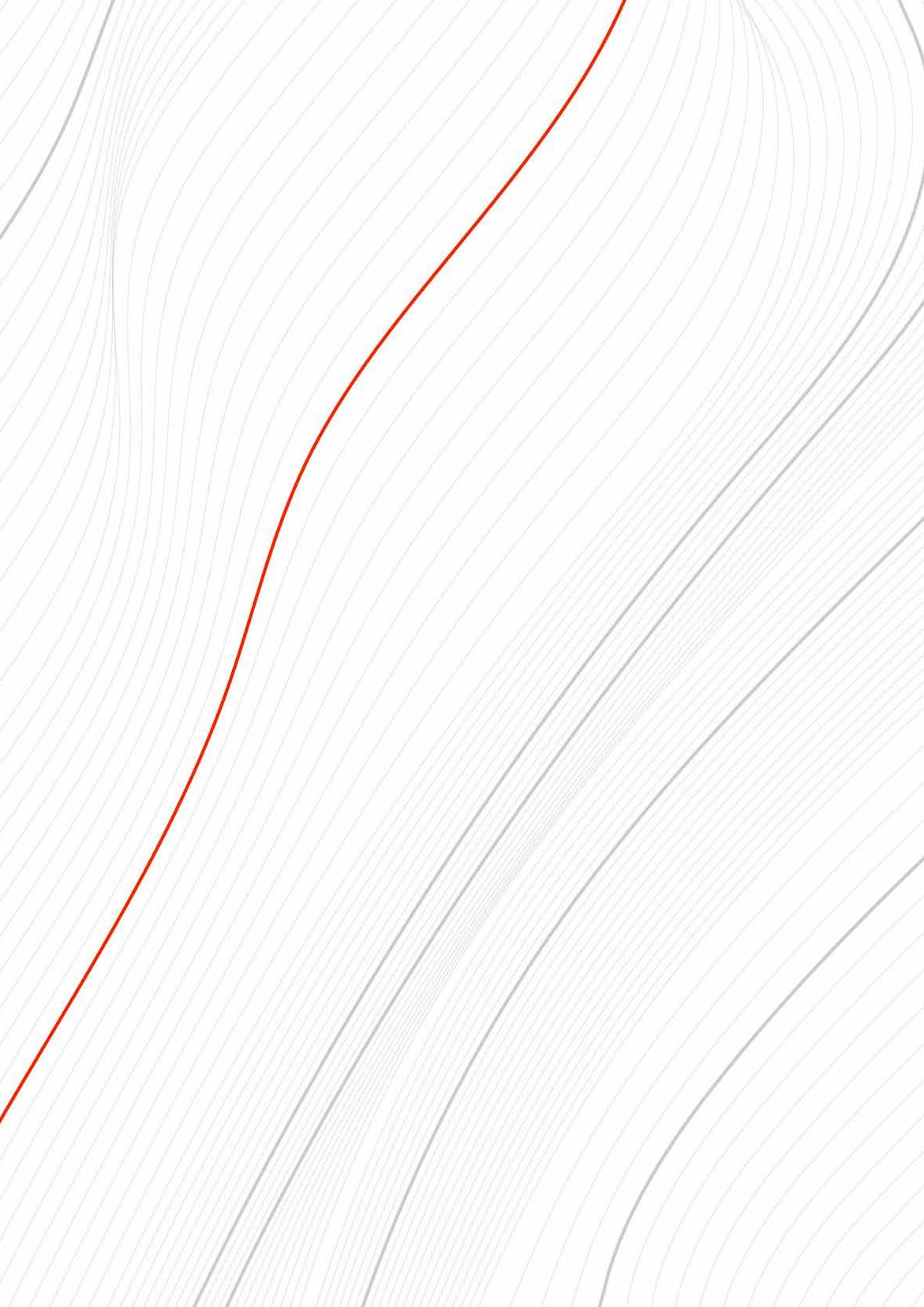
2018

2018 annual report of Elektro Primorska, d.d.
and the Elektro Primorska Group



2018 ANNUAL REPORT
OF ELEKTRO PRIMORSKA, D.D.
AND THE ELEKTRO PRIMORSKA GROUP

May 2019

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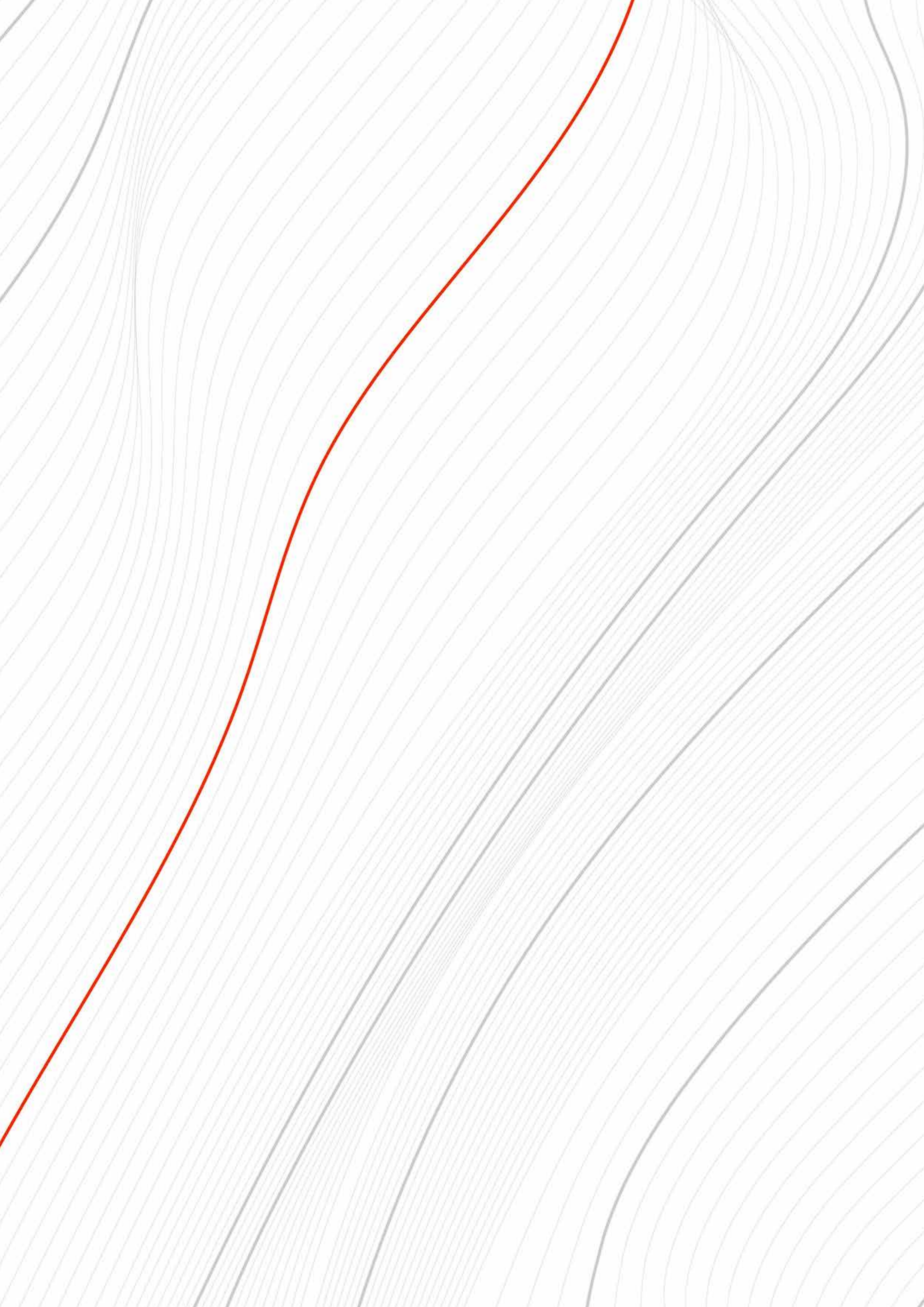

A

BUSINESS REPORT

01

REPORT BY THE MANAGEMENT BOARD

Dear shareholders, business partners and colleagues,

I have pleasure in presenting to you the 2018 Annual Report of Elektro Primorska and the Elektro Primorska Group. While at first glance, the environment in which Elektro Primorska operates does not change significantly from one year to the other, we actively monitor various trends in the market to keep abreast of the economic growth and user expectations. Therefore, in 2018, in accordance with our efforts to ensure sustainable excellence, we drew up the ››Elektro Primorska Strategy 2018-2022‹‹. In doing so, we made an in-depth analysis of individual areas of the Company's operations and identified five key strategic orientations. In addition to a comprehensive personnel development system and key technological trends, which the Company will follow in 2019, our key strategic orientations include upgrading the network to an increased number of diffused sources of electricity, supporting the introduction of electric vehicle project, establishing smart meters at all measuring points and digitizing the entire operations.

In the year under review, we devoted our efforts to ensuring successful transition to the new AX and MX information systems, the implementation of which ran smoothly without having any significant impact on the business.

Elektro Primorska realised 98% of planned investments (the plan was increased from €16.5 to €17 million during the year), completed all planned maintenance work on the network and increased investments using its own funds. Two of the most important infrastructure projects that began in the previous year and are currently continuing include reconstruction of the 20kV switchyard at the RTP Pivka transformer station and construction of a new 110kV gas-insulated switchyard at the RTP Plave, which was completed in cooperation with ELES, SENG and SODO. Reconstruction projects of the 20kV switchyard at the RTP Ajdovščina and RP Vipava and construction of the 110/20kV RTP Kobarid, which will be carried out in cooperation with SODO, are currently in the design phase. To improve the reliability of power supply to consumers and voltage profile of the medium-voltage network in the Bovec are, work started on the construction of a 20.3 km of dual medium-voltage cable conduit from the RTP Kobarid to the RP Bovec. As part of the project aimed at ensuring proper use of Karst grasslands and rock in the conservation of selected habitat in the Nature 2000 area, we carried out the isolation of pole position in the Slovenian Karst region to improve the conservation status of the Eurasian eagle owl. This is an extensive project, which will be implemented over the next 3 years. As part of our yearly investment plan, we invested some of the funds on purchasing electricity meters for households and other customers, control measuring devices in transformer stations, and equipment used in monitoring the quality of electricity in accordance with the SIST EN 50160 standard.

Elektro Primorska is currently pursuing a number of projects involving smart networks, one of which is establishment of a technology platform for integrated and advanced distribution management systems (ADMS). Introduction of the DMS functions will achieve greater efficiency in distributed electric energy storage management (DEES), rapid location and elimination of network failures and improved network utilisation. In 2018, we continued to participate in the 3Smart project, which aims to provide technological and legislative bases and conditions for cross-energy management of buildings, energy networks and major municipal infrastructures in the Danube Region. The pilot system will be tested at five locations in five different countries in the Danube Region, i.e. in Slovenia, Austria, Bosnia and Herzegovina, Croatia and Hungary. One of the many objectives of the project is development of a modular platform for coordinated construction and management of the distribution grid. In addition, we are taking part in the NEDO, Slovenian - Japanese partnership project, whose main goal is to test DMS functions and technologies. Voltage regulation and automatic location and restoration of the network after failure including the option of an island operation are the main functions studied as part of the NEDO project.

In 2018, the Company distributed 1,660.8GWh of electricity through its network. Total quantity of electricity distributed in 2018 is the second highest recorded in the entire history of the Company and is up 3.0% compared to 2017. Higher quantities were recorded only in 2007, mainly due to rather large transmission of electricity to Italy. Considering electric power consumption on the Slovenian market, we can conclude that financial year 2018 was a record-breaking year. In 2018, we also recorded the highest peak electricity consumption, which for the first time in history exceeded the magic limit of 300MWh/h.

As part of the Elektro Primorska's tasks of managing investments in electricity distribution companies, in 2018 the Company followed the key objectives of SDH, d. d. (the Slovenia Sovereign Holding). All the work was performed in accordance with the approved Business Plan and we generated net profit of €6,605,980 in 2018. Unfortunately, performance of our subsidiary E 3, d. o. o. was not as successful as we have hoped. Although E 3 exceeded all the sales targets in terms of volume and increased its market share, in order to achieve the planned return on the Group's capital, its operating result would have to be significantly better. Considering market conditions (price growth and increased competition), improved profitability could have been achieved only by stopping all sales and after-sales activities, which in turn would result in the loss of market share and long-term weakening of the company's business sustainability.

In February 2018, the area where we operate was hit by extraordinary weather conditions, which resulted in numerous and frequent faults in the electricity distribution network of Elektro Primorska. Thanks to the dedication of our staff, these faults were quickly and successfully eliminated. I wish to take this opportunity to thank them and all employees of Elektro Primorska for their contribution to the successful performance and excellent results achieved by the Company.

Uroš Blažica
President of the Management Board

02

STATEMENT OF MANAGEMENT RESPONSIBILITY

The Management Board has approved the financial statements and business report for the year ending 31 December 2018 and the accompanying accounting policies and notes thereto contained in the proposed Annual Report.

The Management Board is responsible for the preparation of the Annual Report that gives a true and fair presentation of the financial position of the Company and of its financial performance for the year ended 31 December 2018.

The Management Board confirms that the appropriate accounting policies were consistently applied, and that the accounting estimates were made under the principle of prudence and the diligence of a good manager. Furthermore, it confirms that the financial statements and notes thereto were prepared on the going concern basis and in accordance with the applicable Slovene legislation and Slovene Accounting Standards.

The Management Board is also responsible for the appropriate accounting system and adoption of measures to secure the assets, and to prevent and detect fraud and other irregularities and/or illegal acts.

The Company strictly abides by applicable laws and tax regulations in pursuing its business objectives and the Management Board does not expect any significant obligations in this respect.

The Tax Authorities may, at any time within a period of 5 years after the end of the year for which a tax assessment was due, carry out an audit of the Company's operations, which may lead to assessment of additional tax liabilities, default interest, and penalties with regards to corporate income tax or other taxes and duties. The Management is not aware of any circumstances that could give rise to a potentially significant liability in this respect.

Nova Gorica, 7 May 2019

Uroš Blažica
President of the Management Board

03

SUPERVISORY BOARD REPORT

COMPOSITION OF THE SUPERVISORY BOARD

- In the period from 1 January 2018 to 31 December 2018, the Supervisory Board comprised the following members:
- Stanislav Rijavec, Chairman of the Supervisory Board
- mag. Nikolaj Abrahamsberg, Deputy Chairman
- Darko Ličen, Member
- Rudolf Pečovnik, Member
- Primož Krnel, Member, employee representative
- Ivan Namar, Member, employee representative.

Members of the Supervisory Board have appropriate expertise, experience and skills needed to carry out responsible supervision and make decisions for the benefit of the Company. As various professional competences are represented in the Supervisory Board, its members have a wide range of knowledge and expertise. In addition, the age diversity of members of the Supervisory Board ensures heterogeneous and diverse composition of the Supervisory Board.

The following members of the Supervisory Board hold function in the management or supervisory bodies of related and unrelated companies:

- Stanislav Rijavec - director of the ››Dr. France Derganc‹‹ General Hospital in Šempeter pri Gorici, and member of the Institute Council of ››Dom na Krasu‹‹ in Dutovlje;
- mag. Nikolaj Abrahamsberg - member of the Supervisory Board of the Slovenian Air Traffic Control;
- Darko Ličen - director of ››Komunala Nova Gorica d. d.‹‹, and member of the Board of the Fund for Financing the Decommissioning of the NEK;
- Rudolf Pečnik - not a member of any of the management or supervisory bodies of related or unrelated companies,
- Primož Krnel - not a member of any of the management or supervisory bodies of related or unrelated companies,
- Ivan Namar - not a member of any of the management or supervisory bodies of related or unrelated companies.

TASKS OF THE SUPERVISORY BOARD

In 2018, the Supervisory Board diligently and responsibly supervised the operations of the Company and of the Elektro Primorska Group. The Supervisory Board members independently supervised the Company's operations and performed their tasks in accordance with their fundamental function of overseeing the work of the management and operation of the Company, including diligent governance in accordance with their competences as defined in the Companies Act (ZGD-1), the Articles of Association and the Rules of Procedure of the Supervisory Board. In addition to the above rules and regulations, members of the Supervisory Board followed recommendations and expectations of the Slovenian Sovereign Holding and provisions of the Corporate Governance Code for Companies with State Capital Investments.

Business supervision involved monitoring of the realisation of business objectives and long-term business and financial development of the Company and the Group. The Management Board reported regularly, fairly and thoroughly to the Supervisory Board on the operating results, on the broad terms and conditions of business and significant events that occurred in the Company and the Group. They duly provided the relevant material for the Supervisory Board meetings to the members and, when necessary, gave additional and in-depth explanation of matters at the Supervisory Board's sessions. Supervisory Board believes that cooperation with the Management Board was professional and conducted at an appropriate level.

The Supervisory Board met in ten regular sessions in 2018, adopted a total of 76 decisions and discussed the following important topics:

- Monthly, quarterly and interim reports on the operation of the Company and of the Elektro Primorska Group,
- The liquidity situation and important information on the Company's current operations;
- Quarterly internal audit reports and reports on comprehensive risk management in the Elektro Primorska Group;
- At its 8th regular meeting on 15 May 2018, it reviewed and approved the audited Annual Report of Elektro Primorska d. d. and the Elektro Primorska Group for the financial year 2017; took note of the independent auditor's report on the audit of the separate financial statements of Elektro Primorska d. d. and the independent auditor's report on the audit of the consolidated financial statements of the Elektro Primorska Group; and gave its consent to the Management Board's proposal for the appropriation of distributable profit for the financial year 2017;
- It discussed and approved material for the General Meeting and proposals for resolutions of the General Meeting of Shareholders;
- It gave consent to the transactions concluded by the Management Board, which require consent of the Supervisory Board in accordance with the Company's Articles of Association; and
- Discussed options for structural transformation of the subsidiary E 3, d. o. o.

The Supervisory Board members regularly attended the sessions and actively participated in discussions on individual agenda items.
The Supervisory Board incurred no expenses in connection with its tasks other than the costs linked to the General Meeting's decision regarding remuneration for the performance of its functions. Remuneration of the Supervisory Board members is disclosed in Table No. 68 of the Annual Report.

SUPERVISORY BOARD COMMITTEES
The Audit Committee provided professional support to the Supervisory Board in its supervision over the management of the Company's operations. In 2018, the Audit Committee acted in the following composition:

- Darko Ličen, Chairman of the Audit Committee,
- Rudolf Pečovnik, Audit Committee Member, and mag.
- Matej Loncner, external member of the Audit Committee.
-
- The Audit Committee met at five regular sessions in 2018 and adopted a total of 29 decisions and discussed the following important topics:
- Proposal for the selection of the auditor for the financial year 2018,
- Quarterly reports on the operation of the Company and of the Elektro Primorska Group,
- Liquidity reports of the Company and of the Elektro Primorska Group,
- Quarterly reports on internal audit,
- Quarterly reports on risk management,
- Proposals for improvement of the operations,
- Other matters as requested by the Supervisory Board.

In addition to the costs relating to its performance of the function, the Audit Committee incurred €770.00 of costs relating to professional training and education. Remuneration paid to the internal Audit Committee members is shown in Table No. 68 of the Annual Report. Remuneration of the external member of the Audit Committee amounted to €8,455.28 in 2018.

APPROVAL OF THE ANNUAL REPORT AND POSITION ON THE AUDITOR'S REPORT
At its 16th regular session on 20 May 2019, the Supervisory Board discussed the Annual Report of Elektro Primorska and Elektro Primorska Group for the financial year 2018, together with the report of external auditors, Ernst & Young Audit, poslovno svetovanje d.o.o., Ljubljana. In its opinion, the certified auditing firm confirmed that the financial statements, which are an integral part of the Annual Report, give a true and fair view of the financial position of the Company and the Group and of their statements of income, changes in equity and cash flows. The Supervisory Board had no comments on the auditor's report.

Based on the review of the Annual Report and the accompanying auditor's report, the Supervisory Board established that the Annual Report was prepared in accordance with the provisions of the Companies Act and the applicable accounting standards and that the information contained therein was a fair presentation of the Company's operations in the previous financial year.

In accordance with the foregoing considerations and positive opinion issued by the auditor, the Supervisory Board had no objections and approved the Annual Report of Elektro Primorska and Elektro Primorska Group for the financial year 2018. Thus, the Annual Report of Elektro Primorska and of the Elektro Primorska Group for 2018 was adopted.

In 2018, Elektro Primorska generated €6,605,979.76 of net profit. Some of the net profit amounting to €1,072.95 was allocated to reserves for treasury shares and for settlement of losses brought forward from previous years in the amount of €3,496.15, which arose on derecognition of the proportional part of actuarial losses on severance payments made in 2018. In accordance with the competencies stipulated in the Companies Act and the Articles of Association, the Management Board allocated €4,400,940.44 of the remaining amount of the net profit generated in 2018 to profit reserves. Thus, €2,200,470.22 remains unappropriated and the Company recognised €2,200,470.22 of distributable profit in 2018.

The Supervisory Board supports the Management Board's proposal to pay €2,200,470.22 of profit available for distribution as at 31 December 2018 to shareholders as dividends. The Supervisory Board will jointly with the Management Board submit its proposal for the distributable profit appropriation to the General Meeting of Shareholders.

Nova Gorica, 20 May 2019

Stanislav Rijavec
Chairman of the Supervisory Board

04

CORPORATE GOVERNANCE STATEMENT

In accordance with provisions of the Companies Act (ZGD-1), the Corporate Governance Statement forms an integral part of the business report for the financial year 2018.

4.1. Declaration of compliance with the Corporate Governance Code

Elektro Primorska complied with provisions of the Corporate Governance Code of Companies with State Capital Investment adopted on 19 December 2014 by the Slovenian Sovereign Holding based on provisions of ZSDH-1, as amended on 2 March 2016 and 17 May 2017. The Code is available on the following website:

https://www.sdh.si/Data/Documents/pravni-akti/KODEKS%20SDH%20-%20maj%202017(1).pdf

4.2. Compliance with the recommendations and expectations of the Slovenian Sovereign Holdinga

Elektro Primorska meets the recommendations and expectations of the Slovenian Sovereign Holding as adopted in March 2018. The Company hereby declares that it does not fully and consistently comply with those recommendations and expectations, which are regulated otherwise by the applicable law.

4.3. Internal control and risk management system relating to the financial reporting and auditing

Ensuring the reliability of financial reporting is crucial for the effective functioning of the corporate governance and management system. Internal controls include all procedures and measures that the Company implements to manage risks and to ensure the preparation of financial statements that present a true and fair view of the financial position and statements of income, cash flows and changes in equity in accordance with relevant accounting standards and applicable regulations.

Internal audit function of the Company and the Group is carried out in accordance with the Regulations on Internal Audit of Elektro Primorska. The basic task of the internal audit function is to constantly verify and make recommendations for improvements in the functioning of the internal control system to ensure efficient management of all types of risks. In accordance with the annual plan of the internal audit function, which was approved by the Supervisory Board, in 2018 an internal audit was performed of the following processes: a) informatics in Elektro Primorska (EP), b) investments in and maintenance of the EP infrastructure and internal audit of the subsidiary E 3; c) purchase and sale of electricity, and d) investments in and maintenance of the infrastructure held by subsidiary E 3.

The financial statement audit of the parent and its subsidiary was performed by the auditing company Ernst & Young d.o.o., Ljubljana. During the financial statement audit the external auditor cooperates with the Company's internal audit services. External and Internal Auditors report their findings to the Management Board, Supervisory Board and the Audit Committee.

4.4. Holding of securities of a company, in terms of achieving a qualifying holding, as defined by the law governing the takeovers, ownership of securities ensuring special control rights, restrictions on voting rights

Elektro Primorska has issued 18,826,797 ordinary registered no-par value shares of one class. The only holder of a qualified share as determined by the Takeover Act, is the Republic of Slovenia, a holder of 14,967,304 shares as at 31 December 2018, corresponding to 79.5% of share capital.

Holders of shares have no special rights of ownership and no limitations apply to them regarding exercising their voting rights. As at 31 December 2018, the Company held 42,899 treasury shares, accounting for 0.228% of the share capital.

4.5. Management Board

4.5.1. Appointment and composition

In accordance with the Articles of Association, the Management Board has a single member. The office of the President of the Management Board lasts four years, with possibility for reappointment. Uroš Blažica was appointed President of the Management Board on 30 June 2012.

At its meeting held on 10 May 2016, the Supervisory Board unanimously appointed Uroš Blažica President of the Management Board of Elektro Primorska for the term of the next four years. His mandate began on 1 July 2016.

4.5.2. Responsibilities and functions

- President and CEO manages the operations of the Company for the benefit of the Company independently and on his own responsibility. In accordance with the Company's Articles of Association, the President of the Management Board requires consent of the Supervisory Board prior to the conclusion of the following transactions:
- Establishment, termination or recapitalization of companies,
- Purchase, sale or other disposal, replacement or burdening of real estate and equity investments more than their gross value of €50,000.00 (fifty thousand euros), insofar as those transactions are not included in the Company's business plan,
- Sale or other disposals and burdens on infrastructure facilities that are an integral part of energy infrastructure,
- All legal transactions (including investments, credit transactions and similar) whose total gross value of one transaction or more related transactions exceeds 1% (one percent) of the Company's share capital, other than transactions related to short-term cash management, legal transactions related to the method of payments, and transactions involving short-term deposit of cash in the form of deposits at commercial banks, insofar as these transactions are not included in the Company's business plan,
- Providing guarantees, securities, comfort letters.
- President of the Management Board reports regularly to the Supervisory Board on all important business events. President of the Management Board and Chairman of the Supervisory Board consult on the Company's strategy and business development also outside the Supervisory Board meetings.

4.5.3. Remuneration of the Management Board

In accordance with the contract of employment, the CEO is entitled to a basic monthly salary and performance bonus. Basic salary (gross pay, undiminished by taxes and contributions) is set as a multiple of average gross wage paid in the Elektro Primorska Group in the previous financial year. Performance bonus is determined in accordance with the criteria set out in the employment contract by a decision of the Supervisory Board within 30 days after the adoption of the Annual Report of the financial year for which the bonus is payable. Performance bonus can amount to a maximum 15% of the basic monthly salaries paid to the President of the Management Board in the financial year and is paid only if the Company's planned profit is exceeded.

In accordance with the employment contract, the President of the Management Board is also entitled to an annual preventive medical check, life and accident insurance, use of a company car for business and private purposes and payment of all costs of education.

4.6. Supervisory Board

4.6.1. Appointment and composition

The Supervisory Board of Elektro Primorska has six members. Four members are representatives of shareholders, and two are representatives of workers. Members of the Supervisory Board representing the shareholders are elected by the General Meeting, while representatives of workers are elected by the workers council in accordance with the law and regulations. Term of office of the members of the Supervisory Board is four years, with a possibility of reappointment.

Since 28 August 2017, the Supervisory Board of Elektro Primorska is composed of the following members: Stanislav Rijavec, Chairman of the Supervisory Board; mag. Nikolaj Abrahamsberg, Deputy Chairman; Darko Ličen, Member; Rudolf Pečovnik, Member; Primož Krnel, Member; and Ivan Namar, Member.

Elektro Primorska has not adopted a diversity policy.

4.6.2. Responsibilities and functions

Powers of the Supervisory Board are defined by law and the Articles of Association of Elektro Primorska. The Supervisory Board of Elektro Primorska complied with provisions of the Code of Corporate Governance of State Capital Investment adopted on 19 December 2014 and amended on 2 March 2016 and 17 May 2017 by the Slovenian Sovereign Holding in accordance with provisions of ZSDH-1.

The Supervisory Board met at ten ordinary sessions in 2018. Based on the responsibilities and powers set by applicable law and the Articles of Association, the Supervisory Board of Elektro Primorska regularly monitored and supervised the operations of the parent company and the Elektro Primorska Group.

Since 29 August 2017, the Audit Committee appointed by the Supervisory Board, operated in the following composition: Darko Ličen, Chairman of the Audit Committee; Rudolf Pečovnik, Audit Committee Member; and mag. Matej Loncner, external member of the Audit Committee.

No other committees were set up by the Supervisory Board in 2018.

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4.6.3. Remuneration of members of the Supervisory Board and Supervisory Board Committees

Members of the Supervisory Board and members of its Committees are entitled to remuneration for the performance of their function and their regular work, attendance fees and reimbursement of expenses, as decided by the resolution of the General Meeting. At the 16th General Meeting held on 25 August 2011, the decision was made based on which members of the Supervisory Board are entitled to remuneration for performing their duties in the amount of €11,300 gross per year, to an attendance fee in the amount of €275 gross and reimbursement of expenses in connection with the implementation of their functions. Chairman of the Supervisory Board is entitled to 50% higher payments and attendance fees. For correspondence sessions of the Supervisory Board, members of the Supervisory Board are entitled to 80% of the attendance fee.

Members of the Supervisory Board Committees are entitled to a fee for performing the functions, which for each member of the committee amounts to 25% of the basic fee of the Supervisory Board member. Chairman of an individual Committee is also entitled to an additional payment of 50% of remuneration of members of the Supervisory Board, while Deputy Chairman of the Committee is entitled to an additional payment of 10% of remuneration paid to a member of the Supervisory Board Committee. In accordance with the decision of the Supervisory Board, external members of the committee are entitled to remuneration for performing their function in the amount €11,300 gross and attendance fee in the amount of 80% of attendance fee paid to the Supervisory Board members.

4.7. General Meeting of Shareholders

At the General Meeting, Shareholders of Elektro Primorska exercise their rights arising from the Commercial Companies Act. Voting rights may be exercised by shareholders who are entered in the central registry of securities or the share register on the date of the AGM and have announced their participation at the AGM at least three days before the general meeting, about which the shareholders are specifically notified. No restrictions on voting rights are stipulated in the Articles of Association.

The Annual General Meeting of Shareholders was held on 29 June 2018. At the AGM, the shareholders were informed of the Annual Report of the Company and the consolidated Annual Report of Elektro Primorska Group for the financial year 2017, the remuneration of the President of the Management Board and the Chairman of the Supervisory Board, of the independent auditor's opinion, of the Supervisory Board's report on the examination and approval of annual reports, and of the Management Board's report on repurchase of treasury shares. The shareholders discussed appropriation of the 2017 profit available for distribution, granted discharge to the Management and the Supervisory Boards and appointed Ernst & Young Revizija, poslovno svetovanje, d.o.o., Ljubljana, as the auditor of Elektro Primorska for the financial year 2018.

4.8. Governance of the parent company and the Group

Elektro Primorska has a two-tier governance system. Appointment of members of the Management Board and the Supervisory Board is conducted in accordance with applicable law and the recommended standards of governance.

The Elektro Primorska Group consists of Elektro Primorska as the parent company, E 3, energetika, ekologija, ekonomija d. o. o. (a fully owned subsidiary of Elektro Primorska) and Knešca, d. o. o., as an associate (47.27% interest held by E 3).

To ensure close links and control over the operations of the subsidiary, the Management Board of the parent is also the General Meeting of the subsidiary E 3, energetika, ekologija, ekonomija, d. o. o. Control of the subsidiary operations takes place based on regular reporting and approving transactions in accordance with the provisions of the Articles of Association of E 3, d. o. o.

05

PRESENTATION OF THE COMPANY

5.1 Company profile

The Company name:	Elektro Primorska, podjetje za distribucijo električne energije, d. d.
Abbreviated name:	Elektro Primorska
The registered seat of the Company:	Erjavčeva ulica 22, 5000 Nova Gorica
Phone:	05 339 67 00
Fax:	05 339 67 05
VAT ID number:	37102656
Company number:	5229839
Transaction account:	04750 0000510950 Nova KBM d. d. 02241 0019980250 Ljubljanska banka, d. d. 03130 1000002961 SKB Banka, d. d.

The Company is entered in the register of Companies at the District Court of Nova Gorica under number 1/01335/00.

Share capital:	€78,562,831.75
Ownership as at 31 Dec 2018:	79.5000% Republic of Slovenia 16.9145% PIDs, funds, commercial entities 3.3576% Workers, retired employees, other 0.2279% Treasury shares of Elektro Primorska
Supply area:	SW, W, NW part of Slovenia
Size of the supply area:	4.335 km^2
Number of customers:	134,555
Quantity of electricity supplied:	1,661GWh
Web address:	http://www.elektro-primorska.si
E-mail address:	ime.priimek@elektro-primorska.si

Supervisory Board:	Stanislav Rijavec, Chairman of the Supervisory Board,
	mag. Nikolay Abrahamsberg, Deputy Chairman
	Darko Ličen, Member
	Rudolf Pečovnik, Member
	Ivan Namar, Member
	Primož Krnel, Member

5.2. Mission, vision and business culture of the Company

5.2.1. Mission of the Company

The fundamental mission of Elektro Primorska is to provide quality and reliable supply of electricity in an environmentally friendly and safe manner in accordance with the applicable laws and regulations. The mission of the Company is also to ensure development and construction of electricity network in accordance with the needs of business and household customers. Through professional and efficient operation, we aim to meet the expectations of both, the owners and other stakeholders.

This relates to the mission and vision of SODO, published on the following website (**https://en.sodo.si/vision-and-objectives**):

»Our mission is to ensure a long-term, reliable, quality and efficient supply of electricity to distribution network users.«

»We wish to connect with the customer and become recognisable in our field as a friendly company renowned for its responsible environmental management.«

5.2.2. Vision of the Company

Our vision is to create business environment which enables creation of new solutions and development of infrastructure, sale and new projects by understanding the wishes of our users, and by acting responsibly towards environment and employees.

Companies in the Elektro Primorska Group will achieve business excellence in their relation to customers, employees, business partners, shareholders and other business environment. The Group companies will continue to be socially responsible and demonstrate high business culture and excellence of operation. In addition, they will be introducing friendly and innovative services and solutions for customers, buyers and other users of their services. They will achieve this effectively through quality services and minimum operating costs. The Group companies will be flexible, as this enables them to adapt to changes in unpredictable business environment.

5.2.3. Business culture

Both past and general experience confirm that a positive business culture is essential for a successful operation of any company. Through continuous development of integrated management system in accordance with the ISO 9001 standard, responsible attitude towards the environment in accordance with the ISO 14001 standard, vocational health and safety management system in accordance with the BS OHSAS 18001 standard (all of which are verified by regular internal and external audits), we have proven that we cultivate positive business culture and exercise social responsibility as part of the Company's business strategy. We regularly carry out self-assessments according to the EFQM Excellence Model, which we believe leads to sustained excellence.

5.3. The regulatory framework of the Company's activities in the sphere of power supply

Important legal, statutory and contractual regulations governing the electricity business of the Company include:

The Energy Act (EZ-1, Official Gazette of the RS, nos. 17/2014 and 81/2015), entered into force on 22 March as an organic statute regulating the electric power distribution network in the Republic of Slovenia. It transposes into the Slovenian legislation the European legislation in the field of energy market, energy efficiency and renewable energy sources, it increases the transparency of legal arrangements in this area and complies with the decision of the Constitutional Court of the Republic of Slovenia no. UI-257/09-22 of 14 April 2011. To date, the Act has been amended only once, with amending Act EA-1A, which entered into force on 14 November 2015. On 21 January 2019, the Ministry of Infrastructure issued proposal for amendments to the Energy Act (EVA 2018-2430-0100) for public discussion. The amendments are aimed at regulating the legal basis for the capture, collection and use of personal data in the system of advanced measurement of electricity supplied to final consumers and producers and the establishment of a legal framework, i.e. basic rules for self-supply of electricity produced from renewable sources.

Decree on the method of provision of an electricity DSO service of general economic interest and a service of general economic interest of electricity supply to tariff customers (Official Gazette of the Republic of Slovenia, No. 117/2004, 23/2007 and 17/2014-EZ-1). The Decree defines in detail the public service of a distribution system operator (DSO); determines access, connection and disconnection from the distribution network, regulates relations with the distribution network owner; development and maintenance of the distribution network and the method of ensuring the quality of the services provided by the distribution system operator. The other public service - supply of electricity to tariff customers no longer exists since from 1 July 2007 tariff customers (households) became eligible customers and are able to freely choose their electricity supplier.

General Conditions for connection to the distribution Electric system (Official Gazette of the Republic of Slovenia, No. 126/2007, 1/2008-p., 37/2011-decree US and 17/2014-EZ-1) (hereinafter: General Conditions). Published pursuant to the fourth paragraph of Article 70 of the Energy Act (Official Gazette of RS, No. 27/07 - official consolidated text) by SODO from Maribor, and the Decree on the concession of an electricity DSO service of general economic interest (Official Gazette of RS, No. 39/07), and following the consent granted by the Government of the Republic of Slovenia, which was issued by resolution No. 36001-8/2007/4 of 27 December 2007 based on the consent of the Energy Agency of the Republic of Slovenia of 13 November 2007.

The general terms and conditions govern in detail the relationship between the distribution system operator (SODO) and network users (network access method, measuring devices and electricity metering, charging and payment of network usage); relations between SODO and electricity suppliers; relationships between customers and suppliers; records of measuring points; the quality of the services provided by the electricity distribution system operator and compensation.

Rules on the system operation of electricity distribution network (Official Gazette of the Republic of Slovenia, No. 41/2011 and 17/2014-EC-1) (hereinafter: Rules). Published by SODO, d.o.o., Maribor, pursuant to the fourth paragraph of Article 70 of the Energy Act (Official Gazette of RS, No. 27/07 - official consolidated text, 70/08 and 22/10) and Article 8 of the Decree on the concession of an electricity DSO service of general economic interest (Official Gazette of RS, no. 39/07), and following the consent granted by the Government of the Republic of Slovenia, which was issued by resolution No. 36001-3/2011/3 of 21 April 2011 and prior consent of the Energy Agency of the Republic of Slovenia No. 535-11/2009-3/EE-06 of 9 November 2009.

The Rules define the electricity distribution services through a distribution network, the method of providing ancillary services to the distribution network, method of providing the distribution network services, operation and development of the distribution network and technical conditions for connection to the distribution network.

Article 144 of the applicable Energy Act provides for only one legal act issued by a distribution operator that would combine the substance of the General Conditions for connection to the distribution Electric system and the Rules on the system operation of electricity distribution network.

Contract for lease of electricity infrastructure and provision of services of electricity distribution system operator. Elektro Primorska concluded a contract with SODO from Maribor (which is, as already explained, the sole concession holder for the system operator of the distribution network in Slovenia), for the first time in June 2007. A new contract was signed in 2012 and replaces the 2007 contract and Annex no. 1, 2, and 3. In accordance with the contract and annexes thereto (Annex no. 5 to the contract, valid for the period 2016-2018 signed on 25 January 2017), Elektro Primorska continues to perform most activities related to the implementation of the activities of the distribution system operator, which it has performed since 1 July 2007. These activities (services) include:

- Maintenance of electricity infrastructure and provision of emergency services,
- Management and operation of the electricity distribution network,
- Development, planning and investment in electricity infrastructure,
- Investment planning and management,
- Monitoring and assessing quality of supply,
- Electricity metering and
- Provision of services of access to the distribution network and other services to users.

As from 1 July 2007, Elektro Primorska no longer generates revenue from network charges as this is deemed the revenue of the concessionaire. Instead, it generates income from rental of electricity distribution infrastructure and from the implementation of the above services for SODO from Maribor.

The Legal Act on the methodology for determining the regulatory framework and network charges for the electricity distribution system adopted by the Energy Agency in June 2018 (Official Gazette of the Republic of Slovenia, Nos. 46/2018, 47/2018-popr. and 86/2018), effective for the regulatory period 2019 - 2021. The Act regulates and provides the following: the regulatory framework elements; criteria for determining and the method of calculating individual elements of the regulatory framework; types of eligible costs; rules and methods of determining deviations from the regulatory framework and the manner in which derogations have been observed; parameters of the individual dimensions of quality, their reference value and the methods and standards for their calculation; rules for calculating the quality impact on eligible costs; minimum quality standards for services provided by electricity operators; the amount of compensation and the methods and deadlines for payment of compensation for breaches of the guaranteed quality standards. The Legal Act on the methodology for determining the regulatory framework and network charges for the electricity distribution system (Official Gazette of the Republic of Slovenia, No. 66/2015, 105/2015 and 61/2016) continues to apply for determining deviations from the regulatory framework for the

5.4. Organisation of the Company

In accordance with the Rules on the internal organisation of Elektro Primorska, which entered into force on 1 January 2013, activities of the Company are performed by the following organisational units, i.e. sectors:

Sectors:
- Sector for distribution system management (DEES)
- Sector for distribution network (SDO)
- General sector (SS) and
- Finance and accounting sector (FRS).

Special services of the management:
- Information and communication technologies service (IKT) and
- Purchase and procurement service (SNJN).

Regional distribution units:
- Distribution unit Nova Gorica (DU Nova Gorica)
- Distribution unit Koper (DU Koper)
- Distribution unit Sežana (DU Sežana) and
- Distribution unit Tolmin (DU Tolmin).

Management Board has established the Cabinet of the president of the board, composed of the Administration, Integrated Management System, Internal Audit and Risk Management.

06

HUMAN RESOURCE MANAGEMENT IN 2018

6.1. General

Elektro Primorska and the Elektro Primorska Group strive to provide their employees business environment where diligent work, responsibility, affiliation and mutual cooperation and respect present the core values of our personnel policy. By investing in knowledge and vocational health and safety, we strive to create a working environment that enables growth and development of each and every employee as competent, motivated and dedicated employees contribute most to the realisation of the Company's goals and objectives.
A total of 473 workers were employed by the Company as at 31 December 2018. Average number of employees in 2018 was 472, a decline of 6 staff compared to the average headcount in 2017.

Activity	Headcount at 31 Dec 2017	Structure (%)	Headcount at 31 Dec 2018	Structure (%)
Main activity (distribution network sector, electricity system management sector)	370	77.41	365	77.17
Common services (management, financial and accounting sector, general sector, purchasing, information technology)	108	22.59	108	22.83
Total	**478**	**100**	**473**	**100**

Table 1: Overview of employees in Elektro Primorska.

Data on employees in Elektro Primorska and the Elektro Primorska Group are presented in the following Table:

	Elektro Primorska	Elektro Primorska Group
Headcount at 31 Dec 2018	**473**	**526**
Average number of employees	472	522
Number of new employees	14	19
Number of departures	15	16
Number of permanent employees	458	502
Number of fixed-term employees	15	24
Number of disabled employees	32	33

Table 2: Educational structure of employees of Elektro Primorska and the Elektro Primorska Group

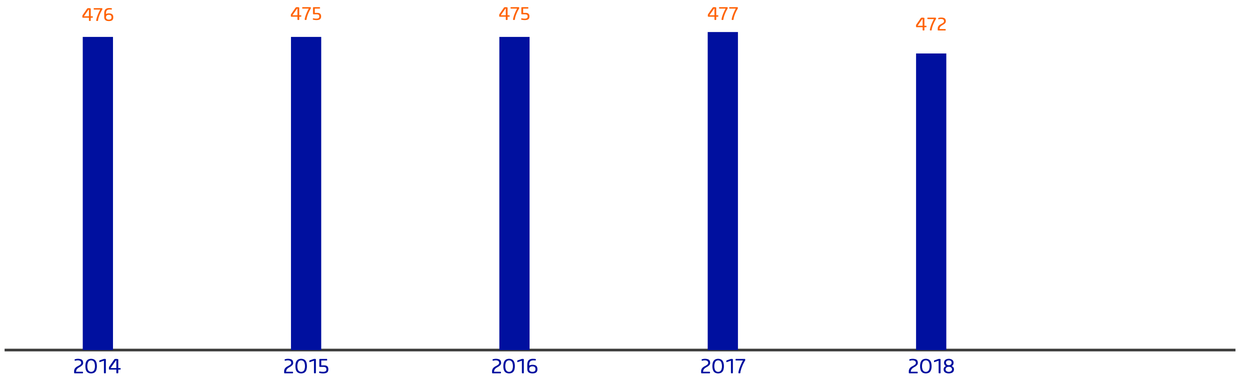


Chart 1: Movements in the average number of employees of Elektro Primorska over the period 2014 - 2018

6.2. Employee age structure

The average age of employees is 45.31 years, which is similar to that recorded in 2017.

No.	Age group	Number of employees
1	Age 20 and younger	1
2	Between 21 and 30	43
3	Between 31 and 40	114
4	Between 41 and 50	147
5	Between 51 and 60	146
6	61 and over	21
	Total	**472**

Table 3: The number of employees in Elektro Primorska per individual age group

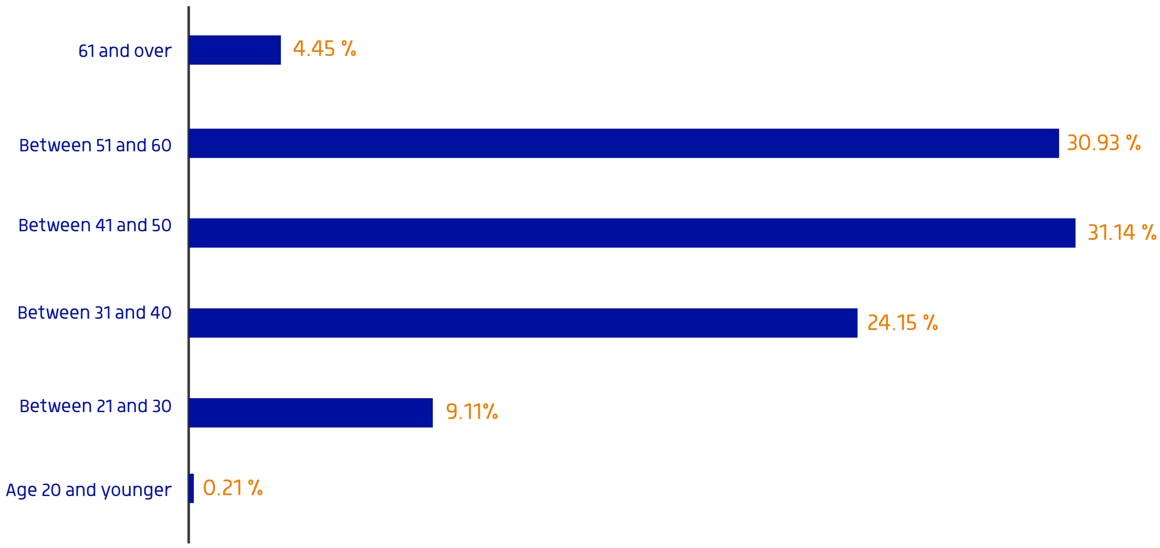


Chart 2: Age structure of employees of Elektro Primorska d.d.

6.3. Structure of employees according to the years of service

In 2018, more than 64% of employees have completed 20 or more years of service.

No.	Years of service	Number of employees
1	Up to 5 years	34
2	Between 6 and 10	38
3	Between 11 and 20	112
4	Between 21 and 30	122
5	Between 31 and 40	152
6	Over 40 years	14
	Total	**472**

Table4: Number of employees in Elektro Primorska based on seniority

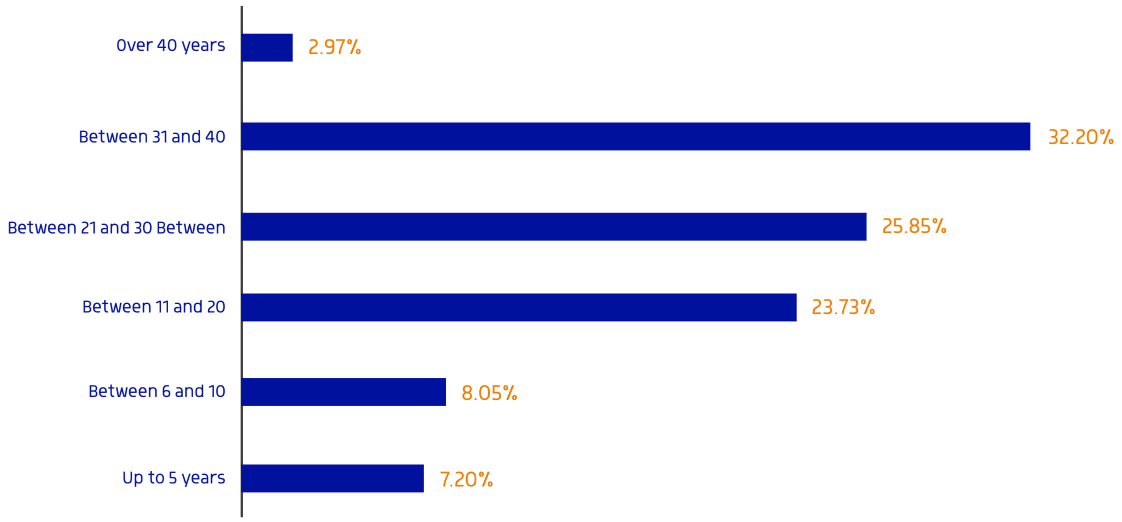


Chart 3: Structure of employees according to the years of service

6.4. Structure of employees according to gender

The gender ratio does not deviate significantly from one year to the other.

No.	Gender	Number of employees
1	male	398
2	female	74
	Total	**472**

Table 5: Number of employees in Elektro Primorska by gender

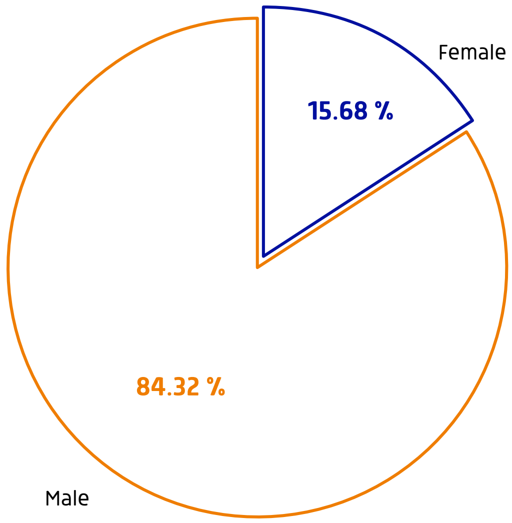


Chart 4: Structure of employees in Elektro Primorska according to gender

6.5. Educational structure of employees of Elektro Primorska and the Elektro Primorska Group

The educational structure of employees does not significantly differ from that of the previous year. Whilst compared to the previous year educational level of employees has not changed significantly, there is an increasing trend of higher number of staff with educational level 5 and a decrease in the number of staff with educational level 4. This is the result of completed open college courses attended by a large group of employees who wish to further their education.

Level according to BP	Headcount at 31 Dec 2017	Structure (%)	Headcount As at 31. 12. 2018	Structure (%)
8/2	2	0.42	2	0.42
8/1	5	1.05	4	0.85
7	47	9.83	48	10.15
6/2	46	9.62	45	9.51
6/1	56	11.72	57	12.05
5	164	34.31	169	35.73
4	140	29.29	130	27.48
3	15	2.93	15	3.17
2	3	0.63	3	0.63
1	1	0.21	0	0
Total	**478**	**100**	**473**	**100**

Table 6: Educational structure of employees in Elektro Primorska

Level according to BP	Average number of employees 2017	Average number of employees 2018
8/2	2	2
8/1	8	7
7	48	53
6/2	61	61
6/1	65	63
5	170	183
4	147	134
3	15	15
2	2	2
1	5	1
	523	**522**

Table 7: The average number of employees in the Elektro Primorska Group by level of education

6.6. Employees with disabilities

A total of 32 disabled workers were employed by the Company as at 31 December 2018; 9 disabled workers performed their duties as a part-time job (4 hours); other 23 were employed with a full-time working obligation. Percentage of employees with disabilities exceeds 6% of all employees, which fulfils the statutory quota from the Decree establishing employment quota for persons with disabilities - Article 3, Paragraph 3) D. Since May 2018, the Company has been granted the right by the Republic of Slovenia Fund for Promotion of Employment for Disabled Persons to a bonus for exceeding quotas, which the Fund pays monthly in the amount of 20% of the minimum wage for each disabled employee above the statutory quota.

6.7. Education of employees

In 2018, 359 employees attended various forms of training, which included seminars, various courses, refresher courses, professional exams, and internally organised training. A total of 282 working days were devoted to the above activities.

As many as 458 employees attended health and safety at workplace training and education.
The Company has concluded 12 contracts with employees wishing to obtain higher professional education and who are currently attending the relevant education.

A total €109,019.96 was allocated in 2018 to further training and development of employees (tuition, workshops, seminars, courses), which on average equals €385 per employee.

