



elektro
gorenjska

ANNUAL REPORT 2010

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ELEKTRO GORENJSKA, D. D. COMPANY

ANNUAL REPORT 2010

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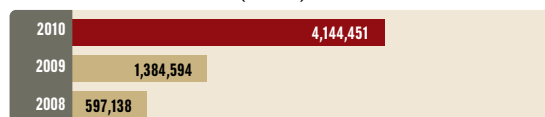
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LIST OF ABBREVIATIONS

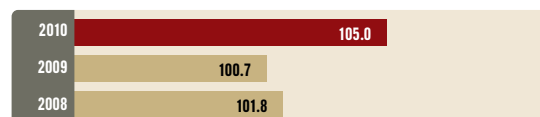
AUKN	CAPITAL ASSETS MANAGEMENT AGENCY OF THE REPUBLIC OF SLOVENIA	NN	LOW VOLTAGE
BDP	GROSS DOMESTIC PRODUCT	NNO	LOW-VOLTAGE NETWORK
BTP	TECHNICAL DATA BASE	NP	PURCHASE AND SALE ORGANIZATION UNIT
DCV	DISTRIBUTION MANAGEMENT CENTER		CONTRACT WITH SODO, d. o. o.
DDV	VALUE ADDED TAX		CONTRACT ON ELECTRICITY INFRASTRUCTURE LEASE AND PROVISION OF SERVICES FOR ELECTRICITY DISTRIBUTION SYSTEM OPERATOR
DED	OTHER ENERGY ACTIVITIES	RTP	TRANSFORMER SUBSTATION
DGO	ACTIVITY OF PURCHASE AND SALE TO HOUSEHOLD CUSTOMERS	SAIDI	SYSTEM AVERAGE INTERRUPTION DURATION INDEX
DO	DISTRIBUTION NETWORK	SAIFI	SYSTEM AVERAGE INTERRUPTION FREQUENCY INDEX
DPO	ACTIVITY OF PURCHASE AND SALE TO BUSINESS CUSTOMERS, INCLUDING TRADE	SN	MEDIUM VOLTAGE
DKS	REMOTE-CONTROLLED SWITCHES	SNO	MEDIUM-VOLTAGE NETWORK
DVO	VERHEAD POWER LINE	SODO	DISTRIBUTION NETWORK SYSTEM OPERATOR
EURIBOR	EURO INTERBANK OFFERED RATE IS AN INTERBANK OFFERED RATE FOR DEPOSITS IN EURO, WHICH IS FORMED ON THE EUROPEAN INTERBANK MARKET	SOPO	TRANSMISSION NETWORK SYSTEM OPERATOR
EZ	ENERGY ACT (OFFICIAL GAZETTE RS, No. 27/07, 70/08, 22/10)	SPDOEE	GENERAL CONDITIONS FOR CONNECTION TO THE DISTRIBUTION ELECTRIC SYSTEM (OFFICIAL GAZETTE RS, No. 126/2007)
GIS	GAS ISOLATED SUBSTATION	TR	TRANSFORMER
GJS SODO	PUBLIC SERVICE OBLIGATION RELATING TO THE ACTIVITY OF THE ELECTRICITY DISTRIBUTION SYSTEM OPERATOR	UVK	COMPETITION PROTECTION OFFICE OF THE REPUBLIC OF SLOVENIA
HE	HYDROELECTRIC POWER STATION	VN	HIGH VOLTAGE
IIS	INTEGRATED INFORMATION SYSTEM	VNO	HIGH-VOLTAGE NETWORK
JARSE	ENERGY AGENCY OF THE REPUBLIC OF SLOVENIA	ZGD-1	COMPANIES ACT

IMPORTANT INFORMATION ON ELEKTRO GORENJSKA COMPANY

NET PROFIT OR LOSS (EUR)



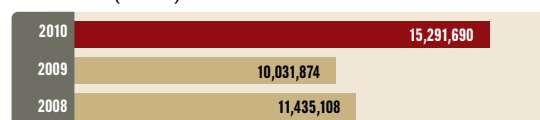
ECONOMY OF OPERATION



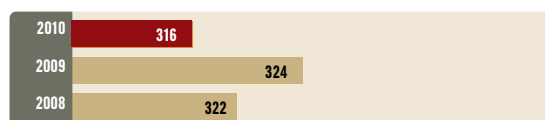
EBIT (EUR)



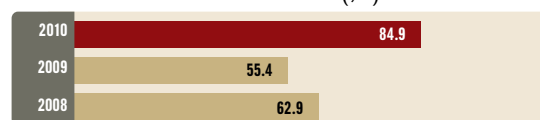
EBITDA (EUR)



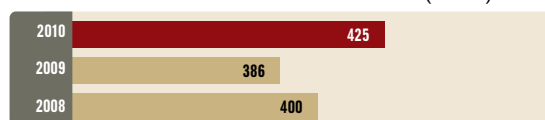
AVERAGE NUMBER OF EMPLOYEES



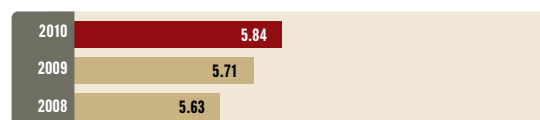
SHARE OF EMPLOYEES INCLUDED IN VARIOUS EDUCATIONS AND TRAININGS (%)



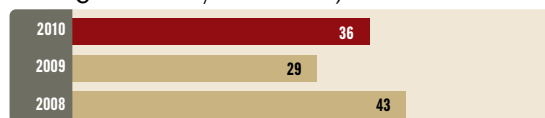
COSTS OF EDUCATION PER EMPLOYEE (EUR)



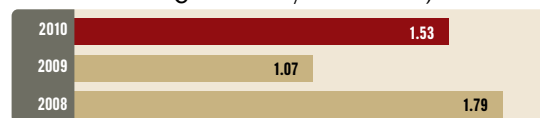
AVERAGE LEVEL OF EDUCATION



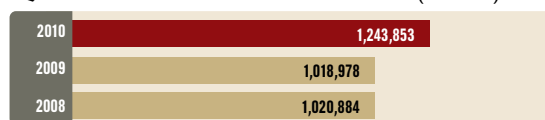
SAIDI (AVERAGE OUTAGE DURATION LONGER THAN 3 MINUTES /CUSTOMER)



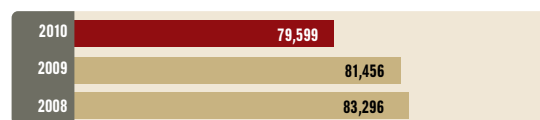
SAIFI (AVERAGE NUMBER OF INTERRUPTIONS LONGER THAN 3 MINUTES/CUSTOMER)



QUANTITY OF GENERATED ELECTRICITY (MWH)



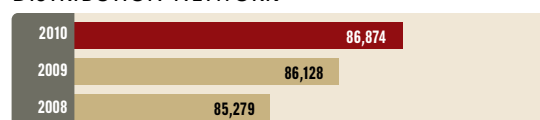
NUMBER OF CUSTOMERS



QUANTITIES OF DISTRIBUTED ELECTRICITY (MWH)



NUMBER OF CUSTOMERS CONNECTED TO THE DISTRIBUTION NETWORK





BUSINESS REPORT

1



1. IMPORTANT EVENTS AND AWARDS OF ELEKTRO GORENJSKA COMPANY IN YEAR 2010

JANUARY

- Elektro Gorenjska put in operation the first solar power turnkey station, which was built for an external investor.
- At the 17th winter sports games EDS employees of Elektro Gorenjska beat all competition with great superiority and took the first place.

FEBRUARY

- For the 60th anniversary of operation of HPP Savica Elektro Gorenjska prepared an exhibition of photos and exhibits in Elektra Gallery.
- Project of cogeneration of electricity and heat in Planina Kranj was given a green light by signing the tripartite partnership contract for construction and operation of cogeneration in boiler house Planina. For the purposes of implementation of project Cogeneration of electricity and heat in boiler house Planina Kranj company Soenergetika was established.

MARCH

- Elektro Gorenjska organized 2nd Forum on renewable energy sources and efficient use of energy.
- Elektro Gorenjska presented at the JOBFAIR organized by an international association of electrical engineering students EESTEC LC Ljubljana in cooperation with the Faculty of Electrical Engineering and Faculty of Computer and Information Science of the Ljubljana University.

APRIL

- Elektro Gorenjska was awarded a silver certificate for participation in assessment process for Slovenian business excellence for year 2009 and a certificate for finalists.
- Volunteers of Elektro Gorenjska took part in the national environmental campaign and collected 40 cubic meters of waste.

MAY

- Members of the Reenergija Club were offered an opportunity by Elektro Gorenjska to purchase solar components Bramac on more favorable terms.
- Elektro Gorenjska Company organized a visitors day at the solar power plant and electricity charging center in Labore.

JUNE

- At the 16th EDS sports games athletes of Elektro Gorenjska won six medals.
- On the world environment day Elektro Gorenjska published the fourth issue of Reenergija Club magazine.

JULY

- With its partners Elektro Gorenjska opened the first route of charging stations for electric vehicles in Slovenia.
- As one of the first among Slovenian electric distribution companies Elektro Gorenjska decided to repay the amount of overcharged electricity to its customers.

AUGUST

- Elektro Gorenjska organized a press conference to present the procedures of overpaid electricity reimbursement.
- At the end of the month Elektro Gorenjska started sending the bills for overpaid electricity.

SEPTEMBER

- Elektro Gorenjska, ELES, and Savske elektrarne Ljubljana officially opened a new distribution transformer station and 110/20 kV juncture Moste.
- Bojan Luskovec, MSc, was appointed new chairman of the board.
- Elektro Gorenjska in cooperation with Atlas Trading Company formed an attractive offer for their customers for purchase of heat pumps for heating the domestic hot water Atlas and heat pumps for space heating Thermia.
- On a European Car Free Day Elektro Gorenjska organized an electric bikes test drive.

OCTOBER

- Elektro Gorenjska offered a possibility to its customers to purchase an affordable biomass boiler.
- At the 2nd strategic meeting of energy market participants Elektro Gorenjska was awarded a plaque for its participation at the competition for the Customer Friendly Energy Supplier.
- 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.
- At the Elektra Gallery Urban Ažman put his photos on display.

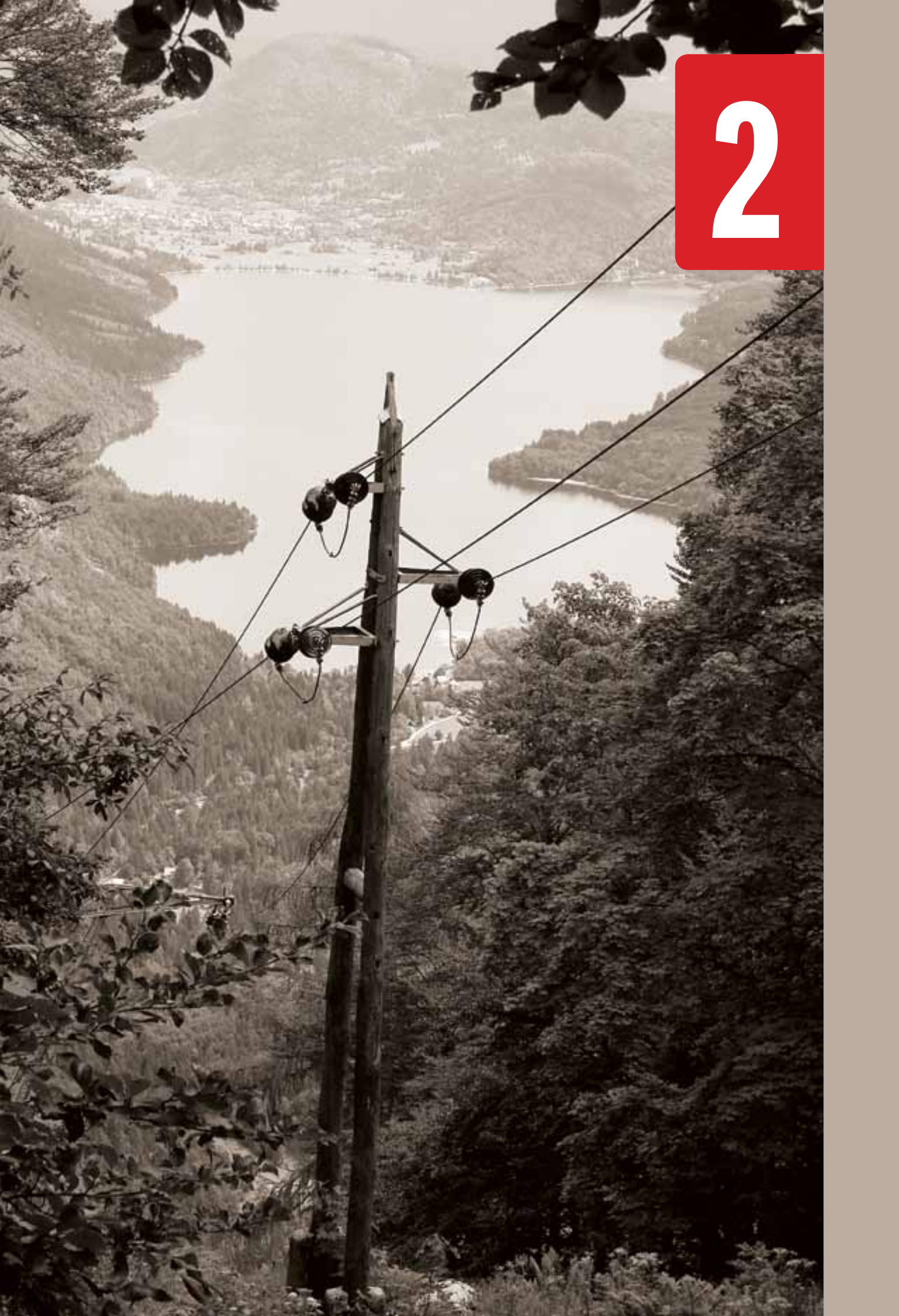
NOVEMBER

- On the roof of DTS Labore a small photovoltaic power station Labore 2 started to operate.
- At the Elektra Gallery there was an exhibition of photos and paintings celebrating the 100th anniversary of Prešeren Hut on Stol.
- Elektro Gorenjska organized a Microsoft Office 2010 computer course for its employees.

DECEMBER

- Together with its partners, ITH photovoltaic and Bisol, Elektro Gorenjska put in operation the largest solar power station in Gorenjska region – on the roof of Iskratel company in Labore.
- Elektro Gorenjska donated funds to Center Sonček Kranj for the purchase of multipurpose room equipment.

2



2. BUSINESS GOALS IN YEAR 2011

Year 2011 will be a landmark year for Elektro Gorenjska in many areas. New management has set ambitious goals, which they will try to realize properly in accordance with the requirements of the legislation and in changed market conditions.

MAIN GOALS IN YEAR 2011 ARE THE FOLLOWING:

1. To ensure quality, punctual and cost-efficient operation and network maintenance as well as implementation of investments in proper electricity infrastructure.
2. To restructure the company in a way that organization is simple, clear, cost-efficient, and market-oriented.
3. To form 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 24. 3. 2009.
4. To optimize the organizational structure of the company 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. To optimize and modernize information support, which will enable quality mode of the changed way of operation.
6. To remain one of the most important traders on the electricity and services market in Slovenia, with the purpose of achieving higher value added in operation.
7. 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. creating studies and projects for foreign clients.
8. To search for and realize new market opportunities out of traditional electricity areas.
9. To prepare projects with value added and possibility of efficient disbursement of development funds.
10. To operate in accordance with the quality policy and stimulate efficient energy use.
11. To spread entrepreneurial atmosphere in the company and introduce suitable stimulation policy.
12. To become an important factor of professional development in the region and provide for raising public awareness.

KEY RISKS IN ACHIEVING THE 2011 GOALS

As the majority owner of five Slovenian electricity distribution companies, Republic of Slovenia decided to reorganize them in year 2009 after the issued audit report of the Court of Auditors of RS, in which it presented the audit of GJS SODO implementation. Electricity distribution companies were suppose to reorganize in such a way that market activities and associated assets and employees are separated from regulated activity and associated assets and employees.

Key activity of the company in year 2011 will thus be an appropriate adjustment of company operation to the requirements of the legislation and Court of Auditors. Following is the explanation of the reasons and eventual risks that could affect the level of achieving the goals in year 2011.

MACROECONOMIC MOTIVE FOR THE SEPARATION

Decision of the Republic of Slovenia to reorganize electricity companies is in accordance with the development of European legislation in energy field, which first requested only separate financial statements for individual activities within uniform companies, while in the next step it requested a legal personality separation as well.

CONSEQUENCES – SYSTEMIC PERSPECTIVE

With the reorganization of Elektro Gorenjska company requirements of the legislation and majority shareholder will be met. Division of regulated energy and market energy activities in two independent companies will ensure actual (functional) independency in implementation of GJS SODO. Possibility of cross subsidization of market activities from indirectly regulated activity »distribution network« will be prevented and transparency of eligible use of network charges and network charges for power consumption ensured. On the level of the entire Slovenian market this will ensure conditions for non-discriminatory treatment of electricity buyers.

CONSEQUENCES ON THE LEVEL OF THE COMPANY

With the separation of activities monitoring and determination of efficiency of individual units within both companies will be enabled and with this also new possibility of adapting and improving the operation of those company parts, which are more cost-demanding and less operationally effective.

Due to the separation into two independent companies there will also be the separation of the currently joint cash flow. Company Elektro Gorenjska will now have the main revenue source from Contracts on Electricity infrastructure lease and services rendered, while the new subsidiary will mainly have revenue from electricity sold. Characteristic of revenues from Contracts on Electricity infrastructure lease is that they are determined in advance on the basis of RO JARSE and are evenly distributed in periods. According to the foreseen scope of investments and as individual investments in capital assets are of bigger values, frequent liquidity shortages could be expected. Until now liabilities could have been settled on the cash flow account from electricity sold (market activities), and vice versa liabilities from the purchase of electricity could have been settled from available assets irrespective of their functional source. We can expect that due to smaller volume of revenue more frequent borrowing in banks will be necessary. Due to the changed structure of revenues we can also expect a different treatment from the banks when raising credits. Due to all the mentioned reasons we will accede to the examination of the possibility to establish a system of cash pooling among the parent company and the two subsidiaries.

Due to the division of the company audits and divisions of work processes are taking place. We are defining the processes, which include implementation of GJS SODO, which have to be neutral and non-discriminatory to other electricity suppliers.

We are aware that with the division of the company the volume of work could increase, mainly in the areas where employees perform tasks for both activities. There is a realistic chance that for certain segments of operation the subsidiary will look for partners (suppliers) for its services on the market. Existing information support to the subsidiary does not allow a competitive approach on the market. Subsidiary will use a common ingredient of the parent company on the market, which will enable unnoticed transfer of customers in the procedure of the spin-off. In case of spin-off of activity of purchase and sale and independent entry of the subsidiary on the market relatively small market share of the subsidiary will come to the fore as this activity is conditioned with the economy of scale. There is a chance that newly established company becomes the subject of a takeover or purchase.

Procedure of division is taking place according to the legal procedure, which concludes with a vote at the general meeting and entry in court register. There is also a chance that the state does not give its consent for the spin-off, that minority shareholders stop the procedure by filing challenging actions or that the state changes its planned decision during the year.



3

3. MANAGEMENT REPORT

DEAR ANNUAL REPORT READERS, DEAR SHAREHOLDERS, AND PARTNERS!

Elektro Gorenjska is one of the successful companies in Gorenjska region. Its main mission is to supply end customers with reliable and quality electricity. Otherwise, the company is the smallest electricity distribution company with a 10 percent market share, but the results and achievements confirm that the company strives to successful operation, offers quality products and services at appropriate prices, and provides for the sustainable development of the company as well as region.

As expected the economic crisis anchored deeply in year 2010, so the company rationalized and optimized its operations. Economic situation were much more demanding for the company's activities in year 2010 than originally planned. Despite that business results of the company were good in year 2010. In Elektro Gorenjska we have adapted flexibly to the influences of the crisis on operation; we have successfully implemented development measures for adapting to the new situations in order to ensure our competitiveness in the long term. We have strengthened the supervision over cash flow monitoring, and limited ourselves to the most urgent in investments. With effective cost control, introduction of innovative marketing approaches, and good operation of all activities we concluded our operation with a net profit in the amount of EUR 4,144,451.

Total revenues of the company in year 2010 amounted to EUR 107,521,033, while total expenditure amounted to EUR 102,653,059. Net profit or loss of the company amounted to EUR 4,144,451. High result is a consequence of efficient operation of the company and timely detection and exploitation of market opportunities. In 2010 the company sold and charged for a total of 1.248.808 MWh of electricity to its buyers, which is by 23 % more than in year 2009.

In year 2010 the company carried out all investments that were planned in accordance with the confirmed annual economic plan and in accordance with the financial abilities of the company, namely the company earmarked EUR 13,7 million of its financial assets for investments. We completed and put to operation the RTP Moste with 20 kV GIS juncture, which represents a central distribution juncture in Gorenjska region. We continued with the procedures to receive appropriate permits for the construction of 110 kV power line connection between Bohinj and Železniki as well as with the renovations of equipment and buildings on high-, medium-, and low-voltage networks. Investments will be financed by ownership as well as by loan capital. We will execute those investments on the distribution network that are urgent for a reliable and quality supply of electricity. Other investments will be realized in accordance with the financial capacity of the company and the demands of the market in the next years.

Elektro Gorenjska will continue with its main activity – development and new services – which I can say 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. 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. Electricity suppliers will operate easier and better, and plan the electricity network more efficiently.

So, we have had a successful year and in 2011 we will continue to follow our main goal – reliable and quality electricity supply for all our end customers. We started preparing for reorganization already in year 2010 and we have actively continued with the preparations in year 2011 as well. Year is going

to require from us a great deal of adaptability to changes and our flexibility in favor of better operation. All of us in Elektro Gorenjska are going to try hard to operate to the best possible extent in the future too for the good of our customers as well as all the employees and are going to strive for business excellence by caring for the sustainable development also in the future.

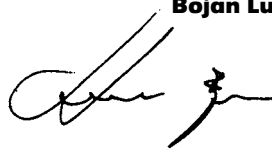
Company does not want to achieve current, but rather permanent results. Successful year was a realized goal. Our plans are of longer-term. Principles of sustainable development are incorporated into strategic decisions and our every day functioning. Our joint goal is to increase the value for the company, employees, final customers, partners, and owners.

Strategic goals of Elektro Gorenjska cover all key areas of our operation – financial performance, process efficiency, and concern for customer and employee satisfaction.

One of the indicators of business excellence of the company is our ranking among the top five finalist for the reception of the highest state award in the field of business quality and silver award in processes of business quality and business excellence, which was granted by the business excellence committee under the Ministry of higher education, science and technology of RS in year 2010.

Elektro Gorenjska will manage to achieve the set goals only with the help of suitably qualified and above all motivated employees. That is why I would like to express my gratitude to all the employees for their contribution to successful operation. Management can operate successfully only when it operates developmentally and professionally responsibly. We are all aware that with responsibility, prudence and devotion we will continue to operate in the future. Management binds itself for the company to operate to its best possible extent for the benefit of owners as well as employees, but above all for the benefit of customers of its services.

Chairman of the Board
Bojan Luskovec, M.Sc.



3.1 CORPORATE GOVERNANCE STATEMENT

As a non-public corporation Elektro Gorenjska is not bound to respect provisions of the Corporate Governance Code or other codes, but the management of the company respects majority of provisions of the corporate governance code and moral - ethical principles defined by similar codes.

On 13. 1. 2011 Capital Assets Management Agency of the Republic of Slovenia adopted the Code on corporate governance of state capital investments (hereafter: Code), which defines the principles and code of conduct for the Agency, management, and supervisory bodies in the ownership of the Republic of Slovenia and state bodies in management of capital investments of the state. Company will strive to implement and execute the provisions of the Code in year 2011, while in preparing the annual report for year 2010 the company could not consider the provisions of the Code, which was adopted in year 2011.

3.2 SUPERVISORY BOARD REPORT

SUPERVISORY BOARD REPORT ON VERIFICATION OF ANNUAL REPORT OF ELEKTRO GORENJSKA, D.D. AND CONSOLIDATED ANNUAL REPORT OF ELEKTRO GORENJSKA GROUP FOR YEAR 2010

DEAR SHAREHOLDERS!

In year 2010 supervisory board comprised the following members: Ludvig Sotošek – chairman, Aleš Groznik, PhD – vice-president, Mojca Golc Goropečnik, MSc and Darjan Petrič, MSc as representatives of shareholders, Vojko Oman and Iztok Štular as representatives of employees.

I. Functioning of the supervisory board

In year 2010 supervisory board met on 16 sessions, of which 11 sessions were regular, 4 sessions were correspondence and 1 extraordinary session.

Members of the supervisory board and the management regularly participated in the supervisory board sessions. Supervisory board monitored the managing and operation of the company on the basis of information and reports of the management and reports of individual professional services of the company. Management and professional services provided adequate explanations at the supervisory board sessions.

a) Management reports to the supervisory board

Management of Elektro Gorenjska reported to the supervisory board in accordance with Article 272 of the Companies Act (ZGD-1):

- On planned business politics and other operating issues,
- On course of transactions, property and financial condition of the company,
- On operation of the associated company Gorenjske elektrarne, d.o.o.,
- On operation in year 2010,
- On transactions that significantly influence the profit and loss account of the company, its profit ability or solvency, like: contracts concluded for the purchase and sale of electricity, access to the network, on ensuring necessary float for operation of the company, implementation of investments and raising a credit,
- On the contract or annexes to the Contract with SODO, d.o.o. and the problems connected with the operation with SODO, d.o.o.,
- On due diligence review due to the intended spin-off of market activity,
- On other issues in accordance with the ZGD-1 and statute of the company and
- On other issues requested by the supervisory board.

b) Chairman of the board salary in accordance with the legislation

Supervisory board got acquainted with and considered the decision of the Government of RS on recommendations in respect of the management board chairmen salaries in the companies, whose majority owner was the Republic of Slovenia. On the basis of adopted decisions of the supervisory board, the chairman of the supervisory board concluded appropriate annexes to the employment contracts with the chairman of the board. After the adoption of the Act Regulating the Incomes of Managers of Companies owned by the Republic of Slovenia and Municipalities (OG RS, No. 21/2010 and 8/2011) supervisory board adjusted the salary of the chairman of the board in accordance with

the legal provisions. Salary of the Elektro Gorenjska, d.d. chairman of the management board is lower than the statutory maximum amount of the manager income in large energy companies.

c) Main decisions of the supervisory board

In considering the points on the agenda supervisory board has monitored and controlled the operation of the company and prepared and confirmed the materials for the 14th general meeting. It supervised the implementation of investments according to investment groups. In accordance with the Article 28 and 39 of the Statute the supervisory board gave its consents to contracts, credit raise for investments and general acts of the company.

Management submitted the materials to the supervisory board in writing and additionally explained them orally. It regularly prepared reports on giving effect to decisions and other reports that the supervisory board requested from the management.

In year 2010 the supervisory board got acquainted with current business and decided on the following issues important for the operation of Elektro Gorenjska, d.d. Company:

- Adopted the changes and clean copy of Elektro Gorenjska Company's statute,
- Gave its consent to the Economic plan for year 2010, and later Revised Plan of Investments for year 2010,
- Got acquainted with reports on contracts in accordance with the provisions of the statute,
- got acquainted with contracts on purchase and sale of electricity and access to the network,
- got acquainted with the course of due diligence implementation and the Report on accounting, financial, organization, tax and legal due diligence review of Elektro Gorenjska Company, as of 28. 6. 2010,
- Got acquainted with the report on implementation and realization of the Plan of Investments for year 2010,
- Confirmed the basis of preparation of the Plan of investments for year 2011 for the purposes of the contract with SODO, d.o.o.,
- Got acquainted with the course of events in respect with the procedure at the Competition Protection Office of the Republic of Slovenia, and in this respect adopted the decision for immediate repayment of overpaid amounts of electricity to the customers,
- Got acquainted with information on operation of Elektro Gorenjska in quarter periods,
- Discussed and gave its positive opinion to the annual report of the company for year 2009 and consolidated annual report of group Elektro Gorenjska for year 2009 as well as accepted a written report of the supervisory board on verification of the annual reports,
- Discussed the materials and adopted the proposals of decisions for the 14th general meeting of the company,
- Got acquainted and requested the documentation in connection with the SPTE Planina project,
- Got acquainted with the draft of the Development strategy of the company or Elektro Gorenjska Group,
- Got acquainted with the provisions of the Code of corporate governance and undertook to operate in accordance with all its provisions,
- Above all the supervisory board on many occasions during the year got acquainted with settling the relations between SODO, d.o.o. and Elektro Gorenjska Company, and requested from the management to prepare a new contract on the electricity distribution infrastructure lease together with SODO, d.o.o.

A lot of attention of the supervisory board in year 2010 was paid to getting acquainted with the foreseen reorganization of electric power distribution companies. Supervisory board asked the company to inform its employees about the reorganization of the company and prepare the vision of the company's operation after the reorganization. In connection to that the board adopted the decision, which entrusted the management to perform together with the supervisory board all the necessary activities, which will enable the general meeting of the company to decide on the spin-off, which would transfer property and property related rights and liabilities referring to market energy activities of the company to its subsidiary in 100 % ownership of Elektro Gorenjska according to the balance as at 31.12.2010 as the date of clearing division.

In year 2010 the supervisory board implemented a tender for the new chairman of the board. Due to the mutually agreed termination of the chairman of the board function of Jože Knavs, MSc, the supervisory board first temporarily appointed Bojan Luskovec, MSc the representative of the company, until the appointment of the new chairman of the board. After the implemented public call for applications for the chairman of the management board in Elektro Gorenjska d.d. the supervisory board appointed new chairman of the board Bojan Luskovec, MSc for a term of 4 years.

Besides the corresponding materials the management was giving the supervisory board all other necessary explanations to individual topics directly at the sessions. Supervisory board thus assesses the cooperation with the management as adequate and correct.

II. Confirmation of the annual report and proposal for the use of the distributable profit

a) Confirmation of annual report of Elektro Gorenjska, d.d. Company

Besides the parent company Elektro Gorenjska Group includes also Gorenjske elektrarne, d. o. o. Company.

Company Elektro Gorenjska, d.d. concluded the business year with a profit. Activities of purchase and sale of electricity and activity of distribution network were operating with a profit, while other non-energy market activities operated with a loss.

Auditing firm Deloitte Revizija d.o.o. audited the accounting report of Elektro Gorenjska Company and Elektro Gorenjska Group. Reports show that the auditing firm audited accounting statements, which consist of the balance sheet as of 31. 12. 2010 and profit or loss account, cash flow statement, statement of changes in capital for the year then ended and a summary of important accounting policies and other explanatory notes.

Firm also audited consolidated accounting statements of Elektro Gorenjska Group, which consist of the group balance sheet as of 31. 12. 2010, group profit or loss account, group cash-flow statement, group statement of changes in capital for the year then ended, summary of important accounting policies and other explanatory notes.

In opinion of the auditor the stated accounting accounts are in every respect a fair presentation of the financial situation of Elektro Gorenjska and Elektro Gorenjska Group as of 31. 12. 2010, its profit or loss account and cash-flow account in the year then ended as well as in accordance with the Slovene Accounting Standards. It is also the opinion of the auditor that the business report is in accordance with the revised accounting statements. Supervisory board has also taken up a positive point of view on the auditor's opinion.

Supervisory board discussed the Annual report of Elektro Gorenjska d.d. and Elektro Gorenjska Group for year 2010 at the 21st regular meeting on 14. 6. 2011. On the basis of a thorough review and verification of revised Annual report of Elektro Gorenjska d.d. and revised Consolidated annual report of Elektro Gorenjska Group for year 2010 the supervisory board has established the following:

- That the content of the reports is a realistic review of the operation and financial condition of the company,
- That the annual report is clear, easily examined, and comprised in accordance with the provisions of the Companies Act,
- That the annual report enables exact verification of financial situation of the economic outturn of the company,
- That in opinion of the auditor the group accounting statements are in every respect a fair presentation of the financial situation of Elektro Gorenjska as of 31. 12. 2010, its profit and loss and cash-flow for the year 2010 as well as in accordance with the standards of accounting reporting.

Based on all stated findings and a positive opinion of the auditing firm the supervisory board confirmed the annual report of Elektro Gorenjska d.d. company for year 2010 and consolidated report of Elektro Gorenjska Group for year 2010.

b) Proposal on profit distribution

Together with the confirmation of the annual report of Elektro Gorenjska d.d. for year 2010 and consolidated annual report of Elektro Gorenjska Group for year 2010 the supervisory board also confirmed the proposal for the disposition of distributable profit, which will be proposed by the management and supervisory board for confirmation to the general shareholders' meeting.

Supervisory board has established that allocation of net profit of the company for business year 2010 was in accordance with Articles 64 and 230 of the Companies Act (ZGD-1), while the proposal for disposition of distributable profit includes data as prescribed in paragraph four of Article 293 of the Act.

in EUR

TITLE	2010	2009
1. NET PROFIT OR LOSS OF THE BUSINESS YEAR	4,144,451	1,384,594
2. + RETAINED NET PROFIT / RETAINED NET LOSS	0	0
3. + REDUCTION IN PROFIT RESERVES:		
4. - INCREASE OF PROFIT RESERVES FOLLOWING THE DECISION OF THE MANAGEMENT AND SUPERVISION:		
A) STATUTORY RESERVES	-207,223	-69,230
5. - INCREASE OF PROFIT RESERVES FOLLOWING THE DECISION OF THE MANAGEMENT AND SUPERVISION::		
A) OTHER PROFIT RESERVES	-1,968,614	-657,682
6. DISTRIBUTABLE PROFIT	1,968,614	657,682

In business year 2010 the company stated a net profit in the amount of EUR 4,144,451. In accordance with Paragraph 4 of Article 64 of ZGD-1 the management distributed 5 percent of the net profit of the business year 2010 to statutory reserves, which amounts to EUR 207,222.55. In accordance with Paragraph 4 of Article 230 of the ZGD-1 the management and the supervisory board distributed half of the net profit of the business year 2010, which remained after the distribution for the purposes in the previous statement, to other profit reserves, which amounts to EUR 1,968,614.25. In accordance with Article 64 of ZGD-1 the company's management considered the distribution of the net profit for 2010 for purposes listed already in comprising of the company's balance sheet for the business year 2010.

In the annual report for the business year 2010 in the supplement to changes in capital statement, the company stated a distributable profit in the amount of EUR 1,968,614.25.

Supervisory board is confirming the proposal of the management on distribution of distributable profit for year 2010, to allocate the distributable profit established for year 2010 in the amount of EUR 1,968,614.25 to other profit reserves.

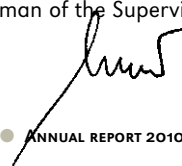
Based on the above the management and supervisory board propose to the shareholders' meeting to allocate the distributable profit for year 2010 in the amount of EUR 1,968,614.25 to other profit reserves.

Supervisory board believes that according to sharpened and demanding business environment, which was marked by financial and global crisis as well as the economic recession, the goal of a stable and successful operation of Elektro Gorenjska Company was achieved.

Supervisory board adopted this report by common agreement at its 21st regular meeting on 14. 6. 2011.

In Kranj, 14. 6. 2011

Ludvig Sotošek, B. Sc. (Econ)
Chairman of the Supervisory board



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4. PRESENTATION OF ELEKTRO GORENJSKA COMPANY

4.1 ELEKTRO GORENJSKA COMPANY IDENTITY CARD

Name:	ELEKTRO GORENJSKA, podjetje za distribucijo električne energije, d. d.
Abbreviated name:	ELEKTRO GORENJSKA, D. D.
Address:	Ulica Mirka Vadnova 3a, 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:	5175348
VAT identification number :	SI 20389264
Core activity code:	35.130 electricity distribution
Legal form:	Joint-stock company
Company register entry number:	1/00259/00
Date of company register entry:	27. 1. 1998
Place of court's register entry:	Kranj District Court
Share capital as of 31. 12. 2010:	EUR 72,415,418.96
Number of shares as of 31. 12. 2010:	17,353,631
Chairman of the Board:	Jože Knavs, M.Sc. (until 31. 8. 2010), Bojan Luskovec, M.Sc. (from 1. 8. 2010 as representative, from 15. 9. 2010 as Chairman of the Board)
Supervisory board chairman:	Ludvig Sotošek

Figure 1: Identity card of Elektro Gorenjska Company

in EUR

OTHER IMPORTANT COMPANY INFORMATION ON ELEKTRO GORENJSKA		
	31. 12. 2010	31. 12. 2009
Carrying amount of capital	133,005,004	129,224,789
Carrying amount of assets (balance sheet total)	200,855,851	195,479,265
	31. 12. 2010	31. 12. 2009
Net profit of the business year	4,144,451	1,384,594

Table 1: Other important company information on Elektro Gorenjska

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 (**business segments**):

- activity of electricity distribution, which is connected with the implementation of contractually agreed services for Company SODO, d. o. o., Maribor (hereinafter also activity of distribution network or **activity DO**) and is presented in more detail also in Chapter 4.9 – Legal environment of energy activities;
- energy market activity of trade, representation, and agency on the electricity market: purchase and sale of electricity for household and business consumers (hereinafter also **activity NP**). NP activity is managed and monitored in companies books separately for household customers (hereinafter also **activity DGO**) and separately for business customers, including trade (**activity DPO**);
- other energy activities, which include market activity of combined heat and electric power production and activity of optional local public utility service supply of heat (**hereinafter also other energy activities or DED**). Group started with both mentioned activities in the second half of year 2008;
- 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 (**hereinafter other non-energy market activities or activity TRG**).

Above activities are presented in more detail also further on in this Business report (please see chapter 6.6 – Business analysis of individual activities), and for each activity performance and financial standing is being established, which can be seen in the Accounting report (please see chapter 11.7 – Profit and loss account by activities of Elektro Gorenjska Company and chapter 11.8 – Balance sheet of Elektro Gorenjska Company by activities).

4.3 MAIN AREA OF OPERATION

Elektro Gorenjska has been engaged in distribution of electricity for more than 40 years and has been supplying electricity to 79,599 customers on the area of 2,091 km in the North-Eastern Slovenia. It is the smallest distribution company in Slovenia, as its market share amounts to 10 %. Despite that the company reaches the highest standards in Slovenia in the field of quality and reliable electricity supply. It is the only distributor that not only stimulates but also rewards its customers for efficient and rational use of electricity.

Elektro Gorenjska is a company that constantly strives for development, innovation, and environmental efficiency and friendliness. Company is a holder of three quality standards: ISO 9001/2000, ISO14001/2004, and OHSAS 18001, which are successfully re-certified every year.

Technologically the company occupies the leading place in Slovenia. It is the first distribution company, which managed to entirely cancel the non-perspective 10 and 35 kV voltage levels, and can pride itself with the state-of-the-art GIS- junctures, is leading in the field of active networks (Smart Grids), and puts great emphasis on efficient energy use.

Figure 2: Area of supply of electricity distribution companies



Besides the head office in Kranj (Ulica Mirka Vadnova 3a) the company has a plant in Žirovnica and eight inspectorates in Bohinj, Cerklje – Visoko, Jesenice – Kranjska Gora, Kranj, Radovljica – Bled, Škofja Loka – Medvode, Tržič and Železniki.

Main technical data

Supply area of Elektro Gorenjska Company amounts to 2,091 km².

	31. 12. 2009	31. 12. 2010
POWER LINES 110 kV	59,612 m	59,163 m
POWER LINES 35 kV	52,490 m	40,302 m
POWER LINES 20 kV	790,962 m	771,755 m
POWER LINES 10 kV	1,987 m	1,987 m
TOTAL POWER LINES	905,051 m	873,207 m
CABLE CONDUITS 110 kV	1,022 m	1,022 m
CABLE CONDUITS 35 kV	1,799 m	1,045 m
CABLE CONDUITS 20 kV	675,695 m	703,413 m
CABLE CONDUITS 10 kV	5,897 m	5,897 m
TOTAL CABLE CONDUITS	684,413 m	711,377 m
TOTAL LV NETWORK	3,703,167 m	3,731,846 m
TOTAL NETWORK	5,292,631 m	5,316,430 m
TRANSFORMER SUBSTATION	15	15
SUBSTATION	4	5
TRANSFORMER STATION	1,298	1,319

Table 2: Main technical data on electric power distribution network of Elektro Gorenjska
Source: Elektro Gorenjska

4.4 ADMINISTRATION AND MANAGEMENT OF ELEKTRO GORENJSKA COMPANY

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

4.4.1 MANAGEMENT

Single-member administration is appointed by the supervisory board of Elektro Gorenjska Company.

In the middle of the year 2010 a change occurred in the management of the company, namely the Chairman of the Board Jože Knavs, M.Sc., who was appointed since 1. 10. 2007, resigned, and at its 11th regular session the supervisory board of Elektro Gorenjska Company appointed Bojan Luskovec, M.Sc. to his position.

Management was appointed for a period of four years, for the term starting on 15. 9. 2010 to 14. 9. 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.

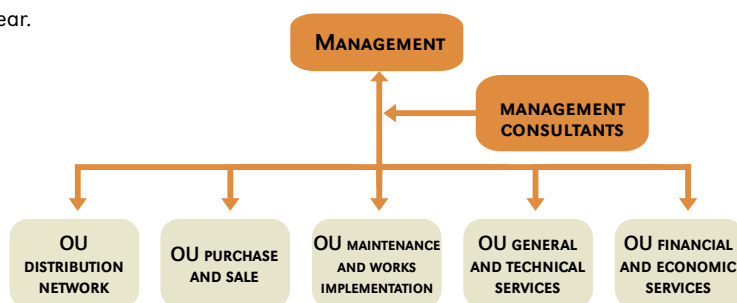


Figure 3: Organization chart of Elektro Gorenjska Company

As of 31. 12. 2010 Elektro Gorenjska Company has **three management consultants**:

- consultant for general affairs and
- two consultants for technical affairs.

4.4.2 SUPERVISORY BOARD

Composition of the supervisory board is defined by the statute of the company. Supervisory board consists of six members, two of them being 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.

