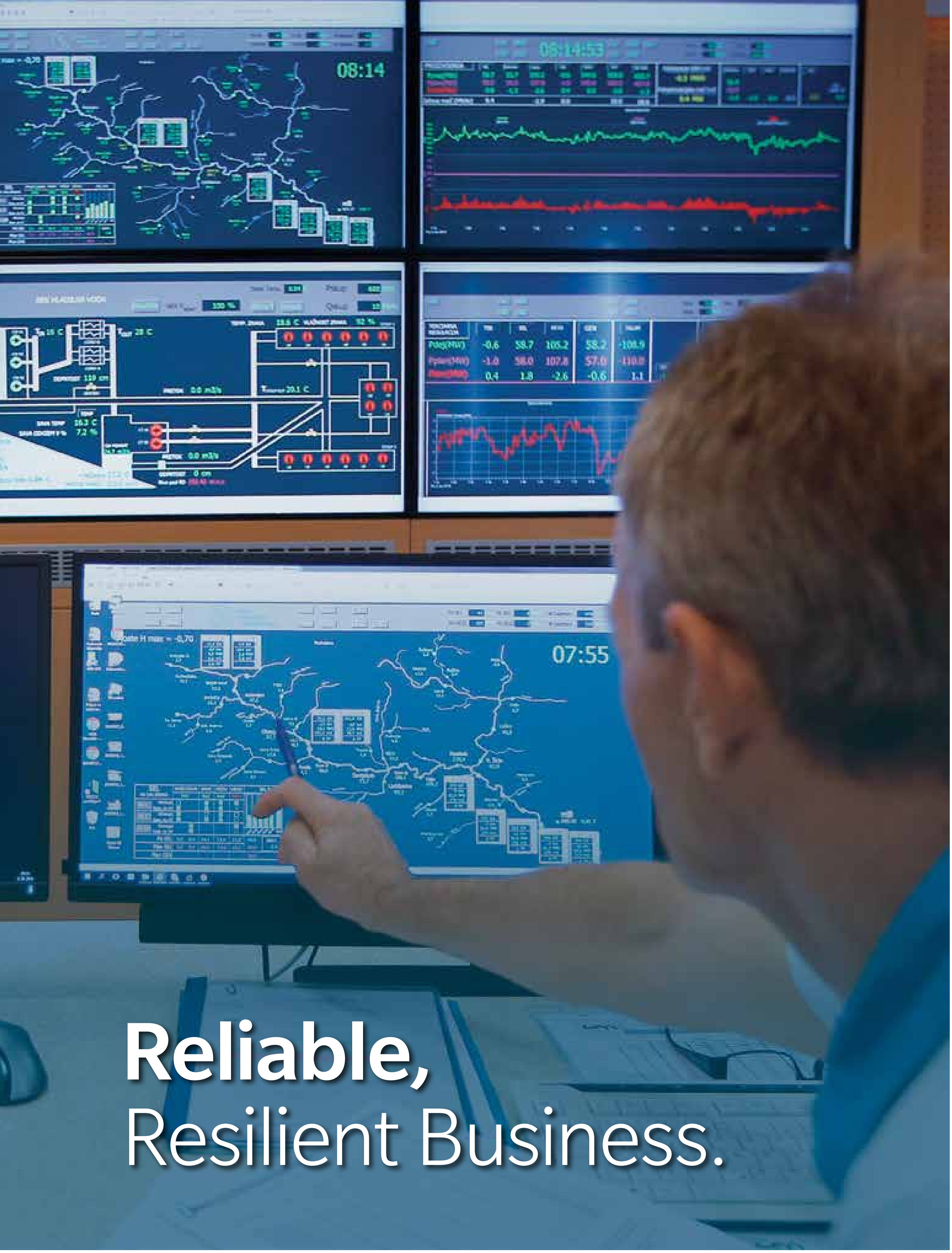

Reliable, Resilient Business.

ANNUAL REPORT
OF THE GEN COMPANY AND GROUP 2018

GEN SKUPINA

ANNUAL REPORT
OF THE GEN COMPANY AND GROUP 2018

Krško, June 2019

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

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www.gen-energija.si | info@gen-energija.si

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Presenting the GEN Group

The GEN Group is one of the largest and most investment-intensive business groups in Slovenia.

Our comprehensive supply of electricity includes:

- **production** from low-carbon sources: nuclear and hydropower,
- **trading** and **sales** on the domestic market and in over 20 retail and wholesale markets throughout Europe,
- capital flow that is directed into **development** and **investment**, primarily the continuous careful maintenance of existing low-carbon production capacities, and the responsible design and construction of new ones for the supply of electricity to Slovenia.

5,600–6,300 GWh

Average yearly electricity production at our power plants

30%

share of total electricity production in Slovenia

99.6%

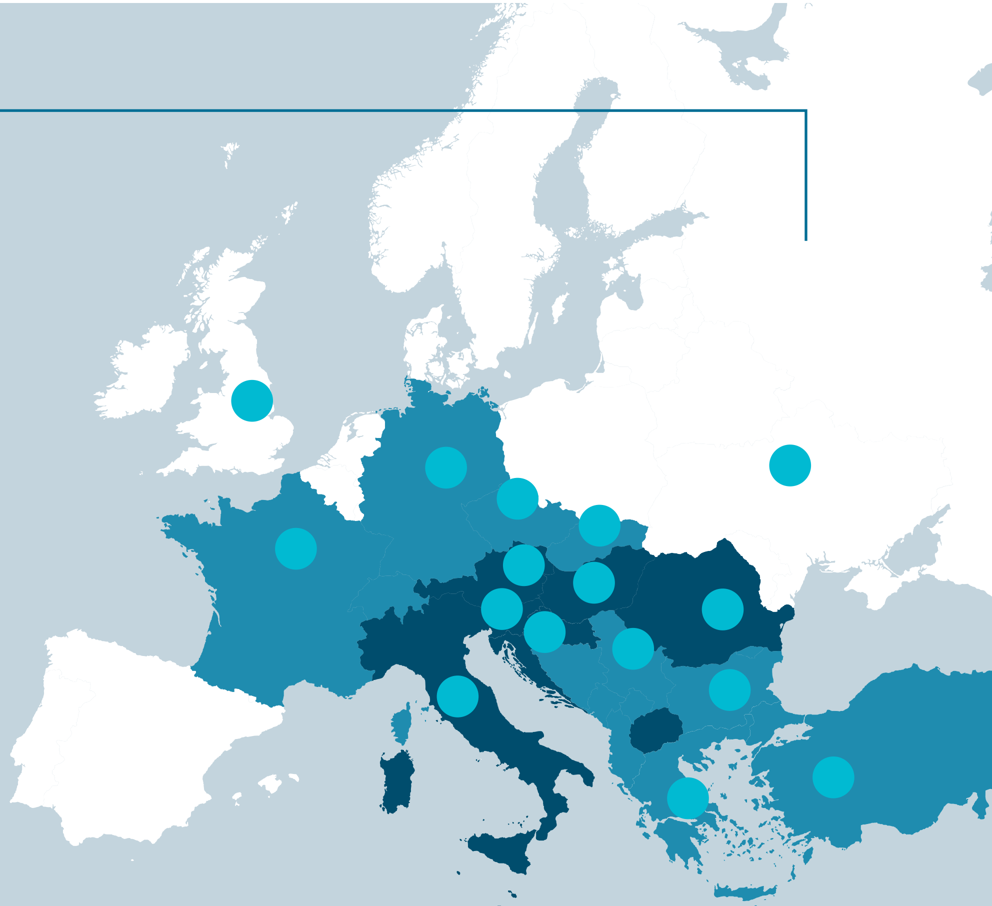
of electricity produced comes from low-carbon nuclear and hydropower

22

European markets where the Group is engaged in trading and sales activities

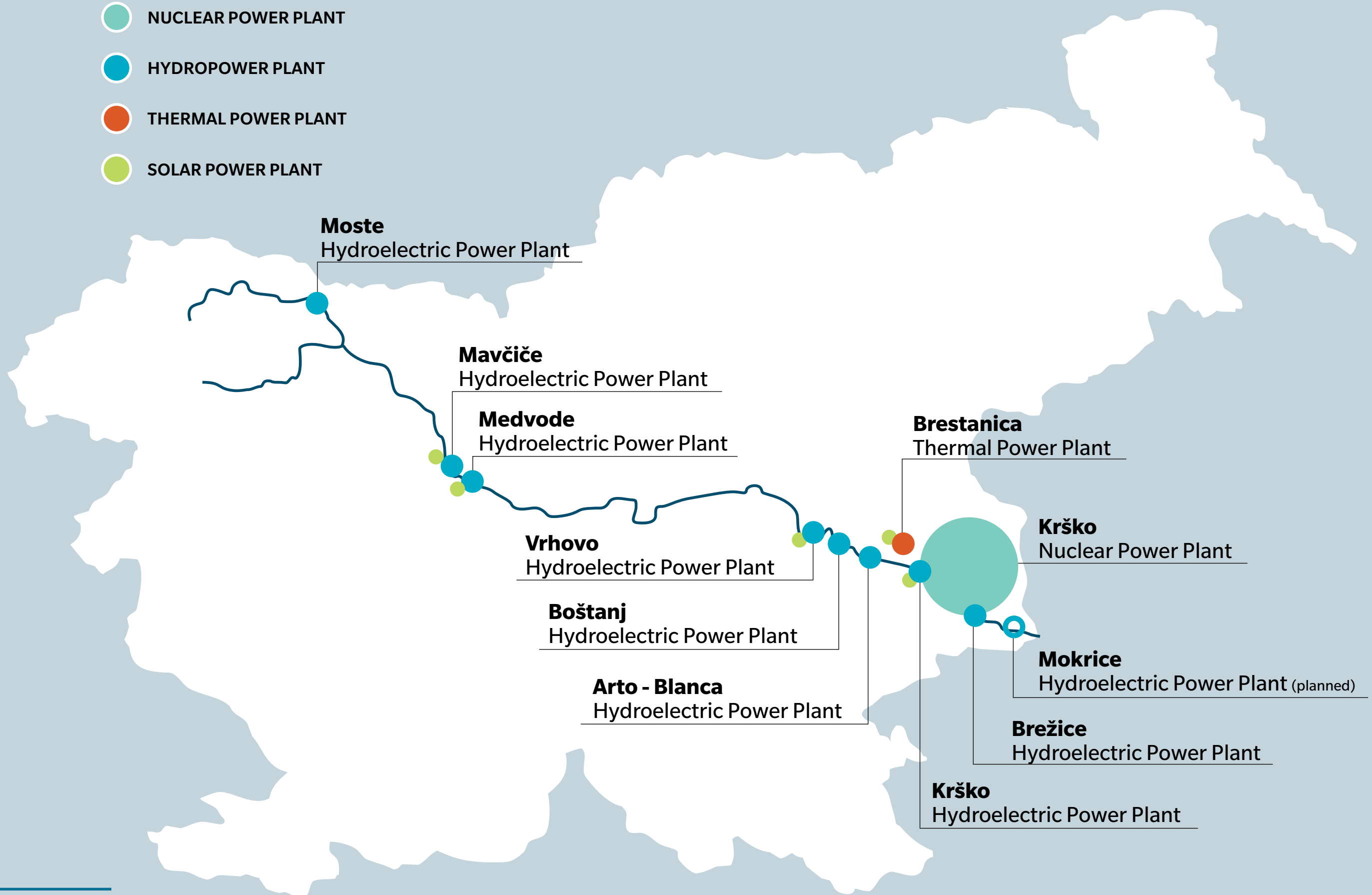
THE PRESENCE OF THE GROUP'S COMPANIES ON ELECTRICITY MARKETS AND EXCHANGES

- EUROPEAN POWER EXCHANGE
- ELECTRICITY AND NATURAL GAS
- ELECTRICITY



OUR GENERATION UNITS – POWER PLANTS

- NUCLEAR POWER PLANT
- HYDROPOWER PLANT
- THERMAL POWER PLANT
- SOLAR POWER PLANT



Managing challenges relating to future energy supply

* The selection of challenges comes from the World Energy Council (WEC): World Energy Issues Monitor 2019 (findings for Slovenia)

The GEN Group is identifying, monitoring, and co-developing future challenges relating to electricity supply. We are efficiently managing opportunities and risks in the environment. From the challenges, we are creating business and development opportunities for our Group, Slovenia, and the wider region.

PRIORITY ACTIVITIES of the GEN Group to face challenges efficiently

Energy supply that ensures the prosperity of citizens and competitiveness of the economy

With a robust production portfolio and a highly developed sales and trading infrastructure, we provide a reliable supply of low-carbon electricity at competitive prices. Thus, we contribute to the prosperity of society.

We contribute to the competitiveness of the Slovenian industry on the domestic and international markets, as well as to the prosperity of Slovenian citizens.

Low-carbon energy and society

With a clean, low-carbon production portfolio, based on nuclear and hydropower, we significantly contribute to the realisation of energy and climate goals in relation to the decarbonisation of energy and society.

The production portfolio of our companies is environmentally acceptable and sustainable in terms of CO_2 emissions and significantly reduces the Slovenian national average of emissions from electricity production.

Investments are generally channelled into hydro and nuclear power. Thus, we strengthen the outlined path toward decarbonisation.

Advanced energy services for flexible customers

We are intensively developing a wide range of advanced solutions related to energy supply. Thus, we enable the increasingly flexible household, industrial, and service sector prosumers, as well energy as communities, to realise green transformations. Services are based on advanced technologies, as well as on the convergence of energy, transport, and information-communication technologies.

We are co-developing global trends in the fields of decarbonisation, decentralisation, and digitalisation.

Expansion of nuclear production capacities

The central strategic development challenge of the GEN Group is the JEK 2 project, which is needed today. JEK 2 will provide a higher social standard, jobs with high added value, and a reliable electricity supply, as well as reduce carbon dioxide emissions at national and wider regional levels.

The GEN Group and the wider Slovenian energy industry are, according to expert justification, prepared for JEK 2. We need political will and social acceptance.

Capitals and results in 2018

GEN Group capitals

Infrastructural capital

- Nuclear power plant, hydropower plant on Sava, gas power plant (system services) and dispersed renewable sources (solar power plants).
- Advanced programme/ IT-infrastructure for efficient trading and selling of energy on domestic and foreign markets.

Natural capital

- Low-carbon sources of energy: especially nuclear and hydro power.

Financial capital

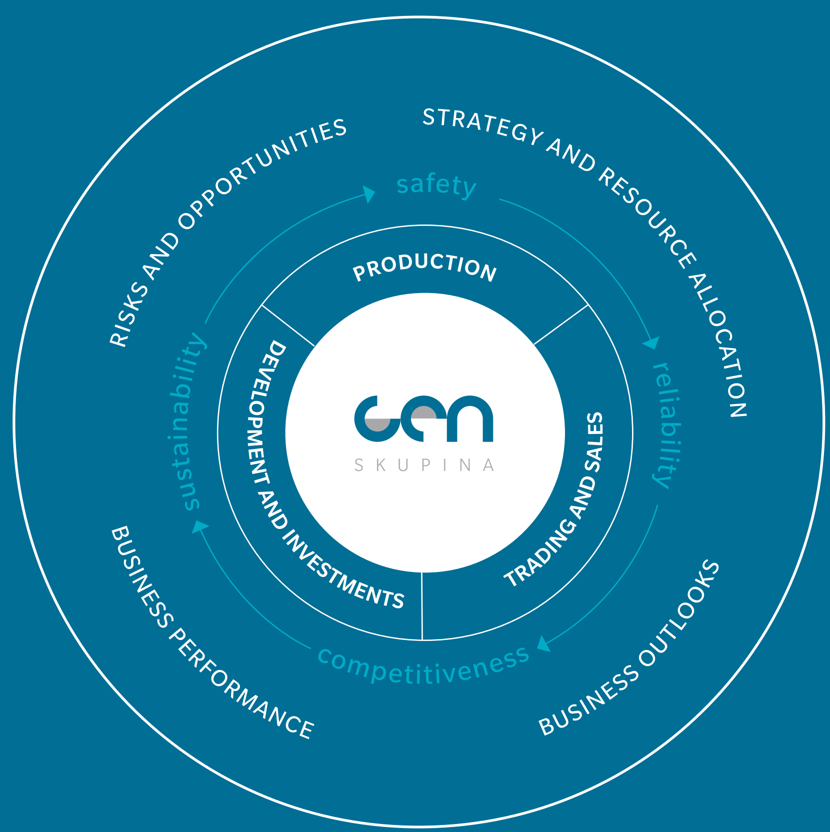
- Financial resources (especially ownership and debt financing) for providing comprehensive energy supply services.

Employees and intellectual capital

- Knowledge, skills and dedication of our employees for performing our core activities.

Social capital

- Relations with external stakeholders for providing comprehensive energy supply services.
- Increasing the understanding of the meaning of energy supply for everyday life and sustainable social prosperity.



Total production:

3,414 GWh

of electricity

Krško NPP (nuclear power plant) production:

5,489 GWh

(2,745 GWh for Slovenia)

HPP (hydroelectric power plant) production:

653 GWh

of electricity

An important role of TEB **in ensuring the stability of the system**

Low-carbon energy source portfolio (nuclear and hydro power):

99.6%

Net profit:

EUR 40.7 million

Turnover:

EUR 2.4 billion

Number of employees:

1,344

Education of employees:

64%

with at least post secondary education

Realisation of the action plan to optimise operation

Investment into research and development, investment into long-term stability:

EUR 99.8 million

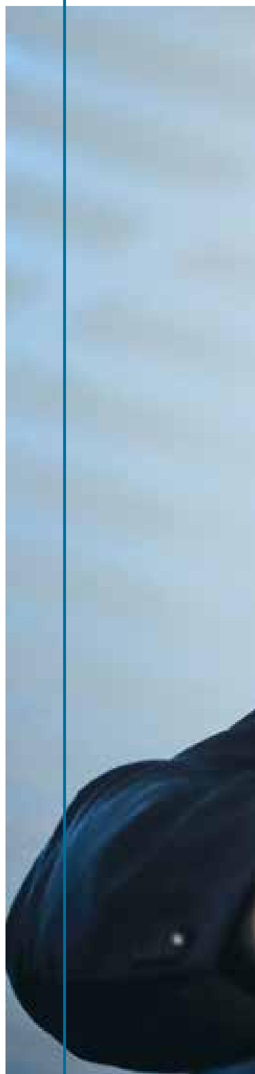
Preparation of studies for the **JEK 2 project**

Safe, reliable and environmentally friendly supply of electricity to customers

Advanced services for customers - realisation of green transformation

Increasing the understanding of the power and energy industry among key stakeholders

If we are serious about energy and climate actions, we need JEK 2. Today.



Martin Novšak, general director of GEN energija on future low-carbon energy supply, its influence on the competitiveness of the Slovenian economy and prosperity of its citizens, as well as on the challenges related to dependence on importing electricity and in particular about GEN's strategic development focus.

How does the GEN Group experience the turbulent changes occurring in the energy industry?

First and foremost, we are aware of our responsibility to manage these changes. On one hand, we are facing climate changes which force us to focus on generating energy from non-fossil, low-carbon sources on a global level, and at the same time, maintain or increase the standard of living. On the other hand, we are confronted by numerous planned or already implemented measures in the energy sector, that are unsustainable in the long run, either due to physical or economic reasons. We contribute to the development of a sustainable energy future through facts and figures, substantiated by experts, in order to help shape actual, realistic solutions.

On national, regional, EU and global levels, we need, above all, enough energy, which must be generated from low-carbon sources and be economically accessible, in order to maintain the standard of living we have today. In many parts of the world, people are far from having such a standard and therefore have the right to reach it.

»The GEN Group provides a reliable energy supply, as well as carbon efficiency, and our thoughts are always focused on affordability.«

The GEN Group provides a reliable energy supply, as well as carbon efficiency, and our thoughts are always focused on affordability. In addition to electricity production and related operational challenges, we always think about the economic implications on today's and expected future decarbonised electricity power system, when planning and implementing investments at the GEN Group. We are well aware that we, as a group of energy companies, primarily serve Slovenian citizens, its economy, public sector, and other customers.

What is your central contribution to the decarbonisation of the future energy supply?

The JEK 2 project is the central strategic development challenge for the Group, Slovenia, and the wider region. This project of expanding nuclear production capacities, due to its advantages that will make it easier to achieve reliable and competitive supply and climate goals, is needed today. In other words: if we are serious about solving the energy and climate challenges at the Slovenian or European level, we need to demonstrate resolve in our actions and adopt proven effective measures.

Nuclear power is undeniably among the key components of the future energy mix. It is the cornerstone for the reliable and competitive supply of low-carbon electricity that is not significantly affected by natural conditions. On the basis of decades of excellent experience with the operation of the Krško NPP, Slovenia is recognised and perceived as a nuclear state with a developed nuclear infrastructure. This is an important incentive to strengthen nuclear capacities.

GEN is prepared for the JEK 2 project but awaits clear political will and social acceptance.

How do you direct investments at the GEN Group?

Development and investments are focused on available low-carbon electricity generation sources. Water sources on the Sava river are continually upgraded; however, various natural conditions have proven it an unreliable source. Intense investment activity in hydro

power is focused on continued activities for the construction of the Mokrice HPP, and the further security upgrade at the Krško NPP. In trading and sales, the focus is placed on the development of new advanced services and tools for the efficient trading of electricity.

We are aware that decarbonisation goals bring along major changes in energy use. These are headed towards the electrification of important sectors, such as heating, cooling, and transport.

Do we have enough energy in Slovenia today and what does the future hold?

Electricity production in Slovenia is 15 to 17% lower than its consumption at annual level. Of course, there are significant fluctuations between days and months, which leads to the exchange of power on the wider market. However, we should not be dependent on import at the average annual level.

Nowadays, we mainly depend on the import of power during the years of poor hydrological conditions, when the nuclear power plant is undergoing overhaul, or when economic growth is recorded. In relation to those factors: we cannot affect hydrological conditions; overhauls are well planned and necessary; we should be glad to observe economic growth and it should not cause us any issues. Today, we import electricity from the East, as well as from Ukraine, Moldavia, Bulgaria, Romania, and Turkey. At certain hours, we import 50% of electricity.

New nuclear production capacities would significantly reduce Slovenia's dependence on the import of power; we could even export electricity and thus create added value. Without it, Slovenia will be exposed to excessive risks.

»New nuclear production capacities would significantly reduce Slovenia's dependence on the import of power; we could even export electricity and thus create added value.«

Let’s return to the GEN Group. Are you satisfied with the results for 2018?

We ended the financial year very successfully. We exceeded plans for our production facilities, especially of the Krško Nuclear Power Plant and the hydro power plants on the Sava. Furthermore, we successfully optimised the procurement of energy during the regular overhaul of the Krško NPP. We utilised natural hydrological conditions well, and achieved favourable economic effects of the combination of nuclear power and hydropower.

Through GEN-I, we achieved predictably good results, both with electricity and gas, and both in the fields of trading and sales.

At Group level, we generated a turnover of almost EUR 2.4 billion. Consequently, we ranked 2nd among the largest and the most investment-intensive business groups in Slovenia. Our net profit amounted to 40.7 million, which is 38% more than the forecast. This result is mainly the consequence of synergies between production, trading and sales, and development-investment activities of the GEN Group.

Our companies realised investments totalling EUR100 million. Among the most important ones were the successful overhaul of the Krško NPP, and the completion of gas turbine unit 6 at Brestanica.

What is the Group's first priority for the future?

Employees of all companies within the GEN Group are our first priority. Without them, there would be no business, operational, economic, or other dimensions of results that we are achieving. Through our expertise, experience, and efforts we will continue to ensure the reliable supply of low-carbon electricity to Slovenian citizens at a favourable price, with a long-term perspective and prudent approaches.

We will strive to responsibly raise the understanding of how and why electricity is important for the prosperity of citizens, not only internally, but also within a wider circle that includes key decision-makers, business, professional, and other stakeholders. That will allow us to plan and implement our production, trading, investment, and other projects in favour of citizens - customers and not against them.

»We ended the financial year very successfully. We exceeded plans for our production facilities, especially of the Krško Nuclear Power Plant and the hydro power plants on the Sava.«

Benefits of the JEK 2 project

SAFE AND RELIABLE ELECTRICITY SUPPLY

- reliable and safe domestic source of energy (8–12 TWh annually);
- competitive, predictable, and stable price of electricity;
- improved technology (3rd generation reactor);
- possibility of recycling and a further reduction of radioactive waste.

ENVIRONMENT- AND CLIMATE-FRIENDLY PRODUCTION OF ELECTRICITY

- optimal solution for environmental requirements and standards;
- reduction of CO_2 emissions at national level;
- reduction of existing and expected radioactive waste.

SOCIAL SYNERGY

- possibility of sharing useful heat;
- possibility of cooperation with the Slovenian industry;
- positive effects on the economic development and standard of living.

Operating excellence and the achievement of top international standards

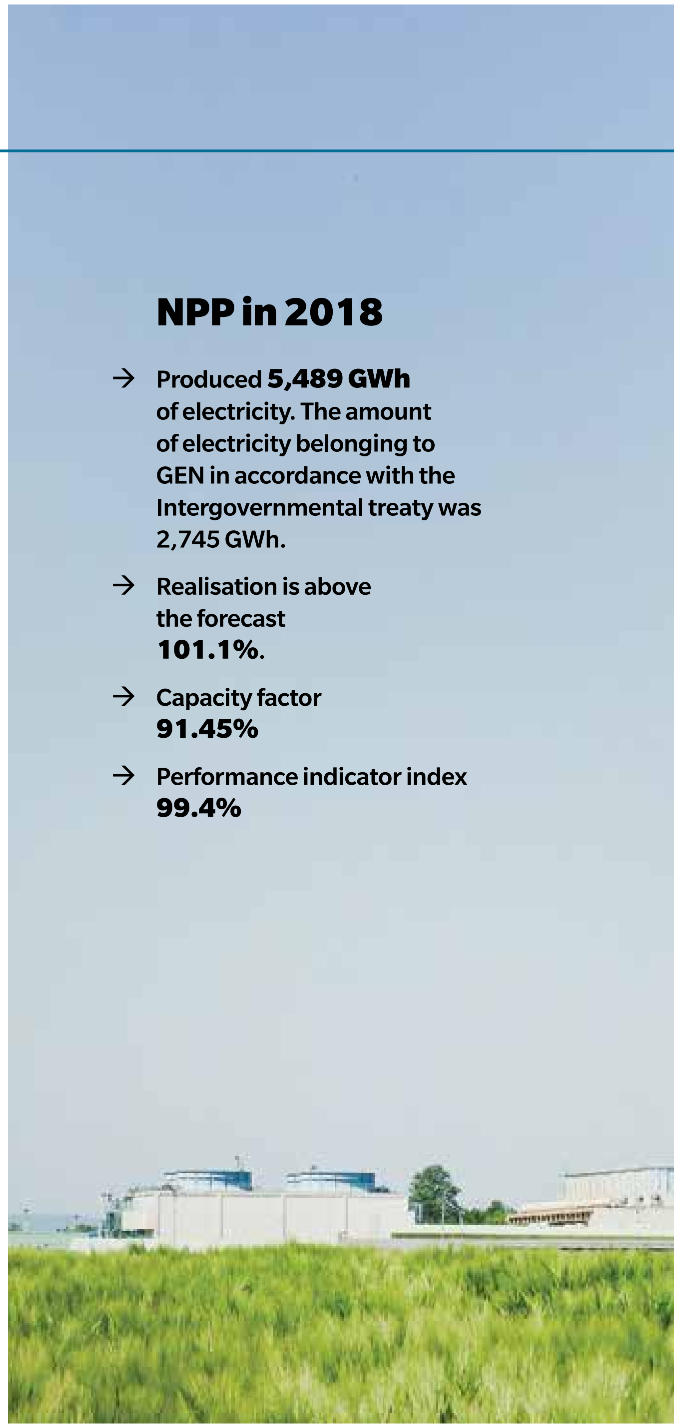
The Krško Nuclear Power Plant once again proved its high level of secure operations, and production and business excellence in 2018.

We again surpassed our annual plan of electricity generation, thus confirming the high reliability and predictability of the low-carbon electricity produced at the Nuclear Power Plant. We executed the shortest overhaul since the introduction of the 18-month cycle, and demanding projects relating to extensive security upgrades.

We are proud that our work processes are internationally recognised as good practice. That is an acknowledgement of the effort put in, and at the same time, great responsibility to preserve such a good reputation also in the future.

»We are proud that our work processes are internationally recognised as good practice.«

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



NPP in 2018

- Produced **5,489 GWh** of electricity. The amount of electricity belonging to GEN in accordance with the Intergovernmental treaty was 2,745 GWh.
- Realisation is above the forecast **101.1%**.
- Capacity factor **91.45%**
- Performance indicator index **99.4%**

85%

share of nuclear power in total production by the GEN Group power plants

- The overhaul lasted only one month (30.9 days):

  nine larger project changes were implemented, the most demanding of which was the construction of an auxiliary command room and the replacement of the generator's exciter.

- The Krško NPP received the **highest mark** out of all operating power plants, per WANO criteria.

Wisely investing in the maintenance and construction of a chain of hydro power plants

653 GWh

of electricity generated at large-scale hydro power plants

HESS ended the 2018 financial year within the scope of planned assets and with revenues amounting to EUR 19 million, which is 28% more than in the previous year.

Upon the acquisition of a final operating permit, Brežice HPP was put into regular operation, and the company, for the first time, exceeded the annual production of 500 GWh of electricity.

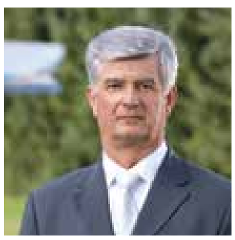
Most of our activities are now focused on the construction of the last hydro power plant on the lower Sava, i.e. Mokrice HPP, while looking towards other renewable sources in addition to water.

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

HIDROELEKTRARNE NA SPODNJI SAVI

The prudence of past investments in equipment upgrades and maintenance, resulted in 2018 in surpassed production plans at hydro power plants on the Sava river.

That drives us towards further investments that will provide new energy from renewable sources under competitive terms.



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

SAVSKE ELEKTRARNE LJUBLJANA d.o.o.

HESS in 2018

- **590 GWh** of produced electricity;
- **29%** more than in 2017 (due to relatively good hydrological conditions and the annual production of the newest and largest hydropower plant in the chain, HPP Brežice);
- **102.3%** realisation of the 2018 plan;
- **EUR 3.78 m** investments.

SEL in 2018

- **352 GWh** of produced electricity;
- **22%** more electricity than in 2017;
- **110%** realisation of the 2018 plan;
- **EUR 4.26 m** investments.

Enhancing the stability of the electricity system

The main achievements of the Brestanica Thermal Power Plant last year included the acquisition of an operating permit, and consequently, the completion of the construction of the new gas turbine unit PB 6.

The key investment ahead of us is the construction of an additional gas turbine unit (PB 7). With the realised and new investments, we enhance reliability and availability, which are extremely important in system power plants.

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

TEB in 2018

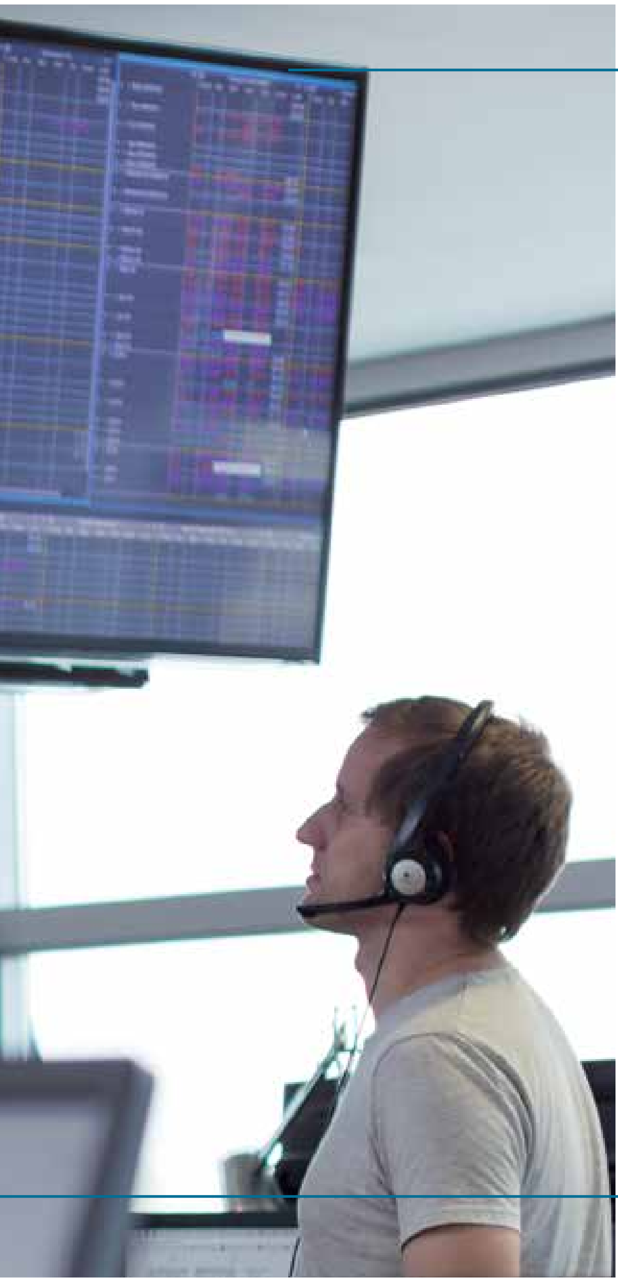
- reliable provision of system services: **24 activations** or **38 initiations** of individual gas turbines;
- in total **12.3 GWh** or **6.8 GWh** of net produced electricity, the majority of which for the needs of tertiary regulation;
- **6 GWh** of electricity produced with the new gas turbine 6;
- **EUR 6.98 m** investments (mainly for the replacement of the gas turbines project).

22

European markets where the Group is engaged in trading and sales activities

GEN-I in 2018

- trading with **47.2 TWh** of electricity;
- main purchasing and selling markets: **Central, South-Eastern and West European markets**
- **advanced services** for our increasingly flexible customers are based on advanced technologies, as well as on the convergence of energy, transport, and information-communication technologies;
- **4.19 million investments** (mostly into information systems);



Co-creating a green low-carbon energy revolution

Business results of the GEN-I Group have reached record-breaking levels for the second year in a row, thus setting new milestones.

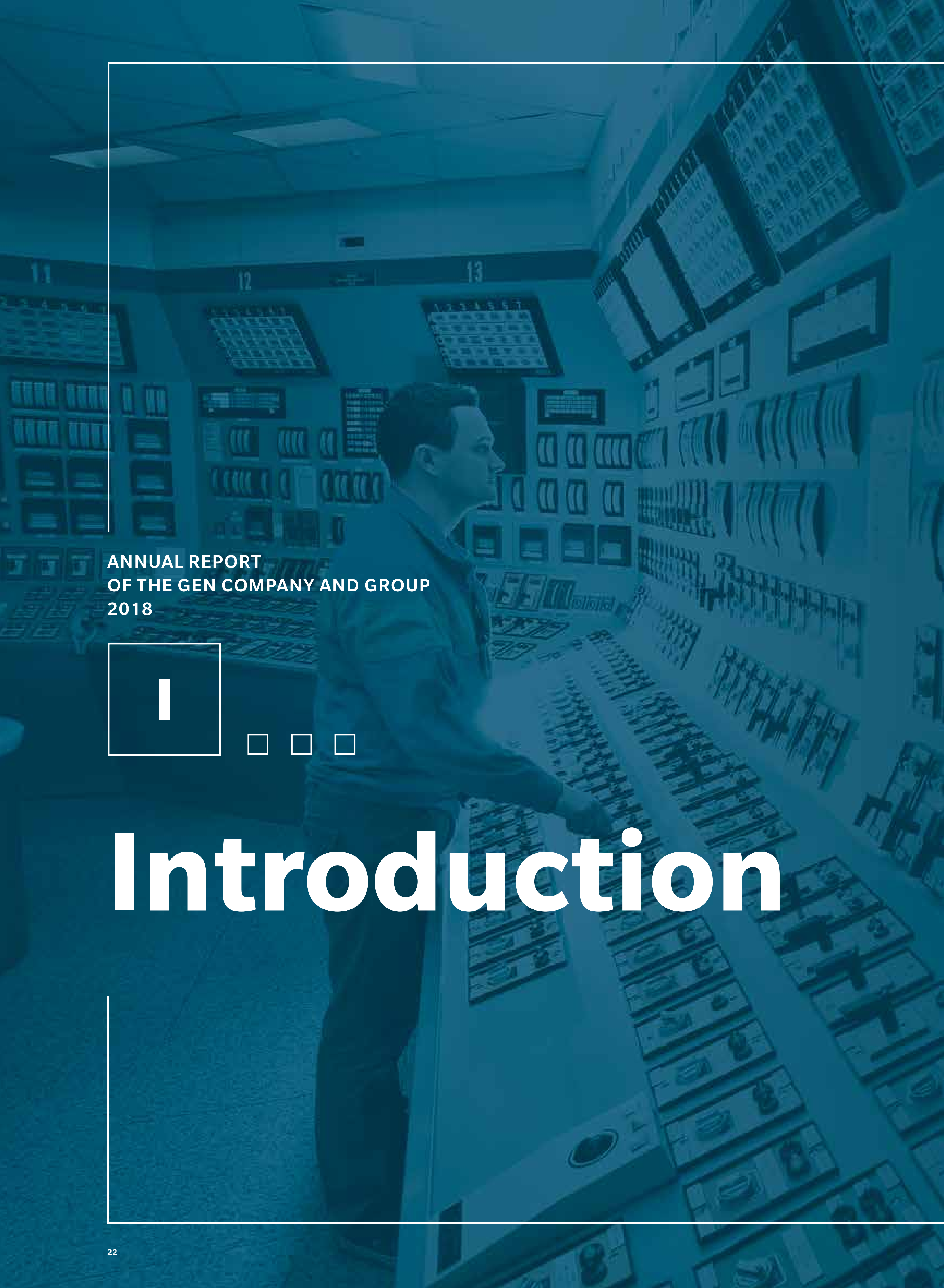
The GEN-I Group is a success story with solid foundations for the future. Our business results have reached record-breaking levels for the second year in a row, thus setting new milestones. We generated revenues exceeding EUR 2.3 billion, which is 35% more than the previous 4-year average.

We face a decade of a green energy revolution, in which we engage by creating success stories on the path to a carbon-free future and a clean environment for future generations. We will empower every individual and company that transitions to low-carbon energy. We will provide the integration of distributed renewable energy sources, electromobility, demand flexibility, digitalisation and implementation of green technologies.

»The GEN-I Group is a success story with solid foundations for the future.«

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

gen-i



ANNUAL REPORT
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2018

I

Introduction

1.

Key financial performance data

The GEN Group successfully completed 2018 with **EUR 40.7 million of net profit**. This is no less than 38% more than in 2017. The positive result is due to the synergies between the production, trading and sales activities, as well as the development and investment activities of the GEN Group, which are managed by the management of the companies included in the group, along with its 1,028 employees. Through efficient operations, in 2018, we optimally exploited the situation and developments in the electricity market and the natural conditions (hydrology).

More on page 130 →

We continue to grow. In the group, we generated close to **EUR 2.4 billion of turnover**, which makes us one of the three largest Slovenian groups.

More on page 130 →

The production units of companies included in the GEN Group together produced **3,414 GWh of electrical energy.** We are pleased with the result; considering that this was a year of overhaul in NEK, the result was 2% higher than we anticipated.

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NEK achieved a **production of 5,489 GWh** with safe and stable operation, of which, in accordance with the Intergovernmental Agreement on NEK, almost half belongs to GEN or the Republic of Slovenia, i.e. **2,745 GWh.**

More on page 59 →

With relatively favourable hydrology, in 2018 we produced **653 GWh of electrical energy** in our **hydroelectric power plants.**

More on page 60 →

The **production of electricity** throughout the year was carried out **safely, reliably and in an environmentally friendly way** as a result of continuous investments in knowledge and equipment in the past.

More on page 57 →

With its reliability in starting operations, **TEB** has confirmed its role in **ensuring the stability of the system.**

More on page 60 →

As much as **99.6% of all electricity** produced in the companies included in the GEN Group is **from low carbon sustainable and renewable sources - nuclear and hydropower.**

More on page 60 →


The field of **development, research and investment** is crucial for the **long-term stability** of operations and further development. For this purpose, **EUR 99.8 million** was invested in 2018. In April, NEK successfully carried out a demanding regular overhaul, which was the shortest since the introduction of the 18-month fuel cycle; in September, an operating license for PB 6 in TEB was issued; preparations are underway in HESS for the construction of the last HE in the chain, HE Mokrice, while the SEL increased production from renewable sources by purchasing the small hydropower plant Hrušica.

More on page 67 →

Due to the energy import dependence of Slovenia (we imported 18% of electricity in 2018) and the lack of electricity in the wider region, the **construction of the second block of the JEK 2 nuclear power plant** is increasingly required. Due to its advantages in the realization of the goals of reliability, competitiveness of supply and climate goals, we require it as soon as possible. In the GEN Group, we are ready for the JEK 2 project, but we need political will and greater social acceptance. In this project, we count on wider international or regional cooperation, with which Slovenia, as an energy-stable country, will further strengthen its reputation in the EU.

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Special attention is paid to advanced services for our customers. The supply of electricity as a basic service is reasonably connected with a wider range of related services, which enable increasingly flexible household, industrial and service customers-manufacturers to realize green transformation. Services are based on advanced technologies and the convergence of energy, transport, and information and communication technologies. Thus we are shaping the global trends of decarbonisation, decentralization and digitization.

More on page 59 →

In 2018 we successfully continued the intensive implementation of the **action plan for optimizing the operations of the company and the GEN Group.** Through good coordination, processes of internal optimization and trading activity, we managed the risks and thus exceeded the plans in the volume of revenues and profit generated.

More on page 130 →

The cornerstone of our work has been and remains the **employees** with their knowledge and dedication: in 2018, there were **1,344** of us, of which more than **64%** held at least a post-secondary education.

More on page 76 →

In addition, we have increased our interest in topics related to energy and their understanding in different target groups. In 2018, we organized a number of **educational and awareness-raising events and presentations** and attended professional events where we presented our **awareness-raising activities.** We have regularly upgraded the **online energy and energetics hub called eSvet** and upgraded our **digital communication** activities.

More on page 80 →

The annual report of the GEN Group for 2018, in accordance with the guidelines for sustainable reporting, also includes data on the implementation of the GEN sustainability guidelines. In this single document, we endeavour to present our actions in a comprehensive manner and to indicate the inextricable link between financial and non-financial information.

Learn more about our sustainability guidelines and the related results for 2018 on page 46 →

and in the table on page 187 →

Key numbers		GROUP 2018	GROUP 2017	COMPANY 2018	COMPANY 2017
Revenue	in EUR thousand	2,376,085	2,410,343	203,837	175,309
EBIT	in EUR thousand	50,208	38,900	27,589	21,761
EBITDA	in EUR thousand	86,834	72,016	28,326	22,547
Net profit	in EUR thousand	40,661	29,424	24,505	19,539
Assets	in EUR thousand	1,157,012	1,111,036	561,879	531,991
Equity	in EUR thousand	818,695	784,880	466,408	447,904
Debt	in EUR thousand	166,710	161,081	13,075	31
Investments	in EUR thousand	60,424	62,720	1,741	1,190
Electricity generated	in GWh	3,699	3,740		
Electricity sold	in GWh	47,153	51,791	4,275	3,928
Number of employees at year-end		1,028	988	57	58

Indicators		GROUP 2018	GROUP 2017	COMPANY 2018	COMPANY 2017
Equity financing ratio	%	70.76	70.64	83.01	84.19
Long-term financing ratio	%	83.37	82.30	85.31	84.21
Fixed asset investment ratio	%	62.93	63.19	3.47	3.43
Long-term assets ratio	%	63.61	64.00	86.80	89.02
Equity to operating fixed assets ratio		1.12	1.12	23.93	24.52
Equity to long-term assets ratio		1.29	1.28	0.97	0.93
Acid test ratio		0.89	0.71	2.15	0.88
Quick ratio		1.82	1.55	3.25	2.34
Current ratio		2.10	2.01	3.26	2.34
Operating efficiency ratio		1.02	1.02	1.16	1.14
Net return on equity (ROE)	%	5.07	3.82	5.36	4.45
Net return on assets (ROA)	%	3.59	2.70	4.48	3.74
Value added	in EUR thousand	138,717	124,331	32,049	25,863
Value added per employee	in EUR thousand	138	126	557	458
Debt-to-equity ratio		0.20	0.21	0.03	0.00
Total financial liabilities / EBITDA		1.92	2.24	0.46	0.00
EBITDA margin	%	3.66	2.99	14.07	13.01
EBITDA / financial expenses for loans received		26.93	32.13		–
Total financial liabilities / assets		0.14	0.14	0.02	0.00
Net financial liabilities / EBITDA		-0.11	0.30	-1.13	-0.87

2.

Letter from the General Director

Dear business partners and colleagues,

the financial year of 2018 was completed very successfully in the GEN group. We generated close to 2.4 billion euros of turnover and thus ranked second on the scale of the largest business groups, and at the same time among the most powerful business groups in Slovenia. The companies in the group carried out investments totalling 100 million euros. The most important were the successful completion of the overhaul in the Krško Nuclear Power Plant and the completion of gas block 6 in Brestanica.

Long-term orientation, thoughtful approaches and stable growth combined with an economically effective daily response to events on the electricity markets and other signals from the environment. These are the characteristics of our business, which we will continue to strive for in the future.

The revenues of the GEN Group amounted to EUR 2.4 billion in 2018, of which the net profit amounted to EUR 40.7 million. This is 38% more than planned. In the holding company GEN energija, we exceeded our plans by more than 25%. The company's revenues amounted to EUR 200 million, of which the net profit amounted to EUR 24.5 million. Such results were achieved through reliable operation and efficient management of the electricity production portfolios, and above all by the efficient use of synergies between products, trading and investment functions in the group.

We also exceeded the projections in the production of electricity. The operation of NEK was stable and most of the time at full power, and due to favourable hydrological conditions, hydroelectric power plants also operated above average. In TEB, we provided 24 reliable start-ups for the needs of balancing the system and reliably provided system services together with our partners. A safe, reliable and environmentally friendly production is the result of continuous investments in knowledge and equipment in the past.

We produced 3,414 GWh of electricity. With its safe and stable operation, NEK achieved a production of 5,489 GWh (of which, in accordance with the Intergovernmental Agreement on NEK, almost half belongs to GEN or the Republic of Slovenia, i.e. 2,745 GWh). With a relatively favourable annual hydrology, we produced 653 GWh of electrical energy in our hydroelectric power plants.

As much as 99.6% of all electricity produced in the companies included in the GEN Group comes from low carbon sustainable and renewable sources - nuclear and hydropower. This is an energy mix that, according to economic, environmental, climate and social indicators, is the right combination for shaping the sustainable energy future of Slovenia.

In the trading and sales part, GEN-I has successfully been adapting to dynamic market conditions and exploiting market opportunities. They developed new business approaches and services related to e-mobility and digitization, and a lot of emphasis was placed on staff development. They have made a key contribution to the successful and economically effective management of the risks associated with lower own electricity production. This was a consequence of the occasional extremely demanding hydrological conditions, as some months of the previous year were significantly below the expected average according to hydrological indicators, and of the overhauls to NEK; therefore, it was necessary to efficiently procure substitute energy in the markets.

In spring, a large-scale overhaul was carried out with quality and success in the Krško Nuclear Power Plant, where as many as 1,800 employees worked in the most intensive period and which was the shortest since the introduction of the 18-month fuel cycle. They completed the construction of an auxiliary command room and checked the interactions with HPP Brežice, which will be completed this year. In October, the company Hidroelektrarne na Spodnji Savi successfully completed the one-year experimental operation of the HPP Brežice and is now intensively preparing the documentation and acquiring all the necessary consents for the construction of HPP Mokrice. The company Savska elektrarna Ljubljana is successfully expanding in the area of small hydroelectric power plants; after the successful purchase and renewal of the MHE Goričane, they will continue the renovation of HPP Borovlje and HPP Hrušica. In the Brestanica Thermal Power Plant, the most important tertiary reserve in Slovenia, a new gas block (53 MW), was successfully launched in spring. After good experience this year, they are continuing the multi-phase project of replacing the old gas blocks and starting the construction of a seventh gas block.

The core strategic development challenge of the GEN Group is the JEK 2 project, which, because of its advantages in the field of meeting the objectives of reliability and competitiveness of supply and climate goals, is needed as soon as possible. In the GEN Group, we are ready for the JEK 2 project, but we need political will and greater social acceptance. In this project, we count on wider international or regional cooperation, with which Slovenia, as an energy-stable country, will further strengthen its reputation in the EU.

Our employees, with their knowledge and dedication, are a key element of the business excellence and operational efficiency of the GEN Group and a premise for the realization of the synergies that we have been achieving through the activities of companies in our group. In 2018, there were 1,344 of us, of which more than 64% held at least a post-secondary education. With our experience, professionalism, loyalty, diligence and motivation, we are realizing our goals and building a sustainable future for the GEN Group, and above all for the citizens of Slovenia, whom we reliably supply with low-carbon electricity at affordable prices.

I wish to thank my co-workers and colleagues for their devoted work and irreplaceable contribution to good results and the strengthening of the GEN Group, the representatives of the owner, SSH, the competent ministries, the supervisory board, business partners, service providers and local communities for their trust, successful cooperation and contribution to the functioning of the GEN Group.

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

3.

Report of the Supervisory Board

In accordance with the Companies Act (hereinafter: ZGD-1), the Act establishing the limited liability company GEN energija d.o.o. (hereinafter: the Act), the Rules of Procedure of the Supervisory Board of GEN energija d.o.o. (hereinafter: the Rules of Procedure) and in accordance with the Code of Corporate Governance of Corporations with the Capital Investment of the State (hereinafter: the Code), the Supervisory Board of GEN energija d.o.o. (hereinafter: the Supervisory Board) is releasing the following **report of the supervisory board of GEN energija d.o.o. for the year 2018**

Composition and operation of the supervisory board

In order to ensure the legality, regularity and efficiency of the management decisions, and in accordance with its competencies arising from the Act and in accordance with the other applicable legislation, the Supervisory Board supervised the management of the company GEN energija d.o.o. (hereinafter: GEN energija) for the 2018 financial year.

In the course of its work, the Supervisory Board took into account the values, vision and mission of the company, and checked whether the management and consequently the company's operations were in accordance with the strategic objectives, thus operating with the aim of maximizing the value of the company.

