# Annual Report of the GEN Group 2013

SKUPINA

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SKUPINA

ENERGY TODAY – FOR TOMORROW.

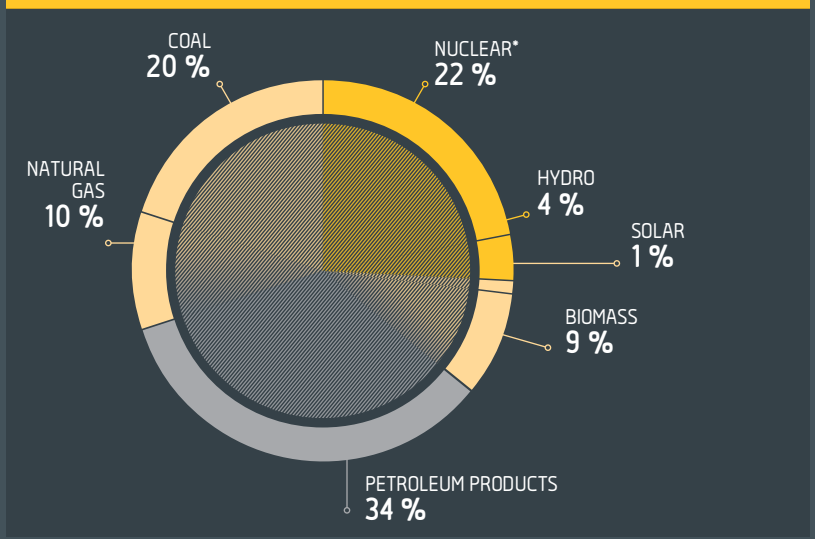
# What do we need it for?

**We need energy** to function properly and to maintain the comfort and convenience of our modern lifestyles. We use energy virtually every single moment of our everyday lives. We need it to **stay pleasantly warm or cool** at home and work, **to be mobile** and **to communicate remotely**, to support manufacturing and other technological **processes across industries**, and to run various **electrical and electronic devices** and appliances.

A particularly important role in energy supply is played by **electricity**. It is one of the keystones of the modern way of life and **a driver of technological and social development**. In Slovenia, electricity is generated mainly from nuclear energy and coal, followed by hydro power and natural gas.

## What role does electricity play in today's energy supply, and what will its role be in the future?

**ENERGY SOURCES USED FOR GENERATING ELECTRICITY IN SLOVENIA**




* Nuclear energy comprises NEK's whole production output, one-half of which is available to the Republic of Slovenia and the other half to the Republic of Croatia under the Intergovernmental Agreement on NEK.

Slovenia's final energy consumption, not factoring in conversion losses, is roughly **81 kilowatt-hours per day** per person. In practical terms, this is the amount of energy **eighty-one 40-watt light bulbs** would use if left turned on by a single person around the clock, every day of the year.

HOUSEHOLDS
page 9

TRANSPORT
page 29

INDUSTRY
page 65

SERVICES
page 77

# Contents




Published by:
**GEN energija d.o.o.,**
**Vrbina 17, 8270 Krško**

Conceptual design and texts:
**GEN energija d.o.o. and**
**Consensus d.o.o.**

Creative design, layout and production:
**KOFEIN**

Photography:
**Mare Mutić, Borut Peterlin, Miloš Radosavljević, archive GEN**

The photographs were taken at a private house in Mozirje, at Slovenska cesta in Ljubljana, at the Gorenje plant in Velenje and at the National Gallery in Ljubljana.

Circulation:
**150 printed, 150 flash drives**

Krško, June 2014

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# Index of tables

# Index of figures

HOUSEHOLDS

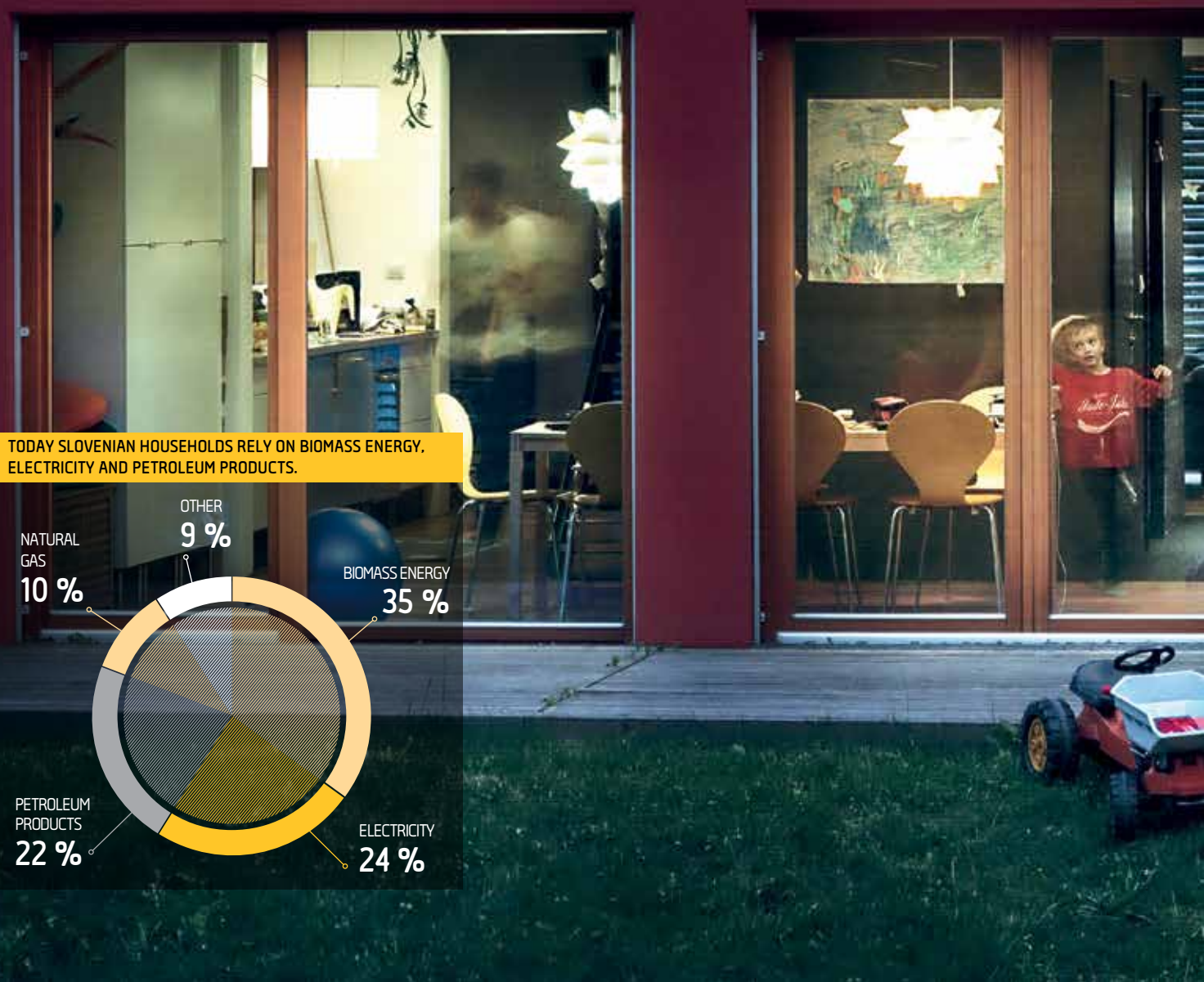
# The comfort of home is powered by energy.

HOUSEHOLD ENERGY CONSUMPTION IN SLOVENIA IS ROUGHLY **19** kWh/D/P. MOST OF IT IS USED FOR HEATING AND HOT WATER.

In households across Slovenia more than **80% of energy is used for heating and hot water**, and the remaining **20% for cooking**, running domestic appliances large and small, and for other household activities. Energy is essential to maintaining a healthy standard of living in our homes.

Going forward, an increasing number of households is going to switch to more convenient, more efficient and cleaner heating technologies, mostly heat pump-operated central heating systems. And heat pumps rely on **electricity** for their operation. As a result, less fossil fuels will be burned for heating, while at the same the demand for electricity will increase.

Our ability to generate electricity in Slovenia is an important consideration. And its supply needs to be **reliable, safe, competitive and low carbon**. All this can be achieved by generating electricity from **sustainable and renewable sources**, above all nuclear and hydropower.



TODAY SLOVENIAN HOUSEHOLDS RELY ON BIOMASS ENERGY, ELECTRICITY AND PETROLEUM PRODUCTS.

**80%**

OF ENERGY IS USED FOR HEATING AND HOT WATER

**20%**

OF ENERGY IS USED FOR COOKING AND RUNNING DOMESTIC APPLIANCES BIG AND SMALL

# Introduction

# 1.1 Key financial data

Table 1.1 **Key data on the company GEN for 2013 against 2012**

| Company GEN | 2013 | 2012 |
|---|---|---|
| Assets in EUR million | **511.56** | 516.02 |
| Equity in EUR million | **416.08** | 407.90 |
| Revenues in EUR million | **183.08** | 194.77 |
| EBIT in EUR million | **18.03** | 19.99 |
| EBITDA in EUR million | **19.36** | 21.29 |
| Net profit in EUR million | **15.57** | 14.81 |
| Value added in EUR million | **22.19** | 23.82 |
| Return on assets | **3.03%** | 2.87% |
| Return on equity | **3.78%** | 3.53% |
| Electricity sold (GWh) | **3,301** | 3,274 |

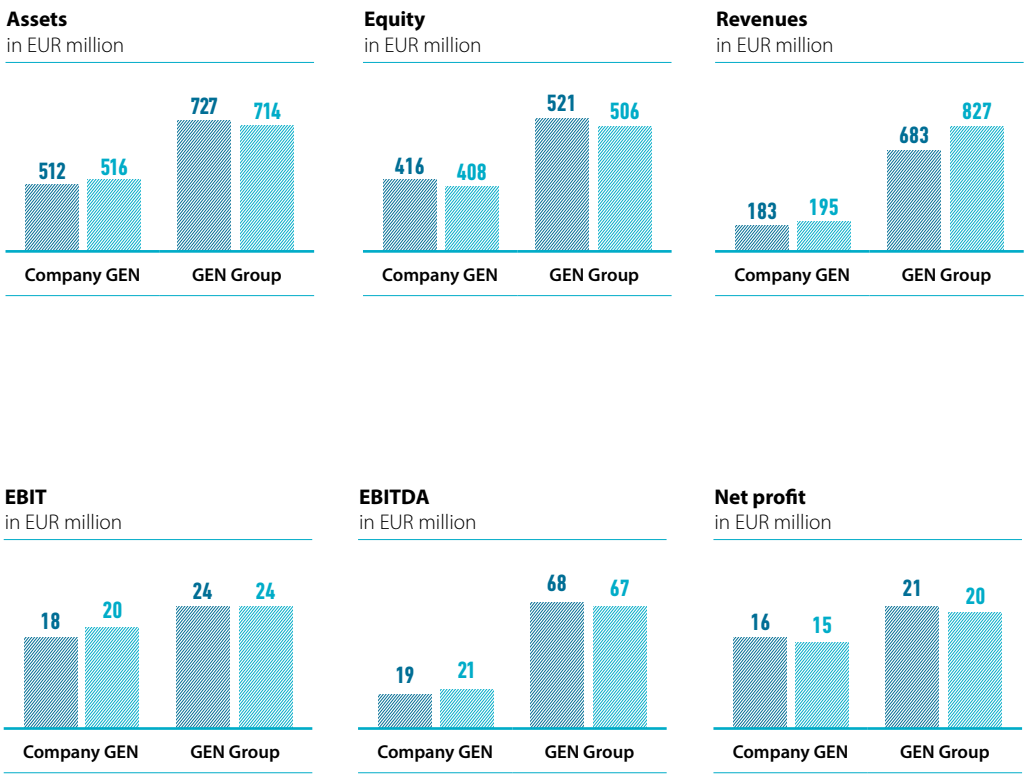
Table 1.2 **Key data on the GEN Group for 2013 against 2012**

| GEN Group | 2013 | 2012 |
|---|---|---|
| Assets in EUR million | **727.39** | 713.57 |
| Equity in EUR million | **520.67** | 505.68 |
| Revenues in EUR million | **682.83** | 826.92 |
| EBIT in EUR million | **24.29** | 23.83 |
| EBITDA in EUR million | **67.61** | 67.21 |
| Net profit in EUR million | **20.75** | 20.06 |
| Value added in EUR million | **102.12** | 98.74 |
| Return on assets | **2.88%** | 2.80% |
| Return on equity | **4.04%** | 3.88% |
| Electricity sold (GWh) | **12,603** | 13,303 |

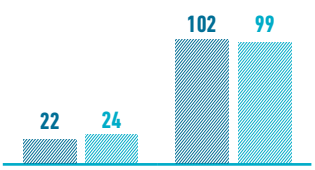
Figure 1.1 **Diagrams of key data on the company GEN and the GEN Group for 2013 against 2012**

2013

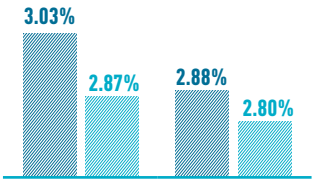
2012



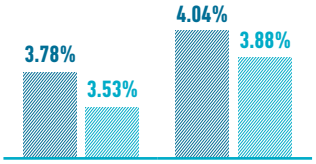
**Value added**
in EUR million



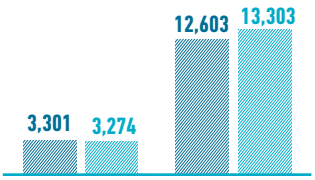

**Return on assets**




**Return on equity**




**Electricity sold**
(GWh)



# 1.2 Letter from the Director

## Dear business partners and colleagues!

By successfully overcoming challenges and effectively managing the risks raised by the difficult economic situation, through the years the GEN Group has consolidated its position as a modern, forward-looking energy group, both in terms of electricity production from renewable and sustainable energy sources and providing a reliable and competitive supply of clean energy to our customers. The past year was a success thanks to the hard work and diligence of all the employees of the company and the Group.

The business year 2013 was marked by the changing economic situation in the European Union and the economic stagnation in Slovenia. Stimulus measures that could have jump-started the country's economy and helped get it back on track were either not passed or were ineffective. All this put a considerable strain on the energy sector, one of the most important branches of the economy. In the GEN Group we continue to place the strongest focus on the most pressing challenge – persistently declining electricity prices for the years ahead, which is evident from European energy exchanges. For this purpose, we shape and take proactive measures to raise the competitiveness of our business to a higher level. Measures we are going to be stepping up in the future.

Hydrological conditions, which play a vital part in the Group's electricity production, were quite good throughout the year, so through successful coordination and control of power plant operation and by effectively adjusting our maintenance activities we managed to exceed by nearly a quarter the production targets of all the Sava River hydropower plants.

Krško Nuclear Power Plant (NEK), our largest source of electricity, recorded safe and stable operation in 2013, yet its production output missed the target by 5.7%. Though safe and stable throughout the year, NEK's operation was limited by a week-long forced shutdown in February, a two-week extension of the scheduled maintenance outage, and another brief, one-day shutdown in November. NEK underwent an extensive maintenance outage and a number of safety technological upgrades. To name a few, the reactor water temperature measurement system was completely redesigned, and along with it the power plant's thermal power measurement system. Additional hydrogen recombiners and controlled leakage filters were installed in the containment building. To ensure reliable operation of the power plant and the power grid in the long run, all vital parts of the primary switchgear in the 400 kV switching station were replaced, including the power transformer. On top of that, a number of other maintenance tasks and replacements were carried out in order to ensure safe operation in the long term. The damaged fuel rods, which drew considerable media attention, did not have any impact on the environment, but did prompt the implementation of additional conservative measures to prevent such events from taking place in the future.

Thanks to the Safety Upgrade Programme adopted by NEK in this past year, the power plant will be able to generate electricity for the duration of the extended service life. As investments in technological upgrades are equally important as ongoing investments in knowledge and people, in the past

year NEK continued to provide intensive expert training for its personnel. Performing all activities in an economically efficient way, with nuclear safety as a top priority, is another challenge faced by NEK in order to ensure its long-term operation.

In 2013 Brestanica Thermal Power Plant (TEB) started up its generating units with a high degree of reliability in order to maintain the stability of the power grid. TEB's low total electricity output had a positive effect on the Group's business results because less money was spent on fuel. Also underway were intense preparations for the replacement of TEB's old gas units.

The company GEN continues to provide strong support in the construction of hydroelectric power plants on the lower Sava River: in 2013 the third power plant, Krško HPP, in the chain of hydropower plants on the lower Sava was put into regular operation. We are also making intense preparations for the JEK 2 project, which will allow Slovenia and the wider region to build a low-carbon future on the back of reliable and competitive electricity supply. We successfully carried on with activities that address important issues concerning the siting of the second NPP unit, including the purchase of land in the village of Vrbina. In the search for optimal technological solutions we turned to domestic and international expert associations and organizations for specialist knowledge and experience, in accordance with the highest international standards and guidelines. For example, experts explained the geological phenomena observed on the Libna hill, allowing us to carry on with preparatory work and activities needed for making strategic, administrative and investment decisions in the context of the JEK 2 project.

In 2013 we increased our share of the market for the domestic supply of electricity and natural gas through our subsidiary GEN-I. Another new development worth noting was our entry into the Croatian market for household supply.

Business results of the company GEN energija and the GEN Group exceeded plans despite difficult production and market conditions, which goes to show we successfully minimized operating and business risks.

The fulfilment of the GEN Group's mission – to provide a reliable supply of electricity from clean, sustainable sources – largely depends on how various stakeholders see and address energy issues and challenges concerning the future energy supply. Through The World of Energy activities, targeted communication campaigns and fostering partnerships, we promote the understanding and appreciation of our efforts.

The engagement, professional approach, flexibility and diligence shown by all the GEN Group employees are the cornerstones of our operations and success. Choosing and stimulating strong, responsible people does not only translate to good technical and business operations, but also allows us to choose effective technological solutions and make the right economic investments for securing long-term development and success, to build a bright future, for the Group.

Dear GEN Group colleagues, thank you for your dedicated work and indispensable contribution in delivering on, or even surpassing, the goals we have set for ourselves. We are aiming high in 2014 as well, so I invite you to put your best effort into helping us shape and take the actions needed for us to raise our long-term competitiveness. For their contribution I also thank representatives of the owner, local communities, business partners and service providers. Together we have achieved excellent results.

