



Annual Report of GEN-I,  
trgovanje in prodaja električne energije, d.o.o.  
and the GEN-I Group  
for the 2011 Business Year

CONNECTING  
THE REGION



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THE REGION

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REVENUES IN 2011  
EXCEEDED EUR 1 BILLION.

Robert Golob, Ph.D.  
President of the  
Management Board

# 1. Letter from the Management Board

Dear stakeholders and partners,

Yet another extremely successful business year is behind us. Involving a globally oriented and flexible portfolio, supported by a platform that enables us to adequately respond to market changes, our strategy again proved to be successful. A key factor in the success of the GEN-I Group in 2011 was once again our team, which has the necessary skills to choose the best combination for purchases of different products and optimised transport routes to sales markets at any given moment. We can be truly satisfied and proud of our abilities, skills and knowledge, along with our responsiveness and ability to make the right decisions. All of these qualities are ingrained in the GEN-I Group's employees, and the Management Board would like to thank them sincerely for their efforts and contributions.

The growing market uncertainty brought about by the debt crisis, the closure of nuclear power plants in Germany and a drought in the second half of the year had a significant effect on the Group's performance, as these events created considerable turbulence in the electricity market.

In such circumstances, our main competitive advantage grew in importance, namely our ability to respond quickly to market changes while maintaining a high level of risk management. We faced and overcame numerous

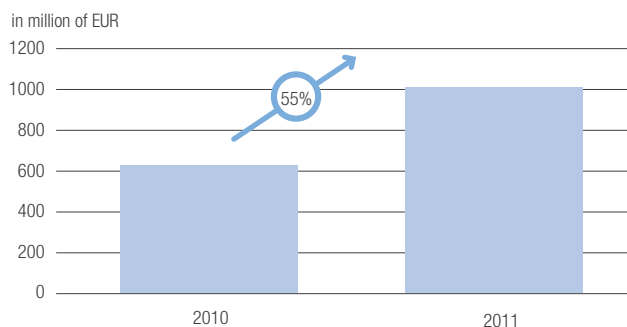
challenges in 2011, greatly exceeding our targets. Operating revenues were up 55% and we ended the year with a net profit of EUR 14 million, up nearly 90% on the previous year. Despite the challenging conditions, we were able to successfully control the effects of deteriorating solvency in key markets.

The biggest rise in revenues was recorded in the electricity trading segment. We sold a total of 17.2 TWh of electricity, up 34.2% on 2010. We worked with over 1,600 trading partners in 17 markets and recorded significant growth in market shares, particularly in the less liquid markets of South-East Europe. In the wider region, we are considered one of the most reliable, responsible and respected players in the electricity market. In addition to increased business volumes in traditional markets, we entered some new markets in 2011, including Turkey where we started trading electricity in mid-2011.

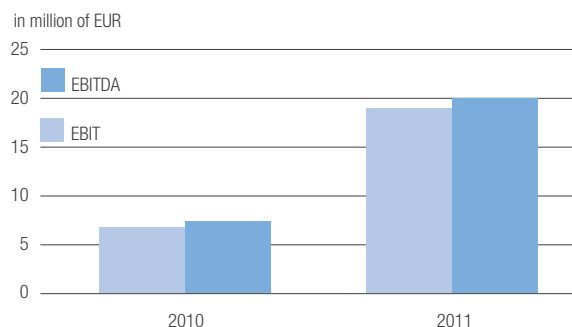
In the business customer segment, we increased market shares in all markets: Slovenia, Croatia, Italy and Austria. In Slovenia, we sold 2.7 TWh of electricity to end-customers and achieved a market share of 22.3%, becoming the largest and most important electricity supplier. The number of customers in the household segment exceeded 34,000 in 2011, and our market share increased by 2 percentage points. Despite the rapid growth, we were able to secure the "Customer Friendly Supplier of the Year" award for the third consecutive year. In the

WE ARE THE LARGEST ELECTRICITY  
SUPPLIER IN SLOVENIA.





We recorded growth in sales revenues in all segments.



Rapid revenue growth was reflected by growth in EBIT and EBITDA.

Martin Novšak, MBA,  
Vice President of the  
Management Board

Croatian market, we started delivering electricity to the City of Zagreb in September as part of a five-year contract.

In 2011, Petrol, d.d., Ljubljana became a significant strategic owner of the Group, purchasing 100% of shareholder IGES and thereby becoming an indirect owner of a 50% share in GEN-I. As a result, GEN-I gained a stable ownership structure which will ensure the Company's even greater financial stability in the future. In November 2011, the general meeting of GEN-I's shareholders appointed a new Management Board with a five-year term: Martin Novšak and Igor Koprivnikar were appointed by Gen energija, and Robert Golob and Andrej Šajn were appointed by IGES. Mr. Šajn succeeded Dejan Paravan, who took on the role of executive sales director.

During its first term of office, the Management Board of GEN-I pursued a rapid growth strategy that helped build the Company's reputation, strengthen its market position in the energy markets of South- East Europe and resulted in sales of over EUR 1 billion in 2011. In its second term, the Management Board intends to modify the growth strategy and focus on building a modern corporate structure for the Company, while at the same

time bolstering its risk management function. This new strategy envisaged by the Management Board includes the Metis project, whose main goals are to adjust the current organisational structure and the functioning of processes, and to plan the professional and personal development of employees within the Group. We believe these measures will ensure we remain one of the most successful and agile companies in the years to come.

The future brings changes, and we at the GEN-I Group see them as opportunities. Some of these opportunities are evident today, others will be revealed in time, but we are willing and ready to respond to them quickly and effectively. We are capable and aim to be the best, which is why we will continue to achieve success in the future.

Robert Golob, PhD  
President of the Management Board

Martin Novšak, MBA  
Vice President of the Management Board  
**Performance highlights**

IN SEPTEMBER,  
WE STARTED DELIVERING  
ELECTRICITY TO THE CITY  
OF ZAGREB AS PART  
OF A FIVE-YEAR  
CONTRACT.





*Idrija, Slovenia*

# IDRIJA LACE



Idrija lace is a form of bobbin lace named after Idrija, an old mining town in the west of Slovenia.

This ancient skill, which requires a great deal of patience, precision and focus, has been taught at the renowned Idrija lace-making school since 1876. While the lace-making methods remain unchanged, the patterns used and the different applications on products are constantly adapted to reflect the spirit of the times.



Respecting tradition has always been the foundation of progress, just as respect for shareholders is the foundation of success.

Respect is the one value in the Company's operations and business decisions that connects us to the wider business, social and natural environments.

As an electricity supplier and trader, we are aware of our responsibility to customers, which is why we aim for 100% reliability, while our mission is to build stable partnerships with our customers and our environment.



THE GEN-I GROUP IN FIGURES  
BASIC INFORMATION AND REGIONAL PRESENCE  
THE GEN-I GROUP: PRESENT AND FUTURE  
CORPORATE GOVERNANCE

## 2. The GEN-I Group in figures

### Key indicators for the Company and the Group

GEN-I, d.o.o.	2011	2010	Indeks 11/10
Operating revenues	982.833.069	570.922.019	172,1
Operating profit or loss (EBIT)	6.071.478	3.702.299	164,0
Operating profit or loss before depreciation and amortisation (EBITDA)	7.165.342	4.222.113	169,7
Net profit or loss	8.127.346	10.889.927	74,6
Cash flow	9.221.210	11.409.741	80,8
Equity	37.946.892	24.749.617	153,3
Liabilities	157.976.045	94.769.470	166,7
Total equity and liabilities	195.922.937	119.519.087	163,9
Number of employee as at 31 December	109	89	122,5
<b>Quantity of electricity sold in TWh</b>	<b>12,5</b>	<b>7,8</b>	<b>151,8</b>

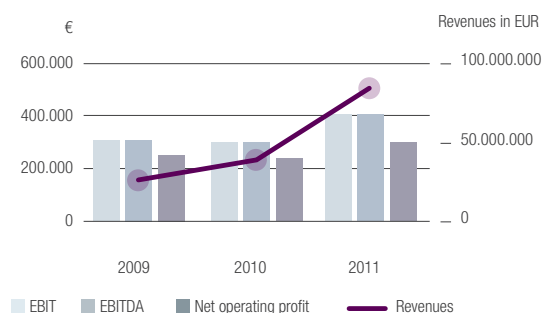
Indicator/year	2011	2010
Self-financing ratio	19,37%	20,71%
Long-term financing ratio	20,45%	20,77%
Fixed asset investment ratio	1,02%	1,38%
Acid-test ratio	9,85%	10,77%
Quick ratio	105,41%	110,51%
Current ratio	122,73%	122,08%
Operating efficiency ratio	100,62%	100,65%
Net return on equity ratio	29,79%	58,70%
<b>Return on revenue ratio</b>	<b>0,93%</b>	<b>2,11%</b>

The GEN-I Group	2011	2010	Indeks 11/10
Operating revenues	1.012.210.309	652.927.806	155,0
Operating profit or loss (EBIT)	19.212.856	7.077.197	271,5
Operating profit or loss before depreciation and amortisation (EBITDA)	20.327.302	7.607.259	267,2
Net profit or loss	14.035.289	7.412.543	189,3
Cash flow	15.149.735	7.942.605	190,7
Equity	49.371.554	30.301.242	162,9
Liabilities	169.164.961	103.056.124	164,1
Total equity and liabilities	218.536.515	133.357.366	163,9
Number of employee as at 31 December	121	101	119,8
<b>Quantity of electricity sold in TWh</b>	<b>17,2</b>	<b>12,8</b>	<b>134,2</b>

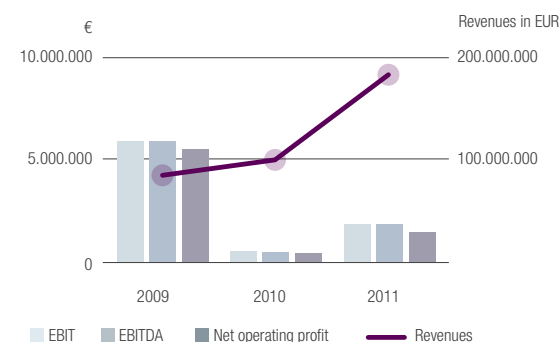
Indicator/year	2011	2010
Self-financing ratio	22,59%	22,72%
Long-term financing ratio	23,89%	22,78%
Fixed asset investment ratio	0,95%	1,28%
Acid-test ratio	12,24%	17,07%
Quick ratio	111,07%	114,57%
Current ratio	129,78%	127,61%
Operating efficiency ratio	101,93%	101,10%
Net return on equity ratio	42,77%	26,43%
<b>Return on revenue ratio</b>	<b>1,61%</b>	<b>1,37%</b>

## 2.1. The performance of key subsidiaries

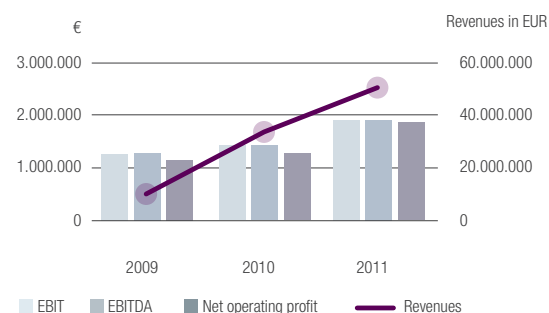
GEN-I Zagreb d.o.o.	2009	2010	2011
Revenues	25.235.155	42.635.385	84.883.491
EBIT	309.048	296.809	401.059
EBITDA	309.048	296.904	403.316
Net profit or loss	241.665	233.667	318.691
Assets	6.735.734	8.641.331	20.796.241
Equity	566.461	550.527	513.567
Liabilities	6.169.273	8.090.804	20.282.674
Cash flow	241.665	233.762	320.948



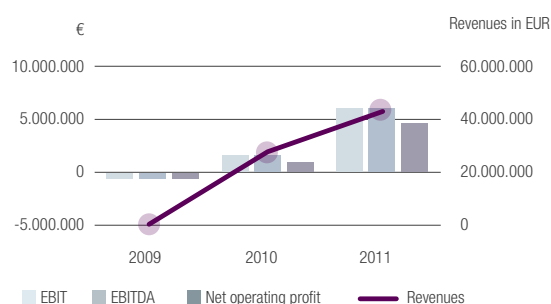
GEN-I d.o.o.Beograd	2009	2010	2011
Revenues	86.746.853	100.710.390	188.019.909
EBIT	5.817.861	364.498	1.530.979
EBITDA	5.822.759	371.591	1.538.131
Net profit or loss	5.477.376	406.109	1.244.797
Assets	19.854.993	19.207.356	57.507.962
Equity	6.216.136	1.104.141	1.966.486
Liabilities	13.638.857	18.103.215	55.541.476
Cash flow	5.482.274	413.202	1.251.949



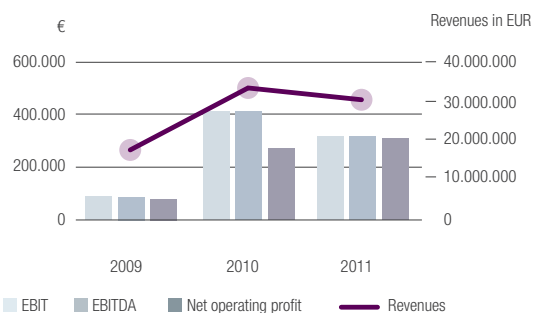
GEN-I DOOEL Skopje	2009	2010	2011
Revenues	7.539.525	33.947.008	50.979.529
EBIT	1.287.882	1.353.554	1.905.120
EBITDA	1.288.088	1.353.760	1.905.388
Net profit or loss	1.258.779	1.304.014	1.906.953
Assets	2.596.509	6.331.404	14.363.619
Equity	1.214.990	1.338.364	1.925.816
Liabilities	1.381.519	4.993.040	12.437.803
Cash flow	1.258.985	1.304.220	1.907.221



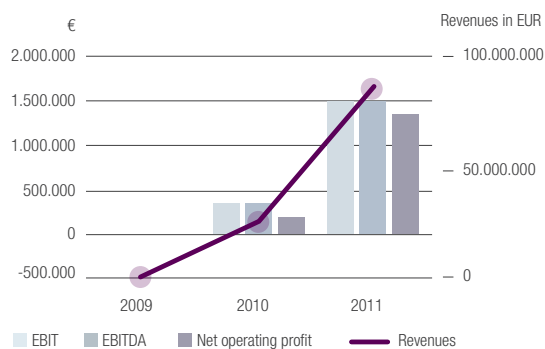
GEN-I Tirana Sh.p.k.	2009	2010	2011
Revenues	0	26.710.307	42.560.527
EBIT	-41.842	612.755	6.035.602
EBITDA	-41.842	613.587	6.036.522
Net profit or loss	-41.632	420.636	4.697.218
Assets	35.545	5.263.063	20.812.565
Equity	4.130	422.316	4.736.616
Liabilities	31.415	4.840.747	16.075.949
Cash flow	-41.632	421.468	4.698.138



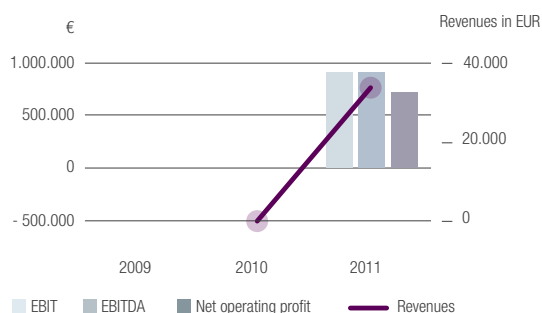
GEN-I d.o.o. Sarajevo	2009	2010	2011
Revenues	17.906.755	31.765.542	28.020.841
EBIT	75.990	408.511	303.393
EBITDA	76.261	408.799	303.681
Net profit or loss	76.876	276.419	303.171
Assets	6.716.358	9.336.790	10.439.853
Equity	588.168	864.588	814.462
Liabilities	6.128.190	8.472.202	9.625.391
Cash flow	77.147	276.707	303.459



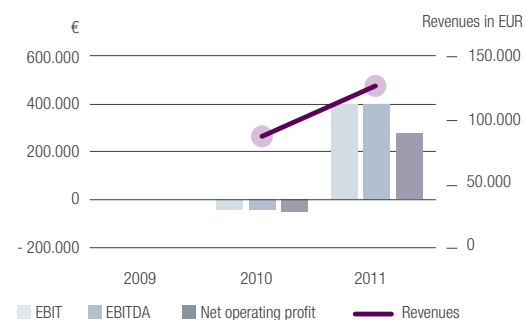
GEN-I Bucharest s.r.l.	2009	2010	2011
Revenues	777.907	26.478.590	82.795.466
EBIT	-8.137	398.145	1.513.285
EBITDA	-8.137	398.276	1.513.623
Net profit or loss	-5.715	269.371	1.416.861
Assets	1.328.401	7.026.886	11.641.492
Equity	495.855	754.867	1.891.187
Liabilities	832.546	6.272.019	9.750.305
Cash flow	-5.715	269.502	1.417.199



GEN-I Sofia SpLLC	2009	2010	2011
Revenues		398.982	34.652.272
EBIT		-27.868	899.677
EBITDA		-27.612	900.444
Net profit or loss		-27.868	899.677
Assets		830.809	12.796.014
Equity		70.644	784.647
Liabilities		760.165	12.011.367
Cash flow		-27.612	900.444



GEN-I Athens SMLCC	2009	2010	2011
Revenues	5.291.263	86.866.559	121.640.569
EBIT	133.940	-43.285	393.923
EBITDA	134.490	-42.376	397.245
Net profit or loss	99.164	96.552	257.518
Assets	1.840.387	17.079.736	23.518.539
Equity	249.164	345.719	603.237
Liabilities	1.591.223	16.734.017	22.915.302
Cash flow	99.714	97.461	260.840

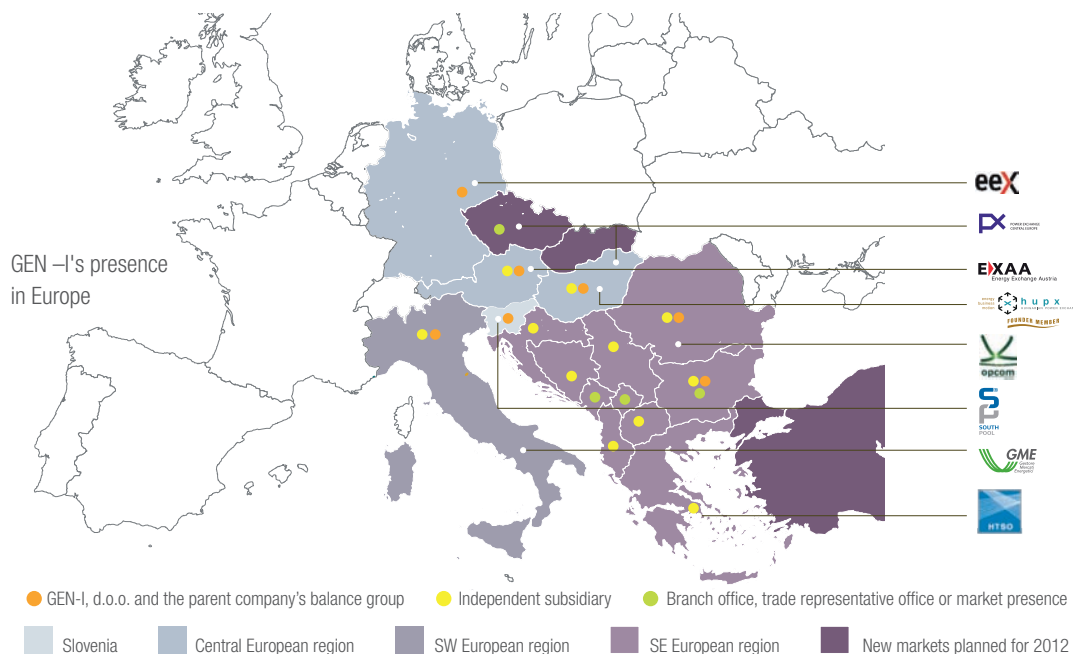


<b>GEN-I Budapest Kft.</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
Revenues	129.039.215	110.749.491	8.246.791
EBIT	1.707.133	49.478	-23.435
EBITDA	1.707.408	49.478	-19.685
Net profit or loss	1.069.764	-76.423	-116.336
Assets	20.164.552	22.087.703	1.637.722
Equity	2.377.938	2.301.513	285.177
Liabilities	17.786.614	19.786.190	1.352.545
Cash flow	1.070.039	-76.423	-112.586

<b>GEN-I Vienna GmbH</b>	<b>2010</b>	<b>2011</b>
Revenues	0	9.292.282
EBIT	-22.471	48.967
EBITDA	-22.032	50.488
Net profit or loss	-22.443	39.683
Assets	40.396	2.645.252
Equity	27.557	67.240
Liabilities	12.839	2.578.012
Cash flow	-22.004	41.204

<b>GEN-I Milano S.r.l.</b>	<b>2010</b>	<b>2011</b>
Revenues	512	11.309.144
EBIT	-16.035	-283.081
EBITDA	-16.035	-283.081
Net profit or loss	-16.035	-283.779
Assets	112.601	3.215.564
Equity	83.965	-199.814
Liabilities	28.636	3.415.378
Cash flow	-16.035	-283.779

## 3. Basic information and regional presence



The GEN-I Group is present in the following markets through its own subsidiaries: Austria, Italy, Germany, Hungary, Romania, Bulgaria, Serbia, Bosnia and Herzegovina, Croatia, Montenegro, Macedonia, Kosovo, Albania and Greece. All subsidiaries of the GEN-I Group are fully owned by the parent company GEN-I, d.o.o.

The GEN-I Group is based at the registered office of the parent company, whose full company name is: GEN-I, trgovanje in prodaja električne energije, d.o.o. Abbreviated company name: GEN-I, d.o.o. Registered office: Vrbina 17, SI-8270 Krško, Slovenia Core activities: Electricity trading and supply of electricity to end-customers

Share capital of the parent company: EUR 15,877,610.00  
Ownership structure: 50% GEN energija, d.o.o. and 50% IG energetski sistemi, d.o.o.

Company size: Large company  
Management model: Single-tier

Registration number: 1587714  
Tax number: 71345442  
VAT ID No.: SI71345442

Court register entry number: 1/04524/00; srg  
2011/27433; registered at the District Court of Krško  
Date of last court register entry: 13 July 2011

The parent company is managed by a four-member Management Board.

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: Andrej Šajn, MSc

The Group's subsidiaries are managed by member of the Management Board Igor Koprivnikar and the executive sales director Dejan Paravan. Details of their specific roles in individual Group companies can be found in the chapter on corporate governance.

E-mail: [info@gen-i.si](mailto:info@gen-i.si); [pocenielektrika@gen-i.si](mailto:pocenielektrika@gen-i.si)

Website: <http://www.gen-i.eu>; <http://www.pocenielektrika.si>

The Group's subsidiaries have available all the infrastructure needed to trade electricity products. In four markets, subsidiaries also have the infrastructure required to sell electricity, and they supply electricity to large business customers. In Slovenia, the Group supplies electricity to customers in the household segment as well.

## 4. The GEN-I Group: Present and future

### 4.1. The Group's mission and goals

The mission of the GEN-I Group is to ensure the reliable supply of electricity to customers in competitive conditions while effectively managing business risks. We work towards this mission by ensuring the cost-effectiveness of electricity trading, managing risks and achieving long-term stable growth. We constantly seek out new market opportunities, adapt quickly in order to seize these opportunities, and communicate efficiently with all our stakeholders and business partners.

Our know-how, professional approach and creativity help us market electricity efficiently by offering production sources, competitive purchasing prices, and by providing end-customers with comprehensive, high-quality electricity supply services and cost-management solutions. By constantly improving and combining our competitive advantages, we achieve the appropriate economies of scale, thereby improving the reliability of electricity supply even further.

Our values include: responsibility, efficiency, respect, creativity and teamwork. We take full responsibility for the risks that arise from our business activities. We respect the needs of our employees, business partners and customers. We strive for efficiency at all levels of the Group's operations and in all work processes, and we encourage creativity.

### 4.2. Unique business model

The GEN-I Group is involved in the following activities in the electricity market:

- Electricity trading
- Electricity sales to end-customers and purchases of electricity from producers

These activities are carried out by various profit centres and within separate portfolios that are linked by common market prices. This approach enables the Group to easily evaluate the performance of individual units. Purchase and sales activities within the Group are centred around electricity trading. The combination of purchase and sales activities creates synergistic effects since it increases the reliability of electricity trading and supply, and reduces risks.

### 4.3. The Group's competitive advantages

**Great flexibility and diversity of operations.** This mainly refers to our ambitiously conceived electricity trading and sales activities, and our global presence in procurement and sales markets. As a trading company and electricity supplier, we have all the necessary permits and licences to participate in the electricity market, in both the wholesale segment (as a trading company) and the retail segment (as a supplier). In some SEE markets we are present in both roles.

**Appropriate risk management.** The management strategy for our global portfolio is devised by the parent company. Our presence in individual markets helps us to better understand market changes and enables us to react to them quickly and effectively. The Group's centralised organisational structure is supported by strong two-way communication between its Ljubljana office and the individual markets, which allows the Group to respond quickly and to assess the situation in regional markets in real time, thereby significantly reducing operational risks.

### 4.4. Stable and moderate growth in the future

We put considerable efforts into optimising internal processes and evaluating different approaches to business decision-making. The liberalisation of electricity markets has resulted in greater pressure from the competition. We therefore forecast moderate growth in the future, while our priorities will be focused even more on risk management. The appropriate internal organisation and the quality of our workforce will help us maintain a high level of responsiveness and enable us to seize market opportunities, implement innovative projects and support business partnerships that bring mutual benefits.

### 4.5. Market liberalisation brings new challenges

We actively monitor the liberalisation of energy markets in the countries in which the Group operates. The changed market conditions in regional electricity markets have gradually created new opportunities for entering the retail market. The liberalisation of electricity markets has presented governments with a number of challenges associated with local legislation, including the appropriate methods for charging excise duties, the calculation of deviations and the requirements for reporting to competent authorities. We actively participate in these processes by contributing our knowledge and extensive experience.