Composition of the supervisory board in 2018

From 01 January 2018 to 29 July 2018, the Supervisory Board was composed of six members:

- dr. Karol Peter Peršolja (Chairman),
- Saša Ivan Geržina (Deputy Chairman),
- Mitja Svoljšak (member),
- Roman Dobnikar (member),
- Samo Fűrst (member - employee representative) and
- dr. Robert Bergant (member - employee representative).

From 29 July 2018 to 14 December 2018, the Supervisory Board was composed of five members:

- dr. Karol Peter Peršolja (Chairman),
- Saša Ivan Geržina (Deputy Chairman),
- Roman Dobnikar (member),
- Samo Fűrst (member - employee representative) and
- dr. Robert Bergant (member - employee representative).

From 14 December 2018 to 31 December 2018, the Supervisory Board was composed of six members:

- dr. Karol Peter Peršolja (Chairman),
- Saša Ivan Geržina (Deputy Chairman),
- Vanessa Grmek (member),
- Roman Dobnikar (member),
- Samo Fűrst (member - employee representative) and
- dr. Robert Bergant (member - employee representative).

The Supervisory Board considers its performance to be successful and its composition to be sufficiently diversified to carry out the work arising from the competences imposed by the regulations in force. The Supervisory Board consists of members with diverse professional knowledge, experience and skills, which complement one another. In terms of age, the composition is heterogeneous, and from 14 December 2018 it is also gender-disaggregated. The Supervisory Board members strive to be independent in their work. They also take care that no conflict of interest arises in the performance of tasks. In the year 2018, no potential conflict of interest was recorded, which means that the members of the Supervisory Board did not exclude themselves from voting. Members of the Supervisory Board endeavoured to carry out their work diligently, responsibly and efficiently. The meetings were conducted in such a way that all the members of the Supervisory Board were given the opportunity for discussion and that the discussions on the agenda items were thorough, which contributed to the adoption of deliberate and responsible decisions.

The Supervisory Board has two committees as consultative bodies, namely AUDIT and STAFF COMMISSION.

Composition of the supervisory board committees in 2018

I. AUDIT COMMISSION

From 01 January 2018 to 29 July 2018, the Audit Committee of the Supervisory Board was composed of three members:

- Mitja Svoljšak (chairman),
- Roman Dobnikar (deputy chairman) and
- Alojz Dimič (member - external professional).

Between 29 July 2018 and 05 September 2018 the Audit Committee did not operate because the number of members was not in accordance with the provisions of Article 279, paragraph 3, of the Companies Act[1] and was not in accordance with Article 16, paragraph 2, of the company's founding act.

From 05 September 2018 to 31 December 2018, the Audit Committee of the Supervisory Board was composed of three members:

- Roman Dobnikar (chairman),
- Samo Fürst (deputy chairman) and
- Alojz Dimič (member - external professional).

II. THE STAFF COMMITTEE

From 01 January 2018 to 29 July 2018, the Staff Committee of the Supervisory Board was composed of four members:

- Saša Ivan Geržina (chairman),
- Mitja Svoljšak (deputy chairman)
- dr. Karol Peter Peršolja (member) and
- Katja Simončič (member - employee representative).

From 29 July 2018 to 31 December 2018, the Staff Committee of the Supervisory Board was composed of three members:

- Saša Ivan Geržina (chairman),
- dr. Karol Peter Peršolja (deputy chairman) in
- Katja Simončič (member - employee representative).

The organization of the work of the Supervisory Board and the committees was good and the work was carried out in accordance with the rules of procedure for the work of the Supervisory Board and the committees. The materials were received by the members on time and the quality of these materials made it possible to provide effective information on the matters on which they had decided.

Data on the operation of the supervisory board and its committees[2]

In 2018, the members of the Supervisory Board met in seven (7) regular meetings, three (3) extraordinary meetings and two (2) correspondence meetings, and adopted 110 resolutions.

Participation of individual members of the Supervisory Board by individual meetings:

- One member was absent from one session in 2018, the rest of the members were present at all sessions in 2018.

In 2018, the Audit Committee of the Supervisory Board met at seven regular meetings and adopted 34 resolutions.

Participation of individual members of the Audit Committee of the Supervisory Board by individual meetings:

- One member was absent from two sessions in 2018, the rest of the members were present at all sessions in 2018.

The Supervisory Board's staff committee met in seven regular sessions in 2018 and adopted 33 resolutions.

Participation of individual members of the staff committee of the Supervisory Board by individual meetings:

- ll members of the staff committee were present at all sessions in 2018.

The members regularly received important information, reports, materials for the meetings of the Supervisory Board and meetings of the committees, and regularly monitored the implementation of the adopted resolutions.

Consents to leadership and management actions

In 2018, the management of GEN energija was required to comply with Art. 11 of the founding act of the company to obtain the consent of the Supervisory Board for:

- the proposal to the founder on the adoption of the fundamentals of the business policy and the Development Plan of the company and the GEN Group for a period of 5 (five) years,
- the proposal to the founder on the disposal and burdening of business shares in affiliated and associated companies,
- proposal to the founder on the establishment and liquidation of companies and the acquisition of majority shares in the capital of other companies.

1 The Commission shall be composed of a Chairman and at least two members.

2 (Item 8.4 of the Code)

In 2018, for the reasons listed in the previous indents, the Supervisory Board in one case gave its consent to the management on the proposal to the founder on the disposal of the business shares in the subsidiary or affiliated company.

In 2018, the management of GEN energija had to comply with Art. 14 of the founding act of the company to obtain the consent of the Supervisory Board for:

- the business plan of the company and the GEN Group,
- appointment, recall and remuneration of the head of the Internal Audit Department,
- the annual work program of the Internal Audit Department,
- making decisions at general meetings of affiliated and associated companies,
- making decisions in the event of status and capital changes,
- making decisions on the appointment and recall of managers in subsidiaries and associates,
- making decisions on the validation of investment programs for investments above 10 (ten) MILLION EUR in subsidiaries - one-person d.o.o. companies,
- making decisions at GEN-I d.o.o. and GEN-EL d.o.o. general meetings[3],
- The transfer of certain business functions from subsidiaries that are solely owned by the company to the company (setting up the operations of an operating holding)
- according to the Rules of Procedure of the management.

In 2018, for the reasons listed in the previous indents, the Supervisory Board gave its consent to the business plan of the company and the GEN Group, gave one consent to the management for the appointment of a member of the management in a subsidiary, refused to give consent to one appointment of a member of the management in a subsidiary, gave consent for the decision to approve an investment above EUR 10 million in a subsidiary - one-person d.o.o. company and one time refused to give its consent to vote at the general meeting of GEN-I, but issued a mandatory voting instruction at this assembly.

In 2018, the management of GEN energy had to comply with Article 17, paragraph 10, of the company's founding act to obtain the prior consent of the Supervisory Board:

- for the simultaneous performance of a managerial role in a subsidiary or associate.[4]

In 2018, the management of GEN energy had to comply with Article 20, paragraph 9, of the company's founding act to obtain the prior consent of the Supervisory Board for the following types of legal transactions:

- acquiring or divesting or debiting shares or business interests in subsidiaries and other companies,
- the establishment or termination of other companies, branches and establishments,
- the purchase, sale or other disposal, exchange or burden of real estate owned by the company,
- all legal transactions (including investments, credit transactions, etc.) whose value per transaction or related transactions in total exceeds 1% of the company's share capital or EUR 2,500,000.00, excluding trading transactions with electricity, emission coupons and their equivalents, natural gas, liquefied petroleum gas and related business transactions, transactions related to the short-term management of cash in the GEN Group and short-term deposits in the form of deposits with commercial banks, and
- providing securities, assurances or guarantees.

In 2018, for the reasons listed in the previous indents, the Supervisory Board gave one consent to the management for the purchase of real estate, one consent to the commencement of the sale of real estate and one consent to the acquisition or disposal or burden of business shares in subsidiaries and other companies.

Interim supervision of business operations

The Supervisory Board regularly discussed the intra-annual (for each quarter) interim reports on the operations of GEN and the GEN Group. The Audit Committee also reported to the Supervisory Board on all intra-annual reports. In the second half of 2018, GEN-I's quarterly reports on GEN-I's operations were discussed at the sessions where GEN's and the GEN Group's interim reports were discussed. The Supervisory Board gave its consent to the amended Strategy for the Trading of Electricity in 2018 for 2019 and further. It was acquainted with the current operations of the companies in the GEN Group, their planned and realized investments, the number of employees and the optimization of labour costs, with the value of assets, equity, receivables, operating revenues and expenses, and with the operating profit or loss and net profit of the Group companies. The Supervisory Board also took

3 If the Supervisory Board decides not to give consent to the management regarding the decision-making at GEN-I d.o.o. or GEN-EL d.o.o. general meetings, it may issue an instruction for voting at the general meeting of these companies, which the management is obligated to follow.

4 If a subsidiary does not have a supervisory board, the GEN supervisory board must give its consent to the management contract in the subsidiary (if the person who is a manager at the subsidiary company is simultaneously a member of the management of the GEN).

note of other issues affecting the achievement of the objectives set out in the Annual SSH Management Plan.

Major decisions made by the supervisory board

Confirmation of the Annual Report of the GEN Group for 2017

At the 45th regular meeting held on 10 May 2018, the Supervisory Board reviewed the composition of the Annual Report of the company and the GEN Group for 2018 and a proposal for the use of distributable profit. The Supervisory Board had no comments on the Annual Report and confirmed it along with the opinion of the audit company.

Financial statements and proposal for the allocation of balance-sheet profit for 2017

In the discussion of the Annual Report of the Company and the GEN Group for 2017, the Supervisory Board:

- reviewed the composition of the annual report and found that the company had achieved good operating, market and financial results for 2017,
- confirmed the content of the annual report, together with the opinion of the audit company for GEN energija and the GEN Group,
- drafted a written report of the Supervisory Board for the founder and
- gave consent on the proposal of management to use the accumulated profit.

The annual report was reviewed by Ernst & Young, Revizija, poslovno svetovanje d.o.o., Ljubljana, which Slovenski državni holding d.d., acting as the founder by decision no. 2016009567 on 07 July 2016, appointed for the auditing of the financial statements of GEN energija and consolidated financial statements of the GEN Group for the 2017 financial year. The authorized audit company submitted an affirmative opinion on the annual report.

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

The management made a proposal to the founder for the exercise of the rights of the shareholder of GEN energija d.o.o. (material for the General Meeting of Shareholders of GEN energija d.o.o. 2018), while the Supervisory Board, at the 45th regular meeting held on 10 May 2018, took note of the proposals for resolutions to the founder, given by the manager of GEN energija d.o.o.

After this, on 29 May 2018, Slovenski državni holding d.d., in the role of the founder and the sole shareholder of GEN energija, adopted the following conclusions:

- took note of the Annual Report of GEN energija d.o.o. and the consolidated annual
- report of the GEN Energy Group for 2017 with the Auditor's reports and the report of the Supervisory Board on the verification of the annual report;
- the distributable profit for 2017, which amounted to EUR 13,769,463.28, was used in such a way that EUR 6,000,000.00 was intended for the payment of the participation in the profit to the sole shareholder within 90 days of the adoption of the resolution, EUR 3,769,463.28 was allocated to other revenue reserves, and EUR 4,000,000.00 was transferred profit;
- granted a discharge to the General Director and the Supervisory Board for the 2017 financial year.

Consent to the Business Plan of GEN energija d.o.o. and the GEN Group for 2019 with a business forecast for 2020 and 2021

On 13 November 2018, at the 49th regular meeting, the Supervisory Board gave its consent to the Business Plan of GEN energija d.o.o. and the GEN Group for 2019, with a business forecast for 2020 and 2021, and acquainted the founder, in accordance with the provisions of Article 22, paragraph 4, of the company's founding act.

Consent to the electricity trading strategy

At the 6th Extraordinary Session on 16 October 2018, the Supervisory Board gave its consent to the revised Electricity Trading Strategy of GEN energija d.o.o. in 2018 for 2019 and later.

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

Self-evaluation

The efficiency evaluation process in 2018 is ongoing and will be carried out by completing the matrix for the self-assessment of the Supervisory Board for 2018. Upon the completion of the procedure, the Supervisory Board will be informed of the results and, if necessary, adopt an action plan.

Disclosures

- In the annual report (enclosede to the statements), the company clearly and specifically discloses the remuneration and other rights of each Supervisory Board member according to individual types of remuneration, types of other rights (in a fully cost-structured form) in accordance with the Code[5].

5 Item 8.4 of the Code

- In accordance with the Code[6], the company also discloses the ex penses of the Supervisory Board as costs of legal opinions, translation costs, travel expenses, education costs, hiring a special expert, etc.

Of the costs listed, the cost of the legal opinion amounted to 7,200.00 EUR excluding VAT, travel expenses are shown in the table above, and no other costs were incurred in 2018.

Approval of the annual report of the GEN Group for 2018

At the 54th general meeting on 14 May 2019, the Supervisory Board adopted the following resolutions:

RESOLUTION No. 737/54. RS/Ad 7:
The Supervisory Board of GEN energija d.o.o. reviewed the composition of the Annual Report of the company and the GEN Group for 2018 and a proposal for the use of distributable profit. The Supervisory Board of GEN energija d.o.o. notes that the company achieved good operating, market and financial results for 2018.

RESOLUTION No. 738/54.RS/Ad 7:
Based on the examination of the Annual Report of the company and the GEN Group for the year 2018 and the financial statements with explanations and the opinions of the audit company, the Supervisory Board of GEN energija d.o.o. notes that it has no comments in connection with the Annual Report and adopts it, together with the opinions of the audit company for GEN energija and the GEN Group.

RESOLUTION No. 739/54.RS/Ad 7:
The Supervisory Board of GEN energija d.o.o. prepared a written report of the Supervisory Board of GEN energija d.o.o. on the results of the verification of the Annual Report for the founder, which is annexed to this resolution.

RESOLUTION No. 740/54.RS/Ad 7:
The Supervisory Board of GEN energija d.o.o. agrees with the proposal of the management of the company to the founder that the distributable profit for 2018 in the amount of 16,252,373.71 MILLION EUR shall be fully used for the creation of other profit reserves.

6 Item 8.4 of the Code

Conclusion

The members of the Supervisory Board assess the performance of the company and the GEN Group in 2018 as safe, reliable and successful. The company strives for the continuous improvement of its business, with the key focus on the reliability and safety of its production capacities, its employees and the environment. The company is constantly renewing and investing in production facilities and promotes the training and education of its employees. Environmental acceptability, safety, reliability, sustainability and competitiveness represent the key values that the company realizes in its operation.

The Supervisory Board prepared the report in accordance with Article 282 of the Companies Act (ZGD-1). The report of the Supervisory Board is intended for the founder and sole shareholder of the company.

dr. Karol Peter Peršolja,
Chairman of the Supervisory Board of GEN energija

4.

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

GEN energija d.o.o., Vrbina 17, 8270 Krško (hereinafter: GEN company), in accordance with Article 70, paragraph 5, of the Companies Act (hereinafter: ZGD-1) and in accordance with Item 3.4 of the Corporate Governance Code for Companies with Capital Assets of the State, SSH May 2017 (hereinafter: SSH Code), gives a management statement for the period from 1 January 2018 until 31 December 2018.

I, the General Director of GEN energija d.o.o. (hereinafter: the manager) hereby declare that GEN's management in 2018 was in accordance with the applicable legislation and in accordance with other applicable regulations, with the Act on the Establishment of the Limited Liability Company GEN energija d.o.o. (hereinafter: the Founding Act), the SSH Code and the Recommendations and Expectations of the Slovenski državni holding, March 2018 (hereinafter: SSH Recommendations and Expectations).

I, the manager, hereby declare in accordance with Article 60 of the ZGD-1 that the annual report with all its components, including this company management statement, has been compiled and published in accordance with the ZGD-1 and the accounting policies of the company and the GEN Group.

In the company, we strive to respect and strengthen corporate integrity and thus to spread awareness of the importance of doing business in accordance with the legislation, good business practices and high ethical standards as one of the fundamental principles of socially responsible behaviour. We have also adopted the Corporate Ethics Code of GEN energija d.o.o.

The corporate governance statement is an integral part of the annual report and is publicly available on the company's website - http://www.gen-energija.si.

I. Statement of compliance with the code and the recommendations and expectations of SSH

A/ SSH Code

GEN uses the applicable SSH Code as its reference code. In its use, it also takes into account the characteristics of its activity and the specificity of its operations. In the year 2018, the company fully respected the major part of the recommendations following the »comply or explain« principle. Below we provide explanations regarding individual deviations from the recommendations of the SSH Code:

Item 3.2: The »GEN management policy« document is in preparation.

Item 3.6: The »Diversity Policy« document was adopted at the beginning of 2019.

Item 6.1: The succession plan for the management of GEN and the GEN Group is in its final stages of production and is expected to be adopted this year.

Item 6.4.1: The »Competence profile for members of the Supervisory Board« document was adopted at the beginning of 2019.

Item 6.6.1: The Statement of independence shall be fulfilled at the time of each individual appointment.

Item 6.13.4: is taken into account in part, i.e. in the part of the submission of the minutes to the Supervisory Board, as the meetings of the Audit Committee are usually just before the meetings of the Supervisory Board, therefore, the SB is only served copies of the resolutions. The minutes of the audit (and staff) committee is forwarded to the SB after its adoption and signature.

Item 7.4: Regular annual interviews are held in the company, on the basis of which a proposal for the further development and skills of personnel is being prepared (i.e., the promotion proposal of an employee).

Item 9.2.3: The company is in the phase of setting up an internal audit activity.

Item 10.2: The corporate integrity function is scattered and carried out as part of the work of GEN employees.

Item 10.2.2: The company is in the process of preparing to set up an internal alert system for irregularities. Before the operation of this system, reports are possible at: https://www.sdh.si/sl-si/o-druzbi/prijava-nepravilnosti

B/ SSH recommendations and expectations

Taking into account the characteristics of its activity and the specificity of its operations, and also respecting the »comply or explain« principle, the GEN company generally successfully takes into account the Recommendations and Expectations of SSH. In accordance with the »comply or explain« principle, the company fully respected the majority of the recommendations in the year 2018, and explanations are given below about individual deviations:

Recommendation no. 3.7: is taken into account, since GEN publishes this or similar data in accordance with ZJN-3 and ZDIJZ.

Recommendation no. 3.8: GEN has clear procedures for the allocation of sponsorships and grants, but these are not published on a public website.

Recommendation no. 4.4: GEN publishes the basis for the amount of the recourse payment on the website.

Recommendation no. 4.5: The Collective Agreement for the Electricity Industry of Slovenia is available on the GEN website.

Recommendations under no. 5 are used partly in the implementation of management systems and through the implementation of internal and external audits according to ISO standards, which are also the basis for self-assessment according to the EFQM model.

Recommendation no. 6: is taken into account, according to the organizational structure of the company (d.o.o. with one owner).

II. Data on the operation of the founder in the role of the assembly of GEN

In 2018, in accordance with the founding act, GEN was managed by the sole proprietor of the company, i.e. the Republic of Slovenia, that is the Slovenski državni holding company. The managing body of GEN is the management board and the managing director in his capacity, while the supervisory body is the supervisory board.

In 2018, the company had not yet adopted the Policy of Diversity of Management and Supervisory Board (adopted in March 2019), but the founder, in accordance with the applicable regulations, followed the diversity directly.

The system of corporate integrity, in the sense of the requirements of item 10.2.1 is diversified in the company and is carried out in the context of the performance of various professional services or employees. To this end, the company adopted the Code of Ethics in 2012, which has been publicly published on the Company's website and according to which everyone who works in the company is supposed to work. The company constantly respects and strengthens corporate integrity, thereby spreading awareness of the importance of doing business in accordance with business practices and high ethical standards.

SSH as its founder, in the role of the GEN General Assembly in 2018, took decisions in accordance with the founding act, adopting 9 (nine) resolutions. SSH publicly publishes its resolutions on its website (https://www.sdh.si/sl-si/upravljanje-nalozb/koledar-skupscin), and GEN, in accordance with the ZGD-1, regularly registers them in the GEN resolution book. The founders' responsibilities are set out in the founding act, which is publicly published on the website of the Agency of the Republic of Slovenia for Public Legal Records and Services, AJPES).

III. Information on the composition and functioning of the management and supervisory bodies in 2018

The data is included in the Report on the work of the Supervisory Board in 2018.

IV. Characteristics of the internal control and risk management systems in GEN in relation to the financial reporting procedure

In order to ensure the greater transparency, efficiency and responsibility of operations, the company has established a functioning system of internal controls and risk management through the organizational structure of the company, quality management standards and internal company acts with a precisely designed reporting system by individual organizational units. The internal control system is supported in key locations by an IT control system, which ensures, inter alia, appropriate networking constraints and accurate, up-to-date and complete data processing.

The system of internal controls in the company systematically uses procedures and methods that ensure the accuracy, reliability and completeness of data and information, ensure the correct and fair preparation of financial statements, prevent and detect errors in the system and ensure compliance with the laws and regulations, acts of management bodies and company regulations.

The company's management is responsible for the management of relevant accounts and the establishment and operation of internal control and internal accounting controls, and the selection and use of accounting policies.

When establishing an internal control system, the principle of three lines of defence is respected:

- environmental assessment and risk assessment (carried out by risk owners),
- determining the type of control - setting up a control system (carried out by various expert services);
- controlling the functioning of the system and introducing improvements (carried out by various expert services).

When setting up an internal control system, three main objectives are pursued:

- the accuracy, reliability and completeness of accounting records and the truthfulness and fairness of financial reporting,
- compliance with the legislation and other regulations,
- efficiency and effectiveness of operations.

In the company, the Risk Management Committee is organized and the internal audit activity is in the process of being established.

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

5.

General information about GEN

GEN company profile

NAME **GEN energija d.o.o.**			
ABBREVIATED NAME **GEN d.o.o.**	REGISTERED OFFICE **Vrbina 17, 8270 Krško**	EMAIL **info@gen-energija.si**	WEBSITE **www.gen-energija.si**
ACTIVITY CODE **K/64.200** – activities of holding companies **D/35.140** – trade of electricity and other registered activities			

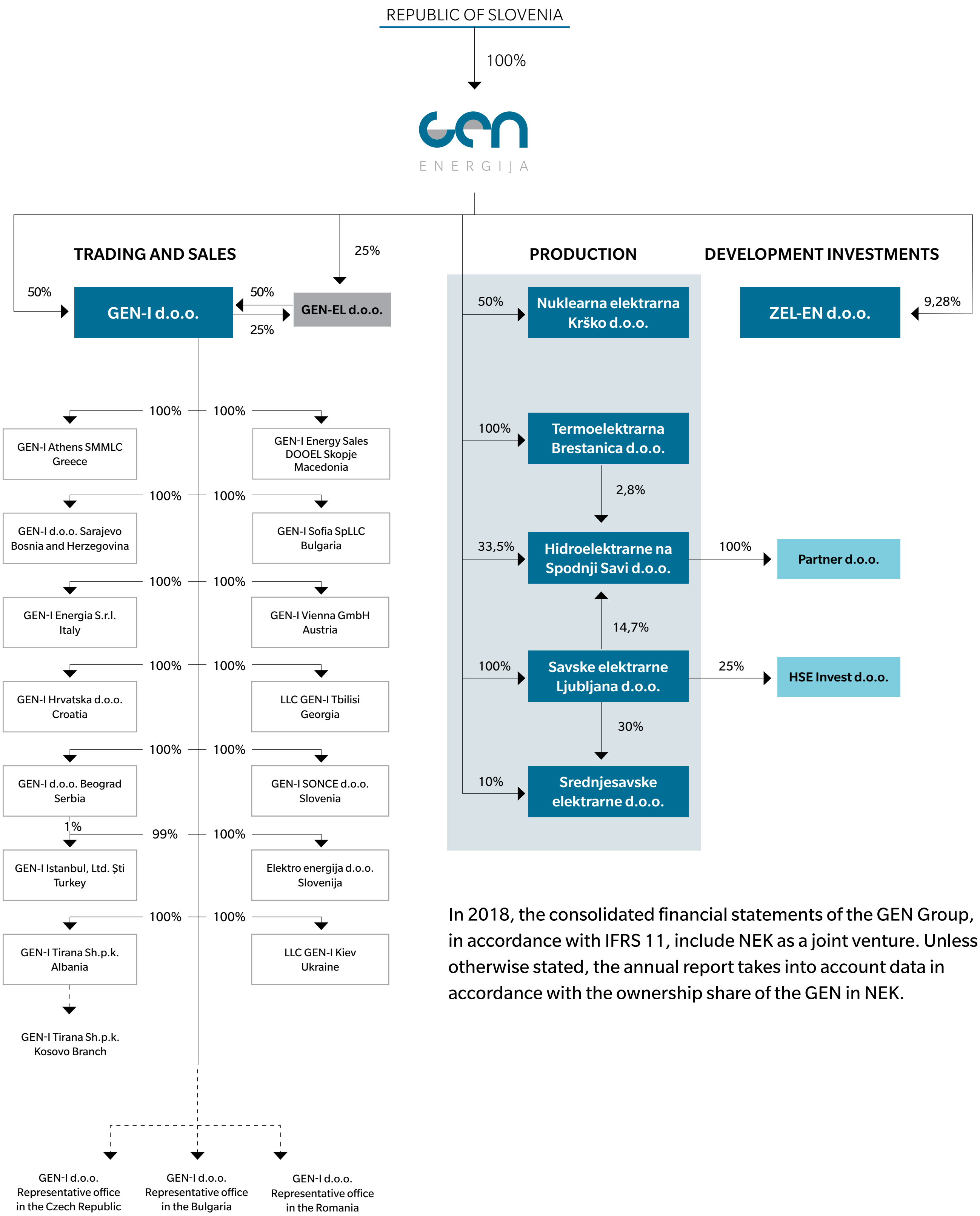
ESTABLISHMENT OF THE COMPANY **2001**	REGISTRATION **District Court of Krško, entry No. 10425000**
VAT ID NUMBER **SI44454686**	REGISTRATION NUMBER **1646613**
SHARE CAPITAL **EUR 250,000,000.00** NUMBER OF EMPLOYEES **57**	BUSINESS ACCOUNTS **Unicredit Banka Slovenija d.d.: SI56 2900 0005 5198 483** **ABANKA d.d.: SI56 0510 0801 4689 187** **NLB d.d.: SI56 0292 4009 0457 150** **SKB d.d.: SI56 0315 5100 0503 323**
CHAIRMAN OF THE SUPERVISORY BOARD **Dr. Karol Peter Peršolja**	GENERAL DIRECTOR **Martin Novšak**

5.1 GEN company bodies at 31 December 2018

FOUNDER **Republic of Slovenia, represented under the law by SDH d.d. (Slovenian Sovereign Holding or SSH)**			
SUPERVISORY BOARD			
Chairman **Dr. Karol Peter Peršolja**		Vice Chair **Saša Ivan Geržina**	
Members			
Vanessa Grmek	**Roman Dobnikar**	**Samo Fürst**	**Dr. Robert Bergant**
MANAGEMENT – GENERAL DIRECTOR **Martin Novšak**			

5.2 Affiliated companies

Companies included in the GEN Group on 31 December 2018



In 2018, the consolidated financial statements of the GEN Group, in accordance with IFRS 11, include NEK as a joint venture. Unless otherwise stated, the annual report takes into account data in accordance with the ownership share of the GEN in NEK.

6.

Holding activities of the company GEN

One of the basic activities of GEN is the holding activity, which represents the management of other legally independent companies based on the equity participation of GEN as the parent company.

GEN, as a holding company, manages companies that are part of the GEN Group in order to participate in assemblies in accordance with individual acts of incorporation or partnership agreements, manages the financial results of companies and approves the necessary documents and appoints representatives to supervisory boards of companies. GEN's management also conducts regular coordination with the management of these companies.

Production

Nuklearna elektrarna Krško d.o.o. (Krško Nuclear Power Plant) Vrbina 12 8270 Krško www.nek.si	**Savske elektrarne Ljubljana d.o.o.** Gorenjska cesta 46 1215 Medvode www.sel.si
ACTIVITY CODE	
Electricity generation at a nuclear power plant	Production of electricity in HE generation facilities
COMPANY MANAGEMENT	
Stane Rožman, President of the Management Board **Hrvoje Perharić**, Member of the Management Board	**Drago Polak**, Director
CHAIRMAN OF THE SUPERVISORY BOARD	
Kažimir Vrankić	The company has no Supervisory Board.
COMPANY STATUS UNDER THE IFRS	
joint venture	subsidiary
COMPANY OWNERSHIP	
The GEN and HEP companies each hold a 50% share of the company's share capital. The underlying company governa»cce is laid down in the Intergovernmental Agreement on the Krško Nuclear Power Plant, which lays down the company bodies: general meeting, supervisory board and management board.	Fully owned by the GEN company.
SHORT DESCRIPTION AND SPECIFIC FEATURES CONCERNING THE ACTIVITY	
Krško NPP (NEK) generates some 5,400 GWh of low-carbon electricity every year, which represents some 40% of all the electricity produced in Slovenia.	Large-scale SEL hydropower plants (Moste HPP, Mavčiče HPP, Medvode HPP and Vrhovo HPP) generate some 320 GWh of electricity every year.

Production

Termoelektrarna Brestanica d.o.o. (Brestanica TPP)	Hidroelektrarne na Spodnji Savi d.o.o. (Lower Sava HPPs)	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
ACTIVITY CODE		
Production of electricity in a thermal power plant and the provision of system reserve	Production of electricity in HE generation facilities	Production of electricity in HE generation facilities
COMPANY MANAGEMENT		
Tomislav Malgaj, Director	**Bogdan Barbič**, Director	**Matjaž Eberlinc, PhD**, Director
CHAIRMAN OF THE SUPERVISORY BOARD		
The company has no Supervisory Board.	**Janez Keržan, MSc**	**Jaka Slokan**
COMPANY STATUS UNDER THE IFRS		
subsidiary	subsidiary	affiliated company
COMPANY OWNERSHIP		
Fully owned by GEN company.	The GEN Group holds a 51% stake in HESS, 33.5% of which is held by GEN, 14.7% by SEL and 2.8% by TEB.	The GEN Group holds a 40% stake in SRESA, 10% of which is held by GEN and 30% by SEL.
SHORT DESCRIPTION AND SPECIFIC FEATURES CONCERNING THE ACTIVITY		
TEB provides the production of electricity for the purposes of covering failures of major power plants and is a reliable back-up power supply source for the Slovenian electricity system.	HESS was established in 2008 for the purpose of the rational construction of hydropower plants on the lower Sava river. The large-scale HESS hydropower plants already built (Boštanj HPP, Arto-Blanca HPP, Krško HPP and Brežice HPP) generate some 580GWh of electricity a year.	The operations of SRESA are largely limited by an unsigned concession contract on the use of water for the production of electricity on a section of the Sava river water body between Ježica and Suhadol.

Trade 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
ACTIVITY CODE	
Trade, sale and purchase of electricity	The sale of electricity and natural gas to end customers and the purchase of electricity. Management of an electricity and natural gas portfolio.
COMPANY MANAGEMENT	
Robert Golob, PhD President of the Management Board **Danijel Levičar** Member of the Management Board **Igor Koprivnikar, PhD** Member of the Management Board **Andrej Šajn, MSc** Member of the Management Board	**Majda Leban**, Director
CHAIRMAN OF THE SUPERVISORY BOARD	
The company has no Supervisory Board.	/
COMPANY STATUS UNDER THE IFRS	
subsidiary	subsidiary
COMPANY OWNERSHIP	
GEN and GEN-EL companies each hold a 50% share of the company's share capital.	The GEN-I company is the full owner of the company.
SHORT DESCRIPTION AND SPECIFIC FEATURES CONCERNING THE ACTIVITY	
The GEN-I Group purchases electricity and natural gas from producers and trades with them on domestic and foreign markets, selling them to end customers.	The company specialises in the sale of electricity, natural gas and other energy products to end customers, in purchasing from producers and in bilateral and stock-exchange trading in standardised products on the wholesale market.

Development, research, services and other

ZEL-EN, razvojni center energetike d.o.o.	**GEN-EL d.o.o.**
Vrbina 18, 8270 Krško www.zel-en.si	Vrbina 18, 8270 Krško
ACTIVITY CODE	
Research and experimental development in energy	Investment management
COMPANY MANAGEMENT	
Domen Zorko, Director	**Martina Pohar**, Director
CHAIRMAN OF THE SUPERVISORY BOARD	
/	**Andrej Ribič**
COMPANY STATUS UNDER THE IFRS	
investment	subsidiary
COMPANY OWNERSHIP	
The GEN company has a 9.28% shareholding in ZEL-EN.	GEN company has a 25% shareholding, GEN-I company 25%, Elektro Ljubljana 25%, Sklad obrtnikov in podjetnikov has 16% and Gorenjska banka 9% shareholding.
SHORT DESCRIPTION AND SPECIFIC FEATURES CONCERNING THE ACTIVITY	
By entering the ZEL-EN company, the GEN company obtained the possibility of drawing ERDF development funds for research in nuclear energy.	The Company was established for the purpose of equity consolidation of the GEN-I Group.

7.

GEN's business policy

GEN's business policy is derived from the GEN Group Development Plan for the 2015-2019 period with a view until 2024. GEN is the holder of this policy and the guardian of its implementation at all decision-making levels within the GEN Group. Thus, this business policy is becoming the basis for all GEN Group companies.

7.1 Vision

We are designing a safe, reliable, sustainable and competitive energy future for Slovenia.

7.2 Mission

We are reliably supplying low-carbon electricity from sustainable and renewable sources at competitive prices. We create added value for our stakeholders as we control the entire electricity supply cycle:

- we produce electricity in an environmentally responsible, safe and reliable way,
- we effectively market and sell it, and
- we are deliberately developing and investing in the maintenance of existing production capacities and strengthening new ones.

Connectedness of the vision, mission and values of GEN

7.3 Values

Our operation is responsible, efficient and transparent, and based on knowledge and expertise. We are building our focus on the results that we are achieving today and the experience we have gained from them.

In the complete supply of electricity, we realize the following key values:

- **Environmental acceptability:** the concern for operation in accordance with the environmental standards is a key postulate for the GEN Group's operations, since the electricity production of Group companies has an extremely low impact on the environment with various emissions.
- **Safety:** at the heart of all levels of our work is the pursuit of safety, in particular nuclear safety; we take care of the safety of employees, residents and the environment and of the safe operation of technologies in our production facilities.
- **Reliability:** we ensure the reliable supply of electricity from sustainable and renewable sources, especially from nuclear and hydropower; it is always available to customers when they need it. Trading is also an important element of the security of supply, as this is crucial in the case of unreliable production of our facilities.
- **Sustainability:** we provide environmentally responsible, socially responsible, efficient and business-friendly electricity from low carbon sources: these are the key sustainability guidelines for our operations.
- **Competitiveness:** the electricity we sell and market is affordable to industrial and household customers - thus, we contribute to strengthening the stability and competitiveness of the business environment and to enhancing social well-being.

In our work, we take into account the rules of business ethics, which we have written in the Corporate Ethics Code of the company GEN energija d.o.o.. By acting in accordance with this Code, we maintain and upgrade the high standards of our operations, aimed at building a safe, efficient, professional and developmentally oriented work environment, which all employees of GEN are proud of.

7.4 Strategic goals

GEN's strategic goals are:

- the management, operation and maintenance of existing facilities and investing in them with the aim of ensuring the **long-term safe, reliable, environmentally friendly and economically efficient operation of existing production units,**
- **expanding the sales portfolio of electricity and services** related to the electricity market with the aim of increasing competition in this market,
- **investing in new production capacities** on the basis of renewable and sustainable sources and technologies with the aim of increasing the reliability of the electricity supply to consumers and thus contributing to the sustainable development of Slovenia.

8. Pursuing sustainability focuses through responsible operations

In the GEN Group, we understand the responsibility of our operations as a process of the continuous implementation of sustainable orientations, i.e. the efforts for:

- **operational efficiency and business excellence,**
- **environmental responsibility** and
- **social diligence** of the companies and the GEN Group.

In the intersection of the strategic pillars of the sustainability of the GEN, **safety** and **knowledge** are key to success in all the above areas: operational, business, environmental and social.

8.1 Strong safety culture

The pursuit of safety is at the heart of all levels of our responsible business:

- **environmental responsibility:** the realization of a responsible attitude towards the inhabitants and the environment in which we operate,
- **social diligence:** ensuring the health and safety of employees at work, both in the production facilities and in the office environment,
- **operational efficiency:** achieving the operational efficiency of GEN production facilities, and the resulting **business excellence**.

Our security priority is to ensure **nuclear safety**. All the decision-making and work processes of companies included in the GEN Group are affected by the security culture.

8.2 Achieving excellence through knowledge

Knowledge is the second intersection of our responsible behaviour in the operational, business, environmental and social fields. We strive for a high level of knowledge in the internal and external environment. **Knowledge in the internal environment** is provided by professionally qualified employees with appropriate formal education and functional skills, experience and skills in responsible, efficient, successful and dedicated work. The motivation for acquiring knowledge and its transfer, both among colleagues and stakeholders in the external environment, is crucial in our work.

We are aware of the importance of a society based on knowledge and expertise. Knowledge and understanding of energy and energetics **among various external stakeholders** play an important role in the creation of a feasible, sustainable energy future in Slovenia.

8.3 Quality assurance policy

We are constantly striving for:

- the establishment of a culture of quality assurance at the highest level and a safety culture with the aim of meeting the requirements for the comprehensive supply of electricity to customers,
- shaping an internal working environment that encourages employees to participate in achieving goals,
- meeting requirements and continually improving the success of the quality management system, and
- the rationalization of operations with the standardization of tasks execution and optimization of resource use.

8.4 Implementing the GEN Group's corporate policy

Development Plan of the GEN group

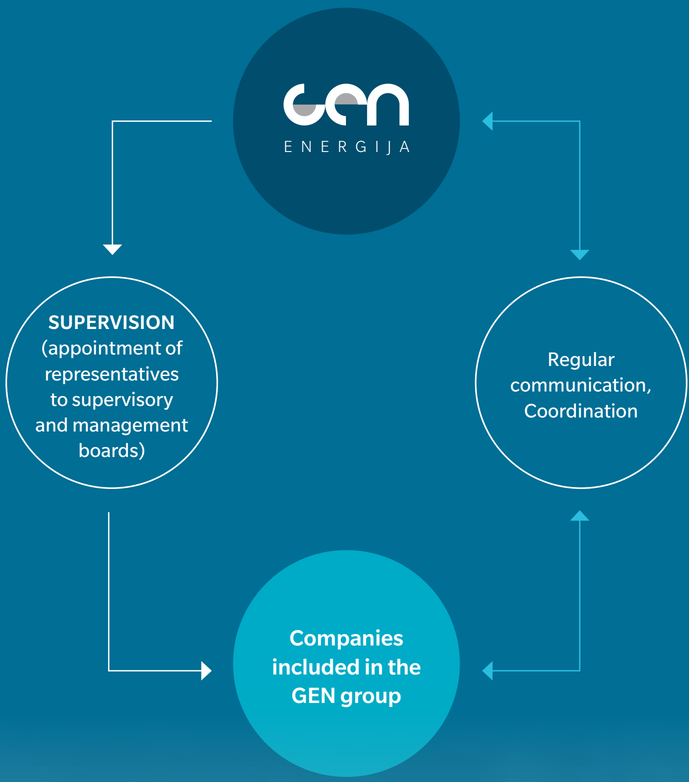
Since 2015, we have been implementing an action plan for optimizing the operations of the company and the GEN Group, which was prepared on the basis of the GEN Group Development Plan for the 2015-2019 period with a view to 2024 and adopted by SSH as the founder of the company. We strive to fulfil the set goals and implement the envisaged measures in the field of business rationalization and an increase in cost efficiency.

Cooperation, coordination and communication among companies

The open communication between all the companies included in the GEN Group is a guarantee of the availability of relevant information that is crucial in:

- corporate governance,
- direction of operation,
- monitoring of approved investments, and
- consideration of development activities.

GEN's involvement with companies included in the GEN Group



Special attention is paid to the specificities of the management and operation of the nuclear facility, since it requires the owner's in-depth understanding of the needs for suitable personnel and the adequate provision of financial resources to enable the reliable and safe operation of the NEK. The results of the operation of NEK in recent years confirm the suitability of the corporate organizational and staff upgrading necessary for the successful operation and long-term safe operation of NEK.

Relations with stakeholders

Relations with our key stakeholders are established, maintained and upgraded in accordance with their values of responsible, efficient and transparent operation based on knowledge, professionalism and continuous security efforts.

We are establishing a dialogue with stakeholders and cooperating with them, and in accordance with their interests and the identified interactions in different ways, we get involved in their activities. Building stakeholder confidence in our work is crucial to generating the value and reputation of the GEN Group.

Fulfilment of strategic goals

We note that the GEN Group achieves strategic goals in line with the GEN development plan at the strategic level in terms of operational efficiency and business excellence, as well as environmental accountability and social diligence.

In the area of trading and sales of electricity, we have upgraded our ownership and business relations, which enable a competitive position on the market in the long run. With the vertical integration of the GEN Group, production facilities can access end customers, households and business customers with their products. Managing the entire value chain is our biggest competitive advantage.

By optimizing the costs of services throughout the chain, from production to sale, electricity is largely acquired by electricity customers in the household and commercial segments. GEN energija provides the conditions for stable operation and the operation of all power plants in the GEN Group, which together account for 40% of all electricity produced in Slovenia - of which more than 99% is from low-carbon sources.

GEN and stakeholders

9.

Notable events in the companies making up the GEN Group

January

TEB TEB has had no supervisory board since the entry of a new act of incorporation of 5 January 2018 in the court register.

Based on the contract on the sale of a TEB shareholding in Geoplin d.o.o. signed with PETROL d.d., Ljubljana (March 2017), the payment of the purchase consideration was effected on 30 January 2018 after the suspensive conditions were met.

HESS At its 104th regular session, the Supervisory Board reappointed Mr Bogdan Barbič as the Director of HESS for a term of 5 years, i.e. from 1 April 2018 to 31 March 2023.

February

SEL On 28 February 2018, SEL obtained a building permit for the removal of the existing plant and construction of the new small-scale Borovlje HPP.

TEB In relation to the issued permit for the emission of greenhouse gases, the authorised institution conducted a verification of the report on greenhouse gas emissions.

HESS Kostak d.d., as a member of a consortium that performed construction works in the erection of a weir – LOT A2 Brežice HPP filed a legal claim against HESS for the payment of EUR3,390,431 with all pertaining dues. HESS has contested the claim as unfounded.

GEN-I The GEN-I company organised the 11th Partners Convention, where it presented the successful business results achieved in the previous year and trends in energy markets for the efficient purchase of electricity in the coming years.

March

NEK NEK is successfully completing the 10th consecutive fuel cycle, which is otherwise the 29th and commenced after the completed overhaul on 5 November 2016. During that period, the power plant operated in a stable manner, meeting high nuclear industry standards, and fed 8.37 billion kilowatt hours of electricity into the grid.

TEB An internal technical inspection and an expert technical inspection were successfully completed in the project to construct a new PB6, which was conducted by the issuer of the building permit, the Ministry of the Environment and Spatial Planning.

HESS In the procedure to obtain an environmental permit, the company received the last positive expert opinion regarding the acceptability of the Mokrice HPP works on 23 March 2018 from the Institute of the Republic of Slovenia for Nature Conservation, which finds that the works will have no major impact on the conservation aims of conservation areas upon the implementation of all foreseen measures.

A procurement procedure for the selection of a design engineer was successfully completed and a contract was signed for the production of design documents (Building Permit Design, Executive Design, As-Built Design), tender documents, technical documents and engineering supervision in the construction of the Mokrice HPP.

March

GEN-I Dr. Robert Golob, Chairman of the Board of the GEN-I Group, received the most prominent award that could be presented to an economist at the state level for the long-lasting successful management of the company, namely the 2017 jubilee award of the Slovenian Chamber of Commerce and Industry for outstanding economic and entrepreneurial achievements.

The green bond, which was issued in 2017 by GEN-I Sonce, received a prominent award from the international Climate Bonds Initiative.

Energy experts assessed GEN-I as the best trader in electricity in Eastern Europe for the second year in a row, allowing the company to reinforce its position among the most discerning players on the European energy market.

GEN-I has become a good practice example of the design of a consumer-friendly invoice and a model example for other market players.

April

NEK During regular overhaul at the Krško NPP, which started on 1 April, the nuclear fuel was replaced. In the reactor core, which consists of 121 fuel elements, 56 fuel elements were replaced with fresh ones. A comprehensive standard program of maintenance and inspection of the mechanical, electrical and metering and regulating equipment was completed. Control tests confirmed that the systems, structures and components are capable of performing their task. The investments planned in technological upgrades were completed. There were 9 upgrades, which can be broken down into two lots: updates to enhance operational security and updates under the safety upgrade programme.

With the professional and expert work of all participants, the overhaul was completed within the planned scope and included some 37,000 activities. NEK was reconnected with the electricity system on 1 May 2018.

SEL Based on a Contract on the disposal of a shareholding in UTA d.o.o., Žirovnica, of 24 April 2018, SEL bought all the shareholdings of the mentioned company, which owns the small-scale Hrušica HPP with a concession right until 2034.

TEB Gas generator sets PB1, PB2 and PB6 successfully passed a black start test with islanding from a part of NEK's own consumption.

The decision on the start of trial operations of PB6 was obtained.

The trial operation of PB6 started on 19 April 2018.

HESS The Investment Programme for the Mokrice HPP – energy section – was confirmed.

The repayment of the principal amount of a long-term loan hired from SID Bank started.

May

GEN-I GEN-I again won the Trusted Brand 2018 award. The company has won the award in the category of »Energy providers« four times in a row, but this year also received an environmental protection award for the second time.

June

GEN-I GEN-I successfully completed the simultaneous issue of a debt security (bond) and a money market instrument (commercial paper). The issues were well received by investors, as the company received binding offers from interested investors with a value exceeding the forecast amount of the company's debt on the capital market by two times.

TEB The execution of a business excellence project under the EFQM model started.

July

NEK The power plant was briefly disconnected from the grid due to the removal of metering connections at the main transformer feedthroughs. The preventive disconnection of the power plant from the grid was not related to the power plant condition, but to deviations in the operation of the transformer control system, which provides information about transformers based on measurements.

HESS In a procedure to assess environmental impacts, the Slovenian Environment Agency (ARSO) issued positive environmental consent to the Mokrice HPP works on 17 July 2018.

August

HESS A notice party to the procedure filed a complaint against the issued environmental permit. The procedure continues at the Ministry of the Environment and Spatial Planning awaiting the finality of the environmental permit.

GEN-I The bonds and commercial papers of GEN-I d.o.o. were admitted to trading on the regulated market of the Ljubljana Stock Exchange.

September

TEB On 14 September 2018, the Ministry of the Environment and Spatial Planning issued an operating permit for PB6, which successfully closed the administrative procedure to obtain an operating permit. The operating permit was obtained early, i.e. sooner than 6 months from the acquisition date of the decision on the start of trial operation. By acquiring an operating permit, the condition for the launch of commercial operation of gas unit PB6 was met.

HESS A public procurement procedure was published for the Mokrice HPP – LOT TGD, covering horizontal tubular turbines and generators, as well as the lifting equipment for the machine room.

GEN-I The GEN-I Group set up the first solar power plant in Croatia.

October

NEK Members of the IAEA OSART mission checked the implementation of the mission recommendations from 2017 between 15 and 19 October 2018.

SEL On 5 October 2018, SEL entered the merger of UTA d.o.o. by acquisition in the court register, whereby the latter ceased to exist as a legal entity and was deleted from the court register. All rights, obligations and legal relations of the acquired company transferred to SEL on the date of entry in the court register.

HESS On 11 October 2018, the Ministry of the Environment and Spatial Planning issued an operating permit to HESS for the Brežice HPP weir. Thus, the one-year trial operation of the latter came to an end.

TEB The 3-month elimination of the key deficiencies found through internal controls during the operation of PB6 started.

November

HESS At the start of November, the Ministry of the Environment and Spatial Planning rejected the appeal filed by a notice party to the procedure that had objected to the issued environmental permit for the construction of the Mokrice HPP as unfounded.

GEN GEN became a member of the BSP balancing market.

December

GEN-I GEN-I Zagreb received the award for the most successful small and medium export enterprise within the scope of the Economist of the Year manifestation and the »Business Take-Off« project.

HESS A notice party to the procedure filed an appeal against the first instance decision issued by the Slovenian Environment Agency regarding the issued environmental permit for the Mokrice HPP and initiated an administrative dispute before the Administrative Court.

TEB A procurement procedure was published for GAS TURBINE UNIT PB 7 – LOT 1, covering the supply of technological equipment and pertaining construction works.

At the beginning of 2019, the Administrative Court annulled the decision of ARSO for the issued environmental protection consent for HH Mokrice and returned it to ARSO for re-examination.

There were no other events that would have a significant effect on the GEN Group and the business report for 2018 after the reporting date.

ANNUAL REPORT
OF THE GEN COMPANY AND GROUP
2018

II

Business report

1.

Economic trends and their impact on the electricity sector

Economic growth in the euro area as lowered, but remains positive

In 2018, the average economic growth in the euro area was 1.8%.

Economic growth will gradually slow down over the current year and in the next two years. The importance of domestic consumption will increase; export will contribute to the growth less.

+1.8%

Source: UMAR

Average annual inflation rate

Consumer prices
+1.4%

+1.7%
inflation rate in Slovenia

Commodity prices
+3.0%

Prices of services
+0.7%

Data source: SURS

Factors of economic growth

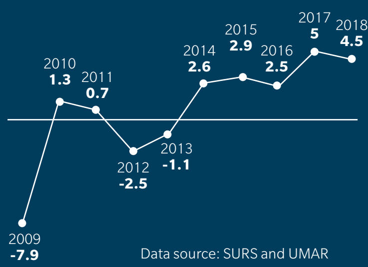
Growth of domestic consumption

External demand

Data source: UMAR

In Slovenia, an economic growth of 4.5% was recorded

Real GDP growth

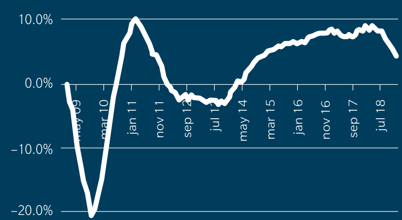


Data source: SURS and UMAR

Industrial production growth 2018

For the electric power industry, the growth of industrial production is important because it is the generator of the growth of consumption of EE and others energy products.

