Elektro Primorska

19

2019 ANNUAL REPORT OF ELEKTRO PRIMORSKA, D. D. AND THE ELEKTRO PRIMORSKA GROUP

2019

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BUSINESS REPORT

A

1. REPORT BY THE MANAGEMENT BOARD

Dear shareholders, business partners and colleagues,

I have pleasure in presenting to you the 2019 Annual Report of Elektro Primorska and the Elektro Primorska Group. Since its establishment, Elektro Primorska has strived to upgrade and maintain the electricity distribution network, as only a well-functioning and faultless network can follow the development plans of the Slovenian economy and the distribution network, and above all, ensure high-quality supply of electricity to end-users.

While this report is being drawn-up, we are facing a rather challenging and an unforeseen event, a pandemic that has drastically changed our daily lives and will have a profound impact on the entire economy. I believe the impact will be felt for a considerable period of time. Our concern at this time is foremost an utmost protection of our employees and an uninterrupted supply of electricity. Elektro Primorska has an established and certified integrated quality management, environmental management and vocational health and safety management systems inclusive of a business continuity plan, which has again (as was the case some years ago) proved to be of crucial importance for the establishment of operations and smooth running of the business in the current challenging conditions. I am confident that together we shall prevail and emerge from this crisis stronger and, above all, safe and sound.

Not considering the pandemic, the financial year 2019 was relatively calm, with no extraordinary events that would have a significant impact on the Group's operations. Hence, the Group achieved and even exceeded majority of the set goals.

In 2019, we allocated €19.4 million of funds for the construction of a robust and modern network for electricity distribution to our users. In addition, we raised a loan of €22 million from the European Investment Bank (EIB), as Elektro Primorska is planning to invest €51 million in the renovation and construction of the electricity distribution system over the period from 2019 to 2021. The investments are aimed at improving the quality of voltage and reliability of supply, and implementing economical, simple, transparent and developmentally flexible electricity distribution system, while considering the rational use of space and environmental protection.

Elektro Primorska's aim is gradual cabling of the medium voltage (SN) network, particularly in exposed areas where an increased number of outages has been recorded due to environmental impacts and in areas where the outage causes major damage. The construction of an underground medium-voltage network will reduce the number of interruptions and losses, as well as the network maintenance costs. All major investments are planned based on the results of our extensive network studies that justify the investments in terms of technical improvements and economic benefits. Major investments to be undertaken during this period include:

- Construction of 21km of 20kV underground lines between Kobarid and Bovec
- Construction of 3.4km of 20kV underground line between Vrtojba and Bilje
- Completion of construction of 3.5km of 20kV underground lines between Spodnja Idrija and Srednja Kanomlja
- Construction of 5.85km of 20kV connections between RTP Pivka and OC Neverke

We continued our work on establishing 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 2019, extraordinary weather conditions, which have been more frequent in recent years, did not result in as many or as frequent failures in the electricity distribution network of Elektro Primorska, as was the case in the previous years. Targeted and significantly increased intensity of investments in network modernization and the implementation of dedicated technical measures in recent years have paid off, as evidenced by indicators that measure the systemic quality of customer supply, i.e. uninterrupted power supply.

The Company distributed 1,673.8GWh of electricity through its network in 2019. Total quantity of electricity distributed in 2019 is up 0.78% compared to 2018, the second highest recorded in the entire history of the Company. Higher quantities were recorded only in

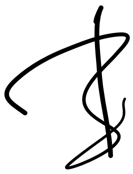
2007, mainly due to rather large transmission of electricity to Italy. Considering electric power consumption on the Slovenian market, we can conclude that the financial year 2019 was another record-breaking year.

In addition to electricity consumption, our peak consumption is also increasing. In 2019, we recorded the highest final electricity consumption of 303,128MWh/h. Due to the customer dynamics and an increasing share of air conditioners, we have been recording a drastic increase in the "summer peak", which in 2019 amounted to 281.119MWh/h.

In its management of investments in electricity distribution companies in 2019, Elektro Primorska followed the key objectives of SDH, d. d. (the Slovenian Sovereign Holding). All the work was performed in accordance with the approved Business Plan and we generated net profit of €8,020,282. Our subsidiary E 3, d. o. o. also performed well in 2019 and slightly increased its market share in the market of electricity sales to end customers, while starting an investment cycle for the construction of new capacities for heat and electricity production. In 2019, E 3, d. o. o. underwent a number of due diligences performed by potential buyers of a 100% stake in the company. In the beginning of 2020, a contract for the sale of a 100% stake in E 3 d. o. o. was signed with the most favourable bidder and the sale is expected to be completed after obtaining the consent of the Slovenian Competition Protection Agency.

On behalf of myself and my colleagues, I wish to express my gratitude and appreciation to all our shareholders and business partners for their trust in the past year. In the future, we shall continue to focus on business excellence and justify the reputation of a reliable and trustworthy business partner.

Uroš Blažica
President of the Management Board



2. STATEMENT OF MANAGEMENT'S RESPONSIBILITIES

The Management has approved the financial statements and business report for the year ending 31 December 2019 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 2019.

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 a 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.

In its business operations, the Company strictly abides by the laws and tax regulations and 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, 27 May 2020

Uroš Blažica,
President of the Management Board

3. SUPERVISORY BOARD REPORT

COMPOSITION OF THE SUPERVISORY BOARD

The composition of the Supervisory Board is diverse and members have the appropriate expertise, experience and skills required for the performance of their tasks and duties. Their knowledge and experience are complementary, which ensures appropriate supervision over the Company's operations.

In the period from 1 January 2019 to 31 December 2019, 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

New members of the Works Council were elected on 28 August 2019 for a four-year term of office running from 2019 to 2023.
The four-year term of office of the previous members of the works council expired on 17 September 2019 and the newly elected members began their term of office as at the day of the plenary session, i.e. 18 September 2019.

Elections of employees' representatives to the Supervisory Board took place on 16 October 2019. On 20 October 2019, the following were elected the Company's Supervisory Board members for a four-year mandate:

- Marko Fičur, member of the Supervisory Board, employee representative, and
- Valdi Morato, member of the Supervisory Board, employee representative.

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

- Stanislav Rijavec – member of the Institute Council of the "Dom na Krasu" Dutovlje;
- mag. Nikolaj Abrahamsberg – member of the Supervisory Board of the Slovenian Air Traffic Control;
- Darko Ličen – director of "Komunala Nova Gorica d.d.;
- 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,
- Marko Fičur – not a member of any of the management or supervisory bodies of related or unrelated companies,
- Valdi Morato – not a member of any of the management or supervisory bodies of related or unrelated companies.

TASKS OF THE SUPERVISORY BOARD

In the 2019 financial year, the Supervisory Board diligently and responsibly supervised the operations of the Company and of the Elektro Primorska Group. The Supervisory Board carried out formal and substantive control over the activities of the Management Board within its powers in accordance with legal regulations, the Articles of Association, the Corporate Governance Code of Companies with State Capital Investment, the Recommendations and Expectations of the Slovenian Sovereign Holding, the Rules of Procedure of the Supervisory Board and good business practice.

In accordance with their competences and authorisations, members of the Supervisory Board supervised and monitored the Company's operations and governance based on information and reports provided by the Management Board. Business supervision involved monitoring of the implementation of investments, business decisions made by the Management Board, financial development of the Company, significant business events that occurred in the Company and the Group, and the implementation of strategic and general business policies. Business supervision also 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. The Supervisory Board believes that cooperation with the Management Board was professional and conducted at appropriate professional level.

The Supervisory Board met at seven regular and one correspondence session in 2019, adopted a total of 74 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 Supervisory Board was regularly informed about the liquidity situation and important information on the Company's current operations;
- And supplied quarterly reports of the internal audit function and reports on comprehensive risk management in the Elektro Primorska Group;
- At its 16th regular session on 20 May 2019, it reviewed and approved the audited Annual Report of Elektro Primorska d. d. and the Elektro Primorska Group for the financial year 2018; 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 2018;
- Furthermore, 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 potential for structural transformation of subsidiary E 3, d. o. o.

The Supervisory Board members regularly attended the sessions and all members were actively involved in discussions on individual agenda items.

In addition to the costs relating to its performance of the function, the Supervisory Board incurred €817.40 of costs relating to professional training and education. Remuneration of Supervisory Board members is disclosed in Table No. 70 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 operations of the Company and the Group.

In 2019, the 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 in six regular sessions in 2019 and adopted a total of 42 resolutions.

The first three sessions were devoted to the preparation of the basis for the Supervisory Board's approval of the Annual Report, which included a discussion with external auditors. The Audit Committee discussed the audited annual report and submitted it to the Supervisory Board for approval, and drafted a proposal for the selection of the auditor of the Company's Annual Report.

At its regular sessions, the Audit Committee also discussed the following topics:

- 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 and annual internal audit reports,
- Quarterly and annual risk management reports,
- Proposals for improvement of business operations,
- Other matters as requested by the Supervisory Board.

The Audit Committee incurred no costs relating to its performance of tasks other than administrative costs, which are subject to the decision of the Annual General Meeting regarding remuneration for the performance of the function. Remuneration paid to the internal Audit Committee members is shown in Table No. 70 of the Annual Report. Gross remuneration of external members of the Audit Committee amounted to €7,203 in 2019.

APPROVAL OF THE ANNUAL REPORT AND POSITION ON THE AUDITOR'S REPORT

At its 24th regular session on 2 June 2020, the Supervisory Board discussed the Annual Report of Elektro Primorska and Elektro Primorska Group for the financial year 2019, together with the report of external auditors, Ernst & Young Revizija, poslovno svetovanje d.o.o., Ljubljana, whereby the certified auditor confirms that the financial statements that 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 is prepared in accordance with provisions of the Companies Act and the applicable accounting standards and that the information contained therein is a fair presentation of the Company's operations in the financial year under review.

In accordance with the foregoing considerations and the 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 2019. Thus, the Annual report of Elektro Primorska d. d. and of the Elektro Primorska Group for 2019 was adopted.

In 2019, Elektro Primorska generated €8,020,282 of net profit. Some of the net profit amounting to €11,746 was allocated by the Company to cover losses brought forward from previous years in the amount of €92,359, which arose on derecognition of actuarial losses, and to retained earnings following withdrawal of treasury shares in the amount of €80,613. In accordance with the competencies stipulated in the Companies Act and the Articles of Association, the Management Board allocated 5% of €5,109,850 of the remaining amount of the net profit of 2019 to profit reserves.

The Supervisory Board supports the Management Board's proposal to pay €2,629,746 of the profit available for distribution as at 31 December 2019 to shareholders as dividends, within 120 days from the day the resolution is adopted at the General Meeting of Shareholders.

Nova Gorica, 2 June 2020

Stanislav Rijavec
Chairman of the Supervisory Board

4. 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 year 2019.

4.1 Declaration of compliance with the Corporate Governance Code

Elektro Primorska complies with provisions of the Corporate Governance Code of Companies with State Capital Investment adopted on 19 December 2014 by the Slovenian Sovereign Holding in accordance with provisions of ZSDH-1, as amended on 2 March 2016, 17 May 2017 and 28 November 2019. The Company will strive to implement the amendments to the code adopted in November 2019 during the financial year 2020. The Code is available on the following website:
https://www.sdh.si/Data/Documents/pravni-akti/Kodeks%20korporativnega%20upravljanja_november%202019_oblikovan.pdf

4.2 Compliance with the recommendations and expectations of the Slovenian Sovereign Holding

Elektro Primorska meets the recommendations and expectations of the Slovenian Sovereign Holding, adopted in March 2018. The Company hereby declares that it does not fully or consistently comply with those provisions of the 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 implemented in order to manage risks and to ensure the preparation of financial statements that present a true and fair view of the statement of 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 2019 the internal audit was performed of the following implementation processes: a) informatics in Elektro Primorska (EP), b) investments in and maintenance of the infrastructure of EP; c) personal data protection in EP and E 3, d) internal audit of the subsidiary E 3; e) the purchase and sale of electricity, and f) investments in and maintenance of the infrastructure held by the subsidiary E 3 .

The financial statement audit of the parent and its subsidiary was performed by the auditing firm 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 18,783,898 ordinary registered no-par value shares of a single class. The only holder of a qualified share as determined by the Takeover Act, is the Republic of Slovenia, holder of 14,967,304 shares as at 31 December 2019, corresponding to 79.6816% of the share capital.

Holders of shares have no special rights of ownership of shares, and no limitations apply to them regarding exercising their voting rights. As at 31 December 2019, the Company held no treasury shares.

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 has held the office of the President of the Management Board since 30 June 2012.

At its meeting held on 10 May 2016, the Supervisory Board unanimously appointed Uroš Blažic 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 in excess of the gross value of €50,000.00 (fifty thousand euros), in so far 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 the like) whose gross value of one transaction or more related transactions in total exceeds 1 (one)% of the Company's share capital, excluding transactions related to short-term cash management, legal transactions related to the method of payments, and transactions for the short-term deposit of cash in the form of deposits with 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 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 for 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.

Furthermore, the President of the Management Board is entitled to an annual preventive medical examination, 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 its acts. Term of office of the members of the Supervisory Board is four years, with a possibility of reappointment.

The following were appointed members of the Supervisory Board of Elektro Primorska on 29 August 2017: 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. The term of office of Ivan Namar and Primož Krnel expired on 19 October 2019 and thus, Marko Fičur and Valdi Morato were appointed members of the Supervisory Board on 20 October 2019.

Elektro Primorska has not adopted a diversity policy.

4.6.2 Competence 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 complies with provisions of the Corporate Governance Code of Companies with State Capital Investment adopted on 19 December 2014 by the Slovenian Sovereign Holding in accordance with provisions of ZSDH-1, as amended on 2 March 2016, 17 May 2017 and 28 November 2019.

The Supervisory Board met at seven ordinary and one correspondence session in 2019. Based on the responsibilities and powers set by 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 2019.

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 Annual 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 the function in the amount €11,300 gross and attendance fee in the amount of 80% of attendance fee of 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 28 June 2019. 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 2018, 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 2018 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 years 2019, 2020 and 2021.

4.8 Governance of the parent company and the Group

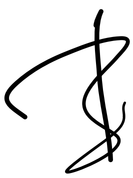
Elektro Primorska has a two-tier governance system. Appointment of members of the Management Board and the Supervisory Board is conducted in accordance with applicable law and the recommended standards of governance.

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, d.d.) and Knešca, d. o. o., as an associate (47.27% stake held by E 3).

To ensure close links and comprehensive supervision 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.

Nova Gorica, 27 May 2020

Uroš Blažica,
President of the Management Board



5. PRESENTATION OF THE COMPANY

5.1 Company Profile

The Company name:	Elektro Primorska, podjetje za distribucijo električne energije, d. d.
Abbreviated name:	Elektro Primorska, d. d.
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 accounts:	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:	€78,383,817.40
Ownership as at 31 Dec 2019:	79.68% Republic of Slovenia 17.08% PIDs, funds, commercial entities 3,24% Workers, retired employees, other
Supply area:	SW, W, NW part of Slovenia
Size of the supply area:	4,335km2
Number of customers:	135.283
Quantity of electricity supplied:	1,674GWh
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. Nikolaj Abrahamsberg, Deputy Chairman, Darko Ličen, Member, Rudolf Pečovnik, Member Ivan Namar, member (until 19 October 2019) Primož Krnel, member (until 19 October 2019) Marko Fičur, member (since 20 October 2020) Valdi Morato, member (since 20 October 2020)

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, which are published on the following website (Http://www.sodo.si/druzba_sodo/vizija): "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

Our own experience and experience in general confirm that a good business culture is essential for a successful operation of any company. Through continuous development of integrated management system in accordance with the ISO 9001, responsible attitude towards the environment in accordance with the ISO 14001 and vocational health and safety management system in accordance with the BS OHSAS 18001 standards, all of which are verified by regular internal and external audits, we have demonstrated that we cultivate good business culture and exercise corporate 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(hereinafter the EZ-1) 2014 entered into force on 22 March 2014 as an organic statute regulating the electric power distribution system in the Republic of Slovenia. To date, the Act has been amended twice.

The EZ-1 lays down the principles of the energy policy, regulates the rules of operation of the energy market, methods and forms of implementation of public utility services in the field of energy, principles and measures aimed at achieving reliable energy supply, increase energy efficiency and energy savings and increase the use of energy produced from renewable sources, determines the conditions for the operation of energy installations, regulates the competencies, organization and operation of the Energy Agency and inspections.

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 (hereinafter the Decree). In accordance with Article 554 of the EZ-1, the application of the Decree has been extended.

In the first section, the Decree regulates 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 can freely choose their electricity supplier. Therefore, the relevant provisions of the Decree are no longer applicable.

General Conditions for connection to the electricity distribution system and supply of electricity(hereinafter: the General Conditions). While these General Conditions are no longer valid, their application has been extended.

The general terms and conditions, which 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; record of measuring points; the quality of the services provided by the electricity distribution system operator and compensation, were issued by SODO d. o. o., from Maribor.

Rules on the system operation of electricity distribution network (hereinafter: the Rules). Published by SODO d. o. o. Maribor, 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 EZ-1 provides for only one legal act issued by the distribution operator that would combine the contents of the General Conditions for the Supply and Consumption of Electricity from the Distribution Network and the System Operating Instructions for the

Electricity Distribution Network.

In November 2019, Elektro Primorska, d. d., concluded a Contract for lease of electricity distribution infrastructure and provision of services of electricity distribution system operator with SODO, d. o. o., the sole concession holder for the system operator of the distribution network in Slovenia. This is the third such contract Elektro Primorska concluded with the concessionaire SODO, d. o. o. The first was signed in 2007 and the second in 2012.

In accordance with the applicable contract, 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 services include:

- Maintenance of primary electricity infrastructure,
- Implementation and organisation of emergency service,
- Management and operation of the electricity distribution network,
- Network development planning,
- Investment planning and management
- Monitoring and assessing quality of supply,
- Electricity metering,
- Provision of services of access to the distribution network,
- Ensuring user connections,
- Providing electricity to cover losses in the distribution system and supply to SODO,
- Other user services (handling complaints and appeals, call centre).

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

The Act on the methodology determining the regulatory framework and network charge for the electricity distribution system, adopted by the Energy Agency for the regulation period 2019-2021 regulates the following:

- Methodology for determining the regulatory framework and
- Methodology for charging the network charge, namely for the electricity transmission system (hereinafter: the transmission system), the electricity distribution system (hereinafter: the distribution system), excessive reactive power, power consumption and other services.

5.4 Organisation of the Company

In accordance with the Rules on the internal organization of Elektro Primorska, which entered into force on 1 January 2013, activities of the Company are performed by the following organizational units:

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 (DE Nova Gorica)
- Distribution unit Koper (DE Koper)
- Distribution unit Sežana (DE Sežana) and
- Distribution unit Tolmin (DE Tolmin).

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

6. HUMAN RESOURCE MANAGEMENT IN 2019

6.1 General

By encouraging mutual respect, close cooperation and trust, Elektro Primorska and the Elektro Primorska Group strive to provide their employees a business environment that encourages their professional and personal development, as employees contribute the largest share to the successful performance and achievement of the goals set by the Company. The Company and the Group appreciate the contribution and commitment of each and all employees towards achievement of our common business goals. Through regular organisational climate surveys, the employees have the opportunity to express their opinion, which is an important contribution to our efforts to improve the work environment. We pay special attention to the implementation of the personnel policy in the recruitment of new staff and the identification and development of key personnel, thus ensuring the successful operation of Elektro Primorska also in the future.

Key employee data:

A total of 468 workers were employed by the Company as at 31 December 2019. Average number of employees in 2019 was 471, one fewer than the average headcount recorded in 2018.

Activity	Headcount at 31 .12.2018	Structure (%)	Headcount at 31.12.2019	Structure (%)
Main activity (distribution network sector, electricity system management sector)	365	77.17	361	77.14
Common services (management, financial and accounting sector, general sector, procurement, information technology)	108	22.83	107	22.86
Total	**473**	**100**	**468**	**100**

Table 1: Overview of employees in Elektro Primorska, d.d.

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 2019	468	519
Average number of employees	471	524
Number of new employees	13	15
Number of departures	24	28
Number of permanent employees	456	501
Number of fixed-term employees	12	18
Number of disabled employees	31	32

Table 2: Overview of employees in Elektro Primorska, d. d. and the Elektro Primorska Group

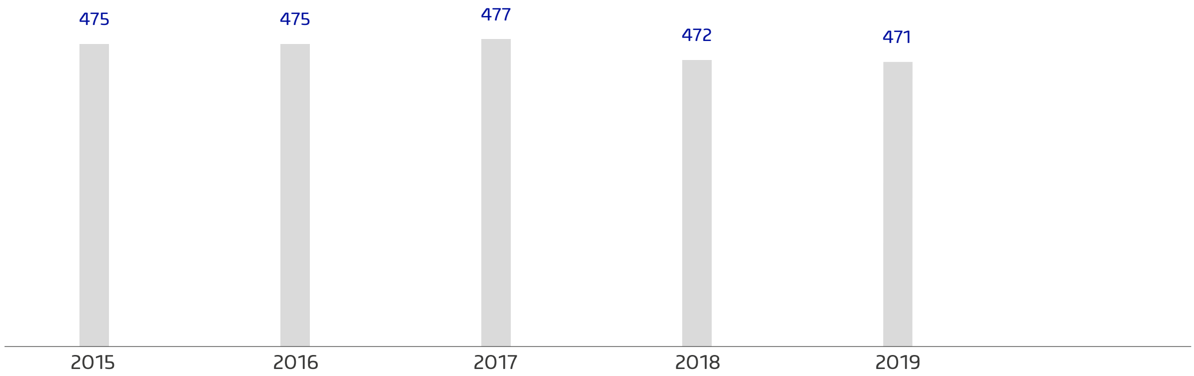


CHART 1: Movements in the average number of employees of Elektro Primorska over the period 2015 - 2019

6.2 Age structure of employees

The average age of employees is 45.59 years, which is similar to the 2018 data.

No.	Age group	Number of employees
1	up to 20	1
2	Between 21 and 30	40
3	Between 31 and 40	109
4	Between 41 and 50	140
5	Between 51 and 60	149
6	61 and over	29
	Total	**468**

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

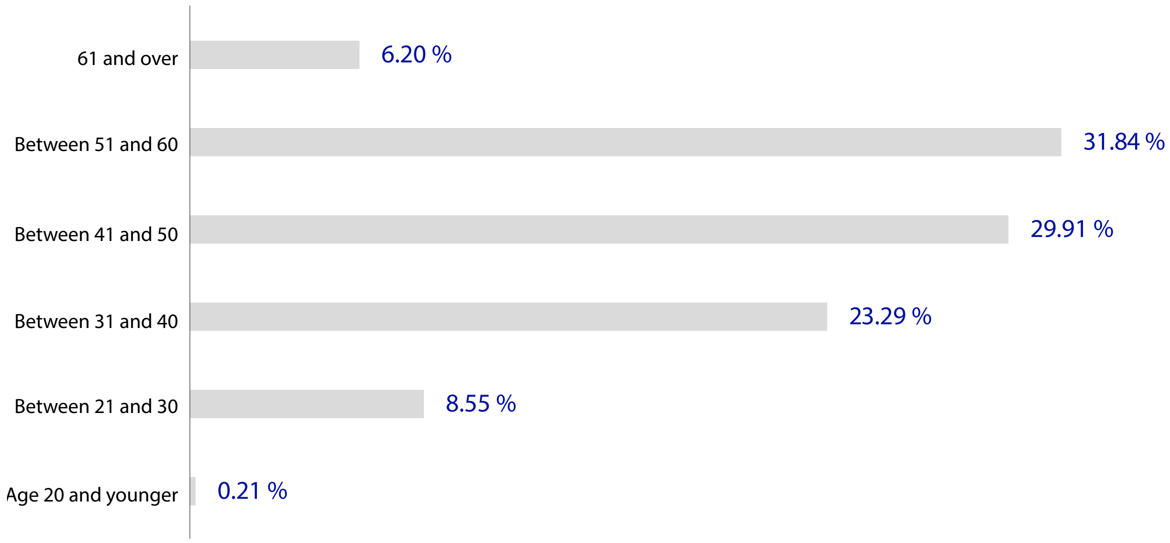


CHART 2: Age structure of employees of Elektro Primorska d. d.

6.3 Structure of employees according to the years of service

In 2019, over 61% of employees have completed 20 or more years of service.

No.	Years of service	Number of employees
1	up to 5	36
2	Between 6 and 10	35
3	Between 11 and 20	108
4	Between 21 and 30	115
5	Between 31 and 40	158
6	More than 40 years	16
	Total	**468**

Table 4: Number of employees in Elektro Primorska according to the years of service

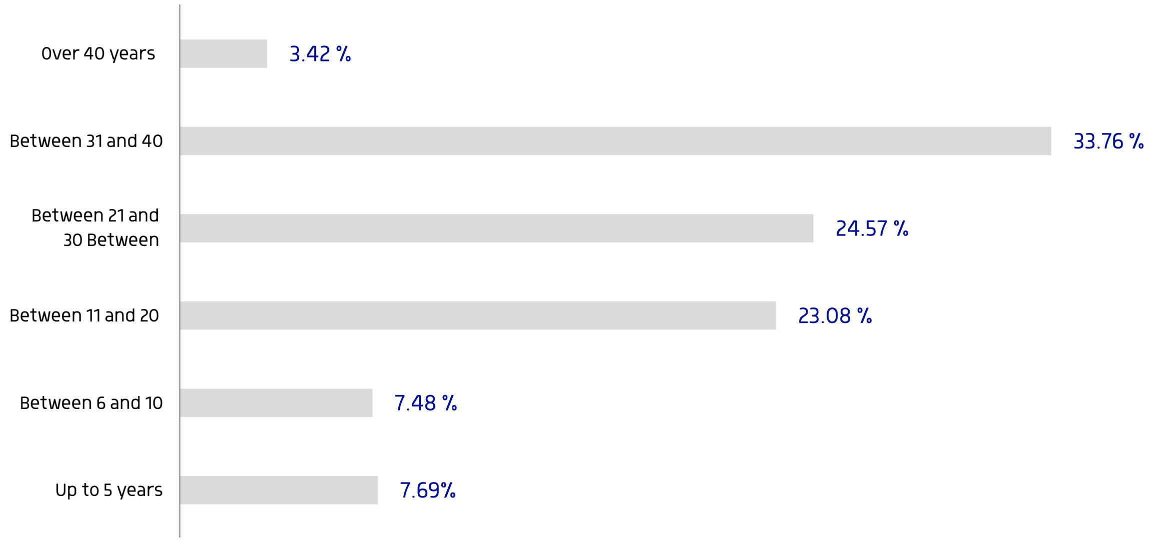


CHART 3: Structure of employees according to the years of service

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: The number of employees in Elektro Primorska by gender

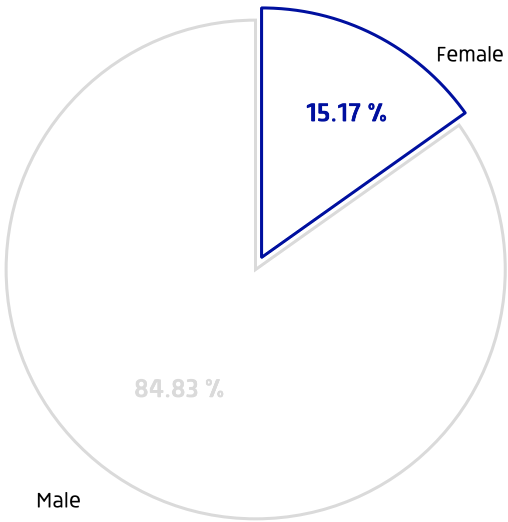


CHART 4: Structure of employees in Elektro Primorska according to gender

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

Whilst compared to the previous year the educational structure of employees has not changed significantly, there is an increasing trend in the number of staff with educational level 6/1, as the Company supports its employees in their efforts to further their knowledge and education.

Level according to BP	Headcount as at 31. 12. 2018	Structure (%)	Headcount as at 31. 12. 2019	Structure (%)
8/2	2	0.42	1	0.21
8/1	4	0.85	5	1.07
7	48	10.15	49	10.47
6/2	45	9.51	48	10.26
6/1	57	12.05	59	12.61
5	169	35.73	164	35.04
4	130	27.48	127	27.14
3	15	3.17	12	2.56
2	3	0.63	2	0.43
1	0	0	1	0.21
Total	**473**	**100**	**468**	**100**

Table 6: Educational structure of employees in Elektro Primorska,

Level according to BP	Average headcount 2018	Average headcount 2019
8/2	2	2
8/1	7	8
7	53	56
6/2	61	62
6/1	63	64
5	183	182
4	134	132
3	15	15
2	2	2
1	1	1
	522	**524**

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

6.6 Employees with disabilities

A total of 31 disabled workers were employed by the Company as at 31 December 2019; 9 disabled workers performed their duties on a part-time basis (4 hours/day); and the other 22 were employed on a full time basis. The 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. In May 2019, the Company was 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 2019, 421 employees attended various forms of training, which included seminars, a variety of educational courses, refresher courses, professional exams, and internally organised training. A total 544 working days were devoted to the above activities.

As many as 568 employees attended vocational health and safety training and exams.

The Company has concluded 13 contracts with employees wishing to obtain higher professional education, who are currently attending the relevant education.

A total €107,449.07 was allocated in 2019 to further training and development of employees (tuition fees, workshops, seminars, courses), which on average equals €228 per employee.

For several years there has been sufficient number of suitably educated candidates on the labour market and thus, instead of offering scholarships to students, we allocate more funds to practical trainings of high school and university students, who otherwise have no opportunities to obtain specific skills elsewhere. A total 20 students took part in the practical training in 2019 to the cost of €8,076.45.

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, d. d. 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 within the Company daily through electronic mail, on the Intranet and bulletin boards.

6.9 Vocational health and safety

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 2019 and carried out all the necessary activities to reduce and prevent life and health risks at workplace.

The Company and the Group strive 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),
- Regular preventive periodic health checks of workers,
- Implementing specific preventive health measures such as vaccinations against TBE and flu, taking preventive measures as part of promoting health at workplace and providing first-aid training to employees,
- 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,
- Designing and adopting the Declaration of safety including Risk Assessment, which additionally bounds the Company's Management to implement measures, set goals, inform, train and give appropriate instructions, ensure appropriate organisation and provide necessary resources,
- Regular periodic checks and care of the working and protective equipment
- Providing instructions for safe work and control over the implementation of safe work measures,
- Monitoring working conditions regarding injuries at work, occupational diseases as well as detecting, mitigating and preventing their causes,
- Training workers for safe work and regular assessments of their knowledge and skills in the field of vocational health and safety and fire protection.

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

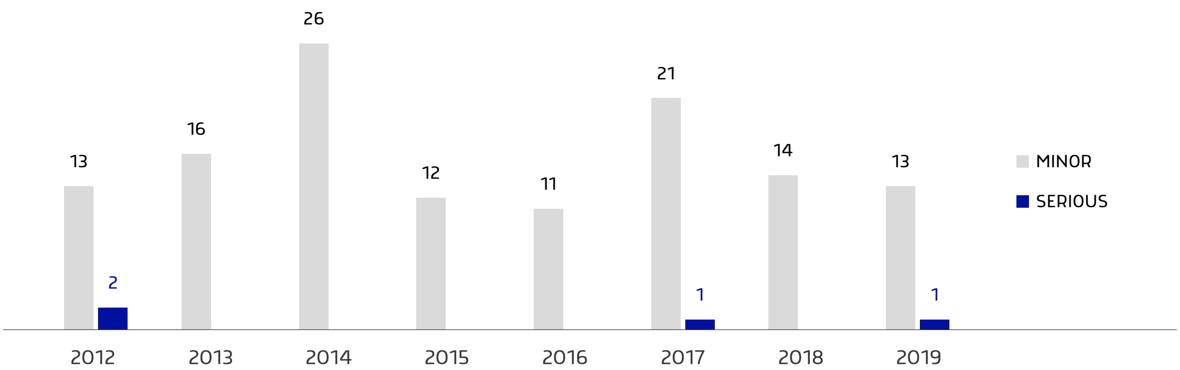


CHART 5: The number of injuries at work in the period 2013-2019

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 since 1 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 for the electricity distribution companies. These provide an opportunity for employees to socialize both within the Elektro Primorska Group, as well as with employees from other power distribution companies. In 2019, Elektro Primorska donated €17,172.00 to the Elektro Primorska Sports Association. 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 the annual EDS games.

7. REALISATION OF THE ANNUAL GOALS IN 2019

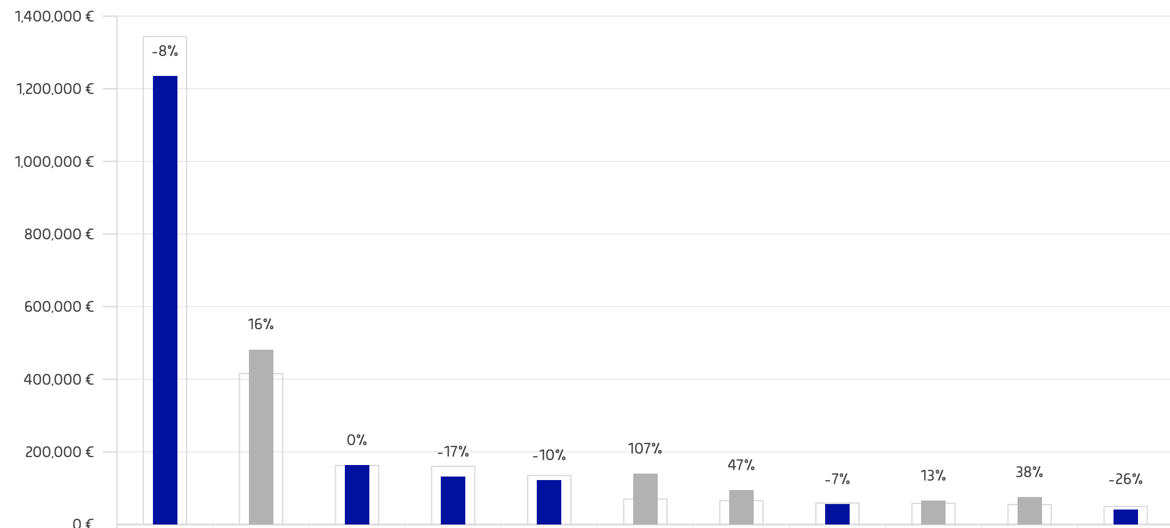
Continuation of the RAST program implementation

The Elektro Primorska Group has been implementing a comprehensive RAST programme aimed at business rationalisation.

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 following the primary purpose of monitoring and maintaining the achieved rationalisation effects, the Group continued with the program implementation also in 2019. Compared to the target costs for the financial year 2019, the Company noted a deviation from the plan in the amount of €29,870.

The following financial effects of selected measures were achieved by individual organisational units of the parent company in 2019.



	ICT	General Sector	Distribution Network	Administration	DU Gorica	Distribution System Management	DU Sežana	DU Tolmin	Purchase and Procurement	DU Koper	Finance & Accounting
Target costs	1,342,738	415,568 €	161,138	159,525	135,133	67,295 €	62,401 €	58,501 €	56,107 €	52,740 €	48,380 €
Realized costs	1,237,105	480,713 €	160,964	131,780	121,713	138,967 €	92,422 €	54,509 €	63,571 €	72,650 €	35,999 €

CHART 6: Financial effects achievement of the RAST program by organisational units in 2019

Structural transformation of the subsidiary E 3, d. o. o.
During the financial year 2019, the search was in progress for the most suitable bidder for the purchase of a 100% stake in E 3, d. o. o.

