Comprehensive supply of electricity.
Looking for synergies and creating value.
We are growing.

Annual Report of the company GEN and the GEN Group for 2017

Annual Report of the company GEN and the GEN Group for 2017

Krško, May 2018

Comprehensive supply of electricity.

We **generate** electricity from low-carbon sources: nuclear and hydro. We **trade and sell** electricity in the home and foreign retail and wholesale markets. We then channel the flow of capital into **development and investments**: thorough, ongoing maintenance of existing generation capacities and responsible planning and construction of new, low-carbon ones. We keep a close watch on and effectively **manage opportunities and risks**, both internal and external. By doing so, we **identify and help create new business and development opportunities** to promote the growth of the GEN Group in the domestic and international arena.

Looking for synergies and creating value.

We are fully aware of the interplay of the capitals we tap to create value for our key stakeholders.

CAPITALS OF THE GEN GROUP

Infrastructural capital

- Nuclear power plant and large hydroelectric power plants on the Sava River
- Gas-fired thermal power plant for providing ancillary services (offsetting outages of large power generation units in the power grid)
- Distributed renewable energy sources – solar power plants
- Advanced software/IT infrastructure for efficient energy trading and sales at home and abroad

Natural capital

Low-carbon energy sources we harness to generate electricity: predominantly nuclear and hydro, solar energy under development.

Financial capital

Financial sources (mainly equity and debt financing) available to us for providing a comprehensive supply of energy, from electricity generation to trading and sales to development and investments in existing and new generation capacities.

Employees and intellectual capital

The knowledge, skills and dedication of our employees in performing our core activities for creating value, primarily by ensuring:

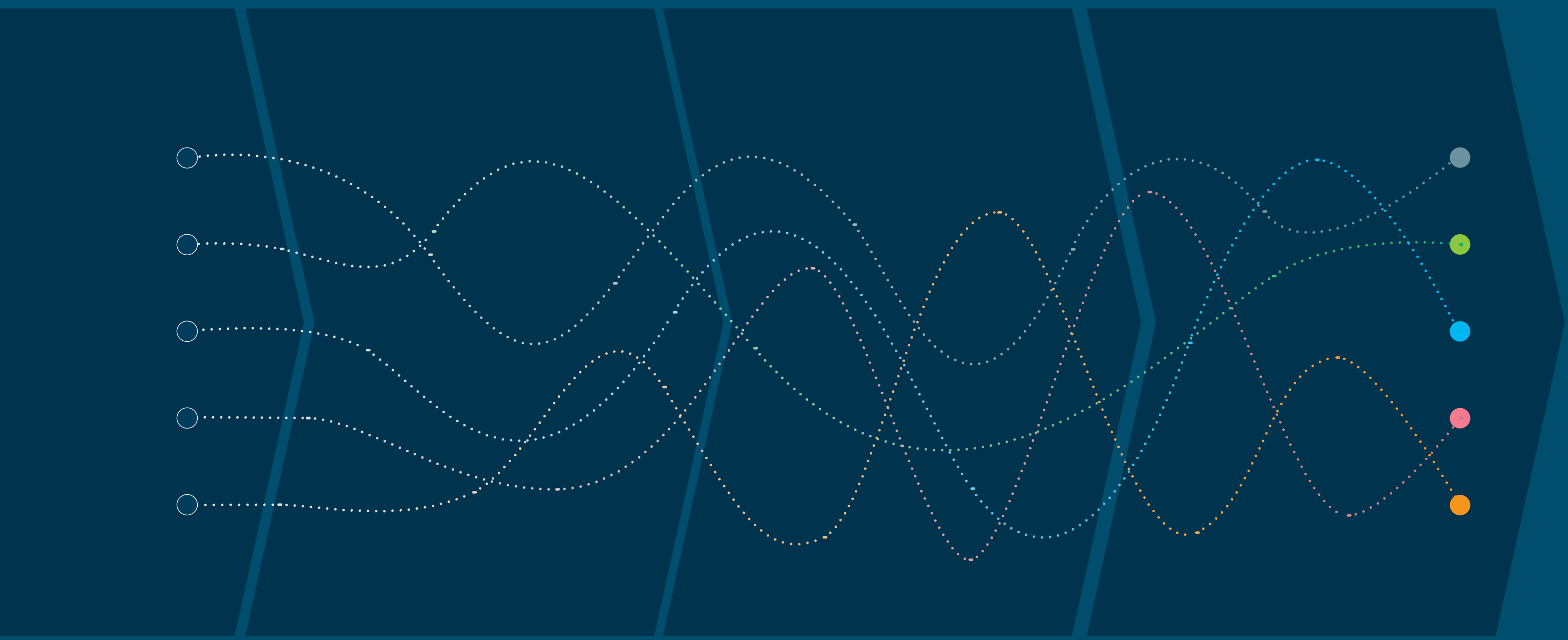
- operational efficiency of our generation facilities,
- efficient energy trading and sales in the wholesale and retail markets both at home and abroad,
- prudent and responsible research, planning and implementation of investments in existing and new generation capacities.

Social capital

Relationships with external stakeholders in providing a comprehensive supply of energy, primarily relationships with the founder and owner, decision-makers, business partners and suppliers, local communities, professional circles, the media and other key stakeholders we create value for.

Promoting the understanding of the importance of having a comprehensive energy supply for our daily lives and lasting social well-being.

We maximize our input capitals as value stock **in a comprehensive energy supply process**



GENERATING
electricity with which we contribute to the reliable supply of electricity for consumers and to the stability of the national power grid

TRADING AND SALES
of electricity and natural gas

DEVELOPMENT AND INVESTMENTS
for a reliable supply of low-carbon energy also in the future

In the GEN Group, we look for synergies and help support the development of our activities to maximize the creation of value for our key stakeholders in the short, medium and long term.

We are growing.

We keep a close watch on and effectively **manage opportunities and risks**, both internal and external. By doing so, we **identify and help create new business and development opportunities** to promote the growth of the GEN Group in the domestic and international arena.

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We are guided by an appreciation of the importance of having a **comprehensive supply of electricity** in order to meet the daily needs of modern society: its people, product and service industries, public sector and other consumers. We seek to create and strengthen positive sustainable connections between energy, its use and social well-being.

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We **generate** electricity primarily at the nuclear power plant (NEK) and hydroelectric power plants (SEL and HESS), the cornerstones of the present and future secure supply of low-carbon electricity. We help keep the national power grid secure and stable not only by providing reliable electricity generation but also through a gas-fired thermal power plant (TEB), which has an impressive start-up track record and delivers essential ancillary services of tertiary frequency control.

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With a well-thought-out vertical integration – from electricity generation to electricity consumers – we are successfully expanding our pool of large and small consumers of electricity and natural gas both at home and abroad. In our **energy trading and sales** activities, we cleverly seize the market opportunities we identify around us.

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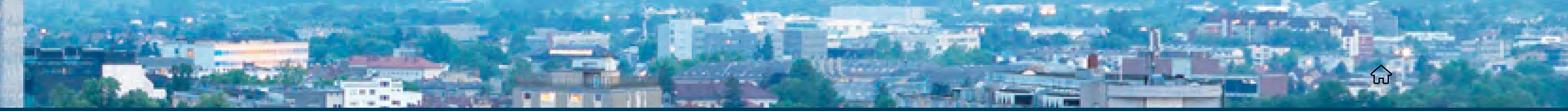
Research, development and investments allow us to perform our closely interconnected activities in the long term and to promote stability of our operations and further development of our Group and the wider Slovenian society we serve.



For a competitive economy and for social well-being, we need a reliable supply of affordable energy

Energy supply has a crucial impact on our economic development, national security, quality of the environment and living, and social well-being in general.

"We are fully aware of the economy's needs in terms of energy supply," highlights Martin Novšak, adding: "The industry needs an energy policy that promotes competitiveness among businesses in the home and foreign markets. A reliable energy supply and reasonable prices of energy carriers are essential in this respect."

The GEN Group provides Slovenia's economy and entire society with a reliable and highly efficient generation of low-carbon electricity. Despite the electricity generation industry's current trends moving towards decentralized power generation, industries and other major consumers will continue to need robust power generation and a matching transmission network.

"Thanks to our internal optimization processes and commercial activities, we reached or even exceeded our business targets, and this despite the tough situation in the market and poor hydrological conditions in 2017. The Group as a whole generated more than EUR 2 billion in turnover, which ranks us among the top three business groups in the country."

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

CAPITALS OF THE GEN GROUP

MORE THAN
EUR 2.4bn
IN TURNOVER

EUR 29.4m
IN NET PROFIT

EUR 88.7m
FOR RESEARCH AND DEVELOPMENT, CAPITAL EXPENDITURES AND INVESTMENTS

VIDEO available online at:
http://letnoporocilo.gen-energija.si/#?lang=en//

Nuclear and hydro energy are the cornerstones of the present and future supply of low-carbon electricity

In 2017, the generation facilities of the GEN Group companies generated a combined total of **3,519 GWh of electricity**, which is 8% more than the preceding year. Electricity generation was safe, reliable and friendly to the environment throughout the year, thanks to our past track record of ongoing investments in knowledge and equipment. By effectively coordinating the generation outputs of all the Group's power plants, we successfully tackled this year's challenging hydrological conditions. As much as **99.7%** of the electricity we generate comes from **low-carbon sustainable and renewable energy sources: nuclear and hydro**.

With an impeccable start-up track record, TEB fulfilled its role in helping **ensure power grid stability**; its important role was particularly evident during the challenging conditions for the energy industry in early 2017.

In 2017, modifications to NEK were carried out in response to downstream Brežice HPP, which was a complex project both in building and technological terms, and the safety upgrade to NEK continued, the newly built Brežice HPP performed a test run in September, and TEB's new gas turbine unit was synchronized with the power grid for the first time in December.

We will continue with our strong investment activity in 2018.

"The prudence of our investments in technological upgrades is reflected by the fact that we achieve excellent operating results and meet the highest standards in the nuclear industry, which has been confirmed by international missions.

The most complex project to be completed during the 2018 scheduled maintenance outage will be the construction of an auxiliary control room."

Stane Rožman
President of the Management Board,
Nuklearna elektrarna Krško d.o.o.

VIDEO available online at:
http://letnoporocilo.gen-energija.si/#?lang=en//

CAPITALS OF THE GEN GROUP

3,519 GWh

OF ELECTRICITY GENERATED IN TOTAL IN 2017, OF WHICH:

- electricity generated by NEK (base load power on the daily demand curve): **5,967 GWh** (one-half belonging to Slovenia: 2,984 GWh)
- electricity generated by large hydroelectric power plants SEL and HESS (delivering electricity on the daily load curve with the possibility of storing night-time energy for use during the day): **522 GWh**
- ancillary services (TEB put into operation for offsetting outages of large power generation units in the power grid): **12.1 GWh** or net generation of 7.2 GWh, mostly for tertiary frequency control in the power grid (**36 activations** or **48 start-ups** of individual gas turbine blocks)

100.4%

REALIZATION OF NEK'S PLAN FOR 2017

NUCLEAR ENERGY ACCOUNTS FOR

85%

OF THE TOTAL GENERATION OUTPUT OF THE GEN GROUP POWER PLANTS

CAPITALS OF THE GEN GROUP

99.7%

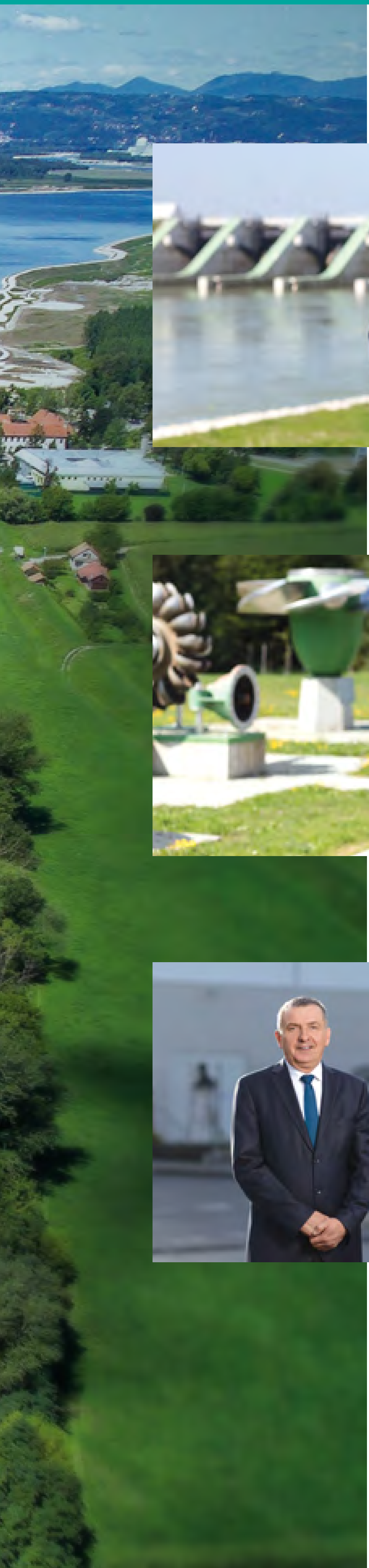
LOW-CARBON OPERATION BY THE GEN GROUP'S POWER GENERATION FACILITIES: AS MUCH AS 99.7% OF ALL OUR ELECTRICITY COMES FROM LOW-CARBON NUCLEAR AND HYDRO ENERGY

CAPITALS OF THE GEN GROUP

EUR 88.73 million

WORTH OF INVESTMENTS IN 2017, OF WHICH:

- NEK: EUR 52.02 million
(among the key investments: technological upgrade of Krško Nuclear Power Plant)
- HESS: EUR 10.74 million
(mainly Brežice HPP and Mokrice HPP)
- SEL: EUR 1.42 million
(among the central investments: reconditioning of Goričane SHP)
- TEB: EUR 22.08 million
(central investment in the construction of a new gas turbine unit)
- GEN-I: EUR 1.12 million
(including investments in IT)
- GEN: EUR 1.12 million
(JEK 2 project included)



"The construction of Brežice Hydroelectric Power Plant went according to schedule and the financial plan. Ahead of us now is the construction of Mokrice Hydroelectric Power Plant. With it, the GEN Group, working in partnership with HSE, will complete the chain of hydroelectric power plants on the lower course of the Sava River."

Bogdan Barbič
Director, Hidroelektrarne na Spodnji Savi, d.o.o.

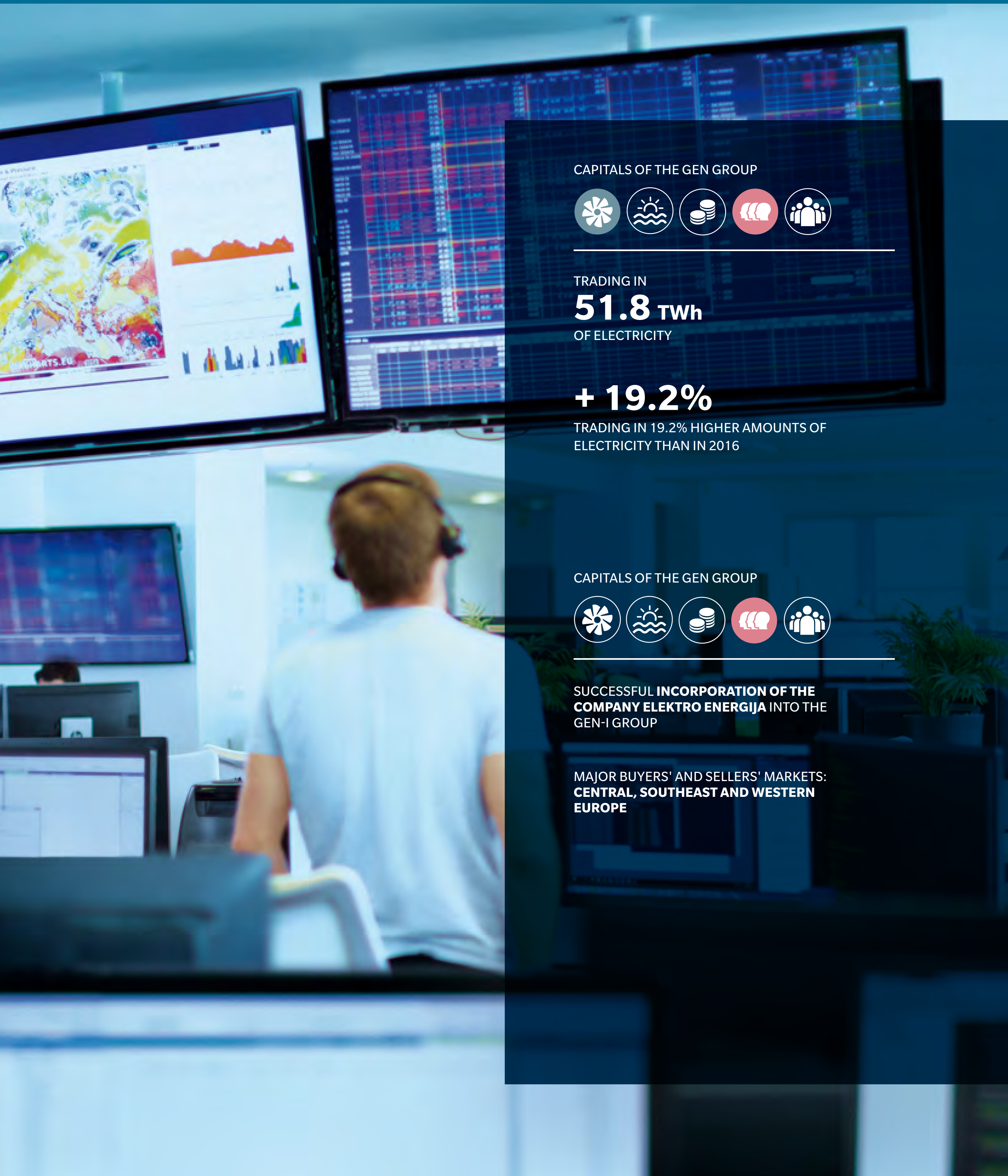
"In 2018, we are going to allocate EUR 8.11 million worth of financial resources to investments and development of existing power generation facilities and identification of new opportunities for harnessing renewable energy sources for generating electricity."

Drago Polak
Director, Savske elektrarne Ljubljana d.o.o.

"In 2017, the new gas turbine unit was successfully synchronized with the power grid and driven by liquid fuel for the first time. A technical inspection and trial operation will follow in 2018. We have earmarked EUR 7.51 million for investments and development."

Tomislav Malgaj
Director, Termoelektrarna Brestanica d.o.o.

VIDEO available online at:
http://letnoporocilo.gen-energija.si/#?lang=en//



CAPITALS OF THE GEN GROUP

TRADING IN

51.8 TWh

OF ELECTRICITY

+ 19.2%

TRADING IN 19.2% HIGHER AMOUNTS OF ELECTRICITY THAN IN 2016

CAPITALS OF THE GEN GROUP

SUCCESSFUL **INCORPORATION OF THE COMPANY ELEKTRO ENERGIJA** INTO THE GEN-I GROUP

MAJOR BUYERS' AND SELLERS' MARKETS: **CENTRAL, SOUTHEAST AND WESTERN EUROPE**

"We have had outstanding business results in 2017 and generated over EUR 2.3 billion in revenue, which is more than 50% above target. We have successfully launched the sale of solar panels for home-generated electricity.

The forward-looking approach, innovation and flexibility promoted by GEN-I are the right tool set for tackling the challenges brought by further advances in the energy markets."

Robert Golob, DSc
President of the Management Board, GEN-I, d.o.o.

Thanks to vertical integration – from electricity generation to electricity consumers, we are more effective in recognizing market opportunities

The GEN Group is a well-organized electricity trader, with cross-border wholesale trading infrastructure that gives us access to all pricing data and the information needed to ensure optimal use of production resources. In 2017, we continued with the vertical integration – from electricity generation to electricity consumers – and successfully incorporated the company Elektro energija into the GEN-I Group. This allowed us to seize the opportunities for trading in electricity and natural gas in wholesale markets in the wider region. In the future, we will continue to focus on these markets and will also seek to expand sales to the neighbouring countries.

The rightness of our decisions to invest generously in development and human resources in the area of energy trading and sales has manifested in outstanding business results, allowing GEN-I to again reinforce its reputation as one of the fastest-growing energy companies in Europe.

VIDEO available online at:
http://letnoporocilo.gen-energija.si/#?lang=en//

Creating value for stakeholders in the short, medium and long term

The GEN Group creates synergies on a continuous basis in order to maximize the generated value. Our activities in power generation, trading and sales, and development and investments are mutually supported and coordinated. This is a shared responsibility of the managements of the GEN Group companies and their 988 employees, who possess extensive knowledge, skills and commitment to fulfilling our common vision of building a safe, reliable, sustainable and competitive energy future for Slovenia.

Our business, operational, commercial and other successes are based on the GEN Group's big-picture thinking and sustainable operations, as well as extensive investments in the development and training of employees and the raising of interest in – and improving the perception of – topics associated with energy and the energy industry among our key stakeholders.

"Our strategic development projects include the JEK 2 project, which is long overdue. This project relevantly addresses all three principal focuses of the EU and Slovenia's energy policies: climate sustainability, reliability and competitiveness of the energy supply. The energy industry is ready for the JEK 2 project, what we need now is political will and social acceptability.

For this project, we are counting on wider international or regional cooperation, with which Slovenia – as a stable country in energy security terms – will be able to strengthen its reputation in the EU."

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

CAPITALS OF THE GEN GROUP

988 employees,
OF WHICH MORE THAN 66% WITH AT LEAST HIGHER EDUCATION QUALIFICATIONS

PROFESSIONAL EDUCATION AND TRAINING
FOR EXECUTIVE AND MANAGEMENT LEVELS AND KEY EMPLOYEES ACROSS ALL THE AREAS OF OPERATIONS

CAPITALS OF THE GEN GROUP

PROMOTING THE KNOWLEDGE AND RAISING THE AWARENESS OF ENERGY AND ENERGY GENERATION, IN 2017 PRIMARILY THROUGH:

- guided tours and workshops at The World of Energy (7,600 visitors; nearly 50,000 visitors since its opening in 2011)
- youth projects (The Young in the World of Energy competition: 690+ participating children and youths; the Technical Wizardry event: 311 attendees; the Young Geniuses quiz show: 300 participating children from 20 primary schools in the Posavje region)
- the eSvet web portal (72% new visitors, 113,000 viewed pages)
- guided tours of NEK (266 groups and 5,850 visitors)
- guided tours of hydroelectric power plants and excursions (HESS: 3,090 visitors; SEL: some 70 excursions), as well as expert and other meetings for coordinating the interests of farming, energy generation, river navigation, tourism, nature conservancy and other activities in the Sava basin.

VIDEO available online at:
http://letnoporocilo.gen-energija.si/#?lang=en//

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The Summary Annual Report
is available online at:
http://letnoporocilo.gen-energija.si/#?lang=en//

I Introduction

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1. Key financial performance data

2017 was a successful year for the GEN Group, with **EUR 29.4 million** in net profits, which is above the target. While the result is below that from the previous year by 8%, the result for 2016 can partly be attributed to one-off effects of transitioning to consolidated financial statements pursuant to the IFRS. The remarkable business performance in 2017 is best confirmed by operating profit (EBIT), which is up by 133% from 2016.

Learn more on page **127**

We are growing. The GEN Group generated more than EUR 2 billion in turnover, which ranks us among the top three business groups in the country.

Learn more on page **127**

The electricity generation facilities of the GEN Group companies generated a combined total of **3,519 GWh of electricity**. We are pleased with the result since it is up by 8% from 2016 on account of not having a maintenance outage scheduled at NEK and despite unfavourable hydrological conditions.

Learn more on page **53**

With safe and stable operation, **NEK generated 5,967 GWh of electricity**, half of which, **2,984 GWh**, went to GEN, or the Republic of Slovenia, under the Intergovernmental Agreement on NEK.

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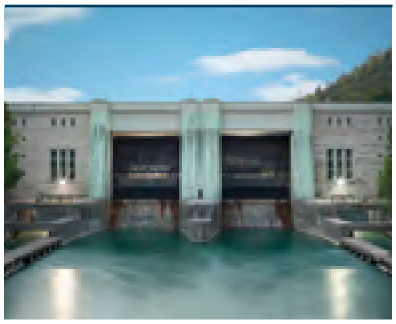


In 2017, our hydroelectric power plants generated **522 GWh of electricity** despite relatively unfavourable hydrological conditions.

Learn more on page **56**

Electricity production was **safe, reliable and friendly to the environment** throughout the year, thanks to our ongoing investments in knowledge and equipment.

Learn more on page **53**

With an impeccable start-up track record, TEB fulfilled its role in helping **ensure power grid stability**. Its important role was particularly evident during the challenging conditions for the energy industry in early 2017.

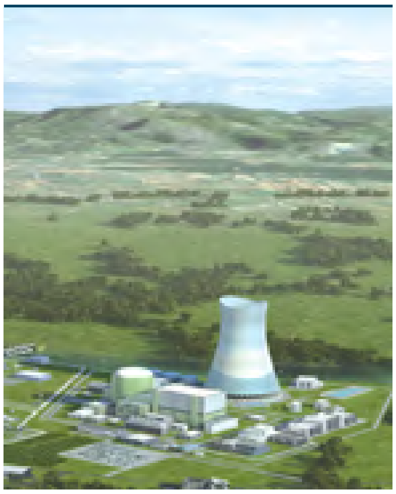
Learn more on page **56**

As much as **99.7% of all the electricity** generated by the companies making up the GEN Group came from **low-carbon sustainable and renewable sources: nuclear and hydro**.

Learn more on page **56**

Research and development, capital expenditures and investments are essential to the **long-term operating stability** and future growth. In 2017, **EUR 88.7 million** was spent to this end. The newly built Brežice Hydroelectric Power Plant was put into operation in September 2017, TEB carried out an initial synchronization with the power grid in December, NEK completed constructionally and technologically complex modifications in response to Brežice HPP, which is located further downstream, and continued with its safety upgrade.

Learn more on page **64**



Due to Slovenia's reliance on imported energy (19% of electricity was imported in 2017) and a shortage of electricity in the wider region as well, the **construction of a second nuclear power plant unit, JEK 2**, is increasingly necessary. Reasons in favour of the construction of new generation capacities also include fast-tracked electrification, particularly in heating and transport.

Learn more on page **65**

We took over direct **remote control of Krško HPP** (in addition to the previously taken-over Boštanj HPP and Arto-Blanca HPP), which is now operated from the Control Centre in Vrbina. This allows us to further streamline production and optimize operating costs for the entire GEN Group.

Learn more on page **55**

We continued with the integration of the vertical **chain from electricity generation to electricity consumers**. The company Elektro energija was successfully incorporated into the GEN-I Group, allowing us to seize the opportunities for trading in electricity and natural gas in wholesale markets in the wider region. In the future, we will continue to focus on these markets and will also seek to expand sales to the neighbouring countries.

Learn more on page **28**

Strong investment activity, ownership consolidation of the GEN-I Group and profits paid out to the founder have had a significant impact on the Group's **decreasing liquidity**. Liquidity is successfully managed, but we are also actively looking for additional sources of financing.

Learn more on page **125**

In 2017, we successfully continued our intense efforts to implement our **action plan for optimizing the operations of the company GEN and the GEN Group**. Thanks to good coordination, internal optimization processes and commercial activity, we managed to minimize and overcome risks and exceed targets both in terms of revenue and profit.

Learn more on page **127**

Our **employees**, with their knowledge and dedication, have been and will continue to be the cornerstone of our operations: we numbered **988** in 2017, with more than **64%** having at least higher education qualifications.

Learn more on page **73**

We raised interest in, and improved the perception of, topics associated with energy and the energy industry; we organized numerous **educational and awareness-raising events** and regularly upgraded our **eSvet web portal on energy and the energy industry**.

Learn more on page **76**

KEY FIGURES		COMPANY 2017	COMPANY 2016	GROUP 2017	GROUP 2016
Revenue	EUR thousand	175,309	168,822	2,410,912	377,425
EBIT	EUR thousand	21,761	18,415	38,900	16,668
EBITDA	EUR thousand	22,547	19,337	72,016	49,118
Net profit	EUR thousand	19,539	17,875	29,424	31,888
Assets	EUR thousand	531,991	513,173	1,111,036	1,070,785
Equity	EUR thousand	447,904	430,382	784,880	755,519
Debt	EUR thousand	31	31	161,081	139,493
Capital expenditures	EUR thousand	1,190	13,255	62,720	119,334
Electricity generated	GWh			3,740	3,456
Electricity sold	GWh	3,928	3,645	51,791	43,443
Number of employees at year-end		58	55	988	922

Pursuant to sustainability reporting guidelines, the GEN Group's Annual Report for 2017 also includes information on the GEN Group's non-financial operations. In this single document, we seek to provide a comprehensive picture of our operations and highlight the inextricable link between financial and non-financial information.

More information on the GEN Group’s corporate reporting for 2017

Learn more on page **178**

As to the GEN Group's business results, it should be noted that the subsidiary GEN-I, due to its ownership consolidation, has only been included in consolidated financial statements of the GEN Group since December 2016, which is particularly notable in the consolidated profit and loss account.

Learn more on page **132**

		COMPANY		GROUP	
PERFORMANCE INDICATORS		2017	2016	2017	2016
Equity financing rate	%	84.19	83.86	70.64	70.56
Long-term financing rate	%	84.21	96.66	82.30	81.27
Operating fixed assets rate	%	3.43	3.53	63.19	63.24
Long-term investment rate	%	89.02	92.27	64.00	63.83
Equity to fixed assets ratio		24.52	23.75	1.12	1.12
Long-term financing to long-term assets ratio		0.93	1.03	1.28	1.27
Acid test ratio		0.88	0.86	0.71	0.77
Quick ratio		2.34	1.96	1.55	1.52
Current ratio		2.34	1.96	2.01	1.91
Operating efficiency ratio		1.14	1.12	1.02	1.05
Net return on equity ratio (ROE)	%	4.45	4.14	3.82	4.14
Net return on assets ratio (ROA)	%	3.74	3.46	2.70	3.46
Value added	EUR thousand	25,863	22,299	124,331	83,796
Value added per employee	EUR thousand	458	413	126	91
Debt to equity ratio		0.00	0.00	0.21	0.18
Total financial liabilities/EBITDA		0.00	0.00	2.24	2.84
EBITDA margin	%	13.01	11.59	2.99	13.66
EBITDA/financial expenses for loans taken		-	-	32.13	347.84
Total financial liabilities/assets		0.00	0.00	0.14	0.13
Net financial liabilities/EBITDA		-0.87	-0.75	0.30	0.29

2. Letter from the General Director

Dear Business Partners and Colleagues,
The GEN Group has successfully closed the challenging business year 2017, during which we provided a continuously reliable supply of electricity to consumers at competitive prices and met all our key goals. We generated more than EUR 2 billion in turnover, which ranks us among the top three business groups in the country. We also successfully finalized a number of major investments in the total value of EUR 89 million.

Reliability and operational efficiency

Our portfolio is oriented towards sustainability, we generated 3,519 GWh of electricity.

The GEN Group's portfolio of sources, which is based on nuclear and hydro energy, is focused on sustainability in economic, environmental and social respects: the nuclear power plant, with its reliable operation, plays an essential part in the energy mix, and the stable generation at Krško Nuclear Power Plant (NEK), where no maintenance outage was scheduled that year, made a vast contribution to the GEN Group's good results – despite a rather long dry period. In addition to NEK, Brestanica Thermal Power Plant (TEB) too, with its impeccable start-up track record, performed well and made significant contributions to ensuring stability of the national power grid in crucial moments, particularly in the face of the challenging conditions for electricity generation in early 2017.

We successfully tackled the challenging conditions throughout the year, and the GEN Group power plants' overall electricity generation reached 3,519 GWh. A significant part of the generation output, specifically 5,968 GWh, was contributed by NEK, of which 2,984 GWh was available to GEN energija. Due to less-than-ideal hydrological conditions, the hydroelectric power plants on the Sava River (operated by the companies SEL and HESS) generated a combined total of 522 GWh, including the electricity from the newly built Brežice HPP, which started its regular operation in the second half of 2017.

Business excellence

We generated more than EUR 2 billion in turnover and integrated our trading processes.

Despite low electricity prices throughout 2017 and the situation further worsened by a period of persistent dry weather and poor hydrological conditions, with two short NEK outages also recorded, the GEN Group managed to minimize and overcome various risks thanks to good coordination, internal optimization processes and fruitful commercial activity. In terms of both revenue and profit, we exceeded our targets in 2017. The GEN Group generated more than EUR 2.4 billion in turnover, which ranks us among the top three business groups in the country, and closed the year with a profit of EUR 29 million. The parent company generated more than EUR 170 million in turnover and EUR 19 million in net profit.

On the electricity trading and sales side, the company GEN-I exceeded its targets by successfully incorporating the company Elektro energija into the GEN-I Group and seizing the market opportunities for trading in electricity and natural gas in the wholesale markets in the wider region. We are going to continue to strive for excellent results in the future, and we will also seek to expand sales to the neighbouring countries. Our development will be driven by the digitalization of processes, both internal and those involving service users, and by an introduction of advanced new services for customers.

Strong focus on investments

We started up Brežice HPP, took over remote control of Krško HPP and built a new gas turbine unit at TEB.

We successfully completed a number of major investments. In September, we started up the newly built Brežice Hydroelectric Power Plant (HPP) and took over remote control of Krško HPP, which is now operated from the GEN Group's Control Centre. We are finalizing, ahead of schedule, our investment in a new gas turbine unit at Brestanica Thermal Power Plant (TEB): in December 2017, the new gas turbine unit was synchronized with the power grid for the first time and is set to begin its trial operation in 2018 once the technical inspection has been completed. NEK has undergone constructionally and technologically complex modifications in response to Brežice

HPP, which is located downstream from it, and continued with its safety upgrade.

The total value of investments made by all the GEN Group companies amounted to EUR 89 million in 2017.

Identifying opportunities for development

> The demand for electricity is rising, and the need for a new nuclear power plant unit is increasingly more obvious.

The GEN Group recognizes the fact that the economy needs a reliable supply of electricity at competitive prices. Additional generation capacities would already be welcome today, since the demand for electricity has increased in recent years, driven primarily by growing economic activity and fast-tracked electrification of heating and transport. Last year, Slovenia imported around 20% of its total electricity consumption. There are signs of electricity shortage in the wider region as well, and the common European market is not functioning properly during times of shortage.

So what we need is new, reliable and low-carbon electricity generation capacities. Nuclear energy coupled with renewable energy sources is an important part of the solution. The backbone of the economy will always need robust electricity generation and a matching transmission network to go with it. While network investments, energy storage facilities and custom offtake patterns will be able to help stabilize the power grid in the future, we are also definitely going to need energy sources, such as nuclear, that allow reliable electricity generation.

Employees – the cornerstone of our operations

> They meet goals and build the future with their knowledge, experience and dedication.

With their knowledge, experience, expertise, commitment, dedication and drive to meet the set goals and build a bright future for the GEN Group, our employees have been and will continue to be the cornerstone of our operations. This way, we maintain our role as a reliable, stable and proactive player in providing a comprehensive supply of electricity, from production to trading and sales to development investments.

Dear colleagues, thank you all very much for your hard work and invaluable contribution to the enviable results and making the GEN Group stronger. As new opportunities and new challenges lie ahead of us, I invite you to take an active part in our competitive endeavours also in the future.

I also thank the representatives of the owner, the SSH, relevant ministries, supervisory boards, business partners, service providers and local communities for their trust, successful cooperation and vital contribution to the good results of the GEN Group.

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

3. Report of the Supervisory Board

Pursuant to the Companies Act (hereinafter: CA-1), Articles of Incorporation of the limited liability company GEN energija d.o.o. (hereinafter: Articles of Incorporation), Rules of Procedure of the Supervisory Board of the company GEN energija d.o.o. (hereinafter: Rules of Procedure) and in accordance with the Corporate Governance Code for Capital Assets of the Republic of Slovenia (hereinafter: Code), the Supervisory Board of the company GEN energija d.o.o. (hereinafter: Supervisory Board) issues the following **Report of the Supervisory Board of the company GEN energija d.o.o. for 2017**.

Supervisory Board operations

In order to ensure the legitimacy, correctness and efficiency of the Management's decisions and in accordance with its powers under the Articles of Incorporation and pursuant to other applicable legislation, the Supervisory Board oversaw the running and management of the company GEN energija d.o.o. (hereinafter: GEN energija) in the 2017 business year as well.

Acting in its capacity, the Supervisory Board followed the company's values, vision and mission and supervised the running of the company in order to ensure its operations are aligned and consistent with the strategic goals, all with the aim of maximizing the value of the company.

From 1 January to 31 December 2017, the Supervisory Board was composed of the following six members:

- Karol Peter Peršolja, DSc (Chairman),
- Saša Ivan Geržina (Deputy Chairman)[1],
- Mitja Svoljšak (Member),
- Roman Dobnikar (Member)[2],
- Samo Furst (Member – employees' representative), and
- Robert Bergant, DSc (Member – employees' representative).

The Supervisory Board assesses its operations as suitable and appropriate, and its composition diverse enough in terms of expertise to be able to perform its duties as vested in it by applicable regulations. The Supervisory Board is composed of members with different, complementary expertise, experience and skills, its composition is heterogeneous in terms of age.

1 Reappointed for another four-year term on 21 August 2017, effective immediately, based on a decision by the SSH.

2 Reappointed for another four-year term on 21 August 2017, effective immediately, based on a decision by the SSH.

The Supervisory Board members make an ongoing effort to be independent and autonomous in their work. They also continuously work to prevent any conflict of interest in the performance of their duties. In 2017, one potential conflict of interest occurred with one of the members, who went on record on the matter and recused himself from voting. Supervisory Board members fulfilled their functions diligently, responsibly and effectively. Sessions were chaired so that all members of the Supervisory Board were given a chance to open or participate in a discussion and that it was possible to discuss items on the agenda at great depth, which is assurance the Supervisory Board reached its decisions in a careful and responsible manner.

The Supervisory Board has two boards serving as consultative bodies, the AUDIT and PERSONNEL BOARD.

From 1 January to 31 December 2017, the Audit Board was composed of the following three members:

- Mitja Svoljšak (Chairman),
- Roman Dobnikar (Deputy Chairman), and
- Alojz Dimič (Member – external expert).

From 1 January to 31 December 2017, the Personnel Board was composed of the following four members:

- Saša Ivan Geržina (Chairman)
- Mitja Svoljšak (Deputy Chairman),
- Karol Peter Peršolja, DSc (Member), and
- Katja Simončič (Member – employees' representative).

The work of the Supervisory Board, Audit Board and Personnel Board was well organized and performed in accordance with applicable rules of procedure of the bodies. Members received all materials in a timely manner, and the quality of the materials allowed them to be properly informed on pending matters.

Details on the operations of the Supervisory Board and its consultative bodies[3]

In 2017, Supervisory Board members convened for nine regular sessions (no special session or session by correspondence took place) and passed 78 decisions.

Attendance of individual Supervisory Board members at individual sessions:

- two members attended all the sessions held in 2017, the remaining four were absent from one session in 2017.

3 (Item 8.4 of the Code)

In 2017, the Audit Board convened for seven regular sessions and passed 27 decisions.

Attendance of individual Audit Board members at individual sessions:

- two members attended all the sessions held in 2017, one was absent from one session.

In 2017, the Personnel Board convened for three regular sessions and passed 15 decisions.

All Personnel Board members attended all the sessions held in 2017.

The members regularly received relevant information, reports and materials for Supervisory Board sessions and sessions of the two consultative bodies and kept a close watch on the fulfilment of the decisions passed.

Consents to leadership and management actions

In 2017, the Management of GEN energija was required to obtain prior consent from the Supervisory Board for the following types of legal transactions:

- acquisition or disposal or encumbrance of stocks or business interests in subsidiaries and other companies,
- establishment or termination of other companies, branches, plants,
- purchase, sale or other disposal, exchange or encumbrance of properties owned by the company,
- all legal transactions (including investments, credit transactions and similar) where the value of a single transaction or multiple linked transactions exceeds 1% of the company's share capital, or EUR 2,500,000.00, except trading transactions with electricity, emission allowances or their equivalents, natural gas, liquefied petroleum gas, as well as linked transactions in connection with short-term cash management in the GEN Group and transactions involving short-term placement of cash into deposits in commercial banks, and
- issuing of collateral, warranties or guarantees to secure obligations of third parties.

In 2017, pursuant to the provisions of the applicable Articles of Incorporation and with a prior consent from the Supervisory Board, the Management concluded one legal transaction – prior consent was given to the disposal of a 24% business interest that the company GEN energija d.o.o. held in the company ARJE, analize in raziskave na področju jedrske energetike, d.o.o.

Interim supervision of business operations

The Supervisory Board periodically (each quarter) reviewed interim reports on the operations of the company GEN and the GEN Group. The Audit Board also reported to the Supervisory Board on all interim reports after having carried out preliminary reviews of mainly accounting and financial aspects of the interim results. The Supervisory Board gave consent in 2018 to the company's electricity trading strategy for 2019 and beyond and kept abreast of running operations of the GEN Group companies, their investments, number of employees and optimization of labour costs, value of assets, equity, receivables, operating revenues and expenses, operating profit or loss and net profit or loss of the Group companies. The Supervisory Board also kept abreast of other matters that impact the fulfilment of goals as set out in the SSH Annual Governance Plan.

Major decisions made by the Supervisory Board

Approval of the Annual Report of the GEN Group for 2016

On 10 July 2017, the 38^{th} regular session of the Supervisory Board reviewed the composition of the Annual Report of the company GEN and the GEN Group for 2016 and the proposal for the allocation of balance-sheet profit. The Supervisory Board had no objections to the Annual Report and approved it along with the auditor's opinion.

Financial statements and proposal for the allocation of balance-sheet profit for 2016

In reviewing the Annual Report of the company GEN and the GEN Group for 2016, the Supervisory Board:

- checked the composition of the Annual Report and found that the company achieved good business, commercial and financial results in 2016,
- approved the contents of the Annual Report, along with the auditor's opinions for the company GEN energija and the company GEN,
- compiled a written Supervisory Board Report for the Founder, and
- gave its consent to the management's proposal regarding the allocation of balance-sheet profit.

The Annual Report was audited by Ernst & Young, Revizija, poslovno svetovanje d.o.o., Ljubljana, appointed on 7 July 2016 with Decision No. 2016009567 by the Slovenian Sovereign Holding, acting in its capacity as the Founder, to audit the financial statements of the company GEN energija and the consolidated financial statements of the GEN Group for the

2016 business year. The authorized auditing firm delivered a favourable opinion on the Annual Report.

The Supervisory Board had no objections to the auditor's opinion and consented to it.

The Management produced a proposal for the Founder for exercising partner rights in the company GEN energija d.o.o. (material for the 2017 General Meeting of the company GEN energija d.o.o.), and on 10 July 2017, the 38th regular session of the Supervisory Board was briefed on the proposals of decisions for the Founder made by the chief executive of GEN energija d.o.o.

Acting in its capacity as the founder and sole owner of the company GEN energija, the Slovenian Sovereign Holding then passed the following decisions on 2 August 2017:

- it was presented with the Annual Report of the company GEN energija d.o.o. and the consolidated Annual Report of the GEN Group for 2016, along with the Auditor's Reports and the Supervisory Board Report on the review of the Annual Report;
- the balance-sheet profit for 2016, totalling EUR 8,937,374.98, was allocated as follows: EUR 2,000,000.00 was paid out as a profit share to the sole owner within 90 days from the passing of the decision, EUR 2,937,374.98 was distributed to other revenue reserves, and EUR 4,000,000.00 was accumulated profit;
- granted a discharge to the General Director and Supervisory Board for their work in the 2016 business year.

Consent to the Business Plan of the company GEN energija d.o.o. and the GEN Group for 2018 with a forecast for 2019 and 2020

On 23 October 2017, the 40th regular session of the Supervisory Board reviewed a draft Annual Report of the company GEN energija d.o.o. and the GEN Group for 2018 with a forecast for 2019 and 2020, and on 30 November 2017, the 42nd regular session consented to it and notified the Founder of its approval pursuant to Article 22, paragraph 4 of the Articles of Incorporation of the limited liability company GEN energija d.o.o.

Consent to the electricity trading strategy

On 21 December 2017, the 43rd regular session of the Supervisory Board gave its consent to the Electricity Trading Strategy of the company GEN energija d.o.o. in 2018 for 2019 and beyond.

Self-evaluation and disclosures pursuant to the corporate governance code for capital assets of the Republic of Slovenia

Self-evaluation

At the beginning of 2017, the Supervisory Board conducted a performance evaluation procedure (self-evaluation) for 2016, and on 2 June 2017, the 37th regular session of the Supervisory Board passed the final performance evaluation report for 2016 along with an action plan for amendments. These were implemented on a running basis.

