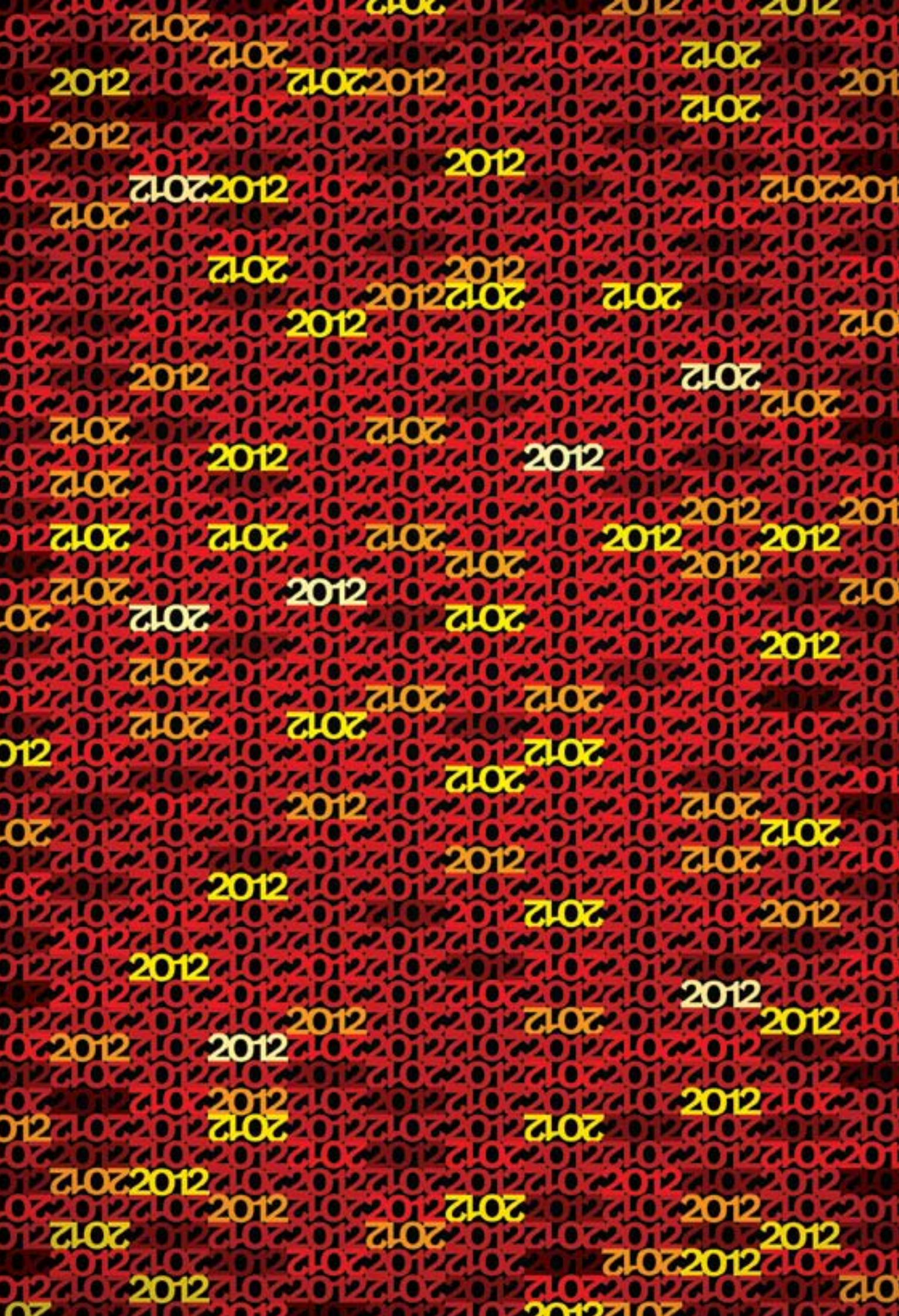


ELEKTRO GORENJSKA GROUP
CONSOLIDATED ANNUAL REPORT
FOR YEAR 2012



2012



CONSOLIDATED ANNUAL REPORT OF ELEKTRO GORENJSKA GROUP 2012

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LIST OF ABBREVIATIONS

AUKN	CAPITAL ASSETS MANAGEMENT AGENCY OF THE REPUBLIC OF SLOVENIA
BDP	GROSS DOMESTIC PRODUCT
BTP	TECHNICAL DATA BASE
DCV	DISTRIBUTION MANAGEMENT CENTER
DDV	VALUE ADDED TAX
DED	OTHER ENERGY ACTIVITIES
DGO	ACTIVITY OF PURCHASE AND SALE TO HOUSEHOLD CUSTOMERS
DO	DISTRIBUTION NETWORK
DPO	ACTIVITY OF PURCHASE AND SALE TO BUSINESS CUSTOMERS, INCLUDING TRADE
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	ENERGY ACT (OFFICIAL GAZETTE RS, No. 27/07, 70/08, 22/10)
GIS	GAS ISOLATED SUBSTATION
GJS SODO	PUBLIC SERVICE OBLIGATION RELATING TO THE ACTIVITY OF THE ELECTRICITY DISTRIBUTION SYSTEM OPERATOR
HE	HYDROELECTRIC POWER STATION
IIS	INTEGRATED INFORMATION SYSTEM
IVG	IMPLEMENTATION OF MAINTENANCE AND WORKS
JARSE	ENERGY AGENCY OF THE REPUBLIC OF SLOVENIA
NN	LOW VOLTAGE
NNO	LOW-VOLTAGE NETWORK

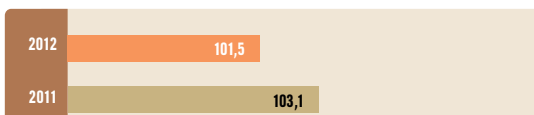
NP	PURCHASE AND SALE
OE	ORGANIZATIONAL UNITS
POGODBA s	
SODO, d. o. o.	CONTRACT ON ELECTRICITY INFRASTRUCTURE LEASE AND PROVISION OF SERVICES FOR ELECTRICITY DISTRIBUTION SYSTEM OPERATOR
RTP	TRANSFORMER SUBSTATION
SAIDI	SYSTEM AVERAGE INTERRUPTION DURATION INDEX
SAIFI	SYSTEM AVERAGE INTERRUPTION FREQUENCY INDEX
SN	MEDIUM VOLTAGE
SNO	MEDIUM-VOLTAGE NETWORK
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)
TR	TRANSFORMER
UVK	COMPETITION PROTECTION OFFICE OF THE REPUBLIC OF SLOVENIA
VN	HIGH VOLTAGE
VNO	HIGH-VOLTAGE NETWORK
ZGD-1	COMPANIES ACT

IMPORTANT INFORMATION ON OPERATION OF ELEKTRO GORENJSKA GROUP

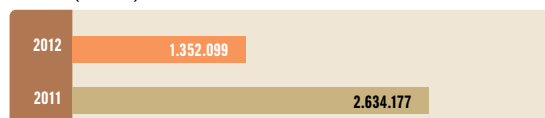
NET PROFIT OR LOSS (EUR)



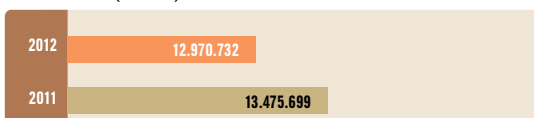
ECONOMY OF OPERATION (%)



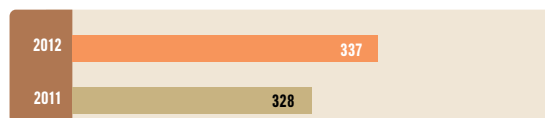
EBIT (EUR)



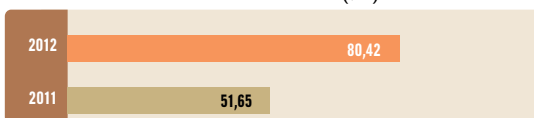
EBITDA (EUR)



AVERAGE NUMBER OF EMPLOYEES



SHARE OF EMPLOYEES INCLUDED IN VARIOUS EDUCATIONS AND TRAININGS (%)



COSTS OF EDUCATION PER EMPLOYEE (EUR)



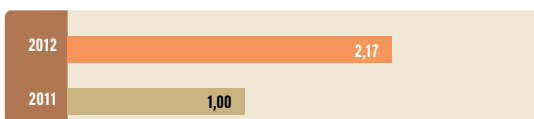
AVERAGE LEVEL OF EDUCATION



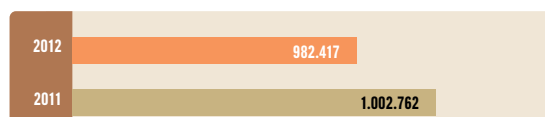
SAIDI (AVERAGE TIME OF DURATION OF UNANNOUNCED INTERRUPTIONS LONGER THAN 3 MINUTES /CUSTOMER)



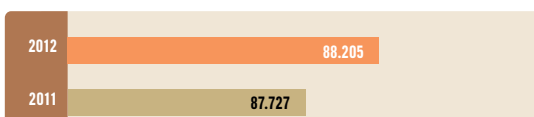
SAIFI (AVERAGE NUMBER OF UNANNOUNCED INTERRUPTIONS LONGER THAN 3 MINUTES /CUSTOMER)



QUANTITIES OF DISTRIBUTED ELECTRICITY (MWh)

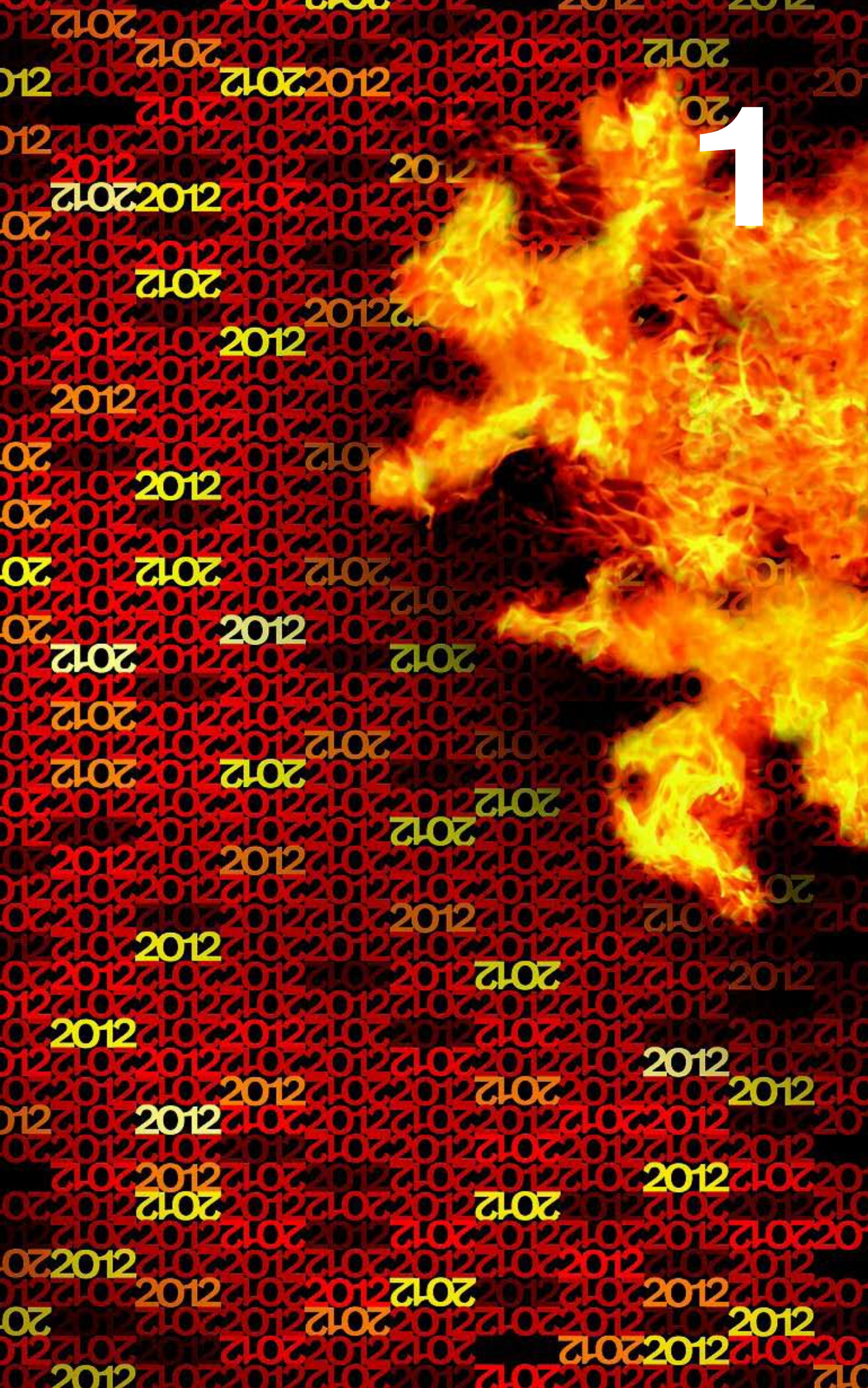


NUMBER OF CUSTOMERS CONNECTED TO DISTRIBUTION NETWORK





BUSINESS REPORT



1. IMPORTANT EVENTS AND AWARDS OF ELEKTRO GORENJSKA GROUP IN YEAR 2012

JANUARY

- Strong wind caused numerous damages on the power lines of Elektro Gorenjska network.
- Elektro Gorenjska renovated and refreshed the company's internal website.
- At the press conference Elektro Gorenjska Prodaja presented a revised offer for electricity sale to household customers as well as a new pricelist.
- Elektro Gorenjska adopted several internal rules within the framework of the Family-friendly company certificate. Rules offer employees additional possibilities for balancing their career and family life.

FEBRUARY

- Elektro Gorenjska participated in the event En. Grids dedicated to experts related to forming smart grids.
- Elektro Gorenjska started planning the construction of 2 x 110 kV power line Kamnik-Visoko.
- Elektro Gorenjska Prodaja awarded 1,205 of its customers who reduced their annual consumption by at least 10 percent last year with 10 Euros.
- Representatives of Gorenjske elektrarne participated in the professional seminar on photovoltaic in Slovenia organized by the Building and Civil Engineering Institute ZRMK.
- Representatives of Gorenjske elektrarne started with the implementation of their annual plan of education and raising awareness of various publics on the significance of the use renewable energy sources. First lecture on alternative electricity generation was held at Elementary School Orehek.

MARCH

- Elektro Gorenjska started with the construction of RTP 110/20 kV Bohinj with a connecting 110 kV cable conduit.
- Gorenjske elektrarne, Holding Slovenske elektrarne, Domplan and Petrol, which are joined in company Soenergetika, d. o. o., officially put into operation a new heat and power cogeneration plant SPTE Planina Kranj, one of the largest SPTEs in Gorenjska region.
- Gorenjske elektrarne connected into operation a new heat and power cogeneration plant in the Home for elderly in Ajdovščina.
- Gorenjske elektrarne participated in the OVE and URE conference for Slovenia until 2030, which was organized by the Slovenian Biomass Association.
- Representatives of Gorenjske elektrarne participated in the workshop »Natural gas cogeneration«, organized by the commercial association of interest for natural gas distribution and in co-operation with the Energy Efficiency Centre of Jozef Stefan Institute.
- Elektro Gorenjska Group participated in Let's clean Slovenia campaign, where the company takes care of cleaning the watercourses by HE Sava and HE Škofja Loka.

APRIL

- Elektro Gorenjska received a positive opinion from the Competition Protection Office about the eventual equity participation between Holding Slovenske elektrarne and Elektro Gorenjska and Elektro Gorenjska Prodaja.
- Elektro Gorenjska Prodaja refreshed the Re-energy package offer, which offers products in OVE and URE fields. EGP started promoting the package offer together with its external partners in the Elektro Gorenjska Group events in Gorenjska region municipalities, starting in Šenčur municipality.
- Gorenjske elektrarne prepared a lecture on photovoltaic systems for employees of Jela Janežiča Elementary School as well as organized a visit to the solar power plant on the roof of Jela Janežiča Elementary School in Škofja Loka.

- Gorenjske elektrarne officially handed over the solar power plant on Šenčur Elementary School.
- Gorenjske elektrarne participated in the conference titled "Solar systems from solar plants to photovoltaic systems" with their conference paper. At the conference the book co-authored by Gorenjske elektrarne titled Main uses of solar heat and photovoltaic systems was also presented.
- Representatives of Gorenjske elektrarne participated in the Energy Managers Days in Portorož, where they presented the project of complete renovation of remote heating system Planina Kranj including the SPTE, which again ranked among finalists of the energy efficient projects at the conference.
- Research group of Gorenjske elektrarne participated at the first scientific conference VIVUS, organized by BC Naklo. At the conference projects in the field of hydro power plants, solar power plants, heat pumps and heat and power cogeneration were presented.

MAY

- Elektro Gorenjska issued a brochure Elektro Gorenjska – Family Friendly Company, with the intention of informing the employees with their possibilities in the field of reconciliation of family and working life.
- In the framework of popularization of electrical occupations Elektro Gorenjska Company was visited by a group of students of Kranj School Centre for Technical Sciences. Students visited the remote control center and were acquainted by individual parts of the electricity network.
- Elektro Gorenjska Prodaja encourages its customers to increase the use of renewable energy sources and use environment friendly products, so they expanded their range with electric scooter Tomos E-lite, for an environmentally friendlier mobility.
- For the employees of Elektro Gorenjska Group Elektro Gorenjska Prodaja organized Re-energy Day, where products and services offered to their end customers were presented.
- Gorenjske elektrarne participated in the 16th Energetics Fair, where the company obtained a quality certificate awarded by the Slovenian Photovoltaic Industry Association for the field of design and installation of solar power plants.
- In the framework of project European Solar Days in Slovenia, which takes place every year in the first half of May, representatives of Gorenjske elektrarne organized workshops and presentations in the field of renewable energy sources use at Matija Valjavec Elementary School in Preddvor and at BC Naklo.

JUNE

- Elektro Gorenjska received a silver award for the best innovation in Gorenjska region in year 2011 for the innovation »Implementation of compacted 110 kV line with rigid composite insulator brackets«.
- At the opening of the solar power plant on the roofs of elementary schools Jelo Janežič and Ivan Grohar Elektro Gorenjska Prodaja presented the visitors package re-energy. They participated with the presentation of Re-energy package in also Naklo municipality.
- Ambrož Bogataj, M.Sc. assumed the position of the director in Elektro Gorenjska Prodaja d. o. o.
- Gorenjske elektrarne officially handed over the solar power plant on the roofs of elementary schools Jelo Janežič and Ivan Grohar.
- In the month of June Gorenjske elektrarne placed five new solar power plants in service, of which four are proper solar power plants. Two power plants were set on the roofs of public institutions, while two were set on the roofs of Merkur Company. The largest solar power plant for the market located on the roof of Iskratel Holding Company in Kranj, was also placed in service. Gorenjske elektrarne now generate electricity from renewable sources in 16 proper solar power plants in Gorenjska region, with the power of 3,055.7 kilowatts.

JULY

- After thorough preparations for the first time in Slovenia replacement of the existing optical telecommunication connection on 110 kV power line was in progress, while also meeting the condition of continuity of telecommunication links during the replacement of optical cables.
- Elektro Gorenjska published its consolidated annual report of Elektro Gorenjska Group 2011 in Slovenian and English, Report on environmental management, and Report on health and safety at work 2011.
- Elektro Gorenjska was building its own broadband wireless network for the purposes of control and management of the power system, operation measurements, quality monitoring and also account measurements. This way the first industrial counter MT831, which was connected to the WiMax modem through Ethernet communication interface, was successfully connected in the remote reading system.

AUGUST

- Elektro Gorenjska Group, namely Gorenjske elektrarne was visited by the president of the republic of Slovenia dr. Danilo Türk. Representatives of Gorenjske elektrarne and Elektro Gorenjska presented the key projects of the companies, as well as opportunities and problems they face in the field of electricity production from renewable energy sources.
- Elektro Gorenjska was again a candidate for the Slovenian business excellence award, so an introductory meeting of examiners and applicants took place at the company's seat. Application was submitted already in April.
- Elektro Gorenjska continued with the construction of a new transformer substation 110/20 kV Bohinj. To connect the new RTP 110/20 kV Bohinj and line between Moste and Bohinj Elektro Gorenjska built a specific and demanding one kilometer long cable route.
- Gorenjske elektrarne build a control system for monitoring the operation of small hydro power plants SCADA.

SEPTEMBER

- Elektro Gorenjska quickly, efficiently and safely remediated the collapse of the power system in Gorenjska regions, which occurred in the night between the 12 and 13 September. Collapse of the power system was caused by a failure in RTP 400 kV/110 kV Okroglo owned by Elektro Slovenija.
- Elektro Gorenjska Prodaja offered its customers and other citizens an opportunity to receive grant, which the buyers were entitled to with the Eco Fund before, in case of purchasing a heat pump from their offer.
- In company Merkur in Naklo Gorenjske elektrarne completed the construction of a new device for cogeneration of heat and electricity of 150 kilowatt power.
- Elektro Gorenjska and Gorenjske elektrarne celebrated 100 year anniversary of the arrival of electricity in the village Sorica. Together with the Sorica tourist society they prepared several interesting events, including the exhibition titled "From cooperative power plant to public electricity", which was also on display at the seat of Elektro Gorenjska Company in Kranj in October and November.

OCTOBER

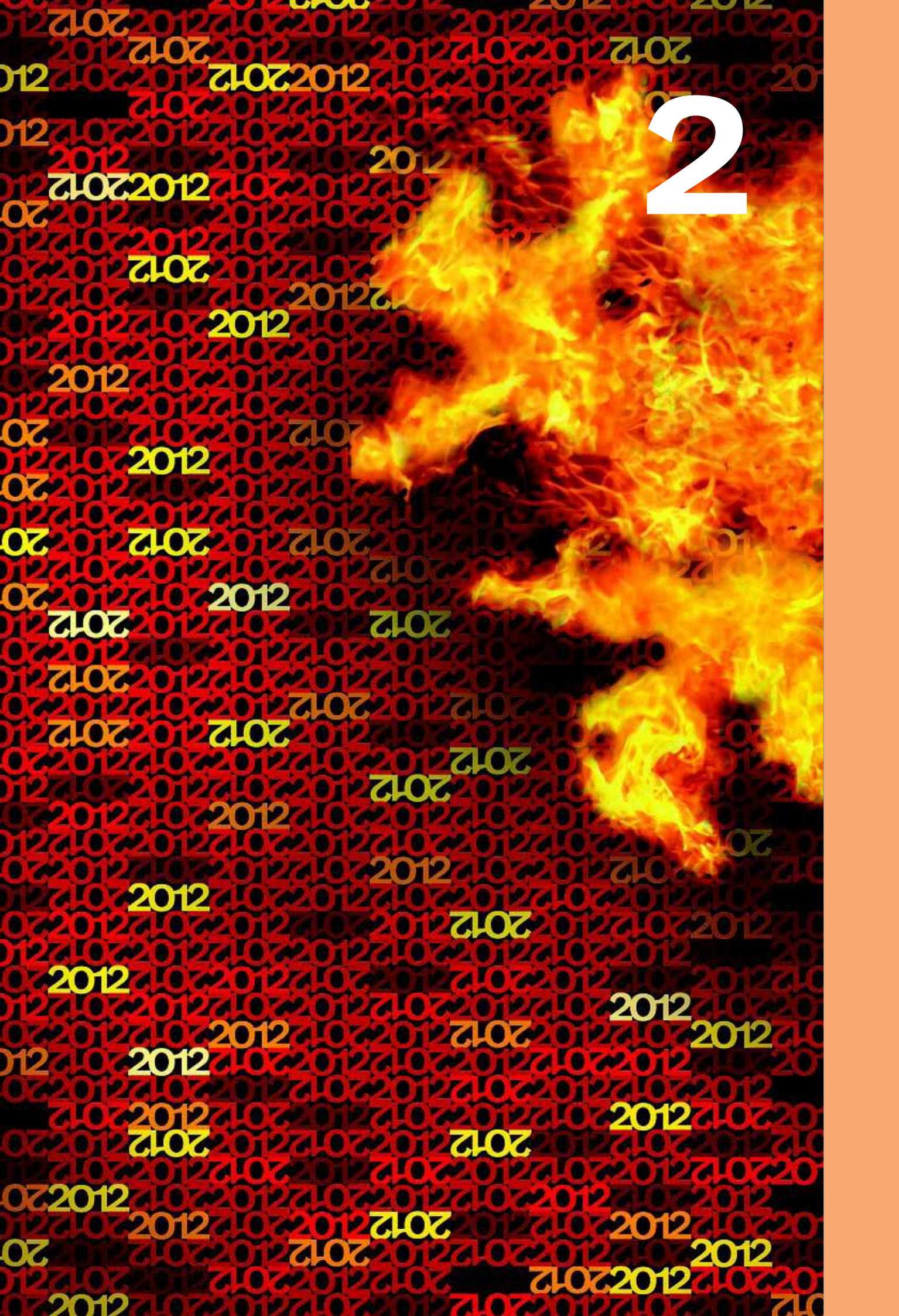
- With its innovation in the field of design Elektro Gorenjska participated in the energy strategic meeting Inovacija energetika.
- Elektro Gorenjska successfully passed a regular assessment of the quality management system, regular assessment of the health and safety at work system management, and follow-up assessment of environmental management system.
- Elektro Gorenjska renovated its web site making it more transparent for the users.
- With the help of grants obtained for energy efficiency Gorenjske elektrarne accede to a new project – replacement of lighting in the shopping center Merkur in Primskovo. Project represents an example of good practice of a cooperation of two business entities.
- Gorenjske elektrarne implemented engineering of solar power plant set on the roof of Kranj Municipality.

NOVEMBER

- Elektro Gorenjska presented its innovation in the field of design at the 7th Slovenian Innovation Forum, which took place at the Ljubljana Exhibition and Convention Center.
- Heavy rainfall and floods caused a lot of trouble and damage on the network on Elektro Gorenjska and hydro power plants of Gorenjske elektrarne.
- In cooperation with GA aparati Company Elektro Gorenjska Prodaja prepared a range of energy-efficient household appliances, which the customers would be able to buy at special prices.

DECEMBER

- Elektro Gorenjska Group organized a charity meeting for its business partners in Planet Tuš Kranj. With raised charity funds the company will help in the implementation of prevention social responsibility program Ne-odvisen.si in Gorenjska region in year 2013.
- In December Gorenjske elektrarne completed a new, third project of constructing solar power plant for the market, namely on the roof of Iskratel Holding Company in Kranj. In all investments the company cooperated in the field of engineering.
- Elektro Gorenjska successfully passed its first assessment of the Family Friendly Company certificate. Implementation of measures in accordance with the implementation plan and adequacy of the documentation were being assessed and eventual needs for changes in measures were being established.



2. HIGHLIGHTS OF ELEKTRO GORENJSKA GROUP OPERATION IN YEAR 2012 AND GOALS OF THE GROUP COMPANIES

For Elektro Gorenjska Group year 2012 was rich and challenging. Key highlights of Elektro Gorenjska Group operation in year 2012 can be summarized as follows:

1. RELIABLE AND QUALITY SUPPLY OF ELECTRICITY COME IN THE FIRST PLACE

Based on the Report on the quality of electricity supply compared to other distributions in Slovenia we have been achieving the best quality in the field of continuity for several years.

We invested in electric power infrastructure and took care of appropriate upgrade, as among other there were 172 new solar power stations with a total rated power of 10,292 kilowatts to be connected in the network.

2. WE COMPLETED THOSE INVESTMENT PROJECTS THAT WERE THE MOST IMPORTANT FOR FURTHER DEVELOPMENT OF THE REGION

With appropriate optimization and careful planning we completed those investment projects that were most important for further development of Gorenjska region.

- On the high voltage network our key task was to obtain the consents of consent authorities for the purposes of the construction of Gorenjska region energy loop, which would link Bohinj and Železniki and enable integrated power supply of the region. In year 2013 we thus expect the acquisition of building permit for 110 kV power line, while the construction itself would be completed in year 2015. Main part of works would thus be aimed at construction of a new 110/20 kV Bohinj substation and connecting 110 kV cable conduit.
- Within the framework of the national detailed plan and in cooperation with Elektro Ljubljana in year 2012 we approached the design and preparations for the construction of 110 kV power line connection between Kamnik and Visoko, which is also urgent for ensuring further development in the area of Šenčur and Cerklje municipalities, including the development of the business logistics zone of the airport and electrification of the future high-speed rail link with Ljubljana.
- For the purposes of a more quality supply of the ski resort Krvavec, entire Jezersko valley and partially also customers in the area of Šenčur and Cerklje municipalities, we completed the construction of RP Visoko and connected it in 20 kV network together with the new 20 kV cable conduits.
- Major part of investment assets was intended this year for complete modernization of certain parts of rural and urban medium and low-voltage networks. We followed other municipalities and local communities and together with the renovations of the roads and sewerage networks we built our own cable ducts, which will be used for the renovation of the power network in the next year.
- Together with Savske elektrarne we concluded the construction of cable ducts between Mavčiče HE and Medvode HE, which will serve us for the construction of 20 kV cable connections and renovation of low-voltage networks in this area, while Savske elektrarne will use it for modernization of communication link between the two power stations.

3. WE EXECUTED 47 LIVE WORKS ON LOW VOLTAGE AND WITH IT WE SET THE FOUNDATIONS FOR FURTHER EXPANSION OF LIVE WORK ON THE MEDIUM VOLTAGE LEVEL AS WELL

In year 2012 we executed 47 live work tasks on LV including: processing of connecting measuring points, connection of cable conduits, installation of protective bases in LV distribution cabinets, replacement of tariff circuit breakers, replacements of overvoltage protection on low-voltage network, as well as live renovation of overhead lines self-supporting cable bundles (SKS).

4. WE MADE NEW STEPS IN THE FIELD OF SOCIAL RESPONSIBILITY

Group places great emphasis to its employees. By planned work and offering additional activities we manage to keep our employees, who influence final business results with their commitment, motivated. In year 2012 we successfully implemented the basic Family-friendly certificate, which helps in balancing the family and career lives.

Elektro Gorenjska Group was also recognized in the field of sponsorship support and donation projects. In accordance with our capabilities we help the wider audience. In year 2012 in the field of supporting the socially responsible campaigns we invited also our business partners to participate and together we supported implementation of five socially responsible events for children and parents of Gorenjska region.

5. WE CONTINUED WITH PROCEDURES OF BUSINESS ORGANIZATION

Spin-off of purchase and sale activity was completed in year 2011, while in year 2012 it became clear in what difficult situation electricity sale activity actually was. In year 2012 we successfully implemented a process of the changed way of operation, optimized processes, which will enable future business success and development of independent companies in Elektro Gorenjska Group, and we set new guidelines, which will enable further development of companies in the group.

6. WE INCREASED ELECTRICITY PRODUCTION

In year 2012 we produced 50,483 MWh of electricity, which means 4.7 % more than in year 2011, which is also connected with the realization of new production units on the part of solar power station as well as on the part of co-generation of electricity and heat.

Year 2013 will be an extremely demanding year. Main efforts in Elektro Gorenjska Company will be aimed at the following goals:

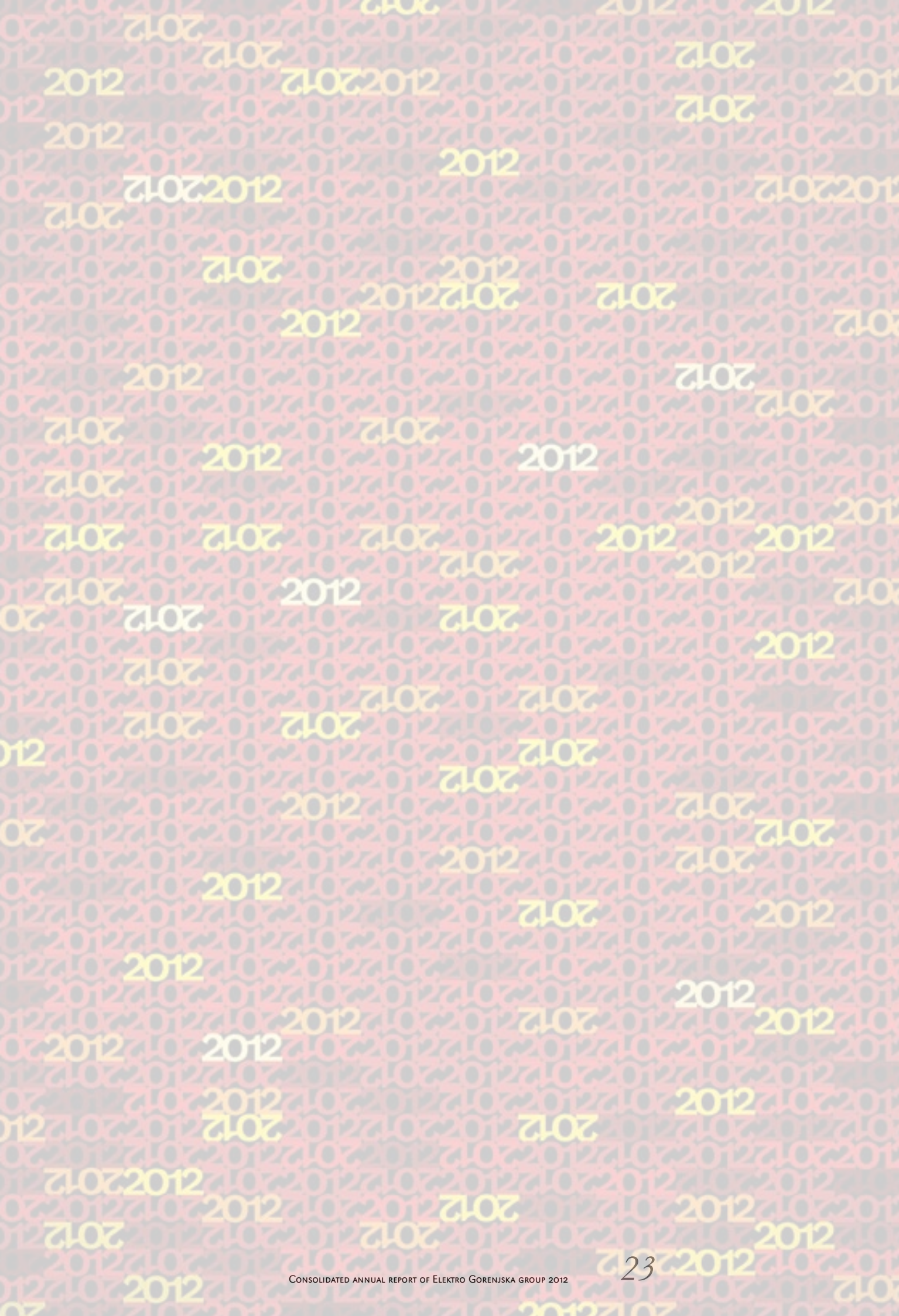
1. To ensure quality, punctual and cost-efficient operation and maintenance of the network as well as implementation of investments in a proper electricity infrastructure.
2. To implement such information support that will enable quality mode of the changed way of operation.
3. To increase the size of above standard services in the areas of:
 - a. remote readout of measurement data (expansion to the areas of other energy products readouts),
 - b. producing studies and projects for foreign clients.
4. To remain one of the most significant players on the electricity and services market in Slovenia, with a purpose of achieving higher value added in the business.
5. To become an important factor of professional development in the region and provide for additional rising of public awareness.
6. To search for and to realize new market opportunities outside the traditional electricity fields.
7. Prepare projects with added value and possibility of efficient disbursement of development funds.
8. To spread entrepreneurial atmosphere in the company and care for a quality dialogue with the employees.
9. To operate in accordance with the quality policy.
10. To participate in various projects, sponsorships and donations with a purpose of sustainable development of the region.

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

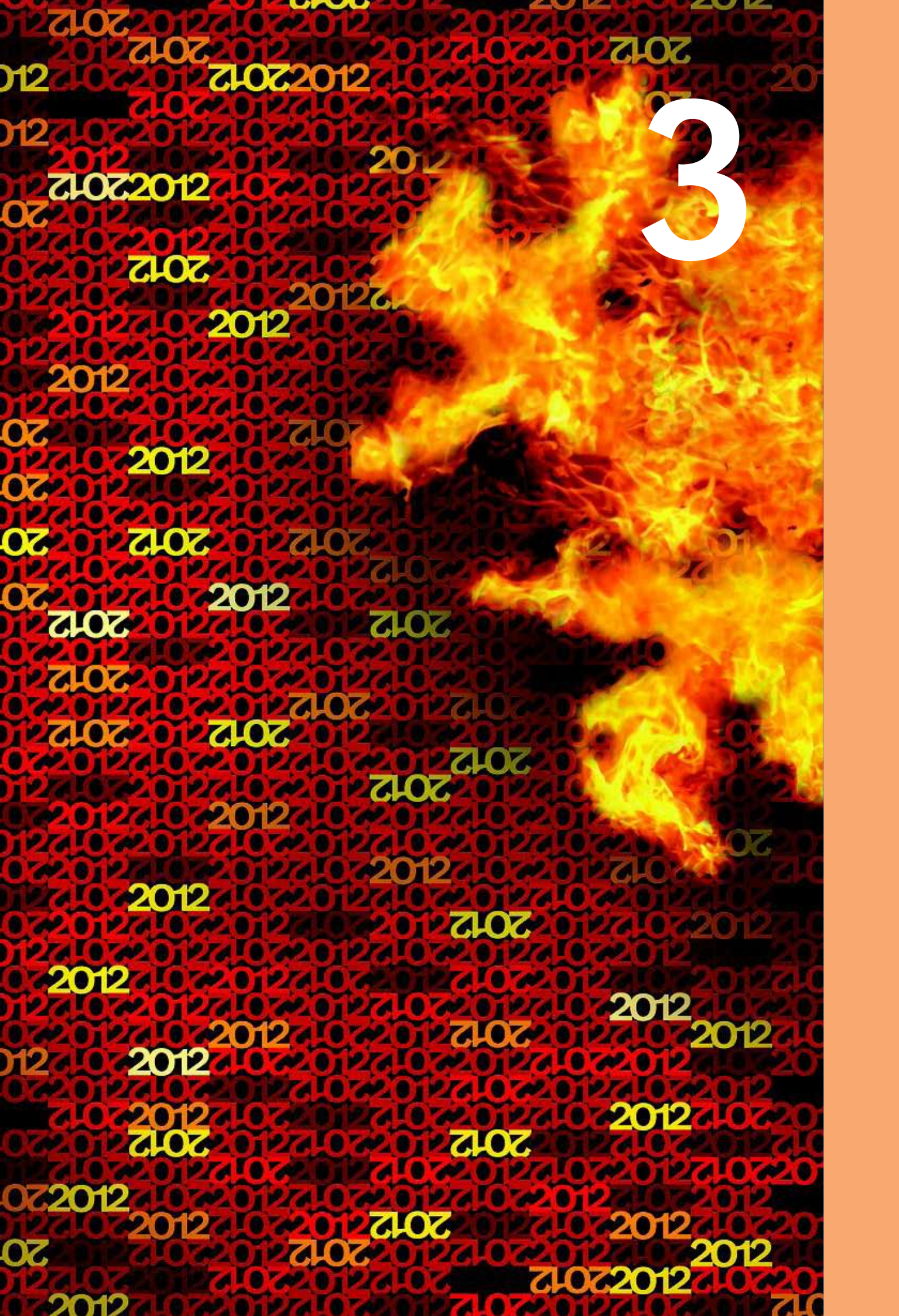
1. In year 2013 company plans a connection with a strategic partner. One of the main aims of the connection is to achieve more favorable purchase prices of electricity. With the entrance of the strategic partner the company has also set itself a more ambitious sale growth in the future years and entrance to the gas market. New strategy of the company includes strengthening of its position in the home region, sale of new energy and expansion abroad as well as emphasis on energy services with which the company will strengthen its partnership with customers.
2. To achieve appropriate difference in price that will ensure covering of all costs and bring adequate yield to the owners.
3. To communicate with the buyers efficiently and adequately through all communication channels.
4. To put customers at the center of business attention.
5. To increase the quality of sale and after-sale services.
6. To ensure reliable, proper sources and strategic partnerships, which enable long-term development of the company and as a result also optimal offer for the customers.
7. To ensure appropriate information support; this will enable expansion of range of products and entry into markets of other energy.
8. To increase efficiency and productivity by introducing new information technologies.
9. Tighter control of the amounts due from final customers and increasing the efficiency of the debt recovery.
10. Development and introduction of new electricity products for final customers.
11. Entry into the natural gas market and increase of market share in this field.
12. Development and introduction of new combined products of electricity and natural gas for final customers.
13. By offering additional services enable the buyers to focus on their core business.

For Gorenjske elektrarne company main aims will be the following:

1. To ensure adequate production portfolio according to the type of the primary source with the purpose to reduce risks connected to weather factors. Company will also focus on other projects related to energy management and in this way additionally contribute to the stability of cash flow.
2. Renovation of existing and construction of new facilities for environment friendly electricity generation, searching for other strategic connections for the appearance on the electricity market.
3. Continuous reduction of operating costs.
4. Maintenance of devices and facilities: company will continue to focus on realization of strategic goals by maintaining high standard of operational readiness and reliability of production facilities; we will use renewable sources of energy optimally and strive to increase production capacities.
5. Implementation of efficient use of energy projects.
6. Efforts for a successful relations with our business partners as well as employees, as only good information, understanding, affiliation and motivation lead to even better results.
7. Expansion of production capacities in the field of co-generation of electricity and heat.
8. Implementation of higher number of projects in the field of efficient energy use. Besides that the company will offer services of solar power stations maintenance on the market as well.
9. Qualifications, information and motivation of employees in the field of environmental management.



3



3. MANAGEMENT REPORT

DEAR SHAREHOLDERS, INVESTORS AND PARTNERS!

Key task of all companies in group Elektro Gorenjska is to follow the needs of the region in the field of electricity infrastructure and offer such products and services that will be in the best possible way focused on our final users and customers.

Elektro Gorenjska is a company which contributes significantly with its electricity infrastructure to ensuring conditions for existence and development of economy in Slovenia and Gorenjska region. Despite the unfavourable economic conditions and negative trends on financial markets the company once again realized most of the key goals set. Among them the key ones were the following:

1. We provided reliable and high-quality supply of electricity

Based on the Report on the electricity supply quality of the Energy Agency of RS and compared to other distributions in Slovenia the company has been achieving best quality in the field of continuity of electricity supply for several years. Plan of preventive maintenance was implemented entirely. Within repair maintenance all failures were removed quickly, professionally and above all safely.

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

Investment plan was implemented entirely. Besides thorough renovation or new constructions of several low- and medium-voltage networks and transformer stations, we built in record time 110 KV juncture, transformation and connecting 110 KV cable conduits for RTP 110 kV/20 kV Bohinj. Elektro Gorenjska is the owner and cares for 5,385 km of high-, medium- and low-voltage network in Slovenia; 49 % of medium voltage and 62 % of low-voltage network is already in a robust cable alternative, which has a significant influence on the quality of electricity supply. At the same time it should be noted that due to inappropriate network charges policy the company does not have sufficient funds for the realization of the entire network development plan. Consequences of the lack of investments in the network are not yet evident, but will become obvious in the moment of increased economic activities and inability to ensure in time the necessary infrastructure to boost the economy. Results of several years lasting reduced volume of investments in network will not be eliminated in short period time.

3. We increased the production of electricity from renewable sources

In year 2012 Gorenjske elektrarne, subsidiary of Elektro Gorenjska, which is engaged in production of electricity, exceeded its ambitious plans in the field of electricity production greatly. In the first half of the year it built four new solar power stations, and now has a total of 16, which will produce 3.2 million kilowatt-hours of electricity on an annual basis. Company is thus becoming one of the leading electricity producers in Slovenia also in solar power stations, where it is becoming an important partner also in the field of maintenance of solar power stations.

4. We implemented a new manner of operation, which separates regulatory, production and market part in accordance with the applicable legislation

In year 2012 we successfully executed procedures of the changed way of operation, we optimized processes, which will enable future business success and development of independent companies in the Elektro Gorenjska Group, as well as set new guidelines for further progress of group companies.

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

Besides the quality standards Elektro Gorenjska Company has been using also the model of business excellence in its operations since year 2007. For the company model of business excellence is an opportunity for self-evaluation of operation, to obtain an objective opinion, which results in creation of opportunities and implementation of action improvement plans in the company. For year 2012 the company received the highest national award for business excellence, which is awarded according to the criteria, assessment process and methodology modeled by the European business excellence award and is founded on the law and regulations. By now the award was given to 11 Slovenian companies only.

Results of operation

In year 2012 Elektro Gorenjska Group realized entire revenues in the amount of 90.8 mio EUR, which is by 2 % more than in year 2011. Operating profit or loss was realized by the group in the amount of 1.4 mio EUR, which is due to negative operation of Elektro Gorenjska Prodaja Company by 1.2 mio EUR less than in year 2011. Net profit or loss of the company after taxes amounted to 234,246 EUR, which is only 14 % of the result from year 2011. Worse result of the Group is mainly the consequence of high electricity purchase costs and higher operating expenses from revaluation.

We cooperate with the environment, we connect with the best

Without a reliable and functioning power network and new facilities for the production of electricity progress is not possible, so investment activities of the group in year 2012, which amounted to 16 mio EUR, were directed in the upgrade of the existing system and search of opportunities, which will additionally increase production capacities and increase reliable and quality network.

In the center of development vision of Elektro Gorenjska Group are still our users and business efficacy. In Elektro Gorenjska we will continue with our main activity and care for appropriate dialogue with the local community, which will help us provide for integrated and orderly development of electric power infrastructure in Gorenjska region.

For year 2013 we set ourselves high business guidelines, but also clear development policies. We want to offer our users quality services as well as the most modern and most comfortable services using new technologies. We are systematically building a transparent information-communication system, which means evolution of distribution network into more active or smart grid. Numerous pilot and development projects are being implemented, while tested technologies are introduced into operational use. In the field of accounting measurements we are in the phase of implementing field testing of interoperability, as we request from the producers to mutually complement installed elements in the system. In year 2012 we built our own broadband network in WiMAX technology and digitalized analogue radio for the purposes of management and this way enabled our own communication infrastructure for all purposes of active networks. In new constructions of large facilities we introduce modern communication standards (IEC 61850). In cooperation with Milan Vidmar electric power research institute (France) we are European pioneers of integration of technical information systems in distribution based on the common information platform CIM (Common Information Model). Network management and control of the network are expanded to entire medium-voltage network. Data and measuring systems are being upgraded with the aim of even more optimal network planning.

Success is built by the people and their values

Along with our commitment to work we can also recognize and understand the needs of the environment we operate in too. We believe that orientation to sustainable development, demonstration of social responsibility and active protection of the environment are foundations of success and breakthrough of every company. By sponsoring and donating in environment we operate in we additionally stimulate top achievements in sports, culture and science. As responsible members of the society we are included in understanding of human distress and difficulties of the social situation.

Good relations with the users and local community also include awards received by the company in year 2012. We are the only distribution company and one of the 11 companies in Slovenia that can boast with the highest national award in the process of business excellence for year 2012. Business excellence is our responsibility, which we will continue proving!

Dear investors, shareholders and partners, together with colleagues we will continue to provide for growth and development of our company. Your support and your creative cooperation in this are much wished for.

