INVESTING WISELY IN A RELIABLE ENERGY FUTURE

SKUPINA

ANNUAL REPORT OF THE COMPANY GEN AND THE GEN GROUP FOR 2016

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

Krško, July 2017

The GEN Group in 2016: **the most investment-focused group in Slovenia**

The GEN Group plans and implements its strategic investments carefully and economically. We continuously keep track and effectively manage all associated risks and opportunities.

We recognize that **responsibly planned investments with a long-term focus** on increasing low-carbon production capacities and further improving the efficiency of energy trading are **crucial to the success of our mission**: to provide commercial and residential consumers with a reliable supply of electricity from sustainable and renewable sources – nuclear and hydro – at competitive prices.

In 2016, we invested a total of **EUR 147 million** in projects closely aligned with our values and mission.

Taking pride in our accomplishments to date, we are focusing even more of our attention on future steps that will lead to the successful and comprehensive realization of our investments. Providing a sound and solid footing for the country's economy and ensuring high quality of living for the country's entire population, the GEN Group's energy projects resulting from these investments play a central part in the future of Slovenia's society.

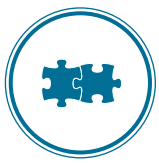
Our values and the GEN Group's key investment projects in 2016

SAFETY

ENVIRONMENTAL ACCEPTABILITY

RELIABILITY

COMPETITIVENESS



SUSTAINABILITY

NEK
Safety upgrade program

HESS
Construction of Brežice HPP and Mokrice HPP

SEL
Investments in SHPs

TEB
Replacement of gas turbine units

GEN-I
Strengthening of the market position

GEN energija
JEK 2 project planning

INVESTMENT VALUE IN 2016

EUR **54.38** m

HESS
EUR **44.82** m

SEL
EUR **2.81** m

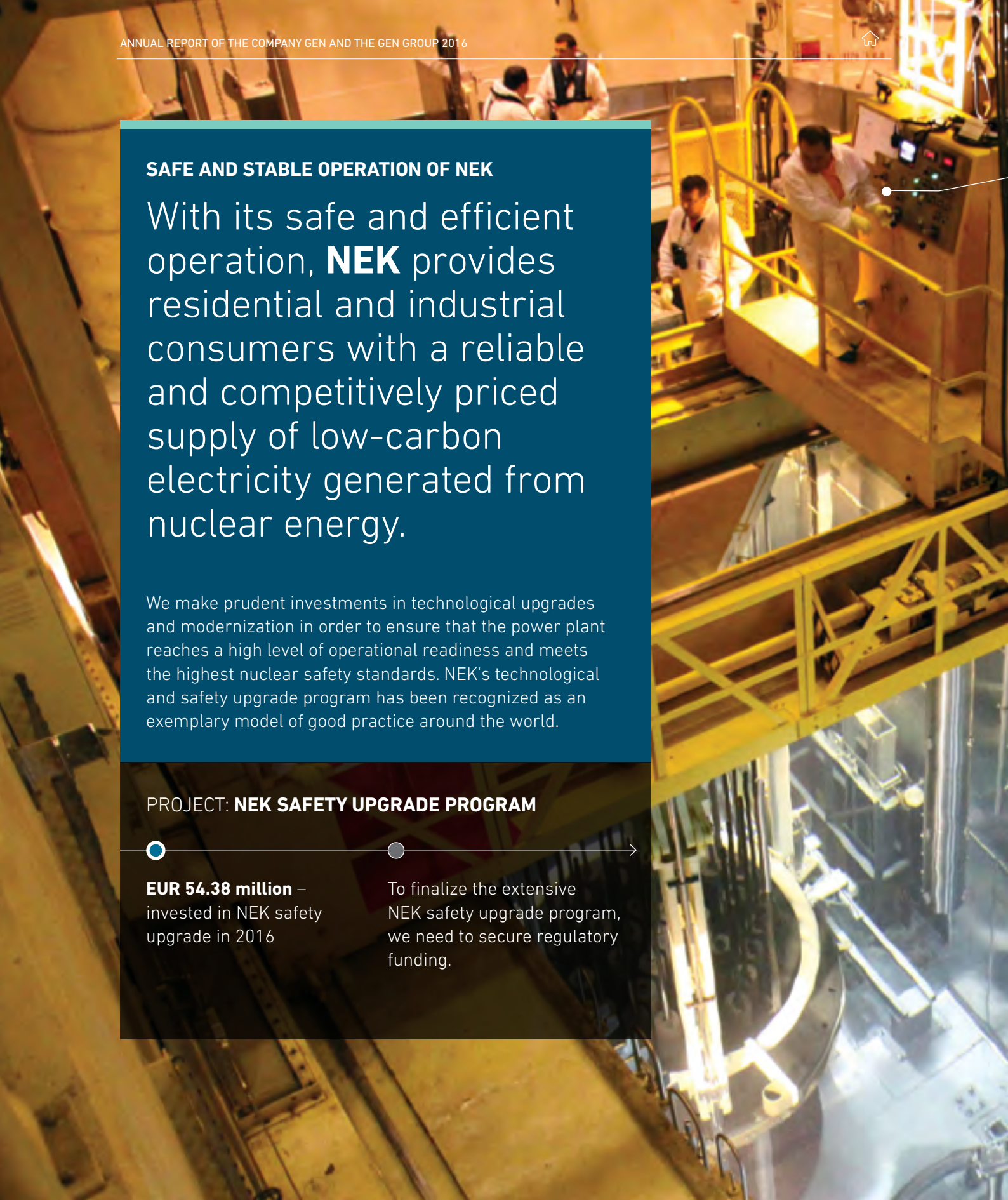
EUR **7.21** m

EUR **24.01** m

EUR **1.59** m

A LOOK AHEAD

We continue to plan and implement investments in sustainable and renewable energy sources – nuclear and hydro, which will allow us to carry out our mission also in the future. Our strategic development projects for the NEK safety upgrade, construction of a chain of hydroelectric power plants on the lower course of the Sava, replacement of gas turbine units at TEB and expansion of nuclear generation capacities with the JEK 2 project are extremely demanding in technical and financial terms, particularly in the light of low electricity prices in the market. This is why the securing of financing sources is a major challenge for us – one we are facing prudently and systematically, depending on which development stage each particular project is in.



SAFE AND STABLE OPERATION OF NEK

With its safe and efficient operation, **NEK** provides residential and industrial consumers with a reliable and competitively priced supply of low-carbon electricity generated from nuclear energy.

We make prudent investments in technological upgrades and modernization in order to ensure that the power plant reaches a high level of operational readiness and meets the highest nuclear safety standards. NEK's technological and safety upgrade program has been recognized as an exemplary model of good practice around the world.

PROJECT: **NEK SAFETY UPGRADE PROGRAM**

EUR 54.38 million – invested in NEK safety upgrade in 2016

To finalize the extensive NEK safety upgrade program, we need to secure regulatory funding.

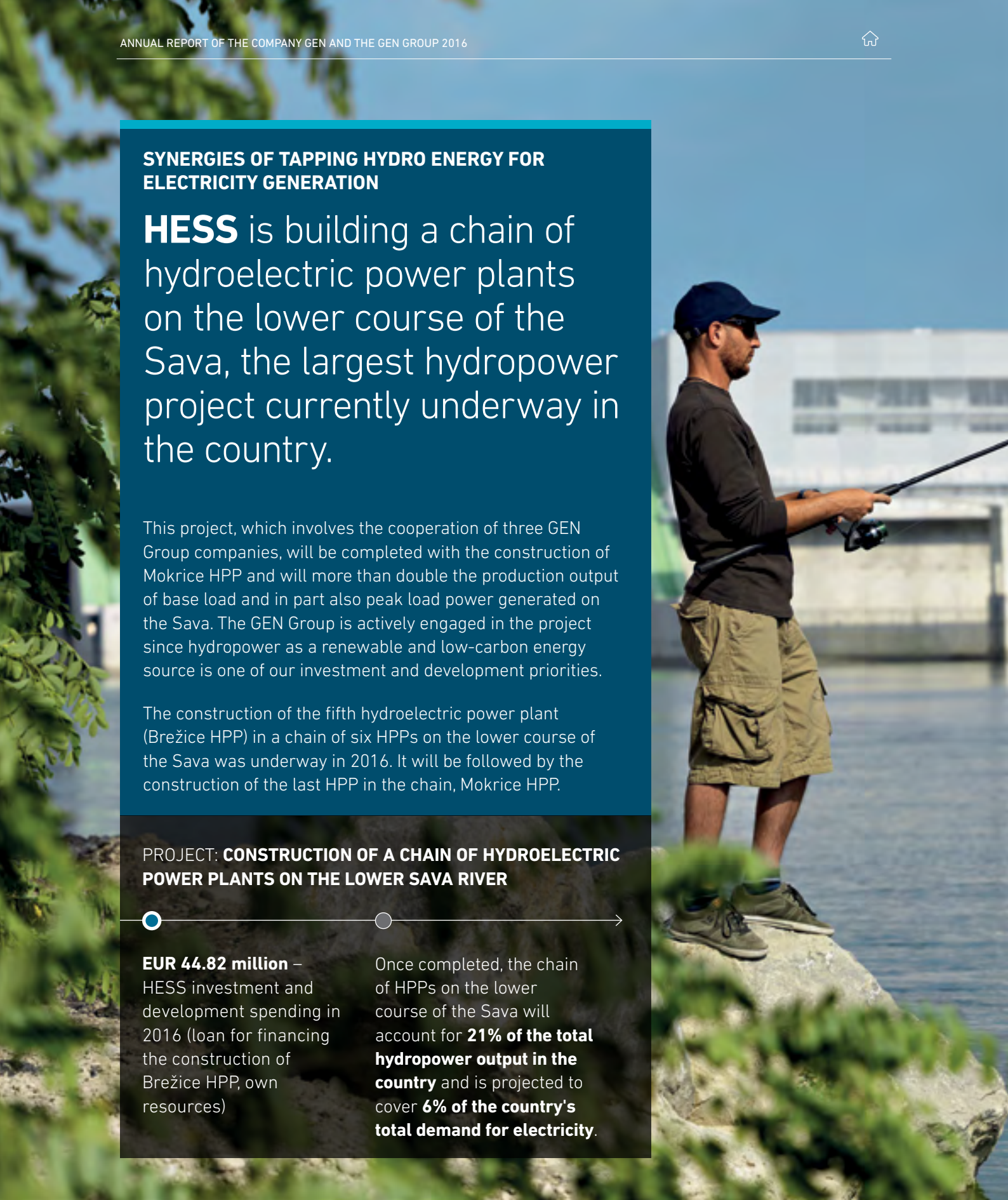
The power plant's operation was safe and stable throughout the year. With no unplanned shutdown except for the scheduled periodic maintenance outage, **NEK's production output reached 100.6% of the target in 2016.**

Learn more on page **44**

NEK is the GEN Group's **largest production unit**, delivering base load power on the daily load curve throughout the year. In 2016, NEK **generated 5,431 GWh of electricity**, one-half of which (2,715 GWh) belongs to the GEN Group according to the Intergovernmental Agreement on NEK.

Nuclear power accounted for 83% of the GEN Group's total electricity generation output across all power plants in 2016. NEK **makes a significant contribution to reducing CO_2 emissions per kWh generated** (GEN average: 2 g/kWh; national average: 380 g/kWh).

Learn more on page **45**



SYNERGIES OF TAPPING HYDRO ENERGY FOR ELECTRICITY GENERATION

HESS is building a chain of hydroelectric power plants on the lower course of the Sava, the largest hydropower project currently underway in the country.

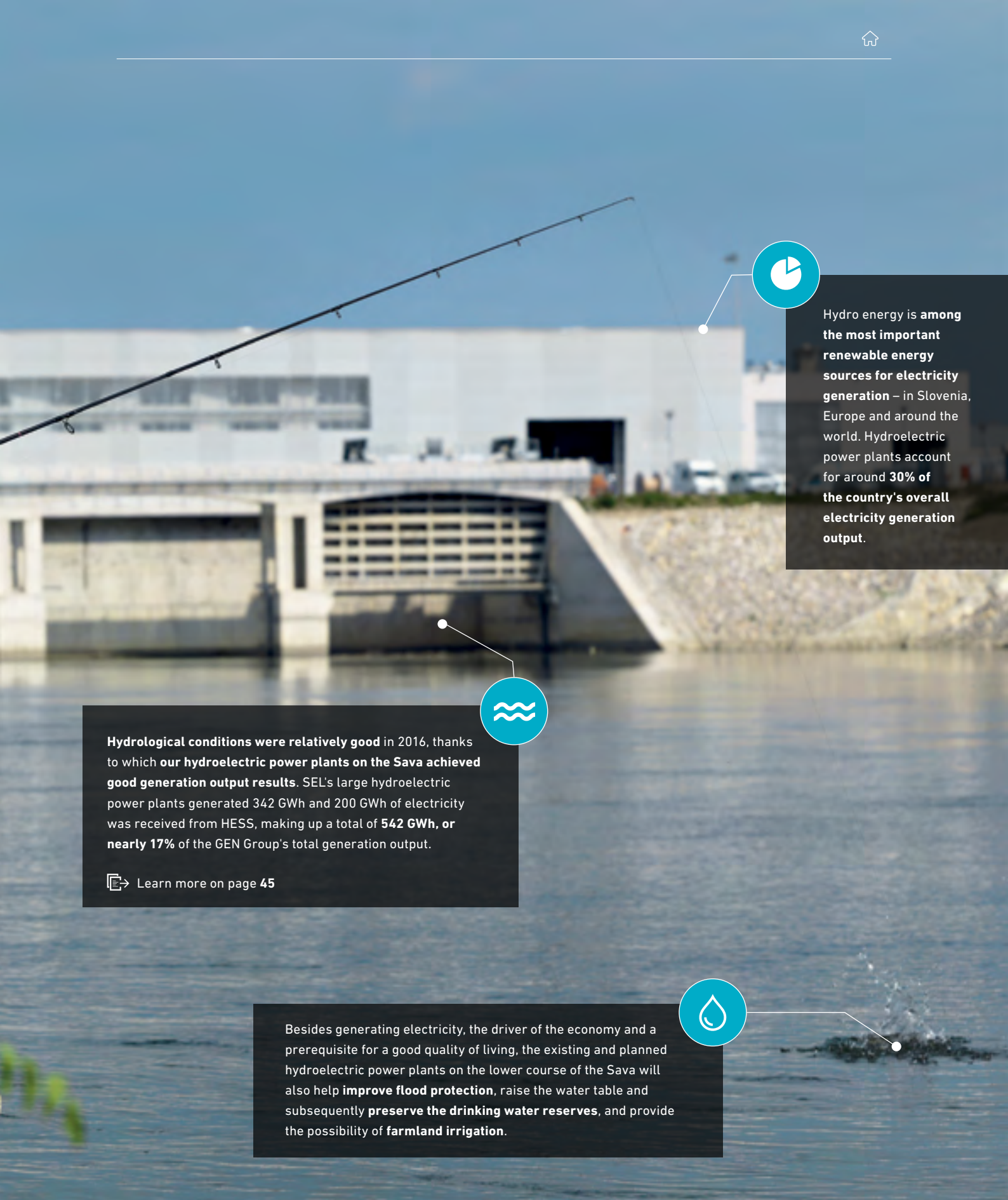
This project, which involves the cooperation of three GEN Group companies, will be completed with the construction of Mokrice HPP and will more than double the production output of base load and in part also peak load power generated on the Sava. The GEN Group is actively engaged in the project since hydropower as a renewable and low-carbon energy source is one of our investment and development priorities.

The construction of the fifth hydroelectric power plant (Brežice HPP) in a chain of six HPPs on the lower course of the Sava was underway in 2016. It will be followed by the construction of the last HPP in the chain, Mokrice HPP.

PROJECT: **CONSTRUCTION OF A CHAIN OF HYDROELECTRIC POWER PLANTS ON THE LOWER SAVA RIVER**

EUR 44.82 million – HESS investment and development spending in 2016 (loan for financing the construction of Brežice HPP, own resources)

Once completed, the chain of HPPs on the lower course of the Sava will account for **21% of the total hydropower output in the country** and is projected to cover **6% of the country's total demand for electricity**.



Hydro energy is **among the most important renewable energy sources for electricity generation** – in Slovenia, Europe and around the world. Hydroelectric power plants account for around **30% of the country's overall electricity generation output**.

Hydrological conditions were relatively good in 2016, thanks to which **our hydroelectric power plants on the Sava achieved good generation output results**. SEL's large hydroelectric power plants generated 342 GWh and 200 GWh of electricity was received from HESS, making up a total of **542 GWh, or nearly 17%** of the GEN Group's total generation output.

Learn more on page **45**

Besides generating electricity, the driver of the economy and a prerequisite for a good quality of living, the existing and planned hydroelectric power plants on the lower course of the Sava will also help **improve flood protection**, raise the water table and subsequently **preserve the drinking water reserves**, and provide the possibility of **farmland irrigation**.

