

ANNUAL REPORT

2018

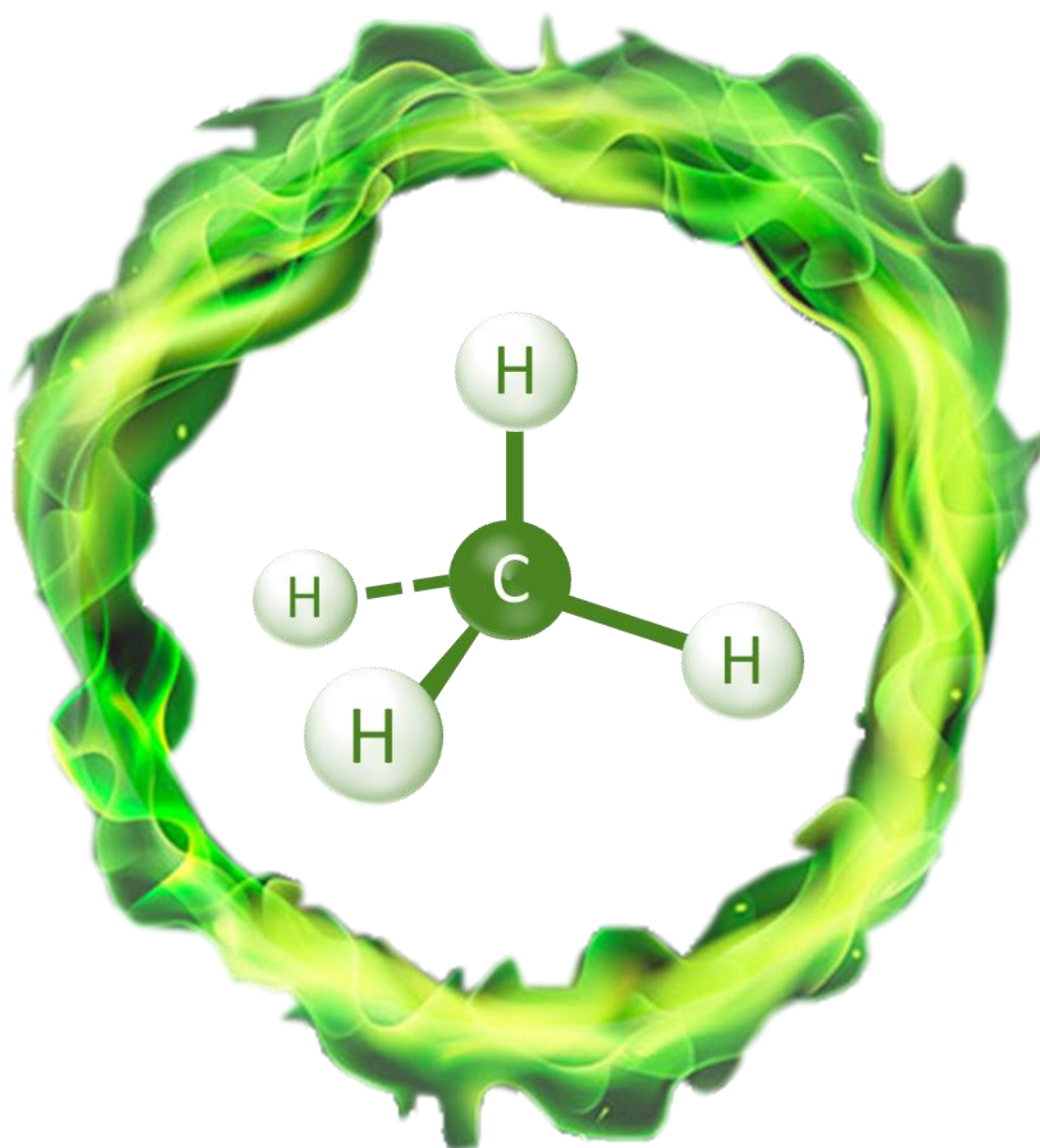


TABLE OF CONTENTS

BUSINESS REPORT

ABOUT THE COMPANY

Management Board Letter	4
Governance Statement	6
Business Highlights	12
Significant Events in the year 2018	13
Our Values, Mission and Vision	14
Presentation	15

SUSTAINABLE DEVELOPMENT

Development Guidelines and Objectives	17
Employees and Internal Communication	18
Communication with the External Public	20
Environmental Responsibility	21

BUSINESS

Business Environment	25
Use of Transmission Capacities	26
Functioning of the Transmission System	28
Development of the Transmission System	30
Analysis of Business Operations	32
Risks	37
Events after the Balance Sheet Date	41

ACCOUNTING REPORT

Statement by the Management Board	43
Financial Statements	44
Summary of Significant Accounting Policies	52
Breakdown and Notes	59
Other Disclosures	72
Signature of the Annual Report for 2018 and its Integral Parts	75
Independent Auditor's Report	76

MISCELLANEOUS

Legislative Framework	80
List of Abbreviations Used	82
Who is Who	83

BUSINESS REPORT

ABOUT THE COMPANY

Management Board Letter

In the company Plinovodi d.o.o., we have continued our successful business operations with responsible work in 2018. The reduction of transit to Croatia in the fourth quarter of 2017, due to changed conditions in regional natural gas markets, was followed by the expected booking optimisation on domestic exit points as of 1 January 2018 after the expiration of long-term contracts. We responded with additional measures to achieve the planned results in all business areas.

The decrease in booked yearly capacities was followed by an increase in short-term booking capacity, encouraged by the weather conditions and the price difference on the natural gas markets in the neighbouring countries. We have performed the natural gas transmission through the transmission system for domestic and foreign users reliably, and we were efficient and effective in responding to particularities.

Transactions with the quantities of natural gas at the virtual point have twice exceeded the amounts of the previous year, and the volume of transactions on the trading platform has been decreasing with better levelling of the balancing groups.

The maintenance work on the transmission system was performed on the basis of regular planned activities or current needs. In cooperation with the distribution system operators and balancing group leaders, we have successfully completed a one-year trial operation of the Forecasting party application and proceed to full operation.

During the implementation of investments, special attention was devoted to connecting new users. The distribution system operator in the municipality of Idrija and Hoče - Slivnica, the network user in Šobec and the compressed natural gas filling station in Celje were connected to the transmission system. At the BMCS Rogatec, we established a bi-directional flow with Croatia, thereby increasing the reliability of supply. The Government of the Republic of Slovenia adopted the Regulation on the national spatial plan for transmission pipeline M6 Ajdovščina - Lucija and a proposal for the most suitable solution for transmission pipeline R15/1 Pince - Lendava. Together with the Hungarian natural gas transmission system operator, we have performed the collection of non-binding bids for the incremental capacity on the planned interconnection point of the two transmission systems Tornyiszentmiklós / Pince.

In spring and autumn, we have successfully organised two meetings / workshops with the transmission network users entitled "Slovenian gas market in the region." In order to promote natural gas and increase general awareness on the topic, we have actively participated at expert meetings.

The result of a successful business operation in 2018 was a reported net profit in the amount of EUR 3.3 million, which accounted for 165 percent of the planned one. With net sales revenue at EUR 43.7 million, the planned value for 2018 was exceeded by 3.3 percent. Our economical business operations are reflected in the operating expenses, which were for 7.7 percent lower than in 2017.

Total assets at the end of 2018 deviate from the balance on the first day of this year and amount to EUR 319 million. The decrease in short-term financial investments and the

reduction of financial liabilities is mainly due to early repayment of long-term loans to the former parent company. By signing a favourable Guarantee Facility Agreement in April and the issuance of a new guarantee as collateral for the loan of the European Investment Bank, more than a year and a half long process of securing a new insurance with significantly improved conditions was completed.

The company Plinovodi is embedded into the broader business environment, we are closely monitoring the economic situation in the country, as well as the region, and we timely follow and if necessary participate in the envisaged legislative changes that could affect our operations. In the first half of the year, the Energy Agency adopted two new network charge acts and approved the tariff items for the regulatory year 2019. In the second half of the year, we have together with the Energy Agency implemented a series of activities, which were necessary for the implementation of the Commission Regulation (EU) 2017/460 of 16 March 2017 establishing a network code on harmonised transmission tariff structures for gas.

We have devoted close attention to the future operations of the company and the transfer of new energy and gas technologies to the Slovenian market and to our society. The reduction in the number of employees is accompanied by the optimisation and digitisation of processes, as well as the education and professional training of employees.

The company Plinovodi remains a reliable business partner, which was confirmed by the re-acquired Certificate of credit rating Excellence Class AAA. We will continue to strengthen our values and mission in the future with our dedicated and committed colleagues with plenty of knowledge about the natural gas transmission and the preparation and implementation of infrastructure projects. In 2018, we marked 40 years of natural gas transmission in the country and our commitment remains that we will continue to carry out safe and reliable natural gas transmission, as well as achieve all the realistic objectives that are ahead of us in the coming years.

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, and 15/17, hereinafter 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 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/>), and the Slovenian Corporate Integrity Guidelines.

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. The company observes the code and complies with its provisions. The company partially deviates from the code in the items specified below, mainly as 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 3.1: The objectives of the company are clearly defined in the Articles of Association and the energy legislation. The maximum income that the company can generate for the owners is determined by the regulatory authority in accordance with the EZ-1.
- Point 3.5: Based on ZGD-1 and the Articles of Association of the limited liability company Plinovodi d.o.o., the only shareholder of the company Plinhold d.o.o. did not envisage granting discharge to members of the management and supervisory body.
- Point 3.6.2: The company Plinovodi d.o.o. has not yet adopted a special act in 2018 to formulate and adopt a policy of diversity in relation to representation in management and supervisory bodies. The company operates in accordance with the direction and principle of diversity and recognises the objectives of diversity as achievements in improving the effectiveness of management and supervisory bodies.

- 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 4 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 6.11: The Supervisory Board took note of the recommendations regarding the evaluation of the Supervisory Board's efficiency. After the examination of recommendations and good practices of self-assessment, the next step will be the planning of appropriate activities and time frame.
- Point 6.12: Within the existing terms of the regulated activity of a company and the provisions of EZ-1, the Supervisory Board did not appoint an audit committee. With the existing mechanisms in accordance with ZGD-1 and EZ-1, the Supervisory Board, Compliance Officer, the Energy Agency, the competent ministry and external auditing provide comprehensive supervision over the company's operation.
- Point 7.3: The Management Board's remuneration is determined and paid in accordance with statutory provisions and legal foundations. Based on a decision, the Management Board of the company Plinovodi d.o.o. will prepare and adopt the Remuneration Policy for the Management Board of the in the manner will determine the criteria in a measurable and effective manner.
- 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 ZGD-1 and EZ-1, members of the Management Board and members of the Supervisory Board the inform Supervisory Board or regulatory authority about possible conflicts of interest and about independence.
- Point 9.2.3: In accordance with ZGD-1 and EZ-1, due to the conditions and restrictions imposed by the energy legislation, the company has established an internal control function with an advisory internal auditing role for the so-called second line of defence of internal control: the area risk management, internal controls, integrated reporting and compliance. The contents of internal control follow the needs of the company in terms of activity, size and organisation in the manner 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.

As a subsidiary of a state-owned enterprise, the company Plinovodi d.o.o. is subject to the recommendations and expectations of the Slovenian Sovereign Holding. The company observes them and complies with their provisions. The company partially deviates from the recommendations and expectations in the following point, because it has established that the company needs to perform the evaluation process of adequacy and effectiveness of the subject Excellence Model implementation before the decision for the implementation, also because it carries out the transmission of natural gas in the Republic of Slovenia as a public service activity that is regulated by the Energy Agency, and is an independent natural gas transmission system operator. The deviation is as follows:

Point 5: In the context of the assessment in connection with the awarding of the "Business Excellence Prize of the Republic of Slovenia" for the year 2017, the company Plinovodi d.o.o. got familiar with the EFQM Excellence Model, and now it needs to be studied and assessed as to the appropriateness of the model for the company engaged in a public service activity and the regulated activity.

The management system and corporate governance of the company 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.

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. 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 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 lines of defence in the context of the modern 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 discovering 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 time.

The activities of internal control are organised and take place on all levels of modern arrangement of the company's control system, 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 risk management and the introduced control mechanisms in greater detail.

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 network 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 ZGD-1 and in accordance with 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 preparation and implementation of the 10-year network development plan. 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 makes all decisions within its competence unanimously. 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.

The Supervisory Board operates 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 Supervisory Board has no standing committees. 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. The Supervisory Board as well also 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.

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 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 EZ-1.

Management Board members are appointed and recalled by the company's Supervisory Board. The Supervisory Board is obliged to comply with the provisions of 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 term of office of five years.

In accordance with 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 EZ-1 and the decisions of the Energy Agency. The provisions of 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 EZ-1. Supervisory Board members are appointed for a term of office of four years. 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 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 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 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 EZ-1. The Supervisory Board is obliged to comply with the provisions of 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 term of office of four years.

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.

