

Committed to Finding Better Solutions.

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## Annual report

of GEN-I, trgovanje in prodaja električne energije, d.o.o.

and the GEN-I Group

for the 2010 Business Year

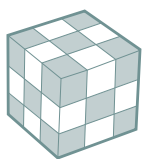
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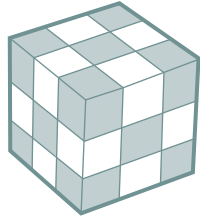
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# I. Quick Facts

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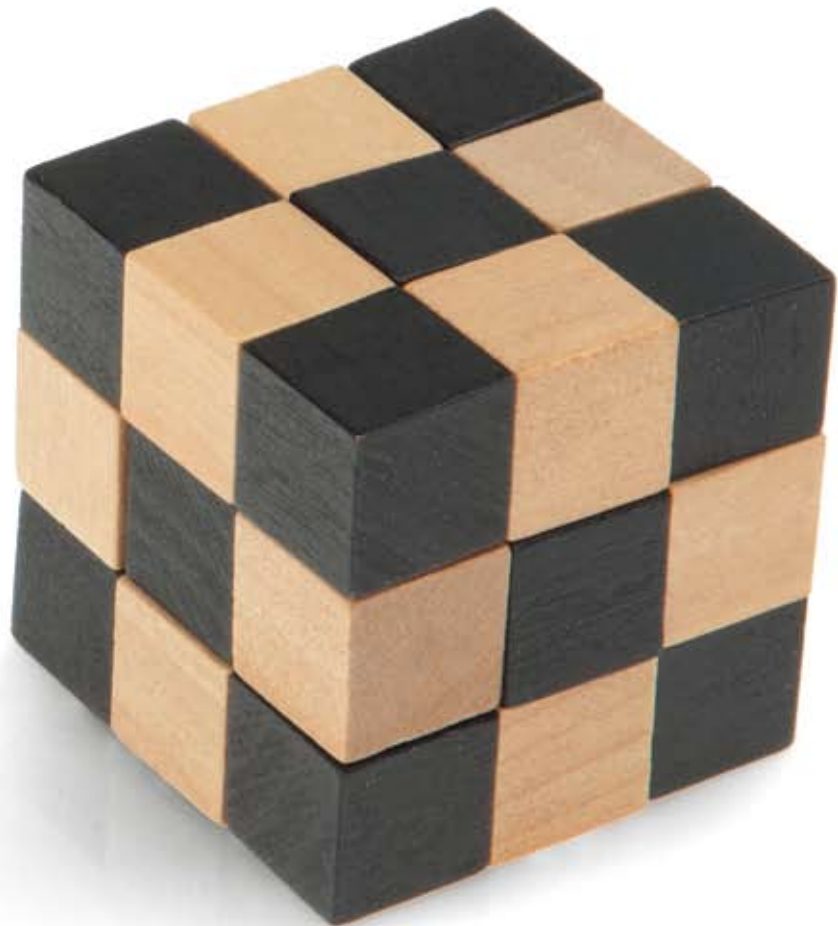
THE PARENT COMPANY

THE GROUP'S SUBSIDIARIES

FINANCIAL ASPECTS OF 2010

PERFORMANCE HIGHLIGHTS

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## I.1 The Parent Company

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### I.1.1 Basic data:

Full company name:	GEN-I, trgovanje in prodaja električne energije, d.o.o.
Abbreviated company name:	GEN-I, d.o.o.
Registered office:	Cesta 4. julija 42, SI-8270 Krško, Slovenia
Ownership structure:	50% GEN energija, d.o.o. 50% Istrabenz Gorenje, d.o.o.
Share capital:	EUR 12,877,610.00
Company size:	Large company
Management model:	Single-tier
Registration number:	1587714
Tax number:	71345442
VAT ID No.:	SI71345442
Core activities:	Electricity trading Supply of electricity to end-customers
Court register entry number:	1/04524/00; registered at the District Court of Krško
Date of last court register entry:	2 February 2011
President of the Management Board:	Robert Golob, PhD
Vice President of the Management Board:	Martin Novšak, MBA
Member of the Management Board responsible for trading:	Igor Koprivnikar, PhD
Member of the Management Board responsible for electricity sales:	Dejan Paravan, PhD
E-mail:	info@gen-i.si; pocenielektrika@gen-i.si
Website:	<a href="http://www.gen-i.si">http://www.gen-i.si</a> ; <a href="http://www.pocenielektrika.si">http://www.pocenielektrika.si</a>

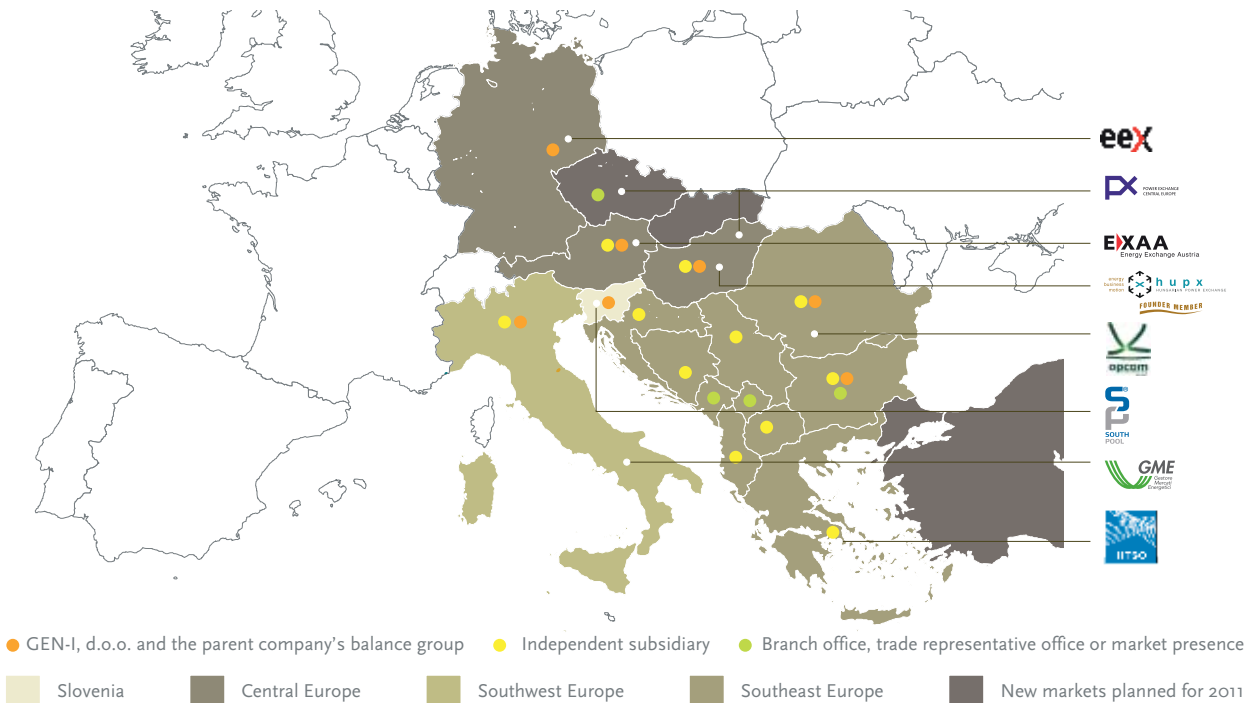
## I.2 The Group's Subsidiaries

### I.2.1 Basic data

**GEN-I Zagreb d.o.o.**, Radnička cesta 39,  
10000 Zagreb, Croatia  
**GEN-I d.o.o. Beograd**, Vladimira Popovića 6,  
11070 Belgrade, Serbia  
**GEN-I Budapest Kft.**, Tusnadi u 39. fszt. 3.,  
1125 Budapest, Hungary  
**GEN-I DOOEL Skopje**, Stiv Naumov Str. 22/8,  
Skopje, Macedonia  
**GEN-I Tirana Sh.p.k.**, Ish-Noli Business Center,  
Rr. Ismail Qemali Nr. 27, Tirana, Albania  
**GEN-I Tirana Sh.p.k. (Kosovo Office)**,  
Gustav Mayer 16, Pristina, Kosovo

**GEN-I d.o.o. Sarajevo**, Hamdije Kreševljakovića 7,  
71000 Sarajevo, Bosnia and Herzegovina  
**GEN-I Athens SMLLC**, 6 Anapafseos Street,  
15126 Marousi, Greece  
**S.C. GEN-I Bucharest s.r.l.**, 17 C.A. Rosetti,  
Bucharest-2, 020011 Romania  
**GEN-I Sofia SpLLC**, Sredets District,  
3 Saborna str., fl. 2, ap. 6., 1040 Sofia, Bulgaria  
**GEN-I Vienna GmbH**, Gonzagagasse 15/5,  
1010 Vienna, Austria  
**GEN-I Milano S.r.l.**, Via San Martino, n. 7,  
20122 Milano, Italy

International presence of the GEN-I Group and membership in energy exchanges



Chronological overview of the establishment of the Group's international network of subsidiaries:

GEN-I Zagreb d.o.o.	GEN-I d.o.o. Beograd in GEN-I Budapest Kft.	GEN-I Tirana Sh.p.k.	GEN-I DOOEL Skopje	GEN-I d.o.o. Sarajevo	GEN-I Athens SMLLC	S.C. GEN-I Bucharest s.r.l.	GEN-I Tirana Sh.p.k. podružnica Kosovo	GEN-I Sophia SpLLC	GEN-I Milano S.r.l.	GEN-I Vienna GmbH
31. 11. 2005	15. 8. 2006	13. 2. 2008	26. 3. 2008	23. 07. 2008	19. 12. 2008	05. 10. 2009	09. 11. 2009	22. 04. 2010	14. 06. 2010	08. 07. 2010

## Key figures

## GEN-I, d.o.o.

Year	2010	2009	Index 10/09
Operating revenues	570,922,019	421,729,352	135.4
Operating profit or loss (EBIT)	3,702,299	4,880,384	75.9
Operating profit or loss before depreciation and amortization (EBITDA)	4,222,113	5,250,362	80.4
Net profit or loss	10,889,927	9,877,832	110.2
Cash flow	11,409,741	10,247,810	111.3
Equity	24,749,617	23,243,632	106.5
Liabilities	94,769,470	37,104,654	255.4
Total equity and liabilities	119,519,087	60,348,286	198.0
Number of employees as at 31 December	89	73	121.9
Quantity of electricity sold in TWh	11.2	7.8	143.6
<b>Indicator/year</b>	<b>2010</b>	<b>2009</b>	
Self-financing ratio	20.71%	38.52%	
Long-term financing ratio	20.77%	38.62%	
Fixed asset investment ratio	1.38%	1.33%	
Acid-test ratio	10.77%	27.81%	
Quick ratio	110.51%	152.04%	
Current ratio	122.08%	155.62%	
Operating efficiency ratio	100.65%	101.17%	
Net return on equity ratio	58.70%	73.69%	
<b>Return on revenue ratio</b>	<b>2.11%</b>	<b>2.72%</b>	

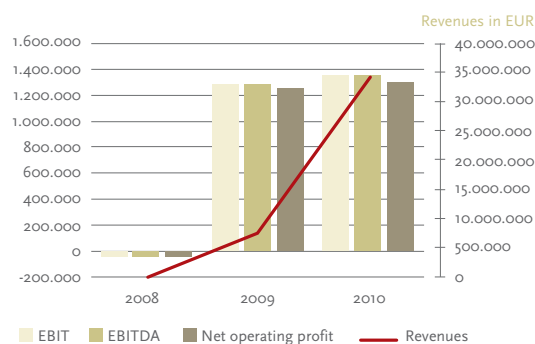
## The GEN-I Group

Year	2010	2009	Index 10/09
Operating revenues	652,927,806	456,782,939	142.9
Operating profit or loss (EBIT)	7,077,197	14,182,104	49.9
Operating profit or loss before depreciation and amortization (EBITDA)	7,607,259	14,558,282	52.3
Net profit or loss	7,412,543	14,920,068	49.7
Cash flow	7,942,605	15,296,246	51.9
Equity	30,301,242	33,192,621	91.3
Liabilities	103,056,124	45,406,515	227.0
Total equity and liabilities	133,357,366	78,599,136	169.7
Number of employees as at 31 December	101	81	124.7
Quantity of electricity sold in TWh	12.8	8.2	156.1
<b>Indicator/year</b>	<b>2010</b>	<b>2009</b>	
Self-financing ratio	22.72%	42.23%	
Long-term financing ratio	22.78%	42.31%	
Fixed asset investment ratio	1.28%	1.07%	
Acid-test ratio	17.07%	34.74%	
Quick ratio	114.57%	168.24%	
Current ratio	127.61%	171.24%	
Operating efficiency ratio	101.10%	103.20%	
Net return on equity ratio	26.43%	80.77%	
<b>Return on revenue ratio</b>	<b>1.37%</b>	<b>3.86%</b>	

**GEN-I DOOEL Skopje**

Registered office: Stiv Naumov Str. 22/8,  
Skopje, Macedonia  
Registration number: 6356354  
Tax number: MK4030008029033

GEN-I DOOEL Skopje	2010	2009	2008
Revenues	33,947,007	7,539,522	0
EBIT	1,353,554	1,287,881	-54,288
EBITDA	1,353,760	1,288,087	-54,246
Net profit or loss	1,304,014	1,258,778	-54,781
Assets	6,331,404	2,596,509	16,448
Equity	1,338,364	1,214,991	-35,502
Liabilities	4,993,041	1,381,518	51,950
Cash flow	1,304,220	1,258,984	-54,739

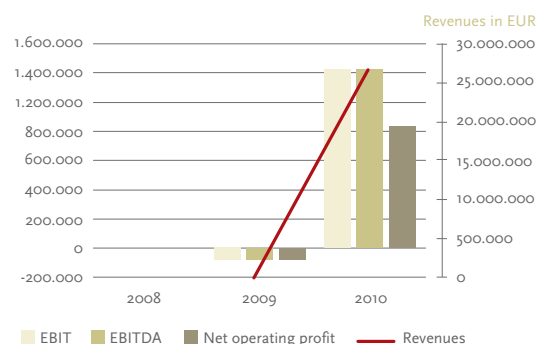
**GEN-I Tirana Sh.p.k.**

Registered office: Ish-Noli Business Center,  
Rr. Ismail Qemali Nr. 27, Tirana, Albania  
Tax number: K8141305A  
Core activities: electricity trading and sales to end-customers

**GEN-I Tirana Sh.p.k. (Kosovo Office)**

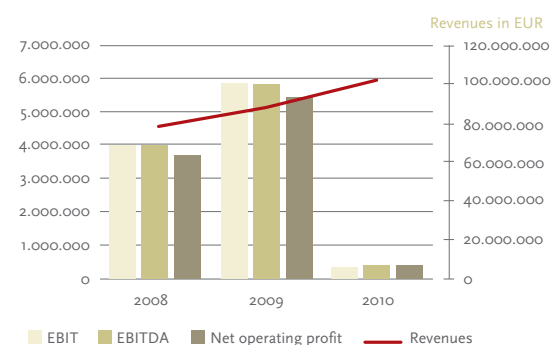
Registered office: Gustav Mayer 16,  
Pristina, Kosovo  
Registration number: 70621401  
Tax number: 600447181

GEN-I Tirana Sh.p.k.	2010	2009	2008
Revenues	26,710,307	0	
EBIT	612,755	-41,842	
EBITDA	613,587	-41,842	
Net profit or loss	420,636	-41,632	
Assets	5,263,063	35,545	62,555
Equity	422,316	4,129	49,704
Liabilities	4,840,748	31,416	12,851
Cash flow	421,468	-41,632	

**GEN-I d.o.o. Belgrade**

Registered office: Vladimira Popovića 6,  
11070 Belgrade, Serbia  
Registration number: 20193816  
Tax number: SR104613706

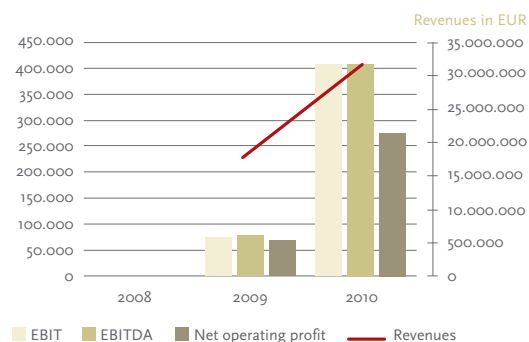
GEN-I d.o.o. Belgrade	2010	2009	2008
Revenues	100,710,386	86,746,890	77,942,239
EBIT	364,497	5,817,862	4,036,456
EBITDA	371,590	5,822,760	4,036,456
Net profit or loss	406,108	5,477,376	3,710,362
Assets	19,207,356	19,854,993	25,157,299
Equity	1,104,141	6,216,135	4,241,471
Liabilities	18,103,216	13,638,858	20,915,828
Cash flow	413,201	5,482,274	3,710,362



**GEN-I d.o.o. Sarajevo**

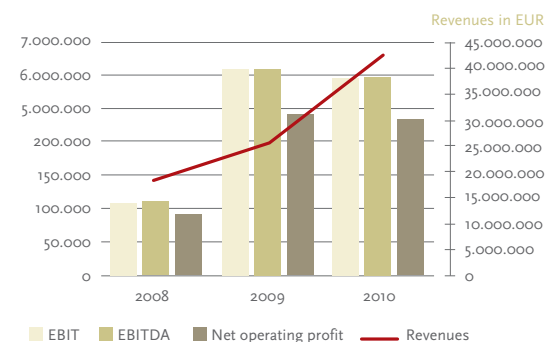
Registered office: Hamdije Kreševljakovića 7,  
71000 Sarajevo, Bosnia and Herzegovina  
Registration number: 65-01-0398-08  
VAT ID number: 4201366420002  
Tax number: 201366420002

GEN-I d.o.o. Sarajevo	2010	2009	2008
Revenues	31,764,999	17,906,733	
EBIT	407,968	75,992	
EBITDA	408,256	76,263	
Net profit or loss	276,419	69,190	
Assets	9,336,791	6,716,358	522,973
Equity	864,588	580,482	511,292
Liabilities	8,472,203	6,135,876	11,681
<b>Cash flow</b>	<b>276,707</b>	<b>69,461</b>	

**GEN-I Zagreb d.o.o.**

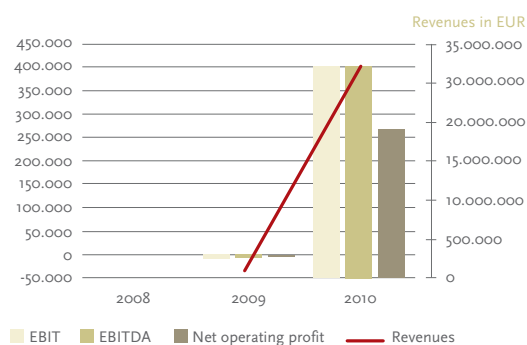
Registered office: Radnička cesta 39,  
10000 Zagreb, Croatia  
Personal identification number (OIB): 77604626413  
Tax number: 2007118  
Registration number: 080542189

GEN-I Zagreb d.o.o.	2010	2009	2008
Revenues	42,635,356	25,235,260	18,128,304
EBIT	296,809	309,048	109,146
EBITDA	296,904	309,048	109,146
Net profit or loss	233,667	241,667	91,180
Assets	8,641,331	6,735,734	9,007,643
Equity	550,527	566,461	119,819
Liabilities	8,090,804	6,169,273	8,887,824
<b>Cash flow</b>	<b>233,762</b>	<b>241,667</b>	<b>91,180</b>

**S.C. GEN-I Bucharest s.r.l.**

Registered office: 17 C.A. Rosetti, Bucharest-2,  
020011 Romania  
Registration number: J40/9893/2009  
Tax number: RO26066122

GEN-I Bucharest s.r.l.	2010	2009
Revenues	26,478,596	770,586
EBIT	398,145	-8,063
EBITDA	398,276	-8,063
Net profit or loss	269,371	-5,663
Assets	7,026,886	1,317,017
Equity	754,867	491,607
Liabilities	6,272,020	825,410
<b>Cash flow</b>	<b>269,502</b>	<b>-5,663</b>

**GEN-I Milano S.r.l.**

Registered office: Via San Martino, n. 7,  
20122 Milano, Italy  
Registration number: 1933145  
Tax number: 07066460960

GEN-I Milano S.r.l.	2010
Revenues	512
EBIT	-16,035
EBITDA	-16,035
Net profit or loss	-16,035
Assets	112,601
Equity	83,965
Liabilities	28,636
<b>Cash flow</b>	<b>-16,035</b>

**GEN-I Vienna GmbH**

Registered office: Gonzagagasse 15/5,  
1010 Vienna, Austria  
Registration number: FN349029d  
Tax number: ATU65886044

GEN-I Vienna GmbH	2010
Revenues	0
EBIT	-22,471
EBITDA	-22,032
Net profit or loss	-22,443
Assets	40,396
Equity	27,557
Liabilities	12,839
Cash flow	-22,004

**GEN-I Budapest Kft.**

Registered office: Tusnadi u 39. fszt. 3.,  
1125 Budapest, Hungary  
Registration number: 01-09-884437  
Tax number: 14007866-2-44  
EU tax number: HU14007866

GEN-I Budapest Kft.	2010	2009	2008
Revenues	110,749,491	129,039,215	42,813,400
EBIT	49,478	1,707,133	1,235,912
EBITDA	49,478	1,707,408	1,235,912
Net profit or loss	-76,423	1,069,764	1,207,292
Assets	22,087,703	20,164,552	12,528,817
Equity	2,301,513	2,377,938	1,298,760
Liabilities	19,786,190	17,786,614	11,230,057
Cash flow	-76,423	1,070,039	1,207,292

**GEN-I Sofia SpLLC**

Registered office: Sredets District, 3  
Saborna str., fl. 2, ap. 6., 1040 Sofia, Bulgaria  
Registration number: 201124483  
Tax number: BG201124483

GEN-I Sofia SpLLC	2010
Revenues	398,982
EBIT	-27,868
EBITDA	-27,612
Net profit or loss	-29,359
Assets	830,809
Equity	70,644
Liabilities	760,163
Cash flow	-29,103

**GEN-I Athens SMLLC**

Registered office: 6 Anapafseos Street,  
15126 Marousi, Greece  
VAT ID number: 998276800  
Tax number: EL998276800

GEN-I Athens SMLLC	2010	2009
Revenues	86,866,559	5,291,263
EBIT	-41,109	133,940
EBITDA	-40,200	134,490
Net profit or loss	-45,457	99,164
Assets	16,314,123	1,840,387
Equity	203,707	249,164
Liabilities	16,110,416	1,591,223
Cash flow	-44,548	99,714

## I.3 Financial Aspects of 2010

Throughout the past year, the situation on the financial markets was heavily influenced by the economic crisis, and yet the GEN-I Group was able not only to achieve its ambitious targets but also to exceed them. Increased operating revenues on the one hand and slightly lower net operating profit on the other reflect the conditions on the markets where the GEN-I Group operates.

Reduced consumption and the resulting relatively low price levels of energy, which are closely linked to electricity prices on global energy exchanges, as well as the more or less unchanged production volumes, meant that there was significantly more pressure from competitors. At the same time, the Group's macroeconomic and legal environment changed during the year. Many countries adopted measures to improve their balances of payments, resulting in considerable changes to the business environment.

The significance of a diversified portfolio and a comprehensive and systematic approach to globally-oriented positions and to risk management became increasingly evident.



Average annual growth of electricity sales volumes exceeded 50%

The most important growth indicator for the GEN-I Group, which reflects the developments since the entry of shareholder GEN energija and the resulting final transformation of the company's predecessors into GEN-I, d.o.o., points to robust and sustainable growth.

The average annual growth rate for electricity sales volumes, which in the period from 2007 to 2010 exceeded 50%, is the result of carefully designed work processes, which enable the Group to correctly respond to market conditions, a well thought-out investment policy and the Group's business strategy.

## I.4 Performance Highlights

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### I.4.1 The international GEN-I group on foreign markets:

- **Expansion of international operations:** Electricity sales volumes were up 56%, while purchases of derivatives almost doubled. There was an almost three-fold increase in volumes of cross-border transfer capacities purchased and a 43% increase in operating revenues compared to 2009.
- **First supplier on foreign markets:** For several years now, the GEN-I Group has been the first Slovenian company to supply electricity to end-customers on foreign markets; in 2010 the Group started supplying electricity to Italy, Austria and Croatia.
- **Sales volumes in SE Europe doubled:** The GEN-I Group has strengthened its presence in SE Europe: electricity sales volumes in this region doubled in 2010 compared to the previous year.
- **Expansion of infrastructure:** In line with its growth strategy, the GEN-I Group established two new subsidiaries in 2010, one in Austria and one in Italy, while the subsidiaries GEN-I Bucharest and GEN-I Sofia acquired licenses to operate on internal markets in Romania and Bulgaria, and the subsidiary of the Albanian company acquired a license to operate on the electricity market in Kosovo. GEN-I, d.o.o. became a member of the Czech PXE energy exchange and a founding member of the Hungarian HUPX exchange.
- **Modernization of the internal organization:** To keep up with its current growth, the Group implemented measures to modernize its internal process-based organization. The integrated approach to trading and sales activities and the reinforcement of the centralized management of all vital global functions laid the foundations for future development, whose primary focus will be on liquid Western markets.

### I.4.2 GEN-I in Slovenia:

- **A customer-friendly supplier:** The title awarded to GEN-I, d.o.o. in 2009 was again bestowed on the Company in 2010, as GEN-I's Affordable Electricity brand was voted best of all the suppliers on the Slovenian market. The number of customers using the brand, which was intro-

duced on the household and small business customer market in 2009, was up almost 60% in 2010.

- **The largest supplier of electricity to business customers:** At the end of 2010, GEN-I, d.o.o. supplied electricity to over 1,200 large business customers, with total annual electricity volumes of 2.7 TWh. This meant a further increase of GEN-I's market share in this customer segment.
- **A reliable partner:** The implementation of the Group's global portfolio strategy enables it to react to different market situations quickly and consistently, at the same time constantly optimizing cross-border transfer flows and pursuing a carefully devised strategy to manage market risks. As part of its responsibility for balance groups which operate under its management on the different markets, the GEN-I Group maintains a stable energy balance for each individual balance group on an hourly basis. During all unplanned events that occurred while maintenance works were carried out at the Krško Nuclear Power Plant, GEN-I, d.o.o. consistently and reliably provided electricity to Slovenian customers.

### I.4.3 The year 2010

#### Significant events

##### January

**ROMANIA:** GEN-I Bucharest started to operate independently on the Romanian domestic market.

**ALBANIA:** After acquiring the necessary license, GEN-I Tirana supplied the first electricity to Kosovo and completed preparations for concluding the first contracts on the Albanian domestic market.

**SLOVENIA:** GEN-I, d.o.o. won a public contract to supply 189 GWh of electricity to end-customers in Slovenia. The Company organized an effective communications campaign using IP telephony as part of its Affordable Electricity call center.

## February

**GERMANY:** GEN-I, d.o.o. performed its 500th long-term transaction on the German market for the supply of electricity in 2010.

**ITALY:** The Italian market was one of the most important sales markets for GEN-I, d.o.o. in 2010. Therefore in February, the Company completed the setting up of its import infrastructure, finalizing the preparations for imports on a number of Italian borders.

**SLOVENIA:** GEN-I, d.o.o. is the first independent electricity supplier to start issuing a single invoice that includes electricity costs, network fees and all other contributions.

## March

**HUNGARY:** GEN-I, d.o.o. acquired a license to trade on the Hungarian market and negotiated the first contracts. This is an important step for the GEN-I Group towards consolidating its trading activities on the Hungarian market with the aim of improving the management of the Group's global portfolio.

**BULGARIA:** After obtaining the necessary license, the Group's Bulgarian subsidiary GEN-I Sofia started the first transits of electricity through Bulgaria, effectively connecting its operations with the neighboring markets.

**SLOVENIA:** The business unit GEN-I Prodaja negotiated contracts for the supply of 267 GWh of electricity. Affordable Electricity users were given the choice of two communication channels for submitting their meter readings: a web-based portal and a WAP portal.

The third annual GEN-I partner meeting provided large customers with in-depth information about current market conditions and the strategies for purchasing electricity. As part of the modernization of its controlling reports and control processes, GEN-I, d.o.o. upgraded all of its controlling reports, which will help the Company monitor the daily positions and portfolio evaluations of the GEN-I Group more accurately.

## April

**BULGARIA:** By increasing purchases on the Bulgarian market, the GEN-I Group strengthened its position as one of the leading trading partners in Bulgaria. This was further reinforced by its active participation in activities for the development of the Bulgarian electricity market.

**GREECE:** By managing its global portfolio and purchases of cross-border transfer capacities, as one of the portfolio's main components, the Group was able to effectively compensate for and redirect hourly electricity flows during individual reductions which occurred on transmission lines between Greece and Italy throughout the year.

**SLOVENIA:** The parent company GEN-I, d.o.o. increased its responsiveness and optimized business processes associated with electricity sales through changes to its organizational structure.

The Company strengthened and formalised the functioning of a credit committee for electricity trading, which is responsible for managing credit and market risks to which the GEN-I Group is exposed as part of its trading activities.

## May

**SERBIA:** The parent company GEN-I, d.o.o. and its Serbian subsidiary GEN-I Belgrade registered for participation in public tenders for the sale and purchase of electricity in Serbia, which will be organized by the Serbian electricity company EPS over the next 4 years.

**ITALY:** A new subsidiary GEN-I Milano s.r.l. was established. It has already started market research activities and is working on establishing the remaining infrastructure to supply electricity to end-customers in Italy.

**MONTENEGRO:** A contract for the purchase of electricity from EPCG for deliveries in the 4th quarter of 2010 was concluded based on a public tender.

**SLOVENIA:** The Company's operational structure in the long-term trading segment was upgraded; new departments were created and the portfolio management approach was redesigned with precisely specified risk acceptance parameters.

## June

**GERMANY:** GEN-I, d.o.o.'s purchases on the German market exceeded 1 TWh, while its sales reached the same figure. Derivatives trading, which is used to hedge the Company's portfolio against price fluctuations, was intensified. The volume of derivatives traded by the Company on the German EEX energy exchange exceeded 2.5 TWh on the purchase side and reached approximately 3.5 TWh on the sales side in June.

**BOSNIA AND HERZEGOVINA:** GEN-I Sarajevo implemented all the changes necessary to switch to a new system for allocating cross-border transfer capacities.

**KOSOVO:** GEN-I Belgrade concluded a significant sales transaction, with a delivery period from July 2010 to March 2011.

**SLOVENIA:** The marketing campaign for Affordable Electricity resulted in increased numbers of household users and small business customers in Slovenia.

New electricity products for electricity suppliers in Slovenia and abroad were developed and promoted.

#### July

**HUNGARY:** GEN-I, d.o.o. completed the registration procedure for physical trading in Hungary and became a founding member of the new Hungarian HUPX energy exchange.

**CZECH REPUBLIC:** GEN-I, d.o.o. registered at the Czech PXE energy exchange in order to trade financial products in the Czech Republic and products with physical deliveries in Hungary.

**ALBANIA:** As a founding member of the Albanian association of electricity suppliers, the GEN-I Group became an active participant in the preparation of local legislation for the deregulation of the Albanian electricity market.

**CROATIA:** GEN-I Zagreb acquired the license to supply electricity to end-customers.

#### August

**GERMANY:** A project that involved the complete adjustment of the infrastructure for the independent trading of financial instruments on the German EEX was completed.

**AUSTRIA:** The subsidiary GEN-I Vienna GmbH was established. The company will be involved in supplying electricity to end-customers on the Austrian market.

**ITALY:** The first Italian customer switched to GEN-I Milano. The company started supplying electricity a month later.

**BULGARIA:** GEN-I Sofia acquired the license to trade electricity on the Bulgarian domestic market.

#### September

**CZECH REPUBLIC:** GEN-I, d.o.o. concluded its first financial transaction on the Czech PXE energy exchange.

**ROMANIA:** GEN-I Bucharest established and activated its second balance group in Romania. The first ten contracts were concluded for deliveries from 2010 to 2012.

**ITALY:** Adjustments to the infrastructure, which were necessary in order to monitor the wholesale portfolio and to support supplies to end-customers, were completed. The first purchase transactions, which are used to hedge against price fluctuations for supplies to Italian customers, were concluded.

**KOSOVO:** The Group successfully participated in a public tender for the sale of electricity to cover potential outages and to balance daily energy positions at the Kosovo electricity company KEK for different periods in 2011.

**SLOVENIA:** The statistical data showed that satisfaction levels are significantly higher among Affordable Electricity customers compared to customers using other Slovenian suppliers. This was confirmed by a market research conducted on the "Affordable Electricity" brand, which shows that the number of customers is still rising. The first informal expert meeting that GEN-I, d.o.o. organized for small producers helped increase satisfaction levels among business partners.

#### October

**GREECE:** Changes in Greek legislation, which introduced a new pricing method for daily transactions, also brought new fees on activities associated with electricity trading, which will have a significant adverse effect on the performance of GEN-I Athens. The subsidiary's electricity sales in Greece exceeded 1 TWh in October.

**AUSTRIA:** Purchasing activities in Austria intensified, partly owing to increased demand from Slovenia and other markets in SE Europe. Total purchases on daily markets reached almost 200 GWh in October.

**HUNGARY:** A quick adjustment to the Group's trading strategy on the Hungarian market was completed, as the newly adopted tax legislation places a significant burden on the operations of Hungarian energy companies.

**CROATIA:** GEN-I Zagreb supplied electricity to the first end-customer in Croatia.

**KOSOVO:** At a public tender organized by the Kosovo energy company, GEN-I Belgrade met the necessary requirements and qualified as the company's partner in future public tenders for the sale of electricity.

**SLOVENIA:** GEN-I, d.o.o. concluded a transaction to supply 243 GWh of electricity and a transaction to purchase 150 GWh of electricity from small producers. The Affordable Electricity brand was awarded the "Customer-friendly supplier" title for the second year running. Alternative electricity was supplied to Slovenian customers during planned maintenance works at the Krško Nuclear Power Plant.

#### November

**ITALY:** The first switch from another supplier to GEN-I was recorded in electricity sales to end-customers on foreign markets with a total volume of 80 GWh. GEN-I Milano submitted its first daily electricity schedules.

**AUSTRIA:** The first procedure to switch from another supplier was completed for a total volume of 112 GWh of electricity, with deliveries starting on 1 January 2011.

**BOSNIA AND HERZEGOVINA:** GEN-I Sarajevo completed the procedures for renewing its license to trade electricity on the Bosnian domestic market and internationally.

**SLOVENIA:** Alternative electricity was supplied during an extended maintenance period at the Krško Nuclear Power Plant.

The Group successfully participated in annual auctions for the purchase of cross-border transfer capacities; all companies of the GEN-I Group were in the final stages of concluding annual agreements for the supply of electricity in 2011 on all markets where the Group is present.

#### December

**BULGARIA:** GEN-I Sofia negotiated the first contracts on the Bulgarian domestic market, among them a significant purchase of electricity by GEN-I, d.o.o. with deliveries in 2011.

**SLOVENIA:** The Slovenian parent company completed the implementation of its own IT systems support for the sale of electricity on foreign markets. Marketing campaigns launched in the final quarter of 2010 ("The Most Affordable Electricity in 2010", "Affordable Autumn") resulted in almost 4,000 new customers for the Company by the end of December. All customers were guaranteed reduced prices, while new customers were offered one-off discounts.

The project that involved preparing the infrastructure and strategies for participation in auctions using a new system introduced by the Central Allocation Office (CAO), which will take over the coordination of cross-border transfer capacity auctions in Central and Eastern Europe in 2011, was successfully completed.

**THE GROUP:** In line with the Group's 2011 trading strategy, companies within the GEN-I Group invested over EUR 14 million in purchases of annual cross-border transfer capacities for a total of 10 TWh of electricity in order to take advantage of the wide array of options for the optimization of energy flows between the different markets. This will also enable the Group to optimize its global trading portfolio in 2011.

#### I.4.4 Impact of the new year

##### Significant events

from 1 January to 31 March 2011

##### January 2011

**RISING CUSTOMER NUMBERS:** Thanks to the completion of procedures to change electricity suppliers, GEN-I acquired an additional 3,868 customers (households and small business customers) with deliveries starting before or in March 2011. More than 17,800 customers now rely on the Affordable Electricity brand.

**UPGRADE OF CONTROLLING:** As part of the ongoing modernization of the Company's controlling functions, GEN-I, d.o.o. upgraded the tool for the daily recording of transactions. The next steps will focus on improving the automated entry of different transactions into the trading system, which will help the Company limit operational risks and improve its performance.