Composition of the supervisory board:

Chairman of the Supervisory Board:

Ludvig Sotošek

Members of the Supervisory Board:

- **Dr. Aleš Groznik**, deputy chairman
- **Mojca Golc Goropečnik**, M.Sc.
- **Darjan Petrič**, M.Sc.
- **Vojko Oman** (employee representative)
- **Iztok Štular** (employee representative)

4.4.3 SHAREHOLDERS' MEETING

In year 2010 the management convened the general meeting once. At the 14th general meeting, taking place on 27. 8. 2010 where 87.37 % of the represented capital of the company was present, the 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 2009. Shareholders decided on the use of the distributable profit, which on 31. 12. 2009 amounted to EUR 657,682, and adopted by majority the decision of the management and supervisory board that the distributable profit was allocated to other profit reserves (please see also Accounting Report, Chapter 14.11 – Capital).

Shareholders have confirmed the changes in the statute, which were necessary due to changes in the legislation in the field of companies and confirmed the appointment of audit firm Deloitte Revizija for auditing the business accounts in year 2010. General meeting did not adopt the decision referring to liability insurance of supervisory and management bodies, as well as the decision on the basis of which minority shareholders would be paid out with the help of issuing the bonds of the company and other energy company in the majority ownership of the state or by replacing the shares of the company owned by minority shareholders with more liquid shares of the public company in the majority ownership of the state.

4.5 ASSOCIATED COMPANIES

Elektro Gorenjska Group consists of the final controlling company Elektro Gorenjska, d. d. and its **controlled company Gorenjske elektrarne**, which is in **100 % ownership** of Elektro Gorenjska Company. None of the companies in the group has its subsidiaries. Structure of the group did not change in year 2010 compared to the years before.

4.5.1 IDENTITY CARD OF THE CONTROLLED COMPANY GORENJSKE ELEKTRARNE

Name:	GORENJSKE ELEKTRARNE, proizvodnja elektrike, d.o.o.
Abbreviated name:	GORENJSKE ELEKTRARNE, d. o. o.
Head office:	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:	10693400
Date of company register entry:	4. 1. 2002 (changed 21. 9. 2004)
Legal form:	limited liability company (d. o. o.)
Activity code:	35.111 electricity production in HPP
Registration number:	1658298
VAT identification number:	SI76567788
Founder:	Elektro Gorenjska, d. d., Kranj
Share capital	EUR 13,684,880.11
Persons authorized to represent:	Marko Čarman, M.Sc. (until 14. 11. 2010), Aleš Ažman, MBA (from 15. 11. 2010)

Figure 4: Identity card of the controlled company Gorenjske elektrarne

Gorenjske elektrarne Company has no associated companies and no investment into the capital of associated and affiliated companies. Other important company information can be found in the table below.

	in EUR	
	31. 12. 2010	31. 12. 2009
Carrying amount of capital	16,922,854	16,713,395
Carrying amount of assets (balance sheet total)	19,131,647	17,293,540
	31. 12. 2010	31. 12. 2009
Net profit of the business year	209,459	838,791

Table 3: Other important information on Gorenjske elektrarne Company

4.5.2 OTHER ASSOCIATED COMPANIES OR RELATED ENTITIES

Elektro Gorenjska Company considers its related entity to be Soenergetika Company, where Elektro Gorenjska has 25 % ownership share.

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

Elektro Gorenjska has no direct or indirect ownership of at least 20 % of the value or number of shares or shares in capital, management or supervisory in any other company except the ones stated above. In addition, company does not control other companies on the contractual basis in a way that differs from the relations between non-related entities or has no significant influence on any of the other companies.

4.6 SHARE CAPITAL AND OWNERSHIP STRUCTURE

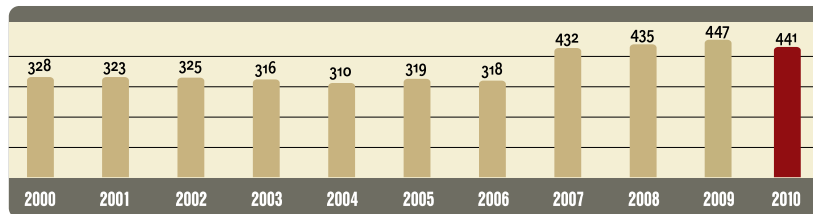
On 31.12. 2010 share capital of Elektro Gorenjska company amounted to EUR 72,415,418.96 and was distributed to EUR 17,353,631 of ordinary registered unit shares (designation EGKG). Each share has the same proportion and appertaining amount in the share capital and equal other rights. All shares are shares of one category.

Elektro Gorenjska shares are not traded on regulated market.

Company has no authorized capital. Like in the previous years, in 2010 the company had no transactions with own shares.

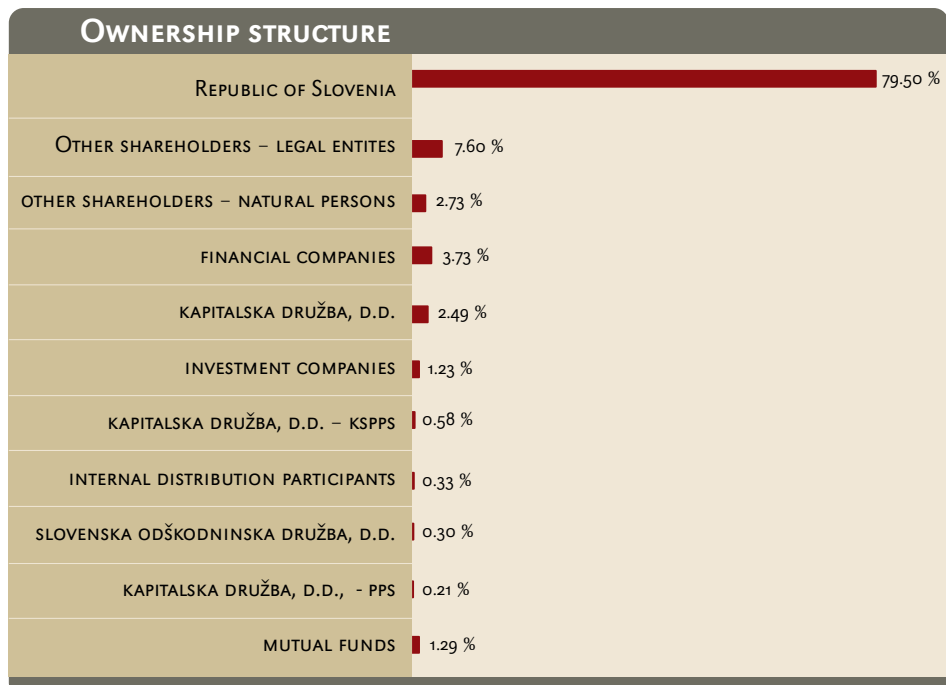
As of 31. 12. 2010 the company had 441 shareholders, while on the last day of year 2009 there were 447. As of 31. 12. 2010 96.94 % of company shares were in the ownership of legal entities, which represent 10.66 % of all shareholders. Figure below is showing the changes in the number of shareholders from 31.12. 2000 to 31. 12. 2010.

Figure 5: Changes in the number of shareholders of Elektro Gorenjska Company from 31. 12. 2000 to 31. 12. 2010



Ownership structure of Elektro Gorenjska Company as of 31. 12. 2010 (in %):

Figure 6: Ownership structure of Elektro Gorenjska Company as of 31. 12. 2010 (in %)



According to the balance as at 31. 12. 2010 the largest shareholder, holding a 79.50 percent share, is the Republic of Slovenia. It is followed by Kapitalska družba holding a 2.49 percent share and Sava Re with 1.61 percent share. Compared to the balance as at 31. 12. 2009 no changes occurred.

Number of owners with a share exceeding 1 % did not change compared to the balance in year 2009. As at 31. 12. 2010 the largest ten owners held a total of 90.13 percent share of the company.

OWNERSHIP EXCEEDING 1 %	NUMBER OF	
	SHARES	IN %
Republic of Slovenia	13,796,137	79,5000
Kapitalska družba	431,933	2,4890
Sava Re, d. d.	280,000	1,6134
Pivovarna Laško	270,648	1,5596
Nova KBM, d. d.	200,000	1,1524
TOTAL	14,978,718	86,3144

Table 4: Share owners with a capital share exceeding 1 percent as of December 31 2010

4.7 BUSINESS POLICY AND GOALS OF THE COMPANY

4.7.1 VISION, MISSION, AND VALUES OF THE COMPANY

Vision of Elektro Gorenjska Company 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 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 Company 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.

4.8 ENVIRONMENT ANALYSIS AND ITS INFLUENCE ON COMPANY'S PERFORMANCE

4.8.1 GENERAL ECONOMIC ENVIRONMENT AND FORECASTS OF ECONOMIC TRENDS¹

INDICATORS FOR RS	2009	2010	FORECAST 2011	FORECAST 2012
GDP (real growth, %)	8.1	0.9	2.5	3.1
employment (growth, %)	1.9	-2.3	0.3	0.2
unemployment (rate, %)	5.9	7.2	7.1	6.9
inflation	1.8	1.9	2.0	2.2
average gross salary RS (nominal growth, %)	2.5	3.7	2.9	3.5
average gross salary RS (real growth, %)	0.7	1.9	0.9	1.3
labor productivity (real growth, %)	6.4	3.2	2.9	3.0
average 3-M euribor	1.33	1.00	1.30	2.00
average 6-M euribor	1.53	1.20	1.50	2.50

Source: Spring forecast of economic trends 2010 UMAR, Euribor, own calculations

4.9 LEGAL ENVIRONMENT OF ENERGY ACTIVITIES

4.9.1 ENERGY ACT

Energy Act was published in the Official Gazette RS, No. 27/07, and supplemented with two amendments published in Official Gazette RS, No. 70/08 and 22/10.

Act defines the principles of energy policy, rules of energy market operation, ways and forms of implementation of economic public services in the field of energy, principles of reliable supply and efficient energy use as well as conditions for operation of energy plants, conditions for energy activity implementation, regulates the issue of licenses and energy permits and bodies that perform administrative tasks according to this act.

Act ensures conditions for safe and reliable supply of energy services to the users according to market principles, principles of sustainable development, considering its efficient use, rational use of renewable energy sources and conditions for the protection of the environment.

Act ensures competitiveness on the energy market under the principles of impartiality and transparency, considering the consumer protection and implementation of effective control over energy supply.

¹ Autumn forecast of economic trends in years 2009-2011, Institute of macroeconomic analysis and development (hereinafter UMAR). Autumn forecast of economic trends is based on established or adopted measures of economic policies.

Electricity market, its participants, prices on this market and rules of their forming, structure of electricity price paid by final customer, and other characteristics of the electricity market are presented further on in this Business report, in chapter 6.9 – Marketing and sales.

4.9.2 GENERAL CONDITIONS FOR SUPPLY AND CONSUMPTION OF ELECTRICITY FROM ELECTRICITY DISTRIBUTION NETWORK

Consent to the General conditions for supply and consumption of electricity from electricity distribution network is given by the Government of the Republic of Slovenia (Official Gazette RS, No. 126/07). As on 1. 7. 2007 relations between the participants on the market changed significantly, the existing decree on general conditions for supply and consumption of electricity became so deficient that new general conditions had to be adopted in order to solve the most problematic relations between operators.

General conditions define the following:

- relations between SODO and customers,
- connection to the electricity distribution network,
- electricity consumption and emission,
- measuring devices and electricity measuring,
- billing, charging and paying for the use of networks,
- relations between SODO and electricity suppliers,
- relations between customers and electricity suppliers,
- records of measuring points,
- quality of SODO services.

4.9.3 CHANGES IN THE SYSTEM OF ELECTRICITY DISTRIBUTION OPERATOR ACTIVITY – STATUTORY PUBLIC UTILITY SERVICE (GJS SODO) AND INFLUENCE ON OPERATION OF ELEKTRO GORENJSKA COMPANY

Business environment that Elektro Gorenjska Company operates in changed significantly in year 2007. European directive (Directive 2003/54/EC, 2003) and consequently the Slovenian Energy Act (EZ-UPB2 / Off. G. RS, No. 27/2007) request that the activity of the distribution network system operator is executed by an independent entity, which does not perform any other activities.

On the basis of implementation of Par. 4 Article 23.b of Energy Act (Off. G.. RS No. 27/07), Memorandum of Association of the public limited company SODO, electricity distribution operator, d.o.o. (Off. G. RS No 27/07) and Decree on the concession for performing public service obligation relating to the activity of the electricity distribution system operator (Off. G. RS No. 39/07) company Elektro Gorenjska, d. d., on 1. 7. 2007 terminated with the activity GJS SODO, as functions of GJS SODO were transferred to the newly established company SODO. **Since 1. 7. 2007** the latter has an exclusive right based on the concession contract with the awarding authority the Republic of Slovenia on the whole territory of Republic of Slovenia to perform the GJS SODO activity, an exclusive right to manage the distribution network operation, exclusive obligation to provide the customers continuous and quality implementation of public utility service in accordance with regulations and in public interest.

In June 2007 Elektro Gorenjska Company concluded a Contract on the lease of electricity distribution infrastructure and performance of distribution network operator services for the period of 50 years or for the duration of the before mentioned concession contract of SODO, d.o.o. (hereinafter Contract with SODO).

On the basis of this Contract with SODO Elektro Gorenjska continues to perform the major part of the activity, as performed up to 1. 7. 2007, but now the activity is performed on the contractual basis with SODO (hereafter **Activities, which are connected with implementation of SODO activity**). **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:

- Development, planning, and investing in electricity distribution infrastructure,
- Preparation and management of investments,
- Monitoring and establishing the quality of supply,
- Electricity measuring,
- Implementation of electricity purchase from qualified producers,
- Operation of services connected with the distribution network access, and other services for the network users,
- Providing sustaining supply (electricity supply 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),
- Providing urgent supply (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 in accordance with Paragraph 2 Article 76 of the Energy Act,
- Implementation of other services for the needs of SODO (including unauthorized consumption).

Under the Contract with SODO company Elektro Gorenjska is making out the **bills for use of network** to end users of the distribution network also after 7. 7. 2007, on the basis of the respective in force 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, but also in accordance with other regulations, mainly the EZ. Since 1. 7. 2007 Elektro Gorenjska Company has been making out these bills for the use of network **on its own behalf and for the account of SODO** and no longer on behalf and for the account of Elektro Gorenjska Company, like it used to up to 30. 6. 2007. End users settle the received bills, 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 since 1. 7. 2007. Details are presented also in the Accounting report (chapter 15.1 – Net sales revenues).

Since 1. 7. 2007 Company Elektro Gorenjska **no longer attains its revenues from the price for use of network**, as since 1. 7. 2007 this revenue is a revenue of SODO Company. The revenues of the company **are revenues from renting the electricity distribution infrastructure and revenues from implementation of different services for SODO. Company**.

4.9.4 ACT CONCERNING THE REPORTING OF DATA ON QUALITY OF ELECTRICITY SUPPLY

In November 2010 JARSE issued the Act concerning the reporting of data on quality of electricity supply (Official Gazettes RS, No. 89/19) based on the provisions of the third paragraph of Article 89 of the Energy Act and point j of Article 6 and other indents of Article 11 of the Decision establishing

JARSE. This act defines the nature and process of submitting the data on the quality of electricity supply, which JARSE needs for the execution of electricity supply quality regulation and supervision of the electricity market operation.

Electricity supply is one of the most important services today. Customers of electricity expect for the electricity to be available when they need it and that all devices function safely and satisfactorily (quality of voltage).

Quality of electricity supply is varied and can be divided into:

- Commercial quality, which deals in services among suppliers or between the system operator and customer,
- Continuity (reliability) of supply, which refers to the number and duration of interruptions detected by customers,
- Quality of voltage, which relates to technical characteristics of voltage measurable at the delivery point of the customer.

4.9.5 ENERGY AGENCY OF THE REPUBLIC OF SLOVENIA

To control the electricity and natural gas market operations the Energy Agency of the Republic of Slovenia (hereafter JARSE) was established as independent organization with the following tasks and responsibilities²:

- **Issuing general acts for the implementation of public authorities with respect to calculating the network charge, methodology for determining the network charge and criteria for establishing eligible costs** and system of calculating these costs, methodology of preparing the tariff systems and the mode of determining the shares of individual production sources and the manner of their presentation.
- **Setting the network charge for the use of electricity networks**, eligible costs and other elements of electricity network charge.
- Deciding on the issue and revoke of licenses and the disputes relating to network access, charged prices for the use of networks, breaches of general supply conditions and system operation instructions, established deviations and amounts for covering the costs of deviation balancing and breaching of general acts regulating the deviations and their balancing; as well as deciding about appeals against the decisions on connection approval (dispute between network user and system operator).
- Supervising (for example the independence of system operators, time needed for repairs on the transmission and distribution networks, time needed for connection to the network, announcement of information on interconnectors, network utilization and allocation of capacities, while treating these information as confidential, deadlines, conditions and tariffs for the connection of new producers, effective separation of distribution and transmission from production and supply as well as the level of transparency and level of competitiveness of the electricity market).
- Assessing the eligibility of costs for the provision of ancillary services in accordance with the criteria used for the assessment of network operator costs. When an operator leases, rents or acquires in some other way a network, a part of a network, or facilities connected to the network and needed for the network operation, in order to operate, manage and develop them, the Energy Agency assesses the eligibility of owner's costs under the same eligibility criteria used for determining the costs of the operator.
- Issuing guarantees of origin of electricity and exchangeable green certificates for the production of electricity from renewable sources.

²URL: <http://www.agen-rs.si/sl/Informacija.asp>

In December 2010 JARSE issued a decision on the regulatory framework for the provider of the distribution network system operator activity SODO based on Article 84 and point c of the Energy Act, first paragraph of Article 207 of the General Administrative Procedure Act (Official Gazette RS, No. 24/06 – official consolidated text, 126/07, 65/08, 47/09 and 8/10) and Article 78 of 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. 59/10), with a regulatory period from 1. 1. 2011 to 31. 12. 2012.

4.9.6 ELECTRICITY LOSSES IN NETWORK

Losses of electricity in the network occur due to:

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

In their contents the transactions of electricity purchase for losses in network belong to transactions of the public utility service of the distribution network operator (GJS SODO), as explained in chapter 4.10.3. Up to 30. 6. 2007 Elektro Gorenjska Company performed these transactions within the framework and on the basis of implementing GJS SODO, while since then it has been implementing them on the basis of a long-term contract with SODO. Under the contract with SODO and in accordance with the regulation (Network Charge Act) in regards with the costs of purchase value of the purchased electricity incurred for covering the losses in its network the company is eligible to appropriate revenues (please see also Accounting Report, Chapter 15.1 – Net sales revenues).

4.9.7 SODO SUPPLY

Transactions of the GJS SODO include also transactions of purchasing the electricity for sustaining supply, urgent supply and for unauthorized consumption. Since 1. 7. 2007 the company has been obliged to implement these kind of transactions on the basis of the long-term contract with SODO as explained in chapter 4.10.3.

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

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

Sustaining supply is supply of electricity to end users, in accordance with the provisions of the Energy Act and Decree on the method for the implementation of public service obligation relating to the electricity distribution system operator (Article 2 SPDOEE). SODO has to ensure the sustaining electricity supply to those customers, whose supplier terminated the supply contract as the result of the supplier's insolvency. If customer has no supplier, SODO has to ensure the sustaining supply under certain conditions also in case of a household customer and customer engaged in economic or other activity with less than 50 employees and annual turnover of less than 10 million . 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. Revenues that Elektro Gorenjska acknowledged in year 2010 under unauthorized consumption and other supplies are the surplus of eligible revenues in final calculation of revenues and costs under the head of these supplies in relation to SODO Company.

4.9.8 SCHEDULE DEROGATIONS

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

Derogations of the balance groups are established by market organizer using the calculation of the difference between whole actual realization of the balance group and the foreseen schedule of the same balance group. Market organizer establishes derogations for each balance subgroup as well, by calculating the difference between the whole realization of the balance subgroup and foreseen schedule of the same balance subgroup.

It has been determined that every delivery point has to belong to exactly one balance group and balance subgroup, but can have an optional number of supply contracts, with one of the contracts being an open one. Derogations of the balance group between the purchased electricity and actual electricity consumed is going to be charged to the responsible in the balance group on behalf of the transmission system operator (SOPO), which levels the derogations on the level of electricity system, by the electricity market organizer Borzen. SOPO charges the responsible of the balance group for schedule derogations. The latter charges the derogations to the members of its balance subgroup.

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 1. 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 derogations of announced schedules from realized schedules of electricity consumption in electricity trade and in chapter 13.5 – Accounts of electricity purchase for losses in network and for implementation of other activities under the contract with SODO.

4.9.9 DECREE SUPPLEMENTING THE DECREE LAYING DOWN THE LIST OF GOODS AND SERVICES SUBJECT TO PRICE CONTROL MEASURES

On 25. 2. 2004 the Government of the Republic of Slovenia supplemented the Decree supplementing the Decree laying down the list of goods and services subject to price control measures (Official Gazette RS, No. 17/04). Besides the already known ones on the list of goods the Government additionally **included the network charge for distribution and transmission electricity network**. Including the network charges as well as other similar prices on the list of goods enabled the Government to control the operation of the market and activity, where individual company or several companies hold a monopole or controlling position, while the activities are urgent for the satisfaction of the needs of people and companies.

At the end of year 2009 the Government of RS prepared a Plan for regulation of regulated prices for years 2010 and 2011, which defined the macroeconomic sustainable frameworks of regulated prices increase in the next two years. Uncertainties regarding the macroeconomic movements remain unusually high. Risk of economic growth forecasts are directed downwards in the medium term, while risks of inflation forecasts remain balanced.

4.9.10 DECREE ON ENERGY INFRASTRUCTURE

Decree (Official Gazette RS, No. 62/03, 88/03, 75/10) defines buildings, devices and networks, which make up the energy infrastructure for production and transmission of electricity and natural gas as well as distribution of electricity. It also regulates the manner of keeping the records on energy infrastructure for energy activity operators as well as conditions and manner of giving consents for the inclusion into the infrastructure or elimination from it, as well as for disposal or charging of infrastructure.

4.9.11 REORGANIZATION OF ELEKTRO GORENJSKA COMPANY

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

In year 2009, after the issue of the audit report of the Court of Auditors of RS, which presented the audit of GJS SODO implementation, the Republic of Slovenia, as the majority owner of five Slovenian electricity distribution companies decided for their reorganization. Electricity distribution companies were supposed to reorganize in a way that market activities and their related property and employees separate from the regulated activities and related property and employees.

In its response report the government of RS exposed the following objectives:

- Provider of GJS SODO – SODO company, has to be provided with an actual (functional) independence in implementation of GJS SODO,
- Internal subsidization of market activities in electro companies from indirectly regulated distribution network activity has to be prevented,
- Dedicated use of the network charge and network access charges for the towing power has to be ensured,
- Non-discriminatory treatment of electricity users has to be ensured.

In accordance with this the **General Meeting of Elektro Gorenjska** at its 13th regular meeting on **26. 8. 2009** instructed the management and the supervisory board of the company to start with the preparation and implementation of the necessary procedures for the restructuring of the company, with the intention of separating the network and market activities, in accordance with the demands of the legislation and Accounting report of RS as of 24. 3. 2009.

In year **2010** Elektro Gorenjska started with the **reorganization of the company on three levels:**

- Spin-off of the activity of purchase and sale of electricity from Elektro Gorenjska and its transfer to a subsidiary,
- Transfer with sale of activity to cogeneration of heat and electricity to subsidiary Gorenjske elektrarne,
- Inclusion of OE IVG under OE DO.

After the conclusion of the complete reorganization market activities of purchase, sale, trade, and production will be separated from the regulated activity, which is connected with the Contract with SODO. Market activities of purchase, sale, trade, and production will operate as separate legal entities in 100 percent ownership of Elektro Gorenjska.

Transfer of cogeneration of heat and electricity to Gorenjske elektrarne and inclusion of OE IVG under OE DO were already concluded in year 2010. According to the restructuring procedure of Elektro Gorenjska transfer of activity NP to the new company is in progress. Procedure of division of the company with a spin-off will be finished by September 2011.

Supervisory board of Elektro Gorenjska instructed the management at its 13th regular session on **3. 11. 2010** to prepare the entire documentation and together with the supervisory board carry out activities, which will enable the general meeting of the company to decide, according to the balance of 31. 12. 2010 as the day of the division account, about the spin-off of the company, with which property and rights and obligations related to this property relating to market energy activities of Elektro Gorenjska Company are transferred to a new subsidiary in 100 percent ownership of Elektro Gorenjska.

In accordance with the concept of **spin-off** activity NP of electricity and its related employees, related forms of funding and debts are going to separate from the activity, employees, assets and debts of the distribution network.

Entire activity will be transferred to a new company, which will be established with the purpose of implementing the NP activity. Elektro Gorenjska Company as the sole shareholder in a newly established company will get a 100 percent business share.

5



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 company 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 company.

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

		DAMAGE			
LIKELIHOOD		SMALL	MODERATE	BIG	VERY BIG
HIGH		High	High	High	High
MEDIUM		Medium	High	High	High
LOW		Low	Medium	High	High
VERY LOW		Low	Low	Medium	High

LEGEND: RISK SEVERITY		
High	Medium	Low

Figure 7: Assessment of risk severity

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:

5.1.1 PRICE RISK

Price risk is risking that the fair value of future cash flows in individual activities or transactions could fluctuate due to changes in market or regulated prices (no changes connected with the interest rate risk), irrespective of whether these changes are the consequence of factors, which are specific for individual activity or a transaction or the opposite party, or factors that influence all similar transactions performed on territories or markets that the group operates on.

Price risk is further divided into:

- **Price risk in the field of sales values of distribution infrastructure rented out and services implemented under the contract with SODO**

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. In year 2010 Annex 2 and Annex 3 were concluded.

Contract also defines that parties conclude an annual contract every year, with which they determine the height of the rent and pricelist for paying for the services performed. Under regulations the contract or its supplement need to be approved by JARSE as well as the Government of the Republic of Slovenia. Details are presented also in Accounting Report, chapter 13.1. - Transactions with SODO and chapter 13.5. - Accounts of electricity purchase for losses in network and for implementation of other activities under the Contract with SODO.

Main price risk that Elektro Gorenjska is taking over in the transactions with SODO is the risk of non-payment of the network charge on the part of customers and risk of differences between the network charge charged to customers and the amount of the network charge as calculated by SODO. Latter applies the last valid network charge pricelist when calculating the network charge.

Another risk the company is exposed to is the risk of untimely issue of balance payment for the concluded business year on the part of SODO. Delay in its issue could mean that Elektro Gorenjska Company could not consider it in composing its business accounts.

● **Price risk in the field of purchase and sales prices of electricity.**

Price risk in the field of purchase and sales of electricity, which is the result of changed market prices and effects the amount of revenues and costs, is risking that the group buys electricity in advance at too high prices, because after the purchase market purchase prices of electricity will go down, and also risking that the group sells electricity at too low prices, because after the sale market sales prices of electricity go up. Group is especially exposed to this risk due to complete opening of the electricity market and increasing competition and uncertainty of the future trends in electricity prices on market.

Risk and with it profit or loss in electricity trade to a large extent depend on correct forecasts of price movements on market as well as of the quantity of electricity feed in (consumption).

If quantities of announced consumption (sales) derogate too much from the later quantities of actual consumption (sales), at the given moment the group has to either sell the surpluses of purchased electricity on market or buy lacking energy at the market prices of that moment, which are formed according to supply and demand. These risks are controlled by the group with constant and careful monitoring of the electricity market changes, and to the extent possible also by continuous regulation of quantities and prices of purchased and sold electricity.

Additionally is the risk controlled by a derogations contract, concluded with the responsible of the balance group, whose member Elektro Gorenjska is. Company assesses that this kind of contract ensures purchase and sale of surpluses and shortfalls of electricity at a price more favorable than if it was an independent balance group.

Risking that due to a loss or termination of cooperation with large buyers or large number of small customers economic benefits of the group would reduce (loss of market position, liquidity problems..) is becoming increasingly important as well. Negotiation powers of large electricity buyers are increasing, and competition on the electricity market is getting stronger. Company controls this risk by careful selection of appropriate marketing strategies in selling the electricity.

● **Price risk in the field of purchase prices of other material and services**

This risk is controlled by acquiring larger number of competitive offers. Severity of the price risk is assessed as low due to the combination of very low probability of materialization and moderate extent of damage that could arise.

5.1.2 QUANTITY RISK

It includes risks connected with uncertainty of consumption and possibility of electricity supply.

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 can also be lower regular revenues under the head of electricity supply (sale), in certain cases also 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 and seller in events of non-supply on the part of the seller or non-acceptance of electricity on the part of the buyer). If force majeure is not the case, the derogation provisions are applied.

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.

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.

Uncertainty of sold electricity quantities in normal economic situation is mainly the consequence of the weather and temperature, flexibility of load, seasonal cycles and stochastic growth of electricity consumption. It is also connected with unexpected falls in electricity sold, which are the result of the general economic crisis in areas of group's operation (bankruptcies and liquidations of larger number of important electricity buyers, restricting of production and other economic activities of electricity buyers).

Risk is controlled by following measures:

- Sold quantities are planned on the basis of experience of the previous years and expectations for the future.
- In sale to business customers we include contractual provisions under which we charge for the costs of derogations of announced or agreed quantities sold from the actual ones. Each business customer has a fixed tolerance zone in case they exceed it, they are charged for this energy at a price higher than the usual price that they pay.

5.1.3 RISK OF DESTROYING OR OTHER DEPRECIATION OF BUSINESS ASSETS

Risk of losses due to destruction 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 assets 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.

5.1.4 RISK OF OBSOLESCENCE OR INADEQUATE FUNCTIONING OF ENERGY INFRASTRUCTURE AND OTHER ASSETS

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 of 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 of the company.

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 moderate due to possibility of moderate business damage.

5.1.5 INVESTMENT RISK

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 of Elektro Gorenjska Company, 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 thus 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 of Elektro Gorenjska Company 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 the 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

This kinds of risks in the group are connected to ability of creating financial revenues, controlling financial expenses, preserving the value of financial assets, controlling financial obligations and ensuring short-term and long-term solvencies. Main types of financial risks are:

5.2.1 CREDIT RISK OR RISK OF COUNTERPARTY FAILURE

Credit risk or risk of counterparty failure represents the possibility that claims of buyers and other

business partners that have occurred due to deferred payment, are going to be paid with delay, only partly, or not at all. 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. Claims of larger buyers are insured with blank bill of exchange, which are unconditional and capable of being called at first request with »no protest« clause.

Probability of materialization of the credit risk and the extent of damage based on the factors described is assessed as low. To moderate, consequently the severity of the risk is defined as moderate to high.

5.2.2 SOLVENCY RISK

Risk of short-term solvency or liquidity risk is risking that the company 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, by establishing appropriate credit lines for short-term liquidity balancing, and by suitable management of working capital. They include mainly the following activities:

- Establishment of better control and mutual coordination of all organizational units of the company 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. In the event of detected late payments the company acts appropriately and on time (issuing the reminder on time, case of claims, etc.)
- Constant monitoring of stocks, 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 is going to completely and consistently realize decisions referring to consignment of material and equipment of suppliers. Company is going to additionally optimize 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.

Severity of liquidity risk is assessed as high. Due to the established control mechanisms we believe that probability of illiquidity materialization is low, but the company is aware that illiquidity could cause large business damage.

5.2.3 INTEREST RISK

Interest risk represents the danger of unfavorable interest rate changes. Company invests its surpluses in the form of financial investments, so in the case of interest rates fall the company would suffer the damage in the form of lower return on invested assets. At the same time the company has loans contracted at the variable interest rates (EURIBOR), so they are sensitive to the changes in interest rate. We are exposed to the growth of interest rates. Higher interest rate in this case brings higher financing costs. To control the interest risk we are looking into the possibility and rationality of the use of different derivatives.

Severity of interest risk is assessed as high. Significant increase in interest rates could cause moderate business damage, and probability of materialization of this risk in current situation is assessed as medium.

5.3 OPERATING RISK

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 in the company 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 mainly focuses on the following risks:

5.3.1 PERSONNEL RISK

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 responsibility 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.

Company assesses the severity of personnel risk as medium. Probability for the materialization of this risk is assessed as low, but we are aware that departure of key personnel could cause moderate business damage.

5.3.2 LEGISLATION (REGULATORY) RISK

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 (fines).

Regulatory risk is still very much present despite the open market, 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 was 79.50 % shareholder of Elektro Gorenjska Company.

In general the company 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 the company 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 medium.

5.3.3 RISKS CONNECTED WITH OPERATION OF COMPUTERIZED INFORMATION SYSTEM

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.

Company has a concluded agreement on the information system maintenance with the outsourcer – Informatika Company.

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.

5.3.4 RISK OF MINIMUM MATERIAL STOCK

Risk of minimum material stocks means that during major breakdown 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 medium, considering the low probability of materialization and moderate business damage that could occur.

5.3.5 PROPERTY RISK

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.

5.3.6 DISPUTES RELATED RISKS

Risks related to disputes refer mainly to denationalization procedures, individual labor disputes and other civil procedures, where Elektro Gorenjska joint stock company participates as a party. Other disputes that have been initiated ex officio also present a risk for the company. 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. Company assesses the probability of materialization of the risk to be medium high. As individual disputes lost could result in high business damage, the severity of dispute related risks is high.

5.4 RISK OF ECONOMIC CHANGES

In Elektro Gorenjska Company 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.

6

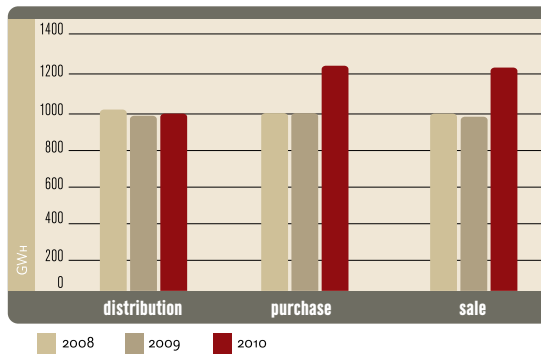


6. BUSINESS ANALYSIS OF THE COMPANY

6.1 QUANTITIES OF DISTRIBUTED, PURCHASED, AND SOLD ELECTRICITY

Following is the comparison of quantities of distributed, purchased, and sold electricity from year 2008 to year 2010.

Figure 8: Comparison of distributed, purchased, and sold quantities of electricity by the years (2008-2010)



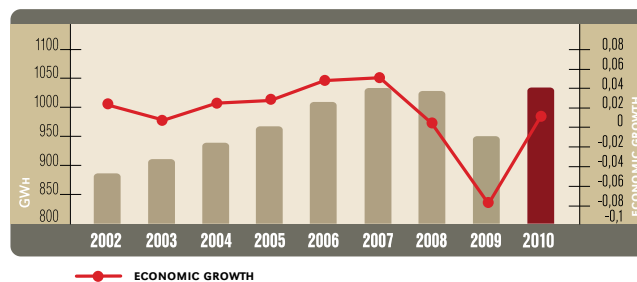
6.1.1 QUANTITIES OF DISTRIBUTED ELECTRICITY (ACTIVITY DO)

In year 2010 there were 999,114 MWh of distributed electricity through the network of Elektro Gorenjska Company or 4.9 % more than in year 2009 (952,021 MWh) or by 5.9 % more than planned for year 2010 (943,776 MWh).

In year 2010 household customers within the network of Elektro Gorenjska Company were distributed 327,955 MWh of electricity, which is by 2 % more than in year 2009 (321,594 MWh) and by 1 % less that foreseen for year 2010 (330,826 MWh). Business customers within the company's network were distributed 671,158 MWh of electricity, which is by 6.5 % more than in year 2009 (630,427 MWh) and by 9.5 % more than foreseen (612,950 MWh).

Reason for higher quantities of distributed electricity in year 2010 compared with year 2009 and a plan for year 2010 is rebound of consumption of mainly business customers after a strong reduction in year 2009 due to economic crisis, which indicates a gradual recovery of economy. In household consumption, where influence of economic crisis was not noticeable, the consumption increased by 2 % compared to year 2009, however the intensive increase of the previous year is not to be seen.

Figure 9: Movement of distributed quantities of electricity from year 2002 to year 2010



6.1.2 QUANTITIES OF PURCHASED ELECTRICITY (ACTIVITY NP)

For the needs of the buyers (excluding the purchase of electricity for covering the network losses) in year 2010 the company bought from suppliers of electricity a total of 1,243,853 MWh of electricity. Values of purchased quantities are presented in Accounting report, chapter 15.8 – Costs of goods sold and materials used. In terms of quantity total purchase was by 226,776 MWh higher than in year 2009 and by 2 % higher than planned for year 2010. Reason for higher purchase than planned in year 2010 is extremely good hydrology, which caused high production of small hydro power stations. Small power stations thus exceeded the planned production quantities by 26%. Structure of electricity purchase can be seen in the chart below.

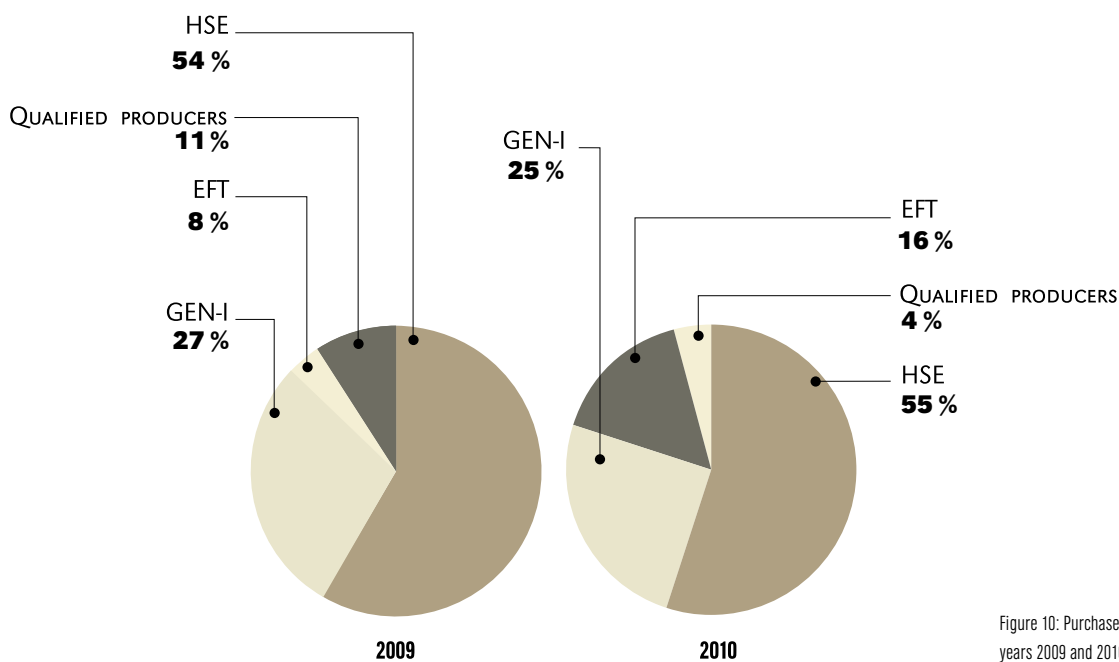


Figure 10: Purchase of electricity in years 2009 and 2010

6.1.3 QUANTITIES OF SOLD ELECTRICITY (ACTIVITY NP)

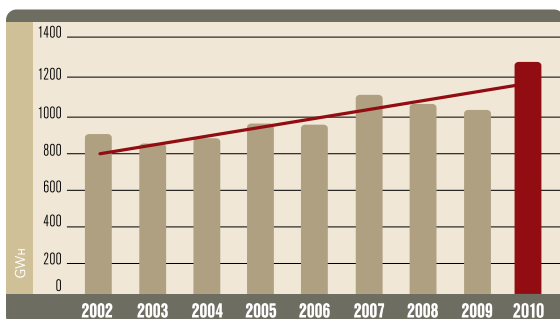


Figure 11: Movement of electricity sale from year 2002 to year 2010

In year 2010 we sold a total of **1,248,808 MWh** of electricity to our buyers, which is by 23 % more than in year 2009 and by 2 % more than planned. Information includes also trading: sale of purchased electricity surpluses to larger electricity traders in the country. Values of sold quantities are presented in Accounting report, chapter 15.1 – Net sales revenues.

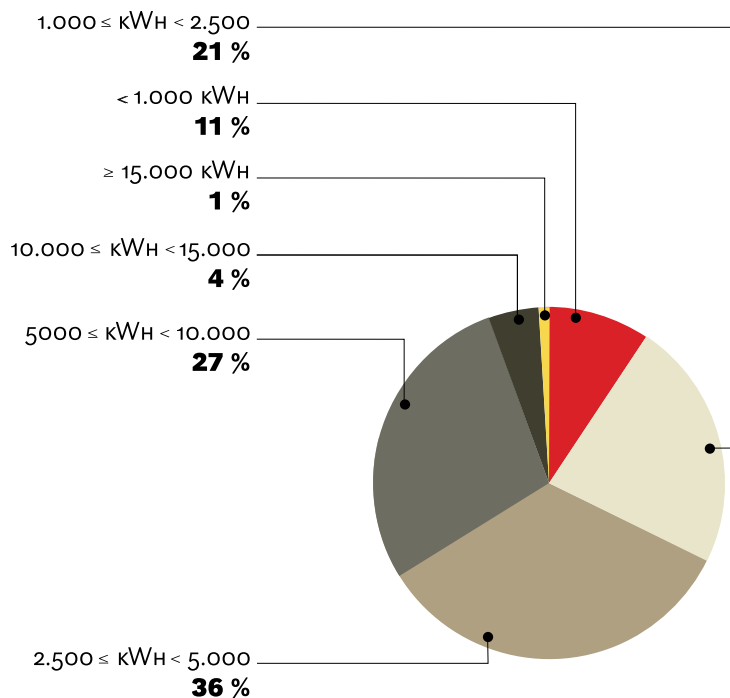
Figure 12: Sale to household and business customers (annual consumption in GWh)



Excluding the trade the company sold its final (household and business) customers **986,610 MWh** of electricity, which is by 12 % more than in year 2009.

316,481 MWh of electricity of the above amount or 3 % less than in year 2009 refer to **household customers**. We planned higher consumption, which did not realize though. Reason is the market conditions that have developed in the course of year 2009, 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 were thus able to preserve our market share in this market segment.

Figure 13: Sale in categories of household customers (number of customers)



Business customers were sold **670,130 MWh** of electricity, which is by 20 % more than in year 2009 and by 4 % more than we planned for year 2010. Figures indicate the recovery of Gorenjska region economy since year 2008.

In year 2010 we sold by **262,197 MWh of surpluses** of electricity, which is by 86 % more than in year 2009 and by 4 % more than we have foreseen for year 2009, which is the result of higher activity in the field of electricity trading.