The performance evaluation procedure for 2017 is underway and will be carried out by completing a Supervisory Board self-evaluation matrix for 2017. Once the procedure is finished, the Supervisory Board will be briefed on the results and will adopt an action plan if needed.

Disclosures

- Pursuant to the Code[4], the company is disclosing in a clear and specific manner all remunerations and other rights of individual Supervisory Board members, by individual type of remuneration or type of other rights (full breakdown of costs as shown in the respective table).
- Pursuant to the Code[5], the Company is also disclosing the costs of Supervisory Board operations such as costs of legal opinions, translation costs, travel expenses, education expenses, special expert fee, etc.

  Of the specified costs, the costs of additional training for members of the GEN Supervisory Board in 2017 amounted to EUR 353.80 inclusive of VAT, travel expenses are presented in the table above; no other costs were incurred in 2017.

Approval of the Annual Report of the GEN Group for 2017

On 10 May 2018, the 45th regular session of the Supervisory Board passed the following decisions:

596/45.RS/Ad6:
The Supervisory Board of the company GEN energija has reviewed the composition of the Annual Report of the company GEN and the GEN Group for 2017 and the proposal for the allocation of balance-sheet profit. The Supervisory Board of the company GEN energija has found that the company achieved good business, commercial and financial results in 2017.

4 (Item 8.3 of the Code)

5 (Item 8.4 of the Code)

	Performance of function		Attendance fees		Costs		SB total		Agreed monthly remuneration
	Gross	Net	Gross	Net	Gross	Net	Gross	Net	
Karol Peter Peršolja									
SB chairman	16,950.00	12,327.74	2,475.00	1,800.07	1,484.17	1,079.44	20,909.17	15,207.24	**1,412.50**
PB member	2,825.04	2,054.65	660.00	480.02	360.18	261.96	3,845.22	2,796.63	**235.42**
Saša Ivan Geržina									
SB deputy chair	12,429.96	9,040.31	2,475.00	1,800.07	628.79	457.32	15,533.75	11,297.70	**1,035.83**
PB chairman	4,237.56	3,081.98	660.00	480.02	0.00	0.00	4,897.56	3,562.00	**353.13**
Roman Dobnikar									
SB member	11,300.04	8,218.52	2,200.00	1,600.06	934.68	679.79	14,434.72	10,498.37	**941.67**
AB deputy chair	3,107.52	2,260.10	1,540.00	1,120.04	97.68	71.04	4,745.20	3,451.18	**258.96**
Mitja Svoljšak									
SB member	11,300.04	8,218.52	2,200.00	1,600.06	703.27	511.49	14,203.31	10,330.07	**941.67**
AB chairman	4,237.56	3,081.98	1,540.00	1,120.04	18.31	13.32	5,795.87	4,215.34	**353.13**
PB deputy chair	3,107.52	2,260.10	660.00	480.02	18.31	13.32	3,785.83	2,753.44	**258.96**
Alojz Dimič									
AB member	4,237.56	3,081.98	1,320.00	960.04	357.13	259.74	5,914.69	4,301.75	**353.13**
Samo Furst									
SB member	11,300.04	8,218.52	2,200.00	1,600.06	581.97	423.27	14,082.01	10,241.85	**941.67**
Robert Bergant									
SB member	11,300.04	8,218.52	2,200.00	1,600.06	174.49	126.91	13,674.53	9,945.49	**941.67**
Katja Simončič									
PB member	2,825.04	2,054.65	660.00	480.02	332.10	241.54	3,817.14	2,776.21	**235.42**
Total	**99,157.92**	**72,117.56**	**20,790.00**	**15,120.57**	**5,691.10**	**4,139.14**	**125,639.02**	**91,377.27**	

597/45.RS/Ad6:
Based on the review of the Annual Report of the company GEN and the GEN Group for 2017, the accompanying financial statements with notes, and the Auditor's Opinions, the Supervisory Board of the company GEN energija finds to have no objections to the Annual Report and hereby approves it, along with the Auditor's Opinions for the company GEN energija and the GEN Group.

598/45.RS/Ad6:
The Supervisory Board of the company GEN energija produced for the Founder a written GEN Supervisory Board report on the results of the review of the Annual Report, which is attached hereto.

599/45.RS/Ad6:
The Supervisory Board of the company GEN energija consents to the company Management's proposal for the Founder to allocate the entire balance-sheet profit for 2017, in the total amount of EUR 13,769,463.28, to other revenue reserves.

Conclusion

The Supervisory Board members have found the operations and performance of the company GEN and the GEN Group in 2017 to be safe, consistent and successful. The company seeks to constantly improve its operations while paying special attention to ensuring reliability and safety for its production facilities, employees and the environment. The company is making ongoing efforts to modernize and invest in its production capacities and to promote employee training and education. Environmental acceptability, safety, reliability, sustainability and competitiveness are the key values the company pursues in its operations.

The Supervisory Board prepared this report in compliance with Article 282 of the Companies Act (CA-1). The Report of the Supervisory Board is intended for the Founder and sole owner of the company.

Karol Peter Peršolja, DSc,
Chairman of the GEN energija Supervisory Board

4. Statement of Corporate Governance for GEN energija d.o.o.

Pursuant to Article 70, paragraph 5 of the Companies Act (CA-1), I, General Director of the company GEN energija d.o.o., Martin Novšak, hereby declare that in 2017 the company was managed in compliance with applicable regulations and the applicable Articles of Incorporation of the limited liability company GEN energija d.o.o. ("Articles of Incorporation"), in line with good business practice, in adherence with the Corporate Governance Code for Capital Assets Management of the Republic of Slovenia and in accordance with the Recommendations and Expectations of the Slovenian Sovereign Holding ("SSH") applicable as appropriate.

The company GEN energija d.o.o. operates pursuant to the Corporate Governance Code for Capital Assets Management of the Republic of Slovenia as adopted by the Slovenian Sovereign Holding in March 2016 and May 2017. The Code is publicly available on the Slovenian Sovereign Holding website at: https://www.sdh.si/en-gb/asset-management/key-ssh-asset-management-documents.

The company GEN energija d.o.o. was founded by the Republic of Slovenia, which is duly represented by the Management Board of the Slovenian Sovereign Holding pursuant to the Slovenian Sovereign Holding Act.

The **Founder**, acting in the capacity and possessing all the authorizations of the General Meeting, has independently weighed up and decided on the following matters in 2017:

- amendments to the company's Articles of Incorporation,
- adoption of fundamental aspects for the corporate policy and decision-making on the Development Plan of the company GEN and the GEN Group for a five-year period, which may include financial, corporate, personnel and organizational restructuring, on the proposal of the Management and with the consent of the Supervisory Board,
- adoption of the Annual Report if the Supervisory Board does not approve the Annual Report or if the Management and Supervisory Board leave the decision on the adoption of the Annual Report to the Founder,
- allocation of balance-sheet profit,
- giving a discharge to the Management and Supervisory Board, where damages claims may also be filed against persons given a discharge,
- reimbursement of follow-up capital contributions,
- distribution and termination of business interests,
- charging of business interests/stocks in subsidiaries on the proposal of the Management and with the consent of the Supervisory Board,
- concluding agreements and other legal transactions whereby the company undertakes to transfer onto another party, whether or not for financial consideration, in one legal transaction or multiple linked legal transactions, a minimum of 3% (three percent) of the company's assets, where the transfer is outside the scope of the provisions on the change of legal form under the Companies Act (CA-1),
- laying down the remuneration policy for members of the management on the proposal of the Supervisory Board,
- changes to the company's share capital,
- changes to the company's legal form or the dissolution of the company,
- appointments and dismissals of the company's Supervisory Board members,
- appointment of an auditor for the company on the proposal of the Supervisory Board,
- introduction and appointment of an authorized signatory, termination of the authorized signatory capacity and the introduction of an authorized representative,
- remuneration of work for the Supervisory Board members,
- other matters in line with its authorizations and mandates as provided for in the applicable legislation and the company's Articles of Incorporation.

The company has one **chief executive, the General Director**.

Pursuant to the Articles of Incorporation, the Management carries out the following activities:

- managing all the company's business operations and making decisions which fall outside the scope of the Supervisory Board or the company Founder pursuant to the law or the Articles of Incorporation,
- producing an Annual Report and submitting it to the Supervisory Board or Founder for approval if the Supervisory Board does not approve the Annual Report or if the Management and Supervisory Board leave the decision on the adoption of the Annual Report to the Founder,
- presenting the General Meeting with a proposal for the allocation of balance-sheet profit, along with the Annual Report and the Report of the Supervisory Board,
- reporting, on at least a quarterly basis, to the Supervisory Board and the Founder on all matters as laid down in the Articles of Incorporation,
- performing other tasks and duties in accordance with applicable laws and other regulations, the company's binding documents, received instructions and other decisions made by the Founder and the Supervisory Board.

The company has a **Supervisory Board**, made up of six members, four of which represent the interests of the Founder and are appointed and removed by the Founder, with two members representing employees' interests, who are appointed and removed pursuant to the Worker Participation in Management Act.

All members are appointed for a four-year term and may be reappointed after the end of the term.

The Supervisory Board held the following powers in 2017:

- overseeing the management of the company's operations,
- authorization to check and review the company's ledgers and documentation, its balances on hand, held securities and inventories and other matters, where it may authorize an individual Supervisory Board member or the Audit Board to exercise these rights, or a special expert for certain tasks, where a contract with the expert needs to be signed by the Chairman of the Supervisory Board,
- reviewing and approving the Annual Report and reviewing the proposal for the allocation of balance-sheet profit,
- producing a written report for the Founder on the results of the review of the Annual Report and the proposal for the allocation of balance-sheet profit,
- giving consent to the proposed fundamental aspects of the corporate policy and to the Development Plan of the company GEN and the GEN Group,
- checking the implementation of the adopted fundamental aspects of the corporate policy and implementation of the Development Plan of the company GEN and the GEN Group and proposing potential adjustments,
- giving consent to the business plan of the company GEN and the GEN Group,
- proposing to the Founder an auditor for auditing the company's financial statements; once confirmed, an auditor signs a contract with the Chairman of the Supervisory Board,
- appointing the Audit Board and other boards,
- giving consent to the appointment, dismissal and remuneration of the Head of Internal Audit,
- giving consent to the annual work programme for Internal Audit,
- briefing on the annual report on the work carried out by Internal Audit,
- appointing and dismissing members of Management,
- concluding employment agreements and management agreements with members of Management,
- giving consent to the company Management's decisions made at general meetings of subsidiaries in the event of changes to legal form or equity,
- giving consent to the management's transferring of certain business functions from subsidiaries wholly owned by the company onto the company (establishment of operational holding duties),
- adopting the Rules of Procedure of the Supervisory Board,
- giving consent to individual transactions by the Management pursuant to the Articles of Incorporation,
- giving consent to the Rules of Procedure of the Management, and
- authorization to request reports on other matters and issues.

In fulfilling its supervisory function, the Supervisory Board may check and review the company's business ledgers and documentation, its balances on hand, held securities, goods inventories and other matters. To exercise these rights, the Supervisory Board may authorize an individual Supervisory Board member, a Board, or for certain tasks, a special expert. In concluding a contract with an expert, the company is duly represented by the Chairman of the Supervisory Board.

The Supervisory Board may request from the Management any information needed for supervision purposes. The Management provides the required information to the Supervisory Board, acting in the capacity of the company's body.

To further increase the transparency of the company GEN and the GEN Group's operations, the Supervisory Board constituted two boards: Audit Board and Personnel Board.

The three-member **Audit Board** performs duties and tasks as laid down by the act governing companies, while any additional duties and tasks are set out in the Rules of Procedure of the Audit Board and/or a Supervisory Board decision. One member of the Audit Board is an independent expert specializing in accounting or auditing. The other two members of the Audit Board are Supervisory Board members who are appointed by the Founder and are independent from the company.

The Audit Board holds the following powers:

- monitoring the financial reporting procedure,
- monitoring the effectiveness of the company's internal control, internal audit (if established) and risk management systems,
- monitoring the mandatory audit of annual and consolidated financial statements,
- checking and monitoring the autonomy of the auditor of the company's Annual Report, particularly their provision of additional, non-audit services,
- proposing to the Supervisory Board a candidate for auditing the company's Annual Report,
- supervising the accuracy and correctness of the financial information released by the company,
- assessing the production of the Annual Report, including formulating a proposal for the Supervisory Board,
- cooperation in determining the key areas for audit,
- cooperation in drafting an agreement between the auditor and the company,

- performing other tasks and duties as laid down by the Articles of Incorporation or a Supervisory Board decision, and
- cooperation with the auditor during the auditing of the company's Annual Report, particularly through regular communication on the main matters regarding the audit.

Within its scope of powers, the Audit Board:

- drafts proposals of Supervisory Board decisions,
- sees to the implementation of Supervisory Board decisions, and
- performs specialized duties and tasks, but may not decide on matters that are within the competence of the Supervisory Board.

The **Personnel Board** is a four-member working body of the Supervisory Board. Three board members are representatives of the Founder, one a representative of the employees.

The Personnel Board holds the following powers:

- drafting proposals for the Supervisory Board for laying down criteria and candidates for the company's Management,
- preparing or cooperation in preparing a proposal of the Management remuneration policy,
- preparing proposals and criteria for evaluating the performance of work by the Management and for rewarding members of Management,
- determining and monitoring goals and criteria for evaluating the performance of work by members of Management,
- preparing proposals for remuneration, reimbursements and other benefits for members of Management, and
- performing other tasks and duties as laid down by the Articles of Incorporation or a Supervisory Board decision.

Detailed information on the powers, work methods and constitution of the bodies of GEN energija d.o.o. is available in the Articles of Incorporation, published on the AJPES website.

Details on the composition of the management and supervisory bodies are published in the Annual Report and on the company's website.

In its management and supervisory bodies, the company GEN energija d.o.o. meets the diversity policy requirement as set out in Article 70, paragraph 5, item 7 of the Companies Act.

In constituting the Supervisory Board, the competent authority adhered to the diversity requirement as described below:

- in terms of age (at the end of the 2017 business year, the youngest member of the Supervisory Board was 36 years old, the oldest 77, with 49 years being the average age of the Supervisory Board members)
- in terms of qualification type (half of the Supervisory Board members hold a degree in economy, the remaining members hold respective degrees in electrical engineering, nuclear engineering, and law)
- in terms of level of qualification (the average level of qualification among the Supervisory Board members is 8.6).

The diversity policy requirement does not apply to the company Management, since it is a one-person management.

Company's main internal control and risk management systems in connection with financial reporting

The company's Management is responsible for keeping suitable business ledgers, implementing and enabling internal control procedures and internal accounting controls, selecting and applying accounting policies, and safeguarding the company's assets.

The internal accounting controls in place in the company GEN are designed to manage risks, primarily regarding:

- the accuracy and credibility of financial and accounting data based on proof of existence of business transactions and on accurate bookkeeping documents, which clearly reflect all data needed for their correct posting and recording,
- accuracy of financial and accounting data derived from reconciling analytical and main bookkeeping, by comparing analytical bookkeeping against bookkeeping documents, and by comparing bookkeeping documents against data from business partners or other independent records,
- completeness and timeliness of financial and accounting data, which are ensured by following standardized accounting policies, as appropriate based on the company's internal binding documents, with precisely defined procedures, posting dates, and suitable delineation of duties and responsibilities – both for the company GEN and the GEN Group as a whole.

Risks in connection with the GEN Group's consolidated financial statements are managed by steering and supervising the performance of activities by accounting departments in the subsidiaries and companies making up the GEN Group, as well as by auditing the annual financial statements of these companies.

Martin Novšak

General Director, GEN energija d.o.o.

5. GEN company profile

Company ID

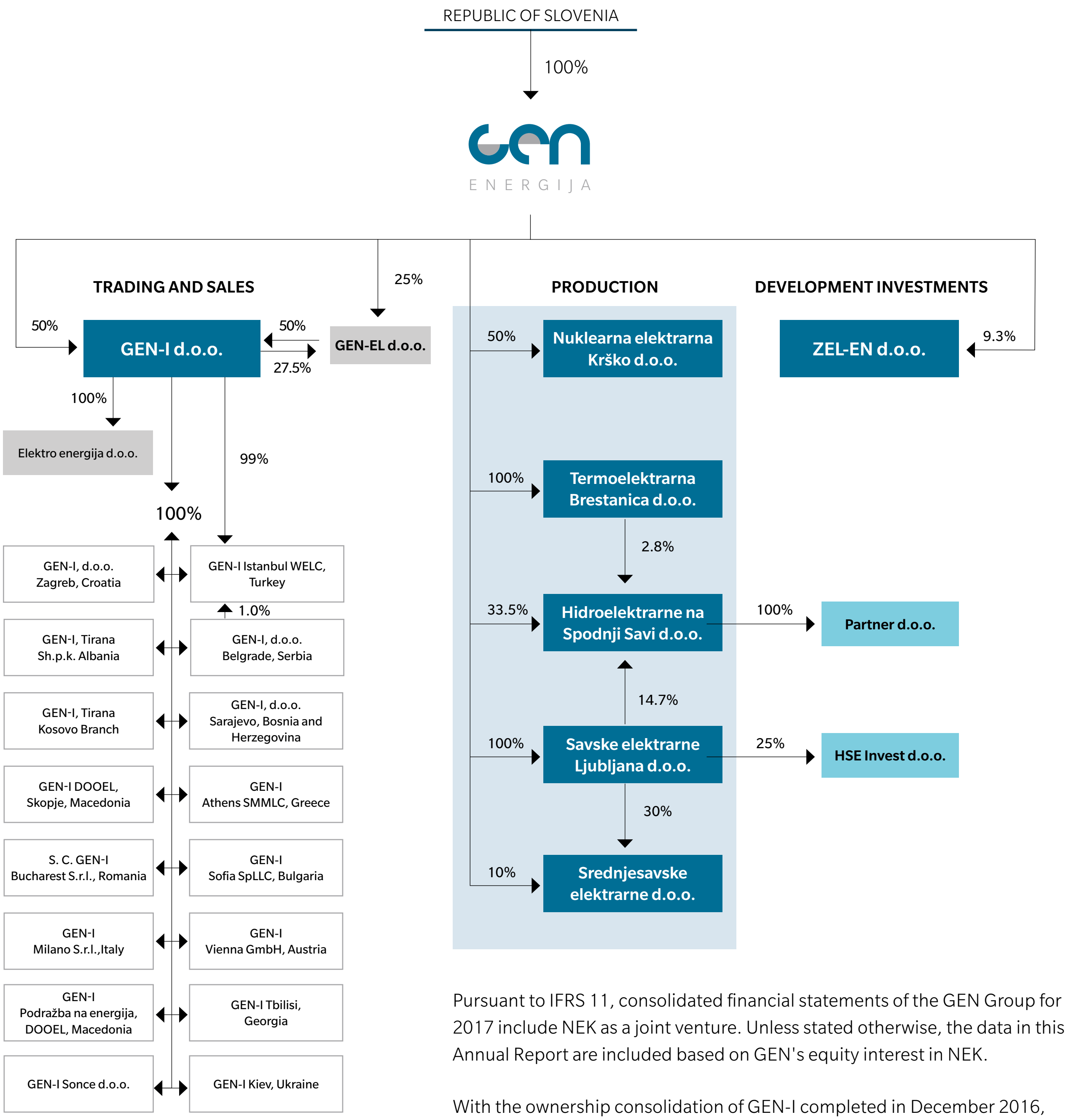
REGISTERED NAME			
GEN energija d.o.o.			
SHORT REGISTERED NAME **GEN d.o.o.**	REGISTERED ADDRESS **Vrbina 17, 8270 Krško**	E-MAIL **info@gen-energija.si**	WEBSITE **www.gen-energija.si**
ACTIVITY CODE **K/64.200** – Activities of holding companies **D/35.140** – Electricity trading, and other registered activities			
ESTABLISHED **2001**		REGISTRATION **District Court of Krško, file no. 10425000**	
VAT ID NUMBER **SI44454686**		COMPANY REGISTRATION NUMBER **1646613**	
SHARE CAPITAL **EUR 250,000,000.00**		BANK ACCOUNTS **Unicredit Banka Slovenija d.d.: SI56 2900 0005 5198 483** **ABANKA d.d.: SI56 0510 0801 4689 187** **NLB d.d.: SI56 0292 4009 0457 150** **SKB d.d.: SI56 0315 5100 0503 323**	
NUMBER OF EMPLOYEES **58**			
CHAIRMAN OF THE SUPERVISORY BOARD **Karol Peter Peršolja, DSc**		GENERAL DIRECTOR **Martin Novšak**	

5.1 Bodies of the company GEN

FOUNDER			
The Republic of Slovenia, legally represented by the SSH			
SUPERVISORY BOARD			
Chairman **Karol Peter Peršolja, DSc**		Deputy Chairman **Saša Ivan Geržina**	
Members			
Mitja Svoljšak	**Roman Dobnikar**	**Samo Furst**	**Robert Bergant, DSc**
MANAGEMENT – GENERAL DIRECTOR			
Martin Novšak			

5.2 Affiliated companies

GEN Group companies as at 31/12/2017



Pursuant to IFRS 11, consolidated financial statements of the GEN Group for 2017 include NEK as a joint venture. Unless stated otherwise, the data in this Annual Report are included based on GEN's equity interest in NEK.

With the ownership consolidation of GEN-I completed in December 2016, the subsidiary GEN-I became part of the GEN Group; this has a significant impact on mutual business relationships and controlling and management methods and is equally significantly reflected in the financial data.

6. Holding activities of the company GEN

One of GEN's core 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 steers and manages the companies making up the GEN Group by participating in general meetings, managing their financial results, sanctioning necessary documents, and appointing representatives to their supervisory boards – all in compliance with relevant Articles of Incorporation and/or Memorandums of Association. Also, GEN management regularly coordinates its actions with the managements of these companies.

Production

Nuklearna elektrarna Krško d.o.o. Vrbina 12, 8270 Krško www.nek.si	**Savske elektrarne Ljubljana d.o.o.** Gorenjska cesta 46, 1215 Medvode www.sel.si
PRINCIPAL ACTIVITY	
Electricity generation at a nuclear power plant	Electricity generation at a nuclear power plant
COMPANY MANAGEMENT	
Stane Rožman, Chairman of the Management Board **Hrvoje Perharić**, Member of the Management Boarde	**Drago Polak**, Director
CHAIRMAN OF THE SUPERVISORY BOARD	
Kažimir Vrankić	**Jože Špiler** With the amended Articles of Incorporation of the company SEL entering into force, SEL Supervisory Board was abolished on 24/11/2017.
COMPANY STATUS ACCORDING TO IFRS	
Joint venture	Subsidiary
OWNERSHIP STRUCTURE	
The companies GEN and HEP each hold a 50% stake in this 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.	Wholly-owned by the company GEN.
BRIEF DESCRIPTION AND ACTIVITY SPECIFICS	
NEK generates around 5,400 GWh of low-carbon electricity a year, which makes up around 40% of Slovenia's total electricity output.	SEL's large hydroelectric power plants (Moste HPP, Mavčiče HPP, Medvode HPP, Vrhovo HPP) generate around 320 GWh of electricity a year.

Production

Termoelektrarna Brestanica d.o.o.	Hidroelektrarne na Spodnji Savi, d.o.o.	Srednjesavske elektrarne d.o.o.
Cesta prvih borcev 18, 8280 Brestanica www.teb.si	Cesta bratov Cerjakov 33a, 8250 Brežice www.he-ss.si	Ob železnici 27, 1420 Trbovlje
PRINCIPAL ACTIVITY		
Electricity generation at a thermal power plant, a standby energy source for the power grid	Electricity generation at hydroelectric power plants	Electricity generation at hydroelectric power plants
COMPANY MANAGEMENT		
Tomislav Malgaj, Director	**Bogdan Barbič**, Director	**Matjaž Eberlinc, DSc**, Director
CHAIRMAN OF THE SUPERVISORY BOARD		
Jože Špiler With the amended Articles of Incorporation of the company TEB entering into force, TEB Supervisory Board was abolished on 05/01/2018.	**Janez Kržan, MSc**	**Matjaž Marovt**
COMPANY STATUS ACCORDING TO IFRS		
Subsidiary	Subsidiary	Affiliated company
OWNERSHIP STRUCTURE		
Wholly-owned by the company GEN	The GEN Group holds a 51% equity interest in HESS, which is distributed as follows: 33.5% is held by the company GEN, 14.7% by SEL, and 2.8% by TEB.	The GEN Group holds a 40% equity interest in SRESA: the company GEN 10% and SEL 30%.
BRIEF DESCRIPTION AND ACTIVITY SPECIFICS		
TEB supplies electricity during outages of major production units and is a reliable standby power source within Slovenia's power grid.	The company HESS was established in 2008 with the purpose of facilitating the construction of hydroelectric power plants on the lower course of the River Sava. HESS's already completed large hydroelectric power plants (Boštanj HPP, Arto-Blanca HPP, Krško HPP and Brežice HPP) generate around 580 GWh of electricity a year.	Operations of the company SRESA are still largely limited due to the unsigned Concession Agreement for the use of water for electricity generation on the Ježica–Suhadol section of the River Sava.

Trading and sales

GEN-I, d.o.o.	ELEKTRO ENERGIJA d.o.o.
Vrbina 17, 8270 Krško www.gen-i.si	Dunajska cesta 119, 1000 Ljubljana www.elektro-energija.si
PRINCIPAL ACTIVITY	
Electricity trading, sales and purchasing	Sales of electricity and natural gas to consumers and purchasing of electricity. Electricity and natural gas portfolio management.
COMPANY MANAGEMENT	
Robert Golob, DSc, President of the Management Board **Danijel Levičar**, Member of the Management Board **Igor Koprivnikar**, Member of the Management Board **Andrej Šajn**, Member of the Management Board	**Bojan Kumer, MSc**, Director
CHAIRMAN OF THE SUPERVISORY BOARD	
/	/
COMPANY STATUS ACCORDING TO IFRS	
Subsidiary	Subsidiary
OWNERSHIP STRUCTURE	
The companies GEN and GEN-EL each hold a 50% stake in this company's share capital.	GEN-I holds a 100% equity interest in the company.
BRIEF DESCRIPTION AND ACTIVITY SPECIFICS	
The GEN-I Group purchases electricity and natural gas from producers, trades in them both locally and internationally, and sells them to consumers.	The company specializes in selling electricity, natural gas and other energy products to consumers, purchasing from producers, and bilateral and exchange trading in standardized products in the wholesale market.

Research, development, services, and other

ZEL-EN
razvojni center energetike, d.o.o.

ZEL-EN, razvojni center energetike d.o.o. Vrbina 18, 8270 Krško www.zel-en.si	**GEN-EL, d.o.o.** Vrbina 17, 8270 Krško
PRINCIPAL ACTIVITY	
Research and development for the energy industry	Investment management
COMPANY MANAGEMENT	
Domen Zorko, Director	**Martina Pohar**, Director
CHAIRMAN OF THE SUPERVISORY BOARD	
/	/
COMPANY STATUS ACCORDING TO IFRS	
Investment	Subsidiary
OWNERSHIP STRUCTURE	
The company GEN holds a 9.28% business interest in ZEL-EN.	The company GEN holds a 25% equity interest, GEN-I 27.5%, IGES 25%, and Elektro Ljubljana d.d. 22.5%.
BRIEF DESCRIPTION AND ACTIVITY SPECIFICS	
By acquiring a stake in ZEL-EN, the company GEN has become eligible to receive development funding from the ERDF for research in the field of nuclear power technology.	The company was established for the purpose of ownership consolidation of the GEN-I Group.

7. Corporate Policy of the company GEN

The corporate policy of the company GEN derives from the GEN Group Development Plan for the 2015–2019 period with a look ahead to 2024. The company GEN is the initiator of this policy and its driver at all levels of decision-making within the GEN Group. As a result, the corporate policy is becoming the keystone of operations across the GEN Group.

7.1 Vision

Building a safe, reliable, sustainable and competitive energy future for Slovenia.

7.2 Mission

Providing a reliable supply of low-carbon electricity from sustainable and renewable sources at competitive prices. Generating value added for our stakeholders by controlling the entire power supply cycle:

- generating electricity in an environmentally responsible, safe and reliable way,
- efficiently engaging in electricity trading and sales, and
- systematically developing and investing in the maintenance of existing production capacities and their expansion.

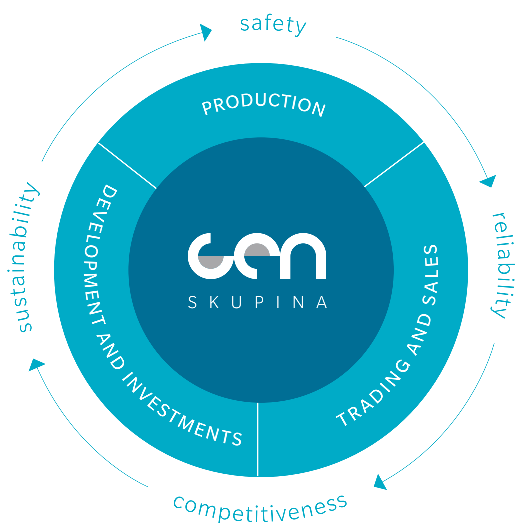
7.3 Values

Our operations are responsible, efficient and transparent and driven by knowledge and expertise. We maintain our future-oriented focus by building on the results we achieve and the experience we gain.

In providing a comprehensive supply of electricity, we adhere to the following core values:

- **environmental acceptability:** ensuring compliance with environmental standards is the cornerstone of the GEN Group's operations, as the power generation across the Group companies has very little impact on the environment in terms of various emissions.
- **safety:** commitment to ensuring safety, particularly nuclear safety, is at the heart of our operations at every level; we always make sure that our employees, the people and the environment are safe, and that the technologies in our production facilities operate safely.
- **reliability:** we provide a reliable supply of electricity from sustainable and renewable sources, primarily nuclear and hydro; electricity is supplied to consumers whenever they need it. Trading is essential to ensuring a reliable supply if our power generation facilities fail to meet the demand for electricity.

Interconnection between GEN vision, mission and values



- **sustainability:** supplying electricity from low-carbon sources in an environmentally and socially responsible, operationally efficient and commercially excellent way – these are the core sustainability focuses our operation revolves around.
- **competitiveness:** the electricity we sell and trade in is affordable for industrial and residential consumers alike – this way we help improve the stability and competitiveness of the business environment and promote the well-being of society.

In our work we also follow the rules of business ethics as laid down in the GEN energija Business Ethics Code of Conduct. By adhering to the code of conduct, we maintain and build on the high standards of our operation that are oriented towards creating a safe, efficient, professional and pleasant working environment all the company GEN's employees are proud to be part of.

7.4 Strategic goals

The strategic goals of the company GEN are to:

- manage, run, maintain and invest in its existing facilities with the aim of ensuring **safe, reliable, environment-friendly and economical operation of the existing production units in the long term,**
- **expand its sales portfolio for electricity and electricity market-related services,** with the aim of increasing competition in the market,
- **invest in new production capabilities** built around renewable and sustainable sources and technologies in order to increase the reliability of electricity supply to consumers and, as a result, to contribute to the sustainable development of Slovenia.

8. Pursuing sustainability focuses through responsible operations

For us in the GEN Group, being responsible in what we do means to be in constant pursuit of sustainability focuses. In other words, we make a continuous effort to ensure that:

- **operational efficiency and business excellence,**
- **environmental responsibility**, and
- **caring for society** are the cornerstones of operations in every individual company and the GEN Group as a whole.

At the heart of GEN's sustainability-focused strategic pillars are **safety** and **knowledge**, the two biggest determining factors of success in the following spheres: operational, commercial, environmental and social.

8.1 Strong safety culture

Commitment to safety is the centrepiece of our responsible operations at all levels:

- **environmental responsibility:** showing a sense of responsibility towards the local people and the environment in which we operate,
- **care for society:** ensuring occupational health and safety for our employees, both in production and office settings,
- **operational efficiency:** achieving operational efficiency of the GEN Group's production facilities and the resulting **business excellence**.

As far as safety goes, our top priority is ensuring **nuclear safety**. The safety culture has been incorporated into all decision-making and work processes across the companies making up the GEN Group.

8.2 Achieving excellence through knowledge

Knowledge is the other common denominator of our responsibility in the operational, business, environmental and social dimensions. We are committed to achieving and maintaining a high level of knowledge, both internally and externally. In-house knowledge is provided by professionally qualified employees with suitable formal qualifications, functional training, experience and skills needed for responsible, efficient, effective and dedicated work. The motivation to gain knowledge and to spread it among coworkers and external stakeholders is essential to our business operations.

We are fully aware of the importance of having a society built on knowledge and professionalism. The knowledge and understanding of energy and the energy industry among various external stakeholders play an important part in securing a feasible, sustainable energy future for Slovenia.

8.3 Quality assurance policy

We constantly seek to:

- raise our quality assurance and safety culture to the highest possible level with the aim of meeting the demands in the comprehensive supply of electricity to consumers,
- create an in-house working environment that will encourage employees to get actively involved in the pursuit of goals,
- meet the requirements and continually improve the performance of our quality management system, and
- streamline operations by standardizing processes and assignments and by optimizing the use of resources.

8.4 Implementing the GEN Group's corporate policy

Development plan of the GEN Group

We have been fulfilling the action plan for optimizing the operations of the company GEN and the GEN Group since 2015, which was laid down based on the GEN Group Development Plan for the 2015–2019 period with a look ahead to 2024 and passed by the SSH in its capacity as the company founder. We seek to fulfill our set of goals and implement the projected measures aiming to streamline operations and improve cost-effectiveness.

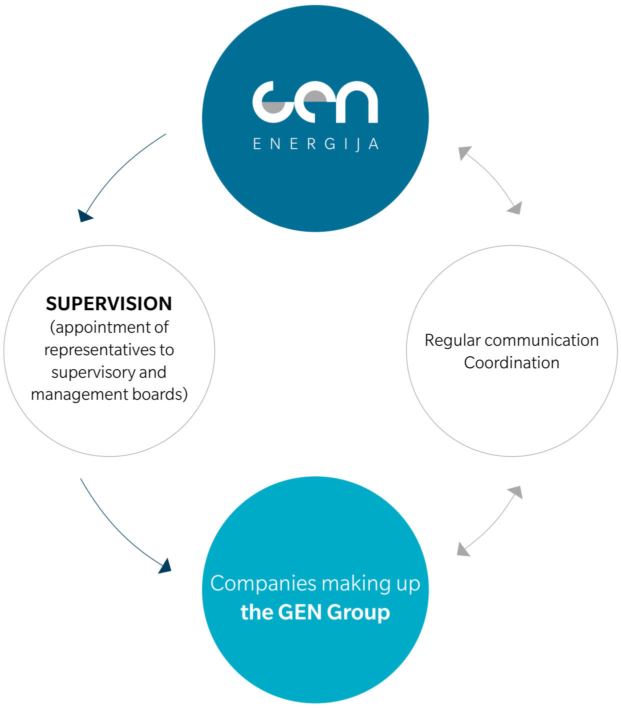
Collaboration, coordination and communication among companies

Open communication among all the GEN Group companies ensures proper and prompt access to important information needed for:

- managing the companies,
- steering their operation,
- keeping track of approved investments, and
- implementing development activities.

We pay special attention to the specific nature of running and operating a nuclear installation, where the owner is required to demonstrate an in-depth understanding of the needs for securing suitable human resources and obtaining sufficient financial resources so as to ensure reliable and safe operation of NEK. NEK's operating results in recent years are proof that the company has implemented suitable organizational and HR upgrades needed to ensure successful and safe operation of the power plant in the long term.

Interaction between the company GEN and the rest of the companies making up the GEN Group



Stakeholder relations

We establish, foster and improve relations with our key stakeholders in line with our values of conducting responsible, efficient and transparent business operations based on knowledge, professionalism, and a continuous effort to ensure safety.

We open a dialogue with our stakeholders, work with them, and include them in our operations in various ways based on their interests and the identified scope of interactions. Gaining the trust of stakeholders is key to further improving the value and reputation of the GEN Group.

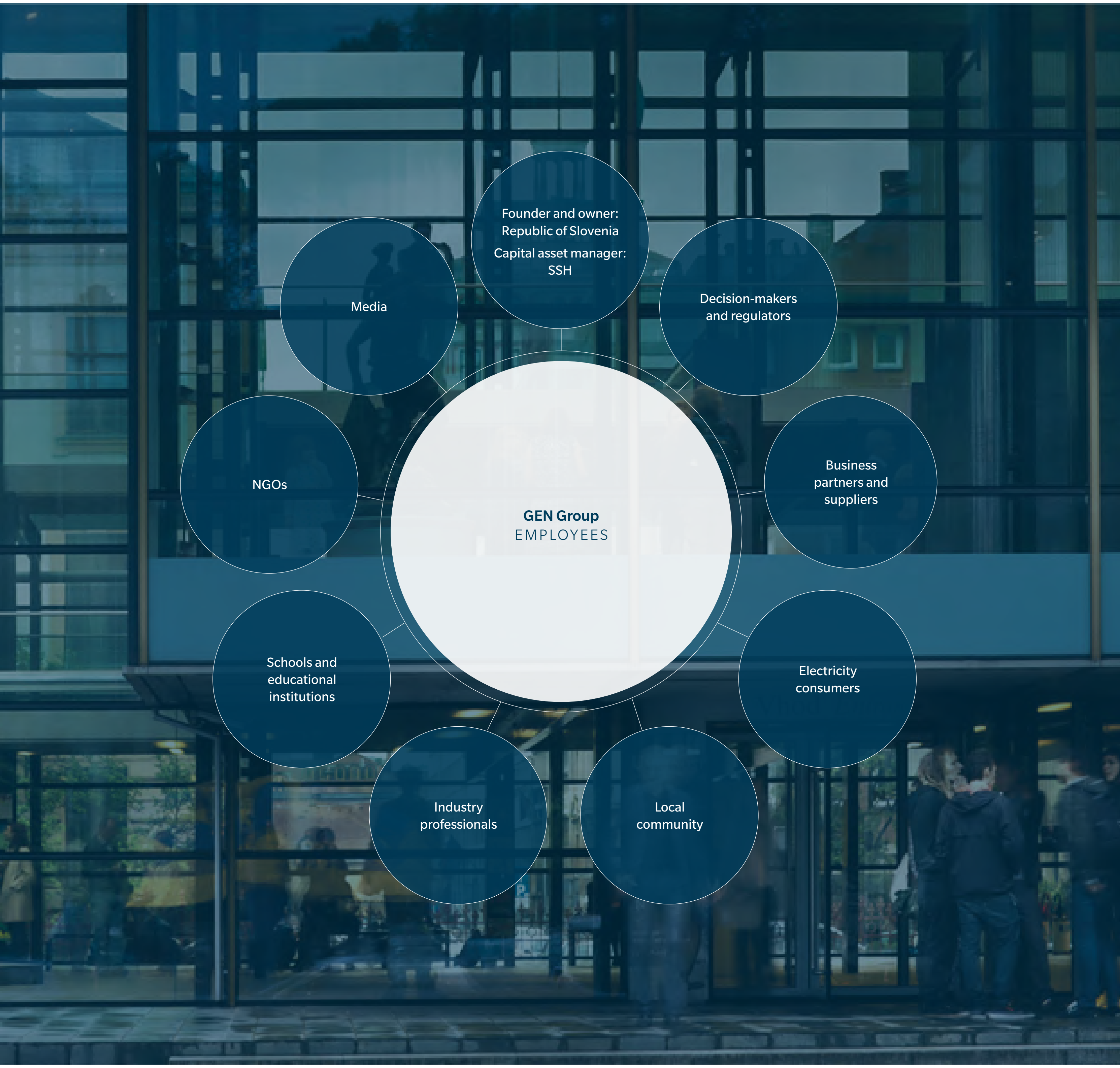
Fulfilment of strategic goals

We are pleased to say that the GEN Group is meeting its strategic goals in line with the GEN Group Development Plan – in terms of operational efficiency and business excellence, as well as environmental responsibility and care for society.

We have strengthened our ownership and business relationships in the area of electricity trading and sales, which will allow us to stay competitive in the market in the long term. By merging, the companies GEN-I and Elektro energija consolidated their competitive position and together offer innovative solutions in the energy markets in Slovenia, the neighbouring countries and Southeast Europe. The merging of both companies facilitates the stabilization of operations and electricity sales and drives flexible future development focused on long-term sustainability.

The optimization of service costs in the entire chain – from electricity generation to sales – brings many benefits, particularly to buyers of electricity, both in the residential and commercial consumer segments. GEN energija is strengthening the vertical integration within the GEN Group, from electricity generation to consumers, and at the same time fostering conditions for stable operation and business of all the power plants in the GEN Group, which account for a total of 40% of all electricity generated in Slovenia – with more than 99% of their electricity output being generated from low-carbon sources.

GEN and stakeholders



9. Notable events in the companies making up the GEN Group

January	**HESS**	Generating unit 1 of Brežice HPP has been in trial operation since 20/01/2017.
	TEB	Increased scope of operation also for trading purposes on account of low temperatures and shortage of electricity. Apart from regular start-ups for providing minute reserves in the electric power grid, the power plant executed a number of commercial start-ups in response to increased electricity prices in the market to achieve higher competitiveness.
February	**NEK**	At 08:13 a.m. on 16/02/2017, Krško Nuclear Power Plant (NEK) experienced an automatic shutdown due to a defected current-to-pressure transducer on one of its two control valves for the main feedwater in the conventional section of the power plant. The defected part was replaced, and NEK was reconnected to the power grid at 02:07 p.m. on 17/02/2017.
March	**SEL**	Initial synchronization of Goričane SHP with running water was successfully carried out on 06/03/2017, followed by a successful initial synchronization with the distribution network a week later.
	TEB	On 02/03/2017, a contract for the project "Construction of 40-70 MW gas turbine units at Brestanica Thermal Power Plant, STAGE 1A; LOT 3 – auxiliary technological equipment" was signed with Konzorcij Nafta strojna d.o.o. (lead partner) and Esotech d.d. (partner). On 30/03/2017, a contract on the sale of TEB's business interest in the company Geoplin d.o.o. was signed with PETROL, Slovenska energetska družba, d.d., Ljubljana.
	HESS	Brežice HPP generating unit 2 was successfully synchronized with the transmission network on 07/03/2017.
	NEK	Contract signed for the first stage of dry storage for spent fuel.
April	**NEK**	A relief valve on the steam separator and superheater #1 automatically opened at 02:45 a.m. on 21/04/2017. The power plant's output was promptly reduced to 70% in order to stabilize the plant's operation. To fix the defective valve, the power plant had to be shut down. It was reconnected to the power grid at 10:54 a.m. on 22/04/2017.
May	**HESS**	Initial water-driven spinning of Brežice HPP generating unit 3 was carried out on 09/05/2017. Brežice HPP generating unit 3 was successfully synchronized with the transmission network on 18/05/2017.

June	**GEN-I**	Obtained shareholders' consent to conclude and execute a put and call option agreement with the company Elektro Ljubljana d.d. for acquiring a 22.5% interest in the share capital of GEN-I. The GEN-I General Shareholders' Meeting approved the Annual Report 2016 with auditor's opinion, passed a decision on the allocation of profit, and gave a discharge to the GEN-I management. Auditing firm Deloitte Revizija d.o.o. was appointed as auditor for the 2017 business year.
	GEN-I	Signed two new put and call option agreements with Elektro Ljubljana d.d. for acquiring a 22.5% interest in the share capital of GEN-I, with expiration date on 30/06/2020.
July	**TEB**	Completion of the reconstruction of the drive facility for turbo generating units, representing stage 1 of the construction of a new computer & communication centre. Based on a loan agreement signed with SID Bank, a second loan disbursement of EUR 4 million was made on 05/07/2017.
	GEN-I	"GEN-I as the most economically advantageous provider of electricity and natural gas is again winner of a Consumer Association of Slovenia campaign": the company GEN-I took part in the bidding procedure as part of the Consumer Association of Slovenia campaign "Swap and Save #2" and again offered the lowest rates for both electricity and natural gas from among all the bidders.
August	**HESS**	The reservoir was filled to the nominal elevation of 153 m a.s.l. on 11/08/2017.
September	**HESS**	A technical inspection of Brežice HPP was carried out in two legs in September and was successfully completed on 19/09/2017. Following the successful technical inspection, a Decision on Brežice HPP Trial Operation was issued on 25/09/2017, with one-year trial operation set to commence on 10/10/2017. Brežice HPP with its reservoir was officially opened on 27/09/2017.
	TEB	Under the tank and motorway decanting facility reconditioning project, a take-over certificate for the final acceptance of contractual work on the project was signed in early September, marking the end of trial operation.
	SEL	Ljubljana Administrative Unit issued an operating license for the reconstructed Goričane SHP on 13/09/2017.
	GEN-I	More than 100 solar power plants installed on homes.
October	**HESS**	Brežice HPP starts one-year trial operation on 10/10/2017.
	TEB	Internal technical and commissioning inspections of individual technological systems were completed on gas turbine unit PB6, and cold testing of the equipment and technological systems was carried out there as well.