While initially there were three potential bidders, negotiations were conducted with two bidders. The procedure was completed in January 2020 with the selection of the most suitable buyer, i.e. Petrol, d. d.

The contract for the sale a 100% stake in E 3, d. o. o. was signed on 26 February 2020 following consent of the company's Supervisory Board.

8. ELECTRIC POWER DISTRIBUTION

The activity was carried out in 2019 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 2019, the electricity system managed by Elektro Primorska reached the following level of technical equipment per distribution unit (DE).

	DU GORICA	**DU KOPER**	**DU SEŽANA**	**DU TOLMIN**	**ELEKTRO PRIMORSKA Total**
DV: 10kV - 110kV (m)	687,185	267,073	652,785	526,422	2,133,465
KBV: 10kV - 35kV (m)	131,096	210,377	193,925	81,550	616,948
NNO + JR (m)	1,596,332	1,189,381	1,021,717	1,052,826	4,860,257
RTP + RP (pcs)	16	8	7	8	39
TP (pcs)	817	536	590	504	2,447

Table 8: Physical volume of electric power devices as at 31 Dec 2019

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

According to the calculation hour inclusive of all overhead costs, in 2019, the Company spent €16,399,339 on provision of services for SODO. The planned and achieved values of services for SODO are computed in the same manner also in the reports issued to SODO.

	Plan (€)	Actual (€)	Actual (€)	%	%
	2019 January-December	2019 January-December	2018 January-December	2:1	2:3
Type of work	1	2	3	4	5
Maintenance of electricity infrastructure	8,536,700	8,744,414	7,291,040	102.43	119.93
Implementation and organisation of emergency service	682,500	686,643	492,596	100.61	139.39
Conducting of operation	1,150,000	1,249,231	1,162,022	108.63	107.50
Process management	378,000	405,655	896,383	107.32	45.25
Telecommunication support	392,000	396,730	392,668	101.21	101.03
Management of protective devices	333,000	242,788	326,968	72.91	74.25
Development	400,000	239,342	214,929	59.84	111.36
Monitoring and establishing quality of supply	124,852	95,036	124,852	76.12	76.12
Electricity metering	2,244,280	2,208,797	2,244,280	98.42	98.42
Provision of access services	947,051	877,650	948,763	92.67	92.50
Connecting users to distribution network	972,876	1,011,778	937,118	104.00	107.97
Other services for users	238,081	229,038	238,637	96.20	95.98
TOTAL SERVICES FOR SODO	**16,399,339**	**16,387,103**	**15,270,256**	**99.93**	**107.31**

Table 9: Actual services for SODO in 2019

In 2019, the Company spent €16,387,103 on provision of services for SODO, which amounts for 99.93% of planned funds or 107.31% compared to 2018. Compared to the previous year, the costs rose by 7.31% since in accordance with the new instructions, in 2019 the costs of the insurance premium for infrastructure are also included in the services for SODO.

8.1.1 Achievement of the set goals and comparison with 2018

The financial achievement of the plan for the provision of services for SODO is in line with the plan. Equipment inspection realisation equals 99.9%; inspection of facilities 99.8%, and regular replacement of measuring and control devices 95%.

8.2 Investments

Investment activity proceeded in 2019 in accordance with the plan and the relevant changes defined in version 2 of the investment plan. According to version 2 of the plan, originally planned investment of €18,000,000 was increased by additional €600,000 to €18,600,000.

A total €19,506,942.14 or 104.88% of the envisaged annual funds was invested in facilities, project design and acquisition of equipment (€16,580,813 was spent in 2018, accounting for 97.53% of the planned funds).

Investment groups	Realised funds	Share per investment group
Facilities	€12,617,324	64.68% of total funds
Equipment	€5,760,769	29.53% of total funds
Documentation	€1,128,849	5.79% of total funds
Total	**€19,506,942**	

Table 10: Investments by major investment groups

In 2019, the investment activity focused primarily on investments in distribution transformer stations, in laying high and medium-voltage underground 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 was carried out with the aim of the reconstruction of the medium voltage overhead lines. Major investments in 20kV overhead lines:

SN RP Sela - Hudi log (1.1 km), SN Podgozd - Trnovo (1.1 km), SN Marezige (1.5 km), SN Hrenovice (1.6 km), SN Podgozd - Trnovo (0.9km).

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.

SN Fajti 4 (0.9 km), SN EKK Trebuša - Stopnik (3.85 km), SN EKK Kobarid - Bovec (2.2 km), SN Ledenice (0.9 km).

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

Significant investments in the low-voltage network include: NN Porezen (1.55 km), NN Lokev prosciutto processing plant (0.77 km), NN Rožnik - Ankaran (0.95 km), NN Sedovec (1.15 km).

Investments in transformer stations (TP) were aimed at modernising technically obsolescent 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 Matenja vas, TP OC Hrašče, TP Štanjel 2, TP Šared 3, TP Ledenice, TP Krkavče.

	2019	2018	2017	2016
SN overhead lines	28.78 km	26.66 km	26.23 km	26.91 km
SN underground lines	29.19 km	26.50 km	18.14 km	25.35 km
Low-voltage network	44 km	33.65 km	30.33 km	41.26 km
Transformer stations	58.60 pcs	78.30 pcs	25 pcs	34 pcs

Table 11: Physical indicators of constructed and renovated devices

Transformer substations (RTP) VN/SN

The following investments in RTP 110/20kV were carried out in 2019:

- RTP 110/20kV Ajdovščina: Replacement of the 110/20kV power transformer with 20MVA rated power with a transformer with 31.5MVA rated power. Due to lengthy contracting procedures, work on reconstruction of the 20kV switch-yard has been postponed until 2020.
- RTP 110/20kV Idrija: Replacement of 20kV circuit breakers in the 20kV switch-yard. Replacement of the faulty TR 2 power transformer with a new 20MVA rated power transformer.
- RTP 110/20kV Izola: Due to lengthy building permit procedures, the investment was postponed until 2020.
- RTP 110/20kV Lucija: Elektro Primorska was awarded the contract for work on the TR 1 transformer field. Due to unfavourable operating conditions of the electricity network in winter, the work was postponed until spring 2020.
- RTP 110/20kV Plave: Elimination of deficiencies in the construction of the GIS switch-yard, replacement of the TR 2 power transformer and the 20kV switch-yard voltage indication system.
- 110/35/20kV RTP Tolmin: Replacement of the voltage indication in the 35kV switch-yard was postponed until 2021. However, replacement of the 35kV connection of the TR 1 transformer was finalised in 2019.
- RTP 110/20kV Vrtojba: Replacement of the fire station due to its breakdown. Work began on replacement of secondary equipment of transformer fields and certain equipment for our own use. Replacement of the protective fence planned for 2019 was postponed until 2020.
- RTP 110/20kV Pivka: Elimination of all defects following reconstruction of the 20kV switch-yard and replacement of the rectifier inverter system for our own power supply.
- RTP 110/20 kV Cerkno: Final installation of an additional output cell in the 20kV switch-yard.
- RTP 110/20kV Dekani: Replacement of the outdated battery system for our own power supply.

Distribution transformer stations RTP SN/SN and RP SN distribution stations
In 2019, we implemented the following investments in RTP SN/SN and RP SN distribution stations:

- RP 20kV Ledine - renovation of the 20kV switch-yard was completed.
- RP 20kV Vipava - renovation of the 20kV switch-yard was completed.
- RP 20kV Grgar - replacement of the system for our own supply.
- RP 20kV Rožna dolina - the cooling and heating system was upgraded.
- RP 20kV Doblar - the cooling and heating system was upgraded.
- RP 20kV Bilje - the cooling and heating system was upgraded.
- RP 20kV Cerkno - replacement of the batteries.
- RP 20kV Črni vrh - replacement of the batteries.

Power facilities
Investments in power facilities were carried out in order to ensure reliable supply of electricity to all our customers. A total of €12,156,196 was invested in the power facilities (facilities up to 20kV and distribution transformer stations), accounting for 109.67% of the plan (2018: €9,909,086).

Business and operational facilities
A jutting roof at the DE Nova Gorica warehouse was constructed in 2019; the first phase of the renovation of the service workshop at DE Koper was completed; a new meeting room was arranged at the Company's head office; and various other minor work was carried out following the inspections. A total €34,107 was invested in business facilities and €422,841 in operational facilities in 2019.

Total facilities
A total €12,617,324 was invested in power facilities, accounting for 109.06% of the plan (2018: €10,112,896). As much as 64.68% of funds were 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,
- Replacement of the protection and remote control of the 20kV switch-yard at RP Vipava and RP Grgar,
- Installation of new DVPLMs.

Telecommunications:
The following major investments were made:
- Upgrade of the digital VHF system,
- Transition from classic fixed telephony to the IP telephony,
- Purchase of 50 GSM devices for regular replacement of obsolete equipment.

Metering devices
The following major investments were made:
- Purchase and installation of 14,140 direct electricity meters,
- Purchase and installation of 230 industrial meters,
- Replacement of the electricity meters at RTP Tolmin, RTP Vrtojba and RTP Ilirska Bistrica,
- Implementation of the 3SMART and NEDO projects.

Tools
We purchased the necessary tools and equipment to carry out electrical installation works, replacing technically obsolete tools.

Means of transport
We purchased eight new cars, three off-road vehicles, five 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 and printers, and IT equipment used in the energy generation. We began upgrading the GIS functionality, continued with the implementation of the new AX accounting and investment systems, and carried out all the preventive and curative maintenance of the MAXIMO system.

Equipment
A total €5,760,769 was invested in equipment, accounting for 96.35% of all planned funds (2018: €5,207,009). Of total, 29.53% of funds were invested in equipment.

Documentation

A total €1,128,849 was invested in the project documentation accounting for 5.79% of total funds planned (2018: €1,260,909).

No	Facility, equipment	Plan 2019	Actual 2019	Actual 2018	%	%
		1	2	3	2:1	2:3
	VN power lines	**50,000**	**56**	**878,688**	**0.11%**	**0.01%**
1.1	VN overhead lines	50,000	56	878,688	0.11%	0.01%
1.2	VN underground lines	0	0	0	0.00%	0.00%
	SN power lines	5,206,700	5,516,884	3,421,809	105.96%	161.23%
1.3	SN overhead lines	1,849,000	1,865,476	1,334,090	100.89%	139.83%
1.4	SN underground lines	3,357,700	3,651,408	2,087,720	108.75%	174.90%
	NN power lies	**1,950,932**	**2,744,761**	**2,201,106**	**140.69%**	**124.70%**
1.5	NN overhead lines	890,616	1,107,355	1,119,751	124.34%	98.89%
1.6	NN underground lines	890,316	1,269,234	1,081,355	142.56%	117.37%
1.7	Other NN	170,000	368,172	0	0.00%	0.00%
	SUBSTATIONS	**3,876,498**	**3,894,496**	**3,407,483**	**100.46%**	**114.29%**
1.8	RTP VN/SN	810,450	561,542	796,842	69.29%	70.47%
1.9	RTP SN/SN	60,000	1,586	2,100	0.00%	75.52%
1.10	RP SN	165,600	218,978	55,080	132.23%	397.57%
1.11	TP	1,432,728	1,800,363	2,222,757	125.66%	81.00%
1.12	TRANSFORMERS	1,407,720	1,312,027	330,705	93.20%	396.74%
	TOTAL FACILITIES UP TO 20kV	**9,133,680**	**10,592,681**	**8,233,557**	**115.97%**	**128.65%**
	TOTAL POWER FACILITIES	**11,084,130**	**12,156,196**	**9,909,086**	**109.67%**	**122.68%**
1.13	Protective devices	130,000	118,448	161,954	91.11%	73.14%
1.14	Remote control	360,000	293,312	334,444	81.48%	87.70%
1.15	Telecommunications	300,000	289,381	108,962	96.46%	265.58%
1.16	Metering devices	2,381,000	2,324,386	2,397,186	97.62%	96.96%
1.17	IT	120,000	132,056	150,181	110.05%	87.93%
1.18	Ancillary devices	40,000	46,717	12,290	116.79%	380.11%
	TOTAL SECONDARY EQUIPMENT	**3,331,000**	**3,204,300**	**3,165,017**	**96.20%**	**101.24%**
1.19	Production	0	4,180	0	0.00%	0.00%
	TOTAL POWER DISTRIBUTION EQUIPMENT	**14,415,130**	**15,364,677**	**13,074,103**	**106.59%**	**117.52%**
2.1	Business Facilities	49,350	34,107	20,007	69.11%	170.48%
2.2	Operational facilities	436,200	422,841	183,803	96.94%	230.05%
	TOTAL NON-POWER FACILITIES	**485,550**	**456,948**	**203,810**	**94.11%**	**224.20%**
2.3	Mechanisation	55,900	47,670	0	0.00%	0.00%
2.4	Tools	139,600	213,866	163,424	153.20%	130.87%
2.5	Means of transport	795,315	763,130	557,951	95.95%	136.77%
2.6	Office supplies	45,000	30,438	38,633	67.64%	78.79%
2.7	IT	1,592,000	1,483,083	1,246,313	93.16%	119.00%
2.8	Holiday facilities	20,000	18,280	35,671	91.40%	51.25%
	TOTAL NON-POWER DISTRIBUTION EQUIPMENT	**3,133,365**	**2,556,469**	**2,245,802**	**81.59%**	**113.83%**
3.1	Project documentation	1,051,505	1,128,849	1,260,909	107.36%	89.53%
	TOTAL DOCUMENTATION	**1,051,505**	**1,128,849**	**1,260,909**	**107.36%**	**89.53%**
	TOTAL FACILITIES	**11,569,680**	**12,617,324**	**10,112,896**	**109.06%**	**124.76%**
	TOTAL EQUIPMENT	**5,978,815**	**5,760,769**	**5,207,009**	**96.35%**	**110.63%**
	TOTAL	**18,600,000**	**19,506,942**	**16,580,813**	**104.88%**	**117.65%**

Table 12: Overview of the actual investments made in 2019

8.2.1 Achievement of the set goals and comparison with 2018

Elektro Primorska followed its adopted investment plan and invested a total €18,600,000 in 2019, which is 4.88% more than planned. Hence, compared to 2018, the realisation of the planned investments increased by 17.65%.

The development plan for the period 2019-2028 envisaged a total €16,525,987 to be spent in 2019 on investments in the geographical area where electric power is supplied by Elektro Primorska. In fact, Elektro Primorska invested €19,506,942 of funds and SODO€3,644,101, making total investments of €23,151,043, which is 40% more than envisaged in the development plan. This has somewhat reduced the backlog of investments from previous years.

8.3 Acquired and transmitted electricity in 2019

In 2019, a total 1,610,170.4MWh of electricity was acquired from the transmission network and 142,192.5MWh from the electricity producers. In total, 1,752,362.9MWh of electricity was acquired into the distribution network. Comparison of acquired quantities of electricity between 2019 and 2018 shows a 0.77% increase in the electricity acquisition from the transmission system, and a 0.03% rise in electricity acquired from qualified producers. Index of total acquired volume in the distribution network of 1.0071 is up 0.71% on the previous year. A total 1,673,779.2MWh of electricity was invoiced to customers in 2019. Index of invoiced electricity of 1.0078 shows an increase of 0.78% compared to the previous year.

We noted a only a slight rise in electricity consumption and acceptance in 2019, mainly due to the above-average warm weather in the last quarter of the year and lower economic growth compared to the previous years. The positive growth in electricity acceptance is also influenced by the growing number of customers, heat pumps that are replacing the old hot-water boiler systems and an increased number of charging stations for electric cars. Electricity is becoming an increasingly important form of energy and analytical monitoring of electricity consumption is crucial for efficient planning of the network development.

Month	Output in 2019 [kWh]	Output in 2018 [kWh]	Plan 2019 [kWh]	Index of output (2019/2018)
January	151,325,804	137,627,236	141,463,148	1.0995
February	127,695,564	131,199,196	134,059,467	0.9733
March	143,664,319	150,210,055	142,816,211	0.9564
April	134,238,295	131,167,756	133,776,438	1.0234
May	137,912,419	136,783,836	138,394,047	1.0083
June	139,897,018	138,563,960	143,002,617	1.0096
July	149,438,901	144,207,080	148,803,844	1.0363
August	136,560,446	137,154,099	139,855,675	0.9957
September	134,900,959	135,540,763	137,530,478	0.9953
October	136,842,154	136,272,845	138,090,820	1.0042
November	138,964,264	138,647,770	142,122,554	1.0023
December	142,339,021	143,398,343	145,683,365	0.9926
Total	**1,673,779,164**	**1,660,772,939**	**1,685,598,664**	**1.0078**

Table 13: Monthly quantities of electricity supplied to customers

In 2019, 80,842.9MWh of electricity was supplied to customers in Italy: 55,617.5MWh in the area of Nova Gorica and 25,225.4MWh in the area of Općine. Transmission of electricity to Italy is not recorded as a transmission from the distribution system managed by Elektro Primorska, but as the consumption from the transmission system.

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

In 2019, the organisation of the electricity distribution remained unchanged and distribution system operator – SODO, d. o. o., based in Maribor, remained the holder of the 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 considered 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.

The prices of the network services changed significantly in 2019, as the tariff for charging network charges for the transmission system increased on average by 0.71% While the network tariffs for excess acceptance of reactive energy also increased by 1.9%, the distribution system tariffs fell by as much as 5.12%, resulting in a reduction in the revenues of the electricity distribution system operator.

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 it was in August 2015. Furthermore, contribution for energy efficiency, which is intended to provide energy savings to end customers did not increase in 2019.

The number of customers connected to the Elektro Primorska distribution network in 2019 rose by 728 to 135,283 as at 31 December 2019.

A total 15,369,464kW of power and 1,673,779,164kWh of electricity was invoiced to electricity consumers in the area of Elektro Primorska in 2019. Total revenues from network charges and contributions in the area of Elektro Primorska amounted to €72,168,773. Total revenue index compared to the value recorded in 2018 of 0.9778 is down 2.22% (source: internal EP reports).

	INVOICED QUANTITIES		USE OF NETWORK [€]			CONTRIBUTIONS [€]			TOTAL USE OF NETWORK AND CONTRIBUTIONS [€]
2019	[kW]	[kWh]	Transmission network charge	Distribution network charge	Excessive reactive power	Contribution OVE + SPTE	Contribution URE	Contribution BORZEN	
January	1,273,214	151,325,804	1,110,292			1,645,849	121,061	19,672	**6,484,129**
February	1,256,455	127,695,564	1,019,339	3,148,677	31,485	1,604,953	102,156	16,600	**5,923,211**
March	1,278,262	143,664,319	1,063,048	3,209,378	32,941	1,631,437	114,931	18,676	**6,070,411**
April	1,274,962	134,238,295	1,026,425	2,995,371	31,377	1,632,519	107,391	17,451	**5,810,534**
May	1,276,490	137,912,419	1,036,416	3,058,098	34,050	1,631,673	110,330	17,929	**5,888,495**
June	1,294,132	139,897,018	1,048,142	3,039,577	38,226	1,704,383	111,918	18,187	**5,960,433**
July	1,299,544	149,438,901	1,080,151	3,157,534	41,182	1,718,039	119,551	19,427	**6,135,885**
August	1,284,717	136,560,446	1,045,298	3,091,682	39,327	1,689,094	109,248	17,753	**5,992,401**
September	1,282,213	134,900,959	1,022,294	2,947,363	35,649	1,655,266	107,921	17,537	**5,786,031**
October	1,280,573	136,842,154	1,031,044	3,014,663	36,767	1,640,587	109,474	17,789	**5,850,324**
November	1,280,427	138,964,264	1,047,012	3,135,847	32,903	1,633,396	111,171	18,065	**5,978,394**
December	1,288,475	142,339,021	1,084,001	3,383,720	30,734	1,657,695	113,871	18,504	**6,288,526**
TOTAL	**15,369,464**	**1,673,779,164**	**12,613,462**	**37,735,329**	**418,476,46**	**19,844,891**	**1,339,023**	**217,591**	**72,168,773**

Table 14: Total invoiced network charge and contributions of all the customers of Elektro Primorska in 2019

NOTE:
- Exclusive of 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. Charges for the use of the network are intended to cover the eligible costs of power operators and to provide 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. 12.

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 $\varphi ind = +0.32868$ or tg $\varphi kap = -0.32868$. A monthly settlement is based on the sum of all 15-minute absolute values of excess 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 2019, €0.00332/kWh was charged for the VN feed and €0.00851/kWh for the SN and NN feed.

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 2019, 49,509,660kvarh of excessive reactive energy from electricity networks of all customers in the area of Elektro Primorska was invoiced amounting in total to €418,476.46. Index of excess of acquired reactive power compared to quantities recorded in 2018 amounts to 1.0216.

Under the newly adopted regulatory framework 2019-2021, in 2019 Eles started charging distribution companies for excess of acquired reactive power from the transmission system. The methodology used for calculating the excess of accepted reactive power charged by the system operator to the distribution operator in 2019 is the same as the one used to compute charges to the end customers. Elektro Primorska transferred 3,083,254kVAhr of excess reactive power to the transmission network in 2019, in total value of €10,236.40 The relevant costs are currently borne by SODO as part of the unregulated costs.

8.4.3 Electricity losses in the distribution network

As a diligent manager and the supplier of services under the contract, Elektro Primorska is committed to reducing technical and commercial losses. To this aim, a stimulation/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 will have to cover the difference between the actual costs and recognised revenues.

Losses in the electricity distribution system in 2019 amounted to 78,583,763kWh, which accounts for 4.69% 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 the previous years. Losses in the electricity distribution system amounted to 4.77% in 2018, 5.19% in 2017 and 5.26% in 2016.

Recognised expenses to cover losses amount to €4,588,845, while the cost of losses amounts to €3,967,694. In accordance with the preliminary settlement for 2019, SODO issued a credit note to Elektro Primorska in the amount of €621,150.

8.4.4 Peak of distribution network consumption and operating hours

In 2019, the peak consumption of Elektro Primorska distribution system occurred on Tuesday, 23 February 2019 at 11 am and amounted to 303.128MW. Compared to 2018 (301.681MW) it increased by 1.447MW or 0.48%. Annual operating hours reached 5,780.997 hours.

Monthly peaks in the distribution system of Elektro Primorska in 2019 and the related annual operating hours are presented in Table 13. Chart 3 shows monthly consumption peaks, while Chart 8 is a presentation of monthly quantities of electricity acquired in 2019.

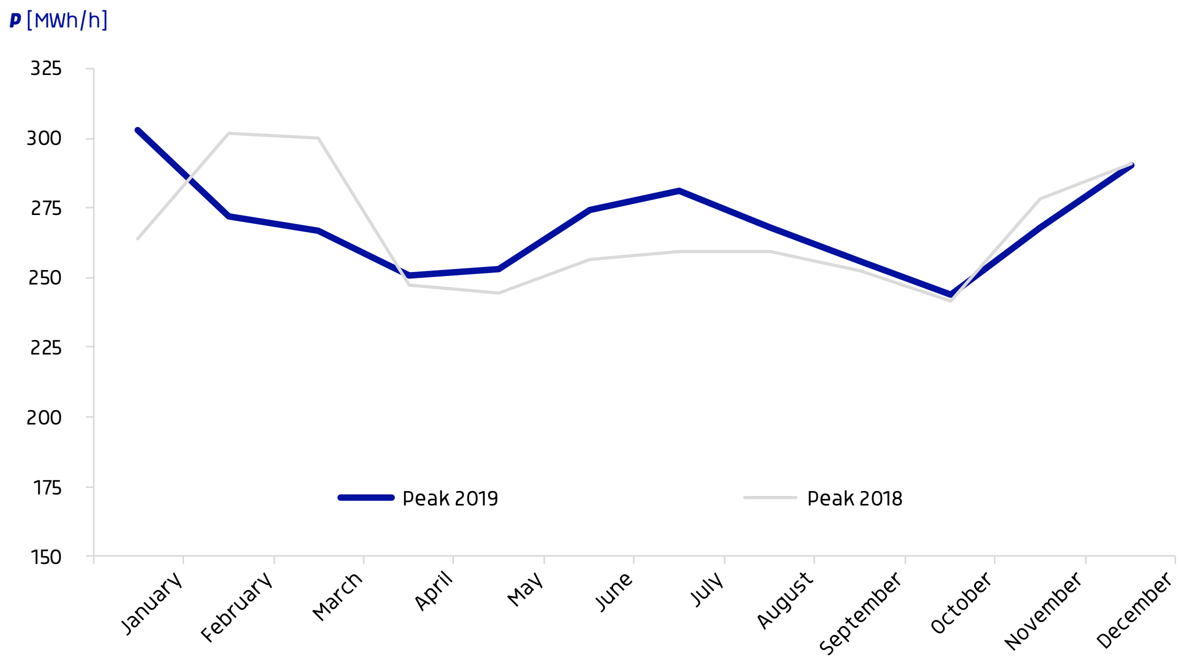


CHART 7: Monthly electricity consumption peaks in 2019

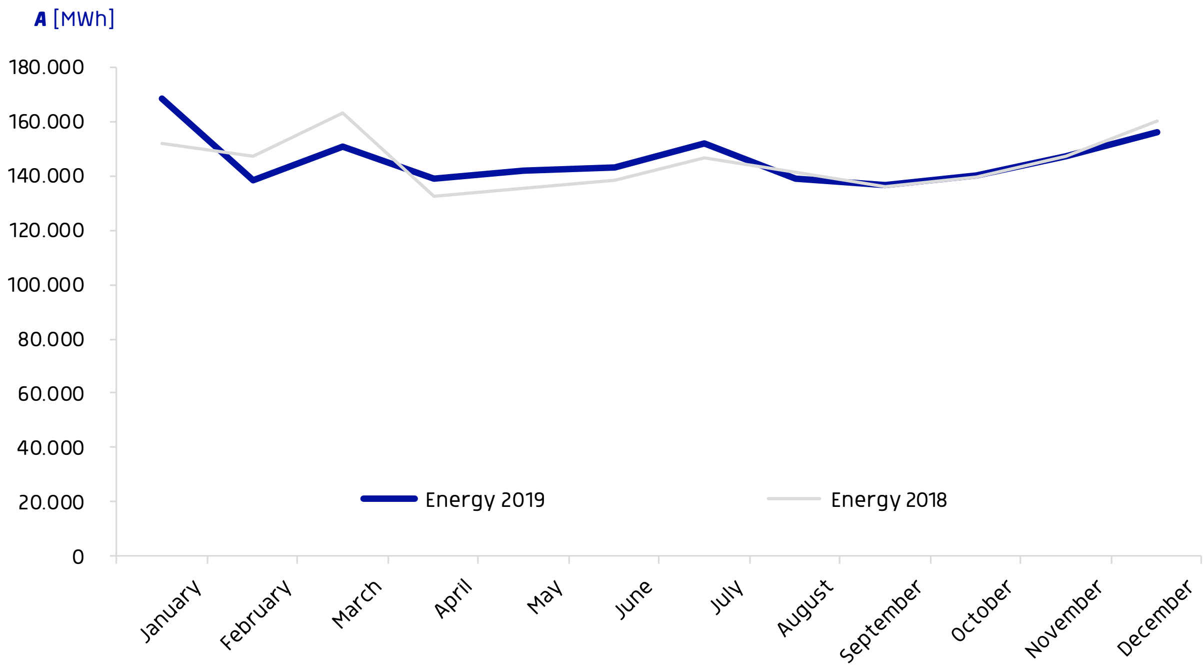


CHART 8: Monthly acquired electricity quantities in 2019

Month	Monthly peaks [MWh/h]	Date	Hour	Total acquired EE * [MWh]	Operating hours - annual ** [h]	Monthly peaks 2018 [MWh/h]	Monthly Peak Ratio 2019/2018	Total Acquired EE 2018
January	303,128	23.01.19	11 am	168,404.7	6,541	263,727	1.149	151,981.7
February	271,879	01.02.19	11 am	138,204.6	6,627	301,681	0.901	147,547.3
March	266,604	18.03.19	12 noon	150,740.4	7,136	300,013	0.889	163,031.6
April	250,926	16.04.19	8 pm	139,032.3	6,741	247,497	1.014	132,334.2
May	253,248	09.05.19	11 am	142,054.9	6,605	244,386	1.036	135,579.0
June	274,053	27.06.19	12 noon	142,878.1	6,343	256,234	1.070	138,593.4
July	281,119	25.07.19	12 noon	152,031.3	6,368	259,429	1.084	146,384.3
August	267,904	29.08.19	1 pm	139,154.1	6,116	259,350	1.033	141,499.4
September	255,717	02.09.19	12 noon	136,381.9	6,489	252,617	1.012	135,861.3
October	244,098	10.10.19	7 pm	139,998.8	6,753	241,360	1.011	139,828.4
November	268,013	12.11.19	5 pm	147,516.6	6,697	278,429	0.963	147,220.4
December	290,062	13.12.19	11 am	155,965.2	6,331	290,914	0.997	160,198.7
Peak:	**303,128**		**Total:**	**1,752,362.9**	**5,780.9**			**1,740,059.8**

Table 15: Peak and annual operating hours of Elektro Primorska in 2019

The peak, i.e. the maximum average hourly power acceptance of 303,128 MWh/h was reached at the end of January during a rather cold spell, and is currently the highest peak on the record achieved in the Elektro Primorska area. The temperatures significantly impact the consumption of electricity. In addition, we have noted an increase in the summer peak, which is associated with the increase in a widespread use of air conditioners. Due to increasing use of electricity for heating and cooling, a further increase in peak is expected in the coming years.

8.4.5 Electricity generated by producers connected to the distribution network

As at 31 December 2019, a total 478 traditional electricity producers were connected to the distribution network of Elektro Primorska and 427 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 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 rising due to the user-friendly method of energy consumption calculation. Thus, 78 self-sufficient suppliers were connected to the grid in 2017, 122 in 2018, and 212 new connections were made in 2019. We expect a similar number of new connections to the grid to be made in the coming years. 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 the performance of 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 future judging from the current growth trend.

Registered electricity production of all producers amounted to 158,833,069kWh in 2019, up 0.57% on the amount recorded in 2018. Thus, 142,192,515kWh or 0.03% more power was supplied to Elektro Primorska distribution network in 2019 than in 2018. Annual production of power plants varies the most (up to 40%) as it depends on favourable river flow. In 2019, the production was relatively similar to that of the previous year, as the total production of hydroelectric power fell by mere 0.85% compared to 2018. A rather significant 211.9% increase was recorded in electricity production of self-sufficient suppliers in 2019, although currently the share of self-sufficiency production is still relatively low, accounting for mere 1.44% of total electricity produced by power plants.

The difference in the quantities of electricity produced and supplied to the distribution network constitutes own consumption of the self-sufficient users, consumption by the OVE and SPTE production facilities, and transmission of electricity produced into the in-house network. In 2019, it amounted to 16,640,554kWh.

Energy source	Number of power plants	Production in 2019 [kWh]	Production in 2018 [kWh]	2019 / 2018
HE SENG	24	72,920,424	71,211,252	1.024
HE Other	69	30,586,043	31,413,151	0.974
Solar power stations	349	36,245,684	35,917,130	1.009
Wind power stations	4	6,141,188	6,021,144	1.020
SPTE	32	10,650,858	12,283,887	0.867
Self-supply*	427	2,288,872	1,079,972	2.119
Total	**905**	**158,833,069**	**157,926,536**	**1.0057**

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

Table 16: Electricity production by source of primary energy

8.4.6 Quality of electricity supply

8.4.6.1 Voltage quality

Permanent monitoring of voltage quality in Elektro Primorska was provided in 2019 by 62 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 48 medium-voltage bus bars representing the main power points in the EP distribution network.

Results of the permanent measurements in the area of Elektro Primorska in 2019 show an improvement in voltage quality compliance with the requirements of the standard at the NV-level from 98.82% in 2018 to 98.95% in 2019, while a reduction was noted on the SN-level from 98.71% in 2018 to 97.94% in 2019.

The vast majority of voltage quality deviations in 2019 occurred during the outage of the North Primorska 100kV loop and during summer storms due to lightning strikes and periods of strong northern wind.

Full compliance with the voltage quality requirements of the standard was recorded in 2019 at 45 of total 62 measuring points in all measured weeks, while on the remaining 17 measuring points, at least one week of non-compliance with voltage quality standard SIST EN 50160 was recorded. Deviation of the rms value of the voltage level was detected at thirteen measuring points, while an increase of flickers was detected at twelve measuring points.

8.4.6.2 Continuity of supply

We recorded 689 unplanned interruptions of power in the Elektro Primorska area that lasted longer than three minutes on high- and medium- voltage electric power plants in 2019, 27 of which were failures of the 110/SN kV and SN/SN kV power transformers.

Data presented 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, 1,262 disconnections were carried out in 2019, which led to the planned blackouts. The DCV Elektro Primorska issued 544 messages, 101 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 1,951, which means that there were fewer power supply interruptions than in the previous year.

Number of interruptions lasting more than 3 minutes	2019	2018	Index 19/18
Number of unplanned interruptions	689	944	0.729
Number of planned interruptions - disconnections	1262	1249	1.010
Total number of planned and unplanned interruptions	1951	2193	0.889

Table 17: Number of interruptions lasting more than 3 minutes

SAIFI (system average interruption frequency index)	2019	2018	Index 19/18
Average number of unplanned interruptions per customer	2.13	2.12	1.00
Average number of planned interruptions - disconnections per customer	0.86	0.92	0.93
Average number of planned and unplanned interruptions per customer	2.99	3.04	0.98

Table 18: SAIFI (system average interruption frequency index)

SAIDI (system average interruption duration index)	2019	2018	Index 19/18
Average interruption duration in hours due to unplanned interruptions	0.89	1.41	0.63
Average interruption duration in hours due to planned interruptions - disconnections	2.00	2.26	0.88
Average interruption duration in hours due to planned and unplanned interruptions	2.89	3.67	0.79

Table 19: SAIDI (system average interruption duration index)

8.4.6.3 Commercial quality

In accordance with Annex 2 of the Legal Act on the rules for monitoring the quality of electricity supply, the Company regularly monitors commercial quality indicators and reports to the Energy Agency and SODO. Commercial quality indicators for 2019 are within the expected limit values.

9. SERVICES FOR EXTERNAL CUSTOMERS

Elektro Primorska acquires contracts for the market i.e. for external customers by bidding at public tenders and also 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 2019 than in the previous year, as the services realisation fell by 18.56% and we achieved only 77.12% of the 2019 plan.

Type of work	Plan (€)	Actual (€)	Actual (€)	%	%
	2019	2019	2018	2:1	2:3
	1	2	3	4	5
Market services	2,100,000	1,336,195	1,799,803	63.63	74.24
Other services	659,850	792,239	813,557	120.06	97.38
TOTAL	**2,759,850**	**2,128,434**	**2,613,360**	**77.12**	**81.44**

Table 20: Realisation of services for external customers in 2019

The following major services were carried out in 2019 for the market:

- Replacement of low voltage switchgear at RP Iskra (MAHLE)
- Construction of a branch line, reconstruction of the TP Črpališče Klariči transformer station
- Construction of a new transformer station at TP Camp Malovše
- Construction of a new transformer station at TP Na postajci
- Low-voltage connection to the Tomos block
- Construction of a new TP Remonting transformer station at OC Plama Podgrad
- Construction of a new TP 3CNC transformer station at OC Neverke
- Setting up electricity infrastructure in the Ilirska Bistrica industrial zone (TP IC 1 and TP IC 2)
- Reconstruction of the TP TKK Srpenica transformer station
- Construction of a new transformer station TP Šolski center Idrija
- Equipment replacement at TP Na Olimpu and TP ZD Idrija
- Replacement of public lighting switches in the municipality of Tolmin

These services include provision of holiday facilities.

