

2.2 SUSTAINABLE BUSINESS

2.2.1 ECONOMICS: FINANCIAL PERFORMANCE

Table13: Key performance indicators

INDICATORS	Unit	2013	2014	2015	2016	2017	AP 2017	AP 2018
INCOME STATEMENT (in € million)								
Operating revenue	€ million	138,9	140,9	152,7	162,8	185,8	169,0	175,8
Operating expenses	€ million	130,7	133,3	140,9	147,8	168,9	150,6	156,3
Net profit for the year	€ million	8,4	8,7	10,0	12,6	16,8	16,3	18,0
Earnings before interest and taxes (EBIT)	€ million	8,2	7,7	11,8	15,0	16,9	18,4	19,4
Earning before interest, taxes, depreciation and amortisation (EBITDA)	€ million	36,2	37,9	41,1	45,4	49,9	49,5	48,7
BALANCE SHEET AS AT 31 DEC								
Assets	€ million	623,9	656,3	674,1	648,9	677,2	684,9	682,2
Equity	€ million	381,7	379,8	324,4	313,7	331,7	357,6	348,2
PERFORMANCE INDICATORS								
Return on equity (ROE)	%	2,2	2,3	2,9	3,7	5,4	4,7	5,4
Return on assets (ROA)	%	7,7	7,0	4,6	2,9	2,0	1,9	1,9
Operating efficiency		1,062	1,058	1,084	1,101	1,100	1,122	1,124
Net financial debt (NFD) *	€ million	119,3	125,2	142,5	166,5	143,5	222,2	197,3
NFD to equity		0,31	0,33	0,44	0,53	0,43	0,62	0,57
NFD to EBITDA		3,30	3,31	3,47	3,67	2,88	4,49	4,05
REGULATORY FRAMEWORK INDICATOR								
Attainment of regulated return	%	49,98	56,79	65,36	74,04	89,54	97,94	95,10
OTHER IMPORTANT INFORMATION								
Investments	€ million	46,2	37,9	37,3	34,6	49,5	87,3	72,5
NO. OF EMPLOYEES AS AT 31 DEC		538	532	546	566	566	550	554
Added value per employee	€ thousand	122,8	124,0	129,9	137,9	149,4	145,0	148,7

* The disclosed NFD includes network charge surpluses that are part of accrued costs and deferred revenue

ELES generated €178.1 million in net sales revenues, which is 16 % more than in 2016.

Operating profit or loss (EBIT) amounted to €16.9 million and was 13 % higher than in 2016.

Net profit amounted to €16.8 million and was 33 % higher than in 2016.

Return on equity (ROE) stood at 5.4 and increased by 1.7 percentage points with respect to 2016.

Return on assets (ROA) stood at 2.5 and increased by 0.6 percentage points with respect to 2016.

Net financial debt decreased by €23 million in 2017 with respect to the previous year. Net financial debt is expected to increase in the following years, pursuant to the planned forecasts for increased investments.