12-month change in export and industrial production



Source: Statistical Office of the Republic of Slovenia, processed by Analytics at CCIS

Unemployment in Slovenia is at its lowest so far

45,000 unemployment
24.3% less than in Q4 2017

-24.3%

Data source: SURS

Factors affecting Slovenia's energy sector in 2018

The process of preparing the National Energy and Climate Plan and the Energy Concept for Slovenia

The Ministry of Infrastructure, the Energy Directorate, continued the discussion on the creation of the Energy Concept of Slovenia (EKS), which will set a strategic framework for the development of energy in Slovenia until 2030 with a view to 2050. In 2018, the proposal of the EKS and the proposal of the Resolution on Slovenia's Energy Concept for public discussion, to which we responded and commented.

At the end of the year, the first draft of the National Energy and Climate Plan (NEPN) was prepared, the process of adoption being continued in 2019.

Energetics In 2018

Debate on key challenges for the preparation of The energy concept of Slovenia

Volatile prices of electricity

approx. 51.16 EUR/MWh

Hydrology

Average hydrology

Net import

Slovenia remains a net importer of electricity (18%).

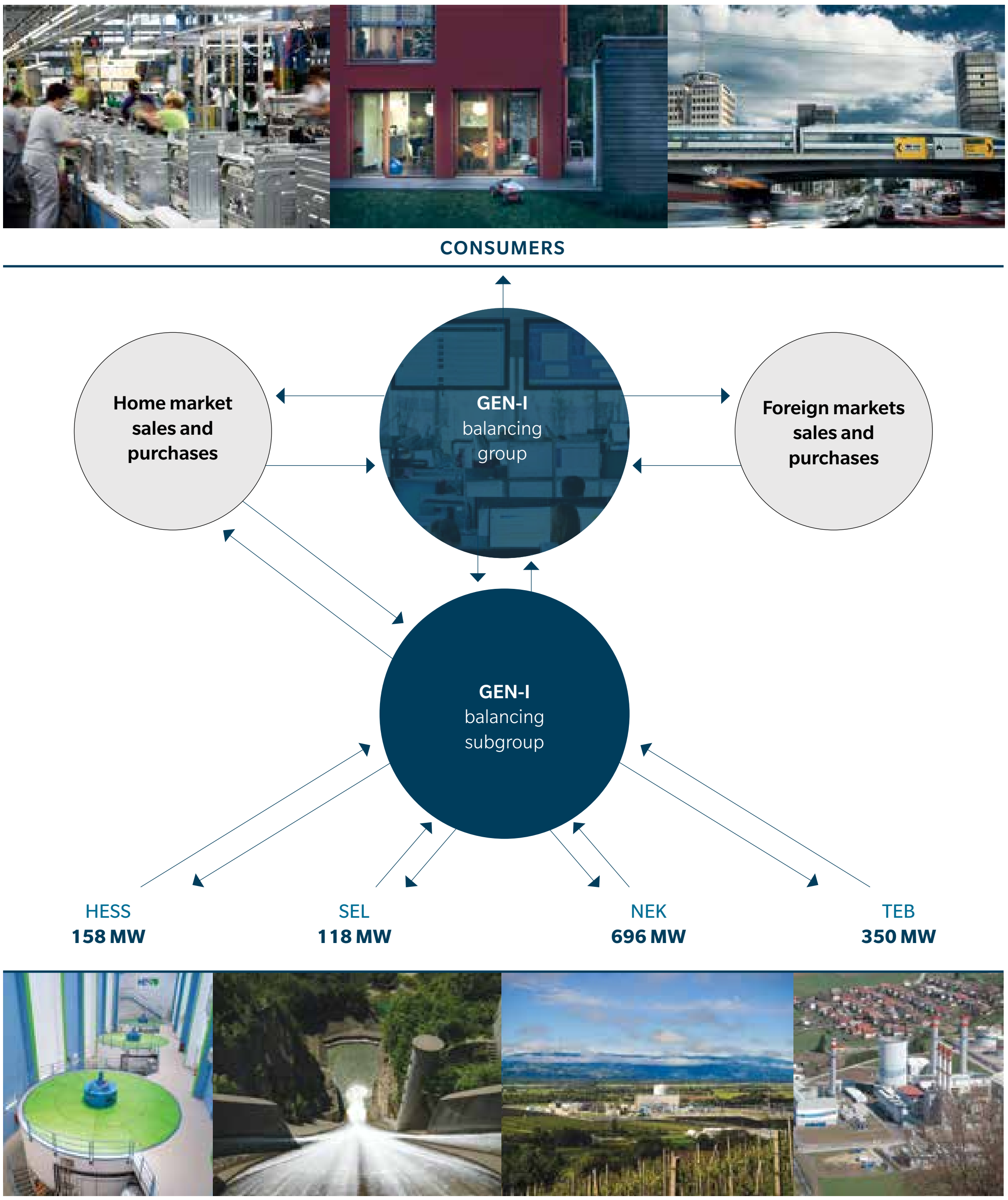
2.

Electricity production and ancillary services

2.1 Electricity production

The production of electricity in large units of the balance subgroup GEN in the year 2018 amounted to 3,410 GWh. No less than 80.5% of the electricity produced was produced in the nuclear power plant. Hydroelectric power plants contributed 19.1%, while gas power plants contributed 0.4%. With the help of the NC GEN, which coordinates the operation of the entire GEN balance subgroup, the production units operated in a coordinated manner, and unexpected events were effectively mitigated, which is reflected in the business results.

Graphic representation of the relationship of the GEN balance subgroup



Electricity generation units in companies included in the GEN Group

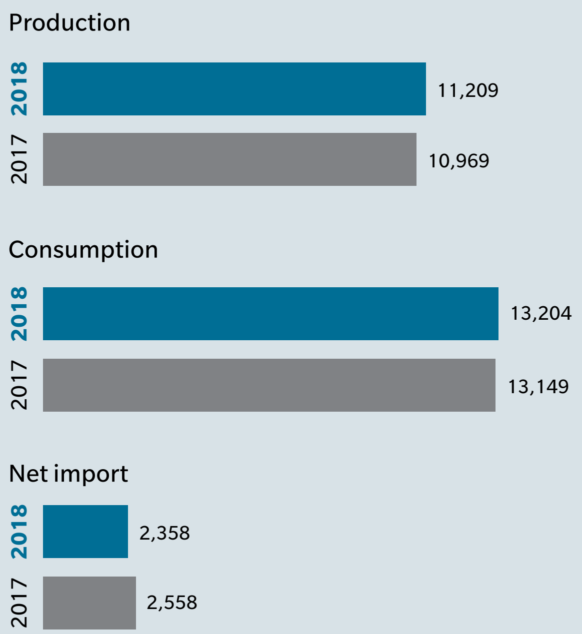
NEK		NEK	Total
Net capacity	MW	696.0	**696.0**
Rated capacity of generator	MVA	850.0	**850.0**

		Moste	Završnica	Mavčiče	Medvode	Vrhovo	MHE	
SEL	**No. of agr.**	**2**	**1**	**2**	**2**	**3**	**4**	**Total**
Net capacity	MW	13.0	8.0	38.0	25.0	34.0	0.3	**118.3**
Rated capacity of generator	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**
Rated flow Qi	m^3/s	26.0	6.0	260.0	150.0	500.0		

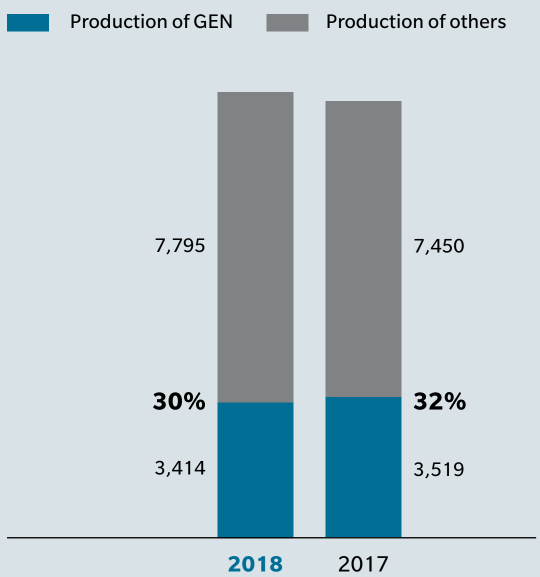
		Boštanj	Arto - Blanca	Krško	Brežice	
HESS	**No. of agr.**	**3**	**3**	**3**	**3**	**Total**
Net capacity	MW	32.5	39.1	39.1	47.4	**158.1**
Rated capacity of generator	MVA	43.5	49.5	49.5	64.5	**207.0**
Gross head Hbr.	m	7.5	9.3	9.1	11.0	**36.9**
Rated flow Qi	m^3/s	500.0	500.0	500.0	500.0	

TEB		PB1	PB2	PB3	PB4	PB5	PB6	Total
Net capacity	MW	23.0	23.0	23.0	114.0	114.0	53.0	**350.0**
Rated capacity of generator	MVA	32.0	32.0	32.0	155.0	155.0	67.4	**473.4**

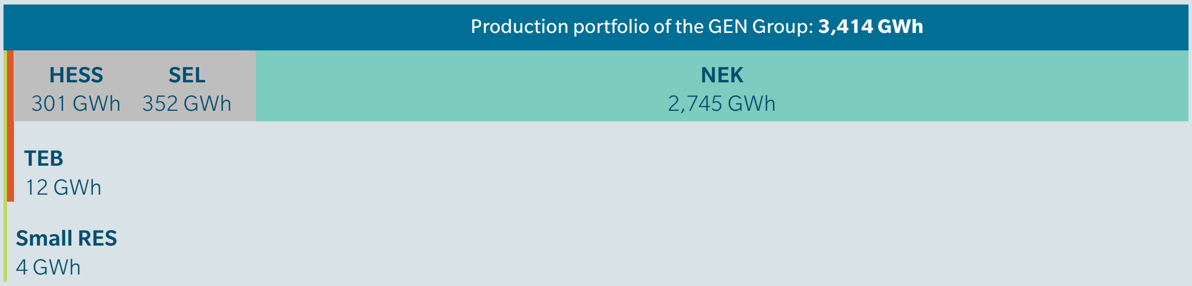
Slovenian electricity market (in GWh)



Production share of the companies included in the GEN Group in the total electricity production in Slovenia (in GWh)



Production of electricity in the GEN Group companies, by source in 2018



In addition to large production facilities, the companies included in the GEN Group also own small production units that they independently dispose of and are not included in the GEN sub-total. In general, the small production units of the companies included in the GEN Group produced 4.06 GWh of electricity in 2018 from renewable sources.

Operational efficiency

In 2018, our large production units produced 3% less electricity than in 2017. In spite of better hydrology, the lower production of the GEN Group is mainly due to lower production in NEK, since there was no annual overhaul in 2017.

Following the take-over of the remote control of HPP Boštanj and HPP Arto-Blanca in 2016, CV GEN took over the remote control of NEK after the inclusion of the Brežice HPPs. In CV GEN, which has been operating since 2008, in addition to the management of the lower Sava chain, production in SEL, TEB and NEK is also planned and controlled. CV GEN ensures optimum production in all power plants in the group and optimizes the cost of operation at the level of the entire GEN Group, and also coordinates the implementation of system services for the needs of the EES (tertiary activation, regulation of reactive energy, start-up).

Production of electricity at large-scale units (in GWh)

	2018	2017	Range %
NEK	2,745	2,984	92
HESS for GEN	301	233	129
SEL – large-scale HPP	352	289	122
TEB	12	12	100
Total	**3,410**	**3,518**	**97**

NEK

The largest production facility is NEK, which covers the basic bandwidth throughout the year in the daily diagram of electricity consumption. In 2018, NEK produced 5,489 GWh of electricity. The amount of electricity that belongs to GEN according to the Intergovernmental Agreement on NEK is 2,745 GWh.

The power plant operated safely throughout the year. The operation of NEK in 2018 was significantly influenced by the fact that this was a year of overhaul (in NEK, a fuel cycle, i.e. a period between two fuel exchanges, lasts 18 months and the next change is scheduled for October 2019). In terms of NEK production in 2018, besides stopping due to a regular overhaul in April, we also recorded a shorter shutdown in July due to the elimination of a deviation of the voltage measurement on the high voltage side of the #2 main transformer. The realization of NEK for 2018 is nevertheless above the planned level and amounts to 101.1%.

Indicators of the performance and utilization of NEK in 2018

NEK Performance Indicator (according to WANO): 90.92%

The Performance Indicators (Performance Indicators as defined by the World Association of Nuclear Plant Operators - WANO) shows the percentage ratio of the available generation of electricity in a given period and the reference energy production over the same period.

NEK utilization indicator: 91.45%

The utilization indicator is the ratio between the energy produced in a given period and the energy that could have been produced at maximum capacity and continuous operation over the same period.

SEL

The SEL production units in EES are intended primarily for covering the daily consumption chart with the possibility of using accumulators for the transfer of night energy in the daytime. Hydroelectric power stations on the Sava River are mostly flowing with daily accumulation. This means that they can participate in systemic regulation on a daily scale caused by uneven electricity consumption (by hours of the day). HE Moste is the only accumulation plant with weekly accumulation in Slovenia. Thus, HP Moste can only participate in systemic regulation in a weekly volume caused by uneven electricity consumption.

In the year 2018, the production of electricity in large hydropower plants SEL amounted to 352 GWh, which is 22% more than in the previous year. Higher production compared to the previous year is due to the better hydrology of the Sava River. The realization of SEL for 2018 amounts to 109.9% of the business plan.

In 2018, the company successfully implemented all anticipated remounts and revisions of aggregates.

TEB

The production of TEB depends significantly on the operation for the purpose of covering the failures of larger units in the EES. In case of favourable conditions in the electricity market, part of the TEB production is also intended for the needs of the market itself. In TEB, 12.3 GWh of electricity was generated in 2018. However, since GEN captured its own use of TEB from other generating units of the balance sheet GEN, the net production of TEB was 6.8 GWh.

For the needs of tertiary regulation of the system, in 2018, 24 activations or 38 start-ups of individual gas blocks in TEB were registered, 18 start-ups at SEL and 14 start-ups at HESS. Less than 4 GWh of electricity was generated. Despite the high number of start-ups, the production of TEB is low, which also indicates that the other production units, both in the GEN balance subgroup and in the entire electricity system, operated reliably. Therefore, the operation of the TEB as a reserve was not necessary to a greater extent.

In 2018, the investment in the new gas block PB6 was completed. After successful tests, 6-month pilot operation and an acquired operating license, the turbine is ready for commercial operation. In addition, PB6 generated a good 6 GWh of electricity in 2018.

In TEB, regular annual audits of all the other gas blocks were carried out successfully and within the planned deadlines, and in accordance with the maintenance plan, the measurements and inspections of equipment and instrumentation were also carried out. During the repairs and audits, no major peculiarities were noted, except for the problems of all three old gas blocks – PB1, PB2 and PB3 – where the supply of spare parts (especially the instrumentation area) is getting more difficult every year.

HESS

In 2018, GEN acquired 301 GWh of electricity from HESS, which represents 129% of the realization compared to the previous year. The greater realization of the takeover is the consequence of better hydrology compared to the previous year, and some contribution was also made by the year-round operation of HPP Brežice as the largest power plant in the chain compared to 2017, when the plant was in the testing phase for an even larger part of the year. Otherwise, the hydrology of the Sava river was better compared to 2017. The realization of the HESS production for 2018 amounts to 102.3% of the business plan.

Low-carbon energy source portfolio

No less than 99.6% of all the electricity produced in the power plants of companies included in the GEN Group is from sustainable and renewable sources - nuclear and aquatic energy.

Thus, in 2018, we significantly contributed to the implementation of low-carbon electricity production. Effective and safe, and with the aim of preserving and improving the quality of the environment and mitigating climate change.

The production portfolio of companies included in the GEN Group is environmentally acceptable and sustainable in terms of CO_2 emissions compared to the national Slovenian portfolio of electricity production sources.

The average CO_2 emissions during the operation of the GEN Group's power plants, the main source of which is low-carbon nuclear and aquatic energy, amounted to only 3 g per kWh in 2018. At a national level, the share of electricity from nuclear and hydroelectric power plants in the energy mix allows Slovenia to rank high among the countries with the lowest CO_2 emissions in the production of electricity - despite the thermal power plants running on fossil fuel sources, where the greatest discharges are recorded, with an average of 990 g of CO_2 per kWh, is more than three times higher than the Slovenian average. The latter amounted to approximately 300 g per kWh in 2016.

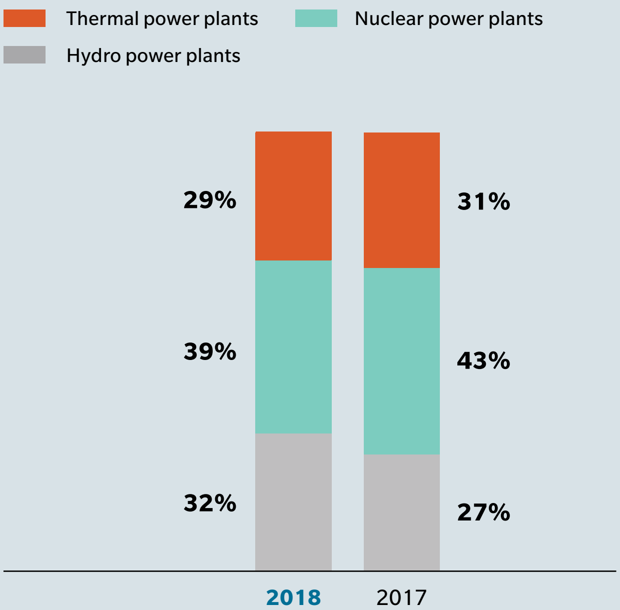
In the year 2018, GEN received grants - operating support for electricity produced from renewable energy sources in the amount of EUR 13,484, disclosed by GEN in accordance with Article 4 of the Transparency of Financial Relations Act and the separate recording of various activities (Official Gazette of the RS, No. 33/2011).

Sustainable and renewable energy sources of the electricity production portfolio*

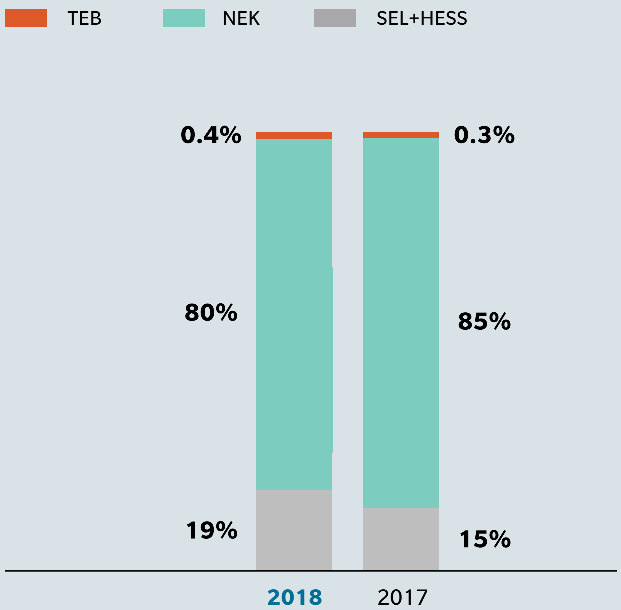
	Power plant	Electricity generated in GWh	Share of total production
Nuclear energy	NEK	2,745	81
Hydropower	HESS for GEN	301	19
	SEL	352	
Total		**3,398**	**100**

* The table does not cover the production of electricity in small hydropower plants and small solar/photovoltaic power plants (MFE), as it only represents a smaller share compared to production in the nuclear power plant and large hydropower plants (total 0.08% of the total electricity generated in the GEN group).

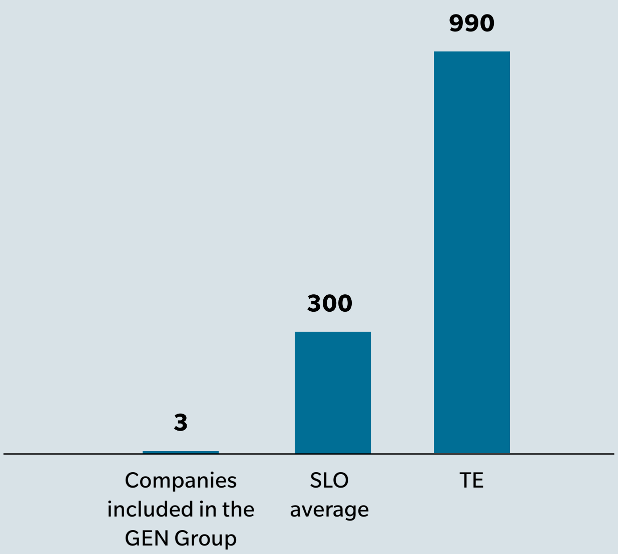
Breakdown of electricity generation sources in Slovenia



Breakdown of electricity generation sources in companies included in the GEN Group



Comparison of CO_2 emissions during power plant operation



2.2 Ancillary services

Because of the extremely stable operation and the provision of great reactive power, the NEK is also an important support point for the stabilization of critical operating conditions and the voltage conditions of the electricity system within the European ENTSO-E connection.

SEL units provide tertiary control and reactive power and have the ability to start aggregates without an external power supply.

The main task of TEB within EES Slovenia is to perform the role of a power plant that primarily provides system services (tertiary regulation, possible secondary regulation in case of the operation of a larger gas block, starting aggregates without an external power supply and the island power supply of NEK). Depending on the specific role of TEB, its installations, fixtures and equipment have a special, difficult operating regime with a high number of starts and a small number of operating hours, which requires a specific approach to maintenance.

Infrastructural capital

Electricity generation

- at the Nuclear Power Plant (NEK)
- at hydro power plants (SEL and HESS)
- at the gas-fired power plant (TEB)

Operational efficiency

Natural capital

Low-carbon energy source portfolio:

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

Employees and intellectual capital

Knowledge and skills of employees to ensure operational efficiency of generation units.

Social capital

System services, stabilisation of critical operating conditions, tertiary regulation.

A comprehensive overview of links between capital and financial and non-financial information on the operations of the GEN Group in 2018 (Business Report) is in chapter V.3.

3.

Purchase of electricity

The purchase portfolio of companies included in the GEN Group consists mainly of electricity from its own production units, which are dominated by nuclear and renewable sources. In a small proportion, the portfolio also includes purchases of energy from other sources in order to optimize production and improve the profitability of the portfolio and provide system services, in particular tertiary regulation.

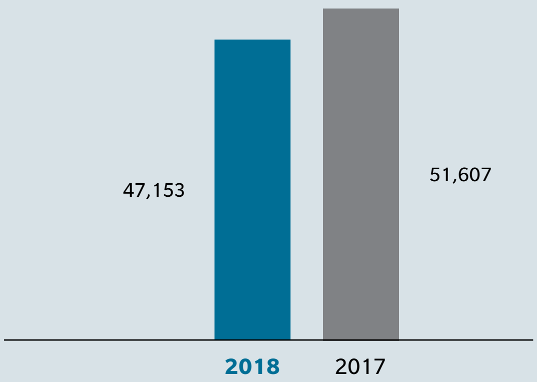
In addition to the aforementioned own production units, the purchase portfolio was supplemented with other domestic and foreign producers and brokers. In this way, we are able to meet all the requirements of both large and small customers, as we have developed a comprehensive range of intermediary services for sale on the market, from intra-day to multi-year transactions. The flexibility resulting from this, however, makes it possible to buy from different types of producers, with a particular emphasis on manufacturers who have a declaration for a production device (hereinafter: DP).

In 2018, the purchase portfolio amounted to 47, 153 GWh of electricity and decreased slightly compared to the previous year, more precisely by 8.63%, which is merely a reflection of the lower requirements for the purchase of electricity for trading purposes.

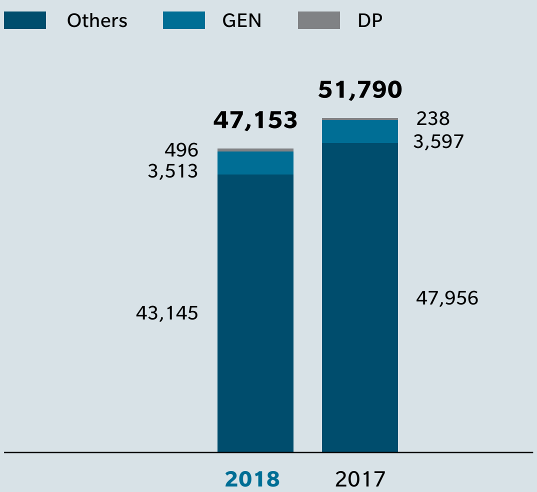
In order to facilitate the presentation, the quantities of purchases and sales of electricity are presented below, taking into account the proportional consolidation of the NEK and taking into account the total quantities of GEN-I. The difference in 2017 is due to the electricity sold to Elektro energija, which joined the GEN-I Group in 2017.

As of 2018, there are no differences in consolidation. The companies included in the GEN Group together accumulated 47,153 GWh of electricity, thus remaining behind last year's volume by 9.83%. Of that, 496 GWh were purchased from other producers (DP), while 3,597 GWh was provided by GEN from its own production units. The remaining purchase side of the electricity portfolio refers to the supplies of the GEN-I trading organizational unit.

Quantity of electricity purchases of companies included in the GEN Group (in GWh)



Purchase of electricity from companies included in the GEN Group (in GWh)



Infrastructural capital

The electricity purchase portfolio: own and foreign generation sources (domestic and foreign producers) Amount of electricity purchases (in GWh)

Advanced (software and IT) infrastructure to meet the customers' expectations

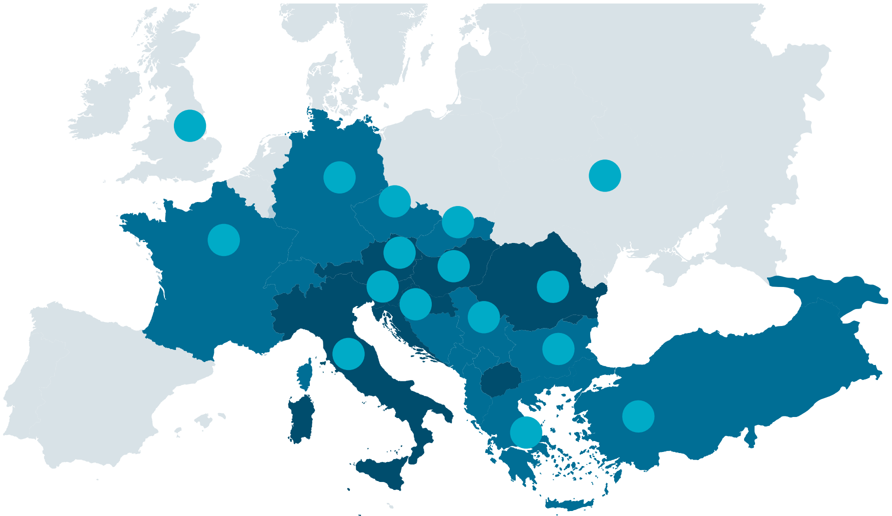
Employees and intellectual capital

Development of comprehensive agency services and flexibility (from one-day to several-year deals)

A comprehensive overview of links between capital and financial and non-financial information on the operations of the GEN Group in 2018 (Business Report) is in chapter V.3.

4. Electricity trading and sales

Geographical presence of companies included in the GEN Group



18 European power exchanges

Electric power and natural gas

Electric power

In 2018, we continued the planned way of trading and sales of electricity, and thanks to our own knowledge and skills, we sold more and more electricity, including production from our own resources. The GEN Group ensures the efficient trading of electricity, while the cross-border wholesale trading infrastructure provides us with all the price data and information needed to optimize the use of production sources. In order to efficiently use production sources and for the secure, reliable and high-quality supply to final customers, in 2008, we set up a trading function for a day in advance (»day-ahead«) and intra-day trading, which in 2018 also took care of the sale of surpluses and purchases of electricity shortages in cooperation with CV GEN.

In the field of electricity sales, GEN is the key link between GEN and GEN-I, which has further strengthened its position with ownership consolidation and the conclusion of a new umbrella agreement. The basic characteristic of the connection is that GEN-I performs a service for the sale of electricity for GEN under precisely defined conditions. In such relations, GEN is primarily provided with band power, while GEN-I ensures modulation so that at the level of the GEN Group, we can form a complete service according to the wishes of the customers. Most of the produced quantities are sold by GEN annually on the basis of the annual sales strategy, to which the SB GEN gives its opinion. The daily delivery of appropriate quantities according to concluded contracts and the optimization of sales is carried out with short-term purchases, selling surpluses when they arise.

4.1 Trading

Trading of the GEN group was very successful in 2018. Despite the fact that the volume of trading of 47,153 GWh of electricity was slightly lower than a year earlier, the results were even more successful, which was also helped by the rise in electricity prices.

By entering new markets, we are expanding the economy of scale, and at the same time we have established instruments and obtained all the necessary permits for the overall management of electricity surpluses and deficits resulting from contracts for the purchase of electricity from production sources and the supply of electricity to final customers.

In addition to daily trading (»day ahead« and »intra-day«), with which we make final adjustments and optimize trading, we also use a number of other types of leverage of dynamic trading on the wholesale market. These include: the conclusion of long-term and medium-term physical and financial contracts, with which we maintain an adequate diversification of portfolios, the lease of cross-border transmission capacities and the management of price risks arising from the open position of individual portfolios.

We are constantly developing new forms of business cooperation that enable better risk management. Thus, the buyer can decide to buy electricity products at a predetermined price, or through the price index alone, take over the risk of price movements on a predetermined electricity exchange. Such market access options also apply to the seller in the electricity market. This allows business partners to better adapt to the market conditions and thus to accept smaller market risks.

For the full use of the leverage of international trading, we use business infrastructure for trading and acquiring cross-border transmission capacities, so that companies included in the GEN Group are fully qualified to stand alone in the European electricity markets.

Slovenia represents the most important retail market, but the larger balance group is complementing and balancing with commercial activities in neighbouring markets. The main purchase and sales markets remain the markets of Central, South-Eastern and Western Europe. The basis for extending to foreign markets are subsidiaries with all the necessary permits, competencies for adapting to local specifications and with the appropriate infrastructure for trading on these markets.

4.2 Sales

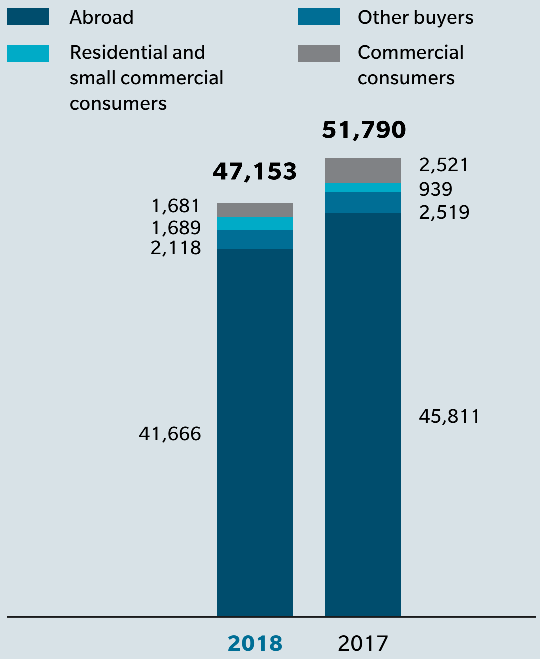
The further development of products, which differ in the degree of risk for the customer and the range of services offered, is witnessed by the increase in the sale of electricity to final customers and the entry into the household consumption segment. Large business systems, as well as small and medium-sized enterprises and households, have entered the market.

With the already established individual portfolio management based on our own knowledge and infrastructure, we were successful in servicing existing customers, since we recorded practically no customer losses. Thus, our partners are enabled to optimally exploit fluctuations in the electricity market. At the same time, despite the competition in the electricity market, we managed to keep sales for the final customers at a similar level with competitive offers.

In 2018, we were an important player in the segment of electricity sales to final customers in Slovenia, and we were also active in the field of electricity supply to final customers abroad. The key sales markets were Hungarian, Austrian, German, Italian and Romanian, while the Greek market is becoming more and more important. We also use the acquired experience with the help of accelerated development and the search for new opportunities for sale to final customers in other markets, especially the markets of South-Eastern Europe.

In 2018, companies included in the GEN Group increased their sales to households and small business customers (79.78%), while the sales volume declined for all other segments. The largest decrease was in business customers (-33.31%), followed by other domestic customers, whom we sold electricity for the purpose of covering household consumers (-15.94%), while the smallest decrease was recorded in sales on foreign markets (-9.05%).

Electricity sales of companies included in the GEN Group (in GWh)



Infrastructural capital

Volume of sales and trading in electricity (in GWh)

Advanced (software and IT) infrastructure for cross-border trading that provides data for optimum exploitation of generation sources

Employees and intellectual capital

Penetrating new markets and increasing economies of scale

Establishing instruments and licences for the comprehensive management of electricity surpluses and deficits

Development of business cooperation forms providing improved risk management

A comprehensive overview of links between capital and financial and non-financial information on the operations of the GEN Group in 2018 (Business Report) is in chapter V.3.

5.

Natural gas sales

The sale of natural gas in the companies included in the GEN Group is carried out through the subsidiary company GEN-I, which, with the entry into the market in September 2012, substantially changed the domestic gas market. In the following years, it managed to maintain the position of the second largest natural gas supplier in Slovenia with reliable supply and competitive prices.

GEN-I procures natural gas through European energy exchanges, where gas prices depend on current offers, and not just on oil price movements. In this way, we disperse the natural gas supply sources among the most well-known and recognizable Western European partners. At the end of 2018, we supplied natural gas to a little less than 25 thousand household customers and about 320 business customers in the total amount of 93.6 million Sm^3.

Growth in 2018 is visible in the segment of business and household consumers of natural gas, while the sale of natural gas abroad has decreased. The reason for growth is attributed to the more intense sales strategy and the additional opening of the natural gas market in Slovenia.

Infrastructural capital

Infrastructure for the purchase of natural gas in European energy exchanges

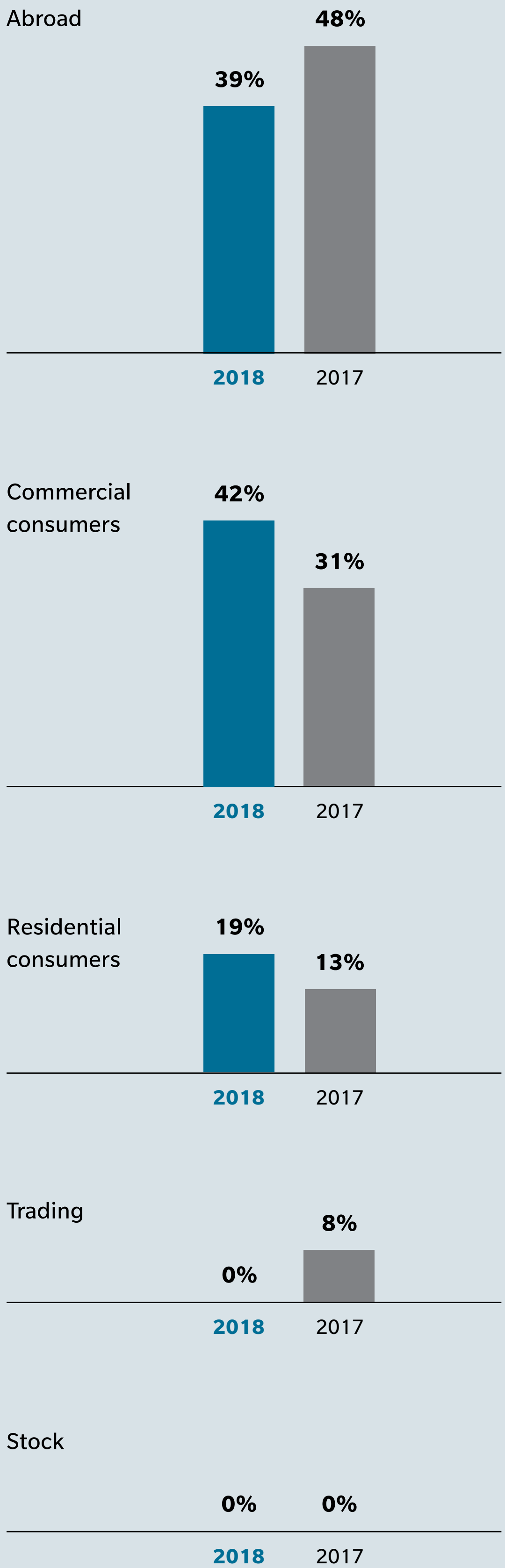
Amount of purchased natural gas (in GWh)

Employees and intellectual capital

Increase in the number of customers (domestic market – »Poceni plin« brand and foreign market penetration)

A comprehensive overview of links between capital and financial and non-financial information on the operations of the GEN Group in 2018 (Business Report) is in chapter V.3.

Structure of natural gas sales in companies included in the GEN Group



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 the individual companies and the GEN Group as a whole. For this purpose, EUR 99.76 million of assets were invested in 2018. If we follow the consolidation rules, the value of the invested assets in the GEN Group amounted to EUR 60.42 million.

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

For the purpose of research and development and capital expenditures and investments, GEN invested EUR 1,880 thousand in 2018.

Research and development, investments and GEN company investments in EUR thousand

	2018	2017
RESEARCH AND DEVELOPMENT	**139**	**44**
Research studies	139	44
INVESTMENTS	**1,741**	**1,146**
Expansion of NPP production capacities	1,404	812
Minor investments	336	334
INVESTMENTS	**0**	**0**
HESS construction project	0	0
Purchase of shares and recapitalisations	0	0
TOTAL	**1,880**	**1,190**

Companies included in the GEN Group:

EUR 99.76 million

NEK: EUR 78.67 million

- Investments in technology upgrades
- Minor investments

HESS: EUR 3.78 million

- Brežice HPP
- Mokrice HPP

GEN: EUR 1.88 million

- Expansion of NPP production capacities
- Minor investments

SEL: EUR 4.26 million

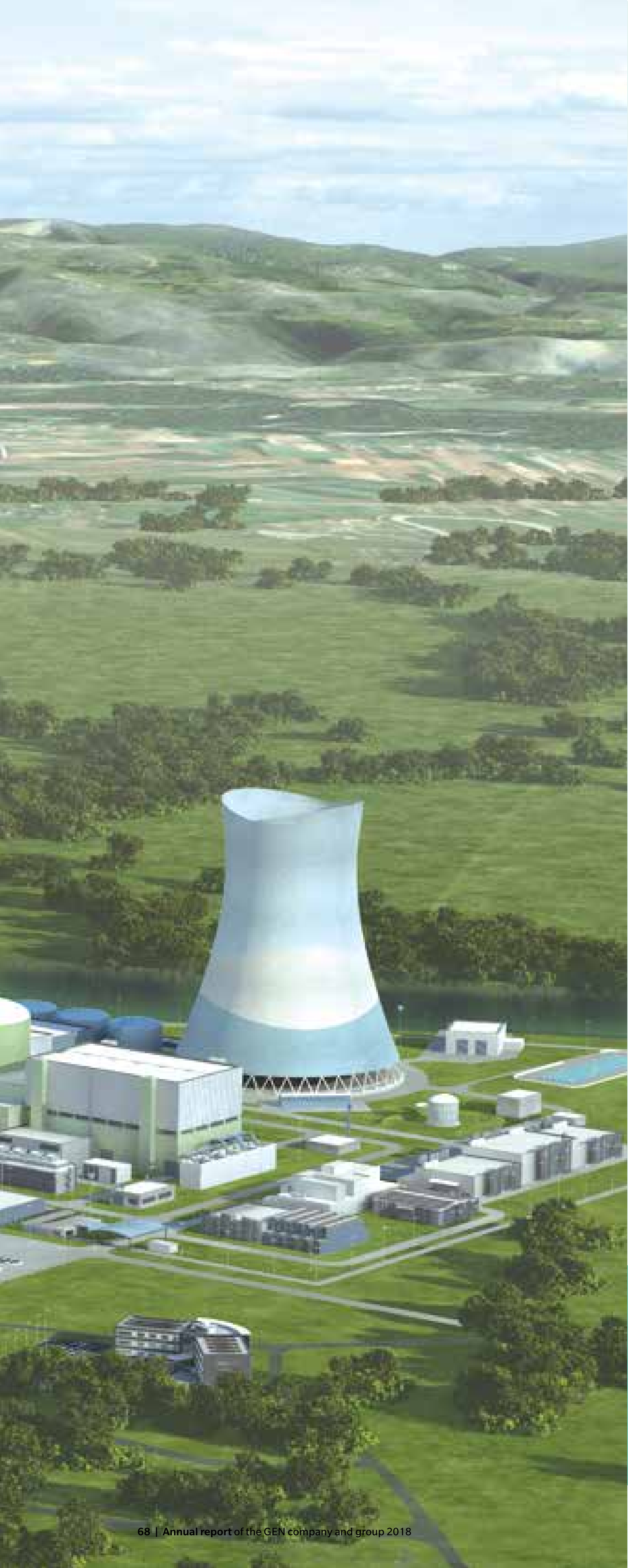
- Refurbishment of exitation systems on generators at Vrhovo
- Minor investments

TEB: EUR 6.98 million

- Replacement of gas units
- Minor investments

GEN-I: EUR 4.19 million

- Land, IT
- Minor investments



Project to expand the nuclear production facilities - JEK 2

The JEK 2 project will make an important contribution to the development of a modern, reliable, safe, environmentally friendly and a future-oriented supply of electricity to Slovenia at a stable and competitive price. Therefore, in the GEN Group, we are committed to a professionally justified, efficient, transparent and responsible course of the JEK 2 project. The project has moved into a phase where we need to obtain a clear position from the owner, the Republic of Slovenia. A strategic decision on the energy future of Slovenia must be adopted.

How does the NPP 2 project meet the sustainable development criteria?

Social aspect

Long-term secure and safe production and supply of electricity using the best, latest and safest technology.

Environmental aspect

Minimum environmental impacts, mitigation of climate change and the optimum utilisation of space.

Economic aspect

Price stability and competitive position, both for Slovenian households and the economy.

Stages of the JEK 2 project

STAGE 1:
Preparation and strategic decision making

STAGE 2:
Selecting and validating the location

Strategic framework: the electricity supply situation in Slovenia

The situation in the area of electricity supply has intensified in recent years in Slovenia. By increasing the gross domestic production and moving towards the standard of living of the developed countries of the EU, electricity consumption has also increased. As domestic production did not follow an increase in consumption, in the past there was an electricity shortage in Slovenia of up to 25%. Slovenia has thus become increasingly dependent on the supply of electricity. With the global economic crisis that began in 2008 and continued until 2013, the situation has changed considerably. Since 2013, the Slovenian economy has been constantly developing and energy consumption has been increasing with the development. In 2018, electricity consumption in Slovenia amounted to 13,204 GWh and is slightly higher than in 2017. The future forecasts of the IMAD regarding the economic trends are also optimistic, followed by trends in the increased demand for electricity.

Slovenia also faces a relatively high age of energy facilities, which will need to be replaced in the future. At the same time, we are increasingly aware of the effects of the use of fossil fuels on the environment and the related implementation of the requirements of the EU climate and energy package, which dictates the reduction of the use of coal for the production of electricity. All this dictates thinking about the option of planning the expansion of the production capacities of the Krško Nuclear Power Plant with the construction of a new unit before the end of the existing operation. The planned second block of the nuclear power plant would have an installed power of between 1100 and 1600 MWe and could be connected to the network around the year 2030.

Regulatory framework for energy utilities

At the beginning of 2014, one of the most important energy documents, namely the Energy Act (EZ-1), was adopted. The proposed Act mentions the Energy Concept of Slovenia (EKS), the basic development document that represents the national energy program. Based on the projections of economic, environmental and social development at the country level and on the basis of the international commitments adopted, we will set goals with the EKS for a reliable, sustainable and competitive energy supply, presumably for the next 20 years and an indicative period of 40 years. In the years 2015, 2016 and 2017, a public discussion was held on the Proposal guidelines for the preparation of the Energy Concept of Slovenia, and materials were presented for the discussion on the design of the EKS and the presentation of various scenarios and long-term balances. At the end of 2017, the EKS proposal for a public hearing was also published. At the beginning of 2018, a public announcement of the EKS proposal was made, together with an environmental report. Then, in March 2018, the government also laid down a proposal for the text of the Resolution on the Energy Concept of Slovenia. At the beginning of August 2018, the Resolution on the Energy Concept of Slovenia was again put to the public hearing. At the end of 2018, the Ministry of Infrastructure prepared a first draft of the Integrated National Energy and Climate Plan of Slovenia (NEPN), in cooperation with the inter-ministerial working group, in line with existing expert bases and adopted long and medium-term strategic, action and reporting documents.

In 2019, the work on NEPN and EKS continues and their public treatment and approval is expected.

The current status of the project

So far, within the framework of the JEK 2 project, GEN has produced expert studies that enable a substantiated broader political and social debate on the energy future of Slovenia and on the continued role of nuclear power in the supply of electricity. Thus, all the bases for the appropriate placement and argumentation of the expansion of the nuclear option in the national energy development strategy are prepared.

In 2018, the activities related to site research relevant to JEK 2 continued. The Geotechnical, Geological and Seismological Research Project of the JEK 2 site (GGS) was designed in 2007 with the aim of carrying out more detailed geological research on the downstream (east) and upstream (west) locations for the construction of a new nuclear power plant in Krško. The results of these and previously carried out analyses and surveys, as well as field and laboratory investigations at both proposed locations, show that the soil in the area is quite homogeneous. At the end of 2014, the Seismic Hazard Analysis continued, which will last approximately four years.

In addition to site research, in 2018, we carried out for the JEK 2 project, among other things, studies, analyses and activities in the following key areas:

- energy security and the role of the electricity system,
- environmental safety and transition to a low-carbon society in Slovenia,

STAGE 3: Deciding on the investment

STAGE 4: Construction

STAGE 5: Operation

- economic and social security and the role of nuclear energy,
- meeting the principles of sustainable development in the various energy mixes, and
- feasibility of building JEK 2.

In relation to the JEK 2 project, EUR 1,404 thousand was invested in 2018. The bulk of the funds were dedicated to activities related to location research.

Participation in other projects in the field of nuclear energy

GEN is also active in the international environment, where it participates in three European projects with its services. The first project is the support of the operating nuclear power plant in Armenia (AOSA), where the work framework is an upgrade to the safety and efficiency of operation. The second project is related to research and development in the field of external risk assessment (NARSIS), which we have been running together with 18 partners within the Horizon 2020 research program. The third project is a consultancy on the development of a policy and strategy for the management of radioactive waste in Jordan. The AOSA project was signed in March 2017 with a consortium agreement with ENCO, according to which GEN is the holder of five tasks. The project will last three years. The agreement between the coordinator and the European Commission was signed in the NARSIS project, while the coordination agreement is a consortium agreement between all partners. The project started on 1 September 2017 and will last for four years. On the project in Jordan, we are working together with NRG from the Netherlands, TÜV Nord from Germany and ENCO from Austria, and will continue until the beginning of 2020.

GEN energija was also included in the safety inspection project for the Finnish power plant Hainhikivi and the Turkish power plant Akuyu.

In addition, GEN also provides development services in Slovenia. We are cooperating with ARAO in reviewing the documentation for the NEK decommissioning program and for the disposal of Low and Intermediate Level Waste (LILW) and with the Brestanica Thermal Power Plant (TEB) in the project for replacing gas blocks 1-3.

GEN actively participates in the European Association of *European Utility Requirements* (EUR), which includes all major European nuclear power producers and aims to develop technical requirements - that is, the development and harmonization of standard requirements for light nuclear reactors in Europe, in accordance with the development of science, technology and increasingly stringent security requirements for new power plants. In the year 2017, the audit of the E document of EUR requirements was completed. At present, a review of the Russian design of the VVER-TOI power plant is completed according to the requirements of EUR. It started with the initial activities of the review of the Chinese EU-HPR1000 reactor. Evaluation will take place by the end of 2020.

GEN is actively cooperating with the International Atomic Energy Agency (IAEA), the Nuclear Energy Agency of the Organization for Economic Co-operation and Development (OECD NEA), as well as the international association of the *International Framework for Nuclear Energy Cooperation* (IFNEC). The purpose of the cooperation is to consolidate the international position of the GEN Group in the effective use and development of nuclear energy, including international solutions for the disposal or reuse of spent nuclear fuel.

Plans for 2019

In the framework of the JEK 2 project, in 2019 we will continue with important expert analyses related to geological and seismological research and by updating professional and economic analyses in support of business decision-making. We will work partly with our own staff. We will monitor the preparation of the National Energy and Climate Plan and the Energy Concept of Slovenia and actively engage in professional and public discussions. We will continue to work in associations of EUR, IFNEC, NEA OECD and other important professional organizations and continue with service projects in Slovenia and elsewhere in the world.

Key benefits of the planned JEK 2 project

- a safe and reliable electricity supply (8-12 TWh per year, depending on the size of the power plant),
- a domestic energy source: reduction of energy import dependency,
- a competitive energy source: an acceptable, predictable and stable price for electricity,
- the optimal solution for environmental requirements and standards, reduction of CO_2 emissions at the national level,
- a third generation reactor: improved technology, improved security, greater economic competitiveness,
- Reducing the amount of existing and planned radioactive waste (mainly due to improved systems and processes in the operation of the 3rd Generation Nuclear Power Plant, which considerably reduce the amount of low and medium radioactive waste, as well as the possibility of re-using reprocessed fuel, i.e. up to 96% of the spent nuclear fuel mass),
- action in a belt or trapezoid,
- meeting the highest international safety requirements and standards,
- the possibility of sharing waste heat (district heating - local or wider),
- the possibility of the participation of the Slovenian economy in all stages of development (design, construction, equipment, installation, co-financing),
- positive effects on economic development and standard of living, highly qualified jobs.

Development activities of ZEL-EN

In the framework of the ZEL-EN, the Energy Development Centre, established for the purpose of technological development in the field of energy, we carried out several development and research projects in the units of individual members in 2018.

ZEL-EN members actively participated in guided tours of the Energy Council in GEN and other public relations activities of this company.

Parent company's research and development, capital expenditure and investment plans for 2019

In 2019, we will pursue the planned path in the area of investments. We will continue with the implementation of the activities from the previous years and activities that could not be carried out in the past. For these purposes, we are planning to use EUR 2.9 million of funds.