Together with my colleagues from the management and all co-workers I sincerely thank you for your trust.

Chairman of the Board
Bojan Luskovec, M.Sc.



3.1 CORPORATE GOVERNANCE STATEMENT

Elektro Gorenjska Group and Elektro Gorenjska Company inform the shareholders and public that they operate in accordance with applicable regulations and acts in force in the individual company. 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 Elektro Gorenjska Group have voluntarily adopted and use in their operations the Corporate Governance Code adopted by Ljubljana Stock Exchange d. d., Association of Supervisors of Slovenia and Association Manager, as well as the Code on corporate governance of state capital investments, which mainly recommends the principles, procedures and code of conduct for members of managerial and supervisory bodies in companies with capital investments of the state. Group started adopting the provisions of this code with the adoption of the statute, which was adopted on the 16th regular general meeting of the company on August 24 2011.

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/>). Codes applicable for the parent company are available on the web pages of Ljubljana Stock Exchange, d. d. (<http://www.ljse.si/cgi-bin/jve.cgi?doc=656>) and Capital Assets Management Agency of the Republic of Slovenia (http://www.auknrs.si/pomembni_dokumenti/).

In reviewing the operations of companies in the Group in year 2012 we have established that there were no derogations from the principles, procedures and criteria imposed by the stated codes. Parent company declares that it does not respect code provisions in regulations issues that are regulated by the law or that the company regulates in accordance with the provisions of the statute in different way than defined by the codes, or in cases when non-statutory conducts are not prescribed in its acts or when conducts are not determined as legal obligation.

Parent company believes that supervisory board members are professional, responsible and independent in performing the tasks in accordance with the provisions of the Code on corporate governance of state capital investments.

Within the Elektro Gorenjska Group 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.

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

3.2 SUPERVISORY BOARD REPORT

SUPERVISORY BOARD REPORT ON VERIFICATION AND APPROVAL OF THE AUDITED ANNUAL REPORT OF ELEKTRO GORENJSKA, D. D. AND AUDITED CONSOLIDATED ANNUAL REPORT OF ELEKTRO GORENJSKA GROUP FOR BUSINESS YEAR 2012 (ARTICLE 282 CA)

1. Report on the work of the supervisory board in year 2012

In year 2012 the supervisory board operated in the following composition:

- Darjan Petrič, chairman,
- Alenka Bradač, vice president,
- Aleš Groznik, member,
- Duško Kapevski, member,
- Vojko Oman, member, and
- Leopold Zupan, member.

In year 2012 the supervisory board implemented its duties in accordance with the main function of controlling the management of the company's operations and duty of a diligent and conscientious manager based on the powers given by applicable regulations and companies' acts.

Supervisory board verified company's operations during the year mainly on the basis of periodic reports of the company's management and obtained operating data. It met on eleven regular (all members present at all sessions), two extraordinary (at one session all members present, at the other one member absent) and one correspondence session (all members voted).

In discussing the items on the agenda the supervisory board monitored and controlled the operations of the company and prepared and confirmed material for the 18th general meeting of shareholders. It also monitored the implementation of investments according to investment groups.

Management board submitted the material to the supervisory board in writing and additionally explained them orally. For the supervisory board it regularly prepared reports on implementation of decisions and other reports that supervisory board requested from the management.

Main orientation of the supervisory board work in the previous year was following the company's operation, in accordance with the planned results, based on the reports prepared by the company's management board. It paid special attention to company's operations, namely the following:

- operation of subsidiary company Elektro Gorenjska Prodaja, d. o. o.,
- realization of the general meeting decisions,
- realization of the business plan,
- realization of AUKN recommendations,
- development of corporate governance in Elektro Gorenjska Group and operation of companies in the group (for these purposes it met at several special sessions and discussed these two subjects),
- in accordance with Articles 28 and 39 of the Statute it gave its consent to four transactions in the field of construction work on the power network and supply and installation of primary power equipment with value exceeding 835,000 EUR, in total amount of 5,166,040.53 EUR; one consent to the sale of two properties (two apartments in Izola) and two consents to contracts, where Elektro Gorenjska acted as a contractor to other electricity distribution companies.

Supervisory board paid special attention to the introduction of professional function of internal audit, risk management and establishment of audit commission of SB, comprised of:

- Duško Kapevski, SB member, chairman of the audit commission,
- Alenka Bradač, SB vice president, and
- Darja Orožen, external member of the audit commission.

Supervisory board work was appropriately organized and took place in accordance with the supervisory board rules of procedure. Members of the supervisory board received professionally prepared material, which enabled the members to be informed about the issue on decision.

Supervisory board has had enough reports, information, eventual additional explanations and justifications at its disposal to be able to monitor company's operations responsibly during the year and participate actively in forming the management policy of the company and monitor the management of the company. Special attention of the supervisory board was paid to operation of subsidiary company Elektro Gorenjska Prodaja, d. o. o.

Members of the supervisory board have also implemented precautions in order to avoid conflict of interests, which could influence their judgment. All members of the supervisory board have in accordance with the code of corporate governance signed a statement on the basis of which they defined that they are fulfilling the independency criteria, they are qualified for the supervisory board work and that they have enough experience and knowledge for this job.

Composition of the supervisory board, whose members have suitable knowledge, experience and skills ensures responsible control and making decisions to the benefit of the company. With their knowledge and experience members complement each other, and appropriate personal integrity and business ethics are ensured as well.

Members of the supervisory board attended the sessions regularly and also prepared for them appropriately.

Chairman of the supervisory board performed his role in accordance with his powers and supervisory board rules and cooperated with the management also between sessions. Chairman encouraged the members to efficient and active performance. Sessions were led in a way that responsible decision making was ensured.

Supervisory board assesses that its members performed their function responsibly and engaged. In year 2012 members were additionally educated on seminars and lectures organized by Slovenian Directors' Association and Capital Assets Management Agency of the Republic of Slovenia (AUKN).

Supervisory board devoted its attention also to compliance of company's operations with the provisions of the Companies Act and Financial Operations, Insolvency Proceedings and Compulsory Dissolution Act and verified whether company published its matters in accordance with the Financial Instruments Market Act.

Supervisory board has assessed and established that in accordance with Articles 272 and 281 of ZGD-1 and within its jurisdiction it verified the company's operations regularly and in sufficient depth and so appropriately verified the management and operation of the company. By establishing the audit commission, which met on ten regular and one extraordinary session, and permanent professional function of internal audit in the company, it was established that supervisory board has even improved its operations compared to the previous years. Members of the supervisory board were kept abreast with invitations to audit commission sessions as well as with the minutes of the commission's sessions.

2. Verification and approval of audited annual report of the company and audited consolidated annual report of the group and position on the audit report with proposals for decisions for business year 2012

Besides the parent company Elektro Gorenjska Group also includes company Gorenjske elektrarne, proizvodnja elektrike, d. o. o., and company Elektro Gorenjska Prodaja, d. o. o., which are both in 100 % ownership of the parent company.

Elektro Gorenjska, d. d., ended the business year with profit and the same goes for its subsidiary Gorenjske elektrarne, d. o. o.; while subsidiary Elektro Gorenjska Prodaja, d.o.o. ended the business year 2012 with a loss. Distributable profit of Elektro Gorenjska, d. d., including the profit brought forward from previous years, for year 2012 amount to a total of 1,384,165.68 EUR. Management of Elektro Gorenjska, d. d., proposed the general meeting to pay the entire distributable profit to the shareholders in the form of dividends. Gross dividend per share amounted to 0.08 EUR.

Proposal for the use of distributable profit was verified by the supervisory board and agreed with the proposal of the management board as well as gave its consent to such distribution of profit at its 43rd regular session on May 15 2013.

Auditing firm Deloitte Revizija, d. o. o., audited the financial reports of Elektro Gorenjska, d. d., and Elektro Gorenjska Group. The reports show that auditing firm audited the financial statements comprised of the balance sheet total as of December 31 2012 and profit or loss account, cash flow statement and capital-flow statement for the year then ended as well as the summary of significant accounting policies and other explanatory notes.

Firm also audited consolidated financial accounts of Elektro Gorenjska Group, which are comprised of the group balance sheet total as of December 31 2012 and group profit or loss account, group cash flow statement and group capital-flow statement for the year then ended as well as the summary of significant accounting policies and other explanatory notes.

In auditor's opinion stated financial accounts are in all material respects a fair presentation of the financial condition of Elektro Gorenjska, d. d., and Elektro Gorenjska Group as of December 31 2012, its profit or loss and total cash-flow in the year then ended and are in accordance with the Slovenian Accounting Standards. It is also the opinion of the auditor that business report is in accordance with the audited financial statements. Supervisory board took a positive stance on the auditor's opinion as well.

Supervisory board discussed the audited annual report of Elektro Gorenjska, d. d., and audited consolidated annual report of Elektro Gorenjska Group for year 2012 at its 43rd regular session on May 15 2013 and confirmed it on the 44th regular session on May 29 2013. Based on due diligence and verification of audited annual report of Elektro Gorenjska, d. d., and audited consolidated annual report of Elektro Gorenjska Group for year 2012 the supervisory board has established that the contents of audited annual report of the company and contents of audited consolidated annual report of the group present realistically the operations of the company in year 2012, so based on the verification of the audited annual report and reviews of both auditing reports for year 2012 by an authorized auditor of the company the supervisory board has established the following:

- that the audited annual report of Elektro Gorenjska, d. d., and audited consolidated annual report of Elektro Gorenjska Group have been comprised in accordance with the provisions of the Companies Act and in accordance with the accounting standards,
- that the audited annual report of Elektro Gorenjska, d. d., for business year 2012 and audited consolidated annual report of Elektro Gorenjska Group for business year 2012 and data included represent a credible reflection of the operations of the company and the group in the past business year,
- that after the final verification of the audited annual report of the company and audited consolidated annual report of the group the supervisory board has no comments and approves the audited annual report of Elektro Gorenjska, d. d., for year 2012 and audited consolidated annual report of Elektro Gorenjska Group for year 2012,
- that it gives a positive opinion on the auditors' reports on operation of the company and the group in year 2012, as it has established that they have been comprised in accordance with the law, and made based on the careful and comprehensive review of the annual report and company's operations as well as consolidated annual report of the group and its operation,
- that it has proposed the general meeting of the company to adopt the decision on granting the discharge to the management and the supervisory board of the company for year 2012,
- that the management led the company carefully and in accordance with the regulation and company's acts,
- that it has been acquainted with the proposal of convening the 18th general meeting of the company and proposals for decisions and has agreed with the agenda and proposed decisions completely.

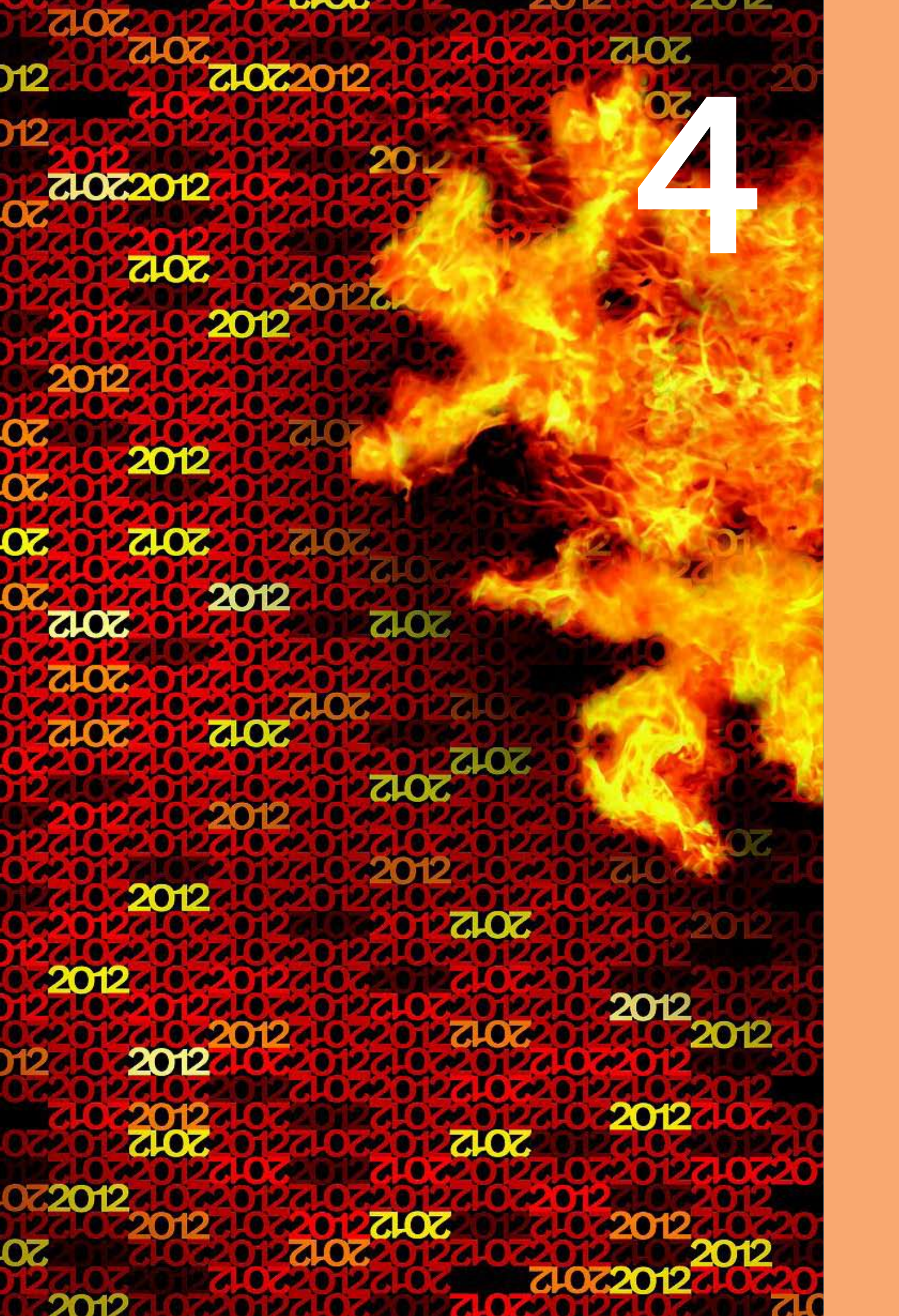
Supervisory board adopted this supervisory board report on verification and approval of audited annual report of Elektro Gorenjska, d. d., and audited consolidated annual report of Elektro Gorenjska Group for the business year 2012 at its 44th regular meeting on May 29 2013.

In Kranj, May 29 2013

Darjan Petrič, M.Sc.
Chairman of the Supervisory Board







4. PRESENTATION OF ELEKTRO GORENJSKA GROUP

4.1 STRUCTURE OF ELEKTRO GORENJSKA GROUP AND CONTROLLED COMPANIES

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

Management of the controlled companies is implemented directly on the basis of the founder's decision, as none of the controlled companies has a supervisory board. In year 2012 there was a total of 7 decisions of the founder issued for Gorenjske elektrarne Company, and a total of 14 decisions for Elektro Gorenjska Prodaja.

Figure 1: Organization chart of Elektro Gorenjska Group



Elektro Gorenjska Group is constantly striving for dvelopment, innovation and environmental efficiency and friendliness. Group is a holder of three quality standards ISO 9001/2000, ISO14001/2004 and OHSAS 18001, which are recertified every year. It is a holder of basic Family-friendly company certificate. It participates in processes of business excellence (PRSPo) and is the only distribution company that can boast with receiving a bronze and two silver awards. Technologically speaking the company occupies a leading position in Slovenia. Company actively participates in development projects representing the driving force for the future, among them development of smart grids is definitely in the first place.

4.1.1 ELEKTRO GORENJSKA COMPANY IDENTITY CARD

Name:	ELEKTRO GORENJSKA, podjetje za distribucijo električne energije, d. d.
Abbreviated name:	ELEKTRO GORENJSKA, d. d.
Business address:	Ulica Mirka Vadnova 3 a, 4000 Kranj
Phone:	04 20 83 000
Fax:	04 20 83 600
Call center for failures:	04 20 83 333
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. 2012:	72,019,068.61 EUR
Number of shares as of 31. 12. 2012:	17,302,071
Chairman of the Board:	Bojan Luskovec, M.Sc.
Supervisory board chairman:	Darjan Petrič, M.Sc.

Figure 2: Elektro Gorenjska Company identity card

OTHER IMPORTANT INFORMATION ON ELEKTRO GORENJSKA COMPANY

in EUR

	31. 12. 2012	31. 12. 2011
Carrying amount of capital	131,391,662	130,988,724
Carrying amount of assets (balance sheet total)	190,304,953	186,221,657
	Year 2012	Year 2011
Net profit of the business year	2,507,737	1,544,243

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

4.1.2 ELEKTRO GORENJSKA PRODAJA COMPANY IDENTITY CARD

Name:	ELEKTRO GORENJSKA PRODAJA, podjetje za prodajo elektrike, d. o. o.
Abbreviated name:	ELEKTRO GORENJSKA PRODAJA d. o. o.
Business address:	Ulica Mirka Vadnova 3, 4000 Kranj
Phone:	04 20 83 660
Fax:	04 20 83 294
Call center:	080 22 04
Web site:	www.eg-prodaja.si
E-mail addresses:	info@eg-prodaja.si za.gospodinjstva@eg-prodaja.si za.podjetja@eg-prodaja.si reenergija@eg-prodaja.si modra.energija@eg-prodaja.si
Registration number:	3926770000
VAT identification number:	SI 37692186
Legal form:	limited liability company
Founder:	Elektro Gorenjska, d. d.
Company register entry number:	2011/8382
Date of company register entry:	7. 3. 2011
Place of court's register entry:	Kranj District Court
Share capital as of 31. 12. 2012:	3,000,000.00 EUR
Director:	Iztok Sotošek (do 31. 5. 2012) mag. Ambrož Bogataj (od 1. 6. 2012)

Figure 3: Elektro Gorenjska Prodaja Company identity card

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

OTHER IMPORTANT INFORMATION ON ELEKTRO GORENJSKA PRODAJA

in EUR

	31. 12. 2012	31. 12. 2011
Carrying amount of capital	3,740,261	6,588,727
Carrying amount of assets (balance sheet total)	14,227,547	16,996,768
	Year 2012	Year 2011
Net profit of the business year	-2,550,802	65,852

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

4.1.3 GORENJSKE ELEKTRARNE COMPANY IDENTITY CARD

Name:	GORENJSKE ELEKTRARNE, proizvodnja elektrike, d. o. o.
Abbreviated name:	GORENJSKE ELEKTRARNE, d. o. o.
Head office:	Stara cesta 3, 4000 Kranj
Phone:	04 20 83 531
Fax:	04 20 83 512
Web site:	www.gek.si
E-mail address:	info@gek.si
Registration number:	1658298000
VAT identification number:	SI 76567788
Founder:	Elektro Gorenjska, d. d.
Legal form:	limited liability company
Core activity code:	35.111 production of electricity in HE generation facilities
Company register entry number:	10693400
Date of company register entry:	4. 1. 2002 (amendment 21. 9. 2004)
Place of court's register entry:	Kranj District Court
Share capital as of 31. 12. 2012:	13,684,880.11 EUR
Director:	Aleš Ažman, MBA

Figure 4: Gorenjske elektrarne
Company identity card

Company Gorenjske elektrarne considers company Soenergetika, in which it has 25 % ownership share, its related entity. Other important information on the company can be found in the following table.

	in EUR	
	31. 12. 2012	31. 12. 2011
Carrying amount of capital	17,165,436	16,992,464
Carrying amount of assets (balance sheet total)	19,571,259	17,939,499
	Year 2012	Year 2011
Net profit of the business year	219,344	69,610

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

4.2 RELATED COMPANIES

Elektro Gorenjska Group 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 mentioned above (Gorenjske elektrarne, Elektro Gorenjska Prodaja and Soenergetika). 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 group according to standard classification:

- distribution of electricity (activity code 35.130),
- trade of electricity (activity code 35.140),
- production of electricity in HE generation facilities (activity code 35.111),
- other production of electricity (activity code 35.119),
- construction of other civil engineering projects n.e.c (activity code 42.990),
- electrical installation (activity code 43.210),
- repair of machinery (activity code: 33.120),
- repair of electrical equipment (activity code: 33.140),
- 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).

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 4.9.2 – Energy legal environment of group's operation in year 2012,
- other non-energy market activities, which include mainly execution of new constructions and other services for the needs of the group as well as for external clients or market (hereafter also other services for the market or Other activities),
- energy market activity of trade, representation, and agency on the electricity market: purchase and sale of electricity for household and business consumers,
- energy market activity, which include production of electricity in hydropower stations and production of electricity in solar power stations as well as high-efficiency cogeneration of heat and electric power,
- solar power stations engineering,
- other projects of efficient energy use.

4.4 MAIN AREA OF OPERATION

Main area of operation of Elektro Gorenjska Group includes north-eastern part of Slovenia – Gorenjska region. Elektro Gorenjska Group has been supplying electricity to 88,000 customers on the area of 2,091 km². For several years it has been meeting the highest standards in Slovenia in the field of quality and reliable electricity supply.



Figure 5: Area of supply of electricity distribution companies

4.5 MAIN TECHNICAL DATA

Table 4: Main technical data on electric power distribution network

	31. 12. 2012		31. 12. 2011	
POWER LINES 110 kV	59,163	m	59,163	m
POWER LINES 35 kV	40,302	m	40,302	m
POWER LINES 20 kV	743,800	m	754,537	m
POWER LINES 10 kV	0	m	0	m
TOTAL POWER LINES	843,265	m	854,002	m
CABLE CONDUITS 110 kV	1,022	m	1,022	m
CABLE CONDUITS 35 kV	1,045	m	1,045	m
CABLE CONDUITS 20 kV	757,326	m	735,136	m
CABLE CONDUITS 10 kV	6,416	m	6,416	m
TOTAL CABLE CONDUITS	765,809	m	743,619	m
TOTAL LV NETWORK	3,775,845	m	3,750,692	m
TOTAL NETWORK	5,384,919	m	5,348,313	m
TRANSFORMER SUBSTATION	15		15	
SUBSTATION	5		5	
TRANSFORMER STATION	1,326		1,317	

4.6 MANAGEMENT AND GOVERNANCE OF COMPANIES IN ELEKTRO GORENJSKA GROUP

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

4.6.1 MANAGEMENT AND GOVERNANCE OF ELEKTRO GORENJSKA COMPANY

Management

Single-member administration is appointed by the supervisory board of Elektro Gorenjska Company. Management was appointed for a period of four years, for the term starting on September 15 2010 to September 14 2014. In accordance with the statute the management is authorized for all issues of organization and managing of the company. Based on the law, statute, and rules of procedure of the supervisory board the management of the company is obliged to regularly, exhaustively, and exactly introduce to the supervisory board the course of transactions and company's condition at least four times a year.

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

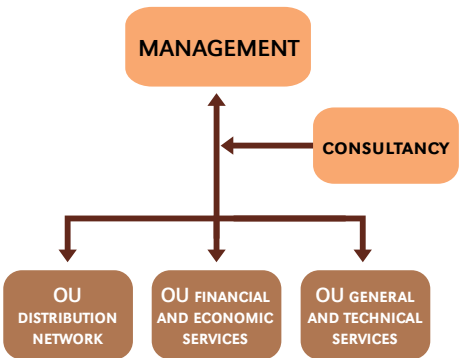


Figure 6: Organization chart in Elektro Gorenjska Company in year 2012

Individual organizational units are managed by executive directors.

On December 31 2012 Elektro Gorenjska Company management office included a technical manager and internal auditor.

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.

Supervisory board composition did not change during year 2012. Term of all representatives of capital in the supervisory board expires in August 2013.

Composition of the Supervisory Board:

SUPERVISORY BOARD EG, d. d.	Function	Term of office from	Term of office until
Darjan Petrič, M.Sc.	chairman	26. 8. 2009 (as a chairman since 24. 8. 2011)	26. 8. 2013
Alenka Bradač, M.Sc.	deputy chairwoman	8. 7. 2011 (as a deputy since 24. 8. 2011)	26. 8. 2013
dr. Aleš Groznik, PhD	member	26. 8. 2009	26. 8. 2013
Duško Kapevski, M.Sc.	member	8. 7. 2011	26. 8. 2013
Leopold Zupan	member	7. 8. 2011	7. 8. 2015
Vojko Oman	member	7. 8. 2011	7. 8. 2015

Shareholders' meeting

In year 2012 the management of Elektro Gorenjska convened one regular general meeting.

At the 17th general meeting taking place on July 2 2012 there were 87.15 % of all shares with a voting right present. There were 7 items on the agenda, while item titled Authorization to the management board to purchase own shares was withdrawn from the agenda at the meeting. Work of the management and supervisory boards was confirmed and approved and as a result discharge for the previous business year was granted. Shareholders of the company were acquainted with the revised annual report and consolidated annual report for year 2011 as well as written report of the supervisory board on verification and confirmation of the annual report of Elektro Gorenjska d. d. and consolidates annual report of Elektro Gorenjska Group for year 2011. Shareholders decided on the use of the distributable profit, which on December 31 2011 amounted to EUR 1,384,166 and was allocated to shareholders in the form of dividends, gross dividend per share amounted 0.08 EUR per share. In accordance with the Recommendation No. 7 and no. 9 of AUKN general meeting also got acquainted with the reports of the supervisory board, namely the report of the supervisory board on implementation of activities in connection with the recommendation No. 9 of the Capital Assets Management Agency of the Republic of Slovenia (review of operation of certain transactions) and Report of the supervisory board on the payment of the holiday pay for year 2012 and familiarization with Report on implementation of recommendation No. 7 of the Capital Assets Management Agency (optimization of labor costs), general meeting also got acquainted with the receipts of the management and supervision members received for performing their tasks in year 2011 and implementation of Article 6 of Act Governing the Remuneration of Managers of Companies with Majority Ownership held by the Republic of Slovenia or Self-Governing Local Communities. On the proposal of the management and supervisory boards it was also voted on the amendments of statute, deletion of Article 52 of the Statute was proposed and adopted. Decision on the appointment of the authorized auditing firm for year 2012 was adopted as well.

4.6.2 MANAGEMENT AND GOVERNANCE OF ELEKTRO GORENJSKA PRODAJA COMPANY

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

Until May 31 2012 the company has been managed by Iztok Sotošek, MBA, while from June 1 2012 onwards the manager has been Ambrož Bogataj, M.Sc. holding a four-year term.

4.6.3 MANAGEMENT AND GOVERNANCE OF GORENJSKE ELEKTRARNE COMPANY

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

Company's manager, appointed by the founder on November 15 2010 for the period of four years, 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 2012 share capital of Elektro Gorenjska Company amounted to 72,019,069 EUR. It is distributed to 17,302,071 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 2012 the company had no transactions with own shares.

As of December 31 2012 the company had 447 shareholders, while on the last day of year 2011 there were 474. As of December 31 2012 97.14 % of company shares were in the ownership of legal entities, which represent 9.17 % of all shareholders.

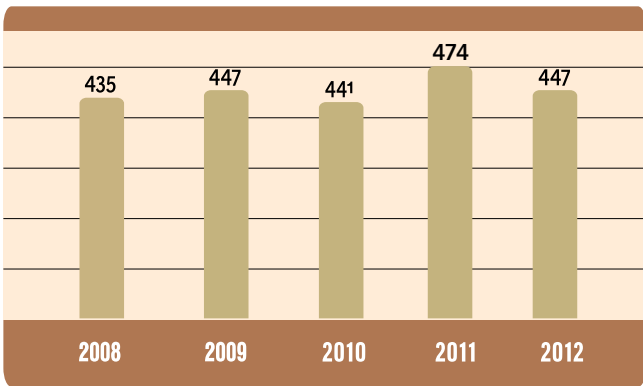
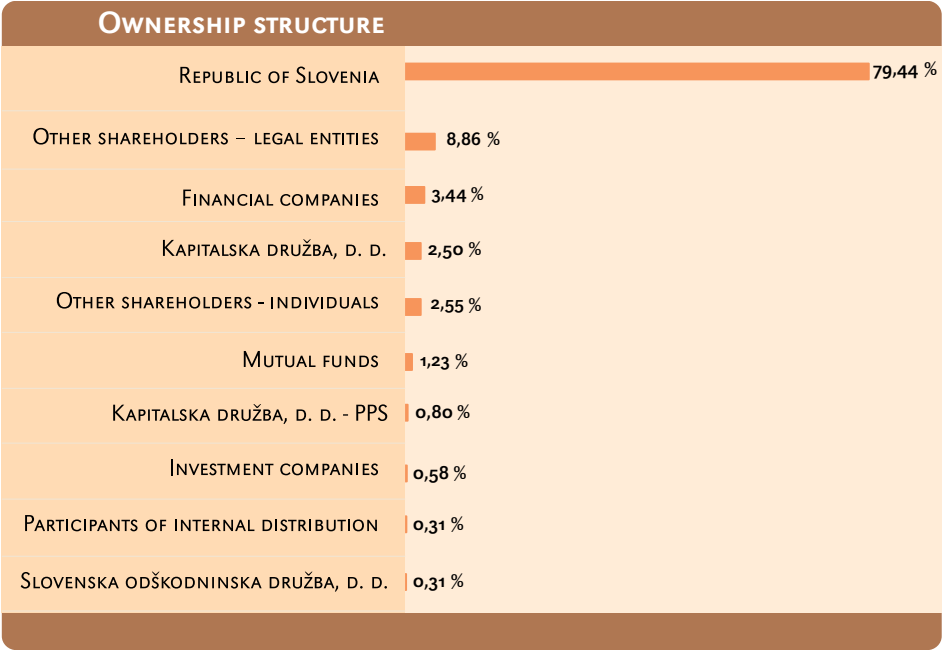


Figure 7: Changes in the number of shareholders of Elektro Gorenjska Company from 31. 12. 2008 to 31. 12. 2012

Figure 8: Ownership structure of Elektro Gorenjska Company as of 31. 12. 2012 (in %)



According to the balance as at December 31 2012 the largest shareholder, holding a 79.44 percent share, is the Republic of Slovenia. It is followed by Kapitalaska družba holding 2.50 percent share and Sava Re with 1.62 percent share.

Number of owners with a share exceeding 1 % changed by one compared to the balance in year 2011. As at December 31 2012 the largest ten owners held a total of 90.86 percent share of the company.

Table 5: Share owners with capital share exceeding 1 percent as of 31. 12. 2012

OWNERSHIP EXCEEDING 1 %	NUMBER OF SHARES	IN %
Republic of Slovenia	13,744,577	79.44
Kapitalaska družba, d. d.	431,933	2.50
Sava Re d. d.	280,000	1.62
Pivovarna Laško, d. d.	270,648	1.56
Nova KBM d. d.	207,200	1.20
DZS, d. d.	200,000	1.16
Poslovni biro, d. o. o.	190,732	1.10
TOTAL	15,325,090	88.57

4.7.2 SHARE CAPITAL AND OWNERSHIP STRUCTURE OF ELEKTRO GORENJSKA PRODAJA COMPANY

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

4.7.3 SHARE CAPITAL AND OWNERSHIP STRUCTURE OF GORENJSKE ELEKTRARNE COMPANY

Share capital of Gorenjske elektrarne Company (13,684,880 EUR) 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 Elektro Gorenjska Group is achieving the excellence of business by ensuring kind and innovative services to its buyers and by responsible relation to the environment and the employees of the company.

Mission of Elektro Gorenjska Group is:

- ensuring quality and reliable electricity distribution in accordance with the rules and contractual obligations,
- developing and marketing of electric power services,
- ensuring conditions for progress and development of new innovative entrepreneurial ideas,
- ensuring competitive prices and offering complete service of electricity supply to final customers,
- maximizing generated electricity by considering natural water resources and changing dynamics of available water quantities during the year,
- optimizing existing electricity production and make a visionary start in expanding production capacities of all types of energy and also in various ownership structures.

Values of Elektro Gorenjska Group are:

- operating within the framework of legal provisions and ethical norms,
- care for the employees and striving to improve their satisfaction,
- operating in accordance with the quality policy,
- long-term partnership relations with customers,
- care for the protection of environment.

4.9 ENVIRONMENT ANALYSIS AND ITS IMPACT ON GROUP'S OPERATION

4.9.1 GENERAL ECONOMIC ENVIRONMENT AND FORECASTS OF ECONOMIC TRENDS

INDICATORS FOR RS	2011	2012	FORECAST 2013
GDP (growth, %)	0,6	-2,0	-1,4
Employment (growth, %)	-1,6	-1,4	-2,3
Unemployment (rate, %)	11,8	11,9	13,1
Inflation (%)	2,0	2,7	2,2
average gross salary RS (nominal growth, %)	2,0	0,9	0,9
average gross salary RS (real growth, %)	0,2	-2,3	-1,3
labor productivity – GDP per employee (real growth, %)	2,2	-0,6	0,9

Table 6: Autumn forecast of economic trends

Source: UMAR

4.9.2 ENERGY LEGAL ENVIRONMENT OF GROUP'S OPERATION IN YEAR 2012

In its operation in year 2012 the group considered the following fundamental legal basis:

- Energy Act with amendments,
- Companies Act,
- Construction, spatial planning, spatial management and environment protection act,
- General Administrative Procedure Act,
- Waters Act,
- Environment Protection 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 (JARSE) on the regulatory framework for the holder of activity of the electricity distribution system operator for the period 2011 - 2012,
- Price list for the use of network (network charge and supplements to the network charge),
- Fee to assure support to security of supply with electricity from domestic primary energy,
- Rules on the system operation of electricity distribution network,
- Decree supplementing the Decree laying down the list of goods and services subject to price control measures,
- Decree on energy infrastructure,
- Decree on the terms and conditions and methods of borrowing by legal entities from Article 87 of the Public Finance Act,
- Ministries (finance, infrastructure and spatial planning, economy),
- Energy Agency of the Republic of Slovenia,
- Capital Assets Management Agency of the Republic of Slovenia,
- Contract with SODO and associated annexes,
- Received preliminary calculation of the regulatory year 2012 by SODO,
- Decree on the water fee,
- Decree on the concession to use water for electricity generation at hydro electric power plants with a maximum rated capacity of 10 MW,
- Excise Duty Act.

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

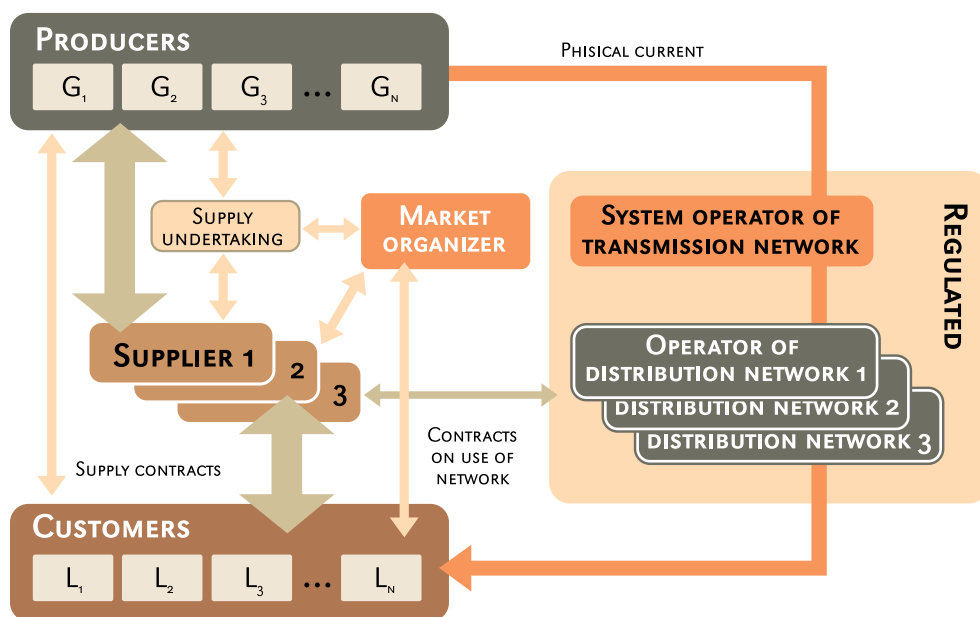


Figure 9: Supply model

Source: Energy Agency of the Republic of Slovenia

With the opening of electric power market in year 2007 electricity became a tradable good. Market in Slovenia is entirely open, which means that all consumers can choose their electricity supplier freely. Slovenian electricity market is divided into the wholesale market and the retail market. On the wholesale market participants including producers, traders and suppliers of electricity trade with closed contracts. On the retail market suppliers and customers trade with open contracts, where quantities of supplied electricity and timing of delivery are not predetermined.

Slovenian wholesale market (market where electricity is sold only for resale) is controlled by companies HSE and GEN energija. On the retail market (market where electricity suppliers act on the supply side and final customers acting on the demand side) there are 16 active suppliers of electricity.

Electricity is produced by electric power stations, which use different renewable (e.g. water, wind, sun) and non-renewable (e.g. coal, oil, gas, nuclear fuel) sources of energy. 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. Environmentally conscious customers can select electricity produced in an environment friendly manner, for example from renewable energy sources or in co-generation of heat and electricity plants (URL:<http://www.agen-rs.si/sl/default.asp>).

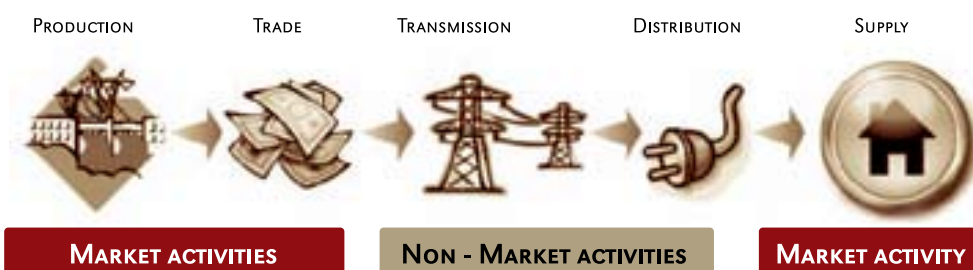
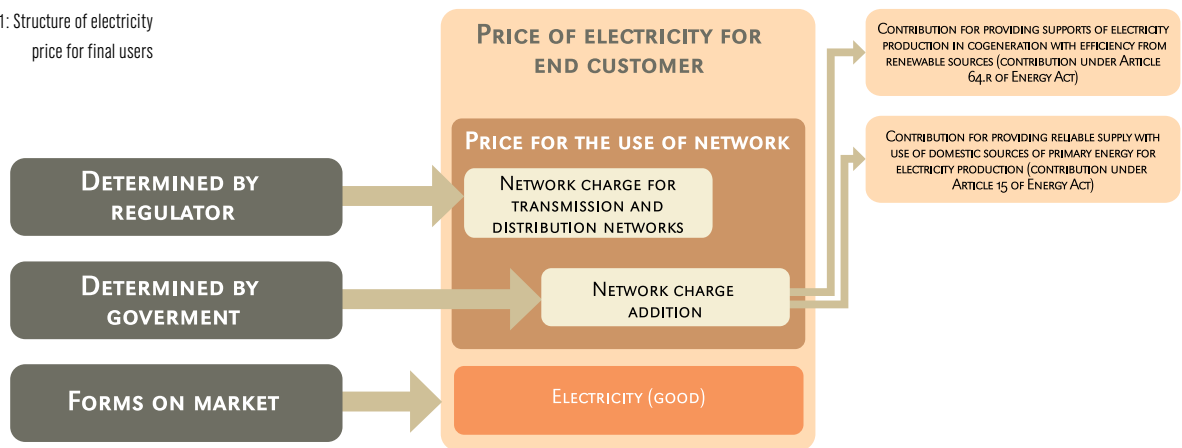


Figure 10: Electricity market

Source: Energy Agency of the Republic of Slovenia

Final price paid by electricity customers includes price of electricity, price for the use of networks (network charge and network charge additions and contributions), excise duty, contribution supporting the increase of electricity use efficiency and value added tax.

Figure 11: Structure of electricity price for final users



Source: Energy Agency of the Republic of Slovenia

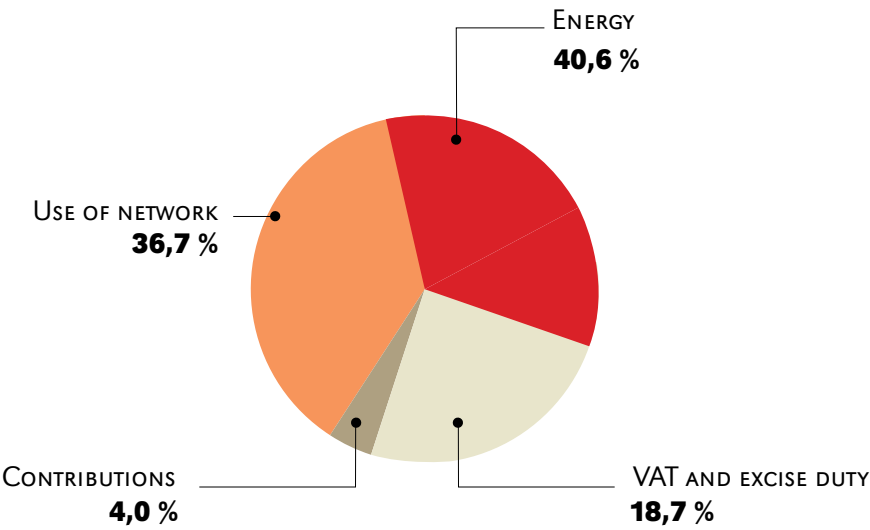
By selecting the electricity supplier customers can influence only the price of electricity. They do not influence the price for the use of network (which includes network charge and additions to the network charge). Price for the use of network remains regulated and will continue to be determined by JARSE (network charge) and the Government of the Republic of Slovenia (additions to the network charge).

Network charge is intended for operation, maintenance and development of electricity network, while additions to the network charge are intended for covering the costs of JARSE operation and operation of market organizer, excluding the costs of implementation of activities of the Center for Support. Government has also determined contributions for ensuring reliable electricity supply by using domestic sources of primary energy (DVE), to ensure supports to high efficiency electricity production in co-generation and from renewable sources of energy (OVE) as well as to increase efficiency of electricity use (URE).

Network charge for transmission and distribution did not change in Slovenia since year 2008 until January 1 2011, while remaining items in the final electricity price were increasing during this time.

Following is the presentation of structure of electricity price for a typical household customer as at July 1 2011.

Figure 12: Shares of elements in the final electricity price and shares of elements in the price for the use of networks for a typical household customer in Slovenia as at July 1 2011 – annual consumption 3500 kWh



Source: Energy Agency of the Republic of Slovenia

Price for the use of network for a presented typical household customer as at July 1 2011 amounted to 54.71 EUR/MWh. Largest share in the structure of retail prices of household supply are price for energy supply (40,6 %) and price for the use of network (36,7 %).

4.9.3 CONTRACT WITH SODO

At its 3rd extraordinary session on February 27 2012 the supervisory board 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 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 13.1 – Transactions with SODO.

In year 2012 (on September 18 2012) the management of the company signed an Annex No. 1 to the Contract on electricity infrastructure lease and provision of services for electricity distribution system operator (hereafter Annex No.1).

On the basis of this contract and valid Annex No.1 the company still implements the same activities as it has before signing the new contract. Annex No. 1 additionally regulates in more detail the amount of advance rent, services and losses for year 2012 (as a basis for invoices issued to SODO by Elektro Gorenjska), preliminary settlement of the 2012 regulatory year and implementation of services Elektro Gorenjska charges directly to the users (so called extra services which Elektro Gorenjska will execute from January 1 2013 in its own name and on behalf of SODO).

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

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

Among other services most important are transactions of electricity purchase for sustaining, urgent supplies, unauthorized consumption, and losses. More on the latter is explained in chapter 4.9.4 - Electricity losses in network, while supplies in 4.9.5 - SODO supply.

Also under this Contract with SODO Company Elektro Gorenjska is making out the bills for use of network to end users of the distribution network on the basis of the respective in force Act determining the methodology for charging for the network charge, the methodology for setting the network charge, and the criteria for establishing eligible costs for electricity networks, but also in accordance with other regulations, mainly the EZ. Elektro Gorenjska Company has been making out these bills on its own behalf and for the account of SODO. End users settle the received bills (there are approximately 930 separate network charge bills per month – data for the month of December; 64 % 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 from implementation of different services for SODO Company. Details are presented also in Chapter 15.1 – Net sales revenues).

4.9.4 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 15.1 - Net sales revenues).

4.9.5 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 4.9.3 - Contract with SODO.

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

Urgent supply is supply of electricity to vulnerable customers which is urgently needed according to the circumstances (season, housing conditions, place of residence, financial conditions ...) in order to prevent threatening of life and health of customers and people living with them; all costs of the supplier are covered from the price for the use of network (Article 2 of SPDOEE). According to SPDOEE costs of urgent supply are covered by SODO 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 in case 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 EUR. 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 15.8 – Cost of goods sold and materials used and chapter 15.1 – Net sales revenues. Costs that Elektro Gorenjska Group acknowledged in year 2012 under unauthorized consumption and other supplies are the deficit of revenues in final calculation of revenues and costs under the head of these supplies in relation to SODO Company.

4.9.6 SCHEDULE DEROGATIONS

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

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

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

In year 2009 a new balance subgroup SODO was established, which included also Elektro Gorenjska Company, in connection with the purchase and sale of electricity implemented under the Contract with SODO. They are the activities of electricity purchase for the needs of covering the losses in the network of Elektro Gorenjska for the needs of urgent and sustaining supply, for unauthorized consumption or other activities, which Elektro Gorenjska performs under the contract with SODO. Mentioned activities of purchase and sale have been conducted through balance subgroup SODO since January 1 2009. That is why derogations of announced from realized schedules are calculated separately for the part, which includes the purchase of electricity for the needs of covering for the electricity losses in the network of Elektro Gorenjska for implementation of supply and other activities under the contracts with SODO and separately for the part including the purchase of electricity for the needs of electricity trade. Mentioned transactions are presented in Accounting report, in chapter 13.3 – Accounts of electricity purchase for losses in network and for implementation of other activities under the contract with SODO.

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

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

General conditions determine the following:

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

4.9.8 WATER ACT

In year 2002 Water act was adopted (Official Gazette RS No. 67/2002), which regulates water, and water and waterside land management.

Gorenjske elektrarne Company as the holder of water right is liable to payment of water fee in the pro rata amount of the water right. Manner of determinign 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 (Official Gazette RS No. 67/2002) and Decree on the concession to use water for electricity generation at hydro electric 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 2011 average sales value per kWh amounted to 0.0764 EUR (Official Gazette RS No. 93/2010), for year 2012 it was 0.0823 EUR (Official Gazette RS No. 86/2011).

4.9.9 CONSTRUCTION ACT

Construction act (Official Gazette RS, 102/04 (ZGO-1-UPB1), 14/05 – corrigendum, 92/05 (ZJC-B), 111/05 (Constitutional Court's Decision), 93/05, 120/06 (Constitutional Court's Decision), 126/07 (ZGO-1B), 108/2009, 57/2012) 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 organisation 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 until the acquisition of the operating permit and later maintenance of the building.