##### February 2011

##### INCREASE IN THE COMPANY'S SHARE CAPITAL:

An increase in the Company's share capital was entered in the court register on 2 February 2011 based on the decision of the general meeting of shareholders. The Company's share capital was increased by EUR 3 million, bringing it to EUR 15,877,610.00, thus reinforcing the Company's capital adequacy.

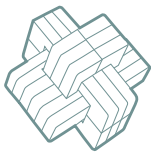
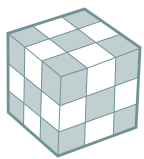
**PARTNERSHIPS:** The Company organized its 4th partner event, which was attended by nearly 100 of its largest business customers and prospective clients, who were given a presentation on the current situation on the electricity market and useful recommendations for purchasing strategies.

##### March 2011

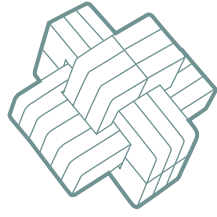
##### SOARING PRICES AND INCREASED VOLATILITY ON

**THE MARKET:** Owing to political tensions in North Africa, especially the events in Libya, which have a significant impact on oil prices, and the devastating earthquake and tsunami in Japan, which has affected nuclear energy strategies, the electricity market has been extremely volatile. The announced closure of German nuclear power plants resulted in soaring electricity prices in March. In response to this, analysts within the GEN-I Group have adjusted the purchasing strategies of large customers to current conditions, advising them to switch to a capped-price plan, for which purchases can be made on the trading floor.

**PROPRIETARY TRADING:** The first trial transactions were performed as part of a pilot project for the so-called "proprietary trading portfolio". As part of this project, the Company allows certain limited and controlled (in terms of market risk exposure) volumes of open positions on the liquid German market. GEN-I, d.o.o. has created a new specialist department for this purpose as part of its electricity trading unit, and has also hired the necessary staff.



Designed for challenges!



## II. The Company and the Group

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MISSION, VISION, VALUES, STRATEGY

BUSINESS ACTIVITIES OF THE COMPANY AND THE GROUP

DEVELOPMENT AND OWNERSHIP STRUCTURE OF THE COMPANY  
AND THE GEN-I GROUP

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## II. 1 Mission, Vision, Values, Strategy

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### II.1.1 Mission: Partnership

To become a partner who provides end-customers with quality energy supply and cost management, producers with risk management tools, and shareholders with a sound and promising investment – this is the mission that the GEN-I Group is implementing in its role as an increasingly important international supplier and trading company. Knowledge, a responsible and professional approach, and in-depth understanding of all energy markets on which the Group operates are the foundations for achieving these goals.

- effective, prudent and transparent operations that dictate the way the Group organizes work, individual units, companies and groups;
- employees' innovative approach and professional growth in a stimulating environment, which helps ensure secure and stable jobs and personal growth for each individual;
- responsible use of renewable energy sources and a responsible attitude to the natural and social environment.

The GEN-I Group owes its progressive approach and success to the utilization of all the opportunities arising from the management of its global portfolio, which provides just the right measure of flexibility of energy paths to enable the Group to respond to the changing environment of the electricity markets on which it operates in the most appropriate and timely manner.

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## STRENGTHENING THE GROUP'S POSITION IN CENTRAL AND SE EUROPE › › CONQUERING LIQUID MARKETS IN WESTERN EUROPE

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### II.1.2 Vision: First choice

The GEN-I Group is strengthening its position as one of the most respected companies on energy markets in Slovenia and Central and SE Europe, and is becoming an increasingly progressive market player on liquid Western European markets. By finding the right balance between global trading principles and local sales approaches and by adopting a fresh, innovative and partnership-based approach, GEN-I has established itself as the supplier of choice when it comes to effective and reliable cooperation in the areas of electricity trading, sales and purchases.

### II.1.3 Values: Responsible innovation

The work processes in the GEN-I Group are based on partnerships with all of the Group's stakeholders. The following principles are adopted by GEN-I in its efforts to strengthen good business relationships:

- responsibility for the satisfaction of the users of services;
- long-term cooperation and mutual benefits for business partners;

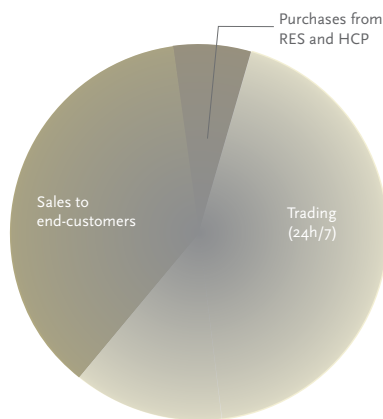
### II.1.4 Strategy: The power of balance groups

GEN-I has been consolidating the power of its balance groups by reinforcing its presence on the liquid Western European markets, thereby linking these markets to the South and SE European electricity region. To ensure successful operations the Group:

- continues to reinforce and develop the infrastructure for trading electricity products and cross-border transfer capacities internationally, and coordinates its balance groups on numerous foreign markets with the utmost reliability;
- provides end-customers with advanced and innovative products in the area of electricity supply, and offers friendly, professional services that help customers make better energy purchasing decisions and enable them to manage their consumption more effectively;
- enables production sources in its balance group to optimize the sale of the electricity produced and to manage risks associated with unplanned outages of production facilities through open and honest partnerships; and
- constantly optimizes internal processes and strives for increased efficiency, which is reflected in the Group's responsiveness, coordinated action and professional attitude towards external partners.

## II.2 Business Activities of the Company and the Group

**Electricity trading and sales** are the two main activities of the GEN-I Group. Balancing the various approaches of the two activities, which are complemented by electricity purchase activities, is essential for competing successfully on contemporary energy markets.



**Trading:** An efficient business infrastructure for trading physical and financial instruments internationally is crucial for the success of the Group's trading activity. Its globally-oriented portfolio combines agreements on the purchase of electricity from producers, agreements on the sale and supply of electricity to suppliers/end-customers and many other products from bilateral and organized trading, which are intended as hedging mechanisms for the portfolio's price stability. Electricity trading is carried out continuously every day of the year and involves 24-hour standby duty.

Experts in this field execute a wide range of long-term and medium-term physical and financial forward contracts, and carry out weekly, daily and intra-day trading activities. The acquisition and optimized utilization of acquired cross-border transfer capacities are also important. Transfer capacities are necessary in order to transfer electricity between countries or different price zones. Due to their limited availability, they have a significant influence on electricity prices in individual countries.

The GEN-I Group offers electricity producers responsible and transparent purchases of electricity and risk management tools. In the event of unplanned outages of production units within a specific balance group, the Group provides the necessary alternative electricity. GEN-I also balances purchase and sales flows for the GEN balance group, which includes the following electricity producers: Krško Nuclear Power Plant, Sava Electric Power Plant in Ljubljana, Hydroelectric Power Plants on the Lower Sava

River and the Brestanica Coal-Fired Power Plant. The electricity produced within the GEN balance group, which is led by GEN energija, d.o.o., contributes significantly to the reliable supply of electricity on the Slovenian market.

**Sales:** On the Slovenian market GEN-I sells electricity to all market segments, ranging from large business systems to households, while abroad it supplies electricity to business customers. The GEN-I Group offers business customers advanced services that can be tailored to their specific requirements with the chosen level of market risks, using individual treatment and an approach to portfolio management that meets their individual needs. The Group's expert advice and information helps customers optimize

### GLOBALLY - ORIENTED PORTFOLIO › › RISK MANAGEMENT AND STEADY GROWTH

their purchasing strategies and take advantage of price fluctuations. GEN-I's smaller business customers and households benefit from cost-efficient electricity supply as part of the Affordable Electricity brand. The Group is able to offer low-cost electricity thanks to its effective purchasing strategies and successful management of its purchase portfolio. In addition to low electricity prices, GEN-I, d.o.o. offers households simplified procedures for switching to a new electricity supplier and a transparent product offering with no break-out restrictions.

**The purchase of electricity** from producers involves different products offered by individual production units, as well as the purchase of electricity from renewable sources (RES) and high-efficiency cogeneration plants (HCP). By taking into account electricity volumes, market dynamics, price models and risk structures as part of its purchases of electricity from producers, GEN-I, d.o.o. closely monitors market fluctuations and regulatory changes, securing its position as a reliable, professional and stable business partner.

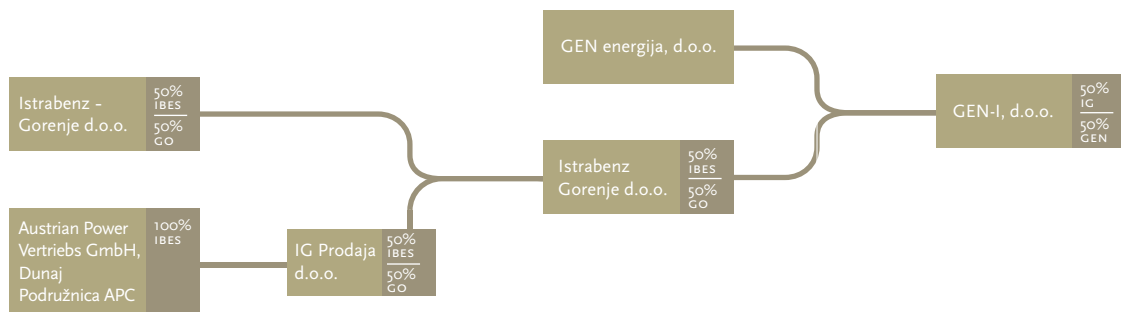
## II.3 Development and Ownership Structure of the Company and the GEN-I Group

As one of the most important electricity trading and sales groups on the regional markets of SE Europe and the second strongest balance group on the Slovenian energy market, GEN-I has developed in line with its founders' vision.

In 2004, Istrabenz-Gorenje, trgovanje in prodaja električne energije, d.o.o. was founded by shareholders Istrabenz energetske sistemi, d.o.o. (IBES) and Gorenje, d.d. The two shareholders established another company in 2005, IG Prodaja, d.o.o., which merged with Istrabenz-Gorenje, d.o.o. a year later. At the same time, Gorenje d.d., an equal partner to Istrabenz, d.d. in terms of the capital invested, acquired a stake in IBES and sold off its stake in Istrabenz-Gorenje, d.o.o. to the same company. When Gorenje became part-owner of IBES, the company's name was changed, first to Istrabenz Gorenje energetske sistemi, d.o.o. (IGES) and then to Istrabenz Gorenje, d.o.o. The capital and organizational changes to the company's structure were completed in October 2006, when GEN energija, d.o.o. acquired a share in it.

### TWO STRATEGIC OWNERS › › SUPPORT FOR DEVELOPMENT STRATEGIES

The company was then completely restructured and its name changed to GEN-I, trgovanje in prodaja električne energije, d.o.o., enabling its two equal owners GEN energija, d.o.o. and Istrabenz Gorenje, d.o.o. to combine their knowledge and resources. GEN-I became part of the GEN energija balance group, which comprises the following producers: the Krško Nuclear Power Plant, the Sava Electric Power Plant in Ljubljana, the Brestanica Coal-Fired Power Plant, and a portion of the Hydroelectric Power Plants on the Lower Sava River. Once in the balance group, GEN-I, d.o.o. assumed the role of the member responsible for obtaining the necessary electricity on organized markets in the event of planned and unplanned production unit outages within the GEN energija balance group.



IBES: Istrabenz energetske sistemi, energetske storitve, d.o.o.

GO: Gorenje, gospodinjski aparati, d.d.

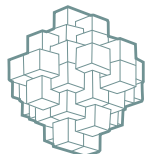
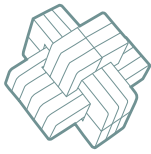
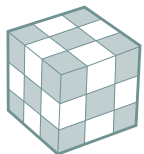
IG: Istrabenz Gorenje energetske sistemi, energetske storitve, d.o.o.

GEN: GEN energija, d.o.o.

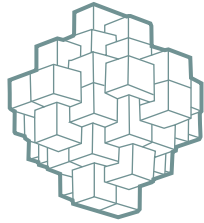
#### Ownership structure and its changes

Establishment of Istrabenz-Gorenje, d.o.o. Establishment of the subsidiary APC Nova Gorica	APC Nova Gorica is transformed and its name is changed to IG prodaja, d.o.o.	IG prodaja, d.o.o. is merged with Istrabenz-Gorenje, d.o.o.	Istrabenz-Gorenje energetske sistemi, energetske storitve, d.o.o. acquires Gorenje, d.d.'s ownership share	Entry of a new shareholder, GEN energija, d.o.o.; the Company's name is changed	GEN-I creates its own Affordable Electricity brand aimed at household customers	In the three years of its operation, the Company has established subsidiaries in 8 countries, one branch office and one trade representative office	Subsidiaries are established in Italy and Austria; the Croatian subsidiary is transformed to sell electricity to end-customers, and already attracts its first large business customers
April 2004	January 2005	July 2006	July 2006	October 2006	February 2009	December 2009	October 2010

#### Milestones in the development of the GEN-I Group



Targets exceeded. Position reinforced.  
Ready for long-term growth!



# III. The 2010 Business Report

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GEN-I MANAGEMENT REPORT

SYSTEM OF MANAGEMENT AND CORPORATE GOVERNANCE

ANALYSIS OF OPERATIONS

OPERATIONAL GOALS AND PLANS FOR 2011

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## III.1 GEN-I Management Report

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### We prove that a crisis is indeed an opportunity.

The performance of GEN-I, d.o.o. and the GEN-I Group in 2010 is proof that the recession can be an opportunity for those who are well-prepared. By expanding to new markets and customer segments, increasing market shares and the number of employees, and introducing new products, we have managed to boost our revenues and exceed planned profits. The excellent results achieved by the GEN-I Group in 2010 were the product of a successful long-term strategy and expansion policy. We implemented it regardless of the crisis, and even more avidly precisely because of the impact of the crisis.

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## RESPONSE TO THE CHALLENGES OF A CRISIS > > GROWTH AND EXPANSION

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In 2010, the GEN-I Group achieved record electricity sales on all of its foreign markets and in Slovenia. Sales volumes reached 12.8 TWh, of which 3.0 TWh were sold on the Slovenian market. Despite the severe economic crisis in most of the countries in which we operate, our operating revenues were up 43% on the previous year as a result of geographic expansion, a wider and more diverse product offering, and growth in traditional trading operations.

We managed to maintain and even strengthen our market position in 2010. Our market shares in the trading segment increased significantly, most notably on the less liquid markets of SE Europe, helping us to further establish our position as a reliable, responsible and respected wholesale electricity supplier. In August, the physical volumes of electricity we supplied (1.22 TWh) exceeded the total August consumption in Slovenia.

During the year, we introduced some organizational changes and upgrades in order to ensure an even better coordination of regional representatives. We also joined the Czech PXE energy exchange and started trading finan-

cial products on this market, taking the first steps towards establishing trading in the Czech Republic and Slovakia. At the end of the year, our newly established Bulgarian subsidiary GEN-I Sofia performed its first transactions on the Bulgarian domestic market. Our established presence at energy exchanges and bilateral trading on developed liquid markets of Austria, Germany and Italy became even more pronounced. In the future, we intend to compete with some of the large European trading companies on these markets by intensifying our trading activities and establishing a new, separate proprietary portfolio for the liquid German market.

In Slovenia, we strengthened our market position as the largest electricity supplier to large business customers and became the leading Slovenian supplier in terms of the number of new household customers thanks to our Affordable Electricity brand. The important fact here is not merely the number of customers but also (and above all) their satisfaction and trust. For the second time running, GEN-I was awarded the title "Customer-friendly supplier". Ever since 2007, when the Company operated with just thirty employees, we have maintained sustained high growth in customer numbers, achieving the successes we did last year with less than one hundred employees. We are aware that without the knowledge, commitment and responsible conduct of our employees we could not have achieved such excellent results.

During the years of economic growth, we set ourselves ambitious targets, but also focused on internal processes so that we would meet and exceed those targets as a well-established company. As a result, we were still able to exceed the set goals in a year when the economic crisis was acutely felt in our industry, at the same time implementing our development strategy and becoming the first Slovenian company to enter three foreign markets in the end-customers segment. Our subsidiaries in Italy, Austria and Croatia concluded contracts for the sale of over 200 GWh of electricity to large business customers.

We were the first Slovenian electricity supplier to lower its prices for household customers as soon as market conditions permitted, and increased our overall market share in



the area of supply to Slovenian customers. We were also the first supplier in Slovenia to organize a partner event for small electricity producers who use renewable energy sources.

The international GEN-I Group brings its experience from European markets to Slovenia and with its presence<sup>1</sup> encourages competition on the domestic market, creates jobs and invests in Slovenian sports and its local environment in the form of sponsorship funds.

We are proud of our achievements in 2010 and in previous years. Our growth was rapid, our expansion quick and our strategy aggressive. But new challenges lie ahead. In addition to expanding our trading infrastructure to the north and the southeast, strengthening our position on liquid markets, increasing sales to end-customers abroad and household customers in Slovenia and developing a new brand in the renewable energy segment, our focus will be on internal consolidation, the optimization of work processes, the standardization of procedures and the development of our employee's' potential.

The competition on the market in 2010 was the fiercest we have ever seen, but the GEN-I business model has proven that it can withstand even such extreme trials. The first five years of successful operations are now behind us, and we are developing a new strategy that will focus on the organization and optimization of processes. This healthy core will provide us with the strength we need for a stable and lasting growth in the future.

Robert Golob, PhD  
President of the  
Management Board

Martin Novšak, MBA  
Vice President of the  
Management Board

<sup>1</sup> Vaassatt Global Energy Think Tank: Utility Customer Switching Research Project: **World Energy Retail Market Rankings 2010**: »In Slovenia, switching levels in 2009 were approximately 150% higher than 2008, making it the most active market in the Eastern and South Eastern European region. Activity was enhanced by increased marketing activity from one marketing focused new entrant player GEN-I.«; p. 33

## III.2 System of Management and Corporate Governance

GEN-I, d.o.o.'s operations are in line with the principles set out by its shareholders Istrabenz-Gorenje, d.o.o. and GEN energija, d.o.o. in 2006. Its management and corporate governance model is based on the effective combination of management, governance and control functions.

The management and corporate governance system serves the Company's main goal, which is defined by its memorandum of association as: "ensuring the reliable supply of electricity to customers under competitive conditions, while effectively managing different types of business risks".

### III.2.1 Authority of the general meeting of shareholders and the management board

**Efficiency through a single-tier system:** The corporate governance system at GEN-I, d.o.o. comprises two bodies: the general meeting of shareholders as the governing body, and the management board as the managing body. To ensure flexibility and responsiveness, as well as continuous and effective risk management, the Company's internal organizational structure and the authority of the individual bodies are regulated through a single-tier governance system, which is typically used by public limited companies. This approach to governance and supervision is in line with the memorandum of association agreed between the two equal shareholders.

**Authority by function:** The supervisory function is carried out in line with the memorandum of association, with responsibility shared by the general meeting of shareholders and the management board. The decisions regarding supervisory measures and the monitoring of managers are responsibilities of the general meeting of shareholders as the Company's highest authority, while the consistent performance of the supervisory function is ensured through the delegation of responsibilities between the four members of the management board. The president and vice president of the management board are mainly involved in supervising operations, while the member of the management board responsible for electricity sales and the member of the management board responsible for electricity trading have an executive function. Because the single-tier organizational structure used by the Company does not draw a particular distinction between management and supervisory functions, the shareholders are able to directly exercise their supervisory function in the Company's day-to-day operations and management.

**Emphasis on the equal status of shareholders:** The Company's memorandum of association explicitly defines that

the relationship between the two shareholders is one of equality and partnership. The decisions of the general meeting of shareholders as the highest body in the Company's hierarchy are only valid and binding if the Company's total share capital is represented. All decisions made by the shareholders at the general meeting of shareholders must be unanimous.

### III.2.2 Company management

**Four-member management board:** In line with the memorandum of association adopted in October 2006, the Company is represented by a four-member management board. Members of the management board are appointed by the general meeting of shareholders at the proposal of individual shareholders, taking into account the shareholder's reasons for proposing a specific candidate. The memorandum of association defines that Istrabenz-Gorenje, d.o.o. may propose one candidate as the president of the management board and one candidate as a member of the management board, while GEN energija, d.o.o. may propose the vice president of the management board and one member of the management board.

**Decision making and company representation:** The Company's management board is responsible for managing the Company's operations, and makes decisions as a four-member board at regular management board sessions. Each member of the management board is considered equal in the decision-making process, and has one vote. Decisions of the management board are deemed valid if the majority of the present members vote in favor of them. Quorum is only achieved if at least three members of the management board are present. To ensure the consistency of supervision, members of the management board represent the Company in pairs when dealing with external parties, which places a greater emphasis on flexibility, efficiency, responsibility and professional conduct. These principles ensure the equal status of both shareholders at all levels, and support the performance of the supervisory function in day-to-day operations of the Company and the Group.

**Robert Golob, PhD, President of the Management Board:** Robert Golob completed his undergraduate education at the Faculty of Electrical Engineering in 1989. He obtained his master's degree three years later and his doctoral degree in 1994. In 1998, he was appointed head of a negotiation team working on the EU's energy policy. From 1999 to 2002, he was state secretary for energy matters and helped draft several important energy acts. He has authored numerous publications and papers on markets, the opti-



Robert Golob, PhD, President of the Management Board  
Igor Koprivnikar, PhD, Member of the Management Board  
Responsible for Trading

zation of energy sources and electricity system planning. He has also managed several basic research and industry-applicable projects for the Slovenian energy sector. In November 2002, he founded and became general manager of the company Istrabenz energetski sistemi, which was later transformed into the Istrabenz Gorenje Group. He is an associate professor at the Faculty of Electrical Engineering at the University of Ljubljana, and president of the management board of GEN-I, d.o.o. since 2006.

**Martin Novšak, MBA, Vice President of the Management Board:** A long-time leading professional at the Krško Nuclear Power Plant and general manager of GEN energija, he completed his undergraduate studies in 1982 at the Technical Faculty of the University of Maribor with a major in electrical engineering and industrial electronics. In 1992 he completed an MBA program at the Executive Management Development Center in Brdo. He began working at the Krško Nuclear Power Plant immediately after completing his studies and served as a control room operator and line manager, while some of his duties involved overseeing the organization of engineering services. In close collaboration with his colleagues, he completed several important projects, including the modernization of the plant, replacement of critical equipment, the creation of a corporate company image, and a number of other improvements, modifications and organizational upgrades. In July 2005 he accepted a five-year term as general manager of GEN energija, d.o.o., and was re-elected for another five-year term in the same position in 2010. In 2006, he began a five-year term as vice president of the management board of GEN-I, d.o.o.

**Igor Koprivnikar, PhD, Member of the Management Board Responsible for Trading:** Igor Koprivnikar graduated from the Faculty of Natural Sciences of the Technical University of Graz, Austria, and holds a doctorate in nuclear physics from the Institute for Theoretical Physics of the Technical University of Graz. Since completing his studies, he has cooperated with a number of scientific institutes around



Dejan Paravan, PhD, Member of the Management Board  
Responsible for Electricity Sales and Purchases  
Martin Novšak, MBA, Vice President of the Management Board

the world. From 2002 to 2004, he was responsible for the development of Austria's EXAA energy exchange. He began working for Istrabenz-Gorenje, d.o.o. (later GEN-I) as soon as it was founded in 2004. He laid the foundations of the business model for international and cross-border electricity trading that is still used today across the GEN-I Group. From 2004 to 2005, he was a member of the management board at Austrian Power Vertriebs GmbH in Vienna. As member of GEN-I, d.o.o.'s management board responsible for trading, he is in charge of implementing business strategies in the electricity trading segment in Slovenia and abroad, and is responsible for the Group's finance and accounting function. He is executive director of nine of the Group's foreign subsidiaries.

**Dejan Paravan, PhD, Member of the Management Board Responsible for Electricity Sales and Purchases:** Dejan Paravan began his career in 1999 as a researcher at the Faculty of Electrical Engineering at the University of Ljubljana, where he earned his doctoral degree in 2004 with a dissertation on risk management on the electricity market. After receiving his doctoral degree, Mr. Paravan was employed by Istrabenz energetski sistemi, d.o.o., where he performed functions at various companies of the Group, with a focus on developing electricity sales to end-customers. He served as the general manager of IG Prodaja, d.o.o. from its incorporation onwards. His work involved setting up and developing the infrastructure necessary for selling electricity to end-customers in Slovenia. He was also a member of the management board at Austrian Power Vertriebs GmbH in Vienna and the manager of Istrabenz-Gorenje, d.o.o. When GEN-I was transformed in 2006, he was appointed member of the management board responsible for electricity sales, the purchase of electricity from producers who use renewable sources, the purchase of electricity from cogeneration plants, and the development and management of GEN-I's organizational unit in Nova Gorica. He is also responsible for the supply of electricity to customers on foreign markets, and is the executive director of three of the Group foreign subsidiaries.

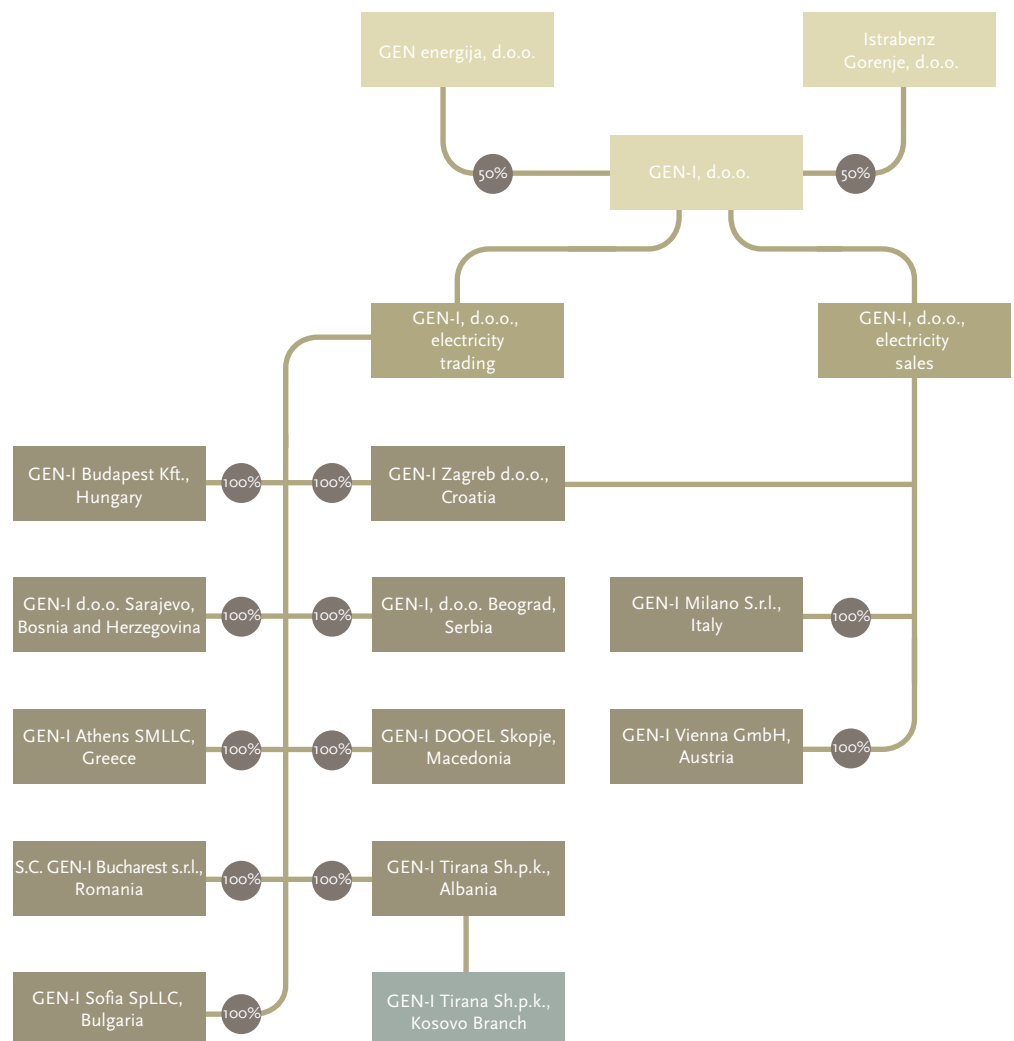
### III.2.3. Management and corporate governance within the group

**Subsidiaries fully owned by the parent company:** Subsidiaries within the GEN-I Group are governed according to the joint control principle and based on centralized governance, management and control. All of the Group's subsidiaries in Central and SE Europe were founded as single-member limited liability companies, and are fully owned by GEN-I, d.o.o. as their only shareholder and founder. In accordance with the principles of centralized governance of the Group's international portfolio, the management function at individual subsidiaries is performed by the member of the management board responsible for electricity trading or by the member of the management board responsible for electricity sales in their role as executive directors.

**Authority to govern:** The governance of individual subsidiaries is defined according to specific areas of operations, which fall under the responsibility of the relevant member of the management board as part of his/her management function at the parent company. The Group's subsidiaries were founded for the purpose of establishing an international infrastructure for electricity trading and sales. In

### Effective supervision > > Responsiveness and flexibility

line with the individual manager's authority at the parent company, subsidiaries that are primarily involved in trading are managed by Igor Koprivnikar, while subsidiaries involved mainly in sales are managed by Dejan Paravan.



## III.3 Analysis of Operations

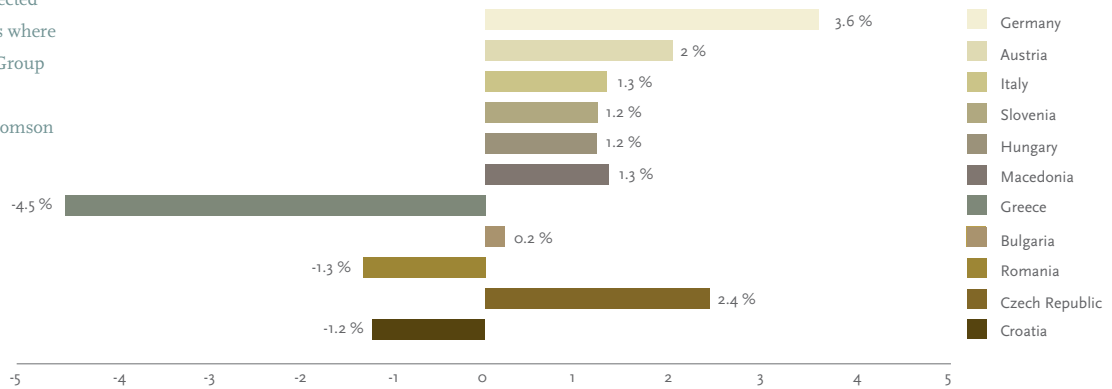
### III.3.1 The business environment

#### III.3.1.1 Economic developments

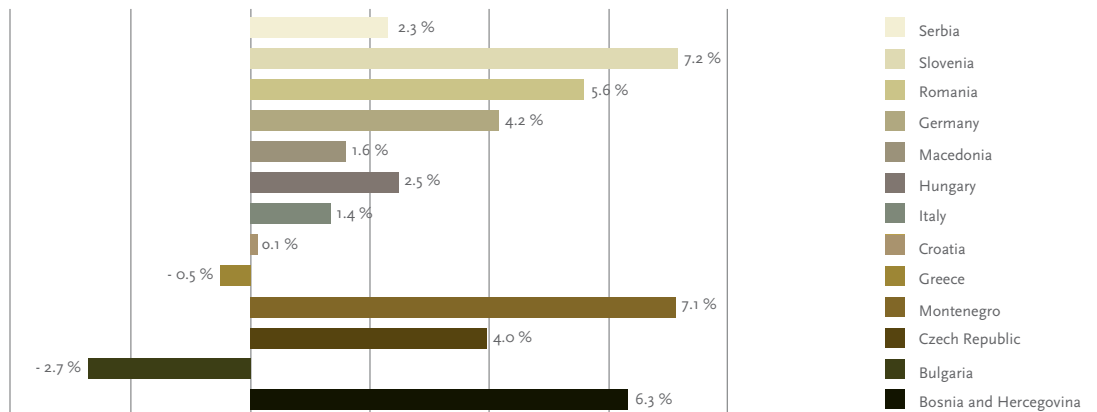
**Slow economic recovery:** The pace of the recovery two years after the outbreak of the economic crisis varies greatly across different regions. Germany recorded the strongest growth among European economies, while conditions in other countries deteriorated further, most notably in Greece.

The trends in electricity consumption on individual markets showed significant changes. In line with recent economic growth, consumption levels rose on Western markets, with consumption on the most liquid and developed market rising by more than 4.3%.

GDP growth in 2010 on selected key markets where the GEN-I Group operates. (Source: Thomson Reuters)



Changes in electricity consumption in selected key markets where the GEN-I Group operates, 2009-2010 (Source: Entsoe, websites of transmission grid operators)



### III.3.1.2 Electricity price indicators

**A variety of factors:** Factors that have the greatest influence on electricity prices on the forward market include the price of coal and gas (commodities directly used to produce electricity), the price of emission certificates and the euro/US dollar exchange rate. The euro/US dollar rate is particularly important because the US dollar is still used as the basis for trading transactions involving coal, while the electricity prices on European markets are denominated in euros. The impact of oil prices has diminished in the recent years. They now affect electricity prices indirectly because they dictate the price of coal. However, analyses of oil prices are still an important tool for forecasting long-term trends in electricity prices, since oil is still the main energy source at the global level.

## PRICE VOLATILITY >

### > SUCCESS OF THE GEN-I GROUP

In difficult economic conditions there is an increased risk of unexpected price fluctuations due to regulatory risk, as governments attempt to achieve the desired balances of payments by changing their national legislations. This usually involves new duties or protectionist measures that favor the countries' own markets.

Short-term electricity products are particularly exposed to changing weather conditions, since hydrologic conditions, wind power and the number of days of sunshine all have a direct impact on electricity production, while temperature changes also affect electricity consumption.

### III.3.1.3 Fluctuations in electricity prices in 2010

**Germany as a benchmark:** Owing to its strong ties to the wider European electricity network, Germany is one of the most liquid electricity markets in Europe, and is used as one of the bases for pricing policies on most other markets in continental Europe.

The price developments on the German electricity market in 2010 are best illustrated by changes in the price of base load electricity with deliveries in 2011. This annual product is not affected by seasonal variations. Also, base load electricity with deliveries in 2011 was the most liquid annual product in 2010. At the same time, its price is highly correlated to those of other forward products.

The price of electricity products at the end of 2010 was at a level similar to that at the end of 2009, but there were significant fluctuations during the year. First, the price dropped considerably, and then rose again significantly.

The price of base load electricity with deliveries in 2011 was EUR 51.50/MWh at the end of 2009, and EUR 51.40/MWh at the end of 2010. During the year, the product dipped to EUR 45.20/MWh and peaked at EUR 55.20/MWh.

Electricity prices recorded a sharp drop in the first quarter of 2010, mainly as a result of falling energy prices. Prices were down on average by approximately EUR 5/MWh or 11%. This was followed by a steep rise in electricity prices, owing to two factors in particular: rising energy prices, with gas and coal prices lagging behind the significant oil price rises by about two months, and the sharp rise in prices of emission certificates.

Prices then started to gradually decline in the second half of 2010, particularly the prices of products with deliveries after 2010. The decision of the German government to extend the lifetime of German nuclear power plants played an important role in the price drop. According to initial plans, some of these power plants were scheduled for closure at the end of 2010. Following renewed growth in the prices of primary energy sources, fueled by predictions for an extremely cold winter, electricity prices rose again in the last two months of 2010. Another important factor was the announced closure of German nuclear power plants, which came as public pressure mounted following the crisis at a Japanese nuclear power plant in the aftermath of the devastating earthquake. The announcement caused a steep rise in electricity prices in Germany in March 2011.



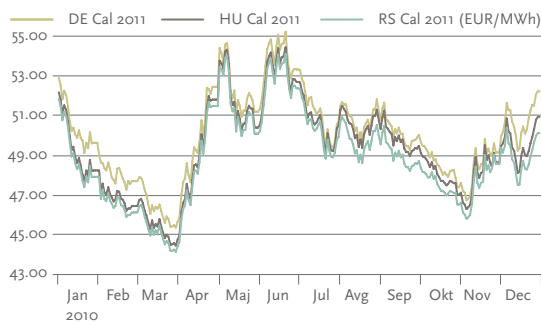
Changes in the price of annual base load electricity products with deliveries in 2011 on the German EEX energy exchange (Source: European Energy Exchange)

At the end of 2010, the average price of electricity on the daily market was EUR 44.50/MWh, up 14% on the average daily market price in 2009, which illustrates the strong correlation between the price of electricity and that of other primary fuels. A similar development, albeit with slightly higher values, was seen in electricity products with deliveries over the next few years.