In 2019, GEN will continue its activities for the implementation of the project of extending the production capacities of JEK. In 2019 in CV GEN, we plan to upgrade the simulator with the production facility HPP Brežice. With this, we can also practically look for an optimized mode of operation of the HPP chain. Funds are also provided for investments in information technology and security upgrades. Purchases of new equity holdings are also possible.

6.2 Research and development, investments and capital expenditures in subsidiaries

Companies included in the GEN Group achieve high availability and operational reliability through regular maintenance and investments. With proper supervision, maintenance and updating, we ensure operational availability of equipment. In maintenance, we distinguish between:

- **preventive maintenance**, which is carried out according to programs at specified intervals,
- **predictive maintenance**, by which we determine the condition of the equipment (diagnostics), and
- **corrective maintenance**, which is primarily intended for equipment that is not crucial for the availability and reliability of production units.

In cases of corrective interventions on important equipment that is included in the preventive maintenance program, a detailed analysis of the cause is carried out and, if necessary, we adequately revise the preventive maintenance program. Maintenance activities were mainly carried out in 2018 in accordance with the plans.

NEK

NEK follows the strategy of continuous investment in technological upgrades and updates. The concept of investment planning for a five-year period has been introduced, with average annual investments in technological upgrades amounting to around EUR 35 million.

From year to year, NEK is increasing its operational efficiency, thus increasing the stability of the Slovenian and Croatian electricity systems. Such operation of the plant is the result of thoughtful investments, careful operational control, good cooperation of all stakeholders and the commitment of all employees, as well as favourable hydrology and the associated good thermodynamic efficiency of the power plant. The cost price of electricity was competitive in comparison with other sources and even slightly lower than according to the economic plan.

The extensive and demanding overhaul, which covered no less than 38,000 maintenance and project activities, was completed in a 30-day period, on May 1. They carried out the exchange of nuclear fuel and carried out a comprehensive program of the maintenance and checking of mechanical, electrical and measuring and control equipment. The control tests confirmed that the systems, structures and components are capable of performing their task. They carried out the bulk of the planned technological upgrades.

The work on the second phase of the security upgrade was intensive, with the project of the hardened security building (BB1) being the most complex. It was realized to the extent that enables the auxiliary control room to function and thus control the safe shutdown of the power plant from outside the main control room. An important part of the second phase of the security upgrade is the project of extending the operational support centre for which construction work was completed at the end of the year.

They also started the implementation of the third phase of the security upgrade - with the construction of a hardened security building (BB2), in which systems will be installed that will provide alternative long-term heat exchange from the reactor core.

Concerning the entire security upgrade program (PNV), we can conclude that this is 60% complete and that NEK is successfully progressing with the projects foreseen. The power plant, with its new security solutions and acquisitions, not only changes its image, but also increases its robustness and resilience against extreme external phenomena.

In the spring, they began using a new facility for handling equipment and shipments of radioactive cargo. This will make it easier to bridge the time until the availability of a permanent landfill for LILW.

Investments in NEK amounted to EUR 78.67 million in 2018.

In 2019, investments in technological upgrading will also be based on administrative requirements and operational experience, which will provide additional upgrading of the safety and stability of the plant's operation. The planned funds for this purpose amount to EUR 55 million.

SEL

SEL ensures the regular investment maintenance of its facilities and development in the field of aquatic energy. In the year 2018, EUR 4.26 million of assets from depreciation and other own resources were earmarked for investments and development.

In March, a building permit was obtained for MHE Borovlje. Contracts with selected contractors were signed in August 2018, and preparatory construction work began immediately after that. By the end of the year, a protective dam of the construction pit was built, the construction of a pilot wall for the protection of the construction pit was completed, the HMO components were constructed and the equipment suppliers produced the factory documentation and partly also the electrical-hardware equipment.

In June, a building permit was obtained for the transformer station for the connection of the MHE to the distribution network, as was the contract for the supply and installation of this transformer station. The supply and installation of the transformer station took place in October and November, and in December the TP was connected to the distribution network and an intermittent building site electrical connection was constructed for powering the construction site with electricity.

At the same time, SEL continues the multi-annual project of the renewal of the excitation systems of its own use and the management system for aggregates HPP Vrhovo, in which they will unify the secondary equipment at the SEL facilities, replace obsolete equipment and provide the conditions for the reliable remote control and further optimization of the costs of maintaining the hydroelectric power plant.

In 2019, SEL will continue to invest and develop the existing production facilities and look for new opportunities in the field of energy use of OVE. The total funds for investment and development will amount to EUR 6.82 million.

TEB

In the year 2018, EUR 6.98 million was earmarked for the investments and development of TEB.

The most important and comprehensive project of TEB is the replacement of gas blocks 1-3. At the end of March, an internal technical inspection and an expert technical inspection were completed, the latter being conducted by the issuer of the building permit, the Ministry of the Environment and Spatial Planning. On the basis of the conclusions of the technical inspection report, a decision was made to start a 6-month trial operation. The latter was successfully completed in the middle of September and on 14 September 2018, the Ministry of the Environment and Spatial Planning issued a license for PB6.

Phase 1B will follow in 2019. For investment and development, TEB is planning EUR 17.23 million.

HESS

HESS is the holder of the current largest hydropower project in Slovenia, the construction of a chain of five new hydroelectric power plants on the lower Sava River.

On the occasion of the 10th anniversary of the company's operations, the largest HPP in the Lower Carniola chain was put into operation. After the successful completion of the one-year pilot operation and the obtained final authorization, HPP Brežice started operating regularly in October 2018 and has the role of the only permanently occupied hydroelectric power plant in the chain of four hydroelectric power plants on the lower Sava River, from which it is possible to control and monitor the operation of the other three upstream hydroelectric power plants and the high-pressure relief device on the accumulation of HPP Brežice.

In 2018, harmonization and procedures were carried out in connection with the acquisition of the environmental permit (OVS) for HPP Mokrice, where all the positive consents of the spatial planning authorities were obtained, and an oral hearing was conducted in order to clarify the environmental impact assessment to the parties. On 17 July 2018, the Environmental Agency of the Republic of Slovenia (ARSO) completed the procedure and issued a positive OVS for the operation of HPP Mokrice. On the issue of the OVS, a notice party in the procedure filed a complaint, which the first instance body - the Ministry of the Environment and Spatial Planning – rejected as unfounded in November. In continuation, the notice party took advantage of their legal options and, at the end of December, filed an action against the issued OVS with the Administrative Court.

An investment program for the HPP Mokrice was established, which was approved by the expert audit committee composed of representatives of the shareholders, and the approval of the Supervisory Board of HESS was also given to the investment program of HPP Mokrice.

For the needs of the implementation phase of the project, in the first half of 2018, the research geological works required for the design of the construction pit and the foundations of the HPP facility were completed. In July, an introduction to work with the designer for the design of HPP Mokrice was carried out. In August, the announcement of the public procurement for LOT TGD (turbines, generators, lifts) followed for HPP Mokrice. At the end of the year, hydraulic model studies of the intermediate phases of the Mokrice HPP were completed.

In the year 2018, EUR 3.78 million was earmarked for HESS investments and development.

HESS will spend most of its investment potential in 2019 for the preparations for HPP Mokrice. The total planned value of HESS investments amounts to EUR 11.29 million.

GEN-I

GEN-I earmarked EUR 4.19 million for investments and development. The majority of funds were allocated to information technology, which is necessary for the smooth operation of trading and sales applications and for other fixed assets that are necessary for the company's operations.

GEN-I investment funds of EUR 6.94 million in 2019 are expected to be predominantly intended for the construction and upgrading of comprehensive data management systems and for upgrading other information systems.

Financial capital

Investments (overview by companies included in the GEN Group; in EUR million)

Employees and intellectual capital

Research and development (overview of studies and R&D activities by companies included in the GEN Group)

Social capital

Presentation of regulatory frameworks and challenges of social acceptance in:

- the maintenance of existing, and
- the construction and design of new production capacities (JEK 2 project, ZEL-EN development projects, and an overview by other companies included in the GEN Group).

A comprehensive overview of links between capital and financial and non-financial information on the operations of the GEN Group in 2018 (Business Report) is in chapter V.3.

7.

Financial operations

The companies did not have any problems with the settlement of financial and other liabilities to suppliers, as all of them were settled within the terms of the contractually agreed deadlines. The settlement of receivables by customers was also smooth.

While the companies in the GEN Group cover their liabilities from financing mostly from depreciation, GEN is a major source of financing for these liabilities.

The financial operations of the company and the group, in addition to the liabilities of the controlled and jointly controlled companies, are significantly influenced by the obligations that we have had at GEN since establishment and that pertain to the Intergovernmental Agreement on NEK, with which, besides the right to half of the electricity from NEK, we also assumed responsibility for the repayment of loans for construction, the settlement of liabilities to the NEK Fund and the provision of funds for covering fixed costs in cases of unexpected losses of NEK.

7.1 Servicing operations and borrowing

The key function of the financial operations is the planning of an adequate amount of liquid assets for providing solvency, where a major role is played by the liabilities for supplied electricity and power. A particularly important role is played by the coverage of the fixed costs of NEK, which is one of the main leverages for the timely settlement of the obligations of the GEN and the optimization of the surpluses and deficits among the companies in the GEN Group. In addition, adequate liquidity was also achieved by the consistent recovery of overdue receivables. This was particularly pronounced in GEN-I, but it has been well regulated by contractual provisions, so there have been no major problems so far.

Debt activities were aimed at obtaining sufficient financial resources both for short-term and long-term operations. All companies in the group enter into debt by themselves. GEN and the companies of the GEN Group in which the state has a decisive influence on the management are also obliged to carry out the borrowing in accordance with the Decree on the terms and conditions and methods of borrowing by legal entities from article 87. of the Public finance act (Official Gazette of the Republic of Slovenia, No. 112/2009).

Short-term borrowing is most often used by GEN-I, which ensures adequate liquidity in the trading of electricity - in the past, primarily in the form of borrowing, and in recent years also by issuing commercial notes and bonds, which has proven to be a very successful way of obtaining financial funds.

Long-term borrowings are used by manufacturing companies, especially for investment and investment maintenance.

Loans were secured by bank guarantees or bills. The financing liabilities were linked to the euro.

7.2 Settlement of liabilities to the NEK fund

On the basis of the Intergovernmental Agreement on NEK, the Fund for Financing the Decommissioning of the Krško Nuclear Power Plant and the Disposal of Radioactive Waste from NEK Act (Official Gazette of the Republic of Slovenia, No. 75/1994 and amended) and the Decision of the Government of the RS no. 311-01/2001-21 of 7 October 2004, the GEN company must pay a contribution of 3 EUR / MWh from the electricity produced in NEK to the NEK Fund. In 2018, EUR 8.23 million was paid to the NEK Fund.

7.3 Securing funding for covering NEK's fixed annual costs

Pursuant to the Intergovernmental Agreement on NEK, GEN is obliged to pay the constant cost of NEK for a period of one year, irrespective of whether it operates. As NEK is the dominant production facility in the GEN Group, the group's operations are strongly linked to the production of NEK, the Group is also at high risk from short cuts in this production facility. In order to cover the fixed costs of NEK, in 2003 GEN made a decision to create long-term provisions in the amount of half the annual fixed costs of NEK (the second co-owner of NEK is obligated to provide the other half).

The total planned provisions were finalized at the end of 2009, however, since the constant costs of the NEK are changing, the amount of the provisions should be adjusted. Due to the most balanced and efficient adjustment of the volume of the provisions, which provides an appropriate assessment of future expenditures arising from the onerous contract, the provisions in accordance with the SAS from 1 January 2014 are adjusted according to the three-year average of fixed costs from the NEK Economic Plan. Over the period under consideration, provisions were made in the amount of EUR 647 thousand due to an unplanned reduction in production capacity, and additionally formed in the amount of EUR 73 thousand. At the end of 2018, this amounted to EUR 60,398 thousand. In the future, GEN will follow the strategy of designing and supplementing the provisions in accordance with the adopted NEK Economic Plans.

7.4 Investing surplus cash

The investment strategy aimed at covering the absorption of formed long-term provisions to cover the fixed costs of the NEK in cases of unplanned reduction of electricity production in the NEK (hereinafter: the investment strategy) did not change in 2018. The investment strategy does not allow investing in debt and equity securities due to the need for the short-term availability of assets and restricts investment only in the form of deposits with financial institutions with a maturity of up to six months and in appropriate investments or investments in the electricity sector.

Due to the offers of banks that do not provide adequate returns for maturities up to six months, GEN keeps part of the available funds in its bank accounts. For overdraft balances in the amount of EUR 200 thousand to EUR 2,000 thousand, banks charge a fee, which GEN managed to avoid in the year 2018 through the diversification of assets.

Financial capital

Data on financial operations:

- servicing operations and borrowing
- settlement of liabilities to the NEK Fund
- provision of funds to cover 1-year fixed costs of NEK
- investing free cash

Social capital

Settlement of trade liabilities Activities relating to the Interstate Treaty on the Krško Nuclear Power Plant.

A comprehensive overview of links between capital and financial and non-financial information on the operations of the GEN Group in 2018 (Business Report) is in chapter V.3.

8.

Employees, knowledge and staff development

The knowledge of our employees is at the intersection of the realization of sustainable GEN policies at all three levels of our responsible activity.

We are constantly striving for the education, training and professional and personal development of all employees in the companies included in the GEN Group. In 2018, there were 1,344, or, according to the rules of consolidation, 1,028 employees. The number of employees follows the growth and development of the group and the challenges they bring.

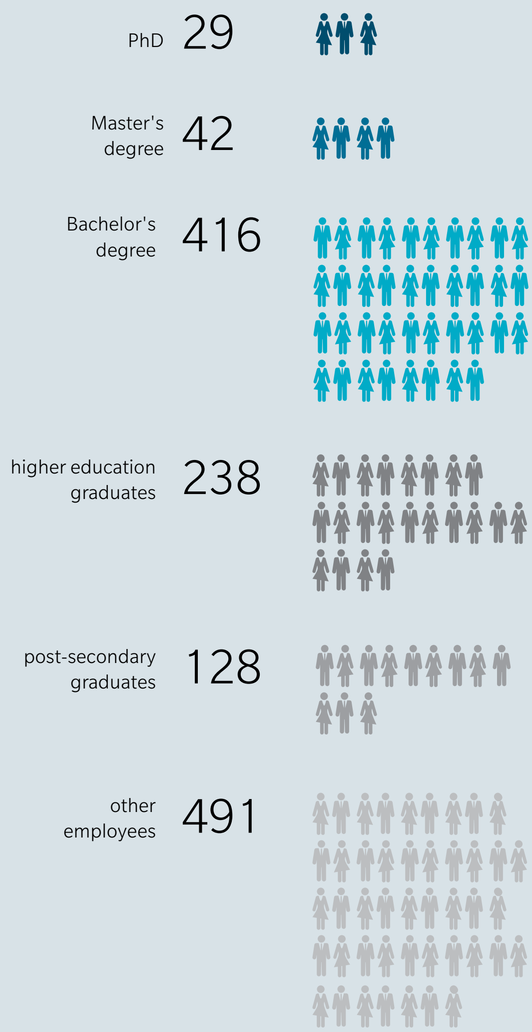
8.1 Number of employees and structure of qualifications

Due to the complexity of the work in companies included in the GEN Group, more than half of the employees have at least a post-secondary education.

A low fluctuation rate evidences the commitment and motivation of employees to work in an environment that promotes knowledge, responsibility and integration.

The data in the table above refers to the entire company or group and is not listed in accordance with the equity interests of GEN in a particular company or in accordance with the consolidation rules.

Number of employees by level of professional qualification



Number of employees by level of professional qualification

GROUP GEN	Level 1	Level 2	Level 3	Level 4	Level 5	Level 6	Level 7	Level 8	Level 9	Level 10	TOTAL	31/12/2017
	31/12/2018											
GEN	0	0	0	0	5	7	7	32	2	4	**57**	58
GEN-I	0	0	0	5	74	15	146	131	19	13	**403**	376
NEK	0	2	1	19	255	74	53	203	15	11	**633**	608
SEL	5	0	0	21	31	12	9	16	4	0	**98**	102
TEB	0	3	0	19	31	17	12	20	0	1	**103**	100
HESS	0	0	0	1	19	3	11	14	2	0	**50**	48
TOTAL	**5**	**5**	**1**	**65**	**415**	**128**	**238**	**416**	**42**	**29**	**1,344**	**1,292**

In the companies included in the GEN Group, there were 29 doctoral graduates, 42 masters of sciences and 416 university graduates in 2018. The key professional areas of employees with a 9^{th} and 10^{th} level of professional education (masters and doctorates in sciences) are:

- nuclear technology and nuclear energetics,
- electrical engineering,
- nuclear physics,
- mechanical engineering and
- economics.

8.2 Professional education and training

In the companies included in the GEN Group, we are deliberately investing in the professional education and training of managerial staff and other key employees in all areas of our company's activities.

In areas related to the production of electricity from nuclear power, we are also implementing some special programs. These are mainly professional training:

- on the NEK simulator,
- in the NEK Maintenance Training Centre
- within the framework of the Milan Čopič Education Centre for Nuclear Technology (ICJT) at the Jožef Stefan Institute in Ljubljana.

Balancing family and career

The development of GEN staff is based on designing an attractive working environment and a high level of business ethics. On the basis of the obtained Family-Friendly Company certificate, we increase the satisfaction and sense of belonging of the employees. We have successfully implemented a number of measures in the work processes to enable employees to facilitate the coordination of family and professional life.

Scholarships and staff development

We are aware of the importance of the systematic development of relevant and competent personnel, especially in the field of natural sciences and engineering. This is mainly due to:

- the aging of the existing staff - employees in companies included in the GEN Group, and
- new needs for highly skilled jobs created by the rapid development and growth of companies in the group.

One of the approaches that contribute to the development of new staff is scholarships. Companies included in the GEN Group are awarded staff scholarships and we also grant scholarships through single regional scholarship schemes (e.g. Posavska region scholarship schemes). However, the number of scholarship holders in companies included in the GEN Group has been decreasing in recent years, mainly due to:

- restrictions on the recruitment of new staff and
- changes in scholarship policies resulting from changes to the Scholarship Act and imposing additional administrative and financial obligations on employers.

Long-term strategic staff challenges

The adoption of the decision to expand the nuclear program (JEK 2 project) will bring an important personnel challenge to the GEN Group. We are aware that this challenge will require a strategic approach to the development and retrieval of human resources. Analyses have shown that investors in comparable nuclear facilities employ up to 300 people at the time of construction, and between 1600 and 1800 people including subcontractors.

Key professional education and training

	Focus of professional education and training	Special education and training in nuclear energy
GEN	• participation in specialist conferences, seminars, consultations and meetings at home and abroad • periodic functional training, coaching and workshops to obtain additional knowledge in IT, project management, management and organisation of work • 36.45 hours of training per employee was conducted, whereby each employee attended at least one training course, internal or external • promotion of health at work	• no prolonged training at ICJT was conducted last year
NEK	• systematic training pursuant to the list of competencies for independent work and the execution of regular work obligations • work-study programmes at tertiary level 1 or 2 in energy, mechanical engineering or electrical engineering (for 41 employees in 2018) • a total of 377 training courses conducted, which were attended by a total of 21,482 persons, whereby 353 training courses were held at or outside NEK and were attended by 10,203 employees • training courses for outsourcers (172 training courses attended by 11,279 persons)	• the continuous professional training of operators: at least 160 hours per year for employees holding a reactor operator licence and a chief reactor operator licence; at least 80 hours per year for employees holding a shift engineer licence; at least 160 hours per year for equipment engineers.
SEL	• participation in various seminars, conferences and fairs, • emphasis placed on the periodic training of operators (operation of energy installations), training in safety and health at work and various professional exams • 495 hours were used for training, which is an average of 4.95 hours per company employee; taking into account the mentioned training, the total average would amount to 8.77 hours/employee, • Training was attended by employees of all levels, but most of the training was dedicated to operators and maintenance officers.	
HESS	• professional training and training by area of expertise; participation in expert seminars, workshops, conferences, consultations and training courses: 1328 hours of education and training, the participation of 46 employees (28.9 hours per employee) • employee training in soft skills (business communication and etiquette) • specialist training for safe work at a height, with machinery and heavy construction machinery and a test for working on, alongside and in water • health at work promotion	

	Focus of professional education and training	Special education and training in nuclear energy
TEB	• in-house and external training in safety and health at work, fire safety, environmental management systems, accounting and finance, employment relationships and other areas of expertise • 23 hours of training per employee was conducted • seminars were organised that were attended by a large number of employees by individual area, e.g.: ISO 9001:2015 and ISO 14001:2015, successful self-management and cooperation with others, team work • execution of demanding periodic training and successfully passed exams	
GEN-I	• different forms of acquiring new knowledge and skills in order to develop employee potentials • niche professional training • participation in various specialist training courses and conferences at home and abroad • transfer of expertise through mentorship, team work, in-house lectures and workshops to a wider group of employees • an onboarding programme for new employees in a systematic and efficient manner at the workplace • successful onboarding for all new employees, which included e-learning and group meetings with lectures at different business unit locations	

Employees and intellectual capital

Number and educational structure of employees

Professional training

Social capital

HR development and management of long-term strategic HR challenges

A comprehensive overview of links between capital and financial and non-financial information on the operations of the GEN Group in 2018 (Business Report) is in chapter V.3.

9.

Promoting the knowledge about energy and the energy industry

Our mission is to provide a reliable electricity supply from sustainable and renewable sources. Our success in accomplishing this mission depends to a large extent on the understanding of the area in which we work, among various stakeholders in the external environment. Knowledge and understanding have a strong influence on the perception of the challenges associated with present and future energy supply.

For the last decade, the GEN group has been working to improve energy awareness and, above all, to increase interest in and knowledge of energy issues among our key stakeholders:

- school children and youth,
- local communities,
- consumers of electricity,
- the professional public,
- decision makers at the national and local levels,
- non-governmental organizations,
- media and other key stakeholders.

The world of energy and cooperation with schools

Since the opening of the Energy Council (July 2011) until 31 December 2018, this multimedia interactive centre on energy and energetics has been visited by 56,081 visitors; 6,367 in 2018 alone.

The purpose of the Energy Council is to familiarize its visitors with energetics and, in particular, nuclear energy, using inclusive information, explanations, interactive exhibits and experiments, as well as to stimulate the interest of young people in natural and technical sciences. A smaller, but important, part of the activity in the Energy Council is the preparation of programs and workshops for working with talented pupils and students that GEN is developing in cooperation with the teachers and professors at schools in Posavje.

Saturday and summer workshops opening the doors to knowledge

In addition to guided tours, visitors are also welcomed to Saturday workshops in the experimentation facility, the aim of which is increasing interest among young people in science, technology and energetics. In 2018, 315 participants attended four workshops.

Awareness raising projects in 2018:

- **The project »The Young in the World of Energy«**
  The All-Slovenian Competition »Youth in the World of Energy« (MladiVSE), which has been on-going since 2008, is intended for Slovene primary and secondary schools and school centres. This creative competition is announced as an elective part of the school's obligations included in the Eco-school program. We received over 350 products and more than 600 children and young people participated. On June 12, GEN energija awarded pupils, students and mentors who created the best projects according to the selection of the expert committee in the 2017/18 school year. With the beginning of the 2018/19 school year, we announced a new prize competition, MladiVSE.
- **The »Young Wizards« quiz**
  For the fifth year in a row, in cooperation with NEK, we organized the »Young Geniuses« project, which takes place in the form of a quiz on energetics. In the 2017/18 school year, the competition was intended for students of Slovene electrical technical schools and, for the first time, for students of mechanical engineering schools. There were 200 secondary school students attending, from 25 out of 48 technical

secondary school programs from all over Slovenia. For the competition, we prepared e-materials and carried out a set of preparations, among which all mentors and students visited the Energy Council in Krško, where they saw an interactive exhibition on energy and energetics and gathered knowledge at practical workshops.

With the new school year 2018/19, we started preparing for the competition for the primary schools in Posavje.

Supporting energy industry events and projects

In addition to projects, events and other self-organized activities aimed at strengthening knowledge on energy and energetics, the companies included in the GEN Group also provided organizational, professional or financial support for various national, professional, business and educational and awareness-raising events in 2018 and projects in the field of energetics.

eSvet: web portal on energy and the energy industry

The eSvet online energy and energetics conference, launched in 2014 in cooperation with professional partners (companies included in the GEN Group, the University of Maribor, the Jožef Stefan Institute, ELES and ARAO), provides interested web visitors with expertly based facts and figures on energy, the meaning and use of energy in everyday life, and the supplied sources of energy, with an emphasis on sources and technologies for electricity generation and the importance of reliable electricity supply - today and in the future. We recorded more than 84.93% of new visitors and more than 66 page visits. In 2017, eSvet was upgraded with an online simulation called »Energy mix«, which enables each individual to test themselves as an operator of Slovenian power plants. The simulation is based on real data and includes power plants that are currently available in Slovenia.

Partnership collaborations, corporate and project presentations

We establish and develop partnership relations with organizations and individuals active in disseminating knowledge and promoting interest in science and technology topics and energetics, in particular with:

- primary and secondary schools and faculties from all over Slovenia (in particular FE Uni LJ, FERI Uni MB, FEN Uni MB, etc.),
- scientific centres (House of Experiments in Ljubljana, e-house in Nova Gorica, etc.)
- other programs and projects that communicate sustainable development and promote energy literacy in Slovenian schools.

Our transparency and openness to communication with the interested public is also demonstrated by numerous presentations of the work of our group and important development projects, including JEK 2, at professional and other events.

Sponsorships and donations

The companies included in the GEN Group are strongly integrated into the local environments in which we operate, with our energy facilities and operation. In accordance with our responsible operation, we are committed to actively co-shaping the events in local communities, especially in the educational, scientific, sports, cultural, charity, health, environmental, humanitarian and other fields. The area that we support is defined according to the needs, expectations and interests of the local environment in which our companies operate or that are influenced by our activities. In 2018, approximately 51% of all funds were allocated to the local environment in which our companies operate, while 49% was received by organizations throughout Slovenia.

Activities to raise energy awareness

	Content	Target groups	2018 results
GEN	The world of energy (guided tours, Saturday and summer workshops), projects in 2018: • Youth in the world of energy • Technogenius (in cooperation with the Krško-Sevnica School Centre) • Energy competition entitled Young Brainiacs (in cooperation with NEK) • A 5-day energy camp for secondary school students co-organised by the Faculty of Electrical Engineering of the University of Maribor • Participation in Elektrofest in Ljubljana and the Festival of Science • eSvet online hub • Participation in the European Researchers' Night and the »Power of Night« project • Job Camp (in cooperation with the Krško Youth Centre) • Participation in info days at the Krško-Sevnica School Centre • Participation in the Learning Parade	Pupils and students, teachers and mentoring professors, general expert public, families, local inhabitants	• 6,367 visitors • 4 Saturday workshops for 315 visitors • Summer camp for 9 secondary school students who created a working model of a solar tracker • Over 600 Slovenian children and teenagers from over 50 establishments participated in the Youth in the World of Energy competition • The event within the scope of the European Researchers' Night and »The Power of Night« project was attended by over 400 visitors at two locations in Krško and Ljubljana • 25 out of 48 technical secondary school programs from all over Slovenia registered for the Young Brainiac quiz. 200 students participated
NEK	Guided tours of NEK Implementation of the Fundamental knowledge in nuclear technology module (in cooperation with the Krško-Sevnica School Centre) Energy competition Young Brainiacs (in cooperation with GEN) Participation in the presentation of jobs (in cooperation with the Krško Youth Centre) and in info days at the Krško-Sevnica School Centre and the Faculty of Energy Technology Provision of information to the expert and general public about the technical and environmental aspects of the NEK operation and energy sector Provision of mandatory study placements (in cooperation with the Faculty of Energy	Schools, faculties and other interested audiences, local inhabitants, students of the Krško-Sevnica School Centre	• 234 groups • 5,444 visitors • Regular cooperation with the Krško-Sevnica School Centre (implementation of the Fundamental knowledge in nuclear technology module, which is conducted at the school, while the practical part is conducted at NEK); tutorials are conducted on a simulator and in a lecture room and mobile radiation protection lab
SEL	Guided tours of the hydropower plant and the Završnica HPP Technical Museum	Schools, faculties and professional associations Local communities and other stakeholders	• Acquisition of new knowledge on hydropower and past and present methods of generating electricity at HPP; a total of 80 field trips a year • Harmonisation of the interests of agriculture, the energy sector, inland navigation, tourism, environmental protection and others in the Sava basin

	Content	Target groups	2018 results
HESS	Guided tours of operational HPPs and the Brežice HPP construction site Several visits by experts from abroad who wished to be acquainted with the progress made in the construction of an HPP chain in Slovenia and the procedures to locate new HPP The project to build a series of hydropower plants on the lower Sava river was presented as a good practice example in the Croatian weekly Nacional in the Megawatt energy supplement	Elementary and secondary schools, students, local communities, professional associations, companies, groups of experts from Slovenia and abroad, representatives of the Slovenian Government, Members of the National Council	• A total of 2,379 visitors; 2,253 to the Brežice HPP and 126 to the other three upstream HPPs • Promotion of the positive social, environmental and economic effects of the project; enhancing awareness about the importance of sustainable development in the local and regional environment
TEB	Guided tours of the power plant Participation in a Job Camp (in cooperation with the Krško Youth Centre) and info days at the Krško-Sevnica School Centre and the Faculty of Energy Technology Participation in the presentation of jobs at info days held by the Krško-Sevnica School Centre and the Faculty of Energy Technology Inclusion in projects in order to strengthen the role of TEB and knowledge of the operation of TEB and the energy sector	Expert public, local public, 8^{th} and 9^{th} graders at elementary schools, secondary school students	• 693 visitors • Presentation of jobs in the energy sector and power plant operation to pupils • Aimed at bringing new technologies closer to secondary school students and motivating them for technical jobs
GEN-I	Website - enhancing the identity of the company and own brands, and as a primary tool for obtaining new customers Organisation of a meeting of major corporate customers and a meeting with RES and CHP producers	Customers, companies and other audiences	Brand product websites were set up for end electricity customers: Poceni elektrika, Poceni plin, Elektroenergija and Jeftina struja The GEN-I Sonce website was set up for potential investors in a self-sufficient solar power plant.

Employees and intellectual capital

Content and organisational development of activities to enhance energy literacy and active employee engagement (overview by companies included in the GEN Group)

Social capital

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

- school children and youth,
- local communities,
- electricity customers,
- specialist audiences,
- decision-makers at national and local level,
- non-governmental organisations,
- the media and other key stakeholders.

Support for energy projects and events.

A comprehensive overview of links between capital and financial and non-financial information on the operations of the GEN Group in 2018 (Business Report) is in chapter V.3.

10.

Quality policy and security assurance

The quality policy of GEN is based on the vision and mission and is in line with the strategic pillars of achieving the sustainability of GEN, the intersection of which is knowledge and security.

10.1 Quality Management System

The quality management systems directly involves all employees in the companies of the GEN Group, and indirectly also the contractors and other stakeholders who are obliged to comply with the established management systems, with the principles of the security culture, quality standards and business ethics.

For several years now, companies included in the GEN Group have held certificates in the fields of environmental management systems according to the ISO 14001, OHSAS 18001 and the ISO 9001 standard.

In the GEN Group, we place a great emphasis on the rationalization and optimization of operations and we create synergies in all key processes. With the involvement of all employees and the understanding and management of the system, we are continually improving the performance and efficiency of the company in achieving business goals, which also include the set goals in the field of quality.

The table summarizes some of the key activities in 2018 and the plans for 2019 related to the establishment, maintenance and development of management systems.

10.2 Top priority: continuous improvement of security

The security culture, reflected through a continuous quest for security, is at the heart of all levels of our responsible behaviour:

- in the realization of a responsible attitude towards the inhabitants and the environment in which we operate,
- in ensuring the health and safety of employees at work, both in production facilities and in the office environment, and
- achieving operational efficiency of the GEN production facilities and the resulting business excellence.

Nuclear safety is the highest priority in the implementation of the GEN energy mission. A key element of nuclear safety is the human factor, which is why strengthening knowledge and systematic training is important. The provision of nuclear safety is carried out in all organizations that deal with or are related to the GEN Group's nuclear activities.

The security aspects of the operation of NEK and the preparation of the JEK 2 project are therefore the priority at all levels of planning and implementation of decision-making and operational activities. This includes continuous monitoring of best practices in the field of nuclear safety in the world and recommendations of the OSART mission (IAEA mission, *Operational Safety Assessment Review Team*). We focus a lot of attention on equipment modernization and the maintenance and improvement of safety culture and awareness of all employees. Because of these approaches, NEK is ranked in the top quarter of nuclear facilities in the world according to the criterion of safe and stable operation.

In October, IAEA carried out a control professional review. The members of the OSART group for the safety inspection of the power plant checked the adequacy of the recommendations in 20 areas, and all of them identified NEK's efforts for proper implementation and continuous improvements as demonstrating their high operational safety.

The excellence of the work processes in NEK and WANO recommendations are often the reason why NEK is visited by a number of international expert groups who want to learn about the good practices of NEK, follow them, and make findings in their work processes. In 2018, representatives of Swedish, Spanish, Slovak and Dutch power stations were welcomed in such visits. This says a lot about the high ranking of NEK in the nuclear industry. This is a confirmation of the efforts made and the great responsibility for NEK to maintain such a position as well.

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

	Certificate	Activities carried out	Key plans for 2019
NEK	ISO 14001	• In October 2018, an internal audit of the environmental management system under the ISO 14001:2015 standard was conducted and, in November 2018, a control audit by an external certification organisation. • The findings of the internal audit are implemented within the scope of the analysis in the corrective programme. The external control audit found no non-compliance but made some recommendations for the improvement of the environmental management system.	• Maintenance and improvement of the environmental management system. • Observation of the findings of the internal audit of the environmental management system and the implementation of recommendations made by the certification organisation for system improvements. • Identification of risks and opportunities in environmental management. • Implementation of the internal audit of the environmental management system. • Management of identified environmental aspects and any new ones. • Successful execution of a control audit by the certification organisation.
	OHSAS 18001	• Execution of an action plan created on the basis of an analysis of the Report for a preliminary standard recertification audit from 2017. • Execution of the management review of the occupational health and safety system for 2018. Provision of clear goals and guidelines of the NEK Management Board. • Execution of an internal and external control audit of the occupational health and safety system at NEK pursuant to the OHSAS 18001 standard. The audit found no non-compliance with the standard. Recommendations were given as an opportunity to progress to an excellence management system.	• Review and analysis of the Report on the 2018 control audit and implementation of recommendations in the NEK operating system. • Execution of the priorities set in the document MD-1 Internal policies and goals – 5-year development plan. • Continuation of activities from the previous action plan. • Ongoing tasks of the TO.VPD service in support of the management system and activities concerning safety and health at work in practice. • Preparation to introduce a new ISO 45001 standard for the occupational safety and health system, which replaces the existing OHSAS 18001:2007 standard.

<table>
<tr><th></th><th>Certificate</th><th>Activities carried out</th><th>Key plans for 2019</th></tr>
<tr><td>SEL</td><td>Environmental management process (without the ISO 14001 certificate)</td><td>The process was assessed by Bureau Vertitas within the scope of the first control audit for ISO 9001 (September 2018).

No findings concerning the environmental management process were reached at the audit. Within the scope of the process, the company observed the principles of the ISO 14001 standard. Activities were carried out in relation to the identified environmental aspects and impacts in cooperation with interested parties within the frame of SEL.

Among other things, two important environmental aspects and impacts were remedied in 2018:
• to put the basic discharge into operation and
• to approach the natural flow from the Moste HPP discharge onward.</td><td>In 2019, the company plans to observe the principles or abide by the good practice indicated in the ISO 14001 and OHSAS 18001 standards despite abandoning certification under them.</td></tr>
<tr><td></td><td>The process of providing health and safety at work and fire safety (without the OHSAS 18001 or ISO 45001:2018 certificate)</td><td>The process was assessed by Bureau Vertitas within the scope of the first control audit for ISO 9001 (September 2018).

No findings concerning the environmental management process were reached at the audit. Within the scope of the process, the company observed the principles of the ISO 14001 standard. Activities were carried out in relation to the identified environmental aspects and impacts in cooperation with interested parties within the frame of SEL.

Among other things, two important environmental aspects and impacts were remedied in 2018:
• to put the basic discharge into operation and
• to approach the natural flow from the Moste HPP discharge onward.</td><td></td></tr>
<tr><td></td><td>ISO 9001</td><td>Execution of the first control audit (September 2018):
• The audit found no non-compliance but provided three recommendations for the quality management system.</td><td>After the transfer to the new issue of the ISO 9001:2015 standard in 2017, the standard is kept mostly with internal audits and management review.</td></tr>
<tr><td>TEB</td><td>ISO 9001</td><td>• transfer to the new ISO 9001:2015 quality management standard
• execution of an internal and external audit</td><td>• execution of an internal and external control audit
• realisation of the proposals for system improvements provided in audits</td></tr>
</table>

	Certificate	Activities carried out	Key plans for 2019
TEB	ISO 14001	• transfer to the new ISO 14001:2015 quality management standard • execution of an internal and external audit	• execution of an internal and external control audit • realisation of proposals for the system improvements provided in audits
	OHSAS 18001	• execution of an internal and external audit	• preparation for transfer from OHSAS 18001 to ISO 45001 and the execution of an internal and external control audit • realisation of proposals for the system improvements provided in audits • the monitoring and realisation of the action plant for 2019 in occupational health and safety and fire safety
	Business excellence	For the purpose of long-term successful operations, the company approached the development of business excellence under the EFQM model in 2018. In 2018, a project team was appointed, which started drawing up proposals for improvements to individual areas after undergoing training.	In 2019, it is planned to prepare a management document and introduce the improvements identified, while preparing bases to win the Business Excellence award.
GEN	ISO 9001	• Execution of renewal and transitional audit under ISO 9001:2015 in February 2018 • execution of an upgrade to existing IT solutions on the SV portal, primarily in the management of risks and opportunities • execution of the recommendations given as an opportunity for improvements by the certification organisation	• Execution of a regular audit under ISO 9001:2015 (in February 2019) • consideration of recommendations that will be given as an opportunity for improvements by the certification organisation for 2019

Infrastructural capital
Security aspects of NEK operations and the preparation of the JEK 2 project:

- keeping track of best experiences in nuclear safety,
- equipment modernisation,
- evaluation of operational safety and work processes (International Atomic Energy Agency, IAEA).

Natural capital
Activities in the environmental management system, as per the ISO 14001 standard

Employees and intellectual capital
Quality management systems and direct inclusion of all employees
Safety culture – at the centre of all levels of responsible conduct:

- nuclear safety as the highest priority,
- maintaining and raising the safety culture and awareness of all employees.

Activities relating to the occupational health and safety system.

A comprehensive overview of links between capital and financial and non-financial information on the operations of the GEN Group in 2018 (Business Report) is in chapter V.3.

11.

Risk management

Risks are an integral part of every company's business. Any risk is associated with the uncertainty of the occurrence of an unforeseen event. The risks are managed on the basis of the adopted Guidelines in the area of risk management and policies set out in the risk management manual. Based on both documents and the knowledge of the operations of subsidiaries, risks can be pooled into the following sets:

- **strategic risks**
- **market risks**
- **quantity risks**
- **financial risks**
- **staff risks**
- **legal risks**
- **operational risks**
- **investment risks**
- **project risks.**

The companies included in the GEN Group manage the risks by identifying them in a timely manner and defining their degree of importance, both at the level of management and individual sectors. Then we define the means by which we will manage a particular risk. By effectively managing risks, we try to reduce the number of unpredictable events and more effectively achieve the set goals.

11.1 Strategic risks

An integral part of GEN's business strategy is the pursuit of sustainable development. We have identified three pillars of sustainable development, the intersection of which is knowledge and security. Within these areas, we are constantly working to make improvements in order to reduce possible negative impacts and increase the positive effects of our work on the environment and society.

The most important risk for GEN's operation is to ensure the safe, reliable and stable production of electricity in subsidiaries, since the existence and development of GEN are dependent on this. Recently, regulatory risks that the state transfers to business entities have also been important, such as new/increased taxes, expanding access to public information, the policy of the Nuclear Safety Administration of the Republic of Slovenia, etc.

The most important energy facility in the group and also in the country is NEK. Since we are owners of the Slovene part of this facility and are thus aware of the risks and our responsibilities 24 hours a day and 365 days a year, we monitor its operation at several levels.

We indirectly monitor the operation of the facilities with regular coordination meetings of the management of companies, regular operational meetings of companies and by appointing professional staff to the supervisory boards and the management boards of companies in the group and various working groups.

Corporate governance by the founder

Within the framework of strategic risk management, an important area is the area of capital investment management, which is implemented by the Slovenski državni holding d.d. (hereinafter: SSH). In accordance with the Slovenian Sovereign Holding Act (Official Gazette of the Republic of Slovenia, No. 105/2012 and amended), SSH is in charge of the management of capital investments in the ownership of the Republic of Slovenia and capital investments owned by SSH. The concept of managing capital investments involves the acquisition of investments, the disposal of investments and the exercise of the rights of a shareholder or any other legal act in accordance with the law governing companies (ZGD-1). SSH also manages the capital investment of the Republic of Slovenia in GEN.

SSH exercises the rights of the shareholder in accordance with the Companies Act (ZGD-1), while also taking into account other acts that contain a record of good corporate governance practice adopted by itself (in particular, the Code of Capital Management of the Republic of Slovenia) or adopted by professional associations (in particular, the Code of management of public limited companies), and SSH follows the acts that express SSH's views on certain aspects of governance (in particular, the Recommendation of the Manager of direct and indirect capital investments of the Republic of Slovenia and the annual bases of SSH for voting at company assemblies).

SSH implements governance as follows:

- through regular and extraordinary assemblies,
- by appointments and recalls of supervisory boards,
- with regular quarterly reports, planning data for the next three years,
- through regular six-month interviews with the supervisory board and/or the management of the company. Such meetings allow a more direct discussion of current issues and a more rapid definition of measures to address possible problems,
- with possible feedback provided by the SSH to the company where a written document can be issued with comments and recommendations, as well as views on future operations and achievement of the set goals,

- with meetings when there are unforeseen, particularly important events that may affect the attainment of set goals and the value of the company,
- by taking action if there is a serious delay in the approved business plans,
- if necessary, SSH also uses other means to obtain information, which helps ensure better insight into the business (for example, cooperation with auditors).

The active management of the company is carried out with the aim of achieving business results in accordance with performance indicators. The emphasis of active management is on the efficiency of operations, so that the business strives to maximize profitability and manage costs in the entire group. The goal of active management is to increase the profitability of the company and the development and renewal of energy infrastructure. The company must capitalize on the investment capital potential for the realization of energy projects in order to ensure a reliable, safe and stable operation of the energy system in the country. The renewal and increase in the company's production capacities in subsidiaries are monitored through annual and quarterly operating statements and business plans.

The achievement of the expected profitability is largely influenced by the price of electricity on the market, on the basis of which revenues are generated on the one hand, and costs and investments on the other. We provide the expected profitability through appropriate planning and the strategy of selling electricity products.

11.2 Market risks

Market risks arise from the uncertain price movement of energy products on the world market, which affects electricity prices both at home and abroad.

GEN limits the trading risks with a strategy of electricity sales, which is basically static, but to a lesser extent, it develops, complements and adapts to the market conditions on a yearly basis. Following the adopted strategy, GEN sells the majority of the planned production before the beginning of the year of delivery. In this way, it significantly limits the price risk, so it is only exposed to the unplanned downtime of production units (especially NEK) and hydrological conditions that deviate from the planned ones. For insurance against changes in electricity prices, futures and various financial instruments of stock exchange trading are also used. At the group level, we are exposed to price risk if we have open positions - when there is a difference (in quantity and value) between purchases and sales in each delivery period. As a result of a price change, the portfolio value can be reduced. Effectively reducing the price risk is based on the real-time closing of positions. For each concluded transaction, as a rule, we at the same time conclude a counter transaction with appropriate characteristics, which is intended to protect positions before the changes in prices. The opposite position is taken in a market where the price is highly correlated with the price of the underlying transaction market. If this is not possible, we try to limit the risk of a change in the price difference between two markets by purchasing cross-border capacity. The risk management policy determines the maximum open position of each portfolio according to the VAR (Value at Risk) method and the *»proprietary trading«*, as well as the maximum loss of the portfolio.

Risks in the sale of electricity for system services have proved to be significant in the past, as the ELES call for system reserves enabled the participation of foreign providers even with higher levels of tertiary frequency regulation. We restricted these risks by successfully selling most of these services on a long-term basis until 2019.

11.3 Quantity risks

Quantity risks are the risks of produced and purchased electricity, which arise due to the difference between the predicted and the actual amount of electricity. Quantity risks can be internal, relating to technological and logistic constraints in the production and timely supply of energy products, or external, which are mainly related to weather and hydrological conditions. The aforementioned risks are borne by the company primarily in the case of open contracts.

Risks of produced electricity refer to the electricity of the production companies. In particular, the risk of an outage in NEK, the most important energy object with regard to quantity, which we are trying to control with the creation of provisions on the purchase side and the TEB production price on the sales side as a marginal price that GEN would have to pay for replacement energy and a formed reserve in this purpose. Risks of purchased electricity from other sources refer to the electricity that GEN supplies from sources outside the group.

Internal risks are controlled by each company for their production facility on the basis of many years of experience, knowledge and regular education of employees and known ways of operation of the production facility, overhauls, etc. The NEK, SEL, TEB and HESS companies ensure the continuous operation of production units and other power plants with regular maintenance and periodic controls of devices (measurements, device diagnostics).

The GEN Group pays considerable attention to limiting and managing external risks. To this end - with the development of adequate information support - we can make long-term and short-term forecasts of the profiles of electricity consumption and delivery, and daily monitoring of the quantitative deviations of most of the receiving and sending points. CV GEN has the main role in this.

At the level of the GEN Group, quantity risks also arise in the supply of energy products, which are controlled by the companies included in the GEN Group through the creation of adequate stocks and the timely implementation of activities in this field.

11.4 Financial risks

Liquidity risk represents a risk that the company is not able to settle its short-term liabilities, which may be the result of different payment deadlines on the purchase and sale side. In companies, the principle is applied that the payment deadlines for purchases and sales of the same content sets are harmonized or that the payment deadlines for purchases are longer than the payment deadlines for sales. Liquidity risks are managed by well-defined contractual provisions, the regular accurate planning of cash flows at daily, monthly and annual levels, checking contractual partners and their solvency, and by the careful and safe placement of surplus cash. At the Group level, liquidity risk is further reduced by:

- the diversification of financial liabilities,
- the on-going harmonisation of the maturity of receivables and liabilities,
- limiting exposure to partners who are not reliable payers and
- the consistent recovery of overdue receivables.

In the case of unplanned payment obligations, the company has part of the cash as a deposit on call, or as a night deposit with which it can cover these liabilities on an up-to-date basis. These assets will also be used if any of the related companies have difficulty in obtaining liquidity on the market.

Companies are also exposed to the risk of managing surplus cash. In line with the situation on the financial markets, we are also aware of the risks of low or even negative interest rates of bankson the issue of liquid assets. In order to manage risks, we have adopted the Investment Strategy in GEN, which forms the basis for the better management of the investment risk.

Credit risk is a risk that occurs when a business partner fails to fulfil its physical (agreed delivery/supply of a certain amount of electricity) or financial obligations (non-payment of contractual obligations, repayment of loans given to others - deposits) in due time. Such a failure affects the ability of companies to fulfil their other obligations towards contractual partners.

Credit risk management is performed by companies with the thorough checking of the business performance of existing and potential future business partners, banks and their liquidity capabilities, with a clearly defined procedure for collecting receivables, a reminder system, and concluding contracts with appropriate collateral (bills, bank guarantees).

The estimated risk level depends primarily on the business results of the partner, in particular on the level of indebtedness, short-term liquidity, solvency indicators and profitability indicators. We place great importance on acquiring current information from the market, because under different market and regulatory changes, the status of an individual partner can change rapidly.

Interest rate risk is a financial risk to which companies are exposed to varying degrees when they appear in the role of borrowers and lenders. Interest rate risk means the possibility of losing revenue or increasing expenses due to unfavourable movements in market interest rates. Unfavourable movements can be both a rise or a reduction in the interest rate. If a company needs money to carry out a particular project, an increase in the interest rates is an unfavourable change. A negative change can also be a reduction in interest rates when a company lends the surplus of its cash on the market. In the context of investment, interest rate risk is the possibility that the value of the investment will be less due to changes in market interest rates.

To understand the interest rate risk, the understanding of the money market and its functioning is crucial. Interest rates are constantly changing in the money markets as a result of supply and demand for money and other macroeconomic factors (e.g. inflation and overheating of the economy). The interest rate is in fact the price of money, which, like the price of any other commodity in the function of the supply-to-demand ratio, changes in response in exactly the same way as other prices.

Interest rate risk, from the perspective of both the lender and the borrower, is most often controlled through the use of various financial instruments aimed at reducing negative effects when changing market interest rates. As a rule, the extent of exposure to interest rate risk depends on the size of the share of financial liabilities and financial investments in a company - a higher proportion also means higher exposure.

Currency risk occurs in electricity trading and cross-border transfer capacity trading. In addition, equity and loans from subsidiaries are exposed to foreign exchange risk. The company's exposure to foreign exchange risk mainly arises in foreign exchange transactions or in dealing with countries in which the euro is not the official currency. This is primarily the case for exposure to exchange differences from the conclusion of a contractual relationship to the payment of the contractual amount.

11.5 Staff risks

Staff planning is identifying the company's needs for human resources and planning activities for their acquisition. For the well-thought-out and rational planning of human resources, all the responsible institutions must be involved in this process.

With the acquisition and development of personnel, the companies ensure their future development and prospects.

The management of these risks is particularly important for the GEN Group due to the rapid growth and conquest of new markets. Implementation of business plans from employees requires the continuous upgrading of existing knowledge and also acquiring new knowledge and competencies, as well as quality group work, exceptional flexibility, dynamism, self-initiative and excellent mutual relations and communication.

11.6 Legal risks

Legal risks relate to losses due to violations or improper compliance with laws, regulations, instructions, recommendations, contracts, good practices or ethical standards. The companies manage the aforementioned risks, in particular with well-defined contractual terms.

Often risks arise due to a lack of legal basis or sudden legal changes. The company seeks to limit the latter by regularly monitoring and studying legislative changes before their introduction into the applicable law.

11.7 Operational risks

Operational risks are present in all business processes. These are the risks that the Group would suffer financial damage due to the under-performance of business processes and ineffective control.