November	**TEB**	Successfully executed attempt to spin the gas turbine using a drive motor and first firing of the turbine using natural gas.
	SEL	New Articles of Incorporation of the limited liability company Savske elektrarne Ljubljana d.o.o. were adopted, whereby the company's supervisory board is eliminated.
	GEN-I	The company GEN-I was successful in bidding for the public tender "Pilot/demo project – Lot I: Energy Conversion, Distribution and Management" for the project Development and demonstration of technologies for activating the technological and economic potential for adapting the offtake and the distributed electricity generation at small consumers ("Active Consumer"), winning co-funding in the amount of EUR 1.1 million.
December	**TEB**	Successful initial synchronization of gas turbine unit PB6 on 06/12/2017.

There were no notable business events in 2018.

II Business report

1. Economic trends and their impact on the electricity sector

Economic growth in the euro area picked up

The average economic growth rate in the euro area was 2.5% in 2017.

+2.5%

Source: UMAR

Average annual inflation rate

prices of consumer goods
+1.9%

+1.4%
inflation rate in Slovenia

commodity prices
+1.3%

prices of services
+1.7%

The inflation rate stood at 1.4% in 2017. The increase in prices was driven largely by higher prices of food and oil products, while on the other hand, the total price increase was held back mainly by lower car prices.

Data source: SURS

Factors affecting Slovenia's economic recovery

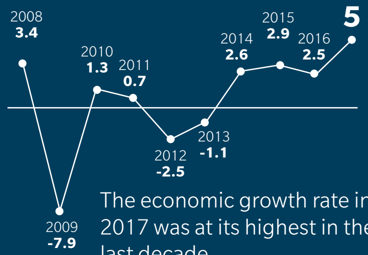
Increased private spending

Increased exports

Data source: UMAR

Slovenia's economic growth rate was 5%

Real GDP Growth Rate



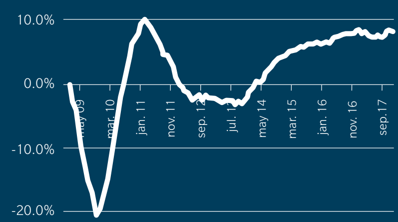
The economic growth rate in 2017 was at its highest in the last decade.

Data source: SURS and UMAR

Industrial production growth in 2017

Increasing industrial production is important to the electricity generation industry as it increases the consumption of electricity and other energy carriers.

12-month trend in exports and industrial production



Source: SURS, processed by CCIS Analytics

Unemployment rate in Slovenia decreased

60,000 unemployed
26.5% less than in 2016*

-26.5%

*Note: the data is based on survey-based unemployment figures (ILO)

Data source: SURS

Factors affecting Slovenia's energy sector in 2017

Process of drawing up the Energy Concept of Slovenia

The Energy Directorate of the Ministry of Infrastructure continued with the discussion on the shaping of the Energy Concept of Slovenia, which will provide a strategic framework for the development of Slovenia's energy sector by 2030 with a look ahead to 2050. Presentations of resources for discussing the development of the Energy Concept of Slovenia and presentations of various scenarios and long-term balances were organized in 2017. A proposal of the Energy Concept of Slovenia was released for public review at the end of 2017, to which we responded and submitted our comments.

Net import

Slovenia continues to be a net importer of electricity (19%).

Fluctuating prices of electricity

Around EUR 49.53 per MWh

Unfavourable hydrological conditions

SOCIAL CAPITAL

Overview of the economic and political situation in 2017:

- economic trends (economic growth, inflation, increasing industrial production),
- process of drawing up the Energy Concept of Slovenia.

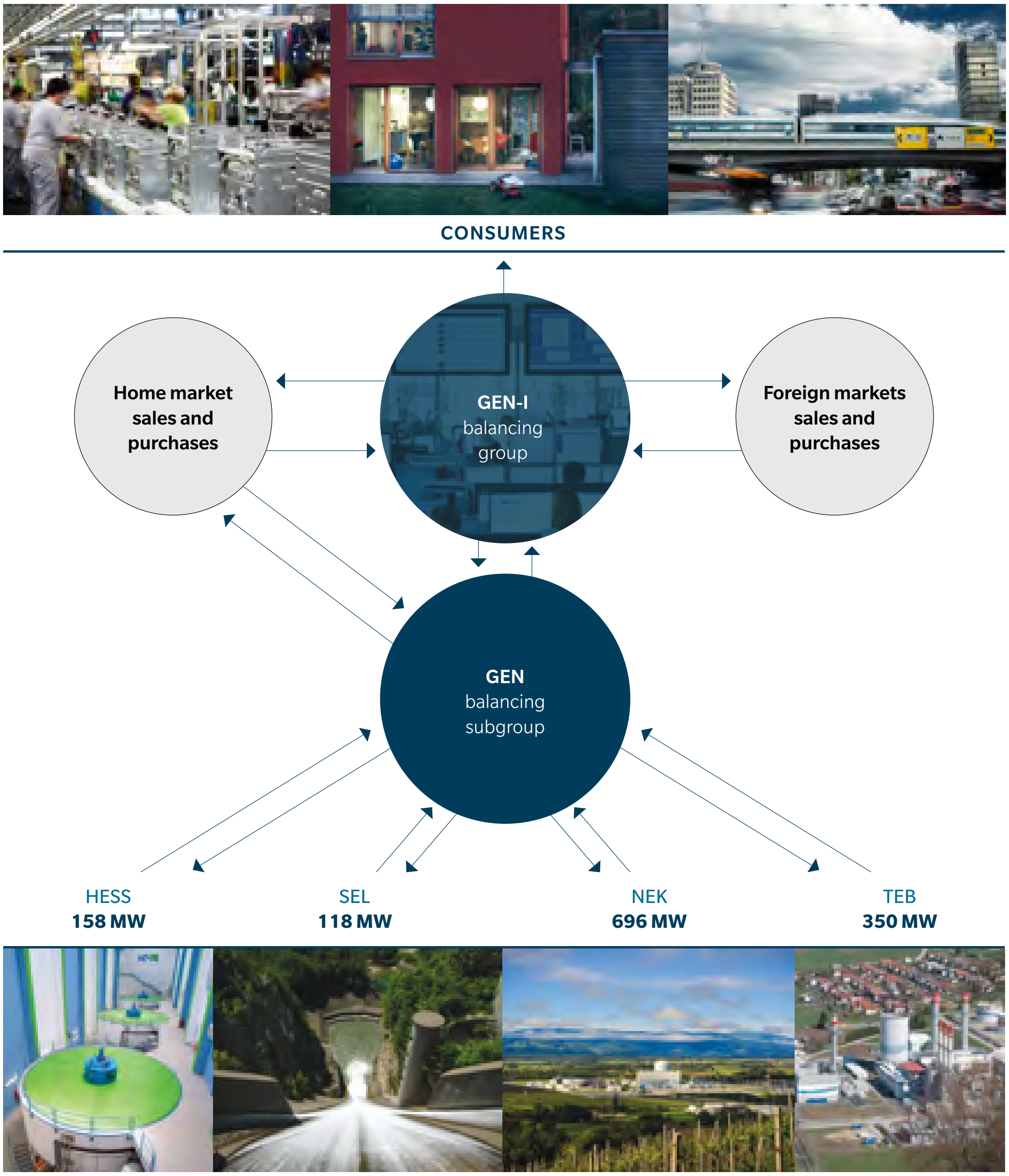
A comprehensive overview of interconnections between the types of capital and the financial and non-financial information on the GEN Group's business operations in 2017 (Business Report) is provided in Section V.3.

2. Electricity production and ancillary services

2.1 Electricity production

The large production units in the GEN balancing subgroup generated a combined total of 3,517 GWh of electricity in 2017. As much as 84.8% of the combined total came from the nuclear power plant. The hydroelectric power plants and the gas-fired power plant accounted for 14.8% and 0.3% respectively. Thanks to GEN Control Centre, where the operations of the entire GEN balancing subgroup are coordinated, the production units all operated in perfect unison and all unpredictable events were effectively dealt with, as evidenced by the business results.

Diagram of interconnections within the GEN balancing subgroup



Electricity generation units of the GEN Group companies

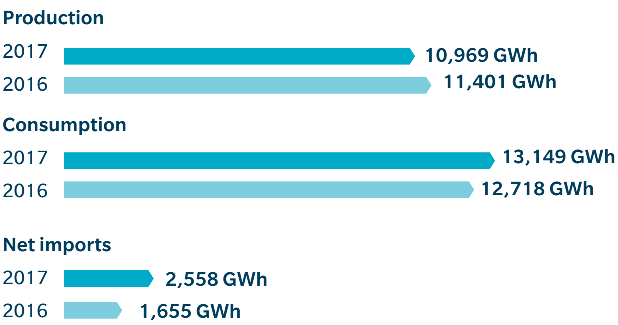
NEK		NEK	TOTAL
Declared net capacity	MW	696.0	696.0
Generator power rating	MVA	850.0	850.0

SEL		Moste	Završnica	Mavčiče	Medvode	Vrhovo	MHE	TOTAL
	No. of gen. units	2	1	2	2	3	4	
Declared net capacity	MW	13.0	8.0	38.0	25.0	34.0	0.3	118.3
Generator power rating	MVA	18.0	11.0	50.0	27.0	42.9	0.4	149.3
Gross head Hbr.	m	70.0	177.0	17.5	20.8	8.7		294.0
Installed flow rate Qi	m^3/s	26.0	6.0	260.0	150.0	500.0		

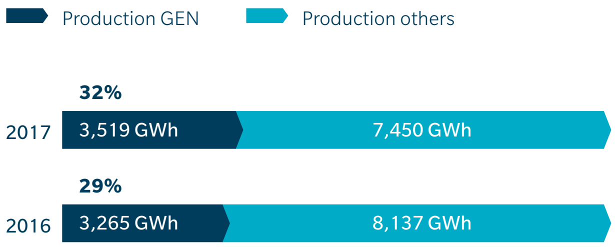
HESS		Boštanj	Arto-Blanca	Krško	Brežice	TOTAL
	No. of generating units	3	3	3	3	
Declared net capacity	MW	32.5	39.1	39.1	47.4	158.1
Generator power rating	MVA	43.5	49.5	49.5	64.5	207.0
Gross head Hbr.	m	7.5	9.3	9.1	11.0	36.9
Installed flow rate Qi	m^3/s	500.0	500.0	500.0	500.0	

TEB		PB1	PB2	PB3	PB4	PB5	PB6	TOTAL
Declared net capacity	MW	23.0	23.0	23.0	114.0	114.0	53.0	350.0
Generator power rating	MVA	32.0	32.0	32.0	155.0	155.0	67.4	473.4

Slovenia's electricity market



Production output of the GEN Group companies in proportion to Slovenia's total electricity production



Production of electricity in the GEN Group companies, by source in 2017*

Production portfolio of the GEN Group: **3,519 GWh**

HESS 233 GWh

SEL 289 GWh

NEK 2,984 GWh

TEB 12 GWh

Small RES 2 GWh

In addition to large production facilities, the GEN Group companies also own small production units, which are operated and managed independently and are excluded from the GEN balancing subgroup. The small production units of the GEN Group companies generated a combined total of 2.39 GWh of electricity from renewable energy sources in 2017.

* In 2017, the company GEN received grants – operational support for the electricity generated from renewable energy sources – in the amount of EUR 15,102, which have 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).

Operational efficiency

Our large production units in 2017 generated 8% more electricity than in 2016. Despite poorer hydrological conditions, the GEN Group's higher overall production output is mainly the result of the higher production output of NEK, where no annual maintenance outage was scheduled for 2017. The higher overall production output was also contributed to by Brežice HPP as it switched to regular operation in the second half of the year.

After having taken over the remote control of Boštanj HPP and Arto-Blanca HPP in 2016 and adding Brežice HPP, GEN Control Centre also took over the remote control of Krško HPP. In operation since 2008, GEN Control Centre not only operates the chain of hydroelectric power plants on the lower course of the Sava but also plans and oversees the production at SEL, TEB and NEK. GEN Control Centre helps ensure optimal production across the Group's power plants and optimize operating costs for the entire GEN Group, and it also coordinates the provision of ancillary services to the national electric power grid (tertiary activations, reactive power control, black-starting).

Large HPP electricity generation output (in GWh)

	2017	2016	Ratio %
NEK	2,984	2,715	110
HESS for GEN	233	200	117
SEL – large HPPs	289	342	85
TEB	12	7	171
TOTAL	3,518	3,264	108

NEK

Krško Nuclear Power Plant (NEK) is the largest production unit, delivering base load power on the daily consumption curve throughout the year. NEK generated 5,967 GWh of electricity in 2017. The amount of electricity available to the GEN Group, pursuant to the Intergovernmental Agreement on NEK, was 2,984 GWh.

The power plant's operation was safe all year long. NEK's 2017 operations were significantly influenced by the fact that no maintenance outage was scheduled for that year (the fuel cycle there, i.e. the interval between two successive fuel replacements, is 18 months, and the next fuel replacement is scheduled for April 2018). In terms of production, two brief unplanned shutdowns were registered at NEK in 2017: in February due to a defected current-to-pressure transducer on a control valve for the main feedwater, and in April due to irregular functioning of a steam relief valve on one of the steam superheaters. Despite that, NEK's production result for 2017 stands at 100.4% of the target.

NEK unit capability and load capacity factors in 2017

NEK unit capability factor (according to WANO): 99.19%

Unit capability factor (*Performance Indicators* as defined by the World Association of Nuclear Operators – WANO) is defined as the ratio of the available electricity generation over a given period of time to the reference electricity generation over the same period of time, expressed as a percentage.

NEK load capacity factor: 102.29%

Load capacity factor, expressed as a percentage, is the ratio between the amount of energy generated over a given period of time and the amount of energy that would have been generated over that same period had the power plant run continuously at full capacity.

SEL

Within the national power grid, SEL's production units are primarily designed to deliver electricity on the daily consumption curve while allowing the possibility of storing night-time energy for use during the day. Most of the hydroelectric power plants on the Sava River are run-of-the-river facilities with daily water storage capacity. As such, they can participate in grid-wide frequency control on a day-to-day basis in response to an unevenly distributed consumption curve (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 grid-wide frequency control on a weekly basis in response to an unevenly distributed consumption curve.

In 2017, the combined output of SEL's large hydroelectric power plants was 289 GWh, which is 15.5% lower than the year before. The lower production output compared to the previous year can be attributed to subnormal hydrological conditions of the Sava River. SEL's actual output for 2017 stands at 90.2% of the target from the business plan.

The company successfully carried out all the overhauls and inspections on its generating units scheduled for 2017.

TEB

How much electricity TEB generates is largely dependent on how often the power plant needs to be started up as a backup source to jump in should any of the larger units in the national power grid fail. When electricity market conditions are good, however, a portion of TEB's output is also offered in the market. TEB generated 12.1 GWh of electricity in 2017. But since GEN supplied TEB with electricity from other production units in the GEN balancing subgroup in order to satisfy TEB's on-site energy needs, TEB's net production output was 7.2 GWh.

Most of the electricity was generated for tertiary frequency control of the power grid. For this purpose, a total of 36 activations were recorded in 2017: individual gas turbine units at TEB were started up 48 times, and SEL and HESS recorded 13 and 7 start-ups respectively. The combined output was slightly above 6 GWh of electricity. TEB's production output was low despite a large number of startups, which goes to show, among others, that the operation of the rest of the production units – in the GEN balancing subgroup and the entire power grid – was reliable and stable. It was therefore not necessary to run TEB for backup on a larger scale.

Successfully and on schedule, TEB completed its regular annual reviews of all its gas turbine units and carried out measurements and visual inspections of the equipment and instrumentation in accordance with the maintenance plan. Nothing out of the ordinary was found during the refit and reviews other than the pending issue of the three old gas turbine units, PB1, PB2 and PB3, spare parts (particularly instrumentation) for which are increasingly harder to procure. In 2017, TEB continued its investment in a new gas turbine unit, PB6, which was successfully synchronized with the power grid in December. It will commence regular operation in 2018.

HESS

GEN received 233 GWh of electricity from HESS in 2017, making up a 116.4% realization rate compared to the previous year. The increased amount of electricity available is the result of adding Brežice HPP, the largest hydroelectric power plant in the chain. The hydrological conditions of the Sava River were worse than in 2016. HESS' production output for 2017 stands at 87.1% of the target from the business plan.

In terms of the electricity generated by HESS, GEN manages on its own account any deviations in the share of HESS's production output that is owned by the GEN Group companies. In accordance with the amended Rules on the Operation of the Electricity Market, a metering point may be included in more than one balancing group.

Low-carbon energy source portfolio

As much as 99.7% of all the electricity generated by the GEN Group companies' power plants came from sustainable and renewable sources – nuclear and hydro.

In 2017, the GEN Group again made a large contribution to promoting low-carbon electricity generation. Efficiently and safely, and with a view to preserving and improving the quality of the environment and mitigating climate change.

In terms of CO_2 emissions, the production portfolios of the GEN Group companies are environmentally acceptable and oriented towards sustainability by comparison with the national portfolio of electricity generation sources.

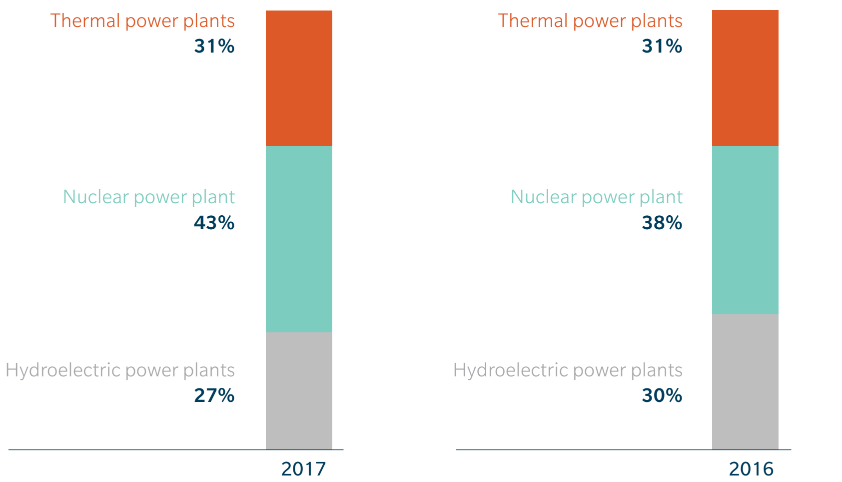
In 2017, the average volume of CO_2 emissions generated by the operating power plants of the GEN Group companies, whose main energy sources are low-carbon nuclear and hydro, was a mere 3 g per kWh. At the national level, thanks to the proportion of electricity generated by the nuclear power plant and hydroelectric power plants within the energy mix, Slovenia ranks high among the countries with the lowest CO_2 emissions in electricity generation – this despite fossil fuel-burning thermal power plants, whose emissions are the highest, at the average of 990 g CO_2 per kWh, which is more than three times the national average. The national average in 2017 was around 300 g per kWh.

Sustainable and renewable energy sourcesin the electricity generation portfolio*

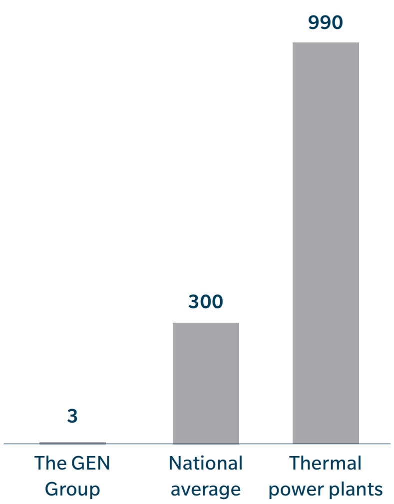
	Power plant	Generated electricity, in GWh	Proportion of total generation, in %
Nuclear	NEK	2,984	85
Hydro	HESS for GEN	233	15
	SEL	289	
TOTAL		3,506	100

* The table does not include the electricity generated by small hydroelectric power plants (SHPs) and small solar/photovoltaic power plants (SPPs) because, compared to the outputs of the nuclear power plant and the large hydroelectric power plants, it accounts for only a small fraction (a total of 0.08% of the GEN Group's total electricity output).

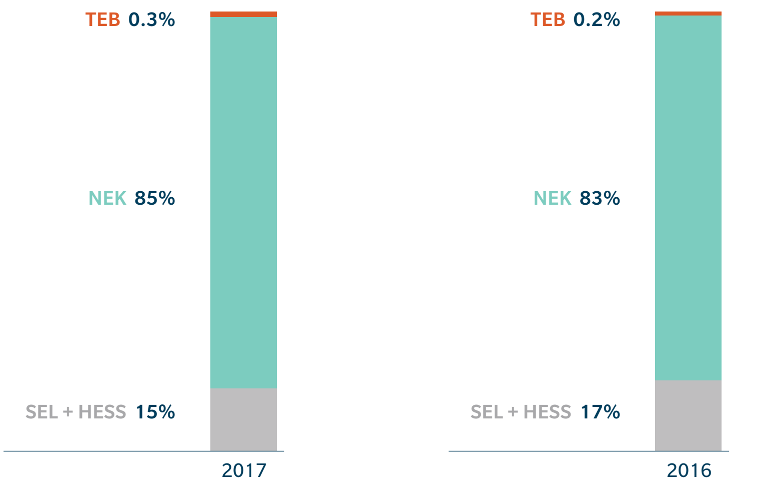
Breakdown of electricity generation sources in Slovenia



Comparison of CO_2 emissions of operating power plants (in g CO_2/kWh)



Breakdown of electricity generation sources in the GEN Group companies



2.2 Ancillary services

Due to its remarkably stable operation and ability to provide 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 ENTSO-E network.

SEL's units provide tertiary frequency control and reactive power and have black-start capability, which means their generators can be started up without an 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 when the larger gas turbine unit is in operation, operating black-start generators, and delivering an independent direct power supply to NEK). Playing a special role, TEB's systems, wiring, piping and installations all operate under specific, harsh conditions with many start-ups and a small number of operating hours, which in turn calls for a specific approach to maintenance.

INFRASTRUCTURAL CAPITAL

Electricity generation

- at the nuclear power plant (NEK)
- at the hydroelectric power plants (SEL and HESS)
- at the gas-fired thermal power plant (TEB)

Operational efficiency

NATURAL CAPITAL

Low-carbon energy source portfolio:

- 99.7% of our electricity output comes from sustainable and renewable energy sources,
- CO_2 emissions per kWh generated.

EMPLOYEES AND INTELLECTUAL CAPITAL

Our employees' knowledge and skills for ensuring the operational efficiency of our production units

SOCIAL CAPITAL

Ancillary services, balancing of critical operational conditions in the power grid, tertiary frequency control

A comprehensive overview of interconnections between the types of capital and the financial and non-financial information on the GEN Group's business operations in 2017 (Business Report) is provided in Section V.3.

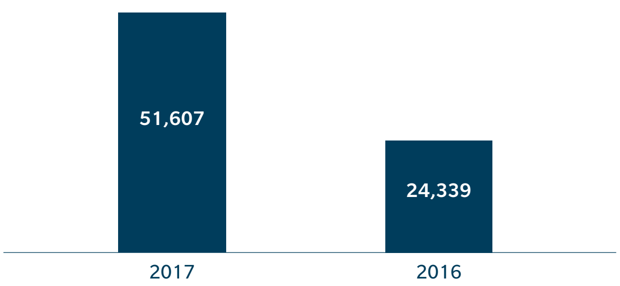
3. Electricity purchase

The purchase portfolio of the companies making up the GEN Group comprises electricity generated by the Group's own production units and electricity purchased from other sources. The dominant source used for generating electricity within the Group's own production units is nuclear energy. 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 purchasing side of the portfolio has been expanded with not only our own production units but also other domestic and foreign producers and energy brokers. This allows us to accommodate any requirement, of large and small consumers alike, since we have developed a comprehensive range of broking services to support 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 producers possessing declarations for their production units (hereinafter: DP).

The volume of electricity purchased in 2017 increased by 112.04% compared to the previous year, which is the result of the merging with GEN-I and the remarkable performance of the GEN-I Group, which achieved record-high results in trading.

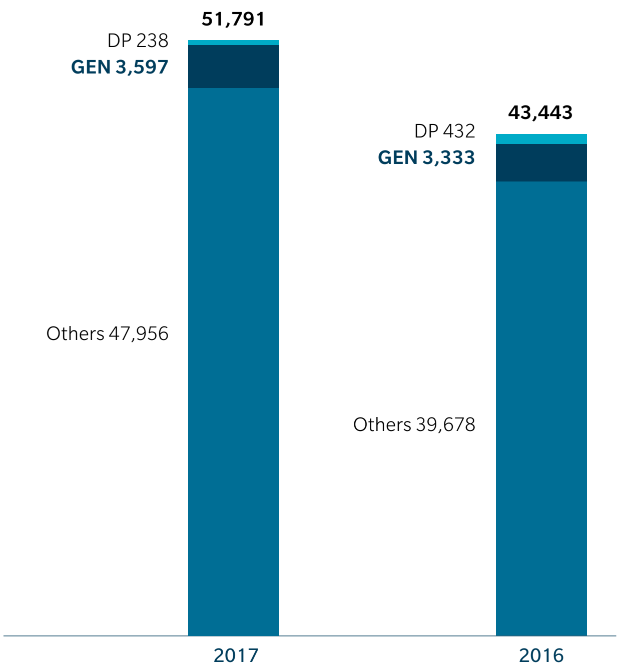
Amounts of electricity purchased by the GEN Group companies (in GWh)



For the sake of clarity, the data on electricity purchases and sales presented below take into account the proportional consolidation of NEK and include the total amounts for GEN-I.

The GEN Group companies purchased a combined total of 51,791 GWh of electricity, exceeding the results from the previous year by as much as 19.22%. Of this, 238 GWh was purchased from other producers (DP), and 3,597 GWh was provided by GEN from its own production units. The remaining electricity purchasing side of the portfolio reflects supplies secured by GEN-I's trading division.

Electricity purchases by the GEN Group companies (in GWh)



INFRASTRUCTURAL CAPITAL

Electricity purchase portfolio: internal and external production sources (domestic and foreign producers)

Electricity purchased (in GWh)

Advanced (software and IT) infrastructure for meeting customer expectations

EMPLOYEES AND INTELLECTUAL CAPITAL

Development of comprehensive broking services and flexibility (from intra-day to years-long trades)

A comprehensive overview of interconnections between the types of capital and the financial and non-financial information on the GEN Group's business operations in 2017 (Business Report) is provided in Section V.3.

4. Electricity trading and sales

Geographic presence of the GEN Group companies

In 2017, we stayed on course in electricity trading and sales and sold increasingly large amounts of electricity, including electricity from our own sources, thanks to our in-house knowledge and competences. The GEN Group is a well-organized electricity trader, with cross-border wholesale trading infrastructure that gives us access to all pricing data and the information needed to ensure optimal use of production resources. To maximize the utilization of production resources and to ensure a safe, reliable and quality supply of electricity to consumers, day-ahead and intra-day electricity trades were introduced in 2008. In 2017, the Group, working in cooperation with GEN Control Centre, continued selling excess electricity and buying electricity to make up for shortfalls as and when needed.

In the area of electricity sales, the link between GEN and GEN-I is crucial – this link has further strengthened with the additional ownership consolidation and signing of a new umbrella agreement. The fundamental characteristic of this link is that GEN-I carries out electricity sales services for GEN following precisely defined criteria. In this context, GEN is primarily responsible for supplying base load electricity, whereas GEN-I delivers the necessary modulation for us to be able to match our service precisely to customers' wishes at the level of the GEN Group. Most of GEN's annual electricity output is sold based on the company's annual sales strategy approved by GEN's Supervisory Board. To be able to provide exactly the right amounts of electricity on a day-to-day basis as contracted, and to optimize sales, the Group makes short-term purchases of electricity or sells excess electricity as and when applicable.

4.1 Trading

In 2017, we traded in 51,791 GWh of electricity, which is 19.22% more than the year before. Our economy of scale increases as we enter new markets, and instruments have been put in place and all required authorizations obtained for the comprehensive management of excess electricity and electricity shortfalls as provided for in contracts for purchasing electricity from generation sources and for supplying electricity to consumers.

In addition to day trading (day-ahead and intra-day), which is used for making final corrections and trade optimization, we also employ a number of other dynamic trading mechanisms available in the wholesale market. These include: concluding long- and medium-term material and financial futures contracts to ensure proper portfolio diversification; leasing cross-border transmission capacities; and managing price risks arising from open positions in individual portfolios.

We continually foster new forms of business cooperation that allow us to better manage risks. Buyers can therefore opt to buy electricity at a predetermined fixed price or to accept the risk of price movements, through price indexation, on a predefined power exchange. These market options are also available to sellers in the electricity market. This allows business partners to better adapt to market conditions and to reduce their exposure to market risks.

To be able to utilize international trading mechanisms to the fullest, we use a corporate infrastructure for trading and securing cross-border transmission capacities. The companies making up the GEN Group are therefore fully capable of acting independently in the European electricity markets.

Slovenia is our most important retail market; however, the growing balancing group is being expanded and coordinated through trading activities in the neighbouring markets as well. Our major buyers' and sellers' markets continue to be the markets of Central, Southeast and Western Europe. Expansion into foreign markets is driven by subsidiaries possessing all the required authorizations, competences to adapt to distinctive local circumstances, and suitable trading infrastructure.

4.2 Sales

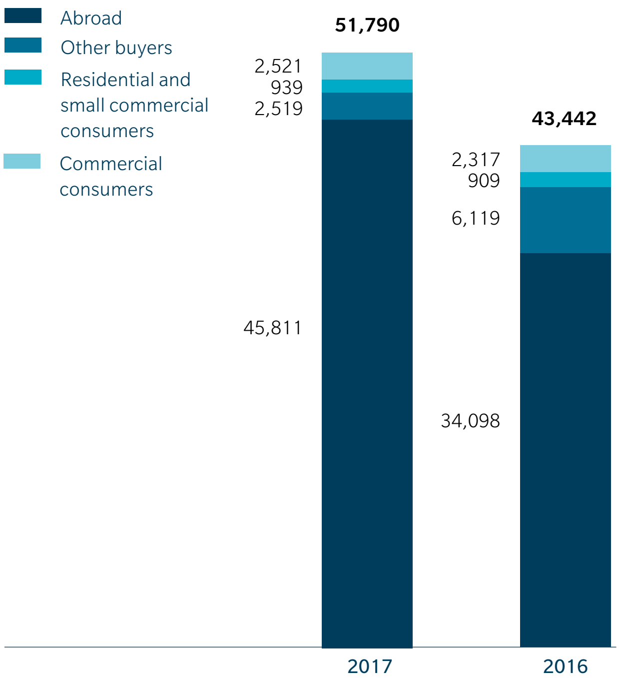
Ever increasing electricity retailing volumes and our entry into the household supply segment testify to ongoing development of our products, which vary in the degree of risk for the buyer and the scope of services offered. Our customers include large corporations as well as small and mid-sized enterprises and households.

With our tried and trusted individual portfolio management based on our own knowledge and infrastructure, we successfully catered for our existing customers and kept practically all of them. This allowed our partners to take the best possible advantage of price movements in the electricity market. Also, with highly competitive offerings we managed to maintain sales to consumers at a similar level despite fierce competition in the electricity market.

In 2017, we were a major player in electricity sales to consumers in Slovenia, and we were also active in supplying electricity to consumers abroad. The key sellers' markets were Hungary, Austria, Germany, Italy and Romania, with Greece becoming increasingly important as well. We make good use of the experience gained for speeding up further development and for identifying new opportunities for retailing in other markets, particularly Southeast Europe.

In 2017, the GEN Group companies substantially increased its sales in foreign markets, while their sales in the domestic market decreased, mostly due to lower sales to other domestic buyers purchasing electricity for satisfying household demand (-58,82%). However, sales to commercial consumers (8.80%) and residential and small commercial consumers (SCC) (3.34%) increased.

Electricity sales by the GEN Group companies (in GWh)



INFRASTRUCTURAL CAPITAL

Electricity trading and sales volume (in GWh)

Advanced (software and IT) infrastructure for cross-border trading which provides information and data for the optimal utilization of production sources

EMPLOYEES AND INTELLECTUAL CAPITAL

Entering new markets and expanding the economy of scale

Implementation of instruments and authorizations for the comprehensive management of excess electricity and electricity shortfalls

Development of new forms of business cooperation to allow for more effective risk management

A comprehensive overview of interconnections between the types of capital and the financial and non-financial information on the GEN Group's business operations in 2017 (Business Report) is provided in Section V.3.

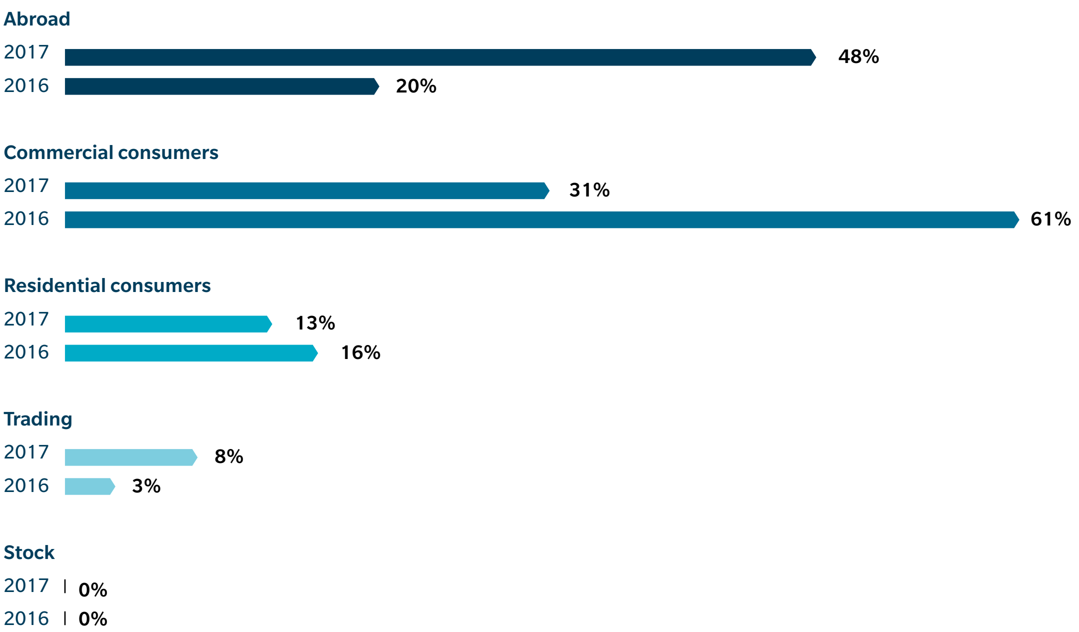
5. Sales of natural gas

Sale of natural gas in the GEN Group companies is carried out through the subsidiary GEN-I, which caused quite a stir in the domestic market for natural gas when it entered the market in September 2012. With its secure supply and competitive prices, GEN-I continued to be the second-largest supplier of natural gas in the country in the years that followed.

GEN-I purchases natural gas on European power exchanges, where prices are dictated not only by fluctuations in oil prices but also supplies currently on offer. This way, the sources we buy natural gas from are diversified among trusted and best-known West European partners. At the end of 2017, we supplied natural gas to slightly more than 22 thousand residential consumers and 260 commercial consumers, in the total volume of 178.6 million Sm^3.

In 2017, we recorded growth in the sales of natural gas to residential consumers, and our sales of natural gas abroad has increased substantially. The growth can be credited to a stronger sales strategy, additional opening of the natural gas market in Slovenia, and our winning bid in a tendering announced by the Consumers' Association of Slovenia.

Breakdown of natural gas sales by the GEN Group companies



INFRASTRUCTURAL CAPITAL

Infrastructure for purchasing natural gas in Europe's energy markets

Natural gas purchased (in GWh)

EMPLOYEES AND INTELLECTUAL CAPITAL

Growing consumer base (»Cheap Gas« brand in the domestic market and entrance to foreign markets)

A comprehensive overview of interconnections between the types of capital and the financial and non-financial information on the GEN Group's business operations in 2017 (Business Report) is provided in Section V.3.

6. R&D, capital expenditures and investments of the GEN Group companies

The area of research and development, capital expenditures and investments is essential to the long-term operating stability and further development of individual companies and the GEN Group as a whole. The financial resources allocated to this end totalled EUR 88.73 million in 2017. Taking into account the rules of consolidation, the value of investments in the GEN Group stood at EUR 62.72 million.

6.1 R&D, capital expenditures and investments of the parent company

The company GEN spent EUR 1,190 thousand on research and development and capital expenditures and investments in 2017.

R&D, capital expenditures and investments of the company GEN (in EUR thousand)

	2017	2016
RESEARCH & DEVELOPMENT	44	142
Studies	44	142
CAPITAL EXPENDITURES	1,146	1,835
Expansion of Krško Nuclear Power Plant generation capacity	812	1,585
Miscellaneous capital expenditures	334	250
INVESTMENTS	0	11,278
HESS construction project	0	0
Acquisition of equity stakes, capital injections	0	11,278
TOTAL	1,190	13,255

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

GEN Group companies:
EUR 88.73 million

NEK
EUR 52.02 million

- Investments in technological upgrades
- Miscellaneous investments

HESS
EUR 10.74 million

- Brežice HPP
- Mokrice HPP

GEN: EUR 1.12 million

- Expansion of Krško NPP generation capacity
- Miscellaneous investments

SEL: EUR 1.42 million

- Goričane SHP reconditioning
- Miscellaneous investments

TEB: EUR 22.08 million

- Replacement of gas turbine units
- Miscellaneous investments

GEN-I: EUR 1.12 million

- Information technology
- Miscellaneous investments

Project to expand nuclear generation capacities – JEK 2

JEK 2 will contribute substantially to the development of a modern, forward-looking, reliable, safe and environmentally friendly nationwide electricity supply at stable and competitive prices. With this in view, the GEN Group is campaigning for a technically sound, efficient, transparent and responsible implementation of the JEK 2 project. The project is currently at a stage where the owner, the Republic of Slovenia, will need to take a clear position on the matter. What needs to be made is a strategic decision on the energy future of Slovenia.

How the JEK 2 project meets sustainable development criteria

Social aspect	Long-term reliable and safe production and supply of electricity by using the top-of-the-range, most advanced and safest technology
Environmental aspect	Minimal impacts on the environment, mitigation of climate change, optimal utilization of space
Economic aspect	Stable prices and competitiveness, both for Slovenia's households and economy

Strategic framework: the electricity supply situation in Slovenia

The situation with electricity supply in Slovenia has intensified in recent years. As the 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%. The country was therefore becoming increasingly dependent on imported electricity. With the global economic crisis, which emerged in 2008 and persisted up until 2013, the situation took a dramatic turn for the worse. Slovenia's economy has seen continuous growth since 2013, resulting in electricity consumption increasing as well. In 2017, electricity consumption in Slovenia stood at 13,149 GWh, which is 3% higher than in 2016. UMAR issued optimistic economic forecasts, which will pave the way for increased demand for electricity.

Slovenia is also facing the problem of relatively old energy generation 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 the importance of adhering to the EU climate and energy package. All this calls for an examination of the possibility of expanding the generation capacity of Krško Nuclear Power Plant by adding a new unit. Installed capacity of the planned second nuclear power plant unit would be somewhere in the range of 1.100–1.600 MWe, and the new unit could be connected to the grid by around 2030.

Regulatory framework for energy utilities

A pivotal regulatory document governing the energy sector, the Energy Act (EZ-1), was passed in early 2014. The proposed act refers to the Energy Concept of Slovenia (ECS), a central development document that corresponds to the national energy programme. Taking into account projections of nationwide economic, environmental and social development and the accepted international commitments, the ECS will set out goals for securing a reliable, sustainable and competitive energy supply, presumably for the next 20 years and roughly for 40 years. A public debate was open in 2015 and 2016 over the Proposed Guidelines for developing the Energy Concept of Slovenia. Presentations of resources for discussing the development of the Energy Concept of Slovenia and presentations of various scenarios and long-term balances were organized in 2017. A proposal of the Energy Concept of Slovenia was released for public review at the end of 2017.

Work on the Energy Concept of Slovenia continues in 2018 – we except its public review and approval to take place.

Current status of the project

To date, GEN has conducted expert studies in the context of the JEK 2 project that allow a well-grounded, broader political and social discourse on the energy future of Slovenia and on the future role of nuclear energy in electricity supply. By doing so, all the bases have been covered to go ahead with the siting procedure and to defend the expansion of the nuclear power option as part of the national strategy for the development of the energy sector.

Activities related to location studies relevant to the JEK 2 project continued in 2017. The project Geotechnical, geological and seismological location studies for JEK 2 (GGS) was initiated in 2007 with the purpose of conducting detailed geological surveys of the downstream (eastern) and upstream (western) locations for siting the new nuclear build in Krško. The results of these and previously done analyses and surveys, as well as field and laboratory research, performed in both proposed locations show that the soil layer in the area is very homogeneous. Location studies at the end of 2014 continued with Seismic Hazard Analysis, which will take around four years to complete.

Besides location studies, we have carried out studies, analyses and activities, among others, for the JEK 2 project in the following key areas in 2017:

- energy safety and the role of the electric power grid,
- environmental safety and Slovenia's transition to a low-carbon society,
- economic and social security and the role of nuclear energy,
- following the principles of sustainable development in various energy mixes, and
- feasibility of the JEK 2 construction project.

The financial resources spent on the JEK 2 project totalled EUR 812 thousand in 2017. Most of the resources were spent on activities related to location studies.

JEK 2 project stages

Participation in other nuclear energy projects

Providing its services on three European projects, GEN is also active internationally. The first project involves providing support to an operating power plant in Armenia (AOSA), focusing on safety upgrade and operational efficiency. The second project is associated with research and development in the area of external risk assessments (NARSIS), for which we applied together with 18 partners in the framework of the Horizon 2020 research programme. The third project is providing consultation services for the development of a policy and strategy for handling radioactive waste in Jordan. On the AOSA project, a consortium agreement was signed with the company ENCO in March 2017, under which GEN is the lead partner for five activities. The project is going to take two years. On the NARSIS project, an agreement was signed between the coordinator and the European Commission (EC), and a consortium agreement between all the project partners is being coordinated. The project started on 1 September 2017 and will take four years to complete. On the Jordan project, which is going to run until the beginning of 2020, we are working with the Dutch company NRG, German TÜV Nord and Austrian ENCO.

GEN energija was also involved in two safety report review projects, for Finland's Hanhikivi and Turkey's Akuyu power plants.

In addition, GEN also provides development services in Slovenia. We cooperate with ARAO in reviewing the documentation for a low- and intermediate-level radioactive waste (LILW) repository and with Brestanica Thermal Power Plant (TEB) on the project to replace gas turbine units 1–3.

GEN is actively involved in the European Utility Requirement (EUR), which brings together all the major European nuclear operators and whose purpose is to define technical requirements, in other words, to develop and harmonize standard requirements for light-water reactors in Europe based on scientific and technological advancements and increasingly stringent safety requirements for new nuclear power plants. A revision of the EUR Requirements e-document was completed in 2017. Currently underway is an assessment of the Russian-design power plant VVER-TOI in accordance with the EUR requirements. The assessment is expected to be completed by the end of 2018.

GEN is also actively involved in the International Framework for Nuclear Energy Cooperation (IFNEC), whose mission is to develop common international approaches to ensuring efficient use of nuclear energy, primarily an approach to issues regarding the supply chain for the development of infrastructure for nuclear power plants, as well as common international solutions for disposing or reusing spent nuclear fuel, including the development of international repositories.

Plans for 2018

On the JEK 2 project, in 2018 we will continue conducting substantial technical analyses in conjunction with geological and seismological surveys, which are relevant both to JEK 2 and the existing Krško Nuclear Power Plant, and we will carry on revising and updating technical and economic analyses to support the corporate decision-making process. Part of these activities will be carried out by our own people. We will keep abreast of the project to develop the Energy Concept of Slovenia, and we will play an active part in technical and public debates. We will continue our work within the associations EUR, IFNEC, OECD NEA and other major professional organizations and carry on with our projects in Slovenia.