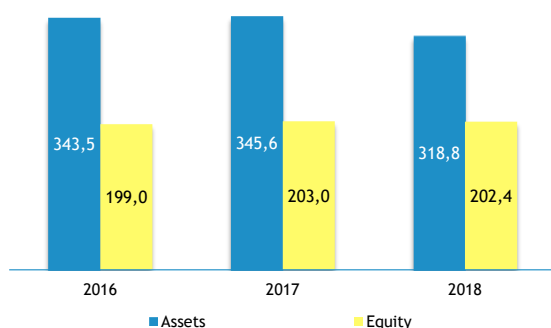
General Manager
Marjan Eberlinc

Deputy General Manager
M.Sc. Sarah Jezernik

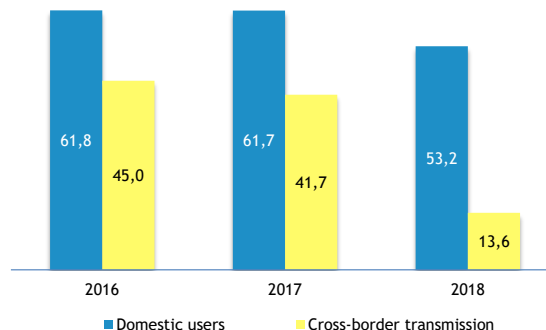
Business Highlights

Data / Indicator	Unit / Criterion	2016	2017	2018
Booked border entry capacities	MWh/day	83.925	83.381	46.524
Booked exit capacities in Slovenia	MWh/day	61.751	61.719	53.222
Transmitted quantities	GWh	23.113	22.745	13.246
- of which domestic transmission	%	40,1	42,4	71,3
Net sales revenue	EUR million	53,3	52,4	43,7
Gross profit or loss	EUR million	46,0	46,3	36,1
Amortisation and Depreciation	EUR million	16,5	15,4	15,5
Net profit	EUR million	9,2	7,9	3,3
Investments in intangible assets/tangible fixed assets	EUR million	7,4	10,8	7,1
Total assets at the end of the period	EUR million	343,5	345,6	318,8
Regulatory asset base	EUR million	268,3	263,0	258,7
Employees at the end of the period	number	153	150	145
Value added per employee	EUR thousand	272,7	276,2	221,6
EBIT	EUR million	15,4	14,4	7,2
EBITDA	EUR million	32,7	32,5	23,9
Net debt/EBITDA	< 4.0	2,4	2,1	2,6
EBITDA/interest	< 3.0	7,7	6,6	7,1
Debt/assets	< 50 %	26,2	24,9	20,8

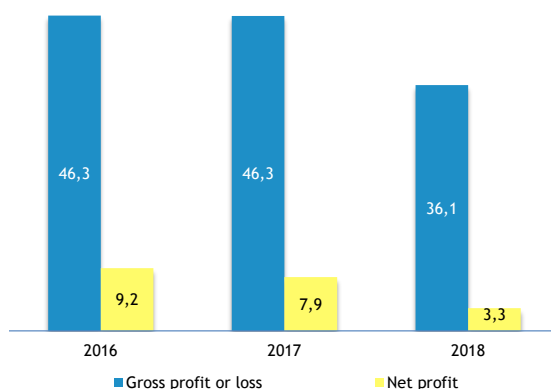
Balance sheet (in EUR million)



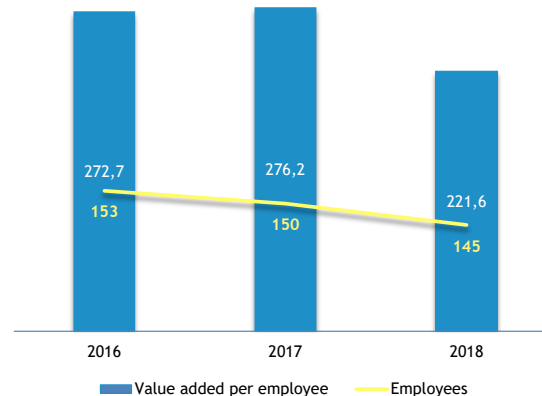
Booked exit capacities (in GWh/day)



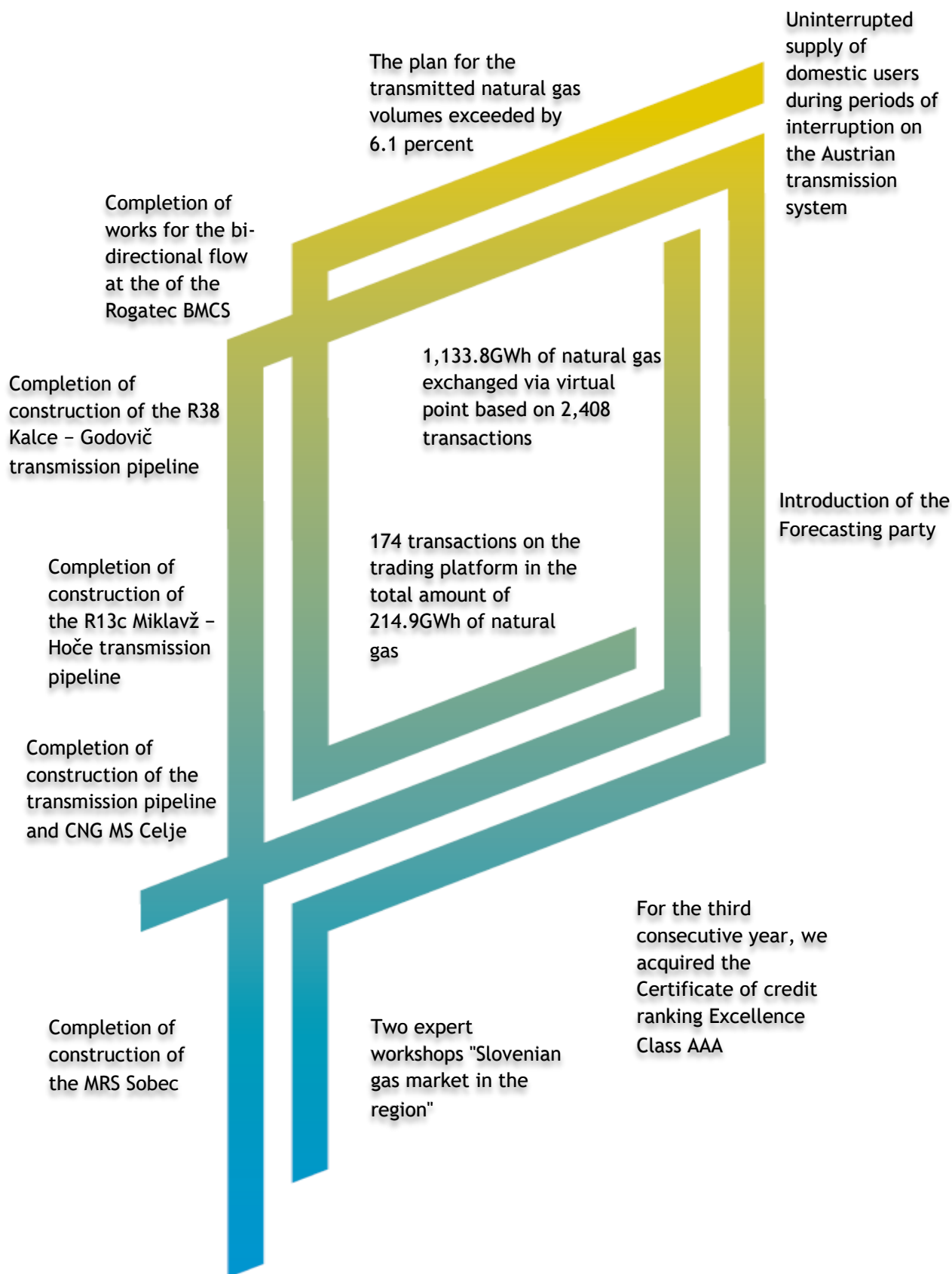
Profit and loss account (in EUR million)



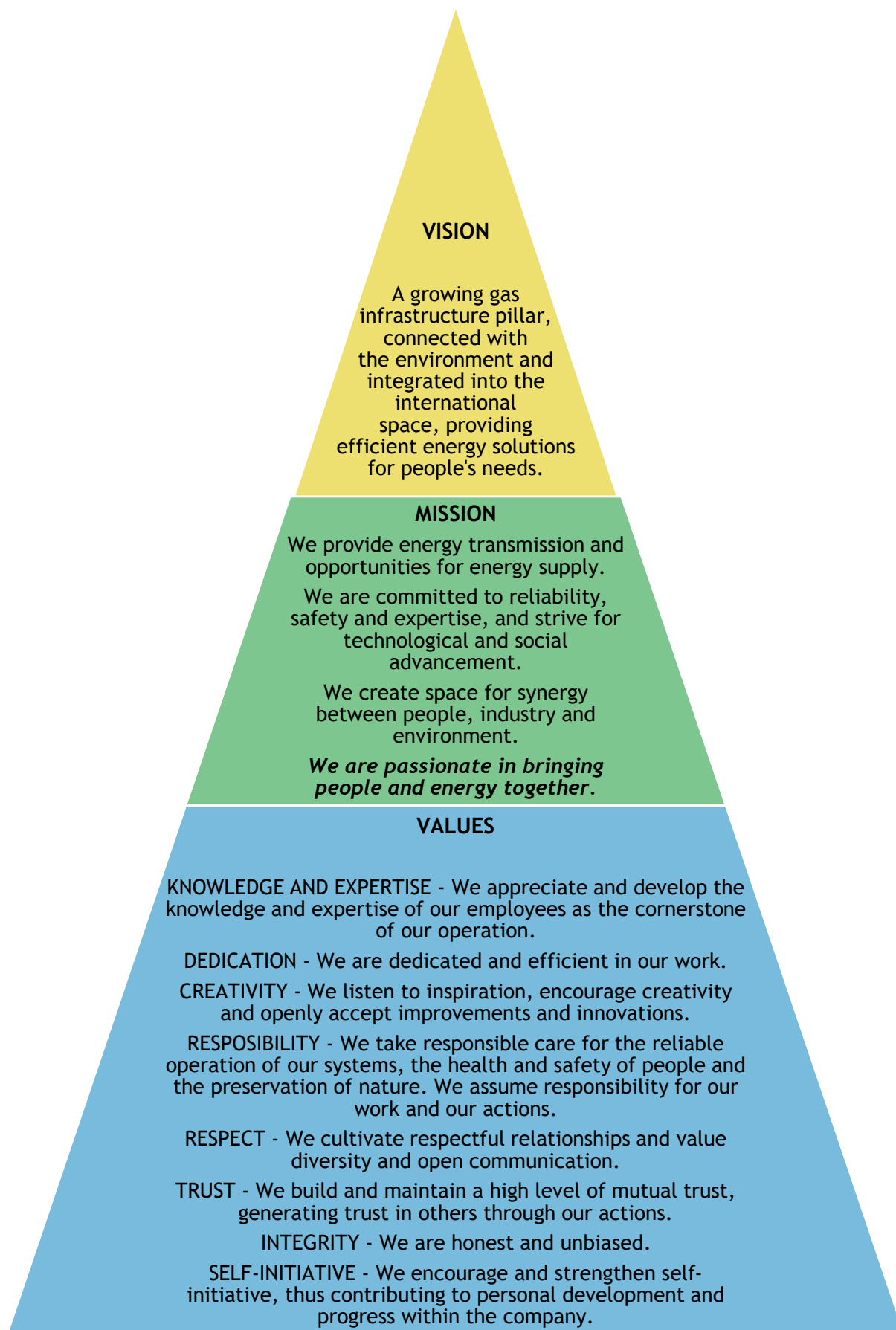
Added value and employees (in EUR thousand)



Significant Events in the Year 2018



Our Values, Mission and Vision



PRESENTATION

Full company name: PLINOVODI, Družba za upravljanje s prenosnim sistemom, d.o.o.

Short company name: Plinovodi d.o.o.

Business address: Cesta Ljubljanske brigade 11B, 1000 Ljubljana, Slovenia

Telephone: +386 (0)1 5820 700

Fax: +386 (0)1 5820 701

E-mail: info@plinovodi.si

Website: www.plinovodi.si
www.linkedin.com/company/plinovodi-d.o.o.

Registration number: 1954288000

Tax number: SI 31378285

Established on: 1. 1. 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 under 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 Simonka, 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

Development guidelines and objectives of the company Plinovodi are based on our fundamental activities, development, construction and management of the transmission system, implementation of natural gas transmission, expansion by enabling connection, and access to the transmission system to all interested users.

Plinovodi is aware that efficient functioning of the internal energy market as well as security and reliability of energy supply should be developed through modern approaches to the operation of the natural gas market with suitable development, construction and maintenance of the energy infrastructure in general. We therefore wish to preserve the achieved high level of reliability and operational security of the transmission system and strengthen the role of the natural gas transmission system in Slovenia and in connection with the neighbouring transmission systems with an expansion plan. By introducing information technologies, we are improving our responsiveness to the needs of the users and offer them additional information to make their operation even more successful. In this way, we wish to contribute as much as possible towards an efficient energy supply in the country, with the objective of increasing the share of natural gas in the energy balance to a level comparable to the European one. This objective will be possible by further increasing the use natural gas in general consumption and electricity generation by using state-of-the-art cogeneration technologies, by preserving the level of industry supply and through territorial coverage of all Slovenian regions with transmission lines. We see great potential in this course of action.

Strategic guidelines (objective groups) of the company are:

- increasing the consumption and transmission of natural gas,
- 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 Natural Gas

The activities to achieve this group of objectives should 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 environmentally less acceptable fuels, it is possible to achieve environmental goals set to the Republic of Slovenia by international commitments in terms of reducing CO₂, SO₂, particulate - dust particles and other harmful emissions. In these activities, Plinovodi work more closely with all other participants in the industry that are also interested in increasing the share of natural gas in primary energy.

Sustainable Growth and Development

We are aware that we are leaving a sustainable footprint for the future. With small actions, we are building the future together - we create tomorrow today. We see sustainable development as a commitment to sustainable business operations of our company, as well as the efforts of every employee to contribute with their work in the company and in society to a better world for all.

Establishing and Strengthening International Connections

This strategic group of objectives comprises several dimensions of operation. On the one hand, strong construction 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 increase the company's visibility, its influence on the activities in the industry, and follows the trends and innovations on an international / global 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 consequent reduction in costs, optimisation of operations throughout the chain, and thus a favourable impact on revenues.

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 and their (co)creation, as well as striving to contribute as much as possible to the promotion and introduction of these solutions in everyday life.

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

Key Business Objectives in 2019:

- Average volume of booked entry capacities at the border in the amount of 46.9GWh/day,
- Average volume of booked exit capacities in Slovenia of 57.4GWh/day,
- Net sales revenue in the amount of EUR 42.9 million,
- Investments in development and modernisation of the transmission system and other intangible / tangible fixed assets of EUR 15.7 million,
- Net profit in the amount of EUR 1.5 million,
- EBITDA of EUR 20.4 million,
- Added value per employee in the amount of EUR 195,600,
- fulfilment of financial covenants,
- 146 employees with the preservation of high educational structure.

