

STRATEGIC POLICIES BY 2020

The development trend of ELES is laid down in the strategic documents Long-Term Strategic Plan of ELES d.o.o. for 2016-2020 and the Republic of Slovenia Transmission System Development Plan from 2017 to 2026. The documents take into account forecasts of economic trends and technological developments in the electricity sector. Since Company operations are strongly regulated by Slovenian and European legislation, the Company closely monitors regulatory developments and, if required, gets involved in processes. All of this is done with the aim to prepare in time for the introduction of prescribed changes or for the implementation of new tasks.

Long-Term Strategic Plan for 2016-2020

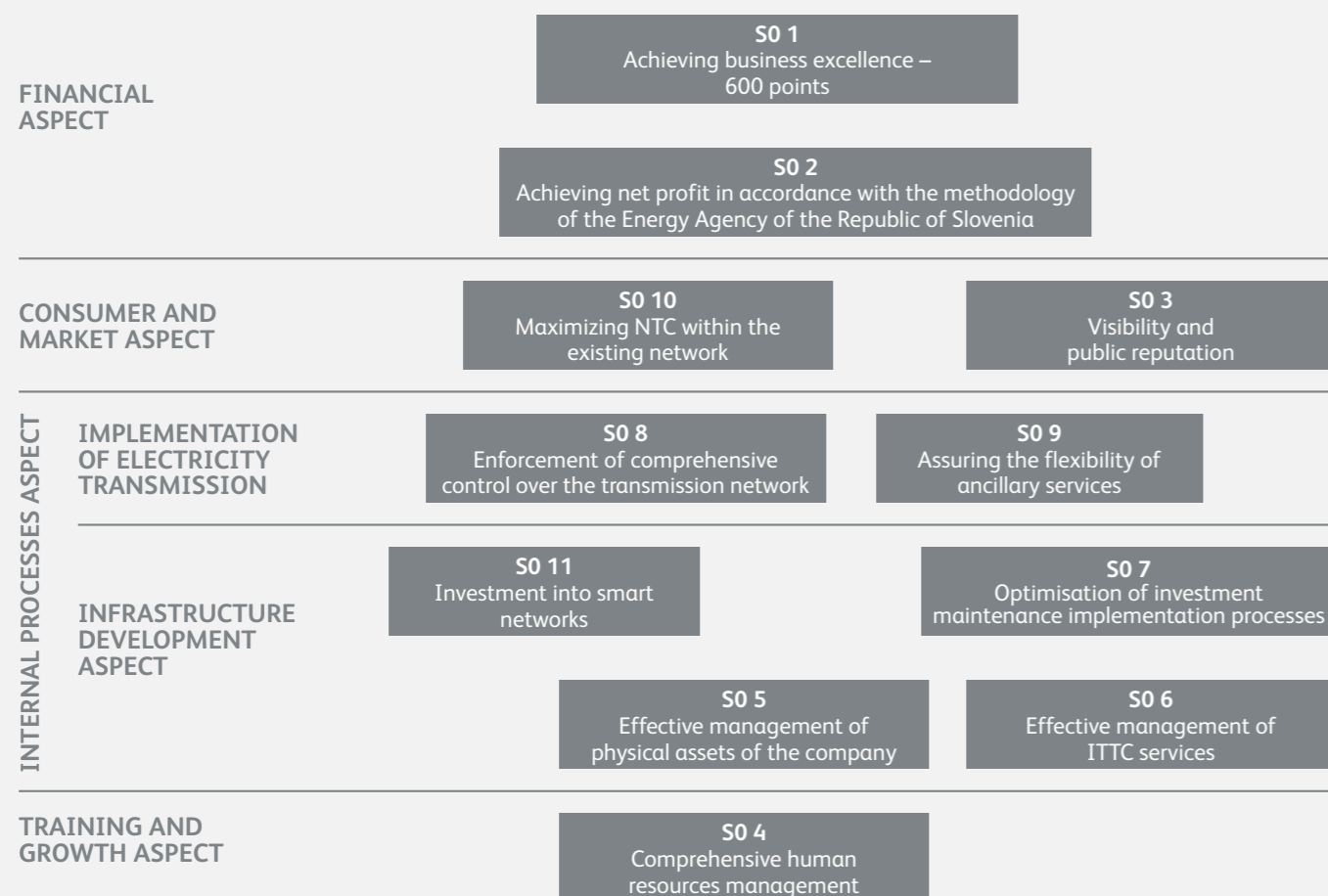
The strategic policies laid down by ELES in its Long-Term Strategic Plan (LSP) for 2016-2020 are a response to challenges and findings deriving from a comprehensive and in-depth analysis of external and internal environment. For the first time in Company history, its LSP was also adopted by the Slovenian Government, thus giving the document even greater weight.