Chart 16: Net financial debt

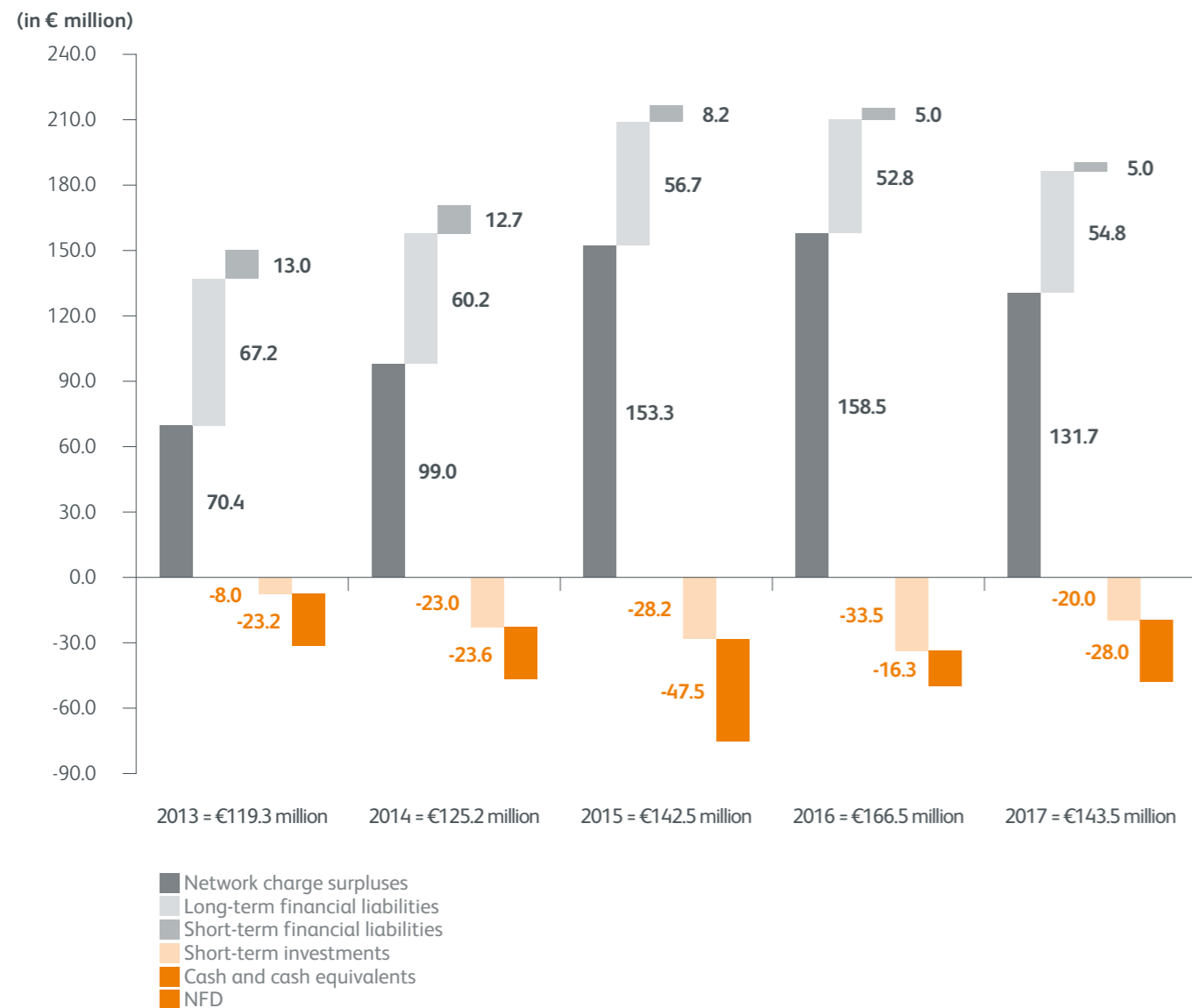


Chart 17: NFD to EBITDA

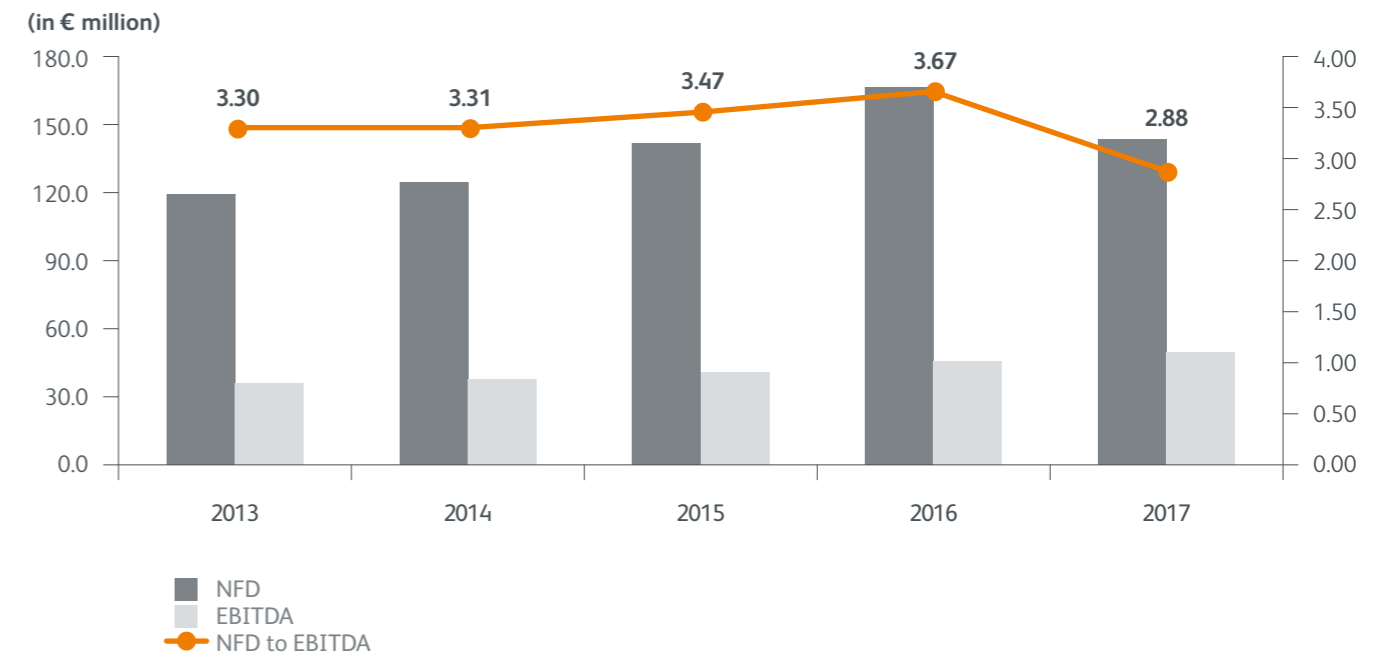
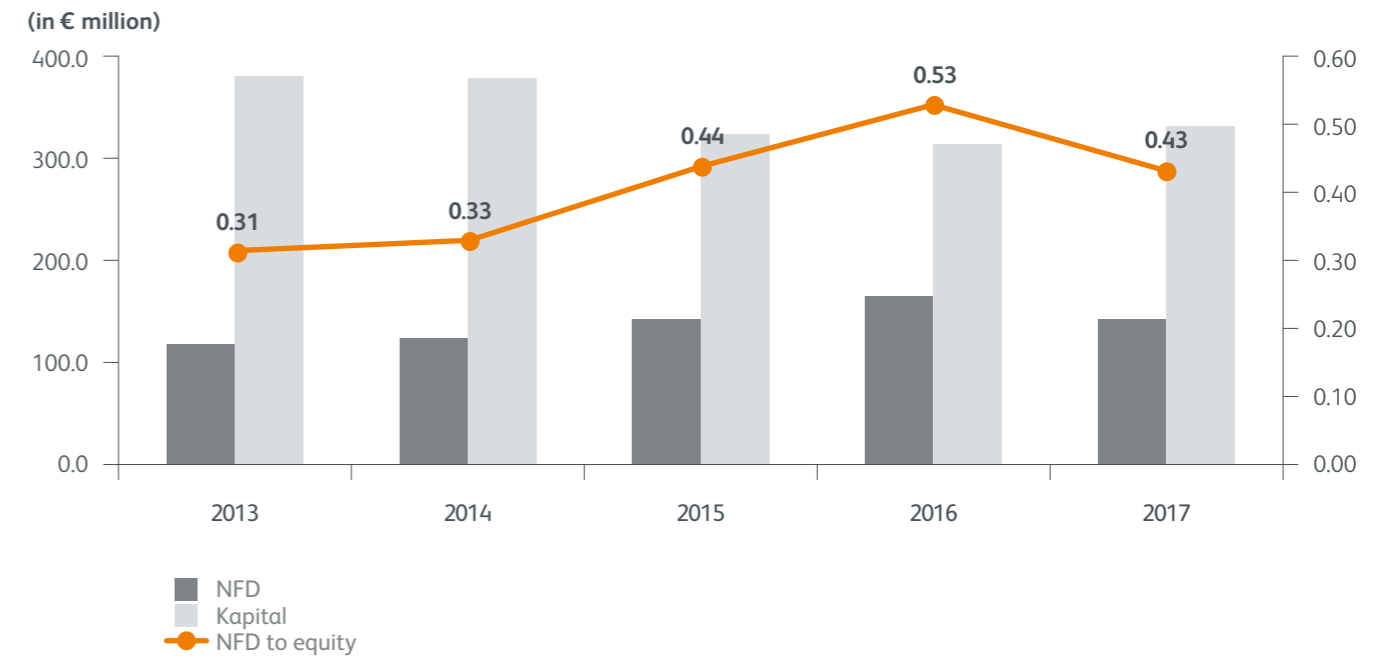
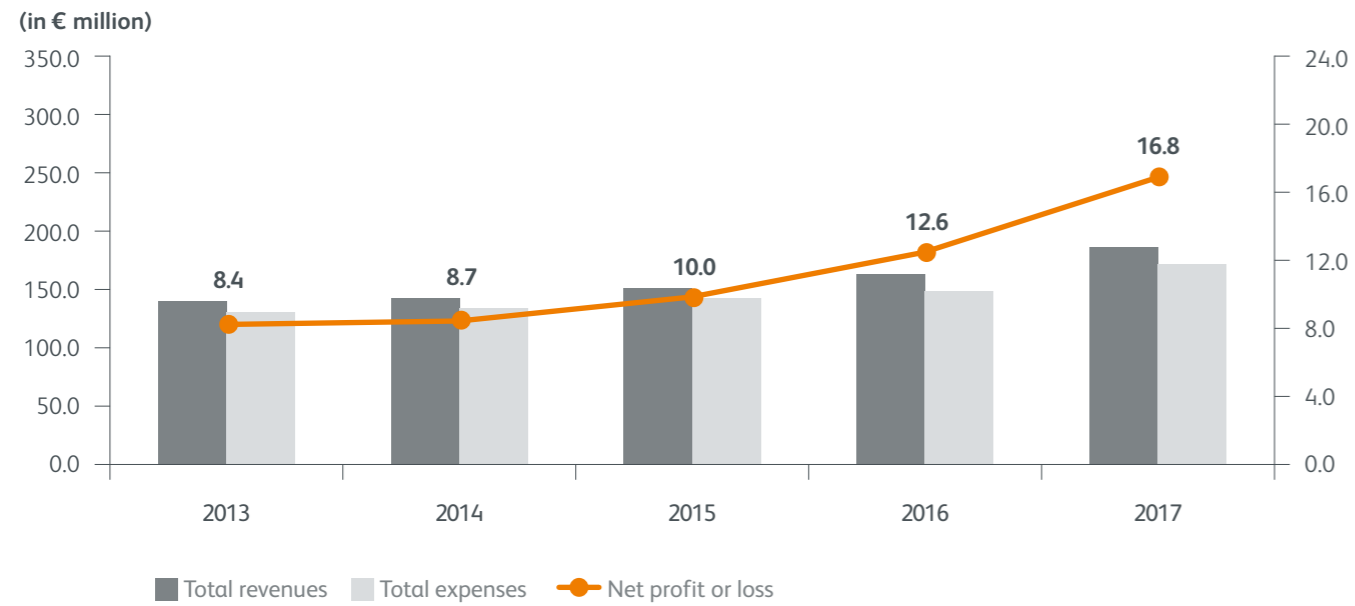


