

**ANNUAL REPORT -  
MANAGEMENT OF  
CAPITAL ASSETS  
OF RS AND SSH  
for 2023**

SSH's Report to the  
National Assembly of RS

3



# ANNUAL REPORT

## **MANAGEMENT OF CAPITAL ASSETS OF RS AND SSH FOR 2023**

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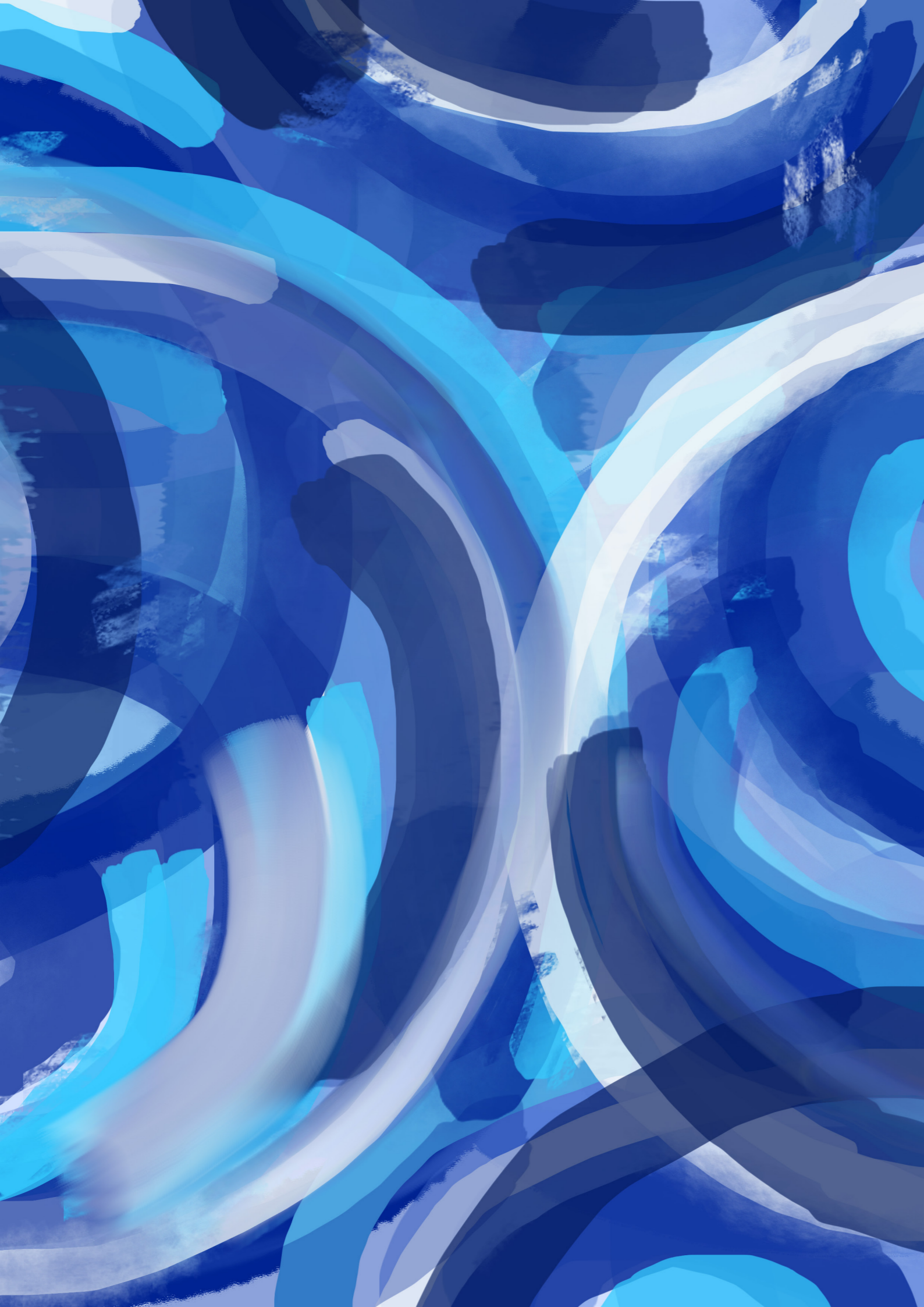
The State is an important owner of enterprises in Slovenia. As such, it has an extraordinary responsibility to be an active and professional owner.

The overarching objective of state-owned companies managed by SSH is effective, profitable, economical operation, while creating value. Often, this includes the effective implementation of strategic and development objectives, often carried out within the scope of individual services of general economic interest. This must be achieved in a sustainable manner, with a responsible attitude towards society and the natural environment, and through responsible management.

Reporting to the National Assembly is important for transparency and accountability of the asset manager to the public and is also recommended by OECD guidelines.

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# INTRODUCTION

# KEY FINANCIAL AND NON-FINANCIAL HIGHLIGHTS FOR 2023 ON MANAGEMENT OF ASSETS OWNED BY RS AND SSH

## MANAGEMENT OF PORTFOLIO OF CAPITAL ASSETS OWNED BY RS AND SSH

7.3 %

Expected ROE of the RS and SSH portfolio for 2023 as stated in Annual Asset Management Plan

10.1 %

ROE of RS and SSH portfolio in 2023 amounted to



383.9 mio EUR

The targeted sum of dividends paid out from RS and SSH Portfolio in 2024 (for FY 2023), as stated in Annual Asset Management Plan

487.1 mio EUR

Total sum of dividends paid to RS (and ZPIZ) and SSH in 2024 (FY 2023)



12.2 bn EUR

Book-value of assets owned by RS and SSH as at 31 December 2023

84

The number of active portfolio companies in which capital assets are held by RS and SSH:



30.1 % ♀ 69.9 % ♂

Gender diversity of supervisory bodies in the RS and SSH portfolio of capital assets (4 percentage point improvement in the under-represented gender ratio compared to 2022)

28.0 % ♀ 72.0 % ♂

Gender diversity of management bodies in the RS and SSH portfolio (3.5 percentage point improvement in the under-represented gender ratio compared to 2022)



## MANAGEMENT OF PORTFOLIO OF CLAIMS

52.2 mio EUR

Inflows from claims management in 2023

203.5 mio EUR

Book (fair) value of claims as at 31 December 2023

## MANGEMENT OF PORTFOLIO OF TANGIBLE FIXED ASSETS

20.7 mio EUR

Inflows from tangible fixed assets management in 2023

94.3 mio EUR

Book value (at cost or realizable value) of tangible assets as at 31 December 2023 (estimated market value amounts to EUR 158.8 million)

## LETTER BY THE MANAGEMENT BOARD

The year 2023 was a year of challenges, opportunities, and significant achievements for Slovenian Sovereign Holding (SSH) and the companies in the portfolio it manages. Economic conditions, both globally and especially in Europe, have tightened considerably in recent months. Numerous risks and a volatile business environment, including escalating tensions and conflicts in the Middle East, alongside the prolonged war in Ukraine, have slowed economic recovery among Slovenia's key trading partners. This has also affected the performance of export-oriented companies with state capital assets.

### Performance of SSH and Portfolio Companies in 2023

The return on equity (ROE) of capital assets under SSH's management reached 10.1%, the highest since the company's establishment in 2014. This result exceeded the planned return for 2023 by 2.8 percentage points, against a target of 7.3% set in the Annual Asset Management Plan (AAMP).

A key focus of our capital asset management is the implementation of a sound dividend policy. Through this, SSH seeks to maximise returns for the owner while balancing the performance of individual companies in the portfolio with their developmental needs. In 2023, dividend payments by the companies within the SSH's portfolio totalled EUR 175.5 million. Of this, RS and ZPIZ received EUR 122.3 million, and SSH received EUR 52.2 million in dividends. These payouts exceeded the projected target of 7.9 percent (EUR 162.6 million).

In 2024, dividend payouts for the financial year 2023 are expected to total EUR 487.1 million, surpassing the forecast of EUR 383.9 million for the year by 26.9 %. The majority of dividends will be contributed by companies from the Energy pillar (56.5%), followed by the Economy pillar (19.6%). The Finance pillar will contribute 18.4% of the total dividends, the Transport pillar 4.9%, and the Tourism pillar 0.6%. The top six dividend payers will together account for 81.5% of total dividends.

At the end of 2023, the total value of capital assets under SSH's management stood at EUR 12.2 billion, reflecting an increase of EUR 1.0 billion compared to the end of 2022 (EUR 11.2 billion).

The fair value of financial claims under management was EUR 203.5 million at the end of 2023, while the book value of tangi-

ble assets, mostly comprising real estate, was EUR 94.3 million, with an estimated market value of EUR 158.8 million.

The high return was largely driven by the exceptional performance of the Energy pillar, particularly the HSE and GEN Groups. By the end of 2023, HSE had returned EUR 342 million in subsequent capital payments to the Republic of Slovenia, with the remaining amount scheduled for return in 2024, as planned during the share capital increase. This confirms that SSH, as a diligent asset manager, acted swiftly and effectively in light of the company's challenging circumstances, thereby ensuring the company's continued operations and preserving the value of the Republic of Slovenia's investment in HSE.

All major companies within the Transport pillar exceeded their planned results for 2023. The banks within the Finance pillar performed significantly above expectations, and despite slightly lower results from the insurance companies, the overall results of the pillar were strong and above projections. The Economy and Tourism pillars also delivered results that surpassed planned targets in 2023.

### Intensified Focus on Corporate Governance Development

One of SSH's primary objectives is to strengthen the culture of good corporate governance in companies with state capital assets. In 2023, we significantly revised and supplemented the regulations governing this area, including the Rules on the Assessment of Potential Candidates for Members of Supervisory and Management Bodies of SOEs. Additionally, we updated the SSH Code to enhance business transparency, accountability of office holders, and stakeholder confidence.

We have also updated the SSH Recommendations and Expectations with the introduction of a new Recommendation No. 14, which provides detailed guidance on compliance and integrity within companies where SSH holds a majority stake or exercises dominant influence. SSH continues to monitor, and will in future continue to oversee, the implementation of the SSH Code, along with its Recommendations and Expectations, in companies with state capital assets.

The core objectives of SSH remain the strengthening of risk management and internal control functions, ensuring business

transparency, and the integration of ESG factors and sustainable business models.

In response to the devastating storm in August 2023, SSH acted swiftly, calling on all companies with state capital assets to assess the damage and risks. SSH also updated its Recommendations and Expectations, allowing greater flexibility for sponsorships and donations aimed at addressing the consequences of natural disasters. Furthermore, in line with emergency legislation, SSH transferred its entire 2023 net profit, totalling EUR 78.9 million, to the state budget fund for post-flood and landslide recovery efforts.

**Janez Tomšič**, Member of SSH Management Board

**Žiga Debeljak, MSc**, President of SSH Management Board

Our achievements mirror the effective work and commitment of all employees. Together, we have achieved our planned goals, stemming from our collective expertise and knowledge. We assure that SSH will continue to incorporate all key topics of sustainable business into its asset management-related activities, supporting a successful transition essential for the long-term competitiveness and value of companies within our portfolio.



ON MANAGEMENT OF  
CAPITAL ASSETS HELD  
BY RS AND SSH

# 1 PRESENTATION OF SLOVENIAN SOVEREIGN HOLDING

SSH is the umbrella manager of capital assets of the State. Its comprehensive and diversified portfolio includes various sectors, specifically: energy industry, manufacturing, Insurance business, banking sector, traffic, transport and infrastructure, general economic sector and tourism as well as other branches of industry. The management of state capital assets is SSH's core business. With the merger of BAMC on 30 December 2022, SSH acquired two new activities, specifically, tangible fixed asset management, and claims management.

SSH was established on 26 April 2014 by transforming SOD when the Act entered into force regulating its establishment, status, tasks, asset management related and some other relevant matters ( ZSDH-1). SSH continues to exercise all powers,

responsibilities, rights and obligations which used to be held by SOD. SSH as a liable party to proceedings takes part in proceedings for determining compensation for nationalised assets and provides for regular settlement of liabilities arising from denationalised assets. In the capacity of the holder of public powers on behalf of and for the account of the Republic of Slovenia, SSH runs procedures for the issue of decisions on the compensation amount and settles liabilities under the following laws: ZSPOZ and ZIOOZP.

The sole founder and shareholder of SSH is the Republic of Slovenia. SSH operates as a public limited company with rights, liabilities and obligations stipulated by ZGD-1, ZSDH-1, ZSOS and other laws and the Articles of Association of SSH.

## COMPANY DETAILS - SIGNIFICANT DATA

COMPANY DETAILS - SIGNIFICANT DATA		
<b>Company name:</b>	Slovenian Sovereign Holding d. d.	
<b>Registered office:</b>	Ljubljana	
<b>Business address:</b>	Mala ulica 5, 1000 Ljubljana	
<b>Telephone No.:</b>	+386 1 300 91 13	
<b>Web site and e-mail:</b>	www.sdh.si, info@sdh.si	
<b>Activity code of core business:</b>	K 64.990	
<b>VAT ID:</b>	SI46130373	
<b>Registration No.:</b>	5727847000	
<b>Transaction Accounts:</b>	SI56 0291 3001 6492 958 held by NLB	
<b>Date of legal entity's establishment:</b>	19 February 1993	
<b>Date of SSH's incorporation:</b>	26 April 2014	
<b>Date of company transformation from SOD into SSH:</b>	11 June 2014	
<b>Date of merger of BAMC with SSH:</b>	30 December 2022	
<b>Registered legal form:</b>	Public limited company registered before Ljubljana District Court, under the Reg. Entry No. 1/21883/00	
<b>Share capital as at 31 December 2022:</b>	EUR 301,765,982.30	
<b>No. of employees as at 31 December 2022:</b>	124	
<b>Membership in other organisations:</b>	Directors' Association of Slovenia, Association of Employers of Slovenia, Chamber of Commerce and Industry of Slovenia, CER- Sustainable Business Network	
<b>Management Board:</b>	Žiga Debeljak, MSc, President of SSH Management Board, Janez Tomšič, Member of SS Management Board.	
<b>Members of Supervisory Board:</b>	Suzana Bolčič Agostini, President, Franjo Bobinac, Deputy President, Ivan Simič, MSc, Member, Miro Medvešek, Member.	

### Members of the SB's Audit Committee:

Ivan Simič, MSc, President,  
Suzana Bolčič Agostini, Member,  
Darinka Virant, External Member.

### Members of the SB's Risk Committee:

Miro Medvešek, President,  
Franjo Bobinac, Member  
Darinka Virant, External Member

### Members of Nomination Committee:

Samo Roš, President,  
Urška Podpečan, Deputy President,  
Vlasta Lenardič, Member.

### Members of ECESA:

Zdenko Lorber, President (the Slovenian Union of Alternative Trade Unions of Slovenia),  
Saša Klara Kumer, Deputy President (the Association of Free Trade Unions of Slovenia),  
Evelin Vesenjak (the Confederation of new Trade Unions of Slovenia Independence)  
Albert Pavlič (Association of Workers Trade Unions of Slovenia – Solidarity),  
Jakob Počivavšek (Pergam Confederation of Trade Unions),  
Branimir Štrukelj (Confederation of Slovenian Public Sector Trade Unions),  
Damjan Volf (Trade Unions Confederation 90 of Slovenia).

## 1.1 SSH VISION, MISSION, AND VALUES

### Vision

Generating value for the owner from capital assets.

### Mission

The Slovenian Sovereign Holding was established with the purpose of providing a concerted, transparent, and independent management of the State's capital assets.

SSH also exercises powers, rights, and obligations of SOD related to settling obligations to beneficiaries under various laws and manages assets, especially real estate and claims, transferred from BAMC.

### SSH Values

The values underpinning the functioning of SSH are interlinked, giving the basis for activities pursued by SSH:



**INTEGRITY AND LEGALITY**



**TRUST AND RESPECT**



**ROLE MODEL LEADERSHIP, AUTONOMY**



**OBJECTIVITY AND IMPARTIALITY**

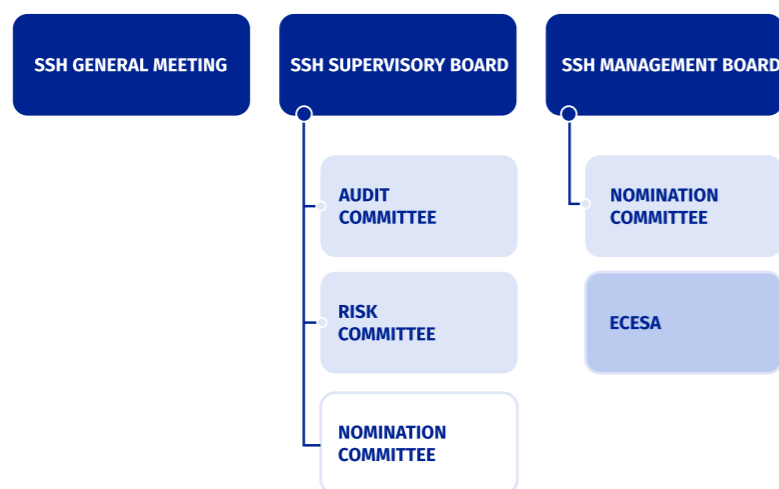


## 1.2 LEGAL FORM AND ORGANISATIONAL STRUCTURE OF SSH

Slovenian Sovereign Holding holds the status of public limited company with a two-tier management system. It has four bodies: the General Meeting, the Supervisory Board, the Management Board, and the Expert Committee for Economic and Social Affairs (hereinafter referred to as: "ECESA"). The founder and sole shareholder of SSH is the Republic of Slovenia (hereinafter referred to as: "RS"). The powers and duties held by the SSH General Meeting are carried out by the Government of the Republic of Slovenia. The SSH Supervisory Board consists of five members who are all appointed by the National Assembly of the Republic of Slovenia upon a proposal by the Government of the Republic of Slovenia. According to ZSDH-1, the SSH Management Board consists of the President and up to two members. The President and two members are appointed by the SSH

Supervisory Board. The Expert Committee for Economic and Social Affairs is a seven-member consultation body of the SSH's Management Board. Its members are appointed by the Slovenia's representative trade unions and confederations who are members of the Economic and Social Council. Their appointment is approved by the SSH Management Board. There are two committees operating within the SSH Supervisory Board: Audit Committee and the Risk Committee. The Nomination Committee is formed for the purpose of appointing members of the SSH Management Board. Within the SSH Management Board, two consultative bodies are in operation: first, ECESA, which holds the status of a SSH body in accordance with an explicit statutory provision and the provision stated in the SSH Articles of Association, and secondly, the Nomination Committee.

### SCHEME: THE COMPANY'S BODIES AND THEIR WORKING AND CONSULTATION BODIES



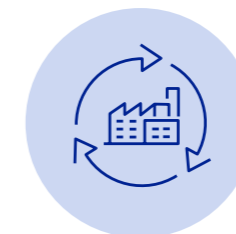
## 1.3 ACTIVITIES OF SSH

The core activity of SSH is managing capital assets of the Republic of Slovenia and SSH. A brief overview of all SSH activities is outlined below.



### MANAGEMENT OF STATE CAPITAL ASSETS

Acquiring and disposing of capital assets in accordance with the Annual Asset Management Plan, as well as exercising shareholder or partner or founder rights.



### MANAGEMENT OF CLAIMS

Acquiring and disposing of SSH claims and other forms of their management, including the engagement in restructuring of companies.



### MANAGEMENT OF TANGIBLE ASSETS

Disposing of real estate and movable property owned by SSH and other forms of their management.



### DENATIONALISATION AND SETTLEMENT OF LIABILITIES

Participation in procedures under the Denationalization Act (ZDen) to determine compensation for expropriated property and settling liabilities on behalf of and for the account of SSH.

Settlement of liabilities under the following Acts: ZSPOZ, ZIOOZP and ZVJTO on behalf of and for the account of the Republic of Slovenia.

## 1.4 INTERNAL ORGANISATION OF SSH

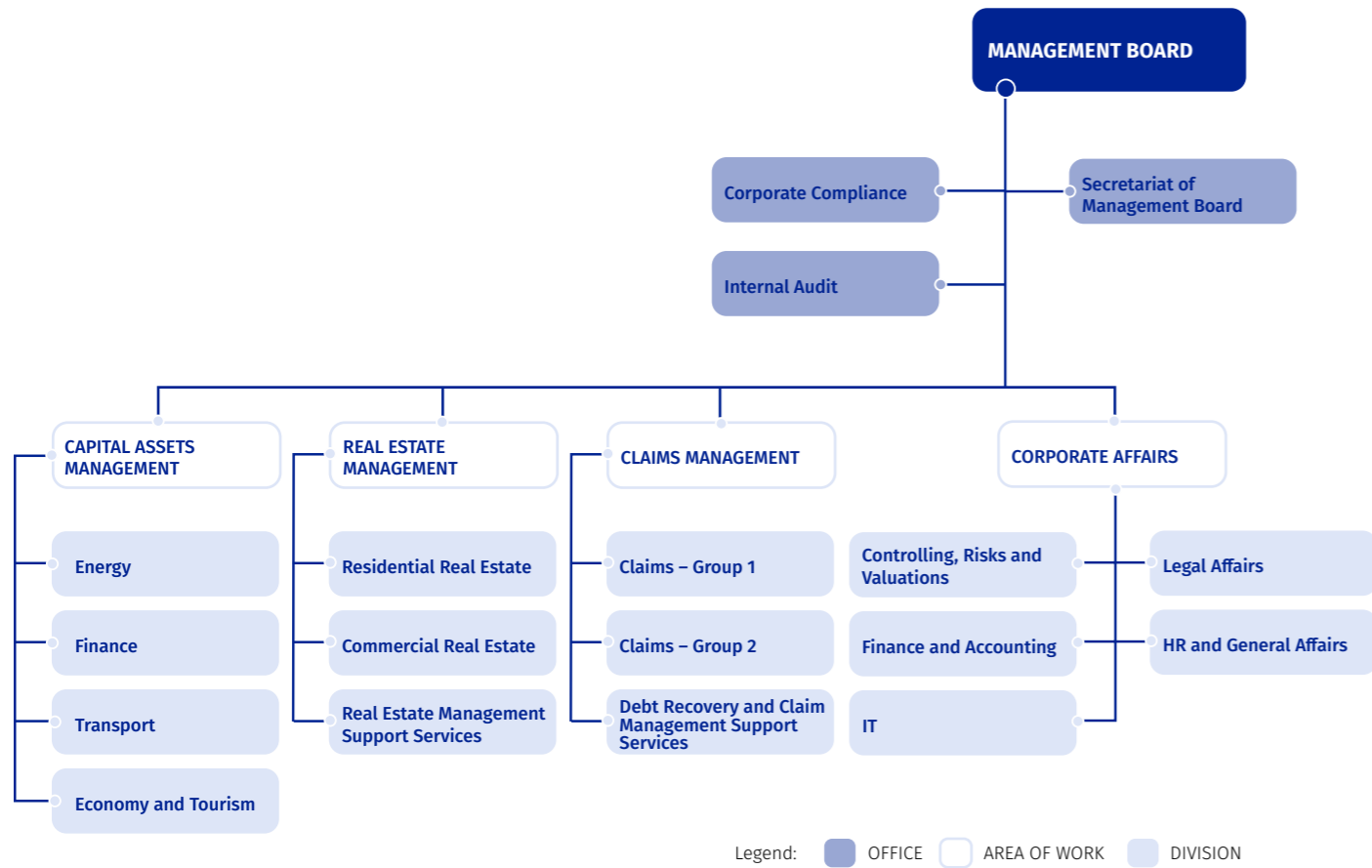
At the beginning of 2023, a new organizational structure was adopted to reflect the fact that, following the merger with BAMC, SSH also acquired responsibilities related to managing claims and tangible fixed assets.

The organization of SSH has undergone significant changes due to the merger with BAMC. These changes include the addition of new areas of operation, an increase in the number of employees, and expansion to additional operating location.

SSH is run by the Management Board, the composition of which is defined by ZSDH-1 and the Company's Articles of Association. Since September 2022, the Management Board has been composed of the President and one member. Following

the merger with BAMC, the work areas have been restructured into four broader areas, encompassing capital assets, real estate management, claims management, and corporate affairs, which now includes support sectors. The Corporate Compliance department, Internal Audit department, and the Secretariat of the Management Board are positioned independently from the core business areas, led by directors who report directly to the Management Board. The areas of property management and claims management are led by Executive Directors, while the areas of capital assets and corporate affairs do not have designated Executive Directors. These functions are organised into sectors, each overseen by Directors. For a more detailed organizational chart, please refer to the Company's organogram.

FIGURE: SSH'S ORGANISATIONAL STRUCTURE AS OF 31 DECEMBER 2023

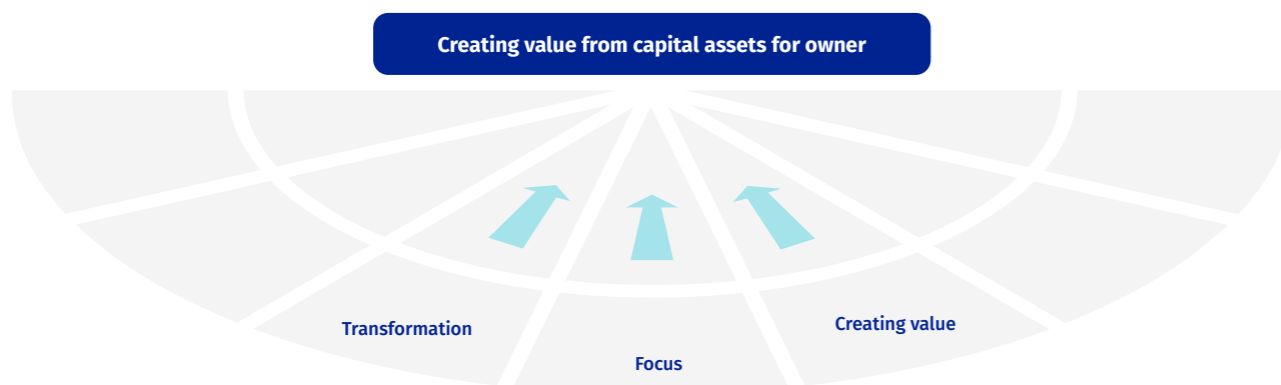


## 1.5 SSH STRATEGIC POLICIES AND GOALS

Strategic policies are directions selected for coming close to the SSH vision in the next long-term period. They are the foundation for defining the operation of SSH as an integrated or-

ganisation with a duty to manage capital assets and perform other tasks.

FIGURE: SSH VISION AND STRATEGIC POLICIES



### Transformation

The transformation is the first direction and the first step which lays down the foundations for achieving the vision. The main factors of the first direction include:

- implementation of key strategic projects in regard to state assets management;
- restructuring of state assets under management;
- upgrading the operational model of SSH's functioning;
- providing for the professional competence and expertise in management and increasing the culture of corporate governance in SSH and companies managed by SSH.

### Focus

The focus is the second direction which will ensure the orientation of sources and energies into such factors which will bring the highest value for the owner of assets. The main factors included in the said second direction comprise:

- stabilising the capital assets portfolio;
- increasing and taking the advantage of synergies within the portfolio of state assets;
- risk and opportunity management;
- timely implementation of measures adopted by SOEs to align their operations with a potential downturn.

### Creating Value

Creating value is the vision and the main direction in the operation of SSH. The main impetus of this direction include:

- increasing the equity value of companies under management, ROE and ROI;
- achieving the state's strategic objectives in alignment with the State Asset Management Strategy and Annual Asset Management Plan;
- efficient management of strategic state assets;
- implementing activities for developing and improving the environment, in which SSH operates;
- addressing the sustainability issues in the operations of SOEs.

### SSH's Objectives Related to Management of Assets Owned by RS and SSH

The ultimate objective of state-owned companies under the SSH management is effective, profitable, economical operation, creation of value, and efficient management of services of general economic interest. This must be achieved by means of a

balanced, stable and sustainable development of enterprises from the economic, social and environmental aspects.

In accordance with ZSDH-1 and Capital Asset Management Strategy, the objectives in asset management vary depending on the classification of the company and state assets as strategic, important, or portfolio assets. All assets owned by SSH and RS are classified into one of three groups of assets with equal or similar characteristics, realising the same or similar goals. For strategic and important assets, the objectives are to fulfil significant societal interests, such as ensuring an adequate level and accessibility of infrastructure, delivering public services, achieving security goals, and advancing other key social interests.

A fundamental aim is also to preserve essential developmental factors within the country and to pursue development priorities and objectives as outlined in the Republic of Slovenia's strategic documents. In contrast, for portfolio assets, the aim is to enhance the value of the investment and to achieve the highest possible returns for the shareholders.

### Key goals pursued by SSH in managing SOEs are as follows:

- efficient, prudent, transparent and responsible management of capital assets, in accordance with the provisions of ZSDH-1;
- attaining strategic, economic and financial as well as other objectives of companies as defined in the State Assets Management Strategy, in every Annual Asset Management Plan, and ultimately, the goals which are set for SSH by the RS Government on an annual basis;
- continuously improving the efficiency of operation of the portfolio companies;
- increasing their value of capital and their return on equity (ROE) of portfolio companies.

### Key goals pursued by SSH in managing claims and tangible fixed assets are as follows:

- increasing the value of claims and tangible assets through appropriate management activities and achieving proceeds planned.

The objectives of SSH as a business entity are presented in the annual report, prepared in compliance with the Companies Act (ZGD-1).

## 2 SUPERVISORY BOARDS AND CANDIDACY PROCEDURES

One of the key ownership levers of corporate governance is the right and the duty of owners to appoint independent professionals to the supervisory bodies of companies who oversee

the work carried out by management boards of companies in a responsible manner while cooperating with the boards in their governance.

### 2.1 ELIGIBILITY CRITERIA FOR MEMBERS OF SUPERVISORY BOARDS OF SOEs

Members of supervisory bodies must satisfy two categories of requirements: **those prescribed by ZSDH-1, and additional internal criteria.** The statutory criteria outlined in Article 21 of ZSDH-1 are summarised in the scheme below.



In addition to **statutory requirements** (set by ZSDH-1, as well as the Companies Act [ZGD-1], the Integrity and Prevention of Corruption Act [ZintPK], and other legislation governing specific regulated sectors), all potential candidates for supervisory boards must meet these conditions to qualify for accreditation. SSH has further specified **supplementary criteria** in its internal policies, including:

- formal education;
- corporate governance experience (supervisory, managerial, and specific governance experience);
- professional competencies (defined competencies according to relevant fields);
- personal integrity (as assessed by the Nomination Committee); and
- successful completion of an online examination in corporate governance for candidates.

In May 2023, SSH revised its SSH Asset Management Policy and adopted new Rules on the Assessment of Potential Candidates for Members of Supervisory and Management Boards of SOEs, which tightens the candidacy requirements for supervisors in more complex business systems.

