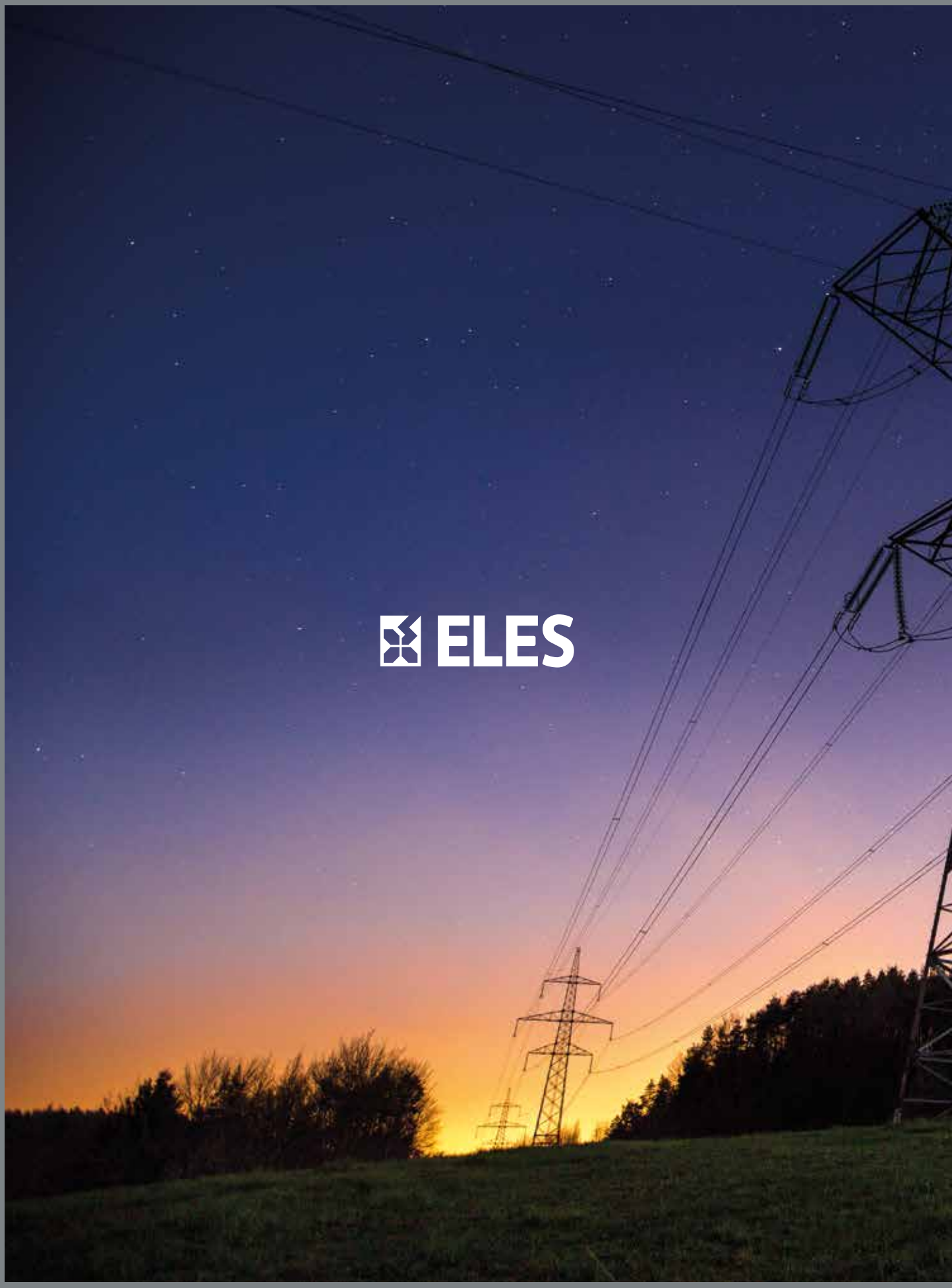
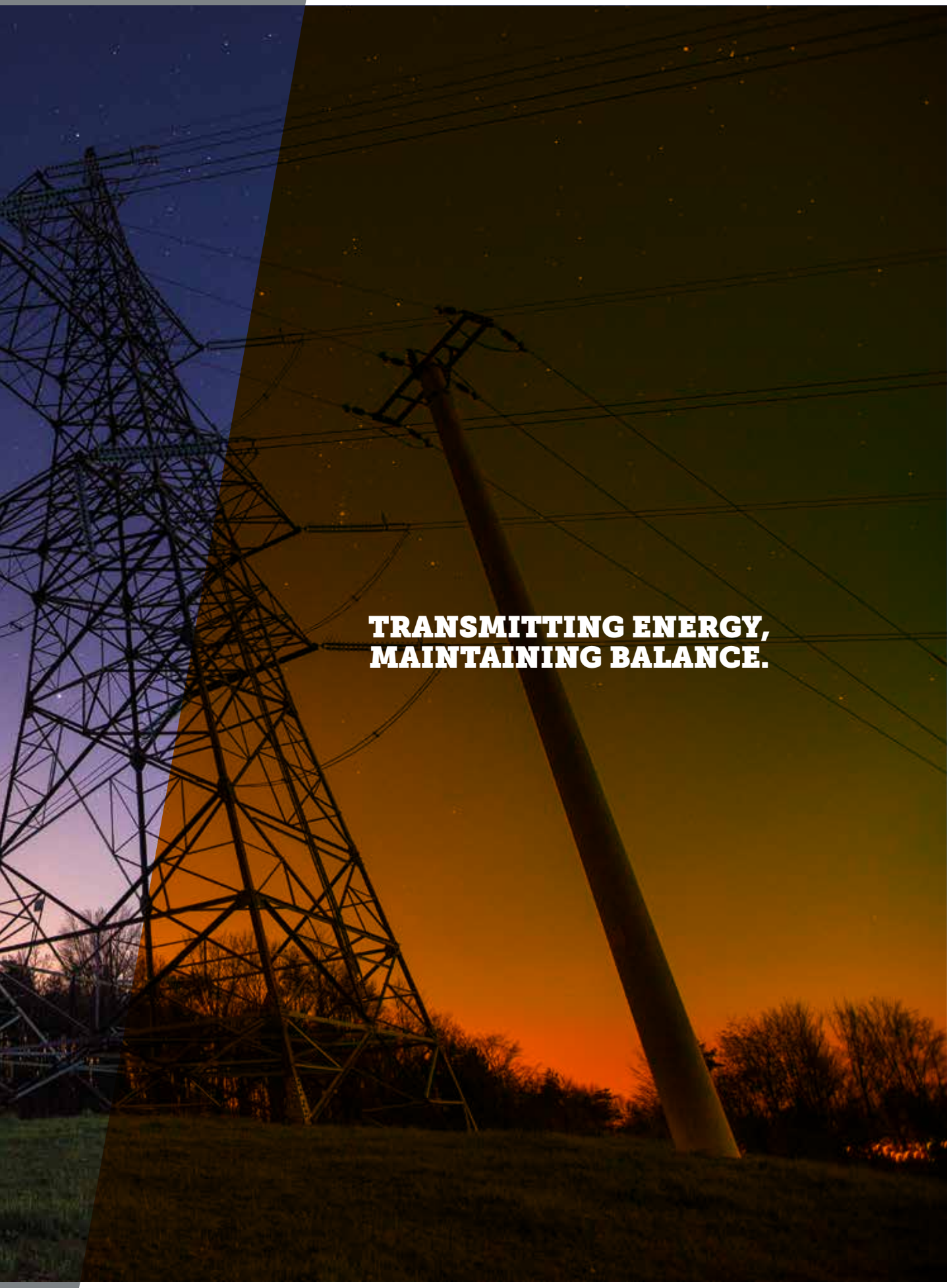
ELES
TRANSMITTING ENERGY.
MAINTAINING BALANCE.

LONG-TERM STRATEGIC BUSINESS PLAN

of the public undertaking ELES, d. o. o.,
For the period 2016-2020

2016-20


ELES



TRANSMITTING ENERGY, MAINTAINING BALANCE.

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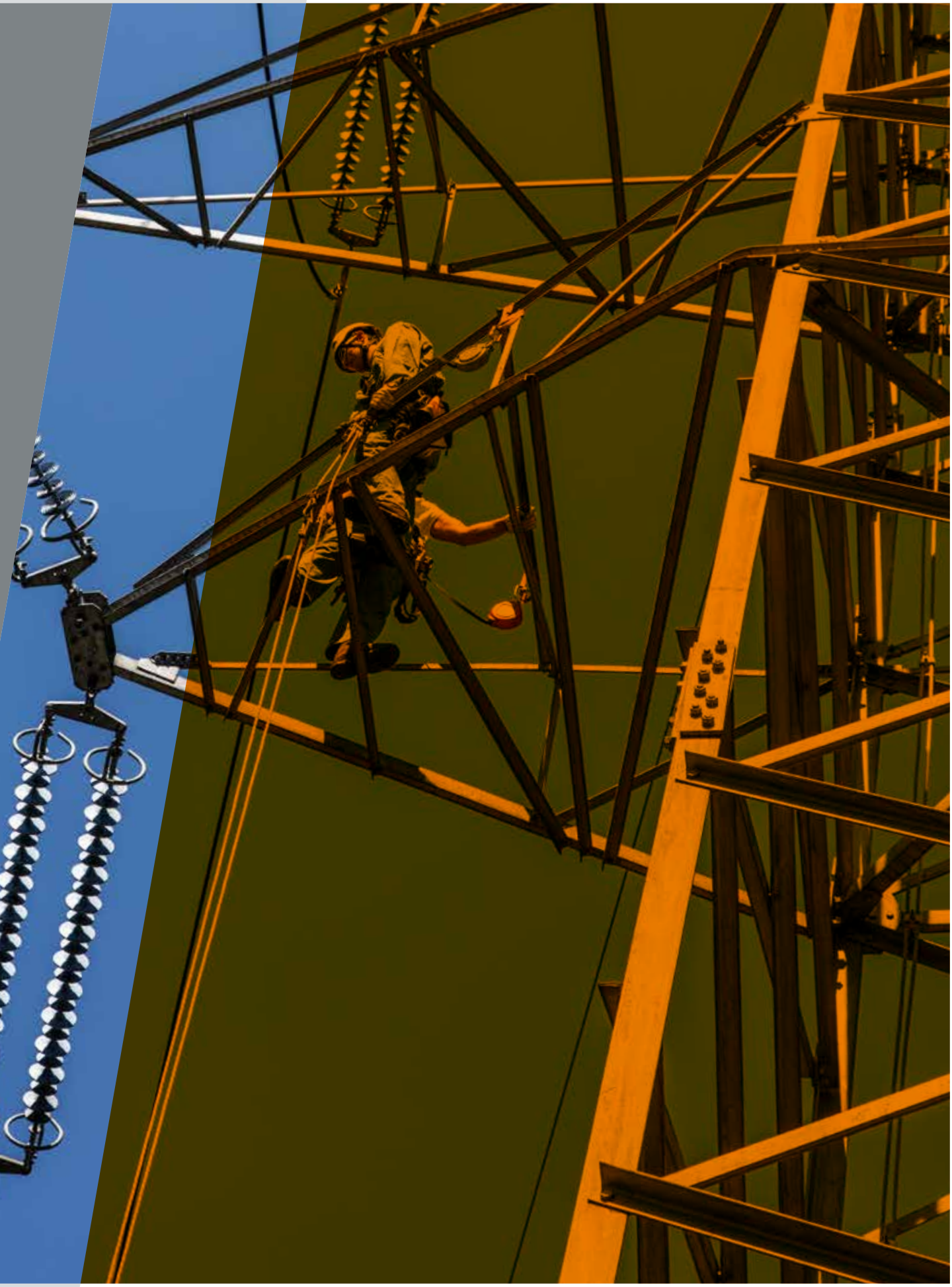


FOREWORD BY THE DIRECTOR

More than six years have passed since my arrival to the company ELES. I have been the Director for more than two years during this period. During the entire period, I have been pursuing the objective of placing ELES at the top of the Slovenian electric power sector in terms of creating the Slovenian electric power strategy. To meet this objective, among other things, we need a clear strategy of our own and on its basis, as comprehensive and timely as possible implementation of strategic objectives.

I am proud of everything we have managed to improve in these six years. True, we had quite a good starting point, but were also met with a number of challenges. A major challenge was creation of the first Strategic Business Plan 2011-2015 (SBP 2011-2015). It is with pride that I can say we have realised the majority of our strategic objectives and activities. As at 31 December 2015, 82 % of the SBP 2011-2015 had been achieved.

The Slovenian electric power sector faces many challenges. On the one hand, it is plagued by external negative factors, the main ones of which are: abnormally low electricity commodity prices and related financial instability particularly of manufacturing companies, and an increasing share of electricity produced from renewable energy sources and its impact on the current and especially future stability of operation of the continental part of the European electricity transmission network. On the other hand, the Slovenian electric power sector suffers from a lack of a clear and consistent state electric power strategy. At the same time, the company ELES is also facing certain shortcomings in existing legislation due to the delimitation of powers between our company and other entities in the Slovenian electric power sector. I believe that the current team at the Ministry of Infrastructure may, in the near future, draw up such a strategy, named the Energy Concept of Slovenia in the Energy Act (EZ-1) and also prepare appropriate amendments of the aforementioned law, which will eliminate the existing blurring of competences of Slovenian entities in the electricity transmission area and comprehensive management of the 110 kV transmission network. Due to upcoming new network codes of the European Network of Transmission System Operators for Electricity (ENTSO-E) regarding the provision of ancillary services, I believe the Energy Concept of Slovenia will also contain a section on ancillary services. Currently, both production pillars generate 10 % of their revenues from such services. Ancillary services are extremely important both for us and for Slovenian electric power production companies.

We are faced with a number of amendments in the area of introducing revised European regulations and ENTSO-E rules aimed at creating conditions for a unified EU electricity market. Reduced revenues from the allocation of cross-border transmission capacities are a real possibility. All this is causing a feeling of restlessness for in the recent period, we often ask ourselves how we will be able to ensure stable operation of the transmission network in the future while meeting all safety norms prescribed by ENTSO-E.

In the harsher economic and social conditions in our country, ELES is one of the few electric power companies

that has not as yet felt these negative factors to a great extent, however as a result, we are therefore all the more in the public eye. Our actions are assessed in a much stricter manner than elsewhere. Potential providers of construction works, goods and services are struggling honestly and often in a dishonest manner to capture a share of our procurement needs. Therefore, the risk of loss of »goodwill« in the public procurement area and implementation of investment and maintenance activities is at a maximum. Given our position in the Slovenian electric power market, we must realize that we are actually on our own. On the one hand, we have a multitude of manufacturing companies, on the other a concentration of users in the form of the SODO, 5 EDPs and direct users. This »superiority« often appears in the form of vague legislation. Nevertheless, we will not concede and also in the next strategic period, will enforce the correctness of our policies in terms of issuing licenses, connecting users, uniform control over the operation of the entire 110 kV network as well as in the field of ancillary services. Achieving a high degree of order, not to mention perfection in these two areas, is one of my priorities.

In the context of drafting the new Long-term Strategic Business Plan of ELES for the 2016-2020 Period (hereinafter: LSBP 2016-2020,) due to numerous changes in the environment and in the company, we have revised our mission, vision and values which are our anchors and integrators on the way forward. They guide and assist us in making decisions. Regarding the dilemma of whether a particular business decision or practice is appropriate or not, we consider them in the spirit of our new values: responsibility, commitment, knowledge, reliability, cooperation and perseverance.

Based on our experience and knowledge of current development and on a comprehensive and in-depth analysis of the internal and external environments as well as estimates of future developments in Slovenian society and the Slovenian and European electricity sectors, we have adopted clear strategic directions and priorities, and on this basis, defined strategic objectives and strategies for their realization. The operators of each individual sub-objective, deadlines for realisation, strategic activities, risks and performance monitoring indicators have been unambiguously defined. At the strategic conference on 5 and 6 November 2015, all operators of our strategic objectives signed a personal commitment aimed at realising the vision, objectives and strategies of the LSBP 2016-2020. Strategic workshops for the company's divisions and departments have enabled key employees to participate in the creation of strategies, with the adopted LSBP 2016-2020 widely communicated to all employees and directions, objectives and activities operationalised on implementation levels with annual reviews. I would like to thank everyone who participated in this challenging process.

The Strategic Business Plan sets out the tasks we need to accomplish in the coming years. Due to previous successful development, an extremely high level of realisation of the previous strategic business plan, the extraordinary range of competent and engaged employees and increasing agility of the company, I am convinced that we can cope with future challenges and together, we will successfully implement the new LSBP 2016-2020.The Internal Strategic Business Plan of ELES for the Period 2016-2020 with Annexes I through III constituted the basis for preparation of this document. This document after obtaining a positive opinion from ELES's Supervisory Board will be sent to the competent employees at the Ministry of Infrastructure for consideration and for adoption by the Government of the Republic of Slovenia, as set out in the fifth indent of paragraph 2 of Article 16 of the Act establishing the Public Company ELES, d. o. o.

ELES, d.o.o.
Company Director,
Aleksander Mervar, MSc

PERSONAL COMMITMENT OF OPERATORS OF STRATEGIC OBJECTIVES

This declaration relates to this document, named in accordance with the provisions of the fifth indent of paragraph 2 of Article 16 of the Act establishing the Public Company ELES, d. o. o.

ELES

6. STRATEŠKA KONFERENCA ELES
5. in 6. november 2015, Rogaška Slatina

IZJAVA

o osebni zavezanosti uresničevanju vizije, ciljev in strategij

iz strateškega poslovnega načrta ELES za obdobje 2016 – 2020

5. in 6. novembra 2015 je v Rogaški Slatini potekala 6. strateška konferenca družbe ELES. Drugi dan konference je direktor družbe mag. Aleksander Mervar predstavil predlog SPN 2016 - 2020, ki je rezultat skupnega dela celotne vodstvene ekipe družbe ELES in bo, skladno z določili Akta o ustanovitvi javnega podjetja ELES, d.o.o., predložen v presojo nadzornemu svetu družbe.

S svojim podpisom potrjujemo osebno zavezo uresničevanju strateškega poslovnega načrta ELES 2016 – 2020.

Direktor družbe:
mag. Aleksander Mervar

Direktor POS:
Jurij Klančnik

Direktor PPD:
mag. Rudi Brce

Direktor PIPO:
mag. Marko Hrast

Direktor PUSP:
Miran Marinšek

Direktor PITK:
mag. Venčeslav Perko

Koordinator direktorja družbe za korporativno upravljanje:
Igor Loborec

Koordinator direktorja družbe za korporativno integriteto:
Sandi Jeršin

Koordinator direktorja družbe za revidiranje:
Vid Pahor

Vodja službe za odnose z javnostmi:
Katarina Krasko Štebljaj

Vodja službe za upravljanje in razvoj kadrov ter varnost in zdravje pri delu:
Dušan Krajnik

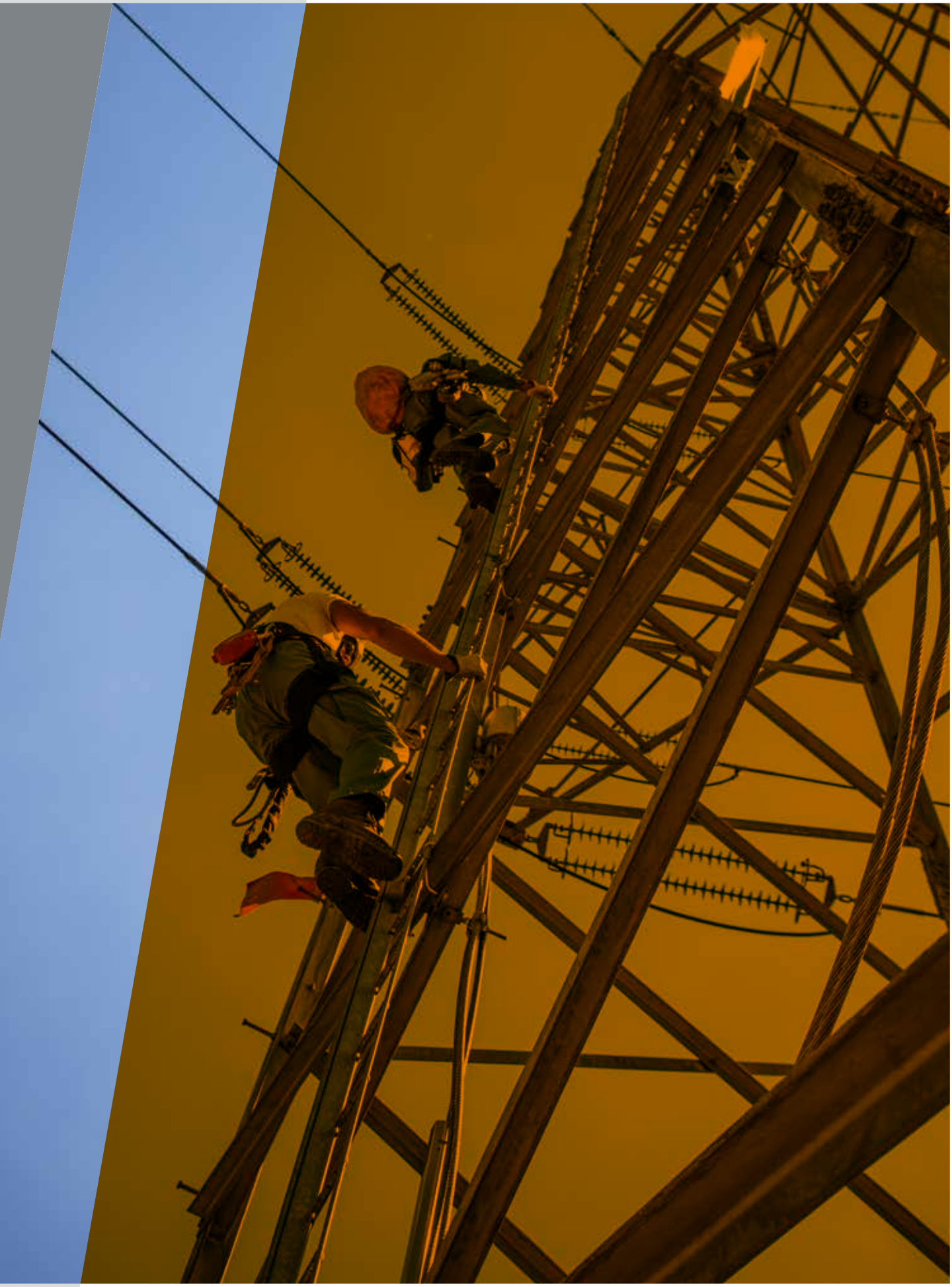
Vodja službe za relacije z regulatorjem:
mag. Mojca Cafuta

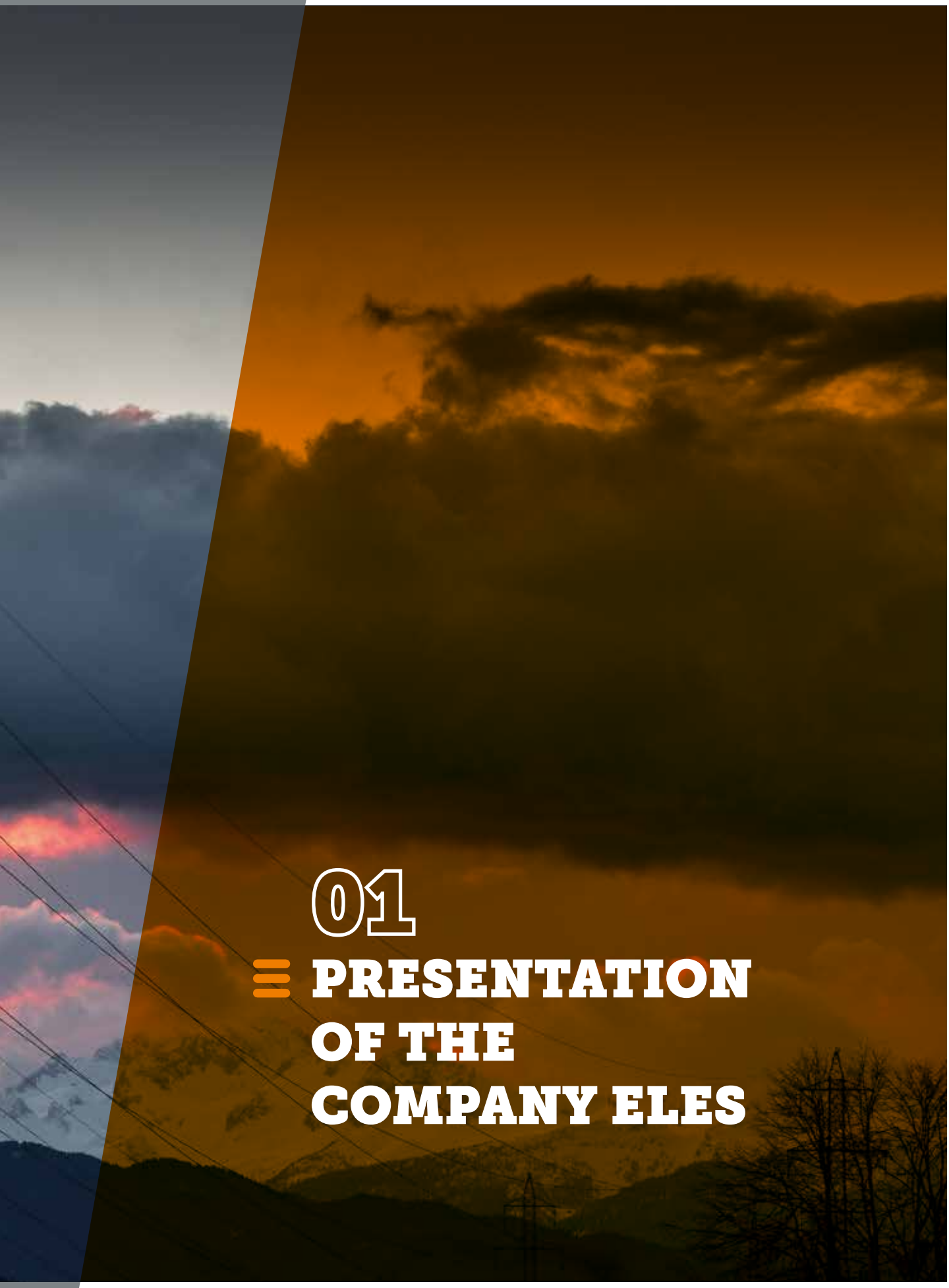
6th STRATEGIC CONFERENCE ELES
5 and 6 November 2015, Rogaška Slatina

STATEMENT
on personal commitment on the realisation of the vision, objectives and strategies
from the strategic business plan of ELES for the 2016-2020 period

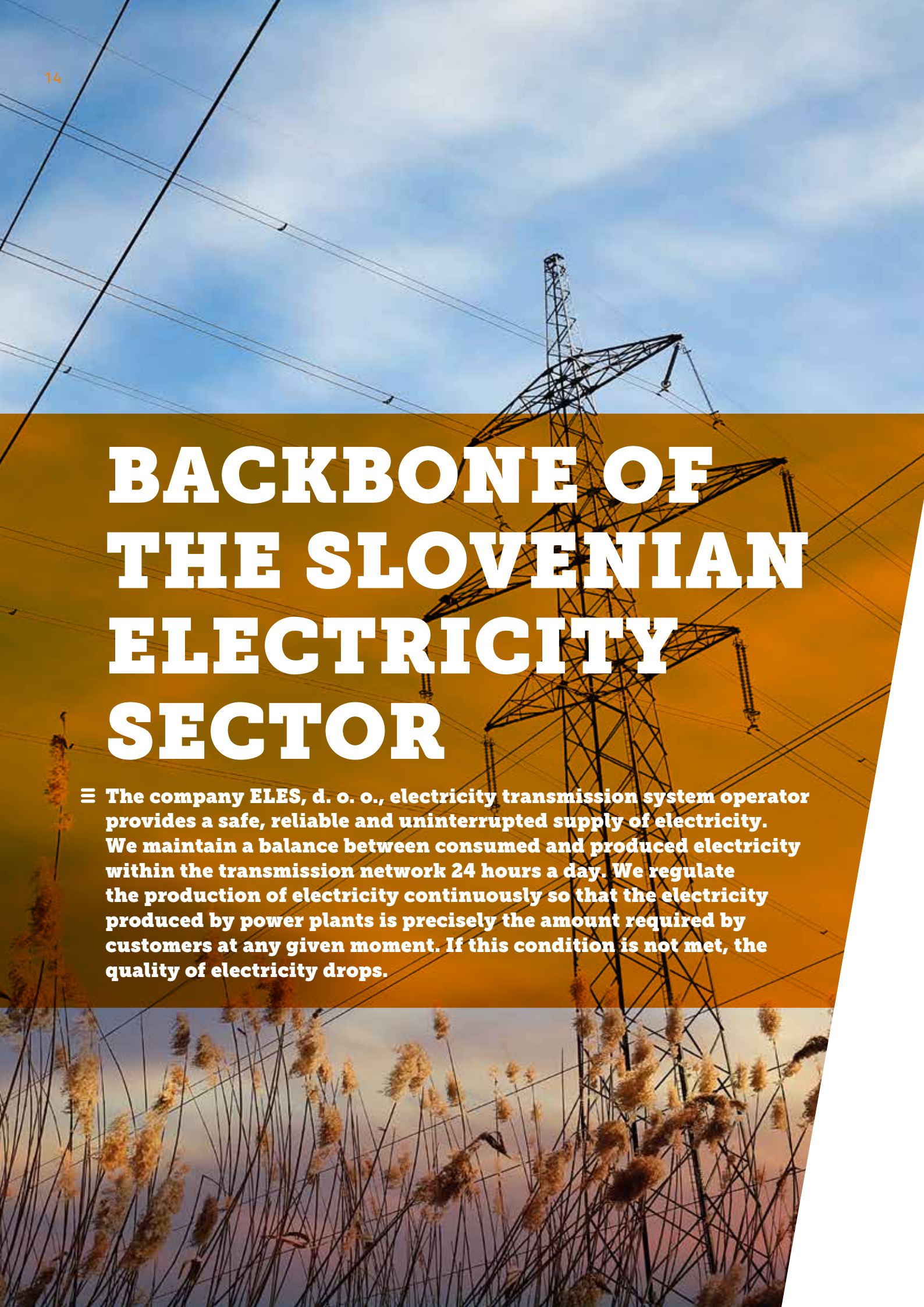
The 6th Strategic Conference of the company ELES was held in Rogaška Slatina on 5 and 6 November 2015. On the second day of the conference, the Director of the company Aleksander Mervar, MSc presented the draft SBP 2016-2020, which is the joint work of the entire management team of ELES and will, pursuant to the provisions in the Act on the establishment of the public company ELES, d.o.o., be submitted to the Supervisory Board of the company for assessment.

