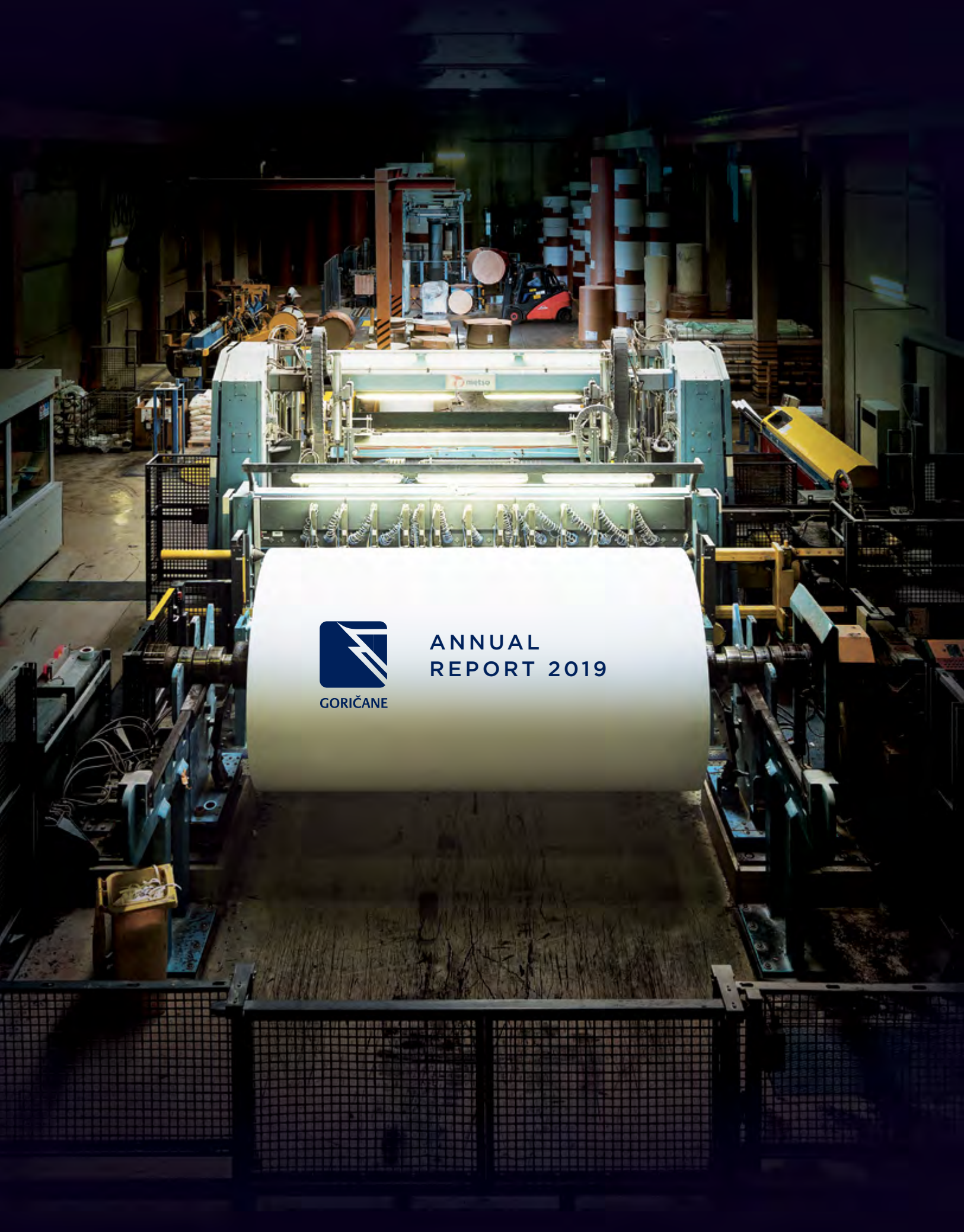

GORIČANE

ANNUAL REPORT 2019

GORIČANE

ANNUAL REPORT 2019

GORIČANE, tovarna papirja
Medvode, d.d.

Medvode, July 2020

2019 Performance highlights

73,9 million EUR
net sales revenue

88.3 %
of total sales are foreign sales

8.6 million EUR
worth of products sold in the domestic market

65.3 million EUR
worth of products sold in the foreign market

79,075 tons
of produced paper

66.7 g/m^2
average grammage

16.49
the average time of training per employee

224
number of employees at the end of 2019

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INTRODUCTION

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Company profile

Company name

Goričane, tovarna papirja Medvode, d.d.

Address

Ladja 10, 1215 Medvode, Slovenija

Telephone	Fax
+386 1 58 23 400	+386 1 36 12 804

E-mail	Website
goricane@goricane.si	www.goricane.si

Current accounts

02923-0017654625 Nova Ljubljanska banka, d.d.

05100-8012136923 Abanka Vipa, d.d.

07000-0001129364 Gorenjska banka, d.d.

Company registration number	Tax identification number
5042291	48619922

Activity subclass code	Activity subgroup code
17.120 – Manufacture of paper and paperboard	012410

Size	Share capital
a large company pursuant to the Companies Act	EUR 1.875.209

Company bodies

Assembly

Supervisory Board

Marjan Mahnič - President

Andrej Pagon, M. Sc. - Deputy Chairman

Klemen Burgar - Member

Management Board

The company is represented by	Financial year
Andraž Stegu, Managing Director, B.Sc.	calendar year

Controlling company

Company name

Papigor, holding, d.o.o.

Address

Ladja 10, 1215 Medvode, Slovenija

Consolidated annual report

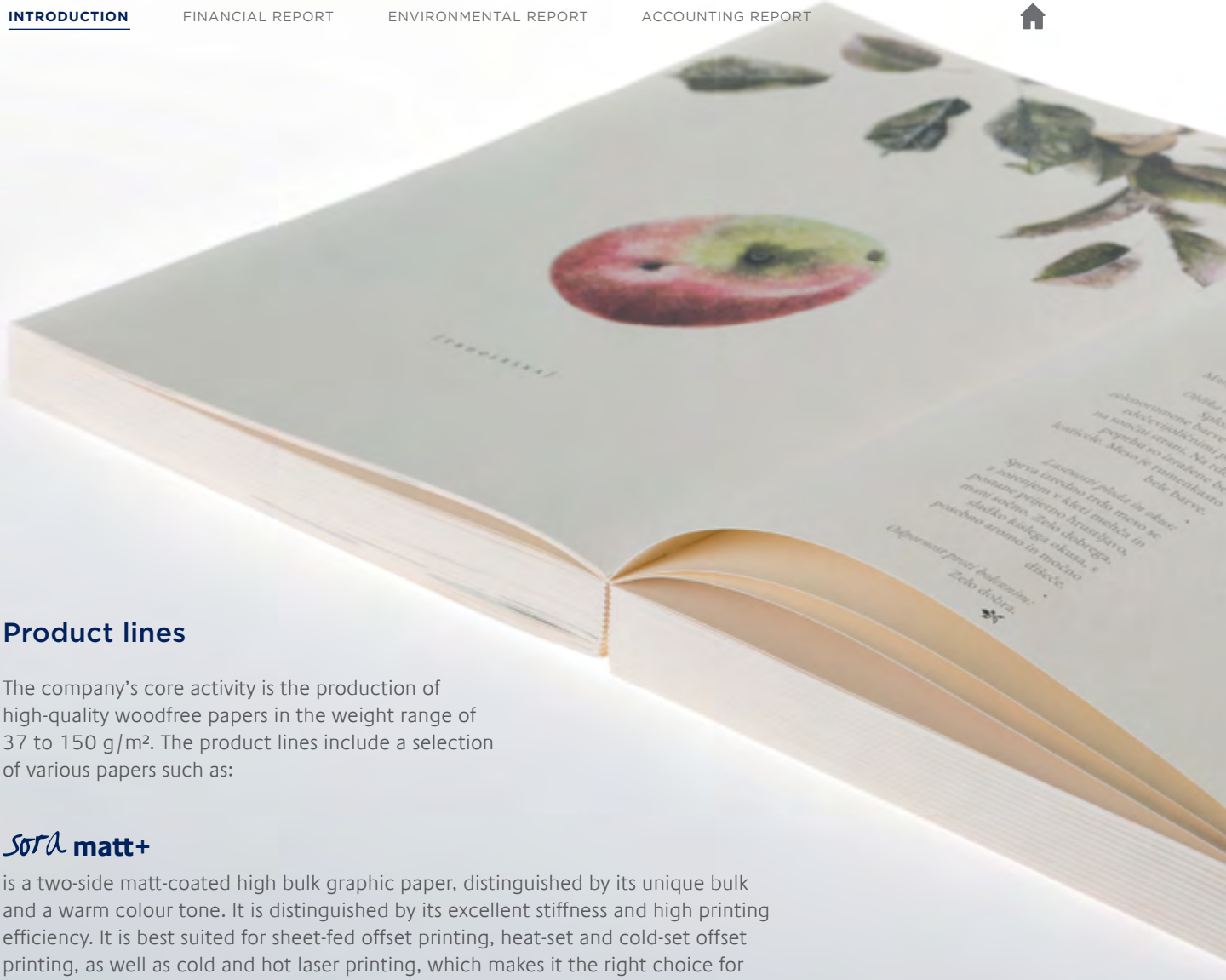
The consolidated annual report is prepared on the level of the parent company Papirus, holding, d.o.o., Goričane 38, 1215 Medvode, Slovenia where it is possible to obtain the report.

Ownership structure as of 31. 12. 2019

Papigor, holding, d.o.o.	85.56 %
Papirus, holding, d.o.o.	10.97 %
Employees and ex employees	3.05 %
Goričane, d.d.	0.42 %

Key activities

- manufacture of paper and paperboard,
- steam and hot water supply,
- wholesale of waste and scrap,
- buying and selling of own real estate,
- research and experimental development in natural sciences and technology.



Product lines

The company's core activity is the production of high-quality woodfree papers in the weight range of 37 to 150 g/m². The product lines include a selection of various papers such as:

Sora matt+

is a two-side matt-coated high bulk graphic paper, distinguished by its unique bulk and a warm colour tone. It is distinguished by its excellent stiffness and high printing efficiency. It is best suited for sheet-fed offset printing, heat-set and cold-set offset printing, as well as cold and hot laser printing, which makes it the right choice for printing atlases, picture books, school books and manuals as well as any applications for post distribution since its bulk allows for lighter weight and thus enables savings on mail services. This paper is also available in a cream shade.

Sora matt 1.1

is a two-side matt-coated bulky graphic paper with excellent printing properties, distinguished by its reading-friendly surface and a precise reproduction of colour tones. It is best suited for sheet-fed offset printing, heat-set and cold-set offset printing, as well as cold and hot laser printing, and designed for the printing of textbooks, brochures, magazines, supplements, maps.

Sora matt premium

is a high-opacity, two-side matt-coated bulky graphic paper, distinguished by its reading-friendly surface and a precise reproduction of colour tones. It is best suited for sheet-fed offset printing, heat-set and cold-set offset printing, as well as cold and hot laser printing, and designed for the printing of textbooks, brochures, magazines, supplements, maps.

Sora press

is an uncoated graphic paper for the offset printing of books and brochures. Its surface treatment makes it an excellent choice for notebooks, workbooks and planners, and it is distinguished by its unique high brightness and optimum smoothness.

Sora press cream

is an uncoated paper in cream shade, developed for offset printing and suitable for the printing of books, advertising materials, planners and calendars. Its shade, which is both warm and subtle, makes it an excellent choice for the printing of religious literature, exclusive literary editions and art books.

The enhanced smoothness and surface sizing provide for very favourable printed results both in single-colour and multicolour printing. Good mechanical properties and excellent stability ensure high-speed printing.

Sora silico

is a paper designed for all known silicone coating techniques. It is distinguished by an excellent dimensional stability, good rigidity and low silicone consumption, which makes it a suitable choice for flexo printing. It is used for the manufacture of self-adhesive labels and PVC foils, adhesive tapes, plasters, personal hygiene products, envelopes etc.

Sora face

is a one-side coated, woodfree label paper with a silk surface. Its excellent stability, high bulk and stiffness provide for high speeds both in printing and in labelling. The main characteristics of this paper are its multi-purpose applicability and reliability. Due to its low cost, it is ideal for self-adhesive labels, tin labels, jars and disposable bottles (plastic, PET, glass).

Sora light

is a lightweight paper enhanced by a special coating. Its high opacity and the specific characteristics of the special coating provide for quality multicolour offset printing. It is best suited for the printing of pharmaceutical and cosmetic instructions, catalogues, technical manuals, encyclopaedias, dictionaries etc. This paper is also available in a cream shade.

Sora medico

is a lightweight uncoated paper designed mainly for pharmaceutical instructions. Exceptional stability and optimal stiffness are required for the fast running of sheet-fed offset printing machines, and medico paper surely allows for that. In addition to enabling a high efficiency of the printing machines, it is also distinguished by its good opacity and excellent multifolding capacity.

Sora medico opaque

is a lightweight uncoated paper, specifically designed for the printing of instructions in the pharmaceutical and beauty industries. Its optimal luminescence ensures any bar code to be easily read by optical scanners, whereas its good mechanical properties, excellent stability and antistatic treatment provide for high-speed printing and excellent folding capacity. The extraordinary opacity and excellent formation ensure high quality printing of instructions, also in multicolour. The use of a speciality filler maintains a low level of blade abrasion.

Sora print opaque

is a lightweight uncoated graphic paper with high opacity. It has been designed for the offset printing of products with a high page count, such as religious literature, technical manuals, encyclopaedias, dictionaries etc. This paper is also available in a cream shade.

Vision with a clear mission

Goričane, d.d. is a company that strives to provide high-quality papers to customers seeking excellence. By providing quality products and a competitive level of service, our buyers are guaranteed a high added value to help them succeed.

Our vision is to become one of the most distinguished smaller-scale producers of woodfree lightweight papers in Europe, and we intend to streamline our activities towards achieving this goal. The company's core values are responsibility, cooperation, freedom of action, innovation and commitment.

In order to make our vision a reality, we will continue to:

- foster an increasingly cost-efficient administrative approach,
- continue specialising in the production of speciality papers,
- focus on increasing customer satisfaction, and
- cultivate the ability to quickly react to market needs and demands.

Through constant growth, development and investments into machines, equipment and human resources, Goričane, d.d. achieves its long-term goals and contributes to the growth of Slovenian economy.

Message from the chairman of the management board

Production is a daily challenge. Despite its uncertain beginning, 2019 had been a very successful year for Goričane. We exceeded the goals set in our business plan. This was mainly achieved because of the fall of pulp prices on the market, which was something that in 2018 represented the basic obstacle preventing us from reaching our goals. In addition, it is important to mention that we started cooperating with a several new, very well established suppliers in 2019.

We produced 79,075 tons of paper but with a lower average weight than in the past two years. Throughout the year, our production facilities were completely full and we were faced with a severe lack of sheet-cutting capacities. In the middle of the year, we therefore came up with the idea to invest into the purchase and startup of a new cross-cutting machine (PRS 3). By doing that, we eliminated a significant bottleneck in sheet cutting.

Our development is still focused on speciality papers but at the same time, we are looking for market opportunities in other segments as well. This year's development activities were marked by papers with security fibers, paper for shopping bags and papers with a grease-resistant barrier.

An industrial production cannot survive without regularly investing in its own equipment, which is why in 2019, we started preparing for the next big investment cycle that we intend to realize in one of the upcoming years, probably in 2021.

Dear shareholders and business partners, we are very proud to say that the Goričane company ended the year 2019 with success. Our daily efforts are directed towards the wellbeing of our company and its long-term development. With the right understanding of the key people for our company's development, our future cannot be anything but bright.

On behalf of all my colleagues and myself, I would like to sincerely thank you for your trust.

Medvode, 20 July 2020

Andraž Stegu, B. Sc.
Managing Director

The company's core values are:
responsibility, cooperation, freedom of action, innovation and commitment.

Major events

January 2019

At the end of December, our company was formally awarded the Authorised Economic Operator (AEO) status for simplified customs procedures as presented by the Ljubljana Customs Office.

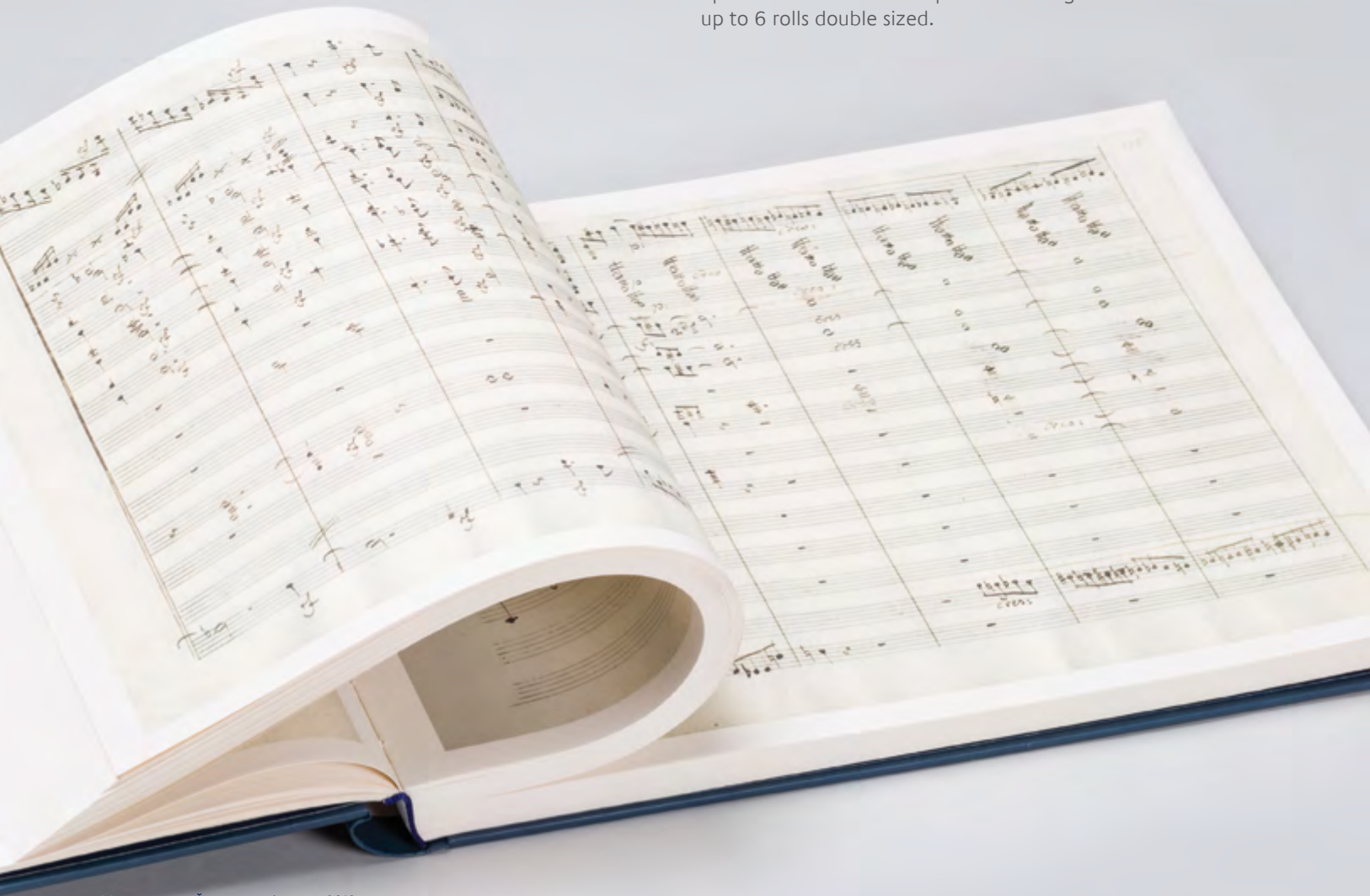
April 2019

Goričane and Vipap Videm Krško signed a business cooperation agreement for the cutting of SORA medico paper. Goričane's paper will be cut to sheets in Krško, which will help us provide a faster delivery of sheet paper to our buyers. This project is an excellent example of how two Slovenian papermills can establish and maintain a mutual cooperation.

September 2019

The annual general meeting of the company was held on September 23, 2019. It was attended by 97.65 % of shareholders. The shareholders present took note of the 2018 annual report and the report of the supervisory board, and confirmed the decisions proposed by the Management with a majority vote. A member of the Supervisory Board was appointed by the assembly due to the office term expiry. Andrej Pagon, MA, was reappointed as a representative of the capital. Klemen Burgar remains the representative of employees. The regularity of the assembly was ensured by Drago Škerget, the chairman of the assembly, and Bojan Podgoršek, a public notary.

In September, we constructed and started a new cross-cutting machine (PRS 3). The machine, which was made by the Chinese company CHM, operates with max. speed of 300 m/min and a daily cutting capacity of up to 50 tons. It has the option of cutting up to 6 rolls double sized.



Social responsibility

At Goričane, we look at social responsibility as a permanent cooperation with the environment in which we conduct business. We are aware that the existence of mankind has a great impact on the environment and that the economy must contribute to the improvement of the environmental situation. The principle behind our research work, the optimization of production processes, investing in technologies for reducing environmental impacts and in our employees, the training and education of the staff as well as providing a pleasant work environment is to minimize the adverse impacts on the environment, safety and health.

Our responsibility towards the environment and the local communities is reflected through our support of many humanitarian and cultural projects, as well as projects focused on sports and environmental protection, which eventually contribute to a healthier and more dynamic lifestyle, and to a better quality of life.

In 2019, in addition to the regular provision of paper for the nearby kindergartens, schools and local societies, we also made a financial donation to the young and talented musical virtuosos - the Rupnik Piano Trio. A relatively large amount of paper was donated to the Academy of Music for its project of publishing the facsimile of the original "Ljubljana" copy of Beethoven's Symphony No.6.

Every year since its very beginning, we have been sponsoring a local sports event, the Medvode in Movement (Medvode v gibanju) festival, which promotes various sports activities and a healthy lifestyle in our municipality. In addition, we are traditionally involved in larger events organized by the local tourist association TD Goričane-Vaše, e.g. outdoor cinema, bonfires to celebrate International Workers' Day, and the festivities in early December involving St. Nicholas and his terrifying companions, the Krampuses.

With the implementation of the European Directive 2015/720/EU for reducing the consumption of lightweight plastic carrier bags, the interest in recyclable paper bags has grown significantly. In order for our company to contribute to saving the environment and reducing the amount of waste, we launched a project for the development of paper for carrier bags.

We need to live and operate within the limits set by our natural environment. This involves a sustainable consumption of all natural resources, limiting emissions as much as possible, protecting biodiversity and knowing that our natural heritage has to be protected and preserved for the generations to come. It all starts with choosing the right raw materials. In production, we use pulp fibers purchased from FSC or PEFC certified suppliers. At Goričane, we use these certification schemes to prove the traceability of wood origin and guarantee that our pulp is sourced from legal and sustainably managed forests. FSC or PEFC certified paper products are therefore the result of environmentally friendly and socially responsible forest management.

Upon submitting the evidence of compliance with the requirements of both national legislation and European directives focused on obtaining environmental impacts equal to those achieved by using best available technologies listed in reference documents, we have been awarded the IPPC environmental permit for the operation of machines potentially causing environmental pollution on a larger scale. We are implementing, maintaining and developing an environmental management system which is in accordance with the ISO 14001:2015 standard and the ISO 9001:2015 certificate. In 2017, we established a compliance with the new FSC-STD-40-004 V3-0 standard.

Beethoven's score is written on handmade unbleached paper, and the print edition was done on a representative woodfree uncoated paper **press cream**, produced by the renowned Slovenian company Goričane, whose history dates back to the 18th century.

Academy of Music in Ljubljana (2019)

Corporate governance statement in accordance with the corporate governance code for unlisted companies

The use of the Code

Goričane, d.d. is managed in accordance with the valid regulations of the Republic of Slovenia, company's internal acts and standard business practices. These documents guarantee for due operation of its bodies in order to ensure a sustainable competitive position.

It is based on a two-tier system in which the company is managed by the Management Board while its operations are controlled by the Supervisory Board.

Although the company did not adopt any governance code in the financial year of 2019, it has one in the process of preparation. For that reason, this annual report does not contain a statement on compliance with the Code.

Framework of corporate governance

1. Corporate governance bodies are:
   - the Management,
   - the Supervisory Board and
   - the Assembly.
2. The scope of competence for the corporate governance bodies are defined in the corporate articles of association.
3. Any issue that does not fall into the competence of the Board is decided upon by the Assembly.

Composition of the supervisory body

Goričane, d.d. has a two-tier system of governance.

Management bodies

Management Board

The company is managed by the Management Board which acts independently and on its own responsibility. The Management Board is appointed and dismissed by the Supervisory Board. The Management Board is running Goričane, d.d. by closing deals to the benefit of the company, independently and on its own responsibility. It carries out its activities in accordance with the company's Articles of Association and the law. The Management Board adopts the company's general acts and appoints the bodies which decide on the employees' rights, obligations and responsibilities.

The rights and obligations pertaining to the relationship between the Management Board and the company are laid down in a special agreement which is concluded by the president of the Supervisory Board on behalf of the company.

The payment and remuneration to the members of the Management Board do not depend directly on the company's business performance and are presented in the accounting report in the chapter on other disclosures.

Supervisory Board

The Supervisory Board consists of three members. It is appointed by the shareholders' assembly, except for the member of the Supervisory Board elected by the workers' council. The term of office of the Supervisory Board members lasts two years and may be extended.

The main obligation of the Supervisory Board is to control the operations and management of the company. The Supervisory Board appoints and dismisses the Management Board, discusses the business plan and examines and approves the annual report.

The payments and remunerations to the members of the Supervisory Board do not depend directly on the company's business performance and are presented in the accounting report in the chapter on other disclosure.

The work of the members of the Supervisory Board has to be guided by the company's goals and not affected by any personal interests or individual interests of third persons.

The Supervisory Board of Goričane, d.d. is composed of:

Representatives of the capital:

- Marjan Mahnič - President of the Supervisory Board,
- Andrej Pagon, M.Sc. - Deputy Chairman.

Representative of employees:

- Klemen Burgar - Member.

Assembly

Pursuant to the Companies Act, the Assembly of the shareholders is the highest body of a company. It implements the will of the shareholders and adopts basic and statutory decisions. The number of votes held by an individual shareholder is determined by the number of shareholders he/she holds when the Assembly is convened. The voting right is obtained when the whole amount of the value of one share is paid upon the company's establishment or increase of share capital and entry in the share register.

As a rule the assembly meets once a year, usually in the place of the company's head office. The Assembly is convened by the company's Managing Director on his own initiative or on the request of either the Supervisory Board or the company's shareholders. The shareholders are informed of the Assembly meeting with a note on the AJPES website, the company's website and on bulletin boards on the premises of Goričane Papermill. The Assembly is chaired by the Chairman of the Assembly who is elected by the shareholders on the proposal of the convenor.

The Assembly adopts decisions on:

- the adoption of the annual report,
- the allocation of the distributable profit,
- the appointment and dismissal of members of the Supervisory Board,
- the discharge of the members of the Management Board and Supervisory Board,
- the appointment of the auditor,
- the amendments to the statute,
- the measures for increasing and decreasing the share capital,
- the dissolution of the company and any change of its legal form,
- other matters laid down by the law and the statute.

The regular general meeting of Goričane, d.d. was held on September 23, 2019. The meeting was attended by 97.65% of shareholders with the right to vote.

At the meeting, the shareholders:

- acknowledged the information about the 2018 annual report, took note of the auditor's opinion and the Supervisory Board's report on the clearance of the annual report, and gave a discharge to the Management and the Supervisory Board.
- The Constantia Primia d.o.o. auditing firm was appointed as the auditor of Goričane, d.d. for financial years 2019, 2020 and 2021.
- Andrej Pagon, MA, was appointed as member of the Supervisory Board for a period of two years.
- On Management's proposal adopted the decision on the renumeration for the members of the Supervisory Board.

Main features of internal control systems and risk management in the company in relation to the process of financial reporting

Internal controls are the policies and procedures that were established by the company and are being implemented on all levels to manage any risks related to financial reporting. The purpose of internal controls is to ensure operational efficiency and effectiveness, reliable financial reporting and compliance with applicable legislation as well as other external and internal regulations.

Accuracy, completeness and truthfulness of financial reporting is ensured by the implementation of the following internal controls:

- control of accounting data accuracy, provided in various ways, e.g. by aligning items with buyers and suppliers,
- control of data acquisition completeness (e.g. documentation sequence, numbering of documents),
- control of separating duties and responsibilities (e.g. separate implementation of bookkeeping and payments),
- control of access restrictions (selectively assigned permissions for access to accounting records),
- control of supervision.

