BUILDING A SUSTAINABLE ENERGY FUTURE FOR SLOVENIA

ANNUAL REPORT 2014
OF THE COMPANY GEN AND THE GEN GROUP

SKUPINA

TAPPING NATURAL RESOURCES USING KNOWLEDGE AND TECHNOLOGY

Nature cannot be fooled. We can, however, move closer to nature and use the knowledge and technology to tap available natural resources as best as we possibly can.

The GEN Group does so responsibly, carefully and with marked determination. The results speak for themselves. In 2014, we greatly exceeded our targets in all key areas of operations.

RESULTS 2014

6,060 GWh
record-high production output of NEK, half of it is available to the company GEN

learn more on page 44

3,648 GWh
record-high electricity production output

learn more on page 43

high reliability of TEB startups for **ensuring power grid stability**

learn more on page 45

OPERATIONAL EFFICIENCY

604 GWh
record-high production output of large HPPs

learn more on page 43

expanded portfolio of **low-carbon** sources: acquisition of additional stake in HESS

learn more on page 58

SAFETY AND ENVIRONMENTAL RESPONSIBILITY

nuclear safety and **operational readiness** of NEK: top grade awarded by WANO support mission

learn more on page 44

99.7%
of the total electricity output came from low-carbon sources

learn more on page 46

15,697 GWh
of electricity sold

learn more on page 49

EUR 29 million
in net profit

learn more on page 91

EUR 134 million
spent on R&D, capital expenditures and investments

learn more on page 55

BUSINESS EXCELLENCE

NEK's service life extended
until 2043

learn more on page 60

continued preparations for making a final decision on the
JEK 2 project

learn more on page 56

upgraded management systems
ISO 9001, ISO 14001, OHSAS 18001

learn more on page 73

KNOWLEDGE

1,180
employees, over 60% with at least higher education qualifications

learn more on page 66

CARE FOR SOCIETY

8,222
visitors to the World of Energy, collaboration with schools and other stakeholders

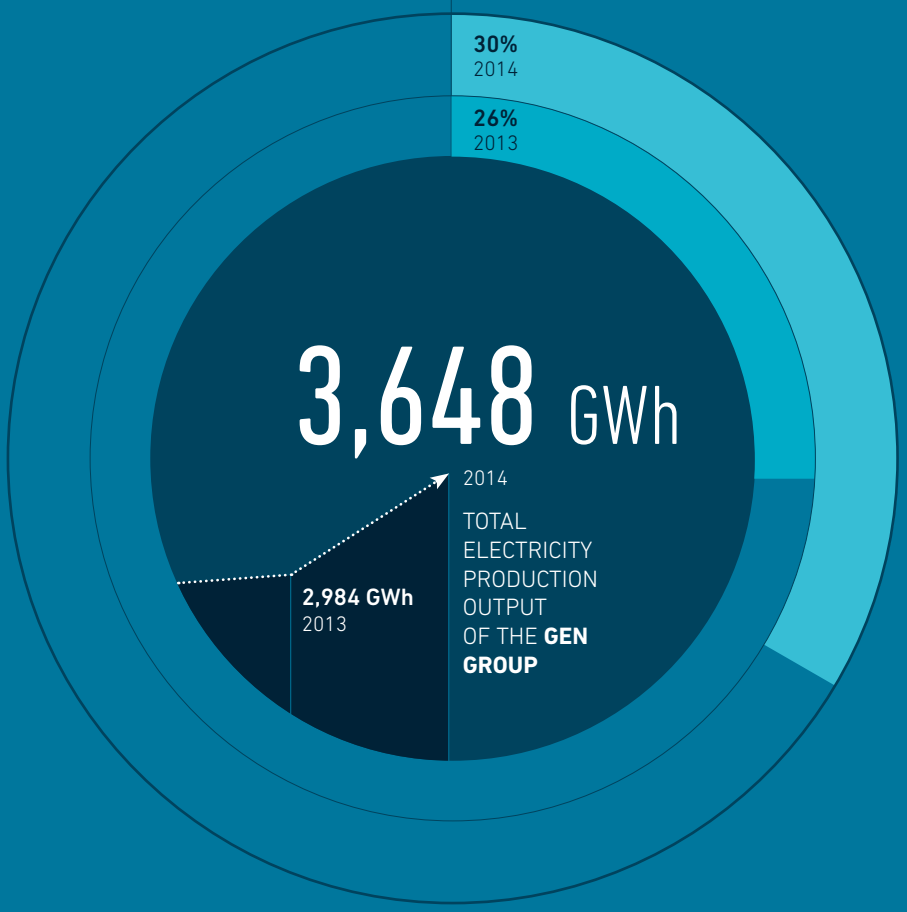
learn more on page 71

eSvet web portal on energy and the energy industry launched:
www.esvet.si

learn more on page 71

2013
2014

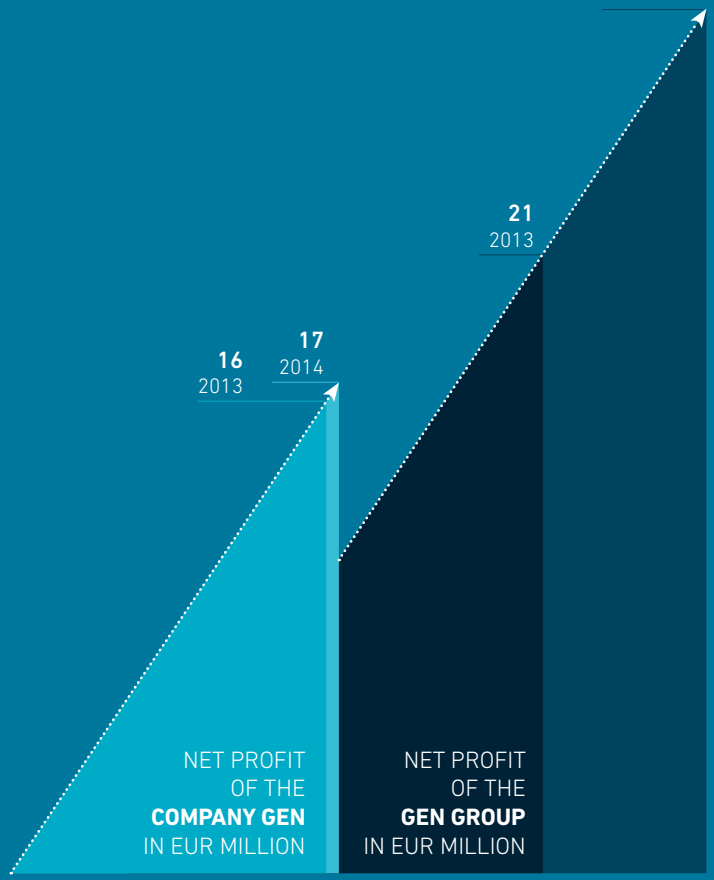
OPERATIONAL EFFICIENCY



We generated 3,648 GWh of electricity in 2014.

By fostering synergies between outstanding natural resources and extensive engineering knowledge and competences, we achieved a record-high electricity production output, both at NEK and our large HPPs on the River Sava (SEL and HESS). With an impeccable start-up track record, TEB fulfilled its role in ensuring stability of Slovenia's national power grid.

BUSINESS EXCELLENCE

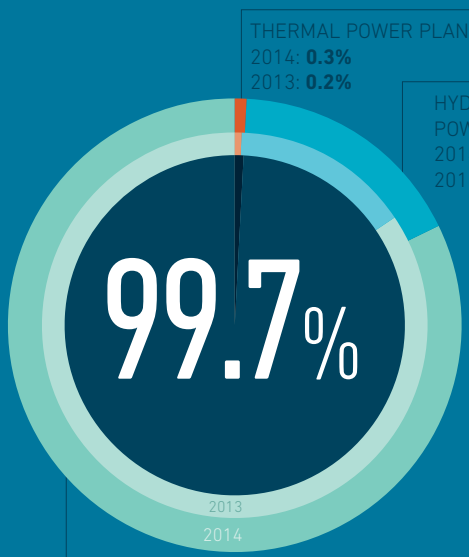


We closed the year 2014 with a net profit of EUR 29 million.

Owing to excellent production results, our knowledge, and effective management of risks associated with electricity trading and sales, we managed to achieve excellent business results despite difficult market conditions.

ENVIRONMENTAL RESPONSIBILITY

STRUCTURE OF
ELECTRICITY PRODUCTION SOURCES
OF THE GEN GROUP



THERMAL POWER PLANTS
2014: **0.3%**
2013: **0.2%**

HYDROELECTRIC
POWER PLANTS
2014: **16.6%**
2013: **15.4%**

NUCLEAR POWER PLANT
2014: **83.1%**
2013: **84.4%**

STRUCTURE
OF ELECTRICITY
PRODUCTION SOURCES
IN SLOVENIA

SMALL PRODUCERS
2014: **1%**
2013: **1%**

THERMAL POWER PLANTS
2014: **21%**
2013: **31%**

HYDROELECTRIC
POWER PLANTS
2014: **38%**
2013: **32%**

NUCLEAR POWER PLANT
2014: **40%**
2013: **36%**

COMPARISON OF CO_2 EMISSIONS
PER kWh PRODUCED

0.003 kg CO_2/kWh
THE GEN GROUP

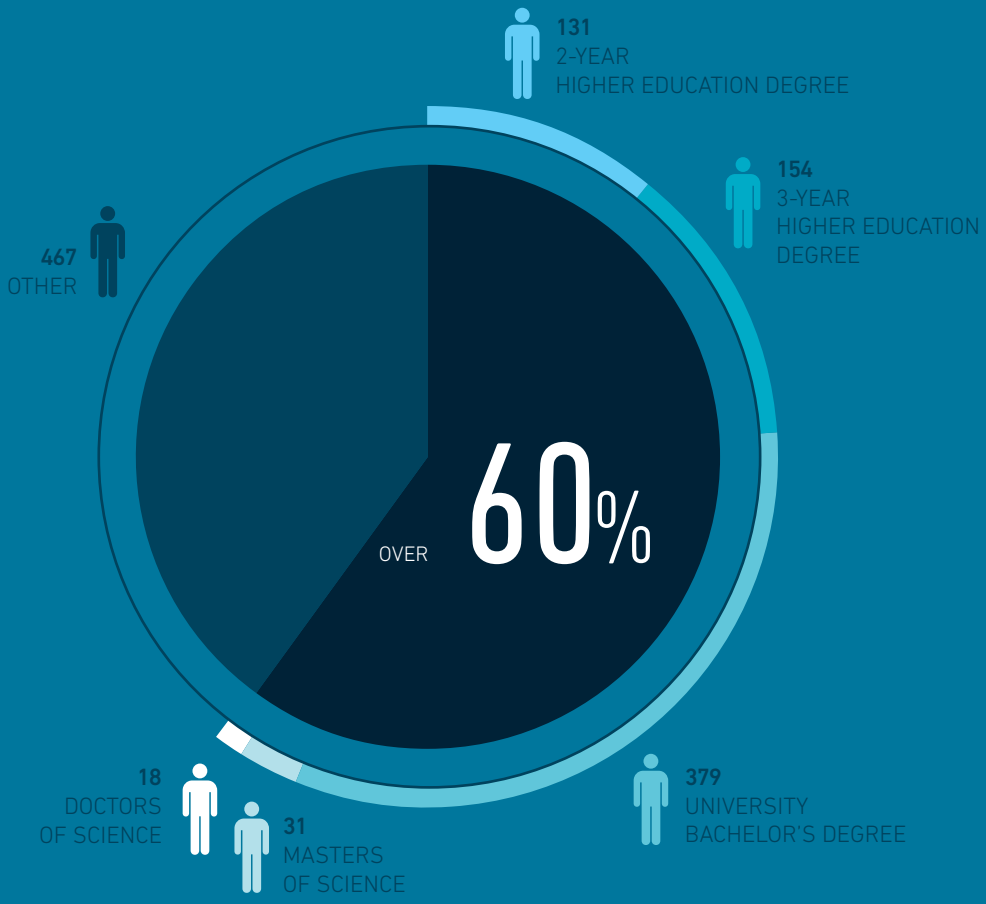
0.460 kg CO_2/kWh
NATIONAL AVERAGE

1.200 kg CO_2/kWh
THERMAL POWER PLANTS

As much as 99.7% of our total electricity output was generated from low-carbon nuclear and hydro energy.

We generate electricity from low-carbon energy sources – nuclear and hydro. By doing so, we help reduce the national average of CO_2 emissions per kWh produced.

CARE FOR SOCIETY



Over 60% of the 1,180 employees have at least higher education qualifications.

Our activities, operations, strategic plans and development are based around knowledge, expertise, and strict adherence to scientific principles. We seek to strengthen knowledge internally, among our employees, and externally, among our stakeholders. By doing so, we are helping lay down firm foundations for building a responsible energy future for Slovenia.

GOING FORWARD

The GEN Group's achievements to date provide a sound footing for Slovenia's economy. We will continue to generate value added for our stakeholders by controlling the entire power supply cycle. Considering the natural resources and market conditions, some results from 2014 will be difficult to match in the future. We will try to reach, or even surpass, others.

The GEN Group's strategic development plans and investments help ensure a reliable supply of low-carbon electricity at competitive prices, which is why they will focus on:

- the continuation of the construction of HPPs on the lower course of the River Sava,
- the continuation of the technological upgrade of NEK,
- the replacement of gas turbine units at TEB,
- preparations for the construction of HPPs on the middle course of the River Sava.

The GEN Group's central and most complex development project is the planning and preparation for the construction of the second nuclear power plant unit (JEK 2) in Krško, coupled with the development of knowledge and human resources.

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Introduction

1.1 Key financial data

- The GEN Group closed the year 2014 with outstanding business results: **EUR 29 million in net profit, up by 40% from 2013**.

  Learn more on page **91**.

- The GEN Group's production units generated a combined total of **3,648 GWh of electricity**, **22% more than the year before**.

  Learn more on page **43**.

- **Krško NPP** recorded stable operation and delivered a **record output of 6,060 GWh**, half of which, **3,030 GWh**, went to GEN, or the Republic of Slovenia, based on the Intergovernmental Agreement.

  Learn more on page **44**.

- **Remarkably good hydrological conditions** helped us deliver **the highest production output in the history** of all the GEN Group's power plants on the River Sava – both **SEL** and **HESS**.

  Learn more on page **44**.

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

  Learn more on page **41**.

- With an impeccable start-up track record, **TEB** fulfilled its role in helping **ensure power grid stability**.

  Learn more on page **44**.

- We reached a common understanding with HEP, our Croatian partner, to **extend NEK's service life until 2043** on the basis of economic projections.

  Learn more on page **60**.

- By acquiring additional stakes in the company HESS, we grew our portfolio of renewable energy sources. **As much as 99.7%** of the GEN Group's total electricity production output comes from **low-carbon sustainable and renewable sources – nuclear and hydro**.

  Learn more on page **45**.

- **Research and development, capital expenditures and investments** are essential to the **long-term operating stability** and future growth. In 2014, **EUR 134 million** was allocated to this end.

  Learn more on page **55**.

- The **JEK 2** project would unlock **economic, social, environmental and climate benefits** for Slovenia. The project is currently at a stage where the owner, the Republic of Slovenia, will need to take a firm stand on how to proceed.

  Learn more on page **56**.

- Our **employees**, with their knowledge and dedication, have been and will continue to be the keystone of our operations: we numbered **1,180** in 2014, with **60%** having at least higher education qualifications.

  Learn more on page **66**.

- We raised interest in, and improved the perception of, topics associated with energy and the energy industry. **eSvet**, a **web portal on energy and the energy industry**, was launched.

  Learn more on page **71**.

The GEN Group's 2014 Annual Report now also includes information on the progress made in terms of GEN's sustainable focuses, which used to be released in a separate Sustainability Report of the GEN Group. By merging two reports into a single document, we have made the first step towards providing a more coherent picture of our operations, highlighting the inextricable link between financial and non-financial information.

To learn more about our sustainability focuses and associated 2014 results, see page **34** *and the spreadsheet on page* **36**.

Table 1.1 **Key information on the company GEN and the GEN Group for 2014 against 2013**

Item	Company		Group	
	2014	2013	**2014**	2013
Assets in EUR million	**522.82**	511.56	**873.04**	727.39
Equity in EUR million	**425.68**	416.08	**675.71**	520.67
Revenues in EUR million	**175.25**	183.08	**739.81**	682.83
EBIT in EUR million	**17.29**	18.03	**31.57**	24.29
EBITDA in EUR million	**18.53**	19.36	**76.99**	67.61
Net profit in EUR million	**17.39**	15.57	**29.08**	20.75
Value added in EUR million	**21.42**	22.19	**112.55**	102.12
Return on assets	**3.36%**	3.03%	**3.63%**	2.88%
Return on equity	**4.13%**	3.78%	**4.86%**	4.04%
Electricity sold in GWh	**3,687**	3,301	**15,697**	12,603

1.2 Letter from the Director

Dear Business Partners and Colleagues,

In business terms, 2014 was a very successful year for the GEN Group. With the economic situation still difficult, by boldly facing challenges, minimizing risks, and relying on the knowledge and experience of our people, we managed to meet all our goals. Our primary goal included: to provide consumers with a steady and competitive supply of electricity from sustainable and renewable sources. Add to this the exceptionally good hydrological conditions and record-high production outputs of practically all our power plants, and it becomes clear we can be very pleased with the results.

Our production facilities are the driving force behind the GEN Group's operations. All-time record-high production levels were reached at Krško Nuclear Power Plant (6,060 GWh), SEL (478 GWh) and HESS (534 GWh), while Brestanica Thermal Power Plant, with its impeccable start-up track record, fulfilled its crucial role of ensuring power grid stability. This, along with high safety standards, is proof that our power plants are in outstanding working condition and confirmation that ongoing investments in knowledge and equipment we made in the past were right on target. As a result, we were able to fully harness nature's generous hydrological resources distributed evenly throughout the year.

In 2014, the GEN Group spent EUR 134 million on investments and capital expenditures. The most important ones are the technological upgrades implemented at NEK, the continuation of the construction of the chain of hydroelectric power plants on the River Sava, and the acquisition of an additional equity interest in the company Hidroelektrarne na Spodnji Savi (HESS), through which the GEN Group, now holding a 51-percent stake, became its majority owner. By acquiring the stake in HESS, the GEN Group increased its production levels in terms of renewable energy sources and also expanded its entire production portfolio, which is based around low-carbon and sustainable energy sources: nuclear and hydro. What is of the essence here are the improved economics and the interplay of hydroelectric power plants along the entire River Sava chain, while at the same time the synergies created will provide improved conditions for the reliable and safe operation of Krško Nuclear Power Plant.