In year 2010 we continued with to market the **Blue energy**. Blue energy is electricity generated from environment friendly, renewable sources of energy. In year 2010 we sold by 35 % less 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 6.10.1 – Services and products.

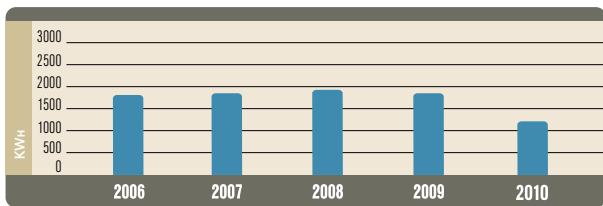


Figure 14: Blue energy (in kWh)

6.2 QUALITY OF ELECTRICITY SUPPLY (ACTIVITY DO)

Quality of electricity supply in the territory of Gorenjska, which is covered by the distribution network of the company, has in the past three years been preserving and according to JARSE also representing the target value in accordance with the legal requests, which is the result of careful planning and implementation of constant improvements, modernization of the existing network and construction of the new network as well as continuous network maintenance (please see also chapters 6.3, 6.4 and 6.5). In year 2010 the reliability of supply considering all causes of long-term interruptions was worse than a year before, but still much better than in year 2007. SAIDI indicator in the amount of 36 indicates that average time of unannounced interruption duration of all causes per customer in year 2010 was longer by a quarter compared to year 2009. SAIFI indicator shows that average number of unannounced interruptions of all causes per customer in year 2010 was by 40 % higher than the year before. We have to stress that those parameters do not include only their proper causes, but also external causes and force majeure (weather impacts), which the company has no power to influence on.

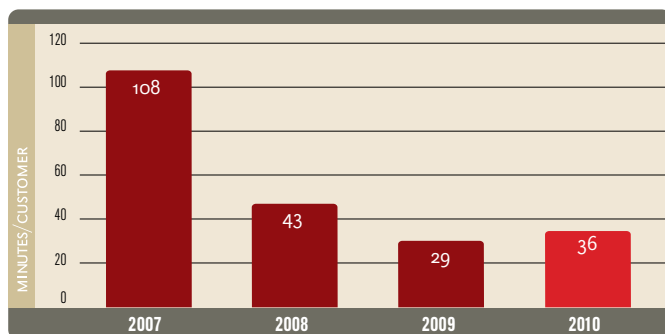


Figure 15: SAIDI - Average time of duration of unannounced interruptions, longer than three minutes

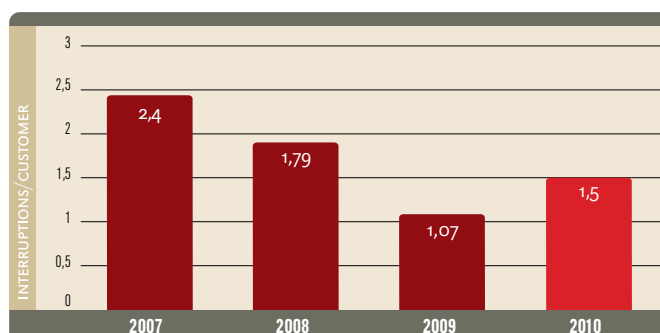


Figure 16: SAIFI - Average number of unannounced interruptions, longer than three minutes

6.3 INVESTMENTS IN TANGIBLE FIXED ASSETS

In year 2010 Elektro Gorenjska Company invested EUR 13,765,316 (year 2009: EUR 17,017,862). Major investments in year 2010 were:

High-voltage network in the amount of EUR 3,317,812, major ones being:

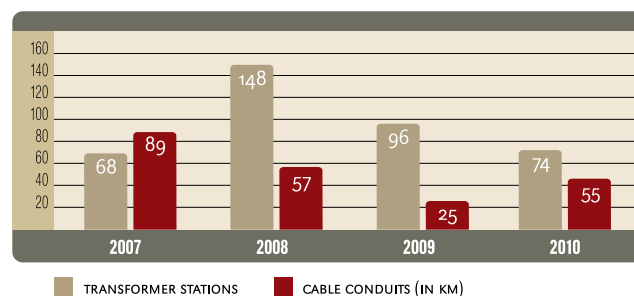
- 110 kV DV RTP Železniki–RTP Bohinj: procedure of marking out the edge alignment has concluded. On the basis of valuations easement agreements with compensations were made. By the end of the year we concluded about 90 % of all easements,
- RTP Moste 110/20/6.3 kV: we have carried out the installation and connection of transformers with bonding resistors, included all 20 kV derivatives and abolish the 35kV voltage level. Necessary professional technical inspections have been carried out. Official opening of RTP was in fall,
- RTP Škofja Loka 110/20 kV: Replacement of the second energy transformer was executed. New TR has the power of 40 MVA,
- RTP Jesenice 110/20 kV: Supply and installation of 20kV cells was carried out - SECTOR 4.

Medium- and low-voltage network in the amount of EUR 8,447,279, major ones being:

- Second part of renovation and construction of alternative medium- and low-voltage network in the framework of cohesion in Tržič municipality, especially with regard to the construction works,
- first part of 20 kV network in the territory of Radovna Valley,
- complete renovation of 20 kV network in the wider territory of Luše,
- 35 km of 20 kV cable conduits were additionally built and renovated,
- one of the major investment SN-buildings in the last year was construction and complete electricity renovation of distribution station Balos,
- 52 renovated and 22 newly built transformer stations,
- approximately 55 km of low-voltage network in mainly cable execution was 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 2010.

Figure 17: Construction of new or renovation of old transformer stations and 20kV cable conduits from year 2007 to 2010



Other investments (EUR 2,000,225), the major ones being the following:

- telecommunications and protection (telecommunication equipment, radio network),
- measuring devices (AMI-project),
- commercial and technical equipment (information system update).

6.4 MAINTENANCE OF ENERGY FACILITIES (ACTIVITY DO)

In year 2010 Elektro Gorenjska Company was performing mainly **planned (preventive) maintenance** on its infrastructure, 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.

Maintenance as a way of removing the errors represented the second type of **maintenance (curative)** in year 2010, which is time unpredictable and can only be estimated roughly on the basis of events from the past.

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 (the minimum of interruptions of supply as possible).

At the same time we 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), voltage quality registration system, DKS systems, 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 2003 to year 2010.

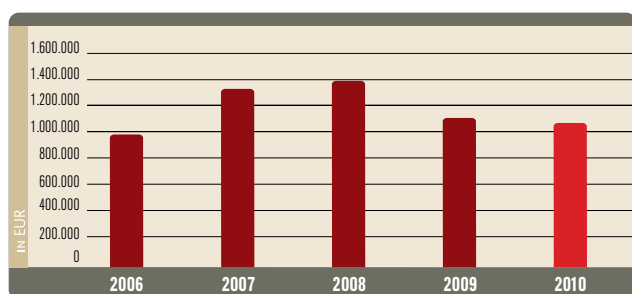


Figure 18: Movement of maintenance costs from year 2003 to year 2010

6.5 DEVELOPMENT AND DESIGN (ACTIVITY DO)

In the framework of Elektro Gorenjska business processes in the field of research and development of distribution network provision there is a development service organized within the OE DO. 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 consolidated 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 of Elektro Gorenjska (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).

Elektro Gorenjska implements business processes 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 company, and possibilities within the framework of annual investment programs.

For the needs of certain investments from the 2010 investment plan of Elektro Gorenjska, different expert 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, were for the most part technologically more demanding. They have included the following investment fields:

- field of telecommunications and control systems;
- field of 110 kV lines;
- field of 110 kV transformer stations;
- field of MV (medium-voltage) substations;
- field of 35 kV transformer stations.

In year 2010 several 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;
- examination of medium voltage earth-fault protection and its functioning in different neutral point grounding ways;

- technical and economic viability of compensation in Slovenian distribution 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 for the period 2009–2014;
- updating rules in procurement and acquisition of electricity equipment for the period 2009–2011.

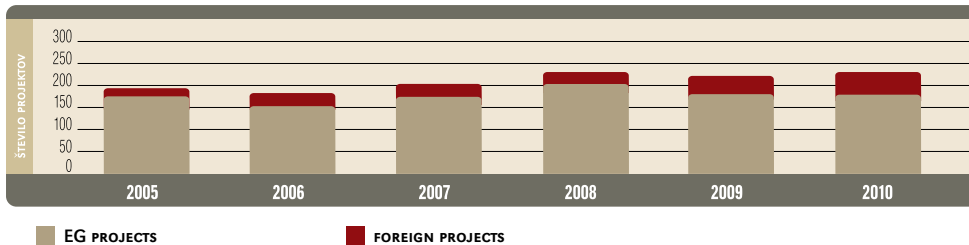


Figure 19: Information on the number of project documentation made from year 2005 to 2010

6.6 BUSINESS ANALYSIS OF INDIVIDUAL ACTIVITIES

Elektro Gorenjska Company monitors the performance and financial situation of individual main activities, which are presented in more detail in chapter 4.2 - Main activities and fields of business. Performance of the main activities of the company is presented in more detail in the Accounting report of the company, mainly in the profit and loss account for year 2010, broken down by activities (please see Accounting report, chapter 11.7). financial situation of the main activities is presented in the balance sheet as of 31. 12. 2010, broken down by activities (please see Accounting report, chapter 11.8).

Following figure presents the pre-tax operating results of individual activities carried out in Elektro Gorenjska Company.

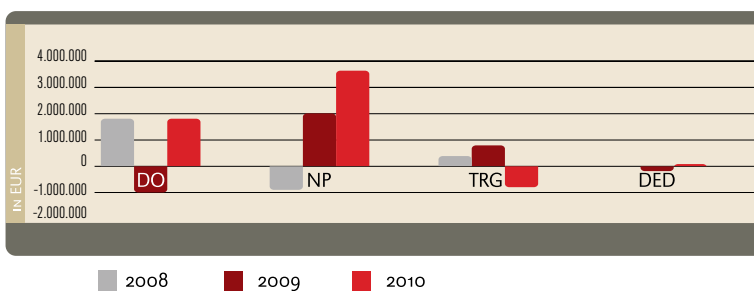


Figure 20: Pre-tax operating results of individual activities in years 2008, 2009 and 2010

Interpretation of codes in the figure:

DO – activity of distribution network (activity DO)

NP – activity of purchase and sale (activity NP), which consists of activity of purchase and sale of electricity for household customers (activity DGO) and activity of purchase and sale of electricity for business customers, including trade (activity DPO)

DED – other energy market activities (activity DED)

TRG – other non-energy market activities (activity TRG).

In year 2010 the activity connected with the implementation of services for SODO (**activity DO**), operated with a profit in the amount of **EUR 1,691,961**. In year 2009 it operated with a loss in the amount of EUR 1,040,492. Main reason for this year's better result are higher incomes from rent and services from the relation with SODO, which is explained in more detail in the Accounting report, chapter 13.1 - Transactions with SODO, and chapter 14.10 - Short-term accruals and prepaid expenditure and in chapter 15.1 - Net sales revenues.

In year 2010 energy market activity referring to the purchase and sale of electricity to household and business customers (**activity NP or a sum of activity DPO and activity DGO**), reached a pre-tax **profit** in the amount of **EUR 3,645,399**. In year 2009 this activity operated with a profit in the amount of EUR 2,055,141. Better result compared to year 2009 was achieved due to higher difference in prices between the sale and purchase values, higher quantity sale to business customers and reversal of provisions for UVK, which is presented in more detail in chapters 6.1.2, 6.1.3 and in chapter 13.2.

Other energy market activities are connected with the projects of cogeneration of heat and electricity and production of heat from biomass (**activity DED**) (please see also chapter 4.2 Main activities and fields of business). In year 2010 the activity made a **profit** in the amount of **EUR 37,204**. In year 2009 the DED activity operated with a loss in the amount of EUR 88,924 due to initial costs referring to establishment and organization of new activities. Projects concluded in year 2010.

In year 2010 other non-energy market activities, which include mainly implementation of new buildings and other services for the needs of the company as well as external clients or market (**other activities TRG**) reached a pre-tax **loss** in the amount of **EUR 506,589**. In year 2009 this activity realized a pre-tax profit in the amount of EUR 786,070, which was the result of the distribution of the distributable profits of the subsidiary Gorenjske elektrarne for payment to Elektro Gorenjska Company (EUR 1,065,530).

6.7 FINANCIAL PERFORMANCE CRITERIA OF THE COMPANY

6.7.1 LIST OF SIGNIFICANT INDICATORS

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

INDICATOR CONTENTS		ELEKTRO GORENJSKA		
		31.12.2008	31.12.2009	31.12.2010
1.	FINANCING INDICATORS			
	a) Equity financing rate (in %)	68.8	66.1	66.2
	capital / liabilities			
	b) Debt financing rate (in %)	23.4	25.1	26.9
	Debts / liabilities			
	c) Short-term financing rate (in %)	10.8	11.4	13.2
	Short-term debts (including short-term accrued costs and deferred revenues) / liabilities			
	d) long-term financing rate (in %)	89.2	88.6	86.8
	capital + long-term debts (including provisions) + long-term accrued costs and deferred revenues / liabilities			
	e) initial capital rate (in %)	56.6	56.0	54.4
	initial capital / capital			
2.	INVESTING INDICATORS			
	a) Operating fixed-assets rate (in %)	79.7	79.9	78.3
	Fixed assets (at accounting value) / assets			
	b) Long-term assets rate (in %)	88.9	88.7	86.9
	Fixed assets and long-term accruals and pre-paid expenditure (at accounting value) + long-term financial investments + long-term operating claims / assets			

	31.12.2008	31.12.2009	31.12.2010
3. HORIZONTAL FINANCIAL STRUCTURE INDICATORS			
a) Equity to operating fixed assets (in %)	88.9	82.7	84.6
Capital/ fixed assets (at accounting value)			
b) Immediate solvency ratio	0.061	0.181	0.082
Float/short-term liabilities			
c) Quick ratio	1.0	1.0	0.9
Float +short-term claims / short-term liabilities			
d) current ratio	1.02	0.98	0.93
short-term assets / short-term liabilities			
4. INDICATORS OF ECONOMY OR RETURN			
a) Operating efficiency ratio (in %)	101.8	100.7	105.0
Operating revenues / operating expenses			
b) Entire efficiency ratio (in %)	101.1	101.8	104.7
Entire revenues / entire expenses			
c) Net return on equity ratio (in %)	0.5	1.1	3.2
Net profit in business year /average capital			
d) Level of revenue profitability (in %)	1.1	1.7	4.5
Pre-tax profit / revenues			
e) Value added (in EUR)	21,157,950	20,265,492	31,369,141
Operating revenues + costs of material, services – other operating expenses			
5. ASSET TURNOVER INDICATORS			
a) Total assets turnover ratio	0.58	0.52	0.54
Revenues / average assets			
b) Operating claims turnover ratio	5.68	5.37	5.40
Operating revenues / average operating claims			
6. RETURN INDICATORS			
a) EBITDA (in EUR)	11,435,108	10,031,874	15,291,690
Operating revenues – operating expenses + depreciation and fixed assets write-offs + expenses from revaluation			
b) EBIT (in EUR)	1,836,012	718,633	5,142,090
Operating revenues – operating expenses			
c) Net increase/decrease in cash and cash equivalents (in €)	-759,634	722,061	-404,493
Financial revenues – financial expenses			
d) Pre-tax profit (in EUR)	1,145,106	1,711,794	4,867,974
Entire revenues – entire expenses			
e) Net profit (in EUR)	597,138	1,384,594	4,144,451
Entire revenues – entire expenses – income tax of legal entities			
7. EQUITY CAPITAL			
a) Number of shares	17,353,631	17,353,631	17,353,631
Number of registered shares			
b) Accounting value of shares (in EUR)	7.37	7.45	7.66
Capital / number of shares			
c) Net profit per share (in EUR)	0.034	0.080	0.239
net profit / number of shares			
8. EMPLOYEES			
a) Average number of employees	322	324	316
b) Operating revenues per employee (in EUR)	321,559	300,941	338,628
Operating revenues / average number of employees			
c) Added value per employee (in EUR)	65,708	62,484	99,269
Added value / average number of employees			

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

6.7.2 FINANCING INDICATORS

With indicators of financing condition we are interested in share of capital, debts, and accruals in the structure of all financing sources. Indicators are important for the company 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 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 2010 the equity financing rate was 66.2, which is by 0.1 percent point more than in year 2009. Value of the indicator was mainly influenced by the movement of provisions and long-term and short-term financial liabilities. Provisions have decreased by approximately EUR 4 mio, while long-term and short-term financial liabilities have increased by EUR 1.5 mio or EUR 4 mio in year 2010. In year 2010 the company raised a new long-term loan in the amount of EUR 7,200,000 and paid EUR 4,801,349 of long-term loan principals. Movement of long-term borrowings is explained in chapter 14.13, while movement of provisions and long-term accruals in chapter 14.12.
- **Debt financing rate** indicates debt financing of the company's assets. In year 2010 the indicator amounted to 26.9 % and was by 1.8 percentage point higher than in year 2009. It is the consequence of growth of long-term financial liabilities, but above all the short-term liabilities (in the largest extent to the state and other institutions and liabilities to suppliers). Growth of financial liabilities is the result of constant investments in electricity distribution infrastructure, to which the company is always bound (since 1. 7. 2007 it bound to it by Contract with SODO and on the basis of adopted 10 year development plans,; before this date it was bound as the holder of concession for implementation of GJS SODO). As the company does not have sufficient proper sources for financing the planned or necessary investments, it has to acquire foreign, debt financing sources. Own sources for financing investments in energy infrastructure are income from rent and for services under Contract with SODO, which are explained in more detail in chapter 15.1 - Net sales revenues and chapter 13.1 - Transactions with SODO.
- **Long-term financing rate** in year 2010 amounted to 86.8 % and was by 1.8 percentage point lower than in year 2009. Reason for that is higher increase of liabilities compared to the increase in capital and long-term provisions.
- **Short-term financing rate** presents the share of short-term debts in the assets of the company. In year 2010 the short-term financing rate amounted to 13.2 % and was by 1.8 percentage point higher than in year 2009, which is mainly the consequence of lower short-term operating liabilities according to 31. 12. 2009.
- **Initial capital rate** presents the share of initial capital in entire capital. Compared with the year 2009 the share decreased somewhat, it presents 54.4 % of the entire capital. Reason for that is increase of profit reserves, mainly other profit reserves.

6.7.3 INVESTMENT INDICATORS

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

- **Operating fixed assets rate** shows the share of fixed assets in all company's assets. In year 2010 the share of fixed assets represented 78.3 % of all assets, which is by 1.6 percentage point lower than in year 2009. High operating fixed assets rate was expected for Elektro Gorenjska Company, as the line of business the company operates in, is technologically very intensive. Reason for decrease of indicator value in year 2010 compared to the year before was the

increase of short-term operating receivables by 26.5 %, mainly increase of receivables due from buyers and companies in the group, which is explained in chapter 14.8 Short-term operating receivables.

- **Long-term assets rate** was 86.9 % at the end of the year, which is by 0.8 percentage point less than in year 2009.

6.7.4 HORIZONTAL FINANCIAL STRUCTURE INDICATORS

In regards with the long-term financial balance the company follows horizontal financial structure indicators, the most important of them being quick ratio, with which the company 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 2010 it amounted to 84.6 %, which is by 1.9 percentage point more than in year 2009. Due to successful operation of the company in year 2010 the growth of capital significantly exceeded the growth of fixed assets in the same period.
- **Immediate solvency, quick, and current ratios** show the solvency of the company. Immediate solvency ratio was lower compared to year 2009, while quick and current ratios decreased slightly as well, which is mainly the consequence of lower finances compared to 31. 12. 2009.

6.7.5 INDICATORS OF ECONOMY OR RETURN

For efficient use of assets in judging the quality of operation the company follows different indicators of economy or return.

- **Operating efficiency ratio** is a ratio between operating revenues and operating expenses and for Elektro Gorenjska Company in year 2010 it amounted to 105.0 % (compared to year 2009 it is by 4.3 percentage point higher), which is mainly the result of higher net sales, above all income from sale of electricity and income from rent and services in relation with SODO, which is explained in more detail in chapter 15.1 – Net sales revenues.
- **Entire efficiency ratio** is ratio between entire revenues and entire expenses. In year 2010 compared with year 2009 the company managed the available assets even better and so it managed the property of the company's owners with profit.
- **Net return on equity ratio** shows what percentage of net return belongs to the owners according to their ownership share. At the end of the year the net return on equity for Elektro Gorenjska amounted to 3.2 %. Indicator depends on the structure of financing; higher ratio can mean higher risk on account of great liabilities of the company. As it is clear from the accounting statement according to activities (chapter 11.7) in year 2010 activity of electricity sale to household customers (DGO) and business customers (DPO) as well as activity of distribution network (DO) – implementation of Contract with SODO, do.o.o., all operated well and thus contributed to the improvement of net return on equity. Company has very limited possibilities of controlling the success of DO activity, as under the contract with SODO it is bound to implement numerous activities, which bring various costs (expenditure), while on the other hand it is also limited in controlling its revenue, which belong to it under the Contract (please see also Accounting report, chapter 13.1 – Transactions with SODO).

- **Level of revenue profitability** tells us that the company made EUR 4,5 of profit per EUR 100 of achieved revenues of the company.
- **Value added** of Elektro Gorenjska Company in year 2010 amounted to EUR 31,369,141 and increased by 55 % compared with year 2009, which was the result of higher generated operating revenue according to the year 2009.

6.7.6 ASSETS 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. Company monitors the following indicators:

- **Total assets turnover ratio** shows how quick the assets of the company turnover or how much revenue the company creates with existing assets. At the end of the year 2010 the ratio amounted to 0.54 and was by 4 % better than in year 2009. Reason for improvement is the fact that in year 2010 company's revenues grew faster than assets, which is explained in more detail in chapter 15.1 - Net sales revenues.
- **Operating claims turnover ratio** shows how many times a year operating claims turnover to money. At the end of year 2010 it amounted to 5.4, which means that money was tied with buyers for 68 days on average, which is the same as in year before.

6.7.7 RETURN INDICATORS

- **EBITDA** in year 2010 amounted to EUR 15,291,690 and was by 52 % higher than in year 2009. Reason for that is mainly higher net sales revenues, as previously explained in reference to the operating efficiency ratio.
- **EBIT** represents the difference between operating revenues and operating expenses and in year 2010 it amounted to EUR 5,142,090, which is by 616 % more than in year 2009. As previously mentioned the main reason for the improvement of this indicator is the growth of the net sales revenues, which is explained in more detail in 15.1 - Net sales revenues.
- **Net increase/decrease in cash and cash equivalents** was negative for Elektro Gorenjska Company in year 2010 and it amounted to EUR -404,493. Year before the financial result of the company was positive, which was largely contributed by the realized financial revenues from shares of the companies in group. Current negative financial result is mainly the consequence of higher financial expenses for loans received from banks, compared to revenues from other investments, loans and operating receivables from others. Detailed explanations of the financial result can be found in chapters 15.4-15.6 and 15.13-15.15.
- **Pre-tax profit for** Elektro Gorenjska Company in year 2010 amounted to EUR 4,867,974, which is by 184 % more than previous year. Increase in pre-tax profit in year 2010 compared to year 2009 is mainly the result of higher net sales revenues on the domestic and foreign markets, as previously explained in reference to the operating efficiency ratio.
- **Net profit** amounted to EUR 4,144,451 in year 2010, which is by three times more than the year before.
- **Number of shares** did not change. At the end of 2010 the book value per share amounted to EUR 7,66, while net profit per share to EUR 0,24.

- **Average number of employees** in year 2010 in Elektro Gorenjska Company was 316, which is by eight workers less than in year 2009. Changes in the number of employees are explained in chapter 9.1.1.
- **Operating revenues per employee** in year 2010 amounted to EUR 338,628 which is by 12.5 % more than in year 2009. Reason for that are higher sales revenues, as previously explained.
- **Value added per employee** in Elektro Gorenjska Company in the period considered amounted to EUR 99,269. Compared with the year 2009 value added in the company was by 59 % higher.

6.7.8 STRUCTURE OF ASSETS AND LIABILITIES

BALANCE SHEET TOTAL

Balance sheet total in the amount of EUR 200,855,851 of Elektro Gorenjska Company was higher by 3 % or by EUR 5,376,586 compared to the balance as of 31. 12. 2009.

ASSETS

On the last day of year 2010 the assets of Elektro Gorenjska Company amounted to EUR 200,855,851 (31. 12. 2009: EUR 195,479,265) and have increased by 3 % from the beginning of the year. Long-term assets increased by 1 %, while short-term assets increased by 13 %. Of long-term assets the intangible assets increased the most, namely by 9 %. Due to the sale the value of investment property decreased by 24 %. Short-term assets increased mostly at the account of 26 % increase of short-term receivables.

Long-term assets represent 87 % of all company's assets, among them tangible fixed assets representing 88 % of all long-term assets are the most important. Value of tangible fixed assets increased by 1 % or by EUR 1,528,439 in year 2010. Long-term assets consist of the following important categories:

- Intangible fixed assets, which increased by 9 % or EUR 147,393 in year 2010,
- Investment property, whose value reduced by 24 % or EUR 680,457,
- Long-term financial investments, whose value in year 2010 increased by 0.1 % or EUR 141,666.

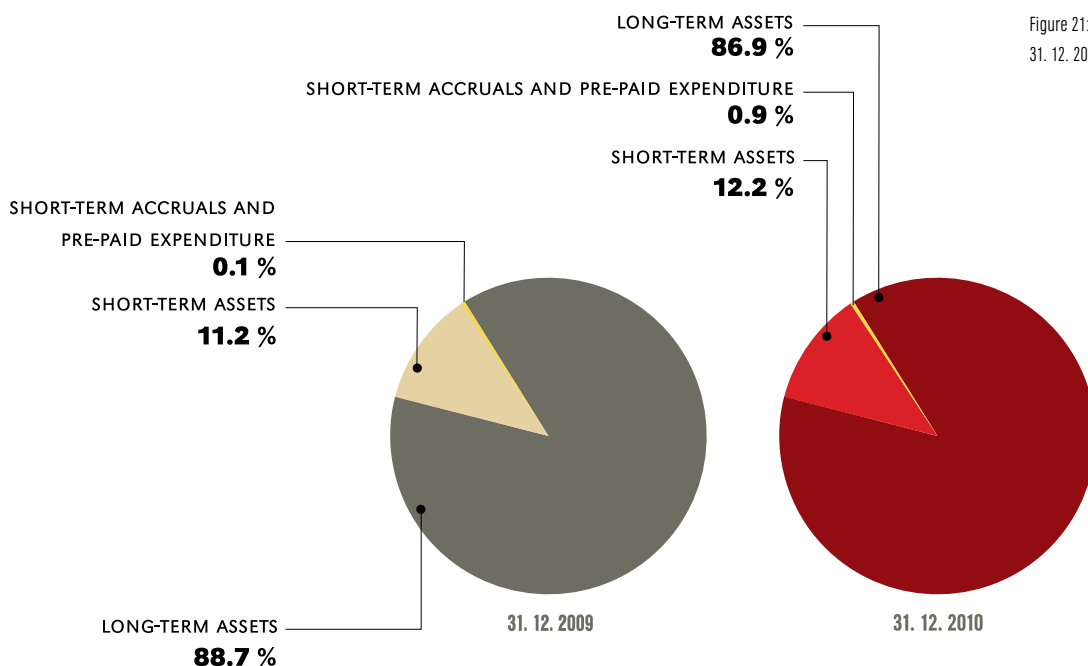


Figure 21: Structure of assets as of 31. 12. 2010 and 31. 12. 2009

CAPITAL AND DEBTS

As at 31. 12. 2010 Elektro Gorenjska Company 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 66 % of the entire amount, which is the same as at the end of year 2009. In year 2010 capital increased by 3 % or by EUR 3,780,215. Long-term liabilities, mostly long-term banking credits, represented as of 31. 12. 2010 14 % of all funds. In year 2010 they increased by 4 % or EUR 1,174,809. Short-term liabilities represented 13 % of all funds and have increased by 17 % or EUR 3,713,074 in year 2010.

Provisions and long-term accrued costs and deferred revenues represented 6 % of funds at the end of year 2010. In year 2010 they decreased by 23 % or EUR 3,821,252. Short-term accrued costs and deferred revenues contributed 0.5 % to funds at the end of year 2010 and increased by 113 % or EUR 529,740 compared to the year before.

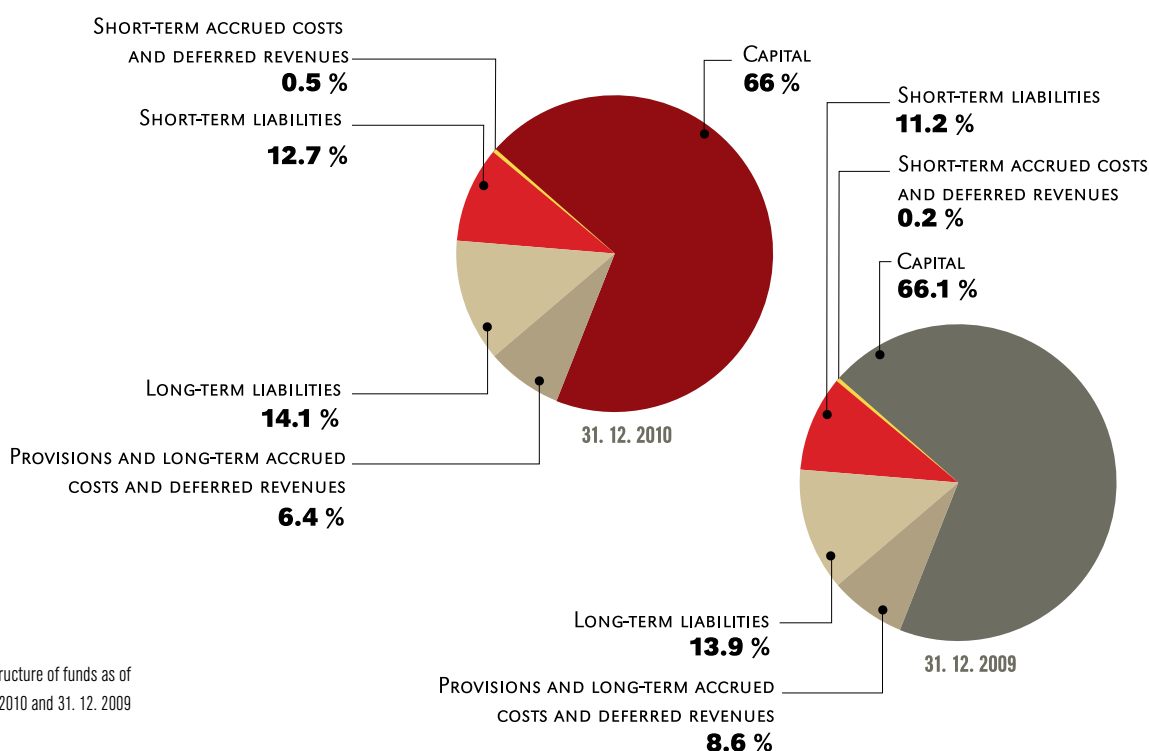


Figure 22: Structure of funds as of 31. 12. 2010 and 31. 12. 2009

6.7.9 STRUCTURE OF REVENUE AND EXPENDITURE

In year 2010 Elektro Gorenjska Company achieved an operating pre-tax profit in the amount of **EUR 4,867,974**.

Table 5: Composition of profit or loss by business segments

ITEM DESCRIPTION	in EUR		
	2008	2009	2010
OPERATING PROFIT OR LOSS	1,836,012	718,633	5,142,090
FINANCIAL RESULT	-759,634	722,061	-404,493
EXTRAORDINARY PROFIT OR LOSS	68,728	271,100	130,377
PRE-TAX PROFIT	1,145,106	1,711,794	4,867,974

Decisive contribution to the high pre-tax profit was made by the operating profit or loss, while the financial result in year 2010 was negative.

in EUR

ITEM DESCRIPTION	2008	2009	2010
OPERATING REVENUES	103,542,020	97,604,037	107,006,488
OPERATING EXPENSES	-101,706,008	-96,885,404	-101,864,397
OPERATING PROFIT OR LOSS	1,836,012	718,633	5,142,090

Table 6: Operating profit or loss in the period 2008-2010

Operating profit or loss for year 2010 amounted to EUR 5,142,090; compared to year 2009 it was by 615 % or EUR 4,423,457 higher. Decisive contribution was made by higher operating revenues, which were by 10 % higher than the year before, while the growth of operating expenses was only 5 %.

Within operating revenues the most significant growth was recorded by net sales revenues, mainly revenues from the sale of electricity and rent and services from the relation with SODO.

As higher sales revenues in year 2010 were achieved with the lower average number of employees than in year 2009, average net sales revenues per employee increased significantly also, namely by 12 % (to EUR 321,933).



Figure 23: Net sales revenues per employee in EUR

Compared to the previous year operating expenses in year 2010 were higher by 5 %. All categories of operating expenses increased compared to year 2009, with the exception of other operating expenses, which decreased by 54 % or by EUR 1,000,894, which was the result of lower provisions formed (explanation 15.12).

Structure of operating expenses according to the individual years is presented in the chart below.

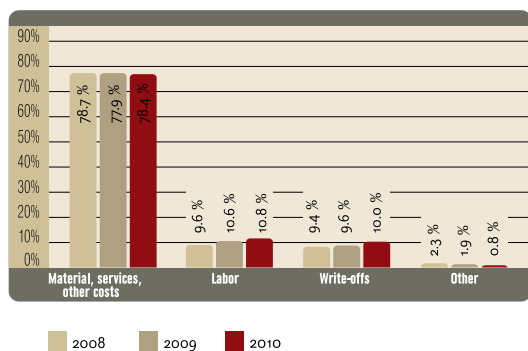


Figure 24: Structure of operating expenses

in EUR

ITEM DESCRIPTION	2008	2009	2010
FINANCIAL REVENUES	479,742	1,414,290	370,831
FINANCIAL EXPENSES	-1,239,376	-692,229	-775,324
FINANCIAL PROFIT OR LOSS	-759,634	722,061	-404,493

Table 7: Financial profit or loss in the period 2008-2010

Financial revenues in year 2010 were by EUR 1,043,460 lower than in year 2009. Decrease is the result of the payment of distributable profit of the subsidiary to the founder in the amount of EUR 1,065,530 in year 2009, while the payment was not made in year 2010.

Financial expenses in the amount of EUR 775,324 were by 12 % higher than in the previous year. The most important part of the financial expenses is represented by interest for received banking loans, and the growth is mainly the result of higher balance of obligations from banking credits compared to year 2009.

Table 8: Results from extraordinary operations in the period 2008-2010

in EUR			
ITEM DESCRIPTION			
	2008	2009	2010
OTHER REVENUES	100,838	272,480	143,715
OTHER EXPENSES	-32,110	-1,381	-13,338
EXTRAORDINARY RESULT	68,728	271,100	130,377

Table 9: Net profit in the period from 2008-2010

in EUR			
ITEM DESCRIPTION			
	2008	2009	2010
PRE-TAX PROFIT	1,145,106	1,711,794	4,867,974
INCOME TAX	-324,180	-196,877	-1,077,635
DEFERRED TAX	-223,788	-130,324	354,112
NET PROFIT	597,138	1,384,594	4,144,451

Pre-tax profit of Elektro Gorenjska Company amounted to EUR 4,867,974 and was by 184 % higher than last year. Income tax amounts to EUR 1,077,635 and is by 447 % higher than last year's. Effective tax rate amounted to 22 % and was compared to the same period last year higher by 10 percentage points.

Elektro Gorenjska Company realized also EUR 354,112 of deferred tax in year 2010. Net profit thus amounts to EUR 4,144,451 and is by 222 % higher than last year. Reasons for better operating result compared to year 2009 are explained among return indicators in chapter 6.7.7.

6.8 EXPECTED DEVELOPMENT OF ELEKTRO GORENJSKA COMPANY

Primary mission of the company is to provide reliable and quality supply of electricity to its final customers. Strategic goals of Elektro Gorenjska Company thus cover all key areas of operation – financial performance, efficiency of processes and care for the satisfaction of the buyers and employees.

Strategic goals are and remain the following:

- permanently ensure quality, timely, and cost effective network maintenance and implement investments in own electric energy infrastructure,
- to optimize organization structure of Elektro Gorenjska Company in the sense of reducing the costs and bigger efficiency of operation as well as anticipated reorganization of electricity distribution companies,
- enhance the activity of building own infrastructure,
- build and maintain foreign electric power facilities,
- search for and realize new market opportunities out of traditional electric power fields,
- increase the scope of above-standard services in the following fields:
 - remote readings of measuring data with the possibility of expansion to other energy products readings,
 - making out studies and projects for foreign clients,
- become important factor of professional development in the region,
- efficiently draw the development funds,
- systematically work with personnel, propagate entrepreneurial climate in the company and introduce suitable stimulation policies,

- all procedures of equipment purchase to be led with the aim of ensuring quality equipment at appropriate price and quality planning of investments,
- execute tasks, which are requested by the legislation and contractual obligations, stimulate rational use of energy and inform the external and internal public about the topic.

6.9 MARKETING AND SALES

Characteristics of the energy business

With the opening of electric power market the sale of electricity has become a market activity. Since 15. 4. 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 1. 7. 2004. Legislation included the households among tariff customers up to 1. 7. 2007. After this date household customers can freely choose their electricity supplier as well.

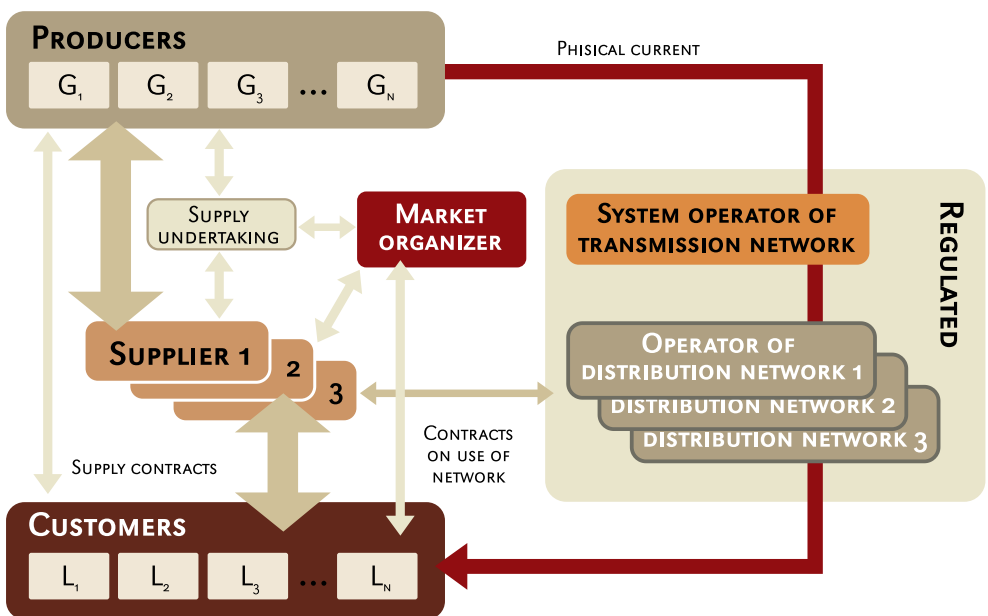


Figure 25: Market model of supply
Source: JARSE

Participant on the electricity market are producers of electricity, electricity traders, and suppliers supplying electricity to 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 (eg. 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>).

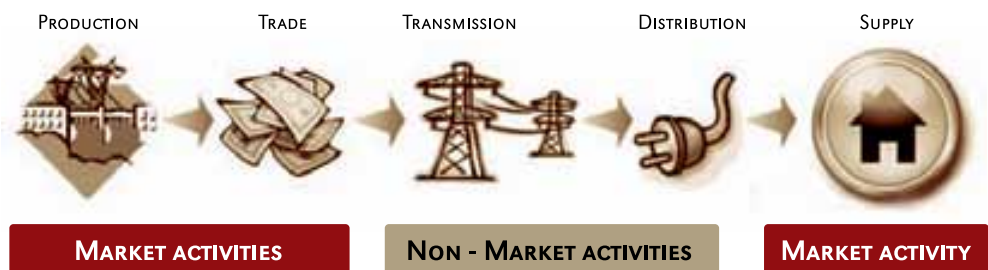
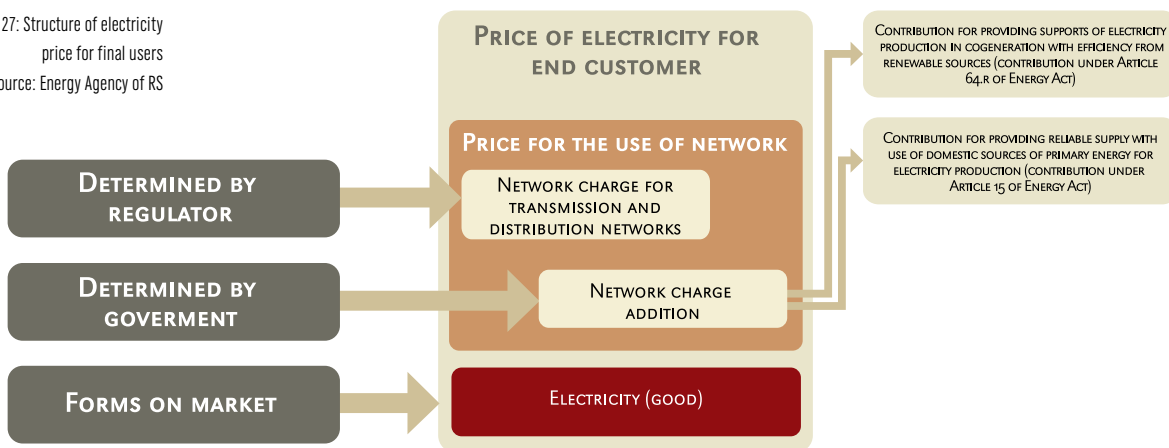


Figure 26: Electricity market

Figure 27: Structure of electricity price for final users
Source: Energy Agency of RS



Final price paid by electricity customers

Customers can influence 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,
- account keeping service,
- price for the use of networks (network charge and network charge additions), which is regulated (it is not formed on market bases),
- excise duty (introduced 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 2009 is presented below.