## 5. Corporate governance

Corporate governance at GEN-I, d.o.o. is in line with the rules of single-tier management and takes into account the provisions of the agreement concluded between its shareholders GEN Energija, d.o.o. and Istrabenz Gorenje, d.o.o. in 2006 (called IG energetske sistemi since 2011 and owned by Petrol, d.d.). Other constituent documents of the Company and the Group include their basic business policy for the period from 2007 to 2016, and a memorandum of association.

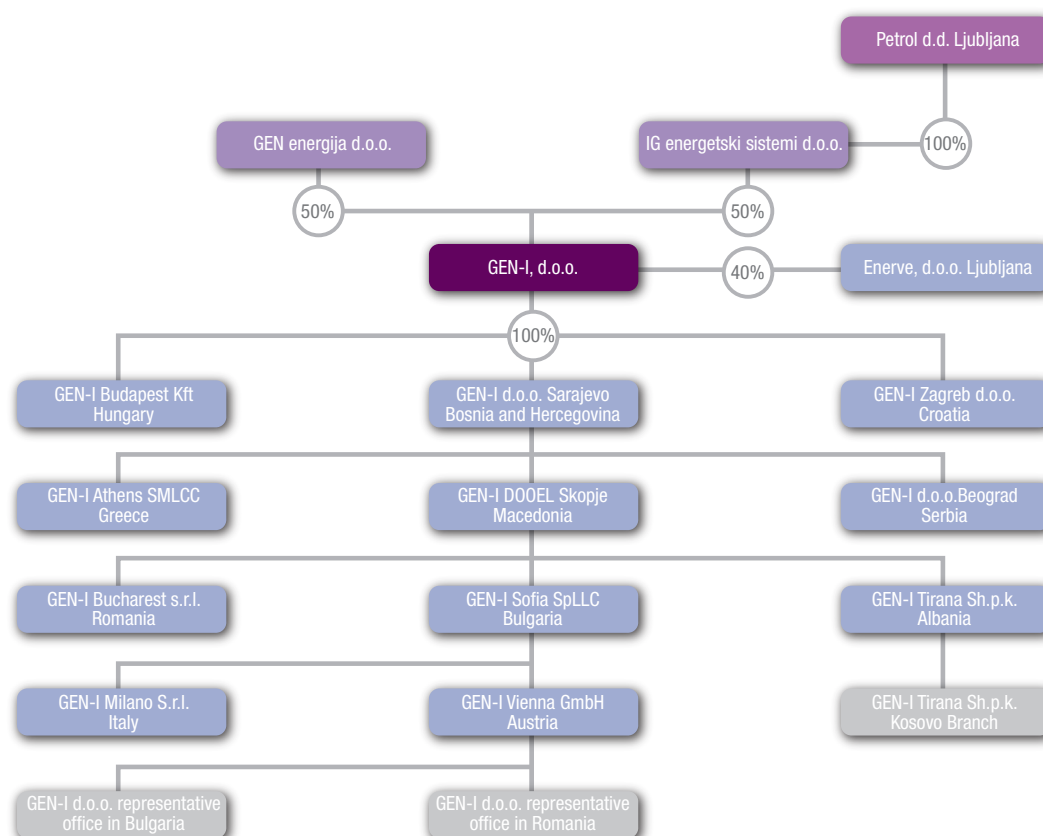
Until the end of the first term (November 2011), the Company was governed by a Management Board comprising the following members:

- Robert Golob, PhD, President of the Management Board
- Martin Novšak, MBA, Vice President of the Management Board
- Igor Koprivnikar, PhD, Member of the Management Board responsible for trading
- Dejan Paravan, PhD, Member of the Management Board responsible for sales

The following members were appointed to the new Management Board for the period from 2011 to 2016:

- Robert Golob, PhD, President of the Management Board
- Martin Novšak, MBA, Vice President of the Management Board
- Igor Koprivnikar, PhD, Member of the Management Board responsible for trading
- Andrej Šajn, MSc, Member of the Management Board

The Group's executive team includes managers and experts with many years of experience in the energy sector. Individual members are appointed to the Management Board by the general meeting of shareholders at the proposal of shareholders. Each Management Board member is considered equal in the decision-making process, and has one vote. A decision of the Management Board is deemed valid if the majority of members in attendance vote for it.



## 5.1. Managing GEN-I, d.o.o.:



Robert Golob, PhD, President of the Management Board

One of the leading experts on energy matters in Slovenia, he completed his undergraduate education at the Faculty of Electrical Engineering in 1989, his master's degree three years later, and his doctoral education in 1994. His areas of expertise include the functioning and deregulation of the electricity system, and the restructuring of the energy industry and electricity markets. After receiving his doctoral degree, he was awarded a Fulbright grant for a visiting position at the Georgia Institute of Technology in Atlanta. In 1997, he became an Assistant Professor at the Faculty of Electrical Engineering of the University of Ljubljana. 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 written numerous publications and papers on markets, the optimisation of energy sources and electricity system planning. He has also managed several basic research and industry-applicable projects for the Slovenian energy sector. In 2002, he founded and became the general manager of Istrabenz Gorenje (now IG energetske sisteme). Mr. Golob is an Associate Professor at the Faculty of Electrical Engineering at the University of Ljubljana. In 2011, he started a new five-year term as President of the Management Board of GEN-I, a position he has held since 2006.



Martin Novšak, MBA, Vice President of the Management Board

An established expert on the Slovenian electricity industry and its production capacities, and a long-time leading professional at the Krško Nuclear Power Plant, 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. 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 organisation of engineering services. In 1992 he completed an MBA programme at the Executive Management Development Centre in Brdo. In close collaboration with his colleagues at the Krško Nuclear Power Plant, he completed several important projects, including the modernisation of the plant, the replacement of critical equipment, the creation of a corporate company image, and a number of other improvements, modifications and organisational upgrades. In July 2005, he accepted his first 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 July 2010. In 2011, he started his second 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

An expert with international experience and expertise in different business areas associated with electricity trading and market liberalisation processes in Central and South-East Europe, he graduated from the Faculty of Natural Sciences of the Technical University of Graz, Austria in 1999, 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 the world. From 2002 to 2004, he was responsible for the development of the EXAA energy exchange in Austria. He started working for Istrabenz-Gorenje, d.o.o. (GEN-I's predecessor) in 2004 when it was first founded. 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 the executive director of nine of the Group's foreign subsidiaries.



Dejan Paravan, PhD, Member of the Management Board from 2006 to 2011, executive sales director since November 2011

An active participant in the development of the Slovenian market and an established expert in the area of electricity sales to end-customers, he 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 the management of medium-term risks in the electricity market. During his studies, he gained valuable experience at the Siemens AG Institute in Erlangen, Germany, and Decision Systems International, a company based in Atlanta, USA. 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 was also the manager of IG Prodaja, d.o.o., 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 which use renewable sources and high-efficiency cogeneration plants, and the development and operational management of the Company's sales pillar. In November 2011, he completed his term of office and took on the role of executive sales director.



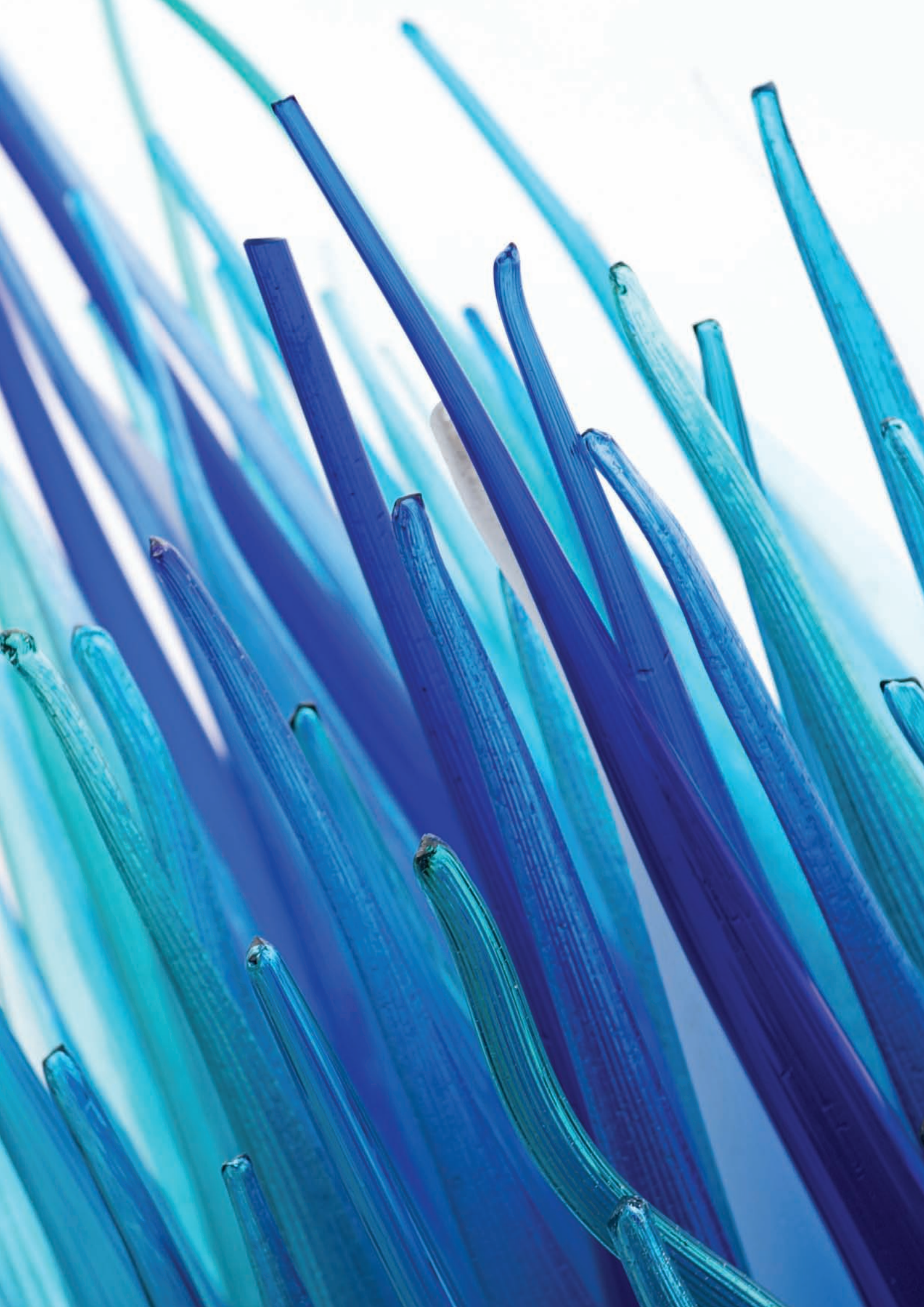
Andrej Šajn, MSc, Member of the Management Board

The initiator of many new solutions and the manager of development projects mainly associated with information technologies for electricity sales and trading, he began his career in 2001 as an assistant in the laboratory for energy strategies of the Faculty of Electrical Engineering at the University of Ljubljana, where he completed his master's degree in electricity production optimisation in 2004. In the same year, he started working for Istrabenz energetski sistemi, d.o.o., taking on different roles in companies within the business group. His areas of expertise include information technology and the management of pilot development projects, or so-called internal incubators. From 2007 onwards, he worked as an executive director in research and development and information technology at Istrabenz Gorenje, d.o.o., at the same time acting as a coordinator of business information technology at GEN-I, trgovanje in prodaja električne energije, d.o.o. where he was in charge of preparations for GEN-I's entry to the household customer segment in 2008. He is the head of the IT department and the operational side of sales in foreign markets, and started his five-year term as member of the Management Board of GEN-I in November 2011.

## 5.2. Management of Group companies

In accordance with the principles of centralised management, the management functions at individual subsidiaries within the GEN-I Group are divided between Igor Koprivnikar, member of the Management Board responsible for electricity trading, and Dejan Paravan, executive sales director at the parent company GEN-I, d.o.o., as follows:

- Igor Koprivnikar is the manager of: GEN-I d.o.o. Belgrade, Serbia, GEN-I Zagreb d.o.o, Croatia, GEN-I Budapest Kft., Hungary, GEN-I DOOEL Skopje, Macedonia, GEN-I Tirana Sh.p.k., Albania, GEN-I d.o.o. Sarajevo, Bosnia and Herzegovina, GEN-I Athens SMLLC, Greece, GEN-I Sofia – Electricity Trading and Sales SpLLC, Bulgaria, and S.C. GEN-I Bucharest – Electricity Trading and Sales S.R.L., Romania.
- Dejan Paravan is the manager of: GEN-I Zagreb d.o.o., Croatia, GEN-I Vienna GmbH, Austria and GEN-I Milano S.r.l., Italy.





*Venice, Italy*

# MURANO GLASS



A combination of factors made the island of Murano the center of glass production that it is today. In 1291, the rulers of the Venetian Republic ordered all glass production to be moved to this picturesque island out of fear of irreparable damage being inflicted on the mostly wooden buildings in Venice in the event of fire or other natural disasters. The glass makers of Murano developed a variety of glass types and sophisticated glass products which, to this day, enjoy great popularity among tourists from all over the world.



Building great relationships with customers, employees, shareholders, and the natural and local environments can be a very simple matter if the company takes their interests to heart. In this sense, great relationships are like precious Murano glass: their creation requires a great deal of effort, knowledge and sacrifice, but in combination with a responsible and ethical approach, the results are guaranteed.

# 2

PERFORMANCE BY AREAS  
FINANCIAL STRENGTH AND CASH FLOW

## 6. Performance by areas

### 6.1. Trading

#### 6.1.1. Trading – infrastructure, processes, optimisation

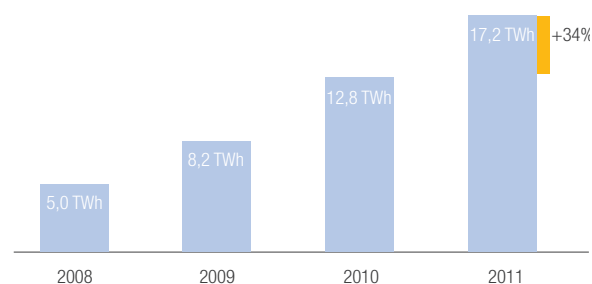
An **efficient business infrastructure** for the international trading of physical electricity products and derivatives is a crucial factor for the success of trading activities within the GEN-I Group. The key elements of the Group's trading infrastructure are: highly skilled employees, an extensive international trading network, years of experience and effective information support. The Group's globally oriented portfolio includes agreements on the purchase of electricity from production sources, agreements on the supply and sale of electricity to end-customers, and a number of products included in bilateral and organised trading to ensure the price stability of the portfolio. The acquisition and use of cross-border transfer capacities, which affect how electricity prices are formed in individual countries, enable the Group to maximise the potential of its portfolio. Electricity trading is carried out continuously every day of the year and involves a 24-hour standby service. Trading professionals engage in a wide range of purchase and sales activities, from long-term and short-term physical and financial forward contracts to weekly, daily and intra-day trading.

ELECTRICITY TRADING IS  
CARRIED OUT CONTINUOUSLY  
EVERY DAY OF THE YEAR  
AND INVOLVES A 24-HOUR  
STANDBY SERVICE.

The difficult economic situation in European markets in 2011 meant that the electricity trading segment had to gain even more of a competitive edge. In response to the new challenges, the GEN-I Group **adjusted its strategic market approaches** and continued to **optimise**

**and upgrade its internal processes** in order to boost the efficiency of its operations. Increased trading volumes and the associated risks demanded a robust trading infrastructure, which the Group reinforced by expanding its operations to new markets, optimising trading on energy exchanges and tightening its risk management policy with regard to the approval of credit lines for business partners. The latter was mainly related to contractual relationships with the most reliable partners which can provide the necessary collateral and ensure regular payments.

The **rise in sales volumes**, which amounted to **more than 34%** last year, was the result of a well-devised strategy for a flexible and globally oriented portfolio and an upgrade of the Group's business model which generates the most appropriate purchase and sale scenarios, supports the right level of responsiveness to changes in the market situation, and enables the best combination of purchases of different electricity products in all of the Group's markets by providing optimised transport links to sales markets.



Electricity sales in the GEN-I Group

In 2011, the parent company GEN-I, d.o.o., which is responsible for the centralised management of the Group's portfolio, continued to pursue a strategy entailing the greater involvement of the analytics and portfolio management departments in purchase and sales activities and in market analyses, which helped increase the quality of processes associated with the preparation of trading offers. The analytics department was able to implement several improvements to the method used for monitoring price correlations between the individual markets, ensuring the optimal hedging of the portfolio against market risks. Due to the limited liquidity and complex range of products in individual markets, the Group employed hedging mechanisms for a number of markets,

primarily the most liquid German market, and acquired the necessary cross-border transfer capacities. The GEN-I Group also **reinforced the market presence of its regional managers** 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 has timely information and good business relationships. The frequent interactions between local representatives and other specialised internal departments and their experience of operating in different markets enable the Group to actively contribute to the future development of individual markets in terms of greater transparency and



better regulation by putting its own proposals forward.

The characteristics of market risk hedge transactions vary depending on the level of correlation between prices in individual markets. These prices are generated daily by the GEN-I Group based on current prices of forward products and historical hourly profiles, and specified on an hourly basis for all future periods and for all the markets in which the Group operates. In line with the Group's risk management policy, which requires the immediate closing of open positions, in 2011 the Group ensured the price stability of its portfolio by executing financial forward contracts for sales and purchases on the German EEX energy exchange.

To provide greater transparency and improve the management of its portfolio, **the GEN-I Group continued its analytical strategy of breaking the portfolio up** into several smaller ones, each with its own distinct characteristics, limitations and responsibilities. The majority of these portfolios are classified by individual markets and

product maturity periods, with limitations in the form of daily VAR (value-at-risk) and "stop-loss" cap limits. In 2011, the Group formed a new department within its trading function that engaged in proprietary trading on liquid Western markets within carefully monitored trading limits.

The comprehensive controlling overview of trading activities, which is also used to support business decision-making and risk management, was **upgraded in 2011 with improvements to existing reports and the creation of new reports for the purpose of monitoring the current value of and the positions within the Group's overall portfolio and individual trading portfolios**. The positions within trading portfolios are monitored daily and included in general reports that list the individual positions by market and provide information on the value of the entire portfolio, giving the Group precise daily information and an overview of all positions and the portfolio value. The Group constantly monitors its exposure to market risks, including regular checks to ensure the appropriateness of input data and the valuation methodologies used. In order to ensure a better overview of portfolio positions, and so as to optimise the portfolio and manage risks, the Group strives for constant improvements based on the expertise of our employees and the use of new technologies.

### 6.1.2. Factors influencing market prices

The market prices of electricity are most strongly affected by the **price of resources** used in its production, namely coal, gas, oil and carbon credits (introduced as part of the European emission trading scheme). The dollar to euro exchange rate (USD/EUR) is also important because trading in coal and oil is conducted in USD, while the prices of electricity in all of the Group's markets are set in EUR.

The importance of oil prices has diminished in most markets in recent years (with the exception of the Italian market) as oil is now rarely used for electricity production, although some gas supply contracts are still tied to the price of oil. As a result, oil prices continue to have an indirect effect on electricity prices, and oil remains an important energy source because it is the most heavily traded source and one with an important psychological effect on the price of other energy sources.

Another important factor in the formation of electricity prices is electricity **consumption**. Even smaller changes in electricity consumption volumes due to changes in economic activity can have a significant effect on electricity prices.

In difficult economic conditions, there is a higher risk of unexpected price fluctuations due to **regulatory risks**. Governments often attempt to improve their balance of payments by introducing new taxes or protectionist measures to help safeguard the local market. Legislative changes can also be the result of efforts to improve the reliability of production and reduce emissions of greenhouse gases.

Short-term changes in electricity prices are strongly linked to **weather conditions**. Hydrologic conditions, wind force and the number of sunny days have a direct effect on electricity production, while temperature changes affect both the production and the consumption of electricity. Changing weather conditions have an important seasonal effect on electricity prices as the growing proportion of electricity produced from renewable sources has resulted in a stronger correlation between weather conditions and electricity prices.

### 6.1.3. Factors influencing the electricity market in 2011

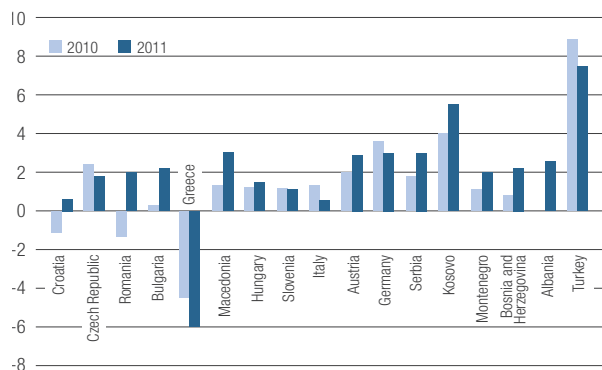
The prices of electricity sources in 2011 were strongly affected by the **earthquake that hit Japan in early March**. Gas prices rose quickly in the wake of the earthquake, as the market expected greater demand for this energy source due to outages at the damaged Fukushima nuclear power plant and the effects of the disaster on nuclear power policies in developed countries. Its price declined soon after, as the reduced industrial activity – a result of the earthquake damage to industrial facilities – eliminated any stronger demand for gas in Japan. Electricity prices were also heavily affected by Germany's changed attitude to nuclear power, which came as a result of the Fukushima disaster, and by all the other decisions that followed the new political consensus. Germany continues to be a strong supporter of electricity production from renewable sources.

THE PRICES OF ELECTRICITY SOURCES IN 2011 WERE STRONGLY AFFECTED BY THE EARTHQUAKE THAT HIT JAPAN IN EARLY MARCH.

The price of coal also rose immediately following the Fukushima disaster as Germany was forced to increase electricity production from fossil fuels following the closure of nuclear power plants. Later, electricity production from wind power intensified, causing a slowdown in the demand for coal. At the end of the year, there was actually a drop in coal consumption.

The price of carbon allowances was most affected by the cooling of the economy and a decline in the use of fossil fuels for electricity production. Figures revealing a surplus of carbon allowances due to the lower industrial activity and data on the rising number of carbon allowances from investments in projects that aim to reduce emissions of harmful gases had an added negative effect on prices in the carbon allowances market. As a result, the price of carbon allowances dropped by 45% in 2011 (EUR 6.60 per tonne).

In 2011, electricity prices were also affected by a number of **regulatory changes**. For example, the German government abolished a 1-year-old law on the extension of the useful lives of nuclear power plants following the Fukushima disaster (eight out of seventeen nuclear power plants were immediately taken out of operation).



Economic growth in % in European markets

Another important factor in the movement of energy prices in 2011 was the **economic crisis**. Global economic growth, which recovered temporarily in 2010, slowed again in 2011, resulting in reduced demand for energy sources and a negative movement in energy prices. This was particularly true in the second half of the year when fears of a double-dip recession in the EU caused a decline in orders and lower industrial production in the majority of European economies (Turkey was a notable exception, recording economic growth of around 7% in 2011).

In addition to the slowdown in economic growth, the European economy was hit by the debt crisis that threatened the stability of the euro in 2011. The first signs of a spiralling **euro debt crisis** were visible well before the trouble in Greece. Hungary was the first EU member

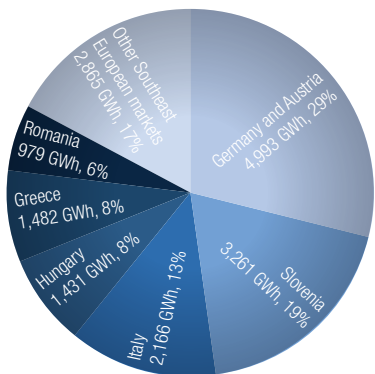
ELECTRICITY CONSUMPTION WAS DOWN IN ALL MARKETS AT THE END OF THE YEAR DUE TO THE ECONOMIC CRISIS.

state to receive aid (EUR 20 billion) from the IMF, the World Bank and the EU in 2008 following the collapse of the US bank Lehman Brothers. Soon after, Greece, Ireland and Portugal also asked for assistance, and the euro debt crisis quickly spread to other peripheral EU countries in 2011, including Spain and Italy.

There was a particularly sharp decline in economic activity in some Southern European economies hardest hit by the debt crisis, primarily in Greece where GDP dropped by approximately 5% in 2011. This was the result of severe austerity measures introduced by the government to tackle rising interest rates and the difficulties associated with obtaining fresh funding in financial markets. These developments had a very profound effect on electricity consumption, which started declining in all of the main markets by the end of the year.

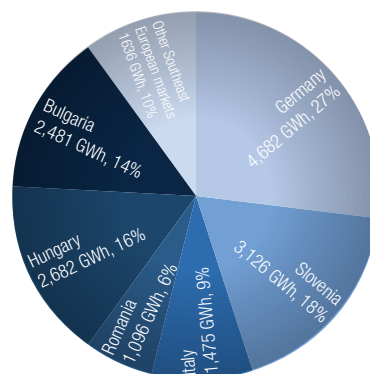
#### 6.1.4. Overview of developments by markets

Our presence in various markets in Central and South-East European, which are currently in different stages of development, helped us maintain the right balance between risks and returns in 2011, while hedging instruments for regional contracts were used in some of the most liquid markets in Germany and Hungary. The **most developed markets** in our portfolio include Germany, Austria, Slovenia and the Czech Republic, followed by Italy, Hungary and Romania, and all the other markets in South-East Europe. We also contribute to the development of these markets through our commitment to participate in daily energy exchanges and our active participation in the drafting of transparent rules that regulate the electricity market.



Overview of sales volumes in 2011 by market

Our main **procurement markets** include Germany, Slovenia, Hungary, Bulgaria and Romania, while our most important sales markets include Germany, Austria, Slovenia and Italy. They are followed by Greece, Hungary and Romania and, depending on hydrologic conditions, Croatia, Serbia, Kosovo, Albania, Macedonia and Montenegro. Slovenia is our most important retail market, where we supply electricity using the optimal combination of sources from our production portfolio.

