



SLOVENIAN SOVEREIGN HOLDING

ANNUAL REPORT

MANAGEMENT OF CAPITAL ASSETS OF RS AND SSH FOR 2015
SSH Report to the National Assembly of RS

Source: ECB, compiled by Goldman Sachs Research.

Exhibit 28: System outflows mainly driven by non-retail/corporate deposits
System deposits and change over reference period (April 2012), € bn

€bn	Last	-1m	-3m	-6m	-12m
Households	717	726	724	731	731
Change		(8)	(6)	(14)	(2)
		-1.1%	-0.9%	-1.9%	-2.1%
Corporate	195	202	201	210	210
Change		(7)	(6)	(15)	(12)
		-3.4%	-2.8%	-6.9%	-13.3%
Other	712	729	734	750	750
Change		(16)	(22)	(38)	(38)
		-2.3%	-3.0%	-5.0%	-5.0%

**SSH Report to the
National Assembly of the
Republic of Slovenia**

October 2016

ANNUAL REPORT - MANAGEMENT OF CAPITAL ASSETS OF RS AND SSH FOR 2015

The Government of the Republic of Slovenia is an important owner of enterprises in Slovenia. As such, the Government has an extraordinary responsibility to be an active and professional owner. Among other matters, active ownership means focusing on creating value for owners. The ultimate objective of state-owned enterprises is effective, profitable, economic operation, creation of value, and in many cases, efficient management of duties of specific public interest.

TABLE OF CONTENTS

TABLE OF CONTENTS	3
KEY HIGHLIGHTS FOR 2015	6
KEY PERFORMANCE HIGHLIGHTS - ENTERPRISES DIRECTLY OWNED BY THE REPUBLIC OF SLOVENIA AND SLOVENIAN SOVEREIGN HOLDING	7
LETTER BY SSH MANAGEMENT BOARD	8
VISION, MISSION, STRATEGIC POLICIES, OBJECTIVES AND VALUES	10
1 RENEWED STATE ASSETS MANAGEMENT SYSTEM	16
1.1 SSH - Company details	19
1.2 Organisational Structure of Slovenian Sovereign Holding	20
1.3 Continuing work for building the state assets management system in 2015	21
1.4 Concentrated management of state assets: transfer of capital assets owned by PDP, d. d., to SSH	21
1.6 About Slovenian Sovereign Holding	22
1.6.1 The legal form and organisational structure of SSH	22
1.6.2 Purpose of SSH establishment	23
1.6.3 SSH duties related to state asset management	23
1.7 Broader decision-making system on state assets management and system of supervision in SSH and over SSH	24
2 SUPERVISORY BOARDS OF SOEs AND CANDIDACY PROCEDURES	26
2.1 About SSH's Nomination Committee	30
2.2 Work performed by the Nomination Committee in 2015	31
2.3 Composition of Supervisory Board Members by gender	32
2.4 Corporate governance-related training organised for members of supervisory boards and representatives of companies – the improvement of professionalism and the promotion of good practice	33
3 ACTIVITIES FOR IMPROVING CORPORATE GOVERNANCE IN SSH AND SOEs	36
3.1 The framework of functioning for SOEs	39
3.2 The corporate governance system of SOEs is established	40
3.2.1 State Assets Management Strategy	41
3.2.2 Annual Asset Management Plan	41
3.2.3 Asset Management Policy	41
3.2.4 Corporate Governance Code for SOEs	42
3.2.5 Other recommendations and viewpoints	42

3.2.6	Criteria for measuring performance of SOEs	42
3.3	SSH regulatory compliance and operational integrity	43
3.3.1	Operations Compliance and Integrity Manager	45
3.3.2	Protection of data and of internal information	46
3.3.3	Reporting non-ethical or illegal conduct or influence	47
3.3.4	Protection of persons reporting non-ethical or illegal conduct or influence	48
3.3.5	Disclosure of conflict of interest and its avoidance	48
3.3.6	Restrictions on business transactions with related persons	49
3.3.7	Prohibition and restrictions in connection with receiving gifts	49
3.3.8	Supervision of financial situation of top management and members of management and supervisory bodies	50
3.3.9	Ethical Business Practice	50
3.3.10	Instructions in regard to enhancing ethical conduct and integrity of all SSH employees	51
3.4	Questionnaire on the application and observance of the Code and SSH Recommendations and Expectations	52
4	CORPORATE GOVERNANCE OF SOES IN 2015 AND ACTIVITIES FOR IMPROVING THEIR PERFORMANCE	54
4.1	SSH duties related to state assets management	58
4.2	Amendments to Statutes and Articles of Association	59
4.3	Periodic meetings with SOEs and goals	59
4.4	Criteria for Measuring Performance of SOEs	61
4.4.1	SSH has determined the criteria for measuring performance of individual companies	61
4.4.2	Monitoring performance	62
4.5	Expectations in regard to dividends and returns on equity	62
4.6	Capital increases in 2015	64
4.6.1	Capital increases in companies owned by SSH	64
4.6.2	Capital increases in companies owned by RS	64
5	CORPORATE RESTRUCTURING	66
6	SALE OF CAPITAL ASSETS OWNED BY SSH AND/OR RS	74
6.1	Observance of EU rules on state-aid	77
6.2	Special purpose vehicle participating in sale processes	78
6.3	How is the sale of assets conducted?	79
6.4	In the sale of capital assets, SSH runs procedures in accordance with the Asset Management Policy and relevant international standards	79
6.5	Activities related to the sale of SOEs in 2015	80
6.6	Sales of capital assets owned by SSH and/or RS realised in 2015	84

7	ECONOMIC ENVIRONMENT IN 2015	88
7.1	Macroeconomic environment	91
7.2	Capital markets	92
7.2.1	Global capital markets	92
7.2.2	Capital markets in Slovenia	93
7.3	Review of developments in individual industries	95
7.3.1	Traffic, transport and infrastructure	95
7.3.2	General economic sector	97
7.3.3	Financial sector	99
7.3.4	Energy sector	100
8	BUSINESS PERFORMANCE OF COMPANIES OWNED BY RS AND SHS	104
8.1	Portfolio of RS and SSH capital assets as of 31 December 2015	107
8.2	Operations of companies in direct ownership of the Republic of Slovenia	111
8.3	Operations of companies in direct ownership of Slovenian Sovereign Holding	114
8.4	Review of Key Highlights of Aggregate Portfolio of RS and SSH capital assets	117
8.5	Dividend Pay-Outs in 2015	117
8.6	Summary of criteria for measuring performance of SOEs and information on fulfilment of performance criteria in 2015	122
9	METHODOLOGICAL, LEGAL AND OTHER NOTES	124

KEY HIGHLIGHTS FOR 2015

68 active capital assets owned by RS in 2015.



29 active capital assets owned by SSH in 2015.

EUR **10.810.409.906**

is the book value of shareholdings pertaining to SSH capital assets as of 31 December 2015.



EUR **780.845.496**

is the book value of shareholdings pertaining to SSH capital assets as of 31 December 2015.

ROE of RS portfolio amounted to **4.2 %*** in 2015.



ROE of SSH portfolio amounted to **11.1 %** in 2015.

.....

The amount of dividends paid out to RS in 2016 (for the financial year of 2015) amounted to EUR **142.16** million.

The amount of dividends paid out to RS in 2016 (for the financial year of 2015) amounted to EUR **43.82** million.

.....

8 companies from the list of **15** SOEs listed for sale were sold by September 2016 (Elan, d. d., Fotona, d. d., Helios, d. d., Aerodrom Ljubljana, d. d., Žito, d. d., Nova KBM, Adria Airways Tehnika, Adria Airways). Letrika, one of large companies, was also sold, while capital increase process in Paloma is in progress.

22.4 % of women were members of Supervisory Boards of SOEs in 2015.

13 free-of-charge monthly training sessions were organised for members of Supervisory Boards of SOEs by SSH in 2015.

*Excluding extraordinary write-offs linked to TEŠ 6 Project.

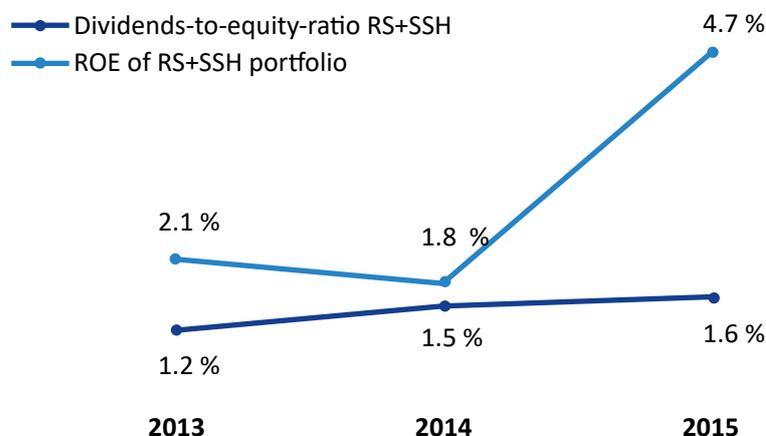
KEY PERFORMANCE HIGHLIGHTS - ENTERPRISES DIRECTLY OWNED BY THE REPUBLIC OF SLOVENIA AND SLOVENIAN SOVEREIGN HOLDING

In 2015, the value of RS capital assets, measured at the book-keeping value, slightly decreased (i.e., by 0.8%, to amount to EUR 10.8 billion), while the value of SSH capital assets increased by 10.6%, amounting to EUR 780.8 million, which was mainly the result of the acquisition of PDP, d. d. **The total value of capital assets** in direct ownership of the Republic of Slovenia and SSH thus amounted to **EUR 11.6 billion** as of 31 December 2016.

2015	RS	SSH
Assets (aggregated amounts)	48,193,371,734	13,056,771,468
Equity (aggregated amounts)	14,375,009,190	5,268,589,963
Net profit or loss*	882,577,779	450,431,084
Total of book-value of assets	10,810,409,906	780,845,496

*In 2013, due to extraordinary events in banking sector, bank losses were not included in the calculation (EUR 2.4 billion); banks were nationalised at the end of 2013. In 2015, extraordinary write-offs linked to TEŠ 6 Project, amounting to EUR 474 million, were excluded.

The **return on equity (ROE)** of companies in the portfolio (by removing the non-recurring items from the calculations) increased significantly in 2015, specifically, ROE of the RS portfolio increased by 3.1 percentage points, rising to 4.2 %, while ROE of the SSH portfolio of companies remained at the same level as recorded in 2014 (amounting to 11.1 %). Viewing the portfolio as a whole (i.e., the total of directly owned assets of RS and SSH), ROE in 2015 increased by 2.9 percentage points, rising to **4.7 %**.



The dividend paid-outs increased substantially. The dividend revenue received by RS in 2016 (for the financial year of 2015) amounted to EUR 142,2 million (8.7% growth as compared to 2015), and the dividend revenue received by SSH amounted to EUR 43.8 million (3.3% growth).

