PIVOVARNA LAŠKO UNION d.o.o.

ANNUAL REPORT

2019

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1. INTRODUCTION

1.1 Report of the Supervisory Board on the Review of the Audited Annual Report of Pivovarna Laško Union d.o.o. for the year 2019

AT ITS REGULAR MEETING ON 9 JULY 2020, THE SUPERVISORY BOARD REVIEWED THE SUBMITTED AUDITED ANNUAL REPORT OF PIVOVARNA LAŠKO UNION D.O.O. (HEREINAFTER: PLU) FOR 2019 AND DID NOT HAVE ANY COMMENTS THERETO.

1.1.1 SUPERVISORY BOARD STRUCTURE

The Supervisory Board of the Company is made up of 6 members, i.e. 4 representatives of the Founder and 2 employee representatives. In the 2019 business year, the Supervisory Board operated in the following structure:

Founder's representatives

Dimitar Alexiev Dimitrov, chairman

Mark Piet Jan Rutten, member

Peter Keppelmüller, member until 10 September 2019

Edyta Jakubek, member as of 10 September 2019

Dušan Zorko, member

Employee representatives

Boštjan Teršek, deputy chairman

Primož Mlekuš, member until 1 September 2019

Domen Verbič, member as of 1 September 2019

1.1.2 OPERATION OF THE SUPERVISORY BOARD

In 2019, the Supervisory Board of the company reviewed the business operations of Pivovarna Laško Union d.o.o. in accordance with statutory regulations and the Memorandum of Association of the Limited Liability Company Pivovarna Laško Union d.o.o. In 2019, the Supervisory Board held four meetings by correspondence.

1.1.3 REVIEW OF THE ANNUAL REPORT

The Supervisory Board reviewed the audited 2019 Annual Report of Pivovarna Laško Union d.o.o. at its meeting on 9 July 2020. The Annual Report was audited by the company Deloitte Revizija d.o.o., Ljubljana. On 28 May 2020 the auditing firm issued its opinion without reservation on the Annual Report of Pivovarna Laško Union d.o.o. for 2019. The Supervisory Board had no comments in regard to the Audit Report dated 9 July 2020.

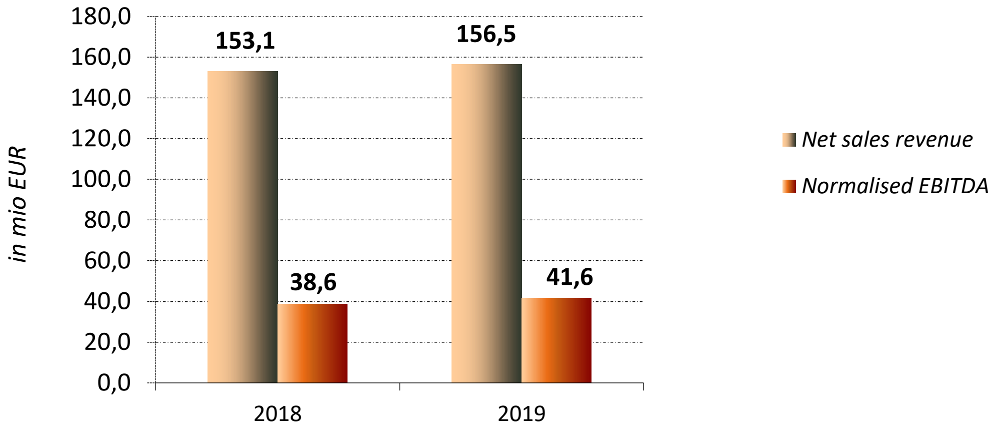
The Supervisory Board compiled this report for the Founder's General Meeting pursuant to Article 23 of the Memorandum of Association of the Company.

Ljubljana, 9 July 2020

Chairman of the Supervisory Board
Dimitar Alexiev Dimitrov

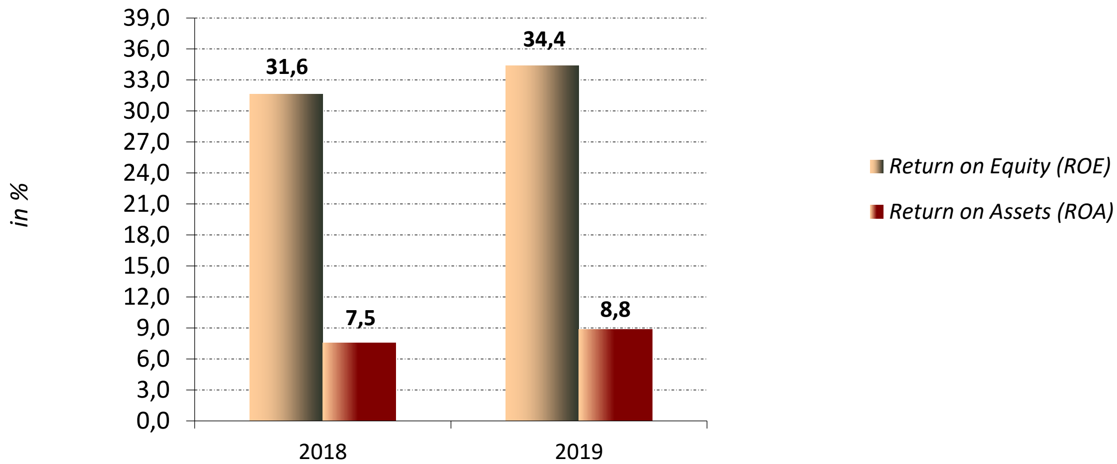
1.2 Business data of Pivovarna Laško Union d.o.o.

Sales revenue and normalised profits with depreciation (EBITDA)



Normalised EBIT for 2019 is calculated from operating profits increased or decreased by the impact of one-off business activities (profits and loss from the sale of fixed assets and costs related to restructuring). Normalised EBITDA is the sum of normalised EBIT and depreciation.

Return on Assets (ROA) and Return on Equity (ROE)[1]



[1] In the calculation of the Return on Equity and Return on Assets, the normalised net profits were taken into account.

1.3 Vision, mission, values, business plan and strategy

Vision

Our vision is to become the most important development centre in the Adria region within the Heineken Group.

Mission

The mission of our company is to extinguish thirst of citizens of Slovenia. We create added value for our consumers with top-quality brands, social responsibility and sustainable development.

The most important values in our company for ensuring sustainable growth are:

- PASSION for quality,
- ENJOYMENT, which we bring to our lives,
- RESPECT for individuals, society and the planet.

Important basic premises for the preparation of the **plan** for 2020 include:

- PLU strategy,
- growth of Laško, Union and Heineken brands,
- innovation,
- sale of assets not required for operations and
- further reorganization of operations and optimisation of the E2E operation of the company.

The company has adopted and approved its long-term operational strategy for the period until 2022. It focuses on the development of products under the company's own brands, increase of sales (of own brands and Heineken Group Brands), optimisation of the E2E operations of the company, development of human resources and sustainable development.

1.4 Presentation of Pivovarna Laško Union d.o.o.

Pivovarna Laško Union d.o.o. is the leading beer producer in Slovenia. Pivovarna Laško and Pivovarna Union joined strengths in the company.

A company with a neary 200 years of tradition produces its products at two locations – in Laško and Ljubljana. Our brands – with the two most recognised being Laško Zlatorog and Union Svetlo – reflect our passion for quality and commitment to bring pleasure to people’s lives.

Social responsibility is an integral part of our business strategy and mindset. It is a model of business excellence and our competitive advantage. It is our value and choice. It helps us strive towards sustainable development and activities which are socially beneficial and based on knowledge and partnership.

Pivovarna Laško Union d.o.o. is 100% owned by Heineken from the Netherlands.

1.4.1 COMPANY PROFILE

Pivovarna Laško Union d.o.o., Ljubljana, Pivovarniška ulica 2, 1000 Ljubljana, is registered in the court register of the Celje District Court under the number 1/00171/00, decision number SRG 2016/28597 dated 1 July 2016.

Company name:	PIVOVARNA LAŠKO UNION d.o.o.
Form of organisation:	Limited Liability Company
Share capital of the company:	EUR 36,503,305
Company code:	5049318
Tax number:	SI 90355580
Activity code:	C 11.050

Type of business and principal activities:
PRODUCTION OF BEER, SOFT DRINKS AND WATER

Company management:	Zooullis Mina, Managing Director
Structure as of 31 December 2019	Mirjam Hočevar, Finance Director
	Neven Madzharov, Supply Chain Director
	Irena Brugger, Sales Director
	David Zappe, Marketing Director
	Gregor Rajšp, HR Director
E-mail:	info.plu@heineken.com
Website:	http://www.pivovarnalaskounion.com
Phone:	+386 1 471 72 17
Telefax:	+386 1 471 72 55

2. BUSINESS REPORT

2.1 Corporate Governance

CORPORATE GOVERNANCE IS BASED ON A TWO-TIER SYSTEM, ACCORDING TO WHICH THE COMPANY IS MANAGED BY THE MANAGEMENT AND OVERSEEN BY THE SUPERVISORY BOARD.

The corporate governance principles of the PLU are based on applicable regulations in the Republic of Slovenia, the Memorandum of Association of the Limited Liability Company Pivovarna Laško Union d.o.o. (hereinafter: Memorandum of Association), and the established good practices of the Heineken Group. The corporate governance of the company is based on a two-tier system, according to which the company is managed by the Management, while the Supervisory Board oversees its operations.

The company's bodies include the Founder, which is comprised of the General Meeting, the Supervisory Board, and the Management of the company.

2.1.1 POWERS OF THE FOUNDER

Pursuant to the Memorandum of Association, adopted on the basis of provisions of the Companies Act (ZGD-1), the Founder is the highest body of the company.

On the grounds of participation in the share capital of the company, the Founder holds the following rights:

- the right to participate in profit sharing;
- the right to the relevant part of the remaining property after liquidation or bankruptcy of the company
- other rights as determined by the legislation or the Memorandum of Association.

The Founder shall not be liable for the company's obligations.

The Founder shall independently decide on:

- the adoption of general acts of the company within its powers, as well as any amendments or supplements thereto;
- amendments to the Memorandum of Association of the company;
- Decrease of share capital;
- Increase of share capital;
- Status changes and transformation of the company;
- the adoption of the Annual Report and the use of net profit or covering a net loss
- appointment and dismissal of the Supervisory Board members of the company, with the exception of Supervisory Board members appointed by the company's Work Council;
- winding-up and liquidation of the company
- other matters, if determined so by the legislation or the Memorandum of Association.

The Founder decides on or adopts all decisions by entering them into the Register of decisions, approved by the notary. Decisions that are not entered into the Register of decisions shall have no legal effect.

The Founder shall appoint an auditor of the audit company for the auditing of the company's annual business accounts.

The share capital of the company amounts to EUR 36,503,304.96 and constitutes a single business interest of the Founder in the same amount: Heineken International B.V. with its registered office in Amsterdam and business address at Tweede Weteringplantsoen 21, 1017 ZD Amsterdam, the Netherlands, which is equivalent to a 100% business interest. As of 1 July 2016, the share capital had been fully paid-up.

2.1.2 SUPERVISORY BOARD

The responsibility of the Supervisory Board is to oversee the business management of the company and exercise of its powers pursuant to the Memorandum of Association.

Responsibilities of the Supervisory Board include:

- Making decisions on the appointment and removal of the members of the Management
- Reviewing the Annual Report of the company
- Reviewing the Long Term and Annual Business Plan, including the company's investment plans and quarterly results
- Performing tasks delegated by the Founder

The structure of the Supervisory Board of the company is determined in the company's Memorandum of Association. It consists of six members, all of whom have equal rights and duties, unless stipulated otherwise by the Memorandum of Association. Four members of the Supervisory Board of the company are Founder's representatives, while the remaining two are employee representatives, elected by the Work Council. The Supervisory Board can also decide that specific resolutions of the Management require approval by the Supervisory Board of the company.

Supervisory Board structure
as at 31 December 2019

Founder's representatives:
Dimitar Alexiev Dimitrov, chairman
Mark Piet Jan Rutten, member
Dušan Zorko, member
Edyta Jakubek, member

Employee representatives:
Boštjan Teršek, Deputy Chairman
Domen Verbič, member

Supervisory Board structure
as at 31 December 2018

Founder's representatives:
Dimitar Alexiev Dimitrov, chairman
Mark Piet Jan Rutten, member
Dušan Zorko, member
Peter Keppelmüller, member

Employee representatives:
Boštjan Teršek, Deputy Chairman
Primož Mlekuš, member

On 10 September 2019, the term of the member of the Supervisory Board, Peter Keppelmüller, was terminated. At the General Meeting of the company on 10 September 2019, the Founder appointed Edyta Jakubek as a new member of the Supervisory Board for a four-year term.

At its meeting on 23 August 2019 the Work Council appointed Boštjan Teršek and Domen Verbič as the employee representative - Members of the Supervisory Board for a new term of office as of 01 September 2019.

2.1.3 COMPANY MANAGEMENT

The company's Management manages the company's business under its own responsibility, represents the company and acts on its behalf, and performs other tasks pursuant to the law and company acts.

The Management consists of a maximum of seven directors, of which one shall be appointed as the Managing Director and another one shall be appointed Deputy Managing Director, while others will be appointed Directors. If there is only one director, they shall be appointed the Managing Director. The Director shall act for the benefit of the Company while performing their tasks, with the care of a conscientious and honest economic operator and shall protect the business secrets of the company. The diligence and responsibilities of the Directors, as well as their liability regarding the influence of third parties, shall be subject to the legal acts regulating business entities.

The Managing Director and other Directors are appointed and removed by the Supervisory Board. The term of office of the Managing Director, Deputy Managing Director and other Directors can be a maximum of 3 years. However, each director can be re-appointed upon expiration of their term. The company is represented jointly by the Managing Director and one of the other Directors.

The Management of the company decides with a majority vote of all present or represented Directors, or unanimously in the event that the Management consists of two members only. The Managing Director and all other Directors shall each have one vote. In agreement with the Supervisory Board, the Management shall adopt the Rules of Procedure for the work of the Management, laying down the manner of work and decision-making of the Management.

The Management of the company must ensure that all transactions comply with the relevant Heineken Group policies, i.e. especially that:

- Business acquisitions and divestments will be made in accordance with the Heineken Business Development procedure;
- Receiving and extending loans is fully aligned and agreed with Heineken Global Treasury:
- Investments and commitments are subject to compliance with Heineken Global Fund Application Policy.

Structure of the Management as at 31 December 2019

Zooullis Mina, Managing Director
Mirjam Hočevar, Finance Director
Neven Madzharov, Supply Chain Director
Irena Brugger, Sales Director
David Zappe, Marketing Director
Gregor Rajšp, HR Director

Structure of the Management as at 31 December 2018

Zooullis Mina, Managing Director
Mirjam Hočevar, Finance Director
Matej Oset, Supply Chain Director
Olexandr Olexandrovych Makarenko, Sales Director
David Zappe, Marketing Director
Urška Leben, HR Director

In 2019, the Management of the company was made up of the following directors: Zooullis Mina – Managing Director, Mirjam Hočevar – Finance Director, Matej Oset – Supply Chain Director until 30 June 2019, Neven Madzharov as of 1 July 2019, Olexandr Olexandrovych Makarenko – Sales Director until 31 March 2019, Irena Brugger – Sales Director as of 1 April 2019, Urška Leben – HR Director until 31 May 2019, Gregor Rajšp – HR Director as of 1 June 2019 2019, and David Zappe – Marketing Director.

2.2 Statement on corporate governance and compliance with HeiCode

THE MANAGEMENT OF PIVOVARNA LAŠKO UNION D.O.O. HEREBY DECLARES THAT THE COMPANY COMPLIES WITH THE PROVISIONS OF THE HEINEKEN RULES AND THE HEINEKEN CODE OF BUSINESS CONDUCT (HEICODE).

2.2.1 COMPLIANCE OF CORPORATE GOVERNANCE WITH THE PROVISIONS OF THE HEINEKEN RULES AND THE HEINEKEN CODE OF BUSINESS CONDUCT (HeiCode)

The Management of the company PLU complies with the laws of the Republic of Slovenia and respects the applicable legislation in the Republic of Slovenia, including all secondary legislation. Moreover, the company adopted all required internal acts, as stipulated by the applicable legislation in the Republic of Slovenia. Furthermore, the company adopted other rules to regulate specific internal areas of the company's business. After its integration into the Heineken Group the company also began to implement Heineken Group policies.

The Management of PLU hereby declares that the company complies with the provisions of the Heineken Rules and the Code of Business Conduct (HeiCode), which is an integral part of the Heineken Rules. The HeiCode policies have been translated into Slovene and published on the company portal. A summary of the policies is also available in the form of a brochure.

2.2.2 MAIN CHARACTERISTICS OF INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS IN CONNECTION WITH THE FINANCIAL REPORTING PROCEDURE

PLU adopted a systematic approach for the identification of all type of risks. The main focus is put on strategic risks and fraud prevention. With the aim to control risk we implemented internal control procedures at all levels. The aim of internal controls is to ensure the accuracy, reliability and transparency of all processes, as well as to manage all types of risks, including those related to accounting reporting. At the same time the internal control system aims to implement mechanisms that prevent the irrational use of property and facilitate cost efficiency.

