

2016

ANNUAL REPORT

BORZEN

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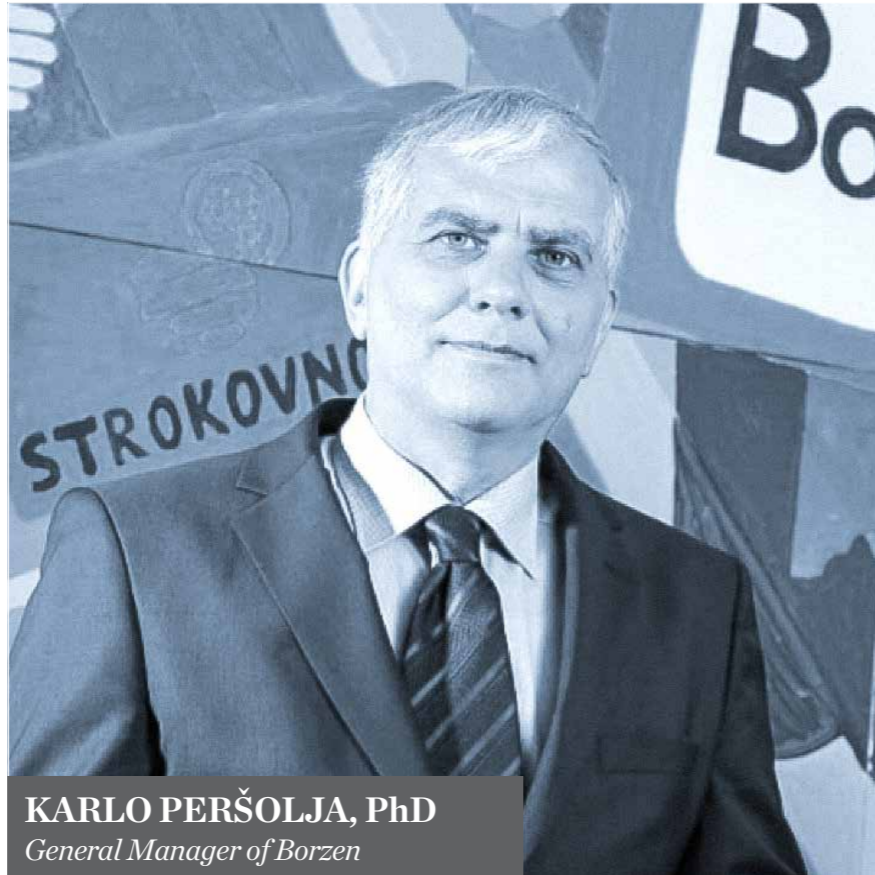
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In 2016, Borzen celebrated 15 years of operation – 15 years of co-creation of the energy market. On this occasion, 15 interviewees who have marked our professional path shared with us their stories and views.

YEARS



KARLO PERŠOLJA, PhD
General Manager of Borzen

GENERAL MANAGER'S STATEMENT

In 2016, we walked in the way of achieving our set objectives, which continue to be aimed towards the welfare of the energy market and its stakeholders, taking into account social responsibility, which plays a vital role in our strategy. Thus, we became one of the first companies in Slovenia and one of the first domestic energy companies to obtain the Corporate Social Responsibility Certificate, which wraps up our efforts and involvement in this area. We consider 2016 to be a successful year, both in substantive and financial terms. We closed the financial year with a net profit of EUR 1.42 million, which is higher than previously planned.

WIDER DEVELOPMENTS IN THE ENERGY MARKET ARE REFLECTED IN THE ACTIVITIES OF THE REGULATED ELECTRICITY MARKET

Developments in the energy market, together with their consolidation, are also reflected in the number of the Balance Scheme members, which has, for the first time since the establishment of the market, experienced a significant decrease. At the end of 2016, the Balance Scheme consisted of 75 members (i.e. 54 balance groups and 21 balance subgroups), reflecting an approximate 10-percent decrease in the number of members compared to the previous year. 53 percent of the members were foreign companies, while 47 percent of the members represented Slovenian companies. The number of recorded closed contracts and operational forecasts remained at a similar level as in 2015, while we recorded a slight increase in the quantities of electricity from recorded closed contracts and operational forecasts. In 2016, we recorded a total of 109,235 closed contracts and operational forecasts in the total amount of 83.1 TWh. Developments in the balancing market

proved to be very dynamic and led to an increase in the number of transactions as well as an increase in the amount of transactions, which in 2016 amounted to 197.9 GWh.

WE ARE MARCHING TOWARDS AN EVEN MORE TRANSPARENT ELECTRICITY MARKET

The increasing transparency and integrity in the energy field and promotion of mechanisms that provide such practices are in the interest of all market participants and help establish a well-functioning market. Borzen's efforts are also focused on the implementation of activities which aim to ensure the transparency of the electricity market, especially with a complete and up-to-date publication of data, reports and information. By providing the RRM - REMIT service to market participants, Borzen offers the service of reporting data on wholesale energy transactions in accordance with the Regulation on Energy Market Integrity and Transparency (REMIT) and thereby encourages the development of the energy market towards a greater transparency.

SUPPORT SCHEME REACHED A RECORD PRODUCTION OF ELECTRICITY

In 2016, for the first time since the establishment of the Support Scheme, we recorded less support payments than in the previous year, whereby the quantity of the produced electricity was higher than in 2015, exceeding 1 TWh. The total value of the paid RES/CHP support amounted to EUR 146.2 million. In 2016, we launched a new web portal, intended for the members of the Support Scheme. The web portal allows registered users to easily submit their invoices online and gives them an overview of the data on their individual production plants.

EMPOWERMENT OF DIFFERENT AUDIENCES BY WAY OF PROVIDING INFORMATION ON RENEWABLE ENERGY SOURCES AND ENERGY EFFICIENCY

We believe that a proper active operation on the market is achieved only if the stakeholders have access to the right information. In the area of information provision, raising awareness and training, Borzen primarily focuses on the field of renewable energy sources and energy efficiency under its own brand, Trajnostna energija ("Sustainable Energy"). In this manner, we seek to empower individuals and legal entities so that they can make long-term decisions that will be beneficial not only for them but also for the environment and future generations. Thus, the phrase "sustainable energy" is crucial in this respect. The activities that we carried out in 2016 were broadly diverse and contextualised for different groups of stakeholders. We are especially proud of our series of environmental animated cartoons, entitled Lepši svet ("A Better World") and various other successfully completed projects and activities, i.e. a local conference on sustainable energy, a competition for students, a call for educational projects etc. In 2016, we also published a scientific monograph on renewable energy sources and released a special DVD with a series of fifteen television programmes on sustainable energy, entitled Eko utrinki ("Eco Glimpses").

Full of motivation and hand-in-hand with our stakeholders, we bravely take on the new challenges that lie ahead of us.

Sincerely yours,
Karlo Peršolja, PhD
General Manager of Borzen

SUPERVISORY BOARD'S REPORT

In 2016, Borzen carried out a variety of projects and activities to support the development of the Slovenian energy market, thereby fulfilling its mission as the electricity market operator.

COMPOSITION OF THE SUPERVISORY BOARD

Until 16 June 2016, the Supervisory Board was composed of Mr. Gorazd Ažman, MSc (Chairman), Mr. Janez Černe (Deputy Chairman) and Mr. Nejc Brezovar, PhD (Member). On 16 June 2016, the Government of the Republic of Slovenia recalled Nejc Brezovar as the member of the Supervisory Board and, on 17 June 2016, appointed Ms. Alenka Kolar, PhD as the alternate member who shall serve until 17 April 2019. The current Supervisory Board consists of Chairman Gorazd Ažman, MSc, Deputy Chairman Janez Černe and a Member Alenka Kolar, PhD.

COOPERATION WITH THE COMPANY'S MANAGEMENT

Throughout the year, the constructive cooperation between the Management and the Supervisory Board enabled the supervisors to monitor the operations and attainment of the

Company's set objectives. According to the estimation of the Supervisory Board, the cooperation with the Management was successful.

OPERATION OF THE SUPERVISORY BOARD

The Supervisory Board of Borzen has accepted its role of the supervisory authority with considerable responsibility and with awareness of Borzen's role as the Market Operator on the Slovenian electricity market. Therefore, the Supervisory Board expects from the Company's Management and its employees to also act in a diligent, responsible and transparent manner.

In 2016, the Supervisory Board regularly monitored and supervised the work of the Company's management. The Supervisory Board held five regular sessions in 2016. The sessions were also attended by the members of the Company's management, with whom the Chairman of the Supervisory Board successfully cooperated within his respective competences between the regular sessions. Regarding the size of the Company and the composition and structure of the Supervisory Board,

the latter assessed that no committee was necessary to be appointed for its functioning.

The Supervisory Board addressed the issues in accordance with the applicable legislation, the Act of the establishment of Borzen and the Rules of procedure of the Supervisory Board. It got acquainted with the quarterly reports prepared by the Management and closely monitored the problem of financing the Centre for RES/CHP Support. It also paid very close attention to the operations of BSP Regional Energy Exchange where Borzen has a 50-percent stake. The Supervisory Board adopted Company's Business Plan for the 2017-2019 period and Strategic Plan for the 2017-2021 period. During 2016, the Supervisory Board also monitored Company's operation in terms of compliance with the provisions of the Corporate Governance Code and the recommendations of the Slovenian Sovereign Holding (SSH).

Gorazd Ažman, MSc, Chairman of Borzen's Supervisory Board

REVIEW OF THE COMPANY'S OPERATIONS AND ACTIVITIES

Borzen closed the 2016 financial year with a net profit of EUR 1.42 million. In this period, Borzen generated EUR 4.36 million of total revenues. Total expenses amounted to EUR 2.67 million.

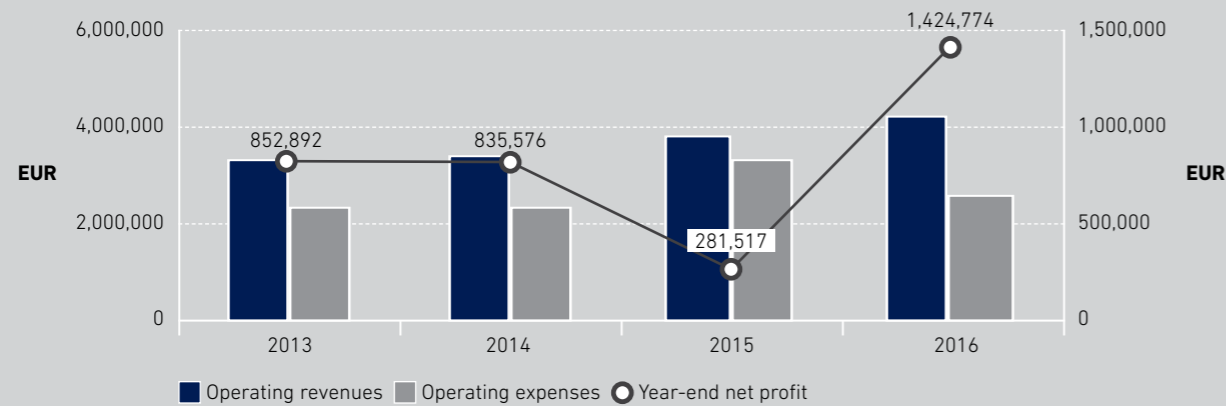
As at 31 December 2016, the balance sheet total equalled EUR 76.34 million and, compared to the previous year, increased due to a higher surplus of the Centre for Support funds.

As at 31 December 2016, the Company's equity equalled EUR 4.44 million.

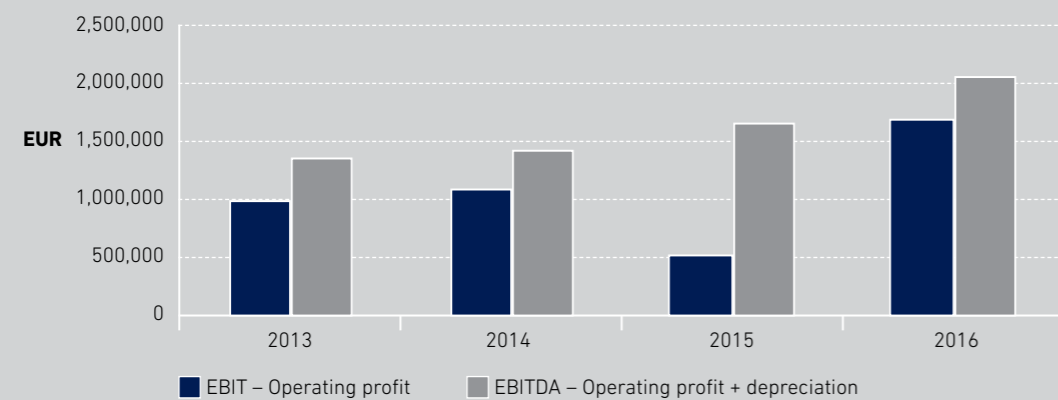
INDICATORS	2013	2014	2015	Business plan 2016	2016
FROM THE BALANCE SHEET, as at 31 December					
Assets in EUR	27,733,832	35,429,681	44,949,382	38,269,885	76,335,698
Equity in EUR	5,199,251	5,291,811	4,738,582	4,767,749	4,435,041
FROM THE INCOME STATEMENT					
Operating revenues in EUR	3,409,121	3,499,818	3,914,975	3,962,500	4,348,563
Operating expenses in EUR	2,429,008	2,402,439	3,375,905	2,676,300	2,661,138
Net profit for year in EUR	852,892	835,576	281,517	1,069,206	1,424,774
EBIT – operating profit in EUR	980,113	1,097,379	539,070	1,286,200	1,687,425
EBITDA – operating profit + depreciation in EUR	1,349,059	1,435,781	1,671,988	1,672,500	2,054,681
PERFORMANCE INDICATORS					
Return on equity (ROE)	17.9%	15.9%	5.6%	21.0%	31.1%
Return on assets (ROA)	3.6%	2.7%	0.7%	2.7%	2.3%
EBITDA margin	39.6%	41.1%	42.7%	42.2%	47.3%
Operating efficiency	140.4%	145.7%	116.0%	148.1%	163.4%
NUMBER OF EMPLOYEES as at 31 December					
	31	29	30	31	31

At the end of the financial year and on the balance-sheet date (as at 31 December 2016), there were no particular business events that had materially affected the overall operating results of the Company in 2016.

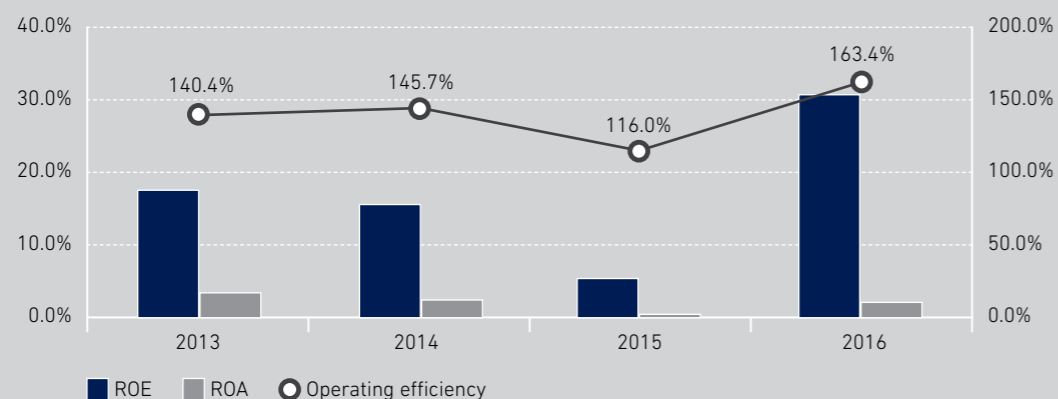
REVENUES AND EXPENSES FROM OPERATION AND MOVEMENT OF NET PROFIT



EBIT AND EBITDA MOVEMENTS



RETURN ON ASSETS (ROA), RETURN ON EQUITY (ROE) AND OPERATING EFFICIENCY



ELECTRICITY MARKET		BALANCING MARKET		SUPPORT SCHEME	
NUMBER OF MEMBERS (BALANCE SCHEME)		NUMBER OF MEMBERS		NUMBER OF PRODUCTION UNITS INCLUDED IN THE SUPPORT SCHEME	
2015	2016	2015	2016	2015	2016
84	75	38	36	3,920	3,888
NUMBER OF RECORDED CONTRACTS AND OPERATIONAL FORECASTS		NUMBER OF TRANSACTIONS ONS		QUANTITY OF ELECTRICITY GENERATED (GWh) BY PRODUCTION UNITS INCLUDED IN THE SUPPORT SCHEME	
2015	2016	2015	2016	2015	2016
112,491	109,235	3,133	4,054	980.8	1,003.5
QUANTITY OF ELECTRICITY (TWh) FROM RECORDED CONTRACTS AND OPERATIONAL FORECASTS		QUANTITY OF TRANSACTIONS (GWh)		SUPPORT PAYMENTS FOR ELECTRICITY GENERATED BY PRODUCTION UNITS INCLUDED IN THE SUPPORT SCHEME	
2015	2016	2015	2016	2015	2016
78.9	83.1	188.1	197.9	€ 147.1 m	€ 146.2 m

IMPORTANT ACHIEVEMENTS

2016



2017

FEBRUARY

The national public service television RTV Slovenia broadcasts a series of animated cartoons Lepši svet ("A Better World"), created by Borzen for educational purposes and promotion of sustainable energy.

Public consultation on the new Rules on the Operation of the Electricity Market.



JANUARY

The new Rules on the Operation of Centre for RES/CHP Support come into force.

Public debate on the amendments to the Rules for the Operation of the Electricity Balancing Market.



MARCH

Conclusion of the competition Lepši svet ("A Better World"): submission of the drawings by more than 450 children from kindergartens and primary schools from all over Slovenia.

Borzen obtains the Creditworthiness Certificate 2016 rating A.

BORZEN'S SUCCESS IS FUELLED BY OUR VALUED EMPLOYEES WHO ARE NOT ONLY THE HEART AND SOUL OF THE COMPANY BUT ALSO ITS DRIVING FORCE.



BUSINESS
REPORT

1. OPERATIONS OF THE COMPANY IN 2016

1.1 COMPANY PRESENTATION

ABOUT THE COMPANY

Borzen, d.o.o. was founded on 28 March 2001 in accordance with the provisions of the Energy Act for the implementation of the public service obligation relating to the organisation of the electricity market as a subsidiary of the public company Elektro Slovenija, d.o.o. In mid-2007, the Government of the Republic of Slovenia, on the proposal of the Ministry of Economy and as the founder and sole shareholder of Elektro Slovenija reached the conclusion that the total Elektro Slovenija's share in Borzen was to be transferred for consideration to the Republic of Slovenia. The full transfer of the ownership was carried out in December 2007.

The principal activity of Borzen, whose sole shareholder is the Republic of Slovenia, **is the implementation of the public service obligation relating to the organisation of the electricity market.** On the basis of the public authority and in accordance with the fourth paragraph of Article 97 of the Energy Act (EA-1), Borzen is obliged to issue the following regulatory acts:

- Rules on the operation of the electricity market (for which, prior to their publication in the Official Gazette of the Republic of Slovenia, Borzen must obtain the consent of the Energy Agency);
- Rules on the operation of the electricity balancing market (which are issued after prior coordination with the system operator and for which, prior to their publication in the Official Gazette of the Republic of Slovenia, Borzen must obtain the consent of the Energy Agency);
- Rules on the operation of the Centre for RES/CHP Support (for which, prior to their publication in the

Official Gazette of the Republic of Slovenia, Borzen must obtain the consent of the Slovenian Government).

With the above rules, Borzen provides coordinated operation of the electricity market and determines details regarding the national RES and CHP support scheme. **As Power Market Operator**, Borzen provides and enables a coherent operation of the Slovenian electricity system, i.e. management of the Balance Scheme, recording of closed contracts, elaboration of indicative operational schedules, imbalance settlement and financial settlement of imbalances. In addition, Borzen also undertakes the tasks related to the establishment and functioning of the balancing market, where the system operator purchases or sells the energy for the balancing of imbalances. Borzen's **Centre for RES/CHP Support** is the support scheme operator for the generation of energy

from renewable energy sources and high-efficiency cogeneration of heat and power. The company also provides the functioning and managing of the Slovenian Registry of the Guarantees of Origin, which is an essential tool for ensuring the traceability of the origin or source of the electricity produced in Slovenia. Under its Trajnostna energija ("Sustainable Energy") brand, Borzen **provides information, training and raises awareness** on the use of renewable energy sources and energy efficiency. In this way, the company fulfils its tasks in accordance with Article 351 of the Energy Act (EA-1) and supports environmental policies through public awareness..

In addition to the implementation of tasks of a public service of the organised electricity market, Borzen also **executes clearing and information services for BSP Regional Energy Exchange and RRM - REMIT reporting services.**

ACTIVITIES OF MARKET OPERATOR

FIGURE 1

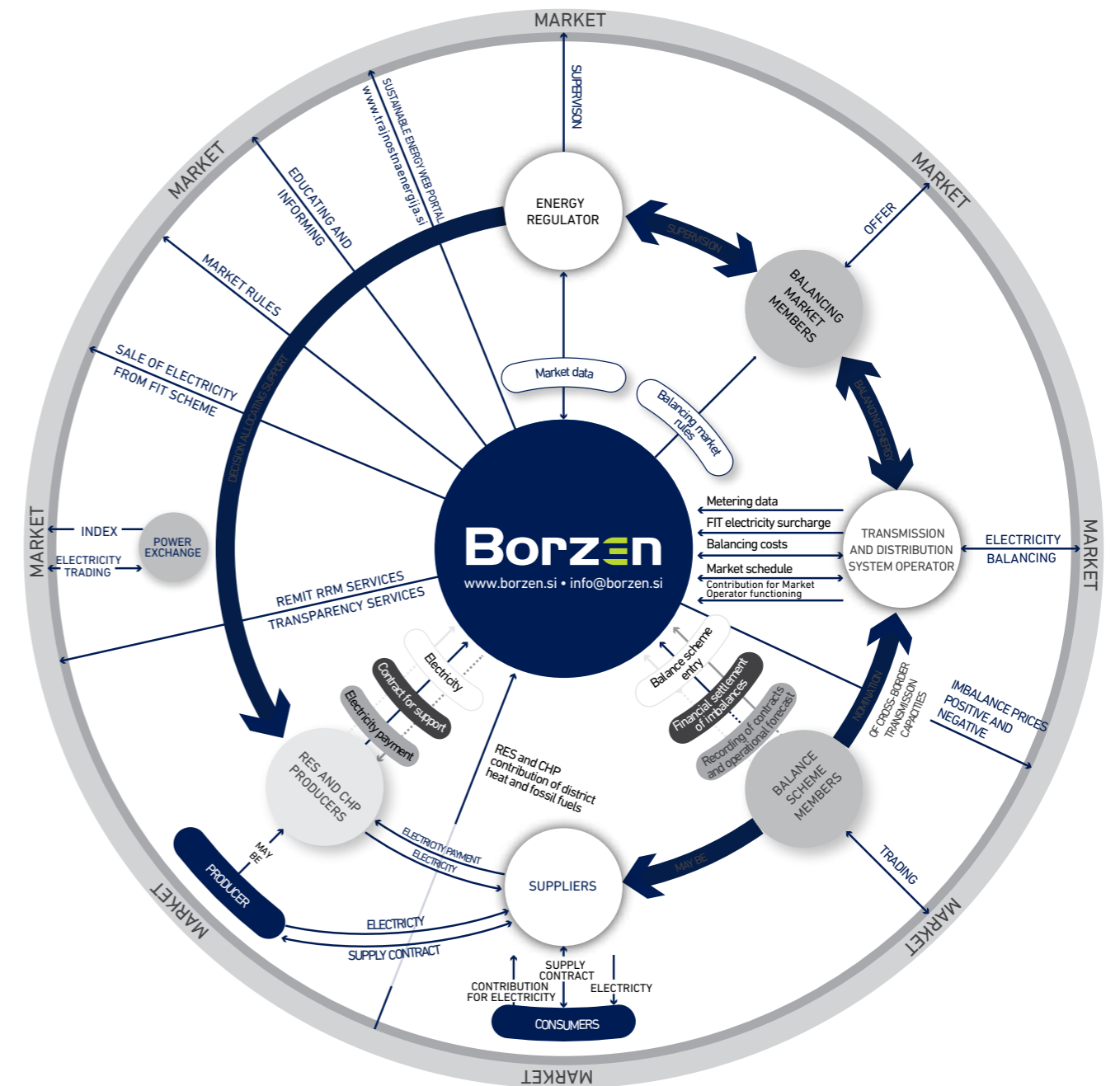
MARKET OPERATOR	
Balance Scheme management (entry in the market)	Centre for Support RES/CHP Support Scheme
Recording of closed contracts and operational forecasts, drawing up of the indicative operating schedules	- conclusion of contracts and support payments - management of scheme assets - management of scheme energy
Imbalance settlement	Registry of guarantees of origin
Balancing market	Providing information on RES and energy efficiency
REMIT – RRM reporting	Web portal Trajnostna energija ("Sustainable Energy")
Clearing and financial settlement	
Ensuring a regulated and transparent electricity market	

IDENTITY CARD

COMPANY'S FULL NAME	Borzen, operater trga z elektriko, d. o. o.
SHORT NAME	Borzen, d. o. o.
ADDRESS	Dunajska cesta 156, 1000 Ljubljana, Slovenia
PHONE	+386 1 620 76 00
FAX	+386 1 620 76 01
E-MAIL ADDRESS	info@borzen.si
WEBSITE	www.borzen.si
MAIN ACTIVITY	66.110 Administration of financial markets
REGISTRATION NUMBER	1613383000
VAT IDENTIFICATION NUMBER	27799468
NUMBER OF ENTRY IN COURT REGISTER	1/34438/00
DATE OF ENTRY IN COURT REGISTER	28 March 2001
PLACE OF ENTRY IN COURT REGISTER	Ljubljana District Court
SHARE CAPITAL	1.963.279 EUR
GENERAL MANAGER	Karol Peter Peršolja, PhD
CHAIRMAN OF THE SUPERVISORY BOARD	Gorazd Ažman, MSc

ROLE OF THE POWER MARKET OPERATOR ON THE SLOVENIAN ELECTRICITY MARKET

FIGURE 2

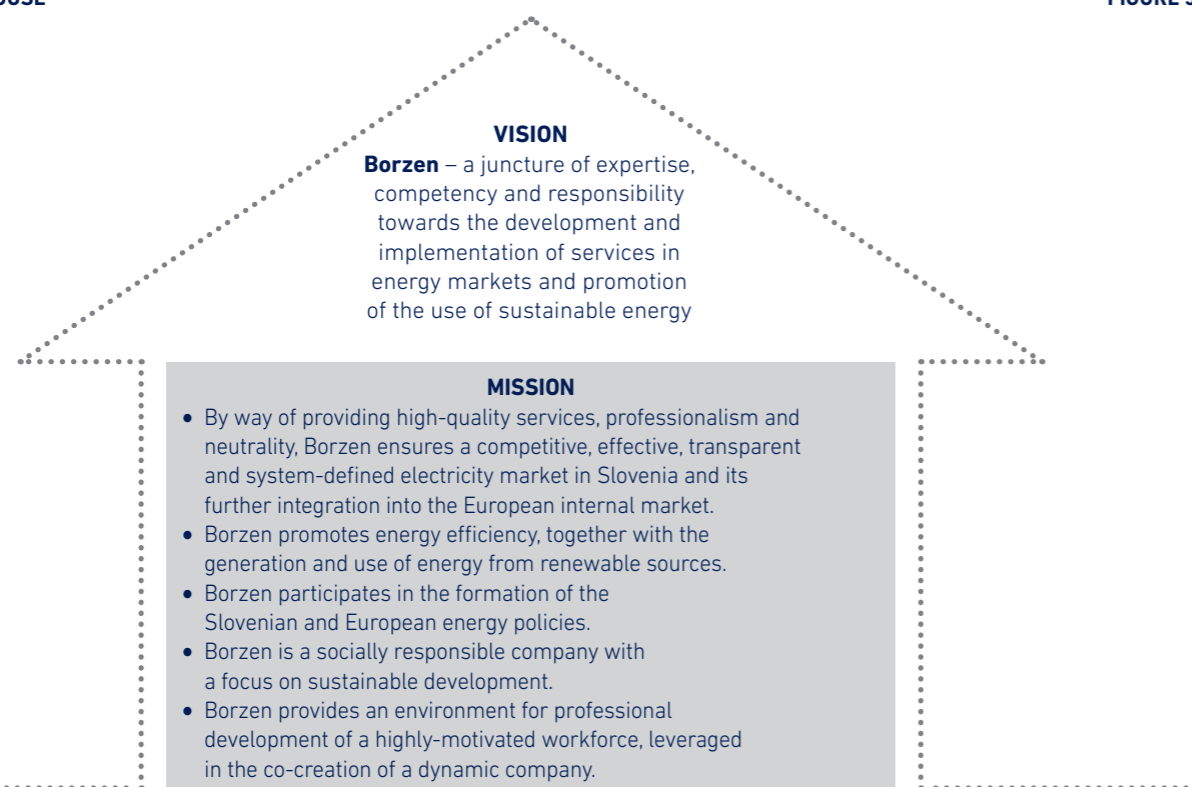


1.2 BUSINESS STRATEGY AND PLANS

COMPANY'S MISSION AND VISION

„STRATEGY HOUSE“

FIGURE 3



OPERATIONAL EXCELLENCE		GROWTH AND DEVELOPMENT
Enhancing operational efficiency and performance: <ul style="list-style-type: none"> Improving business performance and operational efficiency. Increasing the quality of business processes and functions. Risk management. 	Increasing the quality of services and customer satisfaction: <ul style="list-style-type: none"> Information support to the implementation and availability of services. 	<ul style="list-style-type: none"> Implementing new activities within the public service in the field of energy markets. Developing market activities in synergy with the services operated by Borzen within the public service. Enhancing Borzen's recognition and reputation.