Key benefits of the planned JEK 2 project

- safe and reliable supply of electricity (8–12 TWh per year, depending on the size of the power plant),
- domestic energy source: reduced reliance on imported electricity,
- competitive energy source: affordable, predictable and stable prices of electricity,
- optimal solution in response to the environmental requirements and standards, reduced CO_2 emissions on the national scale,
- third-generation reactor: improved technology, enhanced safety, higher economic competitiveness,
- reduction of existing and envisaged quantities of radioactive waste (primarily as a result of improved operational systems and processes of third-generation nuclear power plants, which bring substantial reductions in the amounts of low- and intermediate-level radioactive waste, but also thanks to the possibility of reusing reprocessed fuel, i.e. up to 96% of the spent fuel mass),
- base load and load-following operation,
- adherence to the highest international safety requirements and standards,
- possibility of recovering useful heat (district heating – locally and on a wider scale),
- opportunity for the Slovenian economy to participate in all the development stages (design, construction, equipment manufacturing, outfitting and installation, co-financing),
- positive effects on the nation's economic development and standard of living, highly skilled jobs

Development activities of the company ZEL-EN

In the energy sector development center ZEL-EN, which we established for the purpose of promoting the development of energy technologies, we carried out in 2017 several research and development projects on individual partners' premises.

Five development projects, engaging three people, were under way in 2017 at the Nuclear Technology business unit, as follows:

- development of advanced methods for nuclear core calculations and analysis of the main steam line in pressurized water reactor (PWR) power plants,
- review of select sections of the draft safety report for Finland's Hanhikivi-1 power plant,
- review of select sections of the draft safety report for Turkey's Akuyu power plant,
- review of the safety report and preparation of reference documentation for a periodic safety report in the context of the project to built a low- and intermediate-level radioactive waste repository, and
- development of reactor core and reactor vessel 3D models.

ZEL-EN staff also actively engaged in running guided tours of the World of Energy at the company GEN's headquarters and in other activities conducted by the company's public relations office.

Parent company's research and development, capital expenditure and investment plans for 2018

In terms of investments and capital expenditures, we are going to stay on track in 2018. We will carry on implementing activities started in previous years and activities that were not possible in the past. The financial resources for this are projected to reach EUR 3.1 million.

In 2018, GEN is going to carry on with the activities for implementing the project to expand Krško Nuclear Power Plant's generation capacities. In 2018, the GEN Control Centre simulator is going to be upgraded with the Brežice HPP production unit. As a result, we will be able to look for – in the practical sense – an optimal mode of operation for the entire chain of hydroelectric power plants. Funding has also been earmarked for the construction of an optical backbone for the company GEN. New equity interests may also be secured.

6.2 Research and development, investments and capital expenditures in subsidiaries

The GEN Group companies maintain a high level of availability and operational reliability on account of regular maintenance and ongoing capital expenditures. Operational readiness of the systems is ensured through appropriate control, maintenance and modernization operations. There are three distinctive types of maintenance:

- **preventive maintenance**, which is carried out at predetermined intervals based on maintenance schedules,
- **predictive maintenance**, which is used for checking the condition of equipment (diagnostics), and
- **corrective maintenance**, which is specially designed for equipment that is not critical to the operational availability and reliability of production units.

If corrective maintenance work is carried out on key equipment that is included in the preventive maintenance programme, a detailed analysis of the cause is conducted and, if required, the preventive maintenance programme is revised accordingly. In 2017, most maintenance activities were carried out to maintenance schedules.

NEK

NEK is committed to making ongoing strategic investments in technological modernization and upgrades. The standard procedure is to make five-year investment plans, and the average annual value of investments in technological modernization is around EUR 35 million. In 2017, NEK completed numerous preparatory activities for projects under the Safety Upgrade Programme, which has been under way since 2012 and will ensure the power plant's safety in the event of unforeseen natural events and other low-probability incidents, thus establishing prerequisites for the long-term operation of the power plant.

The Safety Upgrade Programme is divided into three phases. Currently underway is Phase 2, which includes the construction of an auxiliary control room and an upgrade of the operations support centre, where construction work is currently in progress. More than 800 foundation piles have been driven into the ground to increase the ground-bearing capacity.

Also in its initial stage is Phase 3 of the safety upgrade, which includes the implementation of the project to build a new, further reinforced building with additional water sources and systems for extracting residual heat in the event of failure of existing systems, and the introduction of dry storage for spent fuel. An important part of the Safety Upgrade Programme in 2017 was also the modernization of the simulator, which is an indispensable tool for training the operating personnel and for providing support during drills conducted in line with the Protection and Rescue Plan. This was the simulator's first major modernization and expansion in the 17 years since it was built as an identical copy of the control room. This modernization

makes an important contribution to the high qualifications of the operating crews and to the stable and safe operation of the power plant in the future.

Also nearing completion is the construction of a building for handling equipment and radioactive load shipments, into which all handling and measuring equipment from the provisional storage facility will be moved before being relocated to a permanent repository. By doing so, they will free up space in the provisional storage facility and use it for the preparation of low- and intermediate-level radioactive waste until a permanent repository for low- and intermediate-level radioactive becomes available.

The value of the investments in NEK made in 2017 totalled EUR 52.02 million.

Investments in technological modernization in 2018 will continue to be driven by administrative requirements and operational experience so as to further improve the operational safety and stability of the power plant. The resources earmarked for this purpose amount to EUR 62.45 million.

SEL

SEL consistently carries out periodic major maintenance on its facilities and makes intense development efforts in terms of tapping hydro energy. In 2017, SEL spent EUR 1.42 million in depreciation allowances and other own resources on capital expenditures and development.

In terms of capital expenditures at SEL, 2017 has seen the completion of the project to build the new Goričane SHP, during which all the set reconditioning goals have been met. Increased capacity to 320 kW from 200 kW, generation output more than doubled, at 2.12 GWh, and full automation of the power plant, which is remote controlled from SEL Control Centre, are the results of the successfully completed project, which was finalized with the obtaining of an operating licence on 13 September 2017. A multi-year project to recondition all the spillways of Vrhovo HPP was completed with the successful replacement of seals and the reconditioning of the corrosion protection of the last, 5th spillway there.

At the same time, SEL launched a multi-year project to recondition Vrhovo HPP's on-site power excitation systems and generating unit control system, during which secondary equipment at SEL facilities will be unified, obsolete equipment replaced, and conditions established for reliable remote control and further optimization of the power plant's maintenance costs. By selling the last 110 kV part of the Medvode HPP switching substation, they reduced the maintenance and insurance costs for 110kV systems and transferred the costs onto ELES.

In 2018, SEL will continue to invest financial resources in capital expenditures and further development of its existing production facilities and to look for new opportunities in harnessing renewable energy sources for electricity generation. The total sum earmarked for capital expenditures and development will be EUR 8.11 million.

TEB

In 2017, TEB spent EUR 22.08 million in own resources on capital expenditures and development.

TEB's most important and extensive project was the replacement of gas turbine units 1–3. The core of the main technological equipment is made up of a Siemens industry-grade gas turbine SGT 800 (rated capacity: 53 MW) and a power generator. Also part of the main technological equipment is a diesel power generator, which allows the gas turbine to be started up without relying on an external power supply (black start).

On the project to build a new gas turbine unit, internal technical and commissioning inspections of individual technological systems were completed in October, as was cold testing of the equipment and technological systems. November saw a successfully executed attempt to spin the gas turbine using a drive motor and first firing of the turbine using natural gas. Hot testing of the equipment was underway all this time. In December, the new gas turbine unit was successfully synchronized with the power grid and driven by liquid fuel for the first time.

A technical inspection and trial operation will follow in 2018. In all, TEB has earmarked EUR 7.51 million for capital expenditures and development.

HESS

HESS is the developer behind the largest hydropower project currently under way in Slovenia: the construction of a chain of five new hydroelectric power plants on the lower course of the River Sava.

The construction of Brežice HPP went according to schedule and the financial plan. Installation of turbine, generator and electrical equipment and control systems was carried out. Testing of the installed equipment was successfully completed, as was the 60-day trial operation of all three generating units. After the completion of those parts of NEK's modifications which prevented the filling of the reservoir to the nominal elevation, the Brežice HPP reservoir was filled to the nominal elevation of 153.00 m a.s.l on 11 August 2017. In early September, with the reservoir filled to the nominal elevation, all the remaining commissioning tests were conducted on generating units 1, 2 and 3, which was followed by the final acceptance. Construction and finishing work and exterior configurations were completed, surveillance and seismic, technical and environmental monitoring systems were set up. After the successful technical inspection of the dam structure, the new hydroelectric power plant began its one-year trial operation on 10 October.

For Mokrice HPP, we are in the process of obtaining an environmental protection approval, and at the end of September, the Government of the Republic of Slovenia adopted the "Implementation programme for water, national and local infrastructure facilities and water and power generation infrastructure facilities in an indivisible proportion for the construction of Mokrice HPP". To the developer, this is a major milestone and a green light for continuing with the activities because the concession granting authority has confirmed the delimitation of the financing for the Mokrice HPP project.

HESS spent EUR 10.74 million on capital expenditures and development in 2017.

In 2018, HESS will allocate most of its investment potential to the completion of Brežice HPP and the preparations for Mokrice HPP. The total value of planned capital expenditures in HESS is EUR 4.73 million.

GEN-I

GEN-I spent a total of EUR 1.12 million on capital expenditures and development. A major portion of the financial resources was spent on IT equipment, which is absolutely essential to the proper functioning of trading and sales applications, as well as on other capital expenditures vital to the company's operations.

In 2018, GEN-I's capital expenditure funds, totalling EUR 1.60 million, will be mainly put into the deployment and upgrade of comprehensive data management systems and into other IT system upgrades.

FINANCIAL CAPITAL

Volume of investments and capital expenditures (by GEN Group company; in EUR million)

EMPLOYEES AND INTELLECTUAL CAPITAL

Research and development (overview of studies and R&D activities by GEN Group company)

SOCIAL CAPITAL

Overview of regulatory frameworks and social acceptability challenges with regard to:

- the maintenance of existing and
- construction and planning of new generation capacities (the JEK 2 project, ZEL-EN development projects, and projects undertaken by the rest of the GEN Group companies)

A comprehensive overview of interconnections between the types of capital and the financial and non-financial information on the GEN Group's business operations in 2017 (Business Report) is provided in Section V.3.

7. Financial operations

The companies had no problem at all meeting their financial and trade liabilities within applicable contractual terms of payment. Also, our customers were successful in meeting their financial obligations.

While the GEN Group companies meet their financing obligations mostly through depreciation allowances, the main source of funding used by the company GEN 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 strongly impacted 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 cover NEK's fixed costs in the event of unscheduled outages.

7.1 Servicing operations and borrowing

A key function of financial operations is to plan for a sufficient amount of liquid funds for ensuring solvency, where a major part 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 the prompt settlement of GEN's liabilities and for the optimization of surpluses and shortfalls among the GEN Group companies. Appropriate liquidity was also ensured through consistent recovery of past-due accounts. This applies particularly to GEN-I, but since GEN-I has this aspect thoroughly covered by 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. The company GEN and the GEN Group companies in which the State holds a controlling management interest are also 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 to ensure sufficient liquidity for its electricity trading operations – in the past mainly through loans, but in recent years also by issuing commercial papers and bonds, which turned out to be a very effective way of securing funds. The company GEN too planned to take out a short-term revolving loan in order to be able to support current business operations in the event of major liquidity issues, but the approximate amount of the loan was never utilized in 2017.

Long-term borrowing is undertaken by our production companies, primarily for the purposes of capital expenditures and major maintenance.

Loans have been secured either by bank guarantees or drafts. The financing liabilities were denominated in EUR.

7.2 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 for each MWh of electricity generated by NEK. EUR 8.95 million was paid into the NEK Fund in 2017.

7.3 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 the power plant is in operation or not. Since NEK is the dominating production unit in the GEN Group, whereby the performance and operations of the Group are heavily dependent on its stable operation, the Group is exposed to considerable risks even if only short outages of the power plant occur. To secure the resources for covering NEK's fixed costs, the company GEN decided as early as 2003 to make long-term provisions for one-half of NEK's annual fixed costs (the other half is to be provided by the other co-owner of NEK).

The total amount of provisions was finalized as early as the end of 2009, but because NEK's fixed operating costs vary, the amount of provisions needs to be adjusted. To ensure the amount of provisions is adjusted in as balanced and objective way as possible, so as to allow proper estimation of future expenses arising from an onerous contract, provisions are adjusted, since 01/01/2014 in accordance with SAS, based on the three-year average value of the fixed costs as defined in the NEK Economic Plan. In 2017, the company GEN therefore reversed provisions in the amount of EUR 3.86 million. At the end of the reporting period, provisions totalled

EUR 60.97 million, including the decrease due to drawdown in the amount of EUR 0.49 million. The company GEN will continue to follow the strategy of making and adjusting provisions in accordance with the Economic Plans adopted by NEK.

7.4 Surplus cash investing

No changes were made in 2017 to the Investment Strategy designed to make up for long-term provisions drawn for covering NEK's fixed costs in the event of an unplanned reduction in NEK's electricity production output (hereinafter: Investment Strategy). Due to the unpredictability of the financial markets, the Investment Strategy does not provide for investing in debt and equity securities and only allows deposits with financial institutions and with a maximum maturity of six months, as well as appropriate investments in the electric utility sector.

Since banks are not offering suitable returns for maturity periods of up to six months, the company GEN keeps a part of its surplus cash in its bank accounts. Banks charge a commission for exceeding bank account balances in the amount of EUR 500–1,000 thousand, which the company GEN managed to work around in 2017 by dispersing its funds.

FINANCIAL CAPITAL

Information on financial operations:

- servicing operations and borrowing
- settling liabilities to the NEK Fund
- securing funding for covering NEK's fixed annual costs
- investing of surplus cash

SOCIAL CAPITAL

Settlement of liabilities to suppliers

Activities deriving from the Intergovernmental Agreement on NEK

A comprehensive overview of interconnections between the types of capital and the financial and non-financial information on the GEN Group's business operations in 2017 (Business Report) is provided in Section V.3.

8. Employees, knowledge and development of human resources

Employees by level of professional qualification

Doctors of Science 25

Masters of Science 40

Bachelors of Science/Arts (university) 397

Bachelors of Science/Arts (3-year higher ed.) 229

Bachelors of Science/Arts (2-year higher ed.) 132

other employees 465

Our employees' knowledge is at the heart of GEN's pursuit of sustainability focuses throughout our responsible operations.

We make ongoing efforts to provide education and training opportunities to all the employees of the GEN Group companies, as well as to promote their professional and personal growth. We numbered 1,292 in 2017. The number of employees is consistent with the Group's growth and development and the corresponding challenges.

8.1 Number of employees and structure of qualifications

Due to the complexity and scale and scope of work in the companies making up the GEN Group, more than half of the employees have at least a higher education qualification.

A low employee turnover rate goes to show that our employees are highly dedicated and motivated to work in an environment that stimulates and promotes knowledge, responsibility and networking.

The companies making up the GEN Group had 25 doctors of science, 40 masters of science and 397 bachelors of science/arts in 2017. The key areas of expertise covered by employees with professional qualification levels 9 and 10 (Masters and Doctors of Science) are:

- nuclear engineering and nuclear energy,
- electrical engineering,
- nuclear physics,
- mechanical engineering, and
- economics.

The data in the table above refer to the whole companies or the whole group, not taking GEN's equity interests in individual companies and the rules of consolidation into account. Taking into account the equity interest in NEK, we numbered 988 in 2017.

Number of employees by level of professional qualification

THE GEN GROUP	31/12/2017											31/12/2016
	Level 1	Level 2	Level 3	Level 4	Level 5	Level 6	Level 7	Level 8	Level 9	Level 10	TOTAL	
GEN	0	0	0	0	4	7	9	32	2	4	**58**	55
GEN-I	0	1	0	3	74	18	138	114	17	11	**376**	305
NEK	0	2	1	22	232	73	51	203	15	9	**608**	617
SEL	5	0	0	22	33	15	8	15	4	0	**102**	106
TEB	0	3	0	19	29	17	12	19	0	1	**100**	99
HESS	0	0	0	1	18	2	11	14	2	0	**48**	48
TOTAL	**5**	**6**	**1**	**67**	**390**	**132**	**229**	**397**	**40**	**25**	**1,292**	1,230

8.2 Professional education and training

The companies making up the GEN Group systematically invest resources in professional education and training for executive and management levels and other key employees across all the areas of operations of our companies.

In areas related to the generation of electricity from nuclear energy, we also run several specialized programmes. These are mostly professional training schemes taking place:

- on NEK's simulator,
- at NEK Maintenance Training Centre, and
- in the framework of the Milan Čopič Nuclear Training Centre (ICJT) of the Jožef Stefan Institute, Ljubljana.

Balancing family and career

The development of employees in the company GEN is driven by creating a stimulating work environment and maintaining a high level of business ethics. The Family-Friendly Enterprise Certificate enables us to increase the satisfaction and commitment among our employees. We have incorporated numerous measures into our work processes that make it easier for employees to balance their private lives and careers.

Družini prijazno podjetje

Scholarships and development of human resources

We recognize the importance of systematically developing suitable and competent human resources, mostly in the areas of natural and technical sciences. The main reasons for this are twofold:

- the ageing of the existing human resources – employees of the GEN Group companies, and
- the newly identified need to fill highly qualified positions that emerge as a direct consequence of the rapid development and growth of the Group companies.

Scholarships are one of the means of promoting the development of human resources. The companies making up the GEN Group provide company scholarships and also participate in standardized regional scholarship schemes (e.g. the Posavje Scholarship Scheme). However, the number of scholarship recipients in the companies making up the GEN Group has declined in recent years, mostly due to:

- restrictions on hiring new people and
- changes in the scholarship policy as a result of the amended Scholarship Act, which places additional administrative and financial obligations on employers.

Long-term strategic challenges in terms of human resources

Once made, the decision to expand the nuclear power generation programme (JEK 2 project) will present the GEN Group with a major challenge in terms of human resources. We know full well this challenge will entail a strategic approach to developing and securing new human resources. Analyses have shown that developers of comparable nuclear facilities employ up to 300 people during construction, with the figure ranging between 1,600 and 1,800 if counting in all subcontractors.

Key professional education and training

	Focus of the professional education and training	Specialized education and training in the area of nuclear energy
GEN	• participation in industry conferences, seminars, panel discussions, and meetings at home and abroad • periodic functional education, training and workshops aiming to promote additional knowledge in the areas of IT, project management, leadership, and organization of work processes • periodic simulator training for the GEN Group's Control Centre personnel	• lengthier education programmes at the ICJT for the Technical Sector employees working on the JEK 2 project
NEK	• systematic training based on a checklist of competencies required for independent work and performance of work assignments • in-service education and training (39 employees in 2017) • a total of 343 courses organized, drawing in 17,112 attendees; 355 in-house and external courses for NEK were attended by 11,185 people • courses for external contractors (122 courses, attended by 5,927 people)	• ongoing professional training: 160 hours per year for licensed reactor operators and senior reactor operators; a minimum of 80 hours per year for shift supervisors; a minimum of 160 hours per year for equipment engineers; theoretical and simulator-based training, without on-the-job training; a minimum of 32 hours per year for the rest of the technical personnel
SEL	• professional education programmes at faculties or higher-education institutions to obtain Level 7 or 6/II qualifications • individual and group training for operators of energy generation systems • training in occupational health and safety, fire safety, first aid, and new legislation	
HESS	• professional education and training according to field of specialization; participation in industry seminars, workshops, conferences, panel discussions and training courses: 2037.5 hours of education and training, attended by 46 employees (44.3 hours per employee)	
TEB	• in-house and external training in occupational health and safety, fire safety, environmental management systems, accounting and finance, employment relationships and other professional subject areas • training for technical personnel in operating the new gas turbine unit PB6 ("Training – Operation", "Training – Basic") • mandatory periodic training, 57 hours of education or training on average per employee per year	
GEN-I	• middle management training • specialized technical education with a narrow focus • participation of employees in major top-level business events at home and abroad with the aim of exchanging good practices	

EMPLOYEES AND INTELLECTUAL CAPITAL

Number and qualification structure of employees

Professional education and training

SOCIAL CAPITAL

Development of human resources and management of long-term strategic challenges in human resources

A comprehensive overview of interconnections between the types of capital and the financial and non-financial information on the GEN Group's business operations in 2017 (Business Report) is provided in Section V.3.

9. Promoting the knowledge of energy and the energy industry

Our mission is to stay a reliable supplier of electricity from sustainable and renewable sources. Our success in accomplishing this mission depends largely on the understanding of our line of work among various external stakeholders. The knowledge and understanding have a strong influence on the perception of challenges of the present and future electricity supply.

For a whole decade, the GEN Group has been working hard to raise energy awareness and particularly to boost interest in, and strengthen the knowledge of, energy-related topics among our key stakeholders:

- school children and youth,
- local communities,
- electricity consumers,
- professional public circles,
- decision-makers at the national and local levels,
- NGOs,
- the media, and other key stakeholders.

The World of Energy and collaboration with schools

From the opening of The World of Energy (in July 2011) to 31 December 2017, this interactive multimedia centre on energy and energy technologies recorded 49,613 visitors, of which 7,652 in 2017 alone.

The aim of The World of Energy centre is to provide comprehensive information and explanations and to showcase interactive exhibits and experiments to bring energy technologies, nuclear energy in particular, closer to visitors and to spark interest in natural and technical sciences among young people. Smaller in scope but still an important part of activities at the World of Energy is the preparation of programmes and workshops, which GEN develops in collaboration with teachers from the schools in the Posavje region, for talented primary and secondary school students.

Saturday and summer workshops opening the doors to knowledge

Visitors are drawn in not only by guided tours but also Saturday workshops held in the experiment room, which are designed to boost interest in natural sciences, technical science and energy technology among the young. The four workshops held in 2017 were attended by 215 people.

Awareness-raising projects in 2017:

- **"The Young in the World of Energy" project**
  Held since 2008, the nationwide contest "The Young in the World of Energy" is designed for Slovenian primary and secondary schools and school centres. The creativity contest is available as an elective course for schools participating in the Eco-School program. More than 374 creations were submitted to the contest, and the contest involved more than 690 children and youths. Primary and secondary school students and mentors who produced the best projects in the 2016/17 school year according to the panel of experts were presented with awards by GEN energija on 12 June. A new The Young in the World of Energy prize-winning contest was announced at the beginning of the school year 2017/18.

- **"Young Wizards" quiz competition**
  In association with NEK, we organized the "Young Wizards" project, a quiz competition on energy topics, for the fourth year running. In the 2016/17 school year, the contest was designed for the primary schools of the Posavje region. 300 students from 20 out of 26 primary schools in the Posavje region took part in the contest. We prepared e-materials for the contest and held a series of preparatory events, which included all mentors and students visiting The World of Energy in Krško, where they saw an interactive exhibition on energy and energy technologies and also gained new knowledge in practical workshops.

  With the new school year, 2017/18, we started preparations for the contest designed for 3rd- and 4th-year students enrolled in vocational electrical and mechanical engineering secondary schools, technical grammar schools and the electronic communications technician programme.

Supporting energy industry events and projects

Aside from in-house projects, events and other activities designed to promote the knowledge of energy and the energy industry, the GEN Group companies in 2016 again provided organizational, technical or financial support to various nationwide, industry, business, and educational/awareness-raising events and projects related to the energy industry.

eSvet, web portal on energy and the energy industry

The web portal on energy and the energy industry eSvet, which we launched in 2014 in cooperation with industry partners (companies making up the GEN Group, the University of Maribor, Jožef Stefan Institute, ELES and ARAO), provides curious online visitors with data-driven facts and figures on energy, its role and areas of application in everyday life, energy sources in use today, with a special emphasis on electricity generation sources and technologies and the importance of having a reliable electricity supply – now and in the future. The portal registered 71.9% of new visitors and more than 112,989 page views. eSvet was upgraded in 2017 with an online Energy Mix simulation, which allows every individual to try their hand at running Slovenia's power plants. The simulation uses actual data and includes power plant types currently available in Slovenia.

Partnership collaborations, corporate and project presentations

We establish and foster partnerships with organizations and individuals actively engaged in spreading the knowledge of, and raising interest in, natural and technical sciences and energy topics, primarily:

- primary and secondary schools and faculties across the country (especially the Faculty of Electrical Engineering of the University of Ljubljana, Faculty of Electrical Engineering and Computer Science of the University of Maribor, Faculty of Energy Technology of the University of Maribor, etc.),
- science centres (House of Experiments in Ljubljana, e-house in Nova Gorica, etc.),
- other programs and projects promoting sustainable development and energy literacy in Slovenian schools.

We demonstrate our focus on transparency and openness for communication with interested public audiences through numerous presentations of our operations and major projects, most notably JEK 2, at various industry and other events.

Sponsorships and donations

With their energy production facilities and operations, the companies making up the GEN Group are closely coupled to the local environments where they operate. In line with our sense of responsibility, we endeavour to help actively shape the life in local communities, particularly in the areas of education, science, sports, culture, charity, healthcare, environmental protection, humanitarianism, and others. In choosing which area to support, we look into the needs, expectations and interests of the local environment where our companies operate or which their operations impact. In 2017, nearly 51% of all the funding went to the local environments in which our companies operate, and 49% to organizations around Slovenia.

Energy awareness raising activities

	Contents	Target audience	Results in 2017
GEN	The World of Energy (guided tours, Saturday and summer workshops) eSvet web portal on energy and the energy industry Energy literacy lecture and workshop for primary and secondary school teachers (as part of professional training for teaching staff organized by the National Education Institute Slovenia) Energy quiz show Young Geniuses (in association with NEK) Technical Wizardry (in association with Krško-Sevnica School Centre) Energy literacy lecture at the international SIRIKT conference, Kranjska gora Presentation at Elektrofest, Ljubljana (in association with ELES, EIMV, and the Faculty of Electrical Engineering) Presentation at the Learning Parade, Learning Communities Day 2017, Krško Cooperation on the Occupations Camp project (in association with Krško Youth Centre) Presentation during Information Days at Krško-Sevnica School Centre	Schools, faculties and other interested audiences, wider professional public, local population	• 7,652 visitors • 4 Saturday and 1 summer workshop, with 215 participants • The Young in the World of Energy contest entered by more than 690 Slovenian children and youths from 52 institutions • the Technical Wizardry event attended by 311 visitors • 20 out of 26 Posavje region primary schools registered for the Young Geniuses quiz show. 300 primary school students took part in the quiz.
NEK	Guided tours of NEK Implementation of the Nuclear Engineering Fundamentals module (in association with Krško-Sevnica School Centre) Energy quiz show Young Geniuses (in association with the company GEN) Participation in the Occupations Camp (in association with Krško Youth Centre) and Information Days held at Krško-Sevnica School Centre and the Faculty of Energy Technology Informing the professional and general public about the technical and environmental aspects of NEK's operation and the energy industry Facilitating mandatory practical work for students (in association with the Faculty of Energy Technology).	Schools, faculties and other interested public audiences, local population, students of Krško-Sevnica School Centre	• 266 groups • 5,854 visitors • ongoing cooperation (the theoretical part of the module is taught at school, the practical part at NEK)

	Contents	Target audience	Results in 2017
SEL	Guided tours of Završnica HPP and the Završnica HPP Technical Museum Participation in the Sava Water Council	Schools, faculties and professional societies Local communities and other stakeholders	• acquiring new knowledge of hydro energy and the past and present methods of generating electricity from hydro energy; a total of some 70 excursions per year • coordination of interests for farming, energy generation, river navigation, tourism, nature conservancy and other activities in the Sava basin
HESS	Guided tours of operating HPPs and the Brežice HPP construction site Contributions at conferences and expert meetings on the topic of the multipurpose project underway on the lower course of the River Sava Recipient of the Brežice Municipality Award for an outstanding achievement in harnessing renewable energy sources and for being a socially responsible business	Schools, faculties, local communities, professional societies, companies involved in the construction of Brežice HPP, ministries, expert groups from Slovenia and abroad	• 3,091 visitors in total: 1,543 to the operating HPPs and 1,548 to Brežice HPP • promotion of the project's positive social, environmental and economic effects; raising awareness of the importance of having sustainable development in the local and regional environments
TEB	Guided tours of the power plant Occupations Camp (in association with Krško Youth Centre) Two 3D printers donated to Krško-Sevnica School Centre (initiated by TEB, courtesy of Siemens)	Professional public, eighth- and ninth-graders, secondary school students	• numerous presentations of the implementation of the strategic energy generation project to build a new gas turbine unit; conventional guided tours of the power plant were limited during construction • aiming to bring state-of-the-art technology closer to secondary school students and to encourage them to pursue technical careers

EMPLOYEES AND INTELLECTUAL CAPITAL

Substance-wise and organizational development of activities for promoting energy literacy and employee engagement (overview by GEN Group company)

SOCIAL CAPITAL

Promoting the knowledge of energy and the energy industry among various target groups, primarily:

- school children and youth,
- local communities,
- electricity consumers,
- professional public circles,
- decision-makers at the national and local levels,
- NGOs,
- the media, and other key stakeholders

Supporting energy-related projects and events.

A comprehensive overview of interconnections between the types of capital and the financial and non-financial information on the GEN Group's business operations in 2017 (Business Report) is provided in Section V.3.

10. Quality policy and safety assurance

GEN's Quality Policy draws from our mission and vision and is aligned with the strategic pillars for the fulfilment of GEN's sustainability focuses, at the heart of which are knowledge and safety.

10.1 Quality Management System

Our quality management system applies directly to all employees of the companies making up the GEN Group and indirectly also to contractors and other stakeholders who are required to comply with our management systems in place, that is, our safety culture principles and quality and business ethics standards.

The GEN Group companies have been certified to ISO 14001 (environmental management system), OHSAS 18001 (occupational health and safety) and ISO 9001 standards for a number of years already.

In the GEN Group, we place a strong emphasis on streamlining and optimizing our operations, and we create synergies throughout our key processes. By making all our employees part of the system and by understanding and using it properly, we systematically and continuously improve the company's performance and efficiency in achieving its business goals, quality-specific goals included.

The table highlights some of the key activities in 2017 associated with the implementation, maintenance and development of management systems, and plans for 2018.

10.2 Top priority: continuous safety upgrades

Our safety culture, evident in our unwavering commitment to safety, is at the very heart of all levels of our responsible actions:

- in showing a sense of responsibility towards the local people and the environment in which we operate,
- in ensuring occupational health and safety for our employees, both in production and office settings, and
- in achieving operational efficiency of the GEN Group's production facilities and the resulting business excellence.

Nuclear safety is our top priority in the context of the company GEN's mission. The human element is a key factor in nuclear safety, so it is absolutely vital that knowledge and systematic training are broadened and strengthened. Nuclear safety assurance is incorporated into all organizations dealing with, or connected to, the GEN Group's nuclear operations.

The safety of NEK's operation and the preparation of the JEK 2 project is therefore an overarching priority: in the planning and implementing of decision-making activities and work operations. This includes keeping abreast of best practices in the field of nuclear safety on the global scale and of OSART recommendations (IAEA mission, Operational Safety Assessment Review Team). Great emphasis is placed on equipment modernization and maintenance and on improving the safety culture and awareness among all employees. Owing to such approaches, NEK ranks in the top 25% of nuclear power plants worldwide in terms of operational safety and stability.

This was also confirmed during an intense three-week assessment of the operational safety and work processes at NEK, which was conducted in 2017 by the International Atomic Energy Agency (IAEA) at the invitation of the Government of the Republic of Slovenia. Experts from various countries examined NEK's operational practices against IAEA recommendations. They found that NEK is an organization which is making constant progress in ensuring nuclear safety and operational reliability. NEK's goals in terms of safety and operation results and work methods are ambitious, which is only natural given that there is no room for complacency in the nuclear industry. NEK's method of work and all projects therefore constantly seek to drive progress towards the ultimate goal – safety.

In autumn, the IAEA also carried out a review mission with regard to NEK's preparedness in the event of nuclear and radiation accidents. The mission complimented NEK on its accident response plans, which also lay down tasks and responsibilities of everyone involved. It is exemplary for these plans to be periodically tested through drills and for proper training to be organized.

INFRASTRUCTURAL CAPITAL

Safety aspects behind NEK's operation and the preparation of the JEK 2 project:

- keeping abreast of best practices in the field of nuclear safety,
- modernization of equipment,
- assessment of the operational safety and work processes (International Atomic Energy Agency, IAEA).

NATURAL CAPITAL

Activities involving the ISO 14001 environmental management system

EMPLOYEES AND INTELLECTUAL CAPITAL

Quality management systems and direct engagement of all employees

Safety culture – at the very heart of our responsible operations at every level:

- nuclear safety as the top priority,
- fostering and improvement of the safety culture and awareness among all employees.

Activities involving the occupational health and safety system

A comprehensive overview of interconnections between the types of capital and the financial and non-financial information on the GEN Group's business operations in 2017 (Business Report) is provided in Section V.3.

Activities in quality management, environmental management, and occupational health and safety

	Certificate	Implemented activities	Key plans for 2018
NEK	ISO 14001	• Completed renewal and transition audit for the new version of the ISO 14001:2015 standard (November 2017)	• Implementation of recommendations given as possibilities for improvement or as observations by the certification authority • Maintenance of the environmental management system and identification of possibilities for system improvements • Internal audit of the environmental management system • Identification and control of any new environmental aspects • Control audit successfully completed by the certification authority
	OHSAS 18001	• Completed certification audit of NEK's OHSAS 18001 occupational health and safety system	• Implementation of recommendations made by the certification authority during the control audit • Introduction of new goals and policies in occupational health and safety • Adherence to the new annual occupational health and safety operational plan for 2018, which includes an action plan for improvement • Main focus is on providing active help in the implementation of projects under the Safety Upgrade Program • Safe implementation of the 2018 scheduled maintenance outage • Continuous focus on the training of employees and contractors in the areas of work safety, prevention of accidents, and compliance with all regulatory requirements
SEL	ISO 14001	• Certification to the ISO 14001 standard discontinued, but the good practice put in place is kept • Environmental Management process audited as part of the renewal audit for ISO 9001 (August 2017)	
	OHSAS 18001	• Certification to the OHSAS 18001 standard discontinued, but the good practice put in place is kept • Occupational Health and Safety and Fire Safety process audited as part of the renewal audit for ISO 9001 (August 2017)	
	ISO 9001	• Completed renewal and transition audit for the ISO 9001:2015 standard	• Despite the discontinuation of certification to ISO 14001 and OHSAS 18001 standards, their principles will continue to be observed and followed. Good practices will be implemented similarly to 2017.

	Certificate	Implemented activities	Key plans for 2018
TEB	ISO 9001	• External control audit completed (March 2017)	• Transition to the new ISO 9001:2015 standard will be completed in 2018, and the management system will be redesigned in the process • Implementation of recommendations for system improvements made during the internal and external audits in 2018
	ISO 14001	• External control audit completed	• Adaptation of the environmental management system to the new version of the ISO 14001:2015 standard • Internal audit performed based on the new standard • Recertification of the management system to the new version of the ISO 14001:2015 standard in March
	OHSAS 18001	• External control audit completed	• Implementation of recommendations for system improvements made during the 2018 control audit • Adherence to the operational plan for 2018 with regard to occupational health and safety and fire safety, which includes programmes, activities and goals designed to promote continual improvement
GEN	ISO 9001	• Regular external audit completed in February 2017 • Management system IT upgraded; risk and opportunity management module developed and deployed on the Management System Portal.	• Completion of renewal and transition audit for the ISO 9001:2015 standard (February 2018) • Upgrade to existing IT solutions on the Management System Portal, mainly in connection to risk and opportunity management • Examination of recommendations made as possibilities for improvement by the certification authority

11. 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. We manage risks by adhering to the adopted Risk Management Guidelines and policies set out in the Risk Management Manual. Based on the two documents and our insight into the 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**
- **project risks**

The GEN Group companies manage risks by identifying them in a timely manner and by determining the level of severity, both at management and sectoral levels. We then define the method and means for keeping the risk under control. Through efficient risk management, we seek to reduce the number of unpredictable events and to be more effective in meeting the set goals.

11.1 Strategic risks

Pursuit of sustainable development is an integral part of the business strategy of GEN energija. We have identified three pillars of sustainable development, at the heart of which are knowledge and safety. Within each of these distinct areas, we constantly strive for improvements in order to minimize any negative impacts and to maximize positive effects our operations have on the environment and on society.

The risk most relevant to the operations of the company GEN has to do with ensuring safe, reliable and stable electricity production in the subsidiaries, since the survival and development of the company GEN depend 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. Because we, as owners of Slovenia's part of the facility, acknowledge the risks and our responsibility around the clock, all year round, we monitor its operation on multiple 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.

Corporate governance by the founder

Capital assets management, conducted by the Slovenian Sovereign Holding (hereinafter: the SSH), is an important aspect of strategic risk management. Pursuant to the Slovenian Sovereign Holding Act (Official Gazette of the Republic of Slovenia, No. 105/2012 and amend.), the SSH is responsible for managing capital assets owned either by the Republic of Slovenia or by the SSH itself. The term capital assets management encompasses securing of investments, disposal of investments and exercising of shareholder or partner rights, as well as all other legal actions compliant with the Companies Act (CA-1). Based on this legal title, the SSH also manages the Republic of Slovenia's capital asset investment in the company GEN.

The SSH 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 associations (particularly the Management Code for Publicly Traded Companies), while also following binding documents expressing the SSH's positions on some of the aspects of management (particularly the Recommendations of the Manager of Indirect and Direct Capital Asset Investments of the Republic of Slovenia and the yearly SSH guidelines for voting in companies' general meetings).

The SSH carries out its management function as follows.

- by convening regular and special general meetings,
- by appointing and dismissing supervisory boards,
- through regular quarterly reports, planning information for the next three years,

- through regular biannual meetings with a company's supervisory board and/or management. Such meetings allow for a more direct discussion about pending issues and a quicker way to define the actions needed to resolve potential problems,
- through potential feedback given to the company by the SSH, where a written document may be provided complete with comments, recommendations and positions regarding future operations and achievement of goals,
- by calling emergency meetings in the event of unforeseen, special events that may impact the company's achievement of goals and its value,
- by taking action in the event that a company is seriously lagging behind its approved business targets,
- if required, the SSH may also employ other ways of gathering information to help it get a better picture of a company's performance (e.g. collaboration with auditors).

The company is actively managed in order to achieve a business result that is in line with performance indicators. Making business operations efficient is what active management is all about – maximizing the profits and curbing the costs across the entire Group. 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. The replenishment and expansion of the company's production capacities is monitored in the subsidiaries through annual and quarterly financial statements and business plans.

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.

11.2 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 market risks through an elaborate electricity sales strategy, which remains fixed and unchanging for the most part. To a smaller extent, the strategy is updated, expanded and adjusted each year according to market conditions. 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. Futures contracts and various exchange-traded financial instruments are also used for hedging against fluctuations in electricity prices. At Group level, we are exposed to the price risk if there are open positions – a difference (in quantity and value) between the purchases and sales in a given supply period. As the price changes, the portfolio value may decrease as a result. To effectively minimize the price risk, all positions must be closed promptly. With every transaction made, we can generally make a simultaneous countertransaction with suitable characteristics designed to hedge positions against price fluctuations. A counterposition is launched in a market whose price correlates highly with the price in the market of the original transaction. If that cannot be done, we seek to limit the risk of price fluctuations between two markets by buying cross-border capacities. The Risk Management Policy defines the maximum open position of an individual portfolio based on the VAR (Value at Risk) method, and in proprietary trading, a portfolio's maximum loss as well.

The risks associated with the sales of electricity for ancillary services have shown in the past 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 managed to effectively mitigate these risks by selling most of these services on a long-term basis, up to 2019.

11.3 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 energy carriers, or external, mostly having to do with weather and hydrological conditions. The company is exposed to these risks particularly in the event of open-ended contracts.

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. The risks associated with electricity purchased from other sources refer to the electricity purchased by GEN from sources outside the Group.

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. NEK, SEL, TEB and HESS ensure uninterrupted operation of their production units and other electricity generation systems independently by performing regular maintenance work and periodic checks (measurements, mechanical diagnostics).

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 GEN Control Centre.

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

11.4 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. At Group level, we additionally minimize the liquidity risk:

- through a liquidity reserve in the form of approved credit lines with different commercial banks,
- through diversification of financial obligations,
- through prompt reconciliation of maturities of receivables and payables,
- by limiting our exposure to partners known to be bad payers, and
- by consistently recovering past-due debts.

To cover for unplanned expenditure, the company has part of its cash tied up in a call deposit, with which it can cover payment obligations without delay. These funds will also be used if any of the related companies has trouble securing liquidity funds in the market.

The companies are also exposed to risks associated with surplus cash management. Given the situation in the financial markets, we recognize the risk of bank defaults with respect to surplus cash investments. To manage these risks, the company GEN adopted an Investment Strategy, which serves as the basis for more effective investment risk management.

Credit risk is risk that arises when a business partner fails to fulfill – 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 to others – deposits). Such non-fulfilment impacts the ability of the companies to fulfill its other obligations to its contractual partners.

The 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).

The gravity of the identified risk depends mostly on the partner's business results, particularly level of debt, short-term liquidity, solvency indicators, and profitability indicators. We swear by gathering up-to-date information in the market, since various market and regulatory changes may cause a partner's standing to quickly falter.

Interest rate risk is a financial risk businesses are exposed to in varying degrees when acting as borrowers or lenders. Interest rate risk represents a possibility of incurring lower revenues or higher expenses as a result of unfavourable interest rate fluctuations in the market. Unfavourable fluctuation may come in the form of an upward or downward movement of an interest rate. If a business needs money to go through with a specific project, a rise in the interest rate is an unwelcome change. A fall in the interest rate, however, may also represent a negative change if a business lends out its surplus cash in the market.

In investment terms, interest rate risk represents a possibility that the value of an investment decreases due to interest rate changes in the market.

To understand interest rate risk, it is crucial to understand the money market and how it works. Interest rates in the money market constantly change – driven by the supply of and demand for money, as well as other macroeconomic factors (such as inflation or overheating of the economy). Interest rate is essentially the price of money, which, much like the price of any other goods, is determined as a ratio between supply and demand and responds to changes exactly like other prices.

Both from the lender's and borrower's point of view, interest rate risk is most commonly managed by using various financial instruments designed to minimize negative effects of changing interest rates in the market. The extent of exposure to interest rate risk generally depends on the size of the share of financial liabilities and financial investments in a given company – the larger the share, the bigger the exposure.

Currency risk is present in electricity trading and cross-border transmission capacity trading operations. Also exposed to credit risk are the subsidiaries' capital and loans. 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.

11.5 **Human resources risks**

HR planning involves identifying the company's need for human resources and planning out the activities for their recruitment. For systematic and cost-efficient planning of human resources in the company, this process needs to include all the company's people in lead positions.

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

Managing these risks is particularly important to the GEN Group on account of its rapid growth and expansion into new markets. In order to fulfill business plans, employees are expected not only to continually expand their existing knowledge and skills and to acquire new knowledge and skills, but also to be effective team players, show a high degree of flexibility, dynamism, motivation, to take initiative, and to have an excellent rapport and communication with each other.

11.6 **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 companies manage these risks primarily by laying down as precisely defined contractual terms and conditions as possible.

Risks arising from vague legal bases or sudden changes in legislation are quite common as well. The company seeks to minimize these risks by keeping abreast of legislative changes and by carefully looking into them before they are made law.

11.7 **Operational risks**

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

We minimize the process risks at the GEN Group level through control systems deployed in each individual company, the core idea behind which is that all important operations must be concluded using the four-eyes principle as a minimum. The Group manages these risks through clearly defined business processes, clearly defined roles, responsibilities and authorizations, and codes of practice and rules.

IT or telecommunication system failure risks are managed by the companies by setting up redundancy systems for all the key network components and by making sure they are regularly serviced and updated. They come with suitable support and assistance packages which guarantee timely replacement in the event of failure. All important communication channels have also been duplicated for redundancy.

11.8 **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 whether 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 the general risks by presenting appropriate institutions, the Government of the Republic of Slovenia and the social environment with eligibility factors and the national strategic importance of the JEK 2 project, all of which form the basis for making the necessary decisions to go ahead with the construction of JEK 2.

Apart from general risks, the company already identifies risks associated with the JEK 2 project, should the new nuclear build finally materialize. The major risks associated with the JEK 2 project are:

- risk relating to the development of the JEK 2 project,
- risk relating to the completion of the JEK 2 project, the most notable being the risk relating to the financing of the JEK 2 project and recruiting suitable human resources, and
- risk relating to the operation 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. A Risk Management Manual for the JEK 2 project has already been produced.

Monitoring of and cooperation in the construction of hydroelectric power plants on the Sava River are important risk management elements for the companies GEN and SEL. This will play a particularly important part during the construction of hydroelectric power plants on the middle course of the Sava River (project SRESA), which is envisaged to also engage the cooperation of employees from these two companies.

Investments in gas turbine units are important as these serve as a backup power supply to NEK and potentially to JEK 2 and offer the possibility of serving as a grid-connected standby source, adding flexibility to the production portfolio.