SECURING POWER GRID STABILITY

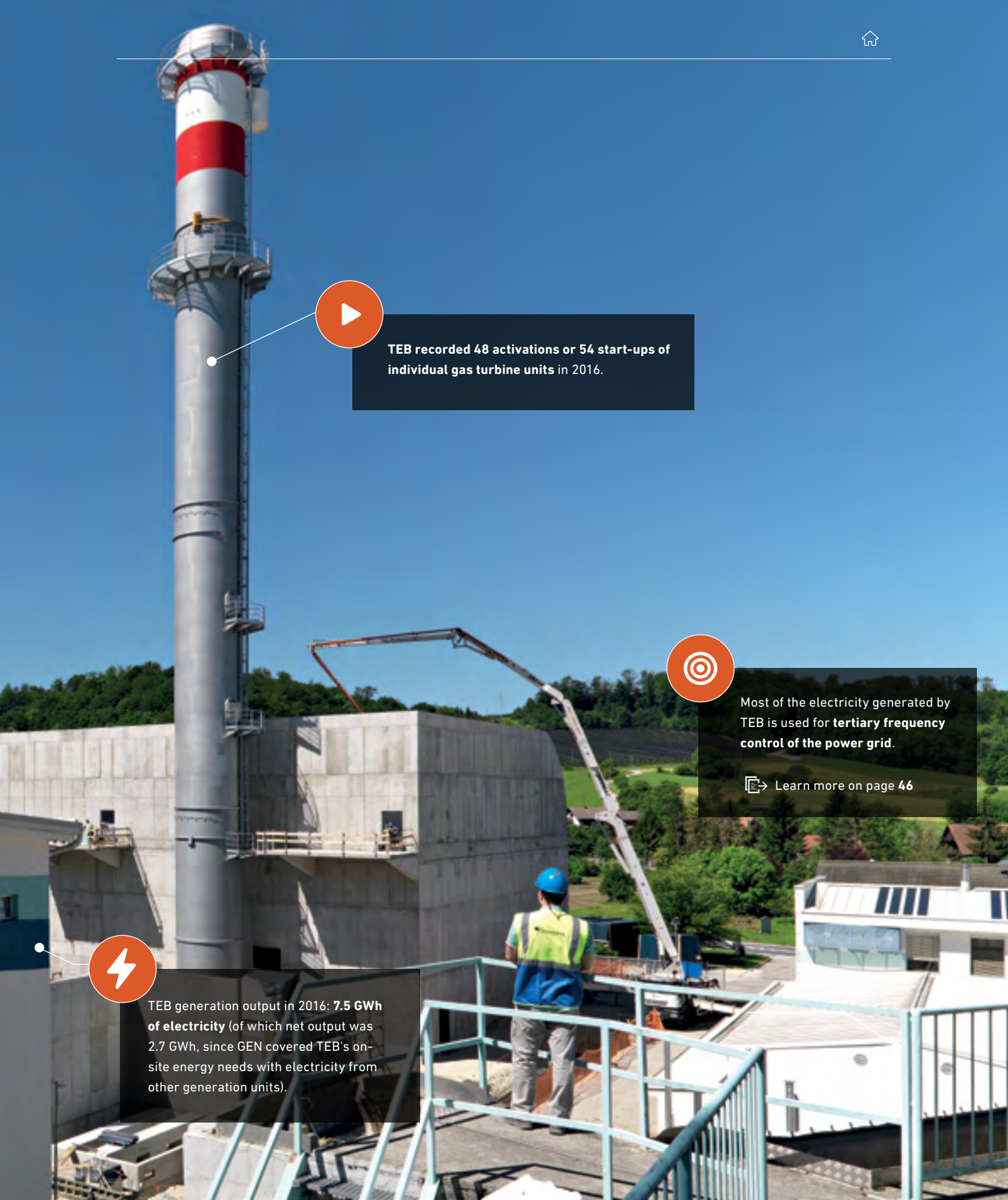
TEB provides ancillary services and plays an important part in helping to ensure the stability of Slovenia's power grid. It serves as a backup power source in the event any of the large power generation units fails.

The most important and extensive investment and development project for the company TEB in 2016 was the replacement of gas turbine units 1–3. All major earthworks and rough construction work were completed by the end of 2016, foundations for the gas turbine and chimney have been laid. Hydro insulation and extensive construction work on the turbine building was carried out simultaneously, and the main technological equipment went into production – installation is scheduled for the first half of 2017.

PROJECT: **REPLACEMENT OF GAS TURBINE UNITS AT TEB**

EUR 7.2 million – TEB investment and development spending in 2016, own resources (of which EUR 5.9 million for the replacement of gas turbine units)

With the completion of the existing and planned development programs, TEB will continue to be a leading provider of a portion of ancillary services for tertiary frequency control and black start capabilities within the national power grid and at the same time an indispensable standby power source for providing electricity for on-site use to NEK.



TEB recorded 48 activations or 54 start-ups of individual gas turbine units in 2016.

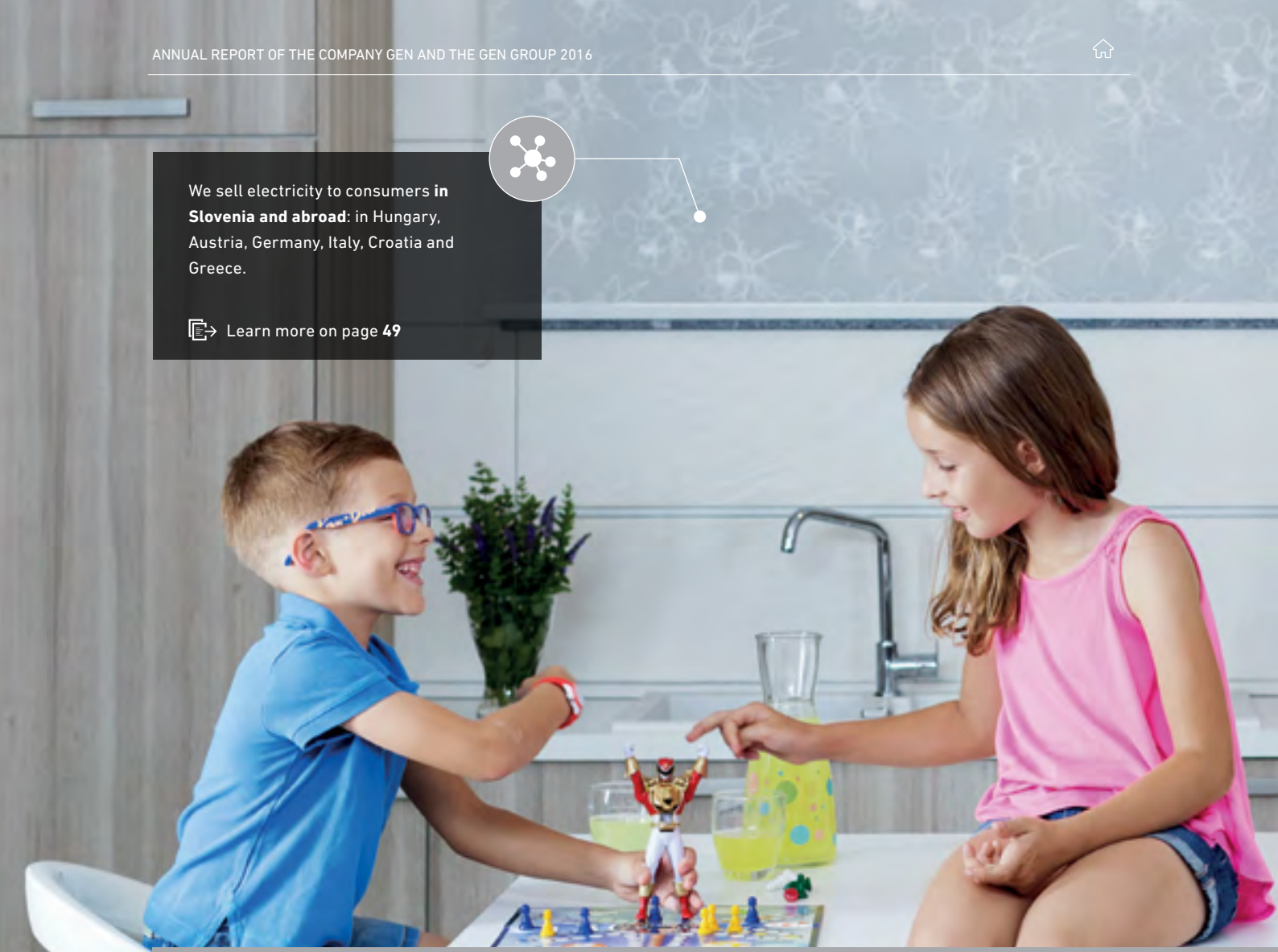
Most of the electricity generated by TEB is used for **tertiary frequency control of the power grid**.

Learn more on page **46**

TEB generation output in 2016: **7.5 GWh of electricity** (of which net output was 2.7 GWh, since GEN covered TEB's on-site energy needs with electricity from other generation units).

We sell electricity to consumers **in Slovenia and abroad**: in Hungary, Austria, Germany, Italy, Croatia and Greece.

Learn more on page **49**



OWNERSHIP AND BUSINESS CONSOLIDATION

In 2016, in line with the GEN Group's strategic focuses, **GEN-I** substantially upgraded its ownership and business relations in order to stay competitive on the market in the long run.

Most of the resources were spent on acquiring equity interests, including a 100% stake in the company Elektro energija. This merger will allow the companies GEN-I and Elektro energija to consolidate their competitive position and together offer innovative solutions on the energy markets in Slovenia, neighbouring countries and Southeast Europe.

Electricity at home: Its most common uses

- Powering electrical household appliances (refrigerators, freezers, air conditioning, washing machines and tumble driers, vacuum cleaners and small domestic appliances): 46%
- Hot water and room heating: 29%
- Cooking and washing-up: 11%

In 2016, we sold **most of our electricity (34,098 GWh) in foreign markets**. We managed to almost double domestic sales year on year: 9,345 GWh of electricity was sold, of which **more than one-half to residential and small commercial consumers**.

Learn more on page **50**

PROJECT: **GEN-I AND PURCHASES OF EQUITY INTERESTS**

EUR 24.01 million – GEN-I investment and development spending in 2016, primarily for acquiring equity interests

The merger of the companies GEN-I and Elektro energija facilitates the stabilization of business operations and electricity sales, as well as flexible development with a long-term focus. The optimization of service costs in the entire chain – from electricity generation to sales – will yield substantial benefits both for residential and commercial consumers alike.

PLANNING TO EXPAND NUCLEAR GENERATION CAPACITIES

GEN energija is laying the groundwork for the JEK 2 project, which relevantly addresses all three principal focuses of the EU and Slovenia's energy policies: climate sustainability, reliability and competitiveness of the energy supply.

To date, we have conducted expert studies in the context of the project that allow well-grounded, broader social and political discourse on the energy future of Slovenia and on the future role of nuclear energy for electricity supply. We are calling for a fact-driven, transparent and efficient implementation of the JEK 2 project.

PROJECT: **JEK 2**

- **EUR 1.59 million** – investments in 2016, related primarily to location studies

STAGE 1: PREPARATIONS AND STRATEGIC DECISION-MAKING

STAGE 2: LOCATION SELECTION AND APPROVAL

There are 130 nuclear reactors in operation in the EU today, and **400 across 31 countries worldwide**.

The **JEK 2 project meets the key sustainable development criteria**:

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

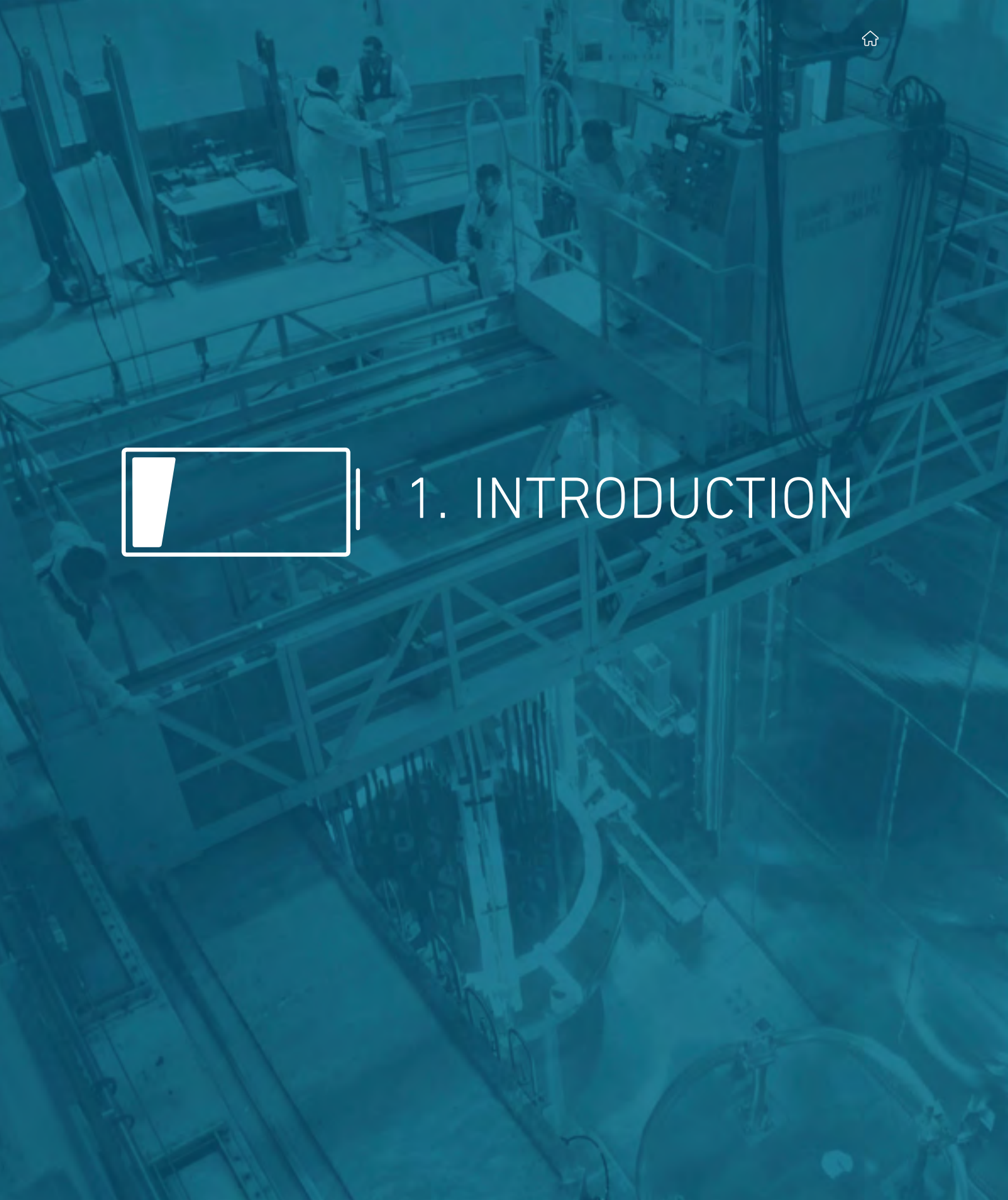
Learn more on page **53**

The materials for the public debate on the formulation of the Energy Concept of Slovenia, which were released by the Ministry of Infrastructure in June 2017, underline **the important role nuclear energy plays in low-carbon electricity generation**. The scenarios referenced in the materials highlight that **relying on a combination of nuclear energy and renewable energy sources also beyond 2045 presents the most cost-effective solution**.

STAGE 3: INVESTMENT DECISION-MAKING | **STAGE 4:** CONSTRUCTION | **STAGE 5:** OPERATION

JEK 2 project timeline

Contents



1. INTRODUCTION

1.1

Key financial performance data

2016 was a successful year for the GEN Group, with **EUR 31.9 million in net profit**, which is 188% more than in 2015. The substantial exceeding of the target has to do with the transition to IFRS for drawing up consolidated financial statements and has not led to any additional positive cash flows.

Learn more on page **86**

The production units of the companies making up the GEN Group generated a combined total of **3,265 GWh of electricity**. We are pleased with the result, since it represents a 4% increase compared to 2015, when a scheduled maintenance outage was also carried out at NEK.

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With safe and stable operation and despite the scheduled maintenance outage, **NEK generated 5,431 GWh of electricity**, half of which, **2,715 GWh**, went to GEN, or the Republic of Slovenia, based on the Intergovernmental Agreement on NEK. There were no unplanned shutdowns in 2016.

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Hydrological conditions were relatively good in 2016, which had a positive impact on the generation outputs of our power plants on the River Sava.

Learn more on page **45**

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

Learn more on page **52**

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

Learn more on page **46**

At the beginning of 2016, NEK General Meeting approved **the extension of NEK's service life from 40 to 60 years (until 2043)** based on the confirmed economic viability study.

Learn more on page **56**

As much as **99.8% of all the electricity** generated by the companies making up the GEN Group came from **low-carbon sustainable and renewable sources: nuclear and hydro**.

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Research and development, capital expenditures and investments are essential to the **long-term operating stability** and future growth. In 2016, **EUR 146.5 million** was spent to this end. The central focus was on investments in Brežice HPP, technological modernization and safety upgrades at NEK, replacement of gas turbine units at TEB, research for the JEK 2 project, and other capital expenditures essential for ensuring trouble-free operation.

Learn more on page **52**

The construction of Brežice HPP continued with great intensity: its energy generation part is right on track in terms of schedule and contractual deadlines. **98% of the planned investment was realized** by the end of December 2016, and the power plant is going into trial operation in the autumn of 2017.

Learn more on page **58**

The **JEK 2** project would unlock **economic, social, environmental and climate-related 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.

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As of 1 January 2016, we have taken over **remote operation of the power plants on the lower course of the Sava** (Boštanj HPP and Arto - Blanca HPP), **which are now run from GEN Control Centre in Vrbina**. This allows us to streamline the production and optimize the operating costs for the entire GEN Group.

Learn more on page **44**

In 2016, the GEN Group placed an even stronger focus on its customers, strengthened the **chain from electricity generation to consumers**, and secured a 40% market share with the merger of the companies GEN-I and Elektro energija.

Learn more on page **58**

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

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In 2016, we successfully continued our intense efforts to implement our **action plan for optimizing the operations of the company GEN and the GEN Group**.

Learn more on page **33**

Our **employees**, with their knowledge and dedication, have been and will continue to be the cornerstone of our operations: we numbered **1230** in 2016, with more than **62%** having at least higher education qualifications.

Learn more on page **61**

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

Learn more on page **64**

Pursuant to sustainability reporting guidelines, the GEN Group's Annual Report for 2016 also includes information on the progress made in terms of GEN's sustainabiliy focuses. In this single document, we seek to provide a comprehensive picture of our operations and highlight the inextricable link between financial and non-financial information.

Learn more on page **35**

Table 1.1: **Key information on the company GEN and the GEN Group for 2016 against 2015**

	Company		Group	
Item	2016	2015	2016	2015
Assets in EUR million	513.17	519.93	1,070.78	810.75
Equity in EUR million	430.38	432.53	755.52	744.76
Revenues in EUR million	168.82	175.54	377.43	180.51
EBIT in EUR million	18.42	13.55	16.67	8.15
EBITDA in EUR million	19.34	14.68	49.12	51.63
Net profit in EUR million	17.87	12.84	31.89	11.06
Value added in EUR million	20.30	17.50	83.80	83.27
Return on assets	3.46%	2.46%	3.39%	1.84%
Return on equity	4.14%	2.99%	4.25%	1.49%

Consolidated financial statements for the GEN Group were drawn up pursuant to SAS up until 31/12/2015; however, with the amended Companies Act (CA-1) effective as of 2015, GEN is required to draw up a consolidated annual report in accordance with IFRS.