VALUES

EXPERTISE

- We possess, use, upgrade and share our expertise
- We are self-critical, we believe in our own abilities and are not afraid of admitting our mistakes.

RESPONSIBILITY

- We are responsible towards the market.
- We are responsible towards our fellow human beings.
- We are responsible towards Borzen.
- We are responsible towards ourselves.
- We take full responsibility for our actions.

TRUST

- We trust in the market..
- We trust in ourselves.
- We trust in our employees.
- We trust in Borzen.
- We embrace trust as a privilege.

CREATIVITY AND INNOVATION

- We achieve our goals creatively.
- We are trying to improve our existing goals – progress.
- We encourage innovation – development.
- We seek new challenges.

KEY STRATEGIC GUIDELINES

- Achieving satisfactory profitability.
- Ensuring efficient operation through operational excellence.
- Consolidating existing activities and undertaking tasks that are in synergy with the services that Borzen provides under the public service obligations.

IMPACT OF ECONOMIC AND LEGISLATIVE CONDITIONS ON THE OPERATION AND DEVELOPMENT STRATEGY IMPLEMENTATION IN 2016

Compared to the previous year, the economic situation slightly improved in 2016. In 2015, electricity consumption in Slovenia was two and a half percent higher than in 2014. There is still no definitive data for the year 2016, but monthly data point to a renewed increase.

Last year, the trend of increasing investments into renewable energy resources in Slovenia focused on the achievement of certain moderated minimum percentages of Directive 2009/28/EC. During 2016 and similarly to 2015, the generation units that had been connected by September 2014 entered the Support Scheme due to the end of the transitional period under the EA-1. According to the Statistical Office of the Republic of Slovenia, the share of energy from renewable sources in gross final energy consumption amounted to 21.96 percent in 2015 (the data for 2016 are not yet available). The ultimate objective of the Republic of Slovenia is to achieve the overall 25 percent of renewable generation by 2020. At the end of 2016, the Energy Agency launched a call for new entrants to the Support Scheme. According to the Energy Agency's data of 3 March 2017, the total number of registered production plants equalled 278 plants with a total power of 267 MW. After

the closure of the call, the Agency will approve the entry to the registered production plants in accordance with the established criteria. The new entrants will receive EUR 10 million of support at the annual level.

Further integration of the European power market as one of the most important tasks of the European Union also marked the previous year. Slovenia was also actively focused on the integration of the European internal market, since now both, Italian and Austrian electricity markets are coupled at the day-ahead level and in the certain intra-day segments at the Italian border. Slovenia is one of the few countries which has been successfully integrating the segment of intra-day trading and balancing market due to the constructive cooperation between the market operator, energy exchange and system operator.

At the end of 2016, Borzen issued the Rules on the operation of the Centre for RES/CHP Support, which harmonise the provisions of the implementation of the Support Scheme with the changes introduced by the Energy Act (EA-1). The Rules were only adapted at the end of last year, as it was necessary to wait for the adoption of the content-related regulatory provisions (Decree on support for electricity generated from RES and CHP).

Borzen's goal setting and implementing is thus closely intertwined with the European and Slovenian regulatory circumstances and energy market trends, which are also reflected in the Company's business operations of last year.

¹ According to the data of the Ministry of Infrastructure as of 24 March 2016 http://www.mzi.gov.si/si/medijsko_sredisce/novica/article/771/8261/210e742e99d584e2243c3f3a59926b02/

ACHIEVED STRATEGIC AND ANNUAL PLANS IN 2016

In 2016, the Company successfully followed its strategic plans and objectives.

Cooperation in the Slovenian and international development projects in the energy market	Participation in various working groups in the field of the development of the energy market, among the most important ones are cooperation within Europex and the iPET Section (Energy Market Data Exchange).
Developing services of the Centre for Support	Launch of a web portal, available to users since mid-2016 and intended for an easier exchange of information with the Centre for Support.
Attention and kindness towards stakeholders	Analysis of stakeholder satisfaction and a variety of other related activities, mainly in the field of communicating with stakeholders; greater involvement of stakeholders and more targeted communication of the new content.
Sustainable development	Quality and reliable implementation of the principal activities of the Market Operator and Centre for Support; implementation of the Trajnostna energija brand ("Sustainable energy") activities; obtaining the Corporate Social Responsibility Certificate; preparation of the Sustainability Report in accordance with the GRI guidelines; corporate volunteerism.
Optimisation of business processes and quality of operations	Optimisation of certain business processes and the provision of IT support to different business

PERFORMANCE INDICATORS

Integrated quality of operations is achieved through knowledge and professionalism of the employees and in pursuit of the Company's mission, vision and values. At a time of great economic changes, the

Company operates with an increased level of responsibility and is making informed decisions in order to maintain the existing trust in its operations to the greatest extent possible. The key indicators for comparing the

performance of the Company are monitored by applying a balanced system of indicators as a system of strategic management.

The selected strategic performance indicators are presented in the table below.

STRATEGIC PERFORMANCE INDICATORS		TABLE 1		
STRATEGIC INDICATORS	2015	Business plan 2016	2016	
Revenue (in EUR)	3,923,744	3,974,500	4,364,661	
EBIT - operating profit (in EUR)	539,070	1,286,200	1,687,425	
EBIT margin	13.8%	32.5%	38.8%	
EBIDTA margin	42.7%	42.2%	47.3%	
Return on assets (ROA)	0.7%	2.7%	2.3%	
Return on equity (ROE)	5.6%	21.0%	31.1%	
Operating efficiency	116.0%	148.1%	163.4%	
Revenue per employee (in EUR)	131,804	127,823	137,135	
Added value per employee (in EUR)	102,635	99,068	109,902	
Time needed for the preparation of the monthly imbalance settlement (in working days)	14	17	14	
Time needed for the preparation and sending an agreement on the provision of support and Eco decision (in working days)	10	10	9.5	
Customer satisfaction	90%	N/A	83%	

Preparation of the monthly imbalance settlement shows the number of working days needed for the preparation of the imbalance settlement.

Preparation and sending an agreement on the provision of support shows the number of working days needed to prepare an agreement on the provision of support and Eco decision.

Customer satisfaction is monitored with periodic satisfaction surveys, where the satisfaction surveys on the operation of the Market Operator (carried out in 2016) and operation of the Centre for Support (carried out in 2015) are conducted separately.

Other performance indicators are presented in the continuation.

PERFORMANCE INDICATORS		TABLE 2		
Operating fixed assets rate	4.2%	6.0%	2.4%	
Long-term assets rate	5.1%	7.2%	2.9%	
Net profit before tax (in EUR)	492,324	1,288,200	1,691,190	
Operating efficiency	116.0%	148.1%	163.4%	
Labour costs share in added value	44.6%	45.2%	40.6%	
Material and service cost management (in EUR)	866,316	891,400	863,281	
Equity financing rate	10.5%	17.7%	5.8%	
Long-term financing rate	10.7%	17.9%	5.9%	
Equity to operating fixed assets ratio	2.506	2.951	2.453	
Immediate solvency ratio	0.417	0.144	0.565	
Quick ratio	1.034	1.125	0.877	
Current ration	1.059	1.125	1.030	
INDICATORS OF THE MARKET OPERATOR ACTIVITY				
Total consumption in Slovenia (MWh)	13,993,805	14,760,657	14,197,881	
Recorded values of closed contracts (MWh)	52,143,848	47,778,643	54,836,360	
Number of the Balance Scheme members	84	90	75	
Market Operator operating costs (in EUR)	3,375,905	2,676,300	2,661,138	
Movement of the volume of market	0.94	0.92	1.04	
Number of the Balance Scheme members per employee	2.8	2.9	2.4	
INDICATORS OF THE CENTRE FOR RES/CHP SUPPORT ACTIVITY				
Number of the Support Scheme members	3,920	4,180	3,888	
Support payments (in EUR million)	147	163	146	
Financing of the Centre for Support (in EUR)	591,000	591,000	591,000	
Number of members per employee	130.7	134.8	125.4	
Support payments per employee (in EUR million)	4.9	5.3	4.7	
Share of financing the Centre for Support in total payments	0.40%	0.36%	0.40%	

INDICATORS OF THE MARKET OPERATOR ACTIVITY

The indicator of the **movement of the volume of market** is defined as a ratio between recorded quantities of trading on the power market (volume of recorded closed contracts) and total electricity consumption in the country whose movement is monitored and measured against previous years.

The number of the Balance Scheme

members per employee includes balance groups and subgroups and is calculated on the basis of the total number of employees at Borzen.

The indicators show that the volume of the Slovenian electricity market slightly increased in 2016. More specifically, the number of recorded contracts increased more than consumption. On the other hand, in 2016 we recorded the first decrease in the total number of the Balance Scheme members, after the period of a constant increase.

Compared to 2015, the total number of the Balance Scheme members decreased by nine members.

It should be highlighted that the trends to which the indicators are subject mainly depend on market developments and the Market Operator cannot actively influence the quantities of recorded contracts, total consumption in the country and the number of Balance Scheme members.

INDICATORS OF THE CENTRE FOR SUPPORT ACTIVITY

The number of the **Support Scheme members per employee** shows a ratio between the number of the Support Scheme members (Eco decisions are not included) and the total number of employees at Borzen.

The indicator of the **support payments per employee** is calculated as a ratio between the value of paid supports by individual years (excluding VAT) and the total number of employees at Borzen.

The indicator of the **share of financing the Centre for Support in total payments** shows what proportion (in %) of total support payments represents a part of the contribution intended for the operation of the Centre for Support (both values exclude VAT).

In 2016, the indicators of the Centre for Support activities stabilised and slightly decreased compared to 2015. This is mainly due to two factors, namely the termination of support for the units that left the Support Scheme due to their age and the delayed implementation of the new Support Scheme, for which EUR 10 million of assets is granted on an annual basis. The results of these two factors are the decrease in the number

of the Support Scheme members per employee and the reduction of support payments per employee. In the coming period, we expect these indicators to increase, since the activities for the implementation of the new Support Scheme have already begun. On the other hand, the movement of the share of financing the Centre for Support is expected to go in the opposite direction and will continue to further decrease.

To a large extent, indicators depend on the decisions which are exogenous from the Company's perspective and mostly depended on the national policy towards the Support Scheme.

ANTICIPATED CIRCUMSTANCES AND KEY OBJECTIVES OF THE COMPANY IN 2017

In 2017, Borzen will be affected by the circumstances on the Slovenian as well as on the international energy market. These circumstances are the consequence of legislative frameworks and the general economic situation. It is estimated that, on one hand, they will be similar to those in 2016, and, on the other, in the anticipation of the statutory regulations arising from the new EA-1, certain changes are

expected in the functioning of the Support Scheme. In the continuation, we summarise a list of key objectives that the Company will seek to achieve in 2017 and are a part of the continuous implementation of the Company's long-term strategy:

- Achieving a planned ROA;
- Achieving a planned ROE;
- Achieving a planned EBITDA margin;
- Development and optimisation of the services of the Market Operator and Centre for Support;
- Successful implementation of providing information and raising public awareness on RES and energy efficiency under our Trajnostna energija ("Sustainable Energy") brand;
- Development and optimisation of the RRM - REMIT reporting services;
- Participation in the development of the Slovenian and international projects on the energy market;
- Being attentive and kind to stakeholders;
- Sustainable development;
- Optimisation of business processes and quality of operations.



KARLO PERŠOLJA, PhD
General Manager of Borzen



I wish Borzen a successful journey on its outlined path. I hope it continues to act independently and sustains to ensure and create conditions for a transparent and efficient energy market.

1.3 MANAGEMENT OF THE COMPANY

CORPORATE GOVERNANCE STATEMENT

The Management and the Company's Supervisory Board give a corporate-governance statement in accordance with Article 70 of the Companies Act and Point 3.4.1. of the Corporate Governance Code for Companies with State Capital Investments, which contains the content as required by Article 70 of the Companies Act for Public Limited Companies.

1. Reference to the Code

Borzen follows the recommended standards contained in the Corporate Governance Code for Companies with State Capital Investments adopted by the management of the Slovenian Sovereign Holding (SSH) and to which the supervisory board of SSH gave its consent on 2 March 2016. The Code is publicly accessible on the website of the issuer of the Code.

2. Borzen derogates from the following provisions:

Individual derogations from the Code are disclosed in the continuation of this statement.

According to the size of the Company and its management mode (including the size of the Supervisory Board), certain provisions of the Code are not applicable to Borzen's operation and thus cannot be complied with.

Point in Code	Requires Borzen's undertaking	Borzen complies with the provision	Explanation
3.2	NO	NO	The provision does not apply to a small limited liability company.
4.2	NO	NO	The company has only one shareholder.
4.2.3	NO	NO	The provision applies only to public limited companies.
4.3	NO	NO	The provision does not apply to Borzen, since, in accordance with the provision of Article 511 of the EA-1, the rights and duties which belong to the Republic of Slovenia on the basis of equity investments in these companies are exercised by the Government and, consequently, cannot be implemented.
6.1.5	NO	NO	Borzen is not a large company.
9.2.4, 9.2.5, 9.2.6, 9.2.7, 9.2.8, 9.2.9, 9.2.10 and 9.3	NO	NO	Since Borzen is a small company, it is not required to set up an internal audit activity.

Borzen partially complies with the following provisions:

Point in Code	Requires Borzen's undertaking	Borzen complies with the provision	Explanation
6.1.6	YES	PARTIALLY	The Government of the Republic of Slovenia has concluded that instead of the Supervisory Board, the Government can decide on certain types of operations, which is also evident from the Company's Articles of Association.

Borzen does not comply with the following provisions:

Point in Code	Requires Borzen's undertaking	Borzen complies with the provision	Explanation
6.5.1	YES	NO	Since the Supervisory Board is not involved in the selection of candidates, which is conducted by the Government, the preparation of the competency profiles is neither necessary nor reasonable.
6.8.7	YES	NO	Since the Supervisory Board is not involved in the selection of candidates, which is conducted by the Government, the compliance with the Provisions 6.8.3, 6.8.4 and 6.8.5 is neither necessary nor reasonable.
6.9.1	YES	NO	Regarding the amount of attendance fees and position payments, the Government of the Republic of Slovenia did not comply with the provisions of SSH.

In 2017, Borzen will continue to comply with the same provisions of the Code that the Company complied with in 2016.

With the enforcement of the EA-1, the Government of the Republic of Slovenia started to exercise its rights as Borzen's only Shareholder.

3. System of corporate governance of the Company Borzen has a two-tier management system. The managing bodies of the Company are the Management, the Supervisory Board and the Shareholder.

MANAGEMENT OF THE COMPANY

The Management of the Company is a one-member body, i.e. a General Manager who is appointed by the Supervisory Board for a five-year period. General Manager Karol Peter Peršolja has been managing and representing the Company since 1 January 2010. In 2014, Karol Peter Peršolja was reappointed General Manager for a new five-year term, beginning on 1 January 2015.

Mr Peršolja has also been appointed the Deputy Chairman of the Supervisory Board of BSP d.o.o. (since 2014), as well as the member of the supervisory boards in other unrelated companies

and institutions, namely as the Chairman of the Supervisory Board of SODO d.o.o. (since 2015) and GEN Energija d.o.o. (since 2016).

The General Manager of Borzen is entitled to a basic payment (salary) and an acceptable remuneration for the performance of the Company (performance-related pay or bonus). The remunerations are presented in more detail in the Financial Report.

SUPERVISORY BOARD OF THE COMPANY

In line with the Company's Articles of Association, the Supervisory Board consists of three members who are appointed by the Shareholder for a period of five years.

At the Annual General Meeting of the Company, the Government of the Republic of Slovenia appointed a Supervisory Board, which took office on 17 April 2014 and after the constitutive meeting, dated 6 May 2014 operated in the following composition:

- Chairman of the Supervisory Board: Gorazd Ažman, MSc;
- Deputy Chairman of the Supervisory Board: Dejan Paravan, PhD;

- Member of the Supervisory Board: Janez Černe.

On 29 July 2015, the Government of the Republic of Slovenia recalled Dejan Paravan as the member of the Supervisory Board (effective on 30 July 2015) and appointed Nejc Brezovar as the new member of the Supervisory Board from 31 July 2015 to 17 April 2019. The Supervisory Board operated in the following composition:

- Chairman of the Supervisory Board: Gorazd Ažman, MSc;
- Deputy of the Chairman of the Supervisory Board: Janez Černe;
- Member of the Supervisory Board: Nejc Brezovar, PhD.

On 16 June 2016, the Government of the Republic of Slovenia recalled Nejc Brezovar as the member of the Supervisory Board and appointed Alenka Kolar as the new member of the Supervisory Board from 17 June 2016 to 17 April 2019. Thus, the Supervisory Board currently consists of:

- Chairman of the Supervisory Board: Gorazd Ažman, MSc;
- Deputy of the Chairman of the Supervisory Board: Janez Černe;
- Member of the Supervisory Board: Alenka Kolar, PhD.

In line with the Company's Articles

of Association, the Supervisory Board possesses the following competences:

- to appoint and recall the General Manager,
- to examine the annual report and draft a proposal for the use of distributable profit, to draft a written report on the examination of the annual report for the founder or the only shareholder, to approve the annual report or indicate its observations related to it,
- to propose to the founder or the only shareholder to adopt decisions falling within its competence or to give an opinion on proposals of the General Manager, to adopt decisions of the founder or the only shareholder,
- to adopt the annual plan of operations and annual report of the Company,
- to deliver a reasoned opinion to the strategic plan of the Company,
- to conclude contracts of employment with the General Manager and confirm the content of other contracts, concluded by the Company with the General Manager or the procurator holder,
- to issue consents to the General Manager to appoint a member of the Supervisory Board or the managing authority of the legal entity, in which the Company has a controlling stake or dominant influence,
- to issue consents to the General Manager to hold the shares or a stake of the legal entity, in which the Company has a controlling stake or dominant influence,
- to pose a requirement to the General Manager to provide any information necessary to perform control in the Company or its subsidiaries.

In accordance with the Companies Act, Articles of Association and Rules of Procedure of the Supervisory Board, the Supervisory Board meets at least once every quarter. In 2016, the Supervisory Board held five regular meetings. The Supervisory Board did not establish any special committee for the purposes of its operation.

The Supervisory Board Members hold positions in other companies that are not associated with Borzen:

- Chairman of the Supervisory Board,

Gorazd Ažman, MSc: general manager at Mentem, d.o.o.; chairman of the supervisory board of Trgovina i opskrba energentima d.o.o.; chairman of the supervisory board of Geoplin d.d. Belgrade;

- Deputy Chairman of the Supervisory Board, Janez Černe: general manager at Energovat inženiring d.o.o.; general manager at KOENERGO A d.o.o.;
- Member of the Supervisory Board, Alenka Kolar, PhD: chairman of the supervisory board of Informatika d.d.

In 2016, the members of the Supervisory Board were entitled to remuneration for the performance of their position based on the applicable decision of the Shareholder. The remunerations are defined in more detail in the Financial Report.

In 2016, the members of the Supervisory Board carried out the self-assessment of their work and adopted the Action Plan.

The members of the Supervisory Board were acquainted with the criteria of independence and signed a commitment to act independently.

SHAREHOLDER

The Republic of Slovenia is the sole Shareholder of Borzen. Since the entry into force of the Energy Act (EA-1) in March 2014, the rights of the shareholder are exercised by the Government of the Republic of Slovenia.

The Shareholder decides independently on all matters within its competences. In accordance with the Act of the establishment of Borzen, the Shareholder decides on the following matters:

- Appointment of an auditor;
- Adoption of the annual report;
- Adoption of the Company's strategic plan;
- Use of distributable profit and covering of accumulated loss;
- Granting discharge to the Management;
- Appointing and recalling the

Supervisory Board members;

- Granting discharge to the members of the Supervisory Board;
- Taking measures to increase and decrease share capital;
- Responsibility for division and termination of business stakes;
- Giving consent to the General Manager to hire loans of the value exceeding EUR 1 million;
- Representing the Company in procedures against the members of the Supervisory Board;
- Termination of the Company and change of status;
- Other matters stipulated by law and not transferred to the Supervisory Board.

The Shareholder normally holds one assembly each year. In the 2016 financial year, three assemblies were held, the first in June 2016, when the Shareholder recalled Mr Nejc Brezovar from the position of the Member of the Supervisory Board and appointed a new member, Ms Alenka Kolar to the position.

The second assembly was held on 27 June 2016, when the Shareholder was briefed on Borzen's Annual Report for the 2015 financial year, decided on the payment of the balance sheet profit in the amount of EUR 1,728,535.59, discharged the General Manager and members of the Supervisory Board for their work in 2015 and adopted the Act amending the Company's Articles of Association.

The third assembly took place on 14 December 2016, when the Shareholder adopted the Strategic Plan for the period 2017-2021, to which the Supervisory Board issued a reasoned opinion on 6 September 2016.



PETER GAŠPERŠIČ, PhD
Current Minister of Infrastructure



I want to congratulate Borzen on its anniversary. Let me emphasise that in the past fifteen years Borzen and its employees have successfully carried out the tasks entrusted to them. I am confident that Borzen's success will continue to increase in the future.

4. Declaration of conformity with the Provisions of the Corporate Governance Code for Companies with State Capital Investments

The Management and the Supervisory Board of Borzen hereby declare that the Company respects the provisions of the Corporate Governance Code for Companies with State Capital Investment in its business operation, except for the provisions that are set out in Chapter 2 of this Statement.

In accordance with Article 60a of the Companies Act, the Management and the Supervisory Board hereby ensure that the Annual Report was compiled and will be published in accordance with the Companies Act and the Slovenian Accounting Standards.

The Management approves and confirms the financial statements of Borzen for the year finishing on 31 December 2016 and Notes on financial statements compiled on the assumption of the Company's continued operation and in accordance with the applicable legislation and the Slovenian Accounting Standards.

The Management confirms that appropriate accounting policies were used in the creation of the financial statements and that the accounting estimates were made according to the precautionary principle and the principle of good management, and that the financial statements reflect a true and fair picture of the company's assets and results of its business operations in 2016.

5. System of internal controls and risk management of the Company

A system of internal controls as well as a risk management system are conducted in accordance with the system of integrated risk management as described in a special chapter of this Annual Report.

6. System of corporate integrity in the Company

Borzen adheres to the recommendations of good practice of corporate governance by SSH and the Association of Supervisors of Slovenia. Given the fact that the composition of the Supervisory Board has changed in the second quarter of 2016, the Supervisory Board conducted a self-assessment at the end of the 2016 financial year. Based on the mentioned procedure, the Supervisory Board carried out the evaluation procedure of work effectiveness and adopted a special report with the Action Plan.

7. Associated companies

Borzen has an ownership stake in BSP Regional Energy Exchange where it participates also as its co-founder.

BSP Regional Energy Exchange is managed by Borzen and ELES, each holding a 50-percent stake in the company.

BSP Regional Energy Exchange provides day-ahead and intra-day trading on the Slovenian energy exchange market. At the same time, the company actively takes part in the processes of the formation of the

single European electricity market in the field of trading on the electricity exchange. In the day-ahead trading on the electricity market, the company is connected through a mechanism of coupling with the neighbouring Italian and Austrian markets into a single European electricity market. In the field of intra-day trading, the company has been participating as an associate member on the project of creating a single European intra-day market since August 2015. The services of the exchange include the trading processes as well as clearing and financial settlement of transactions.

In 2016, the results of BSP Regional Energy Exchange exceeded all expectations as the company generated a profit in the amount of EUR 616,000 (after taxation). The positive result was mainly influenced by the volume of transactions, which increased by 12 percent, and the active participation in the regional market coupling projects and the related payments by the project working group managers, engaged by BSP.

EQUITY PARTICIPATION IN BSP REGIONAL ENERGY EXCHANGE. FIGURE 4



ANŽE PREDOVNIK,
General Manager of BSP Energy Exchange

“Since its establishment, Borzen has been one of the leading stakeholders in the development of the organised electricity market in Slovenia. With the growing impact of the European legislation on the development of various trade segments in national markets and their control and integration into the single European market in the field of long-term and short-term trading, Borzen will not run out of new challenges. At the same time, there is a number of particular features arising from the national legislation and related future development of the Slovenian energy market. The Market Operator plays an important role in the defined processes, thus we wish Borzen to be successful in achieving its objectives also in the future.”

1.4 RISK MANAGEMENT

CIRCUMSTANCES THAT AFFECTED THE RISKS AND THEIR MANAGEMENT

For a successful business operation, it is of great importance to identify risks in most efficient manner and to provide a successful risk management. Borzen is a company providing public service, which consequently means that we are related to our regulatory environment that seriously affects all the categories of identified risks.

INTEGRATED RISK MANAGEMENT

The system of integrated risk management is supported by the risk register where all key risks which can have an impact on the attainment of set business goals of the Company have been identified and it represents the strategic risk management in our Company.

Risk identification is conducted in parallel with the Company's business plan preparation, the strategic business plan preparation or revision and in parallel with major business decisions, projects or any considerable change on the market or of relevant legislation. Identified risks are analysed in detail, whereby the significance of a risk is defined as well as the necessary measures to manage it.

Priorities were set based on performed risk assessments and cost and benefit

weighting and the most appropriate risk management was selected. As a result, the risk would be at the desired exposure level after the implementation of measures. Thus, we chose between strategies to avoid the risk, risk reduction, risk transfer to a third party or risk acceptance.

KEY IDENTIFIED RISKS

In the phase of identification, risks are classified into four groups based on Company's size, its activities, number of employees, conduct on the market and the legislative framework that limits and binds the Company, namely:

- Strategic/business risks;
- Operational risks;
- Financial/market risks;
- Risk of non-compliance with the regulations – legislative risks.

In the continuation, we present the key identified risks in individual risk groups that are estimated to be present and to which we will be exposed also in the next period..

STRATEGIC/ BUSINESS RISKS

Strategic or business risks are related to successful implementation of the strategy and the Company's objectives, the ability to generate short-term and long-term operating revenues and the maintenance of property value and the Company's reputation. These risks are related to the changes of legislation and

statutory acts, impacts of environment and organisation of the Company, its activities and restrictions of operations.

One of strategic risks is also the investment risk which relates to the investment into BSP Regional Energy Exchange in which Borzen has a 50-percent stake. It is mainly regarding a risk related to the investment management, which is the issue that has been addressed by both partners and their mutual coordination concerning the management and further development of the Company.

Other business risks arise from investments and public procurement procedures that are managed by constant improvement of the quality of investment preparation, implementation, activation and monitoring.

No considerable deviations were identified while monitoring strategic/business risks in 2016.

OPERATIONAL RISKS

Operational risks are related to damage caused by improper execution of internal procedures, improper conduct of the employees, information-technology errors and poor quality of the services performed by external providers. Operational risk identification and management are crucial for the successful operation of the Company since efficient internal procedures, professional, experienced and highly-motivated employees represent a guarantee for the prevention of

operational risks and the correct and efficient adaptation of operations in all economic situations.