For several years there has been sufficient number of suitably educated candidates on the labour market, so we devote more funds to practical training of high school and university students, who otherwise have no opportunities to obtain specific skills. A total 21 students took part in the practical training in 2018 to the cost of €11,462.65. In cooperation with the sheltered workshop, a three-month vocational training for a specific workplace was provided to a worker with disabilities.

6.8. Care for employees

We strive to create good working conditions, maintain and improve health of our employees, and identify and eliminate adverse events. To this aim we adhere strictly to the labour legislation, regulations in the field of vocational health and safety and ensure careful reconciliation of the professional and family life of employees of Elektro Primorska and the Elektro Primorska Group. We are aware that a satisfied and motivated employee can contribute the most to the success of the Company.

Employees are informed about the events and activities of the Company daily through e-mail, on the Intranet and bulletin boards. Results of a survey on the organisational climate, culture and satisfaction showed a high level of employee affiliation and satisfaction.

6.9. Health and safety at workplace

Safe and healthy working environment is the basic prerequisite for productivity and employee satisfaction.

We ensured safe working conditions and met conditions for vocational health and safety of our employees in 2018 and carried out all the necessary activities to reduce and prevent life and health risks at workplace.

The Company strives to ensure safe and orderly working conditions and to preserve the health of employees:

- By respecting the Occupational Health and Safety Act and all the alternative legal acts (in this respect a register of health and safety at work legislation was made),
- By regular preventive health checks of workers,
- By implementing specific preventive health measures: e.g. vaccinations against TBE and flu, and preventive measures as part of promoting health at workplace and providing first-aid training to employees,
- By implementing health and safety at work policy; the Company Management is committed to ensure health and safety at workplace and set up a framework for defining objectives of quality, environmental management and vocational health and safety,
- By making and adopting the Declaration of safety including Risk Assessment, which additionally bounds the Company's Management to implement measures, set goals, inform, train, give instructions, ensure appropriate organisation and provide necessary resources,
- By regular periodic checks and care of the working and protective equipment,
- By providing instructions for safe work and ensuring control over the implementation of safe work measures,
- By monitoring working conditions regarding injuries at work, occupational diseases as well as detecting, mitigating and preventing their causes,
- By training workers for safe work and ensuring regular assessments of their knowledge and skills in the field of health and safety at workplace and fire protection.

In the context of a systematic approach to improving vocational health and safety in Elektro Primorska, we emphasize the necessity of a responsible attitude of the employees in the field of health and safety at workplace, including fire protection.

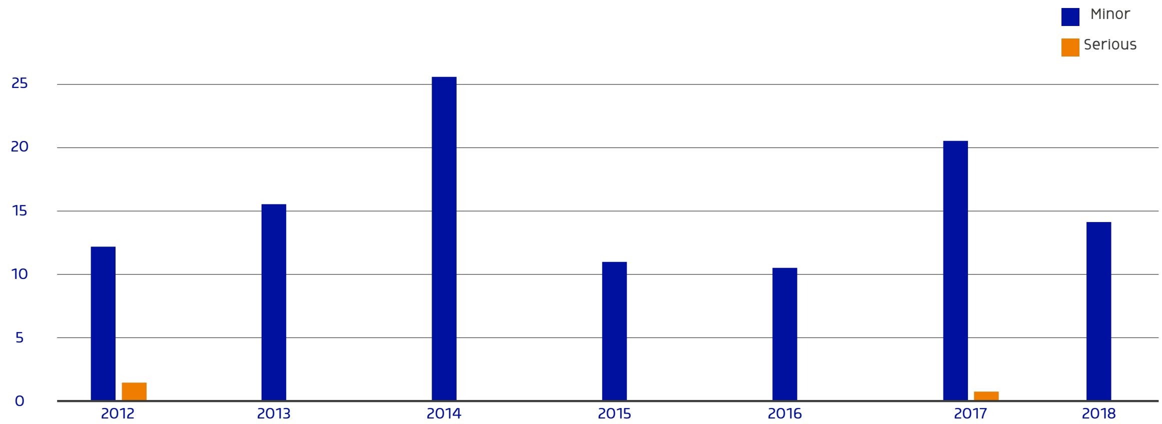


Chart 5: The number of injuries at work in the period 2012-2018

6.10. Voluntary supplementary pension insurance

Regulation and realisation of the social security principles of all our employees is an integral part of the Company's business policy. Elektro Primorska has been encouraging its employees to join the supplementary pension insurance scheme, which has been available since December 2001. A total of 99% of all employees are included in the voluntary supplementary pension insurance and the pension scheme. Since 2016, employees are able to choose between two pension scheme providers: Modra zavarovalnica, d. d. and Zavarovalnica Triglav, d. d.

6.11. Accident insurance

All employees of Elektro Primorska are insured for event of accidents or injuries at work and in connection with work.

6.12. Other activities that affect the well-being of employees

We care for the well-being of the employees of Elektro Primorska and the Elektro Primorska Group and to this aim we are promoting and creating material conditions for various forms of socialising and spending holidays in holiday facilities owned by the Company. Large numbers of employees are participating in the annual sports games organised specifically for electricity distribution companies. These provide an opportunity for employees to socialise both within the Elektro Primorska Group, as well as with employees from other distribution companies. In 2018, Elektro Primorska donated €5,724.00 to the Elektro Primorska Sport Association, and provided additional funds for the purchase of sports equipment for employees. These funds are dedicated to the promotion and development of sports activities within the Company, organisation of various sports activities for employees, and training of employees for participation in annual EDS games.

07

REALISATION OF THE ANNUAL GOALS IN 2018

Investments aimed at an increase in power supply continuity
Our efforts in 2018 were primarily devoted to the users of our network and to ensuring proper maintenance and development of electricity infrastructure. By developing the electricity distribution network and investing in infrastructure, we are striving to provide our customers with adequate voltage conditions, improved operational safety and greater reliability of power supply within the prescribed values, voltage quality in accordance with regulations, and protection of the environment in accordance with relevant legislation. Thus, in 2018 we closely followed our development plan by investing in infrastructure to ensure appropriate voltage conditions for our customers, improved operational safety and enhanced reliability of power supply.

Since 2013 we have devoted special attention to our investments aimed at increasing the share of cabled and intermeshed network to improve the SAFI and SAIDI ratios and due to our concerted efforts, the quality of electricity supply indicators has been positive. Due to changes in the regulatory requirements regarding classification of events relative to the cause, in 2018 we observed a negative deviation from the long-term positive trend, as some of the events or power failures due to force majeure had to be re-classified to the group of events the cause of which is on the part of the Company, and which provide the basis for the calculation SAIDI and SAIFI indicators.

Introduction of a job performance management system and variable employee remuneration system
In 2017, we adopted new Rules on job systematisation and carried out further training of employees in the area of goal setting and performance reviews. Based on the analysis of the test results of the assessments resulting from the annual interviews, we adopted general rules, which establish criteria and standards for assessing the performance and introduction of a system of variable remuneration of employees. Due to the introduction of new information applications that required maximum engagement of all employees, the conditions for starting the implementation of performance assessment and variable remuneration of employees in 2018 were not met. A new Entrepreneurship Collective Agreement was adopted in 2018 that came into force on 1 January 2019 and thus, implementation of performance assessments and variable remuneration was postponed until the financial year 2019.

Upgrading the key information systems
With the help of an external contractor, in 2015 we developed an IT strategy of the Elektro Primorska Group. In 2017, we successfully completed the deployment of three key systems and the new enterprise information system (ERP), the new geographic information system (GIS) and the new asset management system have been in use since 1 January.

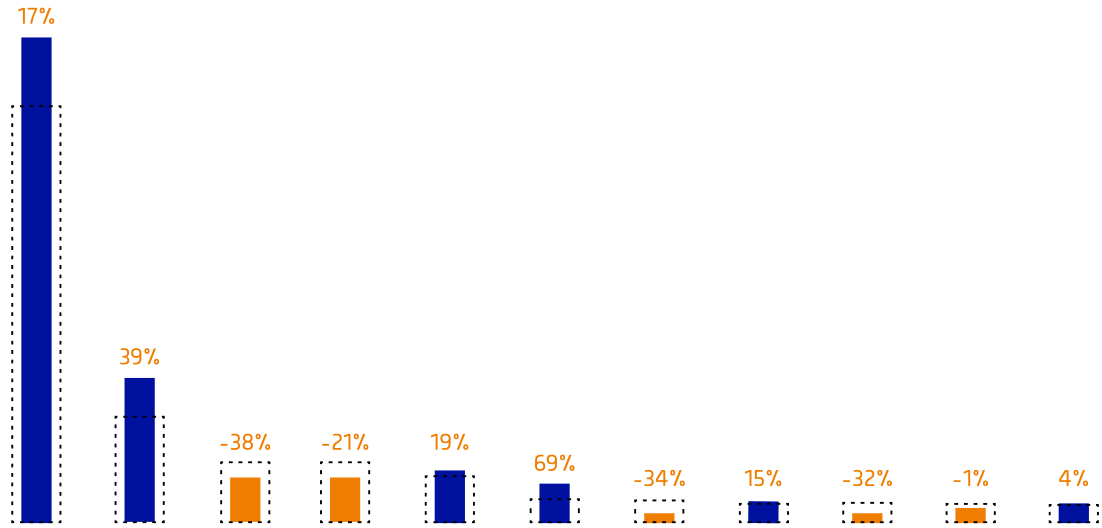
Implementation of the RAST program
In 2012, the Elektro Primorska Group started implementing basic measures in the field of business rationalisation, which were in 2013 upgraded with the implementation of a comprehensive RAST program.

The program is designed to ensure a comprehensive management of costs and revenues and provides for implementation of rationalisation measures which can contribute most to the Group's performance and the achievement of its goals.

By the end of 2015, the Elektro Primorska Group completed the basic implementation of the RAST program and achieved the anticipated goal of the program.

By following the primary purpose of monitoring and maintaining the achieved rationalisation effects, the Group continued with the implementation of the program also in 2018. Compared to the target value of the 2018 costs, the Company noted a deviation from the plan in the amount of €289,696.

The following financial effects of selected measures were achieved by individual organisational units of the parent company in 2018.



	ICT	General Sector	Distribution Network	Administration	DU Gorica	Distribution System Management	DU Tolmin	DU Sežana	Purchase and Procurement	DU Koper	Finance & Accounting
Target costs	1,321,127€	334,281€	187,276€	181,650€	141,590€	76,736€	70,643€	61,255€	60,159€	54,046€	38,066€
Realized costs	1,542,209€	464,968€	116,071€	144,254€	167,865€	129,778€	46,359€	70,662€	41,083€	53,720€	39,555€

Chart 6: Financial achievements of the RAST program by organisational units in 2018

Introducing advanced measurement system according to the Implementation Plan developed for EDS Slovenia

Pursuant to the Decree on the Measures and Procedures for the Establishment and Connectivity of Advanced Measuring Systems for Electricity (Official Gazette No. 79/2015) and the Plan for the introduction of the Advanced Measurement System developed by SODO and EDP, we signed a three-year contract with the selected supplier for supply of smart measuring equipment to users and MV/LV transformer stations. We were successful at the public tender of the Ministry of Infrastructure for co-financing of an operation from the EU Cohesion Fund, where the eligible project costs are financed in proportion of 33%. The project began in November 2017 and, according to the co-financing schedule (with the SODO and EDP as participating parties), the project will be co-funded until November 2022. According to the deployment plan, the project is to be completed in 2025. The system implementation will enable and target the use of DMS, DSM, DR and EMS systems to facilitate the system management and electricity use, acceptance and production. The project ran in 2018 in accordance with the plan.

08

ELECTRIC POWER DISTRIBUTION

The activity was carried out in 2018 in accordance with the Contract on the lease of electricity distribution infrastructure and the provision of the distribution system operator services concluded between Elektro Primorska and SODO. The activity is implemented by two organisational units: the distribution network sector – SDO and the electricity distribution system management sector – SUDEES.

In 2018, the electricity system managed by Elektro Primorska reached the following level of technical equipment per distribution unit (DU).

	DU GORICA	DU KOPER	DU SEŽANA	DU TOLMIN	ELEKTRO PRIMORSKA TOTAL
DV: 10kV - 110kV (m)	649,166	255,654	617,104	512,233	2,034,157
KBV: 10kV - 35kV (m)	138,763	205,157	192,841	78,395	615,156
NNO + JR (m)	2,026,103	1,112,928	1,327,973	1,236,098	5,703,102
RTP + RP (pcs)	16	8	7	8	39
TP (pcs)	818	532	589	493	2,432

Table 8: Physical volume of electric power devices as at 31 Dec 2018

DV – transmission line KBV – cable conduit, NNO – low-voltage network, JR – public lighting
RTP – transformer substation, RP – substation, TP – transformer station

8.1. Services for SODO

In 2018, the Company spent €6,667,535 on provision of services for SODO, which amounts for 102.66% of planned funds or 101.00% compared to 2017.

Type of work	Plan (EUR) January- December 2018	Actual (€) January-December 2018	Actual (€) January-December 2017	% 2:1	% 2:3
	1	2	3	4	5
Maintenance of electricity infrastructure	3,000,000	3,126,734	3,078,222	104.22	101.58
Implementation and organisation of emergency services	390,000	401,634	401,341	102.98	100.07
Conducting of operation	495,000	503,868	495,293	101.79	101.73
Process management	360,000	411,888	438,305	114.41	93.97
Telecommunication support	160,000	278,238	198,216	173.90	140.37
Management of protective devices	40,000	108,285	32,156	270.71	336.75
Development	220,000	115,610	160,598	52.55	71.99
Monitoring and establishing quality of supply	30,000	50,075	20,983	166.92	238.64
Electricity metering	1,000,000	830,807	957,795	83.08	86.74
Provision of access services	420,000	364,981	406,332	86.90	89.82
Connecting users to distribution network	290,000	380,778	312,302	131.30	121.93
Other services for users	90,000	94,637	99,865	105.15	94.77
TOTAL SERVICES FOR SODO	**6,495,000**	**6,667,535**	**6,601,408**	**102.66**	**101.00**

Table 9: Actual services for SODO in 2018

8.1.1. Achievement of the set goals and comparison with 2017

The financial achievement of the plan for the provision of services for SODO is 2.66% above the plan due to major deviations from the planned values in individual areas as a result of changes in the method of data posting on introduction of the new information system.

Equipment inspection realisation equals 100%; inspection of facilities 97%, and regular replacement of measuring and control devices 123%.

8.2. Investments

Investment activity proceeded in 2018 in accordance with the plan and the relevant changes defined in version 3 of the investment plan. According to version 3 of the plan, originally planned investment of €16,000,000 was increased by €1,000,000 to €17,000,000.

A total €16,580,813 or 97.53% of the planned annual resources was invested in facilities, project design and acquisition of equipment (€16,318,421 was spent in 2017, accounting for 98.90% of the planned funds).

Investment groups	Realised funds	Share per investment group
Facilities	€10,112,896	61.00% of total funds
Equipment	€5,207,009	31.40% of total funds
Documentation	€1,260,909	7.60% of total funds
Total	**€16,580,813**	

Table 10: Investments by major investment groups

The main focus of investment activity in 2018 was investment in distribution transformer stations, in high-voltage overhead cables, and installation of advanced measuring devices.

According to individual groups, the results are as follows:

Facilities up to 20kV
Most of the investments in the overhead lines (DV) was carried out with the aim of a reconstruction of the medium voltage overhead lines. Major investments in 20kV overhead lines:

DV Vanganel Rojci (3.00 km), DV RTP Dekani - Pobegi (1.30 km), DV Hrenovice (1.21 km), DV Strmec - Mlinči (1.2 km), purchase of DV Tolmin - Kobarid (3.39 km).

Medium-voltage underground lines (KBV) were installed in urbanised areas with the objective of increasing the meshes network in the areas where weather phenomena occur that impact the quality of electricity supply (ice, wind), and on routes where frequent defects occur due to wear and tear of the existing cable conduits.

KBV TP Turn (1.42 km), KBV Potoki - Cankarjeva - Lavričeva (1.20 km), KBV Učni Center 1 - Petrol AC (1.1 km), KBV TP Pacug (1.00 km), KBV Volče - Čiginj (0.60 km).

By investing in low-voltage networks (NNO), we modernized the existing low voltage conduits, eliminated poor voltage conditions and made connections to new customers.

Significant investments in the low-voltage network include: NNO Križ (0.80 km), NNO Fizine (0.54 km), NNO Sela nad Podmelcem (0.60 km), NNO Slokarji (0.90 km).

Investments in transformer stations (TP) were aimed at modernizing technically obsolete transformer stations, eliminating poor voltage conditions and allowing connections to new customers. Work also began on a major project of integrating control measurements into transformer stations.

Significant investments in transformer stations include: TP Prestranek 1, TP Dekani 2, TP Tale, TP Toškan, TP Putrhi, TP Lidl Rožna dolina, TP Turn, TP Pacug 2.

	2018	2017	2016	2015
SN overhead lines	26.66 km	26.23 km	26.91 km	40.20 km
SN underground lines	26.50 km	18.14 km	25.35 km	38.15 km
Low-voltage network	33.65 km	30.33 km	41.26 km	41.91 km
Transformer stations	78.30 pcs	25 pcs	34 pcs	40 pcs

Table 11: Physical indicators of constructed and renovated devices

<u>110kV power lines</u>
The investment funds were spent on upgrading the outdated single-system 110kv overhead line between RTP Pivka and ENP Pivka into the 110kv dual system overhead line.

<u>Transformer substations (RTP) VN/SN</u>
We implemented the following investments in RTP 110/20kV in 2018:

- RTP 110/20kV Pivka: We completed modernization of the 20kV switchyard facility and installed replacement equipment.
- RTP 110/20kV Plave: We connected two energy transformers to the GIS switchyard. We carried out all the necessary electrical installation works for the normal operation of transformers.
- RTP 110/20kV Ilirska Bistrica: We eliminated all defects after replacement of power transformers.
- 110/35/20kV RTP Tolmin: Replacement of 35kV connection on the TR 1 110/35/20kV transformer.
- RTP 110/20 kV Cerkno: We installed and additional outgoing feeder switchgear into the 20 kV switchyard.
- RTP 110/20kV Ajdovščina: In 2018, we obtained a building permit for the reconstruction of the 20kV switchyard.
- RTP 110/20kV Lucija: We prepared project documentation for the replacement of primary and secondary equipment on the TR 1 110kV transformer field.
- RTP 110/20kV Idrija: There was a breakdown on the TR 1 energy transformer in August 2018. As the failure could not be eliminated, the energy transformer was replaced with one that was kept in the cold reserve in the RTP Ilirska Bistrica.

<u>Distribution transformer stations RTP SN/SN and RP SN distribution stations</u>
- In 2018 we implemented the following investments in RTP SN/SN and RP SN:
- RP 20kV Ledine - renovation work started on the 20kV switchyard.
- RP 20kV Vipava - renovation work started on the 20kV switchyard.
- RP 20kV Komen - the cooling and heating system was upgraded.
- RP 20kV Gradišče - the cooling and heating system was upgraded.
- RP 20kV Bilje - deficiencies were eliminated following modernization of the 20kV switchyard.

Power facilities
Investments in power facilities were carried out to ensure reliable supply of electricity to all our customers. A total of €9,909,086 was invested in the power facilities (facilities up to 20kV and distribution transformer stations) accounting for 97.31% of the plan (2017: €9,197,942).

Business and operational facilities
In 2018, we replaced roof tiles at the Control office in Postojna, installed the register terminals at control offices and continued with construction of the replacement Control office in Piran. A total €20,007 was invested in business facilities and €183,803 in operational facilities in 2018.

TOTAL FACILITIES
A total €10,112,896 was invested in power facilities; accounting for 97.12% of the plan (2017: €9,541,031). Of total, 61.00% was invested in facilities..

Remote control
- The following major investments were made:
- Continuation of the project of installing protection of covered conductors,
- Installation of fault current locators,
- Work began on replacement of the protection and remote control of the 20kV switchyard at the RP Vipava and RP Grgar,
- Installation of new DVPLMs.

Telecommunications::
- The following major investments were made:
- Start of an optical cable construction between RTP Lucija and Beli Križ,
- Upgrade of the digital VHF system,
- Purchase of 49 GSM devices for regular replacement of obsolete equipment.

Metering devices
The following major investments were made:

- We purchased 11,140 direct electricity meters and carried out their installation,
- We purchased 230 industrial meters and carried out their installation,
- We replaced the electricity meters at RTP Tolmin, RTP Vrtojba and RTP Ilirska Bistrica,
- We implemented the 3SMART and NEDO projects.

Tools
We purchased the necessary tools and equipment to carry out electrical installation works as a replacement for technically obsolete tools.

Means of transport
We purchased six new cars, three off-road vehicles, three freight vehicles and one platform to replace the existing ones.

Office supplies
We purchased office equipment to replace the obsolete one.

IT
We purchased computers, printers, and IT equipment used in the energy generation. Implementation began of the new Microsoft Dynamics AX accounting system and the new IBM MAXIMO system used in asset management and the geographic information system.

EQUIPMENT
A total €5,207,009 was invested in equipment, accounting for 97.20% of all planned funds (2017: €5,682,727). Of total, 31.40% was invested in equipment.

DOCUMENTATION
A total €1,260,909 was invested in the project documentation accounting for 7.60% of total funds planned (2017: €1,094,663).

No.	Facility, equipment	Plan 2018	Actual 2018 2	Actual 2017 3	% 2:1	% 2:3
	VN power lines	942,000	878,688	7,897	93.28%	11127.09%
1.1	VN overhead lines	942,000	878,688	7,897	93.28%	11127.09%
1.2	VN underground lines	0	0	0	0.00%	0.00%
	SN power lines	3,561,871	3,421,809	3,504,471	96.07%	97.64%
1.3	SN overhead lines	1,185,114	1,334,090	1,604,933	112.57%	83.12%
1.4	SN underground lines	2,376,757	2,087,720	1,899,538	87.84%	109.91%
	NN power lies	2,166,699	2,201,106	1,956,440	101.59%	112.51%
1.5	NN overhead lines	1,036,755	1,119,751	1,003,591	108.01%	111.57%
1.6	NN underground lines	1,129,944	1,081,355	952,849	95.70%	113.49%
1.7	Other NN	0	0	0	0.00%	0.00%
	SUBSTATIONS	3,512,800	3,407,483	3,729,135	97.00%	91.37%
1.8	RTP VN/SN	813,346	796,842	1,675,199	97.97%	47.57%
1.9	RTP SN/SN	59,155	2,100	21,990	3.55%	9.55%
1.10	RP SN	52,200	55,080	0	105.52%	0.00%
1.11	TP	2,193,209	2,222,757	1,783,007	101.35%	124.66%
1.12	TRANSFORMERS	394,890	330,705	248,940	83.75%	132.85%
	TOTAL FACILITIES UP TO 20kV	**8,428,024**	**8,233,557**	**7,514,847**	**97.69%**	**109.56%**
	TOTAL POWER FACILITIES	**10,183,370**	**9,909,086**	**9,197,942**	**97.31%**	**107.73%**
1.13	Protective devices	115,206	161,954	0	140.58%	0.00%
1.14	Remote control	347,023	334,444	772,938	96.38%	43.27%
1.15	Telecommunications	178,800	108,962	160,532	60.94%	67.88%
1.16	Metering devices	2,420,520	2,397,186	1,659,787	99.04%	144.43%
1.17	IT	140,000	150,181	0	107.27%	0.00%
1.18	Ancillary devices	35,150	12,290	0	34.96%	0.00%
	TOTAL SECONDARY EQUIPMENT	**3,236,699**	**3,165,017**	**2,593,257**	**97.79%**	**122.05%**
1.19	Production	0	0	0	0.00%	0.00%
	TOTAL POWER DISTRIBUTION EQUIPMENT	13,420,069	13,074,103	11,791,199	97.42%	110.88%
2.1	Business Facilities	44,472	20,007	3,350	44.99%	597.23%
2.2	Operational Facilities	184,537	183,803	339,739	99.60%	54.10%
	TOTAL NON-POWER FACILITIES	**229,009**	**203,810**	**343,089**	**89.00%**	**59.40%**
2.3	Mechanisation	0	0	0	0.00%	0.00%
2.4	Tools	168,015	163,424	167,378	97.27%	97.64%
2.5	Means of transport	518,900	557,951	499,934	107.53%	111.60%
2.6	Office supplies	36,500	38,633	13,436	105.84%	287.54%
2.7	IT	1,360,000	1,246,313	2,408,723	91.64%	51.74%
2.8	Holiday facilities	37,000	35,671	0	96.41%	0.00%
	TOTAL NON-POWER DISTRIBUTION EQUIPMENT	2,349,424	2,245,802	3,432,559	95.59%	65.43%
3.1	Project documentation	1,230,507	1,260,909	1,094,663	102.47%	115.19%
	TOTAL DOCUMENTATION	1,230,507	1,260,909	1,094,663	102.47%	115.19%
	TOTAL FACILITIES	10,412,379	10,112,896	9,541,031	97.12%	105.99%
	TOTAL EQUIPMENT	5,357,114	5,207,009	5,682,727	97.20%	91.63%
	TOTAL	**17,000,000**	**16,580,813**	**16,318,421**	**97.53%**	**101.61%**

Table 12: Overview of the actual investments made in 2018

8.2.1. Achievement of the set goals and comparison with 2017

Elektro Primorska followed its adopted investment plan and invested a total €17,000,000 in 2018, which is 2.46% below the plan. However, compared to 2017, the realisation of the planned investments increased by 1.61% in 2018.
The development plan for the period 2017-2026 envisaged a total €19,754,500 to be spent in 2018 for investments in the geographical area where electric power is supplied by Elektro Primorska. In fact, Elektro Primorska invested €16,580,813 and SODO €962,550 making total investments of €17,543,363 which is 11% below the plan.

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8.3. Acquired and transmitted electricity in 2018

In 2018, a total 1,597,904.1MWh of electricity was acquired from the transmission network and 142,155.7MWh from the electricity producers. In total, 1,740,059.8MWh of electricity was acquired into the distribution network. Comparison of acquired quantities of electricity between 2018 and 2017 shows a 2.7% increase in the electricity acquisition from the transmission system, and a 1.4% rise in electricity acquired from qualified producers. Index of total acquired volume in the distribution network is 1.0258, up 2.58% on 2017. A total 1,660,772.9MWh of electricity was invoiced to customers in 2018. Index of invoiced electricity compared to quantities from 2017 stands at 1.0299, up 2.99%.
We noted a favourable trend of electricity consumption and acceptance in 2018. The increase in consumption is the result of high economic growth, and an increase in the number of customers, heat pumps and chargers for electric cars. Electricity is becoming an increasingly important form of energy and analytical monitoring of electricity consumption is crucial for efficient planning of network development.

Month	Output in 2018 [kWh]	Output in 2017 [kWh]	Plan 2018 [kWh]	Index of output (2018/2017)
January	137,627,236	137,821,416	136,940,634	0.9986
February	131,199,196	127,939,648	128,269,980	1.0255
March	150,210,055	139,067,711	138,654,058	1.0801
April	131,167,756	125,888,148	132,168,696	1.0419
May	136,783,836	134,221,719	132,712,530	1.0191
June	138,563,960	138,664,677	138,399,687	0.9993
July	144,207,080	137,926,556	147,292,955	1.0455
August	137,154,099	134,477,568	137,295,564	1.0199
September	135,540,763	130,376,830	133,279,226	1.0396
October	136,272,845	129,590,787	138,017,601	1.0516
November	138,647,770	136,553,552	137,101,272	1.0153
December	143,398,343	140,067,972	140,776,998	1.0238
Total	**1,660,772,939**	**1,612,596,584**	**1,640,909,201**	**1.0299**

Table 13: Monthly quantities of electricity supplied to customers

In 2018, 115,477.5MWh of electricity was supplied to customers in Italy: 79,431.2MWh in the area of Nova Gorica and 36,046.3MWh in the area of Opčine. Transmission of electricity in Italy is not recorded as a transmission from the distribution system managed by Elektro Primorska, but as the consumption from the transmission system.

Losses in the distribution network amounted to 79,286.8MWh, or 4.77% of the amount invoiced in 2018.

8.4. Use of the distribution network – access to the distribution network

In 2018, the organisation of the distribution of electricity remained unchanged and so distribution system operator SODO based in Maribor, remained the holder of licence for providing access to the distribution network under the provisions of the Energy Act, while the electricity distribution companies remained providers based on the contracts for lease of distribution infrastructure and provision of services for SODO.

As part of performing operational tasks of providing access to the distribution networks, all revenues from network usage are revenues of SODO.

As the owner of the distribution infrastructure and services provider, Elektro Primorska issues monthly invoices for lease of infrastructure and services rendered to SODO. Revenues and, consequently, costs related to the purchase of electricity to cover losses in the distribution network, are recognised by SODO.

8.4.1. Revenues from the system use

Network charge tariffs have changed in accordance with provisions of the Legal Act on the methodology determining the regulatory framework and network charge for the electricity distribution system (Official Gazette RS, No. 66/15, 105/15, 61/16 and 46/18).
The prices of the network services changed slightly in 2018, as the tariff for charging network charge for the transmission system decreased on average by 1%.

On the other hand, the distribution system tariffs increased by 1.5%. Also, the network tariffs for excess acceptance of reactive energy increased by 5%, resulting in an increase in the revenue of the electricity distribution system operator. However, Elektro Primorska could not detect any favourable effects of the price increase.

Contribution for the provision of support in the production of electricity from high efficiency co-generation and renewable energy resources has not changed and remains the same as in August 2015. Furthermore, contribution for energy efficiency, which is intended to provide energy savings to end customers did not increase in 2018.

The number of customers connected to the Elektro Primorska distribution network in 2018 increased by 957 amounting to 134,555 as at 31 December 2018.

A total 1,660,772,939kW of power and 1,660,772,939kWh of electricity was invoiced to electricity consumers in the area of Elektro Primorska in 2018. Total revenues from network charges and contributions amounted to €73,807,420. Total revenue index compared to the value recorded in 2017 stands at 1.023, up 2.3% (source: internal EP reports).

	INVOICED QUANTITIES		USE OF NETWORK [€]			CONTRIBUTIONS [€]			USE OF NETWORK AND CONTRIBUTIONS
2018	[kW]	[kWh]	Transmission network charge	Distribution network charge	Excessive reactive power	Contribution OVE + SPTE	Contribution URE	Contribution BORZEN	TOTAL [EUR]
January	1,258,300	137,627,236	1,097,395	3,649,681	32,006	1,614,439	110,102	17,892	6,521,515
February	1,259,726	131,199,196	1,080,571	3,553,162	29,634	1,621,291	104,959	17,056	6,406,673
March	1,267,575	150,210,055	1,135,079	3,773,783	31,421	1,631,575	120,168	19,527	6,711,553
April	1,258,373	131,167,756	957,279	2,997,934	30,637	1,610,079	104,934	17,052	5,717,916
May	1,269,410	136,783,836	973,257	3,025,498	32,355	1,640,601	109,427	17,782	5,798,920
June	1,273,164	138,563,960	970,629	2,984,928	34,631	1,660,109	110,851	18,013	5,779,160
July	1,275,375	144,207,080	990,872	3,087,063	37,218	1,681,852	115,366	18,747	5,931,117
August	1,277,121	137,154,099	990,231	3,136,506	38,229	1,680,434	109,723	17,830	5,972,953
September	1,272,318	135,540,763	966,111	2,978,846	34,219	1,646,404	108,433	17,620	5,751,633
October	1,272,116	136,272,845	1,069,902	3,313,784	33,884	1,630,357	109,018	17,715	6,174,661
November	1,278,246	138,647,770	1,091,085	3,459,107	31,310	1,645,493	110,918	18,024	6,355,938
December	1,283,267	143,398,343	1,128,497	3,727,572	34,253	1,661,700	114,719	18,642	6,685,382
TOTAL	**15,244,991**	**1,660,772,939**	**12,450,907**	**39,687,861**	**399,797,21**	**19,724,335**	**1,328,618**	**215,901**	**73,807,420**

Table 14: Total invoiced network charge and contributions of all the customers of Elektro Primorska in 2018

NB:

- Amounts in EUR do not include VAT.

- Use of the network and contributions are charged to customers at current tariff rates, in accordance with the Legal Act on the methodology determining regulatory framework and network charge for the electricity distribution system. Use of the network is intended to cover the eligible costs of power operators and to providing reserve electricity. Financial support is intended to provide electricity production from renewable energy sources and energy savings for final customers. Revenues of Elektro Primorska are not shown in Table No. 14.

8.4.2. Excess of acquired or distributed reactive power

In 2016, a new method of network charge for the excess received and distributed reactive power was introduced, which is intended to cover the costs of the electricity distribution system operator for the provision of network voltage conditions, while also encouraging users to reduce consumption of reactive power.

Excess of acquired reactive power is the difference between the actual measured reactive power and allowed acquired or delivered reactive energy in the 15-minute measuring interval corresponding to the factor tg φind = +0.32868 or tg φkap = -0.32868. The settlement is made monthly as the total of all 15-minute absolute values of acquired and delivered reactive power in the month. Introduction of the new billing method changed the tariff for network charges relating to excess of acquired reactive energy. In 2018, the price increased by about 5% compared to the previous year, and the VN feed amounted to €0.00326/kWh, and the SN and NN fed to €0.00835/kWh.

In accordance with the lease agreement for the distribution infrastructure and implementation of services for the system operator of the electricity distribution network, Elektro Primorska issues invoices for excess of accepted reactive power in the name and for the account of SODO.

In the same period, 48,463,043kWh of excessive reactive energy from electricity networks of all customers in the area of Elektro Primorska was invoiced amounting in total to €399,797.21. Index of excess of acquired reactive power compared to quantities recorded in 2017 amounts to 0.9657. A slight drop in excess reactive power invoiced is a result of improved control of consumer consumption.

8.4.3. Electricity losses in the distribution network

As a good manager and the supplier of services under the contract, Elektro Primorska is committed to reducing technical and commercial losses. A stimulation or penalisation model is currently being introduced that will stimulate individual distribution to reduce losses. If the distribution has lower losses than the recognised percentage, credit will be issued for the difference between the recognised revenue and the cost. Otherwise, the individual distribution itself will have to cover the difference between actual costs and recognised revenues.

Losses in the electricity distribution system in 2018 amounted to 79,286,837kWh, which accounts for 4.77% of the total invoiced electricity to all customers. The Company invests major efforts and resources in reducing losses, as is evident in the trend of reduced percentage of losses compared to previous years. Losses in the electricity distribution system amounted to 5.19% in 2017, 5.26% in 2016 and 5.87% in 2015.

Recognised expenses to cover losses amount to €4,178,289, while the cost of losses amounts to €3,527,983. In accordance with the preliminary settlement for 2018, SODO recognised a credit note to Elektro Primorska in the amount of €650,306.

8.4.4. Peak of distribution network consumption and operating hours

In 2018, the peak consumption of Elektro Primorska distribution system occurred on Tuesday, 27 February 2018 at 9 pm and amounted to 301,681MW. Compared to 2017 (282,952MW) it increased by 18,729MW or 6.62%. Annual operating hours reached 5,767,880 hours.

Monthly peaks in the distribution system of Elektro Primorska in 2018 and the related annual operating hours are presented in Table 15. Graph 7 shows monthly consumption peaks, while Graph 8 is a presentation of monthly quantities of acquired electricity in 2018.

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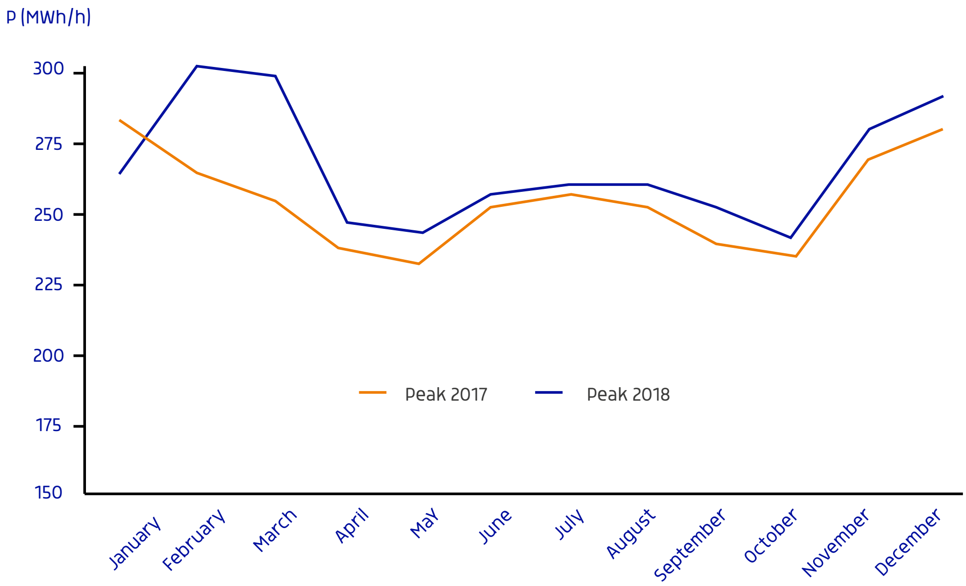


Chart 7: Monthly electricity consumption peaks in 2018

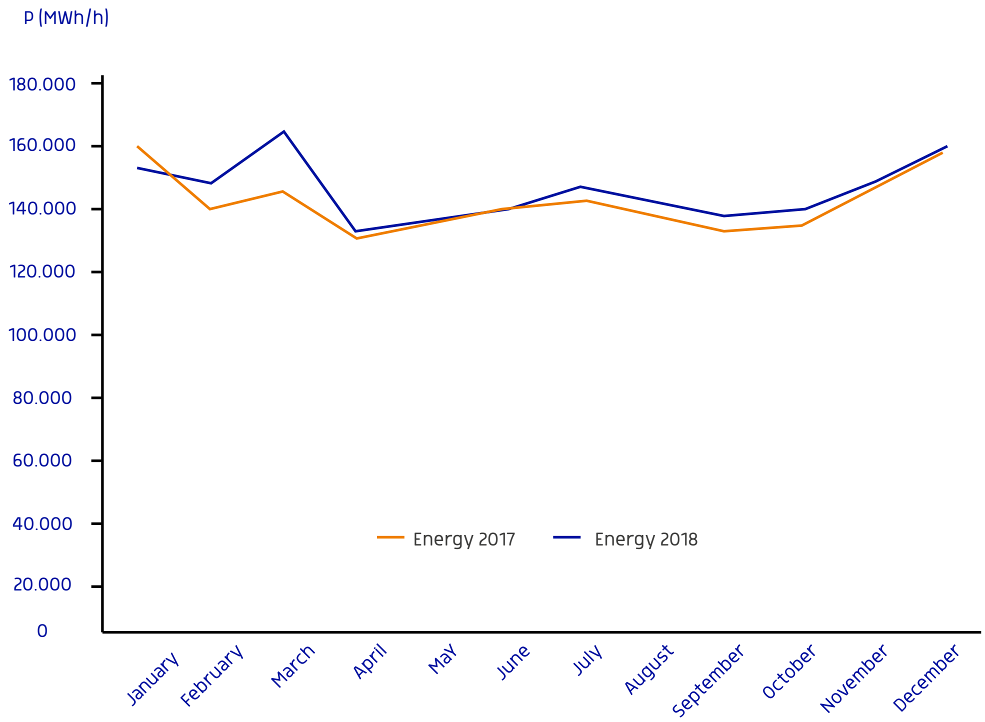


Chart 8: Monthly acquired electricity quantities in 2018

Month	Monthly peaks [MWh/h]	Date	Hour	Total acquired EE * [MWh]	Operating hours - annual ** [h]	Monthly peaks 2017 [MWh/h]	Monthly peak ratio 2018/2017	Total acquired EE 2017
January	263,727	18.01.18	8 am	151,981,7	6,650	282,952	0.932	159,809,6
February	301,681	27.02.18	9 am	147,547,3	6,878	264,070	1.142	139,335,9
March	300,013	01.03.18	12 noon	163,031,6	7,421	254,715	1.178	144,995,6
April	247,497	04.04.18	11 am	132,334,2	6,674	236,959	1.044	129,990,8
May	244,386	29.05.18	12 noon	135,579,0	6,796	232,039	1.053	133,929,1
June	256,234	20.06.18	12 noon	138,593,4	6,656	253,505	1.011	138,678,3
July	259,429	26.07.18	1 pm	146,384,3	6,478	256,758	1.010	141,263,2
August	259,350	24.08.18	12 noon	141,499,4	6,472	251,286	1.032	138,119,8
September	252,617	20.09.18	12 noon	135,861,3	6,725	238,264	1.060	131,696,6
October	241,360	23.10.18	8 am	139,828,4	6,744	234,073	1.031	134,075,9
November	278,429	20.11.18	9 am	147,220,4	6,639	268,914	1.035	146,741,7
December	290,914	14.12.18	5 pm	160,198,7	6,620	280,259	1.038	157,594,1
Peak:	**301,681**		**Total:**	**1,740,059,8**	**5,767,9**			**1,696,230,7**

Table 15: Peak and annual operating hours of Elektro Primorska in 2018

The peak, i.e. maximum average hourly power acceptance exceeded the 300MWh/h limit for the first time in history of the Company at the end of February 2018, during a very cold weather, as temperatures significantly impact the consumption of electricity. We noted an increase in the summer peak, which is associated with the increase in general use of air conditioning. Due to the increased use of electricity for heating and cooling, a further increase in the peak is expected in the coming years.

8.4.5. Electricity generated by producers connected to the distribution network

As at 31 December 2018, a total of 477 traditional electricity producers were connected to the distribution network of Elektro Primorska and 212 self-sufficient energy producers from renewable energy resources. The number of traditional producers has been falling over the years due to insufficient support provided for electricity production from OVE and SPTE.

In December 2015, the Government adopted a Decree on self-supply of electricity from the renewable energy sources, which defines a new method of invoicing network and energy charges for household and small business customers, who are also owners of power production facilities. Under the Decree, based on net metering, these customers are able to ensure self-supply of electricity and deliver any surplus of generated electricity to the network or feed it from the network when the relevant device fails to produce energy or fails to produce sufficient amount of energy.

Compared to 2016, when 12 self-sufficient suppliers were connected to the network, the number of connections has been steadily increasing due to the user-friendly method of energy consumption calculation. Thus, in 2018, 122 self-sufficient suppliers were connected to the grid, compared to 78 in 2017. We expect about 120 new connections to the grid to be made in 2019. Depending on the long-term policy in this field, we may have to strengthen our personnel resources to carry out procedures related to the issuance of all necessary documents and perform connection inspections. While at present self-sufficiency does not account for a major energy share in the total energy produced, it may do so in the coming years considering the current growth trend.

Registered electricity production of all producers amounted to 157,926,536kWh in 2018, up 1.22% on the amount recorded in 2017. Thus, 142,155,688kWh or 1.4% more power was supplied to Elektro Primorska distribution network in 2018 than in 2017. Annual production of power plants varies the most (up to 40%) as it depends on favourable river flow. In 2018, the production was relatively similar to that of the previous year, as the total production of hydroelectric power rose by 5.3% compared to 2017, while other resources provide a more stable power supply.

The difference in the quantities of electricity produced and supplied to the distribution network constitutes own consumption of the self-sufficient users, the OVE and SPTE production facilities, and transmission of electricity produced into the in-house network. In 2018, it amounted to 15,770,848kWh.

Energy source	Number of power plants	Production in 2018 [kWh]	Production in 2017 [kWh]	2018/2017
HE SENG	24	71,211,252	65,985,731	1.079
HE Other	69	31,413,151	31,440,026	0.999
Solar power stations	346	35,917,130	38,445,860	0.934
Wind power stations	6	6,021,144	5,716,177	1.053
SPTE	32	12,283,887	14,236,499	0.863
Self-supply*	212	1,079,972	199,159	5.423
Total	**689**	**157,926,536**	**156,023,452**	**1.0122**

Table 16: Electricity production by source of primary energy

NB:
* Self-supply of electricity from renewable energy sources is the fastest growing market of electricity production resources.
* Number of all power stations in the area of EP that are connected to the distribution network or in-house network of customers.

8.4.6. Quality of electricity supply

8.4.6.1. Voltage quality

Permanent monitoring of voltage quality in Elektro Primorska was provided in 2018 by 67 recording devices installed in 28 network facilities. Data on the quality of the voltage is obtained from 14 high-voltage bus bars, from 2 medium-voltage bus bars bordering the neighbouring network, and from 51 medium-voltage bus bars representing the main power points in our distribution network.

Results of the permanent measurements in the area of Elektro Primorska in 2018 show an improvement in voltage quality compliance with the requirements of the standard at the VN-level from 97.60% in 2017 to 98.82% in 2018, and from 98.70% in 2017 to 98.71% in 2018 at the SN-level.

The vast majority of voltage quality deviations in 2018 occurred during the outage of the HE Avče and during summer storms due to lightning strikes and periods of strong north wind.

In 2018, full compliance with the voltage quality requirements of the standard was recorded at 54 of total 67 measuring points in all measured weeks, while on the remaining 13 measuring points, at least one week of non-compliance with voltage quality standard SIST EN 50160 was recorded. Deviation of effective voltage level was recorded at five measuring points, at one measuring point we recorded a deviation of bellows, at nine we noted an increase of flickers, while frequency deviation was noted at one measuring point.

8.4.6.2. Continuity of supply

In the Elektro Primorska area, we recorded 944 unplanned interruptions of power that lasted longer than three minutes on high- and medium- voltage electric power plants in 2018, 26 of which were failures of the 110/SN kV and SN/SN kV power transformers.

Data in Tables 17, 18 and 19 was obtained from the application of the Energy Agency (AE).

For the purposes of the ordinary and extraordinary maintenance of installations, 1,249 disconnections were carried out in 2018, which led to the planned blackout. The DCV Elektro Primorska issued 488 messages, 99 for work on the 110/SN kV and SN/SN kV power transformers.

Total number of unplanned and planned interruptions lasting more than three minutes reached 2,193 which means that there were fewer interruptions than in the previous year.

Number of interruptions lasting more than 3 minutes	2018	2017	Index
Number of unplanned interruptions	944	1156	0.817
Number of planned interruptions - disconnections	1249	1436	0.869
Total number of planned and unplanned interruptions	2193	2592	0.846

Table 17: Number of interruptions lasting more than 3 minutes

SAIFI (system average interruption frequency index)	2018	2017	Index 18/17
Average number of unplanned interruptions per customer	2.12	3.59	0.59
Average number of planned interruptions - disconnections per customer	0.92	0.97	0.95
Average number of planned and unplanned interruptions per customer	3.04	4.56	0.66

Table 18: SAIFI (system average interruption frequency index)

SAIDI (system average interruption duration index)	2018	2017	Index 18/17
Average interruption duration in hours due to unplanned interruptions	1.41	1.90	0.74
Average interruption duration in hours due to planned interruptions - disconnections	2.26	2.16	1.18
Average interruption duration in hours due to planned and unplanned interruptions	3.67	4.06	0.90

Table 19: SAIDI (system average interruption duration index)

8.4.6.3. Commercial quality

In accordance with the Legal Act on the rules for monitoring the quality of electricity supply (Annex 2 of the Act), the Company regularly monitors commercial quality indicators and reports to the Energy Agency and SODO. Commercial quality indicators for 2018 are within the expected maximum values.

09

SERVICES FOR EXTERNAL CUSTOMERS

Elektro Primorska acquires contracts for the market i.e. for external customers by bidding at public tenders and by direct negotiations with potential investors.

Services were performed mainly on the facilities and installations of medium and low voltage networks and public lighting. Market business covers the entire scope of work for which Elektro Primorska is specialised, namely the design and preparation of project documentation, construction or reconstruction of cable conduits, transformer stations, production of connectors for new facilities, renovation of public lighting with the reconstruction of switching points and other minor services.

We had less success in our bidding in 2018 than in 2017, as the service realisation fell by 8.97%, and we achieved 91.12% of the 2018 plan.

Type of work	Plan (EUR) 2018 January-December	Actual (€) 2018 January-December	Actual (€) 2017 January-December	% 2 : 1	% 2 : 3
	1	2	3	4	5
Market services	2,100,000	1,799,803	1,897,364	85.70	94.86
Other services	768,000	813,557	973,658	105.93	83.56
TOTAL	**2,868,000**	**2,613,360**	**2,871,022**	**91.12**	**91.03**

Table 20: Realisation of services for external customers in 2018

The following major service were carried out in 2018 for the market:
- Cable conduits and transformer station TP Lesnina Vrtojba,
- Reconstruction of transformer station TP Iskra (Mahle),
- Installation of Low Voltage Distribution at OC Bilje,
- Cable conduits and transformer station TP Valdoltra,
- Reconstruction of the transformer station TP Slačka baba,
- Connections and chargers for electric vehicles,
- Cable conduits and transformer station TP LIDL Ilirska Bistrica,
- Cable conduits IC Plama,
- Transformer station TP OC Postojna,
- Replacement of public lighting in the municipality of Kobarid,
- Cable conduits and transformer station TP SENG Bača 1,
- Reconstruction of the transformer station TP AET Tolmin.

The above services include provision of holiday facilities.

10

INFORMATION SUPPORT AND DEVELOPMENT

IT services cover modernisation of the IT system, Intranet and Internet portal, server infrastructure inclusive of all the services, databases, network computing infrastructure for the needs of management and business computing facilities, and installation of new workstations and user support.

The company Informatika d. d., our contractor, is responsible for the operation of the accounting information system and the development of new modules for processes relating to the connection, network charges and accounts payable and receivable.

The following major activities were carried out in 2018:

- The new AX information system was implemented and is supported by the IT
- The new MAXIMO information system used in maintenance was implemented and is supported by the IT
- The new GIS information system was implemented and is supported by the IT
- The new CDWH system was implemented to facilitate reporting by key staff
- We upgraded computer network, mainly for the management of energy facilities
- We ensured regular maintenance of all wire, radio and optical communications infrastructure including FM network and participated in the upgrading of optical links
- We purchased new workstations to replace the obsolete ones
- We continued to provide all infrastructure services and support to subsidiary E 3.

11

INTEGRATED MANAGEMENT SYSTEM (ISV)

Elektro Primorska has an established and certified integrated management system based on the following standards:

- Quality Management System - ISO 9001:2015,
- Environmental Management System - ISO 14001:2015,
- Management System for Safety and Health at Work - BS OHSAS 18001:2007.

Integrated Quality Management System is mastered through the structure of formalised documents including: a) the rules of quality management, b) determining the processes, c) process management, d) instructions, e) forms. Quality of processes implementation is monitored by quality indicators. Effectiveness of the integrated management system is regularly checked through management reviews, and by internal and external audits.

Requests for improvements in the integrated management system are managed by a special software that allows all employees to communicate their ideas, comments and suggestions for improved management and organisation, as well as other activities. This system also includes management of measures arising from the internal audit recommendations and self-assessment according to the EFQM model and strategic projects.

The integrated management system was checked in 2018 as part of the planned internal audits and annual reviews, such as: environmental review, vocational health and safety review and management review. Internal audits of quality management system, environment management system and the system of vocational health and safety were conducted on 19 and 20 April 2018.

On 6. of June 2017, SIQ (external certification company) carried out refresher and transitional assessment of the ISO 9001:2015 standard requirements; regular assessment of the ISO 14001:2015 standard requirements; and regular assessment of the BS OHSAS 18001:2007 standard requirements, and confirmed that the Company implements, maintains and develops its management system in accordance with the requirements of ISO 9001:2015, ISO 14001:2015, and BS OHSAS 18001:2007 standards.

12

CARE FOR THE ENVIRONMENT

12.1. Environmental policy

Environmental policy is an important component of the Company's business policy and as such it is integrated into all of its business processes. Our business and our facilities intervene into the space and its intended use, so with the established environmental management system we manage significant environmental aspects associated with the activity of electricity transmission, maintenance and construction of facilities, the operation of electricity metal workshops and vehicle fleet. By adopting environmental programs in accordance with financial capabilities of the Company, we realise the framework and implementing environmental objectives.