Pursuant to IFRS 11, consolidated financial statements of the GEN Group for 2016 include NEK as a joint venture, and with the ownership consolidation carried out in December 2016, the subsidiary GEN-I also became part of the GEN Group.

Despite a sweeping change in the financial reporting of the GEN Group's operations, there was no significant change in the nature of the operations of the companies making up the GEN Group, their business relationships and controlling and management methods in 2016 compared to previous business periods. The executed ownership consolidation of GEN-I, however, has had a significant effect on mutual business relationships and controlling and management methods as of December 2016, which will be more notably reflected in the business operations in 2017.

These changes must be taken into account when processing all the financial performance data of the company GEN, the GEN Group and companies making up the GEN Group as identified in the Annual Report for the company GEN and the GEN Group for 2016.

1.2

Letter from the General Director

Dear Business Partners and Colleagues,

The GEN Group in 2016 provided consumers with a secure supply of electricity from sustainable and renewable sources – nuclear and hydro energy – at competitive prices. We met all our key targets and successfully managed the key operating and business risks thanks to our knowledge and experience. We recorded good business results despite the lingering low electricity prices and tough conditions in the markets – still, we were pleased to see signs of increasing economic growth.

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

Operational efficiency of our power plants: 3,265 GWh of electricity

A significant contribution to our good business results in terms of production was made by **NEK (Krško Nuclear Power Plant)**, whose operation was safe and stable; its electricity generation output was 5,431 GWh, of which 2,715 GWh went to the company GEN energija. The extensive scheduled maintenance outage and investments in NEK's safety and operational reliability were carried out to the highest professional standards by motivated and qualified personnel. Based on the findings of the economic viability study for the extension of NEK's service life, approved amendments to the Final Safety Report and Technical Specifications by the Slovenian Nuclear Safety Administration, and the Intergovernmental Committee's approval of the project in 2015, the General Meeting at the beginning of 2016 passed a resolution to grant the extension of NEK's service life. This is a very important and positive decision – not only for NEK, the company GEN and the GEN Group, but also in a much broader context – for the future reliable nationwide supply of low-carbon and affordable energy.

On average, hydrological conditions were good in this past year – more so in the first half of the year, and less so in the second half. This made a positive impact on the production outputs of our hydroelectric power plants on the River Sava (**SEL** and **HESS**), which generated a combined total of 542 GWh.

With an impeccable start-up track record, **TEB** too made a vital contribution to ensuring a reliable supply in 2016 and again confirmed its role in helping maintain the stability of Slovenia's electric power grid.

Strong investment activity: EUR 147 million

Despite external factors in the form of low electricity prices affecting the market, the GEN Group recorded strong investment activity throughout the year. The bulk of resources was invested in the construction of Brežice HPP, safety upgrades at NEK, preparations to replace the gas turbine units at TEB, and the acquisition of additional stakes in the trading & sales division of the GEN Group.

In spite of the tough market conditions, we invested a total of EUR 147 million, an amount almost equal to the annual turnover of the company GEN. In the area of capital expenditures and investments, we sought optimal solutions that help secure long-term operations of the companies making up the GEN Group and increase their competitiveness in supplying electricity and natural gas to consumers.

In 2016, the GEN Group placed an even stronger focus on its customers, strengthened the chain from electricity generation to consumers, and secured a 40% market share with the merger of the companies GEN-I and Elektro energija.

Net operating profit of the company GEN exceeded the target by 15%, and that of the GEN Group by more than 30%. The increase can be attributed in part to efficient cost management and good operation practices across the Group, while a significant part is also credited to the transition to new accounting standards and the acquisition of an indirect stake in GEN-I.

Launching of GEN Control Centre to optimize production

To optimize production, GEN Control Centre successfully and responsibly took over direct remote control of the hydroelectric power plants on the lower course of the Sava at the beginning of the year, which was a major accomplishment. This allows us to streamline the production, optimize the operating costs and be more flexible in responding to the market conditions.

With guided tours and other activities at the World of Energy, which recorded more than 7,200 visitors in 2016 alone, we continued to bring energy technology, nuclear in particular, closer to primary and secondary school children, students, families and other interested parties. With numerous educational and awareness-raising activities we promoted the knowledge and raised awareness of the importance of fulfilling our mission across all companies making up the GEN Group.

Experience, expertise and motivation of employees

We focus special attention on picking suitable management staff and building the right management teams with the aim of promoting the exchange of experience and expert know-how and boosting motivation. We are confident that by doing so we are fostering good working conditions and facilitating dynamic future development of the companies making up the GEN Group, one that will also follow new conditions and processes in the energy markets, such as digitalization.

We recognize that the future of the GEN Group is up to our employees, whose knowledge, hard work and commitment help create the present and future results.

We are pleased to say that in 2016 we managed – in a well-balanced way – to meet our goals of providing a reliable supply of low-carbon and environment-friendly energy at economically competitive prices and in tune with all the social levels of Slovenia's society.

Dear colleagues, thank you very much for all your hard work and invaluable contribution to the stable and enviable results. Let me take this opportunity to invite you to take an active part in our competitive endeavours also in the future.

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

Martin Novšak,
General 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	
Size:	large business	
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 of foundation:	2001	
Founder and sole partner:	Republic of Slovenia	
VAT ID No.:	SI44454686	
Company Reg. No.:	1646613	
Activity:	K/64.200	Activities of holding companies
	D/35.140	Electricity trading and other registered activities
Share capital:	EUR 250,000,000.00	
General Director:	Martin Novšak	
Chairman of the Supervisory Board:	Karol Peter Peršolja, DSc	
Number of employees:	55	

Corporate governance

The company GEN is managed by the founder directly and through the following company bodies, comprising the following as at 31/12/2016:

Founder:
The Republic of Slovenia, legally represented by the SSH

Supervisory board:

Chairman:
Karol Peter Peršolja, DSc

Vice Chairman:
Saša Ivan Geržina

Board Members:
Mitja Svoljšak
Roman Dobnikar
Samo Fürst
Robert Bergant, DSc

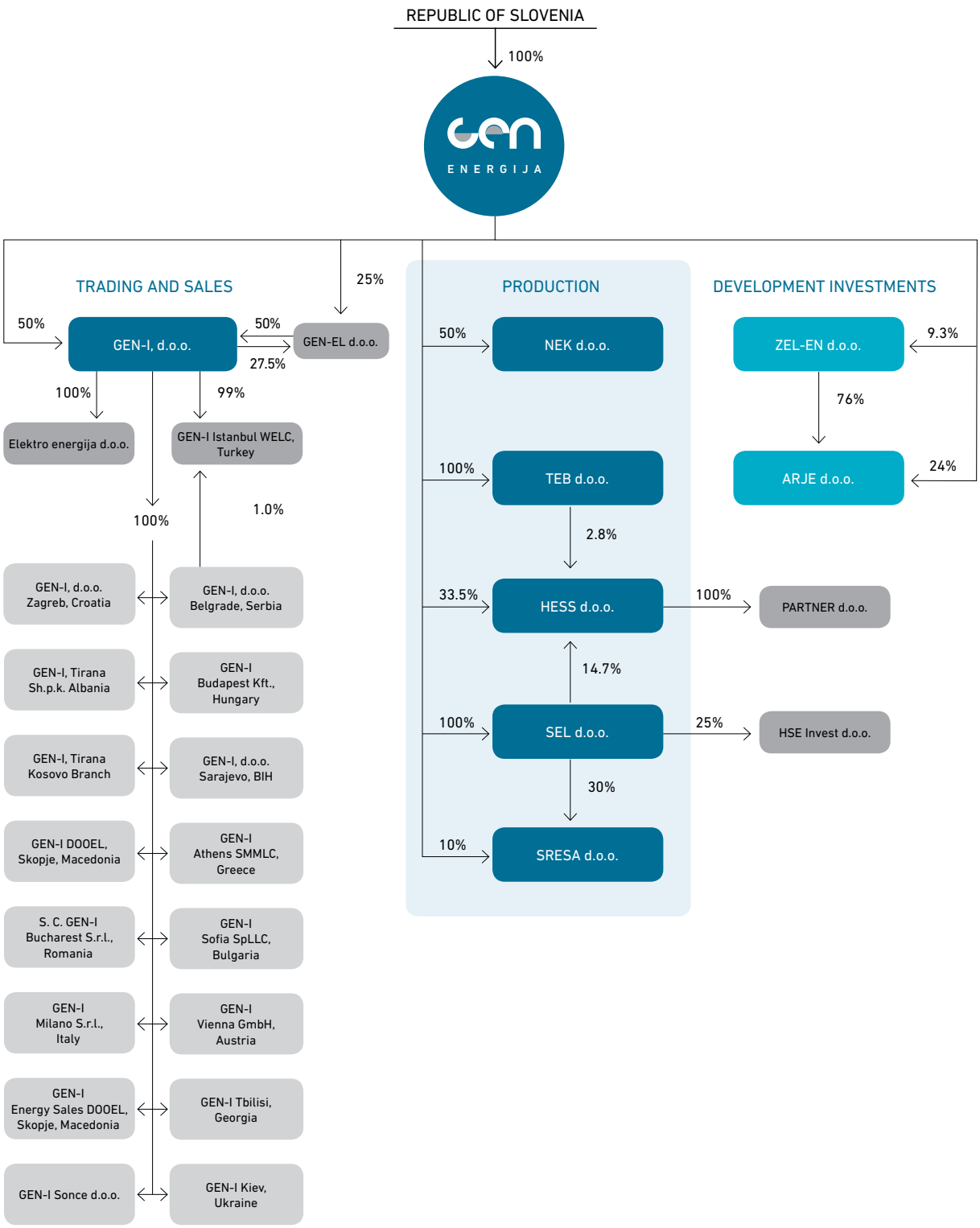
Management – General Director:
Martin Novšak

Affiliated companies

Pursuant to IFRS 11, consolidated financial statements of the GEN Group for 2016 include NEK as a joint venture. Unless stated otherwise, the data in this Annual Report are included based on GEN's equity interest in NEK.

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

Figure 1.1: **Companies making up the GEN Group as at 31/12/2016**



1.4

Holding activities of the company GEN

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

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

PRODUCTION

Nuklearna elektrarna Krško d.o.o. Vrbina 12, 8270 Krško, Slovenia www.nek.si	**Savske elektrarne Ljubljana d.o.o.** Gorenjska cesta 46, 1215 Medvode, Slovenia www.sel.si
PRINCIPAL ACTIVITY	
Electricity generation at a nuclear power plant	Electricity generation at hydroelectric power plants
COMPANY MANAGEMENT	
Stane Rožman, Chairman of the Management Board **Hrvoje Perharić**, Member of the Management Board	**Drago Polak**, Director
CHAIRMAN OF THE SUPERVISORY BOARD	
Kažimir Vrankić	**Jože Špiler**
COMPANY STATUS ACCORDING TO IFRS	
joint venture	subsidiary
OWNERSHIP STRUCTURE	
The companies GEN and HEP each hold a 50% stake in this company's share capital. The 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.	Wholly-owned by the company GEN.
BRIEF 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 generation output.	SEL's large hydroelectric power plants (Moste HPP, Mavčiče HPP, Medvode HPP, Vrhovo HPP) generate around 320 GWh of electricity a year.

PRODUCTION

Termoelektrarna Brestanica d.o.o. Cesta prvih borcev 18, 8280 Brestanica, Slovenia www.teb.si	**Hidroelektrarne na Spodnji Savi, d.o.o.** Cesta bratov Cerjakov 33a, 8250 Brežice, Slovenia www.he-ss.si
PRINCIPAL ACTIVITY	
Electricity generation at a thermal power plant, a standby energy source for the power grid	Electricity generation at hydroelectric power plants
COMPANY MANAGEMENT	
Tomislav Malgaj, Director	**Bogdan Barbič**, Director
CHAIRMAN OF THE SUPERVISORY BOARD	
Jože Špiler	**Janez Keržan, MSc**
COMPANY STATUS ACCORDING TO IFRS	
subsidiary	subsidiary
OWNERSHIP STRUCTURE	
Wholly-owned by the company GEN.	The GEN Group holds a 51% equity interest in HESS, which is distributed as follows: 33.5% is held by the company GEN, 14.7% by SEL, and 2.8% by TEB.
BRIEF DESCRIPTION AND ACTIVITY SPECIFICS	
TEB supplies electricity during outages of major production units and is a reliable standby power source within Slovenia's power grid.	The company HESS was established in 2008 with the purpose of facilitating the construction of hydroelectric power plants on the lower course of the River Sava. HESS's already completed large hydroelectric power plants (Boštanj HPP, Arto - Blanca HPP and Krško HPP) generate around 400 GWh of electricity per year. Brežice HPP is scheduled to begin trial operation in September 2017.

TRADING AND SALES

Srednjesavske elektrarne d.o.o. Ob železnici 27, 1420 Trbovlje, Slovenia	**GEN-I, d.o.o.** Vrbina 17, 8270 Krško, Slovenia www.gen-i.si
PRINCIPAL ACTIVITY	
Electricity generation at hydroelectric power plants	Electricity trading, sales and purchasing
COMPANY MANAGEMENT	
Matjaž Eberlinc, DSc, Director	**Robert Golob, DSc**, President of the Management Board **Danijel Levičar, MBA**, Board Member **Igor Koprivnikar, DSc**, Board Member **Andrej Šajn, MSc**, Board Member
CHAIRMAN OF THE SUPERVISORY BOARD	
/	/
COMPANY STATUS ACCORDING TO IFRS	
affiliated company	subsidiary
OWNERSHIP STRUCTURE	
The GEN Group holds a 40% equity interest in SRESA, of which the company GEN 10% and SEL 30%.	The companies GEN and GEN-EL each hold a 50% stake in this company's share capital.
BRIEF DESCRIPTION AND ACTIVITY SPECIFICS	
Operations of the company SRESA are still largely limited due to the unsigned Concession Agreement for the use of water for electricity generation on the Ježica–Suhadol section of the River Sava.	The GEN-I Group purchases electricity and natural gas from producers, trades in them both locally and internationally, and sells them to consumers.

TRADING AND SALES

ELEKTRO ENERGIJA d.o.o.

Dunajska cesta 119, 1000 Ljubljana, Slovenia
www.elektro-energija.si

PRINCIPAL ACTIVITY

Sales of electricity and natural gas to consumers, purchasing of electricity.

Electricity and natural gas portfolio management.

COMPANY MANAGEMENT

Bojan Kumer, MSc, Director

CHAIRMAN OF THE SUPERVISORY BOARD

/

COMPANY STATUS ACCORDING TO IFRS

subsidiary

OWNERSHIP STRUCTURE

GEN-I holds a 100% equity interest in this company.

BRIEF DESCRIPTION AND ACTIVITY SPECIFICS

The company specializes in selling electricity, natural gas and other energy products to consumers, purchasing from producers, and bilateral and exchange trading in standardized products in the wholesale market.

RESEARCH, DEVELOPMENT, SERVICES, AND OTHER

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

Vrbina 18, 8270 Krško, Slovenia
www.zel-en.si

PRINCIPAL ACTIVITY

Research and development for the energy industry

COMPANY MANAGEMENT

Domen Zorko, Director

CHAIRMAN OF THE SUPERVISORY BOARD

/

COMPANY STATUS ACCORDING TO IFRS

investment

OWNERSHIP STRUCTURE

The company GEN holds a 9.28% business interest in ZEL-EN.

BRIEF DESCRIPTION AND ACTIVITY SPECIFICS

By acquiring a stake in ZEL-EN, the company GEN has become eligible to receive development funding from the ERDF for research in the field of nuclear power technology.

ARJE, analize in raziskave na področju jedrske energetike, d.o.o. Vrbina 17, 8270 Krško, Slovenia	**GEN-EL, d.o.o.** Vrbina 17, 8270 Krško, Slovenia
PRINCIPAL ACTIVITY	
Services for the nuclear power industry	Investment management
COMPANY MANAGEMENT	
Robert Bergant, DSc, Director	**Martina Pohar**, Director
CHAIRMAN OF THE SUPERVISORY BOARD	
/	/
COMPANY STATUS ACCORDING TO IFRS	
affiliated company	subsidiary
OWNERSHIP STRUCTURE	
The companies GEN and ZEL-EN have a 24% and 76% stake in the company ARJE respectively.	The company GEN holds a 25% equity interest, GEN-I 27.5%, IGES 25%, and Elektro Ljubljana d.d. 22.5%.
BRIEF DESCRIPTION AND ACTIVITY SPECIFICS	
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 power plant (JEK 2).	The company was established for the purpose of ownership consolidation of the GEN-I Group.

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 levels of decision-making within the GEN Group. As a result, the corporate policy is becoming the keystone of operations across the GEN Group.

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

Vision

Building 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 production capacities and their expansion.

Values

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

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

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

In our work we also 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 term**,
- **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, as a result, to contribute to the sustainable development of Slovenia.

Implementing the GEN Group's corporate policy

Development scheme of the GEN Group

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

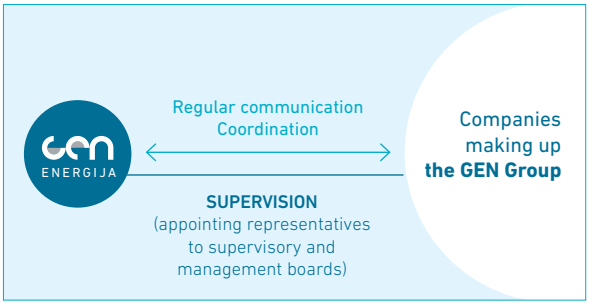
Collaboration, coordination and communication among companies

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

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

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

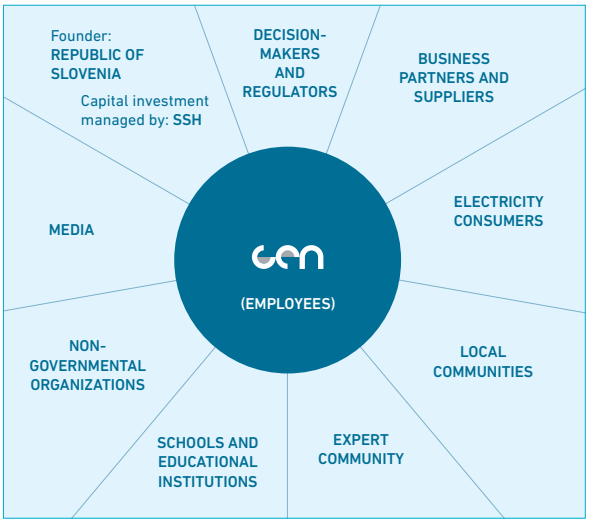
Figure 1.3: **Interaction between the company GEN and the rest of the companies making up the GEN Group**



Stakeholder relations

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

Figure 1.4: **GEN and stakeholders**



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

Fulfilment of strategic goals

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

In 2016, we have strengthened our ownership and business relationships in the area of electricity trading and sales, which will allow us to stay competitive on the market in the long term. This merger will allow the companies GEN-I and Elektro energija to consolidate their competitive position and together offer innovative solutions on the energy markets in Slovenia, the neighbouring countries and Southeast Europe. The merging of both companies facilitates the stabilization of operations and electricity sales and drives flexible future development focused on long-term sustainability.