### Price developments on other markets

The correlation between German electricity prices and the prices on other markets varies greatly. The markets on which the GEN-I Group operates can be divided into four groups according to the level of correlation with energy prices in Germany. The countries recording the highest correlation with the German market include Slovenia, the Czech Republic, Hungary and Croatia. Markets that have a high level but not complete correlation with the German market include Bosnia and Herzegovina, Serbia, Kosovo, Macedonia, Montenegro and Albania. Export duties are a particular local characteristic of the Bosnian market, but they do not affect the correlation with German prices due to the country's geographic location and its links with other markets.

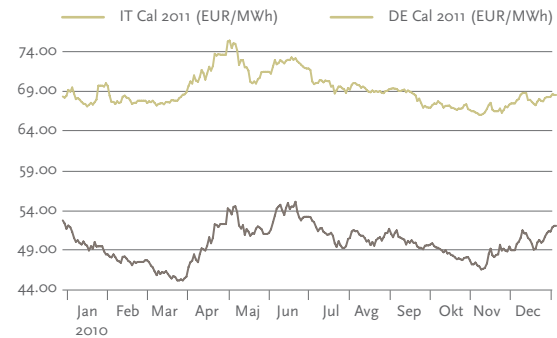
Despite a high price correlation between specific markets, the level of price differences between any two markets can change. For example, the average price of base load electricity on the Serbian daily market in the third quarter of 2010 was almost EUR 1.25/MWh above German prices, but dropped to almost EUR 3.5/MWh below those prices in the last quarter. Such imbalances are a perfect example of the importance of hydrologic and weather conditions.



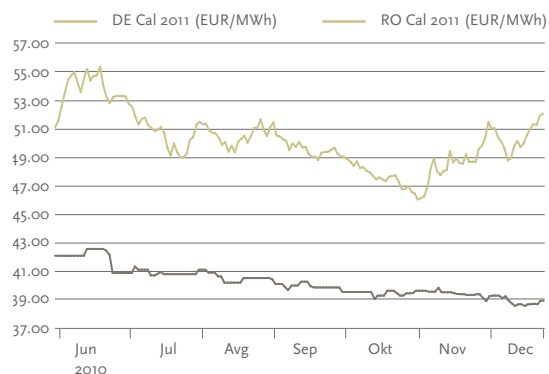
Example of the correlation between base load electricity prices with deliveries in 2011 in Germany (DE), Serbia (RS) and Hungary (HU) in the 2010 trading period. (Source: European Energy Exchange, TFS, GEN-I)

Another market that is highly correlated with the German market is Italy, which represented an important import market for the Group in 2010. Italy is characterized by a large proportion of production facilities that use fossil fuels. In 2010, 7.7% of the total electricity volumes produced in Italy came from power plants using oil as fuel. The production of electricity from oil is the most expensive of all electricity production methods. Due to the specific structure of its production sources and the congestions that occur during cross-border transfers of electricity from the northern markets, the price of electricity in Italy is significantly higher than in Germany.

A low correlation with the German market is characteristic of the Romanian, Bulgarian and Greek markets. Each of these markets has its own local specifics, but the common denominator is that they all use protectionist measures in the form of export duties.



Changes in the price of base load electricity in Germany and Italy with deliveries in 2011 in the 2010 trading period. (Source: European Energy Exchange, trading platforms)



The extremely low correlation between base load electricity prices in Germany and Romania with deliveries in 2011 in the trading period from June to December 2010.

### III.3.1.4 Important legislative and regulatory changes in 2010 and their effect on electricity prices

**GERMANY:** Germany passed a special law according to which the lifetime of its nuclear power plants is extended from 8 to 14 years. As nuclear power plants are a cheaper source of electricity, the adoption of the law resulted in lower electricity prices, particularly for products with deliveries after 2010.

**BULGARIA:** In July 2010, Bulgaria introduced new export duties aimed at encouraging production from high-efficiency sources, increasing total export duties by EUR 1.9/MWh.

**GREECE:** When Greece received the bailout funds, it undertook to increase the transparency of its electricity market. Because the country had to eliminate certain duties imposed on end-customers, it introduced new export duties, for which the only variable known in advance is the calculation model. The amount of these duties is therefore not fixed, but depends on the volumes of the electricity produced and energy prices.

**HUNGARY:** To mitigate the effects of the crisis, Hungary introduced a so-called “crisis tax”, which since December applies to energy companies as well, stripping them of more than 1% of their annual revenues. The introduction of the tax did not have any significant effect on Hungarian electricity prices, since international groups reacted by transferring their Hungarian operations to legal entities with registered offices outside Hungary.

**SLOVENIA:** As of 1 February 2010 customers in Slovenia are charged a fee on electricity, aimed at increasing the efficiency of energy use, in the amount of EUR 0.5/MWh; the fee is determined by the government. The amended Excise Duty Act and the adopted amendments to the regulation meant that excise duties on electricity went up by over 300%. The Slovenian regulatory agency also adopted a new wording of the act on network fees, which entered into force on 1 January 2011.

### III.3.2 Performance by activity

#### III.3.2.1 Analysis of performance and the realization of plans in 2010

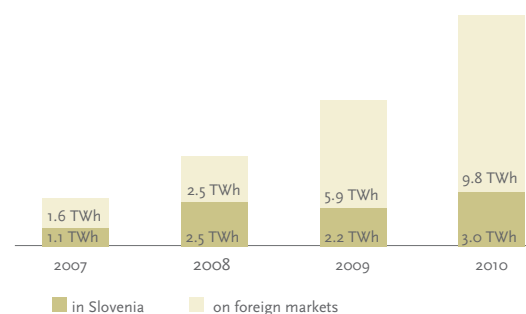
**Annual targets exceeded:** The business results of the GEN-I Group in 2010 exceeded initial plans. The Group responded to harsh market conditions by intensifying its activities.

The Group’s consolidated revenues were up 43% on the planned level, mainly because the volumes of electricity sold and traded exceeded the Group’s plans by about 30%, and because of slightly higher electricity prices. Sales to business customers in Slovenia also surpassed expectations, and were up 54.2% on the previous year.

In the electricity trading segment, GEN-I exceeded planned volumes by 38.6%, with total trading volumes reaching 12.8 TWh. Trading volumes differ from target values because of the changing relationships between individual markets, which require constant adjustments to trading tactics. Nevertheless, finding and seizing new business opportunities remains one of the main competitive advantages of the GEN-I Group on all markets on which it operates.

GEN-I maintains its competitive advantage by linking less liquid markets with more liquid ones, and by hedging the price stability of its portfolio through the simultaneous closing of open positions based both on physical energy trading and financial instruments, with the result that the Group’s trading volumes in 2010 were significantly above target values.

The Company and the Group realized sales volumes that exceeded all plans, and shifted their focus to foreign markets, where sales were up by more than 60%.



The majority of GEN-I’s trading operations are carried out on foreign markets.

**Reinforced infrastructure:** One of the priorities during the Group's organizational development in 2010 was the timely establishment of the infrastructure necessary for selling electricity to end-customers in Italy and Austria. The most important event in the wholesale segment was the launch of operations at the Group's Bulgarian and Albanian subsidiaries, which started operating on their respective domestic markets.

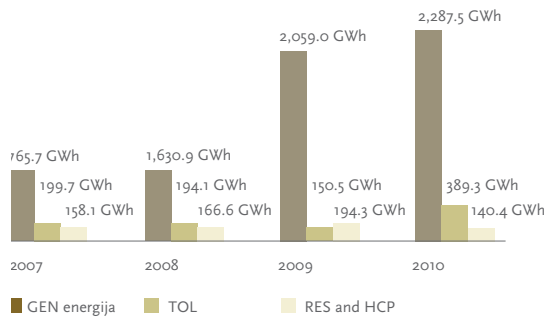
Adjustments to the internal processes at the Company and the Group led to an improved system and organizational structure, increasing the reliability, security and flexibility of operations for companies within the GEN-I Group, both in the electricity trading segment and in sales to end-customers.

The successful migration to an in-house IT support system was an important milestone in the internal reorganization, and included upgrades to the majority of existing software components. Performance was further enhanced by a new department for comprehensive, centralized back-office operations, as well as the completion of a project to optimize processes that included a standardization that enables the Group to make better use of the available resources during decision-making processes and when choosing business strategies associated with electricity trading.

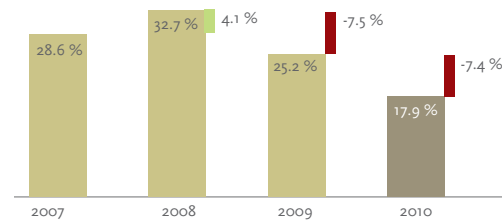
### III.3.2.2 Purchase of electricity from producers, and energy from renewable sources and high-efficiency cogeneration plants in Slovenia

**Purchases from the GEN energija group:** GEN-I, d.o.o. purchased 73% (or 2,287.5 GWh) of the total electricity produced by producers within the GEN balance subgroup (Krško Nuclear Power Plant, Sava Electric Power Plant in Ljubljana and the Brestanica Coal-Fired Power Plant). This represents just 17.9% of the total volumes the GEN-I Group purchased in 2010. Of the 2,287.5 GWh purchased from the balance subgroup, 93.5% was purchased based on long-term agreements, 5.3% as part of daily trading and 1.1% on intraday markets.

**Purchases within the GEN group:** The Krško Nuclear Power Plant, the Sava Electric Power Plant in Ljubljana and the Brestanica Coal-Fired Power Plant are the three electricity producers who form the GEN balance subgroup. Their total production volumes in 2010 reached 3,117.9 GWh of electricity, or more than 26% of all the electricity generated by producers connected to Slovenia's transmission network. These production volumes include half of the total electricity produced at the Krško Nuclear Power Plant (the Slovenian part) and purchases of electricity from hydroelectric power plants on the Lower Sava River.

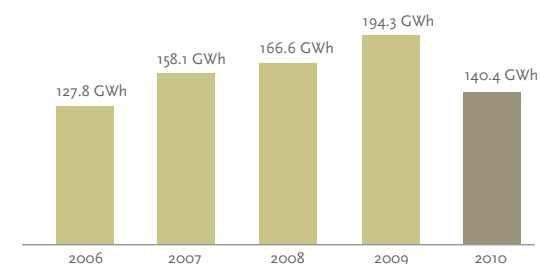


The purchase of electricity from Slovenian producers in 2010



The proportion of electricity purchased from GEN energija compared to total purchases was down more than 7 percentage points in the last two years, amounting to just 17.9% in 2010.

**Purchase from producers who use renewable energy sources and from high-efficiency cogeneration plants:** Purchases from the Sava Electric Power Plant in Ljubljana and Hydroelectric Power Plants on the Lower Sava River accounted for the majority of the electricity produced for GEN energija from renewable energy sources (RES) in 2010, totaling 422 GWh. Thanks to favorable hydrologic conditions and the successful harvesting of energy potential, all the power plants on the Sava River generated record volumes of electricity in 2010. Purchases of electricity from other RES producers and high-efficiency cogeneration plants (HCP) in 2010 were also affected by changes in energy legislation, which led to new methods for allocating support prices and for price determination. GEN-I, d.o.o. purchased an additional 140.4 GWh of electricity from other RES and HCP producers in Slovenia, and expects to purchase 170 GWh of electricity from these sources in 2011.



Volumes purchased from electricity producers who use renewable sources and from high-efficiency cogeneration plants (excluding producers already included in the GEN energija Group).

### Portfolio of electricity purchases in MWh

Structure of electricity purchases from RES/HCP	2009	2010	Plan for 2011
Water	42,055	70,632	55,506
Sun	148	995	3,309
Biogas (waste)	44,328	3,882	0
Biomass	0	5,107	4,123
Gas	107,789	59,789	107,062
<b>Total</b>	<b>194,320</b>	<b>140,405</b>	<b>170,000</b>

### Portfolio of electricity purchases by the number of producers

Number of power plants	2009	2010	Plan for 2011
Water	45	61	69
Sun	7	28	48
Biogas (waste)	2	1	0
Biomass	0	1	1
Gas	6	3	4
<b>Total</b>	<b>60</b>	<b>94</b>	<b>122</b>

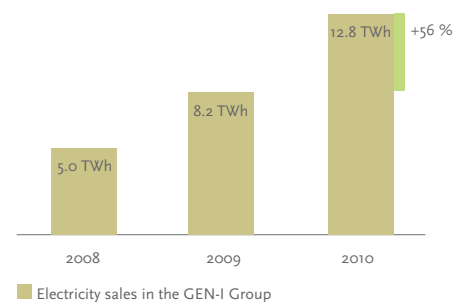
In the future, GEN-I, d.o.o. will pay particular attention to solar power plants in the structure of its energy sources. The Company plans to increase the number of these power plants both by increasing purchases of the electricity they produce and by introducing new solar energy products, and also by adjusting business activities that are important for investments in solar power.

GEN-I's particular competitive advantage in the purchase of electricity from RES and HCP is its partnership approach to risk management. The GEN-I Group offers flexibility, knowledge, services and customized products that enable producers to manage price and quantity risks more effectively and to take better advantage of market opportunities thanks to optimized purchasing prices.

#### III.3.2.3. Trading

The difficult economic situation on European markets in 2010 meant that the electricity trading segment had to gain even more of a competitive edge. In response to new challenges, the GEN-I Group adjusted its strategic market approaches and continued to optimize and upgrade internal processes in order to increase the efficiency of its operations. The demand for a reinforced trading infrastructure has had cost implications for the Group, making trading operations slightly more expensive. As a result, the Group has paid particular attention to the optimization of its credit lines and adjusted its risk management approach by limiting business relationships to the most trusted partners who could provide the required collateral and who settled their obligations on time. To ensure continued growth on existing and new markets, the GEN-I Group invested more in the development of new trading methods.

The increase in sales volumes, which amounted to more than 50% last year, was achieved with the help of a well-devised strategy for a flexible and globally-oriented portfolio, and by upgrading the Group's business model to support the right level of responsiveness to changes in the market situation and to enable the best combination of purchases of different electricity products on all of the Group's markets by providing optimized transport links to sales markets.



Electricity sales volumes within the GEN-I Group in 2010 were up 56% on 2009.

The parent company GEN-I, d.o.o., which manages the entire portfolio, implemented several changes to its internal organization to improve collaboration between the analytics department and the trading portfolio management department. This resulted in a higher quality of processes involved in producing trading offers and performing transactions. The analytics department was able to implement several improvements to the method used for forecasting price correlations between the individual markets, ensuring the optimal hedging of the portfolio against market risks. Due to the limited liquidity and limited product ranges on individual markets, the Group employed hedging mechanisms on a number of markets, mainly on the most liquid German market, and acquired the necessary cross-border transfer capacities.

The GEN-I Group also reinforced the presence of its regional representatives on local markets and their involvement in the Group's operational processes, since only regular and centrally coordinated communication with regulatory bodies and business partners can ensure the Group timely information and good business relationships. Drawing on frequent interactions between regional representatives and other specialized internal units, and their experience from operations on different markets, the Group actively contributes to the future development of individual markets in the direction of greater transparency and regulation of local electricity markets by putting forward its own proposals.

The growing trading volumes and the associated risks demanded a strengthening of the Group's trading infrastructure, with measures ranging from intense collaboration

with energy exchanges to the establishment of credit lines with business partners. In addition to the main energy companies on individual markets, most of which are state-owned, GEN-I's trading partners mainly included large retailers who operate on the same markets as the GEN-I Group, which meant more possibilities for the Group to manage its credit risk exposure to individual business partners.

The specifics of individual hedge transactions used to mitigate market risks vary according to the daily correlation ratios between hourly price curves, which are generated by the Group based on current prices of forward products and the historical hourly profiles on a daily and hourly basis for all future time periods and for all the markets on which the GEN-I Group operates. In line with the Group's risk management policy, which requires the immediate closing of open positions and in order to ensure the price stability of its

as their exposure to market risks, while the Company also regularly verifies the appropriateness of evaluation methodologies used. In terms of portfolio optimization, specialist tools are useful because they support the analysis of optimal trading scenarios based on key data on price correlations between markets, market liquidity and the position on individual markets, as well as on available cross-border transfer capacities, which enable the transfer of electricity flows from markets with lower prices to higher-priced markets.

With all the adjustments aimed at increasing the quality of operations implemented, the Group sold over 12.8 TWh of electricity in 2010, which is comparable to the total annual electricity consumption in Slovenia. Electricity sold on the German and Slovenian markets accounted for the majority, or approximately 50% of the Group's total electricity sales in 2010. Hungary, Greece and Italy accounted for a further 30% of electricity sales, while the remaining 20% was sold in other SE European countries.

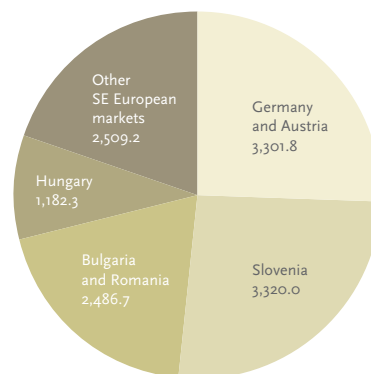
## OPTIMIZATION OF PURCHASES AND TRANSPORT LINKS >

### > SUCCESS ON SALES MARKETS

portfolio, the Group executed financial forward contracts on the German EEX energy exchange in the amount of 7.5 TWh on the purchase side and 9.6 TWh on the sale side in 2010.

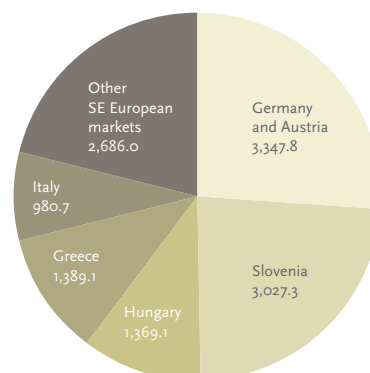
To ensure greater transparency and improve the management of its portfolio, the GEN-I Group has started breaking up its portfolio into several smaller ones, each with its own distinct characteristics, limitations and responsibilities. The majority of these portfolios are categorized by individual markets and product maturity periods, with limitations in the form of daily VAR (value-at-risk) and "stop-loss" cap limits. The responsibility for individual portfolios is assigned to specific trading units or strategic teams comprising members from different departments and units. GEN-I, d.o.o. has also created a new department within its trading unit that will focus solely on proprietary trading on liquid Western markets.

In 2010 GEN-I, d.o.o. carried out several upgrades of daily reports on the Group's trading portfolios in order to facilitate a more comprehensive controlling function within trading, representing one of the tools used in decision-making processes and risk management techniques. In this way, all trading positions can be constantly supervised, joined into the relevant general reports and evaluated daily by individual markets. This enables the Company to maintain a comprehensive and accurate overview of all portfolio items and the exact contribution of individual portfolios, as well



Overview of sales volumes in 2010 by market (in GWh).

The situation was similar on the purchase side, where the Group acquired more than half of its electricity on the German and Slovenian markets (in roughly equal shares). The other half of the Group's electricity volumes was purchased in Bulgaria, Hungary and in various other countries in SE and SW Europe.

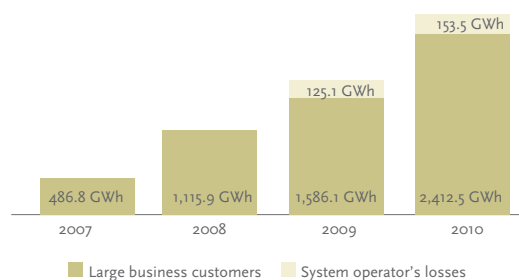


Overview of purchase volumes in 2010 by market (in GWh).

The Group acquired 36 TWh of cross-border transfer capacities in 2010 to ensure the optimal connection between its purchase and sales markets and to achieve synergies through its globally-oriented portfolio. This is a three-fold increase compared to the previous year. Purchases of cross-border transfer capacities create added value by helping optimize hourly electricity flows between purchase and sales markets with favorable price conditions, and provide added security when closing the open positions arising from purchase and sales agreements concluded on individual markets. The transfer capacities also represent an opportunity to create added value in the event of relative price changes between markets.

### III.3.2.4 Sales to end-customers

**Large business customers in Slovenia:** Sales to large business customers in Slovenia exceeded expectations in 2010, with sales volumes up 52% on 2009 at 2.4 TWh. For the Company, this meant continued high growth in sales in the large business customer segment and a strengthening of its leading position in terms of market share.



In Slovenia, GEN-I, d.o.o. increased sales volumes in the large business customer segment by 52% in 2010. Taking into account sales to the transmission system operator to make up for losses, total sales volumes in the same period were up 50%.

The growth in sales recorded during the ongoing economic crisis is the result of an extremely focused and targeted approach, where the customer's needs, wishes and requirements must always come first and represent a constant challenge. The GEN-I Group is highly flexible when it comes to market penetration strategies and its market focus is applied not only to a segment of key customers but to the household segment as well – with the Affordable Electricity brand, which represents an important competitive advantage for the Group. The brand is complemented by a call center, and the Group constantly encourages feedback from its customers as well as communication between customers and the Group.

In addition to the global economic crisis, operations in 2010 were made more difficult by a number of changes which led to an increase in electricity supply costs, despite a period of low electricity prices on the market. In Febru-

ary 2010, the government introduced a new efficiency fee, which is intended to encourage the efficient use of electricity and finance projects in this area. However, due to incomplete implementing regulations, businesses were not able to reinvest these funds in improvements to their production processes. Another factor that contributed to the uncertain conditions were excise duties, which underwent three changes in 2010: a 24-fold increase for commercial users was announced but not implemented, although excise duties did go up 6-fold in the last year. In early 2010, the fee intended for stimulating the production of electricity from renewable sources and cogeneration plants went up by about 100%. At the end of the year, the levels of network fees were also adjusted. This will cause a rise in electricity supply costs, primarily in 2011 and 2012.

One of the changes in market rules that had an adverse effect on the Group's operations was the change in rules for calculating deviations. As a result of the new rules, the costs of calculating deviations (with the supplier assuming responsibility for imbalances) have more than doubled. Despite the costs of transmission system operators who maintain the balance of the system having remained the same, the gap between the price of positive deviations C+ and the price of negative deviations C- in the calculation of deviations carried out by the electricity exchange operator Borzen has widened significantly. The difference between these two prices is directly linked to the cost effectiveness of the settlement. After fluctuating at between EUR 5 and EUR 10/MWh over the last five years, the difference between the two prices amounted to EUR 30/MWh in 2010. This clearly indicates an anomaly in the functioning of the electricity market, which had a negative effect on the operations of all electricity suppliers in 2010. The economic crisis continued to affect payment discipline among customers. Overdue receivables were down on the end of 2009; however, the number of write-offs due to forced compulsory settlements, bankruptcies and liquidations was up.

## STRONG SALES CHANNELS > > ALL CUSTOMER SEGMENTS IN SLOVENIA

In light of the above factors, it is even more important to invest in the long-term goal of increasing market shares and expanding operations. For several years now, the Group's focus has been on key customers and public tenders, which has helped us stay one step ahead of the competition as we continue to develop new products and services to support our customers and business partners. Customers are increasingly opting for structured products that enable them to manage risks more effectively and exercise greater con-

trol over electricity purchase costs. In terms of risk management, these products are far more advanced and secure, which is precisely what the Group wants for its customers.

In the future, we intend to develop several new products, as the changing market dynamics demand constant adjustments and a continued search for the optimal balance between hedging options and purchase (sale) opportunities. Customers no longer regard electricity purchases as a one-off transaction but rather as the adoption of an individual strategy, aimed primarily at the customers' goals (needs) and wishes, real market conditions, the supplier's advanced services and the most comprehensive hedging approach. In the services segment, we develop additional services to support and help customers choose the right electricity purchases, providing them with timely information and taking advantage of the latest technologies and communication channels, thus increasing efficiency of operations and responsiveness. Our main focus is on purchases and helping customers make decisions on the right timing of electricity purchases in order to effectively manage electricity costs. One of the ways of achieving this is our traditional GEN-I partner event, at which customers are presented with information about market conditions, our assessment of trends, changes in the regulatory framework and new products and services, which are developed in response to the needs they express at such meetings.

## SALES EXPERIENCE ›

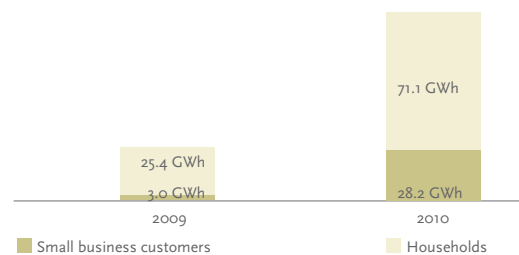
### › THE FIRST SLOVENIAN SUPPLIER OF ELECTRICITY TO END-CUSTOMERS ABROAD!

**Small business customers and households:** When GEN-I introduced the Affordable Electricity brand in 2009, more than 8,000 households and small business customers opted for it in the first year alone. The number of customers who switched to Affordable Electricity increased considerably in 2010. As at 31 December 2010, GEN-I supplied electricity to 12,549 households, while an additional 4,000 customers switched to GEN-I in the first quarter of 2011.

By entering the household and small business customer markets, the GEN-I Group added the remaining two customer segments to its portfolio. Supplying electricity to these customers has certainly affected the Group's operations. It acquired the necessary knowledge and experience, and established the infrastructure and processes needed to operate in this most fragmented market segment. The sales portfolio now includes all market segments – from

the largest industrial customers to Slovenian households. The strategic investment in the penetration of new market segments is also a way of transferring the positive effects of the large scale of GEN-I's operations back to Slovenia.

In previous financial years, GEN-I positioned itself firmly in the large business customer segment and also as a participant in public tenders. Since 2009, the Company has also been present in the small business customer segment.



GEN-I, d.o.o. increased its sales under the Affordable Electricity brand by a factor of 2.5 in 2010.

**Business customers on foreign markets:** In 2010, the GEN-I Group also directed its sales activities to foreign markets. Based on the sales potential of individual markets, sales activities abroad focused on Italy, Austria and Croatia. Following market analyses, inventories of procedures, the identification of the decision-making environment and an internal HR reorganization, the Group founded two new subsidiaries in Vienna and Milan in the middle of 2010. Its Croatian subsidiary acquired a license to sell electricity and, after obtaining the necessary permits, started taking on customers who switched from other suppliers. It is now in the trial phase of supplying electricity to two small business customers.

The subsidiary GEN-I Milano S.r.l., which was founded in June 2010, established the necessary infrastructure for supplying electricity to end-customers by fall 2010. The company has already attracted its first large business customers with a total consumption of 85 GWh, which far exceeds the Group's initial plans. In the second half of the year, the Group focused more intensely on the infrastructure for public tenders on the Italian market. The subsidiary GEN-I Vienna GmbH was entered in the commercial register in summer 2010 and by fall 2010 had already acquired its first significant high-profile local customer who signed a two-year contract for 100 GWh, opting for the single invoice.

## III.4 Operational Goals and Plans for 2011

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**Operational strategy:** In 2011, the GEN-I Group will focus on the development of new electricity products and on increasing its trading volumes. Further adjustments to the Group's internal organization will play an important part in its future success, and will help the Group improve the quality of its risk management and optimize its processes through a higher degree of automation. With this approach, the Group aims to maintain and further strengthen its market position in the face of increasingly fierce competition, which will probably continue to drive down margins.

**Purchase:** In Slovenia, GEN-I plans to increase the volume of purchases from producers who use renewable energy sources and from high-efficiency cogeneration plants by almost 20% in 2011 compared to 2010. The planned volume of electricity to be purchased from these sources in 2011 is 170 GWh.

**Sales:** The GEN-I Group plans to realize total sales volumes of 13 TWh in 2011. This should generate a total margin of more than EUR 19 million. Approximately three quarters of the planned gross margin are expected to be generated on foreign markets.

Sales to end-customers in 2011 are estimated at 2.5 TWh of electricity. A total of 2.4 TWh of electricity are expected to be sold to large business customers and to customers via public tenders. Another 100 GWh will be realized in the household and small business customer segment (Affordable Electricity), while 500 GWh will be sold to customers on new foreign markets.

The GEN-I Group plans to continue adding new end-customer markets to its portfolio, providing them with the same quality of products and services offered to existing Slovenian customers. To this end, the Group conducts analyses and stress tests before offering products to specific customer segments on foreign markets. The expansion of the product portfolio is linked to existing infrastructures and trading networks. The Group will therefore focus its efforts on regions where it is already present and in which obstacles to new market participants can be overcome.

**Trading:** In 2011, the GEN-I Group plans to further develop and intensify its electricity trading activities in SE Europe, with the aim of realizing sales volumes which will be closer to those recorded in Central Europe. Particular attention will be paid to developing trading activities on the developed Western European markets, where some activities will be carried out by new departments created by the Group. GEN-I plans to start offering its business partners market access services in 2011, enabling them to participate in energy exchanges by using the infrastructure the Group has developed for its own purposes. After a successful trial period in the proprietary trading segment, the GEN-I Group has been creating a new specialist department in 2011 that will focus on proprietary trading on liquid German and Austrian markets within precisely defined limits and under careful supervision.

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## AUTOMATED CONTROLS >

### > INCREASED QUALITY AND STABILITY OF INTERNAL PROCESSES

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The volume of trading with financial instruments (not included in the balance sheet) will also be increased in 2011. These instruments are traded in order to hedge the prices of electricity purchased and sold. Most of GEN-I's transactions in this area are carried out on the German market and, since the Group joined the PXE energy exchange, also on the Czech electricity market. A market for financial instruments is also expected to develop in Hungary in 2011. The GEN-I Group estimates that purchases of financial instruments in 2011 will amount to 8 TWh, while sales are expected to reach just over 6 TWh.

**Organization:** The reliance on individual business information systems (ERP) and electricity trading systems (ETRM), which support the Group's operations, will diminish, while data consistency and standardization will be greatly improved.

## III.5 Risk Management

Continuous monitoring of partner performance, market conditions and price developments, advanced models for the optimization of electricity flows between different markets, and the appropriate hedging instruments represent some of the tools the GEN-I Group employs to effectively manage business risks.

Risk management is centralized in the GEN-I Group. The parent company closely monitors all the risks to which its subsidiaries are exposed with the help of the relevant departments. The management of market and credit risks is separate for sales to end-customers and electricity trading activities. In 2010, the Company placed an even greater emphasis on the functioning of special risk management committees, which meet regularly to provide additional control over the compliance of operations with adopted risk management policies. The timely and adequate response of the risk management team, supported by analysts from other departments, helps contribute to the long-term stability of the Group's portfolio and its operations.

**Major risk groups:** Electricity trading is associated with three groups of risks, which are interconnected, namely: credit, market and liquidity risks. The GEN-I Group manages these risks by ensuring the appropriate balance between them. The increased quality of internal processes, which continues to be one of the Group's most important business goals in 2011, helps reduce operational risks.

### III.5.1 Credit risks

Credit risks mainly refer to the financial damage to the Company if an individual business partner fails to fulfill its contractual payment obligations on time.

**Ensuring liquidity:** The management of credit risks is important for ensuring better liquidity and a balance between financial inflows and outflows. GEN-I manages these risks based on the specific characteristics of individual contractual partners and their solvency.

Close attention is paid to any failures by partners to fulfill their contractual obligations. The Group's risk management team regularly analyses the creditworthiness of each trading partner and that of large customers on a regular basis, sometimes using external credit rating assessments.

**Exposure assessment:** The risk assessment report serves as the basis for future cooperation and includes definitions of the appropriate credit lines and risk exposure limits for each partner. The product offering, and payment and delivery conditions, as well as any requests for collateral are

adjusted to the assessed level of risk. The terms of cooperation defined in this process are consistently applied in all the phases of negotiation and execution of contracts.

GEN-I pays particular attention to the international aspects of its operations, giving preference to partners and related persons with whom it can conduct business on more than one market. The final credit assessment is therefore adjusted to reflect the specific opportunities provided by the local legislation of each individual market. The assessed level of risk depends mostly on the partner's performance, particularly their indebtedness, short-term liquidity, and solvency and profitability indicators. The latest market information is also included in the risk assessment, since different market and regulatory changes can quickly affect the status of individual business partners.

**Hedging instruments:** The most effective form of hedging against credit risks on developed markets is the use of clearing houses, which are regarded as completely safe partners due to their extremely strict operating conditions. If GEN-I does not have direct business relationships with a specific partner, including a suitable credit rating, transactions are usually carried out using clearing houses, as they guarantee the timely settlement of liabilities.

When contracts are negotiated, contractual liabilities are hedged using the appropriate financial and legal instruments. The Company and the Group generally use only first-rate collateral instruments to secure its receivables, ensuring the payment of overdue contractual obligations in cases when business partners fail to fulfill them.

Electricity trading in particular, based on both general agreements and on individual short-term contractual relationships with delivery periods of one month or longer, is an activity where GEN-I prefers to use bank guarantees as collateral.

General agreements typically contain a list of the basic acceptability criteria for banks, whose credit rating must be at least investment grade, as defined by credit rating agencies. In most contracts, the required credit rating is set well above the minimum levels, usually at grade A, as defined by credit rating agencies Standard & Poor's and Moody's. Another relatively safe form of collateral used in international electricity trading are parent company guarantees. If a business partner fails to meet its contractual obligations,

they are assumed by the parent company, which usually has more capital at its disposal.

On the domestic electricity sales market, bills of exchange are also used as collateral for less-risky business partners. As part of the Group's individual approach to business partners, more innovative material/legal forms of collateral are sometimes used, although they are less common on the electricity market.

**Effective analyses:** Credit risks at GEN-I, d.o.o. and the GEN-I Group are effectively managed through the consistent application of internal rules and guidelines, which clearly define the procedures for identifying risks and assessing exposure to them, the permissible limits of risk exposure and the constant monitoring of the Company's exposure to risks in its dealings with individual business partners, mainly in terms of current market exposure and outstanding liabilities. GEN-I also has clearly defined collection procedures in place, along with a system for sending out payment reminders and monitoring customers. IT support for electricity sales involves the daily import of data into the Company's CRM system, including information on blocked accounts and any changes to the status of companies in publicly accessible registries. As a result, the Company is immediately alerted to any changes in its business partners.

### III.5. 2 Market risks

Market risks relate to losses in the value of the portfolio due to changes in market conditions. Price, currency and interest-rate risks are particularly important to the GEN-I Group, while quantity and quantity-liquidity risks are also quite significant and at the same time highly specific.

**Risks associated with open positions:** Open positions are most exposed to market risks. They can be defined as quantities or values, expressed as the difference between the aggregate purchase volumes and the aggregate sales volumes in a given period. To effectively reduce these risks, the Group must ensure that open positions are closed on an ongoing basis. As a rule, GEN-I always concludes a counter-transaction with the appropriate physical or financial characteristics for each negotiated transaction. This is

part of the Group's risk management policy and is used to hedge the Group's portfolio positions against price risks.

All of the Group's open positions on an individual market are within the parameters and limitations set out in the Group's risk management policy. They are constantly monitored and incorporated into the relevant general reports. This approach to control and evaluation provides the Group with a comprehensive and accurate daily overview of the values and contributions of individual portfolios. For each day of trading, the Group also compiles a sensitivity analysis and an analysis of different scenarios in case of unexpected market developments. As a result, risks are constantly monitored and the methodologies used are regularly tested using carefully devised algorithms.

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## CREDIT, MARKET AND LIQUIDITY RISKS >

### > LASTING BALANCE

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**Price risks:** The GEN-I Group is exposed to risks that arise from fluctuations in the prices of electricity products. Throughout 2010, the Group consistently hedged its portfolio against price risks by immediately physically closing open positions and by using hedging instruments on the financial market in the form of physical and derivative financial instruments on the German EEX electricity exchange.

The only exception to this approach was in the proprietary trading portfolio, a pilot project under which the Group allows a certain limited number of open positions (on the liquid German market only) up to a maximum potential loss amount.

**Quantity risks from open contracts:** A very important and highly specific type of market risk arises in the purchase and sale of electricity due to the differences between the purchase/sales volumes that were forecast in contracts and the actual volumes that were purchased or sold. Quantity risks are usually present in contracts with open quantities, i.e. contracts signed with customers and producers of elec-

tricity from renewable sources and cogeneration plants. The GEN-I Group manages these risks by providing comprehensive information support for long-term and short-term forecasting of electricity supply and consumption profiles, and by consistently monitoring quantity deviations at the majority of metering points that are included in the GEN-I balance group. The management of quantity risks is based on advanced algorithms and a methodology which, together with the latest IT tools adjusted to specific trading needs, forms a comprehensive risk management system. The expertise of the risk management team and the portfolio management and sales analysis unit is also of great importance. Early detection of changes to consumption volumes is ensured through effective communication between the Company and its partners and customers.

**Currency risks:** Currency risks, which arise in connection with international transactions, are constantly monitored, mitigated and managed by the GEN-I Group using the appropriate hedge tools. On markets outside the euro area, the Group uses mainly currency hedging mechanisms, including futures contracts and currency clauses. These mechanisms prevent a more noticeable effect of risk management costs on the margins the Group is able to realize through its regular activities.