12.2. The realisation of environmental programs in 2018

In accordance with established environmental objectives, the following activities of environmental programs were performed in 2018:

- Removal of asbestos cement cover on the RTP Pivka and the Postojna Control office.
- Energy rehabilitation of the RTV Pivka facility.
- Reconstruction of the former RTP ››Beli križ‹‹ facility into the Control office in Piran and complete energy rehabilitation of the facility.
- To reduce energy consumption used for the heating of the administrative building and plant at DU Tolmin, we have made a conceptual design and project for the implementation of energy rehabilitation of buildings. Based on the executive design, we have already installed thermostatic valves in the plant.
- In 2017, Elektro Primorska signed a partnership agreement for the project aimed at ensuring proper use of the Karst grasslands and forests for the preservation of selected habitat types and species in the ››Nature 2000‹‹ in the Slovenian Karst region. Elektro Primorska's task in the project is to insulate medium-voltage overhead lines and thus improve the conservation status of the Eurasian Eagle Owl in the Slovenian Karst region. Preliminary work and public procurement for the supply of material were carried out in 2018.
- The number of used transformers, which pose a potential threat to environmental pollution, was reduced by 28.
- As part of the solution to excess noise pollution in the RTP Koper, we conducted a professional consultation and began to re-measure noise at different intervals.
- We obtained documentation for construction of a replacement transformer station at TP Labore, which will reduce negative impact on the nearby residents.

13

RISK MANAGEMENT

Elektro Primorska manages the risks it is exposed to in accordance with the methodology of integrated risk management. All identified risks are classified in accordance with the risk management methodology into one of the four groups that are included in the risk register: financial, operational, strategic and legislative risks. Risks are assessed at least monthly based on assessment of the implications of individual risks and the likelihood of risks occurring. These risks are managed in the following manner: risk avoidance - abandonment of risky operations; risk mitigation - use of different hedging instruments; transferring risk to a third party; acceptance of risk - accepting the risk that is acceptable. Continuous risk identification is primarily responsibility of the heads of organisational units and other authorised expert staff.

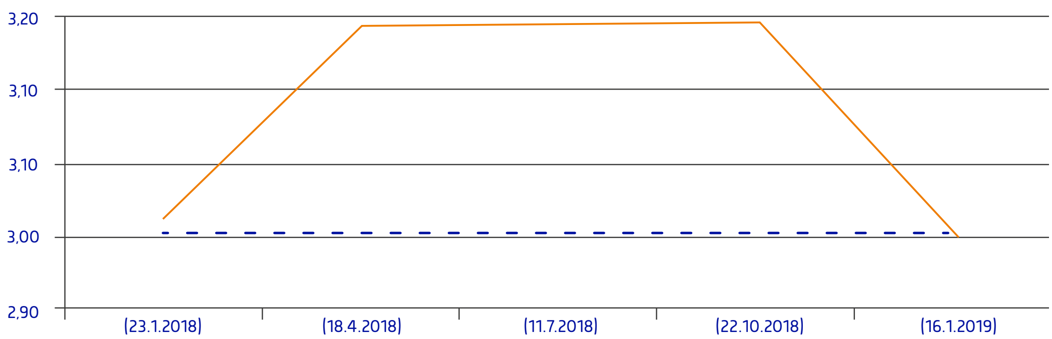
Individual risk status or risk measures are carried out through the portal monthly, quarterly and annually. Internal audit function supervises the implementation of the measures and compliance of the reported measures with the actual situation. Reporting and risk control are an integral part of the Company's integrated management system.

We assess each identified risk from the viewpoint of potential consequences in the range from 1 to 4 and the likelihood of occurrence also in the range from 1 to 4. Severity of the risk is calculated as the product between potential damage V and the likelihood of risk occurring Ve. Risks are therefore classified into: a) a low risk T {1, 2, 3}, b) medium risk T {4, 6}, c) high risk T {8, 9} and d) very high risk T {12, 16}.

VV_e	Almost certainly	Highly likely	Possible	Unlikely
Very high	16	12	8	4
High	12	9	6	3
Moderate	8	6	4	2
Low	4	3	2	1

Table 21: Risk matrix in EP

In order to monitor the trend and the balance at the cut-off date, the average level of all risks was introduced in 2013 when the risk management was first introduced. In 2018, the risk management value decreased from the baseline value of 3.05 to 3.00. New relevant measures, contractors and deadlines for implementation were established for all measures that exceed 3.00, which is the acceptable level of risk, (a total of four measures). These measures are currently being implemented and managed in accordance with the adopted methodology.



Average level of all risks	3,05	3,19	3,19	3,19	3,00
Acceptable risk level	3	3	3	3	3

Chart 9: Total average level of all Elektro Primorska risks per individual quarter of 2018

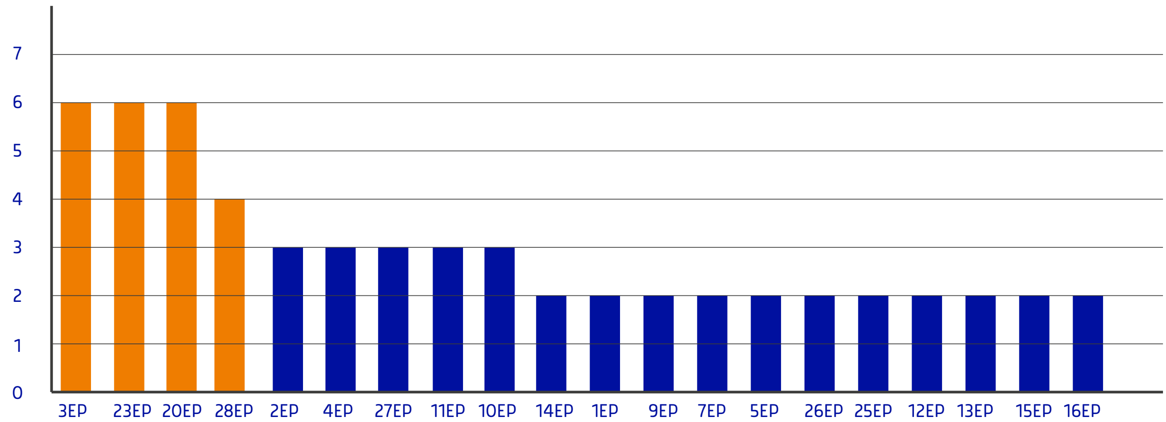


Chart 10: Elektro Primorska risk levels at the cut-off date, i.e. 16 January 2019.

	Risk categories	Number of active risks at reporting date	(23 Jan 2018)	(18 Apr 2018)	(11 Jul 2018)	(22 Oct 2018	(16 Jan 2019)
1	Financial risks - market risk	4	2.25	2.25	3.50	3.50	**3.50**
2	Operational risks	8	3.80	3.80	3.22	3.22	**3.13**
3	Strategic operational risks	3	2.67	3.67	3.67	3.67	**2.67**
4	Legislative risks	5	2.25	2.25	2.60	2.60	**2.60**
	Total	**20**	**3.05›3**	**3.19›3**	**3.19›3**	**3.19›3**	**3.00=3**

* Operational risk 24EP-Projekt MX-eliminated

Table 22: Risk categories per individual quarter in 2018

While one of the risks was eliminated from the risk register, a newly identified risk was included in the risk management system in 2018.

13.1. Financial risks

Financial risks of the Company are those risk factors that directly threaten the achievement of the planned profit and capital adequacy. Significant financial risks include: credit, liquidity, and market risk.

Market risk is the risk of loss due to default by the Company debtors and arises on late settlement of receivables. Systematic monitoring of debtors' financial position and use of executive proposals to recover the receivables, mitigate the Company's credit risk exposure. The Company's exposure to credit risk is assessed as low.

Liquidity risk is directly related to the credit risk. The Company manages liquidity risk through cash flow planning and adjusting expenditure to its financing capabilities, draws on bridging loans and plans the dynamics of raising long-term borrowings to fund its investments. The Company's liquidity risk is assessed as low.

Economics of investment is associated with the above two risks due to a potential for exceeding the value of investments and due to deviation of specific planned values of standard investment solutions. The risk is assessed as low.

Market risks result from failure to render services on the market, which affects the Company's cash flow. Market risks are assessed as moderate.

13.2. Operational risks

Operational risks are associated with the implementation of business processes in the Company. The Company has updated and certified its business processes in accordance with the quality management system standards ISO 9001, environmental management system ISO 14001, and vocational health and safety system BS OHSAS 18001. By complying with provisions of those standards, the Company is indirectly mitigating the potential for operational risks arising. In this area, we are faced with the risk stemming from the provision of information support, which is assessed as medium.

Human resources risks are associated with potential loss or lack of qualified staff and the emergence of work-related injuries arising from risky working practices in the business of power distribution. Risks are managed through constant training of employees, encouraging them to enrol in further education, effective communication and provision of information to all employees, liability insurance of employees in the implementation of design, assembly and maintenance work, and collective accident insurance of employees. We continuously improve the vocational health and safety system, which reduces the risk of injury at workplace, and strive to preserve the health of our employees. The risk level is assessed as low.

Risks associated with the system operation are related to ensuring the broadest possible availability of facilities, which we ensure based on regular planning, construction and maintenance, by implementing activities such as reviews, audits, measurements with the aim of preventing failure of electricity distribution plants and the occurrence of major damage to devices. Property risk arises from exposure of electrical installations and facilities, as well as other Company's assets to environmental influences and other threats. The risk is managed by appropriate planning, building and maintenance, and with adequate property insurance. The risk level is assessed as low.

Information risk is associated with the operation of a computerised information system and includes the risk of data loss, unauthorised access to data, intrusion into the system, and interruption in the system operation. The Company has signed a contract for the provision of key information services with Informatika, a company that also provides services to other distribution companies. Through annual investments in IT equipment, by pursuing an appropriate security policy, upgrading of the information system in collaborating with Informatika, as well as by regular implementation of adopted measures, these risks are managed well. The risk is assessed as low.

13.3. Strategic risks

Strategic risks affect an efficient and competitive continuity of the Company's operations. Strategic risks the Company is facing include price, quantity and investment risks, as well as risks related to power supply interruptions of own cause.

Price risks occur in the contractual relationship between SODO and Elektro Primorska, which regulates lease of electricity infrastructure and the provision of services by Elektro Primorska for SODO. They determine the price for rental of infrastructure and the provision of other services. Late conclusion of the contract or annex to the contract for individual financial year presents the price risk. Price risks also arise in procurement of materials and equipment used in investment and maintenance works. During the year, price risk is managed through public tenders for the procurement of material and equipment and by signing annual contracts for real-time supply. The risk level is assessed as low.

Quantitative risks arise in the transfer of electricity through the distribution network to customers. They arise from the uncertainty of consumption of electricity and they have short-term impact on revenues from network usage and, consequently, on the amount of the Company's revenue from the provision of services for SODO. Quantitative risks are managed by monthly monitoring of the transferred quantities of electricity through distribution network and corresponding network charges. The risk is assessed as low.

Investment risks are reflected in a potential failure to achieve the planned investments. They are managed by real-time verification of the realisation and effectiveness of the adopted plans. The risk level is assessed as low.

13.4. Legislative risks

The essence of managing regulatory risks is ensuring the functioning of the system in accordance with regulations. Responsibility for legitimate business and compliance with the internal workings of Elektro Primorska is specifically defined. Decision-making in the EP is limited to the framework of sectoral legislation. Regulation of the operation resulting from the contractual obligations between SODO and Elektro Primorska, as provider of public utility service, constitutes restrictions, which the Company must respect and are not always economically viable. The risk is assessed as low. As Elektro Primorska strictly complies with the requirements of the General Data Protection Regulation (GDPR) issued by the EU with regard to the processing of personal data and on the free movement of such data, the level of such risks is assessed as medium.

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SUBSEQUENT EVENTS

In the current financial year, business has been running in accordance with the approved Business Plan of Elektro Primorska for the period 2018-2020. No significant business events occurred after the reporting date that could impact the Company's financial statements.

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PERFORMANCE ANALYSIS

Elektro Primorska closed the 2018 financial year with net profit of €6,605,980, which is less than planned and achieved in the previous year, mainly due to the short come of planned financial income and higher employee benefit costs. In comparison, a better result achieved in 2017 is also due to the fact that in 2018, the Company recognised deferred taxes for the first time in its history. The Group revenues totalled €48,046,302 in 2018, an increase of €1,034,914 or 2.2% compared to 2017. The largest group of revenues represent operating revenues amounting to €48,012,897, accounting for 99.93% of total revenues of the Group. The largest increase, compared to the previous year, was on account of elimination of provisions for post-employment benefits from past service in the amount of €1,251,415 and from capitalised own products. Provisions for post-employment benefits were reversed following a change in the collective agreement, which abolishes certain jubilee award grades and reduces the percentage of post-employment benefits.

The Company incurred €40,429,490 of expenses in 2018, up €1,187,094 compared to the 2017 financial year. The largest group of expenses are operating expenses amounting to €39,978,723, while the largest share of operating expenses is taken by the employee benefit costs, which account for 44.64% of the total operating expenses and amount to €17,847,179 in 2018, up €879,929 on the previous financial year.

The assets of Elektro Primorska increased to €211,104,345 as at 31 December 2018, with the largest increase reported in property, plant and equipment (up €4,451,509) amounting to €183,304,516 as at the year-end. The largest increase of (€15,296,934 stems from investments made in 2018. Short-term operating receivables amounting to €7,003,979.09 account for the majority of current assets as at 31 December 2018, a reduction of €329,144 compared to the previous year.

The Company's equity amounted to €153,591,302 as at 31 December 2018, an increase of €3,051,730 compared to the previous year. The share of equity in total liabilities at the end of 2018 amounted to 72.76%, down 0.37 percentage point compared to the previous year. At the year-end, long-term liabilities amounted to €41,027,047, up €2,872,400 compared to the previous year. This is mainly due to the increase in long-term financial liabilities to banks. Short-term liabilities of €15,809,296 present a reduction of €670,951 compared to the previous year. The largest increase amounting to €936,239 is reported in short-term supplier payables.

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RATIOS

Indicators that show the Company's credit rating are divided into the following groups of fundamental accounting ratios:

1. Financing state ratios
2. Basic investment ratios
3. Horizontal financial structure ratios
4. Efficiency ratios
5. Profitability ratios.

From the viewpoint of financial performance evaluation, the Company has monitored its business results based on the following ratios:

A. THE BASIC FINANCING STATE RATIOS	31.12.2018	31.12.2017
Equity	153,591,303	150,539,573
Equity and liabilities	211,104,345	205,849,194
Equity financing rate	**72.76%**	**73.13%**
Total equity and long-term debts (including provisions) and long-term accruals	194,618,350	189,094,221
Equity and liabilities	211,104,345	205,849,194
Long-term financing rate	**92.19%**	**91.86%**
Debts	56,836,343	54,634,894
Equity and liabilities	211,104,345	205,849,194
Debt financing rate	**26.92%**	**26.54%**
B. THE BASIC INVESTMENT RATIOS	31.12.2018	31.12.2017
Assets (at book values)	183,304,516	178,853,007
Assets	211,104,345	205,849,194
Operating fixed assets rate	**86.83%**	**86.89%**
Long-term and short-term investments	10,810,832	6,846,097
Assets	211,104,345	205,849,194
Investment assets rate	**5.12%**	**3.33%**
Fixed assets and long-term deferred and accrued items investment property, long-term investments and long-term operating receivables	190,774,030	185,929,805
Assets	211,104,345	205,849,194
Long-term assets rate	**90.37%**	**90.32%**
Realised investments	16,578,806	16,318,421
Planned investments	17,000,000	16,500,000
Investment realisation level	**97.52%**	**98.90%**
C. THE BASIC HORIZONTAL FINANCIAL STRUCTURE RATIOS	31.12.2018	31.12.2017
Equity	153,591,303	150,539,573
Assets (at book values)	183,304,516	178,853,007
Equity to fixed assets rate	**83.79%**	**84.17%**
Liquid assets	2,290,160	4,964,407
Short-term liabilities	15,809,296	16,080,246

Acid test ratio	**14.49%**	**30.87%**
Liquid assets and short-term receivables	9,584,727	12,700,780
Short-term liabilities	15,809,296	16,080,246
Quick ratio	**60.63%**	**78.98%**
Short-term assets	14,738,438	13,603,130
Short-term liabilities	15,809,296	16,080,246
Current ratio	**93.23%**	**84.60%**
D. THE BASIC EFFICIENCY RATIOS	31.12.2018	31.12.2017
Operating revenue	48,012,897	46,980,868
Operating expenses	39,978,723	38,800,575
Operating efficiency ratio	**1.201**	**1.211**
Revenue	48,046,302	47,011,389
Expenses	40,429,490	39,242,396
Total operating efficiency ratio	**1.188**	**1.198**
E. PROFITABILITY RATIOS	31.12.2018	31.12.2017
EBITDA (operating income - operating expenses +AM + revaluation)	19,980,366	19,801,353
Gross operating yield	48,012,897	46,980,868
EBITDA margin	**41.61%**	**42.15%**
EBIT (operating revenue - operating expenses)	8,034,174	8,180,293
Gross operating yield	48,012,897	46,980,868
EBIT margin	**16.73%**	**17.41%**
Net profit or loss	6,605,980	7,231,232
Sale revenue	38,166,199	39,086,362
Net return on revenue	**17.31%**	**18.50%**
Net profit or loss	6,605,980	7,231,232
Average assets	208,476,769	201,274,329
Net return on assets ratio (ROA)	**3.17%**	**3.59%**
Net profit or loss	6,605,980	7,231,232
Average capital (excluding net profit or loss for the year)	148,762,448	144,290,207
Net return on equity ratio (ROE)	**4.44%**	**5.01%**
Total dividends paid for the year	2,549,021	2,066,311
Average share capital	78,562,832	78,562,832
Dividend to share capital ratio	**3.24%**	**2.63%**
Dividend paid in the current year	2,549,021	2,066,311
Average capital	148,762,448	144,290,207
Dividend to share capital ratio	**1.71%**	**1.43%**
F. SHARES	31.12.2018	31.12.2017
Equity	153,591,303	150,539,573
Number of shares	18,826,797	18,826,797
Number of treasury shares	42,899	42,499
Book value per share (in EUR)	**8.18**	**8.01**
Net profit or loss	6,605,980	7,231,232
Weighted average number of ordinary shares	18,783,955	18,784,638
Diluted average number of ordinary shares	18,783,955	18,784,638
Basic and diluted earnings per share (EUR/share)	**0.35**	**0.38**

Table 23: Ratios

16.1. Basic financing state ratios

1. THE BASIC FINANCING STATE RATIOS								
No.	**Description**	**2018**	**2017**	**2016**	**2015**	**2014**	**2013**	**2012**
1.	Equity financing rate capital/equity and liabilities	0.728	0.731	0.739	0.729	0.737	0.711	0.717
2.	Long-term financing rate total equity, long-term liabilities and provisions/equity and liabilities	0.922	0.919	0.921	0.909	0.916	0.887	0.889
3.	Debt financing ratedebts/equity and liabilities	0.269	0.265	0.258	0.266	0.260	0.285	0.274

Table 24: Basic financing state ratios

These show the relationships between equity and liabilities and thus, they are used to identify the financing structure of assets, while at the same time they express the degree of the Company's financial independence.

Financing state ratios show the share of equity, debt and deferred liabilities in the structure of all sources of financing. These ratios are particularly important when the Company is deciding on its long-term financing strategy (capital structure). High proportion of capital in financing and low level of short-term funding provide creditors the information on how safe their investment is.

Equity financing rate shows the share of equity financing in total assets. In 2018, the equity financing rate stands at 72.8 percentage points, which is 0.3 percentage point lower than in 2017. A decrease in the ratio value is the result of a higher increase in liabilities compared to the capital due to a reduction in the amount of profit achieved by the Company in 2018, along an increase in the Company's liabilities compared to 2017 (increase in long-term and short-term financial liabilities to banks), all of which is reflected in a reduced value of the ratio in 2018.

Debt financing rate shows the debt financing of the Company's assets. In 2018, the ratio stood at 92.2%, up 0.3 percentage points compared to 2017, which is primarily due to a reduction in short-term operating liabilities, and above all supplier payables and other operating liabilities, along with the increase in long-term financial liabilities to banks for borrowings raised to finance investments in electricity distribution infrastructure.

Since the Company does not possess sufficient amount of own resources (also due to dividend payments) to finance planned and necessary investments, it is forced to raise external, debt sources of financing. Own source of funds for financing investments in energy infrastructure comprises primarily amortisation and depreciation and the generated return, especially the operating result, which the Company expects from generating regulated revenues, which are mainly rental income and revenues from services provided under the contract with SODO.

Debt financing rate amounted to 26.9% in 2018, up 0.04 percentage points compared to 2017. This is due to an increase in debt in the overall structure of liabilities. A major increase in liabilities comes from raising long-term bank borrowings to fund the Company's investment activity in 2018.

16.2. The basic investment ratios

2. THE BASIC INVESTMENT RATIOS								
No.	**Description**	**2018**	**2017**	**2016**	**2015**	**2014**	**2013**	**2012**
1.	Operating fixed assets rate fixed assets /assets	0.868	0.869	0.897	0.887	0.906	0.881	0.908
2.	Investment assets ratelong-term and short-term investments/assets	0.032	0.033	0.035	0.035	0.038	0.037	0.038
3.	Long-term assets ratefixed assets, long-term investments and long-term operating receivables/assets	0.904	0.903	0.933	0.923	0.944	0.917	0.946

Table 25: Basic efficiency ratios

These ratios are used to establish where the company invested its assets and what structure of assets it has according to these investments.

Operating fixed assets rate shows the share of fixed assets in total assets. In 2018, the share of fixed assets accounted for 86.8% of total assets, which is similar to the level recorded in 2017. The value of fixed assets increased to the same level as did the value of the other Company's assets. A high level of operating fixed assets rate is expected for the Company as the industry in which it operates is technologically very intense.

Investment assets rate tells us the share of the company's assets that are involved in the emergence of financial income. At the end of 2018, short-term and long-term investments accounted for 3.2% of the Group's assets, a reduction of 0.1 percentage point compared to the previous year, mainly due to the increase in other components of the Company's assets.

Long-term assets rate shows the share of long-term assets, which at the end of 2018 amounted to 90.4%, up 1 percentage point compared to 2017. The reason for a slight increase in the ratio is relatively high increase in the Company's fixed assets compared to the increase in its total assets.

3. THE BASIC RATIOS OF HORIZONTAL FINANCIAL STRUCTURE								
No.	**Description**	**2018**	**2017**	**2016**	**2015**	**2014**	**2013**	**2012**
1.	Equity to fixed assets ratio equity/fixed assets	0.838	0.842	0.823	0.822	0.814	0.808	0.789
2.	Acid test ratio liquid assets/short-term liabilities	0.144	0.309	0.124	0.266	0.006	0.240	0.008
3.	Quick ratio liquid assets and short-term receivables/ short-term liabilities	0.607	0.791	0.594	0.730	0.487	0.633	0.377
4.	Current ratio current asset/short-term liabilities	0.932	0.846	0.645	0.777	0.553	0.680	0.429

Table 26: The basic ratios of horizontal financial structure

Regarding its long-term financial balance, the Company monitors its horizontal financial structure ratios, the most important of which is the quick ratio, which shows the impact of the amount and structure of current assets compared to current liabilities. Equity to fixed assets ratio shows the ratio between equity and fixed assets, which amounted to 83.3 in 2018, down 0.4 percentage points compared to 2017. The reason is a relatively low increase in capital on account of the 2018 profit compared to the increase in the Company's fixed assets. Acid test ratio, quick and current ratios indicate solvency position of the Company. Acid test ratio shows how many short-term liabilities a company can settle on a given day with its liquid assets. At the end of 2018, the Company could settle 14.4% of its short-term liabilities by cash. Compared to the previous year, the ratio is down by 16.5 percentage points, which is the result of a relatively lower amount of liquid assets compared to the 2017 financial year despite a reduction in the Company's short-term liabilities. Quick ratio shows the Company's ability to cover its short-term liabilities with cash and short-term receivables. At the end of the year, the value of this ratio stands at 0.61, which is by 18.4 percentage points less than its value in 2017. The reason for a decrease in the ratio in 2018 is a relatively higher decrease in the value of cash and short-term receivables compared to the reduction in short-term liabilities.

Current ratio expresses the coverage of short-term debts with cash and other current assets, including inventories. At the end of the year, it stood at 0.93, which is by 8.6 percentage points more than in the previous year. This is due to an increase in short-term assets (mostly inventories of materials and investments) and a decrease in short-term liabilities (primarily trade receivables). Although the recommended value of the current ratio equals 1, the value achieved by the Company is acceptable, as the Company invests heavily in the electricity infrastructure and considering regulated activities based on the contract agreed with SODO, it generates regular monthly inflows.

4. THE BASIC EFFICIENCY RATIOS								
No.	**Description**	**2018**	**2017**	**2016**	**2015**	**2014**	**2013**	**2012**
1.	Operating efficiency ratio operating revenue/ operating expenses	1.201	1.211	1.217	1.142	1.093	1.130	1.091
2.	Total efficiency ratio revenue/expenses	1.188	1.198	1.200	1.198	1.072	1.111	1.074

Table 27: Basic efficiency ratios

Efficiency (cost efficiency) ratios are indicators of business success and explain business results in relation to the invested elements of the business process. Operating efficiency ratio is the ratio between operating income and operating expenses and reflects the efficiency of the company's operations, since the financial income and expenses and other revenues and expenses are excluded from the indicator. In 2018, this ratio amounted to 120.1%, which means that operating revenues exceeded operating expenses by 20.1% and the cost efficiency worsened slightly in comparison with the previous year (by 1 percentage point). Total efficiency ratio is the ratio between total revenue and total expenditure. The ratio stood at 188% in 2018, which is 10 percentage points below the ratio reported in the previous year, reflecting a slight decline in the overall efficiency. Thus, in 2018 the Company managed well its available assets and ensured profitably.

16.3. Basic profitability ratios

5. THE BASIC PROFITABILITY RATIOS								
No.	**Description**	**2018**	**2017**	**2016**	**2015**	**2014**	**2013**	**2012**
1.	Net profit margin net profit/revenue	0.173	0.185	0.174	0.145	0.073	0.102	0.073
2.	ROA net profit/average assets	0.032	0.036	0.034	0.031	0.015	0.022	0.016
3.	ROE net profit / average equity (net of net profit for the financial year)	0.045	0.050	0.049	0.043	0.021	0.031	0.022

Table 28: Basic profitability ratios

By analysing the profitability ratio, we can see that the Company's operation is viable as it has achieved a positive operating result. As the net profit generated in the year under review has increased, all ratios show growth compared to the previous year.

Net return on revenue shows that the Company generated €17.3 of profit per €100 of revenue, a decline of €1.2 compared to 2017.

Return on assets ratio (ROA) shows the share of profits that the Company achieves with its own resources and shows how successful the management has been in managing the Company's assets, ROA amounted to 3.2% in 2018, down 0.4 percentage points compared to the previous year. As the consequence of major investments made by the Company in 2018, which is a prerequisite for ensuring high quality and reliable distribution of electricity, the ratio is relatively low. However, high quality and reliable power distribution could not be achieved without capital investments. In order for the Company to ensure high-quality electricity supply to all customers in its distribution area, the Company expects to invest heavily also in the future, which means that the ratio will not improve significantly.

Return on equity ratio (ROE) shows how much net profit was generated by the Company based on the average equity invested. From the viewpoint of the Company owners, profitability of capital is one of the most important ratios as it shows how well the Company manages its assets. ROE amounted to 4.5% in 2018, down 0.5 percentage point compared to the previous year. This is due to slightly lower amount of profit achieved in 2018.

B

FINANCIAL STATEMENTS

01

INDEPENDENT AUDITOR'S REPORT

EY
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This is a translation of the original report in Slovene language

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ELEKTRO PRIMORSKA podjetje za distribucijo električne energije, d.d.

Opinion

We have audited the financial statements of ELEKTRO PRIMORSKA podjetje za distribucijo električne energije, d.d. (the Company), which comprise the balance sheet as at December 31 2018, the income statement, the statement of other comprehensive income, the statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company Elektro Primorska d.d. as at 31 December 2018 and its financial performance and its cash flows for the year then ended in accordance with Slovenian accounting standards.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA). Our responsibilities under those rules are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Slovenia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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

Other information

Other information comprises the information included in the Annual Report other than the financial statements and auditor's report thereon. Management is responsible for the other information

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. In addition, we assess whether the other information has been prepared, in all material respects, in accordance with applicable law or regulation, in particular, whether the other information complies with law or regulation in terms of formal requirements and procedure for preparing the other information in the context of materiality, i.e. whether any non-compliance with these requirements could influence judgments made on the basis of the other information.

Based on the procedures performed, to the extent we are able to assess it, we report that:

- The other information describing the facts that are also presented in the financial statements is, in all material respects, consistent with the financial statements; and
- The other information is prepared in compliance with applicable law or regulation.

In addition, our responsibility is to report, based on the knowledge and understanding of the Company obtained in the audit, on whether the other information contains any material misstatement. Based on the procedures we have performed on the other information obtained, we have not identified any material misstatement.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in with Slovenian accounting standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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The supervisory board and audit committee is responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with audit rules, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;

- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;

- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation;

We communicate with supervisory board and audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on other requirements of the legislation

Management is also responsible for the preparation of financial statements with explanatory notes in accordance with Energy Act and the Slovenian Companies Act (regulatory financial statements), which are included in the note 9 of the financial statements and in respect of which a separate auditor's report is issued in accordance with the requirements of the Energy Act.

Ljubljana, 17 May 2019

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

ERNST & YOUNG
Revizija, poslovno
svetovanje d.o.o., Ljubljana 3

Lidija Šinkovec
Certified auditor

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02

BALANCE SHEET AT 31 DECEMBER 2018

Assets	Notes	31.12.2018	31.12.2017
A. Long-term assets:			
I. Intangible assets and long-term deferred costs	**3.1.**	**3,880,852**	**3,792,985**
1. Long-term rights		3,824,092	3,651,623
2. Long-term deferred development costs		0	0
3. Other long-term deferred costs		55,531	90,041
4. Intangible assets being acquired		1,230	51,321
II. Property, plant and equipment	**3.2.**	**183,304,516**	**178,853,007**
1. Land		5,601,776	5,703,675
2. Buildings		123,700,865	121,226,717
3. Equipment		51,666,222	49,433,251
4. Property, plant and equipment being acquired		2,335,653	2,489,364
III. Investment property	**3.3.**	**224,488**	**201,975**
IV. Long-term investments	3.4.	6,809,489	6,844,753
1. Investments in shares of group companies		6,522,017	6,522,017
2. Other shares and stakes		287,472	322,737
V. Long-term operating receivables	3.5.	435,538	30,069
1. Long-term trade receivables		409,116	0
2. Other long-term operating receivables		26,422	30,069
VI. Deferred tax assets		**628,191**	**557,490**
Total long-term assets		**195,283,073**	**190,280,280**
B. Current assets:			
I. Inventories	**3.6.**	**1,152,368**	**901,006**
1. Materials		1,147,434	899,905
2. Unfinished services		0	0
3. Products and merchandise		4,934	1,101
II. Short-term investments	**3.7.**	**4,001,343**	**1,343**
1. Short-term loans to others		4,001,343	1,343
III. Short-term operating receivables	**3.8.**	**7,294,566**	**7,736,374**
1. Operating receivables due from the group		31,999	35,029
2. Trade receivables		7,003,979	7,333,124
3. Operating receivables due from others		258,588	368,222
IV. Cash and cash equivalents	**3.9.**	**2,290,160**	**4,964,407**
Total current assets		**14,738,438**	**13,603,130**
C. Short-term deferred costs and accrued revenue	3.10.	1,082,834	1,965,785
TOTAL ASSETS		**211,104,345**	**205,849,194**

Table 29: Balance sheet

Equity and liabilities	Notes	31.12.2018	31.12.2017
A. Equity:			
I. Called-up capital		**78,562,832**	**78,562,832**
1. Share capital		78,562,832	78,562,832
II. Capital surplus		**46,208,187**	**46,208,187**
III. Profit reserves		**27,623,455**	**23,222,514**
1. Legal reserves		651,328	651,328
2. Reserves for treasury shares and stakes		80,613	79,540
3. Treasury shares and stakes (as a deductible item)		-80,613	-79,540
5. Other profit reserves		26,972,127	22,571,187
IV. Revaluation surplus		-1,003,642	-2,982
V. Retained earnings		**0**	**107,062**
VI. Net profit or loss for the year		**2,200,470**	**2,441,959**
Total capital	**3.11.**	**153,591,303**	**150,539,573**
B. Provisions and long-term accrued costs and deferred revenue	3.12.	14,477,047	13,721,648
1. Provisions		4,402,168	3,600,132
2. Long-term accrued costs and deferred revenue		10,074,879	10,121,516
C. Long-term liabilities i	3.13.	26,550,000	24,433,000
I. Long-term financial liabilities		**26,550,000**	**24,433,000**
1. Long-term financial liabilities to banks		26,550,000	24,433,000
D. Short-term liabilities	3.14.	15,809,296	16,480,246
I. Short-term financial liabilities		7,313,227	6,717,226
1. Short-term financial liabilities to banks		7,308,000	6,712,000
2. Other short-term financial liabilities		5,227	5,226
II. Short-term operating liabilities		**8,496,068**	**9,763,021**
1. Short-term operating liabilities to group companies		25,711	26,693
2. Supplier payables		6,666,754	7,591,935
3. Other short-term operating liabilities		1,803,604	2,144,392
Total liabilities		**56,836,343**	**54,634,894**
E. Short-term accrued costs and deferred revenue	**3.15.**	**676,700**	**674,728**
TOTAL EQUITY AND LIABILITIES		**211,104,345**	**205,849,194**

Table 30: Balance sheet (equity and liabilities)

Notes are an integral part of the financial statements and should be read in conjunction with them.

03

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

in EUR

	Notes	2018	2017
1. Net sales revenue	**4.1.**	**38,166,199**	**39,086,362**
a. on domestic market		38,166,199	39,086,362
2. Change in the value of unfinished services	**4.1.**	**0**	**-48,031**
3. Capitalised own products and services	**4.1.**	**7,812,498**	**7,087,194**
4. Other operating revenue	**4.1.**	**2,034,200**	**855,343**
5. Cost of goods, materials and services	**4.2.**	**-10,043,939**	**-10,082,509**
a. cost of goods and material sold and cost of material used		-4,373,769	-4,562,906
b. cost of services		-5,670,170	-5,519,603
6. Employee benefit costs	**4.2.**	**-17,847,179**	**-16,967,250**
a. cost of salaries		-11,920,843	-11,788,543
b. cost of supplementary pension insurance of employees		-628,362	-623,688
c. social security costs		-2,041,816	-2,028,837
d. other labour costs		-3,256,156	-2,526,182
7. Write-downs	**4.2.**	**-11,946,191**	**-11,621,060**
a. amortisation and depreciation		-11,769,617	-11,449,570
b. operating expenses from revaluation of fixed assets		-114,550	-122,407
c. operating expenses from revaluation of current assets		-62,025	-49,083
8. Other operating expenses	**4.2.**	**-141,413**	**-129,757**
9. Financial income from shares and stakes	**4.3.**	**5,920**	**5,920**
a. in other companies		5,920	5,920
10. Financial income from loans	**4.3.**	**79**	**67**
a. granted to others		79	67
11. Financial income from operating receivables	**4.3.**	**20,372**	**24,399**
a. due from others		20,372	24,399
12. Financial expenses from investment impairment and write-off	**4.4.**	**-38,580**	**0**
13. Financial expenses from financial liabilities	**4.4.**	**-311,789**	**-373,381**
a. bank borrowings		-268,173	-293,714
b. other financial liabilities		-43,616	-79,666

14. Financial expenses from operating liabilities	**4.4.**	**-3,146**	**-451**
a. payables to suppliers and bills of exchange		-2,740	-436
b. other operating liabilities		-406	-14
15. Other revenue	**4.5.**	**7,035**	**134**
16. Other expenses	**4.6.**	**-97,252**	**-67,990**
PRE-TAX PROFIT OR LOSS OF THE ACCOUNTING PERIOD		7,616,812	7,768,993
17. Income tax	**4.7.**	**-983,473**	**-1,088,014**
18. Deferred tax	**4.7.**	**-34,689**	**550,253**
19. NET PROFIT OR LOSS OF THE ACCOUNTING PERIOD	**4.8.**	**6,598,650**	**7,231,232**

Table 31: Profit and loss account

Notes are an integral part of the financial statements and should be read in conjunction with them.

04

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2018

EUR

	Notes	2018	2017
Net profit or loss of the accounting period	**4.9.**	**6,605,980**	**7,231,232**
Other comprehensive income for the year, to be recognised in profit or loss at a future date:			
Gains or losses on revaluation of investments at fair value		3,315	13,498
Deferred tax effect			
Net other comprehensive income for the year, to be recognised in profit or loss at a future date		**3,315**	**13,498**
Other comprehensive income for the year that will never be recognised in profit or loss:			
Actuarial gains/losses on provisions for severance pay		-1,112,861	94,539
Deferred tax effect		105,390	7,237
Net other comprehensive income for the year that will never be recognised in profit or loss		**-1,007,471**	**101,776**
Total other comprehensive income for the year (net of tax)		**-1,004,156**	**115,274**
Total comprehensive income for the year (net of tax)		**5,601,824**	**7,346,506**

Table 32: Statement of Comprehensive Income

Notes are an integral part of the financial statements and should be read in conjunction with them.

05

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

in EUR

	Notes	2018	2017
A. CASH FLOWS FROM OPERATING ACTIVITIES			
1. Receipts from operating activities	**5.1.**	**75,718,309**	**73,130,339**
a. Proceeds from sale of products and services		44,796,123	45,690,737
b) Other receipts from operating activities		30,922,186	27,439,602
2. Expenditure from operating activities	**5.2.**	**-61,220,318**	**-59,558,726**
a. Expenditure for purchase of materials and services		-9,439,199	-9,839,291
b) Expenditure for salaries and employees' shares in profits		-17,275,026	-17,008,811
c) Expenditure for all kinds of contributions		-3,702,987	-3,930,955
d. Other expenditure from operating activities		-30,803,107	-28,779,670
3. Net cash from operating activities		**14,497,991**	**13,571,613**
B. CASH FLOWS FROM INVESTING ACTIVITIES			
4. Cash receipts from investing activities	**5.3.**	**1,161,933**	**1,313,380**
a. Interest and profit shares		16,206	26,861
b) Proceeds from disposal of property, plant and equipment		145,727	1,286,519
c) Proceeds from disposal of long-term investments		1,000,000	0
d. Proceeds from disposal of short-term investments		0	0
5. Cash disbursements for investing activities	**5.4.**	**-18,219,274**	**-11,008,771**
a. Expenditure for acquisition of intangible assets		-1,553,748	-1,788,173
b) Expenditure for acquisition of property, plant and equipment		-11,665,526	-9,211,598
c) Expenditure for acquisition of long-term and short-term investments		-5,000,000	-9,000
6. Net cash from investing activities		**-17,057,342**	**-9,695,392**
C. CASH FLOWS FROM FINANCING ACTIVITIES			
8. Cash receipts from financing activities	**5.5.**	**14,800,000**	**12,550,000**
a. Receipts from long-term borrowings		9,000,000	9,000,000
b) Receipts from short-term borrowings		5,800,000	3,550,000
9. Cash disbursements from financing activities	**5.6.**	**-14,914,896**	**-13,300,504**
a. Interest paid		-277,803	-306,775
b. Repayments of capital		-1,074	1,239
c) Cash repayments of long-term borrowings		-6,787,000	-7,378,657
d. Cash repayments of short-term borrowings		-5,300,000	-3,550,000
e. Dividends paid		-2,549,019	-2,066,311
10. Net cash from financing activities		-114,896	-750,504
11. Total cash flows		-2,674,247	3,125,718
D. CLOSING BALANCE OF CASH AND CASH EQUIVALENTS		2,290,160	4,964,407
X. Opening balance of cash and cash equivalents		4,964,407	1,838,689
Y. CASH FLOWS FOR THE PERIOD	5.7.	-2,674,247	3,125,718
Closing balance of cash and cash equivalents on the last day of the accounting period		**2,290,160**	**4,964,407**

Table 33: Cash flow statement

Notes are an integral part of the financial statements and should be read in conjunction with them.

06

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2018

in EUR

2018	Called-up capital	Profit reserves								
	Share capital	Capital surplus	Legal reserves	Reserves for treasury shares	Treasury shares	Other profit reserves	Fair value reserve	Retained earnings	Net profit for the year	Total capital
	I/1	II	III/1			III/5	IV	V/1	VI/1	
A.1. At 31 Dec 2017	78,562,832	46,208,187	651,328	79,540	-79,540	22,571,186	-2,982	107,062	2,441,959	150,539,573
A.2. At 1 Jan 2018	**78,562,832**	**46,208,187**	**651,328**	**79,540**	**-79,540**	**22,571,186**	**-2,982**	**107,062**	**2,441,959**	**150,539,573**
B.1. Changes in equity - transactions with owners	**0**	**0**	**0**	**1,073**	**-1,073**	**0**	**0**	**-2,549,021**	**-1,073**	**-2,550,094**
a) Purchase of treasury shares					-1,073				0	-1,073
b) Formation of reserve for treasury shares				1,073				0	-1,073	0
a) Dividend payment	0	0	0			0	0	-2,549,021	0	-2,549,021
B.2. Total comprehensive income for the reporting period	**0**	**0**	**0**			**0**	**-1,004,156**	**0**	**6,605,980**	**5,601,824**
a) Net profit or loss for the reporting period	0	0	0			0	0	0	6,605,980	6,605,980
b) Gains or losses on revaluation of investments	0	0	0			0	3,315	0	0	3,315
b) Other components of comprehensive income for the reporting period	0	0	0			0	-1,007,471	0	0	-1,007,471
B.3. Changes within equity	**0**	**0**	**0**			**4,400,940**	**3,496**	**2,441,959**	**-6,846,395**	**0**
a) Allocation of the remaining net profit of the comparable reporting period to other components of equity	0	0	0			0	0	2,441,959	-2,441,959	0
b) Allocation of part of net profit of the reporting period to other components of equity in accordance with decision of the management	0	0	0			4,400,940	0	3,496	-4,404,437	0
c) Allocation of part of net profit to additional reserves in accordance with decisions of the AGM						0		0		0
d) Other changes within equity	0	0	0			0	3,496	-3,496	0	0
C. At 31 Dec 2018	**78,562,832**	**46,208,187**	**651,328**	**80,613**	**-80,613**	**26,972,127**	**-1,003,642**	**0**	**2,200,470**	**153,591,303**
Distributable profit 2018								**0**	**2,200,470**	**2,200,470**

Table 34: Statement of changes in equity in 2018

Notes are an integral part of the financial statements and should be read in conjunction with them.

07

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2017

in EUR

2017	Called-up capital		Profit reserves							
	Share capital	Capital surplus	Legal reserves	Reserves for treasury shares	Treasury shares	Other profit reserves	Fair value reserve	Retained earnings	Net profit for the year	Total capital
	I/1	II	III/1			III/5	IV	V/1	VI/1	
A.1. At 31 Dec 2016	78,562,832	46,208,187	651,328	78,609	-78,609	17,782,844	-118,256	-9,073	2,194,210	145,272,073
A.2. At 1 Jan 2017	**78,562,832**	**46,208,187**	**651,328**	**78,609**	**-78,609**	**17,782,844**	**-118,256**	**-9,073**	**2,194,210**	**145,272,073**
B.1. Changes in equity - transactions with owners	**0**	**0**	**0**	**931**	**-931**	**0**	**0**	**-2,066,311**	**-931**	**-2,067,242**
a) Purchase of treasury shares					-931					-931
b) Formation of reserve for treasury shares				931				0	-931	0
a) Dividend payment	0	0	0			0	0	-2,066,311	0	-2,066,311
B.2. Total comprehensive income for the reporting period	**0**	**0**	**0**			**0**	**115,274**	**0**	**7,231,232**	**7,346,506**
a) Net profit or loss for the reporting period	0	0	0			0	0	0	7,231,232	7,231,232
b) Fair value reserve	0	0	0			0	13,498	0	0	13,498
b) Other components of comprehensive income for the reporting period	0	0	0			0	101,777	0	0	101,777
B.3. Changes within equity	**0**	**0**	**0**			**4,788,342**	**0**	**2,182,446**	**-6,982,552**	**-11,764**
a) Allocation of the remaining net profit of the comparable reporting period to other components of equity	0	0	0			0	0	2,194,210	-2,194,210	0
b) Allocation of part of net profit of the reporting period to other components of equity in accordance with decision of the management	0	0	0			4,788,342	0	0	-4,788,342	0
d) Other changes within equity	0	0	0			0	0	-11,764		-11,764
C. At 31 Dec 2017	**78,562,832**	**46,208,187**	**651,328**	**79,540**	**-79,540**	**22,571,186**	**-2,982**	**107,062**	**2,441,959**	**150,539,572**
Distributable profit 2017								**107,062**	**2,441,959**	**2,549,021**

Table 35: Statement of changes in equity in 2017

Notes are an integral part of the financial statements and should be read in conjunction with them.

C

NOTES TO FINANCIAL STATEMENTS COMPILED IN ACCORDANCE WITH THE COMPANIES ACT (ZDG) AND SAS

01

KEY INFORMATION

The Company generated net profit of €6,605,980, in 2018, which is less than planned and also less than the amount of net profit achieved in the previous year. The fact that the Company failed to achieve the planned values is mainly due to an increase in employee benefit costs on account of the actuarial calculation, on the basis of which the Company set side €1,139,519 of additional provisions for jubilee benefits and severance pay (2017: €416,587). Depreciation also increased in 2018 by €320,047 as a result of new items of fixed assets that were put to use.

02

BASIS FOR PREPARATION

The financial statements have been prepared in accordance with provisions of Slovene Accounting Standards (SAS 2016), the Energy Act (EZ-1, Official Gazette of the RS no. 17/14) and the Companies Act (ZGD-1).

While the SAS 2016 prescribe accounting policies to be applied by entities, they do allow in some cases for entities to choose between several permitted accounting policies. In its Accounting Manual, the Company defined more precise rules for accounting treatment of individual categories of the financial statement items in its books of accounts and adopted the selected accounting policies.

The two fundamental accounting assumptions of accrual accounting and going concern were considered in the preparation of these financial statements. The fundamental accounting principles of prudence, substance over form and materiality, were also considered in the financial statement preparation.

The Company applies the same accounting policies and methods consistently from one year to the other.

- **Basis of measurement**

The financial statements have been prepared on the historical cost basis, with the exception of available-for-sale financial assets, where the fair value has been taken into account.

- **Exchange rate and translation into the local currency**

Assets and liabilities expressed in a foreign currency are translated into the functional currency at the reference exchange rate of the European Central Bank at the reporting date as published by the Bank of Slovenia. Transactions denominated in a foreign currency are translated into the functional currency at the reference exchange rate of the ECB on the transaction date. Foreign exchange rate gains and losses resulting from translation are recognised in the profit or loss as an item of financial income or expense.
All data in the annual report is denominated in euro (EUR) with no cents.

On 1 July 2007, Elektro Primorska lost its status of a public corporation and since then, it has been operating as a public limited company. By decision on granting concession, the Government of the Republic of Slovenia granted exclusive concession for the provision of public utility services of the distribution system operator for the entire territory of the Republic of Slovenia to the company SODO, d.o.o, with its seat in Maribor.

SODO concluded an agreement for the lease of the electricity distribution infrastructure and the provision of services of the distribution system operator with Elektro Primorska, as the owner of the electricity distribution infrastructure. A new contract for the lease of the electricity distribution infrastructure and the provision of services of the distribution system operator, was signed between Elektro Primorska and SODO on 27 February 2012, and which has been in effect since 1 January 2011.

Based on the contract and annual annexes to the contract, Elektro Primorska:

- Leases out the infrastructure for rent,
- Carries out and charges services described in the annex to the contract to SODO,
- Issues invoices for the use of the network to the end-users of the distribution network on behalf of and for the account of SODO,
- Invoices network charges, the installed power and over-standard services on behalf and for the account of SODO.

Legal Act on the methodology determining the regulatory framework and network charge for the electricity distribution system for electricity system operators was published in the Official Gazette of the Republic of Slovenia, no. 66/2015 on 14 September 2015, inclusive of Appendix 1: The parameters for determining the network charge for the regulatory period from 1 January 2016 to 31 December 2018. Pursuant to this Act, the Energy Agency on 15 December 2015, by decision no. 211-58/2015-125/452, laid down the regulatory framework for the distribution system operator's activity during the regulatory period beginning 1 January 2016 and ending 31 December 2018. The decision envisages the eligible costs, broken down by individual distribution network areas, which determine the funds in an individual year of the regulatory period.

The new price list of over-standard services for SODO came into effect on 1 January 2018.

03

NOTES TO THE BALANCE SHEET

The Company's balance sheet is compiled in accordance with SAS (2016) 20.4.

3.1. Intangible assets

The items of intangible assets are recognised if: it is likely that economic benefits associated with the assets will flow to the Company and, their cost can be measured reliably.

The intangible assets of the Company comprise development studies and studies being acquired. Long-term rights include the right to use holiday facilities and land; the right to use space in the facility for the purpose of the transformer station; and software licences. Other long-term deferred costs comprise the cost of pre-paid rentals.

Cost of an item of intangible asset is comprised of its purchase price or costs of manufacture or development.

After initial recognition, the items of intangible assets are measured at cost and amortised individually on a straight-line basis, using amortization rates ranging from 3.33 to 33.3 percent, the same as in 2017. Amortisation of an item of intangible assets with final useful life begins when the asset is made ready for its use. Useful lives of significant items of intangible assets and long-term deferred costs are checked regularly at the end of each financial year.

Subsequent costs associated with an item of intangible assets increase its cost when they increase its future economic benefits in excess of the originally assessed.

The items of intangible assets are derecognised upon disposal or when no economic benefits are expected to flow to the Company from their continued use or subsequent disposal.

The value of intangible assets increased by €1,301,175 of investments made in 2018 (2017: €3,055,220) in the acquisition and activation of long-term rights, primarily software licences for the new ERP system introduced in the Company.

Due to complaints in the process of obtaining a building permit, since 2004 the Company has recognised amortisation of studies in progress as the value of invested assets in the planned construction of wind power plants.

Development studies are carried at cost and are written-off against the cost of studies rather than recognised as amortisation. They are written-off at the rate of 20% per annum (the same as in the previous year), depending on the useful life of these assets, which is five years. Individual book values of intangible assets are not relevant to the financial statements as a whole.

The Company has unlimited rights to its intangible assets.

As at 31 August 2018, 40.27% of all intangible assets in use was fully amortised. Amortisation is calculated based on the cost of the assets.

The Company discloses €449,499 of trade payables on account intangible assets' acquisition as at 31 December 2018 (2017 year-end: €1,360,207), and contingencies based on contracts agreed for the purchase of licenses amounting to €550,000 (2017: €23,817).

Movements in intangible assets in 2018 are presented in the following Table:

2018	Deferred costs of development studies	Long-term rights	Other long-term deferred costs	Intangible assets being acquired	Total
Cost					**in EUR**
At 1 Jan	645,721	6,931,659	90,041	1,156,338	8,823,759
Additions during the year	0	0	57,703	1,251,084	1,308,787
Transfers	0	0	0	0	0
Additions from ongoing investments	0	1,301,175	0	-1,301,175	0
Disposals during the year	0	0	-92,213	0	-92,213
At 31 Dec	645,721	8,232,834	55,531	1,106,247	10,040,332
Accumulated amortisation					
At 1 Jan	645,721	3,280,035	0	1,105,017	5,030,773
Amortisation for the year	0	1,128,706	0	0	1,128,706
Transfer of long-term deferred costs to expenditure	0	0	0	0	0
Transfers	0	0	0	0	0
Disposals during the year	0	0	0	0	0
At 31 Dec	645,721	4,408,741	0	1,105,017	6,159,480
Carrying amount					
At 1 Jan	0	3,651,623	90,041	51,321	3,792,985
At 31 Dec	**0**	**3,824,092**	**55,531**	**1,230**	**3,880,852**

Table 36: Movements in intangible assets in 2018

Movements in intangible assets in 2017 are presented in the following Table:

2017	Deferred costs of development studies	Long-term rights	Other long-term deferred costs	Intangible assets being acquired	Total
Cost					**in EUR**
At 1 Jan	645,721	4,316,097	112,084	1,761,073	6,834,976
Additions during the year	0	0	84,774	2,450,485	2,535,259
Transfers	0	0	0	0	0
Additions from ongoing investments	0	3,055,220	0	-3,055,220	0
Disposals during the year	0	-439,659	-106,817	0	-546,476
At 31 Dec	645,721	6,931,659	90,041	1,156,338	8,823,759
At 1 Jan	645,721	2,790,613	0	1,105,017	4,541,351
Amortisation for the year	0	929,081	0	0	929,081
Transfer of long-term deferred costs to expenditure	0	0	0	0	0
Transfers	0	0	0	0	0
Disposals during the year	0	-439,659	0	0	-439,659
At 31 Dec	645,721	3,280,035	0	1,105,017	5,030,773
At 31 Dec	**0**	**3,651,623**	**90,041**	**51,321**	**3,792,985**

Table 37: Movements in intangible assets in 2017

3.2. Property, plant and equipment

Property, plant and equipment of the Company include land, buildings and equipment, as well as P,P&E under construction or manufacture. They are reported in the balance sheet at carrying amount as the difference between their cost and written-down value. The Company recognises property, plant and equipment under the cost model.
Cost of an item of property, plant and equipment comprises its purchase price and all costs that are directly attributed to making the asset ready for its intended use.