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

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

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. This year we are publishing, for the third year running, an Annual Report detailing the key information regarding our fulfilment of sustainability focuses. By doing so, we are making 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 our last Sustainability Report of May 2016, covering the year 2015, we followed the latest, G4-version GRI guidelines and sector-specific disclosures for electric utilities. The same applies this year; this time around, however, we are following the revised sector-specific GRI EUSD (*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 national and international levels.

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 GRI EUSD 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	1.3, 1.4
G4-4	Primary brands, products, and services	1.3, 1.4
G4-5	Organization's headquarters	1.3
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	1.3, 2.4
G4-7	Nature of ownership and legal form	1.3, 1.4, 4.2
G4-8	Markets served (geographic breakdown, sectors served, and types of customers and beneficiaries)	1.3, 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)	1.3, 2.4, 2.5, 2.7, 2.8, 3.3, 4.3
G4-13	Significant changes during the reporting period regarding the organization's size, structure, ownership, or supply chain	1.1, 1.2, 3.2, 4.2
G4-14	Report whether and how the precautionary approach or principle is addressed by the organization	2.11
G4-15	Externally developed economic, environmental and social charters, principles, or other initiatives to which the organization subscribes or which it endorses	1.6, 2.8, 2.10
IDENTIFIED MATERIAL ASPECTS AND BOUNDARIES		
G4-17	All entities included in the organization's consolidated financial statements	4.2, 4.3
G4-18	Explain the process for defining the report content and the aspect boundaries	1.6
G4-19	All the material aspects identified in the process for defining report content	1.6
STAKEHOLDER ENGAGEMENT		
G4-24	List of stakeholder groups engaged by the organization	1.5
REPORT PROFILE		
G4-28	Reporting period	1.6
G4-29	Date of most recent previous report (if any)	1.6
G4-30	Reporting cycle	1.6
G4-31	Contact point for questions regarding the report	1.6
G4-32	Selected reporting standard	1.6

Indicator	Disclosure	Section
GOVERNANCE		
G4-34	Governance structure of the organization, including committees of the highest governing body	1.3, 1.4
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	1.5, 1.6, 2.8, 2.10

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/or indicators		Section
ECONOMIC ASPECTS			
Economic performance	G4-DMA		1.5, 1.6, 2.7
	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, 3.3
Direct economic impacts	G4-DMA		2.6
	G4-EC7	Development and impacts of infrastructure investments	1.6, 2.6
ENVIRONMENTAL ASPECTS			
Emissions	G4-DMA and G4-EN15	Greenhouse gas emissions	2.2
SOCIAL ASPECTS			
LABOR PRACTICES AND DECENT WORK			
Employment	G4-DMA and G4-LA1	Total number and rates of new employee hires and employee turnover	2.8
Training and education	G4-DMA and G4-EN15	Average hours of training per employee per year	2.8
COMPANY			
Local community	G4-DMA		1.5, 2.9

SPECIFIC STANDARD DISCLOSURES FOR ELECTRIC UTILITIES

CATEGORY SUBCATEGORY *Material impacts*	Management approach (DMA) and/or indicators		Section
ECONOMIC ASPECTS			
Availability and reliability	G4 DMA in EU10	Management approach to ensure short and long-term availability and reliability of electricity supply (DMA) Planned production capacities by the demand for electricity	1.5, 1.6, 2.2, 2.6
Research and development	G4-DMA	Research and development activity and expenditure aimed at providing reliable electricity and promoting sustainable development	2.6
Nuclear plant decommissioning	G4-DMA	Establishment of conditions for the decommissioning of nuclear power sites	2.7
System efficiency	EU 11	Average generation efficiency of thermal plants by energy source and operating mode	2.2
ENVIRONMENTAL ASPECTS			
Emissions	G4-EN15	Direct greenhouse gas emissions	2.2
SOCIAL ASPECTS			
LABOR PRACTICES AND DECENT WORK			
Employment	G4-DMA	Programs and processes to ensure the right employee structure	2.8
COMPANY			
Local communities	G4-DMA	Stakeholder participation in decision making processes related to energy planning and infrastructure development	2.6, 2.8, 2.9
PRODUCT/SERVICE RESPONSIBILITY			
Provision of information	G4-DMA	Practices to address barriers to accessing and safely using electricity	2.9

2. BUSINESS REPORT

of the company GEN and the GEN Group

2.1

Economic trends and their impact on the electricity sector

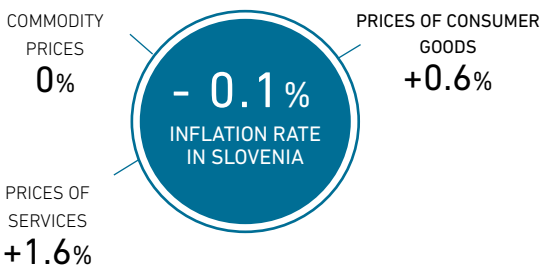
Economic situation in 2016

Economic growth in the eurozone picked up

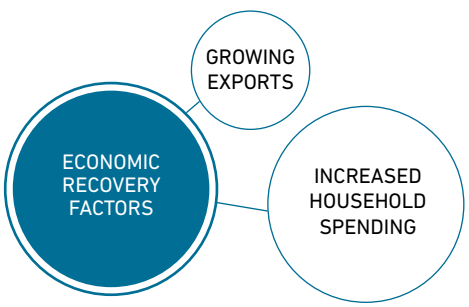
The economic growth rate was 1.7% in 2016, as had been projected.

Average annual inflation rate

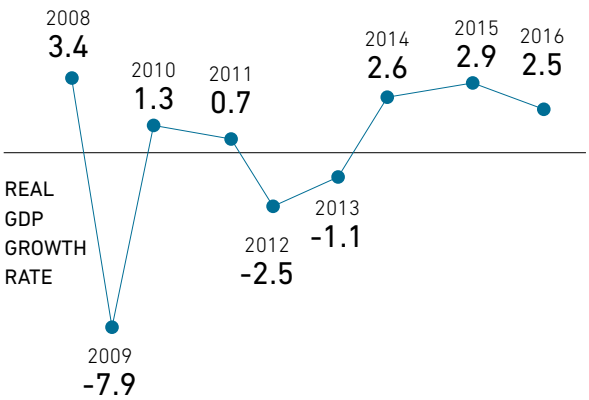
Deflation was recorded in 2016. The increase in prices was primarily driven by higher food prices; but on the other hand, the annual price increase was pulled back by lower prices of clothing, cars and district energy.



Factors affecting Slovenia's economic recovery

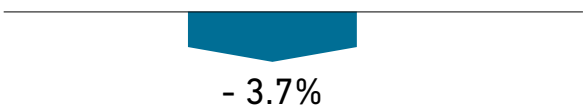


Slovenia's economic growth rate was 2.5%



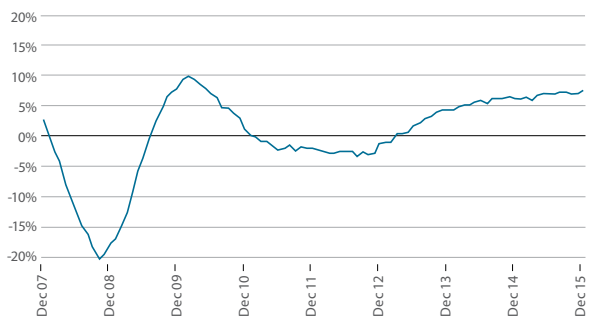
Unemployment rate in Slovenia decreased

81,000 unemployed
3.7% less than in 2015



Industrial production growth

Increasing industrial production is important for the electric utility sector since it causes the consumption of electricity and other fuel products to rise.

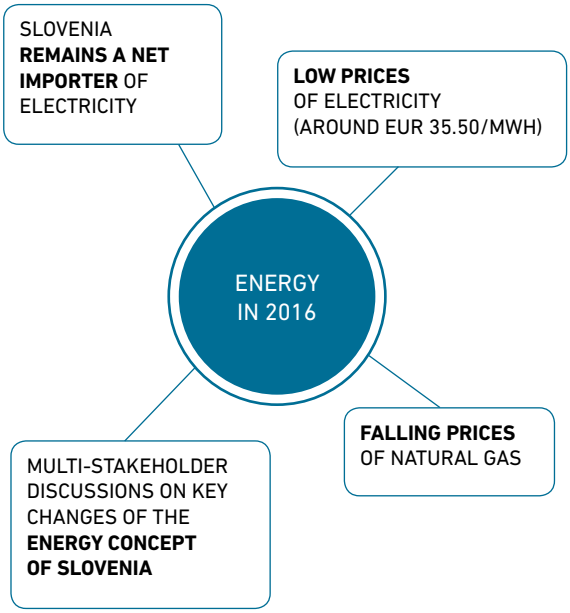


Data sources: Statistical Office of the Republic of Slovenia (www.stat.si), processed by CCIS Analytics; European Commission: Country report – Slovenia 2016 (http://ec.europa.eu/europe2020/pdf/csr2016/cr2016_slovenia_sl.pdf)

Factors affecting Slovenia's energy sector in 2016

The energy sector faced the following in 2016:

- fluctuating prices of all fuels and energy products,
- low electricity prices,
- relatively good hydrological conditions, and
- considerable volume of imported electricity (13%).



Process of drawing up the Energy Concept of Slovenia

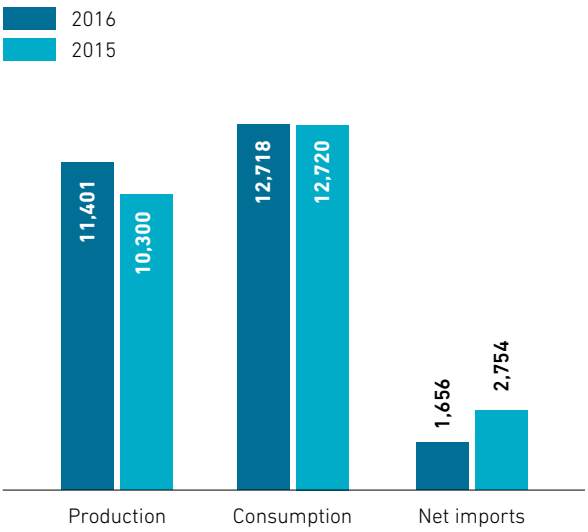
The Energy Directorate of the Ministry of Infrastructure continued with the consultative process for the development of the Energy Concept of Slovenia, which will provide a strategic framework for the development of Slovenia's energy sector by 2035 with a look ahead to 2055. Four workshops were held in 2016 for representatives of key organizations which had submitted comments to the proposed guidelines for the drawing up of the Energy Concept of Slovenia in 2015.

The following topics were debated at the multi-stakeholder discussions:

- energy sources for a sustainable nationwide supply,
- smart electric power grids,
- heat and interconnected systems, and
- transport.

A call for tenders was also put out for the preparation of technical bases for drawing up the Energy Concept of Slovenia.

Figure 2.1: **Slovenia's electricity market in 2016 and 2015 (GWh)**



2.2

Electricity production and ancillary services

Electricity production

The large production units in the GEN balancing subgroup generated a combined total of 3,264 GWh of electricity in 2016. As much as 83.2% 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 0.2% respectively. Thanks to GEN Control Centre, where the operations of the entire GEN balancing subgroup are coordinated, the production units all operated in perfect unison and all unpredictable events were effectively dealt with, as evidenced by the business results.

In addition to large production facilities, the companies making up the GEN Group also own small-sized production units, which are operated and managed independently and are excluded from the GEN balancing subgroup. The small-sized production units of the companies making up the GEN Group generated a combined total of 1.26 GWh of electricity from renewable energy sources in 2016.

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

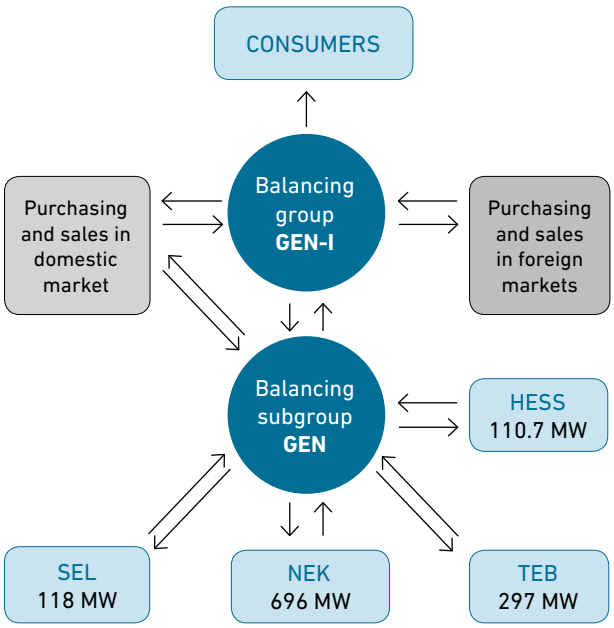


Figure 2.3: **Production of electricity in the companies making up the GEN Group, by source in 2016**

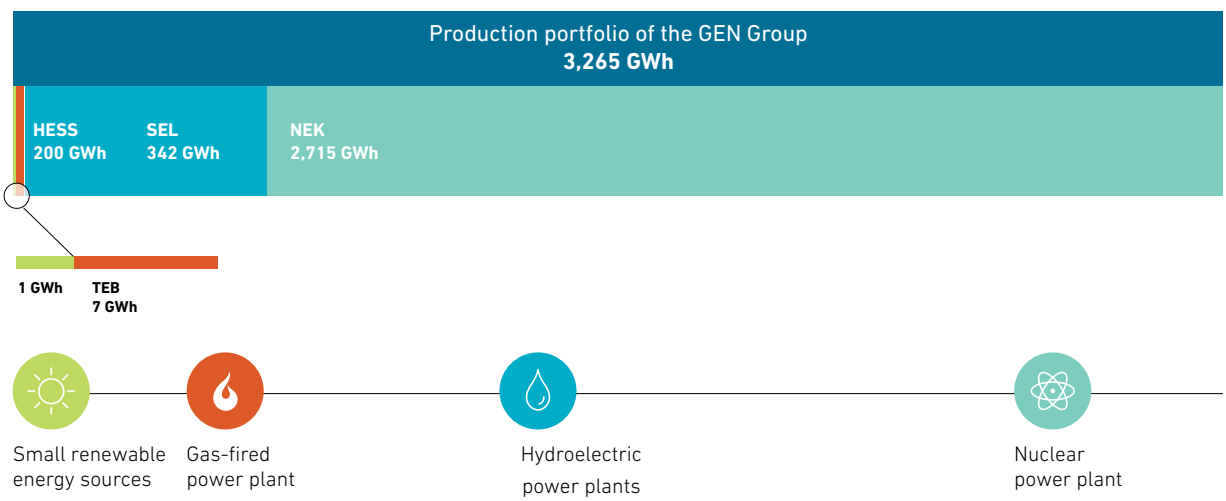


Table 2.1: **Electricity generation units of the companies making up the GEN Group**

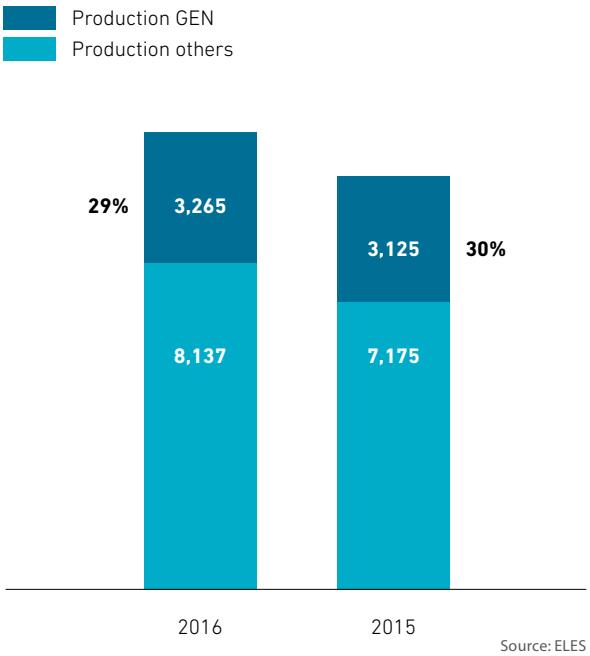
NEK		NEK	**TOTAL**
Declared net capacity	MW	696.0	696.0
Generator power rating	MVA	850.0	850.0

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

HESS	No. of generating units	Boštanj	Arto - Blanca	Krško	**TOTAL**
		3	3	3	
Declared net capacity	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**
Declared net capacity	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: **Production output of the companies making up the GEN Group in proportion to Slovenia's total electricity output in 2016 and 2015 (GWh)**



Source: ELES

Table 2.2: **Electricity outputs of the companies making up the GEN Group, at large production units, in 2016 and 2015 (GWh)**

	Result 2016	Result 2015	Ratio
NEK	2,715	2,685	1.01
SEL – large HPPs	342	268	1.27
HESS for GEN	200	160	1.25
TEB	7	11	0.71
TOTAL	3,264	3,123	1.05

Operational efficiency

Our large production units in 2016 generated 5% more electricity than in 2015. The higher production output is the result of slightly better hydrological conditions of the River Sava compared to 2015.