4.9.10 ENVIRONMENT PROTECTION ACT

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

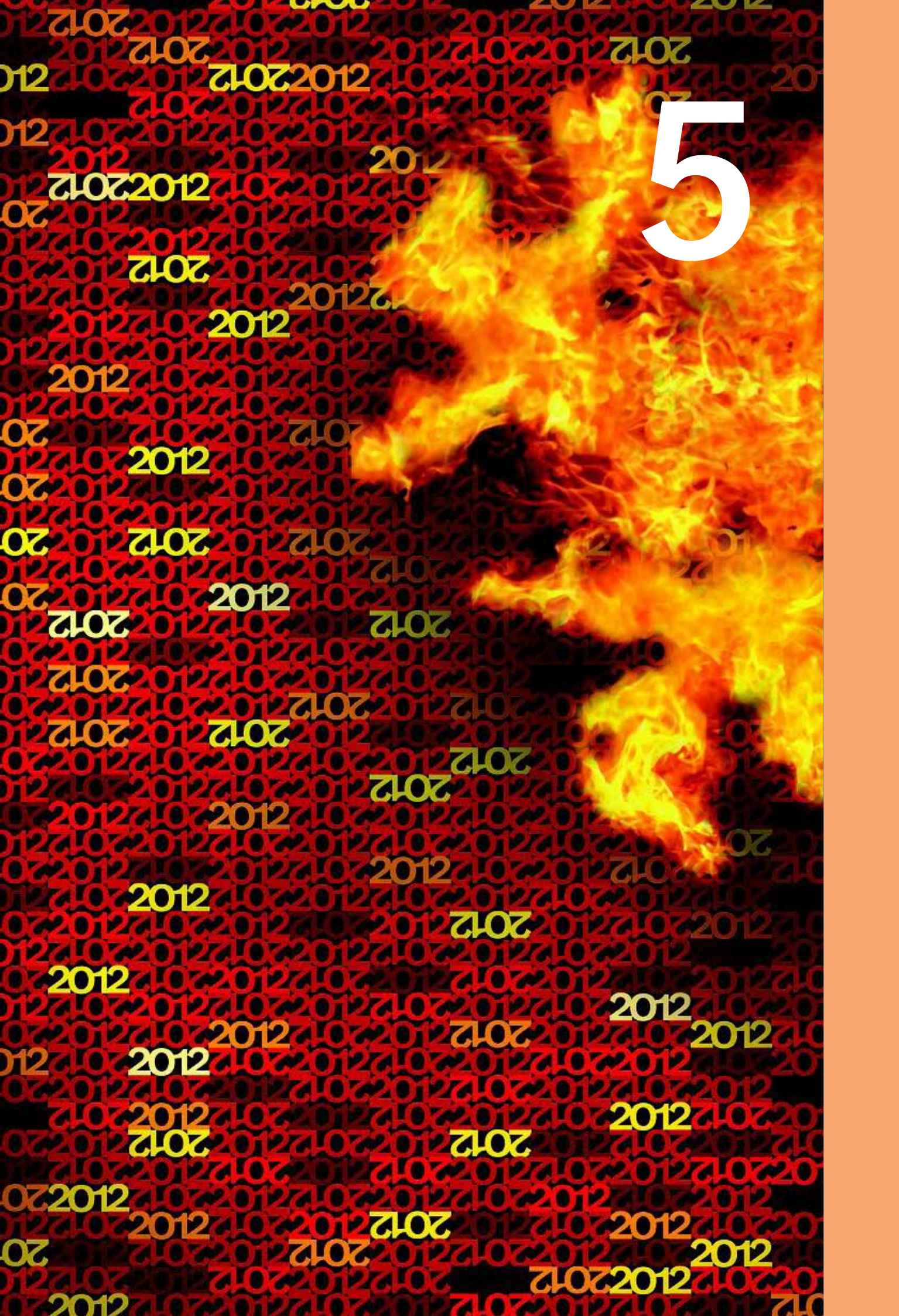
Environment is that part of nature to which the influence of human operation reaches or could reach. Provisions of this act are important for an individual as well as for the companies in their everyday lives, as conduct contrary to the laws of nature and principles of this act bring long-term consequences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

4.9.11 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 2012 excise duty for electricity for business and non-business use amounted to 3.05 EUR/MWh (Official Gazette RS, No. 61/10).

5



5. MANAGEMENT AND QUALITY SYSTEMS

As in previous years Group Elektro Gorenjska d. d. also in year 2012 successfully maintained and completed the integrated quality management system comprised of the following certification systems:

- quality management system according to the requirements SIST ISO 9001:2008,
- environmental management system according to the requirements SIST EN ISO 14001:2004,
- health and safety at work management system according to the requirements OHSAS 18001:2007.

With the introduction of integrated management system all activities have been connected into an efficient system, which leads to the realization of the vision, strategy, and mission.

Quality management system, which was in year 2011 upgraded with non-certification risk management system (ISO 31000), is controlled through established bodies within the group, 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.



In the field of risk control in year 2012 we:

- adopted the Procedures, which define rules and procedures for basic recognition of risks, assessment and their monitoring - methodology.
- recognized the most significant risks that were joined in a joint catalogue – risk register. Risks were recognized within the individual company in the group Elektro Gorenjska as well as for the group itself.
- within the company Elektro Gorenjska d. d. we appointed an administrator of the risk management system, who will be responsible also for managing the risks of Elektro Gorenjska group.

Constant or regular supervision and control of risks is an important condition for successful and efficient reaching of the set long-term business goals. In its operation the group faces different kinds of risks:

Financial risks

Risks that include financial variables: from the viewpoint of the group they include foreign exchange, credit, interest and liquidity risks. Controlling financial risks includes assets, liabilities, equity capital, revenues, expenditure and profit.

Procedural risk

Incorrect implementation of regulatory related activities.

Market and external risks

They refer to the risk of market price changes (for example electricity price) or additional external factors, which can affect the group (for example labor market changes).

Operating risks

They include conditions in which the individual company is not able to offer its services to clients or implement necessarily important functions for preserving its operating activities in efficient and cost-effective way. This category includes also potential losses due to events, like failures or inefficient processes, human error, errors in technology or infrastructure, interruption of economic activity, changed procedures and incorrect internal or external reporting.

Strategic and regulatory risks

Risk that company's management system and organizational structure of the company are not efficient and that strategy was not prepared, considered or implemented efficiently. In the field of legislation framework this means risk that due to changes in legislative and political environment activities significant for the group are endangered.

Business and other risks

Business risks include a set of risks related to the effects of risk factors influencing business activities of the group. For example reputation risk arises from the fact that certain activities of the company or its representatives can lead to deterioration of company image in the eyes of the public, which can result in business loss and/or proceedings. This can happen due to misinterpretation or withholding of information the clients need in order to make informed choices about the services. In general reputation related risk is not only a risk by itself but it is also a matter of result or consequence of a failure to control other risks.

Law and compliance

Legal risk means potential loss due to uncertainty in leagal procedures. It can refer to:

- wrong transaction,
- claim, which means liability of the company,
- failure in protecting the company's assets,
- change in legislation.

Compliance includes risk of leagal and regulatory sanctions, which can cause material and financial losses or loss of reputation of the company due to noncompliance with rules, regulations, related standards, codes of conduct etc.

Corporate governance

This risk is a result of the missing regulations for internal communication, project management or other key decision-making processes in the company.

Business continuity – risk of breaching the implementation of business activities as a result of incidents that affect the company's operation.

Risks in connection to human resources are a result of the fact that company lacks employees with necessary knowledge, experience and characteristics, which are of significant importance for achieving the business goals of the company. This risk includes employee satisfaction, measuring the effectiveness, employment, employee maintaining, succession planning, management and risks arising from policies and procedures of employment.

Occurrence of loss or damage as a result of risk materializations can have negative influence on the business success of the group.

PROBABILITY	IMPACT				
	1-minor	2-small	3-moderate	4-big	5-catastrophic
1-almost impossible					
2-very unlikely					
3-possible					
4-very likely					
5-almost certain					

Legend: Risk severity		
MEDIUM AND LOW	SIGNIFICANT	HIGH

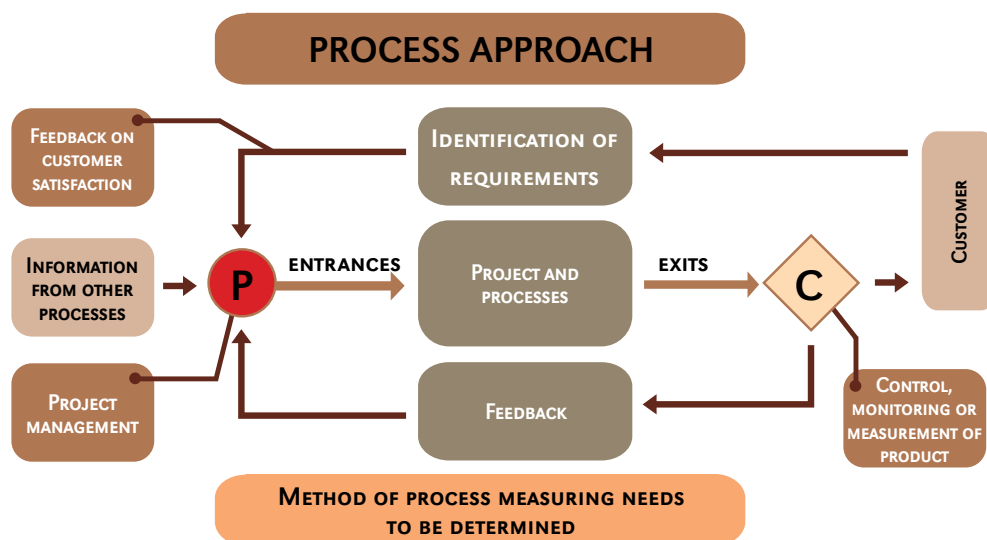
Figure 13: Risk severity

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 group.

In year 2012 we followed the management quality by 77 business processes and 174 quality indicators. In year 2012 we optimized business processes, as in the field of OU Distribution network, we aproached the procedural way of recognition of business processes, linked them to the recognized risks and defined them indicators, which will warn us about the possibilities of loss.

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

Figure 14: PDCA circle
(Demingo approach)



In year 2012 we implemented an internal audit of the above stated systems, as we do every year. In the month of October an external follow-up audit of the environmental management system (ISO 14001), regular audit of quality management system (ISO 9001) and health and safety at work managements system (OHSAS 18001) were executed. No inconsistencies were established, and 32 recommendations were submitted. 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 2012 there were 77 proposals submitted – measures, improvements 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.

As year 2012 was full of changes, we wanted to obtain an assessment- evaluation of our efforts of improving the quality by the European model of excellence EFMQ by an independent assessor. For this reason we applied for tender for the Slovenian Business Excellence Award (PRSPPO).

As in years 2009 and 2010 we were shortlisted as finalists, but unlike previous years this year Committe for the Slovenian Business Excellence Award recognized us as an example of excellent business in the category of enterprises with more than 250 employees in the private sector and awarded us with the business excellence award of the Republic of Slovenia for year 2012, which is the highest national award in the field of quality end excellence of business as a result of knowledge development and innovations as well as constant improvements.

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

- introduction of standards for quality and reliable supply of final customers with electricity in its distribution area, which is the main goal of Elektro Gorenjska, d. d.,
- gradual reduction of operating costs and improvement of business processes,
- systematic increase of quality management through the introduced standard ISO 9001/2008,
- commitment to quality increase in the field of environment management system ISO 14001/2004,
- commitment to increase of quality in the field of health and safety at work OHSAS 18001/2007,
- customer-friendliness and increase of (external and internal) customer satisfaction,
- increasing employee satisfaction, which is established also by annual interviews and surveys,
- commitment to systematic analysis and assessment of already recognized risks and constant recognition of new ones,
- committment to continuous improvements in all certified quality systems.

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

- Care for constant informing, training, and motivation of all employees, which results in higher employee loyalty.
- Realizing quality operation is set towards reducing the operating costs and at the same time high professional level of activity implementation.
- Quality plan is realized by all employees. Each one is responsible for the quality of his/her own work and this way they contribute to the company's business appearance.
- Management of the company enables conditions and methods to establish and maintain a quality system by providing constant quality growth on the way to business excellence.
- Constant maintenance of the continual improvement system on the quality management system, quality environmental management system, health and safety at work quality system as well as on the risk management system.
- Company's operation and development planning.
- Continual education, training, and targeted training for employees.

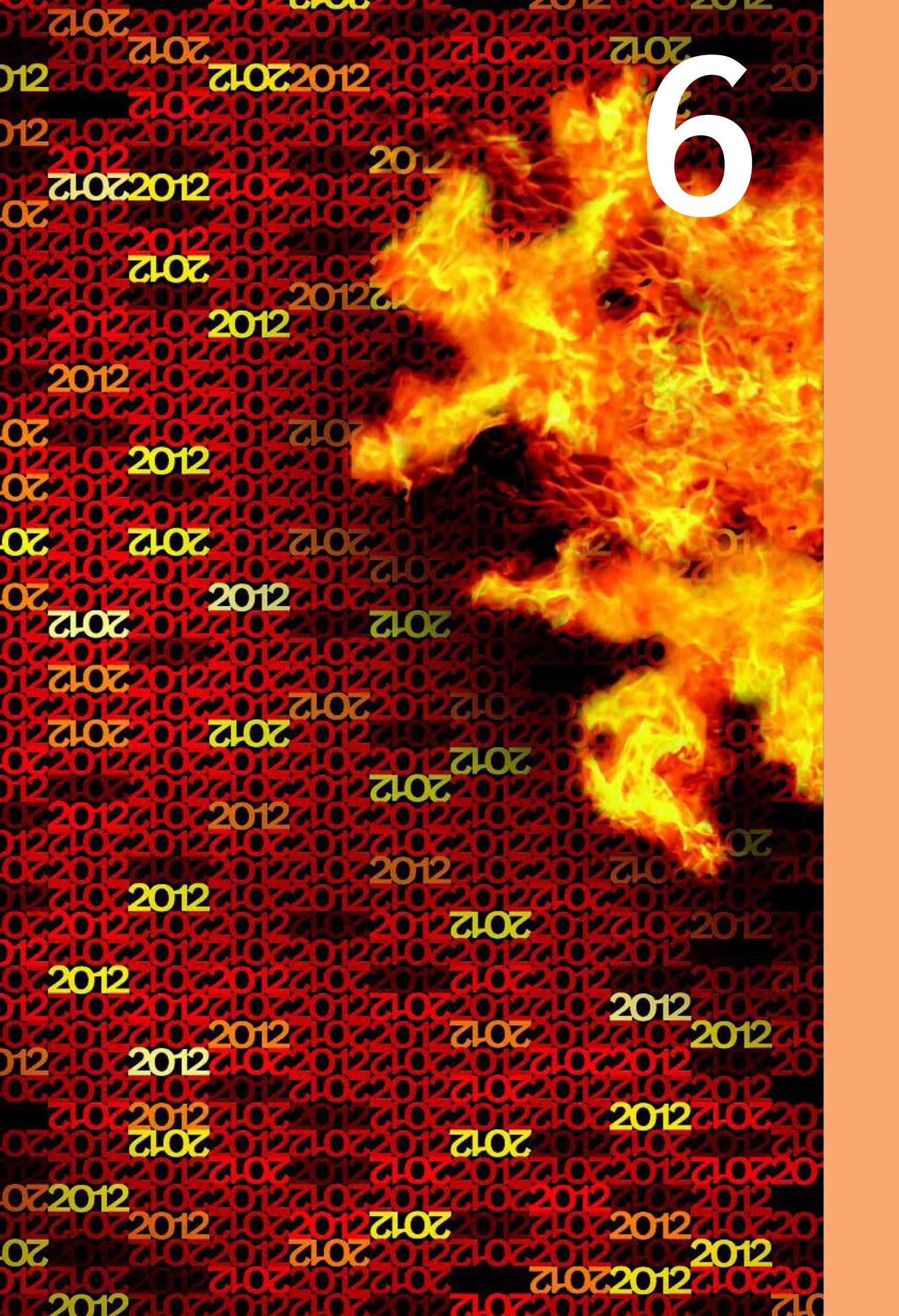
In the field of reconciliation of work and private life Elektro Gorenjska Group in year 2012 successfully implemented the planned measures and successfully passed the first annual assessment within the process of acquiring the Family- friendly company certificate, by the Ekvilib Company.

Ekvilib Company confirmed the changed plan of selection and implementation of FFC measures. Measure 7 – Active preventive break was eliminated from the basic selection of measures, so that current number of selected measures is 13, while some of the existing ones were partially changed in contents.

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.



6



6. BUSINESS ANALYSIS OF THE GROUP

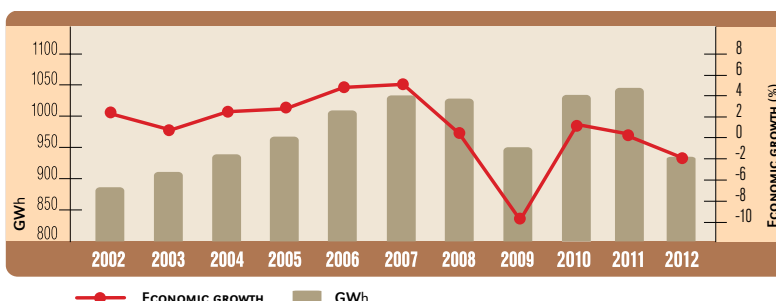
6.1 QUANTITIES OF DISTRIBUTED ELECTRICITY

In year 2012 there were **982,417 MWh of distributed electricity** through the network of Elektro Gorenjska Company or 2 % less than in year 2011 (1,002,762 MWh).

In year 2012 household customers within the network of Elektro Gorenjska Company were distributed 323,686 MWh of electricity, which is by 0.8 % less than in year 2011 (326,310 MWh). Business customers within the company's network were distributed 658,730 MWh of electricity, which is by 2.6 % less than in year 2011 (676,452 MWh).

Reason for lower quantities of distributed electricity in year 2012 is re-growth of economic crisis, which influenced greatly the reduction of consumption of mainly business but also household customers mainly in the second half of the year.

Figure 15: Changes in distributed quantities of electricity from year 2002 to year 2012



6.2 QUALITY OF ELECTRICITY SUPPLY

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

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

Continuity has been followed as usually in accordance with the legislation. In year 2012 we started reporting on CAIFI indicator along with indicators SAIDI, SAIFI and MAIFI.

In the field of continuity of supply compared to year 2011 in year 2012 increase in the number as well as duration of announced long-term interruptions can be noticed, which reflects the activities in the field of network maintenance. Number and duration of unannounced long-term interruptions by all causes increased sharply compared to year 2011. Detailed analysis of unannounced long-term interruptions has shown that cause of this increase was mainly the collapse of the electricity power system of Elektro Gorenjska in the month of September due to failure in RTP OKROGLO (ELES). This event was classified under foreign causes, and it represents majority share of all unannounced long-term interruptions in year 2012. Share of interruptions classified as own causes increased only a little last year, while share of interruptions due to force majeure in year 2012 almost halved compared to 2011. There were also less short-term interruptions compared to year 2011.

Parameters of electricity supply continuity that can be influenced are on a high level compared with other Slovenian distributions. We also successfully face the unforeseen events thanks to good condition of the network and top competence and professionalism of our employees.

Table 7: Unannounced long-term interruptions according to type of network in year 2012

	PROPER				FOREIGN				FORCE MAJEURE				TOTAL			
	SAIFI [interr./ cust.]	SAIDI [min./ cust.]	CAIFI [interr./ cust.]	CAIDI [min./ interr.]	SAIFI [interr./ cust.]	SAIDI [min./ cust.]	CAIFI [interr./ cust.]	CAIDI [min./ interr.]	SAIFI [interr./ cust.]	SAIDI [min./ cust.]	CAIFI [interr./ cust.]	CAIDI [min./ interr.]	SAIFI [interr./ cust.]	SAIDI [min./ cust.]	CAIFI [interr./ cust.]	CAIDI [min./ interr.]
Total urban	0.155	3.576	0.000	23.075	0.771	77.672	0.000	100.794	0.000	0.000	0.000		0.926	81.248	0.000	87.781
Total mixed	0.102	3.856	0.000	37.965	0.154	16.147	0.000	104.972	0.043	1.174	0.000	27.307	0.298	21.178	0.000	70.972
Total countryside	0.307	7.902	0.000	25.764	0.569	45.960	0.000	80.836	0.074	5.203	0.000	70.198	0.949	59.065	0.000	62.215
TOTAL	0.563	15.334	0.000	27.224	1.493	139.779	0.000	93.624	0.117	6.377	0.000	54.454	2.173	161.491	0.000	74.305

	SAIFI	SAIDI	CAIFI	CAIDI
	[INTERR./CUST.]	[MIN./CUST.]	[INTERR./CUST.]	[MIN./INTERR.]
Total urban	0.287	19.725	0	68.666
Total mixed	0.147	16.569	0	112.989
Total countryside	0.340	46.005	0	135.483
TOTAL	0.773	82.299	0	106.403

Table 8: Announced long-term interruptions in year 2012

MAIFI	
[INTERR./CUST.]	
Total urban	0.664
Total mixed	0.915
Total countryside	3.055
TOTAL	4.634

Table 9: Momentary interruptions in year 2012

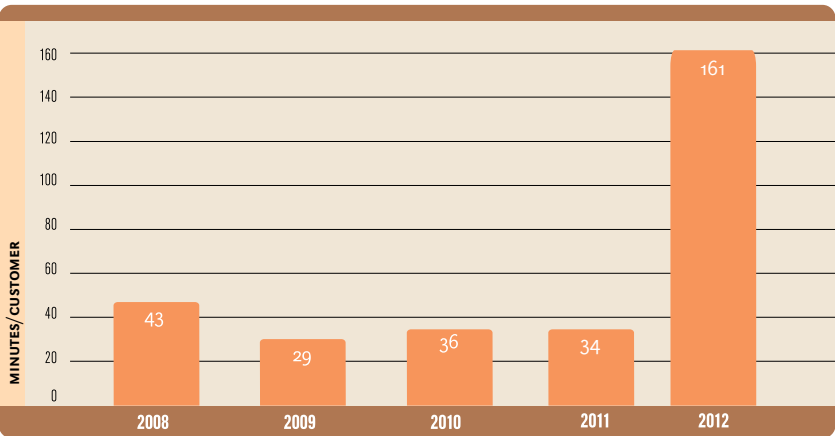
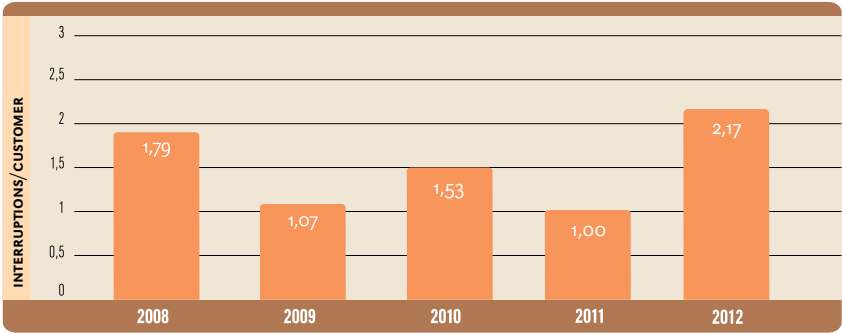


Figure 16: SAIDI - average time of duration of all unannounced interruptions (longer than three minutes)

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



We find that situation in the field of **power quality** has not changed substantially compared to year 2011. Cause for inconsistent voltage conditions is mainly the flicker, which is transmitted from transmission 110 kV network and spreads to lower voltage levels. Other parameters exceed determined limits only in exceptional cases and are usually the result of emergency situations in the network. Number of recorded voltage increases in year 2012 on high voltage level reduced significantly due to the adjustment of the nominal value of voltage on the measuring instruments. This change, which is obvious in recorded values, otherwise has no impact on voltage quality at final customers. In year 2012 we received one official complaint on the condition of voltage quality on the low-voltage level, which proved to be justified.

Table 10: Consistency of power quality parameters with the SIST EN 50160 standard on high voltage level for year 2012

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.

FACILITY RTP 110/X	NUMBER OF WEEKS UNDER CONTROL	NUMBER OF INCONSISTENT WEEKS						NUMBER OF VOLT- AGE 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	50	0	0	47	1	0	1	146	21	3	47
RTP Labore – DV Okroglo 10 kV	51	0	0	50	0	0	0	60	27	1	50
RTP Primskovo 110 kV	51	0	0	49	0	0	0	57	30	2	49
RTP Radovljica 110 kV	51	0	0	50	0	0	0	291	12	1	50
RTP Škofja Loka 110 kV – Okroglo	51	0	0	49	0	0	0	84	51	2	49
RTP Škofja Loka – DV Kleče 110 kV	51	0	0	49	0	0	0	81	52	2	49
RTP Tržič 110 kV	51	0	0	49	0	0	0	124	45	2	49
RTP Zlato polje 110 kV	51	0	0	51	0	0	0	64	31	0	51

Commercial quality was started to be monitored in year 2012 in accordance with the ammended Act concerning the reporting of data on quality of electricity supply (Off. Gazette RS No. 73/2012), which reduces the numebr of commercial quality parameters in a sense that only parameters recording reaction times of services for customers are being followed. We have established that reaction times in most of the indicators are shorter than defined by the limits. We have also established that app. 50 % of all complaints of the users were justified, while compalints mainly refer 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 have received no compensation claims from our users.

Important reason for preserving the quality of supply in year 2012 compared to year 2011 are also adequate investments in investing and maintenance of network, which are foreseen for the next year as well within the available financial assets. We should stress though that in eventual smaller scope of annual investments in the network than determined by the Development plan for geographical area of Elektro Gorenjska for the period 2013-2022, we will not be able to preserve the current level of supply quality.

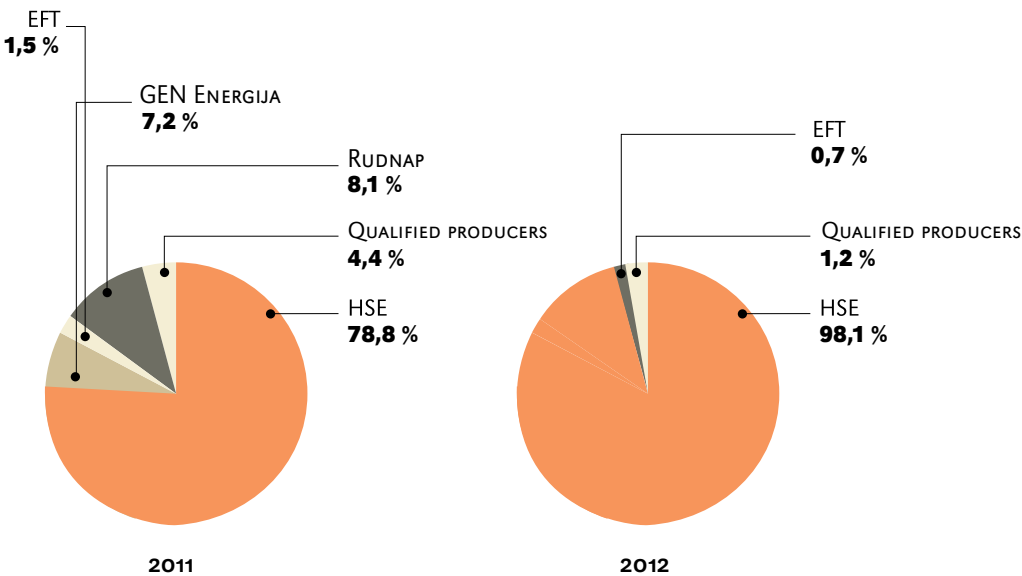
			DETERMINED BY AGEN-RS (CONFIGURABLE PART)				DATA OF PROVIDER FOR DATA TRANSMISSION					
PARAMETER OF COMMERCIAL QUALITY			MINIMUM QUALITY STANDARDS (MQS)				VALUES OBTAINED				SHARE OF SERVICES	
			System / guaranteed standard	Required level of compliance [%]	Limit value	Unit	Number of all requested / implemented services	Number of justified excluding (force majeure, cause foreign)	Indicator value	Standard deviation	Up to and including limit value [%]	Above limit value [%]
Connecting to the network	1	Time needed to reply to the request of new user for connection to network [days]	S	80 %	20	working days	1428	0	14.0	15.7	78	22
	2	Time needed to issue cost estimate (pro forma invoice) for simple works [days]	Z	-	10	working days	44	0	5.4	2.5	95	5
	3	Time needed to connect new user to LV network [days]	S	95 %	20	working days	1187	0	8.0	5.4	96	4
	4	Time needed to activate the connections to electricity network [days]	Z	-	10	working days	614	0	5.2	12.9	100	0
Care for customers	5	Time needed to reply to written questions, complaints or requests of users [days]	Z	-	8	working days	316	0	10.0	21.0	70	30
	6	Time of holding a call in call center [s]	-	-	-	-	5259	0	16.0	10.0	-	-
	7	Indicator of call center service level [%]	-	-	-	-	2042	0	79.0	0.0	-	-
Technical services	9	Time to power reconnection in case of defect on the limiting device (6.00-22.00) [h]	Z	-	5	h	238	0	1.5	2.1	96	4
	10	Time to power reconnection in case of defect on the limiting device (22.00-06.00) [h]	Z	-	8	h	9	0	1.4	2.5	100	0
	12	Time needed to reply to power quality related complaint [days]	S	90 %	30	working days	1	0	28.0	0.0	100	0
	13	Time needed to solve power derogations [months]	S	0.2	6	months	1	0	9.5	0.0	0	100
Measurements and billing	16	Time needed to eliminate meter defect [days]	Z	-	8	working days	558	0	4.0	5.7	90	10
	20	Time to reconnection after disconnection due to late payment [h]	Z	-	3	working days	810	0	1.0	0.0	100	0

Table 11: Parameters of commercial quality in year 2012

6.3 QUANTITIES OF PURCHASED AND SOLD ELECTRICITY

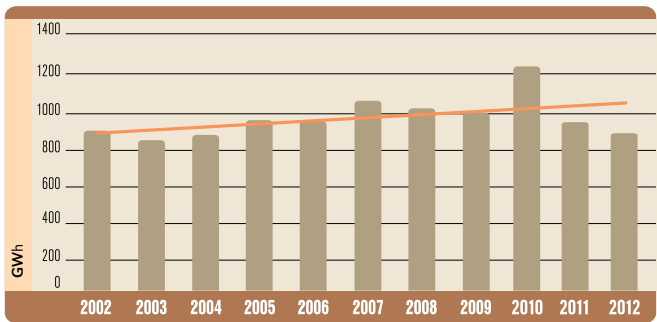
For the needs of the buyers in year **2012** the company **bought** from suppliers of electricity a total of **865,560 MWh** of electricity. Values of purchased quantities are presented in accounting report in chapter 15.8 – Costs of goods sold and materials used. In terms of quantity total purchase was by 72,458 MWh or 8 % lower than in year 2011.

Figure 18: Purchase of electricity in years 2011 and 2012



In year 2012 we sold a total of **860,154 MWh** of electricity to our buyers, which is by 10 % less than in year 2011. Information includes also trading: sale of purchased electricity surpluses to larger electricity traders in the country and the European Union. Values of sold quantities are presented in the Accounting report chapter 15.1 – Net sales revenues.

Figure 19: Changes in electricity sale from year 2002 to year 2012



Excluding the trade the company sold its final (household and business) customers 749,782 MWh of electricity, which is by 4.8 % less than in year 2011.

286,833 MWh of electricity of the above amount or 7 % less than in year 2011 refer to household customers.

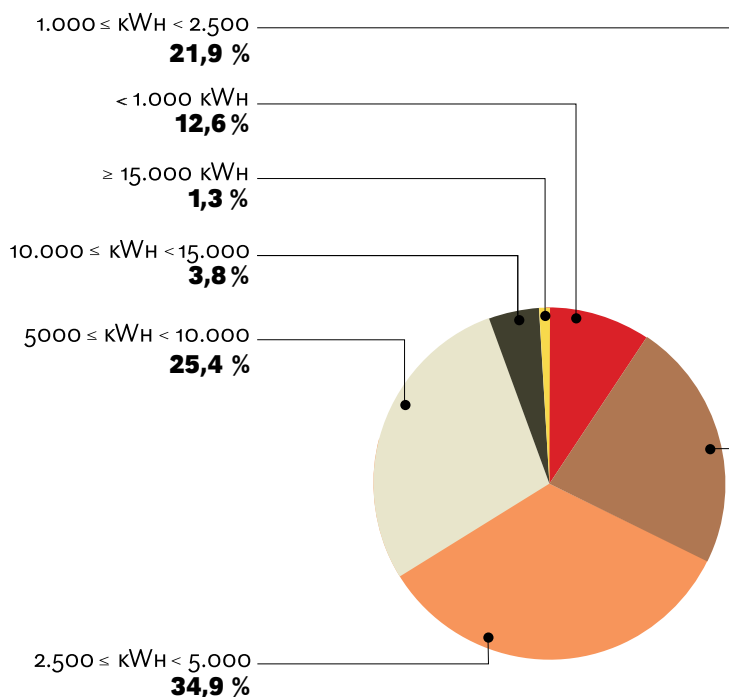


Figure 20: Sale in categories of household customers (number of customers)

Business customers were sold 462.948 MWh of electricity, which is by 4 % less than in year 2011. Reduction in sale is the result of losing a large business customer as well as the result of the economic crisis, which has caused a failure of several larger companies in Gorenjska region.

In year 2012 we sold by 110,372 MWh of surpluses of electricity, which is by 33 % less than in year 2011.

In year 2012 we continued to market the Blue Energy. Blue Energy is electricity generated from environment friendly, renewable sources of energy. In year 2012 we sold by two times more of Blue Energy in quantities than in year before. Quantitative sale of the Blue Energy in individual years is presented in the chart, while other details referring to the Blue Energy are explained in chapter 7.2 – Electricity buyers and customers.

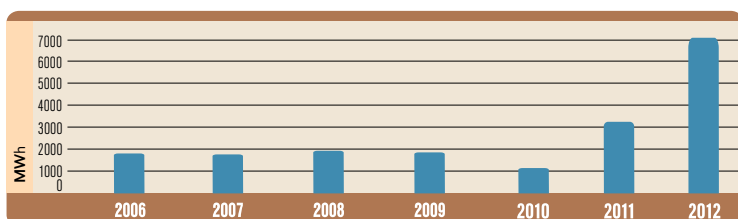


Figure 21: Blue energy (in MWh)

6.4 PRICES OF ELECTRICITY

Prices of electricity in Slovenia are formed depending on the changes in prices of electricity on the electricity commodities exchange EEX in Leipzig. There it is traded for real-time consumption and with forward products, which reflect expectations of market players on the changes in future prices. As electricity cannot be stored, there is always a partial imbalance between supply and demand present on the market that is why the prices are subject to large fluctuations. They depend on the changes in production sources structure, energy balance of a certain price area, limited cross-border transmission capacity, variability in the prices of other energy, weather, hydrology, power stations repairs, current occupancy of transmission capacity and projected economic growth.

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

Increase in retail price of electricity for industrial customers by 7.0 % between years 2008 and 2011 was to a large extent the result of higher excise duty, as price excluding all taxes reduced by 1.1 %. In year 2011 compared to the previous year retail price dropped by 0.6 %, while price excluding all taxes decreased by 2.9 %.

Household electricity prices increased by 19.9 % in the period between years 1995 and 2000. Two reasons were mainly increases in the tax burden and prices of energy. On July 1 2007 the electricity market opened for household users as well. Price of electricity for households before market opening has not reflected the market price yet, and opening of the electricity market for household users did not bring notable price changes in year 2008. Between year 2008 and 2011 prices increased by 22.1 %, due to increase in energy price by 15.1 % and taxes rise by 49.1 % in this period.

Electricity prices in Slovenia have remained below the level of prices in EU-27 countries. In year 2011 for household customers they were lower than the EU-27 average by 16 %, while for industrial customers by 5 %.

Chart below is showing changes in base load prices at the EEX exchange.

Figure 22: Changes in base load electricity prices



Following chart is showing changes in peak energy prices at the EEX exchange.

Figure 23: Changes in peak electricity prices



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

Electricity market is divided in forward, daily and balancing market. On the forward market it is traded by long-term products for purchase and sale of products for supplies in the future and this market is the basis for determining retail prices for final customers. Daily market is intended for balancing daily needs of individual balance groups of either production or consumption, and on this market quantities that represent the difference between short-term announced quantities of production or consumption and long-term concluded contracts are traded. Market is intended for balancing the derogations between production or consumption realization and short-term transactions.

In year 2012 electricity was purchased on the slovenian wholesale market. Achieved purchase prices are market prices. Main seller is HSE Company, from which we purchased most of the electricity in year 2012. On the other side retail prices are also very transparent and electricity is sold here at market prices as well. High average purchase prices in the first half of year 2012 were the result of high prices on the daily market, when due to extremely low outside air temperatures there was a sharp increase in electricity consumption in the entire region and as a result also high prices on the daily wholesale market.

In March 2011 there was an earthquake in Japan which resulted in Fukushima nuclear accident. On the supply markets the accident reflected in the sharp increase in electricity prices for year 2012, which can be seen in figures 22 and 23. Prices maintained on high levels until December 2011, when they started to drop. Purchases were mainly implemented in year 2011. Result were high purchase prices on forward contracts.

On the daily market prices increased the most in the month of February, which was an unexpectedly cold month. Result was increased consumption of electricity of our customers. So, additional quantities of electricity had to be purchased at high prices, which increased the costs of electricity purchase significantly.

6.5 PRODUCTION OF ELECTRICITY

In year 2012 the group generated electricity in 15 hydro power stations (HE), 16 solar power stations (FE) in the area of Gorenjska region and one solar power station in Maribor. Besides that the company produced heat and electricity in six high-efficient cogenerations.

Of renewable energy sources the company uses water sources (hydro power stations) as well as solar energy (solar power stations). Operation of power stations to a great extent depends on natural resources - current rainfall, which impacts the quantity of water in water courses, as hydro power stations do not have their own accumulations in general (with the exception of Lomščica HE). This means that in the event of heavier rainfall high-rise waters spill over devices, so hydro power stations are not able to utilize high waters for electricity production. In dry seasons water courses dry out heavily, which again means limited and in extreme cases even disabled electricity production. Quantity of produced electricity in hydro power stations does not only depend on the quantity of water, but also on difference in altitude of the water drop, geographical location of individual power station and other characteristics influencing electricity production in hydro power plants.

Advantage of utilization of hydro power is mainly the use of renewable energy sources, while its weakness is fluctuation of production according to water availability. Construction of hydro power plants also represents a great intervention in the environment and brings high investment costs. Besides that in the regime of water course utilization we need to consider also requirements set by fishermen and environmentalists.

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

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

In year 2012 **production amounted to 50,483 MWh**, which is by 4.8 % more, compared to year 2011 (48,193 MWh). Despite a very bad hydrology in year 2012 we managed to surpass the quantity of produced electricity compared to year 2011 with newly built generation facilities (FE, SPTE).

6.6 INVESTMENTS

In year 2012 Elektro Gorenjska Group invested 16,017,796 EUR (year 2011: 16,753,342 EUR). Major investments are presented below.

High-voltage network in the amount of 4,765,459 EUR, major ones being:

- 110 kV DV RTP Železniki – RTP Bohinj: Modifications for obtaining the OVS (nature conservation approval) were made and harmonized and the approval was obtained in autumn. Based on this all the necessary documentation was collected for preparing the application for a building permit request, which was filed in the beginning of year 2013.
- 110 kV DV RTP Jesenice – RTP Kranjska Gora: in year 2012 activities for the reconstruction continued based on the Decree on maintenance works for public interest. Due to the changed financial situation during the year merely easements and consents in the territory of the Triglav national park were obtained. In year 2013 implementation of replacing approximately 15 standing positions are planned.
- 2x110 kV DV RTP Moste – RTP Bled: Existing optical telecommunications connection was replaced.
- RTP Bohinj 110/20 kV: Building permit was obtained. All construction and finishing works were done. All HV power equipment (primary and secondary) was supplied and installed. Power transformer was moved from RTP Zlato polje. Construction of 110 kV connecting conduit was implemented. At the end of the year the facility was completed in terms of construction and installation according to the schedule. Some tests were already made too.
- RTP Jesenice 110/20 kV: For the purposes of connecting the new 20 kV cells and installing the throttles we made also channel pipe on the juncture. Tests were made for equipment supplied and installed last year. Due to lack of financial funds landscaping was implemented only partly, there is still smaller construction renovation of the facility to be done and final landscaping.
- RTP Škofja Loka 110/20 kV: Bases for installation of throttles were made and renovation of foundations in 110 kV juncture was done. Supply and installation of throttles was implemented.

- RTP Zlato polje 110/20 kV: For the purposes of operation an existing power transformer 110/20 kV 20kVA from RTP Zlato polje was built in the new RTP Bohinj. In RTP Zlato polje a new power transformer 110/20 kV 31.5 kVA was installed, for which foundations needed to be recovered and new 20 kV cable connections implemented.

Medium- and low-voltage network in the amount of 6,391,865 EUR, major ones being:

- RP Visoko 20 kV: Facility construction was completed in year 2012. All necessary primary and secondary equipment was supplied and installed. In year 2013 obtaining of operating permit is foreseen.
- RP Balos: Facade and other finishing work were done.
- Building permit was obtained and MV and LV cable network was implemented on the territory of Hraše pri Smledniku.
- Major renovations or reconstructions (cables) of the MV network in the area from Mavčiče HE to Medvode HE with the construction of cable ducts together with Savske elektrarne, in the area from RTP Tržič towards Kovorje and Žiganja vas, in the area of new RP Visoko.
- Total of app. 20 km of 20 kV conduits exclusively in cable design was built.
- 18 transformer stations were renovated and 8 new ones built.
- App. 50 km of low-voltage network in mainly cable design were renovated and newly built.

Following chart presents numerical data on the construction of new or renovation of old transformer stations and 20 kV cable conduits from year 2008 to 2012.

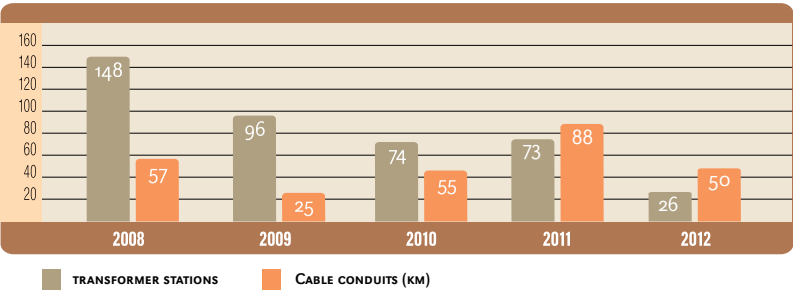


Figure 24: Construction of new or renovation of old transformer stations and 20kV cable conduits from year 2008 to year 2012

Other investments (4,860,472 EUR), major ones being the following:

- telecommunications and protection (telecommunication equipment, command and control ...),
- measuring devices (AMI-project),
- business and technical equipment,
- solar power station on the roof of warehouses of Merkur Kranj Company in Naklo with a capacity of 931 kilowatts,
- solar power station on the roof of Merkur Kranj shopping center in Primskovo with a capacity of 408 kilowatts,
- solar power station on the roof of a sports hall Trata in Škofja Loka with a capacity of 134 kilowatts,
- solar power station on the roof of Šenčur elementary school with a capacity of 241 kilowatts,
- solar power station on the roof of a home for the elderly in Naklo with a capacity of 40 kilowatts,
- cogeneration plant in the office building of Merkur in Naklo, electric power of 150 kilowatts,
- lighting replacement in Merkur Primskovo shopping center, and
- construction of hydro power stations management center.

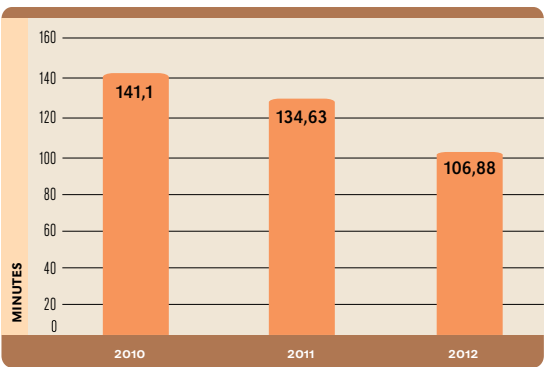
6.7 MAINTENANCE OF ENERGY FACILITIES

In year 2012 mainly planned (preventive) maintenance on the infrastructure was performed with the aim of reducing the likelihood of a failure of facility's component part or system, which is achieved with appropriate interventions executed according to the criteria, which are determined in advance.

Preventive maintenance included inspection of electric power devices, execution of clearings in power lines and low-voltage overhead lines corridors, revision of switches, transformers, revision of machines and devices in HE, execution of control measurements and execution of control measurements and testing of protection devices functioning.

By optimizing works, careful planning of maintenance work and application supported project management we managed to additionally improve the reliability of supply factors (SAIDI, SAIFI, CAIDI ...) in the last years. Key information for presenting the efficiency of implementation of preventive maintenance work is information on the duration of individual announced interruption due to execution of maintenance work – CAIDI, expressed in minutes per interruption. In year 2012 we managed to reduce the average times of individual interruption by 21 % compared to year 2011.

Figure 25: CAIDI – announced long-term interruptions (in min)



In year 2012 we actively continued with the execution of live works on the low-voltage network (64 executions). We began to introduce live work on the medium-voltage too. In the first stage implementation of cleaning work on transformer stations has been foreseen. In the first half of 2013 we foresee to end of all trainings and buy appropriate special tools.

Live work will be developed in the future too, and the criteria for live work volume will be mainly to improve safety at work on electricity devices and optimal maintenance costs with considering the requested target continuities of supply.

Maintenance as a way of removing the errors represented the second type of maintenance (curative) in year 2012, which is time unpredictable and can only be estimated roughly on the basis of events from the past. Causes of failures were various, including weather, failure of equipment, damage caused by a third party. Local storms and stronger rains in summer month have caused problems as well.

In the month of January strong wind caused quite some troubles in operation. In the period from January 5 to January 7 we recorded 49 major interruptions in electricity supply. Longest duration of interruption was recorded in the area of Davče and Sorica, where supply to several customers was disturbed for 16 hours. Access for repairs and driveway for replacement units was not possible due to closed roads and dispersion of consumption.

In the month of September we recorded one of the largest failures or collapses of the power system in Gorenjska region in the last two decades. Due to the failure in 110 kV juncture RTP Okroglo (owned by ELES) more than 70,000 customers of electricity had interrupted supply.

In the month of November heavy rainfall and consequently floods as well landslides caused us much trouble. We had most problems around Mojstrana, where river Sava took away part of the cable route of conduits 2x20 kV Jesenice-Kranjska Gora and cable conduit to TP Aljažev Dom. Several smaller landslides and as a consequence failures on power lines were also in the area of Poljanska valley.

According to the experience and forecasts we believe that in the future we will need more and more assets for the maintenance, as preventive maintenance is going to become an even more important factor from the viewpoint of reliable supply with electricity (continuity of supply).

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 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, and similar.

Following chart presents costs of maintenance representing costs of maintenance services and costs of maintenance material from year 2008 to year 2012.