More important information system risks include possible disruptions to the operation of the application and system software, hardware, and communication and network connections; special attention is also given to information security risks. The risks are primarily reduced by redundant independent optical connections between the two locations, synchronous replication and data backup.

Human resource risks are vital for Borzen due to the implementation of different activities within the organisation of the electricity market and the specificity of the assigned tasks. Additional tasks acquired by Borzen every year demand that the employees constantly upgrade their existing knowledge and obtain new knowledge, flexibility and quality team work. The biggest risk for the company is the possibility to lose the key employees; therefore, special attention is given to social dialogue, additional professional training, motivation of employees and providing stimulating working conditions and working environment.

Other operational risks are limited by clearly defined processes, precisely defined roles, responsibilities and powers of the employees and adopted rules.

No significant deviations were identified while monitoring the operational risks in 2016.

FINANCIAL/ MARKET RISKS

The financial risk management implies the attainment of stable operations, management of financial expenses within the planned framework and long-term solvency.

The risk of non-fulfilment of financial obligations means that there is a risk that the counterparty would not fulfil its financial liabilities in accordance with contractual terms. The management of these risks is important for ensuring better liquidity and consistency of financial flows between inflows and outflows. This risk of non-fulfilment of financial liabilities is present mainly in the financial settlement of the imbalance settlement. To this end, Borzen included this type of risk management to the Rules for operation of the organised electricity market. Future Balance Scheme members are verified upon their application for membership by careful examination of their credit ratings and by monitoring their operations in the continuation. Prior to joining the Balance Scheme, members are obliged to submit adequate financial guarantees in the form of a cash deposit or a bank guarantee payable upon first call. The variable financial guarantees are increased on the basis of forecasted imbalances (on a daily basis) or every time an invoice for positive imbalances is issued if the imbalances are higher than submitted guarantees. In case of financial settlement participants' non-fulfilment of financial liabilities, Borzen can use their financial guarantees and, in extreme cases, excludes a Balance Scheme member from the Balance

Scheme. In 2016, the Balance Scheme members fulfilled their liabilities in time; therefore it was not necessary to cash in the financial guarantees in this respect.

Liquidity risk defines the ability to provide adequate financial funds for prompt payment of due liabilities. Borzen ensures the highest financial liquidity by always having at its disposal sufficient liquid assets for the settlement of due liabilities within the deadline. On a daily basis, the company plans its short-term solvency by regularly monitoring cash flows and careful planning of outflows and inflows on monthly basis. A system for the management and optimisation of short-term financial surpluses is also in place. In addition, diversification of financial investments and coordination of the maturity of liabilities and receivables and their consistent recovery are also ensured. During the reporting period, the Company did not face any difficulties in providing sufficient funds for the ongoing and timely fulfilment of its liabilities.

Beside the aforementioned risks, we also monitor foreign-exchange and interest risks which were fairly modest and did not need any special management. Clearing and financial settlement in different segments of business operation within foreign-exchange business operation are carried out in euro. Interest risk is associated with unexpected increased financing costs due to a change in interest rates on the market. During the

reporting period, the interest rate risk was not marked. The Company did not take any loan in this period. On the other hand, some banks introduced negative interest rates or demurrage charges for the assets above a certain limit, which requires an additional optimisation of the placing of the Company's surplus funds.

No considerable deviations were recorded while monitoring financial/market risks in 2016.

LEGISLATIVE RISKS/ COMPLIANCE WITH THE RULES

A regulatory risk is a risk related to the amendments made to regulations and their ambiguity, which cannot be influenced by the Company. The exposure of the Company to regulatory risks is high, since the core business of the Company being a public service is regulated. It also needs to be emphasised that the sources of financing a public service are also regulated.

Regulatory risks that are related to damage due to breaching or non-compliance with law and statutory acts are mainly managed by regular monitoring and active participation in the preparation of regulations and timely adjustment of operations. Regulatory risks are also managed by as precise as possible and unambiguous regulations.

A considerable level of attention is paid to the risk related to a potential loss of public utility services owing to the enforcement of the Network Codes on Electricity Balancing (NC EB). The risk is managed by actively participating in making comments regarding the aforementioned Code. We are mainly active through the Europex Association, where we make proposals aiming at maintaining the existing activity. The proposals seek to prevent the interventions into the existing national arrangements; however, the activity will have to adjust to the new regulatory framework. To that end, a particular attention will continue to be devoted to this risk in the future.

In 2016, Borzen was engaged in few

legal proceedings before the courts of which the dispute with ELES regarding the obligation to pay for recording of closed contracts with the use of cross-border transmission capacities had a substantial impact on the Company's operation. At the beginning of 2016, we received a ruling of the Ljubljana District Court, in which the court rejected the request for the payment. The latter was also considered in the Financial Report. The ruling is not yet binding, since the Higher Court has not yet ruled on the appeal.

No considerable deviations were recorded while monitoring regulatory risks in 2016.



GORAZD SKUBIN,
The first general manager of Borzen



In its first 15 years, Borzen has trodden a difficult path toward achieving success in the energy area and proved to be a reliable partner to all market participants. Borzen maintains a highly qualified staff that provides Company's strategic direction for the future. I believe that Borzen is stepping towards adulthood and sound operation. I am sure that Borzen will continue to be a crucial factor in the development of the Slovenian energy sector.

2. ACTIVITIES OF THE POWER MARKET OPERATOR IN SLOVENIA

2.1 RECORDING OF CLOSED CONTRACTS, OPERATIONAL FORECASTS AND PREPARATION OF INDICATIVE OPERATING SCHEDULES OF THE TRANSMISSION AND DISTRIBUTION NETWORK

The Energy Act imposes on the Market Operator the obligation of recording contracts of the Balance Scheme membership, operational forecasts and closed contracts. All contractually agreed obligations, according to which electricity is purchased or sold in the Republic of Slovenia or is transferred outside the regulation area, must

be recorded. Closed contracts and operational forecasts are recorded on a daily level, seven days a week. Every day, the Market Operator draws up an indicative operating schedule of the transmission and distribution network that is submitted to the Slovenian Transmission System Operator (ELES). In the event of a

potential change in concluded closed contracts and operational forecasts, which can be reported in accordance with the Rules on the Operation of the Electricity Market due to intra-day trading, the corrected final schedule is also prepared.

RECORDING OF CLOSED CONTRACTS AND OPERATIONAL FORECASTS

A total of 109,235 closed contracts and operational forecasts were recorded in 2016, in total quantity of 83,139,517

MWh. Compared to the previous year, the number of recorded closed contracts and operational forecasts

was 2.9 percent lower, while the total quantity of electricity from contracts was 5.3 percent higher.

MONTHLY VOLUMES OF ELECTRICITY SOLD OR PURCHASED THROUGH CLOSED CONTRACTS AND OPERATIONAL FORECASTS AND THE NUMBER OF RECORDED CLOSED CONTRACTS AND OPERATIONAL FORECASTS ON THE ORGANISED MARKET IN SLOVENIA IN 2016 **TABLE 3**

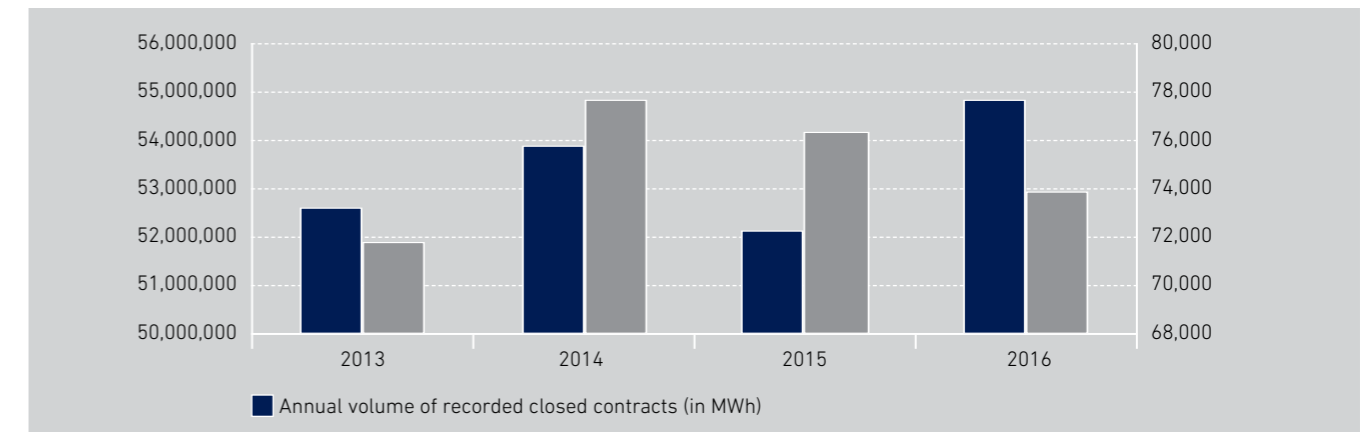
Month	Annual volume of recorded closed contracts (in MWh)	Number of recorded closed contracts	Number of operational forecasts
January	4,544,305	2,409,728	9,067
February	4,894,358	2,307,643	8,856
March	5,015,171	2,442,772	9,586
April	4,432,713	2,247,622	9,234
May	4,256,798	2,332,137	9,315
June	3,723,217	2,443,640	8,875
July	4,245,396	2,537,635	9,218
August	4,196,233	2,355,218	9,251
September	4,225,889	2,276,674	8,707
October	5,009,762	1,992,080	9,352
November	5,181,532	2,417,131	8,715
December	5,108,986	2,542,877	9,059
Total	54,834,360	28,305,157	109,235

Table 3 shows the volumes of electricity sold or purchased through closed contracts and operational forecasts. Compared to 2015, the volume of electricity from closed contracts was 5.2 percent higher, whereas the volume of electricity from operational forecasts increased

by 5.6 percent. A comparison of the number of recorded closed contracts and the volume of electricity from recorded closed contracts shows that the growth in the number of reported closed contracts that we witnessed in 2013 and 2014 came to a halt. This is mainly due to a slight drop in the

number of recorded closed contracts in the past two years. In 2016, we also recorded the highest volume of recorded closed contracts, which exceeded the previous record level of the year 2012 by 768,387 MWh.

MONTHLY VOLUMES OF ELECTRICITY SOLD OR PURCHASED THROUGH CLOSED CONTRACTS AND OPERATIONAL FORECASTS AND NUMBER OF RECORDED CLOSED CONTRACTS ON THE ORGANISED MARKET IN SLOVENIA IN THE 2013-2016 PERIOD **FIGURE 5**



The table below presents the data on the growth rate over the last five years.

ANNUAL VOLUMES OF ELECTRICITY SOLD OR PURCHASED THROUGH CLOSED CONTRACTS (CC) AND OPERATIONAL FORECASTS (OF) AND THE NUMBER OF RECORDED CLOSED CONTRACTS AND OPERATIONAL FORECASTS ON THE ORGANISED MARKET IN SLOVENIA FROM 2013 TO 2016 **TABLE 4**

Year	Annual volume of recorded CC [MWh]	Increased number of CC in % compared to the previous year	Recorded CC at the annual level	Increased number of CC in % compared to the previous year
2013	52,591,033	-2.73%	71,733	8.84%
2014	53,870,328	2.43%	77,675	8.28%
2015	52,143,848	-3.20%	76,273	-1.80%
2016	54,834,360	5.16%	73,887	-3.13%

From 2013 to 2016, the reported volumes of electricity from closed contracts and operational forecasts increased by 3.5 percent. The total number of recorded closed contracts and operational forecasts in the Slovenian market increased by 2.5 percent.

TRANSMISSION OF ELECTRICITY ON THE BORDERS OF THE SLOVENIAN REGULATION AREA

In 2016, the transmission of electricity on the Slovenian regulation area

borders accounted for 978,978 MWh of the total generation, which means that there was a 6.9-percent surplus of electricity compared to the total consumption. However, since 2,718,487 MWh of electricity from the Krško Nuclear Power Plant

(KNPP) belonged to the Croatian network, Slovenia was a net importer of electricity in 2016. Net imports totalled 1,739,509 MWh, which represents 12.3 percent of the total electricity consumption in Slovenia.

TOTAL IMPORT AND EXPORT OF ELECTRICITY ON THE BORDERS OF THE SLOVENIAN REGULATION AREA IN 2016 **TABLE 5**

Month	Export (MWh)	Export from KNPP (MWh)	Import (MWh)	Net position with KNPP (MWh)	Net position excl. KNPP (MWh)
January	643,011	900,699	978,317	-77,618	-335,306
February	835,663	1,077,967	1,054,489	23,478	-218,826
March	879,972	1,138,536	1,037,835	100,701	-157,863
April	757,450	1,007,708	903,200	104,508	-145,750
May	797,007	1,055,001	885,804	169,197	-88,797
June	627,379	875,323	586,008	289,315	41,371
July	666,896	919,148	651,864	267,284	15,032
August	641,997	894,084	681,189	212,895	-39,192
September	551,872	794,510	726,452	68,058	-174,580
October	674,676	675,243	1,030,930	-355,687	-356,254
November	795,002	992,713	906,461	86,252	-111,459
December	698,591	957,071	866,476	90,595	-167,885
Total	8,569,516	11,288,003	10,309,025	978,978	-1,739,509

Compared to 2015, the export of electricity (excluding the Croatian energy from KNPP) increased by 3 percent and equalled 8,569,516 MWh, whereas the import in the same period decreased by 7.2 percent and equalled 10,309,025 MWh.

Compared to 2015, the export on the Austrian border was 40.3 percent higher and amounted to 1,415,971 MWh. On the other hand, the import

was 21.4 percent lower and equalled 5,013,551 MWh.

Compared to 2015, the export on the Croatian border was 2.4 percent higher, taking into account the generation of the Croatian part of KNPP, and amounted to 6,067,387 MWh. The import was 3.5 percent higher and equalled 4,714,969 MWh. The total generation in KNPP increased by 1.2 percent compared to 2015 and amounted to 5,423,966 MWh.

In 2016, the export on the Italian border decreased by 6.4 percent compared to 2015 and equalled 580,505 MWh.

Table 6 presents the data on the number of closed contracts concerning electricity import and export in 2016 per individual border. In October, the export on the Croatian border decreased significantly due to the repair work at KNPP

RECORDED CLOSED CONTRACTS BY BORDER FOR ELECTRICITY IMPORT AND EXPORT IN 2016 (IN MWH) **TABLE 6**

Border	AUSTRIA		ITALY		CROATIA		
	Export	Import	Export	Import	Export from KNPP	IMPORT	Export KNPP
January	48,625	583,462	316,013	50,170	536,061	344,685	257,688
February	228,350	476,139	457,543	3,507	392,074	574,843	242,304
March	252,698	450,260	419,134	7,635	466,704	579,940	258,564
April	116,361	556,149	237,526	110,232	653,821	236,819	250,258
May	190,214	577,050	266,728	35,459	598,059	273,295	257,994
June	87,098	254,682	132,254	126,542	655,971	204,784	247,944
July	41,933	264,333	293,234	47,821	583,981	339,710	252,252
August	65,471	333,970	154,059	89,231	674,554	257,988	252,087
September	48,844	347,170	274,829	38,240	470,837	341,042	242,638
October	66,447	369,299	405,682	36,643	203,114	624,988	567
November	209,143	311,250	444,346	978	339,224	594,233	197,711
December	60,787	489,787	403,297	34,047	492,987	342,642	258,480
Total	1,415,971	5,013,551	3,804,645	580,505	6,067,387	4,714,969	2,718,487



JANEZ KOPAČ, MSc
Minister at the time of Borzen's establishment



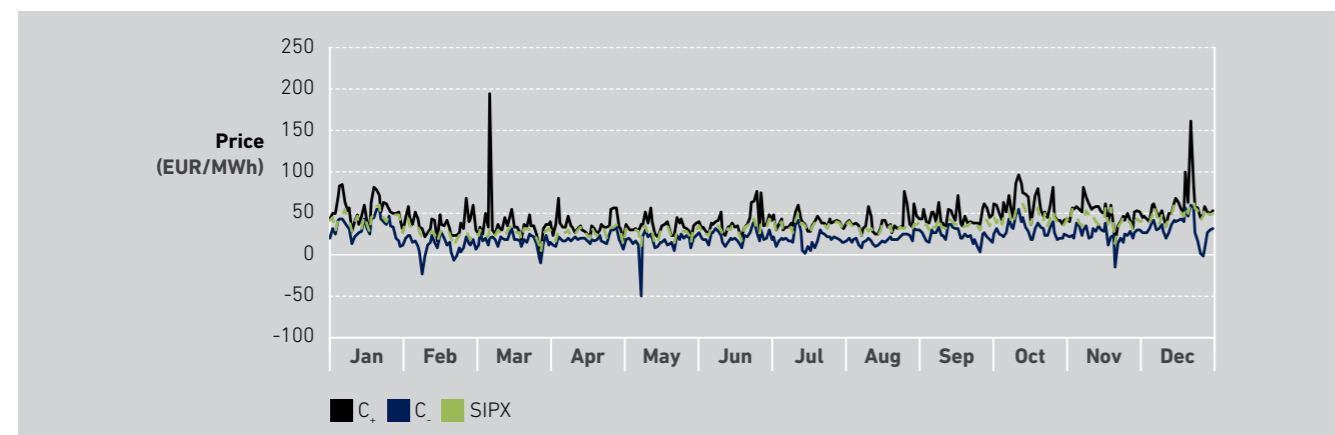
Long live Borzen! I would like to extend my congratulations to the company's management and its employees.

2.2 IMBALANCE SETTLEMENT

The report covers the accounting period for 2016 and it contains the concluded imbalance settlements from January to the end of December. The results are summarised in the text and figures below.

AVERAGE DAILY VALUES OF DERIVED IMBALANCE PRICES C₊ IN C₋ AND THE SIPX INDEX IN 2016

FIGURE 6



From January to the end of December, the price movement of imbalances was represented by a fairly steady amount of the average daily values compared to previous years. In 2016, we recorded two slightly higher average daily values, as shown in the above figure. The first, largest increase was recorded on 7 March, whereas the second escalation was recorded on 21 December. These increases follow the cost spikes of the settlements, where the (fixed) price is calculated as the ration between the cost and amount of the settlement.

The average value of the derived (corrected) price for positive imbalances C₊ totalled EUR 44.64 per MWh and EUR 22.60 per MWh for negative imbalances C₋. The highest price

value for C₊ amounted to EUR 2,151.29 per MWh and EUR 97.65 per MWh for C₋. The lowest price value for C₊ and C₋ equalled EUR -7.78 per MWh and EUR -668.52 per MWh, respectively. The highest price C₊ occurred on 7 March in the 20th hour block and the highest price C₋ occurred on 21 January in the 18th hour block. The lowest prices were recorded on 27 March in the 4th hour block and on 8 May in the 16th hour block.

According to the Rules for the operation of the organised electricity market, the SIPX index is applied to calculate basic prices for C₊ and C₋ imbalances and, consequently, also for the calculation of the C₊ and C₋ derived imbalance prices. Figure 6 shows the movement

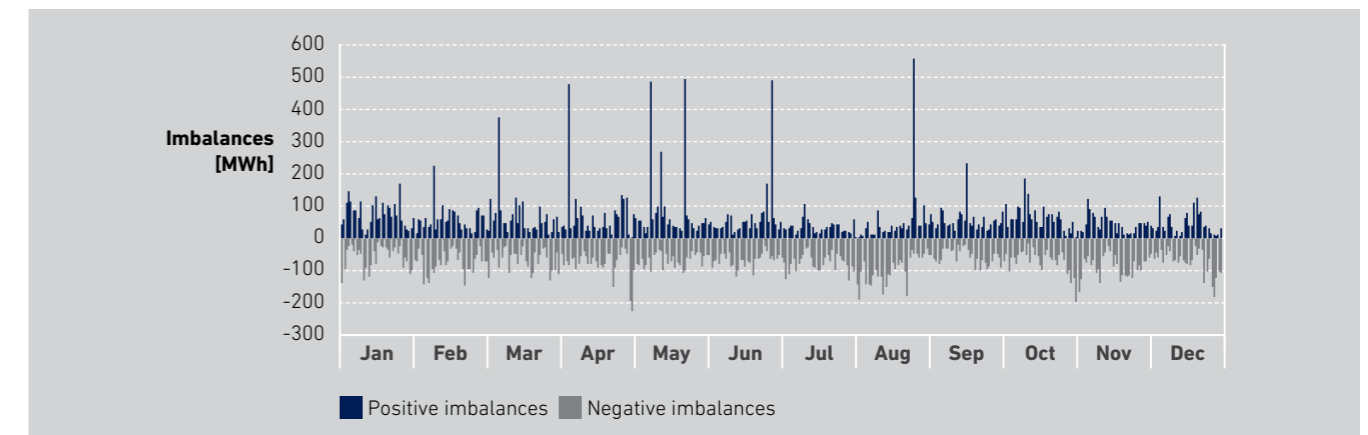
of the SIPX index in comparison with the imbalance prices in 2016.

The prices for positive and negative imbalances are defined on the basis of the costs arising from the settlement of imbalances of the electricity system and are the result of the deviations of the market participants from their forecasts. Figure 7 shows the total positive and negative imbalances of all Balance Groups in Slovenia in 2016.

The imbalances in a positive direction reflect a shortage of electricity in the power system, whereas the imbalances in a negative direction reflect a surplus of electricity in the Slovenian electricity system.

IMBALANCES IN THE SLOVENIAN ELECTRICITY SYSTEM IN 2016 (IN MWh)

FIGURE 7



The balancing energy for the settlement of positive and negative imbalances in the Slovenian electricity system is provided by the Transmission System Operator, ELES. In 2016, a total of 247,527.27 MWh was used for the settlement of positive imbalances and 378,773.12 MWh for negative imbalances. Figure 8 shows the average monthly values of the

regulation costs for the imbalance of the electricity system. The costs include the secondary and tertiary regulation costs, energy from the balancing market and energy from the Imbalance Netting Cooperation (INC).

Table 7 shows the INC+ and INC- volumes in the last four years. The

first column displays the values in the intervals in which an energy shortfall occurred in the Slovenian energy system and the INC function was activated. On the other hand, the second column shows the values in the intervals in which an energy surplus occurred in the Slovenian energy system and the INC function was activated.

INC VOLUMES IN MWh FROM 2013 TO 2016

TABLE 7

Year	INC+ [MWh]	INC- [MWh]
2013 (May - December)	25,491	47,458
2014	41,457	69,909
2015	28,091	71,007
2016	33,997	114,247

AVERAGE MONTHLY VALUES OF THE REGULATION COSTS (S+ AND S-) IN 2016

FIGURE 8

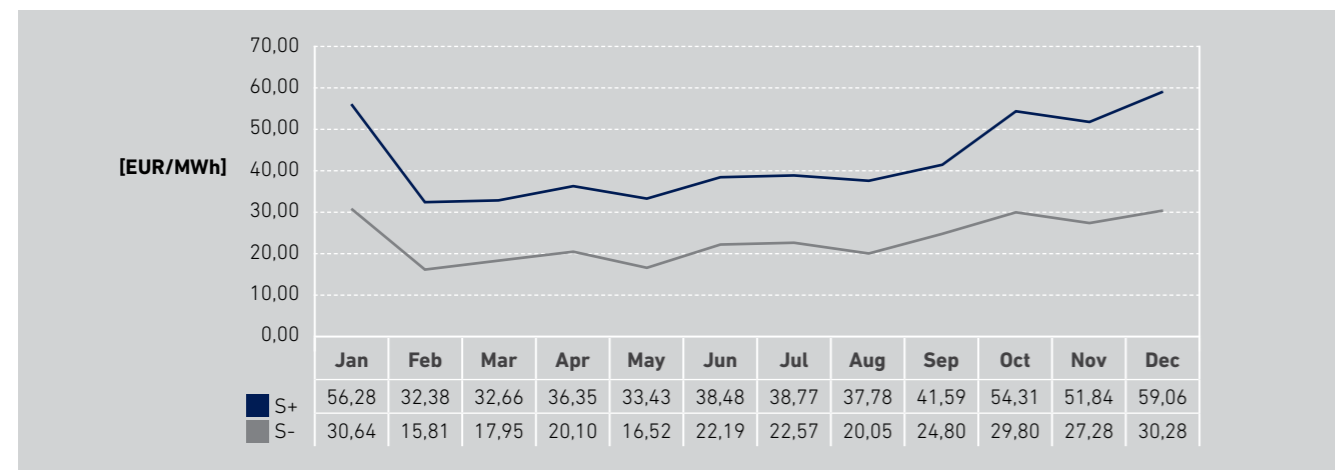


Table 8 presents the quantities of positive and negative imbalances of all balance groups on the electricity market from 2013 onwards.

TOTAL POSITIVE AND NEGATIVE IMBALANCES OF BALANCE GROUPS (BG) FROM 2013 TO 2016

TABLE 8

Year	Total positive imbalances of BG [MWh]	Total negative imbalances of BG [MWh]
2013	301,776	-397,808
2014	307,168	-367,965
2015	300,051	-388,574
2016	239,765	-371,020

Based on the data from the table, it can be observed that there is a downward trend in both segments of imbalances, especially in the positive imbalances. This represents one of the essential tasks of the imbalance settlement system, namely, to motivate market players to be more careful in their behaviour and predictions, and thus contributing to the stability of the electricity system.

ANNUAL RECALCULATION

Since the imbalance settlement applies to the so-called analytical procedure to determine the realisation of delivery points without the execution of measurements in each quarter of an hour, their consumption is estimated based on the remaining consumption of the area. Thus, the differences generated among quantities acquired on the basis of the analytical procedure and the actual realised quantities

are recalculated within the annual recalculation.

In 2016, the annual recalculation was made for the year 2015. The redistribution of differences between the balance groups was made on the basis of calculated differences and average annual prices that equalled the annual average of C₊ and C₋, which amounted to EUR 45.12 per MWh. Within the annual recalculation for 2015, a total of 38,546 MWh of electricity was redistributed, in the total amount of EUR 1,739,178 (net).

2.3 BALANCE SCHEME

Organised electricity market is hierarchically arranged into a Balance Scheme. Any legal or natural person that wishes to actively operate on the electricity market must become a member of the Balance Scheme. The membership and structure of the Balance Scheme are determined under the balancing agreement, concluded with the Market Operator, and with the compensation agreement concluded with the Balance Scheme members. Market Operator, who is at the top of the Balance Scheme, provides balancing

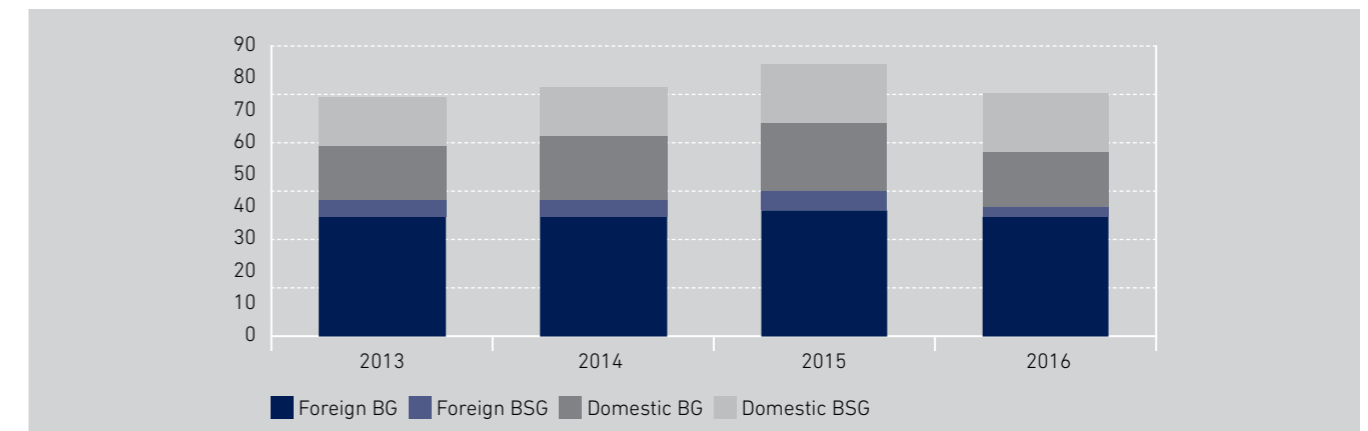
energy delivery to the balance groups through balancing agreements. The Transmission system operator physically implements the balancing of the electric power system, whereas the Market Operator is responsible for keeping, updating and publishing the record of Balance Scheme membership contracts on its website.