The internal controls system includes procedures, which ensure that:

- Business events are recorded accurately and fairly on the basis of authentic accounting documents, while providing assurance that the company fairly manages its property;
- Business events are recorded, and financial statements are produced in accordance with applicable legislation;
- Potential unauthorised acquisition, use or disposal of the company's assets, which could have a significant impact on financial statements, is duly prevented or detected in due time

Internal company controls are being implemented in all departments. We dedicate special attention to such internal controls, which have a significant impact on the accuracy and timeliness of financial statements, as well as compliance with applicable accounting, tax and other regulations. The regularity and efficiency of internal control implementation is the responsibility of the Process and Control Improvement Department according to its annual plan, and according to the Process and Control and Internal Audit functions of the parent company. External certified information system auditors and information system auditors from the parent company verify the performance of internal controls within the information system on an annual basis.

2.2.3 EXTERNAL AUDIT

Regular external audit

At the General Meeting of PLU, on 16 September 2019 the Founder appointed the audit firm Deloitte Revizija d.o.o., Ljubljana, as the Company's auditor for the audit of financial statements for a period of three years (i.e. 2019 – 2021). During the review of financial statements, the audit firm reports its findings to the Management and briefs the Supervisory Board and Founder thereupon. The Founder is responsible for the adoption of the company's Annual Report.

In Ljubljana, on 28 May 2020

Zooullis Mina
Managing Director

Mirjam Hočevar
Finance Director

Neven Madzharov
Supply Chain Director

Irena Brugger
Sales Director

David Zappe
Marketing director

Gregor Rajšp
HR Director

Dimitar Alexiev Dimitrov
Chairman of the Supervisory Board

2.3 Final note from the Report of the Management of Pivovarna Laško Union d.o.o. on its relations with the controlling entity and its related companies pursuant to Article 545 of the Companies Act (ZGD-1)

THE MANAGEMENT OF THE COMPANY HEREBY DECLARES THAT IN 2019 THE COMPANY DID NOT FACE ANY DISADVANTAGES DUE TO BUSINESS TRANSACTIONS WITH THE CONTROLLING COMPANY OR ITS RELATED COMPANIES.

With respect to business transactions with the controlling company and its related companies conducted in 2019, the Management of Pivovarna Laško Union d.o.o. hereby declares that the company received adequate returns given the circumstances known to the company at the time those transactions were executed, and has thus not faced any disadvantages.

In Ljubljana, on 28 May 2020

Zooullis Mina
Managing Director

Mirjam Hočevar
Finance Director

Neven Madzharov
Supply Chain Director

Irena Brugger
Sales Director

David Zappe
Marketing director

Gregor Rajšp
HR Director

2.4 Sales

Compared to 2018, the sales volume of PLU beer on the domestic market increased by 0.5%.

In 2019, PLU generated a sales volume of beer in foreign markets with a 4.8% increase compared to 2018. The growth in foreign markets is largely the result of greater sales to group companies.

2.5 Quality and standards

IN 2019, THE LABORATORY AT PIVOVARNA LAŠKO WAS CERTIFIED WITH TWO STARS ACCORDING TO HEINEKEN'S "LABORATORY STAR SYSTEM (LSS)"

MANAGEMENT STANDARDS AND FOOD SAFETY STANDARDS

Heineken's Lab 2 Star standard is mandatory for all laboratories at sites where welding and/or the bottling of Heineken products are performed. Pivovarna Laško achieved this in 2019 with an excellent result. This is also confirmed because we achieved the highest-level results in ring analyses, where all Heineken laboratories analyse the same sample and the results are then evaluated and compared. There comparisons (HRA analyses) are carried out in the field of chemical, microbiological, and sensory analyses.

A consultative assessment was carried out at Pivovarna Union in 2019, while a certification assessment is planned for March 2020. The Pivovarna Union laboratory achieved the same ring comparison results as the Pivovarna Laško laboratory.

Globally, we are included in the PQ Quality Pillar, and work began at Pivovarna Union in the second quarter. Work is performed pursuant to the TPM Next initiative, which resulted in some simplifications and a greater focus on KPI's, which are related to the quality from the raw materials to the consumers and to an ongoing resolution of deviations.

One of the main tasks within the PQ Pillar is translating analytical work into production and establishing process control. The role of employees in laboratories is upgraded; in addition to product quality control, it is also upgraded by performing oversight over process control.

HeiDoc is the second global project in which we are participating, and which will, in the future, result in a global database of all suppliers of source materials. This mainly includes materials which are in contact with foodstuffs and the data on food safety required by legislation and Heineken – migrations, certificates of analyses. The database will simplify the access to this information, which has thus far been sought from suppliers individually.

In 2019, we were once again certified according to ISO 9001 and ISO 14001 standards at both of the PLU business sites, in Laško and Ljubljana; furthermore, we were certified according to the IFS standard for safe food, namely at the highest level. There were no deviations regarding the inspections (pre-packaged products, safety of raw materials and fodder) carried out in 2019.

COMPLAINTS

There were no complaints regarding food safety in 2019.

2.6 Investments

Twenty-eight projects were carried out at our location in Ljubljana. The most important investments included the replacement of the obsolete Simatic S5-IO equipment for controlling pressure tanks, the insulation of pressure tanks, waste water recovery, the dosage of preservatives in Cider Blade, the upgrade of the labelling machine for bottling, and a project for new programmes for the tunnel pasteurization of Radler, Cider, and Malt.

In 2019, we initiated multiple projects that will continue in 2020: ISOmix – Dry hopping: it will allow us to perform dry hopping and the homogenization of unfiltered beer haze through a project for increasing the flexibility of the use of pressure tanks, a project for the hygiene concept on bottling lines, a project for improving machine safety, and a project for the automatic foaming of the D2 bottling machine.

Thirty-four projects were carried out at the Laško site. The most important projects were the following: the project for the second phase of horizontal fermentation tanks for Heineken beer, the project for establishing and integrating a system for manufacturing alcohol-free beer, a project for renovating automation in fermentation, a project for upgrading the bottling line for Laško Golding, a project for integrating a cooling tower for tunnel pasteurizers into a new construction, a project for detecting NH_3, a project for new programmes for the tunnel pasteurization of products, and a project for vaporizing CO_2 using a glycol system.

We initiated multiple projects in 2019, which will be continued in 2020: the devising of a new concept for a new yeast cellar, a project for the hygiene concept for bottling lines, a project for improving machine safety, a project for installing a dosage system for ClO_2, a project for a dosage system for Oxonia-o in CIP fermentation, and a project for the automatic foaming of the bottling machine.

2.7 A business performance analysis for the company Pivovarna Laško Union d.o.o.

a. CLARIFICATIONS REGARDING THE PROFIT AND LOSS STATEMENT

In 2019, we generated EUR 156.5 million in **net sales** at PLU, which is a 2.2% increase compared to 2018, mainly due to increased sales in the domestic market. The proportion of the net sales generated in foreign markets accounted for 26% in 2019.

Other operating revenues in the amount of EUR 1.5 million decreased by 39.7% compared to the previous year. The majority of this revenues came from revaluation operating revenues arising from long-term assets in the amount of EUR 0.8 million and revenues arising from the abolishment of the reusable packaging deposit in the amount of EUR 0.4 million.

The **operating expenses and costs** of the company PLU in the amount of EUR 125 million experienced a 2.1% decrease in 2019 compared to 2018. The cost of engaged services, the cost of provisions, labour costs, and other operating costs were lower, while the cost of materials, amortisation, and revaluation operating expenses were higher than in 2018.

In 2019, PLU generated **EBIT** in the amount of EUR 31.8 million. The normalised EBIT, i.e. operating profit, which was higher or lower according to the impact of one-time business events, amounted to EUR 31.4 million. in 2019, EBITDA amounted to EUR 42 million, while normalised EBITDA amounted to EUR 41.6 million. Compared to the normalised EBITDA for 2018, it was higher by EUR 3 million.

The **net profit** in the amount of EUR 24.4 million is higher by EUR 4.1 million compared to 2018. The normalised net profit for 2019 amounts to EUR 24.1 million, which is EUR 2.9 million more than the normalised net profit for 2018.

b. CLARIFICATIONS REGARDING THE STATEMENT OF CASH FLOWS

At the end of 2019, PLU **assets** amounted to EUR 258.9 million, which is 9.4% less than at the end of 2018.

The **long-term assets** in the amount of EUR 177.2 million were by EUR 1.8 million lower compared to the end of 2018. The main reasons for this were the reduction of the deferred tax assets by 10.6% and the reduction of long-term operating receivables by 5.7%.

At the end of 2019, the **short-term assets** in the amount of EUR 81.7 million were by 23.5% lower compared to the end of the previous year, mainly due to the reduction in cash.

The **capital** of the company in the amount of EUR 70.5 million was higher by 1.3%, i.e. EUR 0.9 million, compared to 2018. The majority of the change in capital is due to the net profit or loss and the disbursement of dividends.

As at 31 December 2019, the total **financial liabilities** of the company PLU amounted to EUR 141.7 million. The liabilities were by EUR 29.9 million lower compared to the end of 2018, mainly due to the repayment of the loan to the holding company. The net indebtedness as at the last day of 2019, calculated as a difference between all of the financial investments into shares and equity interest, loans granted, and cash and all of the financial liabilities, amounts to EUR 100.7 million. The surplus of short-term assets over short-term liabilities amounts to EUR 43.3 million.

The company's total **operating liabilities** amounted to EUR 40.1 million in 2019 and were 2% higher.

c. SIGNIFICANT EVENTS IN 2020

On 30 January 2020, the World Health Organisation declared an international public health hazard due to the **spread of the COVID-19 virus**, and a pandemic was declared on 11 March 2020. The first patient infected with the virus in Slovenia was diagnosed on 4 March 2020. As the first measure to limit the spreading of the disease in Slovenia, a decree was issued to ban the gathering of people in public events, in indoor public areas with more than 500 people, and then additional measures were also taken against the spreading of the disease, including a decree that all sporting events and other events with more than 500 participants should be carried out without spectators. On 12 March 2020, an epidemic was declared in Slovenia.

Numerous further measures to limit the spread of the disease were taken in Slovenia in March:

- limited social contacts (e.g.: temporary ban on public gatherings, ban on travel outside of the municipality of one's permanent or temporary residence, closure of some public institutions, suspension of public passenger transport, ban of providing and selling goods and services directly to consumers, including hospitality services);
- measures in healthcare (testing introduced, epidemiological monitoring of the spreading of the virus, adjusted operation of healthcare institutions);
- all educational institutions were closed;
- measures in working environments (recommendations to employers regarding orders for work at home and other work in emergencies), etc.

It should be noted that the ban on providing and selling goods and services to direct consumers has significantly affected the operation and the results of the company PLU. The closure of bars, restaurants, hotels, and other hospitality establishments was followed by a nearly **100% loss of sales through the HORECA (hotels, restaurants, catering) sales channel.**

Furthermore, the Government of the Republic of Slovenia has adopted multiple immediate intervention and strategic measures to mitigate the harmful effects of the epidemic on the economy and people:

- measures to retain jobs;
- measures to improve the social position of people;
- measures to provide emergency aid to self-employed persons;
- measures to maintain the operation and improve the liquidity of companies;
- aid for agriculture, etc.

Since the virus spread in Slovenia has slowed down in May 2020, based on the National Institute of Public Health professional assessment the government declared the end of epidemic effective from 15 May 2020.

The management of the company PLU has been carefully monitoring the spread of the disease and its effect on the company's operations. Significant negative effects on the scope of operations and the company's business results were already recorded in March 2020 and have then continued in April and at the lower scale in May, as well. These mainly include a significant loss of sales of products to HORECA establishments and distributors, while no significant loss of sales to stores has been detected yet. In May 2020, with the ease of governmental measures HORECA sales channel has been slowly step-by-step reviving back.

The loss of sales was followed by the adjustment of production and the entire supply chain and the streamlining of costs and investments. Special attention has been paid to an increased credit risk due to the decreased solvency of buyers, liquidity risk, and potentially non-sellable inventory.

The company management has adopted numerous measures to ensure health of its employees, to minimize the risk of infection in the workplace and that the company's operations continue. All measures are being coordinated with the management and other companies within the Heineken Group. Multiple scenarios for the effect of the spread of the contagious disease on the company's operations have been made, depending on its duration and severity of the effect. The scenarios are being updated on an ongoing basis depending on the developments. Furthermore, the management is studying the potential possibility of using government measures to mitigate the harmful effects of the epidemic on the economy. It is aware that the future effects of the epidemic on the scope and results of the operations of the company PLU will not be able to be assessed in detail, but it also finds that the measures adopted will ensure the future operations of the company.

Moreover, the company PLU has been ensuring the health and safety of its employees, it has been maintaining contact with its business partners, it has been operating in the interest of future cooperation, it has used donations and other forms of social aid to remain generally active, responsible, and civic-minded in various fields.

The management of the company PLU has assessed that the spread of the COVID-19 virus does not affect the financial statements of the company PLU for the fiscal year that ended on 31 December 2019.

As additional significant event to be disclosed, PLU subsidiary **Vital Mestinje, d.o.o**. is in the process of sale.

There were no other significant events in 2020.

2.8 Risk Management

The risk management process is a part of our structure and is constantly included in our daily activities and in the adoption of important decisions. Identifying and assessing risk as well as developing activities to eliminate or manage them are significant tools which help us achieve the set goals and protect the company and its reputation.

Within the scope of identifying and assessing the risks to which we are exposed, we are planning and carrying out relevant activities. The identified risks are managed and monitored through a risk register, which is regularly updated. A custodian and the activities for risk elimination or the management of potential negative effects on our operations are defined for every identified risk. In order to manage risks, we use detailed analyses, both in the strategic field as well as in the field of fraud.

We use corporate tools to carry out activities on a quarterly basis. After identifying and assessing the risks, we monitor the activities for eliminating or managing the risks, we once again carry out a review, we prioritize the key risks, and confirm the risk exposure status, which is also a part of the meeting at the end of the year.

2.8.1 BUSINESS RISKS

The economic recovery, the increase in GDP and the increase of the employment rate has had a positive influence on the purchasing power and the changing purchasing habits of our customers. The activities of our competition in the domestic and other markets, where they offered private brands, generic and more affordable products, however, of lesser quality, did not take us by surprise in 2019, due to our changed strategy.

Sales risks are of key importance for our company. We tried to mitigate their impact with various responses, e.g. increased marketing activities, more efficient negotiations with our business partners, and especially with the highest possible quality of our products and services. We offered our consumers several innovations in our product range, thus demonstrating how important their satisfaction is to us. We continuously monitored and responded to the market trends, requirements and demands of our customers. Furthermore, all our activities have always focused on fulfilling our goal, i.e. offering our customers products and services of the highest quality.

Whenever possible, we controlled **procurement risks** by seeking synergies within Heineken Global Procurement. Furthermore, we also set the objective to foster cooperation with local suppliers whenever possible, provided they offer a competitive price and meet our high-quality standards, as well as respect the Heineken Code of Business Conduct.

2.8.2 OPERATING RISKS

Operating risks are essential for the performance of business processes and the management of consumption and expenses. Within the framework of operating risks, we especially tracked risks related to the production process. These risks consist mainly of the risk of breakdowns at the filling lines and its associated equipment and can also mean production downtime. To mitigate their impact, we provided for uninterrupted operation of lines and equipment primarily through high quality maintenance, regular overhauls, and partially by replacing worn out old equipment with new investments.

The high risk of changes of all types of regulations, rules and legislation is defined as regulatory risk, which refers to our business operations in both the domestic as well as foreign markets. Without a doubt such changes have a significant impact on our company's business activities, esp. any changes of legislation in the field of food production, consumer health; sugar tax, environmental legislation and introduction of an environmental tax, the Water Act – concessions, regulations related to packaging, excise fees and tax legislation. Such risks are controlled by separating duties for specific areas.

2.8.3 FINANCIAL RISKS

In the field of financial risks, the most important risks include liquidity risk, risk of reduction of the fair value of tangible fixed assets, financial investments, and credit risks.

On 31 December 2019, the company recorded a surplus of current assets (including accrued and deferred assets) over current liabilities (including accrued and deferred income) in the amount of EUR 43,3 million.

Liquidity risk is mitigated with the implementation of the regular liquidity management policy which includes the planning of expected cash expenditure and adequate cash income on an annual and monthly basis. We estimate that the exposure to liquidity risk is manageable.

Credit risks include all risks that influence the reduction of the economic benefits of the company due to the insolvency of our business partners and their failure to fulfil their contractual obligations. Therefore, we regularly supervise and monitor the financial receivables from our customers, both wholesalers, as well as retail customers, and we put in place the procedures for the management of receivables, we expedited the collection of debt with written reminders and phone calls, as well as on-the-spot collection of debt and legal collection of debt. Our receivables are partially insured with bank guarantees, mortgages, and bills of exchange. Business with customers with a poor credit rating is carried out based on advance or immediate payments in order to avoid the risk of non-payment for the sold goods to a certain degree.