Because the accounting process is IT supported, all of the internal controls listed above are also connected to IT integrated controls, which include controls of restricting access to networks, data and applications, as well as controls of the accuracy and completeness of data acquisition and processing.

Public reporting

The statement of governance is part of the annual report published on the website of AJPES agency and on the company's website.

Medvode, 20 July 2020

Andraž Stegu, B. Sc.
Managing Director

Statement of events after the date of the statement of financial position

As soon as the coronavirus emerged, we started closely following the epidemiological situation and the developments both in China and elsewhere in the world. In response to the situation, we made sure to prepare ourselves, mainly with sanitary, health-related and organizational preventive measures.

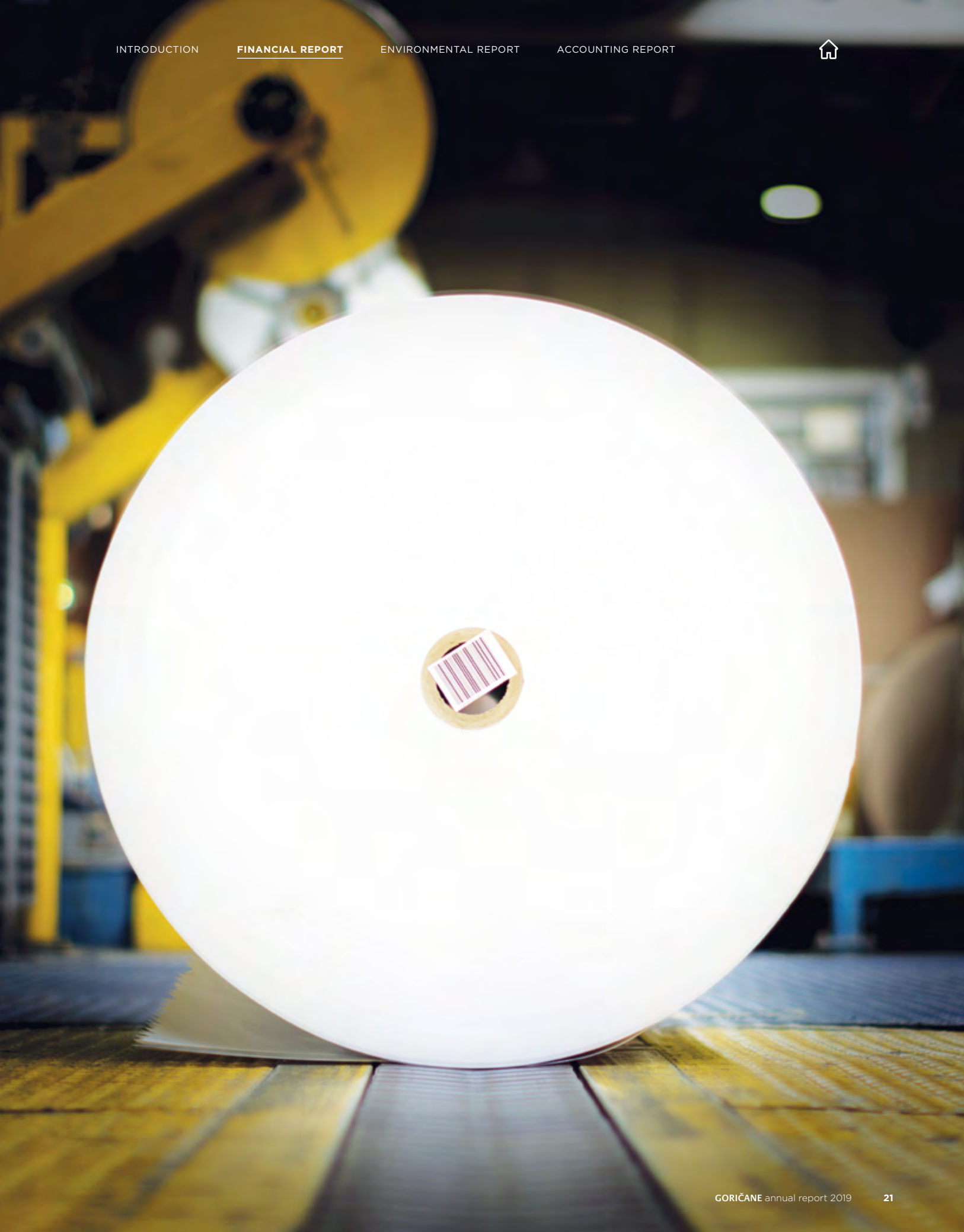
After the epidemic announcement on the national level and the government measures, the company management adopted additional measures to contain the spread of the coronavirus infections with the explicit purpose of protecting the health of all employees, and consequently ensuring uninterrupted operation.

At the moment, the company Goričane, d.d. is not exhibiting any negative effects of the coronavirus on our operations.

Business highlights

in thousand eur	2019	2018	Index 2019/2018
Financial data and indicators			
Net sales revenues	73,903	73,536	100
Gross profit or loss	71,923	75,941	95
Operating profit or loss	2,195	-506	-434
Total expenses	70,270	77,028	91
EBITDA	4,380	1,540	284
Net profit or loss	1,400	-893	-157
Balance sheet total	69,097	74,955	92
Long-term assets	51,388	52,635	98
Short-term assets	17,709	22,320	79
Capital	23,971	22,538	106
Long-term financial liabilities	20,941	24,567	85
Short-term liabilities	23,545	27,152	87
Activated investments in capital assets	714	461	155
Indicators			
Share of EBITDA in sales revenues	5,9%	2,1%	283
Annual profit in sales revenues	1,9%	-1,2%	-156
Return on capital	5,8%	-4,0%	-147
Production data			
Production in tons	79,075	83,474	95
Productivity per employee (t/empl. from hrs)	374	394	95
Stock/share			
Book value per stock/share	53,6	50,4	106
Dividend per stock/share	0	0	0
Company data			
Employees from hours	211,4	211,9	100
Value added per employee in EUR thousand	72	31	233
Average salary in EUR	2,492	2,072	120

FINANCIAL REPORT



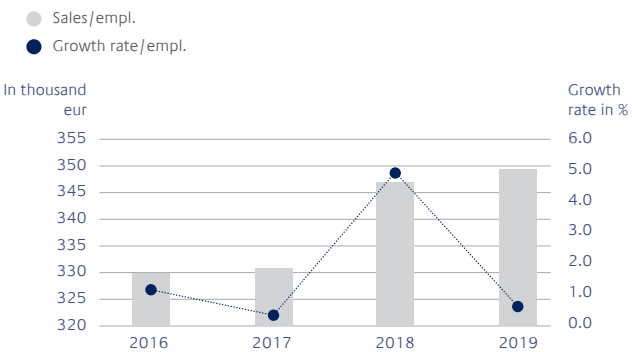
Analysis of business performance

in thousand eur	2019	2018	2017	2016
Sales revenues	73,903	73,536	67,516	66,312
Product inventory value change	-2,078	2,188	2,838	85
Other operating revenues	97	216	49	268
Operating revenues	**71,923**	**75,941**	**70,403**	**66,665**
Costs of goods and materials sold	-51,029	-59,004	-49,542	-45,221
Costs of services	-7,683	-8,007	-8,132	-7,660
Labour costs	-8,438	-7,091	-6,499	-6,586
Depreciation	-1,949	-1,998	-2,127	-2,207
Operating expenses from revaluation	-236	-47	-179	-867
Other operating expenses	-392	-299	-558	-711
Operating profit (EBIT)	2,195	-506	3,366	3,413
EBIT margin	3,1%	-0,7%	4,8%	5,1%
EBITDA	4,380	1,540	5,671	6,487
EBITDA margin	6,1%	2,0%	8,1%	9,7%
Financial revenues	171	172	576	316
Financial expenses	-543	-582	-504	-2,323
Other revenues	0	0	0	0
Other expenses	0	0	0	0
Operating profit or loss before taxes	1,824	-916	3,438	1,406
Tax from profit + tax deferred	-423	23	-490	84
Operating profit or loss	**1,400**	**-893**	**2,947**	**1,490**
Operating expenses as % of sales				
Costs of goods and materials sold	69.0%	80.2%	73.4%	68.2%
Costs of services	10.4%	10.9%	12.0%	11.6%
Labour costs	11.4%	9.6%	9.6%	9.9%
Other operating expenses	0.5%	0.4%	0.8%	1.1%

Sales revenue

In 2019, Goričane, d.d. created a sales revenue of EUR 73.9 million, which is EUR 0.4 million or 0.5 % more than in 2018. The average rate of sales growth in the last 4-year period was 5.6 %. A total of EUR 8.6 million worth of products were sold in the domestic market, and EUR 65.3 million were sold in foreign markets, which is 88.3 % of total sales.

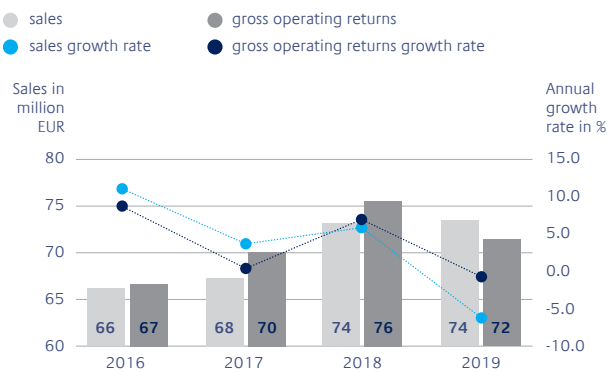
Sales per employee and growth rate



Gross operating returns

The gross operating returns amounted to EUR 71.9 million, which is 5.3% less than in 2018. Compared to the realization in 2018, the level of gross operating returns in 2019 was mostly affected by the inventories of end products which were reduced by EUR 4.2 million in comparison with 2018.

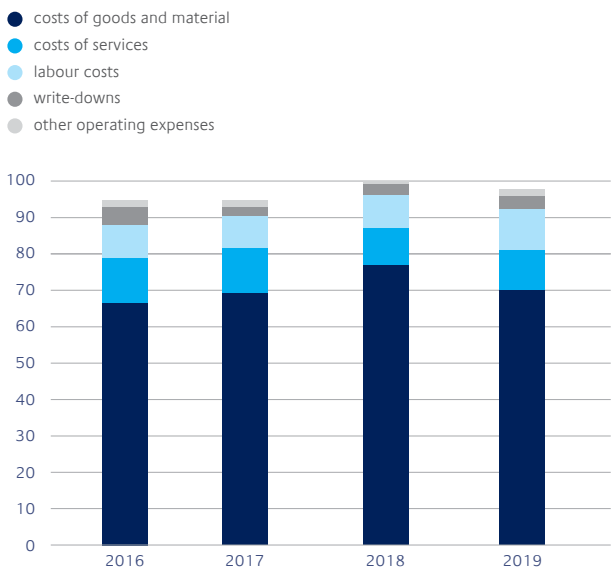
Sales, gross operating returns and annual sales growth rate



Operating expenses

The operating expenses of Goričane, d.d. amounted to EUR 69.7 million, which is 8.8 % less than in the same period last year. Their share in the gross operating returns is 6.3 percentage points lower than last year. The operating expenses included EUR 60.1 million of production costs, EUR 5.6 million of sales costs, EUR 0.7 million of development expenses, and EUR 3.1 million of expenses for general activities.

Share of costs in company's operating expenses in 2016-2019



In 2019, the costs of material amounted to EUR 51.0 million and are 13.5 % or EUR 7.9 million lower than the year before. They include a EUR 7.4 million or 18.1 % decrease in the costs of pulp, resulting from the fall of pulp prices on the global markets. Energy costs are lower by 6.3 %, mostly due to the lower prices of energy products, both gas and electricity.

The costs of services amounted to EUR 7.7 million and were 4 % lower than in 2018. The highest item among the costs of services were the costs of export, represented by the sum of transport costs and brokerage fees incurred by sales abroad. They amounted to EUR 4.2 million and were 2.3 % lower than in 2018. The highest item among other costs of services are the costs of maintenance – they are EUR 0.4 thousand lower than in 2018.

The costs of labour, amounting to EUR 8.4 million, have increased by EUR 1.3 million or 18.9 %. The costs of labour per employee amounted to EUR 39,900, with income per employee totalling EUR 349,000.

Write-downs include depreciation and operating expenses from the revaluation of intangible assets, tangible fixed assets and current assets. The costs of depreciation, totalling EUR 1.9 million, remain on the same level as in 2018. Other operating expenses include taxes unrelated to labour costs, environmental protection expenses, the costs of donations and other unallocated costs. In 2019, they amounted to EUR 392,000.

Net financial effect

The net financial outcome of Goričane, d.d. in 2019 amounted to EUR 371,500. The financial revenues of the company include EUR 44,200 of revenues from shares, EUR 122,800 of revenues from interest, and EUR 51,400 from of revenues from short-term receivables. The financial expenses include financial expenses from the interests on bank loans, interests from suppliers and exchange rate differences from accounts payable, as well as the costs of investment impairments. In 2019, they amounted to EUR 590,100 and are 17.4 % lower than in 2018. The accounting report shows the net effect of exchange rate differences.

Operating profit or loss

The operating profit or loss (EBIT) of Goričane, d.d. in the amount of EUR 2.2 million was by EUR 2.7 million higher than in 2018, which was mainly due to lower material costs and favourable selling prices. The operating profit, increased by write-downs (EBITDA) in the amount of EUR 4.4 million, has risen by EUR 2.8 million, the margin amounted to 6.1 % and is by 4.1 percentage points higher than in 2018.

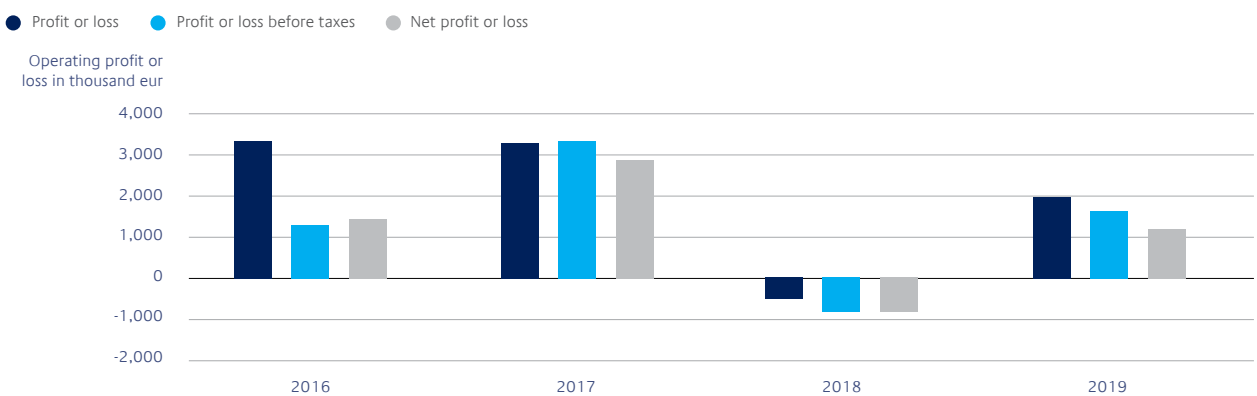
In 2019, the profit before taxes increased by EUR 2.7 million and amounted to EUR 1.8 million. We will therefore pay EUR 215,000 of profit tax for 2019.

Financial statements of Goričane, d.d.

As of the end of 2019, the assets of Goričane, d.d. were worth EUR 69.1 million which is EUR 5.9 million or 7.8 % less than in 2018. In comparison with the end of 2019, the ratio between short-term and long-term assets in the asset structure changed in favour of the long-term assets because the share of long-term assets increased by 4.2 percentage points and amounted to 74,4 %.

The long-term assets of Goričane, d.d., worth a total of EUR 51.4 million, have decreased by EUR 1.2 million or 2.4 % in comparison with the end of 2018. The most important item, worth EUR 29.8 million or 43 % of all assets owned by Goričane, d.d. is represented

Operating profit or loss, profit or loss before taxes and net profit or loss



in thousand eur	31.12.2019		31.12.2018		31.12.2017		31.12.2016	
Long-term assets	**51,388**	**74 %**	**52,635**	**70 %**	**53,913**	**74 %**	**48,140**	**71 %**
Intangible assets	888	1.3 %	1,143	2 %	1,403	2 %	526	1 %
Real estate, machinery and equipment	29,807	43 %	30,429	41 %	31,567	43 %	37,157	55 %
Investment property	8,188	12 %	8,188	11 %	8,188	11 %	8,188	12 %
Financial investments and loans granted	11,953	17.3 %	12,058	16 %	11,975	16 %	1,513	2 %
Other	552	0.8 %	817	1 %	780	1 %	757	1 %
Short-term assets	**17,620**	**26 %**	**22,320**	**30 %**	**19,311**	**26 %**	**19,443**	**29 %**
Inventories	11,414	17 %	13,312	18 %	11,189	15 %	8,270	12 %
Operating receivables	5,671	8 %	8,801	12 %	7,875	11 %	7,961	12 %
Other	535	1 %	206	0 %	247	0 %	3,212	5 %
Total assets	**69,008**	**100 %**	**74,955**	**100 %**	**73,224**	**100 %**	**67,584**	**100 %**

by property, machinery and equipment, followed by financial investments and loans granted, worth EUR 11.9 million, and investment properties in acquisition, worth EUR 8.1 million. Intangible assets, worth EUR 0.9 million, have a 1.3-percent share in total assets.

A lot of attention is put on the management of short-term assets that represent 26 % of all assets owned by Goričane. The volume of current operating assets affects corporate borrowing both from suppliers and from banks. The short-term assets of Goričane d.d. were worth EUR 17.7 million and had decreased by 20.7 % in comparison with the end of 2018. On the last day of the year, the short-term operating receivables amounted to EUR 5.7 million and had decreased in comparison

in thousand eur	31.12.2019		31.12.2018		31.12.2017		31.12.2016	
Long-term financial liabilities	19,657	82 %	23,261	87 %	26,272	88 %	31,107	91 %
Short-term financial liabilities	4,216	18 %	3,337	13 %	3,621	12 %	2,957	9 %
Financial debt	**23,873**	**100 %**	**26,598**	**100 %**	**29,893**	**100 %**	**34,064**	**100 %**
Capital	**23,905**	**100 %**	**22,574**	**100 %**	**23,376**	**100 %**	**23,636**	**100 %**
Share capital	1,875	8 %	1,875	8 %	1,875	8 %	1,875	8 %
Capital surplus	10,838	45 %	10,838	48 %	10,838	46 %	10,838	46 %
Legal reserves	8	0 %	8	0 %	8	0 %	8	0 %
Revaluation reserves	5,136	21 %	5,278	23 %	5,421	23 %	8,818	37 %
Fair value reserve	153	1 %	121	1 %	66	0 %	18	0 %
Net profit or loss brought forward	4,595	19 %	5,311	24 %	2,220	9 %	589	2 %
Net profit or loss for financial year	1,299	5 %	-857	-4 %	2,947	13 %	1,490	6 %
Financial debt / Capital	1.0		1.2		1.3		1.4	
Net financial debt / EBITDA	5.6		16.9		5.3		5.3	

with the end of 2018. The inventory value is lower as well, i.e. by 14.3 % in comparison with the previous year. The highest share of short-term assets, 64.4 %, is represented by the inventories.

As of 31.12.2019, the capital of Goričane, d.d. amounted to EUR 23.9 million. It is by EUR 1.4 million higher than on 31.12.2018, which is the result of the good business results in 2019. As of 31.12.2019, the debt-to-equity ratio was 1.0, which is lower than at the end of 2018 because we are regularly paying off our financial debts.

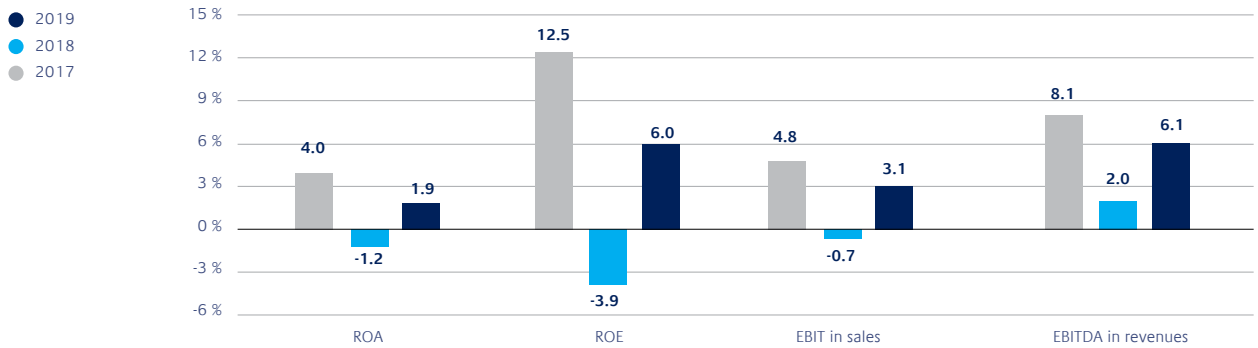
Provisions of company Goričane in the amount of EUR 0.6 million were on the same level as at the end of 2018.

Long-term financial liabilities refer to long-term bank loans. As of 31.12.2019, they were worth EUR 19.6 million, which is EUR 3.6 million or 15.5 % less than on 31.12.2018.

Short-term financial liabilities refer to the short-term part of long-term loans from banks, short-term interest liabilities from the loans on the short-term part and lease liabilities. As of 31.12.2019, they amounted to EUR 4.2 million.

As of 31.12.2019, the short-term operating liabilities, less accrued costs (expenses) and deferred revenues, were EUR 4.6 million or 19.6 % lower than on 31.12.2018. They were worth EUR 18.9 million. The highest share of short-term operating liabilities, 90.2 %, is represented by liabilities to suppliers which are 23.8 % lower than in 2018.

Profitability indicators



	2017	2018	2019
Asset turnover ratio Operating income / Average assets balance	0.950	1.024	0.999
Accounts receivable turnover ratio Sales revenues / Average receivables balance	8.527	8.820	10.213
Immediate solvency ratio Liquid assets / Short-term liabilities	0.004	0.002	0.013
Net return on equity ratio Profit / Average equity	0.134	-0.038	0.062
Equity financing rate Equity / Liabilities	0.319	0.301	0.347
Long-term financing rate Equity + Long-term reserves + Long-term debts / Liabilities	0.706	0.638	0.659
Operating fixed assets rate Operating fixed assets (after carrying amount) / Assets	0.450	0.421	0.444
Long-term investment rate Total fixed assets + Long-term financial investments + Long-term operating receivables / Assets	0.726	0.692	0.736
Equity to operating fixed assets Equity / Fixed assets (after carrying amount)	0.709	0.714	0.781
Quick ratio Liquid assets + Short-term receivables / Short-term liabilities	0.370	0.326	0.253
Current ratio Short-term assets / Short-term liabilities	0.897	0.822	0.752
Operating efficiency ratio Operating revenues / Operating expenses	1.050	0.993	1.031
Net return on equity ratio Net profit in financial year / Average equity (without net profit or loss of the same year)	0.131	-0.039	0.071

Sales

In 2019, Goričane, d.d. created a sales revenue of EUR 73.9 million, which is 0.5 % more than in 2018.

The largest share of our net sales revenue, EUR 41.1 million or 59.1 % of the company's total sales, was generated on the European Union market, followed by the revenue from sales to third countries with EUR 20.8 million or 29.8 %, whereas domestic sales totalled EUR 7.7 million. In comparison with 2018, the revenues from sales to the EU increased by 9 % whereas the revenues from sales to third countries decreased by 11 % and by 4 % on the domestic market.

It is not difficult to draw several comparisons with the year 2018: the fully booked production capacities, the growing sales of our most strategic products and the prices - but those are already a different story.

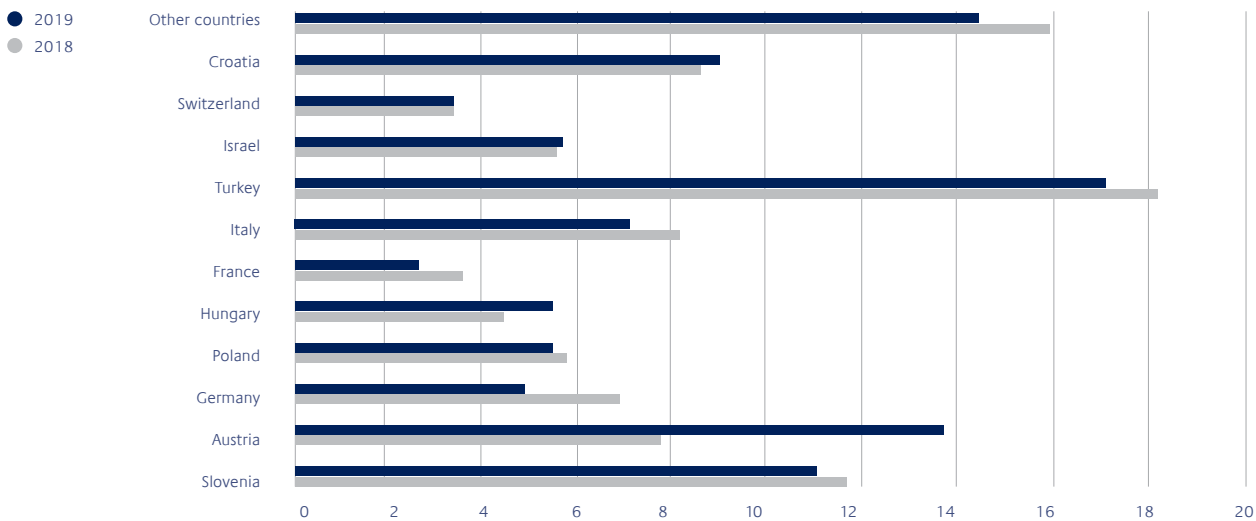
Year 2019 will surely be remembered for the falling prices of raw materials, mainly pulp, which is the most expensive and most significant part of the costs in paper production. Although we expected that the prices of pulp formed in 2018 would not last for long, no one could have imagined they would fall so low; we received yet another proof of how completely unpredictable the pulp market really is.

Our production capacities were fully booked throughout last year but we felt a considerable lack of sheet-cutting capacities so we had to - like several times before - ask our contract partner for help. In addition, we realized that if we want to completely control the whole process, especially the quality, we should really prioritize ensuring sufficient sheet-cutting capacities here at Goričane.

Net sales by quarter in comparison with 2018:

in thousand eur	2019				2018			
	1st quarter	2nd quarter	3rd quarter	4th quarter	1st quarter	2nd quarter	3rd quarter	4th quarter
Slovenia	2,566	1,956	1,612	1,552	2,144	2,006	1,822	2,053
EU	10,286	9,685	12,671	8,494	9,425	9,627	9,619	9,140
Third countries	5,335	4,700	4,340	6,393	5,651	6,060	5,266	6,319
Total	**18,187**	**16,341**	**18,623**	**16,439**	**17,220**	**17,693**	**16,706**	**17,512**

Share of sales by country



The investment into a new cross-cutting machine was therefore eagerly awaited and the additional volumes we are able to get from this machine are more than welcome.

The market developed as expected: we had a high increase in the production of lightweight papers. We are especially happy with a very important business transaction in Saudi Arabia, where we developed a paper specifically for their needs and adjusted it in accordance with their specifications. The buyer was more than satisfied with the product so we can probably expect our partnership to continue.

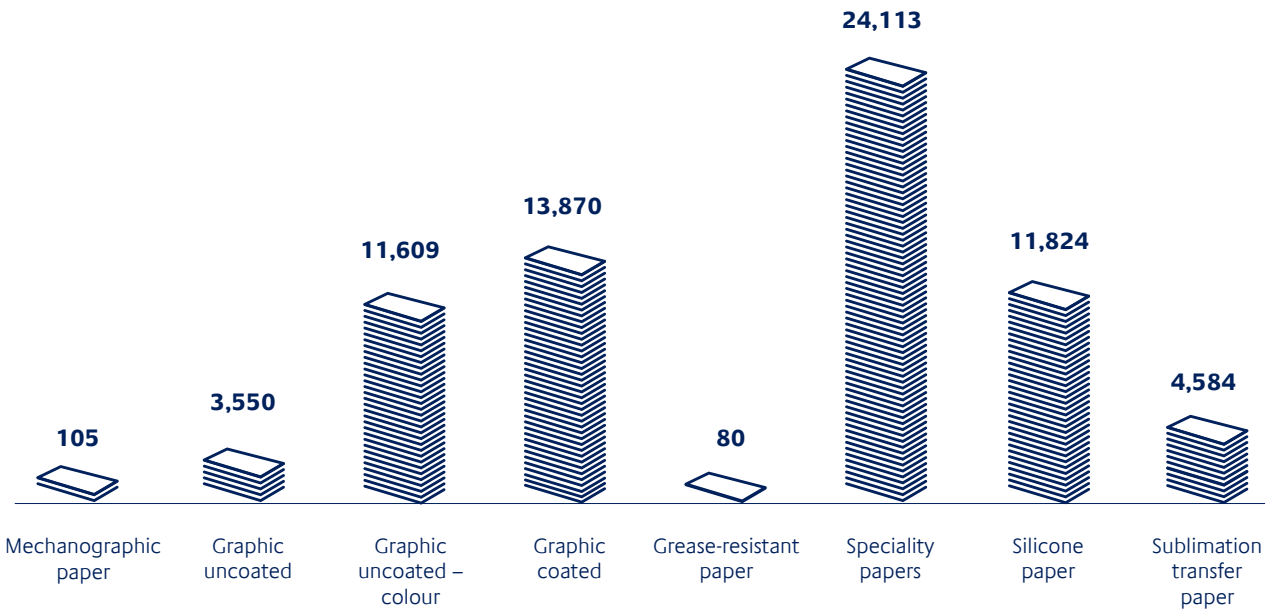
The papers for pharmaceutical instructions have been a continuing success for us as well. The markets closest to us have grown significantly and we also managed to get new buyers. On the Turkish market of these papers, which is growing with an extraordinary speed, our paper is the leading product, confirming that all the activities we invested in this segment were the right ones and are bringing results.