Chart 18: NFD to equity



TOTAL COMPANY REVENUE AND EXPENSES

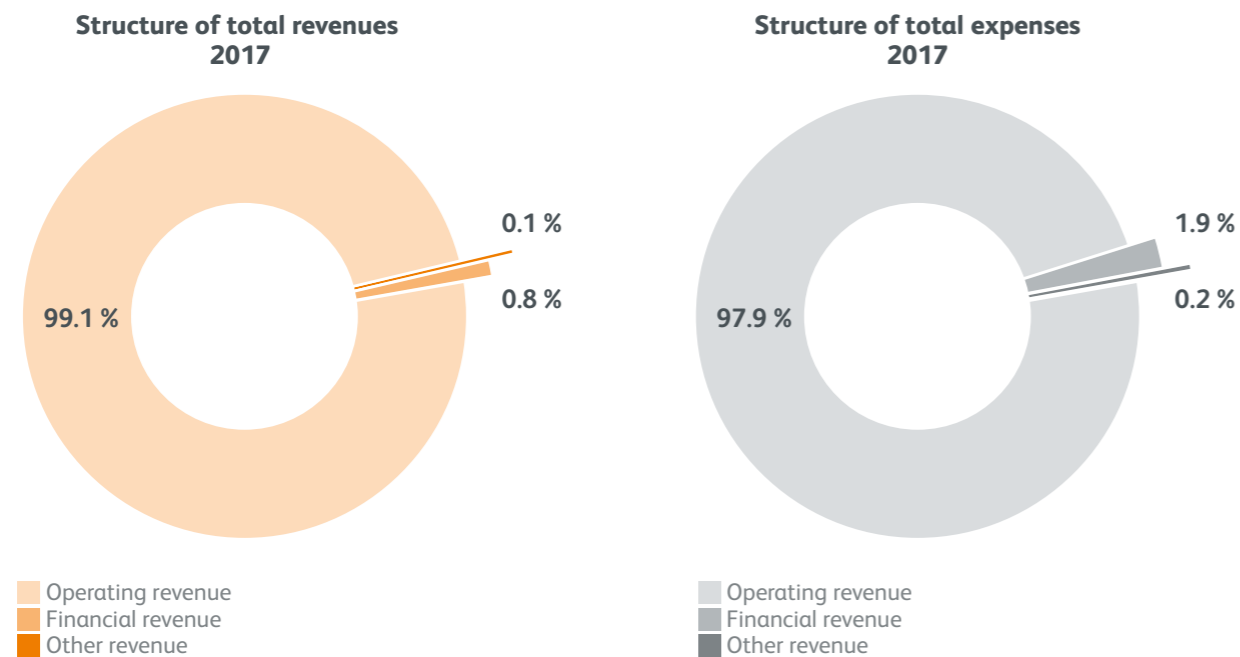
Chart 19: Total revenues, total expenses and net profit or loss



In 2017, ELES generated €187.6 million of total revenue, 99.1 % of which derives from operating revenue. Total revenue increased by 15 % with respect to 2016 and exceeds that planned by 11 %. Most of the difference, with respect to the previous year, refers to operating revenue.

Total expenses amounted to €172.6 million in 2017. Operating expenses in the structure account for 97.9 % of total expenses.

Chart 20: Structure of total revenues / expenses in 2017



OPERATING REVENUE AND EXPENSES

Chart 21: Operating revenue, operating expenses and profit or loss

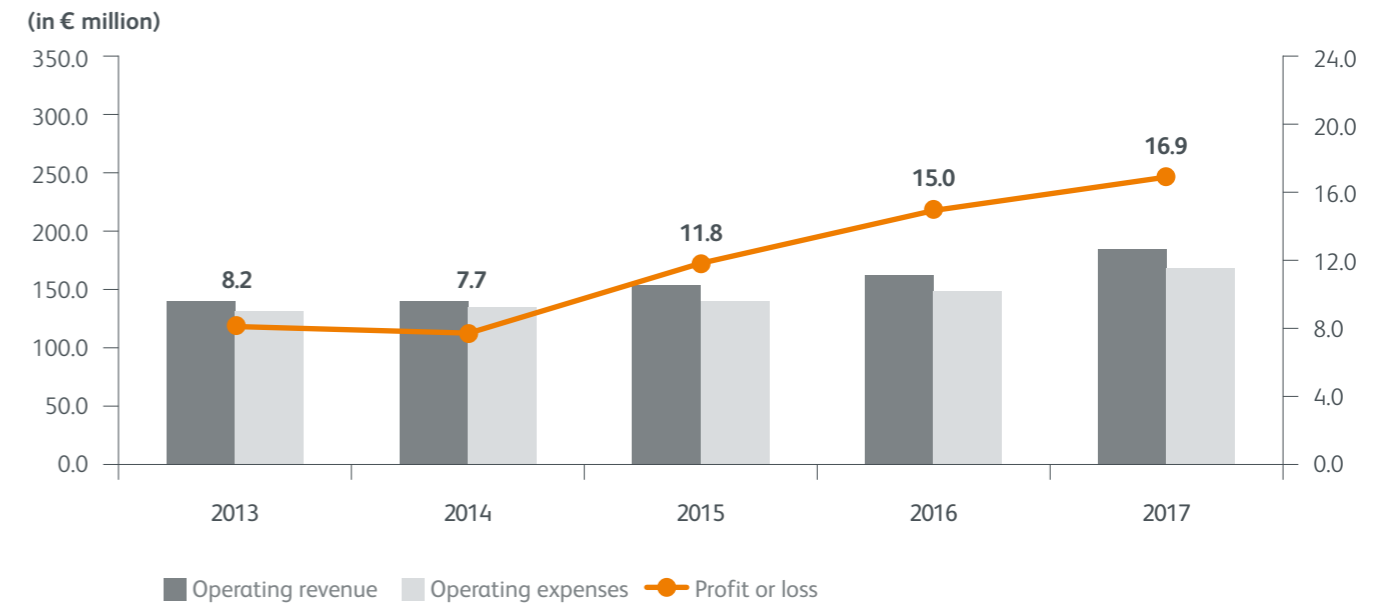
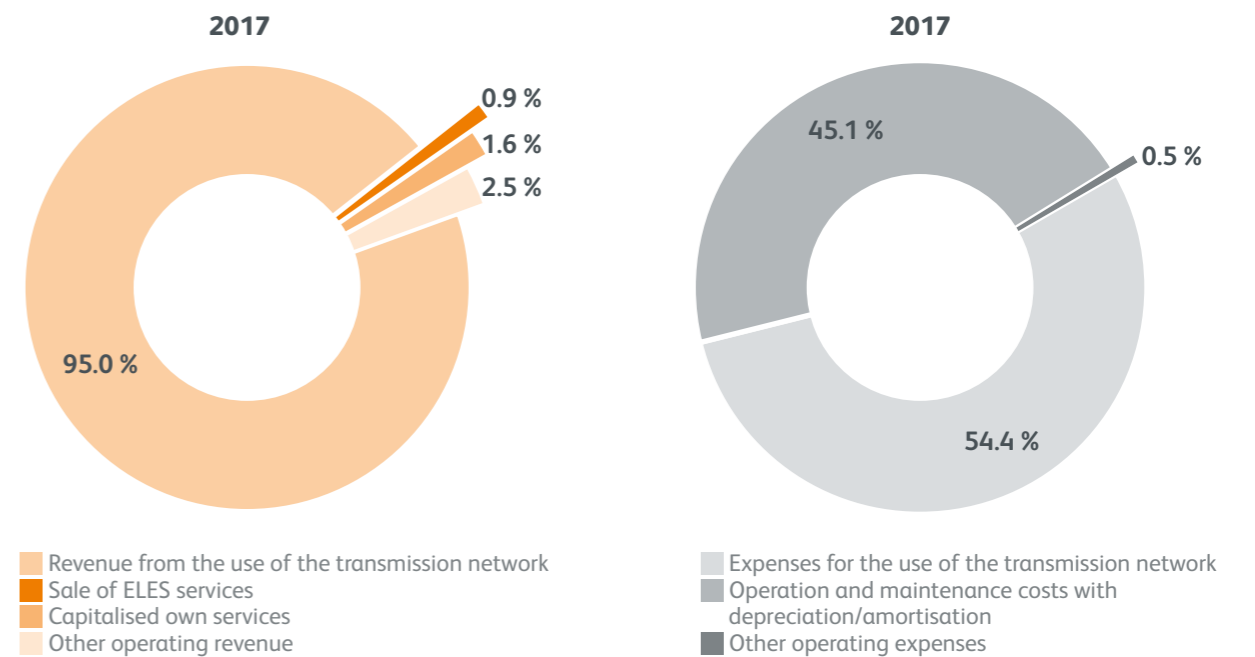


Chart 22: Operating revenue and expenses



OPERATING REVENUE

In 2017, the Company generated **€185.8 million in operating revenue**, which is 14% more than in 2016 and 10% more than planned for 2017. Increased operating revenue primarily derives from increased revenue from system settlement, which resulted from high electricity prices due to low temperatures in January, poor hydrology characteristics in South-East Europe and unplanned shutdowns of nuclear power plants in France.

Most **operating revenue** is revenue for the use of the transmission system. ELES generates **most of its operating revenue from the transmission network charge and use of cross-border transmission capacities** in order to pursue the activities of a transmission system operator. Revenue from transmission network charges are intended for the purchase of electricity to cover losses in the system, leasing system services and covering the cost of operation and maintenance with a regulatory return. The costs of system balancing are settled and covered in the amount of system balancing revenue incurred.