With our signatures, we hereby confirm our personal commitment to the realisation of the ELES Strategic Business Plan 2016-2020.





01 PRESENTATION OF THE COMPANY ELES



BACKBONE OF THE SLOVENIAN ELECTRICITY SECTOR

The company ELES, d. o. o., electricity transmission system operator provides a safe, reliable and uninterrupted supply of electricity. We maintain a balance between consumed and produced electricity within the transmission network 24 hours a day. We regulate the production of electricity continuously so that the electricity produced by power plants is precisely the amount required by customers at any given moment. If this condition is not met, the quality of electricity drops.

We are experts in the electricity sector and with our knowledge and advanced technologies for both suppliers and consumers, we ensure quality electricity transmission and thus, quality of life.

Pursuant to Slovenian energy legislation, we have a vested interest in the design, construction and modernization of the Slovenian high voltage transmission network on three voltage levels – 400 kV, 220 kV and 110 kV. ELES plans and upgrades network to enable inclusion of new production sources and a reliable and quality supply to major consumers of electricity throughout the territory of Slovenia.

Electricity is now treated as a commodity that we take for granted, and it is on rare occasion that we are reminded that this is not the case, that the electricity network is fragile, and that only prudent construction and maintenance of the network and a high level of expertise will ensure a reliable supply of electricity. With 545 (as at 31 October 2015) employees and superior technological equipment, ELES is on a par with the most modern European electricity transmission operators, achieving the standards of a contemporarily organized society.

GUARDIANS OF THE SLOVENIAN ELECTRICITY NETWORK WITHIN THE INTEGRATED EUROPEAN ELECTRICITY SYSTEM

The Slovenian transmission network is closely linked to the transmission networks of neighbouring countries and integrated into the European energy system. The international activities of ELES are subject to the implementation of EU energy legislation. This sets the framework for the development of a common electricity market in the EU, also defining legislative obligations for systemic transmission system operators (hereinafter: TSO), thereby guaranteeing its more effective operation. The company ELES realises these obligations as do other TSOs within the context of the European Network of Transmission System Operators for Electricity (hereinafter: ENTSO-E).

COMPANY PROFILE OF ELES, D. O. O.

Electricity Transmission System Operator	ELES d.o.o.
Registered Office	Hajdrihova ulica 2, Ljubljana
Electronic address	info@eles.si
Website	http://www.eles.si
Main activity code	35.120 Transmission of electricity
Establishment of the company	November 1990
Registration	District Court in Ljubljana, Reg. no. 1/09227/00
VAT Identification number	SI20874731
Registration number	5427223
Share capital	EUR 177,469,516.00
Transaction account	Nova Ljubljanska banka: 02924-0017900956 Unicredit Banka Slovenija: 29000-0052003012 Abanka Vipa: 05100-8012150406 Sberbank: 3000 0001 0104 138
Founder and owner	Republic of Slovenia – 100 % ownership stake
Director	Aleksander Mervar, MSc

Supervisory Board	ELES d.o.o.
Chairman of the Supervisory Board	Andrej Prebil
Deputy Chairman of the Supervisory Board	Milan Krajnik
Members	Janja Hojnik, PhD Matevž Marc, MSc
Employee representatives	Andrej Semprimožnik Simon Volk

KEY MILESTONES DURING THE 90-YEAR HISTORY OF TRANSMISSION ACTIVITIES

The beginnings of the electrical power transmission activity in Slovenia can be traced back to the year 1924, when the company Fala d. d. built the first 77 km long 80 kV transmission line (hereinafter: TL), linking the hydro power plant (hereinafter: HPP) Fala with the 80/35kV substation (hereinafter: RTP) Laško and 35 kV transmission line from Laško substation to the thermal power plant (hereinafter: TPP) Trbovlje. Thus the transmission network has existed for more than 90 years, as has its connection to people. It began with the electrical transmission pioneers in Laško, continuing to grow through the hands, hopes and knowledge of each employee. In conjunction with the development of construction of transmission facilities, expansion of transmission activities and increasing number of employees managing these facilities, the organizational forms of the Slovenian electricity sector and transmission companies has changed. Key development milestones are presented in detail in the relevant chapter of SBP 2016-2020. The public company Elektro-Slovenija, d. o. o., today known as ELES was established in November 1990.

The following are some of the key events in the last 25 years:

1990 Establishment of the public company Elektro-Slovenija, d. o. o., today's ELES, d. o. o.

1995 Start of intensive construction of telecommunication fibre connections to the ELES transmission network in a total length of over 1,000 kilometres.

1999 With the adoption of the Energy Act, which opened up the electricity market, the company was transformed into a provider of transmission services and manager of the transmission network.

2002 The remotely operated facility - 400/110 kV Krško substation began operation.

2010 After a two-year reconstruction, one of the most modern electric power facilities in Slovenia - the 110/20 kV Moste substation, a joint project of the ELES, Elektro Gorenjska and Savske elektrarne companies was handed over into operation in Moste pri Žirovnici.

2011 A 1200 MVA phase shifting transformer officially began operations at the Divača substation.

2013 The 86 km long 2 x 400 kV Beričevo-Krško transmission line was handed over for start-up and functional testing, representing the largest investment of the company ELES until now.

2014 The Republic of Slovenia's transmission network suffered severe consequences due to sleet in the winter of this year. ELES celebrated the 90th anniversary of transmission lines in the spring of this year.

ORGANIZATION OF ELES

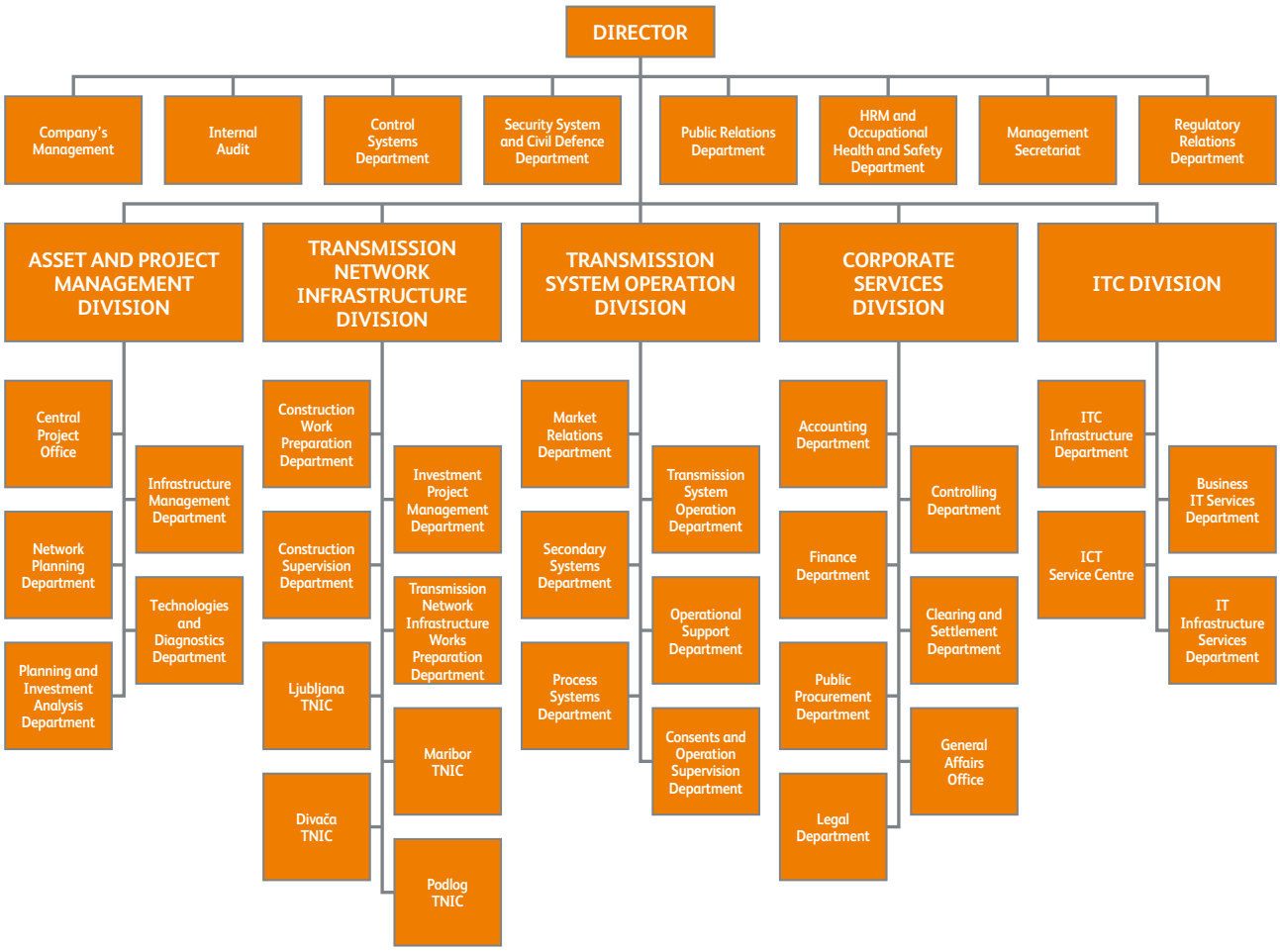


Figure 1: *Organization of the company*

OWNERSHIP STRUCTURE AND CAPITAL RELATIONS

The Republic of Slovenia is the founder and sole owner of the company ELES.

ELES, d. o. o. is the parent company of the following subsidiaries:

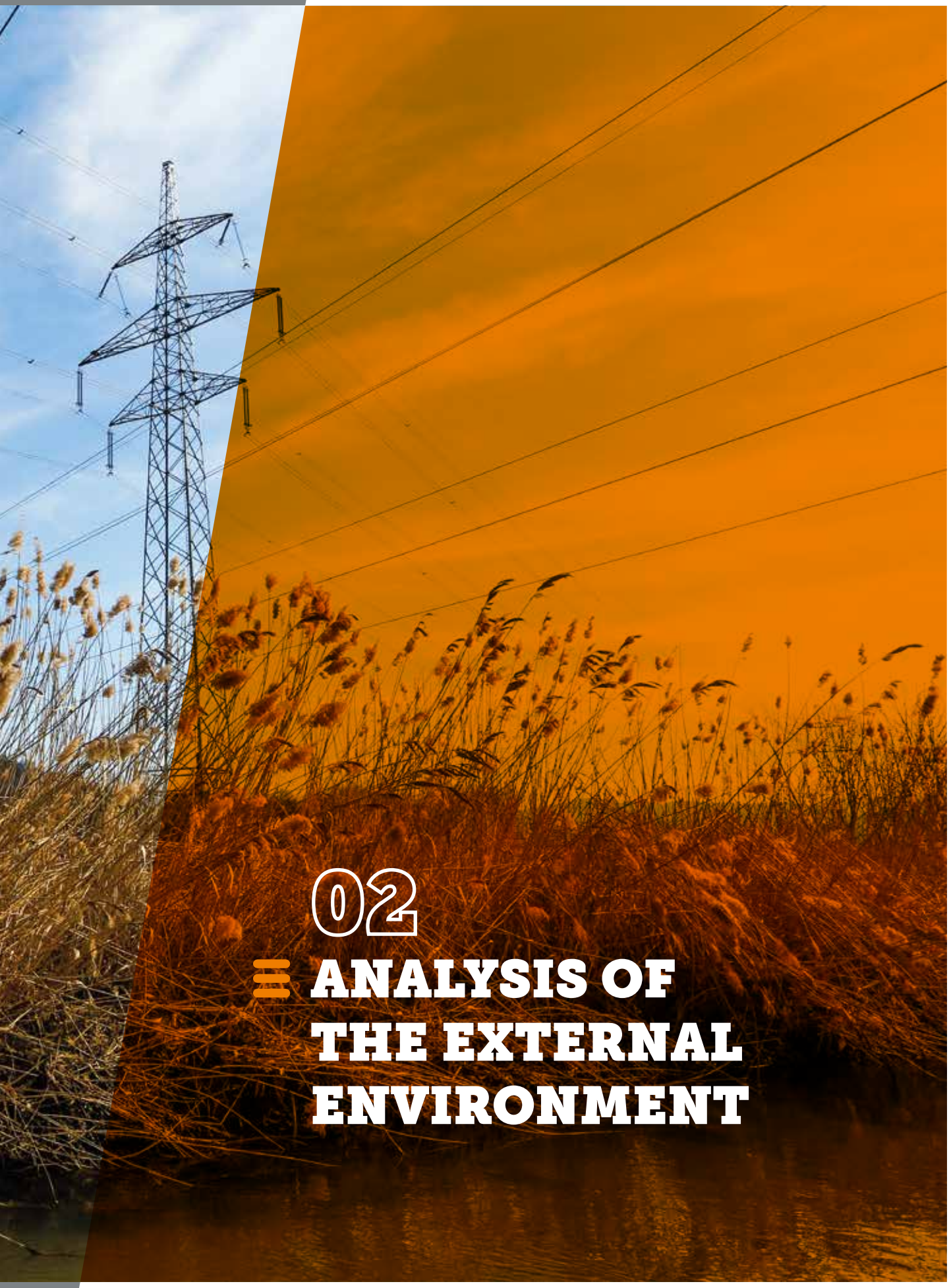
- Talum d. d., Kidričevo (85.61 percent ownership stake);
- Stelkom, d. o. o. (56.27 percent ownership stake).

ELES, d. o. o. also possesses ownership stakes in the following companies:

- Eldom d. o. o., Maribor (25 percent ownership stake);
- BSP Regionalna energetska borza, d. o. o., Ljubljana (50 percent ownership stake);
- JAO Joint Allocation Office S.A. (5 percent ownership stake);
- TSC NET Service GmbH (7.69 percent ownership stake).

ELES, d. o. o., has equity investments in the following companies:

- Informatika, d. d. - 4.48 percent ownership stake;
- Banka Koper d. d. - 0.09 percent ownership stake (477 shares);
- Zavarovalnica Triglav, d. d. - 0.11 percent ownership stake (24,276 shares).



02 ANALYSIS OF THE EXTERNAL ENVIRONMENT

ELES' SIGNIFICANCE IN THE SLOVENIAN ELECTRICITY SECTOR

ELES acts as a service of general economic interest for the benefit of electricity consumers. Our primary tasks are the transmission of electricity and balancing of the system. Electricity is transmitted via the 400, 220 and 110 kV high-voltage networks from electric power plants to the distribution network, from where distribution companies supply electricity to final consumers. An important part of transmission is also cross-border transmission of electricity.

At ELES we ensure regular maintenance, upgrades and concern for the long-term development of the transmission network through the design and construction of new facilities. Besides upkeep of transmission network infrastructure, ELES by law has also been authorized to coordinate the management of operations of all electric power devices and installations. We connect, monitor and remotely manage the network through our control centres which via the networks of neighbouring countries, is closely integrated into a powerful European network.

In continuation, we briefly summarize the external business environment of the company ELES.

NATIONAL LEGISLATIVE FRAMEWORK FOR OPERATION

Energy and Economic Legislation

The basic legal frameworks for the company's operation are the Energy Act (EZ-1), Companies Act (ZGD-1-1), Services of General Economic Interest Act (ZGJS) and the Act determining the methodology for charging for the network charge, the methodology for setting the network charge, and the criteria for establishing eligible costs for electricity networks.

Siting

Siting comprises a part of the construction of facilities, which is defined by legislation on spatial planning. Prior to the construction of a new electric power facility, the envisaged facility must first be sited according to the procedure of the preparation of the national spatial plan, as prescribed by the Siting of Spatial Arrangements of National Importance Act (ZUPUDPP).

Construction and Maintenance of Transmission Infrastructure

Construction and maintenance of transmission infrastructure are defined within a legislative framework comprising the areas of building construction, environmental protection, occupational health and safety, and public procurement with legislation from so broad a field, often inconsistent.

Public Procurement

Public procurement procedures are determined by the Public Procurement Act (ZJN-3) with executive regulations, Legal Protection in Public Procurement Procedures Act (ZPVPJN) and Integrity and Prevention of Corruption Act (ZIntPK).

Occupational Health and Safety

The area of Occupational health and safety (OHS) is governed by the Occupational Health and Safety Act (OSH-1), Fire Protection Act (ZVPoz UPB1) and the Pension and Disability Insurance Act (IPDI-2) as well as a number of executive regulations (regulations and rules) from this area. The certified OHS management system plays a special role here, in accordance with the SIST-TS BS OHSAS 18001:2012 standard and Safety Statement with Risk Assessment.

Environmental Protection

With its activities, ELES intervenes in the environment, both during the siting of new facilities and during the daily performance of its activities. Key legislation the company must adhere to is the Environmental Protection Act with its executive regulations; we have also introduced an environmental management system pursuant to the ISO 14001 standard - Environmental Management Systems, having already acquired the appropriate certificate in 2004. Improvements to the system are constantly being implemented.

Other Legislation

Due to the company's processes, during its operation we need to use and be familiar with virtually the entire legal order of the Republic of Slovenia.

REGULATORY FRAMEWORK FOR OPERATION (ENERGY AGENCY AND ACER)

The business and operations of the company ELES is subject to a regulatory framework determined by the Energy Agency as the regulator of the Slovenian energy market and the Agency for the Cooperation of Energy Regulators (ACER).

COMPANIES IN THE ELECTRIC POWER CHAIN

The electric power chain comprises electric power production companies (including companies producing EP from RES electric power production companies owned by EDPs), providers of ancillary services, companies involved in the purchase and sale of EP and distribution companies (SODO, EDP).

EUROPEAN LEGISLATIVE FRAMEWORK FOR OPERATION

ELES in its operations must, in addition to Slovene legislation, also comply with the requirements of European regulations and directives and other acts related to the operation of electricity transmission system operators. During the next few years (until the year 2020 and beyond), TSO activities will be aimed at ensuring greater coordination between them. In accordance with the legislative requirements of the Third Energy Package, it is expected of TSOs through their association ENTSO-E that they increase the coordination of their operations in numerous areas with the aim of ensuring a faster, more efficient, safer and more reliable channel to attain the following EU objectives:

- harmonized and safe operation of the European Electric Power System (hereinafter EPS);
- establishment of a framework for the creation of an efficient inter-regional and pan-European electric power market;
- assurance of a high level of reliability in supplies to the European market.

In doing so, particularly important for the company ELES during the period 2016-2020 is to establish the importance of establishing common measures for safe operation that do not generate costs (i.e. non-costly Remedial Action), and to ensure special status in the implementation of measures associated with additional costs, so-called costly Remedial Action.

ALLOCATION OF CROSS-BORDER TRANSMISSION CAPACITIES (CBTC)

Cross-border trade in electricity, an integral part of which is the allocation of CBTC, is one of the key elements in shaping the single (European) internal market. In doing so, the company ELES cooperates with auction houses established on the basis of the requirements of Regulation (EC) No. 1228/2003. With the creation of the company JAO in 2015, the efficiency and transparency of the electricity market in Europe have significantly increased for market participants.

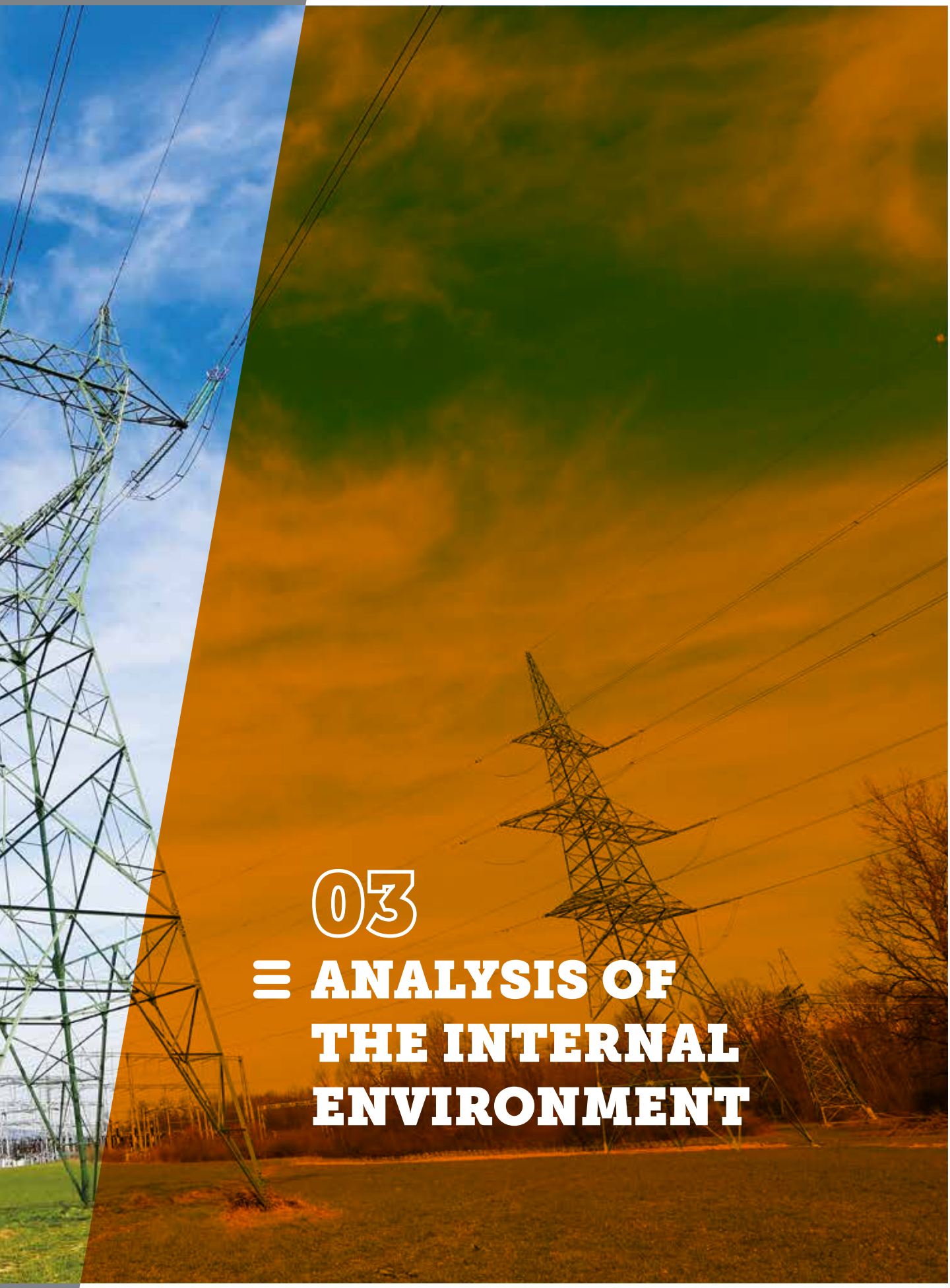
PROFESSIONAL PARTNER ORGANIZATIONS IN EUROPE

The company ELES is strongly integrated in the international environment already due to the geographical location of Slovenia. System operators in continental Europe use uniform and coordinated operation rules, managing operational reliability and creating rules for the allocation of CBTC within the context of European and regional associations:

- ENTSO-E (European Network of Transmission System Operators for Electricity) is the umbrella organization of European transmission system operators.
- TSC (TSO Security Cooperation): two associations have been formed in the continental part of Europe, each covering its own part of the European network to ensure operational reliability. These are TSC and CORESO (COoRdination of Electricity System Operators). The company ELES is a member of TSC, a regional grouping of thirteen continental system operators in Central and Eastern Europe.
- MED TSO - an organization responsible for the integration and development of the network in the Mediterranean area, especially integration between the countries of North Africa and Southern Europe.
- CORESO is a regional association of system operators from Great Britain, Belgium, France, Italy and the northern part of Germany. Although ELES is not a member, it participates in the segment involved in calculations of CBTC on day D-1 .
- CEE, CSE, SEE – The Council of the European Communities divides Europe into eight regions. The primary purpose of such allocation is regional harmonization and integration of these regions in continued development phases into a single European electricity market. ELES' operations are located in three regions, namely in the region of Central and Eastern Europe (CEE), Central Southern Europe (CSE) region and South-East Europe (SEE).

OTHER ORGANIZATIONS AND ASSOCIATIONS IN EUROPE AND SLOVENIA

- CIGRÉ-CIRED (Fr. Conseil International des Grands Réseaux Electriques or International Council on Large Electric Systems).
- WEC (World Energy Council).
- EUTC (European Utilities Telecom Council) is a European interest association of telecommunications network operators and service infrastructure support operators.
- ECS - Energy Chamber of Slovenia.
- Faculty of Electrical Engineering, UL, UM FERI and EIMV.