Main strategic policies for ELES development by 2020

Eleven strategic objectives were broken down to four groups with respect to strategic performance. Furthermore, sub-goals and strategic indicators ensuring control over the realisation of strategic objectives and facilitating activity planning for their fulfilment were defined for all strategic objectives.



Four groups and eleven strategic objectives of ELES



In November 2017, the Company held its 8th strategic conference, where it reviewed the realisation of the strategy to achieve strategic objectives and indicators demonstrating the level of attainment of strategic objectives. The most important strategic indicators used to monitor performance in the pursuit of the strategy are economic and technical indicators. These are presented below along with their target values.

LSP 2016-2020 identifies strategic objective 2 “Attainment of net profit or loss pursuant to the Energy Agency methodology.”

The attainment of a previously indicated strategic objective is only possible upon the completion of numerous goals at the level of processes and also

largely depends on many external factors. Hence, the Company has introduced a monitoring system for over 400 process indicators and also identifies “strategic indicators” with strategic business plans. The Company identified a range and target values of the key economic and technical indicators for monitoring performance during the term of the Long-Term Strategic Plan for 2016-2020.

Target indicator values have been identified on the basis of two facts:

- 1) ELES is among the first three or at least within the average of all (8) analysed transmission system operators in EU Member States;
- 2) attainment of indicator values enhancing business operations.

ECONOMIC INDICATORS

Table 3: Targets for the period of LSP 2016-2020 validity

Indicator	Indicator targets
Attainment of regulated return (in %)	2016: 90 % 2017: 95 % 2018-2020: 100 %
Return on equity (ROE) (in %)	2016-2018: 3 % 2019-2020: 3.5 %
Return on corrected assets (ROA) (in %)	No less than 2 %
Expenses per electricity unit transmitted (€/MWh of electricity)	Lower indicator value than the average of all TSOs
Loan repayment capacity	The same or lower than 4
Investments per peak consumption in €/MW of peak consumption	The same or higher indicator value than the average of all TSOs
Attainment of comparable lease prices for secondary and tertiary control (in %)	2016-2018: as per existing contracts 2019: 140 % 2020: 120 %

TECHNICAL INDICATORS

Table 4: Targets for the period of LSP 2016-2020 validity

Indicator	Indicator targets
Exceeding admissible voltage (400kV = 425kV, 220kV = 245kV) (h)	No more than 50 % of the average No. of hours under excess voltage from 2011 to 2015
Energy not supplied due to a failure of transmission network elements (MWh of electricity)	No more than 0.01 %
Electricity transmitted per normalised length of the transmission network (MWh/km)	The same or higher indicator value than the average of the first 3 TSOs
Share of losses in electricity transmission (in %)	The same or lower indicator value than the average of all TSOs
Available NTC with respect to the NTC agreed with individual TSOs (APG, TERNA, HOPS)	Austria - Slovenia: NTC 950MW 2016: 80 % 2017-2018: 90 % 2019-2020: 100 % Croatia - Slovenia: NTC 1200MW 2016-2017: 85 % 2018-2019: 90 % 2020: 95 % Slovenia - Italy: NTC 530MW 2016: 75 % 2017-2018: 85 % 2019-2020: 95 %
Adequate provision of available and reliable connections for operational purposes of the Slovenian electricity transmission system	Continuous: 99.995 % availability of telecommunication lines

The realisation of strategic goals is shown in detail in chapter 2.2.1 (Economics: financial performance).

Plan for 2018

The bases for the production of the Annual Report of ELES for 2018 with an annex for the next two years are defined in LSP 2016-2020. The Company also took into account the RS Transmission Network Development Plan for 2017-2026 (adopted by the Ministry of Infrastructure on 3 March 2017) and the transmission system operator's investment plan from 2016 to 2018.

In 2018, Company efforts will be devoted to:

- continuing the implementation of a policy to improve business excellence while respecting the target values and acting in line with the Code of Ethics and the corporate integrity guidelines;
- further developing the asset management system while taking into account risk management;
- realising priority strategic investments and reconstructions within the specified periods while providing adequate sources of financing;
- completing the renovation of the entire risk management model;
- proactive relations with the public and civil initiatives;
- preparing sustainability reports as the basis for raising Company reputation in public;
- further introducing methods and procedures for effective HR management and development;
- business operations within the framework laid down by the Agency for the 2016-2018 regulatory period;
- following up policies and actively participating in international associations with regard to activities of transmission system operators;
- effectively managing the Company's capital investments;
- observing the policies and governance code issued by the manager of capital assets of the State.