Receivables to our largest wholesalers in the Slovenian market are only partially insured, therefore there is a high credit risk exposure in this segment. It is mitigated with daily controls related to the monitoring of the balance of receivables performed together by the Sales and Finance departments. We also established the so-called Credit Committee, which is responsible for the management of credit risk.

The interest rate risk is high; however, it is related to the received long-term loan from our new owner, Heineken International, B.V., Amsterdam. The loan was received at a fixed interest rate. The company has no other outstanding loans. Interest rate risk is low for the leases.

3. SUSTAINABLE DEVELOPMENT

3.1 Human resources management at Pivovarna Laško Union d.o.o.

Our commitment to quality, the enjoyment of life, the respect for people and our planet are our values, which we persistently and carefully foster, live out, and develop at our company. We advocate them as a corporate citizen, a business partner, and an employer.

We greatly emphasize the dedication of our employees and a modern management method and we also encourage good interpersonal relationships. We build on trust, respect, and sustainable actions. Our values are supported through the behaviours that we encourage and strengthen:

- let us put safety first;
- let us act as responsible entrepreneurs;
- let us build cooperation on trust;
- let us give priority to support over control;
- let us keep things simple;
- let us learn, so we can achieve progress.

3.1.1 CONCERN FOR EMPLOYEE SATISFACTION IN 2019

Growth is one of our guiding principles in business. It must also be supported by the growth of our employees. Therefore, we show our concern for them with the highest degree of responsibility. We ensure the career development and personal development of our employees and we constantly strive to be one of the most desirable employers in the country and the region.

In 2019, in addition to enhancing the expert competencies and skills of our employees, we also greatly emphasized the strengthening of leadership. Trained and empowered leaders are key drivers of growth, the heralds of our values and the new corporate culture that we are striving for. Therefore, in 2019, we began to develop management, business, and leadership competences for 40 of our key leaders within a specially developed program called "Grow", which is carried out with the support of IEDC Bled School of Management.

A study on the company climate was carried out in 2019 for the fourth time. 84% of the employees participated in the survey. We recorded an improvement in dedication. We would like to improve it even further; therefore, based on employee workshops, a new plan was devised, which will be carried out for the next year in order to address key topics that will additionally improve employee dedication.

At the end of 2019, four of our employees were given PLUS awards for their excellence, which significantly contributed to the success of our company, and also for their exemplary behavior, which supported our values.

The employees at Pivovarna Laško Union d.o.o. were provided certain benefits in 2019 as well. These included: the payment of a premium for complementary pension insurance for all employees for an indefinite period, the possibility of using company holiday facilities, and if employees have social or health problems, they are eligible to receive solidarity aid. Three joint gatherings with the management were organised for company employees. These gatherings are used to strengthen information exchange, inclusion, and dialog. When necessary, team-building events were organised, there was a New Year's gathering for all employees in Laško, and New Year's gifts were provided for the children of our employees.

Social dialog is also important for successful, transparent, and sustainable operations. There are a Workers' Council and two representative unions within the company. There are regular dialog and consultations with all stakeholders with regard to organizational, personnel, and other issues and decisions that are significant in terms of business.

3.1.2 HUMAN RESOURCE MANAGEMENT IN 2019

a. Number of employees according to employee agreement type

At the end of 2019, Pivovarna Laško Union d.o.o. had 585 employees (596 at the end of 2018). 91.3% of these were employed for an unspecified period and 8.7% for a specified period. The proportion of employees under a collective bargaining agreement remains at the same level as in previous years, i.e. 95%.

b. Diversity and inclusion

The average age of employees at the end of 2019 was 44. A transparent employment and selection procedure have been established at the company PLU, according to which candidates are selected pursuant to criteria determined beforehand and connected to competences, skills, education, and relevant experience. All criteria take into consideration the job classification system at the company. This is how we are implementing the principles of diversity, equal opportunities, and fair treatment. At the end of 2019, the proportion of women among the employees was 30%. The proportion of women in company management is 30%.

Our diversity is also evident in the age and generational structure. Baby Boomers account for 9%, Millennials 34%, and Generation X 57% of all employees. The proportion of women in senior and medium management makes up for 42% and the proportion of employees from other countries 0.5%.

c. Absenteeism and fluctuation

The proportion of sick leave in 2019 was 4.52%.

The fluctuation was 13.9%.

d. Communication with employees

In 2019, much attention was also devoted to internal communication. Therefore, we began issuing a quarterly PLUS magazine, a quarterly PLUS newsletter, and to skilfully use the Workplace internal social network.

3.2 Safety and health at work

In 2019, PLU carried out the following activities on the basis of legislation and Heineken's standards regarding health and safety at work and fire safety.

3.2.1 SAFETY AT WORK

- All events were reported to the Ariso reporting system. In 2019, a total of **1085** hazardous events were treated. This is **43%** more reported cases than the year before.
- The number of serious accidents was reduced from **8**, which occurred in 2018, to **3**.
- Suitable personal protective equipment was provided to the employees, pursuant to the risk assessment. In hazardous areas with goods vehicles, the wearing of protective helmets was introduced.
- By implementing our actions, we managed to reduce the presence of pedestrians by **40%** in all hazardous areas where the hazardous footpaths and paths for goods vehicles cross.
- We reduced the speed limit for all forklifts at the company from **25 km/h to 10 km/h**.
- On roofs, which pose a great fall hazard, we installed railings and safeguards protecting people from falling.
- Due to increased ambient noise, we reduced the impact of noise on the environment at our location in Laško by **80%**. At our Union location, we surfaced uneven areas with new asphalt concrete as a countermeasure to reduce noise.
- An evacuation drill in the event of a fire was carried out in all locations. Furthermore, a drill in the event of the emission of hazardous gases (CO_2, NH_3) was also carried out. At our Laško and Union locations, a fire drill was carried out in cooperation with local fire-fighting units.
- An inspection of fire extinguishers and hydrants as well as all of the necessary measurements were carried out.

3.2.2 LIFE SAVING RULES

The year of Life Saving Rules was successfully completed. The implementation of the Life Saving Rules included many activities:

- as an example of best practice in Heineken;
- all 12 of the Life Saving Rules were included. The training was attended by 836 employees and outsourced contractors;
- a monthly prize competition was carried out;
- 12 main prizes and 36 smaller prizes were given out and the response from the employees was very positive. The events were attended by police officers, fire fighters, and road safety experts.

3.2.3 EMPLOYEE EDUCATION

- All of our new employees, seasonal workers, students, and employees whose certificates had expired were trained in safety and health at work and fire safety.

- The training was carried out on the basis of Heirules (safe work with forklifts, LOTO procedures, road safety, etc.).
- The safety training was attended by **432** employees and **1646** outsourced contractors,

3.2.4 MEDICAL EXAMINATIONS

- Pursuant to the legislation of the Republic of Slovenia, the employees underwent regular and periodical medical examinations performed by a physician specializing in occupational and sports medicine.
- At the first medical examination, drug testing was introduced.

3.2.5 WORKING EQUIPMENT INSPECTION

- A safety inspection of the working equipment was carried out regularly, pursuant to the instructions regarding safety at work. Authorised companies once again inspected the working equipment for which the inspection deadline had expired.
- A Machine Safety inspection was performed by an authorized company at both of our locations. We continued to implement LOTO procedures (lock out-tag out) and eliminate non-compliance on hazardous machines.

3.2.6 ROAD SAFETY

- Telemetry was installed in all of the 150 vehicles used by the company PLU.

Since telemetry was installed, the safe behavior of drivers improved while performing the following activities:

- the fastening of safety belts improved;
- breaking the speed limit improved;
- unauthorized revs improved;
- non-environmentally friendly driving improved.

3.2.7 NH_3 DETECTION AND CO_2 DETECTION

- In the area of energy at our location in Laško, we replaced the entire NH_3 gas detection system.
- At our Union location, we carried out a control inspection of the entire CO_2 and NH_3 gas detection system.

3.2.8 PROMOTION OF HEALTH AT WORK

- Multiple sports activities were held throughout the year, namely employees attended running events, hiking in the mountains, basketball, and tennis events.
- The all-Slovenian "Gremo v hribe" campaign (Let's Go to the Mountains) was carried out and many of our employees participated in it.
- We hired two sports halls for doing group sports.
- A blood donation campaign took place at our Laško location and in addition to our employees many locals participates as well.
- Blood sugar and cholesterol testing was carried out at PLU locations.
- Anti-stress workshops were carried out at our Laško and Union locations.

3.3 Sustainable operations – Brewing for a Better Slovenia

Pivovarna Laško Union has an important mission in the field of sustainability and social responsibility. In addition to successful operations, we also wish to contribute to the better quality of life of the society at large and of the local environment in which we live.

We show our responsibility towards the community and the environment by carrying out the Brewing for a Better World sustainable strategy. We structured our sustainable goals and efforts into six key areas, which are connected to the seventeen sustainable development goals of the United Nations. In doing so, we focused on reducing CO_2 emissions, protecting drinking water sources, responsible drinking, sustainable supply, health, safety, and cooperation with the community.

In 2019, we continued to pursue our set goals in the field of sustainable operations.

RESPONSIBLE DRINKING

Pivovarna Laško Union is enhancing its role in raising awareness concerning responsible drinking by forming partnerships with organisations, which work with us to support a responsible attitude towards alcohol consumption. In 2019, we worked with the Olympic Committee of Slovenia, the Alpine Association of Slovenia, the Slovenian National Automobile Association (AMZS), the Firefighting Association of Slovenia, and the Cycling Association of Slovenia and we made a joint commitment to do our very best to raise awareness concerning responsible drinking and make efforts to ensure the health and safety of us all.

We conducted a campaign called *Varno je legendarno* ("Safety is Cool") to raise awareness concerning responsible alcohol consumption at events, such as the *Pivo in Cvetje Festival* ("Beer and Flowers Festival") and within the Slovenian hiking project called *Gremo v hribe* ("Let's Go to the Mountains"). Annually, at least 10% of the budget for media buying is allocated for raising awareness concerning responsible drinking, which also applied for 2019. At the same time, we wish to give our consumers a choice, so we are offering products, such as beer and radler, under the name Izbira 0.0%, which have a reduced alcohol content or are completely alcohol-free, e.g. Heineken 0.0, Union Radler 0.0, Laško Malt 0.0. All of our products contain information on the energy value.

REDUCING CO_2 EMISSIONS

We performed most of the activities related to reducing CO_2 emissions in 2019 in the field of packaging materials and reducing electrical energy consumption. Furthermore, we continued with the electrification of our fleet and using green energy in the field of cooling.

In terms of measures related to packaging, we are increasing the proportion of recycled materials in PET packaging (we currently provide a 25% proportion in our blue plastic bottle) and we are reducing the use of plastic for our secondary packaging. In 2019, we reduced the grammage of plastic bottles and bottle caps by 3%, which, in 2019 alone, meant that the quantity of plastic packaging dropped by 30 tons.

In the field of reducing carbon dioxide emissions, we replaced four fossil fuel company vehicles in our logistics department with electrical vehicles. At the locations of both breweries, we also installed five e-charging stations. In our internal logistics, we use 37 electrical forklifts, which is currently 60% of all of our forklifts.

In 2019, we reduced the specific consumption of electrical power at both of our breweries by 8% compared to the previous year.

In 2019, we increased the proportion of our supplied new refrigerators and draft beer machines which are compliant with the standard for the effective use of electrical power to 100%. As a cooling source, we use green refrigerants, which do not harm the environment.

COOPERATING WITH THE COMMUNITY

With regard to the community, we advocate dialog with our stakeholders. Our imprint is most visible through sponsorships and donations, as Pivovarna Laško Union allocates a total of approximately EUR 3 million annually for sport and culture. We provide a Union Experience in Ljubljana, which allows guests to walk through a brewing museum and learn about the rich history and modern production of the Pivovarna Union brewery. From its establishment in 1986 to the end of the year 2019, nearly 410,000 visitors have been recorded. Similarly, we also provide tours of the museum and production in Laško; in 2019, we hosted 4792 visitors. This way, we contribute to preserving the brewing and cultural heritage in Slovenia.

HEALTH AND SAFETY

In the field of health and safety, we provide 100% compliance with global Heineken Life Saving Rules, which is achieved through regular employee training and by visibly raising awareness at all of our business locations. We are pursuing the goal of zero accidents.

PROTECTING SOURCES OF DRINKING WATER

Water is extremely significant for us as well. For this reason, we carry out numerous activities in the field of protecting water sources. Since we were granted concession in 2005, we have been regularly monitoring the quality of underground water sources in the general area of the Pivovarna Union brewery in Ljubljana. Pursuant to the sustainable strategy, we are pursuing the goal of reducing the water consumption at our breweries to 3.5 hl of water per one hectolitre of our products.

At the Bled Water Festival in 2019, we signed a commitment regarding the sustainable management of water sources together with our co-signatories: the company Petrol, Škocjan Caves Park, the Bled Water Festival Association, the company Steklarna Hrastnik, Bled Tourism, the Ministry of Economic Development and Technology, and the Ministry of the Environment and Spatial Planning.

Both locations meet Heineken's standards for managing wastewater treatment. By way of new investments and upgraded technology, we ensured that 100% of the process wastewater from Pivovarna Laško can be treated at our own water treatment facility, while all process wastewater at Pivovarna Union can be treated at the city water treatment facility.

Additional three measures also contributed to reducing water consumption: the system for the re-use of water at the aseptic PET bottling plant was upgraded, the water circulation technology in the refrigeration systems were updated, and the automatic washing of the technological equipment at the bottling plant were optimized.

SUSTAINABLE SUPPLY

Pivovarna Laško Union supports the development of a sustainable supply chain, as it is of key importance for the sustainable growth of our operations and risk management. In order to manufacture Laško Zlatorog beer, 100% Slovenian hops are used. In 2019, we began implementing a pilot project and we purchased a proportion of Slovenian barley, which is used for making Laško beer. We provide 100% compliance with Heineken's supply chain standards.

Sourcing Sustainably

4. FINANCIAL REPORT OF PIVOVARNA LAŠKO UNION D.O.O.

4.1 Statement of compliance

The Management Board of Pivovarna Laško Union d.o.o. is responsible for the preparation of the annual report and financial statements that give a fair presentation of the financial position and the results of operations of the company Pivovarna Laško Union d.o.o. in accordance with the International Financial Reporting Standards adopted by the European Union, and the Companies Act.

The Management Board of Pivovarna Laško Union d.o.o. hereby gives its approval to the business report and the financial statements for the year ended on 31 December 2019 and states the following:

- the financial statements have been compiled under assumption of Pivovarna Laško Union d.o.o. being able to continue its operations in the future;
- the appropriate accounting policies were consistently applied and any changes thereof have been disclosed;
- the accounting estimates have been prepared in a fair and diligent manner and comply with the principle of prudence and good management.

The Management Board is responsible for the implementation of measures to ensure the maintenance of the value of the assets of the Company and for the prevention and detection of fraud and other irregularities.

The tax authorities may, within 5 years after the year in which the tax should have been levied, inspect the activities of the company. This may result in additional liabilities for tax, default interest and penalties relating to corporate income tax or other taxes and duties. The Management Board of Pivovarna Laško Union d.o.o. is not aware of any circumstances that could give rise to a potential material liability in this respect.

Ljubljana, 28 May 2020

Pivovarna Laško Union d.o.o.
Zooullis Mina
Managing Director

Mirjam Hočevar
Finance Director

Neven Madzharov
Supply Chain Director

Irena Brugger
Sales Director

David Zappe
Marketing director

Gregor Rajšp
HR Director

4.2 Independent Auditor's Report

Deloitte.

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INDEPENDENT AUDITOR'S REPORT
to the owners of Pivovarna Laško Union d.o.o.

Opinion

We have audited the financial statements of the Pivovarna Laško Union d.o.o. (hereinafter 'the Company'), which comprise the statement of financial position as at 31 December 2019, and the income statement, statement of other comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2019, and its financial performance and cash flow statement for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU (hereinafter 'IFRSs').

Basis for Opinon

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

Other information

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

Our opinion on the financial statements does not cover the other information and we express no assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, assess whether the other information is materially inconsistent with the financial statements, legal requirements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If based on our work performed we conclude that other information include material misstatement we need to report such circumstances.

In relation to this and based on our procedures performed, we report that:

- Other information are, in all material respects, consistent with the financial statements;
- Other information are prepared in compliance with applicable law or regulation; and
- Based on our knowledge and understanding of the Company and its environment obtained in the audit, we did not identify any material misstatement of fact related to the other information.

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

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

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

Those charged with governance are responsible for overseeing the Company's financial reporting process and for approving audited annual report.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing rules 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 auditing rules, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a 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 internal controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the organization to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

With those charged with governance we communicate the planned scope and timing of the audit and significant findings from the audit, including deficiencies in internal control we have identified during our audit.

DELOITTE REVIZIJA d.o.o.

