. Changes in surplus from financial investments revaluation						10,171				10,171
d. Other componentst of comprehensive income of reporting period						-245,283				-245,283
B. 3 Changes within capital	-121,008	121,008	0	241,060	1,825,971	0	962,682	0	-3,029,713	0
a. Allocation of remaining part of net profit of the comparative reporting period to other capital items										0
b. Allocation of part of net profit of reporting period to other items of capital following the decision of the management and control				241,060	1,788,562				-2,029,622	0
c. Allocation of part of net profit for additional provisioning under the decision of the annual general meeting					82,265				-82,265	0
č. Settlement of loss as deductible								1,857,460	-1,857,460	0
f. Other changes within capital	-121,008	121,008			-44,856		962,682	-1,857,460	939,634	0
C. Balance as of december 31 2014	71,898,061	0	45,944,898	1,629,087	18,678,358	-855,438	962,682	0	1,590,324	139,847,972
Distributable profit 2014							962,682	0	1,590,324	2,553,006

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

14

Significant accounting policies

14.1 General accounting framework

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

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

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

Degree of accuracy in reporting is 1 €.

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

- controlling company Elektro Gorenjska, Ul. Mirka Vadvnova 3a, Kranj; capital of this company as at 31. 12. 2015 amounted to 140,017,288 €, net profit for year 2015 was 5,601,957 €,
- company Gorenjske elektrarne, Stara cesta 3, Kranj, which is in 100 % ownership of the controlling company; capital of this company as at 31. 12. 2015 amounted to 18,013,459 €, net profit for year 2015 was 539,986 €,
- associate company ECE, Vrunčeva ulica 2a, Celje, which is in 25.6744 % ownership of Elektro Gorenjska Company; capital of this company as at 31. 12. 2015 amounted to 17,384,409 €, net profit for year 2015 was 2,729,274 €,
- associate company Soenergetika, Stara cesta 3, Kranj, which is in 25 % ownership of company Gorenjske elektrarne; capital of this company as at 31. 12. 2015 amounted to 1,853,135 €, net profit for year 2015 was 646,289 €.

In composition of the group Elektro Gorenjska there was a change in 2015. Until the end of year 2014 the Elektro Gorenjska Prodaja Company was in 100 % ownership of the controlling company and in the financial statements it was taken into account using the full consolidation method. In year 2015 (valuation date for the purpose of merger was on 31. 12. 2014, entry into the register on 1. 10. 2015) Company Elektro Gorenjska Prodaja merged to Company ECE. On this basis Elektro Gorenjska has a 25.6744 % share in ECE Company. In financial statements of the group this investment is taken into account using the equity method. Due to these changes in certain items in financial statements of the group important differences occur between the values for 2015 and 2014.

Table below shows assets and liabilities of Elektro Gorenjska Prodaja Company on the day of the exclusion from full consolidation. Table also shows the difference between the fair value of investment in ECE company and net value of the assets of Elektro Gorenjska Prodaja Company on the day of the loss of control (1,687,990 €), which represents the effect on the consolidated profit and loss account for year 2015.

In €

Item	Book value of assets/liabilities at the date of loss of control
ASSETS	
Long-term assets	748,892
Intangible assets and long-term accruals and prepaid expenditure	257,001
Tangible fixed assets	139,217
Investment property	1,038
Long-term financial investments	351,637
Current assets	18,164,211
Non-current assets for sale	51,628
Short-term investments	100,000
Short-term operating receivables	17,658,861
Cash	353,723
Short-term accrued costs and deferred revenues	93,424

Item	Book value of assets/liabilities at the date of loss of control
TOTAL ASSETS	19,006,528
LIABILITIES	
Provisions and accrued costs and deferred revenues	256,551
Long-term liabilities	16,386
Long-term operating liabilities	7,659
Deferred tax liabilities	8,727
Short-term liabilities	13,993,643
Short-term financial liabilities	1,903
Short-term operating liabilities	13,991,740
Short-term accruals and prepaid expenditure	821,934
TOTAL ASSETS	15,088,513
NET ASSETS	3,918,015
FAIR VALUE OF SHARE IN ECE	5,606,005
DIFFERENCE – EFFECT ON CONSOLIDATED PROFIT AND LOSS ACCOUNT	1,687,990
EXCLUSION OF CASH – effect on consolidated cash flow	353,723

14.2 Recognizing exchange rate differences

Presentation currency and functional currency is Euro (€). Exchange rate differences, which occur in settlements of monetary items or with transference of monetary items at exchange rates different from those at which they were transferred at initial recognition in the period, are recognized in profit and loss for the period they occur in. In order to convert values in foreign currencies, the group uses the reference rate of the Bank of Slovenia.

14.3 Reporting in geographical and business segments

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

14.4 Significant accounting policies and estimates

14.4.1 Intangible assets and long-term accruals and pre-paid expenditure

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

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

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

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

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

14.4.2 Tangible fixed assets

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

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

If subsequently incurred costs related to tangible fixed assets, increase its future benefits compared with initial estimates, its cost increases. However, if the cost is increasing the useful life of the asset, the cost of the tangible asset increases by the value of these costs and its useful life extends.

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

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

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

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

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

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

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

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

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

Significant categories of depreciable assets	Estimated useful life (in years)	Depreciation rate (in %)
Buildings of energy distribution infrastructure	25–40	2.5–4
Buildings of hydroelectric power stations	5–40	2.5–20
Solar power stations	12–25	4–8.33
Other buildings	15–50	2–6.67
Equipment of energy infrastructure	10–35	2.86–10
Computer hardware equipment	3	33.33
Equipment of hydro power stations	3–30	3.33–33.33
Other equipment	2–20	5–50
Investments in foreign tangible fixed assets	4–25	4–25
Vehicles	8–12	8.33–12.5

14.4.3 Investment property

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

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

Investment property does not include:

- real estate used by employees 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.

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

14.4.4 Long-term financial equity investments in other companies and interest rate swap

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

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

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

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

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

In establishing the recoverable amount companies derive from a basic premise that recoverable amount of investment or share is defined as the one which usually does not exceed the audited book value of the capital value of the company in which the company has the financial investment. In testing financial investments in shares and in relation to the assessment whether there is a case of impairment or not, significant or long lasting reduction of value of these financial investments under their acquisition value in a period longer than 12 months should also be considered. Company makes a test of assessing the impairments of financial investment in capital instrument, which is not

measured at fair value, when accounting value of such financial investment on a cut-off balance day is by more than 20 % larger than proportional part of accounting value of the entire capital of the company, where the company has its investment on that day. If accounting value of entire capital has not (yet) been published or otherwise available, other less reliable evidence on the accounting value of entire capital on the balance sheet date (for example: estimation of accounting value on the balance sheet day) can be used.

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

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

If a group company does not meet criteria for successful hedging, hedge accounting is terminated on the last day that compliance with the hedging success has been shown. If the company recognizes an event or change of conditions due to which the hedging relationship was not successful or did not meet the criteria of success and it is proven that hedging was successful prior to this event or change of conditions, the company terminates the hedge accounting on the day the event or change of conditions took place.

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

Consolidation of the company in which group companies have investments, ends when investor loses the control of the company it invests in. Company that loses control, has to:

- Eliminate the recognition of assets and liabilities of the former subsidiary in the consolidated financial statements.
- Recognize all financial investments retained in the former subsidiary at fair value on the date of control loss, and then these investments and all other amounts owing to former subsidiary or that subsidiary owes them, calculate them in accordance with appropriate IFRS.
- Recognize a gain or loss which is linked to the loss of control and is attributable to the former controlling share.

14.4.5 Assets for sale

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

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

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

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

14.4.6 Stocks

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

Stocks are valued at their cost or net realizable value, whichever is lower.

Quantity unit for stocks of material, small tools and merchandise is initially recognized at its initial cost consisting of purchase price, import and other non-refundable purchase taxes and direct acquisition costs.

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

Company verifies real value of stocks regularly or at least once a year. Stocks of material, spare parts, small tools, auxiliary material and merchandise are revaluated for impairment, if their book value exceeds their net realizable value.

14.4.7 Claims

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

At their initial recognition claims are measured at their amortized cost. Amortized cost of a claim is the amount at which claim is initially recognized reduced by amortization and impairment amounts due to uncollectibility.

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

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

Group companies can reduce valuation adjustment based on the verification of claim value according to individual business partners in the following cases:

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

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

14.4.8 Monetary assets

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

Current account number	Bank of the account	Company
07000-0000641939	Gorenjska banka, Kranj	Elektro Gorenjska, d. d.
07000-0000542805	Gorenjska banka, Kranj	Gorenjske elektrarne, d. o. o.
19100-0011259911	Deželna banka Slovenije, Ljubljana	Elektro Gorenjska, d. d.
29000-0001824912	Unicredit banka, Ljubljana	Elektro Gorenjska, d. d.
04331-002033138	NKBM, Kranj	Gorenjske elektrarne, d. o. o.
3000-0003480687	Sberbank, Ljubljana	Elektro Gorenjska, d. d.
3700-00000253392	Zveza bank, Ljubljana	Elektro Gorenjska, d. d.

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

Monetary assets include also cash equivalents. Cash equivalents are investments that can be readily converted to known amounts of cash and which are subject to an insignificant risk of changes in value. Group also includes deposits and bank deposits with a maturity of up to three months among cash equivalents.

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

14.4.9 Short-term accruals and prepaid expenditure

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

Short-term deferred expenses include amounts that are at their occurrence not yet charged to the activity the company is engaged in. Short-term accrued revenues arise, when in calculation of profit or loss these revenues are duly taken into account, but the company has not yet been paid and has not yet charged them.

14.4.10 Capital

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

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

14.4.11 Provisions and long-term accrued costs and deferred revenues

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

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

Calculations for provisions for severance pays at retirement and long service bonuses were prepared by an authorized actuary and are formed in the amount of estimated future payments discounted on the balance sheet date, taking into

consideration according to the IAS 19 also costs of service for the current year, costs of interest and actuarial surplus or deficits resulting from changes in actuarial assumptions and experiential adjustments.

According to the Employment Relationships Act severance pays upon retirement must be treated as post-employment benefits (IAS 19.120). In accordance with the IAS the company shall recognize the components of cost for defined benefits, namely:

- cost of service of this period charged to account 479 (costs) and credited to account 963 (provisions for severance pay upon retirement)
- cost of the period – interests charged to account 746 (expenses from other operating liabilities) and credited to account 963 (provisions for severance pay upon retirement)
- actuarial deficit or surplus; charged to account 957 (revaluation surplus) and credited to account 963, or credited 957 and charged 963.

Long service bonuses are classified as other long-term employee benefits. Actuarial gains or losses for long-service bonuses are recognized in the income statement, but it is necessary to separate the recognition of individual category (cost of service of this period, interests, actuarial surplus or deficit).