LETTER BY SSH MANAGEMENT BOARD

Dear Sirs,

The year 2015 was very busy as regards the management of state assets, since all key documents enabling the implementation of the active state ownership function have been adopted: the State Assets Management Strategy, Annual Asset Management Plan 2016, Criteria for Measuring Performance of Companies, Corporate Governance Code for SOEs, SSH Asset Management Policy and SSH Recommendations and Expectations. The corporate governance system for SOEs has thus been established and, in the future, it will provide for focusing on supervision over the implementation of corporate governance systems at the level of companies in regard to their performance objectives.

The operation of the SSH Management Board is focused on achieving a targeted return from RS and SSH asset portfolio.

The long-term vision of SSH is generating value for the owner from capital assets. The key activities will therefore be focussed on achieving the returns on equity (ROEs) targeted for the RS and SSH capital asset portfolios as laid down in the State Assets Management Strategy. Likewise, in the future, SSH will provide for the professional competence and expertise of the management by setting high standards and applying the best practices in the management of enterprises and by implementing constant activities for growing the corporate governance culture in SSH and at the level of companies managed by/owned by SSH.

Sales activities

In 2015, SSH closed and implemented five Sale and Purchase Agreements in regard to capital assets owned by SSH with a total contractual value amounting to EUR 9 million and closed one Sale and Purchase Agreement in regard to the sale of capital assets owned by RS (Nova KBM, d. d.) with a value amounting to EUR 250 million, which was completed in April 2016

after the passing of conditions precedent referred to in the Agreement.

Dividends paid and ROE of SSH and RS Portfolios for 2015

The growth trend in dividend pay-outs received by the Republic of Slovenia and SSH for their equity participation continued in 2016 (dividends paid out for FY 2015). The amount of dividends paid out to the Republic of Slovenia increased by 8.7 %, rising to EUR 142.2 million, while the amount of dividends paid out to SSH increased by 3.3 %, rising to EUR 43.8 million.

In 2015, by not considering extraordinary write-offs caused to HSE by TEŠ6 Project, ROE of the RS' portfolio increased significantly - the calculation includes shareholdings held by the Republic of Slovenia in individual companies (book-values of shareholding in equity) - and it amounted to 4.2% which is approximately three percentage points higher than a year before.

In 2015, ROE of the SSH portfolio of companies - the calculation includes the book-value of shareholdings held by SSH in individual companies - remained at the same level as recorded in 2014, i.e. amounting to 11.1 %.

The importance of SSH regulatory compliance and operational integrity is increasing

A transparent asset management system with a clear distinction of competences and responsibilities is required from SSH in regard to all tasks and duties defined anew by ZSDH-1. Measures have been established in SSH for strengthening integrity and responsibility and accountability and for limiting risks regarding corruption, conflicts of interest and internal information abuse in management of assets; at the beginning of 2015, the Compliance Manager was employed for this purpose.

Future outlook

Slovenian Sovereign Holding actively continues to pursue all processes of sale which have been initiated, in accordance with the adopted Annual Asset Management Plan 2016. In the future, a lot of energy and resources will be allocated to activities in connection with the process of sale of the largest Slovenian systemic bank, NLB, d. d. In this regard, one of the goals of SSH is to carry out all processes for sale in due time, as required by the Republic of Slovenia's commitments to the European Commission. SSH will continue to conduct all processes for the sale of capital assets in accordance with the international practice in this field, in a professional and transparent manner, taking into consideration legislation, the internal SSH rules and the European privatisation guidelines and EU rules on state-aid.

The main challenges faced by SSH in the future remain linked to improving the current profitability ratios of portfolio companies which means that provision will be made for an even more active and more efficient management of all assets.



Lidia Glavina
President of the Management Board



Anja Strojín Štampar, MSc
Member of the Management Board



Nada Drobne Popovič, MSc
Member of the Management Board

VISION, MISSION, STRATEGIC POLICIES, OBJECTIVES AND VALUES

Vision

Generating value for the owner from capital assets.

Mission

Since the State and SSH are an important owner of companies in Slovenia, the main duty of SSH is a responsible, professional and active management of state-owned enterprises held in SSH portfolio. Among other matters, active ownership means focusing on creating value for owners, that is, the Republic of Slovenia and SSH. The ultimate objective of state-owned companies being managed by SSH is effective, profitable, economical operation, creation of value, and in many cases, efficient management of duties of specific public interest.

SSH also takes part in denationalisation proceedings and provides for a reliable and full settlement of all statutory liabilities due to beneficiaries.

The SSH mission in regard to the disposition of capital assets is to manage all processes in a transparent, effective and internationally comparable manner that provides for equal treatment of all investors and strives for maximising the economic impact of the sales of shares of SOEs.

SSH Strategic Policies

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

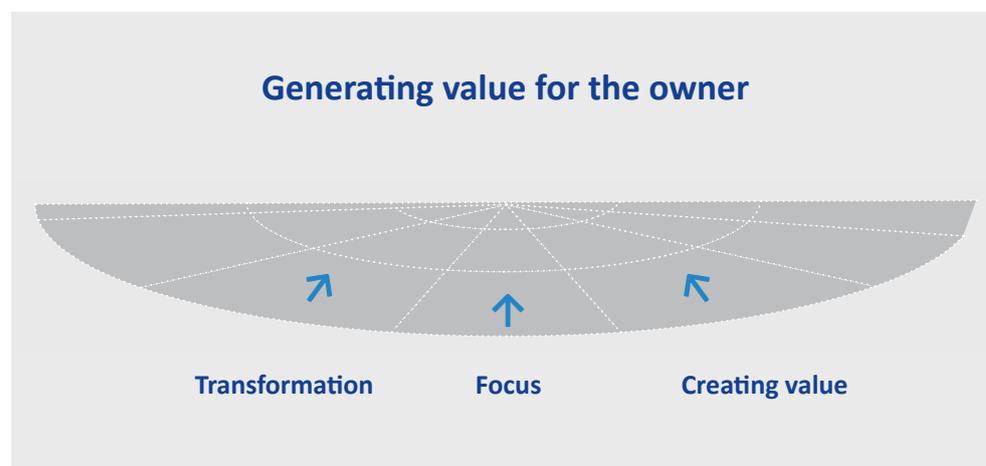


Figure 1:
SSH Strategic
Policies

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:

- the restructuring of the portfolio of assets under management for achieving objectives laid down in the State Assets Management Strategy;
- the improvement of the SSH operating model including all factors involved in the model, i.e., the management structure, business processes, human resources, technology, knowledge, corporate culture;
- providing for the professional competence and expertise of the management by setting high standards and applying the best practices in the management of enterprises and implementing constant activities for 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 owners of capital assets. The main factors included in the said second direction comprise:

- the stabilisation of the capital assets portfolio following the waves of restructuring and disposition of capital assets by aligning the management structures, risk management planning and risk management in regard to the industries which have been focused on in the portfolio;
- increasing and taking advantage of synergies within the capital assets portfolio and by means of the environment in which SSH operates.

Creating value

Creating value is the most important direction for achieving the SSH vision and the main principle in the operation of SSH. The main factors included in the said direction comprise:

- increasing the capital efficiency by an active and efficient management of enterprises and stakeholders in the environment in which the companies operate;
- increasing the capital of SSH with the goal to increase the profitability of the entire portfolio;
- implementing activities aiming at the development and improvement of the environment in which SSH operates with the goal of pursuing sustainable operation in social, economic and environmental aspects.

SSH Objectives

The objectives pursued by SSH in state asset management are the increasing of the value of assets, the provision of the highest possible yield to the owners and the attainment of other potential strategic objectives regarding the assets which are defined as strategic or important by way of asset management related documents. For attaining its objectives, SSH will advocate the improvement of corporate governance in SOEs, it will follow the long-term interests of companies which may be exclusively economic, national and strategic goals, a combination of both goals while being simultaneously oriented towards the sustainable development of companies; in addition, SSH will support the establishment of such ownership structure which will ensure efficient management, competitiveness and successful development in the long term.

A very important part of activities pursued by SSH is oriented towards establishing suitable expectations from SOEs, and a system for verifying whether expectations set have been achieved by these enterprises. The lowest expected level of corporate governance is the level envisaged by the law and the Corporate Governance Code for Companies with Capital Assets of the State and it mainly depends on the size of the company and its legal organisational form. In accordance with ZSDH-1, criteria for measuring the performance of SOEs were adopted by SSH in 2015; together with each Annual Asset Management Plan, these criteria are the basis for verifying the satisfaction of SSH expectations related to the performance of SOEs. Some individual expectations are being communicated to SOEs by means of SSH Recommendations and Expectations. Those enterprises whose shares are subject to sale are expected to provide full cooperation during the sale process, in accordance with the law.

The objective of SSH is also to finish the denationalisation proceedings and to provide for a reliable settlement of all statutory obligations due to beneficiaries.

1



Prof Sergeja Slapničar,

NLB SUPERVISORY BOARD MEMBER, FACULTY OF ECONOMICS OF THE UNIVERSITY OF LJUBLJANA.

In all probability, supervising NLB represents the hardest supervisory function in Slovenia. In the year of my appointment to the NLB Supervisory Board, the bank accounted for the highest loss ever recorded in the history of the Slovenian economy. My term of office started in June 2013 and the Supervisory Board faced great challenges – identifying the actual state of affairs in the bank and its recapitalisation, complementing the management board, reviewing non-performing loans and identifying reasons which led to losses, and primarily, renewing the bank's business processes towards the growing profitability and the financial stability of NLB.

Following the implementation of the Strategy set in 2013, the new NLB Group Strategy was adopted in August 2016; it is based on simplified and renewed business processes and services, customer focus and regional specialization – that is, taking advantage of the knowledge of six markets from the South and East Europe on which NLB operates. The future will see the Supervisory Board overseeing the implementation of the Strategy which will ensure for NLB to be a technologically advanced bank that is competitive for its owners and safe for its creditors.

In the last three years, the Supervisory Board's attention was dedicated to the renovation of the organisational culture: assuming moderate risks, preventing operational risks, reducing frauds and pursuing employees' conduct in accordance with the new Code of Conduct. The Supervisory Board advocated the simplification of the organisational structure, together with its better efficiency, and strived for the greater integration of the Group and its subsidiaries as regards core activities. The Supervisory Board has overseen the processes for the sale and liquidation of non-core assets and companies with high prudence. It has paid great attention to the renewal of the risk management system and the credit process, and provided for the enhancement of the operations compliance and internal audit functions. The financial reporting of NLB undergoes competent supervision, the results of internal audits are carefully monitored and the independence of auditors is provided for. The operations of NLB as a whole, of its business segments and of individual subsidiaries are supervised prudently. The Supervisory Board monitors the bank's capital

adequacy and liquidity condition. It tackles the staffing related issues in the parent bank and its subsidiaries. It pays special attention to the implementation of recommendations and measures by the ECB and the Bank of Slovenia, along with the commitments given to the European Commission upon the NLB recapitalisation. The Supervisory Board oversees the processes for active reduction of non-performing loans which are being handled by more than 200 employees working in the Group. The bank's cost efficiency is prudently and regularly checked. The system for measuring the performance of the Management Board has been renewed and it is being transposed to lower levels in the organisational system; it is compliant with the banking legislation and oriented towards the achievement of strategic, annual and personal goals. Due to the restricting legislation it is a challenge to provide for competitive income for managers in order to prevent the bank from losing the most talented people; this remains an open risk. The Supervisory Board prudently monitors whether business activities are implemented with the aim of increasing the value of assets for the owner.