As the tense market conditions this year and in the years ahead will present a major challenge for the GEN Group, and other energy companies as well, we will focus our attention on taking proactive steps and adapting to market conditions. Despite a slight upturn in the eurozone's economic activity in 2014, the conditions under which we conducted business continued to be driven by low electricity prices, with prices for natural gas going down as well. This trend is likely to continue this year. As a result, energy companies are facing heavy losses and unbearable working conditions. What is more, the current electricity prices stand in the way of investments needed in the longer term.

The business results of the company GEN energija and the GEN Group are above expectations despite the difficult operating and market conditions, which goes to show we are good at keeping operating and business risks in check.

NEK, our largest power production facility, operated safely throughout 2014, without any shutdown or

power reduction, and reached a record-high annual production level. In addition to paving the way for a series of vital investments in safety upgrades and operational stability, we have also made another major step forward: we reached a common understanding with HEP, our Croatian partner, to extend NEK's service life until 2043 on the basis of economic projections. This decision may well generate several billion euros' worth of value added for both Slovenia and Croatia. Also, NEK underwent an important international review, which confirmed the power plant's equipment is in top working condition and that its personnel is highly qualified. All this provides a solid foundation for NEK's safe and competitive operation in the long run.

Thanks to proper maintenance and equipment replacements carried out across its power plants, SEL successfully harnessed natural flow rates and achieved outstanding production results. Now that SEL is again actively involved in the construction of power plants on the lower course of the River Sava, its knowledge and experience may also be used for the operation and construction of new power plants.

To ensure power grid stability, TEB started up its generators more often in 2014 than on average. Though some of its generators are of an older date, TEB performed very well in terms of start-up and operational reliability. Also, intense preparations were underway for the replacement of TEB's old gas turbines.

The GEN Group acquired a majority stake in HESS in October. By doing so, we have made, in agreement with our partners, a step forward towards facilitating access to financial resources needed for the construction of energy generation installations of hydroelectric power plants on the lower course of the River Sava.

The perception and understanding of energy issues and challenges of the future energy supply also have a large impact on the fulfilment of the GEN Group's mission, which is to deliver a steady and reliable supply of electricity from clean, sustainable and renewable sources. Through activities in the World of Energy and by participating in a number of other projects, we made an ongoing effort to raise awareness of energy and energy technology topics. Together with our partners, we launched in November 2014 a web portal on energy and the energy industry called eSvet, which is designed to promote energy literacy.

Our employees – highly professional, motivated, qualified, ambitious, flexible, and focused on the long term – are absolutely essential to ensuring stable and safe operation of our production facilities and achieving good business results. All this will guarantee our Group has a bright future.

Dear colleagues across the GEN Group, thank you so much for your hard work and dedication, and for your invaluable share in delivering such remarkable results. I would also like to thank the representatives of the owner, local communities, business partners and service providers for their support and contribution. Considering the current business conditions, we have set the bar very high for 2015 too, so let me invite you to play an active part in making our long-term competitiveness grow.

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

1.3 GEN company profile

Registered name:	**GEN energija d.o.o.**
Short registered name:	**GEN d.o.o.**
Legal form:	**limited liability company**
Registered office:	**Vrbina 17, 8270 Krško, Slovenia**
Telephone:	**+386 7 49 10 112**
Fax:	**+386 7 49 01 118**
Website:	**www.gen-energija.si**
E-mail:	**info@gen-energija.si**
Year established:	**2001**
Founder and sole partner:	**Republic of Slovenia**
VAT ID number:	**SI44454686**
Registration number:	**1646613**
Bank accounts:	**UNICREDIT d.d.** **SI56 2900 0005 5198 483** **BANKA CELJE d.d.** **SI56 0600 0090 4571 665** **NLB d.d.** **SI56 0292 4009 0457 150** **SKB d.d.** **SI56 0315 5100 0503 323**
Activity:	**K/64.200** **Activities of holding companies,** **D/35.140** **Electricity trading, and other registered activities.**
Share capital:	**EUR 26,059,796.00**
CEO - Director:	**Martin Novšak**
Chairman of the Supervisory Board:	**Matej Pirc**
Number of employees:	**52**

CORPORATE GOVERNANCE

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

CEO - Director:
Martin Novšak

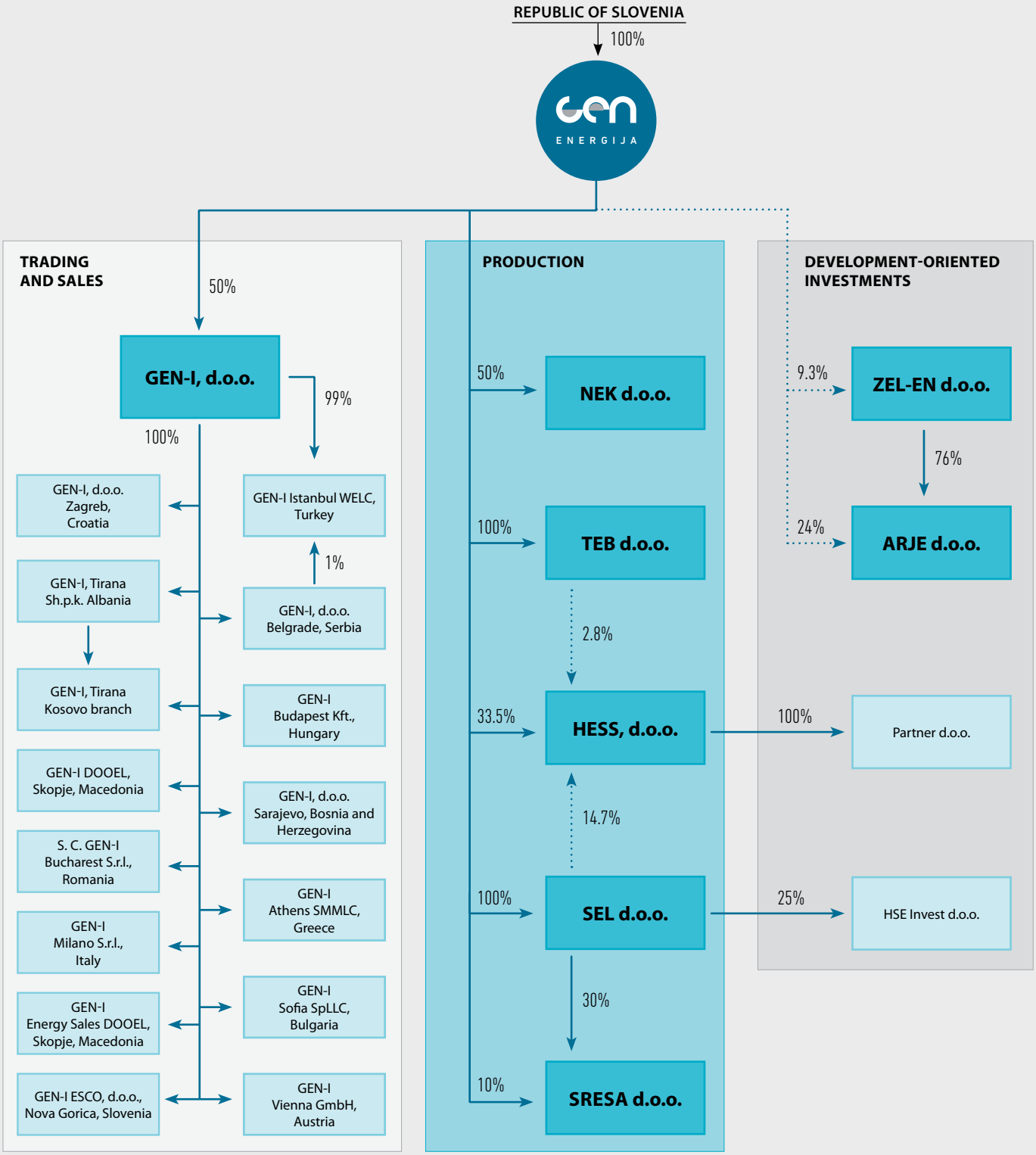
Supervisory Board:

- Chairman:
  Matej Pirc
- Vice Chairman:
  Danijel Levičar
- Board members:
  Roman Dobnikar
  Nikola Galeša
  Saša Ivan Geržina

AFFILIATED COMPANIES

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

Figure 1.1 **Affiliated companies in the GEN Group as at 31/12/2014**



1.4 Holding activities of the company GEN

Krško Nuclear Power Plant

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

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

Nuklearna elektrarna Krško d.o.o.	**GEN-I, d.o.o.**	**Savske elektrarne Ljubljana d.o.o.**	**Termoelektrarna Brestanica d.o.o.**
Vrbina 12, 8270 Krško, Slovenia www.nek.si	Vrbina 17, 8270 Krško, Slovenia www.gen-i.si	Gorenjska cesta 46, 1215 Medvode, Slovenia www.sel.si	Cesta prvih borcev 18, 8280 Brestanica, Slovenia www.teb.si
PRINCIPAL ACTIVITY			
Electricity generation at a nuclear power plant	Electricity trading, sales and purchasing	Electricity generation at hydroelectric power plants	Electricity generation at a thermal power plant, a standby energy source for the power grid
COMPANY MANAGEMENT			
Stane Rožman Chairman of the Management Board **Hrvoje Perharić** Member of the Management Board	**Robert Golob, PhD** President of the Management Board **Martin Novšak** Vice President of the Management Board **Igor Koprivnikar, PhD** Member of the Management Board **Andrej Šajn** Member of the Management Board	**Drago Polak** Director	**Tomislav Malgaj** Director
CHAIRMAN OF THE SUPERVISORY BOARD			
Kažimir Vrankić	**/**	**Jože Špiler**	**Jože Špiler**
OWNERSHIP STRUCTURE			
The companies GEN and HEP each hold a 50% stake in this company's share capital. The fundamental principles of corporate governance are laid down in the Intergovernmental Agreement on NEK, which sets out the following company bodies: general meeting, supervisory board, and management board.	The companies GEN and IG Energetski sistemi each hold a 50% stake in this company's share capital.	Wholly-owned by the company GEN.	Wholly-owned by the company GEN.
SHORT DESCRIPTION AND ACTIVITY SPECIFICS			
NEK generates around 5,400 GWh of low-carbon electricity a year, making up around 40% of Slovenia's total electricity output.	The GEN-I Group purchases electricity and natural gas from producers, trades in them both locally and internationally, and sells them to consumers.	SEL's large hydroelectric power plants (Moste HPP, Mavčiče HPP, Medvode HPP, Vrhovo HPP) generate around 320 GWh of electricity a year.	TEB supplies electricity during outages of major production units and is a reliable standby power source within Slovenia's power grid.

Hidroelektrarne na Spodnji Savi, d.o.o. Cesta bratov Cerjakov 33a, 8250 Brežice, Slovenia www.he-ss.si	**Srednjesavske elektrarne d.o.o.** Ob železnici 27, 1420 Trbovlje, Slovenia	**ZEL-EN, razvojni center energetike d.o.o.** Vrbina 18, 8270 Krško, Slovenia www.zel-en.si	**ARJE, analize in raziskave na področju jedrske energetike, d.o.o.** Vrbina 17, 8270 Krško, Slovenia
Electricity generation at hydroelectric power plants	Electricity generation at hydroelectric power plants	Research and development for the energy industry	Services for the nuclear power industry
Bogdan Barbič Director	**Matjaž Eberlinc, PhD** Director	**Domen Zorko** Director	**Robert Bergant, PhD** Director
Janez Keržan, MSc	**Blaž Košorok**	**/**	**/**
The GEN Group holds a 51% equity interest in HESS, which is distributed as follows: 33.5% is held by the company GEN, 14.7% by SEL, and 2.8% by TEB.	The GEN Group holds a 40% equity interest in SRESA: the company GEN 10%, SEL 30%.	GEN's stake in the company ZEL-EN is 9.28%	The companies GEN and ZEL-EN have a 24% and 76% stake in the company ARJE respectively.
The company HESS was established in 2008 with the purpose of facilitating the construction of hydroelectric power plants on the lower course of the River Sava. HESS's already completed large hydroelectric power plants (Boštanj HPP, Arto - Blanca HPP and Krško HPP) generate around 400 GWh of electricity a year.	Operations of the company SRESA are still largely limited as the Concession Agreement for the use of water for electricity generation on the Ježica–Suhadol section of the River Sava remains unsigned.	By acquiring a stake in ZEL-EN, the company GEN has become eligible to receive development funding from the ERDF for research in the field of nuclear power technology.	The company ARJE provides services relevant both to the operation of the existing nuclear power plant (NEK) and the development, construction and operation of a new nuclear unit (JEK 2).

1.5 Corporate policy of the company GEN

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

VISION

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

MISSION

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

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

Figure 1.2 **Interconnection between GEN vision, mission and values**

VALUES

Relying on knowledge and professionalism, we operate in a responsible, efficient and transparent way. We maintain our future-oriented focus by building on the results we achieve and the experience we gain.

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

- **environmental acceptability**: ensuring compliance with environmental standards is the cornerstone of the GEN Group's operations, as the power generation across the Group companies has very little impact on the environment in terms of various emissions.
- **safety**: commitment to ensuring safety, particularly nuclear safety, is at the heart of our operations on every level. We always make sure that our employees, the people and the environment are safe, and that the technologies in our production facilities operate safely.
- **reliability**: we provide a reliable supply of electricity from sustainable and renewable sources, primarily nuclear and hydro. Electricity is supplied to consumers whenever they need it. Trading is essential to ensuring a reliable supply if our production units fail to meet the demand for electricity.
- **sustainability**: supplying electricity from low-carbon sources in an environmentally and socially responsible, operationally efficient and commercially excellent way. These are the core sustainability focuses our operation is based around.
- **competitiveness**: the electricity we sell and trade is affordable for industrial and residential consumers alike. This way we help improve the stability and competitiveness of the business environment and promote the well-being of society.

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

STRATEGIC GOALS

The strategic goals of the company GEN are to:

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

IMPLEMENTING THE GEN GROUP'S CORPORATE POLICY

New development scheme of the GEN Group

In response to changed business conditions, we updated in 2014 the GEN Group Development Scheme for the 2015–2019 period with a look ahead to 2024, which was then passed by the SSH in its capacity as company founder.

Collaboration, coordination and communication among companies

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

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

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

Stakeholder relations

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

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

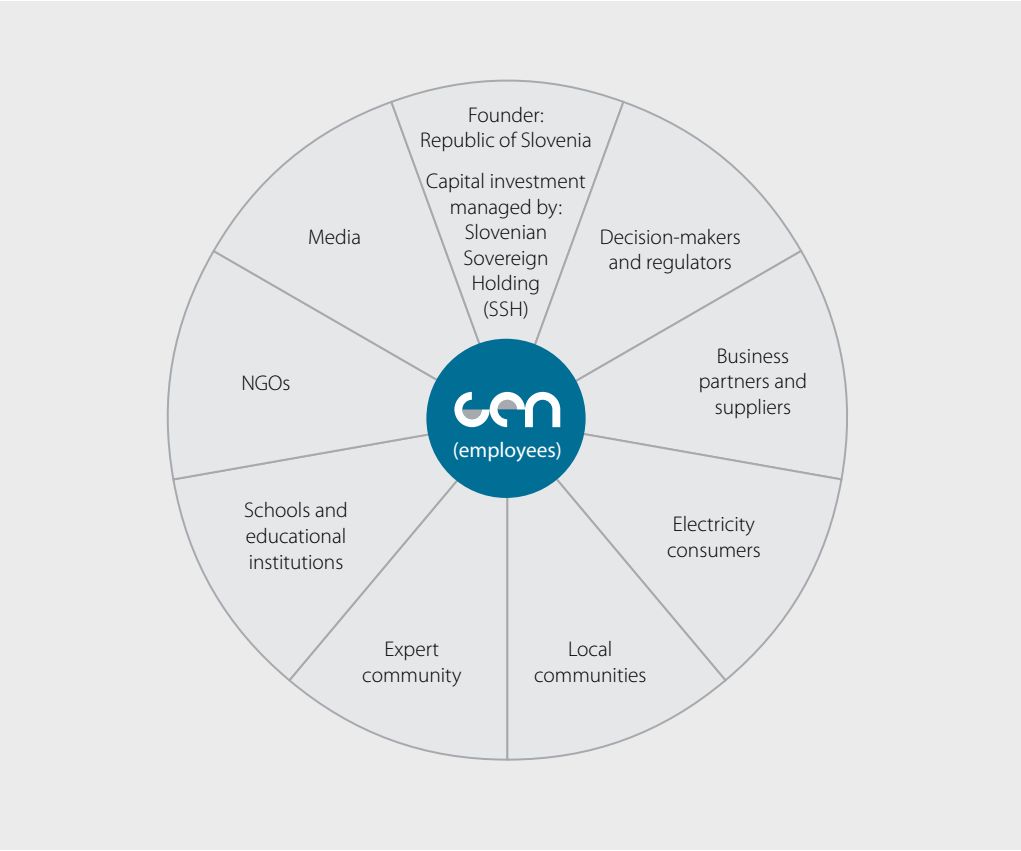
Fulfilment of strategic goals

Judging by the results, the GEN Group is successful in meeting its strategic goals. By acquiring additional stakes in the company HESS in October 2014, the GEN Group increased the proportion of electricity generated from renewable energy sources. At the same time, the acquisition brought further improvements to our entire nuclear and hydro-based production portfolio in terms of low carbon emissions. What is of the essence here are the improved economics and the interplay of hydroelectric power plants along the entire River Sava chain, while at the same time the synergies created will provide improved conditions for the reliable and safe operation of Krško Nuclear Power Plant.

By paying our debts due in a timely manner, we establish consistent conditions for the maintenance of existing production units and further development of all the Group companies. As co-developer, the GEN Group also holds an equity stake in the construction of hydroelectric power plants on the lower course (HESS) and, since 2011, the middle course (SRESA) of the River Sava. Based on a contractual relation between TEB and HESS, the GEN Group is also actively engaged – through human resources – in steering the investment in the maintenance and operation of HESS.