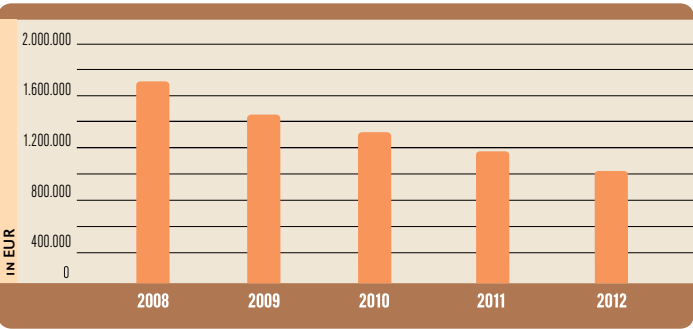


Figure 26: Changes in maintenance costs from year 2008 to year 2012 (in EUR)

6.8 DEVELOPMENT AND DESIGN

In the field of research and development of distribution network provision there is a development service organized. 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 15.9 – Costs of services.

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

- planning the consumption and production of electricity (making of development plans according to EA, data processing for studies, conference papers, justifications and users, cooperation in preparing and processing of BTP and making of consumption and production prognoses),

- network development (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).

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

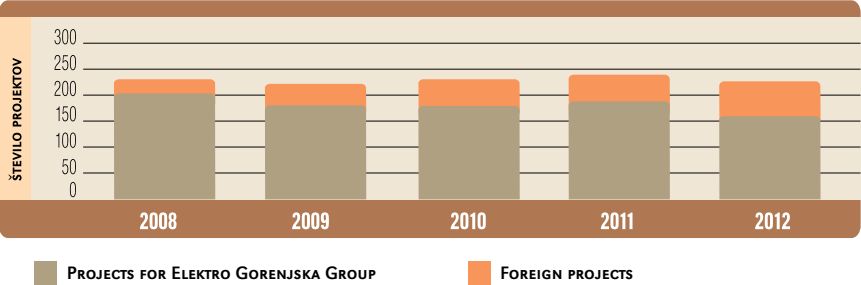
For the purposes of certain investments from the 2012 investment plan of Elektro Gorenjska, different expert studies, preliminary studies, concepts, and different project documentation have been made in cooperation with the institutions in the mentioned development fields. Investments, which foresaw 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 2012 development studies preparation in the following fields were taking place:

- analysis of environmental issues in existing and planned distribution infrastructure,
- adjustment distribution RTP presence of dispersed sources in the network,
- DSM and advanced measurement,
- modern approach to ensuring quality in purchasing HV equipment in the open market terms,
- techno economic evaluation of monitoring using various diagnostic systems for ensuring continuous operation of old and new distribution transformers,
- improvement of gredos software package for the analysis of connecting the dispersed sources in the network,
- general information model – CIM,
- REDOS 2040: development of electricity distribution network of Slovenia, fixed five-year contract.

Figure 27: Information on the number of project documentation made from year 2008 to 2012



6.9 FINANCIAL PERFORMANCE CRITERIA OF THE GROUP

6.9.1 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. 2012	31. 12. 2011
1	FINANCING INDICATORS		
	A) EQUITY FINANCING RATE (IN %)	65.1	67.3
	capital / liabilities		
	B) DEBT FINANCING RATE (IN %)	28.0	25.4
	debts / liabilities		
	C) SHORT-TERM FINANCING RATE (IN %)	10.8	10.9
	short-t. debts (including sh.-t. accrued costs and deferred revenues) / liabilities		
	D) LONG-TERM FINANCING RATE (IN %)	89.2	89.1
	capital + long-term debts (incl. provisions) + l.-t. accrued costs and def. rev. / liabilities		
	E) INITIAL CAPITAL RATE (IN %)	54.0	53.1
	initial capital / capital		
	F) CREDITWORTHINESS	3.1	2.5
	net debt (long. + sh.-t. financial liabilities - cash in bank) / EBITDA		
2	INVESTING INDICATORS		
	A) OPERATING FIXED ASSETS RATE (IN %)	89.1	88.5
	fixed assets (at accounting value) / assets		
	B) LONG-TERM ASSETS RATE (IN %)	90.3	89.9
	fixed assets and l.t. accruals and pre-paid expenditure (at acc. value) + l.t. fin. inv.+ l.t. oper. claims / assets		
3	HORIZONTAL FINANCIAL STRUCTURE INDICATORS		
	A) EQUITY TO OPERATING FIXED ASSETS (IN %)	0.7	0.8
	capital / fixed assets (at accounting value)		
	B) IMMEDIATE SOLVENCY RATIO	0.07	0.16
	liquid assets / short-term liabilities		
	C) QUICK RATIO	0.9	1.0
	liquid assets + short-term claims / short-term liabilities		
	D) CURRENT RATIO	0.9	1.0
	short-term assets / short-term liabilities		
4	INDICATORS OF ECONOMY AND RETURN		
	A) OPERATING EFFICIENCY RATIO (IN %)	101.5	103.1
	operating revenues / operating expenses		
	B) ENTIRE EFFICIENCY RATIO (IN %)	100.5	102.5
	entire revenues / entire expenses		
	C) NET RETURN ON EQUITY RATIO (IN %)	0.2	1.2
	Net profit in business year/ average capital		
	D) LEVEL OF REVENUE PROFITABILITY (IN %)	0.5	2.5
	pre-tax profit / revenues		
	E) VALUE ADDED (IN EUR)	24.589.483	24.818.730
	operating revenues-costs of goods, material, services-other operating expenses		
5	INDICATORS OF ECONOMY AND RETURN		
	A) TOTAL ASSETS TURNOVER RATIO	0.4	0.4
	revenues / average assets		
	B) OPERATING CLAIMS TURNOVER RATIO	5.3	4.7
	operating revenues / average operating claims		

Continued on next page



6	INDICATORS OF RETURN		
A) EBITDA (IN EUR)		12.970.732	13.475.699
operating revenues - operating expenses + depreciation and f.a. write-offs + revaluation expenses			
B) EBIT (IN EUR)		1.352.099	2.634.177
operating revenues - operating expenses			
C) FINANCIAL RESULT (IN EUR)		-1.096.610	-643.267
financial revenues - financial expenses			
D) PRE-TAX PROFIT (IN EUR)		428.387	2.184.508
entire revenues - entire expenses			
E) NET PROFIT (IN EUR)		234.246	1.671.242
entire revenues - entire expenses - corporate income tax			
F) ROA (%)		0.1	0.8
net profit after taxes / average assets			
G) ROE (%)		0.2	1.2
net profit after taxes / average capital			
7	EQUITY		
A) NUMBER OF SHARES			
number of registered shares		17.302.071	17.302.071
B) BOOK VALUE OF SHARE (IN EUR)			
capital / number of shares		7.71	7.84
C) NET PROFIT PER SHARE (IN EUR)			
net profit / number of shares		0.01	0.10
8	INDICATORS OF RETURN		
A) AVERAGE NUMBER OF EMPLOYEE		337	328
B) OPERATING REVENUES PER EMPLOYEE (IN EUR)		268.032	268.968
operating revenues/average number of employees			
C) VALUE ADDED PER EMPLOYEE (IN EUR)		72.966	75.725
value added/average number of employees			

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

6.9.2 FINANCING INDICATORS

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

- **Equity financing rate** shows the share of equity financing of all company's assets. Indicator shows that in year 2012 the equity financing rate was 65.1, which is by 2.2 percent point less than in year 2011. Biggest influence to a somewhat lower value of the indicator was exerted by the long-term financial liabilities, which increased by 4.2 million EUR. In year 2012 Elektro Gorenjska Group raised three new long-term loan in the total amount of 10,400,000 EUR and paid 6,307,926 EUR of long-term loan principals. Changes in long-term borrowings are explained in chapter 14.14 – Long-term liabilities.
- **Debt financing rate** indicates debt financing of the group's assets. In year 2012 the indicator amounted to 28 % and was by 2.6 percentage point higher than in year 2011, which is the consequence of the growth in long-term liabilities. Increase in long-term financial liabilities is the result of constant investments in diversification of production capacities and investments in electricity distribution infrastructure, to which Elektro Gorenjska company has always been committed to (since July 1 2007 it has been committed to this under the Contract with SODO and based on the adopted 10-year Development plans; before this date as the holder of the concession for implementation of GJS SODO). As the group does not have sufficient proper sources to finance planned or necessary investments, it has to obtain foreign debt financing sources. Proper sources to finance investments in power infrastructure include revenues from rent and implemented services under the Contract with SODO, which are explained in more detail in chapters 15.1 – Net sales revenues and 13.1 – Transactions with SODO Company.

- **Short-term financing rate** presents the share of short-term debts in the assets. In year 2012 the short-term financing rate amounted to 10.8 % and was by 0.1 percentage point lower than in year 2011. Lower rate was mainly the consequence of the fact that liabilities increased by 1.7 %, while short-term debts increased by 1.4 %.
- **Long-term financing rate** in year 2012 amounted to 89.2 % and was by 0.1 percentage point higher than in year 2011. Reason for that is in the increase of long-term debts.
- **Initial capital rate** presents the share of initial capital in entire capital. Compared with the year 2010 the share increased somewhat, it presents 54.0 % of the entire capital. Reason for that is in the fact that share capital did not change in year 2012, while entire capital decreased mainly due to lower revaluation surplus (because of the negative fair value of the interest rate swap, which was the result of the drop in the variable interest rate).
- **Creditworthiness:** safe level of indebtedness is followed by the indicator showing the NET FINANCIAL DEBT/ EBITDA ratio. On December 31 2012 this indicator was 3.1, while in year 2011 this indicator amounted to 2.5. For the group level of indebtedness not acceptable would be indicator value that would surpass 4. For the company this would mean it was no longer able to cover current interest on debt from the operating profit EBITDA. This commitment is used by some banks in already existing credit contracts. Indicator value to a great extent depends on the operation of the main activity (positive result in year 2012 is presented also in chapter 6.6.9 – 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 1 million Euros the indicator would worsen by 0.3. In case of additional indebtedness by 1 million Euros (at the same revenue and expenditure) the value of the indicator would go down by 0.1.

6.9.3 INVESTMENT INDICATORS

Indicators of investment conditions are important mainly for decisions on investment projects.

- **Operating fixed assets rate** shows the share of fixed assets in all assets. In year 2012 the share of fixed assets represented 89.1 % of all assets, which was by 0.6 percentage point higher than in year 2011. High operating fixed assets rate was expected for Elektro Gorenjska Group, as the line of business the companies operate in, is technologically very intensive. Reason for increase of indicator value in year 2012 compared to year 2011 was in the fact that value of fixed assets relatively increased more than the value of all assets.
- **Long-term assets rate** was 90.3 % at the end of the year, which is by 0.4 percentage point more than in year 2011.

6.9.4 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 2012 it amounted to 0.7, which is by 0.1 percentage points less than in year 2011. Amount of equity decreased compared to year 2011, while fixed assets increased.
- **Immediate solvency, quick, and current ratios** show the solvency. Immediate solvency ratio was lower compared to year 2011, which is mainly the consequence of lower finances compared to December 31 2011. Values of quick and current ratios are 0.9, while in year 2011 the values of the mentioned ratios were 1. Worse values of the ratios are mainly the result of lower finances on the last day of year 2012 compared to the balance on the last day of year 2011.

6.9.5 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 2012 it amounted to 101.5 %, which is by 1.6 percentage points less than in year 2011, and is mainly the result of high electricity purchase costs and higher operating expenses from revaluation.
- **Entire efficiency ratio** is ratio between entire revenues and entire expenses. In year 2012 it amounted to 100.5 %, which is by 2 percentage points less than last year.
- **Net return on equity ratio** shows the percentage of net profit that belongs to the owners according to their ownership share. Net return on equity ratio for Elektro Gorenjska group at the end of year 2012 amounted to 0.2 %. Indicator also depends on the structure of financing; higher indicator can mean higher risk on the account of large debts. Elektro Gorenjska company has very limited possibilities of controlling the success of activity, as under the contract with SODO it is obliged to implement numerous activities in connection with which various costs (expenses) arise, on the other hand it is also limited in controlling its own revenues accruing to it under this Contract (please see also financial statements, chapter 13.1 – Transactions with SODO Company).
- **Level of revenue** profitability tells us that the group made 0.5 EUR of profit per 100 EUR of achieved revenues, which is by 2.0 EUR of profit less than in year 2011.
- **Value added** of Elektro Gorenjska Group in year 2012 amounted to 24,589,483 EUR and decreased by 229,247 EUR compared with year 2011.

6.9.6 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 2012 the ratio amounted to 0.4 and was on the same level as in year 2011.
- **Operating claims turnover ratio** shows how many times a year operating claims turnover to money. At the end of year 2012 it amounted to 5.3, which means that money was tied with buyers for 68 days on average, which is 10 days less than in year 2011.

6.9.7 RETURN INDICATORS

- **EBITDA** in year 2012 amounted to 12,970,732 EUR and was by 0.5 million EUR lower than in year 2011, which is mainly the result of higher electricity purchase costs and higher operating expenses from revaluation.
- **EBIT** represents the difference between operating revenues and operating expenses. In year 2012 it amounted to 1,352,099 EUR, which is by 1.3 million EUR less than in year 2011. As previously mentioned the main reasons for the deterioration of this indicator are higher electricity purchase costs and higher operating expenses from revaluation.
- **Net increase/decrease in cash and cash equivalents** was negative for Elektro Gorenjska Group in year 2012 and it amounted to -1.096.610 EUR, which is by 453 thousand EUR less than in year 2011, which is the result of higher expenses from interests due to interest rate swap (interest rate hedging). Amount of unpaid principals increased by 4.1 million EUR compared to the balance as at December 31 2012, which is explained also in chapter 14.14 – Long-term liabilities. Additionally financial result is worse also due to impairment of long-term financial investments in shares of

Nova Ljubljanska bank (explained also in chapter 15.13 - Financial expenses from impairments and financial investment write-offs.

- **Pre-tax profit** for Elektro Gorenjska Group in year 2012 amounted to 428,387 EUR, which is by 1,756 thousand EUR less than in year 2011. Decrease in pre-tax profit in year 2012 compared to year 2011 is mainly the result of higher electricity purchase costs and higher operating expenses from revaluation.
- **Net profit** in year 2012 amounted to 234,246 EUR, while in year 2011 it was 1,671,242 EUR.
- **Number of shares** did not change throughout the year 2012. Book value per share amounted to 7.71 EUR at the end of year 2012, while net profit per share amounted to 0.01 EUR.
- **Average number of employees** in year 2012 was 337, which is nine workers more than in year 20101. Changes in the number of employees are explained in chapter 9.1.1 – Demographic structure.
- **Operating revenues** per employee in year 2012 amounted to 268.032 EUR, which is by 0.3 % less than in year 2011. Otherwise operating revenues are by 2 % higher than in year 2011, but in year 2012 the number of employees increased.
- **Value added** per employee in Elektro Gorenjska Group in year 2012 amounted to 72,966 EUR. Compared with the year 2011 value added was by 3.6 % lower. Reason for decrease is mainly in increased number of employees.
- **ROA:** 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 as well as diversification and construction of new production sources. We could not achieve this without investments in intangible and tangible assets. We should mention that quality and reliability of electricity supply on distribution network are measured by SAIDI and SAIFI indicators (more on the quality in chapter 6.2 – Quality of electricity supply), and have been preserved in the recent years and according to 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 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 and whose regulatory values depend mainly on the regulator JARSE and revenues from electricity sale and on other side on costs of operation and maintenance the group has (excluding financial expenditure due to borrowing), and costs of electricity purchase. Capital Assets Management Agency of RS set a uniform requirement about the future operations of Elektro Gorenjska Group to reach at least 4.1 % of return on assets (objective until the end of 2015). In case target value of the indicator would apply today, the group would need to have at least by 10 million EUR of revenues more at equal costs, which is impossible to expect even with increase of production capacities or according to the fact that our operation is subject to regulation. Another option is to realize by 10 million Euro less of costs at equal revenues. Latter would mean drastic reduction of volume of services for SODO or drastic reduction of costs of material, services and other in the same amount, which is not realistic to expect despite increase of network each year and with it increased volume of services for SODO. Mentioned reference level by the Agency is relatively high, as the line of business the group operate sin is technologically very intensive, which is conformed and demonstrated by a high indicator of the operating fixed assets rate. Group to a large extent depends on revenues from electricity ale and revenues from renting the electricity distribution infrastructure and implementation of services for distribution network system operator, which are determined by JARSE, so reduction of costs in such high amount according to the volume of work as explained above is unrealistic to expect in the future. We should also stress the fact that according to an increased volume of facilities (length of network, number of transformer stations, substations, production facilities ...) efficiency of the group increased.
- **ROE:** Similar to ROA indicator, ROE indicator is affected by the very same characteristics. Agency set the ROE indicator along with a reasonable use of JARSE methodology as alternative indicator, which is set in the amount of 6 % (target by the end of year 2015). For year 2012 this indicator for the group amounted to 0.2 %, which essentially less. In case target value of the indicator would apply today, the group would need to have at least by 9.5 million EUR revenues more with equal costs or by 9.5 million EUR costs less, which is unrealistic to expect considering the information presented with ROA indicator. We should add the fact that Agency set an additional condition,

which is to reach 1 % of capital dividends, which means that despite annual return made capital reduces relatively, which on one hand increases the value of the indicator, while on the other hand the group needs to incur additional debts (in the short-term, but mainly in the long-term) due to lack of proper liquidity assets. Due to higher interest costs this reduces net profit and with it also value of ROE indicator.

6.9.8 STRUCTURE OF ASSETS AND LIABILITIES

ASSETS

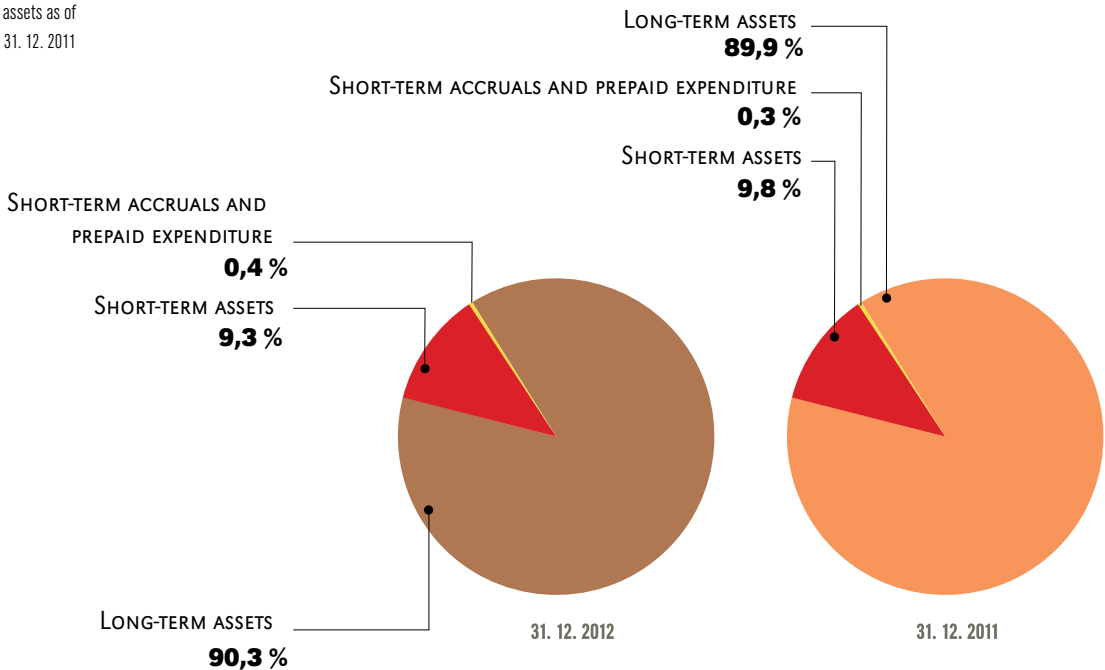
On the last day of year 2012 the assets of Elektro Gorenjska Group amounted to 204,889,160 EUR (31. 12. 2011: 201,568,554 EUR) and have increased by 1.7 % from the beginning of the year. Long-term assets increased by 2.0 % in year 2012, while short-term assets decreased by 3.1 %.

Long-term assets represent 90.3 % of all company's assets. Among them tangible fixed assets representing 97.1 % of all long-term assets are the most important. Value of tangible fixed assets increased by 2.9 % or by 5,010,377 EUR in year 2012.

Besides tangible fixed assets long-term assets also consist of the following important categories: (explained in more detail in chapter 14 – Notes on profit and loss account items):

- intangible fixed assets, which decreased by 49.4 % or 819,742 EUR in year 2012 as a result of information system write-off.
- investment property, whose value decreased by 6.1 % or 133,621 EUR as a result of a divesture and
- long-term financial investments, whose value in year 2012 decreased by 13.7 % or 385,493 EUR due to revaluation of shares to a lower value.

Figure 28: Structure of assets as of 31. 12. 2012 and 31. 12. 2011



CAPITAL AND DEBTS

As at December 31 2012 Elektro Gorenjska Group reached a ratio between equity and debt capital in the amount of **1.9:1**, which is almost the same as the year before.

In the structure of liabilities capital represents 65.1 % of the entire balance sheet total. In year 2012, capital decreased by 1.6 % or by 2,214,590 EUR. Long-term liabilities, mostly long-term banking credits, represented as of 31. 12. 2012 17.4 % of all funds. In year 2012 they increased by 15.8 % or 4,859,483 EUR. Short-term liabilities represented 10.6 % of all funds and have increased by 6.6 % or 1,333,687 EUR in year 2012. Provisions and long-term accrued costs and deferred revenues represented 6.6 % of funds at the end of year 2012. In year 2012 they increased by 2.8 % or by 369,273 EUR. Short-term accrued costs and deferred revenues contributed 0.3 % to funds at the end of year 2012 and decreased by 66.6 % or 1,027,247 EUR compared to the year before.

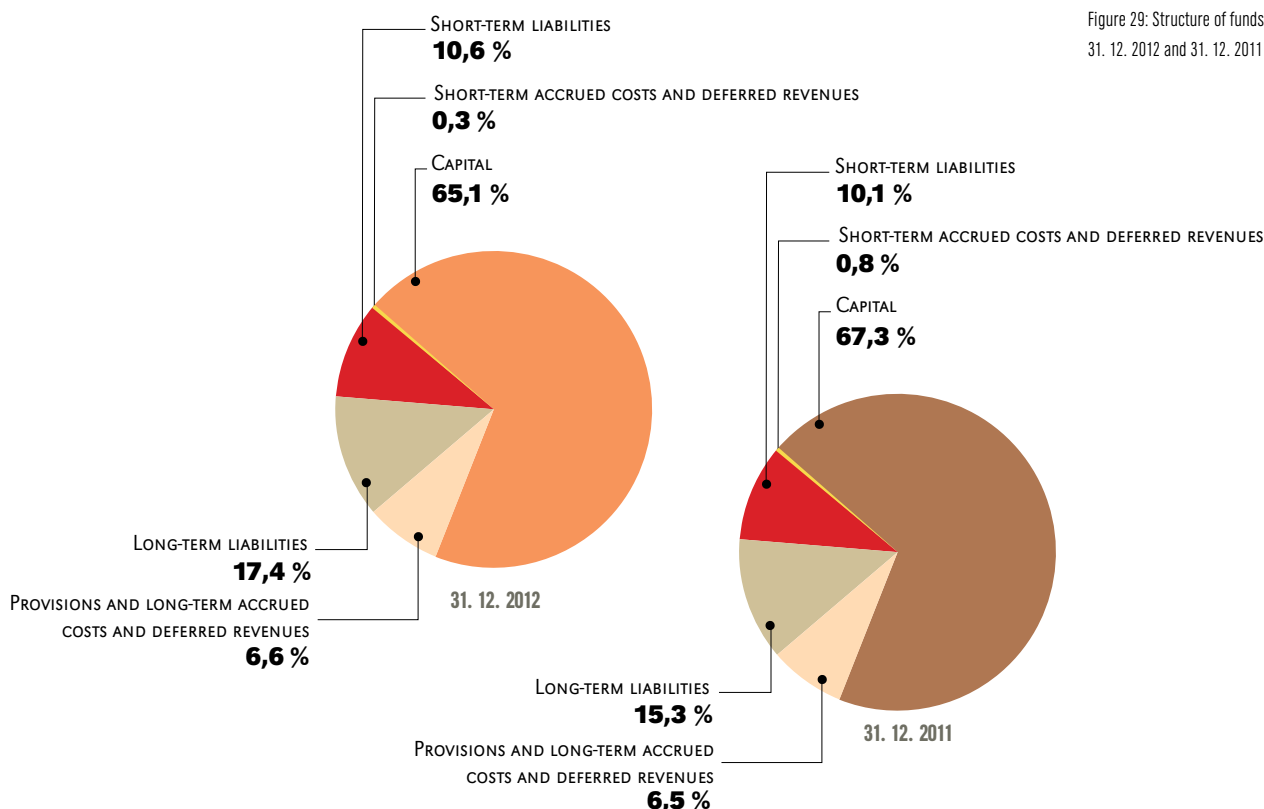


Figure 29: Structure of funds as of 31. 12. 2012 and 31. 12. 2011

6.9.9 STRUCTURE OF REVENUE AND EXPENDITURE

In year 2012 Elektro Gorenjska Group achieved a pre-tax profit in the amount of **428.387 EUR**.

ITEM DESCRIPTION	2012	2011
OPERATING PROFIT OR LOSS	1,352,099	2,634,177
FINANCIAL RESULT	-1,096,611	-643,267
EXTRAORDINARY PROFIT OR LOSS	172,899	193,598
PRE-TAX PROFIT	428,387	2,184,508

Table 12: Composition of profit or loss by business segments (in EUR)

Decisive contribution to good business in year 2012 was made by the operating profit or loss, above all activities of the Contract with SODO and electricity production, while the financial result in year 2012 was negative as expected, as the line of business the group mostly operates in is technologically very intensive, which reflects in the increase of long-term assets, above all tangible fixed assets in energy infrastructure and new production capacities financed mainly through debt resources.

Table 13: Operating profit or loss in years 2012 and 2011 (in EUR)

ITEM DESCRIPTION	2012	2011
OPERATING REVENUES	90,326,925	88,154,295
OPERATING EXPENDITURE	88,974,827	85,520,118
OPERATING PROFIT OR LOSS	1,352,099	2,634,177

Operating profit or loss for year 2012 amounted to 1,352,099 EUR. Compared to year 2011 it was by 48.7 % or 1,282,078 EUR lower. Lower operating profit is the result of high electricity purchase prices and information system write-off.

Structure of operating expenditure for year 2012 is shown in the figure below:

Figure 30: Structure of operating expenditure

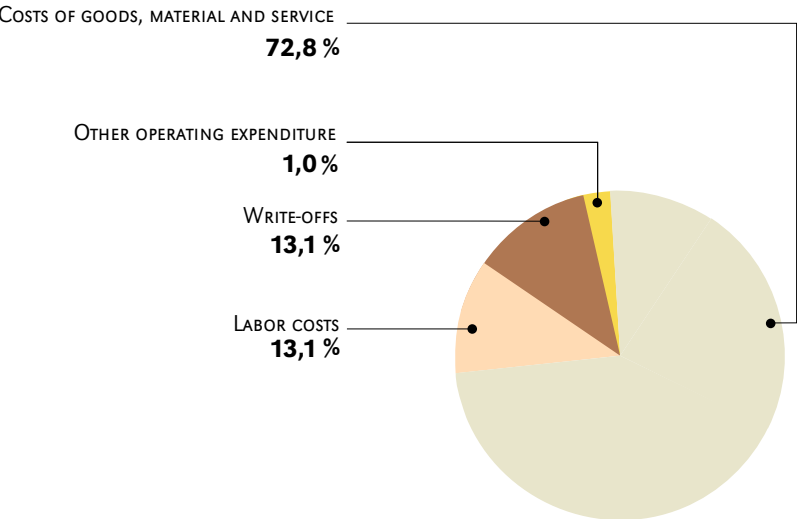


Table 14: Financial result in years 2012 and 2011 (in EUR)

ITEM DESCRIPTION	2012	2011
FINANCIAL REVENUES	259,494	403,842
FINANCIAL EXPENDITURE	1,356,105	1,047,109
FINANCIAL RESULT	-1,096,611	-643,267

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

Compared to year 2011 financial result is worse by 453,343 EUR. Worse financial result is a result of higher expenditure for interest due to interest rate swap and realized financial expenditure from impairment of financial investments in the amount of 104,701 EUR in year 2012.

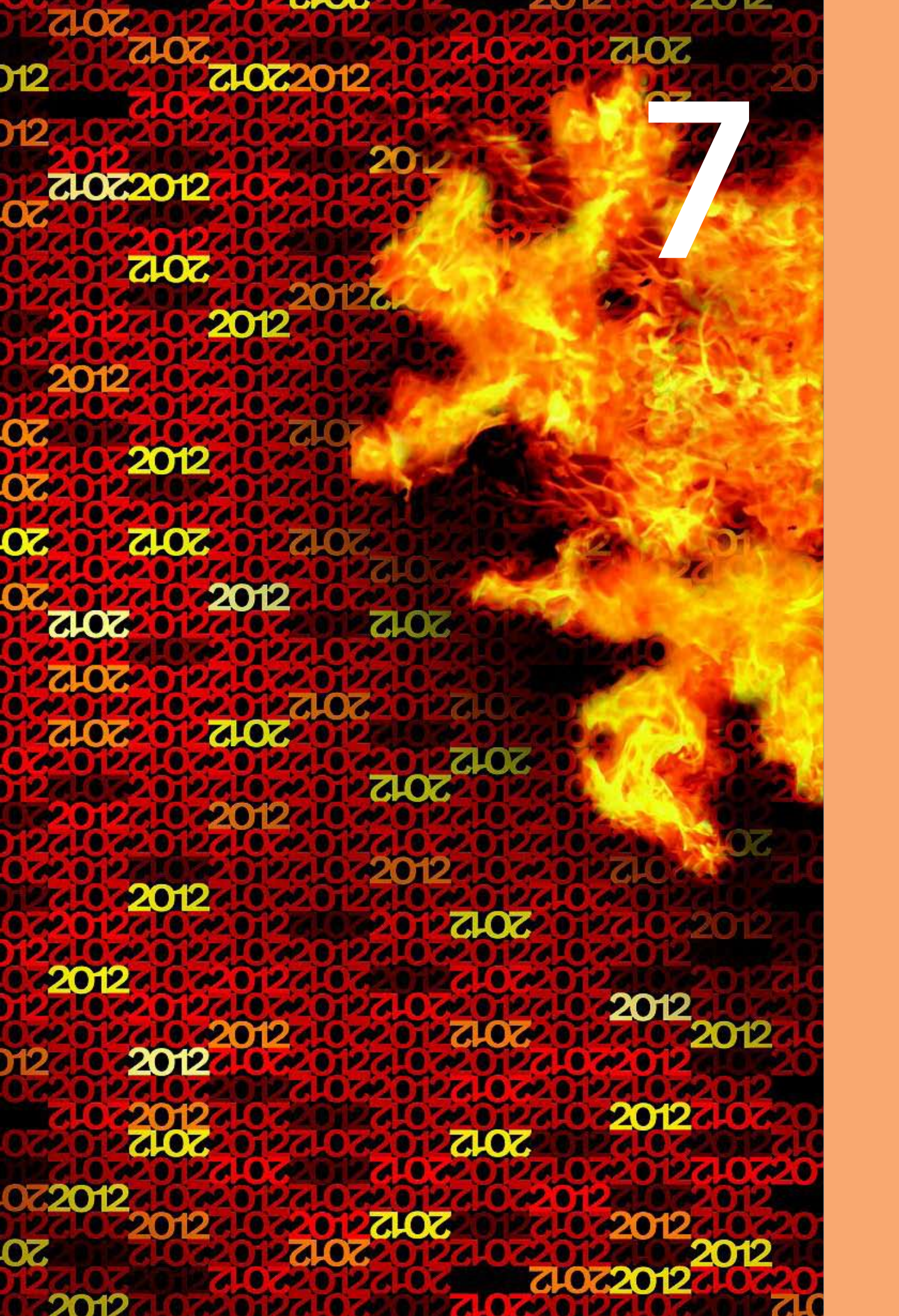
Table 15: Result from extraordinary operations in years 2012 and 2011 (in EUR)

ITEM DESCRIPTION	2012	2011
OTHER REVENUES	183,965	204,057
OTHER EXPENDITURE	11,066	10,458
EXTRAORDINARY RESULT	172,899	193,598

Positive extraordinary result is mainly the consequence of compensations from insurance companies and received compensations referring to contractual penalties for withdrawal from the contract on purchase and sale of electricity.

Table 16: Net profit in years 2012 and 2011 (in EUR)

ITEM DESCRIPTION	2012	2011
PRE-TAX PROFIT	428,387	2,184,508
INCOME TAX	194,141	513,266
NET PROFIT	234,246	1,671,242



7. MARKETING AND SALES

7.1 SERVICES AND PRODUCTS

We have been providing reliable and quality supply of electricity in the area of 2,091 km² in the northeastern part of Slovenia to more than 88,000 customers for fifty years. Besides provision of reliable and quality electricity supply 24 hours a day every day of the year and maintenance of electricity network, we also implement market services presented below.

Market services

We enable our clients an integrated management of power facilities and devices, we offer them possibilities of cooperation in planning, construction and maintenance of all types of power facilities and devices.

In the context of integrated solutions we offer services, including:

- **Power checks**, which represent important initial phase in preparing the program of consumption control and efficient electricity use. We advise our users, implement various types of energy sources and consumption analysis, we create programs with measures of consumption management and efficient electricity use and prepare appropriate investment documentation.
- **Energy advisory service and more efficient use of electricity**: In management of electricity largest savings in the field of technological processes can be achieved by optimizing operation of devices according to the requirements of the technologic process, analyzing the possibilities of technological modernization with the purpose of smaller consumption, time- optimized operation with the purpose of preventing peaks, adjusting operation of production to tariff systems and by compensation of futile energy.
- **Planning services**: With knowledge and experience we advise and help in preparing main files and urban studies of power facilities, co-generations, hydro and solar power stations, projects for public and street lighting, preparation of projects for power infrastructure of industrial, commercial, trade and/or residential zones, and we cooperate in preparation of electrical installations in buildings.
- **Execution of maintenance and works** of power facilities and devices by using modern technologies. We offer contractual ways of maintenance of power facilities and devices, we execute measurements according to EDISON and EDISON PLUS programs, we offer competitive services in new constructions, we perform other current and planned maintenance work, we execute live work on devices and lines of low-voltage, as well implement other electrical installation works and services.
- **Implementation of various types of measurements** (calibration of protection, measuring of electrical quantities, measuring of power cables) and
- **Other market services** (rental of power devices).

Services for users

We communicate with our customers through different communication channels, the main ones being the following:

- traditional mail,
- electronic mail (info@elektro-gorenjska.si), where we collect offers of different companies as well as user letters (applications, claims, complaints, etc.),
- e-services, which can be accessed on the website www.elektro-gorenjska.si, through which users can arrange matters in the field of network activity; they can obtain data on past consumption, submit consumption and other;
- call center for elimination of failures on network (phone 04/2083-333), 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 information on interruptions of electricity supply and estimated time of fault rectification.
- 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.

7.2 ELECTRICITY BUYERS AND CUSTOMERS

The strongest influence to formation of marketing strategy in selling electricity is exerted by the development of electricity market and a stronger influence of the competition, which reflects mostly in considering the requests and expectations of the customers. Good knowledge of the customers and factors influencing their choice of supplier (price, payment terms, reliability of supply, customer support, offer of additional services, possibility of purchasing ecologically clean energy sources, and other), is of key importance.

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

In year 2012 we supplied electricity to 77,812 customers mainly in the region of Gorenjska. They are categorized in business customers and household customers. Following is the presentation of the number of customers by years.

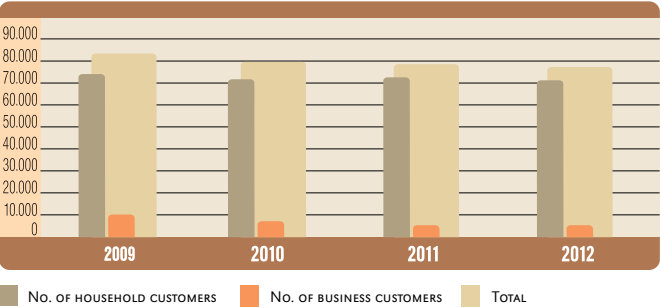


Figure 31: Number of Elektro Gorenjska Prodaja Company customers

Business customers

Customers in this group can freely choose the most favorable electricity supplier since July 1 2004. In balance subgroup of Elektro Gorenjska Prodaja this segment represents 12.3 percent share of all measuring points or 62 % of final electricity consumption.

According to the quantity of the consumption they are categorized into three categories:

- large industrial or key customers,
- medium sized companies and
- small crafts and trades and other business customers.

Customers of the categories of large industrial and medium sized companies are dealt with individually, they have their own administrator, and their offers are formed in accordance with their wishes and needs. For the company category of small crafts and trades and other business customers is of extreme importance, as here pressures to prices in offer formations are smaller.

Household customers

Customers in this segment can freely choose their electricity supplier since July 1 2007. With the complete opening of the electricity market as of July 1 2007 the efforts of the company in the field of satisfaction of the customers have increased. Household customers are offered new services, which enable simplified operation and stimulate them to efficient use of electricity and use of renewable energy sources. In year 2009 the household customers were offered a new package I spend, what I need (Porabim, kar rabim) and an economy program 10 steps to a more efficient electricity use (10 korakov do učinkovitejše rabe električne energije), while in year 2010 we offered the Re-energy Services – affordable sun collectors, heat pumps, and biomass boilers. Additional offers for purchase of heat pumps and electricity from renewable sources Blue Energy for heat pumps were presented in year 2011. In year 2012 we simplified the offer, discontinued addition for high consumption and enabled customers to ensure themselves unchanged prices for a selected period

with our new package Lock the prices! (Zakleni cene!), until the end of year 2012, 2013 or 2014. We also presented our loyalty program, through which we offered additional benefits to our customers in cooperation with business partners.

Main goal of the company is to maintain the competitiveness in both segments with a focus on key factors of choice in individual categories.

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

In the segment of household customers the company mainly strives to form quality and competitive offers in order to maintain its market share. Despite changed market conditions we managed to keep majority of our customers.

7.2.1 SERVICES FOR BUSINESS CUSTOMERS

Besides sale of electricity Elektro Gorenjska Group in year 2011, in accordance with its mission, offered its business customers also additional services, adapted to their needs. Business customers have been able to select among various packages of data and advisory services. They could also decide for purchase of electricity from renewable sources.

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

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

Consultancy services are divided in two packages:

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

Through counseling we execute detailed calculations and analysis of consumption for the customers. Calculations include estimated costs of electricity for the following period and possibilities of rationalization of consumption and costs.

Blue Energy

In year 2012 we stimulated customers to purchase the Blue Energy and offered them the possibility and choice to contribute themselves to a cleaner environment and reduction of greenhouse gases, which are main causers of global warming of our planet. Blue Energy is a brand of energy acquired from renewable sources of large Slovenian rivers. Holder of the brand is Holding Slovenske elektrarne, Elektro Gorenjska Group has the role of an agent in sale to end buyers. Buyers, who decide for Blue Energy, pay an addition to the price of electricity. Funds are collected in the Blue Fund. Blue Fund is intended to promote energy generation from renewable sources, research in the field of promoting the energy production from renewable sources, and for the renovation and building of units, which generate energy from renewable sources.

YEAR	No. of BE BUYERS	QUANTITIES OF BE
2009	245	1,811,291
2010	256	1,174,251
2011	272	3,287,282
2012	219	7,145,075

Table 17: Number of business customers of Blue Energy brand

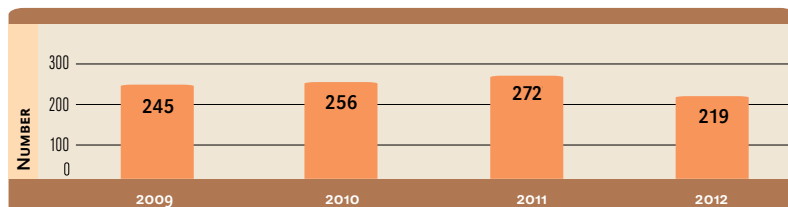


Figure 32: Number of business customers of Blue Energy brand by years

7.2.2 SERVICES FOR HOUSEHOLD CUSTOMERS

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

Package Lock the prices!

In year 2012 we presented renovated offer for household customers. New offer is simpler and more transparent. Number of packages was reduced from eight to four.

Complete novelty in the offer is action package Lock the prices! With this package from February 1 to April 30 2012 the customers were able to ensure unchanged prices of electricity for the period they selected, until the end of year 2012, 2013 or 2014. There were 111 of such customers.

Re-energy package

We have been offering Re-energy services since the cancelation of the Re-energy Fund contribution – electricity from renewable sources in year 2010. Re-energy Services thus join the offer of the group in the field of renewable sources utilization, which we prepared together with our partners. They are intended for the individuals, who are prepared to participate actively in the attitude towards our environment.

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

Current offer in year 2012 included:

- solar systems Bramac,
- heat pumps Atlas and Thermia, and
- electric scooters Tomos e-Lite.

Buyers of heat pumps in the Re-energy package were offered for a limited time from September 1 to December 31 2012 also a financial incentive of up to 200 EUR for the purchase of heat pumps for hot water and from 1,000 to 1,500 EUR for the purchase of heat pump for heating. This way we maintained interest for the offer even after the suspension of the financial incentive grants from the Eco Fund.

I spend, what I need and economy program

We are the only electricity distributors that rewards its household customers for more efficient use of electricity. Ever since year 2009 our household customers have been offered an economy program I spend, what I need – 10 steps to efficient electricity use, which was prepared in cooperation with the Energy Efficiency Center at the Jožef Stefan Institute. Within the economy program I spend, what I need we explain our household customers what are the biggest consumers of electricity in their households, and how and how much they can save with their use. In order to help them monitor and control their electricity consumption we have prepared for our customers also control chart and chart for daily monitoring of consumption. With these prepared measures we direct them on their way towards more economical power consumption.

Economy program I spend, what I need is supported by a web application (www.porabimkarrabim.si). With the help of this application customers can quickly establish what type of electricity consumers they are compared with the average comparable household in Slovenia and what would be the effects of assuming the habits of more efficient electricity use. They can enter their daily meter status into the web application and monitor what was going on with their electricity consumption at the daily consumption of various household appliances.

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

Due to the benefits brought to the customers by the package, there were already 9,100 customers who responded and monitor their electricity consumption monthly as well as implement economy measures.

Household customers are offered also rental of electricity consumption meters free of charge.

Blue energy for heat pumps

In year 2011 we acceded to the all Slovenian Blue energy for heat pumps campaign in order to enable the benefits of the campaign to our household customers as well. Blue energy for heat pumps campaign, which took place in year 2012 as well, is intended to promote efficient heating and cooling with renewable energy sources. It takes place within the campaign "You are the energy, be efficient", whose initiator is Holding Slovenske elektrarne, while campaign's manager is Informa Echo.

Campaign took place on web portal www.pozitivnaenergija.si, where customers could get acquainted with participating heat pump sellers and heat pumps on offer. In year 2012 the offer included also heat pumps for domestic hot water. Household customers could purchase heat pumps with discounts from 5 to 13 % during the campaign. With the purchase they received a voucher for cheaper electricity which they could claim with their electricity supplier in order to charge them with electricity according to the prices of the Blue energy for heat pumps package. In the package customers obtained 10 % discount on the price of electricity in their own basic package for the period of two years and got Blue energy for the price of regular one. When they bought heat pumps for domestic hot water, discount on electricity price amounted to 5 % for two years.

Simplified methods of operation

eStoritve – Web application, which household customers have access to at www.eg-prodaja.si, offers complete overview and control over electricity consumption on individual measuring point. Customers can use the web application to make out an informative calculation of used electricity, review of made out charges and received payments in the current accounting period, check the technical data of their measuring point, register to non-advance payment method of electricity accounts, submit their meter readings for electricity account, review electricity consumption at the measuring point, register for e-bill and archive of received e-bills and make out control bill and a copy of the bill, as their use of the web application is free of charge. In year 2012 web application was used by 5,150 customers.

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

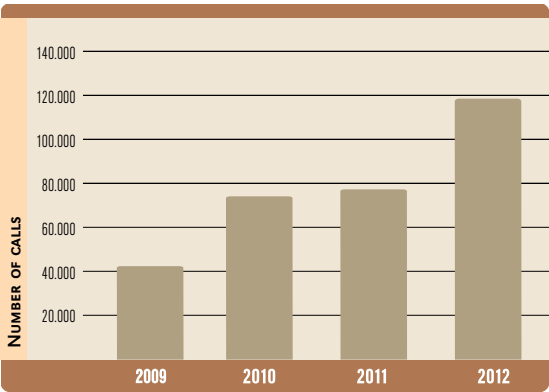


Figure 33: Number of calls to the call center according to years

Customer communication

In communicating our services and products we have used different communication tools: from advertising, sale promotion, and direct ways of communication – using the back sides of the bills and presentations at local events to web sites www.eg-prodaja.si, www.porabimkarrabim.si and www.reenergija.si. In the first quarter of year 2012 the company mostly advertised the new action package Lock the prices! (Zakleni cene), while in the remaining part of the year the two packages I spend, what I need (Porabim, kar rabim) and Re-energy (Reenergija).

Development of new services

Customer satisfaction comes first. In year 2012 we ordered two researches, namely the Satisfaction and attitude to ELEKTRO Gorenjska Prodaja brand and Mystery buyer, which helped us in forming customer friendlier services. In developing new services our main guide is competitive and quality offer tailored for various categories of customers.

Procedure for dealing with complaints: In year 2012 we presented two-step procedure for dealing with complaints. When customer is not satisfied with the response to the complaint on the first level, their complaint will be considered by an independent and impartial party on the second level of the extrajudicial procedure.

Loyalty program: We appreciate loyalty and trust of our customers. In the framework of quality and competitive offer to household customers they are offered an opportunity for favourable purchase and additional benefits in electricity price. Existing offer was upgraded in year 2012 with a loyalty program, within which we have offered the customers in cooperation with our business partners, special benefits for their break in Terme 3000 in Moravske Toplice, Terme Banovci and Health spa Radenci, as well as for active free time activities in Summer Park Krvavec.

In the month of October within the loyalty program we presented a more lasting offer of favourable purchases of energy saving household appliances with five year quality guarantee in GA branches. Customers could save from up to 100 to 140 EUR for the purchase of an appliance, and they also received a voucher for electricity in the amount of up to 40 EUR. Skillful managers were able to upgrade the special prices of energy saving household appliances with the benefits in the I spend, what I need package, where customers are rewarded for more efficient electricity use.