The process risks at the level of the GEN Group are limited by the control systems in each individual company whose basic principle is that all important operations are concluded on the principle of at least »four eyes«. The group limits the risks with clearly defined processes, unambiguously defined roles, responsibilities and powers of persons, and codes and policies.

The risks of the failure of the information or telecommunications network of the company are managed in such a way that the key components of the network are duplicated, regularly maintained and updated. They are also under the appropriate assistance regime, which ensures that they are replaced in good time in the event of a malfunction. All important communication channels are also duplicated.

The risks in the area of information security have been identified and coordinated activities are carried out to eliminate the risk and opportunity analysis.

11.8 Investment risks

The operation of the NEK is important both for the current operation of GEN and for the development of nuclear technology in Slovenia. Therefore, the operation of NEK should be monitored at all levels. Staff training is an important element in this.

Given the importance of the JEK 2 project for the national economy, the company has been facing general risks from the very beginning, among which the most exposed risks are related to the political decision to implement the project and the definition of the project in the national strategic program, on the one hand, and the social acceptance of the project on the other.

The company seeks to cope with the general risks by informing the relevant institutions, the Government of the Republic of Slovenia and the social environment about the eligibility and national strategic importance of the JEK 2 project, which are the basis for the adoption of the necessary decisions for the construction of the JEK 2.

In addition to general risks, the company also identifies the risks of the JEK 2 project in case of the actual construction of the building. The major risks of the JEK 2 project are:

- risks of the development of the JEK 2 project,
- risks of implementing the JEK 2 project, among which the greatest risk is the financing of the JEK 2 project and the acquisition of appropriate professional staff; and
- the risk of operation of JEK 2.

In case of a decision for the JEK 2 project, the risks for this project will be managed separately. The risk management manual for the JEK 2 project has already been developed by GEN.

Monitoring of the construction of hydroelectric power plants on the Sava River and cooperation in the construction are important elements of risk management for GEN and SEL. A particularly important role will be played in the construction of HPPs on the central Sava, where the participation of employees from these companies is envisaged.

Investments in gas aggregates are important in terms of providing a backup power supply to NEK and a potential JEK 2, as well as a possibility of systemic reserves and ensuring the flexibility of the production portfolio.

11.9 Project risks

Project risks are identified and controlled separately for each project (e.g. HESS, JEK 2, SRESA).

The management of strategic, market, quantity, financial, HR, legal, operational, investment, and project risks is closely related to all five capital assets from which GEN Group creates value for its stakeholders in the short, medium, and long term.

A comprehensive overview of links between capital and financial and non-financial information on the operations of the GEN Group in 2018 (Business Report) is in chapter V.3.

ANNUAL REPORT
OF THE GEN COMPANY AND GROUP
2018

III

Financial report of GEN

1.

Independent Auditor's Report

Building a better working world

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 31 December 2018, 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 2018 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.

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

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Building a better working world

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, 14 May 2019

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

Mateja Repušič
Certified Auditor

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

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2.

Statement of the management's responsibilities

The General Director is responsible for the preparation of the GEN's annual report in a way that represents a true and fair view of the company's assets and the results of its operations for the financial year that commenced on 1 January 2018 and ended on 31 December 2018.

The General Director confirms that the appropriate accounting policies have been consistently applied and that the accounting estimates have been made using the principle of prudence and good governance. He also confirms that the financial statements, together with the notes, have been prepared on the basis of the assumption that the company is continuing to operate and in accordance with applicable legislation and Slovenian Accounting Standards.

The General Director is responsible for appropriately managed accounting, for the adoption of appropriate measures to protect property, and for the prevention and detection of fraud and other irregularities.

At any time within 5 years after the end of the year in which the tax was to be levied, the tax authorities can check the business of the company, which can result in the creation of an additional obligation to pay tax, default interest and penalties from the taxation of corporate income tax or other taxes and duty. The General Director of the company is not aware of any circumstances that could lead to a possible significant obligation under this heading.

On 6 May 2019, the General Director of the company adopted GEN's financial statements for the financial year ending on 31 December 2018.

Vrbina, 6 May 2019.

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

3.

Introductory notes on the preparation of the financial statements

The company is obliged to compile separate financial statements for the GEN company in accordance with the Slovenian Accounting Standards 2016.

The audit of financial statements with explanations was carried out by the audit company Ernst & Young d.o.o., Dunajska 111, Ljubljana, which also prepared the report of the independent auditor included at the beginning of the financial report.

4.

Financial statements

4.1 Balance sheet

Balance Sheet - assets in EUR	Notes	31/12/2018	31/12/2017
ASSETS		**561,878,547**	**531,990,773**
Long-term assets		**493,520,562**	**479,622,988**
Intangible assets and long-term deferred costs and accrued revenue	**7.1**	**162,140**	**198,015**
Intangible assets		135,995	197,312
Long-term property rights		124,335	180,206
Other intangible assets		11,660	17,106
Long-term deferred costs and accrued revenue		26,145	703
Property, plant and equipment	**7.2**	**19,331,191**	**18,268,191**
Land and buildings		6,573,325	6,859,973
Land		528,904	528,904
Buildings		6,044,421	6,331,069
Other plant and equipment, small tools and other PPE		702,913	759,623
Property, plant and equipment being acquired		12,054,953	10,648,595
Long-term investments	**7.3**	**468,232,467**	**455,319,329**
Long-term investments other than loans		468,232,467	455,319,329
Shares and interests in the Group companies		291,325,953	278,412,815
Shares and interests in associates and joint ventures		176,782,413	176,782,413
Other shares and interests and other long-term investments		124,101	124,101
Deferred tax assets	**7.4**	**5,794,764**	**5,837,453**
Short-term assets		**68,271,307**	**52,296,410**
Short-term investments	**7.5**	**33,206,560**	**13,197,358**
Short-term investments other than loans		195,164	195,164
Other shares and interests		195,164	195,164
Short-term loans		33,011,396	13,002,194
Short-term loans to others		33,011,396	13,002,194
Short-term operating receivables	**7.6**	**23,188,050**	**32,538,506**
Short-term operating receivables from Group companies		16,349,744	23,702,126
Short-term trade receivables		4,279,227	6,588,213
Short-term operating receivables from others		2,559,079	2,248,167
Cash and cash equivalents	**7.7**	**11,876,697**	**6,560,546**
Short-term deferred costs and accrued revenue	**7.8**	**86,678**	**71,375**

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

4.2 Balance sheet - continuation

Balance Sheet - liabilities in EUR	Notes	31/12/2018	31/12/2017
LIABILITIES		**561,878,547**	**531,990,773**
Equity	**7.10**	**466,408,213**	**447,903,727**
Called-up capital		**250,000,000**	**250,000,000**
Share capital		250,000,000	250,000,000
Capital surplus		**131,756,895**	**131,756,895**
Profit reserves		**68,418,953**	**52,397,116**
Legal reserves		2,605,980	2,605,980
Other profit reserves		65,812,973	49,791,136
Fair value reserves		**-20,009**	**-19,747**
Retained earnings		**4,000,000**	**4,000,000**
Net profit or loss for the financial year		**12,252,374**	**9,769,463**
Provisions and long-term accrued costs and deferred revenue		**61,353,565**	**61,452,365**
Provisions and long-term accrued costs and deferred revenue	**7.12**	**61,353,565**	**61,452,365**
Provisions for jubilee benefits and severance pay		595,343	474,925
Other provisions		60,398,333	60,972,833
Long-term accrued costs and deferred revenue		359,889	4,607
Long-term liabilities		**12,957,293**	**89,792**
Long-term financial liabilities	**7.13**	**12,954,853**	**31,000**
Long-term financial liabilities to Group companies		1,183,564	0
Other long-term financial liabilities		11,711,289	31,000
Long-term operating liabilities		**1,992**	**58,792**
Long-term trade liabilities		0	47,626
Other long-term operating liabilities		1,992	11,166
Deferred tax liabilities		**448**	**0**
Short-term liabilities		**20,998,329**	**22,338,674**
Short-term financial liabilities		**120,230**	**0**
Other short-term financial liabilities		120,230	0
Short-term operating liabilities	**7.14**	**20,878,099**	**22,338,674**
Short-term operating liabilities to Group companies		7,461,323	8,551,996
Short-term trade liabilities		9,293,293	10,121,461
– domestic		9,290,129	9,940,882
– foreign		3,164	180,579
Other short-term operating liabilities		4,123,483	3,665,217
Short-term accrued costs and deferred revenue	**7.15**	**161,147**	**206,215**

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

4.3 Income statement

Income Statement in EUR	Note	2018	2017
Net sales revenues	**7.16**	**200,603,278**	**168,865,788**
On the domestic market		200,315,972	168,813,705
On the EU market		287,306	52,083
Other operating revenue	**7.16**	**676,134**	**4,413,473**
Total operating revenue		**201,279,412**	**173,279,261**
Total operating expenses		**173,690,275**	**151,518,378**
Costs of goods, material and services	**7.17**	**160,845,117**	**138,379,270**
Cost of goods and material sold		158,754,350	136,518,021
Cost of material used		144,017	146,438
Cost of services		1,946,750	1,714,811
Labour costs	**7.17**	**3,723,463**	**3,315,888**
Wages and salaries		2,807,508	2,450,312
Social security costs		567,746	492,966
Other labour costs		348,209	372,610
Write-downs	**7.17**	**736,664**	**786,464**
Amortisation of IA and depreciation of PPE		736,664	786,302
Operating expenses for the revaluation of IA and PPE		0	162
Other operating expenses	**7.17**	**8,385,031**	**9,036,756**
Profit or loss from operating activities		**27,589,137**	**21,760,883**
Financial revenue from shares and interests	**7.16**	**2,486,791**	**2,011,791**
Financial revenue from shares and interests in Group companies		2,475,000	2,000,000
Financial revenue from shares and interests in other companies		11,791	11,791
Financial revenue from loans given	**7.16**	**35,824**	**5,732**
Financial revenue from loans to others		35,824	5,732
Financial revenue from operating receivables		**22**	**11,460**
Financial revenue from operating receivables from Group companies		0	11,221
Financial revenue from operating receivables from others		22	239
Financial expenses for the impairment and write-down of investments		**0**	**93**
Financial expenses for financial liabilities		**371,519**	**0**
Financial expenses for other financial liabilities		371,519	0
Financial expenses for operating liabilities		**5,557**	**3,863**
Financial expenses for other operating liabilities		5,557	3,863
Other revenue		**12,934**	**653**
Other expenses		**115,852**	**113,538**
Total profit or loss		**29,631,780**	**23,673,025**
Corporate income tax	**7.19**	**5,127,032**	**4,134,098**
Corporate income tax		5,083,867	3,597,547
Deferred tax		43,165	536,551
Net profit or loss for the accounting period		**24,504,748**	**19,538,927**

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

4.4 Statement of other comprehensive income

Statement of Other Comprehensive Income in EUR	2018	2017
Net profit or loss for the accounting period	**24,504,748**	**19,538,927**
Changes in fair value reserves	-262	-16,720
Total comprehensive income for the accounting period	**24,504,486**	**19,522,207**

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

4.5 Cash flow statement, version II

Cash Flow Statement (version II) in EUR	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Income Statement items	**23,768,571**	**19,523,617**
Operating revenue (other than revaluation) and financial revenue from operating receivables	201,291,627	173,255,727
Operating expenses excluding amortisation/depreciation (other than revaluation) and financial expenses for operating liabilities	-172,885,110	-150,653,195
Corporate income tax and other tax not included in operating expenses	-4,637,946	-3,078,915
Changes in the net current assets of balance sheet operating items	**7,013,635**	**-13,369,687**
Opening less closing operating receivables	9,350,456	-13,901,864
Opening less closing deferred costs and accrued revenue	-40,745	3,115
Closing less opening operating liabilities	-1,723,536	4,648,673
Closing less opening accrued costs and deferred revenue and provisions	-572,540	-4,119,611
Net cash flow from operating activities	**30,782,206**	**6,153,930**
CASH FLOWS FROM INVESTING ACTIVITIES		
Receipts from investing activities	**39,514,154**	**7,020,329**
Receipts from interest received and profit participation relating to investing activities	2,513,413	2,015,329
Receipts from the disposal of property, plant and equipment	741	3,200
Receipts from the disposal of investments	37,000,000	5,001,800
Cash disbursements for investing activities	**-58,980,209**	**-19,079,730**
Disbursements for the acquisition of intangible assets	-66,969	-109,569
Disbursements for the acquisition of property, plant and equipment	-1,911,166	-970,161
Disbursements for the acquisition of investments	-57,002,074	-18,000,000
Net cash flow from investing activities	**-19,466,055**	**-12,059,401**
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash receipts from financing activities	**238,500**	**0**
Receipts from increase in financial liabilities	238,500	0
Cash disbursements for financing activities	**-6,238,500**	**-2,000,000**
Interest paid on financing activities	-238,500	0
Disbursements for dividends and other profit participation	-6,000,000	-2,000,000
Net cash flow from financing activities	**-6,000,000**	**-2,000,000**
Closing balance of cash and cash equivalents	**11,876,697**	**6,560,546**
Net cash flow in the period	**5,316,151**	**-7,905,471**
Opening balance of cash and cash equivalents	**6,560,546**	**14,466,017**

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

4.6 Statement of changes in equity

Statement of Changes in Equity for 2018 in EUR	Share capital	Capital surplus	Legal reserves
Balance as at 1/1/2018	**250,000,000**	**131,756,895**	**2,605,980**
Changes in equity - transactions with owners	**0**	**0**	**0**
Dividend disbursement	0	0	0
Total comprehensive income for the reporting period	**0**	**0**	**0**
Entry of the net profit or loss for the reporting period	0	0	0
Changes in reserves due to the valuation of investments at fair value	0	0	0
Changes in equity	**0**	**0**	**0**
Other changes in equity	0	0	0
Balance as at 31/12/2018	**250,000,000**	**131,756,895**	**2,605,980**

Statement of Changes in Equity for 2017 in EUR	Share capital	Capital surplus	Legal reserves
Balance as at 1/1/2017	**250,000,000**	**131,756,895**	**2,605,980**
Changes in equity - transactions with owners	**0**	**0**	**0**
Dividend disbursement	0	0	0
Total comprehensive income for the reporting period	**0**	**0**	**0**
Entry of the net profit or loss for the reporting period	0	0	0
Changes in reserves due to the valuation of investments at fair value	0	0	0
Changes in equity	**0**	**0**	**0**
Other changes in equity	0	0	0
Balance as at 31/12/2017	**250,000,000**	**131,756,895**	**2,605,980**

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

Other profit reserves	Fair value reserves	Retained earnings	Net profit or loss	Total
49,791,136	-19,747	13,769,463	0	447,903,727
0	**0**	**-6,000,000**	**0**	**-6,000,000**
0	0	-6,000,000	0	**-6,000,000**
0	**-262**	**0**	**24,504,748**	**24,504,486**
0	0	0	24,504,748	**24,504,748**
0	-262	0	0	**-262**
16,021,837	**0**	**-3,769,463**	**-12,252,374**	**0**
16,021,837	0	-3,769,463	-12,252,374	**0**
65,812,973	-20,009	4,000,000	12,252,374	466,408,213

Other profit reserves	Fair value reserves	Retained earnings	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

5.

Basis for compiling the GEN financial report

The form and content of the financial report as an integral part of the annual report is determined by the ZGD-1. It contains financial statements, profit or loss, statement of other comprehensive income, cash flows and changes in equity, with mandatory annexes to the notes on these statements. The basic accounting rules that result in these statements were summarized by the company according to the SAS and defined in the internal act, while all the areas not defined in the latter are defined in the management's decisions according to the method of treatment. The company's financial statements are in compliance with all the requirements of all relevant standards and with explanations accepted by the Slovenian Institute of Auditors. The company discloses important items of financial statements in accordance with the provisions of the importance of the GEN Accounting Rules.

5.1 Basic accounting assumptions and general valuation rules

When dealing with business events for the preparation of financial statements, the Company takes into account the basic accounting assumptions:

- taking into account the occurrence of a business event,
- time limitations of business,

and the qualitative characteristics of the financial statements:

- comprehensibility: the financial statements are comprehensible if users who sufficiently know the business, the economy and accounting, and who diligently study the information, understand it easily, and it is possible to determine the importance of the accounts in them,
- relevance: the information is relevant if it helps the users in their business decision-making. Information is important when their omission or misstatement can affect the user's business decision and when they are based on the financial statements,
- reliability: reliable information is free from material misstatements and biased views, and accounts and entries on it are complete and reliable. The information must be complete in terms of relevance. Reliability also requires consideration of the benefits of the content before the design.
- comparability: comparable items are provided by methodical unity in the company's financial statements in the same legal organizational status for different years and the comparability of items in the financial statements of different companies.

5.2 Reporting currency of financial statements

The financial statements are denominated in euros and are presented without cents. They are prepared in the light of the original value. Transactions denominated in a foreign currency are translated into euros at the ECB exchange rate on the date of occurrence of the business event. Assets and liabilities denominated in a foreign currency are calculated into euros on the balance sheet date at the ECB exchange rate valid on that date. Foreign exchange gains or losses arising from these events are recognized in the income statement. Due to the rounding of value data, there may be insignificant deviations in the sums presented in the tables.

6.

Accounting policies

6.1 Intangible assets

Intangible assets are non-monetary assets that, as a rule, do not exist physically, but enable the company to perform its activities.

The company uses the cost model to measure intangible assets, which means recognition at their cost. Subsequently, the cost is reduced by depreciation and accumulated impairment losses.

The acquisition cost of an intangible asset includes all directly attributable costs of preparing the asset for the intended use, including the borrowing costs until the intangible asset has been created.

Subsequent costs - expenses incurred in connection with intangible assets are recognized in the bookkeeping records of that asset and increase its cost only if they increase its future benefit in comparison with the originally estimated ones.

Depreciation of intangible fixed assets is accounted for using the straight-line depreciation method, taking into account the defined useful life of each individual intangible fixed asset. Depreciation commences on the first day of the following month after an intangible asset with a useful life is available for use.

Intangible assets are stated at the carrying amount in the balance sheet, which represents the difference between the cost and the value adjustment.

6.2 Tangible fixed assets

Tangible fixed assets (Property, plant and equipment) are fixed assets of the company that are used for the business activity. At initial recognition, they are stated at their cost.

The purchase value of an item of property, plant and equipment comprises the purchase price and all costs directly attributable to bringing the asset to its working condition.

For the measurement of property, plant and equipment, the company uses the cost model, which means recognition at their cost, which is subsequently reduced by depreciation and accumulated impairment losses.

Depreciation/amortisation group	% in 2018
business premises	3
office equipment	10.00–20.00
computer equipment	33.33
intangible assets	33.33
tools and devices	11.00–33.33
cars	12.5
exhibition equipment	14.28–33.33
solar power plant	10.00
other investments	10.00
parts of civil engineering structures	6.00
optical links	3.33

Depreciation of property, plant and equipment is accounted for using the straight-line depreciation method, taking into account the defined useful life of each individual item of property, plant and equipment. Depreciation commences on the first day of the following month after the tangible fixed asset with an end of its useful life is available for use.

Existing depreciation rates were not changed in 2018.

Property, plant and equipment are recorded in the balance sheet at their carrying amount, which represents the difference between the cost of purchase and any value adjustment.

Subsequent costs - expenses incurred in connection with property, plant and equipment are only recognized in the bookkeeping records of that asset and increase their cost if they increase its future benefit in comparison with what was originally estimated.

When an item of property, plant and equipment is disposed of, its recognition in the bookkeeping records is eliminated, and the difference between the net return on disposal and the carrying amount of the disposed of fixed asset is transferred to revaluation operating revenues or expenses.

Assets are recognized if they are likely to increase the economic benefits of the company in the future and if they have a price or value that can be reliably measured. If there is a sufficient degree of certainty that, after the end of the accounting period in question, there will be an increase in the economic benefits of the company in respect of an item, these items are deemed to be an asset.

6.3 Long-term financial investments

Long-term financial investments are long-term investments in the capital of subsidiaries, associates and other companies.

Upon initial recognition, a financial investment is measured at fair value. To the initial recognized values, the transaction costs that arise directly from the purchase or issue of a financial asset are also added, except for an asset that is classified as a group of assets measured at fair value through profit or loss.

Capital investments in subsidiaries, associates and joint ventures are measured at cost.

Financial investments in equity instruments for which there is no published price in the active market and whose fair value cannot be measured reliably and in derivatives that are related to such financial investments and need to be settled with them are measured at cost.

In accounting for normal purchases and sales of financial investments, the company takes into account the trade date.

Participation in the profit and dividends of companies are recognized in the profit or loss when the right to the payment of shareholding in the profit or dividend is acquired.

6.4 Deferred tax assets

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

Deferred tax assets are recognized in the amount of the probable available future taxable profit, against which future deferred receivables will be able to be used.

The recognition of deferred tax uses the balance sheet liability method, taking into account temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the values for tax reporting purposes.

6.5 Operating receivables

Receivables of all types are shown at the value arising from the relevant documents, on the assumption that they will be paid.

The company's operating receivables are impaired if it is estimated that their recoverable amount is less than the carrying amount.

Risks arise mainly in respect of trade receivables, which the company has insured with blank bills or bank guarantees.

6.6 Short-term financial investments

Financial investments form an integral part of the company's financial instruments to increase their financial revenues within short periods with the returns deriving from them. They include deposits with maturities of more than 3 days after acquisition.

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

6.7 Cash and cash equivalents

Cash and cash equivalents comprise scriptural money and short-term deposits and deposits with banks with a maturity of up to three days after acquisition.

Scriptural money is available or recall-linked money in the account with a bank or other financial institution that can be used for payment.

6.8 Accrued expenses/revenue and deferred revenue/expenses

Short-term deferred costs and accrued revenue consist of short-term deferred costs that do not affect the company's profit or loss at the time of its occurrence and accrued revenues that are justified in the profit or loss but have not yet been charged.

Short-term accrued costs and deferred revenue consist of short-term accrued costs on the basis of a straight-line burden of the income statement with anticipated costs that have not yet arisen and short-term deferred revenues for services that are not yet paid for.

6.9 Equity

Equity is defined by the amounts invested by the owners and the amounts that occurred in the course of business and belong to the owner. It can be reduced by loss or profit and reserves due to fair value measurement.

The total equity of a company consists of called-up capital, capital surplus, profit reserves, reserves resulting from fair value measurement, net profit transferred from previous years or net loss transferred from previous years and transitional not yet distributed net profit or not yet settled net loss of financial years.

The share capital and capital reserves represent the owners' monetary and real contributions.

Other revenue reserves are formed on the basis of the decisions of the Director and the General Meeting.

Net profit represents an unallocated portion of the net profit of the company in the current year.

6.10 Provisions

Provisions are formed for liabilities that, according to forecasts based on mandatory past events, will occur over a period of more than one year, and whose size can be reliably estimated - measured.

An estimate of the provisions for anniversary bonuses and severance payments is made on the basis of reports from certified actuarial appraisers assuming an employee fluctuation of up to 3.0% and a discount rate of 1.6%, while the assessment of other provisions is based on the methodology adopted by the company's director. The methodology determines the provision of reservations from onerous contracts based on the three-year average of the fixed costs of the NEK Economic Plan.

6.11 Current operating liabilities

Liabilities of all types are initially disclosed at their original values deriving from the relevant accounting documents. Debts to legal or natural persons abroad are translated into the domestic currency on the day of their creation. The exchange difference that arose before the date of settlement of such liabilities, until the balance sheet date, comprise financial expenses or income.

In the balance sheet, liabilities that are already due but not yet settled and liabilities that are due for payment within one year from the balance sheet date are recorded as short-term liabilities.

Long-term liabilities relate to liabilities that are due for payment over a period longer than one year.

6.12 Contingent assets and liabilities

Current assets and liabilities include operating events that do not directly affect items in the financial statements, but are important for informing users of the financial report. Contingent assets and liabilities may extinguish or acquire a new quality at future business events and even affect items in the balance sheet and the income statement.

6.13 Revenue

Revenue is an increase in economic benefits in the accounting period in the form of an increase in assets or a reduction in debt, and this increase can be reliably measured. It affects the amount of the capital through profit or loss. Revenue is recognized when it is reasonably expected that it will lead to receipts if these are not realized at the time of occurrence.

Revenue from the sale of goods and services is recognized in the income statement. It is recognized when they are reasonably expected to lead to benefits if they are not realized at the time of the occurrence. It is measured on the basis of the selling prices quoted in invoices or other documents, less any discounts granted at the time of sale or later.

Financial income is revenue generated by investment activities. It arises in connection with financial investments in the form of paid dividends of companies in the group and other companies and in the form of interest from other companies (financial institutions). It is recognized on the basis of the right to disbursement and settlement, which takes into account the expired period and the outstanding portion of the short-term financial investment, irrespective of the incidence of actual cash receipts.

6.14 Expenses

Expenses represent a reduction in economic benefits in the accounting period in the form of a decrease in assets or an increase in debt, and this reduction can be reliably measured.

Operating expenses are recognized when purchasing merchandise, or when a service is performed. In addition to the cost of goods, material costs, service costs, labour costs, depreciation costs and other costs are included among operating expenses.

Financial expenses arise in relation to debts, short-term financial investments and short-term liabilities. They are recognized after the billing, regardless of the payments associated with them. Interest is recognized in proportion to the expiry of the period, as well as the outstanding portion of the principal and the agreed interest rate.

6.15 Taxes

The company is a taxable entity under the Value Added Tax Act and the Corporate Income Tax Act. Income tax includes current and deferred tax. It is shown in the income statement.

Current tax is calculated from the taxable profit for the financial year at the tax rate in force at the balance sheet date.

Liabilities or deferred tax assets are measured on the basis of tax rates that are expected to be used when the asset is realized or the liability is paid. The tax rates and tax regulations in force at the balance sheet date are taken into account. Deferred tax is recognized directly in debit or equity if the tax relates to items recognized directly in debit or in the interest of equity.

6.16 Events after the balance sheet date

On 6 May 2019, the company's management approved GEN's financial statements and the annual report for the financial year ended on 31 December 2018. There were no business events until the issue of the auditor's report that would affect the financial statements for the year 2018.

6.17 Segment reporting

GEN energija d.o.o. has no defined area and district segments.

7.

Notes on the financial statements

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

7.1 Intangible assets

Changes in intangible assets in EUR	Intangible assets	Other intangible assets	Total
COST			
Balance as at 31/12/2017	**3,383,000**	**110,114**	**3,493,114**
Acquisitions	52,797	1,920	54,717
Reallocation	2,100	-2,100	0
Elimination from books	-1,039	0	-1,039
Balance as at 31/12/2018	**3,436,858**	**109,934**	**3,546,792**
ALLOWANCE			
Balance as at 31/12/2017	**3,202,794**	**93,008**	**3,295,802**
Depreciation/amortisation	110,768	5,266	116,034
Elimination from books	-1,039	0	-1,039
Balance as at 31/12/2018	**3,312,523**	**98,274**	**3,410,797**
CARRYING AMOUNT			
Balance as at 31/12/2017	**180,206**	**17,106**	**197,312**
Balance as at 31/12/2018	**124,335**	**11,660**	**135,995**
COST			
Balance as at 31/12/2016	**3,269,676**	**108,014**	**3,377,690**
Acquisitions	113,324	2,100	115,424
Balance as at 31/12/2017	**3,383,000**	**110,114**	**3,493,114**
ALLOWANCE			
Balance as at 31/12/2016	**3,060,050**	**87,364**	**3,147,414**
Depreciation/amortisation	142,744	5,644	148,388
Balance as at 31/12/2017	**3,202,794**	**93,008**	**3,295,802**
CARRYING AMOUNT			
Balance as at 31/12/2016	**209,626**	**20,650**	**230,276**
Balance as at 31/12/2017	**180,206**	**17,106**	**197,312**

Intangible assets are predominantly assets invested in the company's information systems required for doing business. Compared with the situation of the previous period, their value decreased, as investments in information systems for the needs of GEN's operations did not exceed the depreciation.

7.2 Tangible fixed assets

Changes in property, plant and equipment in EUR	Land	Buildings	Equipment	Assets being acquired	Total
COST					
Balance as at 31/12/2017	**528,904**	**8,600,456**	**4,664,923**	**10,648,595**	**24,442,878**
Acquisitions	0	70,527	206,744	1,406,358	1,683,629
Disposals, elimination from books	0	0	-13,226	0	-13,226
Balance as at 31/12/2018	**528,904**	**8,670,983**	**4,858,441**	**12,054,953**	**26,113,281**
ALLOWANCE					
Balance as at 31/12/2017		**2,269,387**	**3,905,300**		**6,174,687**
Depreciation/amortisation		357,175	263,454		620,629
Disposal		0	-11,708		-11,708
Elimination from books		0	-1,518		-1,518
Balance as at 31/12/2018		**2,626,562**	**4,155,528**		**6,782,090**
CARRYING AMOUNT					
Balance as at 31/12/2017	**528,904**	**6,331,069**	**759,623**	**10,648,595**	**18,268,191**
Balance as at 31/12/2018	**528,904**	**6,044,421**	**702.913**	**12,054.953**	**19,331,191**
COST					
Balance 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
Reallocation	0	0	311	-311	0
Disposals, elimination from books	0	0	-92,729	0	-92,729
Balance as at 31/12/2017	**528,904**	**8,600,456**	**4,664,923**	**10,648,595**	**24,442,878**
ALLOWANCE					
Balance as at 31/12/2016		**1,913,493**	**3,714,000**		**5,627,493**
Depreciation/amortisation		355,894	282,020		637,914
Revaluation		0	1,846		1,846
Disposal		0	-91,451		-91,451
Elimination from books		0	-1,115		-1,115
Balance as at 31/12/2017		**2,269,387**	**3,905,300**		**6,174,687**
CARRYING AMOUNT					
Balance as at 31/12/2016	**528,904**	**6,670,364**	**839,750**	**9,837,717**	**17,876,735**
Balance as at 31/12/2017	**528,904**	**6,331,069**	**759,623**	**10,648,595**	**18,268,191**

The company's property, plant and equipment are acquired land and buildings as business premises in which GEN operates and that are owned by it, as well as equipment that relates exclusively to the equipment of the premises necessary for the operation of the company.

The major share of property, plant and equipment consists of:

- acquisition funds consisting of replacement works for the JEK expansion project, in the amount of EUR 6,664,618, and the costs of research and studies for the purpose of the JEK 2 investment in the amount of EUR 5,384,931, and
- buildings where the largest share of the GEN Information Centre, whose book value on the last day of the accounting period amounts to EUR 5,682,713.

As early as in 2015, in line with the management decision and the adoption of the Decree on the Strategy for Managing Capital Investments of the State, which defines the role of GEN as the carrier of activities in connection with the investment of JEK 2, GEN began to recognize the cost of studies and research of external contractors for the investment of JEK 2 as part of the assets.

The acquired fixed assets of GEN on the last day of the accounting period have not been pledged and GEN has no financial obligations from this title.

7.3 Long-term financial investments

Long-term investments in EUR	Shareholdings and voting rights in %		Investment value		Company equity	Net profit or loss of companies
	31/12/2018	31/12/2017	31/12/2018	31/12/2017	31/12/2018	2018
Subsidiaries			**291,325,953**	**278,412,815**		
SEL	100.00%	100.00%	137,680,172	137,680,172	156,690,239	440,544
TEB	100.00%	100.00%	28,909,824	28,909,824	66,641,000	3,489,473
HESS	33.50%	33.50%	89,959,276	89,959,276	282,522,927	3,561,010
GEN-I	50.00%	50.00%	10,585,639	10,585,639	81,513,623	12,963,418
GEN-EL	25% *	25.00%	24,191,042	11,277,904	47,130,942	1,964,094
Associates			**176,782,413**	**176,782,413**		
NEK	50.00%	50.00%	176,772,413	176,772,413	440,651,659	0
SRESA	10.00%	10.00%	10,000	10,000	62,980	-5,195
Other companies			**124,101**	**124,101**		
ZEL-EN	9.28%	9.28%	124,101	124,101	n/a	n/a
Total			**468,232,467**	**455,319,329**		

* GEN EL's shareholding is 25%, the economic ownership of GEN EL is 100%

Long-term financial investments predominantly represent investments in companies in the group in which GEN has a direct or indirect majority stake or a share in associated companies. The total value of such investments amounts to EUR 468,108,366.

Subsidiaries

GEN is proving the dominant influence over GEN-I on the basis of the GEN-I Partnership Agreement valid on 14 December 2016, the Main Contract for the purchase and sale of electricity on 14 December 2016 and the management's statement.

GEN demonstrates the dominant influence over GEN-EL on the basis of optional contracts that enable GEN and the companies in the GEN Group to acquire GEN-EL shares and are concluded between the companies:

- GEN and Elektro Ljubljana to acquire a 25% stake in GEN-EL;
- GEN-I and the Craftsmen and Entrepreneurs Fund to acquire a 16% stake in GEN-EL;
- GEN-I and Gorenjska banka to acquire a 9% stake in GEN-EL.

The value of the investment in the subsidiary company GEN-EL thus increased:

- from the recognition of the aforementioned selling option described above by GEN companies with Elektro Ljubljana in the amount of EUR 11,727,500. Since there is a buying and selling option under the same conditions and in particular at a fixed price, this indicates that the acquirer has become the economic owner of the company and consequently must increase the investment by an additional 25% and form financial obligations in the same amount, with the cost of financing from the sales option contracts are recognized over the period of existence of the options. The option is valid until 31 May 2020;

- From the title of recognition of the premium for the purchase and sale option in the amount of EUR 1,183,564 under the contract on the transfer of the purchase and selling option, and also appropriately recognizes the obligation to pay the premium, which falls within 90 days of the acquisition of the company's stake in GEN-EL from Elektro Ljubljana.

GEN, with a direct 33.5% share of the equity capital of HESS, also has a 17.5% indirect share through SEL subsidiaries in the amount of 14.7% and TEB subsidiaries in the amount of 2.8% Due to the indirect dominant influence, HESS is one of the subsidiaries.

Affiliated companies

Due to the additional 30% indirect share of the SEL subsidiary, SRESA is ranked among the associated companies.

GEN made an investment in the 50% share of NEK's capital after the change of the SAS 2006 as an investment in an associate. The same treatment remained after the change of the SAS 2016.

7.4 Deferred tax assets

Changes in deferred tax assets in EUR	2018	2017
Opening balance	**5,837,453**	**6,372,249**
Reversal and use of provisions for onerous contracts	-61,506	-551,194
Increase from provisions	23,131	17,238
Other	-4,314	-840
Closing balance	**5,794,764**	**5,837,453**

The major part of the deferred tax assets arise from the formation of provisions for the purpose of covering the liabilities to NEK in the event of an unplanned decrease in the production of NEK and amounts to EUR 5,737,842.

Compared to the previous year, deferred tax assets declined as a result of higher utilization in relation to the formation of provisions for onerous contracts, for the purpose of covering the liabilities to NEK.

7.5 Short-term financial investments

At the end of 2018, the company recorded short-term financial investments in the amount of EUR 33,206,560 and at the end of 2017 in the amount of EUR 13,197,358. The majority of short-term financial investments are classified into a group of investments in loans, namely as investments in the form of deposits with banks; on the last day of the reporting period, they amount to EUR 33,011,396. The remaining investments are available-for-sale financial investments valued at cost.

The basis for the recognition of investments in loans are contracts with financial institutions in Slovenia. The interest rates for bonding funds in the form of deposits with banks are extremely low, some even negative, and the company avoids the financial risk of negative interest rates offered by banks with a diversified investment strategy and the maintenance of funds in their bank accounts.

7.6 Short-term operating receivables

Short-term operating receivables in EUR	31/12/2018	31/12/2017
Short-term trade receivables within the Group	**16,349,744**	**23,702,126**
Short-term receivables from GEN-I	15,910,985	21,832,637
Short-term receivables from SEL	364,556	666,874
Short-term receivables from TEB	72,986	174,983
Short-term receivables from GEN-EL	1,217	1,217
Short-term receivables from HESS	0	322
Short-term receivables from ELEKTRO ENERGIJA	0	1,026,093
Short-term trade receivables from others	**4,279,227**	**6,588,213**
Short-term operating receivables for electricity sold to others	4,212,412	6,555,347
Short-term operating receivables from others	66,815	32,866
Short-term receivables from state institutions	**2,547,785**	**2,178,525**
Other short-term receivables	**11,294**	**69,642**
Total	**23,188,050**	**32,538,506**

Short-term trade receivables predominantly account for trade receivables on the basis of sold electricity.

Payment periods for trade receivables are mostly 30 days from the last day of the accounting period and are largely insured with blank bills and a bill of exchange or guarantee.

The company has no due outstanding receivables.

For past due receivables that the company would redistribute to doubtful and disputed receivables, a value adjustment is made for each individual claim.

7.7 Cash and cash equivalents

Cash on the last day of the reporting period amounts to EUR 11,876,697 and represents cash in transaction accounts with Abanka, NLB, SKB and UniCredit Bank, as well as funds in a night deposit and a recall deposit account.

GEN does not have an agreed automatic indebtedness or fixed-limit contract for a permissible negative balance.

7.8 Deferred costs and accrued income

Short-term deferred costs and accrued revenue in EUR	31/12/2018	Formation	Utilisation	31/12/2017
Short-term deferred costs	57,079	125,508	127,875	59,446
Short-term accrued revenue	29,599	29,599	11,929	11,929
Total	**86,678**	**155,107**	**139,804**	**71,375**

Deferred costs and accrued revenues mainly relate to pre-charged and consequently deferred costs that are not yet charged to the activity. In 2018, the reductions or drawdowns of short-term deferred costs were fully transferred to costs.

7.9 Contingent assets and liabilities

Contingent assets and liabilities in EUR	31/12/2018	31/12/2017
Financial assets	**2,992,651**	**1,160,050**
Received payment bonds	2,940,027	1,032,854
Received performance and warranty bonds	51,061	127,196
Received bills of exchange	1,563	0
Contingent liabilities	**12,337,962**	**547,673**
Enforcement draft for securing purchase consideration from an option contract	11,740,289	0
Performance bonds given	550,000	500,000
Indicative short-term debt	47,673	47,673
Total	**15,330,613**	**1,707,723**

Contingent assets and liabilities increased predominantly from the increase in the contingent liability for a given collateral in the form of an »izvršnica« document in connection with the option contract for the purchase of a GEN-EL share.

7.10 Equity

Equity structure in EUR	31/12/2018	31/12/2017
Share capital	**250,000,000**	**250,000,000**
Capital surplus	**131,756,895**	**131,756,895**
Paid-up capital surplus SEL	115,368,043	115,368,043
Paid-up capital surplus TEB	16,388,694	16,388,694
General equity revaluation adjustment	158	158
Profit reserves	**68,418,953**	**52,397,116**
Legal reserves	2,605,980	2,605,980
Other profit reserves	65,812,973	49,791,136
Fair value reserves	**-20,009**	**-19,747**
Retained earnings	**4,000,000**	**4,000,000**
Net profit or loss	**12,252,374**	**9,769,463**
Total equity	**466,408,213**	**447,903,727**

The total capital of the company in 2018 increased by EUR 18,504,486 as a result of the net profit for the current year of EUR 24,504,748, the payment of the participation in the profit to the owner of the company in the amount of EUR 6,000,000 and other minor changes in reserves due to revaluation.

7.11 Balance sheet profit account

Available profit in EUR	2018	2017
Opening balance of available profit	**13,769,463**	**8,937,375**
Disbursement of profit participation	-6,000,000	-2,000,000
Net profit or loss for the financial year - profit	24,504,748	19,538,927
Increase in profit reserves under the company body decision	-16,021,837	-12,706,839
Closing balance of available profit	**16,252,374**	**13,769,463**

GEN's Management and Supervisory Board propose to the founder of the company the allocation of the distributable profit in the amount of EUR 16,252,374 to other revenue reserves in order to provide a source of funds for the purpose of maintaining the safe operation of existing energy facilities and investing in development and investments in energy companies such as:

- the acquisition of shares in electricity companies,
- expansion of the production capacities of JEK and other investments in accordance with the Business Plan of the company and the GEN Group for 2019 and for other purposes in 2019.

7.12 Provisions

Provisions in EUR	31/12/2018	Change	31/12/2017
Provisions for onerous contracts	60,398,333	-574,500	60,972,833
Provisions for jubilee benefits and severance pay	595,343	120,418	474,925
Long-term accrued costs and deferred revenue	359,889	355,282	4,607
Total	**61,353,565**	**-98,800**	**61,452,365**

Reservations from onerous contracts are designed to cover liabilities to NEK in the event of an unplanned reduction in production in NEK on the basis of the Intergovernmental Agreement on NEK and SAS provisions that together provide guidelines for the formation of such provisions. Due to the absorption of provisions in 2018 in the amount of EUR 647,427 for the purpose of the unplanned decrease in the production of NEK, additional provisions were also formed at the end of 2018 in the amount of EUR 72,927 with an increase in the corresponding costs.

7.13 Long-term financial liabilities

Long-term financial liabilities in EUR	31/12/2018	31/12/2017
Long-term financial liabilities to Group companies	**1,183,564**	**0**
Long-term financial liabilities to GEN-I for an option contract	1,183,564	0
Long-term financial liabilities to others	**11,771,289**	**31,000**
Long-term financial liabilities to others for an option contract	11,740,289	0
Long-term financial liabilities to others	31,000	31,000
Total	**12,954,853**	**31,000**

Long-term financial liabilities almost entirely relate to liabilities arising from option contracts and contracts for the transfer of option contracts, which are presented in more detail in Note 7.3. Long-term financial investments as long-term financial liabilities:

- in the amount of EUR 1,183,564 to GEN-I, for the payment of the premium under the contract on the transfer of optional contracts;
- in the amount of EUR 11,727,500 to Elektro Ljubljana from the payment of the purchase price according to an optional contract for the acquisition of a 25% stake in GEN-EL;
- in the amount of EUR 12,789 for accrued interest under optional contracts during the period considered.

7.14 Current operating liabilities

Short-term operating liabilities in EUR	**31/12/2018**	**31/12/2017**
Short-term liabilities to Group companies	**7,461,323**	**8,551,996**
Short-term liabilities to SEL	1,996,889	2,548,373
Short-term liabilities to GEN-I	2,585,572	2,048,181
Short-term liabilities to TEB	1,421,633	2,038,349
Short-term liabilities to HESS	1,457,229	1,917,093
Short-term trade liabilities to others	**9,293,293**	**10,121,461**
Short-term liabilities to associates	8,154,579	8,054,079
Short-term trade liabilities - domestic	1,135,550	1,886,803
Short-term trade liabilities - foreign	3,164	180,579
Other short-term operating liabilities	**4,123,483**	**3,665,217**
VAT liabilities	1,103,230	1,011,303
Liability for corporate income tax prepayment and return	1,849,356	1,466,647
Liabilities for environmental protection	776,345	774,282
Other liabilities	394,552	412,985
Total	**20,878,099**	**22,338,674**

7.15 Short-term accrued costs and deferred revenue

Short-term accrued costs and deferred revenue at the end of the reporting period amounted to EUR 161,147, and at the end of the reporting period of the previous year amounted to EUR 206,215. To a considerable extent, they include accrued expenses for the unused annual leave of employees, in the amount of 149,566 EUR.

7.16 Revenue

Revenue in EUR	**2018**	**2017**
Operating revenue	201,279,412	173,279,261
Financial revenue	2,522,637	2,028,983
Other revenue	12,934	653
Total	**203,814,983**	**175,308,897**

7.16.1 Operating revenue

Operating revenue in EUR	2018	2017
Sales revenues on the domestic market	**200,315,972**	**168,813,705**
Revenue from operations with Group companies	162,077,422	134,118,584
Revenue from operations with other companies	38,238,550	34,695,121
Sales revenues on foreign markets	**287,306**	**52,083**
Sales revenues on the EU market	287,306	52,083
Other operating revenue	**676,134**	**4,413,473**
Revenue from the reversal and utilisation of provisions	656,414	4,391,331
Other revenue	19,720	22,142
Total	**201,279,412**	**173,279,261**

Sales revenues on the domestic market in the amount of EUR 200,096,473 relate to revenues from the sale of electricity and services directly related to them.

Sales revenues on the non-domestic market in the amount of EUR 200,606 relate to revenues generated by the provision of consultancy services in the nuclear field.

7.16.2 Financial revenue

Financial revenue in EUR	2018	2017
Financial revenue from shares and interests	**2,486,791**	**2,011,791**
Financial revenue from shares and interests in GEN-I	2,000,000	2,000,000
Financial revenue from shares and interests in GEN-EL	475,000	0
Financial revenue from shares and interests in other companies	11,791	11,791
Financial revenue from loans given	**35,824**	**5,732**
Financial revenue from loans to others	35,824	5,732
Financial revenue from operating receivables	**22**	**11,460**
Total	**2,522,637**	**2,028,983**

7.17 Expenses

Expenses in EUR	2018	2017
Operating expenses	173,690,275	151,518,378
Financial expenses	377,076	3,956
Other expenses	115,852	113,538
Total	**174,183,203**	**151,635,872**

7.17.1 Operating expenses

Operating expenses in EUR	2018	2017
Cost of goods sold, cost of material	158,898,367	136,664,459
Cost of services	1,946,750	1,714,811
Labour costs	3,723,463	3,315,888
Write-downs	736,664	786,464
Other operating expenses	8,385,031	9,036,756
Total	**173,690,275**	**151,518,378**

The purchase value of the goods sold refers to expenses from the purchase of electricity and the lease of power on the basis of electricity purchase contracts concluded with SEL, TEB, HESS, HSE, TALUM and GEN-I, and on the basis of the provisions of the Intergovernmental Agreement on NEK and the NEK partnership agreement, according to which electricity supplied from NEK is calculated according to the principle of covering all the costs of NEK. Expenses arising from transactions with group companies that arise within the cost of goods sold total EUR 73,987,568.

Cost of services

Costs of services in EUR	2018	2017
Cost of intellectual and personal services	605,088	423,259
Rental costs, domain lease	206,429	222,718
Cost of representation, sponsorship, advertising	345,104	314,326
Costs of the Supervisory Board	146,356	137,713
Reimbursement of work-related costs to employees	96,745	96,641
Maintenance costs	319,679	311,679
Miscellaneous	227,349	208,475
Total	**1,946,750**	**1,714,811**

Cost of intellectual and personal services in EUR	2018	2017
Cost of business consultancy	192,137	207,923
Cost of professional training	49,665	78,733
Other costs of intellectual services	363,286	136,603
Total	**605,088**	**423,259**

Labour costs

Labour costs in EUR	2018	2017
Wages and salaries	2,807,508	2,450,312
Social and pension insurance costs	567,746	492,966
– social security contributions	469,525	402,049
– supplementary pension insurance	98,221	90,917
Other labour costs	348,209	372,610
Total	**3,723,463**	**3,315,888**

In the year 2018, GEN employed 55.31 workers in hours worked, and the employee's representation by level of education is an integral part of the business report.

Other operating expenses

Other operating expenses in EUR	2018	2017
Cost of provisions	72,927	0
Expenses for environmental protection	8,234,143	8,950,932
Other costs of operating activities	77,961	85,824
Total	**8,385,031**	**9,036,756**

Expenditure for environmental protection represents the total paid contributions in accordance with the Fund of NEK Act in the amount of 3 EUR/MWh of produced electricity in NEK.

Costs by functional group

Costs by functional group in EUR	2018	2017
Cost of goods sold	158,754,350	136,518,021
Selling costs including depreciation/amortisation	2,207,409	2,014,459
General and administrative expenses including depreciation/amortisation	12,728,516	12,985,898
Total	**173,690,275**	**151,518,378**

7.18 Cash flow statement

The cash flow statement is compiled according to the indirect method - version II. The data for the indirect method is obtained:

- by supplementing items in operating income and operating expenses and financial revenues from operating receivables and financial expenses from operating liabilities, excluding revaluation income and expenses related to investments and financing from the income statement and balance sheet,
- from the company's books.

Cash and cash equivalent items for 2018 consist of:

a) cash flows from operating activities, including:

  - operating income and operating expenses, corporate income tax and other taxes, corrected by changes in the net current assets of the balance sheet items,

b) cash flows from investments, including:
- interest income on short-term financial investments for fixed-term deposits in the total amount of EUR 26,622,
- receipts from participating profits in the amount of EUR 2,486,791,
- receipts from the disposal of property, plant and equipment in the amount of EUR 741,
- receipts from investing in short-term financial investments of deposits in the amount of EUR 37,000,000,
- expenses for the acquisition of intangible assets, which are mainly presented as long-term property rights in the amount of EUR 66,969,
- expenses for the acquisition of property, plant and equipment in the total amount of EUR 1,911,166,
- expenses for the acquisition of short-term financial investments in the form of deposits in the amount of EUR 57,002,074,

c) cash flows from financing, including:
- receipts from the increase in financial liabilities from the optional contracts for the acquisition of the GEN-EL share of EUR 238,500,
- interest expense relating to financing under an optional contract for the purchase of a GEN-EL share in the amount of EUR 238,500,
- expenses for the payment of profit participation in the amount of EUR 6,000,000.

The final balance of cash includes cash in business accounts, as well as funds on a night deposit and a repossessed deposit account.

7.19 Taxes

Effective tax rate	**2018**	**2017**
Profit or loss before tax in EUR	29,631,780	23,673,025
Corporate income tax in EUR	-5,083,867	-3,597,547
Deferred tax in EUR	-43,165	-536,551
Deferred tax with no effect on profit or loss in EUR	28	1,755
Applicable tax rate	19.00%	19.00%
Tax expenses to profit or loss before tax	**17.16%**	**15.20%**
Effective tax rate	**17.30%**	**17.46%**

In accordance with the Corporate Income Tax Act, the company is liable for the calculation and payment of corporation tax, which amounted to 19% for the accounting period of the financial year 2018. Deferred tax assets were formed at a rate of 19%.

8.