Employees and Internal Communication

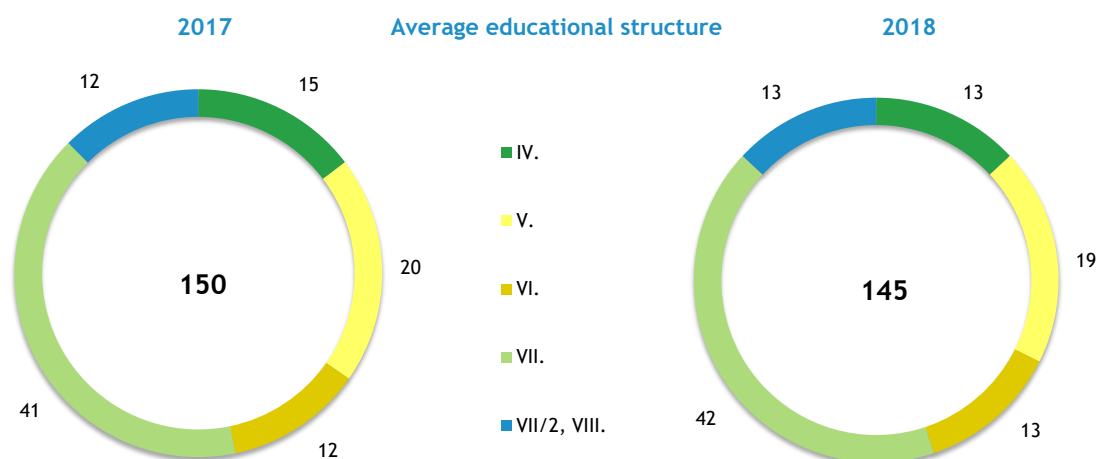
At the company Plinovodi, we are aware that a major building block of the company's performance undoubtedly are the people - the employees. Therefore, we take care of their personal and professional development. We strive towards creating a work environment in which work requirements and results are 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 70 percent of employees. At the end of December 2018, our company had 145 employees, 83 percent

of them at the company headquarters in Ljubljana. The remaining workers are employed in three separate units; 20 of them at the maintenance centre in Maribor, three at the compressor station in Kidricevo, and two at the compressor station in Ajdovscina. One new worker was employed in the company and six workers have retired. One worker worked only part-time due to disability.

Throughout the year, we have followed the already established careful management of the company by carefully assessing the replacement of employees who have retired. Retired employees were largely replaced by internal redeployments.

The gender structure of employees in our company reflects the technical nature of our activity: 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 23 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 67 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 2018, 74 percent of employees engaged in various forms of acquiring knowledge and further increased their skills. 2,584 hours were spent on this, approximately a 40 percent of it in the business field, which reflects the constant change in the business environment. The specialist-technical field and the law field also have a high share, 39 percent in total.

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.

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 participation in the Family-Friendly Enterprise project are also visible in the lower fluctuation rate and the lower absenteeism 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.

The company Plinovodi has a positive attitude to the policy of diversity. We operate in accordance with the direction and principle of diversity and recognise the objectives of diversity as achievements in improving the effectiveness of management and supervisory bodies, and all the employees.

Communication with the External Public

We are constantly devoting maximum attention to the relevant communication with our suppliers, customers, regulators, national and supranational organisations, with the 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 digitalisation of business processes, the most intensive communication with users of the pipeline system takes place via the company website www.plinovodi.si, where (potential) network users can obtain all 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.

In 2018, we organised two most extensive workshops up until now entitled "Slovenian gas market in the region." Together with the representatives of the company, 131 participants attended the April 2018 workshop, and 103 participants attended the September 2018 workshop. Given the positive feedback, we are planning to carry out the workshops in 2019, as well. Thus, we have also kept successful practice on visiting our customers in the past year in order to familiarise them with the procedures for concluding contractual arrangements and with various options offered by the current legislation. Every month, we enclose to the invoices for the network charges the printed enclosures to inform the users

about the news in various areas: the possibility of electronic transmission contracts, organisation of expert workshops, the state of the Forecasting party, changes in the various legislative acts and, finally, 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 for the highest possible quality in the execution of orders. We make sure that the procurement of material and services is efficient and strive to establish a fair, long-term and sustainably oriented business relationship with our suppliers. We settle all obligations on their maturity, resulting in our re-acquired Certificate of credit rating Excellence Class AAA for the third consecutive time, which means that we are the most reliable, credible and low-risk business entity for cooperation with all business partners: suppliers, customers, insurance companies, banks and others. In 2018, the highest standard of credit rating Excellence Class was reached by 5.69 percent of business entities in Slovenia.

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 area of environmental management.

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.

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 metering and regulation stations (MRSs).

In 2018, regular updating of systems for the reduction and heating of natural gas, as well as favourable flow-pressure conditions resulted in lower consumption of natural gas for our own use in the MRS than in the previous year. Because both compressor station worked less in 2018 than the previous year, the Kidričevo compressor station even 14 times less, the

consumption of natural gas for our own use for the powering of gas turbines was with the favourable flow-pressure conditions lower than in the year 2017. For heating and cooling of business premises, the consumption of natural gas increased slightly, which was mainly the result of the increase at the Ljubljana location, while the consumption of the Kidričevo compressor station has been declining for several years now. In ten years, it has decreased by more than 50 percent.

Compared to the previous year, the water consumption has increased slightly in comparison with the previous year (8 percent), and we have managed to reduce electricity consumption by 6 percent. The largest decrease in electricity consumption in comparison with the previous year was due to the operation of the CHP in the MRS Maribor detected in the maintenance centre Maribor, namely by 62 percent.

The total mileage in the past year compared to the year 2017 has decreased by 7 percent; the petrol engines have travelled the same number of kilometres, and the mileage of diesel engines has decreased. For better fuel efficiency, low maintenance costs and environmental benefits (virtually zero emissions of particulate matter), we are replacing vehicles with diesel engine in our fleet with vehicles that use compressed natural gas.

At the company's headquarters, we have replaced outdated parking gravitational oil and fat traps with modern coalescing oil traps at a part of the parking lot, which are suitable for operation in water protection areas. We have prepared the conceptual documentation for the regulation of parking in the MRS Ljubljana, which is also in the water protection zone.

In the past year, we continued with the modernisation of heating systems of gas in the MRS and with the replacement of windows in the COD with modern gas thermopane windows with the improved heat transfer factor. We have also prepared the tender documents for the implementation of the fire control system under the jutting roof where the service vehicles are parked.

In the Metro service building, mercury lamps were replaced by the LED technology lights in the basement and the emergency lighting was restored, as well. In the field of emissions into air, water and noise, all statutory monitoring was carried out. No deviations from the applicable standards were observed.

We have successfully passed the regular annual assessment of the new ISO 14001-2015 standard requirements in which auditors made eight recommendations, which will be fully summarised and implemented in our system, thereby further improving the functioning of the company with regard to environmental friendliness.

Social Environment

Physical or natural environment is not the only aspect of our concerns. With limited resources in harsh operating conditions we try as much as possible to respond to a call for financial aid from various humanitarian organisations. We also support various interest and sports associations, as well as cultural events and activities.

With a variety of stakeholders, including our customers, employees, suppliers and the interested public, we strive to maintain transparent and sustainable relationships and consistently ensure that all our actions comply with the law and internal regulations.

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. In the new sections of the R 38 and R 31C pipelines, we had made sure that all the land was restored to its original state.

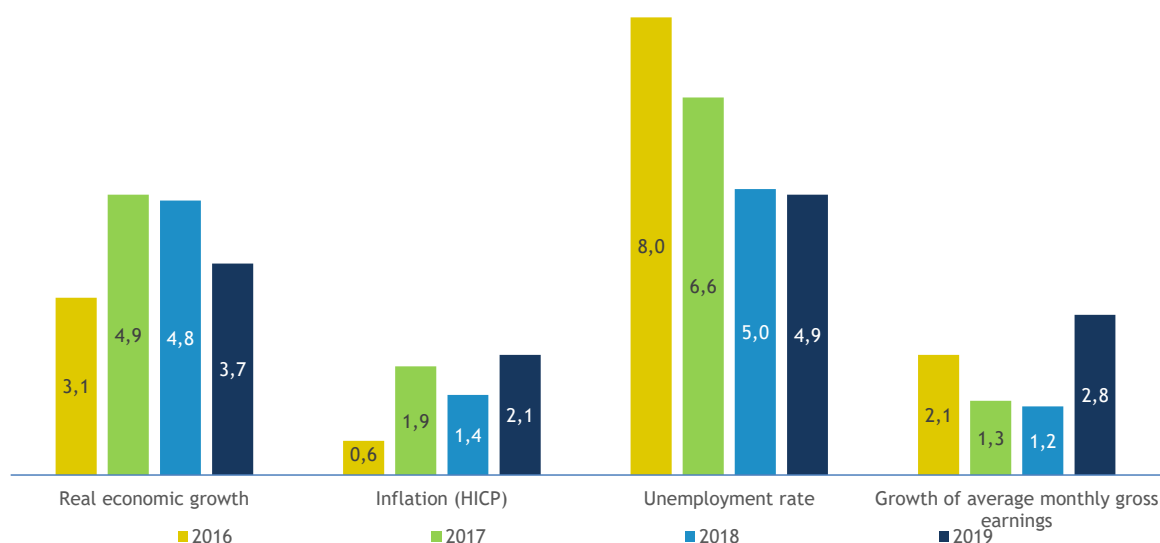
BUSINESS

Business Environment

As in the previous year, economic growth in Slovenia in the third quarter was among the highest in the European Union, as well as in the euro area, it was close to 5 percent. Despite the uncertainties in the international environment, the gross domestic product in Slovenia without any major signs of the emergence of imbalances in the third quarter of 2018 was for 4.8 percent higher than in the third quarter of 2017. With weaker private consumption and hence lower import demand, the usually high proportion to the GDP growth in the period was contributed by the net trade with the rest of the world, although exports have decreased due to lower growth in the euro area. In the January Economic and Financial Developments, the Bank of Slovenia also emphasised the high contribution of construction investment as an important part of the GDP growth. The comparison of the data between Slovenia and the euro area with regard to the quarterly GDP growth shows a similar picture, because it was in 1.3 percent in Slovenia, while the average of the euro area was only 0.2 percent.

The annual inflation, as measured by internationally comparable HICP, was 1.4 percent in Slovenia in 2018; according to the Statistical Office of the Republic of Slovenia, the services increased by 2.8 percent, and the goods by 0.7 percent. Compared with the HICP data for the euro area, Slovenia had a lower inflation rate in the past year, by 0.2 percentage points.

Indicators of the economic environment in Slovenia (in %)



The rising employment rate in Slovenia as a result of strong demand for labour in the past year has already exceeded pre-crisis levels. The industrial activities have again contributed to the growth in employment the most, and the most notable increase was by the construction sector. A reflection of the state of the Slovenian economy and good conditions on the domestic labour market is a data on the internationally comparable unemployment survey rate, which stood at 5 percent in the third quarter of the previous year. According to the latest available data from the Statistical Office of the Republic of Slovenia, the average salary in Slovenia for November 2018 was higher than for November 2017, in the gross amount in nominal terms by 3.2 percent (or in real terms by 1.2 percent) and in the net amount in nominal terms by 3.0 percent (or in real terms by 1 percent). Despite a somewhat slowing

of the rates of economic growth, conditions in the labour markets in the area of the common currency continue to improve. This is also confirmed by the data, because in the second quarter of 2018, the number of employees was for 2.4 percent higher than in the pre-crisis peak period in the first quarter of 2008. According to the Eurostat, the costs of salaries are increasing in the euro area, as well. In the third quarter of 2018, the costs of salaries per work hour increased for 2.4 percent compared to the same period in 2017, and the non-salary components of labour costs for 3 percent.

In the past year, the daily spot price of North Sea Brent oil peaked at USD 86 per barrel in October, but due to stockpiling / stock accumulation, record levels of production of the three largest producers (the USA, Russia and Saudi Arabia) and uncertainty about global demand in 2019, it began to decrease again towards the end of the year and reached an average price of USD 57 per barrel in December.

The average exchange rate in 2018 was USD 1.1810 for EUR 1, while the lowest value exchange was USD 1.1261 (November 13) and the highest USD 1.2493 (February 15). On the last day of the year, 3M EURIBOR amounted to -0.309 percent, while the reference rate has remained in negative since April 2015.

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.

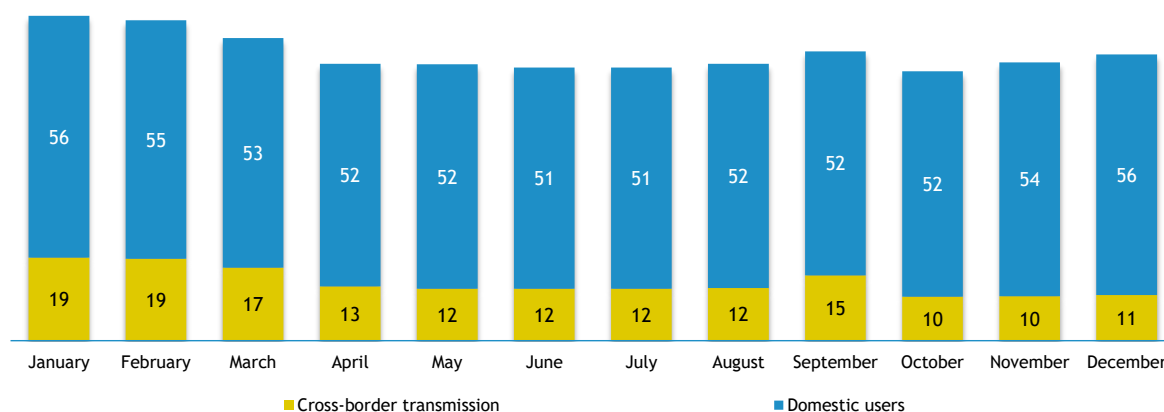
By expanding the gas transmission network based on the implemented investments envisaged in the Development Plan, we have been gradually increasing the available transmission capacities in recent years. As a result, the marketing of transmission capacities, which is due to the nature of Plinovodi's activities 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 2018, 474 transmission agreements were carried out on all border entry points and 662 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, above all for the needs of cross-border transmission of natural gas.