Katarina Kadunc
Certified auditor

For signature please refer to the original Slovenian version.

Deloitte.
DELOITTE REVIZIJA D.O.O.
Ljubljana, Slovenija 3

Ljubljana, 28 May 2020

TRANSLATION ONLY, SLOVENE ORIGINAL PREVAILS

4.3 Financial statements of Pivovarna Laško Union d.o.o. for the business year 2019 in accordance with IFRS

4.3.1 STATEMENT OF FINANCIAL POSITION OF THE PIVOVARNA LAŠKO UNION D.O.O. AS AT 31 DECEMBER 2019

in EUR	Explanatory note	2019	2018
ASSETS			
Non-current assets		**177,222,825**	**179,060,022**
Intangible assets and other long-term assets	*1*	62,882,094	63,086,243
Tangible fixed assets	*2*	88,394,475	87,438,358
Long-term investments	*3*	1,989,034	1,864,534
Long-term receivables	*4*	2,110,574	2,237,106
Deferred tax assets	*5*	21,846,648	24,433,781
Non-current assets		**81,670,531**	**106,769,819**
Inventories	*6*	9,513,966	10,055,505
Short-term investments	*7*	5,858,767	5,858,767
Short-term receivables	*8*	31,418,637	27,310,808
Cash assets	*9*	34,771,969	63,103,831
Other short-term assets	*10*	107,192	440,908
TOTAL ASSETS		**258,893,357**	**285,829,841**

The accounting policies and notes form an integral part of these financial statements and should be read in conjunction therewith.

STATEMENT OF FINANCIAL POSITION OF THE PIVOVARNA LAŠKO UNION D.O.O. AS AT 31 DECEMBER 2019

(continued)

in EUR	Explanatory note	2019	2018
LIABILITIES			
Capital	*11*	**70,460,852**	**69,572,994**
Share capital		36,503,305	36,503,305
Capital reserves		993,654	993,654
Profit reserves		3,650,331	3,650,331
Fair value reserve		4,622,427	5,097,457
Net profit or loss for the previous years		302,513	3,035,430
Net profit or loss for the accounting period		24,388,622	20,292,817
Provisions and other long-term liabilities	*12*	**6,250,467**	**4,407,420**
Provisions for retirement grants and jubilee benefits		3,518,798	3,818,639
Other provisions		2,594,904	381,729
Other long-term liabilities		136,765	207,052
Long-term liabilities		**143,791,841**	**143,400,524**
Long-term financial liabilities	*13*	140,539,166	140,000,000
Long-term operating liabilities	*14*	3,252,675	3,400,524
Current liabilities		**38,390,197**	**68,448,903**
Short-term financial liabilities	*15*	1,147,790	31,558,548
Short-term operating liabilities	*16*	36,809,618	35,952,574
Other short-term liabilities	*17*	432,789	937,781
TOTAL EQUITY AND LIABILITIES		**258,893,357**	**285,829,841**

The accounting policies and notes form an integral part of these financial statements and should be read in conjunction therewith.

4.3.2 INCOME STATEMENT OF THE PIVOVARNA LAŠKO UNION D.O.O. FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2019

in EUR	Explanatory note	2019	2018
Net sales revenue	*18*	156,491,573	153,080,417
Change in inventories of products and work in progress		-780,961	124,886
Other operating income	*19*	1,467,501	2,434,781
Total operating revenue		**157,178,113**	**155,640,084**
Costs of goods, materials and services	*20*	-87,188,477	-87,719,532
Personnel costs	*20*	-24,851,097	-25,531,060
Depreciation of intangible non-current and intangible fixed assets	*20*	-10,228,823	-9,969,881
Revaluation operating expenses	*20*	-932,399	-779,546
Provisions appropriation	*20*	0	-231,232
Other operating charges	*20*	-2,164,646	-3,818,455
Operating profit or loss		**31,812,671**	**27,590,378**
Financial revenues	*21*	848,697	799,824
Financial expenses	*21*	-3,627,032	-3,804,093
Pre-tax result		**29,034,337**	**24,586,109**
Income tax	*22*	-1,996,412	-1,832,431
Deferred taxes	*5*	-2,649,303	-2,460,861
NET PROFIT OR LOSS FOR THE ACCOUNTING PERIOD		**24,388,622**	**20,292,817**

The accounting policies and notes form an integral part of these financial statements and should be read in conjunction therewith.

4.3.3 STATEMENT OF OTHER COMPREHENSIVE INCOME OF THE PIVOVARNA LAŠKO UNION D.O.O. FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2019

in EUR	2019	2018
Net profit or loss for the accounting period	**24,388,622**	**20,292,817**
Unrealised actuarial gains/losses from post-employment benefits	-325,481	105,750
Deferred taxes for unrealised actuarial gains/losses	61,841	-20,092
TOTAL OTHER COMPREHENSIVE INCOME THAT WILL NEVER BE RECLASSIFIED TO PROFIT OR LOSS	**-263,640**	**85,658**
OTHER COMPREHENSIVE INCOME	**-263,640**	**85,658**
TOTAL COMPREHENSIVE INCOME	**24,124,982**	**20,378,475**

The accounting policies and notes form an integral part of these financial statements and should be read in conjunction therewith.

4.3.4 STATEMENT OF CHANGES IN EQUITY OF THE PIVOVARNA LAŠKO UNION D.O.O. FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2019

in EUR	Share capital	Capital reserves	Legal reserves	Fair value reserve	Net profit or loss from previous years	Net profit or loss for the accounting period	TOTAL EQUITY
Closing balance as at 31 December 2018	**36,503,305**	**993,654**	**3,650,331**	**5,097,457**	**3,035,430**	**20,292,817**	**69,572,994**
Transfer of net result 2018	0	0	0	0	20,292,817	-20,292,817	**0**
Opening balance as at 1 January 2019	**36,503,305**	**993,654**	**3,650,331**	**5,097,457**	**23,328,247**	**0**	**69,572,994**
Payments to owners	0	0	0	0	-23,328,247	0	**-23,328,247**
Non-paid dividends under the statute of limitation	0	0	0	0	72,915	0	**72,915**
Total transactions with owners	**0**	**0**	**0**	**0**	**-23,255,332**	**0**	**-23,255,332**
Net profit or loss for the year	0	0	0	0	0	24,388,622	**24,388,622**
Surplus from revaluation of tangible fixed assets	0	0	0	-260,975	260,975	0	**0**
Changes related to the actuarial calculation	0	0	0	-325,481	0	0	**-325,481**
Taxes related to specific items of comprehensive income – tangible fixed assets	0	0	0	49,585	-49,585	0	**0**
Taxes related to specific items of comprehensive income – actuary	0	0	0	61,841	0	0	**61,841**
Changes of comprehensive income in 2019	**0**	**0**	**0**	**-475,030**	**211,390**	**24,388,622**	**24,124,982**
Other	0	0	0	0	18,208	0	**18,208**
Total changes in equity in 2019	**0**	**0**	**0**	**0**	**18,208**	**0**	**18,208**
Closing balance as at 31 December 2019	**36,503,305**	**993,654**	**3,650,331**	**4,622,427**	**302,513**	**24,388,622**	**70,460,852**

The accounting policies and notes form an integral part of these financial statements and should be read in conjunction therewith.

4.3.5 STATEMENT OF CHANGES IN EQUITY OF THE PIVOVARNA LAŠKO UNION D.O.O. FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2018

in EUR	Share capital	Capital reserves	Legal reserves	Fair value reserve	Net profit or loss from previous years	Net profit or loss for the accounting period	TOTAL EQUITY
Closing balance as at 31 December 2017	**36,503,305**	**993,654**	**3,650,331**	**8,054,709**	**77,190**	**14,883,101**	**64,162,290**
Transfer of net result 2017	0	0	0	0	14,883,101	-14,883,101	**0**
Net Effect of the first application of IFRS 9	0	0	0	-2,580,027	2,580,027	0	**0**
Opening balance as at 1 January 2018	**36,503,305**	**993,654**	**3,650,331**	**5,474,682**	**17,540,318**	**0**	**64,162,290**
Payments to owners	0	0	0	0	-14,960,291	0	**-14,960,291**
Total transactions with owners	**0**	**0**	**0**	**0**	**-14,960,291**	**0**	**-14,960,291**
Net profit or loss for the year	0	0	0	0	0	20,292,817	**20,292,817**
Surplus from revaluation of tangible fixed assets	0	0	0	-571,461	571,461	0	**0**
Changes related to the actuarial calculation	0	0	0	105,750	0	0	**105,750**
Taxes related to specific items of comprehensive income – tangible fixed assets	0	0	0	108,578	-108,578	0	**0**
Taxes related to specific items of comprehensive income – actuary	0	0	0	-20,092	0	0	**-20,092**
Changes of comprehensive income in 2018	**0**	**0**	**0**	**-377,225**	**462,883**	**20,292,817**	**20,378,475**
Other	0	0	0	0	-7,480	0	**-7,480**
Total changes in equity in 2018	**0**	**0**	**0**	**0**	**-7,480**	**0**	**-7,480**
Closing balance as at 31 December 2018	**36,503,305**	**993,654**	**3,650,331**	**5,097,457**	**3,035,430**	**20,292,817**	**69,572,994**

The accounting policies and notes form an integral part of these financial statements and should be read in conjunction therewith.

4.3.6 CASH FLOW STATEMENT OF THE PIVOVARNA LAŠKO UNION D.O.O. FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2019

in EUR	Explanatory note	2019	2018
OPERATING PROFIT		**31,812,671**	**27,590,378**
ADJUSTMENTS FOR:			
Elimination of other operating revenue		-615,691	-2,434,781
Elimination of revaluation operating expense from PPE		197,958	609,044
Depreciation of PPE and investment property		10,006,504	9,780,527
Amortization of intangible assets		222,318	189,354
Revaluation operating expenses from non-current assets		734,441	170,502
Net movements in provisions		-1,519,398	700,369
Other adjustments		-208,209	536,955
TOTAL ADJUSTMENTS		**8,817,923**	**9,551,970**
MOVEMENTS IN WORKING CAPITAL:			
Inventories and non-current assets held for sale		541,539	-53,456
Operating and other receivables		-3,536,773	-241,834
Operating and other liabilities		3,373,428	7,155,088
Total movements in working capital		**378,195**	**6,859,798**
NET CASH FLOWS FROM OPERATING ACTIVITIES		**41,008,789**	**44,002,146**
CASH FLOWS FROM INVESTING ACTIVITY:			
Acquisition of tangible fixed assets		-11,504,592	-11,257,365
Acquisition of intangible assets		-33,169	-286,573
Acquisition/disposal of financial assets		7,534	-27,791
Interest income		3,974	246,882
Dividends received and capital gains		511,240	292,886
NET CASH FLOW FROM INVESTING ACTIVITY		**-11,015,013**	**-11,031,961**
CASH FLOWS FROM FINANCING ACTIVITY:			
Interest paid		-3,501,610	-3,492,017
Increase/decrease in financial debt		-30,810,259	0
Lease payments		-685,522	0
Payments to owners		-23,328,247	-14,960,291
NET CASH FLOW FROM FINANCING ACTIVITY:		**-58,325,638**	**-18,452,308**
NET INCREASE/DECREASE OF CASH AND CASH EQUIVALENTS		**-28,331,862**	**14,517,878**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		**63,103,831**	**48,585,954**
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	*9*	**34,771,969**	**63,103,831**

The accounting policies and notes form an integral part of these financial statements and should be read in conjunction therewith.

4.3.7 DISCLOSURE OF DISTRIBUTABLE PROFIT AND PROPOSAL FOR ITS ALLOCATION

As at 31 December 2019, the distributable profit amounted to EUR 24,691,135 and consists of net operating profit in the amount of EUR 24,388,622 and net profit or loss for the previous years in the amount of EUR 302,513.

The Management proposes that all distributable profit is used for the payment of dividends.

4.4 Notes to the financial statements

4.4.1 GENERAL DATA

Pivovarna Laško is registered with the Celje District Court under the decision No SRG 2016/28597 and under the application No. 1/00171/00. It is classified as a large company and is as such subject to regular annual audits. The principal activity of PLU is the production and sale of beer, non-alcoholic beverage, waters, wholesale and retail trade.

The headquarters of the company is located at:

Pivovarniška ulica 2, 1000 Ljubljana, Slovenia.

Since the takeover by the Heineken Group (15 October 2015), Pivovarna Laško Union d.o.o. has been controlled by the company Heineken International, B.V.

Pursuant to the sixth paragraph of Article 56 of the Companies Act (ZGD-1), Pivovarna Laško Union d.o.o. is not required to issue consolidated financial statements since it is included in the consolidated accounting statements of the controlling company Heineken International, B.V., with registered office at Tweede Weteringplantsoen 21, 1017 ZD Amsterdam, which holds a 100% interest in the company, and since the financial impact of all subsidiaries (Vital Mestinje, d.o.o., Laško Grupa Kosovo Sh.p.k. and PLU Online, d.o.o.) were individually and collectively negligible. The annual report of the controlling company in the Netherlands is publicly accessible at “www.theheinekencompany.com”.

4.4.2 STATEMENT OF COMPLIANCE WITH IFRS

Financial statements of Pivovarna Laško Union d.o.o. have been drawn up in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union, including the guidelines adopted by the International Financial Reporting Interpretations Committee (IFRIC), and the provisions of the Companies Act.

4.4.3 USE OF NEW AND AMENDED IFRS AND IFRIC INTERPRETATIONS

a. Initial use of new changes to existing standards that apply in the current reporting period

In the reporting period, the following new standards, amendments to the existing standards and new interpretations issued by the International Accounting Standards Board (IASB) apply, as adopted by the EU:

- **IFRS 16 'Leases'** – applicable to annual periods starting on 1 January 2019 or later;

- **amendments to IFRS 9 'Financial Instruments'** – prepayment features with negative compensation (applicable to annual periods starting on 1 January 2019 or later);

- **amendments to IFRS 19 'Employee benefits'** – plan amendment, curtailment or settlement (applicable to annual period starting on 1 January 2019 or later);

- **amendments to IFRS 28 'Investments in Associates and Joint Ventures'** – long-term interests in associates and joint ventures (applicable to annual periods starting on 1 January 2019 or later);

- **amendments to various standards due to 'Improvements to IFRS (period 2015–2017)** stemming from the annual IFRS improvements project (IFRS 3, IFRS 11, IAS 12 and IAS 23), mainly in order to eliminate discrepancies and misinterpretations (applicable to annual periods starting on 1 January 2019 or later);

- **IFRS 23 'Uncertainty over tax treatment'** (applicable to annual periods starting on 1 January 2019 or later).

IFRS 16 'Leases' introduces a significant change in the lessee's (which is the role of PLU in most cases) by eliminating the differences between operational and financial leasing. The standard demands the recognition of the rights-of-use assets and associated financial liabilities upon the beginning of lease, except for short-term lease or the lease of lower-value assets. Accounting policies for leases are presented in sections **4.4.4 Tangible fixed assets (property, land, and equipment)** and **4.4.4 Financial liabilities**.

Upon the first application of **IFRS 16 'Leases'** on 1 January 2019 PLU opted for the allowed the permitted way to present the past accumulated impact of leases prior to this date without correcting the benchmarking data, which is still presented pursuant to **IAS 17 'Leases'**. This way, as at 1 January 2019 at the initial balance of the statement of financial position, PLU recognized:

- the right-of-use vehicles in the value of EUR 1,730,672;
- long-term lease liabilities for vehicles in the amount of EUR 1,097,494;
- short-term lease liabilities for vehicles in the amount of EUR 633,178.

There was no recorded impact on the net profit/loss from the previous years.

The application of **IFRS 16 'Leases'** in 2019 compared to 2018 had the following impact on the income statement.

in EUR	2019	2018
Depreciation of right-of-use lease vehicles	660,082	0
Interest income from leases	47,236	0
Cost of services of lease from means of transport	0	497,384
Total	**707,318**	**497,384**

The adoption of other new standards, changes to existing standards and interpretations did not lead to significant changes in the financial statements of the company.

b. Standards and amendments to existing standards, issued by the IASB and adopted by the EU that have not entered into force yet

On the date of approval of these financial statements, the following standards, IASB issued amendments to the existing standards adopted by the EU that have not entered into force yet:

- **IAS 1 – 'Presentation of financial statements' and IAS 8 'Accounting policies changes in accounting estimates and errors'** definition of Material adopted by the EU on 29 November 2019 (applicable to annual periods starting on 1 January 2020 or later);

- **Amendments to IFRS 9 'Financial Instruments', IAS 39 'Financial instruments: recognition and measurement' and IFRS 7 'Financial instruments: disclosures'** – reform of reference interest rates (applicable to annual periods starting on 1 January 2020 or later),

- **Changes of referencing the conceptual framework in IFRS** (applicable to annual periods starting on 1 January 2020 or later).

The Company decided not to use these new standards, amendments to existing standards and new interpretations before they enter into effect.