In other comprehensive income for year 2015, due to the changed way of accounting provisions for severance pays upon retirement in the past years, the balance on accounts 957 (Actuarial gains and losses from defined benefits) is also included. Balance in this account can also be negative and should not be reclassified to income statement in the future periods. Elimination of the revaluation surplus could occur for example in case employees left the company or were retired (fluctuation). Then we have to, in the appropriate part, eliminate a proportionate share of revaluation surplus referring to these employees, and transfer it to item of equity, namely to the account 930 – Net profit brought forward from previous years or to account 931 – Net loss brought forward from previous years.

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

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

14.4.12 Long-term debts

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

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

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

After initial recognition liabilities are usually measured at amortized cost using the effective interest rate to the extent that costs have a significant impact on the change in the effective interest rate. Debts for which the agreed contractual interest rate does not significantly differ from the effective interest rate, are recognized on the balance sheet at their initial value less amortization. Company would cancel the debt after the expiry of the limitation period, previously only upon written consent of the creditor.

14.4.13 Short-term debts

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

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

14.4.14 Short-term accrued costs and deferred revenues

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

14.4.15 Revenues

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

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

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

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

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

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

14.4.16 Costs and expenditure

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

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

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

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

14.4.17 Cash- flow statement

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

14.4.18 Claims and liabilities for deferred tax

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

Corporate income tax expense for the year comprises of current and deferred tax. All assets and deferred tax liabilities associated with the transactions and other events, as shown in the income statement are recognized in the income statement as tax expense or as income. All assets and deferred tax liabilities associated with the transactions and other events recognized directly in equity, are recognized directly in equity.

Current income tax is determined based on the tax laws which apply on the balance sheet date. Management periodically evaluates positions taken to situations in which applicable tax regulation depends on the interpretation. Where appropriate, it establishes provisions based on amounts that are expected to be paid to the tax authorities.

Deferred tax assets and liabilities for income taxes are accounted for using the balance sheet. Only deferred tax assets and liabilities arising from temporary differences are recognized. A deferred tax asset is recognized for unused tax losses and unused tax credits, which are transmitted in the next period, when it is probable that taxable income will be available in the future against which it will be possible to use the unused tax losses and unused tax credits. 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 taxable profits will be available against which the temporary differences can be overcome.

Deferred tax assets are reviewed at the balance sheet date and impaired for that part of the claims, which can no longer be expected that in the future taxable profits will exist against which it will be possible to use the unused tax losses.

Deferred tax assets are recognized or charged directly to equity if the tax relates to items recognized directly in charge or credited to equity.

15

Significant sources of uncertainty and assumptions and bases used in assessing these uncertainties and estimates

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

15.1 Transactions with SODO Company

Transactions with company SODO are generally regulated by the Contract with SODO, which is presented in more detail also in the Business report, in chapter 4.10.5. - [Contract with SODO Company](#). They relate entirely to Elektro Gorenjska Company.

In March 2016 Elektro Gorenjska Company received a preliminary settlement of the regulatory year 2015 from SODO. Preliminary settlement for year 2015 was executed by SODO on the basis of the unaudited financial statements. Settlement shows that the already charged contractual value of services, rent, and losses in year 2015 was by 252,252 € lower than the value established on the basis of the preliminary settlement. On this basis the company in 2015 deferred revenue in the amount of 252,252 €. In year 2014 revenues established on the basis of preliminary settlement of the regulatory year 2014 were by 2,322 € higher than the already charged ones during the year. In year 2014 the company therefore recognized additional revenues in the amount of 2,322 €.

Final settlement for regulatory year 2015 will be executed by SODO on the basis of 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.

As explained in Chapter 4.10.5 - [Contract with SODO Company](#), on February 29 2012 Elektro Gorenjska company signed a Contract for the hire of electricity distribution infrastructure and implementation of services for distribution network system operator with the duration of the contract being subject to the duration of the concession contract signed between the Republic of Slovenia as a concession provider and SODO as the concession operator. Management of the company did this to reduce the threatening financial harm, which would arise in case of non-signing of the contract.

As previously explained, on the proposal of the management the then supervisory board of Elektro Gorenjska Company gave its consent to the Contract under the condition that the company informs SODO about the constraints to implementation and compliance with certain contractual provisions, which the company could not comply and implement for objective reasons. Individual provisions impose on the company obligations which are exceedingly burdening and as a consequence disproportionate according to the purpose of regulating the relation between the two companies, which is quality and efficient implementation of the public utility service of the electricity distribution network system operator. Beside that certain provisions of the contract are substantially too open and allow the possibility of exceedingly wide interpretation of company's obligations.

Key provisions of the contract, which Elektro Gorenjska company cannot accept as binding due to already explained objective reasons or due to disproportionate burdening according to the purpose of the contract, refer to charges «on behalf and for the account of SODO», accessing data, data transmission, legitimating in court proceedings, essential breaches of contract and monitoring the implementation of the contract.

15.2 Disputes in progress and related provisions

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

15.3 Accounts of electricity purchase for losses in the network and implementation of other activities under the Contract with SODO

Costs (revenues) from derogations of announced from realized schedules of electricity consumption in purchasing electricity for covering the losses in the network and provision of SODO supplies

In year 2015 the purchase of electricity for covering the losses in the network and provision of SODO supplies, which company Elektro Gorenjska implements on the basis of Contract with SODO, was treated within the framework of balance subgroup SODO, which is included in the balance subgroup Elektro Gorenjska Prodaja (please see also Business report, chapter 4.10.8 – [Schedule derogations](#)). On this basis the responsible of the balance subgroup is not entitled to charge us with schedule derogations. Company Elektro Gorenjska did not calculate them in statements for year 2015.

Final statement of costs of electricity purchase for covering the losses in the network and supplies under the Contract with SODO

Company Elektro Gorenjska has not yet received a final statement of costs of electricity purchase for year 2015 for covering the losses in the distribution network from its electricity supplier. Based on the measured (detected) quantity of losses in the distribution network in year 2015 and based on the best assessment of purchase prices the company estimates that credit in the amount of 265,777 € will be recognized to the company for electricity purchase for losses.

Company Elektro Gorenjska has also not yet received a statement of costs of electricity purchase for implementing the electricity supplies under the Contract with SODO for year 2015. Based on the measured (detected) quantity of electricity in these activities and based on the likely purchase price of electricity in this activity the company Elektro Gorenjska estimates that the value of electricity purchase for supplies in year 2015 will be higher by 13,242 €.

As at 31. 12. 2015 in the financial statements of the group these two assessments in the total amount of 252,535 € (31. 12. 2014 total amount of 275,685 €) are recognized among short-term deferred costs (please see chapter 16.10 – Short-term accruals and pre-paid expenditure). Transactions of purchase for losses are presented also in the Business report, chapter 4.10.6 – [Electricity losses in network](#), and supplies in chapter 4.10.7 – [SODO supply](#).

16

Notes to the balance sheet items

16.1 Intangible assets and long-term accruals and pre-paid expenditure

Following table presents changes in intangible assets and long-term accruals and pre-paid expenditure in years 2015 and 2014.

In €

2015	Computer software equipment	Other rights	Property rights in acquisition	Other long-term accruals and pre-paid expenditure	Total intangible assets and long-term accruals and pre-paid expenditure
1	2	3	4	5	6 = 2+3+4+5
Acquisition cost					
Balance 31. 12. 2014	5,270,918	7,090	310,214	237,760	5,825,982
Merger of EGP to ECE	-306,036	0	-7,350	-201	-313,587
New acquisitions	97,980	0	325,512	10,043	433,535
Disposals, withdrawals, transfers	-331,461	0	0	-81,908	-413,369
Completion of ongoing investments	558,516	0	-558,516	0	0
Balance 31. 12. 2015	5,289,917	7,090	69,861	165,695	5,532,562
Value adjustment					
Balance 31. 12. 2014	4,515,376	5,710	0	0	4,521,086
Merger of EGP to ECE	-56,586	0	0	0	-56,586
Increase (depreciation)	256,281	236	0	0	256,517
Disposals, withdrawals, transfers	-331,461	0	0	0	-331,461
Balance 31. 12. 2015	4,383,610	5,946	0	0	4,389,556
Carrying amount					
Balance 31. 12. 2014	755,542	1,380	310,214	237,760	1,304,896
Balance 31. 12. 2015	906,306	1,144	69,861	165,695	1,143,006

Following table presents changes in intangible assets and long-term accruals and pre-paid expenditure in year 2014.

In €

2014	Computer software equipment	Other rights	Property rights in acquisition	Other long-term accruals and pre-paid expenditure	Total intangible assets and long-term accruals and pre-paid expenditure
1	2	3	4	5	6 = 2+3+4+5
Acquisition cost					
Balance 1. 1. 2014	4,837,658	7,090	57,834	67,204	4,969,786
New acquisitions	321,075	0	587,243	234,074	1,142,392
Disposals, withdrawals, transfers	5,426	0	-298,105	-63,517	-356,196
Completion of ongoing investments	106,758	0	-36,758	0	70,000
Balance 31. 12. 2014	5,270,918	7,090	310,214	237,760	5,825,982
Value adjustment					
Balance 1. 1. 2014	4,219,098	5,474	0	0	4,224,572
Increase (depreciation)	304,939	236	0	0	305,175
Disposals, withdrawals, transfers	-8,661	0	0	0	-8,661
Balance 31. 12. 2014	4,515,376	5,710	0	0	4,521,086
Carrying amount					
Balance 1. 1. 2014	618,561	1,616	57,834	67,204	745,215
Balance 31. 12. 2014	755,542	1,380	310,214	237,760	1,304,896

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

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

As at December 31 2015 the group had no financial obligations in respect of acquiring intangible fixed assets.

16.2 Tangible fixed assets

As at December 31 2015 tangible fixed assets amounted to **192,611,655 €**, which represents 90 % of balance sheet total of the group. Compared to the balance as at December 31 2014 their value is by 8,047,149 € higher.