The GEN-I Group is exposed to currency risks both in purchase and sales transactions, in particular with regard to electricity trading and sales activities, cross-border transfer capacities, loans, and the share capital held in foreign subsidiaries. Currency risks are generally associated with business events denominated in currencies that are different from the Company's functional currency. Given the volume of the Group's operations, the most important foreign currencies include the Serbian dinar (RSD), the Hungarian forint (HUF), the Croatian kuna (HRK) and the Romanian leu (RON).

**Interest-rate risks:** Interest-rate risks are mainly associated with the possibility of an unexpected rise in the Group's financing costs, which vary depending on the variable interest rates on the market. Companies within the GEN-I Group generally use only short-term lending to bridge occasional liquidity gaps. Given the highly standardized payment conditions in most contracts, these risks only arise

in exceptional cases or in association with clearing houses, whose settlement conditions vary from those applied by the Group. Considering the Group's current demand for external financing sources, its exposure to these risks is low.

### III.5.3 Liquidity risks

In financial terms, liquidity risks can be defined as the likelihood of financial damage to the Group due to imbalances between the maturity periods of its receivables and liabilities, while in market terms these risks relate mainly to market depth.

**Market depth risks:** These risks arise when the Group's open positions cannot be closed due to liquidity imbalances on individual markets. The Group manages these risks by operating on regional markets, by continuously acquiring long-term and short-term cross-border transfer capacities, and by constantly providing links between less liquid and highly liquid markets. The Group's presence on a number of carefully selected markets enables it to create added value based on synergies between the individual time and geographical components of the portfolio.

Procedures for acquiring cross-border transfer capacities on liquid markets have already reached a considerable level of standardization, but there are still significant differences between individual markets. This is why an in-depth understanding of energy flows in the region is essential for success at auctions. An extensive business infrastructure and knowledge of the specifics of individual markets and the region as a whole are therefore crucial for mitigating market depth risks.

**Financial liquidity risks:** When managing liquidity, the Group's main goal is to ensure the solvency of all its companies, i.e. their ability to settle obligations on time. An effective system used for the centralized monitoring and forecasting of cash flows helps the Group keep the financing costs associated with ensuring liquidity to a minimum.

In order to mitigate liquidity risks, the finance department monitors and plans short-term liquidity on a daily basis. Short-term surpluses and shortages of cash are monitored

and optimized at the level of individual companies and at the Group level. A liquidity reserve in the form of credit lines approved by commercial banks, the diversification of financial liabilities, the constant matching of maturity periods for liabilities and receivables based on standardized agreements with partners, and the consistent collection of receivables ensure the success of cash-flow management, thus increasing the Company's and the Group's purchasing power. In this way, the liquidity risks associated with maintaining the solvency of the Company and the Group are always effectively controlled and remain within acceptable parameters.

### III.5.4 Operational risks

Operational risks are associated with losses resulting from inappropriate or poorly executed internal processes, misconduct on the part of the employees and external events. The GEN-I Group focuses mainly on human resource risks, process risks, IT risks, and legal and regulatory risks.

**Human resource risks:** Managing human resource risks is particularly important for the GEN-I Group because of its rapid growth and the expansion to new markets. To achieve operational plans, employees must not only constantly build on their existing knowledge and learn new skills, but also demonstrate their ability to work in a team and show a high level of flexibility, a dynamic approach to work, self-initiative, and excellent interpersonal and communication skills. The most important human resource risk is the loss of key employees. To minimize the exposure to this risk, the Company and the Group maintain a healthy organizational climate, provide constant professional growth, create stimulating working conditions, and maintain good communication with and among employees. GEN-I also ensures that work processes and internal knowledge are well documented, as they represent the most important competitive advantage for the Company and the Group.

**Process risks:** The GEN-I Group manages process risks using a control system that requires all important transactions to be carried out according to the principle of at least "four eyes". These risks are further mitigated with clearly defined processes and the unambiguous demarcation of roles, responsibilities and authority, and by implementing codes of conduct and internal rules.

**IT risks:** IT risks are associated with losses resulting from the use of inappropriate information technology or inadequate processing, with a particular emphasis on the issues of scalability, access, integrity, control and continuity. Business processes at the Company and the Group are fully supported by information technology, enabling them to carry out and manage their day-to-day operations

effectively. Continuous investment in IT infrastructure upgrades is linked to automated controls for individual business processes, which help reduce the possibility of human error and abuse. In 2010, GEN-I carried out a complete overhaul of its IT systems and created an in-house department to support and maintain these systems. The overhaul was also aimed at reducing risks, both during the project itself and as part of day-to-day operations<sup>2</sup>.

**Legal risks:** Legal risks are associated with losses arising from violations or misinterpretation of laws, implementing acts, instructions, recommendations, contracts, best practices and ethical norms. The GEN-I Group manages these risks by defining contractual provisions as clearly as possible. Companies within the GEN-I Group enter into contractual relations with wholesale partners based on standardized general agreements recommended by the European Federation of Energy Traders (EFET). These agreements address the issues of risk management in great detail, particularly in terms of receivables from electricity deliveries and damage compensation in cases when alternative transactions must be agreed in order to compensate for a partner's failure to fulfill their contractual obligations. GEN-I enforces a similar level of contractual provisions in electricity sale agreements.

**Regulatory risks:** The Group carefully monitors risks that arise from insufficiently defined legal frameworks for trading activities or (unexpected) legislative changes in the countries in which the Group operates. With the increasing instability of individual economies, governments are adopting different measures to ensure the sustainability of their public finances. The most prominent example of such measures in 2010 was the introduction of a crisis tax in Hungary. Special duties imposed on companies in the energy, retail and telecommunication sectors had a significant impact on market conditions. Some governments in the Balkans have started extending deadlines for VAT refunds, which may result in increased borrowing needs. The GEN-I Group limits its exposure to the tax-related aspects of regulatory risks by acquiring additional trading licenses for its Slovenian company, particularly in EU member states.

<sup>2</sup> A more detailed overview of the upgrade to the Group's information support is presented in the last chapter.



## III.5.5 Risk Management Overview:

**Description of selected risks**

RISK FACTOR	RESULT OF UNMANAGED RISK	SUGGESTED METHOD OF MEASUREMENT
Non-payment by end-customers	Financial loss	Monitoring overdue liabilities
Non-payment by wholesale trading partners	Financial loss	Monitoring credit exposure
Change in market depth due to altered market conditions	Inability to close open positions and possible financial loss	In-depth, quality analyses and forecasts of market conditions
Lack of funds	Financial loss	Cash flow measurement
Risks associated with production volumes	Loss of economic benefits	Analysis of production factors
Significant (unexpected) change in electricity prices	Financial loss	Sensitivity analysis and simulation analysis (stress tests)
Significant change in foreign currency rates	Financial loss	Monitoring open positions in foreign currencies, monitoring foreign currency fluctuations
Significant change in interest rates	Financial loss	Measurement of debt financing
Significant change in guarantee fees	Financial loss	Monitoring the total amount of guarantees issued
Risk of consumption volumes associated with open contracts	Financial loss	Analysis of actual consumption compared to forecasts
Changes in legislation and legal provisions	Inadequate response (negative effect on operations), loss of economic benefits, inability to collect receivables	Qualitative monitoring and evaluation of market conditions
Different interpretation of laws and provisions associated with trading	Inadequate response (negative effect on operations), loss of economic benefits	
Failure of IT equipment and connections	Suspension of operations, loss of data, financial loss	Equipment diagnostics
Process errors	Loss of reputation, financial loss	Monitoring the execution of processes, quantitative records of error statistics
Abuse of authority	Economic damages, loss of reputation	
Loss of key employees	Loss of expertise, allocation of workloads to other employees	Measuring organizational climate
Theft of equipment	Suspension of operations, loss of data, financial loss	
Wrong measurement data on consumption	Financial loss, dissatisfied customers, complaints	
Errors during the import of measurement data	Financial loss, dissatisfied customers, complaints	

The above table illustrates the descriptions, measurement methods, responsibilities and implementation activities for the management of all risks that the GEN-I Group perceives as significant.

The color coding of individual risks indicates the exposure of the GEN-I Group to damages and the likelihood of events within individual risks. Green stands for a low level of exposure, yellow for moderate exposure and red for critical exposure. None of the risks were assessed as critical in 2010. Compared to the previous year, we have increased the level of exposure only for the risk of changes to legislation and legal provisions (from low to moderate), while we expect no significant changes to the above values in 2011.

RISK MANAGEMENT MEASURES	RESPONSIBILITY/SUPPORT*
Effective monitoring of maturities, diversification of the end-customer portfolio and accurate payment reminder and collection procedures	Back office
Strict adherence to credit exposure limits for individual partners, provision of collateral, etc.	Finance and trading
Portfolio diversification, links with liquid markets	Forecasting and analytics
Effective cash flow management	Finance
Quality analysis of production factors, presence on liquid markets	Forecasting and analytics
Immediate closing of open positions, daily sensitivity analyses and active portfolio management	Portfolio control; portfolio management and analytics
Hedging of open positions	Trading
The exposure to this risk is low due to the low level of debt financing; centrally organized debt strategy	Finance
Maintaining good relationships with several banking groups	Finance
Quality analyses of consumption patterns, transfer of contractual responsibility for deviations to customers, contractual penalties, presence on liquid markets	Portfolio management and analytics
Presence on local markets; cooperation with established local law firms on all markets; regular monitoring of publications of documents regarding daily activities, reporting to competent authorities on the electricity market	Legal, back office, finance
Active participation in the creation of best practices, constant training	Legal
Regular maintenance, back-up copies of data, business continuity plan, redundancy of IT systems	IT
Detailed definition of processes and controls	Business development
A restrictive approach to delegating authority, double authorization principle (four-eye principle)	Business development
Centrally managed internal knowledge base, effective HR management, redundancy plans and key employee succession	Business development, human resources
Security measures, access control, insurance	Legal, business development
Smart import controls	Portfolio management and analytics
Smart import controls	Portfolio management and analytics

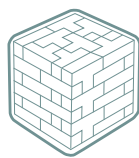
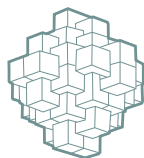
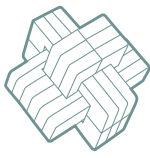
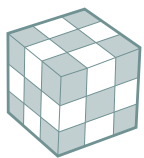


Low exposure

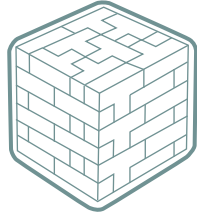


Moderate exposure

\* The risk management department is responsible for the management of all risks – the departments listed in the spreadsheet provide the risk management department vital support when tackling individual risks.



Responsibility. To employees.  
To customers. To the natural environment.  
To the social environment.



# IV. Sustainable Development Report

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A HIGHLY EDUCATED TEAM

REPSONSIBILITY TO EMPLOYEES

RESPONSIBILITY FOR CUSTOMER SATISFACTION

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## IV.1 A Highly Educated Team

At the end of 2010, the GEN-I Group employed just over 100 people. The number of its employees was up 22% on the previous year.

The growth index that measures employment has been rising at the GEN-I Group in line with its plans and the expansion of its operations. It peaked in 2008 and 2009, when the number of employees rose by more than 50% each year.

**Young, diverse structure:** Young professionals aged 25 to 35 have accounted for the majority of employees throughout the Company's and the Group's history. The average employee age at the parent company GEN-I, d.o.o. is 32.1, while the average age in the entire Group is 33.1. Employees in the "under 25" age group account for 7% of the total workforce, while those in the "over 35" age bracket account for 26% of all employees.

The Group increased its number of employees in line with plans and the growing volume of operations:

Year	2008	2009	2010
GEN-I Group	53	83	101

As at 31 December 2010, more than 10% of employees in the GEN-I Group had masters or doctoral degrees:

Level of education	Number of employees	Share
Secondary school degree	23	22.8 %
Junior college degree	20	19.8 %
University degree	48	47.5 %
Master's of Science	7	6.9 %
Doctorate	3	3.0 %
Total number of employees within the GEN-I group	101	

## EXPERIENCED, MOTIVATED, HIGHLY EDUCATED PEOPLE > > EFFICIENT TEAMS!

Despite the predominantly male energy industry, men and women have been almost equally represented in the GEN-I Group from the very start. At the end of 2010, women accounted for 52% of the Company's employees and 49.5% of the Group's employees. More than ten different nationalities are currently represented in the GEN-I Group.

**Highly educated:** More than half of all employees at GEN-I, d.o.o. and the GEN-I Group are highly educated and hold university or higher education degrees. At the end of 2010, 11% of employees had a masters or doctoral degree and, together with the other employees who hold at least higher education degrees, represented 55% of all employees at GEN-I, d.o.o. This proportion exceeds 57% at the Group level. This proportion was even higher (60%) a year earlier, but dropped slightly in 2010, mainly due to the fact that more than half of the newly employed staff are under 26. The majority of new employees are still finishing their undergraduate studies.

## IV.2 Responsibility to Employees

Human resource management in the GEN-I Group is based on strategic development guidelines set out in 2008 and 2009. The starting points for planning and evaluating human resources are measurements of the organizational climate, which are carried out every 2 to 3 years. The next measurement is planned for 2011.

The results of measurements of the organizational climate represent the basis for planning training activities and other measures, which are the responsibility of the Company's middle management. This strategic approach to HR management is complemented by more concrete operational goals for the development of individual employees, which are set based on annual evaluation interviews. The interviews have become an established component of HR management in the GEN-I Group, and are organized by managers who hone their communication skills at specialized training programs.

**Developing leadership competencies:** Based on past measurements of the organizational climate, we carried out activities for the development of leadership competencies in middle managers and key employees in 2010. In terms of content, preference was given to communication skills, leadership and effective work organization. The ultimate goal of improving the competencies of individuals is to promote cooperation among team members and increase the flow of information – not only in order to achieve higher efficiency, but also to improve the organizational climate as one of the key ingredients of employee satisfaction.

**Training:** In order to improve and facilitate the work of employees involved in managing relationships with external partners, they were trained on how to establish and maintain professional relationships. Because of the GEN-I Group's involvement in the international environment, all employees attended business English language classes in the first half of 2010.

**Motivation:** In addition to providing new knowledge, which is one of GEN-I's most precious values, the Group also motivates employees using an upgraded performance evaluation system. The first results of changes to evaluation procedures, which were implemented in the middle of 2010, will be seen in 2011.

**Active outside working hours:** Employees at GEN-I, d.o.o. and the GEN-I Group are a closely knit team that enjoys socializing outside working hours. This is reflected in the turnout at group sports activities organized by the Group for its employees. Some of the sports available include beach volleyball (all year round), outdoor and indoor football, squash courts, etc. Various organized group exercise facilities are also available to individual employees, and fitness studios at different locations can be visited several times a week.

Twice a year, employees take part in sport competitions organized by six different electricity producers and suppliers, including GEN-I. The summer games comprise seven disciplines and fun informal "games without frontiers". The winter games consist of skiing competitions with participants competing in different age categories.

**Interacting and socializing:** Once a year, the GEN-I Group organizes an outing for all employees, which usually involves visiting one of the Group's subsidiaries. In 2010, employees traveled to Budapest. At the end of the year, all employees working for the Group gather at the annual New Year's office party, which is organized by a different organizational unit each year. An annual visit by Santa Claus is also in store for the employee's children. The Group's female employees gather each year on Women's Day and spend the day engaged in an activity of their choice, which is followed by a group dinner.

## MOTIVATED EMPLOYEES > > ABOVE - AVERAGE CUSTOMER SATISFACTION!

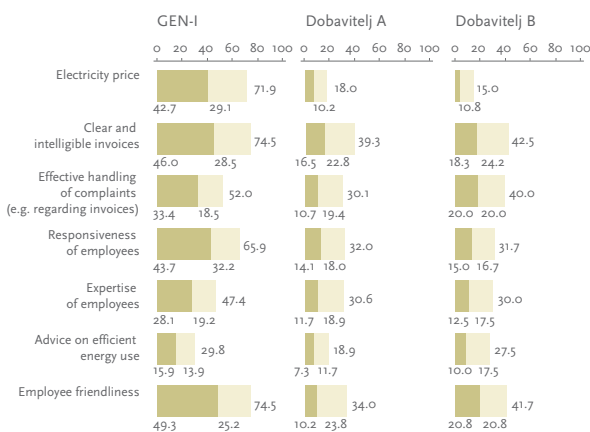
**Occupational health and safety:** Absenteeism due to illness is low both at GEN-I, d.o.o. and the GEN-I Group. On average, absences due to illness among GEN-I, d.o.o.'s employees represented less than 2% of total working days in 2010. The structure of the working environment and the job classification used at the Company include measures that are aimed at reducing health and safety risks to employees. Companies within the Group consistently apply all standards set out by the law and implementing acts.

Before starting work, all new employees undergo a preventive medical examination, while management staff attend health checks at regular intervals in line with their doctor's recommendations. Employees are included in the collective additional pension insurance scheme, while GEN-I covers the costs of additional health insurance. Those employees who travel abroad regularly are covered by long-term travel insurance policies during their business trips.

The Group's exceptional concern for the health of its employees is reflected in a number of other benefits, such as access to the aforementioned sports and recreation facilities, and fresh organic fruit provided for employees at their workplace.

## IV.3 Responsibility for Customer Satisfaction

GEN-I is committed to providing the same quality service, which is the basis of customer satisfaction, in all segments and on all markets on which it operates. Quality is further complemented by responsiveness and product customization.



Proportions of research participants who were satisfied with a certain aspect of their supplier's offer (rated 4 and 5). GEN-I's users showed high satisfaction levels when asked about the price factor (the most important factor), with 42% saying they were very satisfied.

**Satisfaction among large business customers:** In 2010, the GEN-I Group maintained high levels of satisfaction among its large business customers by offering them customized products, and more importantly by being the first Slovenian supplier to provide customers with a single invoice. In addition to electricity costs, this invoice also includes network fees and all the other contributions prescribed by law. GEN-I offered the single invoice in response to customer demands for simpler accounting procedures, as it will help reduce the number of tasks carried out by finance and accounting departments.

Information about customer demands, consumption patterns, types of purchases and contracts, and other customer preferences is managed by key account managers, who constantly monitor the needs of their partners and, in addition to their sales role, also advise customers on electricity purchases. These consulting and sales processes are supported by an appropriate information platform.

**Satisfaction among household customers:** In 2010, the Affordable Electricity brand increased its visibility, while the quality of services improved thanks to a call center, constant customer feedback and high responsiveness. Some new services were also developed. Research has shown that satisfaction levels among Affordable Electricity cus-

tomers are above the Slovenian average. Based on market research conducted by Prosperia using the "secret buyer" approach, GEN-I, d.o.o. was awarded the title "Customer friendly electricity supplier" for the second year running.

**Measuring customer satisfaction:** In order to manage the factors that affect customer satisfaction, in September 2010 the GEN-I Group commissioned Aragon, an independent research company, to produce a more detailed analysis. This included both a qualitative and a quantitative analysis, and showed that price accounts for one quarter of customer satisfaction, while a clear and intelligible invoice was ranked second at 14%.

The research also showed that Affordable Electricity customers were up to three times more satisfied than customers using two other Slovenian suppliers when it came to the most important features of a supplier's offer.

**A customer friendly supplier:** The Affordable Electricity brand helped household customers become more aware of their freedom to choose electricity suppliers. A report by the Energy Agency of the Republic of Slovenia showed that greater migrations of household customers coincided with GEN-I's entry into this market segment. It is evident from the report<sup>3</sup>, which lists the number of customers who switched electricity suppliers in 2009 by month, that the changes reflect price developments and correspond to the promotion of Affordable Electricity. The effect of the low-cost brand on the number of customers switching to a new supplier is also in line with the companies goals: to provide better information to consumers and to promote competitiveness on the electricity market.

**Planned improvements:** The research conducted on the factors that affect customer satisfaction was the basis for new improvements. With the aim of making customer invoices even simpler to understand and reducing the amount of paper used, the Affordable Electricity team began to work on reprogramming and redesigning monthly invoices at the end of 2010.

<sup>3</sup> Report on the Energy Sector in Slovenia for 2009; approved by the Council of the Energy Agency of the Republic of Slovenia at its 11th regular session on 28 June 2010. The Government of the Republic of Slovenia gave its approval at the 93rd regular session on 29 July 2010; Figure 39, Page 55.

## IV.4 Public Relations

Maintaining the transparency of operations and keeping all stakeholders informed of the latest developments at the Company, in the Group and on the markets is a goal that GEN-I achieves through various forms of communication. These are adapted to the needs of specific publics as necessary.

**Internal public:** In addition to customers, employees working for the Company and the Group represent the most important public for GEN-I. Interpersonal communications are complemented by monthly newsletters, which since the end of 2010 are also published in English to reflect the Group's increasingly international character. The structure of the newsletters is fairly informal. In addition to the latest information, they also contain a word from the management board, an overview of developments by individual areas, human resource shifts and entertaining contents. The monthly newsletters are read by many employees, who also regularly respond to the information provided.

Marketing messages are meaningfully combined with carefully designed public relations activities, where the main speaker for the Company and the Group is Robert Golob. Coordinated marketing and public relations activities have provided customers with a great deal of information to facilitate their purchase decisions, and have contributed significantly to the achievement of corporate targets.

**Communications with the media:** Fair and honest relationships with the media are crucial for reporting on the Company's performance and all other events that are relevant to the public. Three events were held for members of the Slovenian press in 2010. At the annual press conference, we announced our business results and plans for future meetings with customers. At a press conference in June, which was held to mark the opening of offices in Kisovec, members of the press were present at the signing of a letter of intent to cooperate with an external partner. In September, journalists were invited to an expert consultation with small producers (RES and HCP), which GEN-I organized in Bistra pri Vrhniki. We also published regular press releases, informing the press and the public about relevant events.

**Communications abroad:** The Group constantly monitors media publications on foreign markets that could affect the Group's business reputation or its operations on these markets, and responds as necessary. There were no such publications in 2010. This is because the Group operates in a narrowly defined business environment and possesses in-depth knowledge of individual markets, adjusting its operations accordingly.

## CONTENTS OF COMMUNICATIONS > > FOR UNDERSTANDING THE BIGGER MARKET PICTURE

**Large business customers:** A company's reputation is of great importance to large business customers. GEN-I built its reputation in the past year through sponsorships and various (although in 2010 limited) forms of marketing communications, in addition to direct contact and business relationships. One of the tools employed in 2010 also included direct mailings, which were sent to large business customers.

**General public and household customers:** GEN-I appeared in advertisements on billboards, TV and radio stations, and as part of an interactive advertising campaign, as well as in a whole range of public relations tools aimed at promoting the Affordable Electricity brand. Marketing and communications campaigns were accompanied by a prize contest, in which customers could win a balloon ride in GEN-I's hot air balloon. Promotion of the Affordable Electricity brand intensified in the last three months of 2010, with the resulting numbers of new customers reaching planned levels. The bases for all marketing and communications activities were uniform messages, which position GEN-I on the market as the most affordable supplier. In addition to the basic promise of savings, these messages emphasize the simplicity of procedures for changing electricity suppliers.

## IV.5 Responsibility to the Natural Environment

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The strategy of the Company and the GEN-I Group, which operate on 16 markets buying and selling electricity from different sources, is in line with the principles of sustainable development.

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**For a green future:** Among the causes promoted by GEN-I are low-carbon technologies and the effective reduction of CO<sub>2</sub> emissions, which was demonstrated at public discussions on investments in new production facilities in Slovenia.

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### DIRECTION > > SUSTAINABLE AND RENEWABLE ENERGY SOURCES

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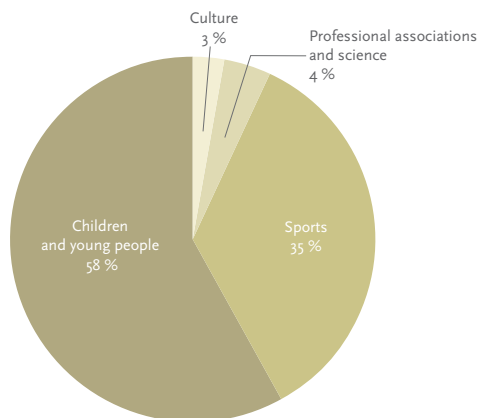
**Energy from RES and HCP:** In recent years, the GEN-I Group has been purchasing more than a quarter of the total annual electricity volumes generated by small producers in Slovenia who use renewable energy sources (RES) and high-efficiency cogeneration plants (HCP). GEN-I's share dropped in 2010 following legislative changes, but plans for the next two years envisage considerable growth in the volumes of electricity purchased from these sources. GEN-I promotes electricity from environmentally friendly sources by providing risk management mechanisms and by ensuring reliable purchases.

## IV.6 Greater Responsibility for the Local Environments

Sponsorships are one of the ways in which the GEN-I Group demonstrates its concern for the quality of life in the environment in which it operates. More than EUR 96,000 were earmarked for sponsorships in 2010, while the Group's donations amounted to EUR 28,000.

**Reactive sponsorship strategy:** The volume of funds that GEN-I earmarked to various associations in 2010 was greater than initially planned. The reason for this were the difficult circumstances in which many associations and other organizations found themselves, making it difficult for them to obtain funding. Using a reactive sponsorship policy, the Group responds to fundraising pleas brought forward by organizations. Although the media attention and presence is somewhat limited with this approach, the decision to use it was well thought out: the Company's and the Group's management decided that this was the only way to ensure greater responsiveness to initiatives from the environment and to contribute to stronger partnership ties and the quality of life in the local environments where GEN-I's subsidiaries and regional units operate.

**Sports and the environment:** The majority of funds were earmarked for activities in the Posavje and Goriška regions, where GEN-I also acts as a local employer. Particular attention was paid to sports associations, whose existence was threatened by the withdrawal of other sponsors due to the difficult economic conditions. In 2010, GEN-I offered sponsorships to handball clubs from Zagorje, Hrastnik and Krško. Activities aimed at promoting efficient energy use and environmental issues among young people also accounted for a significant portion of sponsorships and donations.





## IV.7 Investments: IT Development for Long-term Reliability

The overhaul of the Group's IT infrastructure and basic working environment was the biggest investment and the main project in 2010. The EUR 1.2 million investment enabled GEN-I to establish control over its basic and most important work asset, and helped increase its resilience to external influences and events.

**Self-reliance of the in-house platform:** In the past, GEN-I's priority was the rapid expansion and development of operations. Therefore, the Group relied on selected external providers for the development of its information technologies. With growing operations and the development of new products and services, self-reliance, which was achieved through investments in the infrastructure, became crucial. Today, our experts for the development and management of information support are constantly in touch with users. The control and responsibility of the Group for its systems has also helped improve the administrative aspect of this area. The complete overhaul of the Group's IT infrastructure and the employees' basic work environment included two main parts: the technical reorganization and overhaul of the infrastructure, and the establishment of new organizational units within the Company and the Group.

protocols that are important for ensuring the greater reliability and continuity of operations in the case of major unexpected events. Employees working for this department manage, use and maintain the system. They also ensure its reliability and help increase the availability of different services.

**Development of tools for sales on foreign markets:** In addition to a major system overhaul in 2010, the Group also developed tools to support the sale of electricity to end-customers on foreign markets. These tools support the receipt, import and storage of numerical and other measurement data in various formats, which is received from different sources depending on the market. They also enable GEN-I to produce market-specific calculations, customize the appearance of invoices and generate electricity schedules for internal reporting purposes. Linking these tools to the existing sales system enables the Group to maintain an overview of the entire sales portfolio, regardless of the country.

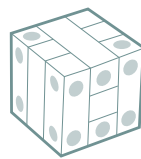
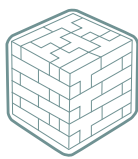
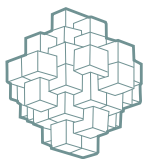
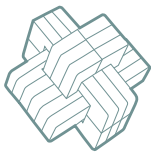
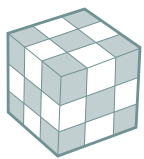
The in-house development of tools helps GEN-I increase its knowledge of the local requirements on foreign markets. Individual applications can be quickly adjusted to momentary requirements on individual markets, which are detected as part of stress tests or day-to-day operations.

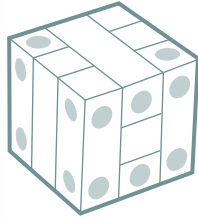
**Increased reliability:** Investments that are planned in line with growth in operations are crucial for the success of the GEN-I Group, and consequently for all stakeholders: customers, employees, shareholders and other partners. By realizing planned investments, GEN-I increases reliability at all levels.

### IN-HOUSE PLATFORMS FOR RELIABLE, RESPONSIVE AND PRUDENT OPERATIONS > > FOR MEETING FUTURE CHALLENGES!

**Overhaul of the infrastructure:** The technical reorganization included the modernization of all key system components and the introduction of the latest technologies in the area of disc arrays and server blades. Two equal data centers were established, meaning that if one data center fails, all key activities can be transferred to the other one, thereby ensuring the continuity of operations. The system's capacity was also enhanced: data storage capacity was increased by a factor of 20, total processor power by a factor of 16 and communication links by a factor of 10. The reliability of all key information systems within the Company and their resilience to critical events was greatly enhanced. At the same time, various business systems were upgraded and linked together.

**New organizational unit:** The creation of a new department for the basic work environment enables the Group to regulate the IT area formally by implementing rules and





# Accounting Report

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GEN-I, D.O.O.

GEN-I GROUP

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## Approval of the Annual Report of GEN-I

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The management board hereby certifies that the annual report and all of its components were compiled and published in accordance with the Companies Act and the International Financial Reporting Standards, that all relevant accounting principles were consistently applied in drafting the Company's financial statements and that accounting estimates were prepared according to the principles of prudence and due diligence.

The management board therefore approves the financial statements of GEN-I, d.o.o. and the GEN-I Group for the business year that ended on 31 December 2010, including the notes to the financial statements as defined in the accounting report.

The management board declares and certifies that the annual report provides a fair and true picture of the assets and performance of GEN-I, d.o.o. and the GEN-I Group in 2010, and in the years presented for comparison.

The financial statements and accompanying notes were prepared on a going concern basis and in line with the relevant legislation and International Financial Reporting Standards.

Robert Golob, PhD  
President of the Management Board



Martin Novšak, MBA,  
Vice President of the Management Board



# VI. Financial Statements and Notes GEN-I, d.o.o. 2010

## V.1 The Company's Financial Statements

### V.1.1. Statement of financial position

Amounts in €

Items	Note	31/12/2010	31/12/2009
Property, plant and equipment	1	1,033,394	439,467
Intangible assets	2	611,782	361,525
Interests in subsidiaries	3	2,038,954	1,788,124
Non-current receivables and loans	4	153,518	63,090
Deferred tax assets	13	74,984	50,766
<b>Non-current assets</b>		<b>3,912,632</b>	<b>2,702,972</b>
Operating receivables	5	94,229,706	44,425,539
Prepayments and other assets	6	10,196,298	1,589,385
Investments and loans, including derivatives	7	763,779	1,328,756
Current tax assets		218,198	0
Cash and cash equivalents	8	10,198,476	10,301,633
<b>Current assets</b>		<b>115,606,457</b>	<b>57,645,313</b>
<b>Assets</b>		<b>119,519,089</b>	<b>60,348,285</b>
Share capital		12,877,610	12,877,610
Reserves	9	1,287,761	982,083
Retained earnings	9	10,584,246	9,383,939
<b>Equity</b>		<b>24,749,617</b>	<b>23,243,632</b>
Long-term provisions	12	75,275	62,498
<b>Non-current liabilities</b>		<b>75,275</b>	<b>62,498</b>
Loans and borrowings	10	18,823,240	3,015,856
Current operating liabilities	14	74,377,587	21,613,656
Advances payable and other current liabilities	15	1,493,368	12,412,643
<b>Current liabilities</b>		<b>94,694,195</b>	<b>37,042,155</b>
<b>Liabilities</b>		<b>94,769,470</b>	<b>37,104,653</b>
<b>Total equity and liabilities</b>		<b>119,519,087</b>	<b>60,348,285</b>

## V.1.2 Statement of comprehensive income

Amounts in €

Items	Note	Generated from 01/01 to 31/12/2010	Generated from 01/01 to 31/12/2009
Revenue	18	570,837,173	421,723,781
Other operating income	18	84,846	5,571
Cost of goods sold	19	-556,734,653	-408,074,209
Cost of materials	19	-193,528	-154,558
Cost of services	19	-5,070,557	-4,189,391
Labor costs	20	-4,352,024	-3,191,238
Depreciation and amortization	21	-519,814	-369,978
Other operating expenses	22	-349,144	-869,594
<b>Operating profit or loss</b>		<b>3,702,299</b>	<b>4,880,384</b>
Financial income	23	9,501,606	7,410,737
Financial expenses	23	-959,649	-604,867
<b>Profit or loss from financing</b>		<b>8,541,957</b>	<b>6,805,870</b>
<b>Profit before tax</b>		<b>12,244,256</b>	<b>11,686,254</b>
Income tax expense	24	-1,354,329	-1,808,422
<b>Profit or loss for the period</b>		<b>10,889,927</b>	<b>9,877,832</b>

Amounts in €

Other comprehensive income	Note	Generated from 01/01 to 31/12/2010	Generated from 01/01 to 31/12/2009
Profit or loss for the period	9	10,889,927	9,877,832
<b>Total comprehensive income for the period</b>		<b>10,889,927</b>	<b>9,877,832</b>

## V.1.3 Cash flow statement

Amounts in €

Items	Generated from 01/01 to 31/12/2010	Generated from 01/01 to 31/12/2009
<b>Cash flows from operating activities</b>		
Net profit or loss for the period	10,889,927	9,877,832
<b>Adjustments for</b>		
Depreciation and amortization	519,814	369,978
Write downs of property, plant and equipment	0	2,975
Reversal of write downs and write downs of liabilities	0	41,856
Loss on sale of property, plant and equipment, intangible assets, and investment property	0	451
Financial income	-9,344,680	-7,382,956
Financial costs	847,568	604,867
Income tax	1,354,329	1,808,422
<b>Operating profit before changes in net current assets and taxes</b>	<b>4,266,958</b>	<b>5,323,425</b>
<b>Changes in net current assets and provisions</b>		
Change in receivables	-50,150,006	29,734,650
Change in prepayments and other assets	-8,606,913	2,174,207
Change in operating liabilities	53,050,311	-36,178,111
Change in advances payable and other current liabilities	-10,919,275	10,642,598
Change in provisions	12,777	17,853
Income tax paid	-1,883,125	-2,325,083
<b>Net cash flow from operating activities</b>	<b>-14,229,273</b>	<b>9,389,539</b>
<b>Cash flows from investing activities</b>		
Interest received	84,221	423,255
Dividends received	6,029,236	3,182,381
Proceeds from sale of property, plant and equipment, and intangible assets	0	2,124
Proceeds from sale of other financial assets	35,235	0
Receipts from decrease in loans given	14,500,000	5,062,823
Proceeds from settlement of derivatives	3,224,026	3,561,324
Acquisitions of property, plant and equipment, and intangible assets	-1,363,997	-371,942
Acquisitions of subsidiaries	-250,830	-898,638
Acquisitions of other investments	-18,660	0
Expenses for increase in loans given	-14,020,000	-653,838
<b>Net cash from investing activities</b>	<b>8,219,231</b>	<b>10,307,489</b>
<b>Cash flows from financing activities</b>		
Interest paid	-509,175	-468,885
Repayment of short-term loans	-10,000,000	-14,082,098
Receipts from short-term loans received	25,800,000	3,000,000
Change in equity	0	4,877,610
Dividends paid	-9,383,939	-4,955,222
<b>Net cash from financing activities</b>	<b>5,906,886</b>	<b>-11,628,595</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>10,301,633</b>	<b>2,233,200</b>
<b>Net increase in cash and cash equivalents</b>	<b>-103,157</b>	<b>8,068,433</b>
<b>Cash and cash equivalents at end of period</b>	<b>10,198,476</b>	<b>10,301,633</b>

## V.1.4 Statement of changes in equity

**2010**

Amounts in €

Changes in equity	Share capital	Legal reserve	Retained earnings	Total equity
Balance at 01/01/2010	12,877,610	982,083	9,383,939	23,243,632
<b>Total comprehensive income (loss) for the period</b>				
Profit or loss for the period	0	305,678	10,584,246	10,889,924
Total comprehensive income (loss) for the period	0	305,678	10,584,246	10,889,924
<b>Transactions with owners, recorded directly in equity</b>				
Dividend (shares) payout	0	0	-9,383,939	-9,383,939
Balance at 31/12/2010	12,877,610	1,287,761	10,584,246	24,749,617

**2009**

Amounts in €

Changes in equity	Share capital	Legal reserve	Retained earnings	Total equity
Balance at 01/01/2009	8,000,000	488,192	4,955,222	13,443,414
<b>Total comprehensive income (loss) for the period</b>				
Profit or loss for the period	0	493,891	9,383,941	9,877,832
Total comprehensive income (loss) for the period	0	493,891	9,383,941	9,877,832
<b>Transactions with owners, recorded directly in equity</b>				
Entry of share capital	4,877,610	0	0	4,877,610
Dividend (shares) payout	0	0	-4,955,222	-4,955,222
Balance at 31/12/2009	12,877,610	982,083	9,383,941	23,243,634

## V.2 Notes to Financial Statements

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### V.2.1 The reporting company

The reporting company GEN-I, d.o.o. (hereinafter: the Company) is based in Slovenia. Its registered office is at Cesta 4. julija 42, SI-8270 Krško, Slovenia. The financial statements of GEN-I, d.o.o. were prepared for the business year that ended on 31 December 2010.