Subsequent expenditure on an item of property, plant and equipment that increases its future benefits compared with those originally assessed, increases its cost. However, if subsequent cost increases useful life of the asset, the cost of an item of property, plant and equipment is increased and its useful life is extended.

Repair or maintenance of property, plant and equipment is intended for renewing or preserving the future economic benefits expected from the assets based on the originally estimated level of the assets' efficiency. These expenditures are recognised as costs or operating expenses.

After initial recognition, the items of property, plant and equipment are measured at cost, which provides the basis for the assets' depreciation. Depreciation of the items of property, plant and equipment begins in the month following the month when the assets are made available for their intended use. Property, plant and equipment are depreciated individually on a straight-line basis, using the following depreciation rates, which have not changed compared to those used in the previous year:

	2018	2017
Computer hardware	33,3	33,3
Real estate (land and buildings)	0.00 - 5.00	0.00 - 5.00
Transformers	2.86 - 3.33	2.86 - 3.33
Electronic counters	4.17 - 6.67	4.17 - 6.67
HGV vehicles	8,33	8,33
Cars	12,5	12,5
Other property, plant and equipment	2.50 - 20.00	2.50 - 20.00
Artwork	0,00	0,00

Table 38: Depreciation rates of property, plant and equipment

Cost of facilities built in-house is the cost price, which does not exceed the price of similar assets on the market. The cost price consists of the direct costs of material and services, direct labour costs, direct depreciation costs, general production costs and general costs of purchase, administration and selling expenses.

In accordance with SAS (2016) 1.11, the Company breaks down the acquisition cost of new acquisitions made in 2018 with different useful lives to components that are significant in relation to the total cost.

Accumulated depreciation of property, plant and equipment is recognised as an adjustment of their value.

The items of property, plant and equipment are revalued to account for their impairment when their carrying amount exceeds their recoverable amount. The recoverable amount is the greater of the net selling price or value in use. Assessment of the value in use encompasses assessment of receipts and expenditure arising from continuing use of the asset and its final disposal, using the relevant discount rate (before tax) that reflects the present market assessment of the time value of money and any potential risks associated with the asset. For assets whose future cash flows depend also on other assets encompassed in individual cash-generating unit, the value in use is assessed in consideration of future cash flows expected from the relevant cash-generating unit. Any impairment losses on an asset are recognised in operating expenses.

Movements in the items of property, plant and equipment in 2018 are presented in the following Table:

in EUR

2018	Land	Facilities	Equipment	P, P&E being acquired and advances	Total
Cost					
At 1 Jan 2017	5,703,675	384,673,210	151,875,791	3,318,396	545,571,072
Additions during the year	0		0	15,296,934	15,296,934
Additions from ongoing investments	7,429	8,207,036	7,236,181	-15,450,646	0
Disposals during the year	-109,328	-1,848,559	-1,399,622	0	-3,357,510
Transfer to investment property	0	0	0	0	0
Transfers	0	0	0	0	0
At 31 Dec 2017	5,601,776	391,031,686	157,712,350	3,164,684	557,510,496
Accumulated depreciation					
At 1 Jan 2017	0	263,446,492	102,442,540	829,032	366,718,065
Depreciation for the year	0	5,669,086	4,962,883	0	10,631,969
Disposals during the year	0	-1,784,758	-1,359,295	0	-3,144,053
Additions during the year	0	0	0	0	0
Transfer to investment property	0	0	0	0	0
At 31 Dec 2017	0	267,330,820	106,046,128	829,032	374,205,981
Carrying amount					
At 1 Jan 2017	5,703,675	121,226,717	49,433,251	2,489,364	178,853,007
At 31 Dec 2017	**5,601,776**	**123,700,866**	**51,666,222**	**2,335,652**	**183,304,516**

Table 39: Movements in property, plant and equipment in 2018

Net carrying amount of the items of property, plant and equipment increased by €4,451,509 in 2018 compared to the opening balance (2017: an increase of €2,417,129). Movements in property, plant and equipment relate to new acquisitions amounting to €15,296,934 (2017: €14,294,227), depreciation in the amount of €10,631,969 (2017: €10,511,611) and disposals at the carrying amount of €213,457 (2017: €1,286,366).

Value adjustment of fixed assets being acquired of €829,032 refers to invested assets in relation to the planned investment in the construction of wind power plants, which is currently in the process of complaints resolution. Adjustments have been recognised since 2004.

The Company has no fixed assets obtained under financial lease.

The Company reports €2,487,374 of payables to suppliers of property, plant and equipment as at 31 December 2018 (2017 year-end: €3,431,030), and €6,000,000 of contingencies arising from signed binding contracts (2017 year-end: €6,240,574).

As at 31 August 2018, 41.85% of all property, plant and equipment in use was completely depreciated. The share of fully depreciated property, plant and equipment is calculated in consideration of their cost. Land is excluded from the calculation.

Since 1 July 2007, SODO has been providing commercial public service in the area of Elektro Primorska. In accordance with the agreement between the two, Elektro Primorska has leased to SODO all the relevant infrastructure. The electricity distribution infrastructure granted under operating lease to SODO in accordance with the contract, is reported as an item of property, plant and equipment rather than investment property. The Company believes that such accounting treatment is more appropriate as the essence of the relationship is the ownership use of the assets. Moreover, the assets are not held by the Company to earn rentals or other returns.

As at 31 December 2018, the cost of leased infrastructure amounted to €492,251,783 (2017: €480,835,502), depreciation stands at €331,876,676 (2017: €325,445,296) and the carrying amounts to €160,375,107 (2017: €155,390,206).

in EUR

	2018	2017
Land	3,431,852	3,515,488
Infrastructure facilities	109,119,275	106,483,662
Infrastructure equipment	46,909,917	44,714,142
Long-term rights	914,063	676,914
	160,375,107	**155,390,206**

Table 40: Carrying amount of leased infrastructure

A total €15,296,934 was invested by the Company in property, plant and equipment in 2018, which is slightly below the plan, mainly due to delays in the construction of underground lines, which are being laid down together with other utility infrastructure. In addition, there were delays in the procurement of information and telecommunications network equipment. However, the main causes of the delay in major investments are, in particular, lengthy procedures for the preparation of the tender documentation and postponed contractual activities compared to the original schedule.

The Company raised long-term borrowings of total €9,000,000 to finance the investment. Detailed information on the acquisition is presented in the report of the distribution system operator in section 8.2.

Movements in property, plant and equipment in 2017:

in EUR

2017	Land	Facilities	Equipment	P, P&E being acquired and advances	Total
Cost					
At 1 Jan 2017	5,859,522	381,687,266	149,450,724	2,885,989	539,883,501
Additions during the year	1,680	271,165	169,912	13,851,470	14,294,227
Additions from ongoing investments	34,748	6,878,273	6,506,042	-13,419,063	0
Disposals during the year	-192,274	-4,163,495	-4,250,887	0	-8,606,657
Transfer to investment property	0	0	0	0	0
Transfers	0	0	0	0	0
At 31 Dec 2017	5,703,675	384,673,210	151,875,791	3,318,396	545,571,072
Accumulated depreciation					
At 1 Jan 2017	0	261,475,921	101,142,670	829,032	363,447,623
Depreciation for the year	0	5,703,704	4,807,907	0	10,511,611
Disposals during the year	0	-3,733,133	-3,587,158	0	-7,320,291
Additions during the year	0	0	79,121	0	79,121
Transfer to investment property	0	0	0	0	0
At 31 Dec 2017	0	263,446,492	102,442,540	829,032	366,718,065
Carrying amount					
At 1 Jan 2017	5,859,522	120,211,345	48,308,055	2,056,957	176,435,879
At 31 Dec 2017	**5,703,675**	**121,226,717**	**49,433,251**	**2,489,364**	**178,853,007**

Table 41: Movements in property, plant and equipment in 2017 7

3.3. Investment property

Investment property is property (land or buildings), which is held to earn rentals and/or increase its value. Upon initial recognition, investment property is valued at cost, consisting of purchase price and the costs that can be directly attributable to the acquisition. Subsequent to initial recognition, it is measured under the cost model the same as the items of property, plant and equipment.

Depreciation is recognised on a straight-line basis over the estimated useful lives of the investment property. The depreciation rates used range from 2% to 5%, the same as in 2017.

The cost of depreciation, maintenance and operation of investment property amounted to €53,525 in 2018 (2017: €55,323), of which depreciation of all investment property amounted to €8,942.

The Company generated revenue from lease of the investment property in the amount of €81,185 (2017: €107,704).

Fair value of investment property is equal to its carrying amount. Fair value of investment property is estimated by the Company based using the capitalised cash flow method, whereby cash flows consist mainly of received rentals arising from the lease of investment property. The assumptions used are 0.05 percent growth (the same as in 2017) and the required rate of return of 7.18% (the same as in 2017).

Movements in investment property in 2018:

in EUR

	Investment property - land	Investment property - buildings	P, P&E being acquired and advances	Total
Cost				
At 1 Jan 2018	6,668	852,629	0	859,297
Additions during the year	0	0	31,455	31,455
Additions from ongoing investments	0	31,455	-31,455	0
At 31 Dec 2018	6,668	884,084	0	890,752
Accumulated depreciation				
At 1 Jan 2018	0	657,322	0	657,322
Disposals during the year	0	0		0
At 31 Dec 2018	0	666,264	0	666,264
At 1 Jan 2018	6,668	195,307	0	201,975
At 31 Dec 2018	6,668	217,820	0	224,488

Table 42: Fair value of investment property in 2018

in EUR

	Investment property - buildings	P, P&E being acquired and advances	Total
Cost			
At 1 Jan 2017	836,606	0	836,606
Additions during the year	0	22,691	22,691
Additions from ongoing investments	22,691	-22,691	0
At 31 Dec 2017	859,297	0	859,297
Accumulated depreciation			
At 1 Jan 2017	648,445	0	648,445
Depreciation for the year	8,877		8,877
Disposals during the year	0		0
At 31 Dec 2017	657,322	0	657,322
Carrying amount			
At 1 Jan 2017	188,161	0	188,161
At 31 Dec 2017	201,975	0	201,975

Table 43: Fair value of investment property in 2017

3.4. Long-term investments

Investments of all categories are initially recognised at fair value. The Company discloses separately long-term and short-term investments.

Long-term investments are those that the investing company intends to hold for a period of more than one year. Long-term investments comprise investments in equity of subsidiaries, in shares and stakes of companies, other financial investments and long-term loans granted.

Short-term investments are held by the company for a period of up to one year and include investments in shares and stakes of companies, other financial investments and short-term loans and deposits.

Investments are recognised on the transaction date. The same applies to the ordinary disposal of investments.

Long-term investments in equity of subsidiaries (with over 50% holding), which are included in the consolidated financial statements of the company and associates where the parent's holding ranges from 20% to 49.9%, are valued at cost. Participation in the profits of a subsidiary is recognised in profit or loss of the parent when a relevant decision is adopted on the appropriation of profits. If the investment in a subsidiary is impaired due to a loss incurred by a subsidiary, the impairment loss is measured as the difference between the investment's carrying amount and the present value of estimated future cash flows.

Long-term investments in equity of others that are not quoted in an active market and whose fair value cannot be determined reliably, are recognised at cost.

On initial recognition, investments in other shares and stakes of companies are designated as available-for-sale financial assets and recognised at fair value through equity.

Investments in loans and deposits are recognised at amortised cost. Initial values of the investments are equal to the amount of cash or other assets invested on the day of an individual investment.
Subsequent to initial recognition, they are measured at amortised cost using the effective interest method, less any impairment losses.

The revaluation of investments due to impairment is recognised as soon as compelling reasons arise, but no later than at the end of the accounting period. Impairment is recognised based on objective evidence resulting from events occurring subsequent to initial recognition, such as business information and data on audited carrying amounts of the assets. Objective reasons for investment impairment test arise when fair value of a financial asset falls 20% percent below its cost as at the balance sheet date. Impairment test is carried out separately for each investment or a group of investments.

Loss resulting from permanent impairment of a financial asset rather than a short-term decrease in its fair value is recognised as a financial expense. Impairment loss is the difference between the carrying amount of the investment and the present value of estimated future cash flows.

Change in fair value of available-for-sale financial assets is recognised directly in equity as a revaluation surplus.

In accordance with SAS (2016) 3, which addresses accounting treatment of investments, they are classified as available-for-sale financial assets.

Investments consist of the following items:

	31.12.2018		31.12.2017	
Investments in shares of group companies	in EUR	Number of shares stake	in EUR	Number of shares stake
E3, energetika, ekologija, ekonomija, d.o.o.	6,522,017	100%	6,522,017	100%
Total	**6,522,017**		**6,522,017**	
Other shares and stakes:				
Informatika Maribor d.d.	240,755	11.88%	240,755	11.88%
Zavarovalnica Triglav d.d.	71,750	2,368	68,435	2,368
Primorski tehnološki park d.o.o.	1,808	0.144%	1,808	0.144%
Stelkom d.o.o. Ljubljana	57,837	6.32%	57,837	6.32%
VIRS	0		38,580	
	372,151		**407,415**	
Impairment of investment in Informatika d.d.	-78,470		-78,470	
Impairment of investment in Stelkom d.o.o.	-6,209		-6,209	
	-84,679		**-84,679**	
Total	**287,472**		**322,736**	
Total long-term investments	**6,809,489**		**6,844,753**	

Table 44: Long-term investments

As at 31 December 2018, subsidiary E 3 had €14,694,228 of total capital and generated €470,567 of net profit.

Investments in shares and interests of other companies are reported at cost, with exception of investments in Zavarovalnica Triglav shares, which are reported as other long-term investments classified and measured at fair value through equity.

The Company has assessed that there is no need for revaluation of investments carried at cost and whose price is not published on an active market.

Movements in investments in EUR

	Investments in shares of group companies	Other shares and stakes	Total
At 1 Jan 2018	6,522,017	322,736	6,844,753
Increase	0	-35,264	-35,264
Decrease	0	0	0
At 31 Dec 2018	**6,522,017**	**287,472**	**6,809,489**

Table 45: Movements in investments

The Company holds an 11.88% of shares of Informatika, d. d., Maribor.

In line with the market value, the Company increased the value of its investment in Zavarovalnica Triglav, d. d., by €3,315. Revaluation is recognised in other comprehensive income within components of equity. Reserves arising from the revaluation of Zavarovalnica Triglav d. d. shares amount to €69,280 as at 31 December 2018.

Based on the Company's statement on withdrawal dated 19 December 2017, which became effective on 11 December 2018, the Company withdrew from the »Visokošolsko in raziskovalno središče Primorske Nova Gorica« (Primorska university and research centre Nova Gorica) and derecognised its investment of €38,580 as a financial expenses through profit and loss.

3.5. Long-term operating receivables

in EUR

	31.12.2018	31.12.2017
Due from the operators of apartment buildings	26,422	30,069
Long-term trade receivables	409,116	0
Total	**435,538**	**30,069**

Table 46: Long-term operating receivables

Long-term operating receivables are assets used in the maintenance of facilities, which are grouped per operators of multi-apartment buildings according to the Housing Act.

Long-term trade receivables are receivables that mature within a period of more than one year and comprise receivables for construction work performed for the market for Titus Lama d.o.o. in the amount of €296,276 (receivables mature in 2022; long-term receivables amount to €158,014, while the current amount payable in 2019 amounts to €59,255); receivables due from Hidria AET d.o.o. in the amount of €277,455 (maturing in 2023; long-term receivables amount to €208,091, while the current amount payable in 2019 amounts to €55,491).

Long-term receivables include receivables due from SODO in the amount of €43,011 on account of derogations from the final calculation for the regulatory year 2016; these will be settled in the regulatory period 2019-2021.

Receivables of all categories are initially recognised at amounts arising from the relevant documents under the assumption that the amounts owed will be settled.

3.6. Deferred tax assets

Deferred tax assets are the amounts of income tax that will be credited in the future with respect to deductible temporary differences, the transfer of unused tax losses to the next periods, and the transfer of unused tax credits into subsequent periods.

Deferred tax assets for deductible temporary differences are recognised if it is probable that sufficient amount of taxable profit will be available in future against which deductible temporary differences can be utilised.

Deferred tax assets for all deductible temporary differences arising from investments in subsidiaries, affiliates and associates, as well as from interests in joint ventures are recognised if, and only if, it is probable that temporary differences will be eliminated in the foreseeable future and taxable profits will be available in the future against which temporary differences can be utilised. Deferred tax assets for unused tax losses and tax credits are recognised if it is probable that future taxable profits will be available against which these unused tax losses and unused tax credits can be utilised.

An entity reassesses on each reporting date previously unrecognised deferred tax assets and recognises deferred tax assets if it is probable that future taxable profit will be available against which deferred tax assets can be utilised. An enterprise reduces the carrying amount of deferred tax assets if it is no longer probable that sufficient taxable profit will be available in future against which some or all of such deferred tax assets can be utilised. Any such reduction is reversed if it becomes probable that sufficient taxable profit will be available.

Deferred tax assets and liabilities are offset if and only if the entity has a legal right to offset current tax receivables and assessed tax liabilities, and deferred tax assets and liabilities relate to corporate income tax payable to the same tax authority. The Company reports €628,191 of deferred tax assets (2017: €557,490). The applicable tax rate for 2018 is 19% (the same as in 2017), which is expected to be applied also in the coming years.

Effects of differences between the accounting value of items disclosed in the balance sheet and their tax value are calculated in accordance with the balance sheet liability method for all temporary differences. Deferred tax assets are the amounts of tax recognised on account of provisions and allowances for receivables that will be utilised in future periods based on deductible temporary differences, and on account of unused tax losses based on amendments to the Corporate Income Tax Act.

Based on the adopted decisions on the operation of distribution companies in Slovenia and their objectives which the Company is required to achieve in the coming years, the Management believes that in the future the Company will have available sufficient taxable profits against which deferred tax assets can be utilised.

Movements in deferred tax assets in 2018

in EUR

	On account of provisions	On account of receivables	On account of impaired investments	Total
At 1 Jan 2018	342,587	199,994	14,909	557,490
Increase recognised in equity	105,390	0	0	105,390
Decrease recognised in profit or loss	-29,771	-4,919	0	-34,689
At 31 Dec 2018	**418,206**	**195,075**	**14,909**	**628,191**

Table 47: Movements in deferred tax assets in 2018

Movements in deferred tax assets in 2017

in EUR

	On account of provisions	On account of receivables	On account of impaired investments	Total
At 1 Jan 2017	0	0	0	0
Decrease recognised in profit or loss	335,350	199,994	14,909	550,253
Increase recognised in equity	7,237	0	0	7,237
Decrease recognised in profit or loss	0	0	0	0
At 31 Dec 2017	**342,587**	**199,994**	**14,909**	**557,490**

Table 48: Movements in deferred tax assets in 2017

3.7. Inventories

Inventories consist of material, small tools in the warehouse, unfinished services and merchandise.
Inventories also include small tools with useful life of up to one year and those with values of up to EUR 500, whose life period exceeds more than one year. These are means of protection and small tools in stock, which are recognised in the off-balance sheet records once they are put to use.

Inventories are initially measured at cost, comprising the purchase price and direct costs of acquisition. Purchase price is reduced by obtained discounts.

At the end of the financial year the Company verifies whether inventories should be revalued to account for their impairment. Inventories are revalued due to impairment if their book value exceeds the net realisable value. Net realizable value is the estimated selling price in the ordinary course of business, decreased by the estimated costs of completion and the estimated costs related to the sale.

Declining values of inventories are calculated based on the moving average prices method.

in EUR

	31.12.2018	31.12.2017
Materials	1,117,626	881,484
Small tools	29,808	18,421
Unfinished services	0	0
Merchandise	4,934	1,101
Total	**1,152,368**	**901,006**

Table 49: Inventories

Largest share of inventories comprise materials used in the maintenance and construction of electric power facilities and devices. Compared to the previous year the inventories have increased by 27.9%.

The reason for this increase is the fact that at the beginning of 2018 the Company switched to a new information system, which in turn required certain changes in the warehouse operation. Thus, in addition to the main and convenient warehouses, we have also created »virtual« warehouses, the consequence of which is an increase in inventories. However, the main reason for the increase in inventories is primarily the stock of material in the main warehouses, material that has neither been eliminated from books of account nor returned to the suppliers from project warehouses, and a slight increase in inventories in the main warehouses, which is kept to ensure smooth storage operation and automatic transfer from regular stock to individual projects.

As from the beginning of 2018, the Company implemented the new ERP program, which was expected to somewhat disrupt the procurement process. Additional increase in inventories is also due to the accelerated purchase of inventories of material in December 2017.

No inventories were impaired in 2018 (2017: impairment of €1,340), since inventory value is matched with the latest known purchase prices on a monthly basis based on physical stock count of material and small tools. In 2018, the cost amounted to €1,670. In the year under review, inventories valued at €293,351 had no movements in the last three years (2017: €81,823), which accounts for 25.56% of inventories that are necessary for maintenance of energy facilities and as such were not impaired.

3.8. Short-term investments

Investments are financial assets held by the Company in order to increase its financial revenue. These are investments in financial debts of other companies.

Accounting policies are described in detail in Notes to long-term investments.
Short-term deposit of €1,343 placed with a bank is a dedicated deposit for the reconstruction of the offices as part of the post-earthquake reconstruction works in Bovec. Cost of reconstruction in excess of the amount of the deposit is co-financed by the Government of the Republic of Slovenia. The Company deposited €4,000,000 on its business account at the bank in 2018.

in EUR

Short-term loans to others	2018	2017
At 1 Jan 2018	1,343	1,343
Invested	4,000,000	0
Repayments	0	0
At 31 Dec 2018	**4,001,343**	**1,343**

Table 50: Short-term investments

3.9. Short-term operating receivables

A receivable is recognised in the accounting records and the balance sheet as an asset if it is probable that economic benefits associated with it will flow to the entity and if its original value can be determined reliably. Receivables of all categories are initially recognised at amounts arising from the relevant documents under the assumption that they will be paid. Subsequent increases or decreases in receivables either increase or decrease the amount of operating/financial revenue or expenses. Subsequent increases or decreases in receivables are primarily changes in their value due to subsequent discounts, returns of goods sold, recognised complaints or errors found subsequent to the sale.

Subsequent to initial recognition, receivables are measured at amortised cost. Amortised cost of a receivable is the amount at which the receivable is measured at initial recognition less repayments and impairment due to uncollectibility. Operating receivables falling due in the next twelve months, are disclosed in the balance sheet as short-term operating receivables, while those maturing in a period of more than twelve months are recognised as long-term operating receivables.

Receivables denominated in foreign currencies are translated into the local currency at the reference exchange rate of the European Central Bank on the balance sheet date. Increase in receivables increases financial revenue, while decrease increases financial expenses.

Interest on receivables from external customers is recorded as receivables, for which due to doubt regarding their recovery, allowances are recognised at the same time. Interest income is recognised on the settlement date.

Operating receivables are revalued to account for their impairment when objective reasons occur or at the end of the accounting period. Impairment is recognised on the basis of objective evidence resulting from events occurring subsequent to initial recognition, such as operating data and similar evidence.
Doubtful and disputed receivables include:

- outstanding receivables originating from previous years
- disputed receivables and
- receivables due from business partners undergoing insolvency proceedings and compulsory settlements.

in EUR

	31.12.2018	31.12.2017
Short-term receivables due from sales:		
- group companies	31,869	35,029
- on domestic market	7,435,526	7,487,434
Allowances	**-487,400**	**-505,013**
	6,979,995	**7,017,450**
Interest receivable:		
- group companies	0	0
- other customers	64,584	63,813
Allowances	**-55,340**	**-56,191**
	9,244	**7,622**
Advances:	**46,565**	**343,080**
Other operating receivables:		
- group companies	130	0
- from government and other institutions	223,905	339,405
- from employees	0	95
- from others	36,222	29,074
Allowances	**-1,493**	**-353**
	258,764	**368,222**
Total	**7,294,566**	**7,736,374**

Table 51: Short-term operating receivables

in EUR

Maturity of receivables:	31.12.2018	31.12.2017
Not past due	6,536,096	6,615,302
Due and outstanding up to 30 days	358,879	317,928
Due and outstanding from 31 to 60 days	56,873	73,764
Due and outstanding from 61 to 90 days	6,715	5,412
Due and outstanding from 91 to 365 days	25,681	11,972
Overdue for more than 365 days	4,995	694
Total	**6,989,238**	**7,025,072**

Table 52: Maturity structure of receivables

As at 31 December 2018, maturity structure of receivables is as follows:
- 93,5% of outstanding receivables have not matured,
- 5.1% of receivables are overdue up to 30 days,
- 0,8% of receivables are from 31 to 60 days and
- 0.53% of receivables are overdue more than 60 days amounting to €575,136; of that allowance was recognised in the amount of €526,175 or 94% as they are either past due over 365 days, disputed or the debtors are undergoing compulsory settlement or bankruptcy.

in EUR

	31.12.2018	31.12.2017
At 1 Jan	561,556	605,329
Collected written-off receivables	-18,872	-22,294
Final write-off of receivables	-60,475	-56,050
Allowances recognised in the year	62,025	34,571
At 31 Dec	**544,233**	**561,556**

in EUR

			Utilisation and reversal		
	At 31 Dec 2017	Formation	Written-off	Recovered	At 31 Dec 2018
Trade receivable allowances	505,013	59,223	56,260	18,576	489,399
Allowances for interest receivables	56,504	2,802	3,101	296	55,908
Allowances for other short-term receivables	39	0	1,114	0	-1,075
Total receivable allowances	**561,556**	**62,025**	**60,475**	**18,872**	**544,233**

Table 53: Allowances of short-term operating receivables

Doubtful and disputed receivables were impaired according to the individual receivable and business partner. In 2018, the Company recognised 0.85% of receivable allowances. Of total allowances recognised, 3.4% of receivables was recovered and 10.8% was written-off in 2018. Receivables are not insured, but most of them are of such a nature that in the event of default and after repeated reminders, we sanction debtors through termination of access to the distribution network.

Majority of operating receivables from the State and other institutions comprise VAT receivables amounting to €176,690.
Other operating receivables are mainly due from SODO for overpayment of network charge, receivables on behalf of SODO relating to the network charge for connected load, services provided to SODO and other receivables.

3.10. Cash and cash equivalents

in EUR

	31.12.2018	31.12.2017
Cash at bank	2,290,160	4,964,407
Total	**2,290,160**	**4,964,407**

Table 54: Cash and cash equivalents

Cash and cash equivalents comprise:
- Cash in hand,
- Deposit money on accounts at banks,
- Cash in transit,
- Cash equivalents are readily available investments which may in the near future be converted into a predetermined amount of cash without any significant risk (e.g. deposits with maturity of up to three months).

Cash comprises cash on hand in the form of bank notes and coins, as well as cheques received.

Deposit money is cash in bank accounts, or deposited with another type of financial institution and may be used for payment purposes.

Cash in transit is the cash being transferred from a cash register or a safe deposit box to a relevant account in a bank or another type of financial institution, and is not credited to that account on that same day.

On initial recognition, cash is carried at amounts arising from the relevant documents. Monetary assets denominated in foreign currencies are translated into local currency at the balance sheet at the reference rate of the European Central Bank. Exchange rate differences resulting from changes in foreign exchange rates are recognised either as a financial income or expense.

3.11. Short-term accrued costs and deferred revenue

in EUR

Deferred costs and accrued income	31.12.2018	31.12.2017
VAT in advances received	551	378
Short-term deferred costs	9,797	22,834
Accrued income	1,071,302	1,941,786
Vouchers	1,183	787
Total	**1,082,834**	**1,965,785**

Table 55: Short-term accrued costs and deferred revenue

Short-term accruals and prepaid expenditure comprise VAT included in advances received and overpayments, and deferred costs of invoices received in 2018 for expenses referring to the financial year 2019.

Short-term accrued revenues relate to the short-term part of the preliminary statement of account issued by SODO for rent and services rendered in 2018 in the amount of €1,012,135 (2017: €1,592,023), while €59,167 refers to the statement of account relating to the previous regulatory period. In addition, €11,765 relates to grants for the purchase and installation of smart electronic counters from cohesion (2017: €181,251); electronic counters were already activated in 2018, while cohesion funds will be remitted in 2019. In addition, the Company reports €19,745 of short-term accrued revenues from services rendered to its subsidiary E 3: €16,409 on account of the settlement of services rendered under the contract in 2018 and €3,336 of re-charged costs of internal audit services.

Planned formation and drawing of accruals and prepaid expenditure does not substantially deviate from the actual situation, except in the preliminary calculation of SODO, which is charged after the end of the business year based on the applicable calculation methodology.

in EUR

	VAT in advances received	Short-term deferred costs	Short-term accrued revenue	Vouchers	Total
At 1 Jan 2017	684	17,860	1,377,356	800	1,396,699
Increase	40,779	1,068,414	1,941,786	5,000	3,055,979
Decrease	-41,085	-1,063,440	-1,377,356	-5,013	-2,486,893
At 31 Dec 2017	**378**	**22,834**	**1,941,786**	**787**	**1,965,785**
Increase	5,356	998,402	1,071,324	5,500	2,080,582
Decrease	-5,183	-1,011,438	-1,941,808	-5,104	-2,963,533
At 31 Dec 2018	**551**	**9,797**	**1,071,302**	**1,183**	**1,082,834**

Table 56: Movements in short-term accruals and prepaid expenditure

3.12. Equity

Capital of the Company consists of:

- Share capital,
- Capital surplus,
- Legal reserves,
- Reserves for treasury shares and interests
- Treasury shares and interests
- Other profit reserves,
- Fair value reserve
- Retained earnings and
- Net profit for the financial year.

in EUR

	31.12.2018	31.12.2017
Share capital	78,562,832	78,562,832
Capital surplus	46,208,187	46,208,187
Legal reserves	651,328	651,328
Reserves for treasury shares and stakes	80,613	79,540
Treasury shares and interests	-80,613	-79,540
Other profit reserves	26,972,127	22,571,187
Fair value reserve	-1,003,642	-2,982
Retained earnings	0	107,062
Net profit for the year	2,200,470	2,441,959
Total	**153,591,302**	**150,539,573**

Table 57: Equity

Share capital of Elektro Primorska is divided into 18,826,797 ordinary registered no-par value shares. Each share has an equal holding and associated amount in the share capital. Ordinary shares are shares that give their holders:

- right to participate in management of the company,
- right to profit (dividends),
- right to an adequate share of the assets after the liquidation or bankruptcy of the company.

All shares are of one class.

3.13. Treasury shares

If parent company or its subsidiaries acquire ownership interest in the parent company, the amount paid, including transaction costs net of tax, are deducted from total equity as treasury shares until such shares are withdrawn, reissued or sold. If treasury shares are subsequently disposed of or re-issued, all payments received are included in equity net of transaction costs and related tax effects.

As at 31 December 2018, the Company held 42,899 treasury shares, accounting for 0.23% of the share capital.

At the 21st General Meeting of Shareholders held on 26 August 2016, the Management Board was granted authorisation for the purchase of treasury shares.

in EUR

	Number of shares	Weighted average share price	Value of treasury shares
At 31 Dec 2017	42,499	2.66	79,540
Purchased in 2018	400	2.68	1,073
At 31 Dec 2018	**42,899**	**1.88**	**80,613**

Table 58: Treasury shares

Average share price includes also stock-brokerage fee.

As at 31 December 2018, reserves for treasury shares amounted to €80,613; new treasury share reserves were recognised on account of treasury share repurchased.

3.14. Other capital components

Capital surplus derives from a general capital revaluation adjustment that was transformed into capital surplus on transition to the SAS 2006.

Fair value reserves arose on the revaluation of investments to fair value.

Retained earnings are a proportionate part of the reversal of actuarial losses on payment of severance to employees.

All equity components other than the share capital belong to shareholders in proportion to their equity stakes in share capital. The Company generated €6,605,980 of profit in 2018. Of that, €1.073 was allocated to reserves for treasury shares. In accordance with the competencies stipulated in the Companies Act and the Articles of Association, the Management Board allocated the remainder of the net profit of 2018 in the amount of €4,400,940 to profit reserves. The profit available for distribution in 2018 amounting to €2,200,470 consists of undistributed net profit generated in 2018.

According to the resolution of the General Meeting of Shareholders of 29 June 2018, the Company allocated €2,549,021 of distributable profit for 2017 to dividends.

The carrying amount of one share stands at €8.18 as at 31 December 2018 (2017: €8.01). Treasury shares are not included in the calculation.

Statement of changes in equity shows changes in equity for financial years 2017 and 2018.

3.15. Provisions and long-term accrued costs and deferred income

Provisions are made for present obligations arising from obligating past events and are expected to be settled within a period not determined with certainty, and whose amount can be reliably estimated.

Provisions for jubilee awards and severance pay upon retirement have the nature of accrued costs. They are set aside for the settlement of expected obligations that will arise from obligating past events and are reduced by the incurrence of actual costs for the settlement of which they were created.

Provisions for severance pay and jubilee awards are set aside in accordance with the Slovenian legislation and are paid to employees upon retirement in the amount of estimated future payments discounted at the balance sheet date. When an employee fulfils the requirements set for retirement, he/she is entitled to termination benefits paid in a lump sum. Furthermore, employees are entitled to jubilee awards for each full ten years of service with the same employer. Provisions for severance pay and jubilee awards are calculated by the actuary based on the projected unit credit method, i.e. considering the anticipated significance of individual amounts and accruing employee benefits in proportion to the work performed. The following assumptions are considered in the formation of provisions: the number of employees on the balance sheet date; their gender, age, status, salary level and total length of service and the length of service of each employee on the balance sheet date; the amount of jubilee awards and severance pay in accordance with the relevant collective agreement; staff fluctuation and mortality of employees. The following values were taken into account in 2018: SLO2007, the selection factor for the active population of 75%; the likelihood of disability according to the BUZ/BV1990x and BUZ/BV 1990y model; the average salary growth in the Republic of Slovenia in the amount of 3.0% (2017: 2.5%); annual wage growth in the Company in the amount of 3% (2017: 2%); the annual growth rate of wages in the electricity sector of 4.0% (2017: 2.5%), the employer's contribution rate of 16.1%; and the discount rate used in the calculation of the present value of future liabilities of the Company in the amount of 1.57%.

Actuarial gains or losses on termination benefits are recognised directly in equity, whereas actuarial gains or losses from jubilee awards and employee benefit costs are recognised in profit or loss.

Provisions are directly decreased by costs for the settlement of which they were originally created. Provisions are recognised based on the differences reported as at 31 December between the actuarial calculation and the book values.

3.15.1. Provisions

in EUR

	31.12.2018	31.12.2017
At 1 Jan	3,600,132	3,512,691
Utilisation	-245,073	-326,036
Reversal	-1,251,415	-82,775
At 31 Dec	**4,402,168**	**3,600,132**

Table 59: Provisions

in EUR

	Provisions for jubilee awards	Provisions for severance pay	Total
0.5% decrease in discount rate	57,324	168,805	226,129
0.5% increase in discount rate	-52,894	-154,513	-207,407
0.5% salary increase	57,519	171,655	229,174
0.5% salary decrease	-53,710	-158,897	-212,607

Table 60: Sensitivity analysis

Additional provisions of €2,298,524 (2017: €496,253) were set aside on account of: payroll costs amounting to €1,139,519 (2017: €416,587), interest expense of €43,616 (2017: €79,666) and €1,115,390 recognised directly in equity. The Company reversed €1,251,415 of provisions set aside for past employment through operating revenues and paid €245,073 of jubilee benefits and severance pay.

	Severance pay	Jubilee awards	Total post-employment benefits
At 1 Jan 2017	**2,166,312**	**1,346,379**	**3,512,691**
Current employee benefits	88,508	92,165	180,673
Interest expense	50,426	29,241	79,666
Post-employment benefits paid	-149,278	-176,759	-326,036
Actuarial surplus	-76,728	235,914	159,186
Reversal	-6,047	0	-6,047
At 31 Dec 2017	**2,073,193**	**1,526,940**	**3,600,132**
Current employee benefits	164,399	87,686	252,084
Post-employment benefits	-68,826	-1,182,589	-1,251,415
Interest expense	25,715	17,901	43,616
Post-employment benefits paid	-95,141	-149,933	-245,073
Actuarial surplus	1,115,390	887,434	2,002,824
At 31 Dec 2018	**3,214,729**	**1,187,440**	**4,402,168**

Table 61: Movements in provisions for post-employment benefits

3.15.2. Long-term accrued costs and deferred revenue

	Assets acquired free-of-charge	Average cost of connection	Co-financing of facility construction	Grants received	Co-financing of meters from cohesion	Other	Total
At 1 Jan 2018	**7,568,271**	**2,103,958**	**152,918**	**108,200**	**180,065**	**8,104**	**10,121,515**
Formation	0	0	0	21,046	384,877	0	405,923
Reversal	0	0	0	0		-8,104	-8,104
Transfer to revenue	-279,152	-110,299	-9,201	-24,198	-21,605	0	-444,456
At 31 Dec 2018	**7,289,118**	**1,993,658**	**143,716**	**105,049**	**543,337**	**0**	**10,074,879**

Table 62: Long-term accrued costs and deferred revenue

In 2018, the Company did not recognise any long-term accrued costs and deferred revenues on account of free-of-charge acquisition of energy facilities of legal and natural persons. On the other hand, €272,984 was recognised in 2017. Utilisation of fixed assets obtained free-of-charge (mainly free-of-charge household connections) and co-financing of construction of facilities and equipment in the amount of €309,959 (2017: €285,755) is equal to the annual depreciation of an individual asset or in a proportion of a co-financed item of fixed assets.

The average connection costs comprise funds collected on account of connections to the electricity grid and earmarked for financing of the electricity infrastructure. Deferrals are utilised at the level of 3.33% (the same as in the previous year), which corresponds to an average depreciation rate of power facilities. In 2018, depreciation of these facilities amounted to €110,299, the same as in the previous year.

Co-financing of the facility construction is based on dedicated funds for co-financing of the energy facility construction. These funds are drawn in accordance with the charged depreciation of the relevant facility.

In 2014, the Company received state grant in the amount of €30,491 for reconstruction of the facility in Bovec after the damage caused by the earthquake, and European funding for the SUNSEED project of total €191,553 (2016: €23,092). Renovation of the facility in Bovec is now completed as is the SUNSEED project. For completion of the two investments, long-term accruals decreased by €24,198 of depreciation in 2018, which was recognised in other operating revenue (2017: €46,613).

In 2018, the Company was granted European funds from cohesion to co-finance the purchase and installation of smart electricity meters for the period 2017-2022, in the proportion of 33% of the cost. Total amount of funds received of €384,877 accounts for 33% of the cost of purchase and installation of these meters. Annual depreciation of €21,605 is calculated on the share of the co-financed meter and recognised in other operating income.

Planned formation and drawing of long-term accrued costs does not substantially deviate from their actual formation and drawing.

3.16. Long-term liabilities

Long-term financial liabilities refer to borrowings raised to finance the investment activity.
Debts are classified into financial and operating debts, while depending on their maturity they are separated into long-term and short-term.

Liabilities are initially recognised in the amounts arising from the corresponding documents about their incurrence, under assumption that creditors demand their payment. Long-term liabilities are increased by accrued interest, for which an agreement with creditors exists, and decreased by repaid amounts and any other settlements in agreement with the creditor. They are also reduced by the amounts payable in the next twelve months, as they are recognised under current liabilities. Accrued interest on long-term and short-term liabilities is recognised as a financial expense.

Long-term and short-term debts denominated in foreign currencies are translated into local currency at the exchange rate of the European Central Bank on the day of occurrence. Exchange rate differences accrued by the settlement date or the balance sheet date are recognised as either financial income or expense.

Short-term liabilities can subsequently be increased (irrespective of any payments or other settlement), or decreased by the amounts agreed with creditors. Subsequent increases of short-term liabilities increase the relevant operating or financial expenses.

After initial recognition liabilities are usually measured at amortised cost using the effective interest rate to the extent that costs have a significant impact on the change in the effective interest rate. Debts for which the agreed or contractual interest rate does not significantly differ from the effective interest rate, are recognised on the balance sheet at their initial value less any repaid amounts.

Liabilities are written-off after the limitation period has expired whereas before that period has elapsed, they may only be written-off if so agreed in writing with the creditor.

The book value of long-term liabilities is equal to their initial value, less the amounts that mature within a period of one year, which are transferred to short-term liabilities. Interest on long-term liabilities is recorded as financial expenses or as increase in the cost of the underlying asset until it is made ready for its intended use.

in EUR

	31.12.2018	31.12.2017
Long-term financial liabilities		
BKS Bank AG	1,200,000	3,000,000
SKB, d. d.	608,000	1,520,000
Bank Sparkasse, d. d.	2,000,000	3,500,000
Intesa Sanpaolo Bank	10,850,000	2,225,000
European investment bank	18,700,000	20,900,000
Total	**33,358,000**	**31,145,000**
Current amount of long-term liabilities	-6,808,000	-6,712,000
Total	**26,550,000**	**24,433,000**
Total long-term liabilities	**26,550,000**	**24,433,000**

Table 63: Long-term liabilities

Long-term financial liabilities are secured by bills and comprise borrowings that fall due after 2019. The Ministry of Finance issues consent to the borrowings raised by the Company, after the most favourable bidder was approved and selected.

Additional borrowings of €9,000,000 were raised in 2018 for the purpose of financing investments in the energy infrastructure. Total amount of borrowings matures by the end of December 2028. The value of borrowings that fall due over a period of more than five years from the reporting date amounts to €21,308,000. In 2017, the value of borrowings that fell due over a period of more than five years from the reporting date amounted to €21,045,000.

Interest rates agreed are one-month or three-month EURIBOR and a bank premium ranging from 1% to 1.16%. All four borrowings have been agreed at a fixed rate of interest. Interest on borrowings is calculated and paid monthly or quarterly.

3.17. Short-term liabilities

Short-term liabilities are disclosed separately as short-term financial liabilities and short-term operating liabilities.

in EUR

	31.12.2018	31.12.2017
SHORT-TERM FINANCIAL LIABILITIES		
Current amounts of long-term borrowings	6,808,000	6,712,000
Short-term revolving credit raised from the Nova KMB	500,000	
Total short-term financial liabilities to banks	**7,308,000**	**6,712,000**
Dividends payable	5,227	5,226
Total short-term financial liabilities	**7,313,227**	**6,717,226**
SHORT-TERM OPERATING LIABILITIES		
Liabilities to group companies	25,711	26,693
Supplier payables	6,643,518	7,579,756
Payables for advances	23,236	12,179
Total short-term supplier payables	**6,692,464**	**7,618,628**
Liabilities to group companies	0	0
Payables to employees	1,578,715	1,553,719
Payables to the Sate and other institutions	102,748	96,718
Other liabilities	122,141	493,956
Total other short-term operating liabilities	**1,803,604**	**2,144,392**
Total short-term operating liabilities	**8,496,068**	**9,763,021**
TOTAL SHORT-TERM LIABILITIES	**15,809,296**	**16,480,246**

Table 64: Short-term liabilities

Short-term liabilities to banks include instalments of long-term borrowings that mature in 2019.

Compared to the balance at the end of the previous year, operating liabilities decreased by €1,266,953, mainly due to a €936,239 reduction in supplier payables and liabilities assignment (by €451,426), while payables to employees and payables to the State on account of VAT rose by €49,661.

Short-term liabilities to employees are payables for December wages and the 2018 performance bonus amounting to €24,996 in accordance with collective agreement for the industry. Final amount of profit of the Company was recognised in the middle of March 2019, when SODO issued a preliminary account settlement for financial year 2018. The difference between the advance payment of bonus for financial year 2018 and the final amount was recognised in costs in December 2018.

Payables to the State consist of value added tax payable, and liabilities to the State and other institutions on account of payroll taxes.

3.18. Short-term accrued costs and deferred revenue

in EUR

	31.12.2018	31.12.2017
VAT in advances granted	2,394	2,394
Short-term deferred revenue	0	77,748
Accrued expense	674,306	594,586
Total	**676,700**	**674,728**

Table 65: Short-term accrued costs and deferred revenue

Short-term accrued costs and deferred revenues include VAT on advances granted.

The Company reports no short-term deferred revenues in 2018, however in 2017, €77,748 of accrued revenue referred to the settlement of the services provided by the parent company to its subsidiary E 3.

Provisions on account of unutilised annual leave amount to €653,215 in 2018 (2017: €570,969), while €18,814 of provisions was set aside for interest payable on borrowings as at 31 December 2018. The Company is expected to receive the invoice in 2019.

in EUR

	VAT in advances granted	Short-term deferred revenue	Accrued expense	Total
At 1 Jan 2017	942	0	767,300	768,242
Increase	1,452	77,748	592,309	671,508
Decrease	0	0	-765,023	-765,023
At 31 Dec 2017	**2,394**	**77,748**	**594,586**	**674,728**
Increase	0		672,029	672,029
Decrease	0	-77,748	-592,309	-670,057
At 31 Dec 2018	**2,394**	**0**	**674,306**	**676,700**

Table 66: Movements in short-term accruals and prepaid expenditure

Planned formation and drawing of long-term accrued costs does not substantially deviate from their actual formation and drawing.

04

NOTES TO THE INCOME STATEMENT

The Company compiles its income statement under provisions of SAS 21 (2016), Format I.

Revenue is recognised if increases in economic benefits during the accounting period are associated with increases in assets or decreases in liabilities, and those increases can be measured reliably. Revenues and increases of assets or decreases in liabilities are recognised simultaneously.

The Company achieved revenues:

- from rent,
- sale of services,
- capitalised own products and services,
- other operating revenues,
- financial income and
- other revenues.

Use of electricity network is charged to business customers through a special account based on the volume of transmitted energy and capacity charges. The Company charges the use of the energy network and OVE and SPTE contributions to its customers in its own name and for the account of SODO, within the framework of the services it provides for SODO.

Revenues from the sale of services include electrical installation services and maintenance of devices owned by subscribers. The scope of these revenues depends on customer orders. Revenues generated in 2018 are recognised based on the prices set for supplementary activities effective since 1 January 2018. The Company also provides services to the network users. These include network connections and disconnections, fuses replacement and additional on-demand scanning. Since 1 January 2013, these revenues are no longer recognised by the Company as they are rendered on behalf of SODO and the Company issues to SODO monthly invoices for the work performed.

Revenues include rentals from the lease of infrastructure and services provided to SODO in accordance with the signed contract and annexes to the contract. The amount of rentals and services rendered is based on the regulatory framework defined by the Legal Act on the methodology determining the regulatory framework and network charge for electricity distribution system (Official Gazette of the Republic of Slovenia No. 66/2015 of 14 September 2015). The Legal Act contains Annex 1 - Parameters for setting network charges for the regulatory period from 1 January 2016 to 31 December 2018. Pursuant to this Act, the Energy Agency on 15 December 2015, by decision no. 211-58/2015-125/452, laid down the regulatory framework for the distribution system operator's activity during the regulatory period from 1 January 2016 to 31 December 2018. Annex to the contract was concluded with SODO for the period from 2016 to 2018.

Revenues from capitalised own products and services derive from the preparation of documentation, construction, electro-installation and other works for the construction of facilities by the Company for its own use.

Other operating revenues related to products and services include the drawing of long-term accrued costs and deferred revenue, as well as revaluation operating income arising on disposal of property, plant and equipment, and on recovery of impaired receivables, subsidies received and insurance proceeds.

Financial income and expenses comprise interest and dividend income.

4.1. Operating revenue

in EUR

	2018	2017
Net sales		
- electricity	0	0
- infrastructure rent	17,094,678	16,490,330
- other rent	387,447	370,625
- services SODO	18,455,979	19,863,167
- other services	2,174,194	2,322,454
- merchandise	53,900	39,786
Total	**38,166,199**	**39,086,362**
Change in the value of unfinished services	**0**	**-48,031**
Capitalised own products and services	**7,812,498**	**7,087,194**
Other operating revenue from:		
- drawing up provisions	1,668,929	412,719
- sale of fixed assets	61,519	40,594
- recovered written-off receivables	27,437	23,535
- received subsidies	63,332	52,292
- insurance proceeds	195,593	304,271
- other operating revenues	17,389	21,932
Total	**2,034,200**	**855,343**
Total operating revenue	**48,012,897**	**46,980,868**

Table 67: Operating revenue

Net sales revenue increased by €1,032,029 compared to the previous year, mainly due to an increase in preliminary calculation of revenue from leased infrastructure (an increase of €604,348) and a rise in revenues on account of provisions utilisation (€1,256,210 in total). Of the latter, the largest amount refers to the reversal of provisions for jubilee awards. Revenues from services rendered on behalf of SODO fell by €1,407,188. All revenues were achieved in 2018 from sales in the domestic market.

In 2018, capitalised own products and services rose by €725,304.

in EUR

Other operating revenue from utilisation of provisions:	2018	2017
Depreciation of fixed assets acquired free of charge	279,152	275,364
Depreciation of FA built from the average connection costs	110,299	110,299
Use of provisions for co-financing of energy facilities construction	9,201	9,206
Reversal of provisions for jubilee awards and termination benefits	1,248,886	0
Reversal of provisions for unutilised annual leave	21,390	17,850
Total	**1,668,929**	**412,719**

Table 68: Other operating revenues from provision utilisation

Revenues from sale of fixed assets relate to the surplus of sales value over the carrying amount of fixed assets sold. Collected receivables written-off include an amount of receivables which were already eliminated from accounting records but were settled in 2018.

Subsidies received comprise State grant for the employment of disabled workers above the required quota and revenues from the drawing of accruals of the SUNSEED project in the amount equal to the depreciation.

Insurance proceeds relate to claims recognised by insurance companies for damages to energy facilities and cars. They increased by €108,678 in 2018 compared to the previous year.

4.2. Operating expenses

Expenses are recognised when decreases in economic benefits in a period are associated with the reduction in assets or increase in liabilities and these decreases can be measured reliably. Expenses are recognised simultaneously with the recognition of the decrease in assets or increase in liabilities.

Operating expenses include all expenses incurred in the financial year, recorded by natural types, such as costs of materials and services, labour costs, write-downs and other operating expenses, based on documents that prove that they are linked to the economic benefits.

Operating expenses from revaluation arise upon the impairment or disposal of property, plant and equipment and intangible assets, and in relation to impairment of current assets.

Analysis of costs by functional group does not include €176,574 of revaluation expenses, which are reported in the income statement as write-offs.

in EUR

FY	Production costs	Selling expenses	General and administrative expenses	Total
2017	30,095,997	1,755,580	6,543,828	38,395,405
2018	30,707,148	1,718,174	7,827,593	40,252,916

Table 69: Analysis of costs by functional groups

in EUR

Costs by nature	2018	2017
Cost of electricity and merchandise sold	28,732	17,560
Cost of materials	4,345,037	4,545,346
Cost of services	5,670,170	5,519,253
Employee benefits	17,847,179	16,967,250
Amortisation and depreciation	11,769,617	11,449,570
Other operating expenses	141,413	129,757
Total	**39,802,149**	**38,628,735**

Table 70: Costs by primary types

The cost of electricity and goods sold comprise €28,732 of the cost of merchandise sold (2017: €17,560). The Company did not recognise any cost of electricity purchased either in 2018 or 2017 as SODO purchased electricity for both years on account of losses for all electricity distribution companies in Slovenia.