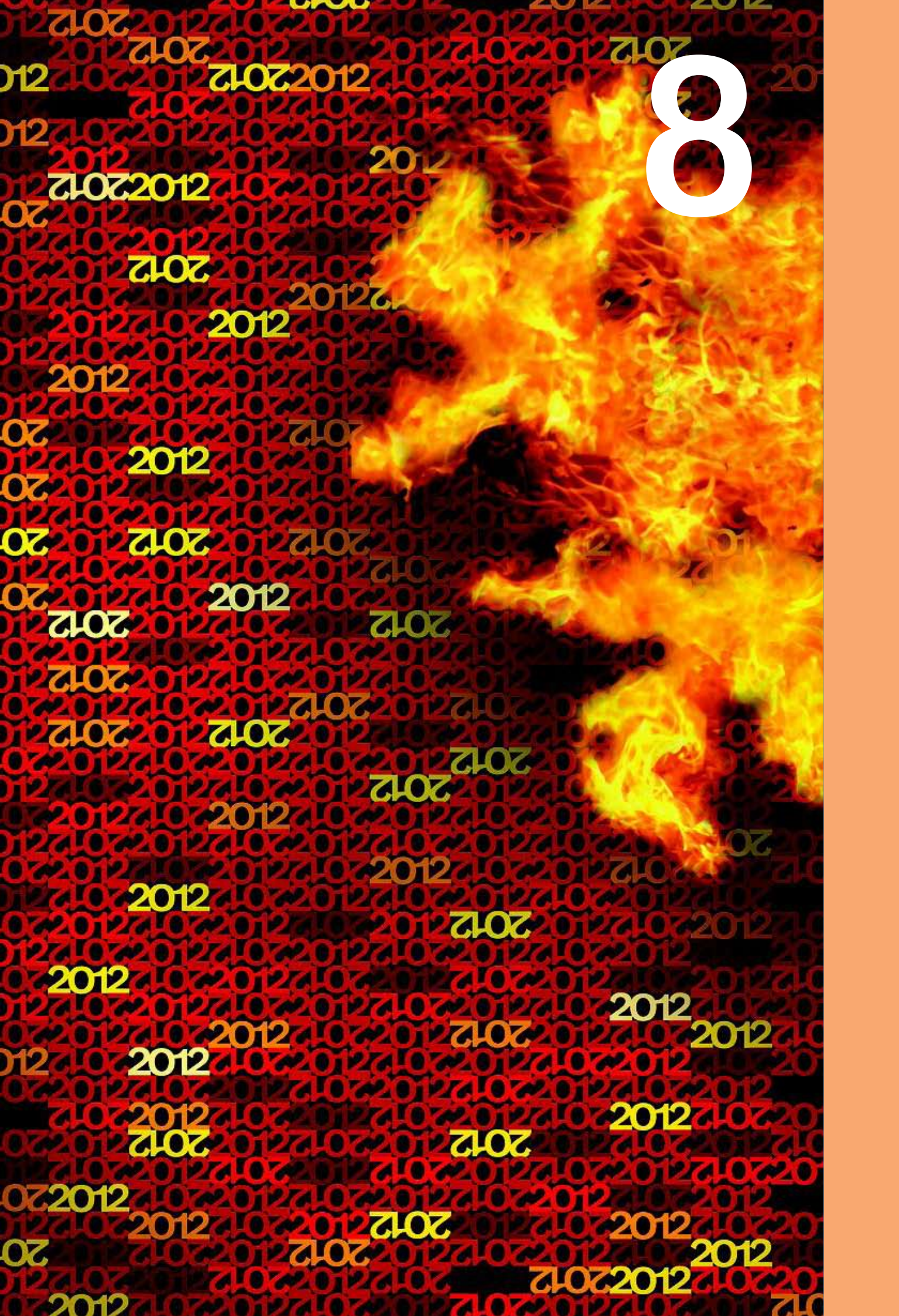
Loyalty program will be supplemented in year 2013 with additional offer and even more benefits for household customers.

Renovation of the economy program I spend, what I need – 10 steps to efficient electricity use: In cooperation with Jožef Stefan Institute we modernized the economy program from year 2009 with current structures of electricity consumption in households, new technologies and electricity prices. We also prepared a new set of power consumption efficiency indicators, which will give the customers even more comprehension on their energy use. Updated website www.porabimkarabim.si and the brochure will be presented to customers in year 2013.

Web application Moj EGP: In year 2012 all web services of Elektro Gorenjska Prodaja, including electronic reporting of monthly meter status, will be transferred to the new application called Moj EGP. Web application Moj EGP will join electronic services of web portals Porabim, kar rabim and eStoritve. With this we will offer all our users equal electronic services in one place.

With year 2013 Elektro Gorenjska Prodaja is introducing cofinancing of investments in energy efficiency of facilities. In the framework of "Program to achieve energy savings" there will be 400,000 EUR available for replacement of boiler room equipment, for the transition to renewable energy sources, energy reconstruction of lightning and for implementation of energy checks on the facilities and measures of informing or raising customer awareness. Non-refundable funds will be granted by Elektro Gorenjska Prodaja based on several public tenders. First tender is expected to be published in the beginning of March. Program will be explained in more detail at the Renewable Sources and Efficient Energy Use Forum, which will take place in Bled on March 20 2013. Public tenders for individual program units will be published in the Official Gazette of the Republic of Slovenia, on websites and in the media. Tender may stand for legal entities and entrepreneurs established in the Republic of Slovenia, which intend to implement initial investment in projects of efficient use and renewable energy sources. Expected amount of non-refundable funds is about 20 % of eligible costs in investment interventions and 50 % in advisory services.

8



8. INFORMATION SUPPORT AND DEVELOPMENT

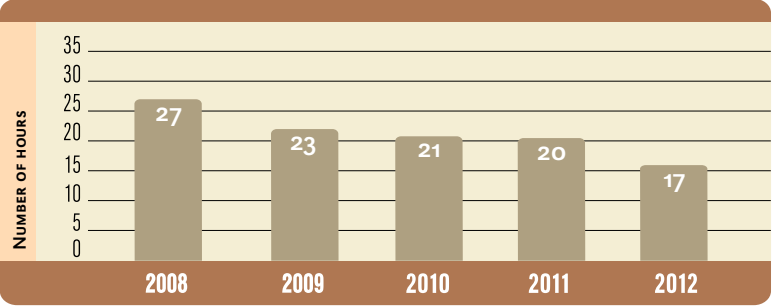
Also in year 2012 Elektro Gorenjska Company provided for an appropriate information support. It included:

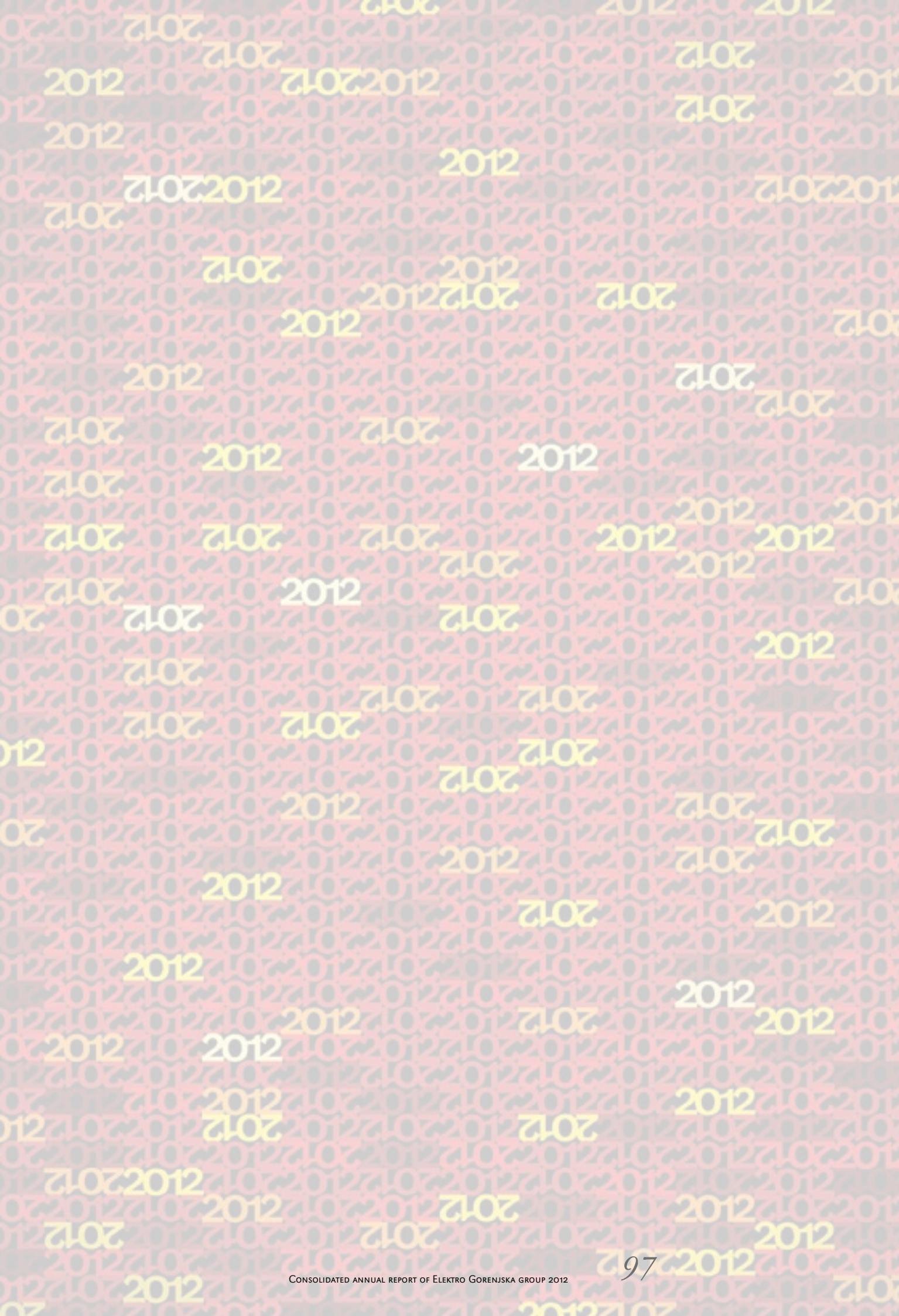
- renovation of internal website (Središče EG),
- offering IT support in information independence of the subsidiary,
- introduction of the new system for system backup,
- beginning of the pocedure for withdrawal of paper in changing the meter,
- upgrade of the application for work with PDAs (MFW).

In year 2012 aimed at higher efficiency of the employees we successfully established the following information technologies:

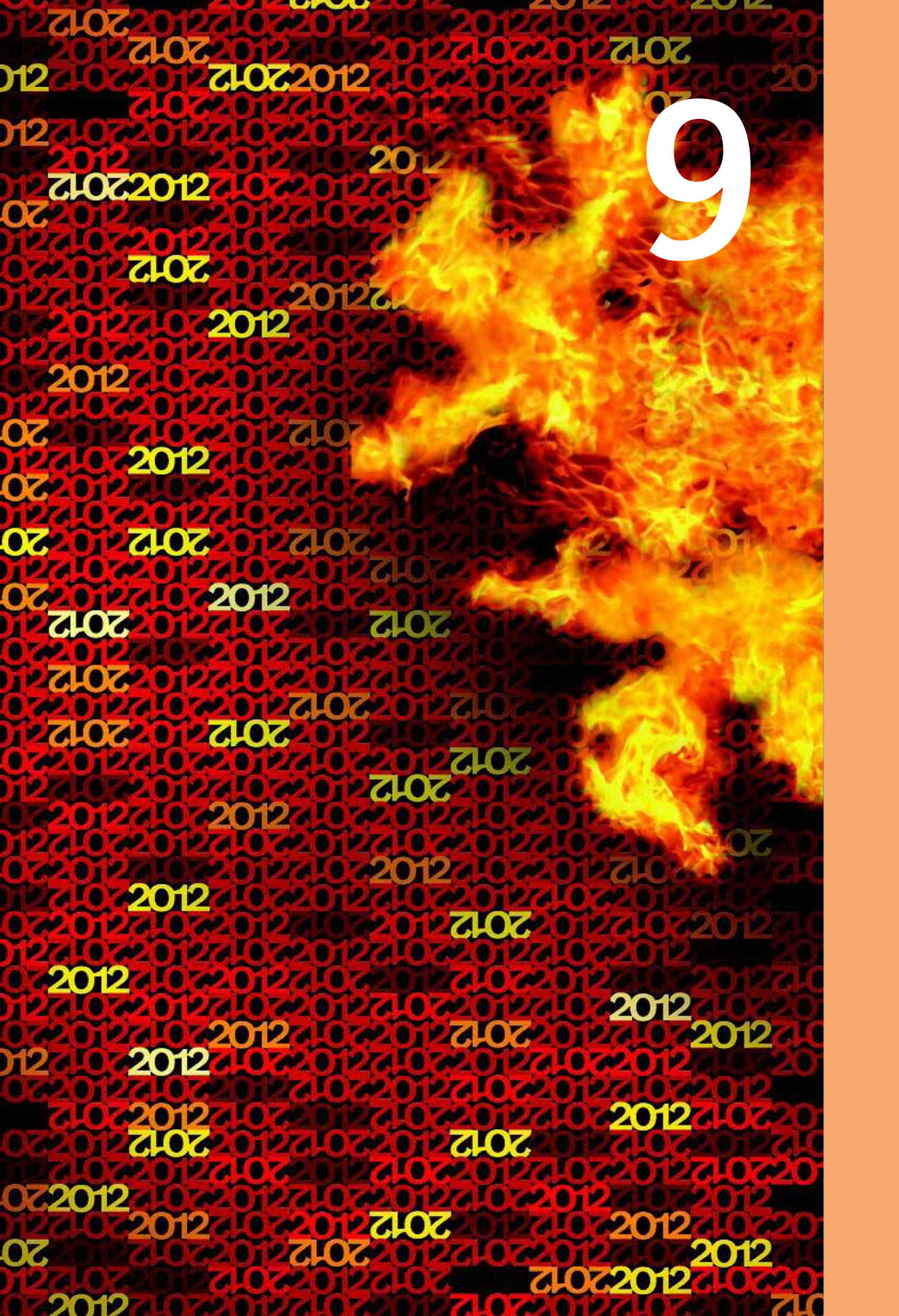
- installation of the systemic room at the backup location (Žirovnica),
- replaced handheld terminals on all local inspectorates,
- introduced automatic archiving of data,
- realized purchase and installation of SAN,
- realized installation of the first Wimax system.

Figure 34: Number of hour failures on the part of information support operator, Informatika Company, from year 2008 to year 2012, for Elektro Gorenjska Group





9



9. SUSTAINABLE DEVELOPMENT

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

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

9.1 CARE FOR EMPLOYEES

Important point of view in employment is to get professional and ambitious colleagues. Enabling new challenges, personal initiative, promotion, education and training are factors we use continuously to try and attach the co-workers to the company and convince them to stay. As a learning organization we stress equality, open information, and organization culture, which stimulates cooperation and with it occurrence of ideas anywhere in companies, 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 company to experiment all the time, improve and increase its capacities, while their employees to reach their own and consequently also joint goals.

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

- we are family friendly companies,
- with scheduled employment and education we raise educational structure of our employees above the set goal,
- we carry out workshops in the field of management and communication,
- at the website of the human resources employees are offered answers to frequently asked questions and the website is also regularly updated,
- we enable electronic completion of personnel forms,
- employees have a direct link to the website with useful advice for MicroSoft Office users,
- all employees can access annual interview training videos.

9.1.1 DEMOGRAPHIC STRUCTURE

On December 31 2012 Elektro Gorenjska Group had 334 employees. Compared to the situation as of December 31 2011 the number of employees increased by 1 worker. In year 2012 we have had a total of nineteen terminations of employment and twenty new employments. During the year two female workers changed their employer within the group.

At the end of year 2012 the group had 6.59 % employees employed with fixed-term employment, which is a bit more than in year 2011, but a lot less than in the previous years.

One of the female workers decided for reduce part-time employment due to the parental leave, one was employed for part-time. All other employees had a contract for full-time employment.

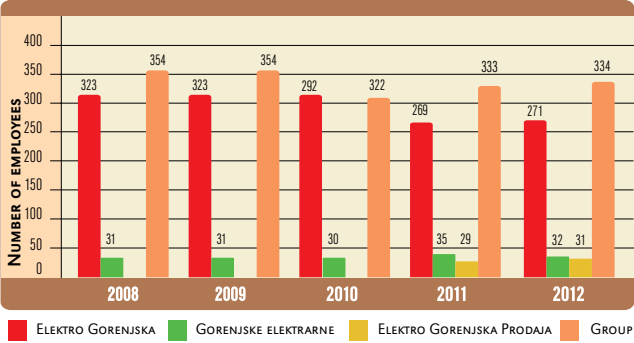


Figure 35: Changes in the number of employees in the period from 2008 to 2012

At the end of year 2012 there were 72.5 % of men and 27.5 % of women employed in Elektro Gorenjska Group which is entirely comparable with the previous years and closely connected with the primary activity of the two companies. Gender ration in Company Gorenjske elektrarne has been derogating from groups' data every year, as this company has predominantly male population employed.

Average age of employees in the group is 41.4 years, which is slightly lower according to the previous years. This is connected with the higher number of employment terminations of older employees due to retirements. Analysis of groups of employees according to age shows that Elektro Gorenjska Group has the most employees in the age group between 46 and 45 years, namely 33 percent of all employees. Older age structure in Gorenjske elektrarne Company has the strongest impact on older age groups as there 56 % of all employees belong to the age group between 46 and 55.

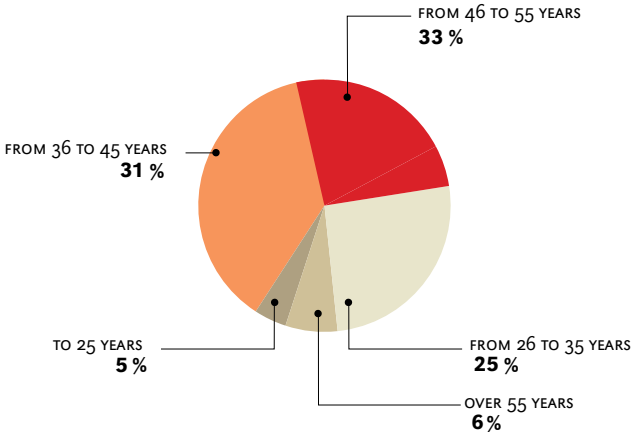


Figure 36: Shares of employees in Elektro Gorenjska Group according to age groups

	ELEKTRO GORENJSKA		GORENJSKE ELEKTRARNE		ELEKTRO GORENJSKA PRODAJA		GROUP	
	2012	2011	2012	2011	2012	2011	2012	2011
AVERAGE NUMBER OF EMPLOYEES	272	269	34	35	31	24	337	328
AVERAGE AGE (YEARS)	41.3	41.4	46.6	46.8	36.4	36.9	41.4	41.6
AVERAGE YEARS OF SERVICE IN THE GROUP	16.5	16.8	21.4	20.5	10	10.4	16.2	16.7

Table 18: Elektro Gorenjska Group employee information for the period from 2011 to 2012

9.1.2 EMPLOYMENT

Human resources planning is a constituent part of strategic and annual plan of the company. Human resources in the group are planned in accordance with these goals by an annual economic plan and implementation plan of human resources and education. New employees are won by invitations to tenders and publications on web sites. All job applications send by jobseekers are saved and used when there is a need to recruit new employees.

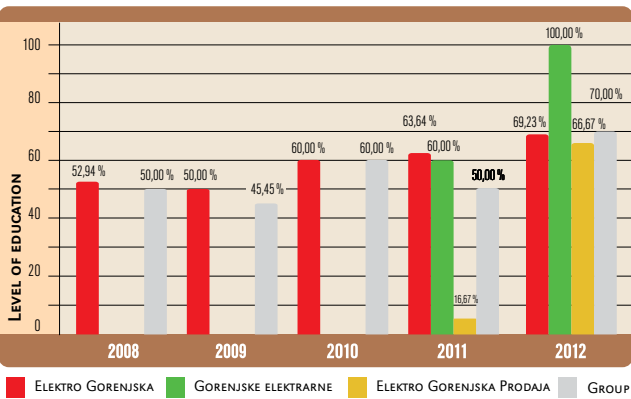
With the purpose of better recognition of job-seekers and possibility of candidate selection we have prepared an employment questionnaire, which can be found on the company's web site.

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 in the last year 70 % of the new employees had higher, professional or university education or master's degree.

In Gorenjske elektrarne there are still most people employed in the field of operation of production and maintenance of production facilities, for which vocational and high-school education are sufficient. Development and design in the last years have been in the volume, which the existing employees in Gorenjske elektrarne could control, so there were no needs for employment of staff with higher and university level. With the expansion of activity of electricity production from renewable sources the volume of employments with higher levels of education has already increased in the last two years.

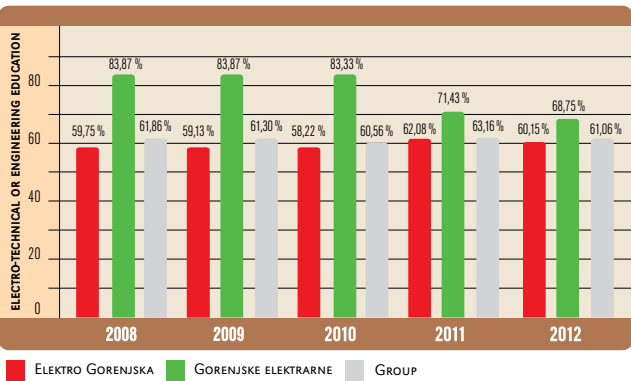
In Elektro Gorenjska Prodaja in the previous year percentage of newly employed candidates with higher levels of education increased sharply.

Figure 37: Share of new employees with at least high professional level of education at the time of employment



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

Figure 38: Share of employees with electro-technical or engineering education



In the event that we have a vacancy for the position where no work experience is required we often employ students or pupils that have already done the internship or holiday jobs in our companies. In year 2012 twenty new employments included three scholarship holders and six students that have already met the individual company during their studies and we got to know their capacities and willingness for work.

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. In year 2010 the fluctuation rate was extremely high due to a great number of retirements, which were not replaced by new employments. In year 2011 the rate fell back to the level of previous years. As Gorenjske elektrarne and Elektro Gorenjska Prodaja are small companies in terms of the number of employees, every employment termination, which is not replaced by a new employment, has a great impact on the higher percentage of fluctuation, which reflects in both companies in year 2012.

	2008	2009	2010	2011	2012
ELEKTRO GORENJSKA	2.69 %	3.00 %	12.31 %	2.54 %	3.90 %
GORENJSKE ELEKTRARNE	6.06 %	3.13 %	6.25 %	0.00 %	11.10 %
ELEKTRO GORENJSKA PRODAJA	-	-	-	2.54 %	11.40 %
GROUP	3.00 %	3.01 %	11.54 %	2.06 %	5.38 %

Table 19: Fluctuation rate in Elektro Gorenjska Group

9.1.3 EMPLOYMENT OF PERSONS WITH DISABILITIES

As at December 31 2012 there were eight disabled persons employed in the group. In accordance with the statutory quota of employing disabled persons, which amounts to 5 % in Gorenjske elektrarne and Elektro Gorenjska Prodaja and 6 % for Elektro Gorenjska, the group would have to employ approximately twenty disabled persons. In year 2012 by signing the contracts with social enterprises companies Elektro Gorenjska and Gorenjske elektrarne made use of the possibility of claiming replacement quota fulfillment for thirteen disabled persons. We plan to continue with this practice in the future years too.

	ELEKTRO GORENJSKA		GORENJSKE ELEKTRARNE		ELEKTRO GORENJSKA PRODAJA	
	2012	2011	2012	2011	2012	2011
NUMBER OF EMPLOYED DISABLED PERSONS AS AT 31. 12.	7	7	1	1	0	0
NUMBER OF DISABLED PERSONS FOR CONTRIBUTION AS AT 31. 12.	9	9	1	1	2	2
AMOUNT OF CONTRIBUTION IN YEAR	57,153	54,669	1,602	4,713	11,751	6,076
NUMBER OF REALIZED DISABLED PERSONS IN YEAR, BASED ON CONTRACTS WITH SOCIAL ENTERPRISES	4	4	9	3	0	0

Table 20: Information on disabled employees

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

9.1.4 EDUCATION AND SCHOLARSHIPS

Investing into knowledge is investing into the future that is why the group devotes a lot of attention to appropriate development of human resources. By offering them possibilities of education and other forms of training we foster a caring relation to employees. Employees, who are noted to be lacking efficiency due to unsuitable qualifications, are directed to appropriate educations and trainings.

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 increasing interest for education.

We are proud of our colleagues, who finish education and acquire higher level of education along with their working and family obligations. If only possible, we enable them work at a more demanding position, where new knowledge can be used and they are able to invest into their own progress and the progress of the company. In year 2012 higher level of education was acquired by 211 employees. Some of them have paid for the education themselves.

Table 21: Education in the period from 2010 to 2012

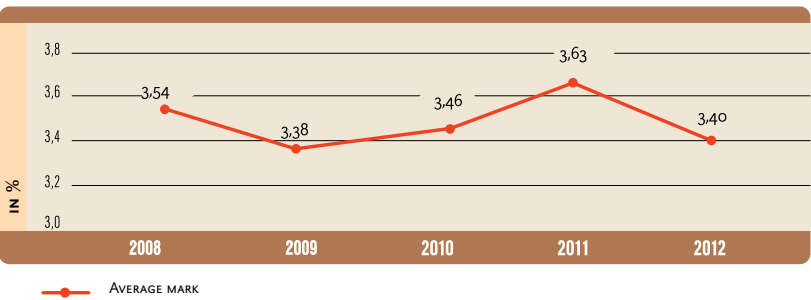
ITEM DESCRIPTION	2010	2011	2012
EMPLOYEES ON TRAININGS (%)	84.93	51.65	80.42
NUMBER OF TRAINING DAYS PER EMPLOYEE	2	2.52	2.28
COSTS OF EDUCATION AND TRAINING PER EMPLOYEE (IN EUR)	452	460	459
NUMBER OF EMPLOYEES ACQUIRING HIGHER LEVEL OF EDUCATION ON THE BASIS OF EDUCATION CONTRACT	40	40	34
NUMBER OF SCHOLARSHIP HOLDERS	10	5	3

In year 2010 most of the employees took part in the education for transfer to Office 2010, while in year 2012 there were trainings for use of internal applications and trainings in the field of safety ad health at work, which is why in these two years we record such high percentage of employees on training.

With a purpose of having an organiued collection of data in the field of trainings and as a result quality data and analysis, we prepared a form »notice of application for training« in electronic form which employees have to submit to human resources every time they apply for training.

After the completed training employees complete a survey, which establishes the satisfaction of participants with the training. Analyses have shown that employees are satisfied with trainings they are directed to, as average marks on the scale of 1 to 4 have been moving above the mark 3 since year 2005. Besides that employees after completing the education write a report on education, where new skills are described in order for all the interested to get acquainted with them.

Figure 39: Satisfaction of employees with their trainings



We promote self-learning, research, and transfer of knowledge. In the past years we have also started with arrangement of the library of materials that employees get on their seminars and other types of trainings.

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 22: Educational structure of employees in Elektro Gorenjska Group as at 31. 12. 2012

	ELEKTRO GORENJSKA		GORENJSKE ELEKTRARNE		ELEKTRO GORENJSKA PRODAJA		SKUPINA	
LEVEL OF EDUCATION 31. 12. 2012	Number	Structure (%)	Number	Structure (%)	Number	Structure (%)	Number	Structure (%)
DOCTORAL LEVEL (9)	1	0.4	0	0.0	0	0.0	1	0.3
MASTER'S DEGREE (8)	12	4.4	1	3.1	3	9.7	16	4.8
UNIVERSITY LEVEL (7/2)	47	17.3	6	18.8	6	19.4	59	17.7
GRADUATE LEVEL (7/1)	35	12.9	5	15.6	5	16.1	45	13.5
POST-SECONDARY LEVEL (6)	44	16.2	2	6.3	4	12.9	50	15.0
SECONDARY LEVEL (5)	81	29.9	12	37.5	13	41.9	106	31.7
THREE-YEAR VOCATIONAL LEVEL (4)	49	18.1	5	15.6	0	0.0	54	16.2
TWO-YEAR VOCATIONAL LEVEL (3)	2	0.7	1	3.1	0	0.0	3	0.9
PRIMARY SCHOOL (1)	0	0.0	0	0.0	0	0.0	0	0.0
TOTAL EMPLOYEES	271	100	32	100	31	100	334	100

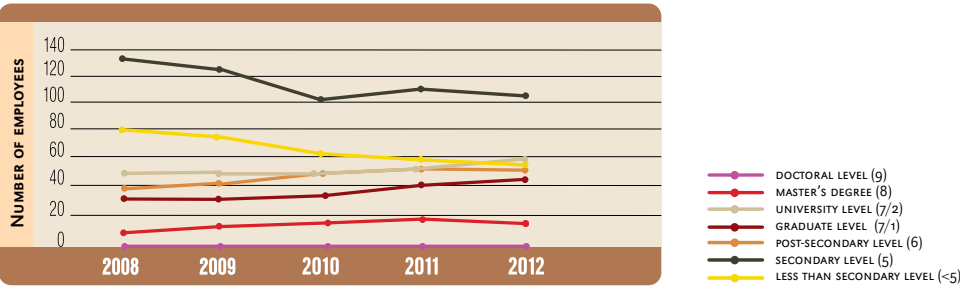


Figure 40: Changes in educational structure in Elektro Gorenjska Group according to years

Average level of education in Elektro Gorenjska Group as at December 31 2012 amounted to 5.95 - with level 5 representing high-school education. Gorenjske elektrarne Company has all these years had somewhat lower level of average education, as smaller share of employees there holds a graduate or university level of education. Average level of education in Elektro Gorenjska Prodaja is very high.

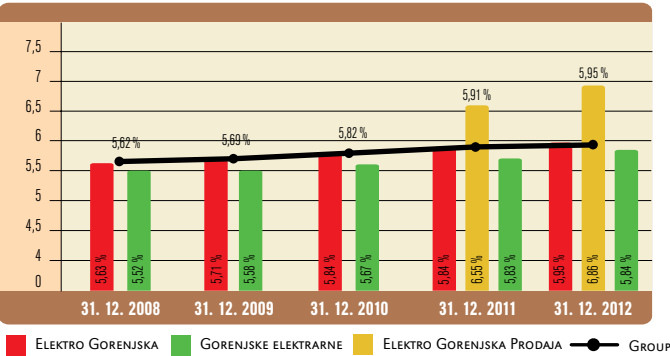


Figure 41: Average level of education in Elektro Gorenjska Group

9.1.6 SCHOLARSHIPS

In year 2012 we gave scholarships to three students. All scholarship holders were acquiring electro-technical education. Two scholarship holders were receiving scholarships through Gorenjska region Scholarship Scheme and Slovene Human Resources Development and Scholarship Fund, which provide us with 50 % of the scholarship funds.

9.1.7 EMPLOYEE MOTIVATION AND REMUNERATION

Offering privileges is one of the segments in employee remuneration whose aim is to increase employee satisfaction and improve the quality of work. Employee remuneration is connected also with reassignments, employment policy and strategy. 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. Each year, occupancy of more demanding positions has been increasing. Changes are much more frequent in Elektro Gorenjska Company than in its subsidiaries due to diversity of activities and higher number of employees. In the past year 23 workers were promoted to more demanding positions of employment, which is almost seven percent of all employees in the group.

In year 2012 we did not search for candidates for the six managing positions outside the group, but we gave the opportunity to already employed workers. If only possible, we listen to the colleagues, who wish to change their 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 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.

Employees are paid long-service awards. In accordance with the social responsibility all employees that donate blood are enabled to take part in blood donor campaigns and get an additional day of extraordinary paid holiday twice a year according to the workers contract.

9.1.8 ANNUAL INTERVIEWS

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

Reasons for the implementation of annual interviews in Elektro Gorenjska Group are:

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

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

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

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

9.1.9 EMPLOYEE SATISFACTION AND COMMITMENT

We are aware that a company is a living organization, with workers in it being the key factors. Important contribution to the success of the company is given by the quality of the work done by each individual. Quality of work depends on the satisfaction and commitment of the employees as well. Feedback on comprehension of a working environment and relations in Elektro Gorenjska and Elektro Gorenjska Prodaja is received from employees also by anonymous survey on the satisfaction and commitment of employees, which are carried out every three years. In the future survey will be expanded to Gorenjske elektrarne as well.

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

Education of heads and continued emphasis and spread of the significance of communication definitely reflected in even higher scores in year 2012 in the field of management, communication and internal relations.

Figure 42: Average scores in the fields of the survey

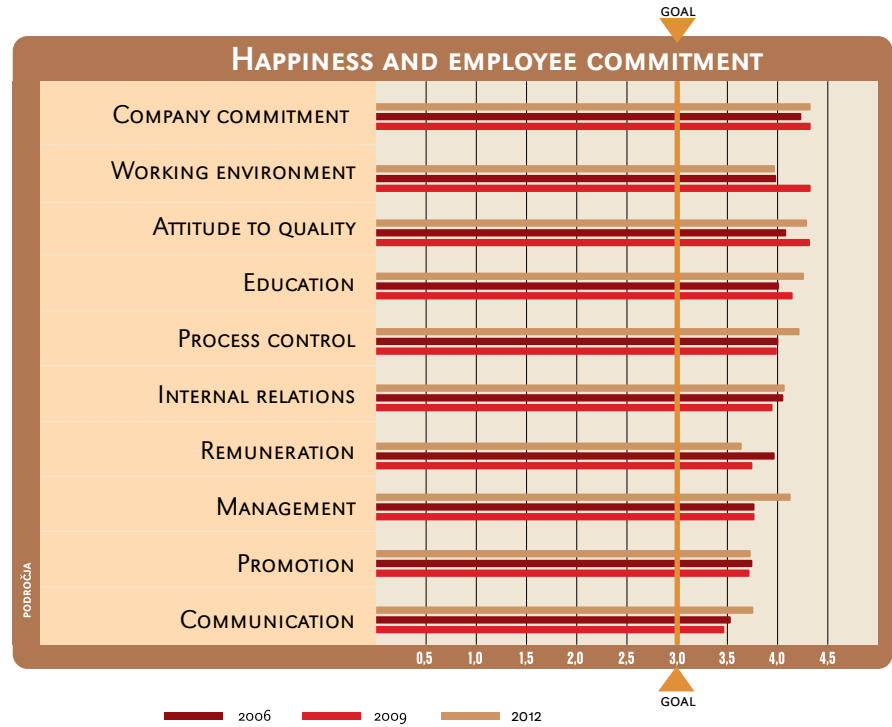


Figure 43: Commitment of employees in Elektro Gorenjska and Elektro Gorenjska Prodaja



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

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

We certainly contributed to the increase of the employee satisfaction by acquiring the basic certificate Family-friendly Company. Subsidiaries did not accede to obtain the certificate, but they both signed a mutual agreement and bound to implementation of all measures Elektro Gorenjska Company adopted. Project group with ten employees from different areas of work and different age groups, meaning with different needs for balancing the career and family lives, made a selection of 14 measures, which the group will introduce until the middle of year 2014.

9.1.10 EMPLOYEE ABSENCE

Absences due to sickness fall into different categories. The most basic division is according to whether they are charged to employer or not. In year 2012 in Elektro Gorenjska and Gorenjske elektrarne there were fewer absences due to sickness than in the past years. If there is somewhat more of a certain absence in Elektro Gorenjska Prodaja average absence per employee increases sharply due to smaller number of employees in this company. In this company long lasting sickness of a worker and his or her year long absence represents 36 percent share in absences due to sickness.

	ELEKTRO GORENJSKA		GORENJSKE ELEKTRARNE		ELEKTRO GORENJSKA PRODAJA	
SICK LEAVES IN YEAR	2012	2011	2012	2011	2012	2011
NON-REFUNDED SICK LEAVE (DAYS)	1.289	1.460	212	227	290	160
REFUNDED SICK LEAVES (DAYS)	526	1.010	17	108	268	133
AVERAGE NUMBER OF SICK LEAVE DAYS / EMPLOYEE	6.70	8.70	6.74	9.57	17.97	11.27

Table 23: Absences due to sickness in individual year

Besides sick leaves employees also use maternity, paternity and parental leaves. Taking in account sick leave absences and stated leaves in year 2012 average absence from work per employee in Elektro Gorenjska amounted to 8 days. In Gorenjske elektrarne Company there were no absences due to stated leaves in year 2012. In Elektro Gorenjska Prodaja maternal and parental leaves represent almost 41 % share in all mentioned absences, which is closely related to the age structure of employees, as 35 % of them belong to the age group of 26-35 years. So sick leave and maternal and parental leave absences in year 2012 in Elektro Gorenjska Prodaja amounted to 30 days per employee.

On average employees in year 2012 had accrued 332 days of regular annual holiday, while on average they used 24 days. They can use the rest of the holiday until March 31 2013.

9.1.11 RELATIONS BETWEEN EMPLOYEES AND MANAGEMENT IN THE COMPANY

Management of Elektro Gorenjska and directors of two subsidiaries pay special attention to cooperation with the trade unions and work council. There are two unions operating within Elektro Gorenjska Group, namely the SDE and EDS. Each company has formed its works council, which provides for appropriate information and chance of submitting the opinions of all employees. Cooperation of both bodies takes place in the form of regular sessions between the company's management and representatives of union and 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 company, 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.

Process of the changed way of operation of Elektro Gorenjska group companies within the project of

a spin-off of electricity purchase and sale market activity required even closer cooperation with the representatives of work council and unions. Both labor bodies have been actively included in the process, while cooperation of the employer with employees and social dialogue were taking place according to the established principles of negotiation and consultation. Representatives of the employees were provided by regular and timely information in accordance with the existing legislation.

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

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

9.1.12 CARE FOR EMPLOYEES AND RELATED GROUPS OUTSIDE WORKING HOURS

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

- we supported the pensioners' association of Elektro Gorenjska company and other interest associations,
- at the end of the year we gave presents to 172 pre-school and school children of up to 10 years of age,
- we enabled the employees to spend their holidays in holiday facilities of Elektro Gorenjska at the seaside, in the hills or spas. In year 2012 we aimed at increasing the number of employees that spend their holiday in our facilities and we reached this objective.

The group also has a Sports Club Elektro Gorenjska, which promotes recreational sports activities with the purchase of annual ski tickets and lease of halls and grounds. Cycling section of the sports club organizes two cycling tours a year, mountaineering section two mountaineering expeditions. We also devote a lot of attention to photography lovers, who upgrade their photography talent in the photographic section. We present our photographic art in the internal gazette and on exhibitions within the companies.

Companies offer also accident insurance for all its employees. Managing and realizing the principle of social security of our employees is part of the group's business policy. One of the segments, which cares 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. Inclusion in the retirement plan (PN1 K) – voluntary supplementary pension insurance – increases social security of employees during the time of their retirement.

Table 24: Inclusion of the employees in the voluntary supplementary pension insurance

	ELEKTRO GORENJSKA		GORENJSKE ELEKTRARNE		ELEKTRO GORENJSKA PRODAJA	
VOLUNTARY SUPPLEMENTARY PENSION INSURANCE (VSPI)	2012	2011	2012	2011	2012	2011
EMPLOYEES INCLUDED IN VSPI (%)	91.14	88.48	100.00	100	70.97	75.86
AVERAGE ANNUAL PREMIUM	1,302	1,293	1,450	1,512	1,376	1,478

Employees of at least 50 years of age, employees with a status of a disabled person or employees with physical impairment (if they are recognized by 60 % or more physical disability), and employees that care and protect a physically and mentally disabled person, are entitled to additional five days of annual leave, which is two days more than the statutory minimum.

For several years employees of the group and retired colleagues can use holiday facilities Elektro Gorenjska Company has at its disposal at the seaside, hills and spa. Every year two calls are published: summer and winter with terms and conditions of the holidays.

Companies offer solidarity aid to employees that are affected by different natural disasters.

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 individual company:

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

Leading a successful internal communication 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 Company 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.

E-monthly Elgo 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 various events and activities foreseen for the next month. Employees have received the monthly very well.

Gazette of electricity generating industries Naš stik, which is published by Elektro Slovenia, offers the employees a wider perspective on comprehension of energy industry we operate in. Our Head of corporate communication is a member of the newspaper council and it is her task to make sure the group is well presented on its pages. Gazette presents also our achievements, good practice examples, awarded innovation proposals and other.

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).

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 invited 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

Safe and healthy working environment is one of the main principles of Elektro Gorenjska Group operation. Health and safety at work management system is regulated systematically with the help of OHSAS 18001 standard, which has been successfully certified since year 2008.

Besides the operation in accordance with the legislation, we have also established efficient mechanisms for recognizing the negative effects and risks, in the framework of which we prepare measures, goals, and improvements.

Health and safety at work council watches over the fulfillment of conditions for safe and healthy work of the employees; it consists of seven representatives of different organizational units. Representatives report on the findings, while employees can follow all operating information in the internal gazette and on the company's intranet, where they can find the legislation, internal rules and instructions for safe and healthy work.

In year 2012 the health and safety at work management system council implemented the following activities:

- We eliminated the deficiencies and irregularities established at the internal and external audit OHSAS 18001.
- We discussed the report on injuries at work for the previous year.
- We discussed the incidents related to safety and health at work and proposed and adopted measures for elimination of irregularities and deficiencies.
- We realized decisions adopted at our sessions.
- We discussed the changes implemented in the Safety statement with risk assessment.

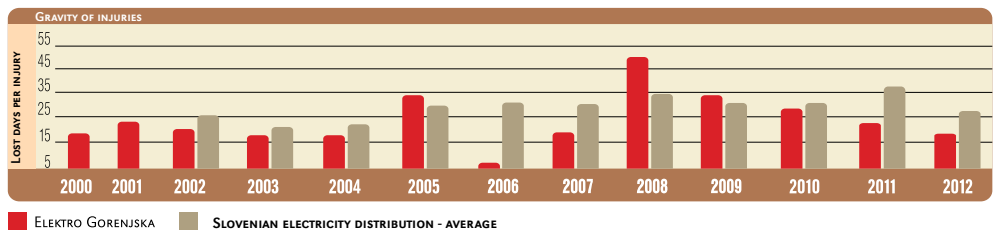
Within the framework of OHSAS 18001 programs the following tasks have been executed:

- We completed two programs, program to reduce the risk due to work in shafts and program to increase fire safety for entire Elektro Gorenjska complex.
- Within the program of reducing the risk due to presence on the road we trained eight drivers of official service vehicles.
- Within the program of reducing the risk in implementing office work we replaced 39 office chairs with ergonomic office chairs.

For monitoring the quality of work of health and safety at work council and service we have five quality indicators. The most important are "gravity" and "frequency of injuries", which are also the basis of comparison with Electric Distribution of Slovenia.

From the charts 44 and 45 we can see that we were very successful in year 2012, as compared to the previous year we managed to reduce the gravity of injuries by 9.3 lost days per injury, as well as the frequency of accidents by 0.24 % of injured workers. Compared to the electricity distribution in Slovenia gravity as well as frequency of the injuries were lower.

Figure 44: Gravity of injuries



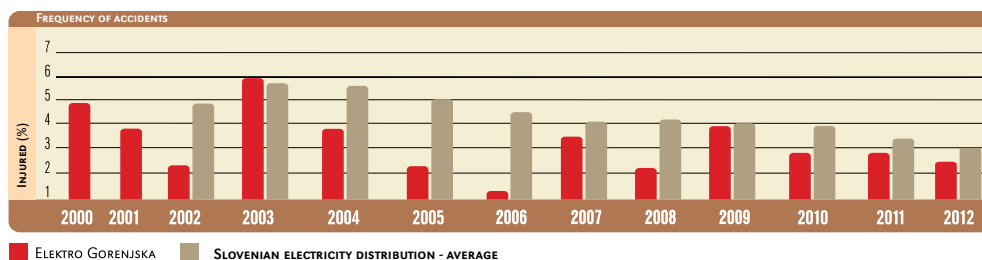


Figure 45: Frequency of injuries

As in years before year 2012 was marked by the economic crisis, which is going to be a challenge for the companies in the group in year 2013 as well. Saving in measures for provision of safety and health at work is certainly not appropriate. The minutest derogation from urgent measures of protecting our greatest value, health, can backfire quickly. In any case in given circumstances it is especially necessary to choose programs and activities, which contribute most to a healthier and safer working environment of the employees.

In year 2013 great attention will be paid to safety training of workers, regulation of fire safety, inspection of work equipment, implementation of medical examinations, purchase of quality personal safety equipment, solving the problems of isolated workplaces, purchase of carbon monoxide detectors for holiday facilities, designation of spaces for fire trucks and program of promotion of health in workplace.

9.1.16 FAMILY-FRIENDLY COMPANY CERTIFICATE

In year 2011 Elektro Gorenjska Company acquired the basic certificate of a Family-friendly company. In all companies of the group last year measures were implemented that were set within the framework of the basic certificate of Family-friendly Company. Please see also chapter 5.

Among activities within the Family-friendly company certificate the following should be exposed:

- we adopted flexible working hours, which enable easier balancing of family and work obligations of our employees,
- parents of the first-graders were enabled a day off on the first day of school,
- parents of pre-school children were enabled easier introduction period of children who are starting attending the kindergarten,
- we appointed an authorized representative to collect and edit the questions and initiatives of the employees within the acquired certificate in the future.

Measures are intended for better human resources management from the viewpoint of balancing the professional and family lives of our employees.

Positive attitude to the Family-friendly Company certificate is demonstrated by high percentage of implementing the adopted benefits.

9.2 CONCERN FOR THE ENVIROMENT

Responsible environmental management as an integral part of corporate responsibility of Elektro Gorenjska Group, is founded on the adopted environmental policy and guidelines for sustainable development. Our main guidelines for this are:

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

9.2.1 ENVIRONMENTAL POLICY

In companies of the group we constantly strive for reduction of impacts of our activities on the environment. By educating and raising awareness we take care that environmental responsibility is respected by all employees as well as our suppliers. Our operations are regularly adapted to the requirements of the environmental legislation. Systematic approach to the environmental management is implemented in the company based on the principles of the international environmental management standard SIST EN ISO 14001:2004 (more in Chapter 5 – Management and quality systems). Implementation of appropriate environmental policy is a responsibility of the Environmental management Council, which is managed by a custodian, while its members are representatives of individual organizational units and are responsible for managing individual environmental aspects and implementation of program aims.

Priority objectives of the Environmental Management Council include:

- 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;
- 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, and
- continuing education of employees.

With consistent implementation of tasks and programs in the long-term we will be able to prevent eventual threats in the field of environmental management and 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 group in all fields.

9.2.2 ACHIEVEMENTS IN THE FIELD OF ENVIRONMENT PROTECTION IN YEAR 2012

In the field of environment protection in year 2012 we paid great attention to individual environmental aspects. Once again we implemented assessment of environmental aspects, reviewed in detail the implementation of the set goals included in individual programs and when needed adopted new programs or updated the existing ones. We followed changes in environmental legislation and

introduced requested measures when necessary. We introduced additional and more efficient quality indicators, which made performance trends in managing the environmental issues even more apparent.

On the recommendation of an external ISO audit we started following also indirect environmental impacts besides the direct ones, they are: consumption of electricity in business premises, consumption of energy for heating (gas, oil) and consumption of vehicle fuel.

Main challenge we set for ourselves in year 2012, besides managing individual environmental impacts and successful re-certification, remains unchanged and represents care for raising awareness among employees on the significance of proper management of the environment. Namely employees and their behaviour have a significant impact on the success in this field.

We cared for a better flow of information among employees with the purpose of better knowledge of the environmental management system. We published a special guide for proper waste separation showing exact location of individual waste disposal. Verification of business processes in relation to compliance with the environmental management system and at the same time informing the employees was implemented in the form of internal audits, where we once again verified implementation of environmental management system on all locations of the company. In March the volunteers participated in the all Slovenian campaign Let's clean Slovenia for the second time. We connected with regional coordinators of Kranj and Škofja Loka municipalities and we cleaned basins of rivers Sora and Sava by the two power facilities, where accumulation of waste is greater. Within the framework of external ISO audit a reassessment of standard ISO 14001 was implemented in October, where evaluators praised the way of working and managing of activities, which are in accordance with the requirements of environment standard.