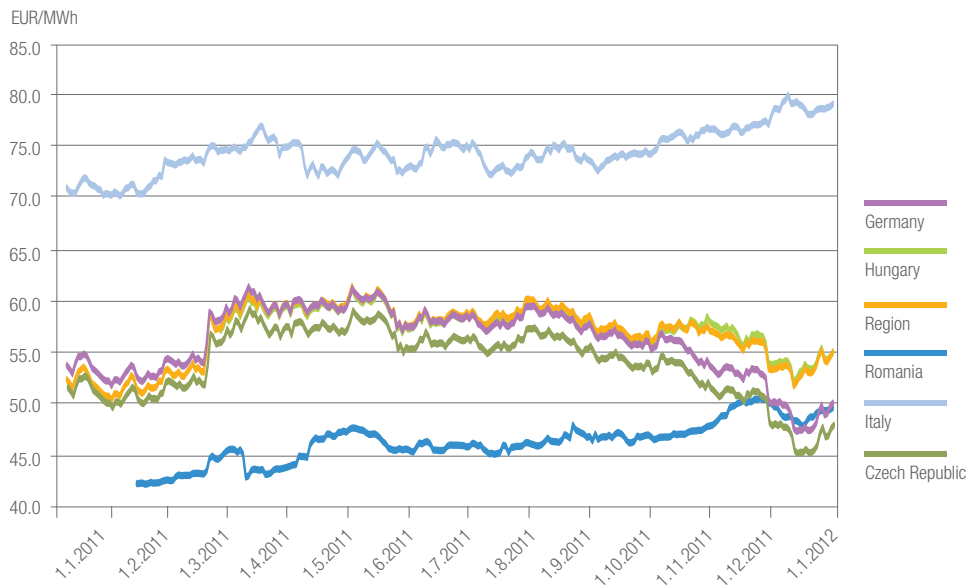


Overview of purchase volumes in 2011 by market

Due to its strong integration into the wider European electro-energy system, the **German market** is one of the most liquid electricity markets in Europe, and is used as one of the bases for pricing policies in most other markets in continental Europe.

IN THE SECOND HALF OF THE YEAR, THERE WERE PRONOUNCED DIFFERENCES IN ELECTRICITY PRICE MOVEMENTS IN EUROPEAN MARKETS.

The price of electricity in the benchmark German market (base load product with deliveries in 2012) tracked the price of energy sources in 2011: it stagnated at the beginning of the year and then rose sharply following the events at the Fukushima reactor and the closure of some nuclear power plants in Germany, peaking at 60.80 EUR/MWh. Once the uncertainty regarding the use of fossil fuels to make up for the lost electricity from nuclear power plants eased, the price of electricity again started to gradually fall. This movement was particularly noticeable in the final quarter of 2011 when the price of electricity dropped to 50.00 EUR/MWh, owing primarily



Changes in annual base load products in different electricity markets in 2011 (delivered in 2012)

to the marked slowdown in economic activity, the sharp drop in carbon credit prices and the increased electricity production from renewable sources.

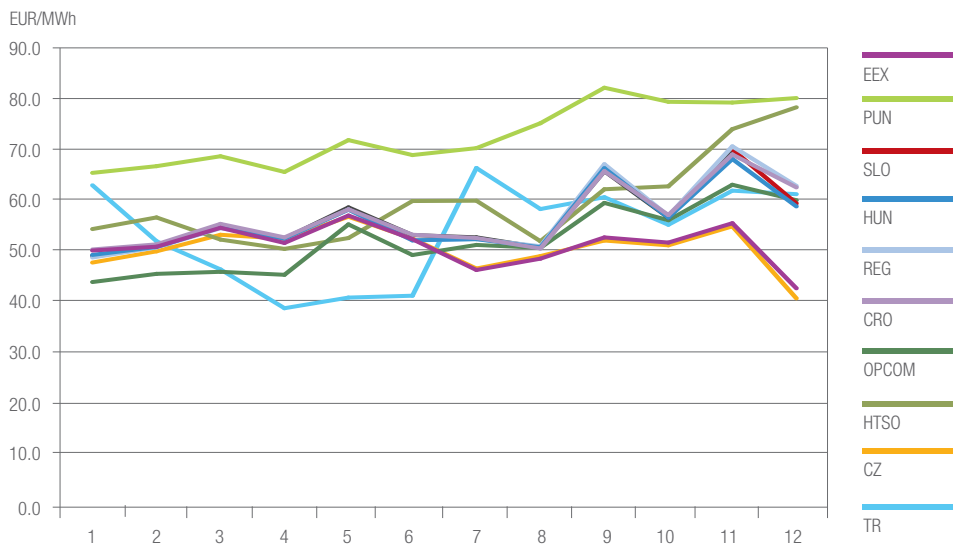
The price of electricity on the daily EEX exchange averaged out at 51.12 EUR/MWh in 2011, up 14.8% on the comparable price in 2010 (44.50 EUR/MWh), reflecting a strong correlation between electricity prices and the rising prices of primary energy sources and the effects of the shutdown of some nuclear power plants. A similar movement, albeit with slightly higher values, was seen in forward electricity products which mature in the next few years.

The seasonal distribution of prices in the German market in 2011 was quite unusual. In addition to macroeconomic factors and the closure of several nuclear power plants, there were other significant reasons for this: the relatively high prices in the second quarter were the result of a high number of planned maintenance repairs at several production facilities, while the low prices in the second part of the year were caused by the increased production of electricity from wind power, a mild winter at the end of the year and a slowdown in economic activity that resulted in lower consumption.

The developments in the German electricity market in the first half of the year had a significant effect on the **Slovenian market**. Because of the strong ties between the Slovenian electricity system and the markets of Austria, Italy and South-East Europe, the Slovenian electricity market displays some of the characteristics of these three markets. As a result, the closure of nuclear power plants in Germany was also felt in the Slovenian market, and electricity prices went up at the end of the first quarter of 2011. When the market situation eased, prices in the Slovenian market remained at a similar (high) level, despite an evident drop in prices in the German market.

In the Group's **regional markets**, including Croatia, Serbia, Montenegro, Kosovo, Macedonia, Albania and Hungary, electricity prices in the first half of the year tracked prices in the German market as there were sufficient cross-border transfer capacities and the hydrologic conditions were average. The first major deviations appeared when these capacities were no longer adequate. Most countries in the region faced drought conditions throughout the second half of the year. The extremely difficult hydrologic conditions resulted in significantly reduced electricity production volumes, as all countries (with the exception of Hungary) have an important share of hydroelectricity in their electricity production. Due to the drought that affected the region, electricity prices rose in the second half of the year and ended the year more than EUR 12 above the German prices per MWh. The average price of electricity in Slovenia was 56.40 EUR/MWh at the end of the year, while the price of electricity in Hungary averaged out at 55.73 EUR/MWh.

DUE TO THE DROUGHT THAT AFFECTED THE REGION, ELECTRICITY PRICES ENDED THE YEAR EUR 12 ABOVE GERMAN PRICES PER MWh.



Average monthly prices in electricity markets

Prices in the **Czech and Slovakian markets** followed the price movements in the German market, with no major deviations recorded during the year.

The price of electricity in the **Italian market** was similar to German prices in the first half of the year. Major deviations occurred in times of significant fluctuations in oil prices, as the Italian market has the largest proportion of production facilities that use oil to generate electricity. Towards the end of the year when electricity prices were falling in other Western European markets, prices in Italy were rising and remained high until the end of the year. This was caused by difficulties in gas supply resulting mainly from the war in Libya.

In July 2011, the European Commission approved a scheme to increase the proportion of renewable energy sources in Romania. As a result, we expect that in the long term the large investments in renewable energy sources will push electricity prices up by about 5%. Electricity prices in regional markets in the last two months of 2011 were heavily influenced by prices in the **Romanian market**, as the volume of regional imports increased, while the proportion of hydroelectricity in Romanian electricity production declined. Owing to entry charges (EUR 8.5 on average), the price in Romania was still below regional prices.

The **Albanian** energy regulator ERE decided that, as of July 2011, all cross-border capacities had to be bought at auctions. Until then, a proportion of cross-border transfer capacities was allocated to various state-owned companies free of charge. ERE also decided that all cus-

tomers whose annual consumption exceeds 50 MWh must purchase electricity in the free market as opposed to purchasing it directly from producers.

**Serbia** passed a new law on the electricity market in July 2011 providing that, as of 2013, all companies connected to the high-voltage grid will have to purchase electricity in the free market. Until then, such companies purchased electricity from the state-owned electricity distribution company EPS. Montenegro passed a new procurement law stipulating that any electricity for customers on a tariff system must be purchased via public procurement procedures. The law came into force on 1 January 2012.

The **Greek market** was relatively unaffected by the developments in other markets. Seasonal changes were similar to those seen in previous years, while the sharp rise in electricity prices in the second half of the year was the result of a new tax imposed on gas, which pushed up the price of electricity produced at gas power plants. This caused a rise in the price of electricity during peak hours by a few euros.

## 6.2. Sales to end-customers

The number of customers and sales volumes both rose in 2011. We increased our market shares as planned in all sales segments and in all markets in which we sell electricity to end-customers.

Two major developments continued to affect sales to end-customers in 2011. The economic crisis caused a further decline in electricity consumption among busi-



THE NUMBER  
OF CUSTOMERS AND SALES  
VOLUMES BOTH ROSE  
IN 2011.

ness customers, intensifying the competition in our main markets even further. On the other hand, trading volumes increased on all major energy exchanges (members of the association of European energy exchanges EuroPEX). With the introduction of implicit auctions and the development of derivatives, trading volumes are set to continue increasing in the future.

In these circumstances, the business model we use for a broad range of activities in the wider region – from production to final consumption – has proven very effective. The crucial factors in this were: price policy, appropriate products and professional advice on purchases. Thanks to these factors, we were able to boost sales volumes in key markets despite the decline in electricity consumption.

### 6.2.1. Market conditions and the Group's response

Market conditions in countries where we sell electricity to end-customers (Slovenia, Austria, Italy and Croatia) were strongly affected by the low water levels due to drought and the closure of nuclear power plants in Germany. This led to greater demand for information on purchase strategies and price forecasts among end-customers.

We responded quickly to their demands and introduced a system for providing additional information to customers. This prevented large business customers from reacting too hastily to the changed conditions, and allowed us

to invite producers which use RES<sup>1</sup> in HCP<sup>2</sup> to sell their electricity in due time.

Due to changes in the regulatory environment, we lost several contracts with Slovenian producers which use renewable sources and high-efficiency cogeneration plants. However, we were able to substitute almost all of the lost volumes with new production sources by the end of the year. This meant that our production portfolio became even more diversified, bringing us greater security and helping us pursue a more suitable pricing policy. The number of producers in our portfolio went up by 48% as a result, rising from just over 200 to 308.

We actively participated in the preparation of an improved calculation of purchase prices for electricity produced from RES and HCP, which resulted in a new, more dynamic model<sup>3</sup> that better reflects real market conditions.

The market liberalisation process continued in Slovenia in 2011. State-owned electricity distribution companies separated their electricity sales activities from the services they perform for the transmission system operator in line with the relevant European directives<sup>4</sup> and Slovenian legislation. In autumn 2011, five new electricity suppliers gradually entered the Slovenian market, significantly increasing the competition. At the same time Petrol, a new competitor offering affordable electricity, appeared on the market. Similar trends of stronger competition are expected to continue in the future.

### 6.2.2. Market position and sales volumes

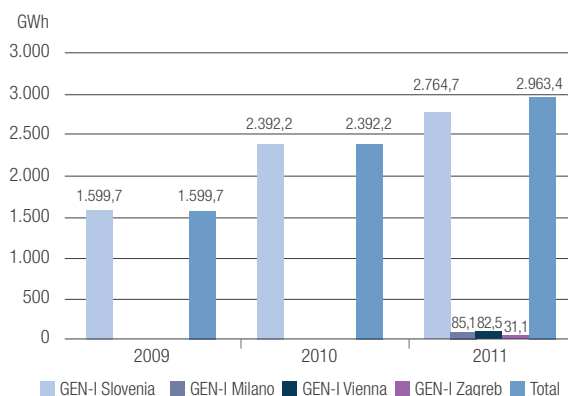
Total sales to end-customers were up almost 24% in 2011. The most pronounced growth was recorded in the household customer segment in Slovenia (122%) and in the business customer segment in Croatia, although it should be noted that in 2010 we conducted only stress tests in the Croatian, Italian and Austrian markets so the growth rates are accordingly high.

1 RES is the abbreviation for renewable energy sources. These include different sources of energy obtained from permanent natural processes, such as solar power, wind, water, photosynthesis, the Earth's thermal flows etc. RES are sources that are renewed and preserved in nature. They include hydroelectricity, biomass, solar power, wind power and geothermal power.

2 HCP stands for high-efficiency cogeneration plants that produce both heat and electricity. They represent a more efficient way of producing electricity since the heat that is lost in thermal power plants is usefully employed. Total savings in primary energy consumption at cogeneration plants range from 10% to 30%, representing a significant increase in production efficiency, while reducing the environmental impact of electricity production.

3 Regulation on the rules for the preparation of forecasts on the situation of production plants generating electricity from renewable energy sources and high-efficiency cogeneration (Official Gazette of the Republic of Slovenia No. 94/2011).

4 Directive 2009/72/EC of the European Parliament and of the Council dated 13 July 2009 concerning common rules for the internal market in electricity and repealing Directive 2003/54/EC.



Sales volumes in the end-customers segment by market

Our largest market share<sup>5</sup> was recorded in Slovenia: we held a 19.9% market share in all customer segments in 2010, and we estimate that it expanded to 22% in 2011. In the customer segment that has the highest consumption levels (over 2 GWh), we hold the biggest market share with just under 35%.

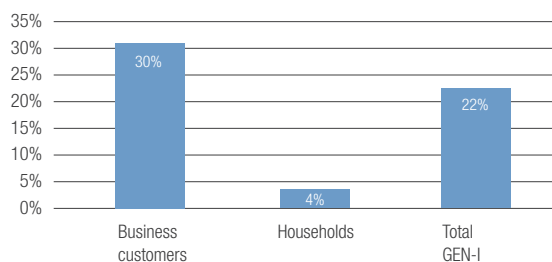
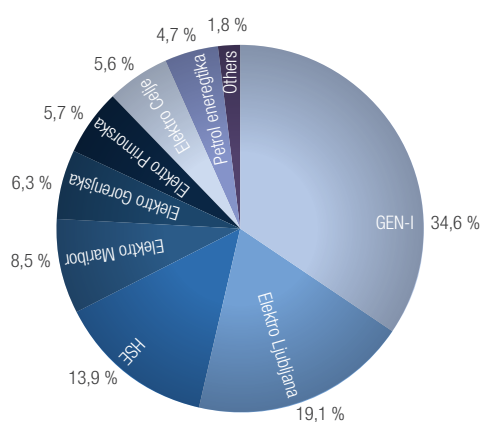
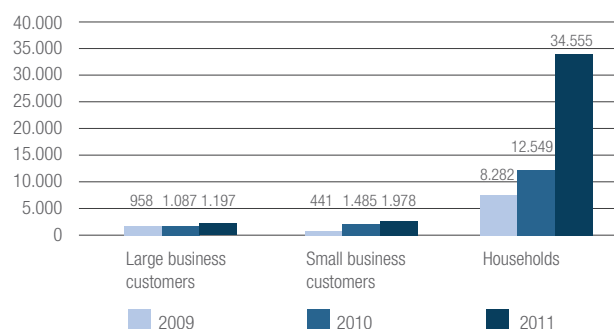


Chart: Market share in sales to end-customers in Slovenia by segment



Market shares of individual electricity suppliers to customers with annual consumption exceeding 2 GWh at the end of 2010

Source: Report on the Energy Sector in Slovenia for 2010, p. 57



Number of end-customers in Slovenia by consumption groups

In our business plan for 2011, we identified Croatia as our main market in which we wished to attract large business customers. We achieved this goal before summer by securing a public procurement contract with the City of Zagreb for electricity deliveries until 2015. This new customer has an annual consumption of 100 GWh, while the contract is worth EUR 6.6 million. It also includes almost 2,000 metering points that were incorporated into the GEN-I balance group in autumn when the first deliveries started. With this contract, we became the second largest electricity supplier in Croatia and the only electricity supplier in the end-customer segment with headquarters abroad. We attracted several important new customers in the Italian and Austrian markets last year, as we supplied electricity to some large and complex industrial customers in these two markets for the first time. We also established the necessary infrastructure and are now ready for significant growth in the future. Our performance in these markets in 2011 was in line with our plans.

<sup>5</sup> According to reports by the Energy Agency of the Republic of Slovenia.

### 6.2.3. Challenges to growth in key markets

The biggest challenge to sales performances in all markets remains the economic and debt crisis, while the Croatian market has the added challenge of ongoing market liberalisation. Managing the risk of poor payment discipline among customers is becoming ever more difficult.

The rapid growth in sales volumes abroad brings a number of new challenges for the Group. We hired new employees and established a new department to cope with sales to end-customers in foreign markets. In addition, our in-house IT department used their skills and knowledge to develop the “GenT” software tool to calculate charges and issue invoices to customers in all foreign markets. The entire process organisation in this area mirrors a model we have used successfully in our trading activities. Under this model, all transactions are managed centrally by the Slovenian company, including the entire process, from the preparation of offers to the operational part and invoicing, which enables the Group to maintain full quality control.

In markets where liberalisation processes are only just starting, the market environment is fairly static and prices do not reflect market conditions. In these markets, suppliers must be familiar with the market niches, understand the local environment and respond accordingly by offering the right products at the right prices. When entering sales markets, our strategy is to ensure the high quality of our offer and ensure it is suited to the local environment, while at the same time maintaining highly professional relationships with all business partners.

WE STARTED  
SUPPLYING ELECTRICITY  
TO THE CITY OF ZAGREB  
WITH A CONTRACT WORTH  
EUR 6.6 MILLION A YEAR  
UNTIL 2015.

WE HAVE BEEN VOTED  
“CUSTOMER FRIENDLY  
SUPPLIER OF THE YEAR”  
FOR THE THIRD  
CONSECUTIVE  
YEAR.

### 6.2.4. The Poceni elektrika brand

*Poceni elektrika* (Affordable Electricity) is our most important brand. We have been selling electricity to households under this brand since 2009 (thus far only in Slovenia). The brand has recorded high growth in sales, but we are also very satisfied with the good reputation it enjoys among our customers and the media coverage it receives. We have been voted “Customer Friendly Supplier of the Year” for the third consecutive year.

Last year, we promoted the Affordable Electricity brand on our upgraded website and through a marketing campaign. Pricing policy was also an important factor of the brand’s success and we implemented it in partnership with the Slovenian Consumers’ Association. The partnership was based on a public promise that we would not change the price of *Poceni elektrika* (Affordable Electricity) until 30 June 2012. When other suppliers started raising their prices in the second half of the year, (Affordable Electricity) reinforced its position as the most affordable brand for Slovenian households.

## 7. Financial strength and cash flow

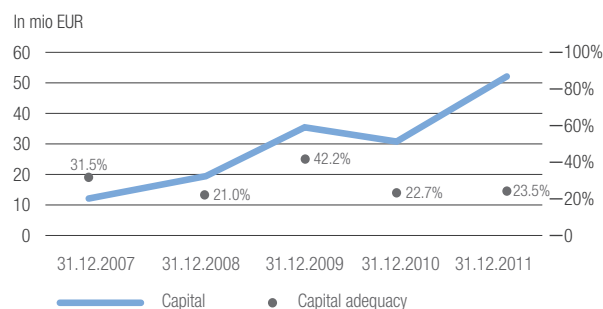
On 21 October 2011, Bonitetna hiša I, d.o.o., Ljubljana, Dun&Bradstreet Slovenija awarded the GEN-I Group the credit rating 4A2 (with 5A1 being the highest possible rating).

In these times of global economic and financial crisis, we have maintained a good financial position, relying on sophisticated risk management mechanisms and a trusted business model. The stable growth of revenues and the minimisation of risks from open trading positions are prerequisites for the profitability that our shareholders and business partners (including banks) expect us to deliver. During the financial crisis, financial stability and appropriate risk management procedures are also important as they represent the two key factors of business decision-making.

The deepening of the debt crisis has brought new challenges. We continue to provide the appropriate liquid sources of funding for our current assets through short-term loans and guarantee lines. However, banks are becoming increasingly cautious when approving such funding. Requirements are being tightened up and banks are asking for more detailed information in loan approval procedures.

Our **financial debt** in the form of bank loans totalled EUR 14 million at the end of 2011, which is equivalent to 6.4% of total assets. Our cash flow reached EUR 15.1 million last year, ensuring the timely settlement of financial obligations to banks. The total coverage of the Group's financial debt by cash flow indicates a very good financial position.

An important factor of the Group's future growth is its **potential to obtain guarantees** from commercial banks, which amounted to EUR 125 million at the end of 2011. Unfortunately, this does not enable us to take advantage of all business opportunities in the region since most of our business partners and banks demand collateral in the form of unconditional bank guarantees. The deteriorating credit ratings of Slovenian banks represent another problem for the Group, which is why in the future we will focus on securing guarantees from foreign banks with higher credit ratings.



Capital and capital adequacy of the GEN-I Group

We responded to the difficult situation in the banking sector in 2011 by diversifying our bank portfolio and limiting the intensity of growth. There were some extraordinary market opportunities at the end of 2011 due to specific hydrologic conditions, but we decided – in part intentionally – not to seize them.

Our strategic approach is to continue working with banks in Slovenia. In addition to positive experiences in the past, we believe that their ability to understand the specifics of electricity trading and sales, particularly the potential risks and returns associated with such activities, has been a crucial factor of our success.

THE GROUP'S ENTIRE  
FINANCIAL DEBT IS  
COVERED BY ITS ANNUAL  
CASH FLOW.





*Pécs, Hungary*

# PORCELAIN PRODUCTION



The production of porcelain in the Hungarian city of Pécs dates back to 1853 when Miklós Zsolnay first opened a factory producing ceramics and stone products. The first successes were soon recorded, especially once his son took over the management of the factory a decade later. Some of the most significant awards received included the gold medal at the World Fair in Paris in 1878, and it was not long before Zsolnay became the largest company in the Austro-Hungarian monarchy. The company is still in operation today and successfully markets its products on global markets.



We are aware that a capable, well-functioning team is the key to the Company's long-term success. We see the team as an entity that is more than just the sum of its individual members, which is why we place a particular emphasis on team work. Just as the delicate porcelain creations are the product of each link in the production chain, so the reliable supply of electricity is the responsibility of each and every one of our employees.

# 2


RISK MANAGEMENT  
HIGHLIGHTS OF THE BUSINESS YEAR  
EVENTS AFTER THE END OF THE REPORTING PERIOD

## 8. Risk management

Risk management activities within the GEN-I Group are centrally coordinated and linked to the daily monitoring of market changes. The Group pays close attention to all the risks encountered by its subsidiaries with the help of the relevant departments. Risks are also mitigated through clearly defined duties and responsibilities, which are carefully delegated to different departments within the Group. The risk management committee holds regular sessions to ensure that operations are in line with the 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.

### 8.1. Credit risks

Credit risks are associated with the risk of financial damage to the Company if individual business partners fail to fulfil their contractually defined obligations. These risks are managed using a standardised system of processes and controls at all functional levels.



WE DETERMINE  
EXPOSURE LIMITS FOR  
EACH INDIVIDUAL PARTNER  
AND CAREFULLY MONITOR  
THEIR OPERATIONS.

**Limiting exposure.** Risk assessment 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 collateral requirements are adjusted to the assessed level of risk. The terms defined in this process are consistently applied in all negotiation phases and in the execution of contracts. When making decisions, we ensure that new contracts are still within the agreed limits by monitoring current market exposure and payment obligations.

**Credit lines.** Credit lines for business partners are determined by analysing their creditworthiness. We use external credit rating assessments to do this.

We pay particular attention to the international aspect of our operations as we often deal with the same partner or related parties in several different markets. The final credit assessment is therefore adjusted to reflect the specific situation created by local legislation in each individual market. The assessed risk level depends mostly on the partner's performance, particularly their indebtedness, short-term liquidity, and solvency and profitability indicators. We are particularly concerned with obtaining current market data since the status of individual partners may quickly change in altered market conditions or as a result of regulatory changes.

**Hedging instruments.** The most effective way to hedge against credit risks in developed markets is to use the services of clearing houses as their extremely strict requirements help minimise risks.

Contractual obligations that arise from transactions are secured using the appropriate form of collateral. The Group uses first-rate collateral instruments to secure its receivables because they guarantee the payment of overdue receivables if business partners fail to meet their contractual obligations. The most common form of collateral used in electricity trading is bank guarantees, although parent company guarantees are also used in dealings with business partners. If business partners fail to meet their contractual obligations, these are assumed by the parent company which usually has more capital available.

When selling electricity in Slovenia, we sometimes request additional collateral in the form of bills of exchange to facilitate the collection of debt.

### 8.2. Market risks

Market risks relate to losses in the value of the portfolio due to changes in market conditions. The most important risks to the Group's operations are price, currency and interest-rate risks, and the quantity risks associated with them.

**Price risk.** The Group is exposed to price risk if its portfolio contains open positions, i.e. if there is a difference (in quantity or value) between sales and purchases for individual delivery periods. In such cases, if the price of electricity changes the value of the portfolio may decline. In order to effectively mitigate price risk, it is crucial to close any open positions on a continuous basis. To achieve this, we usually agree a counter-transaction with the appropriate characteristics for each contract to hedge against price fluctuations. The counter-transaction is usually concluded in a market in which electricity prices are highly correlated with prices in the market where the original transaction was agreed. If this is impossible, we try to mitigate the risk of price differences between the two markets by purchasing cross-border transfer capacities. The maximum volume of open positions for individual portfolios is determined by the Group's risk management policy based on the VAR (value-at-risk) methodology. The same policy also prescribes the maximum losses that may be incurred by individual portfolios as part of proprietary trading.