Revenue from the use of the transmission system increased by €5.4 million, pursuant to the Energy Act and the Legal Act on the methodology determining the regulatory framework and the methodology for charging the network charge for the electricity distribution system, and comprises of:

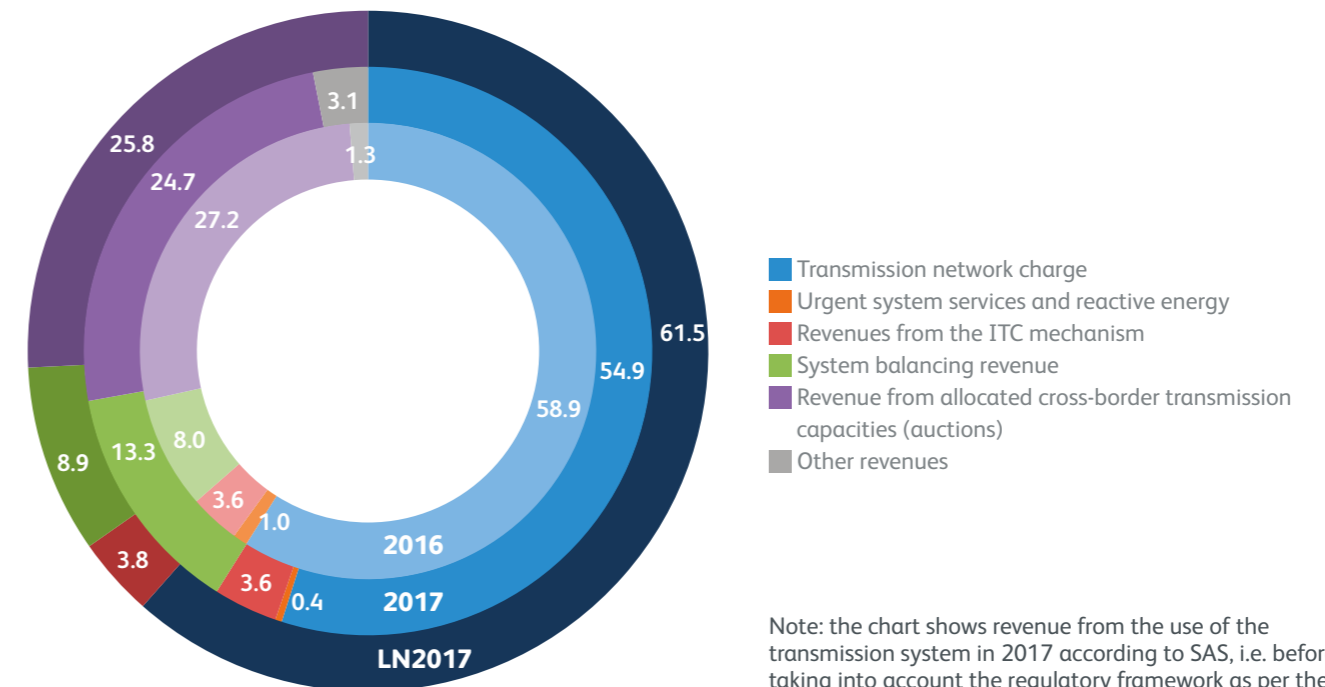
- increased revenue for a source from previous year for the use of excess network charges in the amount of €33.7 million and decreased revenue for the current year excess in the amount of €8.3 million, which altogether implies increased revenue deriving from the use of network by €25.4k. The amount represents a shortfall of revenue over eligible costs as calculated based on the Agency methodology for calculating the regulatory frame;
- increased revenue amounting to €2.9k, based on a corrective action laid down in a Response Report issued by the Court of Audit on 5 March 2013 to the Audit Report. The harmonisation was presented in detail in the Annual Report for 2016, Chapter 5.5;
- increased revenue amounting to €0.4k, deriving from the harmonisation of 2016 excess that was identified together with the Energy Agency after the final harmonisation of the regulatory framework for 2016;

- decreased revenue deriving from cross-border transmission capacities for the purposes laid down in Regulation (EC) 714/2009, in the total amount of €23.3 million. €2.5 million was spent on ongoing investments in cross-border capacities, while €20.8 million was transferred to a separate internal account for future investments in cross-border transmission capacities.

Revenue deriving from network charge excess and revenue from the corrective action laid down by the Court of Audit were both transferred from other operating revenue to net sales revenue in 2017.

Other operating revenue primarily includes revenue from international projects, revenue from drawing accrued costs and deferred income to depreciate assets obtained free of charge and assets funded from cross-border transmission capacities and other operating revenue such as written-off receivables recovered, profit from the sale of fixed assets and revenue from provisions for lawsuits. Other operating revenue fell by 27% compared to the previous year, mostly because revenue from the use of accrued and deferred items (Court of Audit) was recorded under other operating revenue in 2016, but fell under net sales revenue in 2017.

Chart 23: Structure of revenues from the use of the transmission system in 2017 and 2016 and AP 2017



Note: the chart shows revenue from the use of the transmission system in 2017 according to SAS, i.e. before taking into account the regulatory framework as per the Energy Act



OPERATING EXPENSES

In 2017, the Company also recorded increased **operating expenses**, which amounted to **€168.9 million** and grew by 14% compared to 2016 and by 12% compared to those planned. Increased operating expenses are primarily the result of increased cost of system balancing, the cost of electricity purchase for covering losses and the cost of operation and maintenance with depreciation.

The majority of costs were incurred in the first two months of 2017, when conditions on the energy market practically throughout continental Europe were

very stressed. On one side, they were the result of extremely low temperatures, mostly in January, which heavily increased electricity consumption and on the other, they resulted from a number of unplanned shut-downs of nuclear power plants in France while South-East Europe experiences extremely poor hydrology characteristics. As a result, prices on the daily market increased by 100% and irrespective of the usual level, jumping well over €100/MWh. The trend was particularly pronounced on the balancing market, where prices very frequently exceeded €200/MWh. The market organiser reimburses the difference between costs and income deriving from balancing energy to ELES as the system operator.

Chart 24: Structure of expenses for the use of the transmission system for 2017 and 2016 and AN 2017