03

ANALYSIS OF THE INTERNAL ENVIRONMENT

MANAGEMENT AND CONTROL OF OPERATIONS

We realise the set of guidelines of procedures and structures that ensure targeted and controlled operations, achievement of objectives and protection of the interests of stakeholders through corporate governance, taking into consideration the code of ethics. The Rules governing the method of management of ELES d. o. o. regulate the manner of management and coordination of work at ELES. Organization is determined by the management using the Rules on the organization of ELES, with the basic allocation of tasks defined by Act on systematization of types of work and job positions. This is followed by the organization of individual activities, which, in accordance with the laws of nature are implemented in the form of processes.

Management System

Management systems based on established models and a process approach and their operation provide management with methodological support relating to the organizational development of the company, while striving to achieve the highest possible level of business excellence. The company possesses a uniform system in which multiple systems are integrated. We will continue to co-ordinate all activities necessary for achieving our strategic objectives and sub-objectives within the context of the management systems.

Public Relations

Communication in ELES is strategically planned, proactive and focused at different target audiences. It is carried out by the Public Relations Department. Communication objectives are set out in the annual communications plan and consistent with the business plans and objectives of the company. Internal communication with employees is continuously updated, with considerable progress made in the area of communication with local communities through the use of innovative approaches that extend beyond statutory public involvement. Activities involving social responsibility are growing from year to year, with sustainability reporting also to be introduced by 2020. The greatest challenge for public relations in ELES is the establishment of a communication infrastructure in the field of digital communications.

Planning and Business Analysis

The Controlling Department is responsible for planning and business analysis. At ELES we prepare ten-year development, five-year strategic, and three-year plans as well as annual plans and investment plans. Analyzing variances from planned values constitutes the basis for current and strategic management decisions. The core parts of reporting documents are monthly information on operations and preparation of the annual report on operations of ELES. The annual report contains the consolidated financial statements of the ELES Group. Reports with guidelines for the elimination of irregularities and suggestions for improvements are also prepared. As part of analysis and reporting on company operations, determination of deviations from the regulatory framework and analysis of the causes of deviations in terms of minimizing gaps between realized and regulated profit is also implemented.

IMPLEMENTATION OF SERVICES INVOLVING EPS OPERATION AND MANAGEMENT

In terms of internal factors, the area of operations is characterized by a wealth of knowledge and good human resources potential. Long-term cooperation in the international area is particularly fruitful. Thanks to this, we have established good relationships with the professional staff of foreign system operators. This allows us to effectively share knowledge and experience with foreign entities and adapt to changing circumstances more easily and quickly. We have introduced a new electricity system control system (hereinafter: EPSMS), which represents the core of the control centre, including regional centres in Beričevo, Nova Gorica and Maribor. Although the new system is the product of the Swedish company ABB, it is characterized by the invaluable contribution of experts of the company ELES, which for the duration of the three and a half year project, worked on the control system intensely, configuring it and setting parameters, thus adapting it for daily operation of the EPS of Slovenia. EPSMS is an excellent acquisition because with improved control over the network and use of more precise data, we will be able to manage the electricity system in critical operating conditions more easily, and optimally manage it in normal conditions. This also allows for improved control of Slovene and neighbouring networks, integration of new data sources and use of many modern control functions, including the exchange of ancillary services with neighbouring operators, production of forecasts, automatic voltage regulation, etc.

DEVELOPMENT AND ASSURANCE OF LONG-TERM CAPACITIES AND MAINTENANCE OF THE TRANSMISSION SYSTEM

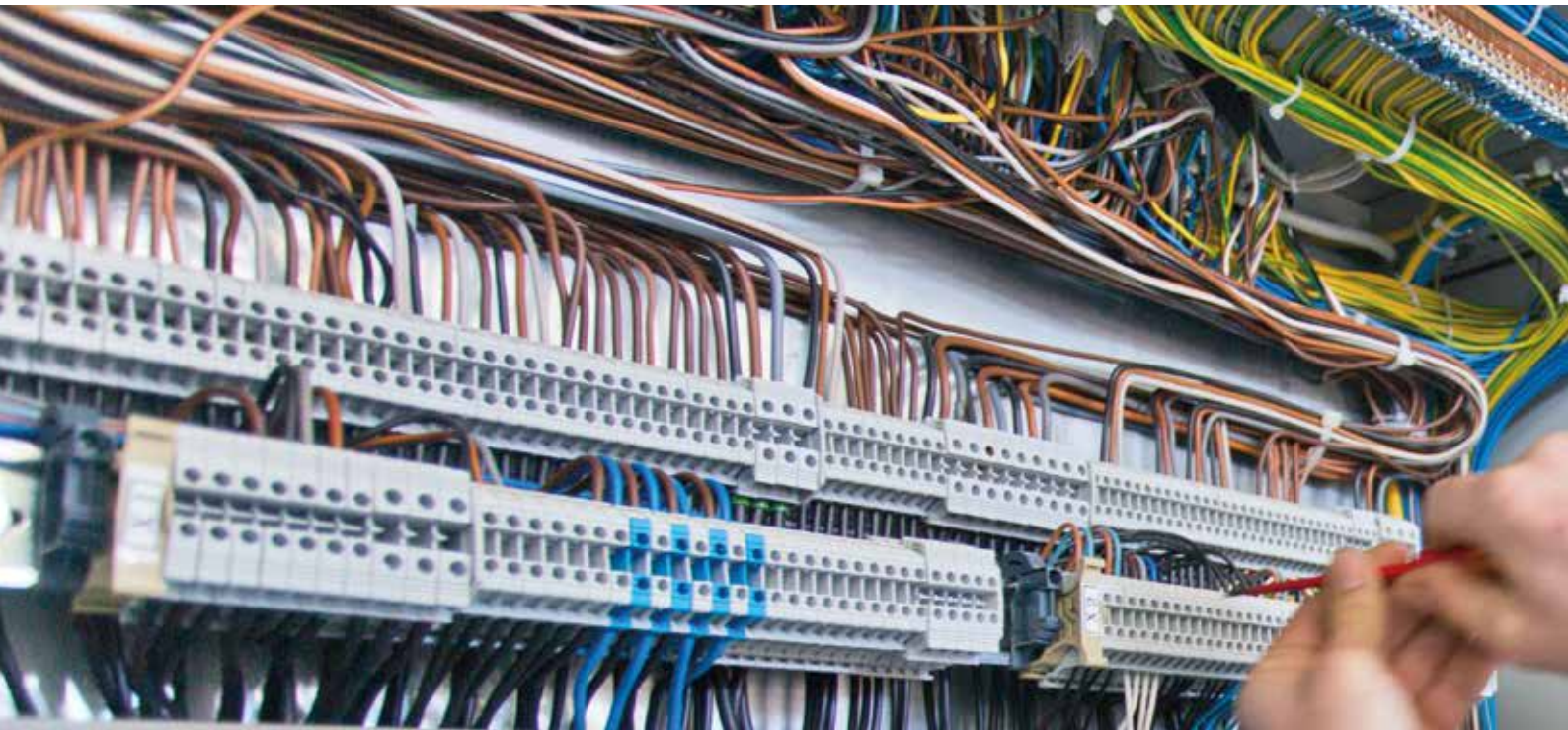
Asset Management

The main purpose of asset management is to balance the costs, opportunities and risks associated with the means to achieve the strategic objectives of the company. It is important to consider the entire lifecycle of assets and systems which the company manages. The Asset and Project Management Department (hereinafter: PUSP) controls the key segments of the life cycle and introduces methodologies and information support for the needs of reporting and decision-making. Professional services operate under the auspices of PUSP, responsible for preparing the 10-year network development plan, preparing the groundwork for investment decisions by drafting and monitoring investment documentation, assisting in the preparation of construction works and organization of decisions regarding start-ups, monitoring and support of construction works, providing information support for management of assets and maintenance processes and for The Transmission Network Infrastructure Department (hereinafter: PIPO), being also responsible for the introduction of new technologies. The ELES company is involved in the International Transmission Asset Management Study (ITAMS) to evaluate the effectiveness and integrity of the entire asset management process.

Construction and Maintenance of the Network

Construction of the network is an implementation process involving investment into transmission infrastructure. It comprises the siting of infrastructure, preparation and implementation of administrative licenses, implementation of investments and reconstruction of the transmission network. The entire process of implementation engineering is managed by our own staff. Implementation engineering comprises investment decisions, management of investment projects and monitoring of execution of works pursuant to of the Construction Act (ZGO). Acquisition of the 110 kV network represents an increase in the number of construction projects on the transmission network, which will require an increased number of qualified project managers.

The maintenance process comprises the planning of maintenance works, control over devices and installations and implementation of preventive and curative maintenance. In the future, we will, on the basis of projects already underway, complete the computerization of maintenance work drafts so that the drafting process will be carried out faster and in a more automated manner. Inclusion in the International Transmission Operations & Maintenance Study (ITOMS) and comparative studies which will be carried out every two years will enable us highly qualitative comparisons of the efficiency of the maintenance process with that of other system operators, thus enabling the development of measures for improvement.



SUPPORT PROCESSES

Purchasing and Public Procurement

Procurement processes at the company ELES are one of the key processes supporting the core mission of the company. Legislation on public procurement, which represents a framework for us, is quite conservative and often restrictive with respect to the specifics of the activities of our company, which in certain areas also faces a significant lack of competition. In addition, procurement is also significantly moulded by diversification and wide range of areas we cover within our business activity. Our internal regulations which provide all subscribers in the company a uniform starting point or instructions on how to carry out the necessary procurement of goods and services are adapted to these peculiarities .

Provision of ITTC-Services

In the previous strategic period, ELES saw significant progress with regard to the provision of information technology and telecommunications (hereinafter: ITTC) services. Two pillars of the business information system have been introduced and implemented: a system for the management of operations and business processes and a system for managing assets and operational processes. The ITTC-infrastructure has been optimized to a large extent, particularly in the area of ICCT-service use, connectivity and security. We still see many opportunities for improvement in the field of paperless operations and management of documents and archives in the future. There is also a need for integrated reporting on the basis of modern technologies and business analytics methods.

Comprehensive Personnel Management

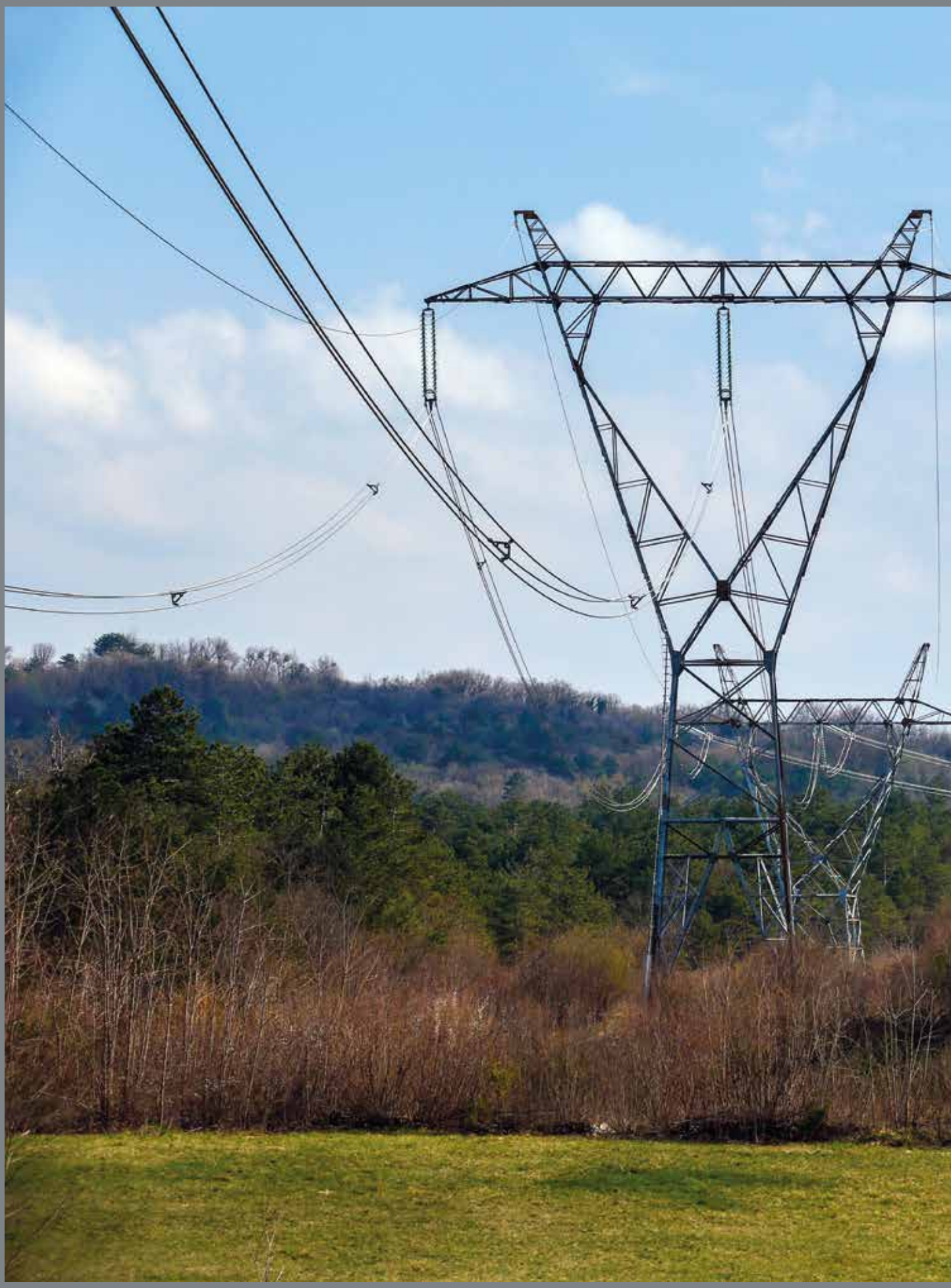
In the field of comprehensive personnel management, we have introduced modern personnel tools in the company's operations, aimed at developing a healthy working environment, ensuring the well-being of employees and their development, increasing employee efficiency and motivation, developing an appropriate relationship between employees and the company, providing effective tools for managing employees and, following positive experiences in other companies according to Slovene and European criteria, increasing customer satisfaction and positive energy in the company. Employee education and training will be carried out in accordance with the actual needs of the company as established by the heads of individual organizational units.

General Processes and Rules

The company ELES possesses uniform regulated processes and rules that are important both for daily operations for regulating the receipt, allocation and transmission of mail, working hours and their registration, storage and archival of documents, vehicle fleet services, maintenance of commercial buildings, the purchase and equipping of business premises and holiday activity.

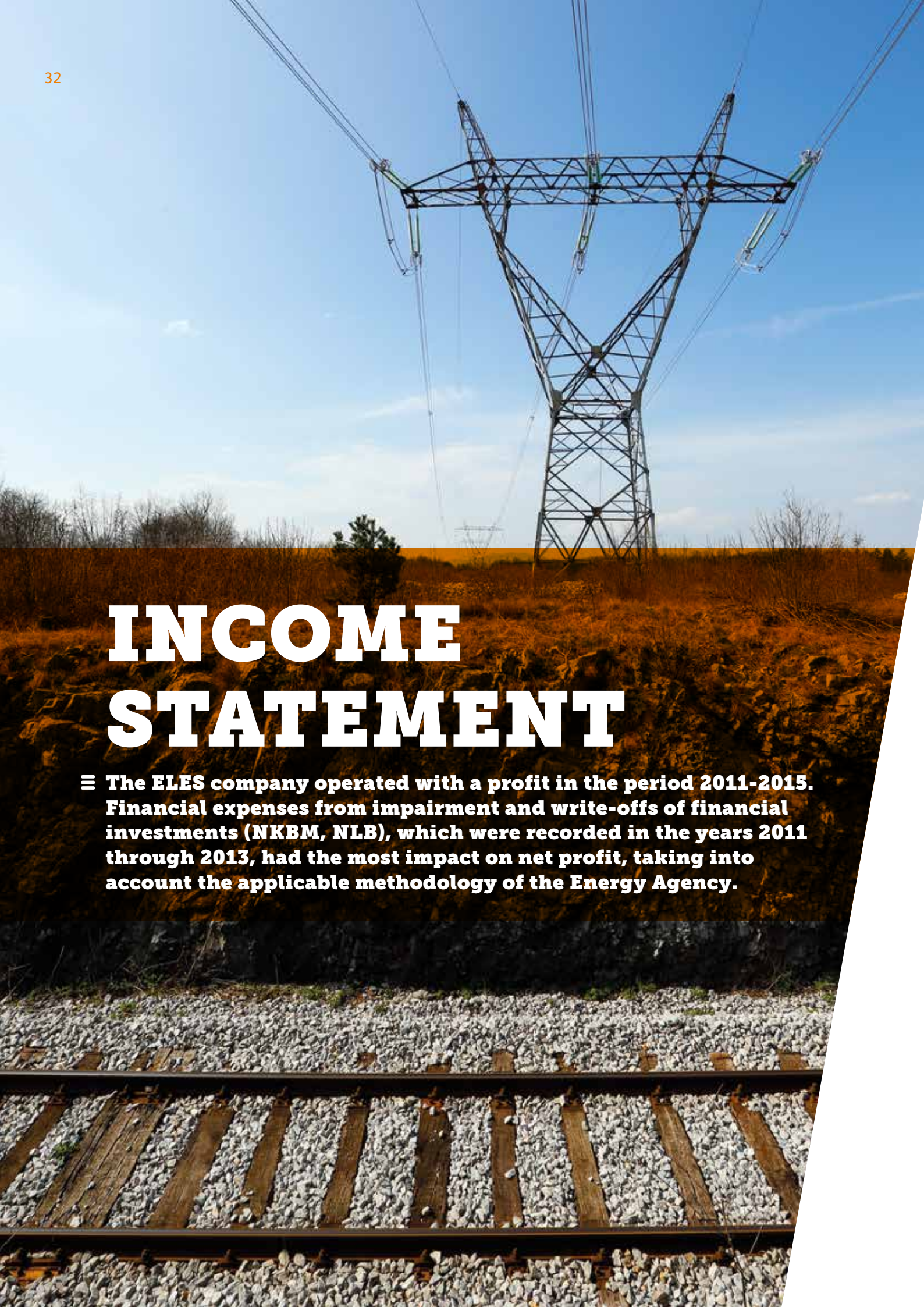
Financial and Accounting Processes

Financial decisions are made based on timely and accurate information provided by other organizational units. Annual, monthly, weekly and daily cash flow estimates are made on this basis. Accounting information and data provide a basis for planning and overseeing the company's operations for internal and external users. The introduction of a new IT system will enable the optimization of processes in this area in the future.



04

PERFORMANCE ANALYSIS SUMMARY FOR THE PERIOD 2011-2015



INCOME STATEMENT

The ELES company operated with a profit in the period 2011-2015. Financial expenses from impairment and write-offs of financial investments (NKBM, NLB), which were recorded in the years 2011 through 2013, had the most impact on net profit, taking into account the applicable methodology of the Energy Agency.

in thousands of EUR

Year/ realisation	Operating revenue (R)	Index YcR/YIR	Operating expenses (E)	Indeks YcE/YIE	Earnings before interest and tax (EBIT)	Earnings before interest, tax, depreciation, amortisation (EBITDA)	Net profit or loss
	1	2	3	4	5(1-2)	6	7
2011	136,769	104	125,831	101	10,939	38,846	4,105
2012	139,830	102	130,663	104	9,166	37,495	5,123
2013	138,865	99	130,712	100	8,153	36,152	8,446
2014	143,479	103	133,257	102	10,223	40,426	11,229
2015	152,698	112	140,921	112	11,777	40,867	10,005
Total	**690,442**		**645,251**		**45,191**	**187,476**	**34,174**

Table 1: *Summary of income statement items in the period 2011-2015*
** Yc- current year, YcR- current year operating revenue, YcE- current year operating expenses*
** YI- last year, YIR- last year operating revenue, YIE- last year operating expenses*

The company ELES generates revenues from the implementation of activities of a transmission system operator (TSO), in particular from:

- network fees for use of the transmission network charged to the electricity distribution system operator (SODO) and direct customers;
- network fees for ancillary services charged to the electricity distribution system operator (DSO) and direct customers;
- granted rights to use cross-border transmission capacities (GRUCBTC) in auctions,
- based on statements of the ITC-settlement mechanism.

Revenues have been growing since 2011. The growth was influenced by an increase in revenues for rights to the use of CBTC at auctions, taken into account in income.

Growth in revenues from the sale of CBTC at auctions after 2010 is the result of successfully completed investments in the Divača phase shifting transformer, enabling an increase in available cross-border capacities (NTC) on the border with Italy (start of operations at the end of 2010). The maximum value of the available capacity was increased from 31 to 46 %, depending on the season and time of day. In addition, due to ELES' efforts the capacities also increased at all other entry-exit border points, aided by the investment made into the 2 x 400 kV Beričevo-Krško TLs, which in 2014 joined the network. The increase in CBTC at the Slovenian-Austrian border is of utmost importance, particularly for revenues from CBTC.

in thousands of EUR

Year/realisation	Network fee for the transmission network	Sales revenue from CBTC at auctions	Share of auction revenues compared to network fees
	1	2	5
2011	64,852	37,118	57 %
2012	65,977	61,173	93 %
2013	63,039	48,325	77 %
2014	58,677	50,079	85 %
2015	57,213	45,700	80 %
Total	**309,759**	**242,397**	**78 %**

Table 2: *Comparison of network fees and revenues from allocation of CBTC*

Operating expenses have been growing since 2011. Cost of ancillary services, depreciation costs and partially also employee costs have had the greatest impact on increased operating expenses.

INVESTMENTS IN THE TRANSMISSION NETWORKE

ELES is responsible for the construction and reconstruction of the power facilities of the transmission network.

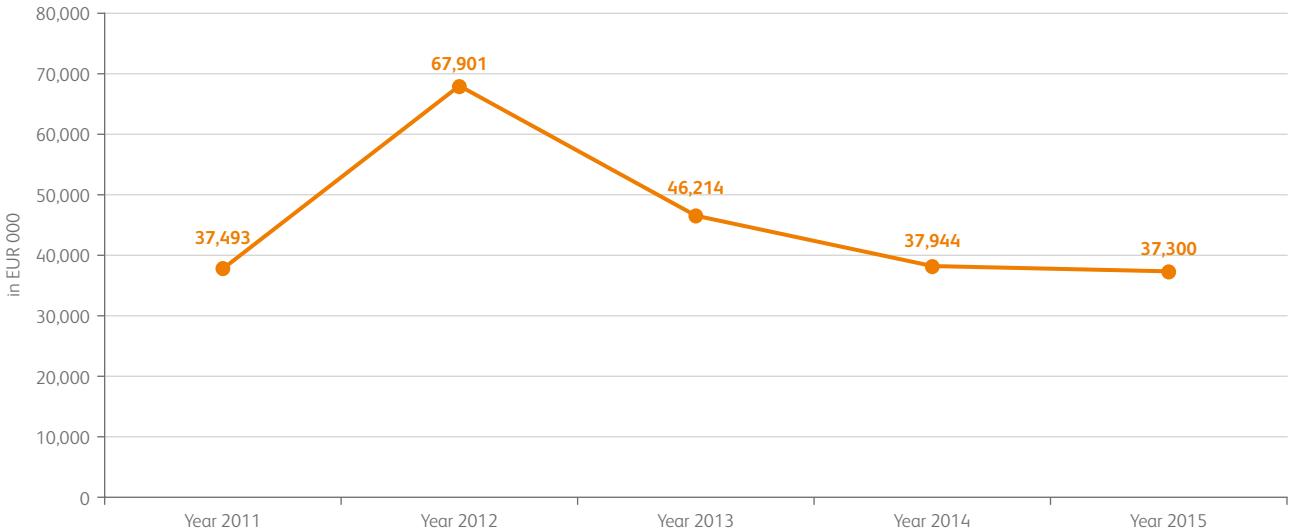


Figure 2: *Changes in investments in the period 2011-2015*

In the period 2011-2015, a total of EUR 226,852 thousand was invested into the construction of electric power facilities. Investment into the 2 x 400 kV Beričevo-Krško TLs contributed significantly to the increase in investment in 2012; TL + OPGW, which this year amounted to EUR 23,627 thousand.

EMPLOYEES

The number of employees increased by 16 from 2011 to 2015 , with 14 of these joining the force in 2015 due to preparations for the acquisition of the 110 kV network pursuant to Article 512 of the Energy Act (EA-1).

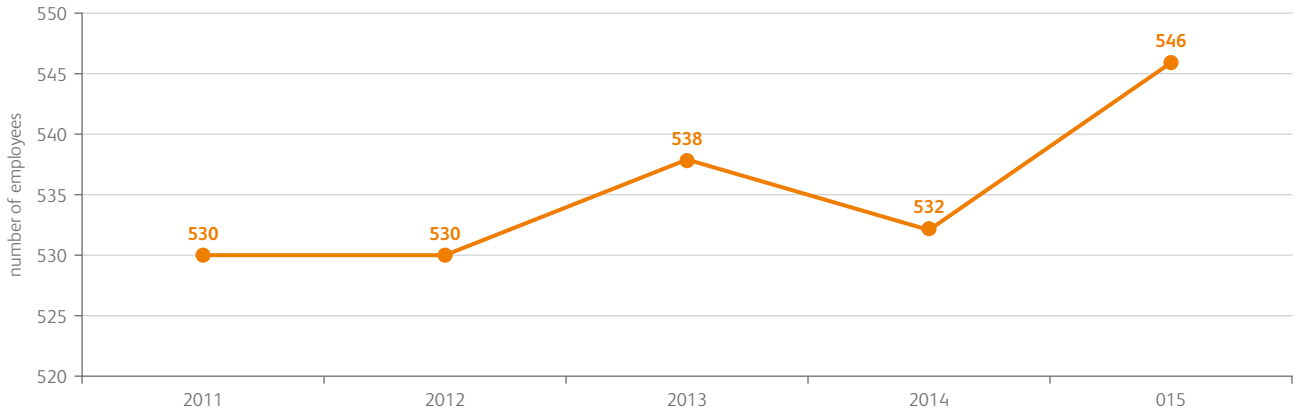


Figure 3: *Fluctuation in the number of employees in the period 2011-2015*

BALANCE SHEET

The balance sheet total as at 31 December 2015 increased by 23 % compared to the state on 31 December 2011.

Assets

	Type of assets	31. 12. 2011	31. 12. 2012	31. 12. 2013	31. 12. 2014	31. 12. 2015	nominal growth
A.	Long-term assets	85.8 %	85.9 %	89.6 %	86.2 %	85.1 %	
B.	Short-term assets	13.8 %	13.8 %	10.2 %	12.2 %	14.8 %	
C.	Short-term accrued income and deferred charges	0.4 %	0.3 %	0.2 %	1.6 %	0.1 %	
D.	TOTAL ASSETS (A+B+C)	100 %	100 %	100 %	100 %	100 %	
E.	**Total nominal assets in EUR 000s**	**547,001**	**611,307**	**624,007**	**656,320**	**674,104**	**23 %**

Table 3a: *Structure of assets and nominal value of assets as at 31 December for the period 2011-2015*

Long-term assets

The greatest share of total assets comprises tangible and intangible fixed assets (71 to 75 %), which have been increasing due to investments.

Long-term financial investments include an investment into ELES' subsidiary TALUM d. d. (comprising 97 % of all investments), with the remainder comprising shares in subsidiaries and other companies, and shares in banks and insurance companies.

Short-term assets

Short-term financial investments were responsible for the reduction in short-term assets in 2013, which in 2013 declined (deposits over 91 days) as well as a reduction in short-term operating receivables due from group companies (reposting of claims from guarantees to Talum on long-term financial investments). At the end of 2015, the share of short-term assets increased, thus attaining both nominal and structural maximum value during the period analyzed. Short-term operating receivables in the period in question comprised on average 44 % of short-term assets, 23 % short-term financial investments, 30 % cash and 3 % inventories.