Last year, we also made the first steps on the packaging paper market, and we successfully produced the first volumes of grease-resistant papers, which were well accepted on the market. The main goal is for Goričane to become a distinguished producer of these papers, which is important for the future development of our company. We expect the packaging paper to be one of the main products where the volumes are likely to increase significantly. Potentially, this is also a segment with a diverse range of future development activities, all focused on the paper largely replacing products made of materials that are difficult to recycle and have a considerably harmful environmental impact.

In 2019, our new colleague in sales helped us break through to the markets of Russia and Ukraine, and partially to the Middle East. A significant growth is expected specifically in Russia and Ukraine since they do not produce this type of papers on their own.

2019 was a year of immense changes on the market of raw materials, and consequently also on the paper market. We believe we have successfully adapted to the strategy which, after all, is now confirmed by our business results. We plan to continue similar activities on the same segments in 2020, and we expect for the volumes of our strategically most important papers to grow even further. Of course we are faced with new players on the market, and our job will not be easy.

Sales by paper grade in net EUR



Production

The trend of decreasing average weight continued in 2019 as well. There are more and more speciality products with various chemisms, different filler inputs and the need for a continuous quality improvement. The decrease in weight has been so significant in the last few years that it was reflected in the final volume of paper produced, but in square kilometres, 2019 was nevertheless one of the most successful years.

Although a total of 79,075 tons were produced on the slitter, the average weight was only 66.7 g/m2, which is 4.4 % less than in the previous year and 6.8 % less than in 2017. The volume of production broke grew slightly, which can be attributed to the increasingly demanding production programme and quite a few exceptional events related to the raw materials, maintenance, human resources and production technology. In addition, the increase in broke is also the result of the paper machine's optimal width which is not always possible to ensure. The total capacity utilisation of the paper machine is therefore slightly lower as well but it still exceeds 80 %. Production capacity remained on a high level and provided us with an ability to optimise raw material purchases, transitions and shutdowns.

The average net production on the paper machine amounted to 98.8 km2/month or 6,590 t/month. The average speed of the paper machine remains high, 822 m/min.

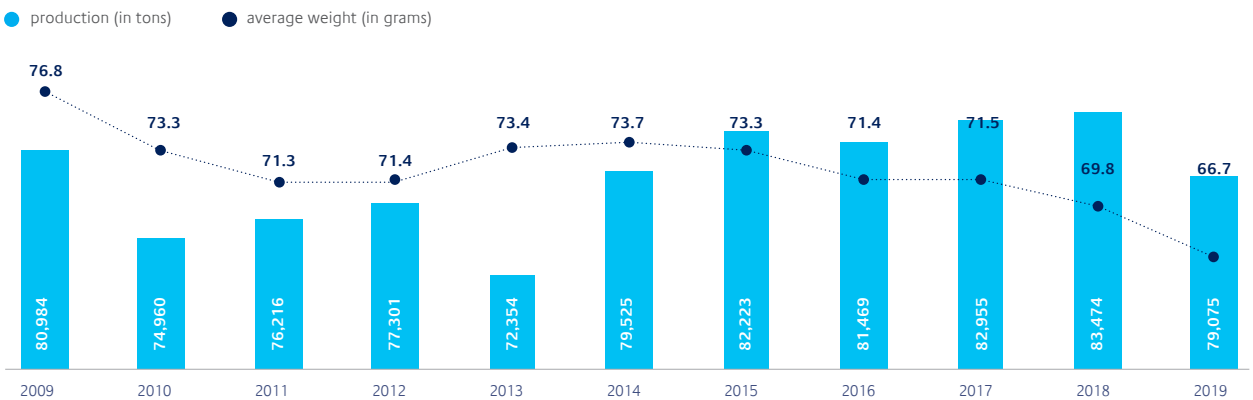
The ever decreasing weight is therefore a huge challenge for ensuring proper PM runnability and high speed. We need faster reactions, a well-maintained machine and regular preventive interventions. Even though we had more paper breaks, they were done more quickly, resulting in only a slight increase of the time spent on them. The shutdowns for maintenance and planned shutdowns, on the other hand, are increasingly well-regulated. The time of the good stock on the wire is also another piece of data that indicates the production efficiency. We were close to 90 % in 2018 but managed to exceed that in 2019 and brought the share up to 90.9 %.

The share of paper for sheet-cutting was similar to the year before - 42.6 % of total production or 33,692 tons of paper were produced for sheet-cutting. Up until October, our paper was cut outside of the company premises but once we bought a new cross-cutting machine, we were able to meet the needs of all our buyers. The weight of sheet-cut paper further decreased by a few more grams and was only 66.7 g/m2. In 2019, we reached a total of 25,111 tons of net production, or 2,093 tons/month. The share of broke is just slightly higher, which can be attributed to the quality of paper on one hand, and the highly demanding low weights on the other. The pressure to increase the volumes remains. What we will need to do is focus heavily on all the details that can increase the efficiency of sheet cutting. In addition, we are still experiencing a trend of staffing changes.

In 2019, the staff fluctuation on the PM and the slitter continued. Some workplaces are strongly affected by the ageing of our staff, and that is being solved by involving mobile workers and training a younger generation of papermakers, which has been a constant effort in the past few years.

The trend of a low share of complaints continues. System errors are practically non-existent, with

Production 2009-2019

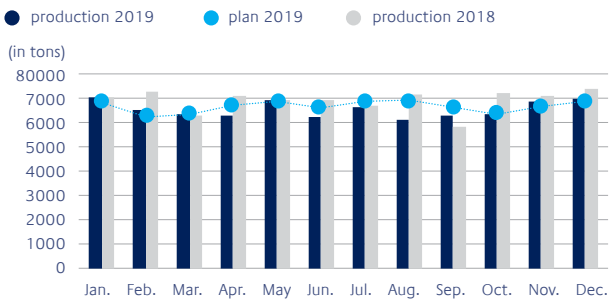


speciality papers being the most critical ones. We are still working on the project of reducing the number of mechanical errors. The energy efficiency of the paper machine has decreased but we are implementing systematic approaches.

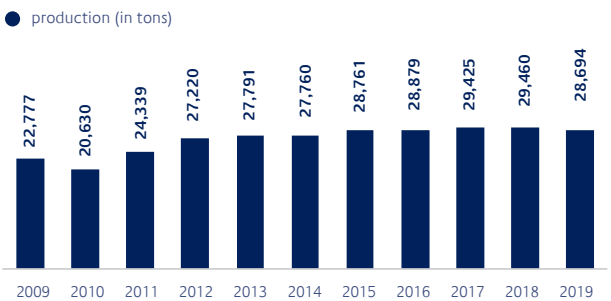
Our goals for 2020 are high. We are slowly reaching the maximum limits of our paper machine, which will make any challenge all the more demanding. A decreasing weight in papermaking is a substantial threat and an adjustment, which is why we need a strong, responsible team that uses a rapid exchange of information and adopts measures to move and raise any limit. Our priorities have been clearly outlined since 2015 and we intend to make no significant changes. We want to maintain a well-running machine, improve the knowledge and responsibility of our employees, ensure a reproducible quality of our products and an immediate response to any error, as well as systematically seek for and solve any potential issues.

In 2020, therefore, we intend to continue searching for new opportunities and the right investment choices in the upcoming years.

Net production in 2019 compared to the plan and the year 2018



Production in finishing 2009-2019



Purchasing

The global economic growth has slowed down in the first six months of 2019 due to the numerous risks, mainly the trading conflicts between the USA and China, the implementation of trading restrictions, the fear of hard Brexit, the cooling of the Chinese economy, the insecurity caused by global politics and the problems on some other fast-growing markets. All this is weakening the extent of trade, industrial production and investments.

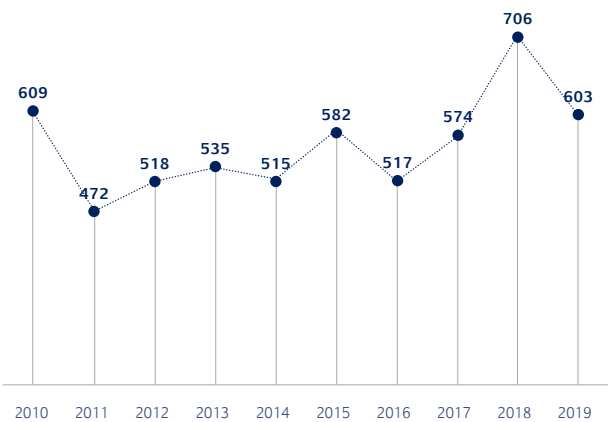
The risk of raw material availability is being managed through long-term strategic relationships with our key suppliers. When it comes to the procurement of production raw materials, supplier management is more than just the price perspective. Their punctuality, quality and responsiveness play a very important role as well. Our production needs were mostly met by purchasing materials outside of Slovenia.

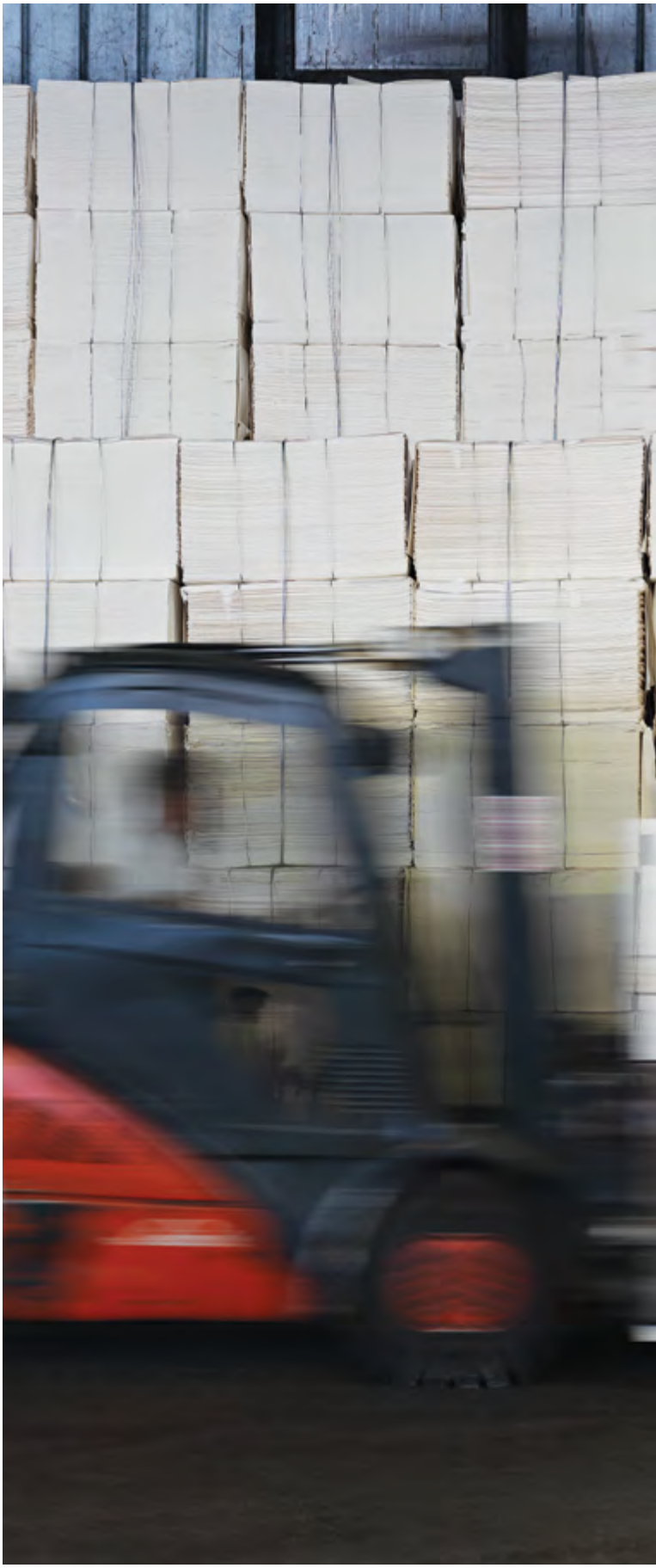
The main raw material, pulp, had a negative price trend throughout the year 2019. From the start to the end of the year, the price of pulp has decreased by as much as 29 %.

As far as other raw materials are concerned, the biggest increase was recorded for the optical brightener - its price grew by 110 % since 2017. The prices of potato starch remain on a high level due to the draught that has reduced the amount of crops for the second year in a row. Considering the long-term average, the loss of crops in 2019 amounted to 15%. The prices of latex fell significantly as well – they were reduced by 15 % in comparison with the year before. In addition, we saw a drop in the prices of wrapping and foil, which are 7 % lower than the year before.

The share of material costs in the gross operating returns amounted to 71.9 % whereas the costs of materials per ton of paper produced decreased by 9.0 % in comparison with 2018.

Pulp price trend (in EUR/t)





Energy sector

As far as the prices of energy products are concerned, 2019 was again a dynamic and unpredictable year - occasionally, without the justifiable facts, even very surprising. In the first two months of the year, the prices of electricity and natural gas were even higher than at the end of 2018. The prices of both energy products decreased significantly in March and reached their lowest point in June. After that, the price of electricity started increasing again and in October reached the same level as at the beginning of the year, but then fell again in the last two months of 2019. The price of natural gas was relatively stable from March and up until the end of the year. Despite all the ups and downs, however, the total cost of energy products was still 5 % lower than the year before.

The absolute amount of electricity and natural gas purchased remained within the limits planned and was, volume-wise, practically the same as in 2018. The disruptions in the supply of electricity or steam, which were mostly caused by external factors (storms), resulted in 10 hours of production shutdown.

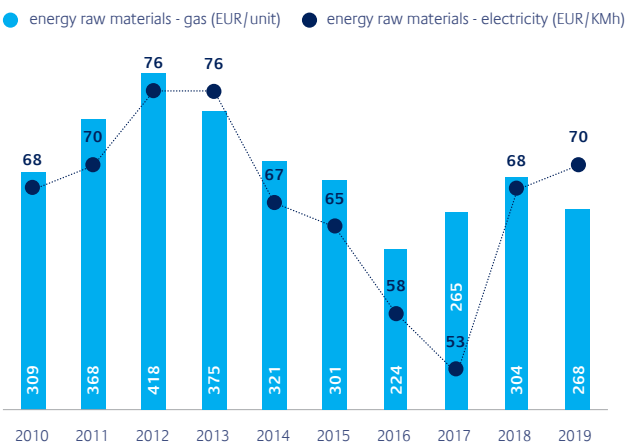
The amount of freshly pumped water was slightly higher than the year before due to the tests conducted on the wastewater treatment plant.

The consumption of compressed air is still too high, resulting in a higher number of service interventions on the compressors as well as occasional disruptions in the processes.

The specific consumption of electricity and thermal energy remained on the same level as in previous years.

Throughout the year, negotiations with electricity and natural gas suppliers were held both for the current year and for 2020. The negotiations were based on the current exchange prices of energy products. The contracts with supplier were signed for one year. The volume close was - as much as possible - adjusted to the situation on the stock exchanges.

Natural gas and electricity price trend



Maintenance

Regular maintenance

The shutdown time for maintenance on the paper machine was adjusted to the needs of the production process and totalled 122 hours. Just like before, the regular maintenance shutdowns were planned to take place every 5 to 6 weeks. and although a more precise schedule was set based on the state of the machine clothing and production capacities, there were no significant departures from the plan. Both of the longer scheduled shutdowns were conducted when scheduled.

The shutdown time was used for the regular and urgent repairs, construction and cleaning as well as some upgrades. The work done during the planned shutdowns involved a varying number of external contractors both from Slovenia and abroad (depending on the extent and scope of the activities) as well as all our internal teams.

A total of 98 hours of shutdown time was spent for unscheduled technical-maintenance work, which is below the plan (112 hours). Throughout the year, 10 hours were lost in production due to the disruptions in the energy sector.

The unscheduled technical shutdowns were relatively evenly distributed throughout the year. with the slight exception of the month of June with 25 hours caused by the stock pump and wire drive failures, and a faulted bearing on cylinder 22.

The costs of maintenance, both the total amount and the amount by account, remained within the limits planned. Overtime hours remained on a similar level as in the past few years.

Construction maintenance

The construction work performed in 2019 can be roughly divided to regular maintenance, urgent interventions and investment-related construction work. The regular maintenance included maintenance work on the buildings, the roofs, the sanitary and production facilities and the infrastructure. Regular maintenance works were also conducted for ensuring safety and protection on the premises of our papermill.

In addition, we fixed the potholes on the driveways, the pipes in the management building and the roofs damaged by a storm.

Some construction work was also done during the installation of new fixed assets, especially in the finishing sector.

The costs of construction maintenance were lower than planned, which was mainly due to the sanitation works on the buildings being limited to the minimum necessary level.

Most of the buildings are structurally sound but there is some evidence of damage and overuse on the infrastructure (driveways, courtyards, access areas) that would require slightly more considerable investments.

Investments

In 2019, we started eight new larger-scale investments and numerous smaller ones in the total value of approximately EUR 1 million. The primary focus of the investments was to build a wireless information network, update and expand the logistics capacities, upgrade the process systems in production, and increase the sheet-cutting capacities. Most of these investments were successfully completed, and we also wrapped up several investments from the previous year. The activations amounted to more than EUR 802,000, of which the leases totalled EUR 88,000.

Development

There have been some significant changes on the packaging market, set in motion by the implementation of the European Directive 2015/720/EU, which requires the Member States to adopt the measures for reducing the consumption of lightweight plastic carrier bags to combat littering, change the consumer behaviour and promote waste prevention. The elimination of plastic bags has increased the interest in recyclable paper bags, which therefore represent an interesting business opportunity both for paper manufacturers and for bag producers.

In 2019, we continued with the development of the SORA pack paper for carrier bags intended for textile. We worked on improving printability and reducing the weight of paper, while at the same time retaining its mechanical properties. Lightweight paper was produced successfully so we are now selling paper in two weight options, 120 and 90 gsm. It was extremely important for Papermill Goričane to partner with producers of paper bags that have sales experience from the global market and could help us determine the advantages and disadvantages of our paper. The printing and folding tests have confirmed excellent printability in offset printing. in flexo, it creates a slightly less homogeneous print in comparison with the two-side coated papers, which is especially visible on large, full surfaces, printed in a single colour. In addition, we were able to confirm the suitability of our fiber selection for ensuring good mechanical properties which provide for effective runnability through the printing and folding machine, and at the same time secure the required carrying capacity of bags for textiles.

In order to improve printability in flexo printing, we are developing a suitable coating mixture that would fit our method of coating. At the same time, we are also pilot testing other coating techniques since we are considering investing into a new coating aggregate that would produce an even and smooth surface even with the smallest coat applications. Our future development will also be focused on further reducing the weight of paper while maintaining its mechanical properties in order to contribute to lowering the amounts of waste packaging.

The packaging paper market is very diverse and provides the paper and food packaging (bags, small boxes, lining paper etc.) producers with excellent business opportunities. The development of grease-resistant papers was one of the most intense and demanding projects in the past two years. Since the environmental legislation stipulates restrictions for the use of certain barrier chemicals, we had to choose the right direction for developing products that are acceptable for contact with food and for the environment, meaning that they are biodegradable, compostable and recyclable. It was important to connect with producers of various environmentally friendly barriers that have the properties required for packaging.

Laboratory analyses and tests were performed on various coatings that serve as grease-resistant barriers.

In 2019, we produced grease-resistant paper with fluorine additives on an industrial scale. These additives are environmentally restricted. We use only fluorines that can be used for contact with food and have a chain shorter than C8. We are currently producing a two-side coated SORA barrier OGR paper with a KIT 5 value and weights ranging from 30 to 55 gsm.

Developing paper with security fibers was one of our most important development projects in 2019, and was completed with a successful launch on the market. This paper was basically developed from the SORA light chamois standard product but has been further refined with invisible (security) fibers that represent the protective element for identifying the authenticity of the paper. The foundation for the development of a new product usually begins with a test sample and continues with paper analyses. After that, we calculate the costs and make the decision - in cooperation with the development, production, purchasing and sales departments - on whether to continue with the project or not. Before we were able to produce the first ton of paper, we had to find the optimal dosing spot for an even distribution of fibers across the paper web width. The buyer requested at least 10 fibers of each colour per 1 dm^2.

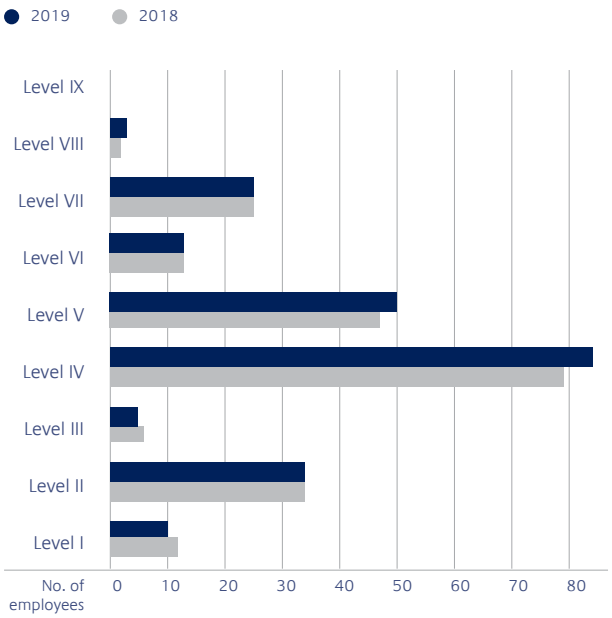
With this product, we have managed to further expand the diversity of our sales range, which helps us achieve a breakthrough in the new market segments of light-weight colour papers refined with invisible fibers.

Responsibility to employees

Employment figures and education level structure

As of the end of 2019, the company had 224 employees, prevailingly with level 4 education (elementary to lower vocational education).

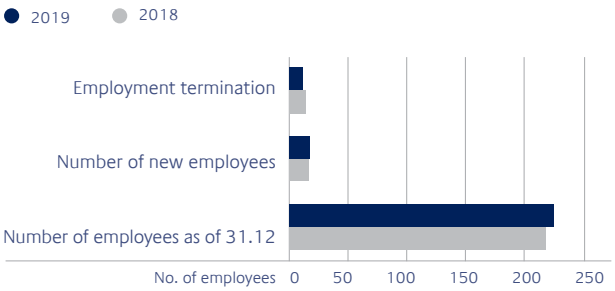
Education level



Recruiting potential new employees and the selection process

Potential new employees are reached through our website and the Employment Service of Slovenia, but we are also posting ads in printed media and on an online employment platform for job seekers.

Fluctuation



Our recruitment process includes at least two phases, i.e. at least two meetings and discussions are held with each potential candidate prior to signing the employment contract. The first interview of informative nature is usually conducted by our HR manager. In the next interview, the HR manager is joined by the head of the department searching for a new team member.

Managing employee education and training

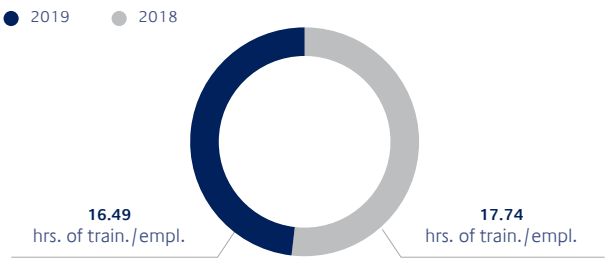
The training process at our company involves all employees. The average time of training in 2019 was 16.49 hours - 16.46 hours were spent on external and 0.03 hours on internal training. On average, the cost of training per employee was EUR 264.39.

In 2019, we mostly attended various training courses that are required by law (occupational health and safety, natural gas, training for workers in the energy sector), attended several global conferences on the paper industry and development, and continued with the papermaking school at the Pulp and Paper Institute. In addition, we continued with occupational health workshops and the English language course.

In September, Goričane, d.d. joined the KOC Hrana 2 (COC Food 2) project for cofinancing education and training in the next two years. The partnership involves 37 companies; 25 from the food processing industry, 4 from the paper and paper converting industry, and 5 from the plastic converting industry.

It is lead by the Pomurje Chamber of Commerce in cooperation with the Chamber of Agricultural and Food Enterprises. Its framework included the preparation of

Hours of training per employee



a competence centre or model, and intends to co-finance the training programmes that will contribute to improving the competences required for specific job profiles.

In 2019, a significant amount of time was again invested in promoting employment and apprenticeship in papermaking. We distributed brochures and posted detailed information about jobs in the paper industry, about paper and training opportunities on our website and our Facebook page.

In addition, we continue with the "Papermaking School", a professional training programme for papermakers.

Employee salaries and other benefits

The starting salary is calculated on the basis of the salary scale defined by the collective agreement that applies to Goričane, d.d., and because we are aware of the importance of social security, our employees are included in the collective supplementary pension insurance system and a collective health insurance package called Zdravje Specialisti. In addition, any employee who is exposed to noise has been equipped with a custom-made hearing protector.

Health, safety and well-being of our employees

Our employees work under the guarantee of a safe work environment. We are regularly conducting risk assessments and implementing measures to keep them on an acceptable level. In addition, we are making sure to continuously improve the working conditions. In 2019, just like every year, our employees went through theoretical and practical training for safety at work, and took regular preventive and periodical medical check-ups. Our staff includes 3.08 percent of people with disabilities.

Health is of key importance in ensuring that we are efficiently fulfilling our job requirements. Our company is promoting occupational health via various channels, e.g. in our online newsletter, on internal information displays and through email. The occupational safety and health programme at our company is focused on implementing the required standards, a commitment of the Management, employee involvement, workplace risks and analysis, detection and elimination of potential hazards, training and education.

In 2019, occasional theoretical and practical exams in occupational safety were carried out for our employees in accordance with the HR department's training schedule, and introductory training courses were performed for new employees and students who are temporarily hired through student employment agencies.

A periodic inspection of the work equipment was carried out in maintenance and partially in finishing, on the slitter and in roll packing. A part of the lifting devices was inspected as well.

There were no fires in 2019. From the prevention point of view, ensuring fire safety requires specifically focusing on the issue of hot work being performed outside of the maintenance sector, regular cleaning of all facilities, the papermill's mid-roofing, work equipment and cable racks. In addition, we conducted the regular annual inspection of fire extinguishers and the hydrant network.

And last but not least, our employees have the option of joining a regular weekly sports activity for a healthier lifestyle.

Sick leave and the number of accidents

A total of 22,829 hours of sick leave were recorded in 2019. Also, we recorded seven slight work injuries, meaning that the injury frequency is 3.12 %.

