Pursuant to the Corporate Governance Code with Capital Assets of the State the Chief Executive Officer (CEO) and the Supervisory Board of ELES, d.o.o. adopted

Corporate Governance Policy of ELES, d.o.o.

Introduction

The Corporate Governance Policy of ELES, d.o.o. (henceforth referred to as the Policy) sets out the main guidelines for the Management of the Company, taking into consideration long-term objectives of the Company. As set forth in the Policy the CEO and the Supervisory Board, within their legal and statutory provisions, oblige and disclose how they shall lead and control the Company. The Policy is available on the Company's website www.eles.si in Slovenian and English language.

The Main Management Principles

By providing reliable transmission of electric power ELES' mission is to provide for quality of life, stability of organisations’ operations and development of society in Slovenia and in the region. The values that ELES pursues are: responsibility, enthusiasm, knowledge, reliability, cooperation and commitment.

ELES' vision is to obtain a leading role in the Slovenian electric power system and represent a key element of the energy stability in the region with one of the most technologically advanced networks. So as to accomplish this vision, ELES set out 11 strategic objectives within the framework of the Strategic Business Plan for the 2016 to 2020 period. The objectives are based on: the achievement of business excellence, optimal operation of the transmission network, and the effective management of the Company's assets and comprehensive human resources management.

ELES is managed by the General Meeting, the Supervisory Board and the CEO.
Company's Management operates on the basis of a two-tier system, where the company is run by the CEO, while its operations are supervised by the Supervisory Board.

Reference Corporate Governance Code

ELES, d.o.o. respects the reference Corporate Governance Code, which was adopted on 8 December 2009 by the Ljubljana Stock Exchange, the Slovenian Director's Association and the Managers' Association of Slovenia. The Code is available on the website of the Ljubljana Stock Exchange in Slovenian and English language.

Groups of Stakeholder and a Strategy for Communicating and Cooperating with Them

ELES pays special attention to the responsible relationship with stakeholders. In addition to its employees the Company regards the owner of the Company and regulators in Slovenia and the European Union, consumers and suppliers, partner organisations and professional associations and educational institutions also as the major stakeholders. ELES endeavours to cooperate and communicate openly and proactively with its stakeholders, and in accordance with the adopted communication strategy.

Pursuant to the Energy Act the Republic of Slovenia, as a sole stakeholder, implements its founder's rights in ELES through the Government of the Republic of Slovenia and the Ministry of Infrastructure, responsible for the energy sector. Cooperation and communication between ELES and the owners is based on building good relations, mutual understanding and trust. Responsible, simultaneous and non-discriminatory information towards all stakeholders is ensured in the interpersonal communication.

ELES' operations are subject to the regulatory frameworks set forth by the regulators Energy Agency and the Agency for the Cooperation of Energy Regulators (ACER). The most important provisions for ELES' operation prove to be the Methodology for setting the regulatory framework and methodology for calculating network charges, which the Energy Agency lays down in the act adopted for a three-year regulatory period and represents the ELES' most important operational measure in terms of financial management. The act sets forth the method for calculating the amount of ELES' eligible costs, which are covered with network charge and the revenues from auctions for cross-border transmission capacities and certain other revenues. For the purposes of pre-determination, monitoring of the achievement of the regulatory framework, as well as all other technical, economic, legal issues regular cooperation between ELES and Energy Agency has been established. Hence, ELES sends various technical and economic data and reports to the Energy Agency by way of which it informs the
Agency on new tasks, processes within the Company and obtains the necessary consents from the Agency.