On 1 January 2016, GEN Control Centre (GEN CC) took over remote operation of two hydroelectric power plants on the lower course of the Sava – Boštanj HPP and Arto - Blanca HPP. In operation since 2008, GEN Control Centre manages not only the chain of HPPs on the lower course of the River Sava but also plans and supervises the production at SEL, TEB and NEK. GEN Control Centre helps ensure optimal production across the Group's power plants and optimize operating costs for the entire GEN Group, and it also coordinates the provision of ancillary services to the national electric power grid (tertiary activations, reactive power control, black-starting).

NEK

NEK unit capability and load capacity factors in 2016

NEK unit capability factor (according to WANO): 89.62%

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: 92.84%

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.

Krško Nuclear Power Plant (NEK) is the largest production unit, delivering base load power on the daily load curve throughout the year. NEK generated 5,431 GWh of electricity in 2016. The amount of electricity available to the GEN Group, pursuant to the Intergovernmental Agreement on NEK, was 2,715 GWh.

The power plant operated safely and reliably all around the year. NEK's 2016 operations were significantly influenced by a single event: a maintenance outage scheduled for that year (since the fuel cycle there, i.e. the interval between two successive fuel replacements, is 18 months). With no unplanned shutdown apart from the scheduled maintenance outage, 2016 was a successful year for NEK in production terms. NEK's production output reached 100.6% of the target in 2016.

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). As the only hydroelectric power plant in Slovenia with a weekly storage capacity, Moste HPP can also participate in grid-wide frequency control on a weekly basis in response to unevenly distributed load curves.

In 2016, the combined output of SEL's large hydroelectric power plants was 342 GWh, which is a 27.4% 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. SEL's production output reached 106.8% of the target in 2016.

The company successfully carried out all the overhauls and inspections on its generating units scheduled for 2016.

HESS

GEN received 200 GWh of electricity from HESS in 2016, making up a 125.2% realization rate compared to the previous year. The higher volume of electricity taken over is the result of slightly better hydrological conditions of the River Sava as compared to 2015. HESS's production output, however, still reached 97.2% of the target in 2016.

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.

TEB

How much electricity TEB generates is largely dependent on how often the power plant needs to be started up as a backup source to jump in should any of the larger units in the national power grid fail. When electricity market conditions are good, however, a portion of TEB's output is also offered in the market. TEB generated 7.5 GWh of electricity in 2016. 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 2.7 GWh.

Most of the electricity was generated for tertiary frequency control of the power grid. For this purpose, a total of 48 activations were recorded in 2016: individual gas turbine units at TEB and SEL were started up 54 and 18 times respectively, and 3 times at HESS. The combined output of these interventions was slightly above 6.8 GWh. TEB's production output was low despite a large number of startups, which goes to show, among others, that the operation of the rest of the production units – in the GEN balancing subgroup and the entire power grid – was reliable and stable. It was therefore not necessary to run TEB for backup on a larger scale.

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

Portfolio of low-carbon energy sources

As much as 99.8% of the electricity generated by the power plants of the companies making up the GEN Group comes from sustainable and renewable sources: nuclear and hydro.

In 2016, 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.

Table 2.3: **The electricity production portfolio of the companies making up the GEN Group is based on sustainable and renewable energy sources**

Energy type	Power plant	Electricity generated in 2016 (GWh)	% of total output
Nuclear	NEK	2,715	83%
Hydro	HESS for GEN	200	17%
	SEL	342	
		3,257	100%

Figure 2.5: **Breakdown of electricity generation sources in Slovenia for 2016 and 2015**

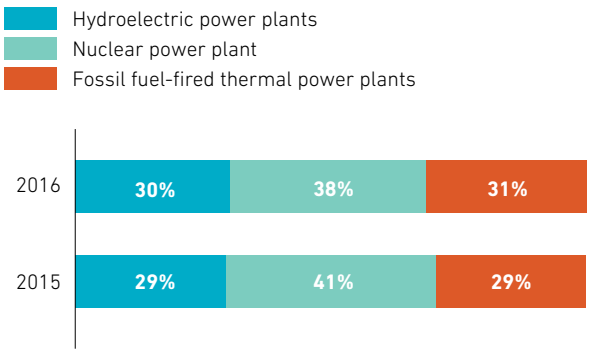
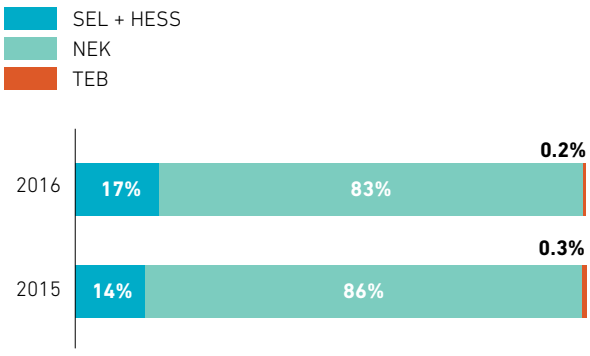


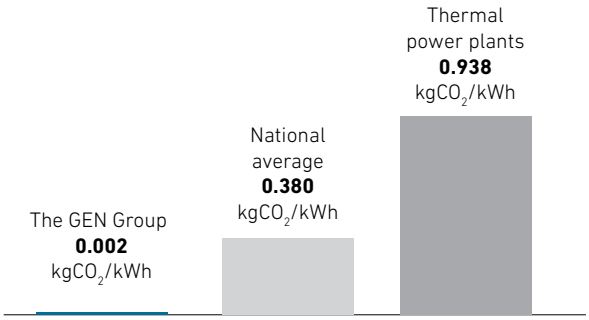
Figure 2.6: **Breakdown of electricity generation sources in the companies making up the GEN Group for 2016 and 2015**



In terms of CO_2 emissions, the production portfolios of the companies making up the GEN Group are 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 generated.

On the national scale, fossil fuel-fired thermal power plants, with 938 g, were again the largest source of emissions per kWh produced in 2016. That is almost three times the national average, which is 380 g. By contrast, the average CO_2 emissions per kWh generated by the companies making up the GEN Group, whose main energy sources are nuclear and hydro, is a mere 2 g.

Figure 2.7: **Comparison of CO_2 emissions per kWh generated in 2016**



Ancillary services

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

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

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

2.3

Electricity purchasing

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

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

The volume of electricity purchased in 2016 increased by 19.20% year over year, where the amounts of electricity purchased by the companies NEK and GEN-I have been consolidated proportionally with the equity stakes.

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

The companies making up the GEN Group purchased a combined total of 43,443 GWh of electricity, which is up by 8.40% from the previous year. This includes 432 GWh purchased from other producers (DP) and 3,333 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.

Figure 2.8: **Electricity purchased by the companies making up the GEN Group (GWh)**

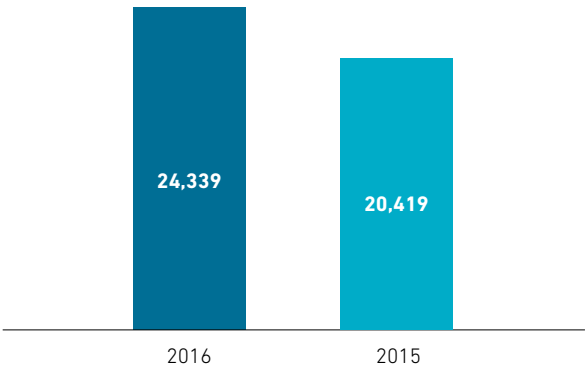
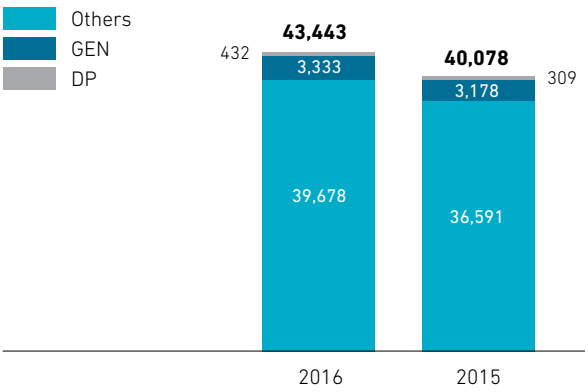


Figure 2.9: **Electricity purchased by the companies making up the GEN Group (GWh)**



2.4

Electricity trading and sales

In 2016, 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 2016, the Group, working with GEN Control Centre, continued selling excess electricity and buying electricity to make up for shortfalls as and when needed.

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

Trading

43,443 GWh of electricity was available for trading in 2016, which is a 8.40% increase over 2015. Our economy of scale increases as we enter new markets, and instruments have been put in place and all required authorizations obtained for the comprehensive management of excess electricity and electricity shortfalls as provided for in contracts for purchasing electricity from generation sources and for supplying electricity to consumers.

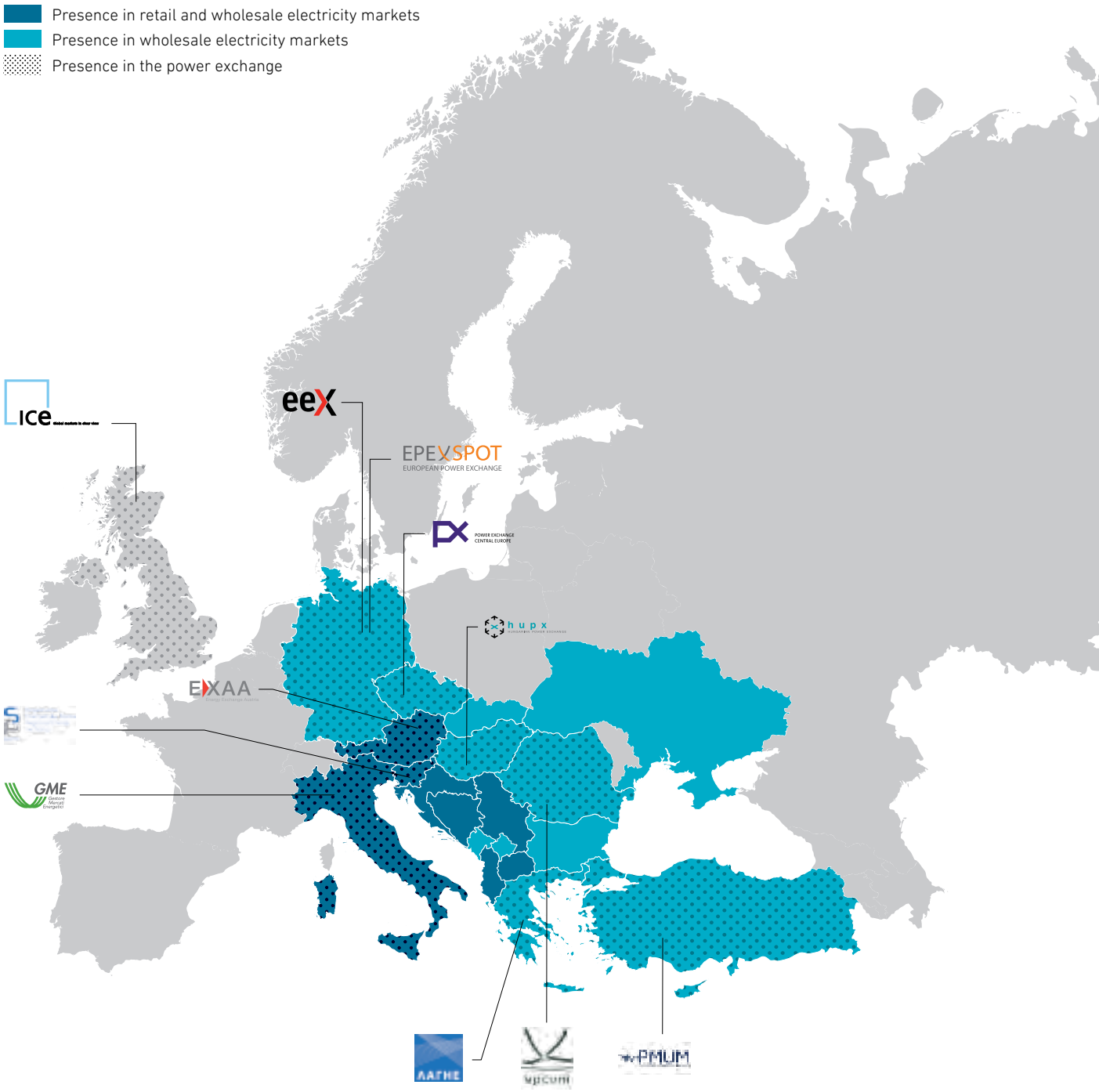
In addition to day trading (day-ahead and intra-day), which is used for making final corrections and trade optimization, we also employ a number of other dynamic trading mechanisms available in the wholesale electricity market. These include: concluding long- and medium-term material and financial futures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

New forms of business cooperation are continually being developed to allow for more effective risk management. Buyers can therefore opt to buy electricity at a predetermined fixed price or to accept the risk of price movements, through price indexation, on a predefined power exchange. These market options are also available to sellers in the electricity market. This allows business partners to better adapt to market conditions and to reduce their exposure to market risks.

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

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

Figure 2.10: **Geographic presence of the companies making up the GEN Group in the electricity markets and on power exchanges**



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. Customers include large corporations, as well as small and mid-sized enterprises and households.

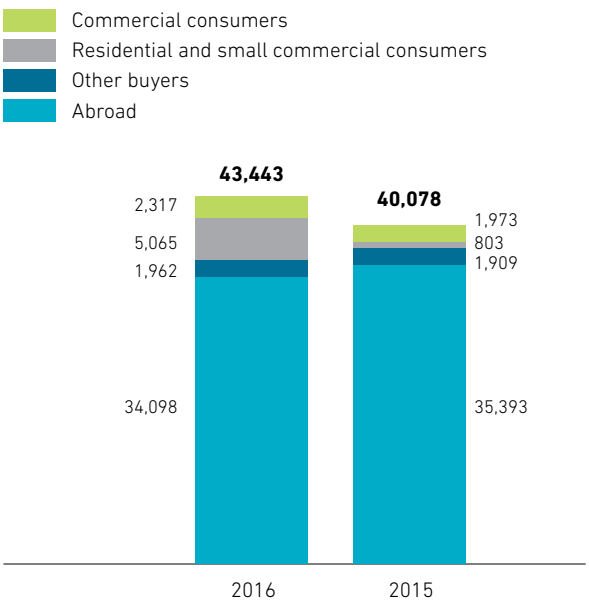
With our tried and trusted individual portfolio management based on our own knowledge and infrastructure, we successfully catered for our existing customers and kept practically all of them. This allowed our partners to take the best possible advantage of price movements in the electricity market. Also,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

In 2016, we were a major player in electricity sales to consumers in Slovenia, and we were also active in supplying electricity to consumers abroad. The key sellers' markets were Hungary, Austria, Germany, Italy and Croatia, with Greece becoming ever more important. We make good use of the experience gained for speeding up further development and for identifying new opportunities for retailing in other markets, particularly Southeast Europe.

The companies making up the GEN Group sold most of their electricity, specifically 34,098 GWh, in foreign markets. We managed to almost double domestic sales year on year. 9,345 GWh of electricity was sold, of which more than one-half to residential and small commercial consumers (SCC); sales to the latter has increased fivefold.

Sales to commercial consumers and other buyers purchasing electricity for satisfying household demand increased as well, by 17.48% and 2.76% respectively. The main reason for the increase lies in GEN-I's acquisition of the company Elektro energija and the resulting incorporation of the acquired company's portfolio in the GEN Group.

Figure 2.11: **Electricity sold by the companies making up the GEN Group (GWh)**



2.5

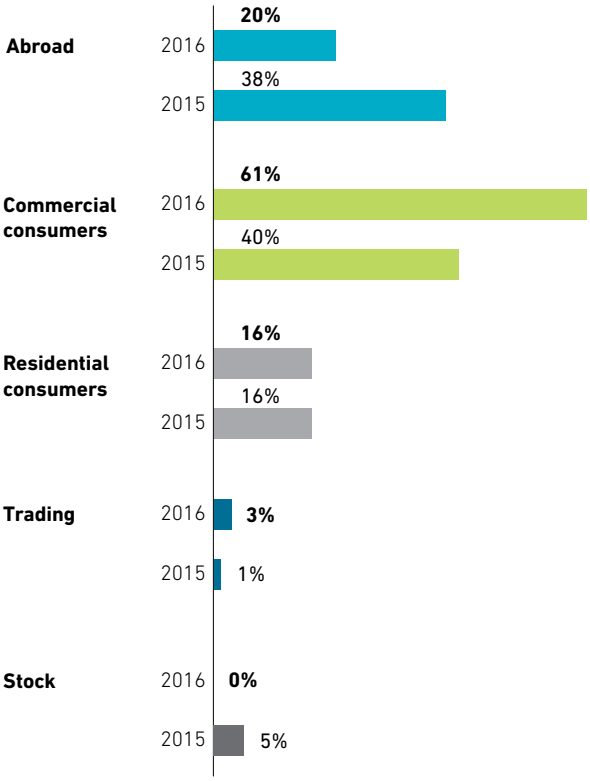
Sales of natural gas

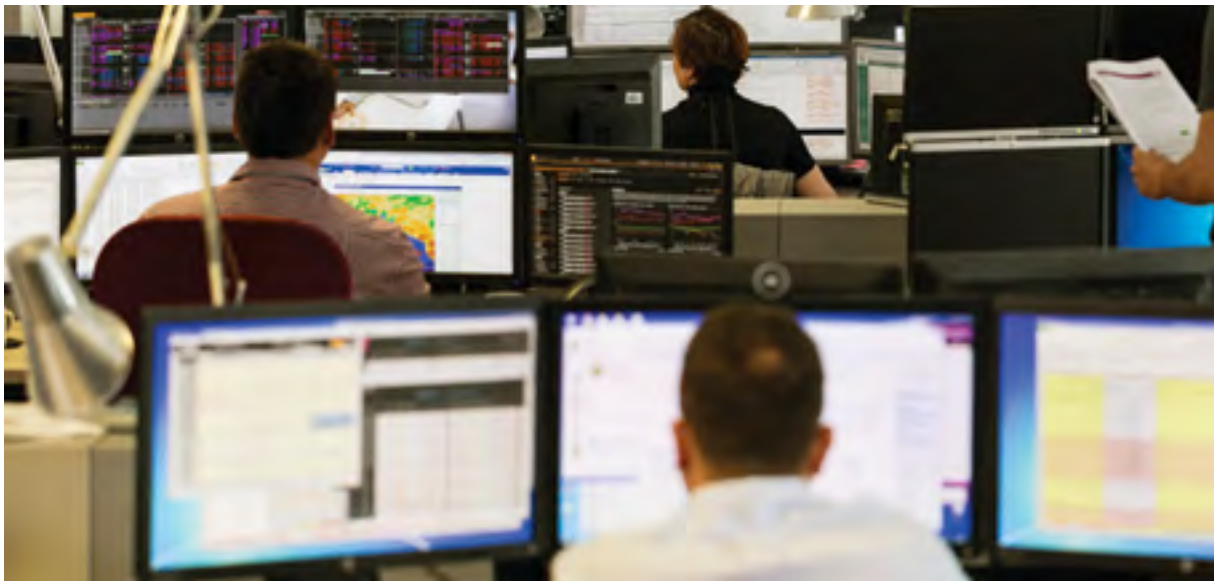
Sale of natural gas in the companies making up the GEN Group is in the domain of the subsidiary GEN-I, which caused quite a stir in the domestic market for natural gas when it entered the market in September 2012. With its secure supply and competitive prices, GEN-I continued to be the second-largest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

GEN-I purchases natural gas on European power exchanges, where prices are dictated not only by fluctuations in oil prices but also supplies currently on offer. This way, the sources we buy natural gas from are diversified among trusted and best-known West European partners. At the end of 2016, we supplied natural gas to some 21 thousand residential consumers and a little more than 350 commercial consumers, in the total volume of 169.3 million Sm^3.