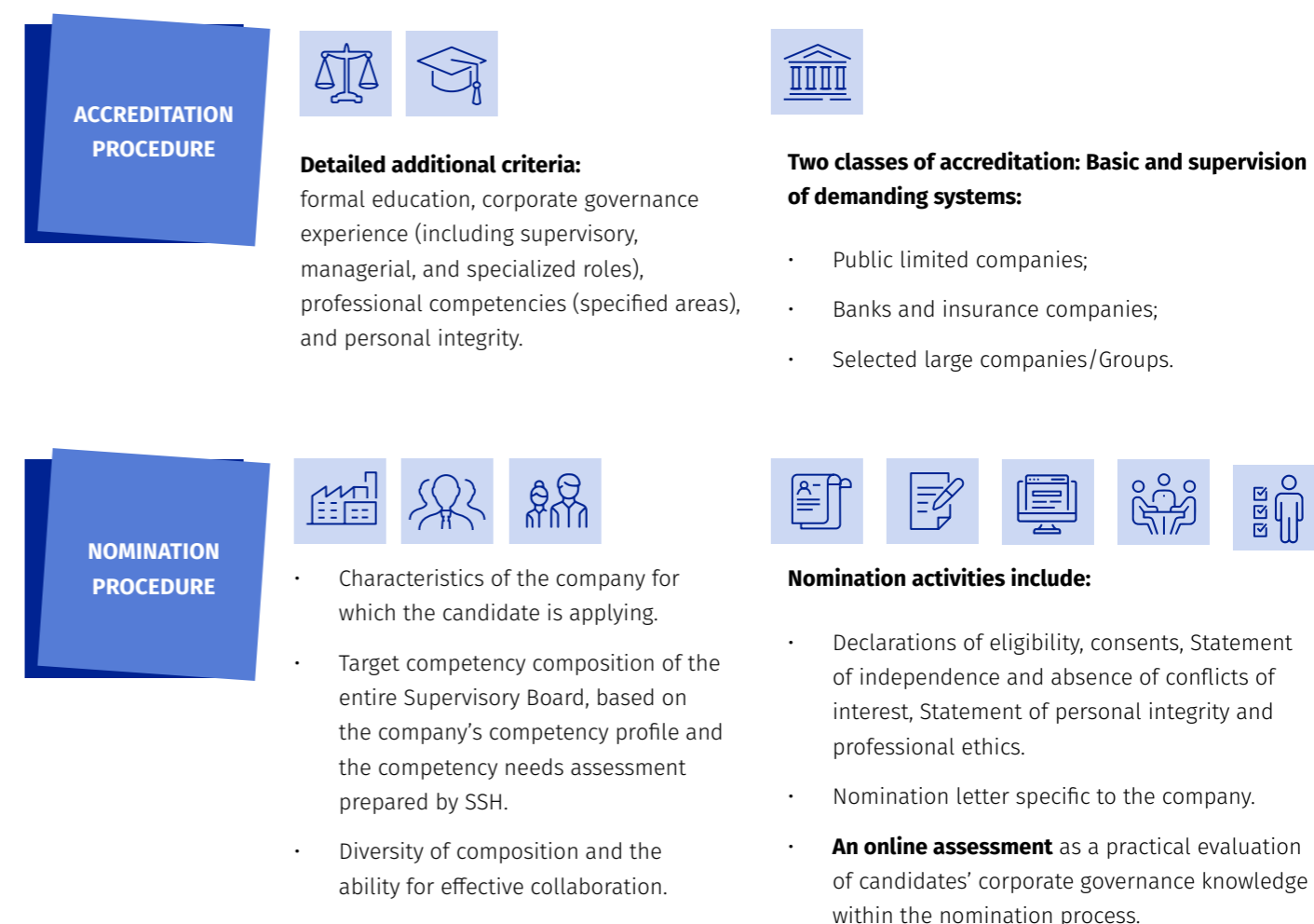
The revised Rules set out the criteria, standards, and process for evaluating and determining the suitability of prospective candidates for members of supervisory and management bodies of SOEs, in accordance with the provisions of the Slovenia Sovereign Holding Act (ZSDH-1) and the SSH Asset Management Policy. Alongside the updated SSH Asset Management Policy, this regulation represents a significant step towards a more

transparent framework for personnel procedures, which are now clearly defined, and imposing stricter eligibility standards, especially for candidates for supervisory boards of companies designated as “highly demanding systems” from a corporate governance perspective (public companies, banks, insurance companies, and larger economic groups of companies).

*This fully updated approach to the accreditation and nomination of candidates for supervisory board positions is expected to improve the quality of corporate governance.*

### 2.2 CANDIDACY PROCEDURE

The principal changes in the **candidacy procedure** are outlined in the diagram below.



The Nomination Committee undertakes a structured interview with candidates who have successfully passed the knowledge assessment, providing descriptive evaluations within a nomination report. Furthermore, the SSH Management Board conducts an interview with all short-listed candidates for supervisory

positions in highly demanding systems, provided they have received a suitable rating.

## 2.3 VOTING AT COMPANY GENERAL MEETINGS

One of the responsibilities of SSH is to ensure that the composition of **supervisory boards is diverse and heterogeneous** and to uphold robust oversight of supervisory board activities in SOEs. In accordance with Article 21 of ZSDH-1, SSH is required to vote at General Meetings of companies in a manner

that ensures the appointment of specialists in finance, corporate governance, business operations, and other relevant areas to supervisory boards. This approach is designed to provide effective oversight aligned with the company's sector, scale of operations, and other key characteristics.

### SCHEME: TARGETED PROFILE OF EXPERTS FOR SUPERVISORY BOARDS



## 2.4 ABOUT SSH'S NOMINATION COMMITTEE

The Nomination Committee is a consultation body to the SSH Management Board, which, based on the ZSDH-1, SSH Asset Management Policy, and Rules on the Assessment of Potential Candidates for Members of Supervisory and Management Bodies of SOEs carries out procedures for recruiting candidates for members of supervisory bodies of SOEs, as well as procedures for their accreditation and nomination.

The Nomination Committee is composed of three members: an expert in corporate governance, an expert in the functioning of bodies of supervision as well as an expert in HR management. The members of the Nomination Committee are appointed by the SSH Management Board for a four-year term of office.

## 2.5 WORK PERFORMED BY NOMINATION COMMITTEE IN 2023

In 2023, the SSH Nomination Committee comprised the following members: Samo Roš, President of the Nomination Committee and expert in supervisory board operations; Urška Podpečan, Deputy President of the Nomination Committee of and specialist in corporate governance; and Vlasta Lenardič, Committee Member and specialist in human resources management.

During 2023, the mandates of 56 members of supervisory bodies and 10 members of management bodies in state-owned enterprises expired, with 51 of these members being replaced prematurely.

The SSH Nomination Committee convened 57 regular meetings and held one meeting by correspondence in 2023. At regular meetings, it considered 135 candidates in the context of 59 nomination procedures for 42 different SOEs, of which 116 were assessed as adequate.

During these procedures, the Nomination Committee considered candidates for members of the supervisory bodies and candidates for the managerial posts, specifically:

### – candidates for members of supervisory bodies of the following companies:

Adria Ankarana, d. o. o., D.S.U., d. o. o., DARS, d. d., DRI upravljanje investicij, d. o. o., Elektro Celje, d. d., Elektro Gorenjska, d. d., Elektro Ljubljana, d. d., Elektro Maribor, d. d., Elektro

Primorska, d. d., Farme Ihan – KPM, d. o. o., Geoplin, d. o. o., HIT, d. d., Infra, d. o. o., Istrabenz turizem, d. d., KOPP, d. o. o., KOTO, d. o. o., Krka, d. d., Loterija Slovenije, d. d., Mladinska knjiga Založba, d. d., NLB, d. d., Plinhold, d. o. o., Plinovodi, d. o. o., Pošta Slovenije, d. o. o., RTH, d. o. o., Trbovlje - in liquidation, SiDG, d. o. o., SIJ, d. d., Slovenske železnice, d. o. o., Talum, d. d., Thermana, d. d., Unior, d. d., VGP, d. d., and Zavarovalnica Triglav, d. d.;

### – candidates for managerial posts of the following companies:

Avtotehna Zagreb, d. o. o., BR89, projektna družba, d. o. o., Factor Projekt d. o. o., FUNDUS, d. o. o., Beograd – v likvidaciji, Geoplin, d. o. o., HYUNDAI AUTO BEOGRAD, d. o. o., KZPS, d. o. o., MEJA Šentjur, d. d., Nafta – varovanje in požarna varnost, d. o. o., Poslovni sistem Domina DOO, Beograd, and Sklad turističnih naložb, d. o. o.

In 2023, the SSH Nomination Committee conducted most of its regular meetings via video conference. The Committee's operations are digitalised to the greatest extent possible. Candidates interested in joining supervisory or management bodies of state-owned enterprises may apply to the register of potential candidates digitally via the SSH Nomination Committee Portal. To apply, candidates should visit <http://kk.sdh.si/>, where they can register and submit their application for accreditation, along with all required supporting documents.

## 2.6 EDUCATIONAL AND OTHER MEETINGS FOR SUPERVISORS AND DECISION-MAKERS OF PORTFOLIO COMPANIES

As part of its activities to update the skills and improve the quality of the work of the members of the Supervisory Boards, SSH focused on the strategic themes of **sustainability, risk, new technologies and integrity**. It organised the following training sessions:

- Holistic Approach to Risk Management;
- Impact of Implementing CSRD on Future Performance of Companies;
- Current Issues of Compliance and Integrity in SOEs;
- The Impact of AI on Business Operations in Future,

- Employee Mental Health as Business Imperative: how to create a successful and healthy organisation,
- Practical Challenges in Public Procurement from Compliance and Integrity Perspective.

Additionally, SSH facilitated a three-day training programme on Sustainability in Business, which was organised by the Centre of Business Excellence of the University of Ljubljana, Faculty of Economics, offering complimentary attendance to all relevant portfolio companies. Furthermore, in cooperation with the Commission for the Prevention of Corruption, SSH extended invitations to portfolio companies to participate in a significant

event titled "Whistleblowers as Key players in Integrity Society" during the Prevention of Corruption Week. This partnership underscores the importance of joint efforts to bolster integrity within the SOEs' portfolio.

**Throughout 2023, SSH continued to convene meetings of Chief Compliance and Integrity Officers from SOEs, where SSH holds a majority stake or exerts dominant influence.** These gatherings aim to facilitate the exchange of professional insights, best practices, and held discussions on common challenges. The meetings also seek to strengthen SSH's advisory role and facilitate joint training initiatives on compliance and integrity.

Topics addressed during these meetings encompassed procedural aspects of managing corruption and unethical conduct risks, insights into the Reporting Persons Protection Act, and necessary procedural adjustments for addressing irregular-



ities and managing conflicts of interest. Moreover, individual companies shared best practices in compliance and integrity, fostering discussions among participants on prevailing issues, innovations, and challenges in this domain.

## 2.7 GENDER DIVERSITY AND PROFILES OF CANDIDATES, MEMBERS OF SUPERVISORY AND MANAGEMENT BOARDS OF PORTFOLIO COMPANIES

Ensuring diversity of membership of supervisory bodies is important to improve the quality of decision-making, as it enables a broader range of perspectives, opinions, experience, perceptions and values. The goal of the Diversity Policy is to achieve better efficiency of a Supervisory Board and the Management as a whole. In 2023, SSH issued an updated public call for members of supervisory bodies in state-owned companies, with a particular emphasis on encouraging female candidates to participate in the SSH accreditation process. This initiative aimed to gradually enhance gender diversity among supervisory board members across the portfolio.

### Proportion of Under-Represented Gender in Register of Candidates

As of 31 December 2023, the Register of Potential Candidates for the Supervisory Boards of SOEs on the SSH Nomination Committee Portal held 604 accredited candidates, of whom **23% were women.**

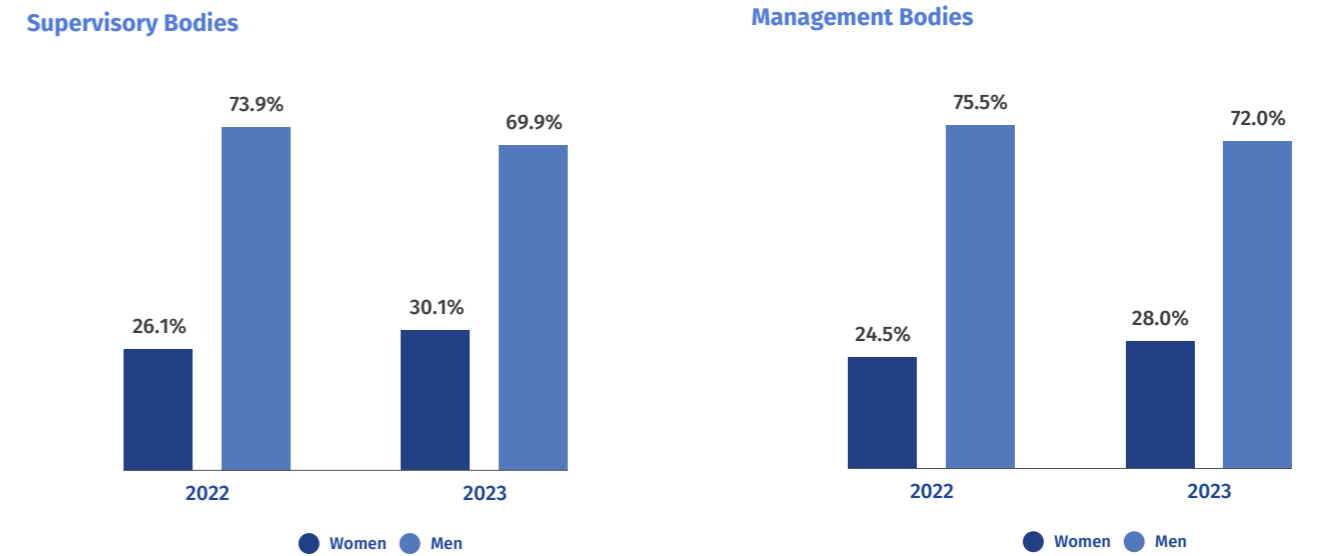
The age groups demonstrating the highest interest in supervisory and management roles were those between 51 and 60

years (39%) and 41 and 50 years (34%), while the candidates from the age group below 40 years represented the lowest interest (8%).

### Gender Diversity in Supervisory and Management Bodies of SOEs

The composition of supervisory and management bodies by gender remained imbalanced in 2023, as in previous years, with men continuing to dominate these bodies. Men continue to strongly prevail in Supervisory and Management Boards, which was also evident in 2023. Gender diversity had shown improvement in favour of women until 2019; however, in 2020, a slight shift back towards male representation occurred. In 2021, 2022, and 2023, the gender balance once again saw slight improvement in favour of women.

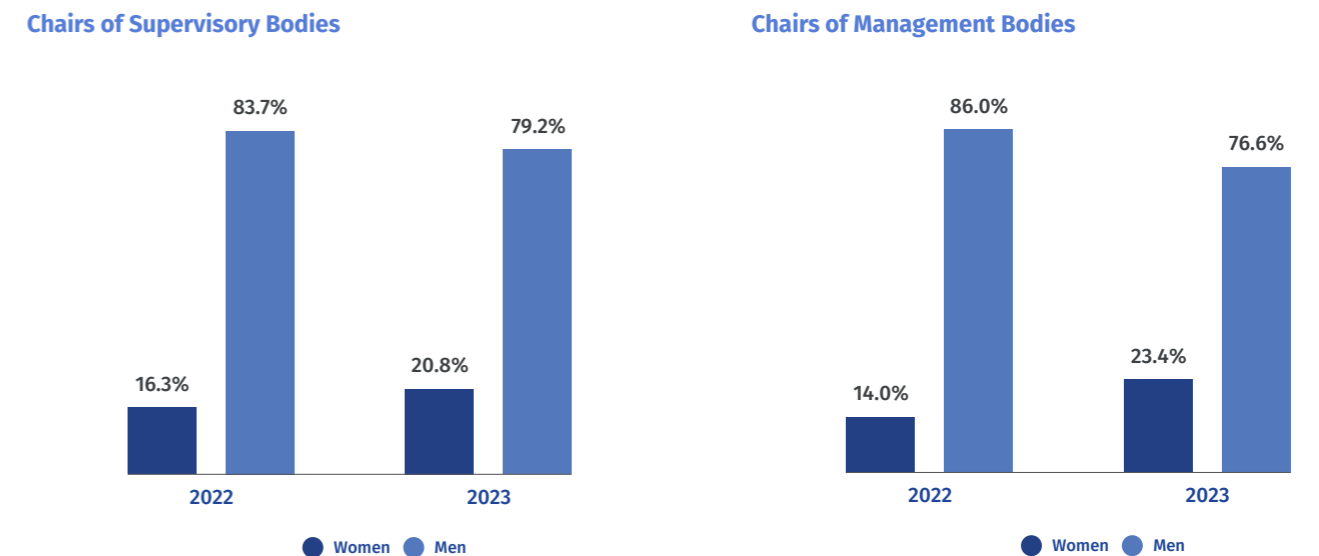
FIGURE: COMPOSITION OF SUPERVISORY AND MANAGEMENT BODIES OF SOES BY GENDER AS AT 31 DECEMBER 2023 (EXCLUDING COMPANIES IN BANKRUPTCY OR LIQUIDATION)



A gender imbalance was also evident within the leadership of supervisory and management bodies, where men predominantly occupied president positions. However, in 2023, the

proportion of women serving as presidents in both supervisory and management bodies saw a slight increase compared to the end of 2022.

GRAPH: CHANGES IN THE GENDER COMPOSITION OF CHAIR POSITIONS IN SUPERVISORY AND MANAGEMENT BODIES OF SOES, COMPARING YEAR-END 2022 AND 2023 (EXCLUDING COMPANIES IN BANKRUPTCY OR LIQUIDATION)



### The Diversified Composition of Supervisory and Management Boards of 20 Largest Companies Owned by RS and SSH by Gender As at 30 June 2023

The above aggregate displays for 2022 and 2023 are supplemented below with current data for the 20 most significant portfolio companies as of 30 June 2024.

Company	Gender diversity in Supervisory Bodies		Gender diversity in Management Bodies		TOTAL Gender diversity in Supervisory and Management Bodies	
	Men (in %)	Women (in %)	Men (in %)	Women (in %)	Men (in %)	Women (in %)
Dars	77.78	22.22	75.00	25.00	76.39	23.61
Elektro Celje	83.33	16.67	100.00	0.00	91.67	8.34
Elektro Gorenjska	100.00	0.00	100.00	0.00	100.00	0.00
Elektro Ljubljana	83.33	16.67	100.00	0.00	91.67	8.34
Elektro Maribor	83.33	16.67	0.00	100.00	41.67	58.34
Elektro Primorska	66.67	33.33	100.00	0.00	83.34	16.67
Gen energija	62.50	37.50	100.00	0.00	81.25	18.75
HSE	66.67	33.33	100.00	0.00	83.34	16.67
KRKA	55.56	44.44	80.00	20.00	67.78	32.22
Luka Koper	88.89	11.11	75.00	25.00	81.95	18.06
NLB	60.00	40.00	83.33	16.67	71.67	28.34
Petrol	88.89	11.11	100.00	0.00	94.45	5.56
Plinhold	33.33	66.67	100.00	0.00	66.67	33.34
Pošta Slovenije	37.50	62.50	50.00	50.00	43.75	56.25
Sava RE	83.33	16.67	75.00	25.00	79.17	20.84
SID banka	83.33	16.67	50.00	50.00	66.67	33.34
Slovenske železnice	77.78	22.22	75.00	25.00	76.39	23.61
Talum	75.00	25.00	100.00	0.00	87.50	12.50
Telekom Slovenije	66.67	33.33	40.00	60.00	53.34	46.67
Zavarovalnica Triglav	62.50	37.50	80.00	20.00	71.25	28.75

## 3 LEGAL FRAMEWORK FOR MANAGING ASSETS OF RS AND SSH AND AMENDMENTS OF ASSET MANAGEMENT RELATED DOCUMENTS IN 2023

In 2023, SSH undertook the following key activities to elevate corporate governance standards within portfolio companies:

- adoption of the Annual Asset Management Plan for 2024 (approved by the Government of the Republic of Slovenia in December 2023);
- revision of the Asset Management Policy;
- update of the Corporate Governance Code for SOEs;
- amendments to the SSH Recommendations and Expectations for SOEs (emphasising compliance recommendations); and
- update of the Rules on assessment of potential candidates for members management and supervisory bodies of SOEs.

### 3.1 THE FRAMEWORK OF FUNCTIONING FOR SOEs

	Publicly traded SOEs	Non-publicly traded SOEs	Single-person companies
<b>LEGAL FRAMEWORK FOR THE ORGANISATION OF THE CORPORATE STRUCTURE (AS A CONDITION FOR CONDUCTING BUSINESS ACTIVITIES)</b>	ZGD-1, ZBan-3 (banks), ZZavar-1 (insurance companies) Articles of Association	ZGD-1, special legislation, Articles of Association, Partnership Agreement	ZGD-1, special legislation, Articles of Incorporation (or Articles of Association in the case of PLC)
<b>RELEVANT CORPORATE GOVERNANCE CODES</b>	Corporate Governance Code for SOEs – only selected recommendations marked JDD Corporate Governance Code for Listed Companies	Corporate Governance Code for SOEs Corporate Governance Code for Non-Publicly Traded Companies (for companies liable to carry out audit review)	Corporate Governance Code for SOEs
<b>GOALS AND ASSIGNMENTS</b>	increasing the return and value of a company in the long term  (exceptionally, also non-financial objectives, particularly if the company qualifies as public based on a public bond issuance, e.g., DARS)	increasing the return and value of a company in the long term  carrying out other tasks and duties defined by the laws and Articles of Association or Partnership Agreement, which may be of a non-financial nature	increasing the return and value of a company in the long term  other tasks and duties stipulated by the law and Articles of Incorporation

For SOEs in which the state or SSH holds a majority stake or exercises dominant influence, specific laws apply alongside general legislation (e.g., the Companies Act [ZGD-1], the Financial Operations, Insolvency Proceedings, and Compulsory Dissolution Act [ZFPPIPP]). Examples include the Act Governing the Remuneration of Managers of Companies with Majority Ownership held by the Republic of Slovenia or Self-Governing Local Communities, the Transparency of Financial Relations

and Maintenance of Separate Accounts for Different Activities Act, and ZSDH-1. Certain provisions of ZSDH-1 are notable for companies where SSH holds a majority stake or dominant influence: under Article 60, Paragraph 9, these companies must adhere to restrictions on transactions with related parties; Article 62 requires asset monitoring for members of management and supervisory bodies by the Commission for the Prevention of Corruption (KPK); Article 64, Paragraph 2 imposes additional

disclosure obligations on these companies; and Article 71 subjects them to oversight by the Court of Audit of the Republic of Slovenia.

Depending on their legal organisation, Articles of Association, type of activities, size, number of employees, whether their se-

curities are listed on a stock exchange, presence on international markets, etc., companies are also obliged to comply with all other relevant laws and European legislation in the course of their business.

## 3.2 CORPORATE GOVERNANCE SYSTEM FOR STATE-OWNED ENTERPRISES – LEGAL FOUNDATIONS, GOVERNANCE DOCUMENTS, AND AMENDMENTS IN 2023

*SSH manages state assets in compliance with the Slovenian Sovereign Holding Act (ZSDH-1), the Companies Act (ZGD-1), other applicable laws and regulations, companies' founding acts, and governance documents, observing the company's legal structure and best practices in corporate governance. When pursuing its asset management activities, SSH adheres to the limits of corporate governance and the authority of the management and supervisory bodies of companies under management, as stipulated by Article 20 of ZSDH-1.*

The primary legal act regulating the SSH's management of capital assets is the Slovenian Sovereign Holding Act (ZSDH-1). A central responsibility of SSH is to contribute to and support the advancement of the corporate governance system for state-owned enterprises. This system is based on governance documents, publicly accessible to provide transparency and predictability within the system and ensures SSH's responsibility for the system's operation.

The systemic nature of the management of state assets and its regulatory framework is largely embodied in the SSH's governance documents, which establish the foundations for corporate governance and uphold its transparency. The main legal act, i.e. ZSDH-1, in its Chapter 3, defines four core governance documents and regulates their adoption process: **the State Assets Management Strategy, the Annual Asset Management Plan (AAMP), the Asset Management Policy, and the Corporate Governance Code for SOEs.**

This Act further mandates the preparation and adoption of an internal SSH document, which is published under the title the "SSH Criteria for Measuring the Performance of SOEs", along with setting criteria and procedures for assessing candidate suitability and operational guidelines for the SSH's Nomination Committee. SSH is required to adopt and publish a specific governance document (Rules on the Assessment of Potential Candidates for Members of Supervisory and Management Boards of SOEs).

In 2023, SSH maintained an active governance approach, promoting the implementation of best corporate governance practices in line with its governance objectives. As an operational extension of the Corporate Governance Code for State-Owned Enterprises, SSH, at its own initiative, independently issued a further governance document titled "SSH Recommendations and Expectations", which is periodically updated and expanded.

### TABULAR PRESENTATION OF KEY CORPORATE GOVERNANCE DOCUMENTS:

ADOPTED BY	GOVERNANCE INSTRUMENT	CONTENT
PARLIAMENT	State Capital Assets Management Strategy	The definition and classification of assets into three types of assets: strategic, important and portfolio assets. It defines development policy of RS Defines individual strategic objectives.
MANAGEMENT BOARD UPON CONSENT BY SUPERVISORY BOARD AND RS GOVERNMENT	Annual Asset Management Plan	It defines objectives for managing individual assets, together with measures and policies for achieving these objectives. It determines the expected cash flows.
	Criteria for Measuring Performance of SOEs	It must observe strategic objectives as determined by the Strategy and it must determine economic and financial goals.
TOGETHER BY SSH MANAGEMENT AND SUPERVISORY BOARDS	Corporate Governance Code for SOEs	Principles and recommendations regarding good practice in asset management.
	SSH Asset Management Policy	Principles, procedures and criteria for ensuring the transparency and traceability of decisions.
MANAGEMENT BOARD	SSH Recommendations and Expectations	Specific recommendations and expectations from SOEs are followed on a "comply or explain" basis.
	Rules on Assessment of Potential Candidates for Members of Supervisory and Management Bodies of SOEs	Rules on conditions, criteria, and procedure for evaluating, assessing suitability, and selecting potential candidates for the members of supervisory boards of SOEs in accordance with ZSDH-1 and SSH Asset Management Policy.

### 3.2.1 State Assets Management Strategy

The key document for corporate governance is the State Assets Management Strategy by way of which state assets are classified into strategic, important and portfolio assets. By classifying capital assets in an individual group of assets, goals for asset management and the minimum state shareholding in an individual company have been set.

The National Assembly of the Republic of Slovenia adopted the State Assets Management Strategy on 17 July 2015, by way of the Ordinance On State-Owned Capital Assets Management Strategy (OdSUKND, Official Gazette RS, No. 53/15 of 17 (hereinafter referred to as: "the Strategy"). By the law, the Strategy is envisaged as a principal asset management document by way of which the Parliament communicates the state ownership policy regarding SOEs to the asset management company (SSH), the Government, investors, citizens and other interested public groups. The essential content of the management strategy includes the definition and classification of state capital assets into distinct types (strategic, important and portfolio assets), the determination of the State's developmental directions as a shareholder or partner in companies, and the specification of individual strategic objectives that the State aims to achieve through its strategic assets. In principle, the said document is not implemented directly but serves as a foundation and guideline for adopting each Assets Management Annual Plan.

The process for preparing, adopting, and amending the state capital asset management strategy is governed by ZSDH-1. The strategy is adopted by the National Assembly upon the government's proposal and remains in effect until the adoption of a new strategy. The National Assembly can annul or modify the strategy only by adopting a new one. The proposal for a (new) strategy, along with an explanation, is prepared by the government upon the proposal of the ministry responsible for finance. This ministry may request opinions or guiding principles for preparing the strategy from SSH. SSH can also, on its initiative, submit a proposal for strategy changes to the ministry if altered economic conditions or actual circumstances related to capital assets under management necessitate such changes.

In 2023, the 2015 State Assets Management Strategy remained in effect, although much of its content had become outdated. However, on 10 July 2024, the National Assembly adopted a new management strategy, revising the classification of certain capital assets (categorising them as strategic, important, or portfolio assets) and redefining their roles, including companies such as D. S. U., d. o. o., Ljubljana (DSU), Geoplin, Nafta Lendava, SIJ, Studentenheim, Talum, Telekom Slovenije, Terme Olimia, and water management companies. The management strategy addresses a total of 84 state-owned companies, of which 34 are

designated as strategic, allowing the state to pursue both economic and strategic objectives.

The newly adopted state assets management strategy is of great importance to SSH, as it defines the state's objectives for managing capital assets and sets general guidelines for managing

tangible assets and claims (receivables). These assets fall under the definition of capital assets in ZSDH-1 and are managed by SSH following the integration of BAMC. SSH participated in the preparation of the state assets management strategy by providing the Ministry of Finance with its perspectives, guiding principles, and proposals for changes.

### 3.2.2. Annual Asset Management Plan

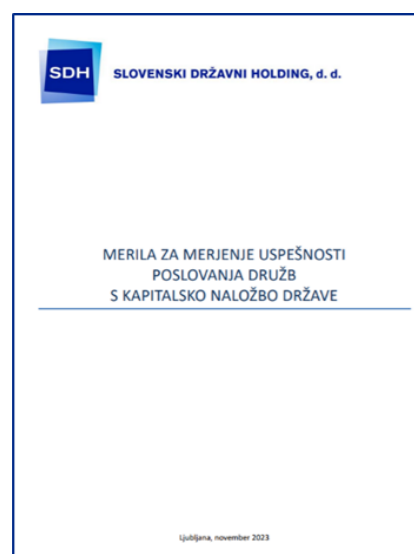


On the basis of the State Asset Management Strategy, every year, the Government of the Republic of Slovenia grants its consent to Annual Asset Management Plan which is prepared by SSH. Asset management encompasses the management of capital investments, claims (receivables), and tangible assets. The Annual Asset Management Plan (AAMP) sets out the detailed objectives of the asset manager (SSH), aligned with the overarching state assets management strategy. It includes a specific plan (defining measures and guidelines) to achieve objectives for the management of individual capital assets each business year and specifies the expected cash flows from managing state capital assets, claims (receivables), and tangible assets.

By the end of November 2023, SSH had prepared the AAMP for 2024, which received approval from the Government of the Republic of Slovenia at its session on 21 December 2023.

While the General Section of the Annual Asset Management Plan is publicly disclosed, the Specific Section remains a confidential document.

### 3.2.3. Criteria for Measuring Performance of SOEs



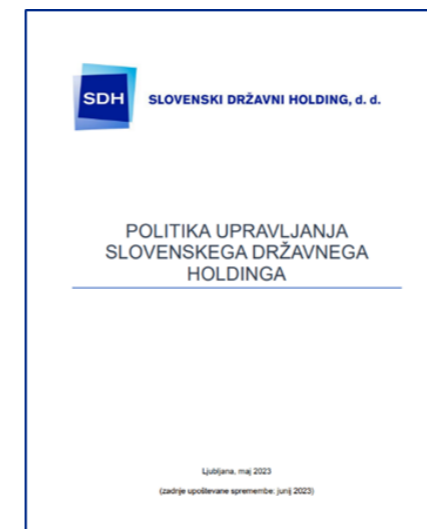
The Criteria for Measuring Performance of SOEs (hereinafter referred to as: the "Performance Criteria") are an internal document of a shareholder in which the criteria (indicators) are defined for SSH to monitor the performance of companies with state assets. These indicators are categorised as economic-financial and strategic, tailored to each company or group, taking into account their unique characteristics. The quantification of these indicators is set annually for each company or group within the Annual Asset Management Plan.

