



# ANNUAL REPORT 2020



**Plinovodi**  
Connected through energy



Co-financed by the European Union  
European Energy Programme for Recovery  
Trans-European Energy Network  
Connecting Europe Facility



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## ABOUT THE COMPANY

## Management Review for 2020

In the company Plinovodi d.o.o. (hereinafter referred to as: the “company Plinovodi”, “the company”, “Transmission System Operator” or “TSO”), we have continued with stable and successful business operation in the year 2020. We carried out the transmission of natural gas through the transmission system for domestic and foreign users reliably and without any particularities, and took care of the balancing of the system.

The year 2020 was marked by an epidemic of coronavirus, to which we responded at an early stage and from the first information about the spread of the infection in the world began with the gradual introduction of measures. In the first wave of infections, we fully adjusted our operations and took all the necessary measures to protect the employees, for the continuous operation of the transmission infrastructure, and risk management. We monitored the adoption of intervention legal acts and fully implemented all relevant provisions. In the third quarter, we prepared for the expected second wave of infections by additional training of selected employees to work in the DC and replenishing the stocks of protective equipment. In the last quarter, we again switched to conducting meetings entirely through video conferencing, introduced more work from home, and adopted some additional measures.

The maintenance work on the transmission system was performed on the basis of regular planned activities and current needs.

The booking of transmission capacity at interconnection points and cross-border transmission of natural gas decreased in the last quarter after high levels in the first three quarters due to changes in regional markets over which the company had no influence. In the entire year, we still transmitted 15 percent more quantities for the supply of the Croatian market than in the year 2019. The transmission of natural gas to domestic users followed the weather conditions and in the second quarter also the reduced activities in the economy. Compared to the previous year, there was more natural gas transferred in March, July, September, and all months of the last quarter. The total quantities transferred were at a comparable level to the year 2019 and exceeded the planned ones. The impact of the coronavirus epidemic on the booking of exit capacities in the Republic of Slovenia was not detected. In the third quarter, we recorded the first booking at the Rogatec entry point. Network users optimise their needs for the booking of transmission capacities by using short-term transmission capacity products, and through their transactions with natural gas volumes at the virtual point. In the secondary market of transmission capacities, only two transactions were concluded at the Ceršak entry point.

Concluding transactions with natural gas volumes at the virtual point and the trading platform is part of the regular activities of the network users and the transmission system operator. In the year 2020, we provided users with new weekly and monthly products. The exchanged quantities of natural gas exceeded those achieved in the previous year.

Among the investments, we paid the greatest attention to the project of building the transmission pipeline from Vodice to the TE-TOL location in Ljubljana. After concluding the contract with the contractor in the first quarter, preparatory work began immediately, which was followed by the construction itself. Despite the coronavirus epidemic, all

activities were carried out according to the schedule. The construction itself was completed in December. Activities were also carried out on projects of connecting new users, among which the construction of the MRS Dobruška was completed in this period, in which we connected two new distribution systems (the municipality of Škocjan and the municipality of Šentjernej) and the MRS Velika Polana, in which we connected a new user. Project documentation was prepared for several connections. The Regulation on the NSP for the R15/1 transmission gas pipeline for the Pince - Lendava section was adopted. For the entire PCI project of the Hungary-Slovenia-Italy corridor, we started with the selected contractor to prepare an Investment request with a proposal for cross-border cost allocation, which was a condition for obtaining a European grant.

The companies Plinovodi, ELES, HSE, and HESS have combined their knowledge, experience and views on the upcoming energy transition and submitted a joint application to the European Innovation Fund for the Slovenian infrastructure project for green gas and the coalition of electricity and gas sectors - the so called SLOP2G Project.

The company Plinovodi is integrated into the wider business environment and we closely monitor the economic situation in the country, as well as in the region, and participate in anticipated legislative changes that would in one way or another affect our operations as a company and as an independent natural gas transmission system operator. At the European level, the period before the spread of coronavirus was marked by the European Green Deal, and in Slovenia, the National Energy and Climate Plan was adopted. The European Commission has continued their work on the implementation of the Green Deal, proposed increasing the ambition of environmental targets by the year 2030, and published the Strategy on energy system integration and the Hydrogen strategy for a climate-neutral Europe. A public hearing on the Long-term climate strategies of the Republic of Slovenia was held in Slovenia. The Agency has adopted two acts in the field of security of natural gas supply. After receiving the consent of the Council of the Agency, the company Plinovodi published revised rules in the field of capacity allocation and amendments to the NC. We have been monitoring the procedures for the adoption of legislation and made comments in the context of public hearings on draft acts. In order to promote natural gas and increase general awareness on the topic, we have actively participated at expert meetings until the cessation of their implementation due to the coronavirus epidemic. Subsequent events were partly postponed to later dates, and some were conducted online, where we regularly monitored and attended them. We successfully conducted the workshop entitled "Natural Gas Market in the Republic of Slovenia" online.



## Governance Statement

In accordance with the provisions of the fifth paragraph of Article 70 of the Companies Act (Official Gazette of RS, No. 65/09 - OCT 33/11, 91/11, 100/11 - res. CC, 32/12, 57/12, 44/13 - Dec. CC, 82/13, 55/15, 15/17, 22/19 - ZPosS, 158/20 - TIntPK-C, 175/20, and 18/21, hereinafter referred to as: “the ZGD-1”), the company Plinovodi d.o.o., as part of the business report, hereby makes the following

### CORPORATE GOVERNANCE STATEMENT

Governance of the company Plinovodi d.o.o. is consistent with the ZGD-1, the Slovenian Sovereign Holding Act (hereinafter referred to as: “the ZSDH-1”), the Energy Act, and other applicable regulations. Governance of the company Plinovodi d.o.o. is based on statutory provisions and implementing regulations, Articles of Association of the limited liability company, Decision on Certification for Transmission System Operator for Natural Gas No. 533-100/2011-20/134 of 11 July 2012 issued by the Energy Agency, good business practice, Corporate Governance Policy of the company Plinovodi d.o.o. and Code of Conduct of the company Plinovodi d.o.o. (both available on the website of the company Plinovodi d.o.o. (<http://www.plinovodi.si/>), Corporate Governance Code for State-Owned Enterprises, recommendations and expectations of the Slovenian Sovereign Holding, available on the website of the Slovenian Sovereign Holding, d.d. (<http://www.sdh.si/>), the Slovenian Corporate Integrity Guidelines, and the Commitment to respect the human rights in business. On 1 January 2020, the company Plinovodi d.o.o. became a public interest entity.

### Governance of the Company and Compliance with the Corporate Governance Code for State-Owned Enterprises and the recommendations and expectations of the Slovenian Sovereign Holding

As a subsidiary of a company with capital assets of the state, the company Plinovodi d.o.o. is subject to the Corporate Governance Code for State-Owned Enterprises (hereinafter referred to as: “the Code”). The company complies with it, partially deviating from the Code only in the points listed below. The deviations are mainly a result of carrying out the transmission of natural gas in the Republic of Slovenia as a public service activity that is regulated by the Energy Agency, and the company's position as an independent natural gas transmission system operator. The deviations by item are as follows:

- Point 3.5: Based on the ZGD-1 and the Articles of Association of the limited liability company Plinovodi d.o.o., the only shareholder of the company Plinovodi d.o.o. did not envisage granting discharge to members of the management and supervisory body.
- Point 6.6.1: The special position of the company as a transmission system operator also defines additional requirements for fulfilling the condition of independence, which is why it is essential that the legislation governing companies, and the management of investments owned by the SDH, d.d., and the Republic of Slovenia, as well as the energy legislation are taken into account. The independence statement is therefore different than in Annex of the Code. Upon taking office, the members of management and supervisory bodies sign a declaration on the basis of Article 196 and in conjunction with Article 195 of the EZ-1, as well as on the basis of Article 255 in

conjunction with Article 273 of the ZGD-1, and on the basis of Article 59 of the ZSDH-1. The statement also needs to satisfy the requirements for independence in accordance with the energy legislation; therefore, the content of the statement is somewhat different than the statement form in Annex 4 of the Code. Considering the requirements for independence and taking into account the energy legislation and legislation governing companies, and the management of investments owned by the SDH, d.d., and the Republic of Slovenia, the content of the statement in the Annex of the Code is also satisfied. The independence of the members of management and supervisory bodies of the company, which is a natural gas transmission system operator, is assessed by the regulatory authority in accordance with the EZ-1.

- Point 8.2: The company's Annual Report does not disclose memberships in management or supervisory bodies of related and unrelated companies held by members of management or supervisory bodies, due to the fact that pursuant to the ZGD-1 and the EZ-1, members of the Management Board and members of the Supervisory Board inform the Supervisory Board or regulatory authority about possible conflicts of interest and about independence.
- Point 8.5: The company as a sole proprietorship limited liability company is not bound by public announcements. However, it has prepared a financial calendar of the reports to the Supervisory Board and the owner, stated under Point 8.5.
- Point 9.2.3: In accordance with the ZGD-1 and the EZ-1, due to the conditions and restrictions imposed by the energy legislation, the company has established an internal control function (the area of risk management, internal controls, and compliance). The contents of internal control follow the needs of the company in terms of activity, size and organisation in order to ensure compliance with provisions of the energy legislation, while at the same time meeting the conditions for effective operation of the entire internal control system.

As a subsidiary of a company with capital assets of the state, the company Plinovodi d.o.o. is subject to the recommendations and expectations of the Slovenian Sovereign Holding. The company observes them, except where it deviates from the recommendations and expectations in the points listed below. The deviations are as follows:

- Point 3.7: When concluding business transactions, the company regularly publishes the values and types of transactions in accordance with the ZDIJZ and the ZJN-3.
- Point 5: The company Plinovodi d.o.o. got acquainted with the EFQM Excellence Model. The company performs the activity of natural gas transmission in the Republic of Slovenia as a public utility service and an activity regulated by the Energy Agency (and not a normal market economic activity). It has various fuses built into its operations (at all levels), which ensure the quality of operations, due to the fact that safe and stable operation is the basis of the company's operations. The achievement of qualitative objectives is also verified by a number of external auditors. In the company, the management system and corporate governance are established which is a means to achieve the long-term strategic objectives of the company. Its tenets are modern principles of management and corporate governance, introduced by advanced domestic and foreign practices. The management system and corporate governance of the company determines the distribution of rights and responsibilities among the management and supervisory bodies, establishes the rules and procedures for making decisions regarding corporate issues, provides a framework for setting,

achieving and monitoring the accomplishment of business objectives, and establishes values, principles and standards of fair and responsible decision making and conduct in all areas of the company's operation. Thus, the company has not yet decided to implement the EFQM Excellence Model.

- Point 7: The company Plinovodi d.o.o. plans and monitors the effects of operations on the environment in detail and, within the framework of the implementation of the public utility service of the natural gas transmission system operator, prepares measures to achieve the objectives of the Comprehensive National Energy and Climate Plan of the Republic of Slovenia. In the year 2021, the company plans to include all three aspects of sustainable operations in its strategic documents.
- Point 9: In the year 2021, the company Plinovodi d.o.o. operates in accordance with the guidelines and plans to formulate and adopt rules on other rights of members of governing bodies.

On 2 July 2015, the company Plinovodi d.o.o. acceded to the Slovenian Corporate Integrity Guidelines, clearly and publicly expressing its commitment to the implementation and compliance with the principles of corporate integrity and accepted the lead in the pursuit of an effective corporate integrity system. On 26 October 2018, the company signed the Slovenian Diversity Charter, and on 25 May 2019 the Commitment to Respecting Human Rights in Business, making a responsible decision, placing values of inclusion and equality, as well as respect for human rights among the fundamental principles or values of the company. In its operations, the company and its employees are also bound by good business practices, high ethical standards and principles, pursuant to the Code of Conduct of the company Plinovodi d.o.o.

The Management Board of the company leads by example and encourages the employees to act in a way that allows further improvements to the corporate integrity system. The company periodically monitors compliance with the guidelines and recommendations of the Slovenian Corporate Integrity Guidelines and the Commitment to respect the human rights in business, and then prepares a report that acts as a basis for the decisions and measures for the development of the system.

### **Description of the Key Characteristics of Internal Control and Risk Management Systems**

An internal control and risk management system is a component of the company's corporate governance and of the arrangement of management and control system established within the company.

A methodology based on expert groundwork and good practice allows the company to establish a risk management process. Risks are identified, assessed, managed, and monitored. A control environment is established and shaped by the factors: enforcement of integrity and ethical values, commitment to competences, the Management Board's way of thinking and their operating style, the cooperation of responsible persons for management, organisational structure, assignment of competences and responsibilities, guidelines and procedures.



Identification and assessment of risks is a process of recognising and assessing risks that affect the achievement of objectives. The risk register is the starting point for decisions regarding their treatment and internal controls and measures to achieve the objectives and ensure consistency of operations.

The company identifies and assesses risks on all levels within all organisational units, functions and processes. Monitoring activities and other mechanisms are developed proactively in conjunction with all major risks. The internal control system is verified, and measures are taken to manage the risks in due time.

The activities of internal control are organised and take place on all levels in the company; namely, on the level of internal control system, the level of compliance and risk management, and the level of advisory internal control function.

The Risks chapter of this annual report describes the risk management and the introduced control mechanisms in greater detail.

The company has adopted a Code of Conduct and a Compliance Programme, which also defines the reporting of violations of the Code of Conduct or the Compliance Programme (so-called "whistleblowing"), as well as the protection of "whistleblowers".

### **Operation of the General Meeting of the Company, Its Main Competences and Description of Owner's Rights and the Manner in Which They Are Exercised**

The General Meeting of the company is represented by the sole shareholder Plinhold d.o.o. which has voting right and decides on:

- The increase or reduction in equity of the company at the proposal of the Supervisory Board, while taking into account the provisions of EZ-1 and the decisions of the Energy Agency regarding the provision of resources for the implementation of investments envisaged in the 10-year system development plan,
- The division, termination or transfer of shares,
- Changes in the company's activities, changes of the Articles of Association and the joining of new shareholders,
- Other matters determined by the Articles of Association and the applicable legislation.

When exercising his rights and obligations under the ZGD-1 and in accordance with the EZ-1, the shareholder may not interfere in the Management Board's independence regarding the Management Board's decisions in relation to the company's day-to-day operations and especially regarding the management of the transmission system and activities related to the preparation and implementation of the 10-year network development plan. Supervision over ensuring the independence of the transmission system operator in accordance with the EZ-1 is performed by the Compliance Officer.

All decisions must be entered into the register of decisions by the shareholder and certified by a notary; otherwise, they have no legal effect.

The shareholder usually makes decisions on the basis of the draft of decisions submitted by the Management Board.

### **Composition and Operation of Management and Supervisory Bodies and Their Committees, and Authorisations of Management Board Members**

The company Plinovodi d.o.o. is managed by a Management Board of two members - the General Manager and the Deputy General Manager, who represent the company together. The Management Board represents the company on its own responsibility.

The Management Board manages the company's operations in accordance with the applicable legislation, the Articles of Association of the limited liability company and the Rules of Procedure of the Management Board of the company Plinovodi d.o.o.

The Supervisory Board of the company has six members. Four members of the Supervisory Board have been appointed by the shareholder, while two members of the Supervisory Board are representatives of the workers and have been appointed in accordance with the law governing employee participation in corporate governance. Since 1 January 2020, the Audit Committee of the Supervisory Board has been operating within the Supervisory Board, with three members, one of whom is an external expert in the field of accounting and auditing. The Supervisory Board and the Audit Committee work in accordance with the applicable legislation, the Articles of Association of the limited liability company and the Rules of Procedure of the Management Board of the company.

The decisions of the Supervisory Board may not include decisions related to regular operations and day-to-day activities of the transmission system operator and network management, including the conclusion of legal transactions in this context and decision-making for their implementation. Moreover, the Supervisory Board may not adopt decisions that would influence activities required for the preparation of the ten-year network development plan or would be related to those activities.

In a company operating according to the model of an independent natural gas transmission system operator, the Supervisory Board appointed the Compliance Officer on the basis of the EZ-1. The approval to the decision on the appointment of the Compliance Officer was given by the Energy Agency. The Compliance Officer is in charge of continuous surveillance over the fulfilment of the requirements of European and national energy legislation in relation to ensuring the independence of the transmission system operator and non-discriminatory treatment of all users of the gas transmission network. In the year 2020, the Supervisory Board appointed the Compliance Officer for a new 4-year term.

### **Company Regulations for Appointing and Replacing Members of Management and Supervisory Bodies and for Amending the Articles of Association**

In addition to the conditions set out in the ZGD-1 and the conditions regarding education and experience set out in the Articles of Association, each Management Board member must meet the conditions determined by the Energy Agency. Each Management Board member, as well as persons answerable directly to the Management Board and responsible for the

operation, maintenance and development of the transmission network, must also meet all conditions determined by the EZ-1.

The members of the Management are appointed and recalled by the Supervisory Board of the Company. The Supervisory Board is obliged to comply with the provisions of the EZ-1 and decisions of the Energy Agency in the appointment and dismissal of Management Board members. An employment contract with a Management Board member is concluded by the Chairman of the Supervisory Board on behalf of the company for a five-year term of office.

In accordance with the EZ-1, the Supervisory Board must notify the Energy Agency in writing about every appointment, termination of appointment, or other decision regarding the terms of office of a member of the Management Board of the transmission system operator and persons responsible for executive management, its duration and termination, and reasons for every proposal for termination of the term of office of those persons. The decision of the Supervisory Board is effective in the event that the Energy Agency does not object within three weeks of receiving the notification about the decision.

When appointing Supervisory Board members, the shareholder must observe the provisions of the EZ-1 and the decisions of the Energy Agency. The provisions of the EZ-1 regarding the independence of individual Supervisory Board members must be fulfilled so that at least one chairman, deputy chairman and two more Supervisory Board members are independent in terms of the provisions of the EZ-1. Supervisory Board members are appointed for a four-year term of office. Members may be reappointed.

A Supervisory Board member may be recalled by the body that appointed him, but the body must observe the provisions of the EZ-1 and the decisions of the Energy Agency while appointing and dismissing members. Supervisory Board membership may also be terminated before the expiry of the term of office, either at the request of the member or due to a recall. In accordance with the EZ-1, the Supervisory Board must notify the Energy Agency in writing about every appointment, termination of appointment, or other decision regarding the terms of office of a member of the Supervisory Board of the transmission system operator, its duration and termination, and reasons for every proposal for termination of the term of office of persons that fulfil the provisions of the EZ-1 regarding the independence of members. The decision is effective in the event that the Energy Agency does not object within three weeks of receiving the notification about the decision.

Compliance Officer must meet all conditions determined by the EZ-1. The Supervisory Board is obliged to comply with the provisions of the EZ-1 and decisions of the Energy Agency in the appointment and dismissal of Compliance Officer. The terms and conditions applicable to the terms of office and the appointment of the Compliance Officer shall be adopted by the supervisory body upon the prior consent of the Energy Agency. Compliance Officer is appointed for a four-year term of office.

In accordance with the Articles of Association of the limited liability company, the sole shareholder of the company Plinovodi d.o.o. shall be the one to decide on the changes to the Articles of Association.

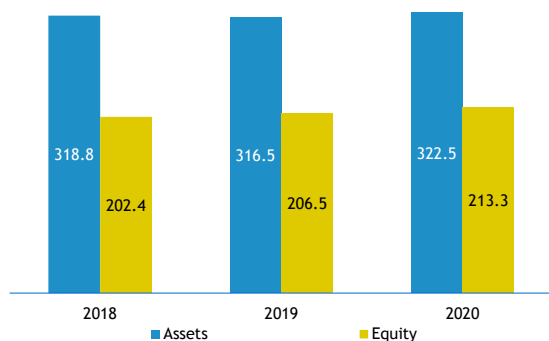
General Manager  
Marjan Eberlinc, BSc in Mech. Eng.

Deputy General Manager  
Sarah Jezernik, MSc in E.

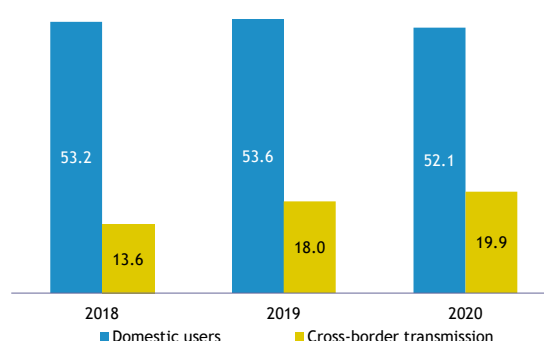
## Financial Highlights

| Data / Indicator                                       | Unit / Criterion | 2018   | 2019   | 2020   |
|--|------------------|--------|--------|--------|
| Booked border entry capacities                         | MWh/day          | 46,524 | 52,235 | 53,685 |
| Booked exit capacities in Slovenia                     | MWh/day          | 53,222 | 53,589 | 52,062 |
| Transmitted quantities                                 | GWh              | 13,246 | 15,953 | 16,751 |
| - of which domestic transmission                       | %                | 71.3   | 60.3   | 57.4   |
| Net sales revenue                                      | EUR million      | 43.7   | 43.5   | 45.1   |
| Gross profit or loss                                   | EUR million      | 36.1   | 38.6   | 41.2   |
| Amortisation and Depreciation                          | EUR million      | 15.5   | 15.6   | 15.5   |
| Net profit   | EUR million      | 3.3    | 5.8    | 8.8    |
| Investments in intangible assets/tangible fixed assets | EUR million      | 7.1    | 4.6    | 22.9   |
| Total assets at the end of the period                  | EUR million      | 318.8  | 316.5  | 322.5  |
| Regulatory asset base                                  | EUR million      | 258.7  | 246.7  | 236.6  |
| Employees at the end of the period                     | number           | 145    | 143    | 145    |
| Value added per employee                               | EUR thousand     | 221.6  | 240.1  | 264.3  |
| EBIT   | EUR million      | 7.2    | 9.7    | 13.2   |
| EBITDA   | EUR million      | 23.9   | 25.4   | 28.7   |
| Net debt/EBITDA  | < 4.0            | 2.6    | 1.8    | 1.5    |
| EBITDA/interest  | < 3.0            | 7.1    | 9.1    | 10.8   |
| Debt/assets  | < 50%            | 20.8   | 20.1   | 18.6   |

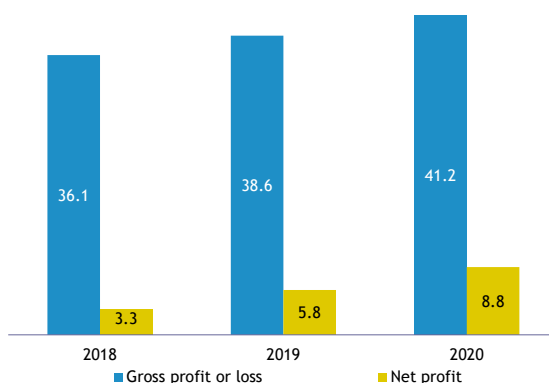
Balance sheet (in EUR million)



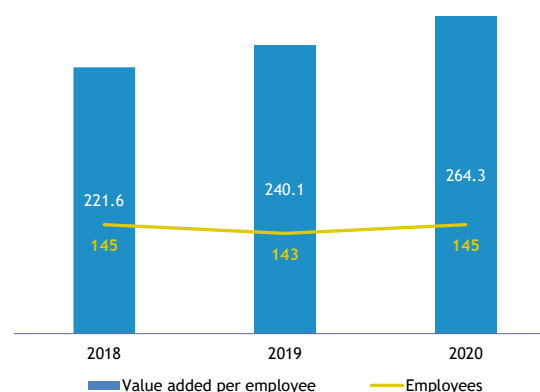
Booked exit capacities (in GWh/day)



Profit and loss account (in EUR million)

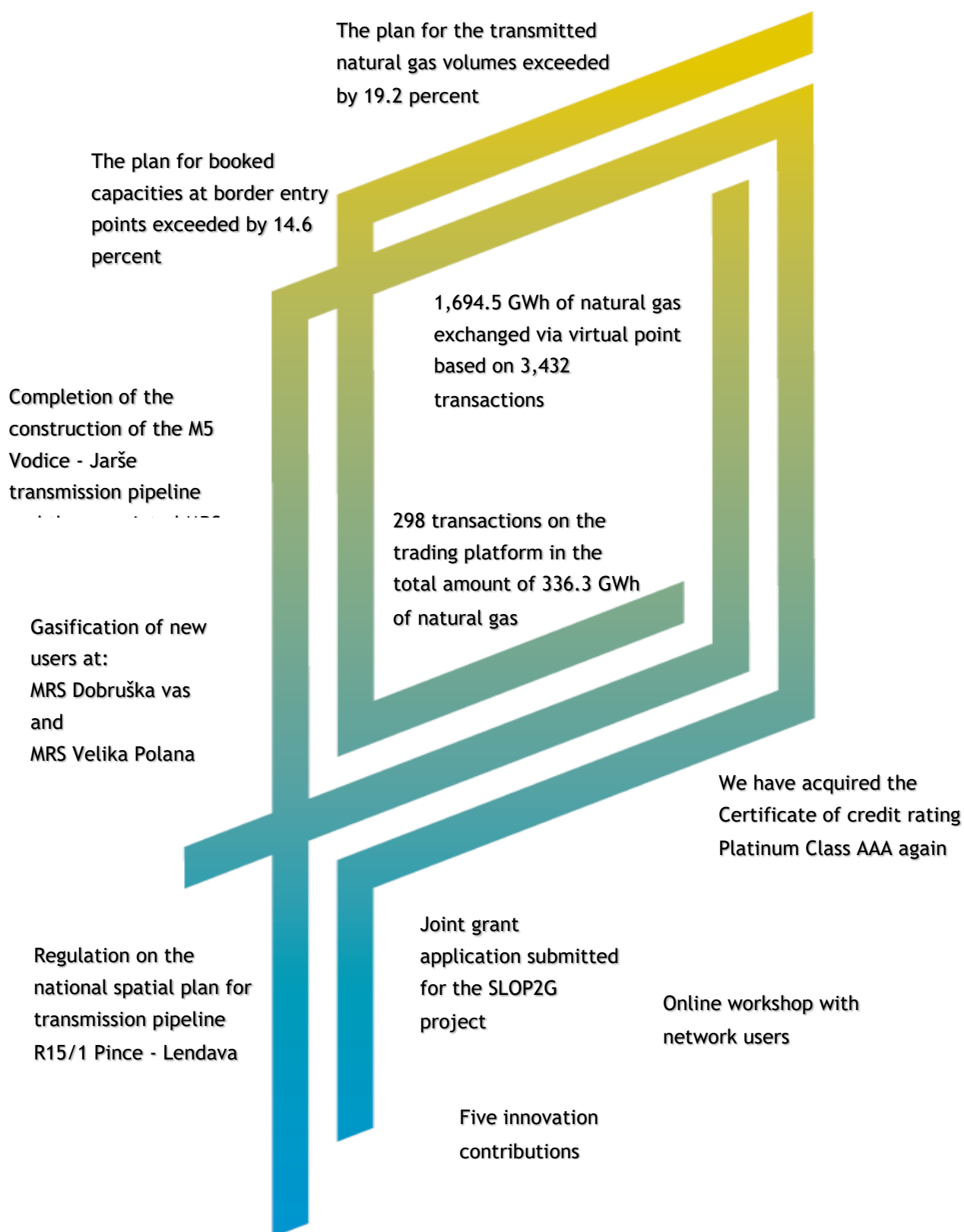


Added value and employees (in EUR thousand)