11.9 Project risks

Project risks are identified and managed separately for individual projects (e.g. HESS, JEK 2, SRESA).

The management of strategic, market, quantity, financial, human resources, legal, operational, investment and project risks is closely linked to all the five types of capital from which the GEN Group generates value for its stakeholders in the short, medium and long term.

A comprehensive overview of interconnections between the types of capital and the financial and non-financial information on the GEN Group's business operations in 2017 (Business Report) is provided in Section V.3.

III Financial report of the company GEN

1. Independent auditor's report

This is a translation of the original report in Slovene language

INDEPENDENT AUDITOR'S REPORT

To the Owner of Company GEN energija d.o.o.

Opinion

We have audited the financial statements of GEN energija d.o.o. (the Company), which comprise the balance sheet as at December 31 2017, the income statement, the statement of other comprehensive income, the statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company GEN energija d.o.o. as at 31 December 2017 and its financial performance and its cash flows for the year then ended in accordance with Slovenian Accounting Standards.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA). Our responsibilities under those rules are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Slovenia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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

Other information

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

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. In addition, we assess whether the other information has been prepared, in all material respects, in accordance with applicable law or regulation, in particular, whether the other information complies with law or regulation in terms of formal requirements and procedure for preparing the other information in the context of materiality, i.e. whether any non-compliance with these requirements could influence judgments made on the basis of the other information.

Based on the procedures performed, to the extent we are able to assess it, we report that:

- The other information describing the facts that are also presented in the financial statements is, in all material respects, consistent with the financial statements; and
- The other information is prepared in compliance with applicable law or regulation.

In addition, our responsibility is to report, based on the knowledge and understanding of the Company obtained in the audit, on whether the other information contains any material misstatement. Based on the procedures we have performed on the other information obtained, we have not identified any material misstatement.

Responsibilities of management and those charged with governance for the financial statements

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

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

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The audit committee oversees the Company's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with audit rules, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

• identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

• obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;

• evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;

• conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;

• evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation;

We communicate with Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control.

Ljubljana, 17 April 2018

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

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

Mateja Repušič
Certified Auditor

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2. Statement of the Management's responsibility

The General Director is responsible for producing an annual report of the company GEN so as to provide a true and accurate account of the company's financial position and operating results for the business year that started on 1 January 2017 and ended on 31 December 2017.

The General Director hereby confirms that appropriate accounting policies were consistently followed and that accounting estimates were made in accordance with the principles of prudence and sound management. He also confirms that the financial statements with notes were prepared under the going concern assumption and in compliance with applicable laws and Slovenian Accounting Standards.

The General Director is responsible for ensuring proper accounting practices, taking suitable property protection measures, and preventing and identifying fraud and other irregularities or violations.

Tax authorities may review the company's operations at any time for up to 5 years after the end of the year in which taxes were assessed, which might result in additional tax liabilities, late-payment fees and penalties associated with corporate income tax, or other taxes and charges. The General Director has no knowledge of any circumstances that might cause a major liability to be imposed on the company in this respect.

The financial statements of the company GEN for the business year ended on 31 December 2017 were approved by the General Director on 12 April 2018.

Vrbina, 12 April 2018

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

3. Introductory notes on the preparation of financial statements

The company is required to compile individual financial statements for the company GEN in compliance with the Slovenian Accounting Standards (SAS) 2016.

The financial statements with notes were audited by Ernst & Young d.o.o., Dunajska 111, Ljubljana, which produced an independent auditor's report as included in the introductory section of the financial report.

4. Financial statements

4.1 Balance sheet

Balance sheet – assets in EUR	Notes	31/12/2017	31/12/2016
ASSETS		**531,990,773**	**513,173,498**
Fixed assets		**479,622,988**	**479,810,810**
Intangible assets, long-term deferred expenses and accrued revenue	**7.1**	**198,015**	**240,604**
Intangible assets		197,312	230,276
Long-term property rights		180,206	209,626
Other intangible assets		17,106	20,650
Long-term deferred expenses and accrued revenue		703	10,328
Tangible fixed assets	**7.2**	**18,268,191**	**17,876,735**
Land and buildings		6,859,973	7,199,268
Land		528,904	528,904
Buildings		6,331,069	6,670,364
Other plant and equipment, small tools and other TFA		759,623	839,750
Tangible fixed assets in production		10,648,595	9,837,717
Long-term financial investments	**7.3**	**455,319,329**	**455,321,222**
Long-term financial investments other than loans		455,319,329	455,321,222
Stocks and shares in Group companies		278,412,815	278,412,815
Shares and interests in affiliated companies and joint venture		176,782,413	176,784,306
Other stocks and shares and other LFI		124,101	124,101
Deferred tax assets	**7.4**	**5,837,453**	**6,372,249**
Current assets		**52,296,410**	**33,297,823**
Short-term financial investments	**7.5**	**13,197,358**	**195,164**
Short-term financial investments other than loans		195,164	195,164
Other stocks and shares		195,164	195,164
Short-term loans		13,002,194	0
Short-term loans to others		13,002,194	0
Short-term operating receivables	**7.6**	**32,538,506**	**18,636,642**
Short-term operating receivables due from Group companies		23,702,126	12,997,996
Short-term operating trade receivables		6,588,213	3,416,943
Short-term operating receivables due from others		2,248,167	2,221,703
Cash and cash equivalents	**7.7**	**6,560,546**	**14,466,017**
Short-term deferred expenses and accrued revenue	**7.8**	**71,375**	**64,865**

The accompanying notes are an integral part of these financial statements and should be read in conjunction with them.

4.2 Balance sheet – continued

Balance sheet – liabilities, in EUR	Notes	31/12/2017	31/12/2016
LIABILITIES		**531,990,773**	**513,173,498**
Equity	**7.10**	**447,903,727**	**430,381,521**
Called-up capital		**250,000,000**	**250,000,000**
Share capital		250,000,000	250,000,000
Capital reserves		**131,756,895**	**131,756,895**
Revenue reserves		**52,397,116**	**39,690,278**
Statutory reserves		2,605,980	2,605,980
Other revenue reserves		49,791,136	37,084,298
Reserves from valuation at fair value		**-19,747**	**-3,027**
Retained net profit or loss		**4,000,000**	**0**
Net profit or loss for the financial year		**9,769,463**	**8,937,375**
Provisions, long-term accrued expenses and deferred revenue		**61,452,365**	**65,637,272**
Provisions, long-term accrued expenses and deferred revenue	**7.12**	**61,452,365**	**65,637,272**
Provisions for severance pay and anniversary bonuses		474,925	302,315
Other provisions		60,972,833	65,326,000
Long-term accrued expenses and deferred income		4,607	8,957
Long-term liabilities		**89,792**	**191,775**
Long-term financial liabilities		**31,000**	**31,000**
Other long-term financial liabilities		31,000	31,000
Long-term operating liabilities		**58,792**	**160,775**
Long-term operating liabilities to suppliers		47,626	152,358
Other long-term operating liabilities		11,166	8,417
Current liabilities		**22,338,674**	**16,822,011**
Current operating liabilities	**7.13**	**22,338,674**	**16,822,011**
Short-term operating liabilities to Group companies		8,551,996	4,622,653
Short-term operating trade liabilities		10,121,461	9,684,993
- domestic		9,940,882	9,580,123
- foreign		180,579	104,870
Other current operating liabilities		3,665,217	2,514,365
Short-term accrued costs and deferred revenues	**7.14**	**206,215**	**140,919**

The accompanying notes are an integral part of these financial statements and should be read in conjunction with them.

4.3 Profit and loss account and statement of other comprehensive income

Profit and loss account, in EUR	Notes	2017	2016
Net sales revenue	**7.15**	**168,865,788**	**160,511,783**
Domestic sales		168,813,705	160,511,783
EU sales		52,083	0
Other operating revenue	**7.15**	**4,413,473**	**6,264,757**
Total operating revenue		**173,279,261**	**166,776,540**
Total operating expenses		**151,518,378**	**148,361,121**
Costs of goods, materials and services	**7.16**	**138,379,270**	**136,240,708**
Original cost of goods and material sold		136,518,021	134,032,020
Cost of materials used		146,438	129,721
Costs of services		1,714,811	2,078,967
Labour costs	**7.16**	**3,315,888**	**2,962,104**
Payroll costs		2,450,312	2,281,707
Social security cost		492,966	460,055
Other labour costs		372,610	220,342
Write-downs	**7.16**	**786,464**	**921,957**
Depreciation associated with IA and TFA		786,302	918,177
Revaluation operating expenses associated with IA and TFA		162	3,780
Other operating expenses	**7.16**	**9,036,756**	**8,236,352**
Operating revenue		**21,760,883**	**18,415,419**
Financial revenue from shares	**7.15**	**2,011,791**	**2,011,791**
Financial revenue from shares in Group companies		2,000,000	0
Financial revenue from shares in other companies		11,791	2,011,791
Financial revenue from loans	**7.15**	**5,732**	**33,657**
Financial revenue from loans to others		5,732	33,657
Financial revenue from operating receivables		**11,460**	**1**
Financial revenue from operating receivables due from Group companies		11,221	0
Financial revenue from operating receivables due from others		239	1
Financial expenses due to impairment and write-offs of financial investments		**93**	**0**
Financial expenses for operating liabilities		**3,863**	**4,480**
Financial expenses for other operating liabilities		3,863	4,480
Other income		**653**	**95**
Other expenses		**113,538**	**116,424**
Total profit or loss		**23,673,025**	**20,340,059**
Corporate income tax	**7.18**	**4,134,098**	**2,465,309**
Corporate income tax		3,597,547	2,079,922
Deferred taxes		536,551	385,387
Net profit or loss for the period		**19,538,927**	**17,874,750**

Statement of other comprehensive income, in EUR	2017	2016
Net profit or loss for the period	**19,538,927**	**17,874,750**
Changes in reserves from valuation at fair value	-16,720	-20,888
Total comprehensive income for the period	**19,522,207**	**17,853,862**

The accompanying notes are an integral part of these financial statements and should be read in conjunction with them.

4.4 Cash flow statement, version II

Cash flow statement (ver. II), in EUR	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit and loss account items	**19,523,617**	**13,168,369**
Operating revenues (except revaluation) and financial income from operating receivables	173,255,727	160,527,874
Operating expenses without depreciation (except for revaluation) and financial expenses from operating liabilities	-150,653,195	-147,504,726
Income taxes and other taxes not included in operating expenses	-3,078,915	145,221
Changes in net current assets under balance sheet operating items	**-13,369,687**	**1,282,004**
Opening less closing operating receivables	-13,901,864	1,550,542
Opening less closing short-term deferred expenses and accrued revenue	3,115	103,143
Closing less opening operating debts	4,648,673	1,067,397
Closing less opening accrued expenses and deferred revenue, and provisions	-4,119,611	-1,439,078
Positive or negative net cash flow from operating activities	**6,153,930**	**14,450,373**
CASH FLOWS FROM INVESTING ACTIVITIES		
Receipts from investing activities	**7,020,329**	**27,027,490**
Receipts from received interest and shares of other entities' profits associated with investing activities	2,015,329	2,045,448
Receipts from disposal of tangible fixed assets	3,200	2,425
Receipts from disposal of financial investments	5,001,800	24,979,617
Expenditure for investing activities	**-19,079,730**	**-13,405,832**
Expenditure for acquisition of intangible assets	-109,569	-150,024
Expenditure for acquisition of tangible fixed assets	-970,161	-1,977,903
Expenditure for acquisition of financial investments	-18,000,000	-11,277,905
Positive or negative net cash flow from investing activities	**-12,059,401**	**13,621,658**
CASH FLOWS FROM FINANCING ACTIVITIES		
Expenditure for financing activities	**-2,000,000**	**-20,000,000**
Expenditure for paid-out dividends and other shares in profits	-2,000,000	-20,000,000
Positive or negative net cash flow from financing activities	-2,000,000	-20,000,000
Closing balance	**6,560,546**	**14,466,017**
Net cash flow for the period	**-7,905,471**	**8,072,031**
Opening balance	**14,466,017**	**6,393,986**

The accompanying notes are an integral part of these financial statements and should be read in conjunction with them.

4.5 Statement of changes in equity

Statement of changes in equity for 2017, in EUR	Share capital	Capital reserves	Statutory reserves
As at 01/01/2017	**250,000,000**	**131,756,895**	**2,605,980**
Changes in equity capital – transactions with owners	**0**	**0**	**0**
Paid-out dividends	0	0	0
Total comprehensive income for the reporting period	**0**	**0**	**0**
Input of net profit or loss for the reporting period	0	0	0
Changes in reserves from valuation of financial investments at fair value	0	0	0
Changes in equity	**0**	**0**	**0**
Other changes in equity	0	0	0
As at 31/12/2017	**250,000,000**	**131,756,895**	**2,605,980**

Statement of changes in equity for 2016, in EUR	Share capital	Capital reserves	Statutory reserves
As at 31/12/2015	**250,000,000**	**131,756,895**	**2,605,980**
As at 01/01/2016	**250,000,000**	**131,756,895**	**2,605,980**
Changes in equity capital – transactions with owners	**0**	**0**	**0**
Paid-out dividends	0	0	0
Total comprehensive income for the reporting period	**0**	**0**	**0**
Input of net profit or loss for the reporting period	0	0	0
Changes in reserves from valuation of financial investments at fair value	0	0	0
Changes in equity	**0**	**0**	**0**
Distribution of a portion of net profit as per company bodies' resolution	0	0	0
As at 31/12/2016	**250,000,000**	**131,756,895**	**2,605,980**

The accompanying notes are an integral part of these financial statements and should be read in conjunction with them.

	Other revenue reserves	Reserves from valuation at fair value	Retained net profit or loss	Net profit or loss	Total
	37,084,298	**-3,027**	**8,937,375**	**0**	**430,381,521**
	0	**0**	**-2,000,000**	**0**	**-2,000,000**
	0	0	-2,000,000	0	**-2,000,000**
	0	**-16,720**	**0**	**19,538,927**	**19,522,207**
	0	0	0	19,538,927	**19,538,927**
	0	-16,720	0	0	**-16,720**
	12,706,838	**0**	**-2,937,375**	**-9,769,464**	**0**
	12,706,838	0	-2,937,375	-9,769,464	**0**
	49,791,136	**-19,747**	**4,000,000**	**9,769,463**	**447,903,727**

	Other revenue reserves	Reserves from valuation at fair value	Retained net profit or loss	Net profit or loss	Total
	28,146,923	**17,861**	**7,158,611**	**12,841,388**	**432,527,658**
	28,146,923	**17,861**	**20,000,000**	**0**	**432,527,658**
	0	**0**	**-20,000,000**	**0**	**-20,000,000**
	0	0	-20,000,000	0	**-20,000,000**
	0	**-20,888**	**0**	**17,874,750**	**17,853,862**
	0	0	0	17,874,750	**17,874,750**
	0	-20,888	0	0	**-20,888**
	8,937,375	**0**	**0**	**-8,937,375**	**0**
	8,937,375	0	0	-8,937,375	**0**
	37,084,298	**-3,027**	**0**	**8,937,375**	**430,381,521**

5. Basis for drawing up the financial report of the company GEN

The form and substance of the financial report as an integral part of the Annual Report are laid down by the Companies Act (CA-1). The financial report includes a balance sheet, profit and loss account, statement of other comprehensive income, cash flow statement and statement of changes in equity, along with mandatory notes enclosed to the statements. The basic accounting rules applied to these financial statements are based on the Slovenian Accounting Standards (SAS) and were laid down in an internal document by the company; for areas not defined in this document, suitable processing methods are laid down by the Management's decisions. The company's financial statements are in compliance with all requirements of applicable standards and with notes released by the Slovenian Institute of Auditors. The company discloses significant financial statement items in accordance with relevancy-related provisions of the Accounting Rules of the company GEN.

5.1 Basic accounting assumptions and general valuation rules

In processing transactions for the preparation of financial statements, the company follows the following basic assumptions:

- accrual basis,
- going concern, and,

qualitative characteristics of financial statements:

- clarity: financial statements are clear if easily understood by users who are proficient in business and economic matters and accounting and who review the information provided thoroughly enough, and if the accounts and their postings can be properly and correctly read and interpreted,
- relevance: information is relevant if it helps users in their business decision-making. Information is significant when its omission or misstatement may impact a business decision made by a user and when it is based on financial statements,
- reliability: information is reliable when it contains no significant errors and subjective positions and when the accounts and their postings are complete and reliable. Information must be complete in terms of significance. Reliability also requires following the principle of substance over form.
- comparability: comparability of items is ensured by systematically applying standardized approaches in the financial statements of the company having the same legal and organizational form over multiple years and by ensuring comparability of items in financial statements of different companies.

5.2 Reporting currency

The financial statements are presented in EUR without cents. They are prepared on a historical (original) cost basis. On the balance sheet and in the profit and loss account, accounting items reported in a foreign currency are converted to euros based on the ECB exchange rate effective on the transaction date. At balance sheet date, assets and liabilities denominated in a foreign currency are converted to euros based on the ECB exchange rate effective on that date. Positive or negative exchange rate differences arising from such transactions are recognized in the profit and loss account. Due to the rounding of amounts, minor but insignificant discrepancies may be observed in the spreadsheets.

6. Accounting policies

6.1 Intangible assets

Intangible assets are non-monetary assets which are generally physically non-existent but allow the company to perform its registered activities.

The company uses the historical cost model for measuring intangible assets, meaning such assets are recognized at their historical cost. Depreciation adjustments and accumulated impairment losses are subsequently deducted from the historical cost.

Historical cost of an intangible asset includes all costs directly attributable to the preparation of an asset for its intended use, including borrowing costs until the generation of an intangible asset.

Subsequent costs/expenses incurred in connection with intangible assets are recognized in the respective asset's bookkeeping records and are only added to its historical cost if they increase the asset's future benefits compared to those originally estimated.

Depreciation of intangible assets is accounted for using the straight line method, taking into account the predefined useful life of each individual intangible asset. Their depreciation begins on the first day of the month following the month in which they become available for use.

On the balance sheet, intangible assets are recorded at book value, i.e. the difference between the historical cost and accumulated depreciation.

6.2 Tangible fixed assets

Tangible fixed assets (property, plant and equipment) are permanent assets owned by the company and used for the performance of registered activities. They are recorded at their historical cost upon initial recognition.

Historical cost of a tangible fixed asset includes the purchase price and all costs directly attributable to the preparation of the asset for its intended use.

The company uses the historical cost model for measuring tangible fixed assets, meaning such assets are recognized at their historical cost, from which depreciation adjustments and accumulated impairment losses are subsequently deducted.

Depreciation of tangible fixed assets is accounted for using the straight line method, taking into account the predefined useful life of each individual tangible fixed asset. Their depreciation begins on the first day of the month following the month in which they become available for use.

Depreciation class	% in 2017
business premises	3
office equipment	10.00–20.00
computer equipment	33.33
intangible assets	33.33
tools and machinery	11.00–33.33
cars	12.5
trade show equipment	14.28–33.33
solar power plant	10
other capital expenditures	10
parts of buildings under construction	6
optical cable connections	3.33

The existing depreciation rates have not changed in 2017.

On the balance sheet, tangible fixed assets are recorded at book value, i.e. the difference between the historical cost and any accumulated depreciation.

Subsequent costs/expenses incurred in connection with tangible fixed assets are recognized in the respective asset's bookkeeping records and are only added to its historical cost if they increase the asset's future benefits compared to those originally estimated.

Upon disposal of a fixed tangible asset, its recognition in bookkeeping records is reversed, and the difference between the net gain on disposal and the book value of the disposed fixed asset is carried over to revaluation operating revenue or expenses.

Assets are recognized if they are likely to increase the company's future economic benefits and if they carry a price or value that can be reliably measured. If the level of probability is high enough for a certain item to increase the company's economic benefits after the end of a given accounting period, such items are treated as assets.

6.3 Long-term financial investments

Long-term financial investments are long-term financial investments in the equity of subsidiaries, affiliated companies and other businesses.

A financial investment is measured at fair value upon initial recognition. The initially recognized value is increased by transaction costs arising directly from the purchase or issue of a financial asset, except for assets belonging to a group of assets measured at fair value through profit and loss.

Equity investments in subsidiaries, affiliated companies and joint ventures are measured at historical cost.

Financial investments in equity instruments whose price is not published in the active market and whose fair value cannot be reliably measured and in derivative financial instruments which are associated with such financial investments and need to be reconciled with them, are measured at historical cost.

The company takes into account the transaction date when accounting for standard purchases and selling financial investments.

The company's profit-sharing amounts and dividends are recognized in the profit and loss account upon obtaining the right to pay out profit shares or dividends.

6.4 Deferred tax assets

Deferred tax assets are deductible temporary differences between the book value and tax value of liabilities. They are reported as long-term receivables.

Deferred tax assets are recognized in the amount of likely available future taxable income, to the debit of which deferred liabilities could be applied in the future.

Deferred tax is reported using the liabilities method based on the balance sheet, taking into account temporary differences between the book value of assets and liabilities for financial reporting purposes and values for tax reporting purposes.

6.5 Operating receivables

All types of receivables are reported at values recorded in relevant documents on the assumption that they will be settled.

The company impairs operating receivables if their redeemable value is found to be below the book value.

Risks for the company emerge primarily in connection with receivables from customers secured by blank drafts or bank guarantees.

6.6 Short-term financial investments

Financial investments are part of the company’s financial instruments whose associated gains are designed to increase the company’s financial revenues over short periods of time. They encompass issued deposits with maturity of more than 3 days after acquisition.

They are classified as loans measured at amortized cost based on the effective interest method and as other short-term financial investments other than loans and measured at historical cost.

6.7 Cash and cash equivalents

Cash and cash equivalents encompass deposit money and short-term deposits at banks with payment due date of a maximum three days after acquisition.

Deposit money is available or call-deposit money in an account with a bank or other financial institution that can be used for making payments.

6.8 Accrued expenses/revenue and deferred revenue/expenses

Short-term deferred expenses and accrued revenue encompass short-term deferred expenses whose cost at accrual does not yet impact the company's profit or loss and short-term uncharged revenue, which is justifiably taken into account in the profit or loss but has not yet been charged.

Short-term accrued expenses and deferred revenue encompass short-term accrued expenses based on evenly distributed deductions from profit or loss of expected expenses that have not been incurred yet and short-term deferred revenue for services not yet rendered but charged.

6.9 Equity

Equity is determined by both the amounts invested by owners and the amounts generated in the course of operations that belong to the owners. Equity may decrease due to loss or profit payouts and reserves from valuations at fair value.

In accordance with the amended SAS, the equity composition includes reserves from valuations at fair value, which were reported as revaluation surplus in the previous period. To allow comparison, the changed name of the item is also applied to previous periods.

The company’s total equity is composed of called-up capital, capital reserves, revenue reserves, reserves from valuation at fair value, retained net profit or loss from previous years and temporarily undistributed net profit of loss for the business year.

Share capital and capital reserves comprise cash and in-kind contributions made by the owners.

Other revenue reserves are formulated based on decisions by the Director and General Meeting.

Net profit or loss represents the undistributed portion of the company's net profit or loss for the current year.

6.10 Provisions

Provisions are made for liabilities which are expected to occur – based on binding past events – in a period of more than one year and whose size can be reliably assessed or measured.

Provisions for anniversary bonuses and severance pay are estimated based on reports made by authorized actuarial appraisers on the assumption of employee turnover of up to 3.0% and discount rate of 1.17%, while other provisions are estimated based on a methodology adopted by the company Director. For provisions associated with risky contracts, the methodology provides for provisioning based on a three-year average amount of fixed costs under the NEK Economic Plan.

6.11 Current operating liabilities

All types of liabilities are initially reported at historical value as recorded in corresponding bookkeeping documents.

Liabilities to foreign legal entities or natural persons are converted to the local currency on an accrual basis. The exchange rate difference that emerged up until the day of the settlement of such liability or until the balance sheet date is reported under financial expenses or income.

On the balance sheet, outstanding but unsettled liabilities and liabilities due in not later than one year after the balance sheet date are reported as short-term liabilities.

Long-term liabilities are liabilities that fall due after more than one year.

6.12 Contingent assets and liabilities

Contingent assets and liabilities include business events that have no direct impact on the items in the financial statements but provide important information to annual report readers. Upon future transactions, items of contingent assets and liabilities may expire or gain a new property and even impact the items on the balance sheet and profit and loss account.

6.13 Revenue

Revenue is an increase in economic benefits during the accounting period in the form of an increase in assets or a decrease in liabilities, where such an increase can be reliably measured. They impact the amount of equity through the profit and loss account.

Revenue is recognized when it is reasonable to expect it will result in receipts – if receipts have not been realized already upon accrual.

Revenue from the sale of goods and services is recognized in the profit and loss account. Revenue is recognized when it is reasonable to expect it will result in receipts – if receipts have not been realized already upon accrual.

It is measured based on selling prices specified on invoices or other documents, less any discounts granted at the time of sale or later.

Financial income is revenue from investing activities. It arises from financial investments and takes the form of dividends paid out by the Group companies and other institutions, as well as interest paid by other companies (financial institutions).

It is recognized based on the right to payout and billing, taking into account the elapsed period and the outstanding portion of the short-term financial investment, regardless of whether actual receipts are realized or not.

6.14 Expenses

Expenses are decreases in economic benefits during the accounting period in the form of a decrease in assets or an increase in liabilities, where such a decrease can be reliably measured.

Operating expenses are recognized upon procurement of goods or provision of service. Alongside historical costs of goods, operating expenses include costs of materials, costs of services, labour costs, depreciation costs, and other costs.

Financial expenses arise in connection with debt, short-term financial investments and current liabilities. They are recognized based on the statement of accounts, regardless of the payments associated with them. Interest is recognized in proportion to the elapsed period and based on the outstanding amount of the principal and the agreed interest rate.

6.15 Taxes

The company is a tax payer subject to the Value Added Tax Act and the Corporate Income Tax Act. Corporate income tax comprises current tax and deferred tax. It is disclosed in the profit and loss account.

Current tax is calculated based on the taxable profit for the business year using the tax rate in effect on the balance sheet date.

Deferred tax liabilities or assets are measured based on tax rates expected to be in effect when the liability is paid or the asset is realized. Tax rates and tax regulations effective on the balance sheet date are taken into account.

Deferred tax is recognized directly to the debit or credit of equity if the tax refers to items recognized directly to the debit or credit of equity.

6.16 Events after the balance sheet date

The company Management on 12 April 2018 approved the financial statements of the company GEN and the Annual Report for the business year ended on 31 December 2017. Up until the release of the auditor's report, there were no events or transactions recorded by the company that would impact the financial statements for 2017.

6.17 Segment reporting

The company GEN energija d.o.o. does not have any area and district segments.

7. Notes to the financial statements

The accompanying notes are an integral part of these financial statements and should be read in conjunction with them.

7.1 Intangible assets

Intangible assets are mostly assets invested in information technology systems essential to the company's operations.

Changes in intangible assets, in EUR	Intangible assets	Other intangible assets	Total
ORIGINAL COST			
As at 31/12/2016	**3,269,676**	**108,014**	**3,377,690**
Acquisitions	113,324	2,100	**115,424**
As at 31/12/2017	**3,383,000**	**110,114**	**3,493,114**
ACCUMULATED DEPRECIATION			
As at 31/12/2016	**3,060,050**	**87,364**	**3,147,414**
Depreciation	142,744	5,644	**148,388**
As at 31/12/2017	**3,202,794**	**93,008**	**3,295,802**
NET BOOK VALUE			
As at 31/12/2016	**209,626**	**20,650**	**230,276**
As at 31/12/2017	**180,206**	**17,106**	**197,312**
ORIGINAL COST			
As at 31/12/2015	**3,152,478**	**118,170**	**3,270,648**
Acquisitions	26,060	80,982	**107,042**
Reclassification	91,136	-91,136	**0**
As at 31/12/2016	**3,269,674**	**108,016**	**3,377,690**
ACCUMULATED DEPRECIATION			
As at 31/12/2015	**2,934,966**	**75,677**	**3,010,643**
Depreciation	125,082	11,689	**136,771**
As at 31/12/2016	**3,060,048**	**87,366**	**3,147,414**
NET BOOK VALUE			
As at 31/12/2015	**217,512**	**42,493**	**260,005**
As at 31/12/2016	**209,626**	**20,650**	**230,276**

On the balance sheet date, intangible assets total EUR 197,312 and are lower than in the previous period since the value of investments in the information technology system essential to the company GEN's operations was below the depreciation amount.

7.2 Tangible fixed assets

The company's tangible fixed assets comprise acquired land, buildings as part of business premises where the company GEN runs its operations and which are owned by the company, and equipment – specifically the equipment used on its premises that is essential to the company's business operations.

Changes in tangible fixed assets, in EUR	Land	Buildings	Equipment	Assets in production	Total
ORIGINAL COST					
As at 31/12/2016	**528,904**	**8,583,857**	**4,553,750**	**9,837,717**	**23,504,228**
Acquisitions	0	16,599	203,591	811,189	**1,031,379**
Reclassification	0	0	311	-311	**0**
Disposals, derecognition	0	0	-92,729	0	**-92,729**
As at 31/12/2017	**528,904**	**8,600,456**	**4,664,923**	**10,648,595**	**24,442,878**
ACCUMULATED DEPRECIATION					
As at 31/12/2016		**1,913,493**	**3,714,000**		**5,627,493**
Depreciation (-)		355,894	282,020		**637,914**
Revaluation		0	1,846		**1,846**
Disposal		0	-91,451		**-91,451**
Derecognition		0	-1,115		**-1,115**
As at 31/12/2017		**2,269,387**	**3,905,300**		**6,174,687**
NET BOOK VALUE					
As at 31/12/2016	**528,904**	**6,670,364**	**839,750**	**9,837,717**	**17,876,735**
As at 31/12/2017	**528,904**	**6,331,069**	**759,623**	**10,648,595**	**18,268,191**

Changes in tangible fixed assets, in EUR	Land	Buildings	Equipment	Assets in production	Total
ORIGINAL COST					
As at 31/12/2015	**524,933**	**8,543,929**	**4,606,881**	**8,262,710**	**21,938,453**
Acquisitions	8,403	35,575	93,499	1,589,865	1,727,342
Reclassification	0	4,353	10,505	-14,858	0
Disposals, derecognition	-4,432	0	-157,135	0	-161,567
As at 31/12/2016	**528,904**	**8,583,857**	**4,553,750**	**9,837,717**	**23,504,228**
ACCUMULATED DEPRECIATION					
As at 31/12/2015		**1,561,715**	**3,441,356**		**5,003,071**
Depreciation (-)		351,778	429,628		781,406
Revaluation		0	151		151
Disposal		0	-154,445		-154,445
Derecognition		0	-2,690		-2,690
As at 31/12/2016		**1,913,493**	**3,714,000**		**5,627,493**
NET BOOK VALUE					
As at 31/12/2015	**524,933**	**6,982,214**	**1,165,525**	**8,262,710**	**16,935,382**
As at 31/12/2016	**528,904**	**6,670,364**	**839,750**	**9,837,717**	**17,876,735**

On the balance sheet day, tangible fixed assets amount to EUR 18,268,191. Buildings make up the largest proportion of tangible fixed assets – on the last day of the accounting period, the book value of the GEN Information Centre office building amounted to EUR 5,953,894.

Assets in production, which amounted to EUR 10,648,595 on the last day of the accounting period, comprise mainly the following:

- state of activities in connection with replacement buildings for the nuclear production capacity expansion project totalling EUR 6,431,381,
- costs of research and studies for the JEK 2 investment totalling EUR 4,213,738.

As early as 2015, based on the Management's decision and adoption of the Decree on the Capital Assets Management Strategy, which lays down the role of the company GEN as the lead partner in connection with activities on the JEK 2 investment, the company GEN started recognizing among assets costs of studies and research conducted by external providers for the JEK 2 investment.

On the last day of the accounting period, no acquired assets of the company GEN have been pledged as collateral and the company GEN has no corresponding financial commitments.

7.3 Long-term financial investments

Long-term financial investments totalled EUR 455,319,329 on the last day of the accounting period. These are mainly investments in the Group companies in which GEN holds a direct or indirect majority share or a share in the affiliated companies. The total value of this type of investments is EUR 455,195,228.

Long-term financial investments	Equity interests and voting rights, in %		Investment value		Companies' capital	Companies' net profit or loss
	31/12/2017	31/12/2016	31/12/2017	31/12/2016	31/12/2017	2017
Subsidiaries			**278,412,815**	**278,412,814**		
SEL	100.00%	100.00%	137,680,172	137,680,172	156,176,463	531,206
TEB	100.00%	100.00%	28,909,824	28,909,824	63,186,628	1,013,711
HESS	33.50%	33.50%	89,959,276	89,959,276	279,005,812	1,807,948
GEN-I	50.00%	50.00%	10,585,639	10,585,638	72,738,836	13,538,452
GEN-EL	25.00%	25.00%	11,277,904	11,277,904	47,066,847	1,966,574
Affiliated companies			**176,782,413**	**176,784,306**		
NEK	50.00%	50.00%	176,772,413	176,772,413	440,362,215	0
SRESA	10.00%	10.00%	10,000	10,000	68,164	-395
ARJE	-	24.00%	-	1,893	-	-
Other companies			**124,101**	**124,101**		
ZEL-EN	9.28%	9.28%	124,101	124,101	n/a	n/a
Total			**455,319,329**	**455,321,221**		

Subsidiaries

The company GEN exercises its controlling influence over the company GEN-I on the basis of the Articles of Association of the company GEN-I, effective as of 14 December 2016, and the Umbrella Agreement on Electricity Purchase and Sales of 14 December 2016, along with the Management's statement.

The company GEN exercises its controlling influence over the company GEN-EL on the basis of option agreements for the purchase of interests in the company GEN-EL, concluded between the following companies:

- GEN-I and IGES as a call option to the benefit of the company GEN-I, allowing this company to purchase a 25% interest;
- GEN-I and Elektro Ljubljana as a put option to the benefit of the company Elektro Ljubljana, allowing this company to sell its 22.5% interest;
- GEN-I and IGES as a put option to the benefit of the company IGES, allowing this company to sell its 25% interest.

In addition to holding a direct 33.5% equity interest in the company HESS, the company GEN also holds a 17.5% indirect share through subsidiaries, specifically 14.7% in SEL and 2.8% in TEB. On account of an indirect controlling influence, the company HESS is classified as a subsidiary.

Affiliated companies

On account of holding an additional 30% indirect interest in the subsidiary SEL, the company SRESA is classified as an affiliated company.

With the SAS amended in 2006, the company GEN started recognizing its investment in a 50% equity interest in NEK as an investment in an affiliated company. The same applied after the 2016 SAS amendments.

7.4 Deferred tax assets

Deferred tax assets amounted to EUR 5,837,453 on the last day of the accounting period. The larger portion are deferred tax assets from provisioning for settling the liabilities to NEK in the event of an unscheduled reduction in NEK's production output, totalling EUR 5,792,419.

Changes in deferred tax receivables, in EUR	2017	2016
Opening balance	**6,372,249**	**6,755,717**
Reversal and disbursement of provisions from risky contracts	-551,194	-1,060,375
Adjustments to the tax rate for the future period	0	669,980
Increase due to provisioning	17,238	7,438
Other	-840	-511
Closing balance	**5,837,453**	**6,372,249**

Deferred tax assets have decreased from the previous year as a result of the reversal and disbursement of provisions from risky contracts for settling the liabilities to NEK in accordance with the provisioning account.

7.5 Short-term financial investments

The company reported short-term financial investments in the amount of EUR 13,197,358 at the end of 2017. The larger portion of short-term financial investments, in the amount of EUR 13,002,194, is classified as investments in loans, specifically as investments in the form of bank deposits. The rest of the investments are available-for-sale financial investments evaluated at historical cost.

Agreements signed with financial institutions in Slovenia form the basis for recognizing investments in loans. Interest rates offered by banks for placement of cash into deposits are extremely low, and the company avoids the financial risk associated with bank-offered negative interest rates by following its investment strategy and keeping the funds in its bank accounts, as reflected in the cash balance.

7.6 Short-term operating receivables

Short-term operating receivables totalled EUR 32,538,506. These are mostly receivables from customers based on the electricity sold.

Short-term operating receivables, in EUR	31/12/2017	31/12/2016
Short-term receivables from Group customers	**23,702,126**	**12,997,996**
Short-term receivables from GEN-I	21,832,637	9,923,282
Short-term receivables from ELEKTRO ENERGIJA	1,026,093	2,705,794
Short-term receivables from SEL	666,874	308,448
Short-term receivables from TEB	174,983	59,379
Short-term receivables from HESS	322	251
Short-term receivables from GEN-EL	1,217	842
Short-term receivables from other customers	**6,588,213**	**3,416,943**
Short-term operating receivables for electricity sold to third parties	6,555,347	3,404,445
Short-term operating receivables from third parties	32,866	12,498
Short-term receivables from national institutions	**2,178,525**	**2,197,502**
Other short-term receivables	**69,642**	**24,201**
Total	**32,538,506**	**18,636,642**

Short-term receivables from other customers are mainly receivables for the electricity sold to electricity trading companies.

Payment terms for receivables from customers are mostly 30 days from the last billing period and are secured primarily by blank drafts with authorizations or with guarantees.

The company does not have any past-due outstanding receivables.

For past-due receivables reclassified as dubious and uncollectable, a value adjustment is carried out for each individual receivable.

7.7 Cash and cash equivalents

Cash and cash equivalents, in the amount of EUR 6,560,546, is cash in the transactional accounts with the banks Abanka, NLB, SKB and UniCredit Bank and cash in the night deposit account.

The company GEN does not have any automatic overdraft agreed with banks, or signed bank account overdraft agreement.

7.8 Deferred expenses and accrued revenue

Deferred expenses and accrued revenue totalled EUR 71,375 at the end of 2017. These are mostly accrued and consequently deferred expenses which do not yet burden the operations. In 2017, decreases or disbursements of short-term deferred expenses were fully carried over to expenses.

Short-term deferred expenses and accrued revenue, in EUR	31/12/2016	Formation	Disbursement	31/12/2017
Short-term deferred expenses	62,238	152,915	155,707	59,446
Short-term uncharged revenue	2,627	11,929	2,627	11,929
Total	**64,865**	**164,844**	**158,334**	**71,375**

7.9 Contingent assets and liabilities

Totalling EUR 1,707,723 at the end of 2017, contingent assets and liabilities decreased considerably from the previous year.

Off-balance-sheet assets, in EUR	31/12/2017	31/12/2016
Payment bank guarantees – received	1,032,854	8,064,151
Satisfactory performance bank guarantees – issued	500,000	0
Satisfactory performance & defect elimination bank guarantees – received	127,196	216,681
Estimated short-term debts	47,673	15,000,000
Total	**1,707,723**	**23,280,832**

The decrease is the result of the following:

- amended contractual provisions regarding payment security of the company Elektro energija d.o.o., which became a subsidiary of GEN-I at the end of 2016. In mutual operations with GEN-I and other companies, GEN uses drafts as security against payment;
- expiration in October 2017 of a short-term revolving loan with a financial institution.

7.10 Equity

The company's total equity amounts to EUR 447,903,727. It increased in 2017 by EUR 17,522,206 as a result of net profit generated in the current year totalling EUR 19,538,927, paid out profit share to the company owner in the amount of EUR 2,000,000, and other minor changes to reserves on account of revaluation.

Equity structure, in EUR	31/12/2017	31/12/2016
Share capital	**250,000,000**	**250,000,000**
Capital reserves	**131,756,895**	**131,756,895**
Paid-up share premium SEL	115,368,043	115,368,043
Paid-up share premium TEB	16,388,694	16,388,694
General equity revaluation adjustment	158	158
Revenue reserves	**52,397,116**	**39,690,278**
Statutory reserves	2,605,980	2,605,980
Other revenue reserves	49,791,136	37,084,298
Reserves from valuation at fair value	**-19,747**	**-3,027**
Retained net profit or loss	**4,000,000**	**0**
Net profit or loss	**9,769,463**	**8,937,375**
Total equity	**447,903,727**	**430,381,521**

The reserves from valuation at fair value fully refer to the recognition of actuarial effects, which represented a loss of EUR 21,315 in 2017, and the value adjustment of reserves from valuation at fair value for deferred taxes, totalling EUR 1,568.

7.11 Balance-sheet profit account

The Management and Supervisory Board of the company GEN propose to the Founder reallocation of balance-sheet profit, in the amount of EUR 13,769,463, to other revenue reserves in order to secure a source of funding for maintaining safe operation of existing electricity generation facilities and for making development and capital expenditure investments in energy companies, such as:

- acquisition of equity interests in energy companies,
- expansion of nuclear production capacities, other investments pursuant to the Business Plan of the company GEN and the GEN Group for 2018, and other purposes in 2018.

Balance-sheet profit, in EUR	2017	2016
Balance-sheet profit opening balance	**8,937,375**	**20,000,000**
Profit-sharing payouts	-2,000,000	-20,000,000
Net profit for the financial year	19,538,927	17,874,750
Increase in revenue reserves as per company bodies' resolution	-12,706,839	-8,937,375
Balance-sheet profit closing balance	**13,769,463**	**8,937,375**

7.12 Provisions

At the end of 2017, provisions amounted to EUR 61,452,365, of which EUR 60,972,833 were provisions for risky contracts. Provisions for anniversary bonuses and severance pay make up an insignificant share.

Long-term provisions for risky contracts are formulated for settling the liabilities to NEK in the event of an unplanned reduction in NEK's electricity production output pursuant to the Intergovernmental Agreement on NEK and Slovenian Accounting Standards, both of which provide relevant provisioning guidelines. Due to decreased provisioning bases and a disbursement for offsetting the unplanned reduction of NEK's electricity production output, the provisions decreased by EUR 4,353,167 at the end of 2017 as the corresponding revenue increased – otherwise, provisions would exceed the amount necessary to cover the relevant costs in the years ahead. The disbursement made in the reporting period totalled EUR 488,888.

7.13 Current operating liabilities

On the last day of the accounting period, current operating liabilities amounted to EUR 22,338,674 and are broken down below.

Short-term operating liabilities to Group companies, in EUR	31/12/2017	31/12/2016
Short-term liabilities to Group companies	**8,551,996**	**4,622,653**
Short-term liabilities to SEL	2,548,373	2,170,229
Short-term liabilities to GEN-I	2,048,181	203,126
Short-term liabilities to TEB	2,038,349	1,134,243
Short-term liabilities to HESS	1,917,093	1,115,055
Short-term liabilities to other suppliers	**10,121,461**	**9,684,993**
Short-term liabilities to affiliated companies	8,054,079	8,465,591
Short-term liabilities to domestic suppliers	1,886,803	1,114,532
Short-term liabilities to foreign suppliers	180,579	104,870
Other short-term operating liabilities	**3,665,217**	**2,514,365**
VAT liabilities	1,011,303	693,520
Corporate income tax – advance payment and reporting liability	1,466,647	752,541
Environmental protection liabilities	774,282	776,059
Other liabilities	412,985	292,245
Total	**22,338,674**	**16,822,011**

7.14 Short-term accrued expenses and deferred revenue

Short-term accrued expenses and deferred revenue, totalling EUR 206,215 in the reporting period, are mainly accrued expenses for unused annual leave of employees, totalling EUR 147,168.

7.15 Revenue

Revenue is made up of operating revenue, financial income and other revenue.

Revenue (in EUR)	2017	2016
Operating revenue	173,279,261	166,776,540
Financial income	2,028,983	2,045,449
Other revenue	653	95
Total	**175,308,897**	**168,822,084**

7.15.1 Operating revenue

Operating revenue, in EUR	2017	2016
Sales revenue in the home market	**168,813,705**	**160,511,783**
Revenue from operations with Group companies	134,118,584	13,036,513
Revenue from operations with other companies	34,695,121	147,475,270
Sales revenue in the foreign market	**52,083**	**0**
Sales revenue in the EU market	52,083	0
Other operating revenue	**4,413,473**	**6,264,757**
Revenue from reversal and disbursement of provisions	4,391,331	6,242,005
Other revenue	22,142	22,752
Total	**173,279,261**	**166,776,540**

7.15.2. Financial income

The financial income generated in 2017, totalling EUR 2,028,983, comprises mainly revenue from the share of profit received from the company GEN-I in the amount of EUR 2,000,000 EUR, income from dividends from other companies totalling EUR 11,791, and other financial income.

7.16 Expenses

Expenses are made up of operating expenses, financing expenses and other expenses.

They are recognized if a decrease in economic benefits in the accounting period is connected to a decrease in assets or increase in debt.