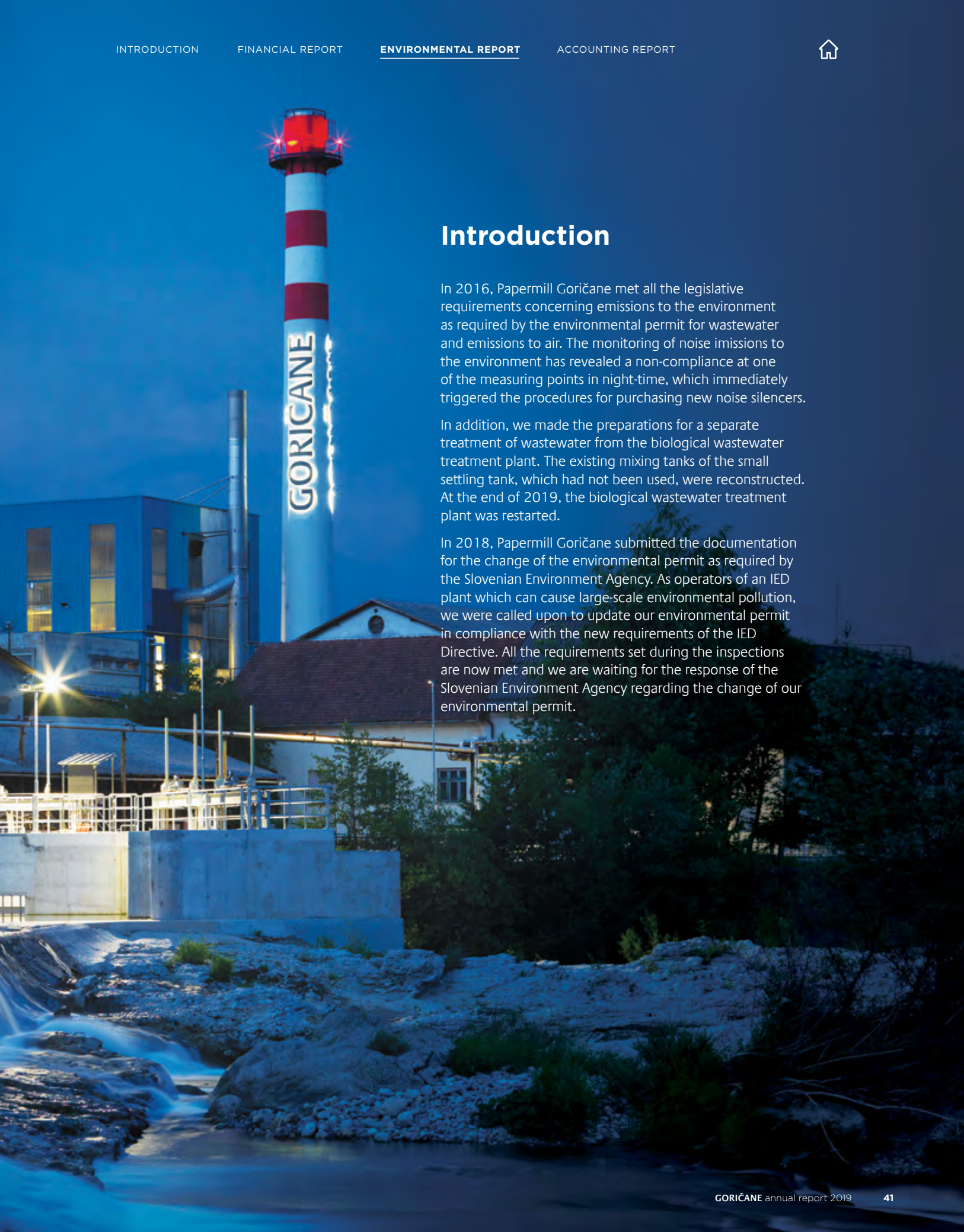
Expected development

The business plan of Goričane, d.d. for the year 2020 was formed based on an estimate of the market needs, taking into account the current situation on the market, a prediction regarding the situation in the paper industry, and a projection of the conditions in the global economy. We are well aware that despite the careful planning, deliberate business decisions, fast response to change and an efficient system of risk management in the business environment, external factors can occur over which we have no direct influence, and which can pose a risk and prevent us from meeting our goals.

The business goals of Goričane, d.d. for the year 2020 are as follows:

- EUR 74.1 million of net revenues from sales,
- EUR 74.8 million of gross operating returns,
- EUR 4.2 million of EBITDA,
- EUR 1.5 million of net operating profit or loss,
- ratio 0.8 of financial debt/capital,
- ratio 4.7 of net financial debt/EBITDA,
- EUR 0.9 million of investments into fixed assets.

ENVIRONMENTAL REPORT



Introduction

In 2016, Papermill Goričane met all the legislative requirements concerning emissions to the environment as required by the environmental permit for wastewater and emissions to air. The monitoring of noise imissions to the environment has revealed a non-compliance at one of the measuring points in night-time, which immediately triggered the procedures for purchasing new noise silencers.

In addition, we made the preparations for a separate treatment of wastewater from the biological wastewater treatment plant. The existing mixing tanks of the small settling tank, which had not been used, were reconstructed. At the end of 2019, the biological wastewater treatment plant was restarted.

In 2018, Papermill Goričane submitted the documentation for the change of the environmental permit as required by the Slovenian Environment Agency. As operators of an IED plant which can cause large-scale environmental pollution, we were called upon to update our environmental permit in compliance with the new requirements of the IED Directive. All the requirements set during the inspections are now met and we are waiting for the response of the Slovenian Environment Agency regarding the change of our environmental permit.

Use of natural resources

A rational consumption of natural resources is measured by the index of material loss from the production process. Material loss calculated on the wastewater treatment plant are based on the amount of extracted sludge. In 2019, the material loss increased to 0.87, which is far above the target value (the target is 0.7).

Average material loss from production process

Indicator: % (calculation based on gross production)

Goal	2015	2016	2017	2018	2019
0.7	0.77	0.75	0.68	0.61	0.87

The consumption of well water for cooling purposes depends on the time of operation of individual boilers, Bosch and Wagner, which require different amounts of cooling water for their operation. Water used for cooling purposes by the Bosch steam boiler is treated as waste process water in the production process, whereas in the case of cogeneration and power generation, cooling water is treated as process water in thermal power plants. In the production process, we open the water loop containing waste cooling water from the Energy sector in order to keep any organic charges of waste process water within set limits.

In 2019, the consumption of fresh well water was slightly higher than the year before due to the opening of the water loop in production. The specific consumption of water per net production, which amounted to 16 m^3/ton, was the highest in the last 5 years, meaning that the goal of 10 m^3/ton of net production was not met. Another project we worked on in 2019 was the conversion of the mixing basins of the small setting tank for wastewater treatment with biological sludge from the biological filters. Since the biological wastewater treatment had not been started before the end of 2019, we were not able to optimize the consumption of water in paper production to its target value.

The energy efficiency of our production process in 2019 was once again on a high level, resulting in low electricity and heat specific consumption in comparison with the BAT techniques.

Consumption of energy products

	Indicator	Goal	2014	2015	2016	2017	2018	2019
Water consumption	Fresh water (water wells)1000m^3		3,760	2,272	2,463	2,163	1,851	1,982
	Fresh water (cooling in the power station) 1000 m^3		1,925* 485*	0 1,063**	1,279* 19**	875* 237**	552* 1,299**	506* 1,429**
	Fresh water (technological purpose: paper production) 1000 m^3		1,348	1,209	1,164	1,051	1,127	1,278
	Net spec. consumption of process water m^3/tono neto	10 (BAT 15)	17	14.7	14.3	12.7	13.5	16.2
Energy consumption	Natural gas 1000 Sm^3		13,462	10,591	12,510	12,110	11,713	11,386
	Electricity purchased MWh		36,791	50,851	44,143	45,768	48,303	48,820
	Surplus of emission coupons		7,605	12,984	2,259	3,009	2,774	2,890
	Net consumption of electricity Net MWh/ton	0.7 to 0.9	0.640	0.622	0.627	0.624	0.625	0.671
	Net consumption of thermal energy GJ/ton	7 to 8	3.98	3.79	3.76	3.74	3.71	3.525

*cooling as thermal power plant **cooling as technological purposes

Emissions

To air

Emissions to air are caused during steam production and paper drying and cutting. The monitoring of emissions to air is stipulated by the environmental permit and has to be conducted by an accredited external institution every third year for boiler devices and every fifth year for dust collectors. By investing in the new Bosch steam boiler, we managed to significantly reduce emissions of NO_X to air; the guarantee value is now below 100 mg of NO_X per m^3 of air. The first measurements taken in 2015 confirmed an improved situation of emissions (72 mg NO_X/m3), which has been reaffirmed by the 2018 monitoring (68 mg NO_X/m^3).

Because - considering the market prices of electricity and gas - steam is also generated in the Wagner steam boiler, the exhaust of which is directed into a concrete chimney, a reconstruction of the concrete chimney and a setup of a new measuring site were both implemented in 2017. With the new Decree on the Emission of Substances Into the Atmosphere from Medium-sized Combustion Plants, Gas Turbines and Stationary Engines (OG RS 17/18), a target NO_X value of 200 mg/m3 applies to any device older than 27 years. The monitoring, performed in 2018 for the Wagner boiler, is thus in full compliance with the legislative requirements regarding NO_X as well. As per this new decree, the monitoring of emissions to air for the older boiler will be conducted annually.

To water

Before being discharged to the water course, process wastewater is treated on the mechanical chemical wastewater treatment plant. The 2019 monitoring shows compliance with the environmental permit requirements.

Noise

In accordance with the environmental permit, noise monitoring is conducted every third year by an accredited external institution. In 2019, the level of noise was measured on three locations in the vicinity of the papermill. It was below the maximum permitted limit for daytime and evening time, whereas the measurements for the night-time were within the legislative requirements in two measurement spots, and exceeded the maximum permitted value (which is 48 dB) by 3 dB on the third one.

To eliminate the non-compliance, we ordered new silencers, which will most probably replace the old ones in spring 2020.

Waste

Papermill Goričane has a well-established system of separating waste at its source - we have smaller containers for separate types of waste being disposed of by our employees on a daily basis. There are waste disposal units available with separate containers for different types of waste. In 2020, we have waste packaging management contractually arranged with the Surovina company.

Emissions to air

Indicator	Indikator	Okoljevarstveno dovoljenje	2014	2015	2016	2017	2018	2019
Emissions to air (Bosch boiler)	NO_X mg/m^3	150		72***	72***	72***	68*****	68*****
Emissions to air (Wagner boiler)	NO_X mg/m^3	200	152**	152**	163**	163**	156*****	156*****
All emissions	Prah mg/m^3	150	11**	11**	11**	11**	8*****	8*****

** monitoring 2012
*** first measurements of emissions to air on the Bosch steam boiler
**** monitoring 2016
***** monitoring 2018

Emissions of substances to water

Emissions to water	Indicator	Environmental permit by 1. 1. 2013	Environmental permit after 1. 1. 2013	2014	2015	2016	2017	2018	2019
Suspended solids	mg/l	35		7.4	10.1	8.2	6.7	9.8	12.5
	kg/t	0.4	0.4	0.1	0.13	0.10	0.10	0.12	0.17
KPK	mg/l			66.3	85	95.2	76.3	65.4	76.7
	kg/t	4**	4**	1.0	1.04	1.23	0.98	0.81	1.04
BOD_5	mg/l	50**	25**	15.5	13.5	17	12	9.3	13.1
	kg/t			0.2	0.17	0.22	0.15	0.12	0.18
N tot	mg/l	10		5.6	4.6	4.3	4.0	3.8	4.7
	kg/t		0.2	0.09	0.06	0.06	0.05	0.05	0.06
P tot	mg/l	2		0.34	0.06	0.07	0.09	0.09	0.34
	kg/t			0.0047	0.0008	0.001	0.001	0.001	0.005
AOX	mg/l		0.01	0.086	0.06	0.11	0.12	0.11	0.13
	kg/t	0.015	0.005	0.0014	0.0007	0.0013	0.0015	0.0014	0.0017

**the limit is defined for production with more than one production programme change a day

Waste collected on the premises of Goričane, d.d.

	Indicator	Waste management plan	2014	2015	2016	2017	2018	2019
Paper sludge	tons	max. 1,600	2,041	2,220	1,809	1,769	1,494	2,058
Municipal waste	tons	max. 35	37	35	30	31	34	30
Paper packaging	tons	max. 350	368	373	397	500	579	702
Metal packaging	tons	max. 130	124	147	151	120	138	134
Plastic packaging	tons	max. 40	37	37	19	23	20.4	19.5
Wood packaging	tons	max. 50	58	51	53	37	43.8	37

Hazardous substance management

In hazardous substance management, our well-kept and regularly maintained storage tanks and pumpings enabled us to retain a low risk rate. We have a well-established plan of hazardous chemicals management outlining all activities that are necessary in order to harmonise our operations with the legislation. Our employees are being regularly trained for hazardous substance management and the course of conduct in cases of accidental spillage of hazardous substance.

With migration to GHS labels, all emergency regulations (first aid and securing spillage sites) were updated in accordance with the new safety data sheets. The new safety data sheets with GHS labels were distributed to workplaces.

In 2017 and 2018, an authorised institution conducted an inspection of storage facilities containing hazardous chemicals. The certificates issued to confirm legislative compliance of storage facilities operation are included in the report on inspecting the technical measures for preventing soil and groundwater pollution.

Exceptional events

We had two exceptional events in 2019 – on two separate occasions, the members of the local reported an alleged excessive pollution of the river Sora. In both cases, the authorized institutions performed a quality monitoring of both our wastewater and the water in the canal of river Sora but have not detected any excessive pollution. Both events are related to Savske elektrarne having suspended the flow of river water into the canal of the hydro power plant during maintenance of the dam.

Environmental goals and projects

1. Reducing BOD5 process wastewater at specific water consumption below 10 m^3/ton.

   In 2019, we failed to reduce the consumption of process water because reaching this goal depends on the operation of the biological wastewater treatment plant. Due to the reconstruction of the mixing basins in the small settling tank having been extended into the second part of 2019, the biological wastewater treatment plant was only started at the end of the year.

2. Maintaining noise emissions below the level required by legislation.

   To reduce noise imissions, new noise silencers by the fans and above the paper machine were installed in 2017. Noise monitoring, performed in 2019, revealed excessive noise imission values in one of the measuring spots during night-time. As a result, we ordered new silencers which will be installed in the spring of 2020.

The company management is regularly reviewing the environmental aspects and potential risks, and implementing projects to achieve the environmental goals.

ACCOUNTING REPORT

Statement of management's responsibility

The company management is responsible for preparing the financial statements of Goričane, d.d. Medvode for the year 2019, together with the accompanying guidelines and notes that, as per their best opinion, include a fair presentation of the company development, business results and financial situation, including a description of the main types of risks that this company and any other company included in the consolidated financial statements is exposed to as a whole.

The Management confirms that the financial statements were prepared in full and consistent compliance with the applicable accounting guidelines, that the accounting estimates were made according to the principle of fair value, conservative accounting and sound management, and that the financial statements represent a real and fair picture of the company's financial situation and its business results for the year 2019.

The Management is also responsible for the proper accounting management and adopting the appropriate measures for the insurance of its properties and other assets, and confirms that the financial statements, together with the accompanying guidelines and notes, are prepared taking into account the assumption that the company will continue its operation as well as in compliance with valid legislation and the International Financial Reporting Standards as approved by the European Union.

The company management acknowledges and confirms the financial statements and their accompanying guidelines and notes for the year 2019.

The tax authorities may - within 5 years after the end of the year subjected to tax assessment – at any time review the company's operations, which may incur additional tax liabilities, interests on late payments and penalties from corporate income tax or other taxes and duties chargeable. The company management is not aware of any circumstances that may incur other important liabilities from this title.

Medvode, 20 July 2020

Andraž Stegu, B. Sc.
Managing Director

Income statement

in eur	Notes	2019	31.12.2018 (corrected)
Sales revenues	1.	73,903,408	73,536,440
Change in the value of inventories of products and work in progress	2.	-2,077,872	2,188,257
Other operating revenues	3.	96,966	215,869
Purchase price of merchandise and materials sold, and costs of material used	4.	-51,029,241	-59,004,386
Cost of services	5.	-7,683,224	-8,006,526
Labour costs	6.	-8,437,955	-7,091,209
Write-downs	7.	-2,184,295	-2,045,695
- Depreciation		-1,948,598	-1,998,488
- Loss from impair. of oper. receiv. and contract. liabil.		-178,423	-787
- Write-downs and impairments of non-financial assets		-57,273	-46,420
Other operating expenses	8.	-392,381	-298,668
OPERATING PROFIT OR LOSS		**2,195,405**	**-505,920**
Financial revenues	9.	171,050	171,525
Financial expenses	10.	-542,596	-581,638
Net financial outcome	**11.**	**-371,546**	**-410,113**
Income tax	12.	-214,754	0
Deferred taxes	13.	-208,685	22,817
NET PROFIT OR LOSS FOR THE FINANCIAL YEAR	**14.**	**1,400,419**	**-893,215**

Important accounting policies and notes on accounts following hereafter are an integral part of the accounting reports.

Statement of other comprehensive income

in eur	2019	2018
Net profit or loss for financial year	1,400,419	-839,215
Other comprehensive income during the period to be hereafter recognised in the income statement	43,098	20,112
Change in the fair value of financial assets through other comprehensive income (gross)	53,208	24,830
Taxes from items to be hereafter recognised in the income statement	-10,110	-4,718
Other comprehensive income during the period that will hereafter not be recognised in the income statement	-10,622	34,371
Actuarial gain and loss	-10,622	34,371
Total comprehensive income of accounting period	**1,432,895**	**-838,732**

Important accounting policies and notes on accounts following hereafter are an integral part of the accounting reports.

Statement of financial position

in eur	Pojasnila	31.12.2019	31.12.2018 (corrected)
TOTAL ASSETS		69,097,009	74,954,849
NON-CURRENT ASSETS		51,387,583	52,634,898
Intangible assets	15.	887,829	1,143,085
Tangible fixed assets	16.	29,807,420	30,428,774
Investment property in acquisition	17.	8,188,170	8,188,170
Fair value of financial assets through other comprehensive income	18.	590,609	537,401
Long-term loans to companies in the Group	19.	11,290,966	11,384,388
Long-term loans to others and other finan. receiv.	20.	71,060	135,772
Non-current operating receivables		23,950	47,899
Deferred tax receivables		527,579	769,409
SHORT-TERM ASSETS		17,709,426	22,319,951
Inventories	21.	11,413,759	13,312,486
Short-term loans to companies in the Group	22.	191,118	3,646
Short-term loans to others and other financ. receiv.		2,550	6,550
Short-term operat. receiv. to companies in the Group	23.	732	732
Short-term operating receivables to other customers		4,926,249	7,313,286
Short-term trade operating receivables to others		744,118	986,081
Short-term receivables on income tax		0	501,066
Other short-term assets	24.	328,035	143,512
Cash and cash equivalents	25.	102,865	52,592

Important accounting policies and notes on accounts following hereafter are an integral part of the accounting reports.

in eur	Notes	31.12.2019	31.12.2018 (corrected)
TOTAL CAPITAL AND LIABILITIES		**69,097,009**	**74,954,849**
TOTAL CAPITAL	**26.**	**23,970,599**	**22,537,703**
Called-up capital		1,875,209	1,875,209
Capital surplus		10,838,180	10,838,180
Legal reserves		8,426	8,426
Reserves for treasury shares and own business stakes		84,723	84,723
Treasury shares (as a deductible item)		-84,723	-84,723
Revaluation reserves		5,136,306	5,277,605
Reserves from valuation at fair value		153,162	120,686
Retained profit or loss		5,959,317	4,417,598
TOTAL LIABILITIES		**45,126,410**	**52,417,146**
NON-CURRENT LIABILITIES		**21,581,690**	**25,265,646**
Provisions	27.	633,914	698,245
Financial liabilities	28.	19,622,461	23,261,037
Lease liabilities		34,867	0
Deferred tax liabilities		1,283,330	1,306,364
Other long-term liabilities		7,118	0
SHORT-TERM LIABILITIES		**23,544,720**	**27,151,500**
Short-term financial liabilities	29.	4,151,294	3,337,446
Short-term liabilities from leases		64,217	0
Operating liabilities to suppliers	30.	16,997,491	22,318,578
Other short-term operating liabilities	31.	1,394,780	1,044,397
Liabilities for income tax	32.	214,754	0
Liabilities from contracts with buyers	33.	265,494	121,090
Other short-term liabilities	34.	456,690	329,989

Important accounting policies and notes on accounts following hereafter are an integral part of the accounting reports.

Cash flow statement

in eur	2019	2018 (corrected)
Pre-tax profit	1,823,859	-916,032
Income statement adjustments for:	2,229,692	2,216,615
- amortisation of intangible assets	258,819	258,601
- amortisation of tangible assets	1,689,779	1,739,887
- loss from impairment of oper. receivables and contractual assets	178,423	843
- loss from impairment and write-down of non-financial assets	57,273	0
- financial revenues	-218,598	-303,514
- financial expenses	590,144	713,627
- other non-monetary revenues	-84,319	-192,828
- deferred taxes	-241,829	0
	4,053,551	1,300,583
Changes in:	477,890	3,024,955
- operating receivables (opening less closing)	3,154,017	-733,826
- other short-term assets (opening less closing)	-184,524	13,308
- deferred tax receivables (opening less closing)	241,829	33,708
- inventories (opening less closing inventories)	1,898,727	-2,123,811
- operating liabilities - debts (closing less opening)	-4,823,018	5,858,387
- liabilities from contracts with buyers (closing less opening)	144,405	0
- other liabilities (closing less opening)	65,254	6,180
- provisions from post-employment benefits (closing less opening)	4,235	0
- deferred tax liabilities (closing less opening)	-23,035	-28,991
INCOME FROM OPERATING ACTIVITIES	4,531,441	4,325,538
Net interest from operating receivables and liabilities	-198,516	-239,138
Income tax paid	0	0
NET INCOME FROM OPERATING ACTIVITIES	**4,332,925**	**4,086,400**

in eur	2019	2018 (corrected)
CASH FLOW FROM INVESTING ACTIVITIES		
Inflows from interest	7,827	16,566
Inflows from dividends	44,293	44,335
Inflows from disposal of tangible fixed assets	6,650	0
Inflows from loans returned	27,740	64,769
Inflows from other financial investments and financial receivables	25,636	0
Outflows for acquisition of intangible assets	-65,012	-44,070
Outflows for acquisition of tangible fixed assets	-931,703	-558,398
Outflows for the acquisition of other financial investments and financial receivables	-43,666	-16,000
NET INCOME FROM INVESTING ACTIVITIES	**-928,235**	**-492,798**
CASH FLOW FROM FINANCING ACTIVITIES		
Inflows from increase in short-term financial liabilities	0	299,510
Outflows for interest paid in relation to financing activities	-296,404	-335,895
Outflows for the rights to use assets	-46,990	0
Outflows for repayment of short-term financial liabilities	-3,011,024	-3,589,276
NET INCOME FROM FINANCING ACTIVITIES	**-3,354,418**	**-3,625,661**
CLOSING BALANCE OF CASH	102,865	52,592
NET INCREASE/DECREASE OF CASH	**50,272**	**-32,059**
OPENING BALANCE OF CASH	52,592	84,650

Statement of changes in equity

Year 2019

in eur	Share capital	Capital reserves
Closing balance of reporting period 31.12.2018	1,875,209	10,838,180
Popravek napake iz leta 2018	0	0
Opening balance of reporting period 1.1.2019	**1,875,209**	**10,838,180**
Transactions with owners	**0**	**0**
Total comprehensive income of the reporting period	**0**	**0**
Entry of net profit/loss of the reporting period	0	0
Revaluation of shares and properties	0	0
Actuarial loss	0	0
Transfers within equity	**0**	**0**
Distribution of other net profit of comparative reporting period to other equity components	0	0
Transfer of surplus from revaluation of tangible fixed assets to net profit brought forward	0	0
Balance as of 31.12.2019	**1,875,209**	**10,838,180**
Distributable profit		

Year 2018

in eur	Share capital I	Capital reserves II
Closing balance of reporting period 31.12.2017	1,875,209	10,838,180
Opening balance of reporting period 1.1.2018	**1,875,209**	**10,838,180**
Total comprehensive income of the reporting period	**0**	**0**
Entry of net profit/loss of the reporting period	0	0
Revaluation of shares and properties	0	0
Actuarial profit		
Elimination of deferred taxes from the revaluated part of tangible fixed assets	0	0
Transfers within equity	**0**	**0**
Distribution of other net profit of comparative reporting period to other equity components	0	0
Transfer of surplus from revaluation of tangible fixed assets to net profit brought forward	0	0
Utilisation of revaluation reserves from fair value reserve	0	0
Balance as of 31.12.2018	**1,875,209**	**10,838,180**
Distributable profit		

	RESERVES FROM PROFIT					RETAINED EARNINGS		
	Legal reserves	Reserves for treasury shares	Treasury shares as a deduct. item	Revaluation reserves	Reserves from valuation at fair value	Net profit or loss brought forward	Net profit or loss for financial year	Total equity
	8,426	84,723	-84,723	5,277,605	120,686	5,310,813	-857,104	22,573,815
	0	0	0	0	0	0	-36,111	-36,111
	8,426	**84,723**	**-84,723**	**5,277,605**	**120,686**	**5,310,813**	**-893,215**	**22,537,704**
	0	**0**	**0**	**0**	**0**	**0**	**0**	**0**
	0	**0**	**0**	**0**	**32,476**	**0**	**1,400,419**	**1,432,895**
	0	0	0	0	0	0	1,400,419	1,400,419
	0	0	0	0	43,098	0	0	43,098
	0	0	0	0	-10,622	0	0	-10,622
	0	**0**	**0**	**-141,299**	**0**	**-751,916**	**893,215**	**0**
	0	0	0	0	0	-893,215	893,215	0
	0	0	0	-141,299	0	141,299	0	0
	8,426	**84,723**	**-84,723**	**5,136,306**	**153,162**	**4,558,897**	**1,400,419**	**23,970,599**
						4,558,897	**1,400,419**	**5,959,317**

	RESERVES FROM PROFIT					RETAINED EARNINGS		
	Legal reserves	Reserves for treasury shares	Treasury shares as a deduct. item	Revaluation reserves	Reserves from valuation at fair value	Net profit or loss brought forward	Net profit or loss for financial year	Total equity
	III/1	III/2	III/3	IV		V	VI	VII
	8,426	84,723	-84,723	5,421,309	66,202	2,219,739	2,947,369	23,376,435
	8,426	**84,723**	**-84,723**	**5,421,309**	**66,202**	**2,219,739**	**2,947,369**	**23,376,435**
	0	**0**	**0**	**33,709**	**54,484**	**-33,709**	**-893,215**	**-838,731**
	0	0	0			0	-893,215	-893,215
	0	0	0		20,113	0	0	20,113
					34,371			34,371
	0	0	0	33,709	0	-33,709	0	0
	0	**0**	**0**	**-177,413**	**0**	**3,124,782**	**-2,947,369**	**0**
	0	0	0	0	0	2,947,369	-2,947,369	0
	0	0	0	-177,413	0	177,413	0	0
	0	0	0	0	0	0	0	0
	8,426	**84,723**	**-84,723**	**5,277,605**	**120,686**	**5,310,813**	**-893,215**	**22,537,703**
						5,310,813	**-893,215**	**4,417,598**

Summary of important accounting policies

1. Information about the reporting company and its parent undertakings

Goričane, tovarna papirja Medvode, d.d. is a large company pursuant to Article 55 of the Companies Act. It is registered in Slovenia. The company's core activity is the production of high-quality woodfree papers in the weight range of 37 to 150 g/m^2. The company is a smaller-scale producer of high-quality lightweight papers used for instructions in the pharmaceutical and beauty industry, as well as for the printing of books, textbooks, magazines and marketing materials. The production is complies to the requirements of the ISEGA, FSC® and PEFC™ standards.

Papigor, holding, d.o.o., is the parent company, whereas Papirus holding, d.o.o. (owned by Andraž Stegu), Goričane 38, 1215 Medvode, Slovenia, is the highest ranking company in the Group, responsible for drawing up the consolidated annual report on the level of the ultimate parent company.

2. Basis for the preparation

Declaration of compliance

Financial statements for the year ending as of 31.12.2019 were confirmed by the Management on 20.7.2020.

The company's financial statements are compiled in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union, with interpretations as provided by the International Financial Reporting Interpretations Committee (IFRIC) and adopted by the European Union, and in accordance with the provisions of the Slovenian Companies Act (ZGD-1). By applying the IFRS, the company provides the interested public with more transparent information about its operation and the comparability of its business results on an international level. Thus, the company increases its own credibility in the relationship with partners from abroad.

The company has no segments.

Basis for measurement

The financial statements are prepared with due consideration given to the original value, with the exception of the land, buildings and financial instruments represented with their fair or amortised cost. The methods used for measuring are described in the *Important accounting policies section*.

The accounting policies applied are the same as in the previous years, with the exception of newly adopted or revised standards and notes that became valid in the current period. Implementing the new standards and interpretations has not with any significance affected the financial status and operations of Goričane, d.d. in the relevant period.

Functional and reporting currency

The financial statements are presented in Euros; the Euro is both the functional and the reporting currency of the company. Statements are rounded up to 1 Euro, and totals may differ due to the rounding up. Assets and liabilities in foreign currencies are converted to a functional currency in accordance with the ECB reference rate as of the date of a specific business event. Positive and negative exchange rate differences incurred from such operations and from the revaluation of cash and liabilities, expressed in foreign currencies, are recognised into a functional currency in the profit or loss statement as of the balance sheet date.