The criteria must be adapted according to the type of capital asset. For evaluating the performance of SOEs, which held assets classified as strategic, the criteria should consider the strategic directions set in the state assets management strategy and include economic and financial objectives. For evaluating the performance of important and portfolio assets, the criteria may be limited to financial and economic indicators, along with metrics assessing corporate social responsibility. In

the Annual Asset Management Plan, SSH also establishes ESG targets for all major companies.

These criteria are established by internal rules and regulations of SSH. The SSH Management Board drafts the criteria, which are then approved by the SSH Supervisory Board and formally

### 3.2.4. Asset Management Policy



The Asset Management Policy of Slovenian Sovereign holding (hereinafter referred to as: the "Asset Management Policy") is a legal document which sets out principles, procedures, and criteria which are applied by SSH in carrying out its duties and activities in accordance with ZSDH-1.

The Asset Management Policy is divided into two parts: the General Section, which outlines the core framework for the SSH's operation and certain key guidelines for fulfilling its responsibilities, and the Special Section. The specific section of the Asset Management Policy is organised into articles, establishing rules for conduct in individual situations, specifically, in candidacy procedures, in procedures for acquiring and disposing of the State's capital assets, and other specific cases. Both parts of the Asset Management Policy are binding for SSH. The purpose of the Asset Management Policy is to provide for transparency and traceability of decision made by SSH.

The Asset Management Policy underwent a significant update in June 2023. Although an initial update was made at the end of 2022 to address changes following amendments to ZSDH-1 and the acquisition of BAMC assets, particularly the portfolio of real estate and claims (receivables), further updates were required to unify core principles and practices across the management of all three asset types (capital assets, receivables, and tangible assets) after integrating BAMC into SSH.

adopted upon approval by the Government of RS acting in the capacity of the SSH General Meeting. The current criteria were adopted by the Government of the Republic of Slovenia in its capacity as the General Meeting on 21 December 2023.

A particular focus in this update was on enhancing the candidacy process for supervisory board members, specifically by strengthening the accreditation and nomination procedures to systematically assess candidates' knowledge, skills, and compliance with fit & proper standards (including requirements for their continued education). Consequently, the section on the SSH Nomination Committee and candidacy processes was substantially revised. Among the significant new solutions, it is worth mentioning provisions on classifying candidates into accreditation categories based on the different levels of complexity of the position they are applying for. These details were also addressed in the extensively revised Rules on assessment of potential candidates for members management and supervisory bodies of SOEs, which was approved by the SSH Management Board in May 2023 (See Chapter 2 for further information).

The updated SSH Asset Management Policy additionally includes a dedicated chapter on the principles that SSH adheres to when exercising its corporate rights as a company member or a shareholder. These provisions are primarily aimed at establishing the core rules that guide SSH when formulating its voting positions at General Meetings of companies, and, by extension, the provisions also serve as a compass for decisions SSH makes in its capacity of the founder of single-member companies. Alongside general provisions related to participation in General Meetings, the policy sets out guidelines for the following areas: the election and removal of supervisory board members, dividend policy, amendments to Articles of Association or founding acts, remuneration policy, and disclosures related to General Meetings and founder resolutions.

These guidelines were previously detailed in a separate document (SSH's Premises for Voting at General Meetings of SOEs), which was discontinued as its provisions were incorporated into the SSH Asset Management Policy, rendering the separate document redundant.



### 3.2.5. Corporate Governance Code for SOEs and SSH Recommendations and Expectations



SSH adopted the **Corporate Governance Code for SOEs** (hereinafter referred to as: the “Code”) on 19 December 2014. The Code contains principles and recommendations for good practice in corporate governance of SOEs and is addressed to SOEs. It should also be applied by subsidiaries of a group of which a state-owned enterprise is a parent company. The Code must be used by SSH in a reasonable manner. Some principles are of a general nature and refer to all SOEs, while some recommendations refer to companies with specific legal form and organisational structure, taking into account the ownership structure of the company and whether the company's shares are traded on the regulated market. The Code also includes certain general expectations SSH has in relation to SOEs. The purpose of the Code is to set the standards of governance in and supervision over SOEs and to develop a transparent and understandable system of corporate governance in the above-mentioned companies. It is adopted by the SSH Management Board with its approval granted by the SSH Supervisory Board. SOEs are required to adhere to the Code under the “comply or explain” principle (also known as “apply or explain”).

Since its inception, SSH has periodically (typically every two years) issued a questionnaire to SOEs to assess compliance with the Corporate Governance Code for SOEs and SSH Recommendations and Expectations. This questionnaire represents enhances the traditional comply or explain reporting, already included in annual reports, by asking companies in more detail how each recommendation has been implemented within their organisation and operations. SSH then analyses the responses to identify any deviations from the provisions of both asset management governance documents and to understand their

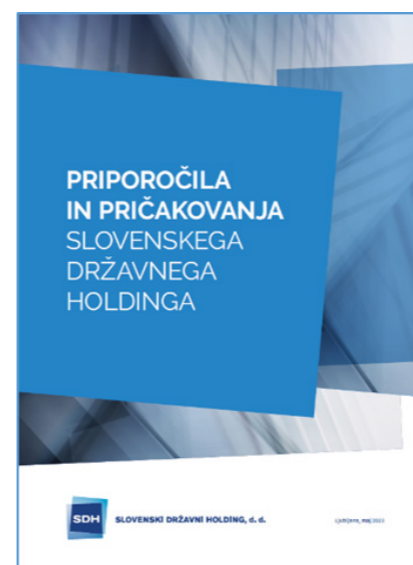
underlying causes. Based on findings from the analysis, SSH may, if necessary, initiate revisions of the Code and, in particular, of the SSH Recommendations and Expectations.

The latest comprehensive revision of the SSH Code took place in December 2023, aiming to introduce contemporary topics into corporate governance for state-owned enterprises (e.g., gender balance in management and supervisory bodies, sustainability reporting) and to strengthen certain governance areas to improve operational transparency, increase the accountability of officeholders, enhance stakeholder trust, and reinforce compliance and integrity. Changes have also been made regarding the SSH Code's target audience.

The SSH Code is now primarily directed non-public companies with state capital assets and public companies whose shares are not listed on an organized securities market – these companies use the SSH Code as their reference code. For public limited companies with state capital assets, whose shares are listed on an organised securities market, only certain principles and recommendations that exceed those in the Slovenian Corporate Governance Code for Listed Companies apply. Such public companies are expected to adhere at least to the principles and recommendations of the SSH Code expressly addressed to them, though they may also elect to use the SSH Code as their reference code. Public companies classified solely based on bond listings on an organised market are expected to use the SSH Code as their reference code.

The revised SSH Code further includes recommendations on formulating strategic objectives that are long-term, sustainable, and aligned with the company's fundamental goals. The SOE's annual plans must align with its strategic goals and represent their concrete realization (gradation of objectives). The SSH Code has been updated with recommendations on ensuring representation of the under-represented gender within management and supervisory bodies, as well as a recommendation that companies with state capital assets set an example for others by operating ethically, responsibly, and in compliance with legislation. Additionally, financing, restructuring, and similar actions carried out by companies majority-owned by the state or SSH in relation to other commercial companies must comply with state aid rules. In the section of the SSH Code pertaining to the supervisory body, exceptions to the prohibition on non-monetary benefits for supervisory board members have been introduced (such as D&O insurance premiums, costs for training, and membership fees for professional organisations). Further recommendations define the responsibilities

and obligations of the President and Secretary of the Supervisory Board, as well as those of the Supervisory Board's Committees. The list of transactions requiring Supervisory Board's consent to the management has been adjusted based on the principle of materiality. A new recommendation for “in-house” companies has been added, allowing for all members of the Supervisory Board to be dependent on the client if necessary to maintain the company's internal provider status. In the section concerning the management, the requirements for appointing directors have been slightly tightened to enhance trust and integrity, and a recommendation has been introduced for large companies to establish an internal succession policy. The SSH Code now also explicitly provides for a mandate system as a specific recruitment route in cases involving multi-member management bodies.



**SSH Recommendations and Expectations** is a distinct governance document which is adopted by the SSH Management Board without the need for the SSH Supervisory Board's approval. It is addressed to the same companies as addressed by the Code and it also requires the companies to be applied following the “comply or explain” principle. Unlike the Code, which is a statutory regulated document on asset management which inherently requires stability and therefore less frequent alteration of its comprehensive content, the SSH Recommendations and Expectations are a dynamic and often more specific tool of asset management. The updating of this document occurs more frequently, and its provisions are more operational and, at times, individually directed.

Alongside the SSH Code's update, SSH amended the SSH Recommendations and Expectations at the end of 2023, particularly in the area of compliance. The recommendations now address the establishment of a compliance and integrity officer role/function and require companies to identify compliance risks and prepare a risk management plan.

## 4 MACROECONOMIC ENVIRONMENT AND DEVELOPMENTS IN THE MOST IMPORTANT SECTORS OF PORTFOLIO

### 4.1 OVERVIEW OF SELECTED MACROECONOMIC DATA AND OF SLOVENIAN AND GLOBAL CAPITAL MARKETS

	Forecasts of macroeconomic trends (Bank of Slovenia)			
	2023	2024	2025	2026
GDP, real growth in %	2.1	2.5	2.6	2.8
Registered survey-based unemployment rate in %	3.7	3.5	3.5	3.4
Inflation (annual average) in %	7.4 7.2*	2.4*	3.0*	2.3*

\* Under the HICP methodology.  
Source: Bank of Slovenia (June 2024).

In 2023, a slowdown in economic growth within the Euro area was observed, impacting economic growth in the Republic of Slovenia, whose primary export market comprises European countries. This deceleration had already been signalled by conditions at the close of 2022, when, following a period of relatively high post-pandemic growth, activity in the Euro area slowed and largely stagnated throughout 2023. Current GDP data for 2023 showed a reduction in GDP growth from 3.4% in 2022 to 0.4% in the Euro area, and from 2.7% in 2022 to 2.1% in the Republic of Slovenia. These slower growth rates were attributed to reduced household purchasing power due to high inflation, tighter financing conditions resulting from significant monetary policy tightening, and the partial withdrawal of fiscal support. Sentiment indicators for the Euro area reflected a weakened outlook, particularly in the second half of 2023, with the composite PMI (Purchasing Managers' Index) consistently falling below the threshold of 50, the point separating expansion from contraction in economic activity.

Economic conditions in the Republic of Slovenia were further affected by the cooling of international economic activity, rising cost pressures on competitiveness, and reduced household purchasing power, alongside a moderation in export activity and

private consumption. The impact of these factors was partially mitigated by support measures for businesses and households. After a relatively weak performance in 2022, with only a 2.7% growth rate (revised data), economic growth in Slovenia once again exceeded the EU average in 2023. Inflation, which had been driven in 2022 by rising raw material prices, supply chain disruptions, and extensive fiscal support over previous years, subsided significantly by the end of 2023. Nominal wage growth accelerated in 2022 and 2023, influenced by economic activity, inflation, certain exceptional public sector wage increases, and a substantial labour shortage. However, this acceleration, coupled with a cyclical weakening in productivity growth, led to a deterioration in cost and price competitiveness indicators. To support productivity growth, greater investment in green and business transformation, as well as in digitalisation, will be necessary. Slovenian companies have not sufficiently shifted their operations towards higher value-added products, and an increase in the utilisation of advanced technologies is essential. Business transformation remains slow among small and medium-sized enterprises (innovation, digitalisation), while larger companies present a more positive outlook in this regard. A further challenge within the Slovenian economy is the shortage of labour in certain sectors, partially mitigated by the

import of workers from third countries. Corrective measures are also required to attract top specialists needed to drive innovation. When reviewing the situation in the Republic of Slovenia, it is important to note the sustained pressure on public finances due to spending associated with the negative effects of an ageing population (an insufficient number of young people and a limited inflow of new workers into the labour market). Public finances shifted to a high deficit in 2020 due to the COVID-19 pandemic, which gradually narrowed in subsequent years as temporary support measures for businesses and households were withdrawn. In 2023 (-2.5% of GDP), the deficit continued to be significantly influenced by measures to mitigate the energy crisis and address the consequences of severe flooding.

From an international perspective, it should be noted that the European Central Bank raised its key interest rate six times in 2023. On the economic front, challenges in the European automotive industry (a key buyer of Slovenian industrial goods) and disruptions in the Red Sea region, which severely impacted shipping transport (an important sector in Slovenia's economy, alongside logistics), are particularly relevant. The European energy crisis generally harmed most sectors, especially energy-intensive industries, which lost competitiveness in the global market (discontinuing certain production lines) compared with suppliers from other continents. These developments affected companies with capital assets managed by SSH, with some portfolio companies being directly exposed to risks such as the energy crisis, discontinued production lines, and the re-routing of international transport due to disruptions in the Red Sea. As a domestic event that adversely affected the Slovenian economy, it is noteworthy to mention the August 2023 floods, which caused significant damage to infrastructure and assets and led to the suspension of operations for certain companies.

#### Slovenian Capital Market and the Impact on Listed Companies with State-Owned Capital Assets

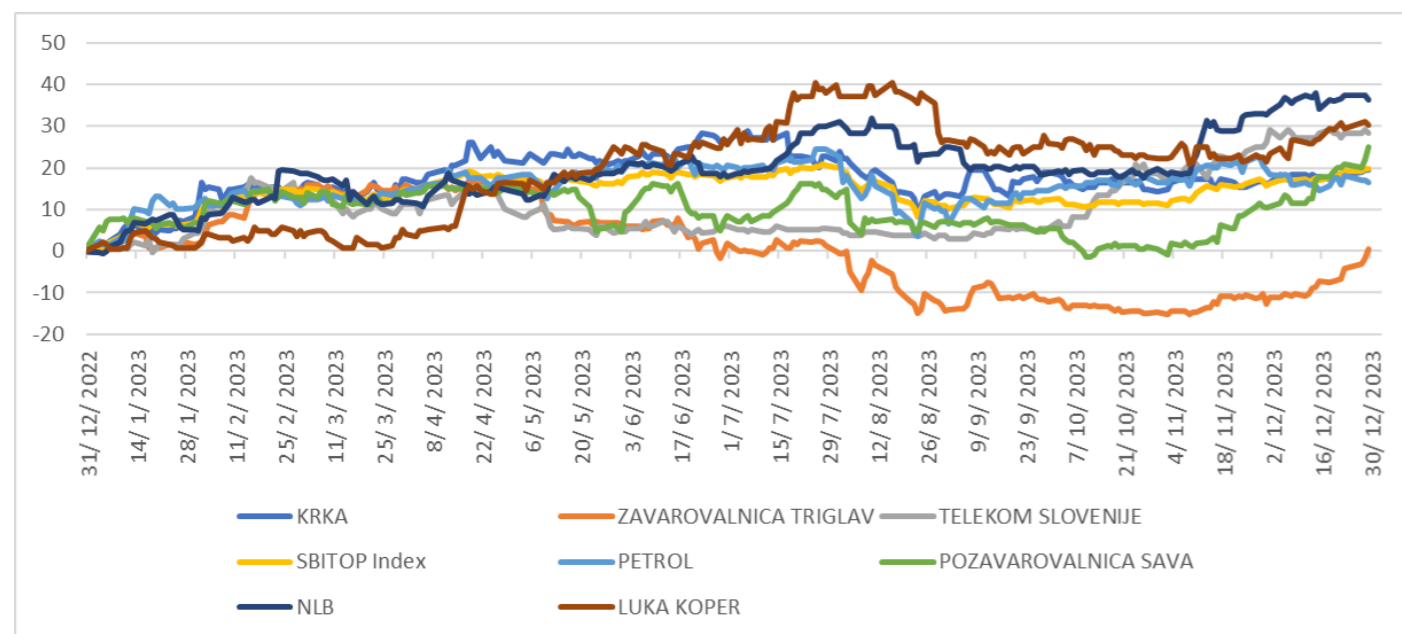
In 2023, the SBITOP Index delivered investors an annualized return of 19.81%, by way of which it nearly fully recovered the losses sustained in 2022 due to the adverse impact of the war in Ukraine and the onset of the ECB's monetary tightening in that year. Investor sentiment in 2023 was marked by optimism, as Europe navigated the energy crisis with relative success, substituting Russian gas. Additionally, some relief was felt in international supply chains, inflation in the Euro zone began to decrease, a widespread recession in the Euro zone was averted, and capital markets began to speculate when central banks might commence loosening monetary policy as rate hikes were paused. This positive outlook and anticipation were also reflected on the Slovenian stock market, where the SBITOP index closed 2023 at 1,253.41 points. In 2023, the Ljubljana Stock Ex-

change recorded a total turnover of EUR 330.2 million, with the majority (EUR 293.7 million) comprising trading in securities excluding block trades. Amongst equities, Krka remained the most traded share, with a turnover of EUR 108.9 million. By the end of 2023, Krka also held the highest market capitalisation amongst listed companies, valued at EUR 3.6 billion. The runner-up in 2023 was NLB (NLBR) with a turnover of EUR 67.9 million, followed by Petrol shares (PETG) with EUR of 25.4 million EUR in turnover. NLB (NLBR) ranked as the second most traded share in 2023, with a turnover of EUR 67.9 million, followed by Zavarovalnica Triglav as the third most traded share with a turnover of EUR 25.4 million. NLB (€1.7 billion) and Petrol (€972 million) rank second and third, respectively, based on market capitalization. The aforementioned business entities hold significant weight in both contributing to the return on equity (ROE) of SSH's portfolio of capital assets and in the dividends paid to SSH and the Republic of Slovenia. In 2023, the Ljubljana Stock Exchange recorded price gains in 15 shares, while four saw declines, and three remained stable. The portfolio of companies with capital assets managed by SSH encompasses most shares within the SBITOP index, while also including certain non-marketable investments (shares in non-listed companies). Consequently, the performance of SSH's portfolio is influenced by both macroeconomic factors and sector-specific elements, such as state-regulated tariffs across various industries. Among companies with capital assets managed by SSH, it is pertinent to mention the share of Zavarovalnica Triglav, which gained only 0.58% in 2023, largely due to losses from the August floods and dynamics within the voluntary supplementary health insurance market in Slovenia. Conversely, the NLB share price surged by 36.22% in 2023, driven by conditions in the interest rate market (affected by inflation and ECB monetary policy) and strong results from the banking group (notably, NLB's interest rate strategy and support for economic projects). Notably, NLB remains one of the larger companies with capital assets managed by SSH.

While the Slovenian capital market remains relatively illiquid and shallow, certain companies with capital assets managed by SSH have nonetheless issued securities or money market instruments with success over recent years. In 2023, GEN-I, d.o.o. (a subsidiary of the GEN energija Group, with capital assets managed by SSH), successfully issued 12-month commercial papers labelled GEN12, amounting to EUR 50 million in nominal value. Despite continued uncertainty in the energy market at the time of issuance, investor response was strong, with binding offers exceeding the final issue amount for GEN12.

The movements (measured by yields) of selected shares in the SSH's portfolio, alongside the performance (measured by yield) of the SBITOP index in 2023, are illustrated in the chart below.

**FIGURE: THE RETURN FROM BLUE CHIP SHARES TRADED ON LJUBLJANA STOCK EXCHANGE, REPRESENTING SUBSTANTIAL PORTION OF EQUITY INVESTMENTS MANAGED BY SSH, IN PERCENTAGE TERMS, AS WELL AS A COMPARISON TO THE RETURNS ACHIEVED BY THE SBITOP INDEX.**

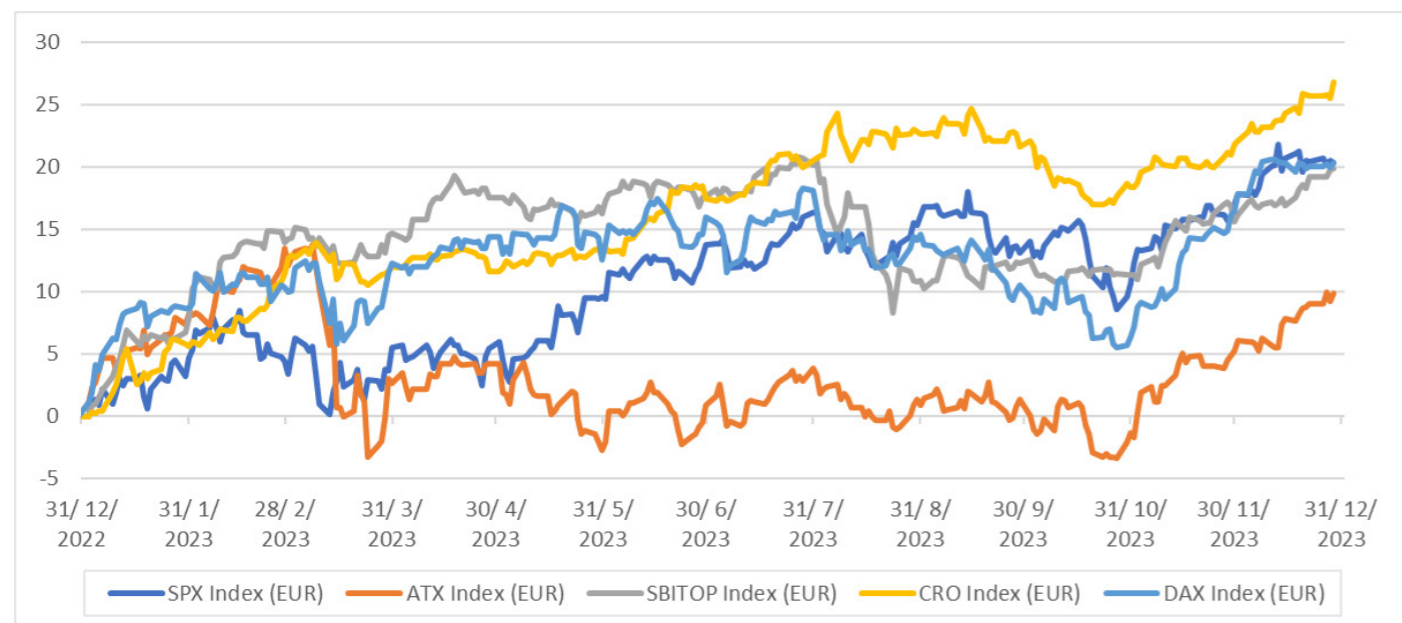


Source: Bloomberg

The return of the SBITOP index in 2023 was comparable to those achieved by the DAX and S&P 500 indices (SPX Index; recalculated in EUR). Among the selected indices, only the Austrian ATX index delivered a lower return, which is understandable given Austrian companies' significant exposure to Eastern European markets (due to the war in Ukraine) and their reliance on certain sectors of the German economy. Overall, global equity markets provided investors with positive returns in 2023. The

MSCI All Country World Index, for instance, yielded a return of 16.26% when recalculated in EUR, reflecting several positive developments and expectations in global markets. The following chart illustrates the returns (in % recalculated in EUR) of selected equity indices for 2023.

**FIGURE: RETURNS OF TOP REGIONAL AND GLOBAL STOCK INDICES AND SBITOP IN 2023 (%).**



Source: Bloomberg

## 4.2 OVERVIEW OF DEVELOPMENTS BY PORTFOLIO SECTORS

**Banks'** in the Republic of Slovenia achieved strong results in 2023, reaching record highs. They generated EUR 1,137 million in profit before tax, with net profit amounting to EUR 1,098 million. This favourable performance was largely driven by a substantial increase in interest income, rising from EUR 884 million to EUR 1,834 million. Conditions in the financial markets and the economy were highly favourable for banks, with Slovenian banks in 2023 offering more expensive loans than those in the Euro area, while providing lower interest on deposits.

The total assets of the Slovenian banking system rose by approximately EUR 2.5 billion (+5%) in 2023, reaching over EUR 53 billion and exceeding the previous peak recorded at the end of 2009 by over one billion Euros. By the close of 2023, banks held more than EUR 26.5 billion in household deposits. No major issues were noted with the credit portfolio in 2023, as net impairments and provisions, amounting to EUR 10.2 million, were 28% lower than in 2022. The return on equity (ROE) before tax in the Slovenian banking sector strengthened to 20.6% in 2023, significantly exceeding levels seen in the past decade (approximately double the average of the previous six years, when ROE ranged between 9% and 12%). This positive trend continued into early 2024, with pre-tax profit in the first four months of 2024 exceeding the result of the same period in the previous year by 54.1%.

In evaluating the outlook for banking operations in the Euro area in 2024, it is essential to note the shift in ECB monetary policy, with the first cut in the base interest rate occurring in June 2024—the first such reduction since 2016. This shift may negatively affect net interest income, with future fee levels and inflation also likely to impact bank results. Considerable regional disparities are also evident within the Euro area banking sector, particularly regarding competition for deposits (variation in deposit interest rates), which is expected to significantly influence future net interest income. Analysts expect that, due to varying sensitivities among banks to net interest income, the broader effects of ECB rate cuts on the banking sector will become more apparent only in 2025. The extent of these effects will depend on both the number and magnitude of rate cuts (i.e., the number of basis points by which rates are reduced).

Capital adequacy ratios in the Slovenian banking system continued to increase throughout 2023. At the end of 2023, the banking system displayed high solvency. On a consolidated basis, the total capital adequacy ratio and the common equity tier 1 (CET1) ratio for the banking system rose by 1 percentage

point in the fourth quarter of 2023, with an overall increase of 1.8 percentage points over the entire year. As of year-end 2023, the total capital adequacy ratio reached 20.3%, while the CET1 ratio stood at 17.7%. The growth in capital adequacy ratios in the final quarter was solely attributable to an increase in regulatory capital, whereas risk-weighted assets (RWA) had a slight negative impact due to an increase in RWA from operational risk, despite reduced lending activity. The full-year reduction in RWA for credit risk was largely due to the sale of a leasing company owned by one of the banks, while reduced credit exposures to the corporate sector had a lesser effect. Banks succeeded in increasing exposures secured by real estate and exposures to institutions, thereby moderating the decrease in total RWA for credit risk. On an individual basis, the total capital adequacy ratio at the banking system level increased by 1.8 percentage points in 2023, with 0.5 percentage points gained in the fourth quarter, reaching 22.0%. The CET1 ratio rose by 1.7 percentage points to 18.8%, of which 0.6 percentage points were added in the fourth quarter alone. In the fourth quarter of 2023, the CET1 ratio on a consolidated basis across the Euro area was 15.73%, with significant variation among member states (from 12.67% in Spain to 21.54% in Estonia).

**Insurance companies'** that are members of the Slovenian Insurance Association (SZZ) generated a total insurance premium of EUR 3.1 billion in 2023, the highest level achieved to date. This premium grew by EUR 252.6 million, representing an annual growth rate of 9%, the largest increase since 2007. Positive trends are also observed within the premium structure, particularly in the life insurance segment, which, after two years of negative growth (declining by 0.6% in 2020 and 0.3% in 2021), recorded an increase. Premiums in this segment rose by 3.5% in 2022 and by 7.5% in 2023. The non-life insurance market has expanded for nine consecutive years, with growth reaching 9.6% in 2023, raising its share of the total premium structure by 0.4 percentage points to a record high of 72.8%. Within non-life insurance premiums, health insurance held the largest share in 2023 (21.5%), followed by motor casco insurance (14.8%) and motor liability insurance (11.7%). In the life insurance category, life insurance with investment risk continued to hold the largest share of the premium at 10.5%. The personal insurance premium, covering accident, health, and life insurance, increased by 2.7% to EUR 1.6 billion, accounting for 52.4% of SZZ members' total activities (down by 3.2 percentage points from 2022). Notably, despite the substantial growth in the total insurance premium in 2023, the share of insurance premiums in GDP fell by 0.1

1 Source of Data and Information: ECB and Bank of Slovenia publications.

2 Source of Data and Information: Slovenian Insurance Association: Statistical Insurance Bulletin 2024.

percentage points to 4.8%, marking the lowest level since 2003. This reduction was driven by higher GDP growth, which stood at 1.6% in 2023. In 2023, the average Slovenian resident spent a record EUR 1,443 on property and life insurance. Insurance density reached its highest values for both groups, with non-life insurance density up by 9.1% to EUR 1,050, and life insurance density rising by 7% to EUR 392.

The year 2023 was marked by the Slovenian Government's regulation setting a maximum premium price for supplementary health insurance, along with the decision to abolish voluntary supplementary health insurance, which was replaced in 2024 by a mandatory health contribution. In addition, 2023 was a pivotal year for both Slovenian and other European insurers with the introduction of new accounting standards, IFRS 9 and IFRS 17. These standards significantly impact insurers' capital structures, bringing changes to shareholder equity due to revised valuations of assets and liabilities, while also enhancing the transparency and uniformity of financial statements.

When forecasting the performance results of insurers, analysts caution that IFRS 17 will heighten sensitivity to interest rate fluctuations, leading to greater volatility in future results and increased uncertainty in the accuracy of forecasts. Insurers have prepared well for this transition, and among major European insurance groups, there is a notable intent to reward shareholders through increased dividend payouts and share buyback programmes. On the Slovenian market, it is important to note the 2023 summer floods, which severely impacted Slovenia and led to substantial payouts from certain insurers, consequently affecting their dividend policies. Across the European insurance market, a key focus in 2023 was inflation in insurance costs in specific segments (e.g., construction), which insurers in some countries were unable to fully cover despite raising insurance premiums.

The future performance of insurers will thus be determined by regulatory decisions impacting the insurance business, ECB monetary policy decisions affecting the investment segment (interest rate movements and their impact on the valuation of debt securities held in insurers' portfolios), major loss events (such as natural disasters and accidents), and insurers' ability to adjust premiums to account for claims cost inflation (inflation in construction, automotive, healthcare costs, etc.). Adjusting premiums across all segments by indexing policies is challenging due to intense competitive pressures and variations in sectoral inflation (for instance, rising raw material costs and their effects on home and motor insurance). Insurers entered 2024 on solid ground, with mid-year data indicating robust business models further supported by their strong capital bases.

**The energy market<sup>3</sup>** in 2023 saw a stabilisation following the energy crisis of 2022, alongside a gradual decline in gas and electricity prices.

In 2023, total electricity consumption in the of Slovenia (including the consumption of the Avče Pump-Storage Power Plant (PSHPP Avče) was 12,688 GWh or 11,847 GWh, excluding losses in the transmission and distribution systems. This represents a decrease of 950 GWh, or 7%, compared to 2022, excluding electricity generated and consumed behind the meter by internal consumer installations.

Among final business consumers, consumption declined by 10.1% (8,056 GWh), while household consumption decreased by 3.1% (3,386 GWh). These figures exclude electricity generated and consumed on-site (self-supply) and consumption by PSHPP Avče.

While reduced electricity consumption positively reflects improvements in energy efficiency, it could signal concerns for the economy if linked to reduced economic activity, and it also negatively affects companies involved in electricity transmission and distribution.