Cost of materials refers to spare parts and material used in maintenance, elimination of damages and costs of installation materials used in the provision of services for the Company's own needs and for the market in the amount of €3,528,448 (2017: €3,629,169); cost of fuel amounting to €419,856 (2017: €408,269); electricity in the amount of €166,667 (2017: €176,452), office supplies amounting to €121,233 (2017: €148,370) and the cost of ancillary material (2018: €49,791 and 2017: €96,851). The Company monitors the cost of materials not only by substance, but also by the nature of work for which the material was consumed.

The **cost of services** comprises the cost of fixed asset maintenance in the amount of €1,613,869 (2017: €1,667,723), cost of health, advisory, legal and educational services, software and studies of €834,055 (2017: €535,010); insurance premiums and banking services amounting to €1,032,410 (2017: €1,080,119), cost of computer processing of total €787,429 (2017: €813,599); telephone and postal services of €382,199 (2017: €330,438) and other costs incurred during ordinary operations in the amount of €1,020,218 (2017: €1,092,714), such as postal services, telecommunications services, cleaning services and similar.

Costs of services include remuneration paid to six members of the Supervisory Board of total €97,518 (2017: €96,717). This amount includes net payment, fringe benefits, income tax and contributions. The Company did not grant any loans or issued any guarantees to members of the Supervisory Board.

Remuneration of the Supervisory Board members in 2018:

in EUR

		of that:							Social security contributions	
Member of the Supervisory Board	Gross earnings in in the accounting year	Remuneration for performing a function in the Supervisory Board	Bonus	Attendance fees Supervisory Board	Reimbursements Travel expenses	Remuneration for performing a function	Attendance fees Audit Committee	Reimbursements Travel expenses	Contributions for PIZ 8.85%	Contributions
STANISLAV RIJAVEC, Chairman	21,350	18,363	165	2,750	72	0	0	0	1,889	113
NIKOLAJ ABRAHAMSBERG, Deputy Chairman	16,693	13,466	0	2,475	752	0	0	0	1,477	88
RUDOLF PEČOVNIK	23,047	12,242	165	2,750	2,334	3,296	1,100	1,160	2,040	122
DARKO LIČEN	21,512	12,242	165	2,750	91	4,944	1,320		1,904	114
PRIMOŽ KRNEL	14,992	12,242	0	2,750	0	0	0	0	1,327	79
IVAN NAMAR	14,992	12,242	0	2,750	0	0	0	0	1,327	79
MATEJ LONCNER	8,455	0	0	0	0	6,592	1,650	214	748	45
TOTAL	**121,040**	**80,795**	**495**	**16,225**	**3,249**	**14,831**	**4,070**	**1,374**	**10,712**	**642**

Table 71: Remuneration of the Supervisory Board members

A total of €16,416 of remuneration was paid in 2018 to other members of the Audit Committee.

Of total cost of audit, consulting and other financial services amounting to €96,809 (2017: €76,358), €12,880 refers to the audit of the annual report.

in EUR

Company	Ernst&Young	Ernst&Young
	2018	2017
Audit of the annual report	12,880	10,360
Other assurance services	1,000	1,000
Total audit fees	**13,880**	**11,360**

Table 72: Cost of the annual report audit

in EUR

Employee benefits	2018	2017
Payroll cost	11,920,843	11,788,543
Cost of supplementary pension insurance	628,362	623,688
Cost of contributions and other levies on salaries	2,041,816	2,028,837
Other labour costs	**3,256,156**	**2,526,182**
Total	**17,847,179**	**16,967,250**

Table 73: Employee benefit costs

Other labour costs include reimbursements to employees, accident insurance, social assistance, and the cost of provisions for severance pay and jubilee awards in the amount of €1,139,519 (2017: €416,587). Costs of annual leave bonus amounted to €898,533 in 2018 (2017: €863,540). Labour costs include €653,215 of expenses for unused annual leave in the financial year 2018 (2017: €570,696).

A total 491 employees received salary based on the collective agreement in 2018. Average number of employees in 2018 was 472, a reduction of six employees compared to the average headcount in 2017. Ten employees received salary based on the employment contracts, which are not subject to the tariff part of the collective agreement (the same as in 2017 and not including President of the Management Board) who in 2018 received total remuneration of €692,419 (2017: €658,809).

Gross remuneration of members of the Management Board in 2018:

in EUR

	Fixed part of salary	Reimbursement of expenses	Bonus - insurance premium	Other receipts and other bonuses	Total
Blažica Uroš	**94,142**	**1,651**	**192**	**8,070**	**104,055**

Table 74: Gross remuneration of the Management Board members in 2018

President of the Management Board and employees on individual contracts were not approved any loans or issued any guarantees by the Company.

Write-downs

The Company applies straight-line depreciation method. During the overall useful life of an individual asset, the Company consistently allocates its depreciable amount among the individual accounting periods as depreciation of the period. All assets that are subject to depreciation are classified into depreciation groups. Each group has a technical depreciable fixed period of life, based on which the depreciation rate is calculated. Fixed assets are depreciated individually.

Table below provides an overview of depreciation rates in percentages used for the calculation of depreciation in 2018. The same depreciation rates were also applied in 2017.

Amortisation and depreciation rates in %	2018	2017
Intangible assets (excluding software)	3.33 - 20.00	3.33 - 20.00
Computer hardware and software	33.3	33.3
Real estate (land and buildings)	0.00 - 5.00	0.00 - 5.00
Transformers	2.86 - 3.33	2.86 - 3.33
Electronic counters	4.17 - 6.67	4.17 - 6.67
HGV vehicles	8.33	8.33
Cars	12.5	12.5
Other property, plant and equipment	2.50 - 20.00	2.50 - 20.00
Artwork	0.00	0.00

Table 75: Depreciation rates

in EUR

Write-downs	2018	2017
Amortisation of intangible assets	1,128,706	929,081
Depreciation of buildings	5,669,086	5,703,704
Depreciation of equipment	4,962,883	4,807,907
Depreciation of investment property	8,942	8,877
Total amortisation and depreciation	**11,769,617**	**11,449,570**
Revaluation expenses from:		
- fixed assets	114,550	122,407
- current assets	62,025	49,083
Total revaluation expenses	**176,574**	**171,490**
Total write-downs	**11,946,191**	**11,621,060**

Table 76: Write-downs

In 2018, the Company recognised €114,550 of revaluation expenses from intangible assets and property, plant and equipment as a result of inventory write-off of unserviceable assets and their disposal at the lower market price than was the assets' carrying amount.

Operating expenses from revaluation of current assets in the amount of €62,025 relate to allowances and write-off of receivables for the use of network and services, and receivables for accrued interest.

in EUR

Other operating expenses	2018	2017
Provisions for compensation claims	0	0
Total provisions	**0**	**0**
Duties independent of profit or loss	37,832	30,574
Environmental protection expenditure	90,714	89,496
Awards to students on work experience	12,868	9,688
Total other costs	**141,413**	**129,757**
Total other operating expenses	**141,413**	**129,757**

Table 77: Other operating expenses

Majority of levies that are independent of profit or loss refers to various types of fees. Environmental protection expenditure includes compensation for the use of building land.

4.3. Financial income

Financial income arises in connection with investments and receivables in the form of accrued interest and is recognised once there is no doubt of their size or settlement.

in EUR

	2018	2017
Financial income from shares and stakes	5,920	5,920
Financial income from loans	79	67
Financial income from operating receivables	20,372	24,399
Total	**26,370**	**30,387**

Table 78: Financial income

Income from shares and interests comprises accrued dividends from investments in Zavarovalnica Triglav, d. d. in the amount of €5,920, the same as in 2017.
Interest is charged to customers using the network and services on late payments and on the amount of receivables outstanding as at 31 December 2018.

4.4. Financial expenses

in EUR

	2018	2017
Expenses from bank borrowings	268,173	293,714
Expenses from other financial liabilities	43,616	79,666
Expenses from operating liabilities	3,146	450
Expenses from investment impairment and write-off	38,580	0
Total	**353,515**	**576,348**

Table 79: Financial expenses

Financial expenses from liabilities to banks are lower than in the previous year and comprise interest charged by the bank on short-term and long-term borrowings raised by the Company. Part of the interest on long-term borrowings increases the cost of investments and is not reported in financial expenses.
Expenses from other financial liabilities constitute interest from actuarial calculations.

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4.5. Other income

Other income and expenses are difficult to forecast as they are not expected to occur regularly. The Company thus discloses extraordinary revenues.

in EUR

	2018	2017
Other income	7,035	134
Total	**7,035**	**134**

Table 80: Other income

Other income and expenses arise from events or transactions that do not occur regularly or frequently.

4.6. Other expenses

in EUR

	2018	2017
Compensation paid	43,307	7,980
Other expenses	53,945	60,010
Total	**97,252**	**67,990**

Table 81: Other expenses

Compensations are charged for damage, which were caused during the construction or maintenance of devices, mainly to natural persons on their land.

Other expenses comprise financial aid and donations in the amount of €32,065 (2017: €37,251), rounding up of figures and other expenses not indispensable for business.

4.7. Current tax and deferred tax assets/deferred tax liabilities

Income tax payable by the Company in 2018 amounts to €976,143 (2017: €1,088,014).

Current tax is determined in accordance with the tax legislation enacted at the balance sheet date. The management regularly revises its approach where application of individual tax legislation depends on its interpretation. Wherever suitable, provisions are sets aside for tax amounts that the Company anticipates will have to pay to the tax authorities.

Deferred tax assets and liabilities for income tax are accounted for using the balance sheet liability method. Only deferred tax assets and liabilities arising from temporary differences are recognised. A deferred tax asset is also recognised on account of unused tax losses and unused tax credits carried forward to the next period, if it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilised. Deferred tax is determined on the basis of tax rates and tax legislation enacted on the balance sheet date and for which it is assumed will be in effect when the relating deferred tax assets are realised or deferred tax liabilities are settled, and when taxable profit is available against which temporary differences can be utilised.

On the balance sheet date, deferred tax assets are revised and impaired on account of those tax assets for which it is no longer probable that future taxable profit will be available against which the unused tax losses can be utilised.

Deferred tax assets and liabilities arising from transactions recognised directly in equity should be recognised in equity.

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in EUR

Corporate income tax for FY 2018	2018	2017
Pre-tax profit	**7,616,812**	**7,768,993**
Revenues that reduce the tax base	-657,800	-29,455
Expenses that increase the tax base	1,432,341	1,073,974
Expenses that reduce the tax base	-168,883	-210,892
Expenses that reduce the tax base (error elimination)	0	0
Tax base reduction on account of tax relief	-2,526,992	-2,912,033
Other	-557,882	35,801
Tax base	**5,137,595**	**5,726,389**
Tax rate	19%	19%
Income tax payable	**-976,143**	**-1,088,014**
Effective tax rate on current tax	12.82%	14.00%
Increase/decrease in deferred tax	-34,689	550,253
Effective tax rate	**13.27%**	**6.92%**

Table 82: Corporate income tax

The Company reports income tax payable in the amount of €976,143 as at 31 December 2018 (2017: €1,088,014). The Company utilised investment relief in the amount of €1,551,258 (2017: €1,918,828), voluntary supplementary pension insurance of €614,418 (2017: €620,561), relief for employment of disabled persons amounting to €321,906 (2017: €331,797) and other relief in total of €39,409 (2017: €40,847).

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in EUR

	2018		2017	
Difference between actual and computed tax rate	Rate	Amount	Rate	Amount
Pre-tax profit		**7,616,812**		**7,768,993**
Income tax at applicable tax rate	19.00%	1,447,194	19.00%	1,476,109
Amounts increasing the tax base		**272,201**	**0**	**210,857**
- decrease in expenses to tax recognised level		272,145		204,055
- increase in revenue to taxable level		0		0
- exempt expenses, for exempt dividends		56		56
- change in accounting method		0		6,746
Amounts lowering the tax base		**263,124**		**45,666**
- increase in expenses to tax recognised level		32,088		40,069
- decrease in revenue to taxable level		124,982		5,596
- change due to transition to a new method of accounting (change in the tax base for post-employment benefits already taxed)		106,054		0
- elimination of error from the previous period		0		0
Tax relief		**480,129**		**553,286**
- applied, decreasing the amount of tax payable		480,129		553,286
Income tax payable for the year	**12.82%**	**-976,143**	**14.00%**	**-1,088,014**
Increase/decrease in deferred tax		-34,689		550,253
Tax recognised in profit or loss	**13.27%**	**-1,010,832**	**6.92%**	**-537,761**

Table 83: Reconciliation of taxes for financial year 2018

Corporate income tax and deferred taxes in 2018:

in EUR

Tax expense recognised in profit or loss	2018	2017
Income tax payable for the current year	-976,143	-1,088,014
Deferred tax assets/liabilities	-34,689	550,253
Other taxes not reported under other items		
Tax expense recognised in profit or loss	**-1,010,832**	**-537,761**

in EUR

Changes in deferred taxes recognised in profit or loss	2018	2017
At 1 Jan	**550,253**	
Provisions	-29,771	335,350
Receivables	-4,919	199,994
Tax losses	0	0
Investment impairment	0	14,909
Changes in deferred tax assets/liabilities	**-34,689**	**550,253**
At 31 Dec	**515,563**	**550,253**

in EUR

Changes in deferred taxes recognised in equity	2018	2017
At 1 Jan	**7,237**	**0**
Change in the revaluation of deferred taxes on account of provisions	105,390	7,237
Receivables	0	0
Tax losses	0	0
Changes in deferred tax assets/liabilities	**105,390**	**7,237**
At 31 Dec	**112,627**	**7,237**

4.8. Net profit

in EUR

	2018	2017
Operating profit or loss	8,034,174	8,180,293
Financial profit or loss	-327,145	-343,445
Extraordinary operating profit or loss	-90,217	-67,856
Pre-tax profit	**7,616,812**	**7,768,993**
Corporate income tax	-976,143	-1,088,014
Deferred tax assets	-34,689	550,253
Net profit	**6,605,980**	**7,231,232**

Table 84: Net profit

In the financial year 2018, the Company reported net profit of €6,605,980 in its profit and loss account, 5% below the planned amount.

At the time of drawing up the annual report, the Management Board allocated €4,400,940 of net profit to other profit reserves in accordance with Article 11 of the Articles of Association. The difference of €2,200,470 remained unappropriated.

4.9. Total comprehensive income for the period

Total comprehensive income for the period amounts to €5,601,824 and consists of €3,315 relating to the revaluation of available-for-sale investments (shares of Zavarovalnica Triglav); negative amount of other components of comprehensive income on account of actuarial benefits in the amount of €1,007,471 (comprising €1,115,390 of actuarial gains, reversal of actuarial gains in the amount of €2,529 and €105,390 of the revaluation surplus adjustment arising from deferred tax recognised on account of actuarial gains).

in EUR

	Notes	2018	2017
20. NET PROFIT OR LOSS OD THE ACCOUNTING PERIOD	**4,9**	**6,605,980**	**7,231,232**
Fair value reserve		3,315	13,498
Other components of comprehensive income-net effect		-1,007,471	101,777
Total comprehensive income for the period		**5,601,824**	**7,346,506**

05

NOTES TO THE CASH FLOW STATEMENT

Cash flow statement is compiled using the direct method, format I according to SAS (2016) 22.6. Data for the statement of cash flows is derived from records of cash receipts and payments from the Company's accounts.

5.1. Cash receipts from operating activities

Receipts from operating activities consist of inflows to the business accounts These are the receipts from sales of products and services and other income from operations, such as the cost of network use, which the Company receives for the account of SODO, compensations, receipts from co-financing, and network charge for connected load, none of which are recognised as the Company's revenue. Receipts from operating activities include revenue from the value added tax charged on services rendered and supplies of goods.

Cash flows from operating activities increased in 2018 by €2,586,970 compared to 2017, mainly due to an increase in operating revenues from network use and services rendered on behalf of SODO. Majority of receipts from operating activities stem from services based on the contract concluded with SODO for the provision of services and lease of electricity infrastructure.

5.2. Cash disbursements from operating activities

Operating expenditures are outflows from accounts consisting of operating expenses paid for material, services, salaries, charges and other outflows. Majority of these refer to the outflows on account of the cost of the network use, which are not recognised as expenses of the Company.

5.3. Receipts from investing activities

Receipts from investing are inflows arising from interest paid and shares in profits, as well as gains from disposal of fixed assets and investments.

5.4. Expenditure from investing activities

Expenditures for investing comprise outflows for payment of invoices for the acquisition of intangible assets, property, plant and equipment and investments. The Company spent €11,665,526 on its investing activities, exclusive of the cost of capitalised own work.

5.5. Proceeds from financing

Receipts from the financing activities are amounts remitted to the long-term and short-term loans. In 2018, the Company raised €9 million of long-term borrowings from Banca Intesa Sanpaolo for financing its investments, and withdrew €5,300,000 of funds from a short-term revolving credit.

5.6. Cash disbursements from financing activities

Expenditures for financing activities comprise payments of interest, dividends and repayment of borrowings. Most of the Company's financing expenses refer to the repayment of long-term and short-term borrowings of €12,087,000: repayment of a short-term revolving credit of €5,300,000 and repayment of current amounts of long-term borrowings of total €6,787,000. Financing expenses also refer to dividends paid in 2017 in the amount of €2,549,019.

5.7. Net cash for the period

The Company generated €91,680,242 of cash inflows (2017: €86,994,719) and €94,354,488 of cash outflows in 2018 (2017: €83,869,001). Cash receipts and disbursements include appropriate amounts of duties, in particular VAT and excise duties, in accordance with the invoices received or issued.

The difference between initial and closing balance of cash and cash equivalents in 2018 is the cash outflow of €2,674,247 (2017: cash inflow of €3,125,718).

The Company generated net cash inflow from operating activities in the amount of €14,497,991. Net cash used in investing activities amounts to €18,219,274 and is a result of major investment activity, while net cash outflows for financing activities of €114,986 refers to dividends paid to the shareholders.

06

DISCLOSURE OF RELATED PARTY TRANSACTIONS

The Company reports receivables from and liabilities to the following related parties:

- E 3, d. o. o., Nova Gorica (the parent holds 100% interest),
- Informatika, d. d., Maribor (11.9% equity holding),
- Stelkom, d. o. o., Ljubljana (6,32% equity holding),
- Knešca, d. o. o., from Most na Soči, an associate of subsidiary E 3 d. o. o., and therefore indirectly related also to the parent company Elektro Primorska, d. d.

As at 31 December 2018, Elektro Primorska reports the following receivables from and liabilities to related companies in its balance sheet:

in EUR

Receivables:	At 31 Dec 2018	At 31 Dec 2017
Receivables due from E3, d. o. o.	31,999	35,029
Receivables due from Stelkom, d. o. o.	69,670	49,846
Total	**101,670**	**84,875**

in EUR

Liabilities:	At 31 Dec 2018	At 31 Dec 2017
Liabilities to E3, d.o.o.	25,711	26,693
Liabilities to Informatika, d. d.	438,762	1,210,400
Total	**464,473**	**1,237,093**

Table 85: Receivables and liabilities

Elektro Primorska recognised the following revenues and expenses from transactions with its related parties in the statement of profit or loss:

in EUR

Revenues:	2018	2017
Net revenues from sales E3, d. o. o.	406,762	408,267
Net revenues from sales Stelkom, d. o. o.	129,152	126,780
Net revenues from sales Knešca, d. o. o.	0	421
Default interest Stelkom d. o. o.	55	6
Total	**535,968**	**535,467**

in EUR

Expenses:	2018	2017
Cost of purchase of material and services E3, d. o. o.	179,982	188,765
Costs of services rendered by Informatika, d. d.	897,561	850,139
Total	**1,077,543**	**2,474,695**

Table 86: Revenue and expenses

The Management Board estimates that in relationship with the parent company, no transactions were concluded, which would result in an advantage or disadvantage for any of the related parties.

07

CONTINGENCIES

In the opinion of legal experts, none of the legal actions brought against the Company is likely to have a significant impact on its profit or loss. Furthermore, it was assessed that provisions set aside for such purposes are sufficient and would cover contingent liabilities of the Company.

Bid bonds and warranty guarantees issued by the banks (on account of rendering services to external clients) are reported in the off-balance sheet records. The Company reports no liabilities arising from pledged real estate in 2018, and thus none of the Company's properties is either mortgaged or subject to a lien.

in EUR

	31.12.2018	31.12.2017
Bank guarantees issued	95,144	100,000
Total	**95,144**	**100,000**

Table 87: Contingencies

08

SUBSEQUENT EVENTS

In the period subsequent to the reporting date (31 December 2018) and the report of an independent auditor (17 May 2019), the Company received preliminary statement of accounts from SODO for the 2018 regulation year. The statement of accounts is based on non-audited financial statements. It is clear from the preliminary statement of accounts that based on the value of paid advances in 2018, the contractual value of services and rental of electricity infrastructure already charged is lower than the values established on the basis of the preliminary settlement of accounts (rent outstanding in the amount of €35,964 and service charge of €976,171). Therefore, the Company increased revenues from services under the contract with SODO in the amount of €976,171 and the value of rental income from the lease of energy infrastructure by €35,964.

No other events occurred after the end of the reporting period and before the compilation of the financial statements that could impact the financial statements for the year ended 31 December 2018 or require additional disclosures to them.

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09

NOTES TO THE FINANCIAL STATEMENTS ACCORDING TO THE ENERGY ACT AND THE COMPANIES ACT

In accordance with Article 38 of the Energy Act, the Company is required to prepare accounts separately for the energy market activities and separately for the other activities. Individual activities are business segments that the Company must, in accordance with the general disclosure under the Companies Act, specifically disclose in its annual report.

At the end of the year Elektro Primorska compiles financial statements for the Company as a whole. As an annex to the notes to the financial statements it attaches the statements in accordance with Article 38 of the Energy Act. In this respect the Company must distinguish the activity of electricity supply from its other activities.

Below are the criteria set for:

- Calculating indirect costs allocation to individual activities and
- Criteria according to which assets, liabilities, revenues and expenses are allocated to individual activities.

9.1. Notes to the balance sheet items

The balance sheet is a presentation of assets and liabilities as at 31 December 2018.
The physical distribution of funds per activity was carried out in 2001 by the group of experts from technical field appointed by the Company in cooperation with its financial sector.

The division of assets and liabilities to common activities is carried out and assigned to individual activities in accordance with agreed criteria as at the balance sheet date. The method of setting the criteria is described below.

The amount of share capital and capital surplus was reported in the balance sheet as at 31 December 2001 and have remained unchanged. The amounts of other components of equity, such as reserves, and profit are changing from one year to the other. In the balance sheet as at 31 December 2018, after the allocation of results and an unchanged equity, receivables and liabilities are disclosed among activities that offset the sub-balance activities and are ››consolidated‹‹ in the balance sheet of the Company.

9.2. Notes to the profit and loss account items

In the profit and loss account, revenues and expenditure are disclosed per individual activity. These are direct revenues and expenses of each activity and revenues and expenses of general activities distributed on the basis of agreed criteria displayed.

9.3. Criteria for allocating revenues and expenses, assets and liabilities of common activities to individual activities

Key 1	Share of labour costs	$\frac{\text{Headcount based on working hours in activity} \times 100}{\text{Total headcount based on working hours}}$
Key 2	Share of present value of intangible assets and property, plant and equipment	$\frac{\text{Present value of fixed assets in activity} \times 100}{\text{Present value of all fixed assets}}$
Key 3	Share of revenues	$\frac{\text{Revenues in activity} \times 100}{\text{All revenues}}$
Key 4	Share of material consumption	$\frac{\text{Consumption of material from the warehouse for activity} \times 100}{\text{Total consumption of material from the warehouse}}$
Key 5	Share of costs of materials and services	$\frac{\text{Consumption of material and services in activity} \times 100}{\text{Total consumption of material and services}}$

9.4. Sub-balance sheet according to the Energy Act as at 31 December 2018

in EUR

	ED infrastructure and services for SODO	Market activities	Total	Criteria for allocation of common activities
Assets				
A. Long-term assets:				
I. Intangible assets	**3,880,723**	**129**	**3,880,852**	
1. Long-term rights	3,823,963	129	3,824,092	Key 2
2. Other long-term deferred costs	55,531	0	55,531	Key 2
3. Intangible assets being acquired	1,230	0	1,230	Key 2
II. Property, plant and equipment	**182,055,644**	**1,248,872**	**183,304,516**	
1. Land	4,920,094	681,682	5,601,776	Key 2
2. Buildings	123,189,009	511,856	123,700,865	Key 2
3. Equipment	51,611,443	54,778	51,666,222	Key 2
4. Property, plant and equipment being acquired	2,335,097	556	2,335,653	Key 2
a.) Property, plant and equipment under construction	2,334,432	553	2,334,985	Key 2
b.) Advances for acquisition of property, plant and equipment	664	3	667	
III. Investment property	**0**	**224,488**	**224,488**	Key 2
IV. Long-term investments	**6,452,280**	**357,209**	**6,809,489**	
1. Investments in shares of group companies	6,179,888	342,129	6,522,017	Key 1
2. Other shares and stakes	272,392	15,080	287,472	Key 1
V. Long-term operating receivables	**66,512**	**369,026**	**435,538**	
1. Long-term trade receivables	43,011	366,105	409,116	
2. Other long-term operating receivables	23,501	2,921	26,422	Key 1
VI. Deferred tax assets	**594,478**	**33,713**	**628,191**	Key 1, 3
Total long-term assets	**193,049,637**	**2,233,436**	**195,283,073**	
B. Current assets:				
I. Inventories	**1,082,893**	**69,475**	**1,152,368**	
1. Materials	1,082,893	64,541	1,147,434	Key 1, 4
2. Unfinished services	0	0	0	
3. Products and merchandise	0	4,934	4,934	
II. Short-term investments	**3,791,443**	**209,901**	**4,001,343**	
1. Short-term loans to others	3,791,443	209,901	4,001,343	Key 1
III. Short-term operating receivables	**6,633,174**	**661,392**	**7,294,566**	
1. Operating receivables due from the group	130	31,870	31,999	Key 3
2. Trade receivables	6,386,889	617,090	7,003,979	Key 3
3. Operating receivables due from others	246,155	12,433	258,588	Key 3
IV. Cash and cash equivalents	**693,299**	**1,596,862**	**2,290,160**	**Key 3**
Total current assets	**12,200,808**	**2,537,630**	**14,738,438**	
C. Short-term deferred costs and accrued revenue	1,062,332	20,502	1,082,834	Key 3
D. Receivables due from other activities	1,306,166	0	1,306,166	
TOTAL ASSETS	**207,618,943**	**4,791,568**	**212,410,511**	

in EUR

	ED infrastructure and services for SODO	Market activities	Total	Criteria for allocation of common activities
Equity and liabilities				
Equity: :				
I. Called-up capital	**78,185,730**	**377,102**	**78,562,832**	
1. Share capital	78,185,730	377,102	78,562,832	
II. Capital surplus	**45,787,692**	**420,495**	**46,208,187**	
III. Profit reserves	**25,503,614**	**2,119,841**	**27,623,455**	
1. Legal reserves	648,202	3,126	651,328	
2. Reserves for treasury shares and stakes	80,226	387	80,613	
3. Treasury shares and stakes (as a deductible item)	-80,226	-387	-80,613	
4. Other profit reserves	24,855,412	2,116,715	26,972,127	
IV. Revaluation surplus	**-950,993**	**-52,649**	**-1,003,642**	Key 1
V. Retained earnings	**0**	**0**	**0**	
VI. Net profit or loss for the year	**2,098,136**	**102,334**	**2,200,470**	
Total capital	**150,624,179**	**2,967,123**	**153,591,302**	
B. Provisions and long-term accrued costs and deferred revenue	14,235,231	241,816	14,477,047	
1. Provisions	4,171,241	230,927	4,402,168	Key 1
2. Long-term accrued costs and deferred revenue	10,063,989	10,890	10,074,879	
C. Long-term liabilities	26,550,000	0	26,550,000	
I. Long-term financial liabilities	**26,550,000**	**0**	**26,550,000**	
1. Long-term financial liabilities to banks	26,550,000	0	26,550,000	
D. Short-term liabilities	15,544,228	265,067	15,809,296	
I. Short-term financial liabilities	**7,286,725**	**26,503**	**7,313,227**	
1. Short-term financial liabilities to banks	7,281,771	26,229	7,308,000	
2. Other short-term financial liabilities	4,953	274	5,227	Key 1
II. Short-term operating liabilities	**8,257,504**	**238,564**	**8,496,068**	
1. Short-term operating liabilities to group companies	21,930	3,781	25,711	Key 5
2. Supplier payables	6,513,877	129,640	6,643,517	Key 2, 5
3. Short-term operating liabilities from advances	11,613	11,622	23,236	Key 3
4. Other short-term operating liabilities	1,710,083	93,521	1,803,604	Key 1
Total liabilities	**56,329,459**	**506,884**	**56,836,343**	
E. Short-term accrued costs and deferred revenue	665,304	11,395	676,700	Key 3
F. Liabilities from other activities		1,306,166	1,306,166	
TOTAL EQUITY AND LIABILITIES	**207,618,942**	**4,791,568**	**212,410,511**	

Table 88: Sub-balance sheet according to the Energy Act (assets) as at 31 December

in EUR

	ED infrastructure and services for SODO	Market activities	Total	Criteria for allocation of common activities
Assets				
A. Long-term assets:				
I. Intangible assets	**3,880,723**	**129**	**3,880,852**	
1. Long-term rights	3,823,963	129	3,824,092	Key 2
2. Other long-term deferred costs	55,531	0	55,531	Key 2
3. Intangible assets being acquired	1,230	0	1,230	Key 2
III. Property, plant and equipment	**182,055,644**	**1,248,872**	**183,304,516**	
1. Land	4,920,094	681,682	5,601,776	Key 2
2. Buildings	123,189,009	511,856	123,700,865	Key 2
3. Equipment	51,611,443	54,778	51,666,222	Key 2
4. Property, plant and equipment being acquired	2,335,097	556	2,335,653	Key 2
a.) Property, plant and equipment under construction	2,334,432	553	2,334,985	Key 2
b.) Advances for acquisition of property, plant and equipment	664	3	667	
III. Investment property	**0**	**224,488**	**224,488**	Key 2
IV. Long-term investments	**6,452,280**	**357,209**	**6,809,489**	
1. Investments in shares of group companies	6,179,888	342,129	6,522,017	Key 1
2. Other shares and stakes	272,392	15,080	287,472	Key 1
V. Long-term operating receivables	**66,512**	**369,026**	**435,538**	
1. Long-term trade receivables	43,011	366,105	409,116	
2. Other long-term operating receivables	23,501	2,921	26,422	Key 1
VI. Deferred tax assets	**594,478**	**33,713**	**628,191**	Key 1, 3
Total long-term assets	**193,049,637**	**2,233,436**	**195,283,073**	
B. Current assets:				
I. Inventories	**1,082,893**	**69,475**	**1,152,368**	
1. Materials	1,082,893	64,541	1,147,434	Key 1, 4
2. Unfinished services	0	0	0	
3. Products and merchandise	0	4,934	4,934	
II. Short-term investments	**3,791,443**	**209,901**	**4,001,343**	
1. Short-term loans to others	3,791,443	209,901	4,001,343	Key 1
III. Short-term operating receivables	**6,633,174**	**661,392**	**7,294,566**	
1. Operating receivables due from the group	130	31,870	31,999	Key 3
2. Trade receivables	6,386,889	617,090	7,003,979	Key 3
3. Operating receivables due from others	246,155	12,433	258,588	Key 3
IV. Cash and cash equivalents	**693,299**	**1,596,862**	**2,290,160**	**Key 3**
Total current assets	**12,200,808**	**2,537,630**	**14,738,438**	
C. Short-term deferred costs and accrued revenue	1,062,332	20,502	1,082,834	Key 3
D. Receivables due from other activities	1,306,166	0	1,306,166	
TOTAL ASSETS	**207,618,943**	**4,791,568**	**212,410,511**	

Table 89: Sub-balance sheet according to the Energy Act (assets) as at 31 December

9.5. Sub-balance sheet according to the Energy Act as at 31 December 2017

in EUR

	ED infrastructure and services for SODO	Market activities	Total	Criteria for allocation of common activities
Assets				
A. Long-term assets:				
I. Intangible assets	**3,792,860**	**125**	**3,792,985**	
1. Long-term rights	3,651,498	125	3,651,623	Key 2
2. Other long-term deferred costs	90,041	0	90,041	Key 2
3. Intangible assets being acquired	51,321	0	51,321	Key 2
II. Property, plant and equipment	**177,578,936**	**1,274,072**	**178,853,008**	
1. Land	5,021,993	681,682	5,703,675	Key 2
2. Buildings	120,703,236	523,481	121,226,717	Key 2
3. Equipment	49,364,343	68,909	49,433,251	Key 2
4. Property, plant and equipment being acquired	2,489,364	0	2,489,364	Key 2
a.) Property, plant and equipment under construction	2,489,364	0	2,489,364	Key 2
b.) Advances for acquisition of property, plant and equipment	0	0	0	
III. Investment property	**111,055**	**90,920**	**201,975**	Key 2
IV. Long-term investments	**6,843,785**	**969**	**6,844,753**	
1. Investments in shares of group companies	6,521,094	923	6,522,017	Key 1
2. Other shares and stakes	322,691	46	322,737	Key 1
V. Long-term operating receivables	**30,065**	**4**	**30,069**	
1. Other long-term operating receivables	30,065	4	30,069	Key 1
VI. Deferred tax assets	**546,520**	**10,971**	**557,490**	Key 1, 3
Total long-term assets	**188,903,220**	**1,377,060**	**190,280,280**	
B. Current assets:				
I. Inventories	**899,697**	**1,309**	**901,006**	
1. Materials	899,697	208	899,905	Key 1, 4
2. Unfinished services	0	0	0	
3. Products and merchandise	0	1,101	1,101	
II. Short-term investments	**1,343**	**0**	**1,343**	
1. Short-term loans to others	1,343	0	1,343	Key 1
III. Short-term operating receivables	**6,909,601**	**826,773**	**7,736,374**	
1. Operating receivables due from the group	0	35,029	35,029	Key 3
2. Trade receivables	6,583,820	749,303	7,333,124	Key 3
3. Operating receivables due from others	325,781	42,441	368,222	Key 3
IV. Cash and cash equivalents	**3,271,636**	**1,692,771**	**4,964,407**	Key 3
Total current assets	**11,082,277**	**2,520,853**	**13,603,130**	
C. Short-term deferred costs and accrued revenue	1,902,783	63,002	1,965,785	Key 3
D. Receivables due from other activities	467,489	0	467,489	
TOTAL ASSETS	**202,355,769**	**3,960,915**	**206,316,684**	

Table 90: Sub-balance sheet according to the Energy Act (equity and liabilities) as at 31 December 2018

in EUR

	ED infrastructure and services for SODO	Market activities	Total	Criteria for allocation of common activities
Equity and liabilities				
Equity:				
I. Called-up capital	**78,185,730**	**377,102**	**78,562,832**	
1. Share capital	78,185,730	377,102	78,562,832	
II. Capital surplus	**45,787,692**	**420,495**	**46,208,187**	
III. Profit reserves	**21,217,329**	**2,005,186**	**23,222,514**	
1. Legal reserves	741,732	-90,404	651,328	
2. Reserves for treasury shares and stakes	79,159	382	79,540	
3. Treasury shares and stakes (as a deductible item)	-79,159	-382	-79,540	
4. Other profit reserves	20,475,596	2,095,590	22,571,187	
IV. Revaluation surplus	**-2,981**	**0**	**-2,982**	Key 1
V. Retained earnings	**107,047**	**15**	**107,062**	
VI. Net profit or loss for the year	**2,059,751**	**382,208**	**2,441,959**	
Total capital	**147,354,568**	**3,185,005**	**150,539,573**	
Provisions and long-term accrued costs and deferred revenue	13,707,686	13,962	13,721,648	
1. Provisions	3,599,623	509	3,600,132	Key 1
2. Long-term accrued costs and deferred revenue	10,108,063	13,453	10,121,516	
C. Long-term liabilities	24,833,000	0	24,833,000	
I. Long-term financial liabilities	**24,833,000**	**0**	**24,833,000**	
1. Long-term financial liabilities to banks	24,833,000	0	24,833,000	
D. Short-term liabilities	15,796,898	283,348	16,080,246	
I. Short-term financial liabilities	**6,317,225**	**1**	**6,317,226**	
1. Short-term financial liabilities to banks	6,312,000	0	6,312,000	
2. Other short-term financial liabilities	5,225	1	5,226	Key 1
II. Short-term operating liabilities	**9,479,673**	**283,348**	**9,763,021**	
1. Short-term operating liabilities to group companies	22,848	3,845	26,693	Key 5
2. Supplier payables	7,382,833	196,923	7,579,756	Key 2, 5
3. Short-term operating liabilities from advances	2,855	9,324	12,179	Key 3
4. Other short-term operating liabilities	2,071,137	73,255	2,144,392	Key 1
Total liabilities	**54,337,584**	**297,310**	**54,634,894**	
E. Short-term accrued costs and deferred revenue	663,617	11,111	674,728	Key 3
F. Liabilities from other activities		467,489	467,489	
TOTAL EQUITY AND LIABILITIES	**202,355,769**	**3,960,915**	**206,316,684**	

Table 91: Sub-balance sheet according to the Energy Act (equity and liabilities) as at 31 December 2017

9.6. Profit and loss account according to the Energy Act for the year 2018

in EUR

2018	ED infrastructure and services for SODO	Market activities	Total	Criteria for allocation of common activities
1. Net sales revenue	**35,550,767**	**2,615,431**	**38,166,199**	
a. on domestic market	35,550,767	2,615,431	38,166,199	Key 3
2. Change in the value of inventory of unfinished services	**0**	**0**	**0**	
3. Capitalised own products and services	**7,811,791**	**707**	**7,812,498**	
4. Other operating revenue	**1,950,424**	**83,776**	**2,034,200**	Key 1, 2
5. Cost of goods, materials and services	**-8,697,293**	**-1,346,646**	**-10,043,939**	
a. cost of goods and material sold and cost of material used	-3,371,749	-1,002,020	-4,373,769	Key 1, 5
b. cost of services	-5,325,544	-344,626	-5,670,170	Key 2, 5
6. Employee benefit costs	**-16,987,496**	**-859,683**	**-17,847,179**	
a. cost of salaries	-11,346,136	-574,707	-11,920,843	Key 1
b. cost of supplementary pension insurance of employees	-611,772	-16,590	-628,362	Key 1
c. social security costs	-1,925,893	-115,924	-2,041,816	Key 1
d. other labour costs	-3,103,695	-152,461	-3,256,156	Key 1
7. Write-downs	**-11,847,669**	**-98,523**	**-11,946,191**	
a. amortisation and depreciation	-11,726,142	-43,475	-11,769,617	Key 2
b. operating expenses from revaluation of fixed assets	-114,550	0	-114,550	Key 2
c. operating expenses from revaluation of current assets	-6,977	-55,048	-62,025	Key 3
8. Other operating expenses	**-136,567**	**-4,847**	**-141,413**	Key 1
9. Financial income from shares and stakes	**5,609**	**311**	**5,920**	
a. in other companies	5,609	311	5,920	Key 1
10. Financial income from loans	**75**	**4**	**79**	
a. granted to others	75	4	79	Key 1
11. Financial income from operating receivables	**18,655**	**1,717**	**20,372**	
a. due from others	18,655	1,717	20,372	Key 3
12. Financial expenses from investment impairment and write-off	**-33,472**	**-5,108**	**-38,580**	Key 6
13. Financial expenses from financial liabilities	**-305,832**	**-5,957**	**-311,789**	
a. bank borrowings	-267,991	-182	-268,173	
b. other financial liabilities	-37,841	-5,775	-43,616	Key 5
14. Financial expenses from operating liabilities	**-2,815**	**-331**	**-3,146**	
a. payables to suppliers and bills of exchange	-2,417	-323	-2,740	Key 5
b. other operating liabilities	-398	-8	-406	Key 5
15. Other revenue	**6,773**	**261**	**7,035**	Key 1
16. Other expenses	**-94,301**	**-2,951**	**-97,252**	Key 1
PRE-TAX PROFIT OR LOSS OF THE ACCOUNTING PERIOD	7,238,649	378,163	7,616,812	
17. Income tax	**-907,038**	**-69,105**	**-976,143**	
18. Deferred tax assets	**-32,847**	**-1,843**	**-34,689**	Key 1, 3
19. NET PROFIT OR LOSS OF THE ACCOUNTING PERIOD	**6,298,764**	**307,216**	**6,605,980**	

Table 92: Profit and loss account according to the Energy Act for the year 2018

9.7. Profit and loss account according to the Energy Act for the year 2017

in EUR

2017	ED infrastructure and services for SODO	Market activities	Total	Criteria for allocation of common activities
1. Net sales revenue	**36,503,063**	**2,583,299**	**39,086,362**	
a. on domestic market	36,503,063	2,583,299	39,086,362	Key 3
2. Change in the value of inventory of unfinished services	**0**	**-48,031**	**-48,031**	
3. Capitalised own products and services	**7,084,195**	**2,999**	**7,087,194**	
4. Other operating revenue	**851,349**	**3,994**	**855,343**	Key 1, 2
5. Cost of goods, materials and services	**-8,647,433**	**-1,435,076**	**-10,082,509**	
a. cost of goods and material sold and cost of material used	-3,514,469	-1,048,437	-4,562,906	Key 1, 5
b. cost of services	-5,132,964	-386,639	-5,519,603	Key 2, 5
6. Employee benefit costs	**-16,404,780**	**-562,470**	**-16,967,250**	
a. cost of salaries	-11,365,794	-422,748	-11,788,543	Key 1
b. cost of supplementary pension insurance of employees	-613,833	-9,855	-623,688	Key 1
c. social security costs	-1,957,895	-70,941	-2,028,837	Key 1
d. other labour costs	-2,467,257	-58,926	-2,526,182	Key 1
7. Write-downs	**-11,579,862**	**-41,198**	**-11,621,060**	
a. amortisation and depreciation	-11,410,669	-38,901	-11,449,570	Key 2
b. operating expenses from revaluation of fixed assets	-122,384	-23	-122,407	Key 2
c. operating expenses from revaluation of current assets	-46,809	-2,274	-49,083	Key 3
8. Other operating expenses	**-127,385**	**-2,372**	**-129,757**	Key 1
9. Financial income from shares and stakes	**5,919**	**1**	**5,920**	
a. in other companies	5,919	1	5,920	Key 1
10. Financial income from loans	**67**	**0**	**67**	
a. granted to others	67	0	67	Key 1
11. Financial income from operating receivables	**22,222**	**2,177**	**24,399**	
a. due from others	22,222	2,177	24,399	Key 3
12. Financial expenses from investment impairment and write-off	**0**	**0**	**0**	Key 6
13. Financial expenses from financial liabilities	**-361,905**	**-11,476**	**-373,381**	
a. bank borrowings	-293,714	0	-293,714	
b. other financial liabilities	-68,190	-11,476	-79,666	Key 5
14. Financial expenses from operating liabilities	**-392**	**-58**	**-451**	
a. payables to suppliers and bills of exchange	-380	-56	-436	Key 5
b. other operating liabilities	-12	-2	-14	Key 5
15. Other revenue	**134**	**0**	**134**	Key 1
16. Other expenses	**-67,370**	**-619**	**-67,990**	Key 1
PRE-TAX PROFIT OR LOSS OF THE ACCOUNTING PERIOD	7,277,822	491,170	7,768,993	
17. Income tax	**-991,071**	**-96,943**	**-1,088,014**	
18. Deferred tax assets	**539,284**	**10,969**	**550,253**	Key 1, 3
19. NET PROFIT OR LOSS OF THE ACCOUNTING PERIOD	**6,826,036**	**405,196**	**7,231,232**	

Table 93: Profit and loss account according to the Energy Act for the year 2017

9.8. Cash flow statement according to the Energy Act for the year 2018

in EUR

	ED infrastructure and services for SODO	Market activities	Total EP	Criteria for allocation of common activities
A. CASH FLOWS FROM OPERATING ACTIVITIES				
1. Receipts from operating activities	**73,059,654**	**2,659,452**	**75,719,105**	
a. Proceeds from sale of products and services	42,190,524	2,606,395	44,796,919	K-1, K-3, K-4, K-5
b) Other receipts from operating activities	30,869,130	53,056	30,922,186	K-1, K-2, K-3, K-5
2. Expenditure from operating activities	**-58,719,991**	**-2,507,321**	**-61,227,312**	
a. Expenditure for purchase of materials and services	-8,146,157	-1,294,116	-9,440,273	K-3, K-4, K-5
b) Expenditure for salaries and employees' shares in profits	-16,337,387	-937,638	-17,275,026	K-1
c) Expenditure for all kinds of contributions	-3,486,697	-216,290	-3,702,987	K-1, K-3
d. Other expenditure from operating activities	-30,749,750	-59,276	-30,809,027	K-4, K-5
3. Net cash from operating activities	**14,339,663**	**152,130**	**14,491,793**	
B. CASH FLOWS FROM INVESTING ACTIVITIES				
4. Cash receipts from investing activities	**1,005,493**	**162,619**	**1,168,113**	
a. Interest and profit shares	20,827	1,299	22,126	K-1, K-3
b) Proceeds from disposal of property, plant and equipment	38,945	107,042	145,987	K-2
c) Proceeds from disposal of short-term investments	945,721	54,279	1,000,000	K-1
5. Cash disbursements for investing activities	**-17,882,168**	**-337,106**	**-18,219,274**	
a. Expenditure for acquisition of intangible assets	-1,550,967	-2,781	-1,553,748	K-2
b) Expenditure for acquisition of property, plant and equipment	-11,602,596	-62,930	-11,665,526	K-2
c) Expenditure for acquisition of short-term investments	-4,728,605	-271,395	-5,000,000	
d. Expenditure for acquisition of long-term investments	0	0	0	K-1
6. Net cash from investing activities	**-16,876,675**	**-174,486**	**-17,051,162**	
C. CASH FLOWS FROM FINANCING ACTIVITIES				
8. Cash receipts from financing activities	**14,033,478**	**766,522**	**14,800,000**	
a. Receipts from long-term borrowings	9,000,000	0	9,000,000	
b) Receipts from short-term borrowings	5,033,478	766,522	5,800,000	
9. Cash disbursements from financing activities	**-14,074,803**	**-840,075**	**-14,914,878**	
a. Interest paid	-276,590	-1,212	-277,803	K-5
b) Repayments of capital	-994	-62	-1,056	K-3
c) Cash repayments of long-term borrowings	-6,787,000	0	-6,787,000	
d. Cash repayments of short-term borrowings	-4,599,557	-700,443	-5,300,000	
e. Dividends paid	-2,410,661	-138,358	-2,549,019	K-1
10. Net cash from financing activities	**-41,325**	**-73,553**	**-114,878**	
11. Net cash inflow or outflow	**-2,578,338**	**-95,909**	**-2,674,247**	
D. CLOSING BALANCE OF CASH AND CASH EQUIVALENTS	693,299	1,596,862	2,290,160	
X. Opening balance of cash and cash equivalents	3,271,637	1,692,771	4,964,407	
Y. CASH FLOWS FOR THE PERIOD	-2,578,338	-95,909	-2,674,247	
Closing balance of cash at 31 Dec 2018	**693,299**	**1,596,862**	**2,290,160**	

Table 94: Cash flow statement according to the Energy Act for the year 2018

9.9. Cash flow statement according to the Energy Act for the year 2017

in EUR

	ED infrastructure and services for SODO	Market activities	Total EP	Criteria for allocation of common activities
A. CASH FLOWS FROM OPERATING ACTIVITIES				
1. Receipts from operating activities	**69,770,450**	**3,360,889**	**73,131,339**	
a. Proceeds from sale of products and services	42,335,025	3,355,713	45,690,738	K-1, K-3, K-4, K-5
b) Other receipts from operating activities	27,435,425	5,176	27,440,601	K-1, K-2, K-3, K-5
2. Expenditure from operating activities	**-57,360,189**	**-2,199,538**	**-59,559,726**	
a. Expenditure for purchase of materials and services	-8,467,273	-1,698,650	-10,165,923	K-3, K-4, K-5
b) Expenditure for salaries and employees' shares in profits	-16,759,551	-249,260	-17,008,811	K-1
c) Expenditure for all kinds of contributions	-3,706,866	-224,088	-3,930,955	K-1, K-3
d. Other expenditure from operating activities	-28,426,498	-27,539	-28,454,037	K-4, K-5
3. Net cash from operating activities	**12,410,261**	**1,161,351**	**13,571,613**	
B. CASH FLOWS FROM INVESTING ACTIVITIES				
4. Cash receipts from investing activities	**1,310,240**	**3,139**	**1,313,380**	
a. Interest and profit shares	25,053	1,808	26,861	K-1, K-3
b) Proceeds from disposal of property, plant and equipment	1,285,188	1,331	1,286,519	K-2
c) Proceeds from disposal of short-term investments	0	0	0	K-1
5. Cash disbursements for investing activities	**-10,926,667**	**-82,105**	**-11,008,771**	
a. Expenditure for acquisition of intangible assets	-1,774,818	-13,355	-1,788,173	K-2
b) Expenditure for acquisition of property, plant and equipment	-9,142,850	-68,748	-9,211,598	K-2
d. Expenditure for acquisition of long-term investments	-8,999	-1	-9,000	K-1
6. Net cash from investing activities	-9,616,426	-78,965	-9,695,392	
C. CASH FLOWS FROM FINANCING ACTIVITIES				
8. Cash receipts from financing activities	**12,550,000**	**0**	**12,550,000**	
a. Receipts from long-term borrowings	9,000,000	0	9,000,000	
b) Receipts from short-term borrowings	3,550,000	0	3,550,000	
9. Cash disbursements from financing activities	**-13,260,419**	**-40,084**	**-13,300,504**	
a. Interest paid	-266,912	-39,863	-306,775	K-5
b) Repayments of capital	1,168	71	1,239	K-3
c) Cash repayments of long-term borrowings	-7,378,657	0	-7,378,657	
d. Cash repayments of short-term borrowings	-3,550,000	0	-3,550,000	
e. Dividends paid	-2,066,019	-292	-2,066,311	K-1
10. Net cash from financing activities	-710,419	-40,084	-750,504	
11. Net cash inflow or outflow	**2,083,416**	**1,042,302**	**3,125,718**	
D. CLOSING BALANCE OF CASH AND CASH EQUIVALENTS	3,271,637	1,692,771	4,964,407	
X. Opening balance of cash and cash equivalents	1,188,221	650,469	1,838,690	
Y. CASH FLOWS FOR THE PERIOD	2,083,416	1,042,302	3,125,718	
Closing balance of cash at 31 Dec 2016	**3,271,637**	**1,692,771**	**4,964,407**	

Table 95: Cash flow statement according to the Energy Act for the year 2017

D

BUSINESS REPORT OF THE ELEKTRO PRIMORSKA GROUP

01

PERFORMANCE ANALYSIS OF THE ELEKTRO PRIMORSKA GROUP

Elektro Primorska Group closed the 2018 financial year with net profit of **€7,028,021, which is less than planned and achieved in 2017, mainly due to the failure to achieve the operating plans set by the subsidiary.** The Group's revenues amounted to €133,284,336 in 2018, which is an increase of €14,840,927 or 12.53% compared to the previous year. The largest group of revenues represent operating revenues amounting to €133,117,186, accounting for 99.87% of total revenues of the Group. The largest increase was recorded in the net sales revenues, particularly from the sale of electricity by the subsidiary.
The Group incurred €125,152,759 of expenses in 2018, up €14,578,275 compared to 2017. The largest group of expenses are operating expenses amounting to €124,760,471 while the largest share of operating expenses is taken by the costs of goods and materials, which account for 65.15% of the total operating expenses and amount to €81,276,369 in 2018, up €12,926,573 compared to 2017.

The assets of Elektro Primorska increased to €241,791,894 as at 31 December 2018, with the largest increase reported in property, plant and equipment (up €4,343,928) to €190,179,487 as at the year-end. The largest increase amounting to €17,261,047 stems from investments. The largest share of current assets represents trade receivables amounting to €31,178,734 as at 31 December 2018, up €4,411,574 on the previous year, mainly due to an increase in receivables on account of the sale of electricity by the subsidiary.