**Currency risks.** The activities that are exposed to currency risks are electricity trading and trading in cross-border transfer capacities. Currency risks may also affect the Group's share capital and loans to subsidiaries. The Group is exposed to risks associated with currencies not directly linked to the euro, such as: the Serbian dinar (RSD), the Hungarian forint (HUF), the Croatian kuna (HRK), the Romanian leu (RON) and the Turkish lira (TRY). Currency risks are mitigated using forward currency contracts (FX).

**Interest-rate risks.** Interest-rate risks are associated with the unexpected growth in financing costs due to rising interest rates. The GEN-I Group generally uses short-term lending to bridge occasional liquidity gaps, which is why it is not significantly exposed to these risks.

**Quantity risks.** Quantity risks are a special form of market risks associated with electricity trading. They reflect the differences between the electricity quantities stated in contracts and the quantities actually delivered or accepted. These risks arise from contracts in which electricity volumes are not specified (open contracts).

We manage quantity risks by providing comprehensive information support for the long-term and short-term **forecasting of electricity supply and consumption profiles**, and by consistently monitoring quantity deviations

at the majority of metering points included in the GEN-I balance group. The early detection of changes to consumption volumes is ensured by effective communication between the Group and its customers, thus mitigating quantity risks.

We are exposed to quantity risks in contracts where partners have limited options to change electricity quantities on a daily or monthly level, or contracts where the supply of electricity is not guaranteed. We manage these risks by simulating the most likely changes in electricity quantities in advance based on the current and expected market conditions.

### 8.3. Liquidity risk

Liquidity risk arises when liabilities cannot be settled on time.

**Managing liquidity.** Liquidity is managed centrally by optimising the liquidity of each company and then the liquidity of the Group as a whole. Cash flows are projected daily for a specific future period, which enables the Group to effectively manage liquidity risk. In addition, liquidity risk is reduced through:

- liquidity reserves in the form of approved credit lines with various commercial banks;
- the dispersion of financial liabilities;
- the matching of maturity periods for receivables and liabilities;
- limiting exposure to partners which do not settle their liabilities in a timely manner; and
- the consistent collection of overdue receivables.

We have a clearly defined debt collection procedure in place, as well as a system for monitoring customers and sending out late payment reminders. Every day we monitor data on blocked bank accounts and changes to the status of legal entities in publicly available registers. This enables us to adequately respond to any difficulties we expect with regard to the collection of receivables from customers.

**The effects of financial instruments.** Financial instruments tied to electricity supplies or purchases and settled daily increase liquidity risk. Any changes in the electricity market therefore have a direct effect on liquidity and must be managed on a daily basis. We minimise liquid-

ity risk by limiting our exposure to financial instruments as defined by the Group's risk management policy, and by forecasting changes in market conditions.

#### 8.4. Operational risks

Operational risks are associated with losses resulting from inappropriate internal processes, misconduct on the part of employees and external events.

**Human resource risks.** Managing human resource risks is particularly important for the GEN-I Group because of its rapid growth and our expansion to new markets. To achieve operational plans, employees must constantly build on their existing knowledge and learn new skills. They must also demonstrate the ability to work as part of a team and show a high level of flexibility, a dynamic approach to work, self-initiative, and excellent interpersonal and communication skills. To prevent the loss of key employees, we maintain a healthy organisational climate, provide constant professional growth, create stimulating working conditions, and maintain good communication with and among employees. We also ensure that work processes and internal skills are well documented as they represent one of the Group's most important competitive advantages.

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 reduced with clearly defined processes and the unambiguous demarcation of roles, responsibilities and authority, and by implementing codes of conduct and internal rules.

**IT risks** are associated with losses arising from inappropriate information technology or inadequate processing, with a particular emphasis on the issues of scalability, access, integrity, control and continuity. Our operations are fully supported by information technology, enabling us to carry out and manage our daily operations in an

efficient manner. Continuous investment in IT infrastructure upgrades is closely linked to automated controls used for individual business processes, which help reduce the possibility of human error and abuse.

**Legal risks** are associated with losses arising from violations of the law, including legal acts, implementing acts, instructions and recommendations, as well as agreements, good practices and ethical norms. These risks are managed by clearly defined contractual provisions. We enter into contractual relations with wholesale partners based on standardised general agreements recommended by the European Federation of Energy Traders (EFET). These agreements address the issues of risk management in great detail, particularly regarding receivables from electricity deliveries and compensation for damage where alternative transactions must be agreed in order to compensate for a partner's failure to fulfil its contractual obligations in case of insolvency. We use a similar level of contractual provisions in electricity sale agreements.

**Regulatory risks** are associated with potential losses due to incomplete regulatory requirements and trading limitations or (sudden) legislative changes in countries in which the Group operates. During the current economic crisis, these risks are reflected in a number of austerity measures imposed by governments in order to balance their national budgets.

Regulatory risks are managed by carefully monitoring developments in key markets. The tax aspect of these risks is managed by intensifying the processes needed to obtain trading licences for the Slovenian company.

## 9. Highlights of the business year

### 9.1. Important events in 2011

#### January 2011

**BULGARIA:** Additional electricity purchases in Bulgaria enable the GEN-I Group to upgrade its purchase portfolio and ensure a better sales position in regional markets.

**SLOVENIA:** The start of implicit auctions at the Slovenian BSP exchange based on the coupling of the Slovenian and Italian markets. As a result, the hourly liquidity at the BSP SouthPool exchange is increased significantly.

#### February 2011

**ITALY:** The crisis in Libya results in soaring gas prices in Italy, causing a rise in electricity prices – a market opportunity that GEN-I manages to seize.

The “**GEN-I partner event**” is organised for large business customers in Slovenia; the GEN-I Group presents the current market situation and offers advice on purchasing strategies. An annual press conference is also held and receives extremely positive media coverage.

#### March 2011



CLOSURE OF NUCLEAR  
POWER PLANTS  
IN GERMANY.

**GERMANY:** The GEN-I Group uses the options available to it thanks to its globally oriented portfolio and actively responds to the Fukushima nuclear disaster and the resulting market changes, which trigger a rise in electricity prices. The most immediate and intense changes are felt in the German electricity market.

Sales volumes of GEN-I, d.o.o. in the German market in 2011 exceed 1 TWh of electricity. As part of its trading in derivatives, which is used to hedge against price risks, the Company agrees more than 5 TWh in sales transactions in the first quarter of 2011.

**BOSNIA AND HERZEGOVINA:** GEN-I participates in a public tender organised by EPBIH for the sale of 440 GWh of electricity in the second half of 2011.

#### April 2011

**KOSOVO:** Successful participation in a public tender organised by the KEK for the purchase of electricity between May 2011 and March 2012 – more than 200 GWh of electricity sold.

**CROATIA:** The GEN-I Group sells more than 240 GWh of electricity in the Croatian market with deliveries from May to September.

At a number of internal strategic conferences, GEN-I, d.o.o. finalises its development guidelines for 2012 and lays the foundations for activities planned in 2013.

#### May 2011



OUR PARTICIPATION  
IN FIRST AUCTIONS  
OF CROSS-BORDER  
TRANSFER CAPACITIES  
ON THE TURKISH  
BORDER

**TURKEY, BULGARIA and GREECE:** The first auctions for the allocation of cross-border transfer capacities for June are organised on the Turkish borders with Bulgaria and Greece. Several companies from the GEN-I Group participate in the auctions, and new opportunities arise for the Group to increase its market share and to position itself in Greece.

The Energy Agency of the Republic of Slovenia renews the licence of GEN-I, d.o.o. for supplying and trading electricity and for providing representation and brokerage services in the electricity market for the next five years.

## June 2011



**CROATIA:** The Group wins a public procurement contract to supply electricity to the City of Zagreb until 2015, acquiring an end-customer in Croatia with an annual consumption of 100 GWh and almost 2,000 metering points.

**SLOVENIA:** In cooperation with the Consumers' Association of Slovenia, the Group gives a public promise not to raise its electricity prices for household customers until 30 June 2012.

## July 2011

**SERBIA:** A new energy law is passed that defines the next steps in liberalisation of the Serbian energy market and the relevant deadlines. The largest industrial customers are expected to enter the market in 2013.

**ALBANIA:** The Albanian system operator OST conducts the first monthly auctions for cross-border transfer capacities on the Albanian border; GEN-I Tirana participates in the auctions.

**ROMANIA:** We establish the infrastructure the Slovenian company GEN-I, d.o.o. to join the Romanian subsidiary in the Romanian national market.

Petrol d.d., Ljubljana, takes the first steps towards purchasing a 50% share in GEN-I.

## August 2011

**CROATIA:** The infrastructure needed to supply electricity to the City of Zagreb by GEN-I Zagreb is established.

**GREECE:** Greece passes an energy law in line with the directives of the EU's third energy package. The new commitments assumed under this law include the complete independence of the Greek RAE regulatory agency and the splitting up of HTSO into two new companies – a market organiser and a system operator. This is expected to bring greater transparency and increased efficiency to the Greek electricity market.

## September 2011

**GREECE:** The government introduces an excise duty on gas for electricity producers, resulting in a sharp increase in electricity prices in Greece. GEN-I Athens adjusts its Greek portfolio accordingly.

**SLOVENIA:** The GEN-I Group organises a meeting for Slovenian producers which generate electricity from renewable sources and high-efficiency cogeneration plants at its headquarters in Krško. Based on discussions held at this event, GEN-I submits an initiative to the Ministry of the Economy, suggesting the use of a different pricing model when determining purchase prices for these producers. The Ministry of the Economy takes the initiative into account in the preparation of a new, more dynamic model in 2012.

## October 2011



**THE REGION:** By actively participating in various public tenders in the region, the GEN-I Group enters the final phase of the conclusion of annual trading agreements for 2012, laying the foundations for its strategic operations until the end of 2012.

At the third meeting of energy market participants entitled Innovation in Energy – Revolution in Business, which was held at Brdo pri Kranju, GEN-I's *Poceni elektrika* (Affordable Electricity) team once again receives the title "Customer Friendly Supplier".

November 2011



**ALBANIA:** An amendment to the energy law is adopted, providing that, as of 3 January 2012, all end-customers connected to the high-voltage grid whose annual consumption exceeds 50 GWh must purchase their electricity in the free market.

**THE REGION:** Short-term demand for electricity purchases continues to grow in the region due to unfavourable hydrologic conditions. Thanks to the specific structure of our portfolio, we are in an excellent position to secure a large number of regional trading transactions for December. On 26 November 2011, the general meeting of GEN-I's shareholders appoints a new Management Board for a five-year term: Shareholder GEN energija proposes Mar-

tin Novšak and Igor Koprivnikar, while the other shareholder IG energetske sistemi proposes Robert Golob and Andrej Šajn. Mr. Šajn succeeds Dejan Paravan, who takes on the role of executive sales director.

December 2011



**THE GROUP:** The GEN-I Group secures more than 13 TWh of cross-border transfer capacities worth EUR 32.5 million for 2012 in order to meet the needs of cross-border trading. This enables the Group to further optimise its portfolio and to minimise risks by using buy/sell options within the portfolio.

**GREECE:** The national regulatory agency decides to abolish the excise duties on gas that were imposed on electricity producers in September, and transfers them to customers on the HTSO exchange which purchase electricity for end-customers or for exports. The change enters into effect on 18 January 2012.

## 10. Events after the end of the reporting period

The Group established a new subsidiary in Turkey in April 2012 and started acquiring all the necessary licences and permits. The most important annual event for large business customers was held in Slovenia on 16 February 2012. The Group presented recent developments in the electricity market and offered some guidelines on purchasing strategies.





*Kikinda, Serbia*

# BELT-MAKING



Belt-making is an ancient Serbian trade that involves the production of leather belts, saddles, whips, wallets, girdles and weapons holsters. The manual stitching requires considerable strength, and the quality of the final product depends on the manufacturer's ability to process the leather, his tanning skills and his craftsmanship with the needle and pricker.



The business challenges of the modern world call for new ways of thinking that are not restricted by existing conventional solutions. In a world where the impeccable execution of a great idea is the highest goal, creativity is not only welcome, it is a necessity and value that GEN-I supports by encouraging the creativity and personal growth of its employees.

# 4

SUSTAINABILITY REPORT

# 11. Sustainability report

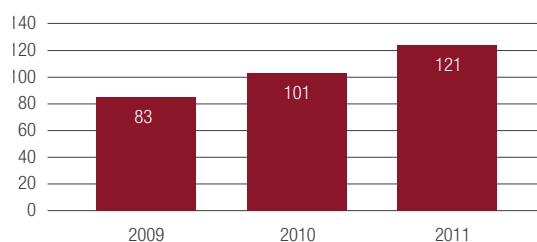
## 11.1. Employees

Over the last three years, the number of employees working for the GEN-I Group has grown along with the increasing volume of operations and the Group's expansion to new markets and new areas of operation. An example of these developments is the sale of electricity to end-customers in a number of foreign markets. The largest increase in the number of employees (55%) was recorded in 2009. In 2011, the number of employees rose by 19.8%.

**The number of employees increased by 19.8%.**

Of the total 121 employees at the end of 2011, 109 were employed in Slovenia. This was due to our highly centralised organisational structure. The parent company in Slovenia is at the top of the Group's hierarchical structure and it is there that the decision-making, management, data-gathering and control functions are conducted.

**The rise in employee numbers between 2009 and 2011 is in line with our plans and reflects the Group's increased volume of operations and revenues.**



Number of employees in the GEN-I Group

In 2011 employee turnover<sup>6</sup> was 11.48%, up slightly on 2010 when it was 9.38%. The reasons for the higher turnover include the low average age of the employees (GEN-I is the first employer for 44% of its employees), the specific staff profile (highly desirable due to their specialist knowledge) and the strong growth in employee numbers, alongside the low staff turnover in previous years.

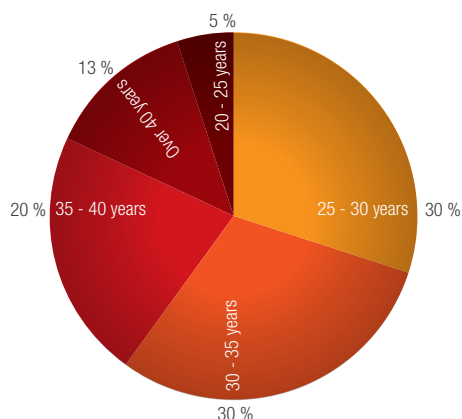
### Employee structure by age, gender and education level

The average age of GEN-I Group employees was 33.5 years in 2011. Just over two-thirds of the employees were aged 25 to 35.

THE NUMBER  
OF EMPLOYEES INCREASED  
BY 19.8%.

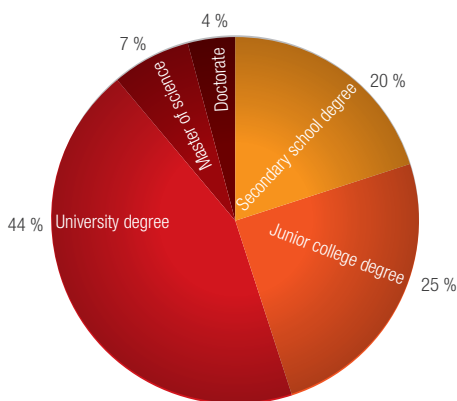
<sup>6</sup>  $F = O * 100 / (SZ + S)$ ; where the symbols have the following meanings: F = turnover; O = the number of employees who left the company in the reporting period; SZ = the number of employees at the beginning of the reporting period; S = newly hired employees. Reporting period: 1 January 2011 to 31 December 2011.

THE INCREASE  
IN THE NUMBER OF  
EMPLOYEES BETWEEN  
2009 AND 2011 IS IN LINE  
WITH PLANS AND REFLECTS  
THE GROUP'S INCREASED  
VOLUME OF OPERATIONS  
AND REVENUES.



Age structure of employees of the GEN-I Group

The GEN-I Group comprises a team of highly educated employees. The proportion of employees with a university degree or higher remained unchanged compared to the previous year, as did the proportion of employees with master's degrees and doctorates.



Educational structure of employees within the GEN-I Group

Both genders are almost equally represented in the employee structure. Women accounted for 52% of all employees within the GEN-I Group at the end of 2011. Their share has not changed significantly in recent years.

#### Employee training

Managers are at the heart of successful human resource management. That is why in 2011 we organised training activities for middle and senior management that were attended by 21.5% of all Group employees. The main goals of this training were:

- to familiarise employees with techniques that can help them improve their performance and achieve excellence in both their personal and professional lives;
- to offer professional guidance and to help employees become aware of the beliefs that influence their behaviour at different levels, assisting them to use those beliefs to their advantage, and talking participants through exercises and techniques that can help them transform their beliefs over a longer period of time, and change the way they are manifested in their behaviour to better suit their personal goals; and
- to help key employees reach an understanding and recognition of the psychological factors that affect performance and the ability to achieve goals in the workplace, and to educate employees on the importance of these factors.

We will continue to conduct similar training activities in 2012 because we know that the beliefs, values and assumptions of middle and senior management are the main building blocks of our corporate culture. We believe that the benefits of investing in the education, training and motivation of employees are more than worth the time and money spent on those purposes.

#### The development of in-house potential

The Group's most important project in the area of HR development in 2011 was the ambitious and broadly



WE LAUNCHED THE NEW  
WWW.GEN-I.EU  
WEBSITE.

conceived Metis project<sup>7</sup>. This project's main goals are to adjust the Group's current organisational structure and the functioning of processes, and to prepare plans for potential career paths and the personal development of Group employees.

The project's first phase required the involvement of all employees and was carried out in mid-2011. As part of this phase, we measured the existing organisational climate. This was followed by a phase in which senior management defined their medium-term business plans for the Company. These plans will serve as a guide for future HR development. As part of this planning phase, senior management defined and evaluated the Company's vision and goals, general processes, tasks and expectations of key employees. In future phases of the Metis project, we will create general competency profiles for the different aspects of work performed by Group employees, and prepare individual three-year plans for the development of career paths and the employees' professional and personal development.



THE GROUP'S POWER  
LIES IN KNOWLEDGE.

## 11.2. Public relations

The key principles of communication applied by the GEN-I Group are openness, responsiveness and sensitivity to the needs of individual publics. We know that communication is only successful if the target audience understands the intended message and changes its attitude accordingly. Top priority is given to communication with the internal public, which must always be the first to be informed of any changes and should have access to the most comprehensive information.

We set up an intranet in 2011 (called Vademecum) to help employees understand the makeup of the Group through a structured job classification and by explaining the place of every individual in the organisational structure. The intranet enables us to publish and distribute news in a new way, and includes an e-library and knowledge centre.

We completed a major overhaul of our corporate website [www.gen-i.eu](http://www.gen-i.eu) and the Poceni elektrika (Affordable Electricity) website in 2011, and presented them to the general public. We also upgraded the corporate identity of the GEN-I Group, which coincided with the relocation of our Krško headquarters and the change of address of our organisational unit in Nova Gorica.

At the beginning of 2011, we organised an event for large business customers, followed by another smaller event in autumn for producers which generate electricity from renewable sources and high-efficiency cogeneration plants. After the event, we sent an initiative to the Ministry of the Economy on behalf of producers which use renewable sources and cogeneration plants to demand the introduction of a different pricing model when determining purchase prices for these producers. The initiative was taken into consideration and a more dynamic model was introduced that same year. Communication in foreign markets was conducted through regional representatives at the B2B and B2C levels.

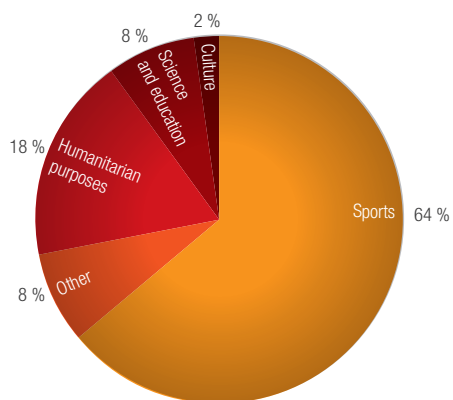
<sup>7</sup> The name Metis (as suggested by GEN-I employees) has its origins in Greek mythology; Metis was a Titaness whose virtues included wisdom, capability and skill.

ALL DECISIONS REGARDING SPONSORSHIP FUNDS AND DONATIONS ARE MADE BY THE MANAGEMENT BOARD.

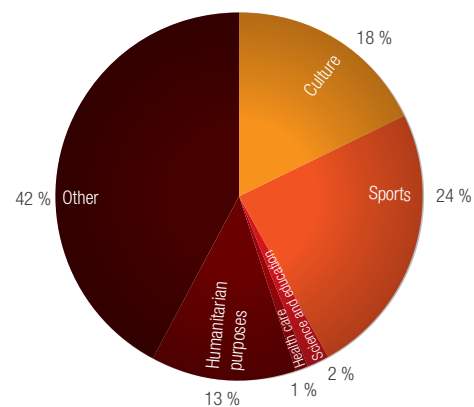
### 11.3. Concern for the social environment: Sponsorships and donations

The Group's sponsorship policy is defined in an internal act and mainly focuses on Slovenia since this is the only market in which we supply electricity to households. We intend to increase sponsorship funds in other countries as well from 2013 onwards, focusing on those markets in which we sell electricity to end-customers.

In 2011, we put an emphasis on local sports clubs. Some of the clubs we supported included the Zagorje, DOL TKI Hrastnik and Krško handball clubs, and the Go Volley volleyball team.



Structure of sponsorships in 2011



Structure of donations in 2011





*Sofia, Bulgaria*

# CARPET WEAVING



Carpets are thought to originate from Central Asia where nomadic peoples used them for a number of practical purposes, from covering the floor to using them in horse saddles and children's cribs. Bulgaria is one of the places where the ancient trade of carpet weaving has been preserved, and where it is passed on from mother to daughter even today.



Responsibility to shareholders and the environment dictates the efficient management of all work processes, both at individual companies and at the Group level. By constantly verifying and carefully optimizing each source, we weave a story of success and turn bold ideas into reality.

5

# ACCOUNTING REPORT

GEN-I GROUP  
GEN-I, D.O.O.





## 12 Introduction

The GEN-I Group, for which the consolidated financial statements are prepared, includes the parent company GEN-I, d.o.o. and the following 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

The Group also includes the associated company Enerve, d.o.o., in which GEN-I, d.o.o. holds a 40% ownership stake.

# 13 Financial Statements of the GEN-I Group

## 13.1 Consolidated Statement of Financial Position

Amounts in €

Items	Note	31/12/2011	31/12/2010
Property, plant and equipment	1	1,295,696	1,071,827
Intangible assets	2	784,743	635,125
Interests in associates	3	243,139	0
Non-current receivables and loans	4	224,368	153,518
Deferred tax assets	13	113,803	77,957
<b>Non-current assets</b>		<b>2,661,749</b>	<b>1,938,427</b>
Operating receivables	5	163,724,610	99,609,035
Prepayments and other assets	6	29,656,867	13,194,584
Investments and loans, including derivatives	7	1,474,261	234,092
Current tax assets	5	664,122	801,012
Cash and cash equivalents	8	20,354,906	17,580,216
<b>Current assets</b>		<b>215,874,766</b>	<b>131,418,939</b>
<b>Assets</b>		<b>218,536,515</b>	<b>133,357,366</b>
Share capital	9	15,877,610	12,877,610
Reserves	9	9,349,817	1,033,240
Retained earnings	9	24,144,127	16,390,392
<b>Equity attributable to owners of the company</b>		<b>49,371,554</b>	<b>30,301,242</b>
<b>Equity</b>		<b>49,371,554</b>	<b>30,301,242</b>
Provisions	12	809,939	75,275
Deferred income		439	0
Deferred tax liabilities	13	2,017,483	0
<b>Non-current liabilities</b>		<b>810,378</b>	<b>75,275</b>
Loans and borrowings	10	14,055,289	18,821,574
Other financial liabilities, including derivatives	14	554,277	0
Trade payables	15	109,403,831	78,196,907
Advances payable and other current liabilities	16	42,323,703	5,962,368
<b>Current liabilities</b>		<b>166,337,100</b>	<b>102,980,849</b>
<b>Liabilities</b>		<b>167,147,478</b>	<b>103,056,124</b>
<b>Total equity and liabilities</b>		<b>218,536,515</b>	<b>133,357,366</b>

## 13.2 Consolidated Statement of Comprehensive Income

Amounts in €

Items	Note	Generated from 01/01 to 31/12/2011	Generated from 01/01 to 31/12/2010
Revenues	19	1,011,514,334	652,840,553
Other operating income	19	695,975	87,253
Cost of goods sold	20	-976,396,149	-632,050,158
Cost of materials	20	-229,703	-198,701
Cost of services	20	-6,056,829	-6,391,993
Labor cost	21	-6,934,510	-5,104,402
Depreciation and amortization	22	-1,114,446	-530,062
Other operating expenses	23	-2,265,816	-1,576,487
<b>Operating profit or loss</b>		<b>19,212,856</b>	<b>7,077,197</b>
Income from interest	24	473,925	106,545
Financial income from revaluation of investments and other financial income	24	956,524	3,348,371
<b>Financial income</b>		<b>1,430,449</b>	<b>3,488,176</b>
Expenses for interest	24	-1,112,068	-522,669
Net foreign exchange differences	24	-361,206	-570,116
Impairment loss on trade receivables	24	-1,801,175	-274,071
Impairment of assets and other financial costs	24	-1,044,499	-187,944
<b>Financial costs</b>		<b>-4,318,948</b>	<b>-1,554,800</b>
<b>Profit or loss from financing</b>		<b>-2,888,499</b>	<b>1,933,376</b>
Recognized profit or loss of equity accounted investees	3	3,139	0
<b>Profit before tax</b>		<b>16,327,496</b>	<b>9,010,573</b>
Income tax expense	25	-2,292,207	-1,598,030
<b>Profit or loss for the period</b>		<b>14,035,289</b>	<b>7,412,543</b>

Amounts in €

Other comprehensive income	Generated from 01/01 to 31/12/2011	Generated from 01/01 to 31/12/2010
Profit/loss for the period	14,035,289	7,412,543
Other comprehensive income		
Foreign currency translation differences for foreign operations	-34,905	-492,704
Effective portion of changes in fair value of cash flow hedges	10,087,413	0
Income tax on other comprehensive income	-2,017,483	0
Other comprehensive income for the period, net of income tax	8,035,025	-492,704
<b>Total comprehensive income for the period</b>	<b>22,070,314</b>	<b>6,919,839</b>