Growth was observed both in the commercial and the residential segments of the natural gas supply in 2016. The growth can be credited to a stronger sales strategy, additional opening of the natural gas market in Slovenia, and our winning bid in a tendering announced by the Consumers' Association of Slovenia.

Figure 2.12: **Breakdown of natural gas sales of the companies making up the GEN Group for 2016 and 2015**





2.6

R&D, capital expenditures and investments in the companies making up 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 146.52 million in 2016. Taking into account the rules of consolidation, the value of investments in the GEN Group stood at EUR 119.33 million.

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

The company GEN spent EUR 13.29 million on research and development and capital expenditures and investments in 2016.

Since the company's profits are the single most important source of funding, the outlined investments were paid for out of profits and depreciation allowances in the amount of EUR 0.92 million.

Figure 2.13: **R&D, capital expenditures and investments of the companies making up the GEN Group in 2016 (in EUR million)**

GEN Group companies
EUR 146.52 million

NEK: EUR 54.38 million
- Investments in technological upgrades
- Miscellaneous investments

GEN: EUR 13.29 million
- GEN-I ownership consolidation
- Expansion of Krško Nuclear Power Plant generation capacity

SEL: EUR 2.81 million
- Goričane SHP reconditioning
- Borovlje SHP

TEB: EUR 7.21 million
- Replacement of gas turbine units
- Miscellaneous investments

HESS: EUR 44.82 million
- Brežice HPP
- Mokrice HPP

GEN-I: EUR 24.01 million
- Investments in GEN-EL, Elektro energija
- Information technology

Table 2.4: **R&D, capital expenditures and investments of the company GEN in 2016 (in EUR million)**

	Result 2016	Result 2015	Ratio
RESEARCH & DEVELOPMENT	**0.18**	**0.11**	**1.6596**
JEK 2-related studies	0.00	0.00	-
Other studies	0.18	0.11	1.6596
CAPITAL EXPENDITURES	**1.84**	**2.13**	**0.8617**
Expansion of Krško Nuclear Power Plant generation capacity	1.59	1.91	0.8312
Miscellaneous investments	0.25	0.22	1.1246
INVESTMENTS	**11.28**	**0.00**	**-**
HESS construction project	0.00	0.00	-
Acquisition of equity stakes, capital injections	11.28	0.00	-
TOTAL	13.29	2.24	5.9373

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.

Table 2.5: **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 the top-of-the-range, most advanced and safest technology
Environmental aspect	Minimal impacts on the environment, mitigation of climate change, optimal utilization of space
Economic aspect	Stable prices and competitiveness, both for Slovenia's households and economy.

Strategic framework: the electricity supply situation in Slovenia

The situation with electricity supply in Slovenia has intensified in recent years. As the gross domestic product grew and the standard of living moved closer to that of developed EU Member States, power consumption increased. Because domestic production could no longer keep up, Slovenia experienced a shortage of electricity as high as 25%. The country was therefore becoming increasingly dependent on imported electricity. With the global economic crisis, which emerged in 2008 and persisted up until 2013, the situation took a dramatic turn for the worse. Slovenia's economy recovered in 2014, 2015 and 2016. This brought an end to a years-long trend of declining electricity consumption. Slovenia's electricity consumption in 2016 was 12,718 GWh, much like it was in

Figure 2.14: **JEK 2 project stages**

2015. UMAR issued optimistic economic forecasts, which will pave the way for increased demand for electricity.

Slovenia is also facing the problem of relatively old energy-generating facilities, which are going to have to be eventually replaced with new ones. At the same time, we are growing increasingly aware of environmental impacts and 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 1,100–1,600 MWe, and the new unit could be connected to the grid around 2030.

Regulatory framework for energy utilities

A pivotal regulatory document governing the energy sector, the Energy Act (EZ-1), was passed at 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, roughly for 40 years. A public debate was open in 2015 and 2016 over the Proposed Guidelines for developing the Energy Concept of Slovenia. Four multi-stakeholder consultative discussions were held, where key challenges in terms of substance for developing the Energy Concept of Slovenia were debated.

Work on developing the Energy Concept of Slovenia continues in 2017 – the preparation of the draft document, its public debate and approval are expected to take place in 2017.

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.

Activities related to location studies relevant to the JEK 2 project continued in 2016. The project Geotechnical, geological and seismological location studies for JEK 2 (GGS) was initiated in 2007 with the purpose of conducting detailed geological surveys of the downstream (eastern) and upstream (western) locations for siting the new nuclear build in Krško. The results of these and previously done analyses and surveys, as well as field and laboratory research, performed in both proposed locations show that the soil layer in the area is

very homogeneous. Location studies at the end of 2014 continued with Seismic Hazard Analysis, which will take around four years to complete.

Besides location studies, we have carried out studies, analyses and activities, among others, for the JEK 2 project in the following key areas in 2016:

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

The financial resources spent on the JEK 2 project totalled EUR 1,59 million in 2016. Most of the resources were spent on activities related to location studies.

Participation in other nuclear energy projects

With its specialized engineering expertise and experience in nuclear energy and nuclear technologies, GEN's team participates in nuclear energy projects both at home and abroad.

We prepared tenders and proposals in 2016 for bidding on three **projects financed by the European Commission**:

- support for the existing nuclear power plant in Armenia (AOSA), with the object of the tender being upgrades to safety and operational efficiency; we participated in conjunction with the Austrian-based company ENCO,
- new approaches to improving nuclear safety (NARSIS); we participated together with 17 partners in the framework of the *Horizon 2020* research program, and
- upgrades to engineering simulators for nuclear power plants (ENES).

We also take part in **domestic nuclear projects**:

- with the Agency for Radwaste Management (ARAO) in reviewing the safety, technical and other project documentation for the construction of a low- and intermediate-level radioactive waste (LILW) repository,
- with Brestanica Thermal Power Plant (TEB) on the project to replace gas turbine units 1–3, and
- with the company NUMIP in carrying out scheduled maintenance outage activities.

Plans for 2017

On the JEK 2 project, in 2017 we will continue conducting substantial technical analyses in conjunction with geological and seismological surveys, which are relevant both to JEK 2 and the existing Krško Nuclear Power Plant, and we will carry on revising and updating technical and economic analyses to support the corporate decision-making process. Part of these activities will be carried out by our own people. We will keep abreast of the project to develop the Energy Concept of Slovenia, and we will play an active part in technical and public debates. We will continue our work in the European Utility Requirements (EUR) organization and other major professional organizations and carry on with the projects in Slovenia.

Key benefits of the planned JEK 2 project

- safe and reliable supply of electricity (8–12 TWh per year, depending on the size of the power plant),
- domestic energy source: reduced reliance on imported electricity,
- competitive energy source: affordable, predictable and stable prices of electricity,
- optimal solution in response to the environmental requirements and standards, reduced CO_2 emissions on the national scale,
- third-generation reactor: improved technology, enhanced safety, higher economic competitiveness,
- reduction of existing and 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.

Acquisition of equity stakes

In 2016, ownership consolidation of GEN-I was performed in line with the GEN Group's strategic focuses. We upgraded our ownership and business relations in order to stay competitive on the market in the long run.

By merging, the companies GEN-I and Elektro energija will be able to consolidate their competitive position and together offer innovative solutions on the energy markets in Slovenia, the neighbouring countries and Southeast Europe. The merging of both companies facilitates the stabilization of operations and electricity sales and drives flexible future development focused on long-term sustainability.

The optimization of service costs in the entire chain – from electricity generation to sales – will bring many benefits, particularly to buyers of electricity, both in the residential and commercial consumer segments. This way, GEN energija is strengthening the vertical integration within the GEN Group, from electricity generation to consumers.

Development activities of the company ZEL-EN

In the energy sector development center ZEL-EN, which we established for the purpose of promoting the development of energy technologies, we carried out in 2016 several research and development projects on individual partners' premises.

Two development projects, engaging three people, were under way in 2016 at the Nuclear Technology business unit (the GEN business unit was renamed in 2015).

- reactor shutdown analysis with the corresponding model development, and
- development of advanced methods for nuclear core calculations and analysis of the main steam line in pressurized water reactor (PWR) power plants.

ZEL-EN staff also actively engaged in running guided tours of the World of Energy at the company GEN's headquarters and in the technical review of select sections of the draft safety report for the Hanhikivi-1 power plant.

Parent company's research and development, investment and capital expenditure plans for 2017

In terms of investments and capital expenditures, we are going to stay on track in 2017. We will carry on implementing activities started in previous years and activities that were not possible in the past. The financial resources for this are projected to reach EUR 3.4 million.

In 2017, GEN is going to carry on with the activities for implementing the project to expand Krško Nuclear Power Plant's generation capacities (the JEK 2 project). Resources have also been marked off for implementing a development focus in the area of production unit management towards a single GEN Control Centre, which will lead to reducing the deviations of the balancing subgroup and the need for intra-day trading and to minimizing the consequences of unplanned events.

New equity stakes may also 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 taking out a long-term loan.

Research and development, investments and capital expenditures in subsidiaries

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

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

If corrective maintenance work is carried out on key equipment that is included in the preventive maintenance schedule, we conduct a detailed analysis of the cause and, if needed, revise the respective preventive maintenance schedule accordingly. In 2016, most maintenance activities were carried out to maintenance schedules.

NEK

NEK is committed to making ongoing strategic investments in technological modernization and upgrades. The standard procedure is to make five-year investment plans, and the average annual value of investments in technological modernization is around EUR 35 million. 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 in 2016 with intense technological modernization in accordance with its long-term investment plan, which encompasses the deployment of new solutions, technological changes and additional systems that will provide the power plant with added protection in the event of unlikely incidents. Currently under way is stage 2 of the Upgrade Program, which includes several projects projected to be completed in 2018. Stage 3, scheduled for completion by 2021, includes the introduction of dry storage for spent fuel inside durable, airtight containers. Judging by applicable safety standards, this is considered the most advanced method of storage worldwide.

NEK's intense technological modernization, which provides high levels of operational readiness and nuclear safety, is recognized as an example of good practice internationally as well. A delegation from the Japanese institute JANSI, which serves the needs of Japan's nuclear power plant operators in the area of nuclear safety, while on an exchange visit to NEK in 2016, selected our nuclear power plant as an example of good practice and good solutions in terms of ensuring nuclear safety. The exchange visit focused specifically on the Safety Upgrade Program, which was recognized by the Japanese guests as a remarkable example of a proactive approach to nuclear safety and compliance with operational experience and new modern safety standards, which they too seek to follow.

The value of the investments in NEK made in 2016 totalled EUR 54.38 million.

Given the fact that an economic viability study on extending NEK's service life has shown the extension of NEK's service life until 2043 to be economically viable, and considering that the Slovenian Nuclear Safety Administration approved amendments to the Final Safety Report and Technical Specifications for extending NEK's service life from 40 to 60 years and that the Intergovernmental Committee approved the project in 2015, NEK General Meeting passed a resolution in 2016 to grant the extension of NEK's service life. This decision, crucial in energy future terms, will allow the implementation of the planned safety upgrade and is also the result of NEK's remarkably successful operation and business activity.

Investments in technological modernization in 2017 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 38.33 million.

SEL

SEL consistently carries out periodic major maintenance on its facilities and makes intense development efforts in terms of tapping hydro energy. In 2016 SEL spent EUR 2.81 million in depreciation allowances and other own resources on investments and development.

SEL's central investment in 2016 was the reconditioning of Goričane SHP, which is scheduled to complete in 2017. They successfully reconditioned the fourth spillway at Vrhovo HPP and the hoisting mechanism for turbine outlet gates at Mavčiče HPP. Having removed the silt from in front of the bottom outlet, they successfully installed a grid at Moste HPP.

Currently under way are preparations for the project to recondition the secondary equipment at Vrhovo HPP and the sale of the 110kV section of the Medvode HPP switching substation to the company ELES, both with the aim of reducing maintenance costs and unifying systems maintenance operations.

In 2017, 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 4.82 million.

TEB

In 2016, TEB spent EUR 7.21 million in own resources on capital expenditures and development.

The most extensive and most important project for TEB is the replacement of gas turbine units 1–3. The central components of the main technological equipment are the Siemens SGT 800 industrial gas turbine (power rating: 53 MW) and electric generator. The main technological equipment also includes a diesel electric generator for starting up the gas turbine without an external power supply (black start), and the contract, signed in February 2016, also includes the supply and installation of a chimney.

All major earthworks were completed by the end of 2016: a construction pit was dug out in the area of connecting ducting and where the turbine building is to stand; a layer of gravel was laid under the foundation and a drainage system installed. All rough construction work needed for the connecting ducting and pouring of turbine building foundation has been completed; also poured were the foundations for the gas turbine and chimney. Waterproofing work was carried out on the foundations and ducting simultaneously with the construction work on the foundations, the former were then backfilled with gravel. Extensive construction work is under way on the turbine building, which is going to be made entirely of reinforced concrete. The main technological equipment (gas turbine, chimney, diesel power generator) has gone into production in 2016 and was delivered to the site in the spring of 2017, when installation started.

The total estimated value of the project is EUR 35 million.

TEB's financial resources earmarked for capital expenditures and development in 2017 amount to EUR 23.33 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.

The construction of Brežice HPP continued with great intensity in 2016: work on its energy generation part is right on track in terms of schedule and contractual deadlines. All major construction work has been completed on the powerhouse, spillways, multipurpose structure and the power plant's exterior platforms. Embankments around the construction pit were removed, the River Sava has been rerouted from the bypass channel onto the spillways. The building's exterior, control room and facilities for personnel and equipment have been finalized. The turbine, generator and electrical equipment of generating unit 1 was installed, dry and wet start-up testing of the installed generating unit equipment was carried out before the generating unit was synchronized with the transmission grid. The reservoir was temporarily filled up to an intermediate mark in early December for equipment testing purposes. The transmission line was connected with the cabling to the 110kV system set up by ELES, and the indivisible infrastructure essential to the filling up of the reservoir was completed by the company Infra – both according to schedule. This fulfilled the basic prerequisites for synchronizing the first generating unit with the power grid.

The Brežice HPP reservoir also impacts Krško Nuclear Power Plant (NEK), where certain modifications need to be made as a result – design documentation was being prepared and work on different systems carried out at NEK in 2016. All the necessary modifications were completed during NEK's scheduled maintenance outage in 2016, except for the dam modification, where work is still in progress. The modification of NEK's existing dam is a top priority and its successful completion will allow the Brežice HPP reservoir to be filled up to the nominal height.

The power plant's technical inspection and start of trial operation are scheduled for the end of September 2017.

EUR 44.82 million was spent on investments and development of HESS in 2016; some of the resources came from a loan for funding the construction of Brežice HPP, the rest were own resources.

In 2017, HESS will be directing most of its investment potential into the finalization of Brežice HPP. The total value of planned investments in HESS is EUR 12.42 million.

GEN-I

GEN-I spent a total of EUR 24.01 million on capital expenditures and development. Most of the resources were spent on acquiring interests, among them a 100% equity interest in the company Elektro energija; a portion of the resources was marked off for information technology, which is essential to the uninterrupted operation of trading and sales applications, and for other fixed assets essential to the company's business operations.

In 2017, GEN-I will spend most of its investment resources, in the amount of EUR 1.58 million, on implementing and upgrading comprehensive data management systems and on upgrading the rest of its IT systems.

2.7

Financial operations

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

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

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

Servicing operations and borrowing

A key function of financial operations is to plan for a sufficient amount of liquid funds for ensuring solvency, where a major part is played by obligations arising from the supplied electricity and power. Particularly important is the obligation to cover NEK's fixed costs, which is one of the principal leverages for the prompt settlement of GEN's liabilities and for the optimization of surpluses and shortfalls among the companies making up the GEN Group. 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 mainly through loans, but in recent years also by issuing commercial papers, which turned out to be a very effective way of securing funds. The company GEN too took out a revolving loan in 2016 in order to be able to support current business operations in the event of major liquidity issues.

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. TEB took out long-term loans in 2016 to finance its capital expenditures.

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

Settling liabilities to the NEK Fund

Pursuant to the Intergovernmental Agreement on NEK, the Act on the Fund for Financing the Decommissioning of NEK and Disposal of Radioactive Waste from NEK (Official Gazette of the Republic of Slovenia, No. 75/1994 and amendments thereto), and the Decision of the Government of the Republic of Slovenia No. 311-01/2001-21 of 07/10/2004, the company GEN is obligated to pay, on a regular basis, into the NEK Fund a contribution in the amount of EUR 3 for each MWh of electricity generated by NEK. EUR 8.15 million was paid into the NEK Fund in 2016.