**Martin Novšak**
Director, GEN energija d.o.o.

# 1.3 GEN company profile

| | |
|---|---|
| Registered name: | **GEN energija d.o.o.** |
| Short registered name: | **GEN d.o.o.** |
| Legal form: | **limited liability company** |
| Registered office: | **Vrbina 17, 8270 Krško** |
| Telephone: | **+386 7 49 10 112** |
| Fax: | **+386 7 49 01 118** |
| Website: | **www.gen-energija.si** |
| E-mail: | **info@gen-energija.si** |
| Year of foundation: | **2001** |
| Founder and sole partner: | **Republic of Slovenia** |
| VAT ID number: | **SI44454686** |
| Registration number: | **1646613** |
| Bank accounts: | **NLB 02924-0090457150**<br>**Banka Celje 06000-0904571665**<br>**SKB banka 03155-1000503323** |
| Activity: | **K/64.200 Activities of holding companies,**<br>**D/35.140 Electricity trading, and other registered activities.** |
| Share capital: | **26,059,796.00 EUR** |
| CEO - director: | **Martin Novšak** |
| Chairman of the Supervisory Board: | **Martin Bratanič** (until 19/08/2013)<br>**Matej Pirc** (from 22/08/2013) |
| Number of employees: | **51** |

## CORPORATE GOVERNANCE

The company GEN is governed by the founder directly and through the following company bodies:

### CEO - director:

Martin Novšak

### Supervisory Board:

From 29/11/2012 to 21/03/2013:

- Chairman:
  **Martin Bratanič** (from 30/11/2012)
- Vice Chairman:
  **Prof. Leon Cizelj, PhD** (from 30/11/2012)
- Board members:
  **Goran Udovč**
  **Prof. Marko Čepin, PhD**
  **Rastislav Jože Reven**

From 21/03/2013[1] to 19/08/2013:

- Chairman:
  **Martin Bratanič**
- Vice Chairman:
  **Prof. Leon Cizelj, PhD**

1 On 21/03/2013 the remaining three members of the company's Supervisory Board handed in their resignations and notified the company CEO - director of their resignation, thereby resigning as members effective immediately. From 21/03/2013 to 19/08/2013 the company was without a Supervisory Board with a minimum number of members as required by Article 254 Paragraph 2 of the Companies Act (CA-1) (Supervisory bodies shall be composed of at least three members, unless otherwise provided by law).

From 20/08/2013:

- Chairman:
  **Matej Pirc** (from 22/08/2013)

- Vice Chairman:
  **Danijel Levičar** (from 22/08/2013)

- Board members:
  **Nikola Galeša**
  **Saša Ivan Geržina**
  **Roman Dobnikar**

## SUBSIDIARIES AND AFFILIATED COMPANIES

The company GEN is the parent company of the GEN Group. It had the following subsidiaries as at 31/12/2013:

- Nuklearna elektrarna Krško d.o.o. (hereinafter: NEK) (50.0%),
- GEN-I, trgovanje in prodaja električne energije, d.o.o., (hereinafter: GEN-I) (50.0%),
- Savske elektrarne Ljubljana d.o.o. (hereinafter: SEL) (100.0%),
- Termoelektrarna Brestanica d.o.o. (hereinafter: TEB) (100.0%).

In addition to the subsidiaries, the company GEN also had the following indirectly affiliated companies as at 31/12/2013:

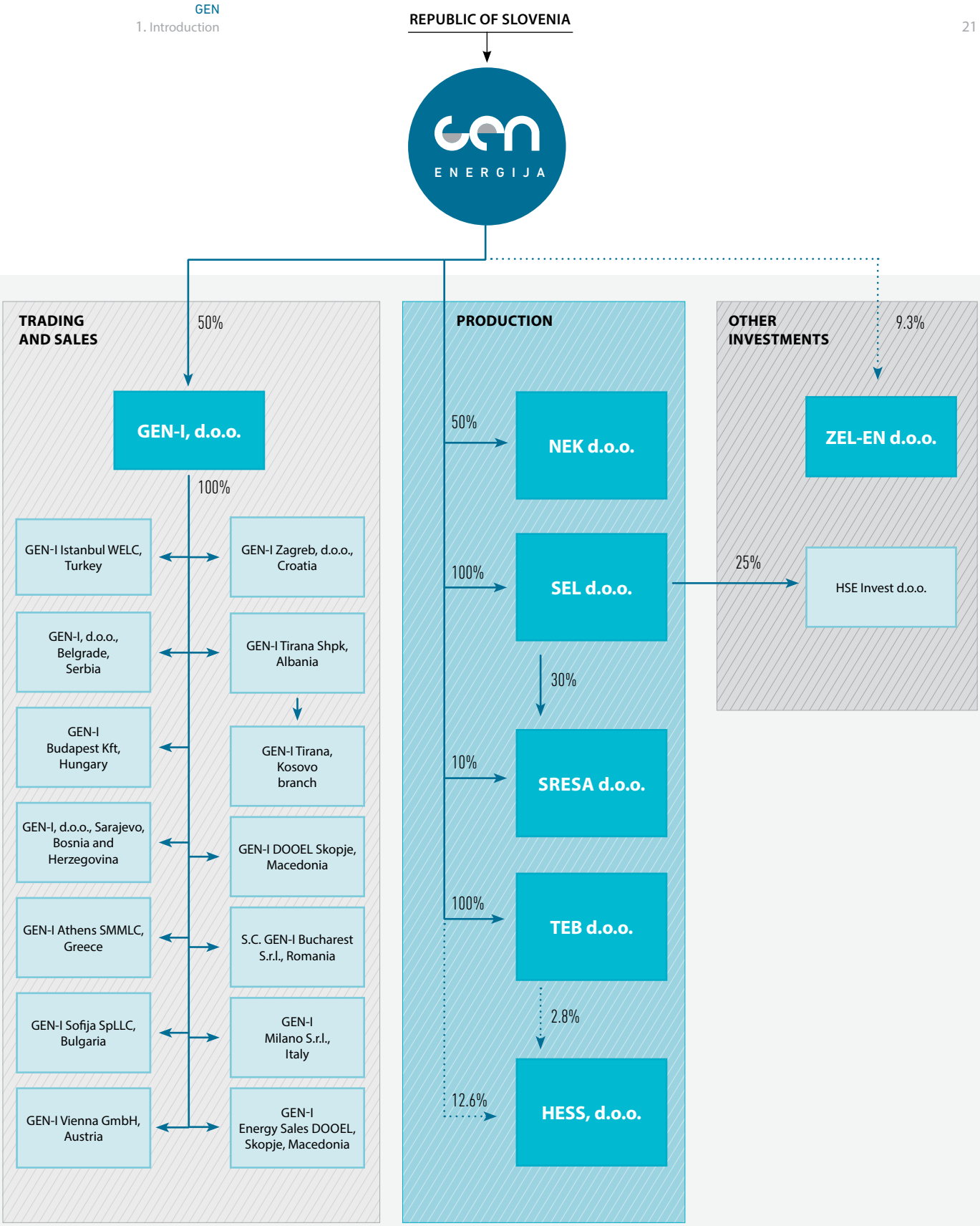
- Companies wholly owned by GEN-I: GEN-I Zagreb d.o.o., Croatia; GEN-I d.o.o. Belgrade, Serbia; GEN-I Budapest Kft., Hungary; GEN-I DOOEL Skopje, Republic of Macedonia; GEN-I d.o.o. Sarajevo, Bosnia and Herzegovina; GEN-I Tirana Sh.p.k., Albania; GEN-I Athens SMLLC, Greece; S.C. GEN-I Bucharest S.R.L., Romania; GEN-I Sofia SpLLC, Bulgaria; GEN-I Milano S.r.l., Italy; GEN-I Vienna GmbH, Austria; GEN-I ISTANBUL Wholesale Electricity Limited Company, Turkey; GEN-I PRODAŽBA NA ENERGIJA DOOEL Skopje, Republic of Macedonia; and
- The company HSE Invest d.o.o., in which SEL holds a 25% equity interest.

The GEN Group includes two jointly controlled companies: NEK and GEN-I. In view of the above, the data in this Annual Report, unless specified otherwise, are based on the equity interest held by GEN; specifically, for NEK as a company and for GEN-I as a group, since GEN, holding a 50% interest in the company GEN-I, is also an indirect owner of the companies owned by the company GEN-I.

The company GEN also holds a 12.6% equity interest in the company Hidroelektrarne na Spodnji Savi, d.o.o., (hereinafter: HESS), while a 2.8% equity interest in HESS is also held by TEB. The company Srednjesavske elektrarne d.o.o. (hereinafter: SRESA) was founded in 2011, with the companies GEN and SEL holding in it equity interests of 10% and 30% respectively.

In addition to interests in energy companies, the company GEN also holds a 9.28% equity interest in ZEL-EN, razvojni center energetike d.o.o. (hereinafter: ZEL-EN), whereas its investment in Nova KBM d.d. (hereinafter: NKBM), based on a Bank of Slovenia measure to terminate NKBM's qualified liability arising from share capital, was excluded from the financial records and ownership structure of the company GEN.

Figure 1.2 **Affiliated companies in the GEN Group as at 31/12/2013**


REPUBLIC OF SLOVENIA
ENERGIJA
TRADING AND SALES
50%
GEN-I, d.o.o.
100%
GEN-I Istanbul WELC, Turkey
GEN-I Zagreb, d.o.o., Croatia
GEN-I, d.o.o., Belgrade, Serbia
GEN-I Tirana Shpk, Albania
GEN-I Budapest Kft, Hungary
GEN-I Tirana, Kosovo branch
GEN-I, d.o.o., Sarajevo, Bosnia and Herzegovina
GEN-I DOOEL Skopje, Macedonia
GEN-I Athens SMMLC, Greece
S.C. GEN-I Bucharest S.r.l., Romania
GEN-I Sofija SpLLC, Bulgaria
GEN-I Milano S.r.l., Italy
GEN-I Vienna GmbH, Austria
GEN-I Energy Sales DOOEL, Skopje, Macedonia
PRODUCTION
50%
NEK d.o.o.
100%
SEL d.o.o.
30%
10%
SRESA d.o.o.
100%
TEB d.o.o.
2.8%
12.6%
HESS, d.o.o.
OTHER INVESTMENTS
9.3%
ZEL-EN d.o.o.
25%
HSE Invest d.o.o.

# 1.4 Holding activities of the company GEN

One of GEN's principal operations is activities of holding companies, that is, governing other legally independent companies through equity interests held in them by the company GEN as the controlling company.

As a holding company, GEN carries out management operations through equity interests in subsidiaries and jointly controlled entities by participating in general meetings, managing financial results of subsidiaries and approving required documents, by appointing its representatives into supervisory boards of subsidiaries and jointly controlled entities, all in compliance with relevant Articles of Incorporation and Memorandums of Association. Also, GEN management regularly coordinates its actions with the managements of subsidiaries and jointly controlled companies.

Registered name:
**Nuklearna elektrarna Krško d.o.o.**

Registered office:
Vrbina 12, 8270 Krško

## KRŠKO NUCLEAR POWER PLANT

The company NEK is jointly controlled by two partners, GEN and Hrvatska elektroprivreda d.d. (hereinafter: HEP), each holding a 50% stake in the company's share capital. The keystones of corporate governance are laid down in the Intergovernmental Agreement on NEK, which prescribes that the company must have the following bodies: general meeting, supervisory board, and management board. All the bodies are structured on a 50/50 basis. Detailed corporate governance provisions are defined in the Memorandum of Association.

Krško Nuclear Power Plant is the only facility in Slovenia that uses nuclear energy for the commercial production of electricity. Having undergone modernization and replacement of low-pressure turbines, the power plant has, in optimal conditions, a declared net capacity of around 696 MW. It can generate more than 5,900 GWh per year when no maintenance outage is scheduled, and around 5,400 GWh per year when a scheduled maintenance outage is carried out. This means that, under the Intergovernmental Agreement on NEK, the annual amount of electricity available to the Slovenian market ranges between 2,700 GWh and 2,900 GWh or even above that.

Apart from producing a substantial share of electricity, NEK is also renowned for its remarkably high production reliability rates. By consistently meeting its ambitious goals, NEK ranks in the top 25% of the best-performing nuclear power plants in operation worldwide.

The 2013 electricity production output was slightly below the target as a result of unforeseen shutdowns and the scheduled maintenance outage which was extended due to reconditioning work on damaged nuclear fuel. Still, NEK's operation can be regarded as successful, as the power plant operated economically while ensuring a high level of nuclear safety and consistently adhering to environmental restrictions.

# GEN-I, TRGOVANJE IN PRODAJA ELEKTRIČNE ENERGIJE

Registered name:
**GEN-I, d.o.o.**

Registered office:
Vrbina 17, 8270 Krško

The company GEN-I is jointly controlled by partners GEN and IG Energetski sistemi d.o.o. (hereinafter: IGES). Its principal areas of activity are divided into two distinct categories:

- Electricity trading, and
- Selling electricity to consumers and purchasing electricity from producers.

The two activities are organized in profit centres and separate portfolios, which are interconnected through market prices and incorporated into the GEN-I balance group, which is managed in the framework of the electricity trading activity. The interconnection of both activities creates a synergy which increases the reliability of electricity trading and supply and at the same time mitigates and offsets risks.

An extensive international trading network enables the company to effectively expand and manage its ever-growing balance group in Slovenia with trading activities in the liquid neighbouring markets of Austria, Germany, Italy, as well as in the less liquid markets of the former Yugoslavia and the rest of Southeast Europe. To facilitate business operations in individual markets, subsidiaries wholly owned by the parent company GEN-I have been founded. Most of the trading activity is done by the Slovenia-based parent company, specifically by the trading division in Ljubljana, whereas its local presence in individual markets allows the Group to better understand the market in question and to promptly and properly react to market changes.

In March 2009 the company successfully launched its "Cheap Electricity" campaign aimed at households and small commercial customers in the home market; the customer base has since increased to more than 100 thousand. In September 2012 the company entered the natural gas market by adding the "Cheap Gas" brand to its portfolio. The company continues to be successful in attracting consumers abroad as well.

In 2013 GEN-I further consolidated its market position as the country's largest supplier of electricity. At the end of 2013, under its "Cheap Electricity" campaign, GEN-I had more than 99,000 customers in the domestic market for household electricity supply, and under its "Cheap Gas" campaign, launched in 2012, the company had 17,200 customers at the end of the year.

## SAVSKE ELEKTRARNE LJUBLJANA

Registered name:
**Savske elektrarne Ljubljana d.o.o.**

Registered office:
Gorenjska cesta 46,
1215 Medvode

SEL has a long tradition in its principal economic activity, which is generation of electricity in hydroelectric power plants (HPPs). Završnica HPP, the company's oldest hydroelectric power plant, has been in operation ever since 1914, and since then the company has added four new hydropower plants: Moste HPP, Mavčiče HPP, Medvode HPP and Vrhovo HPP.

SEL fulfils an important function in the Group by generating base load as well as peak load power. SEL utilizes exclusively renewable energy sources for generating electricity and, in addition to the large hydroelectric power plants, also runs two small-scale hydroelectric (SHP) and several small-scale photovoltaic (SPP) power plants, one wind turbine and one cogeneration (CHP) plant.

In 2013 SEL recorded results that exceeded plans thanks to exceptionally good hydrology. In 2013 the combined output of SEL large-scale hydroelectric power plants was 390 GWh, which is a 36.52% increase over the previous year. In 2013 the company carried out all its planned overhauls and inspections of generating units.

## TERMOELEKTRARNA BRESTANICA

Registered name:
**Termoelektrarna Brestanica d.o.o.**

Registered office:
Cesta prvih borcev 18,
8280 Brestanica

Providing ancillary services within Slovenia's power grid, TEB is a reliable backup energy source in the most critical moments. With its fast generating units, the power plant specifically ensures:

- Rapid deployment in the event of system overload or power failure in other Slovenian power plants or transmission lines;
- Protection against electric power grid breakdown thanks to its speedy deployment capability;
- Recovery of the electric power grid following failure and serving as an independent direct power source for NEK.

TEB is wholly owned by GEN, its sole partner.

TEB's operation for commercial purposes in 2013 was limited. 12 startups of individual gas units for the purpose of tertiary control were recorded. TEB's low production output points to the fact that the other production units in the GEN balance subgroup as well as in the entire power grid operated securely and stably, so running TEB for backup was not necessary.

## HIDROELEKTRARNE NA SPODNJI SAVI

Registered name:
**Hidroelektrarne na Spodnji Savi, d.o.o.**

Registered office:
Cesta bratov Cerjakov 33a, 8250 Brežice

The company HESS was established in February 2008 and its operation is essentially defined by the Concession Agreement signed with the awarding authority, the Republic of Slovenia, in 2002 and later, in 2008, assigned by the concessionaire, HSE, to HESS.

The GEN Group holds a 15.4% equity interest in HESS, of which the company GEN 12.6% and TEB 2.8%.

## SREDNJESAVSKE ELEKTRARNE

Registered name:
**Srednjesavske elektrarne d.o.o.**

Registered office:
Ob železnici 27, 1420 Trbovlje

Operations of the company SRESA, founded in November 2011, are currently very much limited because the Concession Agreement for the use of water for electricity generation on the Sava River section from Ježica to Suhadol remains unsigned.

The GEN Group holds a 40% equity interest in SRESA, of which the company GEN 10% and TEB 30%.

## ZEL-EN

Registered name:
**ZEL-EN, razvojni center energetike d.o.o.**

Registered office:
Hočevarjev trg 1, 8270 Krško

The company ZEL-EN was incorporated in 2010 with a view to establishing a centre for long-term development on the subject of energy in the lower Sava River region, strengthening research and development activities across the country's energy industry and increasing the value added and employment rate both in the sector and the region.

GEN holds a 9.28% interest in ZEL-EN. By securing a stake in ZEL-EN, the company GEN has become eligible to apply for development funding from the ERDF, namely for research in the field of nuclear energy technology, with a distinct focus on modelling new nuclear power plants and calculating nuclear reactor core neutronics.

# 1.5 Corporate Policy of the company GEN

The corporate policy of the company GEN derives from the Revised GEN Energija Development Plan. The company GEN follows the corporate policy in full and is the authority behind it, making sure it is implemented at all levels. In doing so, the corporate policy of the Group is becoming the cornerstone of operations in all the Group companies.

## VISION

The vision of the GEN Group is to become the driver of development in the areas of electric power generation and comprehensive supply of electricity generated from clean, sustainable and renewable sources and, in so doing, to contribute to the sustainable development of Slovenia.