Liabilities

	Type of liability	31. 12. 2011	31. 12. 2012	31. 12. 2013	31. 12. 2014	31. 12. 2015	nominal growth
A.	Capital	73.0 %	62.4 %	61.2 %	58.3 %	56.5. %	
B.	Provisions and long-term accruals and deferred income	9.3 %	16.2 %	21.2 %	26.4 %	28.4 %	
C.	Long-term liabilities	12.1 %	13.3 %	10.9 %	9.3 %	8.5 %	
D.	Short-term liabilities	5.3 %	7.7 %	6.5 %	5.7 %	6.3 %	
E.	Short-term accruals and deferred income	0.4 %	0.4 %	0.2 %	0.3 %	0.3 %	
F.	TOTAL LIABILITIES (A+B+C+D+E)	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %	
G.	**Total nominated liabilities in EUR 000s**	**547,001**	**611,307**	**624,007**	**656,320**	**674,104**	**23 %**

Table 3b: *Breakdown of liabilities and nominal value of liabilities as at 31 December for the period 2011-2015*

Capital

Capital represented the largest share (57 to 73 %) in the structure of liabilities throughout the period 2011-2015. The share of capital during the period analyzed has decreased, the reason lying in the growth of the balance sheet total alongside payments from participation in profit to the owner, as a rule in an amount that exceeded annual net profit.

Provisions and long-term accrued costs and deferred revenues

Provisions include severance and employee jubilee benefits and potential liabilities from lawsuits and guarantees. Long-term accrued costs and deferred revenues include long-term deferred revenues from allocated cross-border transmission capacities, which at the end of 2015 represented 96 % of total provisions and long-term accrued costs and deferred revenues. Long-term accrued costs and deferred revenues between 2011 and 2015 increased by EUR 138 million.

Long-term liabilities

In 2010 the company ELES took out long-term loans in the amount of EUR 63 million from the European Investment Bank (hereinafter: EIB) for financing investments. This also represents the majority of long-term liabilities, which due to the regular repayment of annuities have decreased.

Short-term liabilities

The share of short-term liabilities by year ranges from 5 to 8 %. In 2011, the company only had current trade payables under the heading of short-term liabilities, while the years 2012 to 2014 also included the current portion of long-term loans to EIB and short-term liabilities from guarantees to the Talum subsidiary and in 2015, also the current portion of the long-term loan to EIB in addition to short-term operating liabilities.

Short-term deferred expenses and accrued revenues

Short-term deferred expenses and accrued revenues include advisory expenses, financial expenses to hedge against interest rate fluctuations, short-term deferred CBTC revenue and VAT on advances paid for fixed assets. During the 2011-2015 period, the ratio of short-term assets to liabilities remained under 1 %.

ECONOMIC-TECHNICAL INDICATORS ACHIEVED IN THE YEARS 2011 TO 2015

Economic indicators

In ELES, regardless of the portion of revenues generated from cross-border transmission capacities, how cost-effective we are when recruiting ancillary services, how successful we are in the purchase of electricity in case of losses in the transmission network, etc., we have been unable to achieve an improved return on assets (ROA), return on equity (ROE) and all other indicators with total profit or net profit included in the numerator in the formula, as calculable and recognized on the basis of existing methodology of the Energy Agency, and disclosed annually pursuant to the so-called regulatory framework for business. This means that if ELES fails to achieve these so-called corrected regulated returns (regulated returns calculated according to the methodology of the Energy Agency, less financial expenses and corporation tax), the results of the indicators are correspondingly worse.

Considering the aforementioned, we have defined a set of indicators, which in terms of content are dependent on the specifics of the regulatory framework (ROE, ROA), showing a comparison with system operators based in other EU countries (expenditures for transmitted electricity, investments in peak loads) and the so-called relative debt (loan repayment ability).

In the case of the ROA indicator, the average value of the assets was reduced by the value of long-term financial investments. The reason being at least three: 1) ELES does not pay dividends – no participation in profit, 2) the Energy Agency does not recognize a return on invested assets for such assets, and 3) these as a rule, regard government decisions adopted prior to 2010.

All indicators show a positive growth trend, meaning that operations towards 2015 have been improving.

Economic indicators	Year 2011	Year 2012	Year 2013	Year 2014	Year 2015	Average 2011-2015
Achieved regulated yield	58.0 %	62.0 %	72.0 %	62.0 %	70.0 %	**65.0 %**
Return on equity (ROE)	1.3 %	1.0 %	2.2 %	2.3 %	2.7 %	**1.9 %**
Return on assets (ROA)	0.9 %	1.0 %	1.8 %	2.0 %	1.7 %	**1.5 %**
Expenses per transmitted MWh EP	77.9 %	78.9 %	77.3 %	78.3 %	no data	**78.1 %**
Ability to pay back loans (in years)	2.25	4.02	4.02	3.33	2.60	**3.24**
Investment into peak consumption	37.1 %	73.0 %	5.7 %	0.1 %	no data	**23.2 %**

Table 4: *Economic and technical economic indicators for the period 2011-2015*

Technical indicators

A set of technical indicators has been made according to four criteria:

- quality of voltage on the transmission network pursuant to SIST EN 50160,
- impact on Slovenian final consumers,
- impact on the achievement of revenues and
- possibility for remote control of the operation of the transmission network.

Achieved values of indicators during the period 2011 through 2015 were extremely good, except for:

- the first indicator in the years 2012 through 2014. In 2015, the result was excellent, with a marked reduction in the number of hours of excessive voltage on the transmission network in 2015 due to the changed operating mode of the Divača phase shifting transformer station (higher target flow),
- unsupplied electricity which stood out in 2012 (event at Okroglo substation) and in 2014 (due to sleet).

Technical indicators	Year 2011	Year 2012	Year 2013	Year 2014	Year 2015	Average 2011-2015
Exceeded allowable voltages (400 kV = 425 kV; 220 kV = 245 kV)	349	1,805	2,287	3,116	197	**1,551**
Undelivered energy due to shortfall of elements of the transmission network	0.0600 %	0.7800 %	0.3100 %	0.4286 %	0.0500 %	**0.3257 %**
Quantity of transmitted EP on the normalized length of transmission network	28,065	27,749	23,230	24,316	23,760	**25,424**
Share of losses in EP transmission	1.34 %	1.45 %	1.45 %	1.37 %	1.54 %	**1.43 %**
Available NTC:						
1) direction Austria-RS	95 %	98 %	81 %	72 %	80 %	**85 %**
2) direction Croatia-RS	100 %	100 %	100 %	100 %	100 %	**100 %**
3) direction RS-Italy	99 %	100 %	99 %	96 %	100 %	**99 %**
Availability of telecommunications for operation of the transmission network	100 %	99.9543 %	100 %	100 %	100 %	**99.9909 %**

Table 5: *Technical indicators for the years 2011 to 2015*

COMPARISON OF TECHNICAL-ECONOMIC INDICATORS BETWEEN ELES AND EIGHT ELECTRICITY SYSTEM OPERATORS

Due to differences in the structure of the transmission network of the system operators involved in the comparison (different lengths along individual voltage levels), an additional calculation is given and a comparison of the normalized lengths of the transmission network presented. Normalized length of the transmission network is calculated using the formula:

- LNORM = L400 kV + a × L220 kV + b × L110 kV
  a = 0,29; b = 0,08,

where LNORM represents the normalized network length, L400 kV the length of the 400 kV network, L220 kV the length of the 220 kV network and L110 kV the length of the110 kV network (source: K. Bakič, F. Jakl: Increasing utilization of transmission line facilities with the introduction of thermal load capacity monitoring, June 2000). The authors determined constants a and b on the basis of the thermal loads or transmission capacities of the 220 kV and 110 kV networks compared to the 400 kV network.

For the used constants a and b, the capacities are adapted to voltage levels of 220 kV and 110 kV, or the voltage levels are scaled to the 400 kV network. This adjustment achieves a more appropriate comparability of the transmission networks of the analyzed companies, which due to the different lengths along individual voltage levels would otherwise not be correct. The normalized length of both companies ČEPS and MAVIR represents 75 % of the actual total length of the network, whereas with companies with a high share of the 110 kV network (ELES, Terna, HOPS) it achieves up to a third of the total length.

ELES together with the Swiss representative ranks far ahead the other companies studied in terms of success in electric power transmission on the normalized length of the network. The Terna and ČEPS companies, which in 2014 achieved 68 % and 64 % of the indicator value of the Slovenian company, came closest.

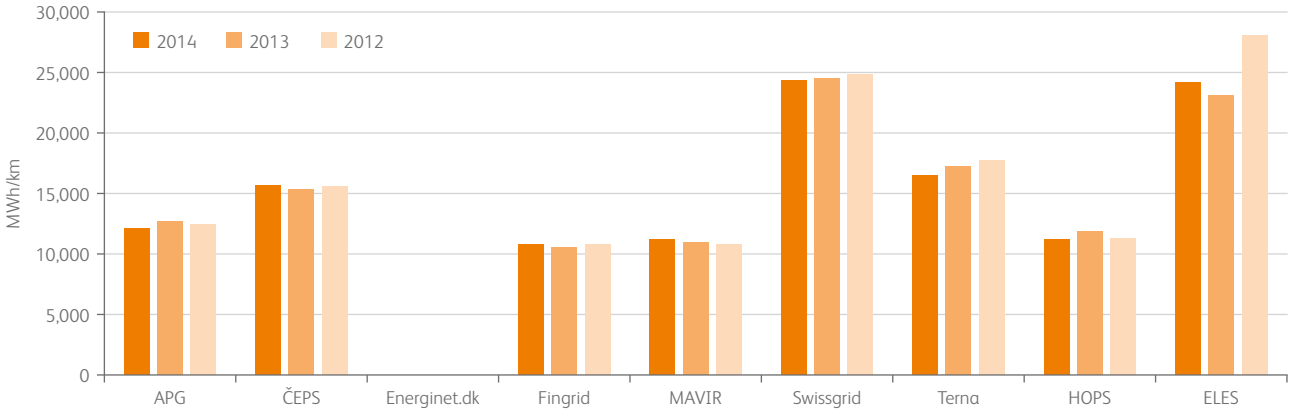


Figure 4: *Electric power transmission by normalized length of the network*

In 2014, the majority of operating revenues per MWh of transmitted electricity was generated by the Austrian company APG (€12.8/MWh). The limit of EUR 10/MWh in that year was only exceeded by MAVIR as well, wherein the value of the indicator compared to the first year of the period considered decreased by 9 % . Constant growth in the value of the indicator in all three years was only observed in the Italian and Finnish representatives. The Italian representative was the first to fall behind ELES considering its indicator value in 2012, namely by 17 % (EUR 1.1 per unit of electricity), while the difference in 2014 was only minimal. Although the company Fingrid in the first year of the correlation as compared to ELES was 19 % more successful, the value of their indicator in the last year was higher by 30 % .

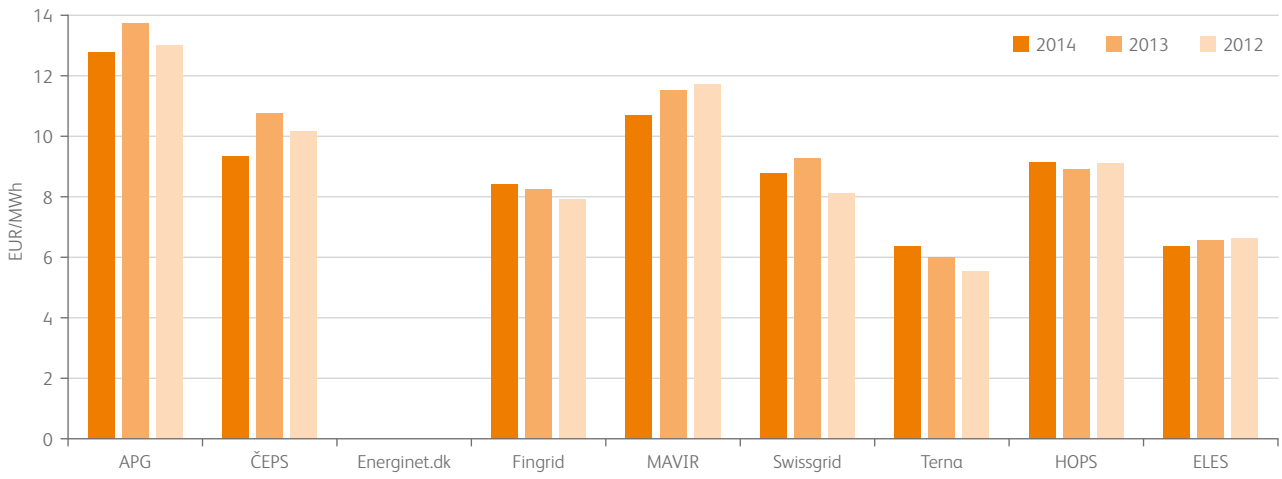


Figure 5: *Operating revenues for electricity transmitted*

The maximum value of operating expenses on transmitted electricity both during the entire observed period and the last year, was attained by the company APG, followed by the representatives of the Czech Republic and Hungary with more than EUR 2 lower operating expenses per MWh of electricity transmitted. The company with the lowest operating expenses regarding transmission of a unit of electricity was by far the company Terna, with the value of its indicator over the last year representing 53 % of the value of the indicator of the Slovenian representative, or only 27 % of the operating expenses of the company APG per transferred unit of electricity. In comparison to 2012, the volume of operating expenses on transmitted electricity decreased most in the companies MAVIR (12 %) and Swissgrid (9 %), with ELES also more efficient in terms of operating expenses related to transmission during the period in question, with the value of the indicator decreasing by 3 % in three years.

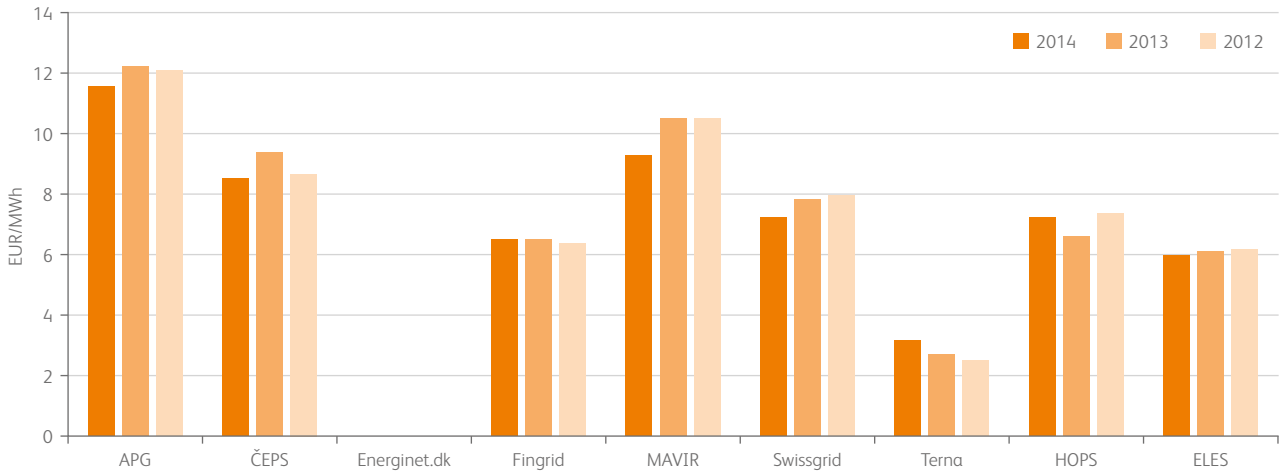
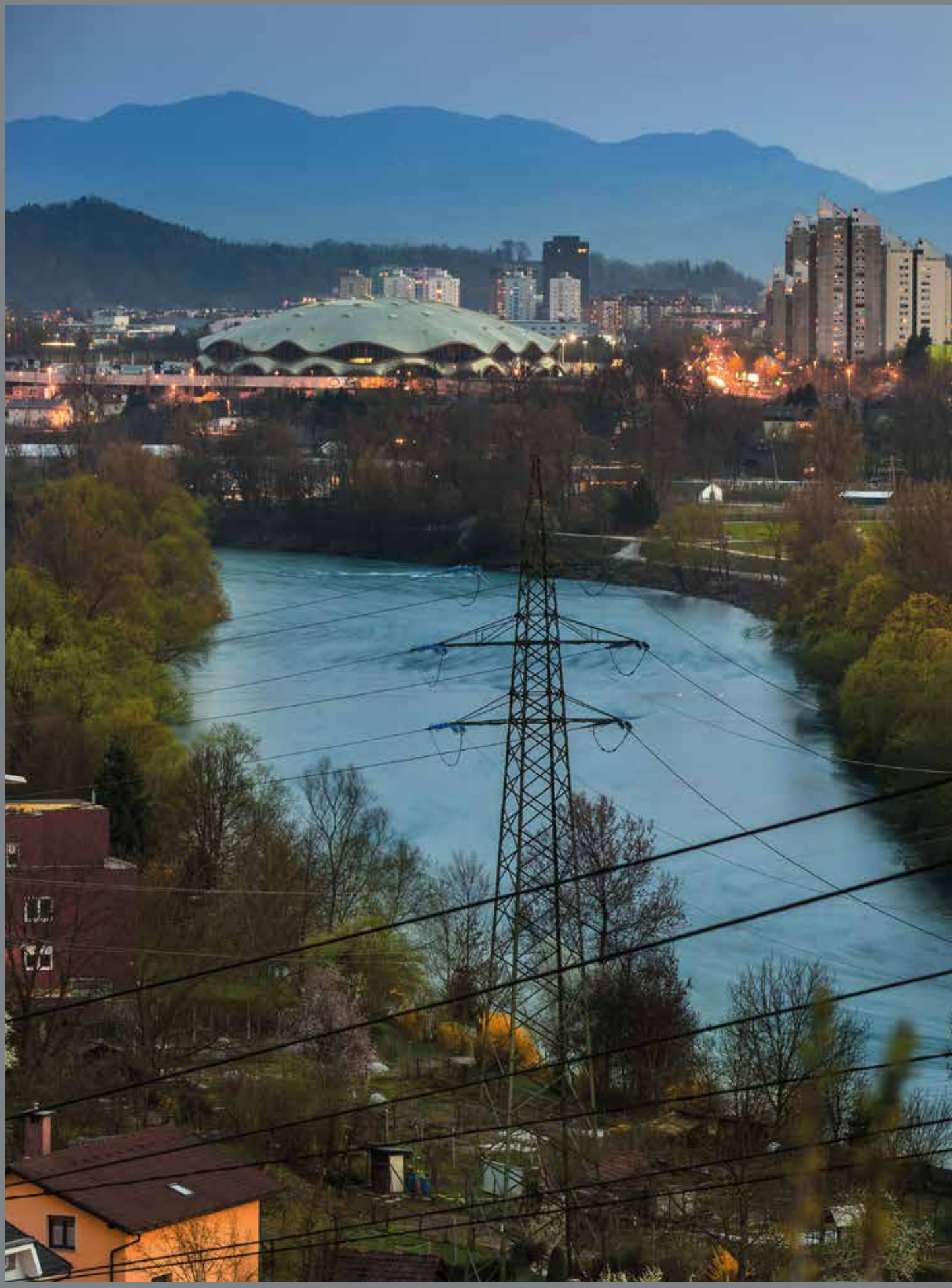


Figure 6: *Operating expenses for electricity transmitted*



05 SWOT ANALYSIS

SWOT ANALYSIS

Knowledge gained on the basis of a comprehensive and in-depth analysis of the external and internal environments enables us to understand trends, policies, challenges and opportunities, which we at ELES face in the coming years. Let us once again highlight in this summarised SBP some of the knowledge we have gained and challenges we are facing, both in Europe and Slovenia. We are operating in a period of extremely low prices on EP markets in conjunction with increasing final prices of electricity. The share of electricity produced from renewable energy sources (RES) is increasing alongside the growing trend of "large" exporters and promoters of EP production from RES of uneconomic construction of cross-border electricity transmission capacities, irrespective of capital expenditures and future expenses to the investor. On the other hand, the intensive growth in the development of new technologies in the field of EP storage can be observed. European interconnection management is becoming increasingly difficult.

Within the framework of drafting the LSBP 2016-2020, based on findings from analyses of the external and internal environments of various areas, we have prepared a detailed SWOT analysis for each strategic objective, discussing them at strategic workshops. The SWOT analysis at the company level in continuation aims to provide understanding and development of the key skills of the company to enable successful implementation of the long-term strategic business plan.

Strengths:

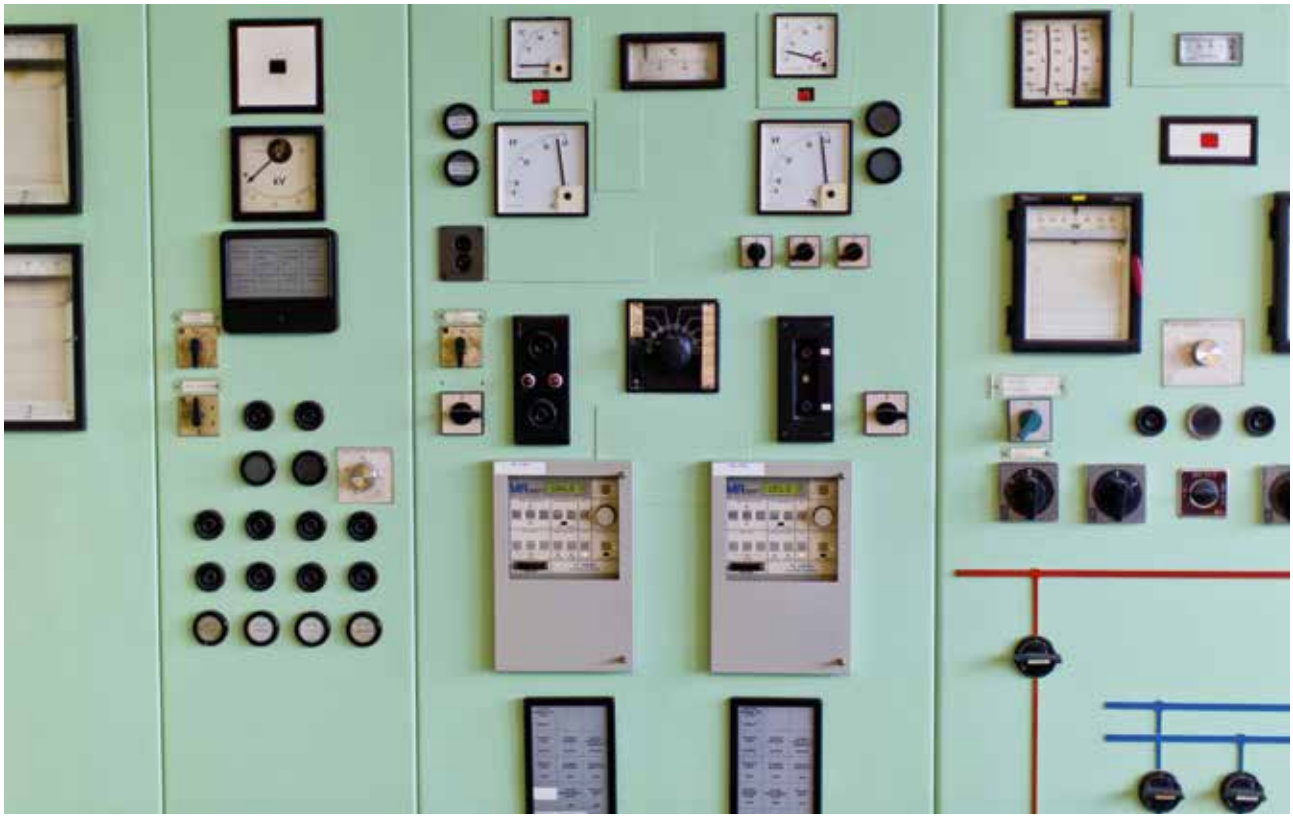
- The ability to fully implement adopted strategies (82 % of the SBP 2011-2015 had been realised as at 31 December 2015) with the broadest involvement of managers and employees in the preparation of the LSBP 2016-2020 is a guarantee of the successful sustainable development of the ELES company.
- Good management of key processes enables successful implementation of the mission of the company. Management of operational safety, transmission capacities and arrangement of N-1 criteria at the borders are above the average of comparable TSOs.
- Good equipment including technical resources, and competent and motivated employees enables ELES excellent response in emergency situations.
- Establishment of a system for the management of all physical assets will enable effective management of assets across their entire lifecycles.
- The introduction of systematic comparisons (benchmarking), for example with system operators in Europe (ITAMS and ITOMS studies) and organizational climate surveys (hereinafter: SiOC) enables further improvement of excellence.
- The establishment of the Regulatory Relations Department represents a foundation for more efficient, controlled communication with the Energy Agency.
- Two representative SDE and KNSS trade unions enable a correct attitude and participation, with employees of the Workers' Council also actively participating in the co-management of the company.
- The company enforces business excellence according to the EFQM model, which allows for a systematic approach to continuous improvement and effective implementation of changes to support realisation of the company's strategy.

Weaknesses:

- Flow rates have no impact on the allocation of NTC - increasing CBTC without uncontrolled physical flows.
- The obsolescence of certain devices together with the introduction and maintenance of new technologies increases the risk of defects.
- The noted predominance of functional thinking (the closing of organizational boundaries regarding departments and services, gardening, problems with horizontal cooperation in processes).
- The presence of reservations regarding the usefulness of process management and reasonableness of management systems are being used as resistance against the documentation of processes (criticism regarding over-regulation of the system).
- Lack of effective action and improvements based on established controls and measurements, for example risk assessments, supervision and results of process indicators, project performance reports, organizational climate surveys and self-assessments pursuant to the EFQM excellence model: improvement of processes – role of sponsors, suggestions for improvements based on self-assessments, etc.).
- Lack of a comprehensive system for training and development of competences based on company needs.