Figure 1.3 **Interaction between the company GEN and the rest of the Group**

Figure 1.4 **GEN and its stakeholders**



1.6 Pursuing sustainability focuses through responsible operations

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

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

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

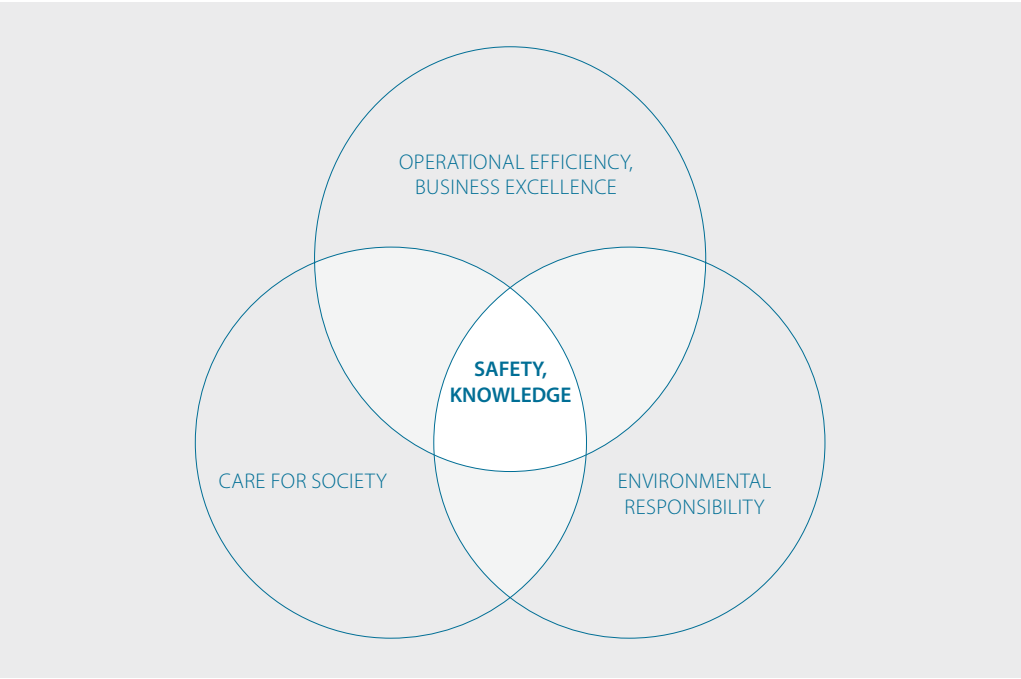
STRONG SAFETY CULTURE

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

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

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

Figure 1.5 **Concept of pursuing GEN's sustainability focuses**



ACHIEVING EXCELLENCE THROUGH KNOWLEDGE

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

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

QUALITY ASSURANCE POLICY

We constantly seek to:

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

REPORT'S COMPLIANCE WITH GRI GUIDELINES

At the beginning of each calendar year, the GEN Group releases an annual report for the preceding year, covering the period from 1 January to 31 December. Instead of compiling two separate reports, annual report and sustainability report, as was the case in previous years, this year we have incorporated sustainability information into the Annual Report. By doing so, we have made a step forward in providing more comprehensive reporting that reflects the close connection between the financial and non-financial aspects of our operations.

We consistently follow the guidelines for reporting on sustainable development. In compiling our last Sustainability Report, for 2013, which was released in June 2014, we followed the GRI G3.1 Guidelines. As these guidelines have been upgraded to a new version in the meantime, the table below summarizes the 2014 Annual Report's compliance with GRI Guidelines version G4 and guidelines on Electric Utilities Sector Disclosures (more information: *Global Reporting Initiative*, www.globalreporting.org). This way we provide a clear and transparent view of our operations, results and plans and ensure their comparability at the national and the international level.

Our plan for the future is to seek independent external assurance for our sustainability reports.

If you have any questions about the Annual Report, contact us at: ***info@gen-energija.si***.

Table 1.2 **Report's compliance with GRI G4 and EUSS Guidelines**

GENERAL STANDARD DISCLOSURES

Indicator	Disclosure	Section
STRATEGY AND ANALYSIS		
G4-1	Statement from the most senior decision-maker about the relevance of sustainability to the organization and the organization's strategy for addressing sustainability	1.2
ORGANIZATIONAL PROFILE		
G4-3	Name of the organization	1.5
G4-4	Primary brands, products, and services	1.6
G4-5	Organization's headquarters	1.5
G4-6	Number of countries where the organization operates, and names of countries where either the organization has significant operations or that are specifically relevant to the sustainability topics covered in the report	1.5, 2.4, 4.3
G4-7	Nature of ownership and legal form	1.5, 1.6, 4.3
G4-8	Markets served (geographic breakdown, sectors served, and types of customers and beneficiaries)	1.5, 2.4, 2.5
G4-9	Scale of the organization (total number of employees, total number of operations, net sales, debt/equity ratio, quantity of products or services provided)	1.1, 1.5, 2.4, 2.5, 2.7
G4-13	Significant changes during the reporting period regarding the organization's size, structure, ownership, or supply chain	1.8, 1.9, 2.6
G4-14	Report whether and how the precautionary approach or principle is addressed by the organization	2.11, 3.2
G4-15	Externally developed economic, environmental and social charters, principles, or other initiatives to which the organization subscribes or which it endorses	1.4, 2.10
IDENTIFIED MATERIAL ASPECTS AND BOUNDARIES		
G4-17	All entities included in the organization's consolidated financial statements	4.3
G4-18	Explain the process for defining the report content and the aspect boundaries	1.8
G4-19	All the material aspects identified in the process for defining report content	1.8
STAKEHOLDER ENGAGEMENT		
G4-24	List of stakeholder groups engaged by the organization	1.8
REPORT PROFILE		
G4-28	Reporting period	1.8
G4-29	Date of most recent previous report (if any)	1.8
G4-30	Reporting cycle	1.8
G4-31	Contact point for questions regarding the report	1.8
G4-32	Selected reporting standard	1.8
G4-33	Organization's policy and current practice with regard to seeking external assurance for the report	1.8
GOVERNANCE		
G4-34	Governance structure of the organization, including committees of the highest governing body	1.4, 1.6
ETHICS AND INTEGRITY		
G4-56	Describe the organization's values, principles, standards and norms of behavior such as codes of conduct and codes of ethics	1.7

GENERAL STANDARD DISCLOSURES FOR ELECTRIC UTILITIES

Indicator	Disclosure	Section
ORGANIZATIONAL PROFILE		
EU1	Installed capacity and breakdown by primary energy source	2.2
EU2	Net energy output broken down by primary energy source	2.2

SPECIFIC STANDARD DISCLOSURES

CATEGORY SUBCATEGORY *Material impacts*	Management approach (DMA) and indicators		Section
ECONOMIC ASPECTS			
Economic performance	G4-DMA		1.8
	G4-EC1	Direct economic value generated and distributed (revenues, operating costs, employee wages and benefits, payments to providers of capital, payments to the government (taxes))	1.1, 3.6
Direct economic impacts	G4-DMA		2.6
	G4-EC7	Development and impacts of infrastructure investments	2.6
ENVIRONMENTAL ASPECTS			
Emissions	G4-DMA		2.2
	G4-EN18	GHG emissions intensity	2.2
SOCIAL ASPECTS			
LABOR PRACTICES AND DECENT WORK			
Employment	G4-DMA		2.8
	G4-LA1	Total number and rates of new employee hires and employee turnover	2.8
Training and education	G4-DMA		2.8
	G4-LA9	Average hours of training per year per employee	2.8
SOCIETY			
Local community	G4-DMA		1.8, 2.9

SPECIFIC STANDARD DISCLOSURES FOR ELECTRIC UTILITIES

CATEGORY SUBCATEGORY *Material impacts*	Management approach (DMA) and indicators		Section
ECONOMIC ASPECTS			
Availability and reliability	G4-DMA		1.7, 1.8, 2.6
Research and development	G4-DMA		2.6
System efficiency	EU11	Average generation efficiency of thermal plant by energy source	2.2

Business report of the company GEN and the GEN Group

2.1 Economic trends and their impact on the electricity sector

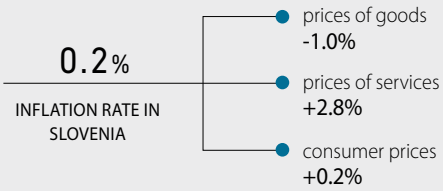
ECONOMIC ENVIRONMENT IN 2014

ECONOMIC ACTIVITY IN THE EUROZONE PICKED UP

+0.9%

Economic growth was above expectations in most of Slovenia's trading partners except Germany.

ANNUAL INFLATION RATE

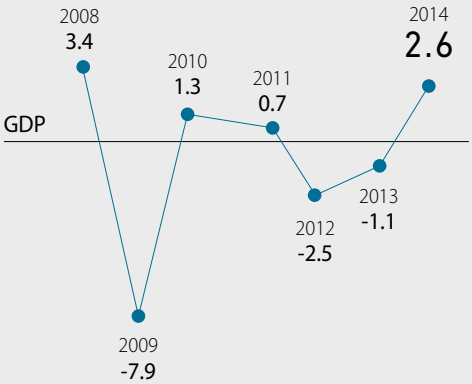


UNEMPLOYMENT RATE IN SLOVENIA DECREASED

-4%

119,000 unemployed (13% of the population): 4% less than in 2013

SLOVENIA RECORDED THE HIGHEST RATE OF ECONOMIC GROWTH SINCE 2008



FACTORS AFFECTING SLOVENIA'S ECONOMIC RECOVERY

- improved situation in financial markets,
- improved cost-competitiveness,
- reconstruction of the banking system,
- strengthened investment activity,
- growing exports,
- increased domestic consumption.

Despite more positive economic trends and increased confidence, prospects for economic recovery in the coming years are still quite uncertain and are influenced mostly by the following:

- gradual economic recovery in the international arena,
- implementation of more durable legislative solutions for resolving Europe's debt crisis, and
- stabilization of international financial markets.

FACTORS AFFECTING SLOVENIA'S ENERGY SECTOR IN 2014

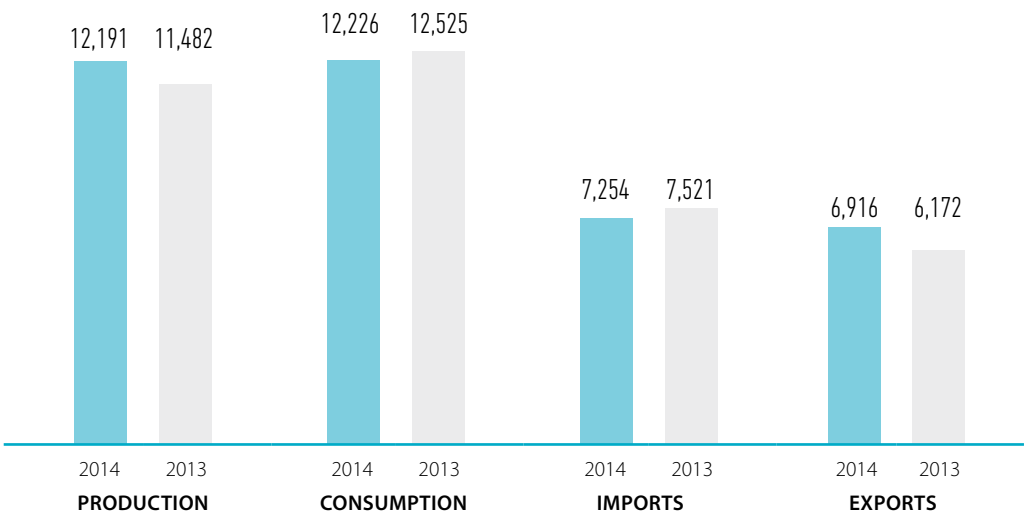
ENERGY SECTOR IN 2014

- → New Energy Act and start of Energy Concept of Slovenia preparation process
- → low electricity prices (around EUR 40/MWh)
- → declining natural gas prices

In 2014, the country's energy sector was faced with many changes (a new Energy Act, declining prices of energy products, low electricity prices).

However, the year was also marked by exceptionally good hydrological conditions and record outputs of numerous energy installations.

Figure 2.1 **Slovenia's electricity market in 2014 and 2013 (GWh)**



2.2 Electricity production and ancillary services

ELECTRICITY PRODUCTION

The large production units in the GEN balancing subgroup generated a combined total of 3,645 GWh of electricity in 2014. As much as 83.1% of the combined total came from the nuclear power plant. The hydroelectric power plants and the gas-fired power plant accounted for 16.6% and 0.30% respectively. Thanks to GEN Control Centre, which coordinates the operations of the entire GEN balancing subgroup, the production units all operated in perfect unison and all unpredictable events were effectively dealt with, as evidenced by the business results.

Figure 2.2 **Diagram of interconnections within the GEN balancing subgroup**

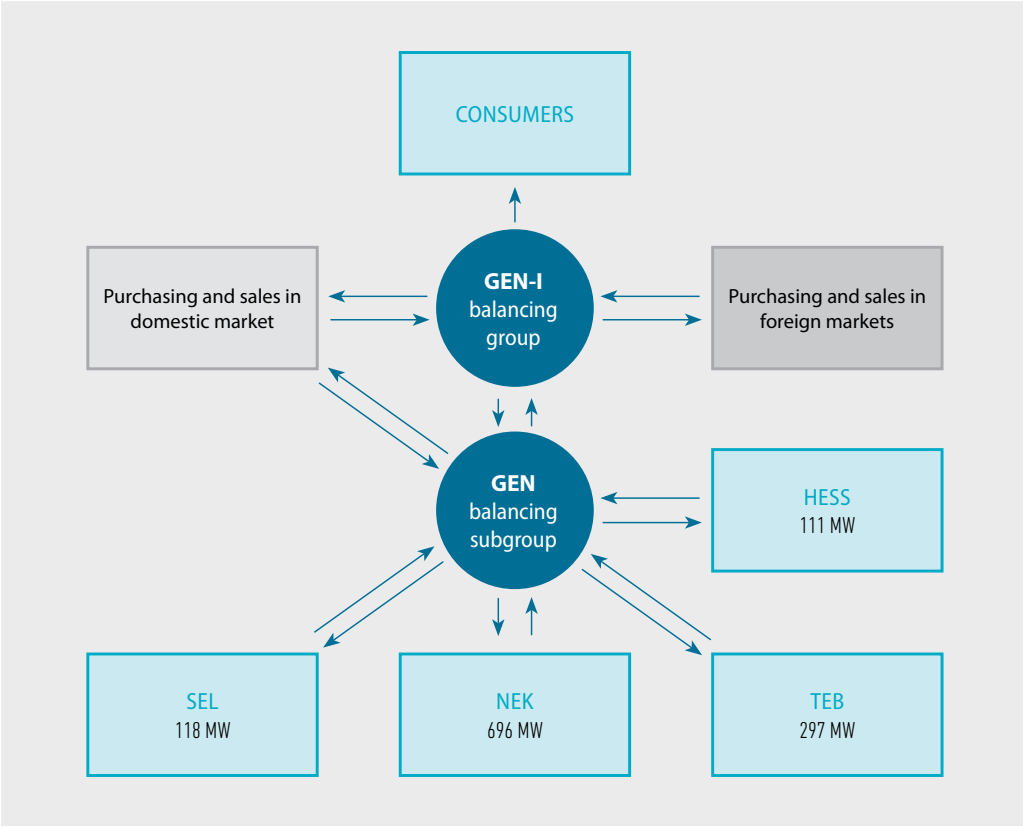


Figure 2.3 **Electricity production units of the GEN Group**

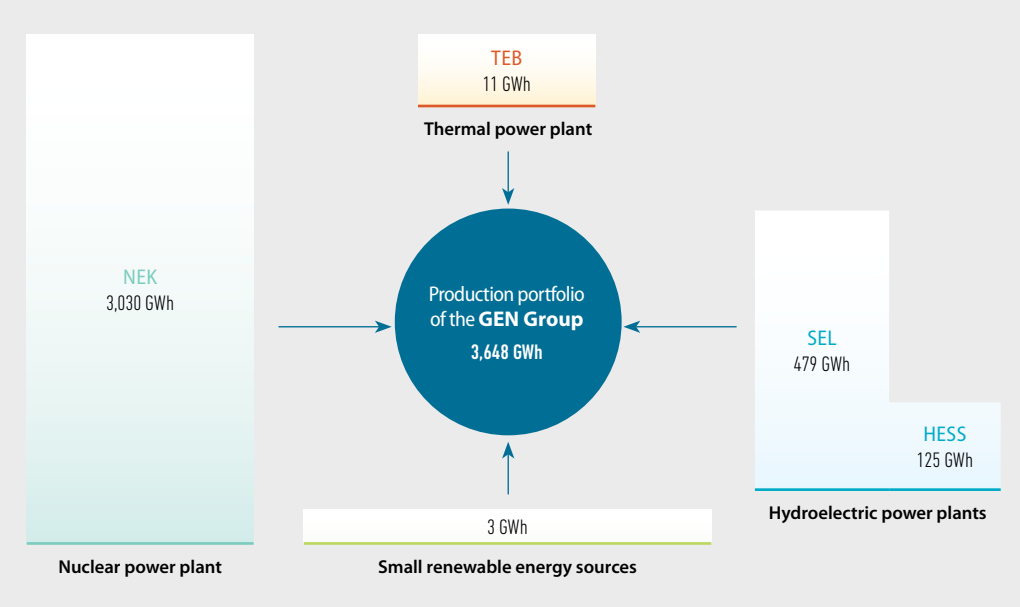
NEK		NEK	**TOTAL**
Net electrical output	MW	696.0	**696.0**
Generator power rating	MVA	850.0	**850.0**

SEL	No. of generating units	Moste	Završnica	Mavčiče	Medvode	Vrhovo	SHP	**TOTAL**
		2	1	2	2	3	4	
Net electrical output	MW	13.0	8.0	38.0	25.0	34.0	0.3	**118.3**
Generator power rating	MVA	18.0	11.0	50.0	27.0	42.9	0.4	**149.3**
Gross head Hbr.	m	70.0	177.0	17.5	20.8	8.7		**294.0**
Installed flow rate Qi	$m^3/_s$	26.0	6.0	260.0	150.0	500.0		

HESS	No. of generating units	Boštanj	Arto - Blanca	Krško	**TOTAL**
		3	3	3	
Net electrical output	MW	32.5	39.1	39.1	**110.7**
Generator power rating	MVA	43.5	49.5	49.5	**142.5**
Gross head Hbr.	m	7.5	9.3	9.1	**25.9**
Installed flow rate Qi	m^3/s	500.0	500.0	500.0	

TEB		PB1	PB2	PB3	PB4	PB5	**TOTAL**
Net electrical output	MW	23.0	23.0	23.0	114.0	114.0	**297.0**
Generator power rating	MVA	32.0	32.0	32.0	155.0	155.0	**406.0**

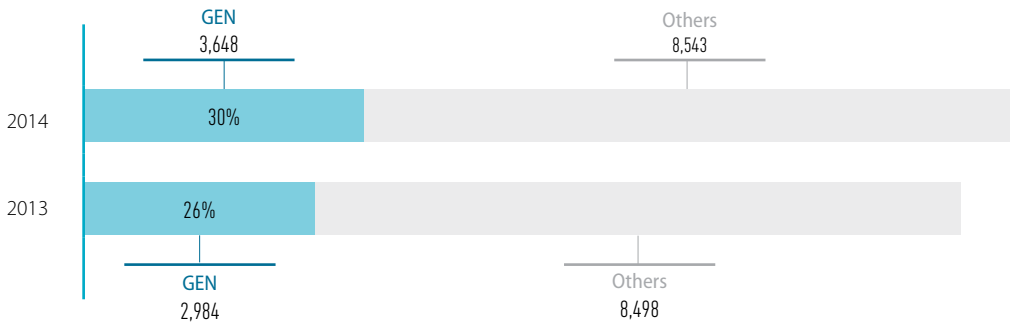
Figure 2.4 **Electricity production in the GEN Group by source in 2014 (GWh)**



In addition to large production facilities, the GEN Group companies also own small production units, which are operated and managed independently and are excluded from the GEN balancing subgroup.