## MISSION

The mission of the GEN Group is to ensure a sustainable and safe production and a steady supply of electricity with a clear focus on the consumer. We achieve this by investing in clean, sustainable and renewable energy sources needed to meet Slovenia's demand for electricity. The strongest focus will be put on the preservation and expansion of nuclear capacities as the basis for sustainable development, in order to increase competitiveness, help keep the environment clean and reduce the country's reliance on imported energy.

## VALUES

The key values of the company GEN are:

- sustainable, reliable and environmentally friendly production of electricity;
- care for the environment at the local and global level, which constitutes the driving force behind the company's operations and investments;
- delivering a complete customer-oriented package for the supply of electricity and provision of related services;
- acceptability and transparency of the Group's activities and openness towards two-way communication with all interested parties.

## STRATEGIC GOALS

The strategic goals of the GEN Group are to:

- manage, run, perform maintenance on and invest in its existing facilities with the aim of ensuring safe, reliable, environment-friendly and economically viable operation of the existing production units in the long run;
- expand its sales portfolio for electricity and electricity-related services with the aim of increasing competition in the market;
- invest in new production capacities built around renewable and sustainable sources and technologies in order to increase the reliability of electricity supply to consumers and, in so doing, to contribute to the sustainable development of Slovenia.

## FULFILLING THE GEN GROUP'S CORPORATE POLICY

The Revised GEN Energija Development Plan was discussed and passed by the 181st regular session of the Government of the Republic of Slovenia, acting in the capacity of the General Meeting of the company GEN, on 01/10/2008. The Revised GEN Energija Development Plan superseded the previous development plan passed by the Government of the Republic of Slovenia in December 2005 and represents to the GEN Group a document of strategic importance and the foundation stone for its future development.

The vision and mission of the GEN Group clearly convey the focus of the Group as an all-round provider of electricity and services from energy sources whose impact on the environment is as low as possible, particularly with regard to greenhouse gas emissions. The GEN Group continues to be at the helm of Slovenia's nuclear power option, which is at the same time the backbone of the Group's future development. Moreover, the GEN Group is increasing its volume of investments in renewable energy sources and gas technology. It is existing and new production facilities using clean technologies that are the best way for ensuring a long-term competitive energy supply, which will in turn drive the sustainable development of Slovenia.

The company GEN actively cooperates with all its subsidiaries and jointly controlled companies and partners across all segments of its operations. The following management mechanisms have been put in place: regular communication, coordination, oversight and synchronization, which allowed the Group to function optimally.

GEN oversees the operations of its subsidiaries and jointly controlled companies by appointing its representatives to their supervisory and management boards.

Open communication among all the GEN Group companies allows uninterrupted flow and accessibility of information critical to managing the companies, steering their operation, monitoring approved investments and handling development activities. We pay special attention to the specific nature of running and operating a nuclear installation, since its owner must possess a thorough understanding of the need for securing suitable human resources and for obtaining appropriate financial resources in order to ensure reliable and safe operation of Krško Nuclear Power Plant. NEK's operating performance in recent years bears witness to the suitability of the company's organizational and HR upgrading essential to its successful and safe operations in the long term.

The GEN Group has met all three of its strategic goals: by expanding the trading network and by launching the GEN Control Centre (hereinafter: GEN CC), the Group managed to optimize the production and trading inside both the GEN-I balance group and the GEN balance subgroup.

TRANSPORT

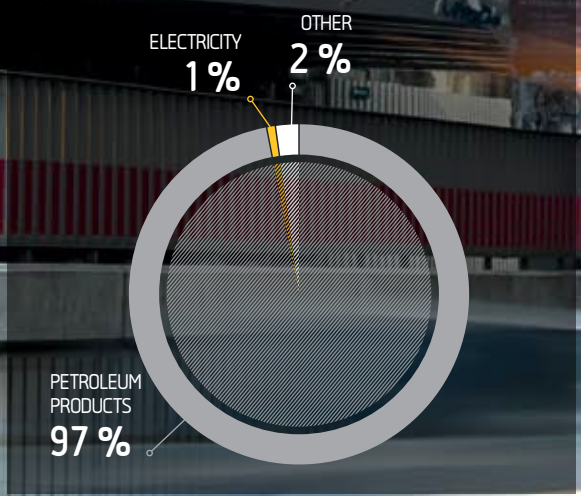
# Transportation, mobility, energy.

In Slovenia, **passenger and goods road transport** accounts for more than **95%** of the total transportation energy consumption.

In the future, are we going to be able to switch to cleaner energy sources for ensuring mobility, leading to the **electrification of transportation**? If we ourselves generate the electricity needed to power these vehicles and aircraft, **we will reduce our reliance on imported energy products**. And if this electricity comes from sustainable and renewable low-carbon sources, primarily nuclear and hydro, **we will also substantially reduce emissions of climate-warming greenhouse gases**.

TRANSPORTATION ENERGY CONSUMPTION IN SLOVENIA IS ROUGHLY
**32**
kWh/D/P.
MOST OF IT IS USED FOR CAR TRAFFIC AND ROAD HAULAGE.

TODAY OUR CARS, TRUCKS, BUSES, TRAINS, AIRPLANES AND MOTORCYCLES RUN ALMOST EXCLUSIVELY ON FOSSIL FUELS.




**95%**

OF ENERGY IS USED FOR PASSENGER AND GOODS ROAD TRANSPORT

**5%**

OF ENERGY IS USED FOR OTHER MODES OF TRANSPORTATION (BUSES, TRAINS, AIRPLANES, MOTORCYCLES)

# Business report of the company GEN and the GEN Group 2013

# 2.1 Economic trends and their impact on the electricity business and the GEN Group

The year 2013 started off with the lingering economic crisis and, more importantly, with electricity prices going down even further. It continued with the easing of tension in the financial markets and, consequently, lower borrowing costs for Slovenia, which resulted in declining competitiveness and a job crunch.

Economic recovery in Europe started to emerge as early as the second quarter of 2013. At the end of the year indicators suggested that Slovenia's economic activity is beginning to stabilize as well. In the third quarter of 2013 GDP decreased by a mere 0.6% compared to the 4.8% drop at the beginning of the year, and in the last quarter it actually increased by 2.1%. The main reason for this is strong exports; imports are gradually picking up, and trends in domestic spending, albeit shrinking, are encouraging.

As always, the labour market is slow to reflect the improved macroeconomic environment. The registered unemployment rate at the end of December was 13.5%. Some 124 thousand people were unemployed, which is up by 5% compared to the end of the preceding year. But the structure of Slovenia's labour market is a greater cause for concern than the rising unemployment numbers are. Most young people in employment only have temporary jobs. On the other hand, the labour market participation rate among older people is the lowest in the EU. So in order to speed up the country's economic recovery, the labour market will need to be reformed and, what is also vital, the problems of the banking sector addressed.

To stabilize the banking system, the Slovenian Government and the Bank of Slovenia adopted a set of measures, the most important being capital injections, buyouts and transfers of non-performing assets to the Bank Asset Management Company. The banking sector operations were primarily focused on reducing bank debt levels, which in turn caused lending activity to shrink substantially.

Due to a weak economy, the inflation rate steadied throughout the year, so the annual inflation rate stood at 0.7% at year-end. Compared to the beginning of the year, prices of consumer goods decreased by 1.7% on an annual basis as a result of lower prices of processed food and clothes, whereas the categories that saw the largest price increases in 2013 were electricity and public utility services, alcoholic beverages and tobacco.

Throughout 2013 Slovenia's energy circles were dominated by preparations for the new energy act, the construction of Šoštanj Thermal Power Plant Unit 6, and preparations for the construction of the fifth in a chain of six hydropower plants on the lower Sava River – Brežice HPP. Many challenges were raised by the dropping prices for electricity and natural gas as a result of oil price rises and a weak US dollar. Base load electricity prices in the intra-day markets averaged around EUR 40/MWh. The year was a turning point for another reason: a new emissions trading period started, when electricity producers will have to pay for their emissions in full.

Despite better economic trends and growing confidence, the prospects of seeing economic activity pick up in the years ahead are fairly uncertain and tied closely to the gradual recovery on an international scale, to the implementation of more sustainable systematic solutions for tackling the European debt crisis and the resulting stabilization of international financial markets.

# 2.2 Electricity production and ancillary services

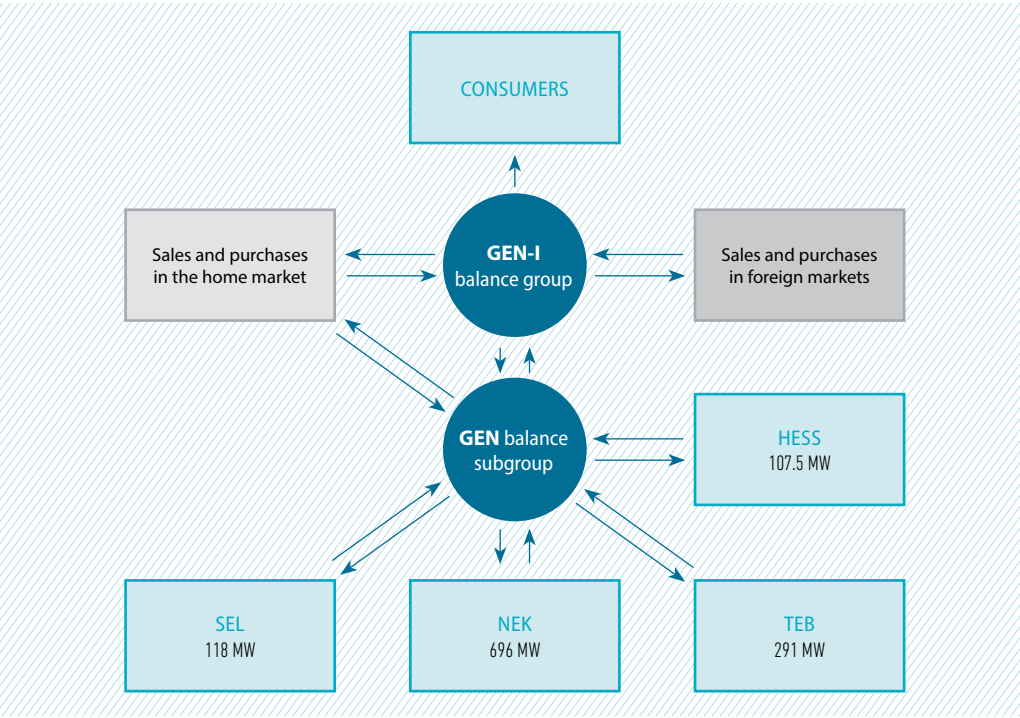
## ELECTRICITY PRODUCTION

The large production units in the GEN balance subgroup generated a combined total of 2,983 GWh of electricity in 2013. As much as 84.42% of the combined total was generated at the nuclear power plant. Hydroelectricity accounts for 15.40%, and 0.18% was generated at the natural gas-fired power plant. Thanks to the GEN Control Centre, which coordinates the operation of the entire GEN balance subgroup, the production units operated in sync, and the effects of any unpredictable events were effectively mitigated, which is clearly reflected in the Group's business results.

In addition to large production facilities, the GEN Group companies also own small-scale production units, which are operated and managed independently and excluded from the GEN balance subgroup. The GEN Group's small-scale production units generated a combined total of 1.3 GWh of electricity from renewable sources in 2013.

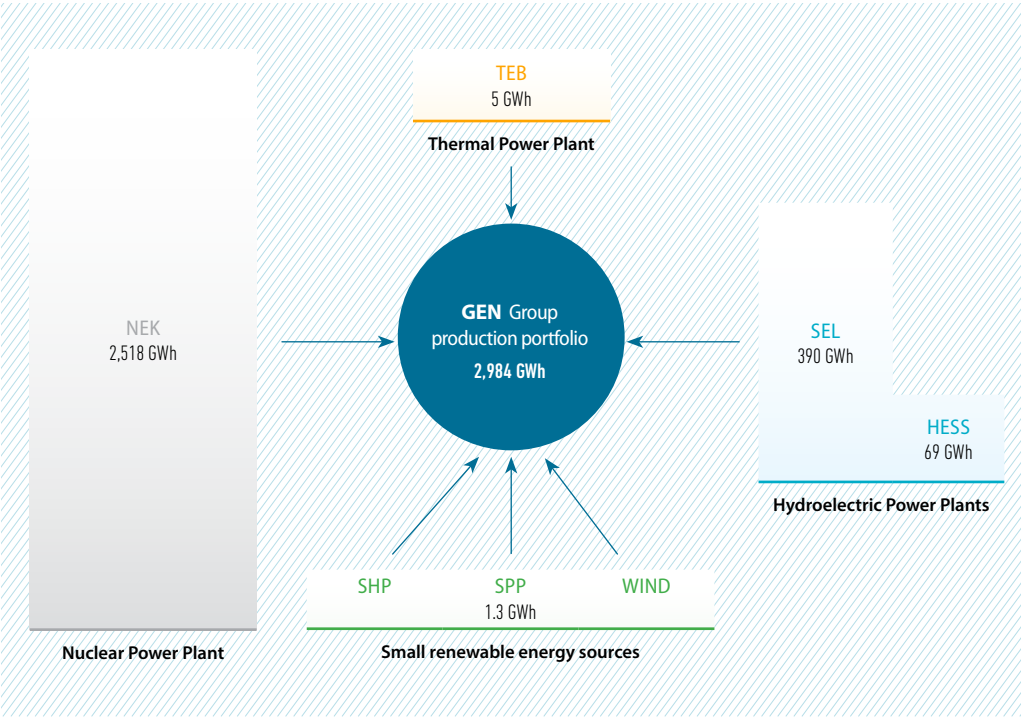
The company GEN has on the roof of its office building a micro photovoltaic power plant (GEN IC SPP) with a capacity of 40.32 kW and planned annual output of 40–45 MWh. GEN IC SPP generated 39 MWh of electricity in 2013.

Figure 2.1 **Diagram of interconnections within the GEN balance subgroup**



In 2013 the company GEN received a grant – operational support for the electricity generated from renewable energy sources – in the amount of EUR 11,224, which has been disclosed by the company GEN in accordance with Article 4 of the Transparency of Financial Relations and Maintenance of Separate Accounts for Different Activities Act (Official Gazette of the Republic of Slovenia, No. 33/2011).

Figure 2.2 **Electricity production in the GEN Group in 2013 (by source)**



## NEK

Krško Nuclear Power Plant (NEK), the largest production unit in the GEN Group, delivers base load power on the daily load curve throughout the year. Its 2013 electricity production output was 5,036 GWh. The amount of electricity that went to the GEN Group in accordance with the Intergovernmental Agreement on NEK was 2,518 GWh.

NEK's operations were significantly impacted by the regular annual maintenance outage, which took place between 01/10/2013 and 19/11/2013. The maintenance outage took 14 days and some eight hours longer than was initially planned, mostly due to reconditioning work on the damaged nuclear fuel. The most important activities performed during the outage were maintenance work, e.g. replacement of 56 fuel assemblies, and technological upgrades, which included 30 planned modifications. Also completed were the first two major projects under the Safety Upgrade Programme. All the completed activities provide a sound footing for the power plant's safe and reliable operation in the next, 27th fuel cycle, scheduled to run until April 2015.

NEK also experienced two automatic shutdowns. The first shutdown occurred between 25/02/2013 and 03/03/2013 due to a broken isolation valve spindle on the main steam line in the power plant's secondary circuit, and the second one, effective from 23/11/2013 to 25/11/2013, resulted from an improper response of the electronics of the reactor protection system connected to the newly deployed reactor coolant temperature control system.

During the shutdowns, GEN supplied NEK with 6.5 GWh of electricity for on-site use.

Table 2.1 **NEK electricity production (GWh)**

| Month | Result 2013 | Result 2012 | Ratio |
|---|---|---|---|
| January | 260 | 258 | 1.0060 |
| February | 205 | 238 | 0.8613 |
| March | 235 | 255 | 0.9236 |
| April | 251 | 106 | 2.3592 |
| May | 259 | 24 | 10.7182 |
| June | 248 | 247 | 1.0041 |
| July | 251 | 251 | 1.0012 |
| August | 249 | 248 | 1.0049 |
| September | 246 | 248 | 0.9945 |
| October | 0 | 239 | 0.0010 |
| November | 60 | 249 | 0.2418 |
| December | 254 | 259 | 0.9787 |
| **TOTAL** | **2,518** | **2,622** | **0.9605** |

## SEL

Within the national power grid, SEL's production units are primarily designed to deliver electricity on the daily load curve while allowing the possibility of utilizing accumulation for carrying night-time energy over into daytime. The hydroelectric power plants on the Sava River are mainly run-of-the-river-type facilities with daily water accumulation, which means they can participate in system-wide frequency control on a day-to-day basis in response to unevenly distributed load curves (at different times of the day). Moste HPP is the only hydroelectric power plant with a weekly storage facility in Slovenia. This means it can participate in system-wide frequency control on a weekly basis in response to unevenly distributed load curves (on different days of the week – weekdays, bank and public holidays).

In 2013 the combined output of SEL large-scale hydroelectric power plants was 390 GWh, which is a 36.52% increase over the previous year. The higher production output compared to the previous year can be attributed to increased water levels of the Sava River.

The small-scale hydroelectric power plants (SHPs) generated 0,579 GWh of electricity in 2013, up by 31.38% from the previous year. The photovoltaic power plants (SPPs) produced 0,605 GWh of electricity, which is 8.32% less than the year before.

Committed to generating electricity from renewable sources, SEL also owns a small wind turbine with a capacity of 2.2 kW and planned annual electricity output of 2,750 kWh. The electricity generated this way is used as a power supply for backup lighting. SEL also owns a cogeneration, or combined heat and power (CHP), plant in Medvode. With a planned output of 18 MWh, the plant generated 26 MWh of electricity, enough to meet the heating needs of the entire SEL office building.

In 2013 the company SEL carried out all scheduled refits and inspections of its generating units and replaced the grid-connected transformer at Mavčiče HPP.