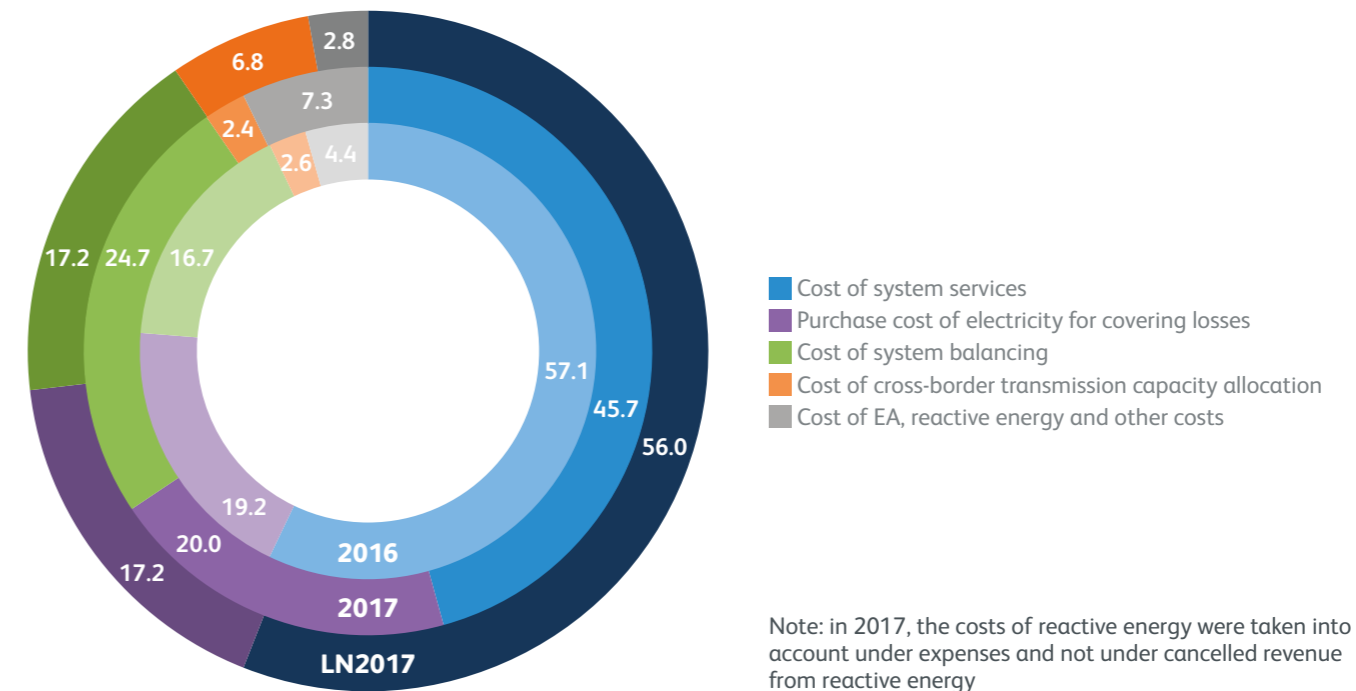
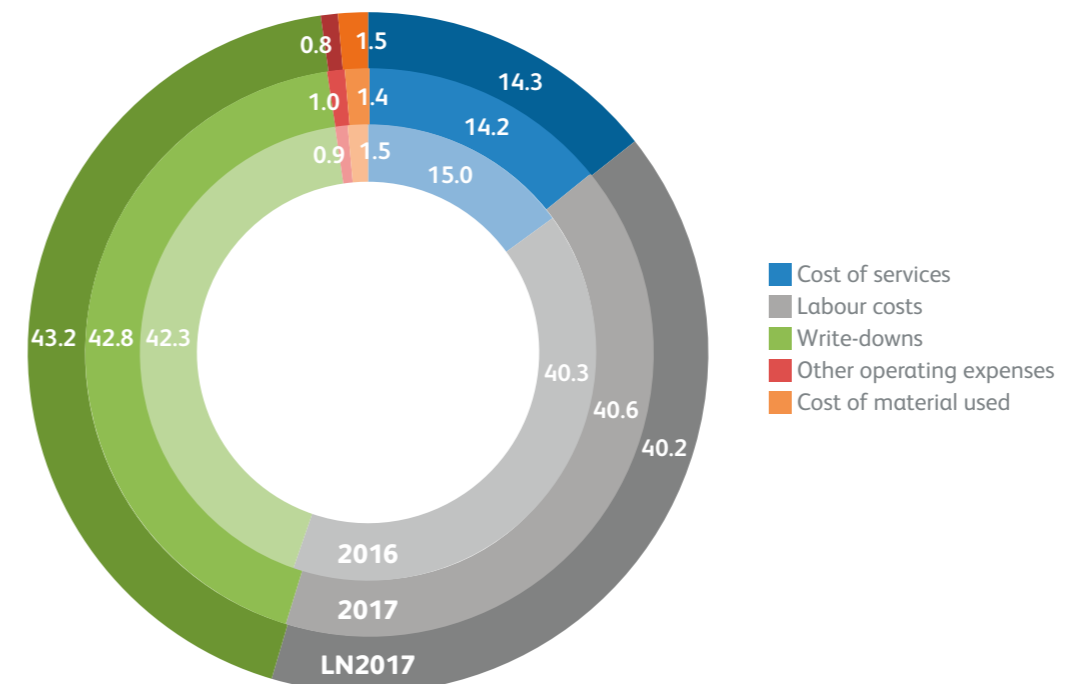


Chart 25: Structure of operation and maintenance costs with depreciation/amortisation



Analysis of the Company's financial position

The Company's balance sheet **total**, as at 31 December 2017, amounted to €677.2 million and increased by €28.3 million or 4% compared to 2016.

The majority of **assets** (88.5%) are long-term assets, which mostly comprise fixed assets amounting to €501.6 million and increased in 2017 by €21.1 million. The reason for the increase is investments in power facilities. Long-term investments amounted to €92.8 million and increased by 4% compared to 2016. The largest share of investments relates to investments in Talum (€90.5 million) and increased by €3.6 million in 2017 compared to 2016 due to the swap of a short-term loan to a long-term investment. Hence, ELES obtained a 86.26% share in Talum. Short-term assets amounted to €75.6 million and increased in 2017 by 2% compared to 2016, with changes recorded primarily in the internal structure of assets, where fewer funds were earmarked for short-term investments in 2017 and more for cash and cash equivalents. Short-term deferred costs and accrued income amounted to €2.3 million and increased by €0.6 million compared to the previous year, primarily due to an increase in short-term accrued revenue for the ITC mechanism.

Almost half of the **liabilities** is the Company capital, which amounted to €331.7 million as at the end of 2017 and increased by €17.9 million compared to the previous year, hence mostly for the net profit achieved as at 31 December 2017, while the remainder is the conversion of valuations at fair value. In its 2016 Annual Report, the Company made an error correction as at 31 December 2015 in order to consolidate records with the Agency and according to the decision issued by the Court of Audit, disclosing a net loss from previous years under equity in the amount of €56 million, while increasing long-term accrued costs and deferred income. Based on a Gov-

ernment decision of 31 August 2017, accumulated loss as at 31 December 2016 amounting to €43.5 million was covered from other profit reserves in the amount of €18.3 million and from legal reserves in the amount of €8.5 million, whereby the total profit reserve was utilised, while the rest was covered from capital surplus in the amount of €16.7 million, whereby capital surplus decreased from €156.9 million to €140.3 million. Provisions and long-term accrued costs and deferred income decreased by €1.1 million compared to the end of 2016 and amounted to €253.3 million. Provisions increased by €2.0 million, while long-term accrued costs and deferred income decreased by €3.1 million. The latter primarily involves long-term deferred revenue deriving from network charge excess and long-term deferrals for realised investments that were funded

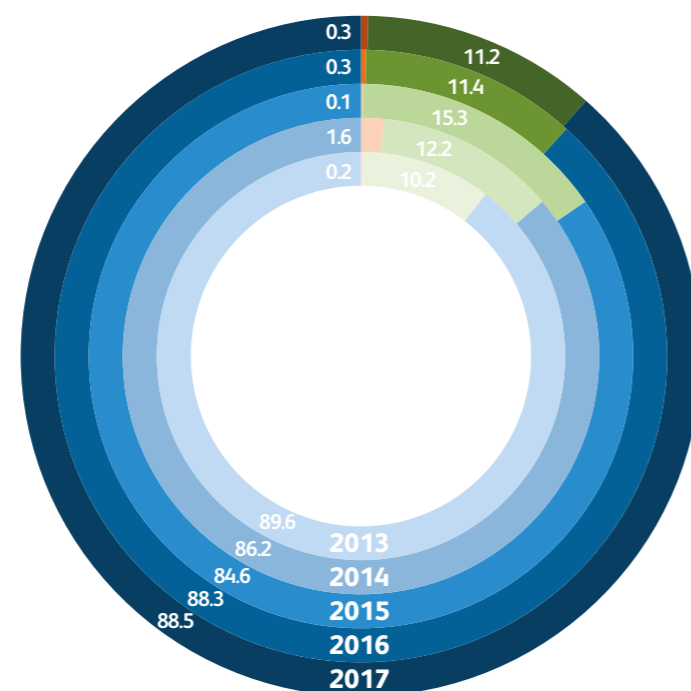
from grants. In 2017, the increase primarily resulted from deferred revenue from cross-border transmission capacities amounting to €23.3 million (deferred revenue amounting to €2.5 million for ongoing investments in cross-border transmission capacities and €20.8 million of a transfer to a separate internal account for future investments in cross-border transmission capacities) and interest on the average surplus balance amounting to €1.9 million, while the decrease resulted from a network charge shortfall amounting to €25.4 million and the Court of Audit action in the amount of €2.9 million. Long-term liabilities amounted to €55.3 million and increased by 4% compared to 2016. Most (99%) are long-term financial liabilities, which amounted to €54.8 million, €45.4 million of which was a loan hired from EIB, which in 2017 decreased by the short-term share

of the loan amounting to €2.8 million and a loan received from UniCredit Banka Slovenija amounting to €6.0 million, which represents the first tranche of a long-term loan received for financing the takeover of the 110kV power grid that in total amounts to €30.0 million. The remainder of the loan (€24.0 million) will be drawn in line with the annex to the contract, i.e. between 28 September and 31 December 2018. The remaining share of long-term financial liabilities are other long-term liabilities amounting to €3.4 million, which include financial derivatives to secure cash flow variability on account of interest rate changes on a long-term loan (interest rate collar and exchange), which decreased by €1.2 million or 27% compared to 2016 due to consolidation to the market value. Short-term liabilities amounted to €33.4 million at the end of 2017 and grew by 32% with respect to the end of 2016. Short-term financial liabilities comprise the short-term share of the EIB loan amounting to €5.0k, which did not change compared to the end of 2016. Short-term operating liabilities increased by €8.0 million compared to the previous year and amounted to €28.4 million. The increase is primarily the result of increased short-term trade liabilities in the country.