2016 was a rather dynamic year regarding the management of the Balance Scheme. In recent years, the number of members on the Slovenian

electricity market has been steadily increasing and 2016 has been the first year since 2010 when a decrease in the number of members in the Balance Scheme was recorded (see figure below). Compared to 2015, the number of the Balance Scheme members decreased by 9 members and as of **31 December 2016 consisted of 75 members.**

NUMBER OF FOREIGN AND DOMESTIC BALANCE GROUPS (BG) AND BALANCE SUBGROUPS (BSG) FROM 2013 TO 2016

FIGURE 9



In 2016, 8 new members entered the Balance Scheme, i.e. 4 domestic and 4 foreign companies. As at 31 December 2016, there were a total of 54 registered balance groups in the Republic of Slovenia (17 Slovenian and 37 foreign companies) and 21 balance subgroups (18 Slovenian and 3 foreign companies).

On the other hand, 17 members left the Balance Scheme, this being the highest number ever. Borzen has no direct impact on the number of the

Balance Scheme members and there are various reasons for the decrease. For example, there were some companies that ceased trading on BSP Regional Energy Exchange and subsequently left the Balance Scheme. On the other hand, some companies left the Balance Scheme due to their reorganisation or restructuring. The number of balance subgroups also decreased due to the changes in the conducting of auctions for the purchase of electricity to cover losses and supply the Slovenian

Operator of Distribution Network (SODO). Compared to 2015, when the auction was conducted for each individual network, the auction in 2016 was conducted for the whole country and, consequently, instead of last year's five subgroups, only one balance subgroup was established, i.e. SODO d.o.o..

TIMELINE OF THE MOVEMENT OF THE BALANCE SCHEME MEMBERS IN 2016

TABLE 9

Date of the event	Name of the Balance Scheme member	Status
21 November	ILLUMIA TREND S.R.L.	Exit
15 November	UNITRADING ENERGIA S.p.A.	Exit
29 October	CRODUX PLIN d.o.o.	Entry
14 October	JWM ENERGIA SPÓŁKA Z OGRANICZONĄ ODPOWIEDZIALNOŚCIĄ	Entry
11 October	Energia gas and power d.o.o.	Entry
1 September	Optimax Energy GmbH	Entry
1 August	NEXUS ENERGIA SA	Exit
14 July	TELEKOM SLOVENIJE, d.d.	Entry
1 July	ADRIAPLIN d.o.o.	Entry
5 May	ČEZ, a. s.	Entry
15 March	Morgan Stanley Capital Group Energy Europe Limited	Exit
1 February	Virtuse Energija d.o.o.	Exit
1 February	REPOWER Trading Česká republika s.r.o.	Exit
1 February	e&t Energie Handelsgesellschaft m.b.H.	Exit
29 January	Virtuse Energy sp. z o.o.	Exit
29 January	Virtuse Wealth Management, a. s.	Exit
18 January	TEI Deutschland GmbH	Exit
15 January	COMSAR d.o.o.	Exit
1 January	SODO d. o. o. (d.a. Elektro Ljubljana d.d.)	Exit
1 January	SODO d. o. o. (d.a. Elektro Celje d.d.)	Exit
1 January	SODO d. o. o. (d.a. Elektro Maribor d.d.)	Exit
1 January	SODO d.o.o. (d.a. Elektro Gorenjska d.d.)	Exit
1 January	SODO d.o.o. (d.a. Elektro Primorska d.d.)	Exit
1 January	Repower Italia S.p.A.	Exit
1 January	SODO d.o.o. (all distribution areas)	Entry

2.4 FINANCIAL SETTLEMENT OF IMBALANCES

As the clearing agent, Borzen provides financial settlement of liabilities arising from the imbalance settlement of financial settlement participants. All final imbalance settlements of an

individual balance group in a specific time period are the subject of the financial settlement.

The following table presents the values of financial settlement of imbalances for 2016.

VALUE OVERVIEW OF IMBALANCE SETTLEMENT IN 2016

TABLE 10

Month	in EUR (excl. VAT)		
	Imbalance settlement	Balancing costs	Surplus
January	1,204,826	-1,170,222	34,604
February	529,832	-522,611	7,221
March	423,808	-419,037	4,771
April	500,940	-473,060	27,880
May	537,953	-528,117	9,836
June	562,898	-553,252	9,646
July	-43,499	49,304	5,805
August	208,258	-177,109	31,149
September	415,180	-411,670	3,510
October	811,993	-780,898	31,095
November	142,582	-110,747	31,835
December	228,457	-212,870	15,587
Total	5,523,228	-5,310,289	212,939

The imbalance settlement field represents the netted value of a final imbalance settlement of balance groups by individual months. Balancing costs occur by purchasing or selling electricity for the purposes of balancing imbalances of the electricity system in the Republic of Slovenia. The financial settlement of balancing costs is conducted between the Transmission System Operator and Market Operator. In the table above, the negative values

represent outflow, while the positive values represent inflow for Borzen.

The surpluses of revenues over expenditures arising from the imbalance settlement are intended for risk management in case of non-fulfilment of financial obligations or late payments and are held on a separate account. In 2016, the surpluses of the imbalance settlement amounted to EUR 212,939. In 2016, the imbalance

settlement surplus was not reallocated. At the end of the financial year, the total imbalance settlement surplus equalled EUR 1,542,007 and included the undisbursed part of the surplus from 2014 totalling EUR 763,826, the surplus from 2015 totalling EUR 565,241 (including late payment interests in the amount of EUR 51) and the total surplus for 2016.



DAMJAN STANEK, MSc

The second general manager of Borzen



I wish Borzen a great deal of impetus and success in the future.

2.5 BALANCING MARKET

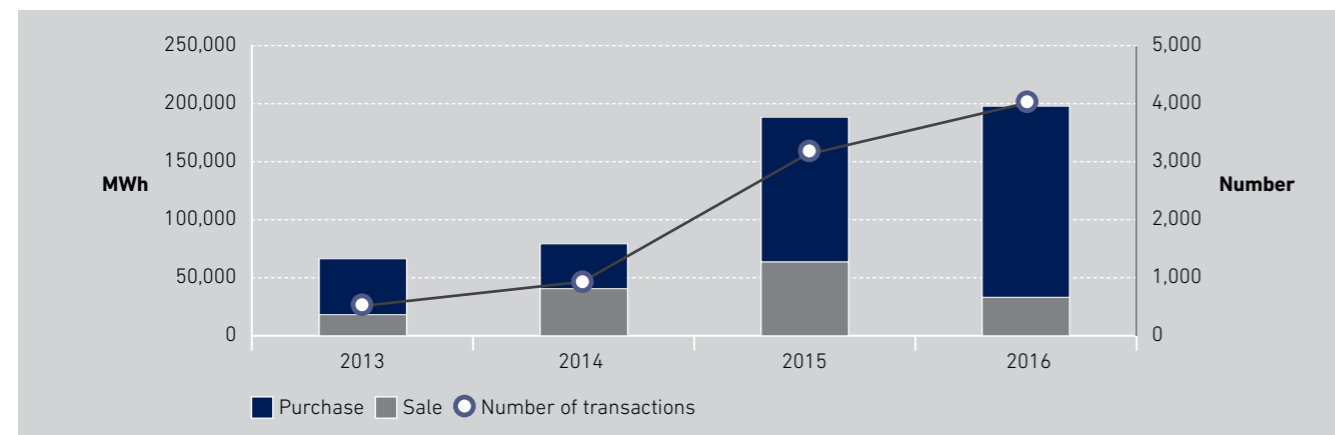
On the electricity balancing market, which has been operational since October 2012, 4,054 transactions were concluded in 2016, totalling 197,890 MWh of electricity. 33,076.30 MWh of electricity represented the purchase of electricity, whereas 164,813.80 MWh represented the sale of electricity by the Transmission System Operator (ELES). The highest volume of transactions was concluded with hourly products in the total quantity of 117,409 MWh. The highest number of transactions was also concluded with hourly products, amounting to 1,751 transactions. As shown in the chart below, the System Operator mainly acted as a seller of electricity in 2016. Most balancing electricity was sold in August, namely

28,830 MWh, while the purchase of balancing electricity reached its peak in January, when it amounted to 8,029.50 MWh. August has been a record month in terms of quantity and number of transactions since the establishment of balancing market. The total number of transactions amounted to 452 in the total quantity of 29,718 MWh. In 2016, the highest price for the purchased electricity equalled EUR 150 per MWh, while the lowest price for sale reached EUR -140 per MWh. In addition to the System Operator, five more members were involved in transactions concluded in the balancing market. At the end of 2016, the balancing market consisted of 36 members.

The balancing market has been experiencing a steady growth since its establishment, as shown in the chart below. The highest increase in the volume and number of transactions was recorded in 2015, when the volume increased by 138 percent and the number of transactions increased by 228 percent compared to the preceding year. In 2016, we also recorded a growth in the number of volume of transactions, although not as markedly as in the previous year. Compared to 2015, the volume of transactions increased by 5 percent, while the number of transactions increased by more than 29 percent.

VOLUME AND NUMBER OF CONCLUDED TRANSACTIONS ON THE ELECTRICITY BALANCING MARKET BY YEAR

FIGURE 10



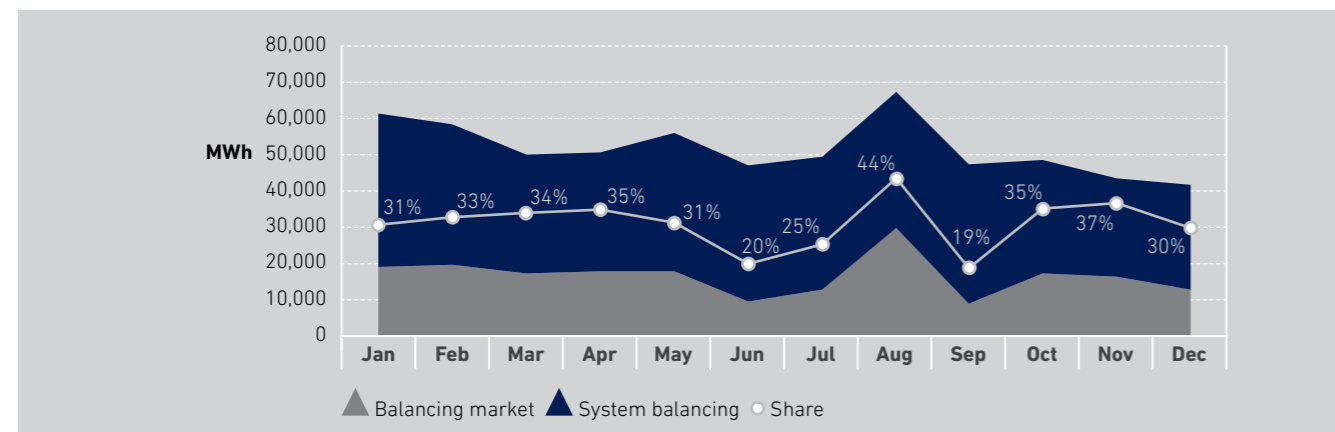
In 2016, the balancing market accounted for 31.6 percent of the total system balancing, a percentage similar to that in 2015, while the balancing market share in the total system balancing

equalled 31.1 percent. The highest monthly share of balancing electricity from the balancing market was recorded in August and equalled 44 percent. The share of energy from the

balancing market for upward balancing (purchase) in 2016 was 13 percent, while the share for downward balancing (sale) amounted to 43 percent.

BALANCING MARKET SHARE IN THE TOTAL SYSTEM BALANCING OF THE SLOVENIAN ELECTRICITY SYSTEM

FIGURE 11



Trading on the balancing market is carried out in combination with "intra-day" trading, i.e. one hour after the intra-day gate closure time until the physical delivery of the traded product. In the so-called "balancing market"

phase, the total volume of recorded transactions amounted to 103,123 MWh in 2016, representing 52 percent of the total volume of recorded transactions. There has also been a notable trend of increased transactions in this phase,

ranging from 16 percent in 2013 to 52 percent in 2016, meaning that the System Operator purchases or sells electricity directly before delivery and thus balances the electricity system more effectively.

PERCENTAGE OF TRANSACTIONS IN ACCORDANCE WITH THE TRADING PHASE

TABLE 11

Year	"Balancing market" phase	"Intra-day trading" phase
2013	16 %	84 %
2014	20 %	80 %
2015	34 %	66 %
2016	52 %	48 %

2.6 ENSURING TRANSPARENCY OF THE ELECTRICITY MARKET

2.6.1 RRM - REMIT REPORTING SERVICES

In October 2015, Borzen started performing reporting services of transactions on wholesale energy market for all participants on the electricity and gas markets in accordance with the Regulation on Wholesale Energy Market Integrity and Transparency (REMIT). According to the Regulation, all participants who enter into wholesale transactions on the electricity and gas markets, both on the regulated as well as the bilateral and over-the-counter (OTC) market are required to report their wholesale energy transactions to the Agency for the Cooperation of Energy Regulators (ACER).

In accordance with the Energy Act and the Decree on the method for the implementation of public service obligation relating to the organisation of the electricity market adopted by the Government of the Republic of Slovenia, Borzen started performing the RRM service after registering with the national Energy Agency and the approval of the RRM status ("Registered Reporting Mechanism") by ACER. The RRM status, which can only be obtained by legal entities that meet ACER's strict requirements,

enables Borzen the implementation of reporting services to third parties.

As a part of the RRM - REMIT service, Borzen implements a daily transaction reporting on the wholesale market (the elements of transactions and trading orders) through a web application and on behalf of the market participant to ACER. Within the RRM - REMIT service, Borzen also prepares and provides information on transactions and trading orders made on BSP Regional Energy Exchange to other RRM.

In 2016, Borzen carried out all the necessary activities (i.e. registration of the additional XML schemes with ACER, preparation of the examples of XML files for market participants etc.) that ensured market participants smooth and effective data reporting for the second phase of the REMIT reporting service, which began on 7 April 2016. The year was marked by various activities, intended for users, both in terms of knowledge-transfer and advisory measures, as well as in the provision of quality services and user support, including the updated version of the REMIT web application.

At the end of 2016, more than 50, mostly foreign clients entrusted Borzen with the RRM reporting services. A large

increase in the number of customers can be attributable to the fact that Borzen, already in 2015, proved to be a reliable partner and thus managed to acquire a large number of clients in the REMIT Phase 2 reporting.

Borzen thus provides a service that generates various synergy effects that go hand-in-hand with our knowledge and experience, and the role entrusted to us by the legislator in ensuring a transparent functioning of the electricity market. In this way, the Slovenian Market Operator provides a regulated, transparent, efficient and competitive Slovenian electricity market and its further integration into the European internal market.

2.6.2 DATA EXCHANGE AND SETTLEMENT OF IMBALANCES

Effective data exchange is essential for the proper execution of the Market Operator's activities and the operation of the entire electric power system. Electronic data exchange constitutes an important step towards a more reliable and faster submission of data to the Market Operator. Therefore, Borzen aims to further develop and improve this area, also by participating

in associations, such as the Energy Market Data Exchange Section (iPET).

In 2015, we established the electronic data exchange for recording data from all five distribution networks for the purposes of the imbalance settlement. In the future, we plan to extend the system to the operators of closed distribution systems and Balance Scheme members, enabling them to import the results of the imbalance settlement into their own systems in XML file format.

2.6.3 OTHER ACTIVITIES RELATED TO ENSURING THE TRANSPARENCY OF THE ELECTRICITY MARKET

ESTABLISHMENT OF THE DATA SUBMISSION SYSTEM IN ACCORDANCE WITH THE EU TRANSPARENCY REGULATION 543/2013

At the turn of 2014 and 2015, Borzen established an automated transmission of data via online services. In accordance with the European Regulation No. 543/2013 (the so-called "Transparency Regulation"), Borzen is obliged to send the data on the quantity of bids on the balancing market and the data on quantities and prices of transactions concluded on the balancing market to the System Operator every hour. In addition to the data on the balancing market, Borzen also submits the prices of imbalances to ELES on a monthly basis. The submitted data are published

on the European platform "ENTSO-E Transparency Platform" in order to ensure a greater transparency of the European energy market.

ELECTRONIC ACCESS TO THE BALANCE SCHEME RECORDS

In 2014, acting on a proposal from the Energy Agency, Borzen established the electronic access to the Balance Scheme records via online services. The access provides the Energy Agency with the automated control of the data on the Balance Scheme members which are submitted upon their registration in accordance with the REMIT regulation. In 2016, the exchange process operated smoothly, enabling the verification of the data submitted by market participants as part of their registration with the Energy Agency. In the future, we want to integrate the data on the status of the supplies into the access, which we already publish on our corporate website. Namely, the Energy Act (EA-1) suspended the supplier licences, which means that there is no longer a homogeneous review of the whole network (i.e. transmission and distribution), except for the review which we conduct within the framework of the imbalance settlement via the registered physical delivery-transfer points.

PUBLICATION OF ADDITIONAL DATA ON THE FUNCTIONING OF THE MARKET ON OUR WEBSITE

In 2015, Borzen started to publish residual diagram data on its website. For

each accounting interval, the residual diagram of a particular distribution area is calculated in the following way: the number of the total energy received by a particular transmission area (from the transmission network, the distribution network of the adjacent areas or the production delivery points) is subtracted by the value of estimated losses for the area and the realised consumption of all non-measured consumers, where the registration interval is shorter than or equal to the accounting interval. The data primarily makes it easier for new participants to operate on the market and represents an additional activity of the Company in the direction of collecting, analysing and publishing the data in order to ensure the transparency of the electricity market. In addition to this, Borzen also publishes a list of suppliers, i.e. the Balance Scheme members with physical delivery points either on the consumption or on the production side. After the suspension of licences under the new Energy Act, there is no longer a coherent list of the market suppliers. In the future, we wish to expand the scope of the published data and in this way, contribute to a greater transparency on the electricity market.

In 2016, Borzen published detailed information related to the imbalance settlement (i.e. balancing costs, balancing quantities, divergences of the balance groups in the Slovenian regulation area), including the history from 2007 onwards. Borzen has also been undertaking activities related to the automation of posts and further expansion of datasets that are or will be available to market participants. All of the available information is updated on a monthly basis.



VEKOSLAV KOROŠEC

The first Chairman of Borzen's Supervisory Board

"The company's successful work so far, carried out by its highly qualified staff provides a solid foundation for the future. The company's young team has the knowledge and opportunities for continuing training and improving the quality of the company's services. The company has all conditions for carrying out its mission and is standing before new challenges. My wishes for your future: stay professional and continually improve your expertise."

3. CENTRE FOR RES/ CHP SUPPORT

3.1 SYSTEM OF SUPPORT

In accordance with the Energy Act, the Centre for Support is the support scheme operator for generation of electricity that is environmentally friendly. Support schemes are an instrument of state aid (subsidies) approved by the European Union that enables, with a higher purchase price of electricity, the implementation of investments in renewable energy sources (RES) and highly efficient cogeneration of heat and electricity (CHP) necessary to achieve national goals concerning the share of use of renewable sources in total energy consumption.

The described procedures of the integration and eligibility apply to those power plants for which the agreement on the access to the electricity was concluded until 22 September 2014 in compliance with Article 535 of the Energy Act (EA-1). The EA-1 provides a call for the integration of the power plants that do not comply with Article 535. At the end of 2016, the Energy Agency launched a call for new entrants

to the Support Scheme. According to the Energy Agency's data of 3 March 2017, the total number of registered production plants equalled 278 plants with a total power of 267 MW. After the closure of the call, the Agency will approve the entry to the registered production plants in accordance with the established criteria. The new entrants will receive EUR 10 million of support at the annual level.

TYPES OF SUPPORT

CHP production units with the power lower than 500 kW and RES production units with the power lower than 500 kW are eligible to two types of support, i.e. guaranteed purchase or operating support. Larger production units may only receive the operating support and are not entitled to receive the guaranteed purchase support. The support for CHP units is limited to those that are not more than 10 years old and for RES units, the limit is 15 years.

Guaranteed purchase of electricity: Guaranteed purchase means that Support Centre receives electricity

and pays the price defined in the decision. The production unit is included in a special Balance Group or Subgroup established by the Centre for RES/CHP Support (i.e. Eco Group). The Centre for Support settles the differences between forecasted and realised production (e.g. coverage of "imbalances") for units that are eligible to this type of support.

Operating support (or "financial support for the current business"):

Operational support means that the Centre for Support does not assume nor does it pay for electricity but instead on the basis of produced net quantities of electricity pays only the operational support aimed to compensate the production unit for the difference between production costs and the market price which the unit acquires on the open market. Production units receiving this type of support have to arrange the settlement of differences between the announced and realised production and the balancing affiliation on their own behalf, or this can be done by the supplier with whom they concluded an open contract for the sale of electricity.

3.2 SUPPORT SCHEME FOR ELECTRICITY PRODUCTION FROM RENEWABLE ENERGY SOURCES AND COGENERATION OF HEAT AND POWER

3.2.1 POWER PLANTS IN THE SYSTEM OF SUPPORT

with a total power of 412 MW, which represents approximately one tenth of installed capacities in the Republic of Slovenia.

independently on the market (and thus receive the operational support) stayed at a similar level as in the previous year and accounted for 69 percent of units that received the operating support.

At the end of 2016, the Support Scheme consisted of 3,888 power plants

The share of units in the Support Scheme that sell the electricity

POWER PLANTS IN THE NEW SYSTEM OF SUPPORT (AS AT 31 DECEMBER 2016)

TABLE 12

Biogas from biomass (up to 50 kW)	1	7.00
Biogas from biomass (above 50 kW and up to 1 MW)	19	16,479.00
Biogas from biomass (above 1 MW and up to 10 MW)	2	8,552.00
Biogas from waste (up to 1 MW)	4	3,156.00
Power plant using gas from waste water treatment plants (up to 50 kW)	1	18.00
Power plant using gas from waste water treatment plants (above 50 kW and up to 1 MW)	2	968.00
Landfill gas (up to 1 MW)	1	308.00
Landfill gas (above 1 MW and up to 10 MW)	2	4,371.00
Solar power plants - on buildings (up to 50 kW)	2,725	87,291.80
Solar power plants - on buildings (above 50 kW and up to 1 MW)	523	144,629.48
Solar power plants - other (up to 50 kW)	37	824.67
Solar power plants - other (above 50 kW and up to 1 MW)	38	22,579.32
Individual treatment	2	1,035.00
Wind power plants (up to 50 kW)	5	73.40
Wind power plants (above 50 kW and up to 1 MW)	1	910.00
Wind power plants (above 1 MW and up to 10 MW)	1	2,300.00
Hydro power plants (up to 50 kW)	32	794.10
Hydro power plants (above 50 kW and up to 1 MW)	62	17,176.10
Hydro power plants (above 1 MW and up to 10 MW)	4	7,160.00
Power plants using wood biomass (above 50 kW and up to 1 MW)	25	6,943.40
Power plants using wood biomass (above 1 MW and up to 10 MW)	1	6,150.00
Co-incineration of wood biomass > 5% (above 1 MW and up to 10 MW)	1	8,900.00
CHP using wood biomass up to 4,000 hours (up to 50 kW)	4	141.90
CHP using wood biomass up to 4,000 hours (above 50 kW and up to 1 MW)	2	722.00
CHP using wood biomass above 4,000 hours (up to 50 kW)	9	403.20
CHP using fossil fuels up to 4,000 hours (up to 50 kW)	301	10,422.06
CHP using fossil fuels up to 4,000 hours (above 50 kW and up to 1 MW)	45	22,902.64
CHP using fossil fuels up to 4,000 hours (above 1 MW and up to 5 MW)	6	15,025.00
CHP using fossil fuels up to 4,000 hours (above 5 MW and up to 25 MW)	1	8,022.00
CHP using fossil fuels above 4,000 hours (up to 50 kW)	17	431.35
CHP using fossil fuels above 4,000 hours (above 50 kW and up to 1 MW)	13	10,099.99
CHP using fossil fuels above 4,000 hours (above 1 MW and up to 10 MW)	1	3,229.00
TOTAL	3,888	412,025.00

3.2.2 SUPPORT PAYMENTS

2016 was the first year in the management of the Support Scheme when we recorded less support payments than in the previous year. However, it is important to note that the quantity of produced electricity in 2016 was higher than in 2015, exceeding 1 TWh. The comparison

of payments and produced electricity in the Support Scheme shows that the power generation in 2016 was 2.3 percent higher than in 2015 and the payments decreased by 0.6 percent. The total quantity of the electricity produced in 2016 slightly exceeded the record level of 2010 (lower production was mainly the consequence of outage in the number of generation units from the old Support Scheme which closed at the end of 2011;

furthermore, the old Support Scheme consisted of many hydro power plants that operated in the Scheme with a low average support).

Production that receives one of the types of support accounts for 7.8 percent of the Slovenian annual consumption.

2 According to the data provided by the Statistical Office of the Republic of Slovenia (Final electricity consumption in Slovenia, Final consumption - total, 2015; data for 2016 is not yet available), the total final consumption in 2015 amounted to 12,895 GWh.

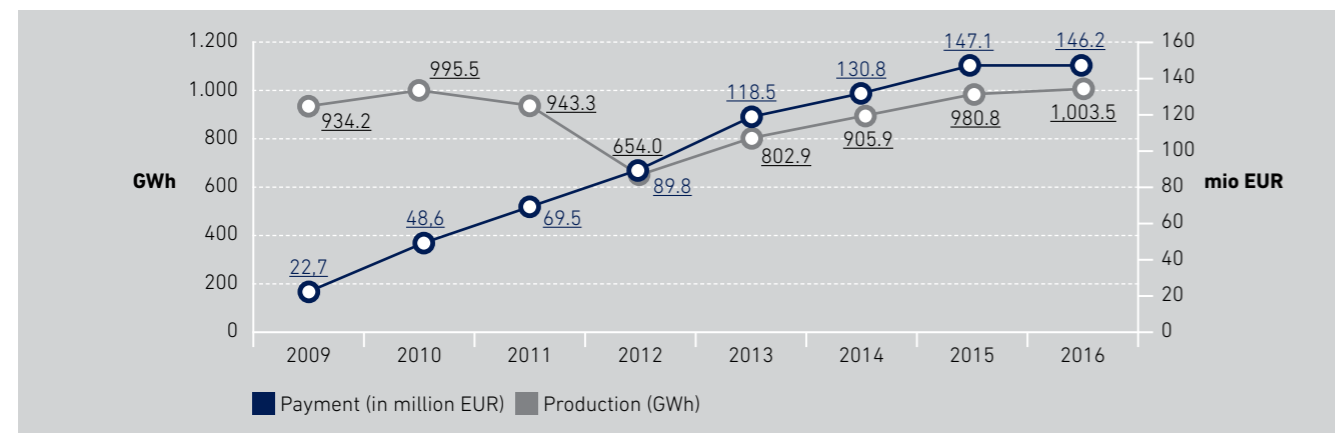
SUPPORT PAYMENTS FROM 2009 TO 2016³

TABLE 13

Leto	2016	2015	2014	2013	2012	2011	2010	2009
Quantity of electricity (in GWh)	1,003.5	980.8	905.9	802.9	654	943.3	995.5	934.2
Support payments according to contracts (in million EUR, excl. VAT)	146.2	147.1	130.8	118.5	89.8	69.5	48.6	22.7
Average support	145.6	149.97	144.42	147.61	137.28	73.69	48.81	24.3

PRODUCTION AND PAYMENTS BY YEAR

FIGURE 12



Based on the share of generated activity, CHP plants using fossil fuels (32 percent) and solar power plants (26 percent) stood out in 2016. The latter also received almost half of all support payments (46 percent). The

average calculated support should also be noted. In 2016, it equalled EUR 257.24 per MWh for solar power plants and a considerably lower support for hydro power plants, which amounted to EUR 62 per MWh in 2016. Since CHP plants

and solar power plants are the key units in terms of support payments, the weather conditions should also be taken in consideration due to their significant influence on the payments, e.g. number of sunny hours, temperature etc.

SUPPORT PAYMENTS IN 2016⁴

TABLE 14

Unit type	Support (EUR)	Produced electricity (kWh)	Share of support*	Share of energy*
Biogas power plants (including landfill gas and treatment plants)	18,324,358	138,124,924	12.53%	13.76%
Biomass power plants (including cogeneration)	19,210,954	131,286,666	13.14%	13.08%
Hydro power plants	8,749,012.11	139,502,294.5	5.98%	13.90%
Solar power plants	66,789,512	259,639,710	45.69%	25.87%
CHP using fossil fuels	31,897,384	320,803,203	21.82%	31.97%
Wind power plants	380,626	5,778,254	0.26%	0.58%
Other	839,520	8,374,465	0.57%	0.83%
TOTAL	146,191,366	1,003,509,516		

* Each individual share in the table is rounded to two decimal places, which can lead to a discrepancy in the addition of shares.