Other disclosures

8.1 The total amount of remuneration for the financial year for the performance of duties in the company

Remuneration for 2018 in net amounts (excluding holiday allowance and the reimbursement of costs) in EUR	2018
Remuneration of the Management	59,037

Remuneration for 2018 in net amounts (excluding holiday allowance, jubilee benefits and the reimbursement of costs) in EUR	2018
Employee earnings under executive employment contracts	337,817
Members of the Supervisory Board and Supervisory Board Committees	87,854

Remuneration of GEN SB Members and GEN SB Committee Members for 2018 in EUR	Function		Attendance fees		Costs		Total		Gross monthly remuneration for the function
	gross	net	gross	net	gross	net	gross	net	
	(1)	(2)	(3)	(4)	(5)	(6)	(1)+(3)+(5)	(2)+(4)+(6)	
Karol Peter Peršolja									
Chairman of the Supervisory Board	17,025	12,307	3,190	2,320	711	517	20,926	15,145	**1,413**
Member of the HR Committee	1,915	1,393	880	640	20	15	2,815	2,047	**235**
Vice Chair of the HR Committee	1,001	728	660	480	15	11	1,677	1,219	**259**
Saša Ivan Geržina									
Vice Chair of the Supervisory Board	12,504	9,020	3,190	2,320	569	414	16,263	11,754	**1,036**
Chairman of the HR Committee	4,238	3,082	1,540	1,120	0	0	5,778	4,202	**353**
Roman Dobnikar									
Member of the Supervisory Board	11,375	8,198	3,190	2,320	946	688	15,511	11,207	**942**
Vice Chair of the Audit Committee	2,106	1,532	660	480	73	53	2,839	2,065	**259**
Chairman of the Audit Committee	1,365	993	440	320	265	192	2,070	1,506	**353**
Mitja Svoljšak									
Member of the Supervisory Board	6,575	4,708	1,815	1,320	367	267	8,757	6,294	**942**
Chairman of the Audit Committee	2,438	1,773	1,100	800	134	98	3,672	2,671	**353**
Vice Chair of the HR Committee	1,788	1,300	880	640	24	18	2,692	1,958	**259**
Vanessa Grmek									
Member of the Supervisory Board	547	398	550	400	34	25	1,131	822	**942**
Alojz Dimič									
Member of the Audit Committee	4,238	3,082	1,540	1,120	460	334	6,237	4,536	**353**
Samo Fürst									
Member of the Supervisory Board	11,375	8,198	3,190	2,320	1,196	870	15,761	11,388	**942**
Vice Chair of the Audit Committee	1,001	728	440	320	0	0	1,441	1,048	**259**
Robert Bergant									
Member of the Supervisory Board	11,375	8,198	2,915	2,120	25	18	14,314	10,336	**942**
Katja Simončič									
Member of the HR Committee	2,825	2,055	1,540	1,120	768	559	5,133	3,733	**235**
Total	**93,689**	**67,693**	**27,720**	**20,161**	**5,608**	**4,079**	**127,018**	**91,933**	

8.2 Costs of auditing and business consultation services

The costs related to audit services in 2018 amount to EUR 15,200 and represent the cost of auditing the annual accounts for the past accounting period and the accounting period in question. In 2018, the audit company carried out another EUR 5,000 of other non-audit services.

9. Financial risk management

In the context of financial risks, GEN identifies liquidity, credit, interest and foreign exchange risks.

For the purpose of managing **liquidity risk**, the company introduces the principle that the payment deadlines for purchases and sales of the same content sets are harmonized or that the payment deadlines for purchases are longer than the payment deadlines for sales. Liquidity risks are managed by the company through well-defined contractual provisions, regular accurate cash-flow planning on the daily, monthly and annual levels, checking contractual partners and their solvency, with the careful and safe placement of surplus cash and by taking out short-term loans to provide liquidity when necessary.

In the event of the payment of unplanned liabilities, the Company has part of the monetary assets tied to night deposits and deposits on call, and part of the funds in current bank accounts. These funds could also be earmarked for group companies if they were having difficulty in acquiring liquidity assets on the market.

In 2018, due to the exceptionally low interest rates offered by banks for the purpose of investing in deposits and even charging demurrages above the agreed limit for assets available on the transaction account, the company managed the exposure to these risks by using an investment strategy that still disposes of available funds among the most favourable providers in the field of the deposit of surplus cash. GEN also avoids exceeding the limits, therefore maintaining the funds in its bank accounts, which also shows the balance of cash.

Liquidity risk is moderate due to the established principles, procedures and rules for managing funds that are adapted to various trends in the banking markets.

The Company manages its **credit risks** by thoroughly checking the credit rating of existing and potential future business partners, banks, their liquidity capabilities, a clearly defined procedure for collecting receivables, a reminder system, concluding contracts with appropriate collateral (bills, bank guarantees).

The estimated risk level depends primarily on the business results of the partner, in particular the level of indebtedness, short-term liquidity, solvency indicators and profitability indicators. We place great importance on acquiring current information from the market, because under different market and regulatory changes, the status of an individual partner can change rapidly.

The interest rate risk is relatively low, as the planned indebtedness of the company is low and short-term. When taking out new loans, however, these risks can be managed with derivative financial instruments.

Foreign exchange risk is relatively low, since the company's operations in foreign currencies are rare.

The company estimates that financial risks in 2018 were successfully managed.

ANNUAL REPORT
OF THE GEN COMPANY AND GROUP
2018

IV

Financial report of the GEN Group

1.

Independent Auditor's Report

Building a better working world

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 statement of financial position as at 31 December 2018, 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 2018 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

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Building a better working world

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, 14 May 2019

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 the 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 financial year from 1 January 2018 to 31 December 2018.

The General Director hereby confirms that the appropriate accounting policies have been consistently applied and that the accounting estimates were made on the basis of fair value, prudence and sound management. The General Director also confirms that the consolidated financial statements, together with the notes, were prepared on the basis of the assumption that the companies of the GEN Group will continue to operate, and in accordance with the Intergovernmental Agreement on NEK, the applicable legislation, and IFRSs as adopted by the European Union.

For five years after the end of the year in which the tax was to be levied, the tax authorities may at any time verify the company's operations. This may give rise to additional obligations for the payment of tax, default interest and penalties in respect of corporate income tax or other taxes and charges. The General Director of the company is not aware of any circumstances that could result in any material liability arising from this heading.

The General Director is also responsible for the proper conduct of accounting, the adoption of appropriate measures for the insurance of assets, and confirms that the financial statements, together with the notes, are created on the basis of the assumption that the company will continue to operate. The General Director accepts and approves the financial statements along with the accompanying policies and explanations of the GEN Group for 2018.

Vrbina, 6 May 2019.

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

3.

Group financial statements

3.1 Consolidated statement of financial position

Consolidated Statement of the Financial Position of the Group in EUR	Notes	31/12/2018	31/12/2017
ASSETS		**1,157,011,560**	**1,111,035,777**
Long-term assets		**741,513,124**	**715,386,283**
Intangible assets	5.1	44,733,649	43,973,370
Property, plant and equipment	5.2	683,341,380	658,116,206
Investment property	5.3	1,973,456	1,636,065
Shares and interests in associates	5.4	156,425	415,612
Other long-term investments and loans	5.5	3,350,587	7,904,470
Long-term operating receivables	5.6	4,404,931	606,991
Deferred tax assets	5.7	3,234,365	2,408,649
Other long-term assets		318,331	324,920
Short-term assets		**415,498,436**	**395,649,494**
Inventories	5.8	47,839,842	41,569,865
Short-term investments	5.9	103,721,702	75,386,972
Short-term operating receivables	5.10	149,141,619	164,412,282
Contract assets	5.11	35,642,336	0
Current corporate income tax assets		560,640	465,291
Cash and cash equivalents	5.12	72,774,668	64,278,326
Other short-term assets	5.13	5,817,629	49,536,758
EQUITY AND LIABILITIES		**1,157,011,560**	**1,111,035,777**
Equity	**5.14**	**818,694,892**	**784,880,060**
Equity attributed to the owners of the parent company		**680,162,262**	**648,082,276**
Called-up capital		250,000,000	250,000,000
Capital surplus		134,682,435	134,682,435
Legal reserves		11,434,370	11,005,354
Other profit reserves		86,296,924	66,887,597
Fair value reserves		1,122,981	919,697
Retained earnings		197,586,290	185,471,404
Equity translation adjustment		-960,738	-884,211
Minority owners' capital		**138,532,630**	**136,797,784**
Long-term liabilities		**140,166,432**	**129,447,394**
Provisions	5.15	9,567,496	9,533,653
Long-term financial liabilities	5.16	123,613,943	110,616,408
Long-term operating liabilities	5.17	204,485	1,357,673
Long-term contract liabilities	5.17	45,782	0
Deferred tax liabilities	5.7	5,966,185	5,831,633
Government grants	5.17	243,349	0
Other long-term liabilities	5.17	525,192	2,108,027
Short-term liabilities		**198,150,236**	**196,708,323**
Short-term financial liabilities	5.16	43,095,734	50,464,785
Short-term operating liabilities	5.18	133,918,831	127,881,805
Short-term contract liabilities	5.19	5,805,277	0
Current corporate income tax liabilities		1,850,563	2,815,389
Other short-term liabilities	5.20	13,479,831	15,546,344

The notes are an integral part of the 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 Income Statement of the Group in EUR	Notes	2018	2017
Sales revenues	5.22 and 5.22.1	2,370,055,399	2,394,837,179
Other operating revenue	5.22.2	5,343,219	15,179,183
Costs of goods, material and services	5.23.1	-2,203,945,439	-2,260,410,022
Labour costs	5.23.2	-51,882,817	-52,315,416
Write-downs	5.23.3	-36,626,168	-36,390,714
Other operating expenses	5.23.4	-32,736,249	-21,999,771
Profit or loss from operating activities		**50,207,945**	**38,900,439**
Financial revenue		1,801,200	895,316
Financial expenses	5.23.5	-4,042,004	-3,238,963
Total profit or loss		**47,967,141**	**36,556,792**
Tax		-7,306,429	-7,133,165
Net profit or loss for the accounting period		**40,660,712**	**29,423,627**
Net profit or loss of the owners of the non-controlling share		**1,756,355**	**922,644**
Net profit or loss of the owners of the controlling share		**38,904,357**	**28,500,983**

Statement of Other Comprehensive Income of the Group in EUR	2018	2017
Net profit or loss for the accounting period	**40,660,712**	**29,423,627**
Other comprehensive income that will be subsequently allocated to profit or loss	**8,493**	**876,420**
Changes in fair value reserves	165,905	437,489
Profit and loss from the translation of the financial statements of foreign companies (effects of foreign exchange changes)	-110,514	19,305
Effective share of profit or loss from cash flow hedging instruments	-46,898	419,626
Other comprehensive income that will not be subsequently allocated to profit or loss	**50,630**	**1,129,436**
Actuarial gains and losses from defined benefit plans	50,630	1,129,436
Total comprehensive income (after tax)	**40,719,835**	**31,429,483**
Net profit or loss of the owners of the non-controlling share	**1,756,355**	**922,644**
Actuarial gains and losses from defined benefit plans for owners of the non-controlling share	**1,471**	**690**
Effective share of profit or loss from cash flow hedging instruments of owners of the non-controlling share	**-22,979**	**205,618**
Total comprehensive income of the owners of the non-controlling share	**1,734,846**	**1,128,951**
Total comprehensive income of the owners of the controlling share	**38,984,988**	**30,300,532**

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

3.3 Consolidated cash flow statement

Cash flow statement (version II)	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Income Statement items	**83,343,487**	**77,342,051**
Operating revenue and financial revenue from operating receivables	2,374,913,640	2,413,612,372
Operating expenses excluding amortisation/depreciation and financial expenses for operating liabilities	-2,288,769,928	-2,336,784,036
Corporate income tax and other tax not included in operating expenses	-2,800,225	513,715
Changes in the net current assets of Balance Sheet operating items	**3,546,623**	**-33,751,356**
Opening less closing operating receivables	-5,797,451	-28,465,598
Opening less closing deferred costs and accrued revenue	8,568,059	-13,295,083
Opening less closing deferred tax assets	-686,872	299,985
Opening less closing inventories	-7,197,729	-4,642,125
Closing less opening operating liabilities	13,510,028	13,595,897
Closing less opening accrued costs and deferred revenue and provisions	-2,411,924	-1,481,127
Closing less opening deferred tax liabilities	-2,437,488	236,695
Net cash flow from operating activities	**86,890,110**	**43,590,695**
CASH FLOWS FROM INVESTING ACTIVITIES		
Receipts from investing activities	**172,883,705**	**142,649,768**
Receipts from interest received and profit participation relating to investing activities	1,023,127	829,799
Receipts from the disposal of property, plant and equipment	196,393	1,530,434
Receipts from the disposal of investment property	0	784
Receipts from the disposal of investments	171,664,185	140,288,751
Cash disbursements for investing activities	**-247,363,056**	**-232,081,287**
Disbursements for the acquisition of intangible assets	-1,321,268	-1,215,808
Disbursements for the acquisition of property, plant and equipment	-57,175,849	-70,495,560
Disbursements for the acquisition of investment property	-403,519	-2,606,226
Disbursements for the acquisition of investments	-188,462,420	-157,763,693
Net cash flow from investing activities	**-74,479,351**	**-89,431,519**
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash receipts from financing activities	**168,546,475**	**166,863,390**
Receipts from increase in financial liabilities	168,546,475	166,863,390
Cash disbursements for financing activities	**-172,460,892**	**-150,068,381**
Interest paid on financing activities	-2,807,501	-1,836,489
Disbursements for the repayment of financial liabilities	-163,653,391	-146,231,892
Disbursements for dividends and other profit participation	-6,000,000	-2,000,000
Net cash flow from financing activities	**-3,914,417**	**16,795,009**
Closing balance of cash and cash equivalents	**72,774,668**	**64,278,326**
Net cash flow in the period	**8,496,342**	**-29,045,815**
Opening balance of cash and cash equivalents	**64,278,326**	**93,324,141**

The notes are an integral part of the 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 2018 in EUR	Called-up capital	Capital surplus	Legal reserves
Balance as at 31/12/2017	**250,000,000**	**134,682,435**	**11,005,354**
Changes due to the implementation of the IFRS 9			
Balance as at 1/1/2018	**250,000,000**	**134,682,435**	**11,005,354**
Changes in equity - transactions with owners	**0**	**0**	**0**
Dividend disbursement	0	0	0
Total comprehensive income for the reporting period	**0**	**0**	**0**
Net profit or loss for the financial year	0	0	0
Valuation of investments at fair value	0	0	0
Other components of comprehensive income	0	0	0
Changes in equity	**0**	**0**	**429,016**
Allocation of net profit to other equity components	0	0	429,016
Other changes in equity	0	0	0
Balance as at 31/12/2018	**250,000,000**	**134,682,435**	**11,434,370**

Statement of Changes in Equity for 2017 in EUR	Called-up capital	Capital surplus	Legal reserves
Balance as at 1/1/2017	**250,000,000**	**134,682,435**	**10,481,145**
Changes in equity - transactions with owners	**0**	**0**	**0**
Dividend disbursement	0	0	0
Total comprehensive income for the reporting period	**0**	**0**	**0**
Net profit or loss for the financial year	0	0	0
Valuation of investments at fair value	0	0	0
Other components of comprehensive income	0	0	0
Changes in equity	**0**	**0**	**524,209**
Allocation of net profit to other equity components	0	0	524,209
Other changes in equity	0	0	0
Balance as at 31/12/2017	**250,000,000**	**134,682,435**	**11,005,354**

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

Other profit reserves	Fair value reserve	Retained earnings	Equity translation adjustment	Equity attributed to the owners of the parent company	Equity of the owners of the non-controlling share	Total
66,887,597	**919,697**	**185,471,404**	**-884,211**	**648,082,276**	**136,797,784**	**784,880,060**
		-653,100		**-653,100**		**-653,100**
66,887,597	**919,697**	**184,818,304**	**-884,211**	**647,429,176**	**136,797,784**	**784,226,960**
0	**0**	**-6,000,000**	**0**	**-6,000,000**	**0**	**-6,000,000**
0	0	-6,000,000	0	-6,000,000	0	-6,000,000
0	**191,145**	**38,870,370**	**-76,527**	**38,984,988**	**1,734,846**	**40,719,834**
0	0	38,904,357	0	38,904,357	1,756,355	40,660,712
0	215,067	0	0	215,067	0	215,067
0	-23,922	-33,987	-76,527	-134,436	-21,509	-155,945
19,409,327	**12,139**	**-20,102,384**	**0**	**-251,902**	**0**	**-251,902**
19,409,327	0	-19,838,343	0	0	0	0
0	12,139	-264,041	0	-251,902	0	-251,902
86,296,924	**1,122,981**	**197,586,290**	**–960,738**	**680,162,262**	**138,532,630**	**818,694,892**

Other profit reserves	Fair value reserve	Retained earnings	Equity translation adjustment	Equity attributed to the owners of the parent company	Equity of the owners of the non-controlling share	Total
53,971,423	**-871,012**	**172,490,187**	**-903,516**	**619,850,662**	**135,668,833**	**755,519,495**
0	0	**-2,000,000**	0	**-2,000,000**	0	**-2,000,000**
0	0	-2,000,000	0	-2,000,000	0	-2,000,000
0	**1,780,244**	**28,500,983**	**19,305**	**30,300,532**	**1,128,951**	**31,429,483**
0	0	28,500,983	0	28,500,983	922,644	29,423,627
0	1,566,235	0	0	1,566,235	690	1,566,925
0	214,009	0	19,305	233,314	205,617	438,931
12,916,174	**10,465**	**-13,519,766**	**0**	**-68,918**	**0**	**-68,918**
12,916,174	0	-13,440,383	0	0	0	0
0	10,465	-79,383	0	-68,918	0	-68,918
66,887,597	**919,697**	**185,471,404**	**-884,211**	**648,082,276**	**136,797,784**	**784,880,060**

4.

Notes on 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 the basic activities of the company is the activity of a holding company, the management of other legally independent companies in which GEN has a dominant influence.

The company is committed to the preparation of the consolidated financial statements, the purpose of which is to present the assets and financial position and the business performance of the group of related companies as if they were a single company. Companies whose accounts are taken into account in the preparation of consolidated financial statements otherwise conduct business as individual companies, but because of their mutual relations, they form an economic unit, but not a legal entity, since as such it is not an independent bearer of rights and obligations.

The GEN Group consists of a controlling company and subsidiaries that are included in the GEN Group through consolidation procedures for the entire financial year, which is equal to the calendar year. In accordance with the IFRS rules, the consolidated financial statements of the GEN Group also include a company that is defined as a joint venture, and according to the procedures of the equity method, associated companies are also included in the GEN Group.

Parent company and subsidiaries	Abbreviation	Registered office	Status	Share in equity	Share in voting rights
GEN energija d.o.o.	**GEN**	**Vrbina 17, Krško**	**parent company**	**-**	**-**
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., s skupino	HESS skup	C. bratov Cerjakov 33a, Brežice	subsidiary	51%	51%
GEN-I d.o.o., s skupino	GEN-I skup	Vrbina 17, Krško	subsidiary	50%	50%
GEN-EL d.o.o.	GEN-EL	Vrbina 17, Krško	subsidiary*	50%	50%

* From the analysis of the ownership of GEN-EL, taking into account the concluded sales and purchase options between GEN and Elektro Ljubljana, the sale and purchase options between GEN-I and the Craftsmen and Entrepreneurship Fund and the sale and purchase options between GEN-I and Gorenjska banka, which were concluded for a share in GEN-EL, it follows that GEN is the sole economic owner of 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, Beograd;
- 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-Г Andrushchenka Str, Kyiv;
- GEN-I Tbilisi LLC, Old Tbilisi District, Guadiashvili Square, N 4, Tbilisi;
- Elektro energija d.o.o., Dunajska cesta 119, Ljubljana.

The HESS Group, along with the parent company, also comprises Partner d.o.o., Cesta bratov Cerjakov 33A, 8250 Brežice.

A company that is included in the GEN Group as a joint operation in a joint arrangement	Abbreviation	Registered office	Status	Share in equity
Nuklearna elektrarna Krško d.o.o.	NEK	Vrbina 12, Krško	common activity	50%

Companies that are included in the GEN Group as associates	Abbreviation	Registered office	Status	Share in equity
Srednjesavske elektrarne d.o.o.	SRESA	Ob železnici 27, Trbovlje	associate	40%
HSE Invest d.o.o.	HSE Invest	Obrežna ulica 170, Maribor	associate	25%

4.2 Basis for the compilation of the consolidated financial statements

4.2.1 Declaration of conformity

The company carries out accounting for the purpose of producing the consolidated financial statements of the GEN Group and for the preparation of the annual report of the GEN Group in accordance with the Intergovernmental Agreement on NEK, the applicable legislation and the IFRS adopted by the EU Commission, in accordance with the explanations adopted by the International Standards financial reporting, and were also adopted by the European Union.

GEN's General Director confirmed the consolidated financial statements of the Group on 6 May 2019.

4.2.2 Accounting assumptions and qualitative characteristics

In accordance with the amendment to the ZGD-1, the GEN company prepared the consolidated financial statements in accordance with the IFRS in the part not regulated by the Intergovernmental Agreement on NEK. For comparative information, these include:

- two consolidated statements of financial position with the cut-off dates of 31 December 2017 and 31 December 2018;
- two consolidated income statements, other comprehensive income and cash flow statement for the periods of 2017 and 2018;
- two consolidated statements of changes in equity for the periods of 2017 and 2018.

In the Group's financial statements, significant items of financial statements are disclosed in accordance with the materiality provisions defined in the internal act of the accounting rules.

The financial statements of Group companies and other companies included in the GEN Group are valued on the basis of **uniform accounting policies**. They are included in the consolidated financial statements on the basis of:

- full consolidation when the companies have the status of a subsidiary. Prior to the consolidation of the GEN Group, subsidiaries shall consolidate their companies within the Group (GEN-I Group, HESS Group);
- the calculation of assets and liabilities, revenues and expenses of the joint venture;
- equity methods of the joint venture and associated companies.

The following **general quality characteristics** are relevant for the preparation of the consolidated financial statements:

- fair presentation and compliance with the IFRSs: the consolidated financial statements fairly present the Group's financial position, financial performance and cash flows;
- consistency of presentation: the presentation and classification of items in the consolidated financial statements is the same from period to period;
- materiality and aggregation: each core group composed of similar items is presented separately in the financial statements. Items of a different nature or role are presented separately, unless they are non-essential;
- offsetting: the assets, liabilities, income and expenses are not offset, unless the standard or interpretation requires or permits the offsetting;
- comparative information: unless the standard or interpretation permits or requires otherwise, comparative information from the prior period is disclosed in the financial statements for all the amounts presented. Comparative information is included in words and descriptive information, if this is necessary for the understanding of the financial statements of the period in question.

When dealing with business events for the preparation of the financial statements, the Group follows the **basic accounting assumption** for taking into account the occurrence of a business event and the temporally unlimited nature of the business.

The financial year is equal to the calendar year.

4.2.3 Presentation and functional currency

The financial statements are compiled in the euro currency, excluding cents. Due to the rounding of value data, there may be irrelevant deviations in the sums in the tables. The euro is also the functional currency of the parent company GEN and the GEN Group.

4.2.4 Basis of measurement

The GEN Group's financial statements have been prepared taking into account the historical cost, excluding financial instruments, which are stated at fair value or amortized cost.

4.2.5 Use of estimates and judgements

When preparing group intra-year financial statements, the management gave estimates, judgments and assumptions that influence the application of accounting policies and the reported values of assets, liabilities, revenues and expenses. Regardless of the fact that the management of the parent company, during the preparation of the assumptions, carefully examines all the factors that can affect this, it is possible that the actual effects of the underlying transactions differ from those estimated. Consequently, judgment must be used for accounting estimates, taking into account any changes in the business environment, new business events, additional information and experience.

Estimates and assumptions are present with at least the following judgments:

a) Estimated useful life of depreciable assets

In assessing the useful life of assets, the Group takes into account the expected physical usage, technical aging, economic aging and expected legal and other restrictions of use. The group also checks the change in the originally estimated useful life of the major assets at least once a year.

b) Test of impairment of assets

At least once a year, for individual assets, including the good name and the correction of receivables or a cash-generating unit, the management verifies that there are indicators for impairment, whereby the recoverable amount of non-financial assets is determined on the basis of the present value of future cash flows based on an estimate of the expected cash flows from a cash-generating unit and on determining an appropriate discount rate.

c) Assessment of fair value

In view of the group's accounting policies and required disclosures, fair value should be set in a number of cases, namely:

- financial assets measured at fair value through other comprehensive income,
- financial assets measured at fair value through profit or loss,
- derivative financial instruments.

All other items in the financial statements represent a purchase or amortized cost.

The fair values of individual asset groups for measurement or reporting purposes were determined using valuation methods that are appropriate in the given circumstances and for which sufficient data is available, in particular using appropriate market input data and minimum consumption of non-market input data.

Where additional clarifications are required in relation to assumptions for the determination of fair values, they are presented in the breakdowns to individual items of assets or liabilities of the group.

All assets and liabilities that are measured or disclosed at fair value in the financial statements are classified into a hierarchy based on three levels:

Level 1 - market prices from the active market for similar assets and liabilities,

Level 2 - assets that do not qualify as Level 1 and their value is determined directly or indirectly on the basis of comparable market data,

Level 3 - assets whose values cannot be obtained from market data.

d) Post-employment employee benefits

As part of the post-employment benefit obligations of employees, the present value of severance pay on retirement is recorded. This is recognized on the basis of an actuarial calculation, approved by the management of the controlling company. The actuarial calculation is based on the assumptions and estimates valid at the time of the calculation, which, due to changes in the future, may differ from the actual assumptions that will apply at the time. This relates primarily to the determination of the discount rate, employee fluctuation estimates, mortality estimates and wage growth estimates. Due to the complexity of the actuarial calculation and the long-term nature of the liabilities, the post-employment benefits of employees are sensitive to changes in these estimates.

e) Assessment of the possibility of the recognition of deferred tax assets

The Group creates deferred tax assets for the creation of temporary time-adjustment differences, tax credits and tax losses, insofar as they exist. On the day of the completed financial statements, the Group reviews the conditions for recognizing deferred tax assets on the basis of the probability of the existence of future tax profits, which will allow for the coverage of deductible tax differences. A deferred tax asset is recognized in the event of a probable future profit before tax, against which the deferred tax can be utilized in the future.

4.2.6 Changes in significant accounting policies

As of 1 January 2018, the Group first used IFRS 15 and IFRS 9. As of 1 January 2018, there are also several changes to existing standards that do not have a significant impact on the Group's financial statements.

Due to the transitioning methods chosen by the group for the first use of these standards, the comparative information in these financial statements was not recalculated in accordance with the requirements of the new standards.

The effect of the first application of these standards can be attributed, in particular, to the increase in impairment losses on financial assets (see section Impairment of financial assets item b) of Chapter 4.2.6.).

a) IFRS 15 - Revenue from Contracts with Customers
The IFRS 15 provides a comprehensive framework for determining whether or to what extent and when revenue is recognized. It replaces IAS 18 Revenue, IAS 11 Construction Contracts and Related Notes. In accordance with the IFRS 15, revenue is recognized when a customer acquires control of goods or services. An assessment is required to determine the time of the transfer - at a particular moment or stepwise.

When adopting the IFRS 15, the Group decided to use the cumulative effect method. The data presented for 2017 has not been recalculated and are therefore shown as they were in previous periods, in accordance with IAS 18, IAS 11 and related notes. In addition, the disclosure requirements of the IFRS 15 are not generally taken into account in comparative information.

The Group recognizes income from basic activities stepwise. In the case of a contract for the supply of electricity or natural gas, the seller transfers the control stepwise, and at the same time the buyer acquires and uses the benefits of implementing the seller's obligation when it is carried out; the seller thus fulfils its enforcement obligation and recognizes the proceeds gradually by measuring progress towards the complete fulfilment of the enforcement obligation of the supply of electricity or natural gas by the method of outputs, using the method of charges calculated based on the quantities of electricity or natural gas supplied.

Taking into account the above, the adoption of the IFRS 15 did not significantly affect the Group's accounting policies.

The adoption of the IFRS 15 standard influenced the change in the allocation of short-term assets - accrued revenues, which, from 1 January 2018, are shown in a separate item, Assets from contracts. The effect of adopting the IFRS 15 standard on 1 January 2018 is shown in the table below. Comparative data in the statement of financial position for 31 December 2017 were not recalculated at the time of the introduction of the IFRS 15.

Effect of the adoption of the IFRS 15 in EUR	31/12/2017	IFRS 15	1/1/2018
Other short-term assets	49,536,758	-40,437,349	9,099,409
Contract assets	0	40,437,349	40,437,349
Total	**49,536,758**	**0**	**49,536,758**

The adoption of the IFRS 15 standard influenced the change in the allocation of short-term liabilities for items of advances received, which, from 1 January 2018, are shown in a separate item, Short-term liabilities from contracts. The effect of adopting the IFRS 15 standard on 1 January 2018 is shown in the table below. Comparative data in the statement of financial position for 31 December 2017 were not recalculated at the time of the introduction of the IFRS 15.

Effect of the adoption of the IFRS 15 in EUR	31/12/2017	IFRS 15	1/1/2018
Short-term operating liabilities	127,881,805	-4,290,310	123,591,495
Short-term contract liabilities	0	4,290,310	4,290,310
Total	**127,881,805**	**0**	**127,881,805**

b) IFRS 9 - Financial Instruments

The IFRS 9 sets out the principles for the recognition and measurement of financial assets, financial liabilities and certain contracts for the purchase or sale of non-financial items. The Standard replaces IAS 39 Financial Instruments: Recognition and Measurement.

Due to the adoption of the IFRS 9, the Group adopted the consequential amendments to IAS 1 Presentation of Financial Statements, which require the disclosure of impairment of financial investments in a separate item in the income statement. The Group previously listed impairments of receivables among other operating expenses. In the income statement for the year ended 31 December 2017, the Group reclassified impairment losses in the amount of EUR 3,275,091, recognized in accordance with the IAS 39, from »other operating expenses« among »revaluation operating expenses«. Losses due to the impairment of other financial assets are not material and are also recorded as »revaluation operating expenses«.

In addition, the Group has adopted the consequential amendments to the IFRS 7 Financial Instruments: Disclosures. The disclosure requirements taken into account for disclosures for 2018 are not generally taken into account in comparative information.

The effect of the transition to the IFRS 9 to the opening balance of the transferred net profit or loss without tax is summarized in the table below (for a description of the method of transition, refer to the Transition heading under item b) of section 4.2.6.).

Effect in retained earnings in EUR	**Effect of the adoption of the IFRS 9 on the opening balance**
Recognition of expected credit losses pursuant to IFRS 9	-653,100
Related tax	0
Effect as at 1/1/2018	**-653,100**

- **Classification and measurement of financial assets and financial liabilities**

  The IFRS 9 contains three main categories for the classification of financial assets: the amortized cost model, the fair value through the statement of other comprehensive income - PVIVD and the fair value through the profit and loss account - PVIPI. The classification of financial investments in accordance with the IFRS 9 is generally based on the business model under which assets are managed and the characteristics of the contractual cash flows of assets. The Standard eliminates the existing categories of the IAS 39 »held to maturity«, »loans and receivables« and »available-for-sale«. According to the IFRS 9, embedded derivatives contracts, when the host instrument is a financial asset falling within the scope of the standard, no longer need to be separated. Instead, the overall classification of a hybrid financial instrument is taken into account for the classification.

  IFRS 9 largely maintains the existing requirements of IAS 39 for the classification and measurement of financial liabilities.

  The adoption of the IFRS 9 did not materially affect the Group's accounting policies regarding financial liabilities and derivatives (for derivatives used as hedging instruments, see the title »Accounting for hedging« under item b) of chapter 4.2.6.).

  For an explanation of how the Group classifies and measures financial instruments and accounts for the related gains and losses in accordance with the IFRS 9 (see Chapter 4.3.2.)

  The Group reclassified one equity investment in the amount of EUR 100,000 from held-to-maturity financial instruments as measured by PVIPI, which did not affect the Group's financial statements. The Group intends to hold this investment in equity instruments that are not listed on the stock exchange in the long run. As an appropriate assessment of the fair value of equity instruments not listed on the stock exchange, the Group uses the purchase cost.

The effect of the adoption of the IFRS 9 on the carrying amount of the financial assets as of 1 January 2018 relates exclusively to new impairment requirements and amounts to EUR 653,100. As at 1 January 2018, when the transition to the IFRS 9 was performed, the increase in the adjustment for the impairment of trade receivables and other receivables in the amount of EUR 653,100 was recognized.

- **Impairment of financial assets**

  IFRS 9 replaces the incurred loss model as recognized in the IAS 39 with the expected credit loss model (PKI). The new impairment model is used for financial assets measured at amortized cost, contractual funds and investments in debt securities measured by PVIVD, but not for equity investments. Credit losses are recognized in accordance with the IFRS 9 rather than IAS 39 (see Chapter 4.3.9).

  For assets that fall within the scope of the impairment model in accordance with the IFRS 9, it is generally expected that impairment losses will increase and become more volatile. The Group considered that in order to comply with the requirements of the IFRS 9 for impairment as at 1 January 2018, an additional impairment adjustment should be made, as shown in the table below.

Impairment adjustment as at 31/12/2017 pursuant to IAS 39 in EUR	**12,094,997**
Additional impairment recognised as at 1/1/2018 for	
Trade receivables and contract assets	522,034
Cash and cash equivalents and other investments	131,066
Impairment adjustment as at 1/1/2018 pursuant to IFRS 9	**12,748,097**

For more information on how the Group measures impairment losses adjustments (see note 6.2.2.).

- **Accounting for hedging**

  The Group decided to adopt a new hedge accounting model in accordance with the IFRS 9. The Group should therefore ensure that hedging ratios are consistent with the objectives and risk management strategy, and use a more qualitative and forward-looking approach to assessing the effectiveness of hedging.

  The Group meets the hedge accounting requirements for hedging against market risks related to changes in electricity and natural gas prices.

  In order to fulfil the eligibility criteria for hedge accounting under the IFRS 9, the Group has supplemented the hedging documentation for all existing hedging relationships under the IAS 39, which also meets the requirements of the IFRS 9, the hedging coefficients and the expected sources of inefficiency. In addition, the group has remedied the retroactive performance test.

  The hedge ratio that meets the requirements for hedge accounting in accordance with IAS 39 and meets the criteria for hedge accounting in the IFRS 9 (after taking into account a possible rebalance at the time of transition) are treated as continuous hedging ratios. Due to the revision of the profit or loss, no profit or loss was recognized.

- **Transition**

  Due to the adoption of the IFRS 9, accounting policies have changed as described below.

  The Group used an exemption from the requirement to convert comparative information for earlier periods in relation to the classification and measurement requirements, including impairments. Differences in the carrying amounts of financial investments and financial liabilities due to the adoption of the IFRS 9 are recognized in retained earnings as at 1 January 2018. The information for 2017 does not therefore reflect the requirements of the IFRS 9 but the requirements of the IAS 39.

  The following determinations were made on the basis of the facts and circumstances that existed on the date of application:

  - determining the business model under which the financial asset is managed, and
  - determining the individual equity investments that are not held for trading, as financial investments measured according to PVIPI.

  Changes to the hedge accounting guidelines are considered for the future.

  As at 1 January 2018, all hedging relationships designated as such under the IAS 39 as at 31 December 2017 were met for hedging under the IFRS 9 and are therefore treated as continuous hedging ratios.

4.3 Important accounting policies of the GEN Group

4.3.1 Foreign currency

Transactions denominated in a foreign currency are translated into the corresponding functional currency of the companies in the group at the exchange rate on the date of the transaction. Monetary assets and liabilities denominated in a foreign currency at the end of the reporting period are translated into the functional currency at the exchange rate at that time. Foreign exchange gains or losses are differences between the amortized cost in the functional currency at the beginning of the period, adjusted for the amount of current interest and payments during the period, and the amortized cost in foreign currency, translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies and measured at fair value are translated into the functional currency at the exchange rate on the date when the fair value is determined. Foreign exchange differences are recognized in the income statement.

Assets and liabilities of foreign companies are translated into euros at the exchange rate prevailing at the end of the reporting period. Revenues and expenses of companies abroad, with the exception of companies in hyperinflationary economies, are converted to euros at the average exchange rates valid for a specified period. Foreign exchange differences are recognized in other comprehensive income and are recorded in the translation reserve within the equity item.

4.3.2 Financial assets

The Group's financial assets include cash and cash equivalents, trade receivables and loans and financial investments. Among financial investments, the Group discloses investments in associates and investments in financial instruments.

The Group initially recognizes loans and receivables from customers and deposits on the date of their creation. Other financial assets are initially recognized on the date of the exchange, when the group becomes a party in the contractual terms of the instrument. The Group derecognises a financial asset when the contractual rights to cash flows from that asset are extinguished, or when the group transfers the rights to contractual cash flows from a financial asset on the basis of a transaction in which all the risks and rewards of ownership of the financial asset are transferred. Financial instruments of the Group are initially recognized in one of the following groups: financial assets measured at the amortized cost, financial assets at fair value through other comprehensive income, and financial assets at fair value through profit or loss. The classification depends on the selected asset management model for asset management and from whether the Group acquires contractual cash flows from financial instruments solely from the principal payments and interest on the outstanding principal amount. With the exception of operating receivables, which do not include a significant component of financing, at the initial recognition, the Group measures the financial asset at fair value plus the cost of the transaction. Trade receivables that do not contain significant components of financing are measured at the transaction price, which is determined in accordance with the provisions of the IFRS 15.

Impairment of financial assets is defined in more detail in Chapter 4.3.9.

a) Classification and subsequent measurement of financial investments - a policy applicable from 1 January 2018

On initial recognition, financial assets are designated as measured by: amortized cost, PVIVD - investments in debt securities, PVIVD - investments in equity instruments or PVIPI.

After initial recognition, financial investments are not reclassified unless the Group changes the business model for managing financial investments. In this case, all financial investments affected by the change are reclassified on the first day of the first reporting period after the change.

A financial asset is measured at amortized cost if it is not designated as a financial asset under the PVIPI and if the following two conditions are met:

- the financial asset is held in the context of a business model aimed at the possession of financial assets for the purpose of receiving contractual cash flows, and
- in accordance with the contractual terms of a financial asset, cash flows occur on specified dates, which are solely the repayment of the principal and the interest on the outstanding principal amount.

Upon the initial recognition of an investment in equity instruments not held for trading, the Group irrevocably decides to show subsequent changes in the fair value of the investment in other comprehensive income. This decision is taken individually for each investment.

All financial assets that are not designated as measured at amortized cost or PVIVD as described above are measured by PVIPI. This includes all financial resources (see the explanation in chapter 6). When a financial asset that meets the criteria for amortized cost or PVIVD is initially recognized, a financial asset that is irrevocably designated as measured by the PVIPI may be reversed if this eliminates or significantly reduces any accounting inconsistency that would otherwise have arisen.

b) Financial assets - assessment of the business model: a policy applicable from 1 January 2018

The Group assesses the goal of the business model that governs the financial asset at the portfolio level, as it best reflects the way to manage the business and provide information to the management. The following information was taken into account:

- defined policies and objectives of the portfolio and the implementation of these policies in practice, including whether the management strategy focuses on generating revenues from contractual interest, maintaining a specific interest rate profile, matching the duration of the financial assets with the duration of their related obligations or expected cash outflows, or creating cash flows through asset sales;
- the method of evaluating the performance of the portfolio and the method of reporting this to the management of the group;
- the risks that affect the performance of the business model (and the financial assets managed in accordance with it) and the way in which these risks are managed;
- the method of determining the remuneration of the management staff responsible for these transactions (e.g., whether the remuneration is based on the fair value of the managed assets or the volume of contractual cash flows received); and
- the frequency, value and time of sales of financial assets in previous periods, the reasons for the sale and the expectations for future sales activities.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose and are still recognized by the Group.

Financial assets that are held for trading or that are managed and whose profitability is estimated on the basis of fair value are measured by PVIPI.

c) Financial assets - estimate of whether the contractual cash flows consist exclusively of the repayment of principal and interest: the policy applicable as from 1 January 2018

For the purpose of this assessment, the principal is defined as the fair value of a financial asset on initial recognition. Interest consists of compensation for the time value of money, credit risk associated with the outstanding principal amount in a given period, and for other basic and lending-related costs (e.g. liquidity risk and administrative costs) and profit margin.

In assessing whether the contractual cash flows exclusively repay the principal and interest, the Group complies with the contractual provisions of the instrument. This includes an assessment of whether a financial asset contains a contractual provision that could change the amount of time or amount of contractual cash flows in a way that would not satisfy that condition. In this estimate, the Group shall take into account:

- contingent events that would change the amount and time of cash flows;
- provisions for which the contractual coupon interest rate may be changed, including elements of variable interest rates;
- advance payment and terms of the renewal, and
- provisions restricting the group's cash-flows from certain assets (e.g. the provision that a financial asset may only be repaid in the event of default by the assets it is insured with).

The element of early repayment fulfils the condition that the contractual cash flows must be solely the repayment of principal and interest if the amount of early repayment mainly consists of unpaid principal amounts and interest on the outstanding principal amount, which may include a reasonable additional consideration for the early termination of the contract. In addition, for financial assets that have been acquired with a discount or premium in respect of a nominal contract amount, an element that permits or requires early repayment in an amount that mainly represents the nominal contractual amount and the contractual interest accrued (but unpaid) (which may include a reasonable additional consideration for the early termination of a contract) meets this condition if the fair value of the element of early repayment at initial recognition is negligible.

d) Financial assets - Subsequent measurement and gains and losses: a policy applicable from 1 January 2018

Financial assets measured by PVIPI
These assets are subsequently measured at fair value. Net gains and losses, including any interest income or dividend income, are recognized in the income statement.

Financial assets measured at amortized cost
These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced for impairment losses. Interest income, foreign exchange gains and losses, and impairment losses are recognized in the income statement. Any gain or loss on derecognition is recognized in the income statement.

Investments in debt securities measured using PVIVD
These assets are subsequently measured at fair value. Interest income, calculated using the effective interest method, positive and negative exchange rate differences and impairment losses are recognized in the income statement. Other net gains and losses are recognized in other comprehensive income. Gains and losses recognized in other comprehensive income are transferred to the income statement upon derecognition.

Investments in equity instruments measured using PVIVD
These assets are subsequently measured at fair value. Dividends are recognized as income in profit or loss unless the dividend clearly reflects a part of the cost of the investment. Other net gains and losses are recognized in other comprehensive income and are never transferred to the income statement.

e) Financial assets - a policy applicable before 1 January 2018

The Group classified financial assets into one of the following categories: loans and receivables to customers, held-to-maturity, available-for-sale, and payable under PVIPI – and classified in this category in more detail as financial assets held for trading; derivative hedging instruments or financial assets measured by PVIPI.

f) Financial assets - Subsequent measurement and profits and losses: a policy applicable before 1 January 2018

Financial assets measured by PVIPI
These assets are measured at fair value, changes in their fair value, including any interest income or dividend income, are recognized in the income statement. However, see section 4.3.4. for derivatives that are designated as hedging instruments.

Financial assets held to maturity
These assets are measured at amortized cost using the effective interest method.

Loans and receivables
These assets are measured at amortized cost using the effective interest method.

Financial assets available for sale
These assets are measured at fair value, changes in their fair value, excluding impairment losses and foreign exchange differences in debt securities, are recognized in other comprehensive income and are recognized in the fair value reserve. Upon the derecognition of such assets, any losses and profits recorded in equity were transferred to profit or loss.

g) Financial liabilities - Classification, subsequent measurement and profits and losses

Financial liabilities are classified as either measured at amortized cost or using PVIPI. A financial liability is classified as measured at amortized cost if it is classified as held for trading, is a derivative, or is determined as such at initial recognition. Financial liabilities measured according to PVIPI are measured at fair value, while net profits and losses, including any interest expense, are recognized in the income statement. Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Expenses for interest and foreign exchange gains and losses are recognized in the income statement. Any gain or loss on derecognition is also recognized in the income statement.

See section 4.3.4. for financial liabilities that are designated as hedging instruments.

4.3.3 Non-derivative financial liabilities

Non-derivative financial liabilities consist of loans, overdrafts in bank accounts and business and other liabilities, other than liabilities to the state, liabilities to employees and advances.

The Group initially recognizes issued debt securities and subordinated liabilities on the date of their formation. All other financial liabilities are initially recognized on the trading date when the Group becomes a contractual party in relation to the instrument.

The Group derecognises a financial liability if the obligations set out in the contract are met, cancelled or expired.

Financial assets and liabilities are offset and the amount is disclosed in the statement of financial position if and only if the group has officially recognized the right to offset the recognized amounts and intends either to settle the net amount or to realize the asset and simultaneously settle its obligation.

Non-derivative financial liabilities are initially measured at fair value plus costs directly attributable to the transaction. After initial recognition, financial liabilities are measured at amortized cost less the repayment of principal.

Loans received and other financial and operating liabilities are initially measured at fair value at the acquisition date. After acquisition, they are measured at amortized cost using the effective interest method. Liabilities are only derecognised if they have been deleted, which means that they have been completed, cancelled or expired. The difference between the carrying amount of liabilities that are deleted or transferred to another party and the paid consideration, including any transferred non-monetary assets or liabilities, is recognized immediately in profit or loss.

4.3.4 Derivative financial instruments

The Group uses derivative financial instruments to hedge against market and foreign exchange risks.

For hedging against market risks due to changes in electricity and natural gas prices, the Group uses forward contracts and various trading financial instruments. In particular, currency futures are used to hedge against foreign exchange risks.

The Group uses non-standardized forward contracts, i.e. contracts for the purchase or sale of a selected underlying instrument with a due date in the future at the price agreed upon at the conclusion of the contract, both for protection against market risks from the prices of electricity and natural gas as for hedging against foreign exchange risks. Futures prices are determined depending on the underlying financial instrument. At the conclusion, the value of the contract is zero, since the execution price (agreed settlement price) is equal to the forward price. Excluding shipping costs, the value of a non-standardized forward contract at maturity is equal to the difference between the current price of the underlying instrument at maturity and the contractual forward price or agreed settlement price. The forward price varies depending on the current market prices and the remaining maturity of the futures contract.

Standardized futures are binding agreements on the purchase or sale of a standard quantity of a precisely described standard quality instrument on a standardized day in the future (standard specification) at the price agreed in the present. Standardization is a necessary prerequisite for stock trading. The main advantage of standardization is to minimize the transaction costs of trading them. Thus, it is not necessary for buyers and sellers to agree on individual elements of the contract at each conclusion of the deal, only to agree on the price of each futures contract. The transactions are concluded without the physical presence of goods. The standardized forward contract will only enter into force with its registration with the clearing house (settlement). Such a contract is freely transferable due to trading on the stock exchange and its liquidity is conditioned by the volume of trading on the stock exchange, while non-standardized futures contracts are illiquid, since the exchange is slight. In the case of futures trading, both the purchases and the sales should deposit the security cover at the clearing house. The security coverage consists of an initial and flexible coverage.

Derivative financial instruments also include option contracts that the Group classifies as a group of financial assets or financial liabilities at fair value through profit or loss. Fair value is defined as the price that would be received for the sale of the asset or paid for the transfer of the obligation in a regular transaction between market participants on the measurement date. If the transaction price is not equal to the fair value at the measurement date, the difference in market assets is recognized in profit or loss or is subsequently released into profit or loss in accordance with the Group's policy.

Contracts for the purchase or sale of a non-financial asset (such as commodities) that can be settled net (either by cash or by the exchange of financial instruments) fall within the scope of the IFRS 9 and are accounted for at fair value, unless they have been concluded and continue to own for the purpose of receiving or delivering a non-financial asset in accordance with the Group's expected needs after purchase, sale or use - the so-called exemption on the basis of own use (IFRS 9.2.4). Purchase contracts falling within the scope of the IFRS 9 are treated as derivative financial instruments and are valued at market value through the income statement, unless the management is able to and decides to account for hedge accounting.

Contracts on the basis of which the physical supply of goods occurs and in which the group does not have a net settlement practice and that are not concluded for trading, speculative purposes or hedging are accounted for as ordinary purchase or sale contracts - i.e. unrecognized unfulfilled contracts. Contracts on the basis of which the physical supply of goods occurs and in which the Group has a practice of net settlement and which also have other purposes in addition to the supply or purchase of electricity or natural gas shall be treated as derivative financial instruments and measured at fair value through profit or loss.

Derivative financial instruments are measured at fair value after initial recognition, and the changes in fair value are generally recognized in the income statement.

Financial investments or financial liabilities measured at fair value through profit or loss are re-measured at fair value at least once a year when preparing annual financial statements. Gains or losses arising from changes in fair value are recognized in the income statement.

Accounting for hedging

The Group meets the hedge accounting requirements for hedging against market risks related to changes in electricity and natural gas prices.

At the beginning of certain hedging relationships, the Group documents the objective of risk management and the strategy for the implementation of hedging. The Group also documents the economic ratio between the hedged item and the hedging instrument, including whether it is expected that the changes in cash flows of the hedged item and the hedging instrument will be offset against each other.

At the commencement of the hedging relationship, the Group regularly assesses whether the hedging relationship meets the hedge accounting requirements. The assessment relates to expectations and is therefore focused only in the future. The hedge ratio only corresponds to the hedge accounting requirements if all of the following criteria are met:

- there is an economic relationship between the hedged item and the hedging instrument;
- the credit risk effect does not prevail in the changes in value resulting from that economic relationship; and
- the hedging coefficient in the hedging relationship is the same as that resulting from the extent of the hedged item, which the company actually protects, and includes the hedging instrument actually used by the company to hedge that amount against the hedged item risk.

At each reporting date, the Group measures the ineffectiveness of hedging, i.e. the extent to which changes in the fair value or cash flows of the hedging instrument are greater than or less than changes in the hedged item risk.

Fair value hedging

The Group calculates fair value hedging against the risk of changes in prices for standardized and non-standardized futures so that changes in the fair value of a derivative are recognized immediately in the profit or loss. Gains or losses on hedged items that can be attributed to a hedged risk are adjusted to the carrying amount of the hedged item and are recognized in profit or loss. If an unrecognized firm commitment is designated as a hedged item, a subsequent cumulative change in the fair value of a solid liability attributable to a hedged risk is recognized as an asset or liability with an appropriate profit or loss that is recognized in profit or loss. The initial carrying amount of the asset or liability arising from the fulfilment of a firm commitment by a group is adjusted to include a cumulative change in the fair value of a solid liability attributable to hedge accounting previously recognized in the statement of financial position.

The accounting policy for comparative information for 2017 is similar to that used for 2018.

4.3.5 Intangible and tangible fixed assets

Intangible assets and property, plant and equipment are long-term assets of companies that allow the activity to be carried out. At initial recognition, they are stated at their cost less accumulated amortization and accumulated impairment losses.

The purchase value of each asset comprises the purchase price and all costs that can be directly attributed to bringing the asset to its working condition. The cost also comprises the borrowing costs related to the acquisition of an item of property, plant and equipment until it is in working condition.

For subsequent measured intangible assets and tangible fixed assets, the cost model is used. Later costs incurred that enable either the continuation of operation, increased security or lower operating costs relative to the originally estimated, increase in the cost of the asset.