The GEN Group's small production units generated a combined total of 2.54 GWh of electricity from renewable energy sources in 2014.

Figure 2.5 **Production output of the GEN Group in proportion to Slovenia's total electricity output in 2014 and 2013 (GWh)**



Source: ELES, Electricity Transmission System Operation Monthly Report for December 2014 and December 2013

Operational efficiency

Our production units did remarkably well in 2014. At group level, we exceeded the total electricity output from 2013 by as much as 22%.

NEK

Krško Nuclear Power Plant (NEK), the GEN Group's largest production unit, delivers base load power on the daily load curve throughout the year. Its 2014 electricity production output was 6,060 GWh. The amount of electricity available to the GEN Group, pursuant to the Intergovernmental Agreement on NEK, was 3,030 GWh.

NEK's 2014 operations were greatly influenced by the fact that no maintenance outage was needed that year (since the fuel cycle there, i.e. the interval between two successive fuel replacements, is 18 months). Also, no unscheduled shutdowns were recorded in 2014. Having operated safely and reliably in 2014, the power plant generated record amounts of electricity, the highest in its history.

NEK unit capability and load capacity factors in 2014

NEK unit capability factor
(according to WANO): 100%

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

NEK load capacity factor:
100%

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

SEL

Within the national power grid, SEL's production units are primarily designed to deliver electricity on the daily load curve while allowing the possibility of storing night-time energy for use during the day. Most of the hydroelectric power plants on the River Sava are run-of-the-river facilities with daily water storage capacity, meaning they can participate in grid-wide frequency control on a day-to-day basis in response to unevenly distributed load curves (at different times of the day). Moste HPP is the only hydroelectric power plant in Slovenia with a weekly storage capacity. This means it can participate in grid-wide frequency control on a weekly basis in response to unevenly distributed load curves.

In 2014, the combined output of SEL's large hydroelectric power plants was 479 GWh, which is a 22.78% increase over the previous year. The higher production output compared to the previous year can be attributed to increased flow rates of the River Sava.

In 2014, the company completed all scheduled refits and inspections of its generators and replaced the grid-connected transformer at Mavčiče HPP.

TEB

How much electricity TEB generates is largely dependent on how often the power plant needs to be started up, as a backup source, to jump in if any larger unit in the national power grid comes offline. When electricity market conditions are good, however, a portion of TEB's output is also offered in the market. TEB generated 11 GWh of electricity in 2014.

But since GEN supplied TEB with electricity from other production units in the GEN balancing subgroup in order to satisfy TEB's on-site energy needs, TEB's net production output was 6.1 GWh.

Most of the electricity was generated for tertiary frequency control of the power grid. For this purpose, a total of 47 activations were recorded in 2014: individual gas turbine units at TEB and SEL were started up 93 and 17 times respectively. The combined output was slightly above 8.3 GWh of electricity. TEB's output was low despite a large number of startups, which goes to show, among others, that the operation of the rest of the production units – in the GEN balancing subgroup and the entire power grid – was reliable and stable. It was therefore not necessary to run TEB for backup on a larger scale.

Successfully and on schedule, TEB completed its regular annual reviews of all its gas turbine units and carried out measurements and visual inspections of the equipment and instrumentation in accordance with the maintenance plan. Nothing out of the ordinary was found during the refit and reviews other than the pending issue of the three old gas turbine units, PB1, PB2 and PB3, spare parts (particularly instrumentation) for which are increasingly harder to procure.

HESS

GEN received 125 GWh of electricity from HESS in 2014, which accounts for a 180.11% target rate over the preceding year and is the result of good hydrological conditions and the increased equity stake in the company HESS.

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

Low-carbon energy source portfolio

As much as 99.7% of the electricity generated by the GEN Group power plants comes from sustainable and renewable sources: nuclear and hydro.

Table 2.1 **Electricity outputs of the GEN Group's large production units in 2014 and 2013 (GWh)**

	Result 2014	Result 2013	Ratio
NEK	3,030	2,518	1.20
SEL – large HPPs	479	390	1.23
HESS for GEN	125	69	1.81
TEB	11	5	2.20
TOTAL	**3,645**	**2,983**	**1.22**

Table 2.2 **The GEN Group's electricity production portfolio is based around sustainable and renewable energy sources**[1]

Energy type	GEN Group power plant	Electricity output in 2014 (GWh)	Proportion of total GEN Group output
Nuclear	NEK	3,030	83%
Hydro	HESS for GEN SEL	125 479	17%
TOTAL		**3,634**	**100%**

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

In 2014, the GEN Group again made a large contribution to promoting low-carbon electricity generation. Efficiently and safely, and with a view to preserving and improving the quality of the environment and mitigating climate change.

In terms of CO_2 emissions, the GEN Group's production portfolio is environmentally acceptable and oriented towards sustainability by comparison with the national portfolio of electricity generation sources, as is evidenced by the respective CO_2 emissions per kWh produced.

On the national scale, thermal power plants, with 1.2 kg, were again the largest source of emissions per kWh produced in 2014. That is almost three times the national average, which is 460 g. By contrast, the average CO_2 emissions per kWh produced by the GEN Group, whose main energy sources are nuclear and hydro, is a mere 3 g.

Figure 2.6 **Breakdown of electricity generation sources in Slovenia for 2014 and 2013**

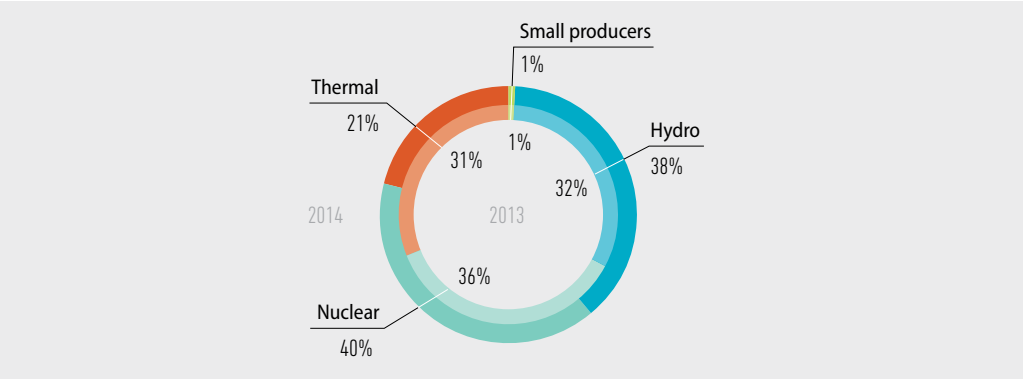


Figure 2.7 **Breakdown of electricity generation sources in the GEN Group for 2014 and 2013**

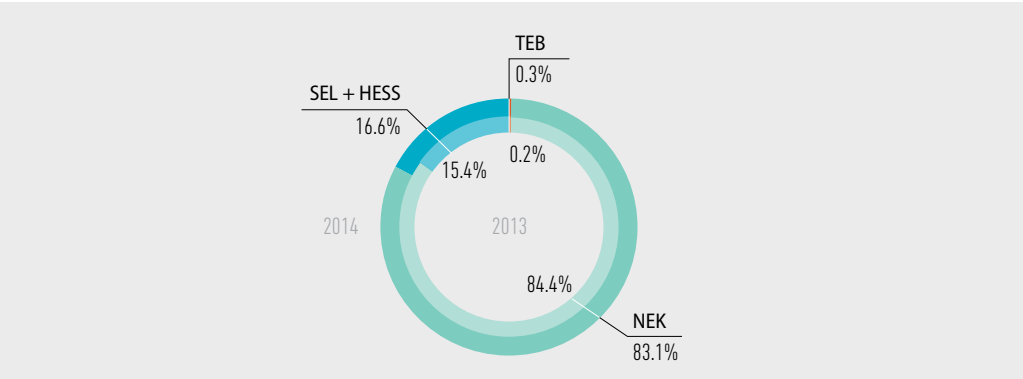
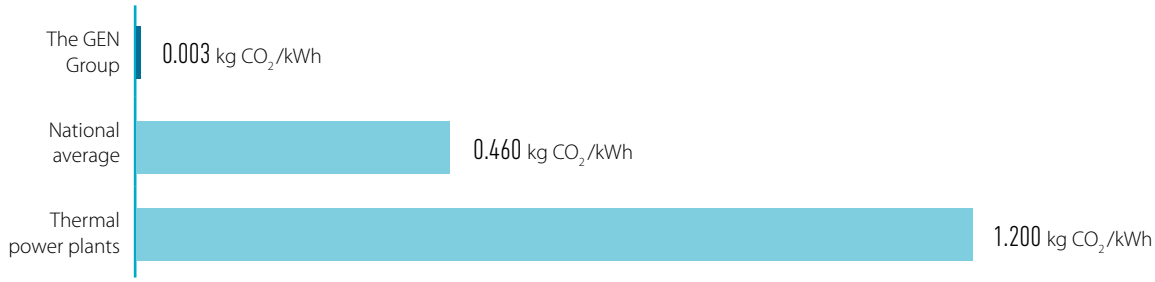


Figure 2.8 **Comparison of CO_2 emissions per kWh produced in 2014**



ANCILLARY SERVICES

Due to its remarkably stable operation and ability to provide large amounts of reactive power, NEK also plays a key support role in the balancing of critical operational and voltage conditions in the electric power grid within the European UCTE system.

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

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

Brestanica Thermal Power Plant

2.3 Electricity purchasing

Figure 2.9 **Electricity purchased by the GEN Group in 2014 and 2013 (GWh) – 50% consolidation of GEN-I and NEK**

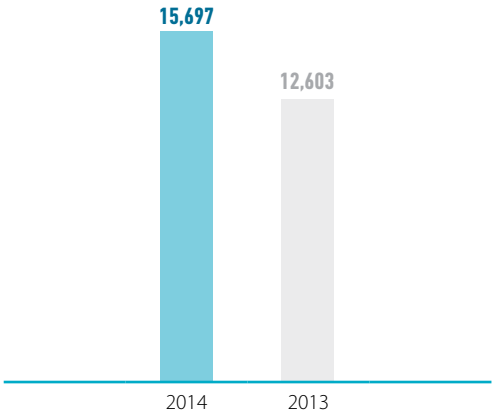
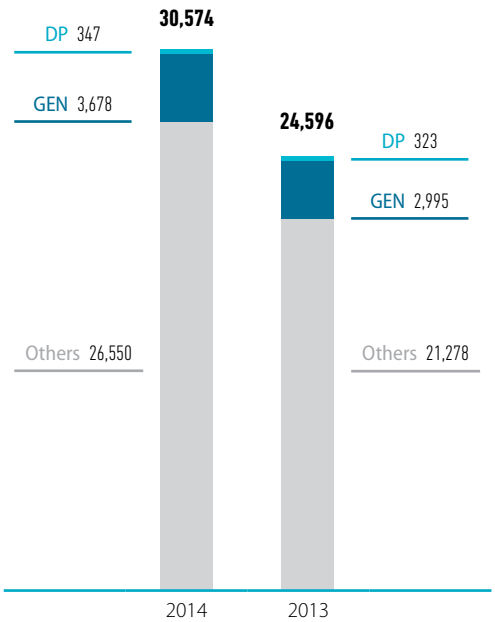


Figure 2.10 **GEN Group companies' electricity purchases in 2014 and 2013 (GWh)**



The GEN Group's purchase portfolio comprises electricity generated by the Group's own production units and electricity purchased from other sources.

The dominant source used for generating electricity within the Group's own production units is nuclear energy. A significant portion of the portfolio is also represented by renewable energy sources and the capability of providing ancillary services, particularly tertiary frequency control.

The purchasing side of the Gen Group's portfolio has been expanded with not only our own production units but also other domestic and foreign producers and energy brokers. This allows us to accommodate any requirement, of large and small consumers alike, since we have developed a comprehensive range of broking services to support electricity market sales, from intra-day to years-long trades. It is the resulting flexibility that allows the Group to purchase electricity from different types of producers. In this respect, a particularly strong emphasis is placed on producers possessing a declaration for their production unit (hereinafter: DP).

The volume of electricity purchased in 2014 increased by 24.56% year over year, taking into account only half the amounts of electricity purchased by the companies NEK and GEN-I due to their proportional consolidation.

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

The GEN Group companies purchased a combined total of 30,574 GWh of electricity, which is up by 24.31% from the previous year. This includes 347 GWh purchased from other producers (DP) and 3,678 GWh provided by GEN from its own production units. The remaining electricity purchasing side of the portfolio reflects supplies secured by GEN-I's trading division.

2.4 Electricity trading and sales

In 2014, we stayed on course in electricity trading and sales, and we sold increasingly large amounts of electricity from our own sources, thanks to our in-house knowledge and competences.

The GEN Group is a well-organized electricity trader, with cross-border wholesale trading infrastructure that gives us access to all pricing data and the information needed to ensure optimal use of production resources. To maximize the utilization of production resources and to ensure a safe, reliable and quality supply of electricity to consumers, day-ahead and intra-day electricity trades were introduced in 2008. In 2014, the Group, working with GEN Control Centre, continued selling excess electricity and buying electricity to make up for shortfalls as and when needed.

In terms of electricity sales, the connection between GEN and GEN-I is a crucial one. The underlining feature of the relationship between the two is that GEN-I sells electricity for GEN under strict terms and conditions. In this context, GEN is primarily responsible for supplying base load electricity, whereas GEN-I delivers the necessary modulation for us to be able to match our service precisely to customers' wishes at the level of the GEN Group. Most of GEN's annual electricity output is sold based on the company's annual sales strategy approved by GEN's Supervisory Board. To be able to provide exactly the right amounts of electricity on a day-to-day basis as contracted, and to optimize sales, the Group makes short-term purchases of electricity or sells excess electricity as and when applicable.

TRADING

30,574 GWh of electricity was available for trading in 2014, which is a 24.31% increase over 2013. Our economy of scale increases as we enter new markets, and instruments have been put in place and all required authorizations obtained for the comprehensive management of excess electricity and electricity shortfalls as provided for in contracts for purchasing electricity from generation sources and for supplying electricity to consumers.

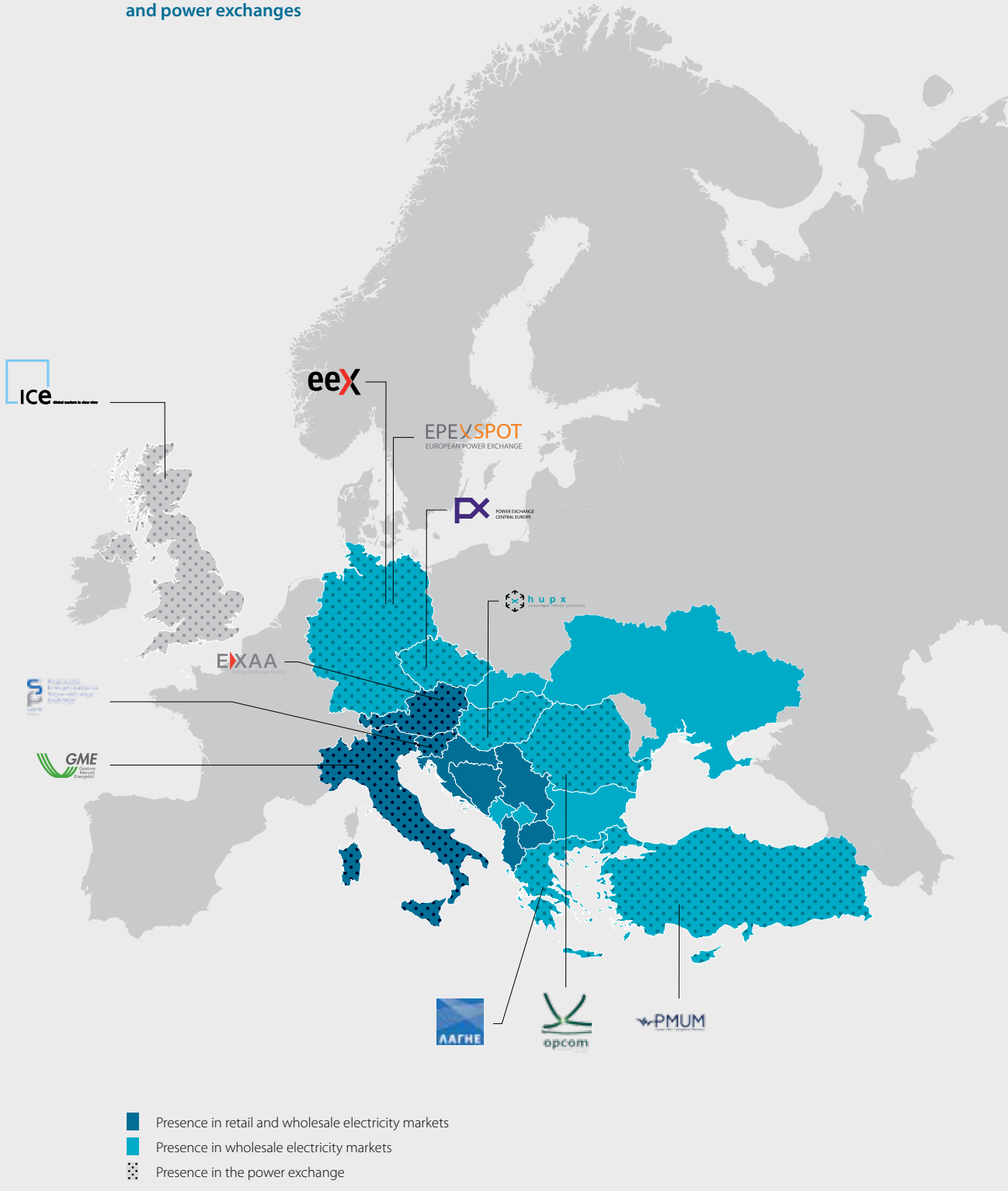
In addition to day trading (day-ahead and intra-day), which is used for making final corrections and optimizing trade, we also employ a number of other dynamic trading mechanisms available in the wholesale electricity market. These include: concluding long- and medium-term material and financial futures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

In times of economic crisis, there is an overarching need to seek forms of business cooperation that allow greater control over risks. Buyers can therefore opt to buy electricity at a predetermined fixed price or to accept the risk of price movements, through price indexation, on a predefined power exchange. These market options are also available to sellers in the electricity market. This allows business partners to better adapt to market conditions and to reduce their exposure to market risks.