Presentation of changes in tangible fixed assets in year 2015:

In €

2015	Land	Buildings			Equipment			Tangible fixed assets in building	Advances	Total tangible fixed assets
		Infrastructure	Electric power plants	Other buildings	Infrastructure	Electric power plants	Other equipment			
1	2	3	4	5	6	7	8	9	10	11=2+3+4+5+6+7+8+9-10
Acquisition cost										
Balance 31. 12. 2014	7,835,325	244,375,966	16,027,088	14,179,924	95,496,200	17,653,987	13,267,097	10,078,628	115,933	419,030,147
Merger of EGP to ECE	0	0	0	0	0	0	-313,626	0	0	-313,626
New acquisitions	206,800	121,535	0	0	1,315,016	8,912	570,947	15,854,213	31,632	18,109,056
Impairment	0	0	0	-26,159	0	0	0	0	0	-26,159
Disposals, separations, transfers	26,162	-1,475,703	77,608	-4,547	-150,325	432,706	-960,763	0	-96,493	-2,151,355
Transfer from investments in progress	11,932	20,548,800	0	187,249	2,090,566	152,491	0	-23,076,258	0	-85,221
Transfer from/to investment property	19,254	0	0	-129,886	0	0	0	0	0	-110,632
Balance 31. 12. 2015	8,099,472	263,570,599	16,104,696	14,206,581	98,751,457	18,248,095	12,563,655	2,856,584	51,070	434,452,210
Value adjustment										
Balance 31. 12. 2014	0	147,889,993	10,172,280	4,067,754	53,366,934	8,458,290	10,510,391	0	0	234,465,642
Merger of EGP to ECE	0	0	0	0	0	0	-174,410	0	0	-174,410
Increase (depreciation)	0	4,217,176	448,194	318,631	3,169,651	808,935	730,457	0	0	9,693,043
Impairment	0	0	0	-11,826	0	0	0	0	0	-11,826
Withdrawal PV	0			0	0		0	0	0	0
Disposals, separations, transfers	0	-1,428,156	12,900	-4,547	-140,768	174,494	-698,573	0	0	-2,084,649
Transfer from/to investment property	0	0	0	-47,245	0	0	0	0	0	-47,245
Balance 31. 12. 2015	0	150,697,014	10,633,374	4,322,767	56,395,817	9,441,719	10,367,865	0	0	241,840,555
Carrying amount										
Balance 31. 12. 2014	7,835,325	96,485,973	5,854,809	10,112,171	42,129,266	9,195,697	2,756,706	10,078,628	115,933	184,564,506
Balance 31. 12. 2015	8,099,472	112,891,585	5,471,323	9,883,815	42,355,641	8,806,376	2,195,790	2,856,584	51,070	192,611,655

Presentation of changes in tangible fixed assets in year 2014:

In €

2014	Land	Buildings			Equipment			Tangible fixed assets in building	Advances	Total tangible fixed assets
		Infrastruktura	Electric power plants	Other buildings	Infrastructure	Electric power plants	Other equipment			
1	2	3	4	5	6	7	8	9	10	11=2+3+4+5+6+7+8+9-10
Acquisition cost										
Balance 1.1.2014	7,703,792	239,011,452	16,003,882	14,041,555	94,614,145	16,941,908	13,137,268	5,802,707	29,475	407,286,184
New acquisitions	86,269	367,409	0	26,946	272,910	398,023	401,886	12,821,847	329,437	14,704,726
Transfer from/to investment property	3,782	-1,873,743	0	29,446	-557,169	-11,647	-293,485	0	-242,979	-2,945,796
Transfer from investments in progress	41,482	6,870,847	23,206	81,978	1,166,314	325,703	21,428	-8,545,926	0	-14,968
Balance 31.12.2014	7,835,325	244,375,966	16,027,088	14,179,924	95,496,200	17,653,987	13,267,097	10,078,628	115,933	419,030,148
Value adjustment										
Stanje 1.1.2014	0	145,429,290	9,710,561	3,741,000	50,610,555	7,678,360	9,959,509	0	0	227,129,275
Increase (depreciation)	0	4,178,763	461,719	295,922	3,234,447	783,599	843,305	0	0	9,797,755
Transfer from/to investment property	0	-1,718,060	0	30,832	-478,068	-3,669	-292,423	0	0	-2,461,388
Balance 31.12.2014	0	147,889,993	10,172,280	4,067,754	53,366,934	8,458,290	10,510,391	0	0	234,465,642
Carrying amount										
Balance 1.1.2014	7,703,792	93,582,162	6,293,321	10,300,555	44,003,590	9,263,548	3,177,758	5,802,707	29,475	180,156,911
Balance 31.12.2014	7,835,325	96,485,973	5,854,809	10,112,171	42,129,266	9,195,697	2,756,706	10,078,628	115,933	184,564,506

New acquisitions are presented in the business report, in chapter [6.4 - Investments](#).

Individually significant acquisitions are:

Buildings:

- investment in 110 kV KBV RTP Železniki – RTP Bohinj (13,193,320 €),
- investment in 35 kV DV Podkuže – Kr. Gora (330,915 €),
- investment in K5326 D0864 – 002 – Sopotnica Logarnica (132,496 €).

Equipment:

- measuring devices project AMI (1,295,995 €),
- remote conduct DCV (1,119,358 €) in
- equipment for EO RTP Tržič 20 KV (95,847 €).

Disposals and withdrawals of tangible fixed assets are the consequence of new investments, investments in modernization and renovation (reconstruction) of existing assets.

Individually significant disposals (withdrawals) connected to energy facilities are the following buildings:

- 20 KV DV D1000 – D0902 Jezerski vrh (reduction of acquisition cost by 293,547 € and revaluation adjustment by 286,524 €),
- 20 KV DV RTP Škofja Loka – RP Medvode (reduction of acquisition cost by 144,071 € and revaluation adjustment by 144,071 €) in
- 20 KV DV Železniki – Soriška planina (reduction of acquisition cost by 102,859 € and revaluation adjustment by 102,539 €).

Items infrastructure fully refer to electricity distribution infrastructure as defined in the Decree on energy infrastructure (Official Gazette RS, No. 62/2003 and forwards). It includes buildings and equipment as well as part of the land. Book value of electricity distribution infrastructure as at December 31 2015 amounted to 160,344,526 € (31. 12. 2014: 143,638,580 €). 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.

Two solar power station owned by Gorenjske elektrarne in net current value of 1,688,701 € are pledged as security for a long-term loan.

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.

In years from 2012 to 2015 Gorenjske elektrarne Company leased for a ten- to twelve-year period renovated lighting systems in shopping centers, which are owned by the tenant. As the investor the company entirely renovated the lighting systems and gave them renovated to the operating lease. In the same way in year 2013 the system for the production of compressed air with another client was renovated and given to a ten-year lease. In year 2015 rental income amounted to 22,353 €, in the next four years they will amount to additional 95,928 € and in the last four years they amounted to 53,344 €.

To finance new acquisitions of fixed assets the group took several long-term loans in year 2015 and previous years, whose balance on 31. 12. 2015 amounted to 46,420,559 € (31. 12. 2014: 41,959,062 €). Please see also chapter [16.13 - Long-term liabilities](#).

16.3 Investment property

At the end of 2015 investment property amounted to **1,767,299 €**. Changes in their acquisition value, valuation adjustment and their carrying amount in years 2015 and 2014 are presented in the following tables.

Presentation of changes in investment property in year 2015:

In €

2015	Land	Buildings	Total investment property
1	2	3	4=2+3
Acquisition cost			
Balance 31. 12. 2014	807,100	2,345,190	3,152,290
Merger of EGP to ECE	-1,038	0	-1,038
Impairment	-52,179	-6,347	-58,526
New acquisitions	64	0	64
Disposals	-225,195	-375,822	-601,017
Transfer from ongoing investments	0	85,221	85,221
Transfer from/to intangible FA	-19,254	129,886	110,632
Balance 31. 12. 2015	509,498	2,178,128	2,687,626
Value adjustment			
Balance 31. 12. 2014	0	1,194,393	1,194,393
Impairment	0	-2,436	-2,436
Depreciation	0	44,735	44,735
Disposals	0	-363,609	-363,609
Balance 31. 12. 2015	0	920,328	920,328
Carrying amount			
Balance 1. 1. 2015	807,100	1,150,798	1,957,898
Balance 31. 12. 2015	509,498	1,257,801	1,767,299

Presentation of changes in investment property in year 2014:

In €

2014	Land	Buildings	Total investment property
1	2	3	4=2+3
Acquisition cost			
Balance 1. 1. 2014	803,481	2,385,970	3,189,451
New acquisitions	0	0	0
Disposals	0	-52,128	-52,128
Transfer from ongoing investments	3,619	11,348	14,967
Balance 31. 12. 2014	807,100	2,345,190	3,152,291
Value adjustment			
Balance 1. 1. 2014	0	1,185,976	1,185,976
Depreciation	0	43,724	43,724
Disposals	0	-35,308	-35,308
Balance 31. 12. 2014	0	1,194,393	1,194,393
Carrying amount			
Balance 1. 1. 2014	803,481	1,199,994	2,003,475
Balance 31. 12. 2014	807,100	1,150,798	1,957,898

Following is the presentation of investment property structure.

In €

Item description	31. 12. 2015	31. 12. 2014
Apartments	392,703	325,529
Holiday facilities	566,377	496,280
Other buildings	298,721	328,988
Land	509,498	807,100
Total investment property	1,767,299	1,957,898

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 amounted to 2,470,771 €. Result of this valuation is also impairment of investment property (reduction of acquisition cost by 58,526 € and valuation adjustment by 2,436 €).

Revenues from rent in investment property amount to 169,517 € (in year 2014 154,298 €).

Direct operating expenses (including repairs and maintenance), originating from investment property, which made revenues from rents in year 2015, and direct operating expenses, which did not make revenues from rents in year 2015 consist of depreciation costs (44,735 €) and costs of material and services (91,256 €). In year 2014 costs of depreciation were 43,724 € and costs of material and services 98,039 €.

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

Important acquisition within investment property in year 2015 represents the completion of the holiday facility in Izola (85,221 €). Significant eliminations or disposals of investment properties refer to the buildings and land on the location of Partizanska cesta in Kranj (reduction of acquisition cost by 365,264 € and valuation adjustment by 171,001 €). In year 2014 there were no new acquisitions and major disposals of investment property.

16.4 Long-term financial investments

On December 31 2015 long-term financial investments of the group amounted to **7,042,756 €**. Compared to the balance as at 31. 12. 2014 (1,314,937 €) their value increased by 5.7 mio €.

Reason for the increase of value is merger of Elektro Gorenjska Prodaja Company to ECE Company. Due to the merger the value of long-term financial investments of the group decreased by the value of long-term financial investments of Elektro Gorenjska Prodaja Company (shown in the table below), at the same time it increased by the value of investment Elektro Gorenjska Company has in ECE Company (5,606,005 €).

Based on the merger of Elektro Gorenjska Prodaja to ECE, through which the company Elektro Gorenjska lost the control of Elektro Gorenjska Prodaja Company, in financial statements of the group assets and liabilities of Elektro Gorenjska Prodaja as at 1.1. 2015 were eliminated (net assets in the amount of 3,918 thousand EUR) and recognized a profit (financial revenue from interests associates) in the group in the amount of 1,185 thousand € (difference between fair value of investment in associate company and book value of equity in Elektro Gorenjska Prodaja Company, reduced by already recognized revenues in individual statements of the Elektro Gorenjska Company in the amount of 503 thousand €). More is explained in chapter 14.1 [General accounting framework](#).