The cost of replacing a part of an asset is assigned to the carrying amount of that asset if it is probable that the future economic benefits associated with the part of that asset will flow to the company and if the cost can be reliably measured. All other costs (e.g. current maintenance) are recognized in profit or loss as an expense as soon as they occur.

Gains and losses arising on the disposal of property, plant and equipment are recognized as the difference between the net sales value and the carrying amount of the asset being disposed of and are recognized in other operating revenues or write-downs.

The assets are depreciated free of charge and are depreciated by the amount of charged depreciation of long-term deferred revenues disclosed in the liabilities.

At the end of the year, the companies check (only for significant assets) whether external or internal factors have arisen that would require revaluation.

Goodwill arises on consolidation and represents the surplus of the fair value of the transferred consideration at the acquisition date (acquired shares) and the fair value of the previous acquirer's share above the net amounts of identifiable assets and liabilities assumed. Goodwill is recognized as an asset and reviewed at least annually for impairment. Any impairment is recognized immediately in the consolidated income statement and subsequently not eliminated. Upon the disposal of the subsidiary, the relevant amount of goodwill is included in the determination of profit / loss on disposal and affects the profit or loss of the group.

The depreciation of intangible and tangible fixed assets is accounted for using the straight-line depreciation method, taking into account the defined useful life of each individual fixed asset.

The depreciation of the affiliated company NEK is determined by the Intergovernmental Agreement on NEK to the amount of required and approved investment investments and repayments of long-term loans for such investments. The purpose of depreciation, in this case, is therefore not a substitute for assets at the expiry of their useful life as set out in the IFRS. Depreciation is methodologically calculated in such a way that, for all tangible fixed assets except for the nuclear reactor with cooling and auxiliary systems (hereinafter: the nuclear reactor), the depreciation rate to be applied up to now is taken into account. The amount of depreciation of the nuclear reactor is determined as the difference between the total approved depreciation costs and the depreciation costs of other tangible fixed assets. Thus, the rate and amount of depreciation for the nuclear reactor, change over the years.

In 2018, the depreciation rates did not change, and some new depreciation groups were added to acquire new production and other equipment.

4.3.6 Investment property

Investment property is property owned by the GEN Group in order to earn a rent or increase the value of a long-term investment or both. Investment property is stated at cost less accumulated amortization and accumulated impairment losses. Investment property is measured using the purchase cost model. Depreciation is recognized in profit or loss using the straight-line depreciation method, and the estimated useful life is estimated at 25 years.

Depreciation/amortisation group	% in 2018	% in 2017
Intangible fixed assets		
Property rights	5.56–33.33	5.56–33.33
Right of superficies	5.26–50.00	0.00
Concession rights	2.00–6.35	2.00–5.56
Civil engineering structures		
Buildings	1.00–10.00	1.00–10.00
Parts of civil engineering structures	6.00	6.00
Equipment		
Office equipment	10.00–20.00	10.00–20.00
Computer equipment	20.00–50.00	20.00–50.00
Production and other equipment	1.67–50.00	1.67–20.00
Vehicles	12.50–25.00	12.50–25.00
Exhibition equipment	14.28–33.33	14.28–33.33
Small tools	20.00	20.00
Other investments	10.00	10.00

4.3.7 Deferred taxes

The amounts of deferred taxes are based on the expected method of reimbursement or settlement of the carrying amount of assets and liabilities, taking into account the applicable tax rates when the deferred tax asset is reimbursed and the liability settled.

Deferred tax assets are recognized in the amount of the probable available future taxable profit, against which future deferred receivables will be able to be used. Deferred tax assets are reduced by the amount for which it is no longer probable that the tax relief associated with the asset will be enforced. They are shown as long-term receivables.

Deferred tax liabilities are recognized for all taxable temporary differences, unless taxable temporary differences are the result of an initial recognition of an asset or liability in a business event other than merger, division, replacement of shares and transfer of activities, and the event at the time of creation does not affect either the accounting profit or taxable profit (tax loss).

4.3.8 Inventories and material costs

In inventories, the group shows the fuel and the material, which is quantified initially at the purchase price, consisting of the purchase price, import duties and direct purchase costs. The purchase price is reduced for discounts received.

The consumption of nuclear fuel is recorded by the method of purchase prices, since there are no new purchases for the utilization of inventories, while the use of other types of fuel and material is valued according to the average floating-price method.

For those inventories of spare parts that have not had turnover in the last six years (unsealed spare parts, where neither takeover nor issue was recorded), value adjustments of 100% of the value of this material are created.

4.3.9 Impairment of assets

At the reporting date, the Group estimates the value of a financial asset to determine whether there is an objective impairment mark. A financial asset is deemed impaired if there is objective evidence showing that one or more events have led to a decrease in the expected future cash flows from that asset.

a) Non-derivative financial instruments - a policy applicable from 1 January 2018

Financial instruments and contractual assets
The Group recognizes value adjustments due to expected credit losses (hereinafter: PKI) for:

- financial assets measured at amortized cost, and
- contractual funds.

The Group measures impairment losses for an amount equal to the PKI over the entire duration period, that is to say, the PKI arising from all possible default events over the expected period of the financial instrument. The maximum period to be taken into account when assessing the PKI is the longest contract period in which the Group is exposed to credit risk.

PKI is a likely weighted estimate of credit losses. Credit losses are measured as the present value of all cash flow losses (i.e. differences between cash flows belonging to the group in accordance with the contract and the cash flows for which the group expects them to receive). PKIs are discounted on the basis of the effective interest rate of the financial asset.

Financial assets with deteriorated credit quality
At each reporting date, the Group assesses whether financial assets carried at amortized cost have deteriorated credit quality. A financial asset has a deteriorated credit quality when one or more events have occurred that have a negative impact on the estimated future cash flows of that financial asset.

Evidence that a financial asset has a deteriorated credit quality include data on the following circumstances:

- significant financial difficulties of the borrower or issuer;
- breach of the contract, such as non-payment or more than 90 days delay in payment;
- rescheduling of the loan or early repayment by the Group under conditions that the Group would otherwise not have accepted;
- the probability that the borrower will go into bankruptcy or financial reorganization;
- the disappearance of a functioning security market due to financial difficulties.

Presentation of a value adjustment for the PKI in the statement of financial position
Value adjustments of financial assets measured at amortized cost are deducted from the gross carrying amount of financial assets.

Write-offs
The gross carrying amount of a financial asset is written off when the Group is reasonably expecting that the financial asset will not be fully or partially reimbursed, i.e. in the event of a final court decision on the termination of a bankruptcy procedure, the completion of the compulsory settlement procedure or the completion of the enforcement procedure and the financial assets for which the Group does not expect any reimbursement. However, financial assets that are written off can still be the subject

of recovery operations in accordance with the procedures of the collection of claims.

b) Non-derivative financial instruments - a policy applied before 1 January

An impairment loss in respect of a financial asset carried at fair value in other comprehensive income was measured as the difference between the carrying amount and the fair value of the asset.

An impairment loss in respect of a financial asset carried at amortized cost was measured as the difference between the carrying amount of the asset and the estimated future cash flows discounted on the basis of the original effective interest rate.

An impairment loss in respect of a financial asset available for sale was calculated on the basis of its current fair value.

For significant financial assets, the impairment was assessed individually. The impairment of other financial assets was assessed in a collective manner according to their common characteristics in relation to risk exposure.

The Group recognized all impairment losses in the profit or loss for the accounting period.

An impairment loss has been eliminated if it could be impartially linked to an event occurring after the impairment was recognized. For financial assets carried at amortized cost and available-for-sale financial assets that were considered as debt instruments, the reversal of an impairment loss was recognized in profit or loss.

c) Non-financial assets

At each reporting date, the carrying amount of significant non-financial assets is checked in order to determine whether there are signs of impairment. Should such signs exist, the recoverable amount of the asset is assessed.

The recoverable amount of the asset or the cash-generating unit is the value in use, or the fair value less costs to sell – that is, the higher of these two items. When determining the value of an asset in use, the expected future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market estimates of the time value of money and the risks specific to the asset. For the purpose of the impairment test, assets that cannot be tested individually are classified as the smallest possible group of assets that generate cash flows from continuing use and that are predominantly independent of the receipts of other assets or groups of assets (cash-generating unit).

The impairment of an asset or a cash-generating unit is recognised when its book value exceeds its recoverable value. Impairment is disclosed in the income statement. A loss that is recognised for a cash-generating unit due to impairment is distributed so as to initially decrease the book value of the goodwill allocated to the cash-generating unit and then to other assets of the unit (group of units), i.e. proportionately to the book value of each asset in the unit.

A loss due to the impairment of goodwill is not reversed. In respect of other assets, the Group assesses impairment losses in prior periods as at the reporting date to establish whether the loss has decreased or no longer exists. Impairment losses are reversed if there has been a change in the estimates based on which the Group determines the recoverable value of an asset. An impairment loss is reversed up to the amount where the increased book value of an asset no longer exceeds the book value that would have been determined, net of depreciation or amortisation, had no impairment loss been recognised for the asset in previous years.

4.3.10 Equity

Equity is defined by the amounts invested by the owners and the amounts incurred in the course of business and that belong to the owner. It can be reduced by the loss or pay-out of profits.

Total equity consists of called-up capital, capital surplus, revenue reserves, fair value reserve, translation adjustment of capital, retained earnings from previous years and undistributed net profit.

The share capital is maintained in the valid local currency.

4.3.11 Provisions

Provisions are formed for liabilities that, according to forecasts based on binding past events, will occur over a period of more than one year and whose sizes can be reliably estimated or measured.

The group of provisions is determined by discounting the expected future cash flows to the extent that they are pre-tax, indicating the existing estimates of the time value of money, and, where appropriate, the risks specific to the liability.

The companies make provisions for future earnings and provisions for increased maintenance costs due to high water and state support for the modernization of production facilities.

Provisions for severance pay and anniversary bonuses

In accordance with the legal regulations, collective agreements and internal regulations, the Group is obliged to pay anniversary bonuses to employees and severance pay upon their retirement, for which long-term provisions have been created. There are no other pension-related liabilities. Provisions are formed in the amount of the estimated future payments for severance pay and anniversary bonuses, discounted at the end of the reporting period.

During the period under review, the Group formed long-term provisions for anniversary bonuses and severance pay upon retirement as the present value of future payments required to settle the obligations arising from the employee's service in the current and prior periods, taking into account the costs of severance pay upon retirement and the costs of all expected jubilee awards the day of retirement. The discount rate for calculating provisions in all Group companies is set at up to 2%, except for the company NEK, which according to the Intergovernmental Agreement on NEK and assuming the termination of operations of NEK on 30 June 2043, used a discount rate equal to the yield of 10-year bonds with AA rating in the Euro area.

In the income statement, they are recognized as labour costs and interest costs, the conversion of post-employment benefits or unrealized actuarial gains or losses from severance pay into other comprehensive income.

4.3.12 Government grants

Government grants related to assets are initially recognized as deferred revenue if there is reasonable assurance that the support group will receive and will meet the conditions related thereto. Later, in the useful life of an individual asset, they are systematically recognized among other income in the income statement.

Government grants received by the Group to cover costs are systematically recognized in the income statement in the periods in which the related costs arise.

4.3.13 Contract assets and liabilities

A contract asset is the right to consideration in exchange for goods or services that are transferred to a customer. Among the assets from contracts, the Group records accrued revenues for the supplied goods and services to customers.

The obligation under the contract is the obligation to transfer goods or services to the buyer in exchange for the compensation received by the group from the buyer. The obligations under a contract are recognized as revenue when the Group fulfils its execution obligation under the contract.

4.3.14 Contingent assets and liabilities

The items of contingent assets and liabilities do not have a direct effect on the size and composition of assets and liabilities to their sources (statement of financial position) and income and expenses (profit and loss account), but are a source of information on the operations and potential future receivables and liabilities of companies.

4.3.15 Revenue

Revenue from contracts with customers

Revenue from contracts with customers is recognized when a control of goods or services is transferred to the buyer in an amount reflecting the consideration that the Group considers will be entitled to receive in return for these goods or services. Revenue from contracts with buyers is recognized at the fair value of the consideration received or receivable from this item, minus repayments and discounts, rebates and quantity discounts. Revenue arises when the buyer has taken control of the goods or benefits of the service provided.

Revenue is recognized as:

- **Sales of goods**
  The sale of goods is recognized when the Group supplies the goods to the customer, the goods have been accepted by the customer and the recoverability of the related claims is reasonably guaranteed. From the time of sale, the Group no longer has control over the goods or services sold.
- **Sales of services**
  The sale of services is recognized in the accounting period in which the services are provided, depending on the completion of the transaction, estimated on the basis of the service actually provided, as a proportionate part of the total services being provided. In the case of long-term projects in the recognition of revenue from services rendered, the method of completion of works on the balance sheet date is used. Using this method, we recognise revenue in the accounting period in which the services are rendered.
- **Other operating revenue**
  They comprise calculations of capitalized own products and services, revenues from the elimination and absorption of other liabilities, compensations received, contractual penalties and similar income and rental income.

Financial revenue

Financial revenues comprise interest income from financial assets, income from the disposal of financial assets at fair value through other comprehensive income, recovered write-offs or impairments, changes in the fair value of financial assets at fair value through profit or loss, foreign exchange gains and profits from hedging instruments against the risks that are recognized in the income statement. Interest income is recognized when it is incurred using the effective interest rate method.

4.3.16 Expenses

Operating expenses

Revenues are acknowledged if the increase in the economic benefit in the accounting period is connected with the increase in an asset or decrease in debt and such an increase can be precisely measured.

Expenses consist of costs of goods, materials and services, labour costs and write-offs, and other operating expenses.

Costs of goods, materials and services are the original costs of goods, materials and services purchased.

Write-offs include depreciation, which relates to the consistent transfer of the value of depreciable property, plant and equipment, depreciable intangible assets. Losses in the write-down of fixed assets were also recorded in write-offs.

Labour costs are the original costs relating to accrued wages and other payments to employees in gross amounts, as well as to charges levied on this basis and which are not an integral part of gross amounts. Among the labour costs, provisions for anniversary bonuses and retirement benefits are also formed.

Other operating expenses include a concession fee, environmental protection expenditure and other charges. Other operating expenses include donations.

Financial expenses

Financial expenses include borrowing costs (if they are not capitalized), negative exchange rate differences, changes in the fair value of financial assets at fair value through profit or loss, impairment losses on financial assets, allowances for receivables and losses from hedging instruments that are recognized in the income statement. Borrowing costs are recognized in the income statement using the applicable interest rate method. Financial expenses are also recognized from the recognition of investments using the equity method.

4.3.17 Taxes

Taxes include liabilities for accrued tax and deferred tax. Taxes are recognized in the income statement except in the part where they relate to business combinations or items that are disclosed directly in other comprehensive income. Current tax liabilities are based on taxable profit for the year. Taxable profit differs from the net profit recorded in the income statement because it excludes items of income or expense that are taxable or deductible in other years, as well as items that are never taxable or deductible. The liability of the accrual tax group is calculated using the tax rates that were valid for the reporting period.

Group companies are each individually liable to pay corporate income tax. Consolidated corporation tax represents the sum of taxes of companies in the group.

4.3.18 Cash flow statement

The Group compiles the cash flow statement using the indirect method.

4.3.19 Financial risk management

In its operations, the GEN Group is exposed to strategic, financial and operational risks.

The prudent risk management at the level of the GEN Group follows the goal of maintaining a high quality of business and is key to achieving the set goals. The use of standard risk management methodologies and procedures enables high-quality risk assessment, timely response and reduction of GEN's exposure to key risks.

4.3.20 Segment reporting

The Group does not disclose segments business in the annual report, as GEN, as the parent company of the GEN Group, does not have debt or equity instruments that would be traded on the public market.

4.4 Changes to the accounting policies and disclosures

The Group's accounting policies used in the preparation of consolidated financial statements are the same as those used in the preparation of consolidated financial statements for the previous financial year. The following are the exceptions: new adopted and revised standards adopted by the Group for the annual periods beginning on 1 January 2018 and presented:

4.4.1 Newly adopted or revised standards applicable and in force from 1 January 2018

- **IFRS 2: Classification and Measurement of Share-based Payment Transactions (Amendments)**
  The amendments introduce requirements regarding the calculation of the effects of vesting and non-

guaranteed conditions in the measurement of cash settlement of share-based payment transactions, namely for share-based payment transactions with a net settlement of the tax liability after deduction and for changes in the terms and conditions of payment transactions in shares, resulting in a reclassification of the transaction referred to in cash settlement in equity.

- **IFRS 9 Financial Instruments**
  The final version of the IFRS 9 Financial Instruments contains the requirements of all the individual phases of the IFRS 9 revision project and replaces the IAS 39 Financial Instruments: Recognition and Measurement and all previous IFRS 9 standards. The Standard introduces new requirements for the classification, measurement, impairment and clearing of pre-risks. The effect of the standard is presented in section 4.2.6, item b).

- **IFRS 15 Revenue from Contracts with Customers**
  The IFRS 15 standard sets out a five-step model that the entity must take into account when recognizing revenue from customer contracts (with limited exceptions), regardless of the type of transaction that generates revenue or the industry. The requirements of the standard also apply to the recognition and measurement of profits and losses on the sale of certain non-financial assets that do not originate from the normal activity of the company (e.g. sale of property, plant and equipment or intangible assets). The standard requires extensive disclosures from the company, including a breakdown of the total revenue; information on commitments relating to the sale of assets or the provision of services; changes in the amount of assets and liabilities from contracts during periods, and key management judgments and estimates.

- **IFRS 15: Revenue from Contracts with Customers (Clarifications)**
  The purpose of these explanations is to explain what the IASB sought to achieve when adopting the requirements of the IFRS 15 Revenue from contracts with customers, in particular from the point of view of accounting for the defined obligations arising from customer contracts, changes to the text of the »separately identifiable« principle, compensation to the principal as compared to the compensation to the agent assessing whether the company is a principal or an agent and the application of the principle of supervision and licensing, and additional guidelines for the accounting of intellectual property and royalties. The notes also introduce additional practical benefits for businesses that either apply the IFRS 15 standard in full for prior periods or those who choose to use a customized approach.

- **IAS 40: Transfers of Investment Property (Amendments)**
  The amendments clarify when an entity must transfer real estate, including those under construction or development, to or from investment property. The amendments state that a change in use occurs when some property meets or ceases to meet the definition of investment property and there is evidence of the change in use. A change in the management's intentions regarding the use of a property does not in itself constitute evidence of a change in use.

- **EXPLANATORY NOTE ON THE IFRIC 22: Foreign Currency Transactions and Advance Consideration**
  The explanatory note introduces an explanation of the accounting of transactions involving the receipt or payment of an advance in a foreign currency. The explanation concerns those foreign currency transactions in which an entity recognizes a non-monetary asset or a non-monetary liability arising from the advance payment or receipt of an advance before the recognition of the related asset, expense or income. The explanation states that in order to determine the exchange rate of the transaction, the undertakings must take into account the date of the initial recognition of the non-monetary advance asset or the deferred income liability. In the event of a large number of advance payments or advances, an entity should determine the date of transaction of each advance payment or the receipt of advances.

- The International Accounting Standards Board (IASB) **has published a series of annual improvements to the IFRS adopted in the 2014-2016 period**, which represents a set of amendments to IFRS standards.
  - *IFRS 1 First-time Adoption of International Financial Reporting Standards This amendment eliminates short-term exemptions from disclosures relating to financial instruments, employee benefits and investment firms that apply to first-time users of the IFRS.*
  - *IAS 28: Investments in associates and joint ventures These amendments explain that when an entity initially recognizes an investment, any investment in an associate or a joint venture owned by a company that is a capital organization or another qualified person is measured at fair value through the income statement.*

The GEN Group estimates that the use of the newly adopted and revised existing standards did not have any significant changes on its financial statements.

4.4.2 Standards that are not yet in force and the GEN Group has not begun to use them prematurely

Standards and notes presented below to the date of the consolidated financial statements have not yet entered into force. The above-mentioned standards permitting early use were not used by the GEN Group for 2018, as the application of these standards is planned upon their entry into force.

- **IFRS 9: Pre-Payment Functions with Negative Compensation (Supplement)**
  The amendments are effective for annual periods beginning on or after 1 January 2019. Early application of the amendments is permitted. The amendments allow an entity to measure financial assets with prepaid characteristics that allow or require a contracting party either to pay or receive a reasonable remuneration for the early termination of the contract (in the sense that it is »negative compensation« from the asset's viewpoint) at amortized cost or fair value through other comprehensive income.
- **IFRS 16: Leases**
  The IFRS 16 standard applies for annual periods beginning on or after 1 January 2019. The IFRS 16 standard sets out the guidelines for the recognition, measurement, presentation and disclosure of the lease of both contracting parties: namely, the client (lessee) and the lessor. The new standard requires the lessee to recognize most of the lease contracts in its financial statements. Apart from some exceptions, tenants will be able to use a single accounting model for all leases. No significant changes have been introduced for lease accounting on the part of the lessor.
- **Conceptual Framework for the IFRS standards**
  On 29 March 2018, the International Accounting Standards Board (IASB) published a revision of the basic framework of standards in financial reporting. The Conceptual Framework sets out a comprehensive set of concepts for financial reporting, determining standards and guidance for producers of consistent accounting policies, and for the easier understanding and interpretation of the standards. The IASB also published a separate accompanying document »Amendments to the Basis of the IFRS Standards«, which complements the relevant standards and serves to update the references to the revised framework. The Committee's aim is to provide support when transitioning to a renewed underlying framework for companies that adopt their accounting policies on the basis of the guidelines of the underlying framework if certain transactions do not deal with any IFRS standard. Preparers who adopt their accounting policies based on the Conceptual Framework are subject to the revised Conceptual Framework for annual periods beginning on or after 1 January 2020.
- **EXPLANATORY NOTE ON THE IFRIC 23: Uncertainty in calculating corporate income tax**
  The interpretations are effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted. The explanation addresses the uncertainty in the calculation of corporate income tax affecting the application of the IAS 12 standard. The note introduces guidelines for accounting for uncertain taxation separately or collectively, an overview of tax authorities, the use of an appropriate method that reflects these uncertainties, and the consideration of changes in facts and circumstances.

The GEN Group reviews the effects of the standards and additions that are not yet in force and will take them into account when they are.

4.4.3 New standards, amendments and clarifications that the European Union has not yet adopted

For the standards and explanations presented below, until the date of the consolidated financial statements, the European Union has not yet approved any additions or improvements.

- **IFRS 3: Business Combinations (amendments)**
  The IASB has published additions to the business definition (amendments to the IFRS 3 standard) aimed at eliminating uncertainty in determining whether a takeover of a business or a group of assets is involved. The amendments apply to business combinations for which the acquisition date is the date of the first annual reporting period beginning on or after 1 January 2020 and for the acquisition of assets at the beginning of that period or later. Early application of the amendments is permitted.
- **IFRS 17: Insurance Contracts**
  The Standard applies to annual periods beginning on or after 1 January 2021, with the possibility of early use, provided that the entity also reports in accordance with the IFRS 15 Revenue from Customer Contracts and the IFRS 9 Financial Instruments. The standard IFRS 17 Insurance contracts thus determine the guidelines for the recognition, measurement, presentation and disclosure of insurance contracts. At the same time, the standard requires the use of similar principles in reinsurance contracts and investment contracts with possible discretionary participation. The purpose of the standard is to ensure that companies incorporate relevant information into the presentations in a manner that faithfully reflects these contracts. This data is used by users of financial statements to assess the effect of contracts falling under the IFRS 17 standard on the financial position, financial performance and cash flows of the entity.
- **Amendments to the IFRS 10 – Consolidated Financial Statements and IAS 28 – Investments in Associates and Joint Ventures: Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture**
  The amendments address a known inconsistency between the requirements of the IFRS 10 and those of the IAS 28 standard when considering the sale or contribution of funds between the investor and its

associate or joint venture. The main consequence was that the entity should recognize the entire amount of profit or loss if the transaction involves business (whether or not it is located in a subsidiary). In the case of transactions in assets that are not used by an entity for doing business, the entity only recognizes part of the profit or loss even if the assets are located in a subsidiary. The International Accounting Standards Board postponed the date of entry into force of the standard for an indefinite period pending the findings of a project for the clearing of funds under the equity method.

- **Presentation of Financial Statements and the IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of the term »materiality« (amendments)**
  These amendments are effective for the annual periods beginning on or after 1 January 2020. Early application of the amendments is permitted. The amendments clarify the definition of the term and how it is used. According to the new definition, »Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity«. In addition, the Committee clarified the explanations accompanying the definition. The amendments also ensure that the definition of »significant« is consistent with all IFRSs. The GEN Group does not expect the amendments to have a significant effect on its consolidated financial statements.
- **IAS 19: Plan amendment, curtailment or settlement (amendments)**
  The amendments are effective for annual periods beginning on or after 1 January 2019. Early application of the amendments is permitted. The amendments to the accounting standard require companies to determine the cost of the employee benefits and the net amount of interest in the remaining annual reporting period after the amendment, curtailment or settlement of the employee benefits program based on updated actuarial assumptions. Furthermore, the amendments clarify the accounting effect of a plan amendment, curtailment or settlement to the required asset ceiling.
- **IAS 28: Long-term investments in associates and joint ventures (amendment)**
  The amendments are effective for annual periods beginning on or after 1 January 2019. Early application of the amendments is permitted. These amendments address the question of whether the measurement of long-term investments (in particular, in terms of requirements for impairment of long-term investments in associates and joint ventures that are part of »net investments« in an associate or a joint venture) is part of the IFRS 9, IAS 28 or a combination of both. The amendments clarify that an entity should, when recognizing long-term stakes not measured using the equity method, apply the provisions of the IFRS 9 Financial Instruments before the application of the IAS 28 standard. When applying the IFRS 9 standard, the entity does not take into account any adjustments to the carrying amount of long-term shares, which derive from the application of the IAS 28 standard. The European Union has not yet approved the supplements of the standard.

The GEN Group is reviewing the effects of standards and amendments that the European Union has not yet adopted and will take into account that they are adopted and enforced.

4.4.4 Supplementation of standards and interpretations adopted in the 2015-2017 period

In the 2015-2017 period, the International Accounting Standards Board (IASB) announced a series of annual improvements to the IFRS standards, which represents a set of amendments and changes to standards. The amendments are effective for annual periods beginning on or after 1 January 2019. Early application of the amendments is permitted. The GEN Group estimates that the amendments and clarifications of the standards adopted in the 2015-2017 period did not affect the changes in its financial statements.

- **IFRS 3 Business Combinations and IFRS 11 Joint Arrangements:**
  The amendments to the IFRS 3 standard clarify that when acquiring control over a business, which is a joint venture, the company must re-measure all previously held shares in this business. The amendments to the IFRS 11 standard explain that a company that obtains joint control of a business that is a joint venture does not need to re-measure the previously held shares in this business.
- **IAS 12 Income Taxes:**
  The amendments to the standard explain that the company has to recognize the tax consequences of the payments of financial instruments that are classified as equity in the same item as past transactions or events that generated accumulated profit.
- **IAS 23 Borrowing Costs:**
  The amendments to the financial standard clarify Article 14 of the standard, which states that an entity is required to include a loan under the loans received at the moment when an asset meets the conditions for its intended use or sale and when a part of a loan that refers to such an asset has not been settled.

5.

Notes on 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
COST					
Balance as at 31/12/2017	**19,257,929**	**29,238,153**	**9,077,291**	**20,078**	**57,593,451**
Acquisitions	859,918	0	459,341	2,937	1,322,196
Transfers	1,047,638	0	-2,100	0	1,045,538
Disposals	-23,861	0	-526,242	-4,364	-554,467
Revaluation	0	0	-1,640	0	-1,640
Balance as at 31/12/2018	**21,141,624**	**29,238,153**	**9,006,650**	**18,651**	**59,405,078**
REVALUATION					
Balance as at 31/12/2017	**7,564,560**	**0**	**6,055,521**	**0**	**13,620,081**
Depreciation/amortisation	559,657	0	807,347	0	1,367,004
Transfers	0	0	18,301	0	18,301
Disposals	-23,861	0	-320,941	0	-344,802
Revaluation	0	0	10,845	0	10,845
Balance as at 31/12/2018	**8,100,356**	**0**	**6,571,073**	**0**	**14,671,429**
CARRYING AMOUNT					
Balance as at 31/12/2017	**11,693,369**	**29,238,153**	**3,021,770**	**20,078**	**43,973,370**
Balance as at 31/12/2018	**13,041,268**	**29,238,153**	**2,435,577**	**18,651**	**44,733,649**
COST					
Balance 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
Balance as at 31/12/2017	**19,257,929**	**29,238,153**	**9,077,291**	**20,078**	**57,593,451**
REVALUATION					
Balance as at 31/12/2016	**7,084,004**	**0**	**5,264,072**	**0**	**12,348,076**
Depreciation/amortisation	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
Balance as at 31/12/2017	**7,564,560**	**0**	**6,055,521**	**0**	**13,620,081**
CARRYING AMOUNT					
Balance as at 31/12/2016	**12,033,889**	**29,238,153**	**2,730,870**	**136,759**	**44,139,671**
Balance as at 31/12/2017	**11,693,369**	**29,238,153**	**3,021,770**	**20,078**	**43,973,370**

Goodwill represents the surplus of the sum of the fair value of the transferred consideration at the acquisition date (acquired shares) and the fair value of the previous acquirer's share above the net amounts of identifiable assets and liabilities assumed. Almost in full – that is, in the amount of EUR 29,007,234 – it refers to the effects of the business combination of GEN-I, for which a goodwill impairment test was carried out on 31 December 2018, which did not require the impairment of goodwill.

In 2018, the companies of the GEN Group invested mainly in the acquisition of the water right of SHPP Hrušica in the amount of EUR 646,435 as a result of the resulting difference in the procedures for merging UTA d.o.o. and from the amount of EUR 460,358 in software investments in Group companies for information support in the provision of services and the sale of electricity to final customers.

Intangible assets disclosed are the property of the group and are free of burdens.

5.2 Tangible fixed assets

Property, plant and equipment in EUR	Land	Buildings	Plant and machinery	Other machinery and small tools	Property, plant and equipment under construction and manufacture	Advances given	Total
COST							
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**
Acquisitions	11,000	162,925	79,659	454,794	55,964,563	2,070,310	58,743,251
Activation	19,414	9,772,413	65,161,431	1,017,820	-75,971,078	0	0
Disposals	-7,720	-207,990	-1,351,949	-441,589	0	-873,753	-2,883,001
Transfers, requalifications	0	31,259	0	1,281,344	-1,910,865	0	-598,262
Revaluation	0	0	0	-1,790	2,181	0	391
31/12/2018	**22,724,286**	**481,574,178**	**1,091,248,776**	**48,274,263**	**50,858,996**	**2,087,768**	**1,696,768,267**
REVALUATION							
31/12/2017	**0**	**216,628,146**	**729,224,201**	**37,537,335**	**0**	**0**	**983,389,682**
Depreciation/ amortisation	0	8,617,193	19,757,352	3,097,051	0	0	31,471,596
Disposals	0	-151,304	-893,940	-389,278	0	0	-1,434,522
Transfers, requalifications	0	0	0	131	0	0	131
31/12/2018	**0**	**225,094,035**	**748,087,613**	**40,245,239**	**0**	**0**	**1,013,426,887**
CARRYING AMOUNT							
31/12/2017	**22,701,592**	**255,187,425**	**298,135,434**	**8,426,349**	**72,774,195**	**891,211**	**658,116,206**
31/12/2018	**22,724,286**	**256,480,143**	**343,161,163**	**8,029,024**	**50,858,996**	**2,087,768**	**683,341,380**
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, requalifications	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**
REVALUATION							
31/12/2016	**0**	**208,370,646**	**709,873,007**	**35,693,023**	**0**	**0**	**953,936,676**
Depreciation/ amortisation	0	8,096,965	20,208,022	2,938,466	0	0	31,243,453
Transfers, requalifications	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**
CARRYING AMOUNT							
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**

In 2018, the companies of the GEN Group made investments, which mainly concerned:

- the modernization of systems that ensure the safe and stable operation of NEK and last for more than one year, and in 2018 these investments were intensified due to: modification of dry storage of spent fuel, implementation of an operational support centre, installation of additional relief valves on the pressure switch; other investments. These investments in the GEN Group totalled EUR 39,318,641 in the period considered;
- completion of the investment in the TEB gas block and other investments for reliable and uninterrupted operation in the amount of EUR 6,745,023;
- an unspecified contractual obligation in the amount of EUR 3,862,977 relating to the preparation of project documentation for HPP Mokrice, investments related to modifications in NEK (consequence of the construction of HPP Brežice) and investments in hydro-mechanical equipment of HPP Arto - Blanca and HPP Krško;
- modernization of other energy facilities, the purchase of land and other investments necessary to ensure the safe and stable operation of all the facilities required for the smooth, safe, reliable operation of the GEN Group.

In the process of checking the indicators for asset impairment purposes, the Group found that they do not exist and that the carrying amount of property, plant and equipment does not exceed the fair value and value in the use of these assets.

The Group's property, plant and equipment are owned by GEN Group companies, with the exception of the finance lease of personal vehicles in the amount of EUR 315,386.

Funds are free of burdens and are not transferred in financial lease.

5.3 Investment property

Investment property in EUR	31/12/2017	Acquisitions	Requalifications	Depreciation	31/12/2018
Cost	1,652,591	403,494	0	0	2,056,085
Revaluation	16,526	0	0	66,103	82,629
Present value	1,636,065	403,494	0	-66,103	1,973,456

Investment property in EUR	31/12/2016	Acquisitions	Requalifications	Depreciation	31/12/2017
Cost	290,913	1,652,591	-290,913	0	1,652,591
Revaluation	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, which was acquired in Bulgaria in 2017, increased in 2018 in order to obtain additional real estate in the framework of the insolvency procedure of the Bulgarian electricity supplier.

5.4 Stocks and interests in affiliated companies and joint venture

Shares and interests in associates in EUR	31/12/2018	31/12/2017
SRESA d.o.o.	25,543	27,621
HSE invest d.o.o.	130,882	390,662
Other	0	-2,671
Total	**156,425**	**415,612**

In accordance with the equity method, the GEN Group attributed the associated share of losses created in 2018 to the investments in associates, in the amount of EUR 259,187 (in the year 2017 a loss of EUR 52,025 was attributed).

5.5 Other long-term financial investments and loans

Other long-term investments and loans in 2018 in EUR	31/12/2017	Acquisition	Disposal/ transfer	Revaluation	31/12/2018
Financial equity instruments	**5,084,261**	**0**	**-2,114,556**	**204,820**	**3,174,525**
Zavarovalnica Triglav d.d.	2,738,448	0		132,658	2,871,106
Geoplin d.o.o.	2,114,556	0	-2,114,556	0	0
Other equity instruments	231,257	0	0	72,162	303,419
Other long-term investments	**2,820,209**	**8,564,675**	**-11,208,823**	**0**	**176,062**
Zavarovalnica Triglav d.d. - life insurance	118,519	38,204	0	0	156,723
Financial leases for solar power plants and heat pumps	1,673,546	0	-1,673,546	0	0
Loans given to employees	26,289	0	-6,951	0	19,339
Loans given to other legal entities	1,001,855	8,526,471	-9,528,326	0	0
Total	**7,904,470**	**8,564,675**	**-13,323,379**	**204,820**	**3,350,587**

Other long-term investments and loans in 2017 in EUR	31/12/2016	Acquisition	Disposal/ transfer	Revaluation	31/12/2017
Financial equity instruments	**4,548,212**	**2,869**	**-6,929**	**540,109**	**5,084,261**
Zavarovalnica Triglav d.d.	2,198,339	0	0	540,109	2,738,448
Geoplin d.o.o.	2,117,425	0	-2,869	0	2,114,556
Other equity instruments	232,448	2,869	-4,060	0	231,257
Other long-term investments	**625,131**	**9,215,269**	**-7,020,192**	**0**	**2,820,209**
Zavarovalnica Triglav d.d. - life insurance	83,576	34,943	0	0	118,519
Financial leases for solar power plants and heat pumps	0	1,673,546	0	0	1,673,546
Loans given to employees	38,459	0	-12,171	0	26,289
Loans given 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**

Financial equity instruments represent investments in shares and interests of companies and banks. They are valued at fair value through other comprehensive income. In 2018, the effect of the revaluation on fair value as at 31 December 2018 amounted to EUR 204,820.

The decrease in long-term financial investments from disposal or transfer in 2018 represents:

- sale of the Geoplin d.o.o. investment, whereby a profit of EUR 605,627 was realized in the framework of financial revenues;
- transfer of funds from the sale of small solar power plants to long-term operating receivables in the amount of EUR 1,673,546;
- transfer of long-term loans granted to short-term investments.

5.6 Long-term operating receivables

Long-term operating receivables in EUR	31/12/2018	31/12/2017
Trade receivables	3,954,830	114,299
Receivables for a building plot	450,101	492,692
Total	**4,404,931**	**606,991**

Receivables from customers represent receivables from the sale of small solar power plants, which in previous years were recognized in financial investments. Receivables for building land represent receivables arising from the repayment of the overpaid contribution for the building land of the municipality of Radeče.

5.7 Deferred taxes

Deferred tax assets in 2018 in EUR	31/12/2017	Disclosed in profit or loss	Disclosed in other comprehensive income	31/12/2018
Intangible assets, PPE	**162,093**	11,722	0	**173,815**
Financial instruments	**75,539**	0	11,001	**86,540**
Operating receivables	**1,029,569**	-71,361	0	**958,208**
Provisions for jubilee benefits and severance pay	**406,229**	173,509	4,504	**584,242**
Unused tax relief	**735,219**	696,341	0	**1,431,560**
Total	**2,408,649**	**810,211**	**15,505**	**3,234,365**

They are accounted for by the uncertainty of the timing of the realization of the receivable, and for their calculation a 19% tax rate is applied when the liabilities are expected to be settled in a certain part, and consequently the receivables for deferred tax are reimbursed.

Deferred tax receivables that affect the profit or loss are recognized in the income statement.

Long-term deferred tax liabilities, which amounted to EUR 5,966,185 as at 31 December 2018 (EUR 5,831,633 as at 31 December 2017), amounting to EUR 5,737,842, represent the consequence of the transition to the IFRS in 2016 and the consequent elimination of provisions from onerous contracts of NEK, since the NEK company is recognized in the consolidated financial statements as a joint arrangement in the form of a joint venture.

Due to incompatibility, deferred receivables and deferred tax liabilities are not offset.

5.8 Inventories

Inventories in EUR	31/12/2018	31/12/2017
Fuel for production	30,464,137	23,965,613
Spare parts	13,827,985	14,483,786
Other material	3,547,720	3,120,466
Total	**47,839,842**	**41,569,865**

The largest share of all stocks as at 31 December 2018, i.e. EUR 44,533,774, relates to the stocks of the company NEK, namely stocks of nuclear fuel, amounting to EUR 30,137,166, inventories of spare parts amounting to EUR 12,243,287 and other material under which a nuclear power plant operates. Due to certain specifics, it is very difficult or impossible to estimate the purely realizable value of spare parts and other materials, since only two similar power plants are in operation in the world, installing similar components and spare parts for maintenance needs. Thus, it is estimated that there is virtually no market demand for such stocks, or the cost of sales would be greater than the proceeds. The useful value of the inventory of spare parts, especially those classified in the safety class, has a very high value for ensuring the safe operation of the power plant.

The accounting policy for creating a value adjustment for non-performing spare parts allows the book value to reflect no less than possible the real value of inventories.

In 2018, adjustments were made to the value of inventories of non-warranted spare parts, that is, those spare parts that did not have turnover for the needs of the nuclear power plant for 6 years or more in the amount of 793,600 EUR. The amount of EUR 34,325 refers to the write-off of obsolete, useless spare parts and other material. There were no significant inventory surpluses or deficits in material supplies in 2018.

All the inventories are disclosed as short-term assets in accordance with regulations. Stocks of spare parts and nuclear fuel have a long useful life of 681 days.

The book value of inventories is not pledged as a liability guarantee.

5.9 Short-term financial investments

Short-term investments in EUR	31/12/2018	31/12/2017
Short-term investments other than loans	**6,239,433**	**195,164**
Other shares and interests held for trading	195,164	195,164
Financial derivatives	5,223,786	0
Options from operations	781,073	0
Other	39,410	0
Short-term loans	**97,482,269**	**75,191,808**
Short-term bank deposits	97,482,269	75,191,808
Total	**103,721,702**	**75,386,972**

The basis for the recognition of investments in deposits are contracts with financial institutions in Slovenia. The high level of deposits is due to the slower dynamics of the implementation of investments in technological upgrading and the slower implementation of other activities in recent years. Consumption of these funds is entirely intended for investment in technological upgrading in accordance with accepted investment plans of companies in the GEN Group.

The majority of derivative financial instruments relates to:

- the fair value of trade contracts in accordance with the IFRS 9 in the amount of EUR 16,981,091 for the following periods:
  - in the 2019 financial year in the amount of EUR 20,994,224;
  - in the 2020 financial year in the amount of -4,127,884 EUR;
  - in the 2021 financial year in the amount of 114,751 EUR;
- firm commitments recognized for the fair value security in the amount of -12,551,412 EUR, mainly consisting of changes in the fair value of physical contracts for the purchase and sale of electricity that are protected by derivatives - standard futures contracts, and relate to for the following periods:
  - in the 2019 financial year in the amount of 4 EUR;
  - in the 2020 financial year in the amount of EUR -9,933,646;
  - in the 2021 financial year in the amount of EUR -2,617,770.

5.10 Short-term operating receivables

Short-term operating receivables in EUR	31/12/2018	31/12/2017
Trade receivables prior to revaluation	117,925,920	130,221,918
Revaluation of trade receivables	-9,129,113	-12,094,997
Interest receivable	469,481	474,099
Other receivables related with financial effects	716,013	281,593
Other operating receivables	38,418,576	45,340,902
Receivables from operations for foreign account	740,742	188,767
Total	**149,141,619**	**164,412,282**

Receivables from customers represent receivables from the sale of electricity and system services on the basis of concluded annual contracts. As a rule they are insured with blank bills and notes or bank guarantees.

Other short-term operating receivables predominantly consist of deductible VAT in the amount of EUR 28,529,568 (as at 31 December 2017 totalled EUR 27,711,620) and receivables for advances and collateral of the Group in the amount of 8,054,791 (as at 31 December 2017 amounted to 16,862,153 EUR). The bulk of securities and advances are advances for the purchase of electricity and natural gas.

Receivables are not pledged.

5.11 Contract assets

Funds from customer contracts totalling 35,642,336 predominantly represent short-term accrued revenue for sold electricity and natural gas for 2018, for which accounts will be issued to buyers in accordance with the terms of the concluded contracts at the beginning of 2019.

The value of the asset item of the contract includes the effects of the allocation of short-term assets - accrued revenues, which from 1 January 2018, are shown separately in the item »Contract assets« as shown in item a) of Chapter 4.2.6.

Funds from customer contracts were not impaired.

5.12 Cash and cash equivalents

Cash and cash equivalents in EUR	31/12/2018	31/12/2017
Cash at bank	51,050,806	36,093,062
Deposits redeemable at notice	21,723,402	28,185,012
Cash	461	252
Total	**72,774,668**	**64,278,326**

5.13 Other short-term assets

Other short-term assets in EUR	31/12/2018	31/12/2017
Accrued revenue	0	40,437,349
Short-term deferred costs or expenses	5,817,629	9,099,409
Total	**5,817,629**	**49,536,758**

The majority of short-term deferred costs or expenses are deferred expenses for the purchase of electricity and natural gas in the amount of EUR 4,034,436 relating to the first quarter of 2019 and deferred costs of insurance premiums, membership fees and other such costs incurred related to the operations of the Group companies GEN.

The decrease in the value of the item of other current assets relative to the previous comparative period is the result of the effect of the allocation of accrued revenues, which from 1 January 2018, is shown in the separate item Assets from contracts, as shown in item a) of Chapter 4.2.6 and as described in Note 5.11.

5.14 Equity

Equity structure in EUR	31/12/2018	31/12/2017
Equity attributed to the owners of the parent company	**680,162,262**	**648,082,276**
Called-up capital	250,000,000	250,000,000
Capital surplus	134,682,435	134,682,435
Legal reserves	11,434,370	11,005,354
Other profit reserves	86,296,924	66,887,597
Fair value reserves	1,122,981	919,697
Retained earnings	197,586,290	185,471,404
Equity translation adjustment	-960,738	-884,211
Equity of the owners of the non-controlling share	**138,532,630**	**136,797,784**
Total	**818,694,892**	**784,880,060**

Called-up capital, in the amount of EUR 250,000,000, fully relates to the share capital of the controlling company.

Reserves of capital:

- Capital reserves, which amount to EUR 134,682,435 as at 31 December 2018 (equal to 31 December 2017), represent almost all of the parent's capital reserves from paid-in capital surpluses to the companies of the GEN Group;

- reserves from profit as at 31 December 2018 in the total amount of 97,731,294 EUR (as at 31 December 2017 amount to 77,892,951 EUR) and represent:
  - the legal reserves of the Group companies in the amount of EUR 11,434,370, which increased by EUR 429,016 from 2018 in the amount of the retained earnings for the period under consideration (in 2017 they increased by EUR 524,209)
  - other revenue reserves in the amount of EUR 86,296,924, which increased in 2018 due to the redistribution of part of the profit from previous years according to the resolutions of the bodies of the Group companies by EUR 19,409,327, and in 2017 by EUR 12,916,174;
- Reserves for fair value of EUR 1,122,891 as at 31 December 2018 include mainly movements in 2018 due to the recognition of actuarial gains and losses and the valuation of financial investments at fair value, including deferred taxes, namely an increase of EUR 215,067 (in 2017 an increase of EUR 1,566,235) and movements due to other components of comprehensive income, which affected the decrease of EUR 23,922 (in 2017 an increase of EUR 214,009).
- The retained profit of EUR 197,586,290 compared to the previous period amounted to 185,471,404 EUR, mainly due to:
  - the payment of profit participation, in 2018 in the amount of EUR 6,000,000 (in 2017 in the amount of EUR 2,000,000),
  - the attribution of the net profit for the year 2018 to the owners of the controlling company in the amount of EUR 38,904,357 (in 2017 in the amount of EUR 28,500,983)
  - allocation of part of the retained earnings in 2018 in the total amount of EUR 19,838,343 (in 2017 in the amount of EUR 13,440,383) to other revenue reserves pursuant to the resolution of the bodies of the companies of the GEN Group in the amount of EUR 19,409,327 (in 2017, allocations to other reserves in the amount of EUR 12,916,174) and to legal reserves in the amount of EUR 429,016 (in 2017 in the amount of EUR 524,209).

Foreign exchange differences arising on the translation of the financial statements of subsidiaries abroad are recognized as a translation reserve in other comprehensive income.

5.15 Provisions

Provisions in EUR	31/12/2017	Formation	Decrease	Transfer to government grants	31/12/2018
Provisions for the disbursement of jubilee benefits, severance pay and other employee payables	9,215,421	871,596	-624,177	0	9,462,840
Provisions from budget funds intended for the acquisition of PPE	213,576	0	-16,190	-197,386	0
Provisions for equipment maintenance, disassembly and removal	104,656	0	0	0	104,656
Total	**9,533,653**	**871,596**	**-640,367**	**-197,386**	**9,567,496**

An estimate of the provisions for the payment of anniversary bonuses for severance pay and other payments to employees is based on actuarial calculation, taking into account the assumptions about employee fluctuation up to 3.0%, discount rate up to 2%.

5.16 Financial liabilities

Long-term financial liabilities in EUR	31/12/2018	31/12/2017
Bank loans	64,822,867	70,780,998
Long-term financial liabilities for bonds	34,000,000	27,000,000
Long-term financial liabilities from options for shareholding acquisition	23,015,289	10,869,988
Other long-term financial liabilities	1,775,787	1,965,422
Total	**123,613,943**	**110,616,408**

Short-term financial liabilities in EUR	31/12/2018	31/12/2017
Short-term financial liabilities to banks	11,022,142	10,115,036
Short-term financial liabilities for bonds	5,700,000	0
Commercial papers issued	24,867,778	26,839,852
Short-term financial liabilities from options for shareholding acquisition	724,788	11,555,466
Other short-term financial liabilities	781,026	1,954,431
Total	**43,095,734**	**50,464,785**

On the reporting date, the GEN Group recorded liabilities to banks in the amount of EUR 75,845,009 from:

- long-term loans raised with Slovenian commercial banks as long-term loans in the amount of EUR 5,000,000 that are due in 2020. The loans are secured with bills of exchange and interest bearing variable interest rates based on 3 or 6-month Euribor. The interest on the period amounts to EUR 78,704;
- long-term loans for investment in HPPs on the lower Sava River, which on the balance sheet date of SID d.d. amounts to EUR 16,521,740, and amounts to EUR 34,782,609 in the Slovenian commercial bank. Long-term loans are due in 2029, they are secured with bills and interest bearing fixed interest rates based on a 6-month Euribor. Liabilities for the interest payable on a period that are settled on a semi-annual basis are recognized among other short-term liabilities as accrued expenses in the amount of EUR 707,439. In 2018, the principal amount of EUR 3,478,261 was paid; the repayment of principal in 2019 in the total amount of EUR 5,217,391 is transferred to short-term financial liabilities;
- a long-term loan for the investment of the construction of a new gas block of the Brestanica Thermal Power Station, which was rented at the bank SID d.d., which on the balance sheet day amounts to EUR 8,518,519, with its maturity in 2031. The loan is secured with bills and a patron declaration and interest bearing a fixed interest rate based on a 6-month Euribor. The interest for the period in the amount of EUR 129,371 is attributable to investment in construction and production, as they are still outstanding on the last day of the reporting period, they are recognized among short-term financial liabilities. In 2019, the portion of the long-term loan in the amount of EUR 805,751 that is due is recorded as short-term financial liabilities with imputed interest;
- short-term loans in the amount of EUR 5,000,000, which together are due in full in January 2019.

On the reporting date, financial liabilities arising from issued bonds in the amount of EUR 39,700,000 are also recorded. Bonds were issued in different periods:

- in 2016 they were issued in the amount of EUR 13,000,000. Of these, EUR 7,300,000 were already paid out in 2018, the remaining bonds are due in 2019;
- in 2017, they were issued in the amount of EUR 14,000,000 and are due in 2024;
- in 2018, they amounted to EUR 20,000,000 and will be due in 2022.

Interest expenses for the period considered amount to EUR 684,407.