10. INFORMATION SUPPORT AND DEVELOPMENT

IT services cover the IT system, Intranet and Internet portal, server infrastructure inclusive of all the services, databases, network computing infrastructure for the needs of facility management and business computing, 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, calculation of network charges and accounts payable and receivable.

The following major activities were carried out in 2019:

- The AX business information system is currently in use and we participate in the implementation of upgrades and offer user support
- The MAXIMO information system used in maintenance is currently in use and we participate in the implementation of upgrades and offer user support
- The new GIS information system was implemented and is supported by the IT
- The CDWH data warehouse is used by key staff for reporting purposes and is continually being upgraded
- We upgraded computer network, mainly for the management of electrical power facilities.
- We have integrated the SIEM traffic monitoring system in the computer network, which will be integrated within the common security operational centre of distribution companies in the next year
- We ensured regular maintenance of all wire, radio and optical communications infrastructure including VHF network and participated in the upgrading of optical links
- We purchased new workstations to replace the obsolete ones and ensured regular maintenance of the existing workstations.
- 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,
- Occupational Health and Safety Management System – BS OHSAS 18001:2007.

Integrated Quality Management System is mastered through the structure of formalised documents: 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 2019 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 18 and 19 April 2019.

On 12 June 2019, SIQ (external certification company) carried out refresher and regular 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.

In May and June 2019, we carried out the third self-assessment of the performance excellence and results of Elektro Primorska, using the EFQM model of excellence. To promote a holistic view of the Company's operations and results in individual areas, understand the cause-and-effect relationships between them and to develop the self-reflection ability, we organised workshops for responsible persons and owners of approaches and results, where we:

- Analysed the changes and improvements (progress) made in the last two years and how they are reflected in the relevant results;
- Reviewed the results of key improvements based on self-assessment made in 2017;
- Highlighted current challenges and new opportunities for improvement;
- Updated approach description and results display and evaluate them.

The overall self-assessment score of excellence was 405 points, reflecting progress in both factors and result criteria.

12. CARE FOR THE ENVIRONMENT

12.1 Environmental policy

Environmental policy is an important component of the Company's business policy and is integrated into all the 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 2019

In accordance with established environmental objectives, the following activities of environmental programs were performed in 2019:

- We have obtained project documentation for the central plants in Sežana and now everything is ready for the building permit application. Construction of new central plants means that the last asbestos-cement roofing on the facilities of Elektro Primorska will be removed.
- As part of the project documentation for the central plants at Sežana, documentation was also drawn up for the storage of used and waste transformers at DE Sežana.
- 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. In 2019, 70% of all installation of insulation of medium voltage lines was completed. The remaining work will be carried out in 2020.
- As part of the solution to excess noise pollution in the RTP Koper, we carried out repeated measurements at different time intervals and requested the development of a conceptual solution.
- We obtained documentation for construction of a replacement transformer station at TP Labore, which will reduce negative impact on the nearby residents. In addition, we have already submitted an application for the building permit.
- To reduce consumption of energy sources for heating the offices and plants at DE Tolmin, we insulated the ceilings in the service workshop and the warehouse based on the project for the energy rehabilitation of buildings.
- To reduce the carbon footprint, we installed a heat pump at the Izola monitoring facility.

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 ways: 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.

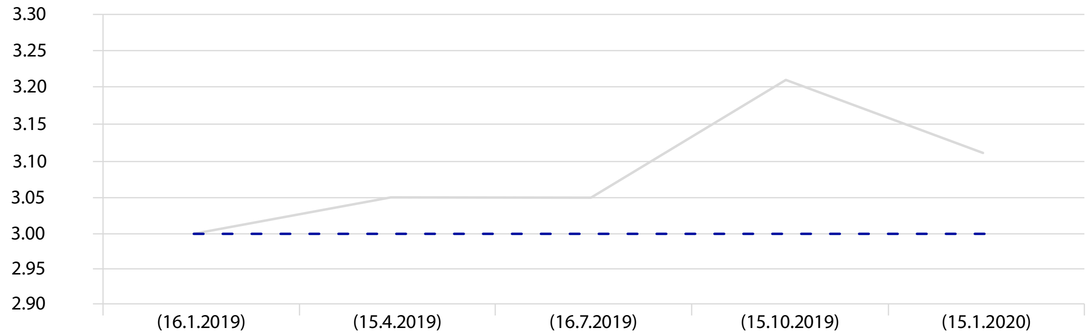
Individual risk status or risk measures are carried out through the portal monthly, quarterly and annually. Internal audit function supervises the implementation of the measures and compliance of the reported measures with the actual situation. Reporting and risk control are an integral part of the Company's 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 (V_e). Risks are therefore classified into: a) low risk T {1, 2, 3}, b) moderate risk T {4, 6}, c) high risk T {8, 9} and d) very high risk T {12, 16}.

V \ V_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 2019, the risk management value increased from the baseline value of 3.00 to 3.11. New relevant measures, authorised personnel and deadlines for implementation were established for all risks that exceed the value 3.00, which is the acceptable level of risk (five risks in total). These measures are currently being implemented and managed in accordance with the adopted methodology.



Average level of all risks	3.00	3.05	3.05	3.21	3.11
Acceptable risk level	3	3	3	3	3

CHART 9: Total average level of all Elektro Primorska risks per individual quarter of 2019

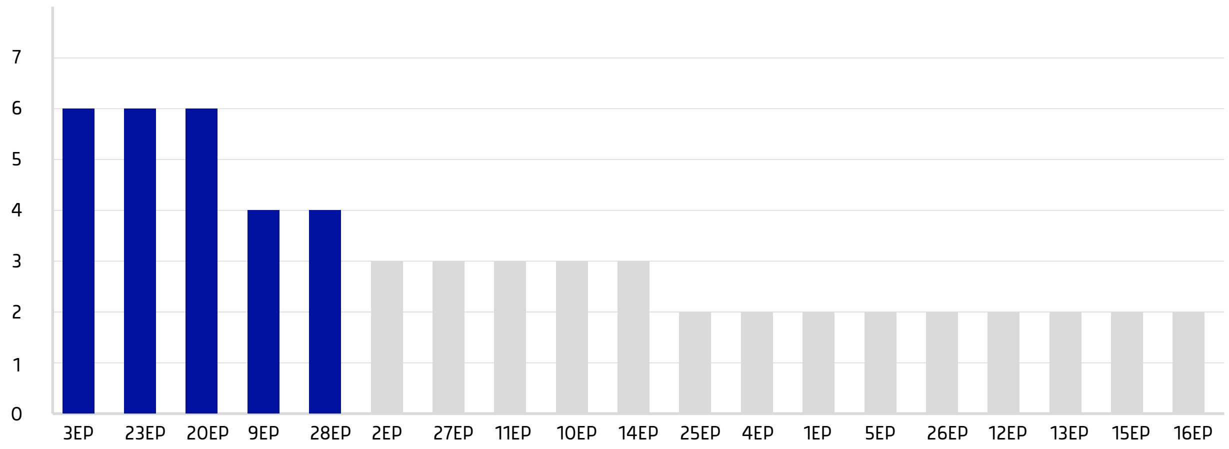


CHART 10: Elektro Primorska risks levels at the cut-off date, i.e. 15 January 2020.

Risk categories		Number of active risks at reporting date	(16 Jan 2019)	(15 April 2019)	(16 July 2019)	(15 Oct 2019)	(15 Jan 2020)
1	Financial risks - market risk	4	3.50	3.25	3.25	3.25	**3.25**
2	Operational risks	7	3.13	3.38	3.38	3.86	**3.57**
3	Strategic/operational risks	3	2.67	2.67	2.67	2.67	**2.67**
4	Legislative risks	5	2.60	2.60	2.60	2.60	**2.60**
	Total	**19**	**3.00=3**	**3.05>3**	**3.05>3**	**3.21>3**	**3.11>3**

Table 22: Risk categories per individual quarter in 2019

One of the risks was eliminated from the risk register in 2019.

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.

Credit 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 by 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 ISO 9001 quality management system standards, ISO 14001 environmental management system standards and BS OHSAS 18001 occupational health and safety system standards. 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 moderate.

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 are continuously improving the vocational health and safety system, which reduces the risk of injury at workplace, and strive to maintain 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 and measurements with the aim of preventing failure of electricity power 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, construction and maintenance of facilities, 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 collaboration with Informatika, as well as by regular implementation of adopted measures, these risks are well-managed. 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 the power supply interruptions of own cause.

Price risks occur in the contractual relationship between Elektro Primorska and SODO, 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 represents 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 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 the provider of public utility service, constitutes restrictions, which the Company must respect, although they 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 moderate.

14. SUBSEQUENT EVENTS

In the current financial year, business has been running in accordance with the approved Business Plan of Elektro Primorska for the period 2020-2022.

A Contract for the purchase of a 100% stake in E 3, d. o. o. was signed with Petrol, d. d. on 26 February 2020. As at 31 December 2019, the Company recognised its long-term investment under current assets (disposal groups) held for sale.

The COVID-19 coronavirus epidemic declared in Elektro Primorska on 13 March 2020, has no impact on the Company's financial statements for the year ended 31 December 2019.

15. PERFORMANCE ANALYSIS

Elektro Primorska closed the 2019 financial year with a net profit of **€8,020,282**, which is more than planned and achieved in 2018, mainly on account of a positive preliminary settlement of services provided for SODO in 2019. The revenues amounted to €50,902,072 in 2019, an increase of €2,855,770 or 5.9% compared to 2018. The largest group of revenues represent operating revenues of €50,673,389, accounting for 99.55% of total revenues of the Company. The largest increase, compared to the previous year, was on account of the provision of services for SODO and from capitalised own products.

The Company incurred €41,811,482 of expenses in 2019, up €1,381,992 compared to the 2018 financial year. The largest group of expenses are operating expenses amounting to €41,409,181, while the largest share of operating expenses is taken by employee benefit costs, which account for 41.13% of the Company's total operating expenses and amount to €17,197,327, down €649,852 on the previous year mainly due to the actuarial calculation of post-employment benefits.

The assets of Elektro Primorska increased to €215,793,342 as at 31 December 2019, with the largest increase reported in property, plant and equipment (up €7,155,737) amounting to €190,460,253 as at the year-end. The largest increase of €19,506,942 stems from investments made in 2019. Short-term operating receivables amounting to €6,291,766 account for the majority of current assets as at 31 December 2019, a reduction of €712,213 compared to the previous year.

The Company's equity amounted to **€158,969,707** as at 31 December 2019, an increase of €5,378,404 compared to the previous year. The share of equity in total liabilities at the end of 2019 amounted to 73.67%, up 0.91 percentage point compared to the previous year. At the year-end, long-term liabilities amounted to €45,438,193, up €4,411,146 compared to the previous year, mainly due to the increase in long-term financial liabilities to banks. Short-term liabilities of €10,763,662 are down €5,045,633 compared to the previous year. The largest decrease amounting to €3,152,444 is reported in short-term financial liabilities to banks, while supplier payables fell by €2,197,251.

16. PERFORMANCE RATIOS

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

- Financing state ratios
- Basic investment ratios
- Horizontal financial structure ratios
- Efficiency ratios
- 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	31.12.2019	31.12/2018
Equity	158,969,707	153,591,302
Equity and liabilities	215,793,342	211,104,345
Equity financing rate	**73.67%**	**72.76%**
Total equity and long-term debts (including provisions) and long-term accruals	204,407,900	194,618,349
Equity and liabilities	215,793,342	211,104,345
Long-term financing rate	**94.72%**	**92.19%**
Debts	56,201,855	56,836,343
Equity and liabilities	215,793,342	211,104,345
Debt financing rate	**26.04%**	**26.92%**
B. THE BASIC INVESTMENT RATIOS	31.12.2019	31.12.2018
Assets (at book values)	190,460,253	183,304,516
Assets	215,793,342	211,104,345
Operating fixed assets rate	**88.26%**	**86.83%**
Long-term and short-term investments	294,576	10,810,832
Assets	215,793,342	211,104,345
Investment assets rate	**0.14%**	**5.12%**
Fixed assets and long-term deferred and accrued items	191,276,369	190,774,030
investment property, long-term investments and long-term operating receivables	215,793,342	211,104,345
Assets	**88.64%**	**90.37%**
Long-term assets rate	19,506,942	16,578,806
Planned investments	18,600,000	17,000,000
Investment realisation level	**104.88%**	**97.52%**
C. THE BASIC HORIZONTAL FINANCIAL STRUCTURE RATIOS	31.12.2019	31.12.2018
Equity	158,969,707	153,591,302
Assets (at book values)	190,460,253	183,304,516
Equity to fixed assets rate	**83.47%**	**83.79%**
Liquid assets	2,965,633	2,290,160

Short-term liabilities	10,763,662	15,809,296
Acid test ratio	**27.55%**	**14.49%**
Liquid assets and short-term receivables	9,440,708	9,584,727
Short-term liabilities	10,763,662	15,809,296
Quick ratio	**87.71%**	**60.63%**
Short-term assets	17,182,934	14,738,438
Short-term liabilities	10,763,662	15,809,296
Current ratio	**159.64%**	**93.23%**
D. THE BASIC EFFICIENCY RATIOS	**31.12.2019**	**31.12.2018**
Operating revenue	50,673,389	48,012,897
Operating expenses	41,409,181	39,978,723
Operating efficiency ratio	**1.224**	**1.201**
Revenue	50,902,072	48,046,302
Expenses	41,811,482	40,429,490
Total operating efficiency ratio	**1.217**	**1.188**
E. PROFITABILITY RATIOS	**31.12.2019**	**31.12.2018**
EBITDA (operating income - operating expenses + AM + revaluation)	22,075,451	19,980,366
Gross operating yield	50,673,389	48,012,897
EBITDA margin	**43.56%**	**41.61%**
EBIT (operating revenue - operating expenses)	9,264,208	8,034,174
Gross operating yield	50,673,389	48,012,897
EBIT margin	**18.28%**	**16.73%**
Net profit or loss	8,020,282	6,605,980
Sales revenue	39,954,056	38,166,199
Net return on revenue	**20.07%**	**17.31%**
Net profit or loss	8,020,282	6,605,980
Average assets	213,448,843	208,476,769
Net return on assets ratio (ROA)	**3.76%**	**3.17%**
Net profit or loss	8,020,282	6,605,980
Average capital (excluding net profit or loss for the year)	152,270,364	148,762,448
Net return on equity ratio (ROE)	**5.27%**	**4.44%**
Total dividends paid for the year	2,200,470	2,549,021
Average share capital	78,473,325	78,562,832
Dividend to share capital ratio	**2.80%**	**3.24%**
Dividend paid in the current year	2,200,470	2,549,021
Average capital	152,270,364	148,762,448
Dividend to share capital ratio	**1.45%**	**1.71%**
F. SHARES	**31.12.2019**	**31.12.2018**
Equity	158,969,707	153,591,302
Number of shares	18,783,898	18,826,797
Number of treasury shares	0	42,899
Book value per share (in EUR)	**8.46**	**8.18**
Net profit or loss	8,020,282	6,605,980
Weighted average number of ordinary shares	18,783,898	18,783,955
Diluted average number of ordinary shares	18,783,898	18,783,955
Basic and diluted earnings per share (EUR/share)	**0.43**	**0.35**

Table 23: Ratios

16.1 The basic financing state ratios

1. THE BASIC FINANCING STATE RATIOS								
No.	**Description**	**2019**	**2018**	**2017**	**2016**	**2015**	**2014**	**2013**
1.	**Equity financing rate** capital/equity and liabilities	0.737	0.728	0.731	0.739	0.729	0.737	0.711
2.	**Long-term financing rate** total equity, long-term liabilities and provisions/equity and liabilities	0.947	0.922	0.919	0.921	0.909	0.916	0.887
3.	**Debt financing rat e**debts/equity and liabilities	0.260	0.269	0.265	0.258	0.266	0.260	0.285

Table 24: The 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 2019, the equity financing rate stands at 73.7%, which is 0.9 percentage point above the ratio recorded in 2018. An increase in the ratio is the result of a higher increase in capital than liabilities - higher amount of profit generated by the Company in 2019, along a slight increase the Company's financial liabilities compared to 2018 (increase in long-term and short-term financial lease liabilities), all of which is reflected in an improved value of ratio in 2019.

Debt financing rate shows the debt financing of the Company's assets. In 2019, the ratio stood at 94.7%, up 2.5 percentage points compared to 2018, which is primarily due to a reduction in short-term operating liabilities and, above all, supplier payables and other operating liabilities, along with an 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 the energy infrastructure comprises primarily amortisation and depreciation and the generated return, especially the operating result, which the Company expects from generating regulated revenues, which comprise mainly rental income and revenues from services provided under the Contract with SODO.

Debt financing rate amounted to 26.0% in 2019, down 0.09 percentage points compared to 2018, due a reduction in short-term debts in the overall structure of liabilities, and an increase in liabilities. A major increase in liabilities comes from raising long-term bank borrowings to fund the Company's investment activity in 2019.

16.2 The basic investment ratios

2. THE BASIC INVESTMENT RATIOS								
No.	**Description**	**2019**	**2018**	**2017**	**2016**	**2015**	**2014**	**2013**
1.	**Operating fixed assets rate** fixed assets/assets	0.883	0.868	0.869	0.897	0.887	0.906	0.881
2.	**Investment assets rate** long-term and short-term investments/assets	0.001	0.032	0.033	0.035	0.035	0.038	0.037
3.	**Long-term assets rate** fixed assets, long-term investments and long-term operating receivables/assets	0.885	0.904	0.903	0.933	0.923	0.944	0.917

Table 25: The basic investment ratios

The basic investment ratios show the structure of an entity's assets.

The operating fixed assets rate denotes the share of the carrying amount of fixed assets in the assets. An increase in the ratio which stands at 83.3% shows that in 2019 the Company invested heavily in the renovation and growth of its assets. The ratio's value is also influenced by the fixed assets' depreciation although the depreciation rates applied do not change from one year to the other.

Investment assets rate indicates the share of investments in the assets. There was a sharp decline in the ratio in 2019 to just 0.1%. The ratio's value indicates that the Company only rarely invests its assets in financial investments however, the main reason for the decline is the fact that in 2019 the Company recognised its long-term investment in a subsidiary under current assets (disposal groups) held for sale.

Long-term assets rate indicates the share of long-term assets in the Company's total assets. In 2019, the ratio fell by 1.8 percentage points to 88.6%. This is due to the reclassification of the Company's long-term investment to current assets (disposal groups) held for sale.

16.3 The basic ratios of horizontal financial structure

3. THE BASIC RATIOS OF HORIZONTAL FINANCIAL STRUCTURE								
No.	**Description**	**2019**	**2018**	**2017**	**2016**	**2015**	**2014**	**2013**
1.	**Equity to fixed assets ratio equity**/fixed assets	0.835	0.838	0.842	0.823	0.822	0.814	0.808
2.	**Acid test ratio** liquid assets/short-term liabilities	0.276	0.144	0.309	0.124	0.266	0.006	0.240
3.	**Quick ratio** liquid assets and short-term receivables/short-term liabilities	0.877	0.607	0.791	0.594	0.730	0.487	0.633
4.	**Current ratio** current asset/short-term liabilities	1.596	0.932	0.846	0.645	0.777	0.553	0.680

Table 26: The basic ratios of horizontal financial structure

These ratios are used to make comparison between assets and liabilities and are important for assessment of the quality of funding. Regarding financing, we are interested in the extent to which the Company is financed with debts and to what extent with capital.

Equity to fixed assets ratio shows the financing of the carrying amount of fixed assets with equity. The ratio value below 1 indicates that part of fixed assets is financed with capital and part with long-term borrowings. The ratio fell slightly (by 3 percentage points) compared to the previous year, which means that in 2019 a slightly higher share of fixed assets was financed by borrowings.

Acid test ratio shows the Company's ability to settle its short-term debts. The ratio value below 1 indicates that an entity has more debts than liquid assets. In 2019, the ratio rose by 13.20 percentage points compared to 2018 and amounts to 0.276, mainly due to a reduction in short-term liabilities.

Quick ratio is an indicator of the coverage of short-term liabilities with liquid assets and short-term receivables, showing the Company's short-term solvency position. In 2019, the ratio stands at 87.7%, up 27 percentage points compared to 2018 meaning that 87.7% of short-term liabilities are settled with liquid assets and short-term receivables. The increase in the value of the ratio in 2019 is due to a reduction in short-term liabilities.

Current ratio reflects the Company's ability to settle its short-term liabilities with short-term receivables, showing the Company's short-term solvency position. The ratio value stands at 159% in 2019, up 66 percentage points compared to 2018, which is due to an increase in short-term assets (particularly due to the transfer of a long-term investment to assets (disposal groups) held for sale). The ratio further shows that in 2019, the Company settled almost all of its short-term liabilities with short-term assets (receivables).

4. THE BASIC EFFICIENCY RATIOS								
No.	**Description**	**2019**	**2018**	**2017**	**2016**	**2015**	**2014**	**2013**
1.	**Operating efficiency ratio** operating revenue/operating expenses	1.224	1.201	1.211	1.217	1.142	1.093	1.130
2.	**Total efficiency ratio** revenue/expenses	1.217	1.188	1.198	1.200	1.198	1.072	1.111

Table 27: The basic efficiency ratios

The basic efficiency (cost efficiency) ratios are indicators of an entity's business performance 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 efficiency of the Company's operations, since the financial income and expenses and other revenues and expenses are excluded from the ratio calculation. In 2019, this ratio amounted to 122.4%, which means that operating revenues exceeded operating expenses by 22.4% and the cost efficiency improved slightly in comparison with the previous year (by 2.3 percentage points).

Total efficiency ratio is the ratio between total revenue and total expenditure. The ratio stood at 121.7% in 2019, up 2.9 percentage points compared to the previous year, reflecting a slight improvement in the overall efficiency. Thus, in 2019 the Company managed well its available assets and ensured profitably for its owners.

16.4 The basic profitability ratios

5. THE BASIC PROFITABILITY RATIOS								
No.	Description	2019	2018	2017	2016	2015	2014	2013
1.	**Net profit margin** net profit/revenue	0.201	0.173	0.185	0.174	0.145	0.073	0.102
2.	**ROA** net profit/average assets	0.038	0.032	0.036	0.034	0.031	0.015	0.022
3.	**ROE** net profit/average equity (excluding net profit for the financial year)	0.053	0.045	0.050	0.049	0.043	0.021	0.031

Table 28: The basic profitability ratios

By analysing the profitability ratios 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 ratio shows that the Company generated €20.1 of profit per €100 of revenue, a decline of €2.8 compared to 2018.

Return on assets ratio (ROA) shows the share of profits that the Company achieves with its own resources and how successful the management has been in managing the Company's assets. ROA amounted to 3.8% in 2019, up 0.6 percentage points compared to the previous year.

The relatively low ratio value is the consequence of major investments made by the Company in 2019, which is a prerequisite for ensuring high quality and reliable distribution of electricity. 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 probably 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 5.3% in 2019, up 0.8 percentage point compared to the previous year. This is on account of the increase in the profit achieved in 2019.

FINANCIAL STATEMENTS

B

1. 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 financial statements of ELEKTRO PRIMORSKA podjetje za distribucijo električne energije, d.d. (the Company), which comprise the balance sheet as at December 31 2019, 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 2019 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, 27 May 2020

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

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

Lidija Šinkovec
Certified auditor

2. BALANCE SHEET AT 31 DECEMBER 2019

Assets	Notes	31.12.2019	31.12.2018
A. Long-term assets:			
I. Intangible assets and long-term deferred costs	**3.1.**	**3,838,017**	**3,880,852**
1. Long-term rights		3,749,982	3,824,092
2. Long-term deferred development costs		0	0
3. Other long-term deferred costs		45,549	55,531
4. Intangible assets being acquired		42,486	1,230
II. Property, plant and equipment	**3.2.**	**190,460,253**	**183,304,516**
1. Land		5,604,052	5,601,776
2. Buildings		126,730,559	123,700,865
3. Equipment		55,338,086	51,666,222
4. Right-of-use assets		298,623	0
4. Property, plant and equipment being acquired		2,488,933	2,335,653
III. Investment property	**3.3.**	**220,070**	**224,488**
IV. Long-term investments	**3.4.**	**294,576**	**6,809,489**
1. Investments in shares of group companies		0	6,522,017
2. Other shares and stakes		294,576	287,472
V. Long-term operating receivables	**3.5.**	**301,470**	**435,538**
1. Long-term trade receivables		272,864	409,116
2. Other long-term operating receivables		28,606	26,422
VI. Deferred tax assets		**681,583**	**628,191**
Total long-term assets		195,795,969	195,283,073
B. Current assets:			
I. Assets held for sale		**6,522,017**	**0**
II. Inventories		**1,220,210**	**1,152,368**
1. Materials		1,214,842	1,147,434
2. Unfinished services		0	0
3. Products and merchandise		5,368	4,934
III. Short-term investments	**3.7.**	**0**	**4,001,343**
1. Short-term loans to others		0	4,001,343
IV. Short-term operating receivables	**3.8.**	**6,475,075**	**7,294,566**
1. Operating receivables due from the group		28,945	31,999
2. Trade receivables		6,291,766	7,003,979
3. Operating receivables due from others		154,364	258,588
V. Cash and cash equivalents	**3.9.**	**2,965,633**	**2,290,160**
Total current assets		17,182,934	14,738,438
C. Short-term deferred costs and accrued income	**3.10.**	**2,814,439**	**1,082,834**
TOTAL ASSETS		**215,793,342**	**211,104,345**

Table 29: Balance sheet (assets)

Equity and liabilities		Notes	31.12.2019	31.12.2018
A. Equity:				
	I. Called-up capital		**78,383,817**	**78,562,832**
	1. Share capital		78,383,817	78,562,832
	II. Share premium		**46,306,588**	**46,208,187**
	III. Profit reserves		**33,002,245**	**27,623,455**
	1. Legal reserves		920,267	651,328
	2. Reserves for treasury shares and stakes		0	80,613
	3. Treasury shares and stakes (as a deductible item)		0	-80,613
	5. Other profit reserves		32,081,977	26,972,127
	IV. Revaluation surplus		**-1,352,689**	**-1,003,642**
	V. Retained earnings		**0**	**0**
	VI. Net profit or loss for the year		**2,629,746**	**2,200,470**
Total capital		3.11.	158,969,707	153,591,302
B. Provisions and long-term accrued costs and deferred income		**3.12.**	**15,651,283**	**14,477,047**
	1. Provisions		4,986,319	4,402,168
	2. Long-term accrued costs and deferred income		10,664,963	10,074,879
C. Long-term liabilities		**3.13.**	**29,786,910**	**26,550,000**
	I. Long-term financial liabilities		**29,786,910**	**26,550,000**
	1. Long-term financial liabilities to banks		29,519,444	26,550,000
	3. Other long-term financial liabilities		267,466	0
D. Short-term liabilities		**3.14.**	**10,763,662**	**15,809,296**
	I. Short-term financial liabilities		**4,194,493**	**7,313,227**
	1. Short-term financial liabilities to banks		4,155,556	7,308,000
	2. Other short-term financial liabilities		38,937	5,227
	II. Short-term operating liabilities		**6,569,169**	**8,496,068**
	1. Short-term operating liabilities to group companies		26,700	25,711
	2. Supplier payables		4,445,267	6,643,518
	3. Short-term operating liabilities from advances		19,819	23,236
	4. Other short-term operating liabilities		2,077,383	1,803,604
Total liabilities			56,201,855	56,836,343
D. Short-term accrued costs and deferred income		**3.15.**	**621,780**	**676,700**
TOTAL EQUITY AND LIABILITIES			**215,793,342**	**211,104,345**

Table 30: Balance sheet (equity and liabilities)

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

3. INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2019

in EUR

	Notes	2019	2018
1. Net sales revenue	**4.1.**	**39,954,056**	**38,166,199**
a. on domestic market		39,954,056	38,166,199
2. Change in the value of unfinished services	**4.1.**	**0**	**0**
3. Capitalised own products and services	**4.1.**	**9,571,803**	**7,812,498**
4. Other operating revenue	**4.1.**	**1,147,531**	**2,034,200**
5. Cost of goods, materials and services	**4.2.**	**-11,260,952**	**-10,043,939**
a. cost of goods and material sold and cost of material used		-5,675,871	-4,373,769
b. cost of services		-5,585,081	-5,670,170
6. Employee benefit costs	**4.2.**	**-17,197,327**	**-17,847,179**
a. cost of salaries		-12,185,669	-11,920,843
b. cost of supplementary pension insurance of employees		-626,080	-628,362
c. social security costs		-2,024,799	-2,041,816
d. other labour costs		-2,360,779	-3,256,156
7. Write-downs	**4.2.**	**-12,811,242**	**-11,946,191**
a. amortisation and depreciation		-12,569,703	-11,769,617
b. operating expenses from revaluation of fixed assets		-218,500	-114,550
c. operating expenses from revaluation of current assets		-23,040	-62,025
8. Other operating expenses	**4.2.**	**-139,661**	**-141,413**
9. Financial income from shares and stakes	**4.3.**	**205,920**	**5,920**
a. in group companies		200,000	0
b. in other companies		5,920	5,920
10. Financial income from loans	**4.3.**	**42**	**79**
a. granted to others		42	79
11. Financial income from operating receivables	**4.3.**	**22,316**	**20,372**
a. due from others		22,316	20,372
12. Financial expenses from investment impairment and write-off	**4.4.**	**0**	**-38,580**
13. Financial expenses from financial liabilities		**-321,645**	**-311,789**
a. bank borrowings		-252,055	-268,173
b. other financial liabilities		-69,590	-43,616
14. Financial expenses from operating liabilities	**4.4.**	**-1,483**	**-3,146**
a. supplier payables and bills of exchange		-1,254	-2,740
b. other operating liabilities		-230	-406
15. Other income	**4.5.**	**404**	**7,035**
16. Other expenses	**4.6.**	**-79,173**	**-97,252**
PRE-TAX PROFIT OR LOSS OF THE ACCOUNTING PERIOD		9,090,590	7,616,812
17. Income tax	**4.7.**	**-1,086,314**	**-976,143**
18. Deferred tax	**4.7.**	**16,006**	**-34,689**
19. NET PROFIT OR LOSS OF THE ACCOUNTING PERIOD	**4.8.**	**8,020,282**	**6,605,980**

Table 31: Income statement

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

4. STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2019

in EUR

	Notes	2019	2018
Net profit or loss of the accounting period	**4.9.**	**8,020,282**	**6,605,980**
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		7,104	3,315
Deferred tax effect		37,386	105,390
Net other comprehensive income for the year, to be recognised in profit or loss at a future date		**44,490**	**108,705**
Other comprehensive income for the year that will never be recognised in profit or loss			
Actuarial gains/losses on provisions for severance pay		-485,897	-1,112,861
Net other comprehensive income for the year that will never be recognised in profit or loss		**-485,897**	**-1,112,861**
Total other comprehensive income for the year (net of tax)		**-441,407**	**-1,004,156**
Total comprehensive income for the year (net of tax)		**7,578,875**	**5,601,824**

Table 32: Statement of Comprehensive Income

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

5. CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	31.12.2019	31.12.2018
A. CASH FLOWS FROM OPERATING ACTIVITIES			
1. Receipts from operating activities	**5.1.**	**77,839,618**	**75,718,309**
a. Proceeds from sale of products and services		44,055,671	44,796,123
b) Other receipts from operating activities		**33,783,947**	**30,922,186**
2. Expenditure from operating activities	**5.2.**	**-62,030,923**	**-61,220,318**
a. Expenditure for purchase of materials and services		-9,911,313	-9,439,199
b) Expenditure for salaries and employees' shares in profits		-17,308,480	-17,275,026
c) Expenditure for all kinds of contributions		-2,889,061	-3,702,987
d. Other expenditure from operating activities		-31,922,069	-30,803,107
3. Net cash from operating activities		**15,808,695**	**14,497,991**
B. CASH FLOWS FROM INVESTING ACTIVITIES			
4. Cash receipts from investing activities	**5.3.**	**6,246,399**	**1,161,933**
a. Interest and profit shares		226,736	16,206
b) Proceeds from disposal of property, plant and equipment		**19,663**	**145,727**
c) Proceeds from disposal of long-term investments		**6,000,000**	**1,000,000**
d. Proceeds from disposal of short-term investments		**0**	**0**
5. Cash disbursements for investing activities	**5.4.**	**-18,671,770**	**-18,219,274**
a. Expenditure for acquisition of intangible assets		-1,473,276	-1,553,748
b) Expenditure for acquisition of property, plant and equipment		-15,198,494	-11,665,526
c) Expenditure for acquisition of long-term and short-term investments		-2,000,000	-5,000,000
6. Net cash from investing activities		**-12,425,371**	**-17,057,342**
C. CASH FLOWS FROM FINANCING ACTIVITIES			
8. Cash receipts from financing activities	**5.5.**	**15,428,000**	**14,800,000**
a. Receipts from long-term borrowings		6,978,000	9,000,000
b) Receipts from short-term borrowings		8,450,000	5,800,000
9. Cash disbursements from financing activities	**5.6.**	**-18,135,851**	**-14,914,896**
a. Interest paid		-302,381	-277,803
b. Repayments of capital		0	-1,074
c) Cash repayments of long-term borrowings		-6,683,000	-6,787,000
d. Cash repayments of short-term borrowings		-8,950,000	-5,300,000
e. Dividends paid		-2,200,470	-2,549,019
10. Net cash from financing activities		**-2,707,851**	**-114,896**
11. Total cash flows		**675,473**	**-2,674,247**
D. CLOSING BALANCE OF CASH AND CASH EQUIVALENTS		**2,965,633**	**2,290,160**
X. Opening balance of cash and cash equivalents		**2,290,160**	**4,964,407**
Y. CASH FLOWS FOR THE PERIOD	**5.7.**	**675,473**	**-2,674,247**
Closing balance of cash and cash equivalents on the last day of the accounting period		**2,965,633**	**2,290,160**

Table 33: Cash flow statement

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

6. STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2019

in EUR

2019	Called-up capital		Profit reserves							
	Share capital	Share premium	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 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
A.2. At 1 Jan 2019	**78,562,832**	**46,208,187**	**651,328**	**80,613**	**-80,613**	**26,972,127**	**-1,003,642**	**0**	**2,200,470**	**153,591,302**
B.1. Changes in equity - transactions with owners	**-179,014**	**98,401**	**0**	**-80,613**	**80,613**	**0**	**0**	**-2,119,857**	**0**	**-2,200,470**
a) Withdrawal of treasury shares	-179,014	98,401			80,613				0	0
b) Release of reserves for treasury shares				-80,613				80,613	0	0
c) Dividend payment	0	0	0			0	0	-2,200,470	0	-2,200,470
B.2. Total comprehensive income for the reporting period	**0**	**0**	**0**			**0**	**-441,407**	**0**	**8,020,282**	**7,578,875**
a) Net profit or loss for the reporting period	0	0	0			0	0	0	8,020,282	8,020,282
b) Gains or losses on revaluation of investments	0	0	0			0	7,104	0	0	7,104
b) Other components of comprehensive income for the reporting period	0	0	0			0	-448,511	0	0	-448,511
B.3. Changes within equity	**0**	**0**	**268,939**			**5,109,850**	**92,359**	**2,119,857**	**-7,591,006**	**0**
a) Allocation of the remaining net profit of the comparable reporting period to other components of equity	0	0	0			0	0	2,200,470	-2,200,470	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	268,939			5,109,850	0	11,746	-5,390,536	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	92,359	-92,359	0	0
C. At 31 Dec 2019	**78,383,817**	**46,306,588**	**920,267**	**0**	**0**	**32,081,977**	**-1,352,689**	**0**	**2,629,746**	**158,969,706**
Distributable profit 2019								**0**	**2,629,746**	**2,629,746**

Table 34: Statement of changes in equity in 2019

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

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

In EUR

2018	Called-up capital		Profit reserves							
	Share capital	Share premium	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 35: Statement of changes in equity in 2018

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

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

1. KEY INFORMATION

The Company generated net profit of €8,020,282 in 2019, which is more than planned and also more than the amount of net profit achieved in the previous year. This is mainly on account of a higher balance of the preliminary settlement than planned, as well as improved quality ratios, business efficiency in terms of covering electricity losses and improved efficiency in the provision of services for SODO. Depreciation increased in 2019 by €800,086 as a result of new items of fixed assets that were put to use, and is reflected in the higher preliminary settlement for 2019.