Table 2.2 **Large-scale HPP electricity production (GWh)**

| Month | Result 2013 | Result 2012 | Ratio |
|---|---|---|---|
| January | 26 | 14 | 1.8861 |
| February | 22 | 8 | 2.6558 |
| March | 37 | 8 | 4.9331 |
| April | 54 | 24 | 2.2814 |
| May | 58 | 25 | 2.3163 |
| June | 34 | 23 | 1.4884 |
| July | 17 | 20 | 0.8322 |
| August | 14 | 12 | 1.1696 |
| September | 23 | 25 | 0.9075 |
| October | 26 | 32 | 0.7930 |
| November | 50 | 54 | 0.9246 |
| December | 31 | 42 | 0.7341 |
| **TOTAL** | **390** | **286** | **1.3652** |

Table 2.3 **Electricity production by large-scale HPP (GWh)**

| HPP | Result 2013 | Result 2012 | Ratio |
|---|---|---|---|
| MOSTE HPP | 75 | 59 | 1.2734 |
| MAVČIČE HPP | 84 | 64 | 1.3203 |
| MEDVODE HPP | 95 | 70 | 1.3556 |
| VRHOVO HPP | 135 | 92 | 1.4624 |
| **TOTAL** | **390** | **286** | **1.3652** |

Table 2.4 **SHP and SPP electricity production (GWh)**

| SHP and SPP | Result 2013 | Result 2012 | Ratio |
|---|---|---|---|
| MAVČIČE SHP | 0.362 | 0.330 | 1.0966 |
| VRHOVO SHP | 0.113 | 0.111 | 1.0217 |
| BOROVLJE SHP | 0.104 | 0 | - |
| **SHP total** | **0.579** | **0.441** | **1.3138** |
| MAVČIČE SPP | 0.070 | 0.082 | 0.8505 |
| MEDVODE SPP | 0.059 | 0.070 | 0.8429 |
| MEDVODE 2 SPP | 0.021 | 0.028 | 0.7527 |
| VRHOVO 1 SPP | 0.076 | 0.088 | 0.8617 |
| VRHOVO 2 SPP | 0.379 | 0.392 | 0.9681 |
| **SPP total** | **0.605** | **0.660** | **0.9168** |
| **TOTAL** | **1.184** | **1.101** | **1.0758** |

## TEB

The amount of electricity generated at TEB largely depends on the power plant's backup operation for the purposes of intervention in the event of failures of larger units in the national power grid. When conditions in the electricity market are favourable, however, a portion of TEB's production is also offered in the market. TEB generated 5 GWh of electricity in 2013. But since GEN supplied TEB with electricity from other production units in the GEN balance subgroup in order to meet TEB's on-site energy needs, TEB's net production was 0.4 GWh.

Most of the electricity was generated for commercial and testing purposes; still, to operate the power plant any more than was necessary would be economically unjustifiable due to low electricity prices. In terms of tertiary frequency control interventions, a total of 11 activations were recorded in 2013: 12 start-ups of individual gas units at TEB and 4 start-ups at SEL. The combined output of these interventions was slightly above 0.5 GWh. TEB's low production output points to the fact that the other production units in the GEN balance subgroup as well as in the entire power grid operated securely and stably, so running TEB for backup was not necessary.

Successfully and on schedule, TEB completed its regular annual inspections of all gas units, during which steam generators were removed and measurements and visual inspections of equipment and instrumentation carried out as per maintenance plan. Nothing out of the ordinary was identified during the refit and inspections, apart from the growing issue with the three old gas units, PB1, PB2 and PB3, in the sense that spare parts (particularly instrumentation) are getting increasingly harder to procure.

Table 2.5 **TEB electricity production (GWh)**

| Month | Result 2013 | Result 2012* | Ratio |
|---|---|---|---|
| January | 1 | 0 | 1.5866 |
| February | 0 | 2 | 0.1188 |
| March | 0 | 1 | 0.5936 |
| April | 0 | 0 | 0.8695 |
| May | 0 | 0 | 0.7285 |
| June | 0 | 0 | 0.6710 |
| July | 0 | 0 | 0.9072 |
| August | 0 | 1 | 0.2335 |
| September | 0 | 0 | 1.0033 |
| October | 0 | 3 | 0.0594 |
| November | 0 | 1 | 0.3215 |
| December | 2 | 1 | 3.0533 |
| **TOTAL**** | **5** | **10** | **0.5041** |

* Also includes the share of electricity from HESS that belongs to TEB; pursuant to the HESS Memorandum of Association, it is included in the GEN balance subgroup, then sold on to TEB. In 2013 this share is no longer accounted for under this item.

** Does not sum to total due to rounding.

## HESS

In accordance with the amended Rules on the Operation of the Electricity Market, a meter point can belong to several balance groups. As a result, GEN is entitled to manage margins totalling 15.4% of HESS electricity production for its own account. The GEN Group has a major say in other processes in HESS as well, as it not only invests financial resources into the construction and maintenance but also provides staff training in the maintenance of HESS production facilities.

GEN received 69 GWh of electricity from HESS in 2013, which accounts for a 186.35% realization compared to the previous year and is the result of favourable hydrology and the operation of a new hydroelectric power plant in the chain – Krško HPP.

Table 2.6 **Electricity supplied from HESS (GWh)**

| Month | Result 2013 | Result 2012 | Ratio |
|---|---|---|---|
| January | 5 | 2 | 2.5870 |
| February | 5 | 1 | 4.7094 |
| March | 9 | 1 | 7.0924 |
| April | 10 | 3 | 3.3785 |
| May | 9 | 3 | 2.8935 |
| June | 5 | 3 | 1.7523 |
| July | 2 | 2 | 1.2820 |
| August | 2 | 1 | 1.7875 |
| September | 4 | 3 | 1.2465 |
| October | 4 | 4 | 1.0859 |
| November | 9 | 7 | 1.3260 |
| December | 5 | 8 | 0.6766 |
| **TOTAL** | **69** | **37** | **1.8635** |

## ANCILLARY SERVICES

Due to its remarkably stable operation and ability to generate large amounts of reactive power, NEK also plays a key support role in the balancing of critical operational and voltage conditions in the electric power grid within the European UCTE (Union for the Coordination of Transmission of Electricity) system.

SEL units provide tertiary frequency control and reactive power and have black-start capability, which means their generating units can be started up without external power supply.

TEB's principal function within Slovenia's electric power grid is to provide ancillary services (tertiary frequency control, capability to perform secondary frequency control by operating the larger gas unit, black-starting generating units, and delivering an independent and direct power supply to NEK). Playing a special role, TEB's systems, wiring, piping and installations all operate under specific, harsh operating conditions, with many start-ups and a small number of operating hours, which calls for a specific approach to maintenance.

# 2.3 Electricity purchasing

Figure 2.3 **Electricity purchased by the GEN Group (GWh) – 50% consolidation of GEN-I and NEK**

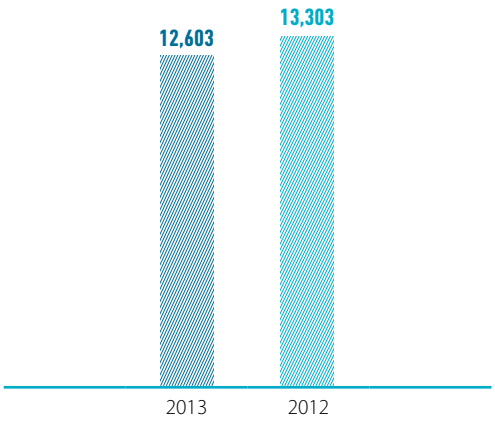
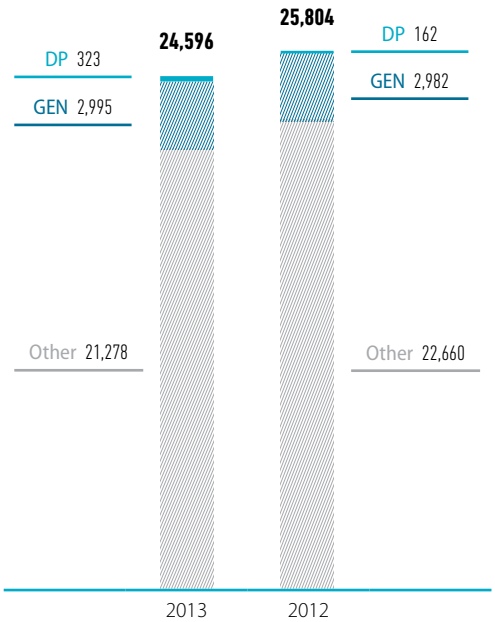



Figure 2.4 **GEN Group companies' electricity purchases (GWh)**




The purchase portfolio of the GEN Group comprises electricity generated in the Group's own production units and electricity purchased from other sources. Nuclear energy is the dominant source of electricity generated by the Group's own production facilities. A significant share in the composition of the portfolio is also occupied by renewable energy sources and the capability of providing ancillary services, particularly tertiary frequency control.

The purchase side of the GEN Group's portfolio, which includes the Group's own production units, has been expanded with other domestic and foreign producers and energy brokers. The GEN Group is fully qualified to meet the requirements of both large and small consumers thanks to its comprehensive range of broking services for electricity market sales, from intra-day to years-long trades. It is the resulting flexibility that allows the Group to purchase electricity from different types of producers. In this respect, a particularly strong emphasis is placed on qualified producers (hereinafter: DP) possessing a valid declaration for their production unit.

The volume of electricity purchased in 2013 was slightly lower than it was the year before, specifically by 5.26%, with only half the amounts of electricity purchased by the companies NEK and GEN-I being taken into account due to the companies' proportional consolidation.

For the sake of clarity, the electricity purchase and sales volumes presented below take into account the proportional consolidation of NEK and recognize the total amounts for GEN-I.

The GEN Group companies purchased a combined total of 24,596 GWh of electricity, which is down by 4.68% from the previous year. This includes 323 GWh purchased from DP and 2,995 GWh provided by GEN from its own production units. The rest of the electricity purchase side of the portfolio refers to supplies from the GEN-I trading division.

# 2.4 Electricity trading and sales

Electricity trading and sales stayed firmly on course in 2013. An ever-increasing amount of electricity from our own sources was being sold through our in-house know-how and competences. The GEN Group is an effective and efficient electricity trader, with a cross-border wholesale trading infrastructure that gives the Group access to all the necessary pricing data and information needed to ensure that its production resources are fully utilized.

In order to maximize production resources and to ensure a safe, steady and quality supply of electricity to consumers, day-ahead and intra-day electricity trading were implemented in 2008. In 2013 the Group continued to sell excess electricity and to buy electricity to make up for shortfalls in cooperation with the GEN Control Centre.

When it comes to selling electricity, the connection between GEN and GEN-I is a crucial one. The underlining feature of the relationship between the two is that GEN-I sells electricity for GEN under clearly defined terms and conditions. In this context, GEN primarily supplies base load electricity, while GEN-I provides the necessary modulation so that the GEN Group is able to match its service precisely to customers' wishes. Most of GEN's annual electricity output gets sold based on the company's annual sales strategy, which is approved by the GEN Supervisory Board. To be able to provide exactly the right amounts

Figure 2.5 **Geographic presence of the GEN Group**

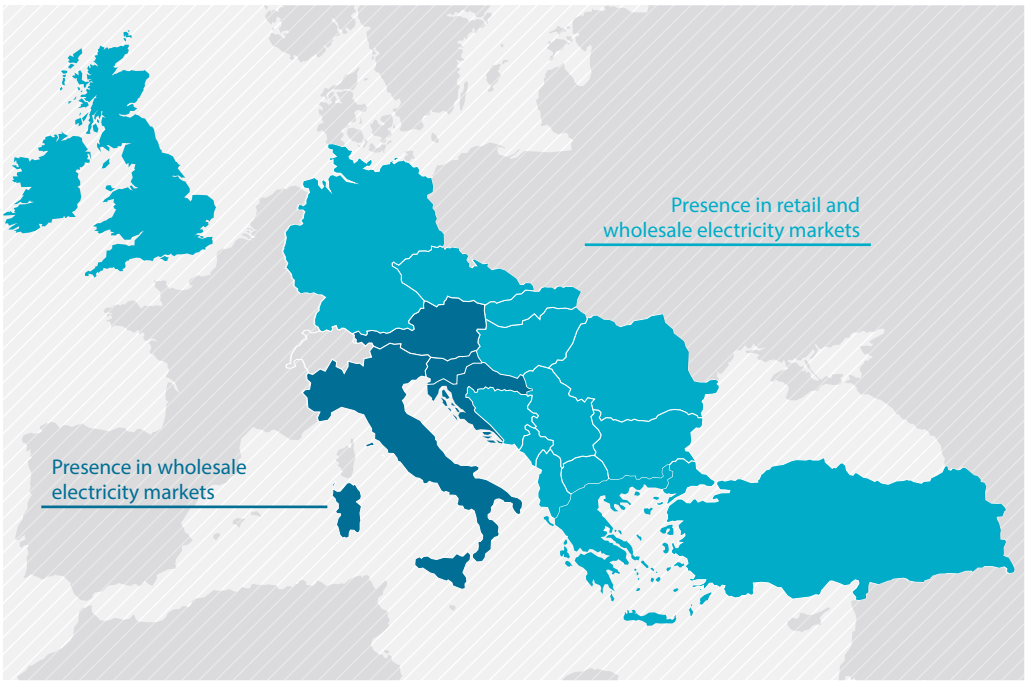
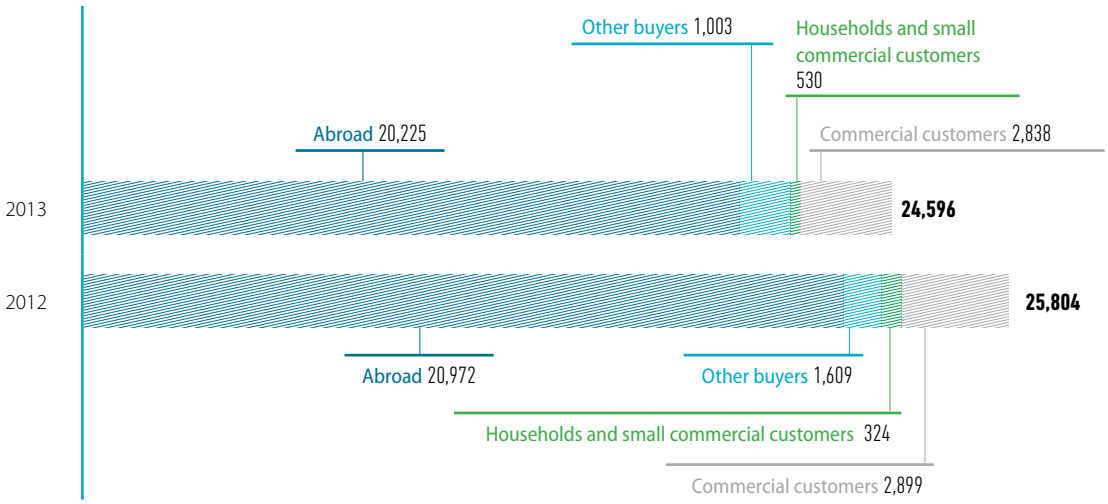



Figure 2.6 **Electricity sold by the GEN Group (GWh)**



of electricity on a day-to-day basis as per signed contracts and to optimize sales, the Group makes short-term purchases of electricity or sells excess electricity, whichever is applicable.

## TRADING

24,596 GWh of electricity was traded in 2013, which is a mere 4.68% decrease from 2012. Our economy of scale has increased as we entered new markets, and instruments have been put in place and all required authorizations obtained for comprehensive management of excess electricity and electricity shortfalls as provided for agreements on purchasing electricity from production sources and on supplying electricity to consumers.

Slovenia is our most important retail market, but the increasingly large balance group is being expanded and coordinated through trading activities in the neighbouring markets. The major buyers' markets, and seller's markets at the same time, are Germany, Austria, Hungary, Italy and Slovenia, followed by Macedonia, Greece and Turkey. The Group's subsidiaries are the keystones of expansion into foreign markets as they possess all the required authorizations, competences to adapt to distinctive local circumstances, and a proper trading infrastructure.

## SALES

The increase in electricity retailing volumes and our entry into the household supply segment are proof that our products, with varying degrees of risk for the customer and ranges of services offered, have seen further development. The GEN Group's customers include large corporations, as well as small and mid-sized businesses and households.

With the already established individual management of the portfolio on the basis of its own knowledge and infrastructure, GEN Group was successful in servicing existing customers as there was virtually no recorded loss of customers. This enabled the GEN Group's partners to take the best possible advantage of fluctuations in the electricity market. At the same time, the GEN Group's sales to consumers went up on the back of its highly competitive offerings, despite fierce competition in the electricity market.

The GEN Group was a major player in the segment of electricity sales to consumers in Slovenia in 2013, with an estimated overall market share of 28%. The GEN Group is also actively engaged in supplying electricity to consumers abroad. The key markets in this respect in 2013 were Croatia and Austria, followed by Italy. The experience gained this way is also effectively used for ensuring rapid development and for identifying new opportunities for retailing elsewhere, particularly in the markets of Southeast Europe.

The GEN Group companies sold the bulk of their electricity, specifically 20,225 GWh, in foreign markets. 4,371 GWh of electricity was sold in the home market. Most of it was sold to commercial customers: 2,838 GWh. Compared to the previous year, the volume of electricity sold to households and small commercial customers went up from 324 GWh to 530 GWh, while there was a slight decrease in sales to other customers, to whom GEN sold electricity also for the purpose of reselling to household consumers.

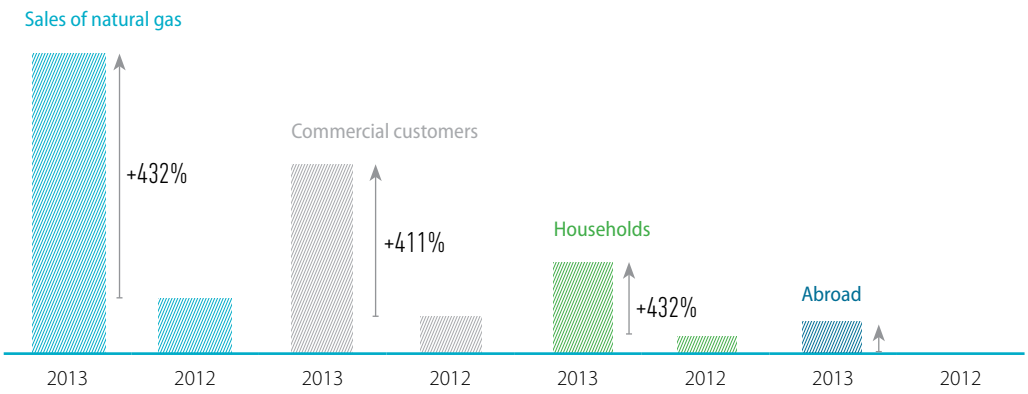
# 2.5 Sales of natural gas

Sales of natural gas in the GEN Group is conducted by the subsidiary GEN-I, which secured a 9% market share in as few as two years since entering the market, becoming the second largest supplier of natural gas in Slovenia.