The Group's equity amounted to **€161,853,771** as at 31 December 2018, an increase of €3,179,444 compared to the previous year. The share of equity in total liabilities of the Group at the end of 2018 amounted to 66.94%, down 1.65 percentage point compared to the previous year. At the year-end, long-term liabilities of the Group amounted to €42,265,210, up €2,694,373 compared to the previous year. This is mainly due to the increase in long-term financial liabilities to banks. Short-term liabilities of the Group of €36,762,913 increased by €4,570,667 compared to the previous year. The largest increase is reported in payables to suppliers.

A. THE BASIC FINANCING STATE RATIOS	31.12.2018	31.12.2017
Equity	161,853,771	158,674,327
Equity and liabilities	241,791,894	231,337,409
Equity financing rate	**66.94%**	**68.59%**
Total equity and long-term debts (including provisions) and long-term accruals	204,118,980	198,245,163
Equity and liabilities	241,791,894	241,791,894
Long-term financing rate	**84.42%**	**81.99%**
Debts	79,938,123	72,663,082
Equity and liabilities	241,791,894	241,791,894
Debt financing rate	**33.06%**	**30.05%**

B. THE BASIC INVESTMENT RATIOS	31.12.2018	31.12.2017
Assets (at book values)	194,416,974	189,893,334
Assets	241,791,894	231,337,409
Operating fixed assets rate	**80.41%**	**82.09%**
Long-term and short-term investments	1,185,974	1,255,972
Assets	241,791,894	231,337,409
Investment assets rate	**0.49%**	**0.54%**
Non-current assets	197,743,169	192,741,606
Assets	241,791,894	231,337,409
Long-term assets rate	**81.78%**	**83.32%**

C. THE BASIC HORIZONTAL FINANCIAL STRUCTURE RATIOS	31.12.2018	31.12.2017
Equity	161,853,771	158,674,327
Assets (at book values)	194,416,974	189,893,334
Equity to fixed assets rate	**83.25%**	**83.56%**
Liquid assets	3,724,692	6,167,489
Short-term liabilities	37,672,913	33,092,246
Acid test ratio	**9.89%**	**18.64%**
Liquid assets and short-term receivables	36,374,013	34,486,531
Short-term liabilities	37,672,913	33,092,246
Quick ratio	**96.55%**	**104.21%**
Short-term assets	44,048,724	38,595,803
Short-term liabilities	37,672,913	33,092,246
Current ratio	**116.92%**	**116.63%**
D. THE BASIC EFFICIENCY RATIOS	31.12.2018	31.12.2017
Operating revenue	133,117,186	118,261,078
Operating expenses	124,760,471	110,179,996
Operating efficiency ratio	**1.067**	**1.073**
Revenue	133,284,336	118,443,409
Expenses	125,152,759	110,574,484
Total operating efficiency ratio	**1.065**	**1.071**
E. PROFITABILITY RATIOS	31.12.2018	31.12.2017
EBITDA (operating income - operating expenses + AM + revaluation)	21,256,498	20,757,401
Gross operating yield	133,117,186	118,261,078
EBITDA margin	**15.97%**	**17.55%**
EBIT (operating revenue - operating expenses)	8,356,714	8,081,082
Gross operating yield	133,117,186	118,261,078
EBIT margin	**6.28%**	**6.83%**
Net profit or loss	7,028,021	7,346,342
Sale revenue	122,815,658	109,913,672
Net return on revenue	**5.72%**	**6.68%**
Net profit or loss	7,028,021	7,346,342
Average assets	236,564,651	225,979,323
Net return on assets ratio (ROA)	**2.97%**	**3.25%**
Net profit or loss	7,028,021	7,346,342
Average capital (excluding net profit or loss for the year)	156,750,038	152,315,809
Net return on equity ratio (ROE)	**4.48%**	**4.82%**
Total dividends paid for the year	2,549,019	2,066,311
Average share capital	78,562,832	78,562,832
Dividend to share capital ratio	**0.032**	**0.026**
Dividend paid in the current year	2,549,019	2,066,311
Average capital	156,750,038	152,315,809
Dividend to share capital ratio	**1.63%**	**1.36%**
F. SHARES	31.12.2018	31.12.2017
Equity	161,853,771	158,674,327
Number of shares	18,826,797	18,826,797
Number of treasury shares	42,899	42,499
Book value per share (in EUR)	**8.62**	**8.45**
Net profit or loss	7,028,021	7,346,342
Weighted average number of ordinary shares	18,783,955	18,784,638
Diluted average number of ordinary shares	18,783,955	18,784,638
Basic and diluted earnings per share (EUR/share)	**0.37**	**0.39**

Table 96: Key performance indicators of Elektro Primorska Group

02

PROFILE OF THE GROUP

2.1. Composition of the Group

The Elektro Primorska Group comprises the following entities:

- Elektro Primorska as the parent company
- E 3, d. o. o. as a subsidiary, in which the parent company holds a 100% stake
- Knešca, d. o. o. located at Most na Soči, in which E 3, d. o. o. holds a 47.27% stake, making it an associated company.

The above entities are included in the consolidation: the parent company Elektro Primorska and subsidiary E 3 are fully consolidated, while associated company Knešca is consolidated under the equity method.

The parent company Elektro Primorska reports €153,591,302 of equity as at 31 December 2018. The Company achieved positive result in 2018 and generated net profit of €6,605,980.

The subsidiary E 3 ended the financial year 2018 with a net profit of €470,567. As at 31 December 2018, its capital amounts to €14,694,228.

Knešca generated net profit of €48,594 in 2018, and reports €1,276,823 of capital as at 31 December 2018.

2.2. Profile of the subsidiary E 3, d. o. o.

The subsidiary E 3 energetika, ekologija, ekonomija, d. o. o. was established on 15 November 2004 by Elektro Primorska as the only shareholder. The basis for the establishment of the subsidiary was the Energy Act, which called for a legal separation of regulated market and production activities.

Name of the associate:	E 3 energetika, ekologija, ekonomija, d. o. o.	
Abbreviated name:	E 3, d. o. o.	
The registered seat:	Erjavčeva ulica 24, Nova Gorica	
VAT ID number:	17851262	
Company number:	2010593	
Transaction accounts are held at the following banks:	04750-0001095763 Nova KBM d. d. 02945-0259665734 NLB, d. d.	
The subsidiary is registered in the register of Companies at the District Court in Nova Gorica under the number 1/04504/00.		
Share capital:	€6,522,016.72	
Owner of the subsidiary:	Elektro Primorska holds a 100% stake	
The company representative:	Darko Pahor	
Associated company:	KNEŠCA d. o. o.	
	- E 3, d. o. o., Nova Gorica	47.27% holding
	- nine (9) individuals	52.73% holding

E 3 began regular operations on 1 January 2005, after it obtained a license for performance of energy activities of electricity production and trading on 3 December 2004.

The company E 3 is composed of three organisational units, namely:

- Purchase and sale of energy division,
- The production and service department,
- The general services division.

The company began providing commercial public service of the heat distribution system operator in the municipality Šempeter - Vrtojba on 1 May 2010. In accordance with the concession agreement, the company assumed the task of supplying heat to the Podmark residential complex.

On 1 January 2011, the company merged with the carved part of Elektro Primorska, which is engaged in the purchase and sale of electricity. The company holds licenses for performing energy-related activities of electricity generation, heat production, distribution and supply, trade, representation and mediation in the electricity market.

In total, the company had 53 employees at the end of 2018, 4 more than in the previous year.

An impairment test was performed in 2018 in terms of individual cash-generating units of the Kenog, Meblo and Majske poljane facilities.

The valuation report was made by an independent appraiser for the financial reporting purposes (an impairment test in accordance with IAS 36) as at 31 December 2018.

The object of the valuation was the recoverable amount of the cash-generating units pertaining to long-term assets, namely their value in use, while for the Kenog facility the appraiser assessed the fair value as the price received from the sale of the asset or paid for the transfer of liabilities in a regulated transaction between market participants on the valuation day.

Both valuations were made in accordance with the Hierarchy of Valuation Rules (Official Gazette No. 106/2010). Operating projections of individual cash-generating units were used for the purpose of assessment based on the return on assets. These were prepared based on the historical business results over the past two years and the plan for the period 2019 to 2023, as well as by taking into account the residual values in the most recent forecasts until the end of their useful life. The model takes into account the value until the end of economic life of an individual cash-generating unit. Value assessment in terms of the cash generating unit was based on the going concern assumption that uses assets in the ordinary course of business.

Business projections were prepared for each co-generation for different, but a limited period. Forecast periods coincide with the validity of contracts for the electricity support concluded with the company Borzen.

The estimated free cash flow was discounted as at 31 December 2018 using the weighted average cost of capital (WACC) of 10.34% or 9.68% net of tax.

Valuation of the above-mentioned cash-generating units showed that there was no need for impairment of the company's long-term assets.

2.3. Profile of the associate Knešca, d. o. o.

In June 2006, subsidiary E 3 acquired a 23.61% stake in the company Knešca and in July of the same year, it acquired additional stakes held by four (4) natural persons, amounting to 23.66% stake, making it a total 47.27% stake in the company. The stake was subsequently (in 2012) transferred as a contribution in kind to subsidiary JOD, d. o. o.

On 1 January 2017, E 3 merged its subsidiary and transferred the contribution in kind from JOD to E 3.

In comparison with other (9) individual owners, E 3 holds a significant 47.27% stake in Knešca.

Name of the associate:	KNEŠCA, d. o. o., proizvodnja električne energije
Abbreviated name:	KNEŠCA d. o. o.
The registered seat:	Kneža 78, Most na Soči
VAT ID number:	92002307
Company number:	5617383
Transaction accounts are held at the following banks:	27000-0000204363
The company is registered in the register of Companies at the District Court in Nova Gorica under the number RC-065-2005/224.	
Share capital:	€129,361
Owners of the company:	E 3, d. o. o. 47.04%
	Natural entities 52.73%
Director of the company:	Vincenc Hozjan

The company performed well in 2018 and generated €59,992 of pre-tax profit (2017: €189,348). It recognised €11,399 of income tax payable (2017: €35,976), bringing the net profit for the year to €48,594 (2017: €153,372). As at 31 December 2018, the company reported €1,276,823 of equity (2017: €1,348,782).

In the consolidated financial statements, the company is reported as an associate and included in the consolidation of the Group under the equity method in accordance with the relevant IAS.

03

RISK MANAGEMENT

Risks are managed in accordance with the integrated risk management methodology of the Elektro Primorska Group. Subsidiary E 3 buys and sells electricity and as such is exposed to high market risk, which could indirectly weaken the capital adequacy of the parent Elektro Primorska.

The Elektro Primorska Group is exposed to various risks, all of which are monitored on a regular basis, and adopts relevant measures to control the risks and ensure stable operating conditions.

Risk management is one of the key tasks of the management of Elektro Primorska.

It is primarily subsidiary E 3 that is exposed to market risk. The risks result from uncertain price movements on the domestic and foreign electricity markets, where the company is present, and from the open positions of its trading portfolio. An open position that is exposed to market risk arises when the aggregate quantity of electricity purchased at a fixed price over a given accounting period deviates from the quantities sold at a fixed price. In doing so, this risk is managed largely by ensuring that each sale has an appropriate purchase transaction, and vice versa. To hedge open positions, the company uses the option of purchasing electricity through several »open« contracts, which allow optimum electricity purchase in several markets in addition to contracts with delivery at a fixed price, and by limits that prevent open positions to exceed the percentage quantities of electricity as provided by the Regulation. The risk is assessed as medium.

Quantitative risk. This type of risk is more pronounced in the subsidiary primarily as a result of risks arising from the difference between the forecast (leased) and the actual quantities of supplied electricity. Quantitative risks are borne by the company in open agreements, that is, in all contracts with end customers and qualified producers. The company manages the risk through a comprehensive information support used for long and short-term forecasting of electricity consumption and delivery, and active daily monitoring of deviations at all measurement points included in the subgroup. Quantitative risk of E 3 is assessed as medium.

Price risks are linked to increasing competition and uncertainty in the electric power market. The EP Group manages price risks through appropriate pricing policies and coordinated maturity of the sales and purchase agreements. The price risk of the Group is assessed as medium.

Credit risk arises as a result of losses due to untimely fulfilment or even default on the part of customers. The Group limits credit risk by carefully checking the creditworthiness of its customers, continuous monitoring and managing credit exposure to individual customers according to the set limits, and by consistent monitoring of outstanding receivables. To mitigate the credit risk, sale transactions in the electricity sector are mostly secured by instruments, including appropriate collateral. Risk management is not only associated with collateral, but mainly with the defined contractual terms and conditions of sale, which the Company enforces for all types of transactions. The risk is assessed as medium.

Liquidity risk arises if the group companies are unable to meet their financial obligations on maturity. As the companies ensure daily monitoring and planning of short- and long-term solvency provided by regular coordination and planning of cash flows, the liquidity risk capacity is within the range of acceptable parameters and is manageable. The risk is assessed as medium.

Legislative risk results from changes in market rules or legislation on the Slovenian and foreign electricity markets, and may affect business results. Developments in the relevant legislation is monitored by the parent company and its subsidiary E 3 to ensure prompt response to any potential changes by adjusting the trading and production activities. As Elektro Primorska strictly complies with the requirements of the General Data Protection Regulation (GDPR) issued by the EU with regard to the processing of personal data and on the free movement of such data, the level of such risks is medium.

Operational risk is present in all business operations carried out by the group companies. The risk of a financial losses may arise due to lack of efficacy of information technology, quality processes and control processes. The risks are mitigated by the system based on the principle that all the major operations are performed under control of at least two persons, permanent improvements in the upgrading of the information structure, and automatic control of the individual stages of processes. In addition, the group companies endeavour to mitigate the risk by precisely specifying all the processes, clearly defining the roles of individuals, including their powers and responsibilities, and adoption of relevant policies. Operational risks are mitigated by highly professional, experienced and motivated employees. The risk level is assessed as low.

Human resources risk is associated with the potential loss or shortage of qualified personnel. The group companies employed 526 employees as at 31 December 2018 (2017: 527 employees); 422 men (2017: 422) and 104 women (2017: 105). The companies manage the risk by continuous training of employees, promoting further education, by creating good working conditions, providing accident insurance, financing supplementary pension schemes, and facilitating secondary activities that affect the well-being of employees. The risk is assessed as moderate.

04

PERFORMANCE OF THE ELEKTRO PRIMORSKA GROUP

Companies in the Elektro Primorska Group are engaged in various activities. The most important of those are implemented by the parent company, as its main activities are electricity distribution and management of the network grid, **and by activities carried out by its subsidiary E 3. The subsidiary E 3 is mainly engaged in the purchase and sale of electricity, as well as in electricity production from renewable resources, and co-generation and supply of steam and hot water within the scope of its public services of providing heat supply.**

The two companies individually and collectively achieved and exceeded all planned objectives.

The Group closed the business year with a profit however, the result did not reach the plan and is also below the one achieved in the previous year. This is due to slight drop in the performance of the subsidiary.

Elektro Primorska has not adopted a diversity policy.

05

SUBSEQUENT EVENTS

No significant business events occurred after the balance sheet date, which would affect the Group's operations and its financial statements.

06

CONSOLIDATED FINANCIAL STATEMENTS

INDEPENDENT AUDITOR'S REPORT

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This is a translation of the original report in Slovene language

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ELEKTRO PRIMORSKA podjetje za distribucijo električne energije, d.d.

Opinion

We have audited the consolidated financial statements of Group Elektro Primorska (the Group), which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated income statement, the consolidated statement of other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group Elektro Primorska as at 31 December 2018 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA). Our responsibilities under those rules are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Slovenia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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

Other information

Other information comprises the information included in the consolidated Annual Report other than the consolidated financial statements and auditor's report thereon. Management is responsible for the other information.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. In addition, we assess whether the other information has been prepared, in all material respects, in accordance with applicable law or regulation, in particular, whether the other information complies with law or regulation in terms of formal requirements and procedure for preparing the other information in the context of materiality, i.e. whether any non-compliance with these requirements could influence judgments made on the basis of the other information.

Based on the procedures performed, to the extent we are able to assess it, we report that:

- The other information describing the facts that are also presented in the consolidated financial statements is, in all material respects, consistent with the consolidated financial statements; and
- The other information is prepared in compliance with applicable law or regulation.

In addition, our responsibility is to report, based on the knowledge and understanding of the Group obtained in the audit, on whether the other information contains any material misstatement. Based on the procedures we have performed on the other information obtained, we have not identified any material misstatement.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or

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has no realistic alternative but to do so. The supervisory board and audit committee are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with audit rules, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal controls;

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;

- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;

- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;

- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the supervisory board and audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Ljubljana, 17 May 2019

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

ERNST & YOUNG
Revizija, poslovno
svetovanje d.o.o., Ljubljana 3

Lidija Šinkovec
Certified auditor

6.1. Consolidated statement of financial position of the Group as at 31 December 2018

in EUR

Assets	Notes	31.12.2018	31.12.2017
Non-current assets			
Intangible assets	7.2.1.1.	4,237,487	4,057,775
Property, plant and equipment	7.2.1.2.	190,179,487	185,835,559
Investment property	7.2.2	224,488	201,975
Investments in associates	7.2.3	878,502	913,236
Other shares and stakes	7.2.3	307,472	342,737
Financial receivables	7.2.4	82,979	82,979
Operating receivables	7.2.5	547,913	156,945
Long-term cost to obtain contracts	7.2.6	83,763	90,041
Deferred tax assets	7.2.7	1,201,078	1,060,359
Total non-current assets		197,743,169	192,741,606
Current assets			
Inventories	7.2.8.1.	1,152,368	901,006
Contract assets and cost to obtain contracts	7.2.8.4.	2,218,286	0
Financial receivables	7.2.8.2.	4,001,343	1,343
Trade receivables	7.2.6.3.	31,178,734	26,767,160
Income tax credits	7.2.6.3.	21,259	50,793
Other receivables	7.2.6.3.	1,449,328	1,501,088
Other current assets	7.2.8.3.	302,713	3,206,923
Cash and cash equivalents	7.2.8.5.	3,724,692	6,167,489
Total current assets		44,048,724	38,595,803
Total assets		**241,791,893**	**231,337,409**

Table 97: Consolidated statement of financial position as at 31 December 2018

in EUR

	Notes	31.12.2018	31.12.2017
Equity and liabilities			
Equity			
Share capital		78,562,832	78,562,832
Capital surplus		46,208,187	46,208,187
Legal reserves		768,501	768,501
Reserves for treasury shares		80,613	79,540
Treasury shares		-80,613	-79,540
Other profit reserves		34,819,055	30,133,850
Fair value reserve		-1,028,694	-67,045
Retained earnings		2,523,890	3,068,002
Total capital	**7.2.9**	**161,853,771**	**158,674,327**
Non-current liabilities			
Provisions for post-employment and other long-term employee benefits	7.2.10.1	4,664,168	3,930,263
Deferred revenue	7.2.10.2	10,759,375	10,849,240
Financial liabilities	7.2.11	26,841,667	24,791,334
Total non-current liabilities		**42,265,210**	**39,570,837**
Short-term liabilities	7.2.12		
Financial liabilities		7,596,400	6,790,892
Operating liabilities		27,695,703	25,083,987
Income tax payable		75,763	43,630
Contract liabilities	7.2.13	1,054,184	0
Other liabilities	7.2.14	1,250,863	1,173,736
Total short-term liabilities		**37,672,913**	**33,092,246**
Total liabilities		79,938,123	72,663,082
Total equity and liabilities		**241,791,894**	**231,337,409**

Table 98: Consolidated statement of financial position as at 31 December 2018 (equity and liabilities)

Notes to the financial statements are an integral part thereof and should be read in conjunction with them.

6.2. Consolidated profit and loss account for the financial year ended on 31 December 2018

in EUR

	Notes	2018	2017
Net sales	7.3.1	122,815,658	109,913,672
- Revenue from contracts with customers		105,720,980	0
- Other sales revenue		17,094,678	0
Change in inventories of work in progress		0	-48,031
Capitalised own products and services	7.3.1	7,901,444	7,155,536
Other operating revenue	7.3.1	2,400,084	1,239,900
OPERATING PROFIT OR LOSS		**133,117,186**	**118,261,078**
Cost of goods and material	7.3.2	-81,276,369	-68,349,795
Cost of services		-10,495,098	-10,221,558
Employee benefits	7.3.2	-19,739,558	-18,667,697
Amortisation and depreciation		-12,516,694	-12,233,112
Impairments and write-off		-383,089	-443,208
- of which net impairment and write-off of operating receivables		-267,995	-359,493
Other operating expenses	7.3.3	-349,663	-264,627
OPERATING PROFIT OR LOSS		**8,356,714**	**8,081,082**
The share of operating profit or loss from investments valued under the equity method		**21,994**	**64,831**
Financial income	7.3.4	145,156	117,501
Financial expenses	7.3.5	-392,287	-394,488
Financial profit or loss		-247,131	-276,987
PROFIT OR LOSS BEFORE TAX		**8,131,578**	**7,868,926**
Income tax	**7.3.6**	**-1,065,785**	**-1,103,155**
Deferred tax		**-37,772**	**580,572**
Income tax payable		**-1,103,557**	**-522,584**
NET PROFIT OR LOSS FOR THE YEAR	**7.3.7**	**7,028,021**	**7,346,342**
Basic earnings per share (in EUR)		0.37	0.39
Diluted earnings per share (in EUR)		**0.37**	**0.39**

Table 99: Consolidated profit and loss account for the financial year ended on 31 December 2017

Notes to the financial statements are an integral part thereof and should be read in conjunction with them.

6.3. Consolidated statement of comprehensive income for the year ended 31 December 2018

in EUR

	2018	2017
Net profit	**7,028,021**	**7,346,342**
Other comprehensive income for the year		
Other comprehensive income for the year, to be recognised in profit or loss at a future date		
Gains or losses on revaluation of investments at fair value	3,315	13,498
Deferred tax effect		
Net other comprehensive income for the year, to be recognised in profit or loss at a future date	**3,315**	**13,498**
Other comprehensive income for the year that will never be recognised in profit or loss		
Actuarial gains/losses on provisions for severance pay	-1,073,996	85,775
Deferred tax effect	101,295	8,070
Net other comprehensive income for the year that will never be recognised in profit or loss	**-972,702**	**93,845**
Total other comprehensive income for the year (net of tax)	**-969,386**	**107,343**
Total comprehensive income for the year (net of tax)	**6,058,634**	**7,453,685**

Table 100: Consolidated statement of comprehensive income for the year ended 31 December 2018

6.4. Consolidated cash flow statement for the year ended 31 December 2018

in EUR

	Notes	2018	2017
A. CASH FLOWS FROM OPERATING ACTIVITIES			
1. Receipts from operating activities		**242,624,624**	**222,577,528**
a. Proceeds from sale of products and services		209,761,404	194,274,664
b) Other receipts from operating activities		32,863,220	28,302,864
2. Expenditure from operating activities		**-227,508,868**	**-208,699,877**
a. Expenditure for purchase of materials and services		-104,483,501	-91,920,968
b) Expenditure for salaries and employees' shares in profits		-19,070,826	-18,720,526
c) Expenditure for all kinds of contributions		-8,559,803	-9,156,933
d. Other expenditure from operating activities		-95,394,739	-88,901,449
3. Net cash from operating activities		**15,115,755**	**13,877,651**
B. CASH FLOWS FROM INVESTING ACTIVITIES			
4. Cash receipts from investing activities		**1,283,151**	**1,507,171**
a. Interest and profit shares		98,529	176,448
b) Proceeds from disposal of property, plant and equipment		184,622	1,330,723
c) Proceeds from disposal of long-term investments		1,000,000	0
d. Proceeds from disposal of short-term investments		0	0
5. Cash disbursements for investing activities		**-18,840,692**	**-11,550,408**
a. Expenditure for acquisition of intangible assets		-1,688,146	-1,965,372
b) Expenditure for acquisition of property, plant and equipment		-12,152,545	-9,576,036
c) Expenditure for acquisition of long-term and short-term investments		-5,000,000	-9,000
6. Net cash from investing activities		**-17,557,541**	**-10,043,237**
7. Net cash from operating and investing activities		**-2,441,785**	**3,834,414**
C. CASH FLOWS FROM FINANCING ACTIVITIES			
8. Cash receipts from financing activities		15,009,506	29,650,000
a. Receipts from long-term borrowings		9,000,000	9,000,000
b) Receipts from short-term borrowings		6,009,506	20,650,000
9. Cash disbursements from financing activities		**-15,010,517**	**-30,479,917**
a. Interest paid		-306,757	-319,521
b. Repayments of capital		-1,074	1,239
c) Cash repayments of long-term borrowings		-6,853,667	-7,445,323
d. Cash repayments of short-term borrowings		-5,300,000	-20,650,000
e. Dividends paid		-2,549,019	-2,066,311
10. Net cash from financing activities		**-1,011**	**-829,917**
11. Total cash flows		**-2,442,797**	**3,004,497**
D. CLOSING BALANCE OF CASH AND CASH EQUIVALENTS		3,724,692	6,167,489
X. Opening balance of cash and cash equivalents		6,167,489	3,162,992
Y. CASH FLOWS FOR THE PERIOD	**7.4.**	**-2,442,797**	**3,004,497**
Closing balance of cash and cash equivalents on the last day of the accounting period		**3,724,692**	**6,167,489**

Table 101: Consolidated cash flow statement for the year ended 31 December

Notes to the financial statements are an integral part thereof and should be read in conjunction with them.

6.5. Consolidated statement of changes in equity for the year ended 31 December 2018

in EUR

	Called-up capital		Profit reserves							
	Share capital	Capital surplus	Legal reserves	Reserves for treasury shares	Treasury shares	Other profit reserves	Fair value reserve	Retained earnings	Net profit for the year	Total capital
	I/1	II	III/1			III/5	IV	V/1	VI/1	
A.1. At 31 Dec 2017	78,562,832	46,208,187	768,501	79,540	-79,540	30,133,850	-67,045	551,851	2,516,150	158,674,326
Effect of transfer to IFRS 9						0		-329,096		-329,096
A.2. At 1 Jan 2018	78,562,832	46,208,187	768,501	79,540	-79,540	30,133,850	-67,045	222,755	2,516,150	158,345,230
B.1. Changes in equity - transactions with owners	0	0	0	1,073	-1,073	0	0	-2,549,021	-1,073	-2,550,094
a) Purchase of treasury shares					-1,073					-1,073
b) Formation of reserve for treasury shares				1,073					-1,073	0
a) Dividend payment	0	0	0			0	0	-2,549,021	0	-2,549,021
B.2. Total comprehensive income for the reporting period	0	0	0			0	-969,386	0	7,028,021	6,058,635
a) Net profit or loss for the reporting period	0	0	0			0	0	0	7,028,021	7,028,021
b) Fair value reserve	0	0	0			0	3,315	0	0	3,315
b) Other components of comprehensive income for the reporting period	0	0	0			0	-972,701	0	0	-972,701
B.3. Changes within equity	0	0	0			4,685,205	7,737	2,441,960	-7,134,901	0
a) Allocation of the remaining net profit of the comparable reporting period to other components of equity	0	0	0			51,102	0	2,449,696	-2,500,798	0
b) Allocation of part of net profit of the reporting period to other components of equity in accordance with decision of the management	0	0	0			4,634,103	0	0	-4,634,103	0
c) Allocation of part of net profit to additional reserves in accordance with decisions of the AGM						0		0	0	0
d) Other changes within equity	0	0	0			0	7,737	-7,737		0
C. At 31 Dec 2018	78,562,832	46,208,187	768,501	80,613	-80,613	34,819,055	-1,028,694	115,694	2,408,196	161,853,771
Distributable profit 2018								**115,694**	**2,408,196**	**2,523,890**

Table 102: Consolidated statement of changes in equity for the year ended 31 December

Notes to the financial statements are an integral part thereof and should be read in conjunction with them.

Consolidated statement of changes in equity for the year ended 31 December 2017

in EUR

	Called-up capital		Profit reserves							
	Share capital	Capital surplus	Legal reserves	Reserves for treasury shares	Treasury shares	Other profit reserves	Fair value reserve	Retained earnings	Net profit for the year	Total capital
	I/1	II	III/1			III/5	IV	V/1	VI/1	
A.1. At 31 Dec 2016	78,562,832	46,208,187	768,501	78,609	-78,609	24,691,698	-174,387	439,702	2,807,101	153,303,634
A.2. At 1 Jan 2017	78,562,832	46,208,187	768,501	78,609	-78,609	24,691,698	-174,387	439,702	2,807,101	153,303,634
B.1. Changes in equity - transactions with owners	0	0	0	931	-931	0	0	-2,066,311	-931	-2,067,242
a) Purchase of treasury shares					-931					-931
b) Formation of reserve for treasury shares				931					-931	0
a) Dividend payment	0	0	0			0	0	-2,066,311	0	-2,066,311
B.2. Total comprehensive income for the reporting period	0	0	0			0	107,342	0	7,346,342	7,453,684
a) Net profit or loss for the reporting period	0	0	0			0	0	0	7,346,342	7,346,342
b) Fair value reserve	0	0	0			0	5,565	0	0	5,565
b) Other components of comprehensive income for the reporting period	0	0	0			0	101,777	0	0	101,777
B.3. Changes within equity	0	0	0			5,442,152	0	2,178,460	-7,636,362	-15,750
a) Allocation of the remaining net profit of the comparable reporting period to other components of equity	0	0	0			602,708	0	2,194,210	-2,796,918	0
b) Allocation of part of net profit of the reporting period to other components of equity in accordance with decision of the management	0	0	0			4,788,342	0	0	-4,788,342	0
c) Allocation of part of net profit to additional reserves in accordance with decisions of the AGM						51,102		0	-51,102	0
d) Other changes within equity	0	0	0			0	0	-15,750		-15,750
C. At 31 Dec 2017	78,562,832	46,208,187	768,501	79,540	-79,540	30,133,850	-67,045	551,851	2,516,150	158,674,326
Distributable profit 2017								**551,851**	**2,516,150**	**3,068,001**

Table 103: Consolidated statement of changes in equity for the year ended 31 December

Notes to the financial statements are an integral part thereof and should be read in conjunction with them. Retrospective error adjustment is explained in Note 6.1.1.1.

07

FINANCIAL REPORT OF THE ELEKTRO PRIMORSKA GROUP

7.1. General notes and disclosures

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") as endorsed by the EU Regulation, and which were adopted by the International Financial Reporting Interpretations Committee of the IASB ("IFRIC"), as endorsed by the European Union, and in compliance with provisions of the Companies Act (ZGD). These consolidated financial statements have been prepared in accordance with IFRS.

7.1.1 Basis of preparation of consolidated financial statements and significant accounting policies

7.1.1.1 Declaration of Conformity

The Management Board approved the separate financial statements of the Company and consolidated financial statements of the Group on 7 May 2019.

The consolidated financial statements of the Elektro Primorska Group have been prepared in accordance with International Financial Reporting Standards ("IFRS"), and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB ("IFRIC"), as adopted by the European Union, and in compliance with the Companies Act.

7.1.1.2 Basis of measurement

The consolidated financial statements of the Group have been prepared on a historical cost basis, except for available-for-sale assets which are recognised at fair value. Methods applied in the measurement of fair value are presented in Note 7.7.

7.1.1.3 Functional and presentation currency

The financial statements contained in this report are presented in euros (EUR) without cents, which is the functional and presentation currency of the Group. Due to rounding of figures, insignificant deviations may occur in the sums contained in the tables.

Transactions in foreign currencies are translated into EUR at the exchange rate of the European Central Bank (ECB) on the date of the transaction. Exchange rate differences between the date of the transaction and the date of payment are recognised in profit or loss as a financial expense or income.

7.1.1.4 Segment Reporting

The Company is not required to apply provisions of IFRS 8 and therefore its data is not disclosed by segment.

7.1.1.5. The use of estimates and judgements

In the preparation of financial statements, management makes certain estimates, judgements and assumptions which impact the accounting policies used and the carrying value of assets and liabilities, revenues and expenses. Pricing and related assumptions and uncertainties are disclosed in the notes to the separate financial statement items.

Those estimates, judgements and assumptions are regularly revised. Since estimates and assumptions are subject to subjective judgement and some degree of uncertainty, subsequent actual results may differ from the estimates. Any changes in accounting estimates are recognised in the period when the change occurred, providing the change only affects that particular period; however, when the change also impacts future periods, they are recognised in the period of the change occurring and future periods.

Estimates and assumptions are used primarily when making the following judgements:

Assessment of revenue from contracts with customers
Key judgements relating to revenue recognition refer to revenues from contracts with customers and sales made in the name and on behalf of third parties.

Revenue from contracts with customers
The Group has adopted the following accounting judgements, which have a significant impact on the determination of the amount and timing of revenue recognition from contracts with customers:

- Determination of the point of time when contractual obligations are fulfilled.
- Revenue from the sale of goods and services is recognised at the time of sale. From the time of sale, the Group no longer has control over the goods or services sold.

Sales made in the name and for the account of third parties
The Group invoices network charge on behalf of SODO. These network charges are not recognised as revenue, but rather as an obligation to SODO. The Group has no discretionary right when determining the price for the network charges invoiced on behalf of third parties.

Capitalised costs to obtain contracts

The Group has examined the impact of the assessment of deferred income under IFRS 15 in terms of costs to obtain contracts and found that non-capitalised costs amount to €267,946 as at 1 January 2018 and to €271,319 at 31 December 2018. The amounts are disclosed only in the Annual Report of the Group.

Assessment of useful lives of depreciable assets (notes 7.2.1.1. and 7.2.1.2.)
Economic life of an asset is assessed in consideration of expected physical wear and tear, technical and functional obsolescence and expected legal and other restrictions of use. The Group revises economic lives of all significant assets to determine whether due to changed circumstances, the asset's assessed economic life has changed resulting in the revaluation of the amortisation/depreciation of an asset.

Assets' impairment testing
Information on significant estimates about uncertainty and critical judgements in applying accounting policies that have the most significant impact on the amounts recognised in the financial statements is presented below:

- Investment in associates (Note 7.2.3)
- Other shares and stakes (Note 7.2.3),
- Financial receivables (Notes 7.2.4 and 7.2.8.2).

Fair value estimates of the assets (Note 7.7)
Financial assets measured at fair value through profit or loss are recognised at fair value. All other items in the financial statements are recognised at cost or amortised cost.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, based on the lowest level input that is significant to the fair value measurement as a whole:
Level 1 - quoted (unadjusted) market prices in active markets for identical assets or liabilities
Level 2 - valuation techniques for which the lowest level input is directly or indirectly observable
Level 3 - valuation techniques for which the lowest level input is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the reporting period.

The fair value measurement hierarchy of the Group's assets and liabilities is presented in Note 7.7, while accounting policies used for individual financial statements items are explained in Note 3.p.

The Group regularly checks if there has been a change in control held in joint ventures and associates, thus ensuring that investments in the financial statements are adequately reported.

Evidence of investors' significant influence is shown by one or more of the following facts, namely:
- representation on the Board of Directors or equivalent decision-making body of the company in which the Group/Company has invested,
- participation in policy-making processes, including participation in decisions about dividends,
- material transactions between the investor and the company in which the Group has invested.

Assessment of provisions for legal disputes (Note 7.2.10)
Individual Group companies have filed multiple lawsuits and the Group ensures regular estimate of the need for provisions for these legal disputes. A provision is recognised when companies have present obligations (legal or constructive) as a result of past events, a reliable estimate can be made of the amount of obligation, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Contingent liabilities are not recognised in the financial statements as their actual existence will be confirmed only upon the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of these companies.
Management of individual companies continually assess contingent liabilities to determine whether an outflow of resources embodying economic benefits has become probable. A provision is recognised in the financial statements of the period in which the change in probability occurs.

Provisions for post-employment benefits and other non-current employee benefits (Note 7.2.10)
Defined benefit obligations include the present value of termination benefits on retirement and jubilee awards. They are recognised on the basis of the actuarial calculation approved by the management. The actuarial calculation is made by using assumptions and estimates effective at the time of the calculation, and may, as a result of future changes, differ from actual assumptions applicable at that future time. This applies primarily to determination of the discount rate, assessment of employee turnover, mortality assessment, as well as assessment of the increase in salaries. Due to the complexity of the actuarial calculation and the long-term nature of the item, defined benefit obligations are sensitive to changes in the above estimates and assessments.

The assumptions are detailed in the Notes 7.2.10.

Assessment of potential utilisation of deferred tax assets
The Group recognises deferred tax assets arising from provisions for anniversary bonuses and retirement benefits, impairment of receivables and tax losses.
On the financial statement compilation, the Group verifies the amount of disclosed deferred tax assets and liabilities. A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

7.1.1.6 Changes in accounting policies

The accounting policies used in the financial statement compilation are the same as those used in the previous financial year, except for newly adopted or amended standards and interpretations adopted by the Company and the Group for annual periods beginning on or after 1 January 2018 as presented in continuation.

IFRS 9 Financial Instruments
The final version of IFRS 9 Financial Instruments, brings together the requirements of all individual phases of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The Standard introduces new requirements for classification and measurement, impairment and hedge accounting and applies to annual periods beginning on or after 1 January 2018.

IFRS 9 introduces a revised model of financial asset impairment, which is based on expected losses rather than on past losses. The management assessed the impact of the amendments on the financial statements. The Group has adopted the modified method with restatement through equity as at 1 January 2018 and has not restated the comparative information.

The nature of adjustments is described below:

(a) Classification and measurement

Under IFRS 9, debt instruments are subsequently measured at fair value through profit or loss, amortised cost, or fair value through OCI. The classification is based on the entity's business model for managing the assets and on whether the instrument's contractual cash flows represent solely »payments of principal and interest« on the principal amount outstanding.

The Group has made an assessment of its business model on the date of application of the standard, i.e. 1 January 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the asset.

The classification and measurement requirements of IFRS 9 did not have a significant impact on the Group's financial statements and the Group continued measuring at fair value all financial assets previously held at fair value under IAS 39. The adoption of IFRS 9 required the following reclassification of financial assets:

- Trade receivables and other non-current financial assets classified as loans and receivables as at 31 December 2017 are held to collect contractual cash flows and give rise to cash flows representing solely payments of principal and interest. These are classified and measured as debt instruments at amortised cost beginning 1 January 2018.
- Equity investments in non-listed companies previously classified as available-for-sale financial assets are classified and measured as Financial assets at fair value through other comprehensive income beginning 1 January 2018.
- The Group elected to classify irrevocably its non-listed equity investments under this category at the date of initial application as it intends to hold these investments for the foreseeable future. The Group did not recognise any impairment losses in profit or loss on these investments in prior periods.
- Equity investments in non-listed companies previously classified as available-for-sale financial assets are classified and measured as Financial assets at fair value through other comprehensive income beginning 1 January 2018.
- Equity investments in listed companies previously classified as available-for-sale financial assets are classified and measured as Financial assets at fair value through other comprehensive income.

The measurement categories under IAS 39 (reported in the financial statements in previous years) and IFRS 9 (reported in the 2018 financial report) for 2017 are presented in the following table:

Category measured under IFRS 9 at 1 Jan 2018				31.12.2017
in EUR	Fair value through profit or loss	Fair value through other comprehensive income	Amortised amount	Category measured under IAS 39
Loans and receivables				
Trade and other receivables			28,268,248	28,268,248
Available-for-sale financial assets				
Investments in the equity of listed companies		68,435	68,435	68,435
Investments in the equity of non-listed companies		1,187,538	1,187,538	1,187,538
Total	**0**	**1,255,973**	**28,268,248**	**29,524,221**

(b) Impairment

The adoption of the IFRS 9 standard has affected the change in the accounting for previously recognised impairment losses on trade receivables, as the Group has switched from the previous approach to valuation adjustments in accordance with IAS 39 to the assessed value adjustment approach based on expected credit losses. The Group applied the modified retrospective method. Accordingly, the Group recognised €406,291 of additional impairment of trade receivables as at 1 January 2018. On 1 January 2018, due to the effect of additional impairments, the amount of retained earnings of the Group was reduced by €406,291 (€329,096, taking into account the effect of the increase in deferred tax assets of €77,195).

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a five-step model that will apply to revenue earned from contracts with customers (with limited exceptions), regardless of the type of revenue transaction or the industry. The standard's requirements will also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the entity's ordinary activities (e.g., sale of property, plant and equipment or intangibles). Extensive disclosures will be required, including disaggregation of total revenue; information about performance obligations relating to the sale of assets or services; changes in contract asset and liability account balances between periods and key management judgements and estimates.

The Group adopted IFRS 15 using the modified method of adoption with the date of initial application of 1 January 2018. Under this method, the standard applies to all contracts that exist on the date of the first use of the standard or only to those that have not been completed on that day. The Group elected to apply the standard to all contracts as at 1 January 2018. The Management has assessed that due to the adoption of the standard, the cost to obtain contracts with customers has to be capitalised and it made an assessment of its impact on the financial statements of the Group.

The IFRS 15 standard replaces the International Accounting Standards IAS 11 Construction Contract and IAS 18 Revenue and Related Interpretations, which, with limited exceptions, apply to all revenue from contracts with customers. IFRS 15 establishes a five-step model that will apply to revenue earned from contracts with customers. The Standard requires the entity to recognise revenue at the amount of consideration that the company is reasonably expected to collect in exchange for the transfer of goods or services to the customer.

IFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures.

The cumulative effect of initially applying IFRS 15 is recognised at the date of initial application as an adjustment to the opening balance of retained earnings. Therefore, the comparative information was not restated and continues to be reported under IAS 11 and IAS 18 and the related interpretations.

The Group pays sales commission to its sales agents for each contract they conclude for the supply of electricity. The Group has elected to capitalise the cost of sales commission paid to its sales agents. We have made an assessment of the depreciation period based on the duration of the contract and/or the estimated lifetime of the contractual relationship with customers. As there was no significant effect, no restatement or impact was made as of 1 January 2018.

In accordance with IFRS 15, the Group reclassified short-term accrued income from the sale of goods to customers in the statement of financial position as Contract assets, while short-term liabilities for collateral received were reclassified to Contract liabilities. The effects of adopting the IFRS 15 standard on 1 January 2018 are shown in the table below.

in EUR

Assets	Notes	31.12.2018	01.01.2018	Effect of transfer to IFRS 9	Effect of transfer to IFRS 15	31.12.2017
Non-current assets						
Intangible assets	7.2.1.1.	4,237,487	4,057,775	0	0	4,057,775
Property, plant and equipment	7.2.1.2.	190,179,487	185,835,559	0	0	185,835,559
Investment property	7.2.2	224,488	201,975	0	0	201,975
Investments in associates	7.2.3	878,502	913,236	0	0	913,236
Other shares and stakes	7.2.3	307,472	342,737	0	0	342,737
Financial receivables	7.2.4	82,979	82,979	0	0	82,979
Operating receivables	7.2.5	547,913	156,945	0	0	156,945
Long-term cost to obtain contracts	7.2.6	83,763	90,041	0	0	90,041
Deferred tax assets	7.2.7	1,201,078	1,137,554	77,195	0	1,060,359
Total non-current assets		**197,743,169**	**192,818,801**	**77,195**	**0**	**192,741,606**
Current assets						
Inventories	7.2.8.1.	1,152,368	901,006	0	0	901,006
Contract assets and cost to obtain contracts	7.2.8.4.	2,218,286	3,379,340		3,379,340	0
Financial receivables	7.2.8.2.	4,001,343	1,343	0	0	1,343
Trade receivables	7.2.6.3.	31,178,734	26,360,869	-406,291	0	26,767,160
Income tax credits	7.2.6.3.	21,259	50,793	0	0	50,793
Other receivables	7.2.6.3.	1,449,328	1,501,088	0	0	1,501,088
Other current assets	7.2.8.3.	302,713	254,931	0	-2,951,992	3,206,923
Cash and cash equivalents	7.2.8.5.	3,724,692	6,167,489	0	0	6,167,489
Total current assets		**44,048,724**	**38,616,860**	**-406,291**	**427,348**	**38,595,803**
Total assets		**241,791,893**	**231,435,661**	**-329,096**	**427,348**	**231,337,409**

in EUR

Assets	Notes	31.12.2018	01.01.2018	Effect of transfer to IFRS 9	Effect of transfer to IFRS 15	31.12.2017
Equity and liabilities						
Equity						
Share capital		78,562,832	78,562,832	0	0	78,562,832
Capital surplus		46,208,187	46,208,187	0	0	46,208,187
Legal reserves		768,501	768,501	0	0	768,501
Reserves for treasury shares		80,613	79,540	0	0	79,540
Treasury shares		-80,613	-79,540	0	0	-79,540
Other profit reserves		34,819,055	30,133,850	0	0	30,133,850
Fair value reserve		-1,028,694	-67,045	0	0	-67,045
Retained earnings		2,523,890	2,738,906	-329,096	0	3,068,002
Total capital	**7.2.9**	**161,853,771**	**158,345,231**	**-329,096**	**0**	**158,674,327**
Non-current liabilities						
Provisions for post-employment and other long-term employee benefits	7.2.10.1	4,664,168	3,930,263	0	0	3,930,263
Deferred revenue	7.2.10.2	10,759,375	10,849,240	0	0	10,849,240
Financial liabilities	7.2.11	26,841,667	24,791,334	0	0	24,791,334
Total non-current liabilities		**42,265,210**	**39,570,837**	**0**	**0**	**39,570,837**
Short-term liabilities	**7.2.12**					
Financial liabilities		7,596,400	6,790,892	0	0	6,790,892
Trade payables		27,695,703	24,153,239	0	-930,749	25,083,987
Income tax payable		75,763	43,630	0	0	43,630
Contract liabilities	7.2.13	1,054,184	930,749		930,749	0
Other liabilities	7.2.14	1,250,863	1,601,084	0	427,348	1,173,736
Total short-term liabilities		37,672,913	33,519,594	0	427,348	33,092,246
Total liabilities		**79,938,123**	**73,090,430**	**0**	**427,348**	**72,663,082**
Total equity and liabilities		**241,791,894**	**231,435,661**	**-329,096**	**427,348**	**231,337,409**

IFRS Revenue from Contracts with Customers (Clarifications)
The objective of the Clarifications is to clarify the IASB's intentions when developing the requirements in IFRS 15 Revenue from Contracts with Customers, particularly the accounting of identifying performance obligations amending the wording of the "separately identifiable" principle, of principal versus agent considerations including the assessment of whether an entity is a principal or an agent as well as applications of control principle and of licensing providing additional guidance for accounting of intellectual property and royalties. The Clarifications also provide additional practical expedients for entities that either apply IFRS 15 fully retrospectively or that elect to apply the modified retrospective approach. Management has assessed the impact of the amendments on consolidated financial statements of the Group and considers that they will not have a significant impact on them.

IFRS 2 Classification and Measurement of Share-based Payment Transactions (Amendments)
The amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, for share-based payment transactions with a net settlement feature for withholding tax obligations and for modifications to the terms and conditions of a share-based payments that changes the classification of the transaction from cash-settled to equity-settled. Management has assessed the impact of the amendments on consolidated financial statements of the Group and considers that they will not have a significant impact on them.

IFRS 4 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments)
The amendments address concerns arising from implementing the new financial instruments Standard, IFRS 9, before implementing the new insurance contracts standard that the Board is developing to replace IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach, which would permit entities that issue contracts within the scope of IFRS 4 to reclassify, from profit or loss to other comprehensive income, some of the income or expenses arising from designated financial assets. Management has assessed the impact of the amendments on consolidated financial statements of the Group and considers that they will not have a significant impact on them.

IAS 40 Transfers to Investment property (Amendments)
The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The Amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. Management has assessed the impact of the amendments on consolidated financial statements of the Group and considers that they will not have a significant impact on them.

IFRIC 22 Foreign Currency Transactions and Advance Consideration (Interpretation)
The Interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation covers foreign currency transactions when an entity recognises a non-monetary asset or a non-monetary liability arising from the payment or receipt of advance consideration before the entity recognises the related asset, expense or income. The Interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. Management has assessed the impact of the amendments on consolidated financial statements of the Group and considers that they will not have a significant impact on them.

ANNUAL IMPROVEMENTS TO STANDARDS AND INTERPRETATIONS - 2015 - 2017 CYCLE

The IASB has issued the Annual Improvements to IFRSs 2015 - 2017 Cycle, which is a collection of amendments to IFRSs. The amendments apply for annual periods beginning on or after 1 January 2019. Early adoption is permitted. Management has assessed the impact of the amendments on consolidated financial statements of the Group and considers that they will not have a significant impact on them. Amendments to IFRSs:

- **IFRS 3 Business Combinations and IFRS 11 Joint Arrangements.** The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.
- **IAS 12 Income taxes** The amendments to IAS 12 Income Tax clarify that the income tax consequences of payments on financial instruments classified as equity should be recognised according to where the past transactions or events that generated distributable profits has been recognised.
- **IAS 23 Borrowing Costs** The amendments clarify paragraph 14 of the standard that, when a qualifying asset is ready for its intended use or sale, and some of the specific borrowing related to that qualifying asset remains outstanding at that point, that borrowing is to be included in the funds that an entity borrows generally.

The Group did not apply early any new standards and interpretations that have been adopted, but are not yet effective.

The standards and interpretations described below have not come into effect by the date of the consolidated financial statements and have not been endorsed by the EU. The Group will apply the new and revised standards and interpretations when they come into force. The Group did not early adopt any standards.

Conceptual Framework in IFRS standards
The IASB issued the revised Conceptual Framework for Financial Reporting on 29 March 2018. The Conceptual Framework sets out a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards. IASB also issued a separate accompanying document, Amendments to References to the Conceptual Framework in IFRS Standards, which sets out the amendments to affected standards in order to update references to the revised Conceptual Framework. Its objective is to support transition to the revised Conceptual Framework for companies that develop accounting policies using the Conceptual Framework when no IFRS Standard applies to a particular transaction. For preparers who develop accounting policies based on the Conceptual Framework, it is effective for annual periods beginning on or after 1 January 2020.

IFRS 9 Financial Instruments (Amendments): Prepayment Features with Negative Consideration
The amendments apply for annual periods beginning on or after 1 January 2019. Early adoption is permitted. The amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract (so that, from the perspective of the holder of the asset there may be ››negative compensation‹‹), to be measured at amortised cost or at fair value through OCI. The Group does not expect the amendments will have a significant impact on its consolidated financial statements.

IFRS 16 Leases
The IFRS 16 scope relates to leases of all assets, with some exceptions. Lessees are required to account for all leases under a single on-balance sheet model similar to the accounting for finance lease under IAS 17. The standard includes two recognition exceptions for lessees – lease of ››low value assets‹‹ (e.g. personal computers) and short-term leases (e.g. leases with a lease term of 12 months or less).

At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-to-use asset. Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g. a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payment). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from existing accounting under IAS 17. The standard is applied for annual periods beginning on or after 1 January 2019. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transitional provisions permit certain relief. Early application is permitted, but not before the lessee applies IFRS 15.

The Group will not apply the standard to leased low-value assets or short-term lease agreements. For other assets, it will apply the modified retrospective method.

As at 31 December 2018, the Group checked and analysed its lease agreements with a duration of more than one year. In accordance with IFRS 16, the Group assessed the right to use and the lease obligations, which are to be disclosed in the statement of financial position and their effect on the income statement based on the value of leases and the duration of lease contracts. The value of the right to use and liabilities from leases are estimated based on discounted future cash flows over the lease term. Cash flows are discounted using the interest rate achieved by the Group companies in their financing of long-term leases. Depreciation costs are calculated using the depreciation rates estimated over the remaining lease term.