Securing funding for covering NEK's fixed annual costs

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

The total amount of provisions was finalized as early as the end of 2009, but because NEK's fixed operating costs vary, the amount of provisions needs to be adjusted. To ensure the amount of provisions is adjusted in as balanced and objective way as possible, so as to allow proper estimation of future expenses arising from an onerous contract, provisions are adjusted, since 01/01/2014 in accordance with SAS, based on the three-year average value of the fixed costs as defined in the NEK Economic Plan. In 2016, the company GEN reversed provisions in the amount of EUR 6,237,500, so the closing balance of provisions at the end of the reporting period was EUR 65.33 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

No changes were made in 2016 to the Investment Strategy designed to make up for long-term provisions drawn for covering NEK's fixed costs in the event of an unplanned reduction in NEK's electricity production (hereinafter: Investment Strategy), which was presented to the Supervisory Board of the company GEN on 25 August 2014. Due to the unpredictability of the financial markets, the Investment Strategy does not provide for investing in debt and equity securities and only allows deposits with financial institutions and with a maximum maturity of six months, as well as appropriate investments in the electric sector.

In the first half of the year, the company GEN continued to follow its Investment Strategy and invested its surplus cash exclusively in call deposits with up to six months' maturity. However, due to the acquisition of an equity interest in an energy sector company and payouts of profit participation to the owner of GEN, the balance of surplus cash reached a level at the end of the year that only sufficed for covering current liquidity needs, which is why investments in deposits were discontinued.

Analysis of operating performance

The indicators that reflect the financial position or the suitability of the composition of assets and liabilities of the company GEN and the GEN Group are presented below.

Table 2.6: **Performance indicators for the company GEN and the GEN Group**

Performance indicators	Company		Group	
	2016	2015	2016	2015
Equity financing rate	83.87%	83.19%	70.56%	91.86%
Long-term financing rate	96.69%	97.01%	81.27%	96.49%
Operating fixed assets rate	3.53%	3.31%	63.24%	71.57%
Long-term investment rate	92.26%	88.72%	63.83%	76.14%
Equity to operating fixed assets	23.76	25.12	1.12	1.28
Long-term financing of fixed assets	1.03	1.08	1.27	1.26
Immediate solvency ratio – acid test ratio	0.87	2.04	0.77	4.54
Quick ratio	1.98	3.35	1.52	5.54
Current ratio	1.98	3.36	1.91	6.73
Operating efficiency ratio	1.12	1.08	1.05	1.05
Net return on equity ratio	0.04	0.03	0.04	0.01

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 companies making up the GEN Group, as well as to promote their professional and personal growth. The Group had 1230 employees in 2016, 44 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 and scope of work in the companies making up the GEN Group, more than half of the employees have at least a higher education qualification. The reason for the increase in the number of employees in 2016 is primarily the incorporation of the company EL-EN into the GEN-I Group.

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 above refer to the whole companies or the whole group, not taking GEN's equity interests in individual companies and the rules of consolidation into account. The table also includes comparative data for 2015.

The companies making up the GEN Group had 23 doctors of science, 41 masters of science and 395 bachelors of science/arts in 2016. The key areas of expertise covered by employees with professional qualification levels 9 and 10 (Masters and Doctors of Science) are:

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

Figure 2.15: **Employees of GEN Group companies with professional qualification level 6, 7, 8, 9 and 10**

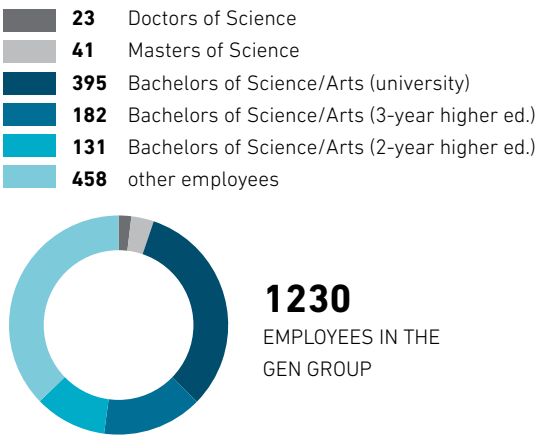


Table 2.7: **Number of employees in the GEN Group companies as at 31/12/2016 by level of professional qualification**

GEN GROUP	Result 31/12/2016											Result 31/12/ 2015
	Level 1	Level 2	Level 3	Level 4	Level 5	Level 6	Level 7	Level 8	Level 9	Level 10	TOTAL	
GEN	0	0	0	0	3	7	8	32	2	3	55	53
GEN-I	0	1	0	4	59	14	90	109	18	10	305	239
NEK	0	3	1	23	235	76	51	204	15	9	617	641
SEL	5	0	0	22	34	16	8	17	4	0	106	106
TEB	0	3	0	19	28	16	12	20	0	1	99	103
HESS	0	0	0	1	17	2	13	13	2	0	48	44
TOTAL	5	7	1	69	376	131	182	395	41	23	**1230**	1186

Professional education and training

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

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

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

Balancing family and career

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

POLNI CERTIFIKAT
Družini prijazno podjetje

Scholarships and development of human resources

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

- the ageing of the existing human resources – employees of the companies making up the GEN Group, 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.

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

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

Long-term strategic challenges in terms of human resources

Once made, the decision to expand nuclear generation capacities (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.

Table 2.8: **Some of the major education and training sessions held at the companies making up the GEN Group in 2016**

Company	Focus of the professional education and training in 2016	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	• lengthier education programmes at the ICJT for the Technical Sector employees working on the JEK 2 project
NEK	• systematic training based on a checklist of competencies required for independent work and performance of work assignments • in-service education and training (36 employees in 2016) • 305 in-house and external courses for NEK were attended by 9,831 people in 2016 • courses for external contractors (148 courses in 2016, attended by 10,654 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 equipment engineers; theoretical and simulator-based training, without on-the-job training, a minimum of 32 hours per year for the rest of the technical personnel
SEL	• professional education programmes at faculties or higher-education institutions to obtain Level 7 or 6/II qualifications • individual and group training for operators of energy generation equipment • training in occupational health and safety, fire safety, first aid, and new legislation	
HESS	• professional education and training according to field of specialization; participation in industry seminars, workshops, conferences, panel discussions and training courses: 1,553.5 hours of education and training, attended by 45 employees (34.5 hours per employee)	
TEB	• in-house and external training in occupational health and safety, fire safety, environmental management systems, accounting and finance, employment relationships and other professional subject areas • mandatory periodic training – 20 hours of education or training on average per employee per year	
GEN-I	• middle management training • specialized technical education with a narrow focus • participation of employees at major top-level business events at home and abroad with the aim of exchanging good practices	

2.9

Promoting the knowledge of energy and the energy industry

Our mission is to stay a reliable supplier of electricity from sustainable and renewable sources. Our success in accomplishing this mission depends largely on the 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

From the opening of the World of Energy (in July 2011) to 31 December 2016, this interactive multimedia centre on energy and energy technologies recorded 41,943 visitors, of which 7,251 in 2016 alone.

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

Saturday and summer workshops opening the doors to knowledge

GEN holds an open doors day at The World of Energy every first Saturday each month, with the purpose of raising awareness and promoting knowledge of energy technologies among the general public. Visitors are drawn in not only by guided tours but also workshops held in the experiment room, which are designed to boost interest in natural sciences, technical science and energy technology among the young. We held 11 Saturday events in 2016, attracting 958 visitors and showcasing the following topics: Electricology, Radioactivity At Home, Transferring Heat and Cooling, From Light to Light, World of Electronics, Heat Engines, and Magnetism.

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

Company	Contents	Target audience	Results in 2016
GEN	The World of Energy (guided tours, Saturday and summer workshops); projects in 2016: • The Young in the World of Energy • Technical Wizardry • Young Geniuses (in association with NEK) • participation in Ljubljana's Elektrofest and the Science Festival • eSvet web portal • Occupations Camp (in association with MC Krško) • Information Days at Krško-Sevnica School Centre	Schools, faculties, professional and stakeholder associations, local population and other interested audiences	7,251 visitors 11 Saturday workshops for 958 participants the Young in the World of Energy contest announced as an elective course in the school curriculum the Technical Wizardry event attended by 407 visitors 18 out of 24 technical secondary schools from around Slovenia registered for the Young Geniuses quiz competition. 128 secondary school students took part
NEK	Guided tours of NEK Implementation of the Nuclear Engineering Fundamentals module (in association with Krško-Sevnica School Centre) The Young Geniuses competition (in association with the company GEN) Participation in the Professions Fair (in cooperation with Krško Youth Center) and information days held at Krško-Sevnica School Centre and the Faculty of Energy Technoloy Facilitating mandatory practical work for students (in cooperation with the Faculty of Energy Technology)	Schools, faculties and other interested public audiences, local population, students of Krško-Sevnica School Centre	214 groups, 5,284 visitors Ongoing cooperation (the theoretical part of the module is taught at school, the practical part at NEK)
SEL	Guided tours of Završnica HPP and the Završnica HPP Technical Museum	Schools, faculties, and professional societies	Acquiring new knowledge on hydro energy and on the past and present methods of generating electricity from hydro energy. - a total of around 80 groups on school trips per year
	Cooperation on the Sava Water Council	Local communities and other stakeholders	Coordination of interests for farming, energy generation, river navigation, tourism, nature conservancy and others activities in the Sava basin
HESS	Guided tours of operating HPPs and the Brežice HPP construction site	Schools, faculties, local communities, professional societies, companies participating in the construction of Brežice HPP, ministries, expert groups from Slovenia and abroad	2,645 visitors in total: 1,380 to the operating HPPs; 1,265 to the Brežice HPP construction site Promotion of the project's positive social, environmental and economic effects; raising awareness of the importance of having sustainable development in the local and regional environments
	Contributions at conferences and expert meetings on the topic of the multipurpose project on the lower course of the River Sava		

Awareness-raising projects in 2016:

Project »The Young in the World of Energy«

Held since 2008, the nationwide contest »The Young in the World of Energy« is designed for Slovenian primary and secondary schools and school centres. Its creative part focuses on energy-related topics and is available as an elective course for schools participating in the Eco-School program. On 15 June, GEN energija organized a closing event for primary and secondary school students and mentors who produced the best projects in the school year 2015/16 – nine Slovenian schools received diplomas and prizes for their winning projects, which were selected by a panel of experts. We received more than 80 different products for the contest from more than 400 children and youths from around the country. A new The Young in the World of Energy prize-winning contest was announced at the beginning of the school year 2016/17.

»Young Geniuses« quiz competition

In association with NEK, we organized the »Young Geniuses« project, a quiz competition on energy topics, for the fourth year running. The competition in the 2015/16 school year was designed for all specialized secondary schools with electrical engineering programmes and for technical grammar schools across Slovenia. As many as 128 secondary school students from 18 out of 24 technical secondary schools from all over Slovenia registered to take part. We prepared e-materials for the competition and held a series of preparatory events, which included all mentors and students visiting The World of Energy in Krško. There, they saw an interactive exhibition on energy and energy technologies and also gained new knowledge in practical workshops.

We have also started preparations for the competition in the school year 2016/17, which will be open to primary school children from the Posavje region.

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 companies making up the GEN Group in 2016 again provided organizational, technical or financial support to various nationwide, industry, business, and educational/awareness-raising events and projects related to the energy industry.

Web portal on energy and the energy industry: eSvet

The web portal on energy and the energy industry eSvet, which we launched in 2014 in cooperation with industry partners (companies making up the GEN Group, the University of Maribor, Jožef Stefan Institute, ELES and ARAO), provides curious online visitors with data-driven facts and figures on energy, its role and areas of application in everyday life, energy sources in use today, with a special emphasis on electricity generation sources and technologies and the importance of having a reliable electricity supply – now and in the future. We recorded more than 14,040 new visitors and more than 82,522 page views. eSvet was upgraded in 2016 with an online Energy Mix simulation, which allows every individual to try their hand at running Slovenia's power plants. The simulation uses actual data and includes power plant types currently available in Slovenia.

Partnership collaborations, corporate and project presentations

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

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

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

Sponsorships and donations

With their energy production facilities and operations, the 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 2016, nearly 58% of all the funding went to the local environments in which our companies operate, and 42% to organizations around Slovenia.

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.

Well-managed work processes and ongoing efforts to improve the safety culture contribute immensely to our responsible fulfilment of our consumer-focused mission: to provide a reliable supply of electricity from low-carbon sources to commercial and residential consumers at affordable prices.

Quality Management System

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

The GEN Group companies have been certified 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.

The table highlights some of the key activities in 2016 associated with the implementation, maintenance and development of management systems, and plans for 2017.

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). 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 the technical inspection carried out by a WANO support mission, which was completed in November 2016 after a week-long follow-up check. They followed up on the situation and fulfilment of recommendations after the WANO mission's technical inspection two years earlier, in November 2014. The group ended their visit with a positive overall impression, and the results of the WANO mission steer the NEK team towards continuing with good practices and making suitable preparations for the inspection by the International Atomic Energy Agency (IAEA, OSART mission) scheduled for May 2017.

Table 2.10: **Overview of quality management, environmental management, and occupational health and safety activities in 2016 and plans for 2017**

Company	Certificate	Implemented activities	Key plans for 2017
NEK	ISO 14001	Second control audit completed in the third certification cycle (December 2016).	Implementation of recommendations expressed as possibilities for improvement or as observations by the certification authority. Environmental management system adapted to the new version of the ISO 14001:2015 standard. Recertification of the management system to the new version of the ISO 14001:2015 standard in the second half of the year.
	OHSAS 18001	Second control audit completed in the second certification cycle.	Implementation of recommendations made by the certification authority during the control audit. Introduction of new goals and focuses in occupational health and safety.
SEL	ISO 14001	Second control audit completed (September 2016).	Certification to the ISO 14001 standard discontinued, but the good practice put in place is kept.
	OHSAS 18001	Second control audit completed (September 2016).	Certification to the OHSAS 18001 standard discontinued, but the good practice put in place is kept.
	ISO 9001	Second control audit completed (September 2016).	Completed transition to the new version of the standard.
TEB	ISO 9001	Recertification – repeated external audit in 2016.	Focusing on creating value for the society and local environment in the long term.
	ISO 14001	Recertification – repeated external audit in 2016.	Implementation of recommendations for system improvements made during the control audit.
	OHSAS 18001	External control audit completed.	Transition to the new ISO 9001:2015 standard. Management system revision.
GEN	ISO 9001	External audit in February 2016: management system IT upgraded, physical archive management module developed and implemented.	Management system transitioned to the new ISO 9001:2015 standard in the company GEN; certification set for 2018. Automation upgraded and documentation management system integrated with existing IT solutions.

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
- PROJECT RISKS

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

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 most important risk 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 heavily on it. Regulatory risks imposed on business entities by the government have been growing recently, e.g. new taxes and tax hikes, broader access to information in the public domain, the Slovenian Nuclear Safety Administration policy, etc.

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

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

Corporate governance by the founder

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

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

The SSH carries out its management function as follows:

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

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

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

Market risks

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

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

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

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. The company is exposed to these risks particularly in the event of open-ended contracts.

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

Each company manages the internal risks associated with their production facilities based on their many years of experience and expertise, by organizing regular employee training, and by following proven methods of running a production facility, carrying out maintenance, etc. NEK, SEL, TEB and HESS ensure uninterrupted operation of their production units and other electricity-generation systems independently by performing regular maintenance work and periodic checks (measurements, mechanical diagnostics).

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

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

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

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

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

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

The 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).

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

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

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

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

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

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.

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

Legal risks

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

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

Operational risks

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

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

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

Investment risks

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

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

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

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

- risk relating to the development of the JEK 2 project,
- risk relating to the completion of the JEK 2 project, the most notable being the risk relating to the financing of the JEK 2 project and recruiting suitable human resources, and
- risk relating to the operation of JEK 2.

If a decision is made to go ahead with the JEK 2 project, the risks in connection with the project will be managed and controlled separately. A Risk Management Manual for the JEK 2 project has already been produced.

Monitoring and cooperation in the context of the construction of hydroelectric power plants on the River Sava are important risk management elements for the companies GEN and SEL. This will play a particularly important role in the construction of HPPs on the middle course of the River Sava, where the engagement of the people from the two companies is foreseen.

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

3. 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, 2016, the summary income statement and the summary statement of changes in equity for the year ended 31 December, 2016, and related notes are derived from the audited financial statements of GEN energija, d.o.o. for the year ended 31 December, 2016, approved by the management on 23 June, 2017. We expressed an unmodified audit opinion on those financial statements in our auditors' report dated 3 July, 2017.

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 2016.

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, 2016 are consistent, in all material respects, with those financial statements.

Ljubljana, 5 July 2017

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

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

Mateja Repušič
Certified Auditor

Družba je članica Ernst & Young Global Limited.

3.2

Basis for drawing up the financial report of the company GEN

In compliance with CA-1, the following section contains a summary financial report which forms an integral part of the Annual Report of the company GEN and the GEN Group for 2016. The summary presents the main characteristics of 2016 operations in the form of summary financial statements compiled based on the audited balance sheet, profit and loss account, statement of other comprehensive income, and statement of changes in equity.

The financial statements, notes and accounting policies used in the compiling of the financial statements for the company GEN were approved by the company management on 23 June 2017.

As of 1 January 2016, the company is required to apply amended Slovenian Accounting Standards SAS 2016. This transition had no impact on the company's profit or loss account for 2016 or the company's equity as at 01/01/2016 and 31/12/2016.

The financial statements are presented in EUR without cents.

The Annual Report 2016 of the company GEN, with financial statements and notes, is published at www.ajpes.si. It can also be obtained at the company's registered office at Vrbina 17, 8270 Krško, Slovenia.