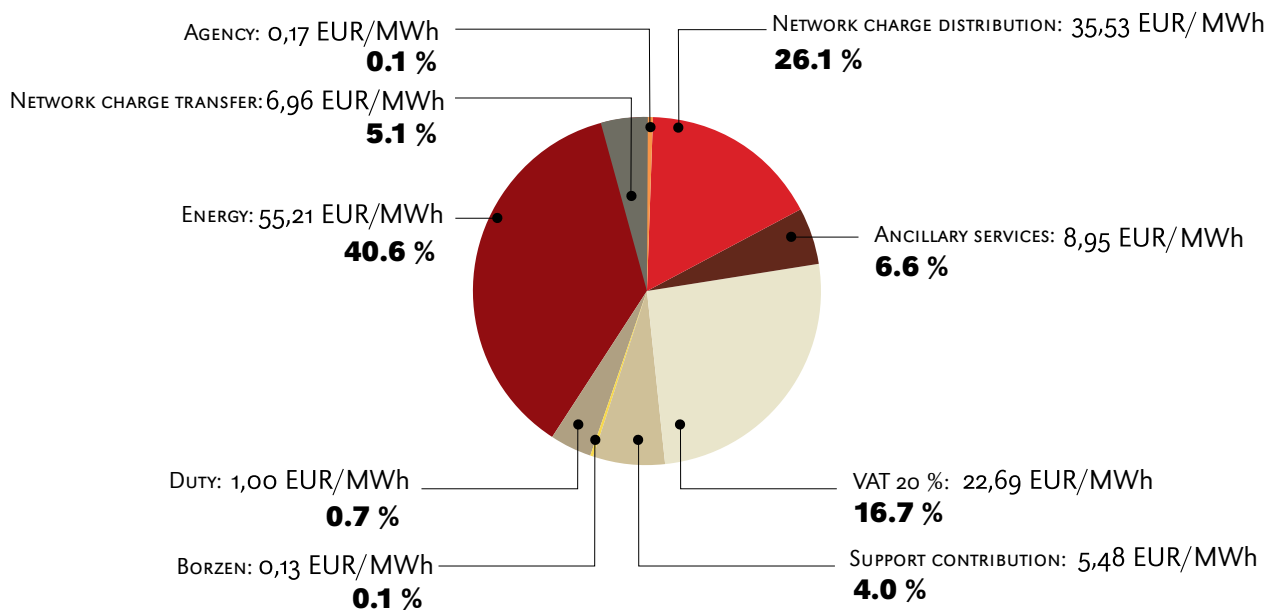


Figure 28: Proportions of elements in the final electricity price and proportions of elements in the network use price for a characteristic household customer- annual consumption 3500 kWh
Source: Agency

6.10 BUYERS AND CUSTOMERS

The strongest influence to formation of Elektro Gorenjska Company marketing strategy 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 2009 Elektro Gorenjska Company as electricity supplier supplied electricity to 79,599 customers mainly in the region of Gorenjska. They are categorized in business customers and household customers. Following is the presentation of the number of Elektro Gorenjska customers by years.

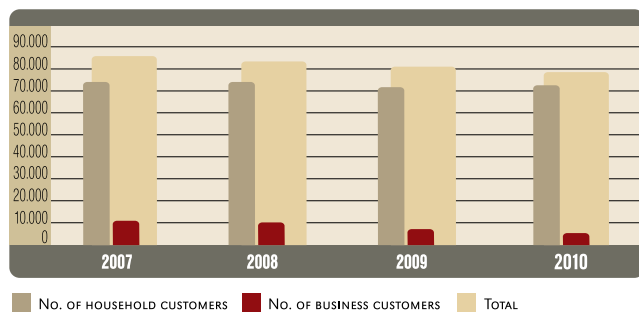


Figure 29: Number of Elektro Gorenjska customers

- **Business customers.** Customers in this group can freely choose the most favorable electricity supplier since 1. 7. 2004. In balance subgroup of Elektro Gorenjska this segment represents 9.6 percent share of all measuring points or two thirds 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,
- small crafts and trades and other business customers.

For the company categories of large industrial customers and medium sized companies are of extreme importance. Customers of these two categories are dealt with individually, they have their own administrator, offers are formed in accordance with their wishes and needs.

- **Household customers.** Customers in this segment can freely choose their electricity supplier and source of electricity supply since 1. 7. 2007. With the complete opening of the electricity market as of 1. 7. 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. 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.

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.

By the end of year 2010 Elektro Gorenjska Company 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, mainly chain customers. Great attention is paid to large customers, with a system of administration for key customers being developed.

6.10.1 SERVICES AND PRODUCTS

Elektro Gorenjska Company provides quality and reliable electricity distribution to its customers on its distribution area. Services we offer to our customers are divided into several groups.

SERVICES FOR BUSINESS CUSTOMERS

Besides distribution network access and sale of electricity Elektro Gorenjska Company in accordance with its mission offered its business customers in year 2010 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 Elektro Gorenjska Company executes 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.

New challenge and business opportunities for us are also ecology and changes in environment. One of the new forms of support are customer heat cogeneration projects, in which the company co-operates with its inputs of knowledge and capital. This way the company supports long-term business co-operations with its customers. Technology of cogeneration enables large savings of primary energy compared to separate acquisition of electricity and heat, so it became interesting in the field of heating and hot water preparation as well as in production of electricity in large commercial and residential facilities, as its main advantage is higher efficiency and lower losses.

Blue energy

In year 2010 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 Group HSE, Elektro Gorenjska Group has the role of an agent in sale to end buyers. Buyers, who decide for Blue energy pay an addition to the price of electricity. Funds are collected in the Blue fund. Blue fund is intended to promote energy generation from renewable sources, research in the field of promoting the energy production from renewable sources, and for the renovation and building of units, which generate energy from renewable sources.

Year	No. of BE buyers	BE quantity (in kWh)
2007	223	1,756,755
2008	220	1,906,795
2009	245	1,811,291
2010	256	1,174,251

Table 10: Number of business customers of Blue energy

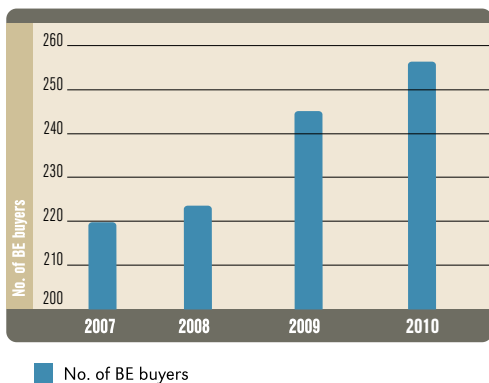


Figure 30: Number of business customers of Blue energy by years

SERVICES FOR HOUSEHOLD CUSTOMERS

With establishment of changed market conditions Elektro Gorenjska Company 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

Under the Re-energy brand we were presenting electricity produced from renewable energy sources – like water and sun, from year 2007 to 2010. On 1. 2. 2010 we canceled the Re-energy Fund as well as the Re-energy fee. We decided for this step because of the fees set by the government and charged for on the electricity bills. We primarily refer to the fee under Article 64 r of the Energy Act to assure support to production of electricity from cogeneration with high efficiency and from renewable sources, which is paid by all electricity customers since 1. 1. 2009, and a fee for increasing the efficiency of electricity use, which was introduced by the government on 1. 2. 2010.

In year 2010 part of funds from Re-energy Fund was earmarked for the project called S kolesom potujem, okolje varujem (I ride a bike, and protect the environment.). Last year Elektro Gorenjska Company 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. Tourist associations Bled, Bohinj, and Jezersko as well as Local Tourist organization Kranjska Gora have already received four electric bikes each, for which we spent EUR 7,747 from the Re-energy Fund. Tourist association Preddvor and Tourism institute Kranj will receive the bikes in spring 2011. Electric bikes, which are clearly marked with Re-energy sign, tourist organizations supplemented their offer. Bikes can be rented since spring. At the beginning of the new biking season, when the project was presented in more detail, all members of the club were given a voucher for one free rent of the electric bikes.

By cancelling the Re-energy Fund we repositioned the brand into Re-energy Services. Since February 2010 Re-energy Services thus join the offer of Elektro Gorenjska in the field of renewable sources utilization and efficient energy use, 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. Members of Re-energy Club are rewarded for their active approach. By making the decision to use renewable sources from re-energy Services they can choose from quality offer at best conditions. Besides that they also save on electricity, as the prices in Re-energy package are especially attractive. Current offer includes:

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

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 are the biggest consumers of electricity in a household 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 a more economical electricity consumption.

Economy program Porabim, kar rabim is supported by a web application (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 their potential for taking over the habits of a more efficient electricity use are. 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, we presented our economy program together with two new 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.

Household customers are offered free energy counseling and free borrowing of electricity consumption meters.

Simplified methods of operation

eServices – Web application, which household customers have access to at www.elektro-gorenjska.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 2010 web application was used by 2,971 household 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.

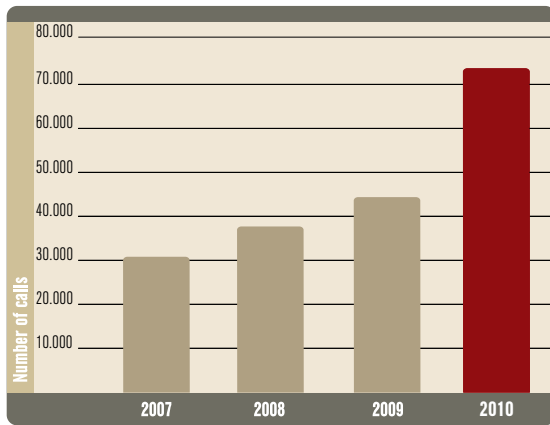


Figure 31: Number of calls to the call center according to years

Customer communication

In communicating our services and products we have used different communication tools: from advertising, sale promotion to direct ways of communication – using the back sides of the bills. In year 2010 we focused to communicating efficient energy use and carried out the repetition of the two advertising campaigns, which presented two new supply packages. Due to the benefits end customers are brought by the packages, 6,991 of customers, who monitor their electricity consumption on a monthly basis and implement economy measures, responded.

6.10.2 DEVELOPMENT OF NEW SERVICES

In the company we try to contribute to environment conservation with concrete acts, so in accordance with the strategic guidelines we more actively join projects of efficient use and use of energy from renewable sources. Besides our main activity of electricity supply we expand our activities also to the area of heat energy supply and exploitation of renewable energy sources.

Search for competitive opportunities has been expanded to the field of construction of combined formations for combined production of heat and electric power, and to the field of exploitation of renewable sources, like biomass and sun.

Operation engineering in the field of new constructions and maintenance of electric power facilities and devices

For our clients we plan, construct and maintain electric power facilities and devices, execute electric on-site assembly, perform all types of electricity measuring, with our experience of many years we can also efficiently advise them from idea to execution of electric power facility. We implement individual services and turn-key based projects. In year 2009 we expanded our offer to the field of renewable sources use. As a consequence the offer includes also possibility of construction of own solar power plant, either on the turn-key basis or in parts.

- Planning of electric power facilities and devices: project and technical documentation elaboration, acquisition of project documentation and consents.
- Building: construction of transformer station, cable conduits, and power lines and other electric power facilities.
- Maintenance: maintenance works on transformer stations, periodic maintenance works, renovations of decrepit electric power facilities of all kinds, remedy of breakdowns on electric power devices.
- Other electric on-site assembly works: construction and alterations of measuring points, transpositions of electric power overhead and underground cables, execution of low-voltage connection, connection-measuring lockers, power switchgear cabinets and compensation devices, telecommunications.

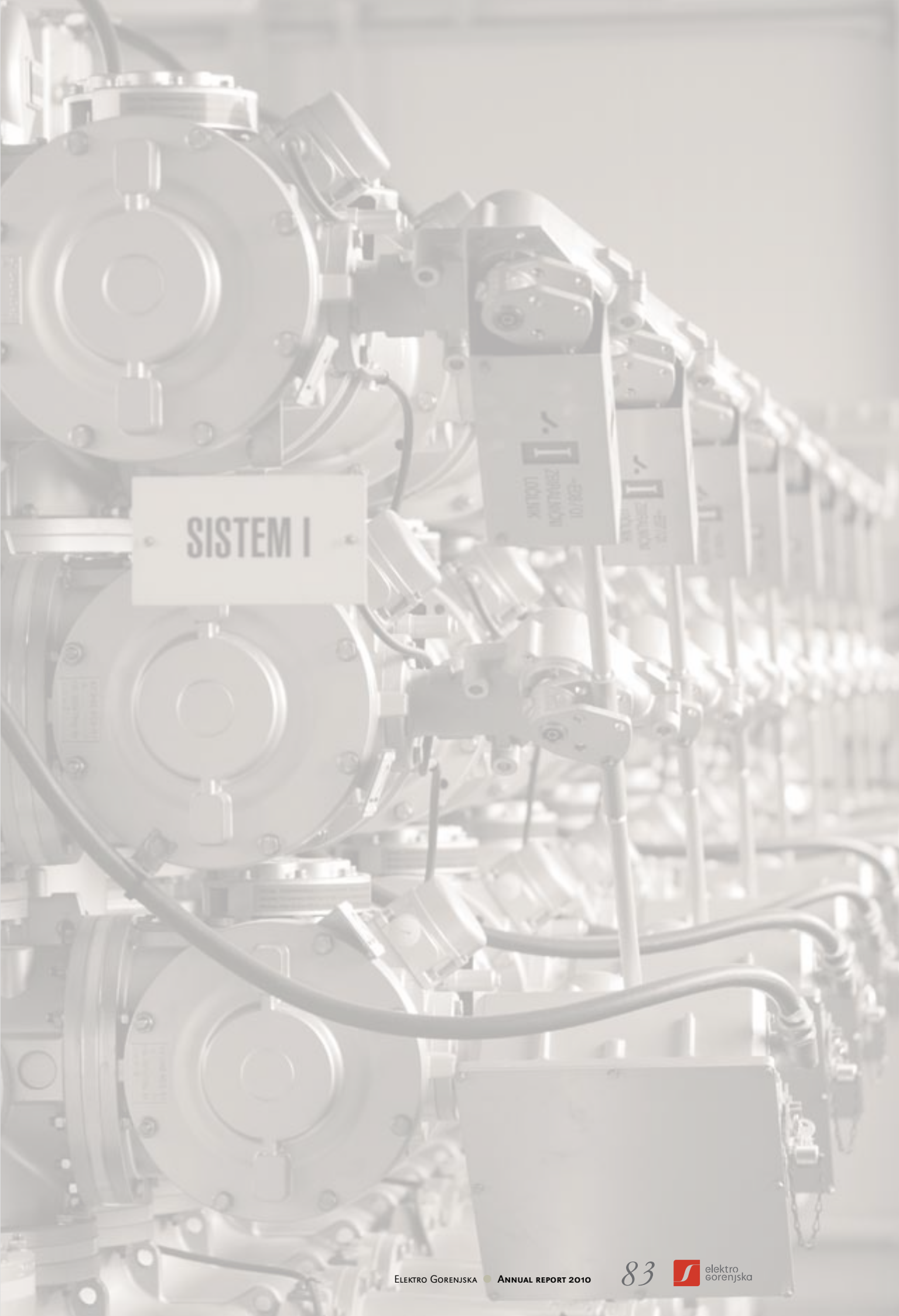
- Execution of electricity operating measurements: grounding measurements, electricity installations, power transformers, quality of electricity, load profiles, and all kinds of electricity quantities and protection devices calibration.
- Execution of above standard charging measurements: daily provision of load profiles acquired from measuring points, to users or their suppliers.
- Counseling: in planning the construction of electric power facilities, in acquiring consents and concluding connection contracts.

New products and new services

Elektro Gorenjska Company is a service company. With complete opening of electricity market a possibility of additional development and offer of new products and services has been created, mainly in the field of efficient energy use and exploitation of renewable energy sources. We have offered new supply packages, which will be supplemented in the future too.

In year 2010 the company participated in activity expanding projects despite the strained economic situation:

- together with its partners the company set the guidelines for upgrading the heating system in neighborhood Planina in Kranj to the cogeneration of heat and electricity, which brings technological, ecological, and economical effects;
- entirely executed several independent projects of solar power plant construction on turn-key basis for a foreign investor, participated in the engineering for the installation of the largest solar power station in Gorenjska region, connected to the distribution network, on the roof of Iskratel company.



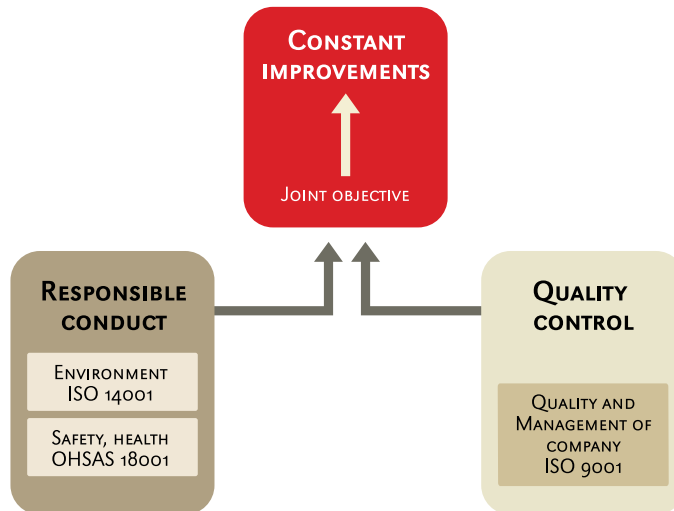
SISTEM I

7. INTEGRATED MANAGEMENT AND QUALITY SYSTEM

In year 2010 Elektro Gorenjska Company operated and maintained the already established management system, after which it successfully certified. Management system consists of the following systems:

- 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.

Figure 32: Quality management systems in Elektro Gorenjska Company



Systems operate as an integrated whole, which results in the increase of operating efficiency and overall capacity, reduction of risks and determination of responsibilities, which have become more clear.

With the introduction of integrated management system all activities of the company have been connected into an efficient system, which leads to the realization of the vision and mission as well as the long-term goals of the company:

- introduction of standards for quality supply of final customers with electricity in tits distribution area, which is the main goal of Elektro Gorenjska Company,
- gradual reduction of operating costs and improvement of business processes,
- systematic increase of quality management through the introduced standard ISO 9001/2008,
- commitment to continuous improvements in introduced 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.

Bases of activities implementation in order to achieve the objectives are:

- care for constant informing, training, and motivation of all employees, which gives the fundamental importance to the employees –colleagues as quality holders;
- realizing quality operation in Elektro Gorenjska 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 their 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.

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 company and employees to search for improvements and additional measures that influence favorably on good operation of the company and enhance additional eagerness of the employees and environment management.



Figure 33: PDCA circle (the Demingo approach)

In year 2010 Elektro Gorenjska Company once again applied for the Business Excellence Prize of the Republic of Slovenia – PRSPO, and again placed among the finalists for the highest national award. Company received (for the second time in a row) a silver diploma for participation in PRSP assessment processes. Silver diploma means reaching a level of excellence exceeding 400 points. It has been assessed that the level of business excellence of the company is high and growing. It is evident that the company has a clearly set vision and mission, high level of information use knowledge, which increases the share of data on comparability with similar companies.

Goals of the Business Excellence Prize of the Republic of Slovenia are:

- to enhance awareness on the European model of management or business excellence,
- to stimulate self-assessment processes,
- to stimulate comparison between domestic and foreign organizations,
- to give recognition to organizations in Slovenia for their achievements in excellence and
- to transfer good management practices for achieving permanent excellent results.

Quality of the company management can be measured also with the help of quality indicators. In year 2010 Elektro Gorenjska executed 118 business processes, which were monitored with 152 quality indicators. Fact is that their number is still increasing. Trends of quality growth of implementation of individual business processes are quarterly verified and discussed at the Quality committee.

Verification of management system takes place every year with internal assessments, assessments of suppliers, and external assessment of the Quality Institute – SIQ. Slovenian Institute of Quality and Metrology – SIQ conducted a regular assessments of the company's management quality according to the standard ISO 9001/2008 and standard ISO 14001/2004 as well as the recovery assessment according to the standard BS OHSAS 18001/2007. Assessment commission did not find any inconsistencies, but it made 127 recommendations.



8. INFORMATION SUPPORT AND DEVELOPMENT

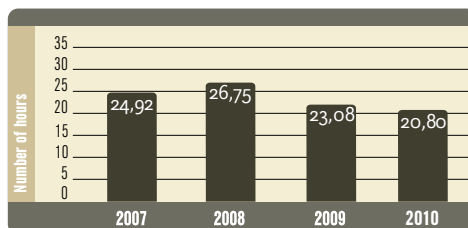
In year 2010 Elektro Gorenjska Company introduced the following new information supports:

- to all users we upgraded the MS Office Tool to 2010 version,
- to all users we upgraded the MS Outlook Tool to 2010 version,
- application debtors was upgraded,
- IIS renovation projects were concluded according to the action plan,
- In accordance with the action plan we participated in successful finishing of renovation projects in year 2010,
- information support to package Porabim, kar rabim,
- start of the integration of the application for capturing salaries and documentation system,
- finishing of the application for real estate support.

In year 2010 with the aim of higher employee efficiency we successfully established the following information technologies:

- we replaced the hardware and upgraded Exchange to version 2010,
- we replaced the hardware on DNS servers,
- we increased the disk capacity,
- in year 2010 we replaced the remaining half of the working stations, as due to quick technologic obsolescence and standardization of the hardware replacement is necessary at least every four years,
- installation of the firewall between Elektro Gorenjska and Informatika,
- penetration testing was performed.

Figure 34: Number of failures on the part of Informatika from year 2007 to year 2010





9



9. SUSTAINABLE DEVELOPMENT

9.1 CARE FOR EMPLOYEES

Important point of view in employment is to get professional and ambitious colleagues. Enabling new challenges, personal initiative, promotion, education and training are factors we use continuously to try and attach the co-workers to the company and convince them to stay. As a learning organization we stress equality, open information, and organization culture, which stimulates cooperation and with it occurrence of ideas anywhere in companies, so we are able to find opportunities faster and fight with changes and crisis situations. We enhance communication by including everyone in solving the problems, which enables the group the experiment all the time, improve and increase its capacities, while its employees to reach their own and consequently also joint goals.

With the intention of reaching company's goals of permanent development 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 offers 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 the past year we:

- with the unions and the works council we adopted the criteria of establishing workers' performance and criteria of employee promotion,
- for the first time we carried out the individual rewarding of the most successful colleagues.

Regularity and compliance with the best practices in the field of treatment of employees was confirmed to Elektro Gorenjska in year 2009 also by an external independent research company, which has made a study of human resources treatment in Slovenia and abroad.

9.1.1 DEMOGRAPHIC STRUCTURE IN THE COMPANY

On 31. 12. 2010 Elektru Gorenjska Company had 292 employees. Compared to the situation as of 31. 12. 2009 the number of employees fell sharply. In year 2010 we have had 41 terminations of employment and 10 new employments.

Already in the month of November one of the employees in Elektro Gorenjska was terminated the employment due to the needs of the working process, he was then employed in Gorenjske elektrarne. Since 1. 1. 2011 Elektro Gorenjska transferred the activity of electricity production to its subsidiary Gorenjske elektrarne, with this three more employees of Elektro Gorenjska were terminated their employment on 31. 12. 2010, and were employed in Gorenjske elektrarne as of 1. 1. 2011.

At the end of year 2011 the company had 5.5 % employees employed with fixed-term employment, which is less than in previous years. Due to the higher number of employees leaving the company, we were able to offer more employees permanent employment contracts. In year 2011 we do not intend to increase the number of employees.

Besides two partly disability retired workers all our employees had a contract for full-time employment.

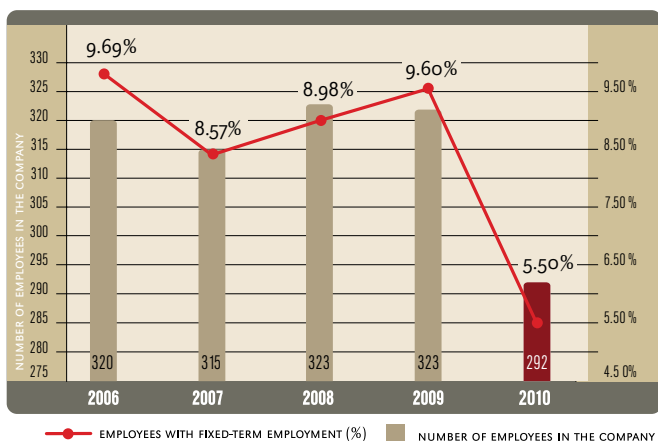


Figure 35: Movement of the number of employees by years

At the end of year 2010 there were 72.3 % of men and 27.7 % of women employed in Elektro Gorenjska Company which is comparable with the previous years and closely connected with the primary activity of the company.

Average age of employees slightly decreased according to the two previous years, which is connected with the higher number of employment terminations of older employees. Analysis of groups of employees according to age shows that like in the past three years Elektro Gorenjska Company has the most employees in the age group between 36 and 45 years, namely 32 percent of all employees

ELEKTRO GORENJSKA			
	2008	2009	2010
AVERAGE NUMBER OF EMPLOYEES	322	324	316
AVERAGE AGE	41,7 YEARS	42,1 YEARS	41 YEARS
AVERAGE PERIOD OF EMPLOYMENT IN THE COMPANY	17,0 YEARS	17,2 YEARS	16,3 YEARS

Table 11: Elektro Gorenjska employee information for the period from 2008 to 2010

In the company, which is comprised of five organizations units, the largest share of employees fall into the organization unit distribution network. Distribution among organization units changed in year 2010. Already in the beginning of the year we have foreseen the suspension of organization unit maintenance and building, so employees from this unit gradually migrated to other organization units during the year to fulfill the vacancies due to departures from the company. On 31. 12. 2010 this organization unit was cancelled, and 31 employees have been working in the maintenance and building service of the distribution network organization unit since 1. 1. 2011.

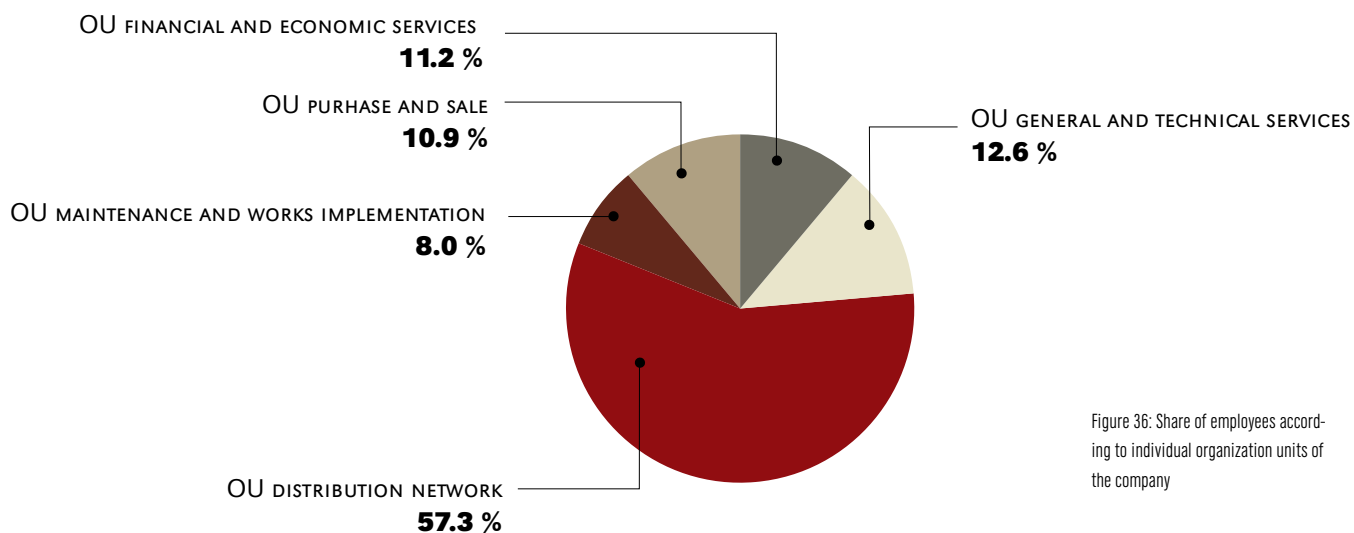


Figure 36: Share of employees according to individual organization units of the company

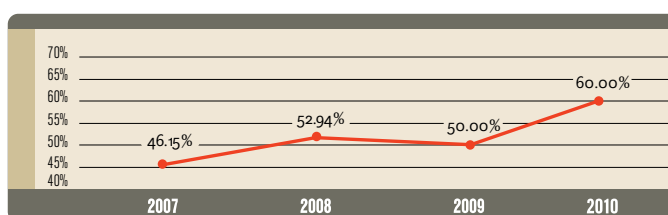
9.1.2 EMPLOYMENT

Human resources planning is a constituent part of strategic and annual plan of the company. Human resources in the company are planned in accordance with this 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 students fairs.

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

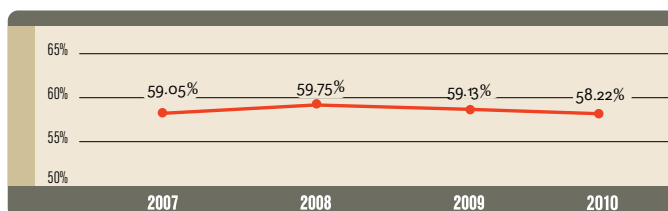
Development, changes, and needs of the work process request more and more of knowledge and high level of competence of our employees, that is why in year 2010 more than half of the new employees had higher, professional or university education or master's degree.

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



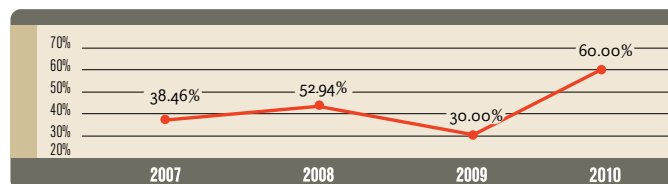
Throughout the years we have preserved high share of employees of electro-technical field, which is also connected with the main activity of the company.

Figure 38: Share of employees with electro-technical education



In the past year we had 60 % of the new employees with education in electro-technical field, which is more than in previous years.

Figure 39: Share of new employees with electro-technical education at the time of employment



With a wish to win young and ambitious staff we make use of different forms of presentation of the company and its operation, besides scholarships. We exploit possibilities, which are offered to us by individual students organizations, faculties and high schools, which cover this field. We believe that an interesting presentation of the job and perspectives are important for pupils and students that are deciding about their jobs. In promoting this kinds of jobs the support of the educational sphere is very welcome too.

High school and university students are offered scholarships and they can have their obligatory practical classes or summer jobs in our company. This way the students get to know the operation of the company and work, while we are able to get to know our potential employment candidates.

Fluctuation of staff in Elektro Gorenjska Company is small. It occurs mainly due to departure of workers for retirement and due to fixed-term employments, where with termination of needs for temporary increased scope of work or termination of needs for worker replacement, an employment is terminated. Very rarely individuals decides for termination of the employment contract on their own. In year 2010 the fluctuation rate was above average high due to the great number of retirements, which were not replaced by new employments.

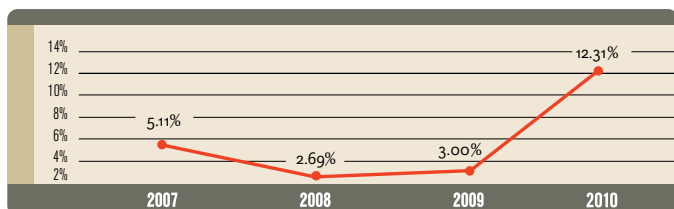


Figure 40: Fluctuation rate in Elektro Gorenjska Company

9.1.3 EMPLOYMENT OF PERSONS WITH DISABILITIES

As at 31. 12. 2010 there were eight disabled persons employed in Elektro Gorenjska Company. In accordance with the statutory quota of employing disabled persons, which amounts to 6 % for the electricity supply activity, Elektro Gorenjska Company would have to employ approximately nineteen disabled persons. In year 2010 we had a contract with social enterprise for the period of eleven months and 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.

EMPLOYMENT OF PERSONS WITH DISABILITIES			
	2008	2009	2010
NUMBER OF EMPLOYED DISABLED PERSONS AS AT 31. 12.	10	12	8
NUMBER OF DISABLED PERSONS FOR CONTRIBUTION AS AT 31. 12.	9	7	11
AMOUNT OF THE CONTRIBUTION IN THE YEAR	45,900	38,146	38,231
NUMBER OF REALIZED DISABLED PERSONS IN YEAR, BASED ON THE CONTRACTS WITH SOCIAL ENTERPRISES	4	6	7

Table 12: Information on disabled employees in the period from 2008 to 2010

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 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 company.

9.1.4 EDUCATION

Investing into knowledge is investing into the future, that is why Elektro Gorenjska 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.

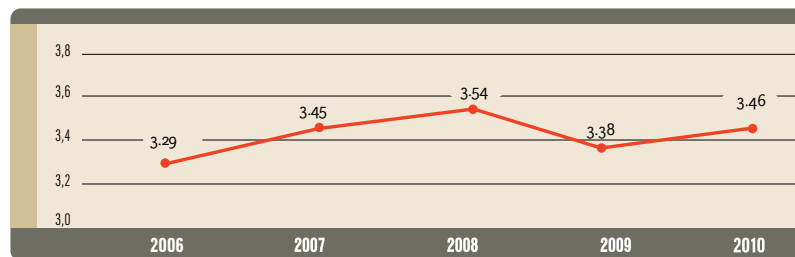
We are proud of the colleagues, who finish education and acquire higher level of education along with their working and family obligations. If only possible, we enable them work at a more demanding position, where new knowledge can be used and they are able to invest into their own progress and the progress of the company. In year 2010 higher level of education was acquired by 15 employees. Some of them have paid for the education themselves.

Table 13: Education in the period from 2008 to 2010

ITEM DESCRIPTION	2008	2009	2010
EMPLOYEES ON TRAININGS (IN %)	62.85	55.42	84.93
NUMBER OF TRAINING DAYS PER EMPLOYEE (DAYS)	2.38	2.22	2
COSTS OF EDUCATION AND TRAINING PER EMPLOYEE (IN EUR)	400	386	424
NUMBER OF EMPLOYEES ACQUIRING HIGHER LEVEL OF EDUCATION ON THE BASIS OF EDUCATION CONTRACT	36	42	18
NUMBER OF SCHOLARSHIP HOLDERS	10	11	10

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.

Figure 41: Satisfaction of employees with trainings



Due to economy measures and limited financial assets for education in year 2010 the personnel service web site established a direct link for the workers to access a web site offering number of useful advice and tricks when using the Microsoft Office tools. This kind of learning requests no financial funds, and stimulates self-learning and research of the employees.

With the purpose of having a regulated data collection in the field of trainings and consequently quality data and analyses, we have prepared a form Notice of training application in electronic form, which employees are obliged to forward to Personnel Service any time they apply for a training (seminar, course, fair...).

9.1.5 EDUCATIONAL STRUCTURE OF EMPLOYEES

With the employments of highly competent workers and education of employees to acquire higher levels of education the company's level of education has been increasing quickly.

Table 14: Educational structure of employees in Elektro Gorenjska Company as at 31. 12. 2009 and 31. 12. 2010

ITEM DESCRIPTION	NO. OF EMPLOYEES		STRUCTURE (IN %)	
	31. 12. 2009	31. 12. 2010	31. 12. 2009	31. 12. 2010
MASTER'S DEGREE (8)	13	14	4.0	4.8
UNIVERSITY LEVEL (7/2)	48	45	14.9	15.4
GRADUATE LEVEL (7/1)	32	35	9.9	12.0
POST-SECONDARY LEVEL (6)	43	45	13.3	15.4
SECONDARY LEVEL (5)	117	95	36.2	32.5
THREE-YEAR VOCATIONAL LEVEL (4)	66	55	20.4	18.8
TWO-YEAR VOCATIONAL LEVEL (3)	3	3	0.9	1.0
PRIMARY SCHOOL (1)	1	0	0.3	0.0
TOTAL EMPLOYEES	323	292	100.0	100.0

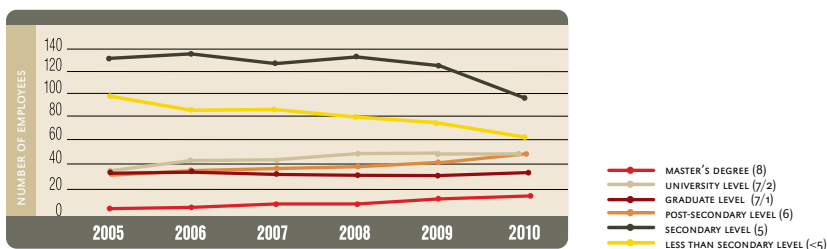


Figure 42: Movement of educational structure in Elektro Gorenjska according to years from 2006 to 2010

Average level of education in Elektro Gorenjska as at 31. 12. 2010 was 5.84, with level 5 representing high-school education.

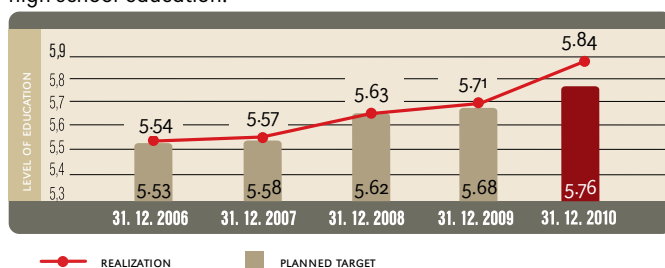
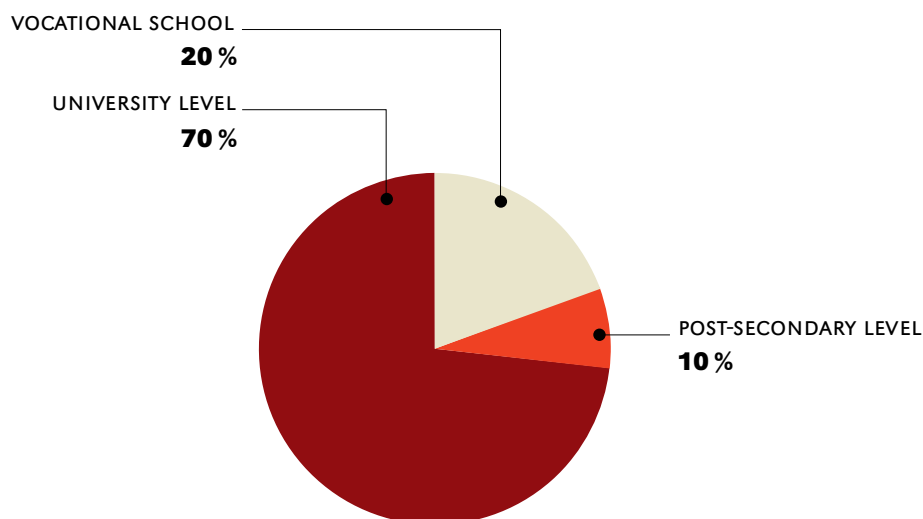


Figure 43: Average level of education in Elektro Gorenjska Company between 2006 and 2010

9.1.6 SCHOLARSHIPS

In year 2010 we gave scholarships to ten high school and university students. All scholarship holders were acquiring electro-technical education. Five scholarship holders were receiving scholarships through Regional Scholarship Scheme – Gorenjska region scholarship scheme, which provides us with 50 % of the scholarship assets. Four scholarship holders were granted company scholarships, which are 30 % part-financed by Slovene Human Resources Development and Scholarship Fund. As our scholarship holders educate for occupation in excess demand, we can also apply for tenders of Gorenjska region Scholarship Scheme and Slovene Human Resources Development and Scholarship Fund.

Figure 44: Structure of scholarship holders in terms of acquiring levels of education



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 is increasing. In year 2010 53 workers have been promoted to other positions of employment, which is 18 % of all employees.

In year 2010 we did not search for candidates for the 12 managing positions outside the group, but we have given an opportunity to already employed workers. We employed an external candidate only to one of the managing vacancies. If only possible, we listen to the colleagues, who wish to change their field of work. In year 2010 we enabled fourteen horizontal promotions.

In case a vacancy for a job position is issued, and there are no work experience requested for the job, we often employ students and high school students, who are already doing practical training or vacation job in our company. In year 2010 ten new employments included one scholarship holder and four students, who have been with us during their studies and have already got to know the company, while we got to know their competence and readiness for the job.

9.1.8 ANNUAL INTERVIEWS

The most scheduled method of acquiring feedback is definitely annual interview. In Elektro Gorenjska

company we have carried out annual interviews for the fifth time. We prepared thoroughly for the annual interviews. For 44 workers, who have been executing the annual interviews, three workshops with instruction for the execution of an annual interviews and a simulation of an interview, were organized. Participants were very satisfied with the workshop and they assessed it with average mark 3.58 on a scale of 1 to 4.

Reasons for the implementation of annual interviews in Elektro Gorenjska 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
- leader 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 leader discover eventual deficiencies in work processes, which can be improved in the next years by the company.

In Elektro Gorenjska 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.

Annual interviews are also part of management, so in year 2010 we carried out a workshop on managing for all managers with the purpose of improving internal relations, communication, commitment of employees and competence development and treatment of people at work. Managers can also find articles on various topics (communication, delegation, team work, giving praise...) on the internal web site of the personnel service in section managers' corner.

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.

9.1.9 REMUNERATION

In the summer after several years of intensive negotiations with the labor unions and work council we managed to adopt the measures for establishing job performance and criteria for employee promotions. Job performance was assessed at the annual interview, where employee and manager reviewed the realization of tasks and goals and achievement of requested competence set at the previous annual interview. Based on these assessments and in accordance with the adopted measures 12 % of the most successful colleagues were financially remunerated.

Above average performance reviews for three years will bring the employee also progression to higher grade.

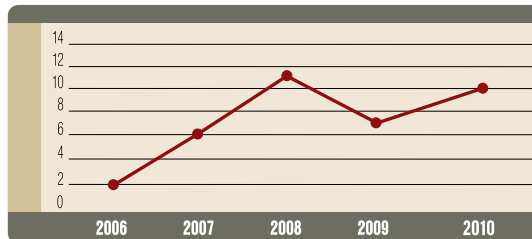
Employees are offered a chance to give suggestions. On the basis of systematical measures in the field, mainly the adopted rules on innovations, several innovation proposals appeared, consequently also remunerations. We also remunerate workers that successfully participate in commissions and project groups. In year 2010 we paid 119 bonuses for these purposes.

Mentorships for newly employed workers, who already have working experience but do not know the company, its operation, and details from the field of their new job or for workers that change their employment position within the company, are remunerated with ten percent increase in their salary. In year 2010 we remunerated two workers for implementing this kind of mentorship.