2. BASIS FOR PREPARATION

The financial statements have been prepared in accordance with provisions of Slovene Accounting Standards (SAS 2016), the Energy Act (EZ-1), and the Companies Act (ZGD-1).

While the SAS 2016 prescribe accounting policies to be applied by entities they do, in certain cases, allow 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 hereby declares that the same accounting policies and methods were used as in the previous financial year, except for adoption of amended SAS 2016, namely SAS 1 (section addressing Leases), SAS 15 (2019) Revenue recognition and SAS 3 Valuation of investments in other companies.

The newly adopted accounting policies and the effects of the transition on 1 January 2019 are disclosed in continuation.

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 (€) with no cents.

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 amount of assets and liabilities, revenues and expenses. Pricing and related assumptions and uncertainties are disclosed in the notes to the individual 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 those 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:

Leases
The Company has made the following accounting judgements that have a significant impact on the determination of the right-of-use assets and lease liabilities:

Identification of lease contracts

A contract is identified as a lease if it renders the Company the right to control the leased asset. The Company controls the asset if it is able to use the asset and is entitled to the economic benefits from the asset.

Determining the term of the lease

The lease term is determined as the period during which the lease cannot be terminated, inclusive of:

a. the period for which the option to extend the lease applies, if it is reasonably certain that the lessee will exercise the option.
b. the period for which the option to terminate the lease applies, if it is reasonably certain that the lessee will not exercise the option. Generally, the lease term is agreed in the contract. Where the contractual period is not specified, the lease term is assessed based on the Company's needs to use the asset, considering its plans and long-term business policies.

Determining the discount rate

The discount rate is determined based on the interest rate at which the Company can obtain comparable assets on the market with a comparable maturity.

Revenue from contracts with customers
Revenue is recognised if the increase of economic benefits in the financial period is related to the increase of assets or decrease of a debt, and if these increases can be reliably measured. Revenues are recognised if it is reasonably expected that they will lead to receipts unless they are realised at inception.

The Company applied the following accounting judgements that significantly affect the determination of the amount and timing of revenue recognition from contracts with customers:

Determining the timing of satisfaction of contractual obligations

Revenue from the sale of goods and services is recognised at the time of sale. From the time of sale, the Company no longer has control over the goods or services sold. In the case of sales over time, the Company recognises separately revenues from the sale of goods and financial income deferred over the entire financing period.

Sales made in the name and for the account of third parties

The Company has certain contracts with customers for the sale of merchandise for and on behalf of suppliers and supplies goods to the customers. The Company determined that it does not control the goods before they are transferred to customers, has no ability to direct the use of the goods or obtain benefits from the goods. In addition, the Company is not exposed to any risks associated with the inventory before or upon transfer of goods to the customer, since it acquires equipment only with the approval of the customer and is able to return the unsold goods to the supplier. The Company has no discretionary right in determining the price for the goods sold on behalf of third parties. The consideration for agency services is agreed in advance as the difference between the final selling price and the purchase price, both of which are agreed in advance with the supplier.

Management has assessed the impact of the amended SAS 15 on the Company's financial statements and believes that the amended standard has no significant impact on the timing of recognition or the amount of revenue recognised.

On 1 July, 2007, Elektro Primorska, d. d., 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., from 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, 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 has been in effect since 1 January 2011.

Based on the contract and 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, 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. 46/2018, 47/2018 (with amendments) on 21 June 2018, inclusive of Appendix 1: The parameters for determining the network charge for the regulatory period from 1 January 2019 to 31 December 2021. Pursuant to this Act, on 11 December 2018, the Energy Agency by decision no. 211-42/2018-58/452 laid down the regulatory framework for the distribution system operator's activity during the regulatory period from 1 January 2019 to 31 December 2021. The decision envisages the eligible costs, broken down by individual distribution network areas, which determine the framework of 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.

Changes to accounting policies pursuant to amended SAS 2019 – SAS 1 Leases

Upon transition to the amended SAS 1 in the part referring to leases, the Company opted for the simplified method with the date of initial application on 1 January 2019. Under the simplified method, the cumulative effect of the initial use of the amended standard is recognised as an adjustment of the right-of-use assets, the lease liabilities and the opening balance of retained earnings at the date of initial application, i.e. 1 January 2019.

In accordance with the provisions of SAS 1.68, applicable to the transition to the amended SAS, the Company applied the following practical expedients as at 1 January 2019:

- The lease liabilities relating to leases previously classified as operating leases are recognised on the date of initial application. The lease liabilities are measured at the present value of future lease payments discounted using the lessee's incremental borrowing rate at the date of initial application.
- The right-of-use assets relating to leases previously classified as operating leases are recognised on the date of initial application. The lessee may decide for each lease separately whether to measure the right-of-use assets at:

a. The carrying amount as if the amendments to the standard had been applied from the inception of the lease, discounted using the lessee's incremental borrowing rate at the date of initial application,
b. The amount equal to the lease liabilities adjusted by the amount of prepaid or accrued interest on that lease, recognised in the balance sheet immediately before the date of initial application.
c. The Company has decided to use the option b) for recognition of all leases and:

- Applied a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Applied the short-term lease exemption to leases with lease term that ends within 12 months of the date of initial application;
- Eliminated initial direct costs incurred from the measurement of the right-of-use assets at the date of initial application;
- Used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

Upon transition, the Company decided to use the simplified method for leases previously classified as financial leases and thus, the carrying amount of the leased assets and liabilities is considered the carrying amount of the leased assets and liabilities immediately before that date.

The Company assessed all its lease contracts with a lease term of more than one year and is not expecting to terminate any of those lease contracts.

Based on the cost of leases and the lease term, the Company assessed the right-of-use assets and lease liabilities and recognised them as at 1 January 2019 in the statement of financial position. The right-of-use assets and lease liabilities are assessed using discounted future cash flows over the entire term of the lease. Cash flows are discounted at the interest rates charged by banks on borrowings with comparable maturity and value, ranging from 1.2 to 2.5%. Depreciation is calculated using the depreciation rates estimated over the remaining lease term. The Company reports no financial leases as at 31 December 2019.

	01.01.2019	Sprememba SRS 1	31.12.2018
ASSETS			
Right-of-use assets			
Land	6,053	0	0
Buildings	264,732	264,732	0
Equipment	60,677	60,677	0
Total assets	**331,462**	**325,409**	**0**
EQUITY AND LIABILITIES			
Long-term liabilities	**283,884**	**277,831**	**0**
Lease liabilities	283,884	277,831	0
Short-term liabilities	**47,578**	**47,578**	**0**
Lease liabilities	47,578	47,578	0
Total liabilities	**331,462**	**325,409**	**0**
Total equity and liabilities	**331,462**	**325,409**	**0**

The effect of the SAS 1 application on the income statement in 2019

	2019 SRS 1	2019 SRS 16	2018 SRS 18
Depreciation of the right-of-use assets	-50,457	0	
Lease liabilities	-84,605	-138,379	-147,568
Operating profit or loss	**-135,062**	**-138,379**	**-147,568**
Financial expenses	-5,817	0	
Profit or loss before tax	**-140,879**	**-138,379**	**-147,568**

3. NOTES TO THE BALANCE SHEET

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

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 developed. 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 lease liabilities.

The 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 amortisation rates ranging from 3.33 to 33.3 percent, the same as in 2018. 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 €1,418,066 of investments made in 2019 (2018: €1,301,175) 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 December 2019, 41.26% of all intangible assets in use was fully amortised. Amortisation is calculated based on the cost of the assets.

The Company discloses €501,958 of trade payables on account of the intangible assets' acquisition as at 31 December 2019 (2018 year-end: €449,499), and commitments based on contracts agreed for the purchase of licenses amounting to €262,329 (2018: €550,000).

Movements in intangible assets in 2019 are presented in the following Table:

2019	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	8,232,834	55,531	1,106,247	10,040,332
Additions during the year	0	0	17,693	1,459,322	1,477,015
Transfers	0	0	0		0
Additions from ongoing investments	0	1,418,066	0	-1,418,066	0
Disposals	0	-90,381	-27,674	0	-118,055
At 31 Dec	645,721	9,560,518	45,549	1,147,503	11,399,292
Accumulated amortisation					
At 1 Jan	645,721	4,408,741	0	1,105,017	6,159,480
Amortisation for the year	0	1,492,175	0	0	1,492,175
Transfer of long-term deferred costs to expenditure	0	0	0		0
Transfers	0	0	0	0	0
Disposals	0	-90,381	0	0	-90,381
At 31 Dec	645,721	5,810,536	0	1,105,017	7,561,274
Carrying amount					
At 1 Jan	0	3,824,092	55,531	1,230	3,880,852
At 31 Dec	**0**	**3,749,982**	**45,549**	**42,486**	**3,838,017**

Table 36: Movements in intangible assets in 2019

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
Additions from ongoing investments	0	1,301,175	0	-1,301,175	0
Disposals	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
Disposals	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 37: Movements in intangible assets in 2018

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 amounts as the difference between their cost and written-down value. The Company recognises property, plant and equipment under the cost model.

The 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.

Expenditure on repairs or maintenance of property, plant and equipment is made to restore or maintain future economic benefits expected on the basis of the originally assessed standard of performance of the assets. 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:

	2019	2018
Computer hardware	33.3	33.3
Real estate (land and facilities)	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 2019 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 2019 are presented in the following Table:

2019	Land	Facilities	Equipment	P, P&E under construction and advances	Total
Cost					in EUR
At 1 Jan 2019	5.601.776	391.031.686	157.712.350	3.164.684	557.510.496
Additions during the year	0	57.862	0	18.059.593	18.117.455
Additions from ongoing investments	2.276	8.902.319	9.001.717	-17.906.312	0
Disposals	0	-2.294.518	-3.473.634	0	-5.768.153
At 31 Dec 2019	5.604.052	397.697.349	163.240.432	3.317.965	569.859.799
Accumulated depreciation					
At 1 Jan 2019	0	267.330.820	106.046.128	829.032	374.205.980
Depreciation for the year	0	5.808.397	5.209.552	0	11.017.950
Disposals	0	-2.172.427	-3.353.334	0	-5.525.761
Additions during the year	0	0	0	0	0
At 31 Dec 2019	0	270.966.790	107.902.346	829.032	379.698.169
Carrying amount					
At 1 Jan 2019	5.601.776	123.700.866	51.666.222	2.335.652	183.304.516
At 31 Dec 2019	**5.604.052**	**126.730.559**	**55.338.086**	**2.488.933**	**190.161.630**

Table 39: Movements in property, plant and equipment in 2019

Net carrying amount of the items of property, plant and equipment increased by €6,857,113 in 2019 compared to the previous year (2018: an increase of €4,451,509). Movements in property, plant and equipment relate to new acquisitions amounting to €18,117,455 (2018: €15,296,934), depreciation in the amount of €11,017,950 (2018: €10,631,969) and disposals in the carrying amount of €242,391 (2018: €213,457).

Depreciation of fixed assets under construction 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 resolving complaints. Adjustments have been recognised since 2004.

The Company has no fixed assets obtained under financial lease.

The Company reports €830,000 of payables to suppliers of property, plant and equipment as at 31 December 2019 (2018 year-end: €2,487,374), and €6,600,000 of commitments arising from signed binding contracts (2018 year-end: €6,000,000).

As at 31 December 2019, 41.73% of all property, plant and equipment in use was fully depreciated. The share is calculated based on the cost of property, plant and equipment, excluding land.

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 2019, the cost of leased infrastructure amounted to €502,977,000 (2018: €492,251,783), depreciation to €336,461,780 (2018: €331,876,676) and the carrying amount to €166,515,220 (2018: €160,375,107).

		in EUR
	2019	**2018**
Land	3,434,128	3,431,852
Infrastructure facilities	112,313,634	109,119,275
Infrastructure equipment	50,038,623	46,909,917
Long-term rights	728,835	914,063
	166,515,220	**160,375,107**

Table 40: Carrying amount of leased infrastructure

A total €18,024,074 was invested in property, plant and equipment in 2019, which is slightly more than planned, mainly on account of accelerated implementation of investments based on the assessment of the physical state of the infrastructure, poor quality of supply in certain areas and increased demand for electricity.

The Company raised long-term borrowings of total €7,000,000 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 2018:

2018	Land	Facilities	Equipment	P, P&E under construction and advances	Total
Cost					in EUR
At 1 Jan 2018	5,703,675	384,673,210	151,875791	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	-109,328	-1,848,559	-1,399,622	0	-3,357,510
At 31 Dec 2018	5,601,176	391,031,686	157,712,350	3,164,684	557,510,496
Accumulated depreciation					
At 1 Jan 2018	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	0	-1,784,758	-1,359,295	0	-3,144,053
Additions during the year	0	0	0	0	0
At 31 Dec 2018	0	267,330,820	106,046,128	829,032	374,205,981
Carrying amount					
At 1 Jan 2018	5,703,675	121,226,717	49,433,251	2,489,364	178,853,007
At 31 Dec 2018	**5,601,776**	**123,700,866**	**51,666,222**	**2,335,652**	**183,304,516**

Table 41: Movements in property, plant and equipment in 2018

Right-of-use assets

The right-of-use assets stem from the use of various commercial real estate such as offices and other buildings, equipment and cars, which the Company obtained under lease arrangements. The terms and conditions of the lease are subject to individual contracts and vary according to the type and term of an individual lease. The Company assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Company determines the lease term as the period during which the lease cannot be terminated, inclusive of the period for which the option to extend the lease applies and the period for which the option to terminate the lease applies considering the probability that either of the two options will or will not be exercised.

The lease term depends on the type of leased asset and ranges from:

- 14 years (land),
- 10 to 17 years (offices and other buildings),
- 1 to 5 years (cars).

The Company applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. Lease liabilities relating to short-term leases and leases of low-value assets are recognised as an expense over the lease term.

For all other leases, the Company recognised lease liabilities and the right-of-use assets.

The right-of-use assets are recognised on the commencement date of the lease. Right-of use assets are measured at cost less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received.

The depreciation rates applied to the right-of-use assets are as follows:

DEPRECIATION RATES		V %
RIGHT-OF-USE ASSETS	2019	2018
Real estate	5.94 - 9.3	0
Cars	25 - 64	0

If ownership of the leased asset transfers to the Company at the end of the lease term or the Company exercises a purchase option, the depreciation is calculated based on the estimated useful life of the asset.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases (i.e. those leases that have a lease term of 12 months or less from the commencement date and do not contain an option to purchase). It also applies the lease of low-value assets recognition exemption to leases of assets that are considered to be low-value. Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line bass over the lease term.

Movements in the right-of-use assets in 2019:

2019	Land	Facilities	Equipment	Total
Cost				in EUR
At 31 Dec 2018	0	0	0	0
Changes due to the adoption of IFRS 16	**0**	**264,732**	**60,677**	**325,409**
At 1 Jan 2019	6,053	264,732	60,677	331,462
Additions	0	0	22,126	22,126
Disposals	0	0	-11,082	-11,082
At 31 Dec 2019	**6,053**	**264,732**	**71,722**	**342,506**
Accumulated depreciation				
At 1 Jan 2019	0	0	0	0
Depreciation for the year	432	16,873	26,578	43,883
Disposals			0	0
At 31 Dec 2019	432	16,873	26,578	43,883
Carrying amount				
01/01/2019	0	325,409	60,677	386,086
At 31 Dec 2019	**5,621**	**247,859**	**45,144**	**298,623**

3.3 Investment property

Investment property is property (land or buildings), which is held to earn rentals and/or increase its value. On initial recognition, investment property is valued at cost, consisting of purchase price and the costs that can be directly attributed 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 range from 2% to 5%, the same as in 2018.

The cost of depreciation, maintenance and operation of investment property amounted to €64,861 in 2019 (2018: €53,525), of which depreciation of all investment property amounted to €9,121.

The Company generated revenue from the lease of its investment property in the amount of €84,828 (2018: €81,185).

Fair value of investment property is equal to its carrying amount. Fair value of investment property is estimated by the Company based on the capitalised cash flow method, whereby cash flows consist mainly of received rentals arising from the lease of investment property. The assumptions used include 0.05 percent growth (the same as in 2018) and the required rate of return of 5.26 percent (2018: 7.18%).

Movements in investment property in 2019:

	Investment property - land	Investment property - facilities	Assets under construction and advances	Total
Cost				in EUR
At 1 Jan 2019	6,668	884,084	0	890,752
Additions during the year	0	0	4,702	4,702
Additions from ongoing investments	0	4,702	-4,702	0
At 31 Dec 2019	6,668	888,786	0	895,454
Accumulated depreciation				
At 1 Jan 2019	0	666,264	0	666,264
Depreciation for the year	0	9,121		9,121
Disposals	0	0		0
At 31 Dec 2019	0	675,385	0	675,385
Carrying amount				
At 1 Jan 2019	6,668	217,820	0	224,488
At 31 Dec 2019	**6,668**	**213,401**	**0**	**220,070**

Table 42: Fair value of investment property in 2019

Movements in investment property in 2018:

	Investment property - land	Investment property - facilities	P, P&E under construction and advances	Total
At 1 Jan 2018				in EUR
Additions during the year	6.668	852.629	0	859.297
Additions from ongoing investments	0	0	31.455	31.455
At 31 Dec 2018	0	31.455	-31.455	0
Accumulated depreciation	6.668	884.084	0	890.752
At 1 Jan 2018				
Depreciation for the year	0	657.322	0	657.322
Disposals	0	8.942		8.942
At 31 Dec 2018	0	0		0
Carrying amount	0	666.264	0	666.264
At 1 Jan 2018				
At 31 Dec 2018	6.668	195.307	0	201.975
Stanje 31.12.2019	**6.668**	**217.820**	**0**	**224.488**

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, and investments in associates where the parent's holding ranges from 20% to 49.9%, are valued at cost. The share in the profit of its subsidiary is recognised in profit or loss of the controlling entity when the resolution regarding profit distribution is adopted. 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 shares and stakes of other 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 Company recognises investment impairment as soon as there are justified reasons for impairment, or at the end of the accounting period. Impairment is recognised based on objective evidence resulting from events occurring subsequent to initial recognition, such as data on audited carrying amounts of the assets. Objective reasons for investment impairment test arise when the fair value of a financial asset falls 20 percent below its cost as at the balance sheet date. An 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 3 (2016) which addresses accounting treatment investments, they are classified as available-for-sale financial assets.

Investments consist of the following items:

	31/12/2019		31/12/2018	
	in EUR	Number of shares or stake	in EUR	Number of shares or stake
Investments in shares of group companies				
E3, energetika, ekologija, ekonomija, d.o.o.	0	0%	6,522,017	100%
Total	**0**		**6,522,017**	
Other shares and stakes:				
Informatika Maribor d.d.	240,755	11.88%	240,755	11.88%
Zavarovalnica Triglav d.d.	78,854	2.368	71,750	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		0	
	379,255		**372,151**	
Impairment of investment in Eldom d.o.o.	0		0	
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	**294,576**		**287,472**	
Total long-term investments	**294,576**		**6,809,489**	

Table 44: Long-term investments

As at 31 December 2019, subsidiary E 3 had €14,851,523 of total capital and generated €382,420 of net profit. The subsidiary is subject to a takeover bid and thus, as at 31 December 2019, the Company recognised its long-term investment under current assets (disposal groups) held for sale.

Investments in shares and stakes in other companies are reported at cost, with exception of investments in shares of Zavarovalnica Triglav, 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.

Gibanje finančnih naložb			in EUR
	Investments in shares of group companies	**Other shares and stakes**	**Total**
At 1 Jan 2019	6,522,017	287,472	6,809,489
Increase	0	7,104	7,104
Decrease	0	0	0
Transfer to current assets	-6,522,017	0	-6,522,017
At 31 Dec 2019	**0**	**294,576**	**294,576**

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 €7,104. Revaluation is recognised in other comprehensive income under equity. Reserves arising from the revaluation of Zavarovalnica Triglav d. d. shares amount to €76,384 as at 31 December 2019 .

3.5 Long-term operating receivables

		in EUR
	31/12/2019	31/12/2018
Due from the operators of apartment buildings	28,606	26,422
Long-term trade receivables	272,864	409,116
Total	**301,470**	**435,538**

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 on account of construction work performed for the market for Titus Lama d. o. o. in the amount of €158,014 (receivables mature in 2022; long-term receivables amount to €98,759, while the current amount payable in 2019 amounts to €59,255); receivables due from Hidria AET d. o. o. in the amount of €208,179 (maturing in 2023; long-term receivables amount to €152,600, while the current amount payable in 2019 amounts to €55,579).

Long-term receivables include receivables due from SODO in the amount of €21,505 on account of derogations from the final settlement for the regulatory year 2016; these are to 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 €681,583 of deferred tax assets (2018: €628,191). The applicable tax rate for 2019 is 19 percent (the same as in 2018), 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 Company's 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 2019

				in EUR
	on account of provisions	on account of deferred receivables	on account of investment impairment	Total
At 1 Jan 2019	**418,206**	**195,075**	**14,909**	**628,191**
Increase recognised in profit or loss	18,176	0	0	18,176
Increase recognised in equity	37,386	0	0	37,386
Decrease recognised in profit or loss	-68	-2,102	0	-2,170
At 31 Dec 2019	**473,700**	**192,973**	**14,909**	**681,583**

Table 47: Movements in deferred tax assets in 2019

Movements in deferred tax assets in 2018

				in EUR
	on account of provisions	on account of deferred receivables	on account of investment impairment	Total
At 1 Jan 2018	**342,587**	**199,994**	**14,909**	**557,490**
Increase	105,390	0	0	105,390
Decrease	-29,771	-4,919	0	-34,689
At 31 Dec 2018	**418,206**	**195,075**	**14,909**	**628,191**

Table 48: Movements in deferred tax assets in 2018

3.7 Non-current assets (disposal groups) held for sale

Non-current assets held for sale or assets of disposal groups are those non-current assets for which it is reasonably assumed that their carrying amount will be settled predominantly through their sale rather than their further use. This condition is deemed to have been complied with only if the sale is highly probable and if the assets or group of assets are in the condition that makes the sale possible. The management needs to be committed to the closing of the sale process within a year from the asset's reclassification to non-current assets held for sale or to the assets of disposal group.

The assets related to the subsidiary for which it is planned that the controlling influence will be lost, are reclassified to the group of assets for disposal irrespective of whether the controlling company is planning to keep the minority stake after the sale or not.

Non-current assets held for sale and assets of disposal groups are measured at the lower of their carrying amount or fair value less costs to sell.

The Company recognised €6,522,017 of its investment in the subsidiary E 3 under non-current assets held for sale. The sale is expected to be completed at the beginning of 2021 at the latest.

3.8 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 €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 were revalued due to impairment. Inventories of material are revalued due to impairment if their book value exceeds the net realisable value. Net realisable price 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
	31.12.2019	**31.12.2018**
Materials	1,182,364	1,117,626
Small tools	32,478	29,808
Merchandise	5,368	4,934
Total	**1,220,210**	**1,152,368**

Table 49: Inventories

The largest share of inventories comprise materials intended for the maintenance and construction of electric power facilities and equipment. Compared to the previous year, the inventories have increased by 5.89%.

The reason for this increase is the fact that at the beginning of 2019 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 accounts nor returned to the suppliers from project warehouses, and a slight increase in inventories in the main warehouses, which is kept to ensure smooth warehouse operation and automatic transfer from regular stock to individual projects.

No inventories were impaired either in 2019 or 2018, as material prices have remained at approximately the same level as in previous years and the Company holds no obsolete inventories of material. Furthermore, the 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 2019, the cost amounted to €6,618 (2018: €1,670). In the year under review, inventories valued at €184,289 had no movements in the last three years (2018: €293,351), which accounts for 15.17% of inventories that are necessary for maintenance of energy facilities and as such were not impaired.

3.9 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.

The adopted accounting policies are described in detail in Notes to long-term investments.

At the end of 2019, the Company reports no short-term deposits placed with banks.

3.10 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 increase or reduce operating or financial revenues 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.

After 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 on account of receivables that are uncollectible. 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
	31.12.2019	**31.12.2018**
Short-term receivables due from sales:		
- group companies	28,766	31,869
- on domestic market	6,746,543	7,435,526
Allowances	**-474,383**	**-487,400**
	6,300,926	**6,979,995**
Interest receivable		
- group companies	0	0
- other customers	59,733	64,584
Allowances	**-54,721**	**-55,340**
	5,012	**9,244**
Advances:	**14,594**	**46,565**
Other operating receivables:		
- group companies	178	130
- from government and other institutions	100,363	223,905
- from employees	337	0
- from others	55,600	36,222
Allowances	**-1,935**	**-1,493**
	154,543	**258,764**
Total	**6,475,075**	**7,294,566**

Table 50: Short-term operating receivables

Maturity structure of receivables:

		in EUR
	31.12.2019	**31.12.2018**
Not past due	6,125,104	6,536,096
Due and outstanding up to 30 days	159,696	358,879
Due and outstanding from 31 to 60 days	16,868	56,873
Due and outstanding from 61 to 90 days	1,017	6,715
Due and outstanding from 91 to 365 days	3,106	25,681
Overdue for more than 365 days	149	4,995
Total	**6,305,939**	**6,989,238**

Table 51: Maturity structure of receivables

As at 31 December 2019, maturity structure of receivables is as follows:

- 97.13% of outstanding receivables has not matured,
- 2.53% of receivables is overdue up to 30 days,
- 0,27% of receivables is overdue from 31 to 60 days and
- 0.07% of receivables is overdue more than 60 days amounting to €4,272

Popravek vrednosti kratkoročnih poslovnih terjatev

		in EUR
	31.12.2019	**31.12.2018**
At 1 Jan	**544,233**	**561,556**
Collected written-off receivables	-6,505	-18,872
Final write-off of receivables	-29,730	-60,475
Allowances recognised in the year	23,040	62,025
At 31 Dec	**531,039**	**544,233**

	Utilisation and reversal				
	At 31.12.2018	Formation	Written-off	Recovered	At 31.12.2019
Trade receivable allowances	487,400	20,134	27,546	5,605	474,383
Interest receivable allowances	55,340	1,539	1,880	278	54,721
Allowances for other short-term receivables	1,493	1,367	303	621	1,935
Total receivable allowances	**544,233**	**23,040**	**29,730**	**6,505**	**531,039**

Table 52: Allowances of short-term operating receivables

Doubtful and disputed receivables were impaired according to the individual receivable and business partner. In 2019, the Company recognised 0.36% of receivable allowances. Of total allowances recognised in 2019, 1.2% of receivables was recovered and 5.46% was written-off. Receivables are not insured however, 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 €42,893 and refundable salary substitutes of €55,273.

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 and services provided to SODO, €17,000 of receivables are due from the "EKO" fund on account of the entitlement to a subsidised purchase of electric cars, and receivables due from others.

3.11 Cash and cash equivalents

		in EUR
	31.12.2019	31.12.2018
Cash at bank	2,965,633	2,290,160
Total	**2,965,633**	**2,290,160**

Table 53: Cash and cash equivalents

Cash and cash equivalents comprise:

- Cash in hand,
- Deposit money on accounts at banks,
- Cash in transit,
- Cash equivalents as 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 the 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.

3.12 Short-term deferred costs and accrued income

		in EUR
	31.12.2019	31.12.2018
VAT in advances received	673	551
Short-term deferred costs	23,805	9,797
Accrued income	2,789,912	1,071,302
Vouchers	49	1,183
Total	**2,814,439**	**1,082,834**

Table 54: Short-term deferred costs and accrued income

These comprise VAT included in advances received, overpayments, and deferred costs of invoices received in 2019 and referring to the financial year 2020.

Short-term accrued income refers to the short-term part of the preliminary statement of account issued by SODO for rent and services rendered in 2019 in the amount of €2,658,192 (2018: €1,012,135). In addition, the Company reports €18,047 of short-term accrued income from services rendered to its subsidiary E 3 d. o. o. (2018: €16,409). The Company joined the "Sova uharica" (the eagle-owl) conservation project and at the end of 2019 it reports €113,450 of receivables on account of reimbursement of eligible costs incurred.

Planned formation and drawing of accruals and prepaid expenditure does not substantially deviate from the actual balance, except in reference to the preliminary settlement issued by SODO, which is accounted for at the end of the business year based on the applicable calculation methodology.

					in EUR
	VAT in advances received	**Short-term deferred costs**	**Accrued income**	**Vouchers**	**Total**
At 1 Jan 2018	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**
Increase	2,333	1,128,247	2,789,925	4,200	3,924,705
Decrease	-2,211	-1,114,240	-1,071,315	-5,334	-2,193,100
At 31 Dec 2019	**673**	**23,805**	**2,789,912**	**49**	**2,814,439**

Table 55: Movements in short-term accruals and prepaid expenditure

3.13 Equity

Capital of the Company consists of:

- Share capital,
- Share premium,
- 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
	31.12.2019	**31.12.2018**
Share capital	78,383,817	78,562,832
Share premium	46,306,588	46,208,187
Legal reserves	920,267	651,328
Reserves for treasury shares and stakes	0	80,613
Treasury shares and stakes	0	-80,613
Other profit reserves	32,081,977	26,972,127
Fair value reserve	-1,352,689	-1,003,642
Retained earnings	0	0
Net profit for the year	2,629,746	2,200,470
Total	**158,969,707**	**153,591,302**

Table 56: Equity

Share capital of Elektro Primorska is divided into 18,783,898 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:

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

All shares are of one class.

3.14 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 2019, the Company held no treasury shares (2018: 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 and withdrawal of treasury shares under consent of the Supervisory Board. In 2019, the Supervisory Board gave its consent to the Management Board to withdraw all 42,899 treasury shares.

Thus, the Company recognised €179,014 decrease in share capital, of which €98,401 was transferred to capital surplus, and €80,613 to retained earnings (the amount equal to the reserves for treasury shares set aside in the past).

Transactions with treasury shares in 2019:

			in EUR
	Number of shares	**Weighted average share price**	**Value of treasury shares**
At 31 Dec 2018	42,899	1,88	80,613
Withdrawal of treasury shares in 2019	-42,899	-	-80,613
At 31 Dec 2019	**0**	**-**	**0**

Table 57: 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 shares repurchased.

3.15 Other capital components

Share premium derives from a general capital revaluation adjustment that was transformed into share premium on transition to the SAS 2006.

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

Retained earnings is the proportionate amount 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 €8,020,282 of profit in 2019. Of that, €11,746 was allocated to cover losses brought forward from previous years incurred on derecognition of actuarial losses of €92,359, while the withdrawal of treasury shares in the amount of €80,613, is reported under retained earnings. In accordance with the competencies stipulated in the Companies Act (ZGD-1) and the Articles of Association, the Management Board allocated 5% of the remainder of the net profit generated in 2019 to legal reserves and €5,109,850 to profit reserves. The profit available for distribution amounting to €2,629,746 consists of undistributed net profit of 2019.

According to the resolution of the General Meeting of Shareholders held on 28 June 2019, the Company allocated €2,200,470 of distributable profit of 2018 to dividends.

The carrying amount of one share stands at **€8.46** as at 31 December 2019 (2018: €8.18).

The changes in equity in 2018 and 2019 are disclosed in the statement of changes in equity.

3.16 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 termination benefits and jubilee awards are set aside using the projected unit credit method i.e. the method based on anticipated significance of individual units or the method of accounting for employee benefits in line with 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 2019: SLO2007; the selection factor for the active population 75%; European Social Statistics - Accidents at work and work-related health problems 1990x and 1990y (probability of disability based on the BUZ/BV 1990x and BUZ/BV 1990y model); 3.5 percent growth in the average wage in the Republic of Slovenia (2018: 3.0 percent), the annual wage growth in the Company of 3.0 percent (the same as in 2018), the annual percentage of wage growth in the electricity sector of 3.0 percent (2018: 4.0 percent), the employer's contribution rate of 16.1 percent and a 0.7782 percent discount rate for calculating the present value of the Company's future liabilities (2018: 1.57 percent.

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.

Provisions

		in EUR
	31.12.2019	**31.12.2018**
At 1 Jan	4,402,168	3,600,132
Formation	932,059	2,298,524
Utilisation	-340,240	-245,073
Reversal	-7,667	-1,251,415
At 31 Dec	**4,986,319**	**4,402,168**

Table 58: Provisions

	Provisions for jubilee awards	Provisions for severance pay	Total
0.5% decrease in discount rate	57,016	214,269	271,285
0.5% increase in discount rate	-52,614	-195,322	-247,936
0.5 percent salary increase	57,508	214,832	272,340
0.5 percent salary decrease	-53,698	-198,237	-251,935

Table 59: Sensitivity analysis

Additional provisions of €932,059 (2018: €2,298,524) were set aside on account of: payroll costs amounting to €382,389 (2018: €1,139,519), interest expense of €63,772 (2018: €43,616) and €485,897 recognised directly in equity (2018: €1,115,390). The reduced amount of additionally recognised provisions is due to the change in the Company's collective agreement, which reduces the employees' rights and thus also the amount of post-employment benefits they are entitled to. The Company reversed €7,667 of provisions set aside for past employment through operating revenues and paid €340,240 of jubilee awards and termination benefits.

	Severance pay	Jubilee awards	Total post-employment benefits
At 1 Jan 2018	**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
Reversal	0	0	0
At 31 Dec 2018	**3,214,729**	**1,187,440**	**4,402,168**
Current employee benefits	176,677	79,522	256,199
Post-employment benefits	126,191	0	126,191
Interest expense	46,539	17,233	63,772
Post-employment benefits paid	-250,441	-89,799	-340,240
Actuarial surplus/deficit	485,897	-7,667	478,230
Reversal	0	0	0
At 31 Dec 2019	**3,799,591**	**1,186,728**	**4,986,319**

Table 60: Movements in provisions for post-employment benefits

3.17 Long-term accrued costs and deferred income

	Assets acquired free-of-charge	Average cost of connection	Co-financing of facility construction	Grants received	Co-financing of meters from cohesion	Co-financing of the eagle-owl project	Other	Total
At 1 Jan 2019	**7,289,118**	**1,993,658**	**143,716**	**105,049**	**543,337**	**0**	**0**	**10,074,879**
Formation	76,822	0	0	33,013	457,691	473,219	44,588	1,085,332
Reversal	-25,804	0	0	-1,343	0	0	-2,403	-29,550
Transfer to revenue	-278,402	-110,299	-9,027	-16,333	-45,962	-5,674	0	-465,697
At 31 Dec 2019	**7,061,734**	**1,883,359**	**134,689**	**120,385**	**955,067**	**467,545**	**42,185**	**10,664,963**

Table 61: Long-term accrued costs and deferred income

The Company recognised €76,822 of additional long-term accrued costs and deferred income in 2019 on account of free-of-charge acquisition of energy facilities of legal and natural persons, while none were recognised in 2018. In 2019, the Company received €363,419 of grant from the European eagle-own conservation project and has claimed €109,799 to cover its eligible costs, reimbursement of which is expected in 2020.