### 13.3 Consolidated Cash Flow Statement

Amounts in €

Items	Generated from 01/01 to 31/12/2011	Generated from 01/01 to 31/12/2010
<b>Cash flows from operating activities</b>		
<b>Net profit or loss for the period</b>	<b>14,035,289</b>	<b>7,412,543</b>
<b>Adjustments for:</b>		
Depreciation and amortization	1,114,446	530,062
Write downs of property, plant and equipment	84	0
Gain on sale of property, plant and equipment, intangible assets, and investment property	-1,503	0
Loss on sale of property, plant and equipment, intangible assets, and investment property	740	0
Write down of good will	926	825
Financial income	-1,226,037	-3,330,572
Financial costs	3,918,742	364,230
Income tax	2,292,207	1,598,030
<b>Operating profit before changes in net current assets and taxes</b>	<b>20,134,894</b>	<b>6,575,118</b>
<b>Changes in net current assets and provisions</b>		
Change in receivables	-65,978,840	-42,464,429
Change in prepayments and other assets	-16,462,283	-10,424,513
Change in operating liabilities	31,206,924	50,620,435
Change in advances payable and other current liabilities	36,361,335	-8,504,989
Change in provisions	734,664	12,777
Change in deferred income	439	0
Income tax paid	-2,191,163	-2,369,882
<b>Net cash flow from operating activities</b>	<b>3,805,970</b>	<b>-6,555,483</b>
<b>Cash flows from investing activities</b>		
Interest received	476,814	37,532
Proceeds from sale of property, plant and equipment, and intangible assets	1,503	35,235
Receipts from decrease in loans given	45,815,720	6,033,238
Proceeds from settlement of derivatives	10,618,350	3,224,026
Acquisitions of property, plant and equipment, and intangible assets	-1,488,728	-1,402,244
Acquisitions of associates	-236,861	0
Acquisitions of other investments	-8,760	-18,660
Expenses for increase in loans given	-47,280,415	-5,000,000
Payments for settlement of derivatives	0	0
<b>Net cash from investing activities</b>	<b>7,897,623</b>	<b>2,909,127</b>
<b>Cash flows from financing activities</b>		
Interest paid	-1,128,902	-514,903
Repayment of short-term loans	-52,140,000	-10,000,000
Receipts from short-term loans received	47,340,000	25,800,000
Change in equity	3,000,000	0
Dividends paid	-6,000,000	-9,811,217
<b>Net cash from financing activities</b>	<b>-8,928,902</b>	<b>5,473,880</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>17,580,215</b>	<b>15,752,693</b>
Effect of exchange rate fluctuations on cash holdings	0	
<b>Net increase in cash and cash equivalents</b>	<b>2,774,690</b>	<b>1,827,524</b>
<b>Cash and cash equivalents at end of period</b>	<b>20,354,906</b>	<b>17,580,216</b>

## 13.4 Consolidated Statement of Changes in Equity

### Changes in 2011

Amounts in €

Changes in equity	Share capital	Legal reserve	Hedging reserve	Translation reserve	Retained earnings	Owners of the company	Total equity
31/12/2010	12,877,610	1,287,762	0	-254,522	16,390,392	30,301,242	30,301,242
Balance at 01/01/2011	12,877,610	1,287,762	0	-254,522	16,390,392	30,301,242	30,301,242
<b>Total comprehensive income (loss) for the period</b>							
Profit or loss for the period	0	300,000	0	0	13,735,287	14,035,287	14,035,287
<b>Other comprehensive income (loss)</b>							
Foreign currency translation differences	0	0	0	-53,353	18,448	-34,905	-34,905
Effective portion of changes in fair value of cash flow hedges, net of tax	0	0	8,069,930	0	0	8,069,930	8,069,930
<b>Total other comprehensive income (loss)</b>	<b>0</b>	<b>0</b>	<b>8,069,930</b>	<b>-53,353</b>	<b>18,448</b>	<b>8,035,025</b>	<b>8,035,025</b>
<b>Total comprehensive income (loss) for the period</b>	<b>0</b>	<b>300,000</b>	<b>8,069,930</b>	<b>-53,353</b>	<b>13,753,735</b>	<b>22,070,312</b>	<b>22,070,312</b>
<b>Transactions with owners, recorded directly in equity</b>							
Entry of share capital	3,000,000	0	0	0	0	3,000,000	3,000,000
Dividend (shares) payout	0	0	0	0	-6,000,000	-6,000,000	-6,000,000
<b>Balance at 31/12/2011</b>	<b>15,877,610</b>	<b>1,587,762</b>	<b>8,069,930</b>	<b>-307,875</b>	<b>24,144,127</b>	<b>49,371,554</b>	<b>49,371,554</b>

### Changes in 2010

Amounts in €

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	0	305,678	0	7,106,864	7,412,542	7,412,542
<b>Other comprehensive income (loss)</b>						
Foreign currency translation differences	0	0	-24,752	-467,952	-492,704	-492,704
<b>Total other comprehensive income (loss)</b>	<b>0</b>	<b>0</b>	<b>-24,752</b>	<b>-467,952</b>	<b>-492,704</b>	<b>-492,704</b>
<b>Total comprehensive income (loss) for the period</b>	<b>0</b>	<b>305,678</b>	<b>-24,752</b>	<b>6,638,912</b>	<b>6,919,838</b>	<b>6,919,838</b>
Dividend (shares) payout	0	0	0	-9,383,939	-9,383,939	-9,383,939
Withholding tax	0	0	0	-427,278	-427,278	-427,278
<b>Balance at 31/12/2010</b>	<b>12,877,610</b>	<b>1,287,762</b>	<b>-254,522</b>	<b>16,390,392</b>	<b>30,301,242</b>	<b>30,301,242</b>

# 14 Notes to the Consolidated Financial Statements

## 14.1 Reporting Company

GEN-I, d.o.o. (hereinafter: the Company) is based in Slovenia. Its registered office is at Vrbina 17, SI-8270 Krško, Slovenia. The consolidated financial statements of the GEN-I Group for the business year that ended on 31 December 2011 include data on the parent company GEN-I, d.o.o., its subsidiaries and the participating interest it owns in an associated company (hereinafter: the GEN-I Group). The Group's core activities include trading electricity internationally on a number of exchanges and organized electricity platforms and through various forms of bilateral trading, selling electricity to end-customers, and purchasing the electricity necessary for trading and sales from producers.

## 14.2 Basis of Preparation

### (a) Statement of compliance

These consolidated financial statements were prepared in accordance with the International Financial Reporting Standards (IFRS) and the provisions of the Companies Act. The financial statements were approved by the Company's management board on 21 February 2012.

### (b) Measurement basis

The consolidated financial statements were compiled on a historical cost basis, except in the case of derivatives and financial instruments at fair value through profit and loss, where fair value was used.

### (c) Functional and presentation currency

The consolidated financial statements are expressed in euros, the functional currency of the controlling company GEN-I, d.o.o. All accounting data presented in euros are 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 the IFRS. 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.

Estimates and assumptions are mainly associated with:

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

## 14.3 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.

### (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. 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 adapted to the Group's accounting policies.

#### (ii) Investments in associates

Associates are entities in which the Group has significant influence but not control over the financial and business policies. Significant control exists if the Group owns between 20% and 50% of voting rights in another company.

Investments in associates are accounted for using the equity method and are recognized at historical cost, including any transaction costs.

The consolidated financial statements include the Group's share in profit or loss and other comprehensive income. If the Group's share in the loss exceeds its share in a company, the carrying amount of the Group's share is reduced to nil, and the recognition of further losses is discontinued.

**(iii) Transactions eliminated on consolidation**

Balances, gains or losses, and revenues and expenses 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 applicable interest and payments in 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 hyperinflationary 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 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, loans 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 demand, 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) 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 recognized right to offset the recognized amounts and intends to 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 reduced by principal payments. Other financial liabilities include loans, bank overdrafts, and operating and other liabilities.

### (iii) 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 stated in the period in which the general meeting of shareholders decides on their payout.

### (iv) Derivatives

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

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 primarily uses 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.

In 2011, the Group met hedge accounting requirements for hedge risks associated with electricity price changes. When introducing hedge accounting, the Group prepared formal documents clarifying the relationship, risk management objective and strategy for undertaking the hedge. The Group defined hedging instrument, the hedge item, the types of risks for which hedging was used and the selection of methodology for evaluating hedge effectiveness.

The Group assesses the effectiveness of hedging instruments at the start of a hedge relationship and also on a regular quarterly basis. A hedge is successful if changes in the hedging instrument offset the changes in the cash flow of the hedged item by at least 80 to 125%. In the case of hedging against cash flow risks, the forecast transaction, which is the subject of the hedge, must be highly probable and exposed to cash flow changes that may significantly affect profit and loss.

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 the fair value of foreign currency forward instruments is recognized in the income statement. Gains or losses arising from the remeasurement of the fair value of forward instruments used to hedge against market risks are calculated as described below.

### Cash flow hedge

The Group accounts for cash flow hedges used for standardized forward contracts by reporting the proportion of the gain or loss from a hedging instrument that is deemed effective as other comprehensive income; the amount is stated as a hedging reserve and disclosed directly in equity. The ineffective proportion of the gain or loss from a hedging instrument is reported in the income statement under other operating revenues or expenses. The amounts reported in equity as a hedging reserve are transferred to profit or loss in the period in which the hedged item affects the Group's profit or loss.

If a derivative financial instrument no longer meets hedge accounting criteria, or if it is terminated, sold, revoked, or exercised, hedge accounting ceases. The accumulated gain or loss recognized in equity remains in equity until the forecast transaction occurs.

#### **(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 the carrying amount 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 immediately after they arise.

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

Spare parts and maintenance equipment of lower 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 10 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 2011 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 fixed 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 other 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 profit and loss account 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 amount of non-financial assets (except 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 amount 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 amount does not exceed the carrying amount 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 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) 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 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.

The Group created provisions for severance payments and long-service bonuses based on the carrying amount of its liabilities to employees. Their amount was determined based on an actuarial calculation of future payments to each employee, 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 5.10 % p.a., which was the return on 10-year gilt-edged corporate bonds in the euro area at the end of November 2011.

**(ii) Provisions for pending tax procedures**

The Group created long-term provisions for liabilities arising from pending tax procedures for the first time in 2011. The provisions were created for the Group's Albanian subsidiary as the management board assessed that it is likely that the ongoing procedures before the Albanian court, for which the Group has filed appeals, will be decided in favor of the local tax authorities.

**(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 a company within the Group acts as the intermediary in a transaction and not as a parent company, the Group's net commission is stated as revenue.

**(iv) Revenues from rents**

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

**(j) Government grants**

All types of government grants are initially recognized as deferred revenue if there is reasonable assurance that the grants will be received and that the Group will comply with the associated conditions. Government grants that compensate the Group 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 at a contractually agreed interest rate.

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 at a contractually agreed interest rate.

**(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 amount of assets and liabilities for financial reporting purposes and the

relevant amounts for tax reporting purposes. 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 assets. 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 2011, 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 ended on 31 December 2011 have not yet entered into force and were not considered in the preparation of the financial statements of the GEN-I Group:

- **Amendment to IFRS 7 Disclosures – transfers of financial assets** (applies to annual accounting periods starting on or after 1 July 2011)

The amendment requires the Company to disclose information that will enable users of its financial statements to understand the relationship between transferred financial assets that are not derecognized in their entirety and the associated liabilities, and to evaluate the nature of, and risks associated with, the entity's continuing involvement in derecognized financial assets. The amendment defines "continuing involvement" for the purposes of disclosure requirements.

Given the nature of its operations and the types of financial assets used, the Group does not expect this amendment to IFRS 7 to have a significant effect on its financial statements.

## 14.4 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 it 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.

## 14.5 Risks

The GEN-I Group is exposed to the following risks in its operations:

- strategic,
- financial and
- operational risks.

GEN-I's prudent approach to risk management helps the Group maintain its high level of operational quality and is crucial for achieving 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 8. Risk Management

## 14.6 Overview of all Subsidiaries in the GEN-I Group

Group companies	% of ownership		Investment value		Equity of subsidiary		Share capital of majority shareholder	
	31/12/2011	31/12/2010	31/12/2011	31/12/2010	31/12/2011	31/12/2010	1/12/2011	31/12/2010
GEN-I, d.o.o., Beograd	100%	100%	150,000	150,000	1,966,486	1,104,141	742,348	715,823
GEN-I Zagreb, d.o.o.	100%	100%	204,910	204,910	513,567	550,527	199,018	203,169
GEN-I Budapest Kft.	100%	100%	203,915	203,915	285,177	2,301,513	187,540	187,540
GEN-I, d.o.o., Sarajevo	100%	100%	512,847	512,847	814,462	864,588	511,292	511,292
GEN-I dooel Skopje	100%	100%	20,000	20,000	1,925,816	1,338,364	19,794	20,145
GEN-I Tirana Sh.p.k.	100%	100%	46,452	46,452	4,736,616	446,068	42,957	43,591
GEN-I Athens SMLLC.	100%	100%	150,000	150,000	603,237	345,719	150,000	150,000
S.C. GEN-I	100%	100%	500,000	500,000	1,891,187	754,867	487,267	494,275
BUCHAREST S.R.L.								
GEN-I Sofia SpLLC	100%	100%	100,830	100,830	784,647	70,644	100,005	100,005
Gen-I Milano S.r.l	100%	100%	100,000	100,000	-199,814	83,965	100,000	100,000
Gen-I Vienna GmbH	100%	100%	50,000	50,000	67,240	27,557	50,000	50,000
<b>Total</b>			<b>2,038,954</b>	<b>2,038,954</b>	<b>13,388,621</b>	<b>7,887,953</b>	<b>2,590,221</b>	<b>2,575,841</b>

Group companies	Assets of subsidiary		Liabilities of subsidiary		Income of subsidiary		Net profit or loss of subsidiary		No. of employees in subsidiary	
	31/12/2011	31/12/2010	31/12/2011	31/12/2010	31/12/2011	31/12/2010	31/12/2011	31/12/2010	31/12/2011	31/12/2010
GEN-I, d.o.o., Beograd	57,507,962	19,207,356	55,541,476	18,103,216	188,049,051	100,799,002	1,244,797	406,109	3	3
GEN-I Zagreb, d.o.o.	20,796,241	8,641,331	20,282,674	8,090,804	84,886,409	42,636,463	318,691	233,667	1	2
GEN-I Budapest Kft.	1,637,722	22,087,703	1,352,544	19,786,190	8,247,139	110,752,962	-116,336	-76,423	1	1
GEN-I, d.o.o., Sarajevo	10,439,853	9,336,790	9,625,390	8,472,204	28,021,569	31,766,196	303,171	276,419	1	2
GEN-I dooel Skopje	14,363,619	6,331,404	12,437,801	4,993,041	51,056,226	33,948,881	1,906,953	1,304,014	1	1
GEN-I Tirana Sh.p.k.	20,812,565	5,206,366	16,075,949	4,760,298	42,566,354	27,627,873	4,697,218	444,527	1	1
GEN-I Athens SMLLC.	23,518,539	17,079,736	22,915,302	16,734,017	121,648,690	87,047,223	257,518	96,552	0	1
S.C. GEN-I	11,641,492	6,960,175	9,750,303	6,205,308	82,957,702	26,478,699	1,416,861	269,371	1	1
BUCHAREST S.R.L.										
GEN-I Sofia SpLLC	12,796,014	830,809	12,011,368	760,163	34,652,645	399,152	714,792	-29,359	0	1
Gen-I Milano S.r.l	3,215,564	112,601	3,415,378	28,636	11,312,185	512	-283,779	-16,035	0	0
Gen-I Vienna GmbH	2,645,252	40,396	2,578,012	12,838	9,292,384	28	39,683	-22,443	0	0
<b>Total</b>	<b>179,374,823</b>	<b>95,834,667</b>	<b>165,986,197</b>	<b>87,946,715</b>	<b>662,690,354</b>	<b>461,456,991</b>	<b>10,499,569</b>	<b>2,886,399</b>	<b>9</b>	<b>13</b>

## 14.7 Disclosures of Items in the Financial Statements

### Disclosure 1: Property, plant and equipment

Amounts in €

Property plant and equipment	31/12/2011	31/12/2010
Buildings	471,935	77,561
Other plant and equipment	823,761	879,621
Property, plant and equipment under construction	0	114,645
<b>Total property, plant and equipment</b>	<b>1,295,696</b>	<b>1,071,827</b>

Computer equipment and investments in leased office space account for the majority of property, plant and equipment.

Investments in property, plant and equipment in 2011 amounted to EUR 864,879. The Group invested EUR 419,260 in leased office space, EUR 237,097 in purchases of office and other equipment, and EUR 208,522 in purchases of computer equipment.

### Changes in 2011

Amounts in €

Property plant and equipment	Buildings	Other plant and equipment	Production plant and equipment under construction and advances	Total
<b>HISTORICAL COST</b>				
<b>Balance at 01/01/2011</b>	<b>224,966</b>	<b>1,329,222</b>	<b>114,645</b>	<b>1,668,833</b>
Other acquisitions		6,128	858,751	864,879
Write downs	-4,224	-344	0	-4,568
Disposals	0	-3,208	0	-3,208
Transfer within property plant and equipment	533,732	439,664	-973,396	0
<b>Balance at 31/12/2011</b>	<b>754,473</b>	<b>1,771,462</b>	<b>0</b>	<b>2,525,935</b>
<b>ACCUMULATED DEPRECIATION AND IMPAIRMENT LOSSES</b>				
<b>Balance at 01/01/2011</b>	<b>147,405</b>	<b>449,601</b>		<b>597,006</b>
Write downs	-4,224	-291		-4,515
Disposals	0	-2,468		-2,468
Depreciation expense	139,358	500,857		640,215
<b>Balance at 31/12/2011</b>	<b>282,538</b>	<b>947,699</b>	<b>0</b>	<b>1,230,237</b>
<b>Carrying amount at 01/01/2011</b>	<b>77,561</b>	<b>879,621</b>	<b>114,645</b>	<b>1,071,827</b>
<b>Carrying amount at 31/12/2011</b>	<b>471,935</b>	<b>823,763</b>	<b>0</b>	<b>1,295,698</b>

### 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>				
<b>Balance at 01/01/2010</b>	<b>215,155</b>	<b>602,457</b>	<b>3,069</b>	<b>820,681</b>
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>				
<b>Balance at 01/01/2010</b>	<b>92,072</b>	<b>257,097</b>	<b>0</b>	<b>349,168</b>
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>

### Disclosure 2: Intangible assets

Amounts in €

Intangible assets	31/12/2011	31/12/2010
Other intangible assets	650,482	567,354
Intangible assets under construction and development	134,261	67,771
<b>Total intangible assets</b>	<b>784,743</b>	<b>635,125</b>

The Group's other intangible assets include property rights in the form of software, which amounted to EUR 326,436, and long-term licenses for trading on foreign markets in the amount of EUR 324,046.

Major investments in intangible assets were made by the parent company and included licenses to operate on foreign markets in the amount of EUR 283,767 and other intangible assets in the amount of EUR 248,143. Intangible assets mainly comprised computer software intended as IT support for employees, support for electricity sales to end-customers and server support.

### Changes in intangible assets in 2011

Amounts in €

Intangible assets	Other intangible assets	Intangible assets under construction and development and advances	Total
<b>HISTORICAL COST</b>			
Balance at 01/01/2011	1,282,726	67,771	1,350,497
Other acquisitions	0	623,849	623,849
Write downs	-199	0	-199
Transfer within intangible assets	531,910	-531,910	0
<b>Balance at 31/12/2011</b>	<b>1,839,886</b>	<b>134,261</b>	<b>1,974,147</b>
<b>ACCUMULATED AMORTIZATION AND IMPAIRMENT LOSSES</b>			
Balance at 01/01/2011	715,372		715,372
Write downs	-199		-199
Amortization expense	474,231		474,231
<b>Balance at 31/12/2011</b>	<b>1,189,404</b>	<b>0</b>	<b>1,189,404</b>
<b>Carrying amount at 01/01/2011</b>	<b>567,354</b>	<b>67,771</b>	<b>635,125</b>
<b>Carrying amount at 31/12/2011</b>	<b>650,482</b>	<b>134,261</b>	<b>784,743</b>

### 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>

### Disclosure 3: Investments in associates

Amounts in €

Important data 2011	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Equity	Revenue	Expenses	Profit / loss	Attributable profit / loss
ENERVE, d.o.o.	2,273,911	5,372,712	2,930,845	4,088,013	627,765	608,923	601,080	7,847	3,139
<b>Total</b>	<b>2,273,911</b>	<b>5,372,712</b>	<b>2,930,845</b>	<b>4,088,013</b>	<b>627,765</b>	<b>608,923</b>	<b>601,080</b>	<b>7,847</b>	<b>3,139</b>

Investments in the share capital of the associated company were accounted for using the equity method. The Company holds 40% of voting rights in the associated company.

The corresponding profit or loss is recognized in the Group's income statement.

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

Amounts in €

<b>Non-current receivables and loans</b>	<b>31/12/2011</b>	<b>31/12/2010</b>
Operating receivables due from others	183,933	121,843
Non-current financial receivables and lease	40,435	31,675
<b>Total non-current receivables and loans granted</b>	<b>224,368</b>	<b>153,518</b>

Disclosure 5: **Operating receivables**

Amounts in €

<b>Operating receivables</b>	<b>31/12/2011</b>	<b>31/12/2010</b>
Operating receivables to customers - others	141,640,412	80,254,142
Interest receivables to others	200,061	119,921
Other receivables associated with financial income - others	0	1,088
Other operating receivables	21,785,771	19,233,884
Receivables from operating activities on behalf of third parties	98,366	0
<b>Total operating receivables</b>	<b>163,724,610</b>	<b>99,609,035</b>

The Group's consolidated current operating receivables at the end of 2011 were up 64% on the same period last year. The increase is a result of increased business volumes in 2011 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 customers that have signed EFET general agreements with GEN-I are well-regulated by the agreements. In some cases, the Group does not request any collateral for its receivables because of the customers' strategic position and/or financial stability.

Other operating receivables comprised current receivables from VAT and current receivables from prepayments of corporate income tax, of which EUR 16.05 million were recorded by the parent company and the remainder by its subsidiaries, with GEN-I Sofia recording the highest amount of EUR 2.35 million.

**Impairment of receivables**

Amounts in €

<b>Aging of receivables</b>	<b>Gross amount</b>	<b>Impairment</b>	<b>Gross amount</b>	<b>Impairment</b>
		<b>31/12/2011</b>		<b>31/12/2010</b>
Not past due	155,879,831	707,433	93,583,007	0
Past due up to 90 days	8,303,814	100,492	3,883,166	0
Past due from 91 to 180 days	407,326	233,300	39,837	34,301
Past due from 181 to 360 days	579,939	424,345	2,324,039	186,713
More than one year	637,259	617,989	356,270	356,270
<b>Total</b>	<b>165,808,169</b>	<b>2,083,560</b>	<b>100,186,320</b>	<b>577,284</b>

Receivables are impaired if their carrying amount exceeds their amortized cost. Impairments of receivables increase the Group's financial costs. The Group impairs assets individually.

Within the Group, the parent company impaired receivables in the amount of EUR 1,376,127, which includes EUR 776,566 of receivables from debtors against which the Company initiated court proceedings to collect debt, or against which bankruptcy or liquidation proceedings were initiated in 2011. The remaining revalued receivables relate to outstanding receivables in the amount of EUR 599,561, which will probably not be recovered in full due to the debtor's insolvency. In addition to the parent company, receivables in the amount of EUR 707,433 were impaired at GEN-I Tirana Sh.p.k. owing to a fine for the company's failure to accept electricity. The management assessed that the collection of these receivables is unlikely as the customer has rejected the invoice in question.

Impaired receivables from customers accounted for 1.26% of all current operating receivables.

Amounts in €

Movement in impairments of receivables	2011	Impairment 2010
Opening balance at 01/01	577,284	348,693
Increase in impairments	1,714,362	274,071
Decrease in impairments	-207,551	-45,273
Write downs of receivables	0	-207
Foreign exchange differences	-536	0
<b>Closing balance at 31/12</b>	<b>2,083,559</b>	<b>577,284</b>

Disclosure 6: **Advances and other assets**

Amounts in €

Advances and other assets	31/12/2011	31/12/2010
Advances paid	9,340,339	10,465,081
Short-term deferred costs and/or expenses	4,536,938	2,238,916
Short-term accrued revenue	15,779,590	490,587
<b>Total advances and other assets</b>	<b>29,656,867</b>	<b>13,194,584</b>

Advances paid by the Group in the total amount of EUR 9,340,339 comprise advances for cross-border transfer capacities and advances for electricity supplied in the first quarter of 2012.

Accrued expenses for cross-border transfer capacities account for the majority of current deferred costs and expenses.

Accrued revenues in the amount of EUR 15,779,590 comprise revenues from the sale of electricity and cross-border transfer capacities for which, in accordance with contractual provisions, a final statement will be issued in 2012. The parent company accounts for the majority of accrued revenues.

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

Amounts in €

Investments and loans including derivatives	31/12/2011	31/12/2010
Derivatives	0	234,092
Current deposits	1,464,695	0
Current interest receivables	9,566	0
<b>Total investments and loans</b>	<b>1,474,261</b>	<b>234,092</b>

Current deposits were paid in order to obtain bank guarantees.

Disclosure 8: **Cash and cash equivalents**

Amounts in €

Cash and cash equivalents	31/12/2011	31/12/2010
Cash in banks	12,428,724	15,700,400
Call deposits	7,925,656	1,119,241
Deposits of up to three months	0	760,000
Cash in hand	526	575
<b>Total cash and cash equivalents</b>	<b>20,354,906</b>	<b>17,580,216</b>

Cash and cash equivalents include bank account balances, cash in hand and call deposits.

Disclosure 9: **Share capital and reserves**

Capital comprises cash contributions by owners of controlling companies and amounts that arise during current operations that pertain to owners.