Compared to 2015, no substantial change in terms of proportions of production and payments was recorded. It is worth noting that slight differences in the proportions of production are the result of different weather conditions, which more or less affect not only the production of an individual plant but also the aggregate production of a specific type of unit.

In 2016, support payments did not increase for several reasons, partly due to the outage of units from the Support Scheme (the reason lies in the termination of support payment), but mostly because of weather conditions that were more favourable to units with a lower average support.

³ Data for 2016 as at 9 March 2017.

⁴ Data for 2016 as at 9 March 2017.

COMPARISON OF PAYMENTS BY UNIT TYPE IN 2016 AND 2015

TABLE 15

Unit type	Support share in 2016*	Support share in 2015	Difference in share (%)	Energy share in 2016*	Energy share in 2015	Difference in energy (%)
Biogas power plants (including landfill gas and treatment plants)	12.53%	12.19%	0.34%	13.76%	12.99%	0.77%
Biomass power plants (including cogeneration)	13.14%	11.80%	1.34%	13.08%	12.23%	0.85%
Hydro power plants	5.98%	4.93%	1.05%	13.90%	12.22%	1.69%
Solar power plants	45.69%	46.30%	-0.61%	25.87%	27.12%	-1.25%
CHP using fossil fuels	21.82%	23.80%	-1.98%	31.97%	34.46%	-2.49%
Wind power plants	0.26%	0.24%	0.02%	0.58%	0.56%	0.02%
Other	0.57%	0.74%	-0.16%	0.83%	0.42%	0.42%

* Each individual share in the table is rounded to two decimal places, which can lead to a discrepancy in the addition of shares.

Already in 2014, as a part of a comprehensive control of the scheme payments by the Centre for Support, which is regularly carried out, we introduced the additional systematic monitoring of weather indices with respect to prior periods and the long-term average. The following parameters are monitored: temperature, solar radiation, rainfall and hydrology. The data are obtained from the database of the Slovenian Environment Agency. In 2015, we introduced several additional scenarios in the preparation of forecasts, also based on the realisation of a certain group of power plants. In addition to the monthly examination of trends in disbursements by using sample checks D-1 (the measurement for the day back) and regular financial

reviews and recalculations, this is an additional piece in the mosaic of a more systematic monitoring of payments of the Centre for Support.

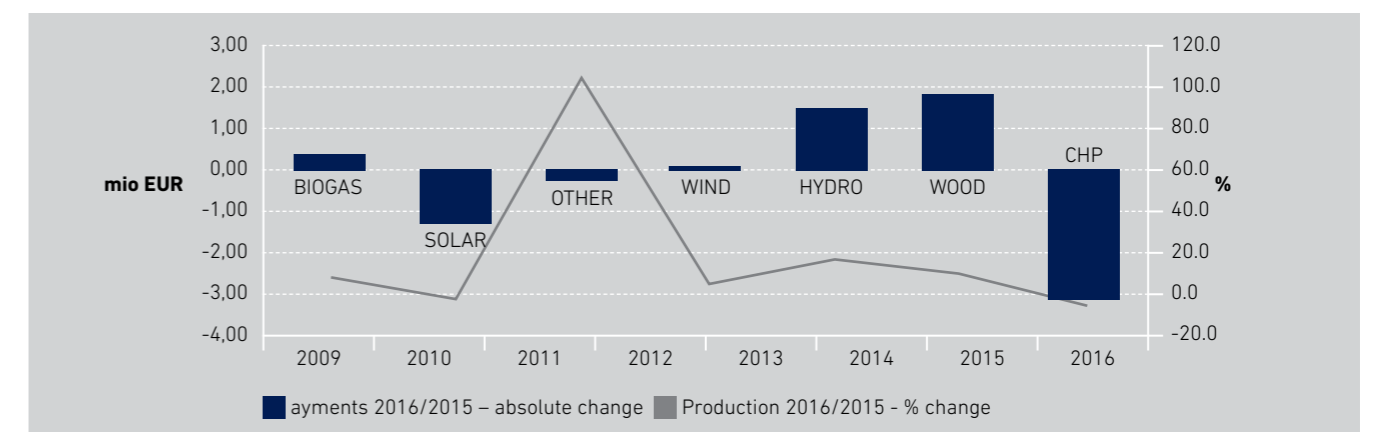
The actual comparison of production and payments in 2016 and 2015 is best evident from the figure below, which shows the absolute difference in payments and relative change in the 2016 production compared to 2015. Thus, the figure shows that the production of certain unit types in 2016 was lower than in the previous year. Due to specific weather conditions (warm year, good hydrology), there has been a decrease in the production of electricity from solar power plants (-2.4 percent compared to 2015) and CHP power plants using fossil fuels

(-5.1 percent compared to 2015). On the other hand, the production of electricity increased in other groups, e.g. hydro power plants (+16 percent), biogas power plants (+8 percent), wind power plants (+5 percent) and biomass power plants (+9 percent).

Notwithstanding the fact that the support payments and production were within the forecast and planned levels, the year 2016 proved to be relatively moderate regarding the total amount of payments due to a higher share of "low-cost" sources. As a result, the units in the Support Scheme produced more electricity than in 2015, but the support payments were lower than in 2015.

COMPARISON OF PAYMENTS AND PRODUCTION IN 2016 AND 2015

FIGURE 13



3.3 FINANCIAL DATA OF THE CENTRE FOR SUPPORT

The contributions are transferred into a special account of the Centre for Support and are used for the provision of support, the operation of the Centre for Support

and other purposes stipulated by law. The table below shows the revenues and expenses of the Centre for Support in

2016, namely the realised values in 2015 compared to the realised values in 2016 (as at 14 March 2017).

OVERVIEW OF THE INFLOWS AND OUTFLOWS OF THE CENTRE FOR SUPPORT IN 2015 AND 2016

TABLE 16

in EUR (excl. VAT)

Item	Realisation 2015	Realisation 2016
A Opening balance	-2,837,821	11,314,852
1 Revenues	161,971,171	181,257,994
a RES+CHP contribution	154,085,683	174,231,194
b DES contribution	-86	49,864
c CS – sales EE	7,875,486	6,968,393
d Default interest	10,088	8,543
2 Expenses	147,818,498	146,782,366
a RES+CHP support	147,094,942	146,191,366
b DES support	0	0
c Operation of the CS	591,000	591,000
d CS – purchase EE	132,556	0
3 Total (1+2)	14,152,673	34,475,628
4 Total (A+3)	11,314,852	45,790,480

The table shows that in 2016 the Centre for Support collected EUR 174.2 million net of the RES/CHP contributions and EUR 49,864 of contributions for the provision of secure energy supply with the use of domestic primary energy sources (i.e. DES contributions). As of 2014, the DES activity is no longer performed, thus the amount derives from the recalculations which the Distribution System Operator (SODO) carries out for the previous periods. The RES/CHP contributions also contain the assets from the contribution for final consumers of district heating and buyers of fossil fuels, in the total amount of EUR 34.8 million net. The revenues of the Centre for Support also disclose the received funds from the direct sale of electricity from the Eco Balance Group, which was, for the first time in 2016, sold indirectly in such a way that the Centre for Support transferred the Eco Balance Group into the balance group of another member. The value includes also

the recalculation of the imbalance settlement for the year 2015 and the interests accrued on late payments.

In 2016, the payments of RES/CHP support amounted to EUR 146.2 million. The contribution for the operation of the Centre for Support equalled EUR 591 thousand and has remained unchanged since 2009.

After the payments of support in 2016, the Centre for Support recorded a surplus in the amount of EUR 45.8 million.

3.3.1 SUPPORT SCHEME FINANCING AND CONTRIBUTIONS

The Support Scheme is financed by all electricity consumers that are charged a contribution for ensuring supports for the production of electricity from

high-efficiency cogeneration and from renewable energy sources in accordance with the legislation.

Contributions are charged monthly per billing capacity unit as a special item on the bill for the use of the network. These are separate contributions and are not part of the price for the use of the network.

From June 2014 onwards, the suppliers of fossil fuels and district heating who charge the contribution to final customers are also subject to billing and payment of contributions. For the purpose of reporting and calculating the contribution, Borzen launched a web portal (<http://prispevek.borzen.si>) which enables the preparation of the registration application and easy reporting on the amount of accrued contribution accounted to final customers.

3.4 MANAGEMENT OF THE ENERGY OF THE BALANCE GROUP WITHIN THE CENTRE FOR SUPPORT

The balance group managed by the Centre for Support, the so-called Eco Group, includes power plants that sell electricity through the Centre for Support. The Eco Group includes those power plants that fall under the support of guaranteed purchase. In the previous years, the Eco Group also consisted of the units that had a valid Eco agreement or an agreement on the sale of electricity through the Centre for Support. In 2016, there were no concluded aforementioned types of agreements.

Compared to 2015, the number of power plants in the Eco Group decreased by 7 to 1,185 units in 2016. In the same period, the nominal power decreased by 3 percent and amounted to 96.6 MW at the end of the year.

Due to the closure of the old Scheme under the Energy Act (EA-1), there were no new entries to the Eco Group in the previous year. In most cases, the dynamics of changes in the composition of the Eco Group were influenced by the changes of support type, leaving the Scheme due to the old age of units

and the withdrawal of support due to the expiry of declaration and change of power plant ownership. When the latter occurs, the Energy Agency withdraws the support from the old owner with a decision and issues a new decision to the new owner. In the interim period, the power plant is not entitled to support and, consequently, is not a member of the Eco Group. The Energy Agency handles the expiry of declaration in the same manner. It withdraws the support from a beneficiary until the declaration and subsequent decision are not adequately regulated.

NUMBER OF POWER PLANTS IN THE ECO GROUP FROM 2009 TO 2016

TABLE 17

Type of power plant	As at 31 Dec. 2009	As at 31 Dec. 2010	As at 31 Dec. 2011	As at 31 Dec. 2012	As at 31 Dec. 2013	As at 31 Dec. 2014	As at 31 Dec. 2015	As at 31 Dec. 2016
Solar	36	371	755	1,126	1,141	1,111	1,092	1,093
Hydro energy	6	43	40	31	30	27	25	21
CHP	8	19	21	32	42	60	60	58
Biogas	2	12	12	12	10	10	9	7
Wind	3	3	4	5	5	5	5	5
Landfill gas	1	2	2	1	1	1	0	0
Gas from waste water sludge	1	1	1	0	1	1	1	1
TOTAL	57	451	835	1,207	1,230	1,215	1,192	1,185

TOTAL AMOUNT OF RATED POWER (IN KW) IN THE ECO GROUP FROM 2009 TO 2016

TABLE 18

Type of power plant	As at 31 Dec. 2009	As at 31 Dec. 2010	As at 31 Dec. 2011	As at 31 Dec. 2012	As at 31 Dec. 2013	As at 31 Dec. 2014	As at 31 Dec. 2015	As at 31 Dec. 2016
Solar	1,219	27,015	65,353	85,891	85,531	81,403	78,222	78,093
Hydro energy	125	10,985	10,458	8,616	8,586	6,309	6,104	5,289
CHP	3,633	6,748	6,989	6,568	6,244	7,043	6,682	6,420
Biogas	1,970	15,544	11,416	11,416	9,182	9,182	8,197	6,199
Wind	20	20	24	74	73	73	73	73
Landfill gas	469	3,171	3,171	2,702	2,702	2,702	0	0
Gas from waste water sludge	130	130	130	0	518	518	518	518
TOTAL	7,566	63,613	97,541	115,266	112,836	107,231	99,797	96,593

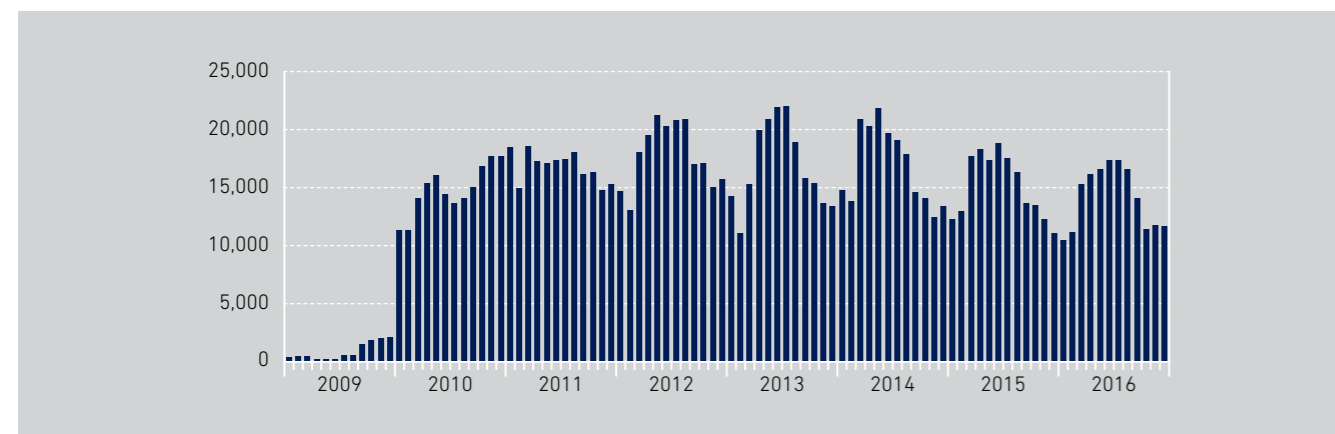
The above decrease in the number of power plants and the total amount of rated power did not significantly affect the structure and shares of representation of individual technologies in comparison with previous years. The chart displays

the total amount of monthly production of the Centre for Support's balance group from 2009 to 2016, showing markedly higher production in the calendar months with more favourable conditions for the operation of solar power plants. The latter is, of course,

expected as the share of solar power plants represents more than 90 percent of the total number of power plants and more than 80 percent of the rated power of the plants included in the Eco Group.

MONTHLY REALISATION OF THE ECO GROUP (IN MWh) FROM 2009 TO 2016

FIGURE 14



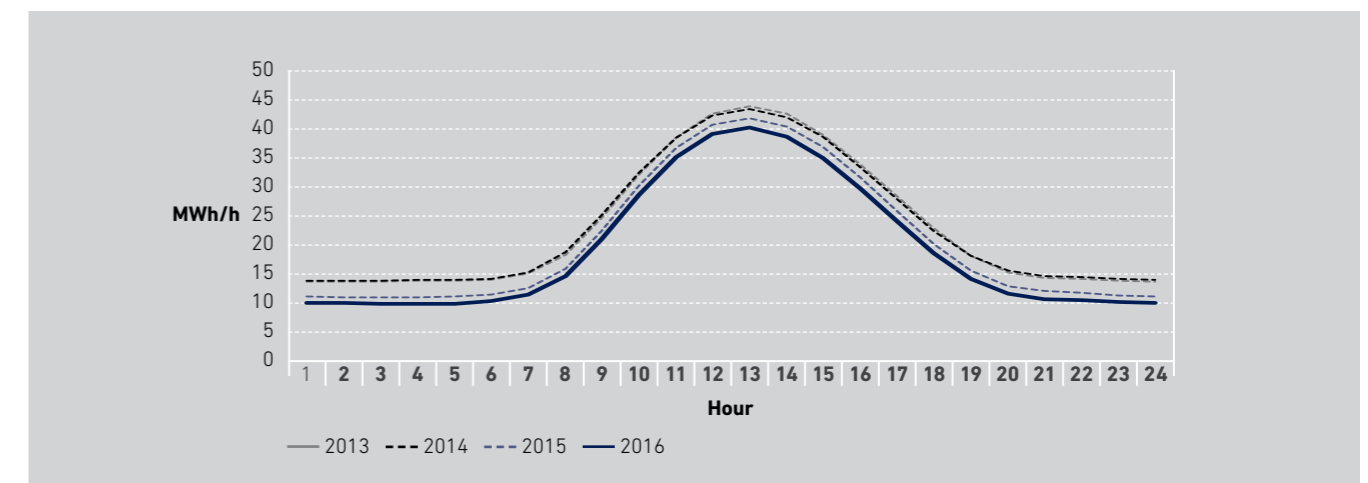
The above chart also indicates a gradual decrease of the total production of the Eco Group. In 2016, the conditions for the solar production were comparable to those from 2015, whereas small hydro power plants experienced slightly better hydrological conditions and lower

average temperatures did not significantly influence the production of CHP units. The lower production of the Eco Group can largely be attributed to the withdrawal of four small hydro power plants with the total power of 0.8 MW and the withdrawal of support to two biogas plants with

the total power of almost 2 MW. The chart below shows the average hourly production in 2016. Compared to 2015, the share of the total amount of the produced electricity was lower, especially in regard to base load power plants.

AVERAGE DAILY PROFILE – COMPARISON OF 2016 ACCORDING TO 2013-2015

FIGURE 15



In 2015, Borzen started performing an integral part of reporting services of transactions on wholesale energy market in accordance with the REMIT regulation. In order to ensure the highest possible degree of transparency in the performance of these tasks, it was decided that the sale of electricity from the Eco Group was to be carried out in an indirect way in the coming years. In accordance with the Rules of the operation of Centre for RES/CHP Support, the latter means the sale or transfer of the whole Eco group to the balance group of the Balance Scheme member who would offer the optimal conditions for the purchase

of the produced electricity. The first auction for the transfer of Eco Group for 2016 was carried out in 2015. The achieved purchase price amounted to EUR 41.13 per MWh, including the balancing costs between the forecast and realised production. With respect to the price movement on the day-ahead market, where the average hourly price amounted to EUR 35.62 per MWh in 2016, it would be very difficult for the Centre for Support to achieve better financial results with a direct sale (forward sale and day-to-day sale). Compared to 2015, the selling price per MWh was only EUR 0.67 lower. Due to lower quantities and lowest

comparative average annual prices since the beginning of the Centre for Support's operation, the sold electricity from the Eco Group amounted to less than EUR 7 million for the first time.

In November 2016, the Centre for Support carried out the auction for the transfer of the Eco Group for 2017. Five parties participated at the auction, four Slovenian companies and one foreign. The final auction price amounted to EUR 38.25 per MWh, which was, given the situation on the market, strikingly favourable.

SALE OF ENERGY IN THE ECO GROUP 2009-2016

TABLE 19

Year	2009	2010	2011	2012	2013	2014	2015	2016
Total (MWh)	9,908	176,902	201,482	212,840	201,955	202,499	181,083	169,429
Sales at auctions/Eco Group transfer (MWh)	0	86,148	157,680	121,068	61,320	52,560	52,560	169,429
Sales at BSP (MWh)	0	34,962	35,533	82,493	142,521	151,656	122,107	0
Imbalances (MWh)	9,908	55,792	8,106	9,135	-1,902	-1,815	6,418	0
Recalculation of imbalances	0	0	163	144	16	98	-2	0
Total (EUR million)**	0.5	5.2	10.5	11.6	9.4	8.7	7.6	7.0
Final achieved price (imbalances included, EUR/MWh***)	46.02	41.36	52.02	54.96	45.67	42.42	41.80	41.13
Price achieved at auctions (EUR/MWh***)	n/a	40.27	51.15	58.53	51.02	44.32	43.50	41.13
Weighted price of the sale at BSP (EUR /MWh***)	n/a	49.38	63.42	54.29	43.90	41.00	43.33	0.00
BSP max. (EUR /MWh***)	n/a	117.02	165.01	224.00	123.14	145.03	143.02	104.96
BSP min. (EUR /MWh***)	n/a	4.76	0.00	0.00	0.00	0.10	0.00	0.01

*values are reflected in the balance sheet year in which they incurred (and not in the year in which they were financially realised)

**rounded to one decimal place

***rounded to two decimal places



GORAZD AŽMAN, MSc

Chairman of Borzen's Supervisory Board



Stay young and full of enthusiasm, which is something what is ultimately expected from a 15-year-old.

3.5 OTHER ACTIVITIES OF THE CENTRE FOR SUPPORT

3.5.1 GUARANTEES OF ORIGIN REGISTRY

The guarantees of origin are electronic certificates that certify that a certain amount of energy was produced in a certain amount of time in a certain power plant in a way that is determined by the guarantee of origin of electricity.

The registry is a computer support for the system of issuing the guarantees of origin of electricity. The users can issue, transfer and cancel GOs in a transparent and simple manner via the internet. Different lists supported by the GoO registry enable the permanent overview of users' accounts. Data can also be exported and freely processed using the appropriate software.

The Energy Act stipulates that the Energy Agency is responsible for the

issue of guarantees of origin for the whole of Slovenia. In accordance with the Energy Act, Borzen is in its role as the Centre for Support also responsible for the maintenance of a joint application support for registries that are required for the implementation of the support system for the production of electricity from RES and CHP, which includes the GoO registry.

The GoO registry, which is an upgrade of the central guarantees of origin database, was established in cooperation with the Energy Agency. Borzen administers the application software, while the Energy Agency issues the guarantees of origin.

As at 31 December 2016, the GoO registry included 1,325 users and consisted of the administrator account (Borzen), the account of the issuer of the guarantees of origin (Energy Agency),

the account of the Centre for Support, 6 accounts of System Operators, 15 trading accounts and 1,301 producer accounts. A total of 1,710 production units were registered with the total rated power of 1,184,466 kW.

In 2016, the issued guarantees of origin equalled 4,143,216 MWh, which is almost 2 percent more than in 2015. A total of 3,088,082 MWh was transferred between user accounts, which is 32 percent more than in the same period last year, while the number of invalidations increased by 30 percent.

In 2016, the international transactions were also carried out. The AIB-HUB imports equalled 342,416 MWh, whereas the Slovenian export of certificates via AIB-HUB decreased by half, totalling 2,322,753 MWh.

ACTIVITIES OF THE GOO REGISTRY IN 2016 (IN KWh)

TABLE 20

Energy source	Issued	Cancelled	Imported	Exported	Transferred
Renewable	107,895,000	85,455,000	/	916,000	108,590,000
Renewable/solid/wood	49,538,000	48,348,000	/	/	49,538,000
Renewable/solid/wood/forestry by-products	/	42,690,000	42,690,000	/	42,690,000
Renewable/solid/wood/forestry by-products and waste	/	12,741,000	12,780,000	39,000	12,741,000
Renewable/liquid	6,116,000	4,095,000	/	/	6,116,000
Renewable/liquid/black liquor	/	41,932,000	41,932,000	/	41,932,000
Renewable/gaseous	12,010,000	6,104,000	/	/	12,010,000
Renewable/gaseous/landfill gas	1,105,000	1,105,000	/	/	1,105,000
Renewable/gaseous/gas from agriculture/energy crops	579,000	579,000	/	/	579,000
Renewable/thermal/solar	12,188,000	10,135,000	/	/	8,355,000
Renewable/mechanical source or other/hydro and marine	3,898,022,000	1,585,464,000	245,014,000	2,321,798,000	2,753,055,000
Fossil/liquid/petroleum products/LPG	312,000	/	/	/	312,000
Fossil/gaseous/natural gas	55,451,000	32,349,000	/	/	51,059,000
Total	4,143,216,000	1,870,997,000	342,416,000	2,322,753,000	3,088,082,000

The data presented in Table 20 include the issues and invalidations of all the existing types of guarantees of origin (i.e. national GoO, EECS RECS, EECS GoO) and all the existing forms of transfers (i.e. transfers among accounts in the registry and transactions via AIB-HUB).

5 AIB-HUB is a special registry managed by the Association of Issuing Bodies that enables international transfers among registries.



MATJAŽ JAUŠOVEC

The first president of the Organised Market Committee and representative of stakeholders of the organised electricity market



I wish Borzen and its employees a successful continuation of their work. I believe that through dedication and a clear commitment to your stakeholders you will continue to make positive changes for an even brighter future.

4. IMPLEMENTATION OF INFORMATION PROVISION, PUBLIC AWARENESS AND TRAINING ON THE EFFICIENT USE OF ENERGY AND RENEWABLE ENERGY SOURCES – TRAJNOSTNA ENERGIJA (“SUSTAINABLE ENERGY”)

In accordance with Article 351 of the Energy Act (EA-1), Borzen performs a variety of activities in the field of information awareness, raising public awareness and training on the efficient

use of energy and renewable energy sources. The activities are carried out under our brand TRAJNOSTNA ENERGIJA (“Sustainable Energy”) through which we aim to reach a wide

range of different publics. Therefore, the brand conceptually combines and properly communicates the efficient use of energy and renewable energy sources.

LOGO OF THE TRAJNOSTNA ENERGIJA (“SUSTAINABLE ENERGY”) BRAND

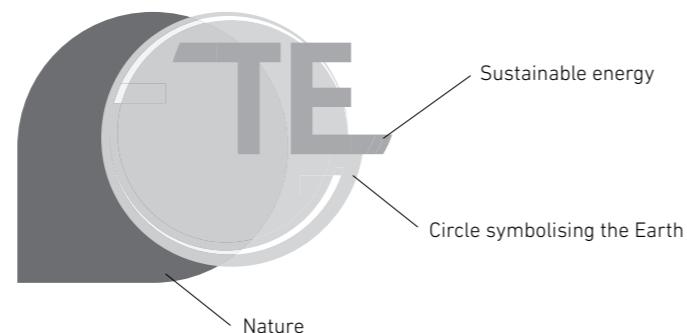


FIGURE 16

In 2016, we carried out a series of activities which we efficiently communicated to the public and combined through our web portal (www.trajnostnaenergija.si). The portal represents an information centre

and a contact point for accessing the information on the efficient use of energy and renewable energy sources where users can find quality and professional information on the efficient use of energy and the use of

renewable energy sources. In this way, we wish to connect various players, bring together information and ideas in the field of sustainable energy and co-create a socially responsible society.

Key activities in the field of information provision, raising awareness and training on RES and EE which we carried out in 2016:

Conference SUSTAINABLE ENERGY LOCALLY

In September, we organised a second expert meeting of the local energy managers on “How to achieve zero-energy buildings”, where 14 speakers and more than 100 participants discussed the key challenges of the comprehensive energy renovation of buildings in local communities. They reached the following conclusion: the construction and complete energy renovation of buildings and zero-energy buildings is an obligation that can provide numerous possibilities and benefits for today and tomorrow. However, the economic viability should play a key role in this regard. It is also important that such projects are approached in an integrated way, taking into account not only environmental and energy aspects but also functional and spatial elements. It should be noted that all this requires a more integrated design, integration of new knowledge and technologies, integration between projects and municipalities, as well as new funding sources, where energy contracting plays an important role.



Upgrade of the TRAJNOSTNA ENERGIJA (“Sustainable Energy”) portal

www.trajnostnaenergija.si

We prepared new content for the upgrade of the web portal in order to optimise the user experience through new functionalities that would, together with technical innovations, increase the level of information in the field of RES and EE. We added a new section which includes information on financing and credit services in the field of environmental investments by different Slovenian institutions and another section which includes information on building renovations, highlighting the examples of good practice. Some parts of the existing content have also been updated.



Information video content – animated series Lepši svet (“A Better World”)

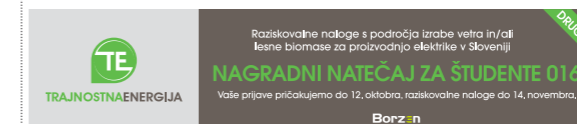
In cooperation with the national television channel RTV Slovenia, Borzen created an animated series, entitled Lepši svet (“A Better World”). The animated series of five episodes deals with the topic of the efficient use of energy and renewable energy sources and appeals to children aged 4-10 years. The main characters are learning about the following topics:

- how to save electricity,
- how to manage waste,
- how electricity is generated and what are renewable energy sources,
- how to be efficient in traffic,
- how to heat our home and how to use heat energy efficiently.



Student competition 016 for the best research paper on the use of wind and/or wood biomass for the electricity production in Slovenia

Sixty students from all Slovenian universities took part in the competition on the use of wind and/or wood biomass for the electricity production in Slovenia. The competition ended on 13 December 2016 with the award ceremony at the Energy Industry Chamber of Slovenia, which was attended by more than seventy students, mentors and other guests. The awards for the best research paper were awarded to three students.