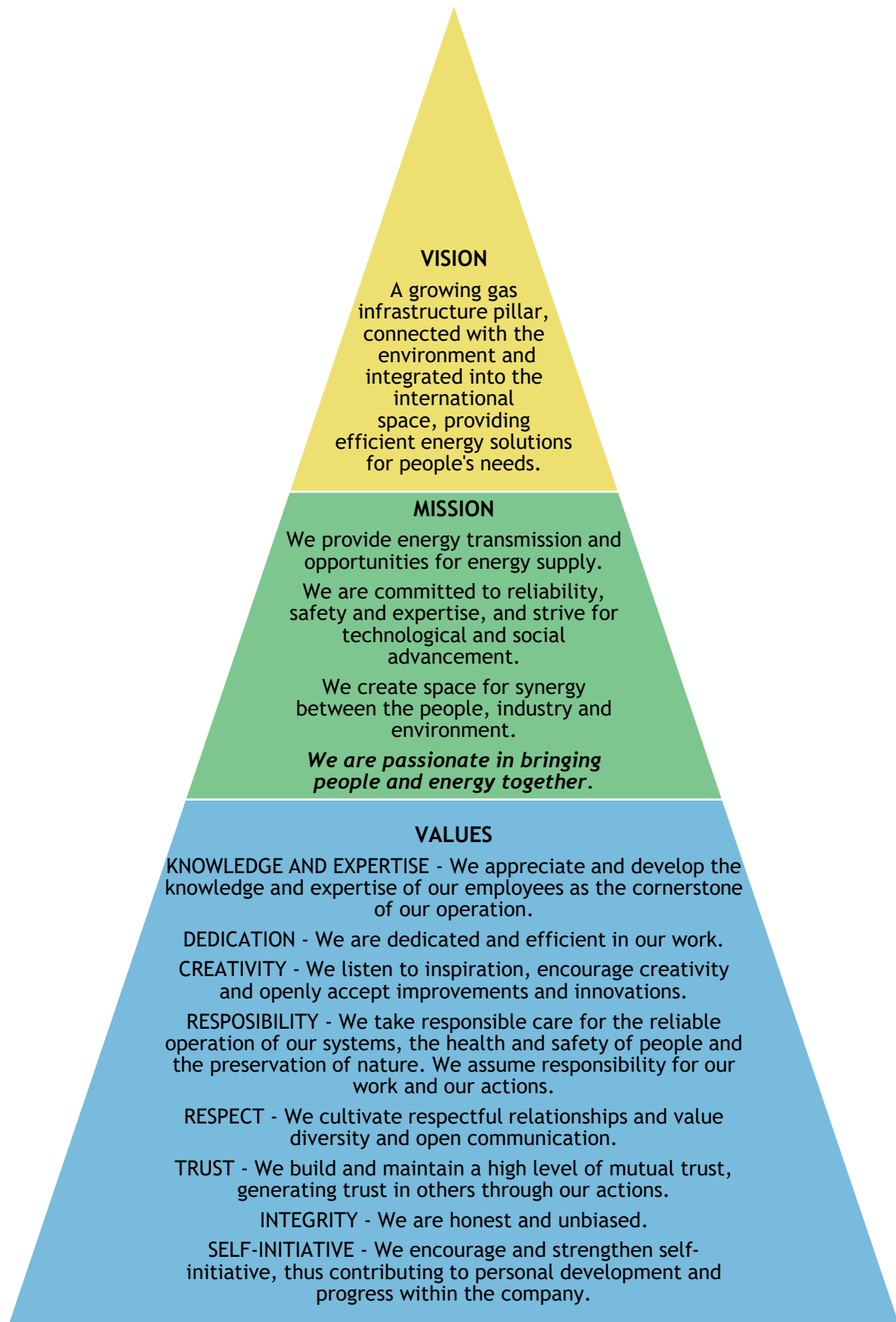




## Significant Events in the Year 2020



## Our Values, Mission and Vision



## PRESENTATION

**Company name:** Plinovodi, Družba za upravljanje s prenosnim sistemom, d.o.o.

**Short name:** Plinovodi d.o.o.

**Address:** Cesta Ljubljanske brigade 11b, p.p. 3720, 1001 Ljubljana, Slovenia

**Telephone:** +386 (0)1 5820 700

**Fax:** +386 (0)1 5820 701

**E-mail:** [info@plinovodi.si](mailto:info@plinovodi.si)

**Website:** [www.plinovodi.si](http://www.plinovodi.si)  
[www.linkedin.com/company/plinovodi-d.o.o.](https://www.linkedin.com/company/plinovodi-d.o.o.)

**Registration number:** 1954288000

**VAT identification number:** SI 31378285

**Established on:** 1 January 2005

**Court register:** District Court in Ljubljana

**Certificate:** Decision on Certification for Transmission System Operator for Natural Gas  
 No. 533-100/2011-20/134, issued by the Energy Agency

**Company size according to the ZGD-1:** Large company

**Activity code:** H 49.500 Pipeline transport

**Management Board:** Marjan Eberlinc, General Manager  
 Sarah Jezernik, Deputy General Manager

**Supervisory Board:** Tibor Šimonka, Chairman

**Share capital:** EUR 98,733,790.00

**Shareholder:** Plinhold d.o.o, Mala ulica 5, 1000 Ljubljana, Slovenia  
 100-percent shareholder

**Bank account:** SI56 02923-0254424156 Nova Ljubljanska banka d.d., Ljubljana  
 SI56 03100-1002465515 SKB d.d., Ljubljana

**Environmental certificate:** ISO 14001:2004 for environmental management

**Accreditation document:** No. K-010 and Supplement No. 3150-0048/10-008  
<http://www.slo-akreditacija.si/accreditation/plinovodi>



SUSTAINABLE DEVELOPMENT

## Development Guidelines and Objectives

The company's development orientations and objectives are based on its core activities, namely:

- The development, construction and operation of the transmission system and the implementation of natural gas transmission, and
- The extension of the system by allowing connections and access to the transmission system to all interested users.

Sustainable development is one of the key motivations of the company Plinovodi. In that, we take into account three dimensions of sustainable development: the economy, the society, and the environment - as defined in the United Nations document "The 2030 Agenda for Sustainable Development". We are encouraged to work in this direction by the key EU strategy, the Green Deal, which envisages a climate-neutral society until the year 2050. In the year 2020, the National Energy and Climate Plan was adopted in the Republic of Slovenia, in which the gas infrastructure plays an important role, and natural gas will be gradually replaced by renewable, climate-neutral gases. In the field of gas, the Slovenian plan is among the more concrete plans in the EU and envisages a 10-percent share of methane or hydrogen of renewable origin in the gas pipeline networks for the year 2030.

In carrying out its activities, the company pursues the strategic groups of objectives listed below. The strategic objectives include the company's efforts to integrate renewable and carbon-neutral gases into the gas pipeline system, and great attention is paid to digitalisation or the active introduction of modern information and technological solutions into the company's operations.

Strategic objectives - guidelines of the company are:

- Increasing the consumption and transmission of gases,
- Sustainable growth and development,
- Establishing and strengthening international connections,
- Integration within the value chain,
- Introduction of modern energy solutions.

### **Increasing the Consumption and Transmission of Gases**

The activities to achieve this group of objectives shall aim for optimal utilisation of available transmission system capacities, while maintaining the competitiveness of the energy product throughout the supply chain. By using natural gas over coal, it is possible to achieve environmental goals set to the Republic of Slovenia by international commitments in terms of reducing CO<sub>2</sub>, SO<sub>2</sub>, particulate matter, and other harmful emissions. The company will actively seek to gradually integrate renewable and CO<sub>2</sub> neutral gases into the transmission system. Thus, the gas transmission system will become one of the carriers of renewable energy. In the activities, the company is going to cooperate with all other participants in the industry that are also interested in achieving a suitable share of gas in primary energy - mainly natural gas suppliers, distribution companies, etc.

### **Sustainable Growth and Development**

The company's activities must allow for sustainable growth and development, which means that we must remain competitive, economically stable and successful. Growth should be



provided for and based on deliberate measures that ensure long-term success. Growth must be responsible towards social and natural environment.

### **Establishing and Strengthening International Connections**

This strategic group of objectives comprises several dimensions of operation. On the one hand, strong proactivity of the company is needed in the area of planning and construction according to the needs of international connections, both in terms of physical connections of pipeline networks and international cooperation between companies in the gas industry. On the other hand, strong activity of the company's employees in international organisations and associations is needed to further increase the company's visibility, its influence in the industry, and follow the trends and innovations on an international scale.

### **Integration Within the Value Chain**

Plinovodi closely monitors and analyses the options for integration within the value chain in the industry. An important criterion here is the achievement of synergies and the reduction in costs, optimisation of operations throughout the chain, thereby increasing revenue.

### **Introduction of Modern Energy Solutions**

The experts in the company are actively involved in the analysis of options for using modern solutions in the field of gas technology in the Republic of Slovenia in such a way that they will contribute as much as possible to the promotion and introduction of these solutions in everyday life. The company actively incorporates modern technologies (digitisation, smart grids, etc.) into its operations.

We adapt the scope of activities to changes in the environment and the available financial and human resources.

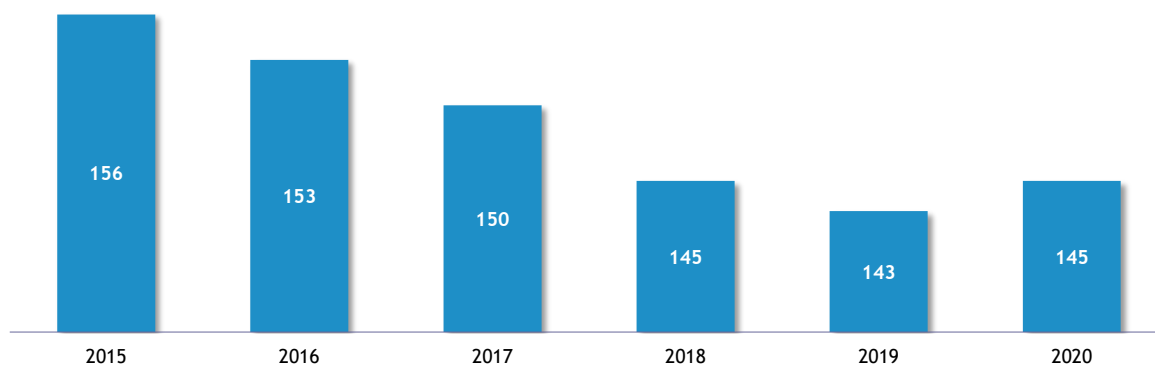
## **Employees and Internal Communication**

At the company Plinovodi, we are aware that a major building block of the company's performance undoubtedly are the people - the employees. Therefore, we take care of their personal and professional development. We strive towards creating a work environment in which work requirements and results are combined with satisfaction, motivation, loyalty and good relationships.

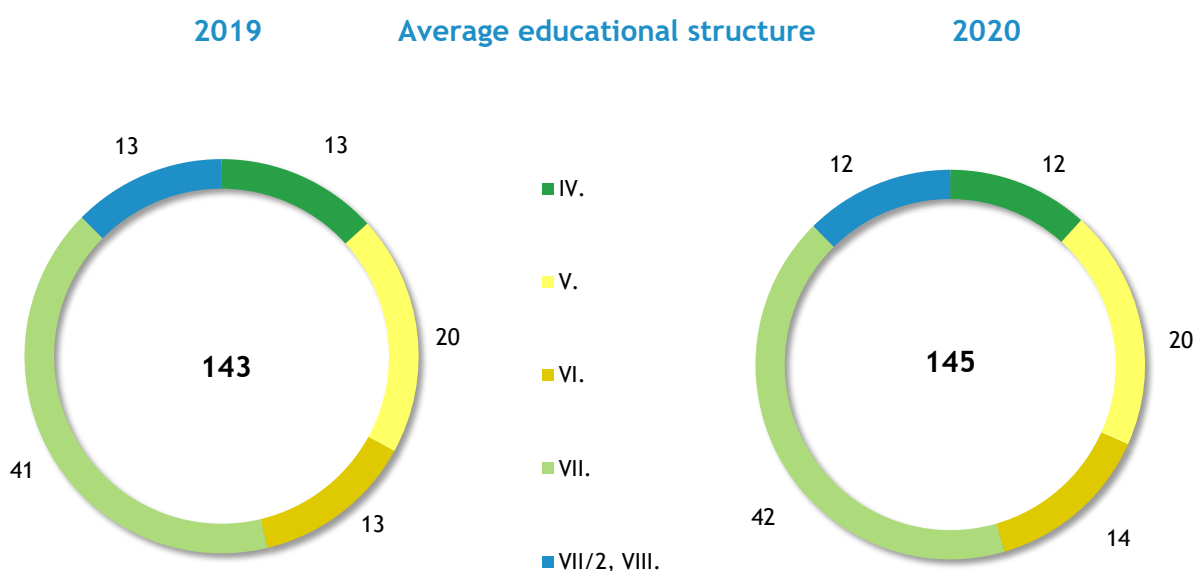
The organisation chart of Plinovodi reflects the activity of the transmission system operator for natural gas, where the technical field is the largest and very extensive, with 71 percent of employees. At the end of December 2020, our company had 145 employees, 83 percent of them at the company headquarters in Ljubljana. The remaining workers are employed in three separate units; 19 of them at the maintenance centre in Maribor, four at the compressor station in Kidričevo, and two at the compressor station in Ajdovščina. One worker worked only part-time due to disability.

We have followed the established careful management of the company by carefully assessing the need for replacement of employees who have retired. Thus, we have filled part of the vacancies due to retirement with new employees, and part of the new employees were hired in areas where we found overall staff shortage.

## Change in the number of employees in the company from 2015 to 2020



The gender structure of the employees in our company reflects the expressed interest of the applicants for the vacancies over a longer period: 81 percent of employees are men and 19 percent are women. The largest share of employees is in the age group from 51 to 55 years, namely 22 percent, which suggests that we value experience.



We ensure high-quality and professional business operations with a favourable educational structure. The share of employees with at least higher professional or level 6 education amounts to 68 percent. Despite the high educational structure of our workers, we encourage every employee to take part in education and training throughout their career path. In the year 2020, due to the coronavirus, we invested less in the field of human resources management and education. All the employees participated in various forms of acquiring knowledge and further increased their skills. 2,062 hours were spent on this, approximately 51 percent of it in the professional and technical fields, which reflects our commitment to ensure the safe and reliable operation of the transmission system through properly trained staff. Moreover, the IT sector also has a high share of education, approximately 19 percent.

Due to the nature of the activity associated with danger presented by the possible presence of natural gas, it is a priority of the company to constantly ensure a high level of health and safety at work. Risks are assessed periodically and kept at an acceptable level by the

implementation of safety measures. Contractors are informed about safety instructions, as well.

One of the prerequisites for achieving good results is working in a safe and encouraging environment; we therefore provide suitable working premises as well as appropriate and safe work equipment for our employees who are familiar with safe work procedures and also undergo regular preventive medical examinations. During the coronavirus epidemic, we paid special attention to measures to prevent infections in the workplace and urged employees to take protective measures outside the workplace.

We know that balancing work and family life is nowadays a growing challenge; therefore, we have in the year 2014 acquired the basic certificate of the Family-Friendly Enterprise, and in June 2017 a full certificate of the Family-Friendly Enterprise. The effects of participating in the Family Friendly Enterprise project are also evident in the lower employee turnover rate.

We believe that good inter-network communication is important, as well as good communication within various departments; therefore, special attention is paid to communication with and between the employees. The employees are promptly informed about the developments in the company via the intranet, e-mail, a variety of formal and informal meetings, and the Plinovodnik internal newsletter of the company. During the coronavirus epidemic, we successfully introduced mostly electronic communication into our communication and replaced physical meetings with their online forms.

The company Plinovodi has a positive attitude to the policy of diversity. We operate in accordance with the Diversity policy of management and supervisory bodies of the company Plinovodi d.o.o.

## **Communication with the External Public**

We pay as much attention as possible to external entities, as well as stakeholders within the company. Through appropriate communication with our suppliers, customers, regulators, national and supranational organisations, we aim to maintain a fair, mutually respectful and sustainable business relationship. In accordance with a good business practice and the protection of personal data, we are carefully protecting commercially sensitive information, and our communication is based on transparency and impartiality.

We have also established the Plinovodi d.o.o. profile on the online social network LinkedIn, which helps us expand the network and increase the visibility on the natural gas market.

### **Customers**

In line with the trend of computerisation and digitisation of business processes, intensive communication with the users of the pipeline system takes place via the company website [www.plinovodi.si](http://www.plinovodi.si), where (potential) network users can obtain all the information about the procedures for concluding contractual arrangements and the legislative regulations in the natural gas transmission activity. We ensure that up-to-date information on the amount and structure of transmission capacity booking at cross-border interconnection points is always available to the interested public. All information is publicly available on the websites of the natural gas transmission system operator and we are available for any clarifications.

Due to the coronavirus epidemic, we replaced the traditional September meeting with users with a short online workshop where we presented all the novelties of the last year. The event attended 80 listeners from the Republic of Slovenia and abroad.

Every month, we enclose to the invoices for the network charges the printed enclosures in the Slovenian and English languages to inform the users about news in various areas: the possibility of electronic transmission contracts, organisation of expert workshops, changes in the various legislative acts and the introduction of electronic invoices.

### **Suppliers**

Efficient procurement is one of the conditions for successful business operations. Notwithstanding the fact that we have to follow legislation on public procurement in the purchasing process, we strive towards the highest possible quality in the execution of orders. At all stages of procurement / ordering, our employees strictly follow the legislation and internal regulations. We make sure that the procurement of the material and services is efficient and we strive towards establishing a fair, long-term and sustainably-oriented business relationship with our suppliers. We settle all obligations on their maturity, which resulted in our acquired Bisnode Certificate of credit rating Platinum Class AAA, awarded exclusively to companies with the highest credit rating Golden Class AAA for three consecutive years. For all business partners, companies that demonstrate the platinum credit rating represent the most reliable, credible and low-risk business entity to cooperate with.

### **Financial, National and Supranational Institutions**

Due to our business operations in regulated activities, ownership structure, and our commitments in regard to financing, Plinovodi is obliged to report to financial, national and supranational institutions monthly, quarterly and annually. In addition to regular periodic reporting in the form of standardised forms known in advance, we respond to each data submission request quickly, effectively and in a user-friendly manner. We are in regular contact with financial institutions in order to keep up with their offer and maintain their high level of readiness for cooperation.

## **Environmental Responsibility**

### **Natural Environment**

Because we understand that our business activities have consequences, we have integrated environmental care into our mission and vision. In addition to supplying a substantial part of Slovenian population and key industrial consumers with the cleanest form of fossil fuel, we strive to improve the results in the use of natural resources and environmental management through the use of the most advanced technologies and our own innovations. One of the eight values of our company (responsibility) is the concern for health and safety of people, and the preservation of nature.

With the environmental certificate ISO 14001 - environmental management system, we are committed to the continuous reduction of all our environmental impacts. The system enables the comprehensive management of environmental concerns caused by the activity of natural gas transmission. It encompasses compliance with legal requirements, as well as cost

control, efficient use of resources, pollution prevention and response to the demands and expectations of business partners, shareholders and other interested public.

We have successfully passed the regular annual audit of the requirements of the new ISO 14001-2015 standard. The auditors made one recommendation that will be fully summarised and implemented in our system, thus further improving the company's environmental friendliness. We have also performed all other activities necessary for maintaining the environmental management system.

When performing the activity of natural gas transmission through the pipeline system, the transmission system operator requires natural gas for his own use in order to power the compressors and for technical gas for the heating of MRSs.

Natural gas consumption for own use of MRS was for 2 percent lower in the year 2020 as in the year 2019, whereby the same amount of gas was transferred. The CSK operated three times more in the year 2020 than in the year 2019, while the CSA operated less time than the year before. As a result, less natural gas was used to power the gas turbines. Compared to the previous year, the consumption of natural gas for the purpose of heating and cooling of business premises was reduced by one percent.

Water consumption increased slightly in the year 2020 due to a slightly higher consumption in Ljubljana and the CSK, but decreased the most at the BMRS Rogatec, the CSA, and the VC Maribor. We managed to reduce electricity consumption by one percent, the most, by 6 percent, at MRSs. Last year, the small photovoltaic power plant at the MSO produced slightly more electricity than in the year 2019; namely, 63,822kWh.

The total number of kilometres travelled increased by 6 percent compared to the year 2019, mainly due to preventive measures, when only one person was allowed in the company car. The share of CNG vehicles in our fleet, with improved fuel efficiency, low maintenance costs and certain environmental benefits, such as virtually zero particulate matter, continues to increase.

In the year 2020, we had 16 implementing environmental objectives. We started a project to replace the mercury lights with the LED lights. We have continued with the modernisation of gas boiler systems and finished the replacement of windows in the CSK with modern gas thermopane windows with the improved heat transfer factor. We will also continue with the project of purchasing CNG vehicles.

### **Social Environment**

Physical or natural environment is not the only aspect of our concerns. With limited resources we try as much as possible to respond to a call for financial aid from various humanitarian organisations. For many years, we have also supported various interest and sports associations, as well as cultural events and activities.

The natural gas transmission through underground pipelines is regarding the use of space, safety, energy efficiency and environmental impact the most optimal form of energy transport. Nevertheless, we are especially careful when laying the pipes and in the framework of the preparation of the national spatial plans, we are ensuring that any potential sites are properly treated with the preliminary archaeological research of the terrain.





# BUSINESS REPORT

## Business Environment

Events in the business environment in the year 2020 were marked by a coronavirus pandemic. The situation deteriorated rapidly in the first half of the year, and countries took a number of measures to protect the health of people and mitigate the economic consequences.

With a perceived reduction in coronavirus infections, most countries have opted for a gradual easing of measures taken to curb the epidemic towards the end of the second quarter of 2020. After a historic drop in economic activity in the second quarter of 2020, the global economy recorded a stronger-than-expected rebound in the following quarter due to a combination of easing of measures and extensive public policy stimuli.

A strong recovery in the third quarter of 2020 was recorded by both the euro area economy and the EU as a whole. According to the ECB ([Economic Bulletin 8/2020](#)), compared to the previous quarter, the GDP in the euro area increased by 12.5 percent with an increase in all components of demand. The easing of measures and stimulating economic policies have helped increase private consumption, investment, and net trade. Despite encouraging data for the third quarter of 2020, the economic recovery has failed to offset the decline in the previous periods, as compared to the third quarter of 2019, the GDP was decreased by 4.3 percent.

Comparison of the main economic indicators in %



According to the Statistical Office of the Republic of Slovenia ([The First Release, 30 November 2020](#)), Slovenia's economy grew at virtually the same level as the euro area in the third quarter of 2020, namely 12.4 percent. Domestic consumption increased by 11.1 percent compared to the previous quarter, with the final consumption increasing by 15.1 percent, while gross investment continued to show negative growth (-4.1 percent). Moreover, in the same period, the foreign trade balance made a positive contribution to the economic growth, due to the fact that the exports of goods and services increased by 16.8 percent and the imports by 13 percent compared to the previous quarter. Similar to the euro area, the comparison of Slovenia's GDP in the third quarter of 2020 with the third quarter of 2019 shows a decline of 2.6 percent.

Recent data on the labour force in the EU and the euro area suggest a modest downward trend in unemployment rates in both areas. According to the Eurostat news release ([News release 4/2021](#)), the seasonally adjusted unemployment rate in the common currency area decreased by 0.1 percentage point every month from August 2020, while in December, it remained unchanged at 8.3 percent compared to November. In the same month, 7.5 percent of the EU-wide workforce was unemployed. Compared to the same month last year, the unemployment rate in the euro area was higher by 0.9 percentage points in December 2020 and in the European Union as a whole by one percentage point.

The Statistical Office of the Republic of Slovenia, which is in charge of the Labour Force Survey, on the basis of which internationally comparable data on unemployment in Slovenia were obtained, publishes unemployment rates only on a quarterly basis. Based on the data of the last published document ([The First Release 27 November 2020](#)), it can be concluded that the measures taken by the Government of the Republic of Slovenia to preserve jobs and prevent corporate bankruptcies as a result of restrictive measures to prevent the spread of coronavirus were relatively successful. The survey unemployment rate did not change significantly in the third quarter of 2020 compared to the previous quarter, it decreased by 0.1 percentage point and amounted to 5.1 percent. A comparison of the survey unemployment rate with the same period in the year 2019 shows an increase of 0.4 percentage points, which means a 7.7-percent increase in the number of unemployed persons. On the other hand, the Employment Service of Slovenia keeps a register of unemployed persons, according to which at the end of December 2020, 87,283 people in Slovenia were unemployed, which was 3,144 persons more than a month earlier, and as much as 15.9 percent more than a year ago ([News release, December 2020](#)). In November 2020, the registered unemployment rate was 8.6 percent.