Booked exit transmission capacities (in GWh/day)



The total average booked transmission capacities at border entry points in 2018 amounted to 46.524MWh/day.

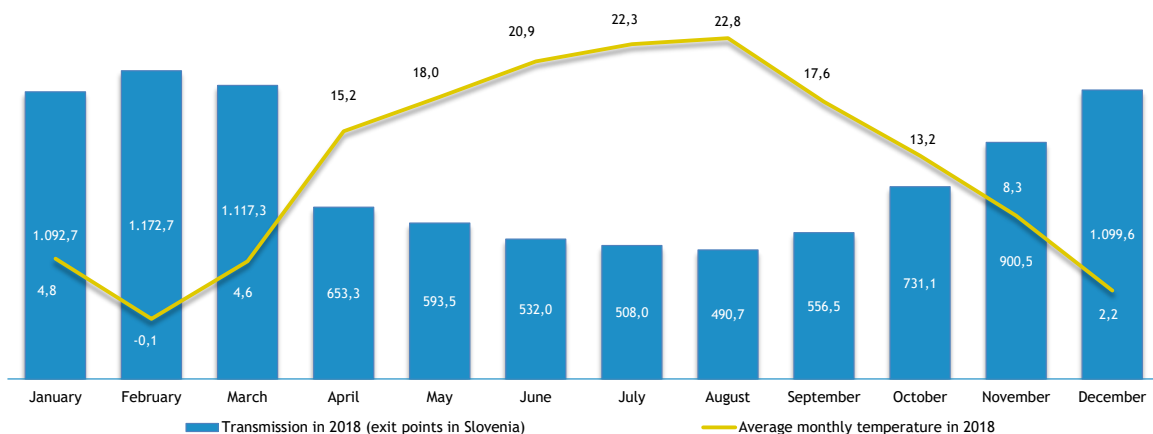
The booking of transmission capacities at exit points in Slovenia exceeds the expectations. The average booking of transmission capacity in the year 2018 at border entry points deviates from the planned one. In comparison with the previous year, the expected deviation of booked capacity is detected according to the modified gas policies in the region.

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. Natural gas transmission corresponded to the plan in all the months of 2018 and there were no operating disturbances. Additionally, there were no disturbances in the natural gas supply in that period. At the end of 2018, Slovenia had 13 active balancing groups and 18 throughout the year 2018, for which the natural gas transmission was performed. A half of the balancing groups has been supplying natural gas to the Slovenian users.

The total transmitted annual quantity of 13.246GWh of natural gas exceeds the planned volume for the year 2018. 9,448GWh of natural gas was transmitted to users in Slovenia, which is 71 percent of total natural gas transmitted in 2018. The temperature conditions in the first quarter and economic growth affected the transmission for domestic users in 2018, which exceeded the planned quantities. Cross-border transmission in 2018, mainly due to the changed gas situations in the regional area, reaches 29 percent of transmitted quantities in the year 2017. The supply of natural gas to Croatia has due to the price changes in the natural gas markets in the neighbouring countries largely moved to the supply from Hungary.

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



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.

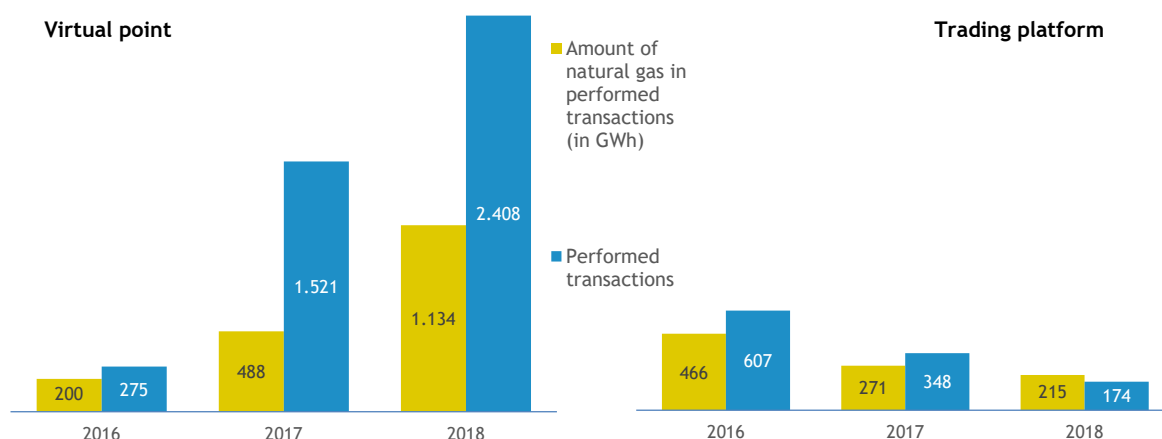
After the adoption of the Forecasting Methodology, we have intensively cooperated with the DSO in the design, development and implementation of a computer solution in 2017. During the one-year trial operation, we have in cooperation with the DSO been monitoring the performance and accuracy of the application. The users were offered support in the use of the application and in the setting up of the necessary communications, and reports on the accuracy of the application operation for individual distribution networks were prepared. The findings of the trial operation have shown that the test results were good and in October 2018, the Forecasting party application began to fully operate in accordance with the adopted Methodology.

Transmission System Balancing

The virtual point (VP) is able to execute natural gas transactions on a daily basis between the members of the VP. Transactions are carried out in the free market, where the participants in the transaction can be all registered members of the VP, 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.

By the end of 2018, we have bought and / or sold as the TSO in the TP 214.9GWh of natural gas for the balancing of the transmission system. The trading volume is decreasing every year, and compared with the previous year, we have balanced for 51.5GWh less natural gas and performed 170 less operations, which indicates the increased levelling capability of the transmission network users themselves and consequently a lower TSO involvement in the balancing market.

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



The first volume transaction between the VPG users was carried out in January 2016. In 2018, we observed a significant increase in transactions carried out in the free market compared to the previous two years. Towards the end of the year, the number of transactions stabilised at around 200 a month. In the 2,408 completed transactions in the year 2018, 1,133.8GWh of natural gas were exchanged, which is twice as much as the volumes exchanged in 2017.

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 2018, we performed 2,757 MRS inspections and 1,609 route control trips. During periodic activities, we carried out 2,543 inspections of electrical installations, 244 control examinations and 276 visual examinations of Ex-equipment, and 156 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.

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 2018, we completed the transition and transfer of applications and information systems to the new virtual information systems, we continued with our own development of the Forecasting party application, and upgraded and maintained the existing own applied computer services, and at company level, we adopted a Cyber Security Strategy and the Information Management and Information Security Policy.

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, Plinovodi takes care of the development of gas transmission infrastructure, development of systems for the management of the transmission system and development of information systems to support business processes in the company and for communication with users. 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 2018, we have considered an innovation in the form of a model for the monitoring of the system balance, which was developed in the framework of the preparation of a uniform methodology and application for the forecasting of not daily measured consumption on the natural gas distribution networks. After the examination and approval, the subject model has already been implemented and is working within the Forecasting party application.

Investments in Intangible / Tangible Assets

In 2018, 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 2018 was particularly marked by the following activities and events:

- Completion of construction of the R38 Kalce - Godovič transmission pipeline and the MRS Godovič, obtaining the operating licence and performing the pressurization of the user's system,
- Completion of works for the bi-directional flow at the location of the Rogatec BMCS,
- Completion of construction of the R13c Miklavž - Hoče transmission pipeline and the MRS IZ Hoče, obtaining the operating licence and performing the pressurization of the user's system,

- Completion of construction of the MRS Šobec and obtaining the operating licence,
- Completion of construction of transmission pipeline and the CNG MS Celje metering station, as well as obtaining the operating licence,
- Government Decision on the proposal for the most suitable solution for the R15/1 Pince - Lendava transmission pipeline,
- Final report on the drawing of CEF funds for the R15/1 Pince - Lendava - Kidričevo project for the European Commission,
- Regulation on the NSP for the M3/1 Ajdovščina-Šempeter pri Gorici transmission pipeline,
- The preparation of the Ten-Year Gas Transmission Network Development Plan for the 2019 - 2028 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 2018, there were 88 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 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 4.2 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.

Bearing in mind the investment cycle and the large scope of investments completed, we also managed to obtain a long-term investment loan from the European Investment Bank (EIB). 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, which has had a positive effect on expenditure for financing activities. In April 2018, we completed more than a year and a half long process of securing a new guarantee with significantly improved conditions when we signed a more favourable Guarantee Facility Agreement as collateral for the EIB loan.

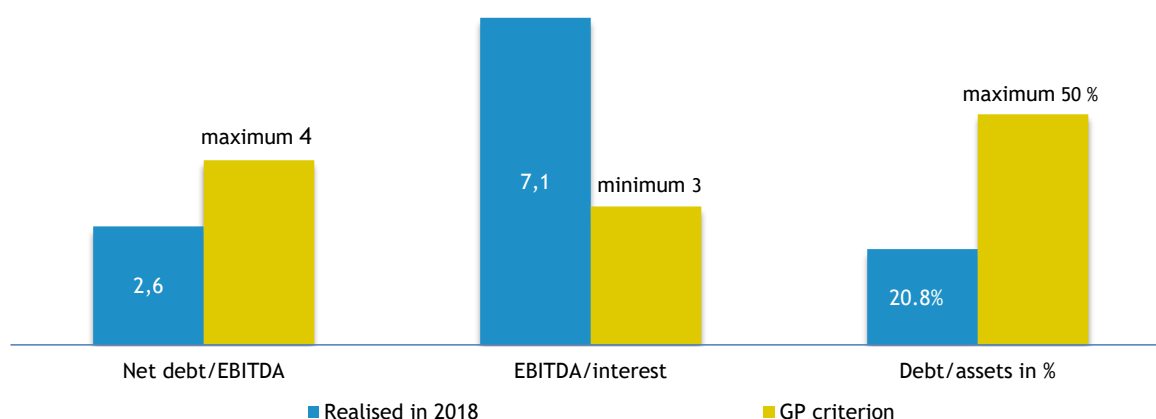
We financed the investments realised in 2018 with our own resources and to a lesser extent by the CEF-E grant.

Analysis of Business Operations

Business Results

Considering the changing market conditions, the financial results for the year 2018 reflect successful business. With the net sales revenue amounting to a total of EUR 43.7 million, the deviation from the previous year was expected. About 11 percent of net sales revenue consists of revenue charged to network users established outside Slovenia. Net profit for the year 2018 is reported in the amount of EUR 3.3 million, which represents 8 percent of net sales revenue. It was generated entirely from operations and deviates from the one achieved in 2017. At the end of 2018, all indicators of financial covenants, including the level of indebtedness, meet the criteria laid down in the Guarantee Agreement and were more favourable than those planned for 2018.

Financial covenants



As at the end of 2018, total assets amount to EUR 318.8 million, which is lower than at the beginning of the year. The structure of assets and financing sources changed slightly in favour of long-term assets and equity. The change is due to subdued investment dynamics and the reduction of short-term financial investments, as well as the decrease in financial liabilities due to early repayment of long-term loans to the former parent company.

Key highlights of Plinovodi's operations in 2018 are presented below, while more detailed information is included in the accounting part of the Annual Report.

Assets

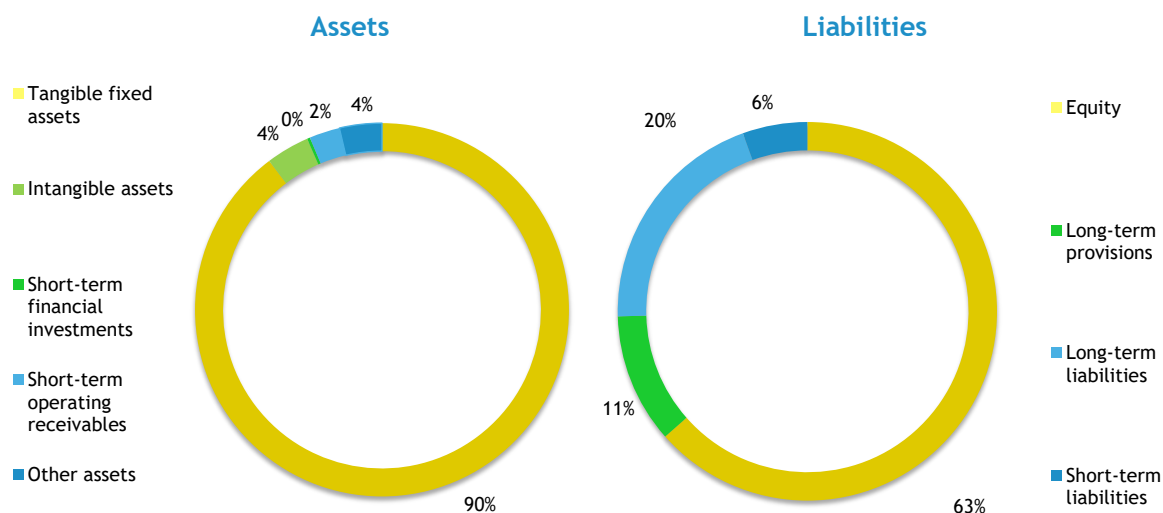
Long-term assets, which almost entirely consist of tangible long-term fixed assets, decreased by 3 percent in 2018 due to smaller investment activities.

Review of assets

in EUR thousand

Assets	As at 1.1.2017	As at 1.1.2018	As at 31.12.2018	Index 31.12.18 / 1.1.18
A S S E T S	343.504	345.608	318.804	92
A. LONG-TERM ASSETS	315.579	308.085	298.330	97
I. Intang. ass. and LTM def. costs and accr. rev.	16.797	13.421	11.958	89
II. Tangible fixed assets	298.233	294.241	285.952	97
IV. Long-term financial investments	162	43	43	100
VI. Deferred tax assets	387	380	377	99
B. CURRENT ASSETS	27.639	37.214	20.300	55
II. Inventories	1.316	1.288	1.460	113
III. Short-term financial investments	10.050	17.200	800	5
IV. Short-term operating receivables	7.335	8.903	8.419	95
V. Cash	8.938	9.823	9.620	98
C. SHORT-TERM DEFERRED COSTS AND ACCRUED REVENUE	286	308	174	56

Current assets decreased by 17 million, mainly due to short-term financial investments that we used to repay long-term loans. Financial assets are increased by the deposits in a special account earmarked for security for auction capacities and balancing contracts.



