



# CONSOLIDATED ANNUAL REPORT OF ELEKTRO GORENJSKA GROUP 2011



**CONSOLIDATED ANNUAL REPORT OF  
ELEKTRO GORENJSKA GROUP 2011**



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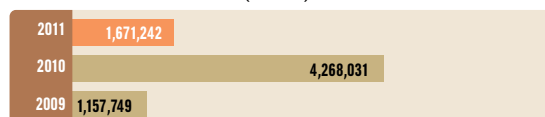
# LIST OF ABBREVIATIONS

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

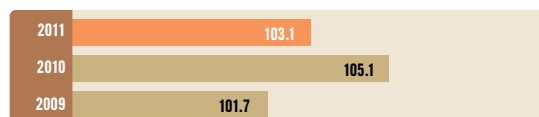
NP	PURCHASE AND SALE
OE	ORGANIZATIONAL UNITS
POGODBA s	
SODO, d. o. o.	CONTRACT ON ELECTRICITY INFRASTRUCTURE LEASE AND PROVISION OF SERVICES FOR ELECTRICITY DISTRIBUTION SYSTEM OPERATOR
RTP	TRANSFORMER SUBSTATION
SAIDI	SYSTEM AVERAGE INTERRUPTION DURATION INDEX
SAIFI	SYSTEM AVERAGE INTERRUPTION FREQUENCY 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

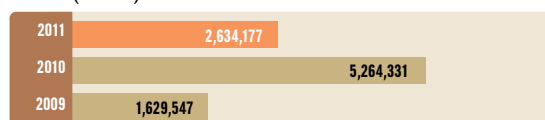
## NET PROFIT OR LOSS (EUR)



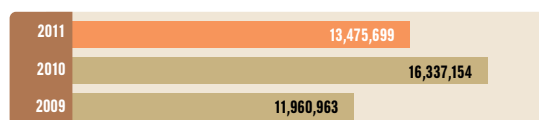
## ECONOMY OF OPERATION



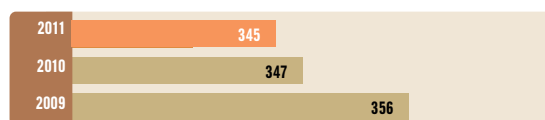
## EBIT (EUR)



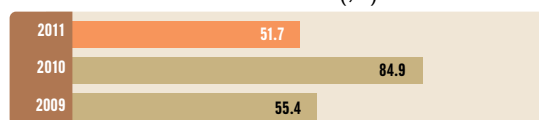
## EBITDA



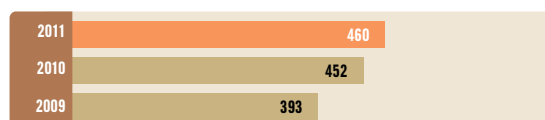
## AVERAGE NUMBER OF EMPLOYEES



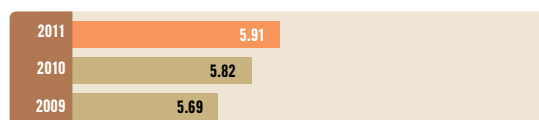
## SHARE OF EMPLOYEES INCLUDED IN VARIOUS EDUCATIONS AND TRAININGS (%)



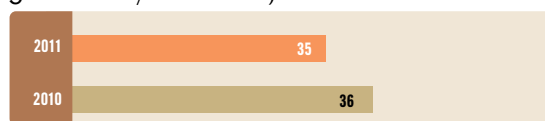
## COSTS OF EDUCATION PER EMPLOYEE



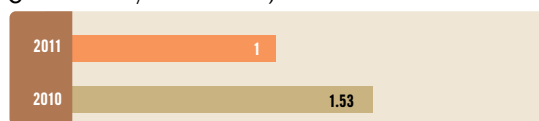
## AVERAGE LEVEL OF EDUCATION



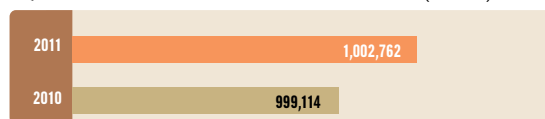
## SAIDI (AVERAGE TIME OF DURATION OF UNANNOUNCED INTERRUPTIONS LONGER THAN 3 MINUTES /CUSTOMER)



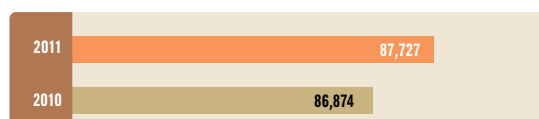
## SAIFI (AVERAGE NUMBER OF UNANNOUNCED INTERRUPTIONS LONGER THAN 3 MINUTES /CUSTOMER)



## QUANTITIES OF DISTRIBUTED ELECTRICITY (MWh)



## NUMBER OF CUSTOMERS CONNECTED TO DISTRIBUTION NETWORK





# BUSINESS REPORT

WITHIN THE **S KOLESOM POTUJEM, OKOLJE VARUJEM** (I RIDE MY BIKE AND PROTECT THE ENVIRONMENT) PROJECT, WHICH STIMULATES GREEN MOBILITY AND SUSTAINABLE DEVELOPMENT IN PLACES IN GORENJSKA REGION, **ELEKTRO GORENJSKA** DONATED 28 RE-ENERGY ELECTRIC BIKES TO EIGHT TOURIST ASSOCIATIONS OR ORGANIZATIONS IN GORENJSKA REGION.



# **1. IMPORTANT EVENTS AND AWARDS OF ELEKTRO GORENJSKA GROUP IN YEAR 2011**



## **JANUARY**

- In Brdo pri Kranju Elektro Gorenjska was awarded for its business excellence: silver certificate in the category of enterprises with more than 250 employees in private sector and a certificate for the finalists.
- Elektro Gorenjska participated in the first business conference of Slovenian electricity distribution companies titled Development possibilities and opportunities of electricity distribution.

## **FEBRUARY**

- Elektro Gorenjska established a new subsidiary Elektro Gorenjska Prodaja to provide for the market activity of purchase and sale of electricity. Iztok Sotošek was appointed the director of the company.
- Soenergetika Company comprised of four companies including Gorenjske elektrarne, received a building permit for installation of two cogeneration engines in the boiler house in Planina pri Kranju for the construction of the heat and electricity cogeneration.

## **MARCH**

- At the press conference Elektro Gorenjska presented its operation of the past year, business strategy and business and market activities for year 2011.
- During the excursion allowing them to follow the novelties the technical college of Elektro Gorenjska visited the project of the installation of a phase shifting transformer 400/400 kV in RTP Divača.
- Gorenjske elektrarne executed the regular annual review of HPP Savica with a focus on execution of additional and very demanding works.

## **APRIL**

- Gorenjske elektrarne formally hired out office space to the Local energy agency of Gorenjska (LEAG), their tenants at Stara cesta in Kranj.
- In the framework of »Loško je ekološko (Loško is eco)« project Elektro Gorenjska Group once again demonstrated its social responsibility and participated in the lectures on the rational use of energy and energy potentials, and organized an open day at the solar power plant in Trata in Škofja Loka.
- With the project "S kolesom potujem, okolje varujem" (I ride my bike to protect the environment) Elektro Gorenjska started stimulating green mobility and sustainable tourism in places in Gorenjska region, where they already have an electricity charging station. With the Re-energy Fund funds they bought and donated 28 electric bikes to eight tourist societies or organizations, and formally opened the seventh electricity charging station in Breznica pri Žirovnici.
- Employees of Gorenjske elektrarne carried out a cleaning campaign and cleaned up the surrounding of the administrative building.

## **MAY**

- Elektro Gorenjska signed a contract with Ekvilib Company and approached the acquisition of the basic »Family-friendly Company« certificate.
- Employees in Elektro Gorenjska elected new Elektro Gorenjska Works council members.
- Elektro Gorenjska Group organized an eco day at the Križe Elementary School in the framework of the European solar days.
- In the boiler room of Tržič Elementary School Gorenjske elektrarne set a cogeneration device with 65 kW of calorific power and 3 kW of electric power.
- In the Elektra Gallery Elektro Gorenjska hosted several selected works of painter and Prešeren Fund winner Valentin Oman.

## **JUNE**

- Elektro Gorenjska Group participated in the largest event of the profession, the 10th conference on Slovenian electricity distribution.
- On the world environment day Elektro Gorenjska published the sixth issue of Reenergija Club magazine.

## JULY

- Gorenjske elektrarne put to operation its eighth solar power station with the power of 35 kW, set on the roof of Primskovo warehouse.
- Elektro Gorenjska acquired proper frequencies at APEK for the WiMax digital communication system for the period of 10 years. With its help and five base stations this will cover 70 % of its proper energy network. Fast, reliable and above all quality energy data transmission will be enabled.
- Elektro Gorenjska published its annual report in Slovenian and English, Report on environmental management and Report on health and safety at work.

## AUGUST

- At the 15th general meeting of the company new members of the supervisory board were elected, Alenka Bradač, MSc and Duško Kapevski, MSc. Works council appointed Leopold Zupan a new employee member of the supervisory board (replacing Iztok Štular, whose mandate expired on August 6 2011). Supervisory board was thus comprised of Aleš Groznik, PhD, Alenka Bradač, MSc, Duško Kapevski, MSc, Vojko Oman, and Leopold Zupan. Darjan Petrič, MSc was appointed a new chairman of the supervisory board.
- Elektro Gorenjska finished the construction of a shelter representing a sustainable solution for the protection of commercial vehicles and other equipment.

## SEPTEMBER

- At the press conference Elektro Gorenjska Group presented the changed way of operation of companies in the group: subsidiary Elektro Gorenjska Prodaja started its independent operation.
- Elektro Gorenjska received a basic Family Friendly Company certificate, with which it committed itself to improving the balancing of professional and private lives of employees in the group.
- In cooperation with Energosolar Company Gorenjske elektrarne acquired a franchise for the Solar Roof Exchange of the German Company Alpensolar Dach Borze.

## OCTOBER

- Elektro Gorenjska successfully passed a regular assessment of the quality management system, regular assessment of the environmental management system, and follow-up assessment of health and safety at work system management.
- Elektro Gorenjska became one of the first distribution companies to have a team of qualified employees for live work at low voltage.
- Elektro Gorenjska Prodaja became the golden sponsor of Triglav Kranj Basketball Team. Press conference was organized at the seat of Elektro Gorenjska Company.

## NOVEMBER

- Elektro Gorenjska Group participated in the campaign »Ljudje odprtih rok« (People with open arms), taking place for 18 years under the auspices of Naša žena magazine, and received an acknowledgment for the benefactor of year 2011.
- Elektro Gorenjska participated at the First conference Technological platforms for the smart grids at the Slovenian Chamber of Commerce in Ljubljana.

## DECEMBER

- As a supporter of the pan-Slovenian campaign Ne-odvisen.si representatives of Elektro Gorenjska participated at the evening social event in Kranj Municipality.
- Elektro Gorenjska Group gave up the purchase of business presents and devoted its resources to charity. They helped the Center for the blind, visually impaired and elderly citizens in Škofja Loka with the purchase of an exercise bike for persons with disabilities. Sonček society of Upper Gorenjska was enabled an easier and higher quality organization of its programs prepared for the Sonček children. By purchasing New Year greeting cards and products Elektro Gorenjska also helped users of Sonček Association.
- Gorenjske elektrarne put into operation the largest solar power station in Gorenjska region on the roofs of Merkur Kranj warehouses in Naklo with the power of 800 kW. Together with their partners the project was also presented to the media.
- At the end of the year Gorenjske elektrarne connected the tenth proper solar power station on the roof of Šenčur Elementary School.

# 2



POSSIBILITY OF LIVE WORK PRESENTS AN EXCEPTIONAL TURNING POINT IN ELECTRIC POWER FIELD. EMPLOYEE OF ELEKTRO GORENJSKA, TRAINED FOR LIVE WORK AT LOW VOLTAGE, AT WORK.

## **2. HIGHLIGHTS OF ELEKTRO GORENJSKA GROUP OPERATION IN YEAR 2011 AND GOALS OF THE GROUP IN YEAR 2012**

Year 2011 was a milestone for Elektro Gorenjska Group – in the field of organization and operation. With the help of an appropriate management we:

- spin out the market activity of purchase and sale of electricity to an independent company in accordance with the legislation requirements and provisions of the Energy Act,
- successfully implemented a process of changed way of business and process optimization, which will enable business success and development of independent companies in Elektro Gorenjska Group,
- as the only supplier we kept our commitment as well as our electricity prices for final customers in year 2011 at the same level despite the Fukushima accident,
- completed the training for live work, which we will start using in year 2012,
- started the information renovation processes.

## MAIN GOALS FOR ELEKTRO GORENJSKA GROUP IN YEAR 2012 ARE THE FOLLOWING:

Year 2012 will be at least as ambitious as year 2011 has been. Spin-out procedure is completed and a new period has begun for all companies in the group. We realistically expect a new wave of economic recession, which will affect the quantity of distributed electricity and payment indiscipline that will threaten also operations of all group companies as a consequence. Main efforts of the group in year 2012 will thus be oriented to the following goals:

1. To ensure quality, punctual and cost-efficient:
  - safe network operation,
  - network maintenance with the use of modern and cost-efficient methods, and
  - efficient implementation of investments in a proper electricity infrastructure.
2. To optimize and modernize information support, which 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 actively participate in international development projects.
5. To meet shareholders' expectations.
6. To participate in reorganization of energy sector (distribution, market and production parts).
7. To spread entrepreneurial atmosphere in the company and care for a quality dialogue with the employees.
8. To remain an important factor of professional development in the region and provide for additional rising of public awareness.
9. To operate in accordance with the quality policy.



INSTALLATION OF 110 kV COMPACTED POWER LINE ON POWER LINE CONNECTION BETWEEN JESENICE AND KRANJSKA GORA. NEW IMPLEMENTATION OF POWER LINE IS AN INNOVATION OF ELEKTRO GORENJSKA DESIGNERS AND PRESENTS A NOVELTY IN THE FIELD OF POWER LINES PLANNING.



## 3. MANAGEMENT REPORT

# DEAR SHAREHOLDERS, INVESTORS AND PARTNERS!

For Elektro Gorenjska Group business year 2011 was very dynamic and full of great business and organization challenges and changes. It was a year of searching for suitable solutions and activities in operation with the assumption of financial uncertainty and beginning of a slow and unstable global economic recovery.

In August 2009 the shareholders' meeting of Elektro Gorenjska assigned the company management for the preparation and implementation of procedures for the company's restructuring. Company management spent almost two years preparing all the necessary procedures and at the shareholders' meeting in July 2011 it got the agreement for the spin-off of the activity of electricity purchase and sale. Spin-off and consequently establishment of a new company Elektro Gorenjska Prodaja has influenced a new organization of Elektro Gorenjska Group as well.

Main goals of the group achieved in year 2011 were the following:

1. It ensured quality, punctual and cost-efficient operation and network maintenance as well as implementation of investments in proper electricity infrastructure.
2. It formed a new operating system with separate regulatory, production and marketing part in accordance with the requirements of the law and the Auditor's Report of RS of March 24 2009.
3. Restructuring of the group was carried out in a way that organization is simple, clear, cost-efficient, and market-oriented.
4. It optimized the organizational structure of the group companies in a sense of the employees' reassignment, cost reduction, and better operating efficiency in accordance with the two goals stated under points 2 and 3.
5. It prepared projects with value added and possibility of efficient disbursement of development funds.
6. It operated in accordance with the quality policy and once again it received a silver certificate for business excellence.
7. It preserved its important development role in the field of professional development in the region.

## **Results of operations**

Total revenues of the group in year 2011 amounted to EUR 88,762,194, while total expenditure to EUR 86,577,686. Net profit or loss of the group thus amounted to EUR 1,671,242.

In operation situation on our market is reflected and this situation shows all the characteristics of the global markets, where consequences of recession and financial crisis are still felt. Relations with the distribution network system operator and changed business relations within the companies of the group also reflect in operations. March of new technologies, more demanding and informed users, pressures of the regulators - all of this affects the conditions of operation.

## **Focus of our activities has always been the user and electricity infrastructure**

Focus of our activities has always been the user and electricity infrastructure. All our activities are thus aimed at constant improvement of the distribution network, ensuring reliable, safe and quality electricity supply. With this purpose in year 2011 we focused on innovation (we trained the teams for live work, presented a pilot project of building a compacted line, and approached the construction of our own communication network).

Without the reliable and functioning energy network development is not possible, so our investment activities in year 2011, which amounted to 16.8 million Euro, were oriented to upgrading the existing system and search for opportunities that would additionally increase our reliable and quality network.

Elektro Gorenjska Group will continue with its main activity – development and new services – which has become our standard practice. We are actively preparing for the introduction of the so called smart meters, which will be installed to all our customers within the next five years. We are currently in the phase of implementing field interoperability testing, as we request from our producers mutual supplementation of installed elements in the system. Smart meters are part of the larger Slovenian project called AMI (advanced measuring). Customers will be enabled to read and measure actual electricity consumption remotely and regularly. This way they will be able to monitor their consumption and check the tariff, which will enable a complete control of consumption. Smart meters will enable more rational use of electricity as users will have control over the electricity used as well as costs. Distribution Company will function better and plan electricity network more efficiently, as smart meters are also one of the conditions for the construction of the so called SmartGrid, which is required by the network with an increasing implementation of dispersed production sources. Electricity suppliers and traders will operate easier and better, and implement their services more efficiently.

### **Future is shaped today**

Prime activities that will shape our future operation most significantly are organizational transformation of company's and subsidiaries' business as well as the preparation of a long-term strategic plan of the group as a whole.

Management has exposed the following challenges as our key priority tasks for the future:

- consolidation of operations and renovation of organization,
- normalization of relations with the regulator,
- quality communication and relations with the employees, focus on the operations of all group companies,
- care for the development orientation in the region.

### **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 Elektro Gorenjska Group in year 2011. We are the only distribution company that can boast with a silver certificate in the process of business excellence, and we have also been recognized as socially highly responsible company.

Dear investors, shareholders and partners, together with colleagues we will continue to provide for growth, development and successful presentation of Elektro Gorenjska Group. 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 Republic of Slovenia. Management represents the individual companies in the group and 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 or partners. Companies in Elektro Gorenjska Group have voluntarily adopted and use in their operations the Corporate Governance Code (hereafter: Code), which is publicly available in Slovenian and English on the web pages of the Ljubljana Stock Exchange, d. d., at the following web site address [www.ljse.si](http://www.ljse.si). In their operations companies in Elektro Gorenjska Group also use 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 controlling company Elektro Gorenjska on August 24 2011.

Applicable regulations important mainly for the operations of the controlling company in the group are published on the company's web site (<http://www.elektro-gorenjska.si/>). Codes applicable for the controlling 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/](http://www.auknrs.si/pomembni_dokumenti/)).

In reviewing the operations of Elektro Gorenjska and Elektro Gorenjska Group in year 2011 we have established that there were no derogations from the principles, procedures and criteria imposed by the stated codes. Controlling company in the Elektro Gorenjska Group 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.

Controlling company of the group 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 to reach 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 controlling company Elektro Gorenjska 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 2011 (ARTICLE 282 CA)**

#### **1. Report on the work of the supervisory board in year 2011**

In year 2011 the supervisory board operated in two different compositions. Until the regular 16th general meeting on August 24 2011 it operated in the following composition:

- Ludvig Sotošek, chairman,
- Aleš Groznik, vice-president,
- Mojca Golc Goropečnik, member,
- Darjan Petrič, member,
- Vojko Oman, member, and
- Iztok Štular, member.

On April 20 2011 member of supervisory board Mojca Golc Goropečnik submitted her resignation, while on June 18 2011 Chairman Ludvig Sotošek did the same. In July the term of the two representatives of employees in the supervisory board, Vojko Oman and Iztok Štular, expired.

On July 8 2011 general meeting of shareholders appointed new members Alenka Bradač and Duško Kapevski, and before that Vojko Oman (again) and Leopold Zupan were elected representatives of employees. At its session on August 24 2011 the supervisory board elected the chairman and his deputy.

After the appointment of new members at the general meeting and election of employee representatives the supervisory board consists of:

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

In its above mentioned compositions and truncated in between, in year 2011 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 thirteen regular and two correspondence sessions.

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 17th 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:

- spin-off of subsidiary 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 two special sessions only discussed these two subjects),
- changes of the Supervisory Board Rules,
- definition of criteria for auditing the investment transactions of the company in years 2009, 2010 and 2011,
- got acquainted with regulation of mutual relations between SODO, d. o. o., and Elektro Gorenjska, d. d., in connection with the preparation of the new contract on lease of electricity distribution infrastructure,
- in accordance with Articles 28 and 39 of the statute it gave its consent to five transactions with value exceeding EUR 835,000, in total amount of EUR 6,064,577.66.

Supervisory board paid special attention to the introduction of permanent 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 deputy chairperson, and
- Darja Orožen, external member of 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.

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.

Members of the supervisory board attended the sessions regularly and also prepared for them appropriately. Sessions took place with high rate of attendance, except once all members were present at all sessions.

Both chairmen of the supervisory board performed their roles in accordance with their powers and supervisory board rules and cooperated with the management also between sessions. Chairmen 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 2011 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 Companies Act and Financial Operations 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 and continuing professional function of internal audit in the company supervisory board has even improved its operations compared to the previous years.

## **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 2011**

Besides the parent company the 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 both subsidiaries. Distributable profit, including the profit brought forward from previous years, for year 2011 amount to a total of EUR 1,384,165.68. 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 EUR 0.08.

Proposal for the use of distributable profit was verified by the supervisory board and agreed with it as well as gave its consent to such distribution of profit at its 31st regular session on May 14 2012.

Auditing firm Deloitte Revizija, d. o. o., audited the financial reports of Elektro Gorenjska, d. d., and Elektro Gorenjska Group. The report shows that auditing firm audited the financial statements comprised of the balance sheet total as of December 31 2011 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 2011 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 2011, 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 2011 at its 32nd regular session on May 23 2012. 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 2011 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 2011, so based on the verification of the audited annual report and reviews of both auditing report for year 2011 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 2011 and audited consolidated annual report of Elektro Gorenjska Group for business year 2011 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 2011 and audited consolidated annual report of Elektro Gorenjska Group for year 2011,
- that it gives positive opinion on the auditors' reports on operation of the company and the group in year 2011, 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 2011,
- 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 17th 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 at its 32nd regular meeting on May 23rd 2012.

In Kranj, May 23 2012

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





CONSTRUCTION OF NEW, EIGHTH PROPER SOLAR POWER STATION  
PRIMSKOVO OF 35 KILOWATTS OF POWER, ON THE ROOF OF ELEKTRO  
GORENJSKA WAREHOUSES IN KRANJ.

4



## 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, its controlled companies Elektro Gorenjska Prodaja and Gorenjske elektrarne, which are in 100 % ownership of Elektro Gorenjska Company, and associated company Soenergetika, which is in 25 % ownership of Gorenjske elektrarne Company. None of the companies in the group has any subsidiaries.

Figure 1: Organization chart of Elektro Gorenjska Group



## 4.1.1 ELEKTRO GORENJSKA COMPANY IDENTITY CARD

Name:	ELEKTRO GORENJSKA, podjetje za distribucijo električne energije, d. d.
Abbreviated name:	ELEKTRO GORENJSKA, D. D.
Head office:	Kranj
Business address:	Ulica Mirka Vadnova 3 a, 4000 Kranj
Phone:	04 20 83 000
Fax:	04 20 83 600
Web Site:	www.elektro-gorenjska.si
E-mail address:	info@elektro-gorenjska.si
Registration number:	5175348000
VAT identification number:	SI20389264
Core activity code:	35.130 electricity distribution
Legal form:	joint-stock company
Company register entry number:	1/00259/00
Date of company register entry:	27. 1. 1998
Place of court's register entry:	Kranj District Court
Share capital as of 31. 12. 2011:	EUR 72,019,068.61
Number of shares as of 31. 12. 2011:	17,302,071
Chairman of the Board:	Bojan Luskovec, M.sc.
Supervisory board chairman:	Ludvig Sotošek (until 18. 6. 2011) Darjan Petrič, M.Sc. (from 24. 8. 2011)

Figure 2: Elektro Gorenjska Company identity card

### OTHER IMPORTANT INFORMATION ON ELEKTRO GORENJSKA COMPANY

	in EUR	
	31. 12. 2011	31. 12. 2010
Carrying amount of capital	130,988,724	133,005,004
Carrying amount of assets (balance sheet total)	186,221,657	200,855,851
	Year 2011	Year 2010
Net profit of the business year	1,544,243	4,144,451

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

# 4.1.2 CONTROLLED COMPANY GORENJSKE ELEKTRARNE IDENTITY CARD

Name:	GORENJSKE ELEKTRARNE, proizvodnja elektrike, d. o. o.
Abbreviated name:	GORENJSKE ELEKTRARNE, d. o. o.
Head office:	Kranj
Business address:	Stara cesta 3, 4000 Kranj
Phone:	04 208 35 31
Fax:	04 208 35 12
Web Site:	www.gorenjske-elektrarne.si
E-mail address:	info@gorenjske-elektrarne.si
Company register entry number:	1/06934/00
Date of company register entry:	4. 1. 2002
Place of court's register entry:	Kranj District Court
Legal form:	limited liability company (d. o. o.)
Activity code:	35.111 production of hydroelectric power
Registration number:	1658298000
VAT identification number:	SI76567788
Founder:	Elektro Gorenjska, d. d.
Share capital	EUR 13,684,880.11
Person authorized to represent:	Aleš Ažman, MBA

Figure 3: Controlled company  
Gorenjske elektrarne identity card

Company Gorenjske elektrarne considers company Soenergetika, in which it has 25 % ownership share, a related entity.

	in EUR	
	<b>31. 12. 2011</b>	<b>31. 12. 2010</b>
Carrying amount of capital	16,992,464	16,922,854
Carrying amount of assets (balance sheet total)	17,939,499	19,131,647
	<b>Year 2011</b>	<b>Year 2010</b>
Net profit of the business year	69,610	209,459

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

### 4.1.3 CONTROLLED COMPANY ELEKTRO GORENJSKA PRODAJA IDENTITY CARD

Name:	ELEKTRO GORENJSKA PRODAJA, podjetje za prodajo elektrike, d. o. o.
Abbreviated name:	ELEKTRO GORENJSKA PRODAJA d. o. o.
Head office:	Kranj
Business address:	Ulica Mirka Vadnova 3, 4000 Kranj
Phone:	04 208 36 60
Fax:	04 208 32 94
Web Site:	www.eg-prodaja.si
E-mail address:	info@eg-prodaja.si
Company register entry number:	Srg 2011/8382
Date of company register entry:	7. 3. 2011
Place of court's register entry:	Kranj District Court
Legal form:	limited liability company (d. o. o.)
Activity code:	35.140 trade in electricity
Registration number:	3926770000
VAT identification number:	SI37692186
Founder:	Elektro Gorenjska, d. d.
Share capital	EUR 3,000,000.00
Person authorized to represent:	Iztok Sotošek

Figure 4: Controlled Company Elektro Gorenjska Prodaja identity card

Company Elektro Gorenjska Prodaja has no controlled companies and no investments in capital of associated and controlled companies.

#### OTHER IMPORTANT INFORMATION ON ELEKTRO GORENJSKA PRODAJA COMPANY

	in EUR
	<b>31. 12. 2011</b>
Carrying amount of capital	6,588,727
Carrying amount of assets (balance sheet total)	16,996,768
	<b>Year 2011</b>
Net profit of the business year	65,852

Table 3: Other important information on Elektro Gorenjska Prodaja Company (in EUR)



## 4.1.4 OTHER RELATED COMPANIES OR RELATED LEGAL PERSONS

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.

## 4.2 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),
- construction of other civil engineering projects n.e.c (activity code 42.990),
- electrical installation (activity code 43.210),
- production of electricity in HE generation facilities (activity code 35.111),
- other production of electricity (activity code 35.119),
- 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,
- other non-energy market activities, which include mainly execution of new constructions and other services for the needs of the company and group as well as for external clients or market,
- 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.

# 4.3 MAIN AREA OF OPERATION

Elektro Gorenjska Group has been supplying electricity to 88,000 customers on the area of 2,091 km<sup>2</sup> in the North-Eastern Slovenia. 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

Supply area of Elektro Gorenjska Group amounts to 2,091 km<sup>2</sup>.

## Main technical data

Table 4: Main technical data on electric power distribution network of Elektro Gorenjska Group

	31. 12. 2011		31. 12. 2010	
POWER LINES 110 kV	59,163	m	59,163	m
POWER LINES 35 kV	40,302	m	40,302	m
POWER LINES 20 kV	754,537	m	771,755	m
POWER LINES 10 kV	0	m	1,987	m
TOTAL POWER LINES	854,002	m	873,207	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	735,136	m	703,413	m
CABLE CONDUITS 10 kV	6,416	m	5,897	m
TOTAL CABLE CONDUITS	743,619	m	711,377	m
TOTAL LV NETWORK	3,750,692	m	3,731,846	m
TOTAL NETWORK	5,348,313	m	5,316,430	m
TRANSFORMER SUBSTATION	15		15	
SUBSTATION	5		5	
TRANSFORMER STATION	1,317		1,319	

Elektro Gorenjska has terminated uneconomic power sources 10 kV and 35 kV. Using the intermediate transformations 10 kV and 35 kV voltage levels are temporarily still being used (10 kV: supply for some alpine cottages, 35 kV: alternate supply for Kranjska Gora and increase of transmission power of power line between Bled and Bohinj until the construction of 110 kV transformer substation Bohinjska Bistrica).

# 4.4 MANAGEMENT AND GOVERNANCE OF ELEKTRO GORENJSKA GROUP

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

## 4.4.1 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 Company is Bojan Luskovec, M.Sc.

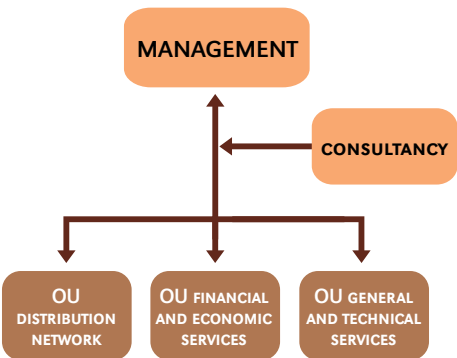


Figure 6: Organization chart of Elektro Gorenjska Company

Individual organizational units are managed by executive directors.

On December 31 2011 Elektro Gorenjska Company had a consultant for general affairs Vesna Uršič and a technical manager Jurij Jerina (until September 2011 employed as consultant for technical affairs).

### Supervisory board

Composition of the supervisory board is 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, while the two members representing the employees are appointed by the company's works council.

Supervisory board composition changed a lot during year 2011. Terms of both members of the supervisory board that were representatives of the employees, Vojko Oman and Iztok Štular, expired on August 6 2011. Works council reelected Vojko Oman and elected a new member Leopold Zupan for the term from August 7 2011 to August 7 2015.

Two members - representatives of capital resigned early in 2011: Mojca Golc Goropečnik on April 20 2011, while Chairman of the Supervisory Board Ludvig Sotošek on June 18 2011. At the 15th shareholders' meeting of Elektro Gorenjska Company on July 8 2011 Alenka Bradač, M.Sc. and Duško Kapevski, M.Sc. were appointed to their positions. Term of all representatives of capital in the supervisory board expires on August 26 2013.

#### **Composition of the Supervisory Board**

Chairman of the Supervisory Board:

- **LUDVIG SOTOŠEK** until June 18 2011,
- **DARJAN PETRIČ** M.Sc. until August 24 2011

Members of the Supervisory Board:

- **dr. ALEŠ GROZNIK**, PhD, deputy chairman until August 24 2011
- **ALENKA BRADAČ**, M.Sc., deputy chairwoman since August 24 2011
- **MOJCA GOLC GOROPEČNIK**, M.Sc., member until April 20 2011
- **DUŠKO KAPEVSKI**, M.Sc., member since July 8 2011
- **VOJKO OMAN** (employee representative)
- **IZTOK ŠTULAR** (employee representative) until August 6 2011
- **LEOPOLD ZUPAN** (employee representative) since August 7 2011

#### **Shareholders' meeting**

In year 2011 the management convened two general meetings.

At the 15th general meeting, taking place on July 8 2011, where 90.82 % of all members entitled to vote were present, shareholders gave their consent to the division of the company according to the procedure of spin-off with takeover. Based on the agreement of the general meeting Kranj District Court issued a decision on the division of the company – spin-out of activity of electricity purchase and sale by taking it over to the subsidiary Elektro Gorenjska Prodaja.

At the 16th general meeting taking place on August 24 2011 there were ten items on the agenda. Work of the management and the supervisory board was confirmed and as a result discharge for the previous business year was granted. Shareholders of the company were acquainted with the revised annual report and report of the supervisory board on results of the verification of the annual report for the business year 2010. Shareholders decided on the **use of the distributable profit**, which on December 31 2010 amounted to EUR 1,968,614.25. Management proposed to the general meeting that the distributable profit was allocated entirely to other profit reserves, but the representative of RS – AUKN submitted a counter proposal. She proposed that part of the profit in the amount of EUR 1,300,000 was intended for payment of dividends, while the remaining amount was allocated to other profit reserves. Present shareholders (87.33 % of shares with a voting right) unanimously supported the counter proposal.

In accordance with the Recommendations of AUKN shareholders adopted a decision on the new system of payments to the supervisory board members and their committees. Since August 24 2011 supervisory board members have been receiving in addition to attendance fees in the amount of EUR 275 also a monthly payment for the performance of functions in the amount of EUR 942 per member or EUR 1,412.50 for the chairman of the supervisory board.

## **4.4.2 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.

Since February 25 2011 the company has been managed by Iztok Sotošek, MBA, who holds a four-year term (until February 25 2015).

### 4.4.3 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.

## 4.5 SHARE CAPITAL AND OWNERSHIP STRUCTURE

### 4.5.1 SHARE CAPITAL AND OWNERSHIP STRUCTURE OF ELEKTRO GORENJSKA COMPANY

On December 31 2011 share capital of Elektro Gorenjska Company amounted to EUR 72,019,068.61. As explained in chapter 14.11 – Capital, it reduced by EUR 396,350 due to repayment of shares RS. 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 2011 the company had no transactions with own shares.

As of December 31 2011 the company had 474 shareholders, while on the last day of year 2010 there were 441. As of December 31 2011 97.19 % of company shares were in the ownership of legal entities, which represent 9.92 % of all shareholders. Figure below is showing the changes in the number of shareholders from December 31 2000 to December 31 2011.

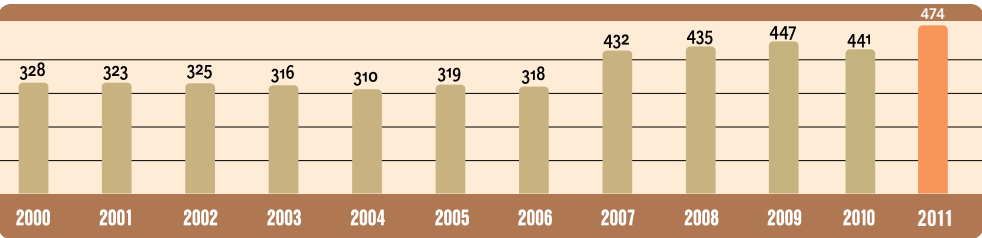
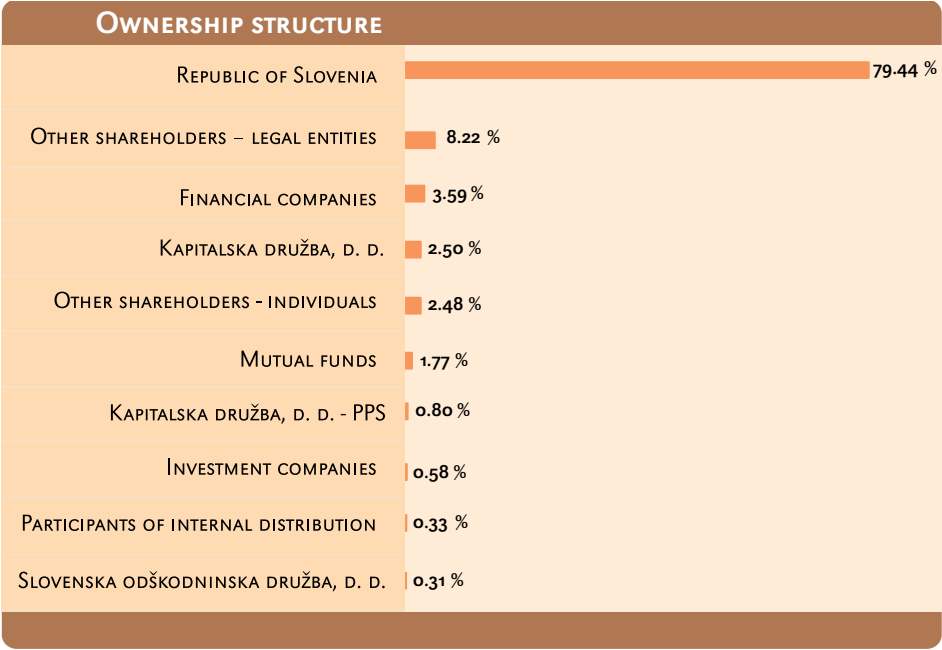


Figure 7: Changes in the number of shareholders of Elektro Gorenjska Company from 31. 12. 2000 to 31. 12. 2011

Figure 8: Ownership structure of Elektro Gorenjska Company as of 31. 12. 2011 (in %)



According to the balance as at December 31 2011 the largest shareholder, holding a 79.44 percent share, is the Republic of Slovenia. It is followed by Kapitalska družba holding 2.50 percent share and Sava Re with 1.62 percent share.