We also give bonuses to employees that are mentors of trainees. Mentor, who implements the traineeship program, is remunerated with a monthly addition for each trainee from the fourth to the seventh level of education in the amount of 10% of the mentor's basic salary. In year 2010 no mentorship was done, because we did not employ any trainee.

When worker substitutes for another worker for more than 30 calendar days continuously (except for the time of the annual leave), he or she receives the salary for the work done during the substitution. In year 2010 we had ten such substitutions.

Figure 45: Number of employees, whose salary raised due to substituting for an absent worker



We also pay the long-service bonuses to our employees. In year 2010 we paid out seven long-service bonuses for ten years of service, four bonuses for twenty years of service, twelve bonuses for thirty years of service, and four bonuses for thirty-five years of service.

At the end of the year employees get a bonus on the basis of operation performance, which is in proportion with the work invested, which contributed to achieved results of the company.

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 company agreement.

9.1.10 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 commitments of the employees as well. Feedback on comprehension of a working environment and relations in Elektro Gorenjska Company is received from employees also by anonymous survey on the satisfaction and commitment of employees. Acquired data is analyzed, while with implementation of different measures we then try to remove the established negative influences.

In Elektro Gorenjska company the survey on the satisfaction of employees has been carried out four times since year 2004, while survey on commitment twice. Respondents evaluate 62 statements from 11 fields with marks from 1 to 5, where mark 1 means »statement is completely unsuitable«, while mark 5 means »statement is completely suitable«.

From the results of the survey 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.

We hope that we can manage to improve the remuneration and promotion by rewarding the job performance and with even more possibilities of promotion. 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 at the end of year 2011.



Figure 46: Average scores in the fields of the survey

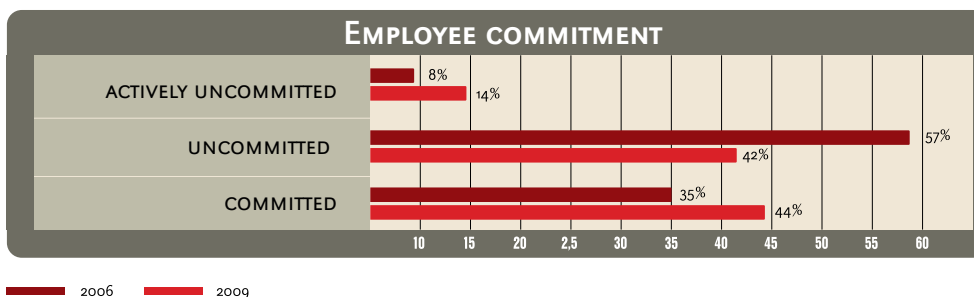


Figure 47: Employee commitment in Elektro Gorenjska

In year 2009 the satisfaction of employees in Elektro Gorenjska was established by an independent company. More than 50 % of respondents answered that:

- they make additional effort to make sure the work done is of high quality,
- execute correction measures, when they notice a problem,
- solve their problems alone,
- keep their word,
- ask for help when they need it,
- in solving troubles seek for opinion and advice of others,
- search for better ways of doing things,
- use the opportunity for their personal development,
- turn to rules and procedures in order to know how to deal with new situations,
- understand standard methods of doing things.

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 company, 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 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 equipped with quality instructions for implementation of regular annual interviews, while we are planning to upgrade it with useful advice in the field of management and communication.

9.1.11 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. Non-refunded absence due to sickness, which are charged to the company, were less frequent in year 2010 than in year 2009. Sickness absences, whose financial assets were reimbursed or refunded, were more frequent than in year 2009 due to larger number of mothers. Average absence due to sickness of employees in year 2010 was 15 days.

Table 15: Absences due to sickness in individual year

ABSENCES DUE TO SICKNESS IN YEAR			
	2008	2009	2010
NON- REFUNDED SICK LEAVE (DAYS)	1,734	2,850	1,875
REFUNDED SICK LEAVE (DAYS)	3,441	2,388	2,622
AVERAGE NUMBER OF SICK LEAVE DAYS / EMPLOYEE	16.02	16.17	15.04

In the previous years we recorded a large number of absences due to serious or chronic illness. In the last years absences due to parental leave and care and escort increased, while in year 2010 absences due to longer sicknesses were less frequent.

On average employees in year 2010 had accrued 33 days of regular annual holiday, while on average they used 21 days. They can use the rest of the holiday until 30. 6. 2011.

9.1.12 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 company 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 meeting of employees, children of the employees receive presents from Santa Clause. In December of 2010 Santa gave presents to 178 children of up to ten years of age.

The company 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 company. Employees are stimulated to participate in sports games of electric power distribution companies, which are organized twice a year. For special achievements athletes are extra remunerated.

Company offers also accident insurance for all its employees. Managing and realizing the principle of social security of our employees is part of the company'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 Company.

9.1.13 CONNECTING EMPLOYEES AND WIDER COMMUNITY

We stay in touch with our colleagues after they are retired. We inform them about the news in an internal gazette Elgo, we stimulate and financially support their activities in the Pensioners' Organization of Elektro Gorenjska, which has been active since year 2006. The society organizes different activities for its members:

- organize trips, of informative and sports nature
- visit the sick and elderly members and help their families in different ways
- company invites them to events connected with the activity of the company.

9.1.14 MANAGEMENT

Relations between employees and management in the company

Management of Elektro Gorenjska pays special attention to cooperation with the trade unions and work council. There are two unions operating within Elektro Gorenjska, namely the SDE and EDS, and a 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 employees 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.

Company has 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.

In year 2010 there were 12 sessions of the works council, where management was present as well.

9.1.15 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 Company operation. Health and safety at work system is regulated systematically with the help of OHSAS 18001 standard, which has been certified since year 2008 (please see also chapter 7 – Integrated management and quality system).

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

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

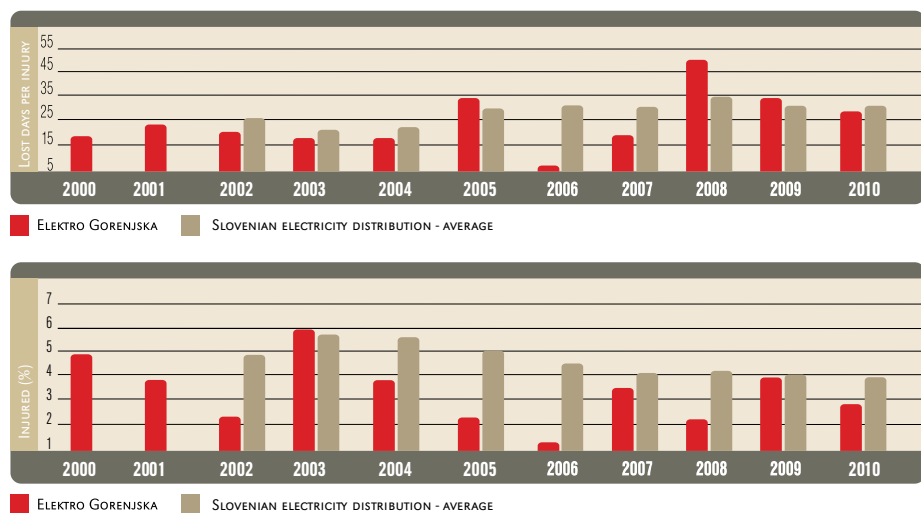
In year 2010 the main task of the Safety and Health at work Council was to control and provide for the implementation of programs and realization of decisions made at the sessions. Programs were set on the basis of establishments on current situation, and aims of system improvement.

Company also provides for the regulated working conditions and preservation of the employees health by:

- making sure that functions in health and safety at work are executed by professional staff,
- making sure that health protection functions are executed by a licensed doctor,
- adopted fire safety measures,
- adopted first aid and evacuation measures,
- informing workers about the introduction of new technologies and work resources as well as risk of injures and disorders connected with them,
- issuing instructions for safe work,
- training workers for safe work,
- ensuring workers the resources and equipment for personal safety at work and their use, when work resources and work environment do not provide health and safety at work despite the safety measures,
- ensuring periodic surveys of the work environment and periodic inspections and testing of protective equipment,
- ensuring medical examinations of workers.

For monitoring the health and safety at work 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. Compared to the previous year in year 2010 we managed to achieve better results in both indicators.

Figure 48: Gravity and frequency of injuries indicators from 2000 to 2010



Vir:

Elektro Gorenjska,
Poročilo o nezgodah 2010 za EDS
Slovenije

In year 2010 we:

- directed 94 workers to preventive and directed medical examinations,
- trained 190 workers for safe work,
- organized seasonal influenza vaccinations and vaccinations against the tick borne encephalitis,
- reviewed 250 pieces of work equipment,
- in cooperation with Elektrodistribucija Slovenije issued a new catalog of instructions for safe work and new examination questions for health and safety at work, fire safety and environmental protection.

Year 2010 was marked by the economic crisis, which is going to be a challenge for the company in year 2011 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 2011 great attention will be paid to safety training of workers, regulation of fire safety in the company, review of work equipment, implementation of medical examinations, purchase of quality personal safety equipment, and solving the problems of isolated workplaces.

9.1.16 INTERNAL COMMUNICATION

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 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,
- with the publication of a quarterly – internal gazette and
- with the publication of electronic internal monthly.

Leading a successful internal communication in the 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).

Direct communication: All employees in the Elektro Gorenjska have the possibility of a personal meeting with their superior or other managers and executives to present them their troubles, wishes, suggestions or initiatives and this way influence the company's operation in an informal or formal way once a year at an annual interview.

Communication and inclusion of employees on an internal level is organized in different ways. For higher efficiency of internal communication we follow the principles of integration, so messages are forwarded through different communication channels or tools.

Electronic communication: Employees in the group transfer messages and communicate by different electronic systems on a daily basis:

- Microsoft Exchange, through it communication between the employees takes place daily, notices are sent, messages, summaries of daily media review.
- EAD system for implementation of electronic archive of documents, all rules in force, internal acts, and received and sent mail.
- Web center – internal web sites, which enable quick and up-to-date information on news and current contents as well as better overview of the internal acts.

Internal gazette Elgo, which is sent to Elektro Gorenjska Company employees, pensioners, and scholarship holders by mail quarterly with small surprises enclosed. Once a year it is forwarded also to our business partners. Gazette informs the employees and expert public about business and working events. Besides information this internal paper brings also documentary, education, culture, art, sport, and social contents.

E-monthly Elgo is an additional communication support, which was introduced at the end of year 2010. It is sent to all employees of Elektro Gorenjska to their electronic inboxes every first Friday of the month. It presents all current contents that has marked the company the most in 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 marketing department is a member of the newspaper council and it is her task to make sure the company is well presented on its pages. Gazette presents also our achievements, good practice examples, awarded innovation proposals and other.

Traditional notice boards: Due to the diversity of the employees work the company uses traditional notice boards as a channel of communicating, which are intended for those employees who spent most of their time on site due to the nature of their work (field work).

9.2 CONCERN FOR THE ENVIRONMENT

9.2.1 ENVIRONMENTAL POLICY

For Elektro Gorenjska Company concern for environment and its conservation is part of its everyday life. Our attitude 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 6 – Quality management 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 challenges of the modern environment. 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 organizational units. With consistent implementation in the long-term we will be able to prevent strong pollutions 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 company in all fields.

9.2.2 ACHIEVEMENTS IN THE AREA OF ENVIRONMENT PROTECTION IN YEAR 2010

For Elektro Gorenjska Company concern for the environment and its conservation was a part of its everyday life in year 2010 too. With consistent implementation in the long-term we will be able to prevent strong pollutions 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 company in all fields. 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, defining new environmental objectives and updating and implementation of environmental programs, which was first verified in the form of an internal ISO audit, which was carried out in the month of September. Besides verification of certain business processes, practical implementation of environmental programs in local supervisory and all the workshops and warehouses of the company was verified as well. In audit at dislocated locations of the company exemplary implementation of environmental requirements was established, and above all a great progress compared to the findings of the internal ISO audit in the last year. Internal audit was followed by an external audit and certification in the month of October, where no discrepancies were established regarding environmental management, but there were seven recommendations made. All recommendations will be considered entirely and realized in this year. What confirms our good work in this field is an award for

business excellence (PRSP) we received, where environmental aspect plays a significant role in scoring.

- Organization of participation of Elektro Gorenjska representatives in a cleaning action throughout Slovenia called »Očistimo Slovenijo« in the month of April, where our team was assigned with illegal dumps in Sorško polje, in the wooded area between the villages of Jeprca and Meja. Our vehicle drove approximately 40 cubic meters of collected waste to the waste collection point (rest area Jeprca), where they were taken to the landfills from by the municipal service.
- Introduction of orange eco containers for packaging waste at the origin of creation on locations of Mirka Vadnova Street 3 and 3a in the month of November, whose purpose was to reduce the quantity of mixed waste. Reason for the introduction of waste separation was also to reduce the number of waste removal on the part of Komunala Kranj, due to which the possibility of waste separation at the origin of creation was even offered to the companies. This way we will reduce the amounts of the bills, but most of all contribute to the protection of our environment.
- Establishment and registration record of potentially ozone-depleting substances at the Ministry of Environment and Spatial Planning of RS in the month of December. In the survey it was established that insulation gas SF6 can be found in 101 transformer station junctures in the total amount of 324 kg and in 7 transformer substation junctures in the total amount of 1,614 kg. We included in the list also gas R22, which can be found in the cooling plant on location Mirka Vadnova Street 3 in the amount of 240 kg.
- 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).

9.2.3 GOALS AND ENVIRONMENTAL PROTECTION PROGRAMS IN YEAR 2011

In the field of program implementation we will also in year 2011 see to their suitability and implementation in accordance with the recommendations of external audit of ISO, which above all means a clearer definition of environmental goals, more up-to-date monitoring of legislation requirements and more efficient program realization.

Main challenge besides considering the programs and successful re-certification remains: concern for wide informing among the employees. 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. 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.

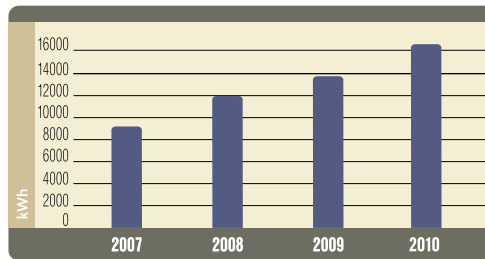
At reorganization or spin-off of OE NP we will make sure that environmental aspect is not neglected. In the form of an appropriate agreement it will be necessary to define the obligations to implement environmental requirements on the part of a newly established company as the user of certain Elektro Gorenjska infrastructure.

USE OF NATURAL RESOURCES

We took care of the rational and considered use of the natural resources. Economic crisis and worse operation were used as a lever to analyze the existing situation and search for savings in selective collection of useful and useless waste, rationalizing the use of natural resources by introducing the cogeneration mass formation inside the office building, which enables better utilization of natural gas and electricity.

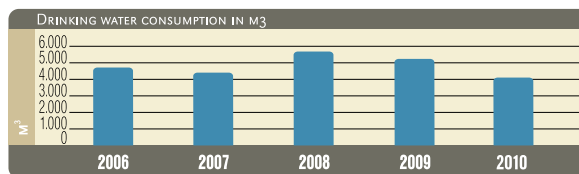
In year 2010 compared to year 2009 we increased the use of electricity from renewable sources for business use by more than 18 %.

Figure 49: Use of electricity from renewable sources for business in kWh



Drinking water consumption in year 2010 was reduced by 22 % compared to year 2009.

Figure 50: Drinking water consumption in m3



ENERGY EFFICIENCY

Already in year 2008 the company adopted and started to gradually introduce into its operation an active energy efficiency and ecologically oriented policy in all its business functions. During its introduction, which will consider the legislation and at the same time ensure implementation of a larger number of projects in the field of renewable sources use and efficient energy use, we expect positive results in the field of emission reduction and increase in the scope of services and operation, like construction of solar power plants for foreign investors, SPTE, construction of electric car charging stations.

COMBINED HEAT AND POWER PRODUCTION

In year 2009 we set up a micro unit for combined heat and power production at the seat of the company, which operates during the heating season. In year 2010 it produced already 103,462 kWh of electricity, which was purchased by the state-owned Support center at the subsidized price. This kind of electricity production is supported by the state as well, as it is a power station, which produces electricity with a very low level of greenhouse emissions – emissions of our power station are three to four times lower for the same quantity of produced electricity than in traditional coal-fired power plant.

FIRST ELECTRIC CAR CHARGING STATIONS ROUTE IN GORENJSKA REGION

At this moment electric driven private cars are mostly hybrids, but this is only an intermediate step towards pure electric vehicles. They will be realized with modern accumulators and will drive on hydrogen and be a true breakthrough in renewable sources use. It is foreseen that electric cars will have reached a percent in all cars sold by year 2015.

Elektro Gorenjska company took a new challenge at the end of year 2009 and set up the first charging station – small column with a possibility of charging electric cars in Gorenjska region in the immediate vicinity of the solar power plant Labore. For year 2010 we participated in the project of setting up five charging columns in tourist places in Gorenjska region.

EMISSIONS

With its operation the company does not affect the environment with carbon dioxide emissions into the atmosphere. In conservation of environment it is its concern to ensure responsible behavior in all activities.

WASTE

In the company we have an organized separated collection of waste, packaging waste, oils, and accumulators, which was appropriately defined in year 2009 by a program, which the company uses to provide for integrated control of all kinds of waste, useful or useless. 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 suitable further processing. Great attention was given to raising the awareness of the employees about the ways of using the air-conditioning devices, heating, lighting, use of computer equipment.

Quantity of collected toners and cartridges increased by 15 % in year 2010 compared to year 2009.

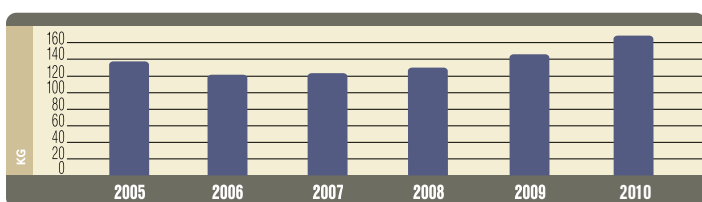


Figure 51: Collected toners and cartridges in kilos according to years

NOISE AND ELECTROMAGNETIC RADIATION

Elektro Gorenjska Company affects the physical environment by placing electric power facilities into the area and causing noise by transformers' operation.

Noise caused by the transformers in electric power facilities does not exceed the limits of disturbing noise defined by the existing rules. In designing and installing the electric power facilities the company complies with the legislation, which applies to this kind of harmful effects of environment.

According to the electromagnetic radiation measurements so far we have established that nowhere on the protected zones of the 110kV electric power facilities have the excessive values occurred, so it was not necessary to provide additional measures of protection against radiation.

DEVICES AND OILS CONTAINING THE PCB

Together with other distribution companies Elektro Gorenjska Company has already warned about the problem of identification of devices containing the PCBs (high costs, short time of identification). A method of quick screen was suggested by the companies, which serves as an exclusion factor. Only in the case of a positive result analyses using a standard method would be used. ARSO has adopted the proposed initiative at the meeting on 23. 11. 2004. This has accelerated the identification of PCB devices, as well as reduced high costs of standard method analyses.

Each year Elektro Gorenjska Company submits to the Agency the identification report, plans of disposal and decontamination of transformers for the previous year in the form of a CD until 31. 3. of the current year at the latest. Goal of the company on an annual level is to replace five transformers, which would contain ecological and environment-friendly liquid. Goal for year 2010 was reached.

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.

9.3 CONCERN FOR PUBLIC INTEREST

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. Main principles of Elektro Gorenjska Company 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 Elektro Gorenjska with its audiences is the responsibility of the Marketing Service.

Beside that we regularly follow the opinions of different public and their moods. One of the strategic goals of the company is to be achieving the set communication goals with the help of well organized, complete, proactive, and professional relations with all our key audiences That is why public relations are built strategically and proactively. Main stress is contributed to planning and implementing the relations with the media and through that also relations with end-users and relations with internal public.

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.

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 societies. Project that we support financially and professionally are selected on the basis of an 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. Sponsorships and donations are the responsibility of the Marketing Service. Due to the economic situation the company received a significantly larger number of applications, but earmarked less assets for this purpose in year 2010 than in previous years, namely **EUR 29,766**, of which costs of sponsorships amount to EUR 21,229, costs of donations EUR 8,537.

Fundamental guidance in decisions on participation in individual projects was to help those applicants, whom our assistance might help surmounting a difficulty or strongly relieve their operation.

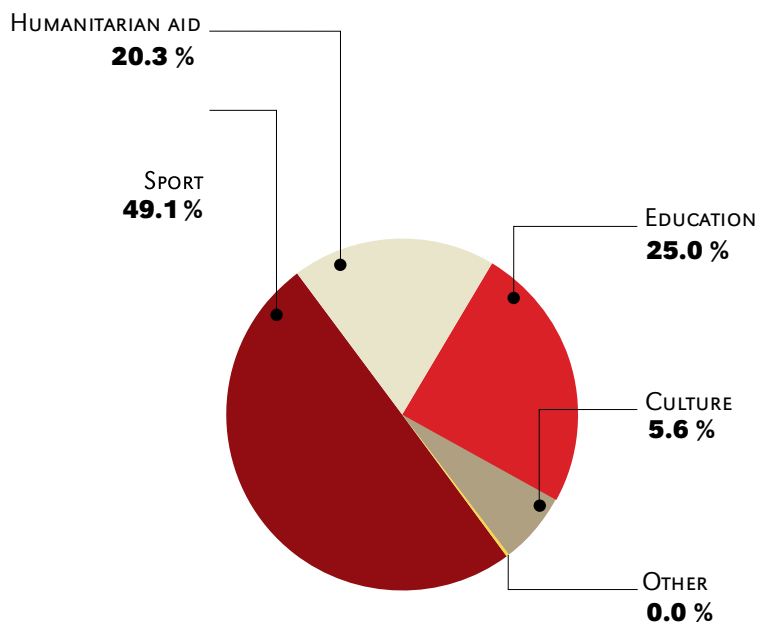


Figure 52: Sponsorships and donations of Elektro Gorenjska Company in year 2010

Following the example from year 2008, we donated assets earmarked for the purchase of business gifts at the end of the year, to the local community. In year 2010 Elektro Gorenjska Company used the money earmarked for purchase of gifts and organization of new year's parties, to bring happiness to clients of the Center Sonček Kranj, by purchasing equipment for their multipurpose room that the clients are going to use.

9.3.2 COMMUNICATION WITH OTHER INTERESTED PUBLIC

By developing new products and services we wish to create added value and additional trust of our customers, business and household alike. Increasing consumption of electricity in the area covered by the Elektro Gorenjska Company network is leading towards two main goals:

- learn customers to use electricity more efficiently,
- stimulate them to use renewable sources of energy supply by using different communication channels (web site, back sides of the bills, different brochures) and by information and education activities.

9.3.3 COMMUNICATION WITH END CUSTOMERS

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

- Through direct communication implemented by the call center. Customers can reach us on two phone numbers.
- By means of the web site www.elektro-gorenjska.si and electronic mail info@elektro-gorenjska.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.
- 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.
- Our customers are regularly informed also in the media and through communication boards in individual villages.

9.3.4 COMMUNICATION WITH BUSINESS PARTNERS

In accordance with good business customs the company provides for the permanent communication with its business partners. Besides the personal approach we provide for communication with our business partners also by means of the internal gazette Elgo, which they receive in the month of September. In contents the paper is adjusted to business partners, gazette informs them about our policies and guidelines for the future development.

We care for a long-term partnership relation, organize exhibitions, events, and lay great stress on formal and informal forms of socializing.

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.

Consolidate annual report of Elektro Gorenjska was submitted to the Agency of the Republic of Slovenia for Public Legal Records and Related Services for the purpose of public notice in the month of August 2010. Besides the printed version, annual report is also available on the web page of Elektro Gorenjska Company.

Annual report represents achievements of the previous year, financial and operating, as well as those that had a significant impact on the operation of the company. Besides financial data we also present policies and working methods for the future years.

In year 2010 we participated in the competition for the best annual report for year 2009, which is organized by Finance paper and ranked fifth in reporting on sustainable development of the company.

9.3.6 COMMUNICATION WITH MEDIA

Basic communication objectives in the field of media relations are achieved with the organization of press conferences, up-to-date press releases, different information material, organization of events, where pilot projects are presented, following media publications and with their analysis as well as activities, which sometimes include also somewhat less formal ways of media relations.

In year 2010 we communicated to the media in different ways and forwarded information on operation, new services and products offered to the market, strategic projects and decisions, we organized one larger press conference, where we presented activities in the field of electricity overpayment, participated in press conferences of cooperating partners and organized media event for the installation of the first electric car charging station route in Gorenjska region.

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.

Number of media publications referring to the company has been increasing with years, in year 2010 there were 799 publications recorded.

NUMBER OF PUBLICATIONS AND SETS OF MEDIA COVERAGE				
YEAR	2007	2008	2009	2010
AVERAGE NUMBER PUBLICATIONS IN A MONTH	496	636	579	799
INCIDENCE OF SETS	41	53	48	67
BUSINESS	123	107	64	177
ENERGY	251	495	513	627
IDENTITY MARKETING	120	34	30	47

Table 16: Number of publications and sets of media coverage

We regularly follow also their value, which was extremely positive in year 2010, regardless of the overpaid electricity payback procedures and changes in the management, as we noted only 3 % of negative publications.

PRESENTATION OF FAVORABILITY OF MEDIA PUBLICATIONS OF EG BY YEARS				
YEAR	2007	2008	2009	2010
SHARE OF POSITIVE PUBLICATIONS	70 %	45 %	41 %	19 %
SHARE OF NEUTRAL PUBLICATIONS	23 %	37 %	55 %	78 %
SHARE OF NEGATIVE PUBLICATIONS	7 %	18 %	4 %	3 %

Table 17: Presentation of favorability of media publications o Elektro Gorenjska by years

9.3.7 IMPORTANT EVENTS AND MEETINGS IN YEAR 2010

Due to general economic crisis in year 2010 we did not organize any special events for business partners. With the help of the photographic section, which includes employees of Elektro Gorenjska Company, we organized four photographic exhibitions, and with the help of Elektro Gorenjska sports club we organized annual sports games of distribution companies.

We organized several media events for the media, where key novelties of the fields we operate in were presented: press conference at the management replacement and the decision to return the over charged electricity to the customers, at the official opening of GIS juncture and RTP Moste, where for the second time production, transmission and distribution functions of the companies Savske elektrarne, Elektro Slovenia and Elektro Gorenjska joined at the all day event. presentation of the route of five charging stations in Gorenjska region, which will enable charging of electric vehicles and development of the green tourism.

9.3.8 FUTURE FORUM RES

It is time to show respect to our planet and start appreciating its hospitality. It is time to face the changes in environment, which are the result of our actions. And it is time to start assuming the responsibility for our actions.

In year 2010 we thus organize **The second forum on renewable sources and efficient energy use**, where visitors were able to find out how individuals or organizations can contribute to a more efficient energy use and how can they start using the renewable energy sources and consequently alter their relation to the environment.

At this one day event we presented pilot projects and services implemented by Elektro Gorenjska. Participants were acquainted with the useful information on green legislation, sun as the source of energy and construction of a proper solar power station, manner of combined heat and electricity production and other ways of efficient energy use and use of renewable sources, which contribute to a more responsible environmental management.

Forum took place on 11. 3. in Park Hotel in Bled. Participation at the forum was free of charge.

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

JANUARY

ELEKTRO GORENJSKA COMPANY RECEIVED TWO BUSINESS EXCELLENCE AWARDS

At a ceremony on 12. 1. 2011 Elektro Gorenjska Company received from the Government of RS a silver diploma for the score and diploma for the inclusion in the shortlist of the Business Excellence Award of the Republic of Slovenia in the category of organizations with more than 250 employees.

BUSINESS CONFERENCE TITLED DEVELOPMENT OPTIONS AND OPPORTUNITIES OF POWER DISTRIBUTION

Elektro Gorenjska Company participated in the business conference of Slovenian power distribution companies titled Development options and opportunities of power distribution, which took place on 20. 1. 2011 in Portorož. Main message of the conference was that energy industry could help economy in its competitive market presence.

FEBRUARY

NEW SUBSIDIARY ELEKTRO GORENJSKA PRODAJA WAS ESTABLISHED

On 25. 2. 2011 Elektro Gorenjska Company established a new subsidiary Elektro Gorenjska Prodaja, which will be responsible for market activity of purchase and sale of electricity. Establishment of the subsidiary represents the basis for the spin-off of organization unit Purchase and sale. Iztok Sotošek, MBA was appointed the director of the company.

MARCH

SUPERVISORY BOARD ADOPTED THE BUSINESS PLAN OF ELEKTRO GORENJSKA COMPANY

On 1. 3. 2011 the supervisory board discussed and confirmed the business plan for year 2011. Main business goals in year 2011 are explained in more detail in the second chapter titled Business goals in year 2011.

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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 unconsolidated financial statements of Elektro Gorenjska d.d. (hereinafter the "Company"), which comprise the balance sheet as at 31 December 2010, 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 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 entity'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 entity'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.

Opinion

In our opinion, the unconsolidated financial statements give a true and fair view of the financial position of the company Elektro Gorenjska d.d. as at 31 December 2010, and its financial performance and its cash flows for the year then ended in accordance with Slovene Accounting Standards.

Emphasis of Matter

As discussed in *Note 13.1 Transactions with related company SODO* and *Note 22. Events after the balance sheet date*, in 2011, before approving the financial statements for 2010, the Company received from SODO a calculation of the value of services, leases and losses for 2010 determined on the basis of a preliminary account of the 2010 regulatory year, which was prepared by the Energy Agency of the Republic of Slovenia as an "Account of the 2010 regulatory year – estimate", based on which the Company recorded additional revenue for 2010 in the amount of EUR 1,647 thousand. This was a preliminary estimate and a final account, which can disclose a different amount, will be issued by SODO at a later date.

The company Elektro Gorenjska d.d. is the controlling company in Elektro Gorenjska Group. The consolidated financial statements of Elektro Gorenjska Group, prepared in accordance with Slovene Accounting Standards, are presented separately. We have audited the consolidated financial statements of Elektro Gorenjska Group and issued an unqualified opinion on 5 May 2011.

Our opinion is not modified in respect of these matters.

Other Matter

The Company's financial statements for the year ending 31 December 2009 were audited by a different auditor who issued an unmodified opinion on 30 April 2010.

Report on Other Legal and Regulatory Requirements

Pursuant to Article 57(1) of the Companies Act (ZGD-1), we have reviewed the Company's business report. 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.

Ljubljana, 5 May 2011

Deloitte.

DELOITTE REVIZIJA D.O.O.
Ljubljana, Slovenija 1

TRANSLATION ONLY – SLOVENIAN ORIGINAL PREVAILS

BB

ACCOUNTING REPORT

11



**11. FINANCIAL
STATEMENTS OF
ELEKTRO GORENJSKA
COMPANY FOR
BUSINESS YEAR ENDED
AS AT 31. 12. 2010**

11.1 BALANCE SHEET OF ELEKTRO GORENJSKA COMPANY AS OF 31. 12. 2010

in EUR

ITEM	NOTE	31. 12. 2010	31. 12. 2009
ASSETS			
A. LONG-TERM ASSETS		174,467,715	173,337,681
I. INTANGIBLE ASSETS AND LT ACCRUALS AND PRE-PAID EXPENDITURE	14.1	1,701,973	1,558,199
1. Long-term property rights		1,372,469	994,603
4. Intangible assets in acquisition		329,504	563,596
II. TANGIBLE FIXED ASSETS	14.2	153,382,613	151,850,556
1. Land and buildings		98,257,486	94,933,702
a) Land		5,994,557	6,035,929
b) Buildings		92,262,929	88,897,773
2. Production plant and equipment		47,256,561	47,984,873
3. Other plant and equipment		51,638	51,638
4. Tangible fixed assets in acquisition		7,816,928	8,880,343
a) Tangible fixed assets in construction or production		7,754,606	8,691,558
b) Advances for acquisition of tangible fixed assets		62,322	188,785
III. INVESTMENT PROPERTY	14.3	2,122,589	2,803,046
IV. LONG-TERM FINANCIAL INVESTMENTS	14.4	17,252,964	17,111,298
1. Long-term financial investments, excluding loans		17,108,970	16,964,839
a) Shares and stakes in group companies		13,715,303	13,715,303
b) Shares and stakes in associates		135,000	0
c) Other shares and stakes		3,258,667	3,249,537
2. Long-term loans		143,994	146,459
b) Long-term loans to others		516	2,981
c) Other long-term invested assets		143,478	143,478
V. LONG-TERM OPERATING CLAIMS	14.5	7,576	14,581
3. Long-term operating claims to others		7,576	14,581
B. SHORT-TERM ASSETS		24,604,662	21,849,130
I. STOCKS	14.6	304,049	319,196
1. Material		304,049	319,196
II. SHORT-TERM FINANCIAL INVESTMENTS	14.7	1,574	2,096
2. Short-term loans		1,574	2,096
b) Short-term loans to others		1,574	2,096
III. SHORT-TERM OPERATING CLAIMS	14.8	22,123,759	17,489,738
1. Short-term operating claims to group companies		1,361,640	8,535
2. Short-term operating accounts receivable		19,395,188	15,665,182
3. Short-term operating claims on others		1,366,931	1,816,021
IV. MONETARY ASSETS	14.9	2,175,280	4,038,100
C. SHORT-TERM ACCRUALS AND PRE-PAID EXPENDITURE	14.10	1,783,474	292,454
TOTAL ASSETS		200,855,851	195,479,265
Off-balance sheet assets	14.17	5,898,682	7,154,662

in EUR

ITEM	NOTE	31. 12. 2010	31. 12. 2009
LIABILITIES			
A. CAPITAL	14.11	133,005,004	129,224,789
I. CALLED-UP CAPITAL		72,019,069	72,415,419
1. Share capital		72,415,419	72,415,419
2. Uncalled capital		396,350	0
II. CAPITAL RESERVES		45,944,898	45,944,898
III. PROFIT RESERVES		11,080,362	8,246,843
1. Statutory reserves		827,507	620,284
5. Other profit reserves		10,252,855	7,626,559
IV. REVALUATION SURPLUS		1,992,061	1,959,947
VI. NET PROFIT OR LOSS IN THE BUSINESS YEAR		1,968,614	657,682
1. Net profit of business year residue		1,968,614	657,682
B. PROVISIONS AND LT ACCRUED COSTS AND DEFERRED REVENUES	14.12	12,893,337	16,714,589
1. Provisions for pensions and similar liabilities		2,453,934	2,684,685
2. Other provisions		4,096,171	5,664,314
3. Long-term accrued costs and deferred revenues		6,343,232	8,365,590
C. LONG-TERM LIABILITIES	14.13	28,391,192	27,216,383
I. Long-term financial liabilities		27,885,518	26,333,038
2. Long-term financial liabilities to banks and companies		27,885,518	26,333,038
II. Long-term operating liabilities		7,659	8,235
4. Long-term operating liabilities based on advances		7,659	8,235
III. Deferred tax liabilities		498,015	875,110
Č. SHORT-TERM LIABILITIES		25,566,473	21,853,399
II. SHORT-TERM FINANCIAL LIABILITIES	14.14	5,655,784	4,809,613
2. Short-term financial liabilities to banks and companies		5,647,520	4,801,349
4. Other short-term financial liabilities		8,264	8,264
III. SHORT-TERM OPERATING LIABILITIES	14.15	19,910,689	17,043,786
1. Short-term operating liabilities to group companies		1,012,883	1,664,935
2. Short-term operating liabilities to suppliers		11,251,400	9,618,969
4. Short-term operating liabilities for the third party account		4,074,742	4,058,535
5. Short-term operating liabilities to employees		1,311,691	867,548
6. Short-term operating liabilities to state and other institutions		1,680,933	233,316
7. Short-term operating liabilities based on advances		347,582	482,073
8. Other short-term operating liabilities		231,458	118,410
D. SHORT-TERM ACCRUED COSTS AND DEFERRED REVENUES	14.16	999,845	470,105
TOTAL LIABILITIES		200,855,851	195,479,265
Off-balance sheet liabilities	14.17	5,898,682	7,154,662

Explanatory notes on pages 162 to 192 are part of the financial statements and should be read in conjunction with them.

11.2 PROFIT OR LOSS ACCOUNT OF ELEKTRO GORENJSKA COMPANY

FOR THE BUSINESS YEAR ENDED AS AT 31. 12. 2010

in EUR

ITEM	NOTE	2010	2009
1. NET SALES REVENUE	15.1	101,730,838	93,065,844
a. On domestic market		96,269,330	91,619,592
b. On foreign markets		5,461,509	1,446,252
3. CAPITALIZED OWN PRODUCTS AND SERVICES	15.2	3,902,592	4,007,481
4. OTHER OPERATING REVENUES (INCLUDING OPERATING REVENUES FROM REVALUATION)	15.3	1,373,057	530,711
5. Costs of goods, material, and services		-79,831,256	-75,498,814
a. Costs of goods sold and material used	15.8	-74,798,509	-70,488,104
b. Costs of services	15.9	-5,032,747	-5,010,711
6. LABOR COSTS	15.10	-11,044,705	-10,233,618
a. Costs of salaries		-7,734,253	-7,272,639
b. Costs of voluntary pension insurance of employees		-351,579	-340,980
c. Costs of employer contributions and other salary duties		-1,266,987	-1,221,796
d. Other labor costs		-1,691,886	-1,398,203
7. AMORTIZATION/DEPRECIATION EXPENSE	15.11	-10,149,599	-9,313,241
a. Depreciation		-9,248,610	-9,036,518
b. Operating expenses from revaluation in intang. and tang. fixed assets		-177,390	-214,719
c. Operating expenses from revaluation in current assets		-723,599	-62,004
8. OTHER OPERATING EXPENSES	15.12	-838,837	-1,839,731
9. FINANCIAL REVENUES FROM SHARES	15.4	164,500	1,231,362
a. financial revenues from shares in group companies		0	1,065,530
c. financial revenues from other investments		164,500	165,832
10. FINANCIAL REVENUES FROM GIVEN LOANS	15.5	45,002	17,868
b. financial revenues from loans given to others		45,002	17,868
11. FINANCIAL REVENUES FROM OPERATING CLAIMS	15.6	161,329	165,061
b. financial revenues from operating claims on others		161,329	165,061
12. FINANCIAL EXPENSES FROM IMPAIRMENTS AND FINANCIAL INVESTMENT WRITE-OFFS	15.13	0	0
13. FINANCIAL EXPENSES FROM FINANCIAL LIABILITIES	15.14	-757,406	-645,988
b. financial expenses from loans, received from banks		-757,406	-645,988
14. FINANCIAL EXPENSES FROM OPERATING LIABILITIES	15.15	-17,918	-46,241
a. financial expenses from operating liabilities to group companies		-14,364	-33,900
b. financial expenses from liab. to suppliers and bill of exchange l.		-1,702	-8,785
c. financial expenses from other operating liabilities		-1,851	-3,556
15. OTHER REVENUES	15.7	143,715	272,481
16. OTHER EXPENSES	15.16	-13,338	-1,381
17. NET PRE-TAX PROFIT OR LOSS OF THE ACCOUNTING PERIOD		4,867,974	1,711,794
18. INCOME TAX	15.18	-1,077,635	-196,877
19. DEFERRED TAXES	15.19	354,112	-130,324
20. NET PROFIT OR LOSS OF THE ACCOUNTING PERIOD		4,144,451	1,384,594

Explanatory notes on pages 162 to 192 are part of the financial statements and should be read in conjunction with them.

11.3 STATEMENT OF OTHER COMPREHENSIVE INCOME OF ELEKTRO GORENJSKA COMPANY FOR THE BUSINESS YEAR ENDED AS AT 31. 12. 2010

in EUR

TITLE	2010	2009
NET PROFIT OR LOSS OF THE ACCOUNTING PERIOD	4,144,451	1,384,594
Changes in the surplus from the revaluation of financial assets available for sale	32,114	0
TOTAL COMPREHENSIVE INCOME	4,176,565	1,384,594

Explanatory notes on pages 162 to 192 are part of the financial statements and should be read in conjunction with them.

11.4 CASH FLOW STATEMENT OF ELEKTRO GORENJSKA COMPANY FOR THE BUSINESS YEAR ENDED AS AT 31. 12. 2010

in EUR

TITLE	2010	2009
A. OPERATING CASH-FLOW		
A. OPERATING RECEIPTS	129,868,729	121,433,757
1. Receipts from sales of products and services	128,359,292	119,838,921
2. Other operating receipts	1,509,438	1,594,836
B. OPERATING EXPENDITURE	-122,481,215	-110,156,024
1. Expenditure for purchase of material and services	-105,884,118	-95,710,849
2. Expenditure for salaries and employees profit shares	-9,501,666	-9,355,194
3. Expenditure for duties of all kinds	-4,280,160	-2,735,775
4. Other operating expenditure	-2,815,271	-2,354,206
C. EXCESS OF OPERATING RECEIPTS OR EXPENDITURE	7,387,514	11,277,732
B. CASH FLOWS IN INVESTING ACTIVITIES		
a. RECEIPTS IN INVESTING ACTIVITIES	811,148	1,462,164
1. Receipts from received interest and profit shares of others	338,053	1,385,358
3. Receipts from disposal of tangible fixed assets	473,095	76,806
B. EXPENDITURE IN INVESTING ACTIVITIES	-11,678,719	-13,870,530
1. Expenses for acquisition of intangible assets	-1,705,376	-972,328
2. Expenses for acquisition of tangible fixed assets	-9,838,343	-12,898,202
4. Expenses for acquisition of long-term financial investments	-135,000	0
C. EXCESS OF RECEIPTS OR EXPENDITURE IN INVESTING ACTIVITIES	-10,867,571	-12,408,366

Continue on next page ►

in EUR

TITLE	2010	2009
C. CASH FLOWS IN FINANCING ACTIVITIES		
A. RECEIPTS IN FINANCING ACTIVITIES	17,610,000	12,827,000
2. Receipts from increase in long-term financial liabilities	7,200,000	8,500,000
3. Receipts from increase in short-term financial liabilities	10,410,000	4,327,000
B. EXPENDITURE IN FINANCING ACTIVITIES	-15,992,763	-8,894,386
1. Expenditure for given interest referring to financing activ.	-781,414	-770,436
3. Expenditure for repayment of long-term financial liabilities	-4,801,349	-3,796,880
4. Expenditure for repayment of short-term financial liabilities	-10,410,000	-4,327,000
5. Expenditure for dividend and other profit share payment	0	-70
C. EXCESS OF RECEIPTS OR EXPENDITURE IN FINANCING ACTIV.	1,617,237	3,932,614
Č. CLOSING CASH BALANCE	2,175,280	4,038,100
X. CASH FLOW FOR THE PERIOD	-1,862,820	2,801,981
Y. OPENING CASH BALANCE	4,038,100	1,236,119

Explanatory notes on pages 162 to 192 are part of the financial statements and should be read in conjunction with them.