Supervising a bank requires from a board member competences and international skills in the fields of banking, finance, accounting, law, privatisation, treatment of people, and I believe that various board membership compositions have managed to ensure that. The Supervisory Board functions as a well-coordinated team in which its members trust each other and complement each other professionally.

The supervisory function requires a lot of time, energy and dedication: in the last three years, 65 regular and correspondence sessions were held, materials for the sessions comprise approximately 1000 pages, and numerous informal meetings of board members are necessary, along with meetings with the owners, internal and external auditors and regulators.

Financially, the NLB Group is a strong institution which has recorded profit for the fourth quarter and this year, for the first time after 2009 (for the FY 2008), as much as EUR 43 million dividends was paid out to the State. In my opinion, NLB has regained the trust among its clients, customers and the banking prudential supervisor.

RENEWED STATE ASSETS MANAGEMENT SYSTEM

1.1 SSH - Company details



SLOVENSKI DRŽAVNI HOLDING, d. d.

Corporate name:	Slovenian Sovereign Holding
Registered office:	Mala ulica 5, 1000 Ljubljana
Telephone No.:	++386 1 300 91 13
Web site and e-mail:	www.sdh.si; info@sdh.si
Activity code:	64.990
VAT ID:	SI46130373
Registration No.:	5727847
Date of incorporation:	19 February 1993
Date of company transformation from SOD into SSH:	11 June 2014
Registered legal form:	Public limited company registered before Ljubljana District Court, under the Reg. Entry No. 1/21883/00
Share capital:	EUR 60,166,917.04
No. of employees as of 31 December 2015:	71
Management Board:	Mr Matej Pirc, the President of Management Board, Matej Pirc, Member of the Management Board (until 26 October 2015) Marko Jazbec, President of the Management Board,* Nada Drobne Popovič, MSc, Member of the Management Board (from 27 October 2015), Anja Strojini Štampar, MSc., MBA, Member of the Management Board (from 1 December 2015)
Members of Supervisory Board:	Samo Lozej, President, Stane Seničar, Deputy President, Nives Cesar, Member, Roman Dobnikar, Member, Pavle Gorišek, Member, Simona Razvornik Škofič, Member, Miran Škof, Member (until 17 July 2015) Damjan Belič, President, Dr Drago Ferfolja, Deputy, Lidia Glavina, Member, ** Duško Kos, Member, Barbara Smolnikar, MSc, Member (from 17 July 2015)
Members of Nomination Committee:	Dr Andrej Baričič, President, Anton Travner, MSc., Deputy President, Janušek Šefman, Member (until 31 March 2015) Luka Gaberščik, President, Maja Fesl Kamenik, Deputy President, *** Jagoda Vitez, Member (from 1 April 2015)

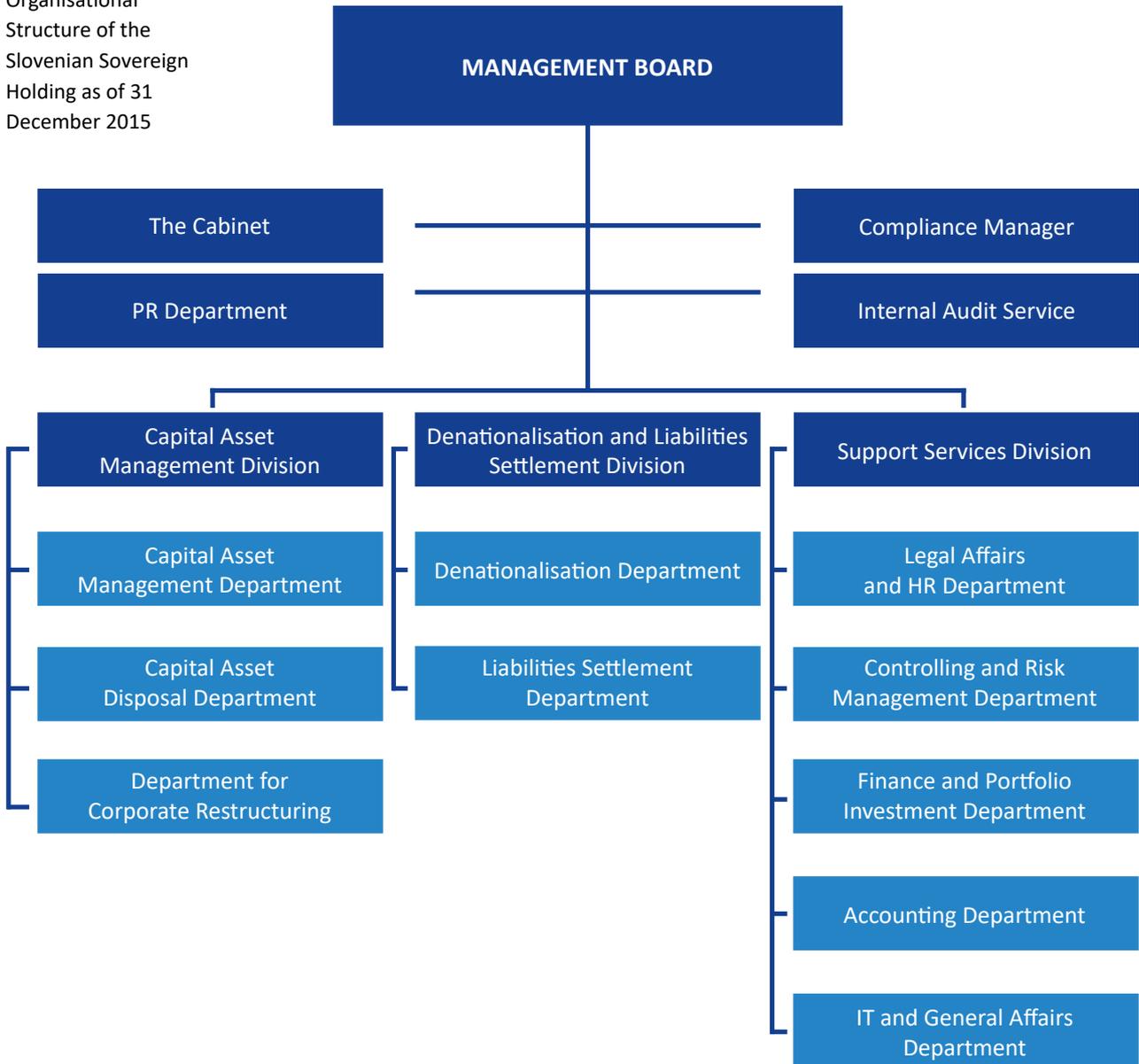
*Mr Marko Jazbec held the function of the President of the Management Board of Slovenian Sovereign Holding up to including 14 July 2015.

**Mrs Lidia Glavina assumed the function of a temporary President of the Management Board of Slovenian Sovereign Holding on 15 July 2016. During this time, she has not performed the function of the Supervisory Board Member.

*** On 1 March 2016, Maja Fesl Kamenik resigned from the function of the Deputy President of the Nomination Committee, and Mrs Brigita Vončina was appointed to substitute her on 5 April 2016.

1.2 Organisational Structure of Slovenian Sovereign Holding

Scheme 1:
Organisational
Structure of the
Slovenian Sovereign
Holding as of 31
December 2015



1.3 Continuing work for building the state assets management system in 2015

In 2015, SSH continued its work on renewing and rebuilding the new asset management system, specifically,

1. in January 2015, the (first) Compliance manager was employed as mandatory required by Article 54 of ZSDH-1;
2. on 27 November 2015, the Criteria for Measuring Performance of SOEs were adopted by SSH;
3. on 16 December 2015, the Assets Management Annual Plan 2016 was adopted, foreseen as the asset management document stipulated by Article 30 of ZSDH-1;
4. in 2015, SSH initiated the renewal of the Corporate Governance Code for SOEs and SSH Recommendations and Expectations which were formally amended and supplemented in February (the Code) and in March 2016 (the Recommendations and Expectations).

The new features of the state assets management system referred to in items 1, 2 and 3 are presented in detail in Chapter 2 of this Report which includes the presentation of all key elements of the new state assets management system. The new elements incorporated in the Code and the Recommendations and Expectations will be presented in detail in the Asset Management Annual Report 2016. SOEs were informed of these new features on the basis of the publication on the SSH web site, by way of a special letter circulated to companies and on the basis of presentations organised by SSH for members of management and supervisory bodies of SOEs.

1.4 Concentrated management of state assets: transfer of capital assets owned by PDP, d. d., to SSH

On 1 July 2015, in accordance with Article 82 of ZSDH-1, the merger of PDP, Posebna družba za podjetniško svetovanje, d. d., with SSH was registered in the Court Business Register of Ljubljana District Court, and the above mentioned company was deleted from the Court Business Register. On the basis of this merger, assets held in the following companies were transferred to Slovenian Sovereign Holding:

- Adria Airways, d. d.
- Adria Airways Tehnika, d. d.
- Aero, d. d.
- Elan, d. o. o.
- Elektrooptika, d. d.
- Paloma, d. d.
- Unior, d. d.

- Vegrad, d. d. – in bankruptcy
- Rimske terme, d. o. o. – in bankruptcy
- Novoles, d. d. – in bankruptcy

The purpose of the purchase of shares held by DSU, d. o. o. and the merger with PDP, d. d., thus, the transfer of all PDP shares to SSH, is the concentrated management of state assets, more transparent system of asset management, the reduction of the management costs and the increase in the profitability and the value of these assets in the long term, for the purpose of attaining the economic and developmental objectives and objectives related to the public interest.

1.6 About Slovenian Sovereign Holding

1.6.1 The 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 Management Board, the Supervisory Board and the Expert Committee for Economic and Social Issues (hereinafter referred to as: »ECES«). The founder and sole shareholder of SSH is the Republic of Slovenia. 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 as proposed by the Government of the Republic of Slovenia. The SSH Management Board consists of three members. The President and two members are appointed by the SSH Supervisory Board. The Expert Committee for Economic

Scheme 2:
The Company's bodies
and their working and
consultation bodies



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: the Audit Committee and the Risk Committee. There are two consultation bodies operating within the SSH Management Board: specifically, under the explicit statutory provision and the provision stated in the Articles of Association, ECES which has the status of a SSH body, and the Nomination Committee.

1.6.2 Purpose of SSH establishment

The Slovenian Sovereign Holding was established with the purpose of providing a concerted, transparent, professional management of the State's capital assets separated from the daily politics. Slovenian Sovereign Holding continues to carry out powers, responsibilities, rights and obligations that used to be managed by SOD (the settlement of liabilities due to beneficiaries under several laws).