Number of owners with a share exceeding 1 % changed by one compared to the balance in year 2010. As at December 31 2011 the largest ten owners held a total of 90.24 percent share of the company.

Table 5: Share owners with a capital share exceeding 1 percent as of 31. 12. 2011

OWNERSHIP EXCEEDING 1 %	NUMBER OF SHARES	IN %
REPUBLIC OF SLOVENIA	13,744,577	79.4389
Kapitalska družba, d. d.	431,933	2.4964
Sava Re, d. d.	280,000	1.6183
Pivovarna Laško, d. d.	270,648	1.5642
Nova KBM, d. d.	207,200	1.1975
DZS, d. d.	200,000	1.1559
TOTAL	15,134,358	87.4712

### 4.5.2 SHARE CAPITAL AND OWNERSHIP STRUCTURE OF ELEKTRO GORENJSKA PRODAJA

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

### 4.5.3 SHARE CAPITAL AND OWNERSHIP STRUCTURE OF GORENJSKE ELEKTRARNE

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

# 4.6 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,
- developing and marketing of new services,
- increasing added values in sale of electricity and services,
- increasing and optimizing of electricity production from renewable sources,
- ensuring conditions for progress and development of new innovative entrepreneurial ideas.

**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,
- care for the protection of environment,
- stimulating rational use of electricity in consumers.

# 4.7 ENVIRONMENT ANALYSIS AND ITS IMPACT ON COMPANY'S OPERATION

## 4.7.1 GENERAL ECONOMIC ENVIRONMENT AND FORECASTS OF ECONOMIC TRENDS

INDICATORS FOR RS	2010	2011	FORECAST 2012	FORECAST 2013
GDP (real growth, %)	1.4	-0.2	-0.9	1.2
employment (growth, %)	-2.5	-1.7	-2.2	-1.2
unemployment (rate, %)	7.2	11.8	12.9	13.5
Inflation	1.8	2.0	2.0	1.9
average gross salary RS (nominal growth, %)	3.9	2.0	1.8	1.9
average gross salary RS (real growth, %)	2.1	0.2	-0.2	0.1
labor productivity (real growth, %)	4.0	1.6	1.4	2.4
average 3-M euribor	1.0	1.39	1.5	2.5
average 6-M euribor	1.2	1.64	1.75	2.75

Table 6: Spring forecast of economic trends

Source: UMAR, EURIBOR

## 4.8 ENERGY LEGAL ENVIRONMENT OF GROUP'S OPERATION IN YEAR 2011

- Energy Act,
- Companies 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,
- Energy Agency of the Republic of Slovenia,
- Capital Assets Management Agency of the Republic of Slovenia,
- Implementation of the operations of distribution network system operator – public service obligation,
- 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 charging for the network charge, the methodology for setting the network charge, and the criteria for establishing eligible costs for electricity networks,
- Decision of the Energy Agency of RS (JARSE) on the regulatory framework for the holder of activity of the electricity distribution system operator,
- Fee to assure support to security of supply with electricity from domestic primary energy,
- Regulation on energy savings ensured to final customers,
- 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,
- Waters Act,
- Contract with SODO.

### 4.8.1 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 for year 2011, 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 the reservations can be found in chapter 13.1 – Transactions with SODO.

Validity of the contract is February 29 2012, but it has been used since January 1 2011. On the day this contract started to be used the validity of the Contract on electricity infrastructure lease and provision of services for electricity distribution system operator that SODO and Elektro Gorenjska Company signed on June 21 2007 and annexes signed on December 28 2007, April 16 2010, and October 11 2010, were abolished.



On the basis of this contract the company still implements the same activities as it has before signing this contract. 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 4.8.2 - Electricity losses in network, while supplies in 4.8.3 - 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 2,522 network charge bills per month; 47.65 % of total electricity distributed in the distribution area of Elektro Gorenjska are business customers), as usually, 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).

## 4.8.2 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).

## 4.8.3 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 4.8.1.

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 EUR 10 million. Sustaining supply can last for no more than 60 days, but the customer can ask for extension. According to SPDOEE conditions of sustaining supply and pricelist with prices of sustaining supply electricity are determined by SODO, in accordance with the Energy Act, in advance and through their public notice.

**Unauthorized consumption** is considered to be, when:

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

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

Please see also Accounting Report, chapter 15.8 – Cost of goods sold and materials used and chapter 15.1 – Net sales revenues. Costs that Elektro Gorenjska Group acknowledged in year 2011 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.

## 4.8.4 SCHEDULE DEROGATIONS

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

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 13.4 – Accounts of electricity purchase for losses in network and for implementation of other activities under the contract with SODO.

## 4.8.5 REORGANIZATION OF ELEKTRO GORENJSKA COMPANY

Company **Elektro Gorenjska** is a legal owner of electricity network – EDI, which is rented to the concessionaire GJS SODO and **outsources** complete services in the field of **GJS SODO**. At the same time the company implements some other energy and non-energy market activities.

As the majority owner of five Slovenian electricity distribution companies, the Republic of Slovenia in year 2009 after the issued auditor's report of the Court of Audit of RS, in which the court presented an audit of GJS SODO implementation, the RS decided for their reorganization. Electricity distribution companies were supposed to restructure by separating market activities, appurtenant property and employees from regulated activity and its appurtenant property and employees.

Government of the RS highlighted the following objectives in its response report:

- operator of GJS SODO, that is SODO Company, must be ensured the actual (functional) independence in implementing GJS SODO ,
- internal subsidization of commercial activities of electricity companies from indirectly regulated activity of distribution network must be prevented ,
- eligible use of the network charge and network connection charge must be ensured ,
- non-discriminatory treatment of electricity users must be ensured.

In accordance with these the general meeting of Elektro Gorenjska at its 13th regular meeting on August 26 2009 instructed the management and supervisory board of the company to start preparing and implementing the necessary procedures for company's restructuring. Purpose of the restructuring is to separate network and market activities, in accordance with the requirements of the legislation and Court of Audit RS as of March 24 2009.

Elektro Gorenjska started with the **restructuring of the company on three levels** already in year 2010:

- spin-off of electricity purchase and sale activity from Elektro Gorenjska and transfer to subsidiary,
- transfer (sale) of heat and power cogeneration activity to the subsidiary company Gorenjske elektrarne,
- inclusion of OU IVG under OU distribution network.

Transfer of heat and power cogeneration to Gorenjske elektrarne and inclusion of OU IVG under OU distribution network were already concluded in year 2010.

**Supervisory board of Elektro Gorenjska** at its 13th regular session on **November 3 2010** instructed the management to prepare complete documentation and together with the supervisory board implements activities, which would enable the general meeting to decide, according to the balance as at December 31 2010 as the day of the clearing of the division, about the spin-out, which would transfer to a new subsidiary in 100 % ownership of Elektro Gorenjska Company, all property and property related rights and obligations referring to market energy activities of Elektro Gorenjska Company.

Elektro Gorenjska implemented the spin-out procedure in year 2011, within which it transferred to subsidiary Elektro Gorenjska Prodaja activity, employees, processes, assets and debts functionally related to the implementation of energy activity of electricity purchase and sale. Cut-off date for the spin-off was December 31 2010. In accordance with the provisions of ZGD-1 Elektro Gorenjska as the transferring company implemented all transactions related to the property and activity of electricity purchase and sale from and including January 1 2011 until the date of the spin-off that is September 1 2011, for the account of the acquiring company Elektro Gorenjska.

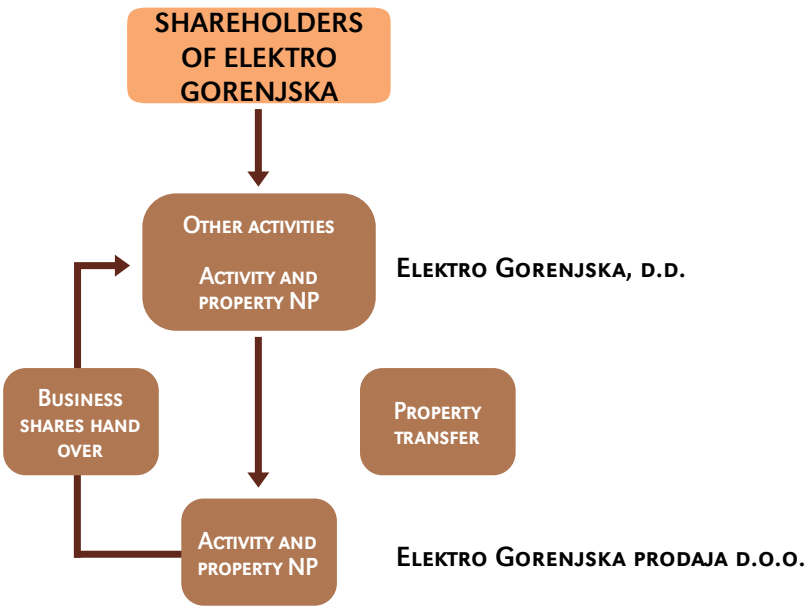
Capital of the transferring company Elektro Grenjska was not subject of the division in the spin-off procedure. Relations between partners of the transferring company did not change due to the spin-off.

To facilitate technical execution of the procedure Elektro Gorenjska previously established an acquiring company Elektro Gorenjska Prodaja with a cash contribution and obtained all necessary legally-formal, tax and other permits or registrations for implementing the electricity purchase and sale activity, and then executed the spin-off with a takeover procedure formally and legally.

By entering the spin-off into the court register and according to the balance as at the cut-off date Elektro Gorenjska as the transferring company transferred assets and obligations of electricity purchase and sale activity to the acquiring company, while in return it increased the long-term financial investment in the controlled company Elektro Gorenjska Prodaja.

Consequences of the spin-off are illustrated below.

Figure 9: Consequences of the spin-off



Even before the spin-off the acquiring company Elektro Gorenjska Prodaja was in 100 % ownership of the transferring company Elektro Gorenjska. After the spin-off shares of the acquiring company Elektro Gorenjska Prodaja were ensured to the transferring company Elektro Gorenjska, which remained the sole partner of the new controlled company to which the property was transferred in the spin-off process, so the transferring and the acquiring companies are both considered to be companies under joint control. Acquiring company was controlled by the same party before and after the transaction, that is Elektro Gorenjska. Establishment (undertaking or company in the economic sense) for electricity purchase and sale is also still controlled by the same group of people; they are the shareholders of the transferring company. Before the spin-off control was direct through participation in capital of the transferring company, while after the spin-off it has been indirect, but also through participation in the capital of the transferring company.

Certain joint property, employees and business functions have been kept on the transferring company and will not be transferred to the acquiring company, so in this part the acquiring company acts as the customer of the services from the transferring company. Appropriate contracts have been concluded, which entered into force on the day of the spin-off entry to court register. From the cut-off date of the spin-off to court register entry for joint services division key was used which reflects cause and effect connection between the user or the agent and amount of the cost (e.g. information support and technology, entire general and finance and accounting services, depreciation for business premises).

## 4.8.6 CHRONOLOGY OF KEY EVENTS IN THE PROCESS OF SPIN-OFF IN ELEKTRO GORENJSKA GROUP

In years from 2009 to 2011 Elektro Gorenjska implemented a number of organizational changes. Biggest change was the spin-off of market activity of electricity purchase and sale in an independent company in the middle of year 2001.

Following is the summary of chronology of key events in the process of the spin-off.

### 2009

AUGUST

Shareholders' meeting instructed Elektro Gorenjska Company, in accordance with the requirements of the legislation and Auditors' Report of the Court of Audit of Republic of Slovenia, to prepare and implement procedures with the objective of restructuring the company to enable the division of the network and market activity.

### 2010

FIRST HALF OF  
THE YEAR

Due diligence on company, preparation of report of findings  
Start implementing individual activities within the company.

AUGUST–  
DECEMBER

On December 31 2010 organizational unit Implementation, maintenance, and building is abolished. Solar power station engineering moves to subsidiary Gorenjske elektrarne. Activity of power and heat cogeneration is transferred to Gorenjske elektrarne.

Supervisory board of the company confirms all planned activities related to the spin-off of purchase and sale activity and instructs the management to prepare entire documentation for the general meeting to decide, according to the balance as at December 31 2010 as the day of the clearing of the division, about the spin-out, which would transfer to a new subsidiary in 100 % ownership of Elektro Gorenjska Company, all property and property related rights and obligations referring to market energy activities of Elektro Gorenjska Company.

Task force for plan and implementation of spin-off procedures is established.

### 2011

JANUARY

On January 31 2011 Elektro Gorenjska Company sold 25 % share in Soenergetika Company to its subsidiary Gorenjske elektrarne and all projects referring to production and cogeneration of electricity were transferred to Gorenjske elektrarne too.

FEBRUARY 25 2011

New subsidiary Elektro Gorenjska Prodaja was established. Iztok Sotošek, MBA, became the director of the company for the period of four years. Both the company and Gorenjske elektrarne do not have supervisory boards.

**JULY 8 2011**

Task force concludes with its activities and prepares the necessary material for the shareholders' meeting, which needs to give its consent. At the meeting the shareholders of Elektro Gorenjska confirm the spin-off (including the assets, obligations and employees) of the market part of the company and give their consent to the contract on division and takeover between the transferring company Elektro Gorenjska and acquiring company Elektro Gorenjska Prodaja.

**JULY–AUGUST**

Operational implementation of division of property and obligations in the accounts Group for communicating the spin-off is established.

**SEPTEMBER**

September 8 2011 – presentation of the changed operation to the public

On September 1 2011 the spin-off of electricity purchase and sale activity to subsidiary Elektro Gorenjska Prodaja was entered in the court register. Company was thus formally and actually launched as an independent legal entity with 25 employees and opening entire capital in the amount of EUR 6,465,166 as of January 1 2011.





A black and white photograph showing a model airplane flying through several power lines. The airplane is positioned in the center of the frame, with its wings and tail visible. The power lines are diagonal, stretching from the top left towards the bottom right. The background features a mountain range under a cloudy sky. In the foreground, there is a grassy field with some trees and a small building.

ELECTRIC POWER INFRASTRUCTURE CAN BE DAMAGED EVEN BY A MODEL AIRPLANE.  
DAMAGE ON THE ELEKTRO GORENJSKA NETWORK IN LESCE.

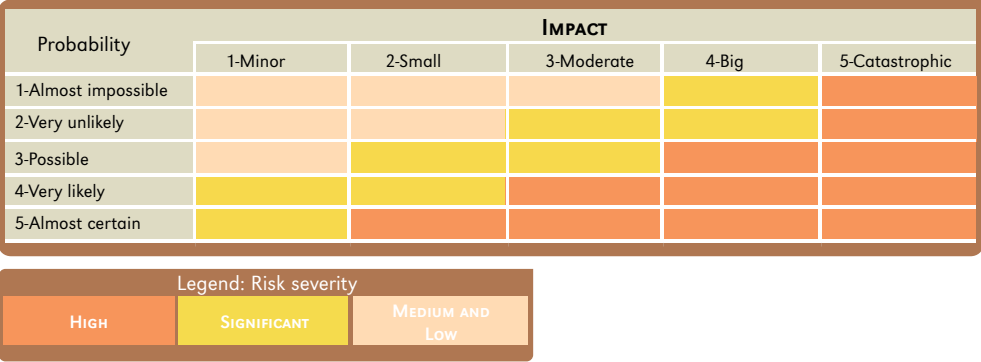


## **5. ANALYSIS OF SIGNIFICANT RISKS AND THEIR CONTROL**

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. Occurrence of loss or damage, which is the result of risk materialization, can have negative effects on the business success of the group.

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.

Figure 10: Risk evaluation



In year 2011 the following types of risks presented below prevailed for Elektro Gorenjska Group.

## 5.1 BUSINESS RISKS

They refer to the ability to provide the competitiveness, create revenues and control costs as well as ability to preserve the value of business assets in the company. The most important business risks are the following:

**Price risk:** is a consequence of market price changes and impact on the amount of revenues and costs. Group is exposed to three significant price risks, namely the following:

1. Price risk in electricity purchase is controlled by the group by dispersing purchase throughout the year and deciding on the purchase on the basis of following economic situation. With its marketing moves and offer competitiveness the group wishes to preserve the number of customers and attract new ones as well.

Market price of electricity is of key significance for electricity trader, so we assess the probability and severity of this risk as high, similar to the height of the damage connected to this risk.

2. In sale of produced electricity the group is exposed to fluctuation of electricity market price, which correlates strongly with economic trends and can be influenced significantly by external shock, like for example failure of larger production units in European framework or change of electricity production policy guidelines, e.g. abandonment of nuclear power plant production. Risk of fluctuations in selling prices of electricity is controlled mainly by current following of all factors influencing the price and consequently foreseeing the price trends. Based on analysis we decide for electricity sale in future periods, when we assess the price to be favorable. Buyers are selected on the basis of bids offer. Risk of electricity prices fluctuations are controlled also by selling the production of individual power plants in the system of guaranteed purchase. In this case Borzen took over the entire production quantity and paid a fixed price for it. In the long-term we expect prices of electricity from renewable sources to rise, which would have a positive effect on the business result. Practice of so called green certificates or premium on prices of electricity generated from green sources has been already present abroad, but in Slovenia such product does not exist yet.

3. Second important source of price risk the group faces on the part of revenues, are revenues from relation to SODO Company. They are defined by the regulatory framework for year 2011, while prices for other services are defined by annual contracts or pricelists formed by us.

Transactions with SODO Company are regulated by the Contract with SODO. Under this contract price for renting energy infrastructure and for implementing other services in individual calendar year, as well as a more exact extent of services and manner of implementation of services, which Elektro Gorenjska performs for SODO are agreed between the two parties by the means of annexes.

Contract also defines that parties conclude an annual contract every year, with which they determine the height of the rent and services. Under regulations the contract or its supplement need to be approved by JARSE as well as the Government of the Republic of Slovenia. According to the significance of the activity and height of revenues parent company Elektro Gorenjska, d. d., gets from the contractual relation with SODO Company the severity of this risk is assessed as high, and as a result the influence on the operations of the parent company and entire group is high as well.

In costs, mainly in purchase of material and services, the group has controlled the price risk by obtaining larger number of competitive offers.

**Quantity risk** includes risks connected with uncertainty of production and consumption and possibility of electricity supply. Significant risks recognized in the group are the following:

1. Uncertainty of distributed electricity quantities is a result of coincidental failures of line or other equipment on distribution network and supply interruptions due to maintenance and connections of new customers. Failures and interruptions of electricity supply on the part of the company can be the consequence of unsuitable operation of the company's energy infrastructure, or unsuitable informing of customers. Results of the supply failures in certain cases also include costs of compensations. Group controls mentioned risks by maintaining and investing in energy infrastructure in a manner and to the extent necessary for reaching appropriate level of quality and undisturbed distribution and supply of electricity, in accordance with the regulations or contract with SODO and contractual provisions referring to force majeure in contracts concluded between the company and customers (this limits the risk or responsibilities of the buyer). In reducing the risks of supply distribution center for control and management of the distribution network and company's call center are of big help. Both centers ensure support to the system for reporting errors and automatic informing of customers, which in the event of electricity failure immediately enables information about the cause of failure and foreseen time of error removal. Smaller distribution of electricity than planned through the network of Elektro Gorenjska can result in less funds collected in regards of the distribution network charge, which means less funds (mainly obtained from revenues from services executed for SODO, which are related to electricity distribution and not the actual services implemented, which is the result of a valid Act determining the methodology for the calculation of network charge) for the purposes of development, maintenance and investments in power distribution infrastructure.

Company pays special attention to managing the quantity risk, mainly from the viewpoint of minimizing the probability of risk realization. Due to numerous mechanisms, which the company uses to influence the probability of materialization of the risk under discussion and so far above average reliability of the distribution network, the probability is assessed as low. Severity of the risk is assessed as high, as we are aware that materialization of the quantity risk in a larger extent would mean large business loss.

2. Uncertainty of purchased and sold quantities of electricity (derogations). In purchase and sale of electricity there are differences between contractually announced and actually delivered or supplied quantity of electricity. Based on analyses from the previous periods we prepare long-term and short-term forecasts, which are adjusted to the weather conditions, hydrology and current economic situation.

Elektro Gorenjska Prodaja Company estimates the probability of this risk as high and severity as significant, as well as the damage that could arise.

3. Uncertainty of production due to weather conditions and climate changes. Majority (90 %) of the production value comes from hydro power stations, to which production rainfall has a decisive impact. It can swing also by  $\pm 20\%$  from the long-term average. Difference in annual electricity production between especially watery and dry years can amount to 17,000 MWh, which at the price of 50 EUR/MWh represents EUR 850,000 of revenues.

Risks of electricity production as well as future investments in hydro and solar power plants are also connected to changes in climate conditions due to global warming, which is nowadays present. Climate changes are felt in the form of increasing extremes. This way we have longer and stronger dry seasons, more weather disasters with extremely increased rainfall. Both cases bring lower production for hydro power plants, as in case of floods they have to be stopped for security reasons. What will climate changes be, no one knows. Some forecasts say that Europe will become wetter than it was. In this case hydro power plants could even increase their production.

Risk of climate changes is controlled by adapting or diversification of our production sources and implementation of appropriate construction solutions, which enable functioning of production capacities or prevent damage during unfavorable weather conditions.

**Risk of destroying or other reduction of business assets value** – due to loss events are controlled with adequate insurance of all significant assets in insurance companies. Probability of loss events, which would cause destruction or reduction of business asset value, is assessed as medium. As the destruction and damage to individual more valuable business assets could cause large business loss, the severity of this risk is assessed as high.

**Risk of obsolescence or inadequate functioning of energy infrastructure** and other tangible fixed assets and long-term assets of the company is risk of decrease or loss of certain types of operating revenues, which is the consequence of inadequate functioning of energy infrastructure and other tangible and intangible fixed assets or functioning, which is not in accordance with contractual provisions, regulations and expectations of the customers. This risk is controlled with careful and deliberate short-term and long-term planning of necessary assets for maintaining, renovating, and improving the present assets. Due to careful operation towards minimization of risk of obsolescence or inadequate functioning of energy infrastructure the probability of this risk is assessed as low. Severity of the present risk is assessed as significant due to possibility of moderate business damage.

**Investment risk** is a risk of not reaching the planned dynamics of investments and unsuccessful implementation of investments set out in ten-year development plans of energy infrastructure, approved by competent national authorities in other strategic and development plans and in respective annual plans of the company. Among important factors influencing this risk are above all external risks, which the group has no significant influence on, and is controlling them to a very limited extent. These are mainly rules governing the building of energy infrastructure and other facilities. Mentioned risk is reduced by cooperation in preparing the spatial plans of local communities, by early acquiring of easement agreements and other necessary consents and permits for building. Realizations of planned investments are influenced also by regulations regulating the company's borrowing (acquiring of debt financing sources), necessary to finance planned investments into its

energy infrastructure, but also other tangible fixed assets and fixed assets. In accordance with these regulations parent company needs to acquire suitable concordances or permits of competent national authorities before each long-term borrowing. Procedure of acquiring the concordances is uncertain, in terms of time as well as amount of the approved debt.

Due to the uncertain circumstances presented the probability for materialization of investment risk is high, and consequently the severity of investment risk is assessed as high as well.

## 5.2 FINANCIAL RISKS

These kinds of risks in the company are connected with ability to create financial revenues, control financial expenses, preserve the value of financial assets, control financial obligations and ensure short-term and long-term solvencies. Main types of financial risks are:

**Credit risk or risk of counterparty failure** represents the possibility that claims of buyers and other business partners that have occurred due to deferred payments are going to be paid with delay, only partly, or not at all. During economic crisis all this has become increasingly important. In order to control these kinds of risks all outstanding receivables of the company are monitored continuously, we limit exposure to individual buyers, offer benefits in case of prepayment, charge default interests, group customers into credit standing groups, and appropriate procedures of recovery and claim insurance are used.

Probability of materialization of the credit risk and the extent of damage based on the factors described is assessed as big; consequently the severity of the risk is defined as high.

**Risk of short-term solvency or liquidity risk** is risking that the group in a certain moment does not have enough liquidity assets to settle its current obligations or maintain normal operations. Liquidity risk is controlled mainly by careful planning of cash flows on the level of the group, by establishing appropriate credit lines for short-term liquidity balancing, and by suitable management of working capital. They include the following activities:

- Establishment of better control and mutual coordination in the field of ordering the goods and services or making purchase contracts according to available finances. This field also includes prioritizing of supplies according to available finances. All of the above applies to all areas of company's operation.
- Establishment of better control over realization of open orders or concluded purchase contracts, mainly in regards of the date of conclusion and date and amount of foreseen payment of obligations.
- Establishment of better control over timeliness of paying receivables, mainly from the more important customers. It also includes establishment of appropriate information system on outstanding receivables and timely and suitable mutual informing about outstanding receivables among the members of the college.
- Constant monitoring of stocks is vital, as they tie up the money. If they turn too slowly, we lack finances to settle the obligations. Time from the moment the material comes into the company and to the moment it is installed, is something we try to shorten within the company. On the level of company management the decisions were adopted that define the monitoring of good management. Company completely and consistently realizes decisions referring to consignment of material and equipment of suppliers. Company additionally optimizes its working processes (in the field of planning, material purchase, execution).

- Monitoring of accounts receivables, as ill-timed payment of buyers as a consequence of worse financial discipline, requests for extensions of periods for payment and discounts and higher costs of recovery of outstanding receivables, reflects on the company's liquidity. Shortening of payment terms to customers is also important. This activity will not be featured during economic crisis. We believe we will succeed even if we keep payment terms within current frames. We should be prepared for increased payment indiscipline, which is one of the major reasons for worse liquidity. In the future we will need to engage more in legal actions, above all in cases of threatening settlements and bankruptcies. In concluding commercial contracts with buyers of our services we pay special attention to additional inclusion of appropriate payment insurances.

Severity of liquidity risk is assessed as high. Due to the established control mechanisms and implementation of measures, mainly managing monetary assets on the level of the group, we believe that probability of illiquidity materialization is low, but the company is aware that illiquidity could cause large business damage

**Interest risk** represents the danger of unfavorable interest rate changes. Group invests its surpluses in the form of financial investments, so in the case of interest rates fall it would suffer the damage in the form of lower return on invested assets. As the group has loans contracted at the variable interest rates (EURIBOR), they are sensitive to changes in interest rate. To control the interest risk in year 2011 we protected the interest rates for longer maturity credits with interest rate swap, which means we changed the variable interest rate to a fixed one. This financial instrument allows us to predict and plan our interest rate outflows better as well results in a more uniform cash flow in financing activities.

Severity of interest risk is assessed as low. According to the current economic situation significant increase in interest rates is not expected, so the impact of this risk is assessed as medium.

## 5.3 OPERATING RISKS

Operating risks are connected with the design, execution and supervision of the business processes and activities in the company and provision of suitable operation of information systems, mainly computerized. Exposure to the operating risks is assessed to be low, as the following standards have been introduced: quality management system ISO 9001, system of environmental protection ISO 14001, and OHSAS 18001, system of occupational health and safety at work. Besides formalization and standardization of business activities and distinction of responsibilities for their implementation the quality management system ISO 9001 also provides regular checks of implementation in the context of external and internal audits. By acquiring the system of environmental protection ISO 14001 the company has proved that we are aware of the significance of the responsible attitude of the society towards the environment, which means we are eliminating harmful impacts on the environment. Indirectly, eventual risks for the environment are reduced by considering the provisions of the standard.

Among operating risks the group will continue to focus on the following risks:

**Personnel risk** includes loss of key personnel, lack of competent personnel, and provision of competent personnel, as well as actions of the employees that are not in accordance with the rules and internal acts of the group. Company controls this risk by ensuring and enhancing constant education, employee training, internal communication, by informing all employees, implementation of annual interview system, by measuring the organization climate, care for safe and healthy work with the help of OHSAS 18001 system, and also by other measures of internal control system. Risks connected with the actions of employees that could cause significant damage to the company are hedged by the company concluding contracts with insurance companies about insuring the respon-

sibility in the field of implementation of construction and designing works as well as insurance of the employees with voluntary collective accident insurance of the workers. In year 2011 the company also acquired a basic certificate of a Family Friendly Company, on basis of which it adopted fourteen measures, which will contribute to higher quality and more efficient use of working and family time. Company assesses the severity of personnel risk as significant. Probability for the materialization of this risk is assessed as certain, but we are aware that departure of key personnel could cause moderate business damage.

**Legislation (regulatory) risk** is one of the most important risks, as it includes off-market factors, like changes and indetermination of rules, which the company cannot control, or has only a very limited influence upon. Company needs to assure in all respects that operation takes place in accordance with them. Risk refers mainly to reducing economic benefits of the company (due to additional costs or reduction of revenues so far) as a consequence of adjustments to changed rules, and also due to eventual non-compliances in respecting the rules (regulatory risk is still very much present, as legislation in energy fields still changes a lot and to a large extent influences also profit or loss accounts and financial condition of the company. Legislation changes influence the company in many other fields: from general economic regulation, tax regulation (income tax rate for legal entities, using tax relief, amortization/depreciation expenses, VAT rates...) to the field of environment protection. Besides listed risks it has to be considered that the Republic of Slovenia is 79.44 % shareholder of Elektro Gorenjska Company.

In general the group is trying to control these risks with timely and appropriate inclusion into procedures of adopting new rules and changing the existing ones. Respecting the rules is controlled by a suitable system of internal control. Company assesses the probability of operation out of legislation and regulatory framework as low due to the established system of internal control. As we believe materialization of this risk would cause moderate business damage, we assess the severity of this risk as significant.

**Risks connected with operation of computerized information system** include risk of losing the data, risk of unauthorized access to data, risk of correct and appropriate operation of the system and applications, as foreseen and in accordance with respective rules in force, and risk of undisturbed operation of the system.

Risk of losing data is assessed as low as we have data archiving systems within the company as well as the outsourcer. We protect ourselves against risk of unauthorized data access by two-level system access authentication.

Risk of correct operation of system and applications, as foreseen and in accordance with respective rules in force, is assessed as low due to continuous reviewing of all legal changes. On the basis of establishing a discrepancy requests for the necessary changes of information support are prepared. Risk of disturbances or interruptions in system operation is controlled with a system of providing uninterrupted operation and with a spare location.

As disturbances in the operation of the information system would mean the occurrence of large business damage, we assess the severity of this risk to be high.

**Risk of minimum material stocks** means that during major breakdowns or loss events there is not enough material necessary to repair the devices in stock. Risk is controlled by concluding appropriate contracts, which bound suppliers to store certain material in stock and with it also to provide the shortest delivery time.

Severity of this risk is assessed as low, considering the very low probability of materialization and moderate business damage that could occur.

**Uniform policy of property insurance with the purpose** of eliminating different property risks which could threaten the operation of the company and cause major material damage. For this reason the company has concluded property insurances with insurance companies.

**Risks related to disputes** refer mainly to denationalization procedures, individual labor disputes and other civil procedures, where one of the companies from Elektro Gorenjska Group participates as a party. In case the finally concluded procedures are not resolved in favor of the company, there will be financial consequences. Company controls these risks by using the system of internal control to ensure to the largest extent compliance of its operation with the rules and agreements. Where we consider appropriate and justifiable, we also make use of the services of external legal experts.

In year 2011 the group had three denationalization procedures in progress, they were the following:

- HE Pristava: Administrative Unit Tržič issued the HE Pristava in the denationalization procedure a Partial decision as at December 6 2010, with which it allowed the request for the return of the nationalized property in a way that HE Pristava is returned to the property of the denationalization. For this reason the shareholders' meeting at its 16th session on August 24 2011 and based on Article 6 of the Elektro Gorenjska, d.d., Statute (previously Article 7 of the Statute) or executed refund of the shares on the part of the Republic of Slovenia and removal of these shares, share capital of Elektro Gorenjska Company was reduced to the burden of uncalled capital.
- HE Sava: Legal successors of HE Sava claimants want return of HE Sava in kind. Procedure is in the ruling on the first level.
- HE Jelendol: Claimant requests the return in kind. Gorenjske elektrarne, d.o.o., is not the owner of real estate, only of the movable property – mechanical equipment in this HE. Interim decision on the return of the HE was issued, but it was read on the liable party - Municipality Tržič, which is a legal successor of registered owner of the property that HE is located and operating on. On May 19 2008 administrative unit Tržič issued a decision on the handover for temporary use of the claimants of HE Jelendol engine room and on June 6 2008 also the decision on the permission of execution. That is why the HE and movable property were handed over to the claimant on August 8 2008. Gorenjske elektrarne Company filed appropriate administrative approaches against the decision at the Ministry of Environment and Spatial Planning of RS, which rejected the appeal against the decision on temporary use. Company filed a lawsuit against the decision, the Administrative Court of RS followed and set the decision aside and returned the matter for re-process. In re-process the AU Tržič once again returned the HE Jelendol to temporary use of the denationalization claimants, and the Ministry confirmed this decision after the appeal of GE. Company filed a lawsuit against the decision of Administrative Unit Tržič (and Ministry's decision) at the Administrative Court of RS. In connection with the lawsuit for the return of the mechanical equipment, the company filed a lawsuit on the return of the mechanical equipment and payments of user fee and compensation against the denationalization claimants and the interim user. Procedures have not yet concluded.

Group assesses the probability of materialization of the disputes related risk to be high. As individual disputes lost could result in high business damage, the severity of dispute related risks is high.

**Risk related to the spin-off**, refers to the spin-off of electricity purchase and sale activity to an independent company. New company, Elektro Gorenjska Prodaja was established in year 2011. Because of the way and procedure of establishment the group mainly faced risk connected to the strategy and business model of the new company. According to the significance and amount of the financial effect mentioned risk can have, the group started implementing measures for higher efficiency of the company and strategy implementation. Due to all risks recognized on time as well as adopted measures we assess the mentioned risks to be eliminated for the most part in 2012.



## 5.4 RISK OF ECONOMIC CHANGES

Economic trends are detected mainly by three indicators: changes in electricity consumption, number of issued project conditions, and issued connection consents. Amount and continuity of main revenues of the company depend on economic power of above all business users from Gorenjska region.

Within the framework of councils of the chairman of the board and special committee, we assess and adopt necessary measures according to the situation in the economic and financial environment. Members of the committee, who are also members of the council, monitor and coordinate foreseen objectives of the economic plan with current economic and financial situation.

## 5.5 ESTABLISHMENT OF RISK MANAGEMENT AND INTERNAL AUDIT

In September 2011 parent company in accordance with the decision of the shareholders' meeting and requirements of majority owner, started with activities for establishment of a comprehensive and formalized risk management and internal audit system. Group already has a well working risk management system, which can be seen from its successful and reliable operation. Despite the good existing situation risk management system needs to be formalized and reinforced as well as upgraded with the introduction of internal audit function and establishment of audit commission of the supervisory board.

At the 34th regular session of the management college, executive directors, advisers to the management and directors of the Elektro Gorenjska Group on October 6 2011 a decision was adopted on establishment of internal control organization. Functions of risk management and internal audit have been organized within the parent company, and will be covering the operations of the entire group. Risk management is led by the risk management coordinator, who will report to the audit commission of the supervisory board and college of the board of directors in parent company. Internal audit function is led by an internal auditor, who is functionally responsible and reports to the audit commission of the supervisory board and management boards of the companies in the group.

At its regular session on November 8 2011 supervisory board of Elektro Gorenjska Company appointed Alenka Bradač, MSc and Duško Kapevski, MSc the members of the audit commission of the Elektro Gorenjska Company supervisory board. Latter was also appointed the chairman of the audit commission of the supervisory board on Elektro Gorenjska Company. Next at its 26th regular session on November 29 2011 the supervisory board appointed Darja Orožen a member of the supervisory board audit commission from independent experts qualified for bookkeeping and audit, who have completed the education for obtaining the title of authorized auditor, auditor, tested accountant, accountant, tested internal auditor, tested tax expert and similar. This way formal basis for establishment of risk management and internal audit has been set.

Within colleges of the chairman of the board and special boards we establish, assess and adopt the necessary measures according to the situation in the economic and financial environment. Members of the board, also members of the college, follow and adjust the foreseen goals of the economic plan with the current economic and financial conditions.



DEVICE FOR HEAT AND POWER COGENERATION IN PLANINA BOILER ROOM. WITH THE HELP OF NEW DEVICES CUSTOMERS OF PLANINA KRANJ NEIGHBORHOOD WILL SAVE 20,600 TONS OF CARBON DIOXIDE EMISSIONS ON AN ANNUAL LEVEL.

## 6. BUSINESS ANALYSIS OF THE GROUP

# 6.1 QUANTITIES OF DISTRIBUTED, SOLD, AND PURCHASED ELECTRICITY

Following is the comparison of quantities of distributed, purchased, and sold electricity from year 2009 to year 2011.