Equity and Liabilities

Company's equity has not changed significantly since the beginning of the year. It is affected by the net profit for the year and the payment of the share in profits for the year 2017.

The balance of long-term accrued costs and deferred revenue at the end of 2018 has been reduced. A part of the accrued costs and deferred revenue in the proportionate amount of the depreciation of fixed and intangible assets financed with the European Commission grants within EEP and TEN-E and with connection fees was transferred to the revenue.

Since the beginning of the year, the long-term financial liabilities have been reduced by 22 percent on account of repayment of instalments of the long-term EIB loan and the early repayment of the earmarked long-term loans. Short-term financial liabilities include instalments of long-term loans that fall due within a year.

Review of equity and liabilities

in EUR thousand

Equity and liabilities	As at 1.1.2017	As at 1.1.2018	As at 31.12.2018	Index 31.12.18 / 1.1.18
EQUITY AND LIABILITIES	343.504	345.608	318.804	92
A. EQUITY	199.046	202.956	202.427	100
I. Called-up capital	98.734	98.734	98.734	100
II. Capital reserves	8.152	8.152	8.152	100
III. Revenue reserves	66.987	88.141	92.180	105
V. Reserves arising from valuation at fair value	19	41	33	80
VI. Net profit or loss from previous periods	25.154	7.889	0	0
VII. Net profit	0	0	3.329	
B. PROVISIONS AND LONG-TERM ACCRUED COSTS AND DEF	36.708	36.497	35.314	97
1. Long-term provisions	1.063	1.175	952	81
2. Long-term accrued costs and deferred revenue	35.645	35.322	34.362	97
C. LONG-TERM LIABILITIES	86.011	81.365	63.454	78
I. Long-term financial liabilities	86.011	81.365	63.454	78
C. SHORT-TERM LIABILITIES	19.440	22.315	15.184	68
II. Short-term financial liabilities	4.153	4.646	2.719	59
III. Short-term operating liabilities	15.287	17.669	12.465	71
D. SHORT-TERM ACCRUED COSTS AND DEFERRED REVENUE	2.299	2.475	2.425	98

Short-term operating liabilities include short-term operating liabilities to the state, suppliers, employees and others. At the end of 2018, their situation was 29 percent lower than at the beginning of the year, mainly due to lower liabilities to suppliers.

Operating Revenue

The majority part of EUR 43.7 million in net sales revenue was generated by charging 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 11 percent.

Overview of Operating Revenues

in EUR thousand

Item	2016	2017	2018	Index 2018/2017
Revenue on domestic market	44.436	44.117	38.948	88
Network charge	38.306	38.168	32.346	85
Sale of gas for balancing and offsetting	6.041	5.871	6.503	111
Sale of material, services and other	89	78	99	126
Revenue on foreign market	8.856	8.304	4.796	58
Network charge	7.528	7.944	3.598	45
Sale of gas for balancing and offsetting	1.262	309	1.135	367
Sale of services and other	66	51	63	124
Total net sales revenue	53.292	52.421	43.744	83
Cost of gas sold	7.291	6.169	7.618	124
Gross profit or loss from sale	46.001	46.252	36.125	78
Other operating revenues	1.647	1.449	1.822	126

Net sales revenues slightly differ from those achieved in 2017, but are higher than planned due to much higher short-term bookings of transmission capacity. The cost of gas sold

represents the value of natural gas sold for the purpose of daily levelling of deviations and balancing of the transmission system. Compared to the previous year, the purchase price of the sold quantities of natural gas was 24 percent higher, amounting to 80 percent of the annual planned value. The gross profit from sale thus amounts to EUR 36.1 million, 10 percent more than planned.

The gross profit from sale is increased by other operating revenue in the amount of EUR 1.8 million. Other operating revenue mostly includes revenue from reversal of short-term accrued costs and deferred revenue due to the European Commission grant and connection fees, reimbursement of damages by the insurance company, as well as recovered claims that were subject to value adjustments in previous years.

Operating Expenses and Costs

Operating expenses and costs excluding the cost for natural gas sold amounted to EUR 30.7 million in 2018 and are lower than those 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.

Overview of Operating Expenses and Costs

in EUR thousand

Item	2016	2017	2018	Index 2018/2017
Costs of material and services	4.599	5.111	4.246	83
Labour costs	8.731	8.482	8.190	97
Amortisation and Depreciation	16.539	15.446	15.544	101
Revaluation expenses	794	2.579	1.108	43
Other operating expenses	1.625	1.638	1.617	99
Total	32.288	33.256	30.705	92

Labour costs are as planned and lower than in 2017. Costs of material and services were lower for 17 percent and do not achieve those planned for the year 2018. Revaluation operating expenses are formed for accounts receivable from customers involved in judicial proceedings or insolvency proceedings, from impairment of intangible and tangible fixed assets acquired. 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.

Financial expenses amounted to EUR 3.4 million and changed compared with the previous year due to the optimisation of financial resources and more favourable insurance conditions of the EIB loan.

Profit or Loss

In 2018, our total profit before taxes amounted to EUR 3.9 million. Income tax burdening the profit in 2018 amounted to EUR 0.5 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 2018 amounted to EUR 3.3 million, which accounted for 8 percent of total net sales revenue. The profit was entirely generated from operations and exceeded the plan.

Cash Flows

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.

Overview of Cash Flow

in EUR thousand

Type of cash flow	2016	2017	2018
A. CASH FLOWS FROM OPERATING ACTIVITIES			
a. Profit and loss account items	30.194	30.986	23.193
b. Changes in net current assets	1.799	-77	-2.073
c. Net cash from operating activities (a+b)	31.993	30.909	21.120
B. CASH FLOWS FROM INVESTING ACTIVITIES			
a. Cash receipts from investing activities	21.762	11.574	18.213
b. Cash disbursements from investing activities	-29.475	-28.556	-12.479
c. Net cash from investing activities (a+b)	-7.713	-16.982	5.734
C. CASH FLOWS FROM FINANCING ACTIVITIES			
a. Cash receipts from financing activities	0	0	0
b. Cash disbursements from financing activities	-22.856	-13.042	-27.057
c. Net cash from financing activities (a+b)	-22.856	-13.042	-27.057
C. CLOSING BALANCE OF CASH	8.939	9.824	9.622
x. Net cash inflow or outflow for the period	1.424	885	-203
y. Opening balance of cash	7.515	8.939	9.824

In 2018, cash flows from operating activities were positive and stood at EUR 21 million, primarily due to successful operations in the period. The influence of the changes in net current assets was about EUR 2 million. 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 positive in the amount of almost EUR 6 million. In 2018, expenditures for investments amounted to EUR 12 million. Receipts are represented by the amount of maturing deposits that was mainly intended for the early repayment of long-term loans. As at the end of the period concerned, cash was slightly lower than the balance from the beginning of the year due to higher expenses from financing activities.

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

In the business year 2018, the company Plinovodi d.o.o. was a subsidiary of the company Plinhold d.o.o.

In 2018, the company Plinovodi d.o.o. has not concluded any business with the company Plinhold d.o.o.

In 2018, 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 2018, 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 anything that may jeopardise or even prevent a company from achieving its planned objectives. In this process we can also identify opportunities. 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 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.

The established risk management system (Enterprise Risk Management, hereinafter referred to as "the ERM") is an integral part of corporate governance and one of the lines of defence of the company, which gives importance to the perception of 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.

Risk managers are the Management Board of the company for strategic risks, and for all other risks, executive directors and heads of organisational units or functions. 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 and identification of representative areas of risk, 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, 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 appear that newly.

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.

In 2018, we have continued with detailed monitoring of events in the regional natural gas market, and in particular to the forecasts for the use of transmission routes for the supply of natural gas from Russia to the region and 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.

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.

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. 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.

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. 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.

We pay a lot of attention to 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, fire and machinery insurance, as well as insurance against terrorism.

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 2018 was low. 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. The exposure to currency risk is low and short term, since in 2018, less than 1 per mille of turnover of suppliers was executed in other currencies, predominantly in British pounds and Swiss francs.

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.

Within the framework of operational risks, we carefully analyse 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 accordingly adjust measures to be taken.

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 low and well-managed.

The risk response is therefore a risk management system designed from the top down in line with the company's activities and needs, and with the strong support of the Management Board that manages strategic risks. Further development of effective and efficient risk

management is ensured by a uniform methodology and process, which is constantly checked and developed, as well as knowledge, awareness and commitment of employees to monitor risk exposure, monitoring of changes in risk structure and action.

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 2018 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 2018.

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 for Slovenian Accounting Standards (2016).

Ljubljana, 11 March 2019

General Manager
Marjan Eberlinc

Deputy General Manager
M.Sc. Sarah Jezernik

FINANCIAL STATEMENTS

Balance sheet on 31. 12. 2018

in EUR

Item	Notes	As at 31. 12. 2018	As at 31. 12. 2017
ASSETS		318,803,497	345,607,873
A. Long-term assets		298,329,736	308,085,026
I. Intangible assets and long-term deferred costs and accrued revenue	2.1.1	11,957,984	13,420,872
1. Long-term property rights		11,797,434	13,295,478
5. Other long-term deferred costs and accrued revenue		160,550	125,394
II. Tangible fixed assets	2.1.2	285,952,101	294,241,288
1. Land and buildings		240,062,887	242,354,073
a) Land		24,098,037	24,323,065
b) Buildings		215,964,850	218,031,008
3. Other plant and machinery		42,196,631	43,780,900
4. Tangible fixed assets under construction		3,692,583	8,106,315
a) Tangible fixed assets in the course of construction		3,692,583	8,106,315
IV. Long-term financial investments	2.1.3	42,949	42,949
1. Long-term financial investments, excl. loans		42,949	42,949
c) Other shares and interest		42,949	42,949
VI. Deferred tax assets	2.1.4	376,702	379,917
B. Current assets		20,299,923	37,214,436
II. Inventories	2.1.5	1,460,302	1,288,197
1. Material		1,116,840	1,093,853
3. Products and merchandise		343,462	194,344
III. Short-term financial investments	2.1.6	800,000	17,200,000
2. Short-term loans		800,000	17,200,000
b) Short-term loans to others		800,000	17,200,000
IV. Short-term operating receivables	2.1.7	8,419,313	8,902,984
2. Short-term accounts receivable		7,021,768	7,853,080
3. Other short-term receivables		1,397,545	1,049,903
V. Cash	2.1.8	9,620,307	9,823,256
C. Deferred costs and accrued revenue	2.1.9	173,838	308,411

Balance sheet on 31. 12. 2018

in EUR

Item	Notes	As at 31. 12. 2018	As at 31. 12. 2017
EQUITY AND LIABILITIES		318,803,497	345,607,873
A. Equity	2.1.10	202,426,934	202,956,430
I. Called-up 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		92,179,784	88,141,069
1. Statutory reserves		1,933,169	1,933,169
5. Other revenue reserves		90,246,615	86,207,900
V. Reserves arising from valuation at fair value		32,910	41,341
VI. Net profit or loss from previous periods		356	0
VII. Net profit or loss for the period		3,328,580	7,888,715
B. Provisions and long-term accrued costs and deferred revenue	2.1.11	35,313,788	36,497,110
1. Employee benefit provisions		732,949	710,844
2. Other provisions		218,619	464,556
3. Long-term accrued costs and deferred revenue		34,362,219	35,321,710
C. Long-term liabilities		63,453,704	81,364,544
I. Long-term financial liabilities	2.1.12	63,453,704	81,364,544
2. Long-term financial liabilities to banks		63,453,704	66,172,840
4. Other long-term financial liabilities		0	15,191,704
C. Short-term liabilities		15,184,129	22,315,138
II. Short-term financial liabilities	2.1.13	2,719,136	4,646,357
2. Short-term financial liabilities to banks		2,719,136	1,975,309
3. Other short-term financial liabilities		0	2,671,048
III. Short-term operating liabilities	2.1.14	12,464,994	17,668,782
2. Short-term accounts payable		4,272,290	7,621,605
4. Short-term operating liabilities for advances		21,385	48,976
5. Other short-term operating liabilities		8,171,319	9,998,201
D. Short-term accrued costs and deferred	2.1.15	2,424,942	2,474,650

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

Statement of Profit and Loss Account for 2018

in EUR

	Item	Notes	2018	2017
1.	Net sales revenue	2.2.1	43,743,756	52,421,092
4.	Other operating revenue (with reval. op. revenue)	2.2.2	1,821,909	1,448,833
5.	Costs of goods, material and services	2.2.3	-11,864,510	-11,280,347
a)	Cost of goods and material sold and cost of material used		-8,635,848	-7,672,159
b)	Costs of services		-3,228,662	-3,608,188
6.	Labour costs	2.2.4	-8,189,685	-8,481,860
a)	Cost of wages and salaries		-6,228,292	-6,466,720
b)	Costs of social security		-1,240,601	-1,276,075
c)	Other labour costs		-720,792	-739,065
7.	Write-downs	2.2.5	-16,652,154	-18,025,145
a)	Amortisation and Depreciation		-15,544,495	-15,446,046
b)	Impairment of intangible assets and tang. fixed assets FA		-1,099,940	-2,577,784
c)	Impairment of current assets		-7,719	-1,315
8.	Other operating expenses	2.2.6	-1,617,252	-1,638,451
9.	Financial revenue from holdings		0	6,122
c)	Financial revenue from shares in other companies		0	6,122
10.	Financial revenue from loans granted		10,876	19,317
b)	Financial revenue from loans to others		10,876	19,317
11.	Financial revenue from operating receivables		11,257	27,409
b)	Financial revenue from operating rec. due from others		11,257	27,409
12.	Financial expenses from impairment and write-downs of financial investments	2.1.3	0	-118,776
13.	Financial expenses for financial liabilities	2.2.8	-3,368,683	-4,889,740
a)	Financial expenses for loans from Group companies		0	0
b)	Financial expenses for loans from banks		-3,205,783	-4,242,302
d)	Financial expenses from other financial liabilities		-162,900	-647,438
14.	Financial expenses for operating liabilities	2.2.9	-10,023	-17,811
b)	Financial expenses for accounts payable and bills payable		-221	-8,736
c)	Financial expenses for other operating liabilities		-9,802	-9,075
15.	Other revenue		2,049	2,082
16.	Other expenses		-14,503	-34,125
17.	Income tax	2.2.10	-541,944	-1,540,720
18.	Deferred Taxes	2.1.4	-2,514	-8,018
19.	NET PROFIT OR LOSS FOR THE ACCOUNTING PERIOD	2.2.11	3,328,580	7,889,862