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

Slovenia is our most important retail market; however, the growing balancing group is being expand-

Figure 2.11 **The GEN Group's presence in electricity markets and power exchanges**



ed and coordinated through trading activities in the neighbouring markets as well. Our major buyers' and sellers' markets continue to be Germany, Austria, Hungary, Italy, and Slovenia. In 2014, these were joined by the increasingly important buyers' markets of Romania and Bulgaria, and by Macedonia and Greece on the sellers' side. Expansion into foreign markets is driven by subsidiaries possessing all the required authorizations, competences to adapt to distinctive local circumstances, and the right trading infrastructure.

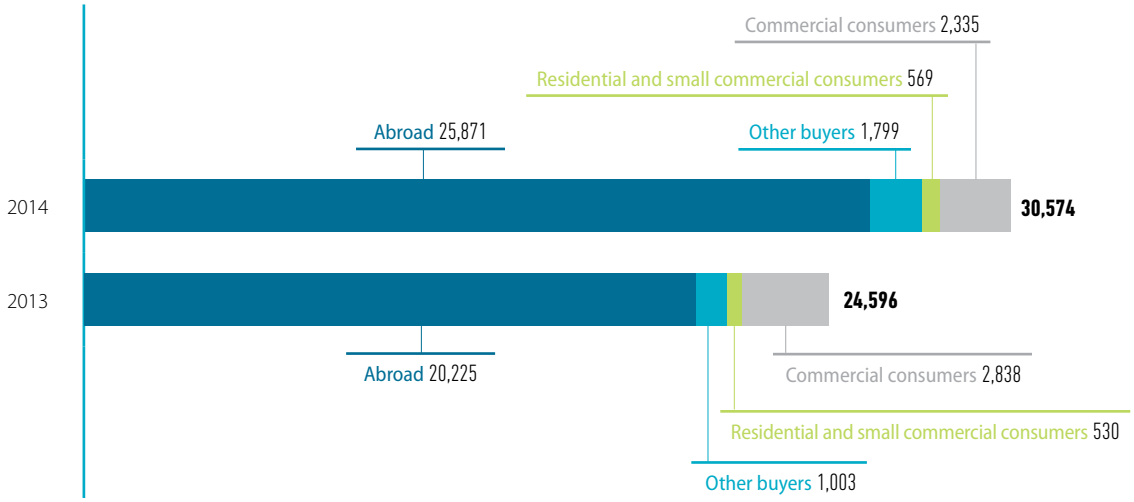
SALES

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

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

In 2014, we were a major player in electricity sales to consumers in Slovenia, and we were also active in supplying electricity to consumers abroad. The key markets here were Croatia and Italy, followed by the increasingly important markets of Austria and Serbia. We make good use of the experience

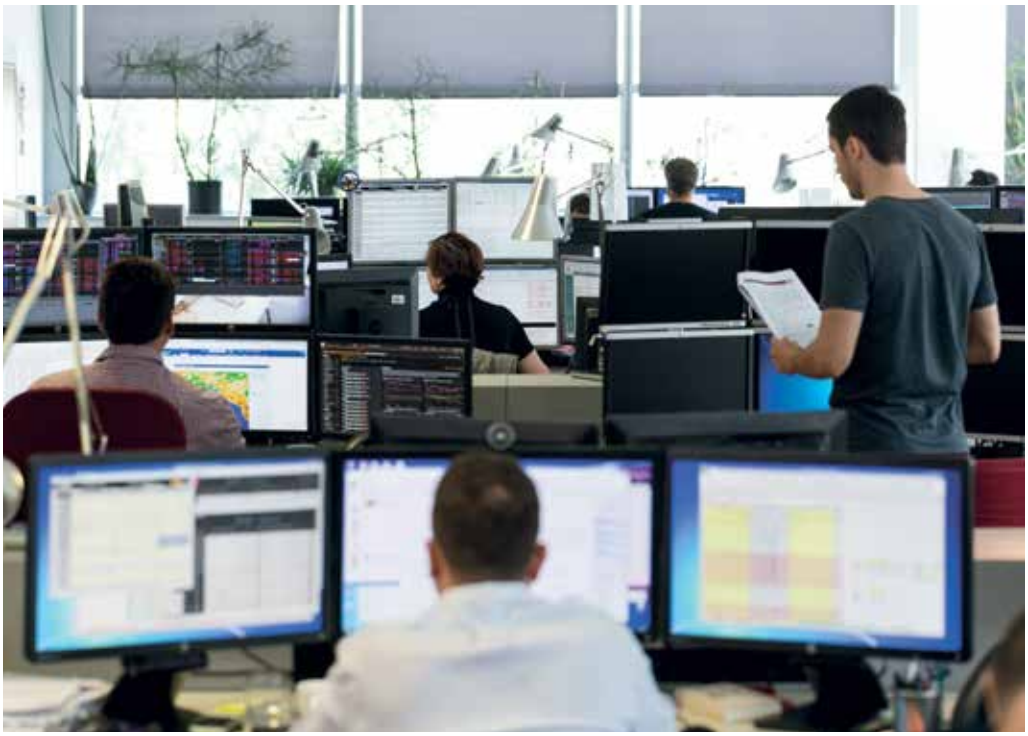
Figure 2.12 **Electricity sold by the GEN Group in 2014 and 2013 (GWh)**



gained for speeding up further development and for identifying new opportunities for retailing in other markets, particularly Southeast Europe.

The GEN Group companies sold most of their electricity, specifically 25,871 GWh, in foreign markets. 4,703 GWh of electricity was sold in the home market. Most of it went to commercial consumers: 2,335 GWh. The amount of electricity sold to residential consumers and small commercial consumers (SCC) increased from 530 GWh in 2013 to 569 GWh in 2014. Sales to other buyers, who purchased electricity for satisfying household demand, increased as well.

GEN-I trading floor



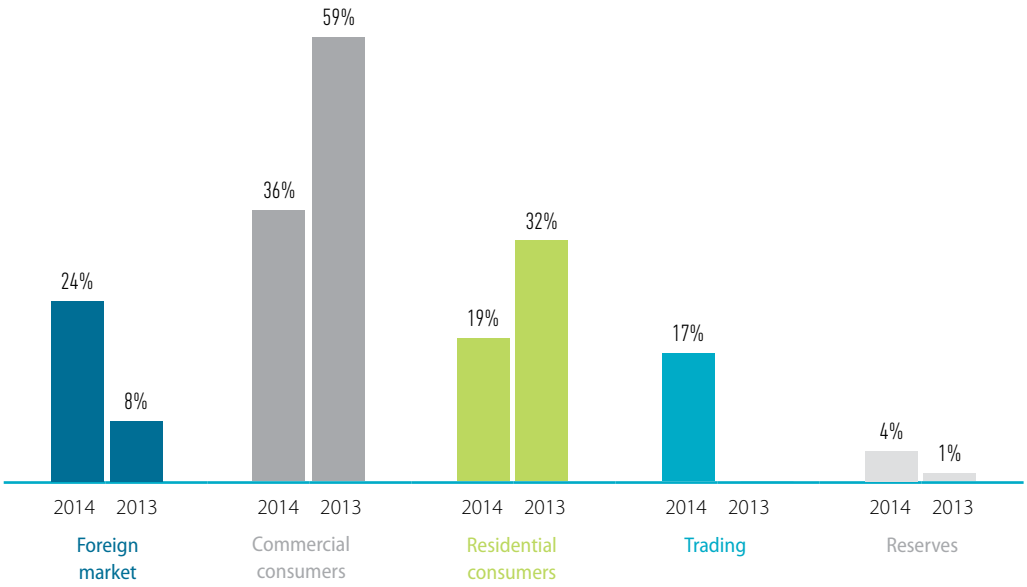
2.5 Sales of natural gas

Sales of natural gas in the GEN Group are in the domain of the subsidiary GEN-I, which entered the Slovenian market as the first independent supplier of natural gas in September 2012.

GEN-I purchases natural gas on European power exchanges, where prices are dictated not only by fluctuations in oil prices but also supplies currently on offer. This way, the sources we buy natural gas from are diversified among trusted and best-known West European partners. We bought 112.7 million Sm^3 of natural gas (equivalent to 1,200 GWh) in 2014. 81.8 million Sm^3 (871 GWh) was sold in the domestic market, 27.1 million Sm^3 (289 GWh) abroad.

A great many consumers switched natural gas suppliers in 2014 as well. The number of consumers supplied by GEN-I decreased from the previous year, but still the bulk of GEN-I's customer base in the home market are residential consumers, which buy natural gas from us under the „Cheap Gas" brand. GEN-I also acquired some commercial customers in foreign markets, so that the total number of consumers of natural gas has increased to around 18,500.

Figure 2.13 **Natural gas sales structure in the GEN Group in 2014 and 2013**



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

The area of research and development, capital expenditures and investments is essential to the long-term operating stability and future development of individual companies and the GEN Group as a whole. The financial resources allocated to this end totalled EUR 134.27 million in 2014. Taking into account the rules of consolidation, the value of investments in the GEN Group stood at EUR 111.43 million.

R&D, CAPITAL EXPENDITURES AND INVESTMENTS OF THE PARENT COMPANY

The company GEN spent EUR 59.09 million on research and development and capital expenditures and investments in 2014.

Since the company's profits are the most important source of funding, the outlined investments were, for the most part, paid for out of profits from the current and previous years. In addition, EUR 1.24 million of depreciation allowances was used as an alternative source of funding.

Figure 2.14 **R&D, capital expenditures and investments of the GEN Group companies in 2014 (EUR million)**

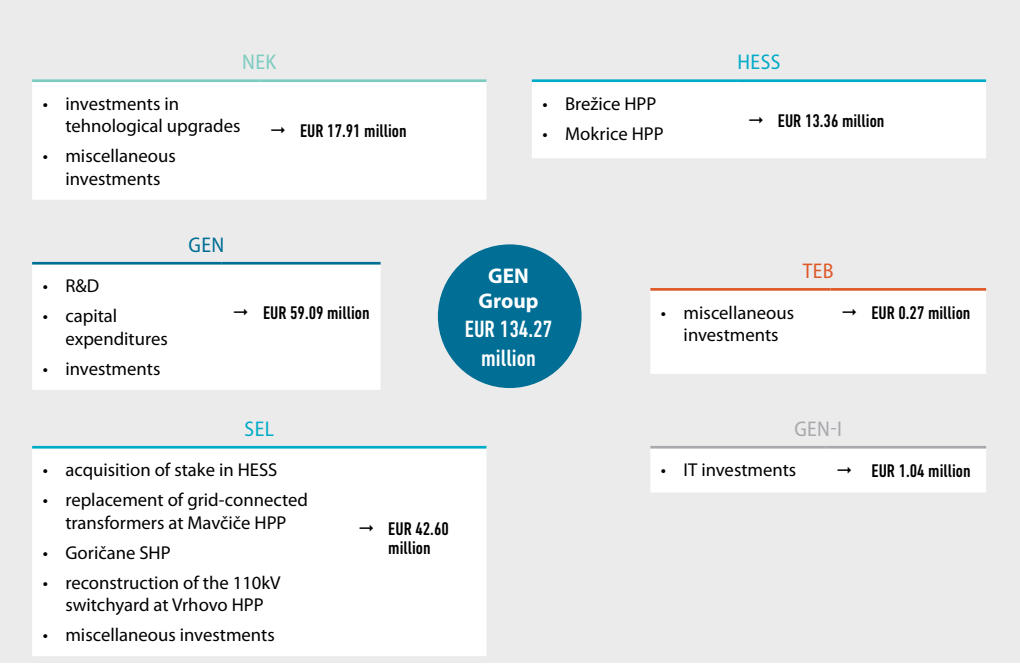


Table 2.3 **R&D, capital expenditures and investments of the company GEN in 2014 (EUR million)**

	Result 2014	Result 2013	Ratio
RESEARCH & DEVELOPMENT	**1.07**	**1.85**	**0.5761**
JEK 2-related studies	**0.70**	1.69	0.4119
Other studies	**0.37**	0.16	2.2600
CAPITAL EXPENDITURES	**1.22**	**1.81**	**0.6737**
NPP production capacity expansion	**0.83**	1.43	0.5811
Miscellaneous investments	**0.39**	0.39	1.0156
INVESTMENTS	**56.80**	**1.01**	**56.3457**
HESS construction project	**0.00**	1.01	0.0000
Acquisition of capital shares, capital injections	56.80	0.00	
TOTAL	**59.09**	**4.68**	**12.6382**

Project to expand nuclear generation capacities – JEK 2

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

Strategic framework: the electricity supply situation in Slovenia

The situation with electricity supply in Slovenia has intensified in recent years. As the gross domestic product grew and the standard of living moved closer to that of developed EU Member States, power consumption increased. Because domestic production could no longer keep up, Slovenia experienced a shortage of electricity as high as 25%. The country was therefore becoming increasingly dependent on imported electricity. With the global economic crisis, which emerged in 2008 and persisted up until 2013, the situation took a dramatic turn for the worse. In 2014, however, Slovenia's economy bounced back. This brought an end to a years-long trend of declining electricity consumption.

Table 2.4 **How the JEK 2 project meets sustainable development criteria**

Sustainable development criterion	JEK 2 project characteristics
Social aspect	Long-term reliable and safe production and supply of electricity by using top-of-the-range, most advanced and safest technologies
Environmental aspect	Minimal impacts on the environment, mitigation of climate change, optimal utilization of space
Economic aspect	Stable prices and competitiveness, both for Slovenia's households and economy

UMAR issued optimistic economic forecasts, which will pave the way for increased demand for electricity.

Slovenia is also facing the problem of relatively old electricity generation facilities, which are going to be eventually replaced with new ones. At the same time, we are growing increasingly aware of environmental impacts and our EU climate and energy commitments. All this calls for an examination of the possibility of expanding the generation capacity of Krško Nuclear Power Plant by adding a new unit. Installed capacity of the planned second nuclear power plant unit would be somewhere in the range of 1,100 MWe and 1,600 MWe, and the new unit could be connected to the grid sometime between 2025 and 2030.

New regulatory framework for energy utilities

A pivotal regulatory document governing the energy sector, the Energy Act (EZ-1), was passed in the beginning of 2014. The proposed act refers to the Energy Concept of Slovenia (ECS), a central development document that corresponds to the national energy programme. Taking into account projections of nationwide economic, environmental and social development and the accepted international commitments, the ECS will set out goals for securing a reliable, sustainable and competitive energy supply, foreseeably for the next 20 years, and roughly for 40 years.

Stages of the JEK 2 project

The JEK 2 project is divided into five stages:

- **STAGE 1 – Preparations and strategic decision-making**, which encompasses strategic, political decision-making on the future development of Slovenia and the country's energy policy.
- **STAGE 2 – Location selection and approval**, which encompasses an administrative procedure for siting a new nuclear build.
- **STAGE 3 – Decision-making on the JEK 2 investment**, which encompasses a supplier selection procedure, the search for potential investors for JEK 2, and the obtaining of a building permit.
- **STAGE 4 – Construction of JEK 2**
- **STAGE 5 – Commercial operation of JEK 2**

Current status of the project

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

In 2014, we have carried out studies, analyses and activities, among others, for the JEK 2 project in the following key areas:

- geology and seismology,
- development of the local environment to serve as supporting infrastructure for the successful completion of the JEK 2 project, and
- sustainability appraisal for the development of Slovenia's energy sector up to the year 2030, with a special focus on nuclear technology.

In the area of research and development related to JEK 2, 0.70 million euros' worth of various studies and analyses were conducted in 2014.

Figure 2.15 **JEK 2 project stages**

Plans for 2015

Under the JEK 2 project, in 2015 we will continue conducting substantial technical analyses in conjunction with geological and seismological surveys, which are relevant both to JEK 2 and the existing Krško Nuclear Power Plant, and we will carry on revising and updating economic analyses in support of the corporate decision-making process. Part of these activities will be carried out in-house. We will focus special attention on keeping up to date with the progress made in connection with the Energy Concept of Slovenia, and we will play an active part in technical and public debates, among others.

Acquisition of equity stakes, capital injections

In June, we signed a Letter of Intent for the purchase of a stake in the company Hidroelektrarne na Spodnji Savi, d.o.o. An agreement to sell and purchase stakes and to define relationships between the contracting parties GEN, HSE and SEL was signed in July 2014.

By paying the purchase price in the amount of EUR 96 million in October 2014, the GEN Group became the majority, 51% owner of the company HESS. Respective stakes of the companies GEN energija d.o.o., SEL and TEB are 33.5%, 14.7% and 2.8%.