With the construction and maintenance of the electric power transmission network (high-voltage transmission lines, transformer and substations and optical network) ELES directly and indirectly affects the lives of local communities. Their understanding and acceptance of the Company's activities and electric power facilities is crucial to the successful ELES' operations. Therefore, the local communities (residents and representatives of municipalities and urban communities as well as members of civil initiatives) are regarded as one of the key stakeholders and partners in the process of construction of new power facilities and their maintenance. The siting of new electric power facilities in the area, which fall within the jurisdiction of the competent ministries, is carried out according to the procedure prescribed by the law, and which also includes cooperation with the local community. Local communities may – during the public display of variant studies and expert bases and during the public display of the draft National Spatial Plan (NSP) and expertise – submit their comments and suggestions. All proposals and comments received are professionally addressed in the responses to the questions and comments. Interested public may send any eventual further questions relating to the construction and maintenance of transmission lines by e-mail at info@eles.si or by surface mail to the following address: ELES, d.o.o., Hajdrhova 2, 1000 Ljubljana, Slovenia. Cooperation with local communities thus takes place through various forms of proactive and reactive communication: presentation of projects for the mayors of the municipalities through which the route takes place, the presentation of projects in the local communities, sending of direct mail with information about the projects, which is received by all residents along the route, and conducting of meetings with civil initiatives. When siting of new transmission line connections or reconstructing the existing transmission lines ELES examines the most convenient routes, which take into account the spatial, protective, functional and economic aspect and the aspect of acceptability in the local environment.

ELES demonstrates social responsibility also through support to various (local) associations, institutions and organisations. In selecting recipients of sponsorships and donations the principle of balancing economic benefits and diversification is observed.

Electric power generators, who provide ancillary services and energy to cover losses on the transmission system, are an important supplier of ELES. Besides them, other ELES' business partners supplying construction services, building or office supplies, and other goods and services required for the functioning of the Company are also regarded as suppliers. ELES' consumers are electric power generating companies, electric power sales companies and direct consumers, which offtake electric power from the network. The success of their operation and business is highly dependent on the reliability of the ELES' network. The latter requires close cooperation in the field of operation, maintenance and development of interconnected networks, with the aim of achieving the highest possible reliability of supply to consumers. Regular communication with business partners is
conducted via personal meetings, print edition of the magazine “Naš stik” (“Our contact”), by e-mail (info@eles.si) and through the www.eles.si website, where information on the Company’s operations and all of the latest news are available to the users. The Company’s annual reports, which are a key source of information and communication with the business community, are also published on the Company’s website.

Due to the geographical location of Slovenia, ELES is strongly rooted in the international environment. The number of organisations and associations, in which ELES cooperates, further increases the fact that electric power does not flow through the network at a pre-agreed routes, but the direction and power flow rate are subject to physical laws. Hence, the continental European transmission system operators, including ELES, apply uniform and coordinated operation rules with regard to the legality and characteristics of individual power systems controlling operational reliability and create rules for the allocation of cross-border transfer capacities in the framework of regional groupings. Communication with these stakeholders is run through personal meetings, meetings within the framework of international associations and organizations, by e-mail (info@eles.si) and through the www.eles.si website where users may also access key information on operations, news and annual reports of the Company in English available.

Media are opinion leaders and generate topics for public discussion and agenda. In communicating with the media ELES uses a wide range of tools: press conferences, press releases, round tables on the topic of energy, various seminars and other events on the topic of energy.

ELES is aware that employees are an important factor for the Company's success; hence the Company cooperates with employees in developing a healthy and safe working environment, acts responsibly for the development and welfare of employees, increases efficiency and motivates the employees, develops an appropriate relationship between the employees and the Company, ensures effective tools for managing employees and increasing satisfaction and positive energy in the Company. The employees are communicated via: intranet, e-mail, electronic newsletter e-omrežje (“e-network”) and “Naš stik” (“Our contact”) web portal, “Naše omrežje” (“Our network”) internal magazine, of personal meetings of the Company's CEO at the headquarters and locations, annual interviews, surveys on measuring employees' satisfaction and social events. The Company's CEO also meets regularly with representatives of the Works Council and the representative trade unions in order to provide information and involvement of employees' representatives in the Company's operations and direct address of the issues for which they are responsible.
Acquainting Subsidiaries and Stakeholders with the Strategy and Management Standards of the Group

ELES Group consists of the parent company ELES, d.o.o. and subsidiaries TALUM d.d. Kidričevno, Stelkom d.o.o. and BSP d.o.o..