Estimated effect of the IFRS 16 application on the statement of financial position of the Elektro Primorska Group as at 31 December 2018

EUR

	MSRP 16	MRS17
Assets		
Right of use	1,040,766	0
Liabilities		
Lease liabilities	1,040,766	0

Impact of the IFRS 16 application on the income statement of the Elektro Primorska Group in the financial year 2019

EUR

	MSRP 16
Amortisation of the right of use	107,565,73
Lease costs	-118,159,88
Operating profit	10,594,15
Financial expenses	19,173,67
Loss before tax	**-8,579,52**

IFRS 17 Insurance Contracts
The Standard applies for annual periods beginning on or after 1 January 2021. Early adoption is permitted, provided that the company also reports in accordance with IFRS 15 Revenue from Customer Contracts and IFRS 9 Financial Instruments. IFRS 17 Insurance Contracts thus provides guidelines for the recognition, measurement, presentation and disclosure of insurance contracts agreed by an insurance company. The Standard also requires the application of similar principles in reinsurance and investment contracts with potential discretionary participation. The objective is to ensure that entities provide relevant information in a way that faithfully represents those contracts. This information gives a basis for users of financial statement to assess the effect that contracts within the scope of IFRS 17 have on the financial position, financial performance and cash flows of an entity. The standard has not yet been endorsed by the EU. The Management has assessed that the standard will not have any significant effect on the consolidated financial statements of the Group.

Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. The IASB has postponed the effective date of this standard indefinitely pending the outcome of its research project on the equity method of accounting. The amendments have so far not been endorsed by the EU. The Group does not expect the amendments will have a significant impact on its consolidated financial statements.

IAS 28 Investments in Associates and Joint Ventures (amendments)
The amendments apply for annual periods beginning on or after 1 January 2019. Early adoption is permitted. The Amendments address the issue of whether the measurement, in particular impairment requirements, of long term interests in associates and joint ventures that, in substance, form part of the 'net investment' in the associate or joint venture should be governed by IFRS 9, IAS 28 or a combination of both. The Amendments clarify that an entity applies IFRS 9 - Financial Instruments, before it applies IAS 28, to such long-term interests for which the equity method is not applied. In applying IFRS 9, the entity does not take account of any adjustments to the carrying amount of long-term interests that arise from applying IAS 28. The amendments have not been endorsed by the EU. The Group does not expect the standard will have a significant impact on its consolidated financial statements.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatments (Amendments)
The amendments apply for annual periods beginning on or after 1 January 2019. Early adoption is allowed. The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The Interpretation provides guidance on considering uncertain tax treatments separately or together, examination by tax authorities, the appropriate method to reflect uncertainty and accounting for changes in facts and circumstances. Th Group is assessing the potential impact of the amendments and will apply it on its effective date. The Group does not expect the standard will have any significant impact on its consolidated financial statements.

IAS 19 Plan Amendment, Curtailment or Settlement (Amendments)
The amendments apply for annual periods beginning on or after 1 January 2019. Early adoption is permitted. The amendments require entities to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after a plan amendment, curtailment or settlement has occurred. The amendments also clarify how the accounting for a plan amendment, curtailment or settlement affects applying the asset ceiling requirements. The Group does not expect the standard will have any significant impact on its consolidated financial statements.

IFRS 3 Business combinations (Amendments)
The IASB issued amendments in Definition of a Business (Amendments to IFRS 3) aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The amendments are effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period. Early adoption is permitted. The amendments have not been endorsed by the EU. The Group does not expect the standard will have any significant impact on its consolidated financial statements.

IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of »material«(Amendments)
Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2020. Early adoption is permitted. The amendments clarify the definition of material and how it should be applied. The new definition states that, information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. In addition, the explanations accompanying the definition have been improved. The amendments also ensure that the definition of »material« is consistent across all IFRS Standards. The Group does not expect the standard will have any significant impact on its consolidated financial statements.

7.1.1.7 Significant accounting policies

Measurement of economic categories presented in the financial statements is based on historical cost and final fair values recorded in books of accounts. The following are the main accounting policies.

a. The process of consolidation

In addition to the parent company Elektro Primorska, subsidiary E 3, and associate Knešca are also included in the consolidation.

Consolidated financial statements comprise:

- Consolidated statement of financial position
- Consolidated profit and loss account
- Consolidated statement of comprehensive income
- Consolidated cash flow statement
- Consolidated statement of changes in equity and
- Notes to consolidated financial statements.

Companies in the Elektro Primorska Group are committed to their individual calculation of corporate income tax liability.

In the consolidated financial statements, the Elektro Primorska Group is addressed as a single entity. The consolidated financial statements are compiled based on original financial statements of the group companies, with relevant consolidating adjustment, which are not posted in the financial statements of the group companies.

Consolidated financial statements are compiled based on full consolidation of subsidiary E 3 and the equity method applied in the consolidation of the associate Knešca.

Consolidation procedures are applied to:
- settlement of the parent company's financial investments with the capital of the subsidiary,
- elimination of intercompany receivables and liabilities,
- elimination of intercompany revenue and expenses
- elimination of intercompany inflows and outflows,
- increase of the investment in associated company by the attributable amount of capital, less dividends paid and the relevant financial revenue and expenses.

b) Business combinations

Business combinations are accounted for using the purchase method at the date of the merger, which is the acquisition date, i.e. the date when the Group obtains control. Control means that the Group has the power to decide on the financial and operating policies of a company so as to obtain benefits from its activities.

The Group measures goodwill at the fair value of the consideration transferred, increased by the recognised amount of any non-controlling interest in the acquiree, and the fair value of any existing shares in the capital of the acquired company (gradual merger), less the net recognised value of acquired assets and liabilities measured at the date of acquisition. If the surplus is negative, the effect is recognised directly in profit or loss. Acquisition costs, other than costs associated with the issuance of equity or debt instruments incurred in connection with a business combination, are recognised when they are incurred.

Contingent liabilities in a business combination are recognised at fair value at the acquisition date. If a contingent liability is classified as equity, it is not remeasured and its settlement is accounted for within equity. The Group recognises subsequent changes in fair value of contingent liabilities in profit or loss.

Accounting for acquisitions of minority interests
The Group accounts for purchases of non-controlling interests where there is no change in control of the company, as transactions with owners and therefore no goodwill is recognised. Changes in non-controlling interests are based on the proportionate share of the net assets of the subsidiary. Any surplus or the difference between the cost of the additional investment and the carrying amount of the assets is recognised in equity.

Subsidiaries
Subsidiaries are entities controlled by the Group. Control exists when:
- the investor is entitled to variable returns from its involvement in the business of the investee,
- has the ability to affect the return on the basis of its control of the investee or the recipient of the investment,
- there is a link between power and return.

The financial statements of subsidiaries are included in the consolidated financial statements from the date the control commences until the date the control ceases. Accounting policies of subsidiaries are consistent with those of the Group.

After loss of control, the Group derecognises the assets and liabilities of the subsidiary, non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit that arise from the loss of control is recognised in profit or loss. Any stakes retained by the Group in its former subsidiary are measured at fair value on the date when the control is lost. Subsequently, it is accounted for as investment in associate (accounted for under the equity method) or as available-for-sale financial asset depending on the level of control. Changes in equity interest of the parent company in a subsidiary that do not result in loss of control are accounted for as equity transactions (i.e. transactions with owners) and recognised as other profit reserves.

Investments in associates and joint ventures
Associates are those entities in which the Group has significant influence but does not control their financial and operating policies. Joint ventures are those entities over whose activities the Group has joint control and which are based on contractual agreement requiring unanimous consent for financial and operating decisions. On initial recognition, investments in associates and joint ventures are measured at cost; after the initial recognition they are accounted for under the equity method. The consolidated financial statements include the Group's share in the profits and losses of jointly controlled companies accounted for using the equity method (after relevant adjustments in the accounting policies) from the date that significant influence commences and until the date it ceases. If the Group's share of losses in an associate or jointly controlled entity is greater than its stake, the carrying amount of the Group's interest is reduced to nil and its share in any further losses is no longer recognised.

Transactions eliminated from the consolidated financial statements
Balances, profits and losses arising from intra-group transactions have been eliminated in the compilation of consolidated financial statements of the Group. Unrealised gains from transactions with associates are recognised under the equity method and are eliminated to the extent of the Group's stake in the entity. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

c) Foreign currency translation

Foreign currency transactions
Transactions in foreign currencies are translated into the functional currency of the Group entities at exchange rates prevailing on the transaction date. At the end of reporting period, monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the applicable exchange rate. Foreign exchange rate gains or losses are differences between amortised cost denominated in the functional currency at the beginning of the period adjusted for effective interest and payments made during the period, and the amortised cost in foreign currency translated at the exchange rate prevailing at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated into the functional currency at the exchange rate prevailing at the date when the fair value is determined. Non-monetary items denominated in foreign currencies that are reported at cost are translated into the functional currency at the exchange rate applicable on the transaction date. All differences arising from the translation of foreign currency are recognised in the profit or loss.

Financial statements of the Group companies
The consolidated financial statements are presented in euros. For the purpose of the consolidated financial statements, items of each individual company in the Group that is included in the consolidation are translated into the reporting currency as follows:
- Assets and liabilities in each individual statement of financial position (including goodwill), are translated at the ECB exchange rate prevailing at the reporting date,
- Revenues and expenses of foreign operations are translated into euros at the exchange rates prevailing at the date of conversion.

Foreign exchange differences are recognised in other comprehensive income as translation reserve and as a component of equity. The relevant share of foreign exchange rate differences arising from foreign subsidiaries that are not wholly owned, are allocated to non-controlling interest. When a foreign operation is disposed of in part or in full, the relevant amount in the translation reserve is reclassified to profit or loss as revenue or expense arising from disposal. If the Group disposes of only one part of its interest in a subsidiary that includes a foreign operation while maintaining control, the relevant share of the amount is reclassified to non-controlling interest. If the Group disposes of only one part of its investment in an associate or jointly controlled entity that includes a foreign operation, and maintains significant influence or joint control, the relevant share of the amount is reclassified to profit or loss.

d. Financial assets

Under IFRS 9, debt instruments are subsequently measured at fair value through profit or loss, amortised cost, or fair value through OCI. The classification is based on the following criteria: the entity's business model for managing the assets; and whether the instrument's contractual cash flows represent solely »payments of principal and interest« on the principal amount outstanding.

The Group verified its business model at 1 January 2018, and subsequently applied it retroactively to those financial assets whose recognition was not reversed before 1 January 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the asset.

The classification and measurement requirements of IFRS 9 did not have a significant impact on the Group's financial statements and the Group continued measuring at fair value all financial assets previously held at fair value under IAS 39. The adoption of IFRS 9 required the following reclassification of financial assets:

- Trade receivables and other non-current financial assets classified as loans and receivables, are now held to collect contractual cash flows and give rise to cash flows representing solely payments of principal and interest. These are classified and measured as debt instruments at amortised cost beginning 1 January 2018.

- Equity investments in non-listed companies previously classified as available-for-sale financial assets are classified and measured as Financial assets at fair value through other comprehensive income. The Group elected to classify irrevocably its non-listed equity investments under this category at the date of initial application as it intends to hold these investments for the foreseeable future. There were no impairment losses recognised in profit or loss on these investments in prior periods.

- isted equity investments classified as available-for-sale financial assets (AFS) are now classified and measured as financial assets at fair value through profit or loss beginning 1 January 2018.

The Group has no financial liabilities at fair value through profit or loss, therefore the standard's amendments did not impact the classification and measurement of the Group's financial liabilities.

e. Equity

Total capital of the company is its liability towards its owners which falls due if the company ceases to operate. It is determined by the amounts invested by owners and the amounts generated in the course of operation that belong to the owners.

Total capital consists of:

Called-up capital
Called-up capital of the parent company Elektro Primorska, Nova Gorica, is the share capital, which is defined in the Articles of Association, registered at the Court and was paid by the owners. Dividends paid on ordinary shares are recognised as a liability in the period in which they are approved at the General Meeting.

Legal reserves
Legal reserves are amounts of retained profit from previous years, earmarked for the settlement of potential future losses. They are recognised on their occurrence by the authority responsible for preparation of the annual report or based on the decision of the relevant authority.

The fair value reserve comprises effects of measurement of available-for-sale financial assets at fair value and actuarial gains and losses from provisions for post-employment and other long-term employee benefits.

Reserves for treasury shares
If parent company or its subsidiaries acquire ownership interest in the parent company, the amount paid, including transaction costs net of tax, are deducted from total equity as treasury shares until such shares are withdrawn, reissued or sold. If treasury shares are subsequently sold or reissued, the consideration received net of transaction costs and related tax effects is included in capital surplus.

Dividends
Dividends are recognised in the Group's consolidated financial statements in the period in which they are declared by the Annual General Meeting.

f. Intangible assets

Goodwill
The Group recognises goodwill arising from business combinations. Initial measurement of goodwill is explained in point a.
Goodwill is recognised at cost less any accumulated impairment losses. The carrying amount of goodwill from investments accounted for under the equity method is included in the carrying amount of the investment, while any impairment losses on an investment is allocated neither to any asset nor goodwill that is a part of the carrying amount of an investment recognised under the equity method.

Developmental studies and long-term rights
Development studies and long-term rights include the design and production of new or substantially improved software applications. The Group capitalises development costs of software solutions providing the following conditions are met: the costs can be measured reliably; the development of software solution is technically and commercially feasible; there is likelihood of future economic benefits flowing to the entity; the Group has sufficient resources to complete the development and aims to use the relevant software solution. Capitalised development costs of software solutions include direct costs of labour and other costs that can be directly attributed to making the asset ready for its intended use.

Other intangible assets
Other intangible assets with limited useful lives are carried at cost less accumulated amortisation and accumulated impairment losses. The cost of the asset includes expenditure that is directly attributable to the acquisition of the asset. Borrowing costs that are directly attributable to the acquisition or production of a qualifying asset are recognised as part of the cost of the asset. Intangible assets are subsequently measured using the cost model. In addition to goodwill and rights arising from the concession for construction of gas networks and distribution described below, the majority of the Group's intangible assets comprise software. The Group has no intangible assets with indefinite useful life other than goodwill.

Subsequent expenditure
Subsequent expenditures on an item of intangible assets are added to the carrying amount of the asset if it is reasonable to believe that the future economic benefits from the asset will flow to the Group and its costs can be reliably measured. All other expenditure is recognised in profit or loss when incurred.

Amortisation and depreciation
Amortisation is recognised according to the straight-line method in the period of the estimated expected functional life periods of individual items of intangible asset. Amortisation begins when the asset becomes available for its use.

Assessed useful lives of intangible assets in the current and comparable financial period:

	2018	2017
Intangible assets (excluding software)	3,33-20,00	3,33-20,00
Software	33,3	33,3

Table 104: Amortisation rates applied to intangible assets

Impairment of assets is explained in detail in point k2.

g. Property, plant and equipment

The items of property, plant and equipment are reported at cost less accumulated depreciation and accumulated impairment losses, except for land which is recognised at cost less accumulated impairment losses. The cost of the asset includes expenditure that is directly attributable to the acquisition of the asset. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment. Borrowing costs that are directly attributable to the acquisition or production of a qualifying asset are recognised as part of the cost of the asset. The items of property, plant and equipment are subsequently measured using the cost model.

Subsequent expenditure
Subsequent expenditures on an item of property, plant and equipment are added to the carrying amount of the asset if it is reasonable to believe that the future economic benefits from the asset will flow to the Group and its costs can be reliably measured. All other expenditure (e.g. regular maintenance) is recognised in profit or loss when incurred.

Amortisation and depreciation
Depreciation is accounted for using the straight-line method, taking into account the useful life of each individual (component) part of the asset. Leased assets are depreciated over the term of the lease and their useful lives. Land is not depreciated. Amortisation begins when the asset becomes available for its use. Construction in progress is not depreciated.

Assessed useful lives of the assets in the current and comparable financial period:

	2018	2017
Real estate (land and buildings)	0,00-5,00	0,00-5,00
Computer hardware	33,3	33,3
Transformers	2,86-3,33	2,86-3,33
Electronic counters	4,17-6,67	4,17-6,67
HGV vehicles	8,33	8,33
Cars	12,5	12,5
Other property, plant and equipment	2,50-20,00	2,50-20,00
Artwork	0,00	0,00

Table 105: Depreciation rates of property, plant and equipment

The assets' residual values and useful lives are reviewed annually and adjusted as and when necessary.

Gains and losses on disposal or elimination of the assets are determined by comparison of the proceeds from sale and their carrying amount. Gains and losses on disposal are recognised in profit or loss. The items of property, plant and equipment that are available for sale are recognised separately from other assets. Depreciation of those assets is not accounted for in the year of their disposal.

Impairment of assets is explained in detail in point k2.

h. Investment property

Investment properties are properties which are held by the Group to earn rental income or for their appreciation or both. Investment properties are recognised at cost less accumulated depreciation and accumulated impairment losses. Investment property is measured at cost.
Depreciation method and rates are the same as applied to other property, plant and equipment. Impairment of assets is explained in detail in point k2.

i. Leased assets

A lease is classified as a finance lease if substantially all the risks and rewards of ownership are transferred to the lessee. All other leases are considered operating leases where leased assets (lease of assets) or long-term financial receivables (assets leased out) are not recognised in the consolidated statement of financial position of the Group.

Finance lease
- Group as a lessor
Amounts due from lessees under finance leases are recognised as receivables in the amount of the leased asset. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on a leased asset.

- Group as a lessee
Assets acquired under finance lease are measured at the lower of fair value or sum of minimum payments until the end of the lease, less accumulated depreciation and impairment losses. Finance lease expenses are recognised under the effective interest rate method.

Operating lease
Lease payments under an operating lease are recognised as costs (leased assets) or revenue (assets leased out) in profit or loss on a straight-line basis.

j. Inventories

Inventories of merchandise and materials are measured at the lower of their cost or net realisable value.
Historical cost includes the asset's purchase price, import duties and direct costs of purchase. Any discounts received are deducted from the purchase price. Direct costs of acquisition comprise costs of transportation, loading, reloading and unloading, transport insurance costs, costs of monitoring the goods, agency costs and similar costs incurred to the initial storage if they are borne by the buyer and non-refundable taxes (excise duty). Purchase price discounts include those listed on the invoice as well those obtained subsequently in relation to a specific purchase.
Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and estimated costs of sale. The Group assesses the net realisable value of inventories at each reporting date. If the net realisable value of inventories is lower than their carrying amount, the Group recognises impairment of inventories. Write-down of damaged, expired and obsolete inventories is made regularly during the year for individual items of inventories.

The declining values of inventories are accounted for using the weighted average price method.

k. Impairment of assets

k1. Financial assets

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

Expected credit losses are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since the initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

k2. Non-financial assets

The carrying amounts of the Group's material non-financial assets are reassessed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is assessed.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For impairment testing purposes, the assets that cannot be tested individually are grouped into the smallest cash generating groups from continued use and which are predominantly independent of cash generated by other assets or groups of assets (cash generating unit).

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment loss is recognised in profit or loss. Impairment loss on a cash-generating unit is allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to the other assets of the unit (group of units) in proportion to the carrying amount of each asset in the unit.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount of the asset. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised in the previous periods.
Goodwill that is part of the carrying amount of the investment in the associate or joint venture using the equity method is not recognised separately and is not tested for impairment separately. Instead, the total amount of investment in an associate is tested for impairment as a single asset when there is objective evidence that an investment in an associate is impaired.

l. Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows using a pre-tax discount rate that reflects current market assessments of the time value of money, and risks specific to the liability.

The most significant provisions are:

Provisions for post-employment benefits and other non-current employee benefits
Pursuant to the legislation, collective agreement and internal rules, the Group is liable to pay to its employees anniversary bonuses and termination benefits upon retirement. For these purposes the Group sets aside relevant amount of provisions. There are no other obligations relating to post-employment benefits.

Provisions are determined by discounting, at the reporting date, the estimated future benefits in respect of retirement benefits and anniversary bonuses paid to employees. The obligation is calculated by estimating the costs of retirement benefits upon retirement and the costs of all expected anniversary bonuses until retirement. The calculation is made by a certified actuary using the projected unit credit method. Payments made for retirement benefits and jubilee awards reduce the amount of provisions set aside.

Employee benefit costs and interest expenses are recognised in the profit or loss, while restatement of post-employment benefits, i.e. unrealised actuarial gains or losses on severance payments are recognised in other comprehensive income as a revaluation surplus.

Provisions for disputes
A provision for disputes is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Contingent liabilities are not recognised in the financial statements as their existence will be confirmed by future events which cannot be predicted.

m. Long-term deferred revenues

Government grants and other subsidies received to cover costs are recognised as revenue in the periods in which the costs to be compensated by those grants and subsidies are incurred. Other revenue is recognised when it is reasonably expected that economic benefits will flow to the entity.

Long-term deferred revenue includes primarily deferred revenues from fixed assets acquired free-of-charge, decreased in line with the depreciation of these assets and Government grants, which are transferred to revenues in accordance with the contract.

n. Recognition of revenue

The Elektro Primorska Group's core activity is managing the electricity distribution infrastructure and the purchase and sale of electricity and other energy sources on the retail and wholesale market. Furthermore, it generates operating revenues in the co-generation and production of electricity from renewable sources and sale of services on the market.

Revenue from contracts with customers is recognised when control of the goods and services is transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services, while considering specific terms and conditions of an individual contract. Transfer of control over those goods and services depends on terms and conditions of the contract. In general, control is transferred when goods are accepted by the customer.

The Group considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated. In determining the transaction price for the sale of products, the Group considers the effects of variable consideration and the existence of significant financing components.

Variable compensation
If the consideration in a contract includes a variable amount, the Group estimates the amount of consideration to which it will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved. The Group does not award subsequent bonuses and discounts to customers, and thus, the consideration is not variable.

Significant financing component
In some cases, the Group receives short-term advances from its customers. Using the practical expedient in IFRS 15.63, the Group does not adjust the promised amount of consideration for the effects of a significant financing component if it expects, at contract inception, that the period between the transfer of the promised goods or services to the customer and when the customer pays for those goods or services will be one year or less.

Contract balances
Contract assets
A contract asset is the right to an amount of consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or payment is due, a contract asset is recognised for the earned consideration that is conditional.

Trade receivables
A receivable represents the Group's right to an amount of consideration that is unconditional (i.e. only the passage of time is required before payment of consideration is due). Refer to accounting policies of financial assets in section »Recognition and measurement«

Contract liabilities
A contract liability is the obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Company transfers goods or services to the customer, a contract liability is recognised when the payment is made, or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

Cost to obtain contracts
The Group pays sales commission to its sales agents for each contract they conclude for the supply of electricity. The Group has elected to capitalise the cost of sales commission paid to its sales agents.

o. Financial income and expense

Financial income comprises interest income on financial assets, income from disposal of available-for-sale financial assets, recovered written-off or impaired receivables, change in fair value of financial assets designated at fair value through profit or loss, foreign exchange gains and gains on the hedging instruments, all of which are recognised in the profit or loss account Interest income is recognised as it accrues using the applicable statutory interest rate method.

Financial expenses include borrowing costs (unless they are capitalised), foreign exchange losses, changes in fair value of financial assets designated at fair value through profit or loss, impairment losses recognised on financial assets, and receivable impairments recognised in the profit or loss account.
Borrowing costs are recognised in profit or loss using the effective interest rate method.

p. Taxation

Taxes include current tax and deferred tax. Taxes are recognised in profit or loss, except to the extent they relate to business combinations or items recognised directly in other comprehensive income.

The current tax liabilities are calculated based on taxable profit for the year. The taxable profit differs from net profit reported in the profit or loss because it does not include the items of revenue or expenses that are taxable or deductible in other financial years, nor items that are never taxable or deductible. The current tax liability of the Group is assessed using tax rates applicable at the reporting date.

Deferred tax is disclosed entirely using the »balance sheet« liability method based on temporary differences as the difference between the amount attributed to an asset or liability for tax purposes (tax base) and the carrying amount of that asset or liability in the separate financial statements of the group companies. Deferred income tax is calculated based on tax rates (and legislation) effective when the deferred tax asset is realised, or the deferred tax liability settled.
Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the deferred tax asset can be utilised. Deferred tax assets are offset against deferred tax liabilities when an entity has a legal right to offset current assets and liabilities, and deferred tax assets and liabilities relate to the same taxable entity and the same tax authority.

r. Determination of fair value

According to the adopted accounting policies, the Group determines fair value of non-financial and financial assets and liabilities, either for the purpose of measuring individual assets (valuation techniques or a business combination) or for additional disclosure of fair values.
Fair value is estimated price at which an asset can be sold, or a liability transferred in an orderly transaction between knowledgeable buyer and knowledgeable seller in an arm's length transaction. In determining the fair value of financial instruments, the Group observes the following fair value hierarchy in accordance with IFRS 13:

- Level 1 - values based on quoted prices in active markets for identical assets or liabilities,
- Level 2 - values other than quoted prices from Level 1, but which can be obtained directly from the market (prices for identical or similar assets or liabilities in a less active or inactive markets) or indirectly (e.g. values derived from quoted prices in an active market based on interest rates and yield curves, implied volatilities and credit spreads),
- Level 3 - inputs that are not based on observable market data, however unobserved data must reflect the assumptions that market participants would use in pricing the asset or liability, including risk assumptions.

For assessing the fair value of financial instruments, the Group uses quoted prices. If a financial instrument is not quoted on a regulated market or the market is considered inactive, the Group applies level 2 or level 3 inputs to determine the fair value of a financial instrument.
Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Fair values have been determined for measurement and/or reporting purposes based on the methods presented below.

Intangible assets
Fair value of intangible assets is determined using the future discounted cash flows expected to be derived from the use or sale of the assets.

Property, plant and equipment
Fair value of property, plant and equipment is their market value. Market value of property is the estimated amount for which a property could be sold on the valuation date. Market value of equipment is based on quoted market prices for similar assets.

Investment property
Fair value of investment property is assessed using the total value of expected cash flows from lease of the property. In determining fair value of property, a yield that reflects the risk specific to the asset is considered in the calculation based on the annual discounted net cash flows.

Inventories
Fair value of inventories acquired in a business combination is determined based on the estimated selling price achieved in the ordinary course of business, less estimated costs to sell.

Receivables and loans
The fair value of receivables and loans is estimated at the present value of future cash flows discounted at the market rate of interest at the reporting date. The fair value assessment takes into account credit risk arising from these financial assets.

Non-derivative financial liabilities
For reporting purposes, fair value is calculated as the present value of future principal and interest payments discounted at the market interest rate at the end of the reporting period. In accordance with IFRS 7, fair value of current financial liabilities is not computed as their carrying amount is considered a reasonable approximation of their fair value.

s. Net earnings per share

The Group discloses basic and diluted earnings per share. The basic earnings per share is calculated by dividing the net profit or loss belonging to the owners by the weighted average number of ordinary shares. Diluted earnings per share is calculated by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding in the financial period for the effects of all potential ordinary shares, which are convertible bonds and stock options granted to employees. As the Group has no convertible bonds or share options granted to employees, the basic earnings per share is equal to diluted earnings per share.

t. Cash flow statement

The cash flow statement discloses cash flows for the period arising from operations, investments and financing.
The cash flow statement is compiled using the direct method.
Cash flows from operating activities comprise inflows from the sale of products and services, as well as inflows from other receipts from operations, and operating costs paid in the financial year such as costs of materials, services, salaries, levies and other outflows from operating activities.
Cash flows from investing activities comprise payments in connection with acquisition and disposal of intangible assets and property, plant and equipment, and materials for the acquisition of property, plant and equipment.
Cash flows from financing activities present changes in the amount or composition of equity, increase or decrease of debts, and dividend payments.

7.2. Notes to consolidated statement of financial position

Consolidated balance sheet comprises assets, equity and liabilities of the parent Elektro Primorska, its subsidiary E 3 and the associated company.

7.2.1.1. Intangible assets

The value of intangible assets increased in 2018 following the acquisition of long-term rights in the amount of €1,456,596 (2017: €2,572,655), mostly on account of the new ERP software.

Reduction in intangible assets being acquired relates to their transfer to development studies or long-term rights.

Due to complaints in the process of obtaining a building permit, since 2014 the Group has recognised amortisation of studies in progress as the value of invested assets in the planned construction of wind power plants.

The Group has unlimited rights to its intangible assets.

Movements in intangible assets in 2018 are presented in the following table:

in EUR

2018	Deferred costs of development studies	Long-term rights	Intangible assets being acquired	Total
Cost				
At 1 Jan	**718,312**	**8,246,046**	**1,173,118**	**10,137,475**
Additions during the year	0	0	1,456,596	1,456,596
Additions from ongoing investments	0	1,491,047	-1,491,048	0
Disposals during the year	0	-3,201	0	-3,201
At 31 Dec	**718,312**	**9,733,892**	**1,138,666**	**11,590,870**
Accumulated amortisation				
At 1 Jan	**652,304**	**4,322,379**	**1,105,017**	**6,079,700**
Amortisation for the year	7,259	1,269,625	0	1,276,884
Disposals during the year	0	-3,201	0	-3,201
At 31 Dec	**659,564**	**5,588,803**	**1,105,017**	**7,353,383**
Carrying amount				
At 1 Jan	66,008	3,923,667	68,101	4,057,775
At 31 Dec	**58,748**	**4,145,089**	**33,649**	**4,237,487**

Table 106: Movements in intangible assets in 2018

- IBM software for the new ERP system,
- Software for GIZ data and
- Licenses for the new AX ERP system and Maximo.

The Group reports no commitments for the acquisition of intangible assets as at 31 December 2018 or 31 December 2017.

Movements in intangible assets in 2017 are presented in the following table:

in EUR

2017	Deferred costs of development studies	Long-term rights	Intangible assets being acquired	Total
Cost				
At 1 Jan	**671,681**	**5,505,196**	**1,827,601**	**8,004,478**
Additions during the year	0	0	2,572,655	2,572,655
Additions from ongoing investments	46,631	3,180,508	-3,227,139	0
Disposals during the year	0	-439,659	0	-439,659
At 31 Dec	**718,312**	**8,246,046**	**1,173,118**	**10,137,475**
Accumulated amortisation				
At 1 Jan	**647,451**	**3,605,349**	**1,105,017**	**5,357,818**
Amortisation for the year	4,853	1,156,688	0	1,161,541
Disposals during the year	0	-439,659	0	-439,659
At 31 Dec	**652,304**	**4,322,379**	**1,105,017**	**6,079,700**
Carrying amount				
At 1 Jan	24,230	1,899,847	722,584	2,646,661
At 31 Dec	**66,008**	**3,923,667**	**68,101**	**4,057,775**

Table 107: Movements in intangible assets in 2017

7.2.1.2. Property, plant and equipment

The items of property, plant and equipment are checked for signs of impairment at each reporting day. If any such indication exists, the asset's recoverable amount is assessed.

An impairment test was performed in 2018 in terms of individual cash-generating units of the Meblo and Majske poljane facilities.

The valuation report was made by an independent appraiser for the financial reporting purposes (an impairment test in accordance with IAS 36) as at 31 December 2018.

The object of the valuation was the recoverable amount of the cash-generating units pertaining to long-term assets, namely their value in use, while for the Kenog facility the appraiser assessed the fair value as the price received from the sale of the asset or paid for the transfer of liabilities in a regulated transaction between market participants on the valuation day.

Both valuations were made in accordance with the Hierarchy of Valuation Rules (Official Gazette No. 106/2010). Business projections of individual cash-generating units were used for the purpose of assessment based on the return on assets. These were prepared based on the historical business results over the past two years and the plan for the period 2019 to 2023, as well as by taking into account the residual values in the most recent forecasts until the end of their useful life. The model takes into account the value until the end of economic life of an individual cash-generating unit. Value assessment in terms of the cash generating unit was based on the going concern assumption that uses assets in the ordinary course of business.

Business projections were prepared for each co-generation for different, but a limited period. Forecast periods coincide with the validity of contracts for the electricity support concluded with the company Borzen.

The estimated free cash flow was discounted as at 31 December 2018 using the weighted average cost of capital (WACC) of 10.34% or 9.68% net of tax.

Valuation of the above-mentioned cash-generating units showed that there was no need for impairment of long-term assets.

As no indications of impairment were identified in 2017, the valuation was not made for the financial year 2017.

The Elektro Primorska Group reports the following property, plant and equipment:

in EUR

	31.12.2018	31.12.2017
Land	5,892,908	5,872,473
Buildings	127,426,805	125,056,718
Equipment	53,978,085	52,155,778
Property, plant and equipment being acquired	2,881,022	2,750,590
Advances for property, plant and equipment	667	0
Total property, plant and equipment	**190,179,487**	**185,835,559**

Table 108: Property, plant and equipment

Movements in property, plant and equipment in 2018:

in EUR

2018	Land	Facilities	Equipment	P, P&E being acquired and advances	Total
Cost					
At 1 Jan	5,872,473	389,971,667	157,681,036	3,579,622	557,104,798
Additions during the year		0		15,804,451	15,804,451
Additions from ongoing investments	107,153	8,244,234	7,284,160	-15,673,352	-37,805
Disposals during the year	-86,717	-1,848,559	-1,413,177	0	-3,348,453
Impairment of assets	0	0	0	0	0
Transfers	0	0	0	0	0
At 31 Dec	5,892,908	396,367,342	163,552,020	3,710,721	569,522,991
Accumulated depreciation					
At 1 Jan		264,914,949	105,525,258	829,032	371,269,239
Depreciation for the year	0	5,810,345	5,420,534	0	11,230,879
Disposals during the year	0	-1,784,758	-1,371,856	0	-3,156,614
At 31 Dec		268,940,537	109,573,935	829,032	379,343,504
Carrying amount					
At 1 Jan	5,872,473	125,056,718	52,155,779	2,750,590	185,835,559
At 31 Dec	**5,892,908**	**127,426,805**	**53,978,085**	**2,881,689**	**190,179,487**

Table 109: Movements in property, plant and equipment in 2018

Borrowing costs relating to property, plant and equipment in 2018 amounted to €19,599 (2017: €19,701).
Of total property, plant and equipment in use at 31 December 2018, 41.23% was fully depreciated (2017 year-end: 40.86%). The share of fully depreciated property, plant and equipment is calculated in consideration of their cost. Land is excluded from the calculation.

The items of property, plant and equipment of the Group increased due to new purchases made in 2018 amounting to €15,804,451 (2017: €14,222,247). The largest investment of €13,420,069 was made in the electricity infrastructure.

Accumulated depreciation of property, plant and equipment of the Group increased in 2018 by the amount of annual depreciation of €11,230,879 (2017: €11,062,699) and reduced by the assets' disposal and impairment.

Depreciation of property, plant and equipment being acquired was made in the past on account of investments in the construction of wind power plants.

None of the Elektro Primorska Group's assets were acquired under finance lease and all the assets are in use.

All the items of property, plant and equipment are free of liens.

As at 31 December 2018, financial commitments for acquisition of property, plant and equipment amount to €33,858,000 (2017: €31,570,000).

As at 31 December 2018, €6,000,000 of commitments relates to contracts for the supply of property, plant and equipment (2017: €6,240,574).

Movements in property, plant and equipment in 2017:

in EUR

2017	Land	Facilities	Equipment	P, P&E being acquired and advances	Total
Cost					
At 1 Jan	5,952,325	386,838,211	155,614,528	3,139,761	551,544,824
Additions during the year	1,680	271,165	169,912	14,222,247	14,665,004
Additions from ongoing investments	72,020	7,025,786	6,776,993	-13,782,385	92,414
Disposals during the year	-153,552	-4,163,495	-4,880,397	0	-9,197,444
Impairment of assets	0	0	0	0	0
Transfers	0	0	0	0	0
At 31 Dec	5,872,473	389,971,667	157,681,036	3,579,622	557,104,798
Accumulated depreciation					
At 1 Jan		262,806,485	104,375,161	829,032	368,010,678
Depreciation for the year	0	5,841,597	5,221,102	0	11,062,699
Disposals during the year	0	-3,733,133	-4,150,126	0	-7,883,259
At 31 Dec		264,914,949	105,525,258	829,032	371,269,239
Carrying amount					
At 1 Jan	5,952,325	124,031,726	51,239,367	2,310,729	183,534,146
At 31 Dec	**5,872,473**	**125,056,718**	**52,155,778**	**2,750,590**	**185,835,559**

Table 110: Movements in property, plant and equipment in 2017

7.2.2. Investment property

The Group generated revenue from lease of the investment property in the amount of €81,185 (2017: €107,704).

in EUR

	Investment property - land	Investment property - buildings	P, P&E being acquired and advances	Total
Cost				
At 1 Jan 2018	6,668	852,629	0	859,297
Additions during the year	0	0	31,455	31,455
Additions from ongoing investments	0	31,455	-31,455	0
At 31 Dec 2018	6,668	884,084	0	890,752
Accumulated depreciation				
At 1 Jan 2018	0	657,322	0	657,322
Depreciation for the year	0	8,942		8,942
Disposals during the year	0	0		0
At 31 Dec 2018	0	666,264	0	666,264
Carrying amount				
At 1 Jan 2018	6,668	195,307	0	201,975
At 31 Dec 2018	**6,668**	**217,820**	**0**	**224,488**

Table 111: Investment property in 2018

Increase in investment property arises on account of investments in holiday facilities owned by the parent company.

in EUR

	Investment property - buildings	P, P&E being acquired and advances	Total
Cost			
At 1 Jan 2017	**836,606**	**0**	**836,606**
Additions during the year	0	22,691	22,691
Additions from ongoing investments	22,691	-22,691	0
At 31 Dec 2017	859,297	0	859,297
Accumulated depreciation			
At 1 Jan 2017	648,445	0	648,445
Depreciation for the year	8,877		8,877
Disposals during the year	0		0
At 31 Dec 2017	657,322	0	657,322
Carrying amount			
At 1 Jan 2017	188,161	0	188,161
At 31 Dec 2017	**201,975**	**0**	**201,975**

Table 112: Investment property in 2017

According to official estimates of the Surveying and Mapping Authority of the Republic of Slovenia (GURS), the market value of the property is €1,908,567, which is, according to our estimates, a good approximation of the fair value. The Group did not obtain valuation of its investment property from a certified appraiser of real estate.

7.2.3. Long-term investments

Long-term financial investments of Elektro Primorska Group include investments in stakes and shares of other companies amounting to €287,472 (2017: €322,737), investments in the Aeronautical Museum in Nova Gorica in the amount of €20,000, and investments in the associate company Knešca, amounting to €878,502.

in EUR

	31.12.2018	31.12.2017
Investments in shares of associates:		
Knešca d.o.o.	878,502	913,236
Total	**878,502**	**913,236**
Other shares and stakes:		
Informatika Maribor d.d.	240,755	240,756
Zavarovalnica Triglav d.d.	71,750	68,435
Primorski tehnološki park d.o.o.	1,808	1,808
Stelkom d.o.o. Ljubljana	57,837	57,837
VIRS	0	38,580
"Aeronavtični muzej" Nova Gorica	20,000	20,000
	392,151	**427,416**
Impairment of investment in Informatika d.d.	-78,470	-78,470
Impairment of investment in Stelkom d.o.o.	-6,209	-6,209
	-84,679	**-84,679**
Total	**307,472**	**342,737**
Total long-term investments	**1,185,974**	**1,255,973**

Table 113: Investments of the Group

In accordance with the equity method, the Group attributed to the associate Knešca the corresponding profit in the amount of €22,970 reduced by €56,728 of dividends received from the profit of the previous year and by €976 of fringe benefits paid to the director of the associated company.

The Group's investments in equity of non-listed companies held for the foreseeable future, are measured and classified as equity instruments at fair value through other comprehensive income. The Group irrevocably classified to this group its investments in shares and stakes in companies, as well as investments in mutual funds and bonds. No impairment loss was recognised in profit or loss for these investments in prior periods.

Based on the parent company's statement on withdrawal dated 19 December 2017, which became effective on 11 December 2018, Elektro Primorska withdrew from the »Visokošolsko in raziskovalno središče Primorske Nova Gorica« (Primorska university and research centre Nova Gorica) and derecognised its investment of €38,580 as a financial expenses through profit and loss.

Movement of listed equity instruments at fair value through other comprehensive income:

	in EUR
At 1 Jan 2017	54,938
Adjustment to market value	13,498
At 31 Dec 2017	68,435
At 1 Jan 2018	68,435
Adjustment to market value	3,315
At 31 Dec 2018	**71,750**

Table 114: Movement of listed equity instruments at fair value through other comprehensive income

Adjustments of listed non-current investments (financial assets at fair value through OCI) to the market value or fair value are recognised in other comprehensive income in the amount of €3,315 in 2018 (2017: €13,498). The Group made no adjustments in 2018 or 2017 recognised in profit or loss.

7.2.4. Non-current financial receivables (long-term loans issued)

Long-term loans include a loan granted to Gostol Gopan amounting to €78,779 and a long-term deposit of €4,200 placed with Nova KBM.

Long-term loan to Gostol-Gopan was issued to finance construction of the hot water connection and a thermal power station co-funded by subsidiary E 3. The loan was granted for a period of five years, and the borrower pays contractually agreed interest monthly based on the invoice for the supply of heat. After the expiry of the period, the loan granted will be offset by the transfer of ownership of the hot water connection and thermal power station to E 3.

in EUR

Long-term loans to others	31.12.2018	31.12.2018
Long-term loans issued	78,779	78,779
Long-term deposit	4,200	4,200
Total long-term loans issued	**82,979**	**82,979**

Table 115: Long-term loans to others

7.2.5. Non-current operating receivables

Long-term operating receivables of €547,913 (2017: €156,945) comprise:

- Long-term trade receivables that mature for a period of more than one year and comprise receivables for construction work performed for the market for Titus Lama d.o.o. in the amount of €296,276 (receivables mature in 2022; long-term receivables of €158,014, while the current amount payable in 2019 amounts to €59,255); receivables due from Hidria AET d.o.o. in the amount of €277,455 (maturing in 2023; long-term receivables of €208,091, while the current amount payable in 2019 amounts to €55,491).
- Long-term receivables in the amount of €26,422 are due for funds issued for the maintenance of facilities, which are accrued by the operators of facilities in accordance with the Housing Act.
- Long-term amounts of receivable from the sale of fixed assets of the subsidiary that mature within a year of the reporting date amounting to €112,375.
- Long-term receivables include receivables due from SODO in the amount of €43,011 on account of derogations from the final calculation for the regulatory year 2016; these will be settled in the next regulatory period 2019-2021.

7.2.6. Long-term cost to obtain contracts

in EUR

	31.12.2018	31.12.2017
Deferred cost of rent	29,856	1,641
Preliminary settlement	53,907	88,400
Total	**83,763**	**90,041**

Table 116: Non-current deferred costs

Non-current deferred costs of the Group comprise pre-paid rent in the amount of €29,856 and long-term part of the preliminary invoice for the year 2014 of SODO amounting to €53,907.

Costs that are transferred to profit or loss within 12 months after the reporting date, are recognised as current costs.

7.2.7. Deferred tax assets

Deferred tax assets of €1,201,078 (2017: €1,060,358) are recognised as long-term assets. Deferred tax assets increased by €140,718 in 2018, on account of an increase in receivables arising from actuarial calculations of the parent company and short-term operating receivables.

Deferred tax assets are calculated based on the future income tax rate of 19%, the same as in 2017.

in EUR

Deferred tax assets	on account of provisions	on account of deferred receivables	on account of investment impairment	on account of unused tax losses	on account of retained earnings	Total
At 1 Jan 2017	**27,641**	**410,675**	**27,929**	**5,473**	**0**	**471,717**
Increase	344,382	234,802	14,909	0	20	594,115
Decrease	0	0	0	-5,473		-5,473
At 31 Dec 2017	**372,023**	**645,478**	**42,838**	**0**	**20**	**1,060,359**
At 1 Jan 2018	372,023	645,478	42,838	0	20	1,060,359
Increase	69,146	71,574	0	0	0	140,721
Decrease	0	0	0	0	-2	-2
At 31 Dec 2018	**441,170**	**717,052**	**42,838**	**0**	**18**	**1,201,078**

Table 117: Deferred tax assets

Effects of differences between the accounting value of items disclosed in the balance sheet and their tax value are calculated in accordance with the balance sheet liability method for all temporary differences. Deferred tax assets are the amounts of tax recognised on account of provisions and allowances for receivables that will be utilised in future periods based on deductible temporary differences, and on account of unused tax losses.

in EUR

Tax expense recognised in profit or loss	2018	2017
Income tax payable for the current year	-1,065,785	-1,103,155
Deferred tax assets/liabilities	-37,772	580,572
Other taxes not reported under other items		
Tax expense recognised in profit or loss	**-1,103,557**	**-522,584**

Table 118: Tax expense recognised in profit or loss

in EUR

Changes in deferred taxes recognised in profit or loss	2018	2017
Provisions	-32,148	336,313
Receivables	-5,621	206,873
Tax losses	0	-5,473
Unused tax relief for investments and donations	0	0
Investment impairment	0	42,838
Receivables for elimination of gains from sale of inventories	-2	20
Changes in deferred tax assets/liabilities	**-37,771**	**580,572**

Table 119: Movements in deferred taxes recognised in profit or loss

in EUR

Changes in deferred taxes recognised in equity	10.3.8	2018	2017
At 1 Jan		5,531	361
Provisions		101,295	5,531
Receivables		0	0
Tax losses		0	0
Changes in deferred tax assets/liabilities	10.3.9	101,295	5,531
At 31 Dec		**106,826**	**5,531**

Table 120: Movements in deferred taxes recognised in equity

in EUR

Deferred tax	01.01.2018	Formation	Utilisation	Reversal	31.12.2018
Temporary differences arising from revaluation of receivables	645,478	128,114	-18,387	-38,154	717,052
Temporary differences arising from provisions	372,023	219,886	-25,867	-124,872	441,170
Temporary differences from investment impairment	42,838	0	0	0	42,838
Temporary differences arising from tax losses	0	0	0	0	0
Temporary differences from intermediate profits	20	0	-2		18
Total	**1,060,339**	**348,001**	**-44,254**	**-163,026**	**1,201,078**

Table 121: Movements in deferred tax assets in 2018

The Group estimates that it will have sufficient future taxable profits against which all deferred tax assets can be utilised.

The Group did not recognise any deferred tax liabilities.

7.2.8. Current assets

7.2.8.1. Inventories

No inventories were impaired in 2018 (2017: impairment of €1,340), since inventory value is matched with the latest known purchase prices on a monthly basis based on physical stock count of material and small tools. In 2018, the cost amounted to €1,670.

in EUR

	31.12.2018	31.12.2017
Materials	1,117,626	881,484
Small tools	29,808	18,421
Merchandise	4,934	1,101
Total	**1,152,368**	**901,006**

Table 122: Inventories

7.2.8.2. Short-term investments

The Group discloses short-term deposit of €4,000,000 and deposit earmarked for the reconstruction of the facility in the amount of €1,343 the same as in 2017, and short-term loan of the subsidiary amounting to €15,416 the same as in 2017, which was fully impaired in 2015 but has yet to be written-off.

	2018	2017
At 1 Jan 2018	1,343	1,343
Invested	4,000,000	0
Repayments	0	0
At 31 Dec 2018	**4,001,343**	**1,343**

Table 123: Short-term investments

7.2.8.3. Trade and other receivables

in EUR

	31.12.2018	31.12.2017
Operating receivables	31,178,734	26,767,160
Current tax credits	21,259	50,793
Other receivables	1,449,328	1,501,088
Total trade and other receivables	**32,649,321**	**28,319,041**

Table 124: Trade and other receivables

in EUR

	31.12.2018	31.12.2017
Short-term receivables due from sales:		
- on domestic market	31,638,150	28,393,959
- on foreign markets	641,728	575,058
Allowances	-2,956,071	-2,605,703
	29,323,806	26,363,314
Short-term receivables due from rent:	1,747,662	0
Interest receivable		
- other customers	346,056	315,012
Allowances	-290,197	-257,524
	55,858	57,488
Advances	70,113	364,020
Allowances	-17,663	-17,663
	52,450	346,358
Operating receivables due from others:		
- from government and other institutions	1,412,674	1,504,235
of which tax credits	21,259	50,793
- from employees	0	95
- from others	74,592	63,044
Allowances	-17,722	-15,493
	1,469,544	1,551,882
Total	**32,649,321**	**28,319,042**

Table 125: Trade receivables of the Group

Maturity structure of receivables at the year-end: in EUR

	31.12.2018	31.12.2017
Not past due	27,476,504	23,199,853
Due and outstanding up to 30 days	2,207,985	2,156,320
Receivables due and outstanding from 31 to 60 days	769,000	604,882
Receivables due and outstanding from 61 to 90 days	535,675	198,115
Receivables due and outstanding from 91 to 365 days	98,710	218,070
Overdue for more than 365 days	39,453	43,562
Total	**31,127,327**	**26,420,802**

Table 126: Maturity structure of trade receivables and interest

The Elektro Primorska Group recognises allowances of individual receivables per individual business partner for all receivables believed not to be settled. These include:

- Outstanding receivables from before financial year 2018,
- Disputed receivables and
- Receivables due from business partners undergoing bankruptcy and compulsory settlement, as well as
- the amounts of individual groups of receivables, which the Group believes will not be settled.

In the Elektro Primorska Group, receivable allowances were recognised by the parent company and subsidiary E 3. The share of receivable allowances accounts for 11% of total receivables. In 2018, receivable write-downs and impairments recognised in operating expenses amounted to €267,995 (2017: €346,674).

Allowances for trade receivables in EUR

	31.12.2018	01.01.2018
At 1 Jan	3,302,673	2,770,932
Collected written-off receivables	-88,208	-71,586
Final write-off of receivables	-200,808	-149,668
Allowances recognised in the year	267,995	752,994
At 31 Dec	**3,281,653**	**3,302,673**

in EUR

	31.12.2018	01.01.2018
At 1 Jan	3,302,673	2,770,932
Collected written-off receivables	-88,208	-71,586
Final write-off of receivables	-200,808	-149,668
Allowances recognised in the year	267,995	752,994
At 31 Dec	**3,281,653**	**3,302,673**

Table 127: Movements in trade receivable allowances

Of total trade receivables reported by the Elektro Primorska Group, 2% is due from foreign customers.

Other current receivables

Of total other short-term receivables amounting to €1,469,544 (2017: €1,551,882), the largest amount is due from the State for VAT refund amounting to €1,348,198 (2017: €1,423,246). The remaining amount comprises other receivables.

7.2.8.4. Contract assets and cost to obtain contracts

Contract assets comprise short-term accrued revenue from the sale of electricity and services rendered in the amount €1,399,156 and the cost to obtain contracts for supply of electricity in the amount of €819,130.

The Group pays sales commission to its sales agents for each contract they conclude for the supply of electricity. The Group has elected to capitalise the cost of sales commission paid to its sales agents. We have made an assessment of the depreciation period based on the duration of the contract and/or the estimated lifetime of the contractual relationship with customers. As no significant impact was determined, the Group recognised these as the cost to obtain contracts.

No contract assets were impaired.

Other current assets

Other short-term assets of the Group comprise deferred costs and expenses and short-term accrued revenue as presented in the table below:

in EUR

	31.12.2018	31.12.2017
VAT in advances received	183,085	162,625
Short-term deferred costs and expenses	35,616	1,014,110
Accrued income	82,830	2,029,400
Vouchers	1,183	787
Total	**302,713**	**3,206,923**

Table 128: Deferred costs and accrued revenue

Deferred costs and expenses and short-term accrued revenue of total €302,713 (2017: €3,206,923) comprise the following items:

- VAT on advances received and overpayments;
- short-term deferred costs include: estimated costs of sponsorships in the amount of €15,708 and other deferred costs, such as subscriptions, insurance premiums, annual licenses and similar (in 2017, all short-term deferred costs were recognised under this category. However, following the amendments to IFRS 15, some of these costs are now recognised as Contract assets and the cost to obtain contracts in the amount of €858,757);
- short-term accrued revenue consists of revenues from the preliminary calculation made by SODO for the 2018 rent in the amount of €40,605 and insurance proceeds from Zavarovalnica Triglav in the amount of €42,225 (in 2017, all short-term accrued revenues were recognised as other short-term assets in total amount of €2,029,400). Following the amendments to IFRS 15, some of these assets are now recognised as Contract assets and the cost to obtain contracts of €2,520,583, while €427,348 of the short-term accrued revenues was recognised as Other liabilities.

7.2.8.5. Cash and cash equivalents

Cash and cash equivalents comprise:

- Cash in hand,
- Deposit money in accounts at banks,
- Cash in transit,
- Cash equivalents are readily available investments which may in the near future be converted into a predetermined amount of cash without any significant risk (e.g. deposits with maturity of up to three months).

Cash comprises cash on hand in the form of bank notes and coins, as well as cheques received.

Deposit money is cash in bank accounts or deposited with another type of financial institution and may be used for payment purposes.