Investment in the company ECE, which is recorded under shares in associated companies, is recognized in the consolidated financial statements using the equity method.

Long-term financial investment in Soenergetika Company is recognized in the group financial statements using the equity method as well. Soenergetika Company started its business in year 2010.

In connection with the long-term financial investments the group is mostly exposed to the risks of unfavorable changes in the fair value of long-term financial investments. Group does not possess any special financial instruments to protect itself from this risk. Exposure to the risks and hedging systems are explained in the business report, in chapter 5 – [Management and quality systems](#).

Related party transactions are presented in chapter 21 – [Transactions with affiliates](#).

Changes in long-term financial investments in 2015 are presented in the table below.

In €

Investment description	Share designation	Number of shares (% of interests)		Share in the ownership (in %)		Balance	Increases in year 2015		Decreases in year 2015			Balance
		31. 12. 2014	31. 12. 2015	31. 12. 2014	31. 12. 2015	31. 12. 2014	Valuation adjustments	New acquisitions or redistributions	Valuation adjustments	Sale or segregation	Merger of EGP to ECE	31. 12. 2015
Soenergetika d. o. o.				25.00 %	25.00 %	451,671	11,613	0	0	0	0	463,284
ECE d. o. o.				-	25.6744 %	0	703,994	5,606,005	0	0	0	6,309,999
Total investments in shares and interests in associates						451,671	715,607	5,606,005	0	0	0	6,773,283
Gorenjska banka, d. d., Kranj	GBKR	2,350	-	0.71 %	-	288,766	0	0	0	0	-288,766	0
Zavarovalnica Triglav, d.d., Ljubljana	ZVTG	2,664	-	0.01 %	-	62,870	0	0	0	0	-62,870	0
Informatika, d. d., Maribor	INFG	1,562	1,562	9.56 %	9.56 %	165,472	0	0	-41,317	0	0	124,155
Total other shares and interests						517,107	0	0	-41,317	0	-351,636	124,155
Total long-term financial investments, except loans						968,778	715,607	5,606,005	-41,317	0	-351,636	6,897,437
Banka Koper - long-term deposit						200,000	0	0	0	-200,000	0	0
Eldom Maribor						142,798	0	0	0	0	0	142,798
Employees						3,360	0	0	0	-840	0	2,520
Total long-term loans						346,158	0	0	0	-200,840	0	145,318
TOTAL LONG-TERM FINANCIAL INVESTMENTS						1,314,937	715,607	5,606,005	-41,317	-200,840	-351,636	7,042,756

Changes in long-term financial investments in 2014 are presented in the table below.

In €

Investment description	Share designation	Number of shares (% of interests)		Share in the ownership (in %)		Balance	Increases in year 2014		Decreases in year 2014		Balance
		1. 1. 2014	31. 12. 2014	1. 1. 2014	31. 12. 2014	1. 1. 2014	Valuation adjustments	New acquisitions or redistributions	Sale or segregation	Merger of EGP to ECE	31. 12. 2014
									0	0	0
Soenergetika, d. o. o.				25.00 %	25.00 %	427,134	24,537	0	0	0	451,671
Total investments in shares and interests in associates						427,134	24,537	0	0	0	451,671
Informatika, d. d., Maribor	INFG	1,562	1,562	9.56 %	9.56 %	193,680	0	0	-28,208	0	165,472
Gorenjska banka, d. d., Kranj	GBKR	2,350	2,350	0.71 %	0.71 %	288,766	0	0	0	0	288,766
Zavarovalnica Triglav, d. d., Ljubljana	ZVTG	2,664	2,664	0.01 %	0.01 %	50,616	12,254	0	0	0	62,870
Stelkom, d. o. o., Ljubljana		-	-	9.90 %	6.32 %	51,628	0	0	0	-51,628	0
Total other shares and interests						584,688	12,254	0	-28,208	-51,628	517,107
Total long-term financial investments, except loans						1,011,822	36,791	0	-28,208	-51,628	968,778
Banka Koper - long-term deposit						0	0	200,000	0	0	200,000
Eldom Maribor						142,798	0	0	0	0	142,798
Employees						0		4,200		-840	3,360
Total long-term loans						142,799	0	204,200	0	-840	346,158
TOTAL LONG-TERM FINANCIAL INVESTMENTS						1,154,620	36,791	204,200	-28,208	-52,468	1,314,937

16.5 Assets for sale

Value of non-current assets held for sale as at 31. 12. 2015 amounted to 42,320 € and represents the value of all estate property to be sold. At the end of year 2014 value of these assets amounted to 150,330 €.

16.6 Stocks

Value of stocks of material, small tools, and merchandise together with advances for stocks as at 31. 12. 2015 amounted to a total **276,127 €**. Compared to the balance as at 31. 12. 2014 they have increased by 78,868 €. Group estimates that net realizable value of stocks is at least equal to their book value. Movement of material stocks in years 2014 and 2015 is shown in the following table.

In €

Item description	2015	2014
Material stocks at the beginning of the period 1. 1.	187,182	216,790
Purchases	3,263,529	3,368,264
Consumption	-3,058,712	-3,193,389
Sale	-14,763	0
Write-offs	-4,412	0
Impairments and cancellation of impairments	30,445	1,035
Transfer of small tools in use	-127,864	-205,518
Material stocks at the end of the period 31. 12.	275,407	187,182

In stocktaking as at 31. 10. 2015 and 31.10.2014 no surpluses or deficits were established. In year 2015 stocks were impaired by 30,445 €, while in year 2014 realized impairment of stocks amounted to 1,035 €.

Group has no pledged stocks as security for its liabilities.

16.7 Short-term financial investments

According to the balance as at 31. 12. 2015 the group records 840 € of short-term loans to others. At the end of year 2014 the group recognized 200,840 € of such investments. They referred mainly to two short-term deposits in Bank Koper.

16.8 Short-term operating receivables

Short-term operating receivables as at 31. 12. 2015 amounted to **6,777,050 €** and have decreased by 16.5 mio € compared to the balance as at 31. 12. 2014. Reason for the reduction is mainly a change in the composition of the Elektro Gorenjska group in year 2015 due to the merger of Elektro Gorenjska Prodaja Company to ECE Company (explained in chapter 14.1. – [General accounting framework](#)). Following table represents the structure of short-term operating receivables:

In €

Item description	31. 12. 2015	31. 12. 2014
Short-term accounts receivable	6,722,857	23,736,507
Short-term advances	5,337	43,503
Short-term securities	0	50,000
Adjustment of short-term accounts receivable	-191,282	-1,479,440
Short-term accounts receivable	6,536,912	22,350,570
Short-term operating receivables from others	256,324	997,626
Adjustment of short-term receivables from others	-16,186	-5,364
Short-term advances	0	9,746

Item description	31. 12. 2015	31. 12. 2014
Short-term operating receivables from others	240,139	1,002,009
Short-term operating receivables	6,777,050	23,352,579

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 December 31 2015 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	5,784,291	393,012	251,776	64,344	200,701	1,405,528	6,694,123
Default interest claims	12,662	0	2,679	2,531	10,862	17,548	28,734
TOTAL	5,796,953	393,012	254,454	66,874	211,563	1,423,076	6,722,857

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

In €

Item description	Balance 1. 1. 2014	New formations		Withdrawal (use) and elimination			Balance 31. 12. 2015
		Chargeable to expenses or revenues	Chargeable to claims	Claims write-off	Paid interest – transfer to revenues	Elimination of excess valuation adjustments	
Valuation adjustment of accounts receivable	184,444	8,069	0	14,476	1,234	949	175,854
Valuation adjustment for given advances for stocks	4,492	0	0	0	4,492	0	0
Valuation adjustment of interest claims	22,250	-37	5,572	7,224	3,440	1,692	15,428
Valuation adjustment of other short-term claims	5,364	2,028	10,000	0	500	706	16,186
Total valuation adjustment of claims	210,287	10,059	15,572	21,700	9,666	3,346	207,468

16.9 Monetary assets

As at 31. 12. 2015 Elektro Gorenjska Group had **3,561,311 €** of cash on the commercial banks accounts and short-term redeemable deposits in banks in the state.

16.10 Short-term accruals and pre-paid expenditure

Accruals and pre-paid expenditure as at 31. 12. 2015 amount to **551,798 €**. Their structure is shown in the next table.

In €

Item description	31.12.2015	31.12.2014
Short-term deferred costs or expenses	368,330	160,566
Short-term accrued income	87,366	60,603
Refund of excise duties, environmental charge, dues	65,343	37,587
Other	30,759	59,550
Total	551,798	318,306

Short-term accruals and pre-paid expenditure as at 31. 12. 2015 are by 233,492 € higher than they were on the last day of the previous year. Biggest item in short-term deferred costs are short-term deferred costs from losses in the distribution network in the amount of 252,535 €, which are explained in more detail in chapter 15.3 – Accounts of

electricity purchase for losses in the network and implementation of other activities under the Contract with SODO. Group did not record these costs according to the balance as at 31. 12. 2014 as they occurred during the operation among companies in the group.

16.11 Capital

Entire capital of the group consists of the share capital, capital reserves, statutory reserves, other reserves, surplus from revaluation of net profit or loss from previous periods and net profit or loss of the business year. Balance of the entire capital as at December 31 2015 amounted to **145,144,102 €** and was higher by 3.8 % or 5,296,130 € compared with the balance of capital as at December 31 2014.

Share capital of Elektro Gorenjska Company (71,898,061 €) is divided in 17,286,376 ordinary registered unit shares. All shares are paid-up entirely. Each share has an equal share and associated amount in the share capital. Ordinary shares are shares, which give their holders the right to interest, right to part of profit (dividends), and right to appropriate part of remaining property after the liquidation or bankruptcy of the company. All shares are of the same class. Shares are issued in dematerialized form and are managed in KDD – Central Securities Clearing Corporation, d. d., in accordance with regulations. Other details in respect with the share capital and ownership structure of the capital are explained also in Business report, chapter 4.7 – [Share capital and ownership structure](#).

Capital reserves in the amount of 45,944,898 € were formed on January 1 2006 in accordance with the transitional provisions (point No 15 of the Introduction to SRS 2006) from the incumbent general revaluation equity adjustment. They are applied in accordance with the Article 64 of ZGD-1.

Statutory reserves as at December 31 2015 amount to 1,896,184 € and are formed in accordance to the Article 64 of ZGD-1.

Other profit reserves amount to 21,049,094 €. They are formed from net profit of the business years and used by the company according to Article 11 of the Elektro Gorenjska Company Statute.

Revaluation surplus (-648,938 €) mainly arises from negative fair value of interest rate swap (-672,889 €).