11.5 STATEMENT OF CHANGES IN EQUITY OF ELEKTRO GORENJSKA COMPANY

FOR THE BUSINESS YEAR ENDED AS AT 31. 12. 2010

a.) From January 1 2010 to December 31 2010:

in EUR

	CALLED-UP CAPITAL		CAPITAL RESERVES		PROFIT RESERVES		REVALUATION SURPLUS		NET PROFIT OR LOSS OF THE BUSINESS YEAR		TOTAL CAPITAL
	SHARE CAPITAL	UNCALLED CAPITAL	CAPITAL RESERVES - GENERAL CAPITAL VALUATION ADJUSTMENT	STATUTORY RESERVES	OTHER PROFIT RESERVES	REVALUATION SURPLUS	NET PROFIT OF THE BUSINESS YEAR				
							I/1	I/2	II	III/1	
A. 1 Balance as of December 31 2009	72,415,419	0	45,944,898	620,284	7,626,559	1,959,947	657,682				129,224,789
A. 2 Balance as of January 1 2010	72,415,419	0	45,944,898	620,284	7,626,559	1,959,947	657,682				129,224,789
B. 1 Changes in equity – transactions with owners	0	-396,350	0	0	0	0	0	0	0	0	-396,350
i. other changes in equity		-396,350									-396,350
B. 2 Total comprehensive income of reporting period	0	0	0	0	0	32,114	4,144,451				4,176,565
a. Entry of net profit or loss for the reporting period							4,144,451				4,144,451
c. Change in financial investments revaluation surplus						32,114					32,114
B. 3 Changes within capital	0	0	0	207,223	2,626,296	0	-2,833,519				0
b. Allocation of part of net profit of reporting period to other items of capital following the decision of the management and control				207,223	1,968,614		-2,175,837				0
c. Allocation of net profit for additional provisioning under the decision of the annual general meeting					657,682		-657,682				0
C. Balance as of december 31 2010	72,415,419	-396,350	45,944,898	827,507	10,252,855	1,992,061	1,968,614				133,005,004
Distributable profit 2010							1,968,614				1,968,614

11.6 DISTRIBUTABLE PROFIT OF ELEKTRO GORENJSKA COMPANY FOR THE BUSINESS YEAR ENDED AS AT 31. 12. 2010

in EUR

NAME	2010	2009
1. NET PROFIT OR LOSS OF THE BUSINESS YEAR	4,144,451	1,384,594
2. + NET PROFIT FROM PREVIOUS PERIODS / NET LOSS FROM PREVIOUS PERIODS	0	0
3. + DECREASE OF PROFIT RESERVES:		
4. - INCREASE OF PROFIT RESERVES FOLLOWING THE DECISION OF MANGEMENT AND CONTROL :		
A) STATUTORY RESERVES	-207,223	-69,230
5. - INCREASE OF PROFIT RESERVES FOLLOWING THE DECISION OF MANGEMENT AND CONTROL		
A) OTHER PROFIT RESERVES	-1,968,614	-657,682
6. DISTRIBUTABLE RESERVES	1,968,614	657,682

Explanatory notes on pages 162 to 192 are part of the financial statements and should be read in conjunction with them.

11.7 PROFIT AND LOSS ACCOUNT BY ACTIVITIES OF ELEKTRO GORENJSKA COMPANY FOR THE BUSINESS YEAR ENDED AS AT 31. 12. 2010

in EUR

ITEM	DO	DGO	DPO	DED	TRG
1. Net sales profi	26,718,802	17,393,985	56,110,832	95,936	1,411,283
a) on domestic market	26,718,802	17,393,985	50,664,097	95,936	1,396,509
b) abroad	0	0	5,446,735	0	14,774
3. Capitalized own products and services	0	0	0	3,392	3,899,201
4. Other operating revenues (including operating revenues from revaluation)	309,113	1,001,037	4,392	20,402	399,015
5. Costs of goods, material, and services	-7,386,984	-16,302,952	-52,711,805	-49,297	-3,380,218
a) costs of goods sold and materials used	-3,900,663	-15,787,271	-52,237,616	-37,363	-2,835,595
b) costs of services	-3,486,321	-515,681	-474,188	-11,934	-544,623
6. Labor costs	-7,578,699	-290,924	-778,641	-1,443	-2,394,997
a) costs of salaries	-5,389,491	-187,351	-569,560	-1,234	-1,586,618
b) costs of voluntary pension insurance of employees	-250,609	-14,854	-21,273	0	-64,843
c) costs of employer's contributions and other salary duties	-867,305	-30,337	-95,732	-209	-273,405
d) other labor costs	-1,071,295	-58,382	-92,077	0	-470,131
7. Amortization/depreciation expense	-9,200,515	-39,393	-436,232	-31,864	-441,595
a) depreciation	-8,722,136	-23,193	-61,615	-27,549	-414,118
b) operating expenses from revaluation in intangible and tangible fixed assets	-168,348	-160	-3,573	-4,315	-994
c) operating expenses from revaluation in current assets	-310,031	-16,041	-371,045	0	-26,483
8. Other operating expenses	-539,931	-413,488	-35,268	0	-211,052
9. Financial revenues from shares	0	0	0	0	164,500
c) financial revenues from other investments	0	0	0	0	164,500
10. Financial revenues from given loans	0	0	44,913	0	89
b) financial revenues from loans, given to others	0	0	44,913	0	89
11. Financial revenues from operating claims	35,331	5,129	111,047	0	9,823
b) financial revenues from operating claims on others	35,331	5,129	111,047	0	9,823
13. Financial revenues from financial liabilities	-740,652	-16,753	0	0	0
b) financial expenses from loans, received from banks	-740,652	-16,753	0	0	0
14. Financial expenses from operating liabilities	-382	-6	-15,550	0	-1,980
a) financial expenses from operating liabilities to group companies	0	0	-14,364	0	0
b) financial expenses from liabilities to suppliers and bill of exchange liabilities	-382	-6	-1,141	0	-174
c) financial expenses from other operating liabilities	0	0	-44	0	-1,807
15. Other revenues	82,435	12,576	3,131	79	45,494
16. Other expenses	-6,557	-6	-625	0	-6,151
17. NET PRE-TAX PROFIT OR LOSS OF THE ACCOUNTING PERIOD	1,691,961	1,349,205	2,296,194	37,204	-506,589
18. Income tax	-339,208	-270,492	-460,347	-7,588	0
19. Deferred taxes	23,404	324,709	1,413	0	4,586
20. NET PROFIT OR LOSS OF THE ACCOUNTING PERIOD	1,376,157	1,403,422	1,837,260	29,616	-502,004

Explanations of activity codes abbreviations in columns:

DO - activity distribution network

DGO - activity of purchase and sale of electricity to household customers

DPO - activity of purchase and sale of electricity to business customers, including trade

DED - other energy activities

TRG - non-energy market activities.

Comparable profit and loss account of the company by activities for the business year ended as at 31. 12. 2009

in EUR

ITEM	DO	DGO	DPO	DED	TRG
1. Net sales profit	24,056,091	17,566,152	49,444,944	83,031	1,915,627
a) on domestic market	24,056,091	17,566,152	48,015,312	83,031	1,899,007
b) abroad	0	0	1,429,632	0	16,620
3. Capitalized own products and services	0	0	0	0	4,007,481
4. Other operating revenues (including operating revenues from revaluation)	411,620	72,421	1,954	0	44,716
5. Costs of goods, material, and services	-8,447,209	-18,124,016	-45,476,755	-123,867	-3,326,967
a) costs of goods sold and materials used	-4,895,284	-17,719,085	-45,164,707	-37,461	-2,671,567
b) costs of services	-3,551,925	-404,931	-312,048	-86,406	-655,400
6. Labor costs	-7,242,824	-308,998	-594,800	-31,217	-2,055,778
a) costs of salaries	-5,171,266	-190,002	-436,499	-23,738	-1,451,134
b) costs of voluntary pension insurance of employees	-252,756	-17,071	-19,182	0	-51,970
c) costs of employer's contributions and other salary duties	-863,326	-32,784	-74,094	-4,089	-247,503
d) other labor costs	-955,476	-69,141	-65,024	-3,390	-305,171
7. Amortization/depreciation expense	-8,756,824	-97,353	110,342	-16,798	-552,607
a) depreciation	-8,534,744	-24,822	-56,877	-16,798	-403,276
b) operating expenses from revaluation in intangible and tangible fixed assets	-117,583	-203	-261	0	-96,673
c) operating expenses from revaluation in current assets	-104,498	-72,328	167,480	0	-52,658
8. Other operating expenses	-653,374	-606,247	-94,700	-73	-485,337
9. Financial revenues from shares	0	0	0	0	1,231,361
a) financial revenues from shares in other group companies	0	0	0	0	1,065,530
c) financial revenues from other investments	0	0	0	0	165,832
10. Financial revenues from given loans	26	0	17,717	0	124
b) financial revenues from loans, given to others	26	0	17,717	0	124
11. Financial revenues from operating claims	16,602	5,395	138,403	0	4,660
b) financial revenues from operating claims on others	16,602	5,395	138,403	0	4,660
13. Financial revenues from financial liabilities	-602,914	-42,940	-32	0	-103
b) financial expenses from loans, received from banks	-602,914	-42,940	-32	0	-103
14. Financial expenses from operating liabilities	-10,335	-3	-33,668	0	-2,234
a) financial expenses from operating liabilities to group companies	-4,359	0	-29,540	0	0
b) financial expenses from liabilities to suppliers and bill of exchange liabilities	-5,934	-3	-2,621	0	-227
c) financial expenses from other operating liabilities	-41	-1	-1,507	0	-2,007
15. Other revenues	190,018	6,344	70,987	0	5,131
16. Other expenses	-1,368	-3	-4	0	-5
17. NET PRE-TAX PROFIT OR LOSS OF THE ACCOUNTING PERIOD	-1,040,492	-1,529,249	3,584,390	-88,924	786,070
18. Income tax	0	0	-161,467	0	-35,410
19. Deferred taxes	-23,404	-100,921	-1,413	0	-4,586
20. NET PROFIT OR LOSS OF THE ACCOUNTING PERIOD	-1,063,896	-1,630,170	3,421,510	-88,924	746,074

Explanations of activity codes abbreviations in columns:

DO – activity distribution network

DGO – activity of purchase and sale of electricity to household customers

DPO – activity of purchase and sale of electricity to business customers, including trade

DED – other energy activities

TRG – non-energy market activities.

11.8 BALANCE SHEET OF ELEKTRO GORENJSKA COMPANY

BY ACTIVITIES AS AT 31. 12. 2010

in EUR

ITEM	DO	DGO	DPO	DED	TRG	TOTAL ELEKTRO GORENJSKA
ASSETS						
A. Long-term assets	149,564,262	592,382	643,684	0	23,667,387	174,467,715
I. Intangible assets and long-term accruals and pre-paid expenditure	1,532,088	15,497	50,365	0	104,023	1,701,973
1. Long-term property rights	1,248,385	10,225	33,231	0	80,628	1,372,469
4. Intangible assets in acquisition	283,703	5,272	17,134	0	23,395	329,504
II. Tangible fixed assets	148,032,174	576,885	593,319	0	4,180,235	153,382,613
1. Land and buildings	94,291,269	553,374	514,096	0	2,898,747	98,257,486
a) land	4,590,891	47,899	44,605	0	1,311,161	5,994,557
b) buildings	89,700,378	505,474	469,491	0	1,587,585	92,262,929
2. Production Devices and machines	45,944,090	20,779	76,024	0	1,215,668	47,256,561
3. Other devices and equipment	40,689	2,732	3,199	0	5,018	51,638
4. Tangible fixed assets in acquisition	7,756,126	0	0	0	60,802	7,816,928
a) tangible fixed assets in construction or production	7,693,804	0	0	0	60,802	7,754,606
b) advances for acquisition of tangible fixed assets	62,322	0	0	0	0	62,322
III. Investment property	0	0	0	0	2,122,589	2,122,589
IV. Long-term financial investments	0	0	0	0	17,252,964	17,252,964
1. Long-term financial investments, excluding loans	0	0	0	0	17,108,970	17,108,970
a) shares and stakes in group companies	0	0	0	0	13,715,303	13,715,303
b) shares and stakes in associate companies	0	0	0	0	135,000	135,000
c) other shares and stakes	0	0	0	0	3,258,667	3,258,667
c) other long-term financial investments	0	0	0	0	0	0
2. Long-term loans	0	0	0	0	143,994	143,994
a) long-term loans to group companies	0	0	0	0	0	0
b) long-term loans to others	0	0	0	0	516	516
c) other long-term invested assets	0	0	0	0	143,478	143,478
V. Long-term operating claims	0	0	0	0	7,576	7,576
3. Long-term operating claims to others	0	0	0	0	7,576	7,576
B. SHORT-TERM ASSETS	3,003,157	-12,814,471	30,637,958	92,691	3,685,327	24,604,662
I. Stocks	81,215	228	740	0	221,866	304,049
1. Material	81,215	228	740	0	221,866	304,049
II. Short-term financial investments	0	0	0	0	1,574	1,574
2. Short-term loans	0	0	0	0	1,574	1,574
b) short-term loans to others	0	0	0	0	1,574	1,574
III. Short-term operating claims	7,324,951	2,204,314	10,591,366	641,582	1,361,546	22,123,759
1. Short-term operating claims to group companies	3,667	28	9,232	587,319	761,394	1,361,640
2. Short-term operating accounts receivable	6,959,339	1,981,670	9,927,430	11,660	515,088	19,395,187
3. Short-term operating claims on other	361,946	222,616	654,704	42,603	85,063	1,366,932
IV. Monetary assets	-4,403,010	-15,019,013	20,045,852	-548,891	2,100,342	2,175,280
C. SHORT-TERM ACCRUALS AND PRE-PAID EXPENDITURE	1,708,863	50,091	15,052	0	9,468	1,783,474
TOTAL ASSETS	154,276,282	-12,171,998	31,296,694	92,691	27,362,183	200,855,851
Off-balance-sheet assets	4,897,959	14,678	686,505	0	299,540	5,898,682

Continue on next page ►

in EUR

ITEM	DO	DGO	DPO	DED	TRG	TOTAL ELEKTRO GORENJSKA
LIABILITIES						
A. CAPITAL	104,403,713	-15,668,850	22,153,765	57,265	22,059,111	133,005,004
I. Called-up capital	65,556,986	1,313,534	1,602,762	0	3,942,137	72,415,419
1. Share capital	65,556,986	1,313,534	1,602,762	0	3,942,137	72,415,419
2. Uncalled capital	0	0	0	0	396,350	396,350
II. Capital reserves	41,558,607	869,823	1,024,724	0	2,491,744	45,944,898
III. Profit reserves	2,402,888	657,103	6,939,033	14,143	1,067,195	11,080,362
1. Statutory reserves	227,588	62,581	462,824	1,347	73,167	827,507
5. Other profit reserves	2,175,300	594,522	6,476,209	12,796	994,028	10,252,855
IV. Revaluation surplus	0	0	0	0	1,992,061	1,992,061
V. Net profit or loss from previous periods	4,277,728	-19,972,729	13,462,345	-99,572	2,332,228	0
1. Net profit from previous periods	4,277,728	-19,972,729	13,462,345	-99,572	2,332,228	0
VI. Net profit or loss in the business year	731,891	746,319	976,935	15,473	-502,004	1,968,614
1. Net profit of business year residue	731,891	746,319	976,935	15,473	-502,004	1,968,614
VII. Capital revaluation adjustment between activities	-10,124,387	717,100	-1,852,034	127,221	11,132,100	0
B. PROVISIONS AND LONG-TERM ACCRUED COSTS AND DEFERRED REVENUES	8,238,188	245,083	122,310	0	4,287,756	12,893,337
1. Provisions for pensions and similar liabilities	1,929,159	96,900	122,310	0	305,565	2,453,934
2. Other provisions	0	125,000	0	0	3,971,171	4,096,171
3. Long-term accrued costs and deferred revenues	6,309,029	23,183	0	0	11,020	6,343,232
C. LONG-TERM LIABILITIES	27,214,636	678,541	0	0	498,015	28,391,192
I. Long-term financial liabilities	27,214,636	670,882	0	0	0	27,885,518
2. Long-term financial liabilities to banks and companies	27,214,636	670,882	0	0	0	27,885,518
II. Long-term operating liabilities	0	7,659	0	0	0	7,659
3. Long-term operating liabilities base on advances	0	7,659	0	0	0	7,659
III. Deferred tax liabilities	0	0	0	0	498,015	498,015
Č. SHORT-TERM LIABILITIES	13,753,775	2,314,737	8,990,881	35,426	471,654	25,566,473
II. Short-term financial liabilities	5,163,824	490,943	430	0	587	5,655,784
2. Short-term financial liabilities to banks and companies	5,156,709	490,811	0	0	0	5,647,520
4. Other short-term financial liabilities	7,115	132	430	0	587	8,264
III. Short-term operating liabilities	8,589,951	1,823,794	8,990,452	35,426	471,067	19,910,689
1. Short-term operating liabilities to group companies	0	0	1,012,883	0	0	1,012,883
2. Short-term operating liabilities to suppliers	2,885,309	1,134,306	7,075,184	28,763	127,837	11,251,400
4. Short-term operating liabilities for the third party account	4,067,874	0	0	0	6,868	4,074,742
5. Short-term operating liabilities to employees	939,088	31,219	71,179	0	270,204	1,311,691
6. Short-term operating liabilities to state and other institutions	504,035	363,454	755,806	6,663	50,975	1,680,933
7. Short-term operating liabilities based on advances	15,696	259,194	70,918	0	1,774	347,582
8. Other short-term operating liabilities	177,948	35,620	4,481	0	13,408	231,458
D. SHORT-TERM ACCRUED COSTS AND DEFERRED REVENUES	665,970	258,491	29,738	0	45,646	999,845
TOTAL LIABILITIES	154,276,282	-12,171,997	31,296,694	92,691	27,362,182	200,855,851
Off-balance-sheet assets	4,897,959	14,678	686,505	0	299,540	5,898,682

Explanations of activity codes abbreviations in columns:

DO – activity distribution network

DGO – activity of purchase and sale of electricity to household customers

DPO – activity of purchase and sale of electricity to business customers, including trade

DED – other energy activities

TRG – non-energy market activities.

COMPARABLE BALANCE SHEET OF THE COMPANY BY ACTIVITIES AS OF 31. 12. 2009

in EUR

ITEM	DO	DGO	DPO	DED	TRG	TOTAL ELEKTRO GORENJSKA
ASSETS						
A. Long-term assets	147,153,104	599,157	672,770	313,662	24,598,989	173,337,681
I. Intangible assets and long-term accruals and pre-paid expenditure	1,410,770	10,564	34,333	3,619	98,912	1,558,199
1. Long-term property rights	875,117	7,348	23,880	3,619	84,639	994,603
4. Intangible assets in acquisition	535,654	3,216	10,453	0	14,273	563,596
II. Tangible fixed assets	145,740,959	588,593	638,437	310,043	4,572,524	151,850,556
1. Land and buildings	90,648,605	560,002	520,849	0	3,204,246	94,933,702
a) land	4,390,021	47,899	44,605	0	1,553,403	6,035,929
b) buildings	86,258,584	512,103	476,244	0	1,650,843	88,897,773
2. Production Devices and machines	46,373,252	25,835	109,845	172,735	1,303,206	47,984,873
3. other devices and equipment	42,649	2,110	3,318	0	3,562	51,638
4. Tangible fixed assets in acquisition	8,676,454	645	4,425	137,308	61,511	8,880,343
a) tangible fixed assets in construction or production	8,626,377	484	3,901	0	60,795	8,691,558
b) advances for acquisition of tangible fixed assets	50,077	161	524	137,308	715	188,785
III. Investment property	0	0	0	0	2,803,046	2,803,046
IV. Long-term financial investments	0	0	0	0	17,111,299	17,111,299
1. Long-term financial investments, excluding loans	0	0	0	0	16,964,840	16,964,840
a) shares and stakes in group companies	0	0	0	0	13,715,303	13,715,303
c) other shares and stakes	0	0	0	0	3,249,537	3,249,537
2. Long-term loans	0	0	0	0	146,459	146,459
b) long-term loans to others	0	0	0	0	2,981	2,981
c) other long-term invested assets	0	0	0	0	143,478	143,478
V. Long-term operating claims	1,374	0	0	0	13,207	14,581
3. Long-term operating claims to others	1,374	0	0	0	13,207	14,581
B. SHORT-TERM ASSETS	4,295,172	-12,257,264	26,158,596	-267,388	3,920,012	21,849,130
I. I. Stocks	77,528	229	701	0	240,739	319,196
1. Material	77,528	229	701	0	240,739	319,196
II. Short-term financial investments	0	0	0	0	2,096	2,096
2. Short-term loans	0	0	0	0	2,096	2,096
b) short-term loans to others	0	0	0	0	2,096	2,096
III. Short-term operating claims	7,722,569	2,201,393	7,028,029	5,473	532,273	17,489,738
1. Short-term operating claims to group companies	1,340	5	15	0	7,175	8,535
2. Short-term operating accounts receivable	7,052,662	1,957,989	6,314,533	5,473	334,525	15,665,182
3. Short-term operating claims on other	668,567	243,398	713,481	0	190,574	1,816,021
IV. Monetary assets	-3,504,925	-14,458,885	19,129,866	-272,861	3,144,904	4,038,100
C. SHORT-TERM ACCRUALS AND PRE-PAID EXPENDITURE	49,243	155,705	40,284	29,715	17,507	292,454
TOTAL ASSETS	151,497,519	-11,502,402	26,871,650	75,989	28,536,509	195,479,265
Off-balance-sheet assets	4,761,715	19,972	1,535,741	0	837,234	7,154,662

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in EUR

ITEM	DO	DGO	DPO	DED	TRG	TOTAL ELEKTRO GORENJSKA
LIABILITIES						
A. CAPITAL	103,027,557	-17,072,272	20,316,504	27,649	22,925,351	129,224,789
I. Called-up capital	65,556,986	1,313,534	1,602,762	0	3,942,137	72,415,419
1. Share capital	65,556,986	1,313,534	1,602,762	0	3,942,137	72,415,419
II. Capital reserves	41,558,607	869,823	1,024,724	0	2,491,744	45,944,898
III. Profit reserves	1,758,623	0	5,538,750	0	949,470	8,246,843
1. Statutory reserves	166,229	0	380,888	0	73,167	620,284
5. Other profit reserves	1,592,394	0	5,157,862	0	876,303	7,626,559
IV. Revaluation surplus	0	0	0	0	1,959,947	1,959,947
V. Net profit or loss from previous periods	5,341,624	-18,342,559	11,177,587	-10,648	1,833,996	0
1. Net profit from previous periods	5,341,624	-18,342,559	11,177,587	-10,648	1,833,996	0
VI. Net profit or loss in the business year	-1,063,896	-1,630,170	2,824,715	-88,924	615,957	657,682
1. Net profit of business year residue	-1,063,896	-1,630,170	2,824,715	-88,924	615,957	657,682
VII. Capital revaluation adjustment between activities	-10,124,387	717,100	-1,852,034	127,221	11,132,100	0
B. PROVISIONS AND LONG-TERM ACCRUED COSTS AND DEFERRED REVENUES	10,249,614	1,823,368	121,289	0	4,520,319	16,714,589
1. Provisions for pensions and similar liabilities	1,789,710	168,029	113,531	0	613,415	2,684,685
2. Other provisions	128,452	1,623,756	7,758	0	3,904,348	5,664,314
3. Long-term accrued costs and deferred revenues	8,331,452	31,583	0	0	2,555	8,365,590
C. LONG-TERM LIABILITIES	25,197,037	1,494,102	1,552	0	523,692	27,216,383
I. Long-term financial liabilities	25,171,346	1,161,692	0	0	0	26,333,038
2. Long-term financial liabilities to banks and companies	25,171,346	1,161,692	0	0	0	26,333,038
II. Long-term operating liabilities	0	7,659	0	0	576	8,235
4. Long-term operating liabilities base on advances	0	7,659	0	0	576	8,235
III. Deferred tax liabilities	25,691	324,751	1,552	0	523,116	875,110
Č. SHORT-TERM LIABILITIES	12,673,831	2,252,079	6,430,826	26,455	470,208	21,853,399
II. Short-term financial liabilities	4,170,407	638,189	430	0	587	4,809,613
2. Short-term financial liabilities to banks and companies	4,163,292	638,057	0	0	0	4,801,349
4. Other short-term financial liabilities	7,115	132	430	0	587	8,264
III. Short-term operating liabilities	8,503,424	1,613,889	6,430,397	26,455	469,621	17,043,786
1. Short-term operating liabilities to group companies	3,641	0	1,661,294	0	0	1,664,935
2. Short-term operating liabilities to suppliers	3,665,588	1,289,264	4,426,970	26,455	210,692	9,618,969
4. Short-term operating liabilities for the third party account	4,055,520	0	0	0	3,015	4,058,535
5. Short-term operating liabilities to employees	585,398	29,361	51,677	0	201,111	867,548
6. Short-term operating liabilities to state and other institutions	102,561	34,779	62,060	0	33,917	233,316
7. Short-term operating liabilities based on advances	1	256,245	224,423	0	1,404	482,073
8. Other short-term operating liabilities	90,715	4,241	3,973	0	19,481	118,410
D. SHORT-TERM ACCRUED COSTS AND DEFERRED REVENUES	349,481	321	1,480	21,885	96,939	470,105
TOTAL LIABILITIES	151,497,519	-11,502,402	26,871,650	75,989	28,536,509	195,479,265
Off-balance-sheet assets	4,761,715	19,972	1,535,741	0	837,234	7,154,662

Explanations of activity codes abbreviations in columns:

DO – activity distribution network

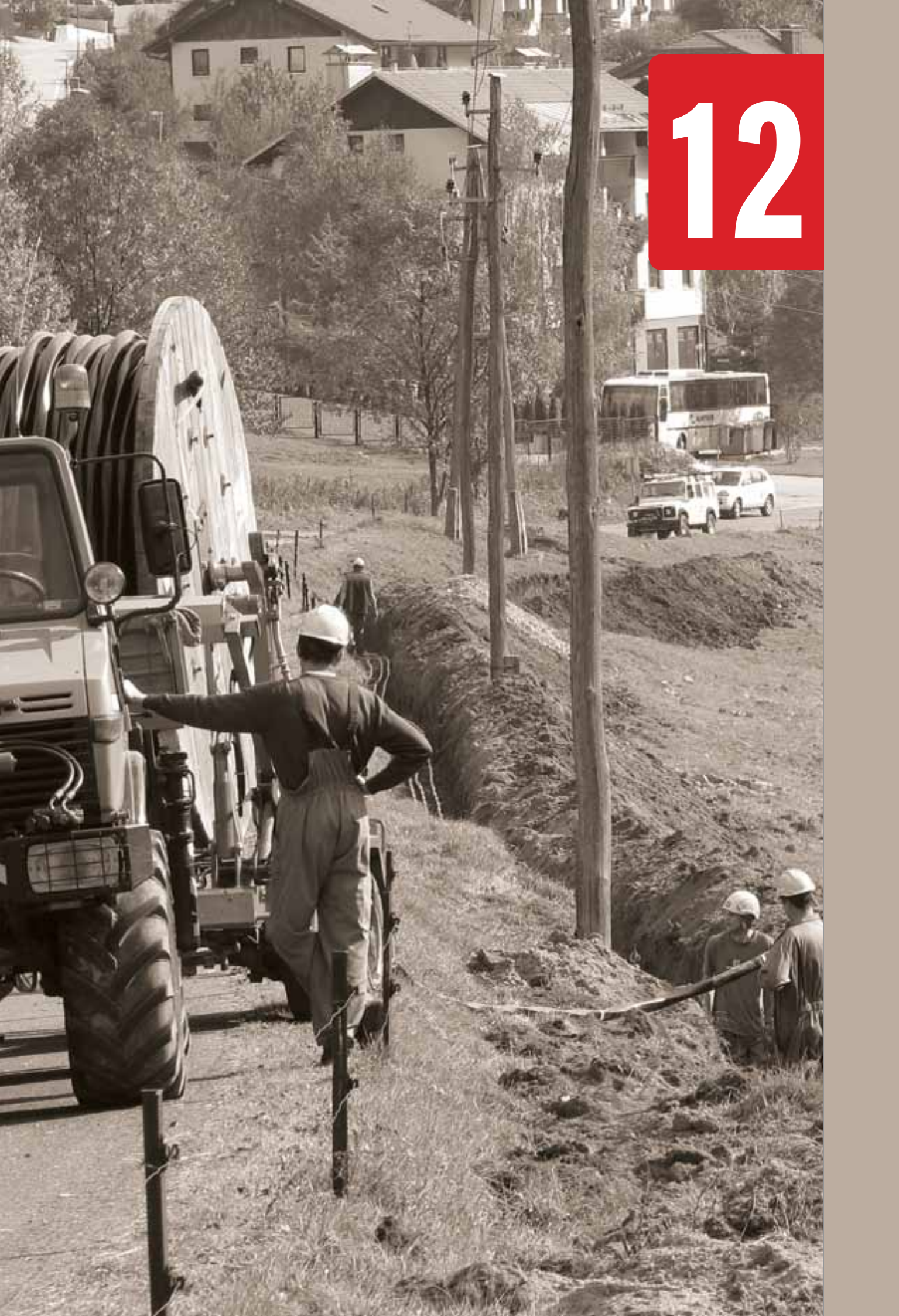
DGO – activity of purchase and sale of electricity to household customers

DPO – activity of purchase and sale of electricity to business customers, including trade

DED – other energy activities

TRG – non-energy market activities.

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12. SIGNIFICANT ACCOUNTING POLICIES

12.1 GENERAL ACCOUNTING FRAMEWORK

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

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

- parent company Elektro Gorenjska, ul. Mirka Vadnova 3a, Kranj,
- company Gorenjske elektrarne, Stara cesta 3, Kranj, which is in 100 % ownership of the parent company; capital of this company amounted to EUR 16,922,854 on 31.12.2010, net profit for year 2010 was EUR 209,459 and
- associate company Soenergetika, ul. Mirka Vadnova 3a, where parent company has 25 % ownership share.

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

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). 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 REPORTING ACCORDING TO GEOGRAPHICAL AND BUSINESS SEGMENTS

Company reports according to the following geographical segments: Slovenia, other EU countries, other countries outside EU.

In reporting on **business segments** besides the SRS the company considers mainly the Energy Act (hereinafter: EZ), long-term contract with SODO, long-term contract on granted concession for implementation of the public utility service of heat supply and reasonably also specific SRS 35- Accounting of public utility services

Business segment is a recognized component part of the company, which is occupied with a certain service or a group of related services; risks and returns referring to it are different from those in other business segments.

According to the provisions of Article 38 of the EZ legal entities, who perform more than one energy activity in the field of electricity supply or who besides energy activity in these two fields perform another activity, have to provide a separate accounting for each energy activity they perform, in accordance with the SRS. According to the provisions of Article 4 of the EZ energy supply is a process of acquiring and processing, production, transfer, distribution, and supply of energy.

According to the provisions of the Contract with SODO, the company has to provide for a separate accounting of all activities, which the company performs for SODO under this contract. They are the activities that are in contents equal to the activity of system operator of distribution network.

If concessionaires perform other activities besides the concession activity, they need to keep separate accounting in accordance with the Public Utility Act, according to provisions of the Companies Act. Concessionaire is in accordance with the provisions of the Energy Act obliged to prepare, revise, and publish annual financial statements in a way requested by the law for large companies.

On this basis the company presents its operation in business year 2010 or for the period from 1. 1. 2010 to 31. 12. 2010 according to the following business segments (activities) that are explained in more detail in the Business report, chapter 4.2 - Main activities and fields of business:

- Activity of distribution network (hereinafter activity DO or DO or SODO). It includes implementation of contractually agreed transactions with SODO.
- Activity of purchase and sale (supply) of electricity to household customers (hereinafter activity DGO or DGO).
- Activity of purchase and sale (supply) of electricity to business customers or other eligible customers, including trade (hereinafter activity DPO or DPO).
- Other energy activities (hereinafter: other energy market activities or DED). They include market activity of combined heat and electricity production and activity of public utility service of heat supply. Company started with implementation of both activities in the second half of 2008. In the beginning of year 2011 this energy activity was spin-off to the subsidiary Gorenjske elektrarne (explained also in chapter 20).
- Other non-energy market activities (hereinafter other activities TRG or TRG). They include mainly the implementation of new buildings and other services for the needs of the company or its subsidiary Gorenjske elektrarne as well as for other external clients or the market.

Balance sheet and profit and loss account according to business segments – activities are presented in chapters 17.7 and 11.8.

12.4 CRITERIA FOR ALLOCATION OF INDIRECT COSTS (EXPENDITURE), REVENUE, ASSETS, AND SOURCES ACCORDING TO INDIVIDUAL ACTIVITIES

12.4.1 GENERAL

Reported performance and financial condition of individual activities are affected by direct and indirect revenue and costs (expenditure) as well as by direct and indirect assets and sources.

System of recognizing revenue, costs (expenditure), assets and sources according to individual activities is based on the organizational structure of the company designed on the structure of the company in organization units (OE), which can be of higher or lower level. They are allocated to activities according to the hierarchical structure of organization units, while in case of the same level of individual OE also according to which OE is assigned the position of the leading OE in activity (OE activities).

All revenue and costs (expenditure), assets, and sources are originally recognized on the OE where they occur. Where this is not possible or suitable they are allocated to several OEs already at original recognition, in accordance with the agreed criteria. Criteria for allocation of indirect revenue, costs (expenditure), assets and sources consider mostly the following:

- number of employees in individual activity,
- share of tangible fixed assets in individual activity,
- area of real estate used by a certain OE,
- size of development tasks implementation and
- quantity and value of purchased electricity.

12.4.2 GENERAL CRITERION FOR ALLOCATION OF INDIRECT REVENUE, COSTS (EXPENDITURE), ASSETS AND SOURCES BY ACTIVITIES

Indirect revenue and expenditure are to the great extent revenue and expenditure of the general services comprised of: management, general and technical services (OE STS), and financial-economic services (OE FES), excluding revenue and costs (expenditure) of these services achieved in relation to controlling company Gorenjske elektrarne, in connection with implementation of legal, human resources, accounting, financial and other similar services. While the mentioned revenue achieved in relation with the controlling company Gorenjske elektrarne, are initially recognized at the leading OE for other non-energy market activities. Costs of implementation of services for Gorenjske elektrarne are re-allocated from OE FES to market activity in the amount of 8.9 % and from OE STS in the amount of 3.6%.

Indirect revenue and costs (expenditure), assets, and sources of general services established this way are allocated to the activity on the basis of criterion, which considers weighted relations. A weight for individual sector or joint service is considered to be a share of costs of this sector or service in entire general costs. On this basis indirect costs (expenditure), revenue, assets, and sources of general services on the activity are allocated in the following shares: on activity DO it is allocated 86.1 %, on activity NP 6.8 % (DGO 1.6 %, DPO 5.2 %) , and on activity TRG 7.1 %. The criterion mentioned has not changed in year 2010 compared to year 2009.

12.4.3 OTHER SIGNIFICANT CRITERIA IN ALLOCATING INDIRECT REVENUE, COSTS (EXPENDITURE), ASSETS, AND SOURCES ACCORDING TO ACTIVITIES

Mutual relations between activities are defined by internal agreements between individual activities and by following criteria of allocation:

- Costs of electricity purchase are originally recognized on activity of purchase and sale of electricity for business customers (DPO). For the field of electricity purchase for household customers (hereinafter DGO) costs are then internally calculated and shown separately.
- Costs of electricity schedules derogations are recognized on activities DGO and DPO.
- Costs of interests for borrowings from banks are allocated in activities according to the share of financial obligations charged to individual activity.
- Costs of interests from deposits in their contents result from free cash deposited in the form of short-term deposits in banks and are directly recognized on DPO activities.
- Costs of computer processing and billing and other costs referring to electricity and network access for household customers, are appropriately divided to activity DO and activity NP (separately for household customers and other eligible customers, which are not households).
- Intangible and tangible assets, long-term accruals and prepaid expenditure, long-term operating liabilities, short-term operating liabilities (except tax liabilities), provisions and long-term accrued costs and deferred revenues, part of short-term operating liabilities, short-term accruals as well as off-balance sheet assets and liabilities are originally recognized at individual OEs. Mentioned assets and sources, which are recognized on general services (management, OU STS, OU FES) are allocated to individual activities under the general criterion.
- All investment property and long-term financial investment are recognized on activity TRG.
- Claims on household and business customers in connection to the bills, which include electricity as well as network charge and contributions, are originally recognized to the leading OE determined for activity NP (OE NP). Part of claims, which refers to network charge is re-allocated from this OE to activity DO according to the share of charged network charge in the last month of the business year in the total charged amount to these customers in the last month of the business year (established in DIS form).
- Revaluation adjustments of claims on electricity buyers (of total load) and states of electricity claims corrections (total load, indirect consumption, annual consumption) are allocated to activities according to the established share of network charge in these claims. Claims and liabilities in respect of the VAT are allocated according to the share of total revenue of individual OEs or activities in an accounting period (excluding the transfer of support services).
- Claims or liabilities for income tax of legal entities are allocated to individual activities according to the established profit and loss of individual activity in the accounting period.
- Criterion for distribution of the balance of material and small tools stocks between OE TRG and OE DO is share of material and small tools consumption according to activities.
- Long-term and short-term financial liabilities to banks are allocated to activities according to the purpose the loans were acquired for.
- Short-term operating liabilities to electricity suppliers are allocated between DPO and DGO activities according to the share of electricity purchase value for household or business customers.
- Short-term business liabilities for third party account (SODO) are directly recognized to activity DO.
- Finances of individual activities are denominated in the amount established as a residual or coordinating item between assets and sources of individual activity.

12.5 SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

12.5.1 INTANGIBLE ASSETS AND LONG-TERM ACCRUALS AND PRE-PAID EXPENDITURE

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

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

12.5.2 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 company. Acquisition cost of fixed assets acquired free of charge is measured at initial recognition at their estimated fair value. Acquisition value consist also of borrowing costs in connection with the acquisition of the tangible fixed asset until its restoration for use.

Company 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. Company believes that such disclosure is more suitable as it is substantially the case of ownership use of assets. Company does not originally own them in order to bring rent or other return.

Accounting values of tangible fixed assets and with it also depreciation basis of this assets, acquired before 31. 12. 2001, result from reports of the authorized value assessors, prepared according to the balance as of 31. 12. 2001. On the basis of SRS, in force as at 31. 12. 2001 and on the basis of mentioned reports of value assessors the until then accounting values of tangible fixed assets, acquired until 31. 12. 2001, were revaluated as of 31. 12. 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 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 INFRASTRUCTURE	25-40	2.5-4
OTHER BUILDINGS	15-50	2-6.67
EQUIPMENT OF ENERGY INFRASTRUCTURE	10-35	2.86-10
COMPUTER HARDWARE EQUIPMENT	3	33.33
OTHER EQUIPMENT	4-20	5-25
VEHICLES	8-12	8.33-12.5

12.5.3 INVESTMENT PROPERTY

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

- land, which is not meant for sale in the near future within regular operation, and those that have no future use determined
- buildings in operational leasing, 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
- real estate, which comprise HPP Sava and in connection to which a denationalization dispute is taking place. HPP Sava has been hired out for a long-term operational leasing to the controlled company Gorenjske elektrarne until the dispute was resolved.

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 and depreciation rates of larger groups of depreciable assets are between 2 and 3.33 %.

12.5.4 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 capital of subsidiary Gorenjske elektrarne and investment in the capital of Soenergetika company are measured at acquisition value after the initial recognition.

Company makes a test of assessing the impairment 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.

12.5.5 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 the company 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, old from 2 to 3 years: 40 % of acquisition cost
- for stocks of spare parts, material, small tools, and support material, old from 1 to 2 years: in the amount of 20 %.

12.5.6 CLAIMS

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

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

12.5.7 SHORT-TERM FINANCIAL INVESTMENTS

Short-term financial investments of Elektro Gorenjska Company are short-term loans granted.

In the beginning company 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.

12.5.8 MONETARY ASSETS

Monetary assets of the company include deposits with deposit money banks and deposit money, that is money on transactional accounts in following money deposit banks:

CURRENT ACCOUNT NUMBER	BANK OF THE ACCOUNT
07000-0000545521	GORENJSKA BANKA, KRANJ
07000-0000641939	GORENJSKA BANKA, KRANJ
02924-0010594722	NOVA LJUBLJANSKA BANKA, LJUBLJANA
25100-9700516198	PROBANKA, MARIBOR
03138-1000672645	SKB BANKA, LJUBLJANA

All current accounts are kept in Euros, only current account No. 07000-0000641939 in Gorenjska bank Kranj is open 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.

12.5.9 SHORT-TERM ACCRUALS AND PRE-PAID EXPENDITURE

Accruals and prepaid expenditure include short-term deferred expenses, which have no effect on the profit or loss yet and provisionally not charged revenues.

12.5.10 CAPITAL

Entire capital of the company 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 capital stock.

12.5.11 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 taken over free of charge, received assets – contributions for average costs of connection. They are intended for covering the depreciation costs of these assets and are spent with transferring to operating revenues, in accordance with the charged depreciation.

12.5.12 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.

12.5.13 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.

12.5.14 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.

12.5.15 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, which exceeds 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 a reasonable doubt of their payment. It is considered the doubt on the payment of interest to be reasonable until the principal is paid.

Other revenues include unusual items (extraordinary revenue) and other revenues increasing the profit and loss.

12.5.16 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.