1.6.3 SSH duties related to state asset management

Slovenian Sovereign Holding manages state assets in accordance with ZSDH-1, the act governing companies, other acts and regulations, Articles of Association and other legal documents related to asset management, taking into consideration the legal form of an individual company and in line with good practice in corporate governance. When managing state assets, SSH must follow the principle of responsibility and due care, the principle of independence, the principle of transparency and the principle of economy, the content of which is defined by ZSDH-1.

Within the scope of asset management, SSH mainly carries out the following duties and activities:

- participates at General Meetings where voting rights are exercised;
- provides for the exercise of other rights of a shareholder or member such as the convocation of General Meetings, extensions of agenda, lodges applications for a special audit review, an extraordinary audit review and files compensation claims and similar;
- provides for the legal protection of the rights of the shareholder or member and acts as the authorised person representing the shareholder or member in administrative procedures, judicial proceedings and other procedures;
- in terms of the content, provides for a suitable evaluation of individual AGM resolution proposals and for the observance of provisions of the statutory provisions and legal documents related to state asset management;
- develops a suitably designed and transparent procedure regarding the accreditation, nomination and selection of candidates for members of SOEs Supervisory Boards, and provides for their implementation;
- ensures that the remuneration systems regarding the Supervisory Board members of SOEs will satisfy the long-term interests of a company and attract and promote qualified experts to run for the membership in SOEs Supervisory Boards;
- in accordance with applicable regulations, establishes reporting systems which enable the legal protection of SSH and the Republic of Slovenia as a shareholder or member, and the evaluation of management systems applied for an individual company;

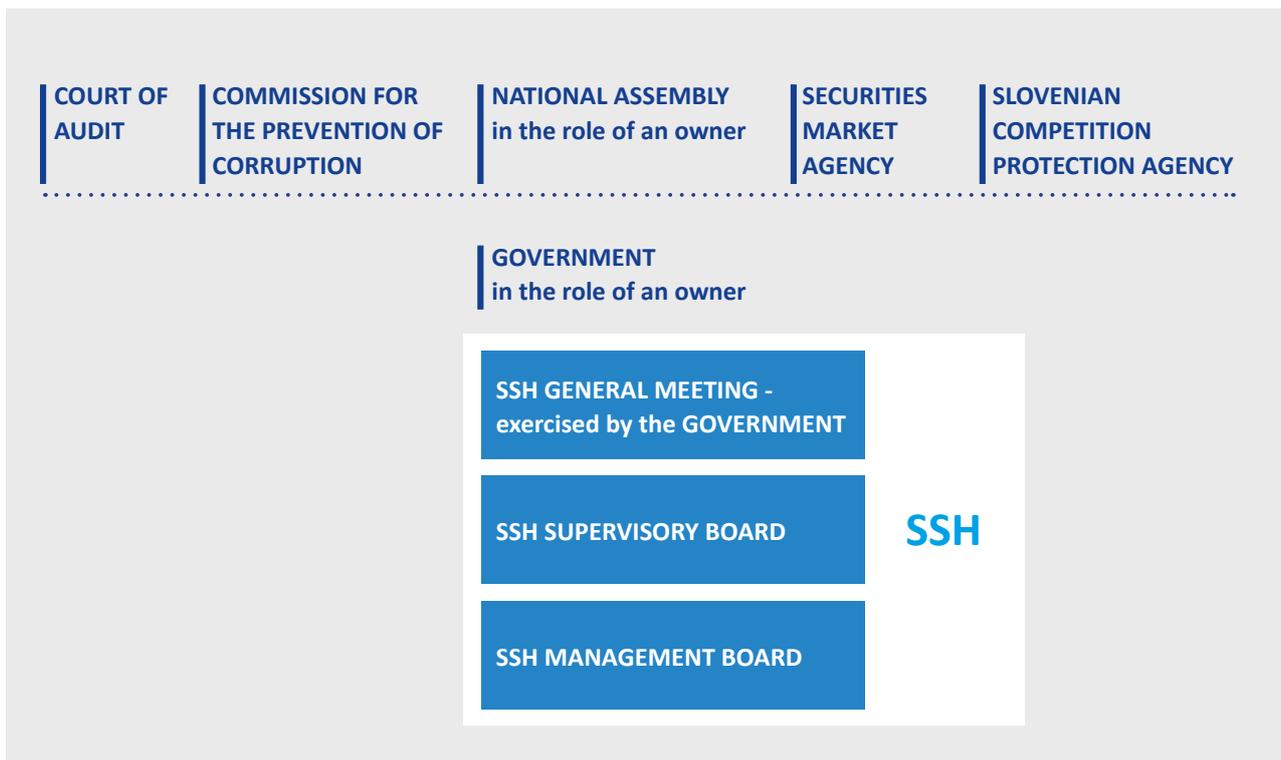
- concludes shareholders agreements or other agreements in which the rights and obligations by and between SSH, the Republic of Slovenia and third persons are defined in regard to the management or disposal of assets;
- promotes and within the scope of its rights, ensures good corporate governance systems in an individual SOE;
- acquires capital assets by incorporating and purchasing companies or increasing capital in companies;
- disposes of individual state assets within the scope and in a manner as stipulated by ZSDH 1 and legal documents regarding state assets management.

1.7 Broader decision-making system on state assets management and system of supervision in SSH and over SSH

Slovenian Sovereign Holding manages assets (shares and equity holdings in companies) of great value.

Scheme 3:
Presentation of the system of supervision over SSH and within SSH

As regards the legal form, the ownership of assets belongs to SSH and the Republic of Slovenia, but the principals of these assets are the beneficiaries of the assigned assets of the compensation fund (bond holders), specifically, the citizens of the Republic of Slovenia.



The system regarding decision-making and supervision in SSH and over SSH corresponds to such special circumstances. Thus, for example, on one hand, one part of the decision-making and supervision systems is a result of the fact that SSH is a public limited company. The fundamental agency issue is typical for a public limited company which is handled by applying classical corporation mechanisms and measures (for example, the existence of the Supervisory Board, the Audit Committee, the Internal Auditor). On the other hand, one segment of decision-making and supervision systems derives from the fact that the principals of assets are beneficiaries of the assigned assets, or better, citizens, who do not have any formal leverage in regard to the decision-making and supervision over SSH, and that, in legal terms, the formal owners of assets are the State and SSH whose interest is not necessarily in line with the interest of principals (for example, an enhanced transparency of management, an enhanced traceability of conduct, supervision on the part of the Court of Audit of the Republic of Slovenia, an extensive corporate integrity system which extends the usual level, special authorisations granted to representatives of public interest).

An extended decision-making system in regard to state assets management is shown as follows: the most fundamental decisions are adopted by the National Assembly in the capacity of the owner (the State Assets Management Strategy, the appointment and the discharge of the SSH Supervisory Board members), some of decisions are made by the Government in the capacity of the owner (for example, the Strategy proposal, the proposal for the appointment and discharge of SSH Supervisory Board members) or the Government in the capacity of the SSH General Meeting of Shareholders (for example, the consent to the Remuneration Policy for Management Bodies). The other two decision-making bodies are SSH Supervisory Board Member in the capacity of a body granting a consent to some of the most important decisions of SSH Management Board, and SSH Management Board as the management body at SSH, also dealing with decisions on state assets management.

The relations between decision-making bodies are not hierarchical in the sense that any of the bodies might give instructions to another body and intervene with that bodies' responsibilities. Duties and responsibilities pertaining to decision-making bodies are regulated in detail in the law; each decision-making body is autonomous and independent in making decisions and in implementing them.

In a certain perspective, however, some hierarchy as demonstrated in the scheme, does exist: specifically, a body placed higher in the decision-making scheme adopts more general decisions the scope of which must be observed by a body placed lower in the scheme. The personnel aspect is also important in this regard, as the Government and the SSH Supervisory Board are appointed by the National Assembly, and the SSH Management Board is appointed by the SSH Supervisory Board. Contrary to a general corporation regulation under which Supervisory Board Members may be discharged without any grounds given, SSH Supervisory Board Members may only be discharged by the National Assembly if any of statutory grounds for such discharge are given.

2



Tatjana Habjan

SUPERVISORY BOARD MEMBER OF ELEKTRO CELJE

In my view, the key of corporate governance lies in communication and trust. Trust derives from the fact that we believe that all stakeholders participating in corporate governance share common interests, a clear long-term strategy and a clear growth direction and orientation: the owners, management board members, employees and their representatives. In this regard, the extraordinary auditors of financial reports ensure that annual reports are disclosed in a lawful, fair and transparent manner, while internal auditors ensure that

- the performance, efficiency and effectiveness presented match the available resources,
- that the internal control system really functions (and that it is not only established on paper),
- that stakeholders are aware of key risks and opportunities towards which their limited resources are directed.

We trust them. We select the right ones: not only by gender or political orientation, but on the basis of their expertise and dedication. In corporate governance, we give an opportunity to daring individuals who stand up for their professional positions and to those who are independent.

When there is no consensus, healthy communication is lacking and there is little trust and any drum beating a steady rhythm on the ship will be in vain: each rower will boldly row with a different rhythm and different dedication; this may make our ship circle around to no avail although we all wish to head towards a brighter future and the prosperity of the nation.

How should we change the methods of operation? I am convinced that in Elektro Celje we have managed to do that. Diverse by gender, age, and qualification we come together and allow everybody to express his or her opinion. Since in the past two years we realized that we share common interests, that we care, we point out weaknesses and sometimes we wish for and we propose changes on a systemic level.

I would only wish for decision makers who select members of managerial and supervisory bodies to invite more women to participate in the corporate decision-making system; there are

enough fit and proper, well-qualified female candidates and they have demonstrated their competence and skills in many a field. Maybe a solution would be for HR services to become transparent, independent expert services which would and will provide for placing the right people in the right positions: in a non-discriminatory manner, regardless of gender, political orientation, age or any other decisive criteria.

In my belief, the very essence of leadership and supervision or corporate governance lies in the knowledge, courage and age of stakeholders who communicate with each other not making any false promises, clearly, transparently and consistently. Involved in this ever moving process, we should be aware of the fundamentals which we should constantly apply: changes and shifts are not only necessary but urgent. Yet, in addition, each of us involved and engaged should sometimes be willing to step back or aside, allowing for a slightly smaller ego, but letting the common goal be achieved: successful operation and performance that provides not only for subsistence but for sustainable development. A consensus, a decision on where we are headed and how we will get there, which does not change after every election.

Corporate governance will lead to better prosperity and well-being of our nation when we learn and live these principles. When disturbing elements of our culture, our history and our will subside and are overcome – are self-defeated, to be precise; the majority of us know that changes are necessary – and they start with oneself. We know that changes are not pleasant, however, they are a result of slow responsiveness, of a failure to adapt to changes, requirements of the environment, capacities, which, in turn, may be damaging to all generations. Are we strong enough to admit our flaws and start functioning differently? Are we committed enough not only to identify key changes but to carefully look at their impacts and take timely action? "All for one, and one for all!"