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 €339,064 (2018: €309,959) is equal to the annual depreciation of an individual asset or to a proportion of the co-financed item of fixed assets.

The average connection costs comprise funds collected on account of connections to the power 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 2019, 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, of which €23,092 was received in 2016. Both projects have been completed and in 2019 the Company reversed €1,343 earmarked for the reconstruction of the facility after the earthquake and activated new fixed assets from the SUNSEED project. For completion of the two investments, long-term accruals decreased by €16,333 of depreciation in 2019 and which was recognised under other operating revenue (2018: €24,198).

In 2019, 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 in 2019 of €457,691 accounts for 33% of the cost and installation of those meters. Annual depreciation of €45,962 is calculated on the share of each 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.

3.18 Long-term liabilities

Long-term financial liabilities refer to long-term 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, which 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 may 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 amortised cost, 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 an increase in the cost of the underlying asset until it is made ready for its intended use.

		in EUR
	31.12.2019	31.12.2018
Long-term financial liabilities		
BKS Bank AG	0	1,200,000
SKB d. d.	0	608,000
Bank Sparkasse d. d.	625,000	2,000,000
Intesa Sanpaolo Bank	9,650,000	10,850,000
European Investment Bank	23,400,000	18,700,000
Total	**33,675,000**	**33,358,000**
Current amount of long-term liabilities	-4,155,556	-6,808,000
Total	**29,519,444**	**26,550,000**
Total long-term liabilities	**29,519,444**	**26,550,000**

Table 62: 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 is approved and selected.

Additional borrowings of €7,000,000 were raised in 2019 for the purpose of financing investments in the energy infrastructure.

Total amount of borrowings matures by the end of December 2031. The value of borrowings that fall due over a period of more than five years from the reporting date amounts to €20,769,444. In 2018, the value of borrowings that fell due over a period of more than five years from the reporting date amounted to €21,308,000.

Interest rate agreed on one item of borrowings is one-month EURIBOR and a bank mark-up of 1.16%, while annual interest rates on the other seven borrowings are fixed ranging from 0.661% to 1.083%. Interest on borrowings is calculated and paid monthly or quarterly.

3.19 Lease liabilities

Lease liabilities arise on contracts for lease of assets, the value of which was calculated in accordance with provisions of SAS 1.

			in EUR
		Adoption of IFRS 16	
	31.12.2019	01.01.2019	31.12.2018
Long-term lease liabilities	267,466	283,884	0
Short-term lease liabilities	33,708	47,578	0
Total lease liabilities	**301,174**	**331,462**	**0**

Movements in lease liabilities in 2019:

At 31 Dec 2018	**0**
Changes due to the adoption of IFRS 16	331,462
At 1 Jan 2019	**331,462**
Increase	22,126
Interest	5,817
Lease payments	-53,775
Decrease due to change in lease values	-1,722
Derecognition	-2,735
At 31 Dec 2019	**301,173**

3.20 Short-term liabilities

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

		in EUR
	31.12.2019	**31.12.2018**
SHORT-TERM FINANCIAL LIABILITIES		
Current amounts of long-term borrowings	4,155,556	6,808,000
Short-term revolving credit raised from Nova KMB	0	500,000
Total short-term financial liabilities to banks	**4,155,556**	**7,308,000**
Dividends payable	5,229	5,227
Short-term lease liabilities	33,708	0
Total short-term financial liabilities	**4,194,493**	**7,313,227**
SHORT-TERM OPERATING LIABILITIES		
Liabilities to group companies	26,548	25,711
Supplier payables	4,445,419	6,643,518
Payables for advances	19,819	23,236
Total short-term supplier payables	**4,491,786**	**6,692,464**
Liabilities to group companies	1,732,720	1,578,715
Payables to the Sate and other institutions	284,942	102,748
Other liabilities	59,721	122,141
Total other short-term operating liabilities	**2,077,383**	**1,803,604**
Total short-term operating liabilities	**6,569,169**	**8,496,068**
TOTAL SHORT-TERM LIABILITIES	**10,763,662**	**15,809,296**

Table 63: Short-term liabilities

Short-term liabilities to banks include instalments of long-term borrowings that mature in 2020.

Compared to the end of the previous year, operating liabilities decreased by €1,926,899 mainly due to a reduction in supplier payables by €2,200,678 and €62,420 of liabilities arising from assignment and payables to SODO, while payables to employees and the State increased by €182,194 on account of the corporate income tax payable.

Short-term liabilities to employees are payables for December wages and the 2019 performance bonus amounting to €154,005 and payable in accordance with collective agreement for the industry. Final amount of the profit generated by the Company was recognised in the middle of March 2020, when SODO issued a preliminary account settlement for the financial year 2019. The difference between the advance payment of bonus for the financial year 2019 and the final amount was recognised in costs in December 2019.

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

3.21 Short-term accrued costs and deferred income

		in EUR
	31.12.2019	**31.12.2018**
VAT in advances granted	1,914	2,394
Short-term deferred income	0	0
Accrued costs	619,866	674,306
Total	**621,780**	**676,700**

Table 64: Short-term accrued costs and deferred income

Short-term accrued costs include VAT on advances granted.

The Company reports no sort-term deferred income either in 2019 or 2018.

Provisions on account of annual leave not utilised amount to €599,192 in 2019 (2018: €653,215), while €18,397 of provisions was set aside for interest payable on borrowings as at 31 December 2019. The Company is expected to receive the invoice in 2020.

				in EUR
	VAT in advances granted	**Short-term deferred income**	**Accrued costs**	**Total**
At 1 Jan 2018	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**
Increase	0		617,589	617,589
Decrease	-479	0	-672,029	-672,508
At 31 Dec 2019	**1,914**	**0**	**619,866**	**621,780**

Table 65: Movements in short-term accrued costs and deferred income

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

4. NOTES TO THE INCOME STATEMENT

The Company compiles its income statement under provisions of SAS 21.6 (2016) in Format I.

In accordance with the newly adopted SAS 15 (2019), revenue is recognised when it is reasonable to expect that the entity will receive the consideration.

Sales revenue is recognised when the Company fulfils (or is in the process of fulfilling) its contractual obligations. A contractual obligation is the Company's performance obligation to supply or render to the customer the contractually agreed (promised) goods or services. The Company fulfils its performance obligation on transfer of the contractually agreed goods or services to the customer. The goods or services are deemed transferred when the customer acquires (or is in the process of acquiring) control of those goods and services. The customer obtains control of the goods or services when he or she acquires the right to decide on their use and the right to practically all the remaining benefits of those goods or services. Such control also includes the ability to prevent others from directing the use of the goods or services or gain benefits from those goods and services. Benefits from goods or services comprise potential cash flows (receipts or cost savings) that can be obtained in different ways either directly or indirectly.

The Company achieved revenues:

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

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 2019 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 the services are rendered on behalf of SODO and the Company issues monthly invoices to SODO 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 for determining the regulatory framework and network charges for the electricity distribution system. The legal Act contains Annex 1 - Parameters for setting network charges for the regulatory period from 1 January 2019 to 31 December 2021. Pursuant to this Act, on 11 December 2018, the Energy Agency by decision no. 211-42/2018-58/452 laid down the regulatory framework for the distribution system operator's activity during the regulatory period from 1 January 2019 to 31 December 2021. An Annex to the contract was concluded with SODO for the period from 2019 to 2021.

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
	2019	**2018**
Net sales		
- electricity	0	0
- infrastructure rent	17,169,503	17,094,678
- other rent	383,811	387,447
- services SODO	20,617,738	18,455,979
- other services	1,761,888	2,174,194
- merchandise	21,116	53,900
Total	**39,954,056**	**38,166,199**
Capitalised own products and services	**9,571,803**	**7,812,498**
Other operating revenue from:		
- drawing up provisions	432,888	1,668,929
- sale of fixed assets	33,952	61,519
- recovered written-off receivables	7,185	27,437
- received subsidies	94,327	63,332
- insurance proceeds	562,257	195,593
- other operating revenues	16,922	17,389
Total	**1,147,531**	**2,034,200**
Total operating revenue	**50,673,389**	**48,012,897**

Table 66: Operating revenue

Net sales revenues increased by €1,787,857 compared to the previous year mainly on account of an increase in the preliminary settlement of account for services provided for SODO (an increase of €2,161,759). Revenues from drawing provisions decreased by €1,236,041), particularly due to the reversal of provisions for jubilee awards in 2018. Revenues from services for the market fell by €412,306. All revenues generated in 2019 were achieved from sales in the domestic market.

In 2019, capitalised own products and services rose by €1,759,305.

		in EUR
Other operating revenue from utilisation of provisions:	**2019**	**2018**
Depreciation of fixed assets acquired free of charge	278,402	279,152
Depreciation of FA built from the average connection costs	110,299	110,299
Use of provisions for co-financing of energy facilities construction	9,027	9,201
Reversal of provisions for jubilee awards and termination benefits	7,667	1,248,886
Reversal of provisions for unutilised annual leave	27,492	21,390
Total	**432,888**	**1,668,929**

Table 67: 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 that were written-off previously include an amount of receivables, which were already eliminated from accounting records, but were subsequently settled in 2019.

Subsidies received contain State grant for the employment of disabled workers above the required quota, revenues from the drawing of accruals of the SUNSEED project, utilisation of cohesion funds for electricity counters and funds from the eagle-owl conservation project, all 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 €366,663 in 2019 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 groups does not include €241,540 of revaluation expenses, which are reported in the income statement under write-offs.

Leto	Production costs	Selling expenses	General and administrative expenses	Total
2018	30,707,148	1,718,174	7,827,593	40,252,916
2019	32,825,139	1,376,392	7,368,411	41,569,942

Table 68: Analysis of costs by functional groups

		in EUR
Costs by nature	**2019**	**2018**
Cost of electricity and merchandise sold	11,514	28,732
Cost of materials	5,664,356	4,345,037
Cost of services	5,585,081	5,670,170
Employee benefits	17,197,327	17,847,179
Amortisation and depreciation	12,569,703	11,769,617
Other operating expenses	139,661	141,413
Total	**41,167,642**	**39,802,149**

Table 69: Costs by primary types

The cost of electricity and goods sold comprise €11,514 of the cost of merchandise sold (2018: €28,732). Since the financial year 2017, SODO has been purchasing electricity on account of losses for all electricity distribution companies in Slovenia and thus, the Company has not recognised any cost of electricity purchased.

The 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 total €4,784,495 (2018: €3,528,448); cost of fuel amounting to €404,443 (2018: €419,856); electricity in the amount of €183,217 (2018: €166,667); office supplies amounting to €63,571 (2018: €49,701); cost of small tools amounting to €157,107 (2018: €121,233), and the cost of ancillary material. 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 amounting to €1,731,310 (2018: €1,613,869); cost of health, advisory, legal and educational services, software and studies of total €689,509 (2018: €834,055); the cost of insurance premiums and banking services amounting to €1.076.294 (2018: €1,032,410); cost of computer processing in the amount of €738,352 (2018: €787,429); telephone and postal services of €375,259 (2018: €382,199); and other costs incurred during ordinary operations such as postal services, telecommunications services, cleaning services and similar, amounting to €974,357 (2018: €1,020,218).

The cost of services includes €94,751 of remuneration paid to six members of the Supervisory Board (2018: €97,518). 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 2019:

										in EUR
		of that:								
Member of the Supervisory Board	Gross earnings in in the accounting year	Remuneration for performing a function	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	**17,023**	15,538	165	1,320	0	0	0	0	1,507	90
Nikolaj Abrahamsberg -Deputy Chairman	**13,826**	11,394	0	1,870	562	0	0	0	1,224	73
Rudolf Pečovnik	**18,363**	10,358	165	1,595	1,160	2,825	1,100	1,160	1,625	97
Darko Ličen	**17,731**	10,358	165	1,870	0	4,238	1,100	0	1,569	94
Primož Krnel	**10,922**	9,052	0	1,870	0	0	0	0	967	58

Ivan Namar	**10,922**	9,052	0	1,870	0	0	0	0	967	58
Matej Loncner	**7,203**	0	0	0	0	5,650	1,375	178	634	38
Valdi Morato	**1,306**	1,306	0	0	0	0	0	0	116	7
Marko Fičur	**1,306**	1,306	0	0	0	0	0	0	116	7
Total	**98,602**	**68,364**	**495**	**10,395**	**1,722**	**12,713**	**3,575**	**1,338**	**8,725**	**522**

Table 70: Remuneration of the Supervisory Board members

A total €19,756 of remuneration was paid in 2019 to other members of the Audit Committee.

Of total cost of the audit, advisory and other financial services amounting to €101,019 (2018: €96,809) €8,500 was paid to the auditor for the audit of the Annual Report.

		in EUR
Company	**Ernst&Young**	**Ernst&Young**
	2019	**2018**
Audit of the annual report	8,500	8,400
Other assurance services	1,000	1,000
Other non-audit services	400	400
Total audit fees	**9,900**	**9,800**

Table 71: Cost of the Annual Report audit

		in EUR
Employee benefits	**2019**	**2018**
Payroll cost	12,185,669	11,920,843
Cost of supplementary pension insurance	626,080	628,362
Cost of contributions and other levies on salaries	2,024,799	2,041,816
Other labour costs	2,360,779	3,256,156
Total	**17,197,327**	**17,847,179**

Table 72: Employee benefit costs

Other labour costs include reimbursement to employees, accident insurance, social assistance, and the cost of provisions for severance pay and jubilee awards in the amount of €1,459,387 (2018: €1,139,519). Costs of the annual leave bonus amounted to €901,392 in 2019 (2018: €898.533). Labour costs include €599,192 of expenses for unused annual leave in the financial year 2019 (2018: €653,215).

A total 474 employees received salary based on the collective agreement in 2019. Average number of employees in 2019 was 471, six fewer than the average headcount in 2018. Nine employees received €653,419 of salary based on the employment contracts, which are not subject to the tariff part of the collective agreement (in 2018 ten employees received €692,419), not including President of the Management Board.

Gross remuneration paid to members of the Management Board in 2019:

					in EUR
	Fixed part of salary	**Reimbursement of expenses**	**Bonus - insurance premium**	**Other receipts and other bonuses**	**Total**
Blažica Uroš	**96,277**	**1,338**	**192**	**4,026**	**101,833**

Table 73: Gross remuneration paid to the Management Board members in 2019

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 used for the calculation of depreciation in 2019. The same depreciation rates were also applied in the financial year 2018.

	2019	2018
Intangible assets (excluding software)	3.33 - 20.00	3.33 - 20.00
Computer hardware and software	33.3	33.3
Real estate (land and facilities)	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 74: Depreciation rates

		in EUR
	2019	2018
Write-downs		
Amortisation of intangible assets	1,492,175	1,128,706
Depreciation of facilities	5,808,397	5,669,086
Depreciation of equipment	5,209,552	4,962,883
Depreciation of investment property	9,121	8,942
Depreciation of the right-of-use assets	50,457	0
Total amortisation and depreciation	12,569,703	11,769,617
Revaluation expenses from:		
- fixed assets	218,500	114,550
- current assets	23,040	62,025
Total revaluation expenses	241,540	176,574
Total write-downs	**12,811,242**	**11,946,191**

Table 75: Write-downs

In 2019, the Company recognised €218,500 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. Of total amount, €96,286 refers to facilities, €119,861 to equipment and €317 to intangibles).

Operating expenses from revaluation of current assets in the amount of €23,040 refer to allowances and write-off of receivables for the use of network and services, and accrued interest receivable.

		in EUR
	2019	2018
Other operating expenses		
Provisions for compensation claims	0	0
Total provisions	0	0
Duties independent of profit or loss	39.739	37.832
Environmental protection expenditure	91.845	90.714
Awards to students on work experience	8.076	12.868
Total other costs	139.661	141.413
Total other operating expenses	**139.661**	**141,413**

Table 76: Other operating expenses

Majority of levies that are independent of profit or loss refers to various types of fees and taxes. 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, recognised when there is no doubt about their size or settlement.

		in EUR
	2019	**2018**
Financial income from shares and stakes	205,920	5,920
Financial income from loans	42	79
Financial income from operating receivables	22,316	20,372
Total	**228,279**	**26,370**

Table 77: Financial income

Income from shares and stakes comprises €200,000 dividends from the subsidiary E 3 received in 2018 and accrued dividends from investments in Zavarovalnica Triglav, d. d., in the amount of €5,920, the same as in 2018).

Interest is charged to customers using the network and services on late payments and on the amount of receivables outstanding as at 31 December 2019.

4.4 Financial expenses

		in EUR
	2019	**2018**
Expenses from bank borrowings	252,055	268,173
Expenses from other financial liabilities	69,590	43,616
Expenses from operating liabilities	1,483	3,146
Expenses from investment impairment and write-off	0	38,580
Total	**323,128**	**353,515**

Table 78: 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 under financial expenses.

Expenses from other financial liabilities comprise interest from actuarial calculations and in interest on leases.

4.5 Other income

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

		in EUR
	2019	**2018**
Other income	404	7,035
Total	**404**	**7,035**

Table 79: Other income

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

4.6 Other expenses

		in EUR
	2019	**2018**
Compensation paid	2,717	43,307
Other expenses	76,456	53,945
Total	**79,173**	**97,252**

Table 80: Other expenses

Compensation is paid for damages caused during the construction or maintenance of devices mainly to natural persons on their land.

Other expenses comprise financial aid and donations of total €30,072 (2018: €32,065), rounding up of figures and other expenses not indispensable for business.

4.7 Current tax and deferred tax assets/liabilities

Income tax payable by the Company in 2019 amounts to €1,086,314 (2018: €976,143).

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. The Company sets aside provisions for tax amounts that the Company anticipates will have to pay to the tax authorities as appropriate.

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 using tax rates (and tax legislation) applicable at the balance sheet date and which are expected to be in effect when the related deferred tax asset is realised or the deferred tax liabilities settled and, when taxable profits are available against which the 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.

Corporate income tax for FY 2019		in EUR
	2019	2018
Pre-tax profit	**9,090,590**	**7,616,812**
Revenues that reduce the tax base	-216,939	-657,800
Expenses that increase the tax base	1,054,840	1,432,341
Expenses that reduce the tax base	-148,493	-168,883
Expenses that reduce the tax base (error elimination)	0	0
Tax base reduction on account of tax relief	-3,783,722	-2,526,992
Other	-278,832	-557,882
Tax base	**5,717,444**	**5,137,595**
Tax rate	19%	19%
Income tax payable	**-1,086,314**	**-976,143**
Effective tax rate on current tax	**11.95%**	**12.82%**
Increase/decrease in deferred tax	16,006	-34,689
Effective tax rate	**11.77%**	**13.27%**

Table 81: Corporate income tax

The Company reports €1,086,314 of income tax payable as at 31 December 2019 (2018: €976,143). The Company utilised €2,797,454 of investment relief (2018: €1,551,258); the allowance for voluntary supplementary pension insurance in the amount of €625,303 (2018: €614,418); €327,017 of relief for employment of disabled persons (2018: €321,906); and other relief amounting in total to €33,947 (2018: €39,409).

	2019		2018	
Difference between actual and computed tax rate	**Rate**	**Amount**	**Rate**	**Amount**
Pre-tax profit		**9,090,590**		**7,616,812**
Income tax at applicable tax rate	19.00%	1,727,212	19.00%	1,447,194
Amounts increasing the tax base		**202,376**	**0**	**272,201**
decrease in expenses to tax recognised level		200,420		272,145
increase in revenue to taxable level		0		0
exempt expenses, for exempt dividends		1,956		56
change in accounting method		0		0
Amounts lowering the tax base		**124,366**		**263,124**
increase in expenses to tax recognised level		28,214		32,088
decrease in revenue to taxable level		41,218		124,982
change due to transition to a new method of accounting (change in the tax base for post-employment benefits already taxed)		54,934		106,054
elimination of error from the previous period		0		0
Tax relief		**718,907**		**480,129**
applied, decreasing the amount of tax payable		718,907		480,129
Income tax payable for the year	**11.95%**	**-1,086,314**	**12.82%**	**-976,143**
Increase/decrease in deferred tax		16,006		-34,689
Tax recognised in profit or loss	**11.77%**	**-1,070,308**	**13.27%**	**-1,010,832**

Table 82: Reconciliation of taxes for the financial year

Corporate income tax and deferred taxes in 2019:

Tax expense recognised in profit or loss		in EUR
	2019	**2018**
Income tax payable for the current year	-1,086,314	-976,143
Deferred tax assets/liabilities	16,006	-34,689
Other taxes not reported under other items		
Tax expense recognised in profit or loss	**-1,070,308**	**-1,010,832**

Changes in deferred taxes recognised in profit or loss		EUR
	2019	**2018**
At 1 Jan	**515,563**	**550,253**
Provisions	18,108	-29,771
Receivables	-2,102	-4,919
Tax losses	0	0
Investment impairment	0	0
Changes in deferred tax assets/liabilities	**16,006**	**-34,689**
At 31 Dec	**531,569**	**515,563**

Changes in deferred taxes recognised in equity		in EUR
	2019	**2018**
At 1 Jan	**112,627**	**7,237**
Change in the revaluation of deferred taxes on account of provisions	37,386	105,390
Assets	0	0
Liabilities	0	0
Changes in deferred tax assets/liabilities	**37,386**	**105,390**
At 31 Dec	**150,013**	**112,627**

4.8 Net profit

		in EUR
	2019	**2018**
Operating profit or loss	9,264,208	8,034,174
Financial profit or loss	-94,850	-327,145
Extraordinary operating profit or loss	-78,769	-90,217
Profit before tax	**9,090,590**	**7,616,812**
Corporate income tax	-1,086,314	-976,143
Deferred tax assets	16,006	-34,689
Net profit	**8,020,282**	**6,605,980**

Table 83: Net profit

In the financial year 2019, the Company reported net profit of €8,020,282, up 22.5% on the plan.

At the time of drawing up the Annual Report, the Management Board allocated €5,378,790 of net profit to other profit reserves in accordance with Article 11 of the Articles of Association. Of that, €268,939 was allocated to legal reserves and €5,109,850 to other profit reserves. The difference of €2,629,746 remains unappropriated.

4.9 Total comprehensive income for the year

Total comprehensive income for the period amounts to €7,578,875 and consists of €7,104 relating to the revaluation of available-for-sale investments (shares of Zavarovalnica Triglav d.d.), and negative amount of other components of comprehensive income on account of actuarial gains in the amount of €448,511 (as the balance of €485,896.99 of actuarial gains reported in 2019 and €37,386 of the revaluation surplus adjustment arising from deferred tax recognised on actuarial gains).

			in EUR
	pojasnilo	**2019**	**2018**
20. NET PROFIT OR LOSS OF THE ACCOUNTING PERIOD	**4.9.**	**8,020,282**	**6,605,980**
Fair value reserve		7,104	3,315
Other components of comprehensive income - net effect		-448,511	-1,007,471
Total comprehensive income for the year		**7,578,875**	**5,601,824**

5. NOTES TO THE CASH FLOW STATEMENT

Cash flow statement is compiled using the direct method, format I according to SAS 22.6 (2016). 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 revenue to cover the cost of network use for the account of SODO, compensations, receipts from co-financing, and network charge for connected load, none of which are recognised as the revenue of the Company. 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 2019 by €2,121,309 compared to 2018, mainly on account of 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 Cash receipts from investing activities

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

5.4 Cash disbursements for 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 €16,671,770 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 2019, the Company raised €6,978,000 of long-term borrowings from Banca Intesa Sanpaolo for financing its investments, and withdrew €8,450,000 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 €15,633,000, of which €8,950,000 refers to repayment of a short-term revolving credit and €6,683,000 to repayment of current amounts of long-term borrowings. Financing expenses also refer to dividends paid in the amount of €2,200,470.

5.7 Net cash for the period

The Company generated €99,514,017 of cash inflows in 2019 (2018: €91,680,242) and €98,838,544 of cash outflows (2018: €94,354,488). 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 is the cash inflow of €2,674,247 (2018: cash outflow of €2,674,247).

The Company generated net cash inflow from operating activities in the amount of €15,808,695. Net cash used in investing activities amounts to €12,425,371 and is a result of major investment activity, while net cash outflows for financing activities of €2,707,851 refers to dividends paid to the shareholders.

6. 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% holding),
- Kneša, d. o. o., from Most na Soči, an associate of subsidiary E3 d. o. o., and therefore indirectly related also to the parent company Elektro Primorska, d. d.

As at 31 December 2019, Elektro Primorska reports the following receivables from and liabilities to related companies in its balance sheet:

		in EUR
Receivables:	**31.12.2019**	**31.12.2018**
Receivables due from E3, d. o. o.	28,945	31,999
Receivables due from Stelkom, d. o. o.	61,874	69,670
Total	**90,818**	**101,670**

Liabilities:	**31.12.2019**	**31.12.2018**
Liabilities to E3, d.o.o.	26,700	26,693
Liabilities to Informatika, d. d.	192,550	1,210,400
Total	**219,250**	**1,237,093**

Table 84: Receivables and liabilities

Elektro Primorska recognised the following revenues and expenses from transactions with its related parties in the 2019 income statement:

		in EUR
Revenues:	**2019**	**2018**
Net revenues from sales E3, d. o. o.	354,625	406,762
Net revenues from sales Stelkom, d. o. o.	134,314	129,152
Net revenues from sales Kneša, d. o. o.	7,435	0
Default interest Stelkom d. o. o.	0	55
Total	**496,374**	**535,914**

Expenses:	**2019**	**2018**
Cost of purchase of material and services E3, d. o. o.	198,468	188,765
Costs of services rendered by Informatika, d. d.	833,209	850,139
Total	**1,031,677**	**2,474,695**

Table 85: Revenue and expenses

Management 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 involved.

7. 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 2019, and thus none of the Company's properties is either mortgaged or subject to a lien.

		in EUR
	31.12.2019	**31.12.2018**
Liabilities for guarantees		
Liabilities for pledged real estate	0	0
Bank guarantees issued	29,084	95,144
Total	**29,084**	**4,833,593**

Table 86: Contingencies

8. SUBSEQUENT EVENTS

In the period subsequent to the reporting date (31 December 2019) and the report of an independent auditor (27 May 2020), the Company received preliminary statement of accounts from SODO for the 2019 regulation year. The preliminary 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 2019, the contractual value of services and rental of electricity infrastructure already charged is by €2,630,538 lower than the values established on the basis of the preliminary settlement of accounts (rent outstanding in the amount of €190,511 and service charge of €2,440,027). Therefore, the Company increased revenues from services under the contract with SODO by €2,440,027 and the value of rental income from the lease of energy infrastructure by €190,511.

In March 2020, the WHO and the Government of the Republic of Slovenia declared global Covid-19 coronavirus pandemic.

The Company has taken all necessary measures to contain the spread of the infection and to protect the health of employees and their families, and ensure business continuity. Thus, the Company adapted its operations in a manner that ensures social distancing and the use of protective equipment, restricted access to common areas and closed all access to external parties. In addition, instructions and recommendations were issued for the implementation of work processes and responsible behaviour both within the Company and in the field work.

To further reduce the risk, the Company made arrangements for some of its employees to work from home over the period from 13 March to 31 May 2020 and recommended the use of their annual leave.

Due to the pandemic and the prevailing conditions, the Company estimates that in 2020 its revenue will drop by €2.9 million, while incurring an additional €235 thousand of labour costs as the crisis allowance and expenditures for the purchase of protective equipment. On the other hand, the Company expects €582 thousand of State support by means of exemption from payment of contributions, which will be recognised as operating income.

The Company is making regular repayments of its borrowings and settles its tax liabilities when due, and currently it has no liquidity issues due to the pandemic.

9. 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 compile financial statements 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 (ZGD), 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 financial 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 2019.

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 amounts of share capital and share premium were 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 another.

In the balance sheet as at 31 December 2019, after the allocation of results and an unchanged share capital, receivables and liabilities between activities were offset through other profit reserves.

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	Headcount from working hours in activity x100 Total headcount from working hours
Key 2	Share of present value of intangible assets and property, plant and equipment	Present value of fixed assets in activity x100 Present value of all fixed assets
Key 3	Share of revenues	Revenues in activityx100 Total revenues
Key 4	Share of material consumption	Consumption of material from the warehouse for activity x 100 Total consumption of material from the warehouse
Key 5	Share of costs of materials and services	Consumption of material and services in activity x100 Total consumption of material and services

9.4 Sub-balance sheet according to the Energy Act as at 31 December 2019

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	**3,825,692**	**12,325**	**3,838,017**	
1. Long-term rights	3,737,666	12,316	3,749,982	key 2
2. Other long-term deferred costs	45,540	9	45,549	key 2
3. Intangible assets being acquired	42,486	0	42,486	key 2
II. Property, plant and equipment	**189,100,304**	**1,359,950**	**190,460,253**	
1. Land	4,922,370	681,682	5,604,052	key 2
2. Buildings	126,165,541	565,017	126,730,559	key 2
3. Equipment	55,225,209	112,877	55,338,086	key 2
4. Right-of-use assets	298,254	370	298,623	key 2
5. Property, plant and equipment being acquired	2,488,930	4	2,488,933	key 2
a.) Property, plant and equipment under construction	2,488,483	0	2,488,483	key 2
b.) Advances for acquisition of property, plant and equipment	447	4	451	
III. Investment property	**0**	**220,070**	**220,070**	**key 2**
IV. Long-term investments	**6,467,596**	**348,996**	**6,816,593**	
1. Investments in shares of group companies	6,188,102	333,915	6,522,017	key 1
2. Other shares and stakes	279,494	15,082	294,576	key 1
V. Long-term operating receivables	**34,481**	**266,990**	**301,470**	
1. Long-term trade receivables	21,505	251,359	272,864	
2. Other long-term operating receivables	12,976	15,631	28,606	key 1
VI. Deferred tax assets	**648,263**	**33,319**	**681,583**	**key 1,3**
Total long-term assets	**200,076,336**	**2,241,650**	**202,317,986**	
B. Current assets:				
I. Inventories	**1,162,181**	**58,029**	**1,220,210**	
1. Materials	1,162,181	52,661	1,214,842	key 1, 4
2. Unfinished services	0	0	0	
3. Products and merchandise	0	5,368	5,368	
II. Short-term investments	**0**	**0**	**0**	
1. Short-term loans to others	0	0	0	key 1
III. Short-term operating receivables	**5,969,811**	**505,263**	**6,475,075**	
1. Operating receivables due from the group	178	28,766	28,945	key 3
2. Trade receivables	5,821,097	470,669	6,291,766	key 3
3. Operating receivables due from others	148,536	5,829	154,364	key 3
IV. Cash and cash equivalents	**996,898**	**1,968,734**	**2,965,633**	**key 3**
Total current assets	**8,128,891**	**2,532,026**	**10,660,917**	
C. Short-term deferred costs and accrued income	2,794,735	19,704	2,814,439	key 3
TOTAL ASSETS	**210,999,962**	**4,793,380**	**215,793,342**	

Table 87: Sub-balance sheet according to the Energy Act (assets) as at 31 December 2019

				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	**78,007,575**	**376,242**	**78,383,817**	
1. Share capital	78,007,575	376,242	78,383,817	
II. Share premium	**45,885,198**	**421,390**	**46,306,588**	
III. Profit reserves	**29,516,722**	**3,485,523**	**33,002,245**	
1. Legal reserves	915,850	4,417	920,267	
2. Reserves for treasury shares and stakes	0	0	0	
3. Treasury shares and stakes (as a deductible item)	0	0	0	
4. Other profit reserves	28,600,872	3,481,106	32,081,977	
IV. Revaluation surplus	**-1,283,434**	**-69,255**	**-1,352,689**	**key 1**
V. Retained earnings	**0**	**0**	**0**	
VI. Net profit or loss for the year	**2,512,809**	**116,936**	**2,629,746**	
Total capital	**154,638,870**	**4,330,836**	**158,969,707**	
B. Provisions and long-term accrued costs and deferred income	**15,387,476**	**263,807**	**15,651,283**	
1. Provisions	4,731,029	255,290	4,986,319	key 1
2. Long-term accrued costs and deferred income	10,656,447	8,517	10,664,963	
C. Long-term liabilities	**29,784,832**	**2,078**	**29,786,910**	
I. Long-term financial liabilities	**29,784,832**	**2,078**	**29,786,910**	
1. Long-term financial liabilities to banks	29,519,444	0	29,519,444	
3. Other long-term financial liabilities	265,388	2,078	267,466	
D. Short-term liabilities	**10,574,106**	**189,556**	**10,763,662**	
I. Short-term financial liabilities	**4,193,277**	**1,216**	**4,194,493**	
1. Short-term financial liabilities to banks	4,155,556	0	4,155,556	
2. Other short-term financial liabilities	37,722	1,216	38,937	key 1
II. Short-term operating liabilities	**6,380,829**	**188,341**	**6,569,169**	
1. Short-term operating liabilities to the group	24,455	2,245	26,700	key 5
2. Supplier payables	4,370,013	75,407	4,445,419	key 2, 5
3. Short-term operating liabilities from advances	11,376	8,291	19,666	key 3
4. Other short-term operating liabilities	1,974,985	102,398	2,077,383	key 1
Total liabilities	**55,746,414**	**455,441**	**56,201,855**	
E. Short-term accrued costs and deferred income	**614,677**	**7,103**	**621,780**	**key 3**
F. Liabilities from other activities		**0**	**0**	
TOTAL EQUITY AND LIABILITIES	**210,999,962**	**4,793,380**	**215,793,342**	

Table 88: Sub-balance sheet according to the Energy Act (equity and liabilities) as at 31 December 2019

9.5 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				
I. Intangible 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 income	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 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. Share premium	**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 income	**14,235,231**	**241,816**	**14,477,047**	
1. Provisions		230,927	4,402,168	key 1
2. Long-term accrued costs and deferred income		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 the group	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 income	**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 90: Sub-balance sheet according to the Energy Act (equity and liabilities) as at 31 December 2019