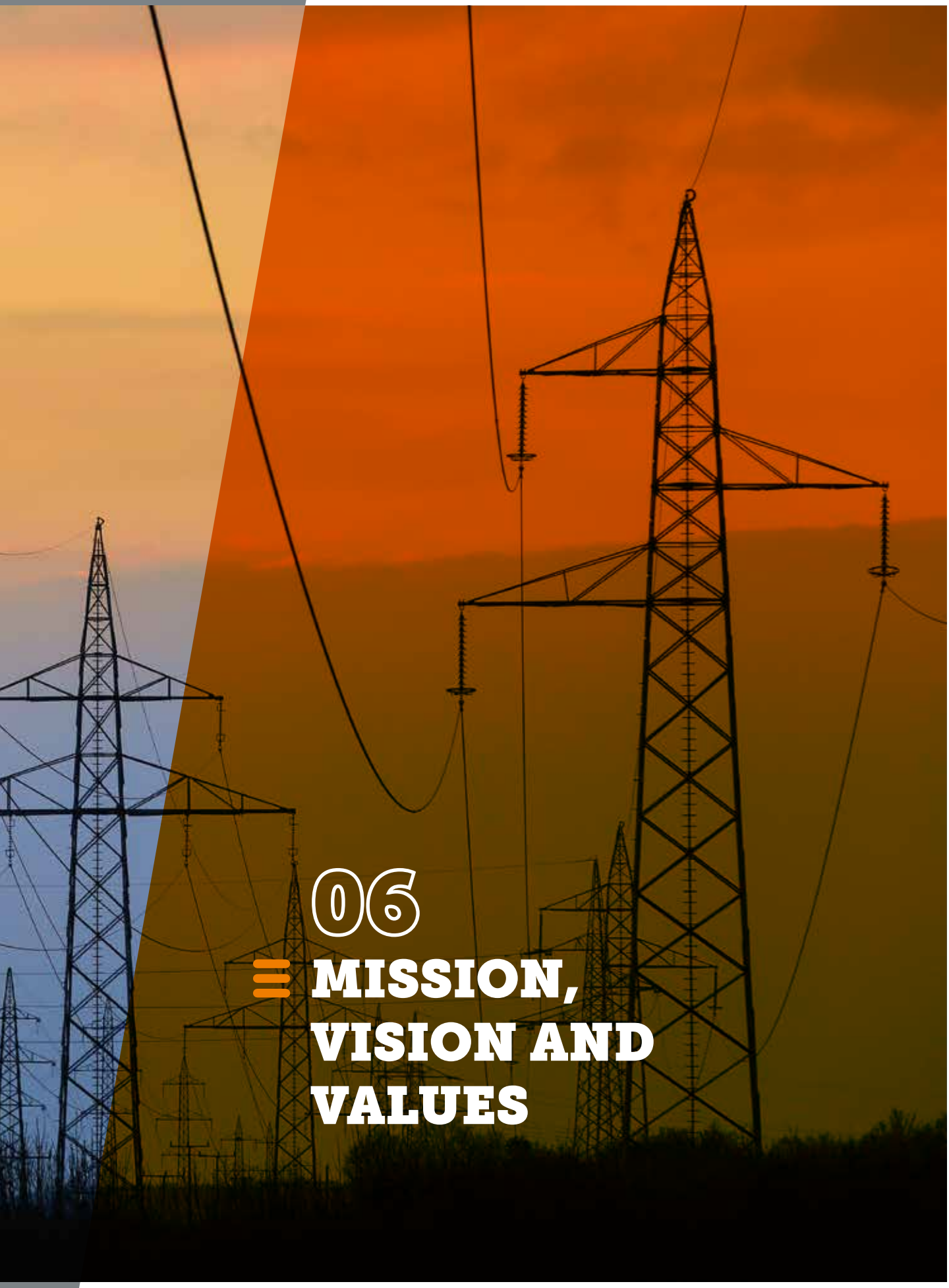
Opportunities:

- Enforcement of the integrity of the transmission system through the amortized acquisition of part of the 110 kV network and assumption of a leading role in the design of the development strategy of the EPS in Slovenia.
- Long-term reduction in costs for AS and inclusion of providers of AS in the international environment, thereby gaining access to foreign AS sources.
- Strengthening cooperation with neighbouring TSOs opens up areas for the exchange of experience, knowledge of best practices and improvements on this basis.
- Increasing influence on the regulator and state authorities in the preparation of sectoral legislation.
- Enforcement of the Excellence Model to improve corporate governance in state-owned enterprises (Recommendations and Expectations of SDH - Recommendation no. 5: Achieved quality and excellence by companies/groups).



Threats:

- Changes in the methodology for setting the regulatory framework alongside an un-adopted strategy for the development of electric power results in the inability to achieve company's planned objectives.
- Political influence regarding staffing in the company, including risks of changes in the management of the company alongside replacements may change strategic objectives and goals.
- The relatively good current and future financial situation of ELES creates unrealistic expectations of other Slovenian EPS entities regarding various financial incentives.
- One of the key activities of the company during the period of implementation of this strategic business plan will focus on the acquisition of the 110 kV network by 2017, whereby the Energy Agency and the responsible ministry as regulators are not sufficiently aware of the organizational, procedural, financial and personnel issues connected with the acquisition.
- Increasingly dominant local and not national interest in the investments and current business policies of individual operators in the Slovenian EPS is contributing to an increase in the volume of ancillary services and at the same time, unrealistic expectations regarding the purchase of these.
- Given the trends, interests and activities of international traders to cease payable CBTC, we can expect long-term problems regarding the financing of the company's activities, also because the Energy Agency reduces the share of revenues from network charges due to an increase in revenues from CBTC auctions.
- Increased damage to electric power facilities due to environmental influences, mainly from natural disasters (sleet, bora winds).
- Increasingly restrictive environmental legislation and the growing influence of civil initiatives are causing delays in the construction and maintenance of electric power facilities.



06 MISSION, VISION AND VALUES

MISSION

Through reliable electric power transmission, ELES provides for quality of life, stabile operation of organisations and development of the society in Slovenia and in the region.

VALUES

WHO ARE OUR AMBASSADORS OF VALUES?

Individuals who stand out.

Heroes who inspire.

The winners who we can learn from.

Top Slovenian athletes sponsored by the company ELES. People with steel will and immense energy, which they transmit among us. Those who embody reliability, cooperation, determination, knowledge, responsibility and enthusiasm. The values that lead us as well.

RESPONSIBILITY

Benjamin Savšek

Through prudent development, design and construction of a modern transmission system and sustainable maintenance, we co-create an energy-efficient and friendly environment, with respect to all involved stakeholders: employees, customers, nature and the environment, local communities and society as a whole.

RELIABILITY

Jakov Fak

ELES is aware that at every moment it shares responsibility for the successful and uninterrupted lives, work and accomplishment of objectives of individuals, companies, institutions and society as a whole, so in its daily work and all processes ELES keeps to arrangements. Reliable, safe and uninterrupted transmission of electric power also entails the safety and quality of life of all our stakeholders.

VISION

With one of the most technologically advanced networks, ELES will gain a leading role in Slovenia's electric power system and will be a key element of energy stability in the region .

COMMITMENT

Marin Medak

With a positive attitude towards the work successfully performed by ELES employees on the basis of experience, professionalism and diligence and its employees and the company, ELES co-creates an atmosphere conducive to proactive performance of tasks and looks forward to joint achievements.

KNOWLEDGE

Slovenian Athletic Association

Through continuous acquisition and sharing of knowledge and many years of experience, aspiration towards innovation and taking into consideration best practices, ELES builds its professionalism, improves its performance and remains committed to finding the best solutions for continuous improvement of the quality of electric power transmission.

COOPERATION

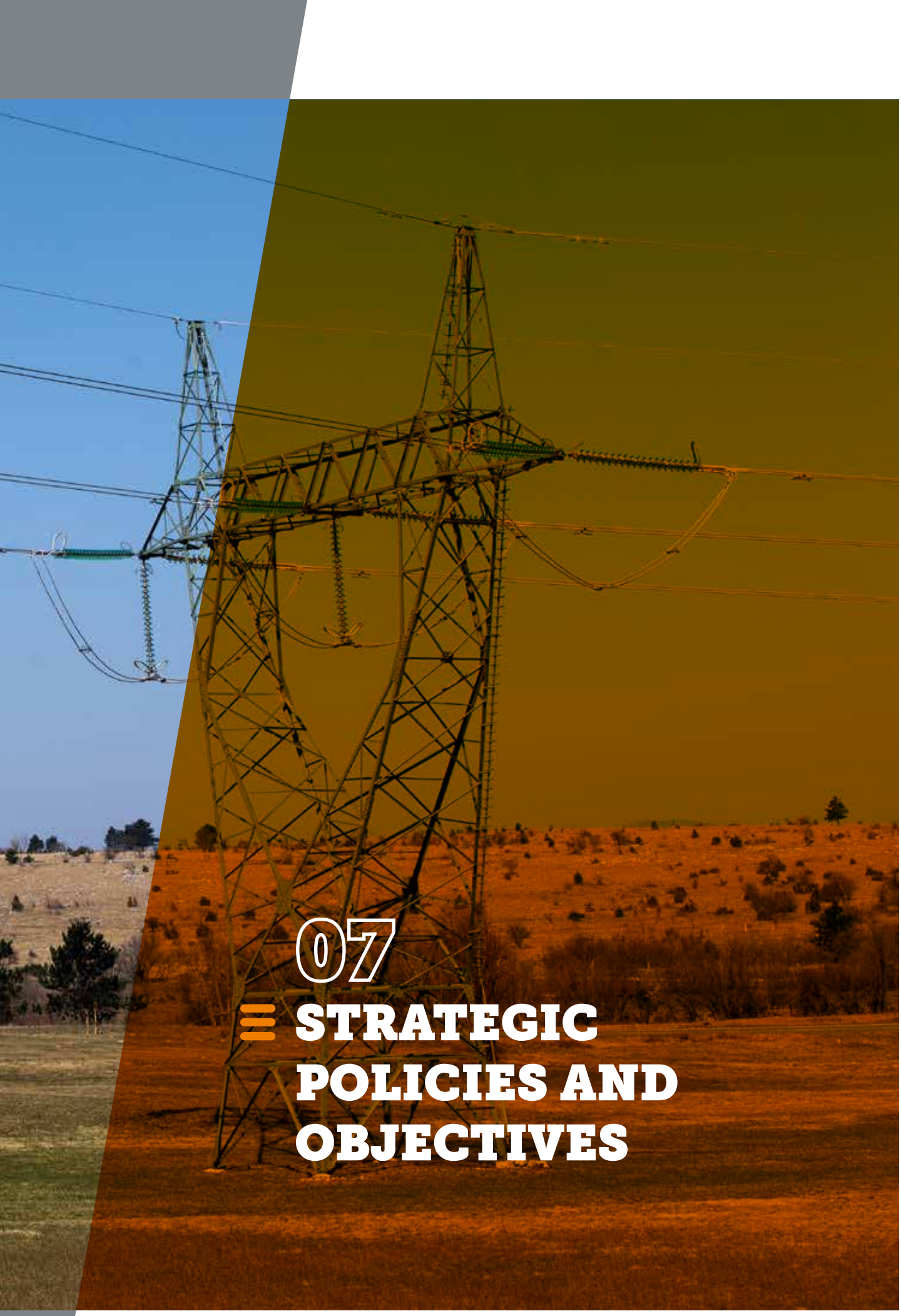
BTC City Cycling Team

At every moment, ELES favours openness, integration, team spirit and finding the best solutions for the common good of both ELES employees and through the active involvement of external stakeholders. Only in this way ELES can effectively fulfil its mission and work for the benefit of all, for a better today and tomorrow.

DETERMINATION

Miha Podgornik

Patiently and without compromise ELES remains committed to achieving the best results, to fulfil its mission and to strive for long-term development and maintenance of the electric power transmission system of the Republic of Slovenia. This system represents the backbone of organisations in all sectors, and is therefore a prerequisite for the economic progress of Slovenia.



07 STRATEGIC POLICIES AND OBJECTIVES

STRATEGIC POLICIES

Our strategic policies are a response to challenges and findings of comprehensive and in-depth analysis of the external and internal environment. By implementing the policies adopted at the 5th Strategic Conference in November 2015, we will be able to continue to ensure a solid foundation for successful operations and development of the electric power transmission system and the ELES company.

1. Compliance with target values, performance of employees in accordance with the Code of Ethics and Guidelines of Corporate Management Integrity with the aim of achieving the appropriate level of business excellence.
2. Efficient management of physical assets and the introduction of efficient human resources management.
3. In addition to a comprehensive supervision over the operation of the 400 kV and 220 kV transmission networks, also acquire complete control of the entire looped 110 kV network in the Republic of Slovenia.
4. Lease of ancillary services at comparable prices of neighbouring TSOs; and with regard to new technology, based on technical-economic criteria, transition to the greatest possible level of autonomy.
5. Investments in cross-border transmission capacities and a justified amount of NTC towards neighbouring TSOs pursuant to the national interest of the Republic of Slovenia.
6. Operations within the specific regulatory framework and assurance of profit to the owner according to the regulatory methodology.

STRATEGIC DIAGRAM

The strategic policies represent a framework for defining the strategic objectives and strategies on how to achieve them. During the strategic planning phase, development of a strategic diagram enables an understanding of the importance and contribution of individual strategic objectives to the implementation of strategic directions and integrated or cause-effect links to strategic objectives for individual aspects of strategic performance (from the aspects of learning and growth, internal processes, of infrastructure development and transmission of electricity, customers and market and financial aspects). In the phase of strategy expansion, visualization of strategic objectives in the strategic diagram allows for increased employee involvement in shaping, understanding and internalising the strategic objectives and activities, which is an important prerequisite for their successful realisation. Defined strategic indicators enable transparent monitoring of the realisation of strategic objectives, enabling timely action for their realisation to those responsible for the objectives.

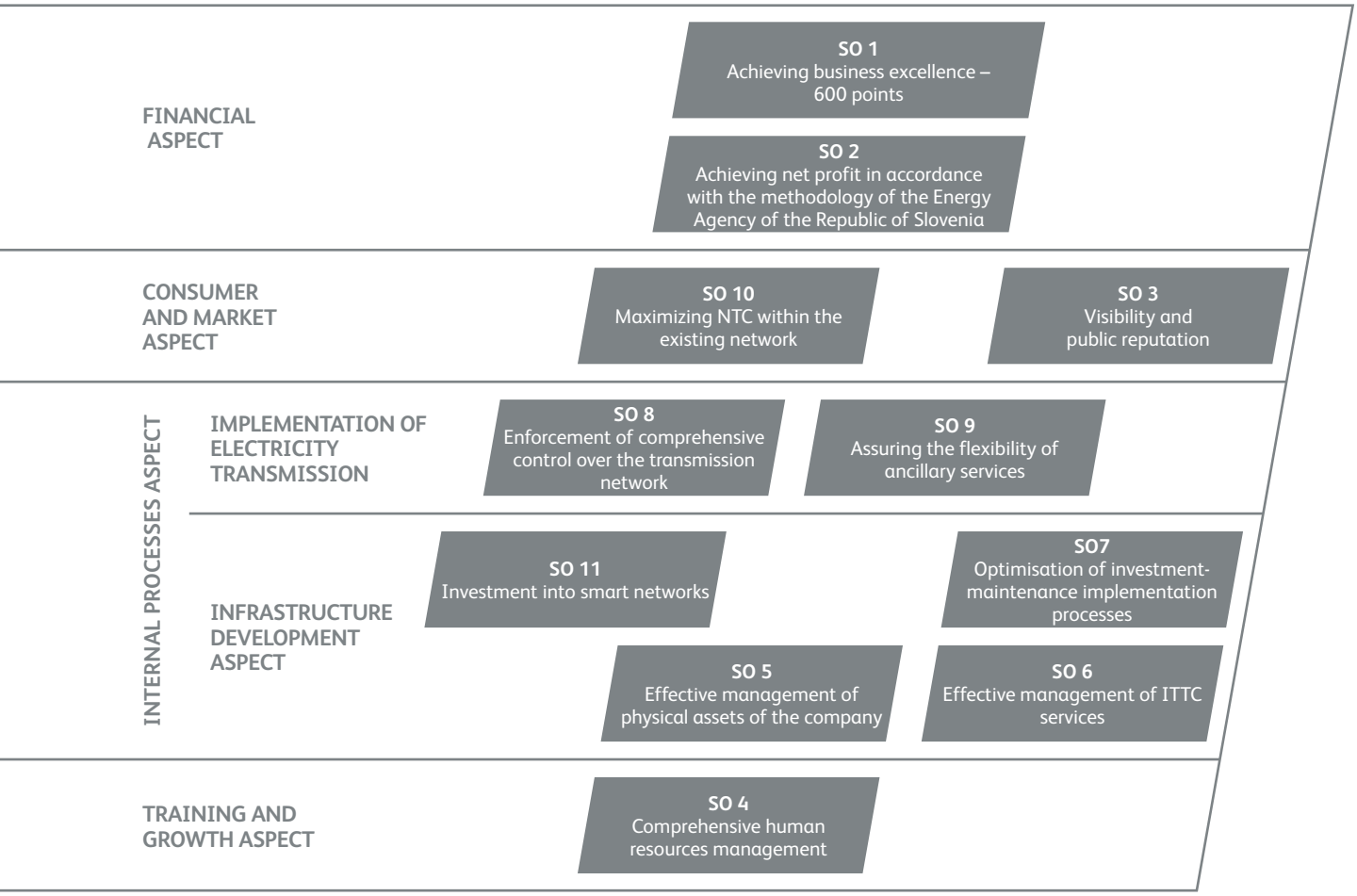


Figure 7: *Strategic diagram*

STRATEGIC OBJECTIVES AND SUB-OBJECTIVES

The following strategic objectives and sub-objectives are defined in the continuation of LSBP 2016-2020. In internal documents, which served as the basis for drafting LSBP 2016-2020, Annex 1 specifies strategies for the implementation of each individual sub-objective, namely: responsible person and dates of realisation, planned strategic activities, risks of non-implementation and strategic indicators for monitoring success of realisation. Strategic risks are analyzed in detail, assessed and managed using appropriate measures defined in the unified catalogue of risks.

SO 1 – Achieving Business Excellence – 600 Points

Already in the SBP 2011-2015, ELES committed itself to business excellence, which is understood as the continuous improvement of skills and results to support the realization of the vision and strategic objectives of the company. Because we want to be on par with the top system operators in Europe, we participate in studies, such as ITAMS and ITOMS in order to confirm good practices, and especially learn and improve our performance. The performance of achievements on this path is systematically analyzed and assessed using the EFQM excellence model. Reviews and above all improvements on the basis of self-assessment results confirm that we are on the right track. We have set ourselves a very ambitious goal, namely to achieve the objective of 600 points by 2020. A solid foundation for its implementation comprises well-controlled key processes, a comprehensive risk management system, the start of systematic measurement of organizational climate (SiOC) and numerous other achievements realised in implementing SBP 2011-2015. In doing so, special attention will have to be given to the development of leadership competences, successful development of comprehensive human resources management and increasing the proactive roles of corporate integrity, Internal Audit, Controlling Department and Department for management systems for the management and control of operations.

The successful introduction of the company's mission, supported by a high level of business excellence is the basis for ELES acquiring a leading role in Slovenia's EPS.

SO1/1 – Establishment of corporate integrity

SO 1/2 – Communications support for the process of introducing new company values in accordance with the corporate integrity of the company

SO 1/3 – Improvement of the management system to support the successful leadership of the company

SO 1/4 – Management of process and strategic risks

SO 2 – Achieving Net Profit in Accordance with the Methodology of the Energy Agency of the Republic of Slovenia

During the 2016-2020 period, ELES will be faced with the challenge of acquiring the 110 kV transmission network, which is currently owned by distribution companies (in accordance with the Energy Act EZ-1, adopted in 2014, and a government decree which regulates the conditions of acquisition), as well as the adoption of the new methodologies of the Energy Agency and conditions for the new 2016-2018 regulatory period (hereinafter RP). The methodology and RP must take into account the legal facts regarding the acquisition of the 110 kV transmission network and associated costs arising to the company ELES from the said acquisition.

In 2015 ELES began actively preparing proposals and conditions that needed to be met and recorded in the methodologies and within the RP to ensure operations would not be threatened due to acquisition of the 110 kV network. In addition, the methodology had to take into account the expansion of the transmission network, which is the result of ELES' investment in new infrastructure facilities, and increased operating and maintenance costs arising from this expansion. To reduce risk, ELES has properly organized and carried out a set of required activities (listed in the SBP). The ultimate goal of all these activities is to cover all costs of acquisition, and increased costs due to increased volume on the transmission network, built by the company ELES within the new RP as well as regular servicing of debt incurred due to the needs of the acquisition.

The final result of realization of the overall strategic objective 2 should be minimum deviation of the regulated return from regulated profit or return.

SC 2/1 – Establish an effective system for monitoring realisation of the plan and causes of deviations based on upgrade of the enterprise resource planning (ERP) system

SC 2/2 – Introduction of additional analytical tools for the needs of early notification and reporting with the purpose of achieving the SO

SC 2/3 – Arrangement of contractual relations related to contracts for the use of the transmission system for Slovenian energy production companies and end-customers on the transmission system (direct customers), SODO and closed distribution systems (CDS)

SO 3 – Visibility and Public Reputation

In the past four years ELES has strategically increased the intensity and planning of communications at the corporate level (company work and projects) for the purpose of informing, raising visibility (Director, mission and activities of the company), strengthening the company's reputation and raising socially responsible awareness – recognition of ELES as a socially and environmentally responsible and sustainability-oriented company on the local and national levels. A great deal has been done in the areas of corporate communication, crisis communication, participatory culture in communication with local communities and increasing the visibility and reputation of the company through socially responsible operations. Due to the attention that shareholders, business partners, decision makers, local communities and other stakeholders have recently cast on sustainability reporting, it is also crucial that ELES strengthen activities in the field of sustainability reporting. Activities will also actively focus on the field of digital communication – with a new website to be launched and channels of communication established through social networks.

SC 3/1 – Introduction of sustainability reporting

SC 3/2 – New ELES website

SO 4 – Comprehensive Human Resources Management

For ELES employees represent the most important source of assets for successful realisation of the company's mission and vision. For this reason, in the field of comprehensive human resources management, the company constantly introduces numerous contemporary personnel tools, which will firstly improve personnel processes and systems and secondly, enable efficient management of personnel and their professional and personal development (human resource management and human resource development).

Effective introduction of comprehensive human resources management will be realized with the support of the director of the company, who is and will be in line with the strategic and development policies of the company actively included in the setting of priorities in this area. In this way, we will be able to build a good system which will ensure managers on various levels effective tools and the information necessary for positioning competent people in the appropriate job positions, and promote creation of the desired organizational culture, organizational climate and employee motivation. The realisation of this strategic objective will enable the long-term development and existence of the company.

SC 4/1 – Management of the knowledge system

SC 4/2 – Targeted leadership

SC 4/3 – System for the development and evaluation of leadership competences

SC 4/4 – System for the development and evaluation of the success of project leaders

SC 4/5 – Management of technical infrastructure for operation with own resources

SO 5 – Effective Management of Physical Assets of the Company

The company ELES with the introduction of the Asset and Project Management Division has embarked on a path of continuous improvement in the area of effective management of assets and introduction of methods enforced by the top electricity transmission system operators. Progress is monitored through participation in the ITAMS international comparative study. Based on its recommendations, we have designed the Asset and Project Management Department (PUSP) strategy as well as the majority of strategic objectives included in this strategic business plan. The basic elements of the strategy include the introduction of an appropriate asset management model taking into account relevant procedures in the management of assets, with particular emphasis placed on risk management throughout the life of the assets, management of support information tools, and development of an appropriate organizational culture in the company and required competences of employees. The strategy, designed on the basis of internationally recognized benchmark results, is a guarantee for progress in the right direction.

SC 5/1 – Defining and separation of roles of asset owners, asset managers and service providers in ELES

SC 5/2 – Improved transparency and efficiency in planning investments

SC 5/3 – Management of methodologies and processes for the effective management of physical assets throughout their entire lifetime

SC 5/4 – Management of support tools for asset management and introduction of new technologies

SC 5/5 – Improvement of comprehensive management of the project portfolio

SO 6 – Effective Management of ITTC Services

The previous strategic period at ELES was marked by the replacement of technologies. A new enterprise resource planning (ERP) system, Microsoft Dynamics AX, and at the enterprise level an established system for managing assets of IBM Maximo have been set up, with a document management system currently in the preparatory phase. In the field of telecommunications, the SDH and DCN networks have been upgraded and homogenized, representing the communication part of strategically important networks for management of the electricity network, running the system's operation and protection of transmission lines. During that period, a great deal of work comprising the set up and optimization of management processes and provision of ITTC-services was performed. An ITTC service centre was established. We can say that all the activities carried out in the area of ITTC have also significantly contributed to the development of our corporate culture.

New challenges in the future comprise continued work optimisation and increased productivity. With the use of new IT-TC-services, work will be carried out in a faster and more optimized way, also enabling optimisation of labour costs. We will improve the accessibility and usability of the service. Furthermore, we will update our telecommunications services and infrastructure, thus enabling high-quality implementation of operational services and infrastructure protection.

New information services contribute to more timely and reliable information and decision-making. The new ITTC-services will enable us to be more comparable, with ITTC-services thus becoming an important factor in business and operational excellence.

SC 6/1 – Paperless transactions and B2B services

SC 6/2 – Mobile working environment

SC 6/3 – Introduction of BI platforms and services

SC 6/4 – ITTC service centre - oversight of all ITTC resources and services of the company ELES, change management, user support

SC 6/5 – Homogenisation of the TC environment and transition to IP protocol

SO 7 – Optimisation of Investment-Maintenance Implementation Processes

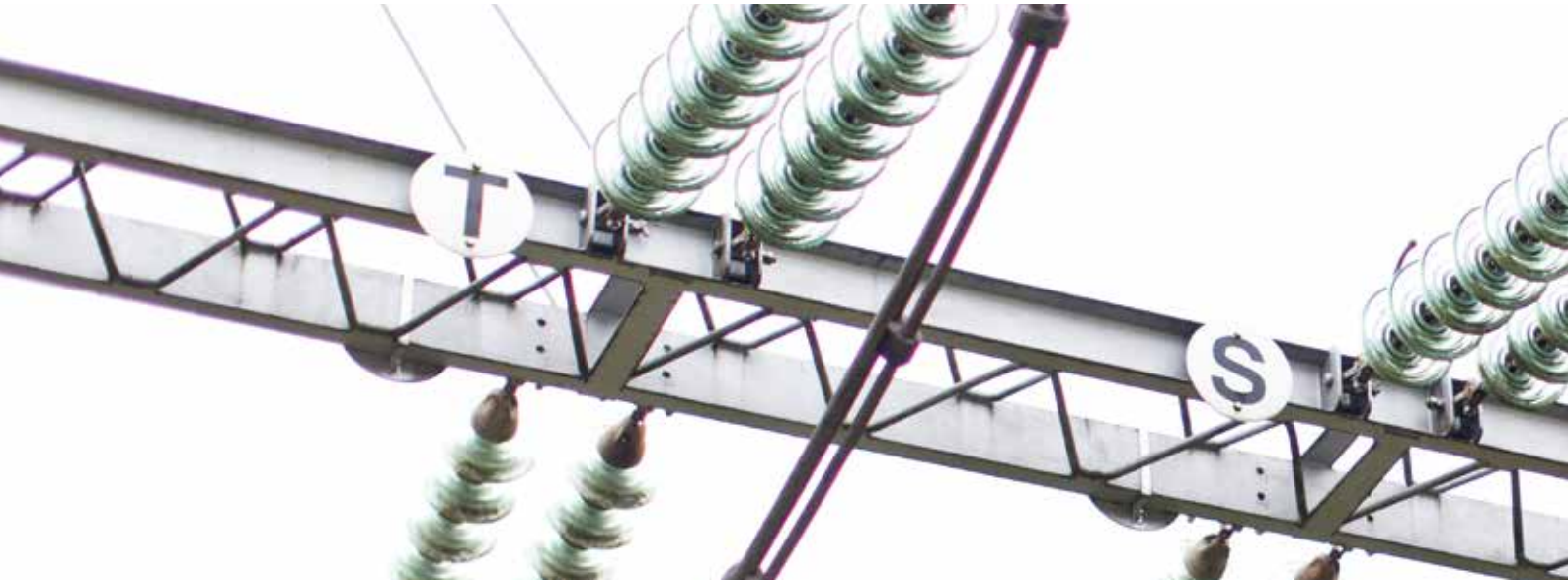
The construction and maintenance of the transmission system form the basic mission for the area of the transmission network infrastructure. In this context, two developed and well established processes are being carried out: organization of work at the transmission network infrastructure and management of building construction centres. Organisation in the areas of asset and project management has led to a significant shift in the strategic organisation of the company, defining the principle roles of the asset owner, asset manager and service provider. The service provider's role has been taken over by the Transmission Network Infrastructure Department (PIPO), and consequently a part of strategic activities in the field of construction and maintenance of the transmission network has been transferred to PUSP. Therefore in this SBP, we have introduced a strategic objective which specifically defines the development of implementation processes in the field of construction and maintenance of the energy infrastructure of the transmission network.

During the validity of this strategic business plan, these processes will be most affected by the acquisition of the 110 kV transmission network, owned by other entities in the electricity networks.

SC 7/1 – Optimisation of maintenance processes by introducing a combination of maintenance approaches, mobile maintenance and updating of manuals and policies

SC 7/2 – PIPO organisational-process adjustments through the acquisition of part of the 110 kV transmission network

SC 7/3 – Acquisition of parts of the 110 kV transmission network to the extent and within the time limits set by the Decree on the division of the 110 kV network into the distribution and transmission systems



SO 8 – Enforcement of Comprehensive Control Over the Transmission Network Through Acquisition of the Existing Network, Enforcement of Uniform Criteria Regarding Connection and Entry in Investments/Reconstructions on the Borders of the Transmission and Distribution Network

Technical barriers, legal restrictions and the historical framework in which the company ELES must ensure uniform control of the 110 kV transmission network, often causes the company to encounter a hopeless situation. The external environment sees ELES as a resource for solving complex investment projects in terms of co-financing connections, renovating old facilities and realising sub-standard wishes, describing them as necessary. From a business aspect, the opportunities available to ELES for projects extending beyond the present parameters, is limited. Due to all the external factors, ELES finds it difficult to maintain consistent decisions at the operational level, which requires long-term strategic-oriented approach.