The monetary items in foreign currencies are converted at the Bank of Slovenia exchange rate on the last day of the year. The non-monetary items, measured at their purchase value in a foreign currency, are converted at the exchange rate on the date of the transaction, whereas the non-monetary items, measured at their fair value in a foreign currency, are converted at the exchange rate on the date the fair value was determined.

Going concern

The Management deems this company a going concern. In 2014, the company signed an agreement with all its bank creditors on restructuring the financial debts. This agreement helped the company gain capital adequacy that enables it to further operate smoothly and without interruptions. As per this agreement, all liabilities by the company to creditor banks will be settled by 31.12.2022. The annex to the MRA agreement determines that the annual payment obligation from the amortisation schedule can be adjusted only if the company creates a higher cash flow than planned but not if the cash flow is lower because that would represent a liquidity risk. The Management believes that the current situation in the market of raw materials will not cause the liquidity risk to increase next year.

New standards and amendments that became effective in the comparable business year – on January 1, 2018

a) IFRS 9 Financial instruments

The requirements from IFRS 9 regarding classification and measurement had no significant effect on the financial statements of the company.

The company first applied IFRS 9 for the period starting on 1.1.2018, and used a simplified retrospective method during the transition. At transition, there was no cumulative effect of adjusting the initial balance of retained earnings.

b) IFRS 15 Revenue from contracts with customers and Notes to IFRS 15 Revenue from contracts with customers

The company first used IFRS 15 in 2018 and based on a contract analysis, it established that there were no significant differences in the time recognition of revenues in comparison with the previous accounting standard.

New accounting standards and the changes in existing standards

Initial application of the new changes to existing standards, valid in the current reporting period:

The documents applicable in the current reporting period include the new standards, the changes to existing standards and the interpretations issued by the International Accounting Standards Board (IASB) and adopted by the EU:

a) IFRS 16 Leases, issued by the IASB on January 13, 2016 and adopted by the EU on October 31, 2017 (effective for annual periods starting on or after July 1, 2019)

As of January 1, 2019, the company implemented the new standard IFRS 16 Leases, which was adopted by the EU on October 31, 2017 (and applies to the annual periods starting on January 1, 2019 or later). Before this date, application was allowed only if companies used IFRS 15 Revenue from Contracts with Customers as well.

This standard establishes principles for the recognition, measurement, presentation and disclosure of leases, and requires the lessees to use a single model for most of the lease items in the balance sheet statement, and the new standard does not distinguish between an operating and a finance lease anymore. This standard has been replaced by IAS 17 Leases.

Pursuant to IFRS 16, a contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time against payment. For such contracts, the new model determines that at the inception of the lease, the lessee recognises the right-of-use (ROU) asset and the lease liability. The right to use an asset is depreciated and the liability accrues interest.

For lessees, this standard introduces potential exceptions to the scope, which include:

- leases with a lease term of 12 months or less and containing no purchase options, and
- leases where the underlying asset has a low value.

Pursuant to the new standard, lessees have to recognise income from interest on lease liabilities and depreciation costs for the right-of-use asset separately. In addition, certain events will require them to remeasure the lease liability (e.g. a change in the lease term or a change in the future lease payments resulting from a change in the price, index or rate used to determine those payments). In general, the lessee recognises the amount of lease liability remeasurement as an adjustment to the right-of-use asset.

For lessors, the lease accounting has not changed significantly. The lessor defines the lease either as an operating lease or a finance lease, depending on its nature. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incident to ownership. All other leases are classified as operating leases.

The new standard IFRS 16 requires more extensive disclosures than the previous one, both for lessees and for lessors.

It offers two possible approaches to transitioning to the new standard, namely the lessee applies this standard:

- retroactively for every transitioning reporting period presented with the application of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, or
- retroactively with the cumulative effect of the application date of this standard, recognised on the earliest date practicable.

For transitioning to the new standard, the company applied the method using the cumulative effect of the application date of this standard as of January 1, 2019. Therefore, instead of recalculating the comparative data for 2018, the adjustments caused by the transition are disclosed as adjustments of the initial balance in the balance sheet statement as of the earliest date practicable.

The detailed effects of the new standard are explained in the section Changes in Accounting Policies and Error Corrections.

b) IFRS 9 Financial Instruments (amendments) – Prepayment Features with Negative Compensation, issued by the IASB on October 12, 2017 and adopted by the EU on March 22, 2018 (effective for annual periods starting on or after January 1, 2019)

This amendment enables companies to measure financial assets with prepayment features, which provide or require from the contracting party either the payment or a receipt of a reasonable compensation for early contract termination (this, from the perspective of the asset holder, is considered as a "negative compensation"), by their amortised cost or fair value through other comprehensive income.

The amendments to this standard had no significant effect on the company statements.

c) IAS 28 Long-term Investments in Associates and Joint Ventures (amendments) – Long-term Interests in Associates and Joint Ventures, issued by the IASB on October 12, 2017 and adopted by the EU on February 8, 2019 (effective for annual periods starting on or after January 1, 2019)

These amendments address the question of whether measuring long-term investments (especially from the perspective of requests for impairment of long-term investments in associates and joint ventures, the content of which is part of the "clean investment" in an associate or a joint venture) should be included in the scope of IFRS 9 or IAS 28, or a combination of both. The amendments also clarify that after recognising long-term investments not measured with the equity method, and before the application of IAS 28, a company should apply the provisions of IFRS 9 Financial Instruments. When applying IFRS 9, a company does not take into account any adjustments to the book value of long-term interests otherwise arising from the application of IAS 28.

The amendments to this standard had no significant effect on the company statements.

d) IFRIC 23 Uncertainty Over Income Tax Treatments, issued by the IASB on June 7, 2017 and adopted by the EU on October 23, 2018 (effective for annual periods starting on or after January 1, 2019)

This amendment addresses the uncertainty over corporate income tax treatment, which affects the application of standard IAS 12. The amendment implements guidelines for separate or joint processing of uncertain tax treatments, examination of tax authorities, application of an appropriate method to reflect these uncertainties, and the consideration of changes in facts and circumstances.

The amendments to this standard had no significant effect on the company statements.

e) IAS 19 Plan Amendment, Curtailment or Settlement (amendments) – Plan Amendment, Curtailment or Settlement, issued by the IASB on February 7, 2018 and adopted by the EU on March 13, 2019 (effective for annual period starting on or after January 1, 2019)

These amendments to the accounting standard require that companies, when defining the short-term expenses of employee benefits and net amount of interest in the remaining annual reporting period after an amendment, curtailment or settlement of the employee benefit plan, apply the updated actuarial assumptions. In addition, the amendments clarify the effect of implementing the plan amendment, curtailment or settlement on the requirements regarding the asset ceiling.

The amendments to this standard had no significant effect on the company statements.

f) Amendments to various standards for improving IFRS (period from 2015–2017) arising from the annual project for improving IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23), mainly for the purposes of rectifying non-compliances and providing interpretations, issues by the IASB on December 12, 2017 and adopted by the EU on March 14, 2019 (effective for annual period starting on or after January 1, 2019)

Amendments to various standards arise from the annual project for improving IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23), mainly to rectify non-compliances and provide interpretations. The amendments contain the following clarifications: a company remeasures any previously held interest in a joint venture when it gains control over a business entity (IFRS 3); if a company acquires common control over a business entity, it does not remeasure its previously held interest in the joint venture (IFRS 11); a company recognises any income tax impact of dividend payments the same way (IAS 12), and as part of general loans, a company treats any loan primarily intended for asset development as an asset ready for intended use or sale (IAS 23).

The amendments to this standard had no significant effect on the company statements.

Standards and amendments to existing standards issued by the International Accounting Standards Board (IASB) and adopted by the EU but not effective yet:

As of the date of approval of this financial statement, the International Accounting Standards Board (IASB) issued the following amendments to the existing standards, adopted by the EU but not effective yet:

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

In September 2019, the International Accounting Standards Board (IASB) issued amendments to standards IFRS 9, IAS 39 and IFRS 7 as part of the final phase of the response to the effects of the IBOR rate reforms on corporate financial reporting. In the second phase of the project, the board will focus on the issues that could affect financial reporting when a company replaces an existing reference interest rate with a risk-free interest rate. The amendments address the issues that affect financial reporting in the period before the replacement of the existing reference interest rate with an alternative reference rate, and the effects of this replacement on the specific requirements related to hedge accounting from standards IFRS 9 Financial Instruments and IAS 39 Financial Instruments: Recognition and Measurement, whereby a company has to take into account the results of analyses of anticipated future operations. To recognise all hedges that are directly affected by the reference interest rate reform, companies may use a temporary allowance and during the uncertain period before the replacement of the existing reference interest rate with an alternative, almost risk-free interest rate, continue with the recognition of hedge accounting.

Amendments to IFRS 7 Financial Instruments: Disclosures Around Uncertainty Arising From the Interest Rate Benchmark Reform

These amendments are effective for annual periods starting on or after January 1, 2020 and have to be applied retroactively. Early application of the amendments is allowed.

The company expects no effect of these amendments on its financial statements.

b) Conceptual framework of IFRS standards

On March 29, 2018 the International Accounting Standards Board (IASB) published a revised conceptual framework for financial reporting standards. The conceptual framework defines a comprehensive range of concepts for financial reporting, for determining standards and guidelines to help preparers develop consistent accounting guidelines, and for facilitating the understanding and interpretation of standards. In addition, the IASB also issued a separate accompanying document, *Amendments to References to the Conceptual Framework in IFRS Standards*, which covers the amendments to the standards in question, and is intended for updates of references to the revised conceptual framework. The goal of the board is to provide support in transitioning to the revised conceptual framework to those companies that adopt their accounting policies based on the instructions of the conceptual framework in cases where none of the IFRS standards applies to a specific transaction. Preparers who implement their accounting policies on the basis of the conceptual framework should apply the conceptual framework to the annual periods starting on or after January 1, 2020.

The company is examining the effect of the conceptual framework and will implement it once it enters into force.

c) Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors Definition of the term *material*

These amendments explain the definition of the term material and the scope of its use. According to the new definition, "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity". In addition, the Board further explained the clarifications accompanying the definition. The amendments also ensure that the definition of the term *material* is consistent with all IFRS standards. They are effective for annual periods starting on or after January 1, 2020. Early application of the amendments is allowed.

The company expects no significant effect of these amendments on its financial statements.

d) Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-Current

The purpose of these amendments is to offer help to companies when deciding whether to classify debt and other liabilities with an uncertain settlement date as current or non-current liabilities in their financial

statements in order to ensure more consistency in the implementation of requirements. Although these amendments affect the presentation of liabilities in a financial statement, they do not change the existing requirements regarding measuring or the period of recognising assets, liabilities, revenue and expenses or the information on these items as disclosed by the company. In addition, the amendments clarify the requirements regarding the classification of debts settled by the company by issuing its own equity instruments.

They are effective for annual periods starting on or after January 1, 2022. Early application of the amendments is allowed.

The company expects no significant effect of these amendments on its financial statements.

New standards and amendments to existing standards that were issued by the IASB but have not been adopted by the EU yet:

As of now, the IFRS standards as adopted by the EU are not significantly different from the regulations issued by the International Accounting Standard Board (IASB), with the exception of new standards and amendments to existing standards which have not yet been confirmed in the EU on the date of the release of these financial statements (the dates of entry into force as listed below apply to the IFRS as issued by the IASB):

a) Amendments to IFRS 3: Business Combinations

The IASB issued amendments to the definition of a business (amendments to standard IFRS 3) in order to help companies determine whether they have acquired a business or a group of assets. These amendments apply to any busines combination with the date of acquisition falling within the period of the first annual reporting starting on or after January 1, 2020, and for acquisitions of assets on or after the beginning of this period. Early application of the amendments is allowed.

The company is examining the effect of the amendments to the standard and will implement them once they enter into force.

b) Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture

These amendments address a known conflict between the requirements of standard IFRS 10 and standard IAS 28 regarding the processing of a sale or contribution of assets between an investor and its associate or joint venture. The main result of these amendments is that a company shall recognise the total amount of profit or loss when a transaction involves a business (regardless of whether the business is housed in a subsidiary or not). A company recognises only partial loss or profit for transactions with assets that the company is not using in its operations, even when these assets are housed in a subsidiary. In December 2015, expecting the results of a research into the accounting of assets by equity method, the International Accounting Standards Board postponed the effective date of the standard indefinitely. The amendments to the standard have not been adopted by the EU yet.

The company expects no effect of these amendments on its financial statements.

Important accounting valuations and assessments

Preparing financial statements requires the Management to provide specific valuations and assumptions that affect the carrying amount of company assets and liabilities, and to disclose any potential liabilities as of the balance sheet date, as well as the amounts of company revenues and expenses during the period ending on the balance sheet date. Valuations and assumptions are based on previous experience and other factors which, in given circumstances, are considered reasonable, and which represent the basis for the audits of the accounting value of assets and liabilities as expressed herewith.

Management estimates include, among others, the following items: the depreciation period and the residual value of tangible fixed assets and long-term intangible assets, value adjustments for inventory and doubtful debts as well as statements of claims and provisions for any potential employee-related expenses - termination benefits, long-time service awards. Future events and their implications cannot be determined with any reasonable certainty. Therefore, and because accounting valuations vary in the context of new events, experience, additional information or as a consequence of the ever-changing business environment in which the company operates, accounting valuations require assessment. Actual results may differ from the estimated ones.

Data on the important assessments of uncertainty and deciding valuations which the company management prepared during the process of implementing accounting policies, and which have the biggest effect on the amounts listed in accounting reports, are described in the following notes:

- Revenue from contracts with customers (also in Notes to the Income Statement, no. 1)

The company has adopted the following accounting assessments that have an important impact on the determination of the amount and time for the recognition of revenues from contracts with customers:

– Determining the execution time for contractual obligations

The company used a five-step model to verify the existence of sales contracts and performance obligations, identify the transaction price and allocate it to individual performance obligations, as well as assess whether the revenues should be recognised all at once or over a period of time.

An analysis showed that a company may recognise the revenues from the sale of goods and services all at once at the time of the sale. The company recognises any revenues from the sale of goods or services all at once at the time of the sale to the customer or at the time determined in the Incoterms of every individual sale. Once a sale is concluded, the company no longer controls the goods or services sold.

- The right to use assets when applying the provisions of IFRS 16 (also in Notes to the Income Statement, no. 15)

The company adopted the following accounting assessments that significantly affect the determination of right-of-use value and lease liabilities:

– The identification of lease contracts. The company identifies a contract as a lease contract if it grants the company the right to control the asset leased. The company controls an asset if it can use it and is entitled to the economic benefits generated by the use of this asset.

– Determination of the lease duration. The company defines the lease duration as the period during which the lease cannot be terminated, including:

  a) the period that is subject to the option of lease extension if there is reasonable certainty that this option will be exercised;

  b) the period that is subject to the option of lease termination if there is reasonable certainty that this option will remain unexercised. In most cases, the lease duration is defined in the lease contract. If the contract period is not defined, the company estimates the lease duration based on its assessment of the need to use a specific asset.

The discount rate is set at the level of the interest rate borne by the company to acquire comparable assets with a comparable maturity on the market.

The company uses two exceptions allowed by this standard, namely it exempts the following leases from the recognition of assets and lease liabilities:

– short-term leases, and

– leases with low-value assets leased.

Depreciation costs are calculated using depreciation rates estimated on the basis of the remaining lease period.

- Impairment test of intangible fixed assets, tangible fixed assets and investment properties per their purchase cost (also in Notes to the Income Statement, no. 7)

At least once a year, the company checks for potential signs of impairment in cash-generating units - CGU. A recoverable amount is determined for any CGU that displays signs of impairment, and compared with the accounting value. A valuation of the recoverable amount is performed by an authorized valuer.

- Useful life of depreciable assets (also in Notes to the Income Statement, no. 7)

By the end of financial year at the latest, the Management verifies the useful life of depreciable assets, taking into account the expected physical wear and tear, technical obsolescence, commercial obsolescence and the foreseeable legal and other restrictions of use. In addition, the company verifies the useful life of the more significant assets in the potential case of changed circumstances that would require the useful life to be modified, resulting in a revaluation of the depreciation costs.

- Value of doubtful receivables (also in Notes to the Income Statement, no. 7)

In accordance with IFRS 9, the company formed an assessment of impairment based on a simplified approach. An impairment assessment is determined according as per the concept of expected credit loss for the total duration period of operating receivables or the so-called lifetime expected credit loss on the basis of a value adjustment matrix.

The following assumptions were applied when calculating the expected credit loss of operating receivables:

– by monitoring the forecasts for macroeconomic indicators, it is determined which macroeconomic cycle includes the operations of the company's customers, and as a result, the estimated value adjustments in the value adjustment matrix are further adjusted as needed.

- The matrix is calculated based on the data that excludes any receivables of companies in insolvency proceedings, since this data is processed separately.
- The matrix is based on the historical values of expected credit loss.
- The matrix value is adjusted in accordance with the foreseeable future changes of the macroeconomic indicator.

- Valuation of property at fair value (also in Notes to the Income Statement, no. 15)

In assessing the fair value of land and buildings, the company takes into consideration the ability of the market operator to create economic benefits with optimal use of assets, or its sale to another market operator.

Any asset valuated at its fair value is classified in the fair value hierarchy based on the level of input data, which is important for fair value measurement.

- Loans granted to companies in the Group (also in Notes to the Income Statement, no. 18)

In accordance with IFRS 9, these loans should meet the terms for the so-called POCI (purchased or originated credit-impaired) assets, i.e. the assets impaired at initial recognition. Such assets are therefore based on the model of a lifetime expected credit loss, which is already included in the effective interest rate (i.e. adjusted effective interest rate). Such loans are therefore valuated by their amortised cost with the application of an adjusted effective interest rate which depends on the expected cash flow or payments. In line with the IFRS standards, only the changes in the lifetime expected credit loss were monitored and recorded as loss.

Based on the acquired analysis of loan repayment dates and the availability of sufficient funds for the repayment of loans granted to associated companies, we determined that the initial loss from the POCI asset valuation remained unchanged.

- Assessment of provisioning (also in Notes to the Income Statement, no. 26)

The company has provisions formed for termination benefits upon retirement and long-term service awards. A provision is recognised when - due to a past event - the company has legal or indirect liabilities that can be estimated with certainty, and when it is probable that the settlement of liabilities will require an outflow of factors enabling economic benefits. The company management is regularly verifying if the settlement of a probable liability should require an outflow of factors enabling economic benefits. The current value of termination benefits and long-time service awards is registered as one of the liabilities for certain post-employment benefits. Recognition is based on actuarial calculations that include assessments and estimates made at the time of the calculation (discount rate, staff fluctuation, death rate, salary growth). Liabilities for certain benefits are sensitive to the change of estimates listed.

Provisions for lawsuits are recognised when - due to a past event - the Group has either legal or indirect liabilities that can be reliably estimated, and if the settlement of the liability potentially requires an outflow of factors enabling economic benefits. Any contingent liabilities in financial statements are not recognised because their actual existence will not be confirmed with an occurrence or non-occurrence of events until unforeseeable future, which is something the company cannot affect. The Management regularly checks whether it is possible to settle a contingent liability with a possible outflow of funds that ensure economic benefits. If the outflow becomes possible, the contingent liability is reallocated so that a provision is formed for it in the financial statements as soon as the level of contingency changes. For the assessment of the existence and amount of contingent liabilities, the Management shall lean the expert opinions of outsourced lawyers that also represent the company in litigations. Provisions for lawsuits include a considerable level of uncertainty and the actual costs of settlement may significantly differ from the current valuation.

Determining fair value

In numerous situations, the accounting policies may require a determination of the fair value of both non-financial and financial assets and liabilities. A fair value is the amount for which an asset can be sold or a liability can be exchanged between two well informed and willing parties in a deliberate business transaction. To determine the fair value of financial instruments, the company applies the following fair value hierarchy:

- level 1 includes quoted prices in active markets for identical assets or liabilities,
- level 2 includes values that, although they are not the same as quoted prices included within Level 1, can nevertheless be retrieved from the market either directly (prices for the same or similar assets or liabilities on less active or inactive markets) or indirectly (e.g. inputs derived from the quoted prices on an active market based on interest rates and yield curves, implied volatilities and credit spreads),

– level 3 includes inputs for assets or liabilities that are not based on any observable market data, where the unobservable data should reliably reflect assumptions that market participants would use for determining the price of an asset or a liability, including risk assumptions.

The company uses quoted prices as the basis for the fair value of financial instruments. If a financial instrument is not quoted on an organised market or if the market is deemed inactive, the company shall apply the input of either level 2 or 3 to determine the fair value of a financial instrument.

For any assets and liabilities that were already recognised in financial statements for previous periods, the company shall – at the end of every reporting period – establish whether there was a transition between levels by once again verifying the allocation of assets, taking into account the lowest level of inputs important for measuring the total fair value.

Described below are the methods for determining the fair value of individual asset groups for the purpose of measuring or reporting. In addition, specific information is listed in the breakdowns of individual asset items and company liabilities.

– Tangible fixed assets as per revaluation model

After recognition, the company measures land and buildings based on the revalued amount, which is the fair value on the date of revaluation (this is the price that would be received if the asset was sold, or paid if liabilities were transferred in a regular transaction on the main (or the most favourable) market among market operators on the date of measurement under current market conditions, regardless of whether the price can be indirectly monitored or assessed using another technique of value assessment). The fair value of land and buildings is - depending on the circumstances or the situation - measured using one or several valuation techniques such as the market method, the cost method and the return-based method. The company performs the revaluation of land regularly enough to prevent any significant differences between the accounting value and fair value as of the day of reporting.

– Fair value of financial assets through other comprehensive income

The fair value was applied based on level 1 – using quoted prices on the stock exchange.

3. Changes in accounting policies and corrections of errors

Change in IFRS 16 accounting policies

For transitioning to the new standard, the company applies the method using the cumulative effect of the application date of this standard as of January 1, 2019. Therefore, instead of recalculating the comparative data for 2018, the adjustments caused by the transition are disclosed as adjustments of the initial balance in the balance sheet statement as of the earliest date practicable.

An analysis of lease contracts was prepared, noting that since as of 1.1.2019, two contracts met the requirements from the standard, the right of use and lease liability were then calculated for those two contracts. In its implementation of the standard, the company will apply the exceptions of current leases and low values. Also, any leases with maturity of less than 12 months as of the date of transition were not treated as lease contracts. A discount rate of 1.1 % was applied for the current value calculation.

The table below lists the effects of the initial application of IFRS 16:

in eur	31.12.2018 (before the change)	change	1.1.2019 (after the change)
Tangible assets – right of use	0	88,009	88,009
Lease liability	0	88,009	88,009

On the initial application date of IFRS 16, the company had no financial leases that needed to be converted into asset right of use.

Change in presenting financial statements of a comparative period

To reconcile individual items in financial statements with terms from specific IFRS standards, the company renamed the items as follows. This was done based on the provisions of IAS 1 and the standards referring to individually presented items in financial statements.

Changes in the income statement

in eur

Classification and terminology as of 31.12.2018	31.12.2018 (before the change)	Change in the annual report 31.12.2019	31.12.2019 (after the change)
Write-downs	**-2,045,695**	**Odpisi vrednosti**	**-2.045.695**
a) Amortisation	-1,998,488	- Amortisation	-1,998,488
b) Operat. expenses from reval. of intang. and tang. fixed assets	-843	- Loss from impairment of operating receivables and contractual liabilities	-787
c) Operat. expenses from reval. of current assets	-46,364	- Write-downs and impairments of non-financial assets	-46,420

Changes in the statement of financial position

in eur

Classification and terminology as of 31.12.2018	31.12.2018 (before the change)	Change in the annual report 31.12.2019	31.12.2019 (after the change)
TOTAL ASSETS		TOTAL ASSETS	
NON-CURRENT ASSETS		NON-CURRENT ASSETS	
IV. Financial assets available for sale	614,734	Fair value of financial assets through other comprehensive income	537,401
1. Other shares and stake	614,734	Long-term loans to others and other financial receivables	135,772
c) Other shares and stakes	537,401	Long-term loans of companies in the Group	11,384,388
d) Other long-term financial investments	77,333		
V. Non-current loans granted	11,442,827		
a) Long-term loans of companies in the Group	11,384,388		
b) Long-term loans to others	58,439		
Total changed items for non-current assets	**12,057,561**	**Total changed items for non-current assets**	**12,057,561**
CURRENT ASSETS		CURRENT ASSETS	
III. Short-term financial investments	10,196	Short-term loans to companies in the Group	3,646
2. Short-term loans	10,196	Short-term loans to others and other financial receivables	6,550
a) Short-term loans to companies in the Group	3,646		
b) Short-term loans to others	6.550		
Total changed items for current assets	**10,196**	**Total changed items for current assets**	**10,196**

Classification and terminology as of 31.12.2018	31.12.2018 (before the change)	Change in the annual report 31.12.2019	31.12.2019 (after the change)
TOTAL CAPITAL AND LIABILITIES		**TOTAL CAPITAL AND LIABILITIES**	
TOTAL CAPITAL		TOTAL CAPITAL	
Net profit or loss brought forward	5,310,813		
Net profit or loss for financial year	-857,104	Retained profit or loss	4,453,709
Total changed items in capital	**4,453,709**	**Total changed items in capital**	**4,453,709**
TOTAL LIABILITIES		TOTAL LIABILITIES	
NON-CURRENT LIABILITIES		NON-CURRENT LIABILITIES	
3. Other provisions	68,566	Other long-term liabilities	68,566
Total changed items for non-current liabilities	**68,566**	**Total changed items for non-current liabilities**	**68,566**
SHORT-TERM LIABILITIES		SHORT-TERM LIABILITIES	
III. Short-term operating liabilities	23,777,942	Operating liabilities to suppliers	22,318,578
2. Short-term operating liabilities to suppliers	22,318,578	Other short-term operating liabilities	1,044,397
4. Short-term operating liabilities from advances	121,090	Liabilities for income tax	0
6. Other short-term operating liabilities	1,338,274	Liabilities from contracts with buyers	121,090
		Other short-term liabilities	293,878
Total changed items for short-term liabilities	**23,777,942**	**Total changed items for short-term liabilities**	**23,777,943**

Changes in cash flow statement

Some of the items in the cash flow statement were separated and renamed. The new main items are:

- a change in liabilities from contracts with buyers,
- a change in other liabilities,
- net interest from operating receivables,
- income tax paid.

The changes in descriptions have no significant effect on the understanding of the statement.

Correction of error from the past

During the preparation of the financial statements for the year 2019, the company discovered an error that is hereby being corrected in accordance with IAS 8 as if it had not been incurred in the past:

- Consulting services that had been completed in 2018 for the amount of EUR 36 thousand were recorded in accounting records no earlier than in 2019. Since the services had been completed in the year of 2018, they should already have been included in the income statement for 2018. On the ground of indirect relevance, the company implemented a retroactive correction of the error as if the error had not been incurred. Namely, allocating the costs of consulting services to the appropriate financial period is important from the perspective of preparing the company's financial statements, mainly due to the calculation of general contractual obligations, as defined in the contract on financial restructuring. By retroactively correcting the error incurred, the general contractual obligation regarding consulting services for the year 2018 remains fulfilled. This correction affects the financial statement for the year 2018 in that it changes the value of the costs of services, as well as the net profit or loss for the financial year. In the statement of financial position as of 31.12.2018, the correction of the error changes the value of profit or loss brought forward, as well as other short-term liabilities. The effects of the error are listed below.

Effects of the value correction on the income statement for the year 2018

in eur	2018 (pre-correction)	correction	2018 (post-correction)
Costs of services	-7,970,415	-36,111	-8,006,526
Net profit or loss for financial year	-857,104	-36,111	-893,215

Effects of the value correction on the statement of financial position as of 31.12.2018

in eur	2018 (pre-correction)	correction	2018 (post-correction)
Profit or loss brought forward in the capital item	4,453,709	-36,111	4,417,598
Other short-term liabilities	293,878	36,111	329,989

Effects on the statement of other comprehensive income

in eur	2018 (pre-correction)	correction	2018 (post-correction)
Net profit or loss for financial year	-857,104	-36,111	-893,215
Total comprehensive income of accounting period	-802,620	-36,111	-838,732

Effects on cash flow statement for the year 2018

in eur	2018 (pre-correction)	correction	2018 (post-correction)
Pre-tax profit	-879,922	-36,111	-916,032
Changes in other liabilities	-29,930	36,111	6,180

Effects on the statement of changes in equity for the year 2018:

The retroactive correction of the error changes the net profit or loss in total comprehensive income item to the amount of EUR 893,215 (pre-correction value EUR -857,104), and the closing balance of net profit or loss in the capital item as of 31.12.2018 to the amount of EUR -893,215 (pre-correction value EUR -857,215).