Another example: the dominance of men in decision-making positions in the economy is a fact, truly, not only in Slovenia. This is shown by research studies regarding the positions of women in companies quoted on the stock exchange. How should we change this and find the right balance for all organisations, regardless of the size and legal form? Women have a wide perspective – they are not only focused on financial result; they think in terms of family-friendly environments and settings which, when girls are growing up enables them to see and experience success in areas which are traditionally and in practice reserved principally for men. This is my impression.

SUPERVISORY BOARDS OF SOES AND CANDIDACY PROCEDURES

One of the main ownership leverages of corporate governance is the right and the duty of owners to appoint independent professionals who supervise the work carried out by management boards of companies in a responsible manner while cooperating with the boards in managing these companies.

Members of supervisory boards must satisfy two sets of criteria: criteria stipulated by ZSDH-1, and general criteria. Statutory terms and conditions (Article 21 of ZSHD-1) are:

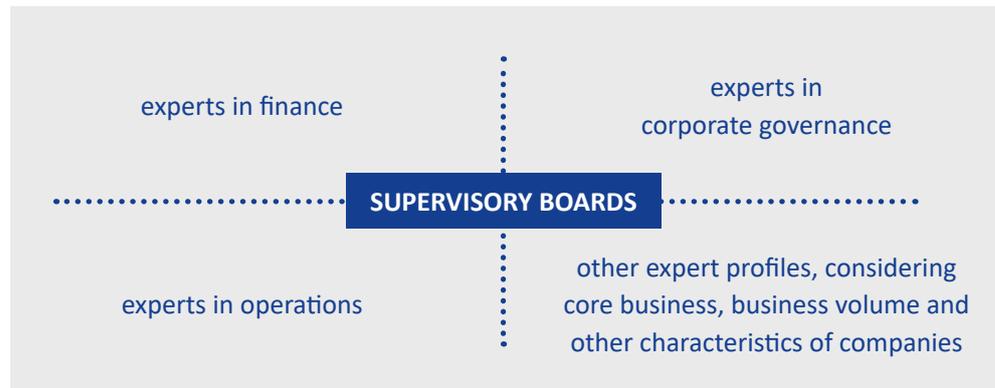
- personal integrity and business ethics,
- business success and reputation,
- qualification,
- work experience,
- integrated business and other relevant knowledge and expertise,
- knowledge of rights and obligations of a supervisory board member,
- the observance of the long-term interest of companies in the performance of the work,
- availability,
- availability when performing the function,
- not economically or personally or otherwise closely connected to the company or its management board, and
- no conflict of interests.

In addition to statutory terms and conditions, members of supervisory boards must also have the necessary knowledge and skills, such as competence, business credibility, financial and strategic knowledge, knowledge of the basics of business administration, are strong team players, understand the business culture and are committed to observing the principles of business ethics. The members of supervisory boards must have the necessary business experience and business maturity for assessing global business trends and opportunities, benefits and risks which the company is exposed to, business cycle and the company's business model, its strategic directions and business policies and the capability of an independent judgement for the benefit of the company. The members of supervisory boards must make decisions on the selection of board members in companies and direct and evaluate the work carried out by executives (management boards).

The responsibility of Slovenian Sovereign Holding is to ensure that the composition of supervisory boards is heterogeneous and to provide for good quality supervision over the work carried out by supervisory boards of SOEs.

In accordance with Article 21 of ZSDH-1, at General Meetings of companies, SSH must vote so as to appoint experts in finance, corporate governance, operations of an individual company, together with other officers with professional profiles necessary for the efficient supervision over an individual company in regard to its core business, business volume and other characteristics of the company.

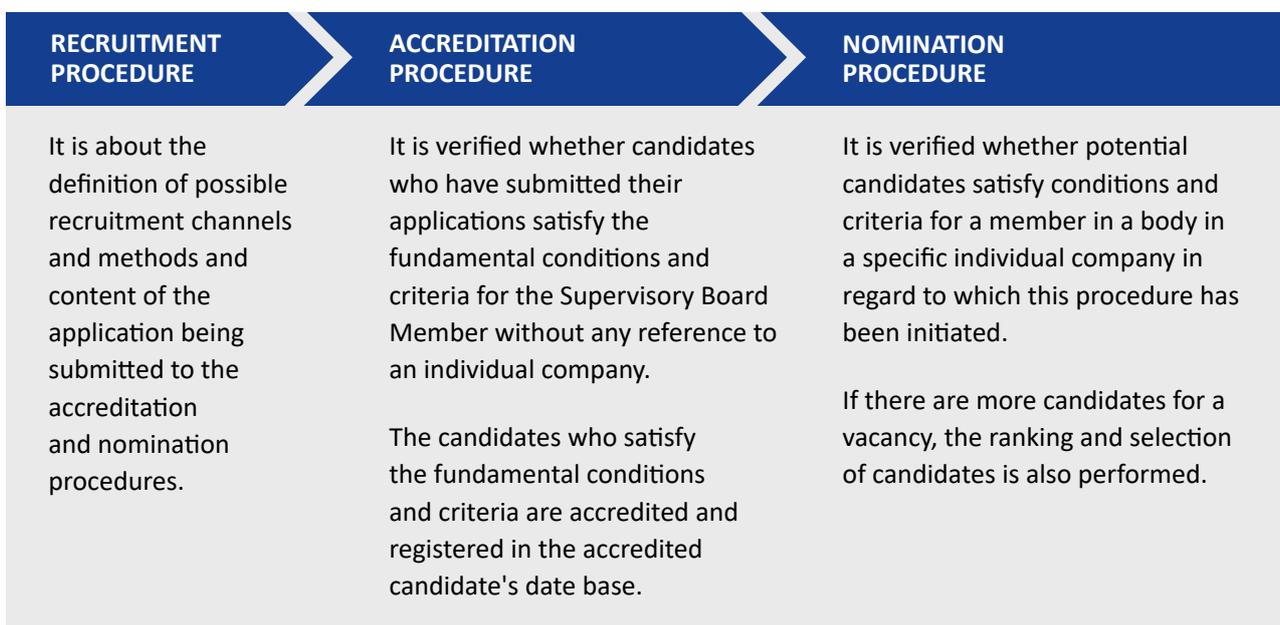
Scheme 4:
Targeted expert profiles for supervisory boards



2.1 About SSH's Nomination Committee

The establishment of the Nomination Committee as a special consultation body of the SSH Management Board is laid down in ZSDH-1. By 31 March 2015, the tasks and duties of the Nomination Committee were temporarily carried out by members of the former Accreditation Committee, and on 1 April 2015, a new Nomination Committee was appointed, composed of the following members: Luka Gaberščik, Maja Fesel Kamenik and Jagoda Vitez. The duty of the Nomination Committee is to carry out candidacy procedures, pursuant to the law and in accordance with the Asset Management Policy. The candidacy procedure is a collective term for actions carried out by the Nomination Committee for submitting to the SSH Management Board a suitable proposal of candidates for Supervisory Board Members of SOEs; it includes the recruitment procedure, the accreditation procedure and the nomination procedure.

Scheme 5:
Presentation of candidacy procedure carried out by the Nomination Committee.



2.2 Work performed by the Nomination Committee in 2015

In 2015, the provisional Nomination Committee performed its work with the following members: Dr Andrej Baričič (President), Anton Travner (Deputy President), Janušek Šefman (Member) and Gorazd Žmavc (Member) who resigned on 25 February 2014. The new Nomination Committee, established in accordance with ZSDH-1, was appointed on 1 April 2015 and acted with the following members: Luka Gaberščik, (President), Maja Fesel Kamenik (Deputy President), Jagoda Vitez, (Member).

In the period from 1 January until 1 April 2015, the Nomination Committee met at seven sessions at which requests for nomination for supervisory bodies of eight companies were dealt with, and carried out interviews with the total of 26 candidates for the following enterprises: Geoenergo, d. o. o., Banka Celje, d. d., DTK Meta Ingenium, d. o. o., Peko, d. d. (for a holder of procuration), Nafta Lendava, d. o. o., Energetika Črnomelj, d. o. o., SIJ, d. d. and DSU, d. o. o.

In the period from 2 April 2015 to 31 December 2015, the Nomination Committee met at a total of 35 regular sessions at which the requests for nominations for supervisory boards of 33 companies were dealt with, together with three requests for the management board of a company. Thus, in this period, the Nomination Committee carried out interviews with a total of 169 candidates for the following enterprises: HIT, d. d., Nova Gorica, Banka Celje, d. d., Sava Kranj, d. d., Peko, d. d., Polzela, d. d., Loterija Slovenije, d. d., DTK Meta Ingenium, d. o. o., DTK Prvi sklad, d. o. o., DTK Murka, d. o. o., Geoplin, d. d., EKOEN, d. o. o., Krka, d. d., Nova Ljubljanska banka, d. d., Cinkarna Celje, d. d., EGS-RI, d. o. o. (for a director), RTH, d. o. o., VGP Novo Mesto, d. o. o., Elan, d. d., Toplotna oskrba, d. o. o., Studentenheim Korotan GmbH (for a director), Paloma, d. d., Slovenske železnice, d. o. o., DARS, d. d., Elektro Ljubljana, d. d., Cimos, d. d., Abanka, d. d., Lipica Turizem, d. d. (or a holder of procuration), Adria Airways, d. d., JP Uradni list RS, d. d., Intertrade ITA, d. d., Polzela, d. d., Varnost Sistemi, d. d., DTK STH Ventures, d. o. o..

In addition to the above mentioned interviews, at its sessions, the Nomination Committee also handled proposals for the SSH Management Board to improve the work of the Committee, it received and discussed one anonymous letter, it was informed of SSH internal legal documents and provided comments on the amendments of the SSH Asset Management Policy.

There are currently 892 candidates registered in the record of potential candidates for members of Supervisory Boards of enterprises owned by Slovenian Sovereign Holding and/or partial or full state ownership.

2.3 Composition of Supervisory Board Members by gender

In 2015, the composition of Supervisory Boards and Management Boards by gender was highly imbalanced, with the male presence being still highly predominant. As of 31 December 2015, there were 77.6% of men and 22.4% of women sitting in Supervisory Boards of companies in direct ownership of the Republic of Slovenia and SSH (excluding the companies in bankruptcy or liquidation), and the inequality in presence was slightly greater in the case of Management Boards – among their members (including presidents) there were approximately 90 % of men and only 10 % of women.

Figure 3:

The composition of Supervisory Boards and Management Boards of companies directly owned by the Republic of Slovenia and SSH by gender as of 31 December 2015 (excluding companies in bankruptcy and in liquidation)



A similar disproportion regarding the gender presence was noticed in presidency functions held in management and supervisory bodies. In the case of 84.4% of Supervisory Boards of companies directly owned by the Republic of Slovenia and SSH, they were chaired by men, and the percentage of male Presidents of Management Boards was even higher, i.e., 96.1%.