Short-term accrued costs and deferred income amounted to €3.5 million and increased by €1.3 million compared to 2016. They mostly include short-term deferred income from auctions and EU projects.

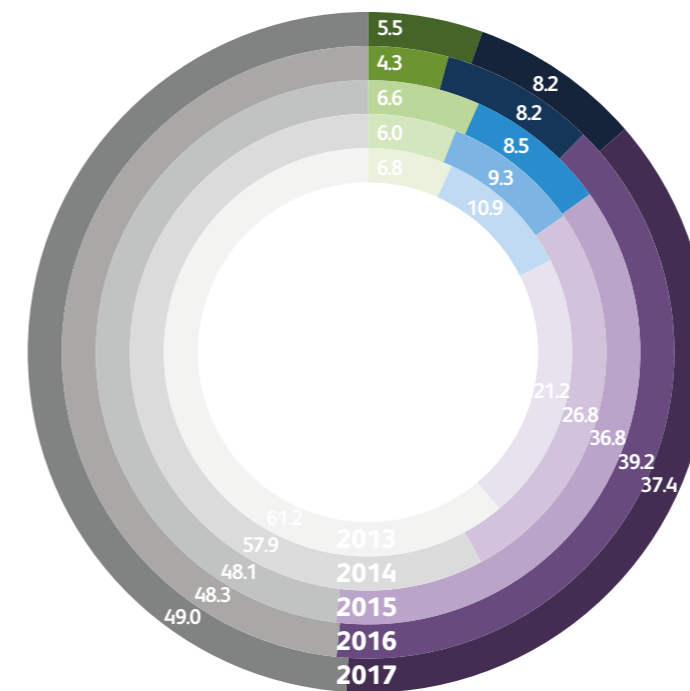
Contingent liabilities include liabilities for a guarantee for a long-term loan to BSP in the amount of €4.8 million and liabilities for a guarantee for the purchase of electricity for the 2016-2018 period by the subsidiary Talum in the total amount of €10 million (€8.5 million to HSE and €1.5 million to Petrol).

Chart 26: Short-term deferred costs and accrued revenue



■ Short-term deferred costs and accrued revenue
 ■ Current assets
 ■ Long-term assets

Chart 27: Short-term liabilities and short-term accrued costs and deferred revenue



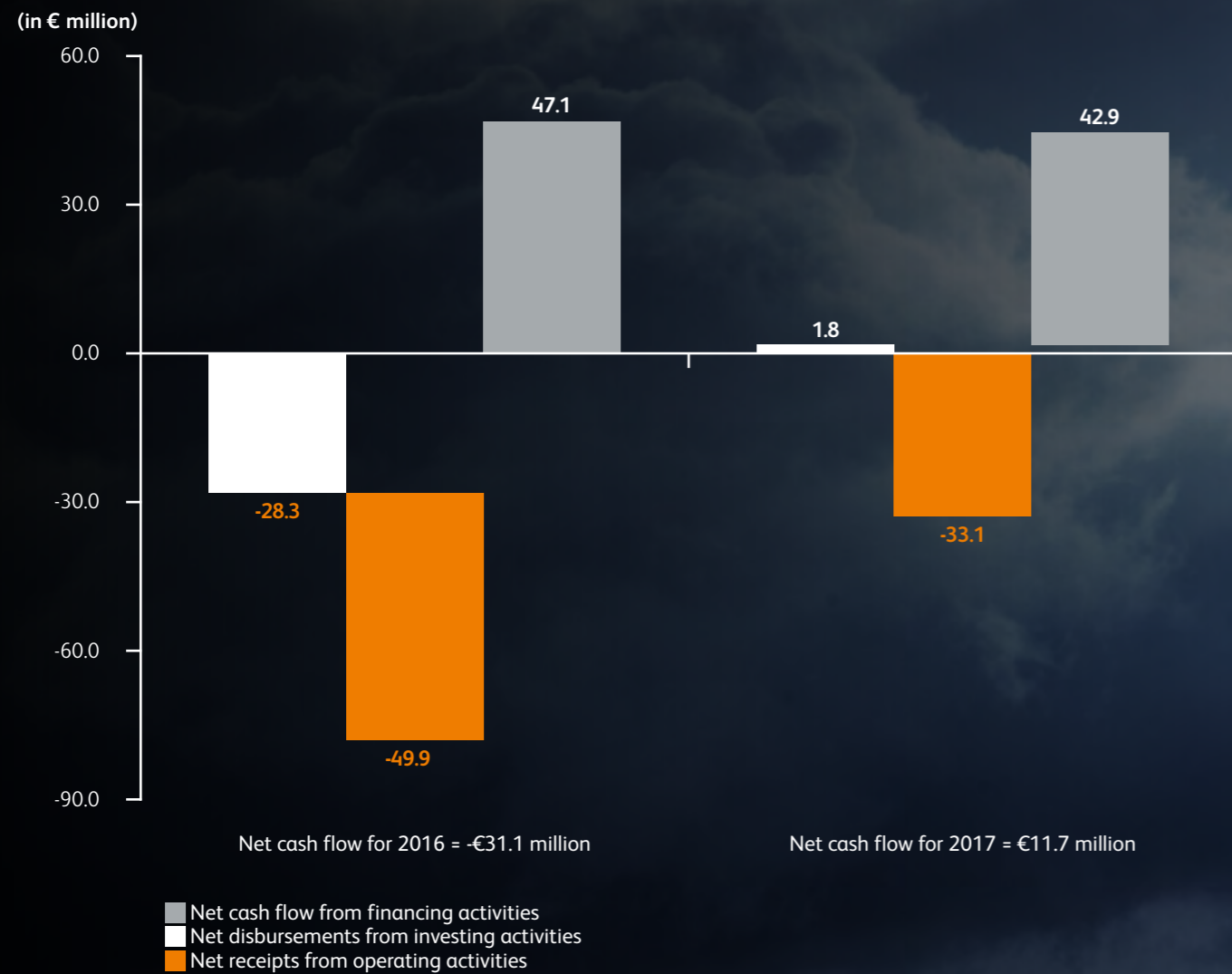
■ Short-term liabilities and short-term accrued costs and deferred revenue
 ■ Long-term liabilities
 ■ Provisions and long-term accrued costs and deferred revenue
 ■ Equity

Cash flow statement

Cash flow for the period amounted to €11.7 million. Net cash flow from operating activities reached €42.9 million. The Company also discloses a net cash flow from financing activities, since the long-term loan received from UniCredit Banka exceeds expenses for

interest and repayment of the EIB loan principle. Net cash flow from operating and financing activities was primarily intended for the acquisition of property, plant and equipment and intangible assets in the amount of €46.0 million. The final balance of cash and cash equivalents amounted to €28.0 million.