GEN-I purchases natural gas abroad, where it has spread its sources for purchasing natural gas among the most recognizable and proven West European partners. GEN-I also entered the foreign market for natural gas in the last quarter of 2013, yet most of the gas still gets sold in Slovenia. 73.8 million $Sm^3$ of natural gas was sold in the home market, of which 65% to commercial customers and the rest to households.

Since entering the market and until the end of 2013 the number of households receiving natural gas from GEN-I under its "Cheap Gas" brand has increased to 16,800. The number of all consumers of natural gas topped the 18 thousand mark.

Figure 2.7 **Sales of natural gas in the GEN Group**



# 2.6 R&D, capital expenditures and investments of the GEN Group

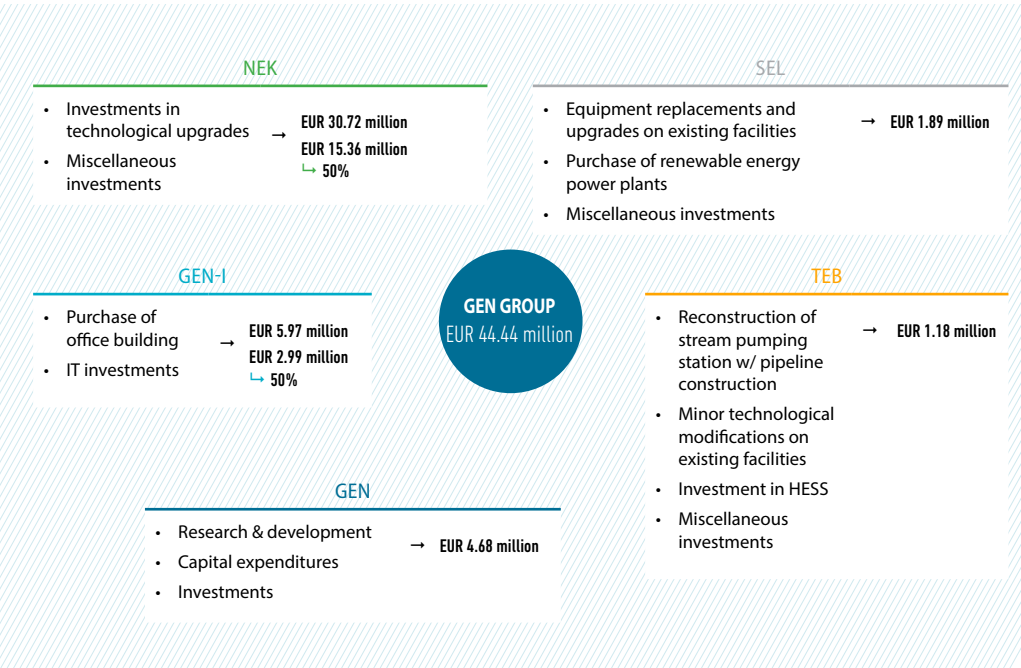
The areas of research and development and investments are essential to the long-term operating stability and future growth of individual companies and the GEN Group as a whole. The financial resources allocated to this end totalled EUR 44.44 million in 2013. Taking into account the rules of consolidation, the value of investments in the GEN Group stood at EUR 26.09 million.

## INVESTMENTS AND DEVELOPMENT IN THE PARENT COMPANY

The company GEN spent EUR 4.68 million on research and development and investments in 2013.

Since the company's profits are the most important source of financing, the outlined capital investments were for the most part paid for out of profits from the current and previous years. In addition, EUR 1.33 million from depreciation was used as an alternative source of funding.

Figure 2.8 **R&D, capital expenditures and investments of the GEN Group companies in 2013 (in EUR million)**



## Project to expand the production capacity – JEK 2

In October 2006 the Government of the Republic of Slovenia adopted the Resolution on Key National Development Projects for the Period from 2007 to 2023 and included among measures and projects supporting sustainable development of Slovenia the option of constructing a second nuclear reactor unit of Krško Nuclear Power Plant (hereinafter: JEK 2). In doing so, the Government of the Republic of Slovenia expressed a clear interest in, and direction for, shaping the future of energy in Slovenia.

The situation concerning electricity supply in Slovenia has intensified in recent years. As gross domestic product grew and the standard of living moved closer to that of developed EU Member States, power consumption increased. Because domestic production could no longer keep up, Slovenia experienced a shortage of electricity as high as 25%. In terms of electricity supply, Slovenia was becoming increasingly dependent on imported electricity. With the global economic crisis, which broke out in 2008 and still persisted in 2013, the situation changed drastically; however, it is estimated that the decline in electricity consumption levels will only be short-lived and that, once the economy begins to recover, the levels will again climb in line with long-term trends and expectations.

Also, Slovenia is facing the problem of relatively old energy-production facilities, which are going to have to be eventually replaced with new ones. At the same time we are growing increasingly aware of environmental impacts and of the importance of adhering to the EU climate and energy package. All this calls for a thorough consideration of the option to expand the production capacity of Krško Nuclear Power Plant by adding a new reactor unit, as foreseen by the draft National Energy Programme (hereinafter: NEP), which was released for public review and cross-border

Table 2.7 **R&D, capital expenditures and investments of the company GEN in 2013 (in EUR million)**

| | Result 2013 | Result 2012 | Ratio |
|---|---|---|---|
| **RESEARCH & DEVELOPMENT** | **1.85** | **1.15** | **1.6123** |
| JEK 2-related studies | 1.69 | 1.09 | 1.5543 |
| Other studies | 0.16 | 0.06 | 2.6127 |
| | | | |
| **CAPITAL EXPENDITURES** | **1.81** | **2.91** | **0.6234** |
| NPP production capacity expansion | 1.43 | 2.50 | 0.5701 |
| Miscellaneous investments | 0.39 | 0.41 | 0.9512 |
| | | | |
| **INVESTMENTS** | **1.01** | **2.76** | **0.3657** |
| HESS construction project | 1.01 | 0.76 | 1.3333 |
| Acquisition of capital shares, capital injections | 0.00 | 2.00 | 0.0000 |
| **TOTAL** | **4.68** | **6.82** | **0.6860** |

impact assessment in 2011. In it, long-term preservation of electricity production at Krško Nuclear Power Plant is a viable option across all scenarios. According to the various draft NEP scenarios, this would be achieved by extending the life of the existing power plant and by building a new nuclear power plant, and by simultaneously running both of them, the existing and the new one. The installed capacity of the planned second reactor unit would be somewhere in the range of 1100–1600 MWe. According to NEP, the construction of the new unit and connection to the power grid would be completed between 2020 and 2030.

Several subprojects and activities are currently underway as part of the preparation and strategic decision-making stage of the JEK 2 project, which is divided into five stages:

- **STAGE 1 – Preparations and strategic decision-making**, which encompasses strategic, political decision-making on the future development of Slovenia and the country's energy policy;
- **STAGE 2 – Location selection and confirmation**, which encompasses an administrative procedure for obtaining permits and licences and for siting a new nuclear facility, with the aim of confirming the suitability of the location for the construction of JEK 2 based on the passed Decree on the National Spatial Plan and the issued environmental protection approval for the facility;
- **STAGE 3 – Decision-making on the JEK 2 investment**, which encompasses a supplier selection procedure, the search for potential investors for JEK 2, and the obtaining of a building permit;
- **STAGE 4 – Construction of JEK 2**;
- **STAGE 5 – Operation of JEK 2**;

All project analyses as well as viability and feasibility studies needed to kick off the decision-making process at the national level have already been conducted during the planned preparations for the expansion of Krško Nuclear Power Plant production capabilities. A large number of studies, analyses and activities with regard to the JEK 2 project have been carried out in 2013, the most important being:

- Geotechnical, geological and seismological location studies for JEK 2,
- Sensitivity study as part of the probabilistic risk assessment in the event of a fault slip,
- Flood risk category for JEK 2,
- Characterization of the Libna structure,
- Monitoring the network of seismic stations,
- Translation of the legislative location and siting procedure.

In 2014 we will continue with the technical and expert analyses, siting optimization analysis, construction optimization studies, and preparations for the JEK 2 project, and we will also gradually start with new key activities, which include detailed technical analyses to optimize the technology selection procedure, updated economic analyses to support business decisions, and the basics of design engineering a nuclear power plant. These fall into the following groups:

- Obtaining of permits and licences,
- Studies into the planned location of JEK 2,
- Development and analyses of the project area, processes, technological solutions and project engineering for JEK 2,
- Economic and financial analyses,
- Environmental report,
- Security report,
- Collaboration with organizations involved, in some way or another, in the preparation to

build or the actual construction of the nuclear power plant,

- Other activities that (may) have a direct or indirect impact on the preparation or implementation of the JEK 2 project.

In the area of research and development related to JEK 2, EUR 1.69 million worth of various studies and analyses were conducted in 2013. EUR 1.08 million is planned to be spent to this end in 2014.

In accordance with its business plan, GEN bought land and completed the construction of new housing for the relocated people from the village of Vrbina. The cost of the land and replacement housing was EUR 1.43 million. Through these activities GEN will help create a stronger symbiosis between the existing nuclear power plant and the population, local businesses and authorities, and at the same time increase its chances of going ahead with the project to expand the nuclear production capacity.

The accident at the Fukushima Daiichi nuclear power plant severely undermined the previously established credibility of nuclear technology, nuclear safety and the nuclear engineering community. Still, in many countries (USA, UK, Finland, Poland, Sweden, France, China, India) the general public is still in favour of building new nuclear power plants. In these countries there is a common belief that the benefits of nuclear energy outweigh its risks, especially compared to other technologies. So, nuclear energy enjoys wide support among the general public as well. This realization also supports the future use of nuclear energy in line with well-established standards of stable, reliable and affordable energy, as nuclear technology is one of the most environmentally acceptable energy generating technologies.

An application to obtain an energy licence, the first document in line in the decision-making process, was submitted to the Ministry of the Economy in 2010. The application was complete with all the required supplemental documentation and underpinned by a comprehensive, revised prefeasibility study. Also enclosed was an opinion of principle issued by ELES on the connection of the planned facility to the transmission system of the Republic of Slovenia.

The project has entered a stage where, in order for it to continue, the owner will have to make a clear decision to go ahead with the construction of JEK 2 and to kick off the siting and location process. To date, all the expert studies in the context of the JEK 2 project that will allow a well-grounded, broader political and social discourse on the future of energy in Slovenia and on the future role of nuclear energy have been successfully completed.

## Miscellaneous investments

The development of the GEN Group also commits the parent company to making other capital expenditures and investments important for its future operation. In 2013 GEN spent a total of EUR 0.39 million on capital expenditures and IT investments.

## HESS construction project

With the transfer of the right to an interest in the HESS Joint Venture on 01/01/2008, GEN became a direct stakeholder in the project for the construction of hydropower plants on the lower Sava River (HESS construction project). Allocation of funds for HESS is provided for in the Memorandum of Association, and the exact amounts are decided

by the company's annual general meeting.

GEN started to provide funding for the HESS construction project in June as planned and, based on its existing 12.6% stake, paid a total of EUR 1.01 million in 2013.

### SRESA

The company's planned investment outlay for 2013 was EUR 0.40 million. As all work is carried out by HSE as the concession holder, the company GEN incurred no capital outlays; still, both GEN and SEL take active parts in coordination meetings, in the preparation of all important documents and in the planning of additional investments for this particular project.

Also underway in 2013 were negotiations with the concession authority on the concession agreement for harnessing the energy potential in the middle course of the Sava River.

### Acquisition of capital shares, capital injections

In the third quarter of 2013 the company GEN planned to acquire new stakes in electricity trading companies or companies engaged in electricity sales and purchases: GEN-I and HESS. Negotiations on these acquisitions are underway, yet no final agreement was reached in 2013.

## INVESTMENTS AND DEVELOPMENT IN SUBSIDIARIES

All the companies in the GEN Group maintain a high level of availability and operational reliability on account of regular maintenance and ongoing capital investments. Appropriate control, maintenance and modernization ensure operational readiness of the systems at all times.

### NEK

NEK pursues the established strategy for nuclear power plant operators, which entails making ongoing investments in technological upgrades and modernization. The established way of doing things is to make five-year investment plans, and the average annual value of investments in technological modernization is around EUR 35 million. Because of the natural disaster in Japan that took its toll on the Fukushima Daiichi nuclear power plant, and based on the results of stress tests, which revealed the need to make additional modifications to NEK, the value of capital investments is well expected to increase. These capital investments need to be provided to NEK by its partners under the Intergovernmental Agreement on NEK.

NEK continued to undergo comprehensive technological modernization in accordance with its long-term investment programme. Investments in 2013 totalled EUR 30.72 million. A large number of upgrades were carried out both during regular operation at full capacity and during the scheduled maintenance outage, and also completed were the first two major projects under the Safety Upgrade Programme. The central activities undertaken were:

- BB2 safety upgrade,
- CVFS and PAR safety upgrades,
- Optimization of RTD bypass lines,

- Reconstruction of the handling area between the auxiliary building and the radioactive waste storage building,
- Replacement of the main GT2 transformer,
- Replacement of ECCS valves for regulating SI flow rates, and
- Safety upgrade of the steam-driven backup feed pump.

Investments in technological upgrades in 2014 will continue to be based on administrative requirements and operational experience to ensure a high level of operating safety and stability of the power plant. The outlay earmarked for this purpose totals EUR 57.92 million and will be fully funded through depreciation allowances.

## SEL

SEL consistently carries out periodic major maintenance work on its facilities and makes intense development efforts in terms of tapping renewable energy sources. In 2013 SEL spent EUR 1.89 million in depreciation allowances and other own resources on investments and development.

The most important part of SEL's investing activity in 2013 was the replacement of grid-connected transformers at Mavčiče HPP. A contract for the delivery and installation of step-up transformers was signed with the selected supplier. The first transformer passed an internal technical inspection before being put into operation on 26/09/2013, and the delivery deadline for the second transformer is March 2014.

## TEB

TEB focuses its investment and development efforts chiefly on further developing its existing processes while expanding its scope of activity into other areas as well. A total of EUR 1.18 million from TEB's own resources went into investments and development in 2013.

## GEN-I

GEN-I's development in the areas of sales and trading in 2013 was a step up from previous years. The company spent a total of EUR 5.97 million on investments and development. A major portion of the financial resources was spent on the office building purchase, and the rest for IT equipment, an essential component to ensure that trading and sales applications run smoothly, as well as for other fixed assets vital to the company's operations.

# 2.7 Financial operations

Despite the country's difficult economic situation, the companies had no problem at all meeting their financial and trade liabilities within applicable contractual terms of payment. On the receivables from customers side, everything went smoothly.

While the GEN Group companies meet their financing obligations mostly through depreciation allowances, GEN's main source of funding used for this purpose is the profit it generates.

The financial operations of the company and the Group are, alongside obligations of controlled and jointly controlled companies, also significantly influenced by the commitments GEN has entered into upon founding that originate in the Intergovernmental Agreement on NEK. Under this agreement, GEN not only received the right to one-half of the electricity produced by NEK but also assumed the responsibility to pay back the loans taken out for its construction, to meet its financial obligations to the NEK Fund, and to secure funding to compensate for fixed costs in the event of unplanned outages of NEK.

## SERVICING OPERATIONS AND BORROWING

One of the fundamental functions of financial operations in 2013 was the planning of an adequate level of liquid assets in order to ensure solvency. A major part in ensuring solvency is played by obligations arising from the supplied electricity and power. Particularly important is the obligation to cover NEK's fixed costs, which is one of the principal leverages for our prompt settlement of GEN's liabilities and for the optimization of surpluses and shortfalls among the companies in the GEN Group. Appropriate liquidity was also ensured through consistent collection of past-due receivables. This aspect is particularly relevant in the case of GEN-I, but since GEN-I has this issue well taken care of with contractual terms and conditions, no major problems have been encountered to date.

Borrowing activities were focused on securing sufficient funding both for short- and long-term operations. All the companies in the Group take out loans for their own account. GEN and the companies in which it holds a controlling interest are obligated to undertake borrowing activities in compliance with the Regulation on Borrowing Conditions and Procedures under Article 87 of the Public Finance Act (Official Gazette of the Republic of Slovenia, No. 112/2009).

Short-term borrowing is most frequently undertaken by GEN-I in order to ensure sufficient liquidity in its electricity trading operations. In the past, this was done mainly in the form of loans, but in 2013 they entered for the first time the Slovenian capital market with the release of 360-day commercial papers and managed to secure the necessary financial resources to the tune of EUR 30 million from non-bank institutional investors.

Long-term borrowing is undertaken by the production companies primarily for the purposes of investments and major maintenance, whereas NEK also takes out loans to purchase fuel, whose lifetime spans more than one year due to the inherent nature of production. NEK was the only company in the GEN Group to take out a long-term loan in 2013; it was used for financing the replacement of the reactor head, application of welds on the pressurizer, and capital expenditures in technological upgrades.

The loans have been secured by bank guarantees. The financing liabilities were denominated in EUR.

## SETTLING LIABILITIES TO THE NEK FUND

Pursuant to the Intergovernmental Agreement on NEK, the Act on the Fund for Financing the Decommissioning of NEK and Disposal of Radioactive Waste from NEK (Official Gazette of the Republic of Slovenia, No. 75/1994 and amendments thereto), and the Decision of the Government of the Republic of Slovenia No. 311-01/2001-21 of 07/10/2004, the company GEN is obligated to pay, on a regular basis, into the NEK Fund a contribution in the amount of EUR 3€/MWh for each MWh of electricity produced by NEK. EUR 7.56 million was paid into the NEK Fund in 2013.

## SECURING FUNDING FOR COVERING NEK'S FIXED ANNUAL COSTS

Under the Intergovernmental Agreement on NEK, the company GEN is obligated to cover NEK's fixed costs incurred over a period of one year regardless of whether NEK is in or out of service. Since NEK is the dominating production unit in the GEN Group, which means the performance and operations of the Group are heavily dependent on NEK's production, the Group is exposed to considerable risks even in the event of short outages of the power plant. To secure the funding necessary for covering NEK's fixed costs, the company GEN decided as early as 2004 to make long-term provisions for the amount of one-half of NEK's annual fixed costs (the other half is to be covered by the other co-owner of NEK).

## INVESTING SURPLUS CASH

### Investing activities for provisioning

On 16/05/2007 the Supervisory Board of the company GEN assented to the GEN Energija Investment Strategy for Surplus Cash, which is earmarked for covering the amounts drawn from long-term provisions (hereinafter: Investment Strategy). These provisions are meant for covering NEK's fixed costs in the event of unplanned reductions in electricity production at NEK. The company followed its Investment Strategy and primarily placed its surplus cash in deposits with maturity ranging from one to six months. The deposited funds were spread over several different banks, with an average rate of return of 2.92%.