Net profit or loss from previous periods amounts to 200,216 €, and it represents a not yet allocated profit from previous years.

Distributable profit of the group or the remaining net profit of the business year amounted to 5,004,803 €. According to the balance as at December 31 2015 Elektro Gorenjska Company recognized the remaining net profit of the business year in the amount of 2,792,998 €. Allocation of this profit is the responsibility of the shareholders meeting, as part of the distributable profit, which in year 2015 amounted to 2,800,346 €. On the last day of year 2015 Gorenjske elektrarne Company recognized remaining net profit of the business year in the amount of 512,987 €. Its allocation is the responsibility of the owner Elektro Gorenjska Company.

Use of the distributable profit of the company Elektro Gorenjska for 2014 has been determined by a court judgment in an action for annulment of one of the shareholders in connection with the decision of the general meeting (please see also Business report, chapter 4.6.1 – [Management and governance of Elektro Gorenjska Company](#)) on July 8 2015. In accordance with the decision of the court entire distributable profit in the amount of 2,165,156 € was intended for payment of dividends to the owners. According to the balance as at December 31 2015 the company discloses a further 104,825 € of liabilities in respect of profit distribution.

In accordance with the decision of the founder, Elektro Gorenjska Company, part of the distributable profit of Gorenjske elektrarne Company for year 2014 in the amount of 800,000 € was paid out to the founder.

In year 2015 net profit or loss after tax with respect to the cumulative growth factor of prices would amount to 7,965,127 €.

In €

Item description	Capital as at 31. 12. 2015	% of growth	Calculated effect	Profit or loss with revaluation effect
Capital	145,144,102	-0.5	-725,721	7,965,127

16.12 Provisions and long-term accrued costs and deferred revenues

As at December 31 2015 provisions and long-term accrued costs and deferred revenues amounted to **14,324,824 €**. Compared to their balance as at December 31 2014 they increased by 260,131 €.

Provisions for long-service bonuses and severance pay at retirement are formed in the amount of estimated future payments on the basis of actuary report on calculation of provisions for long-term earnings according to IAS 19. In accordance with the termination of force of the explanatory Note 1 in IAS 10 (2006) that ceased to be in force for the business year starting on January 1 2014 (Decision of termination; Official Gazette RS, No. 20/14 as at 21. 3. 2014, retroactively), in year 2014 the companies in the group for the first time formed provisions for severance pay at retirement and long-service bonuses in accordance with IAS 19 – Employee Benefits.

Actuary calculation takes into account the following actuarial assumptions:

- mortality tables of population of Slovenia from year 2007, reduced by 10 %;
- linearly decreasing fluctuation from 1.5 % at 15 years of age to 0.5 % at 54 years, then constant 0.5 % fluctuation; total on employees as at 31. 12. 2015 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. 2015 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 2016 and 2017, resulting from the Autumn forecasts of economic trends (2015); from 2017 onwards average salary in RS will increase annually by 2 % inflation and by real growth of 0.5 %;
- Increase in basic salaries and variable part of salaries in the company in the amount of 85 % of annual inflation, from 2020 onwards increased also by real growth in the amount of 0.5 %;
- Growth of salaries due to promotion is linearly decreasing, namely from 3 % at 15 years to 0.5 % at 45 years, then constant 0.5 % annually, as a total on employees as at December 31 2015 this means 0.9 % annually for next year;
- Inflation yield curve is calculated for all government bonds for Euro zone countries (spot rates) as at 30. 11. 2015. 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 long-service bonuses and severance pays were formed mainly due to changes in the structure of Elektro Gorenjska in 2015 (more in chapter 14.1 – General accounting framework).

Provisions for compensation in connection to the denationalization and other claims have been additionally formed in the amount of 356,028 €.

Tangible fixed assets received free of charge consist of customer connections, which Elektro Gorenjska Company took over to its tangible fixed assets together with its commitment to care for their maintenance and renovation, in accordance with regulations, above all the General conditions for the supply and consumption of electricity from the distribution electricity network (Official Gazette RS No. 126/07, 37/11), and free acquisition of other fixed assets.

Long-term deferred revenues in respect of average connection costs were formed until June 30 2007 in connection with implementation of GJS SODO on the basis and in accordance with the regulations, above all the Act determining the methodology for the calculation of network charge and methodology for setting the network charge, and the criteria for determining eligible costs for electricity networks (Official Gazette RS, No. 121/2005 and onwards). Average cost of connection is a lump-sum amount, paid for the connection to the network or to increase the connection power. It is a dedicated source for financing investments in network expansion.

There were no significant differences between planned and realized forming and drawing on individual category of provisions and long-term accrued costs and deferred revenues.

The following table presents the changes in provisions and long-term accrued costs and deferred revenues in year 2015.

In €

Item description	Beginning of the period 31. 12. 2014	Increases (formations)			Decreases (withdrawals, elimination)				End of the period 31. 12. 2015
		Chargeable to costs (expenses)	Recognition chargeable to assets	Recognition chargeable to capital	Credit to operating revenues	Derecognition chargeable or credit to capital	Derecognition chargeable or credit to capital	Merger of EGP to ECE	
Provisions for long-service bonuses	1,084,383	96,856	0	-19,701	6,369	113,946	3,010	91,252	946,960
Provisions for severance pay at retirement	1,867,879	140,775	0	-118	25,905	55,166	477	150,104	1,776,883
Total provisions for long-service bonuses and severance pay	2,952,261	237,631	0	-19,819	32,275	169,113	3,487	241,356	2,723,843
Provisions for damages in connection with denationalization claims	4,763,047	325,280	0	0	0	0	0	0	5,088,327
Provisions for possible losses in disputes in progress	0	30,748	0	0	0	0	0	0	30,748
Total other provisions	4,763,047	356,028	0	0	0	0	0	0	5,119,075
Total provisions	7,715,308	593,659	0	-19,819	32,275	169,113	3,487	241,356	7,842,918
Fixed assets acquired free of charge	684,253	0	74,437	0	46,371	0	0	0	712,319
Free acquisition of connections	3,667,454	0	176,856	0	115,036	0	0	0	3,729,274
Received tangible fixed assets free of charge	4,351,707	0	251,292	0	161,407	0	0	0	4,441,593
Long-term deferred income - rent	8,633	0	0	0	3,837	0	0	0	4,796
Deferred revenues in respect of average connection costs	1,781,470	0	0	0	85,319	0	0	0	1,696,151
Long-term accrued costs and deferred revenues - right to use	8,700	0	0	0	580	0	0	0	8,120
Long-term deferred income- rent and services SODO - RO 2014	0	0	114,014	0	0	38,005	0	0	76,009
Project STORY - long-term deferred revenues	0	0	85,919	0	29,464	0	0	0	56,455
Project INCREASE - long-term deferred revenues	53,356	0	37,201	0	32,596	0	0	0	57,961
Received state benefits	130,325	0	21,801	0	15,135	0	0	0	136,991
Other long-term accrued costs	0	3,831	0	0	0	0	0	0	3,831
Re-energy Fund	15,196							15,196	0
Total long-term accrued costs and deferred revenues	6,349,387	3,831	510,228	0	328,338	38,005	0	15,196	6,481,907
Total provisions and long-term accrued costs and deferred revenues	14,064,693	597,489	510,227	-19,820	360,611	207,117	3,486	256,551	14,324,824

The following table presents the changes in provisions and long-term accrued costs and deferred revenues 2014.

In €

Item description	Beginning of the period 1. 1. 2014	Increases (formations)			Decreases (withdrawals, elimination)		End of the period 31. 12. 2014
		Chargeable to costs (expenses)	Recognition chargeable to assets	Recognition chargeable to capital	Credit to operating revenues	Credit to liabilities or short-term accrued charges	
Provisions for long-service bonuses	1,065,088	108,002	0	0	0	88,707	1,084,383
Provisions for severance pay at retirement	1,722,746	166,037	0	7,139	0	28,044	1,867,877
Total provisions for long-service bonuses and severance pay	2,787,834	274,039	0	7,139	0	116,751	2,952,260
Provisions for damages in connection with denationalization claims	4,565,078	197,969	0	0	0	0	4,763,047
Total other provisions	4,565,078	197,969	0	0	0	0	4,763,047
Total provisions	7,352,912	472,008	0	7,139	0	116,751	7,715,307
Fixed assets acquired free of charge	731,206	0	0	0	46,952	0	684,254
Free acquisition of connections	3,406,364	0	367,409	0	106,320	0	3,667,453
Received tangible fixed assets free of charge	4,137,570	0	367,409	0	153,272	0	4,351,707
Deferred revenues in respect of average connection costs	1,866,789	0	0	0	85,319	0	1,781,470
Long-term accrued costs and deferred revenues – right to use	9,280	0	0	0	580	0	8,700
Long-term deferred income - rent	0	0	12,150	0	3,517	0	8,633
Received state benefits	130,402	0	12,180	0	12,257	0	130,325
Received assets for Re-energy Fund	15,196	0	0	0	0	0	15,196
Other	69,059	0	0	0	15,703	0	53,356
Total long-term accrued costs and deferred revenues	6,228,295	0	391,739	0	270,648	0	6,349,386
Total provisions and long-term accrued costs and deferred revenues	13,581,206	472,008	391,739	7,139	270,648	116,751	14,064,693

16.13 Long-term liabilities

As at 31. 12. 2015 Elektro Gorenjska Group had **40,675,440 €** of long-term financial liabilities, which is by 4.8 mio € more than as at 31. 12. 2014.

Majority of long-term liabilities are long-term financial liabilities in the amount of 40,526,928 €. All long-term financial liabilities have the maturity of more than five years. Majority (98 %) of all long-term financial liabilities represent liabilities to banks

In year 2015 we redeemed **18,322,369 €** worth of **principals** of which as a result of refinancing we prepaid by 10,655,000 € of principals. Costs of interest amounted to **1,026,655 €** (interest in connection to long-term loans and related interest rate swaps). Interest in the amount of 95,224 € was capitalized.

In year 2014 we redeemed by 7,054,329 € of principals and paid 1,165,610 € of interest. Balance of raised loans as of December 31 2015 amounted to 46,420,559 €, while at the end of year 2014 it was 42,577,927€.

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 0.29 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. 2015 amounted to 46,420,558 €.

In connection with long-term financial liabilities the group is exposed mainly to the interest risk, as the long-term loans raised by the group are loans with a floating interest rate (EURIBOR + add-on). Future cash flows being uncertain the group decided to secure the cash flow by purchasing the interest rate swap. As at December 31 2015 there were 40 % of long-term loans secured with the fixed interest rate, which represents the amount of 18,779,071 €. Fair value of interest rate swap as at 31. 12. 2015 amounted to - 672,889 €. Exposure to risks and hedging systems are explained in the Business report, in chapter 5 – [Management and quality systems](#).