9.6 Profit or loss account according to the Energy Act for the year 2019

				in EUR
2019	ED infrastructure and services for SODO	Market activities	Total	Criteria for allocation of common activities
1. Net sales revenue	**37,787,541**	**2,166,515**	**39,954,056**	
a. on domestic market	37,787,541	2,166,515	39,954,056	key 3
2. Change in the value of inventory of unfinished services	**0**	**0**	**0**	
3. Capitalised own products and services	**9,570,552**	**1,251**	**9,571,803**	
4. Other operating revenue	**1,139,679**	**7,851**	**1,147,531**	**key 1, 2**
5. Cost of goods, materials and services	**-10,380,301**	**-880,651**	**-11,260,952**	
a. cost of goods and material sold and cost of material used	-5,030,507	-645,364	-5,675,871	key 1, 5
b. cost of services	-5,349,794	-235,287	-5,585,081	key 2, 5
6. Employee benefits	**-16,384,884**	**-812,443**	**-17,197,327**	
a. cost of salaries	-11,591,677	-593,992	-12,185,669	key 1
b. cost of supplementary pension insurance of employees	-609,767	-16,313	-626,080	key 1
c. social security costs	-1,933,289	-91,509	-2,024,799	key 1
d. other labour costs	-2,250,151	-110,628	-2,360,779	key 1
7. Write-downs	**-12,740,996**	**-70,246**	**-12,811,242**	
a. amortisation and depreciation	-12,515,889	-53,814	-12,569,703	key 2
b. operating expenses from revaluation of fixed assets	-218,217	-282	-218,500	key 2
c. operating expenses from revaluation of current assets	-6,890	-16,150	-23,040	key 3
8. Other operating expenses	**-129,742**	**-9,919**	**-139,661**	**key 1**
9. Financial income from shares and stakes	**195,377**	**10,543**	**205,920**	
a. in group companies	189,760	10,240	200,000	key 1
c. in other companies	5,617	303	5,920	key 1
10. Financial income from loans	**40**	**2**	**42**	
a. granted to others	40	2	42	key 1
11. Financial income from operating receivables	**21,624**	**693**	**22,316**	
a. due from others	21,624	693	22,316	key 3
12. Financial expenses from investment impairment and write-off	**0**	**0**	**0**	**key 6**
13. Financial expenses from financial liabilities	**-316,383**	**-5,262**	**-321,645**	
a. bank borrowings	-251,785	-270	-252,055	
b. other financial liabilities	-64,597	-4,992	-69,590	key 5
14. Financial expenses from operating liabilities	**-1,373**	**-110**	**-1,483**	
a. supplier payables and bills of exchange	-1,161	-93	-1,254	key 5
b. other operating liabilities	-212	-18	-230	key 5
15. Other income	**383**	**21**	**404**	**key 1**
16. Other expenses	**- 75,252**	**-3,920**	**-79,173**	**key 1**
PRE-TAX PROFIT OR LOSS OF THE ACCOUNTING PERIOD	**8,686,266**	**404,324**	**9,090,590**	
17. Income tax	**-1,037,915**	**-48,399**	**-1,086,314**	
18. Deferred tax assets	**15,294**	**712**	**16,006**	**key 1, 3**
19. NET PROFIT OR LOSS OF THE ACCOUNTING PERIOD	**7,663,645**	**356,636**	**8,020,282**	

Table 91: Profit or loss account according to the Energy Act for the year 2019

9.7 Profit or 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 benefits	**-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. Finančni prihodki iz danih posojil	**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. supplier payables and bills of exchange	**-2,417**	**-323**	**-2,740**	**key 5**
b. other operating liabilities	-398	-8	-406	key 5
15. Other income	**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 or loss account according to the Energy Act for the year 2018

9.8 Cash flow statement according to the Energy Act for the year 2019

				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	**75,089,325**	**2,749,863**	**77,839,188**	
a. Proceeds from sale of products and services	41,329,952	2,718,214	44,048,166	K-1, K-3, K-4, K-5
b) Other receipts from operating activities	33,759,374	31,648	33,791,022	K-1, K-2, K-3, K-5
2. Expenditure from operating activities	**-59,831,221**	**-2,192,790**	**-62,024,011**	
a. Expenditure for purchase of materials and services	-8,747,869	-1,156,532	-9,904,401	K-3, K-4, K-5
b) Expenditure for salaries and employees' shares in profits	-16,415,995	-892,485	-17,308,480	K-1
c) Expenditure for all kinds of contributions	-2,756,101	-132,960	-2,889,061	K-1, K-3
d. Other expenditure from operating activities	-31,911,256	-10,813	-31,922,069	K-4, K-5
3. Net cash from operating activities	**15,258,104**	**557,073**	**15,815,177**	
B. CASH FLOWS FROM INVESTING ACTIVITIES				
4. Cash receipts from investing activities	**6,233,955**	**12,874**	**6,246,829**	
a. Interest and profit shares	215,879	10,838	226,716	K-1, K-3
b) Proceeds from disposal of property, plant and equipment	18,076	2,036	20,113	K-2
c) Proceeds from disposal of short-term investments	6,000,000	0	6,000,000	K-1
5. Cash disbursements for investing activities	**-18,626,340**	**-45,431**	**-18,671,770**	
a. Expenditure for acquisition of intangible assets	-1,465,004	-8,272	-1,473,276	K-2
b) Expenditure for acquisition of property, plant and equipment	-15,161,336	-37,158	-15,198,494	K-2
c) Expenditure for acquisition of short-term investments	-2,000,000	0	-2,000,000	
d. Expenditure for acquisition of long-term investments	0	0	0	K-1
6. Net cash from investing activities	**-12,392,385**	**-32,557**	**-12,424,941**	
C. CASH FLOWS FROM FINANCING ACTIVITIES				
8. Cash receipts from financing activities	**14,771,993**	**656,007**	**15,428,000**	
a. Receipts from long-term borrowings	6,978,000	0	6,978,000	
b) Receipts from short-term borrowings	7,793,993	656,007	8,450,000	
9. Cash disbursements from financing activities	**-17,334,113**	**-808,650**	**-18,142,763**	
a. Interest paid	-309,002	-291	-309,293	K-5
b) Repayments of capital	0	0	0	K-3
c) Cash repayments of long-term borrowings	-6,683,000	0	-6,683,000	
d. Cash repayments of short-term borrowings	-8,255,176	-694,824	-8,950,000	
e. Dividends paid	-2,086,935	-113,535	-2,200,470	K-1
10. Net cash from financing activities	**-2,562,120**	**-152,643**	**-2,714,763**	
11. Net cash inflow or outflow	**303,600**	**371,873**	**675,473**	
D. CLOSING BALANCE OF CASH AND CASH EQUIVALENTS	**996,899**	**1,968,735**	**2,965,633**	
X. Opening balance of cash and cash equivalents	**693,299**	**1,596,862**	**2,290,160**	
Y. CASH FLOWS FOR THE PERIOD	**303,600**	**371,873**	**675,473**	
Closing balance of cash at 31 Dec 2019	**996,899**	**1,968,735**	**2,965,633**	

Table 93: Cash flow statement according to the Energy Act for the year 2019

9.9 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

BUSINESS REPORT OF THE ELEKTRO PRIMORSKA GROUP

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1. PERFORMANCE ANALYSIS OF THE ELEKTRO PRIMORSKA GROUP

Elektro Primorska Group closed the 2019 financial year with net profit of €8,185,293, which is more than planned and achieved in 2018, mainly on account of exceeding the operating plan set by the parent company. The Group's revenues amounted to €149,077,517 in 2019, which is an increase of €15,793,181 or 11.85% compared to the previous year. The largest group of revenues represent operating revenues amounting to €148,827,247 and accounting for 99.83% 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 had €139,751,542 of expenses in 2019, up€14,598,783 compared to 2018. The largest group of expenses are operating expenses amounting to €139,359,202, while the largest share of operating expenses is taken by the costs of goods and materials, which account for 68.82% of total operating expenses and amount to €95,888,683, up €14,612,314 on the previous year.

The assets of the Elektro Primorska Group increased to €247,522,477 as at 31 December 2019, with the largest increase of €37,490,333 reported in non-current assets (disposal groups) held for sale, resulting from discontinued operations and transfer of the assets relating to the subsidiary that is currently in the process of being sold, to non-current assets held for sale. Trade receivables amounting to €6,127,526 account for the majority of current assets as at 31 December 2019 (other than the assets held for sale).

The Group's equity amounted to €167,372,061 as at 31 December 2019, an increase of €5,518,291 compared to the previous year. At the end of 2019, the share of equity in total liabilities of the Group amounted to 67.62%, up 0.68 percentage point compared to the previous year. At the year-end, long-term liabilities of the Group amounted to €4,549,193, up €3,173,983 compared to the previous year, mainly on account of the increase in long-term financial liabilities to banks. Short-term liabilities of the Group of €34,712,222 include non-current liabilities for sale in the amount of €23,343,481

A. THE BASIC FINANCING STATE RATIOS	31.12.2019	31.12.2018
Equity	167,372,061	161,853,771
Equity and liabilities	247,522,477	241,791,894
Equity financing rate	**67.62%**	**66.94%**
Total equity and long-term debts (including provisions) and	212,810,254	204,118,980
long-term accruals	247,522,477	241,791,894
Equity and liabilities	**85.98%**	**84.42%**
Debts	80,150,415	79,938,123
Equity and liabilities	247,522,477	241,791,894
Debt financing rate	**32.38%**	**33.06%**
B. THE BASIC INVESTMENT RATIOS	**31,12,2019**	**31,12,2018**
Assets (at book values)	193,977,627	194,416,974
Assets	247,522,477	241,791,894
Operating fixed assets rate	**78.37%**	**80.41%**
Long-term and short-term investments	1,212,353	1,185,974
Assets	247,522,477	241,791,894
Investment assets rate	**0.49%**	**0.49%**
Non-current assets	196,768,589	197,743,169
Assets	247,522,477	241,791,894

Long-term assets rate	**79.50%**	**81.78%**
C. THE BASIC HORIZONTAL FINANCIAL STRUCTURE RATIOS	31,12,2019	31,12,2018
Equity	167,372,061	161,853,771
Assets (at book values)	193,977,627	194,416,974
Equity to fixed assets rate	**86.28%**	**83.25%**
Liquid assets	2,965,633	3,724,692
Short-term liabilities	34,712,222	37,672,913
Acid test ratio	**8.54%**	**9.89%**
Liquid assets and short-term receivables	9,246,954	36,374,013
Short-term liabilities	34,712,222	37,672,913
Quick ratio	**26.64%**	**96.55%**
Short-term assets	50,753,888	44,048,724
Short-term liabilities	34,712,222	37,672,913
Current ratio	**146.21%**	**116.92%**
D. THE BASIC EFFICIENCY RATIOS	31,12,2019	31,12,2018
Operating revenue	50,319,169	133,117,186
Operating expenses	41,330,450	124,760,471
Operating efficiency ratio	**1.217**	**1.067**
Revenue	50,386,722	133,284,336
Expenses	41,653,578	125,152,759
Total operating efficiency ratio	**1.210**	**1.065**
E. PROFITABILITY RATIOS	31,12,2019	31,12,2018
EBITDA (operating income - operating expenses + AM + revaluation)	21,856,559	21,256,498
Gross operating yield	50,319,169	133,117,186
EBITDA margin	**43.44%**	**15.97%**
EBIT (operating revenue - operating expenses)	8,988,718	8,356,714
Gross operating yield	50,319,169	133,117,186
EBIT margin	**17.86%**	**6.28%**
Net profit or loss	8,185,293	7,028,021
Sales revenue	39,599,431	122,815,658
Net return on revenue	**20.67%**	**5.72%**
Net profit or loss	8,185,293	7,028,021
Average assets	244,657,185	236,564,651
Net return on assets ratio (ROA)	**3.35%**	**2.97%**
Net profit or loss	8,185,293	7,028,021
Average capital (excluding net profit or loss for the year)	160,776,121	156,750,038
Net return on equity ratio (ROE)	**5.09%**	**4.48%**
Total dividends paid for the year	2,200,470	2,549,019
Average share capital	78,473,325	78,562,832
Dividend to share capital ratio	**0.028**	**0.032**
Dividends paid in the current year	2,200,470	2,549,019
Average capital	160,776,121	156,750,038
Dividend to share capital ratio	**1.37%**	**1.63%**
F. SHARES	31,12,2019	31,12,2018
Equity	167,372,061	161,853,771
Number of shares	18,826,797	18,826,797
Number of treasury shares	42,899	42,899
Book value per share (in EUR)	**8.91**	**8.62**
Net profit or loss	8,185,293	7,028,021
Weighted average number of ordinary shares	18,783,898	18,783,955
Diluted average number of ordinary shares	18,783,898	18,783,955
Basic and diluted earnings per share (EUR/share)	**0.44**	**0.37**

Table 95: Key performance indicators of Elektro Primorska Group

2. 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 holds a 47.27% stake, making it an associated company.

The following entities are included in the consolidation; the parent company Elektro Primorska, its subsidiary E 3, which is included in the consolidation as a discontinued operation and the associate Knešca, which is consolidated under the equity method.

The parent company Elektro Primorska reports €158,969,707 of equity as at 31 December 2019. The Company achieved positive result in 2019 and generated €8,020,282 of net profit.

The subsidiary E 3, recognised as a discontinued operation (the parent company signed a contract for the sale of a 100% stake in the subsidiary in 2020), ended the financial year 2019 with a net profit of €382,420. As at 31 December 2019, E 3 reports €14,851,523 of equity.

The associate Knešca generated €137,501 of net profit in 2019, and reports €1,397,987 of capital as at 31 December 2019.

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

The subsidiary E3 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 subsidiary:	E3 energetika, ekologija, ekonomija, d. o. o.
Abbreviated name:	E3, 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
	- (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,
- Production and services division, and
- 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, and trade representation and mediation in the electricity market.

In total, the company had 53 employees at the end of 2019, the same as in the previous year.

A contract for the sale of 100% stake in the company was signed in 2020 and thus, E 3 is reported in the consolidated financial statements of the Group as a discontinued operation.

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 that same year, it acquired additional stakes held by four (4) natural persons, amounting to 23.66% stake, making it 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 with 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 d.o.o.

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 account number:	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.	47.27%
	Natural entities	52.73%
Director of the company:	Vincenc Hozjan	

The company performed well in 2019 and generated €169,755 of pre-tax profit (2018: €59,992). It recognised €32,253 of income tax payable (2018: €11,399), bringing the net profit for the year to €137,501 (2018: €48,594). As at 31 December 2019, the company reported €1,397,987 of equity (2018: €1,276,823).

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.

3. 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.

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

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

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.

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, i.e. 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 moderate.

Price risks are linked to increased 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 moderate.

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, 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 associated not only with collateral, but mainly with the defined contractual terms and conditions of sale, which the Group enforces for all types of transactions. The risk is assessed as low.

Liquidity risk and risks associated with cash flows arise, 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 is within the range of acceptable parameters and is manageable. The risk is assessed as moderate.

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 are 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 moderate.

Operational risk is present in all business operations carried out by the group companies. The risk of financial losses may arise due to lack of efficacy of information technology, quality processes and control processes. The risks are mitigated by the control system based on the principle that all 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 is assessed as low.

Human resources risk is associated with a potential loss or shortage of qualified personnel. The group companies employed 519 employees as at 31 December 2019 (2018: 526 employees): 418 men (2018: 421) and 101 women (2018: 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.

4. 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 financial year with a profit and exceeded the 2019 plan and also the profit achieved in the previous year, mainly on account of improved performance of the parent company.

Elektro Primorska has not adopted a diversity policy.

5. SUBSEQUENT EVENTS

In the period subsequent to the reporting date (31 December 2019) and adoption of the Annual Report on 27 May 2020, the Group received preliminary statement of accounts from SODO for the 2019 regulation year. The preliminary 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 2019, the contractual value of services and rental of electricity infrastructure already charged is by €2,630,538 lower than the values established on the basis of the preliminary settlement of accounts (rent outstanding in the amount of €190,511 and service charge of €2,440,027). Therefore, the Group increased revenues from services under the contract with SODO by €2,440,027 and the value of rental income from the lease of energy infrastructure by €190,511.

In March 2020, the WHO and the Government of the Republic of Slovenia declared Covid-19 coronavirus pandemic.

The Group has taken all necessary measures to contain the spread of the infection and to protect the health of employees and their families, and ensure business continuity. Thus, the Group adapted its operations in a manner that ensures social distancing and the use of protective equipment, as well as restricted access to common areas and closed all access to external parties. In addition, instructions and recommendations were issued for the implementation of work processes and responsible behaviour both within the Company and in the field work.

To further reduce the risk, the Company made arrangements for some of its employees to work from home over the period from 13 March to 31 May 2020 and recommended them to use their annual leave.

Due to the pandemic and the prevailing conditions, the Company estimates that in 2020 its revenue will drop by €2.9 million, while incurring an additional €235 thousand of labour costs as the crisis allowance and expenditures for the purchase of protective equipment. On the other hand, the Company expects €582 thousand of State support by means of exemption from payment of contributions, which will be recognised as operating income.

The Group is making regular repayments of its borrowings and settles its tax liabilities when due, and currently it has no liquidity issues due to the pandemic.

6. CONSOLIDATED FINANCIAL STATEMENTS

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 2019, 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 2019 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, 27 May 2020

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

Lidija Šinkovec
Certified auditor

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

6.1 Consolidated statement of financial position of the Group as at 31 December 2019

			in EUR
	Pojasnila	31.12.2019	31.12.2018
Non-current assets			
Intangible assets	6.2.1.1.	3,792,468	4,237,487
Right-of-use assets		298,623	0
Property, plant and equipment	6.2.1.2.	190,185,159	190,179,487
Investment property	6.2.2.	220,070	224,488
Investments in associates	6.2.3.	0	878,502
Other shares and stakes		294,576	307,472
Financial receivables	6.2.4.	0	82,979
Trade receivables	6.2.5.	301,470	547,913
Non-current deferred costs	6.2.6.	45,549	83,763
Deferred tax assets	6.2.7.	712,896	1,201,078
Total non-current assets		**195,850,812**	**197,743,169**
Current assets			
Non-current assets held for sale		38,408,110	0
Inventories	6.2.8.1.	1,220,210	1,152,368
Contract assets		2,581,131	2,218,286
Financial receivables	6.2.8.2.	0	4,001,343
Trade receivables	6.2.6.3.	6,127,526	31,178,734
Income tax credits		0	21,259
Other receivables		153,794	1,449,328
Other current assets		215,261	302,713
Cash and cash equivalents	6.2.8.4.	2,965,633	3,724,692
Total current assets		**51,671,665**	**44,048,724**
Total assets		**247,522,476**	**241,791,893**

Table 96: Consolidated statement of financial position of the Group as at 31 December 2019 (assets)

			in EUR
	Pojasnila	31.12.2019	31.12.2018
Equity and liabilities			
Equity			
Share capital		78,383,817	78,562,832
Share premium		46,306,588	46,208,187
Legal reserves		1,037,440	768,501
Reserves for treasury shares		0	80,613
Treasury shares		0	-80,613
Other profit reserves		40,291,393	34,819,055
Fair value reserve		-1,399,772	-1,028,694
Retained earnings		2,752,594	2,523,890
Total capital	**6.2.9.**	**167,372,061**	**161,853,771**
Provisions for post-employment and other long-term employee benefits	6.2.10.	4,986,319	4,664,168
Deferred revenue		10,664,963	10,759,375
Financial liabilities	6.2.11.	29,786,910	26,841,667
Total non-current liabilities		**45,438,193**	**42,265,210**
Short-term liabilities	**6.2.12.**		
Non-current liabilities held for sale		23,353,481	0
Financial liabilities		4,194,493	7,596,400
Trade payables		6,332,395	27,695,703
Income tax payable		190,407	75,763
Contract liabilities		19,666	1,054,184
Other liabilities	6.2.13.	621,780	1,250,863
Total short-term liabilities		**34,712,222**	**37,672,913**
Total liabilities		**80,150,415**	**79,938,123**
Total equity and liabilities		**247,522,477**	**241,791,893**

Table 97: Consolidated statement of financial position of the Group as at 31 December 2019 (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 2019

			in EUR
	Pojasnila	31.12.2019	31.12.2018
Net sales	**7.3.1.**	**39,599,431**	**37,797,242**
- Revenue from contracts with customers		22,046,117	20,702,564
- Other sales revenue		17,553,314	17,094,678
Change in inventories of work in progress		0	0
Capitalised own products and services	7.3.1.	9,571,803	7,824,013
Other operating revenue	7.3.1.	1,147,935	2,026,041
Cost of goods and material	7.3.2.	-5,477,403	-4,194,298
Cost of services		-5,569,047	-5,654,136
Employee benefits	7.3.2.	-17,197,327	-17,847,179
Amortisation and depreciation		-12,569,703	-11,769,617
Impairments and write-off		-298,138	-153,360
- of which net impairment and write-off of trade receivables		-79,638	-38,811
Other operating expenses	7.3.3.	-218,833	-238,665
II. OPERATING PROFIT OR LOSS		**8,988,718**	**7,790,040**
10. The share of operating profit or loss from investments valued under the equity method		**0**	**0**
11. Financial income	7.3.4.	28,279	26,370
12. Financial expenses	7.3.5.	-323,128	-353,515
13. Financial profit or loss		**-294,850**	**-327,145**
9. Financial income from shares and stakes	**7.3.3.**	**5,920**	**1,481,891**
a. in associates		0	0
b. in other companies		5,920	1,481,891
10. Financial income from loans	**7.3.3.**	**42**	**14,019**
a. granted to others		42	14,019
11. Financial income from trade receivables	**7.3.3.**	**22,316**	**160,916**
a. due from others		22,316	160,916
12. Financial expenses from investment impairment and write-off	**7.3.4.**	**0**	**-127,376**
a. in others		0	-127,376
13. Financial expenses from financial liabilities	**7.3.4.**	**-321,645**	**-486,499**
a. borrowings from group companies		0	35
b. bank borrowings		-252,055	-455,936
c. other financial liabilities		-69,590	-30,598
14. Financial expenses from trade payables	**7.3.4.**	**-1,483**	**-59,241**
a. supplier payables and bills of exchange		-1,254	-59,222
b. other payables		-230	-19
15. Other income	**7.3.5.**	**0**	**0**
16. Other expenses		**0**	**0**
III. PROFIT OR LOS BEFORE TAX		**8,693,869**	**7,462,895**
15. Income tax	**7.3.6.**	**-1,086,314**	**-976,143**
16. Deferred tax		**26,760**	**-30,279**
Income tax payable		**-1,059,555**	**-1,006,422**
17. NET PROFIT OR LOSS FROM CONTINUED OPERATIONS	**7.3.7.**	**7,634,314**	**6,456,473**
18. Discontinued operations		**550,979**	**571,548**
19. NET PROFIT OR LOSS FROM DISCONTINUED OPERATIONSA		**550,979**	**571,548**
20. TOTAL NET PROFIT FOR THE YEAR		**8,185,293**	**7,028,021**
Basic earnings per share (in EUR)		0.44	0.34
Diluted earnings per share (in EUR)		0.44	0.34

Table 98: Consolidated profit and loss account for the financial year ended on 31 December 2019

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 2019

		in EUR
	2019	2018
Net profit	**8,185,293**	**7,028,021**
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		
- continued operations	7,104	3,315
Net other comprehensive income for the year, to be recognised in profit or loss at a future date		
Other comprehensive income for the year that will never be recognised in profit or loss	**7,104**	**3,315**
Actuarial gains/losses on provisions for severance pay		
- continued operations	-485,897	-1,117,102
- discontinued operations	-27,438	43,105
Deferred tax effect		
- continued operations	37,386	105,390
- discontinued operations	2,313	-4,095
Net other comprehensive income for the year that will never be recognised in profit or loss	**-473,636**	**-972,702**
Total other comprehensive income for the year (net of tax)	**-466,532**	**-969,386**
Total comprehensive income for the year (net of tax)	**7,718,760**	**6,058,634**

Table 99: Consolidated statement of comprehensive income for the year ended 31 December 2019

6.4 Consolidated cash flow statement for the year ended 31 December 2019

			in EUR
	Notes	31.12.2019	31.12.2018
A. CASH FLOWS FROM OPERATING ACTIVITIES			
1. Receipts from operating activities		**260,266,575**	**242,624,624**
a. Proceeds from sale of products and services		224,894,829	209,761,404
b. Other receipts from operating activities		35,371,745	32,863,220
2. Expenditure from operating activities		**-247,149,409**	**-227,508,868**
a. Expenditure for purchase of materials and services		-127,847,243	-104,483,501
b. Expenditure for salaries and employees' shares in profits		-19,293,322	-19,070,826
c. Expenditure for all kinds of contributions		-6,971,590	-7,429,623
d. Expenditure for income tax		-1,086,283	-1,130,181
e. Other expenditure from operating activities		-91,950,971	-95,394,739
3. Net cash from operating activities		**13,117,166**	**15,115,755**
B. CASH FLOWS FROM INVESTING ACTIVITIES			
4. Cash receipts from investing activities		**6,165,473**	**1,283,151**
a. Interest received		101,978	35,881
b. Shares in the profit		28,892	62,648
c. Proceeds from disposal of property, plant and equipment		34,603	184,622
d. Proceeds from disposal of long-term investments		6,000,000	1,000,000
5. Cash disbursements for investing activities		**-19,511,603**	**-18,840,692**
a. Expenditure for acquisition of intangible assets		-1,648,004	-1,688,146
b. Expenditure for acquisition of property, plant and equipment		-15,863,600	-12,152,545
c. Expenditure for acquisition of long-term and short-term investments		-2,000,000	-5,000,000
6. Net cash from investing activities		**-13,346,130**	**-17,557,541**
7. Net cash from operating and investing activities		**-228,965**	**-2,441,785**
C. CASH FLOWS FROM FINANCING ACTIVITIES			
8. Cash receipts from financing activities		**40,628,000**	**15,009,506**
a. Receipts from long-term borrowings		6,978,000	9,000,000
b. Receipts from short-term borrowings		33,650,000	6,009,506
9. Cash disbursements from financing activities		**-40,718,321**	**-15,010,517**
a. Interest paid		-340,379	-306,757
b. Repayments of capital		0	-1,074
c. Expenditure on the right-of-use assets		-68,299	0
d. Cash repayments of long-term borrowings		-6,749,667	-6,853,667
e. Cash repayments of short-term borrowings		-31,359,506	-5,300,000
f. Dividends paid		-2,200,470	-2,549,019
10. Net cash from financing activities		**-90,321**	**-1,011**
11. Total cash flows		**-319,286**	**-2,442,797**
D. CLOSING BALANCE OF CASH AND CASH EQUIVALENTS		**3,405,406**	**3,724,692**
X. Opening balance of cash and cash equivalents		**3,724,692**	**6,167,489**
Y. CASH FLOWS FOR THE PERIOD	**7.4.**	**-319,286**	**-2,442,797**
Cash and cash equivalents eliminated on reclassification		**-439,774**	**0**
Closing balance of cash and cash equivalents on the last day of the accounting period		**2,965,633**	**3,724,692**

Table 100: Consolidated cash flow statement for the year ended 31 December 2019

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 2019

in EUR

2019	Called-up capital		Profit reserves							
	Share capital	Share premium	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 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
A.2. At 1 Jan 2019	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
B.1. Changes in equity - transactions with owners	**-179,014**	**98,401**	**0**	**-80,613**	**80,613**	**0**	**0**	**-2,119,857**	**0**	**-2,200,470**
a) Treasury share withdrawal	-179,014	98,401			80,613					0
b) Release of treasury share reserves				-80,613				80,613	0	0
a) Dividend payment	0	0	0			0	0	-2,200,470	0	-2,200,470
B.2. Total comprehensive income for the reporting period	**0**	**0**	**0**			**0**	**-466,533**	**0**	**8,185,293**	**7,718,760**
a) Net profit or loss for the reporting period	0	0	0			0	0	0	8,185,293	8,185,293
b) Fair value reserve	0	0	0			0	7,104	0	0	7,104
b) Other components of comprehensive income for the reporting period	0	0	0			0	-473,637	0	0	-473,637
B.3. Changes within equity	**0**	**0**	**268,939**			**5,472,338**	**95,455**	**2,094,420**	**-7,931,152**	**0**
C. At 31 Dec 2019	0	0	0			233,163	0	2,175,033	-2,408,196	0
b) Razporeditev dela čistega dobička poročeval-skega obdobja na druge sestavine kapitala po sklepu organov vodenja	0	0	268,939			5,239,175	0	14,841	-5,522,956	0
c) Razporeditev dela čistega dobička za obliko-vanje dodatnih rezerv po sklepu skupščine						0		0	0	0
d) Druge spremembe v kapitalu	0	0	0			0	95,455	-95,455		0
C. At 31 Dec 2019	**78,383,817**	**46,306,588**	**1,037,440**	**0**	**0**	**40,291,393**	**-1,399,772**	**90,257**	**2,662,337**	**167,372,061**
Distributable profit 2019								**90,257**	**2,662,337**	**2,752,594**

Table 101: Consolidated statement of changes in equity for the year ended 31 December 2019

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

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

in EUR

2018	Called-up capital		Profit reserves							
	Share capital	Share premium	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 2018

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.

7. FINANCIAL REPORT OF THE ELEKTRO PRIMORSKA GROUP

7.1 General notes and disclosures

The consolidated financial statements of the Group have been compiled 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 under IFRS.

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

7.2.1 Declaration of Conformity

The Management Board approved the separate financial statements of the Company and consolidated financial statements of the Group on 25 May 2020.

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.

7.2.2 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 values are presented in Note 7.7.

7.2.3 Functional and presentation currency

The financial statements contained in this report are presented in euros (€) 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 euro at the exchange rate of the European Central Bank (ECB) on the transaction date. 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.

7.2.4 Going concern assumption

The parent company continues to operate as a going concern without any risk of its operations being jeopardized. All disclosures and assumptions used apply to going concerns within the Group for the financial year ended 31 December 2019, except for the discontinued operation, i.e. E 3, d. o. o.

7.2.5 Discontinued operations

In accordance with the contract for the sale of a 100% stake in E3, d. o. o. signed in February 2010, in the financial year 2019, the company's operations are considered discontinued operations. The Group presents the spin-off company as a discontinued operation. Discontinued operations are excluded from continuing results and presented in the income statement as a single amount of the net profit from discontinued operations. In the statement of financial position, assets of discontinued operations are presented under non-current assets/liabilities held for sale. Additional disclosures are provided in the continuation.

7.2.6 Segment reporting

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

7.2.7 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 amounts of assets and liabilities, revenues and expenses. Pricing and related assumptions and uncertainties are disclosed in the notes to the individual 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 those 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:

Leases (Note 7.28)

The Group has made the following accounting judgements that have a significant impact on the determination of the right-of-use assets and lease liabilities:

- Identification of lease contracts
- A contract is identified as a lease if it renders the Group the right to control the leased asset. The Group controls the asset if it is able to use the asset and is entitled to the economic benefits from the asset.
- Determining the term of the lease
- The lease term is determined as the period during which the lease cannot be terminated, inclusive of:
  a) the period for which the option to extend the lease applies, if it is reasonably certain that the lessee will exercise the option.
  b) the period for which the option to terminate the lease applies, if it is reasonably certain that the lessee will not exercise that option. Generally, the lease term is agreed in the contract. Where the contractual period is not specified, the lease term is assessed based on the Group's needs to use the asset, considering the Group's plans and long-term business policies. Determining the discount rate

The discount rate is determined based on the interest rate at which the Group can obtain comparable assets on the market with a comparable maturity.

Assessment of revenue from contracts with customers (Note 7.3.12)

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:

- Determining the point in 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 of 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 with customers and found that non-capitalised costs amount to €193,253 as at 1 January 2019 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 assessment 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, maximising the use of relevant observable inputs and minimising 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 date.

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 statement 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 are adequately reported in the financial statements.

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 completely 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 Note 7.2.10.

Assessment of deferred tax asset utilisation

The Group recognises deferred tax assets arising from provisions for anniversary bonuses and retirement benefits, impairment of receivables and tax losses.

At the financial statement date, 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.

7.2.8 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 Group for annual periods beginning on or after 1 January 2019, as described in continuation.

Changes to accounting policies pursuant to amended SAS 2019 - IFRS 16 Leases

In 2019, the Group amended its accounting policies, methods for accounting for business events, and disclosures in the financial statements, in accordance with the requirements of IFRS 16, effective as of 1 January 2019.

IFRS 16 replaces the International Accounting Standard IAS 17: Leases and introduces a single accounting model to be applied by lessees for operating and financial leases. In the statement of financial position, lessees account for leased assets either as items of fixed assets or as right-of-use assets associated with lease liabilities. The value of the leased assets is transferred to costs through depreciation and the cost of financing is recognised under financial expenses. The standard includes two recognition exceptions for lessees - lease of "low-value assets" and short-term leases. Lessor accounting under IFRS 16 is substantially unchanged from existing accounting under IAS 17. On transition to IFRS 16, the Group has opted for a modified retrospective method with an effective date of 1 January 2019. Under the method, an entity applies the standard retrospectively and recognises the cumulative effect of the transition at the date of initial application of IFRS 16. As at 1 January 2019, the Group applied practical expedient and did not re-assess whether the contract is or contains a lease.

Instead, the Group applied the requirements of IFRS 16 only to contracts recognised as leases before the date of transition to the new IFRS 16 in accordance with the requirements of IAS 17 and IFRIC 4. The Group checked all its lease contracts with a lease term of more than one year.

Based on the lease liabilities and the term of the lease, the Group has assessed the value of the right-of-use assets and lease liabilities and recognised them on 1 January 2019 in the statement of financial position. The right-of-use assets and lease liabilities are estimated based on discounted future cash flows over the entire lease term. Cash flows are discounted at the interest rates charged by banks on borrowings with comparable maturity and value, ranging from 1.2 to 2.5%. Depreciation is calculated using the depreciation rates estimated over the remaining lease term. The Group reports no financial leases as at 31 December 2019.

The effect of adoption of IFRS 16 on the statement of financial position as at 1 January 2019.

	01.01.2019	Amendment to IFRS 19	31.12.2018
ASSETS			
Right-of-use assets			
Land	6,053	6,053	0
Buildings	284,164	284,164	0
Equipment	274,894	274,894	0
Total assets	**565,111**	**565,111**	**0**
EQUITY AND LIABILITIES			
Long-term liabilities	**512,260**	**512,260**	**0**
Lease liabilities	512,260	512,260	0
Short-term liabilities	**52,851**	**52,851**	**0**
Lease liabilities	52,851	52,851	0
Total liabilities	**565,111**	**565,111**	**0**
Total equity and liabilities	**565,111**	**565,111**	**0**

In accordance with the new IFRS 16, the Group changed the method of disclosing the effects of leases, except in the case of short-term leases, lease of low-value assets and leases that are exempt from IFRS 16 due to the object of the lease, and applied a single recognition and measurement approach to all leases in 2019.

The Group elected to use the transition practical expedient available by the IFRS 16 standard. The Group recognised right-of-use assets and lease liabilities for those leases previously recognised as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets for most leases were recognised based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rate at the date of initial application. The right-of-use assets were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised. Lease liabilities are recognised under financial liabilities: €512,260 under long-term financial liabilities and €52,851 under current financial liabilities. The Group recognised lease liabilities at the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of first application of the standard.

The Group also applied the available practical expedients wherein it:

- Applied the short-term lease exemptions to leases with lease term that ends within 12 months of the date of initial application,
- Excluded the initial direct costs from the measurement of the right-of-use assets at the date of initial application,
- Used hindsight in determining the lease where the contract contained options to extend or terminate the lease.

Effect of the IFRS 16 application on the Group's consolidated income statement in the financial year 2019

	2019	2019	2018
	IFRS 16	IAS 17	IAS 17
Depreciation of the right-of-use assets	-50,457	0	
Lease payments	-84,605	-213,776	-197,063
Operating profit or loss	**-135,062**	**-213,776**	**-197,063**
Financial expenses	-5,817	0	
Profit or loss before tax	**-140,879**	**-213,776**	**-197,063**

IFRS 9: Amendments to IFRS 9 - Prepayment Features with Negative Consideration

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.

IAS 28: Investments in Associates and Joint Ventures (amendment)

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 Group does not expect the amendments will have a significant impact on its consolidated financial statements.

IFRIC 23: Uncertainty over Income Tax Treatments

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. The Group does not expect the amendments will have a significant impact on its consolidated financial statements.

IAS 19: Plan Amendment, Curtailment or Settlement (Amendments)

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 the impact of the plan amendment, curtailment or settlement on the ceiling requirements. The Group does not expect the amendments will have a significant impact on its consolidated financial statements.

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. These amendments are effective 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 believes 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.
- **The amendments to IAS 12 Income Tax** clarify that the income tax consequences of payments on financial instruments classified as equity should be recognized according to where the past transactions or events that generated distributable profits have been recognised.
- **The amendments to IAS 23 Borrowing Costs** 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 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 amended standards and interpretations when they come into force. The Group did not adopt any standards prior to their effective date.