The Company estimates that the adoption of these standards, amendments to existing standards and new interpretations during the initial period of application will not have a significant impact on the financial statements of the company.

c. New standards and amendments to existing standards issued by IASB but which have not yet been adopted by the EU

Currently, the IFRS as adopted by the European Union do not considerably differ from those adopted by the International Accounting Standards Board (IASB) with the exception of the following standards, amendments to existing standards and new interpretations which were not confirmed for use on 28 May 2020 (dates of entry into force listed below are effective for the entire IFRS, as issued by the IASB) for use in the EU:

- **IFRS 14 'Regulatory Deferral Accounts'** (effective for annual periods beginning on 1 January 2016 or later). The European Commission has decided not to initiate the adoption process of the interim standard but to wait for the final version of the standard to be issued;

- **IFRS 17 'Insurance Contracts'** (effective for annual periods beginning on 1 January 2021 or later);

- **Amendments to IFRS 3 'Business Combinations'** - Definition of a business entity (effective for business combinations where the acquisition date is equal to the start date of the first annual reporting period beginning on 1 January 2020 or later, and the acquisition of assets that occur at the beginning this period or after);

- **Amendments to IFRS 10 'Consolidated Financial Statements' and IAS 28 'Investments in Associates and Joint Ventures'** – Sale or contribution of funds between the investor and its associate or a joint venture and further amendments (date of entry into force is postponed for an indefinite duration until the conclusion of the research project in regard to the equity method).

The Company estimates that the adoption of these new standards and amendments to existing standards during the initial period of application will not have a significant impact on the financial statements of the Company.

The calculation of protection against risks related to the portfolio of financial assets and liabilities, the principles of which have not yet been adopted by the EU, remains unregulated.

The Company estimates that the application of calculations for the protection against risks related to financial assets and liabilities pursuant to **IAS 39 'Financial instruments: recognition and measurement'** should not have a significant impact on the Company's financial statements, if it had been already used as at the date of the balance sheet.

4.4.4 SIGNIFICANT ACCOUNTING POLICIES

a. Basis for drafting the Report

The financial statements have been drafted pursuant to IFRS, the Companies Act, other laws, and the Rules on Accounting; they are presented in euros. While disclosing and valuating items, the provisions of standards were directly applied. The only exception was the valuation of those items in which standards provide the option of selecting from among various valuation methods.

The financial statements have been drafted taking into account the historical values, except for non-current assets held for sale (i.e. assets and the corresponding liabilities of disposal group), real property and investment property, disclosed according to their re-valued or fair value. The valuation of individual assets and liabilities is described in greater detail in individual sections below.

When selecting accounting policies and deciding on their use and the drafting of these financial statements, the management of the company PLU considered the following three requirements:

- the financial statements are comprehensible if they are understood by their users without any problems;
- the information is relevant if it helps user to adopt business decisions;
- the information is relevant if their omission or untruthful provision could affect the business decisions of the users.

The accounting policies provided below were consistently applied in all disclosed periods.

b. The assumption of a going concern

The management of the company PLU estimates that the application of the assumption of a going concern when drafting the financial statements for the period that ended on 31 December 2019 is suitable.

c. Reporting currency

1 Functional and presentation currency

All items that have been included in the company's financial statements are expressed by using the currency from the primary economic environment in which the company operates (i.e. functional currency). The financial statements are presented in euros, which are the functional and presentation currency of the company. The amounts are rounded to whole numbers, so there may be insignificant differences in the disclosures of this report.

2 Foreign currencies

Foreign-currency transactions were calculated into the presentation currency on the basis of the foreign currency exchange rate valid as at the day of the transaction. The profit and loss generated in these transactions and the exchange of monetary assets and liabilities denominated in a foreign currency are disclosed in the profit and loss (income) statement.

The exchange differences arising from debt securities and other monetary financial assets recognised according to their fair value have been included in the profit and loss arising from foreign-currency transactions. The exchange differences arising from non-monetary items, such as shares held for trading, have been disclosed as a part of the increase or decrease in the fair value.

d. The application of assessments and judgements

The drafting of the financial statements is also based on particular assessments and assumptions of the management, which affect the carrying amount of the assets of the company and the disclosed revenues and expenses in the accounting period.

A management assessment includes, among other things, the determination of the life span and the residual value of immovable property, machinery, and equipment, as well as of intangible assets, an assessment related to current assets held for sale stating that the sale will actually occur, and the assessment of their fair value minus the sales costs, inventory and receivables allowance, assumptions relevant for the actuarial calculation related to particular profit earned by employees, assumptions that are included in the calculation of possible provisions for lawsuits, future taxable profit for deferred tax assets, and assumptions and assessments related to the impairment of goodwill. Even though, while preparing these assumptions, the management carefully studied all the factors that might affect this, there still might be differences between the actual consequences of business events and the assessed consequences. For this reason, judgment must be used when making accounting assessments and consider any changes in the business environment, new business events, additional information, and experience.

The main assessments and assumptions as at the day of the financial statement, which are related to future operations and could cause significant value adjustment of the book value of assets and liabilities, are stated below.

The data on the significant assessments of uncertainty and deciding judgments which were drafted by the management in the process of carrying out accounting policies and which most affect the amounts in the financial statements are described in the clarifications below:

- All intangible assets are disclosed according to the cost model. Among the intangible assets, the greatest value is held by brands and goodwill, the value of which is estimated yearly and it is determined whether there is a need for impairment. The demonstrated value of the brand and goodwill relates to the acquisition of the company Pivovarna Union, d.d. in 2005. Neither the brand nor the goodwill showed signs of impairment as at the 2019 year-end, as financial results of the company PLU in 2019, as well as its future plans of operations under the auspices of the Heineken Group, were achieved.

- Immovable property (land and buildings) is recorded by the company in its financial statements in accordance with what is known as the revaluation model. The fair value of the immovable property was estimated as at 31 December 2019. The expert who carried out the estimation was Andraž Brilli, who is a certified immovable property valuator licensed by the Slovenian Institute of Auditors. The valuation was drafted for the purpose of accounting reporting pursuant to the International Valuation Standards. The fair value of the immovable property was valuated; the market value of this property is considered its fair value. The valuator reviewed the documentation and other information on the immovable property, he personally visited the properties and inspected them, he studied matters that might affect their value (legislation, market conditions, the surrounding area of the immovable property, their best use, etc.), he collected and studied the public and non-public data and information on comparable transactions in the market, and he finally methodologically processed them in a way that allowed him to reach the most likely appraised values. In the appraisal process, he used the assumptions and experience from the Slovenian real estate market. Because the appraised value did not significantly deviate from the book value as at 31 December 2019, the company did not revaluate the immovable property.

- The current value of termination benefits upon retirement and the long-service bonus were recorded within the obligations to generate particular profit. They were recognised on the basis of an actuarial calculation confirmed by the management. The actuarial calculation is based on the assumptions and estimates valid at the time when the calculation was made; in the future, due to changes, they might differ from the actual assumptions valid at the time. This mainly refers to determining the discount rate, the rate of employee turnover, the death rate, and the wage growth. Due to the complexity of the actuarial calculation and the long-term nature of the item, the benefit obligations are sensitive to the changes in the said estimates.

- A provision is recognised when the company has legal or constructive obligations due to a past event which can be reliably estimated and if it is likely that an outflow from the entity of resources embodying economic benefits will result from settling these obligations. The possible obligations are not recognised in the financial statements because their actual existence will only be confirmed with the occurrence or non-occurrence of events in the unforeseeable future, which cannot be affected by the company. The management of the company PLU regularly checks whether an outflow of resources embodying economic benefits will be likely for the settlement of a possible obligation. If this becomes likely, the possible obligation will be reallocated so that a provision is formed for it in the financial statements at the moment when the level of likelihood changes.

- Pursuant to Slovenian tax legislation, tax loss can be used without any time limits in the future, but at the most up to a half of the taxable income per year. As at 31 December 2019, the total tax loss amounted to EUR 153,159,224.

e. Recognition of income

The company recognises sales revenue arising from the following transactions:

- the sale of products and merchandise,
- the sale of services.

The sales revenues can be measured on the basis of expected payments to which the company expects to be entitled according to agreements entered into with buyers. This excludes amounts that the company obtains for the account of third parties. Sales revenues are disclosed without value added tax and excise duties, estimated reimbursements and discounts, as well as amounts for services received by buyers. Sales revenues are recognised when the management and control of the object of the sale is transferred onto the buyer.

Other revenue categories are recognised on the following basis:

- interest revenue is recognised as revenue in the period to which they refer in accordance with the applicable interest rate, when the likelihood of the inflow of economic benefits is high,
- dividend revenue is recognised when the right to receive payment from dividends arises,
- revenue from licence fees are recognised on the basis of the provision in licensing agreements.

f. Investments in subsidiaries

A subsidiary company is a company controlled by PLU, which means that it is able to decide on its financial and business policies. Investments in subsidiaries are valued at cost.

With regard to determining whether any losses due to impairment of an investment in a subsidiary need to be recognised in the financial statements of the company PLU, the provisions of IAS 36 are taken into account.

g. Intangible assets

Intangible assets with a finite useful life, which were obtained individually (not within a business combination) and were not created within the company, are managed in accounting terms using the cost model and are disclosed according to their cost minus the accumulated amortisation and any impairments. They amortise according to the straight-line method in the period of their estimated expected functional life (patents, trademark licences 5 years; software 3 years). The estimates of expected functional lives and the amortisation method are verified every time that financial statements are drafted; any changes of the estimates of the said categories are changed, they are taken into account for future periods and not retroactively. In 2019, amortisation rates did not change compared to 2018.

Intangible assets with an infinite useful life, which were obtained individually (not within a business combination) and were not created within the company, are disclosed according to their cost minus any impairments.

The recognition of an intangible asset is removed after its disposal or when no future economic benefits arising from its future use can be expected. Profit or loss after the recognition is removed affects the profit or loss of the period in which the recognition was removed.

1 Goodwill

Goodwill is the excess of the cost of the acquired entity over the fair value of the interest in the net assets of the acquired entity as at the day of the acquisition. Goodwill arising from the acquisition of subsidiaries is disclosed among intangible assets. Every year, goodwill is verified, tested for impairment, and measured according to the initial value minus accumulated impairment. Profit and loss upon selling a company includes the current goodwill value referring to the sold company.

2 Patents, trademarks, and licences

Expenditures for purchasing patents, trademarks, and licences are capitalised and amortised by using the straight-line amortisation method during their life (amortisation period). If their life cannot be determined, they are not amortised, but they are tested for impairment annually.

If it is found that there is a need for re-valuation, the value of intangible non-current assets must be estimated, and these assets must be written down to their recoverable amount. The life of trademarks cannot be determined, so they must be tested for impairment every year. Estimates carried out by certified valuators in companies or by the management itself are the basis for impairment. The depreciation period is 10 years.

3 Other intangible assets

If computer software is not an integral part of the suitable computer hardware, it is treated as an intangible asset. Other intangible assets are disclosed according to their cost minus the accumulated depreciation and the accumulated loss due to impairment. The life of other intangible assets is from 3 to 10 years.

h. Tangible fixed assets (property, land, and equipment)

The land and buildings in use are managed in terms of accounting using the re-valuation model or are disclosed according to their re-valuated value as at the day of re-valuation minus the later accumulated amortisation or impairment. Re-valuation is carried out regularly enough, so that the carrying amounts as at the day of the statement of financial position does not significantly deviate from their fair values.

The re-valuation of land and buildings to a higher fair value is recognised or accumulated as a fair value reserve in other comprehensive income, unless this is the elimination of a previous re-valuation of the same land and buildings to a lower fair value which was recognised in the profit and loss statement; in this case, the re-valuation to a higher fair value is recognised in the profit and loss statement up to the value of the previous re-valuation to a lower fair value. The re-valuation of land and buildings to a lower fair value is recognised in the profit and loss statement with a value that exceeds the potential previous recognised fair value reserve of the same land and buildings.

Production units, machinery, all types of equipment, reusable containers, and small tools are managed in terms of accounting according to the cost model and are disclosed at their cost minus accumulated amortisation and potential impairment. Tangible fixed assets being acquired are measured according to their cost minus potential impairment. The cost also includes borrowing costs in accordance with the adopted accounting guidelines. They are classified in tangible fixed asset categories to which they will belong once finished and available for their intended use. Tangible fixed assets begin to be amortised in the month after they become available for their intended use.

Land is not amortised.

The amortisation of buildings is recognised in the profit and loss statement, while the elimination of surplus from the re-valuation of fair-value reserves is recognised on an ongoing basis, directly in the retained earnings. If the recognition of buildings is eliminated, their corresponding potential residual fair value reserve is carried forward directly to retained earnings.

Amortisation is calculated according to the straight-line method and is (with the exception of land and tangible fixed assets (property, land, and equipment) being obtained, which are not amortised) recognised so that the cost and the re-valued value of the tangible fixed asset (property, land, and equipment) minus any residual value be written down within the period of its estimated expected functional life. The estimates of expected functional lives and residual values and the amortisation method are verified every time that financial statements are drafted; any changes of the estimates of the said categories are changed, they are taken into account for future periods and not retroactively. In 2019, amortisation rates did not change compared to 2018.

The expected functional lives according to individual groups of assets are:

Buildings	10 – 66 years
Machinery and equipment	5–20 years
Computer hardware and software	3 years
Vehicles	3–8 years
Other equipment	3–20 years
Reusable containers (barrels, bottles, cases)	3–5 years

Credit costs for financing the purchase of land, the construction of buildings, and the purchase of equipment are attributed to the value of the fixed asset up to the day on which they are ready for their intended use. The costs incurred relating to a tangible fixed asset increase the cost of the asset if they also increase its future benefits compared to those initially estimated; the costs that enable the extension of the useful life of the tangible fixed asset are first reduced to the then calculated cumulative depreciation of its value. The extension of the useful life of a tangible fixed asset (property, land, and equipment) is the extension of the initially defined period in which the tangible fixed asset is amortised. All other repairs and maintenance are included in the profit and loss statement in the financial year in which they occurred.

The recognition of a tangible fixed asset is removed after its disposal or when no future economic benefits arising from its future use can be expected. Profit or loss after the recognition is removed affects the profit or loss of the period in which the recognition was removed.

Tangible assets also include the rights-of-use assets under lease by PLU (except for short-term leases of assets and leases of lower value assets (e.g. mobile phones, computers), which are directly costly). The rights-of-use are recognized in the amount of corresponding discounted liabilities arising from leases, decreased by potential payment as at or prior to the lease start date, and by any potential direct initial costs. Later, they are measured at purchase value, decreased by the accumulated amortization and impairment. The rights-of-use are amortised over the term of lease and/or years of use of the leased assets, whichever is shorter Amortisation begins with the start of lease.

i. Impairment of tangible fixed assets and intangible assets

Whenever financial statements are drafted, it is verified for all tangible fixed assets (property, land, and equipment) and intangible assets whether there are any signs of impairment related to them. If there are signs of impairment, their recoverable amount is used to evaluate the potential impairment of the said assets. If the recoverable amount of an individual asset cannot be assessed, there is an attempt to estimate the recoverable amount of the cash-generating unit to which the said asset belongs.

The recoverable amount of an asset is the higher of its fair value less costs of disposal and its value in use. The latter is assessed as the present value of discounted future cash flows related to an asset, taking into consideration the pre-tax discount rate which reflects the current market assessment of the time value of money and specific risks related to the asset that were not taken into account in the assessment of future cash flows.

The asset (or the cash-generating unit) is impaired to its recoverable amount if this amount is lower than its carrying value. Impairment is immediately recognised in the profit and loss statement if the accounting of a relevant asset is carried out according to the cost model; in this case, impairment is recognised as the reduction of fair value reserves.

j. Loans given, deposits, and monetary items

Loans given, deposits, and monetary items are initially measured according to their fair value as financial assets as at the date of their issuance or placing. After the initial measurement, they are disclosed at their amortised cost using the effective interest method minus impairments.

k. Investments in stocks and shares

The Company places its financial investments in stocks and shares into the group; they were measured at their fair value through the profit and loss statement. The net effect due to this also includes dividends and interest received.

The best proof of fair value are quoted prices in an active market. If these are not available, valuation techniques are used, which take into account to the maximum extent the market input data and include the last considered market transactions, the reference to the present market value of comparable assets with similar essential characteristics, and the analysis of discounted cash flows.

l. Inventories

Inventories of materials and merchandise are disclosed at the lower of their historical cost or net realisable value and are used according to the weighted average cost formula. Net realisable value is the estimated selling price less the estimated costs of completion and the estimated costs necessary to make the sale.

The inventories of finished goods, semi-finished goods, and work-in-progress are valuated according to production overheads. Production overheads are those direct costs of material and raw material, labour, production services, amortisation, etc. and indirect production costs (costs of material and raw material, labour, services, amortisation, etc. accounted for within the production process, which, however, cannot be directly connected to the generated production effects).