SC 8/1 – Connection of facilities to the transmission network in accordance with uniform criteria in terms of responsibilities and funding

SC 8/2 – New strategy for acquisition of the network by entry into reconstruction, investment, border transmission and distribution network

SC 8/3 – Arrangement of contracts for connection to the transmission network

SC 8/4 – Set up of remote control for all 110 kV switchyards

SO 9 – Assuring the Flexibility of Ancillary Services

The specifics of Slovenia with large units of production in a small system, perhaps more than anywhere else can be seen in the area of ancillary services. It is incomparably easier, for example for the French system operator in the country, which based on peak load has more than a 25 GW installed power surplus in the system, to provide the required 1,000 MW of tertiary reserve power, as opposed to ELES to cover an outage from the Krško nuclear power plant (KNPP) or TEŠ 6.

Making the situation even more unfavourable is the situation on the electricity market, with historically low prices hindering the economically viable operation of thermal power plants (TPPs), which with its regulation devices is one of the key factors for stable operation of the EPS. Worrying is the prognosis that in Europe, given the current situation, a loss of 230 GW of thermal and gas power plants will be generated by 2020, which consequently risks the threat of their closure. These production units in the EPS, in addition to their traditional role of supplying electricity, also act as sources of ancillary services. As a result, fewer and fewer are in operation, resulting in the EPS' operational safety becoming increasingly exposed.

How will we provide quality ancillary services in the coming years? Will we be able to reach an acceptable level in terms of user costs? ELES will be actively engaged in these and other questions in the coming years. At the same time, we are striving to maximize the flexibility of ancillary services by taking advantage of all the possibilities offered by the technical state and allowed for by EU energy legislation.

SC 9/1 – Overview of the state of the entire field of ancillary services, including the drafting of basic and legal justification for introduction of own sources of ancillary services

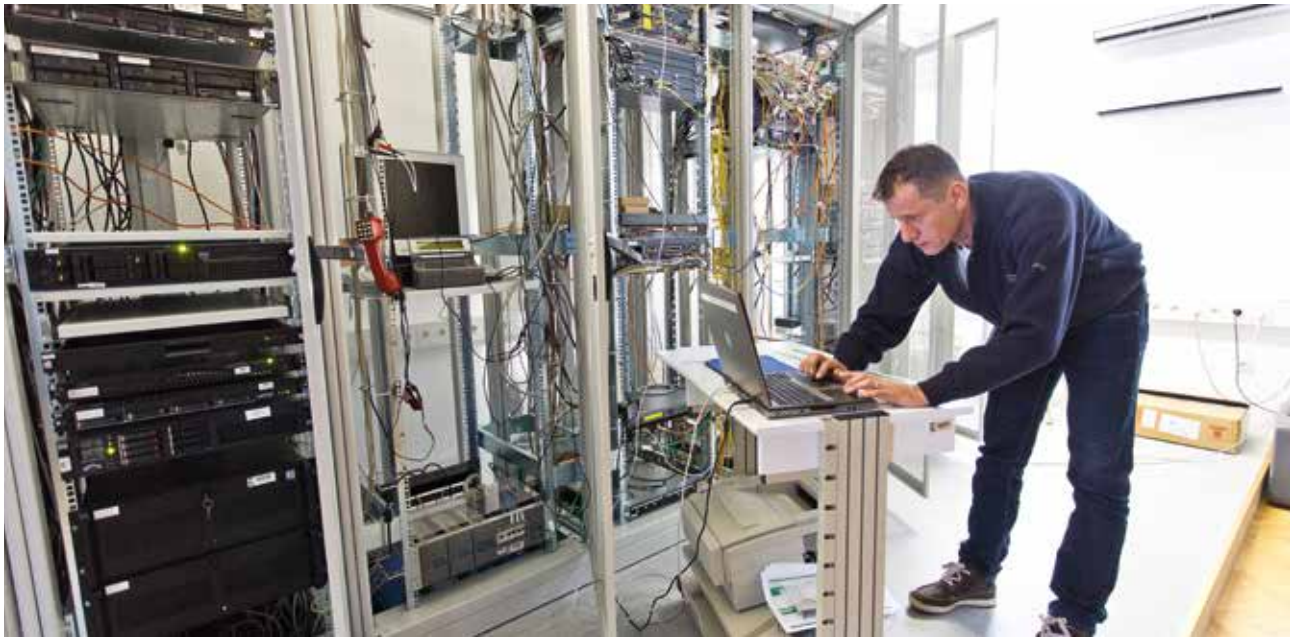
SC 9/2 – Installation of energy storage systems

SC 9/3 – Assurance of identical or higher reliability in the field of start-up without external power supplies or in isolated operation

SC 9/4 – Establishment of voltage control autonomy

SC 9/5 – Regional integration of markets for the provision of ancillary services and compensation

SC 9/6 – Arrangement of the area of primary frequency regulation pursuant to European rules and requirements of the Slovenian transmission system



SO 10 – Maximizing NTC Within the Existing Network

Free flow for trade in electricity is a fundamental objective which we as system operators strive for with appropriate planning, reconstruction and investments in the transmission network and use of smart networks and advanced technologies. The existing network at any given time is the one through which the system operator provides free transmission of electricity to electricity traders. Our goal is to utilize the electric power system to the greatest extent possible, and as such place it at the disposal of trading, while ensuring safe operation of the EPS through compliance with safety standards.

The amount of free cross-border trading capacity on a certain border not only depends on network conditions and the state of the power system, but also on the permeability of the two neighbouring networks and beyond. At ELES, with involvement in international bodies, active participation in bilateral and regional projects we act in favour of free transmission routes and maximisation to the greatest extent possible of the social welfare of all involved, which we wish to achieve with sub-objectives presented below.

SC 10/1 – Achievement of the highest possible realisation in relation to the agreed annual NTC

SC 10/2 – Implementation of an implicit mechanism for allocating CBTC one day in advance or on an intraday basis on all borders

SO 11 – Investment Into Smart Networks

The electricity network with the opening of the electricity market is becoming increasingly burdened, in particular due to the increasing amount of renewable energy sources. The increased burden is reflected not only in increased flow, but also in the increasing prevalence of transient dynamic phenomena, increasing difficulty in providing frequency regulation and the growing number of users on the electricity network, which participate not only as consumers, but also as producers of electricity.

For system operators of transmission network to be able to successfully manage this change, investment in infrastructure as well as information and control levels are required. Infrastructure investments due to their specificity are extremely difficult for they visually interfere in the space and often face criticism of the public and politicians, consequently making their feasibility increasingly more difficult.

Investments in smart networks represent investments which either result in increased utilization of the existing network or represent an alternative, smart way of resolving growing problems. By investing in smart network projects, ELES intervenes in both infrastructure as well as in the information and control levels. ELES follows cost-effective solutions, which can quickly be implemented, thus ensuring safe operation of the Slovenian electricity network - irrespective of the changes that await us in the future.

SC 11/1 – Completion of construction of the system for determining limits of operation

SC 11/2 – Integration of Wide Area Monitoring Protection and Control (WAMPAC)

SC 11/3 – Establishment of an advanced metering system

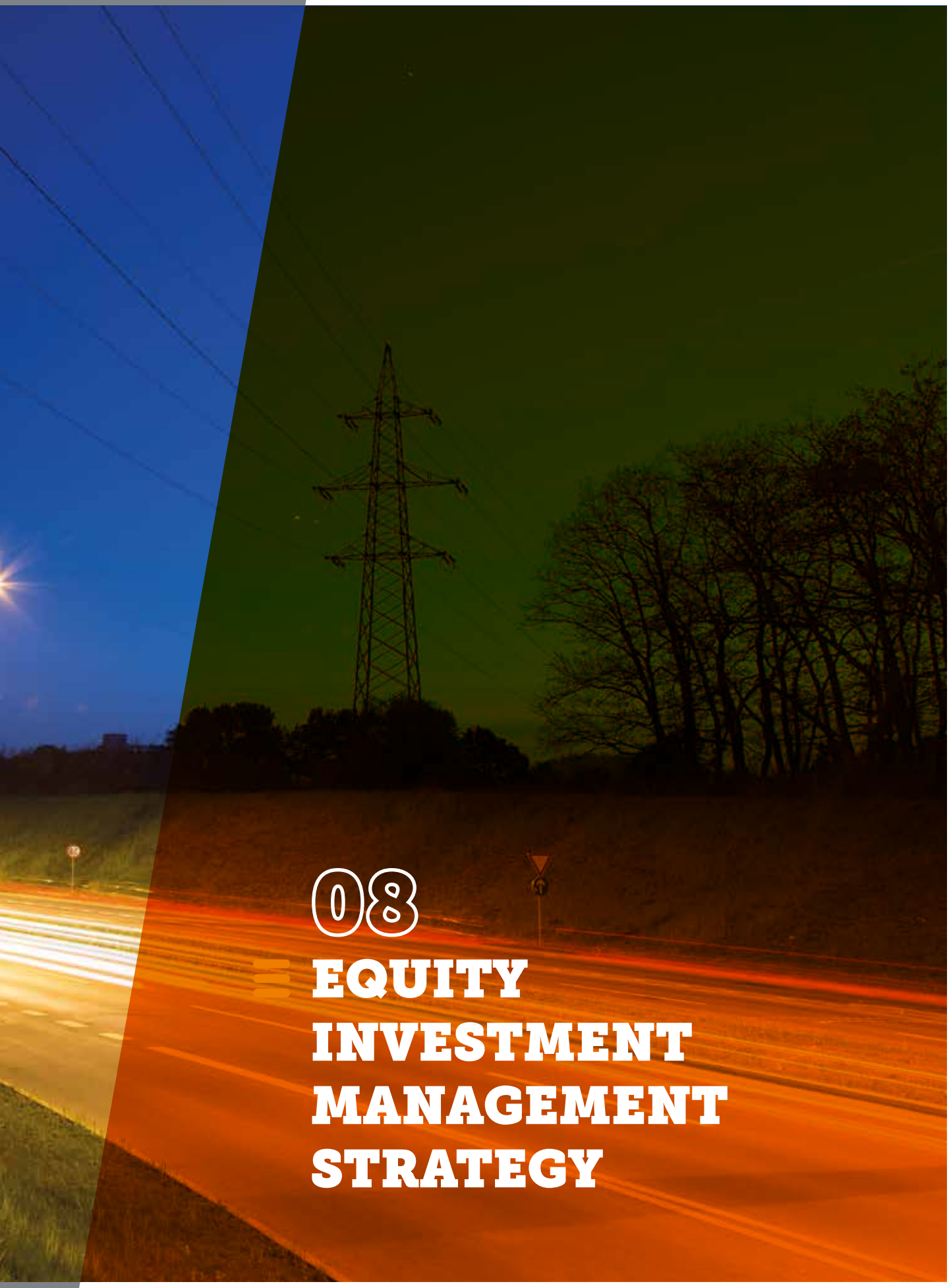
SC 11/4 – Establishment of all functions of the advanced system for managing the EPS

SC 11/5 – Management of renewable electricity sources (RES)

ESTIMATE OF ADDITIONAL INVESTMENTS AND COSTS FOR REALISATION OF STRATEGIC OBJECTIVES FOR THE 2016-2020 PERIOD

In order to achieve the defined strategic objectives, additional investment, services, and employment of three additional professional staff with a 7th or higher level of education will be required. Investments, which means a higher level of quality of operations are included in the current 10-year Development Plan for the Transmission System for the 2015-2024 Period (DP - December 2014). For the period of LSBP 2016-2020, planned investments in the amount of EUR 64 million are envisaged, with own funding comprising EUR 18 million, own funding (NTC) EUR 16 million alongside a grant in the amount of EUR 30 million. The NEDO project is not included in the DP 2015-2024 and in this SBP under additional investments for at the time of drafting of the SBP, the implementation scheme of this project was not yet known.

Additional costs for services and employees for the period 2016-2018 have been included in the Medium-Term Business Plan of the Company ELES 2016-2018. During the overall 5-year period from 2016 to 2020 of the realisation of the LSBP, ELES has envisaged costs of expert advice in a total amount of EUR 1.2 million, the same cost for new hires, with costs of studies totalling EUR 0.8 million and other costs amounting to EUR 0.3 million.



08 EQUITY INVESTMENT MANAGEMENT STRATEGY

EQUITY INVESTMENT MANAGEMENT STRATEGY

TALUM, D. D.

Equity investment management strategy for Talum d. d.:

- The company has been redefined as important, and exceptionally also as a portfolio undertaking in the new State Asset Management Strategy.
- In 2017, together with Slovenian Sovereign Holding (SSH), we are planning commencement of the sale process.
- Prior to the sale, the equity stake of the state will be transferred to SSH with the hive-off.
- During the period that ELES possesses the statutory majority, the Statute will be amended in the part which limits the management board in entering into certain legal transactions to a maximum of 10 % of share capital (general meeting in 2016).
- At the general meetings, ELES will vote that the accumulated profit in the years 2016 to 2020 be allocated to other profit reserves.

Talum d. d. in the Ordinance on the State Asset Management Strategy is defined as a strategic investment of the state (page 40). The following text is contained on pages 92 and 93 of the Ordinance:

"The major shareholder of Talum is ELES; Talum is therefore its subsidiary. Together with its subsidiaries, Talum is located within the closed distribution system and, for the supply of this system, has an agreement on the access to ELES transmission network. The energy supplied in this manner is used for the needs of its subsidiaries and five foreign companies located within the closed distribution system of Talum. Talum is thus not a final consumer – its subsidiaries are net electricity consumers which is why the electricity sold to third persons does not present a significant income in regard to the remaining operations. It derives from the aforementioned that exception applies to the company Talum pursuant to paragraph two of Article 61 of EZ-1. The company is managed by ELES, as its subsidiary, while ELES is managed by the Government. A minority shareholding in Talum is held by KAD. The strategic position of the company is linked to the provision of stability in the electricity system of the Republic of Slovenia and in the creation of internal synergies in the value chain."

Based on the decisions of the founder (AUKN January 2012, November 2012), ELES issued Talum two sets of guarantees for the purchase of electricity in the years 2012 to 2015. All issued guarantees have also been redeemed. Recapitalisation of Talum during the years 2013 to 2015 in a total amount of approximately EUR 36 million, were carried out based on the redeemed guarantees.

ELES is envisaging a profit in the amount of approximately EUR 0.5 million for 2015. The company expects a positive operating result of between EUR 1.5 million and EUR 5 million per year in the years 2016, 2017 and 2018. We expect Talum's operations to show stable improvement, mainly due to lower electricity prices, a reduced contribution rate for RES, implemented rationalization processes and introduction of new services and products with higher added value. Talum has concluded a purchase contract for the upcoming three years for the supply of alumina and electricity at competitive prices, ensuring stable operation. Problematic however are current and future fluctuations in aluminium prices on commodity exchanges.

STELKOM, D. O. O.

Equity investment management strategy for STELKOM d. o. o.:

- Scenario A. If the Government of the Republic of Slovenia together with SSH ensure conditions for a uniform development-investment policy in the field of telecommunications to state companies, such as ELES, SODO, the HSE and GEN energija Groups, EDPs, DARS, Slovenian Railways (SŽ) and if STELKOM is recognized as entity responsible for the platform for the processing of dispersed generation and consumption of electricity and a legal entity which will trade surplus optical capacities of all previously mentioned legal entities, ELES will manage this equity investment as a strategic one. In this case, annual capital increases in the amount of EUR 0.6 million is envisaged, representing half of the annual revenues generated by ELES from the sale of free telecommunication capacities to Stelkom.
- Scenario B. If the strategy of the Government of the Republic of Slovenia and SSH will not be known until the end of 2016, ELES in 2017 will commence with the process of selling its stake in STELKOM, d. o. o.
- Scenario C. If the sale under Scenario B is not realised, there is the possibility that we will opt for the regular liquidation of the company.
- At general meetings, ELES will vote that accumulated profit in the years 2016 to 2020 be allocated to other profit reserves.

ELES has a 56.27 percent ownership stake in the company. Surplus optical network capacities are traded via the company. Annual turnover amounts to approximately EUR 1.4 million, with profit ranging between EUR 0.7 and 0.9 million. In its strategic business plan, the company foresees sales growth and the expansion of its capacities. In the next five years, the company Stelkom aims to become the second largest provider of electronic communications services to business customers in Slovenia, the key provider of ICT services in the EPS and the central point for data management on Smart Grid's networks. The results so far do not show that the strategic objectives will be achieved. There are several reasons for this, including lack of activity by the company's employees.

BSP REGIONAL ENERGY EXCHANGE, D. O. O.

Equity investment management strategy for BSP d. o. o:

- ELES will continue to manage its equity investment in this company as a strategic investment in the next five years.
- At general meetings, ELES will vote in the direction of increasing share capital from net profit generated.
- If BORZEN, d. o. o. would be willing to sell its 50 percent ownership stake, ELES would purchase the stake.
- Should it emerge that there is a risk of a weakening in the market position of BSP occurring, ELES would opt for the sale of its equity investment stake.

ELES purchased its ownership stake in BSP d. o. o. in 2010 on the basis of a preliminary valuation. The decision was a strategic one, because we are obliged in the process of joining the regional electricity markets, to implement implicit auctions for cross-border capacities through one of the commodity exchanges. Given the fact that the other 50 percent owner of BSP is Borzen d. o. o., ELES took the view that a joint ownership with the organizer of the electricity market represents certain synergy effects, both in the development of stock market activities as in the location of profit from implicit auctions.

Since ELES' acquisition of the stake in BSP d. o. o., operating results have improved from year to year. The table below shows the results of operations from 2008 to 2015 (estimated).

	Year 2008	Year 2009	Year 2010	Year 2011	Year 2012	Year 2013	Year 2014	Year 2015
Net profit or loss	-675,376	-1,357,988	-873,144	5,486	226,971	236,491	558,946	700,000

Table 6: *Profit and loss of BSP in the years 2008 to 2015 (in EUR)*

INVESTMENTS IN JAO AND TSCNET

Joint investments of European transmission system operators are the result of guidelines from European legislation and the development of a common European electricity market, which requires efficient and safe operation of transmission networks as well as transparent allocation of cross-border transmission capacities. ELES is a co-founder of the company TSCNET Services, together with 12 other European transmission companies, established with the aim of providing services in the field of more efficient management of the European transmission network and maintenance of a high level of overall security over the European transmission network system.

Following the decision of a merger of the regional auction houses CAO and CASC, in 2015 ELES became co-owner of the new merged auction house JOA (along with 19 other transmission companies), which will increase the efficiency and transparency of the European electricity market.

INVESTMENTS IN EQUITY SHARES OF THE COMPANIES ELDOM D. O. O. AND INFORMATIKA D. D.

ELES does not envisage a long-term interest in retaining ownership of these two companies. We anticipate their sale, with potential buyers also being Slovenian electric power companies. ELES will attempt to utilise these investments for consolidation of ownership in STELKOM, d. o. o. if strategy "A" can be realised (see STELKOM, d. o. o.).

OTHER EQUITY INVESTMENTS

All these investments have the following characteristics in common:

- they arose as a consequence of past income relations (before 1991),
- they arose, due to a decision of the representative of the owner - the Republic of Slovenia,
- ELES is a negligible shareholder and, as such, cannot directly enforce its position.

The management strategy for these investments will be implemented indirectly through a common representative of the Republic of Slovenia. If the situation should arise that the investments can be qualitatively sold and if it is of interest and a subject of the strategy of the Republic of Slovenia, ELES will sell off these equity investments.

09 PRESENTATION OF STRATEGIC INVESTMENTS DURING THE 2016-2020 PERIOD

STRATEGIC INVESTMENTS ACCORDING TO THE EXISTING 10-YEAR DEVELOPMENT PLAN OF THE TRANSMISSION NETWORK DURING THE PERIOD 2015-2024

At the end of the year, we submitted the 10-year Development plan of the transmission network 2015-2024 to the Ministry of Infrastructure (MzI) for assessment and validation. The plan was approved by the MzI. During the validity of the SBP 2016-2020 the development plan for the period 2017-2026 will be prepared in 2016, the plan for the period 2019-2028 in 2018, and the plan for the period 2021-2030 in 2020.

The current development plan envisages EUR 484.2 million in investments. In terms of value, the following projects stand out: the project involving construction of the Cirkovce Pince 2 x 400 kV transmission lines with the distribution-transformer station Cirkovce (estimated total investment value amounts to EUR 115 million) and the amortized acquisition of the 110 kV network on the basis of Article 512 of EZ-1, whose value ELES estimated at EUR 67 million, which is currently owned by power companies and other legal entities established in the Republic of Slovenia. Regarding the acquisition of the 110 kV network, ELES will endeavour to extend the legal deadline for takeover from three to eight years.

During the period following drafting and approval of the 10-year Development plan for the transmission network 2015 - 2024, ELES was intensively involved with two investment projects in the field of so-called "smart grids." Following an agreement with the Ministry of Infrastructure, we became responsible for the Slovenian part of the activities and funding of the international NEDO project, and together with the Croatian system operator HOPS we are preparing the project Sincro Grid to apply for EU grants. If these two investments are realised, the total value of investment in the years 2016-2020 will not increase as we approach the change in dynamics of other investments.

In 2013 European Commission adopted the new Regulation (EU) no. 347/2013 on the guidelines for trans-European energy infrastructure, defining the guidelines for timely development and interoperability of priority corridors and areas for trans-European energy infrastructure. The Regulation identifies projects of common interest that are needed at the level of a common European space for the implementation of priority corridors and areas in Europe which fall into the category of energy infrastructure, among others also in the areas of electricity. ELES' PCI projects pursuant to the European Commission Regulation no. 347/2013, amended in November 2015, no. 2016/89:

- Connection of Žerjavinec (CRO) / Heviz (HU)–Cirkovce (SI): 2 x 400 kV Cirkovce–Pince transmission lines with appertaining Cirkovce substation; estimated value EUR 115 million.
- Transition from 220 kV to 400 kV: Cirkovce–Podlog–Beričevo–Divača; estimated value EUR 170 million.
- A project of common interest of Italy and Slovenia to connect Salgareda (IT)–Divača–Beričevo (SI): HVDC 500 kV; estimated value for the study phase EUR 0.9 million.
- SINCRO.GRID; estimated value EUR 65 million, of which EUR 30 million comprise EU grants.

Given the current situation, we can predict that the investment made in the Cirkovce–Pince with Cirkovce substation will be implemented by 2020. Transition from 220 to 400 kV according to our estimate will be pushed forward towards the year 2030. HVDC will most likely remain at the level of studies. Implementation of the SINCRO.GRID investment depends on the success of the application for a CEF EU grant.

A BRIEF DESCRIPTION OF THE MOST IMPORTANT INVESTMENTS

2 x 400 kV Cirkovce-Pince TL, Cirkovce substation

The completion of the acquisition of the rights to build and acquisition of the building permit is envisaged for the 2016-2018 period. The preparation of public tenders, project documentation, acquisition of environmental approvals and building permits will also commence as well as envisaged construction of the transmission line. The duration of construction of the transmission line alone is estimated at 18 months. In these investments, we are faced with obtaining environmental approvals and difficulties acquiring the right to build on part of the territory, which is undergoing arbitration between the Republic of Slovenia and Republic of Croatia. An annex to the contract has been signed with the Hungarian company MAVIR on the envisaged deadline for connection of the transmission lines by the end of 2018. Cirkovce substation is directly tied to the construction of the Cirkovce-Pince transmission lines. The procedure for obtaining environmental approvals will be implemented in 2016, following which the acquisition of the building permit will be carried out as well as public procurement tenders for the execution of works. Commencement of construction is envisaged in 2017, and will continue in 2018. Equipment delivery is scheduled for the second half of 2017 and in 2018.

Construction - reconstruction of the Pekre substation/converter station, Slovenska Bistrica, Plave and Hudo, Beričevo substation and Divača substation

These investments represent an improvement in the functioning of the transmission network, possibility of connecting new transmission lines, increased possibility of connecting new users and finally, replacement of obsolete primary and secondary equipment.

SINCRO.GRID

The project will resolve voltage and frequency problems in the network, decreasing congestions while allowing the integration of renewable energy sources. New active elements will be connected to the transmission and distribution network, which will be connected to the new virtual interstate management centre. This will enable advanced management, optimization and forecasting involving all four partners. ELES's part of the project is estimated at EUR 65 million over the next six years. The project arose after the ten-year development plan and investment plan had already been submitted, so they are not included there. ELES's plan for the 2016-2018 envisages the estimated value of projects in the event the project is ranked on the PCI list and we will apply for CEF (Connecting Europe Facility) funding, a grant of the mechanism for connecting Europe.

NEDO project

The NEDO project is divided into two phases. Partners in the project are ELES on the Slovenian side, with the NEDO state development agency on the Japanese side. The estimated value of the project amounts to EUR 37.4 million, of which ELES will provide funds in the amount of EUR 15.9 million. According to the time plan, the physical implementation of the project will commence in October 2016 and conclude in October 2019. The project's object and target objectives are:

- Establishment of new technologies and systems at low and medium voltage levels for the establishment of ancillary services for ELES in the following areas:
  - secondary regulation upon the use of advanced battery reservoirs,
  - tertiary regulation by actively adapting the voltage profile and further by providing a platform that will allow the connection of small independent customers in the provision of these services,
  - voltage regulation on the LV and MV levels to increase the possibilities for integrating renewable energy sources into the existing network which includes at least four electricity distribution companies,
  - increased operational reliability in the parts of the network showing poor indicators of reliability with transition to a closed-loop operation, features of automatic localization and elimination of defects and function of isolated operation,
  - reduced consumption of end customers through implementation of technologies and systems for central management of energy consumption in characteristic urban environments, such as Idrija and Ptuj.
- Use of promising, not yet used technologies (smart grids) with the aim of increasing ELES's ability to ensure legal obligations.
- Provide Slovenian and Japanese solution providers the opportunity to demonstrate their solutions.

»Smart grid« projects in the majority implementation of ELES' employees

In the future, a study of the introduction of other solutions within the concept of smart grids will be conducted and later, transition to the realization of technically and economically viable projects mainly in the following areas:

- SUMO (System for the determination of limits of operation) – The project links DTR technology (Dynamic Thermal Rating) with N and N-1 analyses in an integrated manner; the operator of the transmission network will in a transparent manner provide an assessment of the transmission capacities, given the current and projected atmospheric conditions and the load on the EPS;
- DSM (Demand Side Management); Consumption management – connecting users who are willing to adjust their consumption according to the needs of the system operator, will expand the range of potential providers of ancillary services; DSM represents an environmentally friendly alternative to conventional sources of electricity;
- WAMPAC (Wide Area Measurement, Protection and Control System) will provide the operator through advanced PMU meters clear and transparent control over EPS and at the same time, will alert the operator of possible fluctuations and transient occurrences, the impact of which the operator can reduce or neutralise through pre-defined actions.

Implementation of Article 35 of EZ-1 on the 110 kV network

Pursuant to the provisions of Article 35 of the Energy Act (EZ-1, Official Gazette of the RS, No. 14/2014), elements on the 110 kV level, which fall within the transmission or distribution system are defined in more detail in accordance with the Decree on the division of the 110 kV network into the distribution and transmission systems, which came into force on 23 May 2015. Companies possessing their own high-voltage 110 kV transmission network are obliged within three years of the enactment of this Act, with a contract for payment to transfer to ELES their stake and other rights of obligation and material rights to the network, defined by the regulation under the fourth paragraph of Article 35 of this Act. Redemptions will be carried out successively and in terms of the provisions of the related Decrees, the majority in 2016, with the concluded takeover to be completed by 10 March 2017. ELES expects the deadline for the takeover to be extended by 5 years.