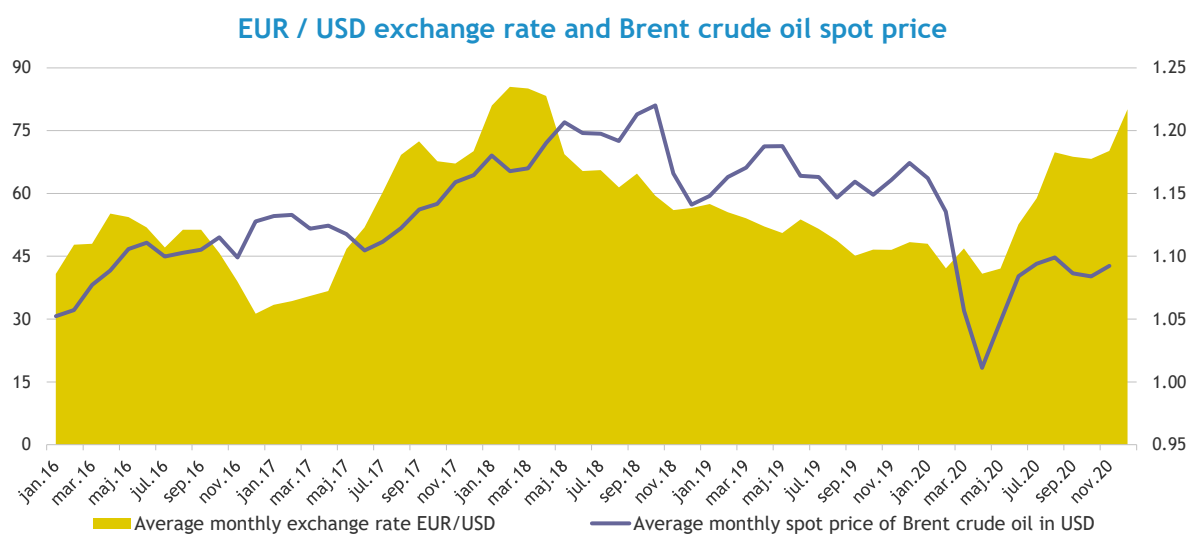
Compared to the same period of the previous year, hourly labour costs increased by 1.6 percent in the third quarter of 2020, both in the euro area and in the EU as a whole (by 1.8 percent), with the main components of labour costs moving in the opposite directions. Compared to the third quarter of 2019, according to the Eurostat ([News release 182/2020](#)), the cost of wages and salaries per hour worked in the euro area increased by 2.2 percent, while the non-wage component decreased by 0.4 percent. Across the Union as a whole, the the cost of wages and salaries per hour worked increased by 2.4 percent over the same period, while the non-wage component portion of costs decreased by 0.1 percent.

Price growth rates, measured by an internationally comparable HICP, show significant differences between the EU Member States. According to the Eurostat ([News release 12/2021](#)), a good part of the Member States (13 out of 27) recorded deflation in December 2020, the largest in Greece where the annual price growth was -2.4 percent. On the other hand, non-euro area members in particular recorded significant price increases: in December, the annual inflation rate was 3.4 percent in Poland, 2.8 percent in Hungary, 2.4 percent in the Czech Republic, and 1.8 percent in Romania. Hence the difference between the December data on the annual growth rates of euro area prices (-0.3 percent) and the European Union (0.3 percent).

Compared to other members of both the euro area and the EU, Slovenia had the second lowest price growth in the year 2020. The Statistical Office estimates ([The First Release 30 December 2020](#)) that the annual growth of prices, measured by the harmonised index of consumer prices, was -1.2 percent in December 2020, which is a decrease of 3.2 percentage

points compared to December 2019. Goods prices fell by 2.5 percent in a year, while services prices rose by an average of 1 percent compared to December 2019.

In the year 2020, due to the coronavirus pandemic and the associated economic consequences, global patterns of supply and consumption of liquid fuels can be divided into two periods. From the beginning of the year to the end of May, the decline in oil consumption outpaced the decline in oil production, which led to a significant accumulation of stocks. The latter caused the average monthly spot price of North Sea Brent oil to decrease to USD18 / barrel in April, which was the lowest real price since February 1999. In the second half of the year, however, due to the rising oil consumption and declining oil production in the USA and the OPEC member states and their partners the inventories reduced and pushed the prices up. In December, the average spot price for North Sea Brent oil was USD50 / barrel.



Source: The Bank of Slovenia - Average monthly exchange rate and the U.S. Energy Information Administration

The moderate volatility of the exchange rate between the US dollar and the euro in the second half of the year indicates a trend of increasing the value of the euro against the dollar. A comparison of the EUR / USD exchange rate from the beginning of the year (1.1193) and on the last day of the year (1.2271) shows an almost 10-percent appreciation of the common currency. The value of the euro against the dollar was even the highest at the end of the year since April 2018. The reference rate of interest EURIBOR 3M has been moving in a negative area since April 2015, and at the end of 2020, it amounted to -0.538 percent per year.

We monitor the economic trends in the world, the EU and Slovenia in order to assess their impact on the company's operations in the current and future periods, and find that these trends did not have a negative impact on the company's operations in the period under review. In the last quarter, we recorded a smaller impact and a consequent decrease in the booking of transmission capacities at the exit points from the Republic of Slovenia, which did not have a significant impact on business operations in the entire year 2020.

## Activities related to the coronavirus epidemic

Due to the coronavirus epidemic in the Republic of Slovenia, we had to adapt our mode of operation from mid-March and partly in June, with most of the employees carrying out their business activities from home while DC personnel worked at the company's headquarters. Namely, mid-March in an isolated mode of operation, teams for preventive and interventional maintenance activities, the company's core management and a small team of employees who coordinated the activities.

With regard to the risk assessment and analysis of the situation in our company and the relatively favourable epidemiological situation of the prevalence of the coronavirus infection in the Republic of Slovenia, we began with a three-phased implementation of mitigation measures for the return of employees to perform work tasks at the company's headquarters in May. Given the gradual release of systemic measures to prevent the spread of the coronavirus infection in Slovenia and in the company, we have within the COVID-19 Activity Coordination Group in cooperation with the company's management decided to switch DC teams from isolated mode in the second half of May in a customised mode of operation. In isolated mode, the dispatchers were deployed in two teams, with each team in DC working continuously for one week in isolation from the outside world while performing preventive health checks on a regular basis. In the adapted mode of operation, DC activities were carried out at two separate locations, for which we had to establish an additional DC. The adapted mode enabled the return of work to shift work as before the coronavirus epidemic, but due to the organisation of the adapted mode of operation and the location of DC and additional DC, there was no physical contact between the dispatch teams and of the dispatch teams with other employees at the company's location. In addition, in order to ensure a higher level of safety and health for dispatchers in the DC, a temporary adjustment of the replacement period of dispatching teams was carried out in the third quarter, thus avoiding meeting dispatchers with other employees on arrival or departure.

In order to further prevent coronavirus infections, we have taken additional preventive measures at the company level. These included, *inter alia*, the mandatory use of protective masks in the event of movement outside the area of their workplace and in rooms where there were several employees, the requirement for mandatory disinfection or hand washing and proper cough hygiene and maintaining social distance between the employees in the offices. Moreover, in the offices with two or more employees, work was organised in such a way as to ensure individual performance of work activities in the room or protective glass barriers were installed to adequately protect the employees. In doing so, all measures and activities carried out so far in the company proved to be appropriate, due to the fact that the company did not record any transmission of the coronavirus infection among the employees.

In the third quarter, all the aforementioned preventive measures were still in force in the company, and in order to ensure the safety and health of the employees, they were further informed about preventive measures inside the company, as well as outside the company. Given the deteriorating epidemiological situation, certain measures at the company level have also been tightened; namely, the restrictions on external and internal meetings at the company's business premises, the requirement to use electronic video communications, the use of telephones or e-mail for communication.



In the last quarter of 2020, with regard to the further deteriorating epidemiological situation in the Republic of Slovenia, we adopted additional preventive measures, which included measuring the body temperature for all employees and visitors when entering the company's business premises, and adopted organisational measures of adapted operation, which included the implementation of work activities from home for most employees, at the company's location, the DC employees were performing the activities at two physically separate locations, the company's management, teams for preventive and interventional maintenance activities and teams of employees whose work activities were tied to the location of the company. In order to obtain the information regarding the epidemiological picture of the employees, we also conducted voluntary testing.

Despite the adjustment of the organisation of work and the changed method of carrying out activities according to the situation related to the coronavirus epidemic, we carried out all work processes successfully, thus ensuring safe, uninterrupted and reliable operation of the natural gas transmission system.

We regularly monitored the adoption of state measures and followed the procedures for the adoption of intervention legislation. We complied with all measures prescribed by law and claimed all state aid to which the company was entitled. We claimed exemption from the payment of contributions for pension and disability insurance, exemption from the payment of advance payment of corporate income tax and reimbursement for sick leave. The company paid a crisis allowance to all eligible employees. The employees who were additionally burdened and exposed due to the coronavirus, were paid an additional incentive or reward. In the last quarter, one employee exercised force majeure due to the closure of educational institutions, and the company exercised the right to the reimbursement of her labour costs.

## Use of Transmission Capacities

As a transmission system operator, Plinovodi provides statutory ancillary and other services and offers natural gas transmission capacities through the gas transmission network on the territory of the Republic of Slovenia on the primary market. A fully open natural gas market in the Republic of Slovenia gives all natural gas users the freedom to select the suppliers of natural gas and independently arrange their access to the transmission system, which can be ensured either directly on the basis of transmission agreement concluded with the transmission system operator, or through an authorisation via the a natural gas supplier or other balancing group leaders. A transmission system operator examines the applications and approves booking of transmission capacities to the interested users in a transparent and non-discriminatory way.

By expanding the gas transmission network based on the implemented investments envisaged in the Development Plan, we have been gradually increasing the available transmission capacities in recent years. As a result, the marketing of transmission capacities, which is due to the nature of Plinovodi's activities largely limited to announcing free capacities for the transmission of natural gas and valid prices for transmission, gained in importance. It is focused on communication with the existing and potential new users and other stakeholders, and lately also increasingly on promoting and encouraging the use of natural gas.

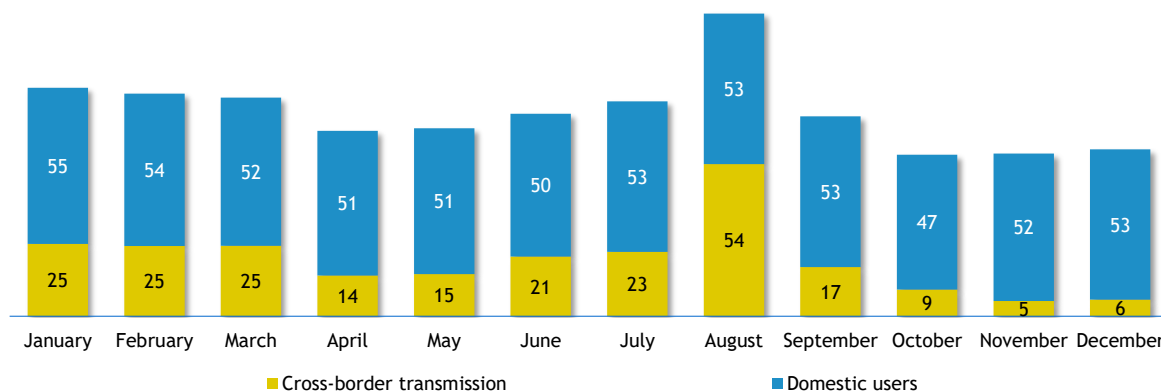
In accordance with the Network Code for the natural gas transmission system, the VPG (Virtualna točka za plin - Virtual Point for Gas, VPG) allows the realisation of natural gas transactions, services of Bulletin board and trading platform for the operation of the balancing market of balancing group leaders.

### Booking of Transmission Capacities

In the year 2020, 1,069 transmission agreements were carried out on all border entry points and 805 transmission agreements on exit points in Slovenia with users of the system. The agreements concern different services and have different periods of validity. Some transmission agreements were concluded by foreign companies, particularly for the needs of cross-border transmission of natural gas.

The total average booked transmission capacities at border entry points in the year 2020 amounted to 53.685MWh/day.

Booked exit transmission capacities (in GWh/day)

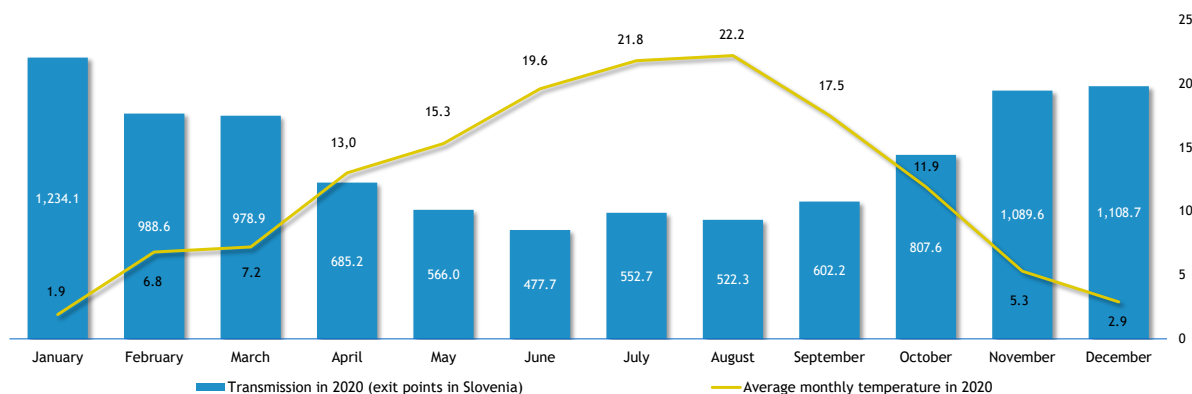


The average booking of transmission capacity in the year 2020 at the border entry points is higher than planned and achieved in the previous year. The increase in booking is mainly due to the increase in short-term bookings of cross-border transmission capacity.

### Transmission of Natural Gas

The transmitted natural gas reflects the demands of users in Slovenia and those of foreign contracting partners (in case of cross-border transmission) and influence the utilisation of transmission system capacities. The transmission of natural gas was performed in accordance with the plans, without disturbance of the operation or supply of natural gas. At the end of the year 2020, there were fourteen balancing groups active in Slovenia, nine of which were also suppliers of natural gas to Slovenian users.

### Transmission of natural gas (in GWh) and temperature (in °C)



The total transmitted annual quantity of 16.751GWh of natural gas exceeds the planned volume for the year 2020. 9,614GWh of natural gas was transmitted to users in Slovenia, which is 57 percent of total natural gas transmitted in the year 2020. The transfer for domestic users in the year 2020 was at the level of planned, as well as achieved quantities in the previous year. Cross-border transmission amounted to 7,138GWh in the year 2020, despite unfavourable conditions in the regional gas market, exceeding the one achieved in the year 2019 by 13 percent.

## Functioning of the Transmission System

The company Plinovodi regulates the level of natural gas in the transmission system with the purpose of balancing the transmission system by following daily transmission plans and buying or selling appropriate quantities of natural gas in accordance with the requirements to ensure optimum operational states of the system on a daily basis.

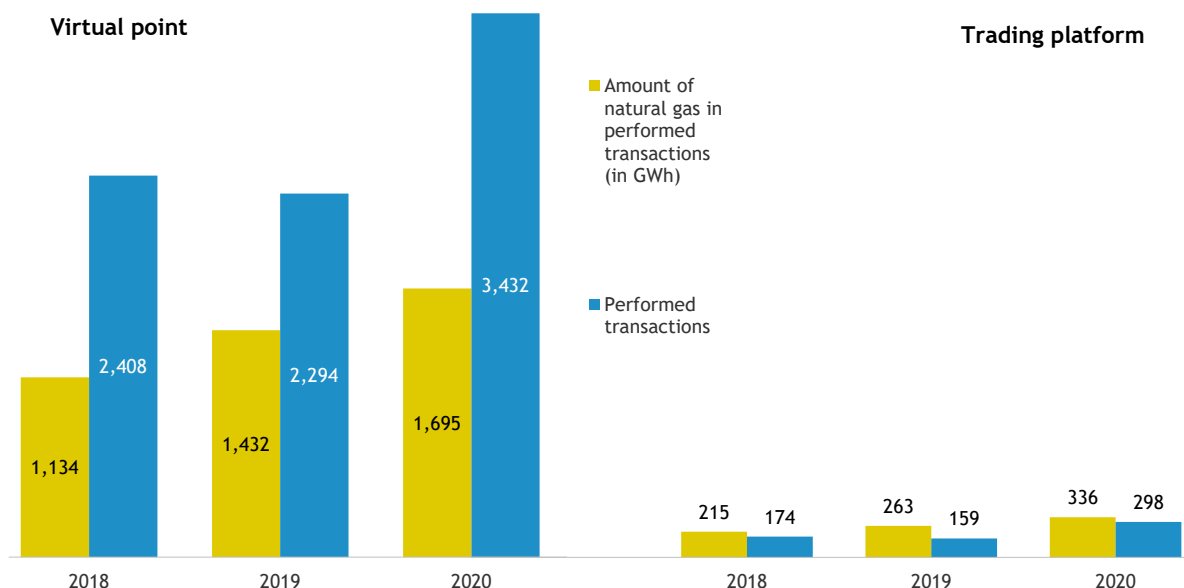
### Transmission System Balancing

The VP is able to execute natural gas transactions on a daily basis between the members of the VPG. Transactions are carried out in the free market, where the participants in the transaction can be all registered members of the VPG, and in the balancing market, where the participants in the transaction can only be the balancing group leaders and the TSO. Transactions in the free and the balancing markets are carried out via a web application, Virtual Point for Gas. On the trading platform, trading with natural gas quantities takes place daily in a transparent and non-discriminatory fashion. In addition to the balancing group leaders, who are VPG members, the TSO participates also with purchases and / or sales of natural gas quantities for balancing purposes.

The first volume transaction between the VPG users was carried out in January 2016. In September 2020, in addition to daily and intra-day products, we also provided weekly and monthly products to VP users. In the 3,432 completed transactions in the year 2020, 1,695 GWh of natural gas were exchanged, which is 561 GWh more than in the year 2018 and 263 GWh more than in the year 2019.

By the end of 2020, we have bought or sold as the TSO in the TP 336 GWh of natural gas for the balancing of the transmission system. During the reporting period, the users of the transmission system supplied more natural gas into the transmission system than was taken from the transmission system for the purpose of transmission to end users in Slovenia and for cross-border transmission.

#### Review of transactions and exchanged quantities of natural gas (in GWh) in VT and TP



#### Transmission System Maintenance

For a safe and reliable operation of pipelines, facilities and equipment, preventive maintenance activities are vital to ensure constant availability and high operability of the pipeline infrastructure. In the year 2020, we performed 2,834 MRS inspections and 1,655 route control trips. During periodic activities, we carried out 2,598 inspections of electrical installations, 418 examinations of Ex-equipment, and 341 inspections of cathodic protection. Maintenance requires handling of advanced technical equipment, nitrogen inertisation of certain sections of the pipeline system to ensure safe maintenance works and connections of newly constructed pipeline facilities. The company's expert maintenance teams carry out the works independently or, if necessary, together with external contractors. Outsourcing of maintenance services and the necessary purchases of material and resources took place in accordance with the public procurement legislation. Public procurement procedures did not influence the safety and operability of the gas transmission system.

As part of the adapted organisation of work in the company Plinovodi in order to prevent the spread of the coronavirus infection, during the first wave of the epidemic between March and May 2020, a small number of employees in the Maintenance Service performed work from home, while most carried out preventive and interventional activities on the natural gas system, taking into account all necessary safety measures.

Moreover, during the second wave of the epidemic, we approached to the organisation of customised work in the company; namely, in the second half of October 2020, we again switched to part-time work from home, and we introduced additional measures for the

maintenance crew: only one person per company car, and separate arrivals and departures to / from work.

### **Information System**

Maintenance and support of information systems has become more than simply ensuring functionality for internal users of the company Plinovodi, it also increasingly includes the support for external users. Therefore, we devote a great deal of attention to the maintenance of information systems, since a failure of certain information systems can cause financial damage to the company, as well as to external users of our IT solutions. This has increased the need for the availability of information systems of the company and emphasised the importance of providing comprehensive and high-quality maintenance of all components of a computer network and the information systems at all company locations.

In the year 2020, we prepared the transition to the new ERP system, implemented the Management and Security System, provided appropriate laptops for work from home, we made stress tests in case of a cyber-attack on the company's information system, in order to achieve the highest possible level of information security, we joined a selected security operations centre and upgraded and maintained the existing own application computer solutions. At the company level, we presented measures to ensure a high level of security of networks and information systems to the Information Security Administration of the Republic of Slovenia at their request, and prepared documentation of the Business Continuity Management System on the basis of the Information Security Act.

Information security is becoming an increasingly important dimension. In the recent years, we have made a major step forward in the normative part of information security, in the organisation of information security, and adopted strategic documents for the further development of security and reliability of information systems.

## **Development of the Transmission System**

### **Research and Development**

As a transmission system operator, the company Plinovodi manages and adapts to a number of changes that affect the operation of the gas transmission infrastructure, the maintenance of existing and construction of new transmission capacities, including investments, and the planning and implementation of strategic activities. In the field of research and development, we also cooperate with external research organisations, among them the Faculty of Mechanical Engineering in the field of metrology and risk analysis, the Faculty of Electrical Engineering in the field of applications for internal training and the Jozef Stefan Institute in the field of analysis and forecasting of natural gas consumption. The extensive spectrum of development activities is directed through the preparation of ten-year network development plans, investment plans and annual financial plans.

In the year 2020, the Innovation Council monitored past innovation contributions and found that the effects of the innovations already introduced were very positive. Both contributions in the field of computer science have already been implemented - a contribution for determining the balance in the information system of the Forecaster, and a contribution for monitoring the operation in the internal information system. In addition, in locations without an electricity network, the need for electricity was solved in a nature-friendly manner, the

proposal to combine measuring and positioning pillars simplifies maintenance and puts less strain on the environment, and the remote monitoring of some remote locations significantly reduces operational risks. The diligence and commitment of employees was justified by the fact that the remaining innovation contributions have already successfully entered the implementation phase. Thus, the Innovation Council will monitor the effects of the innovation to eliminate shear stresses on rotary gas meters and the innovation to ensure a higher level of tightness of detachable joints. Both innovations have already been taken into account in the upgrades of measuring lines in the year 2020.

Additional satisfaction was represented by as many as five new excellent innovation contributions created in the year 2020. Four papers were from the field of basic activity, and one from the field of computer science. Four contributions have already been fully developed and are already in use, and one contribution will be the subject of an upgrade and is expected to be introduced into the business process in the coming years. With the new innovative contributions, the concrete challenges we faced in our work were managed. The first contribution enabled audio-video communication to a wider circle of employees during the first wave of the coronavirus epidemic. Regarding the concrete implementation of the demanding elimination of the gas pipeline contact with the protective pipe, two contributions have been proposed and have already been implemented, which will have a significant impact on the sustainability of the repair. The fourth contribution eliminated the negative consequences of atmospheric corrosion on the operation of safety equipment in stations with a plan for appropriate technical adaptation of equipment. The fifth paper addresses the introduction of the third dimension in installation plans and equipment classification and will be reflected in the asset management system.

We will continue to pay special attention to the field of innovation, due to the fact that we are aware of its importance for creating the added value for the company.

### **Investments in Intangible / Tangible Assets**

In the year 2020, investment activities included the construction of transmission pipelines and MRS for the connection of new users and the preparation of documentation for the implementation of projects in the coming years.

The development of the transmission system in the year 2020 was particularly marked by the following activities and events:

- The construction of the transmission pipeline M5/R51 Vodice - TE-TOL and facilities of the RS Jarše and MRS TE-TOL in accordance with the schedule,
- The construction of the MRS Dobruška vas facility and obtaining a use permit and gasification of the distribution system of the ŠP Škocjan and ŠP Šentjernej,
- The construction of the MRS Velika Polana with a transmission pipeline, obtaining a use permit and gasification, and thus the start of the use of natural gas for the end user in the municipality of Velika Polana,
- The acquisition of the BP for the MRS Tekstina in the municipality of Ajdovščina and submitted applications for the acquisition of the BP for the MRS Preska in the municipality of Medvode and the MRS Stanežiče in the municipality of Ljubljana,
- Obtaining opinions on the draft project documentation for the acquisition of the BP for the transmission pipeline M6 Ajdovščina - Lucija on the section CSA - MRS Sežana



and the beginning of the preparation of project documentation on the section Sežana - Dekani within the same project,

- Obtaining a cultural protection consent for the implementation of archaeological research in the area of the M6 route,
- Conducting preliminary archaeological research, i.e. intensive field inspections on the project M6 Ajdovščina - Lucija,
- The preparation of an amendment to the Study of natural gas consumption in the Obalno - kraska region,
- Signing of the contract for the preparation of project documentation for the R21AZ Konjiška vas - Oplotnica transmission pipeline and the preparation of the amended draft documentation for obtaining opinions and the BP, as well as the submission of the draft documentation for the tender,
- The adoption of the Regulation on the NSP for the section Pince - Lendava for the project R15/1,
- The transmission of the Initiative for the beginning of the preparation of the NSP for the project R15/1 on the section Ljutomer - Kidričevo to the competent ministry, the implementation of the public presentation and public hearing in the process of adopting the initiative for the initiation of the NSP procedure,
- We have prepared the Ten-Year Gas Transmission Network Development Plan for the 2021 - 2030 Period and the Investment Plan for the 2020 - 2023 Period.

### **Easements**

The natural gas transmission system consists of more than one thousand kilometres of pipelines and more than 300 facilities connected with the operation of the gas network and natural gas transmission. We secure appropriate property and obligation rights for the construction, management and maintenance of the pipeline infrastructure by concluding contracts for the establishment of easement rights, purchase or lease of land, establishment of building title on land for the existing and new facilities of the pipeline infrastructure, and agreements for compensations for activities in the pipeline infrastructure safety zone. In the year 2020, there were 229 such legal acts, and the acquired rights have been proposed for entry into the Land Register.

### **Investment Financing**

Plinovodi finances a large part of investments from own resources and successfully obtains grants from the European Commission. We utilised the European Energy Programme for Recovery (EEPR) funds in the total amount of EUR 37 million from 2010 - 2012 for investments in material transmission system infrastructure realised by the end of 2014. The European Commission granted us altogether EUR 3.9 million in grants for the purpose of promoting investments approved by the PCI list in the framework of TEN-E and CEF-E. The funds are spent on up to 50 percent co-financing of the preliminary works on the reported / registered projects that are in the design phase.