In 2023, 51.7% of electricity in Slovenia was generated from renewable sources, 26.6% from fossil fuels, and 21.7% from nuclear fuel (based on a 50% share of the Krško Nuclear Power Plant ). Overall, 12,294 GWh of electricity was produced from primary sources, an increase of 2,091 GWh or 17.4% compared to 2022. Domestic electricity generation (including losses) covered 90.9% of total consumption in 2023, one of the highest levels in the last five years, driven primarily by favourable hydrological conditions, which led to above-average electricity production in large hydropower plants, as well as increased output from solar plants. Nonetheless, Slovenia remains dependent on electricity imports and has not yet achieved self-sufficiency. Installed capacities among major producers (HSE Group, GEN energija Group, and Energetika Ljubljana) remained virtually unchanged in 2023 compared to the previous year. A similar trend was observed in closed distribution systems, where only a minor increase was recorded in the total installed capacity of solar power. A significant advancement was achieved in production facilities connected to the distribution network, where connected capacity increased by nearly 460 MW, of which 396 MW was accounted for by new solar plants. By the end of 2023, Slovenia had over 44,000 self-supply generation units in operation. This year will be recorded in history as Slovenia, for the first time, exceeded its target of 25% renewable energy (RES) in gross final energy consumption, reaching a final share of 25.3%.

The energy crisis persisted in 2023, prompting the Government of the Republic of Slovenia to enforce the Decree on the determination of electricity price, which capped maximum electricity prices for households and small business consumers, including multi-dwelling buildings. Electricity prices were also capped for micro, small, and medium-sized enterprises, as well as certain public institutions. Additionally, the Government of the Republic of Slovenia introduced a decree on setting electricity prices for large business consumers for 2023 (requiring large business consumers to conclude supply contracts with electricity providers by 31 December 2022, effective for supply in 2023).

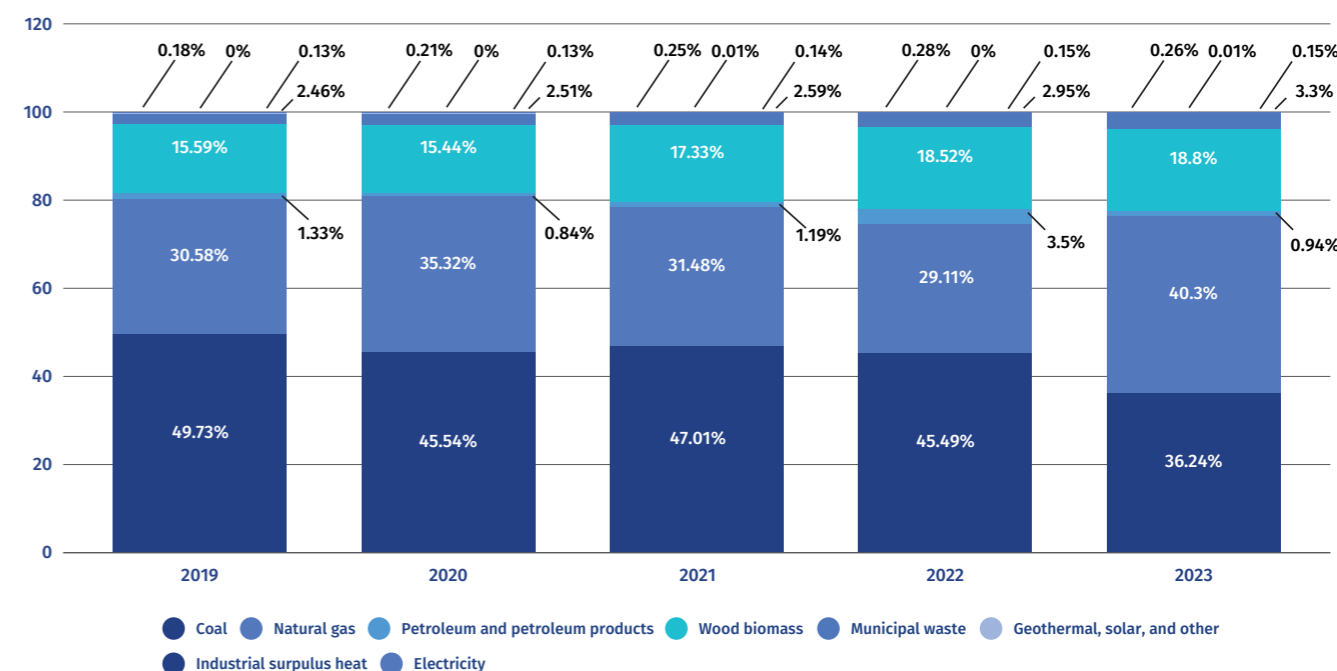
In addition to reduced excise duties under the Decree on laying down the amount of excise duty for energy products and electricity, a reduced VAT rate (from 22% to 9.5%) on electricity and

natural gas remained in effect throughout 2023 as a measure to mitigate rising energy prices.

Starting from 1 September 2022, household and small business consumers received a 50% reduction on the contribution supporting electricity production from renewable energy sources and high-efficiency cogeneration (the RES + CHP contribution) for the duration of the Decree on laying down the amount of excise duty for energy products and electricity (valid until 31 August 2023). From 1 November 2023, household consumers were fully exempt from the RES + CHP contribution.

In the motor fuels and heating oil sectors, further price regulation of motor fuels (95-octane unleaded petrol and diesel) at service stations outside motorways and expressways, along with the regulation of extra-light heating oil prices, contributed to mitigating retail price increases.

**GRAPH: PRIMARY ENERGY MIX IN THE 2019-2023 PERIOD**



Source: Energy Agency.

In examining the European energy market, in which Slovenia participates, it is noteworthy that 2023 continues to be described as a year of energy crisis, as energy prices on exchanges remained significantly higher than in pre-crisis years, despite some decline. The average electricity price in Europe in 2023 was EUR 95/MWh, a reduction of 57% from 2022. The average retail gas price on the European market was EUR 116/MWh in 2023, only 17% lower than in 2022; however, by year-end 2023, prices had dropped to EUR 30/MWh. In the European energy landscape, opinions on future electricity generation sources vary, with some countries supporting further nuclear ener-

gy development while others oppose it (e.g., Germany, which closed its last three nuclear reactors in April 2023). However, a common trend across all EU countries in 2023 was the significant increase in renewable energy capacity, particularly in wind and solar power.

Both the electricity and gas markets in Europe saw substantial changes in 2023, as the shares of production sources shifted. The share of electricity generated from renewables rose to 44% (up from 38% in 2022), while the share generated from fossil fuels dropped to 32% (down from 39% in 2022). Electricity pro-

3 Source of Data and Information: Energy Agency, Report on the Energy Situation in Slovenia in 2023.

duction from wind and solar increased by 15% in 2023, hydroelectric power by 17%, and nuclear power by 2%. Electricity consumption in the EU declined by 3% compared to 2022.

In the gas sector, the share of Russian gas in EU imports fell to just 15% in 2023, compared to 24% in 2022 and as high as 45% in 2021. The EU remains heavily dependent on imported gas, covering only 11% of its needs from domestic production, which fell by 20% in 2023 and by 26% in 2022. LNG imports to the EU increased by 3% in 2023 compared to 2022 and by 78% compared to 2021. Slovenian natural gas consumers used 9.3% less gas in 2023 than the average over the previous five years. The European Commission assessed this reduction as insufficient, as reducing energy use—particularly natural gas—is key to decreasing dependency on Russian energy imports; member states are advised to take measures to reduce natural gas use by at least 15%.

In the carbon emissions trading market, carbon allowance prices remained at similarly high levels in 2023 as in 2022, posing a significant challenge to the economics of electricity production in thermal power plants (coal, gas, lignite) amid falling electricity prices. The price of CO<sub>2</sub> allowances showed considerable volatility in 2023, exceeding EUR 100 in March before falling to EUR 70 by year-end. Data on CO<sub>2</sub> price movements, electricity prices, and the economics of electricity production by various sources underline the issue of profitability for thermal power plants and the challenges confronting energy producers. It is also noteworthy that, in December 2023, the European Commission approved EUR 2.6 billion in state aid for Germany's RWE as part of a programme for the early closure of lignite power plants.

In **road transport**, significant investments within the motorway network are worth noting. Construction on the Third Development Axis was advancing at varying speeds across different sections due to various factors hindering progress. For the Karavanke Tunnel (second tube), the breakthrough and connection with the Austrian section were postponed from September 2023 to the first quarter of 2024. The contractor, Cengiz, encountered challenges related to geological composition, water, and rock pressure, resulting in damage to the tunnel lining. In 2023, renewal and expansion works were undertaken on the Ljubljana Ring Road (specifically the northern section). Future investments in expansions, such as adding a third lane, will be necessary on motorway approaches and the Ljubljana ring to improve traffic flow. The primary obstacles to investment are obtaining required permits and approvals from state authorities and legal challenges from civil initiatives against issued building permits. In such cases, DARS is unable to directly influence proceedings. Following a technical review of options to shorten the timeline for the northern section of the Third Development Axis, carried

out by DARS in cooperation with the Ministry of Infrastructure and the project designer, it was determined that construction could be completed six months ahead of the planned deadline.

A slight decline in freight traffic crossings (0.6%) was observed in 2023, with traffic flows shifting from the Štajerska motorway branch to the Dolenjska branch. This shift led to fewer kilometres driven within Slovenia and an improvement in the vehicle composition in terms of emission classes, which contributed to a lower average weighted infrastructure fee, reducing revenue for DARS, the motorway operator. Sales of toll stickers (vignettes) rose by 15% in 2023 compared to 2022, and the Government of the Republic of Slovenia approved a DARS proposal to increase toll sticker prices. Additionally, DARS saw a 5% increase in revenue from tunnel tolls in 2023. The revenue component is crucial for DARS, which manages Slovenia's motorway infrastructure, to ensure its long-term financial sustainability and to carry out all planned projects.

In **maritime transport**, an optimistic start to the year meant that economic deceleration had minimal impact on traffic and cargo throughput at the Port of Koper. However, towards the end of 2023, heightened geopolitical tensions affected maritime transport. Attacks on ships in the Red Sea led to route diversions, extending transit times for vessels bound for Mediterranean ports by 10 to 14 days. Despite these uncertain conditions, Luka Koper, d.d., reinforced its position, maintaining its leadership among North Adriatic ports (for containers) and in the Mediterranean (for automobiles). However, sustained route diversions in 2024 could increase the risk of not achieving the planned cargo volumes at Luka Koper. Long-term shifts in shipping routes may also significantly impact the geostrategic valuation of Slovenia's sole cargo port.

Network capacity remains the primary challenge in **rail transport**. This situation will continue, or possibly worsen, until the completion of the second track on the Koper-Divača line, scheduled for 2026. Infrastructure obstacles on the rail network, caused by major investment works, have significantly impacted the operations of Slovenske železnice (Slovenian Railways), which transported 7% less freight in 2023 than in 2022. Major delays and extended travel times also hinder the shift towards more sustainable mobility in passenger transport. Encouragingly, with the modernisation of its fleet, the number of passengers carried in 2023 increased by 6%. However, a key future challenge remains reducing travel times between destinations in both passenger and freight transport. Construction works on rail lines were one of the main reasons for the 97% increase in rail accidents in 2023.

In domestic and international rail transport, a total of 990 million passenger kilometres were travelled in 2023 (a 20% increase compared to 2022), with domestic transport accounting for 70% of this figure (a 15% annual increase). When examining the rail networks in neighbouring countries and Serbia and their development plans, trends towards constructing high-speed lines are notable, as these countries aim to reposition rail corridors to increase their importance and redirect trade flows.

In **postal transport**, Pošta Slovenije saw a continued decline in letter services in 2023. Growth continued in parcel services, both in terms of volume and revenue, while revenue from logistics services declined. Pošta Slovenije operates in the fields of universal postal services and market services. In the market segment, it faces strong competition from various providers supported by large postal and logistics groups abroad. With a clear trend of decline in certain segments of traditional postal services, the challenge lies in designing and offering new market services that meet user needs while aligning with modern trends (digitalisation, sustainability, etc.).

Due to the decrease in letter volume and universal postal services, there is a need to amend postal legislation regarding both financing and the quality of universal postal services—a matter long highlighted by both Pošta Slovenije and SSH. In 2023, the postal workers' union submitted a proposal for changes in the financing and valuation of universal postal services. However, no legislative changes were made in 2023.

**Air transport** fully recovered in 2023, with 10.2 million flights in European airspace, a 10% increase over 2022, though still 8% below pre-COVID levels (2019). Globally, low-cost airlines achieved the highest growth in 2023 (+21%), traditional carriers saw a 10% increase, and intra-European flights grew by only 8% compared to 2022.

The recovery in air traffic is reflected in the excellent results of Kontrola zračnega prometa d.o.o. (Slovenia Control), particularly in overflights, though poor passenger turnover and connectivity at Ljubljana Airport continue to impact terminal performance. In 2023, efforts to increase airport connectivity intensified, with several calls announced to attract airlines that could help achieve greater connectivity with major hubs.

#### Tourism\*

In 2023, Slovenia welcomed 6.2 million tourists (+5.5% compared to 2022), who generated 16.1 million overnight stays—an annual increase of 3.5% over 2022. This made 2023 the most successful year for Slovenian **tourism** to date, with 2% more overnight stays than in the previously record-breaking year of

2019. Domestic tourists contributed 28% of all overnight stays, while international visitors accounted for 72%. There were 17% fewer domestic tourists than in 2022, while foreign tourist numbers rose by 15%, partly due to the availability of tourism vouchers in the first half of 2022. The largest share of foreign tourists came from Germany (16% of all foreign overnight stays), followed by visitors from Italy, Austria, the Czech Republic, the Netherlands, and Croatia. This distribution highlights Slovenia's reliance on European guests, while attracting intercontinental visitors (such as those from Asia) will depend on the innovation of tourism offerings and Slovenia's air connectivity with global destinations. The Republic of Slovenia's advantageous geostrategic location enables it to support diverse tourism segments (coastal, alpine, and Pannonian-thermal tourism). With the ongoing tourism growth in the Adriatic region, Slovenia has strong potential to fully integrate into the high-value European tourism sector, which is increasingly focused on five-star, high-value destinations. Slovenian tourism also faces certain challenges, such as labour shortages, the impact of weather on operations (mild winters and stormy summers), rising labour and material costs, and delays in investments (stemming from financial and raw material crises). It is important to note the lack of new greenfield investments, driven by modern global trends. Simply refurbishing existing facilities no longer guarantees successful, efficient, and optimal operations for Slovenia's natural assets and individual tourism companies (resorts and financial capacities) to meet the expectations of more discerning guests.

**Gambling** is a regulated and controlled activity. Gambling in the Republic of Slovenia is regulated by the Gambling Act, which was adopted in 1995 and amended several times since then, most recently in 2012. Globally, the gaming industry experienced positive developments in 2023, with an increase in casino visitors and organised supplementary entertainment events, which positively impacted business results, supported by effective online marketing efforts. Revenues also rose for the Hit Group, which is included in the portfolio of capital assets managed by SSH. Given the clear trends in the global gaming sector, Slovenian companies in this field may need to consider how foreign gaming companies are merging with multimedia content providers and expanding offerings to include live-casino and onsite-online games. The casino resort experience is increasingly enhanced with tournaments (such as poker tournaments) and sports events. This is particularly relevant in light of a foreign competitor actively operating within the Slovenian market and the need to upgrade offerings to attract international VIP guests (for instance, Asian visitors) who often fly into locations near the Slovenian-Italian border and expect a comprehensive, high-level casino and entertainment experience.

Attracting new segments of foreign guests would be advantageous for diversifying risks, as Slovenian casinos remain heavily dependent on visitors from neighbouring countries. Within the industry, rising labour costs, strike pressures, and negotiations over sectoral or union agreements (in Slovenia and abroad) have affected business results. In October 2023, the Gaming Workers' Union and Hit management reached an agreement, leading to the cancellation of the termination of two collective agreements, with a further agreement achieved with the Trade Union for Hospitality and Tourism. Increased expenses for internet security (covering online gaming, customer data protection, financial transactions, etc.) had also contributed to higher costs. Due to the industry's nature, significant attention must be paid to compliance, including sustainability requirements. In casino-resort centres, careful assessment is needed to determine the best location and the most suitable guest segments (conference guests, VIP gamblers, casual players, tourists). Online gambling is, to some extent, an alternative competitor to traditional casinos, with observed improvements in combined betting options, customer retention rates, and reductions in external advertising costs through enhanced advertising efficiency. Casinos must stay abreast of these changes and adapt their offerings to remain competitive with online gaming providers.

Operators of special games of chance face expectations for socially responsible practices (such as measures to prevent money laundering and address gaming addiction), while the wider gaming market is becoming increasingly demanding due to shifts in consumer behaviour and the growth of online gaming and related content. A continuing challenge for casinos in Slovenia is the age profile of their guests, necessitating an adjustment of gaming, entertainment, and hospitality offerings to attract a younger audience. As regards the global gambling industry, there is a noticeable trend of collaboration between casinos and various other partners (such as betting companies, the media) which aims at increasing their market share through interconnected products (e.g., combined bets, brand or product integration in organizing sports events at casino resorts). When expanding their operations, gaming groups must ensure that new partners provide access to new markets (these could be locations of casinos, betting shops, media environments).

Loterija Slovenije, which organises traditional games of chance, is classified as a strategic asset which is managed by SSH. In most European Union Member States, lotteries are operated under a system of monopoly companies or exclusive rights granted to state operators, private non-profit operators, or operators directly supervised by public authorities. The majority of gambling revenue is therefore generated by the state lottery. Loterija Slovenije is a partial owner of Športna Loterija.

**The pharmaceutical sector** is vital to the economy of the Republic of Slovenia, with pharmaceutical companies Krka and Lek serving as prominent and well-recognised Slovenian exporters. These companies are also significant for their high technology and the added value they generate within the Slovenian economy. Both Krka and Lek (part of the Sandoz Group) are classified as generic pharmaceutical companies. In September 2023, Novartis shareholders approved the separation of its generics division, Sandoz. This restructuring has shifted the global pharmaceutical market, allowing each group to focus more closely on its core business—Novartis on original drugs and Sandoz on generics—and impacting the Slovenian market, where Lek will transfer certain activities related to the development and production of innovative drugs to a newly established, Slovenia-registered entity under the Novartis brand. Generic and biosimilar medicines make up approximately 80% of the pharmaceutical consumption market. Given the increase in chronic diseases and the projected rise in mortality rates from such conditions, prospects for the generic pharmaceutical industry are favourable, as these conditions require long-term treatments, creating demand for cost-effective medicines. Government pressures to reduce drug prices negatively impact sales results across the pharmaceutical sector; however, these effects vary across segments. Original drugs generally have greater pricing flexibility, while generics are more attractive to governments due to their lower base prices. For business performance, it is essential for a pharmaceutical company to maintain a balanced product lifecycle (new products, products in final testing, and established “cash cows” to better cushion the adverse effects of competition and public sector demands for lower prices on existing drugs. In April 2023, the European Commission proposed new pharmaceutical legislation, the first major revision in two decades, aimed at improving drug accessibility and reducing prices across EU Member States. Notably, Krka successfully addressed investor concerns in 2023 regarding its sales and operations in the Russian Federation (Krka's largest single market) amid the Ukraine conflict, which helped stabilise Krka's share price after declines in 2022. However, the depreciation of the Russian rouble had a negative impact on Krka's financial results for 2023. Pharmaceutical companies are implementing various strategies to sustain EBITDA margins at levels seen during the COVID crisis. Overall, they are managing to offset inflationary pressures on net profit through efficiency programs, prudent investment, and flexible business practices.

European **telecommunications operators** in the Bloomberg Telecommunications Index provided only minimal returns to investors in 2023 (4.5%), a disappointing outcome as the broader European equity market across all sectors saw significantly higher growth. Due to industry specifics—intense competition, heavy regulation, and costly investments with increasing-

ly shorter lifespans—the sector, despite its high-tech nature, fails to deliver attractive returns on capital (stock price appreciation) for investors. As a result, in 2023, European telecoms, including Telekom Slovenije, focused on efficiency programs, with operating costs rising more slowly than operating revenues. Share prices of European telecommunications operators are also influenced by revenue performance. In 2023, new European regulations introduced further reductions in maximum allowable charges for telecom operators. For instance, as of 1 January 2023, the cap on incoming call rates from any number dropped from EUR 0.0055/min to EUR 0.004/min, and the maximum charge for 1 GB of data outside the normal usage limits fell from EUR 2.00 to EUR 1.80. These regulations apply across both the B2C (consumer) and B2B (inter-operator) markets. European price regulations span a wide range of telecommunications services, with certain rates set for specific years or periods, and additional future reductions in maximum prices is anticipated. Regulation and strong competition (market saturation from a high number of providers) limit growth potential in traditional services, while growth opportunities are emerging in newer areas, such as cybersecurity. In 2023, European telecoms managed to maintain their EBITDA margin (post-leases) at 33%, supported by revenue growth and efficiency programs despite inflationary pressures. Future profitability will likely hinge on continued cost-optimisation programs, reduced energy costs, and savings from phasing out copper networks in favour of fibre. For some telecoms, debt levels (measured by net debt/EBITDA) remained a concern in 2023, which management teams are addressing through asset monetisation programs, including the sale of network assets.

The European **steel market**<sup>5</sup> continued to experience a decline in production in 2023, with the EU27 producing only 122.9 million tonnes of steel, compared to 132.6 million tonnes in 2022 and 148.6 million tonnes in 2021. The weak state of the European economy, with low GDP growth in 2023, also did not support steel production volumes. In the Republic of Slovenia, 0.4 million tonnes of steel were produced in 2023, compared to 0.5 million tonnes in both 2022 and 2021. The challenging conditions in the European steel industry stemmed from the energy crisis (impact of electricity and gas prices) and various forms of unfair competition from steel imported from third countries, where environmental protection standards are less stringent than in Europe. In October 2023, the EU launched the first phase of a process introducing CO2 emissions tariffs on imported steel, aimed at curbing the influence of high-carbon foreign steel on the EU steel industry's green transition. From 2026 onwards, emissions exceeding EU standards will require emissions certificates, with the option to reconcile differences between CO2 charges already paid in a third country and

those applicable in the EU. European steel makers are therefore structuring their business strategies around high-value products and those aligned with a zero-emissions concept (steel produced without greenhouse gas emissions). In the steel industry, companies must carefully plan production in terms of capacity utilisation (balancing supply and demand in the market) and securing sales contracts for steel, as well as procuring all essential exchange-traded categories used in steel production (raw materials, electricity, CO2 allowances). The average price of hot-rolled coil in Northern Europe was EUR 709/MT in 2023, down from EUR 900/MT in 2022. Maximum prices for hot-rolled coil in 2022 (March–April, ranging between EUR 1,100 and 1,400/MT) were significantly higher than those in 2023 (March–April, just above EUR 800/MT). With an optimal purchasing (securing raw materials) and sales (selling steel) strategy, companies were able to achieve higher profits in 2022, but only with a well-structured business approach. A purchasing-sales strategy or hedging of exchange-traded categories in steel production is essential, as profitability for hot-rolled coil production in Europe ranged from EUR –200/MT to EUR 623/MT in 2022, and from EUR –98/MT to EUR 186/MT in 2023.

**The aluminium production industry** is highly energy-intensive, making it unsurprising that Talum halted primary aluminium production in 2023. The energy crisis in Europe created a challenging business environment for European aluminium producers compared to non-European competitors. As a result, European aluminium producers have restructured their production models, focusing on higher value-added aluminium products and adapting operations to align with circular and green economy concepts. The circular economy approach increases the recycling of old aluminium into new aluminium products, as melting aluminium waste requires only about 5% of the energy needed to produce aluminium from raw ore. The green economy concept focuses on the use of clean energy sources (e.g., electricity from renewable sources) and effective waste management practices within the aluminium production process. This strategic shift by European aluminium producers is also influenced by the dominance of primary aluminium production in China, Russia, and India, where environmental regulations and protection fees differ significantly from those in the EU. This has contributed to reduced primary aluminium production in Western and Central Europe (3.3 million tonnes in 2021, 2.9 million tonnes in 2022, and 2.7 million tonnes in 2023). In October 2023, the EU initiated the first phase of a CO2 emissions tariff process (carbon border adjustment tax) to protect domestic aluminium producers and products from unfair competition from third countries, where imported aluminium is often priced at dumping levels due to the absence of CO2 allowance costs. In 2023, the Decree on compensation for the coverage of indirect

costs caused by greenhouse gas emission costs for the benefit of certain sectors of sub-sectors at risk of carbon leakage was adopted in the Republic of Slovenia. Aluminium production remains fully dependent on exchange-traded categories in the production process, and market fluctuations create significant volatility in the profitability of individual production programs. Talum initially announced plans in 2023 for lay-offs due to the suspension of primary aluminium production but later announced new hiring plans at the end of the year for a new factory (“green plant for aluminium slugs”). Aluminium is used across various industries and applications (such as beverage cans and building materials), and in 2023, solar panel manufacturing and electric vehicle production emerged as major long-term drivers of demand for aluminium products.

In **the forging industry** (Unior), it is notable that the automotive sector<sup>6</sup>, which constitutes a significant portion of Unior’s sales, saw growth across all major global markets in 2023, with new vehicle sales in China even reaching a record high (25.8 million vehicles sold). Although new vehicle sales rose in China and India in 2023 compared to 2019 (the last pre-COVID year), in 2023, sales on other major markets (USA, EU, Japan, Brazil) still lagged behind 2019 levels. When analysing the European market, it is evident that European automotive manufacturers face increasing competition from Chinese electric vehicles, which could potentially impact the margins European manufacturers can achieve in the e-vehicle sector, particularly in light of the weak macroeconomic environment in the EU. This pressure extends throughout the supply chain, affecting component suppliers to the automotive industry. Competitive challenges are clear in the Chinese market, where VW has been losing market share to Tesla and domestic manufacturers, as well as in the reduced average sales prices for some premium brands (e.g., Audi, BMW) in 2023, auto parts suppliers were further impacted by increased discounts on new vehicle sales in the latter half of 2023, a trend that has continued into early 2024. The EU introduced a mandate in 2023 requiring that only new zero CO2 emission cars and vans may be sold in the EU after 2035. This regulatory shift presents challenges for auto parts suppliers, who must quickly adapt their product offerings to meet the increasing market share of zero-emission vehicles in Western Europe’s new vehicle sales. Since EVs and internal combustion engine (ICE) vehicles vary in component requirements, this adjustment is critical for the long-term viability of parts suppliers in the European automotive industry. Parts manufacturers need to proceed cautiously, carefully assessing traditional carmakers’ strategies regarding the transition to EVs (as enthusiasm for EVs appears to be waning in Europe) and monitoring developments in the US and European markets concerning EV market share. Additionally, they must consider trends in the Chinese market,

where competition has driven Chinese EV prices below those of Chinese ICE vehicles, and assess the inroads Chinese EVs are making into the European market (and the market share they might capture). Regional markets vary significantly in EV market structure (with EVs accounting for over 25% of new vehicle sales in China by November 2023), pricing (where EVs in Europe are, on average, 30% more expensive than similarly sized ICE vehicles, while the situation in China is markedly different), and consumer preferences (with strong demand for EVs in China and slower adoption in the US). These regional market dynamics ultimately impact the profit margins of car manufacturers, which cascade down to influence the margins of auto parts suppliers in subsequent rounds of supply contract negotiations.

**The meat processing industry** includes animal husbandry for slaughter, the sale of raw meat, the sale of packaged raw meat for end consumers, and the sale of various meat products. The market margins achieved by individual meat processing companies depend on cost factors (such as the cost of animal rearing), competitive pressures, retailer influence, and the brand strength under which the company markets its meat and meat products. Since SSH manages capital assets in a company that is primarily focused on pig farming, a closer look at this sector is also warranted.

**Pig farming** is highly specialised and heavily influenced by market fluctuations that impact profitability. To achieve profitable operations, effective risk management is essential for handling shifts in market conditions (input costs, product prices, contractual and market circumstances). In 2023, European pig farming was characterised by unstable prices for energy and feed, which are both essential in the pork production process.

The EU pig herd declined by 1% in 2023, with a larger reduction in Central European countries. Despite the principles of a single European market, 2023 saw notable price disparities across countries due to factors such as export potential for pork, supply-demand imbalances, slaughterhouse efficiency, and local regulations. A significant development in 2023 was the largest outbreak of African swine fever in the EU since 2014, with most cases reported in Romania and Croatia. As a result, the Croatian pig herd declined by 10% compared to 2022, highlighting the impact of disease threats on production and profitability in pig farming. Slovenia also recorded a decrease in its pig herd in 2023. On the global stage, European pig farmers face strong competition from producers in the USA, Canada, and Brazil, who benefit from lower domestic input costs (contrasting with the energy and inflation crises in the EU) and are pushing European producers out of Asian markets. For example, due to the decline in Chinese imports of European pork, Spanish pork exporters have had to seek new markets. As a result, their meat appeared

in greater volumes across other EU Member State markets. The imbalance between pork supply and demand in the EU market (with oversupply resulting from reduced EU pork exports) has led certain businesses in the EU to cease operations, further contributing to a decline in the EU pig herd.

Uncertainties in the pig farming industry arise from shifting consumer dietary habits, a shrinking pig herd in the EU, falling exports, and increasingly stringent animal welfare regulations. In the future, pig farming operations will also be significantly impacted by ESG requirements, land policies, and the level of subsidies and investment support available.

**Water utility companies** render services of general economic interest on the basis of a concession. Water management in Slovenia is structured so that the Ministry of the Environment and Spatial Planning awards concessions, based on specified criteria and a public tender, to companies that meet these requirements. The concession is divided into two parts, the first is related to the provision of services of general economic interest, and the second part includes additional services. Services within the scope of the Concession Agreement include maintenance, security, cleaning, mowing, cutting, the restoration of weirs, banks, and thresholds, the construction of stone-concrete barriers, retaining walls, and ground thresholds, as well as the cleaning and maintenance of sink-holes and gravel barriers, and the removal of sandbanks and debris. Water management companies derive part of their revenue from concession obligations and part from market activities related to municipal infrastructure construction, environmental protection facilities, agricultural work, geotechnics, and similar projects. These companies continually highlight the importance of regular waterway maintenance and improving flood protection. In 2023, weather events were exceptionally severe, peaking with the August floods that caused extensive damage and destruction to both public and private infrastructure. The demand for emergency and rehabilitation work has increased the workload for water management companies. In the coming years, concession holders will undertake rehabilitation work in addition to regular public utility services and supplementary tasks.

# 5 MANAGEMENT OF SSH AND RS CAPITAL ASSETS IN 2023

## 5.1 MANAGEMENT OF CAPITAL ASSETS

The most important activity pursued by SSH is the management of SSH and RS capital assets. The activity includes the acquisition and disposition of capital assets and the exercise of rights of a shareholder.

Within its asset-management related activities, SSH proactively engages in implementing the state's strategies in specific sectors.

### 5.1.1. Fundamental Principles of Asset Management

One of the most important tasks carried out by SSH is the concentrated management of assets owned by SSH and the Republic of Slovenia but managed by SSH with the aim of the long-term maximisation of the profitability and the value of these assets for the purpose of attaining the economic and developmental objectives and objectives related to the public interest. All of the above mentioned requires from SSH an efficient and transparent system of asset management with a clear distinction of responsibilities and accountability, together with the implementation of measures which limit corruption risks and other non-ethical and illegal actions and pressures while enhancing the regulatory compliance, traceability and accountability of decision-making.