Figure 4:

The composition of presidency functions held in Supervisory Boards and Management Boards of companies directly owned by the Republic of Slovenia and SSH by gender as of 31 December 2015 (excluding companies in bankruptcy and in liquidation)



In 2015, as compared to the end of 2014, the relation in the gender presence in Supervisory Boards of companies turned in favour of women. While in 2014, there were 20% of women present in the membership of Supervisory Boards, the proportion of women rose to 22,4% at the end of 2015. However, the proportion of women in all other categories (membership in Management boards of companies and presidency functions in Supervisory Boards and Management Boards) additionally decreased, as compared to 2014.

Figure 5:
Changes in the composition of Supervisory and Management Boards of companies directly owned by the Republic of Slovenia and SSH by gender as of 31 December 2014 and as of 31 December 2015 (excluding companies in bankruptcy and in liquidation)

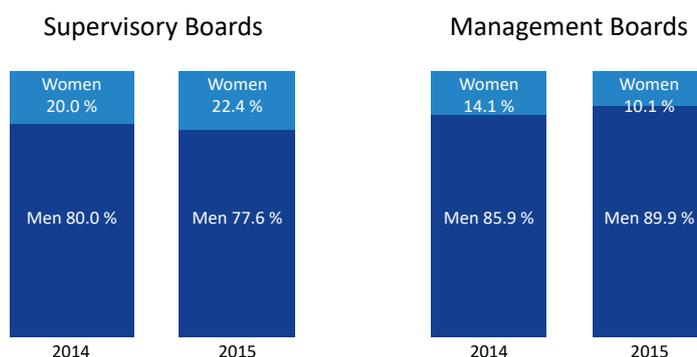
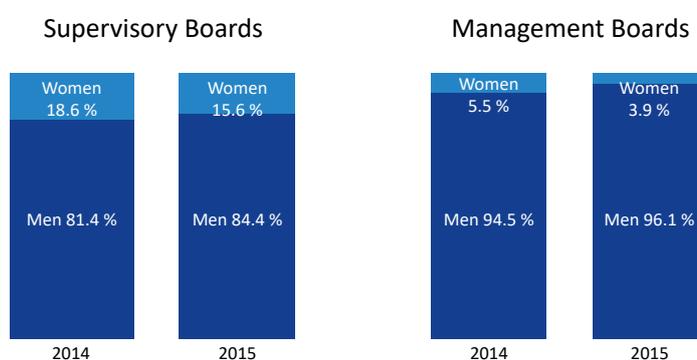


Figure 6:
Changes in the composition of presidents of supervisory boards and management boards of companies directly owned by the Republic of Slovenia and SSH by gender as of 31 December 2014 and as of 31 December 2015 (excluding companies in bankruptcy and in liquidation)



2.4 Corporate governance-related training organised for members of supervisory boards and representatives of companies – the improvement of professionalism and the promotion of good practice

The aim of organising training sessions in corporate governance is to improve the expertise of Supervisory Board members of SOEs in partial or majority ownership of RS and SSH since responsible, efficient and professional Supervisory Boards are highly important for successful performance of companies and for introducing good business practices in regular practice.

In 2015, 13 training sessions were organised by SSH. The average participation at a training session was 40 participants. The following topics were discussed at these training sessions:

- supervision over company's financial information,
- change management,
- communication as a strategic function of a company,
- effectiveness of business models,

- risk management, including the risks of frauds,
- internal audit and audits of corporate governance,
- provision of independent internal audit,
- Supervisory Board self-assessment
- guidelines for the selection and recommendations for the work of Presidents of Supervisory Boards,
- traps in financial reports and how Supervisory Boards should avoid them,
- preparation of the Annual Report,
- the Auditor's Report and
- responsibilities of the management staff for efficient corporate integrity of SOEs.

Lecturers were top experts coming from the sectors of economy, corporate governance, financial and auditing areas of expertise, and communications.

Knowledge and abilities of Supervisory Board Members are the most important assumptions for the efficiency of the work carried out by the Supervisory Board as a company's body and the company as a whole. Knowledge must be constantly improved and upgraded which is why SSH, as a case of good practice, holds free-of-charge training sessions for Supervisory Board Members of SOEs and for other decision-makers in SOEs.

3



Bojan Brank

PRESIDENT OF SUPERVISORY BOARD
OF SLOVENSKE ŽELEZNICE, D. O. O.

We, the members of the Supervisory Board of Slovenske železnice Group, assumed the responsibility of overseeing the operations of the SŽ Group in September 2015. Six months later, my colleagues entrusted me with the duty of presiding over the Supervisory Board. Since the report on the work carried out in 2015 brings a detailed substantive and chronological review on the functioning of the Supervisory Board and its committees under former and current terms, I will limit myself to pointing out some key highlights from the last quarter of the previous year.

The Supervisory Board has the potential to have a substantive influence on the enterprise supervised, especially by appointing the members of the Management Board and by actively cooperating in the process of the appointment and supervision of the auditor. At the end of the last year, we were aware of the fact that we have to carry out both of the long-term tasks in a relatively short period of time. With the successful cooperation with all stakeholders – let me highlight the excellent work carried out by the Audit Committee – in November 2015, we proposed to our founder that it approve the selection of an internationally recognised audit firm to audit the financial reports of Slovenske železnice Group.

In regard to the appointment of the Director General of Slovenske železnice Group, soon after taking over the duties, activities were put in motion which concluded successfully in conferring the mandate. A detailed and multilevel justification of the selection by the Supervisory Board, available on the web site of Slovenske železnice Group (1), was prepared with our strong conviction and belief that decisions which are transparent and based on data are the key for avoiding criticism and accusations on unprofessional staffing moves and on criteria in appointing

the members of the Management Boards and those senior executives whose appointments are consented to by the Supervisory Board.

The issue regarding the leadership pipeline in Slovenske železnice Group is not tackled satisfactorily and relevant attention is not being paid to it. In a career over two decades as an executive in the world's leading multinational logistics company (DHL), I have obtained an in-depth knowledge of this topic and its benefits which is why I will propose to the Supervisory Board and the Management Board that they dedicate their relevant attention to this particular sphere, in addition to improving leadership skills.

In the period of the next twelve months key strategic decisions are planned to be made for Slovenske železnice Group, with long-term consequences and effects on the Group's operation. Similarly as in the last quarter of the previous year, the Supervisory Board will carry out its set of tasks in a responsible and professional manner. The failure, as hard as it is to understand, to acquire the controlling stake in the coach undertaking in the above mentioned period of time will not discourage the Supervisory Board from taking the expected active role in understanding the concepts and the strategy of the long-term development of Slovenske železnice Group and from taking a stand in regard to this issue.

We, the members of the Supervisory Board, work increasingly more as a synchronous team that is capable of constructive, thorough and respectful internal and external dialogue with a clear focus on the tasks to be performed by Slovenske železnice Group.

(1) http://www.slo-zeleznice.si/images/skupina/Obvestila_z_a_medije/Obvestilo%20za%20javnost%20_imenovanje%20GD.pdf

ACTIVITIES FOR IMPROVING CORPORATE GOVERNANCE IN SSH AND SOES

The main activities for improving the level of corporate governance in SOEs implemented in 2015 were:

- the employment by the SSH of the Compliance Manager,
- the adoption State Assets Management Strategy (through the RS Parliament),
- the adoption of the Criteria for Measuring Performance of SOEs,
- the adoption of the Annual Assets Management Plan 2016,
- regular monthly training sessions for SOEs,
- in November 2015, SSH conducted a survey and sent a special questionnaire on the application and observance of the Corporate Governance Code for SOEs and SSH Recommendations and Expectations,
- in 2015, SSH initiated the partial renewal of the Corporate Governance Code for SOEs and SSH Recommendations and Expectations which were formally amended and supplemented in February (the Code) and in March 2016 (the Recommendations and Expectations).

3.1 The framework of functioning for SOEs

	Publicly traded SOEs	Non-publicly traded SOEs	Single-person companies owned by the State
Legal framework	ZGD-1, ZBan-2, ZZav-1, ZTFI, ZPre-1, Articles of Association, Corporate Governance Code for Joint Stock Companies, Corporate Governance Code for SOEs	ZGD-1, special legislation, Articles of Association, Corporate Governance Code for SOEs, Corporate Governance Code for Non-Publicly Traded Companies,	ZGD-1, special legislation, Articles of Association, Corporate Governance Code for SOEs
Goals and assignments	increasing company value	increasing company value, other tasks and duties stipulated by the law and Articles of Association	increasing company value, other tasks and duties stipulated by the law and Articles of Association
Hierarchy of top Company's bodies	General Meeting	General Meeting and shareholders as a body	Sole shareholder

Some special laws apply for SOEs with the controlling influence of the State which are based on circumstances regarding the controlling influence. These are; Integrity and Prevention of Corruption Act, Act Governing the Remuneration of Managers of Companies with Majority Ownership held by the Republic of Slovenia or Self-Governing Local Communities, ZSDH-1 (individual provisions, for example Paragraph 9 of Article 60, Article 62 and Paragraph 2 of Article 64 and Articles 69, 70 and 71).

3.2 The corporate governance system of SOEs is established

The legal documents regarding asset management the adoption of which is stipulated by ZSDH-1 are: the State Assets Management Strategy, the Assets Management Annual Plan, the Asset Management Policy and the Corporate Governance Code for SOEs. Of these four documents stated above, the Asset Management Policy and the Corporate Governance Code for SOEs were adopted in 2014, while the State Assets Management Strategy and the Annual Asset Management Plan were adopted in 2015. Slovenian Sovereign Holding applied the statutory authority for adopting other recommendations and standpoints, and the SSH Recommendations and Expectations, as an important document was adopted in 2014. Another important document the adoption of which is stipulated by ZSDH-1 is the Criteria for Measuring Performance of SOEs. The above mentioned six documents regarding the management of state capital assets are briefly presented in the remainder of the text.

ADOPTS	DOCUMENT	CONTENT
NATIONAL ASSEMBLY	State Assets Management Strategy	The definition and classification of assets into three types of assets: strategic, important and portfolio assets. Defines development policy of RS Defines individual strategic objectives
GOVERNMENT OF RS	Asset Management Annual Plan 2016	Objectives for managing individual assets are defined, 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.
SSH SUPERVISORY BOARD	Corporate Governance Code for SOEs	Principles and recommendations regarding good practice in asset management.
	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 following the » <i>apply and explain</i> « principle.

3.2.1 State Assets Management Strategy

On 17 July 2015, the National Assembly of the Republic of Slovenia adopted the Capital Assets Management Strategy by way of the Ordinance On State-Owned Capital Assets Management Strategy (OdSUKND, Official Gazette RS, No. 53/15; hereinafter referred to as: the »Asset Management Strategy«). By law, the Strategy is envisaged as a principal asset management document by way of which, the Parliament communicates its state ownership policy regarding SOEs to the asset management company (SSH), the Government, investors, citizens and all the interested public groups. The content of the Asset Management Strategy refers to the definition and classification of state assets to individual types of assets (strategic, important and portfolio assets), the definition of development policies of the State as a shareholder in companies and the definition of individual strategic objectives pursued by the State with strategic assets. In the Asset Management Strategy, the Parliament has given a special emphasis to raising the corporate governance culture, to increasing effectiveness in disposition of assets, to carrying out sound and prudent acquisition of capital assets, to increasing return on equity and to considering listing companies on the regulated market.