Inventories of raw material, material, spare parts, and products from merchandise are written down on the basis of inventory minutes, complaint minutes, and other commission minutes, or at the proposal of a person responsible (also rejects, ullage, breakage), for which a decision adopted by the Company management is required. Inventories must be completely written off if their disposal has been permanently prevented or their use prohibited. The Group inspects the applicability of the inventories of material and spare parts that have not experienced movement for over 5 years, and, if necessary, impairs their value by 100%.

m. Operating receivables

Operating receivables are initially recognised at their fair value but are then measured at their amortised cost using the effective interest method less impairment.

In order to make revisions of the value of operating receivables (mainly from customers) the Company uses a model, which has been produced on the basis of historical information regarding the likelihood of payments and payment due dates of customers by two most significant sales channels (off-trade and on-trade), as well as the daily financing costs. This way e calculated the percentage of the required revision of the value of open receivables from customers as at a specific date. PLU assesses and/or revises (if needed) the calculated percentage on an annual basis.

PLU determines the additional percentage for revising the value of open receivables as at a specific date for two most important customers. The percentage is based on the estimated future loss of default payment. PLU also estimates and/or revises (if needed) this additional percentage on an annual basis.

n. Cash and cash equivalents

For the purposes of the statement of cash flow, cash and cash equivalents are cash at hand, demand deposits at banks, and investments in instruments in the money market, without bank overdrafts. In the statement of financial position, bank account overdrafts are included among current financial liabilities.

o. Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events for which there is a high likelihood in the future that the Company will have to settle this obligation and when the amount of the liability can be reliably measured.

The amount of the recognised provisions is the best assessment of the outflow of factors that are needed to settle a present liability as at the date of reporting, taking into consideration the risks and uncertainties related to it. If a provision is measured in the amount of future cash flows necessary for settling a present liability, the amount of these cash flows is discounted to their present value if the time value of money is relevant.

p. Trade payables

Trade payables are supplier loans for goods purchased or services purchased and payables to employees, the government, owners, and others. Payables are recognised in the books of account if it is likely that, due to their settlement, the factors enabling economic benefits will be reduced, and if the amount for settlement can be reliably measured. Trade payables are initially recognised at their fair value but are then measured at their amortised cost using the effective interest method.

q. Financial liabilities

Financial liabilities are recognised at inception, at their fair value, whereby no transaction costs arise. Financial liabilities are decreased by the amount of restructuring costs. In the next periods, financial liabilities are measured at their amortised cost by using the effective interest method. Any difference between receipts (without transaction costs) the and liabilities is recognised in the profit and loss statement throughout the period of the entire financial liability.

Financial liabilities also include liabilities due to the lease of assets. Their initial measurement amounts to the discounted current value of all payments for the lease, which have not been paid at the lease start date. Later, these liabilities are increased by the interest, and decreased by the payments.

r. Corporate income tax

In the statement of comprehensive income, the amount of the corporate income tax is the sum of the current and deferred tax.

The current tax is calculated on the basis of the taxable profit of the current year. Taxable profit can differ from the pre-tax profit in the statement of comprehensive income due to the items of income or expense taxable or tax deductible in other tax periods or due to the items of income or expense which will never be taxable or tax deductible. For companies with registered offices in Slovenia, the current corporate income tax is calculated on the basis of a 19% tax rate.

s. Non-current deferred tax assets and liabilities

Deferred tax is fully disclosed using the method of liabilities due to temporary differences, which are determined by comparing the carrying amounts of assets and liabilities using suitable tax values in financial statements. Deferred tax liabilities are generally recognised on the basis of all temporary differences, while deferred tax assets are only recognised up to the amount of the deductible temporary differences which are likely to be used in the future on the basis of sufficient taxable profits. Deferred tax is determined according to tax rates (and pursuant to laws) which are applicable or substantively valid as at the date of the statement of financial position and for which it is reasonable to expect that they will also be valid when the deferred tax asset will be realised or the deferred tax liability will be settled.

Deferred tax assets are verified whenever financial statements are drafted and they are recognised if it is likely that, in the future, available taxable profit will be generated, on the basis of which temporary differences will be able to be used.

Current and deferred taxes are recognised in the profit and loss statement, unless they refer to items that are recognised in a different statement of comprehensive income or directly in the capital; in these cases, the current and deferred taxes are also recognised in a different statement of comprehensive income or directly in the capital.

4.4.5 DISCLOSURES TO INDIVIDUAL ITEMS IN THE FINANCIAL STATEMENTS

1 Intangible assets and other long-term assets

Table of behaviour of intangible assets in 2019

in EUR	Brands	Goodwill	Licenses and other IA	Intangible assets being acquired	TOTAL
Procurement value					
01 January 2019	**46,461,058**	**15,803,550**	**6,615,815**	**0**	**68,880,423**
New purchases/acquisitions	0	0	0	33,169	**33,169**
Transfer from assets being acquired	0	0	6,000	-6,000	**0**
Disposals	0	0	-7,519	0	**-7,519**
31 December 2019	**46,461,058**	**15,803,550**	**6,614,296**	**27,169**	**68,906,073**
Accumulated depreciation					
01 January 2019	**0**	**0**	**5,824,180**	**0**	**5,824,180**
Depreciation in the current year	0	0	222,318	0	**222,318**
Disposals	0	0	-7,519	0	**-7,519**
31 December 2019	**0**	**0**	**6,038,979**	**0**	**6,038,979**
Present value	**46,461,058**	**15,803,550**	**575,317**	**27,169**	**62,867,094**

Table of behaviour of intangible assets in 2018

in EUR	Brands	Goodwill	Licenses and other IA	Intangible assets being acquired	TOTAL
Procurement value					
01 January 2018	**46,461,058**	**15,803,550**	**6,288,791**	**135,617**	**68,689,016**
New purchases/acquisitions	0	0	0	293,004	**293,004**
Transfer from assets being acquired	0	0	438,443	-438,443	**0**
Transfer from tangible assets	0	0	0	9,822	**9,822**
Disposals	0	0	-111,419	0	**-111,419**
31 December 2018	**46,461,058**	**15,803,550**	**6,615,815**	**0**	**68,880,423**
Accumulated depreciation					
01 January 2018	**0**	**0**	**5,746,244**	**0**	**5,746,244**
Depreciation in the current year	0	0	189,354	0	**189,354**
Disposals	0	0	-111,418	0	**-111,418**
31 December 2018	**0**	**0**	**5,824,180**	**0**	**5,824,180**
Present value	**46,461,058**	**15,803,550**	**791,635**	**0**	**63,056,243**

The company demonstrates the value of the Union brand, while all goodwill relates to the acquisition of the company Pivovarna Union, d.d. in 2005. Neither the Union brand nor the goodwill as at 2019 year-end showed signs of impairment, as financial results of the company Pivovarna Union in 2019, as well as its future plans of operations under the auspices of the Heineken Group, are constantly improving.

Most of the intangible assets acquired in 2019 are computer software.

Intangible assets are not granted as security for liabilities. As at 31 December 2019 the Company does not disclose any liabilities for the purchase of intangible assets (EUR 6,431 in 2018). The Company has no intangible assets under lease.

Other long-term assets

in EUR	2019	2018
Other long-term assets	15,000	30,000
Total	**15,000**	**30,000**

As at 31 December 2019, the company has EUR 15,000 of long-term deferred costs.

2 Tangible fixed assets (property, land, and equipment)

Table of behaviour of tangible fixed assets in 2019

in EUR	Property	Plant	Production devices and machines	Other devices and equipment	Small tools	Leases	Tangible fixed assets being acquired	TOTAL
Procurement value								
31 December 2018	**16,031,379**	**39,909,182**	**249,567,575**	**35,105,564**	**27,374,479**	**0**	**6,631,331**	**374,619,510**
Effect of the first use of ''IFRS 16''	0	0	0	0	0	1,730,672	0	**1,730,672**
1 January 2019	**16,031,379**	**39,909,182**	**249,567,575**	**35,105,564**	**27,374,479**	**1,730,672**	**6,631,331**	**376,350,182**
New purchases/acquisitions	0	0	0	973	0	47,236	11,696,840	**11,745,049**
Transfer from assets being acquired	0	1,043,229	8,213,337	2,229,373	945,738	0	-12,431,676	**0**
Disposals	-1,916,370	-478,100	-19,008,701	-2,143,608	-208,827	0	0	**-23,755,606**
31 December 2019	**14,115,009**	**40,474,311**	**238,772,211**	**35,192,301**	**28,111,390**	**1,777,908**	**5,896,495**	**364,339,624**
Accumulated depreciation								
1 January 2019	**0**	**4,193,739**	**229,138,101**	**29,069,696**	**24,779,615**	**0**	**0**	**287,181,151**
Depreciation in the current year	0	1,298,890	4,672,535	2,226,195	1,148,802	660,082	0	**10,006,504**
Disposals	0	-29,404	-18,941,874	-2,065,779	-205,450	0	0	**-21,242,506**
31 December 2019	**0**	**5,463,225**	**214,868,762**	**29,230,112**	**25,722,968**	**660,082**	**0**	**275,945,149**
Present value	**14,115,009**	**35,011,086**	**23,903,449**	**5,962,189**	**2,388,422**	**1,117,826**	**5,896,495**	**88,394,475**

Table of behaviour of tangible fixed assets in 2018

in EUR	Property	Plant	Production devices and machines	Other devices and equipment	Small tools	Tangible fixed assets being acquired	TOTAL
Procurement value							
01 January 2018	**17,045,176**	**40,554,897**	**251,680,281**	**35,129,444**	**26,482,847**	**5,216,476**	**376,109,121**
New purchases / acquisitions	0	0	0	0	0	9,667,610	**9,667,610**
Transfer from assets being acquired	0	343,668	3,333,877	2,531,385	2,034,003	-8,242,933	**0**
Transfer to/from intangible fixed assets	0	0	0	0	0	-9,822	**-9,822**
Disposals	-1,013,797	-989,383	-5,446,583	-2,555,265	-1,142,371	0	**-11,147,399**
31 December 2018	**16,031,379**	**39,909,182**	**249,567,575**	**35,105,564**	**27,374,479**	**6,631,331**	**374,619,510**
Accumulated depreciation							
01 January 2018	**0**	**3,219,185**	**230,018,127**	**29,432,475**	**24,042,506**	**0**	**286,712,293**
Depreciation in the current year	0	1,288,147	4,551,229	2,076,253	1,864,898	0	**9,780,527**
Disposals	0	-313,593	-5,431,255	-2,439,032	-1,127,789	0	**-9,311,668**
31 December 2018	**0**	**4,193,739**	**229,138,101**	**29,069,696**	**24,779,615**	**0**	**287,181,151**
Present value	**16,031,379**	**35,715,443**	**20,429,474**	**6,035,868**	**2,594,864**	**6,631,331**	**87,438,358**

The Company did not revaluate the properties in 2019. More information on the performed real property appraisal is available in the sub-chapter on significant accounting policies **d. The application of assessments and judgements of this Report.**

As at 31 December 2019, the Company had no tangible fixed assets pledged as collateral.

As at 31 December 2019, the amount of financial and operating liabilities of PLU referring to the purchase of tangible fixed assets (without leases) amounted to EUR 1,577,164 (EUR 559,254 as at 31 December 2018).

Net profit from the disposal and elimination of all tangible fixed assets amounted to EUR 548,440 (EUR 764,609 in 2018).

Leases include the right-of-use the leased rolling stock. Average term of lease is 4 years.

3 Long-term financial investments

3.1. Long-term financial investments in subsidiaries

Interests in subsidiaries

in EUR	2019	2018
Interests in subsidiaries		
In Slovenia:		
Vital Mestinje, d.o.o.	1,535,219	1,457,761
PLU Online, d.o.o.	70,000	0
	1,605,219	**1,457,761**
Abroad:		
Laško Grupa, d.o.o., Kosovo	1,000	1,000
	1,000	**1,000**
Total	**1,606,219**	**1,458,761**

PLU valuates its long-term financial investments in subsidiaries according to the purchase prices model.

As at 31 December 2019, PLU held a 99.83% interest in Vital Mestinje, d.o.o. (in 2019 the interest of PLU slightly increased due to the buy-out of the non-controlling owners' interests), a 100% interest in Laško Grupa Kosovo, Sh.p.k. and 100% interest in PLU Online, d.o.o.

As at 31 December 2019 the capital of Vital Mestinje, d.o.o. amounted to EUR 2,144,269 (EUR 2,432,692 as at 31 December 2018), the capital of Laško Grupa, Kosovo, Sh.p.k. amounted to EUR 152,190 (EUR 151,435 as at 31 December 2018), and the capital of PLU Online, d.o.o. amounted to EUR - 5,282. In 2019, Vital Mestinje, d.o.o. generated a net loss in the amount of EUR 84,928 (EUR 24,201 net loss in 2018), Laško Grupa Kosovo, Sh.p.k. generated net profit in the amount of EUR 7,646 (EUR 2,539 net profit in 2018), and PLU Online, d.o.o. generated net loss in the amount of EUR 75,282.

3.2. Long-term financial investments in stocks and shares

Long-term financial investments in stocks and shares, measured at their fair value through the profit and loss statement

in EUR	2019	2018
Investments in stocks and shares	350,220	350,220
Total	**350,220**	**350,220**

As at 31 December 2019, the Company owned shares in the company Davidov hram d.o.o. Ljubno, in the amount of EUR 240,000, and IEDC – Poslovna šola Bled, d.o.o., in the amount of EUR 110,083.

3.3. Long-term loans issued

in EUR	2019	2018
Other long-term loans	32,595	55,553
Total	**32,595**	**55,553**

Other long-term loans are housing loans granted to employees in past periods (until and including 2005). The repayment period is up to 20 years. The last repayments are due in 2022.

4 Long-term operating receivables

in EUR	2019	2018
Long-term operating receivables due from others	2,110,574	2,237,106
Total	**2,110,574**	**2,237,106**

Non-current operating receivables of the company as at 31 December 2019 included a discounted receivable due from the State amounting to EUR 2,085,067 (EUR 2,189,552 as at 31 December 2018) on account of excessive payment of water concession fees over the period from 2005 to 2013, as a result of legislation amended in December 2013. The discount rate applied was 5.45%. The receivable shall be paid within twenty years.

5 Long-term deferred tax assets and liabilities

in EUR	2019	2018
Long-term deferred tax assets	32,836,032	35,529,350
Long-term deferred tax liabilities	-10,990,383	-11,095,569
Total	**21,846,649**	**24,433,781**

Deferred tax assets

in EUR	Liabilities to employees	Fair value (financial assets)	Tax loss	Other	Total
01 January 2018	**288,273**	**3,053,899**	**34,470,704**	**305,633**	**38,118,509**
Changes in profit or loss	-1,635	0	-2,548,205	-19,227	**-2,569,067**
Change in other comprehensive income	-20,092	0	0	0	**-20,092**
31 December 2018	**266,546**	**3,053,899**	**31,922,499**	**286,406**	**35,529,350**
Changes in profit or loss	17,733	0	-2,822,248	50,356	**-2,754,160**
Change in other comprehensive income	61,841	0	0	0	**61,841**
31 December 2019	**346,120**	**3,053,899**	**29,100,251**	**336,762**	**32,837,031**

Deferred tax liabilities

in EUR	Fair value (land, buildings)	Other	Total
01 January 2018	**2,910,980**	**8,292,837**	**11,203,817**
Changes in profit or loss	0	-108,207	**-108,207**
other changes	-41	0	**-41**
31 December 2018	**2,910,939**	**8,184,630**	**11,095,569**
Changes in profit or loss	0	-104,857	**-104,857**
other changes	-330	0	**-330**
31 December 2019	**2,910,610**	**8,079,773**	**10,990,383**

As at 31 December 2019, PLU had deferred tax receivables and liabilities. Deferred tax liabilities and receivables were prepared taking into account the foreseen tax rates that were to be valid in the year when the receivables or liabilities are due.

As at 31 December 2019, the Company applied a 19% tax rate for the calculation of deferred tax.

6 Inventories

in EUR	2019	2018
Materials and raw materials	6,098,207	5,776,815
Work in progress	1,110,082	1,506,239
Products	1,931,003	2,315,808
Merchandise	374,674	456,643
Total	**9,513,966**	**10,055,505**

Among the material and raw material inventory, there are inventories of spare parts, basic raw materials, non-returnable (reusable) containers, and other materials.

In 2019, inventory surplus and deficit were insignificant in terms of their amount. No inventories are pledged as collateral for liabilities. The carrying amount of inventories is not in excess of their net realisable value.

7 Short-term financial investments

Short-term financial investments in stocks and shares, measured at their fair value through the profit and loss statement

in EUR	2019	2018
Investments in stocks and shares	5,858,767	5,858,767
Total	**5,858,767**	**5,858,767**

Among its investments the Company reported an investment in the company Elektro Maribor, d.d. (5.74% share) in the amount of EUR 5,190,267 (EUR 5,190,267 as at 31 December 2018), and an investment in the company Elektro Gorenjska, d.d. (1.57% share), in the amount of EUR 668,500 (EUR 668,500 as at 31 December 2018).

As at 31 December 2019, no investments were pledged as collateral.