When realising the aim and implementing the objectives of ZSDH.1, SSH operates under the same conditions as other enterprises, sole traders and private operators in the respective market and it is prohibited to exploit its position which might cause restriction of competition or pose limitations to other enterprises, sole traders and private operators operating in the market.

The fundamental principles observed by SSH in the management of assets are:

- **the principle of responsibility and due care;**
- **the principle of independence;**
- **the principle of transparency;**
- **the principle of economy.**

### 5.1.2. Active Management of RS and SSH Capital Assets

The scheme below shows all key elements of active management of RS and SSH capital assets.

**CRITERIA**  
Criteria for measuring performance of SOEs strategic goals, economic and financial goals

**MONITORING**  
Monitoring of SOEs' operations: quarterly or monthly financial reports, periodic meetings with Supervisory Boards and/or Management Boards of SOEs, and business planning meetings

**ANNUAL PLAN**  
**AAMP – Annual Asset Management Plan for SOEs:** strategic and economic and financial goals for all significant companies and expectations which SSH has from these companies

**AGMs**  
**Active preparation for Annual General Meetings of shareholders and exercise of all other shareholder's rights:** shareholder rights, property rights

**GOOD PRACTICE**  
**Implementation of good corporate governance practice:** Corporate Governance Code for SOEs, SSH Recommendations and Expectations

**SUPERVISORY BOARD MEMBERS**  
**The selection of suitable members of supervisory bodies under the standardised procedure**

**ACQUISITION AND SALE OF CAPITAL ASSETS**  
**Implementing processes for the acquisition and disposition of capital assets and processes for the increases in share capital:** sales via the public offering methods, public auction, public call for bids, IPO/SPO

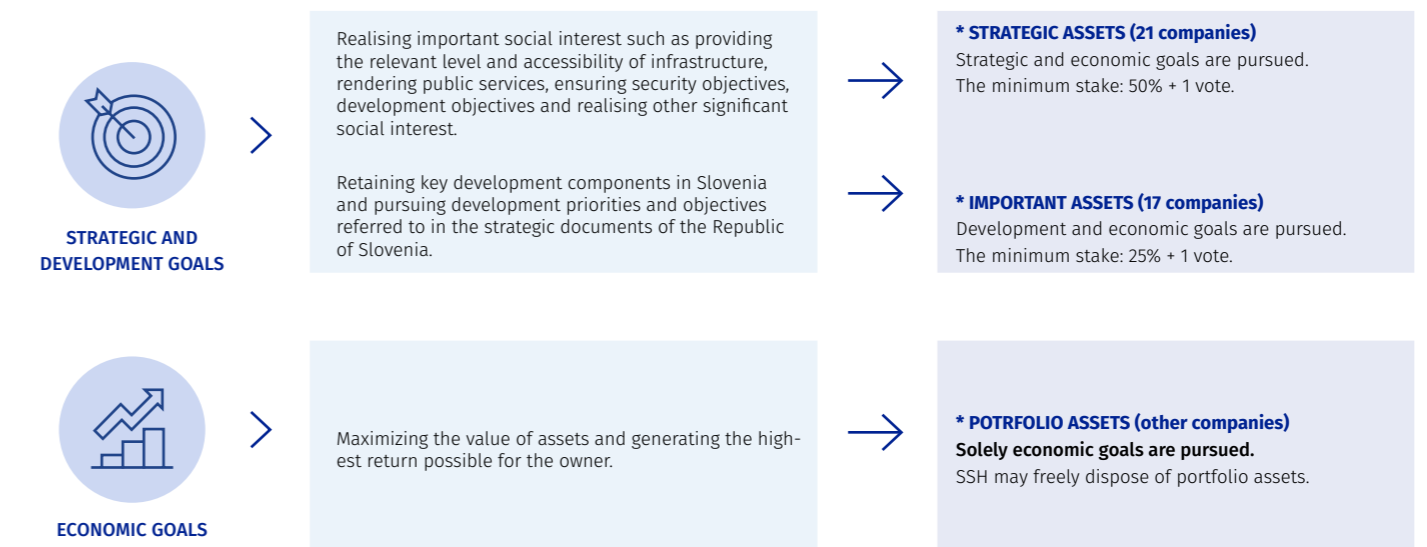
Key factors for effective management of capital assets which is shown in increased total return on equity from RS and SSH assets, include: the selection of competent, responsible and savvy members of supervisory bodies; diligent monitoring of performance of SOEs against predefined goals and performance

criteria; the implementation of good corporate governance practice and timely and appropriate action-taking in cases of deviations from expected results.

### 5.1.3. Fundamental Goals for Managing Capital Assets and Their Classification

In accordance with ZSDH-1, the objectives in asset management for assets held in individual company vary depending on the classification of the company and state assets as strategic, important, or portfolio assets. Each asset owned by SSH and RS is assigned to one of these three categories, with specific fun-

damental objectives related to asset management defined for each. The table below outlines these fundamental objectives and the classification of capital assets.



\* On 10 July 2024, a new State Asset Management Strategy was adopted. Under this strategy, twenty-five (25) companies with capital assets managed by SSH are classified as strategic, while eight (8) are classified as important.



The classification of individual assets into a relevant group of assets is laid down in the State Assets Management Strategy.

When determining the direction, measures and actions to be taken by SSH in managing state capital assets and when defining in detail goals to be achieved, the following premises are particularly taken into account:

- fundamental guidelines laid down in the Asset Management Strategy;
- fundamental asset management goals on account of which an individual asset has been classified into a certain fundamental group of assets;
- additional goals in asset management which are determined by the Asset Management Strategy;
- as regards SOEs, SSH has at its disposal corporate and legal leverage arising from its position as a shareholder or a partner;
- when preparing Asset Management Annual Plan, SSH takes into consideration strategies and business plans produced by companies if companies have informed SSH of their own strategic and planning documents and these plans are compliant with SSH's goals. In SOEs, which are organized as public limited companies, SSH has at its disposal limited access to information since, under the applicable law, the shareholder's right to information is limited.

Individual goals are given in the form of criteria, i.e. indicators, laid down in the Criteria for Measuring Performance of SOEs. In light of the type of assets, certain economic and financial indicators are determined for an individual asset and strategic criteria and indicators in case of strategic assets.

For individual asset, specific goals set on the basis of criteria and indicators set are defined in every AMAP.

For the necessary efficient monitoring of the success in regard to goals set for SOEs in the portfolio managed by SSH, suitable

#### 5.1.4. Expectations for ROE and Dividend Inflows

An important goal imposed on SOEs is to attain a suitable long-term rate of return on the invested capital – in addition to other goals, which are pursued by enterprises in accordance with their mission and with the purpose of their establishment (rendering services of general economic interest, and similar).

When managing capital assets, SSH takes into account specific characteristics of operations of an individual company, strives for increasing the profitability of individual companies and the

ble tools are deployed by SSH, together with data available at three levels, specifically:

- **past dynamics** – trends in the reported business results of an individual company which are monitored, together with movements in key performance indicators in an observed period;
- **benchmarking analyses** – the values of key performance indicators and the values of selected financial ratios of an individual company at a certain moment and in the past are compared to the values which have been achieved by previously determined comparable competitors, taking into account the differences in the business environment in which individual companies operate and which have an impact on their business results and on other specific characteristics of the company and its competitors;
- **business plans** – results forecasted by an individual company are compared with values which have been determined by SSH on the basis of past analysis, on the basis of the benchmark to competitors' results and on the basis of an assessment of trends in the business environment, and realisation of plans set.

An important proportion of companies in the RS portfolio which is managed by SSH renders **public service of general economic interest**. These are companies rendering service of general economic interest as defined by laws in the area of energy, transport, environmental protection and other areas. Services of general economic interest can be provided either by a public company or through the granting of concessions or special authorisations based on legal provisions. A common feature of these companies rendering only or also public service of general economic interest is the strategic nature of their activity which requires such companies to primarily satisfy public needs, and this has a precedence over making profit. In line with the asset management strategy, strategic capital assets in the field of services of general economic interest should focus on delivering services in the core area for which they were established.

portfolio as a whole – while simultaneously taking into account sustainable aspects of their operations and risks. For this purpose, target values for an indicator showing the return on equity (ROE) or an indicator showing the return on assets employed (ROA) has been determined by SSH for every single portfolio company, by taking into account the above-mentioned business factors and the value of the indicator generated by selected comparable companies.

In its principles for exercising shareholder rights in companies with state capital assets (Assets Management Policy), SSH outlines the aspects it considers when deciding on voting regarding the proposed distribution of retained earnings.

From this aspect, for SSH, the dividend policy is one of more important elements in corporate governance to which the necessary attention is paid. SSH expects SOEs to take into account the following factors, when designing their dividend policy:

- the company's Strategy,
- the company's development phase,
- the company's capital structure,
- access to the sources of financing,
- tax considerations,
- the policy regarding the profit pay-out for other purposes (for example, employee participation),
- the lowest dividend pay-out as regulated by the law due to the right to challenge the dividend pay-out,
- the expected rates-of-returns of a company,
- the implemented and planned investment activities by considering optimum WACC, and

#### 5.1.5. Regular Asset Management-Related Activities in 2023

In accordance with ZSDH-1 and other key documents related to corporate governance, in 2023, in addition to carrying out other tasks, SSH exercised shareholder's rights on its own behalf and on behalf of the Republic of Slovenia, particularly:

- regularly monitored the operations of companies under its management and their implementation of the Annual Assets Management Plan 2023,
- focused particularly on (i) monitoring and promoting **comprehensive management of business, financial, and strategic risks, as well as enhancing company resilience amid economic slowdown**, (ii) tracking investments in digitalisation and cybersecurity risk management, (iii) fostering sustainable business practices with an emphasis on moving towards a carbon-neutral economy, and (iv) supporting compliance, integrity, and improvements in corporate governance culture;
- on the basis of in-depth knowledge of company operations and industry trends, including a critical consideration of their development plans as outlined in the Annual Assets Management Plan 2023 (approved by the RS Government on 16 February 2023), defined detailed management objectives for individual companies with state capital assets, specified measures and guidelines to achieve these objectives for their attainment, and set out expected cash

- the characteristics of the sector in which a company operates, including the level of competition present in the sector.

When formulating proposals for General Meeting Resolutions and when devising its voting positions in connection with dividend pay-outs, in 2023, SSH continued to advocate the objective of striking the balance between dividend-income and development needs of companies. For companies that received aid under the Act Governing Aid to Businesses to Mitigate Impact of Energy Crisis (ZPGOPEK), SSH supported the proposals of Management and Supervisory Boards when they recommended not paying dividends due to the obligation to repay the aid received. In making these decisions, SSH considered (i) materiality (when the aid amount exceeded 10% of net profit for 2022), (ii) the estimated opportunity cost of deferring dividend payments if it was lower than the estimated cost of aid repayment, and (iii) cases where retained earnings for 2022 allowed for appropriate dividend payments at the beginning of 2024.

Details on dividend payments are provided in the section on asset management performance results.

flows from the state asset management activity. **For larger companies, SSH also established economic, strategic, and sustainability goals;**

- SSH took part at the General Meetings and voted on its own behalf and on behalf of the Republic of Slovenia and passed founder's resolutions in companies with assets under the SSH's management; **in 2023, the total of 149 General Meetings of Shareholders was convened and founder's resolutions were adopted;**
- provided for the exercise of other rights of a shareholder, such as the submission of the request for the convocation of General Meetings, the applications for the extension of agenda, filling counter-proposals, lodging applications for a court-appointed nomination of members of a supervisory body, lodging applications for special audit review, and lodging compensation claims, and similar tasks Asset in accordance with the shareholder's corporate rights;
- In single-person companies, where stipulated by incorporation documents, **approved long-term strategies (strategic business plans) for the company or group;**
- **reviewed company remuneration policies**, voted on them at General Meetings, or acknowledged them as the founder in limited liability companies, where such requirements are specified in founding documents.

- SSH provided for suitable content-related and legal evaluation of individual activities and decisions taken as an asset manager,
- SSH carried out all necessary activities for relevant and timely procedure regarding the accreditation, nomination and selection of candidates for members of Supervisory Boards;
- SSH continued its activities aiming for the most competent and compatible compositions of supervisory boards;
- SSH acquired and disposed of individual equity investments in accordance with the applicable legislation and other relevant legal documents;
- SSH submitted its comments and proposals on the amendments to the legislation in the field of each pillar of management activities and corporate governance;
- updated asset management documents for state capital assets;
- organised training sessions for members of the management and supervisory bodies of companies with state capital assets;
- SSH continuously strived for raising the quality of corporate governance in the companies under SSH management, including its attempts expressed in its communication with companies to raise the compliance of their operations the Corporate Governance Code for SOEs and with the SSH Recommendations and Expectations.

In its operation and management of capital assets, SSH cooperated with other important stakeholders (for example, KAD), responsible ministries and other bodies and institutions.

## 5.1.6. Significant Additional Asset Management-Related Activities for Individual Companies in 2023

SSH undertook additional activities in its role as a liaison between ministries, other stakeholders, and companies with assets under SSH management. It participated in interdepartmental working groups, primarily addressing legislative changes (e.g., proposing amendments to postal legislation), the adoption of sectoral policies, and other topics aimed at enhancing understanding of the impact of various proposals, positions, or stakeholder requirements on company operations and performance.

On 17 March 2023, in response to a request from the Ministry of Finance of the Republic of Slovenia, SSH prepared foundational guidelines for the development of a new asset management strategy. Alongside its proposals and positions for managing capital assets, SSH included a proposed strategy for managing claims (receivables) and tangible assets. The National Assembly adopted this document on 10 July 2024.

For companies acquired by SSH through the merger with BAMC, activities in 2023 focused on strengthening corporate governance (establishing reporting and planning systems in line with SSH's Recommendations and Expectations and ensuring compliance with the Corporate Governance Code for SOEs).

In addition to the regular management activities outlined above, SSH implemented various **additional asset management-related activities for individual companies**. These activities are detailed below by specific pillar.

### ECONOMIC PILLAR

#### Studentenheim Korotan GmbH (Korotan)

Korotan has been in a poor financial position for several years. In September 2023, after several years of efforts by SSH, the Government of the Republic of Slovenia approved a resolution acknowledging the preliminary proposal for necessary additional funding and authorised SSH to undertake activities to increase the company's share capital and ensure its long-term management. The Government also directed relevant ministries to provide Korotan with additional funds to support the Republic of Slovenia's strategic interests. In 2024, the manager of Korotan, Mohorjeva družba, in collaboration with SSH and a financial advisor, developed a strategy for the company. Efforts to secure sufficient financing for Korotan's operations and thereby ensure sustainable long-term business in line with the developed strategy continue into 2024.

#### Talum, d. d.

In accordance with ZSDH-1A, the ownership transfer of Talum, d. d., from Eles, d. o. o., to the Republic of Slovenia was completed through a reduction in the share capital of Eles, d. o. o. The actual transfer of the investment took place in September 2023, following the signing of the Asset Transfer Agreement in May 2023.

#### SiDG, d. o. o.

In 2023, SSH, acting in the capacity of the General Meeting of SiDG, approved the Strategic Plan for 2024–2028 and adopted the Rules on Methods and Criteria for the Sale of Forest Timber Assortments for SiDG. On the basis of the Decision of the

Government of the Republic of Slovenia of 13 October 2022, in its capacity of the General Meeting of SiDG, calling for a special audit of certain business transactions, SSH appointed PricewaterhouseCoopers, d. o. o., as the special auditor to examine selected transactions conducted in the financial years 2020, 2021, and 2022.

#### Farne Ihan– KPM, , d. o. o.

In October 2023, SSH granted Farne Ihan – KPM, d. o. o., a 16-month moratorium on loan principal repayment to support the stabilisation of the Farne Ihan Group. This enabled the Farne Ihan Group to finance urgent investments, prioritised towards maintaining the continuity of production processes. With a substantial investment backlog, the Farne Ihan Group faces significant strategic challenges and major capital requirements. A new strategy is thus under preparation in 2024 to define key strategic objectives and identify financing sources for these investments.

### TRANSPORT PILLAR

In managing companies within the transport sector, SSH undertook various governance activities, including passing founder resolutions, addressing operational irregularities, and ensuring the implementation of compliance and integrity improvements across these organisations. SSH also participated as a key stakeholder in an interdepartmental working group focused on optimising logistics processes in road freight transport involving the Port of Koper. Led by representatives from the Ministry of Economy, Tourism, and Sport, SSH contributed actively to a working group addressing issues within postal services, submitting proposals for possible amendments to postal legislation concerning both the financing of universal postal services and quality standards.

#### DARS, d. d.

SSH consistently monitored the largest investment projects within the company. Following media reports of alleged irregularities, SSH promptly convened separate meetings with the entire Supervisory and Management Boards of DARS. Based on the information gathered, SSH developed a series of measures aimed at preventing potential future corrupt practices, addressing any existing issues, and ensuring that appropriate disciplinary actions were applied where necessary. SSH urged both the Supervisory and Management Boards to implement the recommended measures within their respective mandates and to submit monthly written updates to SSH, a process which was duly followed. Multiple working meetings were held with company representatives to gain additional insights into ongoing activities and measures, with SSH providing further recommendations. SSH reviewed findings from a forensic audit commis-

sioned by the Supervisory Board, along with the actions taken by the Board based on the auditor's recommendations. In response to identified potential irregularities in procurement, investments, and other operational areas, SSH prepared a scope of transactions for special audit review, actively participated in the public procurement process for selecting an auditor, and, as the sole shareholder, approved a resolution at the December 2023 General Meeting to conduct a special audit covering selected transactions over the past five years. This special audit concluded in August 2024, with an appropriate resolution to be adopted at the General Meeting following its consideration by the Supervisory Board.

#### DRI, upravljanje investicij, d. o. o.

In 2023, SSH undertook efforts to meet its obligations under ZSDH-1A, which required amendments and supplements to the Articles of Association for DRI within three months of the enactment of the legislative amendment. After extensive coordination with the Ministry of Infrastructure, SSH received approval for the new Articles of Association at the end of 2023. The updated Articles aim to preserve the company's status as an internal provider under the Public Procurement Act while incorporating corporate governance principles to the fullest extent. The new Articles of Association were adopted in January 2024.

#### Pošta Slovenije, d. o. o.

SSH participated in a working group under the Ministry of Economy, Tourism, and Sport to examine issues within postal services, focusing on the quality of service delivery and the adequacy of financing for universal postal services. At year-end, approval was granted for the Pošta Slovenije Group's long-term strategy, as endorsed by the company's Supervisory Board.

#### Slovenske železnice, d. o. o.

In May 2023, SSH, acting in its capacity as the founder, issued a resolution approving the contract for the supply of new passenger trains, with a total contract value of EUR 148.3 million (excluding VAT). Following this resolution, SŽ – Potniški promet, d. o. o., entered into the contract with the supplier, STADLER Poland.

### ENERGY PILLAR

#### Holding Slovenske elektrarne, d. o. o. (HSE) – subsequent payments to the share capital

With the aim of preventing liquidity problems within the HSE Group and ensuring its stable operation, the Republic of Slovenia (RS) provided HSE with EUR 492 million in cash in December 2022 in the form of subsequent payments to the share capital. Following the subsequent payments to the share capital, SSH intensified its oversight of the targeted use of these funds and

monitored the company's liquidity, adopting several resolutions on the repayment of capital contributions. As a result, by the end of 2023, HSE had returned EUR 342 million of the EUR 492 million received in subsequent payments to the share capital to the Republic of Slovenia: EUR 100 million on 7 June 2023, a further EUR 142 million on 7 September 2023, and an additional EUR 100 million on 21 December 2023. The remaining EUR 150 million was repaid by the end of May 2024.

### GEN Group

In 2023, SSH directed multiple activities towards the adoption of the GEN Group Strategic Development Plan for 2024–2030, which it approved in its capacity as founder in early October 2023. Given the impact of the energy crisis, SSH closely monitored operations and, in addition to regular management activities, paid particular attention to analyses, studies, and initiatives related to the JEK2 project.

### Geoplin, d. o. o.

SSH monitored the company's actions regarding arbitration proceedings over the gas supply contract with Gazprom, providing approvals at the General Meeting for certain legal transactions related to the arbitration. SSH also granted approval at the General Meeting for management to enter into contracts for additional supplies of natural gas from western sources.

### EGS - RI, d. o. o.

SSH monitored the progress of arbitration proceedings involving EGS-RI, d. o. o., against RiTE Ugljevik a. d., concerning EGS-RI's compensation claims due to breaches of the 1989 Self-Management Agreement. Following the arbitration ruling in favour of the company, SSH also oversaw negotiations to finalise contracts for the supply of electricity from RiTE Ugljevik a. d. and for repayment of the principal awarded by the arbitration court

## 5.1.7. Disposition of Capital Assets in 2023 and Their Acquisition

SSH manages the procedures for the disposition and acquisition of capital assets held by RS and SSH on the basis of the valid State Assets Management Strategy and Annual Assets Management Plan to which the Government of the Republic of Slovenia gives its consent for each year. The sales processes are run on the basis of the SSH Asset Management Policy, which includes principles, procedures and criteria applied by SSH in carrying out its duties and activities as stipulated by ZSDH-1. In addition to other matters, the Asset Management Policy determines the methods for the sale of state assets, for the communication on disposition and acquisition of state assets, for the course of a process for the sale of state assets, the method for

in Belgrade. In its role as founder, SSH provided approval for the conclusion of these legal agreements.

### FINANCE AND TOURISM PILLAR

#### D. S. U., d. o. o.

In 2023, SSH initiated additional asset management-related activities aimed at optimising the management of real estate assets owned by DSU and SSH. This involved a legal analysis of potential methods for transferring SSH's real estate to DSU, along with the acquisition of other expert opinions. It was concluded that, from both legal and tax perspectives, the most suitable approach would be to transfer SSH's tangible assets as of 31 December 2023 by carving out SSH's real estate management activities to DSU. This carve-out process is continuing into 2024, with completion expected by 30 September 2024.

#### Istrabenz, d. o. o.

In 2023, SSH reviewed options for the optimal dissolution of Istrabenz, d. o. o., a wholly-owned subsidiary of SSH. Based on expert recommendations, Istrabenz was merged into SSH on 18 September 2024.

#### Sava, d. d.

In 2023, activities were conducted to finalise the ownership consolidation of the Sava Group and resolve creditor-debtor relationships. An Addendum No. 7 to the Restructuring Agreement was signed between SSH, KAD, and Sava, d. d., extending the debt maturity date. Final financial restructuring activities for the Sava Group continued into 2024 and were successfully completed in September. In this process, SSH and KAD converted half of their claims against Sava, amounting to EUR 35.8 million, into equity as part of a share capital increase. The remaining claims held by SSH and KAD, amounting to over EUR 36 million, were settled by Sava in cash.

running the sale processes and the method for hiring financial institutions and other advisors engaged in the sales processes.

The Slovenia Sovereign Holding strives for the sales processes to run in an efficient, transparent and competitive manner following the principle of equal treatment of participants and in line with international market practice. For this purpose and with the aim of increasing its credibility with investors, SSH leads the sales processes regarding the largest capital assets in cooperation with renowned international financial and legal advisors qualified in financial advisory services.

The fundamental objective pursued by SSH in the sales of shareholdings is the attainment of the highest proceeds from the sale. In regard to the sale of assets owned by RS and/or SSH, within the scope of its statutory limitations, SSH strives to also pursue other goals important from the aspect of providing a stable economic growth. These are: the rise in the quality and capacity of public services, further development of companies, new investment opportunities, entering new markets, ensuring competitiveness, and similar goals.

### Activities Related to the Disposition of Capital Assets

#### Terra Mediterranea, d. d., and Terra Firma, d. d.

On 26 June 2023, SSH issued a public tender offer for the purchase of 98,987 shares (42.85% equity stake) of Terra Mediterranea, d. d., and 20 shares (0.06% equity stake) of the Company of Terra Firma, d. d., owned by SSH. The sale of shares in Terra Mediterranea, d. d., concluded at the end of October 2023, while the sale of shares in Terra Firma, d. d., concluded at the end of December 2023. On 26 October 2023, SSH received a payment of EUR 36,150.45 for the first company, and on 19 December 2023, a payment of EUR 1,600 for the second company.

#### KS Naložbe, d. d., and Vipa Holding, d. d.

On 19 December 2023, on behalf and for the account of the Republic of Slovenia, SSH entered into a direct sales contract with KAD for the sale of 448 shares of KS Naložbe, d. d., and 279 shares of Vipa Holding, d. d., which resulted in a total consideration of EUR 313.20 for the Republic of Slovenia.

#### Salomon, d. o. o.

In mid-2023, SSH launched the sale process for its 30.6% stake in Salomon, d. o. o., through a public call for binding offers, in accordance with the Annual Asset Management Plan and Asset Management Policy. During this process, B-Solventa, d. o. o., an existing shareholder of Salomon, submitted the most favourable offer. Following negotiations, SSH reached an agreement on a sale price of EUR 3.6 million and signed a sale and purchase agreement in December 2023, with appropriate mechanisms to safeguard SSH's legal interests in the transaction. Upon satisfaction of all conditions precedent in early 2024, SSH fully exited its ownership in the company. This divestment also concluded all legal disputes with the company, its director, and former owners, thereby allowing SSH to avoid future legal and associated costs and mitigate risks of additional restrictions on acquired management rights. By selling its minority stake in Salomon, SSH further prevented a situation where it would remain a "locked-in" minority shareholder without any returns on the investment or effective management rights, as SSH (and

previously BAMC) had exerted practically no management influence in the company since acquiring the stake.

#### Fair Gmbh

In accordance with the guidance of the Ministry of Finance, prepared based on findings from the Court of Audit of the Republic of Slovenia, the investment in Fair Gmbh was transferred from SSH to the management of the Ministry of Higher Education, Science, and Innovation in 2023.

#### Sale of Minority Portfolio Capital Assets Owned by SSH, RS, and KAD

At the end of 2023, SSH and KAD jointly issued a call for binding offers for the purchase of 11 minority shareholdings owned by SSH, the Republic of Slovenia, and KAD. The sale processes concluded in 2024 with the signing of share sale and purchase agreements for four companies: Prva Group, d. d., NTU, d. d., Tekol, d. d., and Agis Technologies, d. d. SSH received a total payment of EUR 890.00, the Republic of Slovenia received EUR 698.52, and KAD received EUR 15,008.14.

#### Other

During 2023, the following companies were deleted from the Business Register: Unis, Visoko, 6.75% owned by SSH; Autotehna Croatia, d. o. o., in liquidation, 100% owned by SSH; Autotehna, d. o. o., Belgrade, in liquidation, wholly owned by SSH; Velta plast, d. o. o., wholly owned by the Republic of Slovenia; and Mura, d. d. – in bankruptcy, 12.23% owned by SSH, Inkos, d. o. o. – in bankruptcy, 2.54% ownership of RS. Bankruptcy proceedings were initiated against the company BR89, projektna družba, d. o. o., in 2023. Due to the increase in the share capital of Pomorska družba, d. d., the ownership stake of RS decreased from 0.0957% to 0.0068% in 2023.

### Activities Related to the Acquisition of Capital Assets

#### Electric Distribution Companies

In accordance with AAMP for 2023, SSH carried out several management actions related to electric distribution companies (EDP) with the aim of considering the possibility of optimizing the ownership and organizational model of the electricity distribution activity. Based on publicly available data from EDP, independent valuations were obtained for all five EDPs for the purpose of considering the possibility of purchasing shares from minority shareholders. After obtaining valuation reports for making decision on purchase conditions, SSH announced a call for the submission of non-binding expressions of interest for the sale of EDP shares on its website on 21 November 2023. As only a small number of shareholders expressed interest in selling their shares under price and other conditions

acceptable to SSH, SSH decided not to execute any purchases of EDP shares, as such acquisitions would not have been able to achieve the planned management objectives.

#### **Talum, d. d.**

Based on ZSDH-1A, on 20 September 2023, the ownership stake in Talum, d. d., was transferred from Eles, d. o. o., to the Republic of Slovenia (RS).

#### **Other**

In accordance with the Resolution of the shareholders' General Meeting of SŽ, d. o. o., its 23.87% ownership stake in Terme OL-

imia, d. d., was transferred to the RS (the RS's stake increases from 43.26% to 67.13%). In 2023, pursuant to the Inheritance Act, the RS also acquired 94 shares of KS Naložbe, d. d. (the stake increases from 0.0036% to 0.0045%), four shares of Zavarovalnica Triglav, d. d. (the stake remains at 34.48%), a 100% share in Elbeko, d. o. o., three shares in M1, d. d. (total stake of 0.0039%), 1,200 shares in DBS, d. d., equating to 0.0281%, and 867 shares, representing a 0.0366% equity stake in Ilirka modra zvezda, d. d. In 2023, SSH acquired 13 shares, or 0.00263%, of PRVA GROUP, insurance holding company, plc.

## 5.2 CLAIMS MANAGEMENT

The primary objective in managing claims is to maximise the total value to SSH. When SSH acts as both a creditor and a shareholder of the debtor, the aim is to enhance the combined value of its interests. The claims management also includes the management of individual capital assets for which the primary objective is to repay the SSH's claims.

The claims management process initiates first with a situation analysis; this includes an assessment of (i) the potential for long-term repayment of claims through the debtor's cash flows, (ii) the potential for disinvesting the debtor's assets, (iii) the feasibility of a legal framework enabling maximum repayment of claims, (iv) the debtor's readiness to seek a solution acceptable for SSH, and (v) any other circumstances that may affect repayment of the claims. Based on the analysis of the situation, the appropriate strategy is then selected which has been assessed as delivering the highest value for the creditor, either:

- the restructuring of claims,
- the recovery (the realisation) of collateral,
- sale of a claim,
- full or partial repayment of claims of debtor/guarantor.

#### **Restructuring of Debtors**

The objective to restructure a company is to ensure the long-term efficiency of the debtor's operations, its liquidity and competitiveness and to maximise the repayment of debts through cash flows from operations and the divestment of unnecessary assets. Where possible, SSH seeks to reduce the debtor's indebtedness to a sustainable level with the aim of enabling the existing claims of SSH against the debtor to be refinanced by

a commercial bank. Financial restructuring of the debtor can run concurrently with operational restructuring, which SSH can actively implement, especially in companies where it holds a dominant or majority ownership stake.

SSH implements financial restructuring measures in collaboration with other financial creditors. Financial restructuring measures makes it possible for debtors to extend the repayment period, reduce the interest rate, partially deleverage (mainly through the identification and sale of non-essential of the company), improving the capital structure and providing additional liquidity. SSH may convert its claims into equity investments, take on other claims and ownership stakes, or increase capital of individual debtors, particularly where it already holds ownership stakes.