Effect on other important information

The retroactive correction of the error also has an effect on the calculated total comprehensive income per share for the year 2018, which, post-correction, amounts to EUR -1.87 per share (pre-correction value EUR 1.79 per share).

In addition, the retroactive correction of the error affects the calculated loss per share, which, post-correction, amounts to EUR -1.98 per share (pre-correction value EUR -1.91 per share).

4. Important accounting policies

In these financial statements, the company consistently applied the accounting policies defined below to all presented periods.

Intangible assets and long-term deferred costs and accrued revenues

Intangible assets include material rights and long-term deferred costs and accrued revenues. They are classified as long-term assets.

An intangible asset that qualifies for recognition is valuated at its purchase price. The purchase price also includes import and non-refundable purchasing taxes and the costs of preparing the asset for its intended use, minus any commercial and other discounts. Advances for intangible assets are an integral part of intangible assets. Measurement after the recognition of an intangible asset is conducted on the basis of a purchase price model. An intangible asset is recognised at its purchase cost less allowance for depreciation. All intangible assets have finite useful lives. Depreciation is based on the straight-line depreciation method, taking into account the useful life. Any subsequent costs of intangible assets are capitalised if they increase future commercial benefits from assets they are related to.

Anytime the company prepares a final annual depreciation calculation, it checks the intangible assets for signs of impairment, leaving out any intangible assets in the making, for which an impairment test is done on an annual basis. If an intangible asset (except for intangible assets in the making) shows signs of impairment, the company establishes the recoverable value of a tangible fixed asset. If the recoverable value is below the accounting value, this warrants a revaluation due to impairment. The recoverable value of an asset is the higher one of the two items: its fair value minus sales costs, or its value in use. Based on IAS 36, the value in use is defined as the present value of future cash flows expected to be derived from the use of the asset.

Emission coupons

Emission coupons are recognised by the company as intangible assets. The company obtains emission coupons for free by means of a decision issued by the Ministry of the Environment and Spatial Planning – Slovenian Environment Agency, which specifies the number of emission coupons for a certain period and the proportional shares to which the company is entitled in a single calendar year.

At the end of the financial year, the company forms liabilities to the state in the value of emissions produced for a free submission of emission coupons in accordance with the Environmental Protection Act, and recognises operating expenses. The liability to state for the handover of emission coupons in accordance with the Environmental Protection Act is settled by the submission of emission coupons.

Since Slovenia does not have an active market of emission coupons, the company cannot revaluate them to a higher fair value. The value of coupons is 1 euro per coupon.

If a company trades with emission coupons, operating revenue or expenses are recognised for the amount of emission coupons that were either sold or bought.

Tangible fixed assets

At initial recognition, the company values tangible fixes assets at their purchase price. The purchase value includes both the amounts that are indirectly attributed to the purchase of assets, as well as the capitalised costs of borrowing. After the initial recognition of tangible fixed assets, the company uses the purchase value model for the equipment, and the revaluation model for land and buildings.

Based on the revaluation model, however, land and buildings are represented with their fair value as of the day of revaluation, reduced by the loss gained subsequently due to impairment. The company is checking the need for revaluation to fair value on a yearly basis.

Impairment and revaluation of tangible fixed assets

Any time the company prepares a final annual depreciation calculation, it checks the tangible assets for signs of impairment. If such signs exist, the company establishes the recoverable value of the tangible fixed asset. If the replaceable value is below the accounting value, this warrants a revaluation due to impairment. The replaceable value of an asset is the higher one of the two items: its fair value minus sales costs, or its value in use. Based on IAS 36, the value in use is defined as the present value of future cash flows expected to be derived from the use of the asset.

To determine the value of an asset in use, the expected future cash flows are discounted to their current value

using the discount rate before tax, which reflects the current market assessments of the time value of money and any risks specific to the asset. For the purpose of impairment testing, any assets that cannot be tested individually are included in the smallest possible group of assets, i.e. assets that are generating cash flows from further use and that mainly depend on the earnings of other assets or groups of assets (cash generating unit). The impairment of an asset or a cash generating unit is recognised if its accounting value exceeds its recoverable value. Such impairments are included in the income statement.

Fair values used in the revaluation of land and buildings at fair value are based on the assessments provided by a certified valuer registered with the Slovenian Institute of Auditors. The fair value assessment has to be conducted for the purpose of financial reporting. A fair value assessment is performed in accordance with IFRS 13. Revaluation reserves are formed from revaluation.

Land and buildings are revaluated to fair value every 5 years or less *if there are indications of material change in fair value* (such as price movement on the national real estate market, price movement on the local real estate market, changes in comparable advertising prices, a significant change in the applicability and intended purpose of the land, or a change in the transaction prices achieved). The company is revaluating land and buildings frequently enough that as for the date of reporting, the accounting value does not considerably differ from the fair value.

If the accounting value of an asset increases due to the revaluation, the increase should be recognised in the statement of other comprehensive income directly as a revaluation reserve in the equity capital. This increase has to be recognised in the profit or loss statement in case the decrease from the revaluation of the same asset previously recognised in the income statement is removed.

If, however, the decrease in accounting value exceeds the revaluation reserves gained for the same asset, the difference in decrease is transferred to the profit or loss as an expense. The surplus from land revaluation, which is a component of other comprehensive income, is transferred directly to the net profit or loss brought forward when the asset is derecognised.

The last appraisal of land and buildings was completed on 31.12.2017 when the assets were last revaluated as well. In 2019, we only checked whether there were any potential material changes in the key appraisal items, or any qualitative changes in the assets included in the appraisal. Because there were no such changes from the date of the last appraisal, the assets were not revaluated as of 31.12.2019.

The company keeps a register of purchase values for any buildings in construction, and treats them as a separate group of assets until their activation.

Borrowing costs related to tangible fixed assets

For qualifying assets, the company adds the costs of borrowing that can be directly assigned to a purchase, construction or production of the qualifying asset as part of such asset's purchase value. The costs of borrowing include expenses for interest and exchange rate differences from loans in foreign currencies if they are treated as an adjustment of interest charges. The company assigns the costs of borrowing to assets with qualification period for availability for use lasting more than a year, and with significant total value as of the date of reporting. Other borrowing costs are recognised in the income statement as an expense of the period in which they were incurred.

Subsequent expenses related to tangible fixed assets

Subsequent expenses related to a tangible fixed asset increase its purchase value if the future economic benefits embodied in this asset are higher than originally estimated.

The purpose of repairing or maintaining tangible fixed assets is to renew or preserve the future commercial benefits expected on the basis of the originally estimated asset efficiency rate. When incurred, they are recognised as expenses.

During the financial year, the company did not establish any dismantling expenses. The environmental hazard was thereby taken into consideration. We believe such assets are not present in our company nor are they expected to occur in the future.

Leases

When signing the lease contract, it is assessed whether the contract contains a lease in compliance with IFRS 16. As per this standard, a contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time against payment.

For such contracts, the new standard determines that at the inception of the lease, the lessee recognises the right-of-use (ROU) asset and the lease liability. The right of use is depreciated and the liability accrues interest. The right-of-use asset is recognised on the start date of the lease, that is, when the asset becomes available for use. The initial asset measurement includes the amount

of the initial lease liability measurement (discount current rate of lease payments still unpaid as of that date), any lease payments made on or before the lease effective date minus any lease incentives received and minus the assessment of potential costs that the company may incur upon asset removal.

The assets are then measured by their purchase value minus accrued depreciation and impairment losses, and are adjusted for every subsequent measurement of lease liabilities. An asset is depreciated from the start of the lease until the end of its useful life or the date of the lease completion, whichever comes sooner. If a contract is concluded for an indefinite term or gets automatically renewed on an annual basis, the expected depreciation period is applied to each individual group of assets.

A check for signs of impairment is performed annually and if they occur, the recoverable value of these assets has to be established. Pursuant to IAS 36, any impairment is recognised in the income statement.

Depreciation of tangible and intangible assets and the right to use assets

The carrying amount of a tangible fixed asset and an intangible asset is reduced by depreciation. Tangible and intangible fixed assets start depreciating on the initial date of their use. Depreciation reduces the value of an asset on a straight-line basis.

Depreciation rates are based on the useful life of assets and have not changed in the previous year.

Depreciation rates applied in 2019

Type of tang. fix. asset	Name	Depreciation rate in %
Facilities		
21	Transport	from 0.92 to 3.00
23	Company-owned buildings	from 1.61 to 6.00
24	Construction buildings - other	from 1.00 to 2.87
26	Vacation facilities	2.00
Equipment		
40	Machinery	from 2.85 to 20.00
41	Transport and communications	from 5.00 to 33.33
42	Restaurant equipment	from 5.00 to 10.00
44	Standard and spec. equipment	from 6.00 to 20.00
45	Equipment, instruments	from 4.00 to 20.00
47	Measuring and monitoring devices	from 6.00 to 20.00
48	Business inventory, furniture	from 5.00 to 25.00
49	Environmental protection equipment	from 5.00 to 20.00
50	Personal vehicles	12.50
51	Furniture	from 5.00 to 25.00
52	IT equipment	from 5.00 to 25.00
Intangible assets		**from 5.00 to 50.00**

The part of the depreciation that refers to the revaluation of fixed assets is regularly transferred from the revaluation reserve to the profit or loss brought forward.

A right-of-use asset is depreciated from the start of the lease until the end of its useful life or the date of the lease completion, whichever comes sooner.

Investment property

Investment property is property owned to bring in rent, to increase the value of a long-term investment, or both. An audit is needed to determine whether real estate should be considered investment property or not.

After initial recognition, the company uses the cost model value based on which the investment property is presented by its purchase value reduced by the depreciation adjustment and potential loss gained due to impairment. The transfer of revaluated investment property (land) from tangible fixed assets is conducted per its accounting value as of the date of transfer, whereas the revaluation surplus remains in the capital and is - at its disposal - transferred to net profit or loss brought forward. Depreciation of investment property uses the same depreciation rates as for property included in tangible fixed assets.

In the financial statement, any investment property not yet available for use is presented as investment property in acquisition. In case of impairment indicators, investment properties are impaired using the purchase value model pursuant to IAS 36, and the loss is recognised as an expense from impairment of non-financial assets.

Financial assets

Financial assets include investments into capital and debt securities, operating and other receivables, cash and cash equivalents, loans by and to the company as well as operating and other liabilities. A financial asset is recognised when a company or a group becomes a party in the contractual provisions of a financial instrument.

After the initial recognition, a company's financial instruments are included in one of the following groups:

- financial assets measured against their amortised cost,
- financial assets at fair value through other comprehensive income, and
- financial assets at fair value through profit or loss.

Financial assets at fair value through other comprehensive income (capital instruments)

The company's investments in capital securities are classified as financial assets at fair value through other comprehensive income statement. In this group, the company irrevocably included investments that are listed on the active market and investments that are not.

After the initial recognition, these investments are measured at fair value. Any changes in fair value are recognised directly in other comprehensive income. When an investment is derecognised, any related profit or loss are excluded from the company's profit or loss.

Financial assets measured at amortised cost

Financial assets measured at amortised cost are financial instruments owned by the group within the framework of a business model, the goal of which is achieved by receiving contractual cash flows, and which, on specific dates, has cash flows that are exclusively represented by principal and interest repayments. This category includes loans, receivables and deposits.

Financial assets are recognised as of the day of their occurrence (date of settlement). After initial recognition, they are measured at amortised cost using the effective interest method.

Profits and losses are recognised as profit or loss:

- if a financial asset is derecognised;
- if an asset is reallocated to a category that is measured at fair value through profit or loss;
- due to impairment recognition.

Loans are recognised as of the date of their occurrence and are measured at fair value at initial recognition. After initial recognition, they are measured at amortised cost using the effective interest method minus the loss due to impairment.

Pursuant to IFRS 9, any loans that meet the requirements of impairment at initial recognition are presented as the so-called POCI, i.e. assets, impaired at initial recognition.

Such assets are therefore based on the model of a lifetime expected credit loss, which is already included in the effective interest rate (i.e. adjusted effective interest rate). Such loans are therefore valuated by their amortised cost with the application of an adjusted effective interest rate which depends on the expected cash flow or payments. In subsequent periods, only the changes in the lifetime expected credit loss are monitored and recorded as loss for such assets.

Operating receivables that do not include any important financing component are measured at transaction price determined in line with the provisions of standard IFRS 15 Revenue from Contracts with Customers.

Cash and cash equivalents represent net credit in banks and other financial institutions. The accounting value of cash equals its initial face value until the need for a revaluation adjustment appears. Cash in foreign currency is converted to national currency at the exchange rate valid at the date of the receipt. Cash is revaluated if it is in foreign currency and if the exchange rate has changed after initial recognition. The exchange rate difference that appears can either increase or decrease the initially presented value and represents a regular financial income and regular financial expenses respectively.

Classification of financial assets based on a business model for financial asset management and the specifications of contractual cash flows for financial assets:

Group of financial assets	Financial asset
Financial assets measured at amortised cost	Trade receivables and other operating receivables, assets from contracts with customers, loans and deposits.
Financial assets measured at fair value through other comprehensive income	Capital instruments which are not in possession for trading and for which a company from the Group irrevocably decides at initial recognition to measure at fair value through other comprehensive income.
Financial assets measured at fair value through profit or loss	Capital instruments for which a company from the Group does not decide to measure at fair value through other comprehensive income at initial recognition.

Impairment of financial assets

Pursuant to IFRS 9, the company checks potential impairment with the expected loss model, based on which it recognises not only the loss incurred but also the loss expected to incur in the future. As per IFRS, an assessment is made whether the increased credit risk warrants the calculation of lifelong expected credit loss or is it possible – regarding the unchanged credit risk – to apply a 12-month expected credit loss.

A financial asset is considered impaired if there is objective evidence showing that one or several events caused the expected future cash flows from this asset to decrease, and if they can be reliably measured.

Objective evidence of financial asset impairment may include:

- a non-compliance or violation from the debtor;
- a restructuring of the amount others owe the company, if the company agrees with it;
- signs of debtor's impending bankruptcy;
- disappearance of an active market for such instruments.

In case of an investment in own equities, an objective evidence of impairment may be a significant or prolonged reduction of fair value below the purchase price.

Impairment of receivables and assets from contracts with customers

When it comes to impairment of receivables and assets from contracts with customers, the company – in line with IFRS 9 - applies a simplified approach using impairment on the basis of expected credit loss throughout the duration of these assets. The company assesses the evidence of receivable impairment either separately or as a whole. Any material receivables are measured separately for the purpose of special impairment. A receivable is impaired if the assessment shows that the accounting value of a receivable exceeds its fair, i.e. cashable value. Receivables not expected to be settled within the prescribed time or in full amount are considered doubtful or – upon the initiation of legal proceedings – disputable.

An assessment of the value adjustment for individual groups of receivables is based on a matrix that contains an estimate of a lifetime loss of receivables in respect of the maturity band, credit risk and an assessment of the current macroeconomic environment of the customers – given the estimated employment rate. With the matrix, which was prepared on the basis of an analysis, the company impairs operating receivables by forming a 100-percent valuation adjustment for all receivables older than 180 days from the due date of a single receivable, or - in exceptional cases (for example if unbiased evidence is presented, confirming that the receivable will in fact be paid) – based on the assessment of a receivable's realizability. The suitability of the matrix is verified on an annual basis.

When impairment of receivables is a part of law suits, enforcements, bankruptcies, compulsory settlements and similar, the assessment of receivable's recoverability (an assessment of the expected future cash flows) is taken into consideration with regard to the category of each separate receivable. In profit or loss, the value of loss due to impairment is recognised as an expense.

Pursuant to IFRS 9, any losses from impairment of financial assets are listed as a separate item in the profit or loss statement.

Loans granted

Impairment assessment of loans granted is based on expected credit losses related to the probability of non-payments for receivables and loans in the next 12 months, unless the credit risk has significantly increased since the initial recognition. In such cases, the impairment assessment is based on the probability of non-payments in the total period of the financial asset (LECL) duration. Expected credit losses represent the difference between contractual cash flows that have fallen due as per contract, and all the cash flows the company expects to receive. Impairments for expected credit losses are assessed in two phases. For any credit exposures whose credit risk has remained more or less the same after the initial recognition, impairments for expected credited losses are recognised for the credit losses that result from probable non-payments in the next 12 months. For those credit exposures, on the other hand, whose credit risk has significantly increased since the initial recognition, the company recognises an adjustment from losses expected in the remaining life of exposure, regardless of the non-payment period. In some cases though, the company may establish an increased credit risk if – based on the information available - it is possible that it will not receive the total outstanding contractual amounts. Pursuant to IFRS 9, any loans that meet the requirements of impairment at initial recognition are presented as the so-called

POCI, i.e. assets, impaired at initial recognition. Such assets are based on the model of lifetime credit loss, which is already included in the effective interest rate (i.e. adjusted effective interest rate). Such loans are valuated by their amortised cost with the application of an adjusted effective interest rate which depends on the expected cash flow or payments. In further periods, only changes in the expected credit loss (ECL) are monitored and recorded as loss for such assets.

The company assesses the evidence of loan impairment for every material loan separately. The company recognises the write-down of a financial asset when it has reason to expect that the contractual cash flows are not recoverable.

Deferred taxes and income tax

Tax from profit or loss in a financial year includes current and deferred tax. It is presented in the profit or loss statement, except for the part where it refers to the items presented directly in other comprehensive income, where they are in fact presented.

Current tax is charged in accordance with the applicable tax legislation as of the statement of financial position date. A financial year is a calendar year equal to the tax year.

Deferred tax is presented considering the temporary differences between the accounting value of assets and liabilities for the purpose of financial reporting, and the amounts for the purpose of tax reporting.

Deferred tax liability is presented in the amount that is expected to be paid upon removal of temporary differences in accordance with legislation valid at the end of the reporting period.

Deferred tax receivable is recognised in the amount for which there is a potential future taxable profit available, against which it will be possible - going forward - to use the deferred receivable.

Deferred tax assets are recognised in the amount of probable future taxable profits, against which the deferred tax assets can be utilised in the future. Deferred tax assets are reduced by the amount for which the related tax relief will most probably not be claimed. Deferred taxes are formed from revaluation of receivables, from provisions for termination benefits and long-term service awards, impairment of investments in foreign fixed assets, impairment of interest for loans granted, and unused tax loss. Deferred tax liability is recognised from taxable temporary differences, namely from the revaluation of assets. Deferred tax liability is recognised from revaluation of land, buildings and financial investments available for sale, whose profits and thus tax liability have not been realised yet.

Inventories

At initial recognition, inventories of raw materials and supplies are valued at purchase price. The purchase value is comprised of purchase price, import duties and direct purchase costs. The purchase price is reduced by any discount granted. The direct costs of purchase include transport costs, loading and unloading expenses, the cost of transport insurance, the cost of accompanying goods and potential costs of services performed by intermediary agencies. Purchase price discounts include both the discounts specified on the invoice, as well as discounts received later on that apply to a specific purchase.

The company is managing inventories of production in progress and end products by their products costs which, in addition to the direct production costs, also include indirect costs of production work units, including Development, Maintenance, Energy Sector and the wastewater treatment plant.

Inventories are measured at original value or net recoverable value, whichever is lower. The value of inventories of unfinished and end products is adjusted based on the structure of inventories if individual inventories have not changed for more than six months. In addition, inventories get revaluated when they are damaged or either wholly or partially stale.

The FIFO method valuation is used to evaluate inventory burn. The FIFO method in based on an assumption that the inventory stock which was bought or produced first should also be the first to be sold.

Other assets and liabilities

Other assets and liabilities include receivables and other assets and liabilities that will presumably occur by the deadline for which they are formed and whose occurrence is probable, with the amount reliably estimated.

Other current assets include deferred expenses or deferred costs, which are listed separately and further divided to the more material types. Other short-term liabilities include accrued expenses or accrued costs, which are listed separately and further divided to more

material types. Other assets and liabilities used for one year are considered short-term or current, whereas long-term or non-current assets and liabilities are those that are used for a longer period of time.

Other assets and liabilities do not include the amounts of contractual assets and liabilities that are separately listed in the financial statement.

Capital

Total capital is comprised of called-up capital, capital reserves, reserves from profit, net profit or loss brought forward from previous years, revaluation reserves, reserves from revaluation at fair value, and net profit or loss for the current financial year. Share capital is managed in national currency.

Reserves are formed according to the Companies Act and the statute of Papermill Goričane.

Redemption of own shares (treasury shares)

Treasury shares acquired are not included in the capital. In the income statement, profit or loss from purchasing, selling, issuing or withdrawing treasury shares is not recognised and any differences are calculated as capital.

Reserves for treasury shares are established in the amount of treasury shares redeemed as of the statement of financial position date.

Provisions

Provisions are recognised if - due to a past event - the group has either legal or indirect liabilities that can be reliably estimated, and if the settlement of the liability potentially requires an outflow of factors enabling economic benefits. The amount recognised as a provision is the best estimate of expenses needed for the settlement as of the financial position statement date for the existing liability. Establishing the best estimate of the provision takes into account the risks and uncertainties which inevitably follow many events and circumstances. Where the impact of the time value of money is of key importance, the provision amount equals the current value of expenses expected to be needed for the liability settlement.

Provisions are recognised by accruing relevant costs or expenses, and reduced in a chronological order directly for costs or expenses for the covering of which they were initially formed, except for actuarial profit and loss resulting from the increases or decreases of the liability's current value by certain revenue from retirement benefits due to the changes in actuarial assumptions and experience adjustments, which are recognised in provisions from revaluation at fair value, and transferred to net profit or loss brought forward. Provisions are derecognised when the options for which they were initially formed are all exhausted or not needed anymore. Revenue is recognised from derecognition of provisions that were formed by accruing relevant costs or expenses. At the end of the accounting period, provisions are adjusted so that their value equals the current value of expenses that are likely needed to settle the liability.

Provisions for lawsuits

Provisions refer to long-term accrued expenses for liabilities from lawsuits when it is considered that the current liability arises from the lawsuit and there is a more than 50 % probability of a financial outflow from lawsuit loss, and it is possible to calculate the value of the current liability.

Provisions from post-employment or other long-term employee benefits

Provisions for termination benefits and long-term service awards are stated on the basis of an actuarial calculation. For each individual employee, the actuarial calculation includes expenses of termination benefits at retirement and the expense of all expected long-term service awards until retirement. The actuarial calculation is prepared by an actuary on a yearly basis.

Liabilities

Liabilities are either financial or operating, short-term or long-term. Liabilities are initially recognised according to the amounts from corresponding documents about their appearance, proving the receipt of cash or redemption of any operating liability if such liabilities exist.

Long-term debts are then measured by their amortised cost, and are increased by imputed interest in accordance with the effective interest rate, or decreased by repaid amounts and potential other forms of settlement if priorly agreed upon with the creditor. In addition, long-term liabilities are decreased by the amount that should be repaid in less than a year, which is stated under short-term liabilities.

Short-term and long-term liabilities of all kinds are initially shown with the amounts which arise from the corresponding documents on condition that the creditors request their repayment. Liabilities are later

measured by their amortised cost based on the effective interest rate. Liabilities are decreased by repaid amounts and any other settlements in agreement with the creditor.

In case of modifications to agreements with creditors, the new current value of future cash flow is evaluated and compared with its accounting value.

The company derecognises financial liabilities if the contractual obligations are either fulfilled, annulled or obsolete.

Lease liability

At initial recognition, the Group measures lease liabilities at current value of lease payments yet unpaid. Lease payments are discounted at a lease-related interest rate if determinable, or else at a pre-assumed borrowing interest rate that should be paid if it acquired – for a similar period and based on a similar guarantee in a similar economic environment – an asset of a similar value as the asset representing right of use.

After the initial recognition, the Group measures the liability listed through:

- increasing its accounting value by adding the lease interest amount;
- decreasing its accounting value by deducting the lease payments already made,
- increasing or decreasing its accounting value by adjusting the liability amount to a reassessment or change in lease.

Liabilities from contracts with customers

Liabilities from contracts with customers represent obligations to transfer goods or services to customers for which consideration was received from those customers (liabilities for advances received).

Sales revenues from contracts with customers

The majority of sales revenues from contracts with customers comes from completed supplies of end products and the service of transporting products to the customer. Revenues from contracts with customers are recognised at transfer of control over goods or services to the customer in the amount that reflects the payment which the company believes it is eligible for in exchange for these goods or services. Sales revenues from contracts with customers are recognised at fair value of a payment or receivable received thereof, minus any refunds and discounts. Revenues are disclosed when the customer takes over the control of goods or benefits from the services supplied.

For the recognition of revenues, the company uses the five-step model framework defined by IFRS 15:

- identify the contract with a customer,
- identify the performance obligations in the contract,
- determine the transaction price,
- allocate the transaction price to the performance obligations in the contract,
- recognise revenue when the performance obligation is satisfied.

Revenues are recognised as follows:

- Sale of goods

Sale of goods is recognised when the company delivers the goods to the customer; the customer accepted the goods and the recoverability of related receivables is reasonably guaranteed. Once a sale is concluded, the company no longer controls the goods or services sold.

- Sale of services

Sale of services is recognised in the accounting period during which the services are performed.

All the performance obligations are satisfied in a specific moment – when the goods are delivered and the customer takes them over. Usually, the customer will take control over goods once the goods are unconditionally delivered, and the contractually defined Incoterms are considered the measure of transfer.

The transaction price is allocated between performance obligations on a relative standalone selling price basis. Any transactions on behalf of a third entity are excluded from transaction price.

Costs - expenses

The company recognises costs as expenses in the period within which they are incurred.

Financial revenues and financial expenses

Financial revenues include mostly revenues from interest, revenues from dividends and other shares from profit, revenues from disposal of saleable financial assets, positive exchange rate differences and revenues from the disposal of financial investment impairment. Revenues from interest are recognised based on the effective interest rate method at the time of their

occurrence. In statement of profit or loss, revenues from dividends are recognised on the date when the shareholder's right to receive payment is established.

Financial expenses mainly include expenses from interest and other costs of leasing (if these are not capitalised), negative exchange rate differences, and loss from impairment of financial investment value. In the statement of profit or loss, the borrowing costs are recognised based on the method of effective interest rate as an expense of the period within which they are incurred.

Cash flow statement

Cash flow statement is prepared with the indirect method based on data from statement of financial position for the current and previous year, income statement data for the current year and additional data from company's books of accounts stating the changes in cash flow for the current financial year. Data is also acquired by adjusting operating revenue and operating expense items.

Cash flows from the right to use assets are included only in the total amount of payments paid within the year. Furthermore, factoring contracts are included in cash flows based on actual cash flows incurred.

Segment reporting

Pursuant to IFRS 8, the company shall not disclose its operating segments since it has no shares listed on the stock exchange, and also does not issue any bonds that would be listed on a regulated market.

Risk management

In the current economic situation and business environment, the importance of risk management has increased. Goričane, d.d. is therefore well aware of the significance of efficient risk management. In 2019, we therefore made sure to follow the objectives set in this aspect by continuing a systematic approach to risk detection, assessment and management.

Financial risk management

In financial risk management, our focus was on interest, liquidity, credit and currency risks. Quantitative disclosures regarding financial risks are explained in Disclosures Related to Risks section.

Interest rate risk

An interest rate risk is the risk of market interest rates negatively affecting the business operations of Goričane d.d. The interest rate of assets and liabilities is not reconciled due to the fact that Goričane d.d. has more loans than interest-bearing investments. In August 2014, an agreement on financial restructuring was signed with both banks and the Slovenian Bank Asset Management Company (DUTB) that includes new interest rates for all loans, namely a 3-month EURIBOR +3% or a max. total of 4%. In 2016, an annex to the agreement was signed, effective as of May 1, 2016. It determines lower interest rates, namely a 3-month EURIBOR +1.5 or a max. total of 2 %. Goričane, d.d. does not have any specific protection in place against interest rate risks.

Liquidity risk

Liquidity risk is the risk of a company not being able to settle its liabilities in due time. The basic task of financial management is assuring solvency and thus providing for the proper functioning of all other company's business operations. Liquidity risks are handled by efficient financial management, appropriate credit lines for short-term cash flow management and by having access to financial resources necessary.

In 2014, a contract on rescheduling of loans was signed between Goričane and our creditor bank, which is further clarified in the Going Concern section. Because of an unexpected increase in pulp prices and unfavourable movement of the currency exchange rate, a company can face the risk of not reaching the EBITDA rate or the debt-equity ratio as set in the contract. In addition, the Management successfully continues with measures of business restructuring that are already

starting to produce visible results. As of the day this annual report was concluded, the company's due liabilities towards the bank have been fully paid.