8 Short-term operating receivables

in EUR	2019	2018
Short-term operating trade receivables:	**30,081,272**	**26,338,191**
on the domestic market	*28,842,031*	*26,733,228*
on foreign markets	*4,907,844*	*3,483,396*
Minus allowance for depreciation	-3,668,603	-3,878,433
Short-term operating trade receivables due from others	**1,337,365**	**972,617**
Short-term operating receivables due from others	1,333,293	1,272,403
Advances	546,621	24,016
Minus allowance for depreciation	-542,549	-323,802
Total	**31,418,637**	**27,310,808**

The reported value of short-term operating and other receivables reflects their fair value.

Allowances for short-term operating receivables (buyers and default interest)

in EUR	2019	2018
On 1 January	**4,202,235**	**4,265,178**
Changes during the year:		
Allowances made during the year	20,511	82,529
Increase in allowances – transfer to disputed and questionable	325,752	150,551
Transfer of costs and interest to disputed	12,858	39,631
Impairment for receivables	-56,139	-215,750
Decrease in allowances made during the year	0	-17,046
Final write-off of receivables	-294,065	-102,858
As at 31 December	**4,211,152**	**4,202,235**

Maturity of accounts receivable (gross)

in EUR	2019	2018
Maturity of trade receivables		
not past due	25,284,391	21,755,525
up to 30 days	5,475,861	4,743,186
from 31 to 60 days	311,937	707,398
from 61 to 90 days	310,752	231,285
more than 91 days	4,246,848	4,075,649
As at 31 December	**35,629,789**	**31,513,043**

From its customers, the Company received guarantees in the amount of EUR 895,500 and mortgages in the amount of EUR 2,500,000.

As at 31 December 2019, the Company had no receivables pledged as collateral.

9 Cash and cash equivalents

in EUR	2019	2018
Bank balances	34,670,507	62,977,695
Cash in hand and cheques	45,774	21,331
Cash in transit	55,688	104,805
Total	**34,771,969**	**63,103,831**

As at 31 December 2019, there were EUR 523 in cash, with which the Company cannot freely dispose of. This refers to fixed deposits on a special bank account for the settlement of a legal dispute.

10 Other short-term assets

in EUR	2019	2018
Short-term deferred costs	107,192	440,908
Total	**107,192**	**440,908**

11 Capital

in EUR	2019	2018
Share capital	36,503,305	36,503,305
Capital reserves	993,654	993,654
Profit reserves (legal reserves)	3,650,331	3,650,331
Fair value reserves	4,622,427	5,097,457
Net profit or loss from previous years	302,513	3,035,430
Net profit or loss	24,388,622	20,292,817
Total	**70,460,852**	**69,572,994**

The Company's capital reserve is made up of amounts on the basis of the impairment of the general revaluation adjustment of equity.

Fair value reserves refer to the net revaluation surplus due to the revaluation of property, financial investments, and actuarial surpluses and related deferred taxes.

In 2019, the reserves for the fair value arising from depreciation of revalued property decreased by the net amount of EUR 211,390 (EUR 462,883 in 2018), while the reserves arising from the actuary calculation decreased by EUR 263,640 net (a EUR 85,658 increase in 2018).

In 2019, the company generated net profit in the amount of EUR 24,388,622 (EUR 20,292,817 in 2018).

12 Provisions and other long-term liabilities

in EUR	2019	2018
Provisions for retirement grants and jubilee benefits	3,402,176	2,817,492
Provisions for severance pay from restructuring	116,622	1,001,147
Other provisions	2,594,904	381,729
Other long-term liabilities	136,765	207,052
Total	**6,250,467**	**4,407,420**

Movement of long-term provisions and non-current accrued costs and deferred revenues in 2019

in EUR	Severance pay upon retirement	Jubilee benefits	Restruc-turing	Other provisions	Other long-term liabilities	Total
01 January 2018	**1,742,040**	**1,139,248**	**633,384**	**2,800,068**	**172,840**	**6,487,580**
Increase	-1,533	14,456	1,863,051	400,000	228,873	2,504,847
Transfer from short-term accrued costs and deferred revenues	0	0	0	-60,000	-152,025	-212,025
Decrease – drawing	-4,346	-72,373	-1,495,288	-2,139,381	-25,059	-3,736,447
Decrease – resolved	0	0	0	-618,958	-17,577	-636,535
01 January 2019	**1,736,161**	**1,081,331**	**1,001,147**	**381,729**	**207,052**	**4,407,420**
Increase	429,468	227,759	150,000	0	144,981	952,208
Transfer from short-term accrued costs and deferred revenues	0	0	0	3,577,713	-215,268	3,362,445
Decrease – drawing	-9,781	-62,762	-1,034,525	-65,568	0	-1,172,636
Decrease – resolved	0	0	0	-1,298,970	0	-1,298,970
31 December 2019	**2,155,848**	**1,246,328**	**116,622**	**2,594,904**	**136,765**	**6,250,467**

The amount of provisions for retirement benefits and jubilee benefits as at 31 December 2019 was calculated by an authorised actuary. When calculating potential liabilities with regard to the retirement grant, the provisions of the 'Decree on the levels of reimbursed work-related expenses and of certain income not to be included in the tax base' are taken into consideration. If the amount of the retirement benefit exceeds the amount from the 'Decree on the levels of reimbursed work-related expenses and of certain income not to be included in the tax base', the employer must to pay the 16.1% contributions on the excess amount.

Overview of additional assumptions:

- The growth of average salary in the Republic of Slovenia is assumed to be 2.5% annually in 2020 as well as in the following years, which represents the estimated long-term growth of salaries.
- The calculation takes into consideration the growth of amounts of the retirement benefits and jubilee benefits in the 'Decree on the levels of reimbursed work-related expenses and of certain income not to be included in the tax base' as assumed in the previous indent for the growth of the average salary in the Republic of Slovenia, (it is an assumption that the bases will be changing in accordance with the growth of the average salary in the Republic of Slovenia since we are not aware of the actual intention of the legislator concerning the amounts in the 'Decree on the levels of reimbursed work-related expenses and of certain income not to be included in the tax base').
- The calculation of liabilities from severance payments is tied to the years of pensionable service of each individual employee.

The selected discounted interest rate is 0.43% annually, which equals the set discount rate of the Heineken Group in the relevant part of Europe.

Assumptions regarding staff turnover and the relevant obligations of the Company:

- Employee turnover mainly depends on the employees' age.
- Employees' mortality was considered using mortality tables of Slovenian population in 2007;

- Allocation of workers as permanently redundant workforce results in other liabilities of the Company and therefore it is assumed that the present value of the employer's liabilities relating to classification of an employee as a redundant worker equals the present value of the liabilities for severance payments.
- Cases where the reason is regular retirement are accounted for in the calculation by considering the accumulated and future years of service, taking into account the conditions for old-age retirement.
- It is assumed that the employees will utilise their right to old-age retirement and therefore, the obligation to pay jubilee benefits to an employee subsequently according to the projection will not arise.

Based on the actuarial calculation, the Company recognised in the profit or loss unrealised actuarial gains on account of severance payments in the amount of EUR 325,481 (EUR 105,750 in 2018), current employee benefits costs amounting to EUR 73,849 (EUR 74,671 in 2018), and interest expenses in the amount of EUR 30,138 (EUR 29,546 in 2018). Regarding jubilee benefits, the Company recognised in the profit or loss current employee benefit costs, interest expense, and actuarial gains totalling EUR 227,759 (EUR 14,456 in 2018).

The provisions for severance pay and jubilee benefits were reduced by the amount of actual amounts of jubilee payments in the amount of EUR 62,762 (EUR 72,373 in 2018) and for actual amounts of severance payments in the amount of EUR 9,781 (EUR 4,346 in 2018). In 2019, the Company did not eliminate provisions for severance payments and jubilee benefits. In 2019, provisions for severance pays due to restructuring decreased by EUR 884,525 (an increase of EUR 367,763 in 2018).

Other provisions as at 31 December 2019 are EUR 2,213,175 higher than in 2018. They increased due to the reclassification of short-term liabilities for water permit in the amount of EUR 3,577,713 eliminated in the reduction of costs in the amount of EUR 1,298,970 (change in management's estimate of the required provision for water permit) and drew on settlement of other legal matters in the amount of EUR 65,568.

Long-term accruals and deferred income refer to Heineken’s programme for a management bonus scheme.

13 Non-current financial liabilities

in EUR	2019	2018
Long-term borrowings from companies of the Group	140,000,000	140,000,000
Non-current liabilities from lease	539,166	0
Total	**140,539,166**	**140,000,000**

Long-term borrowings obtained from the controlling company – Heineken International B.V. are not secured and refer to the long-term loan in the amount of EUR 140,000,000 (1.95% p.a.) and the long-term open credit line in the amount of EUR 50,000,000 (EURIBOR + 1.65% p.a.).

The discount rate for lease liabilities under this head in 2019 amounted to 2.9%.

Maturity of non-current financial liabilities

in EUR	2019	2018
Maturity from 1 to 2 years	365,230	140,000,000
Maturity from 2 to 4 years	50,173,936	0
Maturity from 4 to 6 years	90,000,000	0
Total	**140,539,166**	**140,000,000**

As at 31 December 2019, PLU does not have any liabilities due.

Movement of long-term loans in 2019

in EUR	Debt balance 31 Dec 2018	Impact of first application of IFRS 16	Balance 1 Jan 2019	Transfer to short-term	Increase	Debt balance 31 Dec 2019
Long-term borrowings from group companies	140,000,000	0	140,000,000	0	0	140,000,000
Non-current liabilities from lease	0	1,097,494	1,097,494	588,345	30,017	539,166
Total	**140,000,000**	**1,097,494**	**141,097,494**	**588,345**	**30,017**	**140,539,166**

Movement of long-term loans in 2018

in EUR	Balance 1 Jan 2018	Transfer to short-term	Debt balance 31 Dec 2018
Long-term borrowings from group companies	170,810,259	30,810,259	140,000,000
Total	**170,810,259**	**30,810,259**	**140,000,000**

14 Non-current operating liabilities

in EUR	2019	2018
Other non-current operating liabilities	3.252.675	3.400.524
Total	**3.252.675**	**3.400.524**

The company's non-current operating liabilities include a liability in the amount of EUR 3,252,675 (EUR 3,400,524 as at 31 December 2018), which relates to the payment of concession fees for the use of water between 2005 and 2013. Pursuant to the decision of the Ministry of Environment and Spatial Planning of the Republic of Slovenia, this fee must be paid until the expiry of the period for which the relevant water rights have been granted, namely until 31 October 2043, when the water permit expires.

15 Current financial liabilities

in EUR	2019	2018
Current financial liabilities for interests payable on borrowings	553,791	748,289
Short-term maturity of a long-term loan	0	30,810,259
Current financial liabilities from lease	593,999	0
Total	**1,147,790**	**31,558,548**

Movements of short-term borrowings from lenders in 2019

in EUR	Debt balance 31 Dec 2018	Impact of first application of IFRS16	Debt balance 1 Jan 2019	Interest	Transfer from long-term loans	Increase	Repayment and extension	Debt balance 31 Dec 2019
Controlling company	31,558,548	0	31,558,548	3,307,112	0	0	34,311,869	553,791
Liabilities from lease	0	633,178	633,178	40,777	588,345	17,221	685,522	593,999
Total	**31,558,548**	**633,178**	**32,191,726**	**3,347,889**	**588,345**	**17,221**	**34,997,391**	**1,147,790**

Movements of short-term borrowings from lenders in 2018

In EUR	Debt balance 1 Jan 2018	Interest	Transfer from long-term loans	Repayment and extension	Debt balance 31 Dec 2018
Controlling company	738,696	3,501,610	30,810,259	3,492,017	31,558,548
Total	**738,696**	**3,501,610**	**30,810,259**	**3,492,017**	**31,558.548**

The short-term financial liability of PLU as at 31 December 2019 in the amount of EUR 1,147,790 refers to the short-term part of a long-term loan and interest payable to HEINEKEN and the short-team liabilities from lease.

16 Short-term operating liabilities

in EUR	2019	2018
Current operating liabilities to related parties	1,337,219	1,114,846
Current liabilities to other suppliers	15,773,544	13,737,723
Current operating liabilities to others:		
to employees	*1,385,767*	*1,401,779*
to the state	*7,663,878*	*10,749,272*
Current liabilities from advances	203,613	180,835
Current liabilities not yet invoiced	5,725,604	3,854,340
Other current liabilities	4,719,993	4,913,779
Total	**36,809,618**	**35,952,574**

The majority of current operating liabilities relate to liabilities to suppliers. Liabilities to the state include excise duties and value added tax in the amount of EUR 7,107,236 (EUR 6,023,002 as at 31 December 2018), water allowance in the amount of EUR 147,749 (EUR 3,084,436 as at 31 December 2018), liabilities for salary contributions in the amount of EUR 202,169 (EUR 200,418 as at 31 December 2018), and other items. The bulk of other current liabilities is made up from liabilities from received deposits for returnable packaging in the amount of EUR 3,145,346 (EUR 3,248,586 as at 31 December 2018).

In 2019, the Company reclassified liabilities for water allowance from previous years as provisions in the amount of EUR 3,577,713, as talks with the state were opened on its amount.

Current operating liabilities to others in the amount of EUR 9,146,673 (EUR 12,151,050 as at 31 December 2018) and other current liabilities in the amount of EUR 4,719,993 (EUR 4,913,779 as at 31 December 2018) were not yet due as at 31 December 2019.

As at 31 December 2019, the Company had the following given guarantees: EUR 950,000 for excise duties, EUR 15,000 for customs duties, and EUR 300,000 for the availability of commodity reserves.

17 Other short-term liabilities

in EUR	2019	2018
Short-term accrued expenses and deferred income	432,789	937,781
Total	**432,789**	**937,781**

Significant accrued costs refer to unused annual leave and unused hours and Heineken's programme for a management bonus scheme.

18 Net sales revenue

in EUR	2019	2018
Revenue from the sale of products and services on domestic market	109,704,137	106,825,693
Revenue from the sale of products and services on foreign markets	40,191,084	39,811,927
Revenues from the sale of material and merchandise on dom. market	6,194,630	6,259,195
Revenues from the sale of material and merchandise on for. markets	401,722	183,602
Total	**156,491,573**	**153,080,417**

Net sales revenue on the domestic and foreign markets

in EUR	2019	2018
Sales revenue on the domestic market	115,898,767	113,084,888
Sales revenue on foreign markets	40,592,806	39,995,529
Total	**156,491,573**	**153,080,417**

19 Other operating revenues (including operating revenues from revaluation)

in EUR	2019	2018
Revenue from reversal of provisions	0	612,170
Revaluation operating revenue	811,809	1,474,753
Other operating income	655,693	347,857
Total	**1,467,501**	**2,434,781**

In 2019, the Company disclosed among its revaluation operating revenues within long-term (non-current) assets sales revenues arising from the sale of property in the amount of EUR 746,398 (EUR 1,373,654 in 2018).

20 Costs and other operating expenses

in EUR	2019	2018
Costs of materials, raw materials and merchandise	61,665,444	61,672,066
Costs of services	25,523,033	26,047,466
Depreciation	10,228,823	9,969,881
Revaluation operating expenses from fixed assets	197,958	609,044
Revaluation operating expenses from operating current assets	734,441	170,502
Costs of wages and salaries	16,202,969	15,861,124
Social security contributions on salaries	3,029,832	2,947,685
Other costs of labour	5,618,296	6,722,251
Costs of provisions	0	231,232
Other operating expenses	2,164,646	3,818,455
Total	**125,365,442**	**128,049,706**

The most important item among other operating expenses refers to the water concession/allowance, which is lower compared to 2018 due to change in management's assessment (see disclosure of **Provisions and other long-term liabilities**).

The costs of short-term leases amount to EUR 30,640, while the costs of lease of lower-value items amounted to EUR 314,726.

21 Financial income and expense

in EUR	2019	2018
FINANCIAL INCOME	**848,697**	**799,824**
Financial income from shares in the profits	511,240	292,886
Financial revenue from loans granted	2,275	14,404
Financial income from the sale of investments/reversal	335,182	492,534
FINANCIAL EXPENSES	**-3,627,032**	**-3,804,093**
Financial expenses for other financial liabilities	-3,347,889	-3,670,379
Financial expenses for other operating liabilities	-279,143	-130,527
Financial expenses arising from impairment upon sale	0	-3,187
Total	**-2,778,334**	**-3,004,269**

Financial revenue originating from shares in profit mainly refer to the received dividends of Elektro Maribor d.d. in the amount of EUR 269,125 and Vital d.o.o. in the amount of EUR 199,480.

In 2010, the Company disclosed financial expenses in the amount of EUR 3,307,112 (EUR 3,501,610 in 2018) for interest from the received long-term loan from the controlling company, while financial expenses of lease amounted to EUR 40,777.