3.2.2 Annual Asset Management Plan

When the Asset Management Strategy was adopted, SSH could have used its basis to adopt the first Annual Assets Management Plan. The Annual Asset Management Plan 2016 was adopted on 16 December 2015, when the SSH General Meeting granted its consent. Until the adoption of the above mentioned Annual Asset Management Plan which regulates in an integrated manner the management of state capital assets for 2016, some partial annual asset management plans for individual companies for 2015 were adopted by SSH (specifically, for Cimos, d. d., Geoplin, d. o. o., MLM, d. d., Goriške opekarne, d. d, Adria Airways, d. d., and Pozavarovalnica Sava, d. d.). The Annual Asset Management Plan defines detailed objectives of the asset management company (SSH) in regard to the management of individual assets in an individual financial year which have to be moving within the scope of objectives set out in the Asset Management Strategy. The Annual Asset Management Plan, as it is clear from its title, also includes an actual plan of action (definition of measures and guidelines) for achieving detailed asset management goals. The forecasted cash flows generated from the management of state assets are also determined in the Annual Plan.

3.2.3 Asset Management Policy

The SSH Asset Management Policy (hereinafter referred to as: the »Asset Management Policy«) was adopted by SSH on 19 December 2014. The Asset Management Policy is a legal document which presents principles, procedures and criteria which are applied by SSH in carrying out its duties and activities which are stipulated by ZSDH-1. The Asset Management Policy is divided into two parts, a general part which includes the fundamental framework of the SSH' s operation, together with some fundamental

guidelines for SSH in performing its duties, and a special section. One special section of the Asset Management Policy is drawn up in the form of articles and it stipulates rules of conduct in individual situations, specifically, in candidacy procedures, in procedures related to the acquisition and disposition of the State's capital assets, and in some other 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 decisions made by SSH. At the end of 2015, SSH launched the Asset Management Policy Renovation Project which is to be completed in 2016.

3.2.4 Corporate Governance Code for SOEs

The Corporate Governance Code for SOEs (hereinafter referred to as: the »Code«) was adopted by SSH on 19 December 2014. The Code contains principles and recommendations for good practice in corporate governance of SOEs. The Code is addressed to SOEs. It should also be applied by subsidiaries in a Group of which a state-owned enterprise is a parent company. By analogy, the Code is used by SSH for its operation. Some principles are general 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 individual general expectations by SSH from SOEs. The purpose of the Code is to set the standards of governance and supervision in SOEs and to develop a transparent and understandable system of corporate governance in SOEs. The Code is addressed to SOEs under the »apply and explain« principle. The Code is not a new document in the corporate governance system of state assets management and one part of its content is drawn from the above mentioned documents which were adopted by SOD, specifically, the Republic of Slovenia's Capital Asset Management Code of 15 May 2013 and the Recommendations of the Asset Management Company of the Republic of Slovenia's Direct and Indirect Capital Assets. In March 2016, SSH adopted some modifications and amendments of the Code which will be reported to the Parliament in the Annual Report 2016.

3.2.5 Other recommendations and viewpoints

In accordance with Article 32, Paragraph 4 of ZSDH-1, SSH may also adopt other guidelines (recommendations) and viewpoints and addresses them to SOEs.

In accordance with the above mentioned authorisation, in December 2014, the SSH Recommendations and Expectations were adopted by SSH in which, based on the »comply or explain« principle, the conduct in line with individual recommendations and expectations is expected from SOEs in regard to the following narrow areas: three-year business planning; periodic performance planning; transparency of procedures leading to the closing of business transactions which refer to companies' expenditures (commissioning of goods and services, sponsorship and donation contracts); cost optimisation in 2015; achieving the quality and excellence in operations; and the area which refers to the General Meeting of Shareholders. These Recommendations mean a substantive improvement of a document adopted

by SOD, specifically, the Recommendations of the Asset Management Company of the Republic of Slovenia's Direct and Indirect Capital Assets. In February 2016, SSH renewed the SSH Recommendations and Expectations which will be reported to the Parliament in the Annual Report 2016.

3.2.6 Criteria for measuring performance of SOEs

Pursuant to Paragraph 1 of Article 17 of ZSDH-1, on 27 November 2015, the Criteria for Measuring Performance of SOEs were adopted by SSH (hereinafter referred to as: the »Criteria for Measuring Performance«). The Criteria for Measuring Performance is a shareholder's document which defines the indicators by way of which ambitious yet realistic expectations from SOEs are set by SSH in regard to future performance and business results; they are applied at the end of the year with the aim of assessing the results of companies' performances. These indicators are divided into financial and non-financial indicators; they are determined individually for each company or a Group of companies, taking into account their specific characteristics. The Criteria for Measuring Performance determine only the type of relevant indicators for individual companies or Groups of companies, while the quantification of these indicators in the sense of specific expectations by SSH from SOEs is adopted in each Annual Asset Management Plan. The Criteria for Measuring Performance, as a shareholder's document, and it should be distinguished from the companies' business plans in which companies quantify the planned results differently than SSH, most frequently, in a less ambitious manner.

3.3 SSH regulatory compliance and operational integrity

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 establishing a stable ownership, optimizing the management costs and 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 a 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 from exploiting its position which might cause a 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.**

The principle of responsibility and due care

Members of the SSH bodies must act with the diligence of a prudent and fair businessman when exercising their duties. They must act solely in the interest of SSH, and, when managing assets of the Republic of Slovenia, solely in the interest of the Republic of Slovenia. They must constantly strive to improve corporate governance of these companies and be an example of a responsible and diligent asset manager for other shareholders. During its operation, SSH takes into account Slovenian and international recommendations and good practice in corporate governance.

A member of the SSH body who has been prevented from exercising his/her duties on any grounds, particularly owing to pressures against his/her autonomous and independent decision-making or owing to passivity or lack of action on the part of other members of the management or supervisory bodies, must inform in a documented manner other members of the body in which he/she operates.

The principle of independence

SSH and its bodies are not obliged to follow the instructions of state authorities or third persons and when carrying out duties in accordance with this law, they must act independently and autonomously. The exception is the provision of ZSDH-1 on mandatory observance of objectives determined in the Asset Management Strategy and other legal documents concerning asset management, the provisions of the said law in regard to the disposal of assets until the adoption of the Asset Management Strategy, and potential provisions of special legislation which applies for individual assets.

The above stated does not mean that communication between SSH and state authorities and other entities of the public law is prohibited. The potential communication between SSH and state authorities and other entities of the public law must be traceable and defined in SSH internal legal documents. The communication with state authorities or any other entity functioning under public law does not have the nature of a mandatory instruction and it is not binding on SSH's corporate bodies which, in spite of viewpoints potentially expressed by state authorities and other entities of public law, are fully responsible for their decisions in accordance with the law regulating companies, and in accordance with ZSDH-1.

The principle of transparency

When managing assets, the adopted legal documents concerning asset management must be observed together with regulated procedures and criteria for asset management related decision making. The transparency is ensured in making decisions

and in providing for responsibility and accountability as well as the traceability of potential attempts in terms of pressures of a non-public nature which may be exercised on decisions made by SSH's corporate bodies.

Assets must be managed as transparently as possible for the benefit of state-owned enterprises, other shareholders in these companies and for the public.

The principle of economy

When managing capital assets, SSH acts effectively and efficiently, allowing the possibility to achieve goals defined in the legal documents concerning asset management stipulated by ZSDH-1. SSH monitors the efficiency of SSH's operations and of the state-owned enterprises on the basis of benchmarking against comparable foreign or domestic investments made by the public or private sector, and takes into consideration the industry, size, complexity, risks, market position and other characteristics of the entities compared.

The monitoring of the dynamics of efficiency is tailored-made and it is subject to the legal form of a state-owned enterprise whereby SSH must diligently exercise its rights held in accordance with the law regulating companies.

SSH has established the risk management system which includes the identification of risks and monitoring of risks whereby risks are suitably assessed and their management is suitably provided for.

3.3.1 Compliance Manager

In the beginning of 2015, the Compliance Manager was employed at SSH. The enhancement of corporate governance integrity is one of the priorities of SSH which, by pursuing ethical principles and transparency of operations, wishes to become a role model for companies under its management. A strong integrity of SSH is important for implementing the SSH mission, particularly in regard to the management of capital assets and their disposition.

SSH also strives to achieve strong integrity by implementing statutory provisions and codes and rules of conduct which have been adopted by the Management Board with the aim of ensuring the transparency of operations in SSH which will be a role model for the corporate governance of companies. These efforts mainly include the commitment to operate in an ethical manner, in accordance with the highest expectations and standards, everything with the aim of introducing good practices in corporate governance and to maximise assets managed by SSH.

Measures have been established in SSH for the strengthening of integrity and responsibility and accountability and for limiting risks regarding corruption, conflicts of interest and the abuse of proprietary information in management of assets. The Compliance Manager has been assigned the task of establishing the regulatory compliance and operation integrity system and he is responsible for the following:

1. the preparation of the integrity plan and proposals for implementing the integrity plan and other measures aimed at the internal control activities for the identification of corruption risks and their prevention; the conflict of interests; illegal and non-public political influences and pressures together with pressures from various interest groups, exercised in regard to decision-making in SSH and other illegal and non-ethical conduct in SSH and in relation to companies in which SSH has the majority shareholding or controlling influence, and in relation to external stakeholders;
2. the preparation of measures and implementation of measures for limiting risks related to the illegal insider trading and unauthorised disclosure of confidential and protected information;
3. the raising of awareness and training for SSH Management Board, SSH Supervisory Board, internal Audit Department or auditors and employees in SSH in regard to the strengthening of integrity, providing for regulatory compliance and compliance with codes of conduct, rendering consultancy services to the above mentioned persons, eliminating corruption risks, conflicts of interest and other non-ethical and illegal actions;
4. providing consultancy services to supervisory bodies and internal audit departments and auditors in companies in which SSH has the majority shareholding or the controlling influence in regard to the strengthening of integrity, regulatory compliance and compliance with the codes of conduct, eliminating corruption risks, conflicts of interest and other non-ethical and illegal actions;
5. the establishment and implementation of the SSH employee protection programme for those employees who submit, bona fide, an application on allegedly illegal or unethical action committed by their superiors;
6. regular cooperation with the responsible supervisory bodies from the field of operation integrity and corruption prevention, law enforcement authorities, access to public information and audit;
7. provision of other duties in accordance with the law and SSH legal documents.

3.3.2 Protection of data and of internal information

SSH protects as confidential all data, facts and circumstances on individual state-owned enterprises regardless of the method of their acquisition. The confidential data are always considered to be plans and intentions for the disposition of state assets.