Credit risk

A credit risk is the possibility of late payment, partial payment or non-payment of trade receivables arising from deferred payment. Exposure to credit risk can be reduced as follows:

- by regularly checking the customer's credit rating;
- by insuring most of the export and import operating receivables from commercial risks with the Slovenian Export Corporation, Inc.;
- with additional insurance of riskier trade receivables by means of financial instruments (letters of credit) and mandatory advance payments;
- with a regular control of operation receivables;
- with a systematic recovery of doubtful receivables;
- with chain compensations.

The company uses well-established processes for managing receivables and forming allowances for bad receivables.

Currency risk

Currency risk is defined as the possibility of property value change resulting from exchange rate fluctuations. Most of our products are sold on markets within the European Union. On other markets, overseas countries included, sales contracts are concluded in euros. The main currency risk in 2019 was the purchase of pulp in US Dollars. Goričane, d.d. does not have an established system of protection from currency risks.

Price risk

The company is exposed to the price risk of pulp which represents 62 % of material costs or a half of operating costs, and price movements on global markets may significantly affect the result. The annex to the MRA agreement determines that the annual payment obligation from the amortisation schedule can be adjusted only if the company creates a higher cash flow than planned but not if the cash flow is lower because that would represent a liquidity risk. The Management believes that the current situation in the market of raw materials will not cause the liquidity and price risks to increase next year.

Business risk management

Purchase risks

Purchase risks can be divided to:

- risks of an increase in prices of raw materials;
- risks caused by delays and incomplete deliveries;
- risks of low-quality raw materials.

Some of the raw materials we use are produced by a very limited number of suppliers which reduces our purchase possibilities and causes high risks related to a smooth supply of raw materials.

Purchase risks are prevented by increasing our purchasing power, thus strengthening our standing with suppliers as an important buyer demanding high quality products and services.

Still, although the abovementioned risks can definitely be reduced by listed measures, they cannot be entirely prevented. Namely, the most important trends causing purchase risks are explicitly global and difficult to influence.

Property risks

The main property risks of Goričane, d.d. (fire risk, production shutdowns caused by fire, transport risks and civil liability), are systematically transferred to insurance companies.

Human resources risks

In human resources, our goal is to promote communication between employees and bodies representing employee interests (trade union, works council). In addition, our employees are regularly informed of any novelties by means of internal communication tools. Any risks related to the loss of key personnel are reduced by an established system of annual interviews, education and training possibilities, assessment of the current organisational climate, the strengthening of employee social security by means of additional insurances and the provision of health and safety at work.

Notes to the income statement

1. Sales revenues by type and geographical origin

in eur	2019	2018
Products and services – domestic market	8,582,710	8,039,084.73
Products	8,518,345	7,985,661
Services	64,365	53,424
Lease payments	3,720	5,446
Material – domestic market	17,815	20,862
Products – foreign market	65,298,695	65,470,669
Material – foreign market	468	378
Total	**73,903,408**	**73,536,440**

Revenue from sales per sales group

in eur	2019	2018
Products	73,817,040	73,456,330
Services	64,365	53,424
Lease payments	3,720	5,446
Material	18,283	21,240
Total	**73,903,408**	**73,536,440**

Net revenue from sales by product type

in eur	Domestic market	Foreign market	Total
Mechanographic paper		48,301	48,301
Graphic uncoated	1,843,305	1,976,068	3,819,373
Graphic uncoated – colour	262,798	12,262,164	12,524,962
Graphic coated	775,579	14,082,090	14,857,668
Speciality papers	3,846,965	21,418,853	25,265,818
Silicone papers	1,675,512	10,999,699	12,675,212
Sublimation transfer paper	114,186	4,511,519	4,625,705
	8,518,345	**65,298,695**	**73,817,040**

Revenue from sales by performance obligation within product sales

in eur	2019	2018
Net sales value	69,589,799	69,130,716
Costs of transport to customer	2,821,553	2,901,951
Costs of brokerage fees in product sales	1,405,688	1,423,663
Revenue from product sales	**73,817,040**	**73,456,330**

Distribution of revenue from contracts with customers per time of revenue recognition for the year 2019

in eur	Products	Services	Lease payments	Material
Revenue recogn. at the time of sale or service	73,817,040	64,365	3,720	18,283
Revenue recognised in a time period	0	0	0	0
Total revenue from contracts with customers	**73,817,040**	**64,365**	**3,720**	**18,283**

2. Change in inventory value for products and production in progress

in eur	2019	2018
Production in progress	23,153	-6,576
Unfinished products	-1,104,014	790,950
End products	-997,011	1,403,883
Total change	**-2,077,872**	**2,188,257**

Change in inventory value represents the effects of producing products that have not been sold yet and are kept in stock.

3. Other operating revenue

in eur	2019	2018
Sale of fixed assets	6,650	0
Debt recovery and liability write-downs	11,734	19,809
Emission coupons	21,448	50,516
Other revenue	16,663	142,244
Elimination of provisions	40,471	3,300
Total	**96,966**	**215,869**

The used-up and written-off fixed assets in production were sold in 2019.

The reversal of provisions in the actuarial calculation for 2019 included a higher pay-out for long-term service awards. All long-term service awards until the regulation were paid and the same process will be used in the future as well.

4. Costs of goods and materials sold

in eur	2019	2018
Purchase costs of goods and materials sold	2,310	1,964
Costs of materials	43,299,478	50,655,267
Costs of auxiliary materials	1,144,485	1,199,650
Costs of energy	6,527,644	6,963,162
Costs of spare parts and maintenance materials	80,220	136,445
Write-downs of small tools and packaging	9,616	6,678
Cost reconciliation of materials and small tools	14,563	17,837
Costs of office supplies and literature	8,450	11,249
Other costs of materials	47,962	65,806
Subsequent discounts received for material used	-105,487	-53,671
Total	**51,029,241**	**59,004,386**

The costs of materials were lower in 2019 compared to the year before, which was caused by lower prices of pulp on the global market. Prices were thus 14.6 % lower than the year before. Energy products are by a good one percent cheaper as well.

5. Cost of services

in eur	2019	2018
Costs of services in production and service supply	422,459	146,796
Costs of transport services	2,911,503	2,963,799
Costs of maintenance services	1,152,588	1,551,099
Lease payments	45,990	96,659
Reimbursements of work-related expenses to employees	141,202	139,990
Costs of banking services and insurance premiums	544,697	465,572
Costs of intellectual and personal services	183,946	176,081
Costs of fair, advertising and entertainment	140,661	79,416
Costs of export	1,417,268	1,436,427
Costs of other services	722,910	950,689
Total	**7,683,224**	**8,006,526**

The highest item among services are the transports costs in the amount of EUR 2,911,503. The company organises transport to customers on its own, both on road and water. Sales also includes the costs of fees for sales brokerage in the foreign market. In 2019, these costs amounted to EUR 1,417,268. Maintenance costs for 2019, amounting to EUR 1,152,588, include the costs of maintenance works and material spent during the time of regular scheduled shutdowns (every 5-7 weeks) as well as the costs of repairs that lasted for several days (two times a year) and the costs of intervention works caused by broken machinery or a greater force. The costs of consulting services in 2019 amounted to a total of EUR 67,837.

6. Labour costs

in eur	2019	2018
Salaries and wages	6,286,215	5,248,415
Pension insurance costs	559,174	473,820
Other insurance costs	458,677	388,954
Other costs of labour	1,133,888	980,020
Total	**8,437,954**	**7,091,209**

Labour costs include gross salaries and holiday allowances of full-time employees as well as social and pension insurance benefits. They also include meal and commuting allowances in accordance with regulations and the collective labour agreement, as well as other benefits from employment and provisions for salaries.

Labour costs also include voluntary supplementary pension insurance premiums for employees in the amount of EUR 158,083.

7. Write-downs

Depreciation, impairment of assets as per IFRS 9 and write-downs for impairment of non-financial assets

in eur	2019	2018
Depreciation of intangible assets	258,819	258,601
Depreciation of tangible fixed assets	1,654,516	1,739,887
Depreciation of right to use assets from lease	35,263	0
Loss from impair. of oper. receivables and contract. obligations	178,423	787
Write-downs and impairments of non-financial assets	57,273	46,420
Total	**2,184,295**	**2,045,695**

Pursuant to IFRS, impairment for the unpaid receivables from the Archdiocese of Ljubljana related to the reinvoicing of costs for the maintenance of the Goričane castle were executed and listed separately in the income statement as part of the loss from impairment of operating receivables. Impairment of non-financial assets includes impaired old material inventories in accordance with the management estimates.

Write-downs and impairments of non-financial assets

in eur	2019	2018
Loss from sales and removal of fixed assets	277	843
Impairments and write-downs of stock inventories	56,997	45,577
Total	**57,274**	**46,620**

8. Other operating expenses

in eur	2019	2018
Charges unrelated to profit	136,884	97,686
Expenses for environmental protection	201,006	132,081
Other expenses	54,491	68,901
Total	**392,381**	**298,668**

The main item of taxes unrelated to profit is the charge for the use of construction land in the amount of EUR 136,876.

Expenses for environmental protection include water return expenses and environmental duties for wastewater and packaging in the amount of EUR 201,006.

Other expenses include donations in the amount of EUR 6,701, costs of taxes in the amount of EUR 7,285, costs of holiday facilities in the amount of EUR 5,258, subscriptions in the amount of EUR 8,508 and EUR 26,739 of other expenses.

9. Financial revenues

in eur	2019	2018
Interest – companies in the Group	121,790	125,054
Interest – individuals	1,041	1,175
Dividends received	44,293	44,335
Net positive exchange rate differences	0	0
Other financial revenues	3,926	961
Total	**171,050**	**171,525**

10. Financial expenses

in eur	2019	2018
Interest – from banks	338,939	341,539
Interest - leasing	1,216	0
Interest – suppliers	91,921	35,388
Net negative exchange rate differences	104,313	175,019
Interest – actuarial calculations	5,509	7,737
Other expenses - compensations, interest	698	21,955
Total	**542,596**	**581,638**

11. Net financial effect

in eur	2019	2018
Financial revenues	171,050	171.525
Financial expenses	542,596	581.638
Net financial effect (loss)	**371,546**	**410,113**

12. Income tax

in eur	2019	2018
Pre-tax profit	1,823,859	-879,921
Revenues exempt from or increasing tax basis	-75,125	-67,413
Expenses recognised as taxable	-31,289	-45,456
Expenses not recognised as taxable	422,529	216,416
Tax base reduction	-5,311	0
Tax base increase from revaluation transfer	174,443	173,256
Other tax base increase	2,215	2,217
Tax reliefs	-580,134	0
Utilisation of former loss	-600,901	0
Tax base	1,130,283	-600,901
Income tax	214,754	0
Effective tax rate	**11,77 %**	**0.00 %**

A major proportion of expenses not recognised as taxable is comprised of insurance fees for voluntary supplementary pension insurance and revaluation of receivables.

13. Deferred taxes

Changes in deferred taxes (income statement)

in eur	2019	2018
Change in receivables for deferred tax from:		
- adjustments of receivables	29,271	-7,578
- provisions	8,092	-3,314
- removal of receivables for deferred taxes from interest for loans among affiliates	-279,192	0
Change in liabilities for deferred tax from:		
- removal of liabilities for deferred tax from transfer of proportional share of revaluation reserve to profit or loss brought forward	33,144	33,709
Total change in receivables for tax deferred through ICI	**-208,685**	**22,817**

Changes in deferred tax (comprehensive income statement)

in eur	2019	2018
Change in liabilities for deferred tax from		
Change in liabilities for deferred tax from revaluation of financial assets at fair value through other comprehensive income	-10,109	-4,718
Total	**-10,109**	**-4,718**

Movement of deferred tax receivables

in eur	Investments	Provisions	Adjustment of receiv.	Interest impairment – affiliates	Impair. of invest. in foreign fixed assets	Total
Balance as of 1.1.2018	102,157	79,485	161,157	279,192	158,308	780,300
Chargeable/credited to profit or loss	0	-3,314	-7,576	0	0	-10,891
Chargeable/credited to other comprehensive income	0	0	0	0	0	0
Balance as of 31.12.2018	102,157	76,172	153,579	279,192	158,308	769,409
Chargeable/credited to profit or loss	0	8,091	29,271	-279,192	0	-241,830
Chargeable/credited to other comprehensive income	0	0	0	0	0	0
Balance as of 31.12.2019	**102,157**	**84,263**	**182,851**	**0**	**158,308**	**527,579**

Movement of deferred tax liabilities

in eur	Revaluation of fixed assets	Revaluation of financial assets at fair value through other comprehensive income	Total
Balance as of 1.1.2018	-1,271,665	-63,690	-1,335,355
Chargeable/credited to profit or loss	33,709	0	33,709
Chargeable/credited to other comprehensive income	0	-4,718	-4,718
Balance as of 31.12.2018	-1,237,957	-68,408	-1,306,364
Chargeable/credited to profit or loss	33,144	0	33,144
Chargeable/credited to other comprehensive income	0	-10,109	-10,109
Balance as of 31.12.2019	**-1,204,812**	**-78,517**	**-1,283,329**

14. Net profit/loss of financial year

in eur	2019	2018
Profit/loss from operation	2,195,405	-505,920
Loss from financing	-371,546	-410,112
Deferred taxes	-208,685	22,817
Income tax	-214,754	0
TOTAL	**1,400,419**	**-893,215**

Notes to statement of financial position

15. Intangible assets

Balance and movement of intangible assets in 2019

in eur	Long-term industrial rights	Emission coupons	Total
PURCHASE VALUE			
Balance as of 1.1.2019	**1,987,067**	**68,566**	**2,055,633**
Increase	65,012		65,012
Disposal, write-downs, utilisation		-61,448	-61,448
Balance as of 31.12.2019	2,052,079	7,118	2,059,197
VALUE ADJUSTMENTS			
Balance as of 1.1.2019	912,548	0	912,547
Depreciation	258,820		258,820
Disposal, write-downs			0
Balance as of 31.12.2019	1,171,368	0	1,171,367
Balance as of 1.1.2019	1,074,519	68,566	1,143,085
Balance as of 31.12.2019	880,711	7,118	887,829

Balance and movement of intangible assets in 2018

in eur	Long-term industrial rights	Emission coupons	Total
PURCHASE VALUE			
Balance as of 1.1.2018	**1,942,996**	**113,456**	**2,056,452**
Increase	44,071	0	44,071
Transfer from ongoing investments	0	0	0
Disposal, write-downs, utilisation	0	-44,890	-44,890
Balance as of 31.12.2018	1,987,067	68,566	2,055,633
VALUE ADJUSTMENT			
Balance as of 1.1.2018	653,947	0	653,946
Depreciation	258,601	0	258,601
Balance as of 31.12.2018	912,548	0	912,547
Balance as of 1.1.2018	1,289,049	113,456	1,402,505
Balance as of 31.12.2018	1,074,519	68,566	1,143,085

Intangible assets of the company include emission coupons acquired in accordance with the Environmental Protection Act. As of January 1, 2014, the company owned 6,332 coupons. In March 2014, the Ministry of Environment and Spatial Planning of the Republic of Slovenia adopted a decree on the list of plant operators emitting greenhouse gas for the period of 2013 to 2020. The decree also contains a list of gratis coupons distributed for the aforementioned period, which were fully handled in accordance with IFRS EU. In 2019, 21,448 of our coupons were handed over to the state (and 22,074 coupons in 2018). At the end of the year, we have 7,118 coupons.

16. Tangible fixed assets

in eur	31.12.2019	31.12.2018
Land	8,840,732	8,840,732
Buildings	7,781,338	7,826,815
Equipment	12,510,833	13,573,047
Right to use leased assets	145,999	0
Tangible fixed assets in construction or manufacture	528,518	188,180
Advance payments for fixed assets	0	0
Total	**29,807,420**	**30,428,774**

As of the date of the financial position statement, the company owned 131,998 m2 of land located mainly on the company's location or nearby. A mortgage is placed on the company's property - the land, the buildings and the equipment – in accordance with contracts for bank loans and provisions received. The current value of buildings, land and equipment pledged for loans is EUR 23,695,145. The current value of equipment and land pledged for guarantees received is EUR 2,500,000. At 31.12.2019, our liabilities to banks for the acquisition of tangible fixed assets amount to EUR 12,261,083.

Investments activated in 2019 and 2018

in eur	2019	2018
Land	0	0
Buildings	124,346	192,794
Machinery	219,607	44,905
Transport and communications	151,991	0
Paper converting equipment	0	3,935
Standard and spec. equipment	105	2,150
Measuring and monitoring devices	11,881	34,484
Business inventory, furniture	12,735	80,582
Only furniture	1,488	31,028
Hardware	99,019	22,129
Software	36,692	44,071
Equipment, instruments	0	36,021
Right-of-use – equipment lease	88,009	0
Right-of-use – vehicle lease	57,990	0
Total	**802,375**	**461,070**

Overview of balance and movement of tangible fixed assets in 2019

in eur	Land	Buildings	Production devices and machines	Right to use - lease	Other machines and equipment	Fixed assets under const.	Total
PURCHASE COST							
Balance as of 1.1.2019	**8,840,732**	**7,993,382**	**85,306,562**	**0**	**1,934,191**	**188,180**	**104,263,047**
Purchasing	0	0	0	0	0	0	0
Transfer between book groups	0	0	0	0	0	0	0
Trans. from tang. to intang. assets	0	0	0	0	0	0	0
Activations	0	124,347	379,516	145,999	87,502	340,338	1,077,702
Transfer to intangible fixed assets	0	0	0	0	0	0	0
Disposal, write-downs, impair.	0	0	-17,315	0	-118,877	0	-136,192
Revaluation							0
Balance as of 31.12.2019	**8,840,732**	**8,117,729**	**85,668,763**	**145,999**	**1,902,816**	**528,518**	**105,204,557**
ALLOWANCE							
Balance as of 1.1.2019	**0**	**166,567**	**72,493,552**	**0**	**1,174,154**	**0**	**73,834,273**
Disposal, write-downs	0	0	-17,315	0	-109,600	0	-126,915
Transfer between book groups	0	0	0	0	0	0	0
Transfer from tang. fixed assets to intang. assets	0	0	0	0	0	0	0
Depreciation	0	169,824	1,364,457	35,263	120,235	0	1,689,779
Balance as of 31.12.2019	**0**	**336,391**	**73,840,694**	**35,263**	**1,184,789**	**0**	**75,397,137**
Carrying amount as of 31.12.2018	**8,840,732**	**7,826,815**	**12,813,010**	**0**	**760,037**	**188,180**	**30,428,774**
Carrying amount as of 31.12.2019	**8,840,732**	**7,781,338**	**11,828,069**	**110,736**	**718,027**	**528,518**	**29,807,420**

Overview of balance and movement of tangible fixed assets in 2018

in eur	Land	Buildings	Production devices and machines	Other machines and equipment	Fixed assets under const.	Total
PURCHASE COST						
Balance as of 1.1.2018	**8,840,732**	**7,826,128**	**85,495,940**	**1,572,770**	**2,250**	**103,737,820**
Purchasing	0	0	0	0	185,930	185,930
Transfer between book groups	0	0	-318,932	318,932		0
Trans. from tang. to intang. assets	0	0	0	0		0
Activations	0	192,794	165,273	58,932		416,999
Transfer to intangible fixed assets	0					0
Disposal, write-downs, impair.	0	-25,540	-35,719	-16,443		-77,702
Revaluation						0
Balance as of 31.12.2018	**8,840,732**	**7,993,382**	**85,306,562**	**1,934,191**	**188,180**	**104,263,047**
ALLOWANCE						
Balance as of 1.1.2018	**0**	**25,540**	**71,137,017**	**1,008,688**	**0**	**72,171,245**
Disposal, write-downs	0	-25,540	-35,473	-15,846		-76,859
Transfer between book groups	0		-59,316	59,316		0
Transfer from tang. fixed assets to intang. assets	0					0
Depreciation	0	166,567	1,451,324	121,996		1,739,887
Balance as of 31.12.2018	**0**	**166,567**	**72,493,552**	**1,174,154**	**0**	**73,834,273**
Carrying amount as of 31.12.2017	**8,840,732**	**7,800,588**	**14,358,923**	**564,082**	**2,250**	**31,566,575**
Carrying amount as of 31.12.2018	**8,840,732**	**7,826,815**	**12,813,010**	**760,037**	**188,180**	**30,428,774**

For land and buildings, the company checked at the end of financial year whether there were any significant changes of assumptions used in the assessment from the last revaluation that was done on 31.12.2017. It was established that there were no significant changes in assessment assumptions or changes in the real estate market that would have a considerable effect on the assessment of fair value done for business complexes.

The last revaluation was conducted on the basis of fair value estimated by a certified property valuer in accordance with international valuation standards.

As disclosed in detail in the note *Off-balance sheet and contingent liabilities*, tangible fixed assets are pledged for the lease of a long-term loan.

17. Investment properties in acquisition

Investment properties in acquisition disclosed also include the capitalised costs of our investments in the Goričane castle. This concerns the renovation of the Goričane castle which represents the cultural heritage of our community. By investing in it, the company will acquire the right to manage the building and use it for commercial purposes.

These investments are the subject of a legal proceeding involving the company and the Archdiocese of Ljubljana which is currently in mediation and is not resolved yet. In 2016, the costs of investments in foreign fixed assets were impaired by EUR 833,198.

The value of equipment pledged in investment property amounts to EUR 1,114,856.

Movement of investment property in 2019

in eur	Investment property in acquisition
PURCHASE COST	
Balance as of 1.1.2019	**9,021,368**
Purchasing	0
Transfer of advances	0
Transfer from fixed assets in construction	0
Activations	0
Transfer to intangible fixed assets	0
Disposal, write-downs	0
Balance as of 31.12.2019	**9,021,368**
ALLOWANCE	
Balance as of 1.1.2019	**833,198**
Disposal, write-downs	0
Impairment of investments in foreign fixed assets	0
Depreciation	0
Balance as of 31.12.2019	**833,198**
Carrying amount as of 1.1.2019	**8,188,170**
Carrying amount as of 31.12.2019	**8,188,170**

Regarding investment properties in 2019, revenue from lease payments was not recognised but direct expenses were incurred in the amount of EUR 49,862.

Movement of investment property in 2018

in eur	Investment property in acquisition
PURCHASE COST	
Balance as of 1.1.2018	**9,021,368**
Purchasing	0
Transfer of advances	0
Transfer from fixed assets in construction	0
Activations	0
Transfer to intangible fixed assets	0
Disposal, write-downs	0
Balance as of 31.12.2018	**9,021,368**
ALLOWANCE	
Balance as of 1.1.2019	**833,198**
Disposal, write-downs	0
Impairment of investments in foreign fixed assets	0
Depreciation	0
Balance as of 31.12.2018	**833,198**
Carrying amount as of 1.1.2018	**8,188,170**
Carrying amount as of 31.12.2018	**8,188,170**

18. Financial assets at fair value through other comprehensive income (capital instruments)

Movement of financial assets at fair value through other comprehensive income in eur	
Balance as of 31.12.2018	537,401
Repayment	0
ICI impairment	0
Reduction	0
Revaluation to fair value through other comprehensive income	53,208
Balance as of 31.12.2019	**590,609**

As of the balance sheet date, investments into shares of the Zavarovalnica Triglav (ZVTG) insurance company were revaluated to fair value by EUR 53,028 in accordance with the change in stock exchange. ZVTG shares are pledged for bank loan insurance in the amount of EUR 590,609. The effect of revaluation was recognised through other comprehensive income.

19. Long-term loans to companies in the Group

in eur	Loans in the Group
Balance as of 31.12.2018	11,384,388
Increase	115,671
Repayment	-27,740
ICI impairment	0
Strengthening through surplus	0
Transfer to short-term part	-185,000
Transfer of interest from short-term loans	3,646
Balance as of 31.12.2019	**11,290,965**

A loan to a company in the Group in the amount of EUR 185,000 was transferred to short-term loans to companies in the Group since it is due for payment within 12 months after the balance sheet date.

The interest rate of loans to companies in the Group moves between a 3-month EURIBOR +1.5 % to 3.13 %. The loans are due for payment on 31.12.2022.

in eur	Loans in the Group
Balance as of 31.12.2017	11,338,129
Increase	117,314
Repayment	-71,055
ICI impairment	0
Strengthening through surplus	0
Transfer to short-term part	0
Balance as of 31.12.2018	**11,384,388**

20. Long-term loans to others and other financial receivables

As of the balance sheet cut-off date, a part of the long-term loan granted to our employees and due in 2019 was transferred to short-term financial investments, with the loan interest rate amounting to 2.014 %. Loan to the Management in the amount of EUR 57,394 including interest, which is bound by the maturity of bank loans received, is included in long-term loans as per contract.

No new loans were granted to the companies in the Group. Long-term loans granted to companies in the Group, including interest, are due on 31.12.2022.

21. Inventories

in eur	31.12.2019	31.12.2018
Material	4,337,696	4,101,554
Unfinished production	989,013	2,069,873
Products	7,349,808	8,214,669
Merchandise		0
Advances for inventories		0
Impairment of old inventories	-1,262,758	-1,073,610
Total	**11,413,759**	**13,312,486**

In the current year, the additional allowance of the inventory value for spare parts and other material amounted to EUR 189,147 due to obsolescence.

A check of inventory value showed a total surplus in the amount of EUR 30,456 and a deficit of EUR 19,594.

Inventories are pledged as collateral in the amount of EUR 1,681,902 million. The book value of the inventories does not exceed their net realisable value.

22. Short-term loans to companies in the Group

in eur	Loans to companies in the Group
Balance as of 31.12.2018	3,646
Increase	6,118
Transfer from long-term loans	185,000
Payments of principal and interest	0
Transfer to long-term interest	-3,646
Balance as of 31.12.2019	**191,118**

in eur	Loans to companies in the Group
Balance as of 31.12.2017	0
Increase	3,646
Transfer from long-term loans	0
Payments of principal and interest	0
Interest from loans to companies in the Group	0
Transfer to long-term loans	0
Balance as of 31.12.2018	**3,646**

23. Short-term operating receivables

in eur	31.12.2019	31.12.2018
Short-term operating receivables to companies in the Group	732	732
Short-term trade receivables	4,926,249	7,313,286
National trade	995,927	1,277,860
Foreign trade	3,930,322	6,035,426
Short-term operating receivables to other entities	744,118	1,487,147
Receivables for advances and securities granted	17,139	55,631
Receivables for interest	8,880	6,794
Other short-term receivables	718,099	1,424,722
Short-term receivables for income tax	0	0
Total	**5,671,099**	**8,801,165**

Short-term trade receivables by maturity:

in eur	%	Amount
Undue receivables	85.76 %	3,980,969
Receivables due in up to 30 days	12.11 %	811,217
Due in up to 60 days	0.66 %	41,992
Due in up to 90 days	0.05 %	2,996
Due in up to 180 days	1.40 %	88,704
Due in over 180 days	0.02 %	1,103
Total net receivables	**100.00 %**	**4,926,981**

As of 31.12.2019, undue receivables amounted to EUR 4.0 million. Receivables in the amount of EUR 2.4 million were pledged to insure loans and guarantees. The company has 86 % of national and foreign trade receivables insured.

The company shall reduce receivables and operating expenses for any sales transactions that have already been charged but for which the control over the product sold is not assumed yet. As of 31.12.2019, the total value of such sales amounted to EUR 1,893,923. In according with the provisions from the contract with customer, the sale will be completed once the customer receives the product and assumes the control of the product sold.

Movement of credit loss from revaluation of receivables per IFRS 9:

in eur	2019	2018
Opening balance	827,267	867,155
Increase	178,423	0
Eliminations	-13,767	-20,105
Repayment of receivables	-10,596	-19,783
Closing balance	**981,327**	**827,267**

Other short-term receivables

in eur	31.12.2019	31.12.2018
Receivables from VAT	459,697	545,212
Receivables from refunds, employees and others	258,403	354,777
Receivables for interest and advances	26,018	86,092
Total	**744,118**	**986,081**

Other short-term operating receivables from VAT refer to receivables from VAT for November and December in the amount of EUR 459,697, which were paid in January and February 2020 respectively. Other short-term receivables include refunds for sickness and disability in the amount of EUR 107,410, receivables from employees in the amount of EUR 49, and factoring by Gorenjska banka in the amount of EUR 150,941.

The company does not state any receivables from the Management.

24. Other current assets

Other assets in the amount of EUR 328.035 refer to deferred expenses from the costs of insurance charges for the first six months of 2020 in the amount of EUR 49,907, various subscriptions for 2020 in the amount of EUR 19,970, and EUR 168,421 of other expenses incurred in 2019 and related to sales in 2020. Other short-term assets also include VAT on received advances in the amount of EUR 437.

25. Cash and cash equivalents

in eur	31.12.2019	31.12.2018
Cash in hand	0	0
Cash and cash equivalents in the bank	102,865	52,592
Total	**102,865**	**52,592**

The company has no agreed automatic debts that would guarantee additional liquidity on its current accounts. All funds are available for use.