Figure 11: Comparison of distributed, purchased, and sold quantities of electricity by the years

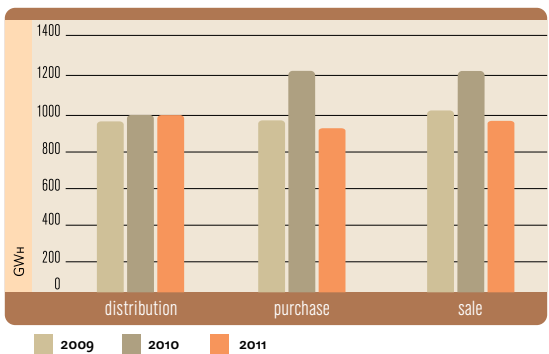
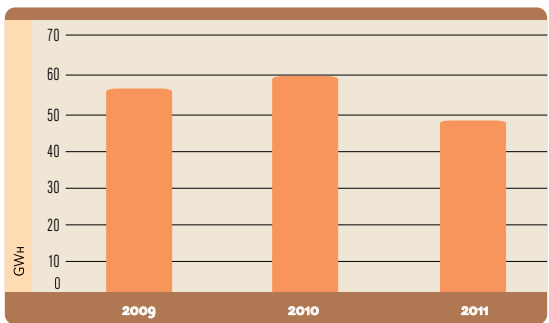


Figure below shows electricity production in the period from year 2009 to year 2011.

Figure 12: Electricity production in the period from year 2009 to year 2011



## 6.1.1 QUANTITIES OF DISTRIBUTED ELECTRICITY (CONTRACT WITH SODO)

In year 2011 there were 1,002,762 MWh of distributed electricity through the network of Elektro Gorenjska Company or 0.4 % more than in year 2010 (999,114 MWh).

In year 2011 household customers within the network of Elektro Gorenjska Company were distributed 326,310 MWh of electricity, which is by 0.5 % less than in year 2010 (327,955 MWh). Business customers within the company's network were distributed 676,452 MWh of electricity, which is by 0.8 % more than in year 2010 (671,158 MWh).

Despite the increase of economic crisis quantities of distributed electricity in year 2011 were nevertheless a bit higher than quantities in year 2010.

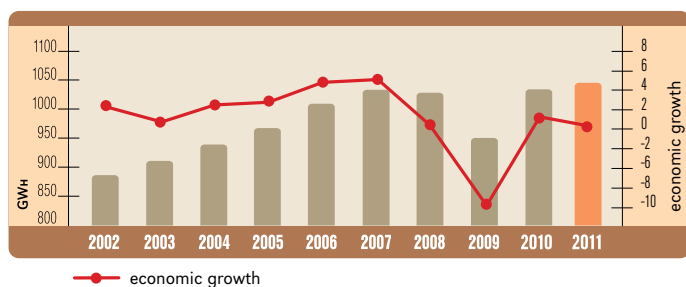


Figure 13: Movement of distributed quantities of electricity from year 2002 to year 2011

## 6.1.2 QUANTITIES OF PURCHASED ELECTRICITY

For the needs of the buyers in year 2011 the company bought from suppliers of electricity a total of 938,016 MWh of electricity. Values of purchased quantities are presented in chapter 15.8 – Costs of goods sold and materials used. In terms of quantity total purchase was by 305,837 MWh higher than in year 2010.

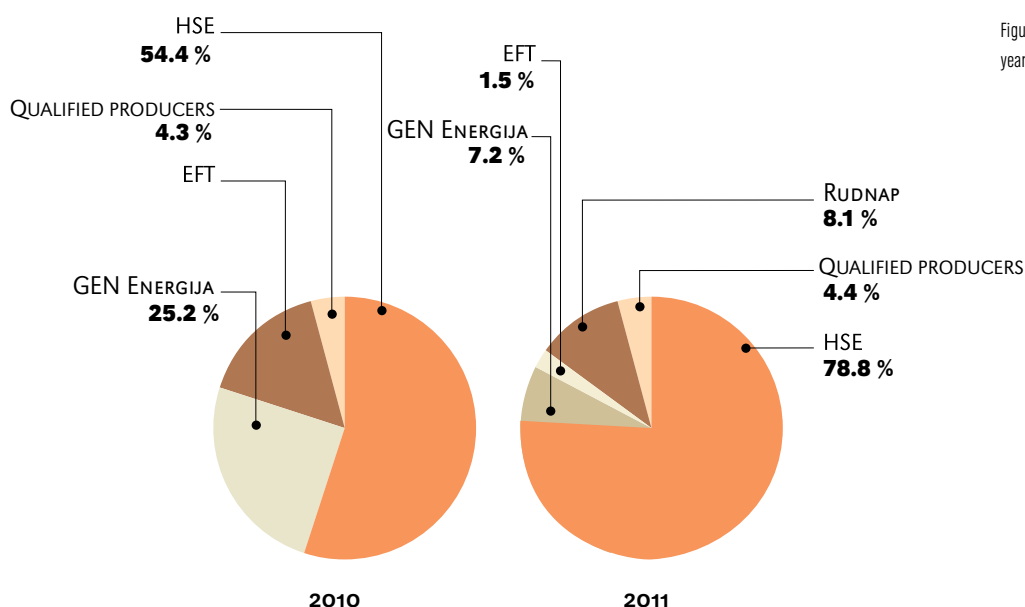


Figure 14: Purchase of electricity in years 2010 and 2011

## 6.1.3 QUANTITIES OF SOLD ELECTRICITY

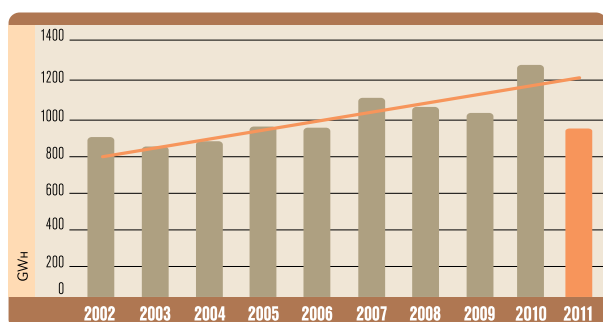


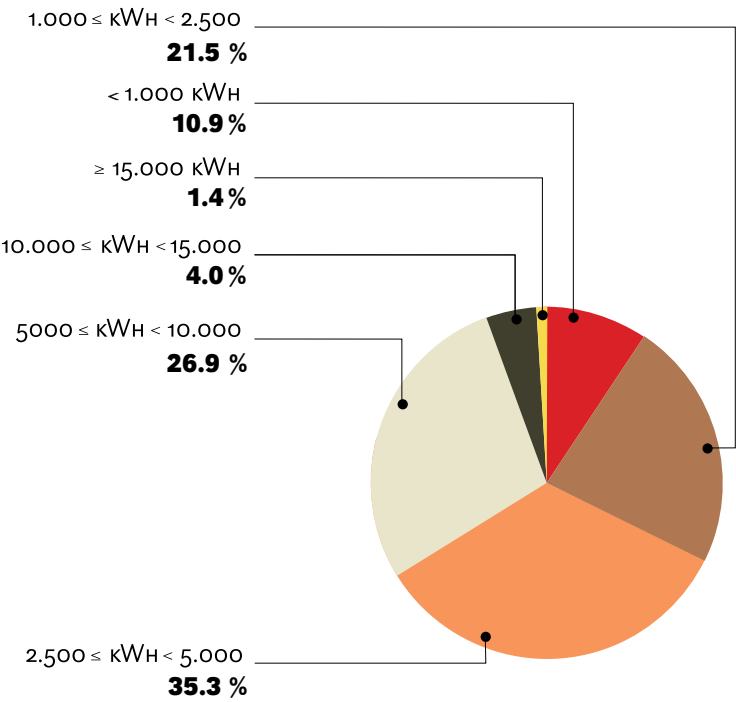
Figure 15: Movement of electricity sale from year 2002 to year 2011

In year 2011 we sold a total of 951,892 MWh of electricity to our buyers, which is by 24 % less than in year 2010. 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 chapter 15.1 – Net sales revenues.

Excluding the trade the company sold its final (household and business) customers 787,742 MWh of electricity, which is by 20 % less than in year 2010.

307,668 MWh of electricity of the above amount or 3 % less than in year 2010 refer to household customers. Reason is the market conditions that have developed in the course of year 2011, when competition started exploiting the situation and started offering the households low prices for electricity supply. We responded to these kinds of offers with our packages Porabim, kar rabim (I spend what I need) and Vedno porabim, kar rabim (I always spend what I need) and packages Re-energy and Blue energy for heat pumps and were thus able to preserve our market share in this market segment.

Figure 16: Sale in categories of household customers (number of customers)

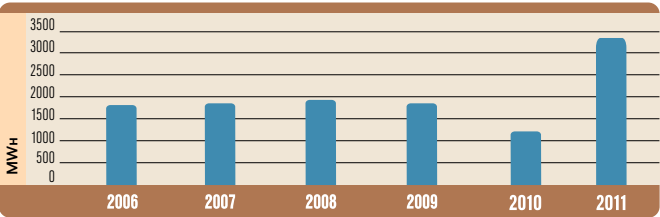


Business customers were sold 480,074 MWh of electricity, which is by 28 % less than in year 2010. Reduction in sale is the result of losing a large business customer as well as the result of the economic crisis, which has caused a failure of several larger companies in Gorenjska region.

In year 2011 we sold by 164,151 MWh of surpluses of electricity, which is by 37 % less than in year 2010.

In year 2011 we continued to market the Blue Energy. Blue Energy is electricity generated from environment friendly, renewable sources of energy. In year 2011 we sold by three 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 6.7.3 – Services and products.

Figure 17: Blue Energy (in MWh)



## 6.1.4 PRODUCTION OF ELECTRICITY

In year 2011 the group generated electricity in 15 hydro power stations (HE), 11 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 two 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. 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.

In year 2011 production amounted to 47,657 MWh, which is by 21 % less compared to year 2010 (60,111 MWh). Lower production and electricity sale is mainly the result of worse hydrology in year 2011 compared to year 2010.

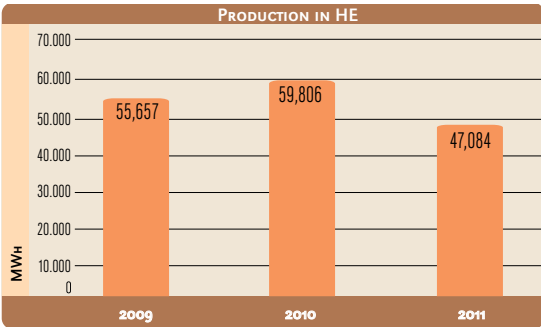
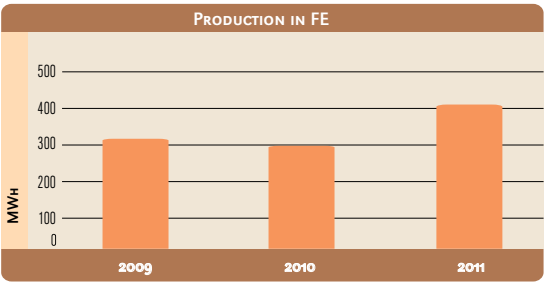


Figure 18: Electricity production in solar and hydro power stations in the period from 2009 to 2011

# 6.2 QUALITY OF ELECTRICITY SUPPLY (CONTRACT WITH SODO)

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

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

**Continuity** has been followed as usually in accordance with the legislation. In year 2011 we started reporting on the momentary interruption indicators (MAIFI) along with the indicators of long-term interruptions (SAIFI and SAIDI). In the field of continuity compared to year 2010 we can notice a slight increase in number and duration of announced long-term interruptions in year 2011. Number and duration of unannounced interruptions by all causes reduced slightly compared to year 2010. Share of long-term unannounced interruptions as a result of proper causes increased in year 2011, due to new criteria of categorizing interruptions in force majeure, while SAIDI and SAIFI indicators for the type mentioned decreased. We will start following the value of CAIFI indicator in year 2012. Values of continuity indicators are within the annual target values. Comparison of MAIFI indicator with year 2010 is not possible as this indicator has not been followed in the previous years. Continuity of electricity supply in Gorenjska region, which is covered by the company's distribution network, has been preserved in the last four years and according to JARSE already represents the target vale according to statutory requirements, which is the result of careful planning and constant improvements, modernization of existing network and construction of new network as well as network maintenance (please see also chapters 6.3, 6.4 and 6.5 below).

Table 7: Unannounced long-term interruptions according to type of network in year 2011

	PROPER				FOREIGN				FORCE MAJEURE				TOTAL			
	SAIFI	SAIDI	CAIFI	CAIDI	SAIFI	SAIDI	CAIFI	CAIDI	SAIFI	SAIDI	CAIFI	CAIDI	SAIFI	SAIDI	CAIFI	CAIDI
	[interr./ cust.]	[min./ cust.]	[interr./ cust.]	[min./ interr./ cust.]	[interr./ cust.]	[min./ cust.]	[interr./ cust.]	[min./ interr./ cust.]	[interr./ cust.]	[min./ cust.]	[interr./ cust.]	[min./ interr./ cust.]	[interr./ cust.]	[min./ cust.]	[interr./ cust.]	[min./ interr./ cust.]
Total urban	0.092	1.582	0	17.239	0.125	2.941	0	23.476	0	0	0		0.342	7.464	0	21.804
Total mixed	0.087	5.878	0	67.587	0.027	0.562	0	21.193	0.095	6.836	0	71.743	0.14	7.002	0	50.006
Total countryside	0.272	6.348	0	23.362	0.145	5.202	0	35.803	0.156	5.077	0	32.639	0.562	16.751	0	29.791
TOTAL	0.45	13.808	0	30.652	0.297	8.705	0	29.3	0.251	11.913	0	47.494	0.998	34.426	0	34.481

Table 8: Announced long-term interruptions in year 2011

	SAIFI	SAIDI	CAIFI	CAIDI
	[INTERR./ODJ.]	[MIN./CUST.]	[INTERR./CUST.]	[MIN./INTERR.]
Total urban	0.169	21.142	0	125.36
Total mixed	0.065	8.377	0	128.966
Total countryside	0.337	47.324	0	140.314
TOTAL	0.571	76.842	0	134.605



MAIFI	
[INTERR./CUST.]	
Total urban	1.101
Total mixe	1.097
Total countryside	3.714
TOTAL COMPANY	5.912

Table 9: Momentary interruptions  
in year 2011

Substantial derogations in value of continuity indicators for unannounced long-term interruptions according to the trend in previous years have not been noticed. Value of SAIDI indicator for all long-term unannounced interruptions reflecting the average time of interruption duration per customer, has been almost the same in the past two years and amounted to about 35 minutes per customer. Values of SAIFI indicator, which reflects average number of all long-term unannounced interruptions per customer, have been between 1- 1.8 interruptions per customer in the last years. We should point out that mentioned parameters do not only include proper causes but also external causes and force majeure (weather conditions), which the company has no influence over.

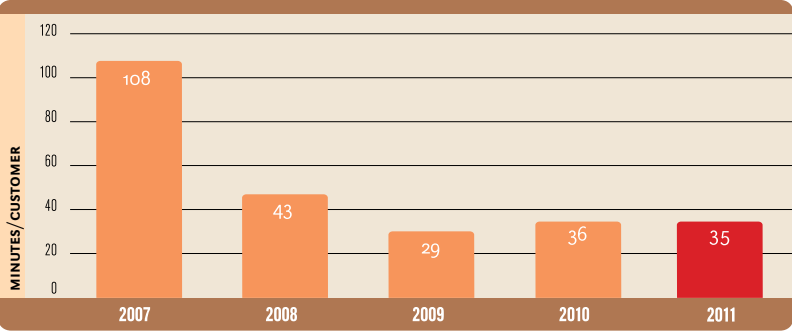


Figure 19: SAIDI – Average time of duration of unannounced interruptions (longer than three minutes)

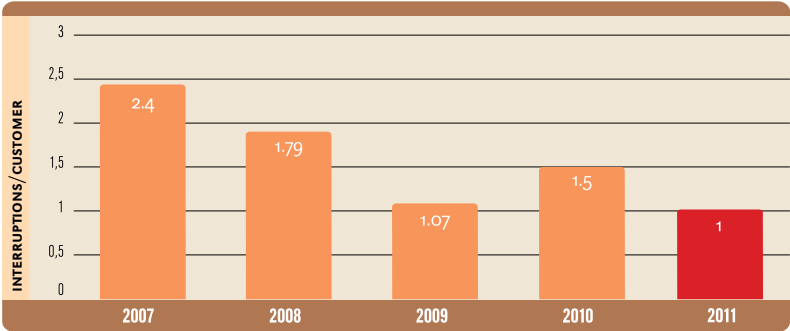


Figure 20: SAIFI – Average number of unannounced interruptions (longer than three minutes)

We find that situation in the field of **power quality** has not changed substantially compared to year 2010. Derogations from the standard are the biggest on the high-voltage level, where the limits of SIST EN 50160 are most obviously and frequently exceeded by the flicker. It is transferred to lower voltage levels as well, where it is the most prominent factor of voltage »deterioration«. Elektro Gorenjska has no direct influence over the flicker as it is transferred from the transmission network. In year 2011 we received only one complaint over the power quality, which was unjustified. Compared to previous years this piece of information shows the trend of improvement.

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 inconsis- tent weeks
RTP Jesenice 110 kV	51	0	0	49	0	0	0	78	3,339	2	49
RTP Labore – DV Okroglo 10 kV	51	0	0	49	0	0	0	70	136	2	49
RTP Primskovo 110 kV	10	0	0	8	0	0	0	70	3,160	2	8
RTP Radovljica 110 kV	51	0	0	49	0	0	0	70	3,187	2	49
RTP Škofja Loka 110 kV – Okroglo	51	0	0	46	0	0	0	74	59	5	46
RTP Škofja Loka – DV Kleče 110 kV	51	0	0	46	0	0	0	84	780	5	46
RTP Tržič 110 kV	51	0	0	49	0	0	0	71	2,373	2	49
RTP Zlato polje 110 kV	48	0	0	46	0	0	0	67	4,314	2	46

Table 10: Consistency of power quality parameters with the SIST EN 50160 standard (High voltage level) – constant monitoring

**Commercial quality** was started being followed in year 2011 in accordance with the Act concerning the reporting of data on quality of electricity supply (Off. Gazette RS No. 89/2010), which defines significantly different way of following from the one in force until the end of 2010. For this reason results are difficult to compare with the previous years. For year 2011 JARSE approved a transition periods of simplified way of following certain parameters With parameter 2.1 documented system recorded only the number and response times of written complaints for the entire area of distribution activity, that is way the number of complaints is only stated with this parameter and not with the others. We have found that about 50 % of complaints are justified, while they usually refer to wrongly measured electricity quantities due to defects on control devices or switch clocks, which are technically in a pretty bad condition. Solution of the problem is planned by gradual introduction of AMI meters. In all average values of indicators we have found shorter response times as defined by limits, while in some parameters (area of network connections, responses to the complaints of the customers) the smaller share of services was done in times longer than the limit. In issuing consents for connection (parameter 1.1.) we should consider that data according to the General Administrative Procedure Act refer to abbreviated and determination procedures together, with abbreviated ones the permissible time of issuing the decision is 30 days, while with the hearing 60 days. We received no compensation requests.

PARAMETER OF COMMERCIAL QUALITY		MINIMUM QUALITY STANDARDS (MQS)				VALUES OBTAINED				SHARE OF SERVICES		COMPENSATIONS [SN/NN/GOS]									COM- PLAINTS		NOTES	
		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 [%]	Number of compensations paid			Amount of compensations paid [EUR]			Number of compensations not paid			Number of all complaints		Number of justified complaints
													GOS	NN	SN	GOS	NN	SN	GOS	NN	SN			
1.1	Time needed to reply to the request of new user for connection to network [days]	S	80	20	Working days	1446	0	17.00	18.36	72.00	28.00	-	-	-	-	-	-	-	-	-	0	0		
1.2	Time needed to issue cost estimate (pro forma invoice) for simple works [days]	Z	100	10	Working days	38	0	5.20	7.03	92.00	800	0	0	0	0.00	0.00	0.00	0	0	0	0	0		
1.3	Time needed to connect new user to LV network [days]	S	95	20	Working days	1186	0	8.00	5.74	97.00	3.00	-	-	-	-	-	-	-	-	-	0	0		
1.4	Time needed to activate the connections to electricity network [days]	Z	100	10	Working days	633	0	3.62	5.10	88.00	12.00	0	0	0	0.00	0.00	0.00	0	0	0	0	0		
2.1	Time needed to reply to written questions, complaints or requests of users [days]	Z	100	8	Working days	133	0	7.60	6.60	70.00	30.00	0	0	0	0.00	0.00	0.00	0	0	0	133	67		
2.2	Time of holding a call in call center [s]	-	0	0	s	6926	0	9.00	3.64	-	-	-	-	-	-	-	-	-	-	-	0	0		
2.3	Indicator of call center service level [%]	-	0	0	%	1760	0	100.00	-	-	-	-	-	-	-	-	-	-	-	-	0	0		
3.1	Time to power reconnection in case of defect on the limiting device (6.00-22.00) [h]	Z	100	5	Hours	565	0	2.00	1.05	100.00	0.00	0	0	0	0.00	0.00	0.00	0	0	0	0	0		
3.1	Time to power reconnection in case of defect on the limiting device (22.00-06.00) [h]	Z	100	8	Hours	2	0	2.50	0.70	100.00	0.00	0	0	0	0.00	0.00	0.00	0	0	0	0	0		
3.2	Share of uncompleted or delayed pre-arranged visits [%]	S	0	5	%	0	0	0.00	-	-	-	-	-	-	-	-	-	-	-	-	0	0		
3.3	Time needed to reply to power quality related complaint [days]	S	90	30	Working days	1	0	15.00	0.00	100.00	0.00	-	-	-	-	-	-	-	-	-	0	0		
3.4	Time needed to solve power derogations [months]	S	20	6	Months	0	0	0.00	0.00	100.00	0.00	-	-	-	-	-	-	-	-	-	0	0		
3.5	Share of incorrect disconnections due to maintenance personnel mistake [%]	S	0	1	%	813	0	0.00	-	-	-	-	-	-	-	-	-	-	-	-	0	0		
3.6	Share of timely informed users about the planned disconnection [%]	Z	100	100	%	748	0	100.00	-	-	-	0	0	0	0.00	0.00	0.00	0	0	0	0	0		
4.1	Time needed to eliminate meter defect [days]	Z	100	8	Working days	532	0	3.00	2.50	100.00	0.00	0	0	0	0.00	0.00	0.00	0	0	0	0	0		
4.2	Number of regular meter readings in one year done by authorized company (up to 43 kW) [# /year]	Z	100	1	# /Year	114312	4653	1.25	-	-	-	0	0	0	0.00	0.00	0.00	0	0	0	0	0	Reason for unread meter was physical unavailability of the meter and with it disabled access to the meter on the part of the field meter reader staff.	
4.2	Number of regular meter readings in one year done by authorized company (exceeding 43 kW) [# /year]	Z	100	12	# /Year	14616	0	12.00	-	-	-	0	0	0	0.00	0.00	0.00	0	0	0	0	0		
4.3	Time to reconnection after disconnection due to late payment [h]	Z	100	72	Hours	813	0	1.00	0.00	100.00	0.00	0	0	0	0.00	0.00	0.00	0	0	0	0	0		

Table11: Parameters of commercial quality in year 2011

Important reasons for preserving the quality of supply in year 2011 compared to year 2010 are also appropriate investing activities in network investments and maintenance, which are foreseen in the

future too within available financial assets. We should note that in case of eventual smaller volume of annual investments in the network than defined by the Development plan for geographical area of Elektro Gorenjska, d.d., for the period 2011-2020, we will not be able to preserve current level of supply quality.

## 6.3 INVESTMENTS IN TANGIBLE FIXED ASSETS

In year 2011 Elektro Gorenjska Group invested EUR 16,753,342 (year 2010: EUR 15,231,550). Major investments are presented below.

**High-voltage network** in the amount of EUR 3,062,510, major ones being:

- 110 kV DV RTP Železniki–RTP Bohinj: PGD documentation was made along with the audit and all supplementary elaborations. Missing easements were obtained or procedures of compulsory acquisition of easement were launched. After obtaining nature conservation approval we will request for building permit.
- RTP Moste 110/20/6,3 kV: obtained operating permit.
- RTP Radovljica 110/20 kV: Replacement of 20 kV cells was executed. Grounding system of neutral points of power transformers including throttles was additionally built. External renovation of 110kV juncture was done, including the fence and groundings.
- RTP Jesenice 110/20 kV: Purchase of 20 kV cells for the remaining two sectors was executed (installation in 2012). External 110 kV juncture was renovated.
- RTP Bohinj 110/20 kV: Project documentation was made, agreements and easements were obtained and request for building permit for a 110 kV juncture with connecting 110 kV line was made.

**Medium- and low-voltage network** in the amount of EUR 8,712,261, major ones being:

- RP Visoko 20 kV: Building permit was obtained and construction part of the building until the third construction phase was made.
- Building permit was obtained and MV cable network south from the new RTP Moste was executed.
- Major renovations or reconstructions (cabling) of MV network in the area of Koprivnik, Danje, Škofja Loka – bypass, Cerklje ...
- Total of 80 km of 20kV cable conduits were built and renovated.
- There were 49 renovated and 24 newly built transformer stations.
- Approximately 8 km of low-voltage network in mainly cable execution 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 2007 to 2011.

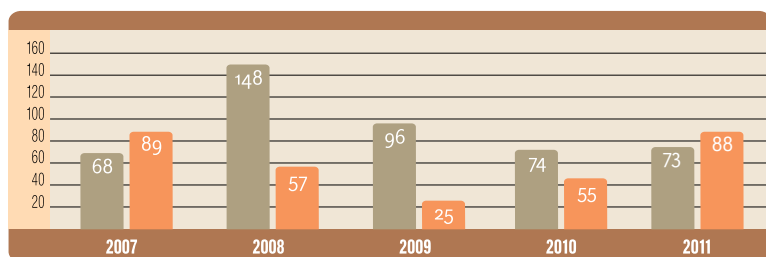


Figure 21: Construction of new or renovation of old transformer stations and 20kV cable conduits from year 2007 to year 2011

Other investments (EUR 4,978,571), the major ones being the following:

- solar power station on the roof of warehouses of Merkur Kranj Company in Naklo with a capacity of 800 kilowatts,
- installation of information system support business,
- telecommunications and protection (telecommunication equipment, radio network, WiMax system),
- measuring devices (AMI-project).

## 6.4 MAINTENANCE OF ENERGY FACILITIES

In year 2010 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 and protection devices as well as execution of control measurements and testing of protection devices functioning, revision of machines and devices in HE and execution of control measurements, functional testing of devices and testing of protection devices functioning in power stations.

Maintenance as a way of removing the errors represented the second type of maintenance (curative) in year 2011, which is time unpredictable and can only be estimated roughly on the basis of events from the past.

In year 2011 we have started introducing live work on the low-voltage network. First team of fitters for live work was trained, necessary protective equipment and special tools were purchased. By introducing live work we expect the following positive effects:

- elimination of illegal interference on live devices,
- use of proven method of live work,
- use of personal protective equipment for live work and approved tools,
- safer work, higher competence of workers, reduction of the number of work injuries,
- higher efficiency in implementing maintenance work and contribution to preserving high level of supply continuity (SAIDI/SAIFI).

Live work will be developed in the future too, with criteria for the volume of live work being mainly improvement of safety in work on power devices and optimization of total maintenance costs considering requested target supply continuity of customers.

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).

In year 2011 we introduced a computer application for project management of maintenance works and preparation of documents for safe work. By optimizing and exact planning of maintenance works in year 2011 we managed to additionally improve the reliability factors (SAIDI, SAIFI...).

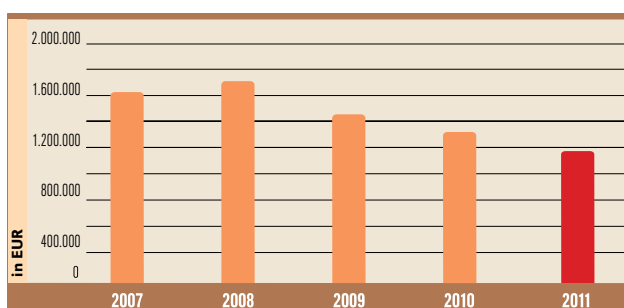
We also need to stress the influence of modern technological devices and solutions, which technically ensure fulfillment of strict criteria of reliability of electricity supply and have an indirect effect also on reduction of maintenance costs.

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.

Characteristic of these systems is that due to their complexity maintenance contracts are urgent to provide appropriate maintenance, and these contracts are a fixed expense that additionally reduces the already limited maintenance resources.

Following chart presents costs of maintenance representing costs of maintenance services and costs of maintenance material from year 2006 to year 2011.

Figure 22: Movement of maintenance costs from year 2007 to year 2011 (in EUR)



## 6.5 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. Task 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 needs of certain investments from the 2011 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 2011 the following major development projects were in progress:

- BTP – situation and way forward,
- revision of paper 1260, instructions for selecting, laying and delivery of electricity cables of rated voltage from 1 kV to 3 kV,
- adjustment of distribution RTP presence of diffuse sources in the network,
- installation of surge protection devices (SPD) on the delivery points in the distribution network,
- operation in the loop,
- role of fuses in medium voltage distribution plants,
- REDOS 2035: development of electricity distribution network in Slovenia, main five-year contract,
- updating rules in procurement and acquisition of electricity equipment for the period 2009–2011.

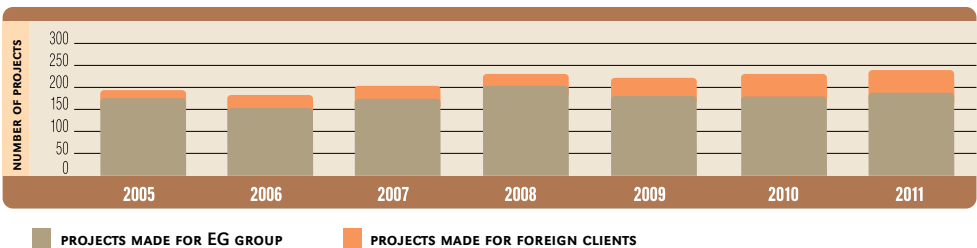


Figure 23: Information on the number of project documentation made from year 2005 to 2011

## 6.6 FINANCIAL PERFORMANCE CRITERIA OF THE GROUP

### 6.6.1 LIST OF SIGNIFICANT INDICATORS

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

	INDICATOR CONTENTS	31. 12. 2011	31. 12. 2010
<b>1</b>	<b>FINANCING INDICATORS</b>		
	<b>A) EQUITY FINANCING RATE (IN %)</b>	<b>67.3</b>	<b>66.8</b>
	capital / liabilities		
	<b>B) DEBT FINANCING RATE (IN %)</b>	<b>25.4</b>	<b>26.2</b>
	debts / liabilities		
	<b>C) SHORT-TERM FINANCING RATE (IN %)</b>	<b>10.9</b>	<b>12.8</b>
	short-t. debts (including sh.-t. accrued costs and deferred revenues) / liabilities		
	<b>D) LONG-TERM FINANCING RATE (IN %)</b>	<b>89.1</b>	<b>87.2</b>
	capital + long-term debts (incl. provisions) + l.-t. accrued costs and def. rev. / liabilities		
	<b>E) INITIAL CAPITAL RATE (IN %)</b>	<b>53.1</b>	<b>53.2</b>
	initial capital / capital		
	<b>F) CREDITWORTHINESS</b>	<b>2.5</b>	<b>1.8</b>
	net debt (long. + sh.-t. financial liabilities - cash in bank) / EBITDA		
<b>2</b>	<b>INVESTING INDICATORS</b>		
	<b>A) OPERATING FIXED ASSETS RATE (IN %)</b>	<b>88.5</b>	<b>84.4</b>
	fixed assets (at accounting value) / assets		
	<b>B) LONG-TERM ASSETS RATE (IN %)</b>	<b>89.9</b>	<b>86.1</b>
	fixed assets and l.t. accruals and pre-paid expenditure (at acc. value) + l.t. fin. inv. + l.t. oper. claims / assets		
<b>3</b>	<b>HORIZONTAL FINANCIAL STRUCTURE INDICATORS</b>		
	<b>A) EQUITY TO OPERATING FIXED ASSETS (IN %)</b>	<b>0.8</b>	<b>0.8</b>
	capital / fixed assets (at accounting value)		
	<b>B) IMMEDIATE SOLVENCY RATIO</b>	<b>0.157</b>	<b>0.187</b>
	liquid assets / short-term liabilities		
	<b>C) QUICK RATIO</b>	<b>1.0</b>	<b>1.1</b>
	liquid assets + short-term claims / short-term liabilities		
	<b>D) CURRENT RATIO</b>	<b>1.0</b>	<b>1.1</b>
	short-term assets / short-term liabilities		
<b>4</b>	<b>INDICATORS OF ECONOMY AND RETURN</b>		
	<b>A) OPERATING EFFICIENCY RATIO (IN %)</b>	<b>103.1</b>	<b>105.1</b>
	operating revenues / operating expenses		
	<b>B) ENTIRE EFFICIENCY RATIO (IN %)</b>	<b>102.5</b>	<b>104.9</b>
	entire revenues / entire expenses		
	<b>C) NET RETURN ON EQUITY RATIO (IN %)</b>	<b>1.2</b>	<b>3.2</b>
	Net profit in business year / average capital		
	<b>D) LEVEL OF REVENUE PROFITABILITY (IN %)</b>	<b>2.5</b>	<b>4.6</b>
	pre-tax profit / revenues		
	<b>E) VALUE ADDED (IN EUR)</b>	<b>24,818,730</b>	<b>28,571,973</b>
	operating revenues-costs of goods, material, services-other operating expenses		
<b>5</b>	<b>INDICATORS OF ECONOMY AND RETURN</b>		
	<b>A) TOTAL ASSETS TURNOVER RATIO</b>	<b>0.4</b>	<b>0.5</b>
	revenues / average assets		
	<b>B) OPERATING CLAIMS TURNOVER RATIO</b>	<b>4.7</b>	<b>5.5</b>
	operating revenues / average operating claims		



<b>6 INDICATORS OF RETURN</b>		
<b>A) EBITDA (IN EUR)</b>	<b>13,475,699</b>	<b>16,337,261</b>
operating revenues - operating expenses + depreciation and f.a. write-offs + revaluation expenses		
<b>B) EBIT (IN EUR)</b>	<b>2,634,177</b>	<b>5,264,331</b>
operating revenues - operating expenses		
<b>C) FINANCIAL RESULT (IN EUR)</b>	<b>-643,267</b>	<b>-364,527</b>
financial revenues - financial expenses		
<b>D) PRE-TAX PROFIT (IN EUR)</b>	<b>2,184,508</b>	<b>5,029,596</b>
entire revenues - entire expenses		
<b>E) NET PROFIT (IN EUR)</b>	<b>1,671,242</b>	<b>4,268,031</b>
entire revenues - entire expenses - corporate income tax		
<b>F) ROA (%)</b>	<b>0.8</b>	<b>2.1</b>
net profit after taxes / average assets		
<b>G) ROE (%)</b>	<b>1.2</b>	<b>3.2</b>
net profit after taxes / average capital		
<b>7 EQUITY</b>		
<b>A) NUMBER OF SHARES</b>		
number of registered shares		
	<b>17,302,071</b>	<b>17,353,631</b>
<b>B) BOOK VALUE OF SHARE (IN EUR)</b>		
capital / number of shares		
	<b>7.84</b>	<b>7.84</b>
<b>C) NET PROFIT PER SHARE (IN EUR)</b>		
net profit / number of shares		
	<b>0.10</b>	<b>0.25</b>
<b>8 INDICATORS OF RETURN</b>		
<b>A) AVERAGE NUMBER OF EMPLOYEE</b>	<b>345</b>	<b>347</b>
<b>B) OPERATING REVENUES PER EMPLOYEE (IN EUR)</b>	<b>255,520</b>	<b>311,553</b>
operating revenues/average number of employees		
<b>C) VALUE ADDED PER EMPLOYEE (IN EUR)</b>	<b>71,938</b>	<b>82,340</b>
value added/average number of employees		

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

## 6.6.2 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 safety of investments.

- Equity financing rate** shows the share of equity financing of all company's assets. Indicator shows that in year 2011 the equity financing rate was 67.3, which is by 0.5 percent point less than in year 2010. Biggest influence to a somewhat lower value of the indicator was exerted by the long-term financial liabilities, which increased by EUR 2.5 million. In year 2011 the company raised a new long-term loan in the amount of EUR 8,500,000 and paid EUR 5,647,520 of long-term loan principals. Increase in the long-term financial liabilities is the result of constant investing in electricity distribution infrastructure, which has been Elektro Gorenjska Company's commitment all the time (since July 1 2007 under the contract with SODO and on the basis of adopted ten-year development plans; before that date as the owner of concession for implementation of GJS SODO). As the company does not have enough proper sources to finance planned or necessary investments, it has to obtain foreign, debt financing sources. Own funds to finance investments in energy infrastructure include revenues from rent and services implemented under the Contract with SODO, which are explained in more detail in chapter 15.1 – Net sales revenues and chapter 13.1 – Transactions with SODO Company. Movement of long-term borrowings is explained in chapter 14.13 – Long-term liabilities.

- **Debt financing rate** indicates debt financing of the group's assets. In year 2011 the indicator amounted to 25.4 % and was by 0.8 percentage point lower than in year 2010, which is the consequence of decrease in short-term liabilities by EUR 4.5 million.
- **Short-term financing rate** presents the share of short-term debts in the assets of the group. In year 2011 the short-term financing rate amounted to 10.9 % and was by 1.9 percentage point lower than in year 2010, which is mainly the consequence of lower short-term operating liabilities according to December 31 2010.
- **Long-term financing rate** in year 2011 amounted to 89.1 % and was by 1.9 percentage point higher than in year 2010. Reason for that is higher increase of liabilities compared to the increase in capital.
- **Initial capital rate** presents the share of initial capital in entire capital. Compared with the year 2010 the share decreased somewhat, it presents 53.1 % of the entire capital. Reason for that is lower share capital, which is explained in more detail in chapter 14.11 – Capital.
- **Creditworthiness:** safe level of indebtedness of the company in the group is followed by the indicator showing the NET FINANCIAL DEBT/ EBITDA ratio. On December 31 2011 this indicator was 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 2011 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 EUR 1 million Euros the indicator would worsen by 0.2. In case of additional indebtedness by EUR 1 million (at the same revenue and expenditure) the value of the indicator would go down by 0.1.