- employee earnings,
- provisions,
- deferred taxes,
- contingent liabilities, and
- derivatives.

Actual results may vary from these estimates.

The estimates and underlying assumptions are reviewed on a regular basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

### V.2.2 Basis of preparation

#### (a) Statement of compliance

These financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

The financial statements were approved by the Company's management board on 29 March 2011.

#### (b) Measurement basis

The financial statements are compiled on a historical cost basis, except in the following cases where fair value is used:

- derivatives, and
- financial instruments at fair value through profit or loss.

#### (c) Functional and presentation currency

The financial statements are expressed in euros, the Company's functional currency. All accounting data presented in euros is rounded to the nearest integer.

#### (d) Use of estimates and judgments

When preparing the financial statements, the Company's management is required to make judgments, estimates and assumptions that affect the application of accounting policies and the reported values of assets, liabilities, revenues and expenses in accordance with IFRS.

Estimates and assumptions are mainly associated with:

- estimated useful lives of amortizable assets,
- asset impairment,

### V.2.3 Significant accounting policies

GEN-I, d.o.o. consistently applied the accounting policies described below to all periods presented in its financial statements.

In order to ensure consistency with the data for the current year, some comparative figures were reclassified.

#### (a) Foreign currency

##### (i) Foreign currency transactions

Foreign currency transactions are converted into the functional currency of the companies within the Group using the exchange rate applied on the day they arise. Cash, cash equivalents and liabilities denominated in foreign currencies are converted into the functional currency using the exchange rate applicable at the end of the reporting period. Positive or negative exchange differences are differences between the amortized cost in the functional currency at the beginning of a period, increased or decreased by the amount of effective interest and payments within the period, and the amortized cost expressed in foreign currency, converted using the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies and measured at fair value are converted into the functional currency at the exchange rate applicable on the day their fair value was determined. Exchange rate differences are recognized in the income statement.

**(b) Financial instruments****(i) Non-derivative financial instruments**

Loans, receivables and deposits are initially recognized on the day they arise. Other financial assets (including assets measured at fair value through profit or loss) are initially recognized on the exchange date or on the day the Company becomes a party to the instrument's contractual provisions. Financial assets are derecognized when the contractual rights to cash flows from these assets expire, or when the Company transfers the rights to cash flows from financial assets based on a contract that involves the transfer of all risks and benefits associated with the ownership of the financial asset. Each share in the transferred financial asset generated or transferred by the Company is recognized as an individual asset or liability. Financial assets and liabilities are netted, and the net amount is disclosed in the statement of financial position only if the Company has the legal right to either settle the net amount or cash in the asset and settle its liability. The Company's non-derivative financial instruments include the following: financial assets at fair value through profit or loss, held-to-maturity financial assets, liabilities and receivables, and available-for-sale financial assets.

**Financial assets at fair value through profit or loss**

Instruments are stated at fair value through profit or loss if they are available for sale or if they are classified as such after initial recognition. Financial assets are measured at fair value through profit or loss if the Company is capable of managing the assets and deciding on their purchase and sale based on fair value. After initial recognition, the related transaction costs are recognized in the income statement when they arise. Financial assets at fair value through profit or loss are measured at fair value, and the amount of any changes in the fair value is recognized in the income statement.

**Loans and receivables**

Loans and receivables are financial assets with fixed or determinable payments that are not quoted on an active market. They are initially recognized at fair value and increased by any direct transaction costs. After initial recognition, loans and receivables are measured at amortized cost using the effective interest method, reduced by impairment losses. Loans and receivables include operating and other receivables.

Cash and cash equivalents include cash in hand and cash balances. Bank overdraft facilities repayable on demand, which form an integral part of cash management, are included as a component of cash and cash equivalents in the cash flow statement.

Other non-derivative financial instruments are measured at amortized cost using the effective interest rate method, reduced by impairment losses.

**(ii) Derivatives**

The Company uses derivatives to hedge against market and currency risks.

Derivatives are initially recognized at fair value; any transaction costs are recognized in the income statement. After initial recognition, derivatives are measured at fair value. Any gain or loss arising from the remeasurement of fair value is recognized in the income statement.

To hedge against market risks caused by electricity price fluctuations, the Company uses forward contracts and a number of different financial trading instruments. To hedge against currency risks, the Company mostly uses forward currency contracts.

To hedge against market risks arising from electricity prices and currency risks, the Company uses non-standardized forward contracts; these are agreements on the sale or purchase of a basic instrument whose price is determined at the time of the agreement's execution, but with a future effective date. The price of forward transactions is determined based on the underlying financial instrument. At the time of execution, the value of the contract equals zero because the strike price (the agreed settlement price) is equal to the forward price. Not taking into account the costs of supply, the value of a non-standardized forward contract is equal to the difference between the current price of an underlying instrument at maturity and the contractual forward price or the agreed settlement price. The forward price changes during the validity period of the contract depending on changes in current market prices and the remaining duration of the forward contract.

Standardized forward contracts (futures) are binding agreements on the purchase or sale of a standardized quantity of well-defined standard quality instruments on a standardized day in the future (standard specification) at a price determined in the present. Standardized forms are a prerequisite for exchange trading. The main advantage of standardized products is the minimization of transaction costs associated with trading. When such products are used, there is no need for buyers and sellers to define the contractual elements of each transaction: they only need to agree on the price of individual forward contracts. Contracts are negotiated without the physical presence of the goods. A standardized forward contract comes into effect only when registered with a clearing (settlement) house. This type of contract is transferable to enable exchange trading and its liquidity is determined by exchange trading volumes. Non-standardized forward contracts on the other hand are not liquid because there is hardly any exchange taking place

with these contracts. When trading forward contracts, the Group must place a security deposit with the clearing house for both sales and purchases. This deposit includes an initial margin and a variation margin.

#### (iii) **Non-derivative financial liabilities**

Any debt securities issued and the underlying liabilities are initially recognized on the day they arise. All other financial liabilities are initially recognized on the trading day when the Company becomes a party to the contractual provisions of the instrument.

Financial liabilities are derecognized if the obligations set out in the contract are fulfilled, cancelled or have lapsed.

Financial assets and liabilities are netted, and the amount is disclosed in the statement of financial position if and only if the Company has the legally enforceable right to offset the recognized amounts and intends to either settle the net amount or cash in the asset and settle its liability.

The Company discloses non-derivative financial liabilities as other financial liabilities. Such financial liabilities are initially disclosed at fair value increased by any costs directly attributable to the transaction. After initial recognition financial liabilities are measured at amortized cost using the effective interest rate method.

Other financial liabilities include loans, bank overdrafts, and operating and other liabilities.

#### (iv) **Share capital**

Share capital is the called-up capital contributed by shareholders. The Company's total share capital includes called-up capital, legal reserves and retained profit or loss from previous periods.

#### **Dividends**

Dividends are recognized as liabilities and are stated at the time of the transaction.

### **(c) Property, plant and equipment**

#### (i) **Presentation and measurement**

Items of property, plant and equipment are disclosed at historical cost, reduced by depreciation costs and impairment losses.

The historical cost includes the costs that can be directly attributed to the procurement of assets. Costs of assets produced comprise the costs of materials, direct costs of labor, other costs that can be directly attributed to enabling the use of assets for their intended purpose, costs of disposal and removal, costs of restoring the location of the asset to its original state and capitalized

borrowing costs. Any computer software that contributes significantly to an asset's functionality should be capitalized as part of these assets.

Parts of items of property, plant and equipment that have different useful lives are accounted for as separate items.

#### (ii) **Subsequent costs**

Costs arising from the replacement of parts of fixed assets are recognized at carrying value if future economic benefits associated with a part are likely to increase and if its historical cost can be measured reliably. All other costs (such as daily maintenance) are recognized as expenses in the income statement as soon as they arise.

#### (iii) **Spare parts**

Spare parts and maintenance equipment of lesser value with useful lives of up to one year are treated as inventory and recognized as costs in the income statement. Spare parts and equipment of significant value with estimated useful lives exceeding one year are recognized as items of property, plant and equipment.

#### (iv) **Depreciation**

Depreciation is calculated using the straight-line method based on the useful life of each component of an item of property, plant and equipment; this is the most accurate method for predicting asset usage patterns. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated.

Estimated useful lives for the current and comparative periods are as follows:

- Plant and equipment 2 to 5 years
- Furniture and built-in equipment 4 to 5 years.

Investments in fixed assets owned by third parties are depreciated for the duration of the lease period (1 to 5 years).

Depreciation methods, useful lives and residual values are reviewed at the end of the reporting period and adjusted if necessary. Estimates regarding fixed assets were not revised in the 2010 business year.

### **(d) Intangible assets**

#### (i) **Other intangible assets**

Other intangible assets with limited useful lives acquired by the Company are disclosed at historical cost, reduced by amortization costs and accumulated impairment losses.

#### (ii) **Subsequent costs**

Subsequent costs associated with intangible assets are only capitalized if they increase future economic benefits arising from the asset to which the cost is related. All other costs are recognized as expenses in the income

statement when they arise.

### (III) Amortization

Amortization is calculated based on an asset's historical cost or another amount that is used in its place, reduced by residual value.

Amortization is recognized in the income statement using the straight-line method and is based on the useful life of intangible assets (with the exception of goodwill), starting from the date the asset is available for use; this is the most accurate method for predicting the patterns of future economic benefits associated with the asset. Estimated useful lives for the current and comparative years are as follows:

- Software 2 to 5 years

Amortization methods, useful lives and residual values are reviewed at the end of each business year and adjusted if necessary.

### (e) Asset impairment

#### (I) Financial assets

The company assesses the value of financial assets at the end of the reporting period to determine whether there is any objective evidence of asset impairment. A financial asset is considered impaired if there is objective evidence of impairment as a result of one or more events that led to a decrease in estimated future cash flows of the financial asset.

Impairment loss associated with a financial asset that is disclosed at fair value in the statement of comprehensive income is measured as the difference between the carrying amount and the fair value of the asset.

Impairment loss associated with a financial asset disclosed at amortized cost is measured as the difference between the asset's carrying amount and the value of estimated future cash flows, discounted at the original effective interest rate. Impairment loss associated with available-for-sale financial assets is calculated using the current fair value of the asset.

Impairment assessments of significant financial assets are carried out individually. The impairment of remaining financial assets is assessed collectively with regard to their common risk exposure characteristics.

All impairment losses are reported in the Company's income statement for the accounting period.

Impairment losses are derecognized if they can be objectively associated with events that occurred after their recognition. Impairment losses associated with

financial assets that are stated at amortized cost and available-for-sale financial assets which are considered debt instruments, are derecognized in the Company's income statement.

#### (II) Non-financial assets

At each reporting date, the Company reviews the carrying value of non-financial assets (with the exception of inventories and deferred tax assets) to determine if there are any indications of impairment. If there are such indications, the asset's recoverable value is assessed. Impairment of goodwill and intangible assets with an indefinite useful life not yet available for use is reviewed at each reporting date.

The recoverable amount of assets or cash-generating units is the higher of their value in use or fair value reduced by costs of sale. In determining the asset's value in use, estimated future cash flows are discounted to their current value at a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In order to test them for impairment, assets are consolidated into the smallest asset groups that generate cash inflows.

An impairment loss of an asset or cash-generating unit is recognized whenever its carrying value exceeds its recoverable value. The impairment is recognized in the income statement.

With respect to other assets, impairment losses from previous periods are evaluated on the balance sheet date, to determine whether or not there has been a reduction of loss and whether or not the loss still exists. Impairment losses are derecognized if the estimates that were used to determine the recoverable value of assets have changed. An impairment loss is derecognized to the extent that the asset's carrying value does not exceed the carrying value that would have been determined in the net amortized amount if no impairment loss had been recognized for the asset in previous years.

### (f) Employee earnings

Liabilities from short-term employee earnings are measured on an undiscounted basis and are recognized as expenses as soon as the work performed by an employee and related to the short-term earning is completed.

### (g) Provisions

Provisions are recognized if the Company has a present legal or constructive obligation as a result of a past event which can be measured reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting

expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

**(i) Other long-term employee earnings – provisions for severance payments and long-service bonuses**

Pursuant to the law, the collective agreement, and internal rules, the Company is obliged to pay long-service bonuses and severance payments to employees, and has created long-term provisions for this purpose. There are no other pension liabilities.

Provisions are created in the amount of estimated future severance payments and long-service bonuses, discounted at the end of the reporting period. A calculation was made for each employee, taking into account severance payment costs and costs of all expected long-service bonuses until retirement. The calculation for 2009 was prepared by a certified actuary. In 2010 GEN-I tested the value of provisions for severance payments and long-service bonuses based on the actuarial calculation for 2009, taking into account the number and age of employees in 2010. On the basis of this, no further provisions were created in 2010 for severance payments and long-service bonuses.

**(h) Revenues**

**(i) Revenues from goods sold**

Revenues from goods sold are recognized at the fair value of payments received or the resulting receivables, reduced by returns, discounts and quantity discounts. Revenues from sales are recognized at the moment when risks and benefits connected with the ownership of assets are transferred to the buyer, when the payment and the associated costs are certain, and when the Company ceases to have effective control over the goods sold. If discounts are likely to be offered and their amount can be measured reliably, they are recognized as revenue reductions at the time when the sale itself is recognized.

**(ii) Revenues from services rendered**

Revenues from services rendered are recognized in the income statement according to the stage of completion of individual transactions at the end of the reporting period. The stage of completion is assessed based on inspections of the work performed.

**(iii) Commissions**

If the Company acts as an intermediary in a transaction, and not as a parent company, the resulting net commission is disclosed as revenue.

**(iv) Revenues from rents**

Revenues from rents are recognized on a straight-line basis over the term of lease.

**(i) Leases**

Payments from operating leases are recognized as revenues on a straight-line basis over the term of lease. Lease incentives received are recognized as an integral part of total expenses from leases.

Minimum finance lease payments are classified as finance costs and decreases of outstanding debt. Finance costs are allocated over the term of the lease to determine a fixed interest rate for the remaining debt over individual periods.

The Company recognizes contingent payments from finance leases in an amount determined by revaluating minimum lease payments in the remaining period upon receipt of a rent change confirmation.

**(j) Government grants**

Government grants are initially recognized as deferred revenue if there is reasonable assurance that grants will be received and that the Company will comply with the conditions connected with it. Government grants that compensate the Company for costs are recognized as revenues on a systematic basis in the period in which the costs occur. Government grants associated with assets are recognized as other operating revenues in the income statement on a systematic basis over the useful life of the asset.

**(k) Financial income and financial costs**

Financial income includes interest from investments, dividend revenues, revenues from the disposal of available-for-sale financial assets, changes in the fair value of financial assets at fair value through profit or loss, positive exchange rate differences and gains from hedging instruments recognized in the income statement. Interest revenues are recognized when they arise, using the effective interest rate method.

Financial costs include borrowing costs, negative exchange rate differences, changes in the fair value of financial assets at fair value through profit or loss, losses from impairments of financial assets and losses from hedging instruments recognized in the income statement. Borrowing costs are recognized in the income statement using the effective interest rate method.

**(l) Income tax**

Income tax on the profit or loss in the business year includes current and deferred tax. Income tax is recognized in the income statement, except where it relates to business combinations or items recognized directly in equity, in which case it is recognized in equity or in other comprehensive income.

Current tax is the expected tax payable on the taxable revenue for the business year, using tax rates in force or substantially in force at the end of the reporting period, and any adjustment to the tax payable in respect of previous years.

Deferred tax is disclosed taking into account temporary differences between the carrying value of assets and liabilities for financial reporting purposes and the relevant amounts for tax reporting purposes. The following temporary differences are not taken into account: goodwill not deductible for tax purposes, the initial recognition of assets and liabilities that affect neither accounting nor taxable profit and differences relating to investments in subsidiaries and jointly controlled entities to the extent that they will probably not be reversed in the foreseeable future. Deferred tax is not recognized in the case of taxable temporary differences that occur at the initial recognition of goodwill.

Deferred tax is measured at tax rates that are expected to be applied to temporary differences when they are reversed based on laws that are in force or substantively in force at the end of the reporting period.

The Company must reconcile deferred tax assets and liabilities if it has an enforceable right to do so and if these receivables and liabilities relate to income tax for the same tax authority and the same taxable unit, or if the tax relates to different taxable units that intend to pay or receive the resulting net amount or settle their liabilities and reverse the receivables.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced by the amount of tax benefits that are not expected to be realized.

#### **(m) Segment reporting**

An operating segment is a part of the Company that carries out business activities from which it generates income and incurs costs that relate to transactions with other members of the same Group. In 2010 the Company defined business segments for the purpose of internal reporting, but does not disclose them for external reporting purposes. There are two segments used for internal reporting in the Group: the wholesale segment and the retail segment.

#### **(n) New standards and interpretations that have not entered into force**

A number of new standards, amendments and interpretations of standards for the business year ended on 31 December 2010 have not yet entered into force and were not considered in the preparation of the Company's consolidated financial statements:

#### **Revised IAS 24 Related Party Disclosures (effective from 1 January 2011)**

According to the amendment, state institutions are exempt from disclosing transactions with related parties and open balances, including liabilities to (a) a government which directs, jointly controls or has a significant influence over the reporting company; and to (b) other companies treated as related parties because the same government directs, jointly controls or has a significant influence over the reporting company and the other company. If the reporting company claims this exemption, other special disclosures are required in line with the revised standard.

The standard also redefines the term "related party" as a result of new associations (e.g. affiliated companies of the controlling stakeholder and the controlled entities, or entities jointly controlled by the controlling entities). The revised IAS 24 does not affect the Company's operations since it is not a government institution, while the amended definition of a related party does not result in new associations that would have to be disclosed in the financial statements.

#### **Amendment to IFRIC 14, IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective from 1 January 2011)**

The amendment to IFRIC 14 defines the accounting treatment of prepayments that are necessary in case of minimum funding requirements. According to the revisions, certain prepayments should be recognized as assets based on the fact that the company will have future economic benefits from them in the form of reduced net expenses in future years, when payments under minimum funding requirements would be mandatory.

The revised IFRIC 14 does not affect the Company's operations since it has no pension plans with a set pension amount.

#### **IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (effective from 1 July 2010)**

This interpretation clarifies that an equity instrument issued to a creditor to extinguish a financial liability is treated as fully or partially paid consideration in accordance with Article 41 of IAS 39.

The equity instruments issued to a creditor to extinguish a financial liability in full or in part are initially measured at fair value, unless the fair value cannot be reliably measured, in which case the equity instruments should be measured so that they reflect the fair value of the extinguished financial liability. The difference between the carrying value of the extinguished financial liability (or a portion of the extinguished financial liability) and the consideration paid must be recognized in profit or loss. The Company did not issue equity instruments to ex-

tinguish financial liabilities in 2010. The interpretation therefore has no effect on the comparative amounts in the Company's consolidated financial statements as at 31 December 2010. Since the interpretation only refers to future transactions, the effects of the interpretation cannot be determined in advance.

**Amendment to IAS 32 Financial Instruments: Presentation – Classification of Rights Issues (effective from 1 February 2010)**

According to this amendment, rights, options or warrants to acquire a fixed number of an entity's own equity instruments for a fixed price stated in any currency are defined as equity instruments if the entity offers the rights, options and warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments.

The amendments to IAS 32 do not affect the Company's operations as it has never issued such financial instruments.

#### V.2.4 Determining fair value

In accordance with the Company's accounting policies, the measurement of the fair value of both financial and non-financial assets and liabilities is necessary in several instances. The fair value of individual asset groups for accounting and reporting purposes was determined using the methods described below. Where additional clarifications regarding the assumptions used to determine fair value are necessary, they are given in the breakdown of the Company's individual assets or liabilities.

**(I) Property, plant and equipment**

The fair value of property, plant and equipment from business combinations is equal to their market value. The market value of plant, equipment and small tools is based on the quoted market price of similar objects.

**(II) Intangible assets**

The fair value of patents and trademarks acquired through business combinations is based on the discounted estimated future value of royalties whose payment will not be necessary thanks to the ownership of the patent or trademark. The fair value of customer relationships obtained through business combinations is determined using a special multi-period excess earnings method, and the value of individual assets is determined after the fair return from all assets that contribute to the cash flow is deducted.

**(III) Operating and other receivables**

The fair value of operating and other receivables, with the exception of unfinished construction work, is equal to the current value of future cash flows, discounted us-

ing a market interest rate at the end of the reporting period.

**(IV) Derivatives**

The fair value of forward contracts is equal to their quoted market price at the end of the reporting period if the market price is available. If the market price is not available, fair value is determined as the difference between the contractual value of the forward contract and its current bid value, taking into account the residual maturity of the contract and using a risk-free interest rate (based on government bonds).

**(V) Non-derivative financial liabilities**

Fair value for reporting purposes is calculated based on the present value of future principal and interest payments, discounted at a market interest rate at the end of the reporting period. The market interest rate for finance leases is determined by comparing such leases with similar lease contracts.

#### V.2.5 Financial risks management

**Overview of risks**

GEN-I, d.o.o. is exposed to the following risks in its operations:

- financial risk,
- market risk, and
- operational risk.

GEN-I's prudent approach to risk management helps the Company maintain a high level of operational quality and is crucial for attaining its business goals. The use of standard methodologies and risk management procedures enables quality risk assessment, timely responses, and minimum exposure of the Company to major risks. A detailed description of individual risks and the appropriate risk management procedures can be found in the business report in Chapter 6 Risk Management.

## V.2.6 Disclosure of items in financial statements

**Disclosure 1: Property, plant and equipment**

Amounts in €

Property plant and equipment	31/12/2010	31/12/2009
Buildings	77,561	123,083
Other plant and equipment	841,188	313,315
Property, plant and equipment under construction	114,645	3,069
<b>Total property, plant and equipment</b>	<b>1,033,394</b>	<b>439,467</b>

Property, plant and equipment in the amount of EUR 1,033,394 includes the following:

- investments in leased commercial premises in the amount of EUR 77,561;
- furniture and equipment in the amount of EUR 257,483;
- computer equipment in the amount of EUR 693,501; and
- private and company vehicles in the amount of EUR 4,849.

**Changes in 2010**

Amounts in €

Property, plant and equipment	Buildings	Other plant and equipment	Production plant and equipment under construction and advances	Total
<b>Historical cost</b>				
Balance at 01/01/2010	215,155	564,172	3,069	782,395
Other acquisitions	0	0	835,319	835,319
Write downs	0	-2,183	0	-2,183
Transfers within property, plant and equipment	9,811	713,931	-723,743	0
<b>Balance at 31/12/2010</b>	<b>224,966</b>	<b>1,275,920</b>	<b>114,645</b>	<b>1,615,531</b>
<b>Accumulated depreciation and impairment losses</b>				
Balance at 01/01/2010	92,072	250,856	0	342,928
Write downs	0	-2,183	0	-2,183
Depreciation expense	55,333	186,059	0	241,392
<b>Balance at 31/12/2010</b>	<b>147,405</b>	<b>434,732</b>	<b>0</b>	<b>582,136</b>
<b>Carrying amount at 01/01/2010</b>	<b>123,083</b>	<b>313,316</b>	<b>3,069</b>	<b>439,468</b>
<b>Carrying amount at 31/12/2010</b>	<b>77,561</b>	<b>841,188</b>	<b>114,645</b>	<b>1,033,394</b>

In 2010 the Company invested EUR 835,319 in fixed assets, including:

- purchases of computer equipment in the amount of EUR 760,528;
- purchases of office equipment in the amount of EUR 64,980; and
- investments in leased commercial premises in the amount of EUR 9,811.

**Changes in 2009**

Amounts in €

Property, plant and equipment	Buildings	Other plant and equipment	Production plant and equipment under construction and advances	Total
<b>Historical cost</b>				
Balance at 01/01/2009	192,212	470,995	0	663,207
Other acquisitions	0	0	131,407	131,407
Write downs	0	-9,649	0	-9,649
Disposals	0	-2,915	0	-2,915
Movement within property, plant and equipment	22,943	105,741	-128,338	345
<b>Balance at 31/12/2009</b>	<b>215,155</b>	<b>564,172</b>	<b>3,069</b>	<b>782,395</b>
<b>Accumulated depreciation and impairment losses</b>				
Balance at 01/01/2009	38,968	143,906	0	182,874
Write downs	0	-9,649	0	-9,649
Disposals	0	-340	0	-340
Depreciation expense	53,103	116,939	0	170,042
<b>Balance at 31/12/2009</b>	<b>92,072</b>	<b>250,855</b>	<b>0</b>	<b>342,927</b>
<b>Carrying amount at 01/01/2009</b>	<b>153,244</b>	<b>327,089</b>	<b>0</b>	<b>480,333</b>
<b>Carrying amount at 31/12/2009</b>	<b>123,083</b>	<b>313,316</b>	<b>3,069</b>	<b>439,468</b>

**Disclosure 2: Intangible assets**

Amounts in €

Intangible assets	31/12/2010	31/12/2009
Other intangible assets	544,011	358,065
Intangible assets under construction and development and advances	67,771	3,460
<b>Total intangible assets</b>	<b>611,782</b>	<b>361,525</b>

The carrying amount of intangible non-current assets includes:

- software in the amount of EUR 522,702 (mainly software intended as IT support for employees, support for the sale of electricity to end-customers and server support);
- a license to conduct operations on foreign markets in the amount of EUR 21,309; and
- intangible assets under development in the amount of EUR 67,771 (mainly software intended as support for the sale of electricity on foreign markets).

**Changes in intangible assets in 2010**

Amounts in €

Intangible assets	Other intangible assets	Intangible assets under construction and development and advances	Total
<b>Historical cost</b>			
Balance at 01/01/2010	793,399	3,460	796,859
Other acquisitions	0	528,678	528,678
Transfer within intangible assets	464,368	-464,368	0
<b>Balance at 31/12/2010</b>	<b>1,257,767</b>	<b>67,771</b>	<b>1,325,537</b>
<b>Accumulated amortization and impairment losses</b>			
Balance at 01/01/2010	435,334	0	435,334
Amortization expense	278,422	0	278,422
<b>Balance at 31/12/2010</b>	<b>713,756</b>	<b>0</b>	<b>713,756</b>
<b>Carrying amount at 01/01/2010</b>	<b>358,065</b>	<b>3,460</b>	<b>361,525</b>
<b>Carrying amount at 31/12/2010</b>	<b>544,011</b>	<b>67,771</b>	<b>611,781</b>

The EUR 464,368 increase in intangible assets relates to other intangible assets in the amount of EUR 442,512 (mainly software intended as IT support for employees, support for the sale of electricity to end-customers and server support) and licenses to conduct operations on foreign markets in the amount of EUR 21,855.

**Changes in intangible assets in 2009**

Amounts in €

Intangible assets	Other intangible assets	Intangible assets under construction and development and advances	Total
<b>Historical cost</b>			
Balance at 01/01/2009	559,708	0	559,708
Other acquisitions	0	240,535	240,535
Write downs	-64	0	-64
Transfer within intangible assets	233,755	-237,075	-3,320
Balance at 31/12/2009	793,399	3,460	796,859
<b>Accumulated amortization and impairment losses</b>			
Balance at 01/01/2009	235,462	0	235,462
Write downs	-64	0	-64
Amortization expense	199,936	0	199,936
Balance at 31/12/2009	435,334	0	435,334
Carrying amount at 01/01/2009	324,246	0	324,246
Carrying amount at 31.12.2009	358,065	3,460	361,525

**Disclosure 3: Investments in subsidiaries**

The value of investments in subsidiaries in 2010 was up EUR 250,830 on 2009 owing to the establishment of subsidiaries GEN-I Sofia SpLLC, GEN-I Milano S.r.l. and GEN-I Vienna GmbH.

**Disclosure 4: Non-current receivables and loans**

Amounts in €

Non-current receivables and loans	31/12/2010	31/12/2009
Total non-current operating receivables	121,843	50,075
Non-current financial receivables and lease	31,675	13,015
<b>Total non-current receivables and loans granted</b>	<b>153,518</b>	<b>63,090</b>

Non-current operating receivables include:

- a long-term security deposit paid to the electricity exchange operator BSP Regionalna Energetska Borza d.o.o. in the amount of EUR 50,075; and
- non-current deferred expenses in the amount of EUR 71,768.

Non-current financial receivables in the amount of EUR 31,675 comprise paid in life insurance premiums.

**Disclosure 5: Operating receivables**

Amounts in €

Operating receivables	31/12/2010	31/12/2009
Trade receivables - subsidiaries	31,563,968	11,141,732
Trade receivables - others	52,944,642	29,829,418
<b>Trade receivables</b>	<b>84,508,610</b>	<b>40,971,150</b>
Operating default interest receivables	119,921	50,908
Other receivables related to financial income	1,088	0
Other operating receivables	9,600,087	3,403,481
<b>Total operating receivables</b>	<b>94,229,706</b>	<b>44,425,539</b>

Receivables from customers resulting from regular operations accounted for the largest portion of operating receivables.

Customers settled their receivables by the contractually agreed dates or with a slight delay. In the case of late payment, domestic and foreign customers were charged default interest at a contractually defined rate, which is in the Company's commercial interest.

Receivables from customers that purchase electricity and cross-border capacity rights based on general or annual agreements are usually secured with bills of exchange or bank guarantees. Such collateral is used for receivables

that exceed the limits set for individual customers. Receivables from some customers who have signed EFET general agreements with GEN-I, d.o.o. are well-regulated by the agreements, while in certain other cases the Company does not request any collateral for its receivables because of the customers' strategic position and/or financial stability.

Other operating receivables totaling EUR 9,600,087 include:

- VAT receivables in the amount of EUR 8,931,473;
- receivables from subsidiaries in the amount of EUR 666,397, with management fees and other receivables accounting for the majority of these; and
- other minor receivables from employees in the amount of EUR 2,217.

#### Age structure and changes in the impairment of receivables

Amounts in €

Aging of receivables	31/12/2010		31/12/2009	
	Gross amount	Impairment	Gross amount	Impairment
Not past due	77,196,037	0	38,831,277	0
Past due to 90 days	16,328,133	0	5,523,652	0
Past due from 91 to 180 days	739,837	34,301	72,729	2,119
Past due from 181 to 360 days	186,713	186,713	90,610	90,610
More than one year	356,270	356,270	255,964	255,964
<b>Total</b>	<b>94,806,990</b>	<b>577,284</b>	<b>44,774,232</b>	<b>348,693</b>

The Company's impairment of receivables amount to EUR 577,284. It includes EUR 207,281 of receivables for which the Company initiated court proceedings to collect debt or filed bankruptcy or liquidation proceedings in 2010. The remaining impairment of receivables relate to outstanding receivables in the amount of EUR 370,003, which will probably not be recovered in full due to the debtor's insolvency.

Impaired receivables from customers accounted for only 0.61% of all current operating receivables.

Amounts in €

Movement of impairment receivables	Impairment	
	2010	2009
Opening balance at 01/01	348,693	277,142
Increase of impairment	274,071	113,407
Decrease of impairment	-45,273	-41,856
Write down of receivables	-207	0
<b>Closing balance at 31/12</b>	<b>577,284</b>	<b>348,693</b>

#### Disclosure 6: Prepayments and other assets

Amounts in €

	31/12/2010	31/12/2009
<b>Prepayments and other assets</b>		
Advances paid	8,782,832	369,351
Short-term deferred costs and/or expenses	923,444	646,905
Short-term accrued revenue	490,022	573,129
<b>Total prepayments and other assets</b>	<b>10,196,298</b>	<b>1,589,385</b>

The Company's prepayments amounted to EUR 8,782,832 and were paid as follows:

- EUR 8,352,856 for electricity;
- EUR 270,000 for safety deposits paid;
- EUR 70,080 for analyses;
- EUR 52,546 for cross-border transfer capacities;
- EUR 37,350 for prepayments to other business partners.

The following items accounted for the majority of current deferred costs and expenses for the 2011 financial year:

- purchases of cross-border transfer capacities in the amount of EUR 731,865;
- bank charges in the amount of EUR 40,948;
- minor deferred operating costs and expenses in the amount of EUR 150,631.

Accrued revenues in the amount of EUR 490,022 comprise revenues from the sale of electricity to customers, which will be invoiced in 2011 according to contractual provisions.

#### Disclosure 7: Financial investments, derivatives and loans

Amounts in €

Other investments including derivatives	31/12/2010	31/12/2009
Derivatives	234,092	326,265
Loans to subsidiaries	520,000	0
Loans to others	0	1,000,000
Current interest receivables	9,687	2,491
<b>Total current investments and loans</b>	<b>763,779</b>	<b>1,328,756</b>

The fair value of derivatives in the amount of EUR 234,092 relates to contracts that were signed to hedge against currency risks that could affect electricity prices (Nova Ljubljanska banka, d.d.).

A loan in the amount of EUR 520,000 was granted to the subsidiary GEN-I Sofia SpLLC. The interest rate of 1.971% on the loan granted was set in accordance with the Rules on the recognized rate of interest.

Current interest receivables in the amount of EUR 9,687 relate to interest charged on loans to subsidiaries.

#### Disclosure 8: Cash and cash equivalents

Amounts in €

Cash and cash equivalents	31/12/2010	31/12/2009
Cash in banks	10,198,455	7,846,866
Call deposits	4	2,454,598
Cash in hand	17	169
<b>Total</b>	<b>10,198,476</b>	<b>10,301,633</b>

Cash in banks comprises the majority of cash and cash equivalents.

#### Disclosure 9: Share capital and reserves

Share capital comprises the owners' cash contributions.

#### Reserves

Amounts in €

Reserves	31/12/2010	31/12/2009
Legal reserve	1,287,761	982,083
<b>Total</b>	<b>1,287,761</b>	<b>982,083</b>

The Company only maintains legal reserves.

In line with the provisions of the Companies Act, the Company transferred EUR 305,678 of its net operating profit to legal reserves, increasing their amount as at 31 December 2010 to EUR 1,287,761 or 10% of share capital.

#### Retained earnings

Amounts in €

Retained earnings	31/12/2010	31/12/2009
Net profit or loss for the period	10,584,246	9,383,939
<b>Total</b>	<b>10,584,246</b>	<b>9,383,939</b>

Retained earnings only include profit generated during the business year.

### Allocation of undistributed net profit from 2009

In the 2010 business year, all profits from the previous year (EUR 9,383,939) were paid out to shareholders following a decision of the general meeting of shareholders that was held in May 2010.

### Accumulated profit from 2010

Net profit for the business year amounted to EUR 10,584,246. In accordance with the law, a part of the net profit was used to increase reserves in the amount of EUR 305,678. As at 31 December 2010, retained (accumulated) profit amounted to EUR 10,584,246.

Based on Article 20 of the Memorandum of Association and Article 494 of the Companies Act, the Company's management board will submit a proposal to the general meeting of shareholders, requesting that EUR 6 million of the distributable profit from the 2010 business year, which totaled EUR 10,584,246, be distributed to shareholders as follows:

- 50% or EUR 3 million of the distributable profit to Istrabenz Gorenje energetske sistemi, d.o.o.; and
- 50% or EUR 3 million of the distributable profit to GEN energija, d.o.o.

### Disclosure 10: Loans

Amounts in €

Current loans and borrowings	31/12/2010	31/12/2009
Secured bank loans	18,800,000	3,000,000
Current interest payable	23,240	15,856
<b>Total current financial liabilities</b>	<b>18,823,240</b>	<b>3,015,856</b>

### Disclosure 11: Cost and maturity of loans

At the reporting date, the Company's liabilities from loans amounted to EUR 18,800,000 and included loans received from Slovenian commercial banks that were secured with bills of exchange. They included three short-term loans at fixed interest rates of between 2.5% and 5.3% and two short-term loans at variable interest rates tied to the 3-month or 6-month Euribor with a margin of between 2.65% and 2.9%. Interest paid on loans in 2010 based on short-term loan agreements with domestic commercial banks amounted to EUR 516,559.