22 Tax

in EUR	2019	2018
Income tax	-1,996,412	-1,832,431
Deferred tax	-2,649,303	-2,460,861
Total	**-4,645,715**	**-4,293,292**

Income tax calculation

in EUR	2019	2018
Pre-tax result	**29,034,337**	**24,586,109**
Tax at applicable tax rate:		
Income tax, calculated at a tax rate of 19%	1,903,219	1,740,337
Revenue adjustment to tax-recognised income level	-537,148	-468,535
Revenue adjustment to tax-recognised expense level	579,628	2,114,171
Tax base	29,076,818	26,231,745
Change in the tax base	625,426	591,463
Tax base II	29,702,244	26,823,208
Covering loss	-14,851,122	-13,411,604
Tax relief	-4,834,179	-4,251,937
Tax base III	10,016,943	9,159,667
Tax according to the tax calculation	**1,903,219**	**1,740,337**
Foreign tax credit	**97,028**	**-97,695**
Tax liability	**1,806,191**	**1,642,642**

The fiscal year of PLU is equal to the business year. In 2019 fiscal year, the Company had a positive basis for corporate income tax calculation in the amount EUR 10,016,943.

After foreign tax credit, the tax liability amounted to EUR 1,806,191. In 2019, the effective tax rate was 16% (17% in 2018).

In 2019, the company used the loss from previous years in the amount of EUR 14,851,122 and the relief for investments in the amount EUR 4,040,758. As at 31 December 2019, the total tax loss amounted to EUR 153,159,224 (EUR 168,010,346 as at 31 December 2018). This is due to the increase of fiscally recognised expenses for financial investments impaired in the past.

From the non-covered tax loss, the Company calculated receivables for deferred taxes at the rate of 19% in the amount of EUR 29,100,253, which shall be settled in the following years from taxable revenue.

The difference between the tax according to the tax calculation/return (EUR 1,903,219) and the tax in the profit and loss statement (EUR 1,996,412) is the tax expense arising from the already paid tax abroad, which the Company was unable to apply in 2019.

Movement of receivables for deferred tax from tax losses is shown in the report **5 Long-term deferred tax assets and liabilities.**

4.4.6 FINANCIAL INSTRUMENTS AND RISKS

a. Credit risk

The carrying amount of financial assets represents exposure to credit risk as follows:

Credit risk exposure

in EUR	2019	2018
Loans given	32,595	55,553
Receivables less amounts due from the state and advances given	31,134,778	27,073,835
- thereof trade receivables	*30,081,272*	*26,338,191*
Cash and cash equivalents	34,771,969	63,103,831
Total	**65,939,342**	**90,233,219**

Receivables due from our major wholesalers on the local market are only partly collateral and, subsequently, there is a large credit risk exposure to this particular segment. By the end of the year, our receivables to our eight largest customers amounted to 77 % (31 December 2018: 85 %) of all receivables to our customers on the domestic and foreign markets. Of all overdue receivables at the end of 2018, 62 % were due from our largest buyer, representing a 76% share in the segment of up to 30 days (31 December 2018: 74 %). The remaining 24 % (31 December 2018: 26 %) of overdue receivables up to 30 days fall to retailers and buyers from the HORECA segment. Receivables over 90 days overdue represent litigated and doubtful receivables in the domestic and foreign markets.

We are focusing more and more attention on tracking the creditworthiness of our customers by implementing the process of the so-called ''Credit Committee'', where we for the purpose of timely action track our customers on a weekly basis and assess their credit rating and payment discipline. Due to unforeseen circumstances in the market, we must constantly keep track of the credit risk of our buyers, which is increasing year by year. The management believes that the credit risk is appropriately managed and controlled.

The maturity structure of receivables as at 31 December 2019 and 31 December 2018 is disclosed in section **4.4.6 Short-term operating receivables**.

b. Liquidity risk

The Company's credit exposure only exists in relation to the Heineken Group for the long-term loans received from the 100% owner, i.e. Heineken International B.V. Amsterdam, in the total amount of EUR 140,000,000. More detailed information is disclosed under Section **14 Non-current financial liabilities**.

Liabilities towards our suppliers are settled on an ongoing basis; consequently, there were basically no outstanding liabilities as at 31 December 2019. Payments are made once a week.

Maturity of current operating liabilities towards suppliers

in (EUR)	2019	2018
Maturity of liabilities towards suppliers		
not past due	17,012,472	14,768,308
up to 30 days	97,809	84,141
from 31 to 60 days	-273	59
from 61 to 90 days	754	0
more than 91 days	0	61
Balance as at 31 December	**17,110,762**	**14,852,569**

c. Interest rate risk

The interest rate risk is the risk of a possible change in the reference interest rate on the financial market, mainly due to borrowings in EUR linked to a variable interest rate (EURIBOR). The Company's credit exposure only exists in relation to the Heineken Group for the long-term credit received by the 100% owner of Heineken International B.V. Amsterdam at a fixed interest rate, and the credit line with a variable interest rate. The Company has no credit liabilities towards third persons, so the interest rate risk is minimal (sensitivity analysis is not important).

d. Price risk

The Group is exposed to price risks on the downstream side and on the upstream side.

On the downstream side there is the risk of increased retail prices compared to the declining purchasing power of the population. The retail prices are also affected by the trade margin, the level of excise duty and value added tax.

All these risks can result in increased retail prices. This increase can cause a shift in the focus of consumers to cheaper products, which are substitutes of our products, or a shift to shopping abroad where these duties are lower. The Company only has partial influence on this risk, which is assessed as significant, however, it has no influence on the change in excise duties and taxes.

Risks on the upstream side are related to weather risks related to key raw materials. In the packaging material segment, the Company mainly faces stock exchange risks related to packaging raw materials. In the sense of risk management, Pivovarna Laško Union d.o.o. became a part of Heineken Global Procurement, which uses their Risk Management Department in all upstream segments.

e. Foreign exchange risk

The foreign exchange risk is irrelevant for the Company, since the Company concluded most of its contracts with suppliers in EUR; consequently, changes of exchange rates have no direct impact on our prices.

f. Capital management

The main purpose of the management of the Company's equity is to maximise the value for the owners.

The Company tracks capital movements with the calculation of the relationship between net financial liabilities and the entire equity. As part of the net financial liabilities, the Company includes borrowings and other financial liabilities less the amount of cash and cash equivalents.

Calculation of the ratio between net financial liabilities and equity (gearing ratio)

in EUR	2019	2018
Financial liabilities	141,686,956	171,558,548
Cash assets	34,771,969	63,103,831
Net financial liabilities	**106,914,987**	**108,454,717**
Capital	70,460,852	69,572,994
Gearing ratio (in %)	**151,74**	**155,89**

The relationship between net financial liabilities and equity clearly shows that the company Pivovarna Laško Union d.o.o. is deeply in debt, however, the majority of financial liabilities relate to the long-term loan from the controlling company.

g. The risk of changes to the fair value of financial assets

The Group measures fair value of financial assets in the statement of financial position according to the following fair value hierarchy:

- level 1: assets and liabilities whose fair value is determined based on market inputs (without adjustments) observed on active stock markets,
- level 2: fair values are directly or indirectly derived from other sources in the market that can be tracked except for market prices on securities market, and
- level 3: fair values derived from valuation techniques which are based on sources that cannot be tracked on markets.

There were no transfers during the measurement of the fair value of assets and liabilities.

Fair value measurement of assets and liabilities (fair value hierarchy) as at December

in EUR	Level 1	Level 2	Level 3	TOTAL 2019	Level 1	Level 2	Level 3	TOTAL 2018
Assets at fair value	**0**	**49,126,095**	**6,208,987**	**55,335,082**	**0**	**51,746,822**	**6,208,987**	**57,955,809**
Investments in stocks and shares	0	0	6,208,987	**6,208,987**	0	0	6,208,987	**6,208,987**
PPE - at fair value (property)	0	49,126,095	0	**49,126,095**	0	51,746,822	0	**51,746,822**
Assets measured at amortised value	**34,771,969**	**0**	**32,224,441**	**66,996,410**	**63,103,831**	**0**	**28,630,850**	**91,734,681**
External loans and deposits	0	0	32,595	**32,595**	0	0	55,553	**55,553**
Operating liabilities towards suppliers	0	0	30,081,272	**30,081,272**	0	0	26,338,191	**26,338,191**
Non-current operating liabilities	0	0	2,110,574	**2,110,574**	0	0	2,237,106	**2,237,106**
Cash assets	34,771,969	0	0	**34,771,969**	63,103,831	0	0	**63,103,831**
Liabilities measured at amortised value	**0**	**0**	**158,797,719**	**158,797,719**	**0**	**0**	**186,411,117**	**186,411,117**
Borrowings received	0	0	141,686,956	**141,686,956**	0	0	171,558,548	**171,558,548**
Operating liabilities towards suppliers	0	0	17,110,763	**17,110,763**	0	0	14,852,569	**14,852,569**

4.4.7 RELATED PARTY TRANSACTIONS

SALES TO RELATED PARTIES

in EUR	2019	2018
Controlling company	146,952	-9,608
Subsidiaries	133,709	11,371
Other related parties	30,512,331	30,799,045
Total	**30,792,992**	**30,800,808**

PURCHASES FROM RELATED PARTIES

in EUR	2019	2018
Controlling company	2,888,165	1,949,770
Subsidiaries	969,106	711,953
Other related parties	6,825,793	4,604,147
Total	**10,683,064**	**7,265,870**

OPEN ITEMS FROM SALE/PURCHASES FROM RELATED PARTIES

in EUR	2019	2018
Receivables from business operations with related parties		
Controlling company	94,633	6,487
Subsidiaries	56,326	1,132
Other related parties	2,721,326	1,864,883
Total	**2,872,285**	**1,872,502**
Liabilities from business operations with related parties		
Controlling company	292,316	200,587
Subsidiaries	11,456	21,695
Other related parties	1,037,577	892,565
Total	**1,341,350**	**1,114,846**

BORROWINGS FROM RELATED PARTIES

in EUR	2019	2018
Controlling company	140,000,000	170,810,259
Total	**140,000,000**	**170,810,259**

INTEREST FROM ACQUIRED BORROWINGS FROM RELATED PARTIES

in EUR	2019	2018
Controlling company	3,307,112	3,501,610
Total	**3,307,112**	**3,501,610**

OPEN ITEMS FOR INTERESTS FROM ACQUIRED BORROWINGS FROM RELATED PARTIES

in EUR	2019	2018
Controlling company	553,791	748,289
Total	**553,791**	**748,289**

DIVIDENDS PAID

in EUR	2019	2018
Controlling company	23,328,247	14,960,291
Total	**23,328,247**	**14,960,291**

RECEIVED DIVIDEND

in EUR	2019	2018
Subsidiaries	199,480	0
Total	**199,480**	**0**

All transactions with related parties were made under market conditions for which the Company received adequate payment and was not at a disadvantage due to them. No significant transactions were made which would not be conducted under standard market conditions. In 2019, Pivovarna Laško Union d.o.o. conducted business activities with related parties in accordance with the Financial Transactions of Enterprises Act.

The controlling company is Heineken International B.V. The subsidiaries include PLU Online, d.o.o., Vital Mestinje, d.o.o., Laško Grupa Kosovo, Sh.p.k. and Laško Grupa d.o.o., Sarajevo – in liquidation (2018). Other related parties include other companies from the Heineken Group, and other related parties pursuant to IAS 24, except members of the Management Board and Supervisory Board.

4.4.8 REMUNERATION OF MEMBERS OF THE MANAGEMENT AND SUPERVISORY BOARDS AND THE EMPLOYEES WITH INDIVIDUAL CONTRACT OF EMPLOYMENT

Management board remuneration

in EUR	2019	2018
MANAGEMENT BOARD		
Fixed remuneration	1,381,580	1,331,359
Other receipts (benefits)	47,800	71,791
Variable remuneration (incentive pay)	332,197	247,387
Compensations for damages	138,555	530,875
Jubilee awards	0	2,160
Total	**1,900,132**	**2,183,572**

As at 31 December 2019 the management board of Pivovarna Laško Union d.o.o. consisted of six members. Three members of the board are considered by the controlling company as posted workers from abroad.

An operating receivable towards the members of the Management is the receivable for residential loans for members who received the loan when they were not yet members of the Management. The balance of outstanding loans amounts is EUR 0. In 2019, EUR 1,375 of loans were repaid.

The obligation of the Company towards the Management for December 2019 due to gross salaries, amounting to EUR 113,984, was paid in January 2020.

Individual contract receipts

in EUR	2019	2018
INDIVIDUAL CONTRACTS		
Fixed remuneration	1,791,065	1,848,493
Other receipts (benefits)	70,784	83,257
Variable remuneration (incentive pay)	192,662	260,183
Compensations for damages	0	103,000
Jubilee benefits	1,651	2,160
Severance pay	116,000	0
Total	**2,172,162**	**2,297,093**

Supervisory Board members receipts

in EUR	2019	2018
SUPERVISORY BOARD		
Meeting fees	39,165	38,330
Total	**39,165**	**38,330**

4.4.9 POTENTIAL ASSETS AND POTENTIAL LIABILITIES

As at 31 December 2019, the company did not have any significant potential assets or liabilities.

4.4.10 COMMITMENTS

As at 31 December 2019, the Company had the following commitments: EUR 2,180,836 for the purchase of tangible fixed assets and EUR 2,420,515 from sponsorships.

4.4.11 AMOUNTS SPENT ON AUDITING

The contractually agreed upon auditing cost in 2019 amounted to EUR 62,900. The auditor did not provide other services.

4.4.12 EVENTS AFTER THE DATE OF THE STATEMENT OF FINANCIAL POSITION

On 30 January 2020, the World Health Organisation declared an international public health hazard due to the **spread of the COVID-19 virus**, and a pandemic was declared on 11 March 2020. The first patient infected with the virus in Slovenia was diagnosed on 4 March 2020. As the first measure to limit the spreading of the disease in Slovenia, a decree was issued to ban the gathering of people in public events, in indoor public areas with more than 500 people, and then additional measures were also taken against the spreading of the disease, including a decree that all sporting events and other events with more than 500 participants should be carried out without spectators. On 12 March 2020, an epidemic was declared in Slovenia.

Numerous further measures to limit the spread of the disease were taken in Slovenia in March:

- limited social contacts (e.g.: temporary ban on public gatherings, ban on travel outside of the municipality of one's permanent or temporary residence, closure of some public institutions, suspension of public passenger transport, ban of providing and selling goods and services directly to consumers, including hospitality services);
- measures in healthcare (testing introduced, epidemiological monitoring of the spreading of the virus, adjusted operation of healthcare institutions);
- all educational institutions were closed;
- measures in working environments (recommendations to employers regarding orders for work at home and other work in emergencies), etc.

It should be noted that the ban on providing and selling goods and services to direct consumers has significantly affected the operation and the results of the company PLU. The closure of bars, restaurants, hotels, and other hospitality establishments was followed by a nearly **100% loss of sales through the HORECA (hotels, restaurants, catering) sales channel**.

Furthermore, the Government of the Republic of Slovenia has adopted multiple immediate intervention and strategic measures to mitigate the harmful effects of the epidemic on the economy and people:

- measures to retain jobs;
- measures to improve the social position of people;
- measures to provide emergency aid to self-employed persons;
- measures to maintain the operation and improve the liquidity of companies;
- aid for agriculture, etc.

Since the virus spread in Slovenia has slowed down in May 2020, based on the National Institute of Public Health professional assessment the government declared the end of epidemic effective from 15 May 2020.

The management of the company PLU has been carefully monitoring the spread of the disease and its effect on the company's operations. Significant negative effects on the scope of operations and the company's business results were already recorded in March 2020 and have then continued in April and at the lower scale in May, as well. These mainly include a significant loss of sales of products to HORECA establishments and distributors, while no significant loss of sales to stores has been detected yet. In May 2020, with the ease of governmental measures HORECA sales channel has been slowly step-by-step reviving back.

The loss of sales was followed by the adjustment of production and the entire supply chain and the streamlining of costs and investments. Special attention has been paid to an increased credit risk due to the decreased solvency of buyers, liquidity risk, and potentially non-sellable inventory.

The company management has adopted numerous measures to ensure health of its employees, to minimize the risk of infection in the workplace and that the company's operations continue. All measures are being coordinated with the management and other companies within the Heineken Group. Multiple scenarios for the effect of the spread of the contagious disease on the company's operations have been made, depending on its duration and severity of the effect. The scenarios are being updated on an ongoing basis depending on the developments. Furthermore, the management is studying the potential possibility of using government measures to mitigate the harmful effects of the epidemic on the economy. It is aware that the future effects of the epidemic on the scope and results of the operations of the company PLU will not be able to be assessed in detail, but it also finds that the measures adopted will ensure the future operations of the company.

Moreover, the company PLU has been ensuring the health and safety of its employees, it has been maintaining contact with its business partners, it has been operating in the interest of future cooperation, it has used donations and other forms of social aid to remain generally active, responsible, and civic-minded in various fields.

The management of the company PLU has assessed that the spread of the COVID-19 virus does not affect the financial statements of the company PLU for the fiscal year that ended on 31 December 2019.

As additional significant event to be disclosed, PLU subsidiary **Vital Mestinje, d.o.o**. is in the process of sale.

There were no other significant events in 2020.