### 6.6.3 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 company's assets. In year 2011 the share of fixed assets represented 88.5 % of all assets, which was by 4.2 percentage point higher than in year 2010. 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 2011 compared to year 2010 was the increase of tangible fixed assets (explained in chapter 14.2 – Tangible fixed assets and 6.3 – Investments in tangible fixed assets) and lower short-term operating receivables.
- **Long-term assets rate** was 89.9 % at the end of the year, which is by 3.8 percentage point more than in year 2010.

### 6.6.4 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 2011 it amounted to 0.8, which is the same as in year 2010. Amount of equity did not change substantially compared to year 2010.

- **Immediate solvency**, quick, and current ratios show the solvency of the group. Immediate solvency ratio was slightly lower compared to year 2010, which is mainly the consequence of lower finances compared to December 31 2010. Values of quick and current ratios remained on the similar levels as in year 2010.

## 6.6.5 INDICATORS OF ECONOMY OR RETURN

For efficient use of assets in judging the quality of operation the companies 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 2011 it amounted to 103.1 %, which is by 2 percentage points less than in year 2010, and is mainly the result of lower labor costs, which are explained in chapter 15.10 – Labor costs.
- **Entire efficiency ratio** is ratio between entire revenues and entire expenses and in year 2011 it amounted 102.5 %, which is by 2.3 percentage points less than compared with year 2010. Main reasons are lower electricity sales revenues, which are explained also in chapter 6.6.9 - Structure of revenues and expenditure.
- **Level of revenue profitability** tells us that the group made EUR 2.5 of profit per EUR 100 of achieved revenues of the group, which by almost EUR 2.2 of profit less than in year 2010.
- **Value added** of Elektro Gorenjska Group in year 2011 amounted to EUR 24,818,730 and decreased by 13.1 % compared with year 2010. Main reasons are lower electricity sales revenues.

## 6.6.6 ASSET TURNOVER INDICATORS

Asset turnover indicators express the amount of revenues the company 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 2011 the ratio amounted to 0.4 and was by 0.1 percentage point lower than in year 2010.
- **Operating claims turnover ratio** shows how many times a year operating claims turnover to money. At the end of year 2011 it amounted to 4.7, which means that money was tied with buyers for 78 days on average, which is 12 days longer than in year 2010.

## 6.6.7 RETURN INDICATORS

- **EBITDA** in year 2011 amounted to EUR 13,475,699 and was by EUR 2.9 million lower than in year 2010, which is the result of lower electricity sales revenues.
- **EBIT** represents the difference between operating revenues and operating expenses and in year 2011 it amounted to EUR 2,634,177, which is by EUR 2.6 million less than in year 2010. As previously mentioned the main reasons for the deterioration of this indicator are lower electricity sales revenues, which are explained in chapter 6.6.9 – Structure of revenues and expenditure.
- **Net increase/decrease in cash and cash equivalents** was negative for Elektro Gorenjska Group in year 2011 and it amounted to EUR –643,267, which is by EUR 278,739 more than in year 2010.

Current negative financial result is mainly the consequence of higher financial expenses for loans received from banks, due to additional indebtedness. Amount of unpaid principals increased by EUR 2.9 million compared to the balance as at December 31 2011, which is explained also in chapter 15.14.

- **Pre-tax profit** for Elektro Gorenjska Group in year 2011 amounted to EUR 2,184,508, which is by EUR 2.8 million less than in year 2010. Decrease in pre-tax profit in year 2011 compared to year 2010 is mainly the result of lower electricity sales revenues, as previously explained in reference to the operating efficiency ratio.
- **Net profit** amounted to EUR 1,671,242 in year 2011, which is by EUR 2.6 million less than in year 2010.
- **Number of shares** changed throughout the year, which is explained in more detail in chapter 14.11 – Capital. Book value per share amounted to EUR 7.84 at the end of year 2011, while net profit per share amounted to EUR 0.10.
- **Average number of employees** in year 2011 in Elektro Gorenjska Group was 345, which is by two workers less than in year 2010. Changes in the number of employees are explained in chapter 9.1.1.
- **Operating revenues per employee** in year 2011 amounted to EUR 255.520, which is by 18 % less than in year 2010.
- **Value added per employee** in Elektro Gorenjska Group in year 2011 amounted to EUR 71,938. Compared with the year 2010 value added was by 12.6 % lower. Reason for decrease is mainly in lower electricity sales revenues.
- **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 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 (representing more than 87 % of total balance sheet in 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 8 million Euro of revenues more at equal costs (compared to year 2010 the group managed to reduce its costs by about EUR 1.5 million, so heavy trend in the future is not expected as the group had a great reorganization in year 2011). Another option is to realize by EUR 8 million less of costs at equal revenues, e.g. labor costs (according tot the average labor cost per employee this would mean reducing the number of employees by 71 %) or drastically reduce costs of material, services and other in the same amount, which is not realistic to expect despite increase of new production sources, 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 two sources of income (revenues from renting the electricity distribution infrastructure and implementation of services for distribution network system operator and sale of electricity) 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...) and reduction of the number of employees in the recent years, 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 2011 this indicator for the group amounted to 1.2 %, which essentially less. In case target value of the indicator would apply today, the group would need to have at least by EUR 8 million revenues more with equal costs or by EUR 8 million 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.

## 6.6.8 STRUCTURE OF ASSETS AND LIABILITIES

### ASSETS

On the last day of year 2011 the assets of Elektro Gorenjska Group amounted to EUR 201,568,554 (31. 12. 2010: EUR 203,811,687) and have decreased by 1 % from the beginning of the year. Long-term assets increased by 3 %. Short-term assets decreased by 26 %, mostly at the account of decrease of short-term receivables (mainly from electricity buyers).

Long-term assets represent 90 % of all company's assets; among them tangible fixed assets representing 96 % of all long-term assets are the most important. Value of tangible fixed assets increased by 4 % or by EUR 6,493,954 in year 2011.

Long-term assets consist of the following important categories: (explained in more detail in chapter 14):

- intangible fixed assets, which decreased by 3 % or EUR 59,417 in year 2011,
- investment property, whose value increased by 3 % or EUR 72,056,
- long-term financial investments, whose value in year 2011 decreased by 20 % or EUR 720,891.

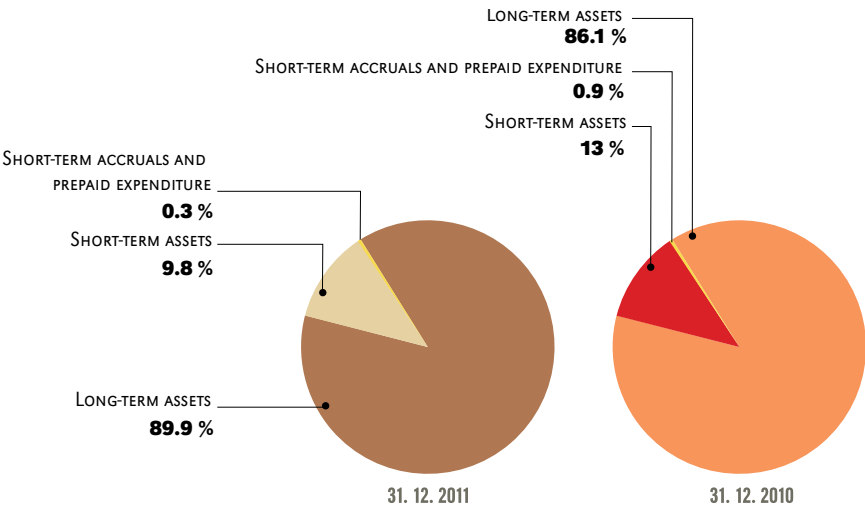


Figure 24: Structure of assets as of 31. 12. 2011 and 31. 12. 2010

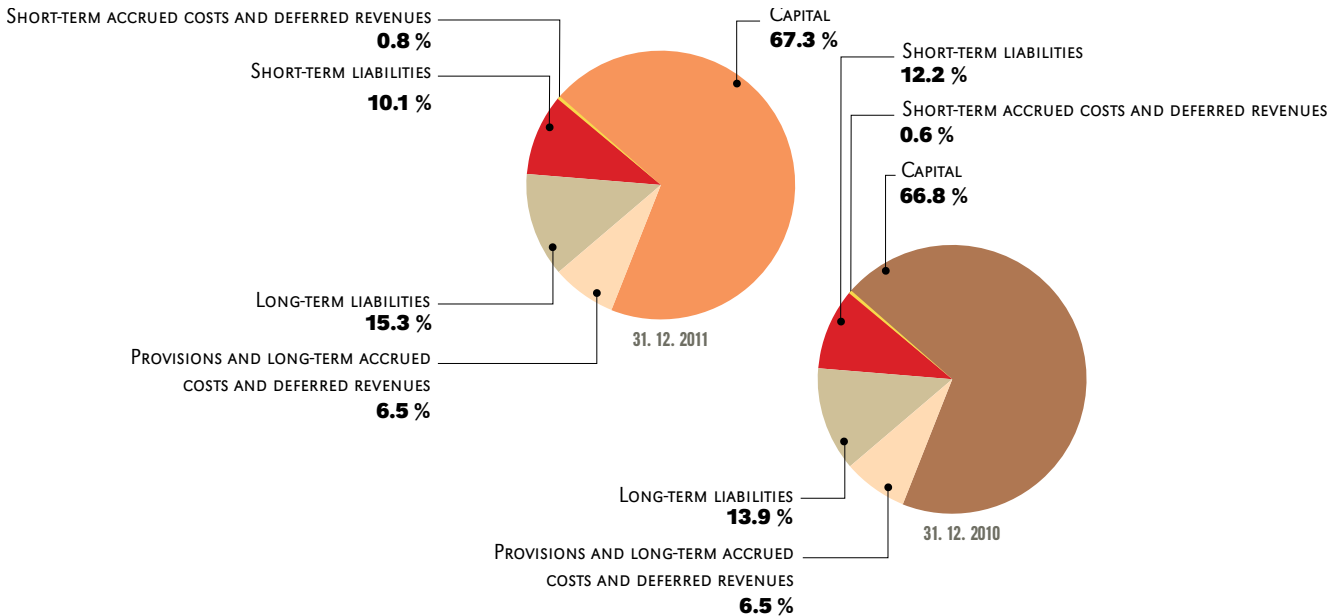
### CAPITAL AND DEBTS

As at December 31 2011 Elektro Gorenjska Group reached a ratio between equity and debt capital in the amount of 2:1, which is the same as the year before.

In the structure of liabilities capital represents 67 % of the entire balance sheet total. In year 2011, capital decreased by 0.3 % or by EUR 469,587. Long-term liabilities, mostly long-term banking credits, represented as of 31. 12. 2011 15 % of all funds. In year 2011 they increased by 8 % or EUR 2,407,958.

Short-term liabilities represented 10 % of all funds and have decreased by 18 % or EUR 4,537,231 in year 2011. Provisions and long-term accrued costs and deferred revenues represented 7 % of funds at the end of year 2011. In year 2011 they increased by 0.1 % or by EUR 10,216. Short-term accrued costs and deferred revenues contributed 0.8 % to funds at the end of year 2011 and increased by 29 % or EUR 345,511 compared to the year before.

Figure 25: Structure of funds as of 31. 12. 2011 and 31. 12. 2010



### 6.6.9 STRUCTURE OF REVENUE AND EXPENDITURE

In year 2011 Elektro Gorenjska Group achieved a pre-tax profit in the amount of EUR 2,184,508.

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

ITEM DESCRIPTION	2011	2010
OPERATING PROFIT OR LOSS	2,634,177	5,264,331
FINANCIAL RESULT	-643,267	-364,527
EXTRAORDINARY PROFIT OR LOSS	193,598	129,791
PRE-TAX PROFIT	2,184,508	5,029,596

Decisive contribution to good business was made by the operating profit or loss, above all activities of the Contract with SODO, while the financial result in year 2011 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, as previously explained.

Table 13: Operating profit or loss in years 2010 and 2011 (in EUR)

ITEM DESCRIPTION	2011	2010
OPERATING REVENUES	88,154,295	108,108,733
OPERATING EXPENDITURE	85,520,118	102,844,402
OPERATING PROFIT OR LOSS	2,634,177	5,264,331

Operating profit or loss for year 2011 amounted to EUR 2,643,177. According to year 2010 it was by 50 % or by EUR 2,630,154 lower, which is the result of lower difference in price made and lower sale of electricity as well as elimination of provisions related to the procedure of the Competition Protection Office, realized in year 2010.

Structure of operating expenditure for year 2011 is shown in the figure below:

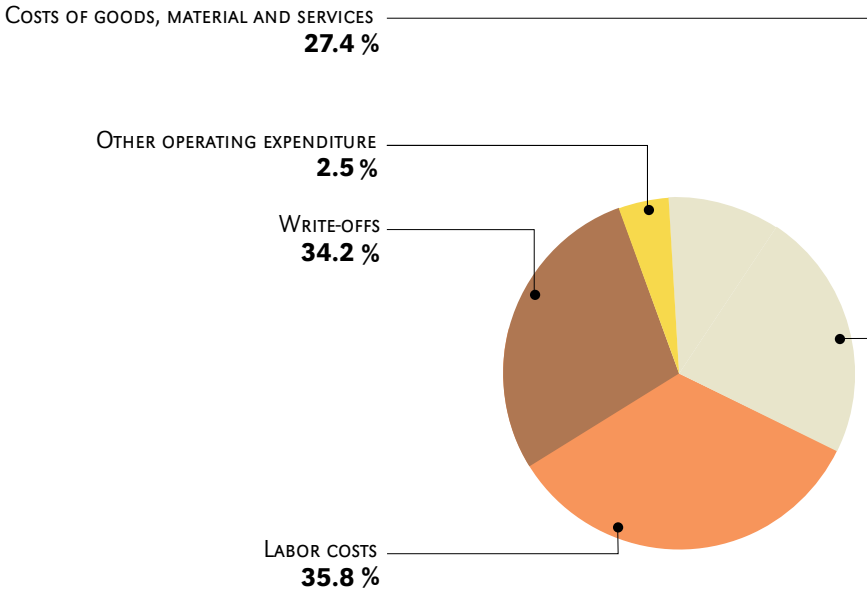


Figure 26: Structure of operating expenditure

ITEM DESCRIPTION	2011	2010
FINANCIAL REVENUES	403,842	400,004
FINANCIAL EXPENDITURE	1,047,109	764,530
FINANCIAL RESULT	-643,267	-364,527

Table 14: Financial result in years 2010 and 2011 (in EUR)

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 investments. Compared to year 2010 financial result is worse by EUR 278,741.

ITEM DESCRIPTION	2011	2010
OTHER REVENUES	204,057	143,837
OTHER EXPENDITURE	10,458	14,046
EXTRAORDINARY RESULT	193,598	129,791

Table 15: Result from extraordinary operations in years 2010 and 2011 (in EUR)

Positive extraordinary result is mainly the consequence of compensations from insurance companies.

ITEM DESCRIPTION	2011	2010
PRE-TAX PROFIT	2,184,508	5,029,596
INCOME TAX	513,266	1,115,677
DEFERRED TAX	0	354,112
NET PROFIT	1,671,242	4,268,031

Table 16: Net profit in years 2010 and 2011 (in EUR)

As seen from the analysis above pre-tax profit and consequently income tax in year 2011 have both been essentially lower than in year 2010. Main reason is the spin out of electricity purchase and sale activity.

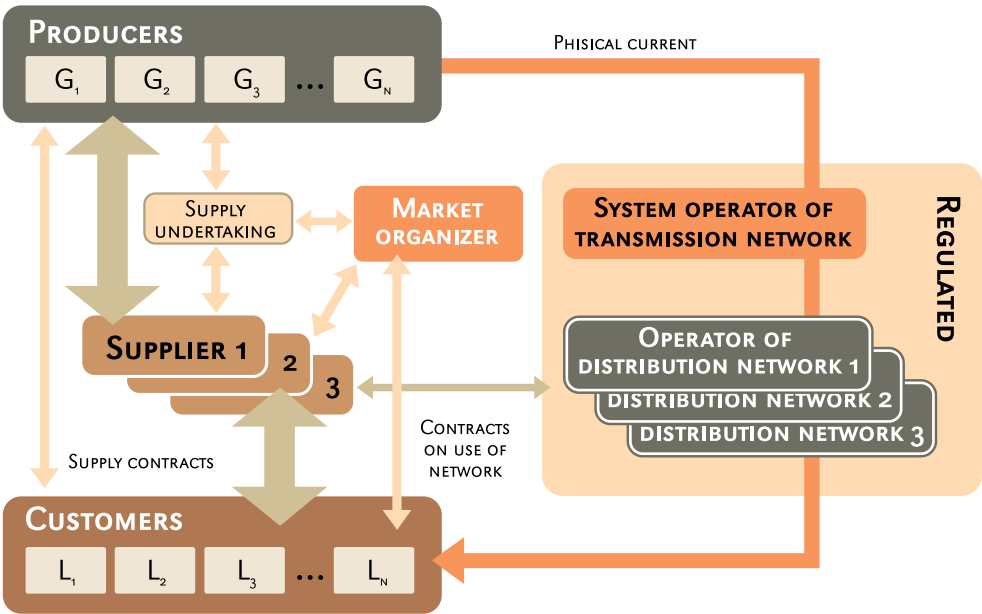
# 6.7 MARKETING AND SALES

## 6.7.1 CHARACTERISTICS OF THE ENERGY BUSINESS

With the opening of electric power market the sale of electricity has become a market activity. Since April 15 2001 energy legislation in Slovenia enables the consumers exceeding the connecting power of 41 kW to freely choose their electricity supplier.

With the change of energy act in May 2004 all customers, except households are eligible customers since July 1 2004. After this date household customers can freely choose their electricity supplier as well.

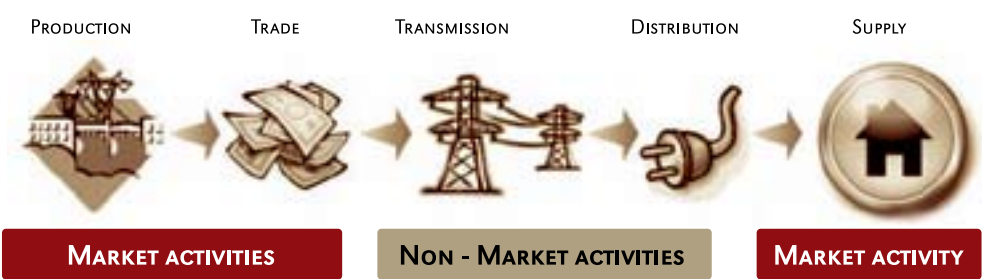
Figure 27: Market model of supply



Source: Energy Agency of the Republic of Slovenia

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. Electricity is produced by electric power stations, which use different renewable (eg. 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. (URL:<http://www.agen-rs.si/sl/default.asp>).

Figure 28: Electricity market



Source: Energy Agency of the Republic of Slovenia



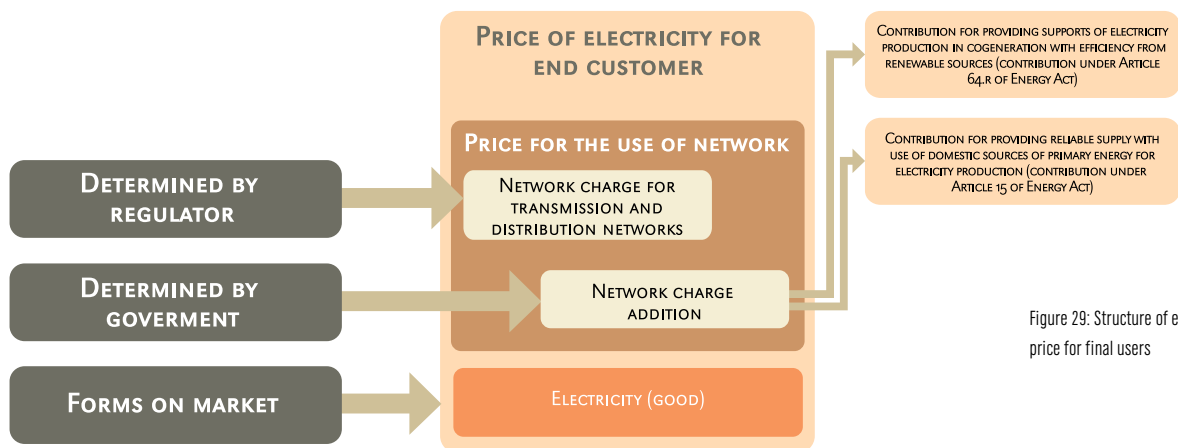


Figure 29: Structure of electricity price for final users

Source: Energy Agency of the Republic of Slovenia

Customers can influence on the price of electricity by selecting their electricity supplier. They do not influence the price for the use of networks (it includes network charge and network charge additions).

Final price paid by electricity customers includes:

- price of electricity formed on market bases,
- price for the use of networks (network charge and network charge additions), which is regulated (it is not formed on market bases),
- excise duty (introduce in year 2007), and
- value added tax.

Price for the use of network remains regulated and will be determined by the Energy Agency of the Republic of Slovenia (network charge) and the Government of the Republic of Slovenia (network charge additions) in the future as well. Price of electricity is formed on the market. Structure of electricity price for a characteristic household customer in year 2011 is presented below

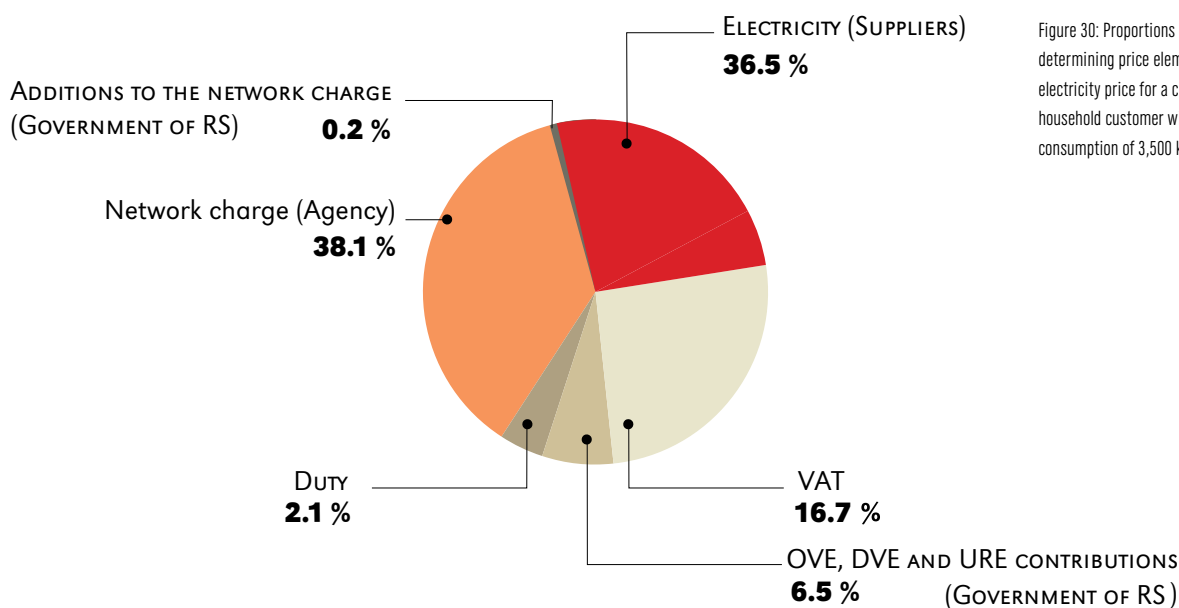


Figure 30: Proportions and powers in determining price elements in the final electricity price for a characteristic household customer with annual consumption of 3,500 kWh

Source: Energy Agency of the Republic of Slovenia

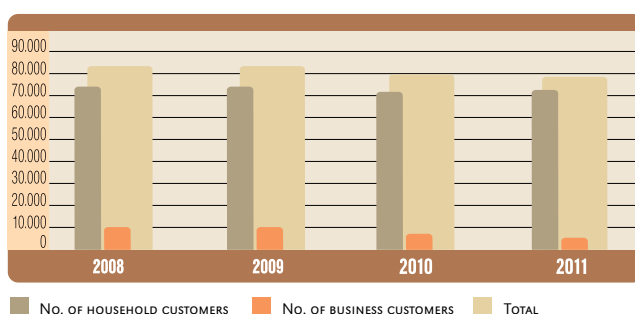
## 6.7.2 BUYERS AND CUSTOMERS

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 2011 as electricity supplier we supplied electricity to 78,976 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 9.7 percent share of all measuring points or 61 % 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, 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 two new packages and an economy program, 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 were presented in year 2011.

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 winning new buyers we focus mainly on the segment of chain customers. For this segment key factors of choice are: uniform terms of supply, quality services to ensure an overview of the consumption, and provision of counseling regarding the rational use 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.

By the end of year 2011 the group has operated successfully on the electricity market. This can be proved by the keeping of the majority of customers and by the profit made in electricity sale on this segment. Loss of some customers has been successfully replaced by acquisition of new ones. Great attention is paid to large customers, with a developed system of administration for key customers.

### 6.7.3 SERVICES AND PRODUCTS

Elektro Gorenjska Group provides quality and reliable electricity distribution to its customers on its distribution area. Services we offer to our customers are varied. We offer services for which tools and know-how is used in order to invest in a quality way and maintain proper energy infrastructures.

We plan, build and maintain our energy facilities and devices using our yearlong experience, expert knowledge and modern approaches for our customers and clients.

As part of the comprehensive solution Od ideje do izvedbe elektroenergetskega objekta (From idea to implementation of electric power facility) we offer quality and competitive services in the following fields:

- Counseling: in planning the construction of the power facility, in obtaining agreements and permits and concluding connection contracts.
- Planning of power facilities and devices: preparation of project and technical documentation, obtaining agreements and permits.
- Works: construction of transformer station, LV – and MV – overhead and underground lines, LV connections and other power facilities.
- Maintenance: maintenance work on transformer stations, periodic maintenance work and reviews, renovations of decrepit power facilities of all kinds, rectification of defects on power devices on LV and MV levels.
- Other electric installation works: construction and processing of measuring points for all types of consumption, relocations of overhead and underground power lines, installation and replacement of measuring and control devices.
- Live work: execution of electric installation work within construction and maintenance of power facilities and devices on LV level.
- Execution of all types of electricity measuring according to Edison PLUS program: measurements of grounding, electrical installations, power transformers, electricity quality, load diagrams and all types of electrical quantities and calibration of protection devices.
- Execution of above standard calculation measurements: daily provision of load diagrams obtained from the calculation measuring points, to users or their suppliers.

Elektro Gorenjska Group supplies electricity to its customers mainly on the distribution area of Elektro Gorenjska. Services we offer to our customers are divided into two groups:

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.

In the framework of 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 2011 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.

Table 17: Number of business customers of Blue Energy brand

YEAR	NO. OF BE BUYERS	BE QUANTITY (IN kWh)
2007	223	1,756,755
2008	220	1,906,795
2009	245	1,811,291
2010	256	1,174,251
2011	272	3,287,282

## 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.

### Re-energy services

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 relationship to our environment

By making the decision to use renewable sources from Re-energy Services 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 2011 included:

- solar systems Bramac,
- heat pumps Atlas and Thermia and
- biomass boilers ETA.

By terminating the Re-energy contribution the company also terminated the Re-energy Fund in year 2010. Funds collected in the fund are intended for the projects contributing to a cleaner environment, its conservation and for countering the effects of negative environmental impacts.

In year 2011 again part of funds from Re-energy Fund was earmarked for the project called S kolesom potujem, okolje varujem (I ride my bike, and protect the environment.). In year 2009 Elektro Gorenjska Group on the initiative of the Center for sustainable rural development joined the project Gorenjska electric journey, whose intention was to establish a network of five points equipped with electricity charging stations for all types of electric vehicles. With the project S kolesom potujem, okolje varujem and with the purchase of electric bikes we decided to upgrade the project Gorenjska electric journey. We invited also tourist organizations in the places with electric charging stations in Gorenjska region to participate, and they gladly responded to our invitation. In year 2011 tourist association Preddvor and Tourism institute Kranj, Culture and Tourism institute Žirovnica and tourist association Škofja Loka received their electric bikes, for which the company spent EUR 7,987 from the Re-energy Fund.

With 28 electric bikes, which are clearly marked with Re-energy sign, tourist organizations supplemented their offer and promoted green mobility and sustainable tourism in Gorenjska region. All members of the club were given a voucher for one free rent of the electric bikes together with the Re-energy Club magazine.

### Economy program

Since 2009 our household customers are offered an economy program called I spend, what I need – 10 steps to efficient electricity use (Porabim, kar rabim – 10 korakov do učinkovitejše rabe električne energije), which we prepared in cooperation with the Energy Efficiency Center at the Jožef Stefan Institute. In the framework of the economy program we explain which the biggest consumers of electricity in household are, and how and how much can we save with their use. To help customers with monitoring and controlling their electricity consumption we have prepared control charts and a chart for daily consumption monitoring. With the help of these measures we direct the customers on the path towards more economical electricity consumption.

Economy program Porabim, kar rabim is supported by a web application ([www.porabimkarrabim.si](http://www.porabimkarrabim.si)). With the help of the web application the customers can quickly find out what kind of consumers of electricity they are compared to the average comparable household in Slovenia, as well as what the effects would be in case of taking over the habits of a more efficient electricity use. They can enter

daily meter readings into the web application and follow what is going on with their electricity consumption during the daily use of various household appliances

As taking over the habits of efficient electricity use depends on the savings seen every day on the bills for electricity used, our economy program is linked to two packages I spend, what I need (Porabim, kar rabim) and I always spend, what I need (Vedno porabim, kar rabim), where customers commit to report monthly their meter readings, while we charge their electricity according to their actual consumption and not average consumption.

For the benefits these two packages bring to customers, more than 9,000 customers have already responded. These customers follow their electricity consumption monthly and implement economy measures.

Household customers are offered free borrowing of electricity consumption meters.

### **Blue energy for heat pumps**

In year 2011 we acceded to the 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 is intended to promote efficient heating and cooling with renewable energy sources. It takes place within the campaign You are 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](http://www.pozitivnaenergija.si), where customers could get acquainted with participating heat pump sellers and heat pumps on offer. Household customers could purchase heat pumps with 10 % discount 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 since the signing of the contract or annex for the package, and got Blue energy for the price of regular one. There were eight vouchers cashed in during the campaign.

### **Simplified methods of operation**

eStoritve – Web application, which household customers have access to at [www.eg-prodaja.si](http://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 2011 web application was used by more than 5,000 customers.

Call center – 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 records all events.

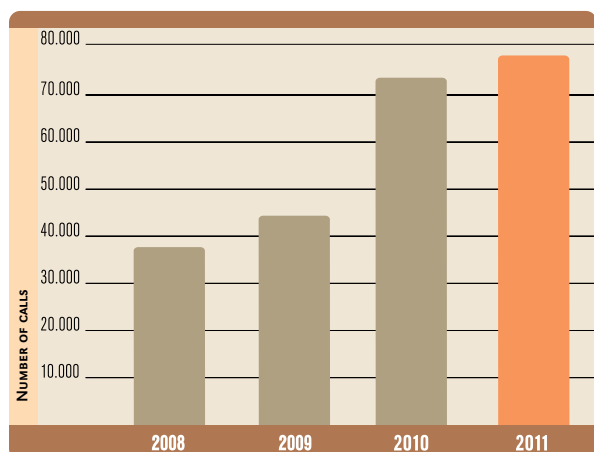


Figure 32: Number of calls to the call center according to years

### 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 to web sites [www.eg-prodaja.si](http://www.eg-prodaja.si), [www.porabimkarrabim.si](http://www.porabimkarrabim.si) and [www.reenergija.si](http://www.reenergija.si). In year 2011 the company mostly advertised the Re-energy services, Blue energy campaign for heat pumps, while special attention was given to communicating the spin-off of electricity sale to new company. Notice that the company addressed to all households was accompanied with an attractive prize game, to which more than 10,000 of our buyers responded.


### Development of new services

Primary consideration of the company in developing new services is competitive and quality offer adjusted to different groups of customers.

In year 2011 we started with the renovation of our household customer offer. New offer is simpler and more transparent. Number of packages was reduced from eight to four. Individual packages in the offer have been adapted to different needs of end customers. New packages of supply include packages Basic, I spend what I need, Re-energy and Lock the prices!. Customers will still be encouraged to more efficient electricity use and use of renewable sources of energy.

Complete novelty formed in year 2011, is package called Lock the Prices!. With this package customers can ensure unchanged prices for the selected period of either until the end of 2012, 2013 or 2014. By renovating the offer we have terminated the high consumption addition and we renamed the cost of measuring point management into a monthly fee.



A large truck-mounted crane is lifting a long, thin power line tower section. The crane's boom is extended high into the air, and the tower section is being hoisted by a cable. The background is a dense forest of evergreen trees. In the foreground, there are stacks of materials and a street lamp.

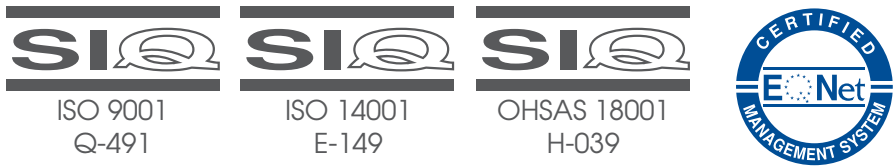
IMPLEMENTATION AND INSTALLATION OF INNOVATION SOLUTION - COMPACTED 110 kV POWER LINE WITH STIFF COMPOSITE INSULATION BRACKETS ON THE POWER LINE CONNECTION BETWEEN JESENICE AND KRANJSKA GORA. AUTHORS OF THE INNOVATION, WHO ARE BOTH EMPLOYED IN ELEKTRO GORENJSKA, EXCEEDED THE TRADITIONAL WAY OF DESIGNING THE POWER LINE CONNECTIONS WITH THIS NEW SOLUTION.



## 7. INTEGRATED MANAGEMENT AND QUALITY SYSTEM

In year 2011 Elektro Gorenjska Group successfully maintained and completed the already established management system of the following systems operating as an integrated whole:

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

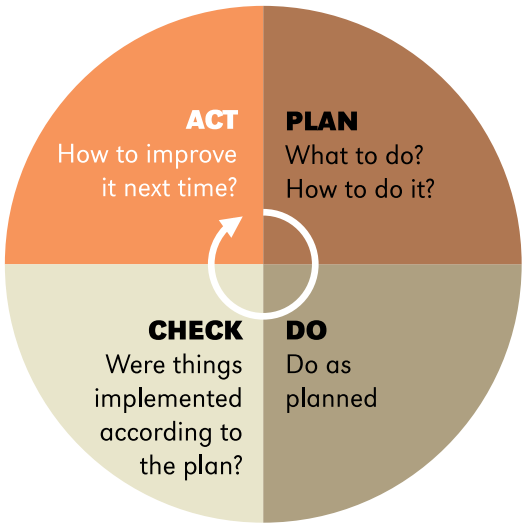


In early 2011 we carried out an education and training of a group of employees for internal auditors, who implemented an internal audit of the above stated systems in the period between August and September. In the month of October an external follow-up audit of the quality management system (ISO 9001), regular audit of environmental management system (ISO 14001) and health and safety at work management system (OHSAS 18001). Here were no inconsistencies established, and 38 recommendations submitted.

At the end of year 2011 we followed the management quality by 102 recognized business processes and 155 quality indicators. 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 the established councils of health and safety at work management system and environmental management system.

Improvements, which are dictated to us on one hand by the quality standards and provide the Demingo approach (PDCA – plan, do, check, and act), stimulate the group and employees to search for improvements and additional measures that influence favorably on good operation of the group and enhance additional eagerness of the employees and environment management

Figure 33: PDCA circle  
(the Demingo approach)



With the introduction of integrated management system all activities of the group have been connected into an efficient system, which leads to the realization of the vision and mission changed and adjusted to new operating guidelines and component part of the company's strategic plan (submitted for further reading of the supervisory board).

Quality management system was upgraded with risk management system (ISO 31000), which is not a certification system though, so it was recognized in the management system as a business process that we manage and control.

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

- introduction of standards for quality supply of final customers with electricity in its distribution area, which is the main goal of the group,
- 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 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 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, environmental management system, as well as health and safety at work quality system.
- Company's operation and development planning.
- Continual education, training, and targeted training for employees.

#### OSNOVNI CERTIFIKAT



In year 2011 Elektro Gorenjska Company obtained the basic Family-friendly Company certificate, as we are aware of our social responsibility, influence and information we give our employees and wider public through our operations. We are aware also that there are not only managers behind their success, but also employees, who are instrumental in certain working process. In the procedure of obtaining the basic certificate we adopted 14 measures that need to be introduced within the next three years. Please see also chapter 9.1.14 below. Part of the costs connected with the acquisition of the basic Family-friendly Company certificate, was covered by funds of the European Social Fund.