Table 5: Plan by key strategic objective for 2018

Key strategic objectives until 2020	Indicator	Targets for 2018
SO 1 Achieving business excellence – 600 points	Total self-assessment rate under the EFQM excellence model (points) Level of Company's exposure to risks (risk tolerance) %	550 points 5 % deviation
SO 2 Achieving net profit pursuant to the Energy Agency methodology	Attainment of regulated return (in %) Return on equity (ROE) (in %) Return on assets (ROA) (in %) Expenses per transmitted electricity unit (€/MWh) Achievement of comparable lease prices for secondary and tertiary control (in %) Loan repayment capacity Investments per peak consumption €/MW	100 % 3 % Not less than 2 % Lower indicator value than the average of all TSOs Equal or higher indicator value than the average of all TSOs Equal or lower than 4 According to current contracts
SO 3 Visibility and reputation in the public	Interviews with executive officers in local or foreign printed and electronic media (number) Lectures at expert conferences and seminars in Slovenia and abroad Donations/contributions/sponsorships for cultural/humanitarian/scientific purposes/education of young people/individual athletes in total funds earmarked for such purposes	10 or more a year 10 or more a year 60 %
SO 4 Comprehensive human resources management	Fulfilment of conditions with regard to conditions prescribed for systematically organised jobs (%) Measurement of employee satisfaction and organisational climate at the Company (score)	94.25 % Satisfaction: 4.50; Organisational climate: 4.30
SO 5 Effective management of Company's physical assets	Asset management process (structured indicator) in % Property, plant and equipment write-off index in line with the average of comparable TSOs (%)	3 % 150 %
SO 6 Effective management of ITC services	100 % provision of available and reliable connections for the requirements of the Slovenian electricity transmission network (%) Paperless operation and electronic archiving (%)	99.995 % availability of services Reduction of email attachments by 20 % per year Reduction of printing by 15 % per year 100 % collection of incoming mail in 2018 70 % internal and external mail in electronic form in 2018 and an additional 10 % increase every year
SO 7 Optimisation of investment and maintenance processes	Value of reconstruction works with own resources disregarding the cost of goods used (in €) Percentage of realisation of the applicable Investment Plan (%)	15 % growth per annum compared to 2017 60 %
SO 8 Enforcement of comprehensive control over the transmission network through the acquisition of existing network, enforcement of uniform criteria for connections and entry in investments/reconstructions of border transmission and distribution network.	Offtake of 100kV network Pursuant to the Regulation as per Paragraph 4 of Article 35 of the Energy Act (%) Control of the entire 110kV network not owned by ELES (%)	100 % 75 %
SO 9 Provision of flexible system services	Share of generation units included in primary control (% of all generation units)	75 %
SO 10 Maximising NTC within the existing network	Available NTC with respect to the NTC agreed with individual TSOs (for every border and selected direction)	Austria-Slovenia: 90 % Croatia-Slovenia: 85 % Slovenia-Italy: 85 %
SO 11 Investments in smart grids	Share of transmission network coverage by SUMO (%)	50 % /80 %

Slovenian Transmission System Development Plan for 2017-2026

The strategic document laying down guidelines for the development of the transmission network is the Slovenian Transmission System Development Plan for 2017-2026. It lays down the main infrastructure to be built or upgraded by 2026 in order to provide secure and quality supply of electricity to customers in future. The plan takes into account the long-term projections of the growth of electricity off-take from the transmission system, the foreseen construction of new generation units, the expansion of the distribution network and the projected development of the European electricity transmission system. Baselines for the selection of reconstruction and new investments were prepared on the basis of results from own analyses, analyses conducted by external institutions, development criteria, plan of overhaul and technological renovation of electric power elements in transmission network facilities, demand by electricity producers and customers, criteria for secure and safe operation of the transmission network and international agreements and contracts.

In addition to activities in smart grids, research and development and effective asset management, ELES will build or reconstruct several structures in the next

10-year period in order to provide safe and reliable operation of the transmission network, most importantly:

- construction of a double-system transmission line 2 x 400kV Cirkovce-Pince, including the new 400kV Cirkovce transmission system substation;
- construction of a double-system transmission line 2 x 220kV Zagrad-Ravne, including the 220/110kV Ravne transmission system substation;
- installation of compensation devices at Divača, Beričevo and Cirkovce transmission system substations within the scope of the SINCR0.GRID project;
- installation of electricity storage facilities at Okroglo and Pekre transmission system substations within the scope of the SINCR0.GRID project;
- completion of the 2 x 110kV Divača-Gorice transmission line through the settlement of Renče;
- 2 x 110kV Brestanica-Hudo transmission line;
- 110kV Koper-Izola-Lucija cable conduit.

The Slovenian Ministry of Infrastructure confirmed the new Slovenian Transmission System Development Plan for 2017-2026 in March 2017.