Development-oriented investments in new companies: ZEL-EN and ARJE

In 2011, the company GEN joined in to establish the centre ZEL-EN, razvojni center energetike d.o.o., as a partner with a 9.28% stake in share capital. ZEL-EN Centre was started with the purpose of promoting technological advancement in the context of energy industry development. In 2014, 16 research and development projects were carried out on individual partners' premises under the auspices of the centre, and we successfully completed one shared project whose aim was to build the ZEL-EN Development Institute. The research and development projects are part-financed by the Ministry of

Key benefits of the planned JEK 2 project

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

Economic Development and Technology and the European Regional Development Fund.

Four development projects were underway on GEN's premises in 2014, with six employees working on them at the beginning of 2014 and three at the end of the year.

In April 2014, the company GEN joined in to establish the company ARJE, analize in raziskave na področju jedrske energetike, d.o.o., as one of two partners, each with a 24% stake in the company's share capital. ARJE currently employs one researcher, and in 2014 we successfully completed a research project on the topic of light water reactor core modeling.

Parent company's research and development, investment and capital expenditure plans for 2015

In terms of investments and capital expenditures, we are going to stay on track in 2015. We will carry on implementing activities started in previous years and activities that were not feasible in the past. The financial resources for this are expected to amount to EUR 1.2 million.

Most of the resources have been earmarked for investments in the project to build hydroelectric power plants on the middle course of the River Sava and in the upgrade of GEN CC to GEN AC. Since the company HESS plans to hire in 2015 a long-term loan in the amount of EUR 60 million to finance the construction of Brežice HPP, no follow-up payments by partners have been foreseen for 2015. Also, new equity stakes may be secured. Each purchase of an equity stake will be assessed individually and properly backed by all the prescribed documents of the company's governing bodies before it is finalized. Acquisitions of equity stakes – if it is decided to go through with them – will be financed through other own resources and, in the case of larger investments, by hiring a long-term loan.

RESEARCH AND DEVELOPMENT, INVESTMENTS AND CAPITAL EXPENDITURES IN SUBSIDIARIES

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

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

If corrective maintenance work is carried out on key equipment that is included in the preventive maintenance schedule, we conduct a detailed analysis of the cause and, if needed, revise the respective preventive maintenance schedule accordingly. In 2014, most maintenance activities were carried out on running production units according to applicable preventive maintenance schedules.

NEK

NEK is committed to making ongoing strategic investments in technological modernization and upgrades. The standard procedure is to make five-year investment plans, and the average annual value of investments in technological modernization is around EUR 35 million. Because of the natural disaster in Japan that devastated the Fukushima Daiichi nuclear power plant, and based on the results of subsequent

stress tests, which revealed the need for additional modifications to NEK, the value of capital expenditures is well expected to rise in the long run. Under the Intergovernmental Agreement on NEK, the financial resources for capital expenditures need to be provided by NEK's partners.

NEK continued to undergo comprehensive technological modernization in 2014 in accordance with its long-term investment programme. The investment value was EUR 17.91 million. It included 17 minor technological upgrades carried out during power operation. The value of investments in technological upgrades was lower than planned, because most of the investments had to do with preparation work for capital expenditures expected to be implemented during the 2015 maintenance outage, and what is more, because it was decided not to continue with the comprehensive safety upgrade programme until a final decision has been made to extend NEK's service life. This is why the common understanding reached between GEN and HEP, its Croatian partner, to extend NEK's service life until 2043 based on economic projections is of enormous importance. This decision, crucial in energy future terms, will allow the implementation of the planned safety upgrade and is also the result of remarkably successful 32 years of NEK's operation and business activity.

In 2014, NEK mainly carried out activities related to preparations for projects and international tenders for safety upgrade projects and to preparations for major technological upgrades to be implemented during the 2015 maintenance outage or in the next fuel cycle. The latter include the following complex projects, among others:

- replacement of in-core instrumentation – replacement of the system for measuring the spatial distribution of the neutron flux in the reactor core,
- upflow conversion of the lower core plate,
- replacement of the steam-driven auxiliary turbine pump,
- reconstruction of the entire on-site power system of the switchyard and reconditioning of the switchyard lighting system, and
- improvement to the flood safety of NEK facilities.

Investments in technological modernization in 2015 will continue to be driven by administrative requirements and operational experience so as to further improve the operational safety and stability of the power plant. The outlay earmarked for this purpose totals EUR 56.18 million and will be fully funded through depreciation allowances.

SEL

SEL consistently carries out periodic major maintenance on its facilities and makes intense development efforts in terms of tapping hydro energy. In 2014, SEL spent EUR 2.67 million in depreciation allowances and other own resources on investments and development, and an additional EUR 39.93 million for securing a stake in the company HESS.

An important part of SEL's investing operations in 2014 was the replacement of grid-connected transformers at Mavčiče HPP. The project, which started back in 2013, was completed on schedule. The first transformer was replaced in September 2013, the second one in March 2014. The period of trial operation ended in June. In the beginning of November, when conditions were right, they also measured the noise level of the new transformers and confirmed it is within the required limits.

At the end of December, SEL closed a deal to purchase Goričane SHP along with the concession. A conceptual design was completed in December 2014, followed by the drawing up of an investment programme and design for obtaining a building permit and by the subsequent issuance of a building permit.

2014 also saw the successful completion of the Vrhovo HPP 110kV switchyard reconstruction project.

In 2015, SEL will continue to invest financial resources in capital expenditures and further development

of its existing production facilities and to look for new opportunities in harnessing renewable energy sources for electricity generation. The total sum earmarked for capital expenditures and development is EUR 6.48 million.

TEB

In 2014, TEB spent EUR 0.27 million in own resources on capital expenditures and development.

A building permit was obtained for TEB's most important and most extensive project – the replacement of gas turbine units PB 1–3. Numerous studies conducted to date have shown that TEB's gas turbine unit replacement project is feasible, technically and economically viable, and will increase the environmental acceptability level of the power plant. The first stage of the project envisages the construction of an auxiliary gas turbine unit with a capacity in the range of 40–70 MW, which is to be put into operation by the end of 2017 at the latest. This way, TEB will further strengthen its vital role in providing reliable ancillary services within the national power grid.

Also underway at TEB is the construction of an IT facility on the location of the former 20kV switchyard, which will add to the reliability and performance of its information technologies. This is of the essence for TEB's successful operations. In 2014, they finalized the relevant design documents and submitted an application for obtaining a building permit.

TEB's financial resources earmarked for capital expenditures and development in 2015 amount to EUR 14.04 million.

HESS

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

Major progress was made on the investment part of the project in 2014 with the beginning of the construction of Brežice HPP in March. Public procurement procedures for the supply of equipment and provision of construction work were completed, and all major contracts, in the total amount of over EUR 89 million, were signed by the end of 2014. The actual construction activity was very intense as well: groundwork was completed, main construction work began in the construction pit, a turbine prototype was developed and tested, and the first of the radial (Tainter) gates arrived at the construction site. Individual operations on Brežice HPP were completed according to schedule, in some segments even ahead of schedule. Krško HPP successfully completed its trial operation and received an operating licence. Now all three operational power plants possess operating licences.

HESS spent EUR 13.36 million in own resources on capital expenditures and development in 2014.

In 2015, HESS will be directing most of its investment potential into the construction of Brežice HPP. Apart from using its own resources, the company is also going to hire a long-term loan in the amount of EUR 30 million to finance the capital expenditures. The total value of planned investments in HESS is EUR 35.62 million.

GEN-I

GEN-I spent a total of EUR 1.04 million in own resources on capital expenditures and development. A major portion of the financial resources was spent on IT equipment, which is absolutely essential to the proper functioning of trading and sales applications, as well as on other capital expenditures vital to the company's operations.

In 2015, GEN-I will spend most of its investment resources, in the amount of EUR 1.20 million, on implementing and upgrading comprehensive data management systems and on upgrading the rest of its existing IT systems.

2.7 Financial operations

Krško Hydroelectric Power Plant

Despite the country's difficult economic situation, the companies had no problem at all meeting their financial and trade liabilities within applicable contractual terms of payment. Also, our customers were successful in meeting their financial obligations.

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

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

SERVICING OPERATIONS AND BORROWING

The key function of financial operations in 2014 was planning a suitable amount of liquid funds for ensuring solvency. A major part in ensuring solvency is played by obligations arising from the supplied electricity and power. Particularly important is the obligation to cover NEK's fixed costs, which is one of the principal leverages for the prompt settlement of GEN's liabilities and for the optimization of surpluses and shortfalls among the GEN Group companies. Appropriate liquidity was also ensured through consistent recovery of past-due accounts. This applies particularly to GEN-I, but since GEN-I has this matter thoroughly covered by terms and conditions, no major problems have been encountered to date.

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

Short-term borrowing is most frequently undertaken by GEN-I to ensure sufficient liquidity for electricity trading operations. In the past, this was done mainly in the form of loan hiring, but in 2014, after having successfully entered the Slovenian capital market in 2013, they again released 12-month commercial papers and managed to secure the necessary financial resources to the tune of EUR 35 million from non-bank institutional investors.

Long-term borrowing is undertaken by our production companies, primarily for the purposes of investments and major maintenance, whereas NEK also hires long-term loans to purchase fuel, whose lifetime spans more than one year due to the nuclear power plant's inherent nature of operation. NEK was the only company in the GEN Group to take out a long-term loan in 2014; it was used for financing the replacement of the reactor head, application of surfacing welds on the pressurizer, and capital expenditures in technological upgrades. NEK paid off the loan in 2014.

The loans were secured by bank guarantees, and the financing liabilities were denominated in EUR.

FULFILMENT OF OBLIGATIONS TO THE NEK FUND

Pursuant to the Intergovernmental Agreement on NEK, the Act on the Fund for Financing the Decommissioning of NEK and Disposal of Radioactive Waste from NEK (Official Gazette of the Republic of Slovenia, No. 75/1994 and amendments thereto), and the Decision of the Government of the Republic of Slovenia No. 311-01/2001-21 of 07/10/2004, the company GEN is obligated to pay, on a regular basis, into the NEK Fund a contribution in the amount of EUR 3 for each MWh of electricity produced by NEK. EUR 9.09 million was paid into the NEK Fund in 2014.

SECURING FUNDING FOR COVERING NEK'S FIXED ANNUAL COSTS

Under the Intergovernmental Agreement on NEK, the company GEN is obligated to cover NEK's fixed costs incurred over a period of one year regardless of whether the power plant is in operation or not. Since NEK is the dominating production unit in the GEN Group, whereby the

performance and operations of the Group are heavily dependent on its stable operation, the Group is exposed to considerable risks even if only short outages of the power plant occur. To secure the resources for covering NEK's fixed costs, the company GEN decided as early as 2004 to make long-term provisions for one-half of NEK's annual fixed costs (the other half is to be provided by the other co-owner of NEK).

The total amount of provisions was finalized as early as the end of 2009, but because NEK's fixed operating costs vary, the amount of provisions needs to be adjusted. To ensure the amount of provisions is adjusted in as balanced and objective way as possible, so as to allow proper estimation of future expenses arising from an onerous contract, since 01/01/2014 provisions are adjusted, in accordance with SAS 10.16., based on the three-year average of the fixed costs as defined in the NEK Economic Plan. In 2014, the company GEN reversed provisions in the amount of EUR 519,500, so the closing balance of provisions at the end of the reporting period was EUR 76.72 million. The company GEN will continue to follow the strategy of making and adjusting provisions in accordance with the Economic Plans adopted by NEK.

SURPLUS CASH INVESTING

Investing activities for provisioning

On 25/08/2014, the Supervisory Board of the company GEN was presented with a change in the form of a Revised GEN Energija Investment Strategy for Surplus Cash earmarked for covering long-term provisions (hereinafter: Investment Strategy). As mentioned earlier, the purpose of these provisions is to cover NEK's fixed costs in the event of unplanned reductions in NEK's electricity generation output. Most notably, the Investment Strategy introduces changes to the range of options available with regard to surplus cash investments: due to the unpredictability of the financial markets, the option of investing in debt and equity securities has been removed; investing is therefore limited only to deposits with financial institutions and with a maximum maturity of six months.

Following the Investment Strategy, the company GEN invested its surplus cash exclusively in deposits with maturity from one to six months. The funds were spread among various banks, delivering a steady rate of return – 1.626% on average in 2014 – despite declining interest rates.

Investing activities with surplus cash earmarked for further investment

Since the financial markets in Slovenia are unpredictable, the company GEN pushed for, and went through with, some of the planned investments and capital expenditures as set out in the GEN Development Scheme, substantially reducing the volume of surplus cash. Accordingly, we adjusted our approach to investing surplus cash in deposits in order to spread the risk associated with surplus cash management. As a result, we adopted a revised version of the Strategies and procedures for investing surplus cash in the form of deposits/loans to banks, which introduced changes to the conditions for investment transactions due to the reduction in the amount of available surplus cash.

Given the unpredictable nature of the financial markets, GEN reviewed the surplus cash management practices in its subsidiaries and found that the Group companies employ similar management methods for reducing the risks associated with such investments.

ANALYSIS OF OPERATING PERFORMANCE

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

PERFORMANCE INDICATORS FOR THE COMPANY GEN AND THE GEN GROUP

According to the indicators, the company GEN and the GEN Group continue to be in good condition. We are ready to make new capital expenditures, and it will be very important in this respect to take into account the difficult economic situation and the founder's expectations with regard to rates of return.

As evidenced by the performance indicators, the GEN Group companies achieved remarkable business results in 2014 despite the challenging market conditions.

Table 2.5 **Performance indicators for the company GEN and the GEN Group in 2014 and 2013**

Performance indicators	Company		Group	
	2014	2013	**2014**	2013
Equity financing rate	**81.42%**	81.34%	**77.40%**	71.58%
Long-term financing rate	**96.14%**	96.48%	**87.33%**	83.85%
Operating fixed assets rate	**3.10%**	3.15%	**66.31%**	47.53%
Long-term investment rate	**88.03%**	78.85%	**67.30%**	54.00%
Equity to operating fixed assets	**26.31**	25.81	**1.17**	1.51
Long-term financing of fixed assets	**1.07**	1.20	**1.28**	1.52
Immediate solvency ratio – acid test ratio	**1.64**	4.63	**1.26**	1.60
Quick ratio	**2.74**	5.56	**2.16**	2.52
Current ratio	**2.74**	5.57	**2.77**	2.99
Operating efficiency ratio	**1.11**	1.11	**1.04**	1.04
Net return on equity ratio	**0.04**	0.04	**0.05**	0.04

2.8 Employees, knowledge and development of human resources

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

We make ongoing efforts to provide education and training opportunities to all the employees of the GEN Group companies, as well as to promote their professional and personal growth. The Group had 1,180 employees in 2014, 77 more than the year before. The number of employees is consistent with the Group's growth and development and the corresponding challenges.

NUMBER OF EMPLOYEES AND STRUCTURE OF QUALIFICATIONS

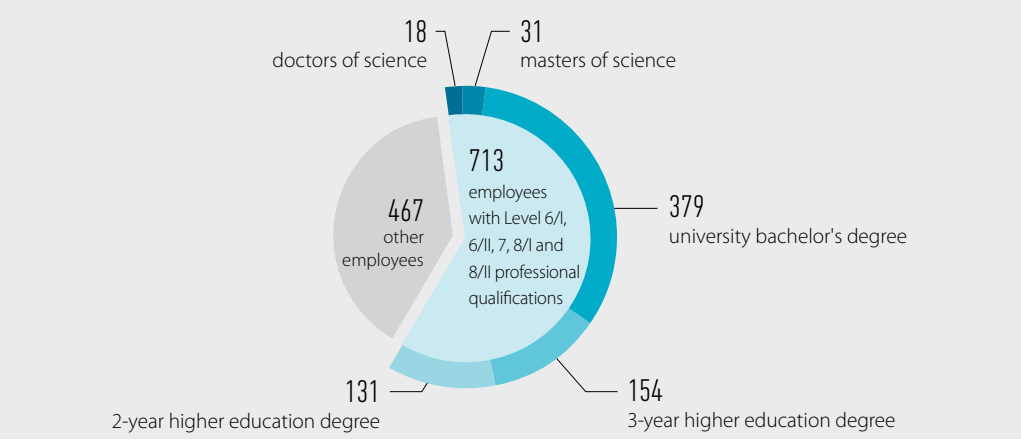
Due to the complexity and scale of work in the GEN Group companies, more than half of the Group's employees have at least a higher education qualification. The increase in the number of employees in 2014 is, above all, the result of the companies' rapid growth. A low employee turnover rate goes to show that our employees are highly dedicated and motivated to work in an environment that stimulates and promotes knowledge, responsibility and networking.

The data in the table refer to the whole companies or the whole group, not taking GEN's equity interests in individual companies and the rules of consolidation into account. At the end of 2013, the number of employees in the GEN Group was 1,103.

The GEN Group had 18 doctors of science, 31 masters of science and 379 bachelors of science/arts in 2014. The key areas of expertise covered by employees with Level 8 professional qualifications (Masters and Doctors of Science) are:

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

Figure 2.16 **GEN Group employees with Level 6/I, 6/II, 7, 8/I and 8/II professional qualifications**



PROFESSIONAL EDUCATION AND TRAINING

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

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

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

The development of employees in the company GEN is driven by creating a stimulating work environment and maintaining a high level of business ethics. The company GEN received the Family-Friendly Enterprise Certificate in 2013, whose main purpose is to further strengthen the employees' sense of satisfaction and dedication. To date, numerous measures have been incorporated into our work processes that make it easier for employees to balance their private lives and careers.

SCHOLARSHIPS AND DEVELOPMENT OF HUMAN RESOURCES

In the GEN Group, we recognize the importance of systematically developing suitable and competent human resources, mostly in the areas of natural and technical sciences.