Statement of Other Comprehensive Income for 2018

		in EUR	
	Item	2018	2017
19.	Net profit for the period	3,328,580	7,889,862
20.	Changes of revaluation reserves from revaluation of tangible fixed assets	0	0
21.	Changes in reserves arising from valuation at fair value	0	0
22.	Profit and loss originating from the conversion of accounting statements of companies abroad (impacts of changes in foreign	0	0
23.	Other elements of comprehensive income	-8,432	22,052
24.	Total comprehensive income for the period	3,320,148	7,911,914

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

Statement of cash flows for 2018

in EUR

Item	2018	2017
A. CASH FLOWS FROM OPERATING ACTIVITIES		
a) Profit and loss account items	23,193,054	30,986,597
Operating revenue (excluding for revaluation) and financial revenue	44,123,722	52,538,909
Operating expenses excluding depreciation (excluding for revaluation) and financial expenses from operating liabilities	-20,386,209	-20,003,574
Income taxes and other taxes not included in operating expenses	-544,458	-1,548,738
b) Changes in net oper. assets (and accruals and deferrals, provisions and deferred tax assets and liabilities) in balance sheet items	-2,073,035	-77,405
Opening less closing operating receivables	473,551	-1,568,166
Opening less closing short-term deferred costs and accrued revenue	134,572	-22,665
Opening less closing deferred tax assets	3,215	7,497
Opening less closing inventories	-172,105	28,081
Opening less closing operating costs	-2,198,818	845,634
Closing less opening accrued costs and deferred revenue, and provisions	-313,450	632,214
c) Net cash from operating activities (a+b)	21,120,019	30,909,192
B. CASH FLOWS FROM INVESTING ACTIVITIES		
a) Cash receipts from investing activities	18,213,277	11,573,931
Cash receipts from interest and dividends of others pertaining to investing activities	13,277	23,931
Cash receipts from disposal of financial investments	18,200,000	11,550,000
b) Cash disbursements from investing activities	-12,479,143	-28,556,082
Cash disbursements to acquire intangible assets	-2,108,975	-775,094
Cash disbursements to acquire tangible fixed assets	-8,570,169	-9,080,988
Cash disbursements to acquire financial investments	-1,800,000	-18,700,000
c) Net cash from investing activities (a+b)	5,734,134	-16,982,150
C. CASH FLOWS FROM FINANCING ACTIVITIES		
a) Cash receipts from financing activities	0	0
Cash proceeds from increase in financial liabilities	0	0
b) Cash disbursements from financing activities	-27,057,101	-13,042,269
Cash disbursements on interest paid on financing activities	-3,368,683	-4,889,740
Cash repayments of financial liabilities	-19,838,418	-4,152,530
Cash disbursements for payment of dividends	-3,850,000	-4,000,000
c) Net cash from financing activities (a+b)	-27,057,101	-13,042,269
C. CLOSING BALANCE OF CASH (x+y)	9,620,307	9,823,255
x) Net cash inflow and outflow for the period (Ac+Bc+Cc)	-202,948	884,772
y) Opening balance of cash	9,823,255	8,938,484

Statement of Changes in Equity for 2018

in EUR

Item	Called-up capital	Share capital	Capital reserves	Revenue reserves	Statutory reserves	Other revenue reserves	Reserves arising from valuation at fair value reserve	Net profit or loss from previous periods	Net profit or loss for the period	Total equity
	I	I/1	II	III	III/1	III/5	V	VI	VII	VIII
A.1. Closing balance as at 31 Dec 2017	98,733,790	98,733,790	8,151,515	88,141,069	1,933,169	86,207,900	41,342	0	7,888,715	202,956,430
A.2. Opening balance as at 1 Jan 2018	98,733,790	98,733,790	8,151,515	88,141,069	1,933,169	86,207,900	41,342	0	7,888,715	202,956,430
B.1. Changes in equity capital - transactions with owners	0	0	0	0	0	0	0	-3,850,000	0	-3,850,000
g) Payment of the share in profits	0	0	0	0	0	0	0	-3,850,000	0	-3,850,000
B.2. Total comprehensive income for the year	0	0	0	0	0	0	-8,432	356	3,328,580	3,320,504
a) The entry of the yearly results	0	0	0	0	0	0	0	0	3,328,580	3,328,580
Other elements of comprehensive income	0	0	0	0	0	0	-8,432	356	0	-8,075
B.3. Movement within equity	0	0	0	4,038,715	0	4,038,715	0	3,850,000	-7,888,715	0
a) Allocation of a part of net profit of the reporting period to other elements of equity	0	0	0	4,038,715	0	4,038,715	0	-4,038,715	0	0
c) Allocation of a part of net profit to other elements of equity based on a resolution of the General Meeting	0	0	0	0	0	0	0	7,888,715	-7,888,715	0
č) Settlement of loss as a deductible equity component	0	0	0	0	0	0	0	0	0	0
f) Other movement within equity	0	0	0	0	0	0	0	0	0	0
C. Closing balance as at 31 Dec 2018	98,733,790	98,733,790	8,151,515	92,179,784	1,933,169	90,246,615	32,910	356	3,328,580	202,426,934

Statement of Changes in Equity for 2017

in EUR

Item	Called-up capital	Share capital	Capital reserves	Revenue reserves	Statutory reserves	Other revenue reserves	Reserves arising from valuation at fair value reserve	Net profit or loss from previous periods	Net profit or loss for the period	Total equity
	I	I/1	II	III	III/1	III/5	V	VI	VII	VIII
A.1. Closing balance as at 31 Dec 2017	98,733,790	98,733,790	8,151,515	66,986,767	1,933,169	65,053,598	19,289	15,940,324	9,213,978	199,045,663
A.2. Opening balance as at 1 Jan 2017	98,733,790	98,733,790	8,151,515	66,986,767	1,933,169	65,053,598	19,289	15,940,324	9,213,978	199,045,663
B.1. Changes in equity capital - transactions with owners	0	0	0	0	0	0	0	-4,000,000	0	-4,000,000
g) Payment of the share in profits	0	0	0	0	0	0	0	-4,000,000	0	-4,000,000
B.2. Total comprehensive income for the year	0	0	0	0	0	0	20,905	0	7,889,862	7,910,767
a) The entry of the yearly results	0	0	0	0	0	0	0	0	7,889,862	7,889,862
Other elements of comprehensive income	0	0	0	0	0	0	20,905	0	0	20,905
B.3. Movement within equity	0	0	0	21,154,302	0	21,154,302	1,147	-11,940,324	-9,215,125	0
a) Allocation of a part of net profit of the reporting period to other elements of equity	0	0	0	0	0	0	0	0	0	0
c) Allocation of a part of net profit to other elements of equity based on a resolution of the General Meeting	0	0	0	21,154,302	0	21,154,302	0	-11,940,324	-9,213,978	0
č) Settlement of loss as a deductible equity component	0	0	0	0	0	0	0	1,147	-1,147	0
f) Other movement within equity	0	0	0	0	0	0	1,147	-1,147	0	0
C. Closing balance as at 31 Dec 2017	98,733,790	98,733,790	8,151,515	88,141,069	1,933,169	86,207,900	41,342	0	7,888,715	202,956,430

Profit for Appropriation on 31. 12. 2018

		in EUR	
	Item	2018	2017
a)	Net profit or loss for the period	3,328,580	7,889,862
b)	Retained net earnings / Retained net loss	356	-1,147
g)	PROFIT FOR APPROPRIATION	3,328,936	7,888,715

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 Account 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. 12. 2018 have been endorsed at the 8th meeting of the Management Board of the company on 11. 3. 2019.

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. 12. 2018, Plinhold d.o.o. is the managing company and a 100-percent owner of the company Plinovodi d.o.o. With the change in the ownership structure of the sole shareholder in 2018, the company entered into indirect majority state ownership, i.e. 60.09 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 d.o.o. Ljubljana, published on the website www.ajpes.si.

Changes in accounting policies and estimates

The company's basic accounting policies and significant accounting estimates have not changed compared to the previous year.

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 in rem 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 fixed assets being acquired, 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, are impaired. 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 fixed assets

Tangible fixed 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 fixed assets are valued at cost model. A tangible fixed 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.

If the cost of a tangible fixed asset is high, it is distributed to its parts. If such parts have different useful lives and/or patterns of use that are significant in comparison with the total cost of the asset, each part is treated separately.

The difference between the net sales value and the carrying amount of a disposed tangible fixed 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 Fixed Assets

Subsequent expenditures related to tangible fixed assets are shown as:

- maintenance costs, or
- increased cost of asset.

The criteria used by the company in determining subsequent expenditures related to tangible fixed 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 asset are expressed as an increase in the cost of such 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.

Amortisation and Depreciation

Amortisation and depreciation decrease the carrying amount of intangible fixed assets and tangible fixed assets. Depreciation of a tangible fixed asset starts on the first day following the month when the asset is commissioned.

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

The amortisation 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 amortisation 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 computer 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 interests in the jointly controlled company, placing of financial assets to deposits in banks and other financial investments. Deposits with a maturity of more than 31 days but less than 1 year are considered 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 asset has been impaired in a long term, the impairment is recognised in the profit or loss account 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 include inventories of material, spare parts and small tools, as well as inventories of natural gas in the transmission system for balancing and inventories of natural gas in the transmission system for the 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 costs of purchasing. 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 repaid. 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 cash set aside for the purchase of foreign currency or other 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. 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 expenditure of substantial value, as well as 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, 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 accounting 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 pays and jubilee awards 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.

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.

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 are 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 charges and deducts value added tax, corporate income tax and duties charged on import (customs duty and import duties) or related to natural gas (ecological tax).

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 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 account for the period January - December 2018, data from the balance sheet as at 31. 12. 2018 and 31. 12. 2017 or 1. 1. 2018 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
Cost					
As at 31 Dec 2017	9,713,086	9,264,803	125,394	8,857,739	27.961.021
Addition	0	0	0	251,084	251,084
Transfer in use	212,807	702,581	0	-915,388	0
Transfer from DC&AR	0	0	35,156	0	35,156
Write-downs	-869,071	0	0	0	-869,071
As at 31 Dec 2018	9,056,822	9,967,384	160,550	8,193,435	27.378.190
Value adjustment					
As at 31 Dec. 2017	8,520,711	2,349,572	0	3,669,866	14.540.149
Write-downs	-869,071	0	0	0	-869,071
Impairment	0	0	0	861,443	861,443
Depreciation	486,695	400,990	0	0	887,685
As at 31 Dec 2018	8,138,335	2,750,561	0	4,531,310	15.420.206
Carrying amount					
As at 31 Dec. 2017	1,162,874	6,944,731	125,394	5,187,873	13.420.872
As at 31 Dec 2018	918,486	7,216,822	160,550	3,662,126	11.957.984

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

Other intangible assets include investments in network development plans, accreditation of the metering facility and typing of metering-regulation stations. The value of activated other intangible assets amounts to EUR 702,581.

Intangible assets being acquired are stated in the amount of EUR 3,662,126 and relate mainly to investments in network development plans. The impairment of intangible fixed assets being acquired represents part of the investments in network development plans in the portion of projects whose planning is temporarily on standby and there are currently no significant possibilities that it will continue shortly.

Long-term deferred expenses include the deferred initial costs for the EIB loan in the total amount of EUR 160,550.

On 31. 12. 2018, the amount of financial liabilities under two concluded investment contracts for the acquisition of intangible assets stood at EUR 58,111.

2.1.2 Tangible Fixed Assets

Overview of changes in tangible fixed assets

in EUR

Item	Land	Easement and surface rights	Buildings	Transmission pipelines	Equipment	Spare parts	Tang. assets under construction	Tang. fixed assets	Total
Cost									
As at 31 Dec 2017	7.206.969	23.014.429	50.113.795	529.895.205	123.914.921	760.140	8.106.749		743.012.210
Addition	0	0	0	0	0	0	6,853,588		6.853.588
Transfer in use	47,758	679,318	549,811	5,842,977	3,699,709	0	-10,819,573		0
Accrued forced easement	0	0	0	0	0	0	-173,000		-173.000
Write-downs	-20,655	0	-25,987	-6,327	-982,777	0	-51,572		-1.087.318
As at 31 Dec 2018	7.234.072	23.693.747	50.637.619	535.731.855	126.631.853	760.140	3.916.192		748.605.478
Value adjustment									
As at 31 Dec. 2017	0	5.898.333	23.562.736	338.415.257	80.654.254	239.908	434		448.770.922
Write-downs	0	0	-25,987	-4,943	-966,600	0	0		-997,529
Impairment	0	0	0	0	0	0	223,175		223.175
Depreciation	0	931,448	1,179,943	7,277,618	5,232,772	35,029	0		14.656.810
As at 31 Dec 2018	0	6.829.781	24.716.692	345.687.932	84.920.426	274.937	223.609		462.653.377
Carrying amount									
As at 31 Dec. 2017	7,206,969	17,116,096	26,551,060	191,479,948	43,260,667	520,232	8,106,315		294.241.288
As at 31 Dec 2018	7,234,072	16,863,966	25,920,928	190,043,923	41,711,426	485,203	3,692,583		285.952.101

In 2018, four lands were acquired and activated.