Expenses (in EUR)	2017	2016
Operating expenses	151,518,378	148,361,121
Financing expenses	3,956	4,480
Other expenses	113,538	116,424
Total	**151,635,872**	**148,482,025**

7.16.1 Operating expenses

Operating expenses, in EUR	2017	2016
Original cost of goods sold, material costs	136,664,459	134,161,741
Costs of services	1,714,811	2,078,967
Labour costs	3,315,888	2,962,104
Write-downs	786,464	921,957
Other operating expenses	9,036,756	8,236,352
Total	**151,518,378**	**148,361,121**

Original cost of goods sold refers to expenses incurred in purchases of electricity and lease of capacity based on electricity purchase agreements signed with the companies SEL, TEB, HESS, HSE/TALUM, and GEN-I, and pursuant to the Intergovernmental Agreement on NEK and the NEK Articles of Association, under which the electricity supplied by NEK is accounted for using the principle of covering NEK's total costs. Expenses arising from operations with the Group companies and incurred in the context of the original cost of goods sold totalled EUR 51,016,981.

Costs of services

Costs of services, in EUR	2017	2016
Costs of intellectual and personal services	423,259	564,848
Rental costs, domain name registrations	222,718	357,033
Costs of office allowance, sponsorships, promotions	314,326	349,731
Supervisory Board costs	137,713	157,689
Work-related expense reimbursements to employees	96,641	71,426
Maintenance costs	311,679	384,579
Other	208,475	193,661
Total	**1,714,811**	**2,078,967**

Costs of intellectual and personal services, in EUR	2017	2016
Business consultation costs	207,923	246,277
Professional training and education costs	78,733	34,861
Other costs of intellectual services	136,603	283,710
Total	**423,259**	**564,848**

Labour costs

Labour costs (in EUR)	2017	2016
Payroll costs	2,450,312	2,281,707
Social security and pension insurance costs	492,966	460,055
• social security contributions	402,049	372,836
• supplementary pension insurance	90,917	87,219
Other labour costs	372,610	220,342
Total	**3,315,888**	**2,962,104**

The company GEN had 56.67 employees on average in 2017, and the structure of employees by level of qualification is included in the Business Report.

Other operating expenses

Other operating expenses, in EUR	2017	2016
Environmental charges	8,950,932	8,146,200
Other operating costs	85,824	90,152
Total	**9,036,756**	**8,236,352**

Environmental charges are made up of solely contributions paid pursuant to the NEK Fund Act, specifically EUR 3 per MWh of electricity generated by NEK.

Costs by functional group

Costs by functional group, in EUR	2017	2016
Original cost of goods sold	136,518,021	134,032,020
Costs of selling, with depreciation	2,014,459	2,058,906
General and administrative costs, with depreciation	12,985,898	12,270,195
Total	**151,518,378**	**148,361,121**

7.17 Cash flow statement

The cash flow statement has been prepared using the indirect method, version II. Data for the indirect method are obtained:

- by supplementing items in operating receivables and operating expenses and in financial income from operating receivables and financial expenses from operating liabilities, excluding revaluation revenue and expenses associated with the investing and financing items in the profit and loss account and on the balance sheet,
- from the company's ledgers.

The receipts and expenses items in the cash flow statement for 2017 are made up of:

a) cash flows from operating activities, which include:

- operating revenue and operating expenses, corporate income tax and other taxes adjusted by amending net current assets under operating items on the balance sheet,

b) cash flows from investing activities, which include:

- interest receipts from short-term financial investments for time deposits, totalling EUR 3,538,
- receipts from profit sharing totalling EUR 2,011,791,
- receipts from disposal of tangible fixed assets totalling EUR 3,200,
- receipts from investing in short-term financial deposit investments amounting to EUR 5,000,000,
- receipts from selling a financial investments amounting to EUR 1,800,
- expenses for the acquisition of intangible assets, reported mainly as long-term property rights, in the amount of EUR 109,569,
- expenses for the acquisition of tangible assets totalling EUR 970,161,
- expenses for the acquisition of short-term financial investments in the amount of EUR 18,000,000,

c) cash flows from financing activities, which include:

- expenses for profit sharing totalling EUR 2,000,000.

The closing balance of cash and cash equivalents includes cash in transactional bank accounts and funds in the night deposit account.

7.18 Taxes

Pursuant to the Corporate Income Tax Act, the company is obligated to account for and pay income tax, which was charged at the tax rate of 19% in the accounting period of the business year 2017. Deferred tax assets were formulated at the tax rate of 19%.

Effective tax rate	2017	2016
Profit or loss before tax, in EUR	23,673,025	20,340,059
Corporate income tax, in EUR	-3,597,547	-2,079,922
Deferred taxes, in EUR	-536,551	-385,387
Deferred taxes not impacting profit or loss, in EUR	1,755	1,919
Applicable tax rate	19.00%	17.00%
Ratio of tax expenditure to profit or loss before tax	**15.20%**	**10.23%**
Effective tax rate	**17.46%**	**12.12%**

8. Other disclosures

8.1 Total remuneration for the performance of duties in the business year

The table below presents total net amounts of all remunerations for the performance of work of individual groups carrying out certain duties in the company in the business year 2017.

Work-related net earnings in 2017	2017
Management earnings	56,961

Work-related net earnings in 2017 (excl. holiday allowances, anniversary bonuses and reimbursed costs), in EUR	2017
Earnings of employees on executive contract	310,212
Members of the Supervisory Board and its committees	87,238

8.2 Costs of auditing and business consultation services

Costs associated with auditing services amounted to EUR 15,200 in 2017 and comprised the costs of auditing the annual financial statements for the previous and the current accounting period. In 2017, the auditing firm also provided EUR 12,230 worth of non-audit services.

9. Financial risk management

The company GEN is exposed to the following financial risks: liquidity, credit, interest rate and foreign exchange risk.

To manage **liquidity risk**, the company follows the principle by which payment deadlines for purchases and sales with identical substance are coordinated, that is, payment terms for purchases are longer than those for sales. The company manages 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, through thoughtful and safe placement of surplus cash, and by hiring short-term loans for ensuring current liquidity.

For settling minor unplanned liabilities, the company has a small amount of cash placed in the form of a call deposit and has secured some funds by hiring a short-term revolving loan, with which it is able to cover such liabilities promptly. These funds would also be used if any of the affiliated companies had trouble securing liquidity funds in the market.

In 2017, due to extremely low interest rates offered by banks for investments in deposits and even charging storage fees in the event of exceeding the agreed threshold for the amount of funds available in the transactional account, the company mitigated its exposure to these risks by following its investment strategy and continuing to distribute its available funds among the most economically advantageous providers of surplus cash deposit schemes.

Interest rates offered by banks for placement of cash into deposits are extremely low, and the company avoids the financial risk associated with bank-offered negative interest rates by following its investment strategy and keeping the funds in its bank accounts, as reflected in the cash balance.

Liquidity risk is moderate thanks to the asset management principles, procedures and rules that adapt to varying trends in the banking markets.

The company manages **credit risk**s 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 dunning letter system in place, and by signing properly secured contracts (by drafts, bank guarantees).

The gravity of the identified risk depends mostly on the partner's business results, particularly level of debt, short-term liquidity, solvency indicators, and profitability indicators. We place a strong emphasis on obtaining up-to-date information from the market, since various market and regulatory changes may cause a partner's standing to quickly falter.

Interest rate risk is relatively low because the company has a small amount of short-term debt. When taking out new loans, these risks can be managed through derivative financial instruments.

Foreign exchange risk is relatively low since the company rarely operates in a foreign currency.

The company finds that the financial risks were successfully managed in 2017.

IV Financial report of the GEN Group

1. Independent auditor's report

This is a translation of the original report in Slovene language

INDEPENDENT AUDITOR'S REPORT

To the Owner of GEN energija d.o.o.

Opinion

We have audited the consolidated financial statements of Group GEN, Krško (the Group), which comprise the consolidated balance sheet as at 31 December 2017, the consolidated income statement, the consolidated statement of other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group GEN, Krško as at 31 December 2017 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the accounting policies of the Group GEN, Krško, which are explained in points 4.2. Basis for the compilation of consolidated financial statements and notes 4.3. Significant accounting policies of the Group GEN, Krško in the notes to the consolidated financial statements.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA). Our responsibilities under those rules are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Slovenia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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

Other information

Other information comprises the information included in the consolidated Annual Report other than the consolidated financial statements and auditor's report thereon. Management is responsible for the other information.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. In addition, we assess whether the other information has been prepared, in all material respects, in accordance with applicable law or regulation, in particular, whether the other information complies with law or regulation in terms of formal requirements and procedure for preparing the other information in the context of materiality, i.e. whether any non-compliance with these requirements could influence judgments made on the basis of the other information.

Based on the procedures performed, to the extent we are able to assess it, we report that:

- The other information describing the facts that are also presented in the consolidated financial statements is, in all material respects, consistent with the consolidated financial statements; and
- The other information is prepared in compliance with applicable law or regulation.

In addition, our responsibility is to report, based on the knowledge and understanding of the Group obtained in the audit, on whether the other information contains any material misstatement. Based on the procedures we have performed on the other information obtained, we have not identified any material misstatement.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the accounting policies of the Group GEN, Krško, which are explained in points 4.2. Basis for the compilation of consolidated financial statements and notes 4.3. Significant accounting policies of the Group GEN, Krško in the notes to the consolidated financial statements, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

The audit committee oversees the Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with audit rules, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal controls;

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;

- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;

- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;

- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control.

Ljubljana, 17 April 2018

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

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

Mateja Repušič
Certified Auditor

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2. Statement from the General Director

The General Director of the company GEN is responsible for drawing up of a consolidated annual report in such a way that it presents a true and fair view of the financial position of the GEN Group and the economic outcome for the business year from 1 January 2017 to 31 December 2017.

The General Director hereby confirms that appropriate accounting policies were consistently used and that accounting estimates were made in accordance with the principles of fair value, prudence and sound management. The General Director also confirms that the consolidated financial statements with the accompanying notes are prepared on the assumption of a going concern of the companies in the GEN Group and in accordance with the Intergovernmental Agreement, applicable legislation and the IFRS, as adopted by the European Union.

The tax authorities may review the operations of the company anytime within five years after the year in which the tax had to be levied. This may give rise to additional obligations for the payment of tax, late-payment interest and penalties from corporation tax or other taxes and duties. The General Director of the company is not aware of any circumstances which could brought about any substantive obligation arising from this.

The General Director is also responsible for adequate accounting, adoption of relevant measures for protection of assets and other funds, and confirms that the financial statements, together with the notes, were prepared on the assumption of a going concern. The General Director hereby accepts and confirms the financial statements, with associated policies and notes, of the GEN Group for 2017.

Vrbina, 12 April 2018

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

3. Financial statements of the Group

3.1 Consolidated statement of financial position

Consolidated statement of the Group's financial position, in EUR	Notes	31/12/2017	31/12/2016
ASSETS		**1,111,035,777**	**1,070,784,643**
Fixed assets		**715,386,283**	**686,789,249**
Intangible assets	5.1	43,973,370	44,139,671
Tangible fixed assets	5.2	658,116,206	633,006,030
Investment property	5.3	1,636,065	82,930
Shares and interests in affiliated companies and joint venture	5.4	415,612	467,637
Other long-term financial investments and loans	5.5	7,904,470	5,173,343
Long-term operating receivables	5.6	606,991	706,322
Deferred tax assets	5.7	2,408,649	2,769,456
Other long-term assets		324,920	443,860
Current assets		**395,649,494**	**383,995,394**
Inventories	5.8	41,569,865	36,942,272
Short-term financial investments	5.9	75,386,972	60,612,197
Current operating receivables	5.10	164,412,282	150,389,514
Current corporate income tax receivables		465,291	960,030
Cash and cash equivalents	5.11	64,278,326	93,324,141
Other current assets	5.12	49,536,758	41,767,240

Consolidated statement of the Group's financial position, in EUR	Notes	31/12/2017	31/12/2016
EQUITY AND LIABILITIES		**1,111,035,777**	**1,070,784,643**
Equity	**5.13**	**784,880,060**	**755,519,495**
Equity attributable to owners of the parent company		**648,082,276**	**619,850,662**
Called-up capital		250,000,000	250,000,000
Capital reserves		134,682,435	134,682,435
Statutory reserves		11,005,354	10,481,145
Other revenue reserves		66,887,597	53,971,423
Reserves from valuation at fair value		919,697	-871,012
Retained earnings		185,471,404	172,490,187
Translation adjustment to equity		-884,211	-903,516
Equity held by minority owners		**136,797,784**	**135,668,833**
Long-term liabilities		**129,447,394**	**114,659,045**
Provisions	5.14	9,533,653	8,905,631
Long-term financial liabilities	5.15	110,616,408	97,529,509
Long-term operating liabilities	5.16	1,357,673	1,585,876
Deferred tax liabilities	5.7	5,831,633	6,068,328
Other long-term liabilities	5.16	2,108,027	569,701
Short-term liabilities		**196,708,323**	**200,606,103**
Current financial liabilities	5.15	50,464,785	41,963,616
Current operating liabilities	5.17	127,881,805	141,449,322
Current corporate income tax liabilities		2,815,389	2,319,825
Other short-term liabilities	5.18	15,546,344	14,873,340

The accompanying notes are an integral part of these consolidated financial statements and should be read in conjunction with them.

3.2 Consolidated profit and loss account and statement of other comprehensive income

Consolidated profit and loss account of the Group, in EUR	Notes	2017	2016
Sales revenue	5.20.1	2,394,837,179	354,727,985
Other operating revenue	5.20.2	15,179,183	4,834,459
Costs of goods, materials and services	5.21.1	-2,260,410,022	-256,466,241
Labour costs	5.21.2	-52,315,416	-34,677,961
Write-offs	5.21.3	-33,115,623	-32,449,570
Other operating expenses	5.21.4	-25,274,862	-19,300,659
Operating profit or loss		**38,900,439**	**16,668,013**
Financial revenue from shares in affiliated companies		0	17,122,513
Other financial revenue		895,316	740,182
Financial expenses	5.21.5	-3,238,963	-540,104
Total profit or loss		**36,556,792**	**33,990,604**
Tax		-7,133,165	-2,102,880
Net profit or loss for the period		**29,423,627**	**31,887,724**
Net profit or loss for owners of non-controlling interest		**922,644**	**1,254,859**
Net profit or loss for owners of controlling interest		**28,500,983**	**30,632,865**

Statement of other comprehensive income of the Group, in EUR	2017	2016
Net profit or loss for the period	**29,423,627**	**31,887,724**
Other comprehensive income reclassified to profit or loss in subsequent periods	**876,420**	**-1,072,385**
Changes in reserves from valuation at fair value	437,489	-270,280
Gains and losses from translation of financial statements of companies based abroad (impact of changes in exchange rates)	19,305	-60,439
Effective portion of gains and losses from cash flow hedging instruments	419,626	-741,666
Other comprehensive income not reclassified to profit or loss in subsequent periods	**1,129,436**	**-59,557**
Actuarial gains and losses from programs with fixed earnings	1,129,436	-59,557
Total comprehensive income (after tax)	**31,429,483**	**30,755,782**
Net profit or loss for owners of non-controlling interest	**922,644**	**1,254,859**
Actuarial gains and losses from programs with fixed earnings of owners of non-controlling interest	**690**	**-4,198**
Effective portion of gains and losses from cash flow hedging instruments of owners of non-controlling interest	**205,618**	**-363,416**
Total comprehensive income of owners of non-controlling interest	**1,128,951**	**887,245**
Total comprehensive income of owners of controlling interest	**30,300,532**	**29,868,537**

The accompanying notes are an integral part of these consolidated financial statements and should be read in conjunction with them.

3.3 Consolidated cash flow statement

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit and loss account items	**77,342,051**	**48,722,458**
Operating revenues and financial income from operating receivables	2,413,612,372	358,265,511
Operating expenses without depreciation and financial expenses from operating liabilities	-2,336,784,036	-310,047,031
Income taxes and other taxes not included in operating expenses	513,715	503,978
Changes in net current assets of income statement operating items	**-33,751,356**	**24,166,797**
Opening less closing operating receivables	-28,465,598	39,755,403
Opening less closing short-term deferred expenses and accrued revenue	-13,295,083	16,694,438
Opening less closing deferred tax assets	299,985	-92,798
Opening less closing inventories	-4,642,125	-4,520,721
Closing less opening operating liabilities	13,595,897	-1,244,453
Closing less opening accrued costs and deferred revenue, and provisions	-1,481,127	-25,786,300
Closing less opening deferred tax liabilities	236,695	-638,772
Positive or negative net cash flow from operating activities	**43,590,695**	**72,889,255**
CASH FLOWS FROM INVESTING ACTIVITIES		
Receipts from investing activities	**142,649,768**	**211,666,896**
Receipts from received interest and shares of other entities' profits associated with investing activities	829,799	2,817,121
Receipts from disposal of tangible fixed assets	1,530,434	788,365
Receipts from disposal of investment property	784	0
Receipts from disposal of financial investments	140,288,751	208,061,410
Expenditure for investing activities	**-232,081,287**	**-248,839,269**
Expenditure for acquisition of intangible assets	-1,215,808	-711,913
Expenditure for acquisition of tangible fixed assets	-70,495,560	-82,763,508
Expenditure for acquisition of investment property	-2,606,226	0
Expenditure for acquisition of financial investments	-157,763,693	-165,363,848
Positive or negative net cash flow from investing activities	**-89,431,519**	**-37,172,373**
CASH FLOWS FROM FINANCING ACTIVITIES		
Receipts from financing activities	**166,863,390**	**40,000,000**
Receipts from increased financial liabilities	166,863,390	40,000,000
Expenditure for financing activities	**-150,068,381**	**-26,478,325**
Expenditure for paid interest associated with financing activities	-1,836,489	-756,579
Expenditure for settlement of financial liabilities	-146,231,892	-5,721,746
Expenditure for paid-out dividends and other shares in profits	-2,000,000	-20,000,000
Positive or negative net cash flow from financing activities	**16,795,009**	**13,521,675**
Closing balance	**64,278,326**	**93,324,141**
Net cash flow for the period	**-29,045,815**	**49,238,557**
Opening balance of cash from merger	**0**	**28,057,590**
Opening balance	**93,324,141**	**16,027,994**

The accompanying notes are an integral part of these consolidated financial statements and should be read in conjunction with them.

3.4 Consolidated statement of changes in equity

Statement of changes in equity for 2017, in EUR	Called-up capital	Capital reserves	Statutory reserves	Other revenue reserves
As at 01/01/2017	**250,000,000**	**134,682,435**	**10,481,145**	**53,971,423**
Changes in equity capital – transactions with owners	**0**	**0**	**0**	**0**
Paid-out dividends	0	0	0	0
Total comprehensive income for the reporting period	**0**	**0**	**0**	**0**
Net profit or loss for the financial year	0	0	0	0
Valuation of financial investments at fair value	0	0	0	0
Other components of comprehensive income	0	0	0	0
Changes in equity	**0**	**0**	**524,209**	**12,916,174**
Allocation of net profit to other components of equity	0	0	524,209	12,916,174
Other changes in equity	0	0	0	0
As at 31/12/2017	**250,000,000**	**134,682,435**	**11,005,354**	**66,887,597**

Statement of changes in equity for 2016, in EUR	Called-up capital	Capital reserves	Statutory reserves	Other revenue reserves
As at 01/01/2016	**250,000,000**	**134,682,435**	**10,282,058**	**45,744,396**
Changes in equity capital – transactions with owners	**0**	**0**	**14,564**	**0**
Paid-out dividends	0	0	0	0
Other changes in equity	0	0	14,564	0
Total comprehensive income for the reporting period	**0**	**0**	**0**	**0**
Net profit or loss for the financial year	0	0	0	0
Valuation of financial investments at fair value	0	0	0	0
Other components of comprehensive income	0	0	0	0
Changes in equity	**0**	**0**	**184,523**	**8,227,027**
Allocation of net profit to other components of equity	0	0	184,523	8,227,027
As at 31/12/2016	**250,000,000**	**134,682,435**	**10,481,145**	**53,971,423**

The accompanying notes are an integral part of these consolidated financial statements and should be read in conjunction with them.

Reserve for fair value	Retained earnings	Translation adjustment to equity	Equity attributable to owners of the parent company	Equity of owners of non-controlling interest	Total
-871,012	**172,490,187**	**-903,516**	**619,850,662**	**135,668,833**	**755,519,495**
0	**-2,000,000**	**0**	**-2,000,000**	**0**	**-2,000,000**
0	-2,000,000	0	-2,000,000	0	**-2,000,000**
1,780,244	**28,500,983**	**19,305**	**30,300,532**	**1,128,951**	**31,429,483**
0	28,500,983	0	28,500,983	922,644	**29,423,627**
1,566,235	0	0	1,566,235	690	**1,566,925**
214,009	0	19,305	233,314	205,617	**438,931**
10,465	**-13,519,766**	**0**	**-68,918**	**0**	**-68,918**
0	-13,440,383	0	0	0	**0**
10,465	-79,383	0	-68,918		**-68,918**
919,697	**185,471,404**	**-884,211**	**648,082,276**	**136,797,784**	**784,880,060**

Reserve for fair value	Retained earnings	Translation adjustment to equity	Equity attributable to owners of the parent company	Equity of owners of non-controlling interest	Total
-181,816	**169,455,052**	**0**	**609,982,125**	**134,781,588**	**744,763,713**
-14,564	**-19,194,375**	**-805,625**	**-20,000,000**	**0**	**-20,000,000**
0	-20,000,000	0	-20,000,000	0	**-20,000,000**
-14,564	805,625	-805,625	0	0	**0**
-674,632	**30,641,060**	**-97,891**	**29,868,537**	**887,245**	**30,755,782**
0	30,632,865	0	30,632,865	1,254,859	**31,887,724**
-291,167	11,471	-11,472	-291,168	0	**-291,168**
-383,465	-3,276	-86,419	-473,160	-367,614	**-840,774**
0	**-8,411,550**	**0**	**0**	**0**	**0**
0	-8,411,550	0	0	0	**0**
-871,012	**172,490,187**	**-903,516**	**619,850,662**	**135,668,833**	**755,519,495**

4. Notes to the financial statements

4.1 Overview of the GEN Group

GEN energija d.o.o. is the parent company of the GEN Group. One of GEN's core operations is activities of holding companies, that is, governing other legally independent companies, where the company GEN is the controlling company. The company GEN carries out also electricity trading and other registered activities.

The company is committed to compiling consolidated financial statements, the purpose of which is to present the financial position and the performance of a group of interconnected companies as if they were one. 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 obligations.

The GEN Group is made up of the controlling company, or parent, and subsidiaries included in the GEN Group through consolidation for an entire financial year, which is identical to the calendar year. In compliance with International Financial Reporting Standards (IFRS), the consolidated financial statements of the GEN Group also include a company defined as a joint venture, using the equity method of accounting, the affiliated companies are included in the GEN Group.

Parent company and subsidiaries	Short name	Registered address	Status	Equity interest	Voting interest
GEN energija d.o.o.	**GEN**	**Vrbina 17, Krško**	**Parent**	**-**	**-**
Savske elektrarne Ljubljana d.o.o.	SEL	Gorenjska c. 46, Medvode	Subsidiary	100%	100%
Termoelektrarna Brestanica d.o.o.	TEB	C. prvih borcev 18, Brestanica	Subsidiary	100%	100%
HESS d.o.o. w/ Group	HESS Group	C. bratov Cerjakov 33a, Brežice	Subsidiary	51%	51%
GEN-I d.o.o. w/ Group	GEN-I Group	Vrbina 17, Krško	Subsidiary*	50%	50%
GEN-EL d.o.o.	GEN-EL	Vrbina 17, Krško	Subsidiary* *	53%	50%

* The company GEN exercises its controlling influence based on the Memorandum of Association of the company GEN-I, umbrella contract on the sale and purchase of electricity, and statement of the management.

** The analysis of ownership of GEN-EL, taking into consideration the concluded put options of GEN/IGES, put and call options GEN-I/IGES and put and call options GEN-I/EL LJ, entered into for the stake in the company GEN-EL, shows that the company GEN is a sole economic owner of the company GEN-EL.

In addition to the controlling company, the **GEN-I Group** comprises the following companies wholly owned by GEN-I:

- GEN-I d.o.o. Beograd, Vladimira Popovića 6, Belgrade;
- GEN-I Zagreb d.o.o., Radnička cesta 54, Zagreb;
- GEN-I d.o.o. Sarajevo, Hamdije Kreševljakovića 7, Sarajevo;
- GEN-I DOOEL Skopje, Bulevar Partizanski odredi 15A/1, Skopje;
- GEN-I Tirana Sh.p.k., Ish-Noli Business Center, Rruga Ismail Qemali Nr. 27, Tirana;
- GEN-I Athens SMLLC, 6 Anapafseos Street, Marousi;
- GEN-I Bucharest-Electricity Trading and Sales S.R.L., no. 1-3 Remus Street, Bucharest;
- GEN-I Sofia EOOD, Bulgaria Blvd., residential quarter Bokar, Office Building 19C/D, Sofia;
- GEN-I Energia S.r.l., Corso di Porta Romana 6, Milano;
- GEN-I Vienna GmbH, Gonzagagasse 15, Vienna;
- GEN-I Istanbul Ltd., Garden office, Marmara Forum Sltesi, Osmaniye mah., Çobançeşme Koşuyolu Blv No 3/3, Kat 4, Bakırköy, İstanbul;
- GEN-I Prodažba na energija DOOEL Skopje, Bulevar Partizanski odredi 15A/1, Skopje;
- GEN-I Sonce, d.o.o., Dunajska cesta 119, Ljubljana;
- Limited Liability Company »GEN-I Kiev«, 4- Andrushchenka Str, Kyiv;
- GEN-I Tbilisi LLC, Old Tbilisi District, Guadiashvili Square, N 4, Tbilisi;
- Elektro energija, d.o.o., Dunajska cesta 119, Ljubljana.

In addition to the controlling company, the **HESS Group** also includes the company Partner d.o.o., Cesta bratov Cerjakov 33A, 8250 Brežice.

Company included in the GEN Group as a joint venture in a joint arrangement	Short name	Registered address	Status	Equity interest
Nuklearna elektrarna Krško d.o.o.	NEK	Vrbina 12, Krško	**Joint venture**	50%

Affiliated companies making up the GEN Group	Short name	Registered address	Status	Equity interest
Srednjesavske elektrarne d.o.o.	SRESA	Ob železnici 27, Trbovlje	**Affiliated company**	40%
HSE Invest d.o.o.	HSE Invest	Obrežna ulica 170, Maribor	**Affiliated company**	25%

4.2 Basis for drawing up consolidated financial statements

4.2.1 Declaration of conformity

The company has carried out accounting for the purpose of preparing consolidated financial reports of the GEN Group and compiling an annual report of the GEN Group in accordance with the Intergovernmental Agreement on NEK, applicable legislation and the International Financial Reporting Standards (IFRS), adopted by the EU, in accordance with the explanations adopted by the International Financial Reporting Interpretations Committee and the EU.

The General Director of the company GEN confirmed the Group's consolidated financial statements on 12 April 2018.

4.2.2 Accounting assumptions and qualitative characteristics

The company GEN drew up the consolidated financial statements – in the part not governed by the Intergovernmental Agreement on NEK – in accordance with the amended CA-1 Act and the IFRS. For comparability purposes, the latter consist of the following:

- two consolidated statements of financial position with cut-off dates 31/12/2016 and 31/12/2017;
- two consolidated profit and loss accounts and statements of other comprehensive income for 2016 and 2017;
- two consolidated statements of changes in equity for 2016 and 2017.

In the Financial Reporting Standard of the group the important items of the financial statements are disclosed in accordance with the provisions concerning the importance, defined by the internal act of accounting regulations.

Financial statements of the companies in the group, making up the GEN Group, are valued based on **uniform accounting policies**. The are included in the consolidated financial statements based on the following:

- complete consolidation when the companies have independent company status. Prior to the consolidation of the GEN Group, the independent companies carry out the consolidation of their companies in the Group (GEN-I Group, HESS Group);
- joint-venture assets and liabilities accounting;
- joint-venture and affiliated companies equity method.

In drawing up of the consolidated financial statements the following **general quality characteristics** are considered:

- fair presentation and compliance with IFRS: consolidated financial statements present fairly the entity's financial position, financial performance and cash flows of the group;
- consistency in presentations: presentation and classification of items in the consolidated financial statements from one period to the next;
- materiality and aggregation: each material class of similar items is presented separately in the financial statements. Items of a dissimilar nature or function are presented separately unless they are insignificant;
- offset: neither assets and liabilities nor income and expenses are offset unless required or permitted by a standard or an interpretation;
- comparative information: except when a standard or an interpretation permits or requires otherwise, comparative information is disclosed in respect of the previous period for all amounts reported in the financial statements. Comparative information is included in narrative and descriptive information if this is necessary for proper understanding of the financial standards for the period in question.

In addressing transactions for the preparation of financial statements, the Group takes into consideration **basic accounting assumptions** of accrual accounting and unlimited duration of operations.

A business year corresponds to the calendar year.

4.2.3 Presentation and functional currency

The financial statements are presented in EUR without cents. They are prepared on a historical (original) cost basis.

Accounting items in foreign currency are on the day of accrual in the statement of financial position and income statement converted into EUR at the ECB exchange rate. Assets and liabilities denominated in a foreign currency are converted into EUR at the ECB exchange rate on the day of the statement of financial position. Positive or negative exchange rate differences arising from such transactions are recognized in the profit and loss account.

4.2.4 Use of estimates and judgments

Upon preparation of joint interim financial statements, the management gave their estimates, assumptions and preconditions, which effect the use of accounting policies on demonstrated values of assets, liabilities, incomes and expenses. Regardless of the fact that the management of the controlling company during the preparation of items carefully checks all the factors which may have an impact on this, it is possible that the actual consequences of accruals are different from the estimates. Therefore, judgment should be used in accounting estimates and any possible amendments of business environment, new accruals, additional information and experience should be taken into consideration.

Estimates and assumptions are used when making at least the following judgments:

a) **Estimated useful life of depreciable assets**
In assessing the useful life of the assets the group includes expected physical exploitation, technical aging, economic aging and expected legal and other restrictions of use. The Group also checks the change of originally estimated useful of more important assets at least annually.

b) **Test of impairment of assets**
The management checks individual assets at least annually, including goodwill and adjustment of claims or cash-generating units, whether there exist indicators for impairment, whereby the recoverable amount of non-financial assets is established based on the present value of future cash-flows from the cash-generating unit as well as setting a relevant discount rate.

c) **Assessment of fair value**
Taking into consideration the accounting policy of the group and the required disclosures, in numerous examples a fair value of financial, as well as non-financial assets and liabilities should be defined. The group defined the fair value of individual groups of assets for the purposes of measurement or reporting according to the methods, described below. If additional explanation is needed in reference to the assumptions for setting fair values, they are stated in breakdowns to individual items of assets or liabilities of the group.

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Fair value is determined based on appraisals of independent appraisers.

Investments in equity securities

Fair value of financial resources at fair value through profit or loss and available-for-sale financial assets is determined for the securities in reference to the closing rate on the reporting date if a liquid market exists for them.

Operating and other receivables

Fair value of operating and other receivables is calculated as present value of future cash flows, discounted at the market interest rate on the reporting date.

Non-derivative financial liabilities

Fair value for reporting purposes is calculated based on present value of future payments of principal and interest, discounted at the market rate of interest on the reporting date.

The group uses assessment methods, appropriate in the given circumstances and for which sufficient data was available, in particular with the use of relevant market inputs. Majority of assets and liabilities, measured or disclosed in the financial statements by fair value, are classified based on 3 levels (level 1 – market prices in an active market for similar assets and liabilities, level 2 – assets, not classified under level 1, their value is determined directly or indirectly based on comparable market data, level 3 – assets, the value of which cannot be obtained from market data).

d) **Post-employment employee benefits**
The present value of retirement allowances is recorded in the framework of obligations for post-employment benefits of employees. They are recognized based on actuarial calculation approved by the Management of the controlling company. The actuarial calculation is based on assumptions and estimates which may, due to changes in the future, be different from the actual assumptions effective at that time. This refers in particular to the determination of discount rate, estimate of turnover of staff, mortality rate and estimate of wage growth. Post-employment benefit obligations of the employees are sensitive to the amendment of the stated assessment due to complexity of the actuarial calculation and long term character of the item.

e) **Assessment of possibility of recognition of deferred tax assets**
The Group formulates deferred tax assets from forming temporary timing differences, tax credits and tax losses, if any. On the date of the financial statements, the Group verifies conditions for the recognition of deferred tax assets based on the likelihood of existence of future tax profit, which will enable covering of deductible tax differences. Deferred tax assets are recognized in the event of possible available future pre-tax rate profit, against which the deferred asset can be utilized in the future.

4.3 Important accounting policies of the GEN Group

4.3.1 Foreign currency

Foreign currency transactions are converted into a relevant functional currency of the Group companies at the conversion rate effective on the transaction date. Monetary assets and liabilities denominated in a foreign currency at the end of the reporting period are converted into the functional currency at the then applicable conversion rate. Foreign exchange gains and losses are gains and losses between the amortized cost in functional currency at the beginning of the period, corrected for the amount of applicable interest and payments during the period and amortized costs in a foreign currency, converted at the foreign exchange rate at the end of the period. Non-monetary assets and liabilities denominated in a foreign currency at fair value are converted into the functional currency at the conversion rate on the date when the fair value is determined. Foreign exchange gain and losses are recognized in the profit and loss account.

Assets and liabilities of the companies abroad are converted into EUR at the exchange rate effective at the end of the reporting period. Revenues and expenses of the companies abroad, except companies in hyperinflation economies, are converted to EUR at average exchange rates applicable in a given period. Exchange differences are recognized in other comprehensive income and reported under translation reserve within the equity item.

4.3.2 Non-derivative financial instruments

- Non-derivative financial assets
  Non-derivative financial instruments of the Group include the following: financial assets at fair value through profit and loss account, financial assets held to maturity, loans and receivables and financial assets available for sale, cash and cash equivalents.

  Initially, the Group recognizes loans, receivables and deposits on the day of their creation. Other financial resources (including assets designated at fair value through profit and loss account) are initially recognized on the day of their conversion or when the group becomes a party in the contractual provisions of an instrument. The Group derecognizes the financial asset, when the rights to cash flows from that asset extinguish or when the Group transfers the rights to contractual cash flows from the financial asset based on a transaction, in which all the risks and benefits from the ownership of a financial asset are transferred. Any share in the transferred financial asset created or transferred by the Group is recognized as an individual asset or liability. Financial assets and liabilities are offset and the net amount is shown in the statement of financial position if and only if the Group has a legal right to either settle the net amount or realize the asset and at the same time realize the asset and settle the liability.

- Financial assets at fair value through profit or loss
  Financial assets are classified at fair value through profit or loss, if held for trading or if it is designated as such upon initial recognition. Associated costs are identified in profit or loss when they occur. Financial assets at fair value through profit or loss are measured at fair value; the amount of change in the fair value, including interest or dividends received, is recognized in profit or loss.

- Financial assets held to maturity
  At the beginning such assets are recognized at fair value, increased by costs that are directly attributable. Subsequent to initial recognition, they are measured at amortized cost using the effective interest rate method and reduced by impairment loss.

- Financial assets available for sale
  At the beginning such assets are recognized at fair value, increased by costs that are directly attributable. Subsequent to initial recognition, they are measured at fair value; the changes in value, other than impairment losses and exchange differences from debt securities, are recognized in other comprehensive income and shown in equity as fair value reserve. On derecognition of such assets, all gains and losses cumulative in equity are carried over to profit or loss.

- Loans and receivables
  Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are initially recognized by fair value, increased by direct transaction costs. Subsequent to initial recognition the loans and receivable are measured at amortized cost using the effective interest method, reduced by impairment loss. Loans and receivables cover given loans, trade and other receivables. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date. These are designated as non-current assets. In the statement of financial position, loans and receivables are carried as financial and operating assets at amortized cost, factoring in the effective interest rate, and include loans granted, deposits made with maturity above 3 days after they are obtained, receivables from customers and receivables due from others.

- Cash and cash equivalents
  Cash and cash equivalents comprise cash on hand and demand deposits. Bank overdrafts, which are repayable on demand form an integral part of an entity's cash management in the Group, are included in the cash flow

statement as a component of cash and cash equivalents. Cash also includes cash equivalents, such as short-term deposits and deposits held in banks with less than three months' maturity from the date of acquisition.

4.3.3 Non-derivative financial liabilities

Non-derivative financial liabilities comprise of loans, bank overdrafts and trade and other payables.

At the beginning the Group recognizes debt securities issued and subordinate liabilities on the day of their creation. All other financial liabilities are recognized initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognizes financial liabilities when its contractual obligations are discharged or cancelled or expire.

Financial assets and liabilities are offset and the amount is shown in the statement of financial position if and only if the Group has an officially recognized right to either offset the recognized amounts or intends to either settle the net asset or and settle the liability.

Non-derivative financial liabilities are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized value, reduced by the payment of principal.

- Loans received, financial and operating liabilities
  Loans received and other financial and operating liabilities are initially measured at fair value on the day of their acquisition. After the acquisition they are measured at amortized costs with the effective interest method. Liabilities are derecognized only if they have been deleted, i.e. performed, extinguished or lapsed. The difference between the carrying amount of liabilities extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, are immediately recognized in profit or loss.

4.3.4 Derivative financial instruments

The Group uses derivative financial instruments for market and foreign exchange risks.

Futures contracts and various exchange-traded financial instruments are also used for hedging against fluctuations in electricity prices. For hedging against **foreign exchange risks** it uses mainly futures.

- Forward contracts
  The Group uses forward contracts, i.e. contracts to purchase or sell the selected basic instrument with time limit for fulfilment in the future for the price agreed at the time of the conclusion of the contract, as hedge of market risks from electricity and gas prices, as well as for foreign exchange risks. Futures prices are set depending on an underlying financial instrument. Upon conclusion the value of the contract is zero, as the exercise price (agreed settlement price) equals futures price. Delivery costs ignored, the value of forward contracts upon maturity equals the difference between the current price of the basic instrument upon maturity and contractual forward price or agreed settlement price. During the contract period the forward price changes depending on market prices trends and maturity of the forward transaction.
- Forward contracts (futures contracts)
  Forward contracts are binding agreements on purchase or sale of standard quantity of some instruments, described in details, of standard quality, on a standard day in the future (standard specification) at a cost agreed at present. Standardization is necessary condition for exchange trading. Standardization offers the advantage of minimizing transaction costs. In this way the buyer and the seller do not have to agree on individual elements of the contract upon each closing of a deal, they only agree on the price of individual futures contract. Deals are closed without the physical presence of the goods. Standardized futures contract enters into effect upon registration with the clearing house. Because of its stock exchange trading such a contract is freely transferable and its liquidity depends on the trading volume, while forward contracts are illiquid, as there tends to be no replacement. In trading with futures contracts, the safety margin should be deposited with a clearing house with purchase and sale. Safety margin comprises of initial margin and variation margin.

  The Group meets the conditions for calculation of hedge accounting to protect market risks from changes in electricity and natural gas prices as well as exchange rates. At the inception of the hedge, the GEN-I Group prepared formal designation and documentation of the hedging relationship and the entity's risk management objective and strategy for undertaking the hedge. The group defined hedging instruments, hedged items, the risk being hedged and the manner of assessing the effectiveness of hedging instruments.

  The Group assess hedge effectiveness at the beginning of the hedge relationship as well as on ongoing basis, namely quarterly. The hedge was effective when the changes of the hedging instrument set off the changes of cash flow of the hedged item within the range of 80%–125%. For cash flow hedges, a forecast transaction that is the subject of the hedge must be highly probable and must present an exposure to variations in cash flows that could ultimately affect profit or loss.

Derivative financial instruments are initially recognized at fair value; costs associated with the transaction are recognized in the profit or loss. On initial recognition, the financial assets are measured at fair value. Gain or loss arising on initial measurement at fair value is calculated as described below.

- Cash flow hedging
  The Group calculates cash flow hedge for standardized futures contracts and non-standardized forward contracts in such a way that part of the gain or loss from the hedging instrument defined as successful hedge is recognized in other comprehensive income, namely directly in equity as hedging reserve. Ineffective portion of the gain or loss on the hedging instrument is recognized in profit or loss as other revenue or expenditure. The amounts recognized in equity as hedging reserve are transferred to the profit and loss in the periods in which the hedged assets have an effect on the profit or loss.

  If the hedging instrument no longer meets the criteria for hedge accounting or if it expires or is sold, cancelled or used, hedging is no longer accounted for. Cumulative gain or loss recognized under equity remains recognized under equity until the forecast transaction is executed.

- Fair value hedge
  The Group accounts fair value hedge for standardized forward contracts and in non-standardized futures contracts in such a way that the changes in fair value of derivative financial instruments are immediately recognized in profit and loss. Gain or loss on the hedged item attributable to the hedged risk must adjust the carrying amount of the hedged item and be recognized in profit or loss. When an unrecognized firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognized as an asset or liability with a corresponding gain or loss recognized in profit or loss. the initial carrying amount of the asset or liability that results from the entity meeting the firm commitment is adjusted to include the cumulative change in the fair value of the firm commitment attributable to the hedged risk that was previously recognized in the financial position statement.

4.3.5 Intangible and tangible fixed assets

Intangible and tangible fixed assets are intended to serve the activities on a lasting basis. Upon initial recognition they are recognized at their cost, less any accumulated depreciation and any accumulated impairment losses.

Original cost of an individual asset comprises purchase price and any costs that can be attributable to bringing the asset to its working condition. The purchase price is composed of borrowing costs in connection with the acquisition of the tangible fixed asset until its bringing to working condition.

Intangible and tangible assets are subsequently measured using the cost model. Costs that are incurred later on and enable either carrying on of operations, improved security or lower operating costs in relation to the originally estimated, increase the cost of an asset.

The costs of replacing a part of an asset are added to the carrying amount of this asset if it is reasonable to believe that the company would gain future economic benefits from this part of the asset and if costs can be reliably measured. All other costs (e.g. regular maintenance) are recognized in profit or loss as expenses as soon as they are incurred.

Gains and losses that occur in disposal of property, plant and equipment are recognized as a difference between the net sales value and carrying amount of a disposed of asset and are recognized among other operating revenue or write-downs in value.

Assets acquired free of charge are depreciated, and the depreciation charge is deducted from long-term deferred revenue included under liabilities.

At the end of the year the companies check (only for more significant assets), whether internal or external factor arose, which would demand revaluations.

Goodwill appear in consolidation and represents the excess sum of fair value of the transferred consideration on the day of takeover (acquired shares) and fair value of the previous acquirerer's share over net tangible assets and acquired commitments. Goodwill is recognized as asset and is checked at least annually for impairment. Any impairment is immediately recognized in total profit and loss account and is not subsequently reversed. On disposal of subsidiary, the relevant amount of goodwill will be included in establishing gain/loss in the sale and will have an impact on the Group result.

Depreciation of intangible and tangible assets is accounted for using the straight line method, taking into account the useful life of each individual part of a fixed asset.

Depreciation of the affiliated company NEK is provided with Intergovernmental Agreement on NEK up to the amount of necessary and approved investments and payments of long term loans for such investments. The purpose of depreciation in this case is not the replacement of assets at the end of their useful life, as evident in the IFRS. Depreciation is methodologically calculated in such a way that with all tangible fixed assets, except with the nuclear reactor with refrigerating and ancillary systems (hereinafter: the nuclear reactor), the currently valid depreciation rates are taken into consideration. Amount of depreciation of the nuclear reactor is defined as the difference between fully approved depreciation costs and depreciation costs of other tangible fixed assets. Therefore, the degree as well as the amount of depreciation for the nuclear reactor change during the years.

Depreciation class	% in 2017	% in 2016
Buildings – business premises	1.00-10.00	1.00-10.00
Buildings – wooden	8.00	8.00
Property rights	5.56-33.33	5.56-33.33
Office equipment	10.00-20.00	10.00-20.00
Computer equipment	20.00-50.00	20.00-50.00
Production and other equipment	1.67-20.00	2.22-20.00
Vehicles	12.50-25.00	12.50-25.00
Trade show equipment	14.28-33.33	14.28-33.33
Parts of buildings under construction	6.00	6.00
Concession rights for HESS	2.00-2.20	2.00-2.20
Concession rights for SEL	4.65-5.56	4.65-5.56
Small tools	20.00	20.00
Other investments	10	10

In 2017, the depreciation rate of some production and other equipment changed from 2.22% to 1.67%. The effect of the change is not significant.

4.3.6 Investment property

Investment properties are properties owned by the Group to earn rentals or increase the value of long-term investments or both. Investment properties are stated at their purchase value, less any accumulated depreciation and any accumulated impairment losses. Investment properties are measured under the cost model. Depreciation in the profit and loss is usually recognized using the straight-line method, the estimated useful life is 25 years.

4.3.7 Deferred taxes

Deferred taxes amounts are based on expected on the method of refund or settlement of carrying amount of assets and liabilities, taking into consideration the applicable tax rates, when the deferred tax asset is recovered and the liability settled.