Spurred by the developments in the financial markets, GEN reviewed the surplus cash management practices in its subsidiaries and found that the companies in the Group rely on similar management methods with the aim of reducing the risks associated with such investments.

### Performance indicators

Pursuant to Article 70, paragraph 2 of the Companies Act (CA-1) and SAS 29, the indicators that best reflect the financial position or the suitability of the composition of assets and liabilities of the company and the Group are presented below.

The indicators show that the company is in a healthy financial position. The company is therefore ready to make new capital investments. In this respect, in view of the harsh economic situation and the owner's high expectations regarding ROI rates, it is crucial that the new investments follow these expectations as well.

Despite the downturn and less than favourable market conditions, the GEN Group companies achieved remarkable business results in 2013, which is also reflected in the performance indicators.

Table 2.8 **Indicators for the company GEN**

| Performance indicators | 2013 | 2012 |
|---|---|---|
| Equity financing rate | **81.34%** | 79.05% |
| Long-term financing rate | **96.48%** | 94.51% |
| Operating fixed assets rate | **3.15%** | 3.03% |
| Long-term investment rate | **78.85%** | 79.68% |
| Equity to operating fixed assets | **25.81** | 26.09 |
| Long-term financing of fixed assets | **1.20** | 1.16 |
| Immediate solvency ratio – acid test ratio | **4.63** | 2.58 |
| Quick ratio | **5.56** | 3.41 |
| Current ratio | **5.57** | 3.42 |
| Operating efficiency ratio | **1.11** | 1.12 |
| Net return on equity ratio | **0.04** | 0.04 |

Table2.9 **Indicators for the GEN Group**

| Performance indicators | 2013 | 2012 |
|---|---|---|
| Equity financing rate | **71.58%** | 70.87% |
| Long-term financing rate | **83.85%** | 84.38% |
| Operating fixed assets rate | **47.53%** | 51.15% |
| Long-term investment rate | **54.00%** | 59.95% |
| Equity to operating fixed assets | **1.51** | 1.39 |
| Long-term financing of fixed assets | **1.52** | 1.38 |
| Immediate solvency ratio – acid test ratio | **1.60** | 1.42 |
| Quick ratio | **2.52** | 2.47 |
| Current ratio | **2.99** | 3.07 |
| Operating efficiency ratio | **1.04** | 1.03 |
| Net return on equity ratio | **0.04** | 0.04 |

# 2.8 HR structure

## EMPLOYEES

The staff structure of the company GEN began to take shape in 2005 with the appointment of a CEO - director. Along with the growth of the GEN Group comes an increasing need for new people, and the Group is looking to optimize its recruitment process. The number of employees in the GEN Group is directly proportional to the Group's development and the challenges it entails. At 31/12/2013 the GEN Group employed a total of 1103 people.

The data in Table 2.10 refer to whole companies or the Group, not taking into account GEN's equity interests in individual companies and the rules of consolidation.

## SCHOLARSHIP RECIPIENTS

A shortage of suitable, qualified human resources has become increasingly acute around the country in recent years, and the situation is quite serious in the Posavje region as well. Individual companies are experiencing a shortage of specific human resources at various levels, particularly in the sphere of natural and technical sciences.

The ageing human resources in subsidiaries will need to be replaced, and all the companies are also faced with a growing demand for highly qualified people. Apart from replacing existing employees in subsidiaries, highly qualified people will also be essential to any future energy investments.

Table 2.10 **Number of employees by company and by level of qualification**

| | Result 31/12/2013 | | | | | | | | | | | Result 31/12/2012 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Level 4 | Level 5 | Level 6/I | Level 6/II | Level 7 | Level 8/I | Level 8/II | TOTAL | |
| GEN | 0 | 0 | 0 | 0 | 4 | 6 | 7 | 31 | 0 | 3 | **51** | 53 |
| GEN-I | 0 | 0 | 0 | 1 | 44 | 6 | 42 | 72 | 18 | 9 | **192** | 152 |
| NEK | 1 | 5 | 2 | 27 | 256 | 80 | 51 | 193 | 14 | 7 | **636** | 615 |
| SEL | 5 | 0 | 0 | 23 | 36 | 20 | 6 | 19 | 2 | 0 | **111** | 110 |
| TEB | 0 | 4 | 0 | 23 | 36 | 16 | 10 | 21 | 2 | 1 | **113** | 114 |
| **TOTAL** | **6** | **9** | **2** | **74** | **376** | **128** | **116** | **336** | **36** | **20** | **1103** | **1044** |

If Slovenia eventually decides to go ahead and expand its nuclear programme in Krško, the Group will be faced with a new challenge: recruitment of suitable human resources. Analyses have shown that investors in comparable nuclear facilities employ up to 300 people during construction, and the number amounts to 1600 and 1800 people, counting in all subcontractors.

The Group companies provide company scholarships and participate in the uniform, region-wide Posavje Scholarship Scheme. Scholarships under this scheme are awarded to secondary school and undergraduate students studying for professions that are the most sought after or in demand among employers, who must clearly define in the call for applications what kind of knowledge they are looking for. The number of scholarships awarded is subject to the amount of available public funds, developmental priorities and profession-specific prospects in a given developing region. 30% of a scholarship under the scheme is covered by the employer, the rest by the local community and the state.

At 31/12/2013 the company GEN had 8 scholarship recipients, and the GEN Group 41.

Table 2.11 **Number of scholarship recipients by GEN Group company**

| | Result 31/12/2013 | Result 31/12/2012 |
|---|---|---|
| GEN | 8 | 19 |
| GEN-I | 0 | 0 |
| NEK | 20 | 24 |
| SEL | 9 | 9 |
| TEB | 4 | 4 |
| **TOTAL** | **41** | **56** |

# 2.9 Social responsibility

In the Revised GEN Energija Development Plan, social responsibility is defined as a major factor in creating and maintaining a positive business environment.

Developing social responsibility at various levels is key to successful business, so in the GEN Group we differentiate between these aspects of social responsibility:

- overall social responsibility,
- environmental responsibility, and
- economic responsibility.

## OVERALL SOCIAL RESPONSIBILITY

With their operation and energy production sites, the GEN Group companies are tightly integrated into the local environment. From this integration with the environment stems the Group's overall social responsibility, whereby a special focus is placed on raising awareness of the energy industry and energy in general among the general public and on sponsorships and donations allocated to various areas.

### Raising energy literacy and interest in energy topics

GEN's interactive centre, **the World of Energy**, features exhibits, models and multimedia presentations for visitors to discover the world of energy, electricity and energy technologies. The centre features a special "Experiment Room," where visitors can conduct numerous experiments on their own and where demonstrators conduct attractive electrical experiments as part of themed workshops. The centre registered more than 19,120 visitors since its opening and until 31/12/2013.

The World of Energy is an innovative and instructive addition to the Posavje energy region and the whole country. The aim of the centre is to provide comprehensive information and explanations and interactive exhibits and experiments to bring energy technologies closer to visitors and to spark interest in natural and technical sciences among the young. Through communication on the relevant subjects new partnerships, cooperations and alliances are formed. An important part of activities taking place at the World of Energy is special once-monthly programmes or Saturday Workshops. The workshops feature special instructive material on various topics that draw numerous visitors, from school and expert groups to families and individuals.

The project titled "**The Young in the World of Energy**" deserves special attention among the Group's overall social responsibility projects. Run in cooperation with the countrywide Eco-School programme since 2008, the project is upgraded with new features every year. Apart from the countrywide competition for primary and secondary schools, we also organized – in association with NEK – the very first "Young Wizards!" quiz show on the topic of energy literacy. In the 2012/13 school year the competition was designed for 8$^{th}$ and 9$^{th}$ graders from Posavje region primary schools. In all, more than 255 pupils from 19 Posavje region schools registered to take part in the competition. The final quiz was held in April 2013.

Through the project "The Young in the World of Energy" GEN keeps in touch with teachers of physics, technical sciences, environmental protection, and natural sciences in general. Special workshops were organized and a knowledge pack for men-

tors was prepared to engage them even more, to help and guide them and to provide them with expert support in the run-up to the project and in the teaching process.

### Sponsorships and donations

The amount of funds earmarked for donations and sponsorships is determined in the annual business plan and does not exceed the amount of tax-deductible expenses. When apportioning funds, we place a special emphasis on the intended purpose of the funds and look at whether the funds are going to be used in the environments into which our individual facilities are integrated. The funds are given out for educational, scientific, sporting, cultural, charitable, health, ecological, humanitarian, disability, social security, religious and generally beneficial purposes, as well as for protection against natural and other disasters.

From a broad spectrum of sponsorships and donations given out in 2013, the following deserves special attention: our support for development and education projects and for the organization of various events, conferences, contests and competitions in the areas of energy industry, nuclear energy and renewable energy sources. For a number of years GEN has been working together with the Krško-based Faculty of Energy Technology, both on the organization of the annual expert conference EnRe and on other science projects. Aiming to promote a constructive debate on energy-related topics and to increase their understanding, GEN also backed numerous expert conferences, conventions and projects, for example the conference for nuclear experts "Nuclear Energy for New Europe 2013", the international energy literacy project EN-LITE, the 5$^{th}$ strategic convention "Energy Industry Innovations 2013", the expert conference "Energy Industry and the Environment 2013", and the 15$^{th}$ "Meeting of Energy Managers" conference, to name a few.

## ENVIRONMENTAL RESPONSIBILITY

In accordance with its environmental policy, the GEN Group has undertaken to produce electricity in an ecologically sound manner and to follow the Kyoto Protocol directives on reducing greenhouse gas emissions. Among the energy sources that can make this happen is also nuclear energy. And it is the nuclear energy generated at NEK that is essential for the successful and environmentally friendly operation of the entire Group.

Given the importance of nuclear energy for maintaining a low level of greenhouse gas emissions in Slovenia, the greatest emphasis is placed on ensuring effective risk management in the area of nuclear safety. Special attention is focused on ensuring and checking adherence with nuclear technology regulations and standards. To this end, it is important to keep abreast of best practices concerning nuclear safety around the world and of OSART Mission recommendations and to incorporate them into NEK. A great deal of attention is paid to equipment modernization and maintenance and to ongoing improvements to the safety culture and mentality of the company's employees. Owing to all the activities outlined above, NEK ranks in the top 25% of nuclear power plants worldwide in terms of operation safety and stability.

NEK, SEL and TEB all introduced separate collection of municipal waste and perform wastewater treatment. NEK also conducts regular monitoring of the groundwater: by continuously measuring the water level and temperature in three boreholes and at two locations on the Sava River and by conducting weekly measurements in ten boreholes on the Brežice-Krško Plain. NEK also places special attention on radiological monitoring, during which measurements are taken.

No increased radiation levels for the nearby residents were detected in 2013 as a result of the power plant's operation.

GEN's production portfolio is built on recognizing the importance of renewable energy sources, particularly hydropower. GEN fulfilled its water potential investment strategy through the acquisition of SEL and through active participation in the construction of hydroelectric power plants on the lower Sava River (HESS) and on the middle course of the Sava River (SRESA). GEN's production portfolio is complemented by Brestanica Thermal Power Plant (TEB), which uses natural gas and extra light fuel oil, the most environmentally acceptable fossil fuels, to generate power. Thanks to such a production portfolio and a small number of TEB start-ups, more than 99% of all the electricity produced by the GEN Group in 2013 was generated without greenhouse gas emissions.

The GEN Group companies are also committed to promoting the production of electricity from alternative energy sources. This area is dominated by SEL, which not only operates and services its existing hydroelectric power plants but also invests in small-scale photovoltaic power plants (SPPs), wind turbines and combined heat and power (CHP) plants. TEB too invests in small-scale photovoltaic power plants.

## ECONOMIC RESPONSIBILITY

Economic responsibility represents one of the cornerstones of social responsibility. Judging from experience, only economically efficient companies or groups of companies can be fully socially responsible.

The company GEN and its affiliated companies fulfil their economic responsibility by ensuring short- and long-term profitability, by choosing economically viable technologies for the production of electricity, and by developing competitive products and services that meet customers' needs.

In conclusion, the GEN Group is indeed economically responsible. The Group closed the year 2013 with encouraging business results and continues to pursue clearly defined goals and an ambitious development plan in accordance with the adopted Revised GEN Energija Development Plan.

# 2.10 Risk management

Risks are an inherent part of any business. And each risk comes from not knowing if or when an unforeseeable event is going to take place.

In 2012 the company GEN adopted Risk Management Guidelines and a Risk Management Manual. Based on the two documents and our knowledge of our subsidiaries' operations, the risks can be classified as follows:

- **strategic risks,**
- **market risks,**
- **quantity risks,**
- **financial risks,**
- **human resources risks,**
- **legal risks,**
- **operational risks,**
- **investment risks.**

The GEN Group companies manage risks by promptly identifying them and determining the level of severity, both at the management and sectoral levels. Based on this, instruments to be used for managing specific risks are determined. Through efficient risk management the companies seek to reduce the number of unpredictable events and to be more effective in meeting the set goals.

## STRATEGIC RISKS

The most important risk to the operations of the company GEN has to do with ensuring safe, reliable and stable electricity production in the subsidiaries as the existence and development of the company GEN rely heavily on it. Regulatory risks imposed on business entities by the government have been growing recently, e.g. new taxes and tax hikes, broader access to information in the public domain, the Slovenian Nuclear Safety Administration policy, etc.

Krško Nuclear Power Plant (NEK) is the central energy generation facility in the Group and in the country. As owners of the Slovenian part of the facility, we are fully aware – around the clock and all year long – of the risks and our responsibility, so we monitor its operation on several levels.

We indirectly keep track of the operation of the facilities by holding regular coordination meetings with the companies' managements and regular operational meetings of the companies and by appointing competent people to supervisory and management boards of the Group companies and to various task forces.

A change in the ownership composition of the partner of the jointly controlled company GEN-I has given rise to new factors which affect our relationship with this particular subsidiary.

### Company management by the founder

Pursuant to the Slovenian Sovereign Holding Act (Official Gazette of the Republic of Slovenia, No. 105/2012 and amend.), the Central Ownership Entity of Slovenia (hereinafter: SOD) is responsible for managing capital investments owned either by the Republic of Slovenia or by SOD itself.

SOD is also responsible for managing the Republic of Slovenia's capital investment in the company GEN; it exercises partner rights pursuant to CA-1 and in doing so also adheres to other binding documents laying down provisions on good corporate governance practices adopted by itself (particularly the Management Code for Assets Owned by the Republic of Slovenia) or by expert/

professional associations (particularly the Management Code for Publicly Traded Companies).

The company is actively managed in order to achieve a business result that is in line with performance indicators. The goal of active management is to increase the company's rate of return and to accelerate the development and reconstruction of its energy infrastructure. The company is required to utilize its investment potential for carrying out energy projects needed to ensure reliable, safe and stable operation of the national power grid.

Whether the expected rate of return will be achieved is largely dependent on the market price of electricity, on the basis of which income is generated on the one side, with costs and investments on the other. We ensure the expected rate of return through appropriate planning and by keeping to our electricity products sales strategy.

## MARKET RISKS

Market risks arise from volatile trends in the prices of energy products in the global market, which in turn affects electricity prices both at home and abroad.

The company GEN reduces its exposure to this type of risk through an elaborate electricity sales strategy, which is essentially fixed and unchanging. Still, to a small extent, the strategy is developed, expanded and tailored to market conditions each year. Based on the adopted strategy, the company GEN sells most of its expected production output before the start of the year in which it is actually supplied. This substantially reduces the price risk, meaning the company is only exposed to unplanned outages of generation facilities (particularly NEK) and subnormal hydrological conditions.

The risks associated with the sales of electricity for ancillary services have shown to be enormous as the tendering procedure for ancillary services announced by ELES allowed foreign providers to also bid for larger quantities of tertiary frequency control. We seek to reduce these risks by negotiating long-term leases at least for a portion of these services.

## QUANTITY RISKS

Quantity risks are risks associated with produced and purchased electricity which arise from the gap between the forecast and the actual amount of electricity. Quantity risks may be internal, relating to technological and logistic limitations with regard to production and timely procurement of fuels, or external, mostly having to do with weather and hydrological conditions.

Risks associated with electricity production refer to the electricity generated by the production companies. In this respect, the prevailing risk is associated with a potential outage of NEK, the most important energy generation facility in terms of volume. We seek to manage this risk by making provisions on the purchase side and by adjusting the production cost for TEB on the sales side, which serves as the marginal price that GEN would have to pay for alternative energy and the reserve kept for this purpose.

Each company manages the internal risks associated with their production facilities based on their many years of experience and expertise, by organizing regular employee training, and by following proven methods of running a production facility, carrying out maintenance, etc.

The GEN Group places a heavy stress on limiting and managing external risks. For this purpose, the Group has put in place proper IT support for long-

and short-term forecasting of electricity offtake and feed profiles as well as for daily monitoring of variations in quantity at most of its offtake and feeding points. A key part in this respect is played by the GEN Control Centre.

At the group-wide level, quantity risks are also present in the supply of energy products. The Group companies manage these risks by keeping suitable inventories and by carrying out relevant activities in a timely fashion.

## FINANCIAL RISKS

**Liquidity risk** arises when a company is unable to meet its current liabilities because of, for instance, different terms of payment on the purchase and sales sides. The companies are following the principle by which payment deadlines for purchases and sales with identical substance are balanced, that is, payment terms for purchases are longer than those for sales. The Group companies manage liquidity risks by laying down well-defined contract terms and conditions, by regularly and precisely planning their cash flows on a daily, monthly and yearly basis, by checking their contractual partners and their payment track records, and through thoughtful and safe placement of surplus cash.

The companies are also exposed to risks associated with surplus cash management. To manage these risks, the company GEN adopted an Investment Strategy as the basis for effective investment risk management.

**Credit risk** is risk that arises when a business partner fails to fulfil – by due date – their material (agreed supply/delivery of a certain amount of electricity) or financial obligations (non-payment of contractual obligations, repayment of loans given out to third parties – deposits).

The Group companies manage credit risks by thoroughly checking the credit ratings and liquidity positions of their existing and prospective business partners and banks, by having a clearly defined debt collection procedure and collection letter system in place, and by signing properly secured contracts (by drafts, bank guarantees).

**Currency risk** exposure is present in international trades or in conducting transactions with countries with an official currency other than the euro. This primarily entails exposure to exchange rate differences that occur between the time the contract is signed and the moment the contractual sum is actually paid.