Given the investment cycle in the period from 2009 to 2014 and the large volume of investments made, we obtained a long-term EIB investment loan in the amount of EUR 100 million. The successful operations and optimisation of the dynamics of investments enabled us to draw only 70 percent of the granted loan that was available for use.

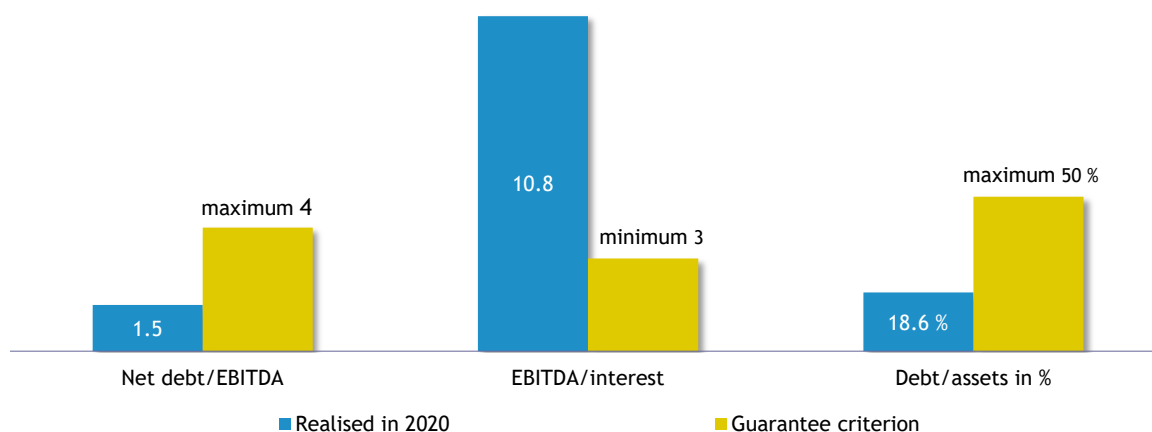
All investments in the year 2020 were financed with our own funds. It was not necessary to draw on a new commercial bank loan.

## Analysis of Business Operations

### Business Results

The financial results for the year 2020 reflect the successful business operations. The net sales revenue amounting to a total of EUR 45.1 million is for 1.6 million higher than in the previous year. About 9 percent of net sales revenue consists of revenue charged to network users established outside Slovenia. Net profit for the year 2020 is reported in the amount of EUR 8.8 million, which represents 19 percent of net sales revenue. It was generated entirely from operations and exceeds what has been achieved in the year 2019. At the end of 2020, all indicators of financial covenants, including the level of indebtedness, meet the criteria laid down in the Guarantee Facility Agreement and were more favourable than those planned for 2020.

### Financial covenants



The balance sheet total amounted to EUR 323 million at the end of December 2020 and is for EUR 6 million higher than at the beginning of the year as a result of new investments. The structure of assets and sources of financing has not changed significantly.

Key highlights of Plinovodi's operations in the year 2020 are presented below, while more detailed information is included in the accounting part of the Annual Report.

### Assets

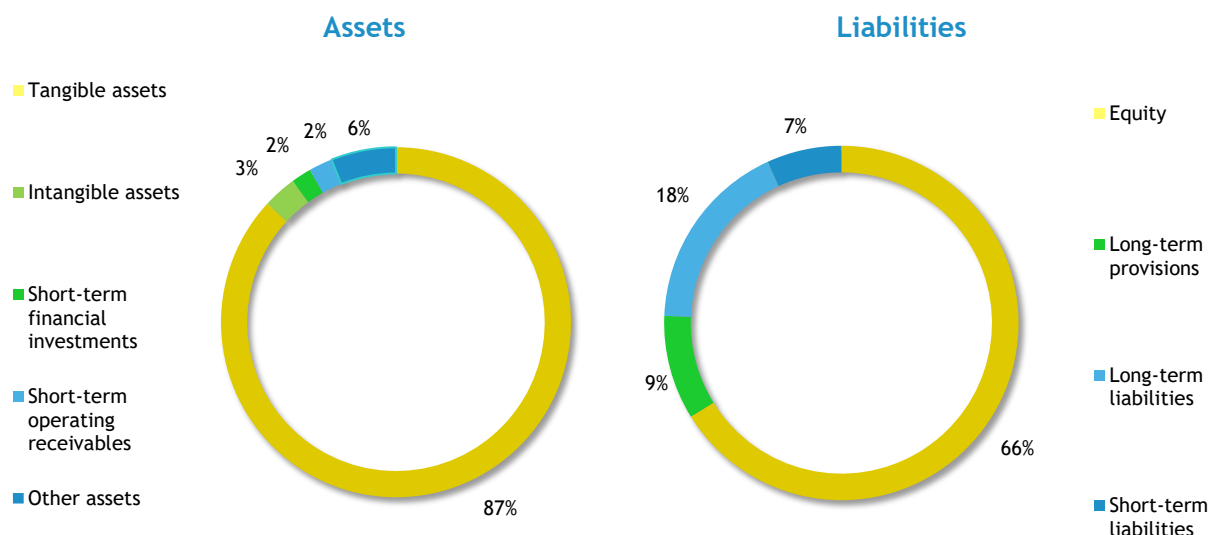
Long-term assets, which are almost entirely long-term tangible fixed assets, increased by 2 percent in the year 2020, due to the fact that we reversed the trend of recent years, when depreciation exceeded new investments, with increased investment.

## Review of assets

in EUR thousand

| Assets  | As at<br>1.1.2019 | As at<br>1.1.2020 | As at<br>31.12.2020 | Index<br>31.12.20/1.1.20 |
|---|-------------------|-------------------|---------------------|--------------------------|
| <b>A S S E T S</b>                                | <b>318.804</b>    | <b>316.476</b>    | <b>322.534</b>      | <b>102</b>               |
| A. LONG-TERM ASSETS                               | 298.330           | 284.931           | 290.551             | 102                      |
| I. Intang. ass. and LTM def. costs and accr. rev. | 11.958            | 9.630             | 9.999               | 104                      |
| II. Tangible assets                               | 285.952           | 274.893           | 280.142             | 102                      |
| IV. Long-term financial investments               | 43                | 43                | 43                  | 100                      |
| VI. Deferred tax assets                           | 377               | 365               | 368                 | 101                      |
| B. CURRENT ASSETS                                 | 20.300            | 31.434            | 31.914              | 102                      |
| I. Assets held for sale                           | 0                 | 0                 | 2.075               |                          |
| II. Inventories                                   | 1.460             | 1.410             | 1.547               | 110                      |
| III. Short-term financial investments             | 800               | 9.500             | 6.000               | 63                       |
| IV. Short-term operating receivables              | 8.419             | 6.144             | 7.034               | 114                      |
| V. Cash and cash equivalents                      | 9.620             | 14.380            | 15.258              | 106                      |
| C. SHORT-TERM DEFERRED COSTS AND ACCRUED REVENUES | 174               | 111               | 68                  | 62                       |

The balance of current assets increased by EUR 0.5 million due to the conclusion of a contract for the sale of land and part of a business facility and the related redistribution of fixed assets among non-current assets for sale. Financial assets are increased by the deposits in a special account earmarked for security for auction capacities and balancing contracts.



### Equity and Liabilities

The amount of capital has increased by 3.3 percent since the beginning of the year. It is affected by the payment of part of the net profit in the year 2019 and the disclosed net profit for the current year.

Since the beginning of the year, the long-term financial liabilities have been reduced by almost six percent on account of repayment of instalments of the long-term EIB loan. Short-term financial liabilities include instalments of the long-term EIB loan that fall due within a year.

Short-term operating liabilities include short-term operating liabilities to the state, suppliers, employees and others. At the end of 2020, their situation was 30.4 percent higher than at the beginning of the year mainly due to higher business liabilities to suppliers.

**Review of equity and liabilities**

in EUR thousand

| Equity and liabilities   | As at<br>1.1.2019 | As at<br>1.1.2020 | As at<br>31.12.2020 | Index<br>31.12.20/1.1.20 |
|--|-------------------|-------------------|---------------------|--------------------------|
| <b>EQUITY AND LIABILITIES</b>                                  | <b>318.804</b>    | <b>316.476</b>    | <b>322.534</b>      | <b>102</b>               |
| A. EQUITY  | 202.427           | 206.544           | 213.316             | 103                      |
| I. Subscribed capital  | 98.734            | 98.734            | 98.734              | 100                      |
| II. Capital reserves   | 8.152             | 8.152             | 8.152               | 100                      |
| III. Revenue reserves  | 92.180            | 93.909            | 97.679              | 104                      |
| V. Reserves arising from valuation at fair value               | 33                | -20               | -7                  | 35                       |
| VI. Net profit or loss from previous periods                   | 3.329             | 5.771             | 3                   | 0                        |
| VII. Net profit  | 0                 | 0                 | 8.755               |                          |
| B. PROVISIONS AND LONG-TERM ACCRUED COSTS AND DEFERRED REVENUE | 35.314            | 31.714            | 30.665              | 97                       |
| 1. Long-term provisions  | 952               | 1.000             | 1.015               | 101                      |
| 2. Long-term accrued costs and deferred revenue                | 34.362            | 30.714            | 29.650              | 97                       |
| C. LONG-TERM LIABILITIES                                       | 63.454            | 59.985            | 56.515              | 94                       |
| I. Long-term financial liabilities                             | 63.454            | 59.985            | 56.515              | 94                       |
| C. SHORT-TERM LIABILITIES                                      | 15.184            | 15.837            | 19.591              | 124                      |
| II. Short-term financial liabilities                           | 2.719             | 3.469             | 3.469               | 100                      |
| III. Short-term operating liabilities                          | 12.465            | 12.368            | 16.122              | 130                      |
| D. SHORT-TERM ACCRUED COSTS AND DEFERRED REVENUES              | 2.425             | 2.396             | 2.446               | 102                      |

**Operating Revenue**

The majority part of EUR 45.1 million in net sales revenue was generated by the charging for the access to the transmission system, the access to the transmission system for cross-border transmission of natural gas, and from the sale of natural gas for daily levelling of deviations and balancing of the transmission system. The share of revenue charged to network users outside Slovenia stood at 9 percent.

**Review of Operating Revenues**

in EUR thousand

| Item  | 2018   | 2019   | 2020   | Index<br>2020/2019 |
|---|--------|--------|--------|--------------------|
| Revenue on domestic market                          | 39.047 | 39.033 | 40.877 | 105                |
| Network charge                                      | 32.346 | 34.134 | 36.925 | 108                |
| Sale of gas for balancing and leveling of deviation | 6.503  | 4.638  | 3.710  | 80                 |
| Sale of material, services and other                | 198    | 262    | 242    | 92                 |
| Revenue on foreign market                           | 4.796  | 4.478  | 4.251  | 95                 |
| Network charge                                      | 3.598  | 4.113  | 3.946  | 96                 |
| Sale of gas for balancing and leveling of deviation | 1.135  | 292    | 229    | 79                 |
| Sale of services and other                          | 63     | 73     | 76     | 105                |
| Total net sales revenue                             | 43.843 | 43.511 | 45.128 | 104                |
| Cost of gas sold                                    | 7.618  | 4.924  | 3.937  | 80                 |
| Gross profit or loss from sale                      | 36.225 | 38.587 | 41.191 | 107                |
| Other operating revenues                            | 1.722  | 1.376  | 2.227  | 162                |

The net sales revenue is 4 percent higher than in the year 2019 and is at the planned level. The cost of gas sold represents the value of natural gas sold for the purpose of daily balancing of deviations and balancing of the transmission system. Compared to the previous year, the purchase price of the sold quantities of natural gas was 20 percent lower, amounting to 44 percent of the annual planned value. The gross profit from sale thus amounts to EUR 41.2 million, 11 percent more than planned.

The gross profit from sale is increased by other operating revenue in the amount of EUR 2.2 million. Other operating revenue includes revenue from the reduction of short-term accrued costs and deferred revenue due to the European Commission grant and revaluation operating revenue from the reversal of impairment of ongoing investment, due to the fact that the ongoing investment was activated, and revenue from the state aid due to the coronavirus epidemic in the amount of the exemption from the payment of pension and disability insurance contributions.

### Operating Expenses and Costs

Operating expenses and costs excluding the cost for natural gas sold amounted to EUR 30.3 million in the year 2020 and are at the level realised in the previous year. They represent the costs of material, services and labour, other costs and expenses, as well as depreciation. With 51 percent, depreciation / amortisation covers the largest share among operating expenses.

### Review of the Operating Expenses and Costs

in EUR thousand

| Item                           | 2018   | 2019   | 2020   | Index<br>2020/2019 |
|--------------------------------|--------|--------|--------|--------------------|
| Costs of material and services | 4.246  | 4.649  | 4.471  | 96                 |
| Labour costs                   | 8.190  | 8.199  | 8.501  | 104                |
| Amortization and Depreciation  | 15.544 | 15.595 | 15.530 | 100                |
| Revaluation expenses           | 1.108  | 60     | 16     | 26                 |
| Other operating expenses       | 1.617  | 1.733  | 1.743  | 101                |
| Total                          | 30.705 | 30.236 | 30.260 | 100                |

In connection with the adopted anti-crisis laws due to the coronavirus epidemic, an additional crisis allowance, as well as rewards and incentives were paid to the employees who were exposed to the risk of infection at work. In connection with the labour costs, the company received other revenue from the state aid due to the exemption from the payment of pension and disability insurance contributions in the total amount of EUR 300 thousand, which exceed the deviation of labour costs from the planned ones.

Costs of material and services reached 84 percent of those planned for the year 2020 and are 4 percent lower than those achieved in the year 2019. Revaluation operating expenses are formed for accounts receivable from customers involved in judicial proceedings or insolvency proceedings. In accordance with the law, other operating expenses include contributions and membership fees.

### Financial Revenue and Expenses

Financial revenue in the amount of EUR 22,000 consists of interest received from time deposits, default interest on customers and the repayment from the period of the compulsory settlement, and exceeds the costs paid to banks for assets above the thresholds in the total amount of EUR 842.

Due to the repayment of the principal of the EIB long-term loan, financial expenses were decreasing and amounted to EUR 2.7 million in the year 2020, which is 5 percent less than the year before.

## Profit or Loss

In the year 2020, our total profit before taxes amounted to EUR 10.5 million. Income tax burdening the profit in the year 2020 amounted to EUR 1.8 million and was charged at 19 percent tax rate of the profit taking account of tax relief, expenses that are not recognised for tax purposes, and deferred taxes.

The reported net profit for the financial year 2020 amounted to EUR 8.8 million, which accounted for 19 percent of total net sales revenue. The profit was entirely generated from operations and exceeded the plan.

## Cash Flows

The cash flow statement shows changes in cash on hand and in bank accounts, and the breakdown of cash flows generated from operating activities, investing activities and financing activities.

In the year 2020, cash flows from operating activities were positive and stood at EUR 28.7 million, primarily due to successful operations in the period. The influence of the changes in net current assets was EUR 1.8 million. The cash flow statement shows changes in cash on hand and in bank accounts, and the breakdown sufficient to cover investment expenditure, payment of interest and repayment of instalments of long-term loans. Cash flows from investing activities were negative in the amount of EUR 19.7 million. In the year 2020, expenditures for investments amounted to EUR 41.5 million.

### Review of the Cash Flow

in EUR thousand

| Type of cash flow  | 2018    | 2019    | 2020    |
|--|---------|---------|---------|
| <b>A. CASH FLOWS FROM OPERATING ACTIVITIES</b>             |         |         |         |
| a. Profit and loss statements items                        | 23.193  | 23.264  | 25.266  |
| b. Changes in net current assets                           | -2.073  | 1.498   | 3.003   |
| c. Net cash from operating activities (a+b)                | 21.120  | 24.762  | 28.269  |
| <b>B. CASH FLOWS FROM INVESTING ACTIVITIES</b>             |         |         |         |
| a. Cash receipts from investing activities                 | 18.213  | 800     | 21.850  |
| b. Cash payments from investing activities                 | -12.479 | -13.685 | -41.125 |
| c. Net cash from investing activities (a+b)                | 5.734   | -12.885 | -19.275 |
| <b>C. CASH FLOWS FROM FINANCING ACTIVITIES</b>             |         |         |         |
| a. Cash receipts from financing activities                 | 0       | 0       | 0       |
| b. Cash payments from financing activities                 | -27.057 | -7.117  | -8.117  |
| c. Net cash from financing activities (a+b)                | -27.057 | -7.117  | -8.117  |
| <b>C. CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b> | 9.620   | 14.380  | 15.258  |
| x. Net increase/decrease in cash and cash equivalents      | -203    | 4.760   | 878     |
| y. Cash and cash equivalents at the beginning of the year  | 9.823   | 9.620   | 14.380  |

## Statement by the Management Board in Accordance with Article 545 of the Companies Act (ZGD-1)

In the business year 2020, the company Plinovodi d.o.o. was a subsidiary of the company Plinhold d.o.o.

In the year 2020, the company Plinovodi d.o.o. has not concluded any business transaction with the company Plinhold d.o.o.

In the year 2020, the company Plinovodi d.o.o. has not concluded any legal transaction with the parent company or its associated company or at the instigation or in the interest of these



companies, which would lead to the deprivation of the company. Moreover, the company has not received any compensation for the deprivation.

In the year 2020, the company Plinovodi d.o.o. has not performed or omitted any act on the initiative or in the interest of the parent company or its associated companies, which would lead to the deprivation of the company. Moreover, related to this, the company has not received any compensation for the deprivation.

## Risks

A risk is an uncertain event that may jeopardise or even prevent a company from achieving its planned objectives. Strategically-minded companies either eliminate risks, minimise them, or even take advantage of them. Risks are an integral part of every business and also a part of operations of our company; therefore, a comprehensive risk management system is an integral and indispensable part of the company's management system.

Risk management is important for the realisation of the company's mission and business success. The response to the awareness of economic uncertainty and the variability of operating conditions is, among other things, strengthening control awareness and developing risk management as an integral part of the business strategy, which contributes to the stable operation and achievement of objectives. Risk management means that we respond to risks and opportunities in an increasingly demanding socio-economic environment in a timely and correct manner. The established organisation, process and methodology of risk management ensure that we are aware of risks and opportunities at all times, that we are well aware of and understand them, as well as are committed to constantly monitoring the changes in the risk structure and the adequacy of the measures.

An established ERM risk management system is an integral part of corporate governance, which also gives importance to perceived opportunities. We have established a solid and reliable ERM system, which is understandably defined and proportionate to the characteristics, extent and complexity of transactions, which the company performs. A process in place and the organisation of risk management, but above all their development, are an integral part of the company's business strategy. We are systematically engaging in risk management through appropriate organisation and a clear definition of powers and responsibilities, definition of policies and the catalogue of risks. We are also adapting to changed circumstances, such as was the coronavirus in the year 2020.

Risk managers are the Management Board of the company for strategic risks, and area managers and heads of organisational units or functions for all other risks. The risk management system is the responsibility of the Risk Management Group (hereinafter referred to as: "the Group"), whose members are the managers and owners of the identified risks. The task of the Group is to establish guidelines and a model for risk management in the way that it is developing in accordance with the needs and objectives of the company, preparing inspections of the identified risks or the catalogue of the most significant risks with the established controls and measures for their control the definition of reporting and handling of progress reports on the risk management, as well as monitoring of the functioning and development of the ERM. The Group regularly reports to the Management Board of the company.

The process is periodically checked in the light of the methodological approach, the adequacy of identified risks, the identification of new risks and opportunities, and the adequacy of the risk assessment system, taking into account the business objectives set within the current and foreseeable business conditions. Changes in the structure and significance of risks are closely related to the type of activities, changes in the way the company operates, regulatory and legislative changes, the expansion of the gas system in the country and in connection with the neighbouring countries. The objective is to take exactly the right measure of appropriate risks, so that the company can effectively pursue its strategic objectives.

An important part of the risk management system is internal controls that point to the possibility of realising risks, and the measures by which controls are strengthened, new risks or changes in the intensity of already identified risks are revealed, risks are minimised, we safeguard ourselves from them or constantly monitor them. The implementation of internal controls is ensured by continuously adapting work processes and internal acts to individual types of risks and legislative changes, by appointing expert commissions and teams (project management teams, public procurement committee, liquidity committee, crisis group to coordinate activities related to the coronavirus epidemic, environmental team and work groups which operate in their specific fields of work), with the in-depth analysis of selected types of risks, monitoring of risk indicators and the effectiveness of implementation of measures, as well as with finding new solutions. Timely preparation of relevant information for the needs of the company's Management Board increases the effectiveness of decision-making activities and strengthens the contribution to high-quality risk management. The risk management process was supplemented with a plan for an in-depth analysis of selected types of risks, which we attach special importance to, and is complemented according to the risks that newly appear.

The Compliance Officer performs tasks as provided for by the EZ-1 and advocates the effective implementation of measures to achieve the objectives of the Compliance Programme, which lead to a decrease in regulatory risk and to ensuring the actual independence of the transmission system operator.

Risk management, in addition to strategic risks that are in a certain range of environmental risks and which have decisive consequences for achieving strategic objectives and the company's core business, as well as for the company's business operations and results, also includes operational risks. The strategic risk, with its diversity and limited impact, remains a significant risk.

The year 2020 was especially marked by the COVID-19 coronavirus pandemic. As early as in February 2020, the COVID-19 Activity Coordination Group was appointed at the company, which, in cooperation with the company's Management Board, made key decisions, in particular preventive measures. We fully adjusted our operations and took all the necessary measures to protect the employees, for the continuous operation of the transmission infrastructure, and risk management. Throughout, we carefully analysed the situation and assessed risks at all levels. In doing so, we tried to identify all possible scenarios for the development of the situation and prepared measures for these cases, as well. We paid special attention to potential infections in the DC and cyber risks. We also prepared stress tests for these two areas and prepared a proposal for additional measures to reduce risk exposure. These were mostly implemented in the period between the first and second

waves, which prepared us for the new situation even better. In cooperation with the authorised occupational physician, the COVID-19 Activity Coordination Group also prepared a Risk Assessment with measures to ensure the safety and health of employees in the event of an epidemic or pandemic of COVID-19 infectious disease, which describes and explains measures at individual risk levels in more detail.

Throughout the year, the main focus was on the main activity risk, for which due to the specificity and possible consequences, specific scenarios for action are made for the safety and reliability of the system operation, even in case of extraordinary events. The operational reliability of the gas transmission system is ensured with suitable double monitoring system, as well as regular maintenance and improvement of facilities and devices. Quality of our services is assured by consistent and systematic implementation of documented control procedures in all fields, keeping track of the development of gas technologies, and remedial and protection activities. Risks associated with the natural environment protection are managed by technical assurance of safety and implementation of the environmental management system in accordance with the requirements of the ISO 14001 standard, and above all, by separate collection of waste, monitoring and improving of environmental indicators, emissions and waste. In order to reduce the risks arising from the activities and assets of a transmission system operator, we have concluded adequate insurance contracts, which include, in particular, liability insurance against third parties, professional liability and property insurance (fire and machinery insurance, computer insurance and car insurance).

The project risks involve the risks associated with the preparation of projects and the procedures for the selection of contractors, as well as the timeliness of the completion of the implementation. In order to manage the risks arising from the procurement procedures, we have involved additional legal experts in the implementation of the procedure itself. With new development plans, project risks will be strengthened. By ensuring the coherence of development plans within the country and the region, timely spatial placement of projects, detailed preparation of the implementation of planned projects as regards time, selection of the most suitable contractor, careful monitoring of the implementation of projects and timely action in case of possible deviations, we manage such risks at an acceptable level.

We pay great attention to the risk of regulation and legislation, the risk of the political and economic environment, with the emphasis on the importance of natural gas, and to the development of the natural gas market and transmission capacities. We carefully follow all the changes in the European and national energy policies and regulations, as well as in the laws and regulations, we are involved in their preparation and we timely include them into our procedures and operations.

In the year 2020, special attention was paid to the alternative sources, such as the LNG and natural gas from the Caspian Basin, due to the fact that the changes in this area can have a significant impact on the volume of transmission capacity booking at cross-border interconnection points and thus on the company's revenues. Moreover, the marketing aspect of strategic risk is also managed with a competitive tariff policy, enriched marketing activities for identifying natural gas as a suitable energy source on the way to a low carbon company, and action plans to increase the transmission capacity booking in the country, as well as with the connection of new users.

Purchasing risks were mainly limited to the compliance risks with the public procurement rules. In order to implement the current legislation in a consistent manner, it is necessary to monitor the changes and ensure effective internal communication in the preparation of the tender documentation. We are managing the entire procurement process with the proper management and timely decision making. The risk of non-fulfilment of non-monetary liabilities by suppliers is managed by means of appropriate contractual provisions, the provision of appropriate insurances and administration of contracts.

Moreover, we pay particular attention to financial risks: credit risk and a wider counterparty default risk, liquidity risk, interest rate risk and investment risk. Financial risks are managed through the established system of managing cash and receivables, and through the appropriate structure of financial resources within the borrowing policy and optimisation of financing sources. Long-term debt does not affect good and appropriate capital adequacy. On the basis of the company's successful operations, stable cash flows from operation and growth financing from own resources and ensured earmarked long-term resources, the liquidity risk in the year 2020 was negligible. The exposure to interest rate risk has not changed significantly; most of the loans are with a fixed interest rate, while the remaining part is tied to the EURIBOR reference rate of interest. Exposure to currency risk is low and short-term, since in the year 2020, less than 0.5 percent of turnover with suppliers was executed in other (non-EUR) currencies, predominantly in US dollars.

On the side of customers, it is important to manage the risk which is a result of the payment (in)ability and financial indiscipline. The credit risk is reduced by the dispersion of customers, financial guarantees, monitoring the creditworthiness of materially important customers, regular dynamic analysis of payment discipline and prompt action in the case of unpaid receivables due. Despite the epidemic in the year 2020, the exposure has not increased.