LARGEST SOLAR POWER STATION IN GORENJSKA REGION, 800 KILOWATTS OF POWER, ON THE ROOF OF WAREHOUSES OF MERKUR COMPANY IN NAKLO, WHOSE INVESTOR WERE GORENJE ELEKTRARNE. IN A YEAR IT WILL GENERATE 845,000 KILOWATT HOURS OF ELECTRICITY, WHICH IS SUFFICIENT FOR THE NEEDS OF 200 HOUSEHOLDS.

## 8. INFORMATION SUPPORT AND DEVELOPMENT

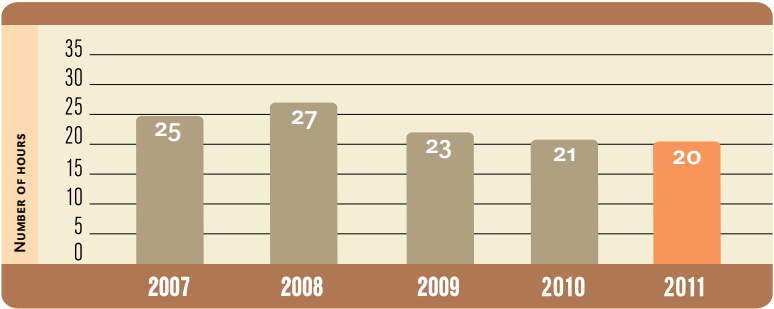
In year 2011 Elektro Gorenjska Group introduced the following new information supports:

- project management application was upgraded,
- application for power devices maintenance was developed,
- information support in the subsidiary's spin-off was offered,
- conclusion of the integration of the application for capturing salaries and documentation system,
- information support for DTI (database of technical information)management was upgraded.

In year 2011, aimed at higher employee efficiency, we successfully established the following information technologies:

- we replaced the data archiving system,
- we started with the purchase procedure for more powerful disk array,
- we established a test layout of WiMax system.

Figure 34: Number of failures on the part of information support operator, Informatika Company, from year 2007 to year 2011





Električna  
polnilnica



Tukaj lahko napolnite svoje električno vozilo



Polnilna postaja  
za električne vozila

gorenjska

mobitna elektrika







SEVENTH ELECTRICITY CHARGING STATION OF ELEKTRO GORENJSKA IN BREZNICA. ŽIROVNICA MUNICIPALITY HAS AT ITS DISPOSAL ALSO FOUR RE-ENERGY ELECTRIC BIKES, WHICH VISITORS USE TO TOUR THE CULTURAL AND TOURIST SIGHTS OF THE MUNICIPALITY.



## 9. SUSTAINABLE DEVELOPMENT

Parent company defines, directs and controls realization of sustainable development guide criteria and concern for their implementation in controlled companies of the group. Contact for information on the Sustainable development Report is Elektro Gorenjska, d. d., Ulica Mirka Vadnova 3a, Kranj, Corporate Communication Service, info@elektro-gorenjska.si.

Elektro Gorenjska Group reports on the progress in the field of sustainable development on an annual level for the period of the previous calendar year.

Report on Sustainable Development for year 2011 was made based on the data collected through standard questionnaire. Essential indicators and contents we report on arise from the existing goals in the field of sustainable development and refer to key influential areas of Elektro Gorenjska Group activities. Coordination of contents was going on under the auspices of experts from different fields responsible for preparation of annual and sustainable reports.

Sustainable development is reported about on the level of the Elektro Gorenjska Group and not on the level of the parent company, as uniform reporting guides have not yet been established for the entire group.

Elektro Gorenjska Group set its sustainable development clearly – with set goals, environmental strategy integrated with the business strategy, and achieved results clearly presented.

## 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 all three companies to experiment all the time, improve and increase their capacities, while their employees to reach their own and consequently also joint goals.

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

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

In year 2011 we:

- received the basic Family-friendly Company certificate in Elektro Gorenjska Company, while the two subsidiaries signed an agreement binding to implement the measures Elektro Gorenjska Company adopted within the mentioned certificate,
- together with the unions and work council we supplemented the criteria for establishing worker's performance and criteria for promoting employees by remuneration of the groups and introduced substitution of executive directors and heads of the services.

### 9.1.1 DEMOGRAPHIC STRUCTURE

On December 31 2011 Elektro Gorenjska Group had 333 employees. Compared to the situation as of December 31 2010 the number of employees increased by 11 workers. In year 2011 we have had a total of six terminations of employment and 17 new employments.

In the beginning of the year five employees of Elektro Gorenjska were employed in Gorenjske elektrarne, as Elektro Gorenjska Company transferred its heat and electricity cogeneration activity to its subsidiary.

During the year 23 employees changed their employer within the group, as they were employed in Elektro Gorenjska Prodaja as of September 1 due to the activity of electricity purchase and sale spin-off.

At the end of year 2011 the group had 6.31 % employees employed with fixed-term employment, which is a bit more than in year 2010, but a lot less than in the previous years.

By the end of the year 2011 one of the female workers decided for part-time employment due to the parental leave. All other employees had a contract for full-time employment at the end of the year.

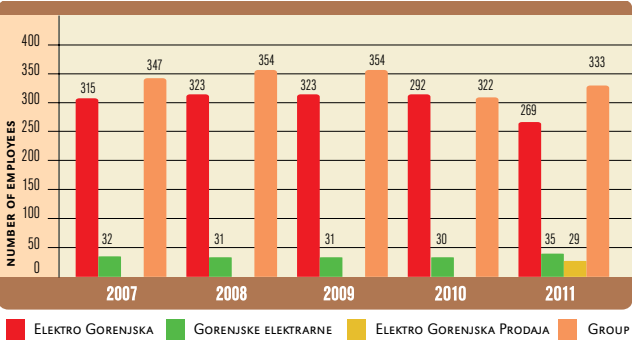


Figure 35: Movement of the number of employees by years

At the end of year 2011 there were 74 % of men and 26 % 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, as this company has predominantly male population employed.

Average age of employees in the group is 41.6 years, which is comparable to year 2010 and lower according to the previous years, and 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 like in the past three years Elektro Gorenjska Group has the most employees in the age group between 36 and 45 years, namely 32 percent of all employees. Older age structure in Gorenjske elektrarne Company has the strongest impact on older age groups as there 49 % of all employees belong to the age group between 46 and 55.

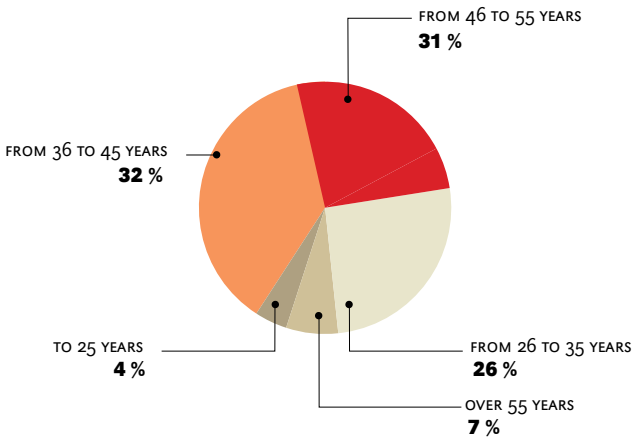


Figure 36: Shares of employees in Elektro Gorenjska Group according to age groups

Table 18: Elektro Gorenjska Group  
employee information for  
the period from 2010 to 2011

	ELEKTRO GORENJSKA		GORENJSKE ELEKTRARNE		ELEKTRO GORENJSKA PRODAJA		GROUP	
	2011	2010	2011	2010	2011	2010	2011	2010
AVERAGE NUMBER OF EMPLOYEES	269	316	35	31	23.75	-	327.75	347
AVERAGE AGE	41.4 years	41 years	46.8 years	46.4 years	36.9 years	-	41.6 years	41.5 years
AVERAGE YEARS OF SERVICE IN THE GROUP	16.8 years	16.3 years	20.5 years	19.4 years	10.4 years	-	16.7 years	16.6 years

### 9.1.2 EMPLOYMENT

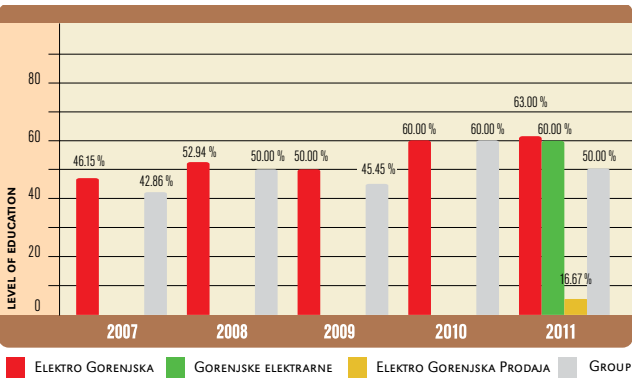
Human resources planning is a constituent part of strategic and annual plan of the company. Human resources in the group are planned in accordance with these goals by an annual economic plan and implementation plan of human resources and education. New employees are won by invitations to tenders and publications on web sites; we also cooperate with schools and faculties and present ourselves at high school and university student fairs.

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 half 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 high-school education is 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 Elektro Gorenjska Prodaja in the previous year due to the needs of the working process vacancies requiring secondary education have filled, so the percentage in this category is slightly lower.

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, which is significant for the companies and related to the main activities of the companies.

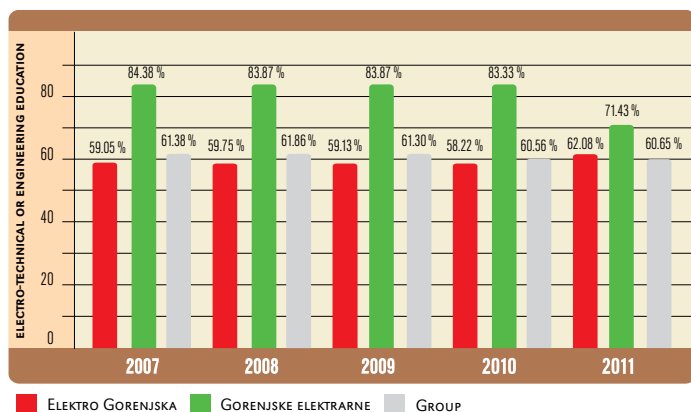


Figure 38: Share of employees with electro-technical or engineering education

In the last year we had more than 62 % of all newly employed workers in the group of workers with electro-technical education and in Gorenjske elektrarne also engineering education, so we came close to the high share in year 2010. 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 contract on their own. As Gorenjske elektrarne is small company in terms of the number of employees, every employment termination, which is not replaced by a new employment, has a great impact of the higher percentage of fluctuation.

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. In Gorenjske elektrarne and Elektro Gorenjska Prodaja there were no terminations of employment in the last year.

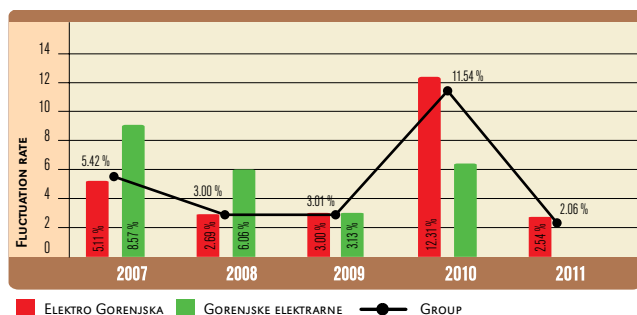


Figure 39: Fluctuation rate in Elektro Gorenjska Group

### 9.1.3 EMPLOYMENT OF PERSONS WITH DISABILITIES

As at December 31 2011 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 20101 by signing the contracts with social enterprises companies Elektro Gorenjska and Gorenjske elektrarne made use of the possibility of claiming replacement quota fulfillment for seven disabled persons. We plan to continue with this practice in the future years too.

Table 19: Information on disabled employees

	ELEKTRO GORENJSKA		GORENJSKE ELEKTRARNE		ELEKTRO GORENJSKA PRODAJA	
	2011	2010	2011	2010	2011	2010
NUMBER OF EMPLOYED DISABLED PERSONS AS AT DEC 31	7	8	1	1	0	-
NUMBER OF DISABLED PERSONS FOR CONTRIBUTION AS AT DEC 31	9	11	1	1	2	-
AMOUNT OF CONTRIBUTION IN YEAR	54,669	38,231	4,713	8,867	6,076	-
NUMBER OF REALIZED DISABLED PERSONS IN YEAR, BASED ON CONTRACTS WITH SOCIAL ENTERPRISES	4	7	3	0	0	-

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

### 9.1.4 EDUCATION

Investing into knowledge is investing into the future that is why the group devotes a lot of attention to appropriate development of human resources. By offering them possibilities of education and other forms of training we foster a caring relation to employees. Employees, who are noted to be lacking 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 2011 higher level of education was acquired by 21 employees. Some of them have paid for the education themselves.

Table 20: Education in the period from 2009 to 2011

ITEM DESCRIPTION	2009	2010	2011
EMPLOYEES ON TRAININGS (%)	55.42	84.93	51.65
NUMBER OF TRAINING DAYS PER EMPLOYEE	2.22 DAYS	2 DAYS	2.52 DAYS
COSTS OF EDUCATION AND TRAINING PER EMPLOYEE (IN EUR)	393	452	460
NUMBER OF EMPLOYEES ACQUIRING HIGHER LEVEL OF EDUCATION ON THE BASIS OF EDUCATION CONTRACT	44	40	40
NUMBER OF SCHOLARSHIP HOLDERS	11	10	5

In year 2010 most of the employees took part in the education for transfer to Office 2010, which is why this year records such high percentage of employees on training.

After the finished education or attendance of professional workshops employees complete a survey, which establishes the satisfaction of participants with the education. 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. With this we wish to stimulate transfer of knowledge among employees as much as possible. 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.

We promote self-learning and research. 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 21: Educational structure of employees in Elektro Gorenjska Group as at December 31 2011

LEVEL OF EDUCATION 31. 12. 2011	ELEKTRO GORENJSKA		GORENJSKE ELEKTRARNE		ELEKTRO GORENJSKA PRODAJA		GROUP	
	Number	Structure (%)	Number	Structure (%)	Number	Structure (%)	Number	Structure (%)
MASTER'S DEGREE (8)	12	4.5	1	2.9	4	13.8	17	5.1
UNIVERSITY LEVEL (7/2)	41	15.2	6	17.1	5	17.2	52	15.6
GRADUATE LEVEL (7/1)	33	12.3	5	14.3	5	17.2	43	12.9
POST-SECONDARY LEVEL (6)	44	16.4	4	11.4	4	13.8	52	15.6
SECONDARY LEVEL (5)	88	32.7	13	37.1	11	37.9	112	33.6
THREE-YEAR VOCATIONAL LEVEL (4)	49	18.2	5	14.3	0	0.0	54	16.2
TWO-YEAR VOCATIONAL LEVEL (3)	2	0.7	1	2.9	0	0.0	3	0.9
PRIMARY SCHOOL (1)	0	0.0	0	0.0	0	0.0	0	0.0
TOTAL EMPLOYEES	292	100	35	100	29	100	333	100

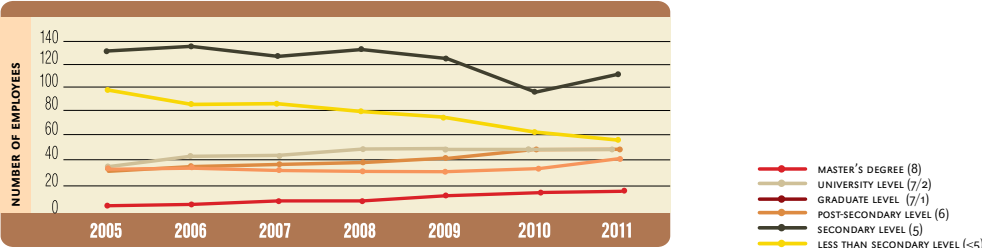


Figure 40: Movement of educational structure in Elektro Gorenjska Group according to years

Average level of education in Elektro Gorenjska Group as at December 31 2011 amounted to 5.91 - 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.

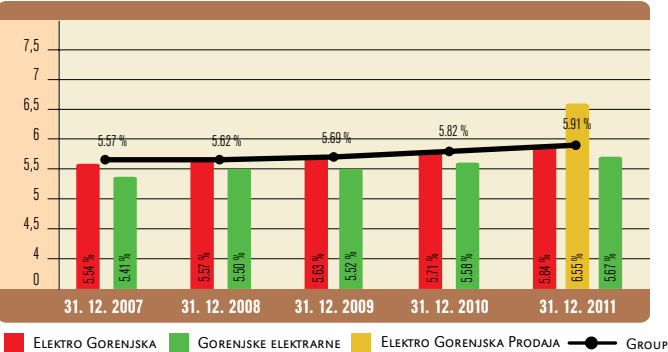


Figure 41: Average level of education in Elektro Gorenjska Group

## 9.1.6 SCHOLARSHIPS

In year 2011 we gave scholarships to five students. All scholarship holders were acquiring electro-technical education. Four 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 assets.

## 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 46 workers have been promoted to more demanding positions of employment, which is almost fourteen percent of all employees in the group.

In year 2011 we did not search for candidates for the twelve managing positions outside the group, but we have given an opportunity to already employed workers. If only possible, we listen to the colleagues, who wish to change their field of work. In the last year we enabled twelve horizontal promotions.

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. We have several different types of remuneration and criteria for establishing worker's performance.

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.

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 in accordance with the social responsibility of the group.



## 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 sixth time in the past year, While in Gorenjske elektrarne employees took part in the interview for the third 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
- they give 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 is received from employees also by anonymous survey on the satisfaction and commitment of employees, which are carried out every two to three years. In the future survey will be expanded to the two subsidiaries as well.

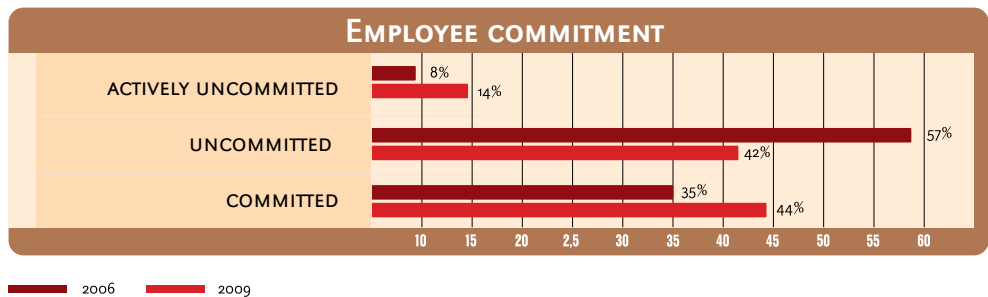
Acquired data is analyzed, while with implementation of different measures we then try to remove the established negative influences. From the results of the survey so far it is evident that employees feel strong affiliation to the company, have positive attitude to quality and process control, while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

In year 2010 we have given great emphasis to education in the field of management and communicating, which will improve internal relations as well. Survey will be redistributed among the employees again in year 2012.

Figure 42: Average scores in the fields of the survey



Figure 43: Employee commitment



With the purpose of informing the employees and rationalizing certain human resources procedures we created a web site of the personnel service in the past year. 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.

In year 2011 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, included made a selection of 14 measures, which the group will introduce until the middle of year 2014. Based on the already introduced measures in year 2011 the employees volume of flexible working hours has increased, those with children in the first grade could take the first day of school off, employees with children entering the early childhood care for the first time could take 16 hour for the introduction in the first week. In the past year the Elektro Gorenjska Company was appointed an authorized representative for balancing the job and family, which adopts proposals from the employees related to the balancing of their career and family lives and submits them to the Elektro Gorenjska management and directors of the two subsidiaries, while the employees get the information about the purpose and way of utilizing individual measures.

## 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 2011 in Elektro Gorenjska there were fewer absences due to sickness than in the past two years, while in Gorenjske elektrarne there were a bit more of them than in year 2010.

	ELEKTRO GORENJSKA		GORENJSKE ELEKTRARNE		ELEKTRO GORENJSKA PRODAJA	
SICK LEAVES IN YEAR	2011	2010	2011	2010	2011	2010
NON-REFUNDED SICK LEAVE (DAYS)	1,460	1,875	227	86	159.5	-
REFUNDED SICK LEAVE (DAYS)	1,738	2,622	119	135	233.5	-
AVERAGE NUMBER OF SICK LEAVE DAYS / EMPLOYEE	11.26	15.04	10	7.36	13.5	-

Table 22: Absences due to sickness in individual year

On average employees in year 2011 had accrued 33 days of regular annual holiday, while on average they used 22 days. They can use the rest of the holiday until March 31 2012.

## 9.1.11 ADDITIONAL ACTIVITIES FOR EMPLOYEES

**Organization of internal events:** Employees are the first ambassadors of the company, so informal meetings of employees as well as the management and participation in different societies help building tradition, collective spirit, and group affiliation. Each year in the month of September we organize a company day. At the end of the year meeting of pensioners is organized, then the New Year's gathering of employees, children of the employees receive presents from Santa Clause. In December of 2011 Santa gave presents to 178 children of up to ten years of age.

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.

Company offers 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.

	ELEKTRO GORENJSKA		GORENJSKE ELEKTRARNE		ELEKTRO GORENJSKA PRODAJA	
VOLUNTARY SUPPLEMENTARY PENSION INSURANCE	2011	2010	2011	2010	2011	2010
EMPLOYEES INCLUDED IN VSPI (%)	88.48	82.88	100	96.77	75.86	-
AVERAGE ANNUAL PREMIUM	1,293	1,264	1,512	1,629	1,478	-

Table 23: Inclusion of the employees in the voluntary supplementary pension insurance

Employees of at least 50 years of age and regardless of the age, employees with a status of a disabled person, employees with physical impairment in both cases if they are recognized by 60 % or more physical disability, and employees that care and protect a physically and mentally disabled

person, are entitled with additional five days of annual leave, which is two days more than the statutory minimum.

For several years employees of Elektro Gorenjska 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 a variety of natural disasters. Besides financial assistance the affected are entitled to three extraordinary paid days off.

## 9.1.12 MANAGEMENT

### **Relations between employees and management in the group**

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, and 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.

## 9.1.13 HEALTH AND SAFETY AT WORK

Each company employee is an important member of our community each contributing its share to the company's success. 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 Center EG (Središče EG), where they can find the legislation, internal rules and instructions for safe and healthy work.

In year 2011 the health and safety at work management system council implemented the following activities:

- We eliminated the deficiencies and irregularities established at the internal audit OHSAS 18001.
- We eliminated deficiencies and irregularities established at the 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 succeeded in obtaining funds at the tender of the HIIS (Health Insurance Institute of Slovenia) for solving the problems of remote work places.
- We introduced an additional quality indicator, namely the control of the implementation of work from the point of safety and health at work and fire safety.
- Within the framework of OHSAS 18001 programs the following tasks have been executed:
  - a) Within the program of increasing the fire safety in the entire Elektro Gorenjska complex, we installed smoke detectors in workshops, meter storage, main storage, open storage and garage.
  - b) Within the program of reducing the risk in implementing office work we purchased 40 office chairs.
- We discussed the changes implemented in the Safety statement with risk assessment.

For monitoring the quality of work of health and safety at work council and service we introduced five quality indicators. The most important are gravity and frequency of injuries, which are also the basis of comparison with other electricity distribution companies in Slovenia.

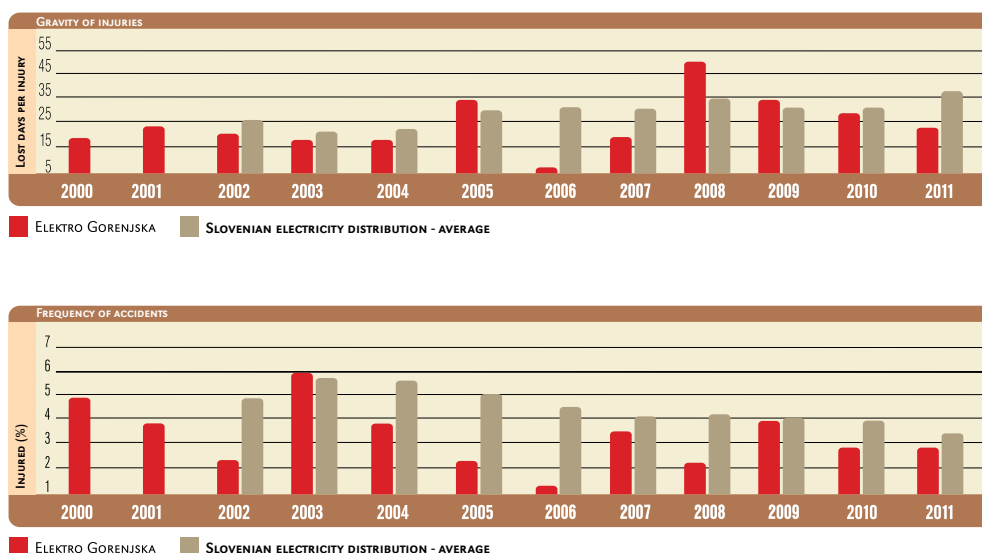


Figure 44: Gravity and frequency of injuries indicators from 2000 to 2011

From the charts we can see that we were very successful in year 2011, as compared to the previous year we managed to reduce the gravity of injuries, while frequency of accidents remained on the same level. Compared to the electricity distribution in Slovenia gravity as well as frequency of the injuries are lower.

As in years before year 2011 was marked by the economic crisis, which is going to be a challenge for the companies in the group in year 2012 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 to a healthier and safer working environment.

In year 2012 great attention will be paid to safety training of workers, regulation of fire safety in the company, inspection of work equipment, implementation of medical examinations, purchase of quality personal safety equipment, and solving the problems of isolated workplaces.

## 9.1.14 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 set within the framework of the basic certificate of Family-friendly Company. Please see also chapter seven.

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 using the adopted benefits.

## 9.1.15 COMMUNICATION WITH EMPLOYEES

Internal communication is the foundation of the complete communication web. For the success of the company 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:

- directly on the meetings,
- with short news and notices through email, on intranet or on notice boards,
- with announcements on the intranet s,
- 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 (construction and electric on-site assembly). As a result we use different channels of communication with the employees:

**Internal magazine Elgo**, which is sent to Elektro Gorenjska Company employees, pensioners, and scholarship holders by mail 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**: an additional communication support, which was introduced in year 2011. It 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 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).

In communication activities with the employees in year 2011 we focused on the foreseen spin-off of commercial activity and a changed way of operation of companies in the group.

Besides familiarizing the employees with all significant novelties in the group through internal E-monthly, printed Elgo paper, and intranet we actively communicated also on direct meetings between the management and individual units. We also prepared a manual for employees, where all key information, as well as frequently asked questions and answers were collected that served for better understanding of the changes for the employees.

We offered a possibility of asking questions and we answered them every day. We prepared meetings with employees in individual locations and presented expected effects, goals of the spin-off and preparation of a new strategy.

## 9.2 CONCERN FOR THE ENVIRONMENT

### 9.2.1 ENVIRONMENTAL POLICY

Our attitude to the environment is shown by setting our business goals and working activities in accordance with the established system of environmental management, ISO 14001, which company acquired in year 2006 and has been certifying it every year (please see also chapter 7 – Integrated management and quality system). With environmental management system, which is part of all business functions, we control all eventual dangers for the environment, with constant improvements we adjust to the new challenges. 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 all fields of activity in the group.

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 AREA OF ENVIRONMENT PROTECTION IN YEAR 2011

Environmental management Council, which is responsible for the proper implementation of environmental requirements and suitable awareness of the employees, paid attention to the following activities:

- Monitoring changes in environmental management legislation. In year 2011 five new decrees and one set of rules were given the effect by publication in the Official Gazette of RS. In the company we made sure provisions referring to the operation of the group are implemented.
- Establishment, assessment and control of the 16 recognized environmental aspects in year 2011. For five environmental aspects we made new programs with implementation goals due to higher assessment: a) electromagnetic radiation of electricity devices, b) noise of power transformers, c) lightning of facilities, d) construction and technologic waste in implementing works on the electricity power infrastructure, e) waste generated in implementation of office work. Beside that

we also refreshed and adjusted two organization regulations, namely the Instruction for recognizing and assessing significant environmental aspects and Organization regulation for development of electricity power devices.

- Practical control of environmental aspects, which was first verified in the form of two internal audits of quality standards. Besides verification of requirements in some business processes going on in the head office, we also verified the situation in remote units, local inspectorates and in all workshops and storages of the company. In review we established that employees know and implement the environmental management system requirements well, but above all we noted a great progress according to the findings of the internal audit for ISO in the previous year. Good control of the quality standard ISO 14001 in the company was confirmed during the audit and certification of external quality standard audit, where no inconsistencies were established and six recommendations were submitted. Most of the recommendations (five) were considered and will be realized in year 2012.
- Introduction of regulated system of office generated waste collection. In secretarial services of individual organization units we installed special containers which ensured higher control over and as a result also higher quality of separation of glass, waste batteries, waste printer cartridges and their ongoing removal.
- During the reorganization or spin-off of commercial activity in a new subsidiary Elektro Gorenjska Prodaja Company, which rents the business premises of Elektro Gorenjska Company, we made sure that environmental aspect was not neglected. In the form of an appropriate agreement we defined the obligations of implementation of environmental requirements on the part of a newly established company as the user of certain Elektro Gorenjska Company infrastructure.
- We updated the ecological island on the location of the company, introduced video surveillance and provided for additional and clearer labels on individual containers, where different waste is collected.
- Increasing the level of information in the field of environmental management among employees through all forms of information in the company (ELGO gazette, intranet Center EG, electronic mail).
- A lot of attention was given to raising awareness of the employees on the way of using air conditioning, heating, lightning, using computer equipment.

In year 2011 a study of the Institute of the environment and spatial planning was made titled Environmental management in electricity distribution companies in Slovenia. Compared with other distribution companies our company has the least environmental aspects recognized, but we control them most efficiently. Study is useful for custodians of individual environmental aspects in order to get information on good practices of other electricity distribution companies.

### 9.2.3 GOALS AND PROGRAMS OF ENVIRONMENT PROTECTION IN YEAR 2012

In the field of environment protection in year 2011 we will pay great attention to individual environmental aspects. Once again we will execute an assessment of environmental aspects, review precisely the implementation of the set goals included in individual programs, and if necessary adopt new programs or update the existing ones. We will introduce additional and more efficient quality indicators, which will show more clearly trend of success in managing the environmental problems. More detailed review of the situation will be executed in the field of waste water discharge.

According to the recommendation of the external audit for ISO we will start following beside the direct effects also some indirect environmental effects:

- electricity consumption in business premises,
- consumption of energy for heating (gas, oil) and
- consumption of fuel for vehicles.



Main challenge besides considering the programs and successful re-certification remains unchanged: concern for wide informing among the employees. Employees can impact essentially the success in this field with their behavior.

We will continue to strive for better flow of information among the employees in the direction of introduction and better recognition of environmental management system. We will publish a special manual for correct waste separation, which will clearly show the exact location of disposal of individual waste. Verification of business processes in reference to compliance with the environment management system and simultaneous informing of employees will be implemented in the form of internal audits, which will re-verify implementation of environmental programs on all company's locations. In the fall within the external audit for ISO we plan a follow-up audit for ISO 14001 standard. In March members of environmental management council participated in the Let's clean Slovenia (Očistimo Slovenijo) campaign, where all company's employees were invited as well.

### 9.2.4 VARIOUS ASPECTS OF ENVIRONMENTAL MANAGEMENT IN YEAR 2011

To manage important environmental aspects appropriately we have established quality indicators which help a recognize trends. Environmental management council has been introducing measures necessary at different derogations. Following we present key indicators, which define efficiency of individual program operation.

#### Waste management

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.

#### Waste generated in office work

Based on the program created in year 2011 we wish to have an integrated control over all types of waste and as a result provide for reduction of costs and smaller quantity of generated municipal waste. In year 2011 we upgraded the system with separate collection of waste generated in offices, as a result we also collect separately the packaging waste, paper, glass, batteries and plastic. In year 2011 all implementation objectives of the program were achieved.

Employees were regularly informed about correct separation of office waste; as a result success was seen also in significant reduction of utilities costs in the company. Latter decreased by more than 30 percent compared to year 2010.

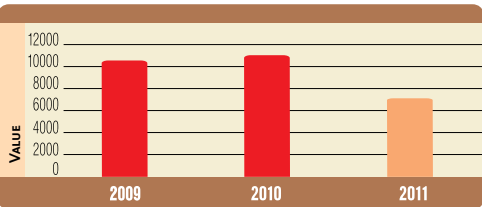


Figure 45: Costs of municipal - office waste removal (quality indicator 220)

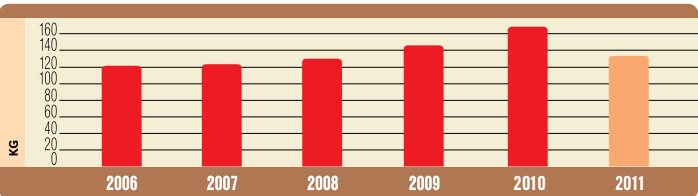
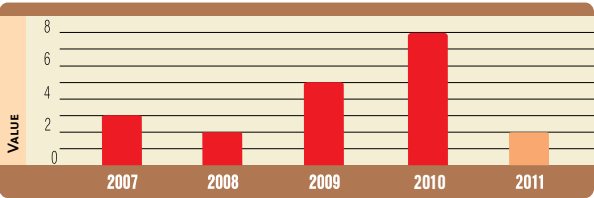


Figure 46: Toners and cartridges in kilos

**Asbestos fiber**

According to the law all material containing asbestos needs to be removed in an appropriate way. Environmental management council has thus formed a new program, whose main goal was to replace the asbestos roofing. Main part was done in years 2009 and 2010, while on 2011 two transformer stations were recovered within the framework of planned investment work.

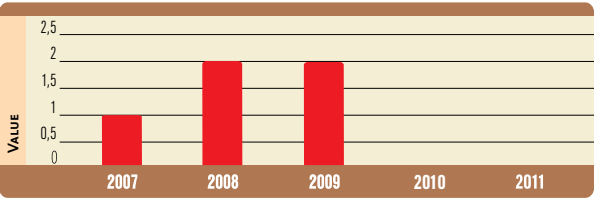
Figure 47: Number of transformer stations from which asbestos material was removed (quality indicator 157)



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

In the past the company has adopted numerous measures in regards of correct storage and transport of dangerous substances, whose results are demonstrated in the figure below. Due to precise procedures spills were not recorded neither in 2010 or 2011.

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

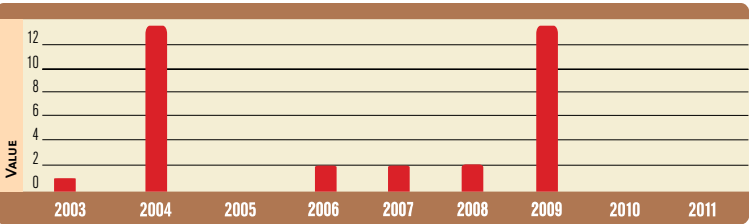


**Noise and electromagnetic radiation (EMR) of energy devices and light pollution**

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

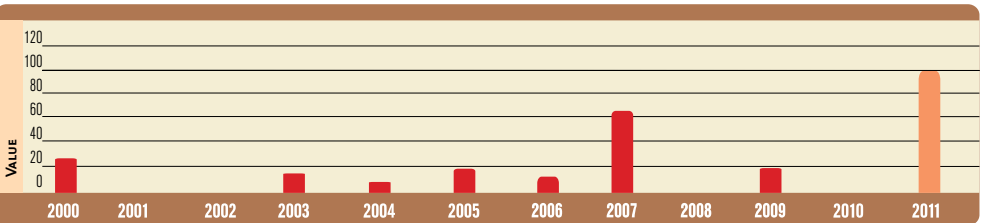
Noise caused by the transformers in transformer stations (MV/LV) does not exceed the limits defined by the existing rules. According to the law in transformer stations (HV/MV) noise monitoring is executed every five years, wherever it is necessary. Number of executed measurements is shown in the figure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

Figure 50: Share of annual EMR measurements on transformer stations according to the plan



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 2011 projects of light pollution were made for all facilities of 110/20 kV transformer stations.

**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. As a consequence the results are demonstrated in the figure below.

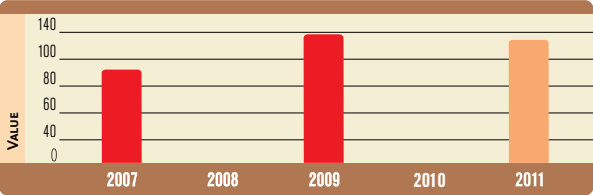


Figure 51: Share of returned waste oils according to their purchase

**Savings with electricity production in year 2011**

As previously mentioned year 2011 was extremely bad hydrologic year. In year 2011 total production of ecologically clean electricity in **hydro power stations** was **47,621 MWh**. Electricity produced in hydro power stations gives environmental savings, namely according to the methodology of the Energy Efficiency Center from Jožef Stefan Institute in CO<sub>2</sub> calculation (0.5 kg CO<sub>2</sub>/kWh) for year 2011 there was a reduction of 23,810 tons of CO<sub>2</sub> emissions. In year 2010 the saving was 27,828 tons of CO<sub>2</sub> emissions, in year 2009 the saving was 29.874 tons of CO<sub>2</sub> emissions, in year 2008 26,164 tons, and in year 2007 24,188 tons of CO<sub>2</sub> emissions.