Demonstration renovations – cost savings

The core activities were represented by an empirical comparison of the data on energy consumption in buildings before and after the energy renovation and publication of these data on our web portal Trajnostna energija, with the aim to increase the confidence in the calculations of the theoretical cost savings and prove that the energy renovation measures are economically justified. Within the framework of the Call for the participation in the energy renovation of buildings, we chose three buildings which undertook the energy renovation of the thermal envelope and represent a demonstration renovation, from which the subsequent calculations would be derived from the real data. The results of the demonstration renovations (cost savings etc.) were combined in a short animation, which is available on our web portal www.trajnostnaenergija.si, together with a more detailed study.

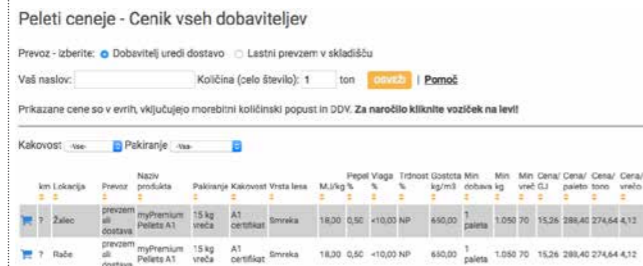


Geographical representation of the realisation and potentials of the RES-EE measures (GEO-RES-EE)

We provided an update of the publicly available information on the recipients of the national financial incentives for the implementation of the RES and EE measurements within the framework of the web portal www.engis.si.

Information portal on wood biomass

We prepared the contents on wood biomass and published them on our web portal www.trajnostnaenergija.si. In addition, we also set up a price comparison page, containing all pellets providers in Slovenia and allowing the users to search through the current offers according to their search criteria and desired location.



Call for external projects

Borzen launched a Call for reimbursing part of the costs for the implementation of educational projects in the field of RES and EE for young people. The subject of the call was the reimbursement of part of the costs for the implementation of educational RES and EE projects, intended for children from 7th to 9th grade and secondary school students in the Republic of Slovenia. The primary purpose of the notified project was to prepare a practical demonstration of performance or otherwise highlight the benefits of the efficient energy use and energy production from renewable sources. We received fourteen applications, from which the selection commission chose five best projects. Four projects were financed and carried out in 2016.

Distribution of the results of past projects



Dissemination of the results of past projects presents an important aspect of the promotion of activities and, at the same time, it raises public awareness on RES and EE. Within this framework, we published a scientific monograph, entitled Renewable sources of energy in Slovenia: Cross-section of time and space, which we began substantially preparing in 2015. We sent hard copies of the monograph to all major Slovenian libraries. The electronic version of the monograph is available on our web portal www.trajnostnaenergija.si. We also published a DVD, which covers a series of 15 television programmes on sustainable energy, entitled Eko utrinki ("Eco Glimpses"). We donated the DVDs to the Slovenian primary and secondary schools, with the purpose of using them as a helpful learning tool.

The provision of information and raising awareness are excellent opportunities to forward the information on renewable energy sources and efficient energy

use to a broader scope of people and thus contribute to raising awareness and better knowledge of both topics. In the future, we intend to implement

new projects and add new content to the existing ones.



MARKO GOSPODJINAČKI

President of the European Association of small hydropower plants and representative of stakeholders of the Centre for Support



First, anyone and everyone who has ever worked or still works at Borzen, together with the whole team and company's management, deserves to be congratulated on their contribution to the Slovenian energy industry and the development of the electricity market. I wish Borzen many more successful years and I hope that it will, imbued with independent expertise, grow on the fertile ground of the highest national interest and awareness."

5. ECONOMIC ACTIVITY

Within the economic activities in 2016, Borzen carried out clearing and settlement services, as well as IT services for BSP Regional Energy Exchange.

Within the framework of the clearing of transactions on the energy exchange, Borzen mainly performs the following services:

- Calculation of financial liabilities and receivables;
- Determining the net balance of financial receivables and liabilities by offsetting reciprocal claims and liabilities;
- Financial settlement of transactions;
- Financial guarantees management;
- Performing counterparty tasks in

the process of market coupling;
- Administration for the energy exchange members.

In the context of the economic activity in the financial part, the RRM - REMIT reporting service is also defined, although it is covered in the chapter on ensuring the transparency on the electricity market.



ALEKSANDER MERVAR

General manager of ELES and founder of Borzen



For ELES, it is of the utmost importance that we have found a reliable partner in Borzen throughout the years, together with whom we can tackle the challenges that the increasingly complex environment in which we operate puts before us. We believe that in the future our cooperation will only continue to deepen.

6. SUSTAINABLE DEVELOPMENT

We are aware that we are leaving a sustainable footprint for the future. We are building it with small actions; today we are creating tomorrow's yesterday. We understand the sustainable development as a commitment towards sustainable operations of our company, as well as the efforts of each of our employees to contribute to a better world through their work and in the service of society. Too ambitious? Maybe. Feasible? By all means.

We perceive social responsibility as our company's responsibility for the impacts of our decisions and activities on a wider society and environment. With our transparent and ethical conduct, we:

- contribute to sustainable development, health and prosperity of our country,
- take into account the expectations of our stakeholders,

- comply with the applicable legislation and international norms of operation,
- our transparent and ethical conduct is integrated in our whole company and implemented in our relations.

In 2016, we carried out a detailed gap analysis in the field of corporate social responsibility in our company, which was based on the assessment of our relevant stakeholders, professional organisation and self-assessment. The result of the conducted process is the Corporate Social Responsibility Certificate, which represents socially responsible concept of management. Borzen obtained the certificate in the field of organisational management (Level C) and inclusion in the community and development (Level B). On the overall level, Borzen achieved Level C rating.



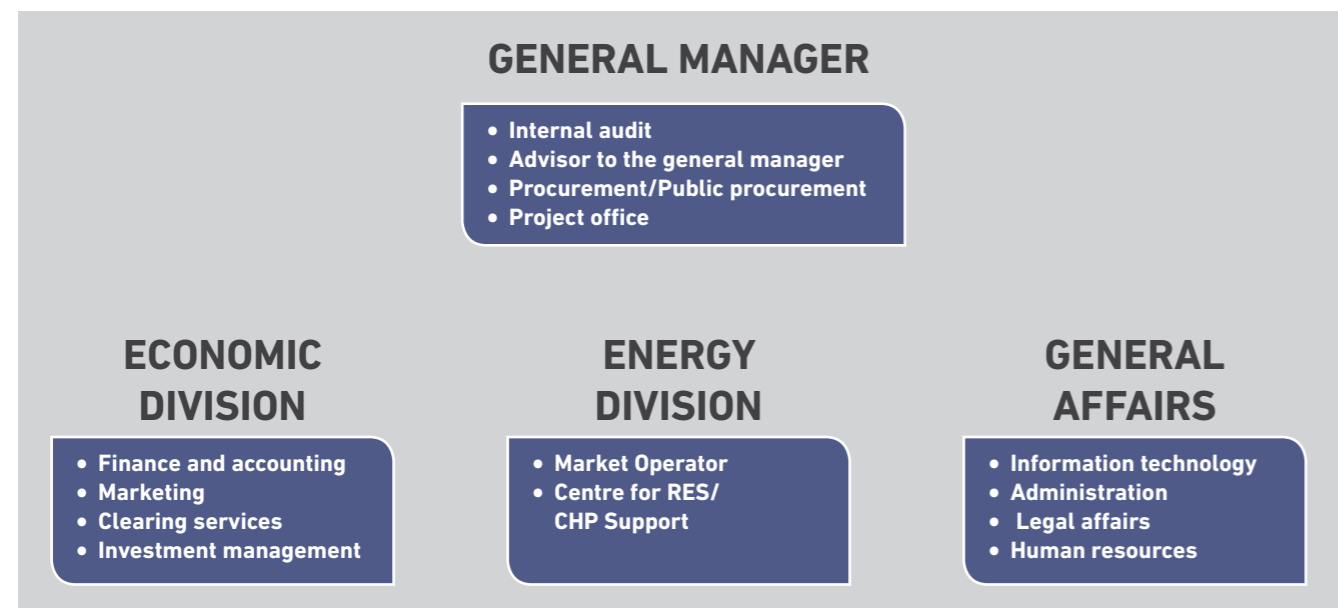
6.1 OUR EMPLOYEES

We are aware of how important people, our employees, are for the success of the company. Therefore, we take care of their personal and professional growth. We strive for the creation of a working environment where requirements and results are combined with satisfaction, motivation, commitment and healthy relationships.

6.1.1 INTERNAL ORGANISATIONAL CHART OF THE COMPANY

INTERNAL ORGANISATIONAL CHART OF BORZEN

FIGURE 17



6.1.2 HUMAN RESOURCES INDICATORS

NUMBER OF EMPLOYEES

At the end of 2016, Borzen employed 31 employees. Compared to the end of 2015, the number of employees increased by one employee. The average number of employees in 2016 amounted to 32 employees and

increased by 6 percentage points in comparison with 2015.

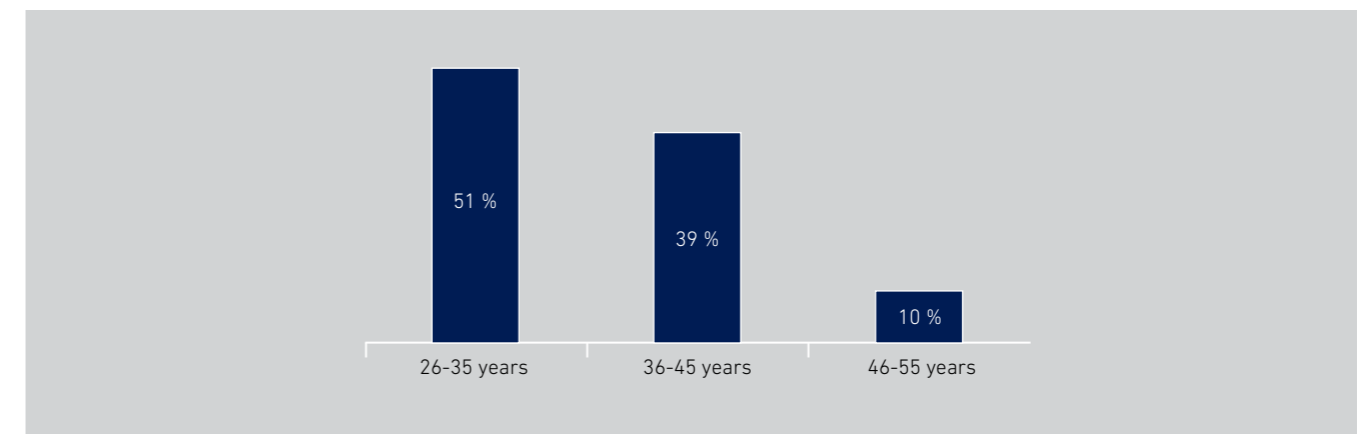
At the end of 2016, the share of fixed-term employees accounted for 10 percent of all the employees and increased by 6 percentage points in comparison with the previous year. The result was an increase of the fixed-term employment during the employees' period of maternity leave.

AGE STRUCTURE

The average age of the employees was 38 years. The age structure displayed in the chart below shows that most of the employees belong to the 26-35 age group (51 percent), followed by the 36-45 age group, i.e. 39 percent of all the employees.

AGE STRUCTURE OF THE EMPLOYEES IN PERCENTAGE AS AT 31 DECEMBER 2016

FIGURE 18



STRUCTURE BY GENDER

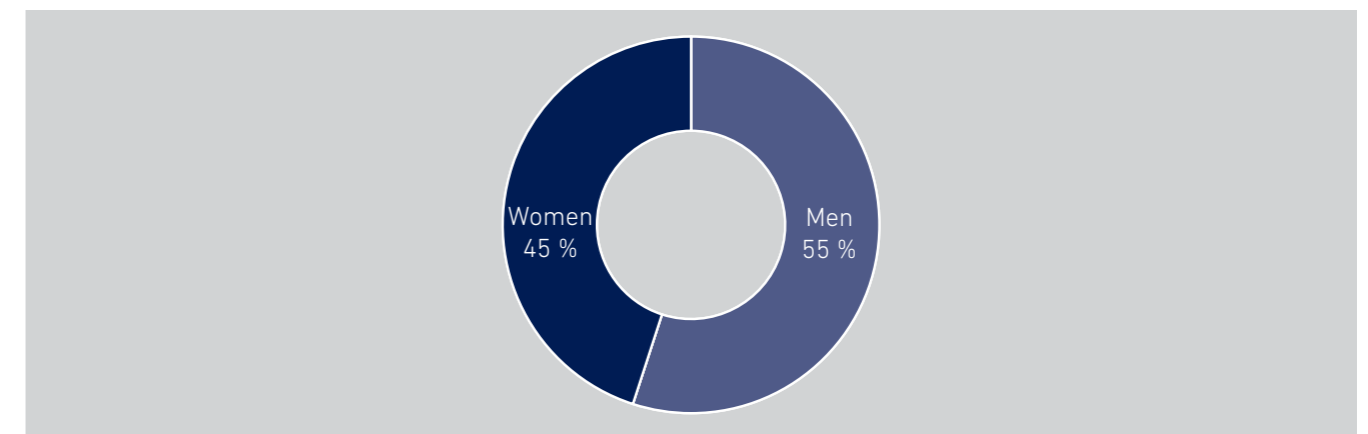
There were 17 men among the employees at Borzen, accounting for 55 percent and 14 women, equalling

45 percent of all the employees. Compared to the previous year, the gender ratio slightly changed. Namely, the proportion of female employees

increased by 2 percentage points, whereas the proportion of male employees decreased by 2 percentage points.

GENDER STRUCTURE OF THE EMPLOYEES AS AT 31 DECEMBER 2016

FIGURE 19



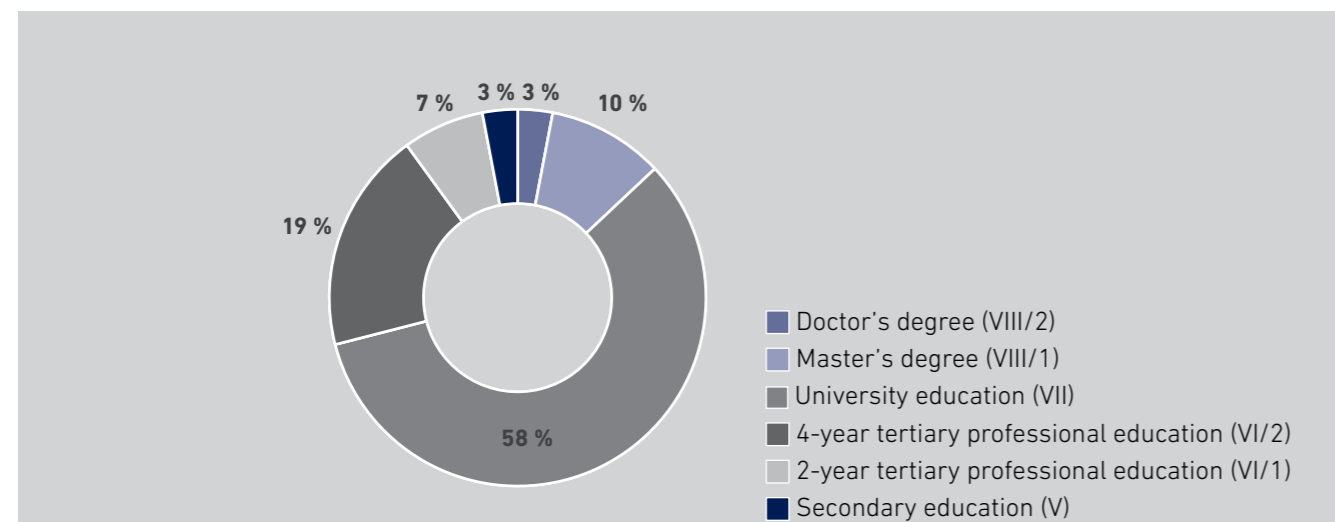
EDUCATIONAL STRUCTURE

EDUCATIONAL STRUCTURE IN SHARES AS AT 31 DECEMBER 2015 AND 31 DECEMBER 2016 **TABLE 20**

Level	Title of professional education	2015	Share in %	2016	Share in %
VIII/2	Doctor's degree	1	3	1	3
VIII/1	Master's degree	3	10	3	10
VII	University education	18	60	18	58
VI/2	Four-year tertiary professional education	5	17	6	19
VI/1	Two-year tertiary professional education	1	3	2	7
V	Secondary education	2	7	1	3
Skupaj		30	100	31	100

Most employees have the seventh level of education (58 percent), which is followed by the four-year tertiary professional education (19 percent) and Master's degree (10 percent)..

EDUCATIONAL STRUCTURE OF THE EMPLOYEES AS AT 31 DECEMBER 2016 **FIGURE 20**



6.1.3 DEVELOPMENT OF THE EMPLOYEES

MOTIVATION

The development of the employees' competences, targeted guidance, directed two-way communication and other tools have generated an adequate level of motivation and commitment among our employees. Special attention is placed on the immaterial remuneration such as integration into various projects and working groups which additionally motivate the staff.

EDUCATION

To Borzen, it is of key importance to employ people who are professionally educated and qualified to perform the necessary tasks. Employment is therefore an upgrade of a careful staff planning and development. Every year, an annual educational plan is elaborated covering the educational needs of the employees and following the strategic objectives of the Company. The educational plan focuses on individuals covering the necessary content and taking into account individual wishes that are in line with the Company's goals. The employees attend various seminars, courses, training sessions and conferences.

Already acquired knowledge and education can be upgraded and improved with in-service training. The employees are very interested in further schooling to acquire higher formal educational level. Borzen supports this kind of personal growth with training leave. In 2016, there were three employees integrated into study programmes to obtain a higher educational level.

The Company takes care of the internal knowledge transfer among the employees and of the presentations of new procedures in operations. We

also organise training sessions and educational programmes in the fields that are important to the majority of employees.

Professional literature and memberships within professional associations in which informal transfer of knowledge occurs also represent an important aspect of the development and education of the employees.

6.1.4 COMMUNICATION WITH THE EMPLOYEES

Regular annual interviews with the employees are a tool to establish past performance of the individuals and to recognise their future competences. The content of these annual interviews is an in-depth conversation focusing on current tasks, the work performed and the results, objectives and tasks for the future period as well as on the individual's personal growth and professional path.

The employees are promptly informed of the activities within Borzen via the Intranet, e-mail and various formal and informal meetings. They can take part in the formation of the Company's objectives and can freely express their opinion. In addition, the Company also practices the open-door policy.

We believe good communication is necessary between the levels in the Company as well as quality communication within the team. This is also the focus of our on-line communication, which is also reflected

in regular team-building programmes..

6.1.5 CARE FOR THE EMPLOYEES

OCCUPATIONAL HEALTH AND SAFETY

Borzen provides all the employees with safe, healthy and pleasant working environment. All new processes and projects include developments in the field of health, safety at work and fire safety. Risk assessment was prepared for every post and all measures are prescribed that ensure adequate safety of the employees. Risks are periodically assessed and maintained at an acceptable level with suitable safety measures and, at the same time, the employees are provided with advanced and user-friendly technology and materials.

Regular periodical medical examinations are conducted in order to enable monitoring of the health status and the ability to perform tasks. We take care of our employees' health through the implementation of preventive measures that address health issues and other problems of the employees.

FAMILY FRIENDLY ENTERPRISE

We are aware that coordinating professional and family life represents a challenge of ever increasing proportions. Thus, from 2010 onwards, we have been striving to positively tackle the challenges of a reconciliation

of professional and private life, which we achieved within the scope the Family-friendly Enterprise Certificate.

In this way, we want to provide employees with the opportunity to easily reconcile work and private life as we believe that such efforts bring long-term mutual satisfaction of the Company and its employees. Therefore, we will continue with similar activities in the future.

HEALTH PROMOTION

In the context of health promotion, we raise awareness among our employees on the importance of health and encourage them to take an integrated approach towards improving and maintaining their health. We inform our employees about disease-prevention activities, while enabling them to take an active role in ensuring a healthy working environment for themselves. We implement and promote different health-related activities, both at the workplace and outside the office.

ADDITIONAL VOLUNTARY PENSION SCHEME AND ACCIDENT RISK INSURANCE

Borzen provides all the employees with the voluntary additional pension insurance in order to increase their social security, especially after retirement. All the employees are covered by the voluntary pension insurance. In addition, all of our employees are covered by the accident insurance at work as well as in their leisure time.

6.2 RESPONSIBILITY TOWARDS WIDER COMMUNITY

RELATIONS WITH STAKEHOLDERS

At Borzen, we are aware that our stakeholders are at the core of our operations. We recognise and acknowledge various stakeholders and the public and adapt our communication to each of these groups separately. Satisfied stakeholders give a positive signal implying that our services are performed in a quality manner and thus our mission of a public service obligation is being completed.

In 2016, our communication was primarily targeted at the following three key groups of stakeholders, namely the existing and potential Balance Scheme members, the existing and potential Support Scheme members and the general public that was targeted through our brand, Trajnostna energija ("Sustainable Energy"). To bring our operations even closer to the end users of our services and facilitate their cooperation with Borzen, we launched a web portal, intended for the members of the Centre for Support. The portal enables a faster interaction between stakeholders and provides the beneficiaries a better insight into the production data and easier issuing of invoices. We also updated the content relating to the operation of the Centre for Support on our corporate website. We conducted a public debate on the Rules for the operation of the Centre for Support, in which all interested parties could present their observations and suggestions. Borzen aims at achieving

an advanced energy market, which will as such represent the greatest added value for all existing and potential members of the Balance Scheme. The preparation and publication of the additional information on the operation of the electricity market on our corporate website were also one of the activities in the field of communications that were carried out in 2016. Borzen strives to take into account the proposals of market participants to improve the functioning of the power market to the greatest extent possible.

In the field of information provision and raising awareness on renewable energy source and efficient energy use under our brand Trajnostna energija, we strengthened and established communication with our key stakeholders through various communication channels and tools, i.e. a local conference, TV broadcasts, a scientific monograph, our web portal www.trajnostnaenergija.si and other tools mentioned in the previous chapters. Furthermore, we intend to upgrade and strengthen the communication in the future. All the activities in the field of information provision, raising awareness and training on RES and EE were adequately covered by the communication support, which has resulted in great media coverage and positive feedback from the public.

We also carried out a periodic analysis on the satisfaction of the Market Operator stakeholders, which yielded

encouraging results and showed that the general satisfaction of the users is at an extremely high level, i.e. 86 percent of the respondents were satisfied or completely satisfied with the support. We will continue to perform the analysis of stakeholder satisfaction also in the future.

Sharing knowledge and experience and simultaneous positioning of Borzen as the hub of the energy markets is the priority orientation of our Company. In 2016, the representatives of Borzen were invited to attend various professional conferences as lecturers and they actively participated in different working groups and associations in Slovenia and abroad.

TRANSPARENCY

Borzen aims to provide a transparent business operation, since we believe it is our commitment to all our users as well as to the citizens of the Republic of Slovenia. We believe that transparency is an important value and we strive to attain it with the publication of various types of data and information about our business operation on our website and via other channels. Among other things, we have also published a list of beneficiaries, a list of the Balance Scheme members, reports on market operations and Support Scheme operation, public procurement tenders and various other public information. We also regularly submit relevant information to the interested members



DUŠKA GODINA

Director of the Energy Agency



We believe that Borzen will continue to regularly and effectively adapt its operations to the modified and varying conditions and strive to ensure a high level of transparency and efficient market performance. At the same time, we hope that our cooperation will stay as strong as in the past years and that Borzen will remain a stable foundation of the Slovenian electricity market.

of the public and strive towards an open cooperation with the media.

At Borzen, we respect and appreciate the principle of transparency, which is an important guiding thread in the preparation of the Company's annual report every year. In the spirit of sustainable development and communication, we have been preparing a sustainability report in accordance with the Global Initiative Reporting guidelines from 2012 onwards. In our sustainability reports, we also cover the aspect of diversity, which is carried out in connection with the composition of the governance bodies, although the Company does not perform the diversity policies.

SOCIAL RESPONSIBILITY

Socially responsible action is contained in the core activity that we perform as the Market Operator since we ensure reliable and stable functioning of the Slovenian electricity market, and as the Support Scheme Operator

for RES and CHP we promote and raise awareness on the use of green energy sources and energy efficiency. Our social responsibility is directed towards our employees and other stakeholders, which is also reported in our sustainability reports in accordance with the GRI guidelines. This is also confirmed by the Corporate Social Responsibility Certificate that we obtained in 2016.

Borzen is a member of the Network of socially responsible companies. The network that promotes and raises awareness of the importance of social responsibility is a juncture of Slovenian companies and organisations that exchange knowledge, information, ideas and good practice in the field of social responsibility. The activities of the Slovenian Network for social responsibility are based on the information provision and raising awareness of companies, organisations and the general public on the importance of socially responsible strategies in companies' operations and of positive effects of the participation as well as of good practices of socially responsible business.

Dedicated and targeted sponsorship and donations are one of the ways to connect to the community and thus contribute to the positive functioning of the society as a whole. We support participation in different sports activities, working with young people, culture, education and humanitarianism.

We aim to share good practice and support knowledge transfer to the wider social environment.

In 2016, we conducted another corporate volunteer campaign, in which we joined forces with the Slovenian Philanthropy, association for promotion of voluntary work. We repainted and prepared the new premises that were intended for the carrying out of the Slovenian Philanthropy's activities. In addition, our employees also collected some of the much-needed goods for the refugees who, in their desperation, had sought asylum in our country. Excited about the results of our good work, we are already looking forward to the next year's volunteer campaign.

6.3 ENVIRONMENTAL RESPONSIBILITY

Environmental protection is one of the basic rights, duties and responsibilities of all our employees and is considered an integral part of our corporate policy. We follow the trend of the efficient use in the field of energy, water and materials.

Borzen aims to follow the principles of sustainable development in the segment of environment protection, which is also a part of our business operations. Borzen manages the national scheme of support to environmentally friendly

production of electricity (RES and CHP) and thus promotes the use of natural resources that has positive impact on the environment. Simultaneously, we promote efficient energy use and the knowledge transfer in this field.

Sustainability is a part of our daily activities today but sustainable action and environment protection will be even strengthened tomorrow. The amended Energy Act granted Borzen new powers covering mainly the tasks related to information provision, awareness

raising, training and the publication of information on efficient energy use and renewable energy sources. In this respect, we are extremely proud of our brand, Trajnostna energija, which is working towards diversifying and promoting knowledge in the field of sustainable energy.

All our employees are aware of the importance of environmental protection; thus, we separate waste, use recycled materials, save drinking water and electricity.



METKA MARUŠIČ

Deputy Head of Finance and Accounting at Borzen



Although 15 years may not seem like a long time, I believe that we have contributed greatly to the development of energy market in all these years. We are still in the adolescent phase, but just try to imagine what will happen when we reach our golden years! I hope that Borzen continues to co-create the domestic and European energy market with the same vigour and energy. And I hope that we stay young at heart.

6.4 COOPERATION AND DEVELOPMENT

6.4.1 COOPERATION IN PROFESSIONAL ASSOCIATIONS AND WORKING GROUPS

Borzen actively co-creates the trends of the Slovenian as well as the European energy sector. We are aware of the importance of cooperation between different players on the energy podium. Our experts occupy important positions in various associations and working groups, which reflects exceptional trust we enjoy in professional circles. In the continuation, some forms of cooperation are mentioned that mark the operations of our Company.

Among the more important ones, let us mention the cooperation in Europex, association of the European energy exchanges. In 2016, the General Assembly of Europex elected Borzen's General Manager, Mr Peršolja, as the new member of the Europex Board. Borzen also started its second term chairing the Environmental Markets Working Group. Borzen is also a

member of APEX and it actively participates within the Slovenian Chamber of Commerce, through which Borzen is a member of Eurelectric, sector association which represents the common interests of the electricity industry at a European level.

Borzen has been also actively involved in the Energy Market Data Exchange Section (IPET), which operates within the Energy Industry Chamber of Slovenia and promotes the development in the field of data exchange on the electricity market. Our employees are also active in the Slovenian Committee of Electric Power CIGRÉ-CIRED, especially within the Study Committee (SC) 4: Distributed Energy Resources - Management and Exploitation of Electric power.

Borzen is also a member of the Section for quality and excellence in electricity as well as a founding member of the Slovenian Association for Energy Economics (SAEE), which is the 30th national affiliate of the International Association for Energy Economics (IAEE) and as a section operates

within the Energy Industry Chamber of Slovenia.

Borzen is a corporate member of the Association of Slovenian Supervisors, which is a professional, non-profit and non-governmental organisation that is connecting the members of supervisory boards, management boards and other stakeholders of corporate management.