Connecting 220 kV TL and connecting bays in Metal Ravne substation

The procedure for adopting the Government Decree on the Detailed Plan of National Importance is envisaged in the 2016-2018 period. The original investment value is based on an assessment of the costs of the concluded agreement on the rehabilitation of the flicker between the Metal Ravne and ELES companies. This investment will enable the expansion of production at the location of Metal Ravne in line with the strategy of the Slovenian Steel Group.

2 x 110 kV Gorica-Divača TLs

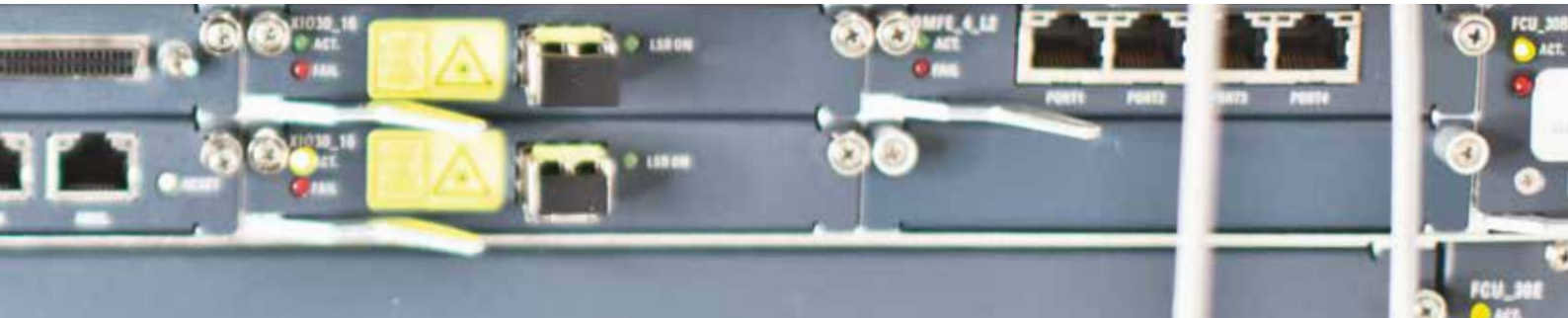
A building permit in the Renče section must be required for the transmission lines. The project, investment and technical documentation must also be acquired for this section, after which works will be carried out. After successful acquisition of the building permit, works could be carried out in the years 2017-2018. This will solve the most problematic area of the transmission network in terms of fulfilment of the N-1 criteria.

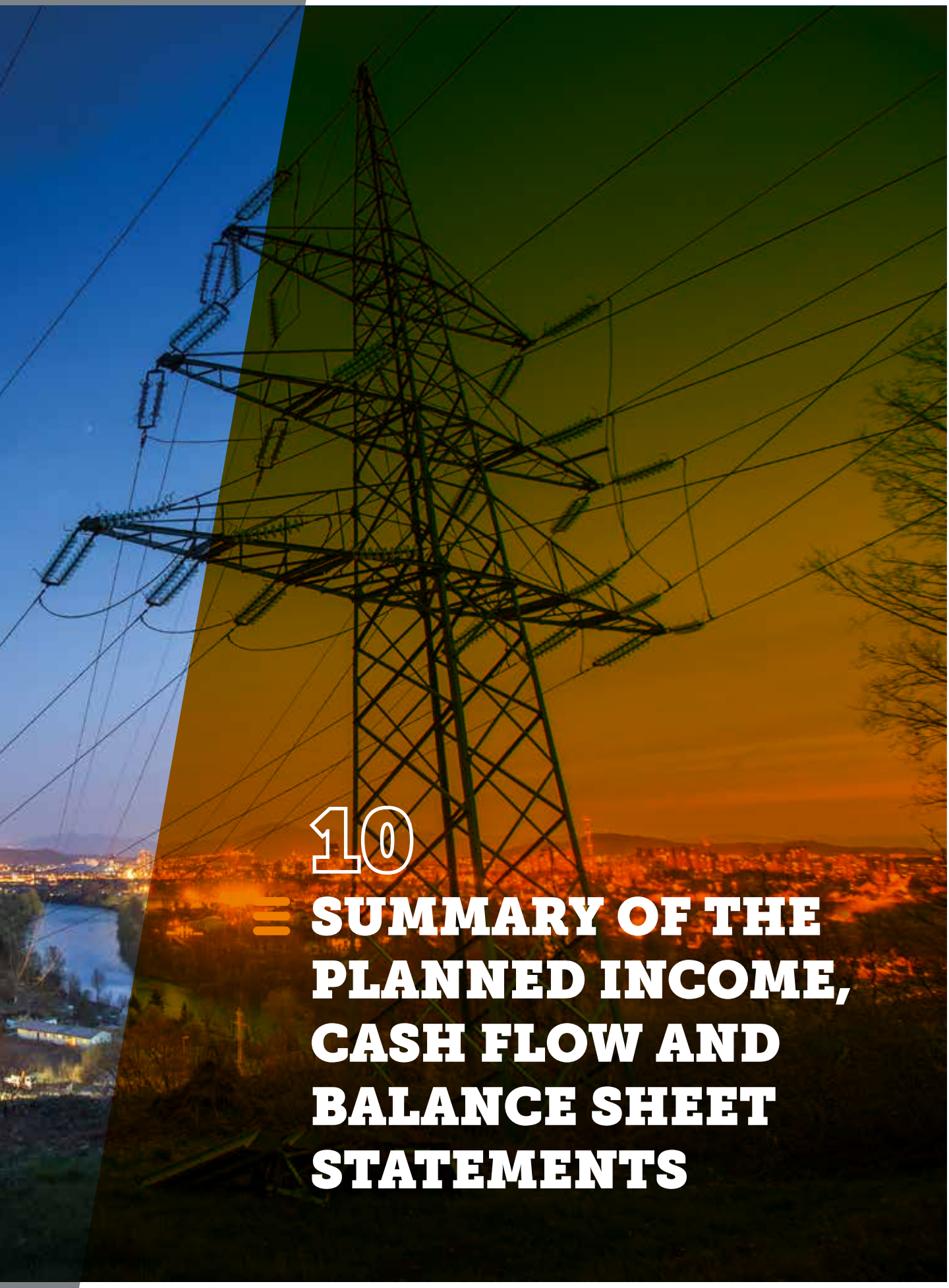
Connection lines 2 x 110 kV for HPP Brežice

In accordance with the adopted Programme on the implementation of facilities of water, state and local infrastructure and facilities of water and energy infrastructure in the indivisible relationship for construction of HPP Brežice and an agreement between ELES and HESS, ELES is responsible for the construction of the connection cable line for HPP Brežice. The construction of the cable line is envisaged by November 2016, which will allow for the timely connection of HPP Brežice to the 110 kV network.

ELES Technological Centre

A final building permit and project documentation for execution were obtained in 2012 for the construction of the ELES Technological Centre, Beričevo with preparatory work for the preparation of building plots, such as the relocation of municipal facilities also obtained. ELES endeavours to optimize the costs of investments therefore it also decided to proceed with the investment of construction of the technological facility, provided that it is divided into smaller construction phases. We are planning for at least the first two construction phases to be carried out by 2020. There are a total of 6 phases, with the 2nd phase the most demanding, i.e. the construction of the premises of the System Operation Department, which also includes the premises of the control centre.





10 SUMMARY OF THE PLANNED INCOME, CASH FLOW AND BALANCE SHEET STATEMENTS

REGULATORY FRAMEWORK, NETWORK FEE SURPLUSES, PLANNED BALANCE OF NETWORK FEE SURPLUSES AND PROVISIONS

We calculated revenue in observance of the guidelines for the preparation of envisaged statements, while expenses were taken from the Decision of the Agency on the Regulatory Framework 2016-2018, correcting them according to our most current data with items comprising cost of losses, costs of ancillary services, depreciation and yield.

From the table below, it is evident that revenue from tariffs generated in the Republic of Slovenia is insufficient for regulatory-defined costs and yield. The difference, which varies between EUR 30 and 68 million, is covered by network fee surpluses generated in previous years.

Regulatory framework elements	2014	2015	2016	2017	2018	2019	2020
Revenues from tariffs	58,676,544	56,888,600	93,766,208	95,172,701	96,600,291	98,049,295	99,520,035
Revenues from ancillary services	36,051,053	35,398,900	0	0	0	0	0
Other revenues	10,297,789	10,482,328	6,844,711	6,896,586	7,007,964	7,491,780	9,922,253
Operating expenses	107,122,945	114,805,385	132,443,360	138,319,840	140,609,166	140,696,451	141,301,748
Regulated yield	18,749,767	17,666,574	16,691,814	18,716,119	20,597,846	22,709,650	24,477,506
Total	**-20,847,326**	**-29,702,131**	**-48,524,256**	**-54,966,672**	**-57,598,756**	**-57,865,025**	**-56,336,966**
Revenue surplus/deficit from tariffs – outflows of accruals and deferred income	**20,847,326**	**29,702,131**	**48,524,256**	**54,966,672**	**57,598,756**	**57,865,025**	**56,336,966**

Regulatory framework elements	"Ind. I.15/14"	"Ind. I.16/15"	"Ind. I.17/16"	"Ind. I.18/17"	"Ind. I.19/18"	"Ind. I.20/19"
Revenues from tariffs	97	165	102	102	102	102
Revenues from ancillary services	98	0				
Other revenues	102	65	101	102	107	132
Operating expenses	107	115	104	102	100	100
Regulated yield	94	94	112	110	110	108
Total	**142**	**163**	**113**	**105**	**100**	**97**
Revenue surplus/deficit from tariffs – outflows of accruals and deferred income	**142**	**163**	**113**	**105**	**100**	**97**

Table 7: *Overview of the regulatory framework for the period 2016-2020*

Until and including 2015, the rule applied that we increased so called network fee surpluses annually, which in a second step were used exclusively for transfer to so-called provisions for future calculated depreciation.

The Energy Agency in 2015 as opposed to 2012 reduced the average tariff by 15 %. Given relatively mild growth in the consumption of electricity from the transmission network, revenue from tariffs in the Republic of Slovenia is also correspondingly lower. Since our costs will increase in the future, particularly pronounced was the jump from 2015 to 2016, we will have to cover the costs of the regulatory framework and yield by eliminating accrued network fee surpluses from previous years. These will be remedied also by increasing provisions for future depreciation from investments of international character. In 2020 the balance of network fee surpluses will be zero. Network fee surpluses will decline from year to year, with provisions and net financial debt rising. Network fee surpluses in substance are "our obligation" and therefore equated to debt to lenders. As the financial performance of the company was optimised in the past, instead of borrowing we used cash surpluses resulting from network fee surpluses. During the period 2016-2020 we are moving into a period of undervalued tariffs, and consequently lower revenue from tariffs, increased cost of ancillary services, significant planned investment (especially the 2 x 400 kV Cirkovce Pince transmission lines, Cirkovce substation and acquisition of the 110 kV network owned by other legal entities). All this will result in the need for additional borrowing.

PLANNED INCOME STATEMENTS

Guidelines and the regulatory framework were used to prepare the income statements. Additionally, we took into account the positive effect of non-regulated activities and revenue from capitalized own services. Financial expenses were estimated based on planned cash flows and the balance of network fee surpluses.

ELES is planning positive net profit during the period 2016-2020.

Seq. no.	Items from the income statement	Estimate 2015	SBP 2016-2020 period				
			2016	2017	2018	2019	2020
1	Net sales revenues	143,920.4	163,040.5	170,889.4	174,949.0	176,664.3	176,607.0
2	Change in the value of inventories and work in progress	-	-	-	-	-	-
3	Capitalised own services	1,993.1	1,500.0	1,725.0	1,983.8	2,281.3	2,623.5
4	Other operating revenues	1,785.7	1,644.7	1,696.6	1,807.9	2,291.8	4,722.3
I.	**OPERATING REVENUES (1 through 4)**	**147,699.2**	**166,185.2**	**174,310.9**	**178,740.7**	**181,237.4**	**183,952.8**
5	Costs of goods, materials and services (a+b+c)	78,259.6	90,722.2	90,786.3	90,581.0	91,190.9	91,490.9
	a. Purchase value of merchandise sold (1a+2a)	28,183.0	28,135.0	28,222.0	28,423.0	28,423.0	28,423.0
	1a. Costs of purchase of electric power to cover losses	14,683.0	14,635.0	14,722.0	14,923.0	14,923.0	14,923.0
	2a. Costs of system reconciliation	13,500.0	13,500.0	13,500.0	13,500.0	13,500.0	13,500.0
	b. Costs of materials used	1,058.5	1,074.2	1,097.7	1,119.7	1,200.0	1,200.0
	c. Costs of services (1c+2c+3c):	49,018.1	61,513.0	61,466.6	61,038.3	61,567.9	61,867.9
	1c. Costs of ancillary services	35,097.0	45,940.0	46,300.0	46,560.0	46,560.0	46,560.0
	2c. Other costs/costs of auction houses	3,296.0	4,329.9	3,957.9	3,157.9	3,157.9	3,157.9
	3c. Costs of services	10,625.1	11,243.1	11,208.7	11,320.4	11,850.0	12,150.0
6	Labour costs (a+b+c+d)	26,550.5	27,240.4	27,606.8	27,493.8	27,493.8	27,493.8
	a. Costs of wages and salaries	20,532.4	21,072.2	21,378.6	21,299.9	21,299.9	21,299.9
	b. Costs of pension insurance contributions	2,698.1	2,770.6	2,822.9	2,837.5	2,837.5	2,837.5
	c. Costs of other social insurance contributions	1,511.9	1,551.7	1,569.5	1,563.7	1,563.7	1,563.7
	d. Other labour costs	1,808.1	1,845.9	1,835.9	1,792.7	1,792.7	1,792.7
7	Write-downs (a+b+c)	30,018.0	30,279.9	35,647.7	37,517.3	37,054.0	37,101.0
	a. Depreciation and amortisation expenses	29,918.0	30,279.9	35,647.7	37,517.3	37,054.0	37,101.0
	b. Revaluated operating expenses for intangible and tangible fixed assets	100.0	-	-	-	-	-
	c. Revaluated operating expenses associated with current assets	-	-	-	-	-	-
8	Other operating expenses	725.1	771.2	773.2	776.7	776.7	776.7
II.	**OPERATING EXPENSES (5+6+7+8)**	**135,553.2**	**149,013.7**	**154,814.0**	**156,368.8**	**156,515.5**	**156,862.5**
III.	**OPERATION PROFIT OR LOSS (1+2+3+4+5+6+7+8)**	**12,146.0**	**17,171.4**	**19,496.9**	**22,371.9**	**24,721.9**	**27,090.3**
9	Financial revenues	336.5	-	600.0	625.0	645.0	665.0
10	Financial expenses	3,154.0	2,410.5	3,670.9	5,670.3	6,310.0	7,075.6
11	Extraordinary revenues	100.0	-	-	-	-	-
12	Extraordinary expenses	20.0	-	-	-	-	3,673.6
IV.	**PROFIT BEFORE TAX**	**9,408.5**	**14,760.9**	**16,426.0**	**17,326.6**	**19,056.9**	**17,006.1**
13	Income tax	0	0	0	0	0	0
14	Deferred taxes	-731.6	2,017.2	836.4	2,233.1	-717.9	-1,541.9
V.	**NET PROFIT OR LOSS**	**8,676.9**	**16,778.1**	**17,262.4**	**19,559.7**	**18,339.0**	**15,464.2**

Table 8: *Planned income statements for the period 2016-2020*

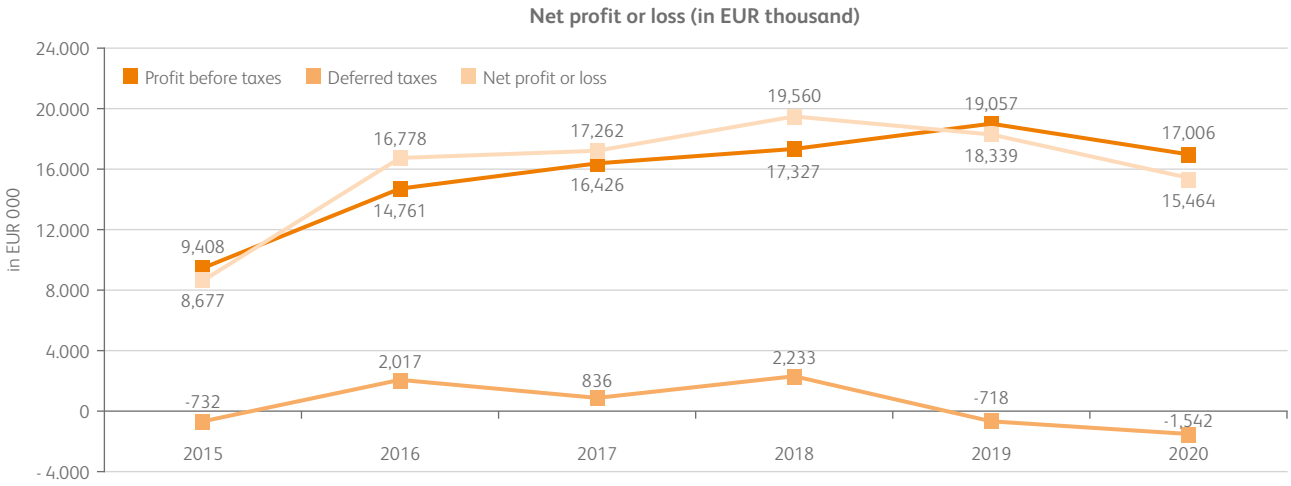


Figure 8: *Summary of net operating profit or loss for the period 2015-2020*

PLANNED CASH FLOW STATEMENTS

Planned items from the income statements, planned annual revenue from auctions for cross-border capacities, investment plan and planned changes in assets and liabilities as at 31 December 2015 represented the basis for the creation of the planned cash flow statements.

The total value of investments is identical to the estimate in the 10-year Development Plan of the Transmission Network 2015-2024. There are however differences in annual values which arose as a result of various factors (delays in drafting the project-investment documentation, waiting for the decisions of the manager of state property, interstate problems related to arbitration, late enforcement of the Regulation on the division of the 110 kV network to the distribution and transmission networks, etc.).

ELES will already have to take out its first loan in 2016. The tables below show "logical" allocation to short- and long-term loans from the aspect of maturities. The types of loans in terms of maturity taken out will be dependent on actual needs and banking conditions.

The greatest risk with regard to ensuring the planned volume of inflows is the segment of inflows from auctions for cross-border capacities. We are planning EUR 51.2 million in revenue/inflows in all the years in question. Possible lower revenue will increase the scope of indebtedness and vice versa.

The additional increase in debt may also be caused by the dividend policy of the founder due to full annual payout of distributable profit.

Items of the cash flow statement	SBP 2016-2020 period				
	2016	2017	2018	2019	2020
BALANCE OF CASH AT THE BEGINNING OF THE YEAR (receivables+cash-short-term accounts payable)	**68,011**	**7,992**	**562**	**459**	**11,328**
INFLOWS FOR THE CURRENT YEAR	**150,323**	**230,705**	**254,612**	**204,541**	**189,992**
inflows – tariffs	60,766	95,173	96,600	98,049	99,520
inflows – CBTC	51,000	51,000	51,000	51,000	51,000
inflows – ITC	5,200	5,200	5,200	5,200	5,200
inflows – deviations	13,500	13,500	13,500	13,500	13,500
inflows – other	407	407	407	407	407
inflows – non-regulated activities	1,450	1,425	1,405	1,385	1,365
inflows – short-term loans – new	18,000	4,000	6,500	-	19,000
inflows – long-term loans – new	-	60,000	80,000	35,000	-
OUTFLOWS FROM OPERATIONS	**210,342**	**238,134**	**254,715**	**193,672**	**200,352**
net short-term liabilities as at 31.12.2015	-	-	-	-	-
outflows – suppliers	93,734	119,166	118,852	119,461	119,761
outflows – investments	102,489	87,200	115,300	43,731	49,726
outflows – loan repayments – existing	4,340	2,800	2,800	2,800	2,800
outflows – loan repayments – short-term new	-	18,000	4,000	6,500	-
outflows – loan repayments – long-term new	-	-	-	6,000	12,000
outflows – interest – existing loans	742	688	634	580	525
outflows – interest – new short-term loans	360	80	130	-	380
outflows – interest – new long-term loans	-	1,200	4,000	5,600	6,160
outflows – payment of shares in profit	8,677	9,000	9,000	9,000	9,000
NET CASH FLOW AT THE END OF THE YEAR	**7,992**	**562**	**459**	**11,328**	**968**

Table 9: *Planned cash flow statements*

BALANCE SHEET

The planned balance sheets, changes in individual forms of assets and their liabilities are the result of planned income statements and cash flows.

Balance sheet items	Estimate 2016	SBP 2016-2020 period				
		2016	2017	2018	2019	2020
Long-term assets	**568,245**	**642,555**	**696,457**	**776,868**	**786,491**	**802,425**
intangible long-term assets and tangible fixed assets	472,255	545,964	599,241	679,007	687,965	703,214
long-term financial investments	95,991	96,591	97,216	97,861	98,526	99,211
Short-term assets	**90,331**	**44,092**	**36,662**	**36,559**	**47,428**	**37,068**
inventories	3,100	3,100	3,100	3,100	3,100	3,100
receivables	32,000	33,000	33,000	33,000	33,000	33,000
cash and cash receivables	55,231	7,992	562	459	11,328	968
other receivables – deficits in network fee revenues	-	-	-	-	-	-
Deferred expenses and accrued revenues	**1,588**	**3,605**	**4,442**	**6,675**	**5,957**	**4,415**
TOTAL ASSETS	**660,164**	**690,252**	**737,561**	**820,102**	**839,876**	**843,907**
Capital	**381,819**	**389,920**	**397,583**	**407,517**	**416,211**	**422,011**
capital	373,142	373,142	373,142	373,142	373,142	373,142
unallocated profit for the current year	8,677	16,778	24,441	34,375	43,069	48,868
accrued costs and deferred revenues and provisions	**192,862**	**195,409**	**191,855**	**184,762**	**176,142**	**170,174**
accrued costs and deferred revenues – network fee surpluses	118,006	113,717	80,057	8,388	1,653	-
provisions – earmarked financial investments	54,360	61,195	91,302	155,877	153,992	149,677
provisions – subsidies	14,239	14,239	14,239	14,239	14,239	14,239
other provisions	6,258	6,258	6,258	6,258	6,258	6,258
Liabilities – TALUM	**3,108**	**3,108**	**3,108**	**3,108**	**3,108**	**3,108**
Long-term liabilities – existing	**59,387**	**55,047**	**52,247**	**49,447**	**46,647**	**43,847**
Long-term liabilities – new	**-**	**-**	**60,000**	**140,000**	**169,000**	**157,000**
Other long-term liabilities	**908**	**908**	**908**	**908**	**908**	**908**
Short-term operating liabilities	**19,220**	**25,000**	**25,000**	**25,000**	**25,000**	**25,000**
Short-term financial liabilities-new	**-**	**18,000**	**4,000**	**6,500**	**-**	**19,000**
Accrued costs and deferred revenues	**2,860**	**2,860**	**2,860**	**2,860**	**2,860**	**2,860**
TOTAL LIABILITIES	**660,164**	**690,252**	**737,561**	**820,102**	**839,876**	**843,907**

Table 10: *Planned balance sheets*

The graph below represents the three essential changes in the balance of assets and liabilities as at 31 December 2015 and 31 December 2020:

- 27 per cent nominal increase in total assets as a result of the implementation of planned investments;
- increase in short- and long-term debt;
- financing of operations based on loan capital.

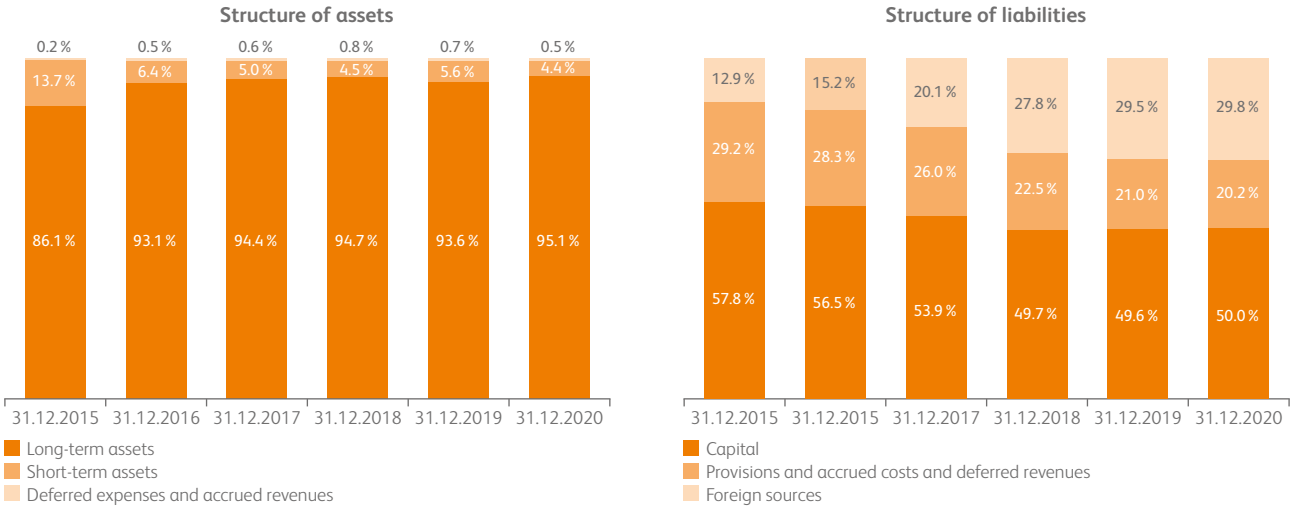


Figure 9: *Planned balance sheet - structure of assets and liabilities*

INDEBTEDNESS, RELATIVE INDEBTEDNESS RATIOS

Gross debt in 2020 will have increased by EUR 97 million and net debt by EUR 214 million. The reasons for the increased indebtedness are outlined in detail in the preceding subsections of this chapter.

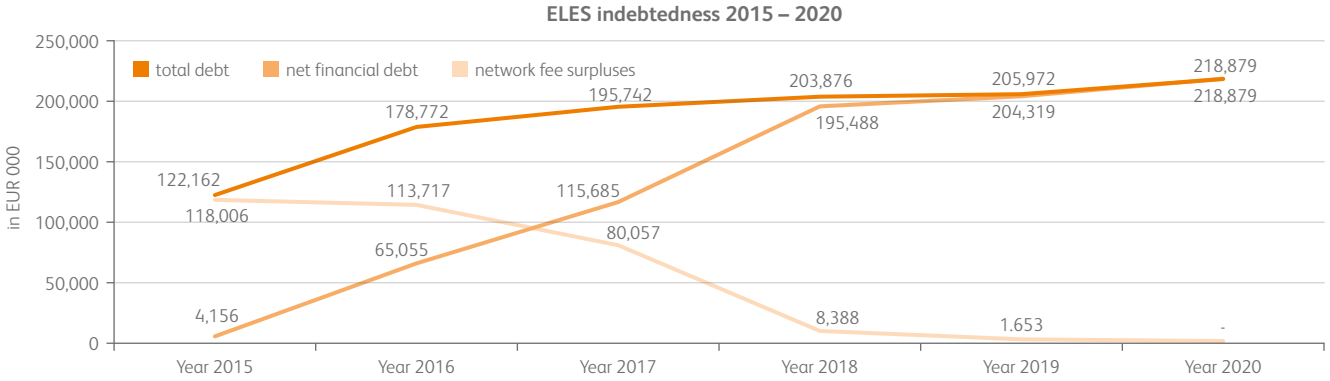


Figure 10: *Gross and net debt*

ELES due to its activities has a guaranteed stable cash flow. With the fall of the revenue from auctions for cross-border capacities, the Energy Agency will have to appropriately increase the tariffs for use of the transmission network. EZ-1 in the second paragraph of Article 116 defines: "The Agency shall by a general act prescribe the methodology for determining the regulatory framework in a way that promotes efficiency of electricity operators and use of the system. The Agency in determining the methodology follows the method of regulated annual revenue and regulated network fees of the electricity operator that provides coverage of all annual eligible costs of the operator, including regulated returns."