Deferred tax liabilities as at 31. 12. 2015 amounted to 117,710 €, while on the last day of year 2014 they amounted to 8,727 €.

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

Title	Year of approval	Year of maturity	Purpose of loan	Insurance of loan	Interest rate hedge	Balance 31. 12. 2014	Increases due to new leases	Amortizations 2015	Končno stanje 31. 12. 2015	Short-term part of long-term loans 31. 12. 2015	Long-term part of loans 31. 12. 2015	Due from 31. 12. 2015 to 31. 12. 2020
1	2	3	4	5	6	7	8	9	10=7+8+9	11=del 10	12=del 10	13=del 10
credit 1	2009	2017	Investments	blank bills	yes	3,642,857	0	-1,214,286	2,428,571	1,214,286	1,214,285	2,428,571
credit 2	2008	2016	Investments	blank bills	no	2,008,939	0	-1,004,470	1,004,470	1,004,470	0	1,004,470
credit 3	2007	2015	investments, current assets	blank bills	no	1,245,642	0	-1,245,642	0	0	0	0
credit 4	2010	2018	Investments	blank bills	yes	4,114,286	0	-1,028,571	3,085,715	1,028,571	2,057,144	3,085,715
credit 5	2011	2023	Investments	blank bills	yes	7,012,500	0	-850,000	6,162,500	850,000	5,312,500	6,612,500
credit 6	2012	2023	Investments	blank bills	no	4,050,000	0	-4,050,000	0	0	0	0
credit 7	2012	2023	Investments	blank bills	no	4,050,000	0	-450,000	3,600,000	450,000	3,150,000	2,250,000
credit 8	2013	2024	Investments	blank bills	no	7,200,000	0	-7,200,000	0	0	0	0
credit 9	2014	2025	Investments	blank bills	no	8,100,000	0	0	8,100,000	810,000	7,290,000	4,050,000
credit 10	2012	2022	Investments	mortgage, assignment of the claim	yes	1,153,704	0	-718,084	435,619	86,590	349,029	432,950
credit 11	2015	2024	Investments (refinancing)	blank bills	no	0	10,665,000	-561,316	10,103,684	1,122,632	8,981,052	5,613,158
credit 12	2015	2030	Investments	blank bills	no	0	4,833,334	0	4,833,334	0	4,833,334	2,434,784
credit 13	2015	2025	Investments	-	no	0	6,666,666	0	6,666,666	0	6,666,666	2,380,953
Total long-term loans						42,577,927	22,165,000	-18,322,369	46,420,558	6,566,549	39,854,009	29,843,101

16.14 Short-term financial liabilities

Short-term financial liabilities as at 31. 12. 2015 amounted to **6,783,667 €** and are by 0.9 mio € lower than as at 31. 12. 2014. Short-term financial liabilities to banks refer to the short-term part of long-term loans.

In €

Item description	31. 12. 2015	31. 12. 2014
Short-term financial liabilities to banks and companies	6,566,549	7,561,053
Other short-term financial liabilities	217,118	130,328
Total short-term liabilities from financing activities	6,783,667	7,691,381

16.15 Short-term operating liabilities

At the end of 2015 short-term operating liabilities in the amount of **5,937,486 €** were by 13.9 mio € lower than compared to the balance on the last day of 2014. Reason is mainly a change in the composition of the group due to the merger of Elektro Gorenjska Prodaja Company to ECE Company (more explained in chapter 14.1. – [General accounting framework](#)).

They mainly refer to payables (for own account) and to SODO company (for third party account). Detailed review of the short-term operating liabilities is presented in the following table.

In €

Item description	31.12. 2015	31. 12. 2014
Liabilities to suppliers for own account	2,137,478	11,720,617
Liabilities to other suppliers on its own behalf and for third party account	1,802,892	4,458,023
- liabilities to SODO, d.o.o.	1,802,831	4,457,987
- to others	62	36
Other liabilities, of which:	1,997,116	3,658,455
- to workers	995,534	1,073,959
- to state and other institutions	443,667	848,071
- for received advances and collaterals	25,810	602,139
- other (interests, employee deductions, pension fund management ...)	532,106	1,134,286
Total short-term liabilities from operating activities	5,937,486	19,837,095

16.16 Short-term accrued costs and deferred revenues

As at 31. 12. 2015 accrued costs and deferred revenues amounted to **931,883 €**. Compared to their balance as at 31. 12. 2014 they are by 274 thousand € lower. Reason is mainly a change in the composition of the group due to the merger of Elektro Gorenjska Prodaja Company to ECE Company (more explained in chapter 14.1. – [General accounting framework](#)).

16.17 Potential assets, liabilities and off-balance sheet records

Off-balance sheet assets or liabilities as at 31. 12. 2015 amounted to **29,084,680 €**. They were higher by 14 mio € compared to the balance as at 31. 12. 2014 mainly due to unused parts of long-term loans.

Potential assets amount to 3,530,483 €, with received guarantees representing the highest value. Potential liabilities in the amount of 6,461,431 € are guarantees issued to a subsidiary. Other off-balance record include unused parts of loans in the amount of 16,666,667 € and fixed assets owned by SODO (2,426,099 €). 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 year 2015 the group no longer records small tools in the off-balance records, but it has established records for monitoring the tasks.

In €

Item description	31. 12. 2015	31. 12. 2014
Foreign material in warehouse	254,700	172,286
Received guarantees	2,534,917	3,305,824
Easements	740,866	773,681
Total potential assets	3,530,483	4,251,791
Pledged deposits	0	307,263
Issued guarantees, bills of exchange	6,461,431	6,837,754
Total potential liabilities	6,461,431	7,145,017
Small tools	0	1,134,364
Fixed assets in the property of SODO	2,426,099	2,527,427
Undrawn loan amount	16,666,667	0
Total other	19,092,766	3,661,791
Total off-balance sheet assets and liabilities	29,084,680	15,058,600

17.1 Net sales revenues

In year 2015 net sales revenues amounted to **35,404,931 €**. Compared to revenues reached in year 2014 they were, mainly due to the merger of subsidiary company Elektro Gorenjska Prodaja to company ECE, lower by 48 mio €. Their structure is presented in the following table.

In €

Item description	Year 2015	Year 2014
Revenues from electricity sale	3,702,068	52,218,131
Revenues from electricity sale – SODO supplies	13,242	23,467
Revenues from rent and services in relation to SODO	27,205,179	26,825,566
Revenues for covering the losses of electricity in relation to SODO	3,085,012	2,985,241
Revenues from rents	479,125	375,714
Revenues from construction and assembly works	379,200	493,904
Revenues from sale of other business effects	541,104	979,153
Total net sales revenues from sale of business effects	35,404,931	83,901,176

Majority of net sales revenues in year 2015 represent revenues from rent and services related to SODO (27,205,179 €) and revenues for covering electricity losses in relation to SODO (3,085,012 €). Compared to year 2014 due to a change in the composition of Elektro Gorenjska Group (more in chapter 14.1 – [General accounting framework](#)) significant reduction of revenues from sale of electricity occurred. Majority of these revenues were realized in year 2014 by subsidiary Elektro Gorenjska Prodaja.

Revenues from rent and services in relation to SODO and revenues for covering the electricity losses in relation to SODO are achieved on the basis of a long-term contract with company SODO on lease of electricity distribution infrastructure and implementation of services of distribution electricity network operator. Contract with SODO is explained in chapter 4.10.5 - [Contract 4.10.5 with SODO Company](#).

Transactions in connection with revenues for losses of electricity in network of the company are presented also in the Business report – chapter 4.10.6. – [Electricity losses in network](#).

17.2 Capitalized own products and own services

In year 2015 capitalized own effects amounted to **4,563,225 €**. They were mostly investments in tangible fixed assets – energy infrastructure. Compared to year 2014 amount of capitalized own effects was by 511,017 € higher.

17.3 Other operating revenues

Other operating revenues in the amount of **742,089 €** consist of:

In €

Item description	Year 2015	Year 2014
Operating revenues from revaluation	259,782	75,623
Revenues in respect of transferring long-term deferred revenues to regular operating revenues:	323,469	267,084
– delivery of fixed assets free of charge	46,371	46,952
– delivery of connections free of charge	115,036	106,320
– average connection costs	85,319	85,319
– other	76,744	28,493
Recovered damages from insurance company	49,382	1,026,063
Other operating revenues	109,457	122,212
Total other operating revenues	742,089	1,490,981

Revenues from transfer of long-term deferred revenues (long-term accrued costs and deferred revenues) to regular revenues and **revenues from reversal of provisions** are explained also in chapter 16.12 – Provisions and accrued costs and deferred revenues.

17.4 Financial revenues from shares

In year 2015 Elektro Gorenjska Group realized by **2,550,287 €** of financial revenues from shares. Revenues in the amount of 862,296 € represent pro-rata net profit of the associated companies ECE and Soenergetika in year 2015, which are consolidated by the equity method, while revenues in the amount of 1,687,991 € refer to the loss of control in subsidiary Elektro Gorenjska Prodaja which occurred by merger to ECE Company.

17.5 Financial revenues from loans

Financial revenues from given loans consist of:

In €

Item description	Year 2015	Year 2014
Received interest for short-term deposits in money deposit banks	7,267	53,583
Total financial revenues from loans	7,267	53,583

17.6 Financial revenue from operating receivables

In year 2015 Elektro Gorenjska Group realized **61,122 €** of financial revenue from operating receivables. As shown in the following table main part were default interest on receivables from electricity and network charge. Compared to year 2014 these revenues decreased mainly due to a change in the composition of Elektro Gorenjska Group in year 2015 (more in chapter 14.1 – General accounting framework).

In €

Item description	Year 2015	Year 2014
Default interest on receivables from electricity and network charge	36,615	171,137
Interest on other receivables	24,507	22,239
Total financial revenues from operating receivables	61,122	193,377

17.7 Costs of goods sold and materials used

Costs of goods sold and materials used include:

In €

Item description	Year 2015	Year 2014
Acquisition cost of goods and materials sold	24,532	56,727
Electricity purchase	0	44,742,721
Electricity purchase – losses and SODO supplies	2,502,661	2,530,128
Costs of material:	3,867,023	4,341,060
– material costs of maintenance	230,091	530,723
– costs of materials in connection with capitalized own effects, market services	2,887,235	2,859,542
– energy costs	504,178	576,683
– small tool write-off	127,874	205,548
– costs of office supplies	77,443	105,066
– other material costs	40,202	63,498
Costs of goods sold and expenses	6,394,215	51,670,636

Compared to year 2014 cost of sold goods together with cost of material used decreased by 45.3 mio €. Reason represents a change in the composition of Elektro Gorenjska group in year 2015 (more in chapter 14.1. – [General accounting framework](#)). Namely in year 2014 subsidiary company Elektro Gorenjska Prodaja realized majority of costs for electricity purchase.