**Reserves**

Amounts in €

Reserves	31/12/2011	31/12/2010
Legal reserve	1,587,762	1,287,762
Hedging reserve	8,069,930	0
Translation reserve	-307,875	-254,522
<b>Total</b>	<b>9,349,817</b>	<b>1,033,240</b>

In line with the provisions of the Companies Act, the Parent company transferred EUR 300,000 of its net operating profit to legal reserves, increasing their amount as at 31 December 2011 to EUR 1,587,761 or 10% of its share capital.

In 2011, the Parent company also created reserves for fair value hedges of cash flows from standardized forward contracts in the amount of EUR 8,069,930. The reserves for fair value hedging were created for:

- the 2012 business year in the amount of EUR 11,132,753
- the 2013 business year in the negative amount of EUR 339,498
- the 2014 business year in the negative amount of EUR 557,104
- the 2015 business year in the negative amount of EUR 148,738
- reduced by deferred tax liabilities in the amount of EUR 2,017,483

Exchange rate differences arising from the conversion of the financial statements of foreign subsidiaries are recognized directly in the statement of comprehensive income as foreign currency translation reserve.

**Retained earnings**

Amounts in €

Retained earnings	31/12/2011	31/12/2010
Net profit or loss for the period	13,735,287	7,106,864
Retained net profit or loss	10,408,840	9,283,528
<b>Total</b>	<b>24,144,127</b>	<b>16,390,392</b>

There was an increase in retained earnings compared to the previous year in the amount of net profit after the creation of legal reserves of EUR 13,735,287 and exchange rate differences in the amount of EUR 18,448, and a decrease in the amount of dividend payments to shareholders of the parent company of EUR 6,000,000.

Disclosure 10: **Loans**

Amounts in €

Current loans and borrowings	31/12/2011	31/12/2010
Borrowings from banks	14,000,000	18,800,000
Current interest payable	55,289	21,574
<b>Total current financial liabilities</b>	<b>14,055,289</b>	<b>18,821,574</b>

Loans received were initially recognized at fair value reduced by acquisition costs. At the reporting date, they were measured at amortized cost less principal payments, taking into account acquisition costs, discounts and premiums.

Amounts in €

Changes in current loans and borrowings	Borrowings from banks	
	2011	2010
Opening balance at 01/01	18,800,000	3,000,000
New borrowings - increase	47,340,000	25,800,000
Repayment - decrease	-52,140,000	-10,000,000
<b>Closing balance at 31/12</b>	<b>14,000,000</b>	<b>18,800,000</b>

Disclosure 11: **Cost and maturity of loans**

At the reporting date, only the parent company recorded liabilities from loans in the amount of EUR 14,000,000, comprising loans received from Slovenian commercial banks that were secured with bills of exchange. Loans received included short-term loans with a fixed interest rate of 5.2% and one short-term loan with a variable interest rate tied to the 3-month EURIBOR with a 3% margin.

Interest paid on loans in 2011 based on short-term loan agreements with domestic commercial banks amounted to EUR 1,110,340.

Disclosure 12: **Non-current provisions**

Amounts in €

Provisions	2011			2010
	Provisions for severance payments and long-service bonuses	Other provisions	Total provisions	Provisions for severance payments and long-service
<b>Balance at 01/01/2011</b>	<b>75,275</b>	<b>0</b>	<b>75,275</b>	<b>62,498</b>
Provisions made during the period	21,430	716,202	737,632	20,997
Provisions used during the period	-2,423	0	-2,423	-8,221
Effect of movements in exchange rates	0	-544	-544	0
<b>Balance at 31/12/2011</b>	<b>94,281</b>	<b>715,658</b>	<b>809,939</b>	<b>75,275</b>
Of which non-current portion	94,281	715,658	809,939	75,275

The Group created provisions for severance payments and long-service bonuses based on the carrying value of its liabilities to employees.

Their amount was determined based on an actuarial calculation of future payments to each employee, 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 5.10% p.a., which was the return on 10-year gilt-edged corporate bonds in the euro area at the end of November 2011.

Other provisions of EUR 715,658 were created in 2011 at GEN-I Tirana Sh.p.k. for liabilities from ongoing tax proceedings.

Disclosure 13: **Deferred taxes**

Amounts in €

Deferred taxes relating to	Receivables		Liabilities		Net effect	
	2011	2010	2011	2010	2011	2010
Intangible assets	96,848	61,206	0	0	96,848	61,206
Derivatives			-2,017,483	0	-2,017,483	0
Provisions for severance payments and long-service bonuses	16,956	16,750	0	0	16,956	16,750
<b>Deferred tax assets (liabilities)</b>	<b>113,804</b>	<b>77,956</b>	<b>0</b>	<b>0</b>	<b>-1,903,679</b>	<b>77,956</b>
Off-setting of tax	0	0	0	0	0	0
<b>Net deferred tax assets (liabilities)</b>	<b>113,804</b>	<b>77,956</b>	<b>-2,017,483</b>	<b>0</b>	<b>-1,903,679</b>	<b>77,956</b>

All of the Group's deferred tax assets are recognized in the income statement. In 2011, the Group recorded an increase in deferred tax assets in the amount of additionally created provisions and the amortization of intangible assets in cases where amortization exceeded the amount deductible for tax purposes. The Group also calculated deferred tax liabilities for financial instruments used in cash flow hedge, where the effective portion of the hedge was recognized in comprehensive income.

Amounts in €

Changes in temporary differences in the period	31/12/2009	Recognized in the income statement	31/12/2010	Recognized in the income statement	Recognized in other comprehensive income	31/12/2011
Intangible assets	40,061	21,146	61,207	35,641	0	96,848
Derivatives	0	0	0	0	-2,017,483	-2,017,483
Provisions for severance payments and long-service bonuses	10,705	6,045	16,750	205	0	16,955
<b>Total</b>	<b>50,766</b>	<b>27,191</b>	<b>77,957</b>	<b>35,846</b>	<b>-2,017,483</b>	<b>-1,903,680</b>

Disclosure 14: **Other current financial liabilities**

Amounts in €

Other current financial liabilities	31/12/2011	31/12/2010
Derivatives	554,277	0
<b>Total other current financial liabilities</b>	<b>554,277</b>	<b>0</b>

Other current financial liabilities comprise agreements concluded with financial institutions for the purpose of hedging against foreign currency risks, and were recognized at the parent company.

Disclosure 15: **Operating liabilities**

Amounts in €

Current operating liabilities	31/12/2011	31/12/2010
Trade payables	92,202,367	72,872,264
<b>Trade payables</b>	<b>92,202,367</b>	<b>72,872,264</b>
Current liabilities to employees	1,152,137	675,598
Current liabilities to state and other institutions	15,807,932	4,575,444
Current liabilities to others	240,941	73,601
<b>Other liabilities</b>	<b>17,201,010</b>	<b>5,324,643</b>
Current interest payable to others	454	0
<b>Current interest payable</b>	<b>454</b>	<b>0</b>
<b>Total operating liabilities</b>	<b>109,403,831</b>	<b>78,196,907</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 2011 were up 40% on 2010, 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 mainly disclosed at the parent company and include liabilities from contractual work, meeting attendance fees and liabilities from payment card transactions.

Disclosure 16: **Advances payable and other current liabilities**

Amounts in €

Advances payable and other current liabilities	31/12/2011	31/12/2010
<b>Current advances payable</b>	<b>2,114</b>	<b>121,422</b>
Accrued costs and expenses	41,107,577	5,097,095
Deferred revenue	1,214,012	743,851
<b>Accrued costs and deferred revenue</b>	<b>42,321,589</b>	<b>5,840,948</b>
<b>Advances payable and other current liabilities</b>	<b>42,323,703</b>	<b>5,962,370</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 cross-border capacity rights and electricity purchases and other costs from invoices not yet received. Accrued costs and expenses amounted to EUR 39,487,894 at the parent company and EUR 1,619,683 at subsidiaries.

Current deferred revenues comprise electricity supplies which were calculated in 2011 for the next business year and were recorded at the parent company.

Disclosure 17: **Classification of financial instruments and fair values**

Amounts in €

Fair values	Note	31/12/2011		31/12/2010	
		Carrying amount	Fair value	Carrying amount	Fair value
<b>Assets carried at fair value</b>					
Derivatives	7	0	0	234,092	234,092
<b>Total</b>		<b>0</b>	<b>0</b>	<b>234,092</b>	<b>234,092</b>
<b>Assets carried at amortized cost</b>					
Non-current financial receivables	4	40,435	40,435	31,675	31,675
Non-current operating receivables	4	183,933	183,933	121,843	121,843
Current deposits	7	1,464,695	1,464,695	0	0
Current loans	7	9,566	9,566	0	0
Operating receivables	5	163,724,610	163,724,610	99,609,035	99,609,035
Cash and cash equivalents	8	20,354,906	20,354,906	17,580,216	17,580,216
<b>Total</b>		<b>185,778,145</b>	<b>185,778,145</b>	<b>117,342,769</b>	<b>117,342,769</b>
<b>Liabilities carried at fair value</b>					
Derivatives	14	-554,277	-554,277	0	0
<b>Total</b>		<b>-554,277</b>	<b>-554,277</b>	<b>0</b>	<b>0</b>
<b>Liabilities carried at amortized cost</b>					
Secured bank loans	10	-14,000,000	-14,000,000	-18,800,000	-18,800,000
Other financial liabilities	10	-55,289	-55,289	-21,574	-21,574
Operating liabilities	15	-109,403,831	-109,403,831	-78,196,907	-78,196,907
<b>Total</b>		<b>-123,459,120</b>	<b>-123,459,120</b>	<b>-97,018,481</b>	<b>-97,018,481</b>

At the end of 2011, the Group recognized liabilities carried at fair value in the amount of EUR 554,277, and valued them based on available data regarding market prices.

Disclosure 18: **Contingent liabilities and assets**

Amounts in €

Contingent liabilities	31/12/2011	31/12/2010
Guarantees and securities - other	73,275,763	76,240,525
Guarantees and securities - subsidiaries operating abroad	37,470,041	33,024,232
Other off-balance-sheet liabilities	9,590,748	0
<b>Total</b>	<b>120,336,552</b>	<b>109,264,757</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 19: **Revenues**

Amounts in €

Revenues	Generated from 01/01 to 31/12/2011	Generated from 01/01 to 31/12/2010
Sales revenue from sale of goods and materials	1,010,171,060	652,527,993
Sales revenue from sale of services	1,333,577	277,057
Rental income	9,697	1,049
<b>Total</b>	<b>1,011,514,334</b>	<b>652,806,099</b>

The Group's revenues from electricity sales amounted to EUR 1,010,171,060 in 2011, up 55% on 2010.

Revenues from services include sales of cross-border transfer capacities.

Amounts in €

Income generated in Slovenia or abroad	Slovenia	Abroad Generated from 01/01 to 31/12/2011	Total
Sales revenue from sale of goods and materials	202,187,649	807,983,411	1,010,171,060
Sales revenue from sale of services	4,428	1,329,149	1,333,577
Rental income	9,697	0	9,697
<b>Total</b>	<b>202,201,774</b>	<b>809,312,560</b>	<b>1,011,514,334</b>

In 2011, the Group generated 80% of its revenues on foreign markets and 20% on the domestic market.

Amounts in €

Other operating income	Generated from 01/01 to 31/12/2011	Generated from 01/01 to 31/12/2010
Gains on sale of property, plant and equipment, and intangible assets	1,503	0
Other operating revenues	421,410	82,253
Revenues from subsidies and government grants	105,671	5,000
Negative goodwill	167,391	0
<b>Total</b>	<b>695,975</b>	<b>87,253</b>

The Group's other operating income in 2011 included revenues from the reversal of deferred revenues from the previous year, mainly from electricity transactions.

Revenues from subsidies, government grants and compensation included subsidies from the Slovenian Technology Agency (TIA) for projects at the parent company carried out by research assistants.

Negative goodwill from consolidation included adjustments of profit or loss at subsidiaries from 2010 that were recognized in the Group's 2011 financial statements.

Disclosure 20: **Cost of goods, materials and services**

Amounts in €

Items	Generated from 01/01 to 31/12/2011	Generated from 01/01 to 31/12/2010
Cost of goods and materials sold	976,396,149	632,050,158

The historical Cost of goods sold in 2011 was up 54% on the previous year owing to the increased volume of the Group's operations. The historical cost includes the purchase price of electricity and the associated costs.

Amounts in €

Cost of materials	Generated from 01/01 to 31/12/2011	Generated from 01/01 to 31/12/2010
Costs of energy	70,167	62,384
Materials and spare parts	33,282	18,649
Office supplies	126,254	117,668
<b>Total</b>	<b>229,703</b>	<b>198,701</b>

Amounts in €

Cost of services	Generated from 01/01 to 31/12/2011	Generated from 01/01 to 31/12/2010
Transportation	297,479	292,363
Maintenance	724,285	208,202
Rents	858,920	1,134,783
Bank charges and other fees	1,228,210	1,186,482
Intellectual services	1,471,434	2,255,699
Advertising, sales promotion and public relations	398,326	432,848
Other services	938,331	734,393
IT costs	139,844	147,223
<b>Total</b>	<b>6,056,829</b>	<b>6,391,993</b>

Costs of services were down 5% on the previous year in 2011. Intellectual services accounted for the largest portion of the Group's costs of services and included human resource 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, transportation, fees and concessions, costs of accessing different databases, licensing costs and costs for the preparation of the annual report.

Amounts in €

Auditing services	Generated from 01/01 to 31/12/2011	Generated from 01/01 to 31/12/2010
Audit of annual report	46,609	38,927
Tax consultancy services	900	0
Other non-audit services	0	525
<b>Total</b>	<b>47,509</b>	<b>39,452</b>

Amounts in €

Minimum lease payments under noncancellable operating lease	2011	2010
< 1 Year	593,200	417,690
> 1 - < 5 Years	1,420,052	602,223
> 5 Years	1,292,231	0
<b>Total</b>	<b>3,305,482</b>	<b>1,019,913</b>

Liabilities from long-term contracts signed for the lease of commercial premises are expected to amount to at least EUR 3,254,129 at the parent company (organizational units in Ljubljana, Nova Gorica and Krško) and to EUR 51,353 at the Group's subsidiaries.

#### Disclosure 21: Labor costs

Amounts in €

Labor cost	Generated from 01/01 to 31/12/2011	Generated from 01/01 to 31/12/2010
Wages and salaries	5,094,637	4,023,592
Social security contributions	827,340	641,403
Other labor cost	1,012,533	439,407
<b>Total</b>	<b>6,934,510</b>	<b>5,104,402</b>

In 2011, 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.).

In 2011, total labor costs were up 36% on the previous year owing to an increase in the number of employees.

Disclosure 22: **Amortization and depreciation**

Amounts in €

Amortization and depreciation	Generated from 01/01 to 31/12/2011	Generated from 01/01 to 31/12/2010
Amortization of intangible assets	474,231	280,042
Depreciation of property, plant and equipment	640,215	250,020
<b>Total</b>	<b>1,114,446</b>	<b>530,062</b>

The Group's fixed assets are 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.

Depreciation and amortization amounted to EUR 1,114,446 in 2011, up 110% on the previous year. The increase was linked to more extensive investments in fixed and intangible assets.

Disclosure 23: **Other operating expenses**

Amounts in €

Other operating expenses	Generated from 01/01 to 31/12/2011	Generated from 01/01 to 31/12/2010
Taxes and levies	107,791	76,304
Loss on sale of property, plant and equipment, and intangible assets	740	0
Donations	10,501	27,082
Creation of provisions	737,632	20,997
Impairment of property, plant and equipment	84	0
Other	1,409,068	1,452,104
<b>Total</b>	<b>2,265,816</b>	<b>1,576,487</b>

In 2011, other operating expenses were up on the previous year mainly due to the creation of provisions in the amount of EUR 716,201 for ongoing tax proceedings at GEN-I Tirana. Other operating expenses comprised damages and fines paid, expenses not recognized for tax purposes, membership fees and other fees of lesser value.

Disclosure 24: **Profit or loss from financing**

Amounts in €

Profit or loss from financing	Generated from 01/01 to 31/12/2011	Generated from 01/01 to 31/12/2010
Interest income	473,925	106,545
Net income from settlement of financial instruments	736,518	3,224,027
Other financial income	12,455	112,331
Recovered written-off receivables and reversal of write-offs	207,551	45,273
<b>Financial income</b>	<b>1,430,449</b>	<b>3,488,176</b>
Interest expense	-1,112,068	-522,669
Impairment loss on trade receivables	-1,801,175	-274,071
Change in fair value of derivatives	-993,950	-56,938
Net foreign exchange loss	-361,206	-570,116
Other financial costs	-50,549	-131,006
<b>Financial costs</b>	<b>-4,318,948</b>	<b>-1,554,800</b>
<b>Profit or loss from financing</b>	<b>-2,888,499</b>	<b>1,933,376</b>

Net revenues from the settlement of financial instruments in the amount of EUR 736,518 accounted for the majority of financial income. These instruments were used for the Group's forward contracts not covered by hedge accounting. Revenues from interest amounted to EUR 473,925 in 2011 and comprised revenues from interest on current loans given to other companies, interest from deposits held and revenues from default interest. Revenues from the reversal of impairments and the payment of written-off receivables amounted to EUR 207,551 in 2011.

In 2011, interest expenses amounted to EUR 1,112,068, while expenses from the impairment of receivables amounted to EUR 1,801,175. Revaluation adjustments during the business year amounted to EUR 1,714,362, of which the majority was recorded at the parent company GEN-I, d.o.o. (EUR 1,019,175) and GEN-I Tirana (EUR 707,969). The loss of EUR 993,950 from changes in fair value refers to forward currency contracts in the amount of EUR 788,370 and losses from

forward contracts for electricity price hedges that were used for trading and not hedging, and which were immediately recognized in comprehensive income.

Disclosure 25: **Taxes**

Amounts in €

Taxes	2011	2010
Current tax	2,328,053	1,625,221
Deferred tax	-35,846	-27,191
<b>Total</b>	<b>2,292,207</b>	<b>1,598,030</b>

In 2011, the Group reported corporate income tax in the amount of EUR 2,328,053 and deferred tax assets in the amount of EUR 35,846.

Deferred tax assets totaling EUR 35,846 include additional provisions for severance payments and long-service bonuses created in 2011 in the amount of EUR 205 and depreciation of intangible assets not recognized for tax purposes in the amount of EUR 35,641.

**Effective tax rate**

Amounts in €

	2011	2010
<b>Gross profit before tax</b>	<b>16,327,496</b>	<b>9,010,573</b>
<b>Statutory tax rate</b>	<b>20%</b>	<b>20%</b>
Income tax at statutory tax rate, prior to changes in tax base	3,265,499	1,802,115
Tax exempt income	-34,064	-264
Non-deductible expenses	328,045	239,635
Tax relief	-27,459	-178,868
Effect of tax rates in foreign jurisdictions	-1,239,814	-264,588
<b>Effective tax rate</b>	<b>14.04%</b>	<b>17.74%</b>
Current and deferred income tax	2,292,207	1,598,030

Disclosure 26: **Data on related parties**

**Gross earnings in 2011**

Amounts in €

Data on groups of persons	Management	Employees under individual employment agreements
Wages and salaries	270,631	1,716,803
Fringe benefits and other remuneration	611,653	142,466
<b>Total</b>	<b>882,284</b>	<b>1,859,269</b>

**Gross earnings in 2010**

Amounts in €

Data on groups of persons	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>

None of the Group's companies have any outstanding receivables from or liabilities to management board members.

## 14.8 Financial Instruments and Risk Exposure

### Disclosure 27: Credit risk

Amounts in €

Items	31/12/2011	31/12/2010
Non-current receivables	224,368	153,518
Receivables	141,640,412	80,254,142
Other current receivables	21,884,137	19,234,972
Short-term deposits	1,464,695	0
Short-term loans	9,566	0
Cash and cash equivalents	20,354,906	17,580,216
<b>Total</b>	<b>185,802,452</b>	<b>117,376,366</b>

Amounts in €

Receivables	Carrying amounts	
	2011	2010
Domestic	25,076,794	33,291,395
Euro area countries	28,672,537	24,743,057
Other European countries	8,973,137	10,817,139
Countries of the former Yugoslavia	44,730,562	7,613,825
Other regions	34,187,382	3,788,726
<b>Total</b>	<b>141,640,412</b>	<b>80,254,142</b>

Amounts in €

Receivables	Carrying amounts	
	2011	2010
Wholesale customers	113,127,979	49,725,789
Retail customers	28,512,434	30,528,222
End-user customers	0	132
<b>Total</b>	<b>141,640,412</b>	<b>80,254,143</b>

As described 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 bylaws and procedures for identifying credit risks and assessing exposure to them, determining the permissible limits of risk exposure, and the constant monitoring of the Group's exposure to risks in its dealings with individual business partners. In line with the Group's rules, the risk-management department analyzes the credit standing of each new trading partner and large customer that wishes 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 a partner's inability to settle outstanding receivables, the Group pays particular attention to the use of appropriate 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.

Disclosure 28: **Liquidity risk**

**2011**

Amounts in €

Financial liabilities 2011	Carrying amounts	Contractual cash flows	Up to 6 months	6 - 12 Months	1-2 Years
<b>Non-derivative financial liabilities</b>					
Secured bank loans	14,000,000	-14,418,001	-8,157,589	-6,260,412	
Interests	55,289	-55,289	-55,289	0	
Trade and other payables	109,403,831	-109,403,831	-109,403,831	0	
<b>Forward exchange contracts used for hedging</b>					
Outflow	554,277	-554,277	-207,650	-314,855	-31,772
Inflow	0	0	0	0	
<b>Total</b>	<b>124,013,397</b>	<b>-124,431,398</b>	<b>-117,824,359</b>	<b>-6,575,267</b>	<b>-31,772</b>

**2010**

Amounts in €

Financial liabilities 2010	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	0	0	0	0
Inflow	-234,092	234,092	128,211	105,881
<b>Total</b>	<b>96,784,389</b>	<b>-97,187,564</b>	<b>-88,186,520</b>	<b>-9,001,044</b>

The liquidity of the entire GEN-I Group is managed by the parent company, which carefully monitors and plans short-term solvency and ensures it by coordinating and planning all cash flows within the Group. At the same time, the Group 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 Group also constantly monitors and optimizes short-term surpluses and shortages of monetary assets, both 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, 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 the structure of its financial position to match the maturity of its financial liabilities. As part of liquidity risk management activities in the coming year, 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 29: **Interest-rate risk**

Amounts in €

Financial instruments	31/12/2011	Carrying amounts 31/12/2010
<b>Fixed-rate instruments</b>		
Financial assets	0	265,767
Financial liabilities	-8,000,000	-8,000,000
<b>Variable-rate instruments</b>		
Financial liabilities	-6,000,000	-10,800,000

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 30: **Currency risk**

Amounts in €

Receivables, payables	EURO	HRK	MKD	BAM	RSD	ROM	BGN
31/12/2011							
Trade receivables	94,129,932	2,058,094	9,119,823	1,312,938	32,213,501	2,805,871	253
Secured bank loans	-14,000,000	0	0	0	0	0	0
Trade payables	-74,607,390	-34,564	-1,290,191	-1,096,308	-7,967,160	-3,442,516	-3,764,237
Gross balance sheet exposure	5,522,542	2,023,530	7,829,632	216,630	24,246,340	-636,645	-3,763,984
Estimated forecast sales	540,180,351						
Estimated forecast purchases	-526,064,003						
Gross exposure	14,116,348	0	0	0	0	0	0
<b>Net exposure</b>	<b>19,638,890</b>	<b>2,023,530</b>	<b>7,829,632</b>	<b>216,630</b>	<b>24,246,340</b>	<b>-636,645</b>	<b>-3,763,984</b>

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 net 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>

The GEN-I Group 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.

The Group is mainly exposed to currency risks when conducting its core activities, i.e. electricity trading and sales and cross-border capacity trading, and also with regard to loans and participating interests 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 and a number of forward currency contracts to hedge against these risks.

## 15 Events After the Reporting Period

No events occurred after the reporting date that could affect the Group's 2011 financial statements.

## 16 Statement by the Management Board

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 hereby approves the consolidated financial statements of the GEN-I Group for the business year that ended on 31 December 2011, including the notes to the consolidated financial statements from page 65 to 71 of the financial report onwards.

The management board certifies that all relevant accounting principles were consistently used 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 2011.

The consolidated financial statements and accompanying 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, Ph.D.  
President of the Management Board

Krško, 21 February 2012

# 17 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 the company GEN-I d.o.o. and its subsidiaries (GEN-I Group), which comprise the consolidated statement of financial position as at 31 December 2011, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

#### **Management's Responsibility for the 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 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 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 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. 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 consolidated financial statements present fairly, in all material respects, the financial position of the GEN-I Group as at 31 December 2011, 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*

Jason Stachurski, B.Sc.Ec.  
*Certified Auditor*  
*Partner*

Ljubljana, 28 February 2012

**KPMG Slovenija, d.o.o.**  
1

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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COMPANY GEN-I, D.O.O.