9.2.3 GOALS IN ENVIRONMENT PROTECTION IN YEAR 2013

In the field of environment protection we will pay great attention to individual environmental aspects also in year 2013. Once again we will implement assessment of environmental aspects, review in detail the implementation of the set goals included in individual programs and if necessary adopt new programs or update the existing ones. Our key goals set for year 2013 are the following:

- We will begin considering the environmental aspect Release of refrigerants from air conditioning systems and establish compliance of group companies with legal provisions in this field.
- In environmental aspect Outpour of domestic and rain water we will, in accordance with the decree adopted in year 2012, determine measures for appropriate drainage in individual facilities and start installing oil traps.
- In program Light pollution of the environment we will make a plan of rehabilitation and elimination of irregularities for years 2013 and 2014 based on the findings from designed projects of light pollution.
- We will approach the process of the delivery of wood waste, which generated in maintenance of routes or clearings in overhead lines, with a purpose of further processing in biomass (wood chips).
- We will provide adequate rising of awareness of the employees on environmental problematics and continue with environmental campaigns within and out of the group.

9.2.4 MANAGEMENT OF VARIOUS ENVIRONMENTAL ASPECTS IN YEAR 2012

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.

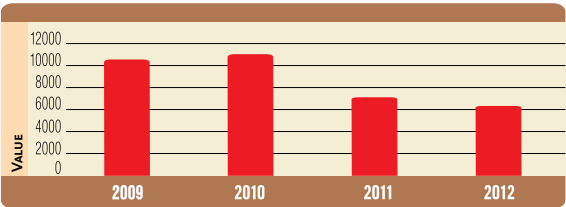
Waste management

In the group we have an organized integrated 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 and an account of financial savings. Similarly organized is also collection of paper and cardboard packaging as well as used toners and cartridges, which are sent for ecologic further processing.

In accordance with the legislative requirements we established in year 2012 a system of separated collection of waste generated in office work (packaging waste, paper, glass, batteries and plastic). Based on the program created in year 2011 we noticed a great progress in this field in terms of awareness as well as way of waste separation among our employees in years 2011 and 2012. In year 2012 all implementation objectives of the program were achieved and as a result program was concluded.

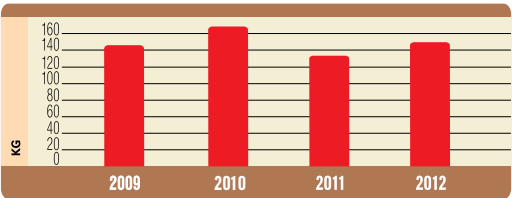
Costs of utilities are followed within the framework of quality indicator, and the trend of cost decrease is presented below. In year 2012 we additionally reduced the costs of utilities by 7 percent compared to year 2011.

Figure 46: Costs of municipal - office waste removal (in EUR)



Since year 2005 we have been collecting toners and cartridges separately. In cooperation with Bitea Company, we have been recycling the waste toners and cartridges. From year 2005 and to the end of year 2012 we collected and sent for recycling 1,113 kg of waste toners and cartridges.

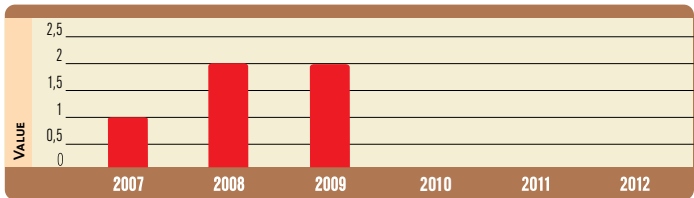
Figure 47: Toners and cartridges (in kilos)



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

In the past years the company has adopted numerous measures in regards of correct storage and transport of dangerous substances; as a result no spills of fuel or oil were recorded in the group companies in the past three years. Spills of dangerous substances are followed by quality indicator. Its changes are presented in the following figure:

Figure 48: Number of fuel and oil spills during transport and storage



Noise and electromagnetic radiation (EMR) of energy devices and light pollution

In designing and installing the electric power facilities the company complies with the legislation, which applies to this kind of harmful effects of environment.

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. Measurements will thus be executed in year 2014. Number of executed measurements is followed by a quality indicator and is shown in the figure below:

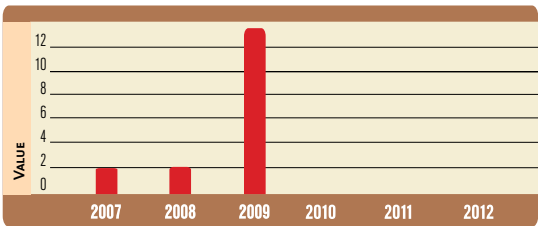


Figure 49: Number of annual transformer stations noise measurements

According to the previous EMR measurements we have established that excessive levels do not occur outside of protected areas if energy devices, so no additional measures of protection against radiation are necessary. Despite that we execute periodical measurements of EMR in transformer stations according to the law, which are followed by a quality indicator. As seen in the figure below, there were 100 measurements executed in year 2012.

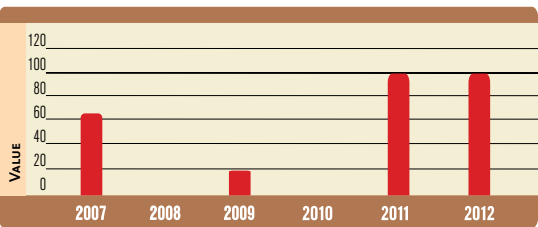


Figure 50: Number of annual EMR measurements on transformer stations

In accordance with the law we also execute luminance measurements and projects of light pollution of lightning for transformer station junctures and commercial buildings yards. In year 2012 all projects of light pollution were made for all facilities of 110/20 kV transformer stations (high-voltage junctures) and also for commercial buildings locations, where external lightning causes light pollution.

Storage of dangerous substances

All recognized dangerous substances are stored in suitable boxes and buildings, which ensure high level of control and safety. Company has defined precisely determined procedures and manners of storage and transport of dangerous substances. Shares of returned waste oil are followed with a quality indicator presented in the figure below:

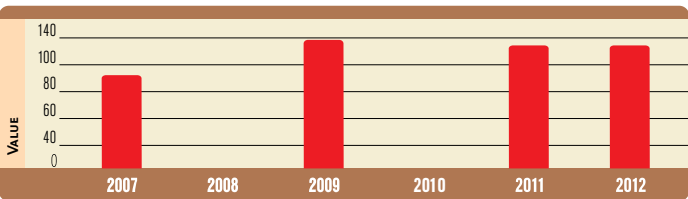


Figure 51: Share of returned oil according to purchase (in %)

Consumption of energy (electricity, natural gas)

In the context of environmental management system and in accordance with the recommendations of the external review in year 2012 we started to follow the consumption of electricity and consumption of natural gas for heating of business premises. Goal is to keep or reduce the amount of energy on the annual level. Consumption of energy in year 2012 is presented in the following table:

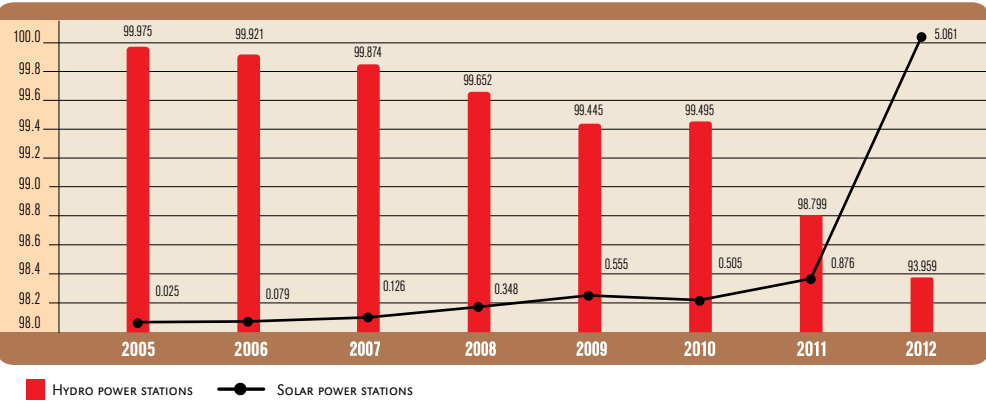
YEAR 2012	
CONSUMPTION OF ELECTRICITY IN kWh	574,875 kWh
CONSUMPTION OF ELECTRICITY IN EUR	75,646 EUR
CONSUMPTION OF NATURAL GAS IN m³	94,436 m³
CONSUMPTION OF NATURAL GAS IN EUR	76,137 EUR

Table 25: Consumption of energy in 2012

9.2.5 ENVIRONMENTAL SAVINGS FROM HYDRO POWER STATIONS

Generation of electricity in hydro power stations amounts to 93.96 % of the production, solar power stations make up to 5.06 % share and co-generations one per cent share.

Figure 52: Shares of electricity generation from renewable sources (%)

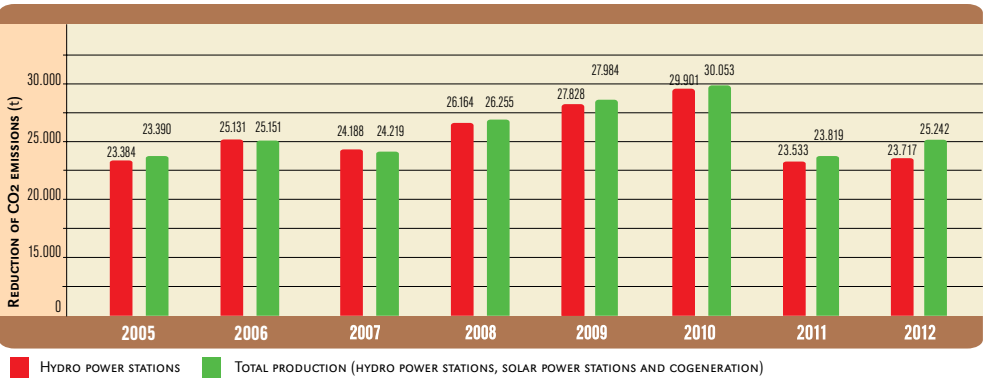


In year 2012 total production of ecologically clean electricity in 15 hydro power stations was 47,433,700 kWh. Electricity produced in hydro power stations gives environmental savings, namely according to the methodology of the Energy Efficiency Center from Jožef Stefan Institute in CO₂ calculation (0.5 kg CO₂/kWh) for year 2012 there was a reduction of 23,717 tons of CO₂ emissions. In year 2011 the saving was 23,810 tons of CO₂ emissions, in year 2010 the saving was 27,828 tons of CO₂ emissions, in year 2009 29,874 tons, in year 2008 26,164 tons and in year 2007 24,188 tons of CO₂ emissions.

Total CO₂ reduction from hydro power stations, solar power stations and co-generation of electricity and heat in year 2012 was by 25,242 tons of CO₂ emissions. In year 2011 the reduction was by 24,097 tons of CO₂ emissions, in year 2010 30,025 tons of CO₂ emissions, in year 2009 27,984 ton of CO₂ emissions, in year 2008 26,255 tons of CO₂ emissions, in year 2007 there was a reduction by 24,219 tons of CO₂ emissions.

In year 2012 hydro power station thus represented 93.96 % (in year 2011 98.81 %, in year 2010 99.5 %, in year 2009 99.45 %) of all environmental savings in the production of Gorenjske elektrarne company.

Figure 53: Environmental savings of reduction of CO₂ emissions due to production of electricity in hydro power stations and together in hydro and solar power stations and co-generation units



9.2.6 ENVIRONMENTAL SAVINGS FROM SOLAR POWER STATIONS

In year 2012 total production of electricity from 16 solar power stations Radovljica, Labore, FERl, Strahinj, Predvdor, Križe, Trata, Labore 2, Primskovo, Radovljica 2, Šenčur, Jela Janežiča Škofja Loka

and four newly built solar power stations Home for the elderly Naklo, Sports hall Trata, Merkur 2 Naklo and Merkur Primskovo (June 2012) was 2,554,972 kWh, which represents 5.06 % share in total electricity produced.

For comparison in year 201 this share was 0.87 %, 0.50 % in year 2010, 0.56 % in year 2009, 0.35 % in year 2008 and 0.13 % in year 2007 of all electricity produced by Gorenjske elektrarne company.

By the end of year 2012 total production of ecologically clean electricity in 16 own solar power stations and one rented solar power station achieved was 3,881,936 kWh (in year 2011 1,326,964 kWh, in year 2010 909,427 kWh, in year 2009 605,844 kWh).

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 2012 by 1,277 tons of CO₂ emissions. In year 2011 the environmental saving was reduced by 209 tons of CO₂ emissions, in year 2010 by 151 tons of CO₂ emissions, in year 2009 by 155 tons of CO₂ emissions, in year 2008 91 tons, while in year 2007 by 31 tons of CO₂ emissions. Cumulative environmental saving of CO₂ emissions from solar power stations from year 2005 to the end of 2012 was 1,941 tons of CO₂ emissions.

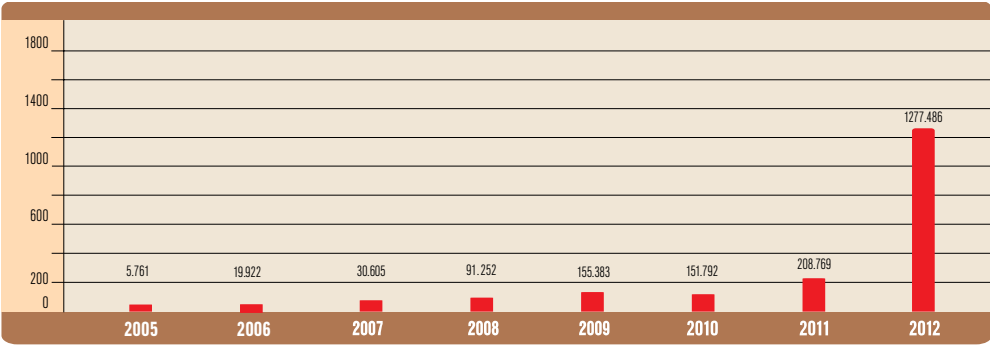


Figure 54: Environmental saving of CO₂ emission reduction due to production of electricity in solar power stations

9.2.7 ENVIRONMENTAL SAVINGS FROM CO-GENERATION UNITS

In year 2012 total production of electricity from cogeneration units using natural gas EG Primskovo, primary school Tržič, DSO Ajdovščina and Merkur Naklo (October 2012) was 494.54 kWh (154.61 kWh in year 2011), which represents 0.98 % share (0.32 % share in year 2011).

9.3 CONCERN FOR PUBLIC INTEREST – SOCIAL RESPONSIBILITY

Responsible attitude towards the wider social environment and local environments in which companies of Elektro Gorenjska Group operate has been a significant constant within the framework of our strategic orientation in sustainable development. In all our companies we are aware that efficient communication with public contributes significantly to strengthening the positive image of an individual company and its reputation in the eyes of individuals, including employees, journalists, clients and business partners. Because of this communication process is never left to chance. Establishing and keeping good two-way relations and systematic, professionally planned and coordinated communication of companies in Elektro Gorenjska Group and its publics are the responsibility of the corporate communication service.

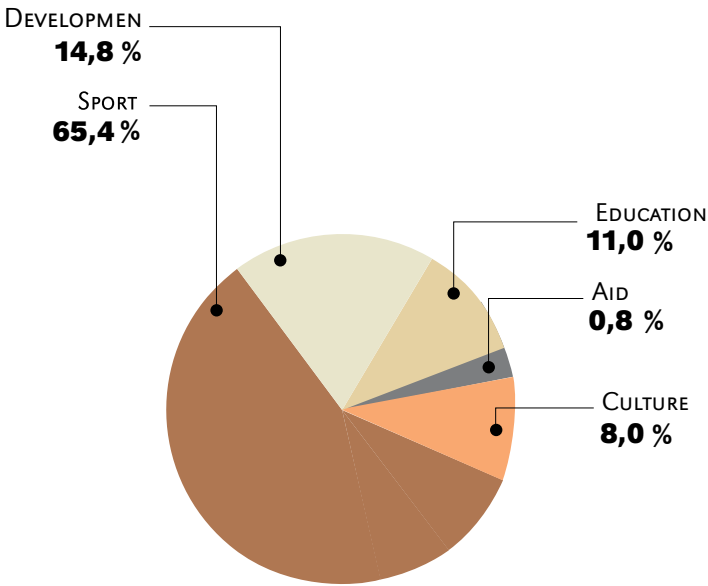
9.3.1 COMMUNICATION WITH LOCAL COMMUNITY AND SOCIAL RESPONSIBILITY

Quality, reliable and functioning distribution network is of extraordinary significance for every state. Industrial zones are growing, new shopping and industrial areas are being built on the outskirts of the cities, number of residential areas is growing. For reliable electricity supply quality distribution network is vital.

Sponsorships and donations

Companies in Elektro Gorenjska Group actively involve in execution of different activities in sports, education, and cultural field, which are mainly oriented to the Gorenjska region. Fields of support are wide, which is proved by the diversity of projects, which we assure financial assistance to the best of our abilities. We care for the development of young and perspective sports teams; we support culture and art of different generations; with donations we contribute to better educational conditions and to the transfer of knowledge into practice. We pay attention to humanitarian projects, help different associations. Projects that we support financially and professionally are selected on the basis of the internal rules, which define quality criteria and social relevance of the project. We consider short-term as well as long-term effects on local community, company, and nature and with it we realize our interaction with the environment.

Figure 55: Sponsorships and donations of Elektro Gorenjska Group in year 2012



For donations and sponsorships in year 2012 we spent the same amount as in year 2011 a total of 39,377 EUR. Sponsorship costs amounted to 25,727 EUR, while costs of donations to 13,650 EUR.

Traditionally, we donated assets earmarked for the purchase of business gifts at the end of the year, to the local community. In year 2012 we went one step further. At the end of the year we raised funds, together with our business partners who responded to our invitation, for program Ne-odvisen.si and its operation in year 2013 in Gorenjska region. We raised a total of 12,750 EUR, which will help organizing events in five municipalities in Gorenjska region in year 2013.

9.3.2 COMMUNICATION WITH STAKEHOLDERS

Goal of the group companies is establishing dialogue and ensuring quality information to various stakeholders.

Main principles considered in communication are: fair and equal treatment of employees, ethical and fair operations, respect for fundamental human rights, responsible environmental management in a sense of caring for future generations, care in relation to local community and society at large. Special attention in communicating important business decisions, novelties in business and novelties in the field of products and services is devoted to the following groups of stakeholders:

- employees,
- business partners,
- media,
- shareholders and financial public,
- other influential public (state, regulators).

Productive, efficient, clear and transparent communication with individual groups of stakeholders is a responsibility of the management, section directors, individual professional staff and corporate communication service.

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

9.3.3 COMMUNICATION WITH BUSINESS PARTNERS

In accordance with good business customs the companies in the group provide for the permanent communication with their business partners. Besides the personal approach we provide for communication with our business partners also by means of the internal gazette Elgo, which 600 largest business partners receive in the month of September. In contents the paper is adjusted to the needs of our business partners. In year 2012 Elektro Gorenjska company and its subsidiaries organized a charity meeting with its business partner at the end of the year. In addition to socializing and sharing opinion the meeting was also intended for raising the funds in support of the transslovenian social responsibility program Ne-odvisen.si, which is carried out by Zavod 7. In year 2012 the institution will implement five all day events in Gorenjska region with the funds raised.

9.3.4 COMMUNICATION WITH MEDIA

In the group we provide for regular and pro-active communication with the media and we use a wide range of tools for it. Besides regular press conferences, where we present business reports, we also prepare different meetings with the journalists on other important occasions. We communicate with the media also through web media. On our web site <http://www.elektro-gorenjska.si> we regularly submit information on our subpage For media.

Basic communication objectives in the field of media relations are achieved with the organization of press conferences, up-to-date press releases, different information material, organization of events, where pilot projects are presented, following media publications and with their analysis as well as activities, which sometimes include also somewhat less formal ways of media relations. In year 2012 we organized 1 press conference of Elektro Gorenjska Prodaja, while in cooperation with subsidiary Gorenjske elektrarne we organized 1 press conference and several events at the openings of new facilities.

We answer media questions actively and on time. On the basis of an annual media analysis we set up annual communication goals, which are reflected also in the number of media publications and share of negative publications.

In year 2012 there were 350 publications about Elektro Gorenjska Group recorded in the media; their number decreased a little compared to year 2011. Of the three companies parent company Elektro Gorenjska appears in media most frequently, although in most cases it is mentioned in the secondary light, mainly in corporate related publications. Media classified Elektro Gorenjska among the largest

and most successful Slovenian companies, but many times Elektro Gorenjska was mentioned in relation to the Slovenian Sovereign Holding and bad bank. Extremely positive publications on the company referred mainly to social responsibility. Media publications were for the most part neutral, as the topics reported were of a very neutral character too.

Table 26: Number of publications of media coverage

YEAR	2012	2011
NUMBER OF PUBLICATIONS	350	360

9.3.5 COMMUNICATION WITH CUSTOMERS

In accordance with its vision and mission we provides for quality and competitive offer and friendly service of environment friendly electricity supplier. We communicate with our customers through different communication channels:

- In person at the head offices of the company in a renovated space, which with its openness leads the customers from the very entrance into the building to the spot where we advise them kindly and help them with taking care of their business.
- Through free phone number of the call center 080 22 04.
- By means of the following web sites www.eg-prodaja.si, www.porabimkarrabim.si and www.reenergija.si and electronic mail addresses info@eg-prodaja.si, za.gospodinjstva@eg-prodaja.si, za.podjetja@eg-prodaja.si, za.racunovodstvo@eg-prodaja.si, reenergija@eg-prodaja.si and modra.energija@eg-prodaja.si. Visitors can forward their meter readings, ask questions or give opinions and receive wanted answers.
- With letters and by means of annexes to the monthly bills, where we inform them about our current offer and ways of getting different kinds of information.

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

9.3.6 COMMUNICATION WITH SHAREHOLDERS AND FINANCIAL PUBLIC

We strive for a regular, open, every day, and exact communication with the existing and potential shareholders and other financial public. Annual report is one of the most important sources of communication with shareholders and financial public, where transparency, timeliness, and accuracy of information on operation and business plans in accordance with the provisions of valid regulations are the main mission.

On the web site www.elektro-gorenjska.si we have formed a special chapter titled For shareholders, where they are regularly and transparently informed about the novelties and financial reports.

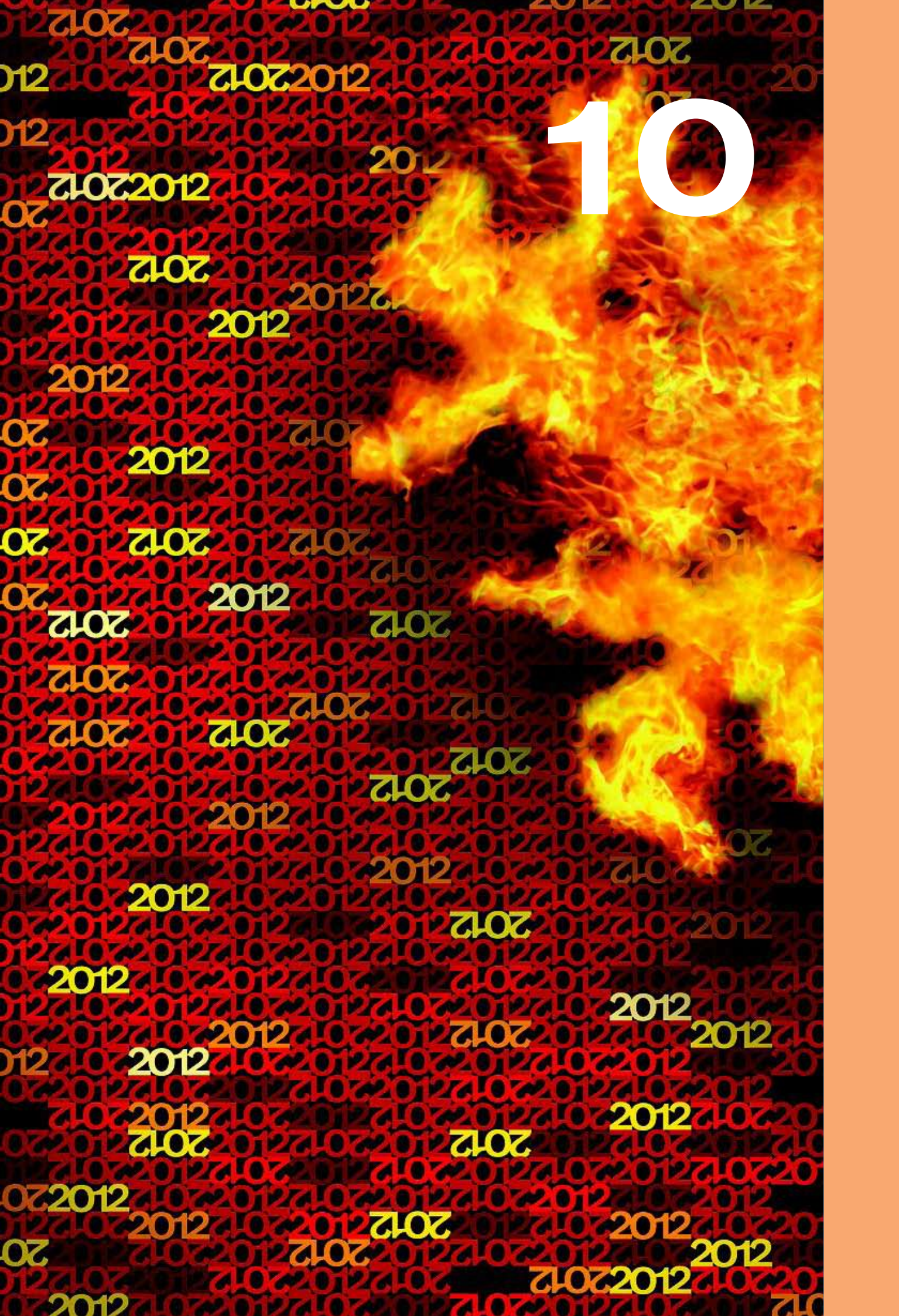
9.3.7 COMMUNICATION WITH INFLUENTIAL PUBLIC

Contents related to regulation and legislation, as well as arrangements between different institutions, was regularly and openly communicated with key influential public. They include government institutions of the republic of Slovenia as the majority owner, line ministries and other important institutions like Energy Agency of Republic of Slovenia, Capital Assets Management Agency and other.

B

ACCOUNTING REPORT

10



10. AUDITOR'S REPORT



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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Elektro Gorenjska Group, which comprise the balance sheet as at 31 December 2012, and the income statement, statement of other comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

Ime Deloitte se nanaša na Deloitte Touche Tohmatsu Limited, pravno osebo, ustanovljeno v skladu z zakonodajo Združenega kraljestva Velike Britanije in Severne Irske (v izvirniku »UK private company limited by guarantee«), in mrežo njenih članic, od katerih je vsaka ločena in samostojna pravna oseba. Podroben opis prave organiziranosti združenja Deloitte Touche Tohmatsu Limited in njenih družb članic je na voljo na www.deloitte.com/slovenia/druzb.

Member of Deloitte Touche Tohmatsu Limited

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 give a true and fair view of the financial position of the Elektro Gorenjska Group as at 31 December 2012, and its financial performance and its cash flows for the year then ended in accordance with Slovene Accounting Standards.

Report on Other Legal and Regulatory Requirements:

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

DELOITTE REVIZIJA d.o.o.

Luka Kumer
Certified Auditor

Yuri Sidorovich
President of the Board

For signature please refer to the original Slovenian version.

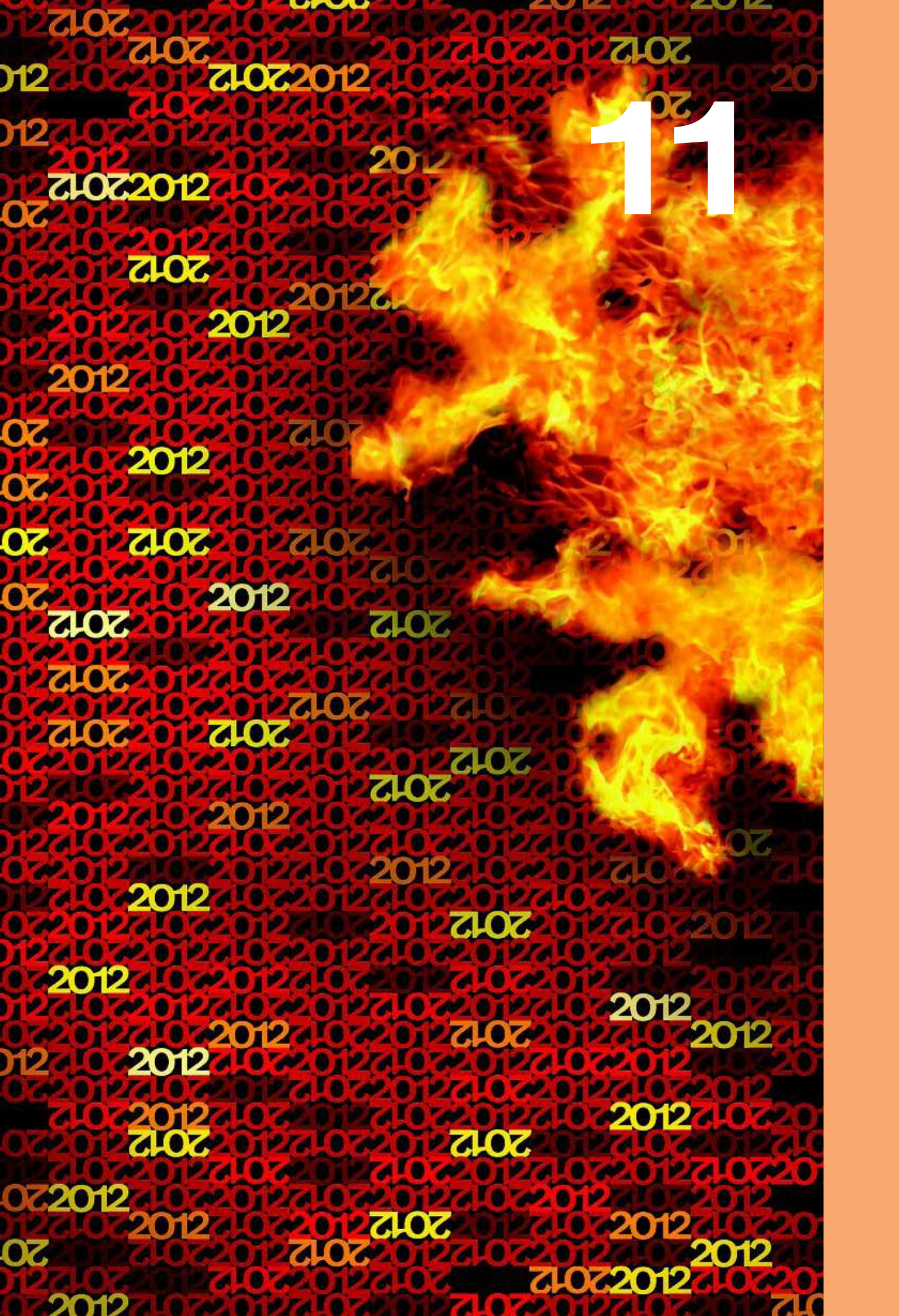
Deloitte.

Ljubljana, 26 April 2013

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

TRANSLATION ONLY – SLOVENIAN ORIGINAL PREVAILS

11



11. FINANCIAL STATEMENTS OF ELEKTRO GORENJSKA GROUP FOR BUSINESS YEAR ENDED AS AT 31. 12. 2012

11.1 BALANCE SHEET OF ELEKTRO GORENJSKA GROUP AS AT 31. 12. 2012

in EUR

ITEM	NOTE	31. 12. 2012	31. 12. 2011
ASSETS			
A. LONG-TERM ASSETS		184,971,484	181,308,907
I. INTANGIBLE ASSETS AND LT ACCRUALS AND PRE-PAID EXPENDITURE	14.1	839,826	1,659,568
1. Long-term property rights		531,536	883,089
4. Intangible assets in acquisition		184,877	767,674
6. Other LT accruals and pre-paid expenditure		123,413	8,805
II. TANGIBLE FIXED ASSETS	14.2	179,662,568	174,652,191
1. Land and buildings		116,849,265	113,069,166
a. Land		7,731,326	7,512,870
b. Buildings		109,117,939	105,556,296
2. Production plant and equipment		57,185,677	51,930,120
3. Other plant and equipment		156,919	53,168
4. Tangible fixed assets in acquisition		5,470,707	9,599,737
a. Tangible fixed assets in construction or production		5,433,238	9,028,275
b. Advances for acquisition of tangible fixed assets		37,469	571,462
III. INVESTMENT PROPERTY	14.3	2,041,383	2,175,004
IV. LONG-TERM FINANCIAL INVESTMENTS	14.4	2,427,707	2,813,200
1. Long-term financial investments, excluding loans		2,284,909	2,669,722
b. Shares and stakes in associates		300,637	120,897
c. Other shares and stakes		1,984,272	2,548,825
2. Long-term loans		142,798	143,478
c. Other long-term invested assets		142,798	143,478
V. LONG-TERM OPERATING CLAIMS	14.5	0	8,944
3. Long-term operating claims to others		0	8,944
B. SHORT-TERM ASSETS		19,127,508	19,748,529
I. ASSETS FOR SALE	14.6	14,274	0
II. STOCKS	14.7	162,392	211,333
1. Material		162,392	211,333
III. SHORT-TERM FINANCIAL INVESTMENTS	14.8	0	616
2. Short-term loans		0	616
b. Short-term loans to others		0	616
IV. SHORT-TERM OPERATING CLAIMS	14.9	17,528,554	16,343,792
2. Short-term operating accounts receivable		16,208,308	14,917,127
3. Short-term operating claims on others		1,320,246	1,426,665
V. MONETARY ASSETS	14.10	1,422,288	3,192,788
C. SHORT-TERM ACCRUALS AND PRE-PAID EXPENDITURE	14.11	790,168	511,118
TOTAL ASSETS		204,889,160	201,568,554

in EUR

ITEM	NOTE	31. 12. 2012	31. 12. 2011
LIABILITIES			
A. CAPITAL	14.12	133,442,393	135,656,983
I. CALLED-UP CAPITAL		72,019,069	72,019,069
1. Share capital		72,019,069	72,019,069
II. CAPITAL RESERVES		45,944,898	45,944,898
1. Capital reserves on the basis of general equity revaluation adjustment		45,944,898	45,944,898
III. PROFIT RESERVES		16,415,739	15,188,629
1. Statutory reserves		1,191,938	1,058,877
4. Reserves under article of association		0	3,293
5. Other profit reserves		15,223,801	14,126,459
IV. REVALUATION SURPLUS		1,316	1,065,986
V. NET PROFIT OR LOSS BROUGHT FORWARD		0	85,246
1. Retained net profit from previous years		0	85,246
VI. NET PROFIT OR LOSS OF THE BUSINESS YEAR		-938,629	1,353,155
1. Net profit of business year residue		-938,629	1,353,155
B. PROVISIONS AND LT ACCRUED COSTS AND DEFERRED REVENUES	14.13	13,568,576	13,199,303
1. Provisions for pensions and similar liabilities		2,848,777	2,779,773
2. Other provisions		4,367,109	4,169,139
3. Long-term accrued costs and deferred revenues		6,352,690	6,250,391
C. LONG-TERM LIABILITIES	14.14	35,658,633	30,799,150
I. LONG-TERM FINANCIAL LIABILITIES		35,452,969	30,435,514
2. Long-term financial liabilities to banks and companies		34,332,256	30,077,592
4. Other long-term financial liabilities		1,120,713	357,922
II. LONG-TERM OPERATING LIABILITIES		7,659	7,659
4. Long-term operating liabilities based on advances		7,659	7,659
III. DEFERRED TAX LIABILITIES		198,005	355,977
Č. SHORT-TERM LIABILITIES		21,704,698	20,371,011
II. SHORT-TERM FINANCIAL LIABILITIES	14.15	6,173,007	6,327,828
2. Short-term financial liabilities to banks and companies		6,145,335	6,307,926
4. Other short-term financial liabilities		27,672	19,902
III. SHORT-TERM OPERATING LIABILITIES	14.16	15,531,691	14,043,183
2. Short-term operating liabilities to suppliers		9,575,630	8,201,319
4. Short-term operating liabilities for the third party account		3,775,192	3,881,235
5. Short-term operating liabilities to employees		876,440	817,210
6. Short-term operating liabilities to state and other institutions		601,790	414,199
7. Short-term operating liabilities based on advances		400,989	512,537
8. Other short-term operating liabilities		301,650	216,683
D. SHORT-TERM ACCRUED COSTS AND DEFERRED REVENUES	14.17	514,860	1,542,107
TOTAL LIABILITIES		204,889,160	201,568,554

Explanatory notes on pages 159 to 188 are part of the financial statements and should be read in conjunction with them.

11.2 PROFIT OR LOSS ACCOUNT OF ELEKTRO GORENJSKA GROUP FOR BUSINESS YEAR ENDED AS AT 31. 12. 2012

in EUR

ITEM	NOTE	2012	2011
1. NET SALES REVENUE	15.1	86,757,335	83,317,940
a. on domestic market		81,828,936	81,883,791
b. on foreign markets		4,928,399	1,434,149
3. CAPITALIZED OWN PRODUCTS AND SERVICES	15.2	2,791,122	4,310,474
4. OTHER OPERATING REVENUES (INCLUDING OPERATING REVENUES FROM REVALUATION)	15.3	778,469	525,882
5. COSTS OF GOODS, MATERIAL, AND SERVICES		64,816,890	62,544,976
a. Costs of goods sold and material used	15.8	57,814,917	56,493,989
b. Costs of services	15.9	7,001,973	6,050,987
6. LABOR COSTS	15.10	11,618,751	11,343,031
a. Costs of salaries		8,307,020	8,108,299
b. Costs of voluntary pension insurance of employees		396,039	398,297
c. Costs of employer contributions and other salary duties		1,420,034	1,369,218
d. Other labor costs		1,495,658	1,467,217
7. AMORTIZATION/DEPRECIATION EXPENSE	15.11	11,618,634	10,841,522
a. Depreciation		10,719,124	10,348,980
b. Operating expenses from revaluation in intang. and tang. fixed assets and inv. property		894,240	73,374
c. Operating expenses from revaluation in current assets		5,270	419,168
8. OTHER OPERATING EXPENSES	15.12	920,553	790,590
9. FINANCIAL REVENUES FROM SHARES	15.4	82,073	165,566
b. Financial revenues from shares in associates		59,740	0
č. Financial revenues from other investments		22,333	165,566
10. FINANCIAL REVENUES FROM GIVEN LOANS	15.5	48,382	100,816
b. Financial revenues from loans given to others		48,382	100,816
11. FINANCIAL REVENUES FROM OPERATING CLAIMS	15.6	129,040	137,460
b. Financial revenues from operating claims on others		129,040	137,460
12. FINANCIAL EXPENSES FROM IMPAIRMENTS AND FINANCIAL INVESTMENT WRITE-OFFS	15.13	104,701	10,533
13. FINANCIAL EXPENSES FROM FINANCIAL LIABILITIES	15.14	1,239,447	1,034,078
b. Financial expenses from loans, received from banks		1,239,447	1,034,078
14. FINANCIAL EXPENSES FROM OPERATING LIABILITIES	15.15	11,957	2,499
b. Financial expenses from liab. to suppliers and bill of exchange l.		2,058	1,728
c. Financial expenses from other operating liabilities		9,899	771
15. OTHER REVENUES	15.7	183,965	204,057
16. OTHER EXPENSES	15.16	11,066	10,458
17. NET PRE-TAX PROFIT OR LOSS OF THE ACCOUNTING PERIOD		428,387	2,184,508
18. INCOME TAX	15.18	194,141	513,266
19. DEFERRED TAXES	15.19	0	0
20. NET PROFIT OR LOSS OF THE ACCOUNTING PERIOD		234,246	1,671,242

Explanatory notes on pages 159 to 188 are part of the financial statements and should be read in conjunction with them.

11.3 STATEMENT OF OTHER COMPREHENSIVE INCOME OF ELEKTRO GORENJSKA GROUP FOR BUSINESS YEAR ENDED AS AT 31. 12. 2012

in EUR

NAME	2012	2011
Net profit or loss of the accounting period	234,246	1,671,242
Changes in the surplus from the revaluation of financial assets available for sale	-301,879	-568,152
Other components of comprehensive income	-762,791	-357,923
TOTAL COMPREHENSIVE INCOME	-830,424	745,167

Explanatory notes on pages 159 to 188 are part of the financial statements and should be read in conjunction with them.

11.4 CASH FLOW STATEMENT OF ELEKTRO GORENJSKA GROUP

FOR BUSINESS YEAR ENDED AS AT 31. 12. 2012

in EUR

ITEM	2012	2011
A. OPERATING CASH-FLOW		
A. OPERATING RECEIPTS	134,651,735	141,777,563
1. Receipts from sales of products and services	131,734,253	139,673,150
2. Other operating receipts	2,917,482	2,104,413
B. OPERATING EXPENDITURE	125,800,270	130,366,035
1. Expenditure for purchase of material and services	106,464,129	106,821,380
2. Expenditure for salaries and employees profit shares	10,682,280	10,696,085
3. Expenditure for duties of all kinds	6,364,345	9,560,375
4. Other operating expenditure	2,289,516	3,288,195
C. EXCESS OF OPERATING RECEIPTS OR EXPENDITURE	8,851,465	11,411,528
B. CASH FLOWS IN INVESTING ACTIVITIES		
A. RECEIPTS IN INVESTING ACTIVITIES	691,994	1,219,612
1. Receipts from received interest and profit shares of others	101,100	338,706
2. Receipts from disposal of intangible assets		1,855
3. Receipts from disposal of tangible fixed assets	34,929	99,600
4. Receipts from disposal of investment property	527,849	
5. Receipts from disposal of long-term financial investments	28,116	193,332
6. Receipts from disposal of short-term financial investments		586,119
B. EXPENDITURE IN INVESTING ACTIVITIES	12,768,846	15,242,508
1. Expenses for acquisition of intangible assets	552,573	865,923
2. Expenses for acquisition of tangible fixed assets	12,096,273	13,548,253
4. Expenses for acquisition of long-term financial investments	120,000	828,332
C. EXCESS OF RECEIPTS OR EXPENDITURE IN INVESTING ACTIVITIES	-12,076,852	-14,022,896
C. CASH FLOWS IN FINANCING ACTIVITIES		
A. RECEIPTS IN FINANCING ACTIVITIES	20,734,600	17,132,000
1. Receipts from paid-up capital		500,000
2. Receipts from increase in long-term financial liabilities	10,397,200	8,500,000
3. Receipts from increase in short-term financial liabilities	10,337,400	8,132,000
B. EXPENDITURE IN FINANCING ACTIVITIES	19,279,713	15,979,064
1. Expenditure for given interest referring to financing activ.	1,267,505	999,702
3. Expenditure for repayment of long-term financial liabilities	6,307,926	5,647,520
4. Expenditure for repayment of short-term financial liabilities	10,338,000	8,132,000
5. Expenditure for dividend and other profit share payment	1,366,282	1,199,842
C. EXCESS OF RECEIPTS OR EXPENDITURE IN FINANCING ACTIV.	1,454,887	1,152,936
Č. CLOSING CASH BALANCE	1,422,287	3,192,788
X. CASH FLOW FOR THE PERIOD	-1,770,501	-1,458,431
Y. OPENING CASH BALANCE	3,192,788	4,651,219

Explanatory notes on pages 159 to 188 are part of the financial statements and should be read in conjunction with them.

11.5 STATEMENT OF CHANGES IN EQUITY OF ELEKTRO GORENJSKA GROUP

FOR BUSINESS YEAR ENDED AS AT 31. 12. 2012

a.) From January 1 2012 to December 31 2012:

EVENTS IN INDIVIDUAL CAPITAL ITEMS											in EUR		
	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							VI	
	SHARE CAPITAL	SHARE PREMIUM ACCOUNT	GENERAL VALUATION ADJUSTMENT	STATUTORY RESERVES	RESERVES UNDER ARTICLES OF ASSOCIATION	OTHER PROFIT RESERVES	REVALUATION SURPLUS					NET PROFIT OF THE BUSINESS YEAR	NET LOSS OF THE BUSINESS YEAR
	I/1	II/1	II/2	III/1	III/4	III/5	IV	V/1	VI/1	VI/2			
A. 1 BALANCE AS OF DECEMBER 31 2011	72,019,069	1	45,944,897	1,058,877	3,293	14,126,459	1,065,987	85,246	1,353,155	0	135,656,983		
A. 2 BALANCE AS OF JANUARY 1 2012	72,019,069	1	45,944,897	1,058,877	3,293	14,126,459	1,065,987	85,246	1,353,155	0	135,656,983		
B. 1 CHANGES IN EQUITY CAPITAL - TRANSACTIONS WITH OWNERS	0	0	0	0	0	0	0	-85,246	-1,298,920	0	-1,384,166		
g. DIVIDEND PAYMENT								-85,246	-1,298,920		-1,384,166		
B. 2 TOTAL COMPREHENSIVE INCOME OF REPORTING PERIOD	0	0	0	0	0	0	-1,064,670	0	300,098	-65,852	-830,424		
a. ENTRY OF NET PROFIT OR LOSS FOR THE REPORTING PERIOD									300,098	-65,852	234,246		
c. CHANGES IN SURPLUS FROM FINANCIAL INVESTMENTS REVALUATION							-301,879				-301,879		
d. OTHER ITEMS IN COMPREHENSIVE INCOME OF REPORTING PERIOD.							-762,791				-762,791		
B. 3 CHANGES WITHIN CAPITAL	0	0	0	133,061	-3,293	1,097,342	0	0	-1,292,963	65,852	0		
a. ALLOCATION OF REMAINING PART OF NET PROFIT OF THE COMPARATIVE REPORTING PERIOD TO OTHER CAPITAL ITEMS						62,698			-62,698		0		
b. ALLOCATION OF PART OF NET PROFIT OF REPORTING PERIOD TO OTHER ITEMS OF CAPITAL FOLLOWING THE DECISION OF THE MANAGEMENT AND CONTROL				136,354		1,102,373			-1,238,727		0		
c. ALLOCATION OF PART OF NET PROFIT FOR ADDITIONAL PROVISIONING UNDER THE DECISION OF THE ANNUAL GENERAL MEETING											0		
f. OTHER CHANGES WITHIN CAPITAL											0		
C. BALANCE AS OF DECEMBER 31 2011				-3,293	-3,293	-59,267				65,852	0		
DISTRIBUTABLE PROFIT 2012	72,019,069	1	45,944,897	1,191,938	0	15,223,801	1,317	0	-938,629	0	133,442,393		
								0	-938,629	0	-938,629		

b.) From January 1 2011 to December 31 2011:

EVENTS IN INDIVIDUAL CAPITAL ITEMS	in EUR												
	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	SHARE PREMIUM ACCOUNT	GENERAL CAPITAL VALUATION ADJUSTMENT		STATUTORY RESERVES	RESERVES UNDER ARTICLES OF ASSOCIATION	OTHER PROFIT RESERVES	REVALUATION SURPLUS	NET PROFIT FROM PREVIOUS PERIODS	NET PROFIT OF THE BUSINESS YEAR		
				I/1	I/2								
A. 1 BALANCE AS OF DECEMBER 31 2010	72,415,419	-396,350	1	45,944,897	974,891	0	13,113,930	1,992,061	0	2,081,721		136,126,570	
A. 2 BALANCE AS OF JANUARY 1 2011	72,415,419	-396,350	1	45,944,897	974,891	0	13,113,930	1,992,061	0	2,081,721		136,126,570	
B. 1 CHANGES IN EQUITY CAPITAL – TRANSACTIONS WITH OWNERS	0	0	0	0	0	0	0	0	0	-1,214,754		-1,214,754	
g. DIVIDEND PAYMENT													
B. 2 TOTAL COMPREHENSIVE INCOME OF REPORTING PERIOD	0	0	0	0	0	0	0	-926,075	0	1,671,242		745,167	
a. ENTRY OF NET PROFIT OR LOSS FOR THE REPORTING PERIOD										1,671,242		1,671,242	
ĉ. CHANGES IN SURPLUS FROM FINANCIAL INVESTMENTS REVALUATION								-568,152				-568,152	
d. OTHER ITEMS OF COMPREHENSIVE INCOME OF REPORTING PERIOD								-357,922				-357,923	
B. 3 CHANGES WITHIN CAPITAL	-396,350	396,350	0	0	83,985	3,293	1,012,530	0	85,246	-1,185,053		0	
a. ALLOCATION OF REMAINING PART OF NET PROFIT OF THE COMPARATIVE REPORTING PERIOD TO OTHER CAPITAL ITEMS													
b. ALLOCATION OF PART OF NET PROFIT OF REPORTING PERIOD TO OTHER ITEMS OF CAPITAL FOLLOWING THE DECISION OF THE MANAGEMENT AND CONTROL									85,246	-204,232		0	
c. ALLOCATION OF PART OF NET PROFIT FOR ADDITIONAL PROVISIONING UNDER THE DECISION OF THE ANNUAL GENERAL MEETING													
f. OTHER CHANGES IN CAPITAL	-396,350	396,350						668,614		-668,614		0	
C. BALANCE AS OF DECEMBER 31 2011	72,019,069	0	1	45,944,897	1,058,877	3,293	14,126,459	1,065,987	85,246	1,353,155		135,656,983	
DISTRIBUTABLE PROFIT 2011									85,246	1,353,155		1,438,401	

Explanatory notes on pages 159 to 188 are part of the financial statements and should be read in conjunction with them.