## HUMAN RESOURCES RISKS

HR planning involves identifying the company's need for human resources and planning out the activities for their recruitment.

By recruiting and developing human resources, the companies are laying the groundwork for future development and prospects.

## LEGAL RISKS

Legal risks refer to losses incurred due to violation or misinterpretation and non-observance of the law, regulations, directives, recommendations, valid agreements and contracts, good practices or ethical standards. The Group companies manage these risks primarily by laying down as well-defined contract terms and conditions as possible and by keeping up to date with legislative changes.

## OPERATIONAL RISKS

Operational risks are encountered in every business process. These are risks that could lead to a financial loss for the Group should ineffective business processes and controls be in place.

The Group manages these risks through clearly defined business processes, clearly defined roles, responsibilities and competences, and codes of practice and rules.

## INVESTMENT RISKS

The operation of NEK is crucial to the current business of the company GEN and to the development of nuclear technology in Slovenia. For this reason, NEK's operation needs to be monitored on all levels. Employee education and training play a vital part in this respect.

Since the JEK 2 project is essential to the national economy, the company has been faced with general risks from the very beginning. The most notable general risks include the political decision to go ahead with the project and the inclusion of the project in the national strategic programme on the one hand and the project's social acceptability on the other.

The company seeks to manage general risks by highlighting the project's viability and strategic importance to the country and, in doing so, to encourage competent institutions, the Government and the social environment to make the decisions necessary for the construction of JEK 2.

If a decision is made to go ahead with the JEK 2 project, the risks in connection with the project will be managed and controlled separately.

Monitoring and cooperation in the context of the construction of hydroelectric power plants on the Sava River are important risk management elements for the companies GEN and SEL.

Investments in gas units are important for the sake of ensuring a backup power supply to NEK, perhaps even JEK 2, and they offer the possibility of creating a system-wide reserve and adding flexibility to the production portfolio.

INDUSTRY

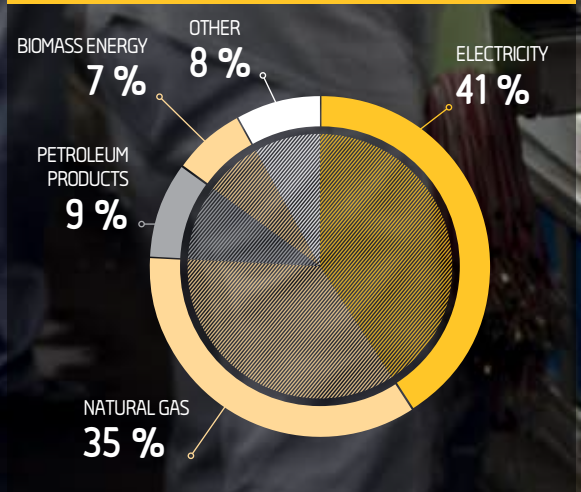
# For a competitive economy, we need a reliable and competitively-priced energy supply.

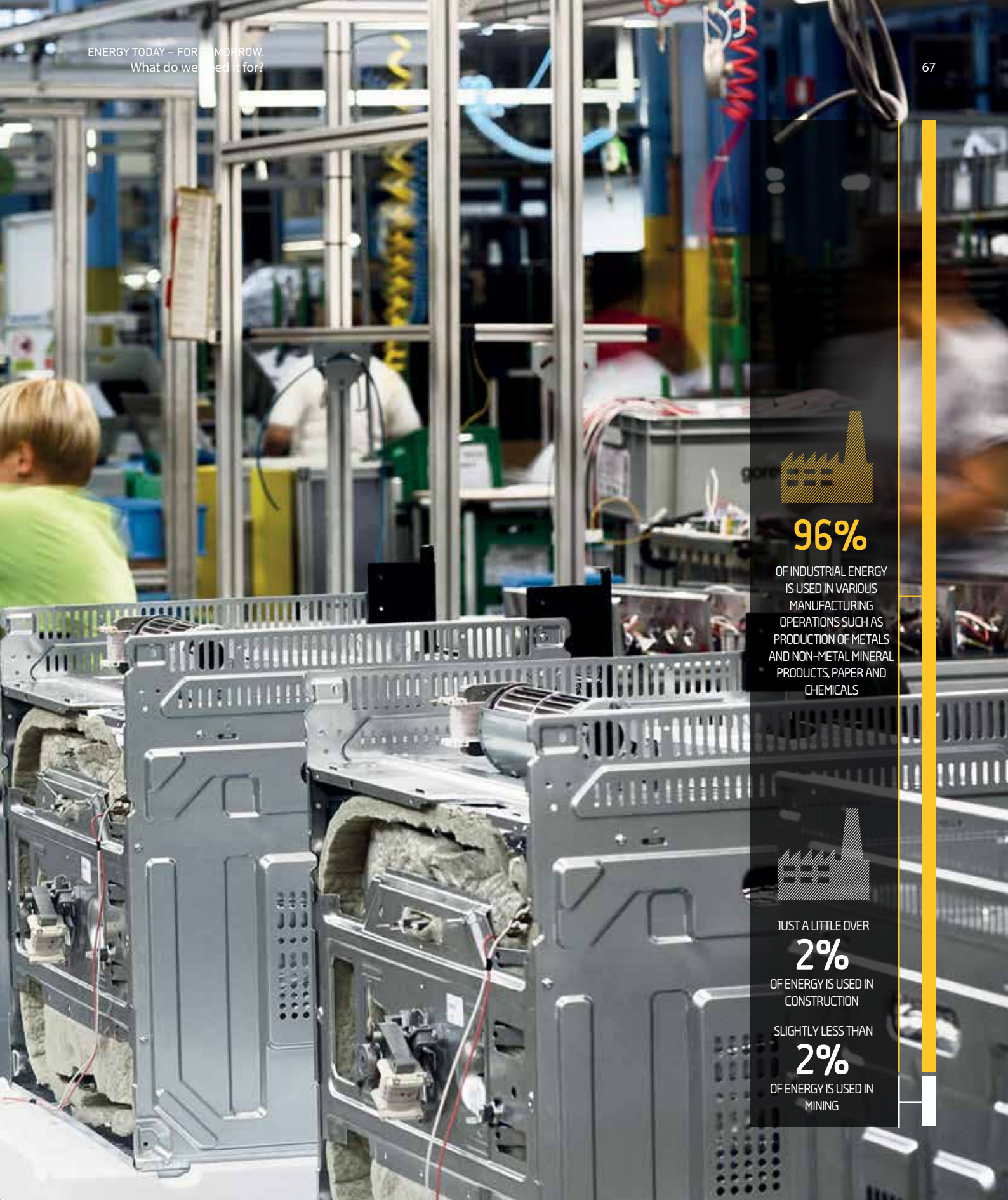
The economy relies on energy to power its operations. Various **manufacturing activities** account for as much as **96%** of Slovenia's total industrial energy consumption.

The supply of energy needs to be **reliable**, and energy prices **competitive**. This is the only way for large and small industrial businesses to be competitive with their products in the home and foreign markets. Economic growth creates a **growing demand for energy** but also facilitates investments to implement measures for **promoting energy efficiency** in production and other industrial processes, as well as in other stages of the product life cycle, for example, service life and end-of-life management.

INDUSTRIAL ENERGY CONSUMPTION IN SLOVENIA IS ROUGHLY
**20**
kWh/D/P.
MOST OF IT IS USED IN MANUFACTURING.

THE MAJOR SOURCES OF ENERGY FOR SLOVENIA'S INDUSTRY ARE ELECTRICITY, NATURAL GAS AND PETROLEUM PRODUCTS.





96%

OF INDUSTRIAL ENERGY IS USED IN VARIOUS MANUFACTURING OPERATIONS SUCH AS PRODUCTION OF METALS AND NON-METAL MINERAL PRODUCTS, PAPER AND CHEMICALS

JUST A LITTLE OVER

2%

OF ENERGY IS USED IN CONSTRUCTION

SLIGHTLY LESS THAN

2%

OF ENERGY IS USED IN MINING

# Summary financial report of the company GEN

# 3.1 Independent auditor's report

Building a better working world

**This is a translation of the original report in Slovene language**

**INDEPENDENT AUDITORS' REPORT ON THE SUMMARY FINANCIAL STATEMENTS**

**To the owner of GEN energija, d.o.o.**

The accompanying summary financial statements, which comprise the summary balance sheet as at 31 December, 2013, the summary income statement and related notes are derived from the audited financial statements of GEN energija, d.o.o. for the year ended 31 December, 2013. We expressed an unmodified audit opinion on those financial statements in our auditors' report dated 6 May, 2014. Those financial statements, and the summary financial statements, do not reflect the effects of events that occurred subsequent to the date of our report on those financial statements.

The summary financial statements do not contain all the disclosures required by Slovenian Accounting Standards and by the Slovenian Companies Act. Reading the summary financial statements, therefore, is not a substitute for reading the audited financial statements of GEN energija, d.o.o. for the year 2013.

**Management's responsibility for the summary financial statements**
Management is responsible for the preparation of a summary of the audited financial statements.

**Auditors' responsibility**
Our responsibility is to express an opinion on the summary financial statements based on our procedures, which were conducted in accordance with International Standard on Auditing (ISA) 810, "Engagements to Report on Summary Financial Statements."

**Opinion**
In our opinion, the summary financial statements derived from the audited financial statements of GEN energija, d.o.o. for the year ended 31 December, 2013 are consistent, in all material respects, with those financial statements.

Ljubljana, 14 May, 2014

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

Janez Uranič
Director
Ernst & Young d.o.o.
Dunajska 111, Ljubljana

Mateja Repušič
Certified Auditor

# 3.2 Basis for drawing up the summary financial report

Pursuant to the Companies Act (CA-1), below is the summary financial report, an integral part of the Annual Report of the GEN Group for 2013. The summary gives an overview of 2013 operations and includes condensed versions of financial statements based on audited principal financial statements: balance sheet, income statement, statement of other comprehensive income, and statement of changes in equity.

The financial statements are presented in EUR without cents.

# 3.3 Financial statements

## BALANCE SHEET

Table 3.1

### Balance sheet as at 31/12/2013

| | 31/12/2013 | 31/12/2012 |
|---|---|---|
| **ASSETS** | **511,556,954** | **516,021,147** |
| A. Fixed assets | **411,105,770** | 419,228,619 |
| I. Intangible assets and long-term deferred expenses and accrued income | **384,542** | 483,336 |
| II. Tangible fixed assets | **15,737,612** | 15,149,063 |
| III. Long-term financial investments | **387,246,820** | 395,524,386 |
| IV. Deferred tax assets | **7,736,796** | 8,071,834 |
| | | |
| B. Current assets | **100,259,593** | 96,539,523 |
| I. Short-term financial investments | **83,374,861** | 73,003,810 |
| II. Short-term operating receivables | **16,884,396** | 23,533,640 |
| III. Cash | **336** | 2,073 |
| | | |
| C. Short-term deferred expenses and accrued income | **191,591** | 253,005 |
| OFF-BALANCE-SHEET ASSETS | **6,857,434** | 16,156,941 |
| | | |
| **EQUITY AND LIABILITIES** | **511,556,954** | **516,021,147** |
| A. Equity | **416,078,553** | 407,899,744 |
| I. Called-up capital | **26,059,796** | 26,059,796 |
| II. Capital reserves | **239,609,558** | 239,609,558 |
| III. Revenue reserves | **142,611,209** | 134,824,674 |
| IV. Revaluation surplus | **11,454** | 0 |
| V. Net profit or loss for the financial year | **7,786,536** | 7,405,716 |
| | | |
| B. Provisions and long-term accruals and deferred income | **77,414,817** | 79,753,313 |
| I. Provisions and long-term accruals and deferred income | **77,414,817** | 79,753,313 |
| | | |
| C. Long-term liabilities | **39,608** | 41,230 |
| I. Long-term financial liabilities | **39,608** | 41,230 |
| | | |
| D. Current liabilities | **18,020,911** | 28,305,510 |
| I. Current financial liabilities | **0** | 6,446,680 |
| II. Current operating liabilities | **18,020,911** | 21,858,830 |
| | | |
| E. Short-term accruals and deferred income | **3,065** | 21,350 |
| OFF-BALANCE-SHEET LIABILITIES | **6,857,434** | 16,156,941 |

# INCOME STATEMENT AND STATEMENT OF OTHER COMPREHENSIVE INCOME

Table 3.2

## Income statement for 2013

| | 2013 | 2012 |
|---|---|---|
| TOTAL INCOME | **183,083,657** | 194,770,874 |
| Operating income | **179,287,528** | 190,683,617 |
| Financing income | **3,796,108** | 4,085,412 |
| Other income | **21** | 1,845 |
| | | |
| TOTAL EXPENSES | **164,790,470** | 175,595,998 |
| Operating expenses | **161,257,114** | 170,688,636 |
| *Purchase cost of goods, materials and services* | ***145,820,947*** | *146,698,313* |
| *Cost of labour* | ***2,829,101*** | *2,530,100* |
| *Write-offs* | ***1,328,290*** | *1,292,466* |
| *Other operating expenses* | ***11,278,776*** | *20,167,757* |
| Financing expenses | **3,302,678** | 4,904,470 |
| Other expenses | **230,678** | 2,892 |
| | | |
| **TOTAL PROFIT OR LOSS** | **18,293,187** | **19,174,876** |
| INCOME TAX | **2,720,116** | 4,363,445 |
| **TOTAL PROFIT OR LOSS** | **15,573,071** | **14,811,431** |

Table 3.3 **Statement of other comprehensive income for 2013**

| | 2013 | 2012 |
|---|---|---|
| **Net profit or loss for the period** | **15,573,071** | **14,811,431** |
| Other components of comprehensive income | 13,800 | 0 |
| **Total comprehensive income for the period** | **15,586,871** | **14,811,431** |

# STATEMENT OF CHANGES IN EQUITY

Table 3.4 **Statement of changes in equity for 2012 and 2013**

| | |
|---|---|
| **As at 31/12/2011** | |
| | |
| **As at 01/01/2012** | |
| Changes in equity capital – transactions with owners | |
| Payment of dividends | |
| Total comprehensive income for the reporting period | |
| Input of net profit or loss for the reporting period | |
| Changes in equity | |
| Distribution of a part of net profit from the reporting period to other equity components – Management and Supervisory Board | |
| **As at 31/12/2012** | |
| | |
| **As at 01/01/2013** | |
| Changes in equity capital – transactions with owners | |
| Payment of dividends | |
| Total comprehensive income for the reporting period | |
| Input of net profit or loss for the reporting period | |
| Other components of comprehensive income | |
| Changes in equity | |
| Distribution of a part of net profit from the reporting period to other equity components – Management and Supervisory Board | |
| **As at 31/12/2013** | |

| Share capital | Capital reserves | Legal reserves | Other revenue reserves | Revaluation surplus | Net profit or loss from previous years | Net profit or loss | Total |
|---|---|---|---|---|---|---|---|
| **26,059,796** | **239,609,558** | **2,605,980** | **157,096,553** | **0** | **4,716,426** | **0** | **430,088,313** |
| | | | | | | | |
| **26,059,796** | **239,609,558** | **2,605,980** | **157,096,553** | **0** | **4,716,426** | **0** | **430,088,313** |
| 0 | 0 | 0 | -32,283,574 | 0 | -4,716,426 | 0 | -37,000,000 |
| | | | -32,283,574 | | -4,716,426 | | -37,000,000 |
| 0 | 0 | 0 | 0 | 0 | 0 | 14,811,431 | 14,811,431 |
| 0 | 0 | 0 | 0 | 0 | 0 | 14,811,431 | 14,811,431 |
| 0 | 0 | 0 | 7,405,715 | 0 | 0 | -7,405,715 | 0 |
| 0 | 0 | 0 | 7,405,715 | 0 | 0 | -7,405,715 | 0 |
| **26,059,796** | **239,609,558** | **2,605,980** | **132,218,694** | **0** | **0** | **7,405,716** | **407,899,744** |
| | | | | | | | |
| **26,059,796** | **239,609,558** | **2,605,980** | **132,218,694** | **0** | **7,405,716** | **0** | **407,899,744** |
| 0 | 0 | 0 | 0 | 0 | -7,405,716 | 0 | -7,405,716 |
| 0 | 0 | 0 | 0 | | -7,405,716 | | -7,405,716 |
| 0 | 0 | 0 | 0 | 11,454 | 0 | 15,573,071 | 15,584,525 |
| 0 | 0 | 0 | 0 | 0 | 0 | 15,573,071 | 15,573,071 |
| 0 | 0 | 0 | 0 | 11,454 | | | 11,454 |
| 0 | 0 | 0 | 7,786,535 | 0 | 0 | -7,786,535 | 0 |
| 0 | 0 | 0 | 7,786,535 | 0 | 0 | -7,786,535 | 0 |
| **26,059,796** | **239,609,558** | **2,605,980** | **140,005,229** | **11,454** | **0** | **7,786,536** | **416,078,553** |

SERVICES

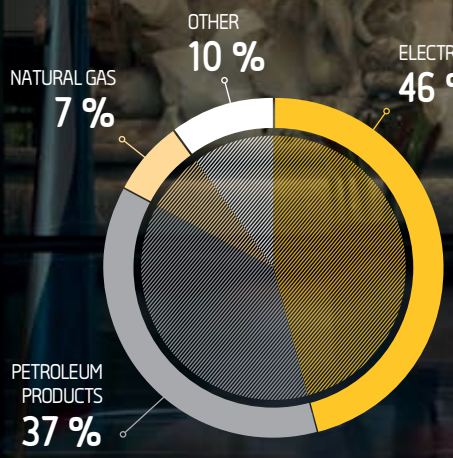
# The right energy for delivering quality, reliable services.

In order for the public and private sectors to deliver **quality and reliable services**, we need **energy supply with exactly the same qualities**.

**Childhood care and education institutions** are among the largest energy consumers in the public sector, accounting for as much as **36%** of the sector's total consumption. These are followed by healthcare and social security institutions at **32%**, and the remaining third is shared amongst other institutions such as public administration and cultural and sports organizations. Most of the energy consumed by the public sector is used for **heating**, as well as for hot water, lighting, and running electrical systems and devices needed for communication and data exchange.

IN SLOVENIA
**10**
kWh/D/P.
IS USED FOR VARIOUS OTHER USES, AND THIS CATEGORY IS DOMINATED BY THE SERVICE SECTOR AND THE PUBLIC SECTOR. CHILDHOOD CARE AND EDUCATION INSTITUTIONS ARE THE BIGGEST CONSUMERS OF ENERGY IN THE PUBLIC SECTOR.