Chart 28: Cash flow statement



PERFORMANCE INDICATORS FOR THE COMPANY

Table 14: Financial performance indicators

MAJOR INDICATORS			31.12.2016	31.12.2016	31. 12. 2017	31. 12. 2017
Financing ratios			base in € thousand		base in € thousand	
1.	Equity financing rate in %	equity /	313,736.4	48.3	331,663.7	49.0
		liabilities	648,907.4		677,237.2	
2.	Debt financing rate in %	debts /	78,603.8	12.1	88,743.6	13.1
		liabilities	648,907.4		677,237.2	
3.	Long-term financing rate in %	sum of equity, long-term debts and provisions /	621,322.1	95.7	640,276.7	94.5
		liabilities	648,907.4		677,237.2	
Investment indicators						
1.	Operating fixed asset rate in %	fixed assets (at carrying amount) /	480,533.0	74.1	501,625.9	74.1
		assets	648,907.4		677,237.2	
2.	Long-term assets rate in %	sum of fixed assets (at carrying amount), long-term investments and long-term operating receivables /	569,614.2	87.8	594,428.5	87.8
		assets	648,907.4		677,237.2	
Horizontal financial structure ratios						
1.	Equity to operating fixed assets ratio	equity /	313,736.4	0.653	331,663.7	0.661
		fixed assets (at carrying amount)	480,533.0		501,625.9	
2.	Current ratio	short-term assets /	74,199.9	2.924	75,567.4	2.262
		short-term liabilities	25,379.6		33,412.2	
3.	Quick ratio	sum of liquid assets and short-term receivables /	71,987.6	2.836	73,198.6	2.191
		short-term liabilities	25,379.6		33,412.2	
4.	Acid test ratio	liquid assets /	49,805.6	1.962	47,993.8	1.436
		short-term liabilities	25,379.6		33,412.2	
Operating efficiency ratio						
1.	Operating efficiency ratio	operating revenue /	162,802.4	1.101	185,828.7	1.100
		operating expenses	147,836.0		168,944.3	
Return ratios						
1.	Return on equity (ROE) in %	net profit for the year/	12,644.2	3.7	16,848.7	5.4
		average equity	340,439.1		314,275.7	
2.	Return on assets (ROA) in %	net profit for the year/	12,644.2	1.9	16,848.7	2.5
		average assets	652,613.9		663,072.3	
3.	Return on corrected assets (ROA) in %	net profit for the year/	12,644.2	2.2	16,848.7	2.9
		corrected average assets	561,989.3		572,130.4	
Investment activity indicators						
1.	Investment rate in %	realised investments and reconstructions /	34,598.0	34.9	49,509.4	56.7
		planned investments and reconstructions	99,223.6		87,259.5	
2.	Corrected investment rate in %	realised investments and reconstructions /	34,598.0	85.1	49,509.4	70.1
		planned investments and reconstructions	40,650.9		70,608.2	

Note: - indicators are calculated by item taking into account Article 120 of the Energy Act
- return on corrected assets (ROA) does not include long-term investments



The equity financing rate increased by 0.7 percentage points in 2017 to 49.0%, since equity increased more than total liabilities. The debt financing rate increased by 1.0 percentage point to 13.1%, due to increased debts, primarily higher short-term trade liabilities. In 2017, the Company financed 94.5% of its assets from long-term sources and only 5.5% from short-term sources, which increased in 2017 and caused the debt financing rate to drop by 1.2 percentage point with respect to the previous year. The operating fixed asset rate was at the same level as in 2016 and amounted to 74.1%, and so was the long-term asset rate, which amounted to 87.8%. In 2017, investments increased and exceeded the depreciation accounted. Horizontal financial structure ratios, other than equity to operating fixed asset ratio (increased equity for the generated profit of the year), decreased compared to the previous year, since short-term assets increased less than short-term liabilities (higher short-term operating liabilities). Operating efficiency (1.100) decreased by 0.001 percentage point compared to 2016, since operating revenue increased less operating expenses. Net return on equity (ROE) increased due to increased net profit achieved in 2017 compared to 2016. The same way, net profit or loss affected return on assets (ROA) and, in turn, ROA affected assets excluding long-term investments. Compared to the previous year, these increased primarily due to increased profit or loss in 2017. In 2017, the investment rate grew by 21.8 percentage points, with respect to the previous year, due to increased investments and reached 56.7% and, considering all confounding external factors, investments realised in 2017 achieved 70.1% of those planned.

STRATEGIC INDICATORS AND COMPARISON WITH TARGET VALUES FROM LSP 2016-2020

Within the scope of the set strategic goal 2 Attainment of net profit or loss in line with the Energy Agency methodology laid down in the document Long-Term Strategic Plan (LSP) for 2016–2020, the Company identified the set and target values of key economic and technical indicators for monitoring business performance in the period of LSP 2016-2020 validity.

Target values for 2017 are presented in Chapter 1.2.6 and were **achieved or surpassed** at **5 economic indicators** (return on equity – ROE, return on corrected assets – ROA, expenses per electricity transmitted, loan repayment capacity, attainment of comparable prices of power lease for secondary and tertiary control) and **5 technical indicators** (exceeding admissible voltage in hours, energy not supplied due to element failure, amount of transmitted electricity per normalised length of the transmission network, available NTC with respect to the agreed NTC with individual TSO [APG, TERNA, HOPS], adequate provision of available and reliable connections for the purposes of the Slovenian transmission network operations). The values, however, were not attained in two economic and one technical indicator.

A detailed explanation of individual indicators is below.

1. Economic indicators

Table 15: Economic indicators

Ratio/year	2016 real.	2017 real.	Targets from LSP 2016-2020
			2017
Attainment of regulated return in %	74,04	89,54	95,00
Return on equity (ROE) in %	3,71	5,36	3,00
Return on corrected assets (ROA) in % *	2,25	2,94	> 2%
Expenses per electricity unit transmitted (in €/MWh of electricity)	0,00	0,00	9,27
Loan repayment capacity	0,00	0,00	=<4
Investments per peak consumption (€/MW of peak consumption) **	0,00	0,00	13.973,00 ***
"Attainment of comparable lease prices for secondary and tertiary control (in %) SR+ SR- TR+ TR-"	100,00	100,00	Contracts from 2013

"Note:

* Return on corrected assets (ROA) does not include long-term investments.

** Peak power takes into account customers in Slovenia and cross-border flows.

- Data for TSO targets has been calculated from data for 2016."

In 2017, the **attainment of regulated return grew by 15.5 percentage points** compared to the previous year, but fell behind the target value from LSP 2016-2020 by 5.46 percentage points. The share of net profit before tax amounted to 89.54 % compared to the corrected return (regulated return decreased by financing report form). The deviation from the target value is provided in the chapter 'Regulatory impact on business performance'.

Return on equity (ROE) and return on corrected assets (ROA) are explained in the previous chapter.

Expenses per energy transmitted amount to €7.60/MWh of electricity and increased with respect to the previous year due to increased expenses and a larger volume of transmitted electricity than in 2016. The target value of the indicator was exceeded both in 2017 and 2016, since the target value of the indicator is less than €9.27/MWh of electricity (lower than is the average of all TSOs).

Loan repayment capacity improved in 2017 (the indicator decreased by 0.79 percentage point with respect to the previous year), primarily due to the transfer of a share of network charge surplus from the regulation of the Energy Agency to provisions for future planned investments (cross-border transmission capacity source, i.e. by setting up a separate internal account for the planned investments in cross-border transmission capacities).

Investments per peak consumption increased by 42 % with respect to the previous year, but still fails to achieve the set target values. The realisation of investments in 2017 exceeded that in 2016, but still fell behind that planned.

The attainment of comparable prices of power lease for secondary and tertiary control shows the comparability of the attainment of power lease prices for secondary and tertiary control (separately by direction) in Slovenia with respect to prices in Austria. The indicator value amounted to 100.00 in 2016 and 2017, since the prices set in contracts from 2013 are taken into account.

The **indicator showing excess in maximum permissible voltage** provides the number of hours when maximum permissible voltage was exceeded. Maximum permissible voltage amounts to 420kV and 245kV. One of the reasons to increase the number of hours when permissible voltage values are exceeded is the inclusion of additional metering points (12 metering points were included since 2008, with 23 in 2013). In 2017, maximum permissible voltage was exceeded for shorter time (by 100 hours) than in 2016 and totalled 133 hours, and was experienced fewer times than is the average of the previous 5 years and the target value for 2017.

Energy not supplied (ENS) shows energy that would have been supplied from the system had there not been a failure in the supply from the HV system. In 2017, that indicator amounted to 0.0006 % and increased compared to 2016, but was significantly lower than the 2011-2015 average, since that indicator grew in 2012 due to the explosion of a circuit-breaker at the Okroglo transmission system substation. The indicator achieved the target value in 2017 and 2016, which is less than 0.01 %. A substantially increased indicator for energy not supplied in 2017 compared to 2016 can be attributed primarily to poor weather conditions (wet snow and heavy winds) in Slovenia in the first half of 2017.

The volume of electricity submitted per normalised length of the transmission network shows the electricity transmitted that was taken off the transmission network (consumption in Slovenia and delivery abroad) per normalised length of the network. In 2017, 24,794MWh of electricity per kilometre of the network was transmitted, which is somewhat more than in 2016 and more than the average in the 2011-2015 period. Hence, more MWh of electricity per network kilometre was transmitted in 2017 and 2016 than is the target value, i.e. 21,526MWh of electricity per network kilometre.