11.6 DISTRIBUTABLE PROFIT OF ELEKTRO GORENJSKA GROUP

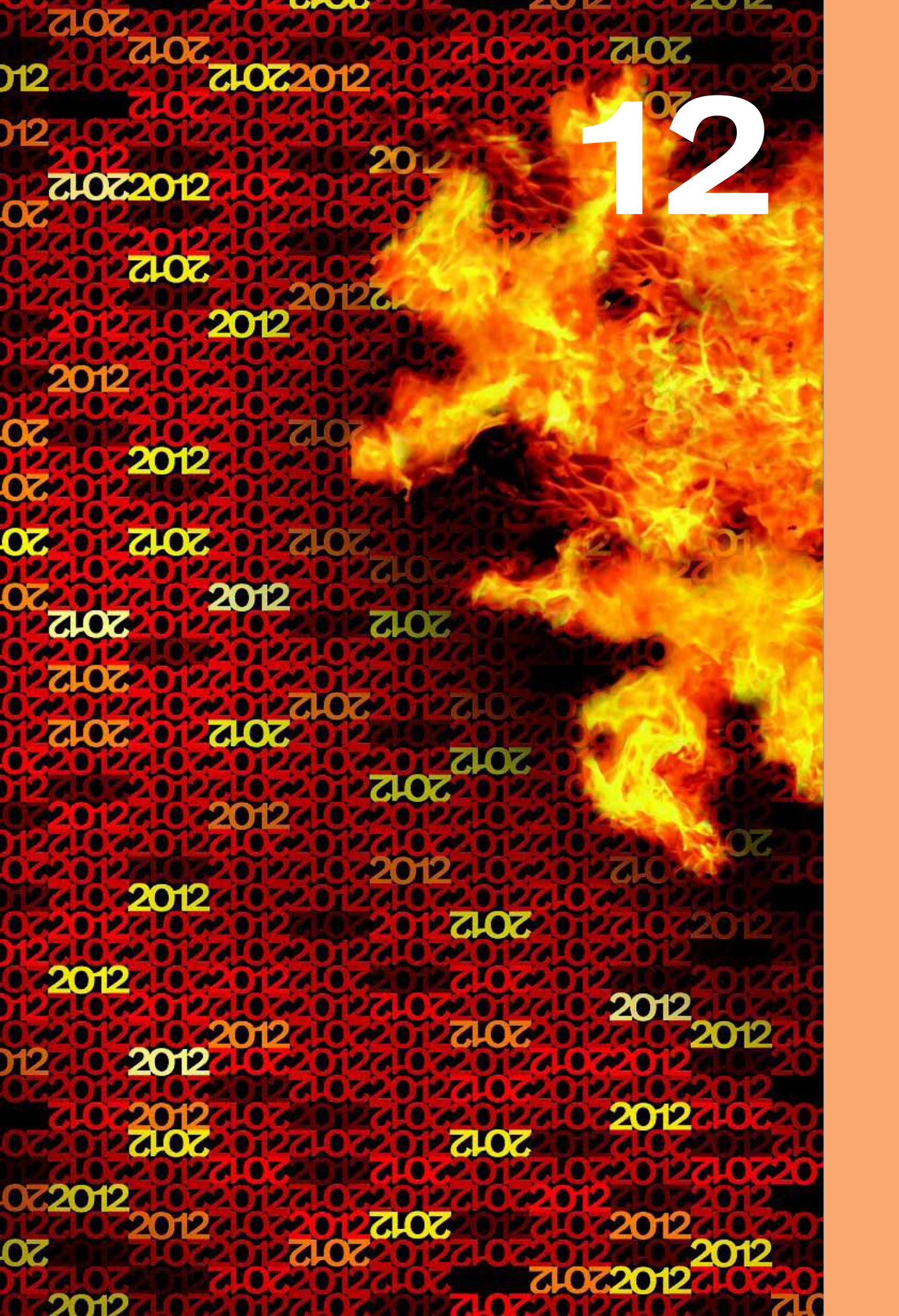
FOR BUSINESS YEAR ENDED AS AT 31. 12. 2012

in EUR

	NAME	2012	2011
1.	NET PROFIT OR LOSS FOR THE PERIOD	234,246	1,671,242
2.	+ NET PROFIT /NET LOSS FROM PREVIOUS PERIODS		85,246
3.	+ DECREASE OF PROFIT RESERVES:		
	A) STATUTORY RESERVES	3,293	
	C) RESERVES UNDER ARTICLE OF ASSOCIATION	3,293	
	Č) OTHER PROFIT RESERVES	59,267	
4.	- INCREASE OF PROFIT RESERVES FOLLOWING THE DECISION OF THE MANAGEMENT AND CONTROL:		
	A) STATUTORY RESERVES	136,354	83,985
	C) RESERVES UNDER ARTICLE OF ASSOCIATION		3,293
5.	- INCREASE OF PROFIT RESERVES FOLLOWING THE DECISION OF THE MANAGEMENT AND CONTROL:		
	A) OTHER PROFIT RESERVES	1,102,373	230,809
6.	DISTRIBUTABLE PROFIT	-938,629	1,438,401

Explanatory notes on pages 159 to 188 are part of the financial statements and should be read in conjunction with them.

12



12. SIGNIFICANT ACCOUNTING POLICIES

12.1 GENERAL ACCOUNTING FRAMEWORK

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

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

- controlling company Elektro Gorenjska, Ul. Mirka Vadnova 3a, Kranj,
- company Gorenjske elektrarne, Stara cesta 3, Kranj, which is in 100 % ownership of the controlling company; capital of this company as at 31. 12. 2012 amounted to 17,165,436 EUR, net profit for year 2012 was 219,344 EUR,
- company Elektro Gorenjska Prodaja, which is in 100 % ownership of the controlling company; capital of this company as at 31. 12. 2012 amounted to 3,740,261 EUR, net profit or loss for year 2012 was – 2,550,802 EUR,
- associate company Soenergetika, Stara cesta 3, Kranj, which is in 25 % ownership of company Gorenjske elektrarne; capital of this company as at 31. 12. 2012 amounted to 1,202,548 EUR, net profit for year 2012 was 238,960 EUR.

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

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

Degree of accuracy in reporting is 1 EUR.

12.2 RECOGNIZING EXCHANGE RATE DIFFERENCES

Presentation currency and functional currency is Euro (EUR). 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 central rate of the Bank of Slovenia.

12.3 REPORTING IN GEOGRAPHICAL AND BUSINESS SEGMENTS

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

12.4 SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

12.4.1 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

12.4.2 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.

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.

Accounting values of tangible fixed assets and with it also depreciation basis of these assets, acquired before December 31 2001, result from reports of the accredited appraisers, prepared according to the balance as of December 31 2001. On the basis of SRS, in force as at December 31 2001 and on the basis of mentioned reports of appraisers the until then accounting values of tangible fixed assets, acquired until December 31 2001, were revaluated as of December 31 2001 due to impairments, and not due to increase in value as well.

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

12.4.3 INVESTMENT PROPERTY

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

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

Investment property does not include:

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

12.4.4 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 investment 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 according to SAS 3 and IAS 39 **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. IAS 36 requests that 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.

Group 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 the 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.

12.4.5 ASSETS FOR SALE

Assets which do not meet the definition of current assets are non-current assets. 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).

12.4.6 STOCKS

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

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

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

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

12.4.7 CLAIMS

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

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

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

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

- payments until the date of data preparation,
- agreements between business partners on the deferment of repayments,
- 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 less that defined in the second chapter of this article. Receivables from group companies are eliminated from the doubtful claims records.

12.4.8 MONETARY ASSETS

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

CURRENT ACCOUNT NUMBER	BANK OF THE ACCOUNT	COMPANY
07000-0000641939	Gorenjska banka, Kranj	Elektro Gorenjska, d. d.
07000-0001282527	Gorenjska banka, Kranj	Elektro Gorenjska Prodaja d. o. o.
07000-0000542805	Gorenjska banka, Kranj	Gorenjske elektrarne d. o. o.
25100-9700516198	Probanka, Maribor	Elektro Gorenjska, d. d.
29000-0001824912	Unicredit banka, Ljubljana	Elektro Gorenjska, d. d.
03138-1000716780	SKB banka, Ljubljana	Elektro Gorenjska Prodaja d. o. o.
04331-002033138	NKBM, Kranj	Gorenjske elektrarne d. o. o.

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.

12.4.9 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 and provisionally not charged revenues.

12.4.10 CAPITAL

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

12.4.11 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 are also formed for long service bonuses and for severance pays at retirement. They are formed in the amount of estimated future payments, discounted on the balance sheet date. Calculation considers future costs of severance pay at retirement and costs of all expected long-service bonuses until retirement. Calculations are prepared by an authorized actuary.

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.

12.4.12 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.

12.4.13 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.

12.4.14 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.

12.4.15 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, at cancellation of provisions, and with withdrawal of long-term accrued costs and deferred revenues (long-term deferred revenues).

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 (extraordinary revenue) and other revenues increasing the profit and loss.

12.4.16 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 (extraordinary expenses) and other expenses that reduce the profit and loss.

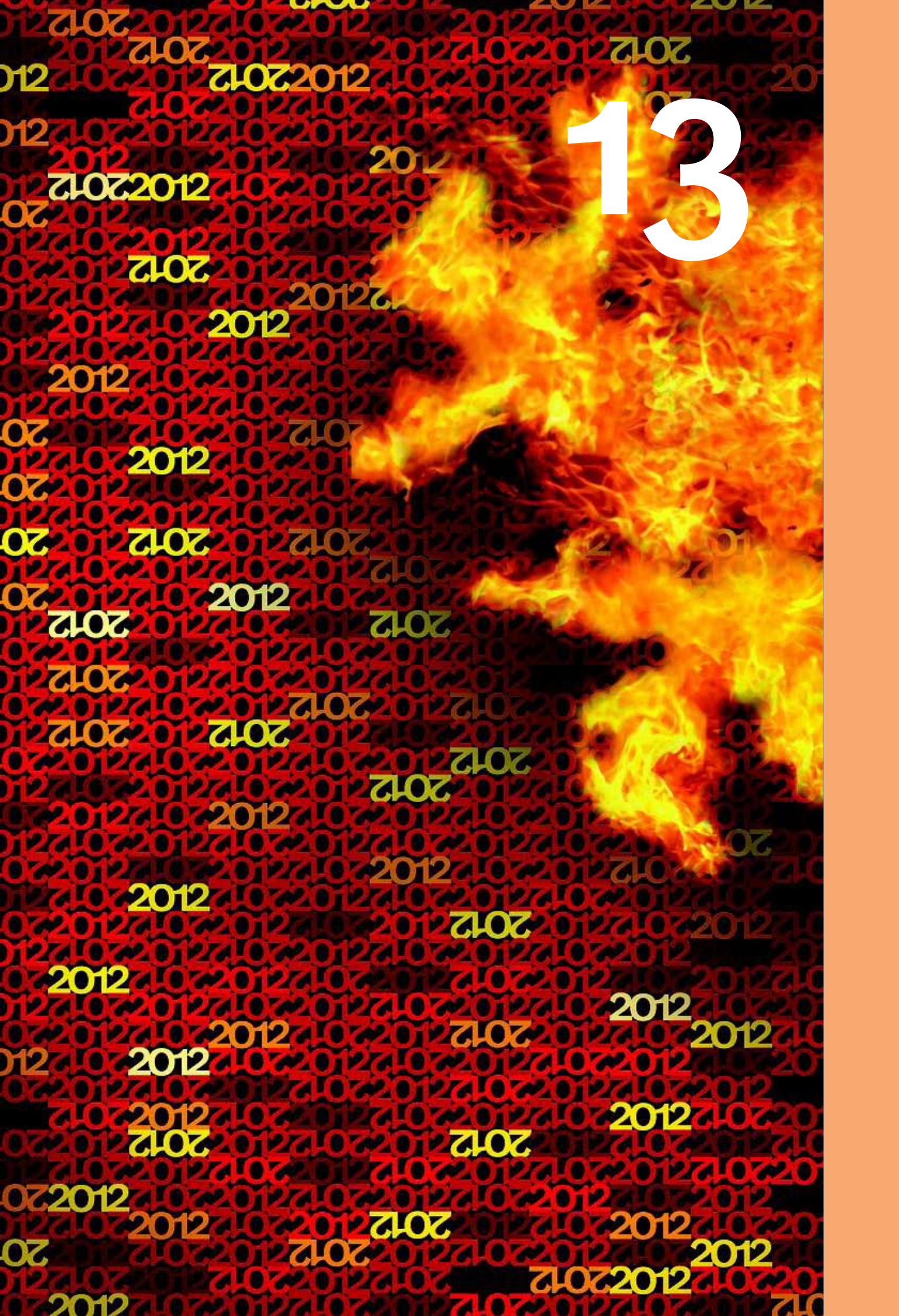
12.4.17 CASH FLOW STATEMENT

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 and income from their disposal, are considered cash equivalents.

12.4.18 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.

13



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

In applying the accounting policies and guidelines presented before, Elektro Gorenjska Group has 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 group 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 made in applying the accounting policies and which have a significant influence on the amounts recognized in the financial statements.

13.1 TRANSACTIONS WITH SODO COMPANY

Transactions with company SODO are generally regulated by the Contract with SODO, which is presented in more detail also in the Business report, in chapter 4.9.3.

In March 2013 Elektro Gorenjska Company received a preliminary settlement of the regulatory year from SODO. Preliminary settlement for year 2012 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 2012 was by **141,252 EUR** higher than the value established on the basis of the preliminary settlement. On this basis, in year 2012 the company deferred in short-term revenues in respect of the rent and services under the contract with SODO in the amount of 141,252 EUR.

Final settlement for regulatory year 2012 will be executed by SODO on the basis of revised data of both contracting parties. In case JARSE issued a decision in accordance with Article 46a of the Energy Act, in which it established different surpluses or deficits than the ones established by SODO, both contracting parties are bound to consider the JARSE decision.

At the end of year 2012 company SODO acquainted us with the information regarding the final account for regulatory year 2010 and estimated account for regulatory year 2011. In March 2013 we received also a final account of regulatory year 2011. From the final account of regulatory year 2010 it is evident that the already charged contractual value of rent, services and losses for year 2010 was by **30,082 EUR** lower than the value arising from the final settlement. Final settlement for year 2011 shows that the already charged contractual value of rent, services and losses for year 2011 was by **139,015 EUR** lower than the value from the final settlement. In accordance with Article 60 of the contract between Elektro Gorenjska and SODO derogations between already charged amounts and amounts from the final settlement are considered in determining the eligible costs of the regulatory period in which they will be covered within the regulatory framework for the period 2013-2015. Under-invoiced revenues in total amount of **169,097 EUR** were recognized by the company in year 2012.

As explained in Chapter 4.9.3, on February 29 2012 Company Elektro Gorenjska 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 Elektro Gorenjska Company did this to reduce the threatening financial harm, which would arise in case of non-signing of the contract, due to lower clearance of 2011 regulatory year, lower recognized costs of rent, services and losses for year 2012 (according to the platform for year 2010, which would mean revenues lower by approximately 3 million EUR) and prevention of negotiations for concluding Annex No. 1 to this contract for year 2012. All the stated facts were stated by SODO in its letters.

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

13.2 DISPUTES IN PROGRESS AND RELATED PROVISIONS

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

13.3 ACCOUNTS OF ELECTRICITY PURCHASE FOR LOSSES IN NETWORK AND FOR IMPLEMENTATION OF OTHER ACTIVITIES UNDER THE CONTRACT WITH SODO

Costs (revenues) in respect of derogations of announced schedules from realized schedules of electricity consumption in electricity purchase for covering losses in network and implementation of SODO supplies

In year 2012 purchase of electricity for covering losses of electricity in the network and implementation of SODO supplies, which Company Elektro Gorenjska implements on the basis of the Contract with SODO are treated in the framework of balance subgroup SODO, which is part of the balance group Elektro Ljubljana (please see also Business report, Chapter 4.9.6 – Schedule derogations). On this basis the responsible of the balance group is not eligible to charge us with schedule derogations. That is why Company Elektro Gorenjska, does not expect any additional costs in year 2012 in this respect and did not impute them in the financial statements for year 2012.

Final account of costs of electricity for losses in network and for other activities under the Contract with SODO

Company Elektro Gorenjska has not yet received the final account of electricity purchase costs for year 2012 for covering the losses in its distribution network from electricity supplier and also the account of electricity purchase for supplies implementation and for unauthorized consumption. On the basis of measured (established) quantity of losses in distribution network in year 2012 and best estimate of purchase prices the company estimates that for electricity purchase for losses company will be recognized a credit in the amount of **289,619 EUR**.

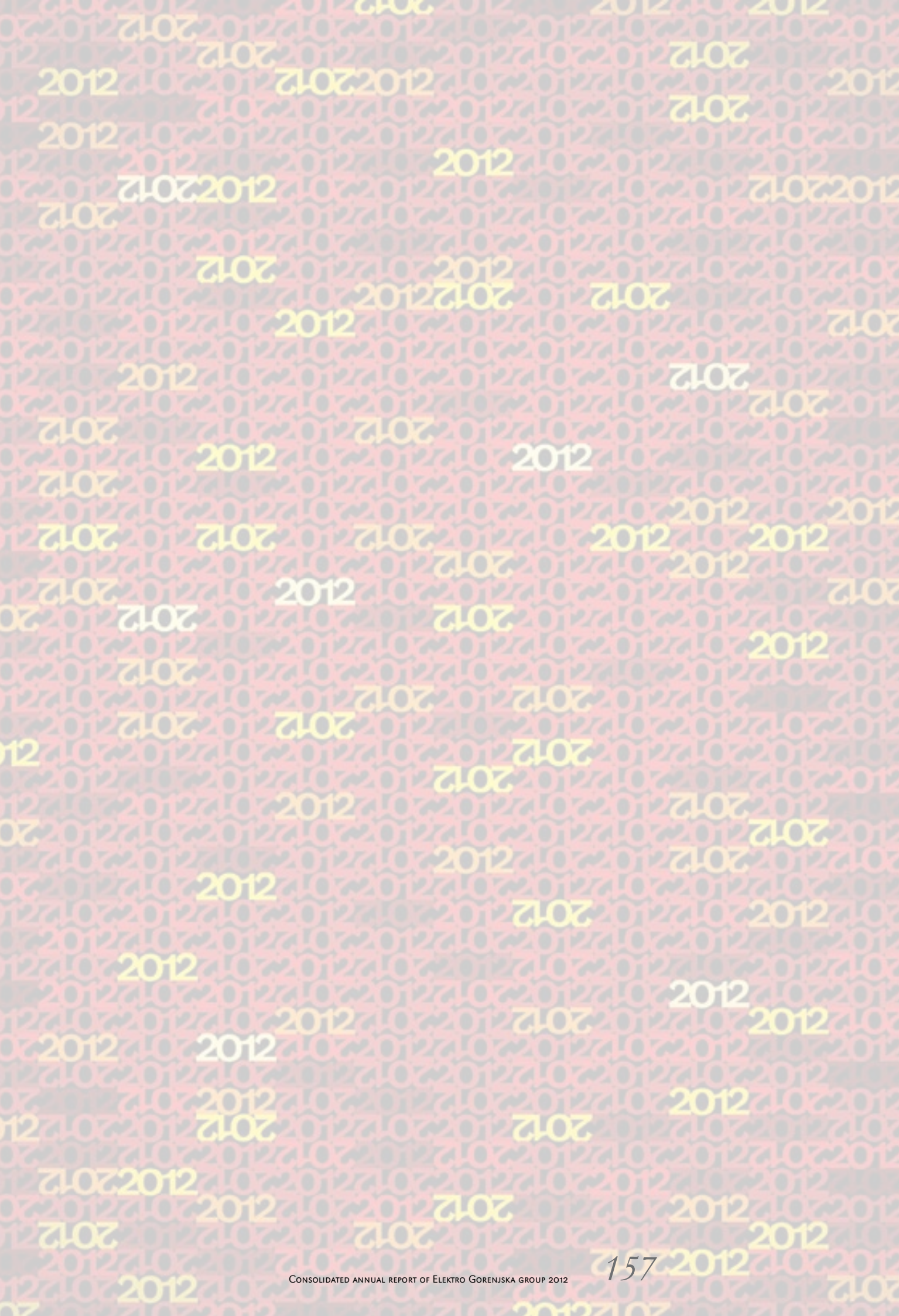
Company Elektro Gorenjska has also not yet received the account of costs for electricity purchase in implementation of electricity supplies and other activities under the Contract with SODO (unauthorized consumption charges, accounts of meter errors) for year 2012. On the basis of measured (established) quantities of electricity in these activities and on the basis of probable purchase price of electricity in this activity Elektro Gorenjska Company estimates that the value of electricity purchase for supplies for year 2012 will be higher by **9,953 EUR**.

As of December 31 2012 these two estimates in the amount of **279,666 EUR** are recognized in financial statements of the company as **short-term accrued costs** (please see chapter 14.11 – Short-term accrued costs and pre-paid expenditure). Transactions of purchasing electricity losses are presented also in the Business report, chapter 4.9.4 – Electricity losses in network, while for supplies in chapter 4.9.5 – SODO supply.

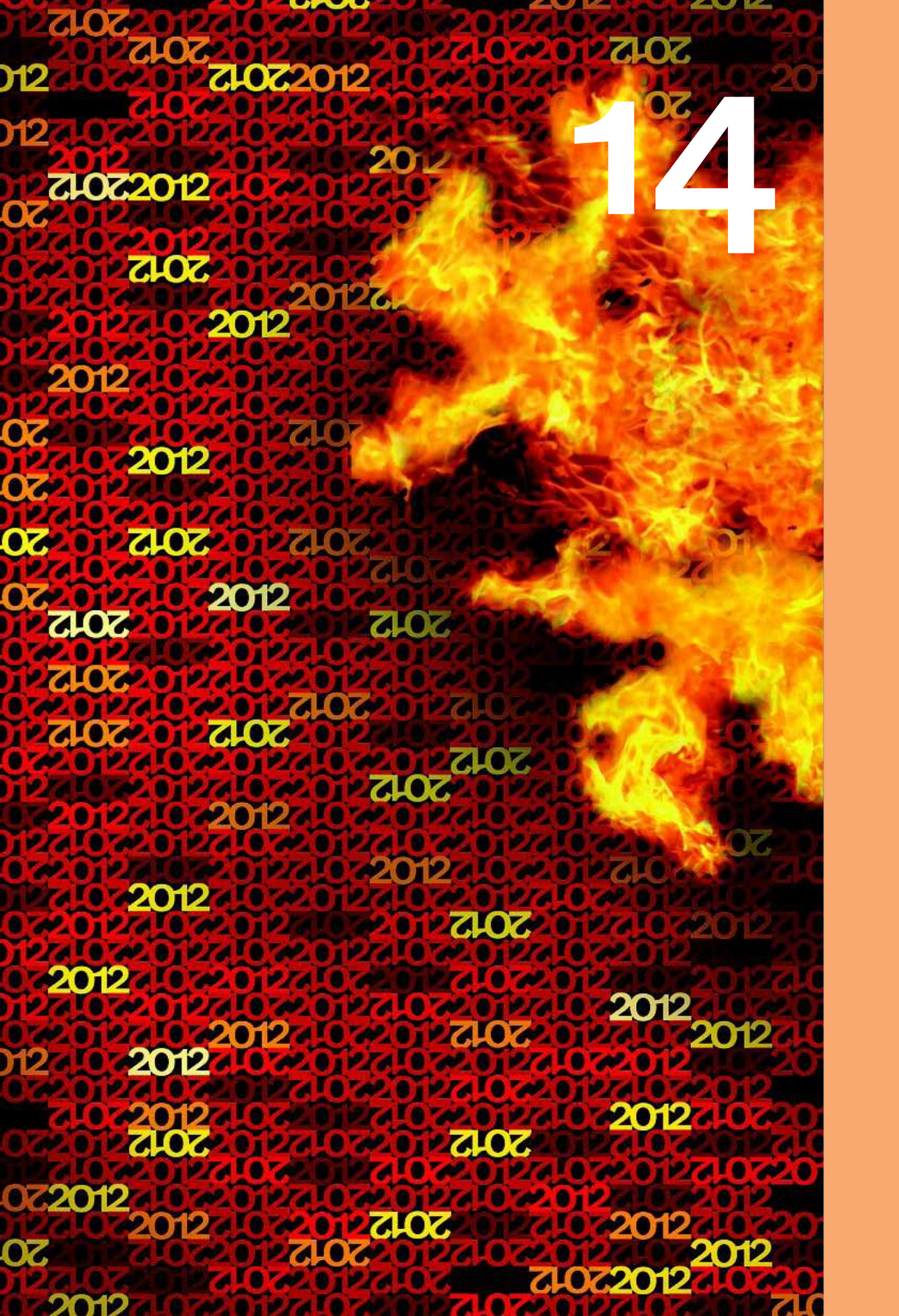
13.4 ACCOUNTS OF ELECTRICITY PURCHASE – DEROGATIONS FROM SCHEDULES

Company Elektro Gorenjska Prodaja has not yet received a final statement of costs of electricity purchase for year 2012 from its electricity supplier HSE, which is the responsible of the balance group that balance subgroup Elektro Gorenjska Prodaja is also a part of. Based on the records on purchase and sale of electricity in year 2012 and based on the best assessment of prices for derogations the company estimates that final statement of derogations for year 2012 will establish that an amount of over-charged costs of electricity purchase for derogations will amount to 274,130 EUR.

As at December 31 2012 this assessment is recognized in the financial statements of the group under short-term accrued costs (please see chapter 14.11 – Short-term accrued costs and and pre-paid expenditure).



14



14. NOTES TO THE BALANCE SHEET ITEMS

14.1 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 year 2012.

in EUR

2012	COMPUTER SOFTWARE EQUIPMENT	OTHER RIGHTS	PROPERTY RIGHTS IN ACQUISITION	OTHER LONG-TERM ACCRUALS AND PRE-PAID EXPENDITURE	TOTAL INTANGI- BLE ASSETS AND LONG-TERM ACCRUALS AND PRE-PAID EXPENDITURE
1	2	3	4	5	6 = 2+3+4+5
ACQUISITION COST					
BALANCE 1. 1. 2012	3,870,571	7,090	767,674	8,806	4,654,141
New acquisitions	140,078	0	408,306	120,707	669,091
Disposals, withdrawals, transfers	-1,250	0	-633,600	-6,099	-640,949
Completion of ongoing investments	357,503	0	-357,503	0	0
BALANCE 31. 12. 2012	4,366,903	7,090	184,877	123,413	4,682,283
VALUE ADJUSTMENT					
BALANCE 1. 1. 2012	2,989,571	5,002	0	0	2,994,573
Increase (depreciation)	848,898	236	0	0	849,134
Disposals, withdrawals, transfers	-1,250	0	0	0	-1,250
BALANCE 31. 12. 2012	3,837,219	5,238	0	0	3,842,457
CARRYING AMOUNT					
BALANCE 1. 1. 2012	881,000	2,088	767,674	8,806	1,659,568
BALANCE 31. 12. 2012	529,684	1,852	184,877	123,413	839,826

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.

Disposals, separations and transfers of property rights in acquisition also include a write-off of information system in the amount of 613,000 EUR.

As at December 31 2012 the group had no financial obligations in respect of acquiring intangible fixed assets.

14.2 TANGIBLE FIXED ASSETS

As at December 31 2012 tangible fixed assets amounted to **179,662.568 EUR**, which represents 87 % of balance sheet total. Compared to the balance as at December 31 2011 their value is by 2.9 % or 5,010,377 EUR higher.

Following table presents changes in tangible fixed assets:

in EUR

2012	LAND	BUILDINGS			EQUIPMENT			TANGIBLE FIXED ASSETS IN BUILDING	ADVANCES	TOTAL TANGIBLE FIXED ASSETS
		INFRASTRUCTURE	ELECTRIC POWER PLANTS	OTHER BUILDINGS	INFRASTRUCTURE	ELECTRIC POWER PLANTS	OTHER EQUIPMENT			
1	2	3	4	5	6	7	8	9	10	11=2+3+4+5+6+7+8+9+10
ACQUISITION COST										
BALANCE 1. 1. 2012	7,512,870	230,937,568	16,187,343	13,847,572	86,559,680	11,421,614	14,916,619	9,028,276	571,462	390,983,004
New acquisitions	191,856	330,737	870	3,100	181,241	19,141	516,897	14,584,590	2,000,043	17,828,476
Impairment	-4,656	0	-148,409	0	0	-44,880	-4,471	-3,373	0	-205,789
Disposals, separations, transfers	-1,681	-2,181,145	0	0	-1,056,028	-12,694	-355,798	0	-2,534,036	-6,141,382
Transfer from investments in progress	32,937	8,175,825	41,899	89,780	4,390,358	5,019,873	234,920	-18,176,253	0	-190,662
BALANCE 31. 12. 2012	7,731,326	237,262,986	16,081,703	13,940,452	90,075,251	16,403,054	15,308,167	5,433,238	37,469	402,273,646
VALUATION ADJUSTMENT										
BALANCE 1. 1. 2012	0	143,359,292	8,832,852	3,224,043	43,836,821	6,384,193	10,693,611	0	0	216,330,812
Increase (depreciation)	0	4,145,826	454,519	293,567	3,263,268	580,407	1,087,190	0	0	9,824,776
Impairment	0	0	-26,737	0	0	-18,064	-1,949	0	0	-46,750
Disposals, separations, transfers	0	-2,116,159	0	0	-1,055,849	-9,810	-315,941	0	0	-3,497,759
BALANCE 31. 12. 2012	0	145,388,960	9,260,634	3,517,610	46,044,240	6,936,726	11,462,910	0	0	222,611,079
CARRYING AMOUNT										
BALANCE 1. 1. 2012	7,512,870	87,578,276	7,354,491	10,623,529	42,722,859	5,037,421	4,223,008	9,028,276	571,462	174,652,191
BALANCE 31. 12. 2012	7,731,326	91,874,026	6,821,069	10,422,842	44,031,011	9,466,328	3,845,256	5,433,238	37,469	179,662,568

New acquisitions are presented in the business report, in chapter 6.6.

Individually significant acquisitions are:

Buildings:

- RTP Bohinj 35/20 KV and landscaping,
- RP Visoko,
- low-voltage cable conduit Krnica,
- RTP Škofja Loka,
- solar power station on the roof of warehouses of Merkur Kranj company in Naklo with power of 931 kilowatts,
- solar power station on the roof of Merkur Kranj shopping center in Primskovo with power of 408 kilowatts,
- solar power station on the roof Šenčur elementary school with power of 241 kilowatts.

Equipment:

- 20 KV primary and secondary electric power equipment for RTP Bohinj,
- Transformer for RTP Zlato Polje,
- 20 KV primary and secondary electric power equipment for RTP Jesenice,
- 20 KV primary and secondary electric power equipment for RTP Visoko.

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:

Buildings:

- 20 KV DV Kamnje - Sveti Duh,
- LV live line Gorjuše,
- LV live line Koprivnik.

Equipment:

- 20 KV electric power equipment RTP Radovljica.

Items **infrastructure** fully refers 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 2012 amounted to 139.810.285 EUR (31. 12. 2011: 133,960,229 EUR). 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.

In October 2012 Gorenjske elektrarne Company appraised its hydro power stations. Appraisal was implemented for the needs of accounting reporting. Appraiser has a licence of certified appraiser at the Slovenian Institute of Auditors and is a recognized lecturer at various conferences and meetings of appraisers and real estate experts. He has a professional certification exam and is an authorized engineer IZS-No. G-1365, permanent court expert of civil engineering, certified appraiser of machinery and equipment value and certified real estate appraiser in accordance with Article 63 of the Auditing Act (Official Gazette RS No. 11/01) and has 22 years of experience in the field of appraisal. He is also a member of the Society of Appraisers and Experts Maribor and member of Real estate experts association FIABCI Slovenia. After the appraisal it was established that accounting values of certain hydro power plants surpass their recoverable amounts, in case of Gorenjske elektrarne Company its value in use. Company recognized operating expenses from revaluation in the amount of 173,844 EUR.

Two solar power station in nett current value of 1,856,553 EUR are pledged as security for a long-term loan.

Elektro Gorenjska Group discloses under its tangible fixed assets also hydro power station Sava and assets (equipment) referring to HPS Jelendol. In connection to the mentioned fixed assets denationalization disputes have begun in the past years, which have not yet been concluded until the date of the preparation of this report.

To finance new acquisitions of fixed assets the group took several long-term loans in year 2012 and previous years, whose balance on 31. 12. 2012 amounted to 40.150.255 EUR (31. 12. 2011: 35,714,637 EUR). Please see also chapter 14.14 titled Long-term liabilities.

14.3 INVESTMENT PROPERTY

At the end of 2012 investment property amounted to **2,041,383 EUR**. Changes in their acquisition value, valuation adjustment and their carrying amount are presented in the following table.

in EUR

2012	LAND	BUILDINGS	TOTAL INVESTMENT PROPERTY
1	2	3	4=2+3
ACQUISITION COST			
BALANCE 1. 1. 2012	967,969	2,453,504	3,421,473
Spin-off	0	0	0
Disposals	-148,758	-274,990	-423,747
Transfer from ongoing investments	0	190,662	190,662
BALANCE 31. 12. 2012	819,212	2,369,176	3,188,388
VALUE ADJUSTMENT			
BALANCE 1. 1. 2012	0	1,246,470	1,246,470
Depreciation	0	45,214	45,214
Disposals	0	-144,679	-144,679
BALANCE 31. 12. 2012	0	1,147,005	1,147,005

Continued on the next page



2012	LAND	BUILDINGS	TOTAL INVESTMENT PROPERTY
1	2	3	4=2+3
CARRYING AMOUNT			
BALANCE 1. 1. 2012	967,969	1,207,034	2,175,004
BALANCE 31. 12. 2012	819,212	1,222,171	2,041,383

Following is the presentation of investment property structure.

in EUR

ITEM DESCRIPTION	31. 12. 2012	31. 12. 2011
Apartments	284,047	220,798
Holiday facilities	493,144	450,118
Other buildings	444,980	536,119
Land	819,211	967,969
TOTAL INVESTMENT PROPERTY	2,041,383	2,175,004

On August 31 2010 valuation of investment property was performed. Fair value of investment property, which the group recognized in the balance as at 31. 12. 2012, amounted to 4,948,983 EUR.

Revenues from rent in investment property amount to 154,932 EUR.

Direct operating expenses (including repairs and maintenance), originating from investment property, which made revenues from rents in year 2012, and direct operating expenses, which did not make revenues from rents in year 2012 consist of depreciation costs (48,205 EUR) and costs of material and services (97,408 EUR).

Bigger new acquisition in year 2012 was renovation and reconstruction of investment property in Kranjska Gora, vale of which amounted to 116.776 EUR including landscaping. There were no significant separations or disposals of investmet property in year 2012.

14.4 LONG-TERM FINANCIAL INVESTMENTS

On December 31 2012 long-term financial investments of the group amounted to **2,427,707 EUR**. Compared to the balance as at 31. 12. 2011 (2,813,200 EUR) their value lowered by 385,493 EUR despite the increase of the value of investment in the associate company. Main reason for the decrease was revaluation of partof investments to a lower fair value.

Long-term financial investment in Soenergetika Company is recognized in the group financial statements using the equity method. Soenergetika Company started its business in year 2010. In 2010 and 2011 its operations represented a preparation stage, that is why the company did not make any sales revenues yet, while in year 2012 the company operated with a profit.

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.

Long-term financial investments were revaluated to their fair value. Revaluation surplus according to the balance as at 31. 12. 2012 amounted to 1,122,030 EUR and was already reduced by deferred tax in the amount of 198,005 EUR. In connection to the impairment of one of the investments the group recognized financial expenses from impairment of financial investments in the amount of 104,701 EUR (please see also chapter 15.13 – Financial expenses from impairments and financial investment write-offs).

Related party transactions are presented in chapter 19 – Transactions with affiliates.

In consolidation of long-term financial investments investment of the controlling company in the shares of the group companies (16,266,893 EUR), which together with the part of the investment in the controlled company Elektro Gorenjska Prodaja reallocated to assets for sale (2,551,591 EUR), amounted to 18,818,484 EUR, was offset against the fixed capital of the controlled companies in the amount of 16.684.880 EUR and capital reserves in the amount of 2,133,604EUR.

Changes in long-term financial investments are presented in the table below.

in EUR

INVESTMENT DESCRIPTION	SHARE DESIGNATION	NUMBER OF SHARES		SHARE IN THE OWNERSHIP (IN %)		BALANCE	INCREASES IN YEAR 2012		DECREASES IN YEAR 2012		TOTAL	
		1. 1. 2012	31. 12. 2012	1. 1. 2012	31. 12. 2012		1. 1. 2012	VALUATION ADJUSTMENTS	NEW ACQUISITIONS	VALUATION ADJUSTMENTS		SALE OR REDISTRIBUTION
Soenergetika, d. o. o.				25.00 %	25.00 %	120,897	59,740	120,000			300,637	
TOTAL INVESTMENTS IN SHARES AND INTERESTS IN ASSOCIATES						120,897	59,740	120,000	0	0	300,637	
Gorenjska banka, d. d., Kranj	GBKR	2,350	2,350	0.71 %	0.71 %	2,048,279			-471,899		1,576,380	
Zavarovalnica Triglav, d. d., Ljubljana	ZVTG	2,664	2,664	0.01 %	0.01 %	26,640	17,316				43,956	
NLB, d. d., Ljubljana	NLB	3,228	3,228	0.03 %	0.03 %	228,599			-109,969		118,630	
Informatika, d. d., Maribor	INFG	1,562	1,562	9.56 %	9.56 %	193,679					193,679	
Stelkom d. o. o., Ljubljana				9.90 %	9.90 %	51,628					51,628	
TOTAL OTHER SHARES AND INTERESTS						2,548,824	17,316	0	-581,868	0	1,984,272	
TOTAL LONG-TERM FINANCIAL INVESTMENTS, EXCEPT LOANS						2,669,721	77,056	120,000	-581,868	0	2,284,909	
Eldom Maribor						142,798					142,798	
Terme Olimia Podčetrtek						680				-680	0	
TOTAL LONG-TERM LOANS						143,479	0	0	0	-680	142,798	
TOTAL LONG-TERM FINANCIAL INVESTMENTS						2,813,200	77,056	120,000	-581,868	-680	2,427,707	

14.5 LONG-TERM OPERATING RECEIVABLES

According to the balance as at 31. 12. 2012 the group did not disclose any long-term operating receivables, while on 31. 12. 2011 they amounted to 8,944 EUR.

14.6 ASSETS FOR SALE

Assets for sale in the amount of 14,274 EUR represent part of the investment property (land).

14.7 STOCKS

Value of stocks of material and small tools as at 31. 12. 2012 amounted to **162.392 EUR**. Compared to the balance as at 31. 12. 2011 they have reduced by 23 % or by 48,941 EUR. Group estimates that net realizable value of stocks is at least equal to their book value.

in EUR

ITEM DESCRIPTION	YEAR 2012	YEAR 2011
Material stocks at the beginning of the period 1. 1.	211,334	321,588
Purchases	2,132,848	3,462,267
Consumption	-2,008,653	-3,341,043
Stock surplus	0	9
Stock deficit	0	-62
Impairments and cancellation of impairments	-5,040	-2,945
Transfer of small tools in use	-168,096	-228,480
MATERIAL STOCKS AT THE END OF THE PERIOD 31. 12.	162,392	211,333

In stocktaking as at 31. 10. 2012 no surpluses or deficits were established, while in stocktaking as at 31. 10. 2011 deficit of 62 EUR was established. In year 2012 stocks were impaired by 5,040 EUR, while in year 2011 realized impairment of stocks amonted to 10,492 EUR and cancellation of stock impairments amounted to 7,547 EUR. Structure of stocks is shown in the following table.

in EUR

ITEM DESCRIPTION	31. 12. 2012	31. 12. 2011
Material and raw materials	147,993	180,055
Small tools	14,399	31,278
TOTAL	162,392	211,333

Group has no pledged stocks as security for its obligations.

14.8 SHORT-TERM FINANCIAL INVESTMENTS

Group did not disclose any short-term financial investments as at 31. 12. 2012. According to their balance as at 31. 12. 2011 their value amounted to 616 EUR.

14.9 SHORT-TERM OPERATING RECEIVABLES

Short-term operating receivables as at 31. 12. 2012 amounted to **17,528,554 EUR** and have lowered by 7.2 % compared to the balance as at 31. 12. 2011.

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

in EUR

ITEM DESCRIPTION	31. 12. 2012	31. 12. 2011
SHORT-TERM ACCOUNTS RECEIVABLE	17,874,916	17,247,732
Short-term advances	10,670	35,982
Adjustment of short-term accounts receivable	-1,677,278	-2,366,588
SHORT-TERM ACCOUNTS RECEIVABLE	16,208,308	14,917,126
Short-term operating receivables from others	1,320,403	1,427,440
Adjustment of short-term receivables from others	-157	-775
Short-term operating receivables from others	1,320,246	1,426,665
SHORT-TERM OPERATING RECEIVABLES	17,528,554	16,343,792

Short-term accounts receivable represent 92.8 % of all short-term operating receivables. Receivables from some key business partners are secured with a bill of exchange, guarantee statement or enforcement draft, otherwise they are entirely unsecured.

Breakdown of short-term claims for electricity, network charge and services including receivables referring to default interest as of December 31 2012 according to maturity terms is shown in the following presentation:

in EUR

ITEM DESCRIPTION	NOT YET DUE	UP TO 30 DAYS	31-60 DAYS	61-90 DAYS	OVER 90 DAYS	TOTAL
Claims on buyers of electricity, network charge and services	13.442.858	1.948.490	342.739	149.425	1.755.148	17.638.662
Default interest claims	40.789	13.610	4.367	5.727	171.761	236.255
TOTAL	13.483.648	1.962.101	347.106	155.153	1.926.909	17.874.916

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

in EUR

ITEM DESCRIPTION	BALANCE 1. 1. 2012	NEW FORMATIONS		WITHDRAWAL (USE) AND ELIMINATION			TOTAL 31. 12. 2012
		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	2,146,988	489	4,725	506,572	0	149,839	1,495,792
Valuation adjustment of interest claims	219,600	15,685	32,873	62,047	21,614	3,012	181,486
TOTAL VALUATION ADJUSTMENT OF CLAIMS	2,366,588	16,174	37,598	568,619	21,614	152,850	1,677,278

14.10 MONETARY ASSETS

As at 31. 12. 2012 Elektro Gorenjska Group had **1,422,288 EUR** of cash on the commercial banks accounts and short-term redeemable deposits in banks in the state.

14.11 SHORT-TERM ACCRUALS AND PRE-PAID EXPENDITURE

Accruals and pre-paid expenditure as at 31. 12. 2012 amount to **790,168 EUR**. Their structure is shown in the next table.

in EUR

ITEM DESCRIPTION	31. 12. 2012	31. 12. 2011
Short-term deferred costs or expenses	657,802	308,575
Short-term accrued income	56,364	1,197
Valuables	9,970	9,822
Short-term deferred claims for VAT from received advances	66,033	191,523
TOTAL	790,168	511,118

Short-term deferred costs or expenses as at 31. 12. 2012 are 279,050 EUR higher than they were on the last day of the previous year. Main two items of short-term deferred costs are:

- short-term deferred costs in respect of the distribution network losses in the amount of 279,666 EUR, which is explained in more detail in chapter 13.3 - Accounts of electricity purchase for losses in network and for implementation of other activities under the Contract with SODO and
- final account of derogations from schedules for year 2012 in the amount of 247,130 EUR, which is explained in more detail in chapter 13.4 – Accounts of electricity purchase – derogations from schedules.

14.12 CAPITAL

Entire capital of the group consists of the share capital, capital reserves, statutory reserves, other reserves, surplus from revaluation and net profit or loss. Balance of the entire capital as at 31. 12. 2012 amounted to **133,442,393 EUR** and was lower by 1.6 % or 2,214,590 EUR compared with the balance of capital as at 31. 12. 2011.

Share capital of Elektro Gorenjska Company (72,019,069 EUR) is divided in 17,302,071 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 EUR** were formed on 1. 1. 2006 in accordance with the transitional provisions (point No 15 of the Introduction to SRS 2006) from the incumbent general revaluation equity adjustment. They are applied in accordance with the Article 64 of ZGD-1.

Statutory reserves as at 31. 12. 2012 amount to 1,191,938 EUR and are formed in accordance to the Article 64 of ZGD-1.

Other profit reserves amount to 15,223,801 EUR and are formed from net profit of the business years and used by the company according to Article 11 of the Statute.