#### **Managing Claims with Collateral Recovery Strategy**

Where a debtor is a loss-making entity and where even financial and operational restructuring measures would not ensure to generate more value in the future than the value which can be obtained through the recovery and realisation of collateral, SSH, acting as a fair and diligent business operator, opts for realising pledged assets and foreclosing on the debtor's free assets. This strategy is also basically applied to companies which are already subject to insolvency proceedings, or on assets, for which enforcement proceedings have been confirmed. On the other hand, the realisation of collateral can also be carried out by constituent agreement with the debtor, without initiating enforcement or insolvency proceedings.

### **Key activities Undertaken for Claims Management**

#### **T - 2 GROUP**

In 2023, bankruptcy proceedings commenced for Rešet, d. o. o., and Ekol, d. o. o., enabling SSH to continue its asset recovery activities. Concurrently, actions were undertaken to facilitate debt repayment by T - 2, d. o. o., and other creditors within the T - 2 Group.

#### **PAPIRUS GROUP**

At the end of 2022, an addendum to the financial restructuring agreement was signed, effective from 1 January 2023, extending the repayment obligations of companies within the group until 31 December 2024. It included contractual provisions intended to incentivize the companies to secure refinancing from banks. Throughout 2023, the Group companies adhered to the contractual deadlines for repaying financial obligations to SSH.

#### **FORI GROUP**

In November 2023, an agreement on refinancing was concluded with the FORI Group, on the basis of which the company repaid its debt to SSH in the amount of EUR 1.7 million on 1 December 2023. Consequently, the FORI Group successfully finalized the restructuring of its debt through refinancing with the assistance of a foreign investor.

#### **CIMOS GROUP**

The management of the company, together with new owners, implemented measures for financial and business restructuring in 2023. This included securing additional liquidity from the owner and commercial bank, moratoriums from certain commercial banks, and preparing a plan to relocate production from Slovenia and Croatia to Bosnia and Herzegovina and Serbia. Financial obligations of the company under the financial restructuring agreement were not fully repaid in 2023, and the company ceased paying accrued default interest in December 2023.

#### **MEJA ŠENTJUR**

In 2023, a sales process was conducted for the sale of claims against MEJA Šentjur, which concluded unsuccessfully in the third quarter of the same year. In November 2023, the administrator of the compulsory settlement prepared a report on the approval of the compulsory settlement. The court issued a decision confirming the compulsory settlement in the third quarter of 2024, making SSH the 100% owner of the company and converting EUR 3.6 million of ordinary claims into equity.

#### **MLM – IN BANKRUPTCY**

In 2023, SSH continued its search for a strategic partner for MLM. Two interested investors indicated willingness to acquire the company for EUR 1 on the condition of receiving multi-million

non-repayable state aid, which is prohibited under EU regulations. As a result, the sale process concluded at the beginning of 2024 without a selected bidder. Consequently, at the end of 2023, SSH issued a public call for offers to purchase its stake in MLM, d. d., and to secure financial support for the company; however, this process also ended without success at the close of the first quarter of 2024. In the second quarter of 2024, SSH initiated an ongoing process to gauge interest in acquiring a stake in MLM, d. d., thereby ensuring readiness to engage in a potential transaction with an investor who could facilitate the company's continued operations and development. At the General Meeting, SSH supported the MLM Management and Supervisory boards' proposal for a simplified capital reduction to cover past losses, aimed at maintaining the company's capital adequacy. In June 2024, SSH, together with two commercial banks, granted the company a short-term debt repayment moratorium. Despite all efforts by SSH, the company could not secure sustainable operations and filed for bankruptcy at the end of August 2024, which the court subsequently confirmed.

In managing MLM, SSH used all available measures in compliance with EU regulations; however, the additional financial assistance requested by the company was neither feasible, as it would constitute unauthorised state aid, nor economically justifiable. Any further steps by SSH to secure liquidity and solvency for the company would have been considered unauthorised state aid, as MLM had already received all allowable support under EU rules over the past decade, with continued negative performance that had further declined in recent years. Repeated efforts to find a strategic partner who could support MLM's continued operations were unsuccessful. The final attempts to attract investors showed that the only option for continued operations would have been a sale supported by multi-million non-repayable state aid, which is not allowed under EU rules. The bankruptcy process will provide an opportunity to assess whether any viable business segments within the company could attract a new owner, thereby preserving jobs associated with those segments.

#### **ENGROTUŠ**

Regarding Engrotuš, SSH's claims against the company were regulated by a master agreement signed after the approval of preventive restructuring in 2020. The contractual provisions were notably disadvantageous for SSH, given the absence of provisions allowing for the forced realization of securities, as the debtor consistently met its obligations. In 2023, pursuant to an agreement with SSH, the debtor divested real estate assets pledged to SSH, utilizing the proceeds to settle in full SSH's outstanding claims, totalling EUR 2.3 million.

**MARTEX – IN BANKRUPTCY**

In September 2023, at a public auction within the bankruptcy proceedings, a substantial industrial complex in Volčja Draga was sold for EUR 3.1 million. The purchase price in the bankruptcy proceedings was paid in mid-2024; however, it has not yet been distributed among the creditors.

**RAVNE PRESSES – IN BANKRUPTCY**

Following the liquidation of the entire bankruptcy estate, SSH, as a creditor in the bankruptcy proceedings, received EUR 1.0 million in repayment, fully satisfying SSH's claims against the debtor. As all other creditors were also fully reimbursed in the bankruptcy, the remaining bankruptcy estate will be distributed among the owners of the bankrupt debtor in proportion to their respective ownership shares, with SSH expected to receive additional inflows.

**ISTRABENZ**

Regarding Istrabenz, the debtor is repaying SSH as the sole creditor using proceeds from the sale of non-essential assets. In 2023, SSH received repayments totalling EUR 2.3 million from the sale of Zastava Istrabenz Leasing, d.o.o., Belgrade, and the sale of Kolomban land.

**PRIMORJE – IN BANKRUPTCY**

In September 2023, SSH concluded the acquisition of the Majske Poljane land within the bankruptcy proceedings conducted against the debtor. This approximately 34,000 m<sup>2</sup> plot of land in Nova Gorica is suitable for the construction of apartments.

**GRADIS GROUP G – IN BANKRUPTCY**

Following the completion of a mortgage lawsuit initiated in 2018, several apartments, commercial spaces, storage units, and parking spaces in the centre of Kranjska Gora were sold in execution against the mortgage debtor. As the first-ranking mortgage creditor, SSH was repaid from the proceeds of the real estate sales, significantly exceeding reserve price.

## 5.3 TANGIBLE ASSETS MANAGEMENT

The management of tangible assets involves the disposal of both properties and movable assets owned by SSH, as well as leasing of real estate assets and other forms of their management.

The tangible assets of SSH primarily consists of real estate, along with movable assets such as artworks and other miscellaneous property. The management of tangible assets held by SSH also includes the management of selected capital assets, the predominant portion of which includes real estate assets.

**Objectives in Management of Tangible Assets**

The fundamental objective in tangible asset management is to maximize value for SSH. To achieve this goal, SSH implements measures to increase the value of individual properties or portfolios of properties (such as land consolidation, spatial planning arrangements, change of land use, investment in maintenance works, management of investments across all phases of the investment process, etc.), as well as measures as for efficient marketing.

The most of tangible assets are intended for sale, while a portion may also be leased (permanently), for example, when the necessary property development is completed, or the construction is built, or for lending purposes lent (works of art). The land, which, if used for the property development projects of business, residential and other type of structures, can provide the owner with a higher long-term return (through rent or the sale price of constructed properties) than an immediate sale, is intended for the development and construction of real estate projects.

**Acquisition of Tangible Assets (Conversion of Claims into Tangible Assets)**

Tangible assets (mostly real estate) represent the highest value of collateral for claims which were transferred to BAMC and subsequently, through the merger, to SSH. As the quality of the transferred claims was poor (making enforcement the most rational strategy for most debtor companies), a majority of these collateral assets (real estate) are subject to realization by bankruptcy administrators and debtors in the market. In these cases, SSH is repaid with the proceeds received, reduced by the costs of sales procedures. From the perspective of optimizing

the value of its investment, SSH may also decide to take over tangible assets with the intention of their subsequent resale.

In cases where it is not possible to achieve an acceptable market price for collateral (tangible assets) during the process for recovering the collateral, SSH may opt to participate directly in the sale of such assets as a purchaser in bankruptcy or enforcement proceedings. This approach allows SSH to acquire the tangible assets by offsetting the claims it holds against the debtor. The principal criterion SSH employs in determining whether to take direct ownership of the pledged asset is whether such ownership and management will result in a higher return than the sale price established by the bankruptcy administrator or the debtor company during the debt recovery process. Similarly, SSH decides to take over tangible assets even when there is no market interest for it in bankruptcy proceedings and it cannot be sold at all, while assessing whether the tangible asset is burdened by potential liabilities, such as environmental contamination, and the like. In special circumstances, SSH decides to purchase even unpledged land to gain access to its real estate, consolidate ownership, and the like.

In 2023, SSH acquired five sets of real estate with a total acquisition value of EUR 4.8 million. The largest sets encompass approximately 40,000 square meters in total and are located in Nova Gorica and Ljubljana.

**FIGURE: PLOT OF LAND IN NOVA GORICA****FIGURE: PLOT OF LAND IN STEGNE IN LJUBLJANA****Management of Owned Real Estate**

As part of the management of tangible assets, a number of measures have been implemented to ensure that these assets are properly maintained and that (at a minimum) their value is preserved. All immovable and movable property is cared for in accordance with the principle of due diligence; buildings, which have been taken over, are adequately insured; damaged buildings are rehabilitated for to prevent any further damage, and additional security is provided over some assets.

In 2023, SSH implemented numerous measures to increase the value of its assets, including the development of two detailed municipal spatial plans in Ljubljana, carrying out various legalization procedures, and undertaking extensive, long-term post-earthquake renovations of residential buildings in Zagreb. The period from June to August was heavily marked by numerous weather disturbances, resulting in damages to numerous roofs and building fixtures of properties owned by SSH. As a result, various activities were carried out to prevent further damage to the buildings, and comprehensive renovations of these properties were also undertaken.

In collaboration with the Ministry of Culture, SSH successfully completed the transfer of 499 artworks from rented archival spaces to various state art galleries by the end of June. This initiative enabled SSH to reduce management costs while simultaneously providing the public with access to these artworks.

Throughout 2023, SSH also conducted numerous operational development activities on individual residential properties, where the construction of multi-family residential buildings is planned.

**Sales and Leasing of Tangible Assets**

At the beginning of the year, activities in the field of tangible asset management were initially focused on establishing efficient processes for the management of tangible assets and their sales. In the latter part of the first quarter, the initial significant sales transactions were executed, with the majority being realised in the second half of 2023. In total, more than 150 parts of real estate were sold in 2023, with a total sales value of EUR 18.8 million. Real estate was predominantly sold through electronic public auctions, with some also being marketed through advertising. The largest number of individual units of real estate were sold as part of the Metelkova Parking House complex in Ljubljana (82 units). In addition to these sales, SSH also completed five sales transactions with a value exceeding EUR 1 million each. The largest sales included a fully operational four-star hotel in Bulgaria, a complex of interconnected industrial buildings spanning 5417 m<sup>2</sup> in Hrpolje; an approximately 11,000 m<sup>2</sup> unfin-

ished commercial-residential building in Maribor; an 8200 m<sup>2</sup> plot of land with a functioning tennis centre in Ljubljana; and a larger plot of land with a 4866 m<sup>2</sup> production hall in Kromberk.

FIGURE: HOTEL OASYS, BULGARIA



FIGURE: INDUSTRIAL BUILDINGS, HRPELJE



Revenue for SSH from the management of tangible assets in 2023 primarily relates to the sale of real estate, partly also from leasing arrangements. In 2023, SSH actively managed over 130 lease agreements (approximately half for office spaces and half for parking spaces) and significantly increased rental income compared to previous years, reaching nearly EUR 1.9 million by year-end (up from EUR 1.5 million in 2022).

In 2023, the handover of land and buildings from the former shipyard in Izola was completed. The property was transferred to the Republic of Slovenia in July 2023, based on a decision by the Government of the Republic of Slovenia dated 21 April 2022, with SSH recognising an economic loss as a capital return to the owner.

## 6 STRATEGIC TOPICS AND GOVERNANCE ISSUES

### 6.1 SUSTAINABLE BUSINESS



SOEs are an important and a visible stakeholder of the Slovenian economy which is why it is of paramount performance that all aspects of sustainable business (environmental, social and corporate governance, or ESG) are included in their strategic and development plans and business strategies. Decisions made at the EU level, such as the adoption of the CSRD Directive and the ESRS Reporting Standards, alongside the redirection of capital flows from unsustainable to sustainable enterprises, are increasingly motivating companies to incorporate sustainability into their practices in a responsible and integrated manner.

*The main purpose is for SOEs to achieve the financial success expected by the owner while simultaneously implementing all three aspects of sustainable business: responsible attitude towards the society and the natural environment along with responsible governance.*

Accordingly, management and supervisory bodies are responsible for the long-term resilience of the company in the business environment, with climate change being one of the important factors for action. One of their key responsibilities therefore is to establish effective management of climate risks and opportunities.

SSH has already undertaken several activities to promote sustainable business in SOEs:

- SSH has adopted the **comprehensive recommendations for the sustainable operations of SOEs** and other recommendations that fall under segment S (society);

- In 2023, SSH upgraded the Code of Governance of State-Owned Capital Assets to encompass multiple sustainability areas;
- SSH places a strong emphasis on sustainability during regular **periodic meetings with portfolio companies**, where completed and planned ESG activities are presented, and the achievement of established sustainability goals, especially for large companies, is monitored;
- sustainability topics were also covered in several **educational sessions**;
- in the Annual Asset Management Plan for 2023, SSH included general expectations related to sustainable business practices, with a focus on the role of supervisory bodies, and incorporated ESG targets into the presentations of all large companies;
- at the end of 2019, as regards the largest portfolio companies, SSH started monitoring of data pertaining to additional **criteria for measuring performance of SOEs** and included a set of supplementary sustainability indicators;
- It has developed **non-financial indicators at portfolio level**, namely carbon footprint, investment in staff development and gender diversity of management and supervisory bodies.

#### **Key Challenges and Corporate Governance Priorities in Sustainable Business and the Transition to a Low-Carbon Economy**

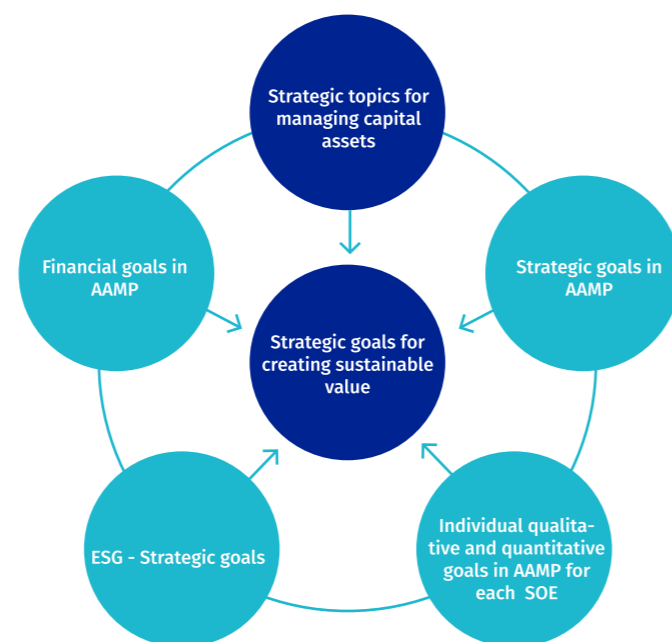
Good corporate governance aims to establish and put in place efficient mechanisms geared towards achieving long-term corporate value, financial and sustainable performance as well as the fulfilment of other corporate objectives. These objectives can be achieved by understanding and considering and balancing the interest between all key stakeholders and involving them both at the strategic level as well as at the operational level of major business decision-making processes.

- The company's management and supervisory bodies are accountable to shareholders and company members for delivering long-term value to the company. It is their duty to ensure that sustainable business practices, now considered a "conditio sine qua non for the long-term viability of a company, are a strategic priority which is integrated in all business processes and systems to manage risks and opportunities across the organisation.
- There must be a sufficient degree of diversity among the members of management and supervisory bodies, with a particular emphasis on the relevant competences, to enable effective discussions and informed decision-making by board members.
- SOEs must identify the most effective way to integrate all aspects of sustainability into their corporate governance system (in which regard, strategy committees, nomination committees, audit committees, risk committees and other committees functioning within supervisory bodies play an important role).
- It is the duty of supervisory bodies to include criteria for measuring the sustainability performance in the remuneration system to reward management bodies, in addition to performing an assessment of a short, medium and long-term adequacy of sustainability performance management.
- Management and supervisory bodies should ensure that an appropriate incentive system is put in place to enhance long-term sustainable performance of the company.
- It falls upon management and supervisory bodies to consistently and transparently disclose significant sustain-

ability risks, opportunities, and strategic decisions to all stakeholders, particularly investors and regulators. These disclosures are outlined in various reports such as business reports, financial reports, and investor conferences.

- Transparency and good quality reporting are essential to understanding how companies are achieving their objectives and creating sustainable value. Reporting will have to adhere to the ESRS reporting standards for liable companies.

Below is an overview of the key governance tools within SSH that contribute significantly to creating sustainable value for a company.



### 6.1.1. GHG Emissions of the Largest SSH Portfolio Companies in 2023

SSH monitors greenhouse gas emissions for the largest companies in its portfolio in accordance with the GHG Protocol. Greenhouse gas emissions are the main driver of increasing global climate change and are therefore a major focus of policies, regulations, business models and technological responses to limit climate change. Emissions are weighted according to the SSH's share of the capital asset under management.

The 20 largest companies by book value of equity under SSH's management, along with three other significant production companies, are included in the report. By the end of 2023, these companies represented 97% of the book value of equity managed by SSH.

All significant greenhouse gases are reported in metric tonnes of CO2 equivalent (tCO2e) according to the International Greenhouse Gas Protocol (GHG): Scope 1, Scope 2 and Scope 3. The table shows the GHG emissions (in tCO2e) for Scope 1: direct

emissions from own activities and Scope 2: indirect emissions from energy consumption. Scope 3 emissions are not yet included in the reporting.

A distinctive feature of SSH's portfolio is that the Energy pillar accounts for the majority of emissions, primarily due to HSE (mainly from TEŠ), which contributed nearly 90% of total portfolio emissions in 2023. The footprint varies considerably across pillars, with large differences due to different activities within the pillars themselves. It is important to note that the methodology is still evolving.

In addition to HSE, certain manufacturing company and electricity distribution companies also exhibit high relative footprints, i.e. footprint in relation to capital under management. Due to HSE and the electricity distribution companies, the vast majority of total emissions are realised in the Energy pillar and as expected, the least in the Finance pillar.

Overall portfolio emissions under SSH's management were slightly lower in 2023 than in the previous year. In addition to the Energy pillar, the Finance pillar also saw a reduction in emissions. Emissions increased in the Economy and Transport pillars in 2023 compared to the previous year. In the Economy

pillar, the increase was due to a higher managed share in Talum; otherwise, emissions in this pillar would have been 10% lower than the previous year. Companies in the Tourism pillar are currently excluded from the review.

TABLE: EMISSIONS BY SSH'S MANAGEMENT PILLARS

PILLAR	Absolute tCO2e emissions, Scope 1 and Scope 2 combined, 2021	Absolute tCO2e emissions, Scope 1 and Scope 2 combined, 2022	Absolute tCO2e emissions, Scope 1 and Scope 2 combined, 2023	Index 2023/2022	Proportion of Emission 2023 (in %)
TRANSPORT	97,086.6	93,643.8	120,001.8	128.1	3.8
ENERGY SECTOR	3,684,764.7	2,960,209.0	2,844,468.5	96.1	89.7
FINANCIAL SECTOR	16,802.0	11,271.9	10,327.6	91.6	0.3
ECONOMY	175,749.3	173,474.2	196,374.3	113.2	6.2
<b>TOTAL</b>	<b>3,974,402.6</b>	<b>3,238,598.8</b>	<b>3,171,172.2</b>	<b>97.9</b>	<b>100.0</b>

Relative emissions, measured as emissions per EUR 1 million of capital under management, saw a solid 9% decrease in 2023. Emissions declined in the Energy and Finance pillars, remained

at the previous year's level in the Economy pillar, and increased in the Transport pillar.

TABLE: RELATIVE EMISSIONS BY SSH MANAGEMENT PILLARS (IN TONNES OF CO2 EQUIVALENT PER EUR 1 MILLION OF CAPITAL UNDER MANAGEMENT)

PILLAR	Emissions tCO2/mio EUR of capital under management 2021	Emissions tCO2/mio EUR of capital under management 2022	Emissions tCO2/mio EUR of capital under management 2023	Index 2023/2022
TRANSPORT	23.3	20.9	25.0	119.6
ENERGY SECTOR	1,178.8	907.7	799.0	88.0
FINANCIAL SECTOR	9.7	6.6	5.7	87.2
ECONOMY	199.5	182.0	183.8	101.0
<b>TOTAL</b>	<b>401.2</b>	<b>311.1</b>	<b>282.4</b>	<b>90.8</b>

### 6.1.2. Contribution of Top 20 Portfolio Companies to 2030 Agenda



The 2030 Agenda for Sustainable Development, which comprises 17 general and 169 specific Sustainable Development Goals (SDGs) adopted by world leaders at the United Nations Summit in September 2015, is a transformative global framework that guides national and international efforts to eradicate extreme poverty while respecting planetary boundaries and promoting prosperity, peace, and justice.

This is a universal agenda to which all countries and stakeholders can and must contribute. SSH, in its recommendations, SSH advises companies to analyse these goals and determine how

they can contribute to their achievement through their operations. The table below presents the contributions of the largest portfolio companies by individual SDG targets.

The State Asset Management Strategy, adopted in July 2024, identifies seven general goals of the 2030 Agenda as particularly relevant for state-owned companies:

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
Elektro Celje			■	■			■	■	■			■	■		■		
Elektro Gorenjska			■	■	■		■	■	■	■	■	■	■				■
Elektro Ljubljana			■	■	■		■	■	■		■	■	■	■	■	■	■
Elektro Maribor			■	■	■		■	■	■			■	■		■	■	■
Elektro Primorska			■	■			■	■	■			■	■				
Holding Slovenske elektrarne			■	■	■		■	■	■		■	■	■		■		■
Gen energija			■		■	■		■		■			■		■		
Petrol			■	■	■	■	■	■	■		■	■	■		■		■
Plinhold			■	■			■	■	■			■					■
Dars			■			■	■	■	■						■	■	■
Luka Koper			■	■	■		■	■	■	■	■	■	■	■	■	■	■
Pošta Slovenije	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■
Slovenske železnice	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■
NLB			■	■	■	■	■	■	■		■	■	■				
Sava RE			■	■	■								■				
SID banka	■							■	■	■	■	■	■	■	■	■	■
Zavarovalnica Triglav		■	■	■	■		■	■	■		■		■		■	■	■
KRKA			■	■	■			■	■			■	■				■
Talum	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■
Telekom Slovenije	■		■	■	■		■	■	■	■						■	■

- achieve gender equality and empower women;
- ensure access to affordable, reliable, sustainable, and modern energy for all;
- promote inclusive and sustainable economic growth, full and productive employment, and decent work for all;
- build resilient infrastructure, promote inclusive and sustainable industrialization, and foster innovation;
- take urgent action to combat climate change and its impacts;
- protect and restore terrestrial ecosystems, promote their sustainable use, sustainably manage forests, combat desertification, prevent land degradation, reverse this phenomenon, and halt biodiversity loss;
- conserve and sustainably use oceans, seas, and marine resources for sustainable development.

### 6.2 RISK MANAGEMENT



Risk management is crucial for the stable and effective operation of companies, and it contributes to increased stakeholder trust, better fulfilment of strategic and financial goals, and a reduction in potential financial losses. Risk management represents a significant pillar of corporate governance, and a company's success heavily relies on its capability to identify, assess, and efficiently manage these risks.

Companies within the managed capital asset portfolio encounter a variety of operational risks. High-quality risk management is essential for stable and efficient operations, fostering stakeholder trust, improving decision-making, ensuring regulatory compliance, achieving strategic and financial objectives, and mitigating potential financial losses. Risk management is a fundamental pillar of corporate governance, incorporating environmental, social, and governance (ESG) risks. Its effectiveness largely depends on a company's ability to identify, assess, and manage these risks efficiently.

As an asset manager, SSH monitors risks in portfolio companies through regular management activities, the Corporate Govern-

ance Code for State-Owned Enterprises, SSH Recommendations and Expectations, organizing training sessions (including sessions for supervisory board members of state-owned companies), and other initiatives to ensure companies adequately manage risks in their operations. In single-person companies, SSH occasionally conducts reviews via its internal audit function, subsequently issuing recommendations, including measures for SSH's governance-based risk management. SSH does not directly lead the group of companies as a joint concern, thus it does not directly intervene in their processes, internal control systems, or risk management systems.

Risk management in SOEs is in the SSH interest as, in the capacity of the asset manager, SSH pursues the goal of attaining suitable financial and performance results. Risk management remained a primary focus of portfolio company oversight in 2023, given its impact on achieving effective business outcomes; **therefore, SSH closely examined the key risks identified by companies and the mitigation measures they implemented during periodic meetings.** Inadequate risk management in portfolio companies could jeopardize goals set by SSH in AAMP.



Indeed, poorly managed risks are reflected in the operating result of each company, which affects the value of the ROE indicator of each company and the management portfolio of SSH as a whole, and ultimately the ability to pay dividends.

SSH consistently monitors risks in companies through ongoing analysis of business performance and market trends, preparing quarterly reports that are reviewed in Risk Committee sessions. The portfolio companies also regularly report on key risks and their management in the context of regular periodic meetings held by SSH with members of the management and supervisory bodies of the companies.

Within SSH, regular working meetings are held, alongside quarterly Risk Committee sessions, where internal and portfolio risks are continuously assessed and discussed. To facilitate better cooperation and information flow on risk monitoring across portfolio companies and SSH, a permanent working group has been established, meeting weekly for regular updates.

The sophistication and complexity of risk management systems in individual company largely depend on each company's size, business complexity, employee count, and other factors which influence the required level of complexity to meet the standard of a diligent and fair business operator.

## 6.3 COMPLIANCE, ETHICS AND CORPORATE INTEGRITY



Through its management activities, SSH actively advocates for the creation of compliance and integrity systems, as well as risk management and internal audit systems within companies. These fundamental components of corporate governance are anticipated to be efficiently established to prevent, detect, and mitigate risks linked to business compliance and integrity issues. In addition, SSH ensures that operational regulations and best practices are adhered to.

The fundamental principles for the operation of SOEs must include commitments for corporate integrity, transparent operation and zero tolerance towards corruption, illegal and un-

ethical conduct of employees, members of management and supervisory bodies.

In its pursuit to strengthen corporate integrity, SSH anticipates companies to not only comply with the applicable legislation concerning integrity and anti-corruption measures but also adhere to reference documents which focus on corporate integrity and best practices specific to their industries and company characteristics.

SSH has instituted **internal mechanisms to oversee business compliance, integrity, and internal auditing**. These are extensively detailed in the organizational development section of SSH's annual report drawn up in accordance with the Companies Act. This report also includes data protection and anti-money laundering measures.

### 6.3.1. Business Compliance and Integrity System

In 2023, all identified compliance and integrity risks (hereinafter referred to as: "CIS") in the company were addressed within the Integrity Plan, which is publicly accessible on SSH's website. The plan details identified risks and includes a set of ongoing and one-off measures for managing these risks.

The Chief Compliance and Integrity Officer (hereinafter referred to as: the "CIS Officer") reported regularly to the management and supervisory bodies on the implementation of the Annual Integrity Work Plan carried out by the Corporate Compliance department, as mandated by the provisions of ZSDH-1 on the implementation of the Integrity Plan and other activities.

With the integration of BAMC in 2023, particular focus was placed on adapting CIS processes, updating internal regulations, strengthening the advisory role of the CIS department, aligning processes for handling reports of suspected irregularities and safeguarding whistleblowers in compliance with the new Reporting persons Protection Act (ZZPRI). Furthermore, explanatory materials and documentation were prepared for supervisory and investigative authorities, and all employees were educated and trained on these matters.

### 6.3.2. Advisory Services for SOEs

Employees from the Corporate Compliance department were involved in organizing events and training sessions that SSH conducted for executives and supervisory board members of state-owned portfolio companies. Two working meetings were also organized with compliance and integrity officers from companies where SSH holds majority ownership or significant influence. The purpose of these meetings was to address current professional topics, exchange experiences, and provide recommendations for future work and professional development.

To support the further development of CIS practices within state-owned portfolio companies, SSH introduced updates to the Corporate Governance Code for SOEs and SSH Recommendations and Expectations for CIS at the end of 2023. The annual

work plan for the Corporate Compliance department included a task for strengthened professional collaboration between SSH and portfolio companies, facilitated through bilateral meetings with company representatives responsible for CIS.

In line with the provisions of ZSDH-1, the CIS Officer was available to provide advisory support to the management and supervisory bodies, as well as to the audit functions within companies where SSH holds a majority or controlling interest. With the amendment to Article 57 of ZSDH-1, members of the management and supervisory bodies in these companies are now required to report any unethical or unlawful actions or third-party influence on SSH's CIS Officer.

### 6.3.3. Handling of Reports on Alleged Irregularities

As part of the reporting system for suspected irregularities, the CIS Officer received a total of 82 reports in 2023. In accordance with internal processes, reports were categorised into the following categories:

- alleged internal irregularities submitted by employees, members of bodies and working bodies of SSH (internal reports);
- alleged irregularities in state-owned portfolio companies: (external reports);
- violations subject to oversight by other authorities or institutions: (referred for external handling);
- improper conduct under Article 57 of ZSDH-1: (addressed by the CIS Officer);
- expression of opinion by persons reporting non-ethical or illegal conduct;
- other issues not classified as reports.

Of the total reports, 55 related to alleged irregularities within state-owned portfolio companies under SSH management. Twenty-three were whistleblower opinions or involved other matters without alleged irregularities. Four reports indirectly involved SSH and were addressed according to internal procedures.

All reports on alleged irregularities in state-owned portfolio companies were reviewed by the official responsible for handling external reports (Assistant to the Director of the Corporate Compliance department), who was appointed by SSH's Management Board under ZZPRI provisions. In accordance with Article 14 of ZZPRI, SSH is designated as an authority for handling external reports. Internal reports were managed by the designated officer (CIS Officer and Director of the Corporate Compliance Department). Report-handling procedures were adjusted in 2023 to comply with ZZPRI requirements (detailed procedures are available on SSH's website). SSH also processed certain reports that did not fully meet ZZPRI criteria.

## 6.4 INTERNAL AUDIT

SSH’s Internal Audit performs both routine audits within SSH and operational reviews in portfolio companies, aiming to enhance (i) efficient, responsible, and effective operations, (ii) identification, measurement, and mitigation of core risks, (iii) reliability of financial and non-financial reporting, and (iv) adherence to laws, regulations, and internal policies.

Following the BAMC’s integration with SSH, Internal Audit’s 2023 focus was primarily on SSH’s internal audits. However, one operational review was conducted in a portfolio company, specifically on investment management practices. This area is critical

as robust investment practices generate outcomes that serve the long-term interests of shareholders, stakeholders, and the broader community. Within this audit review, the Internal Audit provided initiatives to address identified gaps, which were accepted by the company’s management, leading to an action plan for their resolution.