Within the framework of operational risks, we are carefully analysing the risks of information technology in business processes, telecommunications and information security risks. Such risks are being actively managed with the introduction of additional and the improvement of existing measures of data and access protection, backup locations, provision of suitable computer capacities, regular control, maintenance and investments in improvements, updates and upgrades of IT systems and, finally, by ensuring ongoing education and training of employees. We regularly analyse the exposure to individual IT suppliers, identify changes in risks and adjust measures to be taken, accordingly.

We are aware of the risk connected with ensuring key and competent staff, human resource management and encouraging innovation. The competence of employees in accordance with the requirements of international standards that apply to gas activity, maintenance of a high level of professional, specialised and general knowledge, target management and development of employees' potential, promotion of knowledge transfer, long-term planning and selection of personnel, as well as the development of the internal communication system are key measures for risk management in the field of human resources management. Based on the implementation of these measures, stable management and key employees, the situation on the labour market, low fluctuation and favourable results of measuring employee satisfaction, we assess this type of risk as well-managed.

The year 2020 also showed how important it is to be active in risk management: a well-implemented risk management system, designed from the top down in accordance with the company's activities and needs, and with the strong support of the Management, it is a condition for the company to effectively and successfully cope with new conditions even in a rapidly changing environment. At the company Plinovodi, we are thus committed to continually upgrading our risk management system and strengthening its use, both in the strategic planning process and in making current business decisions. In the coming years, we will continue to upgrade our risk management culture in the company.

In accordance with the findings and proposals of the Group, we will continue to pay special attention to the changes in the environment or business circumstances, and thus to the set of identified risks, which consequently affects the appropriate behaviour and effective action of the company. We will continue to closely monitor and manage the risks associated with regulations, coronavirus, information security risks and the effects of the LNG terminal on Krk on the natural gas market in the region. With the aim of a flexible company that will respond to the challenges and related risks of tomorrow in a timely and appropriate manner, we will periodically review and upgrade the catalogue and risk management.

In the future, we will further develop the importance of management and culture to ensure that the employees understand the risks and operate under reasonable risks, as well as reliably warn in the event of deviations. By upgrading the "Information, Communication and Reporting" component, we will enable rapid identification of risks, detect changes in the environment more quickly, and consequently design appropriate measures and responses to risks. Due to the perceived change in the intensity of personnel-related risks, we will in the future pay attention to staff development with an emphasis on retaining and replacing, as well as relieving key personnel.

Despite the fact that the company's risk management system has been established and is operating, the Group will continue to adopt risk management guidelines and a risk management model that best suits the company's needs and objectives, in accordance with the development of the profession and good practice.

### **Events after the Balance Sheet Date**

There were no events between the balance sheet date and the financial statements endorsement date that would require an adjustment of the financial statements to the balance sheet date or any special disclosure in the financial statements.



## ACCOUNTING REPORT



## STATEMENT BY THE MANAGEMENT BOARD

The Management Board adopts and approves the Annual Report of the company Plinovodi d.o.o. for the year 2020 which consists of the Business Report and the Accounting Report.

The Management Board hereby confirms that appropriate accounting policies were applied consistently when preparing the financial statements, that accounting estimates were made on the basis of the principle of prudence and good management, and that the financial statements give a true and fair view of the company's assets and its economic outcome for 2020.

The Management Board is also responsible for proper keeping of financial statements, for the adoption of appropriate measures to insure the property and other assets, as well as to prevent and detect misuses and other irregularities. The Management Board hereby confirms that the financial statements along with the explanatory notes were based on the principle of going concern, and are in conformity with the legislation in force in the Republic of Slovenia and with the Slovenian Accounting Standards (2016).

Ljubljana, 10 March 2021

General Manager  
Marjan Eberlinc, BSc in Mech. Eng.

Deputy General Manager  
Sarah Jezernik, MSc in E.



## Balance sheet on 31 December 2020

in EUR

| Item   | Notes         | As at<br>31 Dec. 2020 | As at<br>31 Dec. 2019 |
|--|---------------|-----------------------|-----------------------|
| <b>ASSETS</b>  |               | <b>322,533,551</b>    | <b>316,475,693</b>    |
| <b>A. Long-term assets</b>   |               | <b>290,551,387</b>    | <b>284,931,121</b>    |
| <b>I. Intangible assets and long-term deferred costs and accrued revenue</b> | <b>2.1.1</b>  | <b>9,999,046</b>      | <b>9,629,794</b>      |
| 1. Long-term property rights   |               | 9,889,806             | 9,495,266             |
| 5. Other long-term deferred costs and accrued revenue                        |               | 109,240               | 134,528               |
| <b>II. Tangible</b>  | <b>2.1.2</b>  | <b>280,141,792</b>    | <b>274,893,383</b>    |
| 1. Land and buildings  |               | 222,147,264           | 231,834,396           |
| a) Land  |               | 22,421,850            | 23,397,737            |
| b) Buildings   |               | 199,725,414           | 208,436,659           |
| 3. Other plant and machinery   |               | 35,830,211            | 38,691,890            |
| 4. Assets under construction   |               | 22,164,317            | 4,367,097             |
| a) Assets under construction   |               | 22,162,074            | 4,367,097             |
| b) Payments on account (tangible)  |               | 2,243                 | 0                     |
| <b>IV. Long-term financial investments</b>                                   | <b>2.1.3</b>  | <b>42,949</b>         | <b>42,949</b>         |
| 1. Long-term financial investments, excl. loans                              |               | 42,949                | 42,949                |
| c) Other shares and interest   |               | 42,949                | 42,949                |
| <b>VI. Deferred tax assets</b>   | <b>2.1.4</b>  | <b>367,599</b>        | <b>364,994</b>        |
| <b>B. Current assets</b>   |               | <b>31,913,709</b>     | <b>31,433,843</b>     |
| <b>I. Assets held for sale</b>   | <b>2.1.5</b>  | <b>2,074,885</b>      | <b>0</b>              |
| <b>II. Inventories</b>   | <b>2.1.6</b>  | <b>1,546,959</b>      | <b>1,410,037</b>      |
| 1. Material  |               | 1,202,679             | 1,341,222             |
| 3. Products and merchandise  |               | 344,280               | 68,815                |
| <b>III. Short-term financial investments</b>                                 | <b>2.1.7</b>  | <b>6,000,000</b>      | <b>9,500,000</b>      |
| 2. Short-term loans  |               | 6,000,000             | 9,500,000             |
| b) Short-term loans to others  |               | 6,000,000             | 9,500,000             |
| <b>IV. Short-term operating receivables</b>                                  | <b>2.1.8</b>  | <b>7,034,247</b>      | <b>6,143,892</b>      |
| 2. Short-term accounts receivable  |               | 6,613,641             | 5,827,682             |
| 3. Other short-term receivables  |               | 420,606               | 316,210               |
| <b>V. Cash and cash equivalents</b>  | <b>2.1.9</b>  | <b>15,257,618</b>     | <b>14,379,914</b>     |
| <b>C. Deferred costs and accrued revenue</b>                                 | <b>2.1.10</b> | <b>68,455</b>         | <b>110,729</b>        |

## Balance sheet on 31 December 2020

in EUR

| Item  | Notes         | As at<br>31 Dec. 2020 | As at<br>31 Dec. 2019 |
|---|---------------|-----------------------|-----------------------|
| <b>EQUITY AND LIABILITIES</b>   |               | <b>322,533,551</b>    | <b>316,475,693</b>    |
| <b>A. Equity</b>  | <b>2.1.11</b> | <b>213,315,722</b>    | <b>206,544,336</b>    |
| I. Subscribed capital   |               | 98,733,790            | 98,733,790            |
| 1. Share capital  |               | 98,733,790            | 98,733,790            |
| II. Capital reserves  |               | 8,151,515             | 8,151,515             |
| III. Revenue reserves   |               | 97,679,345            | 93,908,720            |
| 1. Statutory reserves   |               | 1,933,169             | 1,933,169             |
| 5. Other revenue reserves   |               | 95,746,176            | 91,975,551            |
| V. Reserves arising from valuation at fair value                      |               | -7,038                | -20,314               |
| VI. Net profit or loss from previous periods                          |               | 2,842                 | 0                     |
| VII. Net profit or loss for the period                                |               | 8,755,269             | 5,770,625             |
| <b>B. Provisions and long-term accrued costs and deferred revenue</b> | <b>2.1.12</b> | <b>30,665,119</b>     | <b>31,713,849</b>     |
| 1. Provisions for personnel expenses                                  |               | 799,858               | 797,864               |
| 2. Other provisions   |               | 215,106               | 202,169               |
| 3. Long-term accrued costs and deferred revenue                       |               | 29,650,155            | 30,713,817            |
| <b>C. Long-term liabilities</b>                                       |               | <b>56,515,432</b>     | <b>59,984,568</b>     |
| I. Long-term financial liabilities                                    | <b>2.1.13</b> | <b>56,515,432</b>     | <b>59,984,568</b>     |
| 2. Long-term financial liabilities to banks                           |               | 56,515,432            | 59,984,568            |
| <b>C. Short-term liabilities</b>                                      |               | <b>19,591,426</b>     | <b>15,836,790</b>     |
| II. Short-term financial liabilities                                  | <b>2.1.14</b> | <b>3,469,136</b>      | <b>3,469,136</b>      |
| 2. Short-term financial liabilities to banks                          |               | 3,469,136             | 3,469,136             |
| III. Short-term operating liabilities                                 | <b>2.1.15</b> | <b>16,122,291</b>     | <b>12,367,654</b>     |
| 2. Trade liabilities  |               | 5,741,788             | 4,140,565             |
| 4. Payments on account (received)                                     |               | 223,055               | 199,800               |
| 5. Other short-term operating liabilities                             |               | 10,157,448            | 8,027,290             |
| <b>D. Short-term accrued costs and deferred revenue</b>               | <b>2.1.16</b> | <b>2,445,852</b>      | <b>2,396,150</b>      |

Profit and loss statement has been compiled in accordance with the Companies Act and SAS 21 - version I. Individual items of the profit and loss statement are interpreted in breakdowns and notes to financial statements.

## Profit and Loss Statement for 2020

in EUR

|     | Item  | Notes  | 2020        | 2019        |
|-----|---|--------|-------------|-------------|
| 1.  | Net sales revenue   | 2.2.1  | 45,128,389  | 43,510,855  |
| 4.  | Other operating revenue (with reval. op. revenue)                           | 2.2.2  | 2,226,526   | 1,376,410   |
| 5.  | Costs of goods, material and services                                       | 2.2.3  | -8,408,267  | -9,572,277  |
| a)  | Cost of goods and material sold and cost of material used                   |        | -5,246,454  | -6,215,182  |
| b)  | Costs of services   |        | -3,161,813  | -3,357,095  |
| 6.  | Labour costs  | 2.2.4  | -8,500,509  | -8,199,068  |
| a)  | Wages and salaries  |        | -6,349,640  | -6,158,019  |
| b)  | Social security costs   |        | -1,244,877  | -1,238,750  |
| c)  | Other labour costs  |        | -905,993    | -802,300    |
| 7.  | Write-downs   | 2.2.5  | -15,545,781 | -15,655,283 |
| a)  | Depreciation  |        | -15,529,795 | -15,594,946 |
| b)  | Impairment of intangible assets and tangible assets                         |        | -6,258      | -53,491     |
| c)  | Impairment of current assets  |        | -9,728      | -6,845      |
| 8.  | Other operating expenses  | 2.2.6  | -1,742,972  | -1,733,239  |
| 9.  | Financial revenue from holdings   |        | 0           | 0           |
| 10. | Financial revenue from loans granted  |        | 15,800      | 13,111      |
| b)  | Financial revenue from loans to others                                      |        | 15,800      | 13,111      |
| 11. | Financial revenue from operating receivables                                |        | 6,118       | 8,388       |
| b)  | Financial revenue from operating rec. due from others                       |        | 6,118       | 8,388       |
| 12. | Financial expenses from impairment and write-downs of financial investments |        | 0           | 0           |
| 13. | Financial expenses for financial liabilities                                | 2.2.8  | -2,647,383  | -2,776,258  |
| b)  | Financial expenses for loans from banks                                     |        | -2,646,548  | -2,776,258  |
| d)  | Financial expenses from other financial liabilities                         |        | -835        | 0           |
| 14. | Financial expenses for operating liabilities                                | 2.2.9  | -9,604      | -13,739     |
| b)  | Financial expenses for accounts payable and bills payable                   |        | -2,188      | -551        |
| c)  | Financial expenses for other operating liabilities                          |        | -7,416      | -13,188     |
| 15. | Other revenue   |        | 102         | 171         |
| 16. | Other expenses  |        | -19,394     | -59,770     |
| 17. | Income tax  |        | -1,752,054  | -1,121,997  |
| 18. | Deferred Taxes  | 2.1.4  | 4,297       | -6,350      |
| 19. | NET PROFIT OR LOSS FOR THE YEAR   | 2.2.11 | 8,755,269   | 5,770,954   |

## Statement of Other Comprehensive Income for 2020

|     |   | in EUR    |           |
|-----|---|-----------|-----------|
|     | Item                                    | 2020      | 2019      |
| 19. | Net profit for the period               | 8,755,269 | 5,770,954 |
| 23. | Actuarial profit / loss                 | 13,275    | -53,224   |
| 24. | Total comprehensive income for the year | 8,768,544 | 5,717,730 |

The cash flow statement has been compiled in accordance with the Companies Act and SAS 22 - version II.

## Cash Flow Statement for 2020

in EUR

| Item  | 2020               | 2019               |
|---|--------------------|--------------------|
| <b>A. CASH FLOWS FROM OPERATING ACTIVITIES</b>  |                    |                    |
| <b>a) Profit and loss statements items</b>  | <b>25,266,412</b>  | <b>23,264,461</b>  |
| Operating revenue (excluding for revaluation) and financial revenue from operating receivables  | 45,632,268         | 43,474,268         |
| Operating expenses excluding depreciation (excluding for revaluation) and financial expenses from operating liabilities                       | -18,615,494        | -19,081,459        |
| Income taxes and other taxes not included in operating expenses   | -1,750,362         | -1,128,348         |
| <b>b) Changes in net oper. assets (and accruals and deferrals, provisions and deferred tax assets and liabilities) in balance sheet items</b> | <b>3,002,818</b>   | <b>1,497,519</b>   |
| Changes in trade receivables  | -898,794           | 2,283,129          |
| Changes in short-term deferred costs and accrued revenue  | 67,562             | 63,109             |
| Changes in deferred tax assets  | 0                  | 11,708             |
| Changes in inventories  | -136,922           | 48,575             |
| Changes in trade payables   | 3,754,636          | -422,269           |
| Changes in accrued costs and deferred revenue, and provisions   | 216,336            | -486,733           |
| <b>c) Net cash from operating activities (a+b)</b>  | <b>28,269,230</b>  | <b>24,761,980</b>  |
| <b>B. CASH FLOWS FROM INVESTING ACTIVITIES</b>  |                    |                    |
| <b>a) Cash receipts from investing activities</b>   | <b>21,850,467</b>  | <b>800,249</b>     |
| Cash receipts from interest and dividends of others pertaining to investing activities  | 15,800             | 249                |
| Receipts from disposal of tangible assets   | 34,667             | 0                  |
| Cash receipts from disposal of financial investments  | 21,800,000         | 800,000            |
| <b>b) Cash payments from investing activities</b>   | <b>-41,125,474</b> | <b>-13,685,368</b> |
| Cash payments to acquire intangible assets  | -778,830           | -1,034,532         |
| Cash payments to acquire tangible assets  | -22,046,644        | -3,150,836         |
| Cash payments to acquire short-term financial investments   | -18,300,000        | -9,500,000         |
| <b>c) Net cash from investing activities (a+b)</b>  | <b>-19,275,007</b> | <b>-12,885,119</b> |
| <b>C. CASH FLOWS FROM FINANCING ACTIVITIES</b>  |                    |                    |
| <b>a) Cash receipts from financing activities</b>   | <b>0</b>           | <b>0</b>           |
| <b>b) Cash payments from financing activities</b>   | <b>-8,116,519</b>  | <b>-7,117,254</b>  |
| Interest paid on financing activities   | -2,647,383         | -2,798,118         |
| Cash repayments of financial liabilities  | -3,469,136         | -2,719,136         |
| Dividends paid  | -2,000,000         | -1,600,000         |
| <b>c) Net cash from financing activities (a+b)</b>  | <b>-8,116,519</b>  | <b>-7,117,254</b>  |
| <b>C. CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR (x+y)</b>  | <b>15,257,618</b>  | <b>14,379,914</b>  |
| <b>x) Net increase in cash and cash equivalents (Ac+Bc+Cc)</b>  | <b>877,704</b>     | <b>4,759,607</b>   |
| <b>y) Cash and cash equivalents at the beginning of the year</b>  | <b>14,379,914</b>  | <b>9,620,307</b>   |



## Statement of Changes in Equity for 2020

in EUR

| Item  | Called-up capital | Share capital     | Capital reserves | Revenue reserves  | Statutory reserves | Other revenue reserves | Reserves arising from valuation at fair value | Net profit or loss from previous periods | Net profit or loss for the period | Total capital      |
|---|-------------------|-------------------|------------------|-------------------|--------------------|------------------------|---|--|-----------------------------------|--------------------|
|   | I                 | I/1               | II               | III               | III/1              | III/5                  | V   | VI                                       | VII                               | VIII               |
| <b>A.1. Closing balance as at 31 Dec 2019</b>   | <b>98,733,790</b> | <b>98,733,790</b> | <b>8,151,515</b> | <b>93,908,720</b> | <b>1,933,169</b>   | <b>91,975,551</b>      | <b>-20,314</b>                                | <b>0</b>                                 | <b>5,770,625</b>                  | <b>206,544,336</b> |
| <b>A.2. Opening balance as at 1 Jan 2020</b>  | <b>98,733,790</b> | <b>98,733,790</b> | <b>8,151,515</b> | <b>93,908,720</b> | <b>1,933,169</b>   | <b>91,975,551</b>      | <b>-20,314</b>                                | <b>5,770,625</b>                         | <b>0</b>                          | <b>206,544,336</b> |
| <b>B.1. Changes in equity capital - transactions with owners</b>                          | <b>0</b>          | <b>0</b>          | <b>0</b>         | <b>0</b>          | <b>0</b>           | <b>0</b>               | <b>0</b>                                      | <b>-2,000,000</b>                        | <b>0</b>                          | <b>-2,000,000</b>  |
| g) Payment of the share in profits  | 0                 | 0                 | 0                | 0                 | 0                  | 0                      | 0   | -2,000,000                               | 0                                 | -2,000,000         |
| <b>B.2. Total comprehensive income for the year</b>                                       | <b>0</b>          | <b>0</b>          | <b>0</b>         | <b>0</b>          | <b>0</b>           | <b>0</b>               | <b>13,275</b>                                 | <b>2,842</b>                             | <b>8,755,269</b>                  | <b>8,771,386</b>   |
| a) The entry of the yearly results  | 0                 | 0                 | 0                | 0                 | 0                  | 0                      | 0   | 0  | 8,755,269                         | 8,755,269          |
| d) Other elements of comprehensive income   | 0                 | 0                 | 0                | 0                 | 0                  | 0                      | 13,275  | 2,842                                    | 0                                 | 16,117             |
| <b>B.3. Movement within equity</b>  | <b>0</b>          | <b>0</b>          | <b>0</b>         | <b>3,770,625</b>  | <b>0</b>           | <b>3,770,625</b>       | <b>0</b>                                      | <b>-3,770,625</b>                        | <b>0</b>                          | <b>0</b>           |
| a) Allocation of a part of net profit of the reporting period to other elements of equity | 0                 | 0                 | 0                | 3,770,625         | 0                  | 3,770,625              | 0   | -3,770,625                               | 0                                 | 0                  |
| <b>C. Closing balance as at 31 Dec 2020</b>   | <b>98,733,790</b> | <b>98,733,790</b> | <b>8,151,515</b> | <b>97,679,345</b> | <b>1,933,169</b>   | <b>95,746,176</b>      | <b>-7,038</b>                                 | <b>2,842</b>                             | <b>8,755,269</b>                  | <b>213,315,722</b> |

## Statement of Changes in Equity for 2019

in EUR

| Item   | Called-up capital | Share capital     | Capital reserves | Revenue reserves  | Statutory reserves | Other revenue reserves | Reserves arising from valuation at fair value | Net profit or loss from previous periods | Net profit or loss for the period | Total capital      |
|--|-------------------|-------------------|------------------|-------------------|--------------------|------------------------|---|--|-----------------------------------|--------------------|
|  | I                 | I/1               | II               | III               | III/1              | III/5                  | V   | VI                                       | VII                               | VIII               |
| <b>A.1. Closing balance as at 31 Dec 2018</b>  | <b>98,733,790</b> | <b>98,733,790</b> | <b>8,151,515</b> | <b>92,179,784</b> | <b>1,933,169</b>   | <b>90,246,615</b>      | <b>32,910</b>                                 | <b>356</b>                               | <b>3,328,580</b>                  | <b>202,426,934</b> |
| <b>A.2. Opening balance as at 1 Jan 2019</b>   | <b>98,733,790</b> | <b>98,733,790</b> | <b>8,151,515</b> | <b>92,179,784</b> | <b>1,933,169</b>   | <b>90,246,615</b>      | <b>32,910</b>                                 | <b>356</b>                               | <b>3,328,580</b>                  | <b>202,426,934</b> |
| <b>B.1. Changes in equity capital - transactions with owners</b>                                       | <b>0</b>          | <b>0</b>          | <b>0</b>         | <b>0</b>          | <b>0</b>           | <b>0</b>               | <b>0</b>                                      | <b>-1,600,000</b>                        | <b>0</b>                          | <b>-1,600,000</b>  |
| g) Payment of the share in profits   | 0                 | 0                 | 0                | 0                 | 0                  | 0                      | 0   | -1,600,000                               | 0                                 | -1,600,000         |
| <b>B.2. Total comprehensive income for the year</b>  | <b>0</b>          | <b>0</b>          | <b>0</b>         | <b>0</b>          | <b>0</b>           | <b>0</b>               | <b>-53,552</b>                                | <b>0</b>                                 | <b>5,770,954</b>                  | <b>5,717,402</b>   |
| a) The entry of the yearly results   | 0                 | 0                 | 0                | 0                 | 0                  | 0                      | 0   | 0  | 5,770,954                         | 5,770,954          |
| d) Other elements of comprehensive income  | 0                 | 0                 | 0                | 0                 | 0                  | 0                      | -53,552                                       | 0  | 0                                 | -53,552            |
| <b>B.3. Movement within equity</b>   | <b>0</b>          | <b>0</b>          | <b>0</b>         | <b>1,728,936</b>  | <b>0</b>           | <b>1,728,936</b>       | <b>328</b>                                    | <b>1,599,644</b>                         | <b>-3,328,908</b>                 | <b>0</b>           |
| a) Allocation of a part of net profit of the reporting period to other elements of equity              | 0                 | 0                 | 0                | 1,728,936         | 0                  | 1,728,936              | 0   | -1,728,936                               | 0                                 | 0                  |
| c) Allocation of a part of net profit to other elements of equity based on a resolution of the General | 0                 | 0                 | 0                | 0                 | 0                  | 0                      | 0   | 3,328,580                                | -3,328,580                        | 0                  |
| f) Other movement within equity  | 0                 | 0                 | 0                | 0                 | 0                  | 0                      | 328   | 0  | -328                              | 0                  |
| <b>C. Closing balance as at 31 Dec 2019</b>  | <b>98,733,790</b> | <b>98,733,790</b> | <b>8,151,515</b> | <b>93,908,720</b> | <b>1,933,169</b>   | <b>91,975,551</b>      | <b>-20,314</b>                                | <b>0</b>                                 | <b>5,770,625</b>                  | <b>206,544,336</b> |

## Profit for Appropriation on 31 December 2020

|    |   | in EUR           |                  |
|----|---|------------------|------------------|
|    | Item                                      | 2020             | 2019             |
| a) | Net profit or loss for the year           | 8,755,269        | 5,770,954        |
| b) | Retained net earnings / Retained net loss | 2,842            | -328             |
| g) | <b>PROFIT FOR APPROPRIATION</b>           | <b>8,758,111</b> | <b>5,770,625</b> |

## 1. Summary of Significant Accounting Policies

### Basis for the Preparation of the Financial Statements

The financial statements are presented in euro. Minor differences may occur when adding up values due to the rounding of amounts.

The financial statements in this report have been prepared in accordance with the Companies Act and the Slovenian Accounting Standards published by the Slovenian Institute of Auditors and applicable since 1 January 2016.

The balance sheet has been adjusted to the presentation under SAS 20.4, Profit and Loss Statement under SAS 21.6. - version I, Cash Flow Statement under SAS 22.9. - version II, and Statement of Changes in Equity under SAS 23.2. Only the items whose value is greater than zero in the current and previous year are shown.

In accordance with Article 255 of the Energy Act (EZ-1), the company is obliged as a transmission system operator to disclose in notes to the financial statements any deviation from the regulatory framework for the financial year, which is reflected in surplus or deficit of network charges.

The financial statements for the year that ended on 31 December 2020 have been endorsed at the 12th meeting of the Management Board of the company on 10 March 2021.

### Exchange Rate and Method of Translation into Domestic Currency

Assets and equity and liabilities originally expressed in a foreign currency have been translated into the local currency at the exchange rate of the European Central Bank on the last day of the accounting period.

### Data About the Managing Company

On 31 December 2020, Plinhold d.o.o. is the managing company and a 100-percent owner of the company Plinovodi d.o.o. The company Plinovodi d.o.o. was in indirect majority state ownership, i.e. 60.10 percent (this percentage represents a direct share of the shareholder Republic of Slovenia in the company Plinhold d.o.o.).

The financial statements of the company Plinovodi d.o.o. are included in the consolidated financial statements of Plinhold, published on the website [www.ajpes.si](http://www.ajpes.si).

### The impact of the coronavirus epidemic on business operations in the year 2020 and the impact assessment on the assumption of a going concern

With all the measures taken to protect the health in the company, the coronavirus epidemic did not affect the operation of transmission systems in the year 2020. The impact on the financial statements is disclosed in Section 3.6. The coronavirus epidemic did not affect the assumption of a going company.

### Changes in Accounting Policies and Estimates

#### *Recording of wage compensations to be reimbursed*

The company recognises various forms of employee benefits as labour costs. The employee benefits include, in particular, wages and salaries due to absences, which the employee receives, as well as all the taxes on such an income. Labour costs are included in the income statement and reduce the profit or loss. Labour costs can be reduced if they are included in the value of work in progress and stocks of products. Individual laws or other acts enable the calculated labour costs to be partially or fully reimbursed.