Transactions of purchases for losses are presented also in the Business report, chapter 4.10.6 – [Electricity losses in network](#).

Transactions of supplies with electricity are explained in more detail in the Business report in chapter 4.10.7 – [SODO supplies](#).

Costs of material used in maintenance of tangible fixed assets are presented also in the Business report, in chapter 6.5 – [Maintenance of energy facilities](#).

Costs of materials related to capitalized own effects and market services (year 2015: 2,887,235 € and year 2014: 2,859,542 €) include values of material, which the group then treats as a component part of:

- acquisition values of tangible fixed assets, built or made in the company for the needs of the company (capitalized own effects), which is explained in more detail in chapter 17.2 – [Capitalized own products and own services](#);
- values of own services (construction, on-site assembly and similar services), sold on the market (please see also chapter 17.1 – [Net sales revenues](#)).

17.8 Costs of services

In year 2015 costs of services amounted to **4,631,285 €**, while in year 2014 they amounted to 6,144,867 €. Reduction of costs is mainly the result of the change in the composition of the Elektro Gorenjska Group in year 2015 (more in chapter 14.1 - [General accounting framework](#)). Biggest cost within costs of services represent costs of services related to maintenance of energy infrastructure and other tangible fixed assets. Detailed structure of service costs can be found in the following table.

In €

Item description	Year 2015	Year 2014
Costs of service in creating products and implementing services	145,483	152,225
Costs of transport services	159,148	512,677
Costs of services in respect of maintenance of electric power infrastructure and other tangible fixed assets	1,828,825	2,083,907
Rents	175,623	205,386
Reimbursements of work related costs to employees	46,715	31,130
Costs of payment transactions, banking services and insurance premiums	691,719	667,407
Costs of intellectual and personal services	442,897	716,596
Costs of advertising and representation	126,518	234,883
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...)	156,010	173,357
Costs of information and other services	858,348	1,367,299
Total costs of services	4,631,285	6,144,867

Costs of services in creating products and implementing services (year 2015: 145,483 €; year 2014: 152,225 €) include values of construction services, electricity on-site assembly, designing and other similar services, which the group then treats as a component part of:

- acquisition costs of tangible fixed assets, built or made in the company for the needs of the company (capitalized own effects), which is explained in more detail in [chapter 17.2. - Capitalized own products and own services](#);
- values of services (construction, electricity on-site assembly and similar services) sold on market (please see also [chapter 17.1 - Net sales revenues](#)).

Maintenance of electricity infrastructure is presented also in Business report, chapter 6.5 - [Maintenance of energy facilities](#).

Costs of intellectual services include costs of scientific and research work also presented in the business report in [chapter 6.6 - Development and design](#), and costs of education and related costs of tuition fees and costs of additional professional education of employees presented in the business report in [chapter 9.1.4](#).

Costs of advertising and representation include also costs of sponsorships explained in more detail also in the business report, [chapter 9.3.1 - Communication with local community and social responsibility](#).

Costs of other services include mainly costs related to computer information system, which include concern for undisturbed and safe operation of group's information system, electronic mail, access to World Wide Web, ensuring appropriate level of data and services security, implementation of joint security policy, data processing, storage of computer-generated data and other services of computer software equipment maintenance.

17.9 Labor costs

Labor costs in the amount of **11,986,571 €** consist of:

In €

Item description	Year 2015	Year 2014
Salary costs	8,079,929	8,968,973
Costs of voluntary pension insurance of employees	412,724	439,652
Costs of employer's contributions and other benefits from salaries	1,450,406	1,530,095
Costs of transport allowances	2,043,511	2,170,668
Total labor costs	11,986,571	13,109,388

Reduction of costs in comparison with year 2014 is mainly the result of the change in the composition of the Elektro Gorenjska Group due to the merger of Elektro Gorenjska Prodaja subsidiary to ECE Company (more in chapter 14.1 – [General accounting framework](#)). Share of the parent Elektro Gorenjska Company in labor costs is 89 %.

Costs of voluntary pension insurance are presented also in the Business report, chapter 9.1.12 – [Care for employees and related groups outside working hours](#).

Costs of employer's contributions and other salary benefits include also contributions for pension and disability insurance: year 2015 in the amount of 791,046 €; year 2014 in the amount of 831,218 €.

Number of employees and their education structure and other information in connection with the employees are presented in more detail in the Business report, chapter 9.1 – [Care for employees](#).

Receipts of the management, supervisory board and employees according to individual contracts are presented in more detail in Chapter 21.2 – [Transactions with the management](#), supervisory board and employees under contract for which tariff part of the collective agreement does not apply.

17.10 Amortization / depreciation expenses

Amortization /depreciation expenses in year 2015 amounted to **10,354,423 €**. Their structure is the following:

In €

Item description	Year 2015	Year 2014
Depreciation of intangible fixed assets	256,518	305,175
Depreciation of tangible fixed assets	9,693,043	9,797,756
Depreciation of investment property	44,735	43,724
Total depreciation costs	9,994,296	10,146,656
Operating expenses from revaluation of fixed assets and investment property	341,698	230,215
Operating expenses from revaluation of current assets	18,429	107,070
Total write-offs	10,354,423	10,483,941

Costs of depreciation of intangible fixed assets (256,518 €) are presented also in chapter 16.1 – [Intangible assets and long-term accruals and prepaid expenditure](#); costs of depreciation of tangible fixed assets (9,693,043 €) in chapter 16.2. – [Tangible fixed assets](#); and costs of depreciation of investment property (44,735 €) in chapter 16.3. – [Investment property](#).

17.11 Other operating expenses

Other operating expenses in the amount of **699,012 €** include:

In €		
Item description	Year 2015	Year 2014
Contribution for promotion of employment of persons with disabilities	64,207	82,315
Contribution for urban land	101,853	116,047
Contribution for contaminated water	10,995	10,995
Concession for water use	50,219	79,674
Provisioning	356,028	197,969
Other expenses (environment protection costs, compensations ...)	115,711	175,358
Total other operating expenses	699,012	662,358

Employment of persons with disability and policy of scholarships are presented in more detail in the Business report, chapter 9.1.3 – [Employment of persons with disabilities](#) or in chapter 9.1.4 – [Education](#).

Provisioning is explained in more detail also in chapter 16.12 - [Provisions and long-term accrued costs and deferred revenues](#).

17.12 Financial expenses from impairments and financial investment write-offs

In year 2015 the group had by 41,317 € of financial expenses from impairments of long-term financial investments in shares of Informatika, d. d. In year 2014 these expenses amounted to 28,208 €.

17.13 Financial expenses from financial liabilities

In year 2015 financial expenses from financial liabilities amounted to **1,026,706 €**. As shown in the table below, they mainly include expenses from interest for received long-term loans in commercial banks.

In €		
Item description	Year 2015	Year 2014
Expenses from interests for received long-term loans in commercial banks	742,150	1,142,036
Expenses from interest – interest rate swap	284,504	306,069
Expenses from interests for received loans from other companies	51	0
Total financial expenses from financial liabilities	1,026,706	1,448,106

17.14 Other expenses

Other expenses consist of donations and other expenses. In year 2015 they amounted to **40,978 €**, while in year 2014 to 45,965 €.

17.15 Breakdown of costs by functional groups

Breakdown of costs by functional groups is shown in the following table:

In €

Item description	Year 2015	Year 2014
Costs of operating effects sold	27,378,784	72,894,909
Costs of general activities	5,286,427	6,528,636
Costs of sales	1,025,405	2,310,360
Total	33,690,616	81,733,905

17.16 Income tax

Charged income tax for 2015 business year amounted to **740,948 €** (year 2014: 722,397 €). In year 2015 and 2014 all companies in the group recorded liability for income tax. Overview of the calculation of income tax for individual year is in the following table:

In €

Item description	Year 2015	Year 2014
Pre-tax profit	7,000,600	6,968,084
Revenues reducing the tax base	-1,489,276	-978,830
Expenses increasing the tax base	810,882	731,762
Expenses reducing the tax base	-156,841	-108,510
Reduction of the tax base on the basis of relief	-1,784,214	-2,078,429
Other	-22,636	-284,680
Tax base	4,358,516	4,249,397
Tax rate	17 %	17%
Income tax	740,948	722,397
Effective tax rate	11 %	10%

17.17 Deferred tax liabilities and deferred taxes

Deferred tax liabilities as at 31. 12. 2015 amounted to 117,709 €. They refer to taxable temporary differences arising from merger of Elektro Gorenjska Prodaja Company to ECE Company and small inventory in fixed assets.

Liabilities for deferred tax which amounted to 706,329 € as at 31. 12. 2015, were not recognized in accordance with SRS 5.16 by the group (uncertainty about future taxable profits).

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Notes on other comprehensive income items

Other components of the comprehensive income in the amount of 221,880 € refer to the decrease of the negative fair value of the interest rate swap in year 2015 (217,975 €) and post-employment income of employees referring to severance pay at retirement (3,905 €).

In year 2015 Elektro Gorenjska Group had 80,198,162 € of receipts and 81,825,598 € of expenditures. Receipts and expenditures include appropriate amounts of duties, mainly VAT and excise duties, in accordance with the issued invoices and receipted invoices. Cash flow in year 2015 was negative and amounted to -1,627,435 €.

As at 1. 1. 2015 the group had on transaction accounts in banks monetary assets in the form of short-term deposits or deposits redeemable in the amount of 5,188,746 €, while the balance of these assets on 31.12.2015 amounted to 3,561,311 €.

Net cash from operating activities in year 2015 amounted to 12,333,671 €, which means that companies in the group operate positively with their main activity and create a positive cash flow. This way in year 2015 the group was able to settle all its liabilities (expenditure) referring to the repayment of the principals and interests in respect of long-term credits and could partly finance new acquisitions of intangible and tangible assets. The largest revenues were revenues received under the Contract with SODO for implementation of services and rents for electric power infrastructure.

Net cash used in investing activities in year 2015 amounted to 14,628,297 €. Industry the Elektro Gorenjska Company operates in is technologically very intense and in order to provide quality supply to its customers in the area of Elektro Gorenjska distribution network large and constant investments are required (explained mainly in chapter 16.2 – [Tangible fixed assets](#)). New acquisitions of intangible and tangible assets were mainly financed by acquisition of new long-term credit in the amount of 11,500,000 € (explained in chapter 16.13 – [Long-term liabilities](#)), while partly they were financed also by net cash from operating activities. Receipts from the increase of long-term liabilities besides drawing on long-term credits for financing investment (11,500,000 €) include also drawing on credits for refinancing in the amount of 10,655,000 €. The same amount takes into account also repayment of loans that were subsequently prepaid. Receipts and expenditures in relation to short-term financial liabilities represent short-term borrowing during the period before drawing on long-term loans. Expenditures in financing are increased by the payment of dividends in the amount of 2,048,270 €. Net cash from financing thus amounts to 667,191 €.