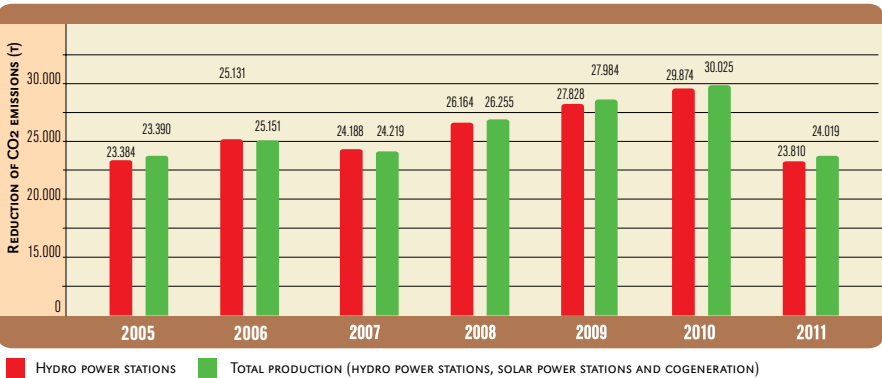


Figure 52: Environmental saving of CO<sub>2</sub> emission reduction due to production of electricity in hydro power stations

In year 2011 total production of electricity in solar power stations was **419 MWh**. Electricity produced in solar power stations gives environmental savings, namely according to the methodology of the Energy Efficiency Center from Jožef Stefan Institute in CO<sub>2</sub> calculation (0.5 kg CO<sub>2</sub>/kWh) for year 2011 by **208.8 tons of CO<sub>2</sub> emissions**. In year 2010 the environmental saving was reduced by 151.1 tons of CO<sub>2</sub> emissions, in year 2009 by 155.4 tons of CO<sub>2</sub> emissions, in year 2008 by 91.3 tons of CO<sub>2</sub> emissions, while in year 2007 by 30.6 tons of CO<sub>2</sub> emissions. Cumulative environmental saving of CO<sub>2</sub> emissions from solar power stations of Gorenjske elektrarne Company from year 2005 to the end of 2011 was 662.9 tons of CO<sub>2</sub> emissions (period 2005 - 2010 454 tons, period 2005 - 2009 302.9 tons of CO<sub>2</sub> emissions).

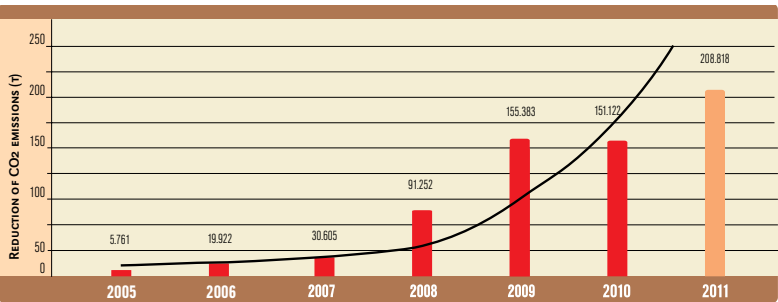
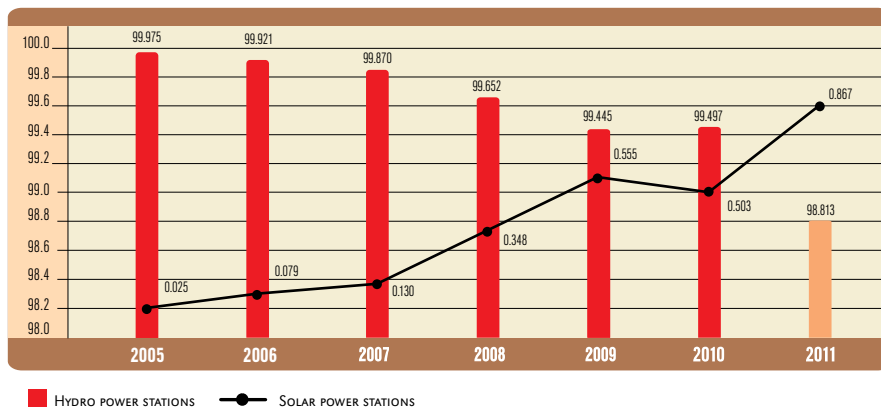


Figure 53: Environmental saving of CO<sub>2</sub> emission reduction due to production of electricity in solar power stations

In year 2011 total production of electricity in cogeneration units using natural gas was **155 MWh**. Total reduction of CO<sub>2</sub> from hydro power stations, solar power stations and combined heat and electricity production was 24,096.6 tons of CO<sub>2</sub> emissions. In year 2010 the reduction was 30,025.1 tons of CO<sub>2</sub> emissions, in year 2009 reduction was 27,983.6 tons of CO<sub>2</sub> emissions, in year 2008 the reduction was 26,255.1 tons of CO<sub>2</sub> emissions, while in year 2007 it was 24,218.9 tons of CO<sub>2</sub> emissions.

Figure 54: Shares of electricity production from renewable sources in Gorenjske elektrarne (%)



## 9.3 CONCERN FOR PUBLIC INTEREST – SOCIAL RESPONSIBILITY

In all companies of the Elektro Gorenjska Group we are aware that efficient communication with the public contributes significantly to strengthening of company's positive image and its reputation in the eyes of individuals; employee, journalist, client or business partner. Because of the latter process of communication is never taken by chance. Our main principles are fair and equal treatment of employees, ethical and honest operation, respecting main human rights, responsible environmental management in terms of caring for the future generations, care in relation to the immediate local community and wider social environment. Establishing and preserving good two-way relations and systematic, professionally planned and coordinated communication of the group with its audiences is 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 functioning distribution network is vital.

Group has been reinforcing its active role in various socially important activities despite the demanding economic situation.

## SPONSORSHIPS AND DONATIONS

Elektro Gorenjska Group actively involves 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. Parts of the funds were intended also for activities our employees participate in during their free time.

By systematically selecting the projects and offering free rental of generators we have cooperated with a larger number of partners than the year before. For donations and sponsorships we spent a total of EUR 57,007, of which sponsorship costs amounted to EUR 36,697, while costs of donations to EUR 20,310.

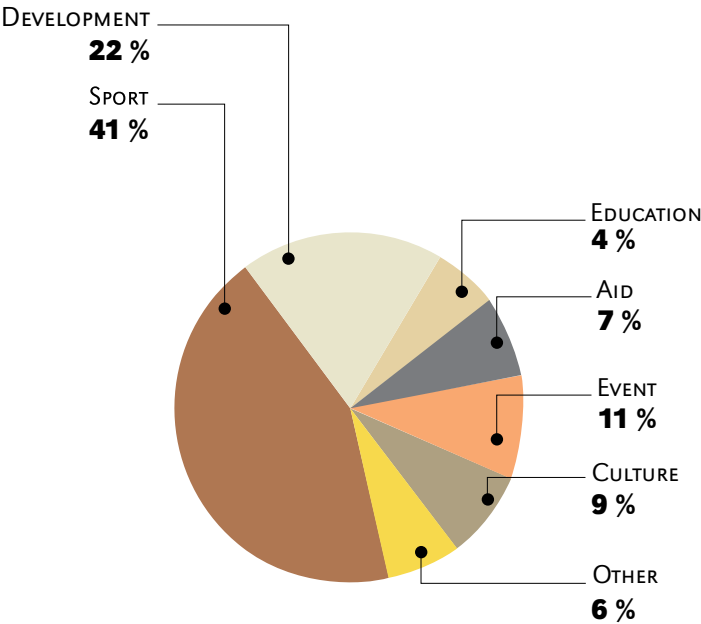


Figure 55: Sponsorships and donations of Elektro Gorenjska Group in year 2011

Traditionally, we donated assets earmarked for the purchase of business gifts at the end of the year, to the local community. In year 2011 companies in Elektro Gorenjska Group used the money earmarked for purchase of gifts and organization of New Year's parties, to bring happiness to users of the Škofja Loka Center for blind, visually impaired and elderly by purchasing a rehabilitation bike and to users of association Sonček of Upper Gorenjska region, who will be able to prepare additional activities for their members with a help of additional financial funds.

### 9.3.2 COMMUNICATION WITH STAKEHOLDERS

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. 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,
- customers,
- other influential public (state, regulators).

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.

### 9.3.4 COMMUNICATION WITH MEDIA

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

We communicated with the media mainly on the following topics:

- operation of the group,
- new services and sponsorships,
- novelties on the network and
- completed important investment power facilities.

In year 2011 we organized two press conferences of Elektro Gorenjska Company, two press conferences at the openings of new facilities in cooperation with subsidiary Gorenjske elektrarne and one press conference when sponsorship contract was signed in cooperation with subsidiary Elektro Gorenjska Prodaja. We have prepared more than ten public events to which journalists were invited as well.

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 2011 there were 655 media publications recorded. Number of publications in electronic media, above all on the Web, has been increasing and there were more than 187 publications recorded here.

Table 24: Number of publications and sets of media coverage

YEAR	2009	2010	2011
NUMBER OF PUBLICATIONS	579	799	655
AVERAGE NUMBER PUBLICATIONS IN A MONTH	48	67	55

We regularly follow also their value, which was extremely positive in year 2011. In year 2011, share of positive publications increased by 212 percent. Share of positive publications increased from 19.5 % to 74.5 %. Share of negative publications was 2.9 percent.

Table 25: Presentation of favorability of media publications by years

YEAR	2009	2010	2011
SHARE OF POSITIVE PUBLICATIONS	41 %	19.5 %	74.5 %
SHARE OF NEUTRAL PUBLICATIONS	55 %	78 %	22.6 %
SHARE OF NEGATIVE PUBLICATIONS	4 %	3 %	2.9 %

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.

### 9.3.5 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](http://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.

### 9.3.6 COMMUNICATION WITH CUSTOMERS

In accordance with its vision and mission Elektro Gorenjska Group provides for quality offer and friendly service. We communicate with our customers through different communication channels:

- In person at the head offices of the companies. In year 2011 we began renovating the information desk. With the renovation we wanted to design a 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.
- By means of the following web sites [www.eg-prodaja.si](http://www.eg-prodaja.si), [www.porabimkarrabim.si](http://www.porabimkarrabim.si) and electronic mail addresses [info@eg-prodaja.si](mailto:info@eg-prodaja.si), [za.gospodinjstva@eg-prodaja.si](mailto:za.gospodinjstva@eg-prodaja.si), [za.podjetja@eg-prodaja.si](mailto:za.podjetja@eg-prodaja.si), [reenergija@eg-prodaja.si](mailto:reenergija@eg-prodaja.si) and [modra.energija@eg-prodaja.si](mailto: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 the backside of the monthly bills. Customers are informed about the news, present the ways of reaching different kinds of information, present the rational use of electricity, present applications and applicable services. With special direct mail in August we informed all our key stakeholders about the spin-off of electricity purchase and sale part to an independent company Elektro Gorenjska Prodaja. For household customers we also prepared a prize competition, which more than 10,000 customers took part in.

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.

### 9.3.7 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

DAMAGE ON THE ELEKTRO GORENJSKA ELECTRIC POWER NETWORK DUE TO HURRICANE WIND.

# 10. AUDITOR'S REPORT

## INDEPENDENT AUDITOR'S REPORT To the owners of ELEKTRO GORENJSKA d.d.

### Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Elektro Gorenjska Group, which comprise the balance sheet as at 31 December 2011, 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 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.

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

Ime Deloitte se nanaša na Deloitte Touche Tohmatsu Limited, javno družbo, ustanovljeno v skladu z zakonodajo Združenega kraljevstva Velika Britanija in Severne Irske (in skrajšano: DTL), pravele company limited by guarantee, in revizije njenih članic, od katerih je vsaka ločena in samostojna pravna oseba. Podrobnejši opis pravne organizacije združenja Deloitte Touche Tohmatsu Limited in njenih družb članic je na voljo na [www.deloitte.com/global/en/about](http://www.deloitte.com/global/en/about).

Member of Deloitte Touche Tohmatsu Limited

#### *Opinion*

In our opinion, the consolidated financial statements give a true and fair view of the financial position of Elektro Gorenjska Group as at 31 December 2011, 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 the business report in accordance with the requirements of the Companies Act (ZGD-1). Our responsibility is to provide an assessment of whether the business report is consistent with the audited financial statements. Our procedures have been conducted in accordance with the International Standard on Auditing 720 and are limited solely to assessing of whether the business report is consistent with the audited financial statements. In our opinion, the business report is consistent with the audited financial statements.

DELOITTE REVIZIJA d.o.o.

Katarina Kadunc  
Certified Auditor

Yuri Sidorovich  
President of the Board

*For signature please refer to the original  
Slovenian version.*

**Deloitte.**

DELOITTE REVIZIJA D.O.O.  
Ljubljana, Slovenija

Ljubljana, 24 April 2012

**TRANSLATION ONLY – SLOVENIAN ORIGINAL PREVAILS**



EMPLOYEES OF ELEKTRO GORENJSKA SET UP A NEW NESTING POLE FOR TWO STORKS IN TENETIŠE.

# **11. FINANCIAL STATEMENTS OF ELEKTRO GORENJSKA GROUP FOR BUSINESS YEAR ENDED AS AT 31. 12. 2011**

# 11.1 BALANCE SHEET OF ELEKTRO GORENJSKA GROUP AS OF 31. 12. 2011

in EUR

ITEM	NOTE	31. 12. 2011	31. 12. 2010
<b>ASSETS</b>			
<b>A. LONG-TERM ASSETS</b>		<b>181,308,907</b>	<b>175,522,373</b>
<b>I. INTANGIBLE ASSETS AND LT ACCRUALS AND PRE-PAID EXPENDITURE</b>	14,1	<b>1,659,568</b>	<b>1,718,985</b>
1. Long-term property rights		883,089	1,389,481
4. Intangible assets in acquisition		767,674	329,504
6. Other LT accruals and pre-paid expenditure		8,805	
<b>II. TANGIBLE FIXED ASSETS</b>	14,2	<b>174,652,191</b>	<b>168,158,237</b>
1. Land and buildings		113,069,166	107,499,118
a.) Land		7,512,870	7,225,910
b.) Buildings		105,556,296	100,273,208
2. Production plant and equipment		51,930,120	52,540,876
3. Other plant and equipment		53,168	54,698
4. Tangible fixed assets in acquisition		9,599,737	8,063,545
a.) Tangible fixed assets in construction or production		9,028,275	7,997,441
b.) Advances for acquisition of tangible fixed assets		571,462	66,104
<b>III. INVESTMENT PROPERTY</b>	14,3	<b>2,175,004</b>	<b>2,102,948</b>
<b>IV. LONG-TERM FINANCIAL INVESTMENTS</b>	14,4	<b>2,813,200</b>	<b>3,534,091</b>
1. Long-term financial investments, excluding loans		2,669,722	3,390,097
b.) Shares and stakes in associates		120,897	131,430
c.) Other shares and stakes		2,548,825	3,258,667
2. Long-term loans		143,478	143,994
b.) Long-term loans to others			516
c.) Other long-term invested assets		143,478	143,478
<b>V. LONG-TERM OPERATING CLAIMS</b>	14,5	<b>8,944</b>	<b>8,112</b>
3. Long-term operating claims to others		8,944	8,112
<b>B. SHORT-TERM ASSETS</b>		<b>19,748,529</b>	<b>26,500,824</b>
<b>I. STOCKS</b>	14,6	<b>211,333</b>	<b>321,931</b>
1. Material		211,333	321,587
4. Advances for material			344
<b>II. SHORT-TERM FINANCIAL INVESTMENTS</b>	14,7	<b>616</b>	<b>1,574</b>
1. Short-term financial investments, except loans		0	0
2. Short-term loans		616	1,574
b.) Short-term loans to others		616	1,574
<b>III. SHORT-TERM OPERATING CLAIMS</b>	14,8	<b>16,343,792</b>	<b>21,526,100</b>
2. Short-term operating accounts receivable		14,917,127	19,612,668
3. Short-term operating claims on others		1,426,665	1,913,432
<b>IV. MONETARY ASSETS</b>	14,9	<b>3,192,788</b>	<b>4,651,219</b>
<b>C. SHORT-TERM ACCRUALS AND PRE-PAID EXPENDITURE</b>	14,10	<b>511,118</b>	<b>1,788,490</b>
<b>TOTAL ASSETS</b>		<b>201,568,554</b>	<b>203,811,687</b>



in EUR

ITEM	NOTE	31. 12. 2011	31. 12. 2010
<b>LIABILITIES</b>			
<b>A. CAPITAL</b>	14,11	<b>135,656,983</b>	<b>136,126,570</b>
<b>I. CALLED-UP CAPITAL</b>		<b>72,019,069</b>	<b>72,019,069</b>
1. Share capital		72,019,069	72,415,419
2. Uncalled capital			396,350
<b>II. CAPITAL RESERVES</b>		<b>45,944,898</b>	<b>45,944,898</b>
<b>III. PROFIT RESERVES</b>		<b>15,188,629</b>	<b>14,088,821</b>
1. Statutory reserves		1,058,877	974,891
4. Reserves under articles of association		3,293	
5. Other profit reserves		14,126,459	13,113,930
<b>IV. REVALUATION SURPLUS</b>		<b>1,065,986</b>	<b>1,992,061</b>
<b>V. NET PROFIT OR LOSS BROUGHT FORWARD</b>		<b>85,246</b>	<b>0</b>
1. Net profit brought forward		85,246	
<b>VI. NET PROFIT OR LOSS OF THE BUSINESS YEAR</b>		<b>1,353,155</b>	<b>2,081,721</b>
1. Net profit of business year residue		1,353,155	2,081,721
<b>B. PROVISIONS AND LT ACCRUED COSTS AND DEFERRED REVENUES</b>	14,12	<b>13,199,303</b>	<b>13,189,088</b>
1. Provisions for pensions and similar liabilities		2,779,773	2,740,403
2. Other provisions		4,169,139	4,096,171
3. Long-term accrued costs and deferred revenues		6,250,391	6,352,514
<b>C. LONG-TERM LIABILITIES</b>	14,13	<b>30,799,150</b>	<b>28,391,192</b>
<b>I. LONG-TERM FINANCIAL LIABILITIES</b>		<b>30,435,514</b>	<b>27,885,518</b>
2. Long-term financial liabilities to banks and companies		30,077,592	27,885,518
4. Other long-term financial liabilities		357,922	
<b>II. LONG-TERM OPERATING LIABILITIES</b>		<b>7,659</b>	<b>7,659</b>
4. Long-term operating liabilities based on advances		7,659	7,659
<b>III. DEFERRED TAX LIABILITIES</b>		<b>355,977</b>	<b>498,015</b>
<b>Č. SHORT-TERM LIABILITIES</b>		<b>20,371,011</b>	<b>24,908,242</b>
<b>II. SHORT-TERM FINANCIAL LIABILITIES</b>	14,14	<b>6,327,828</b>	<b>5,655,784</b>
2. Short-term financial liabilities to banks and companies		6,307,926	5,647,520
4. Other short-term financial liabilities		19,902	8,264
<b>III. SHORT-TERM OPERATING LIABILITIES</b>	14,15	<b>14,043,183</b>	<b>19,252,458</b>
2. Short-term operating liabilities to suppliers		8,201,319	11,385,059
4. Short-term operating liabilities for the third party account		3,881,235	4,074,741
5. Short-term operating liabilities to employees		817,210	1,452,897
6. Short-term operating liabilities to state and other institutions		414,199	1,751,956
7. Short-term operating liabilities based on advances		512,537	347,582
8. Other short-term operating liabilities		216,683	240,223
<b>D. SHORT-TERM ACCRUED COSTS AND DEFERRED REVENUES</b>	14,16	<b>1,542,107</b>	<b>1,196,595</b>
<b>TOTAL LIABILITIES</b>		<b>201,568,554</b>	<b>203,811,687</b>

Explanatory notes on pages 153 to 184 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 THE BUSINESS YEAR ENDED AS AT 31. 12. 2011

in EUR

ITEM	NOTE	2011	2010
<b>1. NET SALES REVENUE</b>	15,1	<b>83,317,940</b>	<b>102,856,819</b>
a. On domestic market		81,883,791	97,395,310
b. On foreign markets		1,434,149	5,461,509
<b>3. CAPITALIZED OWN PRODUCTS AND SERVICES</b>	15,2	<b>4,310,474</b>	<b>3,927,064</b>
<b>4. OTHER OPERATING REVENUES (INCLUDING OPERATING REVENUES FROM REVALUATION)</b>	15,3	<b>525,882</b>	<b>1,324,851</b>
<b>5. COSTS OF GOODS, MATERIAL, AND SERVICES</b>		<b>62,544,976</b>	<b>78,515,532</b>
a. Costs of goods sold and material used	15,8	56,493,989	72,973,443
b. Costs of services	15,9	6,050,987	5,542,089
<b>6. LABOR COSTS</b>	15,10	<b>11,343,031</b>	<b>12,234,712</b>
a. Costs of salaries		8,108,299	8,577,880
b. Costs of voluntary pension insurance of employees		398,297	395,055
c. Costs of employer contributions and other salary duties		1,369,218	1,405,120
d. Other labor costs		1,467,217	1,856,658
<b>7. AMORTIZATION/DEPRECIATION EXPENSE</b>	15,11	<b>10,841,522</b>	<b>11,072,929</b>
a. Depreciation		10,348,980	10,172,416
b. Operating expenses from revaluation in intang. and tang. fixed assets and inv. property		73,374	176,443
c. Operating expenses from revaluation in current assets		419,168	724,070
<b>8. OTHER OPERATING EXPENSES</b>	15,12	<b>790,590</b>	<b>1,021,228</b>
<b>9. FINANCIAL REVENUES FROM SHARES</b>	15,4	<b>165,566</b>	<b>164,500</b>
c. Financial revenues from other investments		165,566	164,500
<b>10. FINANCIAL REVENUES FROM GIVEN LOANS</b>	15,5	<b>100,816</b>	<b>73,561</b>
b. Financial revenues from loans given to others		100,816	73,561
<b>11. FINANCIAL REVENUES FROM OPERATING CLAIMS</b>	15,6	<b>137,460</b>	<b>161,942</b>
b. Financial revenues from operating claims on others		137,460	161,942
<b>12. FINANCIAL EXPENSES FROM IMPAIRMENTS AND FINANCIAL INVESTMENT WRITE-OFFS</b>	15,13	<b>10,533</b>	<b>3,570</b>
<b>13. FINANCIAL EXPENSES FROM FINANCIAL LIABILITIES</b>	15,14	<b>1,034,078</b>	<b>757,406</b>
b. Financial expenses from loans, received from banks		1,034,078	757,406
<b>14. FINANCIAL EXPENSES FROM OPERATING LIABILITIES</b>	15,15	<b>2,499</b>	<b>3,554</b>
b. Financial expenses from operating liabilities to group companies		1,728	1,703
c. Financial expenses from liab. to suppliers and bill of exchange l.		771	1,851
<b>15. OTHER REVENUES</b>	15,7	<b>204,057</b>	<b>143,837</b>
<b>16. OTHER EXPENSES</b>	15,16	<b>10,458</b>	<b>14,046</b>
<b>17. NET PRE-TAX PROFIT OR LOSS OF THE ACCOUNTING PERIOD</b>		<b>2,184,508</b>	<b>5,029,596</b>
<b>18. INCOME TAX</b>	15,18	<b>513,266</b>	<b>1,115,677</b>
<b>19. DEFERRED TAXES</b>	15,19		<b>354,112</b>
<b>20. NET PROFIT OR LOSS OF THE ACCOUNTING PERIOD</b>		<b>1,671,242</b>	<b>4,268,031</b>

Explanatory notes on pages 153 to 184 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 THE BUSINESS YEAR ENDED AS AT 31. 12. 2011

in EUR

TITLE	2011	2010
Net profit or loss of the accounting period	1,671,242	4,268,031
Changes in the surplus from the revaluation of financial assets available for sale	-568,152	32,114
Other components of comprehensive income	-357,923	
TOTAL COMPREHENSIVE INCOME	745,167	4,300,145

Explanatory notes on pages 153 to 184 are part of the financial statements and should be read in conjunction with them.

# 11.4 CASH FLOW STATEMENT OF ELEKTRO GORENJSKA GROUP

FOR THE BUSINESS YEAR ENDED AS AT 31. 12. 2011

in EUR

ITEM	2011	2010
<b>A. OPERATING CASH-FLOW</b>		
<b>A. OPERATING RECEIPTS</b>	<b>141,777,563</b>	<b>131,175,585</b>
1. Receipts from sales of products and services	139,673,150	129,653,282
2. Other operating receipts	2,104,413	1,522,303
<b>B. OPERATING EXPENDITURE</b>	<b>130,366,035</b>	<b>122,143,933</b>
1. Expenditure for purchase of material and services	106,821,380	103,447,391
2. Expenditure for salaries and employees profit shares	10,696,085	10,528,049
3. Expenditure for duties of all kinds	9,560,375	5,184,808
4. Other operating expenditure	3,288,195	2,983,685
<b>C. EXCESS OF OPERATING RECEIPTS OR EXPENDITURE</b>	<b>11,411,528</b>	<b>9,031,652</b>
<b>B. CASH FLOWS IN INVESTING ACTIVITIES</b>		
<b>A. RECEIPTS IN INVESTING ACTIVITIES</b>	<b>1,219,612</b>	<b>841,168</b>
1. Receipts from received interest and profit shares of others	338,706	366,698
2. Receipts from disposal of intangible assets	1,855	
3. Receipts from disposal of tangible fixed assets	99,600	474,470
5. Receipts from disposal of long-term financial investments	193,332	
6. Receipts from disposal of short-term financial investments	586,119	
<b>B. EXPENDITURE IN INVESTING ACTIVITIES</b>	<b>15,242,508</b>	<b>12,033,727</b>
1. Expenses for acquisition of intangible assets	865,923	1,707,788
2. Expenses for acquisition of tangible fixed assets	13,548,253	10,190,939
4. Expenses for acquisition of long-term financial investments	828,332	135,000
<b>C. EXCESS OF RECEIPTS OR EXPENDITURE IN INVESTING ACTIVITIES</b>	<b>-14,022,896</b>	<b>-11,192,559</b>
<b>C. CASH FLOWS IN FINANCING ACTIVITIES</b>		
<b>A. RECEIPTS IN FINANCING ACTIVITIES</b>	<b>17,132,000</b>	<b>17,610,000</b>
1. Receipts from paid-up capital	500,000	
2. Receipts from increase in long-term financial liabilities	8,500,000	7,200,000
3. Receipts from increase in short-term financial liabilities	8,132,000	10,410,000
<b>B. EXPENDITURE IN FINANCING ACTIVITIES</b>	<b>15,979,064</b>	<b>15,974,170</b>
1. Expenditure for given interest referring to financing activ.	999,702	762,820
3. Expenditure for repayment of long-term financial liabilities	5,647,520	4,801,350
4. Expenditure for repayment of short-term financial liabilities	8,132,000	10,410,000
5. Expenditure for dividend and other profit share payment	1,199,842	
<b>C. EXCESS OF RECEIPTS OR EXPENDITURE IN FINANCING ACTIV.</b>	<b>1,152,936</b>	<b>1,635,830</b>
<b>Č. CLOSING CASH BALANCE</b>	<b>3,192,788</b>	<b>4,651,219</b>
<b>x. CASH FLOW FOR THE PERIOD</b>	<b>-1,458,431</b>	<b>-525,076</b>
<b>y. OPENING CASH BALANCE</b>	<b>4,651,219</b>	<b>5,176,295</b>

Explanatory notes on pages 153 to 184 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 THE BUSINESS YEAR ENDED AS AT 31. 12. 2011

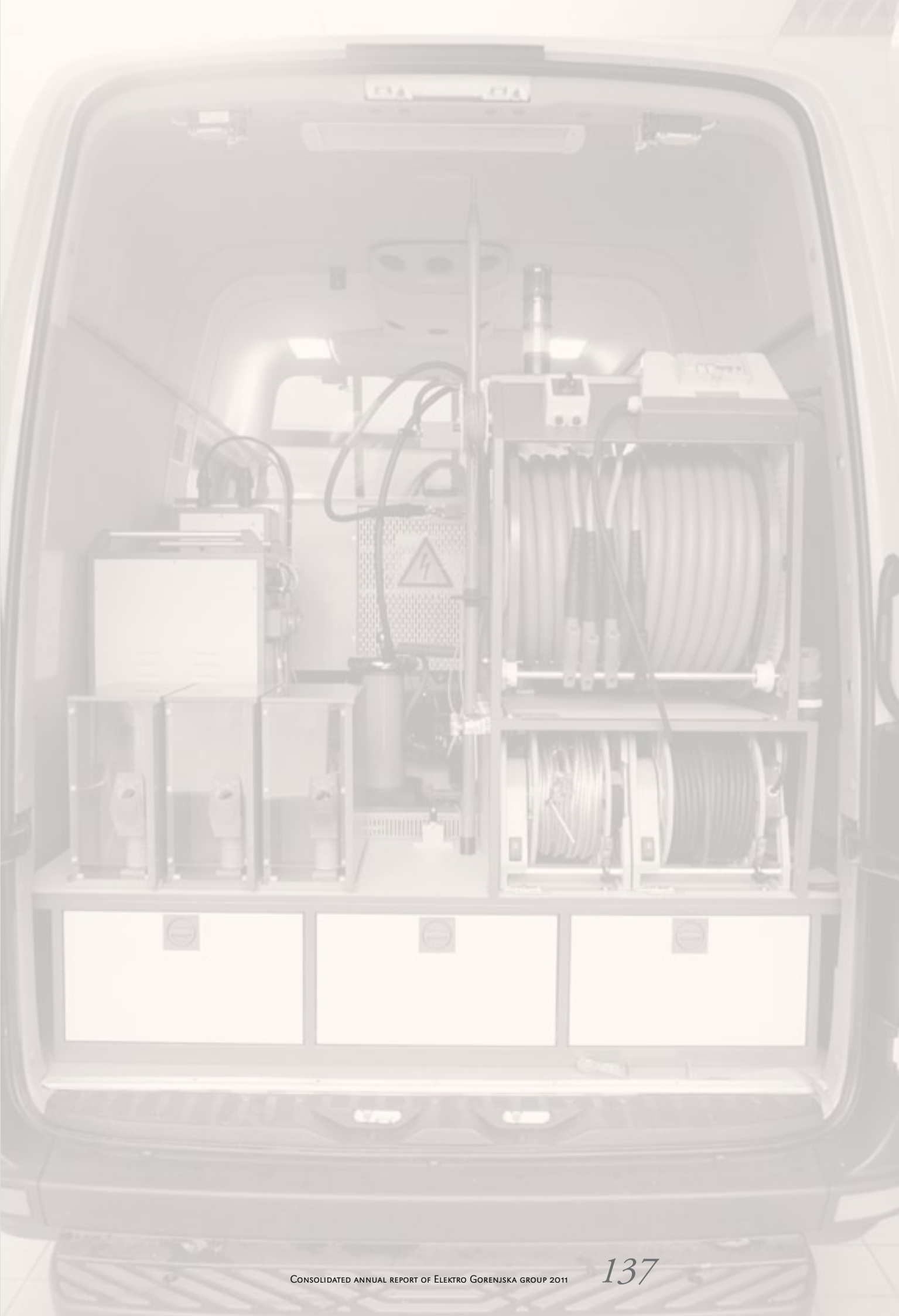
a) From January 1 2011 to December 31 2011:

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								
	SHARE CAPITAL	UNCALLED CAPITAL	SHARE PREMIUM ACCOUNT	GENERAL CAPITAL VALUATION ADJUSTMENT	STATUTORY RESERVES	RESERVES UNDER ARTICLES OF ASSOCIATION		OTHER PROFIT RESERVES						
						III/1	III/2						III/3	III/4
	I/1	I/2	II/1	II/2	III/1	III/2	III/3	III/4	III/5	IV	V/1	VI/1		
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										-1,214,754	-1,214,754			
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			
c. CHANGES IN SURPLUS FROM FINANCIAL INVESTMENTS REVALUATION									-568,152		-568,152			
d. OTHER ITEMS IN COMPREHENSIVE INCOME OF REPORTING PERIOD									-357,923		-357,923			
B. 3 CHANGES WITHIN CAPITAL	-396,350	396,350	0	0	83,985	3,293	1,012,530	0	85,246	-1,105,054	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														
c. ALLOCATION OF PART OF NET PROFIT FOR ADDITIONAL PROVISIONING UNDER THE DECISION OF THE ANNUAL GENERAL MEETING														
f. OTHER CHANGES WITHIN CAPITAL	-396,350	396,350	0	45,944,897	1,058,877	3,293	14,126,459	1,065,986	85,246	-318,087	0			
C. BALANCE AS OF DECEMBER 31 2011	72,019,069	0	1	45,944,897	1,058,877	3,293	14,126,459	1,065,986	85,246	1,353,155	135,656,983			
DISTRIBUTABLE PROFIT 2011									85,246	1,353,155	1,438,401			

b) From January 1 2010 to December 31 2010:

EVENTS IN INDIVIDUAL CAPITAL ITEMS	CALLED-UP CAPITAL			CAPITAL RESERVES		PROFIT RESERVES			REVALUATION SURPLUS	NET PROFIT OR LOSS OF THE BUSINESS YEAR	TOTAL CAPITAL
	I			II		III			IV	VI	
	SHARE CAPITAL	UNCALLED CAPITAL	PREMIUM ACCOUNT	GENERAL CAPITAL VALUATION ADJUSTMENT	STATUTORY RESERVES	OTHER PROFIT RESERVES	REVALUATION SURPLUS	NET PROFIT OF THE BUSINESS YEAR			
	I/1	I/2	II/1	II/2	III/1	III/5	IV	VI/1			
A. 1 BALANCE AS OF DECEMBER 31 2009	72,415,419	0	1	45,944,897	757,196	10,595,440	1,959,947	549,875		132,222,775	
A. 2 BALANCE AS OF JANUARY 1 2010	72,415,419	0	1	45,944,897	757,196	10,595,440	1,959,947	549,875		132,222,775	
B. 1 CHANGES IN EQUITY CAPITAL – TRANSACTIONS WITH OWNERS	0	-396,350	0	0	0	0	0	0		-396,350	
i. OTHER CHANGES IN EQUITY CAPITAL		-396,350								-396,350	
B. 2 TOTAL COMPREHENSIVE INCOME OF REPORTING PERIOD	0	0	0	0	0	0	32,114	4,268,031		4,300,145	
a. ENTRY OF NET PROFIT OR LOSS FOR THE REPORTING PERIOD								4,268,031		4,268,031	
c. CHANGES IN SURPLUS FROM FINANCIAL INVESTMENTS REVALUATION							32,114			32,114	
B. 3 CHANGES WITHIN CAPITAL	0	0	0	0	217,696	2,518,489	0	-2,736,185		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					217,696	1,968,614		-2,186,310		0	
c. ALLOCATION OF PART OF NET PROFIT FOR ADDITIONAL PROVISIONING UNDER THE DECISION OF THE ANNUAL GENERAL MEETING											
C. BALANCE AS OF DECEMBER 31 2010	72,415,419	-396,350	1	45,944,897	974,891	13,113,930	1,992,061	2,081,721		136,126,570	
DISTRIBUTABLE PROFIT 2010								2,081,721		2,081,721	

Explanatory notes on pages 153 to 184 are part of the financial statements and should be read in conjunction with them.





# 12

ELEKTRO GORENJSKA HAS AT ITS DISPOSAL A MEASURING VEHICLE AND EQUIPMENT, WHICH ENABLES INTEGRATED DIAGNOSIS OF CABLE CONDUIT CONNECTIONS AND EARLY DETECTION OF ERRORS ON THE CABLE NETWORK.



## 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

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. 2011 amounted to EUR 16,992,464, net profit for year 2011 was EUR 69,610,
- company Elektro Gorenjska Prodaja, which is in 100 % ownership of the controlling company; capital of this company as at 31. 12. 2011 amounted to EUR 6,588,727, net profit for year 2011 was EUR 65,852,
- associate company Soenergetika, Stara cesta 3, Kranj, which is in 25 % ownership of Gorenjske elektrarne Company; capital of this company as at 31. 12. 2011 amounted to EUR 483,588, net loss for year 2011 was EUR -42,131.

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 EUR 1.

## 12.2 RECOGNIZING EXCHANGE RATE DIFFERENCES

Presentation currency and functional currency is Euro (EUR). Transactions in foreign currency are converted to the functional currency at the reference rate of the ECB on the date of the transaction. 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.

## 12.3 SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

### 12.3.1 INTANGIBLE ASSETS AND LONG-TERM ACCRUALS AND PRE-PAID EXPENDITURE

For measuring the intangible asset under recognition a model of acquisition cost is used. Acquisition cost includes import and non-refundable duties as well as interest on loans for the acquisition of intangible assets.

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

### 12.3.2 TANGIBLE FIXED ASSETS

Acquisition cost of tangible fixed asset consists of its purchase value and all costs, which can be directly attributed to its qualification for intended use or costs of 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.

Spare parts meant for repairs or maintenance are treated as maintenance material.

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. Elektro Gorenjska Company does not originally own them in order to bring rent or other return.

Equipment and real estate of hydroelectric power stations, which the controlling company awarded to the controlled company in the form of an in-kind contribution at its establishment (in 2002) were revaluated to their estimated fair price established by the accredited appraiser.