# 19 The Company's Financial Statements

## 19.1 Statement of Financial Position

Amounts in €

Items	Note	31/12/2011	31/12/2010
Property, plant and equipment	1	1,265,116	1,033,394
Intangible assets	2	742,553	611,782
Interests in subsidiaries	3	2,038,954	2,038,954
Interests in associates	4	240,000	0
Non-current receivables and loans	38	224,368	153,518
Deferred tax assets	14	113,803	74,984
<b>Non-current assets</b>		<b>4,624,794</b>	<b>3,912,632</b>
Operating receivables	6	148,838,043	94,229,706
Prepayments and other assets	7	18,689,487	10,196,298
Investments and loans, including derivatives	8	8,306,643	763,779
Current tax assets		107,003	218,198
Cash and cash equivalents	9	15,356,967	10,198,476
<b>Current assets</b>		<b>191,298,143</b>	<b>115,606,457</b>
<b>Assets</b>		<b>195,922,937</b>	<b>119,519,089</b>
Share capital	10	15,877,610	12,877,610
Reserves	10	9,657,691	1,287,761
Retained earnings	10	12,411,591	10,584,246
<b>Equity attributable to owners of the Company</b>		<b>37,946,892</b>	<b>24,749,617</b>
<b>Equity</b>		<b>37,946,892</b>	<b>24,749,617</b>
Provisions	13	94,281	75,275
Deferred income		439	0
Deferred tax liabilities	14	2,017,483	0
<b>Non-current liabilities</b>		<b>2,112,203</b>	<b>75,275</b>
Loans and borrowings	11	19,257,798	18,823,240
Other financial liabilities, including derivatives	15	554,277	0
Operating liabilities	16	95,350,059	74,377,587
Advances payable and other current liabilities	17	40,701,708	1,493,370
<b>Current liabilities</b>		<b>155,863,842</b>	<b>94,694,197</b>
<b>Liabilities</b>		<b>157,976,045</b>	<b>94,769,472</b>
<b>Total equity and liabilities</b>		<b>195,922,937</b>	<b>119,519,089</b>

## 19.2 Statement of Comprehensive Income

Amounts in €

Items	Note	Generated from 01/01 to 31/12/2011	Generated from 01/01 to 31/12/2010
Revenue	20	982,445,513	570,837,173
Other operating income	20	387,556	84,846
Cost of goods sold	21	-963,991,372	-556,734,653
Cost of materials	21	-214,765	-193,528
Cost of services	21	-4,924,148	-5,070,557
Labour cost	22	-5,662,818	-4,352,024
Depreciation and amortization	23	-1,093,864	-519,814
Other operating expenses	24	-874,624	-349,144
<b>Operating profit or loss</b>		<b>6,071,478</b>	<b>3,702,299</b>
Financial income	25	6,523,933	9,501,606
Financial costs	25	-3,347,575	-959,649
<b>Profit or loss from financing</b>		<b>3,176,358</b>	<b>8,541,957</b>
<b>Profit before tax</b>		<b>9,247,836</b>	<b>12,244,256</b>
Income tax expense	26	-1,120,490	-1,354,329
<b>Profit or loss for the period</b>		<b>8,127,346</b>	<b>10,889,927</b>

Amounts in €

Other comprehensive income	Note	Generated from 01/01 to 31/12/2011	Generated from 01/01 to 31/12/2010
<b>Profit or loss for the period</b>	10	<b>8,127,346</b>	<b>10,889,927</b>
<b>Other comprehensive income</b>			
Effective portion of changes in fair value of cash flow hedges	10	10,087,413	0
Income tax of other comprehensive income	14	-2,017,483	0
<b>Total comprehensive income for the period</b>		<b>16,197,276</b>	<b>10,889,927</b>

## 19.3 Cash Flow Statement

Amounts in €

Items	Generated from 01/01 to 31/12/2011	Generated from 01/01 to 31/12/2010
Cash flows from operating activities		
Net profit or loss for the period	8,127,346	10,889,927
<b>Adjustments for</b>		
Depreciation and amortization	1,093,864	519,814
Write downs of property, plant and equipment	54	0
Gain on sale of property, plant and equipment, intangible assets, and investment property	-1,503	0
Loss on sale of property, plant and equipment, intangible assets, and investment property	740	0
Financial income	-6,316,382	-9,344,680
Financial costs	3,124,516	847,568
Share of profit of equity-accounted investees	0	0
Income tax	1,120,490	1,354,329
<b>Operating profit before changes in net current assets and taxes</b>	<b>7,149,125</b>	<b>4,266,958</b>
<b>Changes in net current assets and provisions</b>		
Change in receivables	-55,689,602	-50,150,006
Change in prepayments and other assets	-8,493,189	-8,606,913
Change in operating liabilities	20,972,472	53,050,311
Change in advances payable and other current liabilities	39,208,337	-10,919,275
Change in provisions	19,006	12,777
Change in deferred income	439	0
Income tax paid	-1,048,115	-1,883,125
<b>Net cash flow from operating activities</b>	<b>2,118,473</b>	<b>-14,229,273</b>
<b>Cash flows from investing activities</b>		
Interest received	318,785	84,221
Dividends received	4,964,697	6,029,236
Proceeds from sale of property, plant and equipment and intangible assets	1,503	0
Proceeds from sale of other financial assets	0	35,235
Receipts from decrease in loans given	16,265,000	14,500,000
Proceeds from settlement of derivatives	10,867,776	3,224,026
Acquisitions of property, plant and equipment, and intangible assets	-1,457,150	-1,363,997
Acquisitions of subsidiaries	0	-250,830
Acquisitions of associates	-240,000	0
Acquisitions of other investments	-8,760	-18,660
Expenses for increase in loans given	-23,995,000	-14,020,000
<b>Net cash from investing activities</b>	<b>6,716,851</b>	<b>8,219,231</b>
<b>Cash flows from financing activities</b>		
Interest paid	-1,076,813	-509,175
Repayment of short-term loans	-52,140,000	-10,000,000
Receipts from short-term loans received	52,539,980	25,800,000
Change in equity	3,000,000	0
Dividends paid	-6,000,000	-9,383,939
<b>Net cash from financing activities</b>	<b>-3,676,833</b>	<b>5,906,886</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>10,198,476</b>	<b>10,301,633</b>
<b>Net increase in cash and cash equivalents</b>	<b>5,158,491</b>	<b>-103,156</b>
<b>Cash and cash equivalents at end of period</b>	<b>15,356,967</b>	<b>10,198,476</b>

## 19.4 Statement of Changes In Equity

2011

Amounts in €

Changes in equity	Share capital	Legal reserve	Hedging reserve	Retained earnings	Total equity
<b>Balance at 01/01/2011</b>	12,877,610	1,287,761	0	10,584,246	24,749,617
<b>Total comprehensive income (loss) for the period</b>					
Profit or loss for the period		300,000		7,827,345	8,127,345
<b>Other comprehensive income</b>					
Effective portion of changes in fair value of cash flow hedges, net of tax			8,069,930		8,069,930
<b>Total other comprehensive income</b>	0	0	8,069,930	0	8,069,930
<b>Total comprehensive income (loss) for the period</b>	0	300,000	8,069,930	7,827,345	16,197,275
<b>Transactions with owners, recorded directly in equity</b>					
Entry of share capital	3,000,000				3,000,000
Dividend (shares) payout				-6,000,000	-6,000,000
Changes in ownership interests in subsidiaries that do not result in a loss of control					
<b>Balance at 31/12/2011</b>	15,877,610	1,587,761	8,069,930	12,411,591	37,946,892

2010

Amounts in €

Changes in equity <sup>1)</sup>	Share capital	Legal reserve	Retained earnings	Total equity
<b>Balance at 01/01/2010</b>	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
<b>Total comprehensive income (loss) for the period</b>	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
<b>Balance at 31/12/2010</b>	12,877,610	1,287,761	10,584,246	24,749,617

# 20 Notes to the Financial Statements

## 20.1 The Reporting Company

The reporting company GEN-I, d.o.o. (hereinafter: the Company) is based in Slovenia. Its registered office is at Vrbina 17, SI-8270 Krško, Slovenia.

The Company's core activities include: trading electricity internationally on a number of exchanges and organized electricity platforms and through various forms of bilateral trading, selling electricity to end-customers, and purchasing the electricity necessary for trading and sales from producers. The financial statements of GEN-I, d.o.o. were prepared for the business year that ended on 31 December 2011.

## 20.2 Basis of Preparation

### (a) Statement of compliance

The financial statements were prepared in accordance with the International Financial Reporting Standards (IFRS) and provisions of the Companies Act. The financial statements were approved by the Company's management board on 21 February 2012.

### (b) Measurement basis

The financial statements were compiled on a historical cost basis, except in the case of derivatives and financial instruments at fair value through profit and loss, where fair value was used.

### (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 the IFRS. 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.

Estimates and assumptions are mainly associated with:

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

## 20.3 Significant Accounting Policies

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

### (a) Foreign currency

#### (i) Foreign currency transactions

Foreign currency transactions are converted into the functional currency of the Company 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 applicable 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 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 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 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, loans 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) 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 recognized 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 reduced by principal payments.

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

#### **(iii) 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 stated in the period in which the general meeting of shareholders decides on their payout.

#### **(iv) Derivatives**

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

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 Company must place a security deposit with the clearing house for both sales and purchases. This deposit includes an initial margin and a variation margin.

In 2011, the Company met hedge accounting requirements for hedge risks associated with electricity price changes. When introducing hedge accounting, the Company prepared formal documents clarifying the relationship, risk management objective and strategy for undertaking the hedge. The Company defined hedging instrument, the hedge item, the types of risks for which hedging was used and the selection of methodology for evaluating hedge effectiveness.

The Company assesses the effectiveness of hedging instruments at the start of a hedge relationship and also on a regular quarterly basis. A hedge is successful if changes in the hedging instrument offset the changes in the cash flow of the hedged item by at least 80 to 125%. In the case of hedging against cash flow risks, the forecast transaction, which is the subject of the hedge, must be highly probable and exposed to cash flow changes that may significantly affect profit and loss.

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 the fair value of foreign currency forward instruments is recognized in the income statement. Gains or losses arising from the remeasurement of the fair value of forward instruments used to hedge against market risks are calculated as described below.

#### **Cash flow hedge**

The Company accounts for cash flow hedges used for standardized forward contracts by reporting the proportion of the gain or loss from a hedging instrument that is deemed effective as other comprehensive income; the amount is stated as a hedging reserve and disclosed directly in equity. The ineffective proportion of the gain or loss from a hedging instrument is reported in the income statement under other operating revenues or expenses. The amounts reported in equity as a hedging reserve are

transferred to profit or loss in the period in which the hedged item affects the Company's profit or loss.

If a derivative financial instrument no longer meets hedge accounting criteria, or if it is terminated, sold, revoked, or exercised, hedge accounting ceases. The accumulated gain or loss recognized in equity remains in equity until the forecast transaction occurs.

### **(c) 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 labour, 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 the carrying amount 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 immediately after they arise.

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

Spare parts and maintenance equipment of lower 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 10 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 2011 business year.

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

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

Other intangible assets with limited useful lives 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 other values are reviewed at the end of each business year and adjusted if necessary.

#### **(e) Asset impairment**

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

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 that are considered debt instruments are derecognized in the income statement.

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

At each reporting date, the Company reviews the carrying amount of non-financial assets (except 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 amount 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 amount does not exceed the carrying amount 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) 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.

The Company created provisions for severance payments and long-service bonuses based on the carrying amount of its liabilities to employees. Their amount was determined based on an actuarial calculation of future payments to each employee, 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 5.10 % p.a., which was the return on 10-year gilt-edged corporate bonds in the euro area at the end of November 2011.

#### **(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 is involved in a transaction as an intermediary, 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.

#### **(j) Government grants**

All types of government grants are initially recognized as deferred revenue if there is reasonable assurance that the grants will be received and that the Company will comply with the associated conditions. 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 at a contractually agreed interest rate.

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 at a contractually agreed interest rate.

#### **(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 amount of assets and liabilities for financial reporting purposes and the relevant amounts for tax reporting purposes. Deferred tax is not recognized in the case of taxable temporary differences that arise 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 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 assets.

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 Company. In 2011, 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 Company: 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 2011 have not yet entered into force and were not considered in the preparation of the Company's financial statements:

- **Amendment to IFRS 7 Disclosures – transfers of financial assets** (applies to annual accounting periods starting on or after 1 July 2011)

The amendment requires the Company to disclose information that will enable users of its financial

statements to understand the relationship between transferred financial assets that are not derecognized in their entirety and the associated liabilities, and to evaluate the nature of, and risks associated with, the entity's continuing involvement in derecognized financial assets. The amendment defines "continuing involvement" for the purposes of disclosure requirements.

Given the nature of its operations and the types of financial assets used, the Company does not expect this amendment to IFRS 7 to have a significant effect on its financial statements.

## **20.4 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 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 it 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.

## 20.5 Risks

### Overview

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

- strategic,
- financial and
- operational risks.

GEN-I's prudent approach to risk management helps the Company maintain a high level of operational quality and is crucial for achieving 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 8 Risk Management.

## 20.6 Disclosure of Items in the Financial Statements

### Disclosure 1: Property, plant and equipment

Amounts in €

Property plant and equipment	31/12/2011	31/12/2010
Buildings	471,936	77,561
Other plant and equipment	793,181	841,188
Property, plant and equipment under construction	0	114,645
<b>Total property, plant and equipment</b>	<b>1,265,117</b>	<b>1,033,394</b>

Computer software and hardware accounted for the majority, or EUR 493,560, of property, plant and equipment, along with investments in leased office space, which amounted to EUR 471,935, the rest accounting for the furniture and other equipment in the amount of EUR 299.622.

### Changes in 2011

Amounts in €

Property plant and equipment	Buildings	Other plant and equipment	Production plant and equipment under construction and advances	Total
<b>Historical cost</b>				
<b>Balance at 01/01/2011</b>	<b>224,966</b>	<b>1,275,920</b>	<b>114,645</b>	<b>1,615,531</b>
Other acquisitions	0	0	858,751	858,751
Write downs	-4,224	-344	0	-4,568
Disposals	0	-3,208	0	-3,208
Transfer within property plant and equipment	533,732	439,664	-973,396	0
<b>Balance at 31/12/2011</b>	<b>754,474</b>	<b>1,712,032</b>	<b>0</b>	<b>2,466,505</b>
<b>Accumulated depreciation and impairment losses</b>				
<b>Balance at 01/01/2011</b>	<b>147,405</b>	<b>434,732</b>	<b>0</b>	<b>582,137</b>
Write downs	-4,224	-291	0	-4,515
Disposals	0	-2,468	0	-2,468
Depreciation expense	139,358	486,877	0	626,235
<b>Balance at 31/12/2011</b>	<b>282,538</b>	<b>918,850</b>	<b>0</b>	<b>1,201,388</b>
<b>Carrying amount at 01/01/2011</b>	<b>77,562</b>	<b>841,188</b>	<b>114,645</b>	<b>1,033,395</b>
<b>Carrying amount at 31/12/2011</b>	<b>471,936</b>	<b>793,181</b>	<b>0</b>	<b>1,265,117</b>

Investments in property, plant and equipment amounted to EUR 858,751 in 2011. The Company invested EUR 419,260 in leased office space, EUR 235,597 in purchases of office and other equipment, and EUR 203,894 in purchases of computer equipment.

### 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>				
<b>Balance at 01/01/2010</b>	215,155	564,172	3,069	782,395
Other acquisitions	0	0	835,319	835,319
Write downs	0	-2,183	0	-2,183
Transfer 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>				
<b>Balance at 01/01/2010</b>	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>

### Disclosure 2: Intangible assets

Amounts in €

Intangible assets	31/12/2011	31/12/2010
Other intangible assets	608,292	544,011
Intangible assets under construction and development and advances	134,260	67,771
<b>Total intangible assets</b>	<b>742,552</b>	<b>611,782</b>

Other intangible assets include property rights in the form of software, which amounted to EUR 324,525, and long-term licenses for trading on foreign markets in the amount of EUR 324,047.

### Changes in intangible assets in 2011

Amounts in €

Intangible assets	Other intangible assets	Intangible assets under construction and development and advances	Total
<b>Historical cost</b>			
<b>Balance at 01/01/2011</b>	1,257,767	67,770	1,325,537
Other acquisitions	0	598,400	598,400
Write downs	-199	0	-199
Transfer within intangible assets	531,910	-531,910	0
<b>Balance at 31/12/2011</b>	<b>1,789,478</b>	<b>134,260</b>	<b>1,923,738</b>
<b>Accumulated amortization and impairment losses</b>			
<b>Balance at 01/01/2011</b>	713,756	0	713,756
Write downs	-199	0	-199
Amortization expense	467,629	0	467,629
<b>Balance at 31/12/2011</b>	<b>1,181,186</b>	<b>0</b>	<b>1,181,186</b>
<b>Carrying amount at 01/01/2011</b>	<b>544,011</b>	<b>67,770</b>	<b>611,781</b>
<b>Carrying amount at 31/12/2011</b>	<b>608,292</b>	<b>134,260</b>	<b>742,552</b>

The EUR 531,910 increase in intangible assets consisted of licenses necessary to operate on foreign markets, which amounted to EUR 283,767, and other intangible assets in the amount of EUR 248,143. Intangible assets mainly comprised computer software intended as IT support for employees, support for electricity sales to end-customers and server support.

### 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>

### Disclosure 3: Investments in subsidiaries

The value of investments in subsidiaries remained unchanged in 2011 compared to 2010. Their carrying amount as at 31 December 2011 was EUR 2,038,954.

### Disclosure 4: Investments in associates in 2011

Amounts in €

Important data	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Equity	Revenue	Expenses	Profit / loss	Attributable profit / loss
ENERVE, d.o.o.	2,273,911	5,372,712	2,930,845	4,088,013	627,765	608,923	601,080	7,843	3,137
<b>Total</b>	<b>2,273,911</b>	<b>5,372,712</b>	<b>2,930,845</b>	<b>4,088,013</b>	<b>627,765</b>	<b>608,923</b>	<b>601,080</b>	<b>7,843</b>	<b>3,137</b>

In 2011, the Company acquired a 40% stake in Enerve, d.o.o. valued at EUR 240,000. The investment in the equity of the associated company is disclosed in the Company's financial statements at historical cost. GEN-I, d.o.o. holds 40% of voting rights in Enerve, d.o.o.

The corresponding profit or loss generated by Enerve is recognized in the income statement of the GEN-I Group.

### Disclosure 5: Non-current receivables and loans

Amounts in €

Non-current receivables and loans	31/12/2011	31/12/2010
Total non-current operating receivables	183,933	121,843
Non-current financial receivables and lease	40,435	31,675
<b>Total non-current receivables and loans granted</b>	<b>224,368</b>	<b>153,518</b>

### Disclosure 6: Operating receivables

Amounts in €

Operating receivables	31/12/2011	31/12/2010
Trade receivables - subsidiaries	65,669,703	31,563,968
Trade receivables - others	66,914,735	52,944,642
Trade receivables	132,584,438	84,508,610
Interest receivable	200,034	119,921
Other receivables related to financial income	0	1,088
Other operating receivables	16,053,571	9,600,087
<b>Total operating receivables</b>	<b>148,838,043</b>	<b>94,229,706</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 customers that have signed EFET general agreements with GEN-I are well-regulated by the agreements. In some cases, the Company does not request any collateral for its receivables because of the customers' strategic position and/or financial stability.

Other operating receivables comprised current receivables from VAT in the amount of EUR 16,040,081 and other minor receivables from employees, banks and other government institutions in the amount of EUR 13,490.

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

Amounts in €

Aging of receivables	Gross amount 31/12/2011	Impairment	Gross amount 31/12/2010	Impairment
Not past due	119,190,952	0	77,196,037	0
Past due up to 90 days	29,162,144	100,492	16,328,133	0
Past due from 91 to 180 days	349,407	233,300	739,837	34,301
Past due from 181 to 360 days	874,342	424,345	186,713	186,713
More than one year	637,325	617,989	356,270	356,270
<b>Total</b>	<b>150,214,170</b>	<b>1,376,127</b>	<b>94,806,990</b>	<b>577,284</b>

The Company recorded impairments of receivables in the amount of EUR 1,376,127, including EUR 776,566 EUR for receivables from debtors against which the Company initiated court proceedings in order to collect debt, or against which bankruptcy or liquidation proceedings were initiated in 2011. The remaining revalued receivables relate to outstanding receivables in the amount of EUR 599,561, which will probably not be recovered in full due to the debtor's insolvency.

Impairments of receivables are assessed individually.

Impaired receivables from customers accounted for 0.92% of all current operating receivables.

Amounts in €

Movement in impairments of receivables	Impairment 2011	2010
Opening balance at 01/01	577,284	348,693
Increase in impairments	1,006,393	274,071
Decrease in impairments	-207,551	-45,273
Write down of receivables	0	-207
<b>Closing balance at 31/12</b>	<b>1,376,126</b>	<b>577,284</b>

#### Disclosure 7: Advances and other assets

Amounts in €

Advances and other assets	31/12/2011	31/12/2010
Advances paid	2,338,176	8,782,832
Short-term deferred costs and/or expenses	2,123,764	923,444
Short-term accrued revenue	14,227,547	490,022
<b>Total advances and other assets</b>	<b>18,689,487</b>	<b>10,196,298</b>

Advances of EUR 2,338,176 paid by the Company include a deposit paid for the supply and purchase of cross-border transfer capacities in the amount of EUR 1,870,337, advances for electricity purchases in the amount of EUR 439,086, and other smaller purchases of goods and services.

Short-term deferred costs and expenses in the amount of EUR 2,123,764 include expenses for cross-border transfer capacities in the amount of EUR 1,872,751 the electricity supplied in the first quarter of 2012, maintenance costs associated with property, plant, equipment and intangible assets, accrued bank fees, costs of accessing databases for electricity trading purposes, and other accrued expenses for the 2012 business year.

Accrued revenues in the amount of EUR 14,227,547 include accrued revenues from customers whose electricity purchases totaling EUR 13,545,374 will be invoiced in 2012 in accordance with contractual provisions, and financial transactions in the amount of EUR 682,173.

Disclosure 8: **Financial investments, derivatives and loans**

Other investments including derivatives	31/12/2011	31/12/2010
Derivatives	0	234,092
Loans to subsidiaries	8,250,000	520,000
Current interest receivables	56,643	9,687
<b>Total current investments and loans</b>	<b>8,306,643</b>	<b>763,779</b>

A loan in the amount of EUR 8,250,000 was granted to subsidiaries GEN-I Sofia SpLLC and GEN-I Vienna. The interest rate on loans granted is set in accordance with the Rules on the recognized rate of interest for associated persons.

Disclosure 9: **Cash and cash equivalents**

Amounts in €

Cash and cash equivalents	31/12/2011	31/12/2010
Cash in banks	8,038,597	10,198,455
Call deposits	7,318,020	4
Cash in hand	350	17
<b>Total</b>	<b>15,356,967</b>	<b>10,198,476</b>

Cash and cash equivalents include bank account balances, cash in hand and call deposits.

Disclosure 10: **Share capital and reserves**

Share capital comprises the owners' cash contributions.

**Reserves**

Amounts in €

Reserves	31/12/2011	31/12/2010
Legal reserve	1,587,761	1,287,761
Fair value reserve	8,069,930	0
<b>Total</b>	<b>9,657,691</b>	<b>1,287,761</b>

In line with the provisions of the Companies Act, the Company transferred EUR 300,000 of its net operating profit to legal reserves, increasing their amount as at 31 December 2011 to EUR 1,587,761 or 10% of its share capital.

In 2011, the Company also created reserves for fair value hedges of cash flows from standardized forward contracts in the amount of EUR 8,069,930. The reserves for fair value hedging were created for:

- the 2012 business year in the amount of EUR 11,132,753
- the 2013 business year in the negative amount of EUR 339,498
- the 2014 business year in the negative amount of EUR 557,104
- the 2015 business year in the negative amount of EUR 148,738
- reduced by deferred tax liabilities in the amount of EUR 2,017,483

### Retained earnings

Amounts in €

Retained earnings	31/12/2011	31/12/2010
Net profit or loss for the period	7,827,345	10,584,246
Retained net profit or loss	4,584,246	0
<b>Total</b>	<b>12,411,591</b>	<b>10,584,246</b>

There was an increase of EUR 7,827,345 in retained earnings compared to the previous year in the amount of the net profit after the creation of legal reserves.

### Allocation of undistributed profit from 2010

In accordance with a decision of the general meeting of shareholders held in June 2011, the Company paid out EUR 6,000,000 of its net profit from the previous year, which totaled EUR 10,584,246 EUR, to its two shareholders. The remaining profit in the amount of EUR 4,584,246 was not distributed.

### Distributable profit

The Company generated a net profit of EUR 8,127,345 in 2011. In accordance with the law, a part of the net profit was used to create legal reserves in the amount of EUR 300,000. Retained net profit from previous years totaled EUR 4,584,246, taking the Company's distributable profit as at 31 December 2011 to EUR 12,411,591.

In accordance with Article 20 of the Memorandum of Association and Article 494 of the Companies Act (ZGD-1), the Company's management board will propose that the general meeting of shareholders leave GEN-I, d.o.o.'s distributable profit of EUR 12,411,591 undistributed.

### Disclosure 11: Loans

Amounts in €

Short-term loans and borrowings	31/12/2011	31/12/2010
Borrowings from subsidiaries	5,199,980	0
Secured bank loans	14,000,000	18,800,000
Current interest payable	57,818	23,240
<b>Total current financial liabilities</b>	<b>19,257,798</b>	<b>18,823,240</b>

Loans received were recognized at fair value less acquisition costs. At the reporting date, they were measured at amortized cost less principal payments, taking into account acquisition costs, discounts and premiums.

### Disclosure 12: Cost and maturity of loans

At the reporting date, the Company's liabilities for loans received amounted to EUR 19,199,980. They included loans from the subsidiary GEN-I Tirana Sh.p.k. in the amount of EUR 5,199,980 and loans from Slovenian commercial banks in the amount of EUR 14,000,000 that were secured with bills of exchange.

Loans received comprised one short-term loan and one revolving loan with fixed interest rates ranging from 3.03% to 5.2%, and one short-term loan with a variable interest rate tied to the 3-month EURIBOR with a 3% margin.

Interest expenses for short-term and revolving loans from domestic commercial banks amounted to EUR 1,110,340 in 2011, while interest expenses for the loan received from the subsidiary amounted to EUR 863. The Company's interest payables as at 31 December 2011 amounted to EUR 57,818.

Disclosure 13: **Non-current provisions**

The Company created provisions for severance payments and long-service bonuses based on the current value of its liabilities to employees.

Their amount was determined based on an actuarial calculation of future payments to each employee, 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 5.10 % p.a., which was the return on 10-year gilt-edged corporate bonds in the euro area at the end of November 2011.