Internal Audit also regularly monitored the implementation of recommendations from past reviews, and companies actively worked to rectify identified issues.

**TABLE: OVERVIEW OF THE INTERNAL AUDIT’S RECOMMENDATIONS AND INITIATIVES ISSUED AND IMPLEMENTED IN 2023**

Internal Audit’s Recommendations/initiatives	Pending as at 1 Jan 2023	Newly issued in 2023	Implemented in 2023	Abandoned/not implemented	Still pending as at 31 Dec 2023
Initiatives for portfolio companies	16	8	20	0	4

In June 2023, the fourth meeting of Heads of Internal Audit from portfolio companies where SSH/RS holds a majority stake or dominant influence was held. The purpose of these working

meetings is to exchange best practices and discuss professional challenges. The focus of the June meeting was on risk assessment in internal audits.

## 6.5 CORPORATE CULTURE, DIVERSITY, HUMAN RIGHTS



All three topics—**corporate culture, diversity, and human rights**—are interconnected and each can significantly impact a company’s business performance in its own way. Companies that effectively manage these areas are more likely to achieve their business goals, meet stakeholders’ expectations, and uphold their broader social responsibilities.

SSH promotes these areas within its portfolio via the Corporate Governance Code for SOEs, the SSH Recommendations and Expectations , and the Governing Corporate Culture handbook. SSH expects companies to comply with recommendations based on the principle of “comply or explain”. In the future, these topics will hold a prominent position in monitoring companies’ sustainable business operations. SSH has already supported some of these areas through regular training activities for Supervisory Boards and other key decision-makers.



**BUSINESS  
PERFORMANCE OF  
COMPANIES OWNED BY  
RS AND SSH**

## 7 BUSINESS PERFORMANCE OF COMPANIES OWNED BY RS AND SSH

### 7.1 PORTFOLIO OF RS AND SSH CAPITAL ASSETS AS AT 31 DECEMBER 2023

As at 31 December 2023, portfolio of capital assets under SSH's management included 84 active companies (as at 31 December 2020, there were 88 such companies). Of this number, RS held direct ownership stake in 39 companies, and SSH in 30 companies, whereas both RS and SSH held direct ownership stake in 15 active companies. As of the end of 2023, SSH held under its management eight smaller equity stakes on behalf of the Republic of Slovenia which had been acquired in accordance with the law governing inheritance. Capital assets with the Rs's shareholding include the assets owned by ZPIZ and held in Zavarovalnica Triglav.

Additionally, as at 31 December 2023, SSH managed capital assets held in 21 non-active companies (in bankruptcy or in liquidation; there were 26 such companies in the SSH's portfolio

as at 31 December 2022). Of these companies, RS held direct ownership stake in eight companies, while SSH in eleven companies and both RS and SSH held direct ownership stake in two non-active companies.

Certain capital assets are classified under tangible assets management and claims management. Capital assets categorized under tangible assets management predominantly consist of real estate. These are typically project companies engaged in real estate management activities. Capital assets categorized under claims management are primarily companies focused on managing claims against these companies. Mostly, these are companies (except MLM) where their core business is no longer operational.

**TABLE: LIST OF ACTIVE COMPANIES IN WHICH RS'S AND SSH'S EQUITY INTEREST EXCEEDS 5% AND FOR WHICH THE ANNUAL ASSET MANAGEMENT PLAN IS DRAWN UP; AS AT 31 DECEMBER 2023\***

Pillar, Company	RS's shareholding (%)	SSH's shareholding (%)	Total (%)
<b>TRANSPORT</b>			
DARS, d. d.	100.00		100.00
DRI, d. o. o.	100.00		100.00
KOPP, d. o. o.	100.00		100.00
KZPS, d. o. o.	100.00		100.00
LUKA KOPER, d. d.	51.00	11.13	62.13
POŠTA SLOVENIJE, d. o. o.,	100.00		100.00
SŽ, d. o. o.	100.00		100.00
<b>ENERGY</b>			
EGS-RI, d. o. o.	100.00		100.00
ELEKTRO CELJE, d. d.	79.50	0.41	79.91
ELEKTRO GORENJSKA, d. d.	79.48	1.51	80.99
ELEKTRO LJUBLJANA, d. d.	79.50	0.77	80.27
ELEKTRO MARIBOR, d. d.	79.86		79.86

ELEKTRO PRIMORSKA, d. d.	79.68	0.36	80.05
GEN ENERGIJA, d. o. o.	100.00		100.00
GEOPLIN, d. o. o., Ljubljana	25.01		25.01
HSE, d. o. o.	100.00		100.00
INFRA, d. o. o.	100.00		100.00
NAFTA LENDAVAL, d. o. o.	100.00		100.00
PETROL, d. d., Ljubljana	10.82	12.70	23.52
PLINHOLD, d. o. o.	60.10	0.05	60.15
RŽV, d. o. o.	100.00		100.00
<b>FINANCIAL SECTOR</b>			
D. S. U., d. o. o.	100.00		100.00
NLB d. d.	25.00		25.00
Sava Re, d. d.	13.89	17.68	31.57
SID banka, d. d., Ljubljana	99.41		99.41
ZAVAROVALNICA TRIGLAV, d. d.**	34.48	28.09	62.57
<b>ECONOMY</b>			
A. L. P. PECA, d. o. o.	9.09		9.09
BODOČNOST MARIBOR, d. o. o.	77.52		77.52
CETIS, d. d.		7.47	7.47
CINKARNA Celje, d. d.		24.44	24.44
CSS, d. o. o.	97.96		97.96
ELEKTROOPTIKA, d. d.	0.01	70.48	70.49
FARME IHAN – KPM, d. o. o.		100.00	100.00
ISTRABENZ, d. o. o.		100.00	100.00
KOTO, d. o. o.	66.23	4.42	70.65
KRKA, d. d., Novo mesto	7.22	9.00	16.22
LOTERIJA SLOVENIJE, d. d.		15.00	15.00
LUBRIO, d. o. o.	100.00		100.00
MK Založba, d. d.		83.47	83.47
POMGRAD – VGP, d. d.	25.01		25.01
PS ZA AVTO, d. o. o., Ljubljana		90.00	90.00
SALOMON, d. o. o., Ljubljana		30.59	30.59
SiDG, d. o. o.	100.00		100.00
SIJ, d. d.	25.00		25.00
STNA, d. o. o.		100.00	100.00
STUDENTENHEIM KOROTAN GMBH	100.00		100.00
TALUM d. d. Kidričevo	86.25	5.21	91.46
TELEKOM SLOVENIJE, d. d.	62.54	4.25	66.80
UNIOR, d. d.		39.43	39.43
URADNI LIST REPUBLIKE SLOVENIJE, d. o. o.	100.00		100.00
VGP, d. d.	25.00		25.00
VGP DRAVA Ptuj, d. o. o.	25.00		25.00
VGP Novo mesto, d. d.	25.00		25.00
<b>TOURISM</b>			
ADRIA, d. o. o.		11.74	11.74
CASINO BLEDE, d. d.		33.75	33.75
CASINO Portorož, d. d.		9.46	9.46

HIT, d. d., Nova Gorica		28.54	28.54
ISTRABENZ TURIZEM, d. d..		100.00	100.00
SAVA, d. d.		61.91	61.91
TERME OLIMIA, d. d.	6713	8.08	75.21
THERMANA, d. d.		100.00	100.00
<b>TANGIBLE ASSETS</b>			
ARGOLINA, d. o. o.		100.00	100.00
DUP, d. o. o., Sarajevo		100.00	100.00
DUTB Crna Gora, , d. o. o.		100.00	100.00
FACTOR PROJEKT, d. o. o., Croatia		100.00	100.00
<b>CLAIMS</b>			
AVROTEHNA Zagreb, d. o. o.		100.00	100.00
BATRIS, LLC, Ukraine		18.00	18.00
CONSTANT LEADER XXI, LLC, Ukraine		18.00	18.00
DS PROJEKT, d. o. o..		74.00	74.00
HYUNDAI AUTO BEOGRAD, d. o. o.		100.00	100.00
MLM, d. d.		100.00	100.00
POSLOVNI SISTEM DOMINA, D. O. O., BEOGRAD		55.52	55.52

The list does not include assets acquired in the SSH's ownership pursuant to the Inheritance Act.

\*\*Through ZPIZ; RS's equity interest in Zavarovalnica Triglav amounts to 34.47% and combined with the shares of Zavarovalnica Triglav owned by RS, the total portion of RS's stake in Zavarovalnica Triglav amounts to 34.48%.

## 7.2 VALUE AND STRUCTURE OF PORTFOLIO UNDER MANAGEMENT

### 7.2.1. Capital Assets

The book value of capital assets under management increased during 2023, reaching EUR 12.2 billion by the end of the year (compared to EUR 11.2 billion at the end of 2022). This rise is predominantly attributed to the growth in company capital driven by strong business performance, as well as higher reported capital in insurance companies following the introduction of new accounting standards.

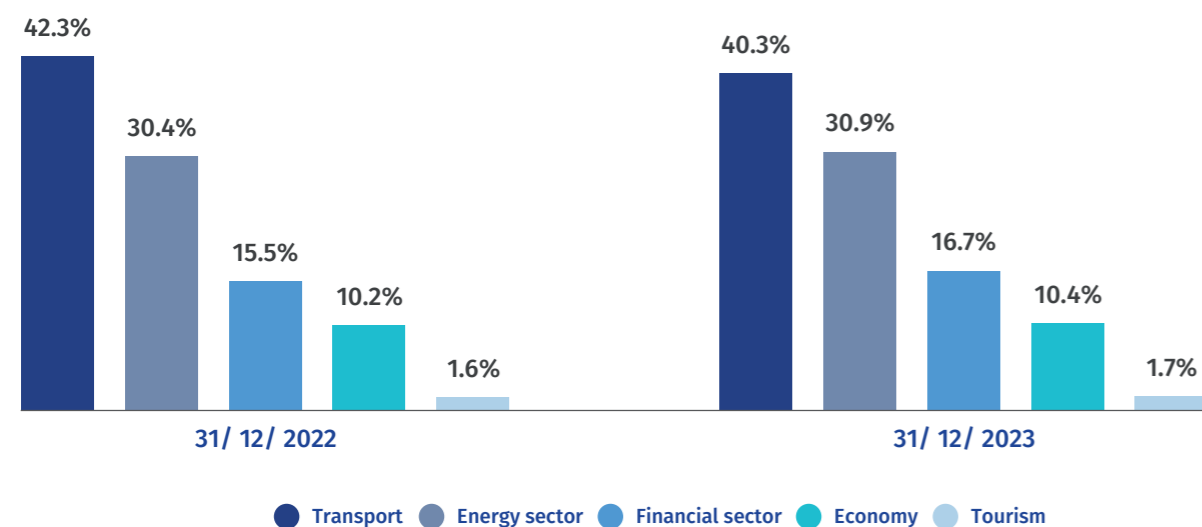
The concentration of assets in the portfolio remains high, with the ten largest companies comprising almost 77.8% and the twenty largest portfolio companies representing over 94% of the total value of assets under management. The largest portfolio company, DARS, alone accounts for 27.2% of the portfolio's value.

**TABLE: TOP 10 ASSETS HELD BY RS AND SSH BY BOOK VALUE OF EQUITY STAKE AS AT 31 DECEMBER 2023**

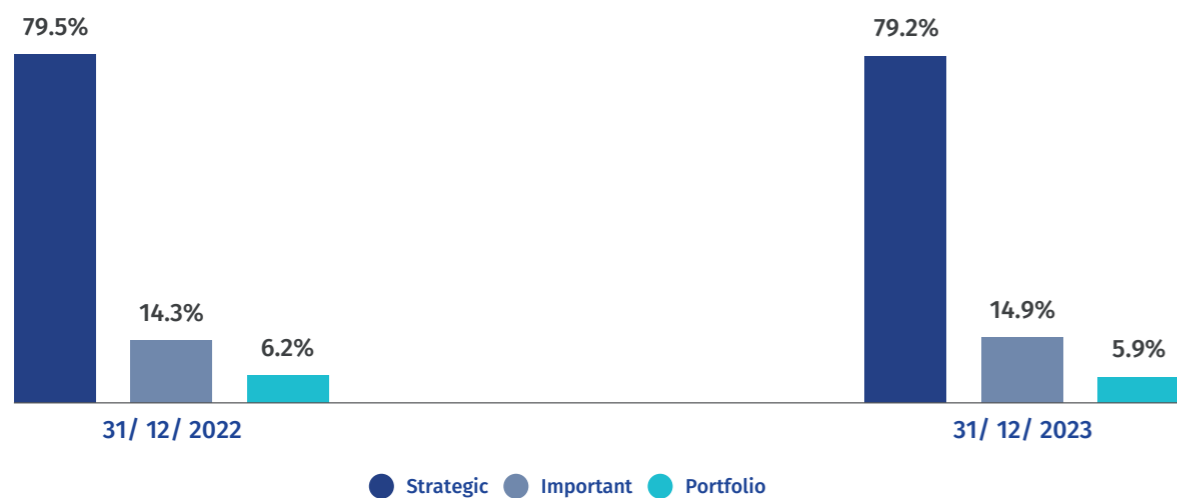
Company	Pillar	Classification	RS and SSH shareholding as at 31 December 2023	Book-value of assets owned by RS + SSH, as at 31 December 2023	Share in total portfolio
DARS, d. d.	TRANSPORT	STRATEGIC	100.00%	3,334	27.2%
GEN GROUP	ENERGY SECTOR	STRATEGIC	100.00%	1,228	10.0%
HSE GROUP	ENERGY SECTOR	STRATEGIC	100.00%	1,188	9.7%
SŽ GROUP	TRANSPORT	STRATEGIC	100.00%	864	7.1%
NLB GROUP	FINANCIAL SECTOR	IMPORTANT	25.00%	737	6.0%
ZAVAROVALNICA TRIGLAV GROUP	FINANCIAL SECTOR	STRATEGIC	62.57%	558	4.6%
SID banka	FINANCIAL SECTOR	STRATEGIC	99.41%	482	3.9%
TELEKOM SLOVENIJE GROUP	ECONOMY	PORTFOLIO	66.80%	440	3.6%
KRKA GROUP	ECONOMY	IMPORTANT	16.21%	354	2.9%
POŠTA SLOVENIJE GROUP	TRANSPORT	STRATEGIC	100.00%	351	2.9%
<b>TOTAL TOP 10</b>				<b>9,535</b>	<b>77.8%</b>
Other				2,714	22.2%
<b>TOTAL PORTFOLIO</b>				<b>12,249</b>	<b>100.0%</b>

The majority of capital assets are concentrated in the Transport and Energy pillars, which together account for over 71%. The composition of capital assets by pillar did not change significantly in 2023. The Transport pillar saw the largest reduction, while the Finance pillar increased its share. Similarly, there were no significant changes in the structure by classification or listing.

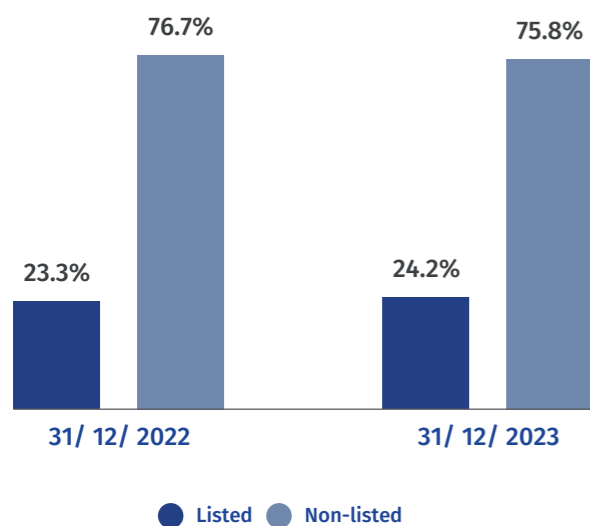
GRAPH: COMPOSITION OF PORTFOLIO UNDER MANAGEMENT AS AT 31 DECEMBER 2023- BY PILLAR (INDUSTRY)



GRAPH: COMPOSITION OF PORTFOLIO UNDER SSH MANAGEMENT AS AT 31 DECEMBER 2023 - BY CLASSIFICATION (STRATEGIC ORIENTATION)



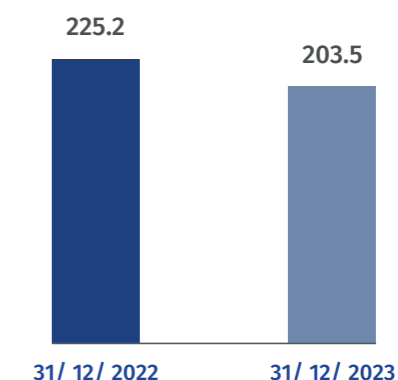
GRAPH: COMPOSITION OF PORTFOLIO UNDER MANAGEMENT AS AT 31 DECEMBER 2021 - BY QUOTATION AT THE STOCK EXCHANGE



## 7.2.2. Claims

The book value of claims amounted to EUR 203.5 million as at 31 December 2023. The fair value represents 73% of the total gross exposure, which amounts to EUR 2.8 billion.

BOOK VALUE OF CLAIMS (IN EUR MILLION)

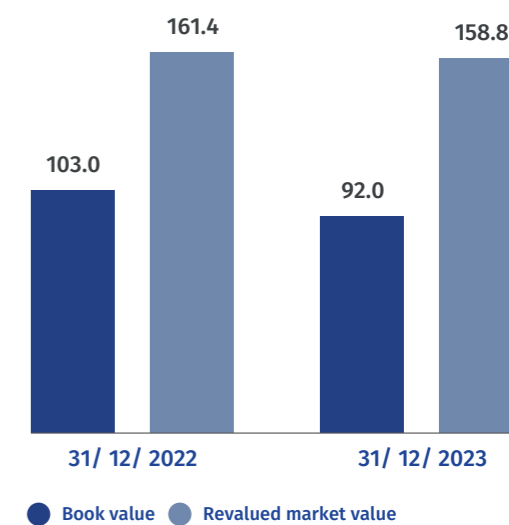


## 7.2.3. Tangible assets

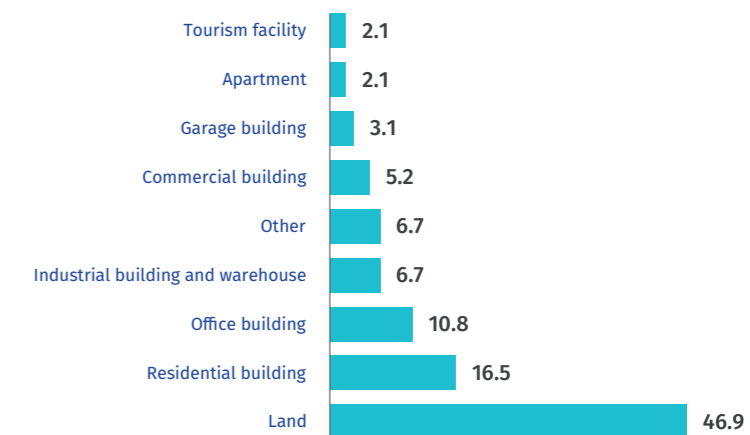
At the end of 2023, SSH held ownership of 194 real estate units, with a total book value of EUR 92.0 million. A smaller portion of the tangible asset portfolio, valued at EUR 2.3 million, comprises two aircraft, works of art, properties in the process of being acquired by SSH, advance payments, and various equipment within office premises. This brings the total book value of tangible assets to EUR 94.3 million.

Half of the properties consist of land, followed by residential, commercial, and industrial buildings. The land is predominantly intended for residential purposes.

THE BOOK VALUE AND THE REVALUATION MARKET VALUE OF OWNED REAL ESTATE (IN EUR MILLION)



STRUCTURE OF REAL ESTATE PORTFOLIO BY REAL ESTATE TYPE (IN %)



## 7.3 BUSINESS PERFORMANCE OF ASSET MANAGEMENT

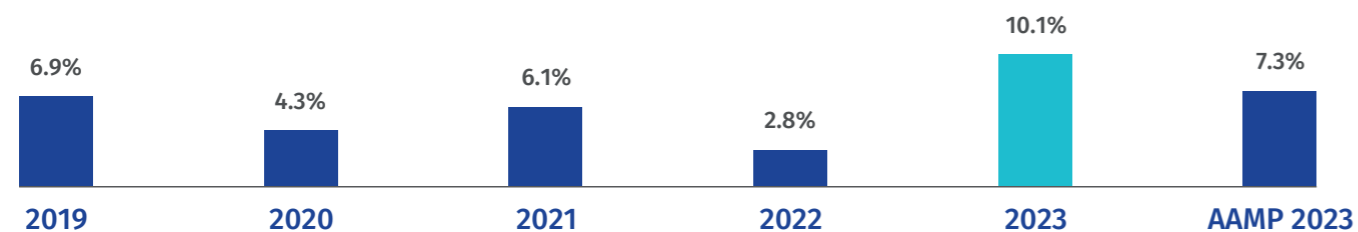
### 7.3.1 Capital Assets

The return on equity (ROE) of the entire portfolio of capital assets managed by SSH was 10.1% in 2023, which is 2.8 percentage points higher than the 2023 target set in the AAMP (7.3%) and 7.3 percentage points higher than the ROE achieved in 2022 (2.8%). The strong performance of companies in the energy sector was the main factor in exceeding the planned results.

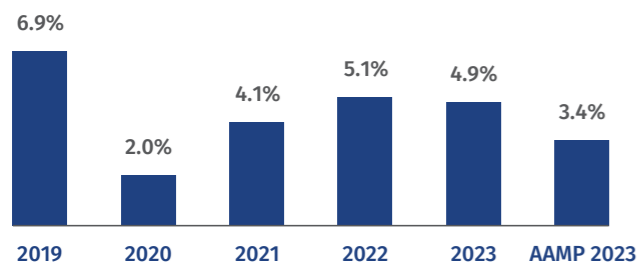
Planned profitability targets were exceeded across all management pillars, as well as in both key classification groups—strategic and important assets.

GRAPH: ROE FOR PORTFOLIO OF ASSETS – TOTAL AND BY PILLARS – IN 2019-2023 PERIOD

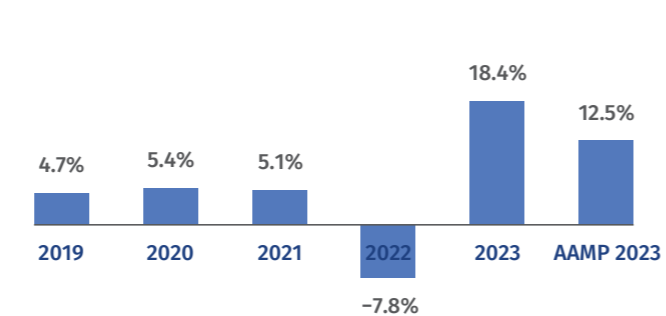
#### Portfolio RS + SSH



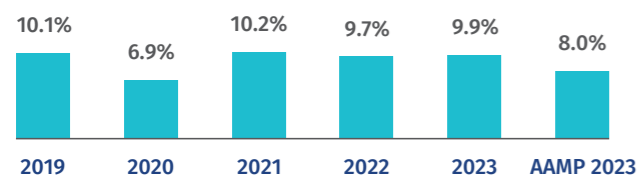
#### Transport



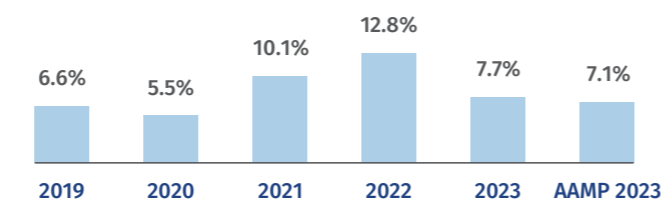
#### Energy sector



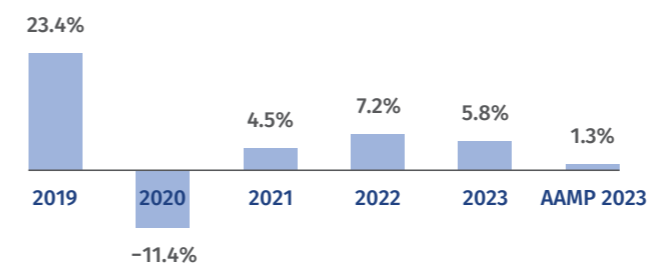
#### Financial sector



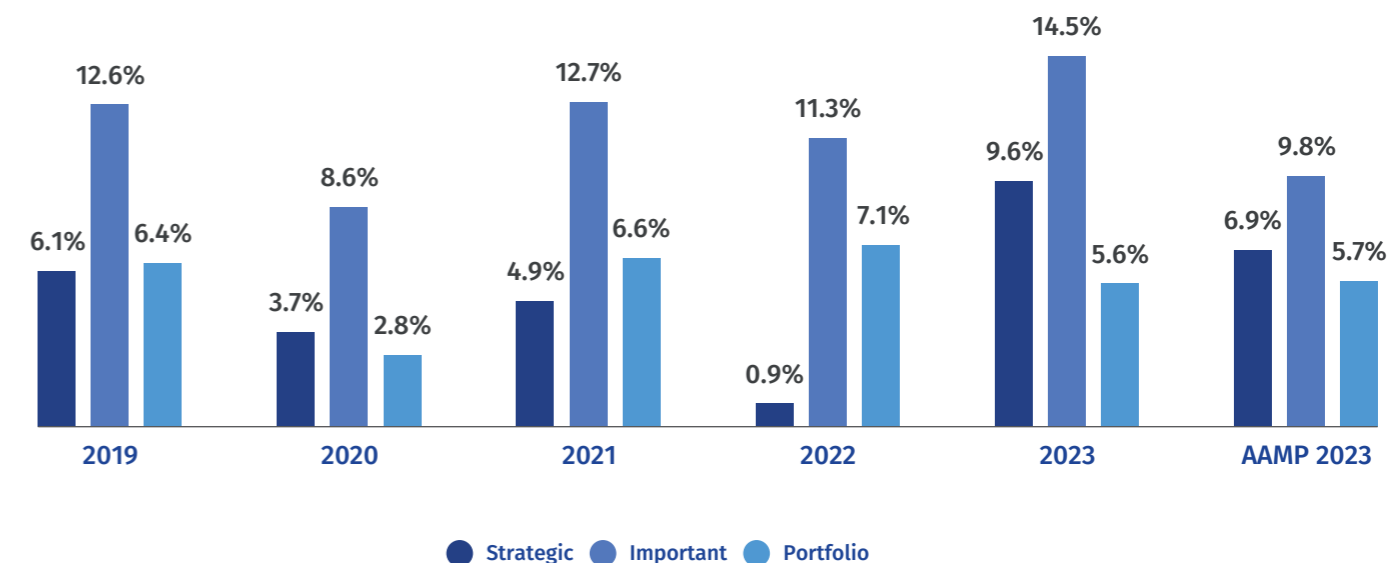
#### Economy



#### Tourism



GRAPH: ROE BY CLASSIFICATION GROUPS (2019-2023)



Among individual companies and groups, HSE, NLB, GEN, Petrol and Krka delivered standout results in 2023.

**TABLE: ROE 2023 AND DIVIDENDS FOR FY 2023 FOR FIVE LARGEST COMPANIES IN EACH PILLAR OF ASSETS UNDER MANAGEMENT**

(as at 31 December 2023)

Pillar, Company	Ownership stake RS+SSH	Book value of stake RS+SSH (EUR)	Share in total portfolio	ROE 2022	ROE 2023	Dividends for RS and SSH for FY 2022 (EUR)	Dividends for RS and SSH for FY 2023 (EUR)
<b>TRANSPORT</b>							
DARS, d. d.	100.00%	3,333,743,669	27.3%	4.33	4.30	0	0
SŽ GROUP	100.00%	864,346,585	7.1%	5.02	5.21	9,825,988	4,300,000
POŠTA SLOVENIJE GROUP	100.00%	350,641,251	2.9%	2.82	2.28	0	0
LUKA KOPER GROUP	62.13%	337,385,763	2.8%	15.09	10.66	21,744,643	17,395,714
DRI GROUP	100.00%	25,232,062	0.2%	7.97	10.14	824,115	2,107,309
<b>TOTAL TOP 5 TRANSPORT</b>		<b>4,911,349,330</b>	<b>40.2%</b>			<b>32,394,746</b>	<b>23,803,023</b>
<b>ENERGY SECTOR</b>							
GEN GROUP	100.00%	1,226,833,110	10.0%	2.32	18.40	0	150,000,000
HSE GROUP	100.00%	1,173,324,581	9.6%	-29.53	35.92	0	100,000,000
ELEKTRO LJUBLJANA, d. d.	80.27%	278,511,044	2.3%	-2.02	3.23	0	1,257,309
ELEKTRO MARIBOR GROUP	79.86%	246,013,490	2.0%	1.89	3.27	0	1,597,740
PETROL GROUP	23.52%	217,082,055	1.8%	-0.30	15.32	14,719,800	17,663,760
<b>TOTAL TOP 5 ENERGY SECTOR</b>		<b>3,141,764,280</b>	<b>25.7%</b>			<b>14,719,800</b>	<b>270,518,809</b>
<b>FINANCIAL SECTOR</b>							
NLB GROUP	25.00%	736,997,500	6.0%	12.20	21.00	27,500,006	55,000,011
ZAVAROVALNICA TRIGLAV GROUP	62.57%	557,592,448	4.6%	13.10	1.80	35,565,408	24,895,792
SID banka, d. d., Ljubljana	99.41%	481,815,032	3.9%	1.78	3.36	0	0
SAVA INSURANCE GROUP	31.57%	184,896,345	1.5%	14.90	11.60	8,698,111	9,513,558
D. S. U., d. o. o.	100.00%	83,234,157	0.7%	6.55	7.13	0	0
<b>TOTAL TOP 5 FINANCIAL SECTOR</b>		<b>2,044,535,482</b>	<b>16.7%</b>			<b>71,763,525</b>	<b>89,409,361</b>
<b>ECONOMY</b>							
TELEKOM SLOVENIJE GROUP	66.80%	439,940,545	3.6%	6.19	7.41	0	27,065,530
KRKA GROUP	16.21%	353,675,177	2.9%	17.93	14.52	35,085,581	39,870,128
TALUM GROUP	91.46%	113,895,449	0.9%	1.44	1.54	0	554,263
SIJ GROUP	25.00%	104,473,300	0.9%	22.57	-4.36	1,494,417	0
UNIOR GROUP	39.43%	73,519,022	0.6%	5.67	2.66	0	0
<b>TOTAL TOP 5 ECONOMY</b>		<b>1,085,503,493</b>	<b>8.9%</b>			<b>36,579,998</b>	<b>67,489,921</b>
<b>TOURISM</b>							
SAVA GROUP	61.91%	74,202,091	0.6%	5.67	1.73	0	0
ISTRABENZ TURIZEM, d. d.	100.00%	41,679,393	0.3%	5.13	4.35	0	299,776
TERME OLIMIA GROUP	75.21%	37,881,932	0.3%	7.56	13.23	0	1,857,800
THERMANA, d. d.	100.00%	26,487,042	0.2%	8.68	4.18	0	0
HIT GROUP	28.54%	19,137,591	0.2%	21.17	13.29	0	820,821
<b>TOTAL TOP 5 TOURISM</b>		<b>199,388,049</b>	<b>1.6%</b>			<b>0</b>	<b>2,978,397</b>
<b>TOTAL TOP 5 ALL PILLARS</b>		<b>11,398,165,877</b>	<b>93.1%</b>			<b>155,458,069</b>	<b>454,199,511</b>
<b>TOTAL RS+SSH PORTFOLIO</b>		<b>12,231,621,824</b>	<b>100%</b>			<b>175,500,357</b>	<b>487,123,970</b>

## 7.3.2. Claims

In 2023, SSH generated EUR 52.2 million in cash inflows from claims management. The principal inflows were generated from the restructuring of claims against entities within the FORI Group. During 2023, 91 cases were resolved following the refinancing of business loans, regular or alternative repayments, with the full recovery of contractual debt, leading to inflows of EUR 23.9 million.