As follows from Article 62 of the ZGD-1, it is not permitted to offset individual active items with individual passive items or individual items of revenue with individual items of expenses in the financial statements. Based on the above, in the year 2020, the company recorded the labour costs, which it receives partially or fully reimbursed, separately. Due to the above, in the year 2020, the company recognised the reimbursement of part or the entire calculated compensation among operating revenue, in accordance with the SAS 15 - Revenue (2019) and at the same time a receivable from the organisation that will reimburse the said amounts. If the conditions for recognition are not met, the recognition of revenue is deferred.<sup>1</sup>

## **Important accounting policies**

### **Intangible assets and long-term deferred costs and accrued revenue**

The company's assets comprise intangible assets, which represent investments in other property rights (computer software, investments in network development plans, project and spatial documentation), studies and analyses that generally refer to several pipelines and are applicable for more than a year, and so on. Intangible assets being acquired are presented separately.

Intangible assets are valued at cost model and they have a finite useful life. An intangible asset is initially recognised at cost, which includes import duties and non-refundable purchase taxes.

The rights over immovable property and other rights are recognised and quantified as intangible assets within the accounting records, and reported under the item land and buildings within the balance sheet.

Intangible assets being acquired are impaired in the part of the investments in network development plans in projects whose planning is temporarily on standby and there are no significant prospects that it will continue. The value adjustment is charged to impairment expenses.

The company also separately discloses long-term deferred costs and accrued revenue. Long-term deferred costs and accrued revenue comprise the long-term deferred initial costs of obtaining the EIB loan.

### **Tangible assets**

Tangible assets of the company include land, easement and surface rights, pipelines, natural gas in the transmission system for basic filling, buildings and other facilities, equipment, objects of artistic value, spare parts of high value and fixed assets under construction or realisation.

Tangible assets are valued at cost model. A tangible asset is initially recognised at cost, which includes the asset's purchase price, import duties and non-refundable purchase taxes, and costs directly attributable to bringing the asset to the condition necessary for the intended use, especially transportation and installation costs.

The difference between the net sales value and the carrying amount of a disposed tangible asset is transferred to revaluation operating revenue if the net sales value exceeds the carrying amount, or to impairment expenses if the carrying amount is higher than the net sales value.

### **Subsequent Expenditures Related to Tangible Assets**

Subsequent expenditures related to tangible fixed assets are shown as:

- Maintenance costs, or

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<sup>1</sup> More on this, the SIR\*IUS Magazine, Posting of Reimbursable Wage Compensations (Slo., Knjiženje nadomestil plač, ki se refundirajo), No. 4/20, August 2020, and the IKS COVID-19 Magazine, Labour costs and treatment of reimbursements (Slo. Stroški dela in obravnava povračil), M.Sc. Andreja Bajuk Mušič, 2020

- Increased cost of asset.

The criteria used by the company in determining subsequent expenditures related to tangible assets:

- Maintenance costs include the costs necessary for the maintenance of fixed assets over their useful lives (the amount of the works performed solely to renovate the existing situation or replace the already existing parts),
- Expenditures that increase the future benefits from an asset beyond those assessed during the purchase of such an asset are expressed as an increase in the cost of such an asset: easier handling of an asset (electronic operation, etc.) and consequent cost reduction associated with handling and control; in the case of investments in buildings, an increase in the cost of purchase is represented by the investments used to build something (extend, produce, etc.) that did not exist before the beginning of works and increases the useful life of a building or pipeline.

### **Depreciation**

Depreciation decrease the carrying amount of intangible assets and tangible assets. Depreciation of an intangible and a tangible asset starts on the first day following the month when the asset is ready to be used.

Depreciation of intangible and tangible assets are accounted for using the straight-line depreciation method over the useful life of such assets. Estimated residual value is not used, except with natural gas for basic filling.

The depreciation rates for intangible assets range from 2.5 percent for the typing of buildings to 33 percent or 50 percent for specific software and licences. For investments in network development plans, the depreciation rate is related to the duration of concession relationship for the performance of public service activity of natural gas transmission system operator.

The main depreciation rates for tangible fixed assets are: from 2 percent to 5 percent for buildings, 2.86 percent for pipelines, 6.67 percent for metering devices, 10 percent for furniture, 20 percent for passenger cars and 33 percent or 50 percent for computers and computers equipment.

### **Financial investments**

In the balance sheet, financial investments are presented as long-term and short-term financial investments. Long-term financial investments are held in possession by the company in a period longer than one year; they are not held for trading.

Financial investments include share in the jointly controlled company, deposits in banks and other financial investments. Deposits with a maturity of more than 31 days but less than 1 year are shown as short-term financial investments.

Equity investment in jointly controlled company is valued at cost in financial statements. The transferred shares in profit increase financial revenue. If there is impartial evidence that such an asset has been impaired in the long term, the impairment is recognised in the profit and loss statement as a financial expense.

Financial investments in equity, equity securities of other companies or debt securities of other companies or the state are initially valued at cost which equals the paid amount of cash.

Financial investments related to loans given are valued at measured amortised cost and on initial recognition they are presented as the principal of loans.

## **Inventories**

Inventories consist of material, spare parts and small tools, natural gas reserves in the transmission system for balancing and daily levelling of deviations and natural gas reserves in the transmission system for the Operating Balancing Account (OBA).

Natural gas in the transmission system for balancing is natural gas intended for the balancing of daily deviations between intake and offtake of natural gas, balancing of the transmission system and systemic differences. Natural gas in the transmission system for the OBA is intended to manage the differences arising between the measured energy and energy envisaged for transmission by the system users on different sides of the transmission system border point (Operating Balancing Account, OBA) where this is carried out in cash.

The quantity unit of the inventory is valued at cost which consists of the purchase price, import duties and other direct purchasing costs. Discounts granted are deducted from the purchase price.

Moving average cost method is applied to the presentation of inventories.

## **Receivables**

Initially, receivables of all kinds are recognised at amounts recorded in the relevant documents, assuming they will be paid. Original receivables can later on increase or, according to a received payment or other settlement, decrease for each amount justified with a contract.

The receivables that the company has reason to believe will not be settled or will not be settled in the full amount are considered as doubtful or disputable receivables; their value adjustment is charged to impairment expenses.

Impairment of receivables due from individual domestic and foreign customers is made for individual receivables taking account of the recovery of individual receivables.

## **Cash**

Cash consists of cash on hand, cash in transaction and other accounts in banks, cash in overnight bank deposits, immediate call deposits and shorter than 31 days, and credit on a special bank account for special purposes.

Initially, cash is recognised at amounts recorded in the relevant documents. Cash expressed in a foreign currency is calculated into the local currency at the exchange rate prevailing on the date of receipt.

Cash expressed in a foreign currency is revalued on the balance sheet date. Cash is translated using the ECB reference exchange rate on the last day of the accounting period. Revaluation of cash is expressed as financial income or expense.

## **Short-Term Accrued and Deferred Items**

Short-term deferred costs and accrued revenue consist of short-term deferred costs (expenses), previously accrued revenue and VAT on advances received. They include prepaid insurance premiums, subscriptions, membership fees and other accrued and deferred items.

Short-term accrued costs and deferred revenue consist of a portion of deferred revenue from disproportionate connection charges and obtained grants to be transferred to income within one year of the balance sheet date, accrued performance-related wages and salaries for the current year and accrued wage compensations for employees from unused annual leave and VAT on advances given.



## Equity

Total equity of the company comprises called-up capital, capital reserves, revenue reserves, reserves arising from valuation at fair value (related to the disclosure of actuarial profit / loss arising from actuarial calculations of provisions for severance pays on retirement), retained earnings and net profit or loss for the period.

In financial statements, payment of the share in profits is recognised in the period in which the shareholder adopted the decision on the payment.

## Long-Term Provisions and Long-Term Accrued Costs and Deferred Revenue

Long-term provisions include provisions for accrued costs for jubilee awards and severance pays on retirement, provisions for enforced easements and provisions for other purposes, in accordance with the SAS.

Provisions are created in the amount of the estimated future payments for severance payments and anniversary bonuses from long-term accrued costs or expenses discounted on the balance sheet date. The calculation using the projected unit is prepared by a certified actuary.

Long-term accrued costs and deferred revenue include deferred revenue from covering disproportionate connection charges by the customers and obtained grants. They are earmarked to cover the amortisation costs of such assets and are disbursed through the transfer to income at the applicable depreciation rate for tangible fixed assets and intangible assets of the energy infrastructure.

## Debts

Debts are classified as financial and operating debts, and short-term and long-term.

On initial recognition, all debts are recognised at amounts recorded in the relevant documents evidencing their coming into existence and proving a receipt of cash or repayment of an operating debt in the case of financial liabilities, and in the case of business debts the receipt of a product or goods or a service or work performed or accrued expense, expenditure or share in profit or loss, as well as the receipt of tangible fixed assets with long-term repayment.

Long-term debts refer to long-term loans received from banks and other legal entities. On initial recognition, debts are measured at their amortised cost using the method of applicable interest rates.

Short-term debts include liabilities to suppliers, advances and securities received, operating liabilities for the account of third parties, liabilities to employees, liabilities to state authorities, other short-term operating liabilities, short-term financial liabilities and the part of long-term liabilities that falls due no later than within a year of the balance sheet date.

Upon initial recognition, short-term debts are recognised at amounts recorded in the relevant documents evidencing their coming into existence and the receipt of goods or services or work done.

Short-term debts bear interest under the terms and conditions agreed in agreements with creditors.

Accrued interest represents financial expenses; namely, from financial debts they represent financial expenses from financial liabilities, and from business debts they represent financial expenses from operating liabilities.

After the end of the limitation period or when a creditor gives waiver, short-term debts are credited to company revenue.

## Revenue Recognition

Revenue is recognised if the increase of economic benefits in the accounting period is associated with an increase of an asset or decrease of debt and if the increase can be measured reliably.

Revenues are recognised when it is legitimately expected that they are going to lead to remunerations if they have not already been realised at their appearance.

### Operating revenue:

Operating revenue includes revenue generated from charges for the use of the transmission system by domestic and foreign users, revenue from the sale of natural gas for balancing the transmission system and daily levelling of deviations, revenue generated from systemic differences, revenue generated from annual virtual point registrations, revenue generated from transactions at the virtual point, revenue from the sales of material and electricity and revenue generated from the rendering of other services related to the basic activity.

Revenue from services rendered, excluding those services that result in financial revenue, are recognised at selling prices of finished services less any discounts granted.

Other operating revenue includes revenue from received grants, connection fees and contractual penalties, and revaluation operating revenue.

Revaluation operating revenue results from the disposal of tangible fixed assets and intangible assets as surplus of their disposable value over the carrying amount, from reversal of accrued salaries and from reversal of impairment of receivables.

### Financial revenue:

Financial revenues are revenues from investing activities. They are associated with short-term financial investments and receivables.

Financial revenue is recognised when accounted for regardless of receipts, provided that there is no doubt about its volume, maturity and recoverability.

Interest is accounted for in proportion to the elapsed period and according to the unpaid part of the principal and the applicable interest rate.

Revaluation financial revenue occurs on: the increase of fair value of financial assets measured at fair value through profit or loss, the disposal of financial investments when their disposable value exceeds the carrying amount or in the event of financial investments available for sale, measured at fair value, on account of the surplus of their disposable value over the carrying amount, adjusted by the reserve arising from valuation at fair value of these assets, and the reversal of impairment of financial investments, if the reversal of impairment is admissible.

### Other revenue:

Other revenue consists of extraordinary items and other revenue that increases profit. It is presented in the actual amounts.

## Expense Recognition

Expenses are recognised if the decrease of economic benefits in the accounting period is associated with a decrease of an asset or an increase of debt and can be measured reliably. They affect the size of the capital through profit or loss.

### Operating expenses:

Operating expenses are generally equal to incurred costs within the accounting period, increased by the cost of natural gas sold, revaluation operating expenses that are not costs, and other operating expenses.

Revaluation operating expenses incurred in connection with tangible fixed assets, intangible assets and current assets due to their revaluation to lower value.

**Financial expenses:**

Financial expenses are expenses from financing activities and expenses from investing activities.

Expenses from financing activities include default interest on late payments to suppliers, financial discounts granted upon delivery and other financial expenses related to liabilities to suppliers. Expenses from investing activities consist of expenses for interest on loans received for current operations and for investment loans after the assets have been capitalised, other expenses related to financial investments and debts, and revaluation financial expenses which represent the impairment of financial investments.

Financial expenses are recognised when accounted for, regardless of payments associated with them.

Revaluation financial expenses result from the impairment of financial investments, sale or other disposal or derecognition of financial investments, or sale of receivables as a negative differential between the sales value and the carrying amount.

**Other expenses:**

Other expenses include donations and extraordinary items. It is presented in the actual amounts.

**Tax Liabilities**

The company calculates and deducts value added tax, corporate income tax, and duties related to natural gas (contribution to the ECO Fund).

All taxes and other duties are charged and paid in accordance with the applicable legislation.

**Deferred Taxes**

The company's long-term assets or long-term liabilities include the receivable or liability balance of deferred assets and deferred liabilities for corporate income tax.

Only the receivables or liabilities for deferred taxes arising from temporary differences are recognised. They are recognised only when it becomes probable that sufficient taxable profit will be available, against which such deferred assets can be offset.

Deferred tax liabilities or assets are measured on the basis of tax rates which are expected to be applied when the asset is realised or the liability paid.

Deferred tax is charged or credited directly to equity when it refers to items charged or credited directly to equity.

**Cash-flow Statement**

The cash flow statement has been prepared according to the indirect method using data from the profit and loss statement for the period January - December 2020, data from the balance sheet as at 31/12/2020 and 31/12/2019 or 01/01/2020 and other necessary data.

## 2. Breakdown and Notes

### 2.1 Balance Sheet

#### 2.1.1 Intangible Assets and Long-Term Deferred Costs and Accrued Revenue

Overview of changes in intangible assets and long-term deferred costs and accrued revenue

in EUR

| Item                    | Long-term ownership rights | Other intangible assets | Long-term deferred expenses (DC&AR) | Intangible assets being acquired | Total      |
|-------------------------|----------------------------|-------------------------|-------------------------------------|----------------------------------|------------|
| <b>Cost value</b>       |                            |                         |                                     |                                  |            |
| As at 31 Dec 2019       | 7,937,995                  | 9,867,324               | 134,528                             | 6,149,699                        | 24,089,547 |
| Addition                | 0                          | 0                       | 0                                   | 778,830                          | 778,830    |
| Transfer                | 495,994                    | 558,556                 | 0                                   | -1,054,550                       | 0          |
| Transfer to STM DC&AR   | 0                          | 0                       | -25,288                             | 0                                | -25,288    |
| Write-downs             | -113,553                   | 0                       | 0                                   | 0                                | -113,553   |
| As at 31 Dec 2020       | 8,320,435                  | 10,425,880              | 109,240                             | 5,873,979                        | 24,729,535 |
| <b>Value adjustment</b> |                            |                         |                                     |                                  |            |
| As at 31 Dec 2019       | 6,902,257                  | 3,026,186               | 0                                   | 4,531,310                        | 14,459,752 |
| Write-downs             | -113,553                   | 0                       | 0                                   | 0                                | -113,553   |
| Reversal of impairments | 0                          | 0                       | 0                                   | -422,231                         | -422,231   |
| Depreciation            | 383,236                    | 423,286                 | 0                                   | 0                                | 806,521    |
| As at 31 Dec 2020       | 7,171,939                  | 3,449,471               | 0                                   | 4,109,078                        | 14,730,489 |
| <b>Carrying amount</b>  |                            |                         |                                     |                                  |            |
| As at 31 Dec 2019       | 1,035,738                  | 6,841,138               | 134,528                             | 1,618,390                        | 9,629,794  |
| As at 31 Dec 2020       | 1,148,496                  | 6,976,409               | 109,240                             | 1,764,901                        | 9,999,046  |

Long-term property rights include software and licences, rights to use transport capacity and other projects.

Significant investments in computer equipment or licenses in the year 2020 are investments in the ERP Microsoft Dynamic 365 BC, in the web portal, and in the upgrade of the SCADA program in the total amount of EUR 319,569.

Other intangible assets include investments in network development plans, accreditation of the metering facility and typing of metering and regulation stations.

Significant capitalisation, shown among other intangible fixed assets, relates to investment in the planning of the development of the network for the production of materials in the national spatial plans R51C Kozarje Vevče in the amount of EUR 422,231.

Long-term deferred expenses include the deferred initial costs for the EIB loan in the total amount of EUR 109,240.

Intangible assets being acquired are stated in the amount of EUR 1,764,901 and relate mainly to investments in network development plans.

On 31 December 2020, the amount of financial liabilities under six concluded investment contracts for the acquisition of intangible assets stood at EUR 233,243.

## 2.1.2 Tangible Assets

### Overview of changes in tangible assets

in EUR

| Item                             | Land      | Easement and surface rights | Buildings  | Pipelines   | Equipment   | Spare parts | Tangible assets under construction | Payments of account (tangible) | Total       |
|----------------------------------|-----------|-----------------------------|------------|-------------|-------------|-------------|------------------------------------|--------------------------------|-------------|
| <b>Cost value</b>                |           |                             |            |             |             |             |                                    |                                |             |
| As at 31 Dec 2019                | 7,277,122 | 23,722,565                  | 50,800,328 | 536,459,559 | 127,849,176 | 750,863     | 4,590,706                          | 0                              | 751,450,320 |
| Addition                         | 0         | 0                           | 0          | 0           | 0           | 0           | 22,104,136                         | 0                              | 22,104,136  |
| Transfer                         | 17,006    | 8,656                       | 433,103    | 1,181,914   | 2,622,198   | 0           | -4,262,877                         | 0                              | 0           |
| Land changes                     | 4,349     | 0                           | 0          | 0           | 0           | 0           | 0                                  | 0                              | 4,349       |
| Accrued forced easement          | 0         | 0                           | 0          | 0           | 0           | 0           | 17,096                             | 0                              | 17,096      |
| Sales                            | 0         | 0                           | 0          | 0           | 0           | 0           | 0                                  | 2,243                          | 2,243       |
| Write-downs                      | -10,226   | 0                           | 0          | -53,198     | -1,026,488  | 0           | -63,378                            | 0                              | -1,153,290  |
| Transfer to assets held for sale | -298,732  | 0                           | -2,099,889 | 0           | 0           | 0           | 0                                  | 0                              | -2,398,621  |
| As at 31 Dec 2020                | 6,989,520 | 23,731,221                  | 49,133,542 | 537,588,275 | 129,444,886 | 750,863     | 22,385,683                         | 2,243                          | 770,026,233 |
| <b>Value adjustment</b>          |           |                             |            |             |             |             |                                    |                                |             |
| As at 31 Dec 2019                | 0         | 7,601,949                   | 25,896,860 | 352,926,367 | 89,606,847  | 301,303     | 223,609                            | 0                              | 476,556,935 |
| Write-downs                      | 0         | 0                           | 0          | -48,624     | -1,023,410  | 0           | 0                                  | 0                              | -1,072,034  |
| Transfer to assets held for sale | 0         | 0                           | -323,735   | 0           | 0           | 0           | 0                                  | 0                              | -323,735    |
| Depreciation                     | 0         | 696,940                     | 1,195,935  | 7,349,600   | 5,446,478   | 34,321      | 0                                  | 0                              | 14,723,274  |
| As at 31 Dec 2020                | 0         | 8,298,890                   | 26,769,060 | 360,227,344 | 94,029,915  | 335,623     | 223,609                            | 0                              | 489,884,441 |
| <b>Carrying amount</b>           |           |                             |            |             |             |             |                                    |                                |             |
| As at 31 Dec 2019                | 7,277,122 | 16,120,616                  | 24,903,468 | 183,533,192 | 38,242,329  | 449,560     | 4,367,097                          | 0                              | 274,893,385 |
| As at 31 Dec 2020                | 6,989,520 | 15,432,331                  | 22,364,482 | 177,360,932 | 35,414,971  | 415,239     | 22,162,074                         | 2,243                          | 280,141,792 |

In the year 2020, land was purchased for the M5/R51 project (RS Jarše), MRS Velika Polana, and MRS Letališka. Land from the MRS Mlekarna Kranj project and part of the land from the MRS Kidričevo project were sold, and land was exchanged for the MRS Pragersko. The value of eleven plots of land increased by costs incurred by entering land into the Land Register.

Significant capitalisation of gas pipelines and buildings by individual investments: capitalisation at the MRS Velika Polana, capitalisation at the MRS Dobruška vas, inspections and reinforcements to ensure safe and reliable operation, which includes inspections of individual parts of the transmission system and elimination of identified inadequacies, capitalisation of the basement and ground floor renovation due to relocation, replacement of entry and exit pipelines in the total amount of EUR 1,671,915.

Significant capitalisation of equipment by individual investments: the purchase of computer equipment and telereading equipment for data transmission at metering points, which the company is constantly updating, modernisation of measuring points with galvanic isolators for safe operation of safety shut-off valves in Ex safe environment, capitalisation at the MRS Dobruška vas, capitalisation at the MRS Velika Polana, capitalisation at the MRS Hrastnik, upgrade of the propulsion gas system at the CS in the total amount of EUR 1,524,060.

- The fixed assets in the process of acquisition include: the costs of construction of the M5 Vodice - Jarše transmission pipeline in the total amount of EUR 15,792,612, of which EUR 12,279,592 in the year 2020, for the needs of connecting the end user in the Municipality of Ljubljana. Related to this are the costs of construction of the transmission pipeline R51 Jarše - TE TOL in the total amount of EUR 2,261,066 (of which in the amount of EUR 2,245,677 in the year 2020) and the costs of construction of the MRS TE - TOL in the total amount of EUR 1,593,317 in the year 2020; all three projects represent a functionally completed whole, which will enable the connection of the user in the Municipality of Ljubljana, all with the planned completion in the year 2021;
- The costs of the R29 Jesenice project; namely, the preparation of spatial and project documentation by obtaining permits for a new transmission pipeline, which will replace the existing P295 transmission pipeline in the total amount of EUR 1,001,761, of which EUR 763,450 in the year 2020;
- The costs of the M6 Ajdovščina-Lucija project, which represents the initial costs of gasification of the Obalno-kraška region in the total amount of EUR 762,731, of which EUR 462,695 in the year 2020. These are the costs of preparing project documentation and arranging easements by individual sections.

At the end of the accounting period, the company signed a sales contract for the sale of a part of the office building, which it used in the performance of its activities, and reclassified this part of the office building in its financial statements on 31 December 2020 as non-current assets for sale (disposal group) (Note 2.1.5 Assets (of the disposal group) for sale).

No items of tangible assets are pledged as security for debts.

On 31 December 2020, the amount of financial liabilities under twenty concluded investment contracts for the acquisition of tangible assets stood at EUR 1,964,974.

### 2.1.3 Long-Term Financial Investments

| in EUR   |               |               |
|--|---------------|---------------|
| Item   | 31 Dec. 2020  | 31 Dec. 2019  |
| Investment in jointly controlled company Južni tok Slovenija | 28,681        | 28,681        |
| Investment in PRISMA European Capacity Platform GmbH         | 14,268        | 14,268        |
| <b>Total long-term financial investments</b>                 | <b>42.949</b> | <b>42.949</b> |

| Company  | Equity shareholding of company | Activity of company            | Company's equity as at 31 Dec 2020 in EUR | Profit or loss in 2020 in EUR |
|--|--------------------------------|--------------------------------|---|-------------------------------|
| Južni tok Slovenija d.o.o.<br>Cesta Ljubljanske brigade 11b,<br>1000 Ljubljana, Slovenia | 50 %                           | Pipeline transport<br>H 49 500 | 1,129,385                                 | -1,014                        |

In 2012, the company co-founded the jointly controlled company Južni tok Slovenija d.o.o. together with the Russian company Gazprom in accordance with the intergovernmental agreement. Each company has a 50-percent shareholding of the undertaking. The founded undertaking was entered into the Court Register on 5 September 2012 with Decision No Srg 2012/34248. In the year 2019, the company remained dormant and only fulfilled the necessary statutory activities with minimal operating costs. The company did not receive any official statement from Gazprom regarding a final decision about the project until the endorsement of the Annual Report. Discussions between both partners are conducted within the concluded agreements.

| Company  | Equity shareholding of company | Activity of company  |
|--|--------------------------------|--|
| PRISMA European Capacity Platform GmbH<br>Schillerstraße 4<br>04109 Leipzig, Germany | 5.45%                          | J 62 090<br>Other information technology and computer service activities |

The PRISMA European Capacity Platform GmbH was established on 1 January 2013 by European natural gas transmission system operators with the aim of establishing a web-based booking platform for the allocation of transmission capacity through auctions. The company made a capital investment in the PRISMA European Capacity Platform GmbH in 2015.

#### 2.1.4 Deferred tax assets

| in EUR                                      |         |
|---|---------|
| Item  |         |
| Total deferred tax assets as at 31 Dec 2019 | 364,994 |
| Changes to the deferred tax assets          | 2,605   |
| Total deferred tax assets as at 31 Dec 2020 | 367,599 |

| in EUR                             |                |              |            |                |
|------------------------------------|----------------|--------------|------------|----------------|
|                                    | 31 December    | Increase     | Decrease   | 31 Dec. 2020   |
| Operating receivables              | 296,859        | 1,603        | 0          | 298,462        |
| Provisions for anniversary bonuses | 18,761         | 1,059        | 0          | 19,820         |
| Provisions for severance payments  | 47,520         | 0            | 870        | 46,650         |
| Tangible assets                    | 1,855          | 812          | 0          | 2,667          |
| <b>Total</b>                       | <b>364,994</b> | <b>3,474</b> | <b>870</b> | <b>367,599</b> |

Long-term assets include deferred tax assets, i.e. income tax on expenses not recognised for tax purposes and deferred revenue for the accounting year in the amount of EUR 367,599. Deferred tax assets were calculated using the 19-percent tax rate.

The company records deferred tax assets that are charged on the basis of temporary differences, in the amount for which it is estimated according to expected future tax bases that it will be reversed in the foreseeable future.