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 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 also 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 statements 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.

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 yet 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)

These amendments are effective 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.

Amendments to IFRS 9, IAS 39 and IFRS 7 – Interest Rate Benchmark Reform

These amendments are effective for annual periods beginning on or after 1 January 2020 and must be applied retrospectively. Early adoption is permitted. In September 2019, the IASB issued amendments to IFRS 9, IAS 39 and IFRS 7, which concludes phase one of its work to respond to the effects of Interbank Offered Rates (IBOR) reform on financial reporting. Phase two will focus on issues that could may affect financial reporting when an existing interest rate benchmark is replaced with a risk-free interest rate. The amendments published, deal with issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative interest rate and address the implications for specific hedge accounting requirements in IFRS 9 Financial Instruments and IAS 39 Financial Instruments: Recognition and Measurement, which require forward-looking analysis. The amendments provide temporary relief, applicable to all hedging relationships that are directly affected by the interest rate benchmark reform, which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate. Amendments to IFRS 7 Financial Instruments: Disclosures address additional disclosures in terms of uncertainties arising from the interest rate benchmark reform. The Group does not expect the standard will have any significant impact on its consolidated financial statements.

Amendments to IAS 1 – Presentation of Financial Statements:

Classification of Liabilities as Current or Non-Current
These amendments are effective for annual periods beginning on or after 1 January 2022. Early application is permitted. The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement

of financial position, debt and other liabilities with an uncertain settlement date should be classified as current or non-current. The amendments affect the presentation of liabilities in the statement of financial position and do not change existing requirements around measurement or timing of recognition of any asset, liability, income or expenses, nor the information that entities disclose about those items. Also, the amendments clarify the classification requirements for debt which may be settled by an entity issuing own equity instruments. So far 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.

7.2.9 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 applied by the Group.

a. The process of consolidation

The following entities are included in consolidation: parent company Elektro Primorska d. d., subsidiary E 3, d. o. o., and associate Knešca, d. o. o.

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 adjustments, which are not posted in the financial statements of the group companies.

Consolidated financial statements are compiled based on full consolidation of discontinued operations 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 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,
- the investor 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 surpluses or deficits that arise from the loss of control are recognised in profit or loss. Any stakes retained by the Group in its former subsidiary are measured at fair value at 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 or 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 arising from transactions with associates are accounted for under the equity method and are eliminated to the extent of the Group's stake in the associate. 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 in to the functional currency at the exchange rate applicable on the transaction date. Any 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, is 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 retrospectively 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 to 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 previously classified as loans and receivables 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.
- 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.
- Listed equity investments previously classified as available-for-sale financial assets (AFS) are classified and measured as financial assets at fair value through profit or loss.

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 non-current employee benefits.

Reserves for 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 share premium.

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 Notes 7.2.9a.

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 the investment recognised using 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 under the cost model. In addition to goodwill and rights arising from the concession for construction of gas distribution networks 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 if its costs can be reliably measured. All other expenditure is recognised in profit or loss when incurred.

Amortisation
Amortisation is recognised according to the straight-line method in the period of the estimated expected functional life periods of individual items of intangible assets. Amortisation begins when the asset becomes available for its use.

Assessed useful lives of intangible assets in the current and comparable financial period:

	2019	2018
Intangible assets (excluding software)	3.33-20.00	3.33-20.00
Software	33.3	33.3

Table 103: Amortisation rates applied to intangible assets

Impairment of assets is explained in detail in point k.

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 if its costs can be reliably measured. All other expenditure (e.g. regular maintenance) is recognised in profit or loss when incurred.

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. Depreciation 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:

	2019	2018
Real estate (land and facilities)	0.00-5.00	0.00-5.00
Computer hardware	33.3-50.00	33.3-50.00
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 104: 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 k.

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 k.

i. Leases

The Group has made the following accounting judgements that have a significant impact on the determination of the right-of-use assets and lease liabilities:

- Identification of lease contracts

A contract is identified as a lease if it renders the Group the right to control the leased asset. The Group controls the asset if it is able to use the asset and is entitled to the economic benefits from the asset.

- Determining the term of the lease

The lease term is determined as the period during which the lease cannot be terminated, inclusive of:

a) the period for which the option to extend the lease applies, if it is reasonably certain that the lessee will exercise that option.
b) the period for which the option to terminate the lease applies, if it is reasonably certain that the lessee will not exercise that option.

Generally, the lease term is agreed in the contract. Where the contractual period is not specified, the lease term is assessed based on the Group's needs to use the asset, considering the Group's plans and long-term business policies. 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.

- Determining the discount rate

The discount rate is determined based on the interest rate at which the Group can obtain comparable assets on the market with a comparable maturity.

j. Inventories

Inventories of merchandise and materials are measured at the lower of their cost or net realisable value.

The 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 transport costs, costs of 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 customer, 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

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.

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. 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 recognised 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 charges are recognised in profit or loss, whereas the restatement of post-employment benefits or unrealised actuarial gains or losses arising from 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 it will result in receipts.

Long-term deferred revenues

Long-term deferred revenue includes primarily deferred revenues from fixed assets acquired free-of-charge, which are decreased in line with the assets' depreciation 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 of those goods and services depends on terms and conditions of the contract. In general, control is transferred when goods are accepted by the customer or the service is rendered.

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 recognized 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 expense 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 from hedging instruments which are recognised in the profit or loss. 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.

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.

q. 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 the 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 determined as their carrying amounts are considered a reasonable approximation of their fair value.

Non-current assets (disposal groups) held for sale
Non-current assets held for sale or assets of disposal groups are those non-current assets for which it is reasonably assumed that their carrying amount will be settled predominantly through their sale rather than their further use. This condition is deemed to have been complied with only if the sale is highly probable and if the assets or group of assets are in the condition that makes the sale possible. The management needs to be committed to the closing of the sale process within a year from the asset's reclassification to non-current assets held for sale or to the assets of disposal group.

The assets related to the subsidiary for which it is planned that the controlling influence will be lost, are reclassified to the group of assets for disposal irrespective of whether the controlling company is planning to keep the minority stake after the sale or not.

Non-current assets held for sale and assets of disposal groups are measured at the lower of their carrying amount or fair value less costs to sell.

In accordance with the contract for the sale of a 100% stake in the subsidiary E 3 signed in 2020, the operations of the subsidiary are presented under "Discontinued operations".

The profit or loss of discontinued operations in 2019 is presented below:

			in EUR
	Notes	**31.12.2019**	**31.12-2018**
Net sales	7.3.1.	98,076,570	85,018,416
- Revenue from contracts with customers		98,076,570	85,018,416
- Other sales revenue		0	0
Change in inventories of work in progress		0	0
Capitalised own products and services	7.3.1.	86,944	77,431
Other operating revenue	7.3.1.	345,565	374,043
Cost of goods and material	7.3.2.	-90,422,795	-77,082,070
Cost of services		-4,369,165	-4,840,962
Employee benefits	7.3.2.	-1,985,825	-1,892,379
Amortisation and depreciation		-805,714	-747,077
Impairments and write-off		-330,676	-229,729
- of which net impairment and write-off of trade receivables		-330,676	-229,185
Other operating expenses	7.3.3.	-114,576	-110,997
OPERATING PROFIT OR LOSS		**480,327**	**566,675**
The share of operating profit or loss from investments valued under the equity method		**62,247**	**21,994**
Financial income	7.3.4.	158,745	118,786
Financial expenses	7.3.5.	-69,212	-38,772
Financial profit or loss		**89,533**	**80,014**
PROFIT OR LOSS BEFORE TAX		**632,106**	**668,683**
Income tax	**7.3.6.**	**-112,864**	**-89,642**
Deferred tax		**31,737**	**-7,493**
Income tax payable		**-81,127**	**-97,135**
NET PROFIT OR LOSS FROM DISCONTINUED OPERATIONS	**7.3.7.**	**550,979**	**571,548**

The spin-off was carried out as a transfer of equal amounts of assets and liabilities and thus, there was no effect on equity.

The Group discloses the following non-current assets held for sale as at 31 December 2019:

Intangible assets	457,048
Land	267,857
Buildings	4,715,276
Equipment	2,068,878
Right-of-use assets	211,445
Investments in associates	917,777
Contract assets	1,564,776
Trade receivables	25,648,218
Other receivables	1,206,782
Other assets held by E 3	1,350,051
Total	**38,408,110**

Liabilities of disposal groups as at 31 December 2019:

Deferred revenue	641,268
Financial liabilities	3,511,911
Operating liabilities	16,719,083
Contract liabilities	1,092,155
Other liabilities of E 3	1,389,064
Total	**23,353,481**

Presentation of the net cash flow of discontinued operations

Cash flows from discontinued operations	
Opening balance	1,434,532
Operating activity	-2,732,662
Investment activity	-746,695
Financing activity	2,484,598
Net cash flow in 2019	-994,758
Closing balance of cash	**439,774**

r. 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 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.

s. Cash flow statement

The cash flow statement comprises cash flows 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.

7.3 Notes to consolidated statement of financial position

Consolidated statement of financial position comprises assets, equity and liabilities of the parent Elektro Primorska, and its subsidiary E 3 and the associated company.

7.3.1 Intangible assets

The value of intangible assets increased in 2019 following the acquisition of long-term rights in the amount of €1,459,322 (2018: €1,456,596), 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 2019 are presented in the following Table:

				in EUR
2019	**Deferred costs of development studies**	**Long-term rights**	**Intangible assets being acquired**	**Total**
Nabavna vrednost				
At 1 Jan	718,312	9,733,892	1,138,666	11,590,870
Additions during the year	0	0	1,459,322	1,459,322
Additions from ongoing investments	0	1,418,066	-1,418,066	0
Disposals during the year	0	-90,381	0	-90,381
Reclassification*	-72,591	-1,501,059	-32,420	-1,606,070
At 31 Dec	645,721	9,560,518	1,147,503	11,353,741
Accumulated amortisation				
At 1 Jan	659,564	5,588,803	1,105,017	7,353,383
Amortisation for the year	0	1,492,175	0	1,492,175
Disposals during the year	0	-90,381	0	-90,381
Reclassification*	-13,843	-1,180,062	0	-1,193,904
At 31 Dec	645,721	5,810,536	1,105,017	7,561,274
Carrying amount				
At 1 Jan	58,748	4,145,089	33,649	4,237,487
At 31 Dec	**0**	**3,749,982**	**42,486**	**3,792,468**

Table 105: Movements in intangible assets in 2019

** Reclassification to non-current assets held for sale due to expected sale of the subsidiary*

The following are the most significant items of intangible assets held by the Group:

- 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 2019 or 31 December 2018.

As at 31 December 2019, 41.26% of all intangible assets in use was fully amortised (2018: 42.92%). The share is calculated based on the cost of the 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

Right-of-use assets

The right-of-use assets arise from the use of various commercial real estate such as offices and other buildings, equipment and cars, which the Company obtained under lease arrangements. The terms and conditions of the lease are subject to individual contracts and vary according to the lease type and term. The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if

the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.
The Group determines the lease term as the period during which the lease cannot be terminated, inclusive of the period for which the option to extend the lease applies and the period for which the period to terminate the lease applies, considering the certainty that either of the two options may or may not be exercised.

The lease term depends on the type of leased asset and ranges from:

- 14 years (land),
- 10 to 17 years (offices and other buildings),
- 1 to 5 years (cars).

The Group applies a single recognition and measurement approach to all leases, except for short-term leases and leases of low-value assets. Lease liabilities relating to short-term leases and leases of low-value assets are recognised as an expense over the lease term.

For all other leases, the Group recognised lease liabilities and the right-of-use assets.

The Group recognises the right-of-use assets at the commencement date of the lease. Right-of use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of the right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received.

The depreciation rates applied to the right-of-use assets are as follows:

DEPRECIATION RATES		In %
RIGHT-OF-USE ASSETS	2019	2018
Real estate	5 - 9.3	0
Cars	25 - 64	0

If ownership of the leased asset transfers to the company at the end of the lease term or the group exercises a purchase option, the depreciation is calculated based on the estimated useful life of the asset.

Short-term leases and leases of low-value assets
The Group applies the short-term lease recognition exemption to its short-term leases (i.e. those leases that have a lease term of 12 months or less from the commencement date and do not contain an option to purchase). It also applies the lease of low-value assets recognition exemption to leases of low value assets in connection with the lease of assets considered to be low value. Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

Movements in the right-of-use assets in 2019:

				in EUR
2019	**Land**	**Facilities**	**Equipment**	**Total**
Cost				
At 31 Dec 2018	0	0	0	0
Changes due to the adoption of IFRS 16	**6,053**	**284,163**	**274,895**	**565,111**
At 1 Jan 2019	6,053	284,163	274,895	565,111
Additions	0	0	22,126	22,126
Disposals during the year	0	0	-11,082	-11,082
Reclassification*	0	-19,432	-214,217	-233,649
At 31 Dec 2019	6,053	264,732	71,722	342,506
Accumulated depreciation				
At 1 Jan 2019	0	0	0	0
Depreciation for the year	432	16,873	33,152	50,457
Disposals during the year	0	0	-6,574	-6,574
At 31 Dec 2019	432	16,873	26,578	43,883
Carrying amount				
01/01/2019	6,053	284,163	274,895	565,111
At 31 Dec 2019	**5,621**	**247,859**	**45,144**	**298,623**

7.3.2 Property, plant and equipment

The items of property, plant and equipment are checked for signs of impairment at each reporting day. If such indications exist, the asset's recoverable amount is assessed.

In 2019, the Group did not perform an impairment test of individual cash-generating units of its long-term investments. The financial statement analysis of individual cash-generating units showed that the actual results do not deviate significantly from the planned values and thus, there were no substantiated reasons for the valuation of long-term assets. Deviations from the planned values of some facilities are due to operational issues linked to the operation of central control systems in the summer months, which were eliminated in the autumn of 2019. Reduction in heat consumption compared to the plan is linked to more favourable climatic conditions however, there was also a reduction in the volume of the energy purchased.

The Elektro Primorska Group reports the following property, plant and equipment:

		in EUR
	31.12.2019	**31.12.2089**
Land	5,627,581	5,892,908
Buildings	126,730,559	127,426,805
Equipment	55,338,086	53,978,085
Property, plant and equipment being acquired	2,488,266	2,881,022
Advances for property, plant and equipment	667	667
Total property, plant and equipment	**190,185,159**	**190,179,487**

Table 107: Property, plant and equipment

Movements in property, plant and equipment in 2019:

2019	Land	Facilities	Equipment	Assets under construction and advances	Total
Cost					in EUR
At 1 Jan	5,892,908	396,367,342	163,552,020	3,710,721	569,522,991
Additions during the year		57,862		18,059,593	18,117,455
Additions from ongoing investments	2,276	8,902,319	9,001,717	-17,906,312	0
Disposals during the year	0	-2,294,518	-3,473,634	0	-5,768,153
Impairment of assets	0	0	0	0	0
Reclassification*	-267,603	-5,335,656	-5,839,670	-546,036	-11,988,966
At 31 Dec	5,627,581	397,697,349	163,240,432	3,317,965	569,883,327
Accumulated depreciation					
At 1 Jan		268,940,537	109,573,935	829,032	379,343,504
Depreciation for the year	0	5,808,397	5,209,552	0	11,017,950
Disposals during the year	0	-2,172,427	-3,353,334	0	-5,525,761
Additions during the year	0	0	0	0	0
Reclassification*	0	-1,609,717	-3,527,808	0	-5,137,525
At 31 Dec		270,966,790	107,902,346	829,032	379,698,168
Carrying amount					
At 1 Jan	5,892,908	127,426,805	53,978,085	2,881,689	190,179,487
At 31 Dec	**5,627,581**	**126,730,559**	**55,338,086**	**2,488,933**	**190,185,159**

Table 108: Movements in property, plant and equipment in 2019

** Reclassification to non-current assets held for sale due to expected sale of the subsidiary*

Borrowing costs relating to property, plant and equipment in 2019 amounted to €46,224 (2018: €19,599).

Of total property, plant and equipment in use at 31 December 2019, 41.73% was fully depreciated (2018 year-end: 41.23%). 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 on account of new purchases made in 2019 amounting to €18,059,593 (2018: €15,804,451). The largest investment of €15,364,677 was made in the electricity infrastructure.

Accumulated depreciation of property, plant and equipment of the Group increased in 2019 by the amount of annual depreciation of €11,017,950 (2018: €11,230,879) 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 currently being used.
All the items of property, plant and equipment are free of liens.

As at 31 December 2019, financial commitments for acquisition of property, plant and equipment amount to €33,675,000 (2018: €33,858,000).

An additional €6,600,000 of commitments as at 31 December 2019 relates to contracts for the supply of property, plant and equipment (2018: €6,000,000).

Movements in property, plant and equipment in 2018:

2018	Land	Facilities	Equipment	Assets under construction and advances	Total
Cost					in EUR
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
Transfers	0	0	0	0	0
At 31 Dec	0	0	0	0	0
Accumulated depreciation	5,892,908	396,367,342	163,552,020	3,710,721	569,522,991
At 1 Jan					
Depreciation for the year		264,914,949	105,525,258	829,032	371,269,239
Disposals during the year	0	5,810,345	5,420,534	0	11,230,879
At 31 Dec	0	-1,784,758	-1,371,856	0	-3,156,614
Carrying amount		268,940,537	109,573,935	829,032	379,343,504
At 1 Jan					
At 31 Dec	5,872,473	125,056,718	52,155,779	2,750,590	185,835,559
Stanje 31.12.	**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

7.3.3 Investment property

The Group generated €84,828 of income from lease of investment property in 2019 (2018: €81,185).

2019	Investment property - land	Investment property - facilities	Assets under construction and advances	Total
				in EUR
Cost				
At 1 Jan 2019	6,668	884,084	0	890,752
Additions during the year	0	0	4,702	4,702
Additions from ongoing investments	0	4,702	-4,702	0
At 31 Dec 2019	6,668	888,786	0	895,454
Accumulated depreciation				
At 1 Jan 2019	0	666,264	0	666,264
Depreciation for the year	0	9,121		9,121
Disposals during the year	0	0		0
At 31 Dec 2019	0	675,385	0	675,385
Carrying amount				
At 1 Jan 2019	6,668	217,820	0	224,488
At 31 Dec 2019	**6,668**	**213,401**	**0**	**220,070**

Table 110: Investment property in 2019

Increase in investment property arises on account of investments in holiday facilities owned by the parent company.

				in EUR
2018	**Investment property - land**	**Investment property - facilities**	**Assets under construction 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

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 assessor of real estate.

7.3.4 Long-term investments

Long-term investments of Elektro Primorska Group include investments in stakes and shares of other companies amounting to €294,576 (2018: €287,472), investments in the Aeronautical Museum in Nova Gorica in the amount of €20,000, which was fully impaired in 2019 and transferred to non-current assets held for sale along with the investment in the associate Knešca in the amount of €917,777.

		in EUR
	31.12.2019	**31.12.2018**
Investments in shares of associates:		
Knešca d.o.o.	917,777	878,502
Reclassification*	-917,777	0
Total	**0**	**878,502**
Other shares and stakes:		
Informatika Maribor d.d.	240,755	240,755
Zavarovalnica Triglav d.d.	78,854	71,750
Primorski tehnološki park d.o.o.	1,808	1,808
Stelkom d.o.o. Ljubljana	57,837	57,837
"Aeronavtični muzej" Nova Gorica	20,000	20,000
Reclassification*	-20,000	0
	379,255	**392,151**
Impairment of investment in Informatika d.d.	0	0
Impairment of investment in Stelkom d.o.o.	-78,470	-78,470
Impairment of investment in "Aeronavtični muzej" Nova Gorica	-6,209	-6,209
Reclassification*	-20,000	0
Prekvalifikacija*	20,000	0
	-84,679	**-84,679**
Total	**294,576**	**307,472**
Total long-term investments	**294,576**	**1,185,974**

Table 112: Investments of the Group

** Reclassification to non-current assets held for sale due to expected sale of the subsidiary*

In accordance with the equity method, the Group attributed to the associate Knešca the corresponding profit in the amount of €64,997 reduced by €22,972 of dividends received from the profit of the previous year and by €2,750 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 on these investments in prior periods.

Movement of listed equity instruments at fair value through other comprehensive income:

	in EUR
At 1 Jan 2018	68,435
Adjustment to market value	3,315
At 31 Dec 2018	71,750
At 1 Jan 2019	71,750
Adjustment to market value	7,104
At 31 Dec 2019	**78,854**

Table 113: 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 €7,104 in 2019 (2018: €3,315). The Group recognised no adjustments in 2019 or 2018 in profit or loss.

7.3.5 Non-current financial receivables (long-term loans issued)

The Group reports no loans issued or long-term deposits placed.

		in EUR
Long-term loans to others	**31.12.2019**	**31.12.2089**
Long-term loans granted	0	78,779
Long-term deposit	0	4,200
Total long-term loans	**0**	**82,979**

Table 114: Long-term loans to others

7.3.6 Non-current operating receivables

Long-term operating receivables of €301,470 (2018: €547,913) comprise:

- Long-term trade receivables that mature over 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 maturing in 2022 (long-term receivables of €98,759 and the current amount payable in 2019 amounting to €59,255); receivables due from Hidria AET d.o.o. in the amount of €277,455 maturing in 2023 (long-term receivables of €152,600 and the current amount payable in 2019 amounting to €55,491).
- Long-term receivables in the amount of €28,606 are due on account of funds issued for the maintenance of facilities, which are accrued by the operators of facilities in accordance with the Housing Act.
- Long-term receivables include receivables due from SODO in the amount of €21,505 on account of derogations from the final settlement for the regulatory year 2016; these are to be settled in the regulatory period 2019-2021.

7.3.7 Long-term cost to obtain contracts

		in EUR
	31.12.2019	**31.12.2018**
Deferred rent	1,606	29,856
Preliminary settlement	27,656	53,907
Deferred cost of licences	15,204	0
Other deferred costs	1,083	0
Total	**45,549**	**83,763**

Table 115: Non-current deferred costs

Non-current deferred costs of the Group comprise pre-paid lease liabilities in the amount of €1,606, long-term amount of the preliminary settlement for the year 2014 of SODO amounting to €27,656, long-term deferred costs of licences of €15,204 and €1,083 of other long-term deferred costs.

Costs that are transferred to profit or loss within 12 months after the reporting date are recognised as current costs.

7.3.8 Deferred tax assets

Deferred tax assets of €1,299,273 (2018: €1,201,078) are recognised as long-term assets. Deferred tax assets increased by €98,195 in 2019, on account of an increase of receivables arising from actuarial calculations of the parent company and trade receivables.

Deferred tax assets are calculated based on the future income tax rate of 19%, the same as in 2018.

					in EUR
Deferred tax assets	**on account of provisions**	**on account of receivable impairment**	**on account of investment impairment**	**on account of retained earnings**	**Total**
At 1 Jan 2018	372,023	645,478	42,838	20	1,060,359
Increase	219,886	128,114	0	0	348,001
Decrease	-150,739	-56,540	0	-2	-207,282
At 31 Dec 2018	**441,170**	**717,052**	**42,838**	**18**	**1,201,078**
At 1 Jan 2019	441,170	717,052	42,838	18	1,201,078
Increase	55,562	31,621	0	0	87,183
Decrease	-68	-22,969	0	0	-23,037
Reclassification*	-22,964	-501,417	-27,929	-18	-552,327
At 31 Dec 2019	**473,701**	**224,286**	**14,909**	**0**	**712,896**

Table 116: Deferred tax assets

** Reclassification to non-current assets held for sale due to expected sale of the subsidiary*

Effects of differences between the accounting value of items disclosed in the statement of financial position 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	**2019**	**2018**
Income tax payable for the current year	-1,086,314	-1,065,785
Deferred tax assets/liabilities	26,760	-37,772
Tax expense recognised in profit or loss	**-1,059,555**	**-1,103,557**

Table 117: Tax expense recognised in profit or loss

		in EUR
Changes in deferred taxes recognised in profit or loss	**2019**	**2018**
At 1 Jan	1,085,821	1,046,377
Provisions	18,108	-32,148
Receivables	8,651	-5,621
Investment impairment	0	0
Receivables - elimination of gains from sale of inventories	0	-2
Reclassification*	-549,697	0
Changes in deferred tax assets/liabilities	-522,937	-37,772
At 31 Dec	**562,883**	**1,085,821**

Table 118: Movements in deferred taxes recognised in profit or loss

		in EUR
	2019	**2018**
At 1 Jan	115,257	13,962
Change in the revaluation of deferred taxes provisions	37,386	101,295
Reclassification*	-2,630	
Changes in deferred tax assets/liabilities	34,756	101,295
At 31 Dec	**150,013**	**115,257**

Table 119: Movements in deferred taxes recognised in equity

						in EUR
Deferred tax	01.01.2019	Formation	Utilisation	Reversal	Reclassification*	31.12.2019
Temporary differences arising from revaluation of receivables	717,052	31,621	-17,725	-5,244	-501,417	224,286
Temporary differences arising from provisions	441,170	88,546	-32,323	-728	-22,964	473,701
Temporary differences from investment impairment	42,838	0	0	0	-27,929	14,909
Temporary differences from intermediate profits	18	0	0	0	-18	0
Total	**1,201,078**	**120,166**	**-50,048**	**-5,972**	**-552,309**	**712,896**

Table 120: Movements in deferred tax assets in 2019

** Reclassification to non-current assets held for sale due to expected sale of the subsidiary*

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.

7.3.9 Inventories

No inventories were impaired in 2019 or 2018, 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 2019, the cost value was negative in the amount of €6,618.

		in EUR
	31.12.2019	**31.12.2018**
Materials	1,182,364	1,117,626
Small tools	32,478	29,808
Merchandise	5,368	4,934
Total	**1,220,210**	**1,152,368**

Table 121: Inventories

7.3.10 Short-term investments

The Group reports no short-term investments as at 31 December 2019

		in EUR
Short-term loans to others	**2019**	**3018**
At 1 Jan	4,001,343	1,343
Invested	0	4,000,000
Transfer from long-term to short-term investments	0	0
Tranafer from long-term to short-term deposits	0	0
Repayments	-4,000,000	0
Derecognition	-1,343	0
At 31 Dec	**0**	**4,001,343**

Table 122: Short-term investments

7.3.11 Trade and other receivables

		in EUR
	31.12.2019	**31.12.2018**
Trade receivables	6,127,526	31,178,734
Current tax credits	0	21,259
Other receivables	153,794	1,449,328
Total trade and other receivables	**6,281,321**	**32,649,321**

Table 123: Trade and other receivables

		in EUR
	31.12.2019	31.12.2018
Receivables due from sales:		
- on domestic market	4,931,281	31,638,150
- on foreign markets	0	641,728
Allowances	**-638,149**	**-2,956,071**
	4,293,132	**29,323,806**
Rent receivables:	**1,815,262**	**1,747,662**
Interest receivable		
- other customers	59,733	346,056
Allowances	**-55,195**	**-290,197**
	4,539	**55,858**
Advances	**14,594**	**70,113**
Allowances	**0**	**-17,663**
	14,594	**52,450**
Trade receivables due from others:		
- from government and other institutions	100,363	1,412,674
of which tax credits	0	21,259
- from employees	337	0
- from others	55,600	74,592
Allowances	**-2,505**	**-17,722**
	153,794	**1,469,544**
Total	**6,281,321**	**32,649,321**

Table 124: Trade receivables of the Group

		in EUR
Maturity structure of trade receivables at the year-end:	**31.12.2019**	**31.12.2018**
Not past due	5,963,754	27,476,504
Due and outstanding up to 30 days	133,907	2,207,985
Due and outstanding from 31 to 60 days	9,370	769,000
Due and outstanding from 61 to 90 days	1,017	535,675
Due and outstanding from 91 to 365 days	4,885	98,710
Overdue for more than 365 days	0	39,453
Total	**6,112,933**	**31,127,327**

Table 125: 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 past periods,
- 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.

The share of trade receivable allowances accounts for 11% of total receivables. In 2019, receivable write-downs and impairments recognised in operating expenses amounted to €79,638 (2018: €267,995).

		in EUR
	31.12.2019	31.12.2018
At 1 Jan	3,281,653	3,302,673
Collected written-off receivables	-23,409	-88,208
Final write-off of receivables	-106,988	-200,808
Allowances recognised in the year	187,849	267,995
Reclassification	-2,643,257	0
At 31 Dec	**695,849**	**3,281,653**

Table 126: Movements in trade receivable allowances

** Reclassification to non-current assets held for sale due to expected sale of the subsidiary*

Other receivables
Of total other receivables amounting to €153,794 (2018: €1,469,544), the largest amount is due from the State on account of VAT refund amounting to €100,358 (2018: €1,348,198). The remaining amount comprises other receivables.

7.3.12 Contract assets and cost to obtain contracts

Contract assets comprise short-term accrued revenue from the sale of services rendered in the amount€2,581,131 (2018: €1,399,156), while the Group reports no costs to obtain contracts in 2019 (2018: €819,130).

		in EUR
	31.12.2019	**31.12.2018**
Contract assets	2,581,131	1,399,156
Cost to obtain contracts	0	819,130
Total	**2,581,131**	**2,218,286**

Table 127: Contract assets

Contract assets increased in 2019 on account of the preliminary settlement for the financial year 2019 in the amount of €2,467,681 (2018: €999,187), which the parent company received in March 2020.

No contract assets were impaired.

Other current assets
Other short-term assets of the Group comprise deferred costs and expenses and short-term accrued income as presented in the table below:

		in EUR
	31.12.2019	**31.12.2019**
VAT in advances received	673	183,085
Short-term deferred costs and expenses	23,805	35,616
Accrued income	190,734	82,830
Vouchers	49	1,183
Total	**215,261**	**302,713**

Table 128: Deferred costs and accrued income

Deferred costs or expenses and short-term accrued income of total €215,038 (2018: €302,713) comprise the following items:

- VAT on advances received and overpayments;
- short-term deferred costs include: deferred costs of annual licences in the amount of €11,162, and other deferred costs such as subscriptions, insurance premiums and similar amounting to €12,642;
- short-term accrued income consists of €190,511 of revenues from the preliminary settlement issued by SODO for the rent referring to the financial year 2019 (2018: €40,605).

7.3.13 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 (eg. 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.

Cash also includes cash on transaction accounts held by group companies at commercial banks.

		in EUR
	31.12.2019	31.12.2018
Cash at bank	2,965,633	3,724,692
Total	**2,965,633**	**3,724,692**

Table 129: Cash and cash equivalents of the Group

7.3.14 Equity

As at 31 December 2019, the Group's equity of €161,853,771 is composed of:

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

		in EUR
	31.12.2019	31.12.2018
Share capital	78,383,817	78,562,832
Share premium	46,306,588	46,208,187
Legal reserves	1,037,440	768,501
Reserves for treasury shares and stakes	0	80,613
Treasury shares and stakes (as a deductible item)	0	-80,613
Other profit reserves	40,291,393	34,819,055
Fair value reserve	-1,399,772	-1,028,694
Retained profit brought forward	90,257	115,694
Retained earnings	2,662,337	2,408,196
Total	**167,372,061**	**161,853,771**

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 18,783,898 ordinary registered shares. Each share has an equal interest and attributable amount in the share capital. The share capital is fully paid. The share capital decreased in 2019 by €179,014 as a result of the withdrawal of treasury shares.

Share premium of the Group originates from the general capital revaluation adjustment of the parent company, which was transferred to the share premium on transition to SAS 2006. Share premium may be used under the terms and for the purposes provided by law. In 2019, share premium increased by €98,401 on account of the withdrawal of treasury shares.

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 €5,239,175 of the net profit for the year to other profit reserves in accordance with Article 230 of the Companies Act (ZGD-1) and paid €2,200,470 of dividends to shareholders.

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 2019, the parent company held no treasury shares, while as at 31 December 2018, it 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 and withdrawal of treasury shares under consent of the Supervisory Board. In 2019, the Supervisory Board gave its consent to the Management Board to withdraw all 42,899 treasury shares

through €179,014 decrease in share capital; of that, €98,401 was transferred to share premium and €80,613 to retained earnings (the amount equal to the reserves for treasury shares set aside in the past).

Transactions with treasury shares in 2019:

			in EUR
	Number of shares	**Weighted average share price**	**Value of treasury shares**
At 31 Dec 2018	42,899	1,88	80,613
Treasury share withdrawal in 2019	-42,899	-	-80,613
At 31 Dec 2019	**0**	**-**	**0**

Table 131: Treasury shares

Average share price includes also stock-brokerage fee.

The Group reports no reserves for treasury shares as at 31 December 2019, compared to 2018 when the Group had €80,613 of reserves for treasury shares.

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 €371,078 to €1,399,772 as at 31 December 2019. The total change results from a decrease in the fair value of available-for-sale financial assets by €7,104, a reduction of €417,881 due to the restatement of post-employment benefits, and an increase of €39,699 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 €2,662,337 (2018: €2,408,196) consists of the profits of the parent company and its subsidiary E 3, and the attributable profit of the associated company Knešca amounting to €64,997 (2018: €22,970). Total profit of the associated company Knešca amounted to €137,501 in 2019 (2018: €48,594), reduced by €22,972 of the profit shares paid (2018: €56,728) and fringe benefits paid to the director amounting to €2,750 (2018: €976).

Compared to the previous year, retained earnings increased in 2019 by €254,141. Retained earnings comprise €8,185,293 of profit achieved in 2019 and €80,613 arising on withdrawal of treasury shares, reduced by the appropriation of €2,200,470 of the distributable profit to dividends according to the resolution of the 24th General Meeting held on 28 June 2019.

Movements in equity of the Group in 2018 and 2019 are shown in the statement of changes in equity.

Dividend per share - In 2019, the gross dividend per share amounted to €0.1171 (2018: €0.1357.

Earnings per share - Basic earnings per share amounted to €0.44 in 2019, up 16.47% compared to 2018, when it stood at €0.37. Profit of the Group amounting to €8,185,293 (2018: €7,028,021) was considered in the calculation. The weighted average number of issued shares (excluding treasury shares) was considered for the financial year 2019 i.e. 18,783,955 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, therefore there is no difference between basic and diluted earnings per share.

		in EUR
	31.12.2019	**31.12.2019**
Net profit or loss (in EUR)	8,185,293	7,028,021
Number of shares issued	18,783,898	18,826,797
Number of treasury shares at the beginning of the year	42,899	42,499
Number of treasury shares at the end of the year	0	42,899
Weighted average number of ordinary shares	18,783,898	18,783,955
Diluted average number of ordinary shares	18,783,898	18,783,955
Basic and diluted earnings per share (EUR/share)	**0.44**	**0.37**

Table 132: Earnings per share

All shares issued by the controlling company are ordinary registered shares.

Distributable profit

The Group recognised distributable profit and the prescribed amount of legal reserves in accordance with the provisions of the Companies Act. The Management Board of the Group proposed allocation of the profit 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 2019 has not yet been proposed or confirmed at the General Meeting and therefore, no liabilities for dividends are reported in the financial statements.

7.3.15 Provisions and long-term deferred income

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

		in EUR
	31.12.2019	**31.12.2019**
At 1 Jan	4,664,168	3,930,263
Formation	932,059	2,314,593
Utilisation	-340,240	-272,284
Reversal	-7,667	-1,308,404
Reclassification*	-262,000	0
At 31 Dec	**4,986,319**	**4,664,168**

Table 133: Provisions of the Group

** Reclassification to non-current assets held for sale due to expected sale of the subsidiary*

The Group reports €4,986,319 of provisions for post-employment and other non-current employee benefits (2018: €4,643,892).