Cash in transit is the cash being transferred from a cash register or a safe deposit box to a relevant account in a bank or another type of financial institution and is not credited to that account on that same day.

On initial recognition, cash is carried at amounts arising from the relevant documents. Monetary assets denominated in foreign currencies are translated into local currency on the reporting date at the reference rate of the European Central Bank. Exchange rate differences resulting from changes in foreign exchange rates are recognised either as a financial income or expense.

Cash also includes cash on transaction accounts held by group companies at commercial banks.

in EUR

	31.12.2018	31.12.2017
Cash at bank	3,724,692	6,167,489
Total	**3,724,692**	**6,167,489**

Table 129: Cash and cash equivalents of the Group

7.2.9. Equity

The Group's equity of €161,853,771 as at 31 December 2018 is composed of:

- Share capital,
- Capital surplus,
- Legal reserves,
- Reserves for treasury shares
- Other profit reserves,
- Fair value reserve
- Retained earnings and
- Net profit for the financial year.

in EUR

	31.12.2018	31.12.2017
Share capital	78,562,832	78,562,832
Capital surplus	46,208,187	46,208,187
Legal reserves	768,501	768,501
Reserves for treasury shares and stakes	80,613	79,540
Treasury shares and stakes (as a deductible item)	-80,613	-79,540
Other profit reserves	34,819,055	30,133,850
Fair value reserve	-1,028,694	-67,045
Retained earnings	115,694	551,851
Profit available for distribution	2,408,196	2,516,150
Total	**161,853,771**	**158,674,327**

Table 130: Equity of the Group

Share capital of the Elektro Primorska Group consists of the equity of the parent company, which is divided into 18,826,797 ordinary registered shares. Each share has an equal interest and attributable amount in the share capital. The share capital was fully paid.

Capital surplus of the Group originates from the general capital revaluation adjustment of the parent company, which was transferred to capital surplus on transition to SAS 2006. Capital surplus may be used under the terms and for the purposes provided by law. No movements in capital surplus were recorded in 2017.

Profit reserves - legal and other profit reserves are amounts of retained profit from previous years, mainly to cover potential future losses. Based on the proposal of the Management Board of the Group, on adopting the Annual Report, the Supervisory Board allocated €4,634,103 of the net profit for the year to other profit reserves in accordance with Article 230 and paid dividends to shareholders of total €2,549,021.

Treasury shares - If the parent company or its subsidiaries acquire an ownership interest in the parent company, the amount paid, including transaction costs less tax, is deducted from total equity as treasury shares until such shares are cancelled, reissued or disposed of. If treasury shares are subsequently sold or reissued, the consideration received net of transaction costs and related tax effects is included in equity.

As at 31 December 2018, the parent company had 42,899 treasury shares, accounting for 0.23% of the share capital (2017: 42,499). At the 21st General Meeting of Shareholders held on 26 August 2016, the Management Board was granted authorisation for the purchase of treasury shares. The total amount of all treasury shares may not exceed 10% of the share capital of the parent i.e. 1,882,680 shares.

In 2018, the purchase price of the shares was €2.64, the same as in the previous year.

Repurchase of treasury shares in 2018:

in EUR

	Number of shares	Weighted average share price	value of treasury shares
At 31 Dec 2017	42,499	1.87	79,540
Repurchase in 2018	400	2.68	1,073
At 31 Dec 2018	**42,899**	**1.88**	**80,613**

Table 131: Treasury shares

Average share price includes also brokerage fee.

In 2018, €1,073 of reserves for treasury shares was created, and as at 31 December 2018, reserves for treasury shares amounted to €80,613.

The fair value reserve includes the cumulative change in the fair value of available-for-sale financial assets and post-employment benefits. Compared to the previous period, the fair value reserve decreased by €961,649 and amounted to €1,028,694 as at 31 December 2018. The total change results from an increase in the fair value of available-for-sale financial assets by €3,315; a reduction of €1,066,259 on account of restatement of post-employment benefits, and an increase of €101,295 referring to the related deferred tax effect due to the restatement of post-employment benefits.

Undistributed net profit for the financial year in the amount of €2,408,196 (2017: €2,516,150) consists of the profits of the parent company and the subsidiary E 3, and the attributable profit of the associated company Knešca in the amount of €22,970 (2017: €72,499). Total profit of the associated company Knešca amounted to €48,594 in 2018 (2017: €153,372), reduced by €56,728 of the profit shares paid (2017: €94,546) and fringe benefits paid to the director amounting to €976 (2017: €7,668).

Compared to the previous year, retained earnings decreased by €107,954 in 2018. Retained earnings comprise €7,028,021 of profit achieved in 2018, reduced by the appropriation of the distributable profit to dividends according to the resolution of the 23rd General Meeting held on 29 June 2018 of €2,549,021, and €1.073 of reserves for treasury shares on account of treasury shares acquired in 2018.

Movements in equity of the Group in 2017 and 2018 are shown in the statement of changes in equity.

Dividend per share - In 2018, the gross dividend per share amounted to €0.1357 (2017: €0.13).

Earnings per share - basic earnings per share amounted to €0.37 in 2018, down 4.33% compared to 2017, when it stood at €0.39. Profit of the Group amounting to €7,028,021 (2017: €7,346,342) was considered in the calculation. The weighted average number of issued shares (excluding treasury shares) was considered for the financial year 2018 i.e. 18,783,955 shares (2017: 18,784,638 shares).

Basic earnings per share is calculated by dividing the net profit belonging to the owners by the weighted average number of ordinary shares (excluding treasury shares). The Group has no diluted ordinary shares and, therefore there is no difference between basic and diluted earnings per share.

in EUR

	31.12.2018	31.12.2017
Net profit or loss (in EUR)	7,028,021	7,346,342
Number of shares issued	18,826,797	18,826,797
Number of treasury shares at the beginning of the year	42,499	42,149
Number of treasury shares at the end of the year	42,899	42,499
Weighted average number of ordinary shares	18,783,955	18,784,638
Diluted average number of ordinary shares	18,783,955	18,784,638
Basic and diluted earnings per share (EUR/share)	**0.37**	**0.39**

Table 132: Earnings per share

All shares issued by the controlling company are ordinary registered shares.

Distributable profit

The Group recognised distributable profit in accordance with the provisions of the Companies Act, as well as the prescribed amount of legal reserves. The Management Board of the Group proposed that some of the profit be allocated to other profit reserves and some for distribution to shareholders. The appropriation of the distributable profit is decided by the General Meeting based on the proposal of the Management and the Supervisory Boards.

Final amount of dividends for the year ended 31 December 2018 has not yet been proposed or confirmed by the General Meeting and therefore, no liabilities for dividends are reported in the financial statements.

7.2.10. Provisions and long-term deferred revenue

Provisions are made for present obligations arising from obligating past events and are expected to be settled within a period not determined with certainty, and whose amount can be reliably estimated.

in EUR

	31.12.2018	31.12.2017
At 1 Jan	3,930,263	3,823,923
Formation	2,314,593	534,449
Utilisation	-272,284	-342,019
Reversal	-1,308,404	-86,088
At 31 Dec	**4,664,168**	**3,930,263**

Table 133: Provisions of the Group

The Group reports €4,643,892 (2017: €3,909,987) of provisions for post-employment and other long-term employee benefits, as well as €20,276 (the same as in the previous year) of provisions for overestimated amount of electricity charged by the subsidiary.

7.2.10.1. Provisions for post-employment benefits and other non-current employee benefits

Provisions for obligations to employees arising from post-employment and other long-term employment benefits are based on actuarial calculation using the following assumptions:

- the number of employees on the reporting date; their gender, age, status, salary level and total length of service and the length of service of each employee on the reporting date;
- 1.57-percent annual discount rate in the calculation of the present value of future obligations of the entity; (2017: 1.30-percent annual discount rate was applied for the parent and 1.50-percent for the subsidiary)
- the amount of jubilee awards and severance pay in accordance with the applicable collective agreement;
- staff turnover, which depends largely on their age;
- mortality rate, considering the following: SLO2007; 75% selection factor for active population; (2017: mortality based on the latest available mortality tables: modified Slovenian mortality tables 2000-2002);
- 3% wage growth in the company (2017: 2% for the parent company and 1% for the subsidiary);
- 3.0% increase in the average wage in the Republic of Slovenia (2017: 2.5%).

in EUR

	Jubilee awards	Severance pay	Total
At 1 Jan 2018	1,628,056	2,281,931	3,909,987
Post-employment benefit costs	-1,219,454	-88,949	-1,308,404
Current employee benefit costs	99,484	189,970	289,454
Interest expense	19,024	28,266	47,290
Actuarial gains	-	-32,040	-32,040
Actuarial losses	894,499	1,115,390	2,009,889
Fringe benefits	-164,637	-107,647	-272,284
Reversal of provisions in excess of payment	-	-	-
At 31 Dec 2018	**1,256,972**	**3,386,920**	**4,643,892**

in EUR

	Jubilee awards	Severance pay	Total
At 1 Jan 2017	1,444,731	2,358,916	3,803,646
Post-employment benefit costs	-4,235	-7,213	-11,448
Current employee benefit costs	103,599	107,982	211,581
Interest expense	31,208	54,278	85,485
Actuarial gains	-2,558	-76,728	-79,286
Actuarial losses	235,914	12,917	248,830
Fringe benefits	-180,363	-161,656	-342,020
Reversal of provisions in excess of payment	-239	-516	-756
At 31 Dec 2017	**1,628,056**	**2,287,978**	**3,916,034**

Table 134: Provisions for post-employment benefits

Additional provisions of total €2,346,632 (2017: €534,449) was set aside on account of: payroll costs €1,183,952 (2017: €436,047); interest expenses of €47,290 (2017: €85,485); and €1,115,390 (2017: €12,917) of actuarial losses recognised in equity as the revaluation reserve. In 2018, the Group paid €272,284 of jubilee awards and severance pay (2017: €342,020). As a result of the change in the collective agreement, the Group reversed €1,308,404 of provisions for post-employment benefits and €32,040 of provisions on account of actuarial gains, recognised in equity as the revaluation surplus (2017: EUR 76,728).

Sensitivity analysis

in EUR

	Provisions for jubilee awards	Provisions for severance pay	Total
0.5% decrease in discount rate	60,717	180,110	240,827
0.5% increase in discount rate	-56,018	-164,791	-220,810
0.5% salary increase	60,934	183,096	244,030
0.5% salary decrease	-56,892	-169,419	-226,310

Table 135: Sensitivity analysis of the post-employment benefits

7.2.10.2. Long-term deferred revenue

	Assets acquired free-of-charge	Average cost of connection	Co-financing of facility construction	Compensation claims	Co-financing of meters from cohesion	Donations and grants received	Total in EUR
At 1 Jan 2018	7,568,271	2,103,958	152,917	8,104	180,065	835,924	10,849,240
Formation	0	0	0	0	384,877	21,046	405,923
Reversal	0	0	0	-8,104	0	-43,228	-51,332
Transfer to revenue	-279,152	-110,299	-9,201	0	-21,605	-24,198	-444,456
At 31 Dec 2017	**7,289,119**	**1,993,659**	**143,716**	**0**	**543,337**	**789,544**	**10,759,375**

	Assets acquired free-of-charge	Average cost of connection	Co-financing of facility construction	Compensation claims	Co-financing of meters from cohesion	Donations and grants received	Total in EUR
At 1 Jan 2017	7,570,651	2,214,257	162,123	8,104	0	940,408	10,895,543
Formation	272,984	0	0	0	181,251	0	454,235
Reversal	0	0	0	0	0	-14,613	-14,613
Transfer to revenue	-275,364	-110,299	-9,206	0	-1,186	-89,872	-485,927
At 31 Dec 2017	**7,568,271**	**2,103,958**	**152,917**	**8,104**	**180,065**	**835,924**	**10,849,240**

Table 136: Long-term deferred revenue in 2018 and 2017

In 2018, the Group did not recognise any long-term deferred revenues on account of free-of-charge acquisition of energy facilities of legal and natural persons, while in 2017, these amounted to €272,984. Property, plant and equipment acquired free-of-charge consists of customer connections that the parent accepted as its fixed assets and assumed the responsibility for their maintenance and renovation in accordance with applicable regulations (General conditions for connection to the distribution Electric system, Official Gazette of the RS Nos. 126/07, 37/11). Utilisation of fixed assets obtained free-of-charge (mainly free-of-charge household connections) and co-financing of construction of facilities and equipment in the amount of €309,959 (2017: €285,755) is equal to the annual depreciation of an individual asset obtained free-of-charge or in a proportion of a co-financed item of fixed assets.

The average connection costs comprise funds collected from connections to the electricity grid. These were accrued until 30 June 2007 in connection with the implementation of the GJS SODO on the basis and in accordance with the regulations, in particular the Act determining the methodology for charging for the network charge, the methodology for setting the network charge, and the criteria for establishing eligible costs for electricity networks (Official Gazette of the RS, No 121/2005 and beyond). The average connection cost is a one-off amount paid for connection to the network or an increase in the connected load. The funds thus collected are earmarked for financing of the electricity infrastructure. Deferrals are utilised at the level of 3.33%, which corresponds to an average depreciation rate of power facilities. In 2018, depreciation of these facilities amounted to €110,299, the same as in the previous year.

Co-financing of the facility construction is based on dedicated funds for co-financing of the energy facility construction. These funds are drawn in accordance with the charged depreciation of the relevant facility.

In 2018, the Group was granted European funds from cohesion to co-finance the purchase and installation of smart electricity meters for the period 2017 - 2022, in the proportion of 33% of the cost. Total amount of funds received in 2018 of €384,877 accounts for 33% of the cost and installation costs of these meters. Annual depreciation of €21,605 is calculated on the share of the co-financed meter and recognised in other operating income of the company.

Planned formation and drawing of long-term deferred revenue does not substantially deviate from their actual formation and drawing.

In 2014, the Company received state grant in the amount of €30,491 for reconstruction of the facility in Bovec after the earthquake, and European funding for the SUNSEED project of total €191,553 (2016: €23,092). Renovation of the facility in Bovec is now completed as is the SUNSEED project. For completion of the two investments, long-term accruals decreased by €24,198 of depreciation in 2018, which was recognised in other operating revenue (2017: €46,613).

Government grants were received in 2010 from the Ministry of Economy of RS for co-financing construction of the project for remote heating using biomass and the energy facility and heating system of the subsidiary Majske poljane. The amount of grants received was reduced in line with the depreciation of total €42,618.

No additional liabilities are reported by the Group on account of long-term deferred revenue from compensation claims.

7.2.11. Non-current financial liabilities

in EUR

	31.12.2017	31/12/2016
Long-term financial liabilities	33,716,334	31,570,000
Current amount of long-term liabilities	-6,874,667	-6,778,667
Long-term financial liabilities	26,841,667	24,791,334
Total long-term liabilities	**26,841,667**	**24,791,334**

Table 137: Non-current financial liabilities

Debts are classified into financial and operating debts, while depending on their maturity they are classified into long-term and short-term.

Long-term financial liabilities include liabilities to banks for borrowings raised by the parent company and its subsidiary E 3.

Long-term financial liabilities are secured with bills of exchange. All borrowings are due and payable by no later than November 2028. A total €21,641,333 of borrowings falls due more than 5 years from the reporting date (2017: €21,253,333).

In the current financial year, the Group raised borrowings of total €9,000,000.

Interest rates agreed are one-month or three-month EURIBOR and a bank premium ranging from 1% to 1.16%. All four borrowings have been agreed at a fixed rate of interest. Interest on borrowings is calculated and paid monthly or quarterly.

Credit agreements with the European Investment Bank include financial covenants made at the level of the Elektro Primorska Group, which the Group must comply with.

In 2018, these are as follows:

CALCULATION	Actual 31.12.2018	Covenant - Article 6.10 of the contract
Financial liabilities/EBITDA	1.64	= < 2.0
Financial liabilities/capital	0.21	< 0.25
EBITDA/interest expense	53.5	= > 15.0
Current assets/current liabilities	1.17	> 0.75

Movement of financial liabilities in 2018 and 2017:

in EUR

Movements in financial liabilities	At 1 Jan 2018	Cash flow Inflows	Cash flow Outflows	Non-monetary changes	At 31 Dec 2018
Bank borrowings	31,570,000	15,009,506	-12,153,667	0	34,425,840
Dividends	5,226		-2,549,019	2,549,021	5,227
Treasury shares	0		-1,073	1,073	0
Interest payable on borrowings	9,685		-306,757	326,341	29,269
Total	**31,584,911**	**15,009,506**	**-15,010,516**	**2,876,435**	**34,460,336**

in EUR

Movements in financial liabilities	At 1 Jan 2017	Cash flow Inflows	Cash flow Outflows	Non-monetary changes	At 31 Dec 2017
Bank borrowings	30,015,323	29,650,000	-28,095,323	0	31,570,000
Dividends	5,226		-2,066,311	2,066,311	5,226
Treasury shares	0		-931	931	0
Interest payable on borrowings	14,622		-319,521	314,584	9,685
Total	**30,035,171**	**29,650,000**	**-30,482,086**	**2,381,827**	**31,584,911**

Table 138: Financial liabilities

7.2.12. Short-term liabilities

in EUR

IZRAČUN	31.12.2018	31.12.2017
SHORT-TERM FINANCIAL LIABILITIES		
Short-term financial liabilities to companies	0	0
Short-term financial liabilities to banks	709,506	0
Short-term financial liabilities to others	7,000	7,000
Current amounts of long-term borrowings	6,874,667	6,874,667
Dividends payable	5,227	5,226
Total short-term financial liabilities	**7,596,400**	**6,886,892**
Supplier payables	25,361,619	21,567,199
Payables for advances	0	930,749
Total short-term supplier payables	**25,361,619**	**22,497,948**
Payables to employees	1,756,151	1,705,162
Payables to the State and other institutions (excluding income tax)	442,096	372,098
Other liabilities	135,837	552,411
Total other short-term operating liabilities	**2,334,083**	**2,586,040**
Total short-term operating liabilities	**27,695,703**	**25,083,987**
Corporate income tax payable	**75,763**	**43,630**

Table 139: Short-term liabilities of the Group

Short-term financial liabilities of the Group include short-term borrowings raised from others and current amounts of long-term borrowings raised by the parent company and subsidiary E 3, all of which fall due in 2018.

Payables to group suppliers of €3,917,856 (2017: €3.224.600) are up 17.41% on the previous year. Both, the parent as well as its subsidiary report increase in supplier payables. Liabilities are not collateralised and no assets were pledged or guarantees issued for liabilities.

Payables to the State rose by €69,998 mainly on account of the value added tax payable.

Payables to employees are obligations for the December salaries and for one part of the bonus payable for successful performance in 2018.

7.2.13. Liabilities from contracts with customers

The Group recognised €1,054,184 **of liabilities arising from contracts with customers on account of the value of advances received and securities. Most of these refer to advances received by the subsidiary for the supplied electricity.**

7.2.14. Other liabilities

in EUR

	31.12.2018	31.12.2017
VAT in advances granted	2,422	2,422
Accrued expense	1,248,441	1,171,314
Total	**1,250,863**	**1,173,736**

Table 140: Other liabilities

Other liabilities include deferred revenue and short-term accrued expenses, as well as VAT in advances granted.

Accrued expenses comprise:

- Provisions on account of annual leave not utilised in 2018 in the amount of €722,288 (2017: €639,769).
- The cost of purchased electricity for subsidiaries amounting to €480,179 (2017: €488,593).
- Accrued expenses on account of grants received of €9,652 (the same as in the previous year) by subsidiary E 3. While the relevant conditions have been met and contracts concluded, the payment has yet to be made.
- Concession fee payable in the amount of €8,000 (the same as in 2017) for the financial year 2018.
- Accrued interest expense on borrowings amounting to €18,814 (2017: €21,613).

7.2.15. Contingencies and guarantees issued

In the opinion of legal experts, none of the legal actions is likely to have a significant impact on profit or loss. The Group has assessed that provisions set aside for these purposes are sufficient to cover any contingencies.

Bid bonds and warranty guarantees issued by the banks (on account of rendering services to external clients) are reported in the off-balance sheet records. As at 31 December, the value of bank guarantees is recognised as a liability of the Group for which guarantees were issued.

The highest amount of a bank guarantee was issued by the Group to SODO against payment of liabilities by the subsidiary for use of the power grid amounting to €11,500,000 (the same as in 2017).

in EUR

	31.12.2018	31.12.2017
Bank guarantees issued	11,714,125	11,803,301
Real estate recognised by Eco Atminvest	1,750,616	1,750,616
Total	**13,464,741**	**13,553,917**

Table 141: Contingencies of the Group

7.3. Notes to consolidated profit or loss account

A total €609,865 (2017: €532,679) of revenue and €559,949 (2017: €571,294) of expenses were eliminated from the consolidation in 2018. The Group recognised €404,572 of additional allowances for trade receivables following the adoption of International Financial Reporting Standard IFRS 15.

7.3.1. Operating revenue

in EUR

	2018	2017
Net sales	122,815,658	109,913,672
Capitalised own products and services	7,901,444	7,155,536
Other operating revenue	2,400,084	1,239,900
Total operating revenue	**133,117,186**	**118,309,108**

Table 142: Operating revenue of the Group

Net sales:

in EUR

	2018	2017
Revenue from contracts with customers	**105,408,979**	
a.) Revenue from the sale of products	84,945,008	65,824,499
- on domestic market	78,639,255	61,555,108
- on foreign markets	6,305,754	4,269,391
b.) Revenue from the rendering of services	20,410,071	44,036,290
c.) Revenue from the sale of merchandise	53,900	52,883
Other sales revenue	17,406,679	0
Total operating revenue	**122,815,658**	**109,913,672**

Table143: Net sales

Revenue from contracts with customers on the domestic market in 2018:

in EUR

Sale of electricity to legal entities	47,118,622.85
Sale of electricity to households	29,724,308.15
Sale of electricity produced	918,704.36
Sale of heat	877,619.37
Total revenue from the sale of products	**78,639,254.73**
Revenue from the sale of maintenance services on the power distribution network	18,455,979.00
Revenue from the rendering of services for the market	1,954,092.00
Total revenue from the rendering of services	**20,410,071.00**

Other revenue from sales comprise revenues from rental agreements, the largest share of which (€17,094,678) refers to the revenues from renting the electricity network to SODO.

Majority of revenues from capitalised own products and services and other operating revenues was recognised by the parent company. Revenues from capitalised own products and services were earned from project documentation design and from participation in construction of investment facilities.

Other operating revenues comprise revenues from drawing on accrued depreciation of assets acquired free-of-charge, co-financing of facility construction, average connection charges, and reversal of provisions for post-employment benefits on account of severance pay and jubilee awards. A large part of other operating revenue relates to insurance proceeds on account of damages to the assets in the amount of €195,593 (2017: €342,767). Other operating revenues increased by €1,160,184, mainly due to the reversal of provisions for post-employment benefits which amounted to €1,308,404 in 2018.

in EUR

Other operating revenue from:	2018	2017
- provisions utilisation and reversal	1,762,322	460,187
- sale of fixed assets	46,653	80,154
- recovered written-off receivables	104,845	73,752
- other revaluation revenue	0	0
- received subsidies	128,121	100,715
- insurance proceeds, compensation	234,035	410,412
- revenue from refund of excise duty	44,083	36,759
- revenue from reminders	60,819	65,791
- other operating revenues	19,205	12,129
Total	**2,400,084**	**1,239,900**

Table 144: Other operating revenue of the Group

Of total operating revenues of the Group, €47,647,296 or 36% was earned by the parent (2017: €46,309,934 or 39%), and 64% or €85,469,890 (2017: 61% or €71,624,702) by the subsidiary. Of total Group revenues, 7.38% was achieved on foreign markets.

7.3.2. Operating expenses

in EUR

Costs by nature	2018	2017
Cost of electricity sold	75,674,080	62,524,572
Costs of materials and services	16,097,387	16,046,781
Employee benefits	19,739,558	18,667,697
Write-downs	13,306,074	12,676,320
Other operating expenses	349,663	264,627
Total	**125,166,762**	**110,179,996**

Table 145: Operating expenses of the Group

Operating expenses include costs recognised per individual types, such as costs of electricity, materials and services, employee benefit costs, write-downs and other operating expenses.

Operating expenses of the Group increased by €14,986,766 compared to the previous year, and mostly refer to the purchase of electricity for supply to the final customers of the subsidiary.

in EUR

Cost of materials:	2018	2017
Energy costs	1,536,563	1,666,612
Cost of materials	78,762,471	65,459,358
Cost of ancillary material	60,611	74,712
Costs of spare parts and maintenance material	511,730	755,227
Write-off of small tools	122,114	152,578
Cost of stationery and professional literature	249,116	204,914
Cost of goods and materials sold	28,883	27,875
Other cost of materials	4,880	8,519
Total cost of materials	**81,276,368**	**68,349,795**

Table 146: Cost of materials of the Group

in EUR

Cost of services:	2018	2017
Cost of services in the production of products and rendering of services	77,069	111,711
Cost of transportation	380,334	337,205
Cost of maintenance	1,765,757	1,818,901
Rent	197,063	213,615
Reimbursement of work-related expenses to employees	25,491	33,786
Cost of banking services and insurance premiums	1,276,243	1,372,338
Fee and commission paid	1,881,261	2,107,995
Cost of intellectual and personal services	1,045,090	717,925
Cost of trade fairs, publicity and hospitality	590,420	350,737
Cost of services of individuals, including duties	210,386	223,565
Cost of other services	3,045,984	2,933,780
Total cost of services	**10,495,098**	**10,221,558**

Table 147: Cost of services of the Group

Cost of services increased in 2018 by €273,541 or 2.68% compared to the previous year, mainly on account of higher costs of licence fees and marketing costs incurred by the subsidiary.

The Elektro Primorska Group expenses include meeting fees paid to members of the supervisory boards of the group companies. In 2018, total remuneration of the Supervisory Boards amounted to €118,293 (2017: €96,717) and was paid in the parent company.

The cost of intellectual and personal services includes fees paid for the audit of the annual report of the Group in the amount of €16,484 (the same as in 2017).

Company	Ernst&Young 2018	Ernst&Young 2017
Audit of the annual report	12,000	15,484
Other assurance services	1,000	1,000
Other non-auditing services	0	0
Total audit fees	**13,000**	**16,484**

Table 148: Fees paid for the audit of the annual report of the Group

in EUR

Employee benefits:	2018	2017
Gross wages and salaries and continued pay	13,260,025	12,998,353
Pension insurance costs	691,101	681,465
Other social insurance costs	2,270,157	2,237,197
Reimbursement of transportation to and from work	457,735	449,912
Reimbursement of costs of meals during working hours	790,940	838,525
Holiday pay	993,270	947,192
Post-employment benefits and other non-current employee benefits	1,183,952	436,047
Other reimbursements and substitutes	92,377	79,004
Total employee benefit costs	**19,739,558**	**18,667,697**

Table 149: Employee benefit costs of the Group

Individual Management Boards of Group companies have a single member. In total they received €184,891 (2017: €180,160) of remuneration.

On average, the Elektro Primorska Group had 522 employees in 2018 (2017: 523).

Level according to BP	Average number of employees 2017	Average number of employees 2018
8/2	2	2
8/1	8	7
7	48	52
6/2	61	61
6/1	65	62
5	170	184
4	162	135
3	0	15
2	2	2
1	5	2
Total	**523**	**522**

Table 150: Headcount per level of formal education

Members of the Management Board and employees on individual employment contracts were not approved any loans or granted any surety for their obligations.

in EUR

Amortisation and depreciation:	2018	2017
Amortisation of intangible assets	1,276,634	1,161,541
Depreciation of property, plant and equipment - facilities	5,810,595	5,841,597
Depreciation of property, plant and equipment - equipment	5,420,522	5,221,096
Depreciation of investment property	8,942	8,877
Total amortisation and depreciation	**12,516,694**	**12,233,112**

Table 151: Depreciation costs of the Group

A total €12,516,694 (2017: €12,233,112) of depreciation was recognised by the Group in 2018. Of that, €11,769,606 by the parent company (2017: €11,449,570).

in EUR

Impairments and write-off	2018	2017
Operating expenses from revaluation of intangible assets and P, P&E	115,094	83,715
Operating expenses from revaluation of current assets	267,995	359,493
Total revaluation expenses	**383,089**	**443,208**

Table 152: Impairments and write-off

A total €383,089 (2017: €443,208) relates to the write-off and impairment of intangible assets, property, plant and equipment, and working capital. Of that, €115,094 (2017: €83,715) relates to impairment and write-off of fixed assets, and €267,995 to receivable allowances (2017: €346,703). The Group did not recognise any allowances for inventories in 2018 (2017: €12,789).

7.3.3. Other operating expenses

in EUR

Other operating expenses	2018	2017
Sponsorships and donations	36,865	64,677
Charges for environmental protection and duties independent of business activities	179,866	169,136
Other operating expenses	132,932	30,814
Total other operating expenses	**349,663**	**264,627**

Table 153: Other operating expenses of the Group

Charges independent of profit or loss relate to the land and water contribution in the amount of €93,847 (2017: €92,591); accrued compensation for damage caused by the parent company Elektro Primorska primarily to individuals on their land during the facility construction or maintenance; financial aid and grants; administrative and legal fees; and other expenses that are not essential to the business.

7.3.4. Financial income

Financial income of the Elektro Primorska Group amounted to €145,156 (2017: €117,501), of which €5,920 (the same as in 2017) relates to income from stakes and the remaining amount to interest income. Compared to the previous year, this is an increase of €27,655 on account of a rise in financial income from operating receivables.

in EUR

Financial income:	2018	2017
Financial income from shares and stakes	5,920	5,920
Financial income from loans	5,050	5,037
Financial income from operating receivables	134,186	106,543
Total	**145,156**	**117,501**

Table 154: Financial income of the Group

7.3.5. Financial expenses

Financial expenses amounting to €392,287 (2017: €394,488) consist of interest on short- and long-term bank borrowings, default interest charged by suppliers, and interest from actuarial calculations. Compared to the previous year, financial expenses on bank loans decreased by €28,617, while default interest payable to suppliers increased by €25,136 (due to payment difficulties at the beginning of 2018 when the new ERP system was introduced). On the other hand, interest on actuarial calculations fell by €38,195. The Group also recognised €38,580 of expenses from write-off of the investment in VIRS.

in EUR

Financial expenses:	2018	2017
Expenses from investment impairment and write-off	38,580	0
Expenses from financial liabilities to banks	273,970	302,587
Expenses from financial liabilities based on actuarial calculations	47,290	85,485
Expenses from financial liabilities to suppliers	31,522	6,386
Expenses from financial liabilities to others	925	29
Total	**392,287**	**394,488**

Table 155: Financial expenses of the Group

7.3.6. Current tax and deferred tax assets/deferred tax liabilities

Corporate income tax expense for the financial year encompasses current and deferred tax. Tax is recognised in profit or loss unless it relates to the items that are recognised in other comprehensive income or directly in equity, if it relates to the items recognised in equity.

The Elektro Primorska Group recognised income tax payable of €1,103,155 in 2018 (2017: €1,083,755). Corporate income tax rate in 2017 was 19% compared to 17% applicable in 2016.

The Group recognised €580,572 of deferred tax assets in compared to the previous financial year when €113,063 of deferred tax assets was reversed.

A reduction in the positive effect of deferred taxes is due to the fact that the parent company recognised deferred tax assets for the first time in the financial year 2017. The parent company recognised deferred tax assets in its financial assets for the first time in the financial year 2017. The parent company has assessed that there is no longer any doubt about the future of the Company's status, which also ensures the existence of taxable profits in the predictable future, against which deferred tax assets can be utilised.

in EUR

	2018	2017
Provisions	-32,148	336,313
Receivables	71,574	206,873
Tax losses	0	-5,473
Unused tax relief for investments and donations	0	0
Investment impairment	0	42,838
Receivables for elimination of gains on sale of inventories	-2	20
Changes in deferred tax assets/liabilities	**39,424**	**580,572**

Table 156: Movements in deferred tax assets

Movements in deferred tax assets are disclosed in Note 6.2.7.

7.3.7. Net profit

The Group achieved pre-tax profit of €8,131,578 in 2018 (2017: €7,868,926), and net profit of €7,028,021 (2017: €7,346,342).

Tax expense recognised in profit or loss

in EUR

	2018	2017
Income tax payable for the current year	-1,065,785	-1,103,155
Deferred tax	-37,772	580,572

Other taxes not reported under other items		
Income tax payable	**-1,103,557**	**-522,584**
Profit or loss before tax	8,131,578	7,868,926
Tax calculated at the applicable tax rate of 19%	**1,545,000**	**1,337,717**
Adjustment of revenue to the level of tax-deductible	-818,183	-175,792
Adjustment of expenses to the level of tax-deductible	1,888,800	1,216,375
Utilisation of tax relief	-2,681,376	-3,128,407
Other (change in accounting method)	-555,046	32,160
Total tax base	**5,965,772**	**5,813,262**
Taxes	-1,103,557	-522,584
Effective tax rate	**13.57%**	**6.64%**

Table 157: Corporate income tax

7.4. Notes to consolidated cash flow statement

The consolidated cash flow statement is compiled under the indirect method based on data and balances reported in books of account, showing movements in cash flows during the accounting period.

Difference between initial and closing balance of cash and cash equivalents in 2018 is the cash outflow of €2,442,796 (2017: cash inflow of €3,004,497).

While the Group achieved net cash inflow from operating activities, it reports net cash outflows from investing and financing activities.

Receipts from operating activities consist of inflows to the business accounts These are the receipts from sales of products and services and other income from operations, such as the cost of the network use, which the Company receives for the account of SODO, compensations, receipts from co-financing, and network charge for connected load. Receipts from operating activities include revenue from the value added tax charged on services rendered and supplies of goods.

Cash flows from operating activities increased in 2018 by €20,047,096 compared to 2017, mainly due to an increase in operating revenues from the sale of electricity (inflow of €165,304,004, which accounts for the major item of operating inflows), the use of network and services performed on behalf and for the account of SODO (inflows of €29,921,646). Major amount of receipts from operating activities (€41,250,746) stems from services based on the contract concluded with SODO for the provision of services and lease of electricity infrastructure.

Operating expenditures are outflows from accounts consisting of operating expenses paid for material, services, salaries, levies and other outflows. Majority of these refer to the outflows on account of the cost of the network use (€94,885,596), which are not recognised as expenses of the Group.

Receipts from investing are inflows arising from interest and shares in profits, as well as gains on disposal of fixed assets and investments.

Expenditures for investing comprise outflows for payment of invoices for the acquisition of intangible assets, property, plant and equipment and investments. The Group spent €13,840,691 on its investing activities in 2018 exclusive of the cost of capitalised own work.

Receipts from the financing activities refer to the long-term and short-term borrowings. In 2018, the Group raised €9 million of long-term borrowings from Cancan Intesa Sanpaolo for financing its investments and withdrew €6,009,506 of funds from a short-term revolving credit.

Expenditures for financing activities comprise payments of interest, dividends and repayment of borrowings. Most of the Company's financing expenses refer to the repayment of long-term and short-term borrowings of €12,153,667, namely repayment of a short-term revolving credit of €5,300,000 and repayment of current amounts of long-term borrowings of total

€6,853,667. Financing expenses also refer to dividends paid in 2017 in the amount of €2,549,019.

Net cash for the period

The Group generated €258,917,281 of cash inflows (2017: €253,734,699) and €261,360,077 of cash outflows (2017: €250,730,201). Cash receipts and disbursements include appropriate amounts of levies, in particular VAT and excise duties, in accordance with the invoices received or issued.

The difference between initial and closing balance of cash and cash equivalents in 2018 is the cash outflow of €2,442,797 (2017: cash inflow of €3,004,497).

7.5. Financial instruments and risk management

This section includes disclosures relating to financial instruments, financial risks and risk management, while risk management procedures and controls are explained in the business report in section ››Risk Management‹‹.

The Group is exposed to liquidity risk, credit risk and market risk, which contains the interest rate risk associated with existing assets and liabilities, and anticipated future transactions, as well as price risk.

The Group does not use derivative financial instruments to hedge against these risks.

7.5.1. Credit risk

The process of receivable recovery is a key element of working capital management of the Elektro Primorska Group. The credit control process, powers for authorisation of payment terms extension and control over receivable recovery are defined in internal acts. The system of regular reporting on trade receivable maturity and customer's payment discipline is an integral part of credit control. The reporting system enables timely detection of customers with an increased risk of default and ensures effective credit risk management.

In 2018, the Group actively monitored its trade receivable balances and pursued its adopted policy of granting limited sales on hire purchase and requiring relevant amount and quality of collateral.

In addition to the internal receivable recovery system, the Group ensures receivable recovery by engaging help of qualified agencies, in particular for receivables of the subsidiary for which all means of receivable recovery were exhausted.

The maximum exposure to credit risk is equal to the carrying amount of financial assets. The carrying amounts of financial assets as at 31 December 20187 are shown in the table below:

in EUR

	31.12.2018	31.12.2017
Financial assets at fair value through OCI	878,502	913,236
Non-current financial receivables	82,979	82,979
Non-current operating receivables	547,913	156,945
Short-term financial receivables	4,001,343	1,343
Short-term operating receivables (net receivables due from the State)	31,127,327	26,420,802
Contract assets	1,399,156	0
Cash and cash equivalents	3,724,692	6,167,489
Total	**41,761,914**	**33,742,794**

Table 158: The carrying amount of financial assets as at 31 December 2018

At the reporting date, short-term receivables are mostly exposed to the credit risk. Compared to the end of 2017, they have increased nominally by 17.81%. The reason for this is primarily an increase in sales i.e. sales invoiced in 2018 by the subsidiary for the sale of electricity; consequently, the amount of outstanding receivables has also risen.

in EUR

	Not past due	Up to 30 days	From 31 to 60 days	From 61 to 90 days	From 91 to 365 days	In excess of 365 days	Total
Trade receivables	27,476,504	2,207,985	769,000	535,675	98,710	39,453	31,127,327
Other receivables (excluding receivables from the State)	17,280	7,066	404	598	3,407	28,113	56,870
Total at 31 Dec 2018	**27,493,784**	**2,215,051**	**769,405**	**536,273**	**102,117**	**67,566**	**31,184,197**

	Not past due	Up to 30 days	From 31 to 60 days	From 61 to 90 days	From 91 to 365 days	In excess of 365 days	Total
Trade receivables	23,199,853	2,156,320	604,882	198,115	218,070	43,562	26,420,802
Other receivables (excluding receivables from the State)	22,739	3,386	1,060	343	1,260	18,762	47,551
Total at 31 Dec 2017	**23,222,592**	**2,159,706**	**605,942**	**198,458**	**219,330**	**62,324**	**26,468,353**

Table 159: Maturity structure of trade and other short-term operating receivables

in EUR

	Allowances of short-term trade receivables	Allowances of short-term interest receivables	Allowances of other short-term receivables (excluding receivables from the State)	Total
At 1 Jan 2017	2,501,980	235,473	15,816	2,753,268
Receivable allowances	295,232	34,530	316	330,077
Reversal of receivable allowances	-70,518	-816	-252	-71,586
Write-off	-120,991	-11,663	-386	-133,040
At 31 Dec 2017	**2,605,703**	**257,524**	**15,493**	**2,878,719**
At 1 Jan 2018	2,987,284	281,704	16,023	3,285,011
Receivable allowances	223,540	41,642	2,813	267,995
Reversal of receivable allowances	-76,725	-11,483	0	-88,208
Write-off	-178,029	-21,666	-1,114	-200,808
At 31 Dec 2018	**2,956,071**	**290,197**	**17,722**	**3,263,990**

Table 160: Movements in receivable allowances

Collateralised receivables – a total €42,000,000 of receivables due from major buyers of electricity to the subsidiary is collateralised.

7.5.2. Liquidity risk

Liquidity risk is the risk that the company will not be able to meet its liabilities on maturity. The aim of the company is to always have at disposal sufficient liquid assets to meet its obligations, both under normal operating conditions, as well as in the event of unexpected circumstances.

The Elektro Primorska Group pursues a policy of strict payment discipline and stable cash flows. In 2018, the Group only occasionally had to draw on its short-term borrowings. The Group settles all of its liabilities regularly and within agreed deadlines. Liquidity risk is assessed by the Group as medium.

in EUR

	Carrying amount of liabilities	Contractual cash flows				
		Liabilities	0 to 6 months	7 to 12 months	1-5 years	More than 5 years
Non-current financial liabilities	27,842,495	27,842,495	0	0	15,527,774	12,314,721
Short-term financial liabilities	7,596,400	7,877,210	4,534,807	3,342,403	0	0
Short-term supplier payables (excluding advances)	25,361,619	25,361,619	25,265,463	52,155	44,001	0
Other liabilities excluding amount owed to the State, employees and for advance	135,837	135,837	85,029	38,118	12,690	0
Total liabilities	**60,936,352**	**61,217,162**	**29,885,300**	**3,432,676**	**15,584,465**	**12,314,721**

Table 161: Maturity structure of liabilities

7.5.3. Interest rate risk

Interest rate risk is the risk of a loss arising due to unfavourable interest rate fluctuations. Exposure to interest rate risk is mainly associated with the increase in the Euribor reference rate, as the Group's borrowings are tied to Euribor. **Interest rate risk is assessed as low and hence the company does not use any hedging instruments. The Group is exposed to interest rate risk associated with borrowings raised at a variable Euribor rate.**

Exposure to interest rate risk of the Group:

Financial instruments at fixed rate of interest — in EUR

	31.12.2018	31.12.2017
Financial liabilities	29,550,000	20,900,000
Net financial instruments at fixed rate of interest	**29,550,000**	**20,900,000**

Table 162: Financial instruments at fixed rate of interest

Financial instruments at variable rate of interest — in EUR

	31.12.2018	31.12.2017
Financial receivables	4,084,323	84,322
Financial liabilities	-4,888,067	-10,682,225
Net financial instruments at variable rate of interest	**-803,744**	**-10,597,903**

Table 163: Financial instruments at variable rate of interest

As at the reporting date, a change in interest rates by 100 or 200 base points would increase/decrease net profit by the amounts reported below. Cash flow sensitivity analysis associated with financial instruments at variable rates of interest assumes that all other variables remain unchanged. Considering the fact that the Euribor balance is negative, the change of 100 base points would have a minimal impact on the cash flow variability in 2018.

An increase of 100 base points would have the following effect on the profit or loss:

in EUR

	31.12.2018
Net cash flow variability - 100bt	13,032
Net cash flow variability + 100bt	-

in EUR

	31.12.2017
Net cash flow variability - 100bt	87,779
Net cash flow variability + 100bt	-

7.5.4. Currency risk

Financial and operating receivables and liabilities as at 31 December 2018 and 31 December 2017 are denominated in euros and therefore, the Group's exposure to currency risk is assessed as low and as such is not disclosed.

7.6. Capital management

The key purpose of capital management is to ensure capital adequacy of the Group and the greatest possible financial stability and solvency for the purpose of financing operations, as well as increasing the value of group companies for the shareholders. Hence, the Group pursues a stable dividend policy.

The Group uses net debt to equity ratio (gearing ratio) to monitor its capital adequacy. The net financial debt comprises borrowings less cash and cash equivalents.

The Group is financially stable, as evidenced by the net debt to equity ratio.

in EUR

	31.12.2018	31.12.2017
Non-current financial liabilities	26,841,667	24,791,334
Short-term financial liabilities	7,596,400	6,790,892
Total financial liabilities	34,438,067	31,582,226
Total capital	161,853,771	158,674,327
Debt/equity	**0.213**	**0.199**
Cash and cash equivalents	3,724,692	6,167,489
Net financial liabilities	30,713,375	25,414,737
Net debt/quity	**0.190**	**0.160**

Table 164: Net debt/equity ratio

7.7. The fair value and carrying amounts of financial instruments

in EUR

	31.12.2018		31.12.2017	
	Carrying amount	Fair value	Carrying amount	Fair value
Non-derivative financial assets at fair value				
Financial assets at fair value through OCI	71,750	71,750	68,435	68,435
Non-derivative financial assets at amortised cost				
Financial receivables	4,084,323	4,084,323	84,323	84,323
Short-term operating receivables (net of receivables due form the State)	31,184,197	31,184,197	26,468,448	26,468,448
Non-current operating receivables	547,913	547,913	156,945	156,945
Contract assets	1,399,156	1,399,156	0	0
Cash and cash equivalents	3,724,692	3,724,692	6,167,489	6,167,489
Total non-derivative financial assets	**41,012,031**	**41,012,031**	**32,945,640**	**32,945,640**
Non-derivative financial liabilities at amortised cost				
Bank borrowings and other financial liabilities	-34,438,067	-34,438,067	-31,582,226	-31,582,226
Operating liabilities (excluding other long-term liabilities and short-term liabilities to the State and employees, and advances)	-25,497,456	-25,497,456	-22,119,610	-22,119,610
Total non-derivative financial liabilities	**-59,935,524**	**-59,935,524**	**-53,701,836**	**-53,701,836**

Table 165: The fair value and carrying amounts of financial instruments

In terms of fair value, assets and liabilities are classified in three levels:

- Level 1 - assets at market price;
- Level 2 - **assets not classified within level 1 and the value of which is determined directly or indirectly based on observable market data;**
- Level 3 - **assets the value of which cannot be determined using observable market data.**

Fair values of financial liabilities according to the fair value hierarchy:

in EUR

	31.12.2018			31.12.2017		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Assets at fair value						
Financial assets at fair value through OCI	71,750	0	0	68,435	0	0
Total assets at fair value	**71,750**	**0**	**0**	**68,435**	**0**	**0**
Assets for which fair value is disclosed						
Non-current financial receivables	0	0	82,979	0	0	82,979
Short-term financial receivables	0	0	4,001,343	0	0	1,343
Non-current operating receivables	0	0	547,913	0	0	156,945
Short-term operating receivables (net of receivables due form the State)	0	0	31,184,197	0	0	26,468,448
Contract assets			1,399,156			0
Cash and cash equivalents	0	0	3,724,692	0	0	6,167,489
Total assets for which fair value is disclosed	**0**	**0**	**40,940,281**	**0**	**0**	**32,877,205**

Table 166: Fair values of financial assets according to the fair value hierarchy

Fair values of financial liabilities according to the fair value hierarchy:

in EUR

	31.12.2018			31.12.2017		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Assets at fair value						
Liabilities for which fair value is disclosed						
Non-current financial liabilities	**0**	**0**	**-26,841,667**	**0**	**0**	**-24,791,334**
Short-term financial liabilities	0	0	-7,596,400	0	0	-6,790,892
Operating liabilities (excluding other long-term liabilities and short-term liabilities to the State and employees, and advances)	0	0	-25,497,456	0	0	-22,119,610
Total liabilities for which fair value is disclosed	**0**	**0**	**-59,935,524**	**0**	**0**	**-53,701,836**

Table 167: Fair values of financial liabilities according to the fair value hierarchy

7.8. Subsequent events

No events occurred after the reporting date that could have a significant impact on the financial statements for the year ended 31 December 2018.

In the period subsequent to the reporting date (31 December 2018) and the report of the independent auditor (17 May 2019), the Group received preliminary statement of accounts for the 2018 regulation year from SODO. The statement of accounts is based on non-audited financial statements. It is clear from the preliminary statement of accounts that based on the value of paid advances in 2018, the contractual value of services and rental of electricity infrastructure already charged is by €1,020,135 lower than the values established on the basis of the preliminary settlement of accounts (rent outstanding in the amount of €35,964 and service charge of €976,171). Therefore, the Group increased revenues from services under the contract with SODO in the amount of €976,171 and the value of rental income from the lease of energy infrastructure by €35,964.

No other events occurred after the end of the reporting period and before the compilation of the financial statements that could impact the financial statements for the year ended 31 December 2018 or require additional disclosures to them.

7.9. Operating lease liabilities and assets

7.9.1. Group as a lessee

The Group recognised liabilities from operating leases of property, plant and equipment, which primarily relate to lease of business premises, fibre optic for telecommunications, and lease of electricity infrastructure for the provision of public service of electricity distribution.

in EUR

Maturity	31.12.2018	31.12.2017
Up to 1 year	197.063	199.788
From 1 up to and including 5 years	518.026	641.439
Total	**715.089**	**841.227**

Table 168: Operating lease liabilities for lease of property, plant and equipment

Real estate, in particular offices, are leased for a period of 1-5 years, while equipment and cars are leased for a period of 1 year.

Lease agreements are concluded for an indefinite period (for duration of services provision), while lease of electricity infrastructure has been agreed for a period of 30 years with an option of extension.

In 2018, the Group recognised €197,623 of operating lease costs (2017: €213,615).

7.9.2. Group as a lessor

The Group discloses **receivables for operating lease of property, plant and equipment. They relate to rental of apartments, commercial premises, and above all electricity infrastructure of the parent company.**

in EUR

Maturity	31.12.2018	31.12.2017
Up to 1 year	17,406,680	16,785,509
From 1 up to and including 5 years	87,033,398	83,927,547
Total	**104,440,078**	**100,713,056**

Table 169: Receivables for operating lease of property, plant and equipment

Lease contracts are mostly concluded for an indefinite period, while lease of energy infrastructure is agreed for the duration of the concession agreement (until 30 June 2057) granted to the infrastructure lessee SODO by the Republic of Slovenia.

The Group recognised rental income of €17,406,680 in its profit or loss in 2018 (2017: €16,785,509), reported as revenue from the sale of services on the domestic market.

08

STATEMENT OF MANAGEMENT RESPONSIBILITY – GROUP OPERATIONS

The Management has approved the financial statements and business report for the year ending 31 December 2018 and the accompanying accounting policies and notes thereto contained in the proposed Annual Report.

The Management Board is responsible for the preparation of the Annual Report that gives a true and fair presentation of the financial position of the Group and of its financial performance for the year ended 31 December 2018.

The Management Board confirms that the appropriate accounting policies were consistently applied, and that the accounting estimates were made under the principle of prudence and the diligence of a good manager. Furthermore, the Management Board confirms that the financial statements and notes thereto have been compiled under the assumption of a going concern, and in accordance with the applicable legislation and International Financial Reporting Standards as endorsed by the EU.

The Management Board is also responsible for the appropriate accounting system and adoption of measures to secure the assets, and to prevent and detect fraud and other irregularities and/or illegal acts.

In its operations the Group strictly abides by the laws and tax regulations, and the Management Board does not expect any significant obligations in this respect.

The Tax Authorities may, at any time within a period of 5 years after the end of the year for which a tax assessment was due, carry out an audit of the Company's operations, which may lead to assessment of additional tax liabilities, default interest, and penalties with regards to corporate income tax or other taxes and duties.

The Management is not aware of any circumstances that could give rise to a potentially significant liability in this respect.

Nova Gorica, 17 May 2019

Uroš Blažica
President of the Management Board

INDEX OF CHARTS AND TABLES

LIST OF ABBREVIATIONS

AUKN	Capital Assets Management Agency of the Republic of Slovenia
BDP	gross domestic product
CUO	price for network use
COT	comprehensive risk management
D	electricity distribution
DU	distribution unit
DCV	remote control centre
DV	transmission line
DVPLM	remotely controlled switch point
DVE	domestic energy sources
EFQM	The European Foundation for Quality Management
EIMV	Elektroinštitut Milan Vidmar
ERP	enterprise resource planning
EBIT	earnings before interest and tax
GIS	geographic information system
GIZ	economic interest grouping
I	investments
IIS	integrated information system
ISV	integrated management system
JR	public lighting
KBV	cable conduit
KEE	quality of electricity
NIS	network information system
NN	low voltage
NR	internal audit
OVE	renewable energy resources
RAST	program of operating costs rationalisation
REDOS	development of Slovenian electricity distribution network
RP	substation
RS	Republic of Slovenia
RTP	transformer substation
SAIDI	average interruption duration index
SAIFI	average interruption frequency index
SCADA	distribution networks system monitoring
SDH	Slovenian Sovereign Holding
SM	standing place
SN	medium voltage
SOD	Slovenian Compensation Fund
SODO	distribution network system operator
SODO EP	activity of Elektro Primorska d. d., implementing a service for SODO
SPTE	co-generation of heat and electricity
TP	transformer station
UDO	distribution network management
URE	efficient use of electricity
UMAR	Institute of Macroeconomic Analysis and Development
UKV	ultra-short waves
VN	high voltage
VZD	maintenance
ZSDH	Slovenian Sovereign Holding Act