## 2.1.5 Assets held for sale

| in EUR                            |                  |              |
|-----------------------------------|------------------|--------------|
| Item                              | 31 Dec. 2020     | 31 Dec. 2019 |
| Assets held for sale              | 2,074,885        | 0            |
| <b>Total assets held for sale</b> | <b>2.074.885</b> | <b>0</b>     |

As at 31 December 2020, in accordance with the provisions of the accounting standards, the company reclassified part of the proprietary office building as non-current assets held for sale in the amount of the accounting value as at 31 December 2020.

On 30 September 2020, a contract on the sale of land and part of the office building was signed, with the handover no later than on 1 January 2021. The asset for sale was in use until the last day of the accounting period as proprietary property used for the performance of activities.

## 2.1.6 Inventories

Natural gas in the pipeline system is owned by the company. The movement in the amounts of natural gas in the transmission system depends on the daily requirements for system balancing and levelling of deviations for individual system users.

Material - natural gas represents a stock of natural gas intended to cover systemic differences.

| in EUR                          |                  |                  |
|---------------------------------|------------------|------------------|
| Item                            | 31 Dec. 2020     | 31 Dec. 2019     |
| Material - Natural gas          | 104,797          | 215,108          |
| Other materials and spare parts | 1,066,876        | 1,118,184        |
| Small tools                     | 31,006           | 7,930            |
| Merchandise - natural gas       | 344,280          | 68,815           |
| <b>Total inventories</b>        | <b>1,546,959</b> | <b>1.410.037</b> |

No item of inventory is pledged as security for liabilities. On the balance sheet date, the carrying value of inventories does not exceed the net realisable value. In 2020, the company did not impair inventories.

No variances were identified during the inventory count.

## 2.1.7 Short-Term Financial Investments

| in EUR  |                  |                  |
|---|------------------|------------------|
| Item  | 31 Dec. 2020     | 31 Dec. 2019     |
| Short-term deposits in banks                  | 6,000,000        | 9,500,000        |
| <b>Total short-term financial investments</b> | <b>6,000,000</b> | <b>9,500,000</b> |

Short-term financial investments include short-term deposits on call over 31 days up to 12 months in domestic currency at Slovenian banks.

## 2.1.8 Short-Term Operating Receivables

### Short-term operating receivables

| in EUR  |              |              |
|---|--------------|--------------|
| Item  | 31 Dec. 2020 | 31 Dec. 2019 |
| Short-term operating receivables due from customers | 6,613,641    | 5,827,682    |

|   |                  |                  |
|---|------------------|------------------|
| Short-term receivables due from domestic customers    | 6,431,529        | 5,254,368        |
| - receivables due from jointly controlled undertaking | 61               | 122              |
| - receivables arising from connection charge          | 6,151,679        | 4,967,423        |
| - receivables arising from services rendered          | 49,832           | 56,866           |
| - doubtful and disputable receivables                 | 1,800,808        | 1,792,370        |
| - allowance for receivables                           | -1,570,852       | -1,562,413       |
| Short-term accounts receivable on foreign market      | 182,112          | 573,314          |
| <b>Other short-term receivables</b>                   | <b>420,606</b>   | <b>316,210</b>   |
| Payments on account                                   | 9,001            | 0                |
| Collaterals   | 62,122           | 65,241           |
| Interest receivables                                  | 15,940           | 12,888           |
| VAT receivables                                       | 312,930          | 229,222          |
| Income tax receivables                                | 0                | 0                |
| Liabilities other taxes / social securities           | 20,475           | 8,653            |
| Other short-term receivables                          | 138              | 207              |
| <b>Total short-term operating receivables</b>         | <b>7,034,247</b> | <b>6,143,892</b> |

Accounts receivable for the lease of auction capacities at border points are secured with financial guarantees, namely with assets deposited on a special account (notes 2.1.8 and 2.1.14) or guarantees (note 2.1.16) in the determined amount.

99 percent of the receivables for securities is made up of securities for forced easements on transmission system lines built from 2012 - 2014.

#### Short-term operating receivables by maturity on 31 December 2020

in EUR

| Item                           | Non-past due     | Past due up to 30 days | Past due from 30 to 90 days | Past due more than 90 days | Total            |
|--------------------------------|------------------|------------------------|-----------------------------|----------------------------|------------------|
| Gross amount of trade rec.     | 5,981,434        | 390,855                | 11,286                      | 1,800,917                  | 8,184,492        |
| Allow. for receivables         | 0                | 0                      | 0                           | 1,570,852                  | 1,570,852        |
| <b>Net accounts receivable</b> | <b>5,981,434</b> | <b>390,855</b>         | <b>11,286</b>               | <b>230,065</b>             | <b>6,613,641</b> |

The difference between gross receivables due from customers and the allowance for receivables, for receivables more than 90 days past due, represents the amount of VAT received from impairment of receivables of transmission system user in bankruptcy, in the amount of EUR 229,957, which the company will return to the tax authority upon a possible repayment of receivables from the bankruptcy estate.

#### 2.1.9 Cash

in EUR

| Item   | 31. 12.2020       | 31. 12.2019       |
|--|-------------------|-------------------|
| Cash on hand   | 99                | 118               |
| Cash in banks  | 2,015,528         | 33,058            |
| Call deposits up to 31 days                                      | 8,990,000         | 8,880,000         |
| Cash on special bank accounts for special purposes (note 2.1.14) | 4,251,991         | 5,466,737         |
| <b>Total cash</b>  | <b>15,257,618</b> | <b>14,379,913</b> |

Cash on special bank accounts represents cash from securities for auction capacities and balance contracts.

Cash also includes call deposits up to 31 days in domestic currency at the Slovenian banks.

## 2.1.10 Deferred costs and accrued revenue

in EUR

| Item  | 31 Dec. 2020  | 31 Dec. 2019   |
|---|---------------|----------------|
| Prepaid costs                                   | 25,818        | 25,469         |
| VAT on payments on account (received)           | 4,163         | 35,421         |
| Other accruals and deferrals                    | 38,474        | 49,839         |
| <b>Total deferred costs and accrued revenue</b> | <b>68,455</b> | <b>110,729</b> |

| Item                               | As at 31 Dec 2019 | Addition       | Used           | As at 31 Dec 2020 |
|------------------------------------|-------------------|----------------|----------------|-------------------|
| Prepaid costs                      | 25,469            | 635,811        | 635,462        | 25,818            |
| VAT payments on account (received) | 35,421            | 79,901         | 111,159        | 4,163             |
| Other accruals and deferrals       | 49,839            | 34,721         | 46,086         | 38,474            |
| <b>Total</b>                       | <b>110,729</b>    | <b>750,433</b> | <b>792,707</b> | <b>68,455</b>     |

## 2.1.11 Equity

The share capital of the company amounts to EUR 98,733,790.

The profit of 2019 stood at EUR 5,770,625; in accordance with the resolution by the Supervisory Board, EUR 2,000,000 of the profit was used for payment of the share in profits, while EUR 3,770,625 was allocated to other capital reserves.

The Management proposed to the Supervisory Board to distribute the profit of the year 2020 amounting to EUR 8,758,111 among other revenue reserves.

As at 31 December 2020, the company's capital reserves stood at EUR 8,151,515, statutory reserves at EUR 1,933,169 and other revenue reserves at EUR 95,746,176. Capital reserve refers to additional paid-in capital, which was created upon the payment of cash by the sole owner, i.e. the parent company, on 1 January 2005 when the activity of the system operator was transferred from the parent company to the subsidiary.

Reserves arising from valuation at fair value in the amount of EUR 7,038 refer to actuarial loss or changes in the current value of liabilities to employees from severance pays on retirement due to changes in actuarial assumptions and based on experience adjustments.

## 2.1.12 Provisions and Long-Term Accrued Costs and Deferred Revenue

in EUR

| Item                                      | As at 31 Dec 2019 | Addition       | Used          | Reversal      | Transfer to STM ACDR | As at 31 Dec 2020 |
|---|-------------------|----------------|---------------|---------------|----------------------|-------------------|
| <b>Provisions for anniversary bonuses</b> | <b>797,864</b>    | <b>54,859</b>  | <b>33,322</b> | <b>19,544</b> | <b>0</b>             | <b>799,858</b>    |
| - jubilee awards                          | 197,482           | 28,611         | 16,167        | 1,296         | 0                    | 208,630           |
| - severance payments                      | 600,382           | 26,248         | 17,154        | 18,248        | 0                    | 591,228           |
| <b>Other provisions</b>                   | <b>202,169</b>    | <b>17,096</b>  | <b>4,159</b>  | <b>0</b>      | <b>0</b>             | <b>215,106</b>    |
| - enforced easement                       | 202,169           | 17,096         | 4,159         | 0             | 0                    | 215,106           |
| <b>Public support</b>                     | <b>28,909,056</b> | <b>0</b>       | <b>0</b>      | <b>0</b>      | <b>1,264,499</b>     | <b>27,644,557</b> |
| - grants                                  | 28,909,056        | 0              | 0             | 0             | 1,264,499            | 27,644,557        |
| <b>Other LTM AC&amp;DR</b>                | <b>1,804,761</b>  | <b>328,300</b> | <b>0</b>      | <b>0</b>      | <b>127,463</b>       | <b>2,005,598</b>  |
| - connection charges                      | 1,804,761         | 328,300        | 0             | 0             | 127,463              | 2,005,598         |
| <b>Total</b>                              | <b>31,713,849</b> | <b>400,255</b> | <b>37,481</b> | <b>19,544</b> | <b>1,391,962</b>     | <b>30,665,119</b> |

The state aid received is mainly a grant from the European Commission under the EEPR, TEN-E and CEF-E programmes.

#### Sensitivity analysis in the actuarial calculation

in EUR

| Item           | Assumption           | Deviation | Long-term liabilities | Retirement benefits | Jubilee awards |
|----------------|----------------------|-----------|-----------------------|---------------------|----------------|
| Liab. (DBO)    | Central scenario     | 0.00%     | 799,858               | 591,227             | 208,630        |
| Liab. (DBO)    | Discount inter. rate | -0.50%    | 842,774               | 624,301             | 218,474        |
| Liab. (DBO)    | Discount inter. rate | 0.50%     | 760,403               | 560,932             | 199,471        |
| Liab. (DBO)    | Growth of salaries   | -0.50%    | 760,603               | 560,998             | 199,604        |
| Liab. (DBO)    | Growth of salaries   | 0.50%     | 842,102               | 623,880             | 218,222        |
| Duration (DBO) |                      |           | 10.3                  | 10.8                | 9.2            |

Provisions for forced easement were formed in the amounts contained in appraisal records, i.e. EUR 215,106. The increase in provisions by EUR 17,096 is the result of additionally included compulsory easements arising from lawsuits.

Long-term accruals and deferrals associated with connection charges were formed in the amount of the partial payment of costs of the network connection construction by the final users. Provisions for severance pays on retirement and jubilee awards were formed based on the actuarial calculation, using the discount rate of 0.46 percent, long-term growth of salaries 1 percent, while the employee turnover rate was accounted for considering age intervals and stood between 0 percent and 3 percent.

#### 2.1.13 Long-Term Financial Liabilities

in EUR

| Item  | 31 Dec. 2020      | 31 Dec. 2019      |
|---|-------------------|-------------------|
| Long-term financial liabilities to banks              | 56,515,432        | 59,984,568        |
| Long-term loans from foreign banks                    | 59,984,568        | 63,453,704        |
| Short-term part of long-term loans from foreign banks | -3,469,136        | -3,469,136        |
| <b>Total long-term financial liabilities</b>          | <b>56,515,432</b> | <b>59,984,568</b> |

in EUR

#### Maturity of received loans on 31 December 2020

|                            |                   |
|----------------------------|-------------------|
| - due in up to 1 year      | 3,469,136         |
| - due in 1 to 2 years      | 3,469,136         |
| - due in 2 to 5 years      | 10,407,407        |
| - due in more than 5 years | 42,638,889        |
| <b>Total</b>               | <b>59,984,568</b> |

| Lender | Security                                      | Repayment deadline |
|--------|---|--------------------|
| EIB    | Guarantee of the SID Bank - bills of exchange | 2039               |

At the end of 2020, the interest rates for received loans ranged between 2.81 and 3.99 percent annually.

## 2.1.14 Short-Term Financial Liabilities

in EUR

| Item  | 31 Dec. 2020     | 31 Dec. 2019     |
|---|------------------|------------------|
| Short-term part of long-term loans from foreign banks | 3,469,136        | 3,469,136        |
| <b>Other short-term financial liabilities</b>         | <b>3,469,136</b> | <b>3,469,136</b> |

## 2.1.15 Short-Term Operating Liabilities

in EUR

| Item   | 31 Dec. 2020      | 31 Dec. 2019      |
|--|-------------------|-------------------|
| <b>Trade liabilities</b>                                   | <b>5,741,788</b>  | <b>4,140,565</b>  |
| Trade liabilities, domestic                                | 5,595,863         | 4,045,673         |
| Trade liabilities, foreign                                 | 145,794           | 94,892            |
| Trade liabilities for uncharged goods                      | 131               | 0                 |
| <b>Payments on account (received)</b>                      | <b>223,055</b>    | <b>199,800</b>    |
| <b>Other short-term operating liabilities</b>              | <b>10,157,448</b> | <b>8,027,290</b>  |
| Short-term securities received                             | 4,238,942         | 5,451,842         |
| Other short-term operating liabilities for foreign account | 326,260           | 319,457           |
| Short-term liabilities to employees                        | 718,287           | 703,276           |
| Liabilities for VAT  | 674,315           | 675,107           |
| Liabilities for corporate income tax                       | 910,556           | 625,215           |
| Liabilities other taxes / social securities                | 4,059             | 4,413             |
| Other short-term operating liabilities                     | 3,285,029         | 247,980           |
| <b>Total short-term operating liabilities</b>              | <b>16,122,291</b> | <b>12,367,654</b> |

Short-term securities received include deposits associated with the lease of auction capacities and balance contracts (note 2.1.8).

Short-term liabilities to employees refer to liabilities for gross wages for December 2020, which were paid out in 2021, and liabilities for awards of past years with deferred maturity due to decisions of the Supervisory Board.

Other short-term operating liabilities include the transfers of trade receivables to third parties.

## 2.1.16 Short-Term Accrued Costs and Deferred Revenue

in EUR

| Item   | 31 Dec. 2020     | 31 Dec. 2019     |
|--|------------------|------------------|
| Accrued costs of services  | 12,125           | 11,125           |
| Accrued labour costs from unused annual leave                    | 252,562          | 213,443          |
| Accrued labour costs from performance in the current year        | 480,000          | 480,000          |
| Short-term deferred rev. from grants and paid connection charges | 1,391,962        | 1,379,497        |
| Short-term deferred revenue from virtual point services          | 78,750           | 82,125           |
| VAT refund   | 229,957          | 229,957          |
| Other short-term accrued costs and deferred revenue              | 496              | 3                |
| <b>Total accrued costs and deferred revenue</b>                  | <b>2,445,852</b> | <b>2.396.150</b> |

Short-term deferred revenue related to grants and connection fees represent a part of the long-term accrued costs and deferred revenue from connection fees or obtained European Commission grants, which are transferred to other operating revenues within one year after the balance sheet date. A part of the accrued costs and deferred revenue in the proportionate amount of the depreciation of tangible fixed assets and intangible assets financed with the European Commission grant funds within EEPR and TEN-E and with connection fees was transferred to the revenue. Accrued personnel costs from performance in the current year are accrued in accordance with the Salary Policy; namely, on the basis of the reached operating results of the company.

## 2.1.17 Off-Balance-Sheet Assets / Liabilities

in EUR

| Item  | 31 Dec. 2020      | 31 Dec. 2019      |
|---|-------------------|-------------------|
| Performance guarantees received                     | 1,879,501         | 322,400           |
| Warranty guarantees received                        | 12,516,868        | 12,736,045        |
| Auction capacities guarantees received (note 2.1.8) | 4,400,000         | 6,915,000         |
| Balance contracts guarantees received (note 2.1.8)  | 1,063,000         | 968,000           |
| Bills of exchange received                          | 78,317            | 80,820            |
| Non-utilised part of long-term credit               | 17,800,000        | 17,800,000        |
| Non-utilised limit                                  | 50,000            | 48,796            |
| Operating Balancing Accounts                        | -3,102            | 977               |
| <b>Total off-balance-sheet assets / liabilities</b> | <b>37.784.584</b> | <b>38.872.038</b> |

## 2.2 Profit and Loss Account

### 2.2.1 Net Sales Revenue

in EUR

| Item  | 2020              | 2019              |
|---|-------------------|-------------------|
| <b>Revenue on domestic market</b>                                       | <b>40,877,215</b> | <b>39,033,218</b> |
| - revenue from transmission services - network charge                   | 36,925,141        | 34,133,619        |
| - revenue from gas sales for balancing and levelling of deviations      | 3,710,345         | 4,637,989         |
| - revenue from the sale of services to the jointly controlled companies | 600               | 600               |
| - accrued revenue from connection charges received                      | 112,709           | 115,110           |
| - revenue from sale of services   | 123,869           | 141,343           |
| - revenue from rents  | 4,551             | 4,557             |
| <b>Revenue on foreign market</b>  | <b>4,251,174</b>  | <b>4,477,637</b>  |
| - revenue from transmission services - network charge                   | 3,945,669         | 4,113,017         |
| - revenue from gas sales for balancing and levelling of deviations      | 229,222           | 291,953           |
| - revenue from sale of services   | 76,283            | 72,667            |
| <b>Total net sales revenue</b>  | <b>45,128,389</b> | <b>43,510,855</b> |

### 2.2.2 Other Operating Revenues (with Revaluation Operating Revenue)

in EUR

| Item   | 2020             | 2019             |
|--|------------------|------------------|
| <b>Revenue from reversal of provisions</b>                         | <b>37,495</b>    | <b>13,938</b>    |
| - reversal of AC&DR  | 17,951           | 13,938           |
| Reversal of provisions   | 19,544           | 0                |
| <b>Other revenue associated with business effects</b>              | <b>1,724,661</b> | <b>1,326,094</b> |
| - accrued revenue from EEPR grant                                  | 1,157,261        | 1,157,262        |
| - accrued revenue from TEN-E grant                                 | 42,505           | 42,505           |
| - revenue from contractual penalties                               | 43,456           | 32,741           |
| - revenue from free acquisitions                                   | 64,732           | 64,732           |
| - other revenue associated with business effects                   | 110,843          | 28,854           |
| - other revenue, COVID-19 state aid                                | 305,864          | 0                |
| <b>Revaluation operating revenue</b>                               | <b>464,370</b>   | <b>36,378</b>    |
| - reversal of impairment of trade receivables                      | 1,289            | 22,166           |
| - gains from the disposal of fixed assets                          | 40,850           | 14,212           |
| - reversal of impairment of intangible assets being acquired       | 422,231          | 0                |
| <b>Total other operating revenue (with rev. operating revenue)</b> | <b>2,226,526</b> | <b>1,376,410</b> |

In January 2020, the Regulation on the national spatial plan for transmission pipeline R51C Kozarje-Vevče entered into force. As a result, the impairment of an intangible assets being acquired of EUR 422,231 was eliminated in the year 2020.

### 2.2.3 Costs of Goods, Material and Services

in EUR

| Item   | 2020             | 2019             |
|--|------------------|------------------|
| Costs of goods sold - natural gas                  | 3,937,343        | 4,923,683        |
| Costs of material                                  | 1,309,111        | 1,291,499        |
| Costs of services                                  | 3,161,813        | 3,357,095        |
| <b>Total costs of goods, material and services</b> | <b>8,408,267</b> | <b>9,572,277</b> |



in EUR

| Item   | 2020             | 2019             |
|--|------------------|------------------|
| Maintenance costs  | 1,715,223        | 1,782,693        |
| Rental costs   | 102,665          | 102,998          |
| Work reimbursement to employees  | 68,774           | 144,411          |
| Costs of payment services, banking services, transaction costs, insurance costs  | 617,757          | 652,076          |
| Costs of intellectual and personal services                                      | 165,233          | 186,195          |
| Cost of fairs, advertising and representation                                    | 65,594           | 95,985           |
| Costs of services provided by natural persons not performing business activities | 128,840          | 119,076          |
| Costs of other services  | 297,727          | 273,661          |
| <b>Total costs of services</b>   | <b>3,161,813</b> | <b>3.357.095</b> |

## 2.2.4 Labour Costs

in EUR

| Item  | 2020             | 2019             |
|---|------------------|------------------|
| Wages and salaries  | 6,097,077        | 5,944,575        |
| State pension costs                                       | 731,282          | 736,131          |
| - of which: voluntary supplementary pension insurance     | 200,714          | 203,832          |
| Social security costs                                     | 513,595          | 502,619          |
| Provisions for anniversary bonuses and severance payments | 65,252           | 43,988           |
| Provisions for unused annual leave                        | 252,562          | 213,443          |
| Other labour costs  | 840,741          | 758,312          |
| <b>Total labour costs</b>                                 | <b>8,500,509</b> | <b>8,199,068</b> |
| Average number of employees by calculated hours           | 140.78           | 139.86           |

## 2.2.5 Write-Downs

in EUR

| Item   | 2020              | 2019              |
|--|-------------------|-------------------|
| <b>Amortization and Depreciation</b>                                       | <b>15,529,795</b> | <b>15,594,946</b> |
| Amortization of intangible assets  | 806,521           | 838,998           |
| Depreciation of tangible assets  | 14,723,274        | 14,755,948        |
| <b>Impairment expenses</b>   | <b>15,986</b>     | <b>60,336</b>     |
| Impairment of intangible assets and tangible assets (note 2.1.1 and 2.1.2) | 6,258             | 53,491            |
| Impairment of current assets   | 9,728             | 6,845             |
| <b>Total write-downs</b>   | <b>15,545,781</b> | <b>15,655,283</b> |

## 2.2.6 Other Operating Expenses

| in EUR   |                  |                  |
|--|------------------|------------------|
| Item   | 2020             | 2019             |
| <b>Charges not dependant on labour costs or other types of costs</b> | <b>1,721,530</b> | <b>1.678.873</b> |
| - contribution for building land                                     | 35,952           | 35,265           |
| - contribution to the Energy Agency                                  | 1,189,115        | 1,020,800        |
| - contribution to ENTSOG   | 217,743          | 205,061          |
| - contribution for auction platform                                  | 265,135          | 406,379          |
| - contribution to the ECO fund                                       | 11,518           | 10,752           |
| - other charges  | 2,067            | 616              |
| <b>Expenditures for environmental protection</b>                     | <b>7,763</b>     | <b>26,036</b>    |
| <b>Scholarships and awards to students</b>                           | <b>1,178</b>     | <b>1,514</b>     |
| <b>Other expenses</b>  | <b>12,501</b>    | <b>26,816</b>    |
| <b>Total other operating expenses</b>                                | <b>1,742,972</b> | <b>1,733,239</b> |

## 2.2.7 Costs by Functional Group

| in EUR   |                   |                   |
|--|-------------------|-------------------|
| Item   | 2020              | 2019              |
| Costs of goods sold - natural gas                          | 3,937,343         | 4,923,683         |
| Costs of the main activity of transmission system operator | 27,000,415        | 26,984,911        |
| Costs of general, administrative and sales activities      | 3,259,771         | 3,251,273         |
| <b>Total costs by functional group</b>                     | <b>34,197,529</b> | <b>35,159,867</b> |

## 2.2.8 Financial Expenses from Financial Liabilities

| in EUR   |                  |                  |
|--|------------------|------------------|
| Item   | 2020             | 2019             |
| Interest and expenses from loans from banks                | 2,646,548        | 2,776,258        |
| Interest and expenses from other financial liabilities     | 835              | 0                |
| <b>Total financial expenses from financial liabilities</b> | <b>2,647,383</b> | <b>2,776,258</b> |

## 2.2.9 Financial Expenses from Operating Liabilities

| in EUR   |              |               |
|--|--------------|---------------|
| Item   | 2020         | 2019          |
| Interest from actuarial calculation                        | 7,416        | 13,188        |
| Other expenses from operating liabilities                  | 2,188        | 551           |
| <b>Total financial expenses from operating liabilities</b> | <b>9,604</b> | <b>13,739</b> |

### 3. Other Disclosures

#### Data on Categories of Persons

##### Structure and amount of remuneration of Management Board in financial year 2020

in EUR

| Name and surname | Function               | Fixed remuneration - gross (1) | Variable remuneration based on qualitative criteria (2) | Deferred revenue (3) | Accrual for annual leave and Christmas bonus (4) | Benefits (5) | Gross total (1+2+3+4+5) | Net total |
|------------------|------------------------|--------------------------------|---|----------------------|--|--------------|-------------------------|-----------|
| Marjan Eberlinc  | General Manager        | 172,032                        | 12,066  | 10,800               | 2,740  | 1,871        | 199,509                 | 92,207    |
| Sarah Jezernik   | Deputy General Manager | 132,000                        | 9,875   | 9,833                | 2,740  | 7,352        | 161,800                 | 72,647    |

##### Structure and amount of remuneration of supervisory bodies in financial year 2020

in EUR

| Name and surname | Function           | Fixed remuneration - gross (1) | Variable remuneration based on qualitative criteria (2) | Deferred revenue (3) | Accrual for annual leave and Christmas bonus (4) | Benefits (5) | Gross total (1+2+3+4+5) | Net total |
|------------------|--------------------|--------------------------------|---|----------------------|--|--------------|-------------------------|-----------|
| Dejan Koletnik   | Compliance Officer | 112,333                        | -   | -                    | 2,740  | 4,312        | 119,386                 | 58,557    |

##### Structure and amount of remuneration of Supervisory Board members in financial year 2020

in EUR

| Name and surname | Function                  | Payment for performing function (1) | Attendance fees (2) | Benefits (3) | Travel expenses (4) | Gross total (1+2+3+4) | Net total |
|------------------|---------------------------|-------------------------------------|---------------------|--------------|---------------------|-----------------------|-----------|
| Tibor Šimonka    | Chairman of the SB        | 15,679                              | 1,375               | 56           | 21                  | 17,131                | 12,404    |
| Peter Grašek     | Deputy Chairman of the SB | 11,497                              | 1,375               | 56           | 244                 | 13,172                | 9,524     |
| Alojz Kovše      | Member of the SB          | 10,453                              | 1,375               | 56           | 232                 | 12,115                | 8,756     |
| Hinko Šolinc     | Member of the SB          | 10,452                              | 1,375               | 56           | 9                   | 11,892                | 8,594     |
| Aleš Šuštar      | Member of the SB          | 10,453                              | 1,375               | 56           | -                   | 11,883                | 8,587     |
| Rok Vozel        | Member of the SB          | 10,453                              | 1,375               | 56           | -                   | 11,883                | 8,587     |

##### Structure and amount of remuneration of the members of the Audit Committee of the Supervisory Board in the year 2020

in EUR

| Name and surname | Function                         | Payment for performing function (1) | Attendance fees (2) | Benefits (3) | Travel expenses (4) | Gross total (1+2+3+4) | Net total |
|------------------|----------------------------------|-------------------------------------|---------------------|--------------|---------------------|-----------------------|-----------|
| Peter Grašek     | Chairman of the Audit Committee  | 3,567                               | 1,144               | -            | 367                 | 5,078                 | 3,693     |
| Hinko Šolinc     | Member of the Audit Committee    | 2,378                               | 1,144               | -            | 14                  | 3,536                 | 2,571     |
| Blanka Vezjak    | Audit Committee, external member | 9,511                               | 1,238               | -            | 263                 | 11,011                | 8,008     |

The company did not grant any advance payments, loans or securities to these categories of persons in the year 2020. The company had no long-term nor short-term debts nor significant operating receivables to these categories of persons. In the year 2020, remuneration from employment of Supervisory Board members, who represent the employees, amounted to EUR 129,375, together with attendance fees and fees for performing a function.