7.3.16 Provisions for post-employment and other non-current employee benefits

Provisions for obligations to employees arising from post-employment and other non-current benefits are based on actuarial calculation using the following assumptions:

- the number of employees at the reporting date; their gender, age, status, salary level and total length of service and the length of service of each employee at the reporting date;
- 0.7782-percent annual discount rate in the calculation of the present value of future obligations of the entity (2018: 1.57-percent);
- 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, the same as in 2018;
- 3.0% wage growth in the company, the same as in 2018;
- 3.5% increase in the average wage in the Republic of Slovenia (2018: 3.0%).

			in EUR
	Jubilee awards	**Severance pay**	**Total post-employment benefits**
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	0	-32,040	-32,040
Actuarial losses	894,499	1,115,390	2,009,889
Fringe benefits	-164,637	-107,647	-272,284
At 1 Jan 2019	**1,256,972**	**3,386,920**	**4,643,892**
Post-employment benefit costs	0	126,191	126,191
Current employee benefit costs	79,522	176,677	256,199
Interest expense	17,233	46,539	63,772
Actuarial gains	-7,667	0	-7,667
Actuarial losses	0	485,897	485,897
Fringe benefits	-89,799	-250,441	-340,240
Reclassification*	-172,191	-69,532	-241,723
At 31 Dec 2019	**1,084,069**	**3,902,250**	**4,986,319**

Table 134: Provisions for post-employment benefits

**Reclassification to non-current assets held for sale due to the anticipated sale of a subsidiary*

Additional provisions of total €932,059 (2018: €2,346,632) were set aside on account of: payroll costs (€382,389) (2018: €1,183,952); interest expense of €63,772 (2018: €485,897); and €485,897 (2018: €1,115,390) of actuarial losses recognised in equity as the revaluation reserve. In 2019, the Group paid €340,240 of jubilee awards and severance pay (2018: €272,284), and reversed €7,667 of provisions on account of actuarial gains recognised as revenue from reversal of provisions (2018: €32,040 recognised in equity as the revaluation surplus).

Sensitivity analysis

			in EUR
	Provisions for jubilee awards	Provisions for severance pay	Total
0.5% decrease in discount rate	57.016	214.269	271.285
0.5% increase in discount rate	-52.614	-195.322	-247.936
0.5% salary increase	57.508	214.832	271.340
0.5% salary decrease	-53.698	-198.237	-251.935

Table 135: Sensitivity analysis of the post-employment benefits

7.3.17 Long-term deferred income

	Assets acquired free-of-charge	Average cost of connection	Co-financing of facility construction	Co-financing of the eagle-owl project	Co-financing of meters from cohesion	Donations and grants received	Other	Total in EUR
At 1 Jan 2019	**7,289,119**	**1,993,659**	**143,716**	**0**	**543,337**	**789,544**	**0**	**10,759,375**
Formation	76,822	0	0	473,219	457,691	33,013	44,588	1,085,332
Reversal	-25,804	0	0	0	0	-1,343	-2,403	-29,550
Transfer to revenue	-278,402	-110,299	-9,027	-5,674	-45,962	-16,333	0	-465,697
Reclassification*	0	0	0	0	0	-684,496	0	-684,496
At 31 Dec 2019	**7,061,734**	**1,883,359**	**134,689**	**467,545**	**955,067**	**120,384**	**42,185**	**10,664,963**

	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 2018	**7,289,119**	**1,993,659**	**143,716**	**0**	**543,337**	**789,544**	**10,759,375**

Table 136: Long-term deferred income in 2019 and 2018

** Reclassification to non-current assets held for sale due to expected sale of the subsidiary*

In 2019, the Group recognised €76,822 of long-term accrued costs and deferred income on account of free-of-charge acquisition of energy facilities of legal and natural persons. 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 electricity distribution 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 €287,429 (2018: €288,354) is equal to the annual depreciation of an individual asset obtained free-of-charge or to a proportion of the co-financed item of fixed assets.

The average connection costs comprise funds collected on account of connections to the power 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 construction and renovation. 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 2019, 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 2019, 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 2019 of €457,691

accounts for 33% of the cost and installation of those meters. Annual depreciation of €45,962 is calculated on the share of each 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.

In 2014, the Group 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 €16,966 of depreciation accounted for in 2019, which was recognised under other operating revenue (2018: €24,198).

No additional liabilities are reported by the Group on account of long-term deferred income from compensation claims.

In 2019, the Group recognised €473,319 of long-term provisions on account of the co-financing of the eagle-owl project for insulation of medium voltage power lines.

The project falls under the auspices of " Ensuring appropriate use of karst grasslands and rock walls for conservation of selected habitat types and species in the Natura 2000 network - Karst " in short "FOR THE KARST", which is a nature conservation project for improved status of significant habitat types and species in the Natura 2000 - Karst region. The project is co-financed from the European Regional Development Fund by the European Union and the Republic of Slovenia. A variety of nature protection measures implemented over a period from 1 September 2017 to 31 July 2021 worth in total €3,189,527.95, will improve the status of the three most endangered habitat types, helping to preserve 27 endangered species of plants and animals in the Natura 2000 Karst area. The project area extends throughout the Karst region, from Hrastovlje on the southern edge of the Karst to Štanjel in the north.

7.3.18 Non-current financial liabilities

		in EUR
	31.12.2019	**31.12.2018**
Long-term financial liabilities	33,976,174	33,716,334
Current amount of long-term liabilities	-4,189,264	-6,874,667
Long-term financial liabilities	29,786,910	26,841,667
Total long-term liabilities	**29,786,910**	**26,841,667**

Table 137: Non-current financial liabilities

Debts are classified into financial and operating debts, while depending on their maturity they are grouped 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 December 2031. A total €20,769,444 of borrowings falls due within 5 years of the reporting date (2018: €21,641,333).

In the financial year under review, the Group raised new borrowings of total €7,000,000.

Interest rates agreed are one-month or three-month EURIBOR and a bank premium ranging from 1% to 1.16%. Five of the borrowings were 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 2019, these are as follows:

CALCULATION	Actual 31.12.2019	Covenant - Article 6.10 of the contract
Financial liabilities / EBITDA	1.56	= < 2.0
Financial liabilities / Equity	0.20	< 0.25
EBITDA / Interest expense	86.40	= > 15.0
Current assets / Current liabilities	1.49	> 0.75

Movement of financial liabilities in 2019 and 2018:

						in EUR
Movements in financial liabilities	**At 01.01.2019**	**Cash flow**		**Non-monetary changes**	**Reclassification***	**At 31.12.2019**
		Inflows	**Outflows**			
Bank borrowings	34,425,840	15,428,000	-15,633,000	22,000	-567,840	33,675,000
Dividends	5,227		-2,200,470	2,200,472	0	5,229
Treasury shares	0		0	0	0	0
Interest payable on borrowings	29,269		-302,381	291,993	-168	18,713
Lease liabilities	565,111		-49,939	0	-213,998	301,174
Total	**35,025,447**	**15,428,000**	**-18,185,790**	**2,514,465**	**-782,005**	**34,000,117**

					in EUR
		Cash flow		**Non-monetary**	**At**
Movements in financial liabilities	**At 01.01.2018**	**Inflows**	**Outflows**	**changes**	**31.12.2018**
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**

Table 138: Financial liabilities

7.3.19 Lease liabilities

Lease liabilities of the Group arise from contracts for the lease of assets, the value of which was calculated in accordance with IFRS 16.

			in EUR
		IFRS 16 adoption	
	31.12.2019	**01.01.2019**	**31.12.2018**
Long-term lease liabilities	267,466	512,260	0
Short-term lease liabilities	33,708	52,851	0
Total lease liabilities	**301,174**	**565,111**	**0**

Movements in lease liabilities in 2019:

	in EUR
At 31 Dec 2018	**0**
Adoption of IFRS 16	565,111
At 1 Jan 2019	**565,111**
Increase	22,126
Interest	5,818
Lease payments	-53,775
Decrease due to change in lease values	-1,722
Derecognition	-2,735
Reclassification*	-233,649
At 31 Dec 2019	**301,174**

7.3.20 Short-term liabilities

		in EUR
	31.12.2019	31.12.2018
SHORT-TERM FINANCIAL LIABILITIES		
Short-term financial liabilities to banks	0	709,506
Short-term financial liabilities to others	0	7,000
Current amounts of long-term borrowings	4,155,556	6,874,667
Current amount of long-term lease liabilities	33,708	0
Dividends payable	5,229	5,227
Total short-term financial liabilities	**4,194,493**	**7,596,400**
Supplier payables	4,445,419	25,361,619
Total supplier payables	**4,445,419**	**25,361,619**
Payables to employees	1,732,720	1,756,151
Payables to the State and other institutions (excluding income tax)	94,534	442,096
Other liabilities	59,721	135,837
Total other short-term operating liabilities	1,886,976	2,334,083
Total short-term operating liabilities	**6,332,395**	**27,695,703**
Corporate income tax payable	**190,407**	**75,763**
Total	**6,522,803**	**27,771,466**
TOTAL SHORT-TERM LIABILITIES	**10,717,295**	**35,367,866**

Table 139: Short-term liabilities of the Group

Short-term financial liabilities of the Group include current amounts of long-term borrowings and short-term lease liabilities falling due in 2020.

Supplier payables of the Group fell in 2019 by €20,916,200 due to the transfer of liabilities to non-current liabilities for sale (2018: an increase of €3,917,856 compared to 2017). Liabilities are not collateralised and the company has not pledged any of its assets or issued guarantees for its liabilities.

Payables to the State rose by €114,644 mainly on account of the value added tax payable.

Payables to employees are obligations for the December salaries and for the bonus payable for successful performance in 2019.

7.3.21 Contract liabilities

The Group recognised €19,666 of liabilities arising from contracts with customers on account of advances and securities received (2018: €1,054,184). Most of these refer to advances received for the performance of works and overpayments for services rendered.

7.3.22 Other liabilities

		in EUR
	31.12.2019	31.12.2019
VAT in advances granted	1,914	2,422
Accrued expense	619,866	1,248,441
Total	**621,780**	**1,250,863**

Table 140: Other liabilities

Other liabilities include deferred income and short-term accrued expenses, as well as VAT in advances granted.

Accrued expenses comprise:

- Provisions on account of annual leave not utilised in 2019 amounting to €601,029 (2018: €722,288).
- Accrued interest expense on borrowings amounting to €18,396 (2018: €18,814).
- Other liabilities in the amount of €4,192.

7.3.23 Contingencies and guarantees issued

In the opinion of legal experts, none of the legal actions brought against the Group is likely to have a significant impact on its 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 those guarantees were issued.

In 2019, €11,500,000 of bank guarantees was issued by the Group to SODO against payment of liabilities due to the subsidiary, (which is subject to the takeover bid), for the use of the power grid (2018: €11,500,000).

		in EUR
	31.12.2019	**31.12.2018**
Bank guarantees issued	29,084	11,714,125
Real estate recognised by Eco Atminvest	0	1,750,616
Total	**29,084**	**13,464,741**

Table 141: Contingencies of the Group

7.4 Notes to consolidated profit or loss account

A total €713,818 (2018: €609,865) of revenue and €893,302 (2018: €559,949) of expenses were eliminated from the consolidation in 2019. The Group recognised €164,809 of additional allowances for trade receivables following the adoption of International Financial Reporting Standard IFRS 15 (2018: €404,572).

7.4.1 Operating revenue

		in EUR
	2019	**2018**
Net sales	39,599,431	122,815,658
Capitalised own products and services	9,571,803	7,901,444
Other operating revenue	1,147,531	2,400,084
Total operating revenue	**50,318,764**	**133,117,186**

Table 142: Operating revenue of the Group

Net sales:

		in EUR
	2019	**2018**
Revenue from contracts with customers	22,046,117	105,408,979
a.) Revenue from the sale of products	0	84,945,008
- on domestic market	0	78,639,255
- on foreign markets	0	6,305,754
b.) Revenue from the rendering of services	22,025,001	20,410,071
c.) Revenue from the sale of merchandise	21,116	53,900
Other sales revenue	17,553,314	17,406,679
Total operating revenue	**39,599,431**	**122,815,658**

Table 143: Net sales

Revenue from contracts with customers on the domestic market in 2019:

	2019	**2018**
Revenue from the sale of maintenance services on the power distribution network	20,617,738,00	18,455,979,00
Revenue from the rendering of services for the market	1,407,263,35	1,954,092,00
Total revenue from the rendering of services	**22,025,001,35**	**20,410,071,00**

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 €557,883 (2018: €195,593). Other operating revenues declined in 2019 by €1,252,553, mainly due to the reversal of provisions for post-employment benefits, which in 2018 amounted to €1,308,404.

		in EUR
Other operating revenue from:	**2019**	**2018**
Provision utilisation and reversal	432,888	1,762,322
Sale of fixed assets	33,952	46,653
Time-barred debt written-off	0	0
Recovered written-off receivables	7,185	104,845
Received subsidies	94,327	128,121
Insurance proceeds, compensation	562,257	234,035
Revenue from refund of excise duty	0	44,083
Revenue from reminders	0	60,819
Other operating revenues	16,922	19,205
Total	**1,147,531**	**2,400,084**

Table 144: Other operating revenue of the Group

7.4.2 Operating expenses

		in EUR
Costs by nature	**2019**	**2018**
Cost of electricity sold	0	75,674,080
Cost of materials and services	11,046,450	16,097,387
Employee benefits	17,197,327	19,739,558
Write-downs	12,867,841	13,306,074
Other operating expenses	139,661	349,663
Total	**41,251,278**	**125,166,762**

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.

		in EUR
Cost of materials:	**2019**	**2018**
Energy costs	389,192	1,536,563
Cost of materials	4,277,928	78,762,471
Cost of ancillary material	60,880	60,611
Cost of spare parts and maintenance material	506,567	511,730
Write-off of small tools	157,107	122,114
Cost of stationery and professional literature	76,270	249,116
Cost of goods and materials sold	11,514	28,883
Other cost of materials	-2,056	4,880
Total cost of materials	**5,477,403**	**81,276,368**

Table 146: Cost of materials of the Group

		in EUR
Cost of services:	**2019**	**2018**
Cost of services in the production of products and rendering of services	34,886	77,069
Cost of transportation	2,084	380,334
Cost of maintenance	1,731,310	1,765,757
Rent	84,605	197,063
Reimbursement of work-related expenses to employees	20,308	25,491
Cost of banking services and insurance premiums	1,076,294	1,276,243
Fee and commission paid	1,123	1,881,261
Cost of intellectual and personal services	673,475	1,045,090
Cost of trade fairs, publicity and hospitality	126,174	590,420
Cost of services of individuals, including duties	173,728	210,386
Cost of other services	1,645,061	3,045,984
Total cost of services	**5,569,047**	**10,495,098**

Table 147: Cost of services of the Group

The cost of services declined in 2019 also on account of lease payments, which the Group capitalised and recognised in accordance with the new IFRS standards as the right-of-use assets.

The Elektro Primorska Group expenses include meeting fees paid to members of the supervisory boards of the group companies. Total remuneration to the Supervisory Boards amounted to €118,502 (2018: €118,293) 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 €12,000 (the same as in 2018).

Company	Ernst&Young	Ernst&Young
	2019	2018
Audit of the annual report	12,000	12,000
Other assurance services	1,000	1,000
Other non-audit services	400	0
Total audit fees	**13,400**	**13,000**

Table 148: Fees paid for the audit of the annual report of the Group

Lease payments

		in EUR
Stroški najema	**2019**	**2018**
Depreciation of the right-of-use assets	50,457	0
Financial expenses	5,817	0
Lease payments	84,605	197,063
Total recognised as costs or expenses	**140,879**	**197,063**

Table 149: Lease payments

Lease payments include short-term lease payments, payments for lease of low-value assets and lease payments for assets not controlled by the Group.

		in EUR
Employee benefits:	**2019**	**2018**
Gross wages and salaries and continued pay	12,185,669	13,260,025
Pension insurance costs	626,080	691,101
Other social insurance costs	2,024,799	2,270,157
Reimbursement of transportation cost	405,481	457,735
Reimbursement of costs of meals during working hours	573,892	790,940
Holiday pay	901,392	993,270
Post-employment benefits and other non-current employee benefits	382,389	1,183,952
Other reimbursements and substitutes	97,624	92,377
Total employee benefit costs	**17,197,327**	**19,739,558**

Table 150: Employee benefit costs of the Group

Individual Management Boards of Group companies have a single member. In total, they received €101,833 (2018: €184,891) of remuneration in 2019.

On average, the Elektro Primorska Group had 524 employees in 2019 (2018: 522).

Level according to BP	Average number of employees	Average number of employees
	2018	2019
8/2	2	2
8/1	7	8
7	52	56
6/2	61	62
6/1	62	64
5	184	182
4	135	132
3	15	15
2	2	2
1	2	1
Total	**522**	**524**

Table 151: 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 sureties for their obligations.

		in EUR
Amortisation and depreciation:	**2019**	**2018**
Amortisation of intangible assets	1,492,175	1,276,634
Depreciation of property, plant and equipment - facilities	5,808,397	5,810,595
Depreciation of property, plant and equipment - equipment	5,209,552	5,420,522
Depreciation of investment property	9,121	8,942
Depreciation of the right-of-use assets	50,457	0
Total amortisation and depreciation	**12,569,703**	**12,516,694**

Table 152: Depreciation costs of the Group

Amortizacija v skupini je obračunana v višini 12.569.703 EUR (2018: 12.516.694 EUR).

		in EUR
Impairments and write-off	**2019**	**2018**
Operating expenses from revaluation of intangible assets and P, P&E	218,500	115,094
Operating expenses from revaluation of current assets	79,638	267,995
Total revaluation expenses	**298,138**	**383,089**

Table 153: Impairment and write-off

A total €198,138 (2018: €383,089) relates to the write-off and impairment of intangible assets, property, plant and equipment, and working capital. Of that, €218,500 (2018: €115,094) relates to impairment and write-off of fixed assets, and €79,638 to receivable allowances (2018: €267,995). The Group did not recognise any allowances for inventories in 2019 or 2018.

7.4.3 Other operating expenses

		in EUR
Other operating expenses	**2019**	**2018**
Sponsorships and donations	30,072	36,865
Charges for environmental protection and duties independent of business activities	139,661	179,866
Other operating expenses	49,101	132,932
Total other operating expenses	**218,833**	**349,663**

Table 154: Other operating expenses of the Group

Charges independent of profit or loss relate to the land and water contribution in the amount of €91,845 (2018: €93,847); 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 donations; administrative and legal fees; and other expenses that are not essential to the business.

7.4.4 Financial income

Financial income of the Elektro Primorska Group amounted to €28,279 in 2019 (2018: €145,156), of which €5,920 (the same as in 2018), relates to income from stakes and the remaining amount to interest income.

		in EUR
Financial income:	**2019**	**2018**
Financial income from shares and stakes	5,920	5,920
Financial income from loans	42	5,050
Financial income from trade receivables	22,316	134,186
Total	**28,279**	**145,156**

Table 155: Financial income of the Group

7.4.5 Financial expenses

Financial expenses amounting to €323,128 (2018: €392,287) consist of interest on short- and long-term bank borrowings, default interest charged by suppliers, interest from actuarial calculations and financial lease liabilities. Compared to the previous year, financial expenses on bank borrowings decreased by €21,915, default interest payable to suppliers fell by €30,268, while interest from actuarial calculations increased by €16,482.

		in EUR
Financial expenses:	**2019**	**2018**
Expenses from investment impairment and write-off	0	38,580
Expenses from financial liabilities to banks	252,055	273,970
Financial expenses from lease liabilities	5,817	0
Expenses from financial liabilities - actuarial calculations	63,772	47,290
Expenses from financial liabilities to suppliers	1,254	31,522
Expenses from financial liabilities to others	230	925
Total	**323,128**	**392,287**

Table 156: Financial expenses of the Group

7.4.6 Current tax and deferred tax assets/ 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 €1,059,555 in 2019 (2018: €1,103,155). Corporate income tax rate in 2019 was 19%, the same as in 2018.

The Group recognised €26,760 of deferred tax assets in 2019 compared to the previous financial year when €37,772 of deferred tax assets was reversed.

		in EUR
Tax expense recognised in profit or loss	**2019**	**2018**
Income tax payable for the current year	-1,086,314	-1,065,785
Deferred tax assets/liabilities	26,760	-37,772
Tax expense recognised in profit or loss	**-1,059,555**	**-1,103,557**

The increase in deferred taxes compared to 2018, is on account of an increase in receivable allowances recognised by the Group in 2019 and additional provisions for post-employment benefits.

		in EUR
Changes in deferred taxes recognised in profit or loss	**2019**	**2018**
Provisions	18,108	-32,148
Receivables	8,651	-5,621
Receivables for elimination of gains from sale of inventories	0	-2
Changes in deferred tax assets/liabilities	**26,760**	**-37,772**

Table 157: Movements in deferred tax assets

Movements in deferred tax assets are disclosed in Note 6.2.7.

7.4.7 Net profit

The Group achieved pre-tax profit of €8,733,144 from continued operations in 2019 (2018: €8,131,578),

The net profit from continuing operations amounts to €7,673,589, while the total net profit of the Group (inclusive of the profit of discontinued operations) for the financial year 2019 amounts to €8,185,2932 (2018: €7,028,021).

		in EUR
Tax expense recognised in profit or loss	**2019**	**2018**
Current income tax payable	-1,199,178	-1,065,785
Deferred tax	58,496	-37,772
Income tax payable	**-1,140,682**	**-1,103,557**
Profit or loss before tax	9,325,975	8,131,578
Tax calculated at the applicable tax rate of 19%	**1,771,935**	**1,545,000**
Adjustment of revenue to the level of tax-deductible	-469,459	-818,183
Adjustment of expenses to the level of tax-deductible	1,730,952	1,888,800
Utilisation of tax relief	-3,998,318	-2,681,376
Other (change in accounting method)	-277,685	-555,046
Total tax base	**6,311,466**	**5,965,772**
Tax from continued operations	-1,059,555	-1,103,557
Tax from discontinued operations	-81,127	0
Effective tax rate of continued operations	**11.36%**	**13.57%**

Table 158: Corporate income tax

7.5 Notes to consolidated cash flow statement

The consolidated cash flow statement is compiled under the direct method based on data and balances reported in books of account, showing movements in cash flows during the accounting period.

Difference between the initial and closing balance of cash and cash equivalents in 2019 is the cash outflow of €319,285 (2018: cash outflow of €2,442,797).

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 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 2019 by €17,641,951 compared to 2018, mainly on account of an increase in operating revenues from the sale of electricity (inflow of €179,276,867, which accounts for the major item of operating inflows), and the use of network and services performed on behalf and for the account of SODO (inflows of €27,768,656). Major amount of receipts from operating activities of €41,180,827 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 refers to the outflows on account of the cost of the network use (€91,702,843), 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 €17,511,603 on investments in 2019, exclusive of the cost of capitalised own work.

Receipts from financing activities refer to the long-term and short-term borrowings. In 2019, the Company raised €6.978 million of long-term borrowings from Banca Intesa Sanpaolo for funding its investments, and withdrew €8.95 million of funds from a short-term revolving credit.

Expenditures for financing activities comprise payments of interest, dividends and repayment of borrowings. Most of the financing expenses refer to the repayment of long-term and short-term borrowings of €38,109,173, namely repayment of a short-term revolving credit of €31,359,5060 and repayment of current amounts of long-term borrowings of total €6,749,667. Financing expenses also refer to dividends paid in 2019 in the amount of €2,200,470.

Net cash for the period
The Group generated €307,060,047 of cash inflows in 2019 (2018: €258,917,281) and €307,379,333 of cash outflows (2018: €261,360,077). 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 the initial and closing balance of cash and cash equivalents in 2019 is the cash outflow of €319,285 (2018: cash outflow of €2,442,797). When considering the eliminations due to the reclassification in the amount of €439,774, the cash flow in 2019 stands at €2,965,633.

7.6 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 risks.

The Group does not use derivative financial instruments to hedge against these risks.

7.6.1 Credit risk

The process of receivable recovery is a key element of the 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 receivables' maturity and customers' 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 2019, 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 had been 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 2019 are presented in the table below:

		in EUR
	2019	**2018**
Financial assets at fair value through OCI	917,777	878,502
Non-current financial receivables	0	82,979
Non-current operating receivables	301,470	547,913
Short-term financial receivables	0	4,001,343
Trade receivables (net of receivables due from the State)	6,112,933	31,127,327
Contract assets	2,581,131	1,399,156
Cash and cash equivalents	2,965,633	3,724,692
Total	**12,878,944**	**41,761,914**
Non-derivative financial liabilities at amortised cost		
Bank borrowings and other financial liabilities	-33,981,403	-34,438,067
Trade payables (excluding other long-term liabilities and payables to the State and employees, and advances)	-4,505,141	-25,497,456
Total non-derivative financial liabilities	**-38,486,544**	**-59,935,524**

Table 159: The carrying amount of financial assets as at 31 December 2019

At the reporting date, short-term receivables are mostly exposed to the credit risk.

							in EUR
	Not-past due	Due and outstanding up to 30 days	Due and outstanding from 31 to 60 days	Due and outstanding from 61 to 90 days	Due and outstanding from 91 to 365 days	Due and outstanding in excess of 365 days	Total
Trade receivables	5.963.754	133.907	9.370	1.017	4.885	0	6.112.933
Other receivables (excluding receivables from the State)	34.769	4.965	569	382	1.757	10.991	53.431
Total at 31 Dec 2019	**5.998.523**	**138.871**	**9.938**	**1.399**	**6.642**	**10.991**	**6.166.364**

							in EUR
	Not-past due	Due and outstanding up to 30 days	Due and outstanding from 31 to 60 days	Due and outstanding from 61 to 90 days	Due and outstanding from 91 to 365 days	Due and outstanding 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**

Table 160: Maturity structure of trade and other receivables

				in EUR
	Trade receivable allowances	Interest receivable allowances	Other receivable allowances (excluding receivables from the State)	Total
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**
At 1 Jan 2019	2,956,071	290,197	17,722	3,263,990
Receivable allowances	183,900	2,013	1,937	187,849
Reversal of receivable allowances	-21,004	-1,265	-1,140	-23,409
Write-off	-103,534	-3,151	-303	-106,988
Reclassification*	-2,375,197	-233,546	-16,850	-2,625,593
At 31 Dec 2019	**640,235**	**54,248**	**1,365**	**695,849**

Table 161: Movements in receivable allowances

Collateralised receivables - In 2019, none of the Group's receivables are collateralised (€42,000,000 of receivables due from major buyers of electricity to the subsidiary was collateralised in 2018).

7.6.2 Liquidity risk

Liquidity risk is the risk that the Group will not be able to settle its liabilities on maturity. The aim of an entity 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 2019, 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 moderate.

	Carrying amount of liabilities	Contractual cash flows				
		Liabilities	0 to 6 months	od 7 do 12 mesecev	1-5 years	More than 5 years
Non-current financial liabilities	29,394,444	30,398,504	0	0	17,260,885	13,137,619
Short-term financial liabilities	4,280,556	4,568,023	2,522,997	2,045,026	0	0
Short-term supplier payables (excluding advances)	20,444,992	20,444,992	20,335,607	90,419	18,966	0
Contract liabilities (except advances)	0	0	0	0	0	0
Other liabilities excluding amount owed to the State, employees and for advance	59,721	59,721	59,721	0	0	0
Total liabilities at 31 Dec 2019	**54,179,713**	**55,471,240**	**22,918,325**	**2,135,444**	**17,279,851**	**13,137,619**

Table 162: Maturity structure of liabilities

7.6.3 Interest rate risk

Interest rate risk is the risk of a loss occurring 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 no hedging instruments are used to hedge the risk. 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:

		in EUR
Financial instruments at fixed rate of interest	**31.12.2019**	**31.12.2018**
Financial liabilities	33,050,000	29,550,000
Net financial instruments at fixed rate of interest	**33,050,000**	**29,550,000**

Table 163: Financial instruments at fixed rate of interest

		in EUR
Financial instruments at variable rate of interest	**31.12.2019**	**31.12.2018**
Financial receivables	4,084,323	4,084,323
Financial liabilities	-4,443,317	-4,888,067
Net financial instruments at variable rate of interest	**-358,994**	**-803,744**

Table 164: 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 is negative, the change of 100 base points would have a minimal impact on the cash flow variability in 2019.

An increase of 100 base points would have the following effect on the profit or loss

	in EUR
	31.12.2019
Net cash flow variability - 100bt	22,222
Net cash flow variability + 100bt	34,648

	in EUR
	31.12.2018
Net cash flow variability - 100bt	13,032
Net cash flow variability + 100bt	-

7.6.4 Currency risk

Financial and operating receivables and liabilities as at 31 December 2019 and 31 December 2018 are denominated in euros and therefore, the Group's exposure to currency risk is assessed as low and as such is not disclosed.

7.7 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 the group companies for the shareholders. Hence, the Group pursues a stable dividend policy.

The Group uses net debt to equity 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
	31.12.2019	**31.12.2018**
Non-current financial liabilities	30,204,198	26,841,667
Short-term financial liabilities	7,289,116	7,596,400
Total financial liabilities	37,493,314	34,438,067
Total capital	167,372,061	161,853,771
Debt/equity	**0.224**	**0.213**
Cash and cash equivalents	2,965,633	3,724,692
Net financial liabilities	34,527,681	30,713,375
Net debt/quity	**0.206**	**0.190**

Table 165: Net debt/equity ratio

7.8 The fair value and carrying amounts of financial instruments

				in EUR
	31.12.2019		31.12.2018	
	Carrying amount	Fair value	Carrying amount	Fair value
Non-derivative financial assets at fair value				
Financial assets at fair value through OCI	78,854	78,854	71,750	71,750
Non-derivative financial assets at amortised cost				
Financial receivables	0	0	4,084,323	4,084,323
Short-term operating receivables (net of receivables due form the State)	6,804,513	6,804,513	31,184,197	31,184,197
Non-current operating receivables	301,470	301,470	547,913	547,913
Contract assets	2,581,131	2,581,131	1,399,156	1,399,156
Cash and cash equivalents	2,965,633	2,965,633	3,724,692	3,724,692
Total non-derivative financial assets	**12,731,601**	**12,731,601**	**41,012,031**	**41,012,031**
Non-derivative financial liabilities at amortised cost				
Bank borrowings and other financial liabilities	-33,981,403	-33,981,403	-34,438,067	-34,438,067
Operating liabilities (excluding other long-term liabilities and short-term liabilities to the State and employees, and advances)	-4,505,140	-4,505,140	-25,497,456	-25,497,456
Total non-derivative financial liabilities	**-38,486,543**	**-38,486,543**	**-59,935,524**	**-59,935,524**

Table 166: 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 assets according to the fair value hierarchy:

	31.12.2019			31.12.2018		in EUR
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Assets at fair value						
Financial assets at fair value through OCI	78,854	0	0	71,750	0	0
Total assets at fair value	78,854	0	0	71,750	0	0
Assets for which fair value is disclosed						
Non-current financial receivables	0	0	0	0	0	82,979
Short-term financial receivables	0	0	0	0	0	4,001,343
Non-current operating receivables	0	0	301,470	0	0	547,913
Short-term operating receivables (net of receivables due form the State)	0	0	6,804,513	0	0	31,184,197
Contract assets			2,581,131			1,399,156
Cash and cash equivalents	0	0	2,965,633	0	0	3,724,692
Total assets for which fair value is disclosed	**0**	**0**	**12,652,747**	**0**	**0**	**40,940,281**

Table 167: Fair values of financial assets according to the fair value hierarchy

Fair values of financial liabilities according to the fair value hierarchy

	31.12.2019			31.12.2019		in EUR
	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	-29,786,910	0	0	-26,841,667
Short-term financial liabilities	0	0	-4,194,493	0	0	-7,596,400
Operating liabilities (excluding other long-term liabilities and short-term liabilities to the State and employees, and advances)	0	0	-4,505,140	0	0	-25,497,456
Total liabilities for which fair value is disclosed	**0**	**0**	**-38,486,543**	**0**	**0**	**-59,935,524**

Table 168: Fair values of financial liabilities according to the fair value hierarchy

7.9 Subsequent events

In the period subsequent to the reporting date (31 December 2019) and adoption of the Annual Report on 27 May 2020, the Group received preliminary statement of accounts from SODO for the 2019 regulation year. The preliminary 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 2019, the contractual value of services and rental of electricity infrastructure already charged is by €2,630,538 lower than the values established on the basis of the preliminary settlement of accounts (rent outstanding in the amount of €190,511 and service charge of €2,480,163). Therefore, the Group increased revenues from services performed under the contract with SODO by €2,480,163 and the value of rental income from the lease of energy infrastructure by €190,511.

In March 2020, the WHO and the Government of the Republic of Slovenia declared global Covid-19 coronavirus pandemic.

The Group has taken all necessary measures to contain the spread of the infection and to protect the health of employees and their families, and ensure business continuity. Thus, it has adapted its operations in a manner that ensures social distancing and the use of protective equipment, as well as restricted access to common areas and closed all access to external parties. In addition, instructions and recommendations were issued for the implementation of work processes and responsible behaviour both within the Company and in the field work.

To further reduce the risk, the Company made arrangements for some of its employees to work from home over the period from 13 March to 31 May 2020 and recommended them to take advantage of their annual leave.

Due to the pandemic and the prevailing conditions, the Company estimates that in 2020 its revenue will drop by €2.9 million, while incurring an additional €235 thousand of labour costs as the crisis allowance, and expenditures for the purchase of protective equipment. On the other hand, the Company expects €582 thousand of State support by means of exemption from payment of contributions, which will be recognised as operating income.
The Group is making regular repayments of its borrowings and settles its tax liabilities when due, and currently it has no liquidity issues due to the pandemic.

In February 2020, the parent company signed a contract for the sale of a 100% stake in its subsidiary E 3, d. o. o. The entire consideration received will be used for investments, in particular for investments in the construction and renovation of the energy infrastructure.

7.10 Operating leases

7.10.1 Group as a lessee

The Group recognised liabilities from operating lease of property, plant and equipment, which primarily relate to leases of business premises, fibre optic for telecommunications, and lease of electricity infrastructure for the provision of public service of electricity distribution, which the Group did not recognise as the right-of-use assets.

		in EUR
Maturity	**31.12.2019**	**31.12.2018**
Up to 1 year	84,605	147,568
From 1 up to and including 5 years	423,023	518,026
Total	**507,628**	**665,594**

Table 169: Operating lease liabilities relating to 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 up to 12 months.

Lease contracts are concluded for an indefinite period of time (for duration of services provision), while lease of electricity infrastructure has been agreed for a period of 30 years with an option to extend the lease.

In 2019, the Group recognised €86,065 of operating lease liabilities (2018: €111.657).

7.10.2 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	**31.12.2019**	**31.12.2018**
Up to 1 year	17,477,868	17,406,680
From 1 up to and including 5 years	87,691,124	87,033,398
Total	**105,168,993**	**104,440,078**

Table 170: 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 €17,477,868 in its profit or loss in 2019 (2018: €17,406,680), reported as revenue from sale of services on the domestic market.

8. STATEMENT OF MANAGEMENT RESPONSIBILITY – GROUP OPERATIONS

The Management has approved the financial statements and business report for the year ending 31 December 2019 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 2019.

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 (IFRS) 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 may result in a significant tax liability.

Nova Gorica, 27 May 2020

Uroš Blažica
President of the Management Board

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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
DE	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

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