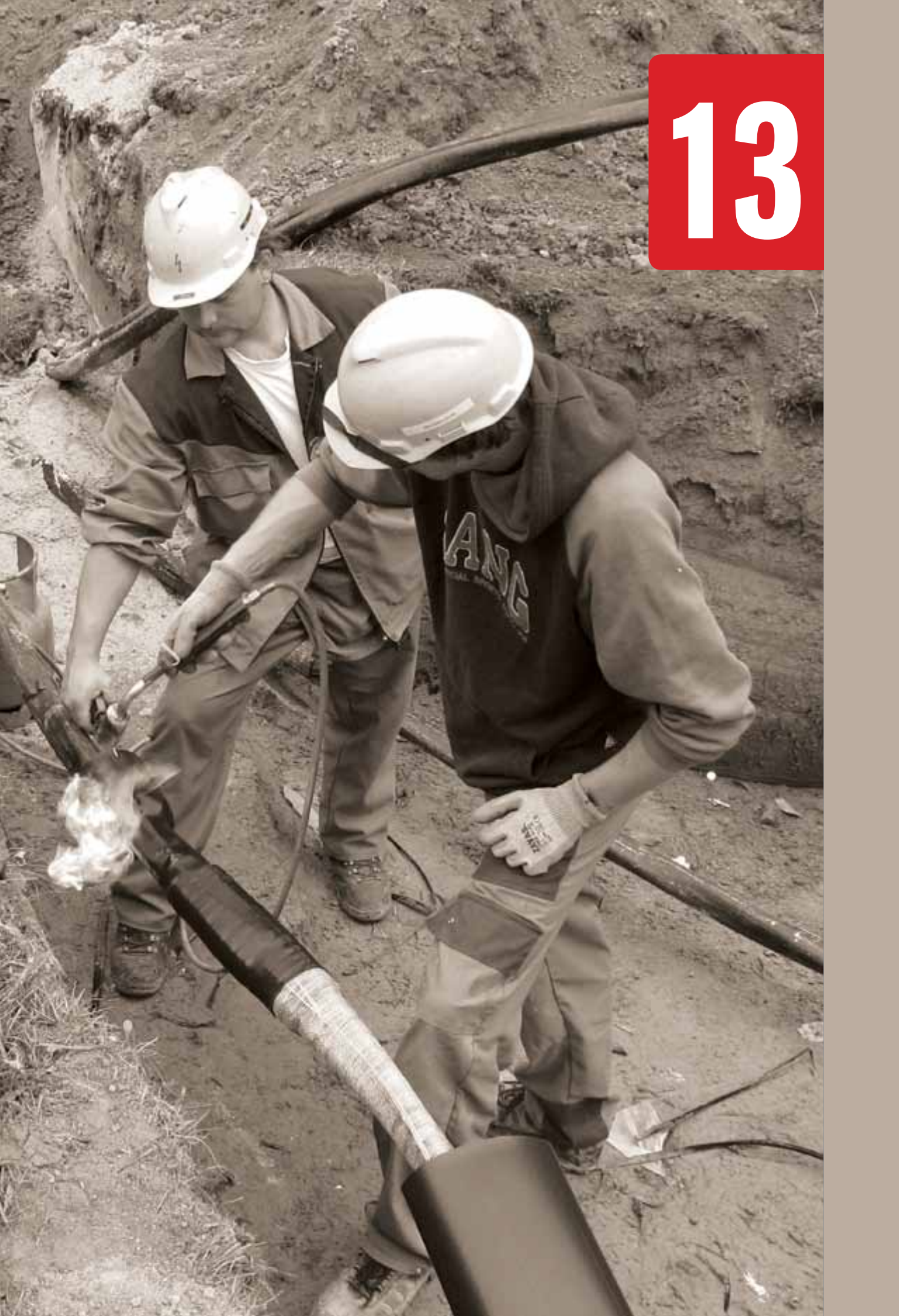
12.5.17 STATEMENT OF CASH FLOWS

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.

12.5.18 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.

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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, the company 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 changed 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

Transaction with company SODO are generally regulated by the Contract with SODO, which is presented in more detail also in the Business report, in chapter 4.10.3. In year 2010 Annex 2 was concluded to the Contract with SODO, which regulates interrelations for year 2008 and 2009. Annex 3 was also concluded, which regulated interrelations for year 2010.

Under the provisions of Contract with SODO the company and SODO have to consider the budget results for the period until 30. 6. 2007 in interrelations arising from this contract. Under the provisions of Annex 1 to the Contracts with SODO the company was obliged in the past years to delimit the difference between revenues achieved under this Contract and Annex and between recognized revenues or costs of the company according to the regulatory framework with the difference being the subject of regulatory framework account. As SODO Company has not informed the Elektro Gorenjska Company about the final balances of revenues and costs for individual years until the preparation of financial statements or because Elektro Gorenjska Company did not agree with the accounts received from JARSE or has fully argued them, in the past years it did not delimit them.

Elektro Gorenjska Company received the settlement for the period 2004 – 2007 and for years 2008 and 2009 from SODO after the preparation of financial statements for year 2009. In accordance with the adopted Annex 3 to the Contract with SODO the company in year 2010 issued additional invoices to SODO and this way recognized revenues in the amount of partial settlement for year 2009, which amounted to EUR 915,814.86. From the letter received from SODO on the balance of the settlement for the regulatory period 2004-2009 and a preliminary and signed draft of the Contract with SODO for year 2011, which was forwarded to JARSE for approval, it is clear that settlement for the period 2004-2009 amounted to EUR 557,155.26. Difference between the entire settlement for period 2004-2009 and partial settlement for year 2009 in the amount of EUR 358,659.60 was appropriately recognized and delimited by Elektro Gorenjska Company. According to the fact that company did not have reliable information for suitable recognition of stated settlements at the time of approval of financial statements for publication for individual past periods we can assume that the settlement for the period 2004-2009 is not treated as error correction for the previous periods in accordance with the introduction to SRS.

In March 2011 the company received from SODO a report on the value of services, rent, and losses for the period from 1. 1. 2010 to 31. 12. 2010, established on the basis of preliminary calculation of the regulatory year 2010, which was done by JARSE. Preliminary settlement for year 2010 was done by JARSE on the basis of unrevised financial statements. Report suggests that in year 2010 the already charged contractual value of services, rent and losses was by EUR 1,646,665 lower than the values established on the basis of preliminary calculation. On this basis in year 2010 the company recognized and delimited additional revenues in respect of rent and services under the Contract with SODO.

Final statement for regulatory year 2010 will be executed by JARSE on the basis of revised data of all legal entities participating in the settlement. Stated final statement will be the basis for final definition of recognized contractual values resulting from Annex 3 to the Contract with SODO.

13.2 PROVISIONS FOR DISPUTES IN PROGRESS IN THE UVK MATTER

In December 2007 the Competition Protection Office of the Republic of Slovenia (hereafter also UVK) started a procedure ex officio against the Elektro Gorenjska Company and other electric distribution companies on suspicion of concerted practice in raising electricity prices to household customer, which companies announced for 1. 1. 2008. UVK issued two decisions in this procedure, namely: (i) Decision of the Competition Protection Office of RS on nullity of suspected concerted practice of electricity distribution companies in increasing prices of electricity for household customers starting 1. 1. 2008 (hereafter also Decision of UVK as of August 6 2008), which established that electricity distribution companies breached the Prevention of Restriction of Competition Act and the Treaty establishing the European Community as well as (ii) Decision of the Competition Protection Office of RS on offence as of 15. 10. 2008 (hereafter also Decision UVK as of 15. 10. 2008), which imposed the Elektro Gorenjska, d.d. Company payment of a fine in the amount of EUR 1,065,656. Company started with counter procedures against both decisions already in year 2008. For the fine, which UVK defined for the legal entity (Elektro Gorenjska Company) the company already formed provisions in year 2008 in the amount of EUR 1,065,656. In the month of February 2011 the company received the judgment of Ljubljana District Court, on the basis of which the company was fined in the amount of EUR 125,000. In year 2010 the company thus eliminated the over-provisioned amount of EUR 940,656.

In connection with the Decision of UVK as of 6. 8. 2008 the Supreme Court of the Republic of Slovenia with a judgment, received in year 2009, partially granted the company's complaint (rejected the breach of Treaty on establishing the European community) , but has nevertheless established the breach of provisions of the Prevention of Restriction of Competition Act. On this basis the company formed by EUR 555,713 of provisions in year 2009. In year 2010 the company executed the payment of over-paid amounts of electricity and completely drawn the formed provisions.

13.3 OTHER DISPUTES IN PROGRESS AND RELATED PROVISIONS

There are some other disputes in progress, including an important denationalization procedures, where Elektro Gorenjska acts as the defendant party. Another important denationalization process concluded in year 2010 with a partial decision in accordance to which the denationalized property was returned into the ownership (property was transferred into the possession already in year 2007) of the denationalization beneficiary. Company does not disclose details regarding these disputes, as it estimates that such disclosures might threaten the benefits of the company.

13.4 ACCOUNTS OF DEROGATIONS OF ANNOUNCED SCHEDULES FROM REALIZED SCHEDULES OF ELECTRICITY CONSUMPTION IN ELECTRICITY TRADE

Charging of derogations of announced from realized schedules is explained also in the Business report, chapter 4.10.8 – Schedule derogations. Final clearing of derogations for year 2010 has not been received. On the basis of company's records and on the basis of its best estimates about the prices of derogations, company Elektro Gorenjska estimates that final clearing of derogations for year 2010 would establish an amount of overcharged costs of electricity purchase and derogations in total amount of **EUR 246.303**. This amount is recognized in **short-term accrued costs** (31. 12. 2009: EUR 110.892 in short-term deferred costs) Please see also chapter 14.16. –Short-term accrued costs and deferred revenues.

13.5 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 realized schedules from announced schedules of electricity consumption in electricity purchase for covering the losses in network and implementation of SODO supplies

In year 2010 purchase of electricity for covering the losses of electricity in the network, for supplies and other activities, 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 GEN I. (please see also Business report, Chapter 4.10.8 – Schedule derogations). On this basis the responsible of the balance subgroup is not eligible to charge us with schedule derogations. That is why Company Elektro Gorenjska, does not expect any additional costs in year 2010 in this respect and did not impute them in the financial statements for year 2010.

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 2010 for covering the losses in its distribution network from electricity suppliers 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 2010 and best estimate of purchase prices the company estimates that costs of electricity purchase for losses not charged amount to **EUR 180,205**.

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 2010. 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 company Elektro Gorenjska Company estimates that for the value of electricity purchase for supplies for year 2010 a credit of **EUR 9,860** will be recognized.

As of 31. 12. 2010 these two estimates in the amount of **EUR 170,345** are recognized in financial statements of the company as **short-term accrued costs** (please see chapter 14.16 – Short-term accrued costs and deferred revenues). Transactions of purchasing electricity losses are presented also in the Business report, chapter 4.10.6 – Electricity losses in network, while for supplies in chapter 4.10.7 –SODO supply.



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14. NOTES TO THE BALANCE SHEET ITEMS

14.1 INTANGIBLE ASSETS AND LONG-TERM ACCRUALS AND PREPAID EXPENDITURE

Intangible assets principally refer to long-term property rights, which include the rights to computer software solutions use or licenses. Following table presents the changes in intangible assets in year 2010.

in EUR

2010	COMPUTER SOFTWARE EQUIPMENT	CAPITALIZED COSTS OF INVESTMENTS IN FOREIGN TANGIBLE FA	OTHER RIGHTS	PROPERTY RIGHTS IN ACQUISITION	TOTAL INTANGIBLE FIXED ASSETS
1	2	3	4	5	6 = 2+3+4+5
ACQUISITION COST					
Balance 1. 1. 2010	2,784,429	3,809	7,090	563,596	3,358,924
New acquisitions	854,295	0	0	-142,230	712,065
Disposals, withdrawals, transfers	-1,540	-3,809	0	0	-5,349
Completion of ongoing investments	91,862	0	0	-91,862	0
BALANCE 31. 12. 2010	3,729,047	0	7,090	329,504	4,065,640
VALUE ADJUSTMENT					
BALANCE 1. 1. 2010					
Depreciation	1,796,005	191	4,530	0	1,800,725
Disposals, withdrawals, transfers i	563,410	0	236	0	563,646
Balance 31. 12. 2010	-513	-191	0	0	-704
CARRYING AMOUNT	2,358,901	0	4,766	0	2,363,667
BALANCE 1. 1. 2010	988,424	3,619	2,560	563,596	1,558,199
BALANCE 31. 12. 2010	1,370,145	0	2,324	329,504	1,701,973

Larger increases include mainly software equipment for remote meter reading (EUR 483,427) and rights acquired in connection with joint investments in renovation and modernization of computer software equipment (EUR 133.055).

Property rights in acquisition consist of investments in renovation and modernization of computer software equipment and establishment of software equipment for remote meter readings.

As of 31. 12. 2010 the company has no financial obligations in connection with the acquisition of intangible fixed assets.

14.2 TANGIBLE FIXED ASSETS

As of December 31 2010 tangible fixed assets in the amount of **EUR 153,382,613** present 76 % of the balance sheet total of the company. Compared to the balance as of 31. 12. 2009 their value is higher by 1 % or by EUR 1,532,057.

Movements in tangible fixed assets:

in EUR

2010	BUILDINGS			EQUIPMENT		TANGIBLE FIXED ASSETS IN BUILDING	ADVANCES	TOTAL TANGIBLE FIXED ASSETS
	LAND	INFRASTRUCTURE	OTHER BUILDINGS	INFRASTRUCTURE	OTHER EQUIPMENT			
1	2	3	4	5	6	7	8	9=2+3+4+5+6+7+8
ACQUISITION COST								
Balance 1.1.2010	6,035,929	217,663,199	19,882,697	83,687,720	17,605,160	8,691,558	188,785	353,755,049
New acquisitions	180,055	339,271	5,048	328,200	462,524	12,123,852	274,756	13,713,706
Disposals, separations, transfers	-276,324	-2,660,282	-2,020,450	-4,839,584	-1,434,899		-401,220	-11,632,759
Transfer from investments in progress	41,013	7,567,462	87,479	4,902,244	430,719	-13,060,804		-31,886
transfer from investment property	13,883	0	184,409	0	0	0		198,292
Balance 31.12.2010	5,994,557	222,909,650	18,139,184	84,078,581	17,063,504	7,754,606	62,322	356,002,402
VALUATION ADJUSTMENT								
Balance 1.1.2010	0	139,068,109	9,580,014	40,539,230	12,717,140	0	0	201,904,493
Depreciation	0	4,089,675	336,260	3,043,618	1,157,104	0	0	8,626,656
Impairment reversal	0		-6,968		-73,449	0	0	-80,417
disposals, separations, transfers	0	-2,444,717	-1,909,137	-2,596,153	-953,603	0	0	-7,903,611
transfer from investment property	0		72,668	0	0	0	0	72,668
Balance 31.12.2010	0	140,713,067	8,072,837	40,986,694	12,847,191			202,619,789
CARRYING AMOUNT								
Balance 1.1.2010	6,035,929	78,595,089	10,302,683	43,148,491	4,888,021	8,691,558	188,785	151,850,556
Balance 31.12.2010	5,994,557	82,196,584	10,066,347	43,091,887	4,216,313	7,754,606	62,322	153,382,613

New acquisitions are presented in Business report, chapter 6.3.

Individually significant acquisitions are:

Land:

- Acquired for the construction of distribution station (hereinafter RP) Balos (EUR 28,713);
- Intended for the installation of transformer station Ravne Tržič (EUR 15,000).

Buildings:

- Investment in building for RTP Moste together with external regulation (EUR 1,082,237),
- Investment in 20 KV cable connection between transformer station Krnica and transformer station HE Radovna (EUR 253,585),
- Investment in 20 KV cable connection between transformer station Perniki and transformer station Kreda (EUR 224,102),
- Investment in 20 KV cable connection between RTP Moste and transformer station Počivališče (EUR 106,255).

Equipment:

- 110 KV primary and secondary electric power equipment for RTP Moste (EUR 3,118,634),
- for transformer RTP Škofja Loka (EUR 672,440).

Disposals and withdrawals of tangible fixed assets are the consequence of new investments, mainly in modernization and reconstruction of existing asset, delivery of fixed assets to SODO and return of HE Pristava to denationalization beneficiaries.

Delivery of fixed assets to SODO is based on the Agreement on delivery and acceptance of fixed assets financed from the average costs of connections funds (basis for the agreement is Contract for the hire of electricity distribution infrastructure and implementation of service for SODO and Annex No. 1 and 2 to the Contract), and on the basis of the decision of the Government of RS, No. 36001-3/2010/3, as at 29. 7. 2010, with which it agrees to the sale of infrastructure from Elektro Gorenjska to SODO. Acquisition value of transferred fixed assets for SODO amounted to EUR 2,436,307 (current value is EUR 2,318,450).

Under this agreement as of 31. 8. 2010 and under the balance of this date Elektro Gorenjska transferred in the possession and indirect property of SODO fixed assets financed from average connecting costs, in stakes and co-ownership shares on each individual delivered fixed asset. Assets were transferred free of liabilities and with no third party rights on them. Reduction of these assets is also shown in the table of movements of provisions and long-term accrued costs and deferred revenues in chapter 14.12.

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

Buildings:

- removal of 20 kV overhead power line between the transformer station because of the new cables (reduction of acquisition costs by EUR 341,147 and value adjustment by EUR 341,147);
- removal of the overhead low-voltage network (bare wires) in the territory of Primskovo due to the implementation of a new low-voltage network with ground cable (reduction of acquisition cost by EUR 184,260 and value adjustment by EUR 184,260).

Equipment:

- 20 kV electrical equipment of Balos due to wear (reduction of acquisition cost by EUR 893,084 and value adjustment by EUR 893,084);
- 20 MVA 110/20/10 transformer, based on the report on the state of the transformer saying that its renovation is not economically or technically viable (reduction of acquisition cost by EUR 237,857 and value adjustment by EUR 154,046).

Items **infrastructure** fully refer to electricity distribution infrastructure as defined in the Decree on energy infrastructure (Official Gazette RS, No. 62/2003 and forwards). It includes buildings and equipment as well as part of the land. Book value of electricity distribution infrastructure as at 31. 12. 2010 amounted to EUR 128,661,580 (31. 12. 2009: EUR 124,915,821). 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 complete electricity infrastructure.

Fixed assets are in the property of the company and are not pledged as security for debts. Elektro Gorenjska Company discloses under its tangible fixed assets also hydro power station in connection to which a denationalization dispute has begun in the past years, which has not yet been concluded until the date of the preparation of this report.

O finance new acquisitions of fixed assets the company took several long-term loans in year 2010 and previous years, whose balance on 31. 12. 2010 amounted to EUR 32,371,345 (31.12.2009: EUR 29,334,638). Please see also chapter 14.13 - Long-term liabilities.

14.3 INVESTMENT PROPERTY

At the end of 2010 investment property amounted to **EUR 2,122,589**. Movements of their acquisition value, valuation adjustment and their carrying amount are presented in the following table.

in EUR

ITEM DESCRIPTION	LAND	BUILDINGS	TOTAL INVESTMENT PROPERTY
1	2	3	4=2+3
ACQUISITION VALUE			
Balance 1. 1. 2010	1,048,052	3,066,297	4,114,349
Transfer from OOS	-13,883	-184,409	-198,292
Disposals	-66,199	-542,448	-608,648
Transfer from ongoing investments	0	31,886	31,886
BALANCE 31. 12. 2010	967,969	2,371,325	3,339,295
VALUATION ADJUSTMENT			
BALANCE 1. 1. 2010		1,311,302	1,311,302
Transfer to investment property		-72,668	-72,668
Depreciation		58,308	58,308
Disposals		-80,237	-80,237
BALANCE 31. 12. 2010		1,216,705	1,216,705
CARRYING VALUE			
BALANCE 1. 1. 2010	1,048,052	1,754,995	2,803,046
BALANCE 31. 12. 2010	967,969	1,154,620	2,122,589

Following is the presentation of investment property structure.

in EUR

ITEM DESCRIPTION	31.12.2010	31.12.2009
Apartments	234,969	222,046
Holiday facilities	366,758	437,330
Other buildings	552,894	1,095,619
Land	967,969	1,048,052
TOTAL INVESTMENT PROPERTY	2,122,589	2,803,046

On 31. 8. 2010 valuation of investment property was performed. Fair value of investment property, which the company showed in the balance as at 31. 12. 2010, amounted to EUR 5,696,176.

Revenues from rent in investment property amount to EUR 188,317.

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 58,308) and costs of material and services (EUR 106,550).

There were **no larger increases in investment property in year 2010**.

Disposals and withdrawals of investment property in year 2010 were mainly the consequence of investment property sale (land and commercial building) of the subsidiary Gorenjske elektrarne, whose book value amounted to EUR 528,411.

14.4 LONG-TERM FINANCIAL INVESTMENTS

Long-term financial investments of the company amounted to **EUR 17,252,964** as of 31. 12. 2010. Company is exposed mainly to the risk of unfavorable changes of financial investment fair values. Company has no special financial instruments for protection against this risk. Exposure to risks and risk protection systems are explained in the Business report in chapter 5.2 – Financial risks. Long-term financial investments were revaluated to fair value. As of 31. 12. 2010 surplus from revaluation amounted to EUR 1,992,061 (31. 12. 2009: EUR 1.959.947) and has already been reduced by deferred tax in the amount of EUR 498.015 (please see also chapter 11.5 – Statement of changes in equity of Elektro Gorenjska).

Housing loans were approved in years between 1991 and 1993 to employees and former employees. Repayment period for these loans in 20 years.

Revenues from long-term financial investments in year 2010 are presented in chapter 15.4. – Financial revenues from shares.

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

Movement of long-term financial investments is presented in the table below:

in EUR

INVESTMENT DESCRIPTION	SHARE CODE	NUMBER OF SHARES (% STAKES)		OWNERSHIP STAKE (IN %)		BALANCE 1.1.2010	INCREASES IN YEAR 2010		DECREASES IN YEAR 2010		BALANCE 31.12.2010
		1.1.2010	31.12.2010	1.1.2010	31.12.2010		REVALUATION	New ACQUISITIONS	REVALUATION	REPAYMENTS OR TRANSFERS TO SHORT-TERM LOANS	
Investment in share of Gorenjske elektrarne, d.o.o.	-	-	-	100.00%	100.00%	13,715,303	0	0	0	0	13,715,303
Total investments in shares and stakes in group companies						13,715,303	0	0	0	0	13,715,303
Soenergetika, d.o.o.	-	-	-	-	25.00%	-	0	135,000	0	0	135,000
Total investments in share and stakes in group companies								135,000			135,000
Gorenjska banka, d.d., Kranj	GBKR	2.350	2.350	0.71%	0.71%	2,594,118	0	0	0	0	2,594,118
Zavarovalnica Triglav, d.d., Ljubljana	ZVTG	2.664	2.664	0.01%	0.01%	37,782	9,131	0	0	0	46,913
NLB, d.d., Ljubljana	NLB	3.228	3.228	0.04%	0.04%	385,926	0	0	0	0	385,926
Informatika, d.d., Maribor	INFG	1.562	1.562	9.56%	9.56%	180,083	0	0	0	0	180,083
Stelkom d.o.o., Ljubljana	-	-	-	9.90%	9.90%	51,628	0	0	0	0	51,628
Total other shares and stakes						3,249,537	9,131	135,000	0	0	3,258,668
Total long-term financial investments, excluding loans						16,964,839	9,131	135,000	0	0	17,108,970
Housing loans	-	-	-	-	-	2,981	202	0	-2,667	0	515
Eldom Maribor	-	-	-	-	-	142,798	0	0	0	0	142,798
Terme Olimia Podčetrtek	-	-	-	-	-	680	0	0	0	0	680
Total long-term loans						146,459	202	0	-2,667	0	143,994
TOTAL LONG-TERM FINANCIAL INVESTMENTS						17,111,298	9,332	135,000	-2,667	0	17,252,964

14.5 LONG-TERM OPERATING RECEIVABLES

Long-term operating receivables in the amount of **EUR 7,576** have decreased by 48 % compared to their balance as at 31. 12. 2009.

14.6 STOCKS

Stocks of material and small tools as at 31. 12. 2010 amounted to **EUR 304,049** and have decreased by 4.7 % or EUR 15,147 compared to the balance as at 31. 12. 2009. Company estimates that net realizable value of stocks is at least equal to their book value.

v EUR

ITEM DESCRIPTION	YEAR 2010	YEAR 2009
Material stocks at the beginning of the period 1. 1.	319,196	425,681
Purchases	3,144,139	2,872,122
Transfer from fixed assets	0	40,348
Consumption	-3,028,256	-2,918,913
Write-offs	0	-18,096
Inventory surplus	10	194
Inventory deficit	0	-273
Impairments	-810	0
Cancellation of impairments	0	30,317
Transfer of small tools in use	-130,275	-112,184
Transfer of entry	45	0
MATERIAL STOCKS AT THE END OF THE PERIOD 31. 12.	304,049	319,196

In the inventory of stocks on 31. 10. 2010 it was established that there were by EUR 10 of surpluses, while in the inventory on 31. 10. 2009 there were by EUR 194 of surpluses and EUR 273 of deficits. Stock value adjustments amounted to EUR 810 in year 2010.

Company has no pledged stocks as security for its obligations.

14.7 SHORT-TERM FINANCIAL INVESTMENTS

Short-term financial investments in the amount of **EUR 1,574** consist of short-term part of housing loans.

14.8 SHORT-TERM OPERATING RECEIVABLES

Short-term operating receivables as of 31. 12. 2010 amounted to **EUR 22,123,759** and were higher by 26.5 % or EUR 4,634,020 compared with the balance as of 31. 12. 2009.

in EUR

ITEM DESCRIPTION	31. 12. 2010	31. 12. 2009
SHORT-TERM RECEIVABLES FROM GROUP COMPANIES	1,361,640	8,535
Short-term accounts receivable	21,341,700	16,971,894
Short-term advances	30,980	14,361
Adjustment of short-term accounts receivable	-1,977,492	-1,321,073
SHORT-TERM ACCOUNTS RECEIVABLE	19,395,188	15,665,182
Short-term operating receivables from others	1,499,308	1,920,483
Adjustment of short-term receivables from others	-132,377	-104,462
Short-term operating receivables from others	1,366,931	1,816,021
SHORT-TERM OPERATING RECEIVABLES	22,123,759	17,489,738

Short-term operating receivables from the amount of EUR 1,361,640 arise mainly from the sale of fixed assets to the subsidiary Gorenjske elektrarne.

Accounts receivable in the amount of EUR 19,395,188 represent 88 % of all short-term operating receivables. Compared to year 2009 they increased by EUR 3,730,005. Reasons for that are mainly extension of payment deadlines and late payment culture.

Short-term operating receivables from others in the amount of EUR 1,366,931 represent mainly short-term claims for VAT deduction, other short-term receivables from state and other institutions as well as other short-term 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 31. 12. 2010 according to maturity terms is shown in the following table:

in EUR

ITEM DESCRIPTION	CLAIMS NOT YET DUE	UP TO 30 DAYS	31-60 DAYS	61-90 DAYS	MORE THAN 90 DAYS	TOTAL
1	2	3	4	5	6	7=2+3+4+5+6
Claims on buyers of electricity, network charge, and services	17,372,685	1,402,963	442,936	183,781	1,712,914	21,115,279
Default interest claims	61,774	8,603	5,802	6,756	143,486	226,421
TOTAL	17,434,458	1,411,566	448,738	190,537	1,856,400	21,341,700

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

in EUR

ITEM DESCRIPTION	ACCOUNT	BALANCE 1.1.2010	NEW FORMATIONS		WITHDRAWAL (USE) AND ELIMINATION			BALANCE 31.12.2010
			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	9
Valuation adjustment of accounts receivable	129	1,159,043	670,481	0	-30,181	-0	0	1,799,343
Valuation adjustment of third party operating claims	149	98,401	0	0	0	0	0	98,401
Valuation adjustment of default interest claims	159	162,030	24,173	34,876	-27,136	-15,794	0	178,149
Valuation adjustment of other short-term claims	169	4,063	28,134	0	0	0	0	32,198
TOTAL VALUATION ADJUSTMENT OF CLAIMS		1,423,537	722,789	34,876	-57,317	-15,794	0	2,108,091

14.9 MONETARY ASSETS

As at 31. 12. 2010 Elektro Gorenjska Company had **EUR 2,175,280** of cash on the commercial banks accounts and short-term redeemable deposits in banks in the state.

14.10 SHORT-TERM ACCRUALS AND PREPAID EXPENDITURE

Accruals and prepaid expenditure in the amount of **EUR 1,783,474** mainly consist of short-term accrued income for rent and services SODO for year 2010. According to the balance of short-term accruals and prepaid expenditure as at 31. 12. 2009 their balance was higher by EUR 1,491,020 as at 31. 12. 2010.

v EUR

ITEM DESCRIPTION	31. 12. 2010	31. 12. 2009
Short-term deferred costs or expenses:	64,275	174,231
Valuables	9,713	7,513
Short-term accrued income	1,646,665	29,715
Other short-term deferred claims	0	900
Short-term deferred claims for VAT from received advances	62,821	80,095
TOTAL	1,783,474	292,454

Increase mainly results from short-term accrued incomes from electricity in the amount of EUR 1,646,665, which represent accrued income from SODO rent and services for year 2010, which is explained also in chapter 13.1 – Transactions with SODO.

In year 2010 short-term deferred expense or costs have been lower mainly due to the fact that in year 2009 we recognized by EUR 110,892 of short-term defferd costs refering to schedule derogations. In year 2010 the situation was different. We recognized accrued costs from schedule derogations, which is explained in more detail in chapter 13.4 – Accounts of derogations of announced schedules from realized schedules of electricity consumption in electricity trade.

14.11 CAPITAL

Entire capital of the company 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. 2010 amounted to **EUR 133,005,004** and was higher by 2.9 % compared with the balance of capital as at 31. 12. 2009. Book value of shares as at 31. 12. 2010 amounted to EUR 7.66.

Share capital of Elektro Gorenjska Company (EUR 72,415,419) is divided in 17,353,631 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), right to appropriate part of remaining property after the liquidation or bankruptcy of the company. All shares are of the same class. Shares are issued in dematerialized form and are managed in KDD – Central Securities Clearing Corporation, d. d., in accordance with regulations. Other details in respect with the share capital and ownership structure of the capital are explained also in Business report, chapter 4.7 – Share capital and ownership structure.

Uncalled capital of Elektro Gorenjska Company (EUR 396,350) refers 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 396,350.35, were removed from the business books as Elektro Gorenjska no longer possesses these assets, no longer manages them, and has 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 are being carried out in year 2011.

When Elektro Gorenjska refunded the assets of HE Pristava and cancelled their recognition from the business books for the book amount of the returned property at the same time it recognized uncalled

capital as deductible item from capital. After the realization of 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 the company will be reduced to the burden of uncalled capital. Calculated from book value of Elektro Gorenjska shares on the date of the elimination of denationalization subject, which amounted to EUR 7.69, and book value of the returned property of HE Pristava, number of shares, which the Republic of Slovenia is going to return to the company for the purposes of withdrawal, is 51,560. As the result relative ownership property of the shareholders in the company's capital are changing as well.

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. 2010 mounted to EUR 827,507 and were formed in accordance to the Article 64 of ZGD-1.

Other reserves amounted to EUR 10,252,855, they are formed from net profit of the business years and the company uses them in accordance with Article 11 of the Statute.

Revaluation surplus (EUR 1,992,061) arises from revaluation of long-term financial investments, as explained in chapter 14.4 – Long-term financial investments.

Net profit of 2010 business year was in composing the financial statements for 2010 in accordance with Paragraph 4 of Article 64 of the Companies Act (ZGD-1) (Off. G. No. 65/2009) in the amount of 5 % (EUR 207,223) allocated to statutory reserves. Management and supervisory board allocated in accordance with Paragraph 4 Article 230 of ZGD-1 half of the remaining net profit, which remained after the use for statutory reserves, to other profit reserves, which amounts to EUR 1,968,614. Allocation of remaining net profit in the amount of EUR 1,968,614 is in jurisdiction of the annual general meeting in the framework of deciding on use of distributable profit of 2010 business year.

In the following table distribution of distributable profit for year 2009 in accordance with the decision of the general meeting as of August 27 2010 is presented (please see also Business report, chapter 4.5.3 – Shareholders' meeting). In company's books the distribution of distributable profit was recognized in year 2010.

in EUR

ITEM DESCRIPTION	2009
Dividends	0
Other reserves	657,682
TOTAL DISTRIBUTABLE PROFIT IN 2009	657,682

in EUR

ITEM DESCRIPTION	CAPITAL AS AT 31. 12. 2009	% OF GROWTH	CALCULATED EFFECT	PROFIT OR LOSS WITH REVALUATION EFFECT
Capital	129,224,789	1.9	2,455,271	1,689,180

Net profit after tax with respect to the cumulative growth factor of prices would amount to EUR 1,689,180 in year 2010.

14.12 PROVISIONS AND LONG-TERM ACCRUED COSTS AND DEFERRED REVENUES

Provisions and long-term accrued costs and deferred revenues as of 31. 12. 2010 amounted to EUR 12,893,337. They decreased by EUR 3,821,252 or by 22.9 % compared to the balance as of 31. 12. 2009.

Provisions for long-service bonuses or severance pay at retirement are formed in the amount of estimated future payments on the basis of actuary report on calculation of provisions for long-term earnings of employees, prepared for year 2010. 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 3 % at 15 years of age to 0.5 % at 54 years, then constant 0.5 % fluctuation,
- growth of average earnings in RS for years 2011 and 2012, resulting from the Autumn forecasts of economic trends (2010); from 2013 on 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 30. 11. 2010.

Provisions for compensation in connection to the denationalization claims have been additionally formed in the amount of EUR 77,415.

Provisions for probable losses in case of disputes in progress increased in year 2010 by EUR 60,557 and fully depleted by the end of the year. Provisions for probable losses referring to UVK matter were additionally formed in year 2010 in the amount of EUR 398,637, depleted in the amount of EUR 954,349 and eliminated in the amount of EUR 940,656, which is explained also in chapter 13.2 – Provisions for disputes in progress in the UVK matter.

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.

Tangible fixed assets received free of charge consist mainly 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), and free acquisition of other fixed assets.

Obtained funds and their disbursement of the Re-energy fund are presented also in the Business report, chapter 6.10.1 – Services and products.

Long-term deferred revenues in respect of average connection costs were formed until 30. 6. 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. It is expressed in EUR /kW of connection power. Amount of this costs depends on classification of end customer to consumption group and on connection power. Price or tariff item of this cost is determined by the Energy Agency of the Republic of Slovenia. Average cost of connection to the network³ is published in the framework of the Decision setting the electricity network charge and correction factors for balancing the differences in revenues from network charges⁴. It is defined according to the average costs, which customers cause to the electric power network with their connection to the network.

³ Lump-sum amount, which is paid for the connection to the network or to increase the connection power.

⁴ Official Gazette RS, No. 111/07.

Long-term deferred revenues in respect of average connection costs recognized in the period from 1. 7. 2007 to 31. 12. 2009 were entirely eliminated as at 31. 8. 2010. In accordance with the Agreement on delivery and acquisition of fixed assets financed from the average connection costs, the company as the owner of the infrastructure as at 31. 8. 2010 handed over to the property of SODO all fixed assets financed from the average connection costs from 1. 7. 2007 to 31. 12. 2009. They are explained in more detail also in chapter 14.2 – Tangible fixed assets.

Long-term deferred revenues from rent and services SODO represents 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 is settled in year 2011 (short-term deferred revenues), while the remaining 50 % in year 2012 (long-term deferred revenues). Difference is explained also in chapter 13.1. – Transactions with SODO.

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

in EUR

ITEM DESCRIPTION	BEGINNING OF THE PERIOD	INCREASES (FORMATIONS)		DECREASES (WITHDRAWALS, ELIMINATION)			END OF THE PERIOD
	1.1.2010	CHARGEABLE TO COSTS (EXPENSES)	RECOGNITION CHARGEABLE TO ASSETS	CREDIT TO OPERATING REVENUES	CREDIT TO APPROPRIATE LIABILITIES	CREDIT TO APPROPRIATE ASSETS	31.12.2010
Provisions for long-service bonuses	1,063,086	0	0	28,873	59,038	0	975,175
Provisions for severance pay at retirement	1,621,599	30,771	0	0	173,611	0	1,478,759
TOTAL PROVISIONS FOR LONG-SERVICE BONUSES AND SEVERANCE PAY (963)	2,684,685	30,771	0	28,873	232,649	0	2,453,934
Provisions for damages in connection with denationalization claims	3,893,756	77,415	0	0	0	0	3,971,171
Provisions for probable losses in disputes in progress	149,189	60,557	0	0	209,746	0	0
Provisions for probable losses in disputes in progress – UVK	1,621,369	398,637	0	940,656	954,350	0	125,000
Total other provisions (965)	5,664,314	536,609	0	940,656	1,164,096	0	4,096,171
TOTAL PROVISIONS	8,348,999	567,380		969,529	1,396,745		6,550,105
Co-financing of scholarships	6,241	0	1,093	3,150	0	2,333	1,850
	2,555	0		222	0	2,333	0
	3,685	0	1,093	2,928	0	0	1,850
Tangible fixed assets acquired free of charge	1,265,787	0	22,800	77,900	0	0	1,210,687
Free acquisition of connections	2,491,993	0	339,271	70,705	0	0	2,760,559
Received tangible fixed assets free of charge	3,757,780	0	362,071	148,605	0	0	3,971,246
Received assets for Re-energy Fund	31,583	0	1,762	10,162	0	0	23,183
Deferred revenues in respect of average connection costs	2,208,065	0	0	85,319	0	0	2,122,746
Deferred revenues in respect of co-financing investments in electricity network expansion	2,332,542	0	0	14,092	0	2,318,450	0
Total average connection costs(968-53 and 968-54)	4,540,607	0	0	99,411	0	2,318,450	2,122,746
Long-term accrued costs and deferred revenues – right to use	0	0	11,600	580	0	0	11,020
Rent and SODO services – period 2004-2009	0	0	179,330	0	0	0	179,330
Long-term deferred revenues – HIPERDNO project	0	0	54,149	20,291	0	0	33,858
Other long-term deferred revenues (called up guarantee)	29,380	0	0	14,690	14,690	0	0
TOTAL LONG-TERM ACCRUED COSTS AND DEFERRED REVENUES	8,365,590	0	610,004	296,888	14,690	2,320,783	6,343,233
TOTAL PROVISIONS AND LONG-TERM ACCRUED COSTS AND DEFERRED REVENUES	16,714,589	567,380	610,004	1,266,418	1,411,435	2,320,783	12,893,337

14.13 LONG-TERM LIABILITIES

As at 31. 12. 2010 Elektro Gorenjska Company had **EUR 27,885,518** of **long-term financial liabilities**, which is by 5.9 % more as compared to the balance as at 31. 12. 2009. All long-term financial liabilities have the maturity of more than five years.

In year 2010 we redeemed **EUR 4,801,349** worth of principals and paid **EUR 766,596** of interest. In year 2009 we redeemed by EUR 3,796,880 of principals and paid EUR 627,474 of interest. State of raised loans as of 31. 12. 2010 amounted to EUR 33,533,038, while at the end of year 2009 it was EUR 31,134,387.

On 3. 8. 2010 we signed a contract on raising a long-term loan with SKB bank in the amount of EUR 7,200,000. Credit was fully depleted on 13. 8. 2010.

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. 2010 amounted to EUR 27,214,636.

In connection with long-term financial liabilities the company is exposed mainly to the interest risk. Company possesses no special financial instruments to hedge against this risk. 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. 2010 amounted to **EUR 498,015** and were lower by 43 % compared to the balance as at 31. 12. 2009.

Changes in long-term financial liabilities in year 2010 are presented in the following table:

in EUR

TITLE	YEAR OF APPROVAL	YEAR OF MATURITY	PURPOSE OF THE LOAN	CREDIT INSURANCE	OPENING BALANCE 1.1.2010	INCREASE DUE TO NEW LOANS	REPAYMENTS 2010	CLOSING BALANCE 31.12.2010	SHORT-TERM PART OF LONG-TERM LOANS 31.12.2010	LONG-TERM PART OF LOANS 31.12.2010	DUE FROM 31.12.2010 TO 31.12.2015
1	2	3	4	5	6	7	8	9=6+7+8	10=part 9	11=part 9	12=part 9
Loans in the country – long-term					31,134,387	0	-4,801,349	26,333,038	5,647,520	20,685,518	22,899,996
Credit 1	2003	2011	investments, current assets	bills of exchange	1,104,445	0	-736,280	368,165	368,165	0	368,165
Credit 2	2009	2017	investments	bills of exchange	8,500,000	0	0	8,500,000	1,214,286	7,285,714	6,071,429
Credit 3	2008	2016	investments	bills of exchange	7,031,287	0	-1,004,470	6,026,817	1,004,470	5,022,347	5,022,348
Credit 4	2007	2014	investments, current assets	bills of exchange	1,192,265	0	-238,453	953,812	238,452,92	715,359	953,812
Credit 5	2007	2015	investments, current assets	bills of exchange	7,473,853	0	-1,245,642	6,228,211	1,245,642,20	4,982,569	6,228,211
Credit 6	2005	2012	investments, current assets	bills of exchange	2,404,175	0	-801,392	1,602,784	801,391,68	801,392	1,602,783
Credit 7	2006	2013	investments, current assets	bills of exchange	1,341,605	0	-357,761	983,843	357,761,28	626,082	983,843
Credit 8	2006	2014	investments, current assets	bills of exchange	2,086,757	0	-417,351	1,669,406	417,351,48	1,252,054	1,669,406
Credit 9	2010	2018	investments, current assets	bills of exchange	0	7,200,000	0	7,200,000	0	7,200,000	5,142,857
Total long-term loans					31,134,387	7,200,000	-4,801,349	33,533,038	5,647,520	27,885,518	28,042,853

14.14 SHORT-TERM FINANCIAL LIABILITIES

Short-term financial liabilities as at 31. 12. 2010 amounted to **EUR 5,655,784** and were by 17.6 % higher than on 31. 12. 2009. Short-term financial liabilities refer to the short-term part of long-term loans.

in EUR

ITEM DESCRIPTION	31. 12. 2010	31. 12. 2009
Short-term financial liabilities to banks and companies	5,647,520	4,801,349
Other short-term financial liabilities	8,264	8,264
TOTAL SHORT-TERM LIABILITIES FROM FINANCING ACTIVITIES	5,655,783	4,809,613

14.15 SHORT-TERM OPERATING LIABILITIES

Short-term operating liabilities in the amount of **EUR 19,910,689** are by EUR 2,866,903 or by 16.8 % higher than compared to the balance as of 31. 12. 2009. Detailed review of the short-term operating liabilities is presented in the following table:

in EUR

ITEM DESCRIPTION	31. 12. 2010	31. 12. 2009
Liabilities to suppliers for own account	12,264,283	11,283,904
a) to Gorenjske elektrarne	1,012,883	1,664,935
b) to other suppliers in the country	11,251,400	9,618,969
Liabilities to other suppliers on its own behalf and for third party account	4,074,742	4,058,535
a) liabilities to SODO, d. o. o. - for third party account	4,067,874	4,055,520
b) to others in the country	6,868	3,015
Other liabilities, of which:	3,571,665	1,701,347
a) to workers	1,311,691	867,548
b) to state and other institutions	1,680,933	233,316
- liabilities for charged VAT	323,592	18,461
- liabilities for contributions on gross earnings	171,128	136,488
- liabilities for withholding tax	23,903	0
- other short-term liabilities	1,162,311	78,368
c) for received collaterals	1,775	1,404
d) for advances	345,808	480,669
e) liabilities for interests	231,458	113,488
f) other (interests, employee deductions, pension fund management ...)	0	4,922
TOTAL SHORT-TERM OPERATING LIABILITIES	19,910,689	17,043,786

Other short-term liabilities to state and other institutions in the amount of EUR 1,162,311 are mainly liabilities referring to tax on corporate income.