In the conduct and management of the subsidiaries standards of corporate governance applied for the parent company are respected.

ELES executives are engaged in the subsidiaries' bodies and thus inform subsidiaries and the stakeholders with the strategy and management standards of the Group and thereby also contribute to better integration of the ELES Group.

The annual reports of the companies in the Group and the consolidated financial statements are available for inspection at the registered office of the parent company ELES, d.o.o..

Transaction Policies between the Company and Subsidiaries and Affiliated Companies, including their Members of the Management Board and the Supervisory Board

Subsidiaries of the ELES Group cooperate with the parent company and other companies in the Group on a commercial basis. The annual report of each subsidiary and affiliated company declares that while performing these transactions the company was not disadvantaged or penalised. Each subsidiary or affiliated company also indicates that there were no actions that the company would commit or suspend at the initiative or in the interest of the parent company or its affiliated companies.

Detailed data on the value of the business and the content of business deals with the parent company and its affiliated companies are presented in the financial section of the annual report of each subsidiary and in the context of public information on the Company's website.

A commitment to the Establishment of a System of Conflict of Interests and Independence of the Members of the Management Board/Supervisory Board

Members of the Supervisory Board and Management Board shall take all precautionary measures to avoid conflicts of interest that could affect their judgment.

Members of the Supervisory Board inform the Supervisory Board of any conflicts of interest that has occurred or could occur in the exercise of their functions. The Supervisory Board Members are aware
of the existence of a material conflict of interest or that the existence of a clear conflict of interests may be a reason for termination of membership. The Supervisory Board undertakes to take into consideration any potential conflicts of interest into account when selecting candidates for members of the Supervisory Board. The Supervisory Board Members are also aware that their work is not bound by the opinions or instructions of those who have proposed or appointed them, but they assume full personal responsibility for performing their functions. The Supervisory Board Members sign an annual statement of compliance with corporate integrity system and the independence and absence of conflicts of interest.

The Company's CEO needs to immediately disclose any cases of conflict of interest to the Supervisory Board.

The Commitment of the Supervisory Board on the Evaluation of Self-efficacy

ELES' Supervisory Board assesses its effectiveness and efficiency and adopts actions to improve its performance on the basis of self-assessment.

In the process of evaluation the work of the Supervisory Board and the work of its committees is evaluated and an opinion on the improvements needed to evaluate whether the communication and cooperation between the Company's CEO and the Supervisory Board has been appropriate is assessed. Moreover, the contribution of individual members, their presence at Supervisory Board sessions/committees and their participation in discussions and in decision-making is assessed. Moreover, the existence of circumstances that could lead to a conflict of interests of each member verified.

Statement of the Supervisory Board Formed Committees

The Supervisory Board may, on the basis of the Rules of the Supervisory Board, appoint one or more committees such as the audit committee, appointment committee and remuneration committee or a committee, which may be set by the Supervisory Board, when appropriate, such as: investment committee to monitor important and prolonged investment company.

Committees prepare proposals for resolutions of the Supervisory Board, assure their implementation and carry out other professional tasks. Duties and powers of the committees are set forth by the Companies Act, the Rules of the Supervisory Board and Supervisory Board resolutions. The committees adopt their rules of procedure, which are approved by the Supervisory Board.
The System of Division of Responsibilities and Powers between the Members of the Management and Supervisory Board of the Company

ELES has established a modern management and supervision system, under which activities and responsibilities are divided between the holders of three lines of defence. The Company's CEO, who is directly responsible to the Supervisory Board, ensures appropriate internal environment, while area managers, who within the framework of the first line of defence, provide and implement risk assessment and implement internal control measures to ensure the achievement of targets and compliance operations. In doing so, they rely on a second line of defence, which is a framework for identifying and monitoring operations, composed of management systems, risk management system, the system of corporate integrity, security and civil defence, and controlling. Internal audit, as a third line of defence, the performance and effectiveness of which is assessed by the Audit Committee of the Supervisory Board, subsequently notes in particular the consistency and efficiency of operations. ELES cooperates also with external supervision-inspection authorities, where beside external auditor of the financial statements, the most important external partner is also the Energy Agency, which fully regulates the ELES' activity, as set out in the Energy Act and implementing regulations and thereby regulates the Company's performance.