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Contingent liabilities

Besides liabilities recognized in long-term provisions, group Elektro Gorenjska acts as a defendant party in some other cases, but they are not disputes of bigger values and the group expects no significant expenses or losses in connection to these disputes. Contingent liabilities of the group are shown also in chapter [16.17 - Potential assets, liabilities and off-balance sheet records](#).

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Transactions with affiliates

21.1 Transactions with Group companies in year 2015

In year 2015 parent company Elektro Gorenjska was doing business with a subsidiary Gorenjske elektrarne.

Among transactions within the group, which were eliminated from the consolidated balance sheet, the most important are:

In €	
Item description	Amount
Revenues from general services of controlling company (costs of controlled company)	162,033
Revenues from rents (costs of controlled company rents)	143,010

All transactions with controlled companies were implemented under normal market conditions.

As a controlling company Elektro Gorenjska Company did not obstruct or impair operations of company Gorenjske elektrarne as the controlled company.

21.2 Transactions with management, supervisory board and employees under contract for which tariff part of the collective agreement does not apply

Chairman of the Board in the controlling company and directors of the controlled company

In year 2015 Elektro Gorenjska Group paid persons stated below the following gross or net receipts:

In €								
Chairman of the board/company director	Earning	Operating performance	Terminal leave pay	Long-service bonus	Pay for annual leave	Payment of unused annual leave	Reimbursements of costs	Total
1. Elektro Gorenjska								
gross receipt	73,333	0	0	0	0	0	3,103	76,436
net receipt	35,337	0	0	0	0	0	3,103	38,440
2. Gorenjske elektrarne								
gross receipt	69,225	0	0	0	0	0	1,619	70,844
net receipt	38,640	0	0	0	0	0	1,619	40,259

Reimbursement of costs (so called material costs) include: daily allowances, transfer to work, meals and costs of official journeys. They are charged in accordance with the employment contracts or company's collective agreement.

Benefits of the Chairman of the Board in the controlling company and directors of the controlled company arising from the employment contract were the following in year 2015:

In €				
Chairman of the Board / Company Director	Insurance premiums	Use of company car	Use of mobile phone	Supplementary education
Elektro Gorenjska	1,410	14,329	452	1,776
Gorenjske elektrarne	1,294	6,847	308	497

Supervisory board

In year 2015 supervisory board held a total of 11 sessions, namely on the following dates 29. 1. 2015, 18. 2. 2015, 27. 3. 2015, 24. 4. 2015, 15. 5. 2015, 3. 6. 2015, 29. 7. 2015, 3. 9. 2015, 7. 10. 2015, 18. 11. 2015 and 14. 12. 2015. On four sessions one supervisory board member was missing, and on one of the sessions two members were absent.

Within the supervisory board audit committee and nomination committee have been operating.

Audit committee, whose members have been Andrej Koprivec, dr. Andrej Baričič and Elvis Duraković held in year 2015 a total of nine regular sessions (30. 1. 2015, 24. 3. 2014, 22. 4. 2015, 6. 5. 2015, 27. 5. 2015, 17. 6. 2015, 23. 9. 2015, 29. 10. 2015, 3. 12. 2015), and one correspondence session (29. 6. 2015). One of the members was not present at one of the sessions.

Nomination committee, whose members have been Samo Logar, Tedo Djekanović, MSc and Milena Pervanje, held four regular sessions and one correspondence session in year 2015. Regular sessions took place on the following dates 9. 4. 2015, 2. 6. 2015, 26. 8. 2015 and 27. 11. 2015. All members of the committee were present at all sessions. Correspondence session took place on 2. 12. 2015.

Gross and net receipts of the supervisory board members in year 2015 are shown in table below (for those also members of supervisory board committees, receipts for participation in the committees are included as well). From the table attendance of individual members at the meetings is also evident.

In €

	gross/net	Participation at the session of SB		Participation at the committee		Payment for the performance of the function	Attendance fee SB	Attendance fee committee	Travel expenses	Total
		No. of sessions	attendance	No. of sessions	Attendance					
Shareholders representatives										
mag. Samo Logar	gross	11	10	5	5	21,188	2,475	880	443	24,985
	net					15,410	1,800	640	322	18,172
Andrej Koprivec	gross	11	9	10	10	15,538	2,200	1,936	502	20,175
	net					11,301	1,600	1,408	365	14,673
mag. Tedo Djekanović	gross	11	10	5	5	14,401	2,625	1,100	0	18,126
	net					10,474	1,909	800	0	13,183
Elvis Duraković	gross	11	11	10	9	14,125	2,750	1,716	0	18,591
	net					10,273	2,000	1,248	0	13,521
Employee representatives										
Vojko Oman (until 7. 8. 2015)	gross	7	6			7,746	1,925	0	0	9,671
	net					5,634	1,400	0	0	7,034
Leopold Zupan (until 7. 8. 2015)	gross	7	6			8,521	1,925	0	0	10,446
	net					6,197	1,400	0	0	7,597
mag. Dominik Ovniček (from 8. 8. 2015)	gross	4	4			3,554	825	0	0	4,379
	net					2,585	600	0	0	3,185
Iztok Štular (from 8. 8. 2015)	gross	4	4			3,554	825	0	0	4,379
	net					2,585	600	0	0	3,185

Gross and net receipts and attendance of external members of the audit and nomination committees can be found in the table below:

External members of committees

In €

	gross/net	Participation in the committee		Payment for the performance of the function	Attendance fee committee	Travel expenses	Total
		No. of sessions	attendance				
dr. Andrej Baričič	gross	10	10	5,650	2,156	229	8,035
	net			4,055	1,568	167	5,789
Milena Pervanje	gross	5	5	5,650	1,100	0	6,750
	net			4,109	800	0	4,909

As explained in chapter 4.6 – **Supervisory board**, besides the attendance fees members of the supervisory board and audit committee have been receiving also monthly payments for the performance of the function.

Costs of other supervisory board members' benefits in year 2015 refer to the liability insurance in accordance with the decision of the shareholders meeting of Elektro Gorenjska Company. These costs represent the creditworthiness of the supervisory board members. They are shown in the following table.

In €

	Insurance costs
Shareholders representatives	
mag. Samo Logar	1,083
Andrej Koprivec	1,083
mag. Tedo Djekanović	1,083
Elvis Duraković	1,083
Employee representatives	
Vojko Oman (until 7. 8. 2015)	742
Leopold Zupan (until 7. 8. 2015)	742
mag. Dominik Ovinček (from 8. 8. 2015)	341
Iztok Štular (from 8. 8. 2015)	341

Following table presents memberships of the company's supervisory board members in other managerial and supervisory bodies.

	Membership
1. Shareholders representatives	
mag. Samo Logar	Supervisory board Snežnik, d.d.
Andrej Koprivec	Management – KOPRICO d.o.o.
mag. Tedo Djekanović	management board member Triglav int. d.d.
Elvis Duraković	Chairman of the football club NK Sava Kranj
2. Employee representatives	
Vojko Oman	-
Leopold Zupan	-
mag. Dominik Ovinček	-
Iztok Štular	-

Board of directors and the supervisory board did not receive any receipts in respect of performing the functions in controlled companies. Companies in Elektro Gorenjska group received and also approved no advances, loans, or guarantees to persons mentioned in this chapter or groups of people and did not disclose any claims on them in this respect as of December 31 2015.

Under Article 57 of the Companies Act (ZGD-1) Elektro Gorenjska Group is subject to annual report audit. Contractual amount for auditing the financial statements of companies within the group and Elektro Gorenjska Group for year 2015 amounted to 19,200 €. Contractual amount spent on the audit of report on operations with related parties for year 2015 amounted to 1,000 €. In year 2015 we recorded also 5,500 € of costs for non-auditing services referring to year 2014.

Financial risks in Elektro Gorenjska 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. Main types of financial risks are:

- **Credit risk or counterparty credit risk**, which represents the possibility that receivables from customers and other business partners resulting from deferred payments will be paid late, only partially or not at all. In times of economic crisis all this is becoming increasingly important. In order to manage these risks we regularly monitor the outstanding debts of the company, limiting the exposure to individual customers, we charge interest on late payments, and use an appropriate system of recovery.

For the parent company credit risk reduced strongly with the spin-off of activity of purchase and sale of electricity in the subsidiary company in year 2011.

Likelihood of materialization of credit risk and extent of damage on the basis of the above factors is assessed as medium, hence the severity of the risk is defined as medium.

- **Liquidity risk** stems from the fact that the company 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 cash management at the level of the group, with careful planning of cash flows, the establishment of adequate credit lines for short-term liquidity management and appropriate management of working capital. This includes the following activities:
 - Supervision and coordination among all OU in the field of procurement of goods and services or to 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 company.
 - 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.
 - Monitoring the stocks in the manner of good management.
 - Monitoring of trade receivables as late payments of customers as a result of the deterioration of financial discipline and higher costs for debt collection, reflect on the poor liquidity of the company. It is also important to shorten payment terms to customers.
 - Severity of liquidity risk is assessed as big. 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.
- **Interest risk**, which represent the risk of adverse movements in interest rates. Before 2012 the company had most of the loans raised at variable interest rate (EURIBOR). 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. In year 2015 we also 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.

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.

In Gorenjske elektrarne Company main types of financial risk are:

- **Interest risk**, which means the possibility of loss due to adverse movements in interest rates on the market. Company manages interest rate risk arising from financial liabilities, which are linked to interest rate EURIBOR, through interest rate swaps. Interest rate swaps are expected to successfully hedge against cash flow risk. In this way, the company is fully hedged against interest rate risk.
- **Risk of insolvency** is a risk that the company will face difficulties in raising funds to meet its financial obligations. Company did not face this risk in year 2015.
- **Foreign exchange risk** is a financial risk, which means danger of financial loss due to changes in the value of one currency against another. Company was not exposed to foreign exchange risks in year 2015.

After the balance sheet date (31. 12. 2015) and until the auditor's report date (22. 4. 2016) Elektro Gorenjska Company received from SODO the preliminary account of the regulatory year 2015. Preliminary account for year 2015 was implemented by SODO on the basis of unrevised financial statements. From the account it is clear that in year 2015 the already charged contractual value of services and rent was by 252,252 € higher than the values established on the basis of the preliminary account. Based on this the company in year 2015 reduced (short-term deferred) revenues in respect of rent and services under the contract with SODO in the amount of 252,252 €.