Borzen is also a long-time board member of the electricity industry journal Naš stik that plays an important role in the provision of information to professional energy public and to promote energy literacy among general public.

Borzen is also a member of the Network of socially responsible companies which promotes and raises awareness on the importance of social responsibility and represents a juncture of Slovenian companies and organisations that exchange knowledge, information, ideas and good practice in the field of social responsibility.



MASSIMO RICCI
Chairman & CEO of Europex



I am confident that Borzen will overcome all of its challenges, as it has done so in the past. I wish Borzen a great success and a fruitful cooperation in the establishment of the single European market.

6.4.2 RELEVANT PROJECTS AND ACTIVITIES OF THE COMPANY

NEW RULES ON THE OPERATION OF THE ELECTRICITY MARKET AND REDESIGNED APPLICATION FOR RECORDING OF CLOSED CONTRACTS AND OPERATIONAL FORECASTS

The new Rules on the operation of the electricity market came into force on 1 January 2016 (Official Gazette of the RS, No. 105/2015). In order to bring the content of the Rules closer to market participants, we prepared a summary document with all the changes and new features (both in Slovenian and English), which we sent to all members of the Balance Scheme and published it on our website. In addition, we carried out all the necessary adjustments in the operating processes and applications. In the middle of 2016, we completed the activities in the field of concluding the new balance agreements, which were required to be concluded by the end of June 2016 in accordance with the earlier provisions of the Rules.

On 30 September 2016, we set up the redesigned application for recording of closed contracts and operational forecasts. The key change was a double recording of closed contracts, which facilitates control on the correctness of the recording. Thus, the agreements for 1 October 2016 and later dates were bilaterally recorded, as provided for in the earlier provisions of the Rules.

RULES ON THE OPERATION OF THE CENTRE FOR RES/CHP SUPPORT

In 2016, we started preparing the new Rules on the operation of the Centre for RES/CHP Support in coordination

with the Ministry of Infrastructure and the Energy Agency. We also carried out a several weeks-long public debate of the draft, giving the wider public with the opportunity to put forward proposals and co-create the new Rules. The Rules were adopted and published at the end of 2016 and came into force on 1 January 2017.

RESEARCH PROJECT: ENSURING TRANSPARENCY OF THE ELECTRICITY MARKET OPERATION

With the aim to acquire new knowledge on the market operation and the analysis of the additional necessary changes in the provision of transparency on the electricity market, we have started a research project in the first quarter of 2016 in cooperation with the Faculty of Mathematics (University of Maribor) and Faculties of Electrical Engineering and Economics (University of Ljubljana). In the second quarter of 2016, we submitted the project to the call for co-financing, opened by the Slovenian Research Agency (ARRS). The project includes all three operators: Borzen, SODO and ELES. The project passed the first stage of verification, followed by the second stage of application, which was expected in the last quarter of 2016. The project will launch in 2017. By the end of 2016 and during the preparation of this annual report, the results of the call have not yet been known. The project is expected to last for three years and the annual budget of the project will be approximately EUR 133,000, with EUR 100,000 covered by the Slovenian Research Agency, should the project be successful. As a next step, we will continue with the second application stage.

DIGITAL COMMERCE

According to the legislative guidelines on the adjustments to

the way business is conducted and establishment of the standards of the exchange and storage of electronic archives, Borzen decided to upgrade its existing system of electronic commerce, including e-invoicing and electronic storage. In this way, we ensured operational excellence in terms of cost savings of the physical data storage, optimisation and improvement of business processes, easier management of the archival documents, ensuring sustainability, usability, stability and authenticity of digital documents. In this way, digital documents will be better protected against the loss and will be organised in a more transparent way.

Among other things, digital commerce enables us to transfer digitised paper documents and born-digital material into the long-term electronic storage in accordance with the law.

6.5 INVESTMENTS

In accordance with the business plan, the majority of planned investments carried out in 2015 mainly related to information technology. In the scope of hardware and software equipment, we replaced some of the hardware for efficient and quality implementation of the high availability of the IT system, as well as for providing relevant requirements in the field of information security.

We also invested in the upgrade of the existing software for the implementation of the RRM - REMIT services and imbalance settlement. The investments also include the development and upgrading of the existing solutions, such as our single information system, through which a secure and reliable system operation is established.



VOJISLAV SRDJANOVIĆ
Deputy executive director at COTEE



On behalf of COTEE, I hope Borzen continues to be successful and delivers the same results it has been delivering for the past 15 years.

FINANCIAL
REPORT

1. AUDITOR'S REPORT

<p>REalinea</p> <p>Independent Auditor's Report</p> <p>To the owners of BORZEN, operater trga z elektriko, d.o.o.</p> <p><i>Opinion</i></p> <p>We have audited the financial statements of the BORZEN, operater trga z elektriko, d.o.o. («the Company»), which comprise the statement of balance sheet as at December 31 2016, the income statement, the statement of other comprehensive income, the statement of cash flows and the statement of changes in equity for the year then ended, and notes, comprising significant accounting policies and other explanatory information.</p> <p>In our opinion, the accompanying financial statements give true and fair view of the financial position of the BORZEN, operater trga z elektriko, d.o.o. as at December 31 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Slovene Accounting Standards.</p> <p><i>Basis for Opinion</i></p> <p>We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the <i>Auditor's Responsibilities for the Audit of the Financial Statements</i> section of our report. We are independent of the Company in accordance with the both the International Ethics Standards Board for Accountants' <i>Code of Ethics for Professional Accountants (IESBA Code)</i> and the ethical requirements that are relevant to our audit of the financial statements in Slovenia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.</p> <p>We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.</p> <p><i>Other information</i></p> <p>Management is responsible for other information. The other information comprises the Business Report included in the Annual report, but does not include the financial statements and our auditor's report thereon.</p> <p>Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.</p> <p>In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. In addition, in light of the knowledge and understanding of the Company and its environment in which it operates, obtained in the course of our audit, we are required to report if we have identified material misstatements in the Business Report. We have nothing to report in this respect.</p> <p>With respect to the Business Report, we have considered whether the Business Report includes the disclosures required by the Companies Act. Based solely on the work required to be undertaken in the course of the audit of the financial statements and the procedures above, in our opinion the information given in the Business Report for the financial year for which the financial statements are prepared, is consistent with the financial statements, and the Business Report has been prepared in accordance with the applicable legal requirements.</p> <p><i>Responsibilities of Management for the Financial Statements</i></p> <p>Management is responsible for the preparation and fair presentation of the financial statements in accordance with Slovene Accounting Standards, and for such internal control as management determines</p>	<p>REalinea</p> <p>is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.</p> <p>In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.</p> <p>The audit committee and supervisory board are responsible for overseeing the Company's financial reporting process.</p> <p><i>Auditor's Responsibilities for the Audit of the Financial Statements</i></p> <p>Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.</p> <p>As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:</p> <ul style="list-style-type: none"> Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern. Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation. <p>We communicate with management, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.</p> <p>Realinea d.o.o. Partizanska cesta 8, Grosuplje</p> <p>Marija Košmrič certified auditor</p> <p>Grosuplje, April 26 2017</p>
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2. FINANCIAL STATEMENTS

2.1 BALANCE SHEET

BALANCE SHEET AS AT 31 DECEMBER 2016 AND 31 DECEMBER 2015

TABLE 21

	in EUR	
DESCRIPTION	31 Dec 2016	31 Dec 2015
ASSETS	76,335,698	44,949,382
A. LONG-TERM ASSETS	2,345,405	2,415,501
I. INTANGIBLE FIXED ASSETS, LONG-TERM DEFERRED EXPENSES AND ACCRUED REVENUES	437,542	522,283
II. TANGIBLE FIXED ASSETS	1,370,335	1,368,382
1. Business premises	1,085,189	1,135,353
2. Equipment	285,146	233,029
III. LONG-TERM FINANCIAL INVESTMENTS	419,568	419,568
Shares in associated companies	419,568	419,568
IV. DEFERRED TAX ASSETS	117,960	105,268
B. SHORT-TERM ASSETS	73,961,504	42,504,978
I. SHORT-TERM FINANCIAL INVESTMENTS	11,000,000	1,000,000
II. SHORT-TERM OPERATING RECEIVABLES	22,366,151	24,754,195
1. Short-term trade receivables	19,733,485	22,018,899
2. Short-term receivables due from others	2,632,666	2,735,296
III. CASH AND CASH EQUIVALENTS	40,595,353	16,750,783
C. SHORT-TERM DEFERRED COSTS AND ACCRUED REVENUES	28,789	28,903
Off-balance sheet assets	4,267,913	4,778,116
LIABILITIES	76,335,698	44,949,382
A. EQUITY	4,435,041	4,738,582
I. CALLED-UP CAPITAL	1,963,279	1,963,279
1. Share capital	1,963,279	1,963,279
II. CAPITAL RESERVES	395	395
III. REVENUE RESERVES	1,047,559	766,042
1. Statutory reserves	196,328	196,328
2. Other revenue reserves	851,231	569,714
IV. FAIR VALUE RESERVE	-954	-1,186
V. RETAINED EARNINGS	0	1,728,535
VI. NET PROFIT OR LOSS FOR THE FINANCIAL YEAR	1,424,762	281,517
B. PROVISIONS AND LONG-TERM ACCRUED EXPENSES AND DEFERRED REVENUES	86,920	83,073
C. SHORT-TERM LIABILITIES	71,813,693	40,127,727
A. SHORT-TERM OPERATING LIABILITIES	71,813,693	40,127,727
1. Short-term liabilities to suppliers	22,328,410	24,601,922
2. Other short-term operating liabilities	49,485,283	15,525,805
D. SHORT-TERM ACCRUED EXPENSES AND DEFERRED REVENUES	44	0
Off-balance sheet liabilities	4,267,913	4,778,116

2.2 INCOME STATEMENT

INCOME STATEMENT FOR THE PERIOD BETWEEN 1 JANUARY 2015 AND 31 DECEMBER 2016

TABLE 22
in EUR

DESCRIPTION	1 Jan - 31 Dec 2016	Business plan 2016	1 Jan - 31 Dec 2015
1. NET SALES REVENUES	4,347,172	3,962,500	3,914,575
a. Revenues from the Market Operator's operation	1,695,807	1,672,100	1,663,653
b. Revenues from the recorded closed contracts	1,565,145	1,302,200	1,333,626
c. Revenues from the Centre for Support	591,000	591,000	591,000
d. Revenues from BSP	103,194	85,000	85,600
e. Revenues from information provision and raising awareness	226,609	199,300	199,999
f. Revenues arising from RRM - REMIT	134,757	112,900	26,600
g. Other revenues	30,660	0	14,097
2. OTHER OPERATING REVENUES	1,391	0	400
TOTAL OPERATING REVENUES	4,348,563	3,962,500	3,914,975
3. COSTS OF MATERIALS AND SERVICES	863,281	891,400	866,316
a. Cost of materials	48,617	56,000	51,712
b. Cost of services	814,664	835,400	814,604
4. LABOUR COSTS	1,412,936	1,388,600	1,358,108
a. Costs of wages and salaries	1,053,573	1,056,700	1,019,793
b. Costs of pension insurance	139,220	140,000	133,169
c. Costs of other social insurances	78,698	78,700	75,840
d. Other labour costs	141,445	113,200	129,306
5. WRITE-DOWNS	367,256	386,300	1,132,918
a. Depreciation	367,166	386,300	372,094
b. Operating expenses from revaluation of operating current assets	90	0	760,824
6. OTHER OPERATING EXPENSES	17,665	10,000	18,563
OPERATING PROFIT OR LOSS	1,687,425	1,286,200	539,070
7. FINANCIAL REVENUES	15,852	12,000	8,768
8. FINANCIAL EXPENSES	2,157	0	45,415
NET PROFIT OR LOSS FROM ORDINARY ACTIVITIES	1,701,120	1,298,200	502,423
9. OTHER REVENUES	246	0	1
10. OTHER EXPENSES	10,176	10,000	10,100
NET PROFIT OR LOSS FROM EXTRAORDINARY ACTIVITIES	-9,930	-10,000	-10,099
TOTAL REVENUES	4,364,661	3,974,500	3,923,744
TOTAL EXPENSES	2,673,471	2,686,300	3,431,420
TOTAL PROFIT	1,691,190	1,288,200	492,324
11. TAX ON PROFIT	279,108	218,994	211,531
12. DEFERRED TAX	12,692	0	724
NET PROFIT OR LOSS FOR THE FINANCIAL YEAR	1,424,774	1,069,206	281,517

2.3 CASH-FLOW TABLE

CASH-FLOW TABLE BASED ON THE INDIRECT METHOD (VERSION II)

TABLE 23
in EUR

Description	2016	2015
A. CASH FLOW FROM OPERATING ACTIVITIES		
a. Inflows from operating activities	1,768,719	1,455,085
Operating revenues (except for revaluation) and financial revenues from operating receivables	4,348,157	3,914,802
Operating expenses without depreciation (excluding revaluation) and financial expenses from operating liabilities	-2,300,330	-2,248,186
Tax on profit and other taxes not included in operating expenses	-279,108	-211,531
b. Outflows from operating activities	34,074,026	8,156,856
Opening less closing operating receivables	2,388,044	-1,905,773
Opening less closing deferred costs and accrued revenues	114	-4,638
Closing less opening operating liabilities	31,685,824	10,069,667
Closing less opening accrued costs and deferred revenues and provisions	44	-2,400
c. Positive or negative cash flow from operating activities (a + b)	35,842,745	9,611,941
B. CASH FLOW FROM INVESTMENTS		
a. Inflows from investments	1,015,567	8,912
Inflows from interests arising from investment activities	15,112	8,512
Revenues from disposal of tangible fixed assets	455	400
Revenues from disposal of short-term financial investments	1,000,000	0
b. Outflows from investments	-11,284,673	-1,173,837
Outflows from acquisition of intangible assets	-128,532	-121,747
Outflows from acquisition of tangible fixed assets	-156,141	-52,090
Outflows from acquisition of short-term financial investments	-11,000,000	-1,000,000
c. Positive or negative cash flow from investments (a + b)	-10,269,106	-1,164,925
C. CASH FLOW FROM FINANCING ACTIVITIES		
a. Inflows from financing activities	0	28,950,000
Inflows from an increase in short-term financial liabilities	0	28,950,000
b. Outflows from financing activities	-1,729,069	-29,829,357
Outflows from interests pertaining to financing activities	-533	-43,781
Outflows from repayment of financial liabilities	0	-28,950,000
Outflows from dividends paid and other profit-sharing	-1,728,536	-835,576
c. Positive or negative cash flow from financing activities (a + b)	-1,729,069	-879,357
D. Closing balance of cash and cash equivalents	40,595,353	16,750,783
Net cash flow	23,844,570	7,567,659
Opening balance of cash and cash equivalents	16,750,783	9,183,124

2.4 ALLOCATION OF NET PROFIT FOR THE FINANCIAL YEAR

ALLOCATION OF NET PROFIT FOR THE FINANCIAL YEAR 2016		TABLE 24
		in EUR
DESCRIPTION		31 Dec 2016
Net profit from the preceding financial years		0
Net profit for the financial year		1,424,774
Portion of net profit from the financial year for the elimination of actuarial losses		12
Distributable profit for the financial year		1,424,762

The distributable profit for the financial year 2016 amounted to EUR 1,424,762.

2.5. STATEMENT OF OTHER COMPREHENSIVE INCOME

STATEMENT OF OTHER COMPREHENSIVE INCOME FROM 1 JANUARY 2015 TO 31 DECEMBER 2016				TABLE 25
DESCRIPTION	1 Jan - 31 Dec 2016	1 Jan - 31 Dec 2015		
NET PROFIT OR LOSS FOR THE PERIOD	1,424,774	281,517		
Actuarial gains and losses on defined benefit plans	221	830		
TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL PERIOD	1,424,995	282,347		

2.6. STATEMENT OF CHANGES IN EQUITY

STATEMENT OF CHANGES IN EQUITY FOR 2015							TABELA 26
							in EUR
	Closing balance	Opening balance	Total comprehensive income		Changes in equity	Closing balance	
	31 Dec 2014	1 Jan 2015	Changes in revaluation surplus	Entry of net profit/loss	Distribution of profit to the owner	31 Dec 2015	
Share capital	1,963,279	1,963,279				1,963,279	
Capital reserves							
General equity capital revaluation adjustment	395	395				395	
Revenue reserves							
Statutory reserves	196,328	196,328				196,328	
Other revenue reserves	569,714	569,714				569,714	
Revaluation adjustment surplus	-2,016	-2,016	830			-1,186	
Retained earnings	1,728,535	2,564,111			-835,576	1,728,535	
Net profit or loss for the financial year	835,576	0		281,517		281,517	
Total equity	5,291,811	5,291,811	830	281,517	-835,576	4,738,582	

STATEMENT OF CHANGES IN EQUITY FOR 2016V								TABLE 27
								in EUR
	Closing balance	Opening balance	Total comprehensive income		Changes in equity		Closing balance	
	31 Dec 2015	1 Jan 2016	Changes in fair value reserve	Entry of net profit/loss	Distribution of profit to the owner	Transfer to reserves	31 Dec 2016	
Share capital	1,963,279	1,963,279					1,963,279	
Capital reserves								
General equity capital revaluation adjustment	395	395					395	
Revenue reserves								
Statutory reserves	196,328	196,328					196,328	
Other revenue reserves	569,714	569,714				281,517	851,231	
Fair value reserves	-1,187	-1,187	221			12	-954	
Retained earnings	1,728,535	2,010,052			-1,728,536	-281,516	0	
Net profit or loss for the financial year	281,517	0		1,424,774		-12	1,424,762	
Total equity	4,738,581	4,738,581	221	1,424,774	-1,728,536	0	4,435,041	

3. NOTES TO THE FINANCIAL STATEMENTS

BASIS FOR FINANCIAL STATEMENTS

The financial statements were compiled in accordance with the Slovenian Accounting Standards and the Companies Act. The figures contained in the financial

statements are based on accounting documents and ledgers administered in accordance with the Slovenian Accounting Standards. The basic accounting assumptions were applied in compiling the financial statements:

going concern basis, consistency and accruals-based accounting principles. The basic accounting principles taken into account in the accounting guidelines were transparency, precedence of content over form and significance.

3.1 NOTES TO THE ITEMS IN THE BALANCE SHEET

INTANGIBLE FIXED ASSETS AND LONG-TERM DEFERRED EXPENSES AND ACCRUED REVENUES

In the accounts, the intangible fixed assets and long-term deferred expenses and accrued revenues are disclosed separately as acquisition cost and value adjustments as a cumulative write-down, which is the

result of depreciation; in the balance sheet the assets are declared at the net book value, which is the difference between the acquisition cost and value adjustment.

INTANGIBLE FIXED ASSETS AND LONG-TERM DEFERRED EXPENSES AND ACCRUED REVENUES			TABLE 28
			in EUR
	Software	Software in production	Total
Purchase value			
1 Jan 2016	1,707,433	0	1,707,433
Direct increases – purchases	0	128,532	128,532
Transfer from the investments in progress	128,532	-128,532	0
Net transfer – TE portal	3,157	0	3,157
Disposals	41,849	0	41,849
31 Dec 2016	1,790,959	0	1,790,959
Write-down value			
1 Jan 2016	1,185,150	0	1,185,150
Yearly depreciation	213,273	0	213,273
Disposals	41,849	0	41,849
31 Dec 2016	1,353,417	0	1,353,417
Current value			
1 Jan 2016	522,283	0	522,283
31 Dec 2016	437,542	0	437,542

V In 2016, we invested a total of EUR 128,532 in new software. The investments in the information system include a new application for operational schedules (VRapp), an upgrade of

the single information system (EIS), which established a safe and reliable system operation, an upgrade of the information system for clearing and settlement (ISOB), an upgrade

of the web application for the RRM reporting, an upgrade of the web portal Trajnostna energija and an upgrade of the accounting application SAOP iCenter and software licenses.

The disposals refer to the old software that was no longer in use and was already fully written off.

The depreciation rate for software ranges from 20 to 50 percent and reflects the expected useful life.

For tangible fixed assets, the purchase value and value adjustment are declared separately in ledgers, whereby the value adjustment represents the cumulative write-down as a result of depreciation. In the balance sheet, they are recorded at the net book value, which is the difference between the purchase value and the write-down value.

The actual purchase value of a tangible fixed asset includes its purchase price and all costs that can be directly ascribed to making it fit for its intended use. Costs related to tangible fixed asset that are subsequently incurred increase its purchase value if they increase future benefits compared to the previous estimates.

TANGIBLE FIXED ASSETS

TANGIBLE FIXED ASSETS

TABLE 29

in EUR

	Real estate	Information system equipment	Office equipment	Other equipment	Total
Purchase value					
1 Jan 2016	1,367,135	562,694	138,371	119,537	2,187,737
Purchases	0	112,884	5,353	37,904	156,141
Disposals	0	30,718	633	2,874	34,225
31 Dec 2016	1,367,135	644,860	143,091	154,567	2,309,653
Write-down value					
1 Jan 2016	231,782	426,037	73,395	88,141	819,355
Depreciation	50,164	81,708	14,404	7,617	153,893
Disposals	0	30,718	633	2,579	33,930
31 Dec 2016	281,946	477,027	87,166	93,179	939,318
Current value					
1 Jan 2016	1,135,353	136,657	64,976	31,396	1,368,382
31 Dec 2016	1,085,189	167,833	55,925	61,388	1,370,335

The investments in tangible fixed assets amounted to EUR 156,141. The investments in information system were made mainly in order to replace the old and deteriorated equipment as well as to upgrade the

information system. The purchase of other equipment largely represents the purchase of a new company car. The disposals refer to the written-off deteriorated equipment which was

replaced.

The depreciation was charged at the following rates:

- Computer equipment:	20.00 to 33.33 %
- Office furniture:	11.00 to 12.00 %
- Other equipment:	10.00 to 25.00 %

LONG-TERM FINANCIAL INVESTMENTS

Long-term financial investments are valued at the purchase value that corresponds to the cash or other assets invested.

LONG-TERM FINANCIAL INVESTMENTS **TABLE 30**
in EUR

	31 Dec 2016	31 Dec 2015
Long-term financial investments in shares	419,568	419,568
Totalj	419,568	419,568

Borzen holds a 50-percent equity stake in BSP Regional Energy Exchange. On the basis of the valuation performed in April 2011, the value of the 50-percent

equity stake as at 31 December 2010 was estimated at EUR 419,568. In recent years, BSP has been operating profitably.

DEFERRED TAX ASSETS

DEFERRED TAX ASSETS **TABLE 31**
in EUR

	31 Dec 2016	31 Dec 2015
Deferred tax assets arising from:		
- impairment of the financial investment	109,682	98,137
- provisions	8,278	7,131
Total	117,960	105,268

Deferred tax assets mainly refer to the deferred tax from the impairment of financial investment in BSP in 2010. The actual impairment of the financial investment is not a tax-deductible expense in the year of the impairment but will become a recognised tax expense in the year of the actual

disposal of investment, which is why the Company has disclosed this in its closure of the accounts. In addition, the Company is also disclosing the deferred tax receivables from provisions for severance pays and long-service bonuses. The increase in the deferred tax receivables is largely attributable

to an increase in the tax rate.

SHORT-TERM FINANCIAL INVESTMENTS

Short-term financial investments are initially valued at their purchase value, which corresponds to the cash or other invested assets.

SHORT-TERM FINANCIAL INVESTMENTS **TABLE 32**
in EUR

	31 Dec 2016	31 Dec 2015
Short-term financial investments	11,000,000	1,000,000
Total	11,000,000	1,000,000

The financial investment represents two fixed-term deposits at Sberbank d.d., Ljubljana, which were bound for the period of six months. The first deposit represents the assets of the Centre for Support in the total amount of EUR 10 million (bound until 4 April 2017) and the second deposit represents the Company's assets in the total amount of EUR 1 million (bound

until 21 April 2017).

SHORT-TERM OPERATING RECEIVABLES

Receivables are initially recognised in the amounts recorded in the relevant documents under the assumption that they will be paid. Receivables from legal and natural persons abroad are converted into the domestic currency

on the day of occurrence. Currency exchange differences that arise up to the day receivables are settled or up to the balance sheet date are deemed to be financial revenues or financial expenses. The amounts of individual receivables were verified prior to the financial statement compilation.

SHORT-TERM OPERATING RECEIVABLES **TABLE 33**
in EUR

	31 Dec 2016	31 Dec 2015
Short-term trade receivables	19,733,485	22,018,899
a) Short-term domestic trade receivables	19,659,256	21,849,914
- of which receivables from the associated companies	9,490	24,632
b) Short-term foreign trade receivables	74,229	168,985
Short-term advances and securities	246	240
Short-term receivables for interest	4,925	8,199
Other short-term receivables	2,627,495	2,726,857
Total	22,366,151	24,754,195

The shares of short-term trade receivables as at 31 December 2016 amounted to EUR 19,733,485 and are as follows:

- 93 percent of the receivables are from the Centre for Support,
 - 5 percent of the receivables are from the imbalance settlement and
 - 2 percent of the regular receivables are mainly from the services of recording bilateral contracts and closed contracts.
- Short-term trade receivables by maturity:
- EUR 19,564,443 of the short-term trade receivables are not past-due (99.1 percent),

- EUR 157,204 of the short-term trade receivables are due (0.8 percent), of which EUR 127,852 has up to 30-day delay in payment, EUR 28,352 has up to 60-day delay in payment and EUR 1,000 has up to 90-day delay in payment,
- EUR 11,838 of the short-term receivable is being enforced (0.1 percent).

For the receivables in the amount of EUR 761,000 from ELES d.o.o., which arise from the recording of contracts on the use of cross-border transmission capacities, we devised a 100-percent revaluation adjustment of the claim in 2015. Since the court dismissed our claim at first instance, we decided to

appeal. The appeal is still pending.

Other short-term receivables refer to the input VAT from the invoices received in January 2017 and are referring to December 2016.

CASH AND CASH EQUIVALENT

In addition to regular assets, cash and cash equivalents disclose also the assets of the Centre for Support and the imbalance settlement assets, which are recorded under separate accounts. The deposits held at call are also kept in separate accounts and are open at the following banks: UniCredit Banka Slovenija d.d., BKS Bank, Sberbank d.d. and Sparkasse d.d.

CASH AND CASH EQUIVALENTS **TABLE 34**
in EUR

	31 Dec 2016	31 Dec 2015
Cash and cash equivalents in banks	2,803,776	4,803,053
Cash and cash equivalent in the commercial account	663,997	1,497,687
Cash and cash equivalents in special accounts – Centre for Support	50,882	87,799
Cash and cash equivalents in special accounts – efficient energy use	142,683	2,054,464
Cash and cash equivalents in special accounts – Balance Scheme	1,946,214	1,163,103
Deposits held at call – total	37,791,577	11,947,730
Deposit held at call	500,000	0
Deposit held at call – Centre for Support	36,294,127	10,935,306
Deposit held at call – Balance Scheme	997,450	1,012,424
Total	40,595,353	16,750,783

A substantial increase is visible in the amount of the cash and cash equivalents of the Centre for Support. The surplus funds of the Centre for Support are manifested in the deposits, which are even higher than those displayed in the table, mostly because the part of deposits was bound for six months and is shown in the table of short-term investments.

SHORT-TERM DEFERRED COSTS AND ACCRUED REVENUES

Costs that were charged in 2016 but which relate to the next financial year and will be met as costs in 2017 are declared as deferred costs and accrued revenues.

SHORT-TERM DEFERRED COSTS AND ACCRUED REVENUES **TABLE 35**

in EUR

	31 Dec 2016	31 Dec 2015
Short-term deferred costs and accrued expenses	28,789	28,903
Total	28,789	28,903

EQUITY

The Company's total equity capital consists of the share capital, reserves, revaluation surplus, retained earnings or previous losses, net profit not yet distributed or net loss not yet settled.

EQUITY **TABLE 36**

in EUR

	1,963,279	1,963,279
Called-up capital	1,963,279	1,963,279
Share capital – equity investment	395	395
Capital reserves – general revaluation adjustment	1,047,559	766,042
Reserves from profit	196,328	196,328
Statutory reserves	851,231	569,714
Other reserves from profit	-954	-1,186
Fair value reserves	0	1,728,535
Retained earnings from previous period	1,424,762	281,517
Net profit or loss for the financial year	1,424,762	281,517
Total	4,435,041	4,738,582

In 2016, the total equity of the Company decreased by EUR 300 thousand despite the intake of the previous year's profit in the amount of EUR 1,424 thousand. The reason for the decrease lies in the payment of the retained earnings from previous years in the amount of EUR 1.73 million to the Owner. The net profit of 2015 in the amount of EUR 282 thousand was allocated to other revenue reserves.