Short-term liabilities for advances (31. 12. 2010: EUR 345,808) consist mainly of overpayment amounts on bills issued to end users or electricity customers.

14.16 SHORT-TERM ACCRUED COSTS AND DEFERRED REVENUES

As at 31. 12. 2010 accrued costs and deferred revenues amounted to EUR 999,845. They are explained in more detail in the table below.

in EUR

ITEM DESCRIPTION	31. 12. 2010	31. 12. 2009
Accrued costs (expenses) for derogations between the announced and realized schedules of electricity consumption (purchase) for covering the losses in the company's network (referring to inclusion of this activity to balance subgroup SODO, d.o.o.)	246,303	2,503
Accrued costs (expenses) in respect of the purchase of electricity for losses in distribution network	170,345	253,025
Accrued costs (expenses) of electricity purchase for SODO supplies	0	50,720
Other accrued costs (expenses)	332,606	16,757
Total short-term accrued costs (expenses)	749,254	323,006
Short-term deferred revenues to insurance companies	32,027	117,074
Short-term deferred revenues - rent and services SODO, d. o. o.	179,330	0
Short-term deferred revenues - projects for grants	28,124	4,896
Total short-term deferred revenues	239,480	121,970
For investments and current assets	2,566	24,666
Other short-term deferred liabilities	8,544	464
TOTAL SHORT-TERM ACCRUED COSTS AND DEFERRED REVENUES	999,845	470,105

Accrued costs (expenses) for derogations between the announced and realized schedules of electricity consumption (purchase) for covering the losses in the company's network, which amounted to EUR 246,303 at the balance sheet date on 31. 12. 2010 are explained in more detail in Business report, chapter 4.10.8 - Schedule derogations.

Accrued costs (expenses) in respect of the purchase of electricity for losses in distribution network amounted to EUR 170,345 as at 31. 12. 2010 and are explained in the Business report, chapter 13.5 - Accounts of electricity purchase for losses in network and for implementation of other activities under the Contract with SODO.

Other accrued costs in the amount of EUR 321,916 are mainly the costs of unused annual leave for year 2010, which the company delimitated for the first time in 2010.

Short-term deferred revenues for rent and services SODO in the amount of EUR 179,330 represent 50 % of the amount of the difference between the entire settlement for the period of 2004-2009 and a partial settlement for year 2009. In accordance with the Contract with SODO for year 2011 50 % of the established difference between the stated settlements is settled in year 2011 (short-term deferred revenues), while the remaining 50 % in year 2012 (long-term deferred revenues). Difference is explained also in chapter 13.1. - Transactions with SODO.

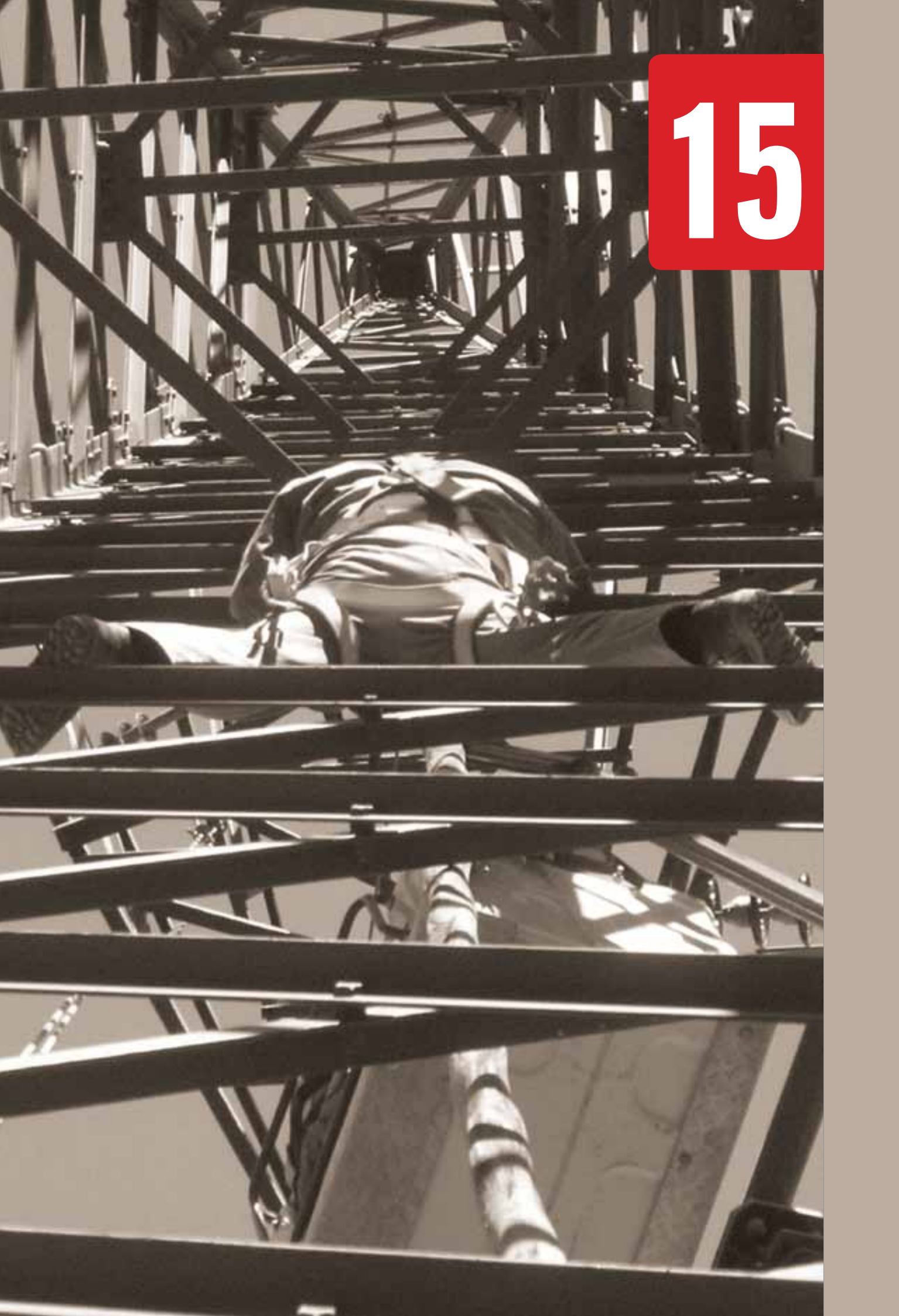
14.17 POTENTIAL ASSETS AND LIABILITIES

Off-balance sheet assets or liabilities as at 31. 12. 2010 amounted to EUR 5,898,682 and were lower by EUR 1,255,980 compared to the balance as at 31. 12. 2009. Main items of off-balance sheet assets or liabilities are received and issued guarantees in the total amount of EUR 2,657,444 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. 2010	31. 12. 2009
Foreign material in warehouse	124,235	48,969
Received guarantees	1,999,288	1,475,603
Issued guarantees	658,155	1,490,492
Bills of exchange	0	4,200
Fixed assets in the property of SODO	2,290,737	0
Contingent claims on SODO	0	2,298,372
Small tools	826,267	836,790
Other	0	1,000,237
TOTAL POTENTIAL ASSETS AND LIABILITIES	5,898,682	7,154,662

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15. NOTES ON PROFIT AND LOSS ACCOUNT ITEMS

15.1 NET SALES REVENUES

In year 2010 net sales revenues amounted to **EUR 101,730,838**. 95 % of net sales revenues were achieved on the domestic market. Net sales revenues in year 2010 are the following:

in EUR

ITEM DESCRIPTION	YEAR 2010	YEAR 2009
Revenues from electricity sale:	72,119,899	66,542,357
a) household customers	16,871,279	16,996,669
b) other eligible customers	41,540,854	40,897,084
c) trade	13,655,536	8,546,892
d) SODO supplies	28,110	94,064
e) guaranteed purchase	24,120	7,648
Revenues from rent and services in relation to SODO	23,192,302	19,505,401
Revenues for covering the losses of electricity in relation to SODO	3,395,628	4,334,171
Revenues from services for Gorenjske elektrarne	223,830	213,178
Revenues from rents	664,776	612,846
of which revenues from rents of Gorenjske elektrarne	204,785	207,227
of which revenues from rents of others	459,991	405,619
Revenues from construction and assembly works	1,370,302	1,033,900
Revenues from other services	764,101	823,991
TOTAL NET SALES REVENUES FROM EFFECTS OF BUSINESS SALES	101,730,838	93,065,844

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

Transactions of unauthorized consumption and supply of electricity are explained in more detail in Business report, chapter 4.10.7. – 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 4.10.3 – Changes in the system of electricity distribution operator activity. 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 2010 compared to the previous year and a settlement, 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 4.10.6. – Electricity losses in network.

15.2 CAPITALIZED OWN PRODUCTS AND OWN SERVICES

In year 2010 capitalized own effects amounted to **EUR 3,902,592**, which is compared to year 2009 by 3 % less. They are entirely investments in tangible fixed assets – energy infrastructure.

in EUR

ITEM DESCRIPTION	YEAR 2010	YEAR 2009
Direct material costs	2,599,612	2,332,074
Direct costs of services of others in production of goods and services	84,550	89,975
Direct labor costs	820,443	767,758
Total direct costs of material, services and labor	3,504,605	3,189,807
Total indirect costs of material, services, labor and depreciation	397,987	817,674
TOTAL COSTS IN PRODUCTION OF GOODS AND SERVICES IN RELATION TO CAPITALIZED OWN EFFECTS	3,902,592	4,007,481

15.3 OTHER OPERATING REVENUES

Other operating revenues in the amount of **EUR 1,373,057** include:

in EUR

ITEM DESCRIPTION	YEAR 2010	YEAR 2009
Revenues in respect of transfer of long-term deferred revenues to regular operating revenues	261,908	373,127
- co-financing of scholarships	3,150	2,975
- delivery of fixed assets free of charge	77,900	75,055
- delivery of connections free of charge	70,705	60,920
- use of Re-energy Fund	10,162	3,850
- elimination of long-term deferred revenues in respect of subsidies for priority dispatching	0	81,450
- average connection costs	85,319	85,319
- co-financing of investments in expansion of electricity network	14,092	63,558
- revenues from the right to use	580	0
Revenues from elimination of provisions:	969,529	4,680
- provisions for long-service bonuses and severance pay at retirements	28,873	4,680
- other provisions	940,656	0
Operating revenues from revaluation – fixed assets	99,839	45,892
Operating revenues from revaluation – elimination of excess costs of derogations	0	68,091
Operating revenues from revaluation – other	0	12,220
Revenues-Hiperdno project	20,291	0
Revenues-Supermen project	21,490	0
Revenues in respect of transfer of short-term deferred revenues of Alpine space project to regular revenues	0	26,701
TOTAL OTHER OPERATING REVENUES	1,373,057	530,711

Revenues from transfer of long-term deferred revenues (long-term accrued costs and deferred revenues) to regular revenues and **revenues from elimination of provisions** are explained also in chapter 14.12 – Provisions and accrued costs and deferred revenues.

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

15.4 FINANCIAL REVENUES FROM SHARES

In year 2010 we realized **EUR 164,500** of financial revenues from shares, which is presented in the following table:

in EUR

ITEM DESCRIPTION	YEAR 2010	YEAR 2009
Financial revenues from dividends	164,500	165,832
F. revenues from shares in group companies	0	1,065,530
TOTAL FINANCIAL REVENUES FROM SHARES	164,500	1,231,362

Financial revenues from shares in year 2010 represent received dividends of Gorenjska bank in the amount of EUR 164,500. Financial investments in companies 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 consist of:

in EUR

ITEM DESCRIPTION	YEAR 2010	YEAR 2009
Received interest for short-term deposits in money deposit banks	44,913	17,746
Received interest from long-term loans to others	89	122
TOTAL FINANCIAL REVENUES FROM LOANS	45,002	17,868

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

15.6 FINANCIAL REVENUES FROM OPERATING RECEIVABLES

Financial revenues from operating receivables in the amount of EUR 161,329 include:

in EUR

ITEM DESCRIPTION	YEAR 2010	YEAR 2009
Default interest on receivables from electricity and network charge	144,712	158,571
Interest on other receivables	14,713	4,517
Other	1,904	1,973
TOTAL FINANCIAL REVENUES FROM OPERATING RECEIVABLES	161,329	165,061

15.7 OTHER REVENUES

Other revenues in the amount of EUR 143,715 include:

in EUR

ITEM DESCRIPTION	YEAR 2010	YEAR 2009
Received compensations from insurance companies	85,593	171,277
Received compensations from other	34,143	89,808
Other revenues	23,978	11,396
TOTAL OTHER REVENUES	143,715	272,481

15.8 COSTS OF GOODS SOLD AND MATERIALS USED

Costs of goods sold and materials used consist of:

in EUR

ITEM DESCRIPTION	YEAR 2010	YEAR 2009
Electricity purchase:	70,390,044	66,704,206
- from Gorenjske elektrarne	1,977,345	3,285,829
- from other suppliers in the country	55,481,034	56,690,884
- from other suppliers abroad	12,931,665	6,727,494
Electricity purchase: SODO supplies	37,347	79,427
Costs of material:	4,371,118	3,704,470
- material costs of maintenance (preventive, curative)	337,684	434,949
- costs of materials in connection with capitalized own effects, market services	3,367,873	2,659,140
- used engine fuel	254,199	225,086
- small tool write-off	130,275	112,176
- costs of office supplies	110,229	122,270
- other material costs	170,858	150,850
COSTS OF GOODS SOLD AND MATERIAL USED	74,798,509	70,488,103

Quantities of purchased electricity are presented also in the Business report, chapter 6.1.2 – Quantities of purchased electricity (activity NP), but the presentation does not include quantities purchased for covering the electricity losses in the network. **Electricity costs** in the table above (year 2010: EUR 70,390,044; year 2009: EUR 66,704,206) include besides electricity purchases for the purposes of sale to end customers and trade (activity NP or activity DGO and DPO) also values of purchased quantities for covering the losses of electricity in the network (activity DO). Transactions of purchasing the losses are presented also in the Business report, chapter 4.10.6.

Transactions of supplies with electricity are explained in more detail in the Business report in chapter 4.10.7 – SODO supply.

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 (activity DO).

Costs of materials used in implementing services and creation of products (year 2010: EUR 3,367,873 and year 2009: EUR 2,659,140) include values of material, which company then treats as a component part of:

- acquisition values of tangible fixed assets, built or made in the company for the needs of the company (capitalized own effects), which is explained in more detail in chapter 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 explanatory note 15.1 – Net sales revenues).

15.9 COSTS OF SERVICES

in EUR

ITEM DESCRIPTION	YEAR 2010	YEAR 2009
Costs of services in respect of maintenance of electric power infrastructure and other tangible fixed assets	1,350,052	1,254,859
Costs of service in creating products and implementing services	215,349	296,929
Postal and telephone services	494,211	449,608
Rents	51,034	38,274
Insurance premiums	246,506	237,166
Costs of payment transactions and banking services	37,715	47,686
Costs of scientific and research work	163,408	260,169
Costs of reimbursement of tuition fees and additional work related professional education of employees	134,275	125,039
Other reimbursements of work related costs to employees (daily allowances, charges for night's lodgings, travel expenses for official travels)	35,783	21,964
Costs of advertising and representation	66,436	78,089
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...)	66,675	72,665
Other services in connection with computer information system	1,216,668	1,274,265
Consulting, auditing, legal, accounting, and similar services	307,057	275,729
Student employment brokerage service	117,973	82,447
Subscriptions to Chamber of Commerce and Industry and commercial association contributions	55,966	112,372
Other costs of services	473,642	383,450
TOTAL COSTS OF SERVICES	5,032,747	5,010,711

Costs of services in maintenance of tangible fixed assets in the amount of EUR 1,350,052 are presented also in Business report, chapter 6.4 – Maintenance of energy facilities (activity DO).

Costs of services in implementing services and creating products in the amount of EUR 215,349 include values of construction services, electricity on-site assembly, designing and other similar services, which the company then treats as a component part of:

- acquisition costs of tangible fixed assets, built or made in the company for the needs of the company (capitalized own effects), which is explained in more detail in chapter

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 scientific and research work (EUR 163,408) are presented also in the Business report chapter 6.5 – Development and design.

Politics of education and with it also costs of tuition fees and additional professional education (EUR 134,275) are presented also in the Business report, chapters 9.1.4 and 9.1.6.

Other services in respect of computer information system include:

- services of Informatika company (year 2010: EUR 940,160; year 2009: EUR 969,077): concern for undisturbed and safe operation of company'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 introduction of information system changes and similar and
- other services of computer software maintenance (year 2010: 2 EUR 69,374; year 2009: EUR 305,188).

15.10 LABOR COSTS

Labor costs (EUR 11,044,705) consist of:

in EUR

ITEM DESCRIPTION	YEAR 2010	YEAR 2009
Salary costs	7,734,253	7,272,639
Costs of voluntary pension insurance of employees	351,579	340,980
Costs of employer's contributions and other benefits from salaries	1,266,987	1,221,796
Costs of transport allowances	330,487	357,678
Costs of lunch	489,493	473,779
Costs of employees insurance	24,943	25,265
Bonuses, severance pays, social relief	355,142	54,592
Pay for annual leave	491,821	486,889
TOTAL LABOR COSTS	11,044,705	10,233,618

Salary costs include also accrued costs of unused annual leave of the employees as at 31. 12. 2010 in the amount of EUR 321916.

Costs of voluntary pension insurance are presented also in the Business report, chapter 9.1.12 – Additional activities for employees.

Costs of employer's contributions and other salary benefits include also contributions for pension and disability insurance: year 2010 in the amount of EUR 708,125; year 2009 in the amount of EUR 686,845.

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 2010 amounted to **EUR 10,149,599** and were by 9 % higher than in the last year. They include:

in EUR

ITEM DESCRIPTION	YEAR 2010	YEAR 2009
Depreciation of intangible fixed assets	563,646	327,338
Depreciation of tangible fixed assets	8,626,656	8,698,537
Depreciation of investment property	58,308	10,642
Total depreciation costs	9,248,610	9,036,518
Operating expenses from revaluation of fixed assets	177,390	214,719
Operating expenses from revaluation of current assets:	723,599	62,004
- operating expenses from revaluation of claims	722,789	62,004
- operating expenses from revaluation of material stocks	810	0
TOTAL AMORTIZATION / DEPRECIATION COSTS	10,149,599	9,313,241

Costs of depreciation of intangible fixed assets (year 2010: EUR 563,646) re presented also in chapter 14.1 – Intangible assets and long-term accruals and prepaid expenditure; costs of depreciation of tangible fixed assets (year 2010: EUR 8,626,656) in chapter 14.2. – Tangible fixed assets and costs of depreciation of investment property (year 2010: EUR 58,308) in chapter 14.3. – Investment property.

Operating expenses from revaluation of fixed assets (year 2010: EUR 177,390) 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 claims (year 2010: EUR 722,789) are presented also in chapter 14.8 - Short-term operating receivables.

15.12 OTHER OPERATING EXPENSES

Other operating expenses in the amount of **EUR 838,837** include:

in EUR

ITEM DESCRIPTION	YEAR 2010	YEAR 2009
Contribution for promotion of employment of persons with disabilities	38,231	38,146
Contribution for urban land	91,346	90,265
Provisioning	567,380	1,524,212
- for long-service bonuses and severance pay at retirements	30,771	494,736
- for probable losses in disputes in progress – UVK	459,194	699,476
- other provisions	77,415	330,000
Scholarships	16,262	27,945
Donations	8,537	18,150
Other expenses	117,081	141,013
TOTAL OTHER OPERATING EXPENSES	838,837	1,839,731

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.

15.13 FINANCIAL EXPENSES FROM IMPAIRMENTS AND FINANCIAL INVESTMENTS WRITE-OFFS

There were no financial expenses from impairments and financial investments write-off in years 2010 and 2009.

15.14 FINANCIAL EXPENSES FROM FINANCIAL LIABILITIES

Financial expenses from financial liabilities consists of:

in EUR

ITEM DESCRIPTION	YEAR 2010	YEAR 2009
Expenses from interests for received long-term loans in commercial banks	752,058	627,474
Expenses from interests for received revolving credit in commercial bank	5,348	17,846
Expenses from interests for received short-term loans in commercial banks (automatic debt or limit)	0	668
TOTAL FINANCIAL EXPENSES FROM FINANCIAL LIABILITIES	757,406	645,988

15.15 FINANCIAL EXPENSES FROM OPERATING LIABILITIES

in EUR

ITEM DESCRIPTION	YEAR 2010	YEAR 2009
From operating liabilities from Gorenjske elektrarne	14,364	33,900
For interests from accounts payable	1,702	8,785
Other	1,851	3,556
TOTAL FINANCIAL EXPENSES FROM OPERATING LIABILITIES	17,918	46,241

In case of delay in payment up to 15 days Company Gorenjske elektrarne charges the parent company Elektro Gorenjska interests on late payment in the amount of the monthly EURIBOR, valid on the day of invoicing currency, increased by 3 percentage points. In case of delay in payment over 15 days Gorenjske elektrarne charge the statutory interest for late payment.

15.16 OTHER EXPENSES

in EUR

ITEM DESCRIPTION	YEAR 2010	YEAR 2009
Compensations in construction	2,222	1,227
Other expenses	11,116	153
TOTAL OTHER EXPENSES	13,338	1,381

15.17 COST BREAKDOWN IN FUNCTION GROUPS

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

in EUR

ITEM DESCRIPTION	YEAR 2010	YEAR 2009
Costs of operating effects sold	92,850,055	87,967,158
Costs of general activities	4,800,349	4,852,029
Costs of sales	3,313,004	3,789,494
TOTAL	100,963,408	96,608,681

15.18 INCOME TAX

Charged income tax for 2010 business year amounted to EUR 1,077,635 (year 2009: EUR 196,877). Main reason for higher income tax in year 2010 is higher net profit for the period before tax.

Table of income tax calculation for year 2010:

in EUR

ITEM DESCRIPTION	YEAR 2010	YEAR 2009
PROFIT before tax	4,867,974	1,711,794
Revenues reducing the tax base	-195,701	-1,262,522
Expenditure increasing the tax base	1,574,691	1,214,937
Expenditure reducing the tax base	-76,655	-165,456
Tax base reduction on the basis of relief	-528,837	-524,682
Other	-253,297	-36,563
Tax base	5,388,174	937,508
Tax rate	20 %	21 %
Income tax	1,077,635	196,877
Effective tax rate	22 %	12 %

15.19 DEFERRED TAX LIABILITIES AND DEFERRED TAXES

As at 31. 12. 2010 deferred tax liabilities amounted to EUR 498,015 (31. 12. 2009: EUR 875,110). They consist of the following items:

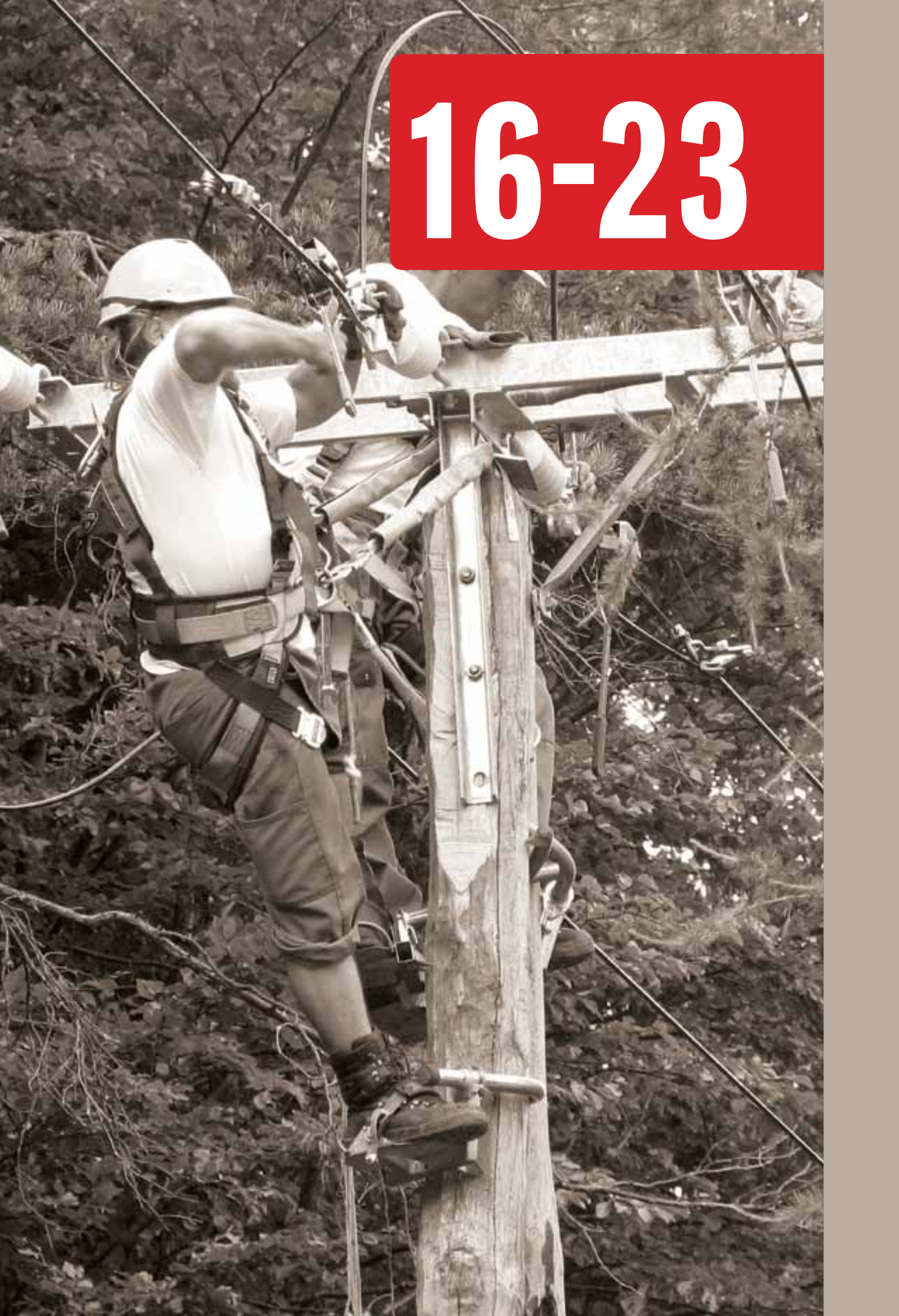
in EUR

ITEM DESCRIPTION	1. 1. 2010	INCREASE (NEW FORMATIONS)	DECREASE (ELIMINATION)	31. 12. 2010
1	2	3	4	5=2+3-4
In respect of provisioning	354,112	0	354,112	0
In respect of revaluation of long-term financial investments in capital , available for sale	520,999	1,826	24,810	498,015
TOTAL DEFERRED TAX LIABILITIES	875,110	1,826	378,922	498,015

In year 2010 we eliminated recognized liabilities for deferred tax in respect of provisioning. Provisions on the basis of which they were formed were used or partially eliminated in year 2010.

Deferred tax assets, which amounted to EUR 1,133,978 as at 31. 12. 2010 were not recognized by the company in accordance with the SRS 5.16 (uncertainty regarding future taxable income). Company is in the process of reorganization (spin-off of a part of the company), so future operations of the company are even more uncertain.

16-23



16. NOTES ON OTHER COMPREHENSIVE INCOME ITEMS
17. NOTES ON CASH FLOW ITEMS
18. CONTINGENT LIABILITIES
19. TRANSACTIONS WITH AFFILIATES – INCLUDING THOSE NOT DISCLOSED IN THE BALANCE SHEET
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 32,114**, consists of reduction of deferred tax liabilities due to the changed tax rate from 21 to 20 % (EUR 24,809), revaluation of long-term financial investment to fair value in year 2010 (EUR 9,131) and increase of the deferred tax liabilities due to long-term financial investment revaluation (EUR –1,826).

17. NOTES ON CASH FLOW ITEMS

In cash flow statement **offsets of mutual claims and liabilities** are not included. In year 2010 they amounted to a total of **EUR 32,478,010** (year 2009: EUR 36,831,083). Major part of offsets, in the amount of EUR 27,630,604, refers to claims and liabilities to SODO. In year 2009 there were by EUR 29,710,235 of offsets done with SODO company.

In receipts and expenditure it is necessary to consider that they include appropriate amounts of duties, mainly VAT and excise duties, in accordance with the issued or received invoices.

Monetary assets as at 1. 1. 2010 include short-term deposits or deposits redeemable in the amount of EUR 3,975,004 and the balance of assets on current accounts in banks in the amount of EUR 63,096 (total balance of monetary assets at the beginning of the period EUR 4,038,100). As at 31. 12. 2010 the balance of deposits in banks amounted to EUR 1,484,000, while the balance of day-to-day assets on the current accounts in banks amounted to EUR 691,280 (total end of the period balance EUR 2,175,280). In the period from January to December 2010 the company had a negative cash flow in the amount of EUR 1,862,820, which is mainly the consequence of higher operating expenses compared with the previous year (EUR 12,325,190), above all expenses for the purchase of material and services, despite higher operating revenues by EUR 8,520,370.

Net cash from operating activities in year 2010 amounted to EUR 7,387,514, which means that the company operates positively with its main activity and creates a positive cash flow. This way the company 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 5,582,763, and could partly finance new acquisitions of intangible and tangible assets. Like in the past the largest revenues were revenues from business and household customers for payment of electricity, while the largest expense was purchase of electricity.

Net cash used in investing activities in year 2010 amounted to EUR 10,867,571, which was expected as the industry the company operates in is technologically very intense and in order to provide quality supply to its customers in the area of Elektro Gorenjska distribution network large and constant investments are required (explained mainly in chapter 14.2 – Tangible fixed assets). New acquisitions of intangible and tangible assets were mainly financed by acquisition of new long-term credit in the amount of EUR 7,200,000 (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 1,617,237 was thus expected.

18. CONTINGENT LIABILITIES

Besides liabilities recognized in long-term provisions, Elektro Gorenjska Company 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.

19. TRANSACTIONS WITH AFFILIATES – INCLUDING THOSE NOT DISCLOSED IN THE BALANCE SHEET

19.1 TRANSACTIONS WITH GROUP COMPANIES IN YEAR 2010

Overview of transactions in the group and their effects on consolidated balance sheet as of 31. 12. 2010:

in EUR

ITEM DESCRIPTION	31. 12. 2010	31. 12. 2009
Liabilities of controlling company for purchased electricity and controlled company claim	1,010,788	1,654,970
Liabilities of controlling company for controlled company services rendered and controlled company claim	0	3,641
Liabilities of controlling company for operating liabilities interest and controlled company claim	2,095	6,324
Total liabilities of controlling company and controlled company claims	1,012,883	1,664,935
Controlling company claims for consumed electricity and network charge and controlled company liability	1,281	1,496
Controlling company claims for services rendered and controlled company liability	45,331	7,039
Controlling company claims for small tools and controlled company liability	536	0
Controlling company claims in respect of fixed assets sale and controlled company liability	1,314,491	0
TOTAL CONTROLLING COMPANY CLAIMS AND CONTROLLED COMPANY LIABILITIES	1,361,640	8,535

Overview of transactions and related items in the profit and loss account for year 2010:

in EUR

ITEM DESCRIPTION	YEAR 2010	YEAR 2009
Revenues from shares in controlled company (controlled company capital)	0	1,065,530
Costs of controlling company electricity purchase (revenues from controlled company electricity sale)	1,977,345	3,285,829
Financial expenses for operating liabilities interest of controlling company (revenues from controlled company interests)	14,364	33,900
Tangible fixed assets of controlling company (revenues from controlled company services)	11,556	8,743
Costs of controlling company services (revenues from controlled company services)	589	0
Revenues from services rendered in general services (costs of controlled company)	211,830	213,178
Revenues from controlling company rents (costs of controlled company rents)	205,141	206,174
Revenues from the membership in the controlling company balance subgroup (controlled company expenditure)	12,000	0
Revenues for realized construction work of controlling company (costs or assets of controlled company)	0	2,900
Revenues from controlling company calibrations (controlled company costs)	7,810	5,918
Revenues from sold easement rights of controlling company (long-term assets of controlled company)	0	2,000
Revenues from use of accommodation capacities (costs of controlled company)	590	943
Revenues from direct connection costs of controlling company (costs or tangible fixed assets of controlled company)	158	158
Revenues from preparation of project documentation of controlling company (tangible fixed assets of controlled company)	1,100	0
Revenues from organization of PR activities of controlling company (costs of controlled company)	4,507	0
Revenues and expenses from revaluation of tangible fixed assets (tangible fixed assets of controlled company)	82,415	0
TOTAL	2,529,852	4,825,273

In year 2010 Gorenjske elektrarne controlled company was selling electricity generated in hydro and solar power stations to Elektro Gorenjska controlling company. In year 2010 controlled company charged the controlling company Elektro Gorenjska EUR 1,977,345 for the supplied electricity (31. 12. 2009: EUR 3,285,829). In relation to the controlling company Gorenjske elektrarne company realized in year 2010: EUR 14,364 of interest income (2009: EUR 33,900) in respect of sold electricity claims in accordance with the contract on electricity purchase.

In year 2010 controlled company implemented and charged to Elektro Gorenjska by EUR 12,145 of services related to investment projects (year 2009: EUR 8,743).

In year 2010 the controlling company implemented services for its subsidiary in the field of finances, accounting, human resources, and legal affairs, telecommunication services, services of process management and other services for its controlled company on the basis of a long-term contract. In this respect the company in year 2010 charged Gorenjske elektrarne for EUR 211,830 of services (year 2009: EUR 213,178).

In year 2010 Elektro Gorenjska company charged the controlled company with EUR 205,141 of rent for assets hired out in operating leasing for HE Sava, commercial building and in connection to installation of solar power stations on the controlling company real estate (year 2008: EUR 206,174).

In year 2010 Elektro Gorenjska Company charged its subsidiary EUR 12,000 for the membership in the balance subgroup of Elektro Gorenjska in accordance with the contract on purchase of electricity.

On the basis of Instructions on the systemic operation of electricity distribution network, Instruction on connection and operation of power stations of installed electricity generating capacity of up to 10 MWA, and Rules on technical requirement for operation and maintenance of electric power formations hydro power stations are required to provide calibration, adjustment, and operating test of protection devices of the disconnection spot once a year. On the basis of Rules on technical requirement for operation and maintenance of electric power formations other protection in the hydro power station has to be calibrated once a year as well. Once in two years measurements of grounding systems in hydro power station need to be executed. Calibration of protection devices is performed by authorized legal entities for these purposes. In year 2010 Company Elektro Gorenjska reached revenues in the amount of EUR 7,810 (year 2009: EUR 5,918) in respect of calibrations executed for its subsidiary.

In year 2010 Elektro Gorenjska charged its subsidiary EUR 590 for rental of accommodation facilities. Average and direct costs of connection have to be paid by the customers prior to connection to the electricity network and are not considered costs of connection construction. Direct costs of connection depend on the type and complexity of the connection. In year 2010 Gorenjske elektrarne company was charged with EUR 158 (year 2009: EUR 158).

In year 2010 Elektro Gorenjska Company charged its subsidiary for the preparation of the project documentation in the amount of EUR 1,100 and for shares in PR activities costs (Forum URE and OVE) in the amount of EUR 4,507.

In year 2010 Gorenjske elektrarne company purchased from the controlling company fixed assets and small tools worth EUR 1,096,230.

Prices of all transactions with affiliated persons are formed according to the principle of fair market prices.

As controlling company Elektro Gorenjska company did not obstruct or impaired operations of Gorenjske elektrarne as the controlled company.

According to the contract on implementation of services between the companies Elektro Gorenjska and Soenergetika, signed as at 30. 4. 2010, in year 2010 Elektro Gorenjska Company realized EUR 6,764 of revenues in respect of services implemented in relation to Soenergetika company.

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

In year 2010 Elektro Gorenjska Company paid the following gross receipts to the groups of people stated below for performing their tasks in the company:

in EUR

ITEM DESCRIPTION	EARNING	OPERATING PERFORMANCE	LONG-SERVICE BONUS	SEVERANCE PAY	SOLIDARITY AID	PAY FOR ANNUAL LEAVE	REIMBURSEMENT OF COSTS	INSURANCE PREMIUMS	TOTAL
1. RECEIPTS OF THE MANAGEMENT									
Elektro Gorenjska management board mag. Bojan Luskovec	30,500	0	0	0	0	0	1,402	129	32,031
Elektro Gorenjska management board mag. Jože Knavs	42,413	0	0	0	0	1,527	1,795	181	45,916
2. RECEIPTS OF EMPLOYEES UNDER INDIVIDUAL CONTRACTS									
Elektro Gorenjska	326,014	8,789	2,817	14,667	1,487	8,399	15,826	2,625	380,622
TOTAL	398,927	8,789	2,817	14,667	1,487	9,926	19,022	2,935	458,569

Reimbursement of costs (material costs) include: daily allowances, transfer to work, meals, costs of official journeys. They are charged in accordance with the company agreement or in accordance with the company's rules.

in EUR

	ATTENDANCE FEES	COMMI- SSIONS	TRAVEL EXPENSES	OTHER	TOTAL
EXTERNAL MEMBERS OF THE SUPERVISORY BOARD FROM 1.1. TO 26.8.2009					
mag. Marijan Koželj	1,771	0	0	0	1,771
Franc Lavrič	2,803	0	0	0	2,803
Vida Lorber	2,156	0	0	0	2,156
EXTERNAL MEMBERS OF THE SUPERVISORY BOARD FROM 1.1. TO 31.12.2010					
mag. Mojca Golc Goropečnik	4,686	1,056	95	0	5,837
dr. Aleš Groznik	5,016	528	749	84	6,377
Ludvig Sotošek	6,521	528	1,998	71	9,118
mag. Darjan Petrič	4,092	0	10	0	4,102
INTERNAL MEMBERS OF THE SUPERVISORY BOARD FROM 1.1. TO 31.12.2010					
Vojko Oman	6,765	0	103	0	6,868
Iztok Štular	6,842	528	0	0	7,370
TOTAL	40,652	2,640	2,954	155	46,401

Commission for implementation of careful financial, legal, and organizational review of the company consists of three members, two of them being members of the supervisory board. Commission for implementation of tender for the selection of Elektro Gorenjska chairman of the board consists of three supervisory board members.

In year 2010 members of the supervisory board were paid the difference between the attendance fee after the decision of the General Meeting as at 29. 8. 2007 and attendance fee determined by the Decision of the Government of RS on the position of paying attendance and directors' fees in connection with the limiting the effects of the financial crisis, No. 10007-1/2009/3 as of 22. 1. 2009.

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 groups of people and did not disclose any claims on them in this respect as of 31. 12. 2010.

20. AUDITING COSTS

Under Article 57 of the Companies Act (ZGD-1) Elektro Gorenjska Company is subject to annual report audit. Total costs of auditing services amounted to EUR 25,710. Contractual amount for auditing the financial statements of Elektro Gorenjska Company amounted to EUR 17,100.

21. DATE OF APPROVAL OF FINANCIAL STATEMENTS

Management of Elektro Gorenjska Company approved the financial statements of the company prepared for business year 2010 on 31. 3. 2011.

22. EVENTS AFTER THE BALANCE SHEET DATE

After the balance sheet date (31. 12. 2010) and until the date of approval of these financial statements (31. 3. 2011) two events occurred, which had a significant influence on the financial statements for 2010 business year.

1. UVK decision

In February 2011 Elektro Gorenjska received from the Ministry of the Economy RS (UVK) the judgment of the District Court in Ljubljana, which declared that the requirements for judicial protection of investors is partly met and the operative part of the decision is changed. Legal entity Elektro Gorenjska was fined with the amount of EUR 125,000. Provisions formed on the basis of the UVK decision in year 2008 amounted to EUR 1,065,656, so the company eliminated the over-provisioned amount of EUR 940,656 as at 31. 12. 2010.

2. SODO settlement

In March 2011 the company received from SODO the report on the value of services, rent and losses for the period from 1. 1. 2010 to 31. 12. 2010 based on the preliminary calculation of of the regulatory year 2010. It is evident from the document that already charged contractual value was by EUR 1,646,665 lower than the value arising from the preliminary account for year 2010. Company recognized the additional revenues in the amount stated in year 2010.

Besides that after the balance sheet date the sale of Soenergetika company to the subsidiary Gorenjske elektrarne occurred. As at 31. 1. 2011 Elektro Gorenjska Company sold to its subsidiary Gorenjske elektrarne a long-term financial investment in Soenergetika company, where the company had 25 % share according to its book value. Company did not recognize profit or loss in this respect. Please see also chapter 4.6.2 – Other associated companies or related entities in the Business report and note 14.4 – Long-term financial investments in the Accounting report.

23. MANAGEMENT RESPONSIBILITY STATEMENT

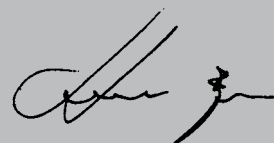
Management board of Elektro Gorenjska hereby approves the financial statements published and presented in this annual report and all other component parts of the annual report. Management board certifies that the annual report provides a true and fair picture of the financial condition of the company.

Management board certifies that all relevant accounting principles were consistently applied in drafting the 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 company, for adoption of appropriate measures to protect the property and other assets, and hereby certifies that financial statements of the company were prepared on a going concern basis and in line with the relevant legislation and Slovene Accounting Standards.

Kranj, 31. 3. 2011

Chairman of the Management Board:
mag. Bojan Luskovec



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July 2011



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