### 3.2 Audit Fees

in EUR

| Item                                    | 2020          | 2019          |
|---|---------------|---------------|
| Audit of annual report                  | 14,000        | 14,000        |
| Other audit services                    | 2,200         | 2,200         |
| <b>Total audit fees for the company</b> | <b>16,200</b> | <b>16,200</b> |

### 3.3 Transactions with Related Companies in 2020

in EUR

| Item  | Plinhold d.o.o.  | Južni tok Slovenija d.o.o. |
|---|------------------|----------------------------|
| <b>Net sales revenue</b>                                    | <b>0</b>         | <b>600</b>                 |
| Net revenue from the sale of services                       | 0                | 600                        |
| <b>Closing balance of receivables and liabilities</b>       | <b>0</b>         | <b>61</b>                  |
| Receivables due from related parties for goods and services | 0                | 61                         |
| <b>Distribution of profits</b>                              | <b>2,000,000</b> | <b>0</b>                   |

### 3.4 Transactions with companies directly or indirectly owned by the Republic of Slovenia

The volume of transactions and balances arising from these transactions of the company Plinovodi d.o.o. with companies with more than 20 percent ownership in the company Plinhold d.o.o., as a 100 percent owner of the company Plinovodi d.o.o., and companies that are majority-owned by such owners of the company Plinhold d.o.o., according to activities is presented.

in EUR

| Partner  | Share in %  | Outstanding receivables as at 31. Dec 2020 | Turnover of receivables in 2020 | Outstanding liabilities as at 31. Dec 2020 | Turnover of liabilities in 2020 |
|--|-------------|--|---------------------------------|--|---------------------------------|
| <b>Activity C 10.11 Processing and preserving of meat</b>  |             |  |                                 |  |                                 |
| Partner1   | At least 66 | 18.432,72                                  | 154.937,82                      | 0  | 0                               |
| <b>Activity C 20.12 Manufacture of dyes and pigments</b>   |             |  |                                 |  |                                 |
| Partner 2  | At least 44 | 46.320,89                                  | 559.331,23                      | 0  | 0                               |
| <b>Activity C 20.13 Manufacture of other inorganic basic chemicals</b>                                   |             |  |                                 |  |                                 |
| Partner 3  | At least 24 | 18.998,19                                  | 160.775,93                      | 0  | 0                               |
| <b>Activity C 21.2 Manufacture of pharmaceutical preparations</b>  |             |  |                                 |  |                                 |
| Partner 4  | vsaj 26     | 77.507,37                                  | 847.655,47                      | 0  | 0                               |
| <b>Activity C 24.1 Manufacture of basic iron and steel and of ferro-alloys</b>                           |             |  |                                 |  |                                 |
| Partner 5  | 25          | 114.395,41                                 | 1.442.567,32                    | 0  | 246.748,66                      |
| Partner 6  | 25          | 103.939,63                                 | 1.272.773,44                    | 0  | 0                               |
| <b>Activity C 24.42 Aluminium production</b>   |             |  |                                 |  |                                 |
| Partner 7  | 95          | 97.156,44                                  | 1.058.947,20                    | 0  | 0                               |
| <b>Activity C 25.5 Forging, pressing, stamping and roll-forming of metal, powder metallurgy</b>          |             |  |                                 |  |                                 |
| Partner 8  | At least 45 | 22.953,29                                  | 259.243,64                      | 0  | 0                               |
| <b>Activity C 25.62 Machining</b>  |             |  |                                 |  |                                 |
| Partner 9  | 100         | 11.028,86                                  | 118.157,40                      | 0  | 0                               |
| <b>Activity D 35.11 Production of electricity in HE generation facilities and thermal power stations</b> |             |  |                                 |  |                                 |
| Partner 10   | 100         | 145.981,83                                 | 857.545,46                      | 0  | 0                               |
| Partner 11   | 100         | 386.401,38                                 | 4.550.854,16                    | 0  | 0                               |
| <b>Activity D 35.14 Trade of electricity</b>   |             |  |                                 |  |                                 |
| Partner 12   | At least 50 | 123.617,43                                 | 844.579,35                      | 116.495,85                                 | 451.516,52                      |
| Partner 13   | At least 81 | 2.864,45                                   | 27.873,20                       | 15.332,28                                  | 77.112,53                       |
| Partner 14   | At least 80 | 16.475,53                                  | 139.578,06                      | 10.115,59                                  | 59.976,07                       |
| Partner 15   | At least 31 | 0  | 0                               | 29.241,61                                  | 175.369,44                      |
| <b>Activity G 46.71 Wholesale of solid, liquid and gaseous fuels and related products</b>                |             |  |                                 |  |                                 |
| Partner 16   | At least 48 | 760.976,61                                 | 6.818.401,72                    | 719.872,74                                 | 3.725.469,91                    |
| <b>Activity G 47.3 Retail sale of own automotive fuel</b>  |             |  |                                 |  |                                 |
| Partner 17   | At least 31 | 328.445,08                                 | 3.433.684,34                    | 0  | 5.598,19                        |
| <b>Activity I 55.1 Hotels and similar accommodation</b>  |             |  |                                 |  |                                 |
| Partner 18   | 100         | 6.887,02                                   | 86.407,31                       | 0  | 0                               |
| Partner 19   | At least 46 | 5.935,51                                   | 70.282,52                       | 0  | 0                               |
| <b>Activity J 61.1 Wired telecommunications activities</b>   |             |  |                                 |  |                                 |
| Partner 20   | At least 72 | 0  | 0                               | 22.256,81                                  | 57.486,29                       |
| <b>Activity K 64.19 Other monetary intermediation</b>  |             |  |                                 |  |                                 |
| Partner 21   | At least 99 | 0  | 0                               | 36.752,70                                  | 445.827,64                      |
| <b>Activity K 65.12 Non-life insurance</b>   |             |  |                                 |  |                                 |
| Partner 22   | At least 62 | 0  | 0                               | 40.422,48                                  | 512.170,02                      |
| <b>Activity O 84.11 General public administration activities</b>   |             |  |                                 |  |                                 |
| Partner 23   |             | 0  | 0                               | 869.190,37                                 | 3.336.862,65                    |
| <b>Activity O 84.13 Regulation of and contribution to more efficient operation of business</b>           |             |  |                                 |  |                                 |
| Partner 24   | 100         | 0  | 0                               | 99.092,92                                  | 1.189.115,04                    |
| Partner 25   | 100         | 0  | 0                               | 0,00                                       | 106.434,91                      |
| <b>Activity P 85.42 Third stages of tertiary education</b>   |             |  |                                 |  |                                 |
| Partner 26   | 100         | 0  | 0                               | 171.980,29                                 | 178.860,85                      |
| <b>Activity Q 86.1 Hospital activity</b>   |             |  |                                 |  |                                 |
| Partner 27   | 100         | 5.587,80                                   | 59.990,18                       | 56,77                                      | 391,06                          |
| Partner 28   | 100         | 6.782,79                                   | 72.747,37                       | 34,89                                      | 34,89                           |
| Partner 29   | 100         | 20.493,45                                  | 239.199,94                      | 0  | 0                               |

Transactions were performed in the same manner as with other unrelated parties.

### 3.5 Disclosures Pursuant to the Energy Act

The Act Determining the Methodology for the Calculation of Network Charge enables the company to compensate itself accordingly for the high expenses (negative settlements) from the past by increasing future tariffs or to refund the too high income (positive settlements) from the past by decreasing future tariffs.

On the basis of the available data for 2020, the company found deviations from the regulatory framework for the period from 01/01/2020 to 31/12/2020 that were reflected in the network charge deficit, in a true and fair manner. The deficit stood at EUR 2,241,636 and was not included in the financial statements. The network charge deficit will be taken into account in setting the regulatory framework in the coming years.

### 3.6 Impact of the coronavirus epidemic on the financial statements

#### Assumption of a going concern

The outbreak of the coronavirus and the consequent government actions to contain the coronavirus epidemic did not lead to a deterioration in economic conditions for society and did not jeopardise the company's ability to continue as a going concern. The company's financial statements for the financial year 2020 are thus prepared using the assumption of a going concern.

#### Assets

The SAS 16 - Determination and measurement of fair value stipulates that when measuring fair value, it is necessary to start from the balance that the asset had at the balance sheet date. It is also necessary to take into account the characteristics of the asset that market participants would take into account when determining the price of the asset as at 31 December 2020.

No information was detected when measuring the fair value of assets; therefore, the outbreak of the coronavirus did not affect the calculations of fair values as at 31 December 2020.

#### Receivables

Despite the risks associated with the coronavirus, the outcome of debt management in the year 2020 was favourable. The age structure of receivables remains stable (Note 2.1.7). We did not detect any special features in the collection of receivables.

#### Revenues, costs

In the Official Gazette of the Republic of Slovenia, No. 63/202, dated 6 May 2020, Note 1 to the SAS 15 (2019) has been published: Revenues. As follows from the aforementioned explanation, the SAS 15.5 (2019) stipulate that other operating revenues are revenues related to business effects, such as subsidies, grants, bonuses, compensations, premiums, and similar revenue. State aid is also included. The explanation below explains what the state aid was and when it was recognised. Moreover, it also explains that according to the SAS 21.16. (2016), mandatory explanations to all profit and loss accounts are required by the Companies Act. Due to the emergency situation related to the coronavirus epidemic, revenue from state aid to contain or eliminate the effects of the coronavirus were also considered to be significant revenue.

Pursuant to the Act Determining the Intervention Measures to Contain the COVID-19 Epidemic and Mitigate its Consequences for Citizens and the Economy (ZIUZEOP), the company used reimbursement measures related to the reimbursement of labour costs in the total amount of EUR 6,173. These aids are disclosed by the company within other revenue associated with business effects.

Based on the ZIUZEOP, the company used the measure of partial exemption from the payment of contributions for pension and disability insurance in the total amount of EUR 299,691. This exemption was recorded by the company among other revenues associated with business effects.

In accordance with the ZIUZEOP and the PKP1 anti-corona package, the company paid a crisis allowance in the amount of EUR 27,227. This cost increases the labour costs in the business period.

### **3.7 Events after the Balance Sheet Date**

There were no events between the balance sheet date and the financial statements endorsement date that would require an adjustment of the financial statements to the balance sheet date or any special disclosure in the financial statements.



## SIGNATURE OF THE ANNUAL REPORT FOR 2020 AND ITS INTEGRAL PARTS

The undersigned, General Manager and Deputy General Manager of Plinovodi d.o.o., are familiar with the contents of the integral parts of the Annual Report for the year 2020, as well as with the complete report of the company. We agree thereto and confirm this with our signatures.

General Manager  
Marjan Eberlinc, BSc in Mech. Eng.

Deputy General Manager  
Sarah Jezernik, MSc in E.



## Independent Auditor's Report

To the shareholder of Plinovodi d.o.o.

### Report on the audit of the financial statements

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#### Our qualified opinion

In our opinion, except for the effects of the matter described in the Basis for qualified opinion section of our report, the financial statements present fairly, in all material respects, the financial position of Plinovodi d.o.o. (the "Company") as at 31 December 2020, and the Company's financial performance and cash flows for the year then ended in accordance with the Slovene Accounting Standards.

Our opinion is consistent with our additional report to the Audit Committee dated 23 March 2021.

#### What we have audited

The Company's financial statements comprise:

- the balance sheet as at 31 December 2020;
- the statement of profit or loss for the year then ended;
- the statement of other comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

#### Basis for qualified opinion

Included in the Company's balance sheet within the "assets held for sale" line item as at 31 December 2020 is a property (land and a building on that land) amounting to EUR 2,074,885 that the Company sold on 1 January 2021. The Company acquired this property on 1 January 2016 from the same entity (the "seller") to which it sold it 5 years later, and the contract governing the purchase on 1 January 2016 included an option of the seller to repurchase the property at a pre-determined price during the period of five years after the sale or at a newly determined fair value after the 5-year period expires. Based on the Slovene Accounting Standard 15, the existence of the repurchase option indicates that the seller retained significant risks and rewards of ownership of this property, primarily the residual value risk. The Company did not obtain control over this property as its ability to direct the use of the property and to obtain substantially all of the remaining benefits from the property were limited by this repurchase option, even though the Company had a physical possession and a legal title of the property. As a result, on 1 January 2016, the Company obtained just the right to use the property for a certain period of time in exchange for the payment representing the difference between the price paid for the asset purchased on 1 January 2016 and the expected asset repurchase price. Accordingly, as at 31 December 2020 the Company's assets held for sale are overstated by EUR 2,074,885, its accounts receivable are understated by EUR 1,822,830, its accounts payable are overstated by EUR 202,537 and its retained earnings are overstated by EUR 49,518. As at 31 December 2019, the Company's long-term receivables are understated by EUR 1,980,198, its right-of-use assets are understated by EUR 79,414, its retained earnings are overstated by EUR 81,492 and its property, plant and equipment are overstated by EUR 2,141,104.



We conducted our audit in accordance with International Standards on Auditing (ISAs) and Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities (the "Regulation"). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report.

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

### Independence

We are independent of the Company in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) and with the ethical requirements that are relevant to our audit of the financial statements in Slovenia. We have fulfilled our other ethical responsibilities in accordance with those requirements and with the IESBA Code.

To the best of our knowledge and belief, we declare that non-audit services that we have provided to the Company are in accordance with the applicable law and regulations in Slovenia and that we have not provided non-audit services that are prohibited under Article 5(1) of Regulation.

The non-audit services that we have provided to the Company, in the period from 1 January 2020 to 31 December 2020, are disclosed in Note 3.2 to the financial statements.

### Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the Basis for qualified opinion section, we have determined the matter described below to be the key audit matter to be communicated in our report.

| Key audit matter   | How our audit addressed the key audit matter   |
|--|--|
| <p><i>Revenue recognition</i></p> <p>The Company disclosed the information about revenues in Note 2.2.1 to financial statements. Accounting policies are disclosed in Note 1. The Company's income statement includes revenues of EUR 45,128,389 for the year-ended 31 December 2020.</p> <p>This year, our focus was on revenue recognition because of:</p> <ul style="list-style-type: none"> <li>the users' ongoing attention to this financial reporting line item as a performance measure,</li> <li>its sizeable amount in value terms,</li> <li>essential associated risks of material misstatement due to both fraud and error.</li> </ul> | <p>Our audit approach to testing revenues recognised by the Company included testing internal process and controls as well as substantive audit procedures:</p> <ul style="list-style-type: none"> <li>We obtained understanding of the sales process and management's assessment of revenue recognition criteria, such as identification of the performance obligation, timing of its satisfaction and allocated transaction price.</li> <li>We tested, on a sample basis, effectiveness of internal controls over sales that ensure that sales have occurred and are recorded in the right amount.</li> <li>We inspected a selected sample of contracts, sales orders, issued invoices and other relevant documentation, where relevant, in order to verify that related revenue was recorded correctly in accordance with SRS 15 Revenue.</li> <li>We examined customer invoices and receipts of payment on a sample basis.</li> <li>We obtained confirmations from customers confirming selected outstanding balances due to the Company.</li> <li>We assessed financial statements presentation and disclosures.</li> </ul> |



## Key audit matter

## How our audit addressed the key audit matter

### Reporting on other information including the Business Report

Management is responsible for the other information. The other information comprises the 'Business Report' and 'Other' sections, which are constituent parts of the Annual Report (but does not include the financial statements and our auditor's report thereon).

Our opinion on the financial statements does not cover the other information, including the Business Report, and except to the extent otherwise explicitly stated in our report, 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 identified above 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.

With respect to the Business Report, we also performed procedures required by the Slovene Companies Act. Those procedures include assessing whether the Business Report is consistent with the financial statements and whether the Business Report was prepared in accordance with valid legal requirements.

Based on the work undertaken in the course of our audit, in our opinion:

- the information given in the Business Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Business Report has been prepared in accordance with the requirements of the Slovene Companies Act.

In addition, in the light of knowledge and understanding of the Company and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the Business Report. As described in the Basis for qualified opinion section of our report above, management has not recognised the transaction related to the purchase of the asset on 1 January 2016, that was subject to a seller's repurchase option, in line with the requirements of the Slovene Accounting Standard 15. We have concluded that the Business Report is materially misstated for the same reason with respect to the amounts or other items referred to in the Basis for qualified opinion section of our report above.

### 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 accordance with the Slovene 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.

Those charged with governance are responsible for overseeing the Company's financial reporting process.





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### 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 ISAs 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 ISAs, we exercise professional judgment and maintain professional scepticism 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 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 those charged with governance 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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.



From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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### Report on other legal and regulatory requirements

#### Appointment

We were first appointed as auditors of the Company at the supervisory board meeting of the Company on 30 May 2019 for the financial year ended 31 December 2019. The president of the supervisory board signed the audit contract on 30 May 2019. The contract was concluded for three years. Our uninterrupted period of appointment is two years.

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The statutory auditor on the audit resulting in this independent auditor's report is Damjan Ahčin.

For and on behalf of PricewaterhouseCoopers d.o.o.

Damjan Ahčin  
Certified auditor

Ljubljana, Slovenia, 9 April 2021

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| <p>This version of our report is a translation from the original, which was prepared in Slovene. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.</p> |
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MISCELLANEOUS



## Legislative Framework

### Regulations of the European Parliament and Council

- Directive 2009/73/EC of the European Parliament and of the Council of 13 July 2009 concerning common rules for the internal market in natural gas and repealing Directive 2003/55/EC (OJ L 211/2009)
- Directive (EU) 2019/692 of the European Parliament and of the Council of 17 April 2019 amending Directive 2009/73/EC concerning common rules for the internal market in natural gas
- Regulation (EC) No. 715/2009 of the European Parliament and of the Council of 13 July 2009 on conditions for access to the natural gas transmission networks and repealing Regulation (EC) No. 1775/2005 (OJ L 211/2009)
- Commission Regulation (EU) 312/2014 of 26 March 2014 establishing a network code on balancing of transmission networks (OJ L 91/2014)
- Commission Regulation (EU) 2015/703 of 30 April 2015 establishing a network code on interoperability and data exchange rules (OJ L 113/13)
- Commission Regulation (EU) 2017/460 of 16 March 2017 establishing a network code on harmonised transmission tariff structures for gas (OJ L 72/2017)
- Commission Regulation (EU) 2017/459 of 16 March 2017 establishing a Network Code on Capacity Allocation Mechanisms in Gas Transmission Systems and repealing Regulation (EU) No 984/2013 (OJ L 72/2017)
- Regulation (EU) 2017/1938 of the European Parliament and of the Council of 25 October 2017 concerning measures to safeguard security of gas supply and repealing the Regulation (EU) 994/2010 (OJ L 280/2017)
- Commission Decision of 10 November 2010 amending Chapter 3 of Annex I to Regulation (EC) No. 715/2009 of the European Parliament and the Council on conditions for access to the natural gas transmission networks (OJ L 293/2010)
- Commission Decision of 24 August 2012 amending Annex I to Regulation (EC) No. 715/2009 of the European Parliament and of the Council on conditions for access to the natural gas transmission networks (OJ L 231/2012)

### Acts

- Energy Act (Official Gazette of the Republic of Slovenia, Nos. EN 60/19 - UPB, 65/20, 158/20 - ZURE, 175/20)

### Implementing regulations

- Decree on functioning of the natural gas market (Official Gazette of RS, No. 61/2016)
- Resolution on the National Energy Programme (Official Gazette of RS, No. 57/2004)
- Decree on energy infrastructure (Official Gazette of RS, No. 22/2016)
- Rules on technical conditions for the construction, operation and maintenance of gas pipelines with the maximum working pressure of up to 16 bar (Official Gazette of RS, Nos. 26/2002, 54/2002, 17/2014)
- Rules on technical requirements for construction, operation and maintenance of gas pipelines with operating pressure above 16 bar and on conditions for the interventions in the areas of their protective zones (Official Gazette of RS, Nos. 12/2010, 45/2011, 17/2014)
- Decree on the method of implementing public service obligation relating to the activity of transmission system operator in the field of natural gas (Official Gazette of RS, Nos. 97/2004, 8/2005, 8/2007, 17/2014)

- Decree on the concession for performing public service obligation relating to the activity of transmission system operator in the field of natural gas (Official Gazette of RS, Nos. 109/2004, 73/2008, 111/2008, 17/2014)

### **Acts of the Energy Agency of the Republic of Slovenia and the System Operator**

- Act determining the methodology for charging for the network charge for the gas transmission network (Official Gazette of RS, Nos. 20/19, 8/20, and 85/20)
- Act determining the methodology for setting the regulatory framework for system operator for natural gas (Official Gazette of RS, No. 21/2018)
- Act determining tariff rates for network charges for the natural gas transmission system (Official Gazette of RS, No. 38/19)
- System operating instruction for natural gas transmission network (Official Gazette of RS, Nos. 55/15, 80/17, and 152/20)
- Rules on terms and conditions for capacity allocation mechanisms at interconnection points of the transmission system through auctions (Official Gazette of RS, Nos. 67/2014 and 79/2016) - effective until 7 November 2020
- Rules on the procedure for the allocation of capacity on the transmission system for the entry and exit points in the Republic of Slovenia, the congestion management procedure and capacity trading on the secondary market (Official Gazette of RS, Nos. 80/2014, 81/2014 and 62/2016) - effective until 7 November 2020
- Rules on terms and conditions for capacity allocation mechanisms at interconnection points of the transmission system by auction, congestion management procedure and capacity trading on the secondary market (Official Gazette of RS, No. 152/20) - effective from 7 November 2020
- Rules on the procedure for allocating transmission system capacity for entry and exit points within the Republic of Slovenia (Official Gazette of RS, No. 152/20) - effective from 7 November 2020
- Regulation on the preventive action plan for natural gas supply (Official Gazette of RS, Nos. 2/2015, 9/2017, and 41/2018) - effective until 11 July 2020
- Regulation on the preventive action plan for natural gas supply (Official Gazette of RS, Nos. 97/20) - effective from 11 July 2020
- Regulation on the emergency plan for natural gas supply (Official Gazette of RS, Nos. 43/2014, 2/2015, and 41/2018) - effective until 11 July 2020
- Regulation on the emergency plan for natural gas supply (Official Gazette of RS, Nos. 97/20) - effective from 11 July 2020
- Legal act on the method for the submission of data and documents by providers of energy sector activities (Official Gazette of RS, No. 98/2014)

## List of Abbreviations Used

|          |   |
|----------|---|
| ACDR     | Accrued Costs and Deferred Revenue  |
| Agency   | Energy Agency   |
| BDP      | Gross Domestic Product  |
| BMRS     | Border Metering and Regulation Station  |
| BP       | Building Permit   |
| CEF      | Connecting Europe Facility  |
| CNG      | Compressed Natural Gas  |
| CSA      | Compressor Station Ajdovščina   |
| CSK      | Compressor Station Kidričevo  |
| DBO      | Defined Benefit Obligation  |
| DC       | Dispatch Centre   |
| DC&AR    | Deferred costs and accrued revenue  |
| DEBT     | The sum of long-term and short-term financial liabilities   |
| DSO      | Distribution System Operator  |
| EBIT     | Earnings before interest and taxes  |
| EBITDA   | Earnings before interest, taxes, depreciation and amortisation  |
| ECB      | European Central Bank   |
| EEPR     | European Energy Programme for Recovery  |
| EFQM     | European Foundation for Quality Management  |
| EIB      | European Investment Bank  |
| ENTSOG   | European Network of Transmission System Operators for Gas   |
| ERM      | Enterprise Risk Management  |
| ERP      | Enterprise Resource Planning  |
| EU       | European Union  |
| EURIBOR  | Euro Inter Bank Offered Rate  |
| EZ-1     | Energy Act  |
| FA       | Fixed Assets  |
| FFE      | Family Friendly Enterprise  |
| HICP     | Harmonised Index of Consumer Prices   |
| INTEREST | Interest and other financing costs  |
| LNG      | Liquefied Natural Gas   |
| MRS      | Metering and Regulation Station   |
| NC       | Network Code  |
| NET DEBT | Debt less short-term financial investments and financial assets   |
| NSP      | National spatial plan   |
| OBA      | Operating Balancing Account   |
| PCI      | Projects of Common Interest   |
| RS       | The Republic of Slovenia  |
| SAS      | Slovenian Accounting Standards  |
| SB       | Supervisory Board   |
| SCADA    | Supervisory Control And Data Acquisition  |
| TEN-E    | Trans-European Networks - Energy  |
| TP       | Trading platform  |
| TSO      | Transmission System Operator  |
| VAT      | Value-added tax   |
| VP       | Virtual Point   |
| VPG      | Virtual Point for Gas   |
| ZGD-1    | Companies Act   |
| ZIUZEOP  | Act Determining the Intervention Measures to Contain the COVID-19 Epidemic and Mitigate its Consequences for Citizens and the Economy |

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