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, where impairment signs are considered to be physical damage, obsolescence, 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 GROUPS 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	10-43	2.33-10
Other buildings	15-50	2-6.67
Equipment of energy distribution infrastructure	10-35	2.86-10
Equipment of energy production infrastructure	3-37	2.7-33.33
Computer hardware equipment	3	33.33
Other equipment	4-20	5-25
Vehicles	8-12	8.33-12.5

### 12.3.3 INVESTMENT PROPERTY

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

- land, which is not meant for sale in the near future within regular operation, and those that have no future use determined
- buildings in operational leasing, and
- empty 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.

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 %.

### 12.3.4 LONG-TERM FINANCIAL EQUITY INVESTMENTS IN OTHER COMPANIES

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

Financial investments in capital instruments for which a price on the operating market has not been published and whose fair value cannot be reliably measured in other way (reliable measure of fair value is not available), are recognized at their acquisition price and not at their fair value. If in previous periods they were recognized at their fair price and reliable measure of their fair price is no longer available, their recognized fair value until then becomes their new acquisition value.

Long-term financial investment in the equity of Soenergetika Company was recognized in the group financial statements using the equity method. According to this method financial investment is first recognized at the acquisition value, while the book value increases or decreases by recognition of the investor's share in the profit or loss account of the company it has invested in at the date the financial investment was made. Share of the investor in the profit or loss account of the company it has invested in is recognized in the group profit or loss account of the investor.

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 Elektro Gorenjska Group uses 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 group company does not meet criteria for successful hedging, hedge accounting is terminated on the last day that compliance with the hedging success has been shown. If the group 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.

## 12.3.5 STOCKS

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

For newly acquired quantity units in accounting period, in which the prices of newly acquired quantity units differ from the prices of quantity units of the same kind in stock, in order to reduce or use up the quantities during the year the company uses a method of floating average prices.

In all stocks of parts, spare parts, material, small tools, and support material Elektro Gorenjska Group formed 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 1 to 2 years old: in the amount of 20 %.

## 12.3.6 CLAIMS

Claims of all kinds are initially recognized in amounts that originate from suitable documents assuming that they will be paid.

Given advances are recognized in the balance sheet in connection with things they refer to.

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

For doubtful and disputable claims revaluation adjustments due to impairments entirely (100 %) are formed. Disputable claims include claims, which are either proposed for enforcement, bankruptcy or compulsory settlement or are already in the procedure of enforcement, bankruptcy or compulsory settlement. Doubtful claims include claims older than 90 days

Claims can be impaired also if there are other impartial evidence that accounting value of claims so far has been larger than the current value of expected cash flow.

## 12.3.7 SHORT-TERM FINANCIAL INVESTMENTS

Short-term financial investments of the Group are short-term loans granted. In the beginning group recognizes the short-term financial investments at their acquisition value, which correspond to invested cash and other assets. That part of long-term financial investments, which are due one year after the balance sheet date, are also recognized as short-term financial investment. Short-term financial investments are recognized at their amortized cost.

## 12.3.8 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
07000-0000545521	Gorenjska banka, Kranj
07000-0000641939	Gorenjska banka, Kranj
07000-0001282527	Gorenjska banka, Kranj
25100-9700516198	Probanka, Maribor
03138-1000716780	SKB banka, Ljubljana
07000-0000542805	Gorenjska banka, Kranj

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

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.

### 12.3.9 SHORT-TERM ACCRUALS AND PRE-PAID 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.

### 12.3.10 CAPITAL

Entire capital of the group consists of called-up capital, capital reserves, profit reserves, revaluation surplus, net profit or loss from previous periods, and residual of net profit 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.

### 12.3.11 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 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.

Long-term deferred revenues in respect of the state benefits intended to cover certain costs, are spent by transferring to operating revenues at the occurrence of appropriate costs.

### 12.3.12 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.

### 12.3.13 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.

### 12.3.14 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.

### 12.3.15 REVENUES

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

Operating revenues are sales revenues 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 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, but also in connection with 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.



## 12.3.16 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 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, when the rate does not derogate essentially from the effective interest rate.

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

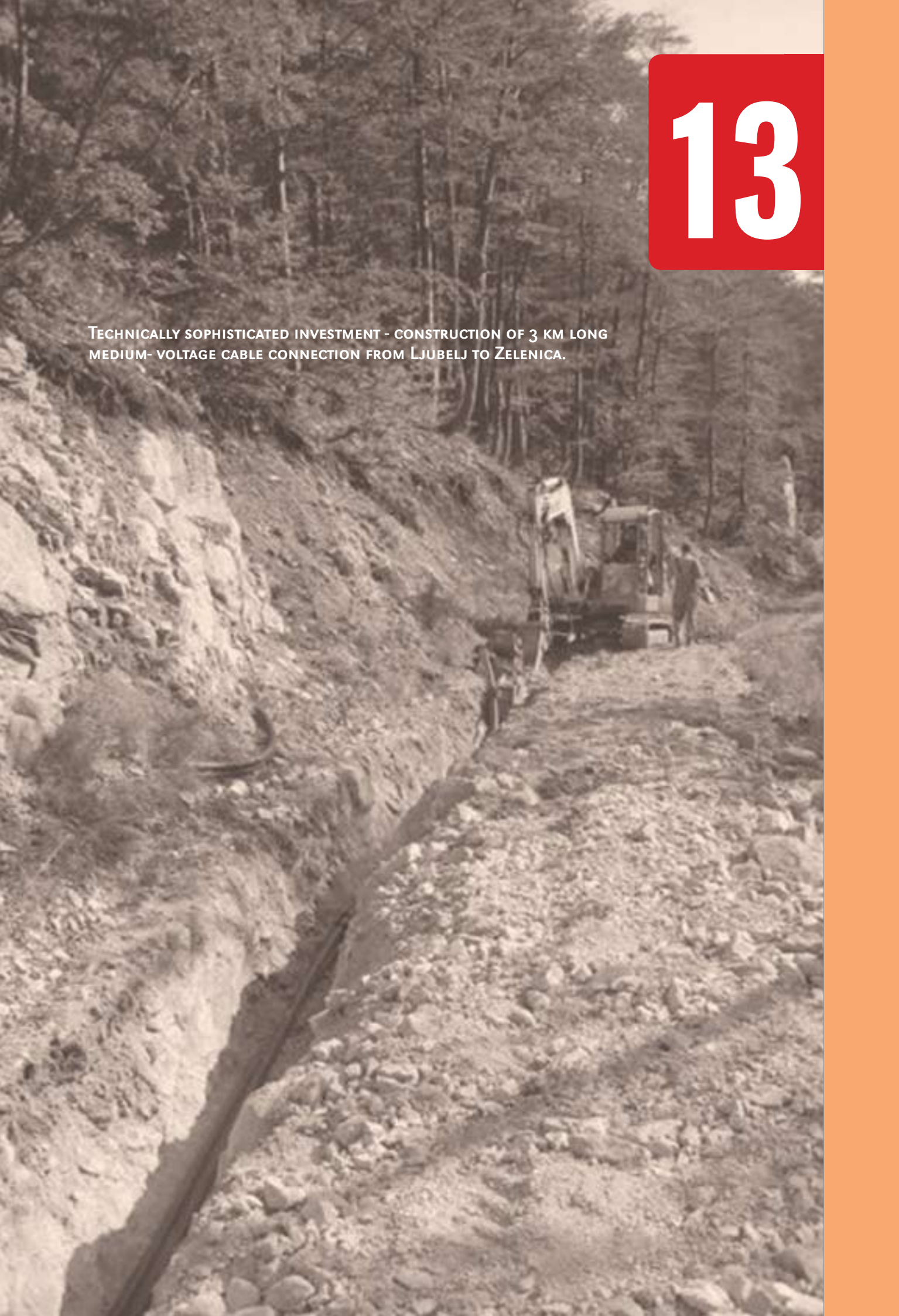
## 12.3.17 CASH-FLOW STATEMENT

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 expenditure for their acquisition, are considered cash equivalents.

## 12.3.18 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, 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.

TECHNICALLY SOPHISTICATED INVESTMENT - CONSTRUCTION OF 3 KM LONG  
MEDIUM- VOLTAGE CABLE CONNECTION FROM LJUBELJ TO ZELENICA.



# **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 company believes are 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 company 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 4.8.1.

In March 2012 Elektro Gorenjska Company received a preliminary settlement of the regulatory year from SODO. Preliminary settlement for year 2011 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 2011 was by **EUR 244,923** higher than the value established on the basis of the preliminary settlement. On this basis, in year 2011 the company deferred in short-term revenues in respect of the rent and services under the contract with SODO in the amount of EUR 244,923.

Final settlement for regulatory year 2011 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 once established by SODO, both contracting parties are bound to consider the JARSE decision.

As explained in Chapter 4.8.1, 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 for year 2011. 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 EUR 3 million) 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 Elektro Gorenjska 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 SETTLEMENT OF DEROGATIONS OF ANNOUNCED SCHEDULES FROM REALIZED SCHEDULES OF ELECTRICITY CONSUMPTION

Company Elektro Gorenjska Prodaja has not yet received a final statement of costs of electricity purchase for year 2011 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 2011 and based on the best assessment of prices for derogations the company estimates that final statement of derogations for year 2011 will establish that an amount of under-charged costs of electricity purchase for derogations will amount to EUR 566,830.

As at December 31 2011 this assessment is recognized in the financial statements of the company under short-term accrued costs (please see chapter 14.16 – Short-term accrued costs and deferred revenues).

## 13.4 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 2011 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 4.8.4 – 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 2011 in this respect and did not impute them in the financial statements for year 2011.

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 2011 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 2011 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 EUR 156,225. 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 2011. 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 2011 will be higher by EUR 259. As of December 31 2011 these two estimates in the amount of EUR 155,966 are recognized in financial statements of the company as short-term accrued costs (please see chapter 14.10 – Short-term accrued costs and deferred revenues). Transactions of purchasing electricity losses are presented also in the Business report, chapter 4.8.2 – Electricity losses in network, while for supplies in chapter 4.8.3 –SODO supply.



110 kV GIS JUNCTURE, TYPE B 65, IS A SINGLE PHASE IRONCLAD SYSTEM OF JUNCTURE, WHICH IS ALREADY WELL KNOWN IN ELEKTRO GORENJSKA, AS IT OPERATES ALREADY SIXTEEN 110 kV FIELDS MAINTAINED BY SPECIALLY TRAINED EMPLOYEES.



## 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 in year 2011.

in EUR

2011	COMPUTER SOFTWARE EQUIPMENT	OTHER RIGHTS	PROPERTY RIGHTS IN ACQUISITION	OTHER LONG-TERM ACCRUALS AND PRE-PAID EXPENDITURE	TOTAL INTANGIBLE FIXED ASSETS
1	2	3	4	5	6 = 2+3+4+5
<b>ACQUISITION COST</b>					
<b>BALANCE 1. 1. 2011</b>	3,796,458	7,090	329,504	0	4,133,051
New acquisitions	235,738	0	460,786	10,376	706,899
Disposals, withdrawals, transfers	-161,111	0	-22,616	-1,570	-185,297
Completion of ongoing investments	0	0	0	0	0
<b>BALANCE 31. 12. 2011</b>	<b>3,871,084</b>	<b>7,090</b>	<b>767,674</b>	<b>8,806</b>	<b>4,654,654</b>
<b>VALUE ADJUSTMENT</b>					
<b>BALANCE 1. 1. 2011</b>	2,409,300	4,766	0	0	2,414,066
Depreciation	741,894	236	0	0	742,130
Disposals, withdrawals, transfers	-161,111	0	0	0	-161,111
<b>BALANCE 31. 12. 2011</b>	<b>2,990,084</b>	<b>5,002</b>	<b>0</b>	<b>0</b>	<b>2,995,086</b>
<b>CARRYING AMOUNT</b>					
<b>BALANCE 1. 1. 2011</b>	1,387,157	2,324	329,504	0	1,718,985
<b>BALANCE 31. 12. 2011</b>	<b>881,001</b>	<b>2,088</b>	<b>767,674</b>	<b>8,806</b>	<b>1,659,568</b>

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

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

As at December 31 2011 the group has no financial obligations in respect of acquiring intangible fixed assets.

## 14.2 TANGIBLE FIXED ASSETS

As at December 31 2011 tangible fixed assets in the amount of **EUR 174,652,191** represent 87 % of total assets of the group. Compared to the balance as at December 31 2010 their value is by 4 % or EUR 6,493,954 higher.



## Movements in tangible fixed assets:

in EUR

2011	LAND	BUILDINGS			EQUIPMENT			TANGIBLE FIXED ASSETS IN BUILDING	ADVANCES	TOTAL TANGIBLE FIXED ASSETS
		INFRA- STRUCTURE	EL. POWER PLANTS	OTHER BUILDINGS	INFRA- STRUCTURE	EL. POWER PLANTS	OTHER EQUIPMENT			
1	2	3	4	5	6	7	8	9	10	11=2+3+4+5+6+7+8+9+10
<b>ACQUISITION COST</b>										
<b>BALANCE 1. 1. 2011</b>	7,225,910	222,909,650	16,186,445	13,211,854	84,078,581	11,320,836	14,248,073	7,997,441	66,104	377,244,893
New acquisitions	279,570	344,607	898	7,626	307,266	1,796	1,025,053	14,481,739	2,203,852	18,652,407
Disposals, separations, transfers	-3,329	-1,272,571	0	-3,567	-1,176,044	-28,557	-586,134	0	-1,698,494	-4,768,696
Transfer from investments in progress	10,720	8,955,882	0	631,658	3,349,878	127,538	229,627	-13,450,905	0	-145,601
Transfer to investment property	0	0	0	0	0	0	0	0	0	0
<b>BALANCE 31. 12. 2011</b>	<b>7,512,870</b>	<b>230,937,568</b>	<b>16,187,343</b>	<b>13,847,572</b>	<b>86,559,680</b>	<b>11,421,614</b>	<b>14,916,619</b>	<b>9,028,275</b>	<b>571,462</b>	<b>390,983,003</b>
<b>VALUATION ADJUSTMENT</b>										
<b>BALANCE 1. 1. 2011</b>	0	140,713,067	8,377,822	2,943,852	40,986,694	5,930,361	10,134,860	0	0	209,086,656
Depreciation	0	4,104,091	490,722	280,536	3,151,855	482,207	1,054,381	0	0	9,563,792
Disposals, separations, transfers	0	-1,457,866	0	0	-301,729	-28,375	-495,630	0	0	-2,283,599
Impairment reversal	0	0	-35,692	-345	0	0	0	0	0	-36,037
Transfer to investment property	0	0	0	0	0	0	0	0	0	0
<b>BALANCE 31. 12. 2011</b>	<b>0</b>	<b>143,359,292</b>	<b>8,832,852</b>	<b>3,224,043</b>	<b>43,836,821</b>	<b>6,384,193</b>	<b>10,693,611</b>	<b>0</b>	<b>0</b>	<b>216,330,812</b>
<b>CARRYING AMOUNT</b>										
<b>BALANCE 1. 1. 2011</b>	7,225,910	82,196,583	7,808,623	10,268,003	43,091,887	5,390,475	4,113,213	7,997,441	66,104	168,158,237
<b>BALANCE 31. 12. 2011</b>	<b>7,512,870</b>	<b>87,578,277</b>	<b>7,354,492</b>	<b>10,623,529</b>	<b>42,722,860</b>	<b>5,037,421</b>	<b>4,223,008</b>	<b>9,028,275</b>	<b>571,462</b>	<b>174,652,191</b>

**New acquisitions** are presented in the business report, in chapter 6.3.

Individually significant acquisitions are:

Land:

- purchase of land for the construction of Visoko substation (EUR 50,350);
- land for transformer station and associated cable ducts TS Pošta in k. o. Tržič (EUR 26,520).

Buildings:

- investment in building of RTP Radovljica 110/20 KV and landscaping (EUR 476,987),
- investment in Primskovo warehouse (EUR 274,534),
- investment in low-voltage cable conduit Srednja Bela (EUR 240,256),
- investment in reconstruction of 35 kV power line Podkuže–Kranjska Gora (EUR 222,713).

Equipment:

- 20 KV primary and secondary electric power equipment for RTP Radovljica (EUR 861,880),
- 20 KV primary and secondary electric power equipment for RTP Balos (EUR 525,445),
- 20 KV primary and secondary electric power equipment for RTP Jesenice (EUR 339,399),
- measurement system for detection of faults on cable conduits and for diagnostics of the cable network (EUR 243,120).

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

Sale of fixed assets to SODO is based on the sales contract. Elektro Gorenjska sold SODO a power transformer 110/20 kV, 40 MVA, which is installed in RTP Škofja Loka. Fixed assets were financed by SODO from the network charge for connection power. Basis for the agreement is Annex No. 3 to the Contract for the hire of electricity distribution infrastructure and implementation of service for SODO (Articles 22 and 23). Acquisition value of sold fixed asset for SODO amounted to EUR 672,440 (current value EUR 651,606).

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

Buildings:

- removal of decrepit low-voltage bare conduit Cerklje šola because of the new cables (reduction of acquisition costs by EUR 150,185 and value adjustment by EUR 150,185),
- removal of decrepit low-voltage bare conduit Zgornji Brnik because of the new cables (reduction of acquisition costs by EUR 110,059 and value adjustment by EUR 110,059).

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 2011 amounted to EUR 133,960,229 (31. 12. 2010: EUR 128,661,579). For the needs of implementation of system operator activity, which SODO implements on the basis of the concession contract for implementation of public utility service of distribution network system operator, SODO has hired from Elektro Gorenjska Company complete electricity infrastructure.

Fixed assets are in the property of the group and are not pledged as security for debts.

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 company took several long-term loans in year 2011 and previous years, whose balance on 31. 12. 2011 amounted to EUR 35,714,637 (31.12.2010: EUR 32,371,345). Please see also chapter 14.13 titled Long-term liabilities.

## 14.3 INVESTMENT PROPERTY

At the end of 2011 investment property amounted to **EUR 2,175,004 EUR**. Movements of their acquisition value, valuation adjustment and their carrying amount are presented in the following table.

in EUR

2011	LAND	BUILDINGS	TOTAL INVESTMENT PROPERTY
1	2	3	4=2+3
<b>ACQUISITION COST</b>			
<b>BALANCE 1. 1. 2011</b>	967,969	2,350,830	3,318,799
New acquisitions	0	0	0
Disposals	0	-42,927	-42,927
Transfer from ongoing investments	0	145,601	145,601
<b>BALANCE 31. 12. 2011</b>	<b>967,969</b>	<b>2,453,504</b>	<b>3,421,474</b>
<b>VALUE ADJUSTMENT</b>			
<b>BALANCE 1. 1. 2011</b>	0	1,215,851	1,215,851
Depreciation	0	43,057	43,057
Disposals	0	-12,439	-12,439
<b>BALANCE 31. 12. 2011</b>	<b>0</b>	<b>1,246,470</b>	<b>1,246,470</b>
<b>CARRYING AMOUNT</b>			
<b>BALANCE 1. 1. 2011</b>	967,969	1,134,979	2,102,948
<b>BALANCE 31. 12. 2011</b>	<b>967,969</b>	<b>1,207,035</b>	<b>2,175,004</b>

Following is the presentation of investment property structure.

in EUR

ITEM DESCRIPTION	31. 12. 2011	31. 12. 2010
Apartments	220,798	215,328
Holiday facilities	450,118	366,758
Other buildings	536,119	552,894
Land	967,969	967,969
<b>TOTAL INVESTMENT PROPERTY</b>	<b>2,175,004</b>	<b>2,102,948</b>

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. 2011, amounted to EUR 5,800,218.

Revenues from rent in investment property amount to EUR 260,344.

Direct operating expenses (including repairs and maintenance), originating from investment property, which made revenues from rents in year 2010, and direct operating expenses, which did not make revenues from rents in year 2010 consist of depreciation costs (EUR 46,029) and costs of material and services (EUR 203,098).

## 14.4 LONG-TERM FINANCIAL INVESTMENTS

On December 31 2011 long-term financial investments of the group amounted to **EUR 2,813,200**.

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. Effects of this financial investments have been insignificant for Elektro Gorenjska Group.

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 5.2 – Financial risks. Long-term financial investments were revaluated to their fair value. Revaluation surplus as at 31. 12. 2011 amounted to EUR 1,423,908. (31. 12. 2010: EUR 1,992,061) and has already been reduced for the deferred tax in the amount of EUR 355,978 (please see also chapter 11.5 – Statement of changes in equity of Elektro Gorenjska Group).

Revenues from long-term financial investments in year 2011 are presented in chapter 15.4. – Financial revenues from shares.

Related party transactions are presented in chapter 19.1 – Transactions with group companies in year 2011.

In consolidation of long-term financial investments investment of the controlling company in the shares of the group companies in the amount of EUR 18,818,484 was offset against the fixed capital of the controlled companies in the amount of EUR 16,684,880 and capital reserves in the amount of EUR 2,133,604.

in EUR

INVESTMENT DESCRIPTION	SHARE DESIGNATION	NUMBER OF SHARES		SHARE IN THE OWNERSHIP (IN %)		BALANCE	INCREASES IN YEAR 2011		DECREASES IN YEAR 2011		BALANCE
		1. 1. 2011	31. 12. 2011	1. 1. 2010	31. 12. 2011		VALUATION ADJUSTMENTS	New ACQUISITIONS	VALUATION ADJUSTMENTS	REPAYMENTS OR TRANSFERS TO SHORT-TERM LOANS	
										31. 12. 2011	
Soenergetika, d.o.o.	-	-	-	25,00%	25,00%	135,000	0	0	-14,103	0	120,897
Total investments in shares and interests in associates						135,000	0	0	-14,103	0	120,897
Gorenjska banka, d.d., Kranj	GBKR	2,350	2,350	0,71%	0,71%	2,594,118	0	0	-545,839	0	2,048,279
Zavarovalnica Triglav, d.d., Ljubljana	ZVTG	2,664	2,664	0,01%	0,01%	46,913	0	0	-20,273	0	26,640
Stelkom, d.o.o., Ljubljana	-	-	-	9,90%	9,90%	51,628	0	0	0	0	51,628
Informatika, d.d., Maribor	INFG	1,562	-	9,56%	-	180,083	0	0	0	-180,083	0
NLB, d.d., Ljubljana	NLB	3,228	3,228	0,04%	0,03%	385,926	0	0	-157,327	0	228,599
Informatika, d.d., Maribor	INFG	-	1,562	-	9,56%	-	0	193,679	0	0	193,679
TOTAL OTHER SHARES AND INTERESTS						3,258,668	0	193,679	-723,440	-180,083	2,548,824
TOTAL LONG-TERM FINANCIAL INVESTMENTS, EXCEPT LOANS						3,393,668	0	193,679	737,543	-180,083	2,669,721
Housing loans	-	-	-	-	-	515	82	0	0	-598	0
Eldom Maribor	-	-	-	-	-	142,798	0	0	0	0	142,798
Terme Olimia Podčetrtek	-	-	-	-	-	680	0	0	0	0	680
TOTAL LONG-TERM LOANS						143,994	82	0	0	-598	143,478
TOTAL LONG-TERM FINANCIAL INVESTMENTS						3,537,661	82	193,679	-737,543	-180,680	2,813,200

# 14.5 LONG-TERM OPERATING RECEIVABLES

Long-term operating receivables in the amount of **EUR 8,944** increased by EUR 832 compared to the balance as at December 31 2010.

# 14.6 STOCKS

Stocks of material and small tools as at 31. 12. 2011 amounted to **EUR 211,333** and have reduced by 34 % or by EUR 110,598 compared to the balance as at 31. 12. 2010.

in EUR

ITEM DESCRIPTION	YEAR 2011	YEAR 2010
Material stocks at the beginning of the period 1. 1.	321,588	335,401
Purchases	3,462,267	3,222,371
Consumption	-3,341,043	-3,082,909
Stock surplus	9	10
Stock deficit	-62	0
Impairments and cancellation of impairments	-2,945	-1,281
Transfer of small tools in use	-228,480	-152,052
Reposting between locations	0	47
Advances for stocks	0	345
<b>MATERIAL STOCKS AT THE END OF THE PERIOD 31. 12.</b>	<b>211,333</b>	<b>321,931</b>

Group has no pledged stocks as security for its obligations.

In stocktaking as at 31. 10. 2011 it was established that there were by EUR 9 of surpluses and by EUR 62 of deficits, while in stocks as at 31. 10. 2010 there were by EUR 10 of surpluses. Stocks value adjustments in year 2011 amounted to EUR 2,945.

Group estimates that net realizable value of stocks is at least equal to their book value.

## 14.7 SHORT-TERM FINANCIAL INVESTMENTS

Short-term financial investments in the amount of EUR 616 consist of the short-term part of the long-term housing loans given.

## 14.8 SHORT-TERM OPERATING RECEIVABLES

Short-term operating receivables as at 31. 12. 2011 amounted to **EUR 16,343,792** and have lowered by 24 % or by EUR 5,182,308 compared to the balance as at 31. 12. 2010. Reason for that is mainly lower volume and value sales.

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

in EUR

ITEM DESCRIPTION	31. 12. 2011	31. 12. 2010
<b>SHORT-TERM ACCOUNTS RECEIVABLE</b>	<b>17,247,732</b>	<b>21,559,085</b>
Short-term advances	35,982	32,354
Adjustment of short-term accounts receivable	-2,366,588	-1,978,770
<b>SHORT-TERM ACCOUNTS RECEIVABLE</b>	<b>14,917,127</b>	<b>19,612,668</b>
Short-term operating receivables from others	1,427,440	2,046,208
Adjustment of short-term receivables from others	-775	-132,775
Short-term operating receivables from others	1,426,665	1,913,432
<b>SHORT-TERM OPERATING RECEIVABLES</b>	<b>16,343,792</b>	<b>21,526,100</b>

Short-term accounts receivable represent 91 % of all short-term operating receivables. Receivables from some key business partners are secured with a bill of exchange, 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 2011 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	MORE THAN 90 DAYS	TOTAL
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7=2+3+4+5+6</b>
Claims on buyers of network charge and services	12,859,210	1,462,009	401,463	152,958	2,116,005	16,991,646
Default interest claims	51,498	9,410	17,443	4,642	173,093	256,086
<b>TOTAL</b>	<b>12,910,708</b>	<b>1,471,419</b>	<b>418,907</b>	<b>157,601</b>	<b>2,289,098</b>	<b>17,247,732</b>

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

in EUR

ITEM DESCRIPTION	BALANCE 1. 1. 2011	NEW FORMATIONS		WITHDRAWAL (USE) AND ELIMINATION			BALANCE 31. 12. 2011	
		CHARGEABLE TO EXPENSES	CHARGEABLE TO CLAIMS	CLAIMS WRITE-OFF	PAID INTEREST – TRANSFER TO REVENUES			ELIMINATION OF EXCESS VALUATION ADJUSTMENTS
1	2	3	4	5	6	7	8	
Valuation adjustment of accounts receivable	1,800,621	382,720	0	36,353	0	0	2,146,988	
Valuation adjustment of third party operating claims	98,401	0	0	98,401	0	0	0	
Valuation adjustment of default interest claims	178,149	31,440	25,815	7,302	8,502	0	219,600	
Valuation adjustment of other short-term claims	32,198	0	0	26,714	0	5,484	0	
TOTAL VALUATION ADJUST. OF CLAIMS	2,109,369	414,160	25,815	168,770	8,502	5,484	2,366,588	

# 14.9 MONETARY ASSETS

As at 31. 12. 2011 Elektro Gorenjska Group had **EUR 3,192,788** of cash on the commercial banks accounts and short-term redeemable deposits in banks in the state.

# 14.10 SHORT-TERM ACCRUALS AND PRE-PAID EXPENDITURE

Accruals and pre-paid expenditure as at 31. 12. 2011 amount to **EUR 511,118**. Their structure is shown in the next table.

in EUR

ITEM DESCRIPTION	31. 12. 2011	31. 12. 2010
Short-term deferred costs or expenses	308,575	69,291
Valuables and other short-term deferred claims	9,822	9,713
Short-term accrued income	1,197	1,646,665
Short-term deferred claims for VAT from received advances	191,523	62,821
<b>TOTAL</b>	<b>511,118</b>	<b>1,788,490</b>

Reduction of accruals and pre-paid expenditure compared to the balance as at 31. 12. 2010 is mainly a result of the fact that in year 2010 we realized short-term accrued income in the amount of EUR 1,646,665, which represented the accrued income in respect of rent and SODO services for year 2010.

Short-term deferred costs or expenses as at 31. 12. 2011 are by EUR 239,284 higher than they were on the last day of the previous year. In year 2011 we recognized by EUR 155,965 of short-term deferred costs in respect of the distribution network losses, which is explained in more detail in chapter 13.4 – Accounts of electricity purchases for losses in network and execution of other activities under the contract with SODO. In year 2010 we recognized short-term cost provisions in respect of losses on the distribution network.

## 14.11 CAPITAL

Entire capital of the group consists of the share capital, uncalled capital, capital reserves, statutory reserves, other reserves, surplus from revaluation and net profit or loss. Balance of the entire capital as at 31. 12. 2011 amounted to **EUR 135,656,983** and was lower by 0.3 % 469,587 compared with the balance of capital as at 31. 12. 2010 (please see also chapter 11.5 - Statement of changes in equity of Elektro Gorenjska Group for the business year ended as at 31. 12. 2011).

**Share capital** of Elektro Gorenjska Company (EUR 72,019,069) 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 4.5 – Share capital and ownership structure.

In year 2011 the share capital of the company reduced by the amount of the uncalled capital (balance as at 31. 12. 2010 was EUR 396,350). Uncalled capital referred to the denationalization procedure in connection to HE Pristava.

Republic of Slovenia - Administrative Unit Tržič issued the HE Pristava in the denationalization procedure a Partial decision No. 321-56/92-6 as at 6. 12. 2010, with which it allowed the request for the return of the nationalized property in a way that HE Pristava is returned to the property of the denationalization beneficiary. Decision became final in the month of December 2010, while the subject of denationalization was returned in kind.

Assets of HE Pristava, whose book value at the end of the month of December 2010 amounted to EUR 396,350, were removed from the business books as Elektro Gorenjska no longer possessed these assets, no longer managed them, and had no economic benefits from them.

Until their return in kind the assets of HE Pristava were owned by Elektro Gorenjska and were also part of its capital, as established for the ownership transformation of the company Elektro Gorenjska Kranj in the Company Elektro Gorenjska, which is evident from the Decision of the Agency of RS for Restructuring and Privatization as at 16. 10. 1996 and the Ownership Transformation Program, which was the component part of this decision.

In connection with the denationalization claims the Ownership Transformation Program also determined that the property, which is the subject of denationalization, refers to »assets or capital of the company, which is **owned by the Republic of Slovenia**«. When denationalization procedures are finished final decision of the competent authorities leading the denationalization procedures will be taken into account in connection with the property of denationalization beneficiaries. Elektro Gorenjska Company statute equally appropriately defines that the company will »for all assets subject of the denationalization in accordance with the interim injunctions and decisions, **issue shares to the state, which undertakes to return shares of the company after the size of the denationalization property is finally determined, in the value equal to the value of denationalized property, while the state removes the shares charged to state capital in case of elimination of real property, which is the subject of denationalization claims**«. Conditions for returning the shares of Elektro Gorenjska Company owned by the Republic of Slovenia were met in December 2010 with the finality of the decision on return of HE Pristava in kind.

Procedures for the refund and cancellation of shares in accordance with the Article 7 of the Statute were carried out in year 2011. After the realization of Article 7 of the Statute or executed refund of 51,560 shares on the part of the Republic of Slovenia and removal of these shares, share capital of the company was reduced to the burden of uncalled capital.



**Capital reserves in the amount of EUR 45,944,898** were formed on 1. 1. 2006 in accordance with the transitional provisions (point No 15 of the Introduction to SRS 2006) from the incumbent general revaluation equity adjustment. They are applied in accordance with the Article 64 of ZGD-1.

**Statutory reserves** as at 31. 12. 2011 amount to EUR 1,058,877 and are formed in accordance to the Article 64 of ZGD-1.

**Reserves under articles of association** as at 31. 12. 2011 amount to EUR 3,293. They are formed in accordance with the Article 14 of the Articles of Association of Elektro Gorenjska Prodaja Company.

**Other profit reserves** amount to EUR 14,126,459. They are formed from net profit of the business years.

**Revaluation surplus** (EUR 1,065,986) arises from revaluation of long-term financial investments (EUR 1,423,908), as explained in chapter 14.4 – Long-term financial investments, and negative fair value of interest rate swap (EUR –357,922), which is the result of the variable interest rate fall.

**Net profit** of the business year 2011 amounted to EUR 1,671,242. In composing the financial statements for 2011:

- EUR 83,985 of profit was allocated to statutory reserves,
- EUR 3,293 of net profit was allocated to reserves under articles of association and
- EUR 230,809 of net profit allocated to other profit reserves.

Allocation of the remaining net profit in the amount of EUR 1,353,155 is the responsibility of the founder of Elektro Gorenjska Company (for the part referring to the operation of subsidiaries) and the responsibility of the general meeting of Elektro Gorenjska Company (for the part referring to Elektro Gorenjska Company).

Distribution of distributable profit for year 2010 was determined with the decision of the general meeting as of August 24 2011 (please see also Business report, chapter 4.4.1 – Management and governance of Elektro Gorenjska company). In books of Elektro Gorenjska Company the distribution of distributable profit, shown in the following table, was recognized in year 2011.

		in EUR
		2010
Dividends		1,214,754
Other profit reserves		668,614
Net profit brought forward		85,246
<b>TOTAL DISTRIBUTABLE PROFIT IN YEAR 2010</b>		<b>1,968,614</b>

In accordance with the decision of the founder, Elektro Gorenjska Company, entire distributable profit of Gorenjske elektrarne Company for year 2010, in the amount of EUR 198,986, was allocated to other profit reserves.

					in EUR
ITEM DESCRIPTION	CAPITAL AS AT 31. 12. 2010	% OF GROWTH	CALCULATED EFFECT	PROFIT OR LOSS WITH REVALUATION EFFECT	
Capital	136,126,570	2,0	2,722,531	-1,051,289	

In year 2011 net profit or loss after tax with respect to the cumulative growth factor of prices would amount to EUR –1,051,289.

## 14.12 PROVISIONS AND LONG-TERM ACCRUED COSTS AND DEFERRED REVENUES

As at December 31 2011 provisions and long-term accrued costs and deferred revenues amounted to EUR 13,199,303. Compared to their balance as at December 31 2010 they increased by EUR 10,215.

Provisions for long-service bonuses or severance pay at retirement (EUR 2,779,773) 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 2011. 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,
- growth of average earnings in RS for years 2012 and 2013, resulting from the Autumn forecasts of economic trends (2011); from 2014 onwards 4.5 % nominal wage growth in RS is foreseen,
- yield curve, which is calculated for AAA government bonds for Euro zone countries (spot rates) as at 29. 12. 2011.

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

Assets for co-financing the scholarships were obtained at the Slovene Human Resources and Scholarship Fund and Regional Scholarship Scheme – Gorenjska scholarship scheme, as presented also in the Business report, 9.1.6 – Scholarships. Assets are used according to the contract.

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.

Long-term deferred revenues from rent and services SODO as at January 1 2011 represented 50 % of the amount of the difference between the entire settlement for the period of 2004–2009 and partial settlement for year 2009. In accordance with the Contract with SODO for year 2011 50 % of the established difference between the stated settlements was settled in year 2011, while the remaining 50 % will be in year 2012 (transfer from long-term to short-term deferred revenues).

Obtained funds of the Re-energy fund and their disbursement are presented also in the Business report, chapter 6.7.3 – Services and products.

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

in EUR

ITEM DESCRIPTION	BEGINNING OF THE PERIOD 1. 1. 2011	INCREASES (FORMATIONS)		DECREASES (WITHDRAWALS, ELIMINATION)		END OF THE PERIOD 31. 12. 2011
		CHARGEABLE TO COSTS (EXPENSES)	RECOGNITION CHARGEABLE TO ASSETS	CREDIT TO OPERATING REVENUES	CREDIT TO LIABILITIES OR SHORT-TERM ACCRUED CHARGES CREDIT TO APPROPRIATE ASSETS	
Provisions for long-service bonuses	1,075,444	66,863		58,166	68,801	1,015,340
Provisions for severance pay at retirement	1,664,959	195,814		70,287	26,054	1,764,433
<b>TOTAL PROVISIONS FOR LONG-SERVICE BONUSES AND SEVERANCE PAY</b>	<b>2,740,403</b>	<b>262,678</b>		<b>128,453</b>	<b>94,854</b>	<b>2,779,773</b>
Provisions for damages in connection with denationalization claims	3,971,171	197,969				4,169,140
Provisions for probable losses in disputes in progress -UVK	125,000				125,000	0
<b>TOTAL OTHER PROVISIONS</b>	<b>4,096,171</b>	<b>197,969</b>			<b>125,000</b>	<b>4,169,140</b>
<b>TOTAL PROVISIONS</b>	<b>6,836,573</b>	<b>460,647</b>		<b>128,453</b>	<b>219,854</b>	<b>6,948,912</b>
Co-financing of scholarships	1,850			1,850		0
Fixed assets acquired free of charge	1,210,687		7,000	78,912		1,138,775
Free acquisition of connections	2,760,559		344,607	79,339		3,025,827
Received tangible fixed assets free of charge	3,971,246		351,607	158,251		4,164,602
Deferred revenues in respect of average connection costs	2,122,746			85,319		2,037,427
Long-term accrued costs and deferred revenues – right to use	11,020			580		10,440
Rent and SODO services – period 2004-2009	179,330				179,330	0
Long-term deferred revenues – HIPERDNO project	33,858		23,669	43,051		14,476
Received state benefits	9,281			1,031		8,250
Received assets for Re-energy Fund	23,183			7,987		15,196
<b>TOTAL LONG-TERM ACCRUED COSTS AND DEFERRED REVENUES</b>	<b>6,352,514</b>		<b>375,276</b>	<b>298,069</b>	<b>179,330</b>	<b>6,250,391</b>
<b>TOTAL PROVISIONS AND LONG-TERM ACCRUED COSTS AND DEFERRED REVENUES</b>	<b>13,189,087</b>	<b>460,647</b>	<b>375,276</b>	<b>426,522</b>	<b>399,184</b>	<b>13,199,303</b>

## 14.13 LONG-TERM LIABILITIES

As at 31. 12. 2011 Elektro Gorenjska Group had **EUR 30,435,514 of long-term financial liabilities**, which is by 9.1 % more as compared to the balance as at 31. 12. 2010. All long-term financial liabilities have the maturity of more than five years.