EBITDA during the validity period of this LSBP 2016-2020 will continuously grow, the reason being the regulatory methodology associated with our planned volume of investment and sources of financing of these investments. From the calculated ratios of indebtedness, it is evident that ELES could pay back the total net financial debt within four years. For informational purposes – the Austrian system operator APG has a coefficient exceeding 10.

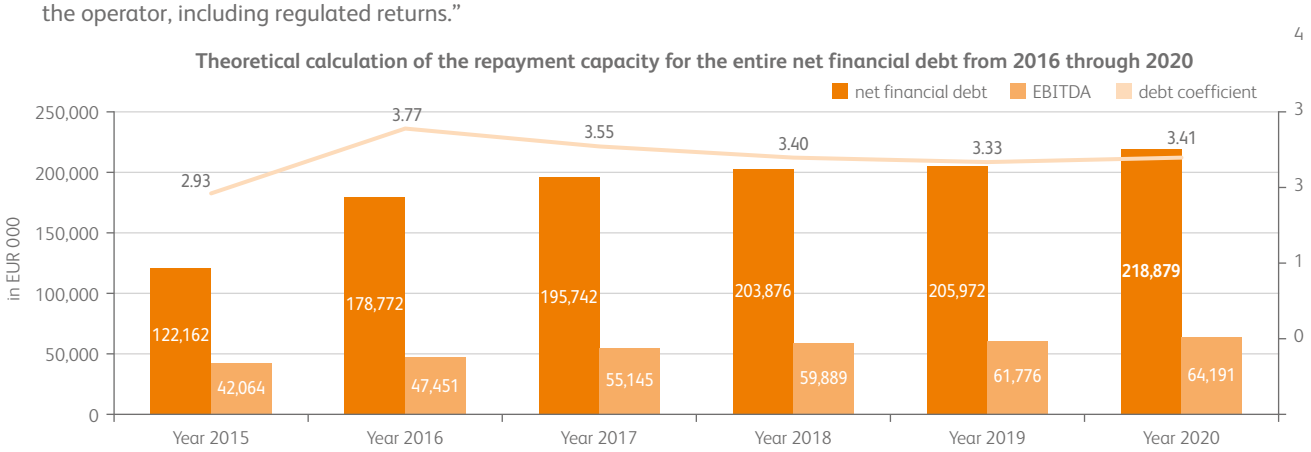


Figure 11: *Indicators for the periods of repayment of net financial debt*

EMPLOYEES

The number of employees increased and will increase in the years 2015 to 2016 due to the planned acquisition of the 110 kV network.

The employment policy will be based on remedying the structural imbalances of employees incurred in the years 2006 through 2009. Similarly through additional stimulation, the company will attempt to implement retirement of employees who already do and who will qualify for regular or early retirement.

	Actual	Estimate 2016 to 2020				
	31. 12. 2015	31. 12. 2016	31. 12. 2017	31. 12. 2018	31. 12. 2019	31. 12. 2020
Number of employees	546	556	556	554	554	554

Table 11: *Fluctuation in the number of employees*

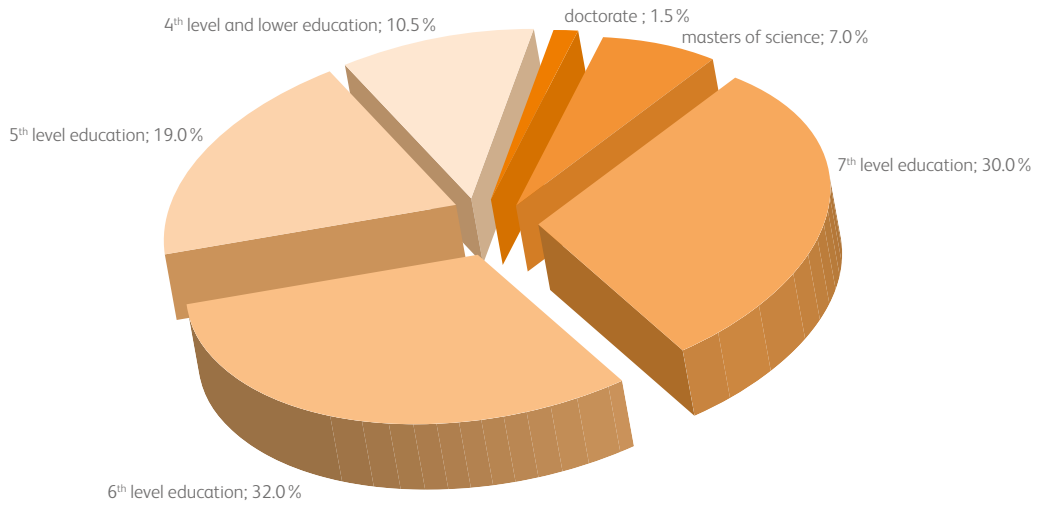
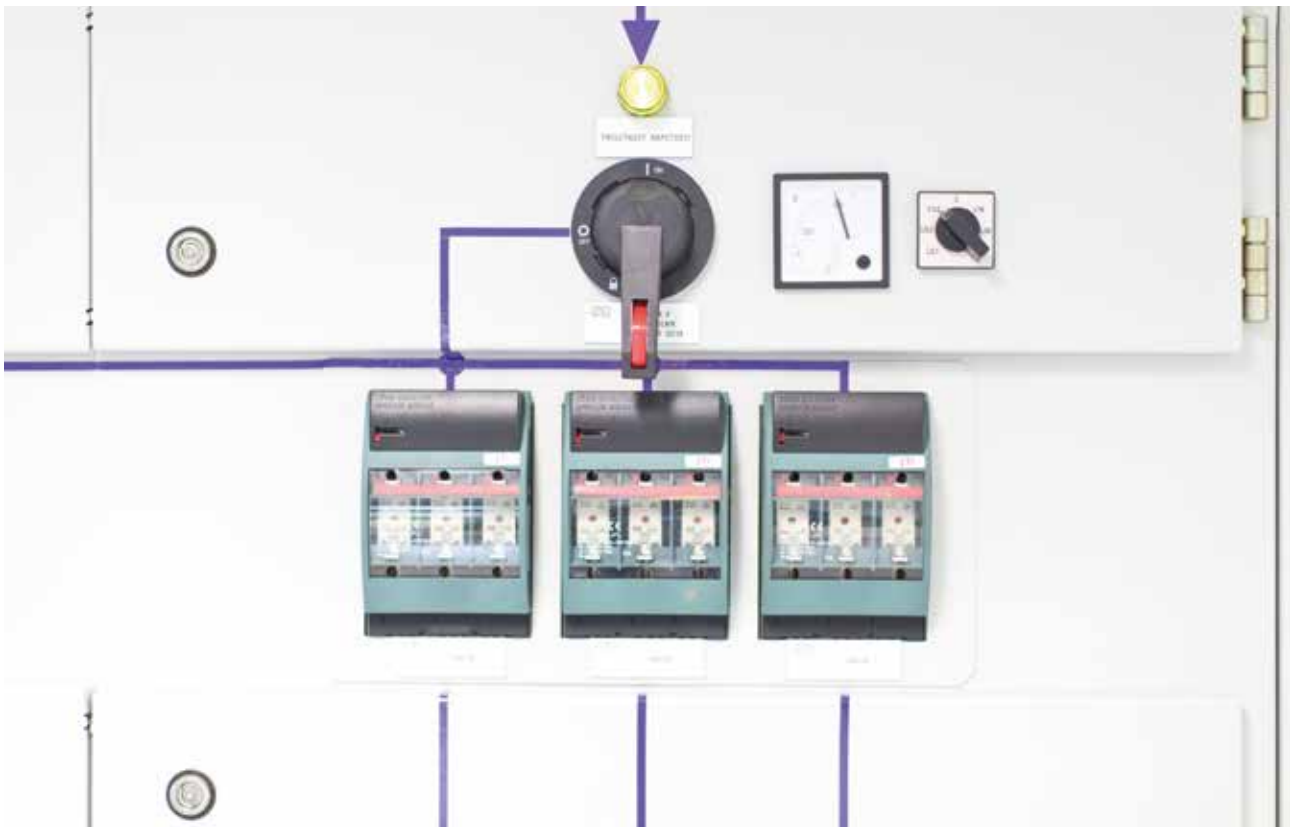


Figure 12: *Fluctuation in the number of employees*



RESULTS OF ECONOMIC INDICATORS FROM THE PLANNED FINANCIAL STATEMENTS FOR THE PERIOD OF THE LSBP 2016-2020

Based on the planned categories presented in Tables 8, 10 and 11, the nominal values of key economic indicators are presented in Table 12.

	Estimate year 2015	SBP 2016–2020 period				
		year 2016	year 2017	year 2018	year 2019	year 2020
Capital yield (%)	2.28 %	4.35 %	4.38 %	4.86 %	4.45 %	3.69 %
Asset yield (%)	1.32 %	2.48 %	2.42 %	2.51 %	2.21 %	1.84 %
Operating result (in € 000)	12,146	17,171	19,497	22,372	24,722	27,090
Earnings before taxes, interest and amortisation (in € 000)	42,164	47,451	55,145	59,889	61,776	64,191
Efficiency ratio (index)	1.0896	1.1152	1.1259	1.1431	1.1579	1.1727
Added value per employee (in €)	125,850	134,338	148,833	157,731	161,135	165,496

Table 12: *Economic indicators for 2016 through 2020*

From Figure 13, it is evident that during the period of the strategic plan, the company is planning a marked improvement in key economic indicators of operations.

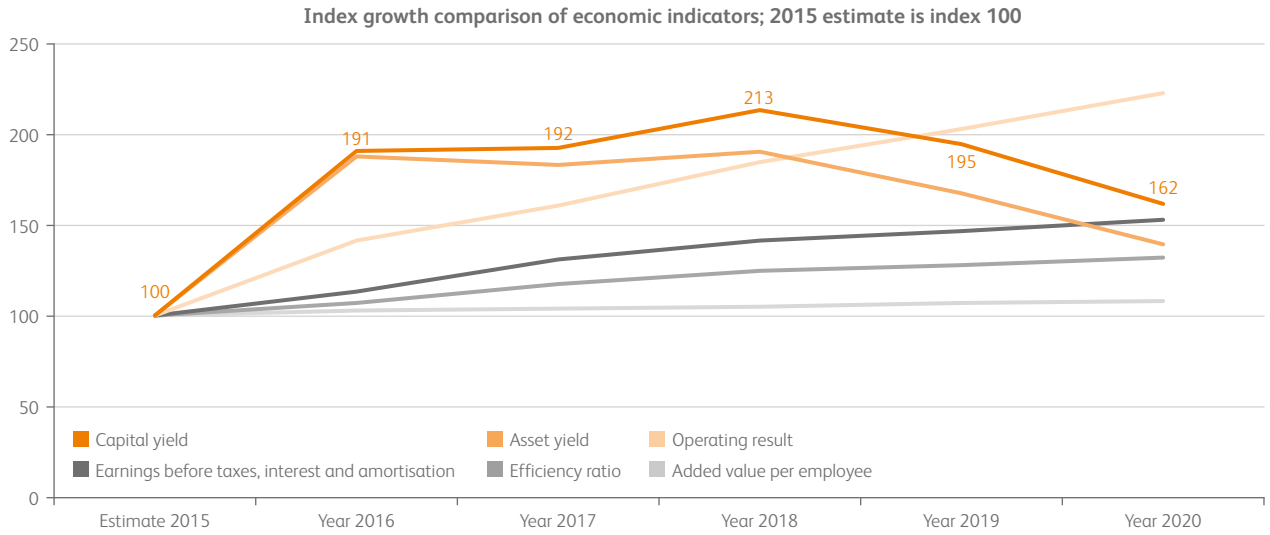
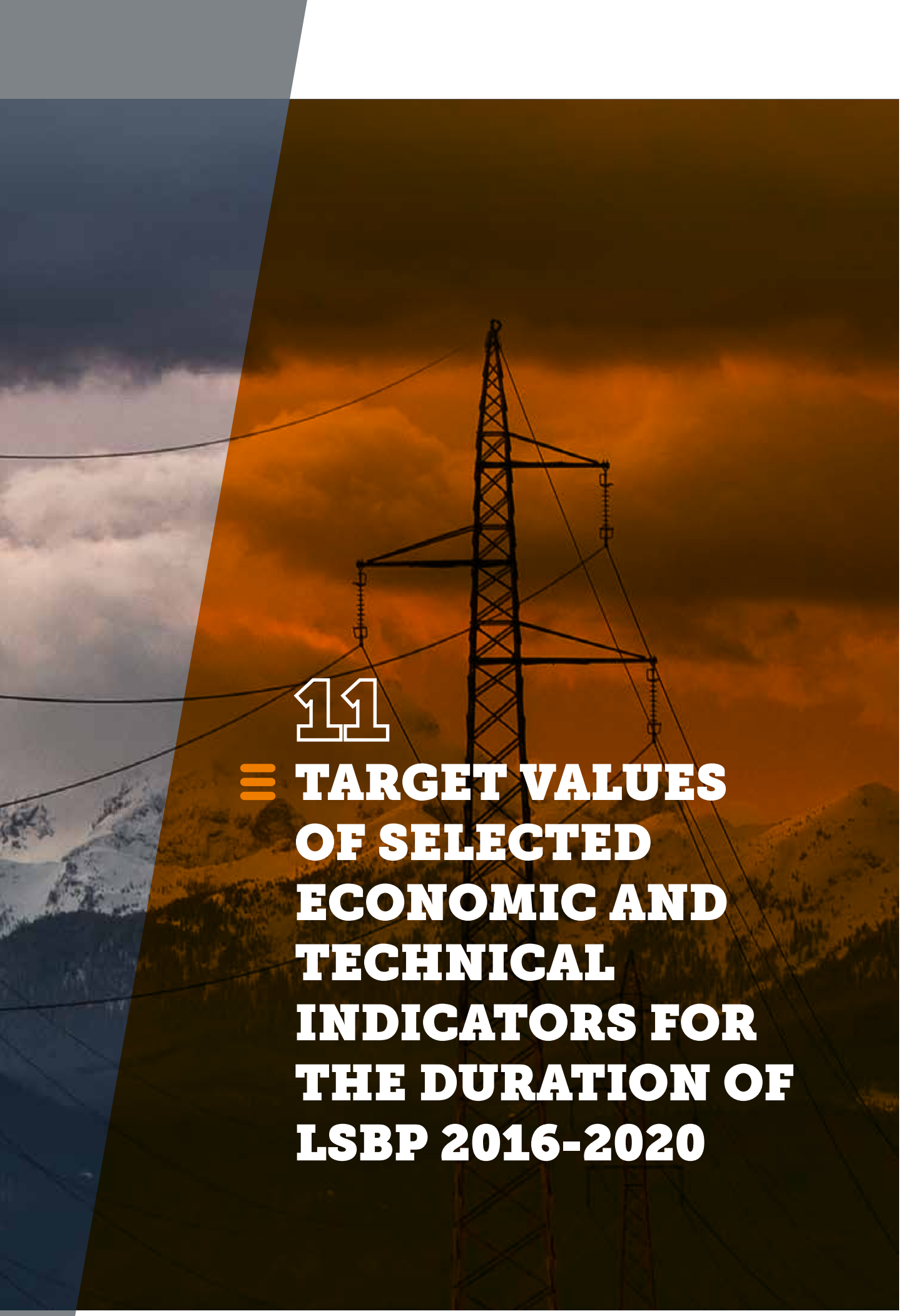
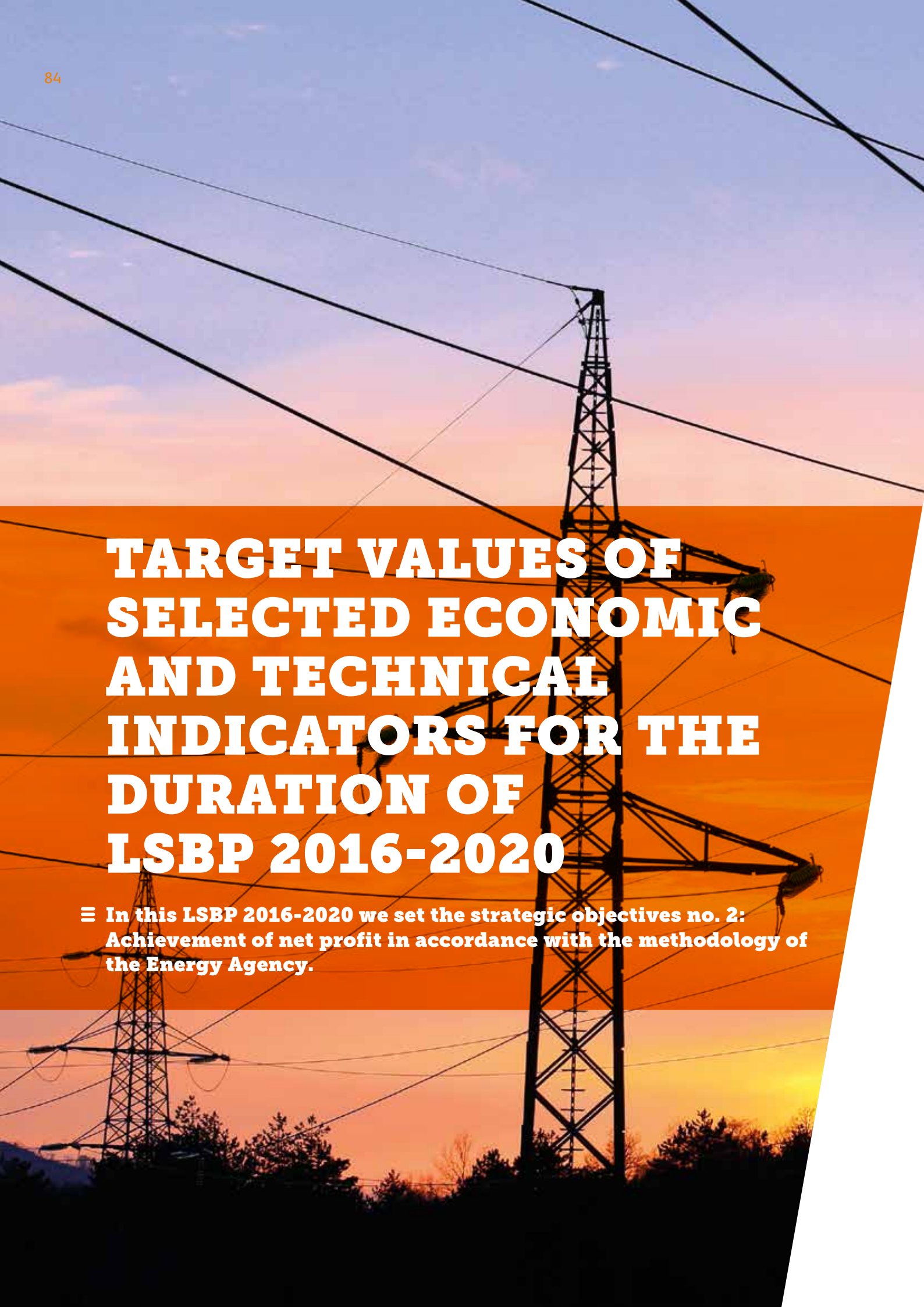


Figure 13: *Index comparison of economic indicators for 2016 through 2020*

TARGET VALUES OF SELECTED ECONOMIC AND TECHNICAL INDICATORS FOR THE DURATION OF LSBP 2016-2020



11 TARGET VALUES OF SELECTED ECONOMIC AND TECHNICAL INDICATORS FOR THE DURATION OF LSBP 2016-2020



TARGET VALUES OF SELECTED ECONOMIC AND TECHNICAL INDICATORS FOR THE DURATION OF LSBP 2016-2020

In this LSBP 2016-2020 we set the strategic objectives no. 2: Achievement of net profit in accordance with the methodology of the Energy Agency.

Achievement of the previously mentioned strategic objective is only possible upon fulfilment of numerous goals at the level of processes, and to a large extent also dependant on a number of external factors. To this end, ELES has in place a system for monitoring more than 400 process indicators with the strategic business plans also defining »strategic indicators«.

In Chapter 4 we presented, according to our estimates, a set of key economic and technical indicators. The same set of indicators was also established to monitor performance during the period of validity of this document.

Tables 13 (economic indicators) and 14 (technical indicators) contain the following data:

- name of the indicator,
- value, which is expressed as a ratio,
- indicator formula,
- achieved average value in the years 2011-2015,
- target values for the period 2016-2020 and
- sources for calculation of indicators.

Target values of indicators:

1) ELES is among the top three, or at least on the average of all (8) analyzed transmission system operators for electricity networks in the EU member states.

2) Achievement of indicator values which improve business.

Indicator - descriptive	Indicator result	Formula	Indicator average 2011–2015	Target indicator values	Sources for the calculations
Achievement of regulated yield	%	(Pre-tax profit in the year) / (regulated yield for the year - finance items - effect of unreported accrued costs and deferred revenues)	65 %	2016: 90 % 2017: 95 % 2018–2020: 100 %	1) Income statement for the year 2) Valid methodology of the Energy Agency
Return on equity (ROE)	%	(net profit or loss for the year) / ((capital balance at the beginning and end of the year):2)	1.9 %	2016–2018: 3 % 2019–2020: 3,5 %	1) Income statement and balance sheet 2) Methodology of the Energy Agency
Return on adjusted assets (ROA)	%	(net profit or loss for the year) / ((adjusted assets at the beginning and end of the year):2)	1.5 %	Not less than 2 %	Income statement and balance sheet
Expenditure on electricity transmitted	€/MWh EP	(total expenses for the year) / (transmitted EP in the year)	In the years 2011 through 2015, ELES achieved lower expenses than the target indicator values in the years 2016 through 2020	The Lower indicator value than the average of all TSOs	Comparative analyses of ELES: TERNA, APG, Mavir, HOPS, ČEPS, Energinet.dk, Fingrid, Swissgrid, ELES
Ability to repay loans	ratio	(section AOPO74 + AOP76 + AOP87 - AOP40 - AOP52) / EBITDA	3.24	Equal or lower value than 4	1) Balance sheet at the end of the year 2) Income statement for the year
Investments in peak load	€/MW peak load	(investment in the year) / (peak load in the year)	In the years 2011 through 2015, ELES exceeded the target values of the indicator set for the years 2016 through 2020	Equal to or higher indicator value than the average for all TSOs	Comparative analyses of ELES: TERNA, APG, Mavir, HOPS, ČEPS, Energinet.dk, Fingrid, Swissgrid, ELES
Achievement of comparable prices of lease of power for secondary and tertiary regulation	%	((price of annual lease of secondary MW (+/-) and tertiary reserves (+/-)) / (price of lease of APG (Austria))	In the years 2011 through 2015, ELES on average achieved lower prices than APG, with the situation changing with the introduction of EZ-1.	2016–2018: based on existing contracts 2019: 140 % 2020: 120 %	Prices of APG Austria.

Table 13: *Economic indicators - target value for the duration of the SBP 2016–2020*

Indicator - descriptive	Indicator result	Formula	Indicator average 2011–2015	Target indicator values	Sources for the calculations
Exceeding the allowable voltage (400 kV = 425 kV, 220 kV = 245 kV)	hours	(number of hours of voltage excesses in the year) / (average hours of voltage excesses 2011-2015)	1,551	Maximum of 50 % of the average hours exceeding the voltage in 2011 through 2015	ELES annual report on the operation of the transmission network
Unsupplied energy due to the loss of elements of the transmission network	MWh of EP	(MWh EP supplied from the system in case of no) / (offtake from TN in the Republic of Slovenia)	0.3257 %	Not more than 0.01 %	ELES annual report on the operation of the transmission network
Quantity of transferred electricity to the standard length of the transmission network	MWh/km	(total transmitted EP in MWh) / (benchmark length of the transmission network in km)	25,424	Equal or higher indicator value than the average for the first three TSOs	Comparative analyses of ELES: TERNA, APG, Mavir, HOPS, ČEPS, Energinet.dk, Fingrid, Swissgrid, ELES
Share of losses in electricity transmission	%	(losses in MWh ofEP) / (total transmitted EP in MWh)	1.43 %	Equal or lower value of the indicator than the average for all TSOs	Comparative analyses of ELES: TERNA, APG, Mavir, HOPS, ČEPS, Energinet.dk, Fingrid, Swissgrid, ELES
Available NTC according to agreed NTC of individual TSOs (APG TERNA, HOPS)	%	(for each border and the selected direction) $((\sum_{(i=1)}^{n} NTC_{i,\ realised})/n) / NTC_{agreed,\ annual}$ n – no. of hours in an individual year	940 MW 85 % 1,114 MW 100 % 487 MW 99 %	Direction Austria-Slovenia: NTC 950 MW 2016: 80 % 2017–2018 years: 90 % 2019–2020: 100 % Direction Croatia-Slovenia: NTC 1200 MW 2016–2017: 85 % 2018–2019: 90 % 2020: 95 % Direction Slovenia-Italy: NTC 530 MW 2016: 75 % 2017–2018: 85 % 2019–2020: 95 %	ELES annual report on the operation of the transmission network
Adequate assurance of available and reliable communications for the needs of the operations of the electricity transmission network of the RS	%	(unavailability of TC connections in minutes) / (minutes in the current year)	99.9909 %	Permanent: 99.995 % availability of functioning of telecommunication lines	Annual report on the operation of the telecommunications system in ELES

Table 14: *Technical indicators - target values for the duration of the SBP 2016–2020*

MEANING OF ABBREVIATIONS

ACER	Agency for the Cooperation of Energy Regulators
AS	Ancillary Services
BI	Business Intelligence
BSC	Balanced Score Crd
CEE	Central Eastern Europe Region
CORESO	Coordination for Enhanced Reliability of Supply
CSE	Central Southern Europe
CBTC	Cross-Border Transmission Capacities
EFQM	European Foundation for Quality Management
EIB	European Investment Bank
EIMV	Milan Vidmar Electric Institute, Ljubljana
ENTSO-E	European Network of Transmission System Operators for Electricity
EP	Electric Power
EPS	Electric Power System
EPSMS	Electric Power System Management System
ERP	Enterprise Resource Planning
EUTC	European Utilities Telecom Council
EZS	Energetska zbornica Slovenije
HPP	Hydro Power Plant
ICT	Information and Communication Technologies
IP	Internet Protocol
ITAMS	International Transmission Asset Management Study
ITOMS	International Transmission Operations & Maintenance Study
ITTC	Information Technology and Telecommunications
JAO	Joint Allocation Office
KNPP	Krško Nuclear Power Plant
NTC	Net Transfer Capacity
OHS	Occupational Health and Safety
OPGW	Optical Protection Ground Wire
PIPO	Transmission Network Infrastructure Department
PUSP	Asset and Project Management Department
RES	Renewable Energy Sources
RP	Regulatory Period
RTP	Substation
SBP	Strategic Business Plan
SiOC	Systematic Measurement of Organizational Climate
SO	Strategic Objective
SODO	Electricity Distribution System Operator
SOPO	Electricity Transmission System Operator
TEŠ 6	Šoštanj Thermal Power Plant
TC	Telecommunications
TL	Transmission Line
TPP	Thermal Power Plant
TSC	Transmisions Security Coordination
TSO	Transmission System Operator
WEC	World Energy Council

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