Revaluation surplus (1,316 EUR) arises from revaluation of long-term financial investments (1,122,030 EUR), as explained in chapter 14.4 – Long-term financial investments, and negative fair value of interest rate swap (1,120,714 EUR), which is the result of the variable interest rate fall.

In accordance with the policy of risk management of interest rate resetting for protection of cash flow (liabilities) related to long-term loans raised the group uses simple interest rate swaps, which means that in recording of these the group uses a methodology defined by IAS as »hedge accounting«.

In accounting of interest rate swaps the group uses assumptions on absence of inefficiency. This means that changes of cash flow of secured items are completely neutralized with cash flows related to interest rate swaps or that changes of fair values of interest rate swaps meet changes in values of cash flow of secured items (basic instruments). Changes of fair value of derivative financial instruments are recognized by the group as positive or negative revaluation surplus.

Distributable profit or the remaining net profit of the business year was negative and amounted to -938.629 EUR. According to the balance as at 31. 12. 2012 Elektro Gorenjska company recognized the remaining net profit of the business year in the amount of 1,384,166 EUR. Allocation of this profit is the responsibility of the shareholders meeting. On the last day of year 2012 company Gorenjske elektrarne recognized remaining net profit of the business year in the amount of 104,189 EUR. Its allocation is the responsibility of the owner Elektro Gorenjska Company. According to the balance as at 31.12.2012 Elektro Gorenjska Prodaja recognized net loss of the business year in the amount of 2,484,950 EUR.

Distribution of distributable profit of Elektro Gorenjska company for year 2011 was determined with the decision of the general meeting as of July 2 2012 (please see also Business report, chapter 4.6.1 – Management and governance of Elektro Gorenjska company). In accordance with the decision of the general meeting entire distributable profit in the amount of 1,384,166 EUR was intended for payment of dividends to the owners.

In accordance with the decision of the founder, Elektro Gorenjska Company, entire distributable profit of Gorenjske elektrarne Company for year 2011 (33,065 EUR) and Elektro Gorenjska Prodaja company for year 2011 (29,633 EUR) was allocated to other profit reserves.

In year 2012 net profit or loss after tax with respect to the cumulative growth factor of prices would be negative and would amount to 3,428,493 EUR.

in EUR

ITEM DESCRIPTION	CAPITAL AS AT 31. 12. 2011	% OF GROWTH	CALCULATED EFFECT	PROFIT OR LOSS WITH REVALUATION EFFECT
Capital	135.656.983	2,7	3.662.739	-3.428.493

14.13 PROVISIONS AND LONG-TERM ACCRUED COSTS AND DEFERRED REVENUES

As at December 31 2012 provisions and long-term accrued costs and deferred revenues amounted to **13,568,576 EUR**. Compared to their balance as at December 31 2011 they increased by 369,273 EUR or by 2.8 %.

Provisions for long-service bonuses or 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 of employees, prepared for year 2012. Actuary calculation takes into account the following actuarial assumptions:

- mortality tables of population of Slovenia from 2000–2002, reduced by 10 %,
- linearly decreasing fluctuation from 2.5 % at 15 years of age to 0.5 % at 54 years, then constant 0.5 % fluctuation; total on employees as at 31.12.2012 this means fluctuation of 1.16 % a year for year 2013,
- growth of average earnings in RS for years 2013 and 2014, resulting from the Autumn forecasts of economic trends (2012); from 2015 onwards 3.7 % nominal wage growth in RS has been foreseen,
- yield curve, which is calculated for AAA government bonds for Euro zone countries (spot rates) as at 29. 12. 2012.

Provisions for compensation in connection to the denationalization claims have been additionally formed in the amount of 197,969 EUR.

Tangible fixed assets received free of charge consist of customer connections, which the company took over to its tangible fixed assets together with its commitment to care for their maintenance and renovation, in accordance with regulations, above all the General conditions for the supply and consumption of electricity from the distribution electricity network (Official Gazette RS No. 126/2007, 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.

The following table presents the changes in provisions and long-term accrued costs and deferred revenues:

in EUR

ITEM DESCRIPTION	BEGINNING OF THE PERIOD	INCREASES (FORMATIONS)		DECREASES (WITHDRAWALS, ELIMINATION)			END OF THE PERIOD
	1. 1. 2012	CHARGEABLE TO COSTS (EXPENSES)	RECOGNITION CHARGEABLE TO ASSETS	CREDIT TO OPERATING REVENUES	CREDIT TO LIAB- ILITIES OR SHORT- TERM ACCRUED CHARGES	CREDIT TO APPROPRIATE ASSETS	31. 12. 2012
Provisions for long-service bonuses	1,015,340	159,363	0	0	90,830	0	1,083,873
Provisions for severance pay at retirement	1,764,433	60,808	0	0	60,336	0	1,764,905
TOTAL PROVISIONS FOR LONG-SERVICE BONUSES AND SEVERANCE PAY	2,779,773	220,171	0	0	151,166	0	2,848,778
Provisions for damages in connection with denationalization claims	4,169,140	197,969	0	0	0	0	4,367,109
TOTAL OTHER PROVISIONS	4,169,140	197,969	0	0	0	0	4,367,109
TOTAL PROVISIONS	6,948,913	418,140	0	0	151,166	0	7,215,886
Fixed assets acquired free of charge	1,138,775	0	0	78,931	0	0	1,059,844
Free acquisition of connections	3,025,827	0	330,737	87,565	0	0	3,268,999
Received tangible fixed assets free of charge	4,164,602	0	330,737	166,496	0	0	4,328,843
Deferred revenues in respect of average connection costs	2,037,427	0	0	85,319	0	0	1,952,108
Long-term accrued costs and deferred revenues – right to use	10,440	0	0	580	0	0	9,860
Long-term deferred revenues – HIPERDNO project	14,476	0	24,722	39,197	0	0	0
Received state benefits	8,250	0	36,140	1,633	0	0	42,757
Received assets for Re-energy Fund	15,196	0	0	0	0	0	15,196
Other long-term calculated costs	0	3,927	0	0	0	0	3,927
TOTAL LONG-TERM ACCRUED COSTS AND DEFERRED REVENUES	6,250,391	3,927	391,599	293,226	0	0	6,352,690
TOTAL PROVISIONS AND LONG-TERM ACCRUED COSTS AND DEFERRED REVENUES	13,199,303	422,067	391,599	293,226	151,166	0	13,568,576

14.14 LONG-TERM LIABILITIES

As at 31. 12. 2012 Elektro Gorenjska Group had **35,452,969 EUR** of long-term financial liabilities, which is by 16.5 % more as compared to the balance as at 31. 12. 2011. All long-term financial liabilities have the maturity of more than five years.

In year 2012 we redeemed **6,307,927 EUR** worth of **principals** and paid **1,285,360 EUR of interest** (interest in connection to long-term loans and related interest rate swaps). Interest in the amount of 75,570 EUR was capitalized.

In year 2011 we redeemed by 5,647,521 EUR of principals and paid 1,024,184 EUR of interest. Balance of raised loans as of December 31 2012 amounted to 40,433,223 EUR, while at the end of year 2011 it was 36,385,518 EUR.

Contractual interest rate in most loans is the result of collecting the offers of interested deposit money banks in acquiring the loan, in accordance with the Decree on the terms and conditions and methods of borrowing by legal entities from Article 87 of the Public Finance Act (Official Gazette RS, No. 23/04, 56/05, 65/06, 65/09). Interest rate of all the loans is floating rate, bound by three or six month EURIBOR. Add-on to the three or six month EURIBOR is between 0.3 and 3.6 percent point. All financial liabilities are secured by bills of exchange.

Balance of received loans to finance tangible fixed assets as at 31. 12. 2012 amounted to 40,150,255 EUR.

In connection with long-term financial liabilities the group is exposed mainly to the interest risk, as the long-term loans raised by the company 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 2012 there were 55 % of long-term loans secured with the fixed interest rate, which represents the amount of 22,142,858 EUR. Fair value of interest rate swap as at 31.12.2012 amounted to -1,120,714 EUR. 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. 2012 amounted to 198,972 EUR and were lower by 157,972 EUR compared to the balance on the last day of 2011.

in EUR

TITLE	YEAR OF APPROVAL	YEAR OF MATURITY	PURPOSE OF LOAN	INSURANCE OF LOAN	INTEREST RATE HEDGE	OPENING BALANCE 1. 1. 2012	INCREASES DUE TO NEW BORROWING	AMORTIZATIONS 2012	CLOSING BALANCE	SHORT-TERM PART OF LONG-TERM LOANS 31. 12. 2012	LONG-TERM PART OF LOANS 31. 12. 2012	DUE FROM 31. 12. 2012 TO 31. 12. 2017
1	2	3	4	5	6	7	8	9	10=7+8+9	11=part of 10	12=part of 10	13=part of 10
credit 1	2009	2017	investments	blank bills	yes	7,285,714	0	-1,214,286	6,071,429	1,214,286	4,857,144	6,071,430
credit 2	2008	2016	investments	blank bills	no	5,022,348	0	-1,004,470	4,017,878	1,004,470	3,013,408	4,017,878
credit 3	2007	2014	investments, current assets	blank bills	no	715,359	0	-238,453	476,906	238,453	238,453	476,906
credit 4	2007	2015	investments, current assets	blank bills	no	4,982,569	0	-1,245,642	3,736,927	1,245,642	2,491,285	3,736,927
credit 5	2005	2012	investments, current assets	blank bills	no	801,392	0	-801,392	0	0	0	0
credit 6	2006	2013	investments, current assets	blank bills	no	626,082	0	-357,761	268,321	268,321	0	268,321
credit 7	2006	2014	investments, current assets	blank bills	no	1,252,054	0	-417,351	834,703	417,351	417,351	834,703
credit 8	2010	2018	investments	blank bills	yes	7,200,000	0	-1,028,571	6,171,429	1,028,571	5,142,858	5,142,857
credit 9	2011	2023	investments	blank bills	yes	8,500,000	0	0	8,500,000	637,500	7,862,500	3,187,500
credit 10	2012	2023	investments	blank bills	no	0	4,500,000	0	4,500,000	0	4,500,000	1,800,000
credit 11	2012	2023	investments	blank bills	no	0	4,500,000	0	4,500,000	0	4,500,000	1,800,000
credit 12	2012	2023	investments in TFA	mortgage, assignment of the claim	yes	0	1,400,000	0	1,400,000	90,741	1,309,259	712,963
TOTAL LONG-TERM LOANS						36,385,518	10,400,000	6,307,926	40,477,592	6,145,335	34,332,256	28,049,485

14.15 SHORT-TERM FINANCIAL LIABILITIES

Short-term financial liabilities as at 31. 12. 2012 amounted to **6,173,007 EUR** and are by 2.4 % lower than as at 31. 12. 2011. Short-term financial liabilities to banks refer to the short-term part of long-term loans.

in EUR

ITEM DESCRIPTION	31. 12. 2012	31. 12. 2011
Short-term financial liabilities to banks and companies	6,145,335	6,307,926
Other short-term financial liabilities	27,672	19,902
TOTAL SHORT-TERM LIABILITIES FROM FINANCING ACTIVITIES	6,173,007	6,327,828

14.16 SHORT-TERM OPERATING LIABILITIES

Short-term operating liabilities in the amount of **15,531,691 EUR** were by 1,488,508 EUR higher than compared to the balance as of 31. 12. 2011. 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 EUR		
ITEM DESCRIPTION	31. 12. 2012	31. 12. 2011
Liabilities to suppliers for own account	9,575,630	8,201,319
to other suppliers in the country	9,575,630	8,201,319
Liabilities to other suppliers on its own behalf and for third party account	3,775,193	3,881,235
liabilities to SODO, d. o. o.	3,775,168	3,872,145
to others	25	9,090
Other liabilities, of which:	2,180,869	1,960,629
to workers	876,440	817,211
to state and other institutions	601,789	414,199
for received advances and collaterals	400,989	512,537
other (interests, employee deductions, pension fund management ...)	301,650	216,682
TOTAL SHORT-TERM LIABILITIES FROM OPERATING ACTIVITIES	15,531,691	14,043,183

14.17 SHORT-TERM ACCRUED COSTS AND DEFERRED REVENUES

As at 31. 12. 2012 accrued costs and deferred revenues amounted to **514,860 EUR**. Compared to their balance as at 31. 12. 2011 they are by 1,027,247 EUR lower.

The highest item in accrued costs and deferred revenues (329.877 EUR) represent accrued costs of unused annual leave entitlement for year 2012.

Accrued liabilities in the amount of 141.252 EUR represent short-term deferred revenues in respect of the settlement of rent, services and losses for year 2012. Settlement is explained in more detail also in chapter 13.1 – Transactions with SODO Company.

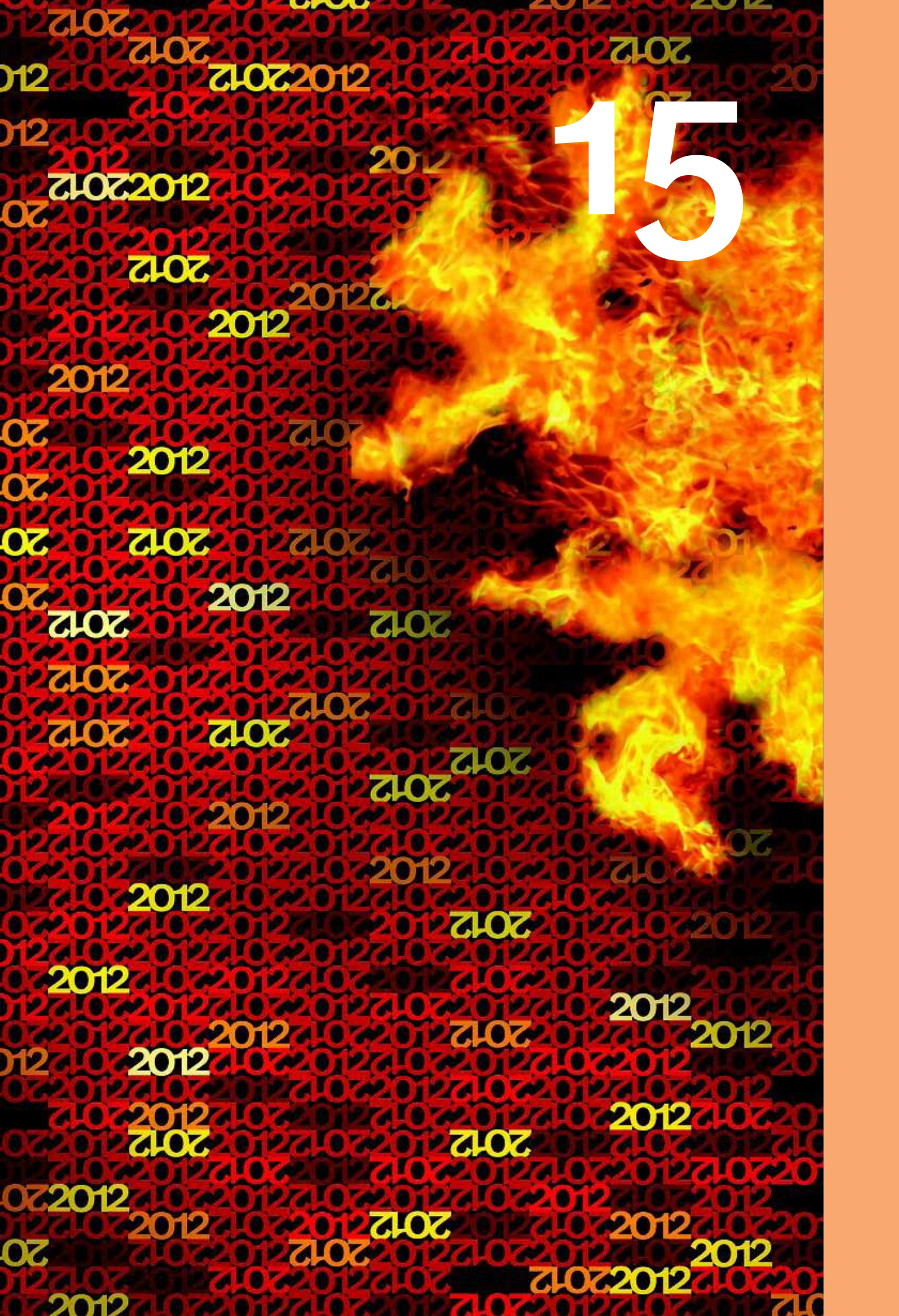
14.18 POTENTIAL ASSETS, LIABILITIES AND OFF-BALANCE SHEET RECORDS

Off-balance sheet assets or liabilities as at 31. 12. 2012 amounted to **14,418,829 EUR** and were higher by 1,260,204 EUR compared to the balance as at 31. 12. 2011. Main items of off-balance sheet assets or liabilities are issued guarantees (7,120,527 EUR), fixed assets in the property of SODO (2,730,083 EUR), which Elektro Gorenjska Company is liable to keep records of in the off-balance sheet in accordance with the Contract with SODO or contract of sale (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) and received guarantees in the amount of 2,555,062 EUR.

in EUR

ITEM DESCRIPTION	31. 12. 2012	31. 12. 2011
Foreign material in warehouse	35,478	106,452
Received guarantees	2,555,062	1,902,899
Issued guarantees	7,120,527	6,861,874
Small tools	1,081,055	1,058,488
Easement	896,625	397,500
Fixed assets in the property of SODO	2,730,083	2,831,411
TOTAL OFF-BALANCE SHEET ASSETS AND LIABILITIES	14,418,829	13,158,625

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15. NOTES ON PROFIT AND LOSS ACCOUNT ITEMS

15.1 NET SALES REVENUES

In year 2012 net sales revenues amounted to **86,757,335 EUR**. 94 % of net sales revenues were achieved on the domestic market. Their structure is presented in the following table.

in EUR

ITEM DESCRIPTION	YEAR 2012	YEAR 2011
Revenues from electricity sale	55,292,831	54,593,990
Revenues from electricity sale -SODO supplies	13,959	671
Revenues from rent and services in relation to SODO	24,845,998	23,406,027
Revenues for covering the losses of electricity in relation to SODO	3,285,655	3,173,926
Revenues from rents	379,869	422,844
Revenues from construction and assembly works	1,990,774	760,557
Revenues from other sale	948,249	959,925
TOTAL NET SALES REVENUES	86,757,335	83,317,940

Majority of net sales revenues in year 2012 represent revenues from electricity sale (55,292,831 EUR), revenues from rent and services related to SODO (24,845,998 EUR) and revenues for covering electricity losses in relation to SODO (3,285,655 EUR).

Quantities of sold electricity are presented in the Business report, chapter 6.3 – Quantities of purchased and sold electricity.

Revenues from rent and services in relation to SODO and revenues for covering the electricity losses in relation to SODO are achieved on the basis of a long-term contract with company SODO on lease of electricity distribution infrastructure and implementation of services of distribution electricity network operator. Contract with SODO is explained in chapter 4.9.3.

Transactions in connection with revenues for losses of electricity in network of the company are presented also in the Business report – chapter 4.9.4 – Electricity losses in network.

15.2 CAPITALIZED OWN PRODUCTS AND OWN SERVICES

In year 2012 capitalized own effects amounted to **2,791,122 EUR**. They were mostly investments in tangible fixed assets – energy infrastructure. Compared to year 2011 amount of capitalied own effects in year 2012 was by 1,519,352 EUR or by 35 % lower. Reason for that is mainly the fact that in year 2012 there were fewer investments on facilities of medium and low voltage where investments are usually implemented by the company itself.

15.3 OTHER OPERATING REVENUES

Other operating revenues in the amount of **778,469 EUR** consist of:

in EUR

ITEM DESCRIPTION	YEAR 2012	YEAR 2011
Revenues from reversal of provisions	0	13,542
Operating revenues from revaluation	478,300	179,443
Revenues in respect of transferring long-term deferred revenues to regular operating revenues:	293,527	298,070
- delivery of fixed assets free of charge	78,931	78,912
- delivery of connections free of charge	87,565	79,339
- average connection costs	85,319	85,319
- other	41,711	54,500
Other operating revenues	6,643	34,827
TOTAL OTHER OPERATING REVENUES	778,469	525,882

Operating revenues from revaluation are mainly operating revenues from revaluation due to reduction in depreciation and amortization costs of claims, operating revenues from revaluation that have occurred in investment property sale and operating revenues from revaluation due to VAT adjustment at bankruptcies or compulsory settlements.

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 14.13 – Provisions and long-term accrued costs and deferred revenues.

15.4 FINANCIAL REVENUES FROM SHARES

In year 2012 Elektro Gorenjska Group realized by **82,073 EUR** of financial revenues from shares. Revenues in the amount of 59,740 EUR represent pro-rata net profit of the associated company Soenergetika, which is consolidated by the equity method, while revenues in the amount of 22,333 EUR refer to the disposal of a part of other long-term invested assets and received dividends.

15.5 FINANCIAL REVENUES FROM LOANS

Financial revenues from given loans consist of:

in EUR		
ITEM DESCRIPTION	YEAR 2012	YEAR 2011
Received interest for short-term deposits in money deposit banks	48,382	100,775
Received interest from long-term loans to others	0	41
TOTAL FINANCIAL REVENUES FROM LOANS	48,382	100,816

15.6 FINANCIAL REVENUE FROM OPERATING RECEIVABLES

In year 2012 Elektro Gorenjska Group realized **129,040 EUR** of financial revenue from operating receivables. As shown in the following table main part were default interest on receivables from electricity and network charge

in EUR		
ITEM DESCRIPTION	YEAR 2012	YEAR 2011
Default interest on receivables from electricity and network charge	124,970	132,530
Interest on other receivables and other	4,070	4,930
TOTAL FINANCIAL REVENUES FROM OPERATING RECEIVABLES	129,040	137,460

15.7 OTHER REVENUES

Other revenues in the amount of **183,965 EUR** include:

in EUR		
ITEM DESCRIPTION	YEAR 2012	YEAR 2011
Received compensations from insurance companies	30,734	187,455
Received compensations from other	105,647	8,245
Other revenues	47,585	8,356
TOTAL OTHER REVENUES	183,965	204,057

15.8 COSTS OF GOODS SOLD AND MATERIALS USED

Costs of goods sold and materials used include:

in EUR		
ITEM DESCRIPTION	YEAR 2012	YEAR 2011
Electricity purchase	51,842,413	49,293,925
Electricity purchase – losses and SODO supplies	2,910,523	2,846,127
Costs of material:	3,061,981	4,353,938
– material costs of maintenance	306,963	289,306
– costs of materials in connection with capitalized own effects, market services	1,792,583	3,196,152
– energy costs	638,489	446,521
– small tool write-off	168,096	230,771
– costs of office supplies	112,273	139,283
– other material costs	43,578	51,905
COSTS OF GOODS SOLD AND EXPENSES	57,814,917	56,493,989

Biggest item within the costs of goods sold and materials used are costs of electricity purchase. In year 2012 they were by 2,548,488 EUR higher than in year 2011. This was mainly the result of higher average purchase prices, explained in Business report chapter 6.4.

Transactions of purchases for losses are presented also in the Business report, chapter 4.9.4 – Electricity losses in network.

Transactions of supplies with electricity are explained in more detail in the Business report in chapter 4.9.5 – SODO supply.

Costs of material used in maintenance of tangible fixed assets are presented also in the Business report, in chapter 6.7 – Maintenance of energy facilities.

Costs of materials related to capitalized own effects and market services (year 2012: 1,792,583 EUR and year 2011: 3,196,152 EUR) 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 group for the needs of the group (capitalized own effects), which is explained in more detail in chapter 15.2 - Capitalized own products and own services,
- values of own services (construction, on-site assembly and similar services), sold on the market (please see also chapter 15.1 – Net sales revenues).

15.9 COSTS OF SERVICES

In year 2012 costs of services amounted to **7,001,973 EUR**, while in year 2011 they amounted to 6,050,987 EUR. 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 EUR		
ITEM DESCRIPTION	YEAR 2012	YEAR 2011
Costs of service in creating products and implementing services	1,437,845	375,840
Costs of transport services	535,781	535,991
Costs of services in respect of maintenance of electric power infrastructure and other tangible fixed assets	1,813,226	2,004,744
Rents	102,600	58,851
Reimbursements of work related costs to employees	37,649	52,957
Costs of payment transactions, banking services and insurance premiums	563,826	488,899
Costs of intellectual and personal services	745,217	560,053
Costs of advertising and representation	143,824	143,213
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 ...)	144,536	102,967
Costs of other services	1,477,469	1,727,472
TOTAL COSTS OF SERVICES	7,001,973	6,050,987

Costs of services in creating products and implementing services in the amount of 1,437,845 EUR 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 group for the needs of the group (capitalized own effects), which is explained in more detail in chapter 15.2. - Capitalized own products and own services,
- values of services (construction, electricity on-site assembly and similar services) sold on market (please see also chapter 15.1 – Net sales revenues).

Maintenance of electricity infrastructure is presented also in Business report, chapter 6.7 – Maintenance of energy facilities.

Costs of intellectual services include costs of scientific and research work also presented in Business report in chapter 6.8 – Development and design, and costs of education and related costs of tuition fees and costs of additional professional education of employees presented in Business report in chapter 9.1.4.

Costs of advertising and representation include also costs of sponsorships explained in more detail also in 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.

15.10 LABOR COSTS

Labor costs in the amount of **11,618,751 EUR** consist of:

in EUR		
ITEM DESCRIPTION	YEAR 2012	YEAR 2011
Salary costs	8.307.019	8.108.299
Costs of voluntary pension insurance of employees	396.039	398.296
Costs of employer's contributions and other benefits from salaries	1.420.033	1.369.218
Costs of transport allowances	326.651	324.323
Costs of lunch	519.791	507.984
Costs of employees insurance	32.224	31.346
Bonuses, severance pays, social relief	359.395	31.104
Pay for annual leave	257.596	572.460
TOTAL LABOR COSTS	11.618.751	11.343.031

Share of the parent Elektro Gorenjska Company in labor costs is 80 %.

Costs of voluntary pension insurance are presented also in the Business report, chapter 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 2012 in the amount of 780,578 EUR; year 2011 in the amount of 749,138 EUR.

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 19.2 – Transactions with management, supervisory board and employees under contract for which tariff part of the collective agreement does not apply.

15.11 AMORTIZATION / DEPRECIATION EXPENSES

Amortization / depreciation expenses in year 2012 amounted to **11.618.634 EUR** and were by 7.2 % higher than in year before. Higher value in year 2012 is mainly the result of operating expenses from revaluation of intangible fixed assets due to information system write-off in Elektro Gorenjska Prodaja company in the amount of 613,000 EUR (please see also chapter 14.1 - Intangible assets and long-term accruals and pre-paid) and due to impairment of tangible fixed assets in Gorenjske elektrarne company in the amount of 186,606 EUR (please see also chapter 14.2 – Tangible fixed assets).

Their structure is the following:

in EUR		
ITEM DESCRIPTION	YEAR 2012	YEAR 2011
Depreciation of intangible fixed assets	849,134	742,131
Depreciation of tangible fixed assets	9,821,785	9,563,792
Depreciation of investment property	48,205	43,057
TOTAL DEPRECIATION COSTS	10,719,124	10,348,980
Operating expenses from revaluation of fixed assets	894,240	73,374
Operating expenses from revaluation of current assets:	5,270	419,168
TOTAL AMORTIZATION / DEPRECIATION COSTS	11,618,634	10,841,522

Costs of depreciation of intangible fixed assets (849,134 EUR) are presented also in chapter 14.1 – Intangible assets and long-term accruals and prepaid expenditure; costs of depreciation of tangible fixed assets (9,821,785 EUR) in chapter 14.2 – Tangible fixed assets and costs of depreciation of investment property (48,205 EUR) in chapter 14.3 – Investment property.

15.12 OTHER OPERATING EXPENSES

Other operating expenses in the amount of **920,553 EUR** include:

in EUR		
ITEM DESCRIPTION	YEAR 2012	YEAR 2011
Contribution for promotion of employment of persons with disabilities	70.507	61.861
Contribution for urban land	99.308	93.244
Contribution for contaminated water	9.754	8.518
Concession for water use	117.114	108.013
Provisioning	418.140	345.734
- for long-service bonuses and severance pay at retirements	220.171	147.765
- other provisions	197.969	197.969
Other expenses (membership fees, environment protection costs, scholarships ...)	205.730	173.219
TOTAL OTHER OPERATING EXPENSES	920.553	790.590

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 and scholarships in chapter 9.1.6 – Scholarships.

Provisioning is explained in more detail also in chapter 14.13 - Provisions and long-term accrued costs and deferred revenues.

15.13 FINANCIAL EXPENSES FROM IMPAIRMENTS AND FINANCIAL INVESTMENT WRITE-OFFS

In year 2012 the group had by **104,701 EUR** of financial expenses from impairments of long-term financial investments in shares of Nova Ljubljanska bank. In year 2011 the group had no such expenses.

15.14 FINANCIAL EXPENSES FROM FINANCIAL LIABILITIES

In year 2012 financial expenses from financial liabilities amounted to **1,239,447 EUR**. As shown in the table below, they mainly include expenses from interest for received long-term loans in commercial bank.

in EUR

ITEM DESCRIPTION	YEAR 2012	YEAR 2011
Expenses from interests for received long-term loans in commercial banks	932.662	1.008.287
Expenses from interests for received short-term credit in commercial bank	29.656	2.200
Expenses from interest – interest rate swap	277.129	23.590
TOTAL FINANCIAL EXPENSES FROM FINANCIAL LIABILITIES	1.239.447	1.034.078

15.15 FINANCIAL EXPENSES FROM OPERATING LIABILITIES

In year 2012 financial expenses from operating liabilities amounted to **11,957 EUR** and mainly represent expenses for interest related to ther operating liabilities.

15.16 OTHER EXPENSES

Other expenses consist of compensations in construction and other expenses. In year 2012 they amounted to **11,066 EUR**, while in year 2011 to 10,458 EUR.

15.17 BREAKDOWN OF COSTS BY FUNCTIONAL GROUPS

Breakdown of costs by functional groups is shown in the following table:

in EUR

ITEM DESCRIPTION	YEAR 2012	YEAR 2011
Costs of operating effects sold	79.380.067	76.957.269
Costs of general activities	5.816.461	5.297.066
Costs of sales	2.878.789	2.773.242
TOTAL	88.075.317	85.027.577

15.18 INCOME TAX

Charged income tax for 2012 business year amounted to **194,141 EUR** (year 2011: 513,266 EUR). Main reason for lower income tax charged was besides lower net profit before tax also using the investment allowance for equipment based on the amendment in the Corporate Income Tax Act in year 2012.

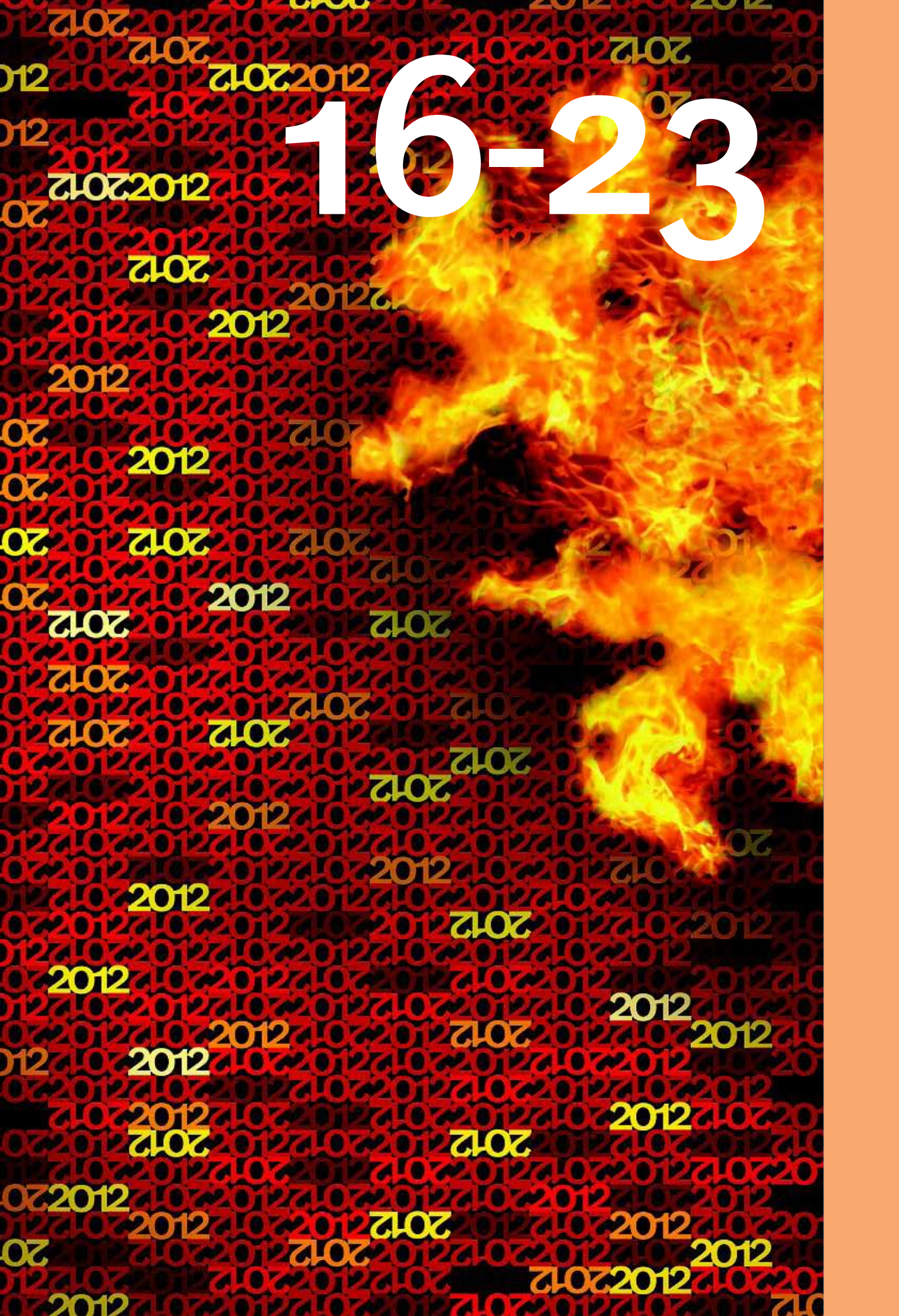
Within the companies in Elektro Gorenjska Group only Elektro Gorenjska Company has been recognizing liability for income taxes. Gorenjske elektrarne Company has no liabilities for income taxes due to investment allowance for equipment, while Elektro Gorenjska Prodaja has no income tax liabilities due to its negative operating result.

15.19 DEFERRED TAX LIABILITIES AND DEFERRED TAXES

Deferred tax liabilities as at 31. 12. 2012 amounted to 198,005 EUR and refer entirely to the revaluation of long-term financial investments.

Liabilities for deferred tax which amounted to 1,265,247 EUR as at 31. 12. 2012, were not recognized in accordance with SRS 5.16 by the group (uncertainty about future taxable profits). In year 2011 Elektro Gorenjska group implemented a restructuring (spin-off of a part of the company), so future operation is even more uncertain.

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16. NOTES ON OTHER COMPREHENSIVE
INCOME ITEMS
17. NOTES ON CASH FLOW ITEMS
18. CONTINGENT LIABILITIES
19. TRANSACTIONS WITH AFFILIATES
20. AUDITING COSTS
21. DATE OF APPROVAL OF FINANCIAL
STATEMENTS
22. EVENTS AFTER THE BALANCE SHEET DATE
23. MANAGEMENT RESPONSIBILITY STATEMENT

16. NOTES ON OTHER COMPREHENSIVE INCOME ITEMS

Change in the revaluation surplus of financial assets, available for sale in the amount of -301,879 EUR, consists of revaluation of long-term financial investment to lower fair value (-477,168 EUR), revaluation of long-term financial investment to higher fair value (17,316 EUR) and consequently reduction of the deferred tax liabilities (157,971 EUR).

Other components of the comprehensive income in the amount of -762,791 EUR refer to the negative fair value of the interest rate swap, which is the result of a variable interest rate.

17. NOTES ON CASH FLOW ITEMS

In year 2012 Elektro Gorenjska Group had 156,078,328 EUR of receipts and 157,848,829 EUR 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 2012 was negative and amounted to -1,770,501 EUR.

As at 1. 1. 2012 the group had on transaction accounts in banks monetary assets in the form of short-term deposits or deposits redeemable in the amount of 3,192,788 EUR, while the balance of these assets on 31.12.2012 amounted to 1,422,287 EUR.

Net cash from operating activities in year 2012 amounted to 8,851,465 EUR, which means that companies in the group operate positively with their main activity and create a positive cash flow. This way in year 2012 the group was able to settle all its liabilities (expenditure) referring to the repayment of the principals and interests in respect of long-term credits and could partly finance new acquisitions of intangible and tangible assets. The largest revenues were revenues from customers for payment of electricity and revenues received under the Contract with SODO for implementation of services and rents for electric power infrastructure.

Net cash used in investing activities in year 2012 amounted to 12,076,582 EUR. In the 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 14.2 – Tangible fixed assets). New acquisitions of intangible and tangible assets were mainly financed by acquisition of new long-term credit in the amount of 10,400,000 EUR (explained in chapter 14.14 – Long-term liabilities), while partly they were financed also by net cash from operating activities. Net cash used in financing activities in the amount of 1,454,887 was thus expected.

18. 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 14.18 - Potential assets, liabilities and off-balance sheet records.

19. TRANSACTIONS WITH AFFILIATES

19.1 TRANSACTIONS WITH GROUP COMPANIES IN YEAR 2012

In year 2012 the controlling company Elektro Gorenjska operated with two controlled companies - Gorenjske elektrarne and Elektro Gorenjska Prodaja.

Among transactions within the group, which were eliminated from the consolidated balance sheet, the most important are liabilities (claims) in respect of electricity sale within the group in the amount of 100,359 EUR.

Significant transactions within the group that were eliminated from the consolidated profit/loss account include the following:

in EUR	
ITEM DESCRIPTION	2012
Revenues from services rendered in general services of the controlling company (costs of controlled companies)	441,467
Revenues from rents (costs of controlled company rents)	268,540
Revenues (costs) from sale (purchase) of electricity within the group	40,038
Other revenues (costs or expenditures) within the group	66,104

All transactions with controlled companies were implemented under normal market conditions.

As controlling company Elektro Gorenjska Company did not obstruct or impair operations of companies Gorenjske elektrarne and Elektro Gorenjska Prodaja as the controlled companies.

19.2 TRANSACTIONS WITH MANAGEMENT, SUPERVISORY BOARD AND EMPLOYEES UNDER CONTRACT FOR WHICH TARIFF PART OF THE COLLECTIVE AGREEMENT DOES NOT APPLY

Chairman of the Board in the controlling company and directors of the controlled companies

In year 2012 Elektro Gorenjska Group paid persons stated below the following gross or nett receipts:

in EUR

	EARNING	OPERATING PERFOR- MANCE	TERMINAL LEAVE PAY	LONG-SERVICE BONUS	PAY FOR ANNUAL LEAVE	PAYMENT OF UNUSED ANNUAL LEAVE	REIMBURSE- MENTS OF COSTS	TOTAL
1. ELEKTRO GORENJSKA								
gross receipt	73,333	0	0	0	0	6,215	3,145	82,694
net receipt	34,085	0	0	0	0	3,106	3,145	40,336
2. ELEKTRO GORENJSKA PRODAJA - UNTILL 31. 5. 2012								
gross receipt	32,269	0	0	1,900	0	0	1,879	36,047
net receipt	16,236	0	0	1,305	0	0	1,879	19,420
3. ELEKTRO GORENJSKA PRODAJA - SINCE 1. 6. 2012								
gross receipt	30,104	0	0	0	0	0	889	30,993
net receipt	16,607	0	0	0	0	0	889	17,496
4. GORENJSKE ELEKTRARNE								
gross receipt	45,096	0	0	0	0	0	1,883	46,979
net receipt	25,999	0	0	0	0	0	1,883	27,882

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 collective agreement or in accordance with the company's rules.

Benefits of the Chairman of the Board in the controlling company and directors of the controlled companies arising from the employment contract were the following in year 2012:

in EUR

CHAIRMAN OF THE BOARD / COMPANY DIRECTOR	INSURANCE PREMIUMS	USE OF COMPANY CAR	USE OF MOBILE PHONE
Elektro Gorenjska	721	10.664	977
Elektro Gorenjska Prodaja - untill 31. 5. 2012	466	2.749	615
Elektro Gorenjska Prodaja - since 1. 6. 2012	652	4.530	176
Gorenjske elektrarne	793	7.576	650

Supervisory board

In year 2012 supervisory board held a total of 14 sessions. 11 regular sessions took place (7. 2. 2012, 28. 3. 2012, 24. 4. 2012, 14. 5. 2012, 23. 5. 2012, 27. 6. 2012, 24. 7. 2012, 25. 9. 2012, 23. 10. 2012, 20. 11. 2012, 4. 12. 2012), two extraordinary sessions (27. 2. 2012, 30. 5. 2012), one was a

correspondence session (13. - 14. 12. 2012). All members of the supervisory board were present at the regular sessions. On one of the extraordinary session one member was missing. On the correspondence session all members of the supervisory board voted. Within the supervisory board an audit committee has been operating, its members are Duško Kapevski, MSc, Alenka Bradač, MSc and Darja Orožen. Audit committee held 10 regular sessions in year 2012 (19. 1. 2012, 16. 3. 2012, 24. 3. 2012, 24. 4. 2012, 21. 6. 2012, 13. 7. 2012, 3. 9. 2012, 17. 9. 2012, 19. 10. 2012, 13. 11. 2012) and one extraordinary session (20. 7. 2012). One of the members was not present at the extraordinary session and was absent twice on the regular sessions.

Gross and net receipts of the supervisory board members and members of the committees in year 2012 were the following:

in EUR

		PARTICIPATION AT THE SESSION		PARTICIPATION AT THE COMMITTEE		PAYMENT FOR THE PERFORMANCE OF THE FUNCTION	ATTENDANCE FEE SB	ATTENDANCE FEE COMMITTEE	TRAVEL EXPENSES	TOTAL
	Gross/net	No. of sessions	attendance	No. of sessions	attendance					
1. EXTERNAL MEMBERS OF SB										
mag. Darjan Petrič	gross	14	13			16,950	3,300	0	0	20,250
	net					12,973	2,558	0	0	15,530
dr. Aleš Groznik	gross	14	14			11,300	3,575	0	695	15,570
	net					8,578	2,771	0	539	11,887
mag. Alenka Bradač	gross	14	14	11	8	15,428	3,575	1,760	382	21,145
	net					11,793	2,771	1,364	296	16,224
mag. Duško Kapevski	gross	14	14	11	11	15,797	3,505	2,420	294	22,016
	net					12,079	2,716	1,876	228	16,899
2. INTERNAL MEMBERS OF SB										
Vojko Oman	gross	14	14			11,300	3,575	0	0	14,875
	net					8,559	2,771	0	0	11,330
Leopold Zupan	gross	14	14			11,300	3,575	0	0	14,875
	net					8,594	2,771	0	0	11,365
3. EXTERNAL MEMBER OF THE COMMITTEE										
Darja Orožen	gross			11	11	6,799	0	2,640	401	9,840
	net					5,269	0	2,046	311	7,626

As explained in chapter 4.6.1 – Management and governance of Elektro Gorenjska Company, 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 2012 are shown in the following table.

in EUR

	MEMBERSHIP FEES	COSTS OF MOBILE PHONE	INSURANCE	TOTAL
1. EXTERNAL MEMBERS OF SB				
mag. Darjan Petrič	0	0	727	727
dr. Aleš Groznik	0	73	727	800
mag. Alenka Bradač	0	0	727	727
mag. Duško Kapevski	0	0	727	727
2. INTERNAL MEMBERS OF SB				
Vojko Oman	155	0	727	882
Leopold Zupan	0	0	727	727

Following table presents memberships of the company's supervisory board members in other managerial and supervisory bodies.

MEMBERSHIP	
1. EXTERNAL MEMBERS OF SB	
mag. Darjan Petrič	Supervisory board of Vincenc Draksler Foundation for Addicts management - Strateško in informacijsko svetovanje Darjan Petrič s. p.
dr. Aleš Groznik	supervisory board of Modra zavarovalnica
mag. Alenka Bradač	Supervisory board of Tržič Municipality AB PLUTOS, business consultancy Alenka Bradač s. p.
mag. Duško Kapevski	management board member in Construction Institute ZRMK d. o. o.
2. INTERNAL MEMBERS OF SB	
Vojko Oman	-
Leopold Zupan	-

Board of directors and the supervisory board did not receive any receipts in respect of performing the functions in controlled companies. Companies in Elektro Gorenjska Group received and also approved no advances, loans, or guarantees to persons mentioned in this chapter or groups of people and did not disclose any claims on them in this respect as of December 31 2012.

20. AUDITING COSTS

Under Article 57 of the Companies Act (ZGD-1) Elektro Gorenjska Group is subject to annual report audit. Contractual amount for auditing the financial statements of companies within the group and Elektro Gorenjska Group for year 2012 amounted to 24,100 EUR. Total costs of auditing services (different auditing firms) in year 2012 amounted to 75,625 EUR.

21. DATE OF APPROVAL OF FINANCIAL STATEMENTS

Management of Elektro Gorenjska Company approved the financial statements prepared for business year 2012 on April 8 2013.

22. EVENTS AFTER THE BALANCE SHEET DATE

After the balance sheet date (31. 12. 2012) and until the date of approval of these financial statements (8. 4. 2012) two events occurred, which had a significant influence on the financial statements for 2012 business year.

1. Preliminary settlement of SODO for the 2012 regulatory year

In March 2013 Elektro Gorenjska Company received from SODO Company the preliminary calculation of the regulatory year 2012. SODO implemented the preliminary settlement for year 2012 based on the unaudited financial statements. It is evident from the document that in year 2012 the already charged contractual value of services, rent and losses was by 141,252 EUR higher than the value arising from the preliminary settlement. Based on that in year 2012 the company deferred in the short-term revenues in respect of rent and services under the contract with SODO in the amount of 141,252 EUR.

2. Final settlement of SODO for the 2012 regulatory year

In March 2013 Elektro Gorenjska Company received from SODO Company the final calculation of the regulatory year 2011. In accordance with the fifth paragraph of Article 60 of the Contract on electricity infrastructure lease and provision of services for electricity distribution system operator SODO implemented the final settlement of the 2011 regulatory year, which was assessed by AGEN-RS in accordance with the provisions of the Act determining the methodology for charging for the network charge, the methodology for setting the network charge, and the criteria for establishing eligible costs for electricity networks. Final settlement has shown that the already charged value of services, rent and losses for year 2011 was by 139,015 EUR lower than the values arising from the final settlement. Company recognized revenues in the amount of 139,015 EUR and distinguished them appropriately in year 2012.

23. MANAGEMENT RESPONSIBILITY STATEMENT

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

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

Management board of Elektro Gorenjska is responsible for appropriate accounting in the group, for establishment and maintenance of the appropriate internal control system related to the preparation and fair representation of consolidated financial statements, which do not contain significantly wrong statements due to fraud or error, for adoption of appropriate measures to protect the property and other assets, and hereby certifies that financial statements were prepared on a going concern basis and in line with the relevant legislation and Slovene Accounting Standards, which were adopted by the Slovenian Institute of Auditors.

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

Kranj, April 8 2013

Chairman of the Board:
Bojan Luskovec, M.Sc.





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