In year 2011 we redeemed **EUR 5,647,521 worth of principals and paid EUR 1,024,184** of interest. Interest in the amount of EUR 15,897 was capitalized.

In year 2010 we redeemed by EUR 4,801,349 of principals and paid EUR 766,596 of interest. Balance of raised loans as of December 31 2011 amounted to EUR 36,385,518, while at the end of year 2010 it was EUR 33,533,038.

On August 23 2011 we signed a contract on raising a long-term loan with Sparkasse bank in the amount of EUR 8,500,000. Credit was fully depleted on 30. 8. 2011.

Contractual interest rate in all 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 most of the loans is floating rate, bound by three month EURIBOR. Add-on to the three month EURIBOR is between 0.3 and 3.5 percent point. All financial liabilities are secured by bills of exchange. Balance of received loans to finance tangible fixed assets as at 31. 12. 2011 amounted to EUR 35,714,637.

In connection with long-term financial liabilities the company 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 company decided to secure the cash flow by purchasing the interest rate swap. As at December 31 2011 there were 63.2 % of long-term loans secured with the fixed interest rate, which represents the amount of EUR 22,985,714. Fair value of interest rate swap as at 31. 12. 2011 amounted to EUR -357,922. Exposure to risks and hedging systems are explained in the Business report, in chapter 5.2 – Financial risks.

**Deferred tax liabilities** as at 31. 12. 2011 amounted to **EUR 355,977** and were lower by EUR 142,038 compared to the balance as at 31. 12. 2010.

Changes in long-term financial liabilities in year 2011 are presented in the following table:

in EUR

TITLE	YEAR OF APPROVAL	YEAR OF MATURITY	PURPOSE OF LOAN	INSURANCE OF LOAN	INTEREST RATE HEDGE	OPENING BALANCE 1. 1. 2011	INCREASES DUE TO NEW BORROWING	AMORTIZATIONS 2011	CLOSING BALANCE 31. 12. 2011	SHORT-TERM PART OF LONG-TERM LOANS 31. 12. 2011	LONG-TERM PART OF LOANS 31. 12. 2011	DUE FROM 31. 12. 2011 TO 31. 12. 2016
1	2	3	4	5	6	7	8	9	10=7+8+9	11=del 10	12=del 10	13=del 10
<b>Loans in Slovenia – long-term</b>						<b>33,533,038</b>	<b>0</b>	<b>-5,647,521</b>	<b>27,885,518</b>	<b>6,307,926</b>	<b>21,577,592</b>	<b>24,614,089</b>
<b>credit 1</b>	2003	2011	investments, current assets	blank bills	no	368,165	0	-368,165	0	0	0	0
<b>credit 2</b>	2009	2017	investments	blank bills	yes	8,500,000	0	-1,214,286	7,285,714	1,214,286	6,071,429	6,071,429
<b>credit 3</b>	2008	2016	investments	blank bills	no	6,026,817	0	-1,004,470	5,022,348	1,004,470	4,017,878	5,022,348
<b>credit 4</b>	2007	2014	investments, current assets	blank bills	no	953,812	0	-238,453	715,359	238,453	476,906	715,359
<b>credit 5</b>	2007	2015	investments, current assets	blank bills	no	6,228,211	0	-1,245,642	4,982,569	1,245,642	3,736,927	4,982,569
<b>credit 6</b>	2005	2012	investments, current assets	blank bills	no	1,602,784	0	-801,392	801,392	801,392	0	801,392
<b>credit 7</b>	2006	2013	investments, current assets	blank bills	no	983,843	0	-357,761	626,082	357,761	268,321	626,082
<b>credit 8</b>	2006	2014	investments, current assets	blank bills	no	1,669,406	0	-417,351	1,252,054	417,351	834,703	1,252,054
<b>credit 9</b>	2010	2018	investments	blank bills	yes	7,200,000	0	0	7,200,000	1,028,571	6,171,429	5,142,857
<b>credit 10</b>	2011	2023	investments	blank bills	yes	0	8,500,000	0	8,500,000	0	8,500,000	3,187,500
<b>TOTAL LONG-TERM LOANS</b>						<b>33,533,038</b>	<b>8,500,000</b>	<b>-5,647,521</b>	<b>36,385,518</b>	<b>6,307,926</b>	<b>30,077,592</b>	<b>27,801,589</b>

## 14.14 SHORT-TERM FINANCIAL LIABILITIES

Short-term financial liabilities as at 31. 12. 2011 amounted to **EUR 6,327,828** and are by 11.9 % higher than as at 31. 12. 2010. They entirely refer to the controlling company Elektro Gorenjska. Short-term financial liabilities to banks and companies refer entirely to the short-term part of long-term loans.

in EUR

ITEM DESCRIPTION	31. 12. 2011	31. 12. 2010
Short-term financial liabilities to banks and companies	6,307,926	5,647,520
Other short-term financial liabilities	19,902	8,264
<b>TOTAL SHORT-TERM LIABILITIES FROM FINANCING ACTIVITIES</b>	<b>6,327,828</b>	<b>5,655,784</b>

## 14.15 SHORT-TERM OPERATING LIABILITIES

Short-term operating liabilities in the amount of **EUR 14,043,183** are by 27 % or by EUR 5,209,275 lower than compared to the balance as of 31. 12. 2010. Detailed review of the short-term operating liabilities is presented in the following table.

in EUR

ITEM DESCRIPTION	31. 12. 2011	31. 12. 2010
<b>Liabilities to suppliers for own account</b>	<b>8,201,319</b>	<b>11,385,059</b>
a) to other suppliers in the country	8,201,319	11,385,059
<b>Liabilities to other suppliers on its own behalf and for third party account</b>	<b>3,881,235</b>	<b>4,074,742</b>
a) liabilities to SODO– for third party account	3,872,145	4,067,874
b) to others in the country	9,090	6,868
<b>Other liabilities, of which:</b>	<b>1,960,629</b>	<b>3,792,658</b>
a) to workers	817,211	1,452,897
b) to state and other institutions	414,199	1,751,956
c) for received advances and collaterals	512,537	347,583
e) other (interests, employee deductions, pension fund management ...)	216,682	240,223
<b>TOTAL SHORT-TERM LIABILITIES FROM OPERATING ACTIVITIES</b>	<b>14,043,183</b>	<b>19,252,458</b>

## 14.16 SHORT-TERM ACCRUED COSTS AND DEFERRED REVENUES

As at 31. 12. 2011 accrued costs and deferred revenues amounted to **EUR 1,542,107**. Compared to their balance as at 31. 12. 2010 they are by 29 % higher. Increase in accrued costs and deferred revenues is mainly the result of the fact that in year 2011 Company Elektro Gorenjska recognized by EUR 244,923 of short-term deferred revenues in respect of the settlement of rent, services and losses to SODO company. Settlement is explained in more detail also in chapter 13.1 – Transactions with SODO Company.

The highest item in accrued costs and deferred revenues represent the accrued costs (expenses) for derogations between the announced and realized schedules of electricity consumption (purchase) (EUR 566,830). They are explained further in chapter 13.3 - Settlement of derogations of announced schedules from realized schedules of electricity consumption.

## 14.17 POTENTIAL ASSETS, LIABILITIES AND OFF-BALANCE SHEET RECORDS

Off-balance sheet assets or liabilities as at 31. 12. 2011 amounted to EUR 13,158,625 and were higher by EUR 7,133,530 compared to the balance as at 31. 12. 2010. Main reason for that is newly issued guarantee in the amount of EUR 6,140,000 in year 2011. Guarantee was issued by Elektro Gorenjska Prodaja Company as an insurance instrument in transactions of charging the price for the use of networks and contributions for the account of SODO Company.

Main items of off-balance sheet assets or liabilities are received guarantees in the amount of EUR 6,861,874 and fixed assets in the property of SODO (EUR 2,290,737), which the company is liable to keep records of in the off-balance sheet in accordance with the Annex 2 to the Contract with SODO (assets financed from average connection costs, which were transferred to the ownership and indirect property of SODO after the balance as at 31. 8. 2010).

in EUR		
ITEM DESCRIPTION	31. 12. 2011	31. 12. 2010
Foreign material in warehouse	106,452	124,235
Received guarantees	6,861,874	2,001,723
Issued guarantees	1,902,899	658,155
Small tools	1,058,488	953,244
Fixed assets in the property of SODO	2,831,411	2,290,737
Easement	397,500	0
<b>TOTAL OFF-BALANCE SHEET ASSETS AND LIABILITIES</b>	<b>13,158,625</b>	<b>6,028,095</b>



PROJECT OF CONSTRUCTION OF 110 kV COMPACTED POWER LINE IS INCLUDED AMONG FUNDAMENTAL INNOVATIONS OF ELEKTRO GORENJSKA COMPANY. WITH A NEW WAY OF BUILDING PROCEDURES OF SITING THE ELECTRIC POWER FACILITIES WILL SHORTEN SUBSTANTIALLY, INSTALLATION OF POWER LINES WILL BE FASTER, SIMPLER, EASIER AND MORE COST EFFECTIVE.





## 15. NOTES ON PROFIT AND LOSS ACCOUNT ITEMS

## 15.1 NET SALES REVENUES

95 % of net sales revenues in the amount of **EUR 83,317,940** were achieved on the domestic market. Net sales revenues consist of the following:

in EUR

ITEM DESCRIPTION	YEAR 2011	YEAR 2010
Revenues from electricity sale	54,593,990	73,657,864
Revenues from electricity sale -SODO supplies	671	21,102
Revenues from rent and services in relation to SODO	23,406,027	23,192,302
Revenues for covering the losses of electricity in relation to SODO	3,173,926	3,395,628
Revenues from rents	422,844	462,733
Revenues from construction and assembly works	760,557	1,370,302
Revenues from other services	959,925	756,886
<b>TOTAL NET SALES REVENUES</b>	<b>83,317,940</b>	<b>102,856,818</b>

**Sales revenues** in year 2011 were by EUR 19,538,878 than in year 2010. Main reason for lower revenues was lower created difference in price and lower quantities sold in year 2011 (aggressive appearance of the competition on the final customers market. New suppliers intensively invested in conquering the market share and the fact is that in the second half of 2011 their selling price in the household segment was by 10 % lower than the transparent market price on the wholesale market).

**Quantities of sold electricity** are presented in the Business report, chapter 6.1.3 – Quantities of sold electricity.

**Transactions of SODO supply** of electricity are explained in more detail in Business report, chapter 4.8.3. – SODO supply.

**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 4.8.1. Reasons for increase of revenues from rent and implementation of services in year 2010 according to year 2009 are mainly in the increase of revenues from services, which is the result of larger quantities of distributed electricity in year 2011 compared to the previous year, which is explained in the Business report, in chapters 6.1.1 and 13.1.

Transactions in connection with **revenues for losses of electricity** in network of the company are presented also in the Business report – chapter 4.8.2. – Electricity losses in network.

# 15.2 CAPITALIZED OWN PRODUCTS AND OWN SERVICES

In year 2011 capitalized own effects amounted to **EUR 4,310,474**, which is by EUR 383,410 more than in year 2010. They are entirely investments in tangible fixed assets.

# 15.3 OTHER OPERATING REVENUES

In year 2011 Elektro Gorenjska Group realized by EUR 525,882 of other operating revenues. Compared to the realization in year 2010 they are lower by EUR 798,969, as in year 2010 we recognized by EUR 994,183 of revenues in respect of provision reversal in connection with the procedure of the Competition Protection Office. Other operating revenues include:

in EUR		
ITEM DESCRIPTION	YEAR 2011	YEAR 2010
Revenues from reversal of provisions	13,542	1,007,043
Operating revenues from revaluation	179,443	10,441
Revenues in respect of transferring long-term deferred revenues to regular operating revenues:	298,070	285,877
- delivery of fixed assets free of charge	78,912	77,900
- delivery of connections free of charge	79,339	70,705
- average connection costs	85,319	85,319
- other	54,500	51,953
Other	34,827	21,490
<b>TOTAL OTHER OPERATING REVENUES</b>	<b>525,882</b>	<b>1,324,851</b>

**Operating revenues from revaluation in fixed assets** represent a surplus of revenues over accounting value of sold assets.

**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 14.12 – Provisions and long-term accrued costs and deferred revenues.

## 15.4 FINANCIAL REVENUES FROM SHARES

They entirely include received dividends in the amount of **EUR 165,566**, namely the received dividends from Gorenjska bank, d. d., and Zavarovalnica Triglav. Compared to year 2010 they are higher by EUR 1,066.

Financial investments in company's equity are explained in more detail in chapter 14.4 – Long-term financial investments.

## 15.5 FINANCIAL REVENUES FROM LOANS

Financial revenues from given loans amounted to EUR 100,816 in year 2011. They consist of:

in EUR

ITEM DESCRIPTION	YEAR 2011	YEAR 2010
Received interest for short-term deposits in money deposit banks	100,775	73,472
Received interest from long-term loans to others	41	89
<b>TOTAL FINANCIAL REVENUES FROM LOANS</b>	<b>100,816</b>	<b>73,561</b>

Long-term loans to others are presented in chapter 14.4. – Long-term financial investments.

## 15.6 FINANCIAL REVENUE FROM OPERATING RECEIVABLES

In year 2011 Elektro Gorenjska Group realized EUR 137,460 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 2011	YEAR 2010
Default interest on receivables from electricity and network charge	132,530	144,712
Interest on other receivables	3,898	15,326
Other	1,032	1,904
<b>TOTAL FINANCIAL REVENUES FROM OPERATING RECEIVABLES</b>	<b>137,460</b>	<b>161,942</b>

## 15.7 OTHER REVENUES

Other revenues in the amount of **EUR 204,057** include:

in EUR

ITEM DESCRIPTION	YEAR 2011	YEAR 2010
Received compensations from insurance companies	187,455	85,593
Received compensations from other	8,245	34,143
Other revenues	8,356	24,101
<b>TOTAL OTHER REVENUES</b>	<b>204,057</b>	<b>143,837</b>

Other operating revenues were by EUR 60,220 higher in year 2011 than in year 2010. Reason is mainly higher value of received compensations from insurance companies.

## 15.8 COSTS OF GOODS SOLD AND MATERIALS USED

Costs of goods sold and materials used include:

in EUR

ITEM DESCRIPTION	YEAR 2011	YEAR 2010
Electricity purchase	49,293,925	65,406,007
Electricity purchase – losses and SODO supplies	2,846,127	3,044,040
Costs of material:	4,353,938	4,523,397
– material costs of maintenance	289,306	386,954
– costs of materials in connection with capitalized own effects, market services	3,196,152	3,373,256
– energy costs	446,521	419,374
– small tool write-off	230,771	151,730
– costs of office supplies	139,283	140,560
– other material costs	51,905	51,523
<b>COSTS OF GOODS SOLD AND EXPENSES</b>	<b>56,493,989</b>	<b>72,973,443</b>

Biggest item within the costs of goods sold and materials used are costs of electricity purchase. In year 2011 they were by EUR 16,112,082 lower than in year 2010, which was mainly the result of the smaller quantities of electricity purchase due to smaller quantities of electricity sale.

Quantities of purchased electricity are presented also in the Business report, chapter 6.1.2 – Quantities of purchased electricity.

**Electricity purchase** in the table above includes purchase of electricity for the purpose of sale to final customers and trade (Elektro Gorenjska Prodaja Company).

**Transactions of electricity purchase** for covering electricity losses in network (Elektro Gorenjska Company) are presented also in the business report, chapter 4.8.2.

**Transactions of supplies** with electricity are explained in more detail in the Business report in chapter 4.8.3 – SODO supplies .

**Costs of material used in maintenance** of tangible fixed assets are presented also in the Business report, in chapter 6.4 – Maintenance of energy facilities.

**Costs of materials** used in implementing services and creation of products (year 2011: EUR 3,196,152 and year 2010: EUR 3,373,256) include values of material, which Elektro Gorenjska 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 2011 costs of services amounted to **EUR 6,050,987**. Compared to the year 2010 they are by EUR 508,898 higher. Their structure is the following:

in EUR		
ITEM DESCRIPTION	YEAR 2011	YEAR 2010
Costs of service in creating products and implementing services	375,840	214,833
Costs of transport services	535,991	508,463
Costs of services in respect of maintenance of electric power infrastructure and other tangible fixed assets	2,004,744	1,951,158
Rents	58,851	54,998
Reimbursements of work related costs to employees	52,957	177,708
Costs of payment transactions and banking services	488,899	295,144
Costs of intellectual and personal services	560,053	530,540
Costs of advertising and representation	143,213	94,895
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...)	102,967	71,961
Costs of other services	1,727,472	1,642,390
<b>TOTAL COSTS OF SERVICES</b>	<b>6,050,987</b>	<b>5,542,089</b>

Most costs refer to the controlling company.

**Costs of services in maintenance** of tangible fixed assets are presented also in Business report, chapter 6.4 – Maintenance of energy facilities.

**Costs of services in creating products and implementing services** include values of construction services, electricity on-site assembly, designing and other similar services, which the group Elektro Gorenjska 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 own services (construction, electricity on-site assembly and similar services) sold on market (please see also chapter 15.1 – Net sales revenues).

**Costs of intellectual services** include costs of scientific and research work also presented in the business report in chapter 6.5 – Development and design, and costs of education related costs of tuition fees and costs of additional professional education of employees presented in the business report in chapters 9.1.4 in 9.1.6.

**Costs of other services** include mainly costs related to **computer information system** (presented also in the business report, chapter 8), which include:

- services of Informatika company: 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, cooperation in planning, making and introducing information system changes and similar and
- other services of computer software maintenance.

**Costs of advertising and representation** include also costs of sponsorships explained in more detail also in the business report, chapter 9.3.1 – Communication with local community and social responsibility.

## 15.10 LABOR COSTS

Labor costs of Elektro Gorenjska Group (**EUR 11,343,031**) consist of:

in EUR		
ITEM DESCRIPTION	YEAR 2011	YEAR 2010
Salary costs	8,108,299	8,577,880
Costs of voluntary pension insurance of employees	398,296	395,055
Costs of employer's contributions and other benefits from salaries	1,369,218	1,405,120
Costs of transport allowances	324,323	359,032
Costs of lunch	507,984	534,482
Costs of employees insurance	31,346	28,838
Bonuses, severance pays, social relief	31,104	395,148
Pay for annual leave	572,460	539,158
<b>TOTAL LABOR COSTS</b>	<b>11,343,031</b>	<b>12,234,712</b>

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

Costs of voluntary pension insurance are presented also in the Business report, chapter 9.1.11 – Additional activities for employees.

Costs of employer's contributions and other salary benefits include also contributions for pension and disability insurance: year 2011 in the amount of EUR 749,138; year 2010 in the amount of EUR 784,890.

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 the 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 2011 amounted to **EUR 10,841,522** and were by 2 % lower than in year 2010. They include:

in EUR		
ITEM DESCRIPTION	YEAR 2011	YEAR 2010
Depreciation of intangible fixed assets	742,131	575,651
Depreciation of tangible fixed assets	9,563,792	9,538,457
Depreciation of investment property	43,057	58,308
<b>TOTAL DEPRECIATION COSTS</b>	<b>10,348,980</b>	<b>10,172,416</b>
Operating expenses from revaluation of fixed assets	73,374	176,443
Operating expenses from revaluation of current assets:	419,168	724,070
– operating expenses from revaluation of claims	408,676	722,789
– operating expenses from revaluation of material stocks	10,492	1,281
<b>TOTAL AMORTIZATION / DEPRECIATION COSTS</b>	<b>10,841,522</b>	<b>11,072,929</b>

Share of the controlling company Elektro Gorenjska in costs mentioned is 86 %.

Costs of depreciation of intangible fixed assets (year 2011: EUR 742,131) are presented also in chapter 14.1 – Intangible assets and long-term accruals and prepaid expenditure; costs of depreciation of tangible fixed assets (year 2011: EUR 9,563,792) in chapter 14.2. – Tangible fixed assets and costs of depreciation of investment property (year 2011: EUR 43,057) in chapter 14.3. – Investment property.

Operating expenses from revaluation of fixed assets (EUR 73,374) consist mainly of carrying (book) value of removed fixed assets that the company expects no use of and the difference between the carrying and disposable value of sold fixed assets.

Operating expenses from revaluation of current assets (EUR 419,168) include mainly operating expenses from revaluation of claims for which in year 2011 revaluation adjustments for impairment were formed.



## 15.12 OTHER OPERATING EXPENSES

Structure of other operating expenses, which in year 2011 amounted to **EUR 790,590**, is the following:

in EUR

ITEM DESCRIPTION	YEAR 2011	YEAR 2010
Contribution for promotion of employment of persons with disabilities	61,861	47,098
Contribution for urban land	93,244	94,411
Contribution for contaminated water	8,518	8,757
Concession for water use	108,013	151,331
<b>PROVISIONING</b>	<b>345,734</b>	<b>569,969</b>
- for long-service bonuses and severance pay at retirements	147,765	33,360
- or probable losses in disputes in progress - UVK	0	459,194
- other provisions	197,969	77,415
Scholarships	13,800	16,262
Donations	20,310	14,137
Other expenses	139,109	119,263
<b>TOTAL OTHER OPERATING EXPENSES</b>	<b>790,590</b>	<b>1,021,228</b>

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 in chapter 9.1.6 – Scholarships

Provisioning is explained in more detail also in chapter 14.12 - Provisions and long-term accrued costs and deferred revenues.

Donations are presented also in the business report, chapter 9.3.1 – Communication with local community and social responsibility.

## 15.13 FINANCIAL EXPENSES FROM IMPAIRMENTS AND FINANCIAL INVESTMENTS WRITE-OFFS

There were by EUR 10,533 in year 2011 and by EUR 3,570 in year 2010 of financial expenses from impairments and financial investments write-offs.

# 15.14 FINANCIAL EXPENSES FROM FINANCIAL LIABILITIES

Financial expenses from financial liabilities entirely refer to interest for received bank loans of the controlling company in the amount of **EUR 1,034,078**. Compared to year 2010 they are higher by 37 %. They include:

in EUR

ITEM DESCRIPTION	YEAR 2011	YEAR 2010
Expenses from interests for received long-term loans in commercial banks	1,008,287	752,058
Expenses from interests for received revolving credit in commercial bank	2,200	5,348
Expenses from interest - interest rate swap	23,590	0
TOTAL FINANCIAL EXPENSES FROM FINANCIAL LIABILITIES	1,034,078	757,406

# 15.15 FINANCIAL EXPENSES FROM OPERATING LIABILITIES

In year 2011 financial expenses from operating liabilities amounted to **EUR 2,499**, in 2010 to EUR 3,554.

# 15.16 OTHER EXPENSES

Other expenses, which in year 2011 amounted to EUR 10,458, include the following two items:

in EUR

ITEM DESCRIPTION	YEAR 2011	YEAR 2010
Compensations in construction	1,400	2,919
Other misc. expenses	9,058	11,127
TOTAL OTHER EXPENSES	10,458	14,046

95 % of other expenses refer to the controlling company in year 2009.

## 15.17 BREAKDOWN OF COSTS IN FUNCTION GROUPS

Breakdown of costs in function groups is shown in the following table:

in EUR

ITEM DESCRIPTION	YEAR 2011	YEAR 2010
<b>COSTS OF OPERATING EFFECTS SOLD</b>	76,957,269	93,525,107
<b>COSTS OF GENERAL ACTIVITIES</b>	5,297,066	5,067,979
<b>COSTS OF SALES</b>	2,773,242	3,350,803
<b>TOTAL</b>	<b>85,027,577</b>	<b>101,943,889</b>

## 15.18 INCOME TAX

Charged income tax for 2011 business year amounted to EUR 513,266 (year 2010: EUR 1,115,677). Main reason for lower income tax charged is lower net profit before tax.

Table of income tax calculation for year 2011 and comparison for year 2010:

in EUR

ITEM DESCRIPTION	YEAR 2011	YEAR 2010
<b>PROFIT BEFORE TAX</b>	<b>2,184,508</b>	<b>5,029,596</b>
Revenues reducing the tax base	-197,908	-214,814
Expenditure increasing the tax base	1,435,223	1,636,962
Expenditure reducing the tax base	-152,498	-355,949
Tax base reduction on the basis of relief	-617,246	-611,514
Other	-85,748	94,104
<b>TAX BASE</b>	<b>2,566,330</b>	<b>5,578,384</b>
Tax rate	20 %	20 %
<b>INCOME TAX</b>	<b>513,266</b>	<b>1,115,677</b>
<b>EFFECTIVE TAX RATE</b>	<b>23 %</b>	<b>22 %</b>

## 15.19 DEFERRED TAX LIABILITIES AND DEFERRED TAXES

Deferred tax liabilities as at 31. 12. 2011 amounted to EUR 355,977 and refer entirely to the revaluation of long-term financial investments in capital, available for sale.

Liabilities for deferred tax which amounted to EUR 1,221,122 as at 31. 12. 2011, were not recognized in accordance with SRS 5.16 by Elektro Gorenjska Group (uncertainty about future taxable profits). In year 2011 Elektro Gorenjska Company implemented a restructuring (spin-off of a part of the company), so future operation is even more uncertain.

# 16-23

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Gorenjska  
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Prodaja  
Prodaja  
elektrike

NEW INFORMATION DESK AT THE SEAT OF ELEKTRO GORENJSKA PRODAJA  
COMPANY, AT ULICA MIRKA VADNOVA 3 IN KRANJ.

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 **EUR –568,152**, consists of revaluation of long-term financial investment to lower fair value (EUR –723,439), consequently reduction of the deferred tax liabilities (EUR 144,687) and elimination of the revaluation surplus and deferred tax liabilities due to the sale of the financial investment (EUR 10,600).

Other components of the comprehensive income in the amount of EUR –357,922 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 2011 Elektro Gorenjska Group had EUR 160,129,175 of receipts and EUR 161,587,606 of expenditures. Cash flow in year 2011 was negative and amounted to EUR –1,458,431.

Monetary assets as at 1. 1. 2011 (EUR 4,651,219) include short-term deposits or deposits redeemable in the amount of EUR 3,802,000 and the balance of day-to-day assets on current accounts in banks in the amount of EUR 849,219. As at 31. 12. 2011 Elektro Gorenjska Group had EUR 3,192,786 of monetary assets, of which the balance of deposits in banks amounted to EUR 3,124,000, while the balance of day-to-day assets on the current accounts in banks amounted to EUR 68,786.

Net cash from operating activities in year 2011 amounted to EUR 11,411,528, which means that Elektro Gorenjska Group operates positively with its main activity and creates a positive cash flow. This way in year 2011 the group was able to settle all its liabilities (expenditure) referring to the repayment of the principals and interests in respect of long-term credits in the amount of EUR 6,657,056, 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 2011 amounted to EUR 14,022,896, which was expected as the industry the company operates in is technologically very intense and in order to provide quality supply to its customers 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 EUR 8,500,000 (explained in chapter 14.13 – 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 EUR 1,152,936 was thus expected.

# 18. CONTINGENT LIABILITIES

Besides liabilities recognized in long-term provisions, controlling company Elektro Gorenjska acts as a defendant party in some other cases, but they are not disputes of bigger values and the company expects no significant expenses or losses in connection to these disputes. Contingent liabilities are shown also in chapter 14.17 - Potential assets, liabilities and off-balance sheet records.

# 19. TRANSACTIONS WITH AFFILIATES

## 19.1 TRANSACTIONS WITH GROUP COMPANIES IN ELEKTRO GORENJSKA GROUP IN YEAR 2011

As seen in chapter 4.1 controlling company Elektro Gorenjska has two controlled companies - Gorenjske elektrarne and Elektro Gorenjska Prodaja. Transactions with Elektro Gorenjska Prodaja Company started on the day of entry of the spin-off in company register; that is on September 1 2011. Among transactions within Elektro Gorenjska 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 EUR 251,372.

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

in EUR	
ITEM DESCRIPTION	2011
Revenues (costs) from sale (purchase) of electricity within the group	1,718,761
Revenues from services rendered in general services of the controlling company (costs of controlled companies)	266,202
Revenues from rents (costs of controlled company rents)	248,792
Other revenues (costs or expenditures) within the group	68,569
TOTAL	2,302,325

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

In year 2011 Elektro Gorenjska Group paid the following gross receipts to persons and groups of people stated below for performing their tasks in the company:

in EUR

	EARNING	OPERATING PERFOR- MANCE	TERMINAL LEAVE PAY	SOLIDARITY AID	PAY FOR ANNUAL LEAVE	PAYMENT OF UNUSED ANNUAL LEAVE	REIMBURSE- MENTS OF COSTS	TOTAL
1. RECEIPTS OF CHAIRMAN OF THE BOARD IN ELEKTRO GORENJSKA COMPANY								
gross receipt	73,333	0	0	0	1,740	0	3,261	78,335
net receipt	35,391	0	0	0	1,019	0	3,261	39,671
2. RECEIPTS OF THE DIRECTOR OF ELEKTRO GORENJSKA PRODAJA COMPANY								
gross receipt	59,915	0	0	0	1,867	0	3,628	65,410
net receipt	31,176	0	0	0	1,144	0	3,628	35,948
3. RECEIPTS OF THE DIRECTOR OF GORENJSKE ELEKTRARNE								
gross receipt	45,096	0	0	0	1,740	0	1,776	48,612
net receipt	25,884	0	0	0	1,100	0	1,776	28,760
4. RECEIPTS OF EMPLOYEES UNDER INDIVIDUAL CONTRACTS – ELEKTRO GORENJSKA								
gross receipt	217,127	9,604	17,417	1,487	10,585	3,041	13,942	273,203

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.

Receipts of employees under individual contracts (Elektro Gorenjska) refer to the period from January 1 to August 31 2011. Since September 1 2011 all employees, except the Chairman of the Board, have been employed on the basis of the collective agreement.

Benefits of the Chairman of the Board in the controlling company and directors of the controlled companies arising from the employment contract wee the following in year 2011:

in EUR

CHAIRMAN OF THE BOARD / COMPANY DIRECTOR	INSURANCE PREMIUMS	USE OF COMPANY CAR	USE OF MOBILE PHONE
Elektro Gorenjska	324	11,042	766
Elektro Gorenjska Prodaja	324	5,196	1,139
Gorenjske elektrarne	357	6,401	642

## Supervisory board

In year 2011 supervisory board held a total of 15 sessions. 13 regular sessions took place (2. 2. 2011, 1. 3. 2011, 29. 3. 2011, 22. 4. 2011, 24. 5. 2011, 30. 5. 2011, 14. 6. 2011, 8. 7. 2011, 24. 8. 2011, 26. 9. 2011, 8. 11. 2011, 29. 11. 2011 and 21. 12. 2011), two were correspondence sessions (15. 2.–17. 2. 2011 and 11. 7.–12. 7. 2011). All members of the supervisory board were present at the regular sessions. On one of the correspondence sessions one member did not vote.



Since December 2011 an audit committee has been operating within the supervisory board. Its members are Duško Kapevski, MSc, Alenka Bradač, MSc and Darja Orožen. Audit committee held only one session in year 2011 (9. 12. 2011) and all members of the committee were present.

Gross and net receipts of the supervisory board members and members of the committees in year 2011 were the following:

in EUR

	PARTICIPATION AT THE SESSION		PAYMENT FOR THE PERFORMANCE OF THE FUNCTION		ATTENDANCE FEE	COMMITTEE	PARTICIPATION AT THE COMMITTEE		TRAVEL EXPENSES	TOTAL
	Gross/net	No. of sessions	attendance				No. of sessions	attendance		
<b>1. EXTERNAL MEMBERS OF SB</b>										
Ludvig Sotošek (until 18. 6. 2011)	gross	8	8	0	3,346	0			1,237	4,584
	net			0	2,593	0			959	3,552
mag. Darjan Petrič	gross	15	15	4,556	4,422	0			11	8,989
	net			3,531	3,427	0			8	6,966
dr. Aleš Groznik	gross	15	15	3,038	4,501	0			642	8,180
	net			2,354	3,488	0			497	6,340
mag. Alenka Bradač (since 8. 7. 2011)	gross	6	6	3,341	1,419	220	1	1	96	5,076
	net			2,590	1,100	171			74	3,934
mag. Mojca Golc Goropečnik (until 20. 4. 2011)	gross	4	4	0	1,254	0			9	1,263
	net			0	972	0			7	979
mag. Duško Kapevski (since 8. 7. 2011)	gross	6	6	3,038	1,419	220	1	1	74	4,751
	net			2,354	1,100	171			57	3,682
<b>2. INTERNAL MEMBERS OF SB</b>										
Vojko Oman	gross	15	15	3,038	4,323	0			0	7,361
	net			2,354	3,350	0			0	5,705
Iztok Štular (until 6. 8. 2011)	gross	10	9	0	2,904	0			0	2,904
	net			0	2,251	0			0	2,251
Leopold Zupan (since 7. 8. 2011)	gross	5	5	3,038	1,155	0			0	4,193
	net			2,354	895	0			0	3,249
3. External member of the committee	gross			0	0	0	1	1	0	0
Darja Orožen	net			0	0	0			0	0

Since August 24 2011 besides the attendance fees members of the supervisory board have been receiving also monthly payments for the performance of the function.

Costs of other supervisory board members' benefits in year 2011 are shown in the following table:

	EDUCATION	COSTS OF MOBILE PHONE	MEMBERSHIP FEES	in EUR TOTAL
<b>1. EXTERNAL MEMBERS OF SB</b>				
Ludvig Sotošek (until 18. 6. 2011)	342	125	0	467
mag. Darjan Petrič	492	0	0	492
dr. Aleš Groznik	342	365	0	707
mag. Alenka Bradač (since 8. 7. 2011)	0	0	0	0
mag. Mojca Golc Goropečnik (until 20. 4. 2011)	342	0	0	342
mag. Duško Kapevski (since 8. 7. 2011)	0	0	0	0
<b>2. INTERNAL MEMBERS OF SB</b>				
Vojko Oman	0	0	120	120
Iztok Štular (until 6. 8. 2011)	100	0	120	220
Leopold Zupan (since 7. 8. 2011)	667	0	0	667

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

MEMBERSHIP	
<b>1. EXTERNAL MEMBERS OF SB</b>	
Darjan Petrič MSc	supervisory board of NKBM
Aleš Groznik, PhD	supervisory board of Modra zavarovalnica
Alenka Bradač, MSc (since July 8 2011)	-
Duško Kapevski, MSc (since July 8 2011)	management board member in ZRMK
<b>2. INTERNAL MEMBERS OF SB</b>	
Vojko Oman	-
Leopold Zupan (since August 7 2011)	-

Board of directors and the supervisory board did not receive any receipts in respect of performing the functions in controlled companies. Elektro Gorenjska Company received and also approved no advances, loans, or guarantees to these persons or groups of people and did not disclose any claims on them in this respect as of December 31 2011.

## 20. AUDITING COSTS

Under Article 57 of the Companies Act (ZGD-1) Elektro Gorenjska Group is subject to annual report audit. Total costs of auditing services amounted to EUR 45,240. Contractual amount for auditing the financial statements of companies within Elektro Gorenjska Group for year 2011 amounted to EUR 24,100.

## 21. DATE OF APPROVAL OF FINANCIAL STATEMENTS

Management of Elektro Gorenjska Company approved the financial statements of Elektro Gorenjska Group prepared for business year 2011 on March 31 2012.

## 22. EVENTS AFTER THE BALANCE SHEET DATE

After the balance sheet date (31. 12. 2011) and until the date of approval of these financial statements (31. 3. 2012) two events occurred, which had a significant influence on the financial statements for 2011 business year.

### 1. Contract with SODO

As explained in chapter 4.8.1 – Contract with SODO, in February 2012 the company signed a new Contract for the hire of electricity distribution infrastructure and implementation of services for distribution network system operator for year 2011. It has been used since January 1 2011. Without signing this contract the company would not be eligible for settlement as explained in the following point. More on the uncertainties in respect of the signed contract is explained also in chapter 13.1 – Transactions with SODO Company.

## 2. SODO settlement

In March 2012 the company received from SODO the preliminary calculation of the regulatory year 2011. SODO implemented the preliminary settlement for year 2011 based on the unaudited financial statements. It is evident from the document that already charged contractual value was by EUR 244,923 higher than the value arising from the preliminary settlement. Based on that in year 2011 the company deferred in the short-term revenues in respect of rent and services under the contract with SODO in the amount of EUR 244,923.

# 23. MANAGEMENT RESPONSIBILITY STATEMENT

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

Management boards certify that all relevant accounting principles were consistently 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, 31. 3. 2012

**Chairman of the Board:**  
**Bojan Luskovec, MSc**





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