### Disclosure 12: Non-current provisions

The amount of provisions for severance payments and long-service bonuses was determined based on an actuarial calculation of future payments to each employee from 2009, taking into account the costs of severance payments upon retirement and the costs of all estimated long-service bonuses until the day of retirement. The chosen discount interest rate was 5.45% p.a., which was the return on 10-year gilt-edged corporate bonds in the euro area at the end of November 2009.

Amounts in €

Provisions	Provisions for severance payments and long-service bonuses	
	2010	2009
Opening balance at 01/01	62,498	44,645
Provisions made during the period	20,997	20,622
Provisions used during the period	-8,221	-2,768
<b>Closing balance at 31/12</b>	<b>75,274</b>	<b>62,499</b>
<b>Of which non-current portion</b>	<b>75,274</b>	<b>62,499</b>

**Disclosure 13: Deferred taxes**

Amounts in €

Deferred taxes relating to	Receivables		Liabilities		Net effect	
	2010	2009	2010	2009	2010	2009
Intangible assets	61,206	40,061	0	0	61,206	40,061
Provisions for severance payments and long-service bonuses	13,777	10,705	0	0	13,777	10,705
<b>Deferred tax assets (liabilities)</b>	<b>74,984</b>	<b>50,766</b>	<b>0</b>	<b>0</b>	<b>74,984</b>	<b>50,766</b>
<b>Net deferred tax assets (liabilities)</b>	<b>74,984</b>	<b>50,766</b>	<b>0</b>	<b>0</b>	<b>74,984</b>	<b>50,766</b>

Deferred taxes cover the temporary difference between the carrying amount of assets and liabilities for financial reporting and for taxation purposes. The deferred tax assets stated in this report relate to the corporate income tax calculated based on temporary deductible differences, resulting in lower payments in future periods.

All of the Company's deferred tax assets are recognized in the income statement. In 2010, the Company recorded an increase in deferred tax assets based on the following changes:

- non-deductible tax provisions in the amount of 50% were created in 2010 for severance payments and long-service bonuses; and
- provisions for the depreciation of fixed assets for which depreciation exceeded the amount deductible for tax purposes.

**Changes in temporary differences**

Amounts in €

Changes in temporary differences in the period	31/12/2008	Recognized in the income statement	31/12/2009	Recognized in the income statement	31/12/2010
Intangible assets	23,542	16,519	40,061	21,146	61,207
Provisions for severance payments and long-service bonuses	8,469	2,236	10,705	3,072	13,777
<b>Total</b>	<b>32,011</b>	<b>18,755</b>	<b>50,766</b>	<b>24,218</b>	<b>74,984</b>

As at 31 December 2010, the Company had EUR 74,984 in deferred tax assets, comprising temporary differences from intangible assets in the amount of EUR 61,207 and provisions for severance payments and long-service bonuses in the amount of EUR 13,777.

**Disclosure 14: Current operating liabilities**

Amounts in €

Current operating liabilities	31/12/2010	31/12/2009
Current trade payables	49,947,189	13,695,859
Current trade payables to subsidiaries	20,159,485	7,040,797
<b>Current trade payables</b>	<b>70,106,674</b>	<b>20,736,656</b>
Current liabilities to employees	606,574	428,815
Current liabilities to state and other institutions	3,597,017	415,471
Current liabilities to others	67,322	32,714
<b>Other liabilities</b>	<b>4,270,913</b>	<b>877,000</b>
<b>Current operating liabilities</b>	<b>74,377,587</b>	<b>21,613,656</b>

Current trade payables mainly include current liabilities to suppliers of current assets, electricity and electricity-related variable costs.

Current trade payables to subsidiaries include liabilities for electricity purchased and services rendered.

Current liabilities to employees comprise liabilities for December salaries and other employee earnings.

Current liabilities to state and other institutions include liabilities for VAT payments, excise duties, health and pension contributions for December salaries, and contributions for other employee earnings payable by the employer.

**Disclosure 15: Advances payable and other current operating liabilities**

Amounts in €

	31/12/2010	31/12/2009
<b>Advances payable and other current liabilities</b>		
<b>Current advances payable</b>	<b>121,422</b>	<b>802,563</b>
Electricity imbalances, electricity purchases and cross-border transfer capacities	1,034,587	11,277,641
Green certificates	91,703	145,258
Other calculated costs of lesser value for unreceived invoices, rents, membership fees and commissions for the sale/purchase of electricity	109,389	163,807
<b>Accrued costs and expenses</b>	<b>1,235,678</b>	<b>11,586,705</b>
Charged unpaid default interest	136,268	23,375
<b>Current deferred revenues</b>	<b>136,268</b>	<b>23,375</b>
<b>Accrued costs and deferred revenue</b>	<b>1,371,946</b>	<b>11,610,080</b>
<b>Advances payable and other current liabilities</b>	<b>1,493,368</b>	<b>12,412,643</b>

Current operating liabilities from accrued costs and expenses relate entirely to accrued costs and expenses in the amount of EUR 1,235,678, which were taken into account in the compilation of the financial statements based on contracts signed with business partners in 2010, but for which the Company had not received invoices by the time the financial statements were prepared.

Current deferred revenues include deferred revenues from default interest charged to customers who settle their liabilities from electricity supplies with a delay. The default interest had not yet been paid at the end of the business year.

**Disclosure 16: Contingent liabilities**

Amounts in €

	31/12/2010	31/12/2009
<b>Contingent liabilities</b>		
Guarantees and securities - other	76,240,525	62,592,940
Guarantees and securities - subsidiaries operating abroad	33,024,232	35,271,305
<b>Total</b>	<b>109,264,757</b>	<b>97,864,245</b>

Bank guarantees and securities include payment guarantees, performance guarantees, and tender guarantees. Securities issued to subsidiaries relate to securities for timely and reliable payment.

**Disclosure 17: Fair values**

Amounts in €

Fair values	Note	31/12/2010		31/12/2009	
		Carrying amount	Fair value	Carrying amount	Fair value
<b>Assets carried at fair value</b>					
Derivatives	7	234,092	234,092	326,265	326,265
<b>Total</b>		<b>234,092</b>	<b>234,092</b>	<b>326,265</b>	<b>326,265</b>
<b>Assets carried at amortized cost</b>					
Non-current financial receivables	4	31,675	31,675	13,015	13,015
Non-current operating receivables	4	121,843	121,843	50,075	50,075
Current loans	7	529,687	529,687	1,002,491	1,002,491
Receivables	5	94,229,706	94,229,706	44,425,539	44,425,539
Cash and cash equivalents	8	10,198,476	10,198,476	10,301,633	10,301,633
<b>Total</b>		<b>105,111,387</b>	<b>105,111,387</b>	<b>55,792,753</b>	<b>55,792,753</b>
<b>Liabilities carried at amortized cost</b>					
Secured bank loans	10	-18,800,000	-18,800,000	-3,000,000	-3,000,000
Interests	10	-23,240	-23,240	-15,856	-15,856
Operating liabilities	14	-74,377,587	-74,377,587	-21,613,656	-21,613,656
<b>Total</b>		<b>-93,200,827</b>	<b>-93,200,827</b>	<b>-24,629,512</b>	<b>-24,629,512</b>

**2010**

Amounts in €

Fair value hierarchy	Level 2	Total
<b>Assets at fair value</b>		
Derivatives	234,092	234,092
<b>Total</b>	<b>234,092</b>	<b>234,092</b>

**2009**

Amounts in €

Fair value hierarchy	Level 2	Total
<b>Assets at fair value</b>		
Derivatives	326,265	326,265
<b>Total</b>	<b>326,265</b>	<b>326,265</b>

**Disclosure 18:Revenues**

Amounts in €

Revenue	Generated from 01/01 to 31/12/2010	Generated from 01/01 to 31/12/2009
Revenues from sale of goods and materials	570,063,744	421,720,683
Revenues from sale of services	772,380	2,105
Rental income	1,049	993
<b>Total</b>	<b>570,837,173</b>	<b>421,723,781</b>

The following items account for the majority of sales revenues:

1. Revenues from the sale of electricity in Slovenia and abroad:
  - sales on foreign markets in the amount of EUR 392,656,335; and
  - sales in Slovenia in the amount of EUR 177,407,409.
2. Revenues from services charged, mainly on foreign markets:
  - management fees in the amount of EUR 645,397; and
  - other services, primarily providing access to electricity transmission systems, and transfers and other services directly linked to it in the amount of EUR 126,983.

Amounts in €

Income generated in Slovenia or abroad	Slovenia	Abroad	Total
	Generated from 01/01 to 31/12/2010	Generated from 01/01 to 31/12/2010	Generated from 01/01 to 31/12/2010
Sales revenues from goods and materials sold	177,407,409	392,656,335	570,063,744
Revenue from sale of services	14,622	757,758	772,380
Rental income	0	1,049	1,049
<b>Total</b>	<b>177,422,031</b>	<b>393,415,142</b>	<b>570,837,173</b>

In 2010, revenues from goods sold in Slovenia accounted for 31.08% of total revenues, while revenues from goods sold on foreign markets accounted for 68.92% of all revenues.

Amounts in €

Other operating income	Generated from 01/01 to 31/12/2010	Generated from 01/01 to 31/12/2009
Other operating income	79,846	3,011
Revenues from subsidies, government grants and compensation	5,000	2,560
<b>Total</b>	<b>84,846</b>	<b>5,571</b>

Other operating income in the amount of EUR 79,846 relates to income from the reversal of expenses that were overestimated in the previous year, mainly energy expenses. Revenues from subsidies, government grants and compensation included subsidies from the Slovenian Technology Agency (TIA) for projects carried out by research assistants.

**Disclosure 19: Cost of goods, materials and services**

The cost of the goods sold accounts for the majority of costs, and amounted to EUR 556,734,653 in 2010.

Amounts in €

<b>Cost of materials</b>	<b>Generated from 01/01 to 31/12/2010</b>	<b>Generated from 01/01 to 31/12/2009</b>
Costs of energy	52,778	52,143
Materials and spare parts	17,853	14,013
Office supplies	114,371	78,549
Other cost of materials	8,526	9,853
<b>Office supplies</b>	<b>193,528</b>	<b>154,558</b>

The costs of office supplies and other materials were up on 2009 owing to an increase in the number of employees and the growing volume of the Company's operations in 2010, while other material costs and energy costs were almost unchanged.

Amounts in €

<b>Cost of services</b>	<b>Generated from 01/01 to 31/12/2010</b>	<b>Generated from 01/01 to 31/12/2009</b>
Maintenance	202,647	174,395
Rents	957,344	625,163
Bank charges and other fees	989,833	675,032
Intellectual services	1,153,208	1,055,390
Contractors, contractual work and student work	393,132	282,773
Advertising, sales promotion and public relations	353,921	532,764
Sponsorships	78,927	91,298
Insurance	24,041	18,973
Entertainment	19,198	35,858
Costs of employees' business travels	106,673	74,276
Telecommunication	189,816	158,887
Public utility services	15,552	1,294
Security	7,515	0
Cleaning	17,021	12,967
Training	88,065	56,209
Other services	338,795	376,856
IT costs	134,869	17,256
<b>Total</b>	<b>5,070,557</b>	<b>4,189,391</b>

Maintenance costs in the amount of EUR 202,647 mainly relate to the maintenance of IT equipment.

Costs of rents, which totaled EUR 957,344, comprise the lease of commercial premises (EUR 388,925), the lease and maintenance of computer equipment (EUR 522,894), vehicle leases (EUR 38,329) and other leases (EUR 7,196).

The costs of intellectual services amounted to EUR 1,153,208 and included human resource management services (consulting, selection of candidates), legal and notary fees, auditing and accounting services, business and tax consultancy services, and professional training services.

Sponsorships costs, mainly for sports and charity events, amounted to EUR 78,927 in 2010.

Insurance costs in the amount of EUR 24,041 included premiums for car insurance, additional insurance for employees, and collective additional pension insurance.

Costs of other services in the amount of EUR 338,795 included costs of accessing various databases for electricity trading purposes (EUR 115,396), costs for the design and preparation of the annual report (EUR 42,553), other support services (EUR 35,677), fees and concessions (EUR 17,503), transport services (EUR 109,609) and other services of lesser value (EUR 18,057).

Amounts in €

<b>Minimum lease payments under noncancellable operating lease</b>	<b>2010</b>	<b>2009</b>
< 1 year	340,952	273,840
> 1 - < 5 years	531,814	249,300
<b>Total</b>	<b>872,766</b>	<b>523,140</b>

Liabilities from long-term contracts signed for the lease of commercial premises in Ljubljana, Nova Gorica and Krško are expected to amount to at least EUR 872,766 in the coming years.

### Audit costs

Amounts in €

<b>Auditing services</b>	<b>Generated from 01/01 to 31/12/2010</b>	<b>Generated from 01/01 to 31/12/2009</b>
Audit of annual report	13,482	12,768
Other cost of auditing	0	3,640
Other non-audit services	525	0
<b>Total</b>	<b>14,007</b>	<b>16,408</b>

The costs of auditing include the audit of the Company's annual report and other services provided by KPMG Slovenija, podjetje za revidiranje, d.o.o. The annual report audit costs in amount of EUR 13,482 relate to the 2010 business year.

### Disclosure 20: Labor costs

Amounts in €

<b>Labour cost</b>	<b>Generated from 01/01 to 31/12/2010</b>	<b>Generated from 01/01 to 31/12/2009</b>
Wages and salaries	3,362,677	2,446,092
Social security contributions	560,173	406,516
Other labor cost	429,174	338,630
<b>Total</b>	<b>4,352,024</b>	<b>3,191,238</b>

Labor costs include wages and salaries, social security contributions, additional pension insurance, and other labor costs (allowances for meal expenses, transportation costs to and from work, annual leave pay, severance payments, long-service bonuses, etc.).

In 2010, the Company calculated labor costs in accordance with the Collective Agreement for the Slovene Electricity Industry, the Company's current job classification and individual employment contracts.

Amounts in €

<b>Other labor costs</b>	<b>Generated from 01/01 to 31/12/2010</b>	<b>Generated from 01/01 to 31/12/2009</b>
Severance payments	20,275	0
Annual leave pay	129,521	104,352
Other costs	279,379	234,278
<b>Other</b>	<b>429,174</b>	<b>338,630</b>

Other labor costs include reimbursements of transportation and meal expenses in the amount of EUR 208,135 and additional health insurance in the amount of EUR 71,244.

**Disclosure 21: Amortization and depreciation**

Amounts in €

<b>Amortization and depreciation</b>	<b>Generated from 01/01 to 31/12/2010</b>	<b>Generated from 01/01 to 31/12/2009</b>
Amortization of intangible assets	278,422	199,936
Depreciation of property, plant and equipment	241,392	170,042
<b>Total</b>	<b>519,814</b>	<b>369,978</b>

Amortization/depreciation is calculated using the straight-line depreciation method at rates that are adjusted to the useful lives of individual assets, while investments in fixed assets owned by third parties are depreciated over the term of the lease. In 2010, amortization and depreciation amounted to EUR 519,814.

**Disclosure 22: Other operating expenses**

Amounts in €

<b>Other operating expenses</b>	<b>Generated from 01/01 to 31/12/2010</b>	<b>Generated from 01/01 to 31/12/2009</b>
Taxes and levies	38,491	18,262
Donations	27,082	15,600
Impairment of property, plant and equipment	0	2,975
Creation of provisions	20,997	20,622
Other operating expenses	262,574	832,757
<b>Total</b>	<b>349,144</b>	<b>869,594</b>

Other operating expenses totaling EUR 262,574 include:

- damages and fines paid in the amount of EUR 16,299;
- expenses not recognized for tax purposes in the amount of EUR 56,914;
- expenses associated with obtaining access rights to databases in the amount of EUR 79,266;
- membership fees in the amount of EUR 55,110; and
- other operating expenses of lesser value in the amount of EUR 54,985.

Amounts in €

<b>Donations</b>	<b>Generated from 01/01 to 31/12/2010</b>	<b>Generated from 01/01 to 31/12/2009</b>
Humanitarian purposes	15,281	5,450
Charitable purposes	4,601	0
Scientific purposes	600	0
Educational purposes	700	1,550
Sports purposes	4,900	4,800
Cultural purposes	700	3,000
Environmental purposes	300	800
<b>Total</b>	<b>27,082</b>	<b>15,600</b>

**Disclosure 23: Profit or loss from financing**

Amounts in €

<b>Profit or loss from financing</b>	<b>Generated from 01/01 to 31/12/2010</b>	<b>Generated from 01/01 to 31/12/2009</b>
Dividend income from interests in subsidiaries	6,029,236	3,182,381
Interest income	91,417	198,446
Net income from settlement of financial instruments	3,224,027	3,596,558
Change in fair value of derivatives	0	291,031
Net foreign exchange gains	0	27,781
Other financial income	111,653	72,684
Recovered written-off receivables and reversal of write-offs	45,273	41,856
<b>Financial income</b>	<b>9,501,606</b>	<b>7,410,737</b>
Interest expense	-516,559	-426,214
Impairment loss on trade receivables	-274,071	-123,079
Change in fair value of derivatives	-56,938	0
Net foreign exchange losses	-112,074	0
Other financial costs	-7	-55,574
<b>Financial costs</b>	<b>-959,649</b>	<b>-604,867</b>
<b>Profit or loss from financing</b>	<b>8,541,957</b>	<b>6,805,870</b>

The following subsidiaries paid dividends in 2010: GEN-I DOOEL Skopje in the amount of EUR 1,028,072, GEN-I Zagreb, d.o.o. in the amount of EUR 244,061 and GEN-I, d.o.o. Belgrade in the amount of EUR 4,757,103.

Revenues from interest amounted to EUR 91,417 and included interest from loans and deposits.

Interest expenses included interest on loans received from banks and subsidiaries in the total amount of EUR 516,559.

The net effect of exchange rate differences was a loss of EUR 112,074.

Write downs relate to impairments and write downs of receivables due to customers' inability to settle their obligations.

Each year, the Company creates impairments in the amount of the estimated loss from operating and other receivables. Last year, revenues from the reversal and payment of written-off receivables amounted to EUR 45,273, while expenses from the impairment of receivables amounted to EUR 274,071. Revaluation adjustments in the business year accounted for EUR 273,864 and the direct write-off of receivables for EUR 207.

Other revenues and expenses from financing mainly include default interest charged to customers, the costs of payment reminders and enforcement orders, the result of rounding and the reversal of costs of financial transactions from previous years.

In addition to bilateral purchase and sale agreements (for electricity delivered at a pre-determined fixed price), GEN-I, d.o.o. uses various financial instruments to hedge open positions in its trading portfolio. In 2010, the Company's portfolio of standardized derivative instruments included EEX futures and PXE futures, which are traded on the German electricity exchange EEX (European Energy Exchange AG) and the Czech PXE (Power Exchange Central Europe). Because of the immediate financial settlement, gains or losses from these instruments are realized at the time their value changes and not in the period to which they actually relate.

The net effect of the derivatives used in the 2010 business year was a gain in the amount of EUR 3,224,027, while changes in fair value of derivatives resulted in a loss of EUR 56,938.

**Disclosure 24: Taxes**

Amounts in €

Taxes	2010	2009
Current tax	1,378,547	1,827,177
Deferred tax	-24,218	-18,755
<b>Total</b>	<b>1,354,329</b>	<b>1,808,422</b>

In 2010, the Company reported income tax in the amount of EUR 1,378,547 and deferred tax assets in the amount of EUR 24,218.

Deferred tax assets of EUR 24,218 relate mainly to the amortization of intangible fixed assets not recognized for tax purposes in the amount of EUR 21,146. Taxes were calculated using a 20% tax rate applicable in 2011.

At the end of the reporting period, the Company recorded a total of EUR 74,984 in deferred tax assets.

**Effective tax rate**

Amounts in €

Effective tax rate	2010	2009
Gross profit before tax	12,244,256	11,686,254
Statutory tax rate	20%	21%
Income tax at statutory tax rate, prior to changes in tax base	2,448,851	2,454,113
Tax exempt income	-1,291,567	-673,474
Non-deductible expenses	221,896	48,885
Tax relief	-24,851	-21,102
<b>Effective tax rate</b>	<b>11.06%</b>	<b>15.47%</b>
<b>Current and deferred income tax</b>	<b>1,354,329</b>	<b>1,808,422</b>

**Disclosure 25: Data on earnings of related parties****Remuneration of management board members****Current year (2010)**

Amounts in €

Remuneration of the management board members	Gross			Total
	Fixed portion of remuneration	Variable portion of remuneration	Other remuneration	
Robert Golob, Ph. D.	24,000	80,000	18,326	122,326
Martin Novšak	0	0	16,800	16,800
Dejan Paravan, Ph. D.	86,338	117,961	9,197	213,496
Igor Koprivnikar, Ph. D.	86,238	118,027	7,646	211,911
<b>Total</b>	<b>196,576</b>	<b>315,988</b>	<b>51,969</b>	<b>564,533</b>

**Previous year (2009)**

Amounts in €

Remuneration of the management board members	Gross			Total
	Fixed portion of remuneration	Variable portion of remuneration	Other remuneration	
Robert Golob, Ph. D.	24,000	45,714	17,845	87,559
Martin Novšak	0	0	15,050	15,050
Dejan Paravan, Ph. D.	87,770	80,000	13,496	181,266
Igor Koprivnikar, Ph. D.	88,308	80,000	7,960	176,268
<b>Total</b>	<b>200,078</b>	<b>205,714</b>	<b>54,351</b>	<b>460,143</b>

**Employees under individual employment contracts**

Amounts in €

<b>Data on groups of persons</b>	<b>31/12/2010</b>	<b>31/12/2009</b>
Wages and salaries	1,055,916	369,595
Fringe benefits and other remuneration	37,535	8,836
<b>Total</b>	<b>1,093,451</b>	<b>378,431</b>

**V.2.7 Financial instruments and risk exposure****Disclosure 26: Credit risk**

Amounts in €

<b>Items</b>	<b>31/12/2010</b>	<b>31/12/2009</b>
Current trade receivables	84,508,610	40,971,150
Other current receivables	9,721,096	3,454,389
Current loans	529,687	1,002,491
Cash and cash equivalents	10,198,476	10,301,633
<b>Total</b>	<b>105,264,905</b>	<b>55,855,843</b>

Amounts in €

<b>Current trade receivables</b>	<b>Carrying amount</b>	
	<b>2010</b>	<b>2009</b>
Domestic	33,291,394	25,627,079
Euro area countries	29,418,266	7,154,147
Other European countries	9,490,352	4,202,339
Countries of the former Yugoslavia	10,317,322	3,987,585
Other regions	1,991,275	0
<b>Total</b>	<b>84,508,610</b>	<b>40,971,150</b>

Amounts in €

<b>Current trade receivables</b>	<b>Carrying amount</b>	
	<b>2010</b>	<b>2009</b>
Wholesale customers	53,980,388	20,114,403
Retail customers	30,528,222	20,856,747
<b>Total</b>	<b>84,508,610</b>	<b>40,971,150</b>

As described in the business report, GEN-I, d.o.o. uses an active approach to managing credit risks and financial exposure to individual business partners. Its approach is based on the consistent application of the Company's internal rules and procedures for identifying risks and assessing exposure to them, determining the permissible limits of risk exposure, and the constant monitoring of the Company's exposure to risks in its dealings with individual business partners. In line with the Company's rules, the risk-management department analyzes the credit standing of each new trading partner and large customer that wish to purchase electricity from GEN-I, d.o.o. This risk-assessment report serves as the basis for future cooperation, enabling the Company to define credit lines for hedging purposes and offer new partners payment and delivery terms adjusted to their particular risk levels. When monitoring credit risks and daily credit line exposure, the Company divides individual partners into groups according to their credit characteristics (whether it is a company or a group of companies, trading partner, end-customer or retail customer), geographical position, industry, age structure and maturity of receivables, financial difficulties in the past, and any breaches of contractual obligations based on the estimated level of risk. In order to minimize risks associated with partners' inability to settle outstanding receivables, the Company pays particular attention to using the proper financial and legal instruments when negotiating daily transactions to ensure that contractual obligations are met. These instruments are incorporated into contractual relationships with business partners based on analyses of their credit standing and relevant risk assessments.

Impairments of receivables and their maturity structure are described in Disclosure 5.

The Company has established criteria for evaluating major debtors and the Company's exposure to significant risks. Such exposures and debtors are constantly monitored in order to reassess the Company's approach to them. The Company has also developed criteria for identifying receivables from debtors that are handed over to the department responsible for collecting disputed receivables. If the Company finds that exposure to individual debtors can be restructured in a satisfactory way, it drafts a restructuring plan and then monitors its execution and effects. If debtors file for bankruptcy, the Company ensures that the relevant departments and contractors are involved in the process of collecting collateral, provided the Company's exposure was secured.

Based on internal guidelines, the Company has defined several different impairment categories. The need for impairment is assessed based on past experience with individual partners and future expected inflows from these partners. The Company's impairment criteria include the following:

- payments of operating receivables more than 180 days in arrears;
- publicly known cash flow difficulties;
- breach of commercial contracts or terms; and
- bankruptcy or other legal procedures that may result in loss for the Company.

#### Disclosure 27: Liquidity risk

##### 2010

Amounts in €

Financial liabilities	Carrying amount	Contractual cash flows	Up to 6 months	6 - 12 Months
<b>Non-derivative financial liabilities</b>				
Secured bank loans	18,800,000	19,198,154	10,091,229	9,106,925
Other liabilities	23,240	23,240	23,240	0
Trade and other payables	74,377,587	74,377,587	74,377,587	0
<b>Forward exchange contracts used for hedging:</b>				
Outflow	234,092	0	0	0
<b>Total</b>	<b>93,434,919</b>	<b>93,598,981</b>	<b>84,492,056</b>	<b>9,106,925</b>

##### 2009

Amounts in €

Financial liabilities	Carrying amount	Contractual cash flows	Up to 6 months	6 - 12 Months
<b>Non-derivative financial liabilities</b>				
Secured bank loans	3,000,000	3,089,428	0	3,089,428
Interests	15,856	15,856	15,856	0
Trade and other payables	22,432,075	22,432,076	22,432,076	0
<b>Forward exchange contracts used for hedging:</b>				
Outflow	326,265	0	0	0
<b>Total</b>	<b>25,774,196</b>	<b>25,537,360</b>	<b>22,447,932</b>	<b>3,089,428</b>

The liquidity of the entire GEN-I Group is managed by the parent company, which monitors and plans short-term solvency on a daily basis, and ensures it by coordinating and planning all cash flows within the Group. At the same time, the Company takes into account credit risks associated with possible late payments and poor payment discipline, which can affect the planning of inflows and the Group's investment activities.

The Company also constantly monitors and optimizes short-term surpluses and shortages of monetary assets. A liquidity reserve in the form of credit lines approved by commercial banks, the diversification of financial liabilities, constant adjustment of maturity periods of liabilities and receivables and consistent collection of receivables are all factors that guarantee the Company successful cash-flow management, ensuring its purchasing power and reducing the level of short-term solvency risks. Thanks to the Company's active approach to financial markets, its good performance in the past and a stable operating cash flow, liquidity risks are within acceptable parameters and entirely manageable.

The Company's long-term solvency is ensured by preserving and increasing its share capital and maintaining an appropriate financial balance. To achieve this, the Company adjusts the structure of its financial position to match the maturity of its financial liabilities. As part of liquidity risk management activities in 2011, the management board intends to further strengthen the Company's long-term and short-term solvency and include new subsidiaries in the liquidity monitoring system.

#### Disclosure 28: Currency risk

Amounts in €

Receivables, payables	Euro	
	31/12/2010	31/12/2009
Trade receivables	84,508,610	40,971,150
Secured bank loans	-18,800,000	-3,000,000
Trade payables	-70,106,674	-20,736,657
<b>Gross balance sheet exposure</b>	<b>-4,398,064</b>	<b>17,234,493</b>
Estimated forecast sales	328,284,424	331,784,650
Estimated forecast purchases	-316,837,900	-321,814,018
Gross exposure	11,446,524	9,970,632
<b>Net exposure</b>	<b>7,048,460</b>	<b>27,205,125</b>

GEN-I, d.o.o. is actively involved in establishing a suitable infrastructure for foreign currency transactions and implementing a number of currency-hedging mechanisms, including forward contracts and currency clauses, particularly on markets outside the euro area.

Currency risks are minimized by linking selling prices of goods to the currency used by the sources that finance the purchase of these goods. To a certain extent, currency risks between subsidiaries are "naturally" hedged because a part of the expected inflows from individual companies is balanced out by the expected outflows in the same currency. If necessary, the Company also uses derivatives; numerous forward currency contracts are executed to hedge these risks.

#### Disclosure 29: Interest-rate risk

Amounts in €

Financial instruments	CARRYING AMOUNT	
	2010	2009
Fixed-rate instruments		
Financial assets	785,767	1,000,000
Financial liabilities	-8,000,000	-3,000,000
Variable-rate instruments		
Financial assets	0	0
<b>Financial liabilities</b>	<b>-10,800,000</b>	<b>0</b>

GEN-I, d.o.o. manages interest-rate risks by constantly evaluating risk exposure and the possible effects of changing reference interest rates (the variable part) on its costs from financing activities. The Company also monitors its loan portfolio, which could be affected by a change in the relevant interest rates. As part of its risk management activities, the Company monitors interest rate fluctuations on the domestic and foreign markets as well as on derivatives markets. The purpose of the Group's ongoing monitoring activities and analyses is to propose timely protective measures by balancing assets and liabilities in its statement of financial position.

### V.3 Events After The Statement Of Financial Position Date

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An increase in the Company's share capital was entered in the court register on 2 February 2011 based on the decision of the general meeting of shareholders. The Company's share capital was increased by EUR 3 million, bringing it to EUR 15,877,610.

### V.4 Statement by the Management Board

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The management board hereby approves the financial statements of GEN-I, d.o.o. for the business year that ended on 31 December 2010, including the notes to the financial statements in chapters IV.2.6 and IV.2.7 of the accounting report.

The management board certifies that all relevant accounting principles were consistently used in drafting the Company's financial statements. Accounting estimates were prepared according to the principles of prudence and due diligence. The management board certifies that this annual report provides a true and fair picture of GEN-I, d.o.o.'s assets and performance in 2010.

The financial statements with notes were prepared on a going concern basis and in line with the relevant legislation and International Financial Reporting Standards.

Martin Novšak  
Member of the Management Board



Robert Golob, PhD  
President of the Management Board



Krško, 29 March 2011

## V.5 Certified Auditor's Report



### Independent Auditor's Report To the Shareholders of GEN-I d.o.o.

We have audited the accompanying financial statements of GEN-I d.o.o., which comprise the statement of financial position as at 31 December 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

#### *Management's Responsibility for the Financial Statements*

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

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation<sup>4</sup> of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.<sup>5</sup> An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

#### *Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of GEN-I d.o.o. as at 31 December 2010, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by EU.

#### *Other matters*

As required by the Slovenian Companies Act we herewith confirm that the information in the management report is in conformity with the accompanying financial statements.

Irena Uršič, B.Sc.Ec.

*Certified Auditor*

Ljubljana, 31. March 2011

**KPMG SLOVENIJA,**  
podjetje za revidiranje, d.o.o.

Marjan Mahnič, B.Sc.Ec.

*Certified Auditor*

*Partner*

KPMG Slovenija, d.o.o.  
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The Independent Auditor's Report hereof is a translation of the original Independent Auditor's Report in Slovene, issued on the financial statements and the notes thereto in Slovene. This translation is provided for reference purposes only and is not to be signed.