The **indicator showing the share of losses in electricity transmission** at border transmission lines (transmitted electricity taken off the transmission network and used in Slovenia or delivered abroad) amounted

to 1.67 % in 2017 and slightly grew compared to 2016. The share of losses in electricity transmission was slightly higher than the 2011-2015 average. The increased percentage of losses is the result of increased electricity flow and, hence, the decreased lag behind the target value.

The available NTC indicator, with respect to the agreed NTC with individual TSOs, shows the percentage of the planned transmission capacities that was in fact available and offered on the market at an individual border and direction. In the directions Slovenia-Italy and Croatia-Slovenia, the indicator for 2017 amounts to 100 %, which is also the average in recent years, meaning that the planned volumes were indeed offered. In the direction Austria-Slovenia, the indicator for 2017 amounted to 77 %. That value exceeds the indicator value for 2016, which amounted to 68 %, but is still lower than a several-year average. Such a low value of the indicator may largely be attributed to the high growth of production from renewable energy sources, primarily in Germany. High flows of that energy, via the Austrian transmission network, cause great problems to the Austrian system operator, which is why the latter is forced to limit export at Austria's southern border. In practice, that means decreased values of transmission capacities for market purposes. Compared to target values in 2017 in the direction from Austria to Slovenia, the indicator fails to achieve the target value, but exceeds them in the directions from Croatia to Slovenia and from Slovenia to Italy.

The indicator showing adequate provision of available and reliable connections for operational purposes of the Slovenian electricity transmission system amounted to 99.884 % in 2017 and increased compared to 2016, but was lower than the 2011-2015 average and lower than the target value for 2017. Availability at that network decreased due to the execution of the SDH upgrade and migration of users to the new network; however, services were not interrupted, since another network was put into operation at that time.

2. Technical indicators

Table 16: Technical indicators

Ratio/year	2016 real.	2017 real.	Targets from LSP 2016-2020
			2017
Exceeding admissible voltage in hours (400kV = 425kV, 220kV = 245kV)	233	133	<775.5
Energy not supplied due to a failure of transmission network elements in %	0.0003	0.0006	<0.01
Electricity transmitted per normalised length of the transmission network in MWh/km	24,236	24,794	21,526
Share of losses in electricity transmission in %	1.53	1.67	=<1.46
Available NTC with respect to the NTC agreed with individual TSOs (APG, TERNA, HOPS) in %			
- Austria-Slovenia	68	77	90
- Croatia-Slovenia	100	100	90
- Slovenia-Italy	100	100	85
Adequate provision of available and reliable connections for the purposes of the Slovenian transmission network in %	99.5930	99.8836	99.995

Note:

- Data for TSO targets are calculated from data for 2016.

- Normalised length (ELES): LNORM = L400 kV + a * L220 kV + b * L110 kV; c a=0.29, b=0.08

CREDIT RATING IN 2017

Table 17: Credit rating in 2017

Credit rating of ELES d.o.o. (source: gvin.com)			
Year	Credit rating	Dynamic rating	Based on data for
2013	B1	++	2012
2014	B1	++	2013
2015	B1	++	2014
2016	A1	++	2015
2017	A1	++	2016

The credit rating for 2017 is based on the data provided by the Agency of the Republic of Slovenia for Public Legal Records and Related Services (AJPES) for 2016. The annual score, using the Bisnode (Gvin) d.o.o. methodology, is based on a financial assessment and 6 selected financial indicators (indicators of liquidity, solvency, debt servicing, credit exposure to business, operating return on assets, asset turno-

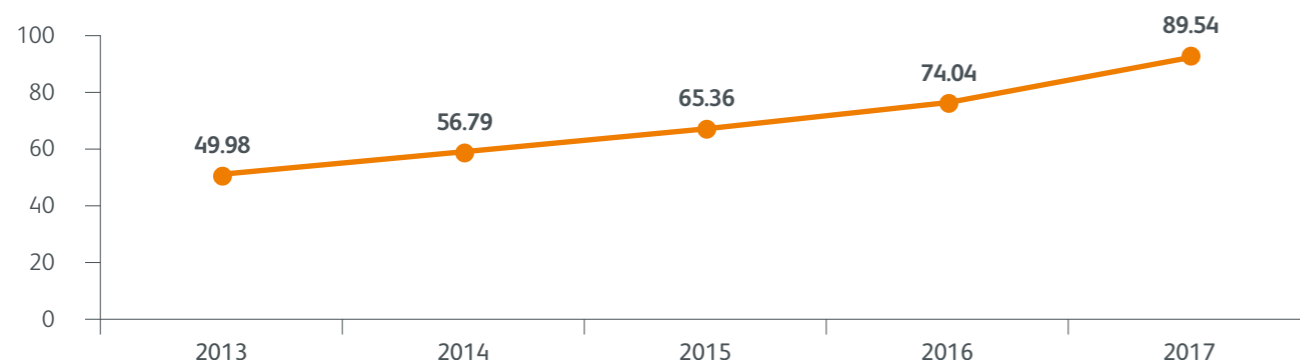
ver ratio) and the comparison of the credit score for two consecutive years (establishment of model stability). The score also includes data on the industry, company size and type of entity. **In 2017, the Company again received a credit score of A1**, the same as in 2016, based on improved credit exposure indicator and, hence, a better total general score.

REGULATORY IMPACT ON BUSINESS PERFORMANCE

In 2017, profit or loss before tax amounted to €15,028.9k and the corrected regulated return amounted to €16,784.6k. The term “corrected regulated return” is defined by ELES as regulated return, determined on the based on applicable Agency methodology and decreased by the financing report form. Regulated return is intended for the coverage of financing expenses, expected return on equity and corporate income tax.

When comparing corrected regulated return and achieved profit or loss before tax, the indicator of regulated return attainment is obtained, which amounts to 89.54% for 2017 and falls behind the target value from LSP 2016-2020 by 5.46 percentage points. The chart below shows changes in the regulated return indicator since 2013. It is evident that in 2017 ELES achieved the best result of the last 5 years.

Chart 29: Attainment of corrected regulated return in %



The indicator deviates from the target value primarily due to a lower realisation of investments and reconstructions amounting to €49,509.4k and falling behind that planned by 43% (€37,750.1k). In 2017, the Company planned capitalised own services in the amount of €4,217.2k, but realised them in the amount of €3,039.7k. The difference amounting to €1,177.5k, with respect to that planned, refers to non-realised works in investments and reconstructions. The Company continues to face problems in the completion of the investment plan. Causes for delays or deviations between the plan and realisation refer primarily to external factors. Those are indicated in detail in Chapter 2.1.2 Network expansion and maintenance. The realisation of investments and reconstructions would enable the realisation of planned capitalised own services and increase profit before tax by €1,177.5 and, as a result, the regulated return indicator by 7 percentage points.

The regulated return on assets indicator would have also been higher had the Company realised the takeover of the 110kV network. According to the current methodology to assess the regulatory framework for the 2016-2018 period, the controlled cost of operation and maintenance depends on size of the network. Based on its business policy, the Company provided appropriate human and other resources in 2015 and 2016 to take over that equipment as laid down in the Decree based on paragraph 4 of Article 35 of the Energy Act. Had the network been taken over, which could not be done as laid down in the Decree (Chapter 2.1.2 Network expansion and maintenance) due to external factors, the Agency would recognise €313.2k more revenue to the Company for covering the cost of the takeover, which would raise profit before tax by €316.4k taking into account lower interest on the average surplus balance, thus also increasing regulated return indicator by 1.9 percentage points.

Table 18: Impact of a regulated return on business performance

Item	Amount	Attainment of regulated return
1 Profit before tax for 2017	15,028,938 €	89.5%
2 Increase in capitalised own services	1,177,530 €	7.0%
3 Increase in NSDV - acquisition of 110kV with interest	316,355 €	1.9%
4 Profit before tax after the increase (1+2+3)	16,522,823 €	98.4%

It is evident that the regulated return attainment indicator would exceed the target value of 95% (it would amount to 98.42%) had the Company had conditions to fully realise investments and recon-

structions as well as the takeover of the 110kV network, meaning that ELES successfully pursues the goal to equalise corrected regulated return and total profit or loss before tax.