Deferred tax assets are recognized in the amount of possible available future taxable profit, against which the deferred asset can be utilized in the future. Deferred tax assets are recognized in the amount, for which it is no longer possible to enforce tax exemption in connection with the asset. They are reported as long-term receivables.

Deferred tax liabilities are recognized for all taxable temporary differences, unless the taxable temporary differences are a result of initial recognition of assets or liabilities in a business event other than a merger, division, exchange of shares and transfer of activities, and the business event at the time of its creation does not influence neither the accounting nor the taxable profit (tax loss).

4.3.8 Inventories and material costs

Under inventories, the Group presents fuel and material that is originally composed of purchase price, consisting of purchase price, import duties and direct costs of purchase. Any discounts received are deducted from the purchase price.

The group records the use of nuclear fuel under the purchase price method, as there are no new purchases until the use of stocks, while the use of other types of fuel and material is assessed under the average floating price method.

For the inventories of spare parts that were not used in the last six years (unused spare parts, where neither takeover nor issuance were recorded), value adjustments are formed in the amount of 100% of value of such material.

4.3.9 Impairment of assets

Financial assets

On reporting date the Group assesses the value of financial asset to see whether objective impairment of assets exists. A financial asset is considered impaired if there is objective evidence to show that the expected, future cash flows arising from this asset have been decreased due to one or more events.

The loss due to impairment in connection with the financial assets at fair value in other comprehensive income is calculated as the difference between its carrying amount and fair value. The loss due to impairment in connection with the financial assets at amortized value is calculated as the difference between its carrying amount and the expected future cash flows, discounted at the original effective interest rate. The loss due to impairment in connection with financial assets available for sale is calculated according to its current fair value.

With significant financial assets, the assessment of the impairment is carried out individually. Assessment of impairment of the remaining financial assets is carried out collectively considering their common characteristics as regards the exposure to risks.

The Group shows any losses due to impairment in the profit and loss for the period. Any possible accumulated loss in connection with financial assets, which are available for the sale, recognized directly in other comprehensive income are reclassified to profit or loss.

Impairment loss is reversed if its reversal can be objectively related to an event occurring after the impairment loss was recognized. With financial assets, carried at amortized costs, and financial assets, available for sale and debt instruments, reversal of loss due to impairment is shown in the profit and loss. The Group shows the elimination of impairment of financial assets available for sale and are equity securities, directly in another comprehensive income.

Non-financial assets

The carrying amount of significant non-financial assets is verified on each reporting date with the aim of establishing whether there are any signs of impairment. If such signs exist, the recoverable amount of the asset is estimated.

The recoverable amount of an asset or cash-generating unit is the higher of the two: value in use or fair value less costs of sale. When determining the value of an asset in use, the expected future cash flows are discounted to their current value by using the discount rate before tax that reflects regular market assessments of the time value of money and risks that typically occur in relation to the asset. For the purpose of impairment test, the assets that cannot be individually tested are classified in the smallest possible group of assets that generate cash flows from continued use and are mostly independent from receipts of other assets and groups of assets (cash-generating unit).

The impairment of an asset or a cash-generating unit is recognized when its carrying amount exceeds its recoverable amount. Impairment is disclosed in the profit and loss account. The loss recognized with the cash-generating unit due to impairment is allocated in such a way first to reduce the carrying amount of goodwill allocated to the cash-generating unit and then to the other assets of the unit, proportionally to the book value of each asset within the unit.

Loss due to impairment of goodwill is not derecognized. In connection with other assets, the Group evaluates losses due to impairment in previous periods on the reporting date and thus establishes whether the loss has decreased or even ceased to exist. Loss due to impairment is reversed if there has been a change in the estimates on the basis of which the Group defines the recoverable amount of an asset. The impairment loss is reversed to the amount up to which the asset's increased carrying amount does not exceed the carrying amount that would have been determined net of depreciation had no impairment loss been recognized for the asset in prior periods.

4.3.10 Equity

Equity is determined by both the amounts invested by owners and the amounts generated in the course of operations that belong to the owners. It may be reduced by loss or distributions of profit.

Total equity comprises of called-up capital, capital reserves, revenue reserves, reserve created evaluation at fair value, translation adjustment to equity, profit or loss brought forward and undistributed net profit.

The share capital is kept in local currency.

4.3.11 Provisions

Provisions are build up against liabilities which will occur, according to the projections based on binding past events, in the period longer than one year, and the value of which can be reliably assessed or measured.

The Group determines the provisions with discounting expected future cash flows at the rate before taxes, which shows the existing assessment of time value of money and if necessary also risks characteristics for such a liability.

The companies establish reservations for future earnings and provisions for the increased maintenance costs because of high waters and government support for modernization of production facilities.

Provisions for severance pay and anniversary bonuses

In accordance with statutory regulations, collective agreement and internal rules, the Group is required to pay anniversary bonuses to employees and severance pay on their retirement, for which long-term provisions are made. There are no other existing pension liabilities. Provisions are made in the amount of estimated future payments for severance and anniversary bonuses discounted at the end of the reporting period.

In the period in question the group finalized long-term provisions for anniversary bonuses and retirement allowances as present value of future payments, required to settle obligations resulting from employee service in the current and prior periods, taking into consideration severance payments upon retirement and costs of any expected anniversary bonuses until the retirement date. Discount rate for the calculation of provisions in any company in the group is set up to 2.13%, except for NEK, which has under the Intergovernmental Agreement on NEK and under the assumption of termination of operations of NEK on 30 June 2043 used a discount rate, equal to return on ten-year bonds with AA credit rating in the euro area.

In the profit and loss account, the labour and interest costs are recognized, conversion of post-employment benefits or unrealized actuarial gains or losses from redundancy payments in other comprehensive return on equity.

4.3.12 Other assets and liabilities

Other assets comprise short-term deferred costs, which upon their creation do not have an impact on results of the company and short-term accrued income, which are taken into consideration in the profit and loss, but have not been charged yet.

Among other liabilities, short-term accrued charges are shown in advance based on straight-line burdening of profit and loss with expected costs which have not been recognized yet and short-term deferred revenues for the services not yet provided but already charged.

This also includes the assets acquired free of charge.

4.3.13 Contingent assets and liabilities

Contingent assets and liabilities do not have a direct impact on the size and composition of assets and liabilities (statement of financial position) and revenue and expenditure (profit and loss account), however, they represent a source of information on operations and possible future receivables and liabilities of companies.

4.3.14 Revenue

Sales revenue

Sales revenue from the sale of goods is recognized at fair value of the received payment or corresponding receivables less returns, discounts, and volume discounts. Revenue is disclosed when a buyer has assumed all significant types of risks and benefits related to the ownership of the asset, when there is certainty in relation to recoverability of a fee and related costs and when further consideration on the sold goods is completed. If it is possible that the discounts will be approved and the amount can be measured reliably, the mentioned discount will be recognized as reduction in revenues upon recognition of sale.

Proceeds from the sale of services are recognized in the accounting period in which the services were performed, considering the conclusion of the transaction, assessed based on the service actually supplied as as a proportionate part of the entire services carried out.

Other operating revenues comprise of calculation of capitalized own products and services, revenues from the reversal and drawing of other liabilities, received compensations, contractual penalties and similar revenue.

Financial income

Financial income comprises revenue from interest from financial income, income from sale of available financial assets, recovered, written of or impaired receivables, amendments of fair value of financial assets at fair value through profit and loss, positive exchange rates, profits from hedging instruments, recognized in the profit and loss account, payment of shares on the benefits and recognition of investments based on the equity method. Revenues from interest are recognized when they occur using an effective interest rate method.

4.3.15 Expenses

Operating expenses

Expenses are recognized if a decrease in economic benefits in the accounting period gives rise to a decrease in assets or increase in debt and this decrease can be reliably measured.

Expenses comprise of costs of goods, materials and services, labour costs and write-downs and other operating expenses.

Costs of goods, materials and services are original costs of purchased goods, material and services.

Write-downs in value include amortization/depreciation costs related to the consistent transfer of the value of depreciable property, plant and equipment and depreciable intangible assets. Write-downs in value also include losses from the marking down of fixed assets.

Labour costs are historical costs that refer to salaries and similar disbursements in gross amounts, as well as duties charged on this basis and are not included in gross amounts. Provisions for severance pay and anniversary bonuses upon retirement also fall under labour costs.

Other operating expenditure comprise of concessions, environmental expenditures and other charges. Other operating expenses also include donations.

Financial expenses

Financial expenses comprise borrowing costs (if they are not capitalized), exchange losses, changes in fair value of financial assets through profit and loss, loss due to impairments of values of financial assets, value adjustments and losses from hedging instruments, recognized in the profit and loss account. Borrowing costs are recognized in the profit and loss account using the effective interest method. Financial expenses are recognized also under the equity method.

4.3.16 Taxes

Taxes include current and deferred tax liabilities Taxes are recorded in the profit and loss account, except in the part where they relate to the business combinations or items recognized directly in other comprehensive income. Current tax liabilities are based on taxable profit for the period. The taxable profit differs from net profit reported in the profit or loss account because it does not include the items of revenue or expenses that are taxable or deductible in other years, nor items that are never taxable or deductible. The current tax liabilities of the group are calculated based on tax rates effective on the reporting date.

Companies in the Group are all individually liable for the payment of corporate income tax. Consolidated corporate income tax represents the sum of taxes of the Group companies.

4.3.17 Cash flow statement

The Group prepares the cash flow statement using the indirect method.

4.3.18 Financial risk management

In its operations the GEN Group is exposed to strategic, financial and operative risks.

Prudent management of risks on the level of the GEN Group pursues the aim of maintaining high quality of operations and is a key to achieving the set goals. The use of standard methodologies and risk management procedures enable qualitative risk assessment, timely action and reduced exposure of the GEN Group to all key risks.

4.3.19 Segment reporting

In its Annual Report the group does not reveal its operations in segments, as the companies in the group do not have debt and equity instruments which would be traded in a public market.

4.4 Changes to accounting policies and disclosures

Accounting policies of the group used in the preparation of consolidated accounts are the same as policies used in the preparation of consolidated account for the preceding financial year. Exceptions are as follows:

- supplemented standards adopted by the group for the annual period starting 1 January 2017;
- standards which are issued but not yet applicable and not adopted early by the Group

as presented below:

a) supplemented standards adopted by the Group for the annual period starting 1 January 2017:

- **IAS 12: Recognition of deferred taxes for unrealized losses (additions)**
  The purpose of additions to standards is to explain request in connection with recognition of deferred taxes for unrealized losses and in this way address different practice in the use of provisions of IAS 12 from profits. In practice, the companies namely use different approaches to calculation of deductible temporary differences from reduction of fair value in the recovery of assets over its residual value, in connection with possible availability of the future taxable profit and total or separate assessment of the amount of deferred taxes for unrealized losses. The additions do not have an impact on the financial statements of the company or the Group.
- **IAS 7: Disclosure of incentives (additions)**
  Additions of IAS 7 require from the company to include into its financial statements disclosures that enable the users of financial statements an assessment of the amount of liabilities of the company from financing, including the ones that are the result of changes, which may or may not have an impact on cash flow. The additions provide that the company may, in meeting the requirements after the disclosure prepare also in a tabular form as coordination between the initial and final liabilities from financing in the statement of financial position, including the amendments of cash-flow from financing, with amendments resulting from gain or loss of control over independent companies or other companies, the effect of changes in foreign exchange rates, changes of fair value and other changes. The additions do not have an impact on the financial statements of the company or the Group.
- **International Accounting Standards Board (IASB) issued a set of annual improvements to the IFRS for the 2014–2016 period**, which represents a collection of amendments to the IFRS. The EU has not yet approved the improvements stated below. The improvements do not have an impact on financial statements of the company.
- **IFRS 12: Disclosure of shares in other companies:**
  The additions explain that the requests after the disclosure in the IFRS 12 (except those, summarized in the financial statements of subsidiaries, joint-ventures and associated companies), apply for the share of the company in the subsidiary, joint venture or associated company, classified under assets held for sale, for distribution or as discontinued operations under IFRS 5.

b) Standards issued but not yet applicable and not adopted early by the Group:

- **IFRS 9: Financial instruments: Classification and measurement**
  Effective for annual periods beginning on or after 1 January 2018. Early use is allowed. Final version of IFRS 9 Financial instruments comprises all individual stages of the IFRS 9 renovation project and supersedes *IAS 39 Financial instruments: Recognition and measurement* and all previous versions of *IFRS 9*. The standard introduces new requirements in classification, measuring, impairment of financial instruments and hedge accounting.

- **IFRS 15: Revenues arising from customer contracts**
  IFRS 15 applies to annual periods beginning on or after 1 January 2018. IFRS 15 defines a five-level model, which the companies will have to consider in recognition of revenues from customer contracts (with limited exceptions), irrespective of the type of transactions, that bring revenues or the industry. Requirements of the standard also apply to the recognition and measurements of gain and loss in the sale of some non-financial assets, which are not the consequence of usual activities of the company (e.g. sale of property, plant and equipment or intangible assets). The standard requires from the company extensive disclosures, including break down of total revenues; information on liabilities in connection with the sale; changes in the amount of contractual assets and liabilities between two periods and key management judgments and assessments.
- **IFRS 15: Revenues arising from customer contracts (explanations)**
  Explanations of the standard are effective for annual periods beginning on or after 1 January 2018. Early use is allowed. The purpose of the explanations is to clarify what was the purpose of IASB in adopting the requirements of IFRS 15 Revenues arising from customer contracts, in particular from the point of view of accounting treatment of the defined obligations with customers, which changes the text of the principle of »separate definition«, treatment of principal versus agent, including the estimate whether the company acts as a principal or agent and the use control and licensing principle, which provides additional directions for accounting treatment of intellectual property and royalties. The explanations also introduce additional practical benefits for companies, which either use IFRS 15 as a whole for the preceding periods or those, which decide on the use of tailored approach.
- **MSRP 16: Leases**
  IFRS 16 applies to annual periods beginning on or after 1 January 2019. IFRS 16 provides directions for recognition, measurement, presentation and disclosure of leases of both contracting parties: lessee and lessor. The new standard requires a lessee to recognize in their financial statements majority of lease agreements based on one accounting model for all lease agreements, with certain exceptions. There are no significant changes in the calculation of leases by the lessor.
- **Additions to IFRS 10 Consolidated financial statements and IAS 28 Investments in associates and joint ventures: Sale or contribution of assets between the investor and its associated company or joint venture**
  Additions address recognized discrepancy between the requirements of IFRS 10 and those of IAS 28 in treatment of sale or contribution of assets between the investor and his associated company or joint venture. The additions require that the company has to recognize the entire gain or loss amount in the event of a transaction, in which the acquirerer obtains control of one or more undertakings (or meets conditions for the classification as »business«). In December 2015, the IASB postponed the start of validity of the standard for an indefinite period, pending the results of the project researching the calculation of assets with equity method. The EU has not yet approved the additions of the standard.
- **IFRS 2: Classification and measurement of payment transactions with shares (additions)**
  The additions apply to annual periods beginning on or after 1 January 2018. Early use of the additions is allowed. The additions introduce requirements regarding accounting treatment of effects of the required and non-commercial terms in measuring cash payment transactions with shares. The EU has not yet approved the additions of the standard.
- **IAS 40: Transfer of investment property (additions)**
  The additions apply to annual periods beginning on or after 1 January 2018. Early use of additions is allowed. The additions clarify when does the company have to reclassify the property, including the ones under construction or in development, from or to investment property. The additions clarify that the changes in use occur when the property meets or no longer meets the definition of investment property and evidence on the change of its use exists. Change of the intention of the Management of the company in connection with the use of property does not represent a change in use. The EU has not yet approved the additions of the standard.
- **Additions to IFRS 9: Characteristics of prepayments with negative consideration**
  The additions apply to annual periods beginning on or after 1 January 2019. Early use of additions is allowed. Additions allow the company to measure the financial assets with the characteristics of prepayments, which enable the contracting party receipt or require payment of reasonable compensation for early termination of contract (from the point of view of the holder of this financial assets this is »negative consideration«) at amortized or fair value through other comprehensive income. The EU has not yet approved the additions of the standard.
- **Additions to IAS 28: Long-term investments in associates and joint ventures**
  The additions apply to annual periods beginning on or after 1 January 2019. Early use of additions is allowed. Additions deal with the issue whether the measurement of long-term

investment (in particular as regards the requirements of impairment of long term investments in associated companies and joint venture, which are by content part of a »clean investment« in the associated company or joint venture), within IFRS 9, IAS 28 or the combination of both. Additions explain that a company must – in the recognition of long-term investments which are not measured according the the equity method – use the provisions of IFRS 9 Financial instruments before it starts using IAS 28. In the use of IFRS 9 the company does not take into consideration any adjustments to the carrying amount of long term investments, normally arising from IAS 28. The EU has not yet approved the additions of the standard.

- **IFRIC 22: Transactions in a foreign currency and prepayment**
  The explanations apply for annual periods beginning on or after 1 January 2018. Early use of explanations is allowed. The explanation introduces clarification of accounting of transactions, which include certificate of receipt or payment of an advance in a foreign currency. The explanation relates to the transaction in a foreign currency, when the company recognizes a non-monetary asset or non-monetary liability from payment or receipt of an advance before it recognizes assets, income or expenses related to it. The explanation states that in order to determine an exchange rate, the companies have to use the date of the original recognition of a non-monetary advance or deferred income (liabilities). In the event of a larger number of payments or advances, the company sets a date for the transaction of every payout or advance. The EU has not yet approved the explanations.

- The International Accounting Standards Board **(IASB) issued a set of annual improvements to the IFRS for the 2014–2016 period**, which represents a collection of additions to the IFRS. The additions to IFRS 1 The first use of the International Financial Reporting Standards and IAS 28 Investments in associates and joint ventures apply to annual periods beginning on or after 1 January 2018. Early use of additions to standard IAS 28 Long term investments in associates and joint ventures is allowed: The EU has not yet approved the improvements.

  - **IFRS 1 The first use of the International Financial Reporting Standards:** The addition eliminates short-term exemptions for disclosures in connection with the financial instruments, employee benefits and investment companies which otherwise apply to the first use of the IFRS.

  - **IAS 28: Financial investments in associates and joint ventures:** The additions explain that upon initial recognition a company may measure each investment into the associated company or joint venture, owned by the company, which is an equity company or other qualified entity, at fair value or through profit and loss account.

- **IFRIC 23: Uncertainty in calculating corporate income tax**
  The explanations apply for annual periods beginning on or after 1 January 2019. Early use of explanations is allowed. The explanation deals with the calculation of corporate tax when tax treatment involves some uncertainty, which impacts on the use of IAS 12 Corporate income tax. The explanation introduces directions: calculation of insecure tax treatment separately or jointly; inspections of tax authority; use of relevant methods that reflects such insecurities and at the same time takes into consideration the change of facts and circumstances. The EU has not yet approved the explanations.

The Management estimates that the introduction of these new standards and amendments to the existing standards will not have any material impact on the financial statements of the Group company in the period of initial application.

5. Notes to and disclosures of items in the financial statements of the GEN Group

5.1 Intangible assets

Changes in intangible assets, in EUR	Long-term property rights	Goodwill	Other intangible assets	Long-term deferred costs of development	Total
ORIGINAL COST					
As at 31/12/2016	**19,117,893**	**29,238,153**	**7,994,942**	**136,759**	**56,487,747**
Acquisitions	176,613	0	1,011,133	2,692	**1,190,438**
Transfers	0	0	70,641	-119,373	**-48,732**
Disposals	-36,577	0	-701	0	**-37,278**
Revaluation	0	0	1,276	0	**1,276**
As at 31/12/2017	**19,257,929**	**29,238,153**	**9,077,291**	**20,078**	**57,593,451**
ACCUMULATED DEPRECIATION					
As at 31/12/2016	**7,084,004**	**0**	**5,264,072**	**0**	**12,348,076**
Depreciation	516,773	0	781,513	0	**1,298,286**
Disposals	-36,217	0	0	0	**-36,217**
Revaluation	0	0	9,936	0	**9,936**
As at 31/12/2017	**7,564,560**	**0**	**6,055,521**	**0**	**13,620,081**
NET BOOK VALUE					
As at 31/12/2016	**12,033,889**	**29,238,153**	**2,730,870**	**136,759**	**44,139,671**
As at 31/12/2017	**11,693,369**	**29,238,153**	**3,021,770**	**20,078**	**43,973,370**
ORIGINAL COST					
As at 31/12/2015	**18,852,713**	**2,789**	**122,551**	**0**	**18,978,053**
Merger	0	228,130	8,345,456	140,955	**8,714,541**
Acquisitions	316,393	29,007,234	125,396	49,085	**29,498,108**
Transfers	-17,919	0	0	-53,281	**-71,200**
Disposals	-33,294	0	-606,356	0	**-639,650**
Revaluation	0	0	7,895	0	**7,895**
As at 31/12/2016	**19,117,893**	**29,238,153**	**7,994,942**	**136,759**	**56,487,747**
ACCUMULATED DEPRECIATION					
As at 31/12/2015	**6,699,503**	**0**	**75,676**	**0**	**6,775,179**
Merger	0	0	5,571,027	0	**5,571,027**
Depreciation	419,237	0	149,234	0	**568,471**
Transfers	-1,442	0	0	0	**-1,442**
Disposals	-33,294	0	-541,408	0	**-574,702**
Revaluation	0	0	9,543	0	**9,543**
As at 31/12/2016	**7,084,004**	**0**	**5,264,072**	**0**	**12,348,076**
NET BOOK VALUE					
As at 31/12/2015	**12,153,210**	**2,789**	**46,875**	**0**	**12,202,874**
As at 31/12/2016	**12,033,889**	**29,238,153**	**2,730,870**	**136,759**	**44,139,671**

Goodwill represents the excess sum of fair value of the transferred consideration on the day of takeover (acquired shares) and fair value of the previous acquirerer's share over net tangible assets and acquired commitments. It relates almost entirely, i.e. in the amount of EUR 29,007,234 to the effects of business combination of GEN-I, for which an impairment test was performed on 31 December 2017, which did not have an impact on goodwill.

Disclosed intangible assets are owned by the Group and free from any burdens.

5.2 Tangible fixed assets

Tangible fixed assets, in EUR	Land	Buildings	Production plant and machinery	Other devices and small tools	Assets under construction/ in production	Advances	Total
ORIGINAL COST							
31/12/2016	**22,705,199**	**424,532,976**	**959,284,734**	**43,166,601**	**130,803,403**	**6,449,793**	**1,586,942,706**
Acquisitions	0	16,761	1,091	248,318	63,002,582	134,650	**63,403,402**
Activations	0	46,955,332	69,215,413	2,757,536	-118,928,281	0	**0**
Disposals	-3,607	-52,076	-1,141,603	-1,240,334	-70,172	-5,693,232	**-8,201,024**
Transfers, reclassifications	0	362,578	0	1,028,913	-2,016,643	0	**-625,152**
Revaluation	0	0	0	2,650	-16,694	0	**-14,044**
31/12/2017	**22,701,592**	**471,815,571**	**1,027,359,635**	**45,963,684**	**72,774,195**	**891,211**	**1,641,505,888**
ACCUMULATED DEPRECIATION							
31/12/2016	**0**	**208,370,646**	**709,873,007**	**35,693,023**	**0**	**0**	**953,936,676**
Depreciation	0	8,096,965	20,208,022	2,938,466	0	0	**31,243,453**
Disposals	0	-47,448	-855,348	-1,120,421	0	0	**-2,023,217**
Transfers, reclassifications	0	207,983	-1,480	22,473	0	0	**228,976**
Revaluation	0	0	0	3,794	0	0	**3,794**
31/12/2017	**0**	**216,628,146**	**729,224,201**	**37,537,335**	**0**	**0**	**983,389,682**
NET BOOK VALUE							
31/12/2016	**22,705,199**	**216,162,330**	**249,411,727**	**7,473,578**	**130,803,403**	**6,449,793**	**633,006,030**
31/12/2017	**22,701,592**	**255,187,425**	**298,135,434**	**8,426,349**	**72,774,195**	**891,211**	**658,116,206**
ORIGINAL COST							
31/12/2015	**22,327,835**	**402,615,671**	**942,898,773**	**36,516,163**	**81,628,710**	**27,000**	**1,486,014,152**
First consolidation of GEN-I	400,660	5,703,752	0	4,776,991	4,039	0	**10,885,442**
Acquisitions of new investment	34,809	423,881	554	455,446	84,163,399	6,771,833	**91,849,922**
Activations	10,385	15,451,542	17,481,374	1,957,109	-34,900,709	-347,256	**-347,555**
Disposals	-68,490	-44,369	-1,095,967	-539,901	-60,137	-1,784	**-1,810,648**
Transfers, reclassifications	0	382,499	0	0	-31,899	0	**350,600**
Revaluations	0	0	0	793	0	0	**793**
31/12/2016	**22,705,199**	**424,532,976**	**959,284,734**	**43,166,601**	**130,803,403**	**6,449,793**	**1,586,942,706**
ACCUMULATED DEPRECIATION							
31/12/2015	**0**	**198,073,772**	**689,376,118**	**30,551,810**	**0**	**0**	**918,001,700**
First consolidation of GEN-I	0	1,953,573	0	3,235,635	0	0	**5,189,208**
Depreciation	0	6,854,451	21,439,217	1,854,730	0	0	**30,148,398**
Disposals	0	-41,713	-942,328	-532,076	0	0	**-1,516,117**
Transfers, reclassifications	0	1,530,563	0	582,469	0	0	**2,113,032**
Revaluation	0	0	0	455	0	0	**455**
31/12/2016	**0**	**208,370,646**	**709,873,007**	**35,693,023**	**0**	**0**	**953,936,676**
NET BOOK VALUE							
31/12/2015	**22,327,835**	**204,541,899**	**253,522,655**	**5,964,353**	**81,628,710**	**27,000**	**568,012,452**
31/12/2016	**22,705,199**	**216,162,330**	**249,411,727**	**7,473,578**	**130,803,403**	**6,449,793**	**633,006,030**

In 2017, the GEN Group companies made investments that predominantly related to the investments in the HPP Brežice, investments in TEB's gas turbine unit and investments in the modernization of the systems of all production facilities of the GEN Group, which provide safe and stable operations of the power plants and any other investments in fixed assets essential to uninterrupted operation.

In the procedure of verification of indicators for the purpose of impaired assets, the Group established that the latter do not exists and that the carrying value of the tangible assets does not exceed the fair value and the value in the use of such assets.

Tangible fixed assets of the group are fully owned by the companies in the GEN Group, they are free from burdens and were not forwarded to finance lease.

5.3 Investment property

Investment property, in EUR	31/12/2016	Acquisitions	Reclassifications	Depreciation	31/12/2017
Original cost	290,913	1,652,591	-290,913	0	1,652,591
Accumulated depreciation	207,983	0	-207,983	16,526	16,526
Present value	82,930	1,652,591	-82,930	-16,526	1,636,065

Investment property, in EUR	01/01/2016	Acquisitions	Reclassifications	Depreciation	31/12/2016
Original cost	655,493	0	-364,580	0	290,913
Accumulated depreciation	469,377	0	-270,121	8,727	207,983
Present value	186,116	0	-94,459	-8,727	82,930

Investment property was acquired in 2017 in Bulgaria as a result of bankruptcy of a Bulgarian electricity supplier.

5.4 Stocks and interests in affiliated companies and joint venture

Shares and interests in affiliated companies and joint venture in 2017, in EUR	31/12/2016	Acquisition	Disposal/ transfer	Revaluation	31/12/2017
Long-term investments in affiliated companies	**467,637**	**0**	**-52,025**	**0**	**415,612**
SRESA d.o.o.	27,779	0	-158	0	27,621
HSE invest d.o.o.	440,588	0	-49,926	0	390,662
Other	-730	0	-1,941	0	-2,671
Total	**467,637**	**0**	**-52,025**	**0**	**415,612**

Shares and interests in affiliated companies and joint venture in 2016, in EUR	31/12/2015	Acquisition	Disposal/ transfer	Revaluation	31/12/2016
Long-term investments in joint venture	**31,515,420**	**1,106,138**	**-32,621,558**	**0**	**0**
GEN-I d.o.o.	31,515,420	1,106,138	-32,621,558	0	0
Long-term investments in affiliated companies	**473,104**	**1,649**	**-5,105**	**-2,011**	**467,637**
SRESA d.o.o.	30,925	0	-3,146	0	27,779
HSE invest d.o.o.	438,939	1,649	0	0	440,588
Other	3,240	0	-1,959	-2,011	-730
Total	**31,988,524**	**1,107,787**	**-32,626,663**	**-2,011**	**467,637**

At the end of the financial year 2017 (and 2016) the long term investments in the joint venture in the GEN Group are no longer shown due to a business merger of GEN-I at the end of 2016.

5.5 Other long-term financial investments and loans

Other long-term financial investments and loans in 2017, in EUR	31/12/2016	Acquisition	Disposal/ transfer	Revaluation	31/12/2017
Zavarovalnica Triglav d.d.	2,193,037	0		540,109	2,733,146
Geoplin d.o.o.	2,117,425	0	-2,869	0	2,114,556
Other long-term financial investments	321,326	1,711,358	-4,060	0	2,028,624
Loans granted to employees	38,459	0	-12,171	0	26,289
Loans granted to other legal entities	503,096	7,506,780	-7,008,021	0	1,001,855
Total	**5,173,343**	**9,218,138**	**-7,027,121**	**540,109**	**7,904,470**

The increase in other long-term financial investments refers mainly to an increase in financial receivables from the sale of small solar power plants.

Other long-term financial investments and loans in 2016, in EUR	31/12/2015	Acquisition	Disposal/ transfer	Revaluation	31/12/2016
Zavarovalnica Triglav d.d.	2,221,464	0	0	-28,427	2,193,037
Geoplin d.o.o.	2,117,425	0	0	0	2,117,425
Ostale dolgoročne finančne naložbe	163,110	592,842	-409,928	-24,698	321,326
Dana posojila zaposlenim	43,177	13,537	-18,255	0	38,459
Dana posojila ostalim pravnim osebam	0	6,005,980	-5,502,884	0	503,096
Skupaj	**4,545,176**	**6,612,359**	**-5,931,067**	**-53,125**	**5,173,343**

5.6 Long-term operating receivables

Long-term operating receivables at 31 December 2017 totalled EUR 606,991 and comprise mainly the long-term portion of a receivable from the Radeče Municipality for the reimbursement of an overpaid charge for building plots. At 31 December 2016, long-term operating receivables totalled EUR 706,322.

5.7 Deferred taxes

Deferred tax assets in 2017, in EUR	31/12/2016	Disclosed under profit or loss	Disclosed under other comprehensive income	Result of merger	31/12/2017
Intangible, tangible fixed assets	**133,685**	28,408	0	0	**162,093**
Financial instruments	**1,175,820**	0	-161,838	0	**1,013,982**
Operating receivables	**1,051,349**	-23,652	0	0	**1,027,697**
Provisions for anniversary bonuses, severance pay	**406,730**	-317	-184	0	**406,229**
Other	**1,872**	-203,224	0	0	**-201,352**
Total	**2,769,456**	**-198,785**	**-162,022**	**0**	**2,408,649**

Deferred tax assets in 2016, in EUR	31/12/2015	Disclosed under profit or loss	Disclosed under other comprehensive income	Result of merger	31/12/2016
Intangible, tangible fixed assets	**16,156**	25,822	0	91,707	**133,685**
Financial instruments	**947,801**	42,541	185,478	0	**1,175,820**
Operating receivables	**0**	-9,796	0	1,061,145	**1,051,349**
Provisions for anniversary bonuses, severance pay	**258,072**	61,779	11,030	75,849	**406,730**
Other	**34**	1,838	0	0	**1,872**
Total	**1,222,063**	**122,184**	**196,508**	**1,228,701**	**2,769,456**

Deferred taxes are accounted for based on the uncertainty of the time-defined realization of a receivable and are calculated using a 19% tax rate when a certain part of the liabilities is expected to be settled and deferred tax assets settled as a result.

Deferred tax assets that impact the profit or loss are recognized in the profit and loss account.

Long-term deferred tax liabilities, which totalled EUR 5,831,633 on the balance sheet date – 31 December 2017 (and EUR 6,068,328 as at 31 December 2016), result from the transition to the IFRS, specifically due to reversal of provisions from NEK's risky contracts because the company NEK is recognized in the consolidated financial statements as a joint venture in the form of a shared activity.

Being of different types, deferred tax assets and deferred tax liabilities are not reconciled.

5.8 Inventories

Inventories, in EUR	31/12/2017	31/12/2016
Production fuels	23,965,613	**21,969,768**
Spare parts	14,483,786	**12,622,002**
Other material	3,120,466	**2,350,502**
Total	**41,569,865**	**36,942,272**

The largest proportion of total inventories as at 31 December 2017, amounting to EUR 38,209,772, are inventories held by the company NEK, specifically nuclear fuel inventories, at EUR 22,897,396, inventories of spare parts, at EUR 13,010,799, and of other materials used by the nuclear power plant. On account of certain specifics, it is difficult or even impossible to estimate the net realizable value of the inventories of spare parts and other materials since there are only two other similar power plants in operation worldwide that install similar components and spare parts for maintenance purposes. It is therefore maintained that there is practically no market demand for such inventories and that the costs of selling would exceed the proceeds of the sale. The useful value of the inventories of spare parts, particularly those that belong to the safety category, is very high in terms of ensuring the power plant's safe operation.

The accounting policy for value adjustments of non-marketable spare parts allows the book value to reflect the real value of the inventories as accurately as possible.

In 2017, value adjustments of inventories of non-marketable spare parts, i.e. spare parts with no transactions for 6 or more years, totalled EUR 395,445. The amount of EUR 31,404 refers to the write-off of obsolete, unusable spare parts and other materials. There were no significant surpluses or shortages recorded in material inventories in 2017.

All inventories are reported as short-term assets in accordance with the applicable regulations. The inventories of spare parts and nuclear fuel have a long life – 681 days.

The book value of inventories is not pledged as collateral for liabilities.

5.9 Short-term financial investments

Short-term financial investments amounted to EUR 75,386,972 as at 31 December 2017 and EUR 60,612,197 as at 31 December 2016. These are mainly investments in money market financial instruments in the form of deposits, amounting to EUR 75,373,030. Returns on deposits arise from interest rates effective in the relevant financial market at the time investments in deposits are made.

Agreements signed with financial institutions in Slovenia form the basis for recognizing investments in deposits. The high balance of deposits is the result of slower dynamics of technological upgrade investments and slower implementation of other activities in recent years. These funds are earmarked entirely for technological upgrade investments in accordance with the investment plans adopted by the GEN Group companies.

5.10 Short-term operating receivables

Short-term operating receivables, in EUR	31/12/2017	31/12/2016
Receivables from customers	118,126,921	106,926,195
Interest receivables	474,099	31,439
Other receivables associated with financial effects	281,593	11,863,959
Other operating receivables	45,340,902	31,350,335
Receivables from operations for third-party account	188,767	217,586
Total	**164,412,282**	**150,389,514**

Receivables from customers are receivables for the electricity and ancillary services sold based on concluded contracts. As a rule, they are secured by blank drafts with accompanying authorizations or by bank guarantees.

Other short-term operating receivables are mainly composed of input VAT in the amount of EUR 27,711,620 and the Group's receivables for advances and security deposits given totalling EUR 16,862,153. The latter includes a security deposit in the amount of EUR 10,600,000 for securing an ownership option, the rest are advances for the purchase of electricity and natural gas.

	31/12/2017			31/12/2016		
Operating receivables, in EUR	Gross	Accumulated depreciation	Net	Gross	Accumulated depreciation	Net
Outstanding receivables	153,401,987	-7,785	153,394,202	136,749,298	0	136,749,298
Receivables due in up to 90 days	9,303,276	15,535	9,318,811	8,983,468	0	8,983,468
Receivables due in 91–180 days	362,896	-251,548	111,348	91,287	-98,670	-7,383
Receivables due in 181–365 days	741,956	-728,411	13,545	372,172	-387,656	-15,484
Receivables due in 365+ days	12,697,164	-11,122,788	1,574,376	13,194,541	-8,514,926	4,679,615
Total	**176,507,279**	**-12,094,997**	**164,412,282**	**159,390,766**	**-9,001,252**	**150,389,514**

On the last day of the reporting period, value adjustments to receivables are reported by the following GEN Group companies: Elektro energija in the amount of EUR 5,418,130, GEN-I Sofia in the amount of EUR 3,036,293, GEN-I Ljubljana in the amount of EUR 1,762,915, GEN-I Zagreb in the amount of EUR 1,086,858, GEN-I Tirana in the amount of EUR 453,495, GEN-I Prodažba na energija in the amount of EUR 123,576, GEN-I Beograd in the amount of EUR 102,630, GEN-I Vienna in the amount of EUR 77,567, and GEN-I Milano in the amount of EUR 33,533.

Changes in adjustments to operating receivables, in EUR		
Opening balance as at 01/01/2017	**9,001,252**	**2,779,206**
Adjustment made	3,270,760	1,187,407
Increase as a result of acquisitions of subsidiaries	0	5,760,980
Reversal of adjustment to receivables	-105	-4,849
Write-off of receivable debited against adjustment	-208,420	-733,661
Foreign exchange differences	31,510	12,241
Closing balance as at 31/12/2017	**12,094,997**	**9,001,252**

During the reporting period, value adjustments to receivables from customers were made by GEN-I Sofia in the total amount of the receivable, EUR 2,709,565, GEN-I Ljubljana in the amount of EUR 322,976, GEN-I Zagreb in the amount of EUR 103,221, GEN-I Vienna in the amount of EUR 77,567, GEN-I Energia Milano in the amount of EUR 29,201, and Elektro energija in the amount of EUR 28,230. Reversal of a receivable to the debit of adjustment was made by Elektro energija in the amount of EUR 143,515 and GEN-I Ljubljana in the amount of EUR 64,905.

Receivables are not pledged as collateral.

5.11 Cash and cash equivalents

Cash and cash equivalents, in EUR	31/12/2017	31/12/2016
Cash at bank	36,093,062	46,280,861
Call deposits	28,185,012	47,042,797
Other	252	483
Total	**64,278,326**	**93,324,141**

5.12 Other short-term assets

Other short-term assets	31/12/2017	31/12/2016
Accrued revenue	40,437,349	31,677,155
Short-term deferred costs or expenses	9,099,409	10,090,085
Total	**49,536,758**	**41,767,240**

Short-term uncharged revenue in the amount of EUR 40,437,349 is mostly accrued revenue from buyers of electricity and natural gas for 2017, for whom the final billing of the electricity and natural gas sold is made in 2018 in accordance with the relevant contracts.

Short-term deferred expenses are mostly deferred expenses for cross-border transmission capacities in the amount of EUR 3,501,444 and deferred expenses for the purchase of electricity and natural gas in the amount of EUR 3,969,423, which refer to the first quarter of 2018.

5.13 Equity

Equity structure, in EUR	31/12/2017	31/12/2016
Equity attributable to owners of the parent company	**648,082,276**	**619,850,662**
Called-up capital	250,000,000	250,000,000
Capital reserves	134,682,435	134,682,435
Statutory reserves	11,005,354	10,481,145
Other revenue reserves	66,887,597	53,971,423
Reserves from valuation at fair value	919,697	-871,012
Retained earnings	185,471,404	172,490,187
Translation adjustment to equity	-884,211	-903,516
Equity of owners of non-controlling interest	**136,797,784**	**135,668,833**
Total	**784,880,060**	**755,519,495**

Called-up capital, in the amount of EUR 250,000,000, is entirely the share capital of the controlling company.

Capital reserves:

- capital reserves, totalling EUR 134,682,435 as at 31 December 2017 (same balance as at 31 December 2016), are almost entirely capital reserves of the controlling company arising from paid-in capital surpluses for the GEN Group companies;
- revenue reserves as at 31 December 2017 total EUR 77,892,951 (EUR 64,452,568 as at 31 December 2016) and comprise:
  - statutory reserves of the Group companies totalling EUR 11,005,354, which increased in 2017 by EUR 524,209 on account of retained profit in the reporting period (in 2016, they increased by EUR 184,523),
  - other revenue reserves in the amount of EUR 66,887,597, which increased – on account of reallocation of a portion of profit from previous years based on decisions made by bodies of the Group companies – by EUR 12,916,174 in 2017 and by EUR 8,227,027 in 2016;

- fair value reserves, totalling EUR 919,697 as at 31 December 2017, in 2017 comprise changes mainly due to the recognition of actuarial gains and losses, including deferred taxes, specifically increases by EUR 1,566,235 (decreases by EUR 291,167 in 2016) and changes arising from valuation of cash flow hedge instruments, including deferred taxes on account of the increase by EUR 214,009 (a decrease by EUR 383,465 in 2016).
- retained earnings, in the amount of EUR 185,471,404, has changed compared to the previous year, when it totalled EUR 172,490,187, mainly for these reasons:
  - paid-out profit share, totalling EUR 2,000,000 in 2017 (EUR 20,000,000 in 2016),
  - addition of generated net profit from 2017, which belongs to the owners of the controlling company, totalling EUR 28,500,983 (EUR 30,632,865 in 2016),
  - allocation of a portion of retained profit in 2017, totalling EUR 13,440,383 (EUR 8,411,550 in 2016), to other revenue reserves based on decisions made by bodies of the GEN Group companies, in the amount of EUR 12,916,174 (allocation to other reserves in the amount of EUR 8,227,027 in 2016) and to statutory reserves in the amount of EUR 524,209 (EUR 184,523 in 2016).

Exchange rate differences arising from the conversion of financial statements of subsidiaries based abroad are recognized as translation reserve under other comprehensive income.

5.14 **Provisions**

Provisions, in EUR	31/12/2016	Formation	Decrease	31/12/2017
Provisions for anniversary bonuses, severance pay and other disbursements to employees	8,342,287	1,700,464	-827,329	9,215,421
Provisions from budget appropriations for acquisition of fixed assets	231,898	0	-18,322	213,576
Provisions for maintenance, decommissioning and disposal of equipment	331,446	0	-226,790	104,656
Total	**8,905,631**	**1,700,464**	**-1,072,441**	**9,533,653**

Estimated provisions for anniversary bonuses, severance pay and other employee remunerations are based on an actuarial calculation taking into account the assumption of employee turnover of up to 3.0% and a discount rate of up to 2.13%.

5.15 Financial liabilities

Long-term financial liabilities, in EUR	31/12/2017	31/12/2016
Bank loans	70,780,998	70,819,036
Long-term financial liabilities associated with bonds	27,000,000	13,000,000
Long-term financial liabilities from interest purchase options	10,869,988	11,275,000
Other long-term financial liabilities	1,965,422	2,435,473
Total	**110,616,408**	**97,529,509**

Short-term financial liabilities, in EUR	31/12/2017	31/12/2016
Current financial liabilities to banks	10,115,036	3,041,654
Commercial papers issued	26,839,852	26,808,168
Current financial liabilities from interest purchase options	11,555,466	11,572,329
Other current financial liabilities	1,954,431	541,465
Total	**50,464,785**	**41,963,616**

On the reporting date, the GEN Group had the following liabilities to banks in the amount of EUR 80,896,034:

- long-term loans hired at Slovenian commercial banks in the amount of EUR 5,000,000 that fall due in 2019. The loans are secured by drafts and yield interest at variable interest rates based on the 3- or 6-month Euribor;
- long-term loans for the investment in hydroelectric power plants on the lower course of the Sava, hired at SID d.d. in the amount of EUR 18,260,870 and at a Slovenian commercial bank in the amount of EUR 38,260,870, with due dates in 2029. The loans are secured by drafts and yield interest at fixed interest rates based on the 6-month Euribor, and the period interest liabilities, which are settled on a half-yearly basis, are recognized under other short-term liabilities as accrued expenses. Interest in the amount of EUR 929,104 is added to investment in construction and production until activation, disclosures for buildings and equipment. The interest yielded after the activation of the investment, totalling EUR 179,478, is recognized as financial expenses. The long-term loan in the amount of EUR 3,478,261, with repayment date in 2018, is reported under short-term financial liabilities;
- long-term loan for the investment in the construction of a new gas turbine unit at Brestanica Thermal Power Plant, hired at SID d.d. in the amount of EUR 9,259,259, with repayment due date in 2031. The loan is secured by drafts and a patronage statement and yields interest at a fixed interest rate based on the 6-month Euribor. The interest for the period in the amount of EUR 58,139 is added to investment in construction and production, and being outstanding on the last day of the reporting period, it is recognized under short-term financial liabilities. A portion of a long-term loan in the amount of EUR 798,880 and with repayment due date in 2018 is reported under short-term financial liabilities, with added interest;
- short-term loans in the amount of EUR 5,837,894 with added interest, which – together with the principal amount – fall due in 2018.