In its financial statements, the GEN Group also deals with the value of the issuance of commercial records, in the amount of EUR 24,867,779. Commercial records in the amount of EUR 25,000,000 were issued in 2018 and are due for payment in June 2019. Interest expense in the current period amounts to EUR 132,222.

The liabilities from options for purchasing a stake in the amount of EUR 23,015,289 arise from the option contract for the purchase of shares in GEN-EL concluded between:

- GEN and Elektro Ljubljana in the amount of EUR 11,740,289. The option is enforceable on 31 May 2020;
- GEN-I companies and the Fund of craftsmen and entrepreneurs and Gorenjska banka in the total amount of EUR 11,275,000. The option is enforceable on 30 June 2020.

Since there are buying and selling options under the same conditions and in particular at a fixed price, this suggests that GEN Group companies have become economic owners of GEN-EL. The latter is considered a subsidiary in the GEN Group, and as a consequence, a financial liability amounting to EUR 23,740,077 is recognized in the total amount of the purchase price, the related interest and the agreed dividends from the options.

Among other long-term financial liabilities, the fair value of the derivative financial instrument for interest rate swaps for investment interest in the HPPs in the lower Sava River, which increased by EUR 57,899 during the year, amounted to EUR 1,329,539 at the end of the year.

5.17 Other long-term liabilities

Other long-term liabilities in EUR	31/12/2018	31/12/2017
Long-term trade liabilities	204,485	1,357,673
Long-term contract liabilities	45,782	0
Government grants	243,349	0
Long-term deferred revenue and other accruals	525,192	2,108,027
Total	**1,018,808**	**3,465,700**

5.18 Current operating liabilities

Short-term operating liabilities in EUR	31/12/2018	31/12/2017
Short-term trade liabilities	118,202,887	100,883,091
Short-term operating liabilities for advances	60,180	4,290,310
Short-term employee payables	6,495,717	7,972,843
Other short-term liabilities to the state	6,465,955	8,323,445
Other short-term operating liabilities	2,694,092	6,412,116
Total	**133,918,831**	**127,881,805**

Short-term operating liabilities relate to unpaid liabilities to suppliers for goods, services and materials, for working purposes and investments in fixed assets.

Short-term liabilities to employees represent the liability for December salaries, bonuses and other receipts from the employment relationship.

An important part of short-term operating liabilities relates to liabilities to state and other institutions, which mainly include liabilities for value added tax, excise duty obligations, commitments for December contributions and contributions from other remuneration deriving from an employment relationship that the employer is obliged to pay.

The value of the item of short-term operating liabilities includes the effects of the allocation of received customer advances, which from 1 January 2018 are shown in a separate item of Short-term liabilities from contracts, as is shown in item a) of Chapter 4.2.6.

5.19 Short-term contract liabilities

Short-term liabilities from contracts represent short-term operating liabilities on the basis of received advances from buyers of companies in the GEN Group and at the end of the current period amounted to EUR 5,805,277.

Received customer advances from 1 January 2018 onwards are shown in a separate item of Short-term liabilities from contracts, as also shown in item a) of Chapter 4.2.6 and note 5.18.

5.20 Other short-term liabilities

Other short-term liabilities in EUR	31/12/2018	31/12/2017
Accrued costs and expenses	12,928,797	14,528,750
Short-term deferred revenue and other accruals	551,034	1,017,594
Total	**13,479,831**	**15,546,344**

Accrued costs or expenses are predominantly formed on subsidiaries. The amount of EUR 8,887,256 refers to the costs of purchasing electricity and natural gas, and in the amount of EUR 2,412,834, they represent short-term deferred costs.

5.21 Contingent assets and liabilities

Contingent assets and liabilities in EUR	31/12/2018	31/12/2017
Given payment bonds	168,510,305	169,180,377
Loss from previous years by subsidiary	76,437,924	76,437,924
Received service bonds	13,198,855	12,485,704
Received payment bonds	37,030,687	49,322,128
Given service bonds	32,139,127	23,589,594
Guarantees	33,949,185	49,484,805
Inventories of the RS institute for statutory reserves	19,996,443	15,685,440
Other forms of payment security – bills of exchange	10,747,585	42,647,594
Sale of investments	0	2,720,183
Framework loans	74,708	185,551
Other	115,363	113,800
Total	**392,200,182**	**441,853,100**

The loss from previous years of the subsidiary represents an unused tax loss that is not recognized in the amount of deferred tax assets, as there is no convincing evidence of future taxable profits of the subsidiary.

Inventories of the RS Institute for Compulsory Reserves represent the stock of KOEL stock in the amount of 4,866,698 EUR and 15,129,745 EUR of Diesel fuel stored in accordance with the provisions of the contract for the Commodity Reserves and are valued at the last known retail price.

The guarantees as at 31 December 2018 include guarantees in the amount of EUR 1,400,000 and received guarantees in the amount of EUR 32,549,185. They refer to the insurance of a timely and reliable payment and for good performance.

Indicative loans are unused approved loan limits.

5.22 Revenue

Revenue in EUR	2018	2017
Sales revenues:	**2,370,055,399**	**2,394,837,179**
– from goods and material	2,314,185,885	2,341,141,956
– services	55,785,226	53,695,223
– rent	84,288	0
Other operating revenue	**5,343,219**	**15,179,183**
Financial revenue	**1,801,200**	**895,316**
Total	**2,377,199,818**	**2,410,911,678**

5.22.1 Sales revenue

Sales revenues relate to revenues from customer contracts and mainly represent revenues from the sale of electricity and natural gas and services in connection with electricity, on the domestic market, on the foreign market of the EU and outside the EU.

Sales revenues in EUR	2018	2017
On the domestic market	**482,645,274**	**526,364,801**
On foreign markets	**1,887,410,125**	**1,868,472,378**
– on the EU market	1,509,291,549	1,525,697,397
– on non-EU markets	378,118,576	342,774,981
Total	**2,370,055,399**	**2,394,837,179**

5.22.2 Other operating revenue

Other operating revenue in EUR	2018	2017
Change in inventories of products and work in progress	337,458	183,770
Capitalised own products and services	777,075	385,145
Reversal of long-term provisions	224,693	650,947
Operating revenue from revaluation	56,727	50,125
Other operating revenue	3,947,266	13,909,196
Total	**5,343,219**	**15,179,183**

The largest part of other operating revenues in 2018 is other operating revenues, which in 2018 no longer contain an ineffective portion of fair value security and a change in the fair values of financial instruments that are not in hedging relationships and amounted to EUR 11,367,755 in 2017. The amount shown, EUR 3,947,266, relates to revenues from the supplementary activity of providing food for workers and holiday facilities, revenue from the future flow project, revenues from the free takeover of funds, the indemnification of damages and reminders, and the elimination of impairments of the previous year.

5.23 Expenses

Expenses and costs in EUR	2018	2017
Costs of goods, material and services	2,203,945,439	2,260,410,022
Labour costs	51,882,817	52,315,416
Write-downs	36,626,168	36,390,714
Other operating expenses	32,736,249	21,999,771
Financial expenses	4,042,004	3,238,963
Total	**2,329,232,677**	**2,374,354,886**

5.23.1 Costs by natural type

Costs of goods, material and services	2018	2017
Cost of goods and material sold	2,141,368,961	2,198,080,160
Cost of material used	23,990,618	23,008,753
Cost of services	38,585,860	39,321,109
Total	**2,203,945,439**	**2,260,410,022**

The purchase value of goods sold refers to the purchase of electricity and natural gas at the purchase price and associated costs. The costs of consumed material are to a greater extent the costs of consumed fuel for the production of electricity. The cost of services predominantly represents the cost of maintaining tangible fixed assets, the cost of intellectual services, the cost of services in the production of products and other costs.

5.23.2 Labour costs

Labour costs in EUR	2018	2017
Wages and salaries	37,401,032	37,105,696
Social security costs	8,598,075	8,277,297
Other labour costs	5,883,710	6,932,423
Total	**51,882,817**	**52,315,416**

In 2018, the Group calculated labour costs according to the collective agreement for the electricity industry and under business contracts, in accordance with the systematisation of workplaces of individual companies of the GEN Group and on the basis of the provisions of employment contracts, which are not subject to the tariff part of the collective agreement.

The number of employees by the companies of the GEN Group and is presented by educational structure in the Business report chapter 8.1. Number of employees and educational structure.

5.23.3 Write-downs

Write-downs in EUR	2018	2017
Amortisation of intangible assets	1,367,004	1,298,285
Depreciation of property, plant and equipment	31,471,596	31,243,453
Depreciation of investment property	66,103	16,526
Operating expenses for the revaluation of fixed assets	728,217	102,601
Operating expenses for the revaluation of inventories	803,138	441,850
Operating expenses for the revaluation of receivables	2,190,109	3,287,999
Total	**36,626,168**	**36,390,714**

5.23.4 Other operating expenses

Other operating expenses in EUR	2018	2017
Government grants	56,868	42,990
Expenses for environment protection	15,481,312	15,760,840
Duties independent of other costs	5,230,999	4,202,143
Other operating expenses	11,967,070	1,993,798
Total	**32,736,249**	**21,999,771**

Expenditure for environmental protection consists of charges for water repayments, compensation for the limited use of space and contributions to the Fund for financing the decommissioning of NEK.

Other operating expenses mostly relate to an ineffective portion of fair value hedge and change in the fair values of financial instruments that are not in hedging relationships and amounted to EUR 10,663,114 in 2018, as shown below:

Significant items of other operating expenses in EUR	2018
Fair value from commodity contracts	15,991,605
Fair value from financial contracts	-30,709,508
Ineffective share from fair value hedging	555,564
Fair value from currency contracts	3,224,329
Total	**-10,938,010**

5.23.5 Financial expenses

Financial expenses in EUR	2018	2017
Financial expenses for other financial liabilities	1,440,042	1,280,280
Financial expenses for other operating liabilities	86,896	918,354
Financial expenses for bonds issued	891,021	499,678
Financial expenses for loans received from banks	893,529	461,201
Financial expenses for investment shares under the equity method	259,187	50,132
Financial expenses for trade liabilities and bills payable	81,297	25,949
Financial expenses for the impairment and write-down of investments	390,032	3,369
Total	**4,042,004**	**3,238,963**

5.24 Costs by functional group

Costs by functional group in EUR	2018	2017
Cost of goods sold	2,240,409,852	2,305,181,434
Selling costs	47,487,274	31,231,441
General and administrative expenses	36,892,727	34,305,586
Total	**2,324,789,852**	**2,370,718,461**

5.25 Taxes

In accordance with the Corporate Income Tax Act, the companies of the GEN Group are liable for the calculation and payment of corporation tax, which amounted to 19% for the accounting period 2018. Deferred tax assets were formed at the rate that will apply to the calculation and payment of taxes in 2019 and amounts to 19%.

Tax expenses ratio and profit or loss for the accounting period in EUR	2018	2017
Profit or loss before tax	47,967,141	36,556,792
Applicable tax rate	19%	19%
Tax at applicable tax rate	**9,113,757**	**6,945,790**
Tax on tax-free revenue	78,993	373,377
Tax on revenue reducing the tax base	-107,792	88,195
Tax on non-deductible expenses	572,585	390,880
Tax on tax relief	-1,538,974	-707,559
Tax loss	-171,590	349,607
Different tax rates, adjustments	39,038	-299,213
Tax on revenue increasing the tax base	28,292	-7,912
Deferred tax	-644,641	0
Tax under the tax assessment	-63,240	0
Current and deferred tax	**7,306,429**	**7,133,166**
Effective tax rate	**15.23%**	**19.51%**

5.26 Cash flow statement

The cash flow statement is compiled according to the aggregate method in terms of pooling the relevant shares and eliminating the cash flows generated in the group.

Cash and cash equivalents items for 2018 consist of:

- Cash flows from operating activities, including:
  - operating income and operating expenses, corporate income tax and other taxes, corrected by changes in net current assets of operating items of the statement of financial position,
- Cash flows from investing activities, including:
  - receipts from interest on short-term financial investments for fixed-term deposits and shares in the profit of other investments in the total amount of EUR 1,023,127,

- receipts from the disposal of tangible fixed assets in the amount of EUR 196,393,
- receipts from the disposal of financial investments in the amount of EUR 171,644,185,
- expenses for the acquisition of intangible assets in the amount of EUR 1,321,268 and tangible fixed assets in the amount of EUR 57,175,849,
- expenses for the acquisition of investment property 403,519 EUR,
- expenses for the acquisition of financial investments - deposits intended to generate returns and are not cash equivalents, in the amount of EUR 188,462,420,

• Cash flows from financing, which include:
- receipts from an increase in financial liabilities in the amount of EUR 168,546,475,
- expenditure on interest paid relating to financing in the amount of EUR 2,807,501,
- expenses for repayment of financial liabilities in the amount of 163,653,391 EUR,
- expenses for the payment of profit shares in the amount of EUR 6,000,000.

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.

5.27 Revenue disclosures

Individual groups and remuneration for 2018 in EUR	**2018**
Member of Management - salary and holiday leave benefits	2,006,681
Other employees not subject to the tariff section of the collective agreement - salary and holiday leave benefits	8,918,143
External Members of the Supervisory Board - remuneration for the function, attendance fees and reimbursement of travel costs	194,823
Internal Members of the Supervisory Board - remuneration for the function, attendance fees and reimbursement of travel costs	36,650

5.28 Disclosures of payments to auditors

Amount spent on the auditor in EUR	**2018**	**2017**
Amount spent on the auditor of the parent company:	**53,840**	**61,707**
– for auditing the annual report of GEN Group companies and GEN Group	48,688	49,477
– for other non-auditing services	5,152	12,230
Amount spent on other auditors:	**102,150**	**93,458**
– for auditing the annual report of GEN Group companies	102,150	88,950
– for other non-auditing services	0	4,508
Total	**155,990**	**155,165**

6.

Financial instruments - bookkeeping, fair value and risk management

6.1 Bookkeeping and fair value

In accordance with the Group's accounting policies, in many cases, it is necessary to measure the fair value of both financial and non-financial assets and liabilities. The Group determined the fair value of each asset group for measurement and reporting purposes by the methods described below. Where further clarification is needed in relation to assumptions for the determination of fair value, these are set out in the breakdowns to the individual items of assets and liabilities of the group.

Tangible fixed assets

The fair value of tangible fixed assets from business combinations is their market value. The market value of the real estate is equal to the estimated value at which the property could be exchanged on the date of valuation and after proper trading in the business under normal market conditions between well-informed and willing parties. The market value of machines, equipment and fine inventory is based on the offered market price of similar items.

Intangible assets

The fair value of patents and trademarks derived from business combinations is based on an estimated discounted future royalty value whose royalty or trademark payment is unnecessary. The fair value of customer relationships acquired in a business combination is determined on the basis of a specific excess profit method, and the asset is valued after deducting the fair return of all assets contributing to cash flows.

Investment property

The value of investment property is estimated using the total value of the expected cash flows from the leasing of the property. The return on specific risks is included in the calculation of the value of the property on the basis of discounted net cash flows on an annual basis.

Inventories

The fair value of inventories in business combinations is determined on the basis of their expected sales value in ordinary operations, less estimated sales costs.

Financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income

The fair value of financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income is determined in accordance with the previously determined hierarchy of the level of determining the fair value of financial instruments.

Investments in associates

The company determines the fair value of investments in associates and jointly controlled entities in accordance with a predetermined hierarchy of the level of determining the fair value of financial instruments. The methods of determining the value and input assumptions for each investment are separately presented in the disclosures.

Receivables and loans granted

The fair value of receivables and loans is calculated as the present value of future cash flows discounted at the market interest rate at the end of the reporting period. The assessment takes into account the credit risk of these financial assets.

Derivative financial instruments

The fair value of non-standardized forward contracts is equal to their offered market price at the end of the reporting period, if available. If this is not available, the fair value is determined as the difference between the contractual value of the forward contract and its currently offered value taking into account the remaining maturity of the transaction with a risk-free rate (based on government bonds).

Non-derivative financial liabilities

For reporting purposes, fair value is calculated on the basis of the present value of future principal payments and interest discounted at the market interest rate at the end of the reporting period. For finance leases, the market interest rate is determined by comparing similar lease agreements.

Fair value of assets in EUR	Level 2	Level 3	Total fair value
Assets at fair value			
Financial derivatives	6,004,859	0	6,004,859
Financial assets at fair value through the income statement	0	295,164	295,164
Financial assets at fair value through other comprehensive income	0	3,074,525	3,074,525
Total	**6,004,859**	**3,369,689**	**9,374,548**
Financial assets measured at amortized cost			
Available-for-sale financial assets	0	0	0
Non-current investments	0	156,722	156,722
Non-current deposits	0	19,339	19,339
Current deposits	0	97,521,679	97,521,679
Trade receivables	0	112,751,637	112,751,637
Contract assets	0	35,642,336	35,642,336
Cash and cash equivalents	0	72,774,668	72,774,668
Total	**0**	**318,866,381**	**318,866,381**

Fair value of liabilities in EUR	Level 2	Level 3	Total fair value
Liabilities at fair value			
Financial derivatives	43,098	1,329,539	1,372,637
Total	**43,098**	**1,329,539**	**1,372,637**
Liabilities measured at amortised cost			
Unsecured bank loans	0	75,845,009	75,845,009
Other financial liabilities	0	49,835,129	49,835,129
Bonds	0	39,700,000	39,700,000
Contract liabilities	0	5,851,059	5,851,059
Trade liabilities	0	118,263,017	118,263,017
Total	**0**	**289,494,214**	**289,494,214**

Level 1 - market price, Level 2 - assets that do not qualify as Level 1 and their value is determined directly or indirectly on the basis of comparable market data; Level 3 - Funds whose value cannot be obtained from market data.

31/12/2018				31/12/2017
Total book value	**Level 2**	**Level 3**	**Total fair value**	**Total book value**
6,004,859	0	0	0	0
295,164	0	0	0	0
3,074,525	0	0	0	0
9,374,548	**0**	**0**	**0**	**0**
0	0	6,952,971	6,952,971	6,952,971
156,722	0	118,519	118,519	118,519
19,339	0	1,028,144	1,028,144	1,028,144
97,521,679	0	75,191,808	75,191,808	75,191,808
112,751,637	0	118,241,220	118,241,220	118,241,220
35,642,336	0	0	0	0
72,774,668	0	64,278,326	64,278,326	64,278,326
318,866,381	**0**	**265,810,988**	**265,810,988**	**265,810,988**

31/12/2018				31/12/2017
Total book value	**Level 2**	**Level 3**	**Total fair value**	**Total book value**
1,372,637	4,769,757	1,271,640	6,041,397	6,041,397
1,372,637	**4,769,757**	**1,271,640**	**6,041,397**	**6,041,397**
75,845,009	0	80,896,034	80,896,034	80,896,034
49,835,129	0	47,143,762	47,143,762	47,143,762
39,700,000	0	27,000,000	27,000,000	27,000,000
5,851,059	0	0	0	0
118,263,017	0	102,035,106	102,035,106	102,035,106
289,494,214	**0**	**257,074,902**	**257,074,902**	**257,074,902**

The value of derivative financial instruments relates to financial and physical settlement futures, currency transactions and other financial derivatives related to trading.

Financial transactions with financial settlement and physical settlement transactions that do not qualify for exemption on the basis of their own use shall be valued on the basis of the quoted prices. The valuation uses the settlement prices from the relevant stock exchanges for the relevant products. Currency transactions are valued on the basis of the appropriate exchange rate (official middle exchange rate or exchange rate). For official evaluation, official middle exchange rates or futures are used. The data on official middle exchange rates are obtained from the relevant central banks, and the exchange rates are determined on the basis of market data. These assets and liabilities are classified at the level of fair value hierarchy.

Other forward transactions with a physical settlement that do not qualify for exemption on the basis of their own use shall be valued on the basis of the relevant forward price curves. Cross-border transmission capacities are valued on the basis of the appropriate difference between forward price curves. These assets and liabilities are classified at level 2 of the fair value hierarchy.

Financial assets under PVIPI are equity instruments that are not listed on the stock exchange and that the Group intends to hold in the long run. As an appropriate assessment of the fair value of equity instruments not listed on the stock exchange, the Group uses the purchase cost.

The fair value of other short-term assets and liabilities is practically the same as their book value. The fair value of long-term assets and liabilities is approximately equal to their amortized cost. These liabilities are classified at level 3 of the fair value hierarchy.

6.2 Risk management

This chapter presents disclosures relating to financial instruments and risks, while risk management is explained in the business part of this Annual Report in the chapter Risk management. In the context of financial risks, the GEN Group identifies the liquidity risk, credit risk, foreign exchange risk, interest rate risk, and the risk of changes in commodity prices.

6.2.1 Liquidity risks

Liquidity risk – liabilities in 2018 in EUR	**Book value**	**Contractual cash flows**	**up to 6 months**	**6-12 months**	**1-2 years**	**2-5 years**	**over 5 years**
Non-derivative financial liabilities							
Unsecured bank loans	75,845,009	76,020,925	8,959,170	2,152,945	17,002,208	14,138,487	33,768,115
Bills of exchange issued	39,700,000	42,519,807	700,014	5,838,700	3,500,616	29,636,353	2,844,124
Other liabilities	48,942,371	48,767,161	25,378,283	66,332	131,507	23,191,039	0
Liabilities for financial lease	251,840	257,757	109,625	48,151	78,937	21,044	0
Operating liabilities							
Operating liabilities	134,103,550	134,103,550	132,668,579	1,262,299	79,023	93,649	0
Derivative financial liabilities							
Other forward currency contracts:							
Outflows	43,098	43,098	43,098	0	0	0	0
Inflows	-6,004,859	-6,004,859	-6,004,859	0	0	0	0
Total	**292,881,009**	**295,707,439**	**161,853,910**	**9,368,427**	**20,792,291**	**67,080,572**	**36,612,239**

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**	**over 5 years**
Non-derivative financial liabilities							
Unsecured bank loans	80,896,034	80,926,170	7,112,480	3,028,900	11,702,664	19,355,878	39,726,248
Bills of exchange issued	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
Liabilities for financial lease	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 forward currency 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**

In the context of managing the Group's liquidity, the Group's companies conduct regular monitoring and conscientious planning of short-term solvency, which is ensured through the up-to-date coordination and planning of all cash flows. At the same time, the risks associated with possible delays in payments or disruptions in the payment discipline of customers are taken into account, as they make it difficult to plan the inflows and further investment activities of the Group.

The Group also monitors and optimizes short-term surpluses and cash flow deficits at the level of individual companies and groups. Liquidity reserve in the form of approved credit lines at commercial banks, diversification of financial liabilities, continuous adjustment of the maturity of receivables and liabilities and consistent collection of receivables make it possible to effectively manage cash flows, which gives GEN Group the payment power and, consequently, a low level of risk of short-term solvency.
In addition, the Group maintains an active attitude towards financial markets, and successful operations and a sustained cash flow from operations ensure that the liquidity risk is within the range of acceptable parameters and is completely manageable.

The long-term solvency of the Group is ensured by maintaining and increasing equity and by establishing an appropriate financial balance. The Group achieves this through the continuous provision of an appropriate balance sheet structure with respect to the maturity of financing. In the next year, the Management Board intends to further strengthen the Group's long-term and short-term solvency in the area of liquidity risk management and introduce new subsidiaries into the liquidity monitoring system.

The Group companies also manage liquidity risks through well-defined contractual provisions, regular accurate cash-flow planning at daily, monthly and annual levels, checking contractual partners and their solvency, and with the careful and safe placement of surplus cash. At the Group level, liquidity risk is also further reduced:

- with the diversification of financial liabilities,
- by continuously adjusting the maturity of receivables and liabilities,
- by limiting exposure to partners other than reliable payers and
- by consistently recovering outstanding receivables.

The companies are also exposed to the risk in the management of surplus cash. In order to manage risks, GEN has adopted an investment strategy, which gives the basis for the better management of the investment risk. With the aim of additional risk management due to specific trends in global banking markets (a further downward trend in EURIBOR) and the specific additional requirements of financial institutions, the Group's companies are monitoring the changing trends and continuously adjusting them.

6.2.2 Credit risks

The Group's exposure to credit risk is primarily due to receivables from customers for electricity and natural gas, which total EUR 112,751,637.

Credit risk – trade receivables at book value in EUR	2018	2017
Domestic	35,009,959	45,522,625
Euro area	17,842,008	17,876,121
Other European countries	22,530,923	25,309,320
Former Yugoslav countries	23,000,774	28,026,595
Other regions	14,367,973	1,506,559
Total	**112,751,637**	**118,241,220**

Credit risk – wholesale and retail trade receivables in EUR	2018	2017
Wholesale customers	82,940,709	70,287,557
Retail customers	29,810,928	47,953,662
Total	**112,751,637**	**118,241,220**

GEN companies have active credit risk management and management of financial exposures of GEN Group companies to their business partners based on the consistent implementation of the adopted internal rules and the procedures for identifying credit risks and assessing exposures, determining the levels (limits) of the allowed exposure and on-going monitoring of the exposure of companies in relation to individual business partners. In the framework of the risk management service of the GEN Group companies, on the basis of the adopted rules on credit risk management for each new business partner in the trading area and for larger customers in the area of electricity and gas sales, an appropriate analysis of the creditworthiness of the business partner and risk assessment is carried out. It is only on the basis of such evaluation that the frameworks of future business cooperation, the appropriate credit line for the insurance of risks are further defined, and offer payment and delivery terms for each contractual relationship.

In monitoring on-going credit risk and daily exposures against established credit lines with individual partners, they are grouped according to their credit characteristics, depending on whether it is a single company or group of companies, trading partners, final customers or sales retail, and depending on the geographical situation, the industry, the age structure of receivables, the maturity of receivables, the existence of their possible prior financial problems and the estimated degree of risk of potential breach of contractual obligations. In order to minimize the risks that could arise from the failure to pay receivables from business partners, the Group, in the course of day-to-day transactions, devotes particular attention to the use of the relevant financial and legal instruments for insurance contracts, which it implements in contractual relations with the business partners, and are adjusted on the basis of a prior analysis of creditworthiness and given risk assessments.

Operating receivables in EUR	31/12/2018 Before revaluation	Revaluation	Book value of receivable	31/12/2017 Before revaluation	Revaluation	Book value of receivable
Non-past due receivables	143,260,100	-174,251	143,085,849	153,401,987	-7,785	153,394,202
Past due receivables up to 90 days	5,503,003	-414,758	5,088,245	9,303,276	15,535	9,318,811
Past due receivables from 91 to 180 days	446,878	-402,190	44,688	362,896	-251,548	111,348
Past due receivables from 181 to 365 days	394,740	-361,742	32,998	741,956	-728,411	13,545
Past due receivables more than 365 days	8,666,011	-7,776,172	889,839	12,697,164	-11,122,788	1,574,376
Total	**158,270,732**	**-9,129,113**	**149,141,619**	**176,507,279**	**-12,094,997**	**164,412,282**

Changes in allowances for operating receivables in EUR	2018	2017
Opening balance	**12,094,997**	**9,001,252**
Effect of transition to IFRS 9 as at 1/1/2018	653,100	0
Creation of allowance	2,159,500	3,270,760
Reversal of allowance for receivables	0	-105
Write-down of receivable to the debit of allowance	-1,550,540	-208,420
Foreign exchange gains and losses	0	31,510
Closing balance	**13,357,057**	**12,094,997**

The final balance of adjustments in operating receivables representing the expected credit losses - PKI and impairment of value, includes a correction of the value of trade receivables and contractual assets in the amount of EUR 9,129,113, and a correction of the value of other receivables and financial assets in the amount of EUR 4,227,944, the major part relates to the value adjustment formed in the subsidiary GEN-I Sofia.

The Group measures the expected credit losses arising from trade receivables and contractual assets based on the value adjustment matrix in which the policies and effects of the IFRS 9 are also included.

The loss rates are calculated using the credit transfer rate method based on the probability that the claim will progress through successive default phases before the write-down. Transaction rates between credit classes are calculated separately for exposures in different segments based on common credit risk characteristics - customer type (B2B, B2C, retail and small power plants).

Expected credit losses arising from trade receivables and contractual assets are calculated for all outstanding receivables, and contractual assets are due in up to 90 days, based on the respective loss rates for different time intervals.

Impairment losses on trade receivables and contingent assets are recognized in the amount of 90% of the value of trade receivables and contractual assets that have been due for 90 days or more.

In measuring the expected credit losses and impairment losses, the Group also takes into account the financial and legal instruments used to deal with the relevant credit exposure.

6.2.3 Foreign exchange risk

Foreign exchange risk 31/12/2018 in EUR	Total	EUR	USD	GBP	HRK	MKD
Trade receivables	**112,751,637**	79,848,739	0	0	1,697,186	6,582,858
Unsecured bank loans	**-75,845,009**	-75,845,009	0	0	0	0
Trade liabilities	**-118,263,017**	-82,708,125	-5,785	-19,576	-1,662,277	-1,525,879
Gross balance sheet exposure	**-81,356,388**	-78,704,395	-5,785	-19,576	34,909	5,056,979
Net exposure of receivables and liabilities		**-2,859,386**	**-5,785**	**-19,576**	**34,909**	**5,056,979**

Foreign exchange risk 31/12/2017 in EUR	Total	EUR	USD	GBP	HRK	MKD
Trade receivables	**118,241,220**	86,657,802	0	0	3,215,000	6,938,015
Unsecured bank loans	**-80,896,034**	-80,896,034	0	0	0	0
Trade liabilities	**-102,035,106**	-79,122,593	-16,438	-6,334	-1,041,583	-1,311,661
Gross balance sheet exposure	**-64,689,920**	-73,360,826	-16,438	-6,334	2,173,417	5,626,354
Net exposure of receivables and liabilities		**7,535,208**	**-16,438**	**-6,334**	**2,173,417**	**5,626,354**

Particularly in foreign markets that do not belong to the euro area, the GEN-I Group is actively engaged in the creation of the appropriate infrastructure for concluding currency transactions and the implementation of other mechanisms of currency insurance, which include forward transactions and currency clauses.

Foreign exchange risk is primarily exposed to the areas of core business, namely trading and selling electricity and natural gas, and cross-border transmission capacities, as well as in the area of loans and capital of subsidiaries. Depending on the volume of operations, the currencies of HRK (Croatian kuna), MKD (Macedonian denar), RON (new Romanian leu) and TRY (Turkish lira) are exposed to the largest foreign exchange risk.

Risks of exchange rate fluctuations are reduced by binding the selling prices of goods to the currency in which the liabilities for financing the purchase business. Part of the risk of exchange rate fluctuations is also »natural« between individual subsidiaries, as part of the planned inflows between them is covered by planned outflows in the same currency. If necessary, derivatives are used, and the Group carries out a number of forward exchange transactions for hedging against these risks.

BAM	GEL	RSD	UAH	HUF	ALL	TRY	BGN	RON	CZK	PLN
4,982,303		9,605,330	0	0	360,604	963,125	167,977	8,543,515	0	0
0		0	0	0	0	0	0	0	0	0
-6,619,414		-626,527	-2,130	-452,802	-281	-715,755	-2,459,633	-21,464,832	0	0
-1,637,111	0	8,978,803	-2,130	-452,802	360,323	247,370	-2,291,656	-12,921,317	0	0
-1,637,111	**0**	**8,978,803**	**-2,130**	**-452,802**	**360,323**	**247,370**	**-2,291,656**	**-12,921,317**	**0**	**0**

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**

6.2.4 Interest rate risk

Interest rate risk – book value of financial instruments in EUR	31/12/2018	31/12/2017
Instruments at a fixed interest rate		
Financial assets	97,501,608	76,219,952
Financial liabilities	-103,961,723	-87,302,302
Instruments at a variable interest rate		
Financial liabilities	-61,691,789	-72,991,029

The Group manages the interest rate risk by constantly assessing the exposure and the possible impact of the change in the reference interest rate (variable part) on the level of financing expenses. In addition, a portfolio of loans is monitored, which may be affected by a potential change in interest rates Within these groups, the Group monitors interest rate movements on the domestic market, on foreign markets and on the derivatives market. The objective of continuous monitoring of exposure and the analysis of interest rate movements is to propose security measures in a timely manner by balancing the active and passive side of the statement of financial position.

6.2.5 Risk of changes in commodity prices and hedge accounting

One of the major activities of the GEN Group within the GEN-I Group is international trade in electricity and natural gas, the sale of both energy products to final customers, and the related purchase of energy products from producers.

Due to the nature of its business activities, the Group must continuously carry out risk hedging activities to reduce market risk. Hedging is carried out by GEN-I d.o.o., which takes care of the centralized management of the group's portfolio and has all the necessary infrastructure for the implementation of hedging activities on commodity markets.

Activities for hedging against market risk are carried out in accordance with the policies and procedures defined by the risk management service.

The risk of changes in commodity prices results from price changes due to the market structure, demand / supply, import / export duties and changes in the prices of cross-border capacities. It is the risk of money loss due to price movements in the energy markets. These market risks are managed using pre-defined strategies based on sensitivity analysis of portfolios, price elasticities of sales portfolios, CVaR indicators and quantitative exposure analysis, as well as depth and liquidity check of markets in all portfolios in the GEN-I Group.

A hedged item is a firm commitment. A firm commitment is a binding agreement on the replacement of a precise amount of factors at a precisely determined price on a precisely determined future day or days. Protected items of a group (goods) are physical transactions with electricity and natural gas.

A hedging instrument is a standardized forward contract. The Group is active in several commodity markets and uses standardized futures contracts for electricity, natural gas and other goods as hedging instruments.

The hedging ratio is defined as the ratio between the amount of the hedging instrument and the amount of the hedged item, taking into account their relative weights. Generally, a hedged item and a hedging instrument may relate to identical or different goods and fulfil at the same or different times and on the same or different markets. However, hedging must be effective, which means that there is a strong link between the hedged item and the hedging instrument; the hedged item and the hedging instrument usually thus relate to the same goods and have the same or similar deadline for fulfilment.

Sources of inefficiency that are expected to influence the hedging relationship between their duration are:

- differences in profiles;
- differences in location;
- differences in time frames;
- differences in quantities or nominal amounts;
- proxy security;
- early termination and
- credit risk.

In order to prove the existence of an economic relationship, there must be an expectation that the value of the hedging instrument and the value of the hedged item as a result of the total underlying or hedged risk will move in the opposite direction. For judgment, we usually use a qualitative test, i.e. assessment of matching of essential conditions. When the hedging relationship is not obvious, a quantitative test is used to assess the economic relationship, i.e. simple method based on scenario analysis.

Hedging instruments

	Nominal amount in EUR		
Time horizon of the nominal amount of hedging instruments	**up to 1 year**	**1 to 5 years**	**more than 5 years**
Risk of variable commodity prices	29,074,162	16,299,732	0

Hedging instrument	**Nominal amount of the hedging instrument in EUR**	**Book value of the hedging instrument**		**Line item in the statement of financial position that includes the hedging instrument**	**Changes in the fair value used for calculating hedging inefficiency for 2018 in EUR**
		Assets	**Liabilities**		
Risk of variable commodity prices	45,373,894	n/a*	n/a*	n/a*	13,106,978

* A financial instrument is a standardized futures contract, which is settled on a daily basis with cash.

Hedged item

Hedged item	Book value of the hedged item		Total change in the fair value of firm commitment in EUR		Line item in the statement of financial position that includes the firm commitment	Changes in the fair value used for calculating hedging inefficiency for 2018 in EUR
	Assets	Liabilities	Assets	Liabilities		
Risk of variable commodity prices	n/a*	n/a*		12,648,611	Financial derivatives *	12,551,414

* A hedged item is an unrecognized firm commitment.

Ineffective hedging

Fair value hedging	Ineffective hedging recognised in profit or loss in EUR	Line item in the statement of comprehensive income that includes ineffective hedging
Risk of variable commodity prices	555,564	Significant items of other operating expenses

6.3 Events after the reporting period

In January 2019, a short-term loan contract was concluded with the commercial bank to bridge the occurrence of cash deficits up to EUR 20,000,000. The event does not affect the financial statements of the GEN 2018 Group.

In March 2019, the Administrative Court abolished the Environmental Consent for HPP Mokrice and returned the case to the ARSO for a renewed procedure. The event does not affect the financial statements of the GEN 2018 Group.

On 6 May 2019, the company's management approved the financial statements of the GEN Group and the annual report for the financial year ended on 31 December 2018.

ANNUAL REPORT
OF THE GEN COMPANY AND GROUP
2018

V

On corporate reporting of the GEN Group

1.

Compliance with reporting policies

In the GEN Group at the beginning of each year, we prepare an annual business report covering the period from 1 January to 31 December for the previous year. Information on the sustainability of the company and the GEN Group is consolidated in a single, annual report covering data on financial and non-financial operations. The last preliminary annual report was published on 31 August 2018.

The GEN Group Annual Report 2018 meets the requirements of the new ZGD-1J (Directive 2014/95/EU) on the disclosure of non-financial information and information on diversity. In the introductory (chapters I.7 and I.8) and the business part of this report, the key issues on business, environmental, human resources and social issues are included, which are necessary for understanding the development, performance and position of the GEN Group.

In the Annual Report, we endeavour to present our operations in a comprehensive manner and show an inseparable link between the results of financial and non-financial operations. Reporting non-financial operations follows the three pillars of the sustainability of the GEN Group, which include:

- **operational efficiency and business excellence,**
- **environmental responsibility** and
- **social diligence** of the companies and the GEN Group.

In order to understand the state of affairs, developments or results in the relevant parts of the annual report, we also provide key policies and other internal acts that we strive for in achieving the goals of our non-financial business.

When reporting on non-financial aspects of our operations, we use an **international sustainability reporting framework according to »GRI Standards« together with disclosures specific to electricity companies.** Thus, we ensure the clarity and transparency of data on our operations, results and plans, and their comparability at national and international level.

In addition, we are continuing with the **introduction of comprehensive reporting in line with the principles and guidelines of the IIRC *(International Integrated Reporting Council)***, with an emphasis on thinking through capitals and their connection with the results of our business. In this, we apply the synergy of linking activities to the realization of the mission of the GEN Group. We are aware that further steps await us in improving overall thinking and reporting, and we are recognizing them primarily in the direction of creating value for our key stakeholders.

For any questions regarding the annual report, please contact us at info@gen-energija.si.

2.

Sustainability reporting pursuant to GRI guidelines

General standard disclosures

Indicator	Disclosure	Chapter
GRI 101: 2016 BASIS		
GRI 102: GENERAL DISCLOSURES 2016		
ORGANISATIONAL PROFILE		
102-1	Name of organisation.	I.5
102-2	Activities, primary brands, products, services.	I.6
102-3	Location of headquarters.	I.5
102-4	Number of countries where the organisation operates, and the names of countries where it has significant operations and/or that are relevant to the topics covered in the report.	I.5.2, II.4
102-5	Ownership and legal form.	I.5, I.6, IV.3.1, IV.3.2
102-6	Markets served (geographic locations, sectors served and types of customers and beneficiaries).	I.5.2, II.4, II.5
102-7	Scale of the organisation (total number of employees, total number of operations, net sales or net revenues, total capitalisation broken down in terms of debt and equity, quantity of products or services provided).	I.1, I.5, I.6, II.4, II.5, II.7, II.8, III.5, IV.5
102-10	Significant changes to the organisation's size, structure, ownership, and supply chain.	I.2, I.5.2, I.6, I.8. IV, I.9
102-11	Whether and how the organisation applies the Precautionary Principle or approach.	II.11, III.2, IV.2
102-13	List of externally developed economic, environmental and social charters, principles, or other initiatives to which the organisation subscribes or which it endorses.	I.4, II.8, II.10
STRATEGY AND ANALYSES		
102-14	Statement from the most senior decision-maker of the organisation about the relevance of sustainability to the organisation and its strategy for addressing sustainability.	I.2
ETHICS AND INTEGRITY		
102-16	A description of the organisation's values, principles, standards and norms of behaviour.	I.4, I.7, I.8, II.10, II.11.1, II.11.7
GOVERNANCE		
102-18	Governance structure of the organisation, including committees of the highest governance body.	I.4, I.5, I.6

Indicator	Disclosure	Chapter
STAKEHOLDER ENGAGEMENT		
102-40	A list of stakeholder groups engaged by the organisation.	I.8.4
REPORTING PRACTICE		
102-45	Entities included in the consolidated financial statements	IV.3.1, IV.3.2
102-46	An explanation of the process of defining the report content and the topic Boundaries.	I.8
102-50	Reporting period	V.1
102-51	Date of most recent report (if applicable)	V.1
102-52	Reporting cycle	V.1
102-53	Contact point for questions regarding the report	V.1
102-54	Claims of reporting in accordance with the GRI Standards	V.1, V.2
102-55	GRI content index	V.2

General standard disclosures for electric utilities

Indicator	Disclosure	Chapter
ORGANISATIONAL PROFILE		
EU1	Installed capacity broken down by primary energy source	II.2.1
EU2	Net energy output broken down by primary energy source	II.2.1
102-40	A list of stakeholder groups with whom the organisation collaborates.	I.8.4

Specific standard disclosures

CATEGORY SUB-CATEGORY *Management approach and disclosures*		**Material topics**	**Chapter**
ECONOMIC			
GRI 201: Economic performance	103-1	Explanation of the material topic and its Boundary	I.8, III.3, III.7, IV.4
	201-1	Direct economic value generated and distributed (revenue, operating costs, employee wages and benefits, payments to providers of capital, payments to government by country (tax))	I.1, III.6, IV.4.3
GRI 203: Indirect Economic Impacts	103-1	Explanation of the material topic and its Boundary	II.6
	203-1	Extent of development of infrastructure investments and services supported	II.6.1
ENVIRONMENTAL			
GRI 305: Emissions	103-1	Explanation of the material topic and its Boundary	II.2.1
	305-1	Direct (Scope 1) GHG emissions	II.2.1
SOCIAL			
GRI 401: Employment	103-1	Explanation of the material topic and its Boundary	II.8
	401-1	New employee hires and employee turnover	II.8
GRI 404: Training and education	103-1	Explanation of the material topic and its Boundary	II.8.2
	404-1	Average hours of training per year per employee	II.8.2
GRI 413: Local Communities	103-1	Explanation of the material topic and its Boundary	I.8.4., II.9
	413-1	Operations with local community engagement, impact assessments and development programs	I.8.4., II.9

Specific standard disclosures for electric utilities

CATEGORY SUB-CATEGORY *Material impacts*		**Management procedures (DMA) and/or indicators**	**Chapter**
ECONOMIC			
Availability and Reliability	G4 DMA and EU 10	Management approach to ensure short and long-term electricity availability and reliability (DMA). Planned capacity against projected electricity demand	I.7, I.8, II.6
Research and development	G4-DMA	Research and development activity and expenditure aimed at providing reliable electricity and promoting sustainable development	II.6
Plant Decommissioning	G4-DMA	Provisions for decommissioning of nuclear power sites	II.7.2
System efficiency	EU 11	Average generation efficiency of thermal plants by energy source and by regulatory regime	II.2.2 (system services)
ENVIRONMENTAL			
Emissions	G4-EN15	Direct greenhouse gas (GHG) emissions	II.2.1
SOCIAL			
LABOUR PRACTICES AND DECENT WORK			
Employment	G4-DMA	Programs and processes to ensure the availability of a skilled workforce	II.8
SOCIETY			
Local Communities	G4-DMA	Stakeholder participation in the decision-making process related to energy planning and infrastructure development	II.8, II.9
PRODUCT RESPONSIBILITY			
Provision of Information	G4-DMA	Practices to address barriers to accessing and safely using electricity	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 2018.

Type of capital	Description of content examined in II. Business Report	Location of content in the Annual Report of the GEN Group for 2018
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 2018
Natural capital	• Low-carbon energy source portfolio: • 99.6% 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
	Growth of the number of electricity consumers (domestic market – trademark »Poceni plin« and entry to foreign markets)	II.5 Sales of natural gas
	Growing consumer base (»Cheap Gas« brand in the domestic market and entrance to foreign markets) 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

<table>
<tr><th>Type of capital</th><th>Description of content examined in II. Business Report</th><th>Location of content in the Annual Report of the GEN Group for 2018</th></tr>
<tr><td rowspan="4">**Employees and intellectual capital**</td><td>Number and qualification structure of employees

Professional education and training</td><td>II.8 Employees, knowledge and development of human resources</td></tr>
<tr><td>Substance-wise and organizational development of activities for promoting energy literacy and employee engagement (overview by GEN Group company)</td><td>II.9 Promoting the knowledge of energy and the energy industry</td></tr>
<tr><td>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</td><td>II.10 Quality policy and safety assurance</td></tr>
<tr><td>Management of risks associated with human resources</td><td>II.11 Risk management</td></tr>
<tr><td rowspan="5">**Social capital**</td><td>Overview of the economic and political situation in 2018:
• economic trends (economic growth, inflation, increasing industrial production),
• process of drawing up the National Energy and Climate Plan (NECP) and the Energy Concept of Slovenia.</td><td>II. 1 Economic trends and their impact on the electricity sector</td></tr>
<tr><td>Ancillary services, balancing of critical operational conditions in the power grid, tertiary frequency control</td><td>II.2 Electricity generation and ancillary services</td></tr>
<tr><td>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.</td><td>II.6 R&D, capital expenditures and investments of the GEN Group companies</td></tr>
<tr><td>Settlement of liabilities to suppliers

Activities deriving from the Intergovernmental Agreement on NEK</td><td>II.7 Financial operations</td></tr>
<tr><td>Development of human resources and management of long-term strategic challenges in human resources</td><td>II.8 Employees, knowledge and development of human resources</td></tr>
</table>

Type of capital	Description of content examined in II. Business Report	Location of content in the Annual Report of the GEN Group for 2018
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

AČR	Deferred costs and accrued income (SL. »aktivne časovne razmejitve«)
ARJE - ARJE	analize in raziskave na področju jedrske energetike d.o.o.
AVK	Slovenian Competition Protection Agency
ARAO	Agency for Radioactive Waste Management
GDP	gross domestic product
CO_2	carbon dioxide
d.d.	joint-stock company
DDPO	Corporate Income Tax
CS	consumables/small tools
DFN	long-term financial investments (SL. »dolgoročne finančne naložbe«)
d.o.o.	limited liability company
DP	producers with a declaration for their production facility
dr.	Doctor (DSc/Phd)
ECB	European Central Bank
EES	national electric power grid
EEX	European Energy Exchange, Leipzig
EKS	Energy concept of Slovenia
ELES	Elektro Slovenija d.o.o.
ERDF	European Regional Development Fund
EU	European Union
EUR	euro currency
FURS	Ministry of Finance - Financial Administration of the Republic of Slovenia
GEN	GEN energija d.o.o.
GEN-EL	GEN-EL d.o.o.
GEN-I	GEN-I, trgovanje in prodaja električne energije d.o.o.
Gorenjska banka	Gorenjska banka d.d., Bleiweisova cesta 1, Ljubljana

GRI	Global Reporting Initiative
GWh	Gigawatt hour
HE	hydroelectric power plant
HEP	Hrvatska elektroprivreda d.d.
HESS	Hidroelektrarne na Spodnji Savi d.o.o. (Lower Sava HPPs)
HSE	Holding slovenske elektrarne d.o.o.
HSE Invest	HSE Invest d.o.o.
ICJT	ICJT Nuclear Training Centre
IGES	IG Energetski sistemi d.o.o.
IS GEN	GEN Information Center
ISO standards	international standards for environmental management systems
IT	information technology
etc.	et cetera (and so on)
NPP	nuclear power plant
JEK 2	Krško Nuclear Power Plant - second block
kV	kilovolt
kW	kilowatt
kWh	kilowatt-hour
Ljubljana Stock Exchange	Ljubljanska borza d.d., Ljubljana
m^2	square meter
m^3	cubic meter
mag.	magister (Master of Arts/Science)
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

IFRS	International Financial Reporting Standards established by Regulation 1606/2002 EC and Regulation 1725/2003/EC 1126/2008/EC
SPP	small photovoltaic power plant
SHP	small hydroelectric power plant
mio	million
bn	billion
MW	megawatt
MWh	megawatt hour
Natura 2000	a European network of special protection areas declared in EU Member States with the primary objective of preserving biodiversity
NC GEN	GEN Control Centre
NEA OECD	The Nuclear Energy Agency within the Organization for Economic Co-operation and Development
NEK	Nuklearna elektrarna Krško d.o.o.
NEP	National Energy Programme
NLB	Nova Ljubljanska banka d.d.
e.g.	exempli gratia (for example)
SB	Supervisory Board
LILW	low and intermediate-level radioactive waste
OSART	Operational Safety Review Team
RES	renewable energy sources
PB	gas block (SL »plinski blok«)
PČR	accrued costs and deferred revenue (SL. »pasivne časovne razmejitve«)
PIZ	pre-investment design
GO	Guarantee of origin
prof.	Professor
PVIPI	Fair value through profit or loss
PVIVD	fair value through the statement of other comprehensive income
PWR	Pressurized water reactor
ReNEP	Resolution on the National Energy Program
rev.	revision
RS	Republic of Slovenia
RTD	Resistor Temperature Detector
SEL	Savske elektrarne Ljubljana d.o.o.
NEK Fund	Fund for financing the decommissioning of NEK and for the disposal of radioactive waste from NEK
SKB	SKB banka d.d. Ljubljana
Fund of craftsmen and entrepreneurs	Fund of craftsmen and entrepreneurs, Vošnjakova ulica 6, Ljubljana
GEN Group	GEN energija Group
CHP	combined heat and power
SRESA	Srednjesavske elektrarne d.o.o.
SAS	Slovenian Accounting Standards
Standards	International Financial Reporting Standards established by Regulation 1606/2002/EC and Regulation 1725/2003/EC 1126/2008/EC
TALUM	TALUM Tovarna aluminija d.d., Kidričevo
TEB	Termoelektrarna Brestanica d.o.o.
t.i.	so-called (SL »tako imenovan«)
i.e.	id est (that is)
UCTE	Union for the Coordination of the Transmission of Electricity
UniCredit Bank	UniCredit Banka Slovenija d.d

GRC	Government of the Republic of Croatia
GRS	Government of the Republic of Slovenia
WANO	World Association of Nuclear Operators
USA	United States of America
ZSFR	Fund for Financing Decommissioning of the Krško Krško Nuclear Power Plant and Disposal of Radioactive Waste from NEK Act (Official Gazette of the Republic of Slovenia, No. 75/1994 and amended)
ZEL-EN	ZEL-EN, razvojni center energetike d.o.o.
ZGD-1	Companies Act (Official Gazette of the Republic of Slovenia, Nos. 42/06 and amended)
ZPOmK-1	Prevention of Restriction of Competition Act (Official Gazette of the Republic of Slovenia, No. 36/08 and amended)

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