Amounts in €

Provisions	Provisions for severance payments and long-service bonuses	
	2011	2010
<b>Opening balance at 01/01</b>	<b>75,275</b>	<b>62,498</b>
Provisions made during the period	21,430	20,997
Provisions used during the period	-2,423	-8,221
<b>Closing balance at 31/12</b>	<b>94,281</b>	<b>75,274</b>
of which non-current portion	94,281	75,274

Disclosure 14: **Deferred taxes**

Amounts in €

Deferred taxes relating to	Receivables		Liabilities		Net effect	
	2011	2010	2011	2010	2011	2010
Intangible assets	96,848	61,206			96,848	61,206
Derivatives			-2,017,483	0	-2,017,483	0
Provisions for severance payments and long-service bonuses	16,956	13,777			16,956	13,777
<b>Deferred tax assets (liabilities)</b>	<b>113,804</b>	<b>74,983</b>	<b>-2,017,483</b>	<b>0</b>	<b>-1,903,679</b>	<b>74,983</b>

All of the Group's deferred tax assets are recognized in the income statement. In 2011, the Company recorded an increase in deferred tax assets in the amount of additionally created provisions and the amortization of intangible assets in cases where amortization exceeded the amount deductible for tax purposes. The Company also calculated deferred tax liabilities for financial instruments used in cash flow hedge, where the effective portion of the hedge was recognized directly in other comprehensive income.

**Changes in temporary differences**

Amounts in €

Changes in temporary differences in the period	31/12/2009	Recognized in the income statement	31/12/2010	Recognized in the income statement	Recognized in other comprehensive income	31/12/2011
Intangible assets	40,061	21,146	61,207	35,641	0	96,848
Derivatives	0	0	0	0	-2,017,483	-2,017,483
Provisions for severance payments and long-service bonuses	10,705	3,072	13,777	3,178	0	16,955
<b>Total</b>	<b>50,766</b>	<b>24,218</b>	<b>74,984</b>	<b>38,819</b>	<b>-2,017,483</b>	<b>-1,903,679</b>

Disclosure 15: **Other current financial liabilities**

Amounts in €

Current financial liabilities	31/12/2011	31/12/2010
Derivatives	554,277	0
<b>Total other current financial liabilities</b>	<b>554,277</b>	<b>0</b>

Other current financial liabilities include agreements concluded with financial institutions for the purpose of hedging against foreign currency risks.

Disclosure 16: **Current operating liabilities**

Amounts in €

<b>Current operating liabilities</b>	<b>31/12/2011</b>	<b>31/12/2010</b>
Current trade payables	67,692,770	49,947,189
Current trade payables to subsidiaries	15,013,423	20,159,485
Current trade payables	82,706,193	70,106,674
Current liabilities to employees	839,497	606,574
Current liabilities to state and other institutions	11,634,206	3,597,017
Current liabilities to others	170,164	67,322
Other liabilities	12,643,867	4,270,913
<b>Current operating liabilities</b>	<b>95,350,060</b>	<b>74,377,587</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 payables to employees comprise liabilities for December salaries and other employee earnings.

Current liabilities to state and other institutions and other current liabilities include liabilities for VAT payments, excise duties, liabilities for the payment of share capital in an associated company, health and pension contributions for December salaries, and contributions for other employee earnings payable by the employer.

Disclosure 17: **Advances payable and other current operating liabilities**

Amounts in €

<b>Advances payable and other current liabilities</b>	<b>31/12/2011</b>	<b>31/12/2010</b>
Current advances payable	2,114	121,422
Accrued costs and expenses	39,487,894	1,235,678
Deferred revenue	1,211,697	136,268
Accrued costs and deferred revenue	40,699,591	1,371,946
<b>Advances payable and other current liabilities</b>	<b>40,701,705</b>	<b>1,493,368</b>

Current operating liabilities from accrued costs and expenses relate entirely to accrued costs and expenses in the amount of EUR 39,487,894, which were taken into account in the compilation of the financial statements based on contracts signed with business partners in 2011, but for which the Company had not received invoices by the time the financial statements were prepared.

Current deferred revenues comprise deferred revenues from electricity that has already been invoiced but will not be delivered until next year, and default interest charged to customers who are in arrears with their electricity bill payments.

Disclosure 18: **Contingent liabilities**

Amounts in €

<b>Contingent liabilities</b>	<b>31/12/2011</b>	<b>31/12/2010</b>
Guarantees and securities - other	65,806,878	76,240,525
Guarantees and securities - subsidiaries operating abroad	37,470,041	33,024,232
Other off-balance-sheet liabilities	9,590,748	0
<b>Total</b>	<b>112,867,667</b>	<b>109,264,757</b>

Bank guarantees and securities include payment guarantees, performance guarantees, and tender guarantees. Securities issued to subsidiaries and other contingent liabilities represent securities for timely and reliable payment.

In addition to contingent liabilities, the Company recorded receivables from guarantees and securities received and other contingent receivables in the amount of EUR 5,038,082. These included mainly securities for timely and reliable payment.

Disclosure 19: **Classification of financial instruments and fair values**

Amounts in €

Fair values	Note	31/12/2011		31/12/2010	
		Carrying amount	Fair value	Carrying amount	Fair value
<b>Assets carried at fair value</b>					
Interests in subsidiaries	3	2,038,954	2,038,954	2,038,954	2,038,954
Derivatives	8	0	0	234,092	234,092
<b>Total</b>		<b>2,038,954</b>	<b>2,038,954</b>	<b>2,273,046</b>	<b>2,273,046</b>
<b>Assets carried at amortized cost</b>					
Non-current financial receivables	5	40,435	40,435	31,675	31,675
Non-current operating receivables	5	183,933	183,933	121,843	121,843
Short-term loans	8	8,306,643	8,306,643	529,687	529,687
Receivables	6	148,838,043	148,838,043	94,229,706	94,229,706
Cash and cash equivalents	9	15,356,967	15,356,967	10,198,476	10,198,476
<b>Total</b>		<b>172,726,021</b>	<b>172,726,021</b>	<b>105,111,387</b>	<b>105,111,387</b>
<b>Liabilities carried at fair value</b>					
Derivatives	8	-554,277	-554,277	0	0
<b>Total</b>		<b>-554,277</b>	<b>-554,277</b>	<b>0</b>	<b>0</b>
<b>Liabilities carried at amortized cost</b>					
Secured bank loans	11	-14,000,000	-14,000,000	-18,800,000	-18,800,000
Other financial liabilities	11	-57,818	-57,818	-23,240	-23,240
Borrowings from subsidiaries	11	-5,199,980	-5,199,980	0	0
Operating liabilities	16	-95,350,059	-95,350,059	-74,377,587	-74,377,587
<b>Total</b>		<b>-114,607,857</b>	<b>-114,607,857</b>	<b>-93,200,827</b>	<b>-93,200,827</b>

Amounts in €

Fair value hierarchy	31/12/2011	
	Level 2	Level 3
<b>Assets at fair value</b>		
Interests in subsidiaries	0	2,038,954
<b>Total</b>	<b>0</b>	<b>2,038,954</b>
<b>Liabilities at fair value</b>		
Derivatives	-554,277	0
<b>Total</b>	<b>-554,277</b>	<b>0</b>

Amounts in €

Fair value hierarchy	31/12/2010	
	Level 2	Level 3
<b>Assets at fair value</b>		
Interests in subsidiaries	0	2,038,954
<b>Total</b>	<b>0</b>	<b>2,038,954</b>
<b>Liabilities at fair value</b>		
Derivatives	234,092	0
<b>Total</b>	<b>234,092</b>	<b>0</b>

Disclosure 20: **Revenues**

Amounts in €

Sales revenues	Generated from 01/01 to 31/12/2011	Generated from 01/01 to 31/12/2010
Sales revenues from sale of goods and materials	977,907,371	570,063,744
Revenue from sale of services	4,528,445	772,380
Rental income	9,697	1,049
<b>Total</b>	<b>982,445,513</b>	<b>570,837,173</b>

Revenues from electricity sales accounted for the majority of revenues from the sale of goods and materials, which totaled EUR 977,907,371.

Revenues from services, primarily those generated on foreign markets, included management fees in the amount of EUR 1,928,290, services associated with providing access to the electricity network in the amount of EUR 1,883,216, and other services associated with participation in electricity sales/purchases in the amount of EUR 716,939.

Amounts in €

Income generated in Slovenia or abroad generated from 01/01 to 31/12/2011	Slovenia	Abroad	Total
Sales revenues from goods and materials sold	202,187,649	775,719,722	977,907,371
Revenue from sale of services	4,998	4,523,447	4,528,445
Rental income	9,697	0	9,697
Sales revenues from goods sold	0	0	0
<b>Total</b>	<b>202,202,344</b>	<b>780,243,169</b>	<b>982,445,513</b>

In 2011, revenues from goods sold in Slovenia accounted for 20.58% of total revenues, while revenues from goods sold on foreign markets accounted for 79.42% of all revenues.

Amounts in €

Other operating income	Generated from 01/01 to 31/12/2011	Generated from 01/01 to 31/12/2010
Gains on sale of property, plant and equipment and intangible assets	1,503	0
Other operating income	280,382	79,846
Revenues from subsidies and government grants	105,671	5,000
<b>Total</b>	<b>387,556</b>	<b>84,846</b>

Other operating revenues in the amount of EUR 280,382 include revenues from damages received and the reversal of accrued expenses in the previous year.

Revenues from subsidies, government grants and compensation included subsidies from the Slovenian Technology Agency (TIA) for projects carried out by young researchers, and grants in the form of property, plant and equipment.

#### Disclosure 21: Cost of goods, materials and services

Amounts in €

Cost of goods sold	Generated from 01/01 to 31/12/2011	Generated from 01/01 to 31/12/2010
Cost of goods sold	963,991,372	556,734,653
<b>Total</b>	<b>963,991,372</b>	<b>556,734,653</b>

The historical cost of goods sold in 2011 was up 73.15% on 2010. The cost includes the purchase price of electricity and the associated costs.

Amounts in €

Cost of materials	Generated from 01/01 to 31/12/2011	Generated from 01/01 to 31/12/2010
Costs of energy	51,508	52,778
Materials and spare parts	32,812	17,853
Office supplies	121,035	114,371
Other cost of materials	9,410	8,526
<b>Total</b>	<b>214,765</b>	<b>193,528</b>

Amounts in €

Cost of services	Generated from 01/01 to 31/12/2011	Generated from 01/01 to 31/12/2010
Maintenance	721,599	202,647
Rents	699,893	957,344
Bank charges and other fees	1,014,025	989,833
Contractual works, meeting attendance fees and student work	362,069	393,132
Intellectual services	888,811	1,546,340
Advertising, sales promotion and public relations	218,555	353,921
Sponsorships	179,771	78,927
Insurance	4,654	24,041
Entertainment	29,893	19,198
Costs of employees' business travels	138,796	106,673
Telecommunication	313,084	189,816
Public utility services	1,529	15,552
Security	7,192	7,515
Cleaning	17,840	17,021
Training	94,024	88,065
Other services	461,693	338,795
IT costs	132,789	134,869
<b>Total</b>	<b>4,924,148</b>	<b>5,070,557</b>

Maintenance costs in the amount of EUR 721,599 mainly relate to the maintenance of IT equipment.

Costs of rent, which totaled EUR 699,893, comprise the lease of commercial premises in the amount of EUR 530,457, the lease of computer equipment in the amount of EUR 94,060, and other leases, such as the lease of vehicles, warehouse and parking space and conference rooms, in the amount of EUR 75,376.

The costs of intellectual services amounted to EUR 526,742 and included human resource management services (consulting, selection of candidates), legal and notary fees, auditing and accounting services, business and tax consultancy services, and IT and software engineering services.

Sponsorships costs, mainly for sporting, educational and cultural events, amounted to EUR 179,771 in 2011.

Costs of other services in the amount of EUR 461,693 include the costs of accessing databases for electricity trading purposes in the amount of EUR 200,054 and other services of lesser value.

Amounts in €

Minimum lease payments under noncancellable operating lease	2011	2010
< 1 year	552,559	340,952
> 1 - < 5 years	1,413,327	531,814
> 5 years	1,288,243	0
<b>Total</b>	<b>3,254,129</b>	<b>872,766</b>

Liabilities from long-term contracts signed for the lease of commercial premises in Ljubljana, Nova Gorica and Krško are expected to amount to EUR 3,254,129 in the coming years.

Amounts in €

Auditing services	Generated from 01/01 to 31/12/2011	Generated from 01/01 to 31/12/2010
Audit of annual report	17,626	13,482
Other non-audit services	0	525
<b>Total</b>	<b>17,626</b>	<b>14,007</b>

Costs of auditing and inspection services 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 relate to the 2011 business year.

Disclosure 22: **Labor costs**

Amounts in €

Labour cost	Generated from 01/01 to 31/12/2011	Generated from 01/01 to 31/12/2010
Wages and salaries	4,352,446	3,362,677
Social security contributions	715,859	560,173
Other labour cost	594,513	429,174
<b>Total</b>	<b>5,662,818</b>	<b>4,352,024</b>

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

In 2011, the Company calculated labour costs in accordance with the Collective Agreement for the Slovene Electricity Industry, the Company's current job classification and individual employment contracts.

Other labour costs include allowances for transportation costs to and from work and meal allowances in the amount of EUR 251,159, annual leave pay in the amount of EUR 159,349, additional pension insurance in the amount of EUR 91,827, and severance payments in the amount of EUR 60,720.

Long-service bonuses and benefits accounted for the remaining portion or EUR 31,458 of other labour costs.

Disclosure 23: **Amortization and depreciation**

Amounts in €

Amortization and depreciation	Generated from 01/01 to 31/12/2011	Generated from 01/01 to 31/12/2010
Amortization of intangible assets	467,629	278,422
Depreciation of property, plant and equipment	626,235	241,392
<b>Total</b>	<b>1,093,864</b>	<b>519,814</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.

Disclosure 24: **Other operating expenses**

Amounts in €

Other operating expenses	Generated from 01/01 to 31/12/2011	Generated from 01/01 to 31/12/2010
Taxes and levies	51,863	38,491
Loss on sale of property, plant and equipment, and intangible assets	740	0
Donations	10,501	27,082
Impairment of property, plant and equipment	54	0
Creation of provisions	21,430	20,997
Contributions to political organizations, syndicates, etc.	8,000	1,000
Other operating expenses	782,036	261,574
<b>TOTAL</b>	<b>874,624</b>	<b>349,144</b>

Other operating expenses totaling EUR 782,036 comprise expenses not recognized for tax purposes in the amount of EUR 345,238, the ineffective portion of cash flow hedge based on derivatives in the amount of EUR 244,863, and membership fees, damages, fines and scholarships paid to students in the amount of EUR 191,935.

Amounts in €

Donations	Generated from 01/01 to 31/12/2011	Generated from 01/01 to 31/12/2010
Humanitarian purposes	1,800	15,281
Charitable purposes	1,201	4,601
Scientific purposes	0	600
Educational purposes	0	700
Sports purposes	3,000	4,900
Cultural purposes	4,500	700
Environmental purposes	0	300
<b>Total</b>	<b>10,501</b>	<b>27,082</b>

Disclosure 25: **Profit or loss from financing**

Amounts in €

Profit or loss from financing	Generated from 01/01 to 31/12/2011	Generated from 01/01 to 31/12/2010
Dividend income from interests in subsidiaries	4,964,697	6,029,236
Interest income	355,974	91,417
Net income from settlement of financial instruments	985,944	3,224,027
Other financial income	9,767	111,653
Recovered written-off receivables and reversal of write-offs	207,551	45,273
<b>Financial income</b>	<b>6,523,933</b>	<b>9,501,606</b>
Interest expense	-1,111,203	-516,559
Impairment loss on trade receivables	-1,019,175	-274,071
Change in fair value of derivatives	-993,950	-56,938
Net foreign exchange loss	-223,059	-112,074
Other finance costs	-188	-7
<b>Financial costs</b>	<b>-3,347,575</b>	<b>-959,649</b>
<b>Profit or loss from financing</b>	<b>3,176,358</b>	<b>8,541,957</b>

The following subsidiaries paid out dividends in 2011: GEN-I Zagreb, d.o.o. in the amount of EUR 347,532, GEN-I, d.o.o., Belgrade in the amount of EUR 431,535, GEN-I Budapest Kft. in the amount of EUR 1,900,000, GEN-I, d.o.o., Sarajevo in the amount of EUR 353,297, GEN-I, dooel Skopje in the amount of EUR 1,289,064, S.C. GEN-I BUCHAREST S.R.L. in the amount of EUR 250,305 and GEN-I Tirana Sh.p.k. in the amount of EUR 392,964.

Revenues from interest totaled EUR 355,974 and included default interest, interest from loans granted, and interest from deposits and positive bank balances.

Interest expenses included interest on loans received from banks and subsidiaries in the total amount of EUR 1,111,203.

The net effect of exchange rate differences was a loss of EUR 223,059.

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

Each year, the Company creates revaluation adjustments due to impairment in the amount of the estimated losses from operating and other receivables. Last year, revenues from the reversal and payment of written-off receivables amounted to EUR 207,551, while expenses from the impairment of receivables amounted to EUR 1,019,175. Revaluation adjustments in the business year accounted for EUR 1,006,393 and the direct write-off of receivables for EUR 12,782 of this amount.

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

The loss of EUR 993,950 from changes in fair value included forward currency contracts in the amount of EUR 788,370 and losses from a forward contract which was used to hedge against electricity price fluctuations in trading transactions and which was immediately recognized in comprehensive income.

Disclosure 26: **Taxes**

Amounts in €

Taxes	2011	2010
Current tax	1,159,310	1,378,547
Deferred tax	-38,820	-24,218
<b>Total</b>	<b>1,120,490</b>	<b>1,354,329</b>

In 2011, the Company reported income tax in the amount of EUR 1,159,310 and deferred tax assets in the amount of EUR 38,820.

Deferred tax assets totaling EUR 38,820 include the amortization of intangible fixed assets not recognized for tax purposes in the amount of EUR 35,642 and provisions for severance payments and long-service bonuses in the amount of EUR 3,178. Taxes were calculated using a 20% tax rate applicable in 2012.

At the balance sheet date, the Company recorded a total of EUR 113,803 in deferred tax assets from the state.

**Effective tax rate**

Amounts in €

	2011	2010
Gross profit before tax	9,247,836	12,244,256
Statutory tax rate	20 %	20 %
Income tax at statutory tax rate, prior to changes in tax base	1,849,567	2,448,851
Tax exempt income	-1,027,003	-1,291,567
Non-deductible expenses	325,386	221,896
Tax relief	-27,459	-24,851
<b>Effective tax rate</b>	<b>12.12 %</b>	<b>11.06 %</b>
Current and deferred income tax	1,120,491	1,354,329

Disclosure 27: **Data on related parties**

**Remuneration of management board members**

**Current year (2011)**

Amounts in €

2011	Fixed portion of remuneration	Variable portion of remuneration	Refund of expenses	Other remuneration	Gross Total
Remuneration of the management board members					
Robert Golob, Ph.D.	24,000	80,000	0	16,326	120,326
Martin Novšak	0	0	3,223	15,750	18,973
Dejan Paravan, Ph.D.	103,797	90,327	0	7,553	201,676
Igor Koprivnikar, Ph.D.	107,782	90,314	0	7,545	205,641
<b>Total</b>	<b>235,579</b>	<b>260,640</b>	<b>3,223</b>	<b>47,174</b>	<b>546,617</b>

**Previous year (2010)**

Amounts in €

2010	Fixed portion of remuneration	Variable portion of remuneration	Other remuneration	Total
Remuneration of the management board members				
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>

### Employees under individual employment agreements

Amounts in €

Data on groups of persons	31/12/2011	31/12/2010
Wages and salaries	1,243,777	1,055,916
Fringe benefits and other remuneration	40,149	37,535
<b>TOTAL</b>	<b>1,283,926</b>	<b>1,093,451</b>

## 20.7 Financial Instruments and Risk Exposure

### Disclosure 28: Credit risk

Amounts in €

Items	31/12/2011	31/12/2010
Non-current receivables	224,368	153,518
Receivables	132,584,438	84,508,610
Other current receivables	16,253,605	9,721,096
Short-term loans	8,306,643	529,687
Cash and cash equivalents	15,356,967	10,198,476
<b>Total</b>	<b>172,950,389</b>	<b>105,264,905</b>

Amounts in €

Receivables	Carrying amount	
	2011	2010
Domestic	25,076,796	33,291,394
Euro area countries	31,340,059	29,418,267
Other European countries	9,065,370	9,490,352
Countries of the former Yugoslavia	40,093,907	10,317,322
Other regions	27,008,306	1,991,275
<b>Total</b>	<b>132,584,438</b>	<b>84,508,610</b>

Amounts in €

Receivables	Carrying amount	
	2011	2010
Wholesale customers	108,620,998	53,980,388
Retail customers	23,963,440	30,528,222
<b>Total</b>	<b>132,584,438</b>	<b>84,508,610</b>

As described in detail 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 credit 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 wishes to purchase electricity from GEN-I. 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 a partner's inability to settle outstanding receivables, the Company pays particular attention to the use of appropriate 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 6.

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 prepares an appropriate restructuring plan and then monitors its execution and results. 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. Each impairment is dealt with individually, taking into account the following criteria: publicly known cash flow problems, breaches of commercial contracts or terms, and bankruptcy or other legal procedures that may result in loss for the Company.

Disclosure 29: **Liquidity risk**

Amounts in €

Financial liabilities	Carrying amount	Contractual cash flows	Up to 6 months	6 - 12 Months	1 - 2 Years
<b>2011</b>					
<b>Non-derivative financial liabilities</b>					
Secured bank loans	14,000,000	-14,418,001	-8,157,589	-6,260,412	0
Borrowings from subsidiaries	5,199,980	-5,355,818	0	-5,355,818	0
Other liabilities	57,818	-57,818	-57,818	0	0
Trade and other payables	95,350,059	-95,350,059	-95,350,059	0	0
<b>Forward exchange contracts used for hedging</b>					
Outflow	554,277	-554,277	-207,650	-314,855	-31,772
<b>Total</b>	<b>115,162,134</b>	<b>-115,735,973</b>	<b>-103,773,116</b>	<b>-11,931,085</b>	<b>-31,772</b>

Amounts in €

Financial liabilities	Carrying amount	Contractual cash flows	Up to 6 months	6 - 12 Months
<b>2010</b>				
<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	-23,420	-23,420	0
Trade and other payables	74,377,587	-74,377,587	-74,377,587	0
<b>Forward exchange contracts used for hedging</b>				
Inflow	-234,092	234,092	128,211	105,881
<b>Total</b>	<b>92,966,735</b>	<b>-93,365,069</b>	<b>-84,364,025</b>	<b>-9,001,044</b>

The liquidity of the entire GEN-I Group is managed by the parent company, which carefully 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 next year, 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 30: **Currency risk**

Amounts in €

Receivables, payables	EURO	USD	HRK	MKD	RON	HUF	TRY	BGN
31/12/2011								
Trade receivables	128,658,066	0	0	0	3,049,940	0	876,432	0
Secured bank loans	-14,000,000	0	0	0	0	0	0	0
Trade payables	-79,549,016	-27	-2	-188	-2,479,749	-387,890	-288,810	-511
Gross balance sheet exposure	35,109,050	-27	-2	-188	570,191	-387,890	587,622	-511
Estimated forecast sales	540,180,351	0	0	0	0	0	0	0
Estimated forecast purchases	-526,064,003	0	0	0	0	0	0	0
Gross exposure	14,116,348	0	0	0	0	0	0	0
<b>Net exposure</b>	<b>49,225,398</b>	<b>-27</b>	<b>-2</b>	<b>-188</b>	<b>570,191</b>	<b>-387,890</b>	<b>587,622</b>	<b>-511</b>

Amounts in €

Receivables, payables	EURO	HRK	ALL	BGN
31/12/2010				
Trade receivables	84,508,610	0	0	0
Secured bank loans	-18,800,000	0	0	0
Trade payables	-70,105,680	-143	-664	-187
Gross balance sheet exposure	-4,397,070	-143	-664	-187
Estimated forecast sales	328,284,424	0	0	0
Estimated forecast purchases	-316,837,900	0	0	0
Gross exposure	11,446,524	0	0	0
<b>Net exposure</b>	<b>7,049,454</b>	<b>-143</b>	<b>-664</b>	<b>-187</b>

GEN-I 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.

The Company is most exposed to currency risks when performing its core activities, i.e. trading and selling electricity and cross-border transfer capacities. Given the scope of the Company's operations, it is exposed to currency risks primarily from the following currencies: the Hungarian forint (HUF), the Romanian leu (RON) and the Turkish lira (TRY).

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. Derivatives are also used where necessary.

Disclosure 31: **Interest-rate risk**

Amounts in €

Financial instruments	2011	Carrying amount 2010
<b>Fixed-rate instruments</b>		
Financial assets	8,290,435	785,767
Financial liabilities	-13,754,257	-8,000,000
<b>Variable-rate instruments</b>	<b>0</b>	<b>0</b>
Financial assets	0	0
<b>Financial liabilities</b>	<b>-6,000,000</b>	<b>-10,800,000</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 Company's ongoing monitoring activities and analyses is to propose timely protective measures by balancing assets and liabilities in its statement of financial position.

## 21 Events After the Statement of Financial Position Date

No events occurred after the reporting date that could affect the Company's 2011 financial statements.

## 22 Statement by the Management Board

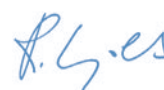
The management board hereby approves the financial statements of GEN-I, d.o.o. for the business year that ended on 31 December 2011, including the notes to the financial statements from page 96 to 102 of the accounting report onwards.

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 certifies that this annual report provides a fair and true picture of GEN-I, d.o.o.'s assets and performance in 2011.

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.



Martin Novšak  
Vice President of the Management Board



Robert Golob, Ph.D.  
President of the Management Board

Krško, 21 February 2012

## 23 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 the company GEN-I d.o.o., which comprise the statement of financial position as at 31 December 2011, the income statement, the statement of comprehensive income, the statement of changes in equity and the 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 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. 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 2011, 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.

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

Irena Uršič, B.Sc.Ec.  
*Certified Auditor*

Jason Stachurski, B.Sc.Ec.  
*Certified Auditor*  
*Partner*

Ljubljana, 28 February 2012

**KPMG Slovenija, d.o.o.**  
1

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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Note: The English Edition is a translation of the Slovene original which remains the legal version.

Krško 2012

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