3.3

Financial statements of the company GEN

Balance sheet of the company

Table 3.1: **Balance sheet of the company as at 31/12/2016**

	31/12/2016	31/12/2015
ASSETS	**513,173,498**	**519,928,708**
Fixed assets	**479,810,810**	**468,018,616**
Intangible assets, long-term deferred expenses and accrued revenue	240,604	284,200
Tangible fixed assets	17,876,735	16,935,382
Long-term financial investments	455,321,222	444,043,317
Deferred tax assets	6,372,249	6,755,717
Current assets	**33,297,823**	**51,755,951**
Short-term financial investments	195,164	25,174,781
Short-term operating receivables	18,636,642	20,187,184
Cash	14,466,017	6,393,986
Short-term deferred expenses and accrued revenue	**64,865**	**154,141**
LIABILITIES	**513,173,498**	**519,928,708**
Equity	**430,381,521**	**432,527,658**
Called-up capital	250,000,000	250,000,000
Capital reserves	131,756,895	131,756,895
Revenue reserves	39,690,278	30,752,903
Reserves from valuation at fair value	-3,027	17,861
Net profit from previous years	0	7,158,611
Net profit or loss for the financial year	8,937,375	12,841,388
Provisions and long-term accrued expenses and deferred revenue	**65,637,272**	**71,806,309**
Provisions and long-term accrued expenses and deferred revenue	65,637,272	71,806,309
Long-term liabilities	**191,775**	**38,256**
Long-term financial liabilities	31,000	31,000
Long-term operating liabilities	160,775	7,256
Current liabilities	**16,822,011**	**15,450,051**
Current operating liabilities	16,822,011	15,450,051
Short-term accrued expenses and deferred revenue	**140,919**	**106,434**

Profit and loss account and statement of other comprehensive income of the company

Table 3.2: **Profit and loss account of the company for 2016**

	2016	2015
TOTAL INCOME	**168,822,084**	**175,543,639**
Operating income	166,776,540	173,637,402
Financing income	2,045,449	1,906,232
Other income	95	5
TOTAL EXPENSES	**148,482,025**	**160,233,740**
Operating expenses	148,361,121	160,083,615
Original cost of goods, materials and services	136,240,708	147,989,765
Labour costs	2,962,104	2,817,396
Write-offs	921,957	1,126,516
Other operating expenses	8,236,352	8,149,938
Financing expenses	4,480	10,863
Other expenses	116,424	139,262
TOTAL PROFIT OR LOSS	**20,340,059**	**15,309,899**
Corporate income tax	2,465,309	2,468,511
NET PROFIT OR LOSS	**17,874,750**	**12,841,388**

Table 3.3: **Statement of other comprehensive income for 2016**

	2016	2015
NET PROFIT OR LOSS FOR THE PERIOD	**17,874,750**	**12,841,388**
Changes in reserves from valuation at fair value	-20,888	13,872
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**17,853,862**	**12,855,260**

Statement of changes in equity for the company

Table 3.4: **Statement of changes in equity for the company for 2016 and 2015**

	Share capital	Capital reserves
At 01/01/2016	**250,000,000**	**131,756,895**
Changes in equity capital – transactions with owners	**0**	**0**
Paid-out dividends	0	0
Total comprehensive income for the reporting period	**0**	**0**
Input of net profit or loss for the reporting period	0	0
Changes in reserves from valuation of financial investments at fair value	0	0
Changes in equity	**0**	**0**
Distribution of a portion of net profit as per company bodies' resolution	0	0
At 31/12/2016	**250,000,000**	**131,756,895**
At 31/12/2014	**26,059,796**	**239,609,558**
At 01/01/2015	**26,059,796**	**239,609,558**
Changes in equity capital – transactions with owners	**223,940,204**	**-107,852,663**
Entry of called-up share capital	223,940,204	-107,852,663
Paid-out dividends	0	0
Total comprehensive income for the reporting period	**0**	**0**
Input of net profit or loss for the reporting period	0	0
Changes in reserves from valuation of financial investments at fair value	0	0
Changes in equity	**0**	**0**
Other changes in equity	0	0
At 31/12/2015	**250,000,000**	**131,756,895**

Statutory reserves	Other revenue reserves	Reserves – valuations at fair value	Net profit or loss from previous years	Net profit or loss	Total
2,605,980	**28,146,923**	**17,861**	**20,000,000**	**0**	**432,527,658**
0	**0**	**0**	**-20,000,000**	**0**	**-20,000,000**
0	0	0	-20,000,000	0	-20,000,000
0	**0**	**-20,888**	**0**	**17,874,750**	**17,853,862**
0	0	0	0	17,874,750	17,874,750
0	0	-20,888	0	0	-20,888
0	**8,937,375**	**0**	**0**	**-8,937,375**	**0**
0	8,937,375	0	0	-8,937,375	0
2,605,980	**37,084,298**	**-3,027**	**0**	**8,937,375**	**430,381,521**
2,605,980	**148,699,152**	**3,989**	**0**	**8,693,923**	**425,672,398**
2,605,980	**148,699,152**	**3,989**	**8,693,923**	**0**	**425,672,398**
0	**-116,087,541**	**0**	**-6,000,000**	**0**	**-6,000,000**
0	-116,087,541	0	0	0	0
0	0	0	-6,000,000	0	-6,000,000
0	**0**	**13,872**	**0**	**12,841,388**	**12,855,260**
0	0	0	0	12,841,388	12,841,388
0	0	13,872	0	0	13,872
0	**-4,464,688**	**0**	**4,464,688**	**0**	**0**
0	-4,464,688	0	4,464,688	0	0
2,605,980	**28,146,923**	**17,861**	**7,158,611**	**12,841,388**	**432,527,658**

4. 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, 2016, the summary consolidated income statement and the summary consolidated statement of changes in equity for the year ended 31 December, 2016, and related notes are derived from the audited consolidated financial statements of Group GEN for the year ended 31 December, 2016, approved by the management on 23 June, 2017. We expressed an unmodified audit opinion on those consolidated financial statements in our auditors' report dated 3 July, 2017.

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 2016.

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 GEN for the year ended 31 December, 2016 are consistent, in all material respects, with those consolidated financial statements.

Ljubljana, 5 July, 2017

Janez Uranič
Director
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4.2

Basis for drawing up the financial report of the GEN Group

OVERVIEW OF THE GEN GROUP

The purpose of drawing up the financial report of the GEN Group with 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.

The GEN Group is made up of the controlling company, or parent, and subsidiaries included in the GEN Group through consolidation for an entire financial year, which is identical to the calendar year. Since the process of the gradual merging of the company GEN-I was finalized in December 2016, the consolidation of the company GEN-I and the GEN-I Group is included in the GEN Group only for December 2016. In compliance with the

Table 4.1: **Parent and subsidiaries of the GEN Group**

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

Table 4.2: **Company included in the GEN Group as a joint venture in a joint arrangement**

Company name	Abbr. company	Registered office	Status	Interest
Nuklearna elektrarna Krško d.o.o.	NEK	Vrbina 12, Krško	**Joint venture**	50%

Table 4.3: **Companies making up the GEN Group as affiliates**

Company name	Abbr. company	Registered office	Status	Interest
Srednjesavske elektrarne d.o.o.	SRESA	Ob železnici 27, Trbovlje	**Affiliated company**	40%
HSE Invest d.o.o.	HSE Invest	Obrežna ulica 170, Maribor	**Affiliated company**	25%
ARJE, analize in raziskave na področju jedrske energetike, d.o.o.	ARJE	Vrbina 17, Krško	**Affiliated company**	24%

Intergovernmental Agreement on NEK, the law and International Financial Reporting Standards (IFRS), the consolidated financial statements of the GEN Group also include a company defined as a joint venture – using the joint venture assets and liabilities method of accounting. The GEN Group also includes affiliated companies accounted for using the equity method of accounting.

BASIS FOR DRAWING UP CONSOLIDATED FINANCIAL STATEMENTS

The company has carried out accounting for the period from 1 January 2016 for the purpose of preparing consolidated financial reports of the GEN Group and compiling an annual report of the GEN Group in accordance with the Intergovernmental Agreement on NEK, the law, and the International Financial Reporting Standards (IFRS) in sections not covered by the Intergovernmental Agreement on NEK.

To allow comparison between information due to the change in accounting methods applied, the following were prepared and disclosed:

- consolidated balance sheets with cut-off dates 01/01/2015, 31/12/2015 and 31/12/2016;
- consolidated profit and loss accounts and statements of other comprehensive income for 2015 and 2016;
- consolidated statements of changes in equity for 2015 and 2016.

The financial statements and accounting policies used in the compiling of the financial statements for the GEN Group were approved by the company management on 23 June 2017.

The financial statements are presented in EUR without cents.

The Annual Report 2016 of the GEN Group and the Group's financial statements with disclosures are published at www.ajpes.si. They can also be obtained at the company's registered office at Vrbina 17, 8270 Krško, Slovenia.

AUDIT

The companies GEN, SEL, TEB and HESS and the HESS Group were audited by the auditing firm Ernst & Young d.o.o.; the companies NEK and GEN-I and the GEN-I Group by the auditing firm Deloitte d.o.o. All audit opinions are unqualified.

4.3

Financial statements of the GEN Group

Balance sheet of the group

Table 4.4: **Balance sheet of the Group as at 31/12/2016**

	31/12/2016	31/12/2015	01/01/2015
ASSETS	**1,070,784,643**	**810,747,387**	**783,017,698**
LONG-TERM ASSETS	**686,789,249**	**619,119,864**	**613,538,500**
Intangible assets	44,139,671	12,202,874	6,657,423
Tangible fixed assets	633,006,030	568,012,452	568,280,793
Investment property	82,930	186,116	209,062
Stocks and interests in affiliated companies and joint venture	467,637	31,988,524	29,986,317
Other long-term financial investments and loans	5,173,343	4,545,176	7,352,236
Long-term operating receivables	706,322	579,563	617,640
Deferred tax assets	2,769,456	1,222,063	320,257
Other long-term assets	443,860	383,096	114,772
CURRENT ASSETS	**383,995,394**	**191,627,523**	**169,479,198**
Inventories	36,942,272	32,932,504	40,073,470
Short-term financial investments	60,612,197	113,203,894	79,373,106
Short-term operating receivables	150,389,514	27,857,466	27,649,515
Current corporate income tax receivables	960,030	551,995	0
Cash and cash equivalents	93,324,141	16,027,994	21,549,013
Other short-term assets	41,767,240	1,053,670	834,094

	31/12/2016	31/12/2015	01/01/2015
EQUITY AND LIABILITIES	**1,070,784,643**	**810,747,387**	**783,017,698**
EQUITY	**755,519,495**	**744,763,713**	**739,390,666**
Equity attributable to owners of controlling interest	619,850,662	609,982,125	605,719,905
Called-up capital	250,000,000	250,000,000	26,059,796
Capital reserves	134,682,435	134,682,435	242,535,098
Statutory reserves	10,481,145	10,282,058	10,084,338
Other revenue reserves	53,971,423	45,744,396	162,909,334
Reserves from valuation at fair value	-871,012	-181,816	-500,994
Net profit or loss from previous years	172,490,187	169,455,052	164,632,333
Translation adjustment to equity	-903,516	0	0
Equity held by minority owners	135,668,833	134,781,588	133,670,761
LONG-TERM LIABILITIES	**114,659,045**	**37,518,434**	**14,809,558**
Provisions	8,905,631	7,430,085	7,542,860
Long-term financial liabilities	97,529,509	20,905,060	31,000
Long-term operating liabilities	1,585,876	3,166,675	1,022,552
Deferred tax liabilities	6,068,328	5,429,556	5,429,556
Other long-term liabilities	569,701	587,058	783,590
SHORT-TERM LIABILITIES	**200,606,103**	**28,465,240**	**28,817,474**
Current financial liabilities	41,963,616	0	109,158
Current operating liabilities	141,449,322	27,255,423	26,926,557
Current corporate income tax payables	2,319,825	517,149	692,503
Other short-term liabilities	14,873,340	692,668	1,089,256

Income statement and statement of other comprehensive income of the group

Table 4.5: **Profit and loss account of the Group for 2016**

	2016	2015
TOTAL INCOME	**377,425,139**	**180,513,204**
Operating income	359,562,444	175,601,048
Financing income	17,862,695	4,912,156
TOTAL EXPENSES	**343,434,535**	**168,577,949**
Operating expenses	342,894,431	167,454,548
Original cost of goods, materials and services	256,466,241	74,272,126
Labour costs	34,677,961	31,638,952
Write-offs	32,449,570	43,485,768
Other operating expenses	19,300,659	18,057,702
Financing expenses	540,104	1,123,401
TOTAL PROFIT OR LOSS	**33,990,604**	**11,935,255**
Income tax	2,102,880	873,278
NET PROFIT OR LOSS	**31,887,724**	**11,061,977**
SHARE HELD BY MINORITY OWNERS	**1,254,859**	**1,118,935**
NET PROFIT OR LOSS FOR MAJORITY OWNERS	**30,632,865**	**9,943,042**

Table 4.6: **Statement of other comprehensive income of the Group for 2016**

	2016	2015
NET PROFIT OR LOSS FOR THE PERIOD	**31,887,724**	**11,061,977**
Other comprehensive income reclassified to profit or loss in subsequent periods	**-1,072,385**	-166,357
Changes in reserves from valuation at fair value	-270,280	-7,862
Gains and losses from translation of financial statements of companies based abroad (impact of changes in exchange rates)	-60,439	-158,495
Effective portion of gains and losses from cash flow hedge instruments	-741,666	0
Other comprehensive income not reclassified to profit or loss in subsequent periods	**-59,557**	**477,426**
Actuarial gains and losses from programs with fixed earnings	-59,557	477,426
TOTAL COMPREHENSIVE INCOME (AFTER TAX)	**30,755,782**	**11,373,047**
Net profit or loss for owners of non-controlling interest	**1,254,859**	1,118,935
Actuarial gains and losses from programs with fixed earnings of owners of non-controlling interest	**-4,198**	**0**
Effective portion of gains and losses from cash flow hedge instruments of owners of non-controlling interest	**-363,416**	**0**
TOTAL COMPREHENSIVE INCOME OF OWNERS OF NON-CONTROLLING INTEREST	**887,245**	**1,118,935**
TOTAL COMPREHENSIVE INCOME OF OWNERS OF CONTROLLING INTEREST	**29,868,537**	**10,254,112**

Consolidated statement of changes in equity

Table 4.7: **Consolidated statement of changes in equity for 2016**

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

Other revenue reserves	Reserve for fair value	Net profit or loss from previous years	Translation adjustment to equity	Equity attributable to owners of the parent company	Equity held by minority owners	Total
45,744,396	**-181,816**	**169,455,052**	**0**	**609,982,125**	**134,781,588**	**744,763,713**
0	**-14,564**	**-19,194,375**	**-805,625**	**-20,000,000**	**0**	**-20,000,000**
0	0	-20,000,000	0	-20,000,000	0	-20,000,000
0	-14,564	805,625	-805,625	0	0	0
0	**-674,632**	**30,641,060**	**-97,891**	**29,868,537**	**887,245**	**30,755,782**
0	0	30,632,865	0	30,632,865	1,254,859	31,887,724
0	-291,167	11,471	-11,472	-291,168	0	-291,168
0	-383,465	-3,276	-86,419	-473,160	-367,614	-840,774
8,227,027	**0**	**-8,411,550**	**0**	**0**	**0**	**0**
8,227,027	0	-8,411,550	0	0	0	0
53,971,423	**-871,012**	**172,490,187**	**-903,516**	**619,850,662**	**135,668,833**	**755.519.495**

Consolidated statement of changes in equity

Table 4.8: **Consolidated statement of changes in equity for 2015**

	Called-up capital	Capital reserves	Statutory reserves
At 01/01/2015	**26,059,796**	**242,535,098**	**10,084,338**
Changes in equity capital – transactions with owners	**223,940,204**	**-107,852,663**	**0**
Called-up share capital	223,940,204	-107,852,663	0
Paid-out dividends	0	0	0
Total comprehensive income for the reporting period	**0**	**0**	**0**
Net profit or loss for the financial year	0	0	0
Valuation of financial investments at fair value	0	0	0
Other components of comprehensive income	0	0	0
Changes in equity	**0**	**0**	**197,720**
Distribution of net profit to other components of equity	0	0	197,720
Other changes in equity	0	0	0
At 31/12/2015	**250,000,000**	**134,682,435**	**10,282,058**

Other revenue reserves	Reserve for fair value	Net profit or loss from previous years	Equity attributable to owners of the parent company	Equity held by minority owners	Total
162,909,334	**-500,994**	**164,632,333**	**605,719,905**	**133,670,761**	**739,390,666**
-116,087,541	**0**	**-6,000,000**	**-6,000,000**	**0**	**-6,000,000**
-116,087,541	0	0	0	0	0
0	0	-6,000,000	-6,000,000	0	-6,000,000
0	**311,070**	**9,943,042**	**10,254,112**	**1,118,935**	**11,373,047**
0	0	9,943,042	9,943,042	1,118,935	11,061,977
0	-7,862	0	-7,862	0	-7,862
0	318,932	0	318,932	0	318,932
-1,077,397	**8,108**	**879,677**	**8,108**	**-8,108**	**0**
3,387,291	0	-3,585,011	0	0	0
-4,464,688	8,108	4,464,688	8,108	-8,108	0
45,744,396	**-181,816**	**169,455,052**	**609,982,125**	**134,781,588**	**744,763,713**

ACRONYMS AND ABBREVIATIONS

Abanka	Abanka d.d.
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.)
CHP	combined heat and power
CIT	corporate income tax
CO_2	carbon dioxide
d.d.	joint-stock company
d.o.o.	limited liability company
DP	producers with a declaration for their production facility
DSc/PhD	Doctor of Science/Philosophy
e.g.	for example
EES	national electric power grid
EEX	European Energy Exchange, Leipzig
ELES	Elektro-Slovenija d.o.o.
ERDF	European Regional Development Fund
EU	European Union
EUR	euro
FA	financial assets
GDP	gross domestic product
GEN	GEN energija d.o.o.
GEN CC	GEN Control Centre
GEN Group	GEN energija Group
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
ICJT	Nuclear Training Centre
IFRS	International Financial Reporting Standards
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

LFI long-term financial investments

LILW low- and intermediate-level radioactive waste

m million

m² 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 the Decommissioning of NEK and Disposal of Radioactive Waste from NEK

NEP National Energy Programme

NLB Nova Ljubljanska banka d.d., Ljubljana

NPP nuclear power plant

OSART Operational Safety Review Team

PB gas turbine unit

Prof. Professor

PWR pressurized water reactor

RES renewable energy sources

rev. revision

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

SRESA Srednjesavske elektrarne d.o.o.

SSH Slovenian Sovereign Holding

TEB Termoelektrarna Brestanica, d.o.o. (Brestanica Thermal Power Plant)

TWh terawatt-hour

UCTE Union for the Coordination of Transmission of Electricity

UMAR Institute of Macroeconomic Analysis and Development

UniCredit Banka Unicredit Banka Slovenija d.d.

USA United States of America

WANO World Association of Nuclear Operators

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