Also recognized on the reporting date are financial liabilities from issued bonds for the amount of EUR 27,000,000 and from commercial papers. Bonds in the amount of EUR 14,000,000 were issued in 2017 and fall due in 2024, and bonds issued in 2016 in the amount of EUR 13,000,000 fall due in 2019. Commercial papers in the amount of EUR 27,000,000 were issued in 2017 and fall due in July 2018. Expenses for interest in the business year 2017 total EUR 499,678 on all bonds and EUR 351,849 on the commercial papers.

Other financial liabilities from interest purchase options comprise:

- a long-term financial liability from an interest purchase option, which results from the transfer of a short-term put option between GEN-I and Elektro Ljubljana to the benefit of GEN-I, which allows the company to purchase from Elektro Ljubljana a 22.5% interest in the company GEN-EL. The short-term put option, falling due in 2017, was classified under short-term financial liabilities in the business year 2016, but since a contractual extension of the option until June 2020 was signed before the due date, it was recognized among long-term financial investments in the amount of EUR 10,869,988. Compared to the preceding year, it decreased by a paid premium in the amount of EUR 1,183,564 and increased by added interest in the amount of EUR 481,223.

- short-term financial liability from an interest-purchase call option which resulted from the transfer of a long-term financial liability from the put option between GEN and IGES to the benefit of the company GEN, which falls due in June 2018 and allows the company to purchase from IGES a 25% interest in the company GEN-EL. in 2017, interest in the amount of EUR 280,466 was added to the option, which totalled EUR 11,275,000 on the date of recognition in 2016.

5.16 Other long-term liabilities

Other long-term liabilities, in EUR	31/12/2017	31/12/2016
Long-term operating liabilities to suppliers	1,357,673	1,585,876
Other long-term operating liabilities	2,108,027	569,701
Total	**3,465,700**	**2,155,577**

Long-term operating liabilities to suppliers, in the amount of EUR 1,104,389, refer to retained long-term liabilities to suppliers for the construction of Brežice HPP, which are expected to fall due in the coming years; other long-term operating liabilities comprise the long-term part of deferred costs of NEK's scheduled maintenance outage in the amount of EUR 1,561,052, state subsidy for fixed assets in the amount of EUR 503,059, and other long-term deferred expenses.

5.17 Current operating liabilities

Short-term operating liabilities, in EUR	31/12/2017	31/12/2016
Short-term operating liabilities to suppliers	100,883,091	127,676,798
Short-term operating liabilities from advances	4,290,310	4,252,286
Short-term liabilities to employees	7,972,843	4,215,906
Other short-term liabilities to the state	8,323,445	3,425,340
Other short-term operating liabilities	6,412,116	1,878,992
Total	**127,881,805**	**141,449,322**

Current liabilities to employees comprise December payroll, bonuses and other employment remunerations.

A significant portion of current operating liabilities are liabilities to state and other institutions, including mainly VAT liabilities, corporate income tax, excise duty liabilities, December social security contributions, and contributions from other employment remunerations payable by the employer.

Other current liabilities arise mainly from a change in the fair value of physical contracts for the purchase and sales of electricity, which are secured by derivative financial instruments (futures) and apply to the following periods:

- business year 2018 in the amount of EUR -1.229.881;
- business year 2019 in the amount of EUR 3.931.046;
- business year 2020 in the amount of EUR 1.166.517;

and a change is the fair value of undue physical contracts treated as financial instrument, in the amount of EUR 219,811.

The effect of the change in the fair value of secured physical contracts for the purchase and sales of electricity was fully reconciled with the change of the fair value of corresponding derivative financial instruments.

Current operating liabilities from advances refer to domestic and foreign advances received from the sale of electricity and natural gas.

5.18 Other short-term liabilities

Other short-term liabilities, in EUR	31/12/2017	31/12/2016
Accrued costs and expenses	14,528,750	13,400,183
Short-term deferred revenue and other accruals	1,017,594	1,473,157
Total	**15,546,344**	**14,873,340**

Accrued expenses are mainly reported by the subsidiaries. The amount of EUR 11,416,011 is the cost of purchasing electricity and natural gas, costs of acquiring cross-border transmission capacities, clearing of deviations in the realized offtake and supply of electricity from timetable forecasts, and short-term deferred expenses for the maintenance outage in the amount of EUR 1,910,221.

Short-term deferred revenue comprises amounts of unpaid interest on arrears and acquired funds in the Future Flow project, which will be used to cover the costs in the future periods for the parent company, Elektro energija d.o.o. and GEN-I Vienna.

5.19 Contingent assets and liabilities

Contingent assets and liabilities, in EUR	31/12/2017	31/12/2016
Payment bank guarantees – issued	169,180,377	149,982,062
Subsidiary's loss from previous years	76,437,924	76,437,924
Satisfactory performance bank guarantees – received	12,485,704	11,515,831
Payment bank guarantees – received	49,322,128	16,557,976
Satisfactory performance bank guarantees – issued	23,589,594	5,299,066
Securities	49,484,805	26,820,000
Inventories of the Agency the Republic of Slovenia for Commodity Reserves	15,685,440	7,861,746
Other forms of payment security – drafts	42,647,594	9,925,977
Investment sales	2,720,183	0
Revolving loans	185,551	25,484,050
Other	113,800	14,321
Total	**441,853,100**	**329,898,953**

The loss from previous years posted by a subsidiary is unrealized tax loss not recognized under deferred tax assets, since there is no firm evidence on the future taxable profits of the subsidiary.

Securities as at 31 December 2017 comprise securities granted, in the amount of EUR 1,900,000, and securities received, in the amount of EUR 47,584,805. These refer to the securing of a timely and reliable payment and satisfactory performance of work.

Revolving loans are unused granted loan limits.

Lawsuits not recognized under contingent liabilities for lack of justification are detailed in Section 5.28.

5.20 Revenue

Revenue, in EUR	2017	2016
Revenue from sales of:	**2,394,837,179**	**354,727,985**
• goods and material	2,341,141,956	351,071,345
• services	53,695,223	3,656,640
Other operating revenue	**15,179,183**	**4,834,459**
Financial revenue from shares in affiliated companies	**0**	**17,122,513**
Other financial revenue	**895,316**	**740,182**
Total	**2,410,911,678**	**377,425,139**

5.20.1 Sales revenue

Sales revenue is primarily net income from the sales of electricity and natural gas and electricity-related services in the home market and foreign markets inside and outside the EU.

Sales revenue, in EUR	2017	2016
Net sales revenue in the home market	526,364,801	196,020,147
Net sales revenue in the foreign market	1,868,472,378	158,707,838
Total	**2,394,837,179**	**354,727,985**

5.20.2 Other operating revenue

Other operating revenue, in EUR	2017	2016
Change in value of product inventories and work in progress	183,770	0
Capitalized own products and services	385,145	22,398
Reversal of long-term provisions	650,947	645,623
Revaluation operating revenue	50,125	31,803
Other operating revenue	13,597,905	3,878,136
Other income	311,291	256,499
Total	**15,179,183**	**4,834,459**

The largest portion of other operating revenue is revenue referring to the ineffective part of securing the fair value and a change in the fair value of unsecured financial instruments, in the amount of EUR 11,367,755, charged compensation fees, dunning letters and reversal of expenses from the previous year.

5.21 Expenses

The Group's total expenses, in the amount of EUR 2,374,354,886, are presented in the table below:

Expenses and costs, in EUR	2017	2016
Costs of goods, materials and services	2,260,410,022	256,466,241
Labour costs	52,315,416	34,677,961
Write-offs	33,115,623	32,449,570
Other operating expenses	25,274,862	19,300,659
Financial expenses	3,238,963	540,104
Total	**2,374,354,886**	**343,434,535**

5.21.1 Costs by natural type

Costs of goods, materials and services, in EUR	2017	2016
Original cost of goods and material sold	2,198,080,160	207,014,323
Cost of materials used	23,008,753	22,619,221
Costs of services	39,321,109	26,832,697
Total	**2,260,410,022**	**256,466,241**

Historical cost of goods sold, in the amount of EUR 2,198,080,160, refers to the purchase of electricity and natural gas at the purchasing price plus associated costs.

Costs of materials used, in the amount of EUR 23,008,753, are mainly costs of fuel used for electricity generation.

Costs of services, in the amount of EUR 39,321,109, comprise mainly fixed asset maintenance costs, costs of intellectual services, costs of services during production, and other costs.

5.21.2 Labour costs

Labour costs (in EUR)	2017	2016
Payroll costs	37,105,696	24,567,225
Social security cost	8,277,297	6,033,879
Other labour costs	6,932,423	4,076,857
Total	**52,315,416**	**34,677,961**

In 2017, the company accounted for labour costs based on the collective employment agreement for the electricity sector in accordance with the systemizations of work positions in the GEN Group companies and based on individual employment agreements.

5.21.3 Write-downs

Write-downs, in EUR	2017	2016
Depreciation of intangible assets	1,298,285	568,471
Depreciation of tangible fixed assets	31,259,980	30,511,581
Revaluation operating expenses – fixed assets	102,600	314,216
Revaluation operating expenses – inventories	441,850	1,055,302
Revaluation operating expenses – direct write-offs of receivables	12,908	0
Total	**33,115,623**	**32,449,570**

5.21.4 Other operating expenses

Other operating expenses, in EUR	2017	2016
Provisioning	0	78,086
Appropriations, aid	42,990	50,501
Environmental charges	15,760,840	14,967,317
Dues independent from other cost types	4,202,143	3,059,786
Other operating expenses	4,918,250	732,279
Other expenses	350,639	412,690
Total	**25,274,862**	**19,300,659**

Environmental protection charges comprise duties for water use charges, charges for limited use of space, and contributions paid to the Fund for Financing the Decommissioning of NEK.

5.21.5 Financial expenses

Financial expenses, in EUR	2017	2016
Financial expenses for other financial liabilities	1,280,280	98,458
Financial expenses for other operating liabilities	918,354	160,945
Financial expenses for bonds issued	499,678	26,867
Financial expenses for loans from banks	461,201	15,884
Financial expenses for investment interests – equity method	50,132	0
Financial expenses for liabilities to suppliers and draft liabilities	25,949	174,446
Financial investments revalued to fair value through profit or loss	3,369	63,504
Total	**3,238,963**	**540,104**

5.22 Costs by functional group

Costs by functional group, in EUR	2017	2016
Original cost of goods sold	2,305,181,434	314,059,925
Costs to sell	31,231,441	5,454,086
General and administrative costs	34,305,586	23,044,800
Total	**2,370,718,461**	**342,558,811**

5.23 Taxes

Pursuant to the Corporate Income Tax Act, the GEN Group companies are obligated to account for and pay income tax, which was charged at the tax rate of 19% in the accounting period 2017. Deferred tax assets were formulated at the rate to be effective for calculation and payment of tax in 2018, at 19%.

Ratio of tax expenditure and profit or loss for the period, in EUR	2017	2016
Profit or loss before tax	36,556,792	33,990,604
Applicable tax rate	19%	17%
Tax amount at applicable tax rate	**6,945,790**	**5,778,403**
Tax from non-taxable revenue	373,377	-2,950,259
Tax from income reducing the tax rate	88,195	3,469
Tax from non-deductible expenses	390,880	154,192
Tax from tax breaks	-707,559	-739,644
Tax losses	349,607	-12,583
Different tax rates, adjustments	-299,213	-10,552
Tax from income increasing the tax base	-7,912	-120,146
Current and deferred tax	**7,133,166**	**2,102,881**
Effective tax rate	**19.51%**	**6.19%**

5.24 Cash flow statement

The cash flow statement is prepared using the addition method, in the sense of combining suitable shares and derecognizing cash flows generated in the Group.

The receipts and expenses items in the cash flow statement for 2017 are made up of:

- cash flows from operating activities, which include:
  - operating revenue and operating expenses, corporate income tax and other taxes adjusted by amending net current assets under operating items in the statement of financial position,
- cash flows from investing activities, which include:
  - interest receipts from short-term financial investments for time deposits and shares in the profit of other investments, totalling EUR 829,799,
  - receipts from disposal of intangible and tangible fixed assets totalling EUR 1,530,434 and investment property in the amount of EUR 784,
  - receipts from disposal of financial liabilities totalling EUR 140,288,751,
  - expenses for acquisition of intangible and tangible fixed assets totalling EUR 71,711,368,
  - expenses for acquisition of investment property totalling EUR 2,606,226,
  - expenses for acquisition of return-yielding short-term financial investments – deposits other than cash equivalents, totalling EUR 157,763,693,
- cash flows from financing activities, which include:
  - receipts from an increase in financial liabilities totalling EUR 166,863,390,
  - expenses for paid interest associated with financing activities in the amount of EUR 1,836,489,
  - expenses for repayment of financial liabilities totalling EUR 146,231,892,
  - expenses for profit sharing payouts totalling EUR 2,000,000.

The opening balance of cash and cash equivalents includes cash in transactional bank accounts and funds held in commercial banks and available on call.

The closing balance of cash and cash equivalents includes cash in transactional bank accounts and funds held in commercial banks and available on call.

5.25 Other disclosures

5.25.1 Total remuneration for the performance of duties in the Group companies in the business year

The table below presents total gross amounts of all remunerations for the performance of work of individual groups carrying out certain duties in the Group companies in the business year 2017.

Receipts of individual groups, in EUR	2017	2016
Management earnings	1,422,137	805,563
Receipts of employees on individual employment contracts	5,952,671	3,110,245
Supervisory Board members – external	171,120	189,576
Supervisory Board members – internal	31,646	40,842
Other bodies – Safety Committee	0	23,988

Remunerations include payroll, holiday allowance and work-related reimbursements, excluding travel expenses.

5.25.2 Costs of audit services and other non-audit services in the Group companies

Costs of audit and non-audit services, in EUR	2017	2016
Amount spent on the auditor of the parent company:	**61,707**	**74,486**
• for auditing the Annual Report of the company GEN and the GEN Group	49,477	53,263
• for other non-audit services	12,230	21,223
Amount spent on other auditors:	**93,458**	**85,859**
• for auditing the annual reports of the GEN Group companies	88,950	11,219
• for other non-audit services	4,508	74,640
Total	**155,165**	**160,345**

5.26 Financial instruments and risk management

This section present disclosures in connection with financial instruments and risks; risk management is detailed in the Risk Management section of the Business Report in this Annual Report. The GEN Group is exposed to the following financial risks: liquidity, credit, interest rate and foreign exchange risk.

5.26.1 Liquidity risks

Liquidity risk – liabilities in 2017, in EUR	Book value	Contractual cash flows	up to 6 months	6–12 months	1–2 years	2–5 years	5+ years
Non-derivative financial liabilities							
Unsecured bank loans	80,877,175	80,926,170	7,112,480	3,028,900	11,702,664	19,355,878	39,726,248
Issued bonds	27,000,000	28,733,460	220,014	536,348	22,244,969	5,732,129	0
Other liabilities	50,584,539	50,603,564	38,824,948	468,457	132,970	11,177,189	0
Financial lease liabilities	383,764	383,764	58,157	50,266	95,281	180,060	0
Operating liabilities							
Operating liabilities	127,573,657	127,587,570	126,089,472	374,752	1,123,346	0	0
Derivative financial liabilities							
Other currency futures contracts:							
Outflows	1,380,257	299,035	1,380,257	0	0	0	0
Inflows	-697,993	-11,535	-697,993	0	0	0	0
Total	**287,101,399**	**288,522,028**	**172,987,335**	**4,458,723**	**35,299,230**	**36,445,256**	**39,726,248**

Liquidity risk – liabilities in 2016, in EUR	Book value	Contractual cash flows	up to 6 months	6–12 months	1–2 years	2–5 years	5+ years
Non-derivative financial liabilities							
Unsecured bank loans	73,839,175	74,147,330	2,636,391	585,420	5,921,456	5,004,063	60,000,000
Issued bonds	13,000,000	13,949,000	0	316,333	316,333	13,316,334	0
Other liabilities	50,413,392	51,181,547	693,097	49,959,988	134,397	394,065	0
Financial lease liabilities	166,608	166,608	50,274	41,400	50,117	24,817	0
Operating liabilities							
Operating liabilities	115,890,639	129,505,490	115,658,903	13,846,587	0	0	0
Derivative financial liabilities							
Other currency futures contracts:							
Outflows	299,035	299,035	299,035	0	0	0	0
Inflows	-11,535	-11,535	-11,535	0	0	0	0
Total	**253,597,314**	**269,237,475**	**119,326,165**	**64,749,728**	**6,422,303**	**18,739,279**	**60,000,000**

Liquidity management for the entire Group is carried out at the parent company of the GEN-I Group and the parent company of the GEN Group, where short-term liquidity is carefully monitored and meticulously planned on a daily basis – suitable liquidity is ensured by promptly balancing and planning all cash flows. In doing so, maximum possible attention is placed on risks associated with potential payment delays or disturbances in the buyer's adherence to payment terms that hamper the planning of inflows and implementation of further investment activities of the Group.

The Group also has in place constant monitoring and optimization of short-term cash surpluses and shortages both at the level of individual companies and the Group as a whole. Liquidity reserve in the form of approved credit lines with commercial banks, dispersal of financial liabilities, prompt reconciliation of maturities of assets and liabilities, and consistent collection of debts allow the GEN Group to effectively manage its cash flows, which ensures solvency and means low risk exposure in terms of short-term liquidity. The Group also fosters an active relationship with financial markets, while successful operations and an uninterrupted cash flow from operations ensure that the liquidity risk stays within acceptable limits and totally under control.

Long-term liquidity of the Group is ensured by maintaining and increasing equity and by establishing a suitable financial balance. The Group achieves this by constantly ensuring a suitable financial structure with regard to maturity periods of financing. In the area of liquidity risk management, the Management plans to continue – in the year ahead – to strengthen the Group's long- and short-term liquidity and to include new subsidiaries in the liquidity monitoring system.

The Group companies also 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. At the Group level, liquidity risk is additionally reduced:

- through diversification of financial liabilities,
- by prompt balancing of maturities of assets and liabilities,
- by limiting the exposure to partners known to be unreliable payers, and
- through consistent collection of past-due receivables.

The GEN Group companies have a clearly defined collection process and buyer monitoring and dunning system. Information on blocked bank accounts and changes to the companies' position is checked in publicly accessible registers on a daily basis. This way, the GEN Group companies are able to promptly respond to any expected issues with the buyers' settlement of contractual obligations.

The companies are also exposed to risks associated with surplus cash management. The GEN Group has put an investment strategy in place for risk management purposes, which provides a strong basis for improved management of the investment risk. To further manage risks associated with specific trends in the banking markets around the world (a declining EURIBOR) and special additional requirements imposed by financial institutions, the Group companies keep abreast of the fluctuating trends and adjust their actions accordingly.

5.26.2 Credit risks

Credit risk, in EUR	2017	2016
Loans granted	76,219,952	60,947,052
Financial assets	195,164	206,700
Receivables from customers	118,241,220	107,048,328
Cash and cash equivalents	64,278,326	93,324,141
Total	**258,934,662**	**261,526,221**

The Group is exposed to credit risk primarily with regard to receivables from buyers of electricity and natural gas.

Credit risk – receivables from customers at book value, in EUR	2017	2016
Domestic	45,522,625	54,605,299
Eurozone countries	17,876,121	14,753,827
Other European countries	25,309,320	17,761,140
Countries of former Yugoslavia	28,026,595	15,817,280
Other regions	1,506,559	4,110,782
Total	**118,241,220**	**107,048,328**

Credit risk – receivables from wholesale and retail customers, in EUR	2017	2016
Wholesale customers	70,287,557	57,005,408
Retail customers	47,953,663	50,042,920
Total	**118,241,220**	**107,048,328**

The GEN Group has deployed active credit risk management and management of the GEN Group's financial exposure to its business partners, which relies on consistent compliance with adopted internal rules and their precisely defined procedures for identifying credit risks and assessing the exposure, for setting the levels (limits) of acceptable exposure and for continuously monitoring the exposure of the companies in relation to individual business partners. In accordance with applicable rules for credit risk management, risk management departments of the GEN Group companies analyze credit ratings and conduct risk assessments for every new business partner in the area of trading and for all major consumers in the sales of electricity and natural gas. It is based on the results of this assessment that the framework of future business cooperation is laid down and suitable credit lines for hedging against risks defined, along with payment and supply terms for each individual contractual relation.

In monitoring the current credit risk and daily exposure to credit lines established with individual partners, partners are classified into groups based on their credit rating characteristics, specifically whether it is a single company or a group of companies, trading partners, consumers or retailers, based on their geographic position, industry, age structure of receivables, maturity of receivables, existence of any previous financial problems, and based on the estimated level of risk of breaching contractual obligations. To minimize risks associated with non-payment by business partners, the Group, seeking to manage these risk when concluding transactions on a daily basis, places special attention on using suitable financial and legal instruments for securing contractual obligations, which are incorporated in their contractual relations with business partners and are individually adjusted based on a preliminary credit rating analysis and risk assessment.

A breakdown of receivables by maturity with corresponding impairments are provided in Section 5.8.

5.26.3 Foreign exchange risk

Foreign exchange risk as at 31/12/2017 in EUR	Total	EUR	USD	GBP	HRK	MKD
Receivables from customers	**118,126,922**	86,543,504	0	0	3,215,000	6,938,015
Unsecured bank loans	**-80,877,175**	-80,877,175	0	0	0	0
Liabilities to suppliers	**-103,960,760**	-81,048,247	-16,438	-6,334	-1,041,583	-1,311,661
On-balance-sheet gross exposure	**-66,711,013**	-75,381,919	-16,438	-6,334	2,173,417	5,626,354
Net exposure of receivables and payables		**5,495,256**	**-16,438**	**-6,334**	**2,173,417**	**5,626,354**

Foreign exchange risk as at 31/12/2016 in EUR	Total	EUR	USD	GBP	HRK	MKD
Receivables from customers	**106,926,195**	91,072,769	0	0	1,628,144	2,522,599
Unsecured bank loans	**-73,839,175**	-73,839,175	0	0	0	0
Liabilities to suppliers	**-127,676,798**	-111,270,564	-2,589	-15,518	-634,058	-571,390
On-balance-sheet gross exposure	**-94,589,778**	-94,036,970	-2,589	-15,518	994,086	1,951,209
Net exposure		**-94,036,970**	**-2,589**	**-15,518**	**994,086**	**1,951,209**

Within the GEN Group, the GEN-I Group is engaged in deploying suitable infrastructure for concluding foreign currency transactions and in implementing other currency hedging mechanisms, including forward contracts and foreign currency clauses, particularly in markets outside the euro area.

The core activities – trading and sales of electricity and natural gas, as well as transmission capacities – are the most exposed to foreign exchange risk; also exposed are loans and equity of the subsidiaries. Based on the trading and sales volume, the Group is exposed to the highest foreign exchange risk with these currencies: HRK (Croatian kuna), MKD (Macedonian denar), RON (new Romanian leu) and TRY (Turkish lira).

The risk of fluctuating exchange rates is reduced by pegging the selling prices of goods to the currency in which the liabilities for financing purchasing transactions are denominated. A portion of the risk of fluctuating exchange rates is also "naturally" hedged between individual subsidiaries, with some of the planned inflows between them covered with planned outflows in the same currency. Derivative financial instruments are also used on an as-needed basis, and for protection against these risks, the Group also concludes numerous forward currency transactions.

BAM	GEL	RSD	UAH	HUF	ALL	TRY	BGN	RON	CZK	PLN
4,467,787	0	1,207,055	0	0	46,572	145,910	88,082	15,474,998	0	0
0	0	0	0	0	0	0	0	0	0	0
-2,680,597	-299	-522,168	-1,012	-751,865	-41,036	-558,121	-1,937,432	-13,394,275	-3,910	-645,782
1,787,191	-299	684,887	-1,012	-751,865	5,536	-412,211	-1,849,350	2,080,722	-3,910	-645,782
1,787,191	**-299**	**684,887**	**-1,012**	**-751,865**	**5,536**	**-412,211**	**-1,849,350**	**2,080,722**	**-3,910**	**-645,782**

BAM	GEL	RSD	UAH	HUF	ALL	TRY	BGN	RON	CZK
5,045,604	0	4,799,744	0	0	0	684,750	0	1,172,585	0
0	0	0	0	0	0	0	0	0	0
-4,194,756	-361	-505,459	-828	-3,234	-643	-655,815	-2,839,065	-6,979,058	-3,460
850,848	-361	4,294,285	-828	-3,234	-643	28,935	-2,839,065	-5,806,473	-3,460
850,848	**-361**	**4,294,285**	**-828**	**-3,234**	**-643**	**28,935**	**-2,839,065**	**-5,806,473**	**-3,460**

5.26.4 Interest rate risk

Interest rate risk – book value of financial instruments, in EUR	31/12/2017	31/12/2016
Fixed interest rate instruments		
Financial assets	76,219,952	60,947,052
Financial liabilities	-87,302,302	-62,999,395
Variable interest rate instruments		
Financial liabilities	-72,991,029	-76,441,215

The Group manages the interest rate risk by constantly assessing its exposure and potential effects of a change in the reference interest rate (variable portion) on the amount of financing expenses. Also closely watched is the loan portfolio which might be affected by a potential change in interest rates. In this context, the Group is keeping an eye on the fluctuations of interest rates in the home market, foreign markets and the derivatives market. The aim of continuously monitoring the exposure and analyzing the fluctuation of interest rates is to propose timely hedging measures through balancing the assets and liabilities sections of the statement of financial position.

5.27 Fair value determination hierarchy

The fair value of financial assets and liabilities is identical to their book value. It is determined based on the three levels of calculating fair value:

Level 1 – assets at market price, Level 2 – assets which are not included in Level 1 and whose value can be directly or indirectly determined on the basis of comparable market data, Level 3 – assets whose value cannot be derived from market data.

Level 3 is used for calculating the fair value of all financial assets and liabilities of the GEN Group.

	31/12/2017				
Fair value of assets, in EUR	Level 1	Level 2	Level 3	Total fair value	Total book value
Financial assets available for sale	0	0	7,071,490	7,071,490	7,071,490
Non-current financial receivables – deposits	0	0	1,028,144	1,028,144	1,028,144
Current financial receivables – deposits	0	0	75,191,808	75,191,808	75,191,808
Non-current operating receivables	0	0	606,991	606,991	606,991
Current operating receivables	0	0	118,126,921	118,126,921	118,126,921
Cash and cash equivalents	0	0	64,278,326	64,278,326	64,278,326
Total assets with disclosed fair value	**0**	**0**	**266,303,680**	**266,303,680**	**266,303,680**

	31/12/2016				
Fair value of assets, in EUR	Level 1	Level 2	Level 3	Total fair value	Total book value
Financial assets available for sale	0	0	4,838,488	4,838,488	4,838,488
Non-current financial receivables – deposits	0	0	541,555	541,555	541,555
Current financial receivables – deposits	0	0	60,405,497	60,405,497	60,405,497
Non-current operating receivables	0	0	706,332	706,332	706,332
Current operating receivables	0	0	106,926,195	106,926,195	106,926,195
Cash and cash equivalents	0	0	93,324,141	93,324,141	93,324,141
Total assets with disclosed fair value	**0**	**0**	**266,742,208**	**266,742,208**	**266,742,208**

			31/12/2017		
Fair value of liabilities, in EUR	Level 1	Level 2	Level 3	Total fair value	Total book value
Non-current financial liabilities	0	0	110,616,408	110,616,408	110,616,408
Current financial liabilities	0	0	50,464,785	50,464,785	50,464,785
Non-current operating liabilities	0	0	1,357,673	1,357,673	1,357,673
Current operating liabilities	0	0	105,173,401	105,173,401	105,173,401
Total liabilities with disclosed fair value	**0**	**0**	**267,612,267**	**267,612,267**	**267,612,267**

			31/12/2016		
Fair value of liabilities, in EUR	Level 1	Level 2	Level 3	Total fair value	Total book value
Non-current financial liabilities	0	0	97,529,509	97,529,509	97,529,509
Current financial liabilities	0	0	41,963,616	41,963,616	41,963,616
Non-current operating liabilities	0	0	1,585,876	1,585,876	1,585,876
Current operating liabilities	0	0	131,929,084	131,929,084	131,929,084
Total liabilities with disclosed fair value	**0**	**0**	**273,008,085**	**273,008,085**	**273,008,085**

5.28 Events after the reporting period

Two building contractors involved in the construction of the Brežice HPP dam structure (LOT A2) initiated individual lawsuits against the company HESS, d.o.o., one over the payment of EUR 1,091,544.40 with associated charges, the other over the payment of EUR 3,390,430.95 with associated charges. The company HESS has dismissed the claims as unjustified.

The company SEL has received a judgment of execution, an application for which had been filed on the basis of a previously rejected invoice. The reason for invoice rejection is an unproven claim of changed circumstances, which would have otherwise warranted a change of the contractually agreed prices. We appealed against this judgment within the prescribed time frame. The Management has not allocated provisions to this end because it is believed that the plaintiff is unlikely to win the case and because the company does not expect to incur any additional costs in this matter.

On 12 April 2018, the company Management approved the financial statements of the GEN Group and the Annual Report for the business year ended on 31 December 2017. Up until the release of the auditor's report, there were no events or transactions recorded by the Group that would impact the financial statements for 2017.

V About the corporate reporting of the GEN Group

1. Compliance with reporting policies

At the beginning of each year, the GEN Group releases an annual business report for the preceding year, covering the period from 1 January to 31 December. Information on sustainable operations of the company GEN and the GEN Group are compiled in a uniform annual report, which provides details on their financial and non-financial operations. The most recent previous annual report was released on 31 August 2017.

The Annual Report of the GEN Group for 2017 meets the requirements of the amendment to the Companies Act (ZGD-1J) (Directive 2014/95/EU) as regards disclosure of non-financial and diversity information. The introductory (chapters I.7 and I.8) and business sections of this Annual Report (II. Business Report) provide key insights into the business, environmental, workforce and social matters essential to understanding the development, performance and standing of the GEN Group.

In the Annual Report we seek to provide a comprehensive picture of our operations and highlight the inextricable link between the results of our financial and non-financial operations. By reporting on our non-financial operations, we are fulfilling three principal sustainability focuses of the GEN Group, specifically:

- **operational efficiency and business excellence,**
- **environmental responsibility,** and
- **care for society** in everything the GEN Group and its companies do.

To facilitate proper understanding of the situation, development or results, individual sections of the Annual Report provide a listing of the key policies and other internal legal documents we follow in our fulfilment of non-financial operation goals.

Our reporting on the non-financial aspects of operations is based on the **international sustainability reporting framework GRI G4, together with specific disclosures for electric utilities (RG & EUSS, Sustainability Reporting Guidelines & Electric Utilities Sector Supplement)**. This way we provide a clear and transparent view of our operations, results and plans and ensure their comparability at the national and the international level. We plan to transition to GRI Standards in 2018.

In addition, we will continue with the **implementation of comprehensive reporting in accordance with the principles and policies of the IIRC (International Integrated Reporting Council)**. Some contours of this approach are already visible in this Annual Report, specifically in the section addressing the various types of input capital from which the GEN Group companies generate value for their stakeholders – by linking the activities for fulfilling the GEN Group's mission to create synergies.

If you have any questions about the Annual Report, contact us at info@gen-energija.si.

2. Sustainability reporting pursuant to GRI guidelines

General standard disclosures (GRI G4)

Indicator	Disclosure	Section
STRATEGY AND ANALYSIS		
G4-1	Statement from the most senior decision-maker about the relevance of sustainability to the organization and the organization's strategy for addressing sustainability	I.2
ORGANIZATIONAL PROFILE		
G4-3	Name of the organization	I.5
G4-4	Primary brands, products, and services	I.6
G4-5	Organization's headquarters	I.5
G4-6	Number of countries where the organization operates, and names of countries where either the organization has significant operations or that are specifically relevant to the sustainability topics covered in the report	I.5.2, II.4
G4-7	Nature of ownership and legal form	I.5, I.6, III.7.3
G4-8	Markets served (geographic breakdown, sectors served, and types of customers and beneficiaries)	I.5.2, II.4, II.5
G4-9	Scale of the organization (total number of employees, total number of operations, net sales, debt/equity ratio, quantity of products or services provided)	I.1, I.5, II.2, II.3, II.4, II.5, II.7, II.8, III.4, IV.3
G4-13	Significant changes during the reporting period regarding the organization's size, structure, ownership, or supply chain	I.2, I.5.2, I.6, I.8.4, I.9
G4-14	Report whether and how the precautionary approach or principle is addressed by the organization	I.8, II.11
G4-15	Externally developed economic, environmental and social charters, principles, or other initiatives to which the organization subscribes or which it endorses	I.4, II.8, II.10
IDENTIFIED MATERIAL ASPECTS AND BOUNDARIES		
G4-17	All entities included in the organization's consolidated financial statements	IV.4.1
G4-18	Explain the process for defining the report content and the aspect boundaries	I.8
G4-19	All the material aspects identified in the process for defining report content	I.8
STAKEHOLDER ENGAGEMENT		
G4-24	List of stakeholder groups engaged by the organization	I.8.4

Indicator	Disclosure	Section
REPORT PROFILE		
G4-28	Reporting period	V.1
G4-29	Date of most recent previous report (if any)	V.1
G4-30	Reporting cycle	V.1
G4-31	Contact point for questions regarding the report	V.1
G4-32	Selected reporting standard	V.1, V.2, V.3
GOVERNANCE		
G4-34	Governance structure of the organization, including committees of the highest governing body	I.4, I.5, I.6
ETHICS AND INTEGRITY		
G4-56	Describe the organization's values, principles, standards and norms of behavior such as codes of conduct and codes of ethics	I.4, I.7, I.8, II.10, II.11

General standard disclosures for electric utilities (RG & EUSS)

Indicator	Disclosure	Section
ORGANIZATIONAL PROFILE		
EU1	Installed capacity and breakdown by primary energy source	II.2.1
EU2	Net energy output broken down by primary energy source	II.2.1

Specific standard disclosures (GRI G4)

CATEGORY SUBCATEGORY *Material impacts*		Management approach (DMA) and/or indicators	Section
ECONOMIC ASPECTS			
Economic performance	G4-DMA		I.8
	G4-EC1	Direct economic value generated and distributed (revenues, operating costs, employee wages and benefits, payments to providers of capital, payments to the government (taxes))	I.1, III.4, IV.3, IV.4, IV.5
Direct economic impacts	G4-DMA		II.6
	G4-EC7	Development and impacts of infrastructure investments	II.6
ENVIRONMENTAL ASPECTS			
Emissions	G4-DMA in G4-EN15	Greenhouse gas emissions	II.2.1
SOCIAL ASPECTS			
LABOR PRACTICES AND DECENT WORK			
Employment	G4-DMA in G4-LA1	Total number and rates of new employee hires and employee turnover	I.8.4 , II.8
Training and education	G4-DMA in G4-LA9	Average hours of training per year per employee	II.8.2
COMPANY			
Local community	G4-DMA		I.8.4., II.9

Specific standard disclosures for electric utilities (RG & EUSS)

CATEGORY SUBCATEGORY *Material impacts*		Management approach (DMA) and/or indicators	Section
ECONOMIC ASPECTS			
Availability and reliability	G4 DMA and EU 10	Management approach to ensure short and long-term availability and reliability of electricity supply (DMA). Planned production capacities by the demand for electricity.	I.7, I.8, II.2 , II.6
Research and development	G4-DMA	Research and development activity and expenditure aimed at providing reliable electricity and promoting sustainable development	II.6
Nuclear plant decommissioning	G4-DMA	Establishment of conditions for the decommissioning of nuclear power sites	II.7.2
System efficiency	EU 11	Average generation efficiency of thermal plants by energy source and operating mode	II.2.2 (ancillary services)
ENVIRONMENTAL ASPECTS			
Emissions	G4-EN15	Direct greenhouse gas emissions	II.2.1
SOCIAL ASPECTS			
LABOR PRACTICES AND DECENT WORK			
Employment	G4-DMA	Programs and processes to ensure the right employee structure	II.8
COMPANY			
Local communities	G4-DMA	Stakeholder participation in decision making processes related to energy planning and infrastructure development	I.8.4, II.8, II.9
PRODUCT/SERVICE RESPONSIBILITY			
Provision of information	G4-DMA	Practices to address barriers to accessing and safely using electricity	I.8.4, II.9

3. Link between capitals and financial and non-financial information on business operations

The table below provides an overview of interconnections between individual types of capital from which the GEN Group generates value for its stakeholders and the financial and non-financial information on the GEN Group's business operations in 2017.

Type of capital	Description of content examined in II. Business Report	Location of content in the Annual Report of the GEN Group for 2017
Infrastructural capital	Electricity generation: • at the nuclear power plant (NEK) • at the hydroelectric power plants (SEL and HESS) • at the gas-fired thermal power plant (TEB) Operational efficiency	II.2 Electricity generation and ancillary services
	Electricity purchase portfolio: internal and external production sources (domestic and foreign producers) Electricity purchased (in GWh) Advanced (software and IT) infrastructure for satisfying customer needs	II.3 Electricity purchase
	Electricity trading and sales volume (in GWh) Advanced (software and IT) infrastructure for cross-border trading which provides information and data for the optimal utilization of production sources	II.4 Electricity trading and sales
	Infrastructure for purchasing natural gas in Europe's energy markets Natural gas purchased (in GWh)	II.5 Sales of natural gas
	Safety aspects behind NEK's operation and the preparation of the JEK 2 project: • keeping abreast of best practices in the field of nuclear safety, • modernization of equipment, • assessment of the operational safety and work processes (International Atomic Energy Agency, IAEA).	II.10 Quality policy and safety assurance
	Management of risks associated with infrastructural capital.	II.11 Risk management

Type of capital	Description of content examined in II. Business Report	Location of content in the Annual Report of the GEN Group for 2017
Natural capital	Low-carbon energy source portfolio: • 99.7% of our electricity output comes from sustainable and renewable energy sources, • CO_2 emissions per kWh generated.	II.2 Electricity generation and ancillary services
	Activities involving the ISO 14001 environmental management system	II.10 Quality policy and safety assurance
	Management of environmental and climate risks	II.11 Risk management
Financial capital	Volume of investments and capital expenditures (by GEN Group company; in EUR million)	II.6 R&D, capital expenditures and investments of the GEN Group companies
	Information on financial operations: • servicing operations and borrowing, • settling liabilities to the NEK Fund, • securing funding for covering NEK's fixed annual costs, • investing of surplus cash.	II.7 Financial operations
	Financial risk management.	II.11 Risk management
Employees and intellectual capital	Our employees' knowledge and skills for ensuring the operational efficiency of our production units	II.2 Electricity generation and ancillary services
	Development of comprehensive broking services and flexibility (from intra-day to years-long trades)	II.3 Electricity purchase
	Entering new markets and expanding the economy of scale Implementation of instruments and authorizations for the comprehensive management of excess electricity and electricity shortfalls Development of new forms of business cooperation to allow for more effective risk management	II.4 Electricity trading and sales
	Growing consumer base (»Cheap Gas« brand in the domestic market and entrance to foreign markets)	II.5 Sales of natural gas
	Research and development (overview of studies and R&D activities by GEN Group company)	II.6 R&D, capital expenditures and investments of the GEN Group companies

Type of capital	Description of content examined in II. Business Report	Location of content in the Annual Report of the GEN Group for 2017
Employees and intellectual capital	Number and qualification structure of employees Professional education and training	II.8 Employees, knowledge and development of human resources
	Substance-wise and organizational development of activities for promoting energy literacy and employee engagement (overview by GEN Group company)	II.9 Promoting the knowledge of energy and the energy industry
	Quality management systems and direct engagement of all employees Safety culture – at the very heart of our responsible operations at every level: • nuclear safety as the top priority, • fostering and improvement of the safety culture and awareness among all employees Activities involving the occupational health and safety system	II.10 Quality policy and safety assurance
	Management of risks associated with human resources.	II.11 Risk management
Social capital	Overview of the economic and political situation in 2017: • economic trends (economic growth, inflation, increasing industrial production), • process of drawing up the Energy Concept of Slovenia.	II. 1 Economic trends and their impact on the electricity sector
	Ancillary services, balancing of critical operational conditions in the power grid, tertiary frequency control	II.2 Electricity generation and ancillary services
	Overview of regulatory frameworks and social acceptability challenges with regard to: • the maintenance of existing and • construction and planning of new generation capacities, primarily: - the JEK 2 project, ZEL-EN development projects, and projects undertaken by the rest of the GEN Group companies.	II.6 R&D, capital expenditures and investments of the GEN Group companies
	Settlement of liabilities to suppliers Activities deriving from the Intergovernmental Agreement on NEK	II.7 Financial operations
	Development of human resources and management of long-term strategic challenges in human resources	II.8 Employees, knowledge and development of human resources

Type of capital	Description of content examined in II. Business Report	Location of content in the Annual Report of the GEN Group for 2017
Social capital	Promoting the knowledge of energy and the energy industry among various target groups, primarily: • school children and youth, • local communities, • electricity consumers, • professional public circles, • decision-makers at the national and local levels, • NGOs, • the media, and other key stakeholders. Supporting energy-related projects and events.	II.9 Promoting the knowledge of energy and the energy industry
	Management of risks associated with the regulatory and social environments.	II.11 Risk management

ACRONYMS AND ABBREVIATIONS

AB	Audit Board
Abanka	Abanka d.d.
ARJE	ARJE, analize in raziskave na področju jedrske energetike, d.o.o.
AVK	Slovenian Competition Protection Agency
ARAO	Agency for Radwaste Management
Banka Celje	Banka Celje d.d.
bn	billion
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
CS	consumables/small tools
d.d.	joint-stock company
d.o.o.	limited liability company
DP	producers with a declaration for their production facility
DSc/PhD	Doctor of Science/Philosophy
ECB	European Central Bank
EES	national electric power grid
EEX	European Energy Exchange, Leipzig
ECS	Energy Concept of Slovenia
e.g.	for example
ELES	Elektro Slovenija d.o.o.
ERDF	European Regional Development Fund
etc.	and so on
EU	European Union
EUR	euro currency
FA	financial assets
FI	financial investment
FURS	Ministry of Finance, Financial Administration of the Republic of Slovenia
GDP	gross domestic product
GEN	GEN energija d.o.o.
GEN-I	GEN-I, trgovanje in prodaja električne energije, d.o.o.
GEN CC	GEN Control Centre
GEN Group	GEN energija Group
GEN IC	GEN Information Centre
GO	guarantee of origin
GRC	Government of the Republic of Croatia
GRI	Global Reporting Initiative
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.
IA	intangible assets
ICJT	ICJT Nuclear Training Centre
IFRS	International Financial Reporting Standards as laid down by Regulation 1606/2002/EC, Regulation 1725/2003/EC and Regulation 1126/2008/EC
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
ISO standards	international standards for environmental management systems
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
Ljubljana Stock Exchange	Ljubljanska borza, d.d., Ljubljana
LT FI	long-term financial investment
m²	square metre
m³	cubic metre
MA/MSc	Master of Arts/Science
m	million
MW	megawatt
MWh	megawatt-hour
Natura 2000	A European network of special protected areas designated by EU Member States with the central aim of preserving biodiversity
NEA OECD	The Nuclear Energy Agency within the Organisation for Economic Co-operation and Development
NEK	Nuklearna elektrarna Krško d.o.o. (Krško Nuclear Power Plant)
NEK Fund	Fund for Financing the Decommissioning of NEK and Disposal of Radioactive Waste from NEK
NEK Fund Act	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 amend.)
NEP	National Energy Programme
NLB	Nova Ljubljanska banka, d.d.
NPP.	nuclear power plant
OSART	Operational Safety Review Team
PB	Personnel Board
PFS	prefeasibility study
Prof.	Professor
PWR	pressurized water reactor
ReNEP	Resolution on the National Energy Programme
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 hydroelectric power plant
SKB	SKB banka, d.d. Ljubljana
SPP	small photovoltaic power plant
SRESA	Srednjesavske elektrarne d.o.o.
SSH	Slovenian Sovereign Holding
SURS	Statistical Office of the Republic of Slovenia
TALUM	TALUM Tovarna aluminija d.d., Kidričevo
TEB	Termoelektrarna Brestanica d.o.o. (Brestanica Thermal Power Plant)
UCTE	Union for the Coordination of the Transmission of Electricity
UMAR	Institute of Macroeconomic Analysis and Development of the Republic of Slovenia
UniCredit Bank	UniCredit Banka Slovenija d.d
WANO	World Association of Nuclear Operators
ZEL-EN	ZEL-EN, razvojni center energetike, d.o.o.
ZPOmK-1	Prevention of the Restriction of Competition Act (Official Gazette of the Republic of Slovenia, No. 36/08 and amend.)

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 DIZAJN
Photographs: Jaka Babnik, photo archives of GEN, NEK, SEL, TEB, HESS, GEN-I

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