The construction of the transmission pipeline R38 Kalce - Godovič, in which EUR 1,658,954 was invested in 2018, the construction of the transmission pipeline R13C and MRS IZ Hoče, in which EUR 1,871,104 was invested in 2018, and the completion of the bi-directional flow upgrade at the BMCS Rogatec, in which EUR 1,289,282 was invested in 2018. There was EUR 551,761 invested in the construction of other connection projects. In the ECDA inspections and rehabilitation of damages to the pipeline system, EUR 428,569 was invested and EUR 175,277 in the SCADA system upgrade.

EUR 10,819,573 of fixed assets was transferred into use, among them: transmission line R38 Kalce - Godovič, transmission pipeline R13 and MRS IZ Hoče, BMCS Rogatec, bi-directional flow upgrade, improvements of the gas pipeline system, and other equipment.

The impairment of tangible fixed assets being acquired represents two projects whose planning is on standby and there are no significant possibilities that it will continue shortly.

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

On 31. 12. 2018, the amount of financial liabilities under seven concluded investment contracts for the acquisition of tangible fixed assets stood at EUR 144,700.

2.1.3 Long-Term Financial Investments

				in EUR
Item		31. 12. 2018	31. 12. 2017	
Investment in jointly controlled company Juzni tok Slovenija		28,681	28,681	
Investment in PRISMA European Capacity Platform GmbH		14,268	14,268	
Total long-term financial investments		42,949	42,949	

Company	Equity shareholding	Activity of company	Company's equity as at 31 Dec 2018 in EUR	Profit or loss in 2018 in EUR
Juzni tok Slovenija d.o.o. Cesta Ljubljanske brigade 11b, 1000 Ljubljana, Slovenia	50 %	Pipeline transport H 49 500	1,131,908	-4,907

In 2012, the company co-founded the jointly controlled company Juzni 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 newly-founded undertaking was entered into the Court Register on 5 September 2012 with Decision No Srg 2012/34248. In 2018, 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. The Slovenian partner has appointed the Director, and the appointment of the Director by the Russian partner is in the process. According to the principle of prudence, the investment was revalued due to impairments to a total amount of EUR 921,319.

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

2.1.4 Deferred tax assets

in EUR

Item	
Total deferred tax assets as at 31. 12. 2017	379,917
Changes to the deferred tax assets	-3,215
Total deferred tax assets as at 31. 12. 2018	376,702

in EUR

Breakdown	31. 12. 2017	Increase	Decrease	31. 12. 2018
Operating receivables	304.025	638	0	304,663
Provisions for jubilee awards	17.918	0	243	17,675
Provisions for severance payments on retirement	50.654	941	0	51,595
Tangible fixed assets	7.320	0	4,552	2,768
Total	379,917	1,580	4,795	376,702

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 376,702. Deferred tax assets were calculated using the 19-percent tax rate.

The company records deferred tax assets that are accounted 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 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.

in EUR

Item	31. 12. 2018	31. 12. 2017
Raw material and spare parts	1,097,720	1,073,714
Small tools	19,120	20,139
Merchandise - natural gas	343,462	194,344
Total inventories	1,460,302	1.288.197

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 2018, the company did not impair inventories.

On 31 December 2018, the company wrote down small tools in the amount of EUR 18,300. No variances were identified during the inventory count.

2.1.6 Short-Term Financial Investments

in EUR

Item	31. 12. 2018	31. 12. 2017
Short-term deposits in banks	800,000	17,200,000

Short-term financial investments include short-term deposits on call over 31 days in domestic currency.

2.1.7 Short-Term Operating Receivables

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 advances and securities is made up of securities for forced easements on transmission system lines built from 2012 - 2014.

Short-term operating receivables

in EUR

Item	31. 12. 2018	31. 12. 2017
Short-term operating receivables due from customers	7,021,768	7,853,081
Short-term receivables due from domestic customers	6,739,132	6,517,613
- receivables due from jointly controlled undertaking	305	9,711
- receivables arising from connection charge	6,438,094	6,246,582
- receivables arising from services rendered	70,776	31,363
- doubtful and disputable receivables	1,833,447	1,838,301
- allowance for receivables	-1,603,490	-1,608,344
Short-term accounts receivable on foreign market	282,637	1,335,468
Other short-term receivables	1,397,545	1,049,903
Advances on services not yet rendered	0	0
Collaterals	73,817	129,475
Interest receivables	26	2,426
Input VAT assets	291,590	364,445
Income tax receivables	998,776	523,169
Receivables from the state for other charges	28,239	24,919
Other short-term receivables	5,096	5,469
Total short-term operating receivables	8,419,313	8,902,984

Short-term operating receivables by maturity on 31. 12. 2018

in EUR

Item	Non-past due	Past due up to 30 days	Past due from 30 to 90	Past due more than 90 days	Total
Gross accr. receivable	5,709,346	848,633	234,889	1,832,391	8,625,259
Allow. for receivables	412	401	813	1,601,864	1,603,490
Net accounts receivable	5,708,934	848,231	234,076	230,527	7,021,768

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.

2.1.8 Cash

in EUR

Item	31. 12. 2018	31. 12. 2017
Cash on hand	159	668
Cash in banks	359,909	80,648
Call deposits up to 31 days	3,700,000	2,000,000
Cash in banks in foreign currency	0	153
Cash on special bank accounts for special purposes (note 2.1.14)	5,560,239	7,741,787
Total cash	9,620,307	9,823,256

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

Cash also includes a call deposit up to 31 days in domestic currency at one Slovenian bank.

2.1.9 Deferred Costs and Accrued Revenue

in EUR

Item	31. 12. 2018	31. 12. 2017
Prepaid costs	115,293	131,533
VAT on received advances	3,856	8,832
Other accruals and deferrals	54,689	168,046
Total deferred costs and accrued revenue	173,838	308,411

Movements of deferred costs and accrued revenue

in EUR

Item	As at 31 Dec 2017	Formation	Use	Reversal	As at 31 Dec 2018
Prepaid costs	131.533	530,493	-546,733	0	115,293
VAT on received advances	8.832	48,618	-53,594	0	3.856
Other accruals and deferrals	168.046	8,802,113	-8,915,470	0	54.689
Total	308.411	9.381.224	-9.515.797	0	173.838

2.1.10 Equity

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

The profit of 2017 stood at EUR 7,888,715; in accordance with the resolution by the Supervisory Board, EUR 3,850,000 of the profit was used for payment of the share in profits, while EUR 4,038,715 was allocated to other capital reserves. The Management Board of the company proposes that the accumulated profit of the year 2018 in the amount of EUR 3,328,936 is allocated to other revenue reserves, and the Supervisory Board may decide otherwise.

As at 31. 12. 2018, the company's capital reserves stood at EUR 8,151,515, statutory reserves at EUR 1,933,169 and other revenue reserves at EUR 90,246,615. 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. 1. 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 32,910 refer to actuarial surplus 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.

2.1.11 Provisions and Long-Term Accrued Costs and Deferred Revenue

in EUR

Item	As at 31 Dec 2017	Formation	Use	Reversal	Transfer to STM ACDR	As at 31 Dec 2018
Provisions for term.ben. and jub. awards	710.844	41,116	-19,011	0	0	732,949
- jubilee awards	188.608	7,327	-9,881	0	0	186,054
- severance payments	522.236	33,789	-9,130	0	0	546,895
Other provisions	464.556	24,000	-72,132	-197,805	0	218,619
- enforced	464.556	24,000	-72,132	-197,805	0	218,619
Public support	33.477.011	232,000	-1,277,491	0	-1,795	32,429,725
- grants	33.477.011	232,000	-1,277,491	0	-1,795	32,429,725
Other LTM AC&DR	1.844.699	205,687	-100,185	0	-17,707	1,932,494
- connection charges	1.833.609	205,687	-99,594	0	-17,707	1,921,995
- other LTM AC&DR	11.090	0	-591	0	0	10,499
Total	36.497.110	502,803	-1,468,819	-197,805	-19,502	35,313,787

Sensitivity analysis in the actuarial calculation

Item	Assumption	Deviation	Long-term liabilities in EUR	Severance payments on retirement in EUR	Jubilee awards in EUR
Liab. (DBO)	Central	0.00%	732,949	546,895	186,055
Liab. (DBO)	Discount inter.	-0.50%	770,830	576,413	194,417
Liab. (DBO)	Discount inter.	0.50%	698,066	519,807	178,259
Liab. (DBO)	Growth of	-0.50%	697,967	519,701	178,267
Liab. (DBO)	Growth of	0.50%	770,561	576,237	194,323
Duration (DBO)			10.1	10.5	8.8

Provisions for forced easement were formed in the amounts contained in appraisal records, i.e. EUR 218,619. The decrease in provisions in the amount of EUR 72,132 was the result of forced easements becoming final in 2018 and the amount being paid out to the beneficiaries.

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 1.89 percent, long-term growth of salaries 2.0 percent, while the employee turnover rate was accounted for considering age intervals and stood between 0 percent to 3 percent.

2.1.12 Long-Term Financial Liabilities

in EUR		
Item	31. 12. 2018	31. 12. 2017
Long-term financial liabilities to banks	63,453,704	66.172.840
Long-term loans from Slovenian banks	0	0
Short-term part of long-term loans from Slovenian banks	0	0
Long-term loans from foreign banks	66,172,840	68,148,149
Short-term part of long-term loans from foreign banks	-2,719,136	-1,975,309
Other long-term financial liabilities	0	15.191.704
Long-term loans from companies	0	17,862,752
Short-term part of long-term loans received	0	-2,671,048
Total long-term financial liabilities	63,453,704	81,364,544

in EUR	
Maturity of received loans on 31. 12. 2018	
- due in up to 1 year	2,719,136
- due in 1 to 2 years	3,469,136
- due in 2 to 5 years	10,407,407
- due in more than 5 years	49,577,161
Total	66.172.840

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

At the end of 2018, the interest rates for received loans ranged between 1.9 percent annually and three-month EURIBOR + 3.99 percent.

In 2018, the company has repaid the remainder of the loans received from 2007 to 2009 from the managing company for investments in the construction of the transmission system in the total amount of EUR 25,037,556, and recorded them as long-term financial liability in accordance with long-term investment contracts. Because in July 2018, the existing guarantee as collateral for the EIB loan expired, the company signed a new Guarantee Agreement in April which ensures further appropriate collateral for the loan, with a duration of five years and the possibility of extension for two additional years.

2.1.13 Short-Term Financial Liabilities

in EUR		
Item	31. 12. 2018	31. 12. 2017
Short-term part of long-term loans from foreign banks	2,719,136	1,975,309
Short-term part of long-term loans from foreign banks	0	2,671,048
Other short-term financial liabilities	2,719,136	4.646.357

2.1.14 Short-Term Operating Liabilities

	in EUR	
Item	31. 12. 2018	31. 12. 2017
Short-term accounts payable	4,272,290	7.621.605
Short-term operating liabilities to domestic suppliers	4,066,621	7,120,150
Short-term operating liabilities to foreign suppliers	205,669	476,068
Uncharged goods and services to domestic suppliers	0	0
Uncharged goods and services to foreign suppliers	0	25,387
Short-term operating liabilities on the basis of advances	21,385	48,976
Other short-term operating liabilities	8,171,319	9.998.201
Short-term securities received	5,561,342	7,742,342
Other short-term operating liabilities for foreign account	376,947	409,733
Short-term liabilities to employees	637,966	755,183
Short-term liabilities for VAT	708,955	646,343
Short-term liabilities for income tax	128,393	171,991
Other liabilities to state and other institutions	3,518	6,888
Other short-term operating liabilities	754,198	265,721
Total short-term operating liabilities	12,464,994	17,668,782

Short-term securities received include deposits associated with the lease of auction capacities and balance contracts (note 2.1.8). In 2018, the number of users and participations in the auctions decreased due to a lower volume of cross-border transmission of natural gas.

Short-term liabilities to employees refer to liabilities for gross wages for December 2018, which were paid out in 2019, 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.

2.1.15 Short-Term Accrued Costs and Deferred Revenue

	in EUR	
Item	31. 12. 2018	31. 12. 2017
Accrued costs of services	12,905	13,053
Accrued labour costs from unused annual leave	212,441	224,547
Accrued labour costs from performance in the current year	510,000	567,000
Short-term deferred rev. from grants and paid connection charges	1,390,666	1,371,162
Short-term deferred revenue from virtual point services	68,625	68,582
VAT refund	229,957	229,957
Other short-term accrued costs and deferred revenue	348	349
Total accrued costs and deferred revenue	2,424,942	2.474.650

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.

2.1.16 Off-Balance-Sheet Assets / Liabilities

in EUR

Item	31. 12. 2018	31. 12. 2017
Performance guarantees received	211,716	928,304
Warranty guarantees received	12,693,633	13,215,198
Payment guarantees received	6,310,000	6,255,274
Auction capacities guarantees received (note 2.1.8)	5,695,000	6,203,400
Balance contracts guarantees received (note 2.1.8)	803,000	685,000
Bills of exchange received	80,820	76,820
Non-utilised part of long-term credit	17,800,000	0
Non-utilised limit	49,033	49,863
Border operational balancing accounts	-466	1,261
Total off-balance-sheet assets / liabilities	43,642,736	27,365,257

2.2 Profit and Loss Account

2.2.1 Net Sales Revenue

in EUR		
Item	2018	2017
Revenue on domestic market	38,948,226	44,117,277
- revenue from transmission services - network charge	32,346,203	38,167,581
- revenue from gas sales for balancing and levelling of deviations	6,503,471	5,871,521
- revenue from the sale of services to the jointly controlled	600	600
- revenue from sale of services	93,452	73,140
- revenue from rents	4,500	4,435
Revenue on foreign market	4,795,530	8,303,815
- revenue from transmission services - network charge	3,597,368	7,943,896
- revenue from gas sales for balancing and levelling of deviations	1,135,133	308,763
- revenue from sale of services	63,029	51,156
Total net sales revenue	43,743,756	52,421,092

2.2.2 Other Operating Revenues (with Revaluation Operating Revenue)

in EUR		
Item	2018	2017
Revenue from reversal of provisions	12,842	16,382
- reversal of AC&DR and long-term provisions	12,842	16,382
Other revenue associated with business effects	1,778,967	1,366,871
- accrued revenue from EEPR grant	1,157,262	1,157,262
- accrued revenue from TEN-E grant	55,498	54,002
- accrued revenue from connection charges received	99,594	88,749
- revenue from contractual penalties	46,707	25,140
- revenue from investment contracts	0	1,207
- revenue from free acquisitions	64,732	22,056
- other revenue associated with business effects	355,175	18,455
Revaluation operating revenue	30,100	65,580
- reversal of impairment of receivables	6,305	36,028
- profit from the sale of fixed assets	23,795	29,531
- other revaluation operating revenues	0	21
Total other operating revenue (with rev. operating revenue)	1,821,909	1,448,833

Among other revenue associated with business effects the compensation received from the insurance company is taken into account.