In instances where repayments were deemed unlikely as at 31 December 2022 (cases without tangible collateral), EUR 1.5 million was nonetheless recovered in 2023, which was achieved through a range of proactive measures. These relate to 49 cases (distribution of general bankruptcy estates, payments based on agreements, successfully completed enforcement and other judicial proceedings).

## 7.3.3. Tangible Assets

Revenue for SSH from the management of tangible assets in 2023 primarily relates to the sale of real estate, partly also from leasing arrangements. Over 150 real estate units were sold, with a total sales value of EUR 18.8 million. SSH actively managed more than 130 tenancy agreements and significantly increased rental income compared to previous years, with inflows amounting to nearly EUR 1.9 million by the end of 2023.

In 2023, the handover of land and buildings from the former shipyard in Izola was completed. The property was formally transferred to the Republic of Slovenia in July 2023, pursuant to a decision by the Government of the Republic of Slovenia. This transfer was recognised as a return of capital to the owner, with the economic loss incurred by SSH duly acknowledged.

Proceeds from property sales were slightly below initial expectations, largely due to increased investor caution and higher market interest rates. SSH's properties possess specific characteristics and often appeal to a limited pool of potential buyers. As a result, when the sole bidder withdraws interest (for various reasons), the planned transactions do not always come to fruition.

In addition to sales and leasing activities, several initiatives were undertaken to enhance the value of assets and reduce the costs of managing ageing properties. Notably, by the end of June, in collaboration with the Ministry of Culture, 499 works of art were successfully relocated from rented archive spaces to various national art galleries for safekeeping.

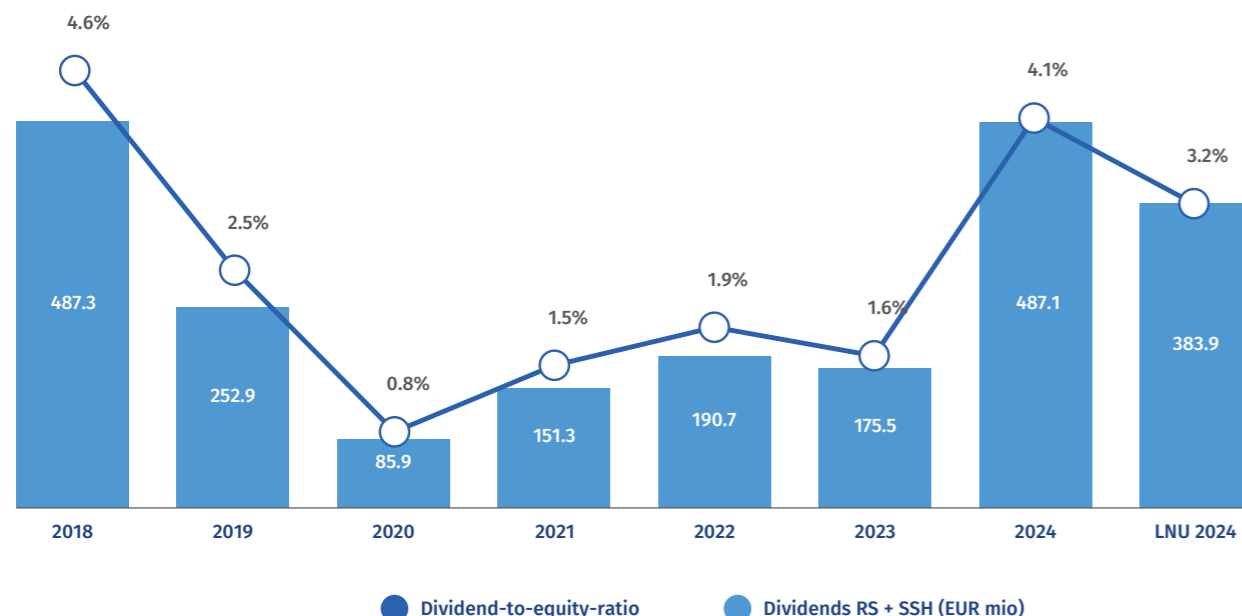
## 7.4 DIVIDENDS

In 2024, dividends paid, based on the latest estimates for the financial year 2023, are projected to total EUR 487.1 million. This represents an increase of EUR 103.3 million, or 26.9%, above the planned level set by AAMP, which was estimated to amount to EUR 383.9 million. The dividend payout in 2024 will also be significantly higher than the payments made in 2023, which

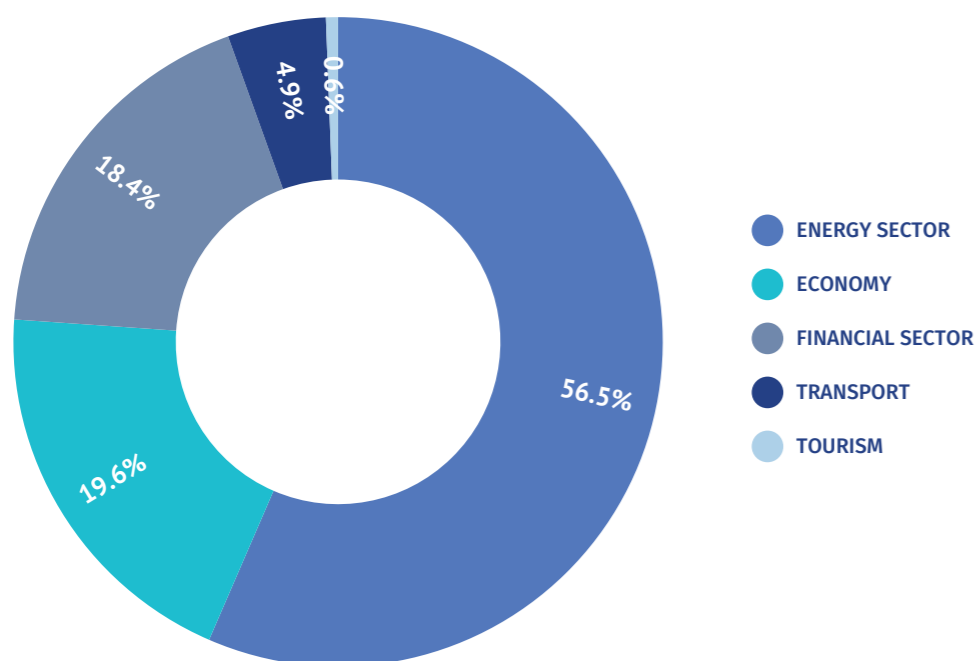
amounted to EUR 175.5 million. The companies within the Energy pillar will contribute the largest share of dividends, accounting for 56.5%, followed by the Economy pillar with a 19.6% share, and the Finance pillar, contributing 18.4% of all dividends. The Transport pillar (4.9%) and Tourism pillar (0.6%) will contribute smaller amounts of dividends.



GRAPH: DIVIDEND PAY-OUTS IN EUR FOR ASSETS OWNED BY RS AND SSH, SEPARATELY BY YEARS (FOR PREVIOUS FINANCIAL YEAR)

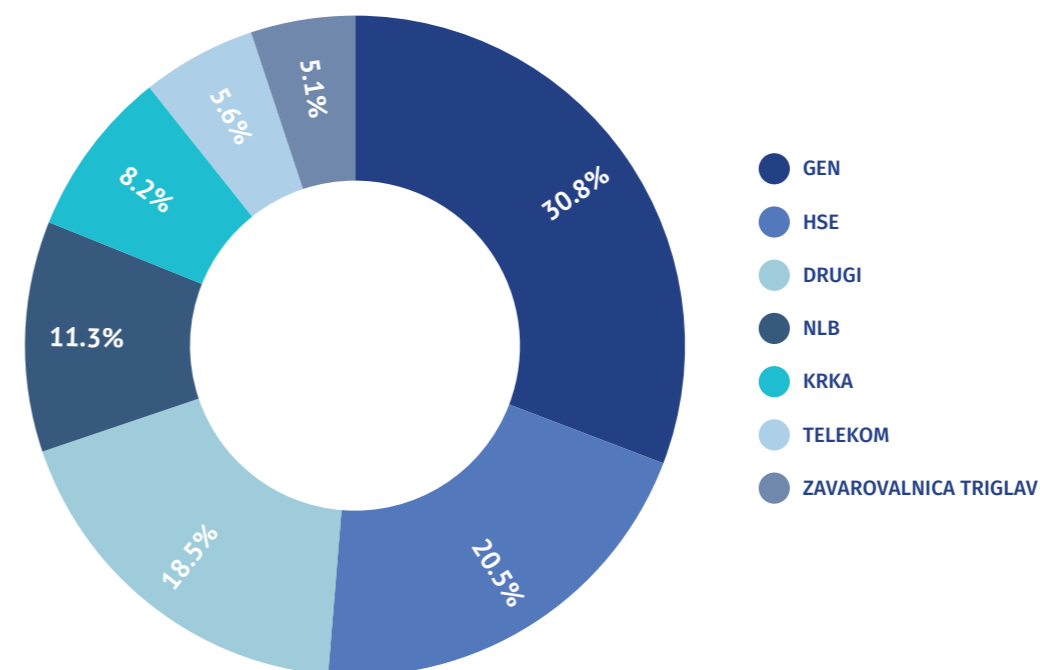


GRAPH: THE LARGEST DIVIDEND PAYERS FROM RS AND SSH PORTFOLIO IN 2024 (FOR FY 2023) - BY PILLAR



The highest dividend contributors will be GEN, providing 30.8% of all dividends, and HSE, contributing 20.5%. Following them are NLB, Krka, Telekom, and Zavarovalnica Triglav. Collectively, the top six payers will account for over 81% of all dividends distributed.

GRAPH: THE LARGEST DIVIDEND PAYERS FROM RS AND SSH PORTFOLIO IN 2024 (FOR FY 2023) - BY COMPANY



## 7.5 SUMMARY OF CRITERIA FOR MEASURING PERFORMANCE OF SOES AND INFORMATION ON FULFILMENT OF CRITERIA IN 2023

The table below provides an overview of the performance against two of the criteria for measuring the success of companies with state capital assets (ROE and EBITDA margin), set at the end of 2022 for the 2023 financial year. For banks, the CIR

(cost-to-income ratio) was used in place of the EBITDA margin, and for insurance companies, the combined ratio was applied. The table excludes state capital assets for which an Annual Asset Management Plan was not prepared.

TABLE: PERFORMANCE AGAINST TARGETS BASED ON ESTABLISHED CRITERIA (ROE, EBITDA MARGIN) IN 2023 ANNUAL ASSET MANAGEMENT PLAN

Pillar, Company	ROE 2023 (%)		EBITDA margin 2023 (in%)	
	Annual Asset Management Plan	Outcome	Annual Asset Management Plan	Outcome
TRANSPORT				
DARS, d. d.	3.14	4.30	72.48	75.18
KOPP, d. o. o.	0.02	1.39	5.71	3.37
KZPS, d. o. o.	25.42	45.00	14.05	16.79
LUKA KOPER GROUP	7.90	10.66	26.90	29.39
POŠTA SLOVENIJE GROUP	-0.48	2.28	6.96	9.02
SŽ GROUP	4.44	5.21	15.96	16.62
DRI GROUP	3.20	10.14	7.84	10.58

ENERGY SECTOR				
ELEKTRO CELJE, d. d.	2.36	1.67	34.26	30.60
ELEKTRO GORENJSKA GROUP	4.14	6.01	41.94	43.75
ELEKTRO LJUBLJANA, d. d.	3.10	3.23	42.26	32.05
ELEKTRO MARIBOR, d. d.	4.17	2.03	40.04	34.92
ELEKTRO PRIMORSKA, d. d.	3.57	2.45	40.74	33.65
GEN GROUP	8.23	18.09	2.70	10.62
GEOPLIN GROUP	26.12	2.19	3.37	1.32
HSE GROUP	28.20	35.56	5.12	12.49
NAFTA LENDAVA GROUP	0.65	-97.38	0.40	2.57
PETROL GROUP	11.50	15.32	9.20	9.70
PLINHOLD GROUP	0.54	3.99	46.70	42.19
FINANCIAL SECTOR				
D.S.U. d. o. o.	5.83	7.13	60.92	64.44
ECONOMY				
BODOČNOST MARIBOR, d. o. o.	7.22	3.35	6.03	4.37
CETIS GROUP	14.30	24.30	17.00	21.17
CINKARNA Celje, d. d.	2.80	5.88	9.20	14.54
CSS, d. o. o.	3.56	-21.06	3.14	-3.38
FARME IHAN GROUP	1.30	-9.08	3.44	2.51
KOTO, d. o. o.	3.97	3.24	10.96	10.35
KRKA GROUP	13.00	14.52	25.50	28.56
LOTERIJA SLOVENIJE, d. d.	25.10	29.01	7.37	7.67
MK SKUPINA	5.60	4.14	7.40	7.23
MLM, d. d.	2.20	-133.81	5.49	-4.21
POMGRAD – VGP, d. d.	1.95	9.34	9.80	7.68
SIDG GROUP	15.35	19.85	16.88	18.60
SIJ GROUP	-4.80	-4.36	5.70	5.65
STUDENTENHEIM KOROTAN GMBH	-6.30	-7.72	20.20	0.33
TALUM GROUP	1.32	1.54	3.84	5.62
TELEKOM SLOVENIJE GROUP	7.00	7.41	33.50	32.28
UNIOR GROUP	6.31	2.66	11.50	10.49
Uradni list Republike Slovenije, d. o. o.	2.14	7.55	8.65	15.76
VGP, d. d.	4.77	8.42	5.50	8.89
VGP DRAVA Ptuj, d. o. o.	18.00	29.50	6.77	8.46
VGP Novo mesto, d. d.	9.11	9.59	16.39	15.43
TOURISM				
ADRIA, d. o. o.	2.47	3.03	19.23	19.95
HIT GROUP	8.03	13.29	12.06	13.85
Istrabenz turizem, d. d.	0.47	4.35	13.46	15.86
SAVA GROUP	-1.60	1.73	14.90	17.17
TERME OLIMIA GROUP	7.86	13.23	22.67	27.18
THERMANA, d. d.	0.50	4.18	11.81	17.64

Steber, kapitalska naložba	ROE 2023 (%)		CIR 2023 (%)	
	Annual Asset Management Plan	Outcome	Annual Asset Management Plan	Outcome
FINANCIAL SECTOR - banks				
NLB GROUP	10.50	21.00	59.00	45.90
SID banka, d. d., Ljubljana	0.60	3.36	75.00	55.74

\*Cost-to-Income Ratio.

Pillar, Company	ROE 2023 (%)		Combined ratio 2023 (%)	
	Annual Asset Management Plan	Outcome	Annual Asset Management Plan	Outcome
FINANCIAL SECTOR- insurance companies				
SAVA INSURANCE GROUP	12.00	11.60	95.00	93.10
ZAVAROVALNICA TRIGLAV GROUP	11.00	1.80	95.00	101.60

Notes: When consolidated financial statements are drawn up, the indicators refer to the performance result of the Group, with the exception of data for electricity distribution companies (EDCs), where the EBITDA margin is based on the parent companies to ensure comparability. For Petrol, the gross margin is used instead of the EBITDA margin, as the gross margin is the relevant measure included in the company's annual asset management plan, rather than the EBITDA margin. In case of banks, CIR (cost-to-income) ratio is given, instead of EBITDA margin. In case of insurance companies, combined ratio is presented, instead of EBITDA margin.

## 8 METHODOLOGICAL, LEGAL AND OTHER NOTES

### Legal basis

It is of the utmost importance for the State that professional, responsible, transparent and economic management of state assets is provided for. It is laid down in ZDSH-1 that Annual Report on Assets Management of the previous year is submitted to the National Assembly of the Republic of Slovenia once a year, not later than by 31 October.

### Operation performance data for SOEs

For companies, which draw up consolidated statements, data at the Group level have been taken into account, except in cases specifically indicated in Notes to Tables. All audited financial statements have been taken into account where available at the time of writing this Report.

Comprehensive company presentations have been developed for top 20 companies using the criteria of the total book value of SSH and RS shareholdings as at 31 December 2023 (available only in Slovene version).

Short company presentations have been developed for all companies, with the exception of the following:

- companies in bankruptcy or liquidation (a common list of all such companies is published on the ,SSH's web site);
- companies in which the equity stake of SSH or RS is lower than 1%;
- companies for which a Takeover Bid has been accepted or a Sale and Purchase Agreement has been concluded or any other written agreement has been entered into but it is not yet closed,
- companies that were not included in the 2023 Annual Asset Management Plan (AAMP) and were brought under SSH management following the merger with BAMC;
- capital assets acquired by the RS exclusively on the basis of the Inheritance Act (the list is published on the SSH website), and
- any other less important companies, such as, for example:
  - Savaprojekt d. d., with RS ownership stake amounting to 3.47% and which SSH strives to sell;
  - A. L. P. Peca, d. o. o. (micro company), with RS ownership stake amounting to 9.09 % : SSH strives to sell its equity interest under management;
  - Elektrooptika, d. o. o., as the company is in the process of being wound down.

Individual abbreviations which refer to strategic or economic goals of some companies are explained in detail in the Criteria for Measuring Performance of SOEs; the document is published on SSH's web site: [www.sdh.si](http://www.sdh.si).

In calculating financial indicators used for analysis and benchmarking, SSH's own methodology is applied with the aim of comparing, in a standardised manner, operational results of companies by using the same basis. Since companies apply their own definitions of indicators when disclosing data in their Annual Reports, certain values of indicators published by companies may deviate in values reported herein. The set of indicators presented in the Report is adapted to specific characteristics of an industry in which a company with RS and SSH capital assets operates.

### Other notes

As a result of the entry into force of the Act Amending Implementation of the Republic of Slovenia's Budget (2018 and 2019) Act (ZIPRS1819-A) of 25 December 2018, SSH is now responsible for the management of assets acquired by the Republic of Slovenia pursuant to the law regulating inheritance.

### Sources:

- Energy Agency: Report on Energy Sector in Slovenia for 2023 <https://www.agen-rs.si/>.
- Governance instruments issued by Slovenian Sovereign Holding, [www.sdh.si](http://www.sdh.si).
- Bank of Slovenia: Review of macroeconomic developments, June 2024 [www.bsi.si](http://www.bsi.si).
- Bank of Slovenia: Financial Stability Review, May 2023, [www.bsi.si](http://www.bsi.si).
- Eurocontrol and Slovenia Control: data tabs and publications, <https://www.eurocontrol.int/> and <https://www.sloveniacontrol.si/>.
- Financial and Annual Reports of companies with assets held in ownership of RS and SSH.
- Bloomberg Information System.
- Ljubljana Stock Exchange: Trading report for 2023, <https://ljse.si/>.
- Legislation Portal, <https://www.iusinfo.si/>.
- Slovenian Insurance Association: Statistical Insurance Bulletin 2024, [www.zav-zdruzenje.si](http://www.zav-zdruzenje.si).
- Statistical Office of Republic of Slovenia: SiStat Database, <https://pxweb.stat.si/SiStat/sl>.
- Slovenian Tourist Board: Business; Research and analysis; <https://www.slovenia.info/sl/poslovne-strani/raziskave-in-analize/turizem-v-stevilkah>.

### DEFINITIONS REGARDING MAIN FINANCIAL INDICATORS USED IN THE ANNUAL REPORT

Indicator	Formula for calculating an indicator
ROA – return on assets	annual net income after tax/average total assets
ROE – return on equity	annual net income after tax /average shareholders' equity
Average equity (assets) of a financial year	(equity (assets) at the beginning of a financial year + (equity (assets) at the end of a financial year)/2
EBITDA	operating profit and loss + write-offs for the period
EBITDA margin	EBITDA/gross return from operations for the period
EBIT	operating earnings
EBIT margin (operating margin)	EBIT/gross return from operations for the period
Financial debt	Long-term + short term financial liabilities
Net debt/EBITDA	Financial debt – cash or cash equivalents – short-term financial investments/EBITDA
Financial leverage	average total assets /average shareholders' equity
No. of employees	in a Group
No. of employees in SLO	in a Group in Slovenia
added value per employee	gross return – COGS – other operating expenses/No. of employees
Dividend amount RS/SSH	gross dividend amounts received by RS /SSH as voted at General Meetings (founder's resolution passed) and paid out in the current year for the previous year
Dividend-to-equity ratio	total dividend pay-out or a current year/average shareholder's equity for a previous year

# LIST OF ACRONYMS AND GLOSSARY OF TERMS

**ATX Index** – the primary Austrian stock index on the Vienna Stock Exchange, tracking the performance of Austria's 20 largest and most liquid companies

**GDP** – gross domestic product

**CET1** – the CET1 ratio represents the proportion of a bank's CET1 capital to its risk-adjusted assets

**COVID-19** – a disease caused by SARS-CoV-2 virus

**CO2** – carbon dioxide

**CSRD** – Corporate Sustainability Reporting Directive

**PSH** – Pumped Storage Hydroelectricity, a type of hydro energy power plant used for storing energy

**DARS** – Motorway Company of Republic of Slovenia

**DAX Index** – Deutscher Aktienindex. Germany's primary stock index, tracking the performance of the 40 largest and most liquid companies listed on the Frankfurt Stock Exchange's Regulated Market (Frankfurter Wertpapierbörse)

**d. d. (PLC)** – public limited company

**d.o.o. (Ltd. )** – Limited liability company

**D.S.U.** – Družba za svetovanje in upravljanje

**BAMC** – Bad Asset Management Company

**ECB** – European Central Bank

**EDC** – electricity distribution company

**ESG** – environment, social and governance criteria

**ESRS** – European Sustainability Reporting Standards

**ECESA** – Expert Committee for Economic and Social Affairs

**EU** – European Union

**EUR** – Euro currency

**EU 27** – European Union of 27 Member States

**GB** – Gigabyte, a unit of measure for the amount of data in computing

**GMBH** – Gesellschaft mit beschränkter Haftung / d. o. o., limited liability company

**GWh** – Gigawatt hours

**HICP** – Harmonised Index of Consumer Prices Harmonised Indices of Consumer Prices)

**HSE** – Holding slovenske elektrarne

**JDD** – public limited companies with state capital assets (in the SSH Code, this abbreviation denotes principles and recommendations addressed to all companies with state capital investments, including public joint-stock companies).

**NEK2** – the second unit of Krško Nuclear Power Plant

**KAD** – Kapitalska družba pokojninskega in invalidskega zavarovanja d. d. (Pension Fund Management)

**Code** – Corporate Governance Code for SOEs (SSH Code)

**KOPP** – Javno podjetje Kopraska pristaniška pilotaža , d. o. o.

**Emission Allowance** – an emission allowance is a general term for a tradable certificate or permit granting the right to emit one ton of carbon dioxide or an equivalent amount of another greenhouse gas

**KZPS** – Kontrola zračnega prometa Slovenije, d. o. o., or Slovenia Control Limited

**LNG** – Liquefied Natural Gas

**LLC** – Limited liability company Limited liability company)

**AAMP** – Annual Asset Management Plan for capital assets of RS and SSH

**mio** – million

**MLM** – Mariborska livarna Maribor, d. d.

**billion** – bn

**MSCI** – the MSCI Indexes are a measurement of stock market performance in a particular area

**IFRS** – International Financial Reporting Standards

**MW** – megawatt

**MWh** – megawatt hour

**NEK** – Krško nuclear power plant

**NLB** – Nova Ljubljanska banka, d. d.

**RON 95** – unleaded motor gasoline – 95 octane

**SB** – Supervisory Board

**SSH SB** – Supervisory Board of Slovenian Sovereign Holding

**OECD** – Organisation for Economic Cooperation and Development

**RES** – renewable sources of energy

**PMI** – Purchasing Managers' Index

**Policy** – Asset Management Policy of SSH

**RS** – Republic of Slovenia

**RŽV** – Žirovski vrh Mine

**SBITOP** – Slovenian Blue Chip Index, benchmark index, which tracks the performance of the most liquid shares on the Ljubljana Stock Exchange

**SSH** – Slovenian Sovereign Holding

**SIJ** – Slovenska industrija jekla d. d.

**SOD** – Slovenska odškodninska družba, d. d.

**CCI** – Compliance and Corporate Integrity System

**CHP** – Combined Heat and Power, the simultaneous production of heat and electricity

**Strategy** – State Assets Management Strategy

**SIA** – Slovenian Insurance Association

**SŽ** – Slovenske železnice, d. o. o.

**S&P** – a stock market index

**tCO2e** – greenhouse gases measured in tonnes of carbon dioxide equivalent

**RWA** – Risk-Weighted Assets

**VGP** – water utility company

**ZBan-3** – Banking Act

**USA** – the United States of America.

**ZGD-1** – Companies Act

**ZIntPK** – Integrity and Prevention of Corruption Act

**ZIOOZP** – Act Regulating the Issuing of Bonds in Compensation for Confiscated Property pursuant to the Abrogation of the Penalty of Confiscation of Property

**ZIPRS1819** – Act Amending Implementation of the Republic of Slovenia's Budget (2018 and 2019) Act

**ZPGOPEK** – Act Governing Aid to Businesses to Mitigate Impact of Energy Crisis

**ZPIZ** – Zavod za pokojninsko in invalidsko zavarovanje or in English, Pension and Disability Insurance Institute of Slovenia.

**ZSDH-1** – Slovenian Sovereign Holding Act

**ZSDH-1A** – Act Amending the Slovenian Sovereign Holding Act

**ZSOS** – Slovenian Compensation Fund Act

**ZSPOZ** – Act on Payment of Compensation to Victims of War and Post-War Violence

**ZVJTO** – Reimbursement of Investments in Public Telecommunications Network Act

**ZZavar-1** – Insurance Act

**ZZPRI** – Reporting Persons Protection Act

**Annual Report – Management of Capital Assets of RS and SSH for 2023****SSH's Report to the National Assembly of RS**

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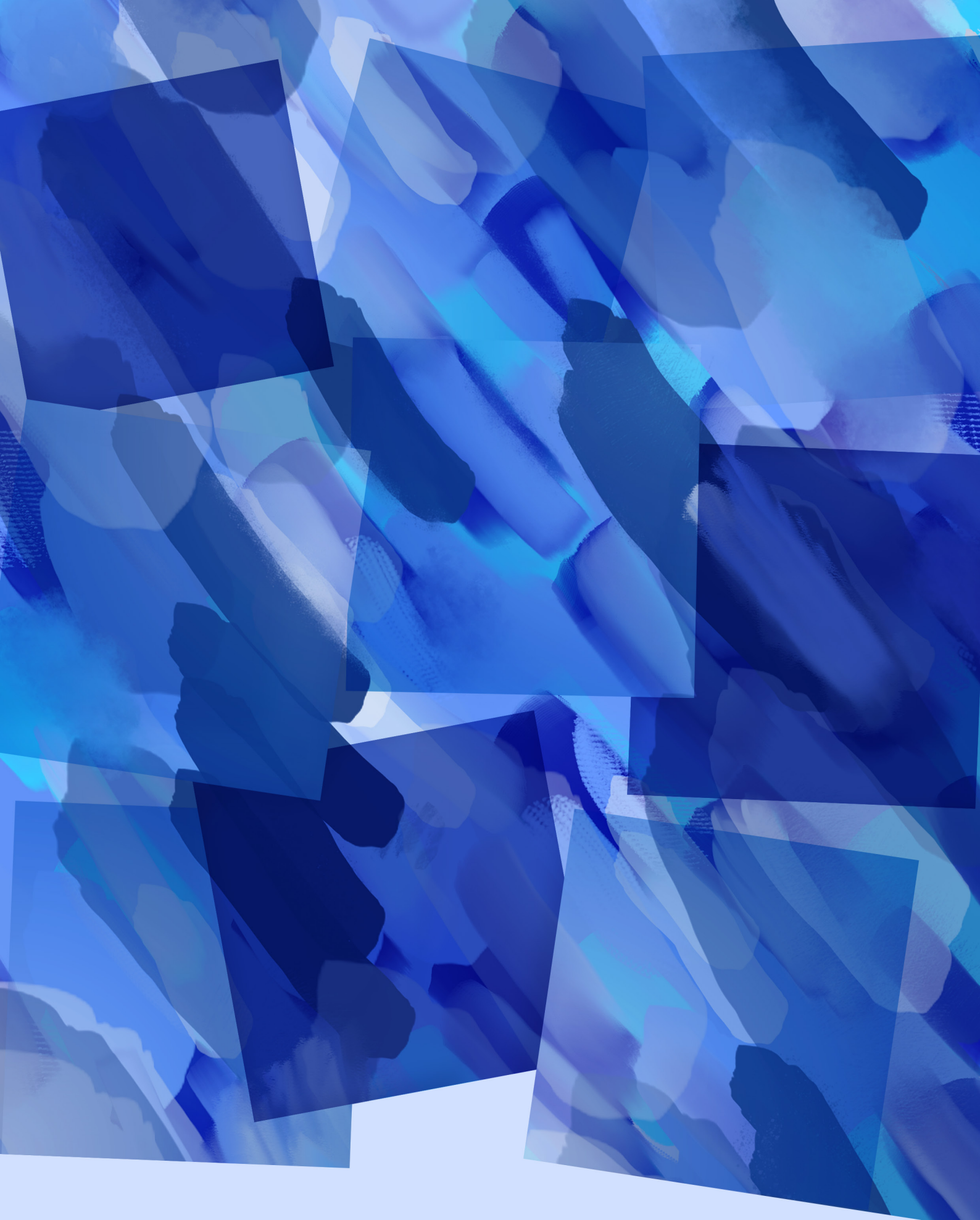
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Due to the extensive nature of the document, the abbreviated version of the Annual Report - Management of Assets of the Republic of Slovenia and Slovenian Sovereign Holding for 2023 has been translated, excluding the original Chapters 8 - Company Details for 20 Largest SOEs, and Chapter 9 - Company Details of Other Companies with Direct Ownership Stake by the Republic of Slovenia and Slovenian Sovereign Holding. In spite of its abbreviated nature, the English version includes all the most significant highlights and information from the original Annual Report in Slovenian. The original text of this document is written in Slovenian; in case of any doubt or misunderstanding, the Slovenian text shall therefore prevail.

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SLOVENIAN SOVEREIGN HOLDING