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VI. Consolidated  
Financial Statements  
and Notes  
GEN-I group 2010

## VI.1 Introduction

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The GEN-I Group, for which the consolidated financial statements are prepared, includes the parent company GEN-I, d.o.o. and its fully owned subsidiaries:

- GEN-I d.o.o. Belgrade
- GEN-I Zagreb d.o.o.
- GEN-I Budapest Kft.
- GEN-I d.o.o. Sarajevo
- GEN-I DOOEL Skopje
- GEN-I Tirana Sh.p.k.
- GEN-I Athens SMLLC
- S.C. GEN-I Bucharest S.R.L.
- GEN-I Sofia EOOD
- GEN-I Milano S.r.l.
- GEN-I Vienna GmbH

## VI.2 The Group's Financial Statements

### VI.2.1 Consolidated statement of financial position

Amounts in €

Items	Note	31/12/2010	31/12/2009
Property, plant and equipment	1	1,071,827	471,512
Intangible assets	2	635,125	366,479
Non-current receivables and loans	3	153,518	63,090
Deferred tax assets	12	77,957	50,766
<b>Non-current assets</b>		<b>1,938,427</b>	<b>951,847</b>
Operating receivables	4	99,609,035	57,421,432
Prepayments and other assets	5	13,194,584	2,770,071
Investments and loans, including derivatives	6	234,092	1,360,362
Current tax assets	4	801,012	342,731
Cash and cash equivalents	7	17,580,216	15,752,693
<b>Current assets</b>		<b>131,418,939</b>	<b>77,647,289</b>
<b>Assets</b>		<b>133,357,366</b>	<b>78,599,136</b>
Share capital	8	12,877,610	12,877,610
Reserves	8	1,033,240	752,314
Retained earnings	8	16,390,392	19,562,697
<b>Owners of the company</b>		<b>30,301,242</b>	<b>33,192,621</b>
<b>Non-controlling interest</b>		<b>0</b>	<b>0</b>
<b>Equity</b>		<b>30,301,242</b>	<b>33,192,621</b>
Long-term provisions	11	75,275	62,498
<b>Non-current liabilities</b>		<b>75,275</b>	<b>62,498</b>
Loans and borrowings	9	18,821,574	3,013,808
Trade payables	13	78,196,907	27,862,852
Advances payable and other current liabilities	14	5,962,368	14,467,357
<b>Current liabilities</b>		<b>102,980,849</b>	<b>45,344,017</b>
<b>Liabilities</b>		<b>103,056,124</b>	<b>45,406,515</b>
<b>Total equity and liabilities</b>		<b>133,357,366</b>	<b>78,599,136</b>

## VI.2.2 Consolidated income statement

Amounts in €

Items	Note	Generated from 01/01 to 31/12/2010	Generated from 01/01 to 31/12/2009
Revenues	17	652,840,553	456,764,823
Other operating income	17	87,253	18,116
Cost of goods sold	18	-632,050,158	-432,038,242
Cost of materials	18	-198,701	-569,288
Cost of services	18	-6,391,993	-5,082,778
Labor costs	19	-5,104,402	-3,806,648
Depreciation and amortization	20	-530,062	-376,178
Other operating expenses	22	-1,575,293	-727,701
<b>Operating profit or loss</b>		<b>7,077,197</b>	<b>14,182,104</b>
Income from interest	23	106,545	202,380
Financial income from revaluation of investments and other financial income	23	3,381,631	4,025,844
<b>Financial income</b>		<b>3,488,176</b>	<b>4,228,224</b>
Expenses for interest	23	-522,669	-410,828
Net foreign exchange loss	23	-570,116	-31,675
Impairment loss on trade receivables	23	-274,071	-123,079
Impairment of assets and other financial expenses	23	-187,944	-54,721
<b>Financial expenses</b>		<b>-1,554,800</b>	<b>-620,303</b>
<b>Profit or loss from financing</b>		<b>1,933,376</b>	<b>3,607,921</b>
<b>Profit before tax</b>		<b>9,010,573</b>	<b>17,790,025</b>
Income tax expense	24	-1,598,030	-2,869,957
<b>Profit or loss for the period</b>		<b>7,412,543</b>	<b>14,920,068</b>

## VI.2.3 Consolidated statement of comprehensive income

Amounts in €

Income statement	Note	Generated from 01/01 to 31/12/2010	Generated from 01/01 to 31/12/2009
Revenues	17	652,840,553	456,764,823
Other operating income	17	87,253	18,116
Cost of goods sold	18	-632,050,158	-432,038,242
Cost of materials	18	-198,701	-569,288
Cost of services	18	-6,391,993	-5,082,778
Labor cost	19	-5,104,402	-3,806,648
Depreciation and amortization	20	-530,062	-376,178
Other operating expenses	22	-1,575,293	-727,701
<b>Operating profit or loss</b>		<b>7,077,197</b>	<b>14,182,104</b>
Income from interest	23	106,545	202,380
Financial income from revaluation of investments and other financial income	23	3,381,631	4,025,844
<b>Financial income</b>		<b>3,488,176</b>	<b>4,228,224</b>
Expenses for interest	23	-522,669	-410,828
Net foreign exchange loss	23	-570,116	-31,675
Impairment loss on trade receivables	23	-274,071	-123,079
Impairment of assets and other financial expenses	23	-187,944	-54,721
<b>Financial costs</b>		<b>-1,554,800</b>	<b>-620,303</b>
<b>Profit or loss from financing</b>		<b>1,933,376</b>	<b>3,607,921</b>
<b>Profit before tax</b>		<b>9,010,573</b>	<b>17,790,025</b>
Income tax expense	24	-1,598,030	-2,869,957
<b>Profit or loss for the period</b>		<b>7,412,543</b>	<b>14,920,068</b>

Amounts in €

Comprehensive income	Generated from 01/01 to 31/12/2010	Generated from 01/01 to 31/12/2009
Profit (loss) for the business year	7,412,543	14,920,068
<b>Total comprehensive income for the business year</b>	<b>7,412,543</b>	<b>14,920,068</b>

#### VI.2.4 Consolidated cash flow statement

Amounts in €

Items	Generated from 01/01 to 31/12/2010	Generated from 01/01 to 31/12/2009
<b>Cash flows from operating activities</b>		
Net profit or loss for the period	7,412,543	14,920,068
<b>Adjustments for:</b>		
Depreciation and amortization	530,062	376,178
Write downs of property, plant and equipment	0	2,975
Reversal of negative goodwill	0	-3,517
Loss on sale of property, plant and equipment, intangible assets, and investment property	0	451
Write down of good will	825	8
Financial income	-3,330,572	-4,228,224
Financial costs	364,230	620,303
Income tax	1,598,030	2,869,957
<b>Operating profit before changes in net current assets and taxes</b>	<b>6,575,118</b>	<b>14,558,199</b>
<b>Changes in net current assets and provisions</b>		
Change in receivables	-42,464,429	17,481,186
Change in prepayments and other assets	-10,424,513	1,416,845
Change in operating liabilities	50,620,435	-26,537,304
Change in advances payable and other current liabilities	-8,504,989	12,515,426
Change in provisions	12,777	17,853
Income tax paid	-2,369,882	-2,945,063
<b>Net cash flow from operating activities</b>	<b>-6,555,483</b>	<b>16,507,142</b>
<b>Cash flows from investing activities</b>		
Interest received	37,532	313,046
Proceeds from sale of property, plant and equipment, and intangible assets	0	2,124
Proceeds from sale of other financial assets	35,235	0
Proceeds from decrease in loans given	6,033,238	168,697,462
Proceeds from settlement of derivatives	3,224,026	3,561,324
Acquisitions of property, plant and equipment, and intangible assets	-1,402,244	-415,032
Acquisitions of other investments	-18,660	-5,815
Expenses for increase in loans given	-5,000,000	-165,488,081
Payment for settlement of derivatives	0	0
<b>Net cash from investing activities</b>	<b>2,909,127</b>	<b>6,665,028</b>
<b>Cash flows from financing activities</b>		
Interest paid	-514,903	-723,389
Repayment of short-term loans	-10,000,000	-14,101,681
Receipts from short-term loans received	25,800,000	3,000,000
Change in equity	0	4,877,610
Dividends paid	-9,811,217	-5,075,319
<b>Net cash from financing activities</b>	<b>5,473,880</b>	<b>-12,022,779</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>15,752,693</b>	<b>4,603,302</b>
Effect of exchange rate fluctuations on cash held	0	0
<b>Net increase in cash and cash equivalents</b>	<b>1,827,524</b>	<b>11,149,391</b>
<b>Cash and cash equivalents at end of period</b>	<b>17,580,216</b>	<b>15,752,693</b>

## VI.2.5 Consolidated statement of changes in equity

**Changes in 2010**

Changes in equity	Share capital	Legal reserve	Translation reserve	Retained earnings	Owners of the company	Total equity
31/12/2009	12,877,610	982,084	-229,770	19,562,697	33,192,621	33,192,621
Balance at 01/01/2010	12,877,610	982,084	-229,770	19,562,697	33,192,621	33,192,621
<b>Total comprehensive income (loss) for the period</b>						
Profit or loss for the period		305,678		7,106,864	7,412,542	7,412,542
<b>Other comprehensive income (loss)</b>						
Foreign currency translation differences			-24,752	-467,952	-492,704	-492,704
Total other comprehensive income (loss)	0	0	-24,752	-467,952	-492,704	-492,704
Total comprehensive income (loss) for the period	0	305,678	-24,752	6,638,912	6,919,838	6,919,838
Dividend (shares) payout				-9,383,939	-9,383,939	-9,383,939
Withholding tax				-427,278	-427,278	-427,278
Balance at 31/12/2010	12,877,610	1,287,762	-254,522	16,390,392	30,301,242	30,301,242

**Changes in 2009**

Amounts in €

Changes in equity	Share capital	Legal reserve	Translation reserve	Retained earnings	Owners of the company	Total equity
31/12/2008	8,000,000	488,192	-565,820	10,751,144	18,673,516	18,673,516
Balance at 01/01/2009	8,000,000	488,192	-565,820	10,751,144	18,673,516	18,673,516
<b>Total comprehensive income (loss) for the period</b>						
Profit or loss for the period		493,892		14,426,178	14,920,070	14,920,070
<b>Other comprehensive income (loss)</b>						
Foreign currency translation differences			336,050	-539,306	-203,256	-203,256
Total other comprehensive income (loss)	0	0	336,050	-539,306	-203,256	-203,256
Total comprehensive income (loss) for the period	0	493,892	336,050	13,886,872	14,716,814	14,716,814
Entry of share capital	4,877,610				4,877,610	4,877,610
Dividend (shares) payout				-4,955,222	-4,955,222	-4,955,222
Withholding tax				-120,097	-120,097	-120,097
Balance at 31/12/2009	12,877,610	982,084	-229,770	19,562,697	33,192,621	33,192,621

## VI.3 Notes to Consolidated Financial Statements

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### VI.3.1 The reporting company

GEN-I, d.o.o. (hereinafter: the Company) is a Slovenian-based company. Its registered office is at Cesta 4. julija 42, SI-8270 Krško, Slovenia. The consolidated financial statements of the GEN-I Group for the business year that ended on 31 December 2010 include data on the parent company GEN-I, d.o.o. and its subsidiaries (hereinafter: the GEN-I Group).

### VI.3.2 Basis of preparation

**(a) The consolidated financial statements were prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU.**

The financial statements were approved by the Company's management board on 29 March 2011.

**(b) Measurement basis**

The consolidated financial statements are compiled on a historical cost basis, except in the following cases where fair value is used:

- derivatives, and
- financial instruments at fair value through profit or loss.

**(c) Functional and presentation currency**

The consolidated financial statements are expressed in euros, the functional currency of the parent company GEN-I, d.o.o. All accounting data presented in euros is rounded to the nearest integer.

**(d) Use of estimates and judgments**

When preparing the financial statements, the management is required to make judgments, estimates and assumptions that affect the application of accounting policies and the reported values of assets, liabilities, revenues and expenses in accordance with IFRS.

Estimates and assumptions are mainly associated with:

- estimated useful lives of amortizable assets,
- asset impairment,
- employee earnings, provisions,
- deferred taxes,
- contingent liabilities, and
- derivatives.

Actual results may vary from these estimates.

The estimates and underlying assumptions are reviewed on a regular basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

### VI.3.3 Significant accounting policies

Companies of the GEN-I Group consistently applied the accounting policies described below to all periods presented in the consolidated financial statements.

In order to ensure consistency with the data for the current year, some comparative figures were reclassified.

#### (a) Basis of consolidation

##### (i) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of the entity so as to derive benefits from its activities. The Group's influence is assessed based on the existence and effect of potential voting rights currently exercisable or convertible. The financial statements of subsidiaries are included in the consolidated financial statements from the date when control starts to the date it ceases. Accounting policies applied by the subsidiaries are adjusted to the Group's accounting policies.

##### (ii) Transactions eliminated on consolidation

Balances and unrealized gains or losses that arise from transactions within the Group were not included in the consolidated financial statements.

#### (b) Foreign currency

##### (i) Foreign currency transactions

Foreign currency transactions are converted into the functional currency of the companies within the Group using the exchange rate applied on the day they arise. Cash, cash equivalents and liabilities denominated in foreign currencies are converted into the functional currency using the exchange rate applicable at the end of the reporting period. Positive or negative exchange differences are differences between the amortized cost in the functional currency at the beginning of a period, increased or decreased by the amount of effective interest and payments within the period, and the amortized cost expressed in foreign currency, converted using the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies and measured at fair value are converted into the functional currency at the exchange rate applicable on the day their fair value was determined. Exchange rate differences are recognized in the income statement.

##### (ii) Foreign operations

The assets and liabilities of foreign companies are converted into euros using the exchange rate applicable at the end of the reporting period. The revenues and expenses of foreign companies, with the exception of hy-

perinflationary economies, are converted into euros at exchange rates applicable on the day of conversion.

Any exchange rate differences are recognized in the statement of comprehensive income and disclosed in the foreign currency translation reserve (FCTR) as an item of equity.

#### (c) Financial instruments

##### (i) Non-derivative financial assets

Loans, receivables and deposits are initially recognized on the day they arise. Other financial assets (including assets measured at fair value through profit or loss) are initially recognized on the exchange date or on the day the Group becomes a party to the instrument's contractual provisions. Financial assets are derecognized when the contractual rights to cash flows from these assets expire, or when the Group transfers the rights to cash flows from financial assets based on a contract that involves the transfer of all risks and benefits associated with the ownership of the financial asset. Each share in the transferred financial asset generated or transferred by the Group is recognized as an individual asset or liability. Financial assets and liabilities are netted, and the net amount is disclosed in the statement of financial position only if the Group has the legal right to either settle the net amount or cash in the asset and settle its liability. Non-derivative financial instruments include the following: financial assets at fair value through profit or loss, held-to-maturity financial assets, liabilities and receivables, and available-for-sale financial assets.

##### Financial assets at fair value through profit or loss

Instruments are stated at fair value through profit or loss if they are available for sale or if they are classified as such after initial recognition. Financial assets are measured at fair value through profit or loss if the Group is capable of managing the assets and deciding on their purchase and sale based on fair value. After initial recognition, the related transaction costs are recognized in the income statement when they arise. Financial assets at fair value through profit or loss are measured at fair value, and the amount of any changes in the fair value is recognized in the income statement.

##### Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted on an active market. They are initially recognized at fair value and increased by any direct transaction costs. After initial recognition, loans and receivables are measured at amortized cost using the effective interest method, reduced by impairment losses. Loans and receivables include operating and other receivables.

Cash and cash equivalents include cash in hand and cash balances. Bank overdraft facilities repayable on de-

mand, which form an integral part of the Group's cash management, are included as a component of cash and cash equivalents in the cash flow statement.

Other non-derivative financial instruments are measured at amortized cost using the effective interest rate method, reduced by impairment losses.

#### (ii) Derivatives

The Group uses derivatives to hedge against market and currency risks.

Derivatives are initially recognized at fair value; any transaction costs are recognized in the income statement. After initial recognition, derivatives are measured at fair value. Any gain or loss arising from the remeasurement of fair value is recognized in the income statement.

To hedge against market risks caused by electricity price fluctuations, the Group uses forward contracts and a number of different financial trading instruments. To minimize currency risks, the Group uses mainly forward currency contracts.

To hedge against market risks arising from electricity prices and currency risks, the Group uses non-standardized forward contracts; these are agreements on the sale or purchase of a basic instrument whose price is determined at the time of the agreement's execution, but with a future effective date. The price of forward transactions is determined based on the underlying financial instrument. At the time of execution, the value of the contract equals zero because the strike price (the agreed settlement price) is equal to the forward price. Not taking into account the costs of supply, the value of a non-standardized forward contract is equal to the difference between the current price of an underlying instrument at maturity and the contractual forward price or the agreed settlement price. The forward price changes during the validity period of the contract depending on changes in current market prices and the remaining duration of the forward contract.

Standardized forward contracts (futures) are binding agreements on the purchase or sale of a standardized quantity of well-defined standard quality instruments on a standardized day in the future (standard specification) at a price determined in the present. Standardized forms are a prerequisite for exchange trading. The main advantage of standardized products is the minimization of transaction costs associated with trading. When such products are used, there is no need for buyers and sellers to define the contractual elements of each transaction: they only need to agree on the price of individual forward contracts. Contracts are negotiated without the physical presence of the goods. A standardized forward

contract comes into effect only when registered with a clearing (settlement) house. This type of contract is transferable to enable exchange trading and its liquidity is determined by exchange trading volumes. Non-standardized forward contracts on the other hand are not liquid because there is hardly any exchange taking place with these contracts. When trading forward contracts, the Group must place a security deposit with the clearing house for both sales and purchases. This deposit includes an initial margin and a variation margin.

#### (iii) Non-derivative financial liabilities

Any debt securities issued and the underlying liabilities are initially recognized on the day they arise. All other financial liabilities are initially recognized on the trading day when the Group becomes a party to the contractual provisions of the instrument.

Financial liabilities are derecognized if the obligations set out in the contract are fulfilled, cancelled or have lapsed.

Financial assets and liabilities are netted, and the amount is disclosed in the statement of financial position if and only if the Group has the legally enforceable right to offset the recognized amounts and intends to either settle the net amount or cash in the asset and settle its liability.

The Group discloses non-derivative financial liabilities as other financial liabilities. Such financial liabilities are initially disclosed at fair value increased by any costs directly attributable to the transaction. After initial recognition financial liabilities are measured at amortized cost using the effective interest rate method.

Other financial liabilities include loans, bank overdrafts, and operating and other liabilities.

#### (iv) Share capital

Share capital is the called-up capital contributed by shareholders. The Group's total share capital includes called-up capital, legal reserves and retained profit or loss from previous periods.

#### Dividends

Dividends are recognized as liabilities and are stated at the time of the transaction.

#### (d) Plant and equipment

##### (i) Recognition and measurement

Items of property, plant and equipment are disclosed at historical cost, reduced by depreciation costs and impairment losses.

The historical cost includes the costs that can be directly

attributed to the procurement of assets. Costs of assets produced comprise the costs of materials, direct costs of labor, other costs that can be directly attributed to enabling the use of assets for their intended purpose, costs of disposal and removal, costs of restoring the location of the asset to its original state and capitalized borrowing costs. Any computer software that contributes significantly to an asset's functionality should be capitalized as part of these assets.

Parts of items of property, plant and equipment that have different useful lives are accounted for as separate items.

#### (ii) Subsequent costs

Costs arising from the replacement of parts of fixed assets are recognized at carrying value if future economic benefits associated with a part are likely to increase and if its historical cost can be measured reliably. All other costs (such as daily maintenance) are recognized as expenses in the income statement as soon as they arise.

#### (iii) Spare parts

Spare parts and maintenance equipment of lesser value with useful lives of up to one year are treated as inventory and recognized as costs in the income statement. Spare parts and equipment of significant value with estimated useful lives exceeding one year are recognized as items of property, plant and equipment.

#### (iv) Depreciation

Depreciation is calculated using the straight-line method based on the useful life of each component of an item of property, plant and equipment; this is the most accurate method for predicting asset usage patterns. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated.

Estimated useful lives for the current and comparative periods are as follows:

- Plant and equipment 2 to 5 years
- Furniture and built-in equipment 4 to 5 years.

Investments in fixed assets owned by third parties are depreciated for the duration of the lease period (1 to 5 years).

Depreciation methods, useful lives and residual values are reviewed at the end of the reporting period and adjusted if necessary. Estimates regarding fixed assets were not revised in the 2010 business year.

### (e) Intangible assets

#### (i) Other intangible assets

Other intangible assets with limited useful lives acquired by the Group are stated at historical cost, reduced by amortization costs and impairment losses.

#### (ii) Subsequent costs

Subsequent costs associated with intangible assets are only capitalized if they increase future economic benefits arising from the asset to which the cost is related. All other costs are recognized as expenses in the income statement when they arise.

#### (iii) Amortization

Amortization is calculated based on an asset's historical cost or another amount that is used in its place, reduced by residual value.

Amortization is recognized in the income statement using the straight-line method and is based on the useful life of intangible assets (with the exception of goodwill), starting from the date the asset is available for use; this is the most accurate method for predicting the patterns of future economic benefits associated with the asset. Estimated useful lives for the current and comparative years are as follows:

- Software 2 to 5 years

Amortization methods, useful lives and residual values are reviewed at the end of each business year and adjusted if necessary.

### (f) Asset impairment

#### (i) Financial assets (including receivables)

The Group assesses the value of financial assets at the reporting date to determine whether there is any objective evidence of asset impairment. A financial asset is considered impaired if there is objective evidence of impairment as a result of one or more events that led to a decrease in estimated future cash flows of the financial asset.

Impairment loss associated with a financial asset that is disclosed at fair value in the statement of comprehensive income is measured as the difference between the carrying amount and the fair value of the asset.

Impairment loss associated with a financial asset disclosed at amortized cost is measured as the difference between the asset's carrying amount and the value of estimated future cash flows, discounted at the original effective interest rate. Impairment loss associated with available-for-sale financial assets is calculated using the current fair value of the asset.

Impairment assessments of significant financial assets are carried out individually. The impairment of remaining financial assets is assessed collectively with regard to their common risk exposure characteristics.

All impairment losses are reported in the Group's income statement for the accounting period.

Impairment losses are derecognized if they can be objectively associated with events that occurred after their recognition. Impairment losses associated with financial assets that are stated at amortized cost and available-for-sale financial assets that are considered debt instruments are derecognized in the income statement.

#### **(ii) Non-financial assets**

At each reporting date, the Group reviews the carrying value of non-financial assets (with the exception of inventories and deferred tax assets) to determine if there are any indications of impairment. If there are such indications, the asset's recoverable value is assessed. Impairment of goodwill and intangible assets with an indefinite useful life not yet available for use is reviewed at each reporting date.

The recoverable amount of assets or cash-generating units is the higher of their value in use or fair value reduced by costs of sale. In determining the asset's value in use, estimated future cash flows are discounted to their current value at a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In order to test them for impairment, assets are consolidated into the smallest asset groups that generate cash inflows.

An impairment loss of an asset or cash-generating unit is recognized whenever its carrying value exceeds its recoverable value. The impairment is recognized in the income statement.

With respect to other assets, impairment losses from previous periods are evaluated on the balance sheet date, to determine whether or not there has been a reduction of loss and whether or not the loss still exists. Impairment losses are derecognized if the estimates used to determine the recoverable value of assets have changed. An impairment loss is derecognized to the extent that the asset's carrying value does not exceed the carrying value that would have been determined in the net amortized amount if no impairment loss had been recognized for the asset in previous years.

#### **(g) Employee earnings**

Liabilities from short-term employee earnings are measured on an undiscounted basis and are recognized as expenses as soon as the work performed by an employee and related to the short-term earning is completed.

#### **(h) Provisions**

Provisions are recognized if the Group has a present legal or constructive obligation as a result of a past event which can be measured reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by dis-

counting expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

#### **(i) Provisions for severance payments and long-service bonuses**

Pursuant to the law, the collective agreement and internal rules, the Group is obliged to pay long-service bonuses and severance payments to employees, and has created non-current provisions for this purpose. There are no other pension liabilities.

Provisions are created in the amount of estimated future severance payments and long-service bonuses, discounted at the end of the reporting period. The calculation for 2009 was prepared by a certified actuary. In 2010, the GEN-I Group tested the value of provisions for severance payments and long-service bonuses based on the actuarial calculation for 2009, taking into account the number and age of employees in 2010. On the basis of this, no further provisions were created in 2010 for severance payments and long-service bonuses.

#### **(i) Revenues**

##### **(i) Revenues from goods sold**

Revenues from goods sold are recognized at the fair value of payments received or the resulting receivables, reduced by returns, discounts and quantity discounts. Revenues from sales are recognized at the moment when risks and benefits connected with the ownership of assets are transferred to the buyer, when the payment and the associated costs are certain, and when the Group ceases to have effective control over the goods sold. If discounts are likely to be offered and their amount can be measured reliably, they are recognized as revenue reductions at the time when the sale itself is recognized.

##### **(ii) Revenues from services rendered**

Revenues from services rendered are recognized in the income statement according to the stage of completion of individual transactions at the end of the reporting period. The stage of completion is assessed based on inspections of the work performed.

##### **(iii) Commissions**

If Group companies are involved in transactions as intermediaries, and not as companies, the resulting net commission is disclosed as revenue.

**(iv) Revenues from rents**

Revenues from rents are recognized on a straight-line basis over the term of lease.

**(j) Leases**

Payments from operating leases are recognized as revenues on a straight-line basis over the term of lease. Lease incentives received are recognized as an integral part of total expenses from leases.

Minimum finance lease payments are classified as finance costs and decreases of outstanding debt. Finance costs are allocated over the term of the lease to determine a fixed interest rate for the remaining debt over individual periods.

The Group recognizes contingent payments from financial leases in an amount determined by revaluating minimum lease payments in the remaining period upon receipt of a rent change confirmation.

**(k) Financial income and financial costs**

Financial income includes interest from investments, dividend revenues, revenues from the disposal of available-for-sale financial assets, changes in the fair value of financial assets at fair value through profit or loss, positive exchange rate differences and gains from hedging instruments recognized in the income statement. Interest revenues are recognized when they arise, using the effective interest rate method.

Financial costs include borrowing costs, negative exchange rate differences, changes in the fair value of financial assets at fair value through profit or loss, losses from impairments of financial assets and losses from hedging instruments recognized in the income statement. Borrowing costs are recognized in the income statement using the effective interest rate method.

**(l) Income tax**

Income tax on the profit or loss in the business year includes current and deferred tax. Income tax is recognized in the income statement, except where it relates to business combinations or items recognized directly in equity, in which case it is recognized in equity or in other comprehensive income.

Current tax is the expected tax payable on the taxable revenue for the business year, using tax rates in force or substantially in force at the end of the reporting period, and any adjustment to the tax payable in respect of previous years.

Deferred tax is disclosed taking into account temporary differences between the carrying value of assets and liabilities for financial reporting purposes and the relevant amounts for tax reporting purposes. The following tem-

porary differences are not taken into account: goodwill not deductible for tax purposes, the initial recognition of assets and liabilities that affect neither accounting nor taxable profit and differences relating to investments in subsidiaries and jointly controlled entities to the extent that they will probably not be reversed in the foreseeable future. Deferred tax is not recognized in the case of taxable temporary differences that occur at the initial recognition of goodwill.

Deferred tax is measured at tax rates that are expected to be applied to temporary differences when they are reversed based on laws that are in force or substantively in force at the end of the reporting period.

The Group must reconcile deferred tax assets and liabilities if it has an enforceable right to do so and if these assets and liabilities relate to income tax for the same tax authority and the same taxable unit, or if the tax relates to different taxable units that intend to pay or receive the resulting net amount or settle their liabilities and reverse the receivables.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced by the amount of tax benefits that are not expected to be realized.

**(m) Segment reporting**

An operating segment is a part of the Group that carries out business activities from which it generates income and incurs costs that relate to transactions with other members of the same Group. In 2010, the Group defined business segments for the purpose of internal reporting, but does not disclose them for external reporting purposes. There are two segments used for internal reporting in the Group: the wholesale segment and the retail segment.

**(n) New standards and interpretations that have not entered into force**

A number of new standards, amendments and interpretations of standards for the business year that started on 1 January 2010 have not yet entered into force and were not considered in the preparation of the Group's consolidated financial statements:

- **Revised IAS 24 Related Party Disclosures (effective from 1 January 2011)**

According to the amendment, state institutions are exempt from disclosing transactions with related parties and open balances, including liabilities to (a) a government that directs, jointly controls or has a significant influence over the reporting company; and to (b) other companies treated as related parties because the same

government directs, jointly controls or has a significant influence over the reporting company and the other company. If the reporting company claims this exemption, other special disclosures are required in line with the revised standard.

The standard also redefines the term “related party” as a result of new associations (e.g. affiliated companies of the controlling stakeholder and the controlled entities, or entities jointly controlled by the controlling entities). The revised IAS 24 does not affect the Company’s operations since it is not a government institution, while the amended definition of a related party does not result in new associations that would have to be disclosed in the financial statements.

- **Amendment to IFRIC 14, IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective from 1 January 2011)**

The amendment to IFRIC 14 defines the accounting treatment of prepayments that are necessary in case of minimum funding requirements. According to the revisions, certain prepayments should be recognized as assets based on the fact that the company will have future economic benefits from them in the form of reduced net expenses in future years, when payments under minimum funding requirements would be mandatory. The revised IFRIC 14 does not affect the Company’s operations since it has no pension plans with a set pension amount.

- **IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (effective from 1 July 2010)**

This interpretation clarifies that an equity instrument issued to a creditor to extinguish a financial liability is treated as fully or partially paid consideration in accordance with Article 41 of IAS 39.

The equity instruments issued to a creditor to extinguish a financial liability in full or in part are initially measured at fair value, unless the fair value cannot be reliably measured, in which case the equity instruments should be measured so that they reflect the fair value of the extinguished financial liability. The difference between the carrying value of the extinguished financial liability (or a portion of the extinguished financial liability) and the consideration paid must be recognized in profit or loss. The Group did not issue equity instruments to extinguish financial liabilities in 2010. The interpretation therefore has no effect on the comparative amounts in the Group’s consolidated financial statements as at 31 December 2010. Since the interpretation only refers to future transactions, the effects of the interpretation cannot be determined in advance.

- **Amendment to IAS 32 Financial Instruments: Presentation – Classification of Rights Issues (effective from 1 February 2010)**

According to this amendment, rights, options or warrants to acquire a fixed number of an entity’s own equity instruments for a fixed price stated in any currency are defined as equity instruments if the entity offers the rights, options and warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments.

The amendments to IAS 32 do not affect the Group’s operations as it has never issued such financial instruments.

### VI.3.4 Determining fair value

In accordance with the Group's accounting policies, the measurement of the fair value of both financial and non-financial assets and liabilities is necessary in several instances. The fair value of individual asset groups for accounting and reporting purposes was determined using the methods described below. Where additional clarifications regarding the assumptions used to determine fair value are necessary, they are given in the breakdown of the Group's individual assets or liabilities.

#### (i) Property, plant and equipment

The fair value of property, plant and equipment from business combinations is equal to their market value. The market value of property is equal to the estimated value for which property, having been appropriately advertised, could be exchanged on the valuation date between knowledgeable and willing parties in an arm's length transaction. The market value of plant, equipment and small tools is based on the quoted market price of similar objects.

#### (ii) Intangible assets

The fair value of patents and trademarks acquired through business combinations is based on the discounted estimated future value of royalties whose payment will not be necessary thanks to the ownership of the patent or trademark. The fair value of customer relationships obtained through business combinations is determined using a special multi-period excess earnings method, and the value of individual assets is determined after the fair return from all assets that contribute to the cash flow is deducted.

#### (iii) Operating and other receivables

The fair value of operating and other receivables, with the exception of unfinished construction work, is equal to the current value of future cash flows, discounted using a market interest rate at the end of the reporting period.

#### (iv) Derivatives

The fair value of forward contracts is equal to their quoted market price at the end of the reporting period if the market price is available. If the market price is not available, fair value is determined as the difference between the contractual value of the forward contract and its current bid value, taking into account the residual maturity of the contract and using a risk-free interest rate (based on government bonds).

#### (v) Non-derivative financial liabilities

Fair value for reporting purposes is calculated based on the present value of future principal and interest payments, discounted at a market interest rate at the end of the reporting period. The market interest rate for finance leases is determined by comparing such leases with similar lease contracts.

### Overview of all subsidiaries in the GEN-I Group

Amounts in €

Group Companies	% Of ownership		Investment value		Equity of subsidiary		Share capital of majority shareholder	
	31/12/2010	31/12/2009	31/12/2010	31/12/2009	31/12/2010	31/12/2009	31/12/2010	31/12/2009
GEN-I d.o.o. Beograd	100.00	100.00	150,000	150,000	1,104,141	6,216,136	715,823	809,572
GEN-I Zagreb d.o.o.	100.00	100.00	204,910	204,910	550,527	566,461	203,169	205,479
GEN-I Budapest Kft.	100.00	100.00	203,915	203,915	2,301,513	2,377,938	187,540	187,540
GEN-I d.o.o. Sarajevo	100.00	100.00	512,847	512,847	864,588	580,481	511,292	511,292
GEN-I DOOEL Skopje	100.00	100.00	20,000	20,000	1,338,364	1,214,990	20,145	19,781
GEN-I Tirana Sh.p.k.	100.00	100.00	46,452	46,452	422,316	4,130	43,591	43,557
GEN-I Athens SMLLC.	100.00	100.00	150,000	150,000	203,707	249,164	150,000	150,000
S.C. GEN-I Bucharest S.R.L.	100.00	100.00	500,000	500,000	754,867	491,607	494,275	497,274
GEN-I Sofia SpLLC	100.00	100.00	100,830	0	70,644		100,005	
GEN-I Milano S.r.l	100.00	100.00	100,000	0	83,965		100,000	
GEN-I Vienna GmbH	100.00	100.00	50,000	0	27,557		50,000	
<b>Total</b>			<b>2,038,954</b>	<b>1,788,124</b>	<b>7,722,189</b>	<b>11,700,907</b>	<b>2,575,841</b>	<b>2,424,494</b>

### VI.3.5 Financial risks management

#### Overview of risks

The GEN-I Group is exposed to the following risks in its operations:

- financial risk,
- market risk, and
- operational risk.

GEN-I's prudent approach to risk management helps the Group maintain a high level of operational quality and is crucial for attaining its business goals. The use of standard methodologies and risk management procedures enables quality risk assessment, timely responses, and minimum exposure of the Group to major risks. A detailed description of individual risks and the appropriate risk management procedures can be found in the business report in Chapter 6 Risk Management.

### VI.3.6 Establishment of GEN-I group subsidiaries

The following subsidiaries were established in the GEN-I Group in 2010:

- 1) GEN-I Sofia EOOD with share capital of EUR 100,829.98;
- 2) GEN-I Milano S.r.l. with share capital of EUR 100,000.00; and
- 3) GEN-I Vienna GmbH with share capital of EUR 50,000.00.

Assets of subsidiary		Liabilities of subsidiary		Income of subsidiary		Net profit or loss of subsidiary		Number of employees at subsidiary	
31/12/2010	31/12/2009	31/12/2010	31/12/2009	31/12/2010	31/12/2009	31/12/2010	31/12/2009	31/12/2010	31/12/2009
19,207,356	19,854,995	18,103,216	13,638,859	100,798,998	86,949,942	406,108	5,477,377	3	3
8,641,331	6,735,734	8,090,804	6,169,273	42,636,434	25,236,086	233,667	241,666	2	1
22,087,703	20,164,552	19,786,190	17,786,614	110,752,962	129,228,124	-76,423	1,069,761	1	1
9,336,791	6,716,358	8,472,203	6,135,877	31,766,196	17,907,619	276,419	69,189	2	1
6,331,404	2,596,509	4,993,041	1,381,518	33,948,880	7,541,672	1,304,014	1,258,778	1	1
5,263,063	35,545	4,840,748	31,415	26,711,640	245	420,636	-41,631	2	2
16,314,123	1,840,387	16,110,415	1,591,223	86,871,302	5,292,033	-45,457	99,164	0	0
7,026,886	1,317,017	6,272,020	825,410	26,488,491	772,987	269,371	-5,662	1	1
830,809		760,163		399,152		-29,359		1	0
112,601		28,636		512		-16,035		0	0
40,396		12,838		28		-22,443		0	0
<b>95,192,462</b>	<b>59,261,096</b>	<b>87,470,274</b>	<b>47,560,189</b>	<b>460,374,595</b>	<b>272,928,709</b>	<b>2,720,499</b>	<b>8,168,642</b>	<b>13</b>	<b>10</b>

## VI.3.7 Disclosures of items in financial statements

**Disclosure 1: Property, plant and equipment**

Amounts in €

Property plant and equipment	31/12/2010	31/12/2009
Buildings	77,561	123,083
Other plant and equipment	879,621	345,360
Property, plant and equipment under construction	114,645	3,069
<b>Total property, plant and equipment</b>	<b>1,071,827</b>	<b>471,512</b>

Computer equipment, furniture and office equipment account for the majority of property, plant and equipment.

Investments in property, plant and equipment in 2010 amounted to EUR 853,564. The Group established its own IT infrastructure in 2010. Therefore, most of the investments (EUR 771,375) relate to purchases of computer equipment. Office equipment in the amount of EUR 72,378 and investment in leased office premises in the amount of EUR 9,811 account for the remainder of investments.

**Changes in 2010**

Amounts in €

Property, plant and equipment	Buildings	Other plant and equipment	Production plant and equipment under construction and advances	Total
<b>Historical cost</b>				
Balance at 01/01/2010	215,155	602,457	3,069	820,681
Other acquisitions	0	18,246	835,319	853,564
Write downs	0	-2,183	0	-2,183
Transfer within property, plant and equipment	9,811	713,931	-723,743	0
Effect of movements in exchange rates	0	-3,230	0	-3,230
<b>Balance at 31/12/2010</b>	<b>224,966</b>	<b>1,329,220</b>	<b>114,645</b>	<b>1,668,832</b>
<b>Accumulated depreciation and impairment losses</b>				
Balance at 01/01/2010	92,072	257,097	0	349,168
Write downs	0	-2,183	0	-2,183
Depreciation expense	55,333	194,687	0	250,020
<b>Balance at 31/12/2010</b>	<b>147,405</b>	<b>449,601</b>	<b>0</b>	<b>597,005</b>
<b>Carrying amount at 01/01/2010</b>	<b>123,083</b>	<b>345,360</b>	<b>3,069</b>	<b>471,513</b>
<b>Carrying amount at 31/12/2010</b>	<b>77,562</b>	<b>879,620</b>	<b>114,645</b>	<b>1,071,827</b>

**Changes in 2009**

Amounts in €

Property, plant and equipment	Buildings	Other plant and equipment	Production plant and equipment under construction and advances	Total
<b>Historical cost</b>				
Balance at 01/01/2009	192,212	471,827		664,039
Other acquisitions		37,859	131,407	169,266
Write downs		-9,649	0	-9,649
Disposals		-2,915	0	-2,915
Transfer within property, plant and equipment	22,943	105,743	-128,338	348
Effect of movements in exchange rates		-407		-407
<b>Balance at 31/12/2009</b>	<b>215,155</b>	<b>602,457</b>	<b>3,069</b>	<b>820,681</b>
<b>Accumulated depreciation and impairment losses</b>				
Balance at 01/01/2009	38,968	143,947		182,915
Write downs		-9,649		-9,649
Disposals		-340		-340
Depreciation expense	53,103	123,139		176,242
<b>Balance at 31/12/2009</b>	<b>92,072</b>	<b>257,097</b>	<b>0</b>	<b>349,168</b>
<b>Carrying amount at 01/01/2009</b>	<b>153,244</b>	<b>327,880</b>	<b>0</b>	<b>481,124</b>
<b>Carrying amount at 31.12.2009</b>	<b>123,083</b>	<b>345,360</b>	<b>3,069</b>	<b>471,513</b>

**Disclosure 2: Intangible assets**

Amounts in €

Intangible assets	31/12/2010	31/12/2009
Other intangible assets	567,354	363,019
Intangible assets under construction and development	67,771	3,460
<b>Total intangible assets</b>	<b>635,125</b>	<b>366,479</b>

The Group's other intangible assets include property rights and software (EUR 535,034), long-term trading licenses (EUR 32,320) and intangible assets under development in the amount of EUR 67,771 (mainly software at the parent company intended as support for the sale of electricity on foreign markets).

The EUR 484,369 increase in intangible assets relates to software intended as IT support for employees, support for the sale of electricity to end-customers and server support in the amount of EUR 449,891, and licenses to conduct operations on foreign markets in the amount of EUR 34,478. The parent company accounted for the majority of investments in intangible assets, or EUR 464,368.