26. Capital

Share capital and earnings per share

Share capital is divided to 449,375 ordinary registered shares. All shares issued are paid in and have the same rights.

Book value per share

The book value of one registered share (excl. treasury shares) as of 31.12.2019 amounts to EUR 53,57, as of 31.12.2018 EUR 50,37, as of 31.12.2017 EUR 52,24, and as of 31.12.2016 EUR 52.82. The weighted average number of shares is 447,482. Profit per share amounts to EUR 3,13 in 2019, EUR 6.59 per share in 2017 and EUR 3.33 per share in 2016. Loss per share in 2018 was EUR -2,00.

Total comprehensive income per share

Total comprehensive income per share in 2019 amounts to EUR 3,20, and was EUR -1,87 in 2018.

Capital surplus

in eur	31.12.2019	31.12.2018
Paid-in surplus	3,864,307	3,864,307
Surplus from general capital revaluation adjustment	6,973,873	6,973,873
Total	**10,838,180**	**10,838,180**

Surplus from the general capital revaluation adjustment was established on January 1, 2006 from the prior general capital revaluation adjustment. Capital surplus is not payable.

Reserves from profit

Legal reserves

The company has not changed the amount of legal reserves since 2015 because it has sufficient reserves from other items as per Slovenian Companies Act (ZGD-1). Legal reserves are not payable.

Treasury shares

The company owns 1,893 treasury shares in the amount of EUR 84,723 which were bought in 2003 and 2004. Together they represent 0.42 % of capital. The shares were acquired as awards for the Management and the Supervisory Board. There were no changes in treasury shares in 2019. A treasury share fund was established in the amount of treasury shares redeemed.

Acquisition of treasury shares:

in eur	2004	2003	Total
Number of shares acquired	476	1,417	1,893
Purchase price of shares	**26,865**	**57,858**	**84,723**

Revaluation reserves

in eur	Opening balance	Depreciation	Utilisation from valuation by fair value	Tax change	Change in actuarial profit/loss	Closing balance
Land	3,483,025	0	0	0	0	3,483,025
Buildings	1,794,580	-174,443	0	33,144	0	1,653,281
Total	**5,277,605**	**-174,443**	**0**	**33,144**	**0**	**5,136,306**

Reserves from valuation at fair value

in eur	Opening balance	Depreciation	Strengthening/revaluation	Tax change	Change in actuarial profit/loss	Closing balance
Triglav investments	291,633	0	53,208	-10,110	0	334,731
Actuarial profit/loss	-170,947	0		0	-10,622	-181,569
Total	**120,686**	**0**	**53,208**	**-10,110**	**-10,622**	**153,162**

Ownership structure

Lastniška struktura	Share count as of 31.12.2019	%	Share count as of 31.12.2018	%
Papigor, holding, d.o.o.	384,457	85.56 %	384,457	85.56 %
Papirus, holding, d.o.o.	49,310	10.97 %	49,310	10.97 %
Other shareholders	13,715	3.05 %	13,715	3.05 %
Goričane, d.d.	1,893	0.42 %	1,893	0.42 %

Distributable profit

in eur	31.12.2019	31.12.2018
Net profit or loss for financial year	1,400,419	-893,215
Net profit brought forward	4,417,598	5,167,108
Reduction of reserves from profit	0	0
Increase of profit/loss brought forward from revaluation reserves	141,299	143,705
Increase of reserves from profit per decision by Manag. and Superv. Board (other reserves from profit) and legal reserv. from profit	0	0
Distributable profit/loss	**5,959,317**	**4,417,598**

As per Management's suggestion, the distributable profit remains unallocated.

27. Provisions

in eur	Balance as of 1.1.2019	Provisioning	Imputed interest	Use of provisions	Decrease	Actuarial profit/loss	Balance as of 31.12.2019
Provisions for termination benefits	498,878	50,709	4,397	-20,562	0	10,622	544,044
Provisions for long-term service awards	130,801	12,908	1,112	-14,481	0	-40,471	89,869
Other provisions for lawsuits	0	0	0	0	0	0	0
Other provisions	0	0	0	0	0		0
Total	**629,679**	**63,617**	**5,509**	**-35,043**	**0**	**-29,849**	**633,913**

The provisions formed for the purpose of termination benefits and long-term service awards were decreased due to retirements and the payment of long-term service awards. A calculation was made for each employee separately and includes the cost of retirement benefits and a total of all expected long-term service awards until retirement. These calculations were prepared by an authorised actuary using the projected unit method. The actuarial calculation of provisions for termination benefits and long-term service awards was prepared as of 31.12.2019. The new calculation applies a lower discount rate, 0.90 %. This year, the company states actuarial loss from provisions for termination benefits in the amount of EUR 10,622 and actuarial profit from long-term service awards in the amount of EUR 40,471 as per IAS 19.

Actuary calculations in eur

TERMINATION BENEFITS	Applied		At increase		At decrease	
Salary growth – company:		0.75%	1.00	522,486	0.01	523,496
Salary growth – country:		1.00%	1.50	558,161	1.50	558,161
Fluctuation table:	Category 1: age 14–30 = 4%		6.00	492,842	2.00	560,508
	Category 2: age 31–40 = 3%		5.00		1.00	
	Category 3: age 41–50 = 1%		2.00		0.00	
	Category 4: age 51–100 = 0%		1.00		0.00	
Table of retirements:		Per age				
Men:		60	60	544,044	60	544,044
Women:		60	60		60	
		Per years of service				
Men:		40	40	544,044	40	544,044
Women:		40	40		40	
Discount rate:		0.90 %	1.40	516,787	0.40	573,720

This modified assumption has the biggest impact on the calculation: Discount rate – Decrease Total: 573,720,09
This modified assumption has the biggest impact on the calculation: Fluctuation table – Increase Total: 492,842,30

LONG-TERM SERVICE AWARDS		At increase		At decrease	
Fluctuation table:	Category 1: age 14–30 = 4%	6 %	81,494	2 %	97,058
	Category 2: age 31–40 = 3%	5 %		1 %	
	Category 3: age 41–50 = 1%	2 %		2 %	
	Category 4: age 51–100 = 0%	1 %		1 %	
Tabela upokojitev:	Per age				
Men:	60	60	89,870	60	89,870
Women:	60	60		40	
	Per years of service				
Men:	40	40	89,870	40	89,870
Women:	40	40		40	
Discount rate:	0,90 %	1,40	85,979	0,40	94,083

This modified assumption has the biggest impact on the calculation: Fluctuation table – Increase Total: 97,057,70
This modified assumption has the biggest impact on the calculation: Fluctuation table – Decrease Total: 81,494,29

Impact analysis is based on changes in assumptions that positively or negatively differ from those applied. This way, we can determine the impact of changes in assumptions on the final calculation.

28. Long-term financial liabilities and liabilities from leases

in eur	31.12.2019	31.12.2018
Long-term financial liabilities to banks	19,622,461	23,261,037
Long-term liabilities from leases	34,867	0
Total	**19,657,328**	**23,261,037**

In 2014, the company signed an agreement with its bank creditors on restructuring financial debts. As per this agreement, all loans were changed to long-term loans due end of 2022. In 2016, an amendment to the agreement was signed, effective as of 1.5.2016. It determines lower interest rates, namely a 3-month EURIBOR +1.5 % or a max. total of 2 %. The agreement contains financial commitments that the company complies with as of 31.12.2019.

Loans are insured with a security interest on movable and immovable assets, inventories, receivables, bianco bills of exchange, a pledge of 17,736 shares of ZVTG, and a personal guarantee from the managing director in a form of a deposit.

In 2019, a financial leasing contract was signed for the purchase of a car for the period of 5 years, which is included in right-of-use assets and liabilities from leases. In addition, as the effect of initial application of IFRS 19, right-of-use assets and liabilities from other leases include:

- lease of a ventilation system as of 1.1.2019, and
- lease of forklifts as of 1.6.2019.

The lease amount of EUR 53,350 is included in the increase of long-term financial liabilities, and was completely transferred to the short-term part of financial liabilities at the end of 2019 because both contracts expire in 2020.

Interest rates from lease vary from 1.1 % to 6.4 % per year.

Movement of long-term liabilities

in eur	2019	2018
Balance as of 1.1	23,261,037	26,272,061
Recognition of liabilities from leases	111,662	0
Repayment of liabilities from leases	-12,578	0
Transfer to short-term liabilities from leases	-64,217	0
Transfer to short-term financial liabilities	-3,638,576	-3,011,024
Balance as of 31.12	**19,657,328**	**23,261,037**

All financial liabilities and all liabilities from leases are due for payment within 5 years. Among other long-term liabilities, we manage emission coupons obtained on the basis of the Environmental Protection Act.

29. Short-term financial liabilities and liabilities from leases

in eur	31.12.2019	31.12.2018
Short-term part of long-term financial liabilities	3,660,769	3,037,936
Short-term liabilities from leases	64,217	0
Factoring with holiday allowance	490,525	299,510
Total	**4,215,511**	**3,337,446**

Movement of the short-term part of financial liabilities and liabilities from leases

in eur	2019	2018
Balance as of 1.1.	3,337,446	3,620,068
Increase in short-term financial liabilities	0	0
Transfer to long-term financial liabilities from leases	64,217	0
Transfer from long-term financial liabilities	3,638,576	3,011,024
Repayment of liabilities from leases	-2,690	0
Net increase of liabilities from factoring with holiday allowance	191,015	299,510
Change in liabilities for interest	-2,030	-3,879
Repayment	-3,011,024	-3,589,276
Balance as of 31.12.	**4,215,511**	**3,337,446**

As of the balance sheet cut-off date, a part of long-term financial liabilities in the amount of EUR 3,638,576 was transferred to short-term financial liabilities as per effective annual instalment plan established by banks. These liabilities are due for payment in the following calendar year. The net variation from liabilities from leases in the amount of EUR 61,527 includes EUR 8,177 for the vehicle lease, and EUR 53,350 for the leases of forklifts and a ventilation system, which are due for payment next year.

Likewise, the balance of short-term and long-term due part of financial liabilities for the current year was already reconciled during the year as per agreements signed with creditor banks.

30. Operating liabilities

in eur	31.12.2019	31.12.2018
Liabilities to domestic suppliers	6,048,945	6,412,483
Liabilities to foreign suppliers	10,948,546	15,906,095
Total	**16,997,491**	**22,318,578**

The age structure of short-term liabilities to suppliers as of 31.12.2019:

in eur	%	Amount
Undue liabilities	63.01 %	10,710,257
Receivables due in up to 30 days	19.05 %	3,238,265
Due in up to 60 days	11.32 %	1,924,765
Due in up to 90 days	3.84 %	651,881
Due in more than 90 days	2.78 %	472,323
total	**100.00 %**	**16,997,491**

All amounts are current. The company has no debt towards the Management (except for salaries and wages). The company also has no debt towards the owners.

31. Other short-term operating liabilities

in eur	31.12.2019	31.12.2018
Liabilities for net wages and salaries	313,908	260,629
Liabilities for taxes and contributions on gross salaries	196,464	158,622
Employee leave unexpended	256,768	185,291
Other liabilities to employees	35,573	54,646
Liabilities from export for third party account	325,991	251,637
Short-term liabilities from default interest	90,837	30,462
Liabilities for VAT and other taxes	146,039	79,275
Other short-term liabilities	29,200	23,836
Total	**1,394,780**	**1,044,397**

Liabilities for VAT and other taxes include additional salary-related charges to be paid by the employer, VAT charges, copyright agreements and other contracts, and environmental taxes.

Other short-term liabilities in the amount of EUR 29,199 include deductions of employee salaries for December in the amount of EUR 8,446, liabilities for supplementary pension insurance in the amount of EUR 13,340, and attendance fees for the Supervisory Board in the amount of EUR 7,413. Running payables were settled in January 2020.

32. Short-term liabilities for income tax

in eur	31.12.2019	31.12.2018
Short-term liabilities for income tax	214,754	0
Total	**214,754**	**0**

33. Contractual balance

The table below shows the data on contractual assets and liabilities related to contracts with customers:

in eur	31.12.2019	31.12.2018
Contractual assets	265,494	121,090
Contractual liabilities	0	0
Contractual balance (liabilities)	**265,494**	**121,090**

Contractual liabilities refer to the advances received for sales transactions:

in eur	31.12.2019	31.12.2018
Advances from domestic customers	123,702	6,943
Advances from foreign customers	141,792	114,147
	265,494	**121,090**

34. Other short-term liabilities

in eur	31.12.2019	31.12.2018
Short-term deferred costs and expenses	456,690	323,027
VAT from advances given	0	6,962
Total	**456,690**	**329,989**

The highest item in the short-term deferred costs and expenses is a contingent complaint from sale of products to the Egis company in Hungary. Egis is an end customer from the pharmaceutical industry that buys printed material on paper made in Goričane. The information about the complaint came from our customer, Javipa and Pharmaprint, companies that supply instructions printed on our paper. Due to the size of the complaint, the deferred costs and expenses include a credit in the amount of EUR 250,000.

35. Off-balance sheet and contingent liabilities

in eur	31.12.2019	31.12.2018
Guarantees, assumption of debt	5,829,106	6,095,712
Banks in Slovenia – mortgages and other insurances	27,327,396	30,901,861
Insurance for guarantees	3,500,000	3,500,000
Total	**36,656,502**	**40,497,573**

in eur	Bank insurance	Guarantees	Insurance for guarantees	Total
Balance as of 1.1.2019	30,901,861	5,829,106	3,500,000	40,497,573
Increase	0	0	0	0
Decrease	3,574,465	0	0	3,841,071
Balance as of 31.12.2019	**27,327,396**	**5,829,106**	**3,500,000**	**36,656,502**

36. Transactions with affiliates

in eur	2019	2018
Receivables and loans to companies in the Group		
PAPIGOR, holding, d.o.o.	12,520,409	12,407,379
PAPIRUS, holding, d.o.o.	431,841	450,822
Liabilities to companies in the Group		
PAPIGOR, holding, d.o.o.	0	0
PAPIRUS, holding, d.o.o.	0	0
Revenue from sale of services in the Group		
PAPIGOR, holding, d.o.o.	12	12
PAPIRUS, holding, d.o.o.	720	720
Financial revenue from interest		
PAPIGOR, holding, d.o.o.	113,030	114,634
PAPIRUS, holding, d.o.o.	8,759	10,420
Purchase of material and services in the Group		
PAPIGOR, holding, d.o.o.	0	0
PAPIRUS, holding, d.o.o.	0	0

In addition to the transactions listed, as of 31.12.2019, the company also records accrued payments due by the Papigor company in the amount of EUR 89,300, associated with the expenses to be paid by Papigor in accordance with the contract.

Financial risks, capital management and fair value

Financial instruments recognised in the company's financial statements include loans by and to the company, cash and cash equivalents, operating and other receivables, liabilities to suppliers and other liabilities from operations, as well as financial investments. The basic purpose of borrowing loans is to acquire the financial resources needed for the company's operations.

The company does not use derivatives for hedging.

The most important risks related to financial instruments of the Group include interest risk, liquidity risk, currency risk, credit risk and raw material price risk. The Management shall regularly review and endorse the policy of managing individual types of risks as described hereafter.

Interest rate risk

Interest rate risk is related to the negative impact of market interest rate changes on the company's business operations. The interest structure of active and passive balance items is not reconciled due to the fact that the company has more loans than interest-bearing investments.

If the company is exposed to interest rate risk, this may represent unfavourable movement (increase) of Euribor variable interest rate in case of loans received. All long-term loans have a variable interest rate.

Resources are partially subjected to a variable interest rate and partially to a fixed rate. All liabilities have a variable interest rate – hence, any potential changes may affect the cash flows but not the fair values.

Assets and liabilities per type of interest rate

in eur	2019	2018
Financial instruments with a fixed interest rate		
Financial assets	563,006	589,006
Financial liabilities	0	0
Financial instruments with a variable interest rate		
Financial assets	9,452,179	9,452,179
Financial liabilities	23,261,037	26,272,061

Effect of interest rate change on cash flow

in eur	Interest rate change in basis points	Effect on ICI	Effect on capital
2019			
Increase of Euribor	50	-69,044	0
Decrease of Euribor	-50	69,044	0
2018			
Increase of Euribor	50	-84,099	0
Decrease of Euribor	-50	84,099	0

Liquidity risk

The basic task of financial management is assuring solvency and thus providing for the proper functioning of all other company's business operations. Liquidity risk is one of the main financial risks. It occurs when – due to a risk in the business process – there is a change in the financial intermediary position of the company, i.e. the ratio between debts and receivables.

Maturity of contractual obligations - undiscounted

in eur 31.12.2019	Due in one year	Due in one to five years	Due after 5 years	Total
Long-term and short-term finan. liabil.	4,215,511	19,657,328	0	23,872,839
Short-term operating liabilities	16,997,491		0	16,997,491
TOTAL	**21,213,002**	**19,657,328**	**0**	**40,870,330**

in eur 31.12.2018	Due in one year	Due in one to five years	Due after 5 years	Total
Long-term and short-term fin. liab.	3,369,899	24,256,926	0	27,626,825
Short-term operating liabilities	22,318,578	0	0	22,318,578
TOTAL	**25,688,477**	**24,256,926**	**0**	**49,945,403**

Short-term loans with regard to insurance

in eur	31.12.2019	31.12.2018
Secured	4,151,294	3,337,446
Secured interest on real estate property	4,151,294	3,337,446
Bills of exchange	0	0
Other	0	0
Unsecured	64,217	0
Total	**4,215,511**	**3,337,446**

Long-term loans by due date

in eur	31.12.2019	31.12.2018
Due date in 1 to 2 years	3,111,251	3,055,176
Due date in 2 to 3 years	3,158,628	3,102,535
Due date in 3 to 4 years	13,380,490	3,149,338
Due date in 4 to 5 years	6,959	13,953,988
Total	**19,657,328**	**23,261,037**

The company successfully controls the liquidity risk and manages it by:

- deleveraging (measured with net debt/EBITDA indicator) in line with the financial restructuring plan;
- ensuring proper liquidity structure;
- annual plan of required financial assets and monthly and daily suitability monitoring;
- single approach to banks.

In 2019, the company has again put a specific focus on preparing the cash flow plans. Effective planning has enabled the company to foresee any surplus or lack of cash resources on time, and handle it to the optimum degree.

Credit risk

The company proactively manages the accounts receivable through insurances with SID d.d., requests for advance payments, regular reviews of our customers, monitoring and prompt recovery of receivables.

The company deems the credit risk to be manageable. The highest exposure to the credit risk equals the carrying amount of receivable value. The book value represents the biggest exposure to the credit risk.

Maximum exposure to credit risk

in eur	31.12.2019	31.12.2018
Operating receivables	5,695,049	8,849,064
Loans granted to others	11,542,027	11,448,828
Total	**17,237,076**	**20,297,892**

Currency risk

The company exports most of its products to foreign markets, mostly European Union markets. On the other hand, however, the company depends on the import of raw materials and other production materials. Exposure to currency risk is on a moderate level, most receivables are in euros. However, exposure to currency risk is higher for USD which represents a net liability.

The table below includes an impact analysis of the potential USD rate change on the company's profit before taxes (due to the influence of the net change value of monetary assets and liabilities) while all other variables remain unchanged. The change in currency ratios shall not affect the company capital.

Exposure to currency risk caused by currency rate change

in eur 31.12.2019	Change in foreign exchange rate (%)	Impact on profit/loss before income tax
USD	10 %	-234,234
USD	-10 %	234,234

in eur 31.12.2018	Change in foreign exchange rate (%)	Impact on profit/loss before income tax
USD	10 %	-237,161
USD	-10 %	237,161

Price risk

The company is exposed to the price risk of pulp which represents 62 % of material costs or a half of operating costs, and price movements on global markets may significantly affect the result.

Exposure to raw material price risk - pulp

in eur 31.12.2019	Change in price of pulp (%)	Impact on profit/loss before income tax
Increase of pulp prices	5 %	1,677,630
Decrease of pulp prices	-5 %	-1,677,630

in eur 31.12.2018	Change in price of pulp (%)	Impact on profit/loss before income tax
Increase of pulp prices	5 %	2,049,557
Decrease of pulp prices	-5 %	-2,049,557

The annex to the MRA agreement determines that the annual payment obligation from the amortisation schedule can be adjusted only if the company creates a higher cash flow than planned but not if the cash flow is lower because that would represent a liquidity risk. The Management believes that the current situation in the market of raw materials will not cause the liquidity risk to increase next year.

Capital management

The company is aware that in order to ensure smooth operations, we always need to have enough equity capital available - equity capital, after all, is a safeguard protecting the company from any unpredictable changes in the value of assets and debts. Therefore, we still follow the more conservative policy of financial leverage than is average in our industry; it provides us with a good credit rating and capital adequacy that we need to finance our operations and ensure added value for our shareholders.

The company is following the flow of capital via a financial leverage indicator calculated by dividing net liabilities with the total liability and total capital amount. Net liabilities include loans received, liabilities to suppliers and other liabilities minus the amount of cash.

Financial leverage

in eur	31.12.2019	31.12.2018
Financial liabilities	23,872,839	26,298,974
Operating liabilities	18,840,201	23,484,065
Cash and cash equivalents	102,865	52,592
Net liabilities	**42,610,175**	**49,730,446**
Total equity	23,905,127	22,573,814
Total equity and net liabilities	**66,515,302**	**72,304,260**
Financial leverage indicator	**64.06 %**	**68.78 %**

Fair value

Fair value is the amount for which assets may be exchanged or liability may be settled among well informed and willing parties in a deliberate business transaction. The fair value of financial instruments is not significantly different from their book value.

Comparison of fair value and book value

in eur	Book value 31.12.2019	Fair value 31.12.2019	Book value 31.12.2018	Fair value 31.12.2018
Tangible fixed assets	29,807,421	29,807,421	30,452,441	30,452,441
Long-term financial investments	590,609	590,609	537,401	537,401

Fair value hierarchy

in eur 31.12.2019	Level 1	Level 2	Level 3	Total
Tangible fixed assets	0	0	29,807,421	29,807,421
Long term financial investments	590,609	0	13,667	604,276

The company establishes a hierarchy of valuating techniques based on whether the input parameters for these types of valuation are published or not. Published parameters reflect market data acquired from independent sources, whereas unpublished parameters refer to market assumptions.

Fair value hierarchy is established as follows:

- **Level 1**: establishing fair value directly by referring to the official published price on an active market.
- **Level 2**: other techniques of establishing fair value based on assumptions with a significant impact on fair value that are in compliance with noticeable current market transactions with the same instruments, either indirectly or directly.
- **Level 3**: other techniques of establishing fair value based on assumptions with a significant impact on fair value that are not in compliance with noticeable current market transactions with the same instruments.

No transitions between levels were recorded in 2019.

Other notes

Disclosure of transactions with affiliates

The company is not involved in any business transactions with its affiliates and thus does not disclose any affiliate-related operating income, operating expenses, operating receivables or operating liabilities.

The company has loans granted to affiliate companies. All disclosures related to these loans are included in disclosure 18 Long-term loans, and disclosure 21 Short-term loans to companies in the Group.

Disclosure of earnings of the Management, the Supervisory Board and employees per their individual employment contracts

Uprava prejema plačo na podlagi individualne pogodbe The Management receive salary and wages as per their individual employment contracts, which are not subject to the tariff part of the collective labour agreement. In the year considered, the Management received EUR 443,065 of gross income, a holiday allowance in the amount of EUR 1,752, benefits in the amount of EUR 539 and reimbursements in the amount of EUR 1,513. In addition, they received reimbursements for travel expenses in the amount of EUR 28,021. As of 31.12.2019, the principal amount of the long-term loan totals EUR 50,000.

In 2019, the Supervisory Board received EUR 3,737 of attendance fees and other earnings for performing their functions. Of that, the Chairman of the Board received EUR 1,715 of gross earnings, and other members received EUR 2,022.

No employees with individual contracts were employed at the company in 2019.

Disclosure of auditing costs

In 2019, the company spent EUR 15.200 on the audit of its financial statements, EUR 1,500 for the review of report on the relationships with affiliates and EUR 802 for the reimbursement of auditor's travel expenses.

Important transactions after the end of the financial year

As soon as the coronavirus emerged, we started closely following the epidemiological situation and the developments both in China and elsewhere around the world. In response to the situation, we made sure to prepare ourselves, mainly with sanitary, health-related and organizational preventive measures.

After the announcement of the epidemic on a national level and other government measures, the company management adopted additional measures to contain the spread of the coronavirus infections with the explicit purpose of protecting the health of all employees, and consequently ensuring uninterrupted operation.

At the moment, the company Goričane, d.d. is not exhibiting any negative effects of the coronavirus on our operations. The business plan was met during the time of pandemic as well, and the production proceeded without interruptions. Although the expense for protective equipment did increase to a certain extent, these amounts are, as far as the financial statement is concerned, negligible. An assessment was made of whether the coronavirus is likely to affect further operation of the company but considering the uncertainty on the market and the fact that we are currently unable to predict the duration of the preventive measures both nationally and globally, the future effect cannot be reliably measured yet. Therefore, despite the current insignificance of the effects on our operations, we cannot estimate the future effect on the prices of raw materials, sales of products and financial solvency of our customers.

From the balance sheet date until the date of the auditor's report, there were no other events that could affect the company's financial statements.

Independent auditor's report

CONSTANTIAPRIMIA

INDEPENDENT AUDITORS' REPORT[i]

To the shareholders of the GORIČANE, d.d. Medvode

Qualified Opinion

We have audited the financial statements of GORIČANE d.d., Medvode ("the Company"), which comprise the statement of financial position as at 31 December 2019, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion section of our report, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2019, and of its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union ("IFRS as adopted by the EU").

Basis for Qualified Opinion

As at 31 December 2019, the Company discloses investment property being acquired in the amount of EUR 8,188 thousand. The item of investment property being acquired comprises investments in the renovation of Goričane Castle owned by the Archdiocese of Ljubljana, which is to be used in future by the Company as investment property in compliance with the lease agreement. The Company is in dispute with the Archdiocese of Ljubljana with respect to the renovation's continuation, as well as regarding the market value of the Company's investments in the Goričane Castle's renovation. The respective dispute is at present being resolved through mediation, which is not yet complete. The deadlock in the Castle's renovation that caused significant delays from the initially planned completion of the renovation and the inability to generate the necessary income from renting Goričane Castle, which the Company must achieve to replace investments in renovating the investment property, indicate that the investment property could be subject to impairment. In addition, it is not possible to determine due to the unresolved dispute what the potential return on investment would be if the opposing parties agree to settle the dispute in such a way. In accordance with provision of IAS 36 - Impairment of Assets, the Company is required, if impairment indicators of investment property being acquired exist, to determine the recoverable amount of the asset and recognise an impairment loss on an non-financial asset as of the reporting date. Company's management has neither established the recoverable amount nor recognised an impairment loss, which derogates from IFRS requirements. It was not feasible for us to evaluate the financial effects that would show the extent to which the financial statements are materially misstated as a result of this matter, including the impacts on the reported values of investment property being acquired, deferred tax assets and equity items as at 31 December 2019, as well as on impairment losses on non-financial assets, income tax expense and net profit or loss for the year then ended. The previous auditor modified for the same reason the audit opinion on the previous year's financial statements.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Slovenia, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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osnovni kapital družbe: 15.000 EUR, št. registrskega vložka: 2018/32175 pri Okrožnem sodišču v Ljubljani
št. vpisa v register revizijskih družb: RD-A-113/18

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

Other Matter

The financial statements of the Company for the year ended 31 December 2018 were audited by another auditor who expressed a qualified opinion on those statements on 31 July 2019.

Other Information

Management is responsible for other information. The other information comprises the Introduction, Business Report and Environmental 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 or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

With respect to the Business Report, we have 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 consistent in all material aspects 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 and other information that we obtained prior to the date of this auditors' report. As described in the Basis for Qualified Opinion section of our report above, the Company should have determined the recoverable amount of the investment property being acquired and recognise impairment loss. We have concluded that the Business Report and other information is materially misstated for the same reason with respect to amounts or other items included in the Business Report and other information which is affected by the failure to recognise the impairment loss.

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

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the IFRS as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of separate 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.

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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 separate 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 separate 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 separate financial statements, including the disclosures, and whether the separate 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.

Ljubljana, 20 July 2020

On behalf of the auditing company
CONSTANTIA PRIMIA revizijska družba d.o.o.

Primož Koder
Certified Auditor
Director

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[i] The Independent Auditor's Report hereof is a translation of the original Independent Auditor's Report in Slovene, issued on the financial statements and the notes thereto in Slovene and is not to be signed. This translation is provided for reference purposes only.

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Design: KOFEIN DIZAJN
Photography: Jaka Babnik
Print: Tiskarna Grafos

Medvode, 2020

Printed on Sora matt+ 100g