PROVISIONS

Based on the actuarial calculation, the Company created provisions for retirement allowances and long-service bonuses. In 2016, the use of provisions for long-service bonuses totalled EUR 6,810. After recreating provisions at the end of the year, the provision for severance pays upon retirement totalled EUR 38,534 and EUR 48,386 for long-service bonuses.

PROVISIONS **TABLE 37**

in EUR

	31 Dec 2016	31 Dec 2015
Provisions for long-service bonuses	48,386	49,710
Provisions for severance pays upon retirement	38,534	33,363
Total	86,920	83,073

MOVEMENT OF THE PROVISIONS **TABLE 38**

in EUR

	Provisions for severance pays upon retirement	Provisions for long-service bonuses	Total
Balance at 31 December 2015	33,363	49,710	83,073
Interest expenses	601	834	1,435
Current service costs	4,791	5,793	10,584
Benefit payments	0	-6,810	-6,810
Actuarial gains / losses (IPI)	/	-1,141	-1,141
Actuarial gains / losses through IFP	-221	/	-221
Balance at 31 December 2016	38,534	48,386	86,920

SENSITIVITY ANALYSIS **TABELA 39**

in EUR

Parameters	Provisions for severance pays upon retirement	Provisions for long-service bonuses
Reduction of disc. interest rate by 0.5 percent	3,765	3,134
Increase of disc. interest rate by 0.5 percent	-3,346	-2,865
Increase in wage growth by 0.5 percent per year	4,082	0
Reduction in wage growth by 0.5 percent per year	-3,489	0

SHORT-TERM LIABILITIES

Short-term liabilities are declared separately as short-term financial liabilities and short-term operating

liabilities. Short-term financial liabilities are loans granted, which Borzen does not disclose. Short-term operating liabilities consist of advances acquired from customers, liabilities

to suppliers in Slovenia and abroad, liabilities to employees, liabilities to state institutions and other liabilities. All liabilities are declared at fair value.

SHORT-TERM OPERATING LIABILITIES

TABLE 40

in EUR

	31 Dec 2016	31 Dec 2015
Short-term operating liabilities	22,328,410	24,601,922
- Short-term liabilities to suppliers – regular suppliers	184,697	297,208
- Short-term liabilities to suppliers – Centre for RES/CHP Support	19,853,322	21,751,484
- Short-term liabilities to suppliers – Balance Scheme	2,290,391	2,553,230
Short-term liabilities for the Centre for Support	45,790,480	11,314,852
Liabilities for deposits of the Centre for Support	650,000	0
Short-term liabilities for the efficient energy use	142,683	1,991,747
Short-term liabilities for the Balance Scheme	1,542,008	1,329,069
Short-term liabilities for the received advances	0	37,075
Short-term liabilities to employees	170,360	152,334
- Liabilities for net salaries and wage compensations	78,040	80,716
- Liabilities for contributions from gross salaries and wage compensations	49,010	24,847
- Liabilities for taxes from gross salaries and wage compensations	18,670	21,763
- Liabilities for other remunerations from employment	24,640	25,008
Liabilities to state and other institutions	1,167,845	694,354
- Liabilities for charged VAT	1,081,911	633,400
- Liabilities for corporate income tax	85,205	60,225
- Other short-term liabilities to state and other institutions	729	729
Other short-term operating liabilities	21,907	6,374
Total	71,813,693	40,127,727

As at 31 December 2016, liabilities consist of open items to regular suppliers, open items to the beneficiaries of the Centre Support and open items for suppliers under the Balance Scheme. With the beneficiaries of the Centre for Support the amount relates to the December invoices falling due at the end of January and beginning of February 2016. In addition, most of the invoices issued in November were also paid in January. The Company settles all liabilities toward suppliers in agreed contractual deadlines.

Short-term liabilities to the Centre for Support represent the surplus of the RES/CHP funds and funds collected from DSE, which increased significantly in 2016. This surplus is also evident and disclosed under cash and cash equivalents and short-term financial investments.

Short-term liabilities resulting from the energy efficiency represent the funds collected and managed by Borzen in accordance with the Regulation

on the provision of energy savings among final customers and the Decree on the financial settlement for the implementation of programmes to increase the efficiency of electricity use. The collected funds will be paid to the beneficiaries with the approved programmes, while the remaining funds will be credited to the Slovenian environmental public fund, Eco Fund.

Short-term liabilities related to the Balance Scheme represent a surplus of funds collected in this regard.

Short-term liabilities to employees are open items to employees, namely December salaries and undisbursed bonuses to the General Manager.

OFF-BALANCE SHEET ITEMS

The Company's off-balance sheet assets equalled EUR 4,267,913, where the amount of EUR 1,452,518 represented the funds of the Balance Scheme members deposited on the deposit sub-accounts, opened in

their names. The funds refer to the collateral for the fulfilment of financial liabilities stemming from the imbalance settlement. The financial coverage must be submitted by the balance responsible party upon signing the balancing agreement with the Market Operator, in accordance with the Rules on the Operation of the Electricity Market. The assets are disclosed as off-balance sheet items as they have no direct impact on the volume and composition of the assets or liabilities; they merely represent a guarantee for the fulfilment of the Balance Scheme members' liabilities.

In addition to cash deposits, the Balance Scheme members may also submit financial guarantees in the form of bank guarantees payable on first demand. As at 31 December 2016, the value of the submitted bank guarantees of the Balance Scheme members amounted to EUR 2,815,395.

3.2 NOTES TO THE INCOME STATEMENT

The income statement is drawn up according to Version I.

SALES REVENUES

Sales revenues consist of the selling price of services provided in the accounting period. Revenues are recognised on the basis of selling prices stated in invoices and other documents.

OPERATING REVENUES

TABLE 41

in EUR

	2016	Share in %	Business plan 2016	Share in %	2015	Share in %
Revenues from Market Operator's operation	1,695,807	39.0	1,672,100	42.2	1,663,653	42.5
Revenues from recorded closed contracts	1,565,145	36.0	1,302,200	32.9	1,333,626	34.0
Revenues from the Centre for Support	591,000	13.6	591,000	14.9	591,000	15.1
Revenues from BSP	103,194	2.4	85,000	2.1	85,600	2.2
Revenues from information provision and raising awareness	226,609	5.2	199,300	5.0	199,999	5.1
Revenues arising from RRM – REMIT	134,757	3.1	112,900	2.9	26,600	0.7
Other revenues	30,660	0.7	0	0.0	14,097	0.4
Total sales revenues	4,347,172	100	3,962,500		3,914,575	100
Other operating revenues	1,391	0.0	0	0.0	400	0.0
Total	4,348,563	100	3,962,500	100	3,914,975	100

The largest share of revenues refers to the revenues of the Market Operator's operation. In June 2015, the amount of the revenue was defined in the Decree on the concession and the method for the implementation of performing public service obligation relating to the activity of the Market Operator, which newly regulates the method of the public service financing and replaces the supplement to network charge with a contribution to the operation of the concessionaire (Market Operator) in the amount of EUR 0.00013 per kWh.

The second largest share of revenues is represented by the revenues from the recording of closed contracts. The amount of the fee paid by the Balance Scheme members for the recording of closed contracts equals EUR 0.00005 per

kWh for each individual recording of a closed contract, in which the Balance Scheme member acts as a seller.

The activities of the Centre for RES/CHP Support are financed from a share of contributions for promoting the production of electricity from renewable sources and high-efficiency cogeneration of heat and power.

Among other recorded revenues are also the revenues arising from the services performed for the Croatian Market Operator (HROTE) in 2016. We carried out the advisory services and analysis on the alternative means of energy sales from the Croatian support scheme.

Of the total sales revenues, EUR 3,753,650 was charged to domestic

buyers, while EUR 593,522 was charged to foreign buyers.

OPERATING EXPENSES

Operating expenses are all expenses generated in the financial year and recorded by type such as material costs, costs of services, labour costs, depreciation, operating expenses from revaluation and other operating expenses. Revaluation operating expenses arise upon the alienation of tangible fixed assets and in connection with intangible fixed assets and current assets owing to their impairment if the reduction in their value is not covered by the specific equity capital revaluation adjustment.

OPERATING EXPENSES						
TABLE 42						
in EUR						
	2016	Share in %	Business plan 2016	Share in %	2015	Share in %
Material costs	48,617	1.8	56,000	2.1	51,712	1.5
Service costs	814,664	30.6	835,400	31.2	814,604	24.1
Labour costs	1,412,936	53.1	1,388,600	51.9	1,358,108	40.2
Depreciation	367,166	13.8	386,300	14.4	372,094	11.0
Operating expenses from revaluation of operating current assets	90	0.0	0	0.0	760,824	22.6
Other operating expenses	17,665	0.7	10,000	0.4	18,563	0.6
Total	2,661,138	100	2,676,300	100	3,375,905	100

COSTS OF MATERIALS AND SERVICES

COSTS OF MATERIALS AND SERVICES						
TABLE 43						
Type of cost	2016 v %	Share in %	BP 2016	Share in %	2015	Share in %
Energy costs	11,884	24.5	16,500	29.4	7,727	14.9
Office supplies	10,904	22.4	15,000	26.8	13,714	26.5
Professional literature	16,444	33.8	16,000	28.6	16,056	31.1
Other material costs	9,385	19.3	8,500	15.2	14,215	27.5
Total material costs	48,617	100	56,000	100	51,712	100
Banking services	10,232	1.3	10,000	1.2	15,869	1.9
Membership fees	32,084	3.9	32,500	3.9	39,951	4.9
Other services	33,641	4.1	32,000	3.8	33,168	4.1
Education and training	36,499	4.5	42,000	5.0	42,055	5.2
Rental costs	52,916	6.5	57,000	6.8	63,240	7.8
Business premises costs	33,380	4.1	34,000	4.1	33,302	4.1
Public relations	153,625	18.9	155,000	18.6	121,032	14.9
Postal services	30,613	3.8	37,000	4.4	17,764	2.2
SLA costs	92,942	11.4	94,200	11.3	94,200	11.6
Insurance costs	13,653	1.7	19,700	2.4	14,966	1.8
Mission and duty travel costs	35,372	4.3	28,000	3.4	33,991	4.2
Supervisory Board costs	8,423	1.0	15,000	1.8	14,008	1.7
Advisory services and professional studies costs	176,254	21.6	170,000	20.3	191,679	23.5
Student work	1,558	0.2	12,500	1.5	10,371	1.3
Regular maintenance of fixed assets	103,472	12.7	96,500	11.6	89,008	10.9
Total service costs	814,664	100	835,400	100	814,604	100

The total amount of costs of material and services are lower than in the previous year as well as in the planned year. The costs of services and material comprise the costs arising from the implementation of activities in the field of information provision and raising awareness on renewable energy sources and efficient energy use, which are reimbursed to the Company by the Slovenian Eco Fund. The costs of advisory services also include the costs of the audit of annual accounts totalling EUR 5,700 per year.

LABOUR COSTS

Total labour costs amounted to EUR 1,412,936 in 2016. At the end of the year, the Company had 31 employees and the average number of employees based on the working hours equalled 28.73. Labour costs are calculated in accordance with the Rules on labour relations. Among other labour costs, the costs arising from the increase in provision for long-service bonuses and severance payments in the total amount of EUR 10,584 were also taken into account and were calculated based on actuarial calculations.

WRITE-OFFS

In 2016, depreciation amounted to EUR 367,166 and was slightly lower than planned. It was also lower than last year's amount of depreciation. The Company uses straight line depreciation method in its calculations.

OTHER OPERATING EXPENSES

Other operating expenses equalled EUR 17,665 and relate to court fees, contribution of the construction land and contribution paid to the Public Scholarship, Development, Disability and Maintenance Fund of the Republic of Slovenia due to non-compliance with legislation on the employment of the disabled.

FINANCIAL REVENUES

FINANCIAL REVENUES						
TABLE 44						
in EUR						
	2016	Share in %	Business plan 2016	Share in %	2015	Share in %
Interest revenues	15,851	100.0	12,000	100.0	8,738	99.7
Other financial revenues including financial revenues from revaluation	1	0.0	0	0.0	30	0.3
Total	15,852	100	12,000	100	8,768	100

Interest revenues relate to interest on deposits made with banks and interest on demand cash deposits in accounts. Interests are higher than

planned and higher than the amount from the previous year, mainly due to the higher surplus of the Centre for Support and thus higher free cash

flow, whereas the interest rates on the market were very low.

FINANCIAL EXPENSES

FINANCIAL EXPENSES						
TABLE 45						
in EUR						
	2016	Share in %	Business plan 2016	Share in %	2015	Share in %
Interest expenses	2,016	93.5	0	0	45,412	100.0
Other financial expenses with revaluation expenses	141	6.5	0	0	3	0.0
Total	2,157	100	0	0	45,415	100

Compared to 2015, the amount of financial expenses in 2016 was relatively low. In 2015, the funds of a short-term loan had to be disbursed several times due to the gap between the collected funds of the Centre for Support and the necessary support payments. Due to the surplus funds in 2016, the Company did not resort to a new loan. Interest expenses in the amount of EUR 2,016 arise from the provisions (based on the actuarial calculations), bank interests for the assets over the bank limit and late payment interests of the suppliers.

OTHER REVENUES AND EXPENSES

Other revenues are of the minimal value and relate to the repayment of penalties paid in the previous years.

Other expenses relate to the donations, for which the Company allocated a total of EUR 10,173 in 2016. The donation funds were provided to the Slovenian youth entrepreneurship accelerator Ustvarjalnik, ZOO Ljubljana, Paraplegic Association, Slovenian Philanthropy and different sports associations.

OTHER DISCLOSURES

The management of the Company is a one-member body, i.e. General Manager, appointed by the Supervisory Board for a five-year period. General Manager Karol Peter Peršolja has been running and representing the Company since 1 January 2010.

General Manager is entitled to basic payment (salary) and reasonable payment for the performance of the Company (performance-related bonus).

GENERAL MANAGER'S REMUNERATION IN 2016

TABLE 46

in EUR

Gross remuneration of General Manager

Salary (2016)	109,537
Performance-based bonus for 2013 (second half) and 2015 (first half)	16,420
Holiday pay	1,115
Bonuses	124

The Supervisory Board consists of three members appointed by the Government of the Republic of Slovenia. On 16 June 2016, the Stakeholder recalled Nejc Brezovar,

PhD as the member of the Supervisory Board and appointed Alenka Kolar, PhD as the new member. In 2016, the members of the Supervisory Board were entitled to basic remuneration

for the performance of their function, session fees and reimbursement of the expenses based on the applicable decision of the Stakeholder:

REMUNERATION OF THE SUPERVISORY BOARD MEMBERS IN 2016

TABLE 47

in EUR

Gross

Gorazd Ažman, MSc	3,159
Janez Černe	2,520
Nejc Brezovar, PhD	876
Alenka Kolar, PhD	1,172

The company has no receivables from members of the Management or Supervisory Board, and did not pay or approve any advances, loans or sureties for liabilities to the members of the Supervisory Board.

3.3. ADDITIONAL DISCLOSURES IN ACCORDANCE WITH SAS 35

Individual activities performed by Borzen are governed by the Slovenian Accounting Standards (SAS 35).

the Decree on the concession and on the method for implementation of public service obligation relating to the organisation of the Market Operator, the Act of the establishment of Borzen

and other applicable regulations, Borzen performs the public service obligation relating to the organisation of the electricity market, which also includes the implementation of the

activities of the Centre for Support. In addition, the Company also performs a commercial activity (i.e. the provision of the RRM services and services for BSP Regional Energy Exchange) and activities related to the information provision and raising awareness on the efficient use of energy and renewable energy sources (RES and EE).

The Energy Act defines the activities regarding the operation of the Market Operator and activities of the Centre for Support as one commercial public service; however, it also stipulates that separate accounts should be kept for the activity of the Centre for Support. For the purpose of keeping the market organisation and the Centre for Support

accounts separate, they are regarded as two separate business entities where the funds used by both activities are divided according to predetermined keys.

The starting point for demonstrating successful operation of a particular activity is to include funds as well as expenses as revenues and expenses directly by activities to the maximum extent possible. For items that cannot be assigned unambiguously to a particular activity, keys that are based mainly on assumptions regarding their distribution to each activity are used. The keys for the division of joint revenues and expenses are set in Borzen's Rules on separate accounts

for revenues, expenses, assets and liabilities by individual activities.

The Company has set certain cost centres to which revenues are allocated and direct and indirect costs are recorded. Cost centres belong indirectly to individual activities or are of general nature and are charged indirectly to each activity. The company has established keys for sharing indirect costs that are examined on a yearly basis and amended according to new facts.

The table of general keys specified and adopted for 2016 is presented in the continuation.

GENERAL KEYS FOR 2016

TABLE 48

	ACTIVITY		
	Market Operator	Centre For Support	Commercial Activity
General expenses key	50 %	43 %	7 %
Wage costs key	52 %	40 %	8 %
Fixed assets key	65 %	30 %	5 %

General expenses key takes into account a distribution of balance items of a specified activity as referred to in cost centres which are directly or indirectly charged to an activity according to the workload of an individual post, which is measured by working time in hours needed for an individual activity.

Wage costs key considers the distribution of balance sheet items to activities as arising from cost centres that are directly or indirectly charged to activities based on the workload of individual jobs that is measured by

hours expressed as a value based on labour costs that are charged to an individual post.

Fixed assets key takes into account a distribution of information system balance items of a specified activity as referred to in cost centres which directly or indirectly incur an activity according to information system's burden.

Borzen's Income Statement is prepared separately for each commercial public service and separately for its commercial activity.

In 2016, the Company generated a net profit of EUR 1.42 million. The activity of the public service obligation relating to the Market Operator disclosed a profit of EUR 1.61 million; the Centre for Support recorded a deficit in the amount of EUR 284.7 thousand, while the commercial activity disclosed a profit of EUR 101.7 thousand. Information provision and awareness-raising is conducted according to the principle of reimbursement of costs by the Slovenian Eco Fund.

INCOME STATEMENT BY ACTIVITY FOR THE PERIOD BETWEEN 1 JANUARY 2016 AND 31 DECEMBER 2016

INCOME STATEMENT FOR THE PERIOD BETWEEN 1 JANUARY 2016 AND 31 DECEMBER 2016

TABLE 49

in EUR

Item	BORZEN Total	Market Operator	Centre for Support	Information provision and raising awareness	Commercial activity
1. NET SALES REVENUES	4,347,172	3,261,312	591,000	226,609	268,251
a. Revenues from Market Operator's operation	1,695,807	1,695,807	0	0	0
b. Revenues from recorded closed contracts	1,565,145	1,565,145	0	0	0
c. Revenues from the Centre for RES/ CHP	591,000	0	591,000	0	0
d. Revenues from BSP	103,194	0	0	0	103,194
e. Revenues from information provision and raising awareness	226,609	0	0	226,609	0
f. Revenues from RRM - REMIT	134,757	0	0	0	134,757
g. Other revenues	30,660	360	0	0	30,300
2. OTHER OPERATING REVENUES	1,391	696	598	0	97
TOTAL OPERATING REVENUES	4,348,563	3,262,008	591,598	226,609	268,348
3. COSTS OF MATERIAL AND SERVICES	863,281	452,317	210,289	154,539	46,136
a. Costs of material	48,617	31,251	13,931	1,306	2,129
b. Costs of services	814,664	421,066	196,358	153,233	44,007
4. LABOUR COSTS	1,412,936	723,585	540,541	69,751	79,059
a. Salary costs	1,053,573	540,999	406,961	46,801	58,812
b. Pension insurance costs	139,220	71,539	46,677	13,277	7,727
c. Costs of other social insurances	78,698	40,395	24,265	9,673	4,365
d. Other labour costs	141,445	70,652	62,638	0	8,155
5. WRITE-DOWNS	367,256	215,741	125,260	2,319	23,936
a. Depreciation	367,166	215,696	125,221	2,319	23,930
b. Operating expenses from revaluation of operating current assets	90	45	39	0	6
6. OTHER OPERATING EXPENSES	17,665	6,782	9,984	0	899
TOTAL OPERATING EXPENSES	2,661,138	1,398,425	886,074	226,609	150,030
OPERATING PROFIT OR LOSS	1,687,425	1,863,583	-294,476	0	118,318
7. FINANCIAL REVENUES	15,852	445	15,350	0	57
8. FINANCIAL EXPENSES	2,157	788	1,259	0	110
NET PROFIT OR LOSS FROM ORDINARY ACTIVITIES	1,701,120	1,863,240	-280,385	0	118,265
9. OTHER REVENUES	246	123	106	0	17
10. OTHER EXPENSES	10,176	5,088	4,376	0	712
TOTAL REVENUES	4,364,661	3,262,576	607,054	226,609	268,422
TOTAL EXPENSES	2,673,471	1,404,301	891,709	226,609	150,852
TOTAL PROFIT	1,691,190	1,858,275	-284,655	0	117,570
11. TAX ON PROFIT	-279,108	-262,500	0	0	-16,608
12. DEFERRED TAX	12,692	11,937	0	0	755
NET PROFIT OR LOSS FOR THE FINANCIAL YEAR	1,424,774	1,607,712	-284,655	0	101,717

BALANCE SHEET AS AT 31 DECEMBER 2016 WITH ASSETS UNDER MANAGEMENT

BILANCA STANJA NA DAN 31. 12. 2016 Z LOČENO PRIKAZANIMI SREDSTVI, KI SO V UPRAVLJANJU

TABLE 50

in EUR

DESCRIPTION	Borzen Total	Borzen excl. PUS	CS	EE	BALANCE SCHEME
ASSETS	76,335,698	5,021,429	67,183,751	142,683	3,987,835
A. LONG-TERM ASSETS	2,345,405	2,345,405	0	0	0
I. INTANGIBLE FIXED ASSETS AND LONG-TERM DEFERRED COSTS AND ACCRUED REVENUES	437,542	437,542	0	0	0
II. TANGIBLE FIXED ASSETS	1,370,335	1,370,335	0	0	0
1. Business premises	1,085,189	1,085,189	0	0	0
2. Equipment	285,146	285,146	0	0	0
III. LONG-TERM FINANCIAL INVESTMENTS	419,568	419,568	0	0	0
1. Shares in associated companies	419,568	419,568	0	0	0
IV. DEFERRED TAX ASSETS	117,960	117,960	0	0	0
B. SHORT-TERM ASSETS	73,961,504	2,647,235	67,183,751	142,683	3,987,835
I. SHORT-TERM FINANCIAL INVESTMENTS	11,000,000	1,000,000	10,000,000	0	0
II. SHORT-TERM OPERATING RECEIVABLES	22,366,151	483,009	20,838,971	0	1,044,171
1. Short-term trade receivables	19,733,485	465,979	18,353,816	0	913,690
2. Short-term operating receivables due from others	2,632,666	17,030	2,485,155	0	130,481
III. CASH AND CASH EQUIVALENTS	40,595,353	1,164,226	36,344,780	142,683	2,943,664
C. SHORT-TERM DEFERRED COSTS AND ACCRUED REVENUES	28,789	28,789	0	0	0
Off-balance sheet assets	4,267,913	4,267,913	0	0	0
LIABILITIES					
A. EQUITY	76,335,698	5,021,429	67,183,751	142,683	3,987,835
I. CALLED-UP CAPITAL	4,435,041	4,435,041	0	0	0
1. Share capital	1,963,279	1,963,279	0	0	0
II. CAPITAL RESERVES	1,963,279	1,963,279	0	0	0
III. REVENUE RESERVES	395	395	0	0	0
1. Statutory reserves	1,047,559	1,047,559	0	0	0
1. Other revenue reserves	196,328	196,328	0	0	0
IV. FAIR VALUE RESERVE	851,231	851,231	0	0	0
V. RETAINED EARNINGS	-954	-954	0	0	0
VI. NET PROFIT OR LOSS FOR THE FINANCIAL YEAR	0	0	0	0	0
B. PROVISIONS AND LONG-TERM ACCRUED COSTS AND DEFERRED REVENUES	1,424,762	1,424,762	0	0	0
C. SHORT-TERM LIABILITIES	86,920	86,920	0	0	0
SHORT-TERM OPERATING LIABILITIES	71,813,693	499,424	67,183,751	142,683	3,987,835
1. Short-term liabilities to suppliers	71,813,693	499,424	67,183,751	142,683	3,987,835
2. Other short-term operating liabilities	22,328,410	184,696	19,853,323	0	2,290,391
SHORT-TERM ACCRUED COSTS AND DEFERRED REVENUES	49,485,283	314,728	47,330,428	142,683	1,697,444
Off-balance-sheet liabilities	44	44	0	0	0
	4,267,913	4,267,913	0	0	0

In Table 50, items that relate to assets and liabilities to assets managed by Borzen are disclosed separately and intended exclusively to perform activities within individual public utility

service (PUS). It separately discloses the assets of the Centre for Support (CS), the funds of efficient energy use and the funds of the Balance Scheme. On the one hand, these are cash and

cash equivalents in separate special accounts and the receivables and liabilities that are also kept separately and are settled via special settlement accounts.

STATEMENT BY THE MANAGEMENT

In accordance with Article 60 of the Companies Act, the Management and the Supervisory Board hereby ensure that the annual report of Borzen, operater trga z elektriko, d. o. o. was compiled and published in accordance with the Companies Act and the Slovenian Accounting Standards.

The Management approves and confirms the financial statements of Borzen, operater trga z elektriko, d. o. o. for the year finishing on 31 December 2016 and Notes on financial statements

compiled on the assumption of the Company's continued operation and in accordance with the applicable legislation and the Slovenian Accounting Standards.

The Management confirms that appropriate accounting policies were used in the creation of the financial statements and that the accounting estimates were made according to the precautionary principle and the principle of good management, and that the financial statements reflect the true

and fair picture of the company's assets and results of its business operations for 2016.

Ljubljana, 30 March 2017

Karol Peter Peršolja, PhD

General Manager

RELEVANT ENERGY REGULATIONS

Some relevant energy regulations that govern the operations of a provider of commercial public services of the organised electricity market are listed in the continuation:

- Energy Act (Official Gazette of the RS, No. 17/14 and 81/15);
- Decree on the method of provision of an electricity market operator service of general economic interest (Official Gazette of the RS, No. 39/15);
- Decree on support for the electricity generated from renewable energy sources and in cogeneration with high efficiency (Official Gazette of the RS, No. 74/16);
- Regulation on supports for

the electricity generated from renewable energy sources (Official Gazette of the RS, No. 37/09, 53/09, 68/09, 76/09, 17/10, 94/10, 43/11, 105/11, 43/12 and 90/12, 17/14 – EA-1);

- Decree on support for the electricity generated in cogeneration with high efficiency (Official Gazette of the RS, No. 37/09, 53/09, 68/09, 76/09, 17/10 and 81/10, 17/14 – EA-1 and 74/16);
- Decree on energy savings requirements (Official Gazette of the RS, No. 96/2014);
- Decree on the method of determining and calculating the contribution for ensuring support for the generation of electricity from high-efficiency cogeneration and renewable energy sources

(Official Gazette of the RS, No. 46/15);

- Rules on the operation of the electricity market (Official Gazette of the RS, No. 105/15);
- Rules on the operation of the Centre for RES/CHP Support (Official Gazette of the RS, No. 86/09, 17/14 – EA-1);
- Rules for the operation of the electricity balancing market (Official Gazette of the RS, No. 97/14);
- Act on the methodology determining the regulatory framework and the methodology for charging the network charge for the electricity system operators (Official Gazette of the RS, No. 66/15, 105/15 and 61/16).

CODES AND RECOMMENDATIONS

Hereunder are the Codes and Recommendations of the Stakeholder, which Borzen fully respects in its operation:

- Recommendations of the Slovenian Sovereign Holding;
- Corporate governance code for companies with state capital investment;
- Corporate governance code for public limited-liability companies.

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RRM - REMIT

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GLOSSARY

CS – Centre for RES/CHP Support

DSE – Domestic sources of primary energy

PUS – Public utility service

INC – Imbalance Netting Cooperation

MO – Market Operator

RES – Renewable energy sources

GoO – Guarantees of origin

RES-E – Register of guarantees of origin for renewable energy sources

RES-H – Register of guarantees of origin for renewable heat/cold

CHP – Cogeneration of heat and power

EE – Energy efficiency

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