The main reasons for this are twofold:

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

Table 2.6 **Number of employees in the GEN Group companies as at 31/12/2014 by level of qualification**

GEN Group	Result 31/12/2014											Result 31/12/2013
	Level 1	Level 2	Level 3	Level 4	Level 5	Level 6/I	Level 6/II	Level 7	Level 8/I	Level 8/II	TOTAL	
GEN	0	0	0	0	4	6	5	33	1	3	**52**	51
GEN-I	0	0	0	0	44	6	68	92	12	7	**229**	192
NEK	0	4	2	26	256	80	54	203	14	7	**646**	636
SEL	5	0	0	22	36	20	5	18	2	0	**108**	111
TEB	0	4	0	20	33	15	10	21	1	1	**105**	113
HESS	0	0	0	1	10	4	12	12	1	0	**40**	0
TOTAL	**5**	**8**	**2**	**69**	**383**	**131**	**154**	**379**	**31**	**18**	**1,180**	**1,103**

Table 2.7 **Some of the major education and training sessions attended by the GEN Group companies in 2014**

Company	Focus of the professional education and training in 2014	Specialized education and training in the area of nuclear energy
GEN	• regular active participation in industry conferences, seminars, panel discussions, and meetings at home and abroad • periodic functional education, training and workshops aiming to promote additional knowledge in the areas of IT, project management, leadership, and organization of work processes	• more extensive education programmes at the ICJT for the Technical Sector, Development and Investments employees working on the JEK 2 project (two- and six-month courses on nuclear power plant technologies – theory and systems)
NEK	• systematic training based on a checklist of competencies required for independent work and performance of work assignments • in-service education and training (50 employees in 2014) • 309 in-house and external courses were attended by 7,554 people in 2014 • courses for external contractors (177 courses in 2014, attended by 3,074 people)	• ongoing professional training: 160 hours per year for reactor operators and senior reactor operators; a minimum of 80 hours per year for shift supervisors; a minimum of 160 hours per year for the rest of the operating personnel; theoretical and simulator-based training, without on-the-job training, a minimum of 32 hours per year for the rest of the technical personnel
SEL	• professional education at faculties and higher education institutions for obtaining formal qualifications (Levels 7 and 6/II) • individual and group training for operators of energy generation equipment • occupational safety training	
HESS	• professional education and training according to field of specialization; participation in industry seminars, workshops, conferences, and panel discussions • 662 hours of education and training, attended by 35 employees (17 hours per employee per year)	
TEB	• professional education and training according to field of specialization • promoting communication skills, good leadership, business communication, and motivational skills • 21 hours of education or training on average per employee per year	
GEN-I	• organization of meetings, lectures and workshops for the management with the purpose of presenting an effective application of a comprehensive set of key competencies • analysis of annual employee development and performance reviews and the formulation of guidelines for further effective and efficient performance management of individuals and the organization	

Scholarship policy

Scholarships are one of the means of promoting the development of human resources. The GEN Group companies provide company scholarships and also participate in standardized regional scholarship schemes, such as the Posavje Scholarship Scheme. We award scholarships under this scheme to secondary school and higher education students pursuing professions that are in high demand among employers, bearing in mind the development needs and employment prospects in the Posavje development region. Under this scheme, 50% of the scholarship is financed by the employer, the rest is provided by the regional development agency or the Slovene Human Resources Development and Scholarship Fund.

At 31/12/2014, the company GEN had 6 scholarship recipients, the GEN Group 22.

The number of scholarships awarded by the GEN Group has declined in recent years, mostly because of restrictions with regard to new hires and changes to the scholarship policy in response to the amended Scholarship Act. The amended Scholarship Act imposes additional administrative and financial obligations on employers and, what is more, reduces the percentage of company scholarship co-funding provided by the Slovene Human Resources Development and Scholarship Fund or the promoter of the regional company scholarships scheme.

Table 2.8 **Number of scholarship recipients by GEN Group company in 2014 and 2013**

	Result 31/12/2014	Result 31/12/2013
GEN	6	8
GEN-I	0	0
NEK	10	20
SEL	5	9
TEB	1	4
HESS	0	0
TOTAL	**22**	**41**

Long-term strategic challenges in terms of human resources

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

2.9 Promoting the knowledge of energy and the energy industry

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

For several years in a row, the GEN Group has been working hard to raise energy awareness and, more importantly, to boost interest in, and strengthen the knowledge of, energy-related topics among our key stakeholders:

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

THE WORLD OF ENERGY AND COLLABORATION WITH SCHOOLS

In July 2011, GEN opened the doors of the World of Energy, a visitor centre designed to demystify the world of energy, electricity, and the energy industry

eSvet web portal on energy and the energy industry launched: www.esvet.si

through modern interactive exhibits, scale models, and multimedia presentations. The centre features a special "Experiment Room," where visitors get to conduct numerous hands-on experiments and where demonstrators conduct attractive electrical experiments during themed workshops. Since its opening through 31/12/2014, the centre recorded 27,377 visitors, with as many as 8,222 in 2014 alone.

A major mission of the World of Energy is also to establish contact and foster good relations with organizations and individuals actively involved in spreading knowledge and promoting interest in natural and technical sciences and the energy industry. Through the World of Energy activities, we seek to encourage mentors and teachers to provide in-depth, comprehensive explanations so as to promote a better understanding of energy-related topics.

SUPPORTING ENERGY INDUSTRY EVENTS AND PROJECTS

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

WEB PORTAL ON ENERGY AND THE ENERGY INDUSTRY: eSvet

In 2014, in association with our industry partners (the GEN Group companies, University of Maribor, Jožef Stefan Institute, ELES, and ARAO), we launched a web portal on energy and the energy industry aptly called eWorld (eSvet). The web portal provides curious individuals with data-driven facts and figures on energy, its role and areas of application in everyday life, energy sources, electricity generation technologies, and the importance of having a reliable electricity supply – now and in the future. The launch of the eSvet web portal was accompanied by a press conference and panel discussion at Cankarjev dom, which attracted more than 100 participants from various parts of the energy industry and other areas connected to the energy industry.

CORPORATE AND PROJECT PRESENTATIONS TO THE PUBLIC

GEN also demonstrates its focus on transparency and openness in communication with interested public stakeholders through various presentations of the GEN Group's operations, activities and major projects, most notably JEK 2. In 2014, we held more than 40 public presentations for various stakeholders: decision-makers, energy industry audiences, representatives of businesses and NGOs, among others.

SPONSORSHIPS AND DONATIONS

With their energy production facilities and operations, the GEN Group companies are closely coupled to the local environments where they operate. In line with our sense of responsibility, we endeavour to help actively shape the life in local communities, particularly in the areas of education, science, sports, culture, charity, healthcare, environmental protection, humanitarianism, and others. In choosing which area to support, we

look into the needs, expectations and interests of the local environment where our companies operate or which their operations impact. In 2014, nearly 60% of all the funding went to the local environments in which our companies operate, and the remaining 40% to organizations around Slovenia.

Table 2.9 **Overview of energy awareness raising activities**

Company	Substance	Target audience	Results (2014)
GEN	The World of Energy (guided tours, Saturday and summer workshops); projects in 2014: The Young in the World of Energy, Technical Wizardry, Young Wizards (in association with NEK), Elektrofest (in association with ELES, EIMV, and the Faculty of Electrical Engineering); eSvet web portal	School children and youth; teachers and professors - mentors; wider professional public; families; local population	8,222 visitors to the World of Energy; 11 Saturday workshops, with 941 participants; The Young in the World of Energy contest available as an elective course in the school curriculum; the Technical Wizardry event attended by 280 visitors; 16 out of 24 technical secondary schools from around Slovenia registered for the Young Wizards quiz competition; Elektrofest was attended by 200 secondary school students from the Posavje region; the launch of the eSvet web portal was attended by 100+ people
NEK	Guided tours of NEK Implementation of the Nuclear Engineering Fundamentals module (in association with the Krško School Centre) The Young Wizards competition (in association with the company GEN – see above)	Schools, faculties and other interested public audiences; local population, Krško-Sevnica School Centre students	230 groups, 5,246 visitors Ongoing cooperation (the theoretical part of the module is taught at school, the practical part in NEK)
SEL	Guided tours of Završnica HPP and the Završnica HPP Technical Museum	Schools, faculties, and professional societies	1,500 visitors
HESS	Guided tours of operating HPPs and the Brežice HPP construction site	Schools, faculties, local community, and professional societies	1,267 visitors
TEB	Guided tours of TEB Girl camp Occupations camp	Schools, faculties, other interested public audiences Ninth-graders Eighth- and ninth-graders	16 tours 584 visitors

2.10 Quality policy and safety assurance

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

QUALITY MANAGEMENT SYSTEM

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

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

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

In March 2015, the Chamber of Commerce and Industry of Slovenia presented Martin Novšak, Director of the company GEN, with an award for outstanding business and entrepreneurial achievements in 2014. The selection was made based on 69 measurable criteria, and the panel also took strategic criteria into account such as sustainability of achievements, business performance and excellence, financial condition, company's position in the market, care for the environment, care for human resources and their training, and a number of other criteria closely related to the quality management systems of the company GEN and the GEN Group.

The table highlights some of the key activities in 2014 associated with the implementation, maintenance and development of management systems, and plans for 2015.

TOP PRIORITY: CONTINUOUS SAFETY UPGRADES

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

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

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

The safety of NEK's operation and the preparation of the JEK 2 project is therefore an overarching priority: in the planning and implementing of decision-making activities and work operations. This includes keeping abreast of best practices in the field of nuclear safety on the global scale and of OSART recommendations (IAEA mission, Operational Safety Review Team, which is expected to conduct a follow-up safety review of NEK in 2017). Great emphasis is placed on equipment

modernization and maintenance and on improving the safety culture and awareness among all employees. Owing to such approaches, NEK ranks in the top 25% of nuclear power plants worldwide in terms of operational safety and stability.

This was again confirmed by the results of an exhaustive technical inspection carried out by a WANO support mission, which was completed in November 2014. NEK received the highest overall grade for nuclear safety and operational readiness. In grading, members of the support mission were clearly pleased with the above-average implementation of recommendations drawn from international operating experience and with NEK's achievements related to the safety culture.

Table 2.10 **Overview of quality management, environmental management, and occupational health and safety activities in 2014 and plans for 2015**

Company	Certificate	Implemented activities	Key plans for 2015
NEK			
	ISO 14001	Recertification in November 2014	• internal audit
	OHSAS 18001	First recertification audit	• preparation of new OHS objectives and targets
SEL			
	ISO 14001	Recertification in September 2014	• internal audit and external control audit • implementation of environmental programmes • starting the transition to the new version of the standard
	OHSAS 18001	Recertification in September 2014	• internal audit and external control audit • implementation of activities in compliance with OHS/fire safety and internal regulations
	ISO 9001	Recertification in September 2014	• starting the transition to the new version of the standard
TEB			
	ISO 9001	First external control audit in the fifth cycle (March 2014)	• preparations for the follow-up audit in 2016 • completed deployment of an electronic signature facility for all documents
	ISO 14001	Second external control audit in the fourth cycle (March 2014)	• implementation of recommendations for system improvements made during the 2015 control audit
	OHSAS 18001	Second external control audit in the third cycle (March 2014)	• implementation of recommendations for system improvements made during the 2015 control audit
GEN			
	ISO 9001	Implementation of the quality management system, which is in compliance with the requirements of the international standard ISO 9001:2008.	• management system certification, award of the ISO 9001:2008 certificate in the first quarter of 2015 based on the system implementation from 2014 • integration of ISO 9001:2015 requirements

2.11 Risk management

Risks are an inherent part of any business. And each risk stems from the uncertainty associated with unforeseeable events.

We manage risks by adhering to the adopted Risk Management Guidelines and policies set out in the Risk Management Manual. Based on the two documents and our insight into the subsidiaries' operations, the risks can be classified as follows:

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

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

STRATEGIC RISKS

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

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

Krško Nuclear Power Plant (NEK) is the central energy generation facility in the Group and in the country. Because we, as owners of Slovenia's part of the facility, acknowledge the risks and our responsibility around the clock, all year round, we monitor its operation on multiple levels.

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

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

Corporate governance by the founder

Capital investment management, conducted by the Slovenian Sovereign Holding (hereinafter: SSH), is an important aspect of strategic risk management. Pursuant to the Slovenian Sovereign Holding Act (Official Gazette of the Republic of Slovenia, No. 105/2012 and amend.), the SSH is responsible for managing capital investments owned either by the Republic of Slovenia or by the SSH itself.

The SSH exercises partner rights pursuant to CA-1 and, in doing so, also adheres to other binding documents laying down provisions on good corporate governance practices adopted by the SSH itself (particularly the Management Code for Assets Owned by the Republic of Slovenia) or by expert associations (particularly the Management Code for Publicly Traded Companies). The SSH also follows binding documents expressing the SSH's positions on some of the aspects of management (particularly the Recommendations of the Manager of Indirect and Direct Capital Investments of the Republic of Slovenia and the yearly SSH guidelines for voting in companies' general meetings).

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

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

MARKET RISKS

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

The company GEN reduces its exposure to market risks through an elaborate electricity sales strategy, which remains fixed and unchanging for the most part. To a smaller extent, the strategy is updated, expanded and adjusted each year according to market conditions. Based on the adopted strategy, the company GEN sells most of its expected production output before the start of the year in which it is actually supplied. This substantially reduces the price risk, meaning the company is only exposed to unplanned outages of generation facilities (particularly NEK) and subnormal hydrological conditions.

The risks associated with the sales of electricity for ancillary services have shown in the past to be enormous as the tendering procedure for ancillary services announced by ELES allowed foreign providers to also bid for larger quantities of tertiary frequency control. We managed to effectively mitigate these risks by selling most of these services on a long-term basis, up to 2019.

QUANTITY RISKS

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

Risks associated with electricity production refer to the electricity generated by the production companies. Particularly significant in the risk of NEK outage, the most vital energy production facility in terms of production output. We seek to manage this risk by making provisions on the purchase side and by adjusting the production cost for TEB on the sales side, which serves as the marginal price that GEN would have to pay for alternative energy and the reserve kept for this purpose.

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

The GEN Group places a heavy stress on limiting and managing external risks. For this purpose, the Group has put in place proper IT support for long- and short-term forecasting of electricity offtake and feed profiles as well as for daily monitoring of variations in quantity at most of its offtake and feeding points. A key part in this respect is played by GEN Control Centre.

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

FINANCIAL RISKS

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

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

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

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

Currency risk is present in electricity trading and cross-border transmission capacity trading operations. Also exposed to credit risk are the subsidiaries' capital and loans. Currency risk exposure is present in international trades or in conducting transactions with countries with an official currency other than the euro. This primarily entails exposure to exchange rate differences that occur between the time the contract is signed and the moment the contractual sum is actually paid.

HUMAN RESOURCES RISKS

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

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

LEGAL RISKS

Legal risks refer to losses incurred due to violation or misinterpretation and non-observance of the law, regulations, directives, recommendations, valid agreements and contracts, good practices, or ethical standards. The company manages these risks primarily by laying down contractual provisions as precisely as possible.

OPERATIONAL RISKS

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

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

INVESTMENT RISKS

The operation of NEK is crucial to the current business of the company GEN and to the development of nuclear technology in Slovenia. For this reason, we keep track of NEK's operations on every level. Employee education and training play a vital part in this respect.

Since the JEK 2 project is essential to the national economy, we have been faced with general risks all along, the most notable being the political decision to go ahead with the project and the inclusion of the project in the national strategic programme on the one hand, and the project's social acceptability on the other.

We manage general risks by keeping the Government of the Republic of Slovenia, competent technical and decision-making institutions, and other key stakeholders up to date with facts affecting the feasibility and strategic importance of the JEK 2 projects, which serve as bases for making the necessary decisions for the construction of JEK 2. If the JEK 2 project is given a go-ahead, the risks associated with it will be managed and kept in check separately.

Monitoring and cooperation in the construction of HPPs on the River Sava are important risk managements techniques for the companies GEN and SEL.

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

Summary financial report of the company GEN

3.1 Independent auditor‘s report

Building a better working world

This is a translation of the original report in Slovene language

INDEPENDENT AUDITORS' REPORT ON THE SUMMARY FINANCIAL STATEMENTS

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

The accompanying summary financial statements, which comprise the summary balance sheet as at 31 December, 2014, the summary income statement and related notes are derived from the audited financial statements of GEN energija, d.o.o. for the year ended 31 December, 2014. We expressed an unmodified audit opinion on those financial statements in our auditors' report dated 8 April, 2015. Those financial statements, and the summary financial statements, do not reflect the effects of events that occurred subsequent to the date of our report on those financial statements.

The summary financial statements do not contain all the disclosures required by Slovenian Accounting Standards and by the Slovenian Companies Act. Reading the summary financial statements, therefore, is not a substitute for reading the audited financial statements of GEN energija, d.o.o. for the year 2014.

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

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

Opinion
In our opinion, the summary financial statements derived from the audited financial statements of GEN energija, d.o.o. for the year ended 31 December, 2014 are consistent, in all material respects, with those financial statements.

Ljubljana, 22 May 2015

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

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

Matija Repušič
Certified Auditor

3.2 Basis for preparing the financial statements and financial report of the company GEN

In compliance with CA-1, the following pages contain a summary financial report which forms an integral part of the Annual Report of the GEN Group for 2014. The summary presents all the main features of 2014 operations and summary financial statements prepared based on the audited balance sheet, income statement, statement of other comprehensive income, and statement of changes in equity.

The financial statements are presented in EUR without cents.