**Changes in intangible assets in 2010**

Amounts in €

Intangible assets	Other intangible assets	Intangible assets under construction and development and advances	Total
<b>Historical cost</b>			
Balance at 01/01/2010	798,353	3,460	801,813
Other acquisitions	20,001	528,678	548,680
Transfer within intangible assets	464,368	-464,368	0
Effect of movements in exchange rates	9	0	9
<b>Balance at 31/12/2010</b>	<b>1,282,730</b>	<b>67,771</b>	<b>1,350,501</b>
<b>Accumulated amortization and impairment losses</b>			
Balance at 01/01/2010	435,334	0	435,334
Amortization expense	280,043	0	280,043
<b>Balance at 31/12/2010</b>	<b>715,377</b>	<b>0</b>	<b>715,377</b>
<b>Carrying amount at 01/01/2010</b>	<b>363,019</b>	<b>3,460</b>	<b>366,479</b>
<b>Carrying amount at 31/12/2010</b>	<b>567,354</b>	<b>67,771</b>	<b>635,124</b>

**Changes in intangible assets in 2009**

Amounts in €

Intangible assets	Other intangible assets	Intangible assets under construction and development and advances	Total
<b>Historical cost</b>			
Balance at 01/01/2009	559,709		559,709
Other acquisitions	5,230	240,535	245,766
Write downs	-64		-64
Transfer within intangible assets	233,754	-237,075	-3,321
Effect of movements in exchange rates	-276		-276
<b>Balance at 31/12/2009</b>	<b>798,353</b>	<b>3,460</b>	<b>801,813</b>
<b>Accumulated amortization and impairment losses</b>			
Balance at 01/01/2009	235,462		235,462
Write downs	-64		-64
Amortization expense	199,936		199,936
<b>Balance at 31/12/2009</b>	<b>435,334</b>	<b>0</b>	<b>435,334</b>
<b>Carrying amount at 01/01/2009</b>	<b>324,247</b>	<b>0</b>	<b>324,247</b>
<b>Carrying amount at 31/12/2009</b>	<b>363,019</b>	<b>3,460</b>	<b>366,479</b>

**Disclosure 3: Non-current receivables and loans**

Amounts in €

Non-current receivables and loans	31/12/2010	31/12/2009
Operating receivables due from others	121,843	50,075
Non-current financial receivables and lease	31,675	13,015
<b>Total non-current receivables and loans granted</b>	<b>153,518</b>	<b>63,090</b>

Non-current operating receivables include a long-term security deposit paid to the electricity exchange operator Borzen, organizator trga z električno energijo, d.o.o. in the amount of EUR 50,075, and non-current deferred expenses for current assets in the amount of EUR 71,768. Other non-current financial receivables in the amount of EUR 31,675 comprise paid in life insurance premiums.

**Disclosure 4: Operating receivables**

Amounts in €

Operating receivables	31/12/2010	31/12/2009
Trade receivables	80,254,142	50,054,881
Operating default interest receivables	119,921	50,908
Other receivables associated with financial income	1,088	0
Other operating receivables	19,233,884	7,315,643
<b>Total operating receivables</b>	<b>99,609,035</b>	<b>57,421,432</b>

The Group's consolidated current operating receivables at the end of 2010 were up 73% on the same period last year. The increase is a result of increased business volumes in 2010 compared to the year before.

Customers settled their receivables by the contractually agreed dates or with a slight delay. In the case of repeated payment delays or delays in the payment of larger amounts, the Group charges customers default interest at a rate determined by existing agreements or in accordance with the applicable local legislation.

Receivables from customers that purchase electricity and cross-border capacity rights based on general or annual agreements are usually secured with bills of exchange or bank guarantees. Such collateral is used for receivables that exceed the limits set for individual customers. Receivables from some customers who have signed EFET general agreements with GEN-I are well-regulated by the agreements, while in certain other cases the Group does not request any collateral for its receivables because of the customers' strategic position and/or financial stability.

Other operating receivables comprise current receivables from VAT and current receivables from prepayments of corporate income tax, of which the parent company accounts for EUR 9.6 million and the subsidiaries for the remainder, with the following subsidiaries accounting for the majority of the total: GEN-I Tirana Sh.p.k. (EUR 3.2 million), GEN-I d.o.o. Belgrade (EUR 2.1 million), GEN-I Bucharest S.r.l. (EUR 1.5 million), GEN-I d.o.o. Sarajevo (EUR 1.2 million).

**Age structure and impairment of receivables**

Amounts in €

Aging of receivables	31/12/2010		31/12/2009	
	Gross amount	Impairment	Gross amount	Impairment
Not past due	63,864,204	0	48,859,554	
Past due to 90 days	32,900,295	0	8,491,268	
Past due from 91 to 180 days	741,512	34,301	72,729	2,119
Past due from 181 to 360 days	2,324,039	186,713	90,610	90,610
More than one year	356,270	356,270	255,964	255,964
<b>Total</b>	<b>100,186,319</b>	<b>577,284</b>	<b>57,770,125</b>	<b>348,693</b>

Receivables are impaired if their carrying value exceeds their amortized cost. Impairment of receivables increases the Group's finance costs.

In 2010, only the parent company GEN-I, d.o.o. impaired receivables in the total amount of EUR 274,071 and reversed the impairment of receivables in the amount of EUR 45,273. Disputed and doubtful receivables and other receivables, which the Group does not expect to collect due to sufficient material evidence regarding the debtor's solvency, are impaired in their entirety. The Group's subsidiaries have no receivables that would require impairment.

Amounts in €

<b>Movement of impairment receivables</b>	<b>Impairment 2010</b>	<b>Impairment 2009</b>
Opening balance at 01/01	348,693	277,142
Increase of impairment	274,071	113,407
Decrease of impairment	-45,273	-41,856
Write down of receivables	-207	
<b>Closing balance at 31/12</b>	<b>577,284</b>	<b>348,693</b>

**Disclosure 5: Prepayments and other assets**

Amounts in €

<b>Prepayments and other assets</b>	<b>31/12/2010</b>	<b>31/12/2009</b>
Advances paid	10,465,081	1,053,162
Short-term deferred costs and/or expenses	2,238,916	1,143,777
Short-term accrued revenue	490,587	573,132
<b>Total prepayments and other assets</b>	<b>13,194,584</b>	<b>2,770,071</b>

Advances paid by the Group in the total amount of EUR 10,465,081 comprise advances for cross-border transfer capacities and advances for electricity supplied at the parent company GEN-I, d.o.o in the first quarter of 2011.

Accrued expenses for cross-border transfer capacities account for the majority of current deferred costs and/or expenses. Accrued revenues in the amount of EUR 490,587 comprise revenues from the sale of electricity to customers, which will be invoiced in 2011 according to contractual provisions.

**Disclosure 6: Financial investments, loans and derivatives**

Amounts in €

<b>Investments and loans including derivatives</b>	<b>31/12/2010</b>	<b>31/12/2009</b>
Derivatives	234,092	326,265
Current deposits	0	34,097
Loans to others	0	1,000,000
<b>Total investments and loans</b>	<b>234,092</b>	<b>1,360,362</b>

Derivatives relate to contracts signed with financial institutions for the purpose of hedging electricity prices against currency risks. The parent company accounts for the entire amount of derivatives (EUR 234,092).

**Disclosure 7: Cash and cash equivalents**

Amounts in €

<b>Cash and cash equivalents</b>	<b>31/12/2010</b>	<b>31/12/2009</b>
Cash in banks	15,700,400	12,762,827
Call deposits	1,119,241	2,989,697
Deposits up to three months	760,000	0
Cash in hand	575	169
<b>Total cash and cash equivalents</b>	<b>17,580,216</b>	<b>15,752,693</b>

Cash and cash equivalents include bank account balances, cash in hand and call deposits.

**Disclosure 8: Share capital and reserves**

Capital comprises cash contributions by owners of the controlling company and amounts that have arisen during current operations that pertain to owners.

**Reserves**

Amounts in €

Reserves	31/12/2010	31/12/2009
Legal reserve	1,287,762	982,084
Translation reserve	-254,522	-229,770
<b>Total</b>	<b>1,033,240</b>	<b>752,314</b>

From the net profit generated in the business year, GEN-I, d.o.o. created additional legal reserves in the amount of EUR 305,678, bringing the total amount of legal reserves as at 31 December 2010 to EUR 1,287,762 or 10% of the parent company's share capital.

Exchange rate differences arising from the conversion of foreign currencies into euros are recognized directly in the statement of comprehensive income as foreign currency translation reserve.

**Retained earnings**

Amounts in €

Retained earnings	31/12/2010	31/12/2009
Net profit or loss for the period	7,106,864	14,426,178
Retained net profit or loss	9,283,528	5,136,519
<b>Total</b>	<b>16,390,392</b>	<b>19,562,697</b>

There was an increase in retained earnings compared to the previous year in the amount of the net profit or loss after the creation of legal reserves (EUR 7,106,864), and a decrease for the amount of exchange rate differences (EUR 467,952), dividend payments to shareholders of the parent company (EUR 9,383,939) and a tax on the transfer of profits to the parent company (EUR 427,278).

**Disclosure 9: Loans**

Amounts in €

Current loans and borrowings	31/12/2010	31/12/2009
Borrowings from banks	18,800,000	3,000,000
Current interest payable	21,574	13,808
<b>Total current financial liabilities</b>	<b>18,821,574</b>	<b>3,013,808</b>

Loans received were initially recognized at fair value reduced by acquisition costs. At the reporting date, they were measured at repayment value using the effective interest rate method, taking into account acquisition costs, discounts and premiums.

The main reason for the increase in loans in 2010 from EUR 3 million to EUR 18.8 million was the financing of pre-payments for electricity purchases.

**Changes**

Amounts in €

Changes in current loans and borrowings	Borrowings from banks	
	2010	2009
Opening balance at 01/01	3,000,000	14,082,428
New borrowings - increase	25,800,000	3,000,000
Repayment - decrease	-10,000,000	-14,082,098
Consolidation foreign exchange differences	0	-330
<b>Closing balance at 31/12</b>	<b>18,800,000</b>	<b>3,000,000</b>

**Disclosure 10: Cost and maturity of loans**

At the reporting date, the parent company's liabilities from loans amounted to EUR 18,800,000 and included loans received from Slovenian commercial banks that were secured with bills of exchange. They included three short-term loans at fixed interest rates of between 2.5 % and 5.3 % and two short-term loans at variable interest rates tied to the 3-month or 6-month Euribor with a margin of between 2.65 % and 2.9 %. Interest paid on loans in 2010 based on short-term loan agreements between the parent company and domestic commercial banks amounted to EUR 516,559.

Loans are secured by blank bills of exchange for the full amount of the loans.

**Disclosure 11: Non-current provisions**

Amounts in €

Provisions for severance payments and long-service bonuses	2010	2009
Balance at 01/01	62,498	44,645
Provisions made during the period	20,997	20,622
Provisions used during the period	-8,221	-2,768
Balance at 31/12	75,274	62,499
Of which non-current portion	75,275	62,499

In 2010, the GEN-I Group tested the value of provisions for severance payments and long-service bonuses based on the actuarial calculation for 2009, taking into account the number and age of employees in 2010.

**Disclosure 12: Deferred taxes**

Amounts in €

Deferred taxes relating to	Receivables		Liabilities		Net effect	
	2010	2009	2010	2009	2010	2009
Intangible assets	61,206	40,061	0	0	61,206	40,061
Provisions for severance payments and long-service bonuses	16,750	10,705	0	0	16,750	10,705
Deferred tax assets (liabilities)	77,957	50,766	0	0	77,957	50,766
Set off of tax	0	0	0	0	0	0
Net deferred tax assets (liabilities)	77,957	50,766	0	0	77,957	50,766

Deferred tax assets include corporate income tax payments that will be reimbursed to the taxable person over future periods in the form of reduced income tax installments. They are the result of temporary deductible differences and transfers of unused tax losses or tax credits in future periods.

All the Group's deferred tax assets are recognized in the income statement. In 2010, the Group recorded an increase in deferred tax assets resulting from the following changes:

- non-deductible tax provisions in the amount of 50 % created for severance payments and long-service bonuses; and
- provisions created for the depreciation of fixed assets for which depreciation exceeded the amount deductible for tax purposes.

Amounts in €

Changes in temporary differences in the period	31/12/2008	Recognized in the income statement	31/12/2009	Recognized in the income statement	31/12/2010
Intangible assets	23,542	16,519	40,061	21,146	61,207
Provisions for severance payments and long-service bonuses	8,469	2,236	10,705	6,045	16,750
Total	32,011	18,755	50,766	27,191	77,957

**Disclosure 13: Operating liabilities**

Amounts in €

	31/12/2010	31/12/2009
<b>Current operating liabilities</b>		
Current trade payables	72,872,264	23,941,128
Current trade payables to subsidiaries	0	413
<b>Current trade payables</b>	<b>72,872,264</b>	<b>23,941,541</b>
Current liabilities to employees	675,598	477,598
Current liabilities to state and other institutions	4,575,444	3,410,999
Current liabilities to others	73,601	32,714
<b>Other liabilities</b>	<b>5,324,643</b>	<b>3,921,311</b>
<b>Current operating liabilities</b>	<b>78,196,907</b>	<b>27,862,852</b>

Current trade payables accounted for the majority of the Group's current operating liabilities. They mainly include trade payables for electricity purchases and the associated variable costs. Current operating liabilities in 2010 were up 181% on 2009, mainly owing to the increased volume of operations.

Current liabilities to employees comprise liabilities for December salaries and other employee earnings.

Current liabilities to state and other institutions also accounted for a significant portion of the Group's current operating liabilities; they included liabilities for VAT, excise duties, and employment-related liabilities payable by the employer.

Current liabilities to others are disclosed at the parent company and include liabilities from contractual work, meeting attendance fees and liabilities from payment card transactions.

**Disclosure 14: Advances payable and other current liabilities**

Amounts in €

	31/12/2010	31/12/2009
<b>Advances payable and other current liabilities</b>		
<b>Current advances payable</b>	<b>121,422</b>	<b>802,563</b>
Accrued costs and expenses	5,097,095	13,641,419
Deferred revenue	743,851	23,375
<b>Accrued costs and deferred revenue</b>	<b>5,840,947</b>	<b>13,664,794</b>
<b>Advances payable and other current liabilities</b>	<b>5,962,369</b>	<b>14,467,357</b>

Current liabilities for advances received relate to advances received for electricity sales to domestic and foreign entities.

Accrued costs and expenses mainly include the differences between the expected electricity supply and consumption according to schedules and the actual realization, the acquisition of green certificates, costs of cross-border capacity rights and electricity purchases.

Current deferred revenues comprise electricity supplies which were calculated in 2010 for the next business year.

**Disclosure 15: Fair values**

Amounts in €

Fair values	Note	31/12/2010		31/12/2009	
		Carrying amount	Fair value	Carrying amount	Fair value
<b>Assets carried at fair value</b>					
Derivatives	6	234,092	234,092	326,265	326,265
<b>Total</b>		<b>234,092</b>	<b>234,092</b>	<b>326,265</b>	<b>326,265</b>
<b>Assets carried at amortized cost</b>					
Non-current financial receivables	3	31,675	31,675	13,015	13,015
Non-current operating receivables	3	121,843	121,843	50,075	50,075
Current deposits	6	0	0	34,097	34,097
Current loans	6	0	0	1,000,000	1,000,000
Operating receivables	4	99,609,035	99,609,035	57,421,432	57,421,432
Cash and cash equivalents	4	17,580,216	17,580,216	15,752,693	15,752,693
<b>Total</b>		<b>117,342,769</b>	<b>117,342,769</b>	<b>74,271,312</b>	<b>74,271,312</b>
<b>Liabilities carried at amortized cost</b>					
Secured bank loans	9	-18,800,000	-18,800,000	-3,000,000	-3,000,000
Interests	9	-21,574	-21,574	-13,808	-13,808
Operating liabilities	13	-78,196,907	-78,196,907	-27,862,852	-27,862,852
<b>Total</b>		<b>-97,018,481</b>	<b>-97,018,481</b>	<b>-30,876,660</b>	<b>-30,876,660</b>

**Disclosure 16: Contingent liabilities**

Amounts in €

Contingent liabilities	31/12/2010	31/12/2009
Guarantees and securities - other	76,240,525	62,592,940
Guarantees and securities - subsidiaries operating abroad	33,024,232	35,271,305
<b>Total</b>	<b>109,264,757</b>	<b>97,864,245</b>

Contingent liabilities comprise liabilities from bank guarantees that were issued to various beneficiaries at the request of GEN-I, d.o.o. and its subsidiaries. They mainly include performance bonds, bid guarantees and guarantees issued by banks for the timely payment of goods and services.

**Disclosure 17: Revenues**

Revenues from electricity sales amounted to EUR 652,562,447 in 2010. The Group's revenues from the sale of goods were up 43% on 2009.

Revenues from services include sales of cross-border transfer capacities. Revenues from rents were negligible.

Amounts in €

Revenue	Generated from 01/01 to 31/12/2010	Generated from 01/01 to 31/12/2009
Revenues from sale of goods and materials	652,562,447	456,761,335
Revenues from sale of services	277,057	2,943
Rental income	1,049	545
<b>Total</b>	<b>652,840,553</b>	<b>456,764,823</b>

In 2010, the Group generated 80% of its revenues on foreign markets and 20% on the domestic market.

Amounts in €

Income generated in Slovenia or abroad	Generated from 01/01 to 31/12/2010		
	Slovenia	Abroad	Total
Revenues from sale of goods and materials	130,973,439	521,589,008	652,562,447
Revenues from sale of services	162,975	114,082	277,057
Rental income	0	1,049	1,049
<b>Total</b>	<b>131,136,414</b>	<b>521,704,139</b>	<b>652,840,553</b>

The Group's other operating revenues in 2010 included revenues from the reversal of deferred revenues from the previous year, damages received and a subsidy.

Amounts in €

Other operating income	Generated from 01/01 to 31/12/2010	Generated from 01/01 to 31/12/2009
Other operating revenues	82,253	12,039
Revenues from subsidies, government grants and compensation	5,000	2,560
<b>Total</b>	<b>87,253</b>	<b>18,116</b>

#### Disclosure 18: Cost of goods, materials and services

Amounts in €

Items	Generated from 01/01 to 31/12/2010	Generated from 01/01 to 31/12/2009
Cost of goods and materials sold	632,050,158	432,038,242

The historical cost of goods sold in 2010 was up 46% on 2009. The historical cost includes the purchase price of electricity and the associated costs.

Amounts in €

Cost of services	Generated from 01/01 to 31/12/2010	Generated from 01/01 to 31/12/2009
Transportation	292,363	232,457
Maintenance	208,202	176,664
Rents	1,134,783	732,375
Bank charges and other fees	1,186,482	878,113
Intellectual services	2,255,699	1,561,600
Advertising, promotion and public relations	432,848	644,790
Other services	734,393	835,343
IT costs	147,223	21,436
<b>Total</b>	<b>6,391,993</b>	<b>5,082,778</b>

The costs of services in 2010 were up 26% on 2009 owing to the increased volume of the Group's operations and the expansion to new markets. Intellectual services accounted for the largest portion of the Group's costs of services and included human resource management services (consulting, selection of candidates), legal and notary fees, auditing and accounting services, and business and tax consultancy services. Costs of services also included bank fees, various other fees and rents.

Other costs of services included telecommunication services, education, transport, fees and concessions, costs of accessing different databases, licensing costs and costs for the preparation of the annual report.

Amounts in €

<b>Auditing services</b>	<b>Generated from 01/01 to 31/12/2010</b>	<b>Generated from 01/01 to 31/12/2009</b>
Audit of annual report	38,927	32,768
Other cost of auditing		3,640
Other non-audit services	525	
<b>Total</b>	<b>39,452</b>	<b>36,408</b>

Amounts in €

<b>Minimum lease payments under noncancellable operating lease</b>	<b>2010</b>	<b>2009</b>
< 1 year	417,690	340,014
> 1 - < 5 years	602,223	366,495
<b>Total</b>	<b>1,019,913</b>	<b>706,508</b>

Liabilities from long-term contracts signed for the lease of commercial premises are expected to amount to at least EUR 872,766 at the parent company (organizational units in Ljubljana, Nova Gorica and Krško) and to EUR 147,147 at the Group's subsidiaries.

Amounts in €

<b>Cost of materials</b>	<b>Generated from 01/01 to 31/12/2010</b>	<b>Generated from 01/01 to 31/12/2009</b>
Costs of energy	62,384	60,873
Materials and spare parts	18,649	14,511
Office supplies	117,668	79,397
Other cost of materials	0	414,507
<b>Total</b>	<b>198,701</b>	<b>569,288</b>

#### Disclosure 19: Labor costs

Amounts in €

<b>Labor costs</b>	<b>Generated from 01/01 to 31/12/2010</b>	<b>Generated from 01/01 to 31/12/2009</b>
Wages and salaries	4,023,592	2,873,262
Social security contributions	641,403	470,094
Other labor costs	439,407	463,292
<b>Total</b>	<b>5,104,402</b>	<b>3,806,648</b>

In 2010, the Group calculated labor costs in line with collective agreements for the electricity sector in countries where GEN-I, d.o.o. and its subsidiaries operate, the job classifications used by individual companies within the GEN-I Group, and individual employment contracts.

Labor costs include wages and salaries, social security contributions, additional pension insurance, and other labor costs (allowances for meal expenses, transportation costs to and from work, annual leave pay, long-service bonuses, etc.).

Total labor costs in 2010 were up 34% on 2009, mainly due to an increase in the number of employees.

**Disclosure 20: Amortization and depreciation**

Amounts in €

Amortization and depreciation	Generated from 01/01 to 31/12/2010	Generated from 01/01 to 31/12/2009
Amortization of intangible assets	280,042	199,936
Depreciation of property, plant and equipment	250,020	176,242
<b>Total</b>	<b>530,062</b>	<b>376,178</b>

The Group's fixed assets are amortized/depreciated individually using the straight-line depreciation method and depending on their estimated useful lives, while fixed assets owned by third parties are depreciated over the term of the lease.

Amortization/depreciation amounted to EUR 530,062 in 2010, up 41% on the previous year. The increase was linked to more extensive investments in fixed assets.

The Group did not record any write-offs of property, plant or equipment in 2010.

**Disclosure 21: Other operating expenses**

Amounts in €

Other operating expenses	Generated from 01/01 to 31/12/2010	Generated from 01/01 to 31/12/2009
Taxes and levies	76,304	84,941
Loss on sale of property, plant and equipment, and intangible assets	0	451
Donations	27,082	15,600
Creation of provisions	20,997	20,622
Impairment of property, plant and equipment	0	2,975
Other operating expenses	1,450,910	603,112
<b>Total</b>	<b>1,575,293</b>	<b>727,701</b>

Other operating expenses in 2010 were up on the previous year mainly due to a special levy imposed on the energy sector in Hungary, which resulted in expenses of EUR 1,028,323 for GEN-I Budapest Kft. The levy was set at 1.05% of total earnings in the previous business year. The Hungarian parliament adopted the special levy in October 2010, making it effective for the 2010 business year. Other operating expenses comprised damages and fines paid, expenses not recognized for tax purposes, membership fees and other fees of lesser value.

Amounts in €

Donations	Generated from 01/01 to 31/12/2010	Generated from 01/01 to 31/12/2009
Humanitarian purposes	15,281	5,450
Charitable purposes	4,601	
Scientific purposes	600	
Educational purposes	700	1,550
Sports purposes	4,900	4,800
Cultural purposes	700	3,000
Environmental purposes	300	800
<b>Total</b>	<b>27,082</b>	<b>15,600</b>

**Disclosure 22: Profit or loss from financing**

Amounts in €

<b>Profit or loss from financing</b>	<b>Generated from 01/01 to 31/12/2010</b>	<b>Generated from 01/01 to 31/12/2009</b>
Interest income	106,545	202,380
Net income from settlement of financial instruments	3,224,027	3,596,558
Change in fair value of derivatives	0	291,031
Other financial income	112,331	96,399
Recovered written-off receivables and reversal of write-off	45,273	41,856
<b>Financial income</b>	<b>3,488,176</b>	<b>4,228,224</b>
Interest expense	-522,669	-410,828
Impairment loss on trade receivables	-274,071	-123,079
Change in fair value of derivatives	-56,938	0
Net foreign exchange losses	-570,116	-31,675
Other finance costs	-131,006	-54,721
<b>Financial costs</b>	<b>-1,554,800</b>	<b>-620,303</b>
<b>Profit or loss from financing</b>	<b>1,933,376</b>	<b>3,607,921</b>

Net revenues from the settlement of financial instruments accounted for the majority of finance income. The net effect from settlement of financial instruments in the 2010 business year was a gain in the amount of EUR 3,224,027, while changes in fair value resulted in a loss of EUR 56,938. All effects from the settlement of financial instruments are recognized at the parent company GEN-I, d.o.o.

Revenues from interest amounted to EUR 106,545 in 2010 and comprised revenues from interest on current loans given to other companies and interest from deposits held.

Other finance income mainly includes default interest charged to customers, the costs of payment reminders and enforcement orders, the result of rounding and the reversal of costs of financial transactions from previous years.

Interest expenses amounted to EUR 522,669 in 2010 and were up on 2009 due to increased financing needs.

Last year, revenues from the reversal of impairments and payment of written-off receivables amounted to EUR 45,273, while expenses from the impairment of receivables amounted to EUR 274,071. Impairment loss of trade receivables in the business year accounted for EUR 273,864 and the direct write-off of receivables for EUR 207 of this amount, all of which was recorded at the parent company GEN-I, d.o.o.

Damages paid to the subsidiary GEN-I d.o.o. Sarajevo for undelivered electricity accounted for the majority of other finance costs.

**Disclosure 23: Taxes**

Amounts in €

<b>Taxes</b>	<b>2010</b>	<b>2009</b>
Current tax	1,625,221	2,888,712
Deferred tax	-27,191	-18,755
<b>Total</b>	<b>1,598,030</b>	<b>2,869,957</b>

In 2010, the Group reported corporate income tax in the amount of EUR 1,625,221 and deferred tax assets in the amount of EUR 27,191.

Deferred tax assets totaling EUR 27,191 include additional provisions for severance payments and long-service bonuses created in 2010 in the amount of EUR 6,045 and depreciation of intangible assets not recognized for tax purposes in the amount of EUR 21,146.

**Effective tax rate calculation**

Amounts in €

Effective tax rate	2010	2009
Gross profit before tax	9,010,573	17,790,025
Statutory tax rate	20%	21%
Income tax at statutory tax rate, prior to changes in tax base	1,802,115	3,735,905
Tax exempt income	-264	-673,474
Non-deductible expenses	239,635	53,662
Tax relief	-178,868	-21,102
Effect of tax rates in foreign jurisdictions	-264,588	-225,034
<b>Effective tax rate</b>	<b>17.74%</b>	<b>16.13%</b>
Current and deferred income tax	1,598,030	2,869,957

**Disclosure 24: Data on groups of persons****Gross earnings in 2010**

Amounts in €

Gross earnings	Management	Employees under individual employment agreements
Wages and salaries	203,696	1,376,732
Fringe benefits and other remuneration	688,740	130,035
<b>Total</b>	<b>892,436</b>	<b>1,506,767</b>

**Gross earnings in 2009**

Amounts in €

Gross earnings	Management	Employees under individual employment agreements
Wages and salaries	205,554	549,329
Fringe benefits and other remuneration	471,331	51,336
<b>Total</b>	<b>676,885</b>	<b>600,665</b>

Group companies have no outstanding receivables from management board members.

**VI.3.8 Financial instruments and risk exposure****Disclosure 25: Credit risk**

Amounts in €

Items	31/12/2010	31/12/2009
Non-current receivables	153,518	63,090
Other non-current financial receivables	31,675	13,015
Non-current operating receivables	121,843	50,075
Current trade receivables	80,254,142	50,054,881
Other current receivables	19,234,972	7,315,643
Short-term deposits	0	34,097
Current loans	0	1,000,000
Cash and cash equivalents	17,580,216	15,752,693
<b>Total</b>	<b>117,376,366</b>	<b>74,283,494</b>

Amounts in €

Current trade receivables	Carrying amounts	
	2010	2009
Domestic	47,444,519	40,032,274
Euro-zone countries	19,046,364	9,947,021
Other European countries	10,616,191	
Countries of the former Yugoslavia	1,155,793	75,586
Other regions	1,991,275	
<b>Total</b>	<b>80,254,142</b>	<b>50,054,881</b>

Amounts in €

Current trade receivables	Carrying amounts	
	2010	2009
Wholesale customers	49,725,789	29,198,134
Retail customers	30,528,222	20,856,747
End-user customers	132	
<b>Total</b>	<b>80,254,143</b>	<b>50,054,881</b>

As already explained in the business report, the GEN-I Group uses an active approach to managing credit risks and financial exposure to individual business partners. Its approach is based on the consistent application of the Company's internal rules and procedures for identifying risks and assessing exposure to them, determining the permissible limits of risk exposure, and the constant monitoring of the Company's exposure to risks in its dealings with individual business partners. In line with the Company's rules, the risk-management department analyzes the credit standing of each new trading partner and large customer that wish to purchase electricity from GEN-I. This risk-assessment report serves as the basis for future cooperation, enabling the Group to define credit lines for hedging purposes and offer new partners payment and delivery terms adjusted to their particular risk levels. When monitoring credit risks and daily credit line exposure, the Group divides individual partners into groups according to their credit characteristics (whether it is a company or a group of companies, trading partner, end-customer or retail customer), geographical position, industry, age structure and maturity of receivables, financial difficulties in the past, and any breaches of contractual obligations based on the estimated level of risk. In order to minimize risks associated with partners' inability to settle outstanding receivables, the Group pays particular attention to using the proper financial and legal instruments when negotiating daily transactions to ensure that contractual obligations are met. These instruments are incorporated into contractual relationships with business partners based on analyses of their credit standing and relevant risk assessments.

Impairments of receivables and their maturity structure are described in Disclosure 4.

## Disclosure 26: Liquidity risk

2010

Amounts in €

Financial liabilities	Carrying amounts	Contractual cash flows	Up to 6 months	6 - 12 Months
<b>Non-derivative financial liabilities</b>				
Secured bank loans	18,800,000	19,198,154	10,091,229	9,106,925
Interests	21,574	21,574	21,574	0
Trade and other payables	78,196,907	78,201,928	78,201,928	0
<b>Forward exchange contracts used for hedging:</b>				
Outflow	234,092	0	0	0
Inflow	0	0	0	0
<b>Total</b>	<b>97,252,573</b>	<b>97,421,656</b>	<b>88,314,731</b>	<b>9,106,925</b>

**2009**

Amounts in €

Financial liabilities	Carrying amounts	Contractual cash flows	Up to 6 months	6 - 12 Months
<b>Non-derivative financial liabilities</b>				
Secured bank loans	3,000,000	3,089,428	0	3,089,428
Other liabilities	13,808	13,808	13,808	0
Trade and other payables	28,665,415	28,665,415	28,665,415	0
<b>Forward exchange contracts used for hedging:</b>				
Outflow	326,265	0	0	0
Inflow	0	0	0	0
<b>Total</b>	<b>32,005,488</b>	<b>31,768,651</b>	<b>28,679,223</b>	<b>3,089,428</b>

The liquidity of the entire GEN-I Group is managed by the parent company, which monitors and plans short-term solvency and ensures this by coordinating and planning all cash flows within the Group. At the same time, the Company takes into account credit risks associated with possible late payments and poor payment discipline, which can affect the planning of incoming cash flows and the Group's investment activities.

The Group also constantly monitors and optimizes short-term surpluses and shortages of monetary assets, both at the level of individual companies and the Group level. A liquidity reserve in the form of credit lines approved by commercial banks, the diversification of financial liabilities, constant adjustment of maturity periods of liabilities and receivables, and consistent collection of receivables are all factors that guarantee the Group successful cash-flow management, ensuring its purchasing power and reducing the level of short-term solvency risks. Thanks to the Group's active approach to financial markets, its good performance in the past and a stable operating cash flow, liquidity risks are within acceptable parameters and entirely manageable.

The Group's long-term solvency is ensured by preserving and increasing its share capital and maintaining an appropriate financial balance. To achieve this, the Group adjusts its balance sheet structure to match the maturity of its financial liabilities. As part of liquidity risk management activities in 2011, the management board intends to further strengthen the Group's long-term and short-term solvency and include new subsidiaries in the liquidity monitoring system.

**Disclosure 27: Interest-rate risk**

Amounts in €

Financial instruments	Carrying amounts	
	31.12.2010	31.12.2009
<b>Fixed-rate financial instruments</b>		
Financial assets	265,767	1,000,000
Financial liabilities	-8,000,000	-3,000,000
<b>Variable-rate instruments</b>		
Financial assets	0	0
Financial liabilities	-10,800,000	0

The Group manages interest-rate risks by constantly evaluating risk exposure and the possible effects of changing reference interest rates (the variable part) on its costs from financing activities. The Group also monitors its loan portfolio, which could be affected by a change in the relevant interest rates. As part of its risk management activities, the Group monitors interest rate fluctuations on the domestic and foreign markets as well as on derivatives markets. The purpose of the Group's ongoing monitoring activities and analyses is to propose timely protective measures by balancing assets and liabilities in its statement of financial position.

**Disclosure 28: Currency risk**

Amounts in €

Receivables, payables	Euro	Hrk	Mkd	Bam	Rsd	All	Ron
31/12/2010							
Trade receivables	56,243,743	710	3,345,503	63,027	14,616,309	1,797,451	4,187,398
Secured bank loans	-18,800,000	0	0	0	0	0	0
Trade payables	-34,758,638	-1,409,895	-1,708,346	-7,713,012	-17,618,486	-4,691,601	-4,972,285
<b>Gross balance sheet exposure</b>	<b>2,685,105</b>	<b>-1,409,186</b>	<b>1,637,158</b>	<b>-7,649,984</b>	<b>-3,002,177</b>	<b>-2,894,150</b>	<b>-784,887</b>

Amounts in €

Receivables, payables	Euro	Hrk	Mkd	Bam	Rsd	Huf	All	Ron
31/12/2009								
Trade receivables	49,790,295	0	0	0	0	0	0	264,586
Secured bank loans	-3,000,000	0	0	0	0	0	0	0
Trade payables	-22,557,929	-9,511	-151,351	-1,215,986	-1,827	-1,464	-1,238	-2,236
<b>Gross balance sheet exposure</b>	<b>24,232,366</b>	<b>-9,511</b>	<b>-151,351</b>	<b>-1,215,986</b>	<b>-1,827</b>	<b>-1,464</b>	<b>-1,238</b>	<b>262,350</b>

In markets outside the euro area, the GEN-I Group is actively involved in establishing an appropriate infrastructure for foreign currency transactions and implementing a number of currency-hedging mechanisms, including forward contracts and currency clauses.

The GEN-I Group is exposed to currency risks when evaluating trading and sales volumes of electricity and cross-border capacity rights, loans, and equity held in foreign subsidiaries. Given the scope of its operations, the Group is exposed to currency risks associated with the Serbian dinar (RSD), Croatian kuna (HRK), Hungarian forint (HUF), Macedonian denar (MKD), Romanian leu (RON) and Albanian lek (ALL).

Currency risks are minimized by linking selling prices of goods to the currency used by the sources that finance the purchase of these goods. To a certain extent, currency risks between subsidiaries are “naturally” hedged because a part of the expected inflows from individual companies is balanced out by the expected outflows in the same currency. If necessary, the Group also uses derivatives; numerous forward currency contracts are executed to hedge these risks.

## VI.4 Events After the Statement of Financial Position Date

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An increase in the share capital of GEN-I, d.o.o. was entered in the court register on 2 February 2011 based on the decision of the general meeting of shareholders. The Company's share capital was increased by EUR 3 million, bringing it to EUR 15,877,610.

## VI.5 Statement by the Management Board

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The management board hereby certifies that the annual report and all of its components were compiled and published in accordance with the Companies Act and the International Financial Reporting Standards.

The management board approves the consolidated financial statements of the GEN-I Group for the business year that ended on 31 December 2010, including the notes to the consolidated financial statements from page 18 of the accounting report onwards.

The management board certifies that all relevant accounting principles were consistently applied in drafting the consolidated financial statements of the GEN-I Group. Accounting estimates were prepared according to the principles of prudence and due diligence. The management board also certifies that this annual report provides a true and fair picture of the assets of the GEN-I Group and its performance in 2010.

The consolidated financial statements with notes were prepared on a going concern basis and in line with the relevant legislation and International Financial Reporting Standards.

Martin Novšak  
Vice President of the Management Board



Robert Golob, PhD  
President of the Management Board



Krško, 29 March 2011

## VI.6 Certified Auditor's Report



### Independent Auditor's Report To the Shareholders of GEN-I d.o.o.

We have audited the accompanying consolidated financial statements of GEN-I d.o.o. and its subsidiaries (GEN-I Group), which comprise the consolidated statement of financial position as at 31 December 2010, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

#### *Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by EU, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

#### *Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of GEN-I d.o.o. and its subsidiaries (GEN-I Group) as at 31 December 2010, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by EU.

#### *Other matters*

As required by the Slovenian Companies Act we herewith confirm that the information in the management report is in conformity with the accompanying consolidated financial statements.

**KPMG SLOVENIJA,**  
podjetje za revidiranje, d.o.o.

Irena Uršič, B.Sc.Ec.

*Certified Auditor*

Ljubljana, 31. March 2011

Marjan Mahnič, B.Sc.Ec.

*Certified Auditor*

*Partner*

*KPMG Slovenija, d.o.o.*  
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The Independent Auditor's Report hereof is a translation of the original Independent Auditor's Report in Slovene, issued on the financial statements and the notes thereto in Slovene. This translation is provided for reference purposes only and is not to be signed.

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Text: GEN-I, d.o.o.

Translation: Maja Škoro

Design: Miran Klenovšek, Primož Orešnik | gigodesign

Photo: Žiga Koritnik, Simon Plestenjak

Note: The English Edition is a translation of the Slovene original which remains the legal version.