2.2.3 Costs of Goods, Material and Services

in EUR		
Item	2018	2017
Costs of goods sold - natural gas	7,618,135	6,169,495
Costs of raw material	1,017,713	1,502,664
Costs of services	3,228,662	3,608,188
Total costs of goods, material and services	11,864,510	11,280,347

Costs of maintenance were disclosed in the amount of EUR 1,702,667 (2017: EUR 1,810,759) and accounted for 52.7 percent of total costs of services. Important costs of services include the costs of insurance premiums in the amount of EUR 632,246 (2017: EUR 620,706) and costs of intellectual and personal services in the amount of EUR 182,152 (2017: EUR 222,665).

2.2.4 Labour Costs

in EUR		
Item	2018	2017
Cost of wages and salaries	6,015,851	6,242,173
Cost of pension insurance	734,256	747,181
- of which: voluntary supplementary pension insurance	202,484	197,632
Cost of other social insurance	506,345	528,894
Provisions for jubilee awards and severance payments on retirement	23,941	35,474
Provisions for unused annual leave	212,441	224,547
Other labour costs	696,851	703,591
Total labour costs	8,189,685	8,481,860
Average number of employees by calculated hours	144.81	148.29

2.2.5 Write-Downs

in EUR		
Item	2018	2017
Amortisation and Depreciation	15,544,495	15,446,046
Amortisation of intangible fixed assets	887,685	911,736
Depreciation of tangible fixed assets	14,656,810	14,534,310
Impairment expenses	1,107,659	2,579,099
Operating expenses from revaluation of tangible and intangible fixed assets (note 2.1.1 and 2.1.2)	1,099,940	2,577,784
Operating expenses from revaluation of operating current assets	7,719	1,315
Total write-downs	16,652,154	18,025,145

2.2.6 Other Operating Expenses

in EUR		
Item	2018	2017
Charges not dependant on labour costs or other types of costs	1,555,699	1,580,234
- contribution for building land	33,635	33,139
- contribution to the Energy Agency	1,003,084	1,003,084
- contribution to ENTSOG	193,257	176,941
- contribution for auction platform	310,242	336,742
- contribution to the EKO fund	11,926	29,367
- other charges	3,555	961
Expenditures for environmental protection	18,831	13,877
Scholarships and awards to students	316	255
Other expenses	42,406	44,085
Total other operating expenses	1,617,252	1,638,451

2.2.7 Costs by Functional Group

	in EUR	
Item	2018	2017
Costs of goods sold - natural gas	7,618,135	6,169,495
Costs of the main activity of transmission system operator	27,441,694	29,726,153
Costs of general, administrative and sales activities	3,263,771	3,530,154
Total costs by functional group	38,323,600	39.425.802

In 2018, the costs of the main activity of transmission system operator have decreased by EUR 2,284,459 compared to 2017, primarily due to a decrease in impairment expenses, for EUR 1,477,844.

2.2.8 Financial Expenses from Financial Liabilities

	in EUR	
Item	2018	2017
Interest and expenses from loans from banks	3,205,783	4,242,302
Interest and expenses from other financial liabilities	162,900	647,438
Total financial expenses from financial liabilities	3,368,683	4.889.740

2.2.9 Financial Expenses from Operating Liabilities

	in EUR	
Item	2018	2017
Interest from actuarial calculation	9,802	9,075
Other expenses from operating liabilities	221	8,736
Total financial expenses from operating liabilities	10,023	17.811

2.2.10 Income Tax

Adjustment between the actual and calculated tax expense using the effective tax rate.

	in EUR	
Item	2018	2017
Accounting profit	3,873,038	9,438,600
Tax calculated using the applicable tax rate	735,877	1,793,334
Tax effect of non-deductible expenses	64,837	95,005
Tax effect of expenses from increase in tax base	44	785
Tax effect from write-downs not recognised for tax purposes	-701	521
Tax relief	-255,599	-340,907
Tax expense	544,458	1,548,738
- Income tax	541,944	1,540,720
- Deferred taxes	2,514	8,018
Effective tax rate	14.06 %	16.41 %

3. Other Disclosures

Data on Categories of Persons

Structure and amount of remuneration of Management Board in financial year 2018

in EUR

Name and surname	Function	Fixed remuneration - gross (1)	Variable remuneration based on qualitative criteria (2)	Deferred revenue (3)	Bonus (4)	Benefits (5)	Gross total (1+2+3+4+5)	Net total
Marjan Eberlinc	General Manager	144,000	10,800	10,800	1,161	5,250	172,011	76,167
Sarah Jezernik	Deputy General Manager	131,922	9,832	4,939	1,161	4,352	152,206	70,586

Structure and amount of remuneration of supervisory bodies in financial year 2018

in EUR

Name and surname	Function	Fixed remuneration - gross (1)	Variable remuneration based on qualitative criteria (2)	Deferred revenue (3)	Bonus (4)	Benefits (5)	Gross total (1+2+3+4+5)	Net total
Dejan Koletnik	Compliance Officer	113,547	0	0	1,161	5,217	119,925	55,947

Structure and amount of remuneration of Supervisory Board members in financial year 2018

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	16,950	1,595	848	36	19,429	14,131
Peter Grašek	Deputy Chairman	10,225	1,100	56	488	11,869	8,633
Jože Dimnik	Member	9,416	1,100	56	224	10,796	7,852
Alojz Kovše	Member	9,416	1,100	56	464	11,036	8,027
Aleš Šuštar	Member	11,299	1,595	56	0	12,950	9,419
Rok Vozel	Member	11,299	1,595	56	0	12,950	9,419
Miran Jug	Deputy Chairman	2,023	495	0	131	2,649	1,927
Boštjan Napast	Member	1,375	275	0	0	1,650	1,200

The company did not grant any advance payments, loans or securities to these categories of persons in 2018. The company had no long-term or short-term debts or significant operating receivables to these categories of persons. Remuneration from employment of Supervisory Board members, who

represent the employees, amounted to EUR 119,000, together with attendance fees and fees for performing a function.

3.2 Audit Fees

in EUR

Item	2018	2017
Audit of annual report	7,667	7,667
Other auditing services	1,922	2,811
Total audit fees for the company	9,589	10,478

3.3 Transactions with Related Companies in 2018

in EUR

Item	Plinhold d.o.o.	Juzni tok Slovenija d.o.o.
Net sales revenue		
Net revenue from the sale of services	0	600
Closing balance of receivables and liabilities		
Receivables due from related parties for goods and services	0	305
Distribution of profits	3,850,000	0

Companies with more than a 20 percent ownership share 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. are also defined as associated persons of the company Plinovodi d.o.o.

The following shows the volume of transactions and balances arising from these transactions of the company Plinovodi d.o.o., by activities.

in EUR

Partner	Share in %	Outstanding receivables as at 31 December 2018	Turnover of receivables in 2018	Outstanding liabilities as at 31 December 2018	Turnover of liabilities in 2018
Activity 86 - Human health activities					
Partner 1	100	17,682	205,090	0	0
Activity 84 - Public administration and defence, compulsory social security					
Partner 2	100	0	0	83,590	1,003,084
Partner 3	100	0	0	513,448	3,436,780
Activity 65 - Insurance, reinsurance and pension funding, except compulsory social security					
Partner 4	At least 62	0	0	43,425	541,478
Activity 64 - Financial service activities, except insurance and pension funding					
Partner 5	At least 99	0	0	40,260	274,019
Activity 47 - Retail trade, except of motor vehicles and motorcycles					
Partner 6	At least 29	278,914	2,574,247	45,003	181,309
Activity 46 - Wholesale trade, except of motor vehicles and motorcycles					
Partner 7	At least 50	1,186,144	8,987,604	567,735	5,484,300
Activity 35 - Electricity, gas, steam and air conditioning supply					
Partner 8	At least 50	117,890	1,843,466	197,044	578,784
Partner 9	At least 74	7,986	132,217	61,505	384,294
Partner 10	100	336,352	3,957,155	0	0
Partner 11	100	37,156	478,389	0	0
Activity 24 - Manufacture of basic metals					
Partner 12	At least 91	77,511	885,252	0	0

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

3.4 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, the company found deviations from the regulatory framework for 2016-2018 that were reflected in the network charge deficit, in a true and fair way. The deficit stood at EUR 10,530,196 and is not included in the financial statements.

3.5 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 2018 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 2018 as well as with the complete report of the company. We agree thereto and confirm this with our signatures.

General Manager
Marjan Eberlinc

Deputy General Manager
M.Sc. Sarah Jezernik





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Independent Auditors' Report

To the owners of the Plinovodi, d.o.o., Ljubljana

Report on the Audit of Financial Statements

Opinion

We have audited the financial statements of the Plinovodi, d.o.o., Ljubljana ("the Company") which comprise the balance sheet as of 31 December 2018, the statement of profit or loss, statement of other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give true and fair view of the financial position of the Company as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with Slovene Accounting Standards (2016).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibility for the Audit of Financial Statements* section of our report. We are independent in accordance with both the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements that are relevant to our audit of the financial statements in Slovenia and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for other information. The other information comprises the Business Report included in 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 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 and, in doing so, consider whether the other information is materially inconsistent with the financial statements, legal requirements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

With respect to the Business Report, we considered whether the Business Report includes the disclosures required by the Company's Act (hereafter referred to as "the applicable legal requirements").



Based solely on the work required to be undertaken in the course of the audit of the financial statements and the procedures above, in our opinion:

- the information given in the Business Report for the financial year for which the financial statements are prepared, is in all material respects consistent with the financial statements; and
- the Business Report has been prepared in accordance with the applicable legal requirements.

In addition, in light of the knowledge and understanding of the Company and its environment in which it operates, obtained in the course of our audit, we are required to report if we have identified material misstatements in the Business Report. We have nothing to report in this respect.

Responsibility of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Slovene Accounting Standards (2016), 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 of 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.

Auditor's Responsibility for the Audit of 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 auditors' 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 skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' 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.

Report on Other Legal and Regulatory Requirements

Within the notes to the financial statements in the section 3.4 Disclosures based on the Energy Act, the Company discloses deviations from the regulatory framework for the audited period, which are reflected in the surplus or deficit of network charges.

Company's management is responsible for complying with provisions of the Energy Act (EZ-1), which pursuant to Article 255 thereof refers to disclosures of deviations from the regulatory framework for the audited period.

Our responsibility is to determine whether the Company's management observed provisions of Article 255 of the Energy Act (EZ-1), which refer to disclosure of deviations from the regulatory framework for the audited period, which are reflected in the surplus or deficit of network charges.

Based on procedures carried out during the audit of financial statements, we herewith report that notes to the financial statements include all disclosures, as required in accordance with provisions of Article 255 of the Energy Act (EZ-1).

On behalf of the auditing company

KPMG SLOVENIJA,

podjetje za revidiranje, d.o.o.

Boštjan Mertelj

Certified Auditor

Danilo Bukovec

Certified Auditor

Director

Ljubljana, 11 March 2019

KPMG Slovenija, d.o.o.

- 1 -

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 L211/2009)
- 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 (EZ-1) (Official Gazette of RS, Nos. 17/2014, 81/2015)

Implementing regulations

- Decree on functioning of the natural gas market (Official Gazette of RS, No. 61/2016)
- Resolution on the National Energy Programme (ReNEP) (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. 77/2015, 21/2018, and 86/2018)
- 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. 37/2018)
- System operating instruction for natural gas transmission network (Official Gazette of RS, Nos. 55/2015 and 80/2017)
- 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)
- 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)
- Regulation on the preventive action plan for natural gas supply (Official Gazette of RS, Nos. 2/2015, 9/2017, and 41/2018)
- Regulation on the emergency plan for natural gas supply (Official Gazette of RS, Nos. 43/2014, 2/2015, and 41/2018)
- 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

DC&AR	Deferred costs and accrued revenue
BDP	Gross Domestic Product
CEF	Connecting Europe Facility
DBO	Defined Benefit Obligation
VAT	Value-added tax
DEBT	The sum of long-term and short-term financial liabilities
NSP	National spatial plan
FFEC	Family Friendly Enterprise
ECB	European Central Bank
EBIT	Earnings before interest and taxes
EBITDA	Earnings before interest, taxes, depreciation and amortisation
ECDA	External Corrosion Direct Assessment
EEPR	European Energy Programme for Recovery
EIB	European Investment Bank
ENTSO	European Network of Transmission System Operators for Gas
EU	European Community
EURIBOR	Euro InterBank Offered Rate
EZ-1	Energy Act
HICP	Harmonised Index of Consumer Prices
BMCS	Border metering and control station
MRS	Metering and regulation station
NET DEBT	Debt less short-term financial investments and financial assets
SB	Intangible fixed assets
NUS	Network User Services
OBA	Operating Balancing Account
INTEREST	Interest and other financing costs
DSO	Distribution system operator
TFA	Tangible fixed assets
TSO	Transmission system operator
FA	Fixed assets
PCI	Projects of Common Interest
ACDR	Accrued costs and deferred revenue
SCADA	Supervisory Control And Data Acquisition
SPTE	Cogeneration of heat and electricity
SAS	Slovenian Accounting Standards
TEN-E	Trans European Networks - Energy
VPG	Virtual Point for Gas
ZGD-1	Companies Act

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