3.3 Financial statements of the company

BALANCE SHEET OF THE COMPANY

Table 3.1 **Balance sheet of the company as at 31/12/2014**

	31/12/2014	31/12/2013
ASSETS	**522,822,086**	**511,556,954**
A. Fixed assets	**467,856,183**	411,105,770
I. Intangible assets and long-term deferred expenses and accrued income	**319,172**	384,542
II. Tangible fixed assets	**15,862,731**	15,737,612
III. Long-term financial investments	**444,043,317**	387,246,820
IV. Deferred tax assets	**7,630,963**	7,736,796
B. Current assets	**54,803,428**	100,259,593
I. Short-term financial investments	**21,882,534**	83,374,861
II. Short-term operating receivables	**21,937,350**	16,884,396
III. Cash	**10,983,544**	336
C. Short-term deferred expenses and accrued income	**162,475**	191,591
LIABILITIES	**522,822,086**	**511,556,954**
A. Equity	**425,672,398**	416,078,553
I. Called-up capital	**26,059,796**	26,059,796
II. Capital reserves	**239,609,558**	239,609,558
III. Revenue reserves	**151,305,132**	142,611,209
IV. Revaluation surplus	**3,989**	11,454
V. Net profit or loss for the financial year	**8,693,923**	7,786,536
B. Provisions and long-term accrued expenses and deferred income	**76,936,931**	77,414,817
I. Provisions and long-term accrued expenses and deferred income	**76,936,931**	77,414,817
C. Long-term liabilities	**41,452**	39,608
I. Long-term financial liabilities	**31,000**	39,608
II. Long-term operating liabilities	**10,452**	0
D. Current liabilities	**20,029,836**	18,020,911
I. Current operating liabilities	**20,029,836**	18,020,911
E. Short-term accrued expenses and deferred income	**141,469**	3,065

INCOME STATEMENT AND STATEMENT OF OTHER COMPREHENSIVE INCOME OF THE COMPANY

Table 3.2 **Income statement of the company for 2014**

	2014	2013
TOTAL INCOME	**175,246,327**	183,083,657
Operating income	**172,161,611**	179,287,528
Financing income	**3,084,275**	3,796,108
Other income	**441**	21
TOTAL EXPENSES	**155,061,332**	164,790,470
Operating expenses	**154,871,693**	161,257,114
Original cost of goods, materials and services	***141,557,310***	*145,820,947*
Labour costs	***2,890,419***	*2,829,101*
Write-offs	***1,243,667***	*1,328,290*
Other operating expenses	***9,180,297***	*11,278,776*
Financing expenses	**5,878**	3,302,678
Other expenses	**183,761**	230,678
TOTAL PROFIT OR LOSS	**20,184,995**	**18,293,187**
INCOME TAX	**2,797,150**	2,720,116
NET PROFIT OR LOSS	**17,387,845**	**15,573,071**

Table 3.3 **Statement of other comprehensive income of the company for 2014**

	2014	2013
Net profit or loss for the period	**17,387,845**	**15,573,071**
Other components of comprehensive income	**4,806**	13,800
Total comprehensive income for the period	**17,392,651**	**15,586,871**

STATEMENT OF CHANGES IN EQUITY OF THE COMPANY

Table 3.4 **Statement of changes in equity of the company for 2013 and 2014**

As at 31/12/2012
As at 01/01/2013
Changes in equity capital – transactions with owners
Paid-out dividends
Total comprehensive income for the reporting period
Input of net profit or loss for the reporting period
Other components of comprehensive income
Changes in equity
Distribution of a portion of net profit – resolution by company bodies
As at 31/12/2013
As at 01/01/2014
Changes in equity capital – transactions with owners
Paid-out dividends
Total comprehensive income for the reporting period
Input of net profit or loss for the reporting period
Other components of comprehensive income
Changes in equity
Distribution of a portion of net profit – resolution by company bodies
As at 31/12/2014

Share capital	Capital reserves	Statutory reserves	Other revenue reserves	Revaluation surplus	Net profit or loss from previous years	Net profit or loss	Total
26,059,796	**239,609,558**	**2,605,980**	**132,218,694**	**0**	**7,405,716**	**0**	**407,899,744**
26,059,796	**239,609,558**	**2,605,980**	**132,218,694**	**0**	**7,405,716**	**0**	**407,899,744**
0	0	0	0	0	-7,405,716	0	-7,405,716
					-7,405,716		-7,405,716
0	0	0	0	11,454	0	15,573,071	15,584,525
						15,573,071	15,573,071
				11,454			11,454
0	0	0	7,786,535	0	0	-7,786,535	0
			7,786,535			-7,786,535	
26,059,796	**239,609,558**	**2,605,980**	**140,005,229**	**11,454**	**0**	**7,786,536**	**416,078,553**
26,059,796	**239,609,558**	**2,605,980**	**140,005,229**	**11,454**	**7,786,536**	**0**	**416,078,553**
0	0	0	0	0	-7,786,536	0	-7,786,536
					-7,786,536		-7,786,536
0	0	0	0	-7,465	0	17,387,845	17,380,380
						17,387,845	17,387,845
				-7,465			-7,465
0	0	0	8,693,922	0	0	-8,693,922	0
			8,693,922			-8,693,922	
26,059,796	**239,609,558**	**2,605,980**	**148,699,152**	**3,989**	**0**	**8,693,923**	**425,672,398**

Summary financial report of the GEN Group

4.1 Independent auditor‘s report

Building a better working world

This is a translation of the original report in Slovene language

INDEPENDENT AUDITORS' REPORT ON THE SUMMARY FINANCIAL STATEMENTS

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

The accompanying summary consolidated financial statements, which comprise the summary consolidated balance sheet as at 31 December, 2014, the summary consolidated income statement and related notes are derived from the audited consolidated financial statements of Group GEN for the year ended 31 December, 2014. We expressed an unmodified audit opinion on those consolidated financial statements in our auditors' report dated 8 April, 2015. Those consolidated financial statements, and the summary consolidated financial statements, do not reflect the effects of events that occurred subsequent to the date of our report on those consolidated financial statements.

The summary consolidated financial statements do not contain all the disclosures required by Slovenian Accounting Standards and by the Slovenian Companies Act. Reading the summary consolidated financial statements, therefore, is not a substitute for reading the audited consolidated financial statements of Group GEN for the year 2014.

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

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

Opinion
In our opinion, the summary consolidated financial statements derived from the audited consolidated financial statements of Group GE for the year ended 31 December, 2014 are consistent, in all material respects, with those consolidated financial statements.

Ljubljana, 22 May 2015

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

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

Matjaž Rejc
Certified Auditor

4.2 Basis for preparing the financial statements and financial report of the GEN Group

OVERVIEW OF THE GEN GROUP

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

Table 4.1 **Overview of the GEN Group**

Company name	Status in the Group	Equity stake
GEN energija	**Parent**	
GEN-I	Jointly controlled	50%
NEK	Jointly controlled	50%
HESS	Subsidiary	51%
TEB	Subsidiary	100%
SEL	Subsidiary	100%

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

The jointly controlled company GEN-I is also a controlling company. Its wholly owned subsidiaries are incorporated into the Group based on the chain consolidation method or through consolidation of the subgroup of the subsidiary GEN-I.

The subsidiary SEL:

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

The subsidiary HESS:

- is indirectly a subsidiary of the company GEN as of 20/10/2014, since, through the acquisition of additional 20.9% and 14.7% stakes in HESS by the companies GEN and SEL respectively, the combined indirect stake increased from the previous 15.4% to 51%,
- was included in the first consolidation with the cutoff date of 31/10/2014; the effect of surplus arising from accounting for the investment with the capital invested in a stake in HESS, is recognized in the income statement under items Revenue from investment in shares,
- in consolidation for the financial year, only the financial performance of the company HESS and the HESS Group after the date of the first consolidation is taken into account,
- is also a controlling company, which forms the HESS Group together with the company Partner d.o.o., in which HESS has a 100% equity stake. The company Partner d.o.o. is included in the GEN Group based on the chain consolidation method, or through the consolidation of the HESS subgroup.

AUDIT

All the companies were audited prior to consolidation. The companies GEN, SEL, TEB and HESS were audited by Ernst & Young d.o.o., the company NEK by KPMG Slovenija, d.o.o., and the company GEN-I by Deloitte revizija d.o.o. All the Group companies received unqualified audit opinions from their independent auditors.

4.3 Financial statements of the Group

BALANCE SHEET OF THE GROUP

Table 4.2 **Balance sheet of the Group as at 31/12/2014**

	31/12/2014	31/12/2013
ASSETS	**873,037,400**	**727,394,551**
A. Fixed assets	**595,703,373**	401,285,263
I. Intangible assets and long-term deferred expenses and accrued income	**8,334,746**	2,726,865
II. Tangible fixed assets	**570,537,923**	342,989,749
III. Investment property	**209,062**	232,008
IV. Long-term financial investments	**7,953,682**	46,361,658
V. Long-term operating receivables	**698,929**	725,722
VI. Deferred tax assets	**7,969,031**	8,249,261
B. Current assets	**256,059,884**	310,426,757
I. Inventories	**40,073,469**	36,197,384
II. Short-term financial investments	**79,922,880**	162,767,631
III. Short-term operating receivables	**89,692,777**	100,183,867
IV. Cash	**46,370,758**	11,277,875
C. Short-term deferred expenses and accrued income	**21,274,143**	15,682,531

	31/12/2014	31/12/2013
LIABILITIES	**873,037,400**	**727,394,551**
A. Equity	**675,709,564**	520,668,014
I. Called-up capital	**26,059,796**	26,059,796
II. Capital reserves	**242,535,098**	242,535,098
III. Revenue reserves	**173,556,312**	159,857,562
IV. Revaluation surplus	**-1,246,589**	-1,392,962
V. Net profit from previous years	**82,395,859**	77,585,455
VI. Net profit or loss for the financial year	**19,008,623**	16,307,741
VII. Capital of minority owners	**133,670,761**	0
VIII. Translation adjustment to equity	**-270,296**	-284,676
B. Provisions and long-term accrued expenses and deferred income	**85,136,551**	83,794,100
I. Provisions	**84,352,961**	82,995,738
II. Long-term accrued expenses and deferred income	**783,590**	798,362
C. Long-term liabilities	**1,599,830**	5,451,981
I. Long-term financial liabilities	**535,435**	5,257,171
II. Long-term operating liabilities	**1,064,395**	194,810
D. Current liabilities	**100,089,813**	108,930,486
I. Current financial liabilities	**22,691,760**	20,761,162
II. Current operating liabilities	**77,398,053**	88,169,324
E. Short-term accrued expenses and deferred income	**10,501,642**	8,549,970

INCOME STATEMENT AND STATEMENT OF OTHER COMPREHENSIVE INCOME OF THE GROUP

Table 4.3 **Income statement of the Group for 2014**

	2014	2013
TOTAL INCOME	**739,807,320**	682,826,227
Operating income	**734,353,937**	675,966,607
Financing income	**5,289,339**	6,746,431
Other income	**164,044**	113,189
TOTAL EXPENSES	**707,098,374**	658,442,767
Operating expenses	**702,786,732**	651,673,018
Original cost of goods, materials and services	***602,149,494***	*553,762,849*
Labour costs	***35,562,213***	*34,513,038*
Write-offs	***45,421,633***	*43,313,632*
Other operating expenses	***19,653,392***	*20,083,499*
Financing expenses	**3,949,389**	6,390,242
Other expenses	**362,253**	379,507
TOTAL PROFIT OR LOSS	**32,708,946**	**24,383,460**
INCOME TAX	**3,626,944**	3,628,698
NET PROFIT OR LOSS	**29,082,002**	**20,754,762**
SHARE OF MINORITY OWNERS	**84,001**	**0**
NET PROFIT OR LOSS OF MAJORITY OWNERS	**28,998,001**	**20,754,762**

Table 4.4 **Statement of other comprehensive income of the Group for 2014**

	2014	2013
Net profit or loss for the period	**29,082,002**	**20,754,762**
Gains and losses on remeasuring available-for-sale financial assets	**361,781**	236,890
Gains and losses from translation of financial statements of companies based abroad (impact of changes in exchange rates)	**14,380**	-102,484
Other components of comprehensive income	**-230,398**	1,876,166
Total comprehensive income for the period	**29,227,765**	**22,765,334**
Net profit or loss of minority owners	**84,001**	0
Other components of comprehensive income of minority owners	**-14,990**	0
Net profit or loss of majority owners	**28,998,001**	**20,754,762**
Total comprehensive income for the period for majority owners	**29,158,754**	**22,765,334**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Table 4.5 **Consolidated statement of changes in equity for 2013**

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

Capital reserves	Statutory reserves	Other revenue reserves	Revaluation surplus	Net profit or loss from previous years	Net profit or loss for the financial year	Translation adjustment to equity	Total
242,535,098	**7,610,268**	**142,607,509**	**-3,145,252**	**73,511,600**	**16,726,447**	**-222,310**	**505,683,156**
				-19,135	14,364	-9,224	-13,995
242,535,098	**7,610,268**	**142,607,509**	**-3,145,252**	**85,782,562**	**4,450,714**	**-231,534**	**505,669,161**
0	0	0	0	-7,405,716	0	0	-7,405,716
0	0	0	0	-7,405,716	0	0	-7,405,716
0	0	0	1,752,290	-49,341	20,754,762	-53,142	22,404,569
0	0	0	0	0	20,754,762	-53,142	20,701,620
0	0	0	212,489	0	0	0	212,489
0	0	0	1,539,801	-49,341	0	0	1,490,460
0	512,062	9,127,723	0	-742,050	-8,897,735	0	0
0	512,062	0	0	0	-512,062	0	0
0	0	8,385,673	0	0	-8,385,673	0	0
0	0	742,050	0	-742,050	0	0	0
242,535,098	**8,122,330**	**151,735,232**	**-1,392,962**	**77,585,455**	**16,307,741**	**-284,676**	**520,668,014**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Table 4.6 **Consolidated statement of changes in equity for 2014**

	Share capital	Capital reserves
As at 31/12/2013	**26,059,796**	**242,535,098**
Retroactive adjustments		
As at 01/01/2014	**26,059,796**	**242,535,098**
Changes in equity capital – transactions with owners	0	0
Paid-out dividends	0	0
Other changes in equity	0	0
Total comprehensive income for the reporting period	0	0
Input of net profit or loss for the reporting period	0	0
Gains and losses on remeasuring financial investments	0	0
Other components of comprehensive income	0	0
Changes in equity	0	0
Distribution of the remaining net profit from the comparative reporting period to other equity components	0	0
Distribution of a portion of net profit from the reporting period to other equity components – Management and Supervisory Board resolution	0	0
Distribution of a portion of net profit for additional reserves – General Meeting resolution	0	0
Other changes in equity	0	0
As at 31/12/2014	**26,059,796**	**242,535,098**

Statutory reserves	Other revenue reserves	Revaluation surplus	Net profit or loss from previous years	Net profit or loss for the financial year	Capital of minority owners	Translation adjustment to equity	Total
8,122,330	**151,735,232**	**-1,392,962**	**77,585,455**	**16,307,741**	**0**	**-284,676**	**520,668,014**
			13,196,078	-13,197,507			-1,429
8,122,330	**151,735,232**	**-1,392,962**	**90,781,533**	**3,110,234**	**0**	**-284,676**	**520,666,585**
0	0	0	-7,786,536	0	133,601,750	0	125,815,214
0	0	0	-7,786,536	0	0	0	-7,786,536
0	0	0	0	0	133,601,750	0	133,601,750
0	0	131,383	0	28,998,001	84,001	14,380	29,227,765
0	0	0	0	28,998,001	84,001		29,082,002
0	0	361,781	0	0	0	0	361,781
0	0	-230,398	0	0	0	14,380	-216,018
2,309,055	11,389,695	14,990	-599,138	-13,099,612	-14,990	0	0
2,309,055	0	0	0	-2,309,055	0	0	0
0	10,790,557	0	0	-10,790,557	0	0	0
0	599,138	0	-599,138	0	0	0	0
0	0	14,990	0	0	-14,990	0	0
10,431,385	**163,124,927**	**-1,246,589**	**82,395,859**	**19,008,623**	**133,670,761**	**-270,296**	**675,709,564**

Acronyms and abbreviations

ARJE	ARJE, analize in raziskave na področju jedrske energetike, d.o.o.
Banka Celje	Banka Celje d.d.
bn	billion
CA-1	Companies Act (Official Gazette of the Republic of Slovenia, No. 42/06 and amend.)
CO_2	carbon dioxide
d.d.	joint-stock company
d.o.o.	limited liability company
DP	producers with a declaration for their production facility
e.g.	for example
ECB	European Central Bank
EES	national electric power grid
EEX	European Energy Exchange, Leipzig
EIMV	Milan Vidmar Electrical Engineering Institute
ELES	ELES, Ltd., Electricity Transmission System Operator
ERDF	European Regional Development Fund
etc.	and so on
EU	European Union
EUR	euro
FA	financial assets
GDP	gross domestic product
GEN	GEN energija d.o.o.
GEN AC	GEN Administration Centre
GEN CC	GEN Control Centre
GEN Group	GEN energija Group
GEN IC	GEN Information Centre
GEN-I	GEN-I, trgovanje in prodaja električne energije, d.o.o.
GHG	greenhouse gases
GO	guarantee of origin
GRC	Government of the Republic of Croatia
GRI	Global Reporting Initiative
GRS	Government of the Republic of Slovenia
GWh	gigawatt-hour
HEP	Hrvatska elektroprivreda d.d.
HESS	Hidroelektrarne na spodnji Savi, d.o.o.
HPP	hydroelectric power plant
HSE	Holding Slovenske elektrarne d.o.o.
HSE Invest	HSE Invest d.o.o.
i.e.	that is
IA	intangible assets
ICJT	Nuclear Training Centre Milan Čopič
IGES	IG Energetski sistemi d.o.o.
Intergovernmental Agreement on NEK	The agreement between the Government of the Republic of Slovenia and the Government of the Republic of Croatia governing the status and other legal relationships regarding investments in Krško Nuclear Power Plant, its operation and decommissioning;
ISO standards	international standards for environmental management systems
IT	information technology
JEK 2	Krško Nuclear Power Plant Unit 2
kV	kilovolt
kW	kilowatt
kWh	kilowatt-hour
m^2	square metre

m³	cubic metre
MA/MSc	Master of Arts/Science
MW	megawatt
MWh	megawatt-hour
NEK	Nuklearna elektrarna Krško d.o.o. (Krško Nuclear Power Plant)
NEK Fund	Fund for Financing Decommissioning of NEK and Disposal of Radioactive Waste from NEK
NKBM	Nova kreditna banka Maribor d.d.
NLB	Nova Ljubljanska banka d.d., Ljubljana
NPP	nuclear power plant
OHS	occupational health and safety
OSART	Operational Safety Review Team
PB	gas turbine unit
PFS	prefeasibility study
PhD	Doctor
PWR	pressurized water reactor
RES	renewable energy sources
RS	Republic of Slovenia
SAS	Slovenian Accounting Standards
SB	Supervisory Board
SEL	Savske elektrarne Ljubljana d.o.o.
SHP	small hydroelectric power plant
SKB	SKB banka d.d. Ljubljana
SPP	small photovoltaic power plant
SRESA	Srednjesavske elektrarne d.o.o.
SSH	Slovenian Sovereign Holding
TEB	Termoelektrarna Brestanica d.o.o. (Brestanica Thermal Power Plant)
UCTE	Union for the Coordination of Transmission of Electricity
UMAR	Institute of Macroeconomic Analysis and Development
UniCredit Bank	UniCredit Banka Slovenija d.d
WANO	World Association of Nuclear Operators
ZEL-EN	ZEL-EN, razvojni center energetike d.o.o.