ELES established an internal control system, consisting of rules and procedures defined in the internal regulations of the Company adopted by the management systems and other written guidelines the Compaq's CEO, organisational structure as defined in the Rules of organisation ELES, d.o.o., the powers (responsibilities) and powers defined in the Act on the systematization of types of work and workplaces of ELES, d.o.o. and granted powers of the CEO. By introducing this system of internal control accuracy, reliability and completeness of data and information for the proper and fair disclosure of accounting, financial and non-financial information are ensured. Moreover, errors are detected and the system prevents and detects errors in the system and ensures compliance with the law.

ELES is managed by the General Meeting, CEO and the Supervisory Board.

The Company is managed and represented by the CEO, who is responsible for the legality of operation. CEO needs to carry out the business in accordance with the adopted strategy and business plans. CEO is supervised by the Supervisory Board. Company's CEO and the Supervisory Board work closely together for the benefit of the Company. The memorandum of ELES together with the Rules of the Supervisory Board specifies the division of responsibilities between the Company directors and the Supervisory Board and the manner of their cooperation.

In adopting the most important decisions that could have a significant impact on the business, financial or legal situation of the Company the CEO and the Supervisory Board aim to reach a consensus.
CEO informs the Chairman of the Supervisory Board about important events, which are necessary to assess the situation and consequences as well as for the management of the Company. CEO and the Supervisory Board coordinate their positions on the regular or extraordinary sessions of the Supervisory Board.

The Company’s Rules, including Its Affiliates and their Members of the Management Board or the Supervisory Board, Which are not Regulated by the Legislation on Conflict of Interest

All the rules that govern relations between companies in the ELES Group of Companies and their management and supervisory bodies fully comply with the Slovenian legislation and good practice in terms of conflicts of interest.

Corporate Communication Strategy and Information Disclosure

The Company’s CEO and the Supervisory Board are responsible for the implementation of the principle of a public performance of public enterprises by way of informing the general public in the timely and fully manner about the operation, business, development and other circumstances and events which affect the security of supply of consumers with electric power.

Communication activities are based on familiarizing stakeholders and employees with the mission, vision, values and strategy, with the aim of building and strengthening the Company's reputation. Communication takes place according to the principle that the messages reach the target audiences in controlled in time manner and in the desired form via established channels of communication and that they are properly understood.

On its website ELES publishes its annual business report and any information in accordance with the Law on Access to Public Information.

Protecting the Interests of Employees in the company

ELES recognizes that business success and ambitious goals can only be achieved with motivated and satisfied employees; hence, a positive climate, job satisfaction and family-friendly company are generated among employees.
In accordance with the international standards and in the context of social responsibility, ELES is a recipient of the certificate "Family Friendly Company" for better reconciliation of work and private life.

ELES offers jobs in the domestic and international environment and enables the education, professional and personal development for all professional – technical areas, which the Company manages taking into account the needs of the working process.

ELES provides conditions for the participation of employees in the Company's management through the Works Council. The Council has two representatives on the Company' Supervisory Board by way of which – together with the trade union – they can participate in the management of the Company. The Company's CEO regularly attends the sessions of the Works Council, while the employees can communicate with the CEO formally and informally at various event and social gatherings, as well as via internal e-mail. In this way, the Company's employees are given the opportunity to express their views, ideas and opinions.

ELES ensures that its employees are guaranteed a minimum law and Constitution prescribed standards of behaviour regarding the prevention of discrimination and tampering with the personality and dignity of employees.

**Final Provisions**

The Management Policy shall enter into force on the day of adoption and means a description of the existing method of managing the Company, which will remain in force until its amendment. As regards the adoption and content of the Policy the interested public is informed publicly in Slovenian and English language on the ELES' website.

Date: 24.10.2016

Aleksander Mernar, M.Sc.  
CEO

Andrej Prebil  
Chairman of the Supervisory Board