THE MAJOR SOURCES OF ENERGY FOR SLOVENIA'S SERVICE AND PUBLIC SECTORS ARE ELECTRICITY AND PETROLEUM PRODUCTS.



**36%**

OF ENERGY IS USED IN CHILDHOOD CARE AND EDUCATION INSTITUTIONS

**32%**

OF ENERGY IS USED IN HEALTHCARE AND SOCIAL SECURITY INSTITUTIONS

**32%**

OF ENERGY IS USED IN OTHER INSTITUTIONS SUCH AS PUBLIC ADMINISTRATION AND CULTURAL AND SPORTS ORGANIZATIONS

# Summary financial report of the GEN Group

# 4.1 Independent auditor's report

Building a better working world

**This is a translation of the original report in Slovene language**

**INDEPENDENT AUDITORS' REPORT ON THE SUMMARY FINANCIAL STATEMENTS**

**To the owner of GEN energija d.o.o.**

The accompanying summary consolidated financial statements, which comprise the summary consolidated balance sheet as at 31 December, 2013, the summary consolidated income statement and related notes are derived from the audited consolidated financial statements of Group GEN for the year ended 31 December, 2013. We expressed an unmodified audit opinion on those consolidated financial statements in our auditors' report dated 6 May, 2014. Those consolidated financial statements, and the summary consolidated financial statements, do not reflect the effects of events that occurred subsequent to the date of our report on those consolidated financial statements.

The summary consolidated financial statements do not contain all the disclosures required by Slovenian Accounting Standards and by the Slovenian Companies Act. Reading the summary consolidated financial statements, therefore, is not a substitute for reading the audited consolidated financial statements of Group GEN for the year 2013.

**Management's responsibility for the summary financial statements**
Management is responsible for the preparation of a summary of the audited consolidated financial statements.

**Auditors' responsibility**
Our responsibility is to express an opinion on the summary consolidated financial statements based on our procedures, which were conducted in accordance with International Standard on Auditing (ISA) 810, "Engagements to Report on Summary Financial Statements."

**Opinion**
In our opinion, the summary consolidated financial statements derived from the audited consolidated financial statements of Group GE for the year ended 31 December, 2013 are consistent, in all material respects, with those consolidated financial statements.

Ljubljana, 14 May, 2014

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

Janez Uranič
Director
Ernst & Young d.o.o.
Dunajska 111, Ljubljana

Mateja Repušič
Certified Auditor

# 4.2 Basis for drawing up financial statements of the GEN Group and the financial report

## OVERVIEW OF THE GEN GROUP

The purpose of compiling consolidated financial statements is to present the financial position and the performance of a group of interconnected companies as if they were one single economic entity. Companies whose statements are taken into account when compiling consolidated statements operate as individual companies which, given the relationships among them, constitute an economic unit, but not a legal entity, since the unit as such is not an independent holder of rights and duties.

Table 4.1 **Overview of the GEN Group**

| Company name | Status in the Group | Equity stake |
|---|---|---|
| **GEN energija** | **Parent** | |
| GEN-I | Jointly controlled | 50% |
| NEK | Jointly controlled | 50% |
| TEB | Subsidiary | 100% |
| SEL | Subsidiary | 100% |

The consolidation of the controlled companies is performed on the basis of the full consolidation method, and the jointly controlled companies are included in the Group based on the proportional consolidation method.

Jointly controlled company GEN-I, trgovanje in prodaja električne energije, d.o.o., is also a parent company whose subsidiaries, wholly owned by GEN-I, are incorporated into the Group based on the chain consolidation method or through consolidation of the subgroup of the subsidiary GEN-I.

The subsidiary SEL:

- Holds a 25% interest in the company HSE Invest d.o.o., Obrežna 170a, 2000 Maribor, and has significant influence in this associated company. For the purposes of consolidation of the financial statements of the GEN Group, the company HSE Invest is recognized as an investment accounted for based on the equity method.
- Holds a 30% interest in the company Srednjesavske elektrarne d.o.o, Ob železnici 27, 1420 Trbovlje, and has significant influence in this associated company. For the purposes of consolidation of the financial statements of the GEN Group, the company SRESA is recognized as an investment accounted for based on the equity method.

## AUDIT

All the companies were audited prior to consolidation. The companies GEN, SEL and TEB were audited by Ernst & Young d.o.o., and the companies NEK and GEN-I by KPMG Slovenija d.o.o. All the companies in the Group received unqualified audit opinions.

# 4.3 Financial statements of the Group

## BALANCE SHEET OF THE GROUP

Table 4.2

### Balance sheet of the Group as at 31/12/2013

| | 31/12/2013 | 31/12/2012 |
|---|---|---|
| **ASSETS** | **727,394,551** | **713,565,385** |
| A. Fixed assets | **401,285,263** | 437,045,547 |
| I. Intangible assets and long-term deferred expenses and accrued income | **2,726,865** | 2,104,819 |
| II. Tangible fixed assets | **342,989,749** | 362,852,162 |
| III. Investment property | **232,008** | 254,954 |
| IV. Long-term financial investments | **46,361,658** | 62,025,004 |
| V. Long-term operating receivables | **725,722** | 791,169 |
| VI. Deferred tax assets | **8,249,261** | 9,017,439 |
| | | |
| B. Current assets | **310,426,757** | 260,753,737 |
| I. Inventories | **36,197,384** | 38,879,959 |
| II. Short-term financial investments | **162,767,631** | 116,336,495 |
| III. Short-term operating receivables | **100,183,867** | 94,305,879 |
| IV. Cash | **11,277,875** | 11,231,404 |
| | | |
| C. Short-term deferred expenses and accrued income | **15,682,531** | 15,766,101 |
| OFF-BALANCE-SHEET ASSETS | **185,809,317** | 177,524,063 |

| | 31/12/2013 | 31/12/2012 |
|---|---|---|
| **EQUITY AND LIABILITIES** | **727,394,551** | **713,565,385** |
| A. Equity | **520,668,014** | 505,683,156 |
| I. Called-up capital | **26,059,796** | 26,059,796 |
| II. Capital reserves | **242,535,098** | 242,535,098 |
| III. Revenue reserves | **159,857,562** | 150,217,777 |
| IV. Revaluation surplus | **-1,392,962** | -3,145,252 |
| V. Net profit from previous years | **77,585,455** | 73,511,600 |
| VI. Net profit or loss for the financial year | **16,307,741** | 16,726,447 |
| VII. Translation adjustment to equity | **-284,676** | -222,310 |
| B. Provisions and long-term accruals and deferred income | **83,794,100** | 85,851,096 |
| I. Provisions | **82,995,738** | 85,022,822 |
| II. Long-term accruals and deferred income | **798,362** | 828,274 |
| C. Long-term liabilities | **5,451,981** | 10,598,224 |
| I. Long-term financial liabilities | **5,257,171** | 10,454,326 |
| II. Long-term operating liabilities | **194,810** | 143,898 |
| D. Current liabilities | **108,930,486** | 89,993,336 |
| I. Current financial liabilities | **20,761,162** | 14,371,967 |
| II. Current operating liabilities | **88,169,324** | 75,621,369 |
| E. Short-term accruals and deferred income | **8,549,970** | 21,439,573 |
| OFF-BALANCE-SHEET LIABILITIES | **185,809,317** | 177,524,063 |

# INCOME STATEMENT AND STATEMENT OF OTHER COMPREHENSIVE INCOME OF THE GROUP

Table 4.3

## Income statement of the Group for 2013

| | 2013 | 2012 |
|---|---|---|
| TOTAL INCOME | **682,826,227** | 826,923,284 |
| Operating income | **675,966,607** | 817,929,988 |
| Financing income | **6,746,431** | 8,954,360 |
| Other income | **113,189** | 38,936 |
| | | |
| TOTAL EXPENSES | **658,442,767** | 801,824,430 |
| Operating expenses | **651,673,018** | 794,099,858 |
| *Cost of goods, materials and services* | ***553,762,849*** | *687,177,611* |
| *Cost of labour* | ***34,513,038*** | *31,524,209* |
| *Write-offs* | ***43,313,632*** | *43,383,284* |
| *Other operating expenses* | ***20,083,499*** | *32,014,754* |
| Financing expenses | **6,390,242** | 7,692,927 |
| Other expenses | **379,507** | 31,645 |
| | | |
| **TOTAL PROFIT OR LOSS** | **24,383,460** | **25,098,854** |
| INCOME TAX | **3,628,698** | 5,039,154 |
| **NET PROFIT OR LOSS OF MAJORITY OWNERS** | **20,754,762** | **20,059,700** |

Table 4.4

## Statement of other comprehensive income of the Group for 2013

| | 2013 | 2012 |
|---|---|---|
| **Net profit or loss for the period** | **20,754,762** | **20,059,700** |
| Gains and losses on remeasuring available-for-sale financial assets | **236,890** | 447,803 |
| Gains and losses from translation of financial statements of companies abroad (impact of changes in exchange rates) | **-102,484** | 0 |
| Other components of comprehensive income | **1,876,166** | -6,466,615 |
| **Total comprehensive income for the period for majority owners** | **22,765,334** | **14,040,888** |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR 2012

Table 4.5

## Consolidated statement of changes in equity for 2012

| | Share capital |
|---|---|
| **As at 31/12/2011** | **26,059,796** |
| | |
| **As at 01/01/2012** | **26,059,796** |
| Changes in equity capital – transactions with owners | 0 |
| Payment of dividends | 0 |
| Total comprehensive income for the reporting period | 0 |
| Input of net profit or loss for the reporting period | 0 |
| Gains and losses on remeasuring financial investments | 0 |
| Other components of comprehensive income | 0 |
| Gains and losses from translation of financial statements of companies abroad | 0 |
| Changes in equity | 0 |
| Distribution of the rest of net profit from the comparative reporting period to other equity components | 0 |
| Distribution of a part of net profit from the reporting period to other equity components – Management and Supervisory Board | 0 |
| Distribution of a part of net profit for additional provisions – General Meeting | 0 |
| **As at 31/12/2012** | **26,059,796** |

| Capital reserves | Legal reserves | Other revenue reserves | Revaluation surplus | Net profit or loss from previous years | Net profit or loss for the financial year | Translation adjustment to equity | Total |
|---|---|---|---|---|---|---|---|
| **242,535,098** | **6,963,487** | **166,235,157** | **2,769,715** | **66,690,895** | **17,532,834** | **-144,714** | **528,642,268** |
| | | | | | | | |
| **242,535,098** | **6,963,487** | **166,235,157** | **2,769,715** | **66,690,895** | **17,532,834** | **-144,714** | **528,642,268** |
| 0 | 0 | -32,283,574 | 0 | 0 | -4,716,426 | 0 | -37,000,000 |
| 0 | 0 | -32,283,574 | 0 | 0 | -4,716,426 | 0 | -37,000,000 |
| 0 | 0 | 0 | -5,914,967 | -26,249 | 20,059,700 | -77,596 | 14,040,888 |
| 0 | 0 | 0 | 0 | 0 | 20,059,700 | 0 | 20,059,700 |
| 0 | 0 | 0 | 447,803 | 0 | 0 | 0 | 447,803 |
| 0 | 0 | 0 | -6,362,770 | -26,249 | 0 | 0 | -6,389,019 |
| 0 | 0 | 0 | 0 | 0 | 0 | -77,596 | -77,596 |
| 0 | 646,781 | 8,655,926 | 0 | 6,846,954 | -16,149,661 | 0 | 0 |
| 0 | 574,794 | 0 | 0 | 6,846,954 | -7,421,748 | 0 | 0 |
| 0 | 71,987 | 8,147,765 | 0 | 0 | -8,219,752 | 0 | 0 |
| 0 | 0 | 508,161 | 0 | 0 | -508,161 | 0 | 0 |
| **242,535,098** | **7,610,268** | **142,607,509** | **-3,145,252** | **73,511,600** | **16,726,447** | **-222,310** | **505,683,156** |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR 2013

Table 4.6

## Consolidated statement of changes in equity for 2013

| | Share capital |
|---|---|
| **As at 31/12/2012** | **26,059,796** |
| Retroactive adjustments | |
| | |
| **As at 01/01/2013** | **26,059,796** |
| Changes in equity capital – transactions with owners | 0 |
| Payment of dividends | 0 |
| Total comprehensive income for the reporting period | 0 |
| Input of net profit or loss for the reporting period | 0 |
| Gains and losses on remeasuring financial investments | 0 |
| Other components of comprehensive income | 0 |
| Changes in equity | 0 |
| Distribution of the rest of net profit from the comparative reporting period to other equity components | 0 |
| Distribution of a part of net profit from the reporting period to other equity components – Management and Supervisory Board | 0 |
| Distribution of a part of net profit for additional provisions – General Meeting | 0 |
| **As at 31/12/2013** | **26,059,796** |

| Capital reserves | Legal reserves | Other revenue reserves | Revaluation surplus | Net profit or loss from previous years | Net profit or loss for the financial year | Translation adjustment to equity | Total |
|---|---|---|---|---|---|---|---|
| **242,535,098** | **7,610,268** | **142,607,509** | **-3,145,252** | **73,511,600** | **16,726,447** | **-222,310** | **505,683,156** |
| | | | | -19,135 | 14,364 | -9,224 | -13,995 |
| | | | | | | | |
| **242,535,098** | **7,610,268** | **142,607,509** | **-3,145,252** | **73,492,465** | **16,740,811** | **-231,534** | **505,669,161** |
| 0 | 0 | 0 | 0 | 0 | -7,405,716 | 0 | **-7,405,716** |
| 0 | 0 | 0 | 0 | 0 | -7,405,716 | 0 | **-7,405,716** |
| 0 | 0 | 0 | 1,752,290 | -49,341 | 20,754,762 | -53,142 | **22,404,569** |
| 0 | 0 | 0 | 0 | 0 | 20,754,762 | -53,142 | **20,701,620** |
| 0 | 0 | 0 | 212,489 | 0 | 0 | 0 | **212,489** |
| 0 | 0 | 0 | 1,539,801 | -49,341 | 0 | 0 | **1,490,460** |
| 0 | 512,062 | 9,127,723 | 0 | 4,142,331 | -13,782,116 | 0 | **0** |
| 0 | 512,062 | 0 | 0 | 4,884,381 | -5,396,443 | 0 | **0** |
| 0 | 0 | 8,385,673 | 0 | 0 | -8,385,673 | 0 | **0** |
| 0 | 0 | 742,050 | 0 | -742,050 | 0 | 0 | **0** |
| **242,535,098** | **8,122,330** | **151,735,232** | **-1,392,962** | **77,585,455** | **16,307,741** | **-284,676** | **520,668,014** |

# Acronyms and abbreviations

| | |
|---|---|
| **Agreement on Division and Takeover** | Agreement on the division and takeover of Holding Slovenske elektrarne d.o.o. |
| **Banka Celje** | Banka Celje d.d. |
| **CA-1** | Companies Act (Official Gazette of the Republic of Slovenia, No. 42/06 and amend.) |
| **CHP** | combined heat and power |
| **CIT** | corporate income tax |
| **$CO_2$** | carbon dioxide |
| **d.d.** | joint-stock company |
| **d.o.o.** | limited liability company |
| **DP** | producers with a declaration for their production facility |
| **e.g.** | for example |
| **ELES** | ELES d.o.o. - ELES, Ltd., Electricity Transmission System Operator. |
| **ERDF** | European Regional Development Fund |
| **etc.** | and so on |
| **EU** | European Union |
| **EUR** | euro |
| **FA** | financial assets |
| **GDP** | gross domestic product |
| **GEN** | GEN energija d.o.o. |
| **GEN CC** | GEN Control Centre |
| **GEN Group** | the GEN energija Group |
| **GEN IC** | GEN Information Centre |
| **GEN-I** | GEN-I, trgovanje in prodaja električne energije, d.o.o. |
| **GRC** | Government of the Republic of Croatia |
| **GRS** | Government of the Republic of Slovenia |
| **GWh** | gigawatt-hour |
| **HEP** | Hrvatska elektroprivreda d.d. |
| **HESS** | Hidroelektrarne na Spodnji Savi, d.o.o. |
| **HPP** | hydroelectric power plant |
| **HSE** | Holding Slovenske elektrarne d.o.o. |
| **HSE** | Invest – HSE Invest d.o.o. |
| **i.e.** | that is |
| **ICJT** | Nuclear Training Centre |
| **IGES** | IG Energetski sistemi d.o.o. |
| **Intergovernmental Agreement on NEK** | The agreement between the Government of the Republic of Slovenia and the Government of the Republic of Croatia governing the status and other legal relationships regarding investments in Krško Nuclear Power Plant, its operation and decommissioning |
| **IT** | information technology |
| **JEK 2** | Krško Nuclear Power Plant – Unit 2 |
| **kV** | kilovolt |
| **kW** | kilowatt |
| **kWh** | kilowatt-hour |
| **LILW** | low- and intermediate-level radioactive waste |
| **m** | million |
| **$m^3$** | cubic metre |
| **MA/MSc** | Master of Arts/Science |
| **MW** | megawatt |
| **MWh** | megawatt-hour |
| **NEK** | Nuklearna elektrarna Krško d.o.o. (Krško Nuclear Power Plant) |
| **NEK Fund** | Fund for Financing Decommissioning of NEK and Disposal of Radioactive Waste from NEK |
| **NEP** | National Energy Programme |

| | |
|---|---|
| **NKBM** | Nova kreditna banka Maribor d.d. |
| **NLB** | Nova Ljubljanska banka d.d., Ljubljana |
| **NPP** | nuclear power plant |
| **OSART** | Operational Safety Review Team |
| **PB** | gas unit |
| **PhD** | Doctor |
| **Prof.** | Professor |
| **RES** | renewable energy sources |
| **rev.** | revision |
| **RS** | Republic of Slovenia |
| **RTD** | resistor temperature detector |
| **SAS** | Slovenian Accounting Standards |
| **SB** | Supervisory Board |
| **SEL** | Savske elektrarne Ljubljana d.o.o. |
| **SHP** | small-scale hydroelectric power plant |
| **SKB** | SKB banka d.d. Ljubljana |
| **SPP** | small-scale photovoltaic power plant |
| **SRESA** | Srednjesavske elektrarne d.o.o. |
| **TEB** | Termoelektrarna Brestanica d.o.o. (Brestanica Thermal Power Plant) |
| **UCTE** | Union for the Coordination of Transmission of Electricity |
| **UniCredit Bank** | UniCredit Banka Slovenija d.d |
| **USA** | United States of America |
| **ZEL-EN** | ZEL-EN, razvojni center energetike d.o.o. |

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