Members of SSH bodies, SSH employees and other persons with access to confidential information within the scope of rendering their services to SSH, must not disclose confidential information in any unauthorised manner to third persons, nor use information by themselves or enable its use by third persons, with the exception of responsible bodies in accordance with their statutory responsibilities.

Slovenian Sovereign Holding regularly makes a list of state capital assets in connection with which any piece of confidential information has been obtained or in connection with information which is classified as proprietary information in accordance with the

law governing financial instruments market. All employees and other persons who in SSH carry out tasks regarding asset management must be informed of the content of the list.

The system of regular reporting has been established in SSH and a record is kept on all transactions which are related to the above mentioned capital assets and have been concluded by:

- a person who holds the office of a member of its management or supervisory bodies;
- a person who is employed at SSH or another person who, in connection with his/her work at SSH, has access to confidential information;
- a family member of a person referred to in the first and second indent of this paragraph;
- a company which is a subsidiary of an entity referred to in the first, second and third indent of this paragraph;

The supervision over the protection of information and the prohibition of abuse of proprietary information is carried out by the Securities Market Agency; a report on the list of assets and record of transactions is submitted to the said Agency by SSH on a monthly basis.

3.3.3 Reporting non-ethical or illegal conduct or influence

A member of the SSH Management Board, a member of SSH Supervisory Board, a SSH employee, a member of the Nomination Committee or a member of SSH consultation bodies who believes, bona fide, that he/she has been requested to conduct an illegal or non-ethical action in relation to his/her job or position or that illicit pressure is thus being implemented, that he/she is subject to mental or physical violence or indecent proposals by third parties are being submitted to him/her, must report such conduct to the Compliance Manager who should react to such information without any undue delay in accordance with the Operational Integrity Plan and other SSH's legal documents.

The Compliance Manager must immediately inform the Commission for the Prevention of Corruption or any other responsible state authority about such piece of information.

An individual must inform the Compliance Manager not later than within three days about any non-public contact with a member or a representative of a political party or a person acting on their behalf if, during the time of such contact, any lobbying has been attempted upon the exercise of management rights in individual companies or in connection with the acquisition or disposition of state capital assets. This duty also applies in regard to contacts with high officials of executive or legislative branches of power or high officials from local self-governing authorities when such contact does not fall under the regular implementation of these persons' statutory responsibilities in relation to SSH. The Compliance Manager must keep a record of such contacts.

The supervision over the reporting of pieces of information regarding non-ethical or illegal conduct or influence is conducted by the Commission for the Prevention of Corruption.

3.3.4 Protection of persons reporting non-ethical or illegal conduct or influence

In relation to procedures for the protection of persons reporting actions of corruption and other non-ethical or illegal conduct in connection with SSH and enterprises where SSH has a majority shareholding or controlling influence, the provisions of the act governing integrity and prevention of corruption apply.

An internal legal document has been adopted by SSH in regard to conduct pursued in cases of alleged irregularities and in regard to the protection of a person reporting them.

The position of a protected person who has reported such irregularities is ensured to a person who has requested the protection whereby the significance of the claimed irregularities is assessed, together with the bona fides of a person reporting irregularities; the position of a protected person may also be granted by the Compliance Manager to a person reporting irregularities who has not made a request for the protected position on his/her own.

The Compliance Manager must not disclose the information of the protected person to the members of the Management Board, the Supervisory Board, the SSH employees nor to third persons. The identity of the protected person may only be disclosed on the basis of a legal request by a responsible state authority, and if a criminal offence or a misdemeanour is committed by continuing to hide the said person's identity.

3.3.5 Disclosure of conflict of interest and its avoidance

During their work, members of the SSH Management Board, members of the SSH Supervisory Board, SSH employees, members of Nomination Committee, the Compliance Manager and members of SSH consultation bodies must disclose circumstances which might lead to any conflict of interest and consistently avoid any conflict of interest. No advantage must be taken of their job or position and information obtained when performing their duties for benefiting themselves or anybody else or any illicit private interest.

When circumstances are identified during their work which might lead to conflict of interest, members must immediately reveal such circumstances and they must exclude themselves from further carrying out their work, making an influence or participating in the decision-making process or request a responsible body to decide on their exclusion from the process or on taking any other similar measure. They must inform the Compliance Manager of any such event.

During their term of office in SSH and six months after the termination of their term of office, members of the SSH Management Board, Members of SSH Supervisory Board, Members of the Nomination Committee, a holder of a procuration, a business representative or a person occupying other executive function in SSH and their close family members must not, on their own behalf and for their account, trade with securities and assets of companies in which SSH holds the majority shareholding or has a controlling influence.

3.3.6 Restrictions on business transactions with related persons

Slovenian Sovereign Holding shall not enter into business with an enterprise from the public or private sector in which a member of the SSH Management Board, a holder of procuration, a member of SSH Supervisory Board, or their close family members are legal representatives, a member of the bodies of management or supervision or a holder of procuration, holder of a work contract or when the said person on his/her own or together with close family members hold more than 5 % of equity interest.

In particular, a business transaction is deemed to be the procurement and sale of goods and services, the commission and implementation of construction projects, granting of donations, concluding sponsorship agreements and entering into similar business relations except for transactions in which an individual is a recipient of usual products and services rendered at general terms and conditions which apply for all enterprises in the market.

The conclusion of an individual business transaction with related persons is admissible on the basis of a decision taken by the SSH Supervisory Board which may grant a permission for concluding such transaction on the basis of a proposal with reasoned arguments prepared by the SSH Management Board when it is assessed that such transaction is significant for the economic interests of SSH and that risks against conflict of interest, corruption and abuse of proprietary information have been suitably managed, and the SSH integrity has been provided for.

The above mentioned provisions apply *mutatis mutandis* for enterprises in which SSH holds the majority shareholding or has a controlling influence.

3.3.7 Prohibition and restrictions in connection with receiving gifts

Members of the SSH Management Board, members of the SSH Supervisory Board, SSH employees, members of Nomination Committee, members of SSH consultation bodies and their family members must not accept any gifts or other benefits in connection with carrying out their duties in SSH or in relation to their position in SSH.

In spite of the restriction referred to in the preceding paragraph, a SSH employee may accept an occasional, symbolic or promotional gift in the value of up to EUR 75 (the value must not exceed EUR 150 in a calendar year when gifts are given by the same person or entity) and an invitation to a banquet which is traditionally or usually offered during events such as business, cultural, sports, educational and other events or gatherings.

The acceptance of every gift must be reported by a SSH employee to the Compliance Manager. When such gift exceeds the amount of EUR 75, it becomes the property of SSH.

A person who wishes to present to a SSH employee a gift which does not fall under the category of exceptions referred to in the preceding paragraph must be warned by the said employee about the prohibition of accepting gifts referred to in this Article and such gift is to be refused. When the above mentioned person insists on presenting the gift, SSH employee must immediately hand the gift over to SSH.

The Compliance Manager shall keep a gift record.

3.3.8 Supervision of financial situation of top management and members of management and supervisory bodies

Members of the SSH Management Board, members of the SSH Supervisory Board, the holder of SSH procuration and the Compliance Manager are persons liable to be subjected to the supervision of their financial situation pursuant to the law governing integrity and the prevention of corruption. The same applies to members of management boards, members of supervisory bodies and holders of procuration in enterprises in which SSH holds the majority shareholding or has a controlling influence.

3.3.9 Ethical Business Practice

OECD Guidelines which are being followed by SSH recommend to supervisory boards and management boards of companies that they use high ethical standards which are in the long-term interest of an enterprise as they contribute to their credibility and trustworthiness in operations. SOEs may be subject to deviations from high ethical standards, in particular due to potential interaction of business considerations with political and public policy considerations and with other interests. Thus, a provision on the adoption and introduction of a code of ethics has been installed into the Corporate Governance Code for SOEs. Through the implementation of recommendations and expectation of the asset management company, SSH encourages SOEs to apply the model developed by the European Foundation for Quality Management (hereinafter referred to as: the »EFQM model«) in which (ethical) leadership is one of its important pillars.

The Corporate Governance Code for SOEs dedicates special attention to business ethics

Special chapters have been dedicated by SSH to business ethics and integrity in the said Corporate Governance Code which is the main document on good practice of corporate governance which should be consistently implemented and observed by all SOEs. In a business report, every deviation is disclosed under the principle »comply or explain« and an explanatory note is provided as to how a recommendation or an expectation is observed, or justified reasons are stated as a result of which an individual recommendation or expectation has failed to be complied with.

In fact, the Code, among other matters, stipulates that SOEs must adopt and introduce in their business practice the code of ethics in which ethical principles are defined, together with ethical behaviour and conduct on the part of the company's senior management and employees. The code of ethics should apply to all company's activities and should take into account special characteristics of these activities. It should include at least the following three basic areas: the company's main values, the responsibilities towards various stakeholders and the guidance on methods for implementing the code.

3.3.10 Instructions in regard to enhancing ethical conduct and integrity of all SSH employees

The employees in SSH have received instructions in regard to minimising risks related to illegal insider trading and unauthorised disclosure of confidential and protected information.

In regard to measures for detecting and preventing risks in connection with corruption, conflict of interest, illegal non-public political influences and pressures by interest groups on decision-making and other illegal and unethical conduct, the SSH Management Board has adopted three instructions: firstly, the instruction on the method for providing traceability of communications between SSH and other state authorities and other public law entities, secondly, the instruction on the provision of information to the authorised person on non-public contacts made and on the keeping of a register on such contacts, and thirdly, the instruction on reporting to the authorised person on gifts received and on keeping a register of such gifts. The titles of the instructions demonstrate the content of these instructions. In connection with all documents adopted, the internal training sessions for employees have been organised by the authorised person.

3.4 Questionnaire on the application and observance of the Code and SSH Recommendations and Expectations

In November 2015, SSH addressed a special questionnaire to SOEs, enquiring on the application and observance of the Corporate Governance Code for SOEs and SSH Recommendations and Expectations. To a certain extent, the application and the observance by SOEs of the two documents mentioned above may be monitored by way of the Statement of Compliance which, forming one part of the Corporate Governance Statement, is included in the Annual Report of a company. The SSH questionnaire mentioned above is, in terms of the substance, an improvement of such monitoring based on the Statement of Compliance; it was not only enquiring about whether the two documents mentioned above are applied and observed, and when not observed, an explanatory note in case of non-observance is required (such monitoring is enabled by the said Statement of Compliance); in regard to individual significant recommendations and expectation, it invited SOEs to state the merits of measures and documents which have been adopted with the aim of implementing individual recommendations and expectations referred to in the two documents. Such improvement of the basic monitoring enables SSH to also verify whether companies understand properly the content of both documents, and it also prevents companies from giving general answers about their observance of the said documents. The questionnaire was sent to 39 companies of which 27 submitted their answers. Of the 27 companies which had submitted their answers, 2 companies stated that SSH documents are not being applied, and 25 companies stated that SSH documents are applied. The question regarding the application of the document must be distinguished from the question whether an individual company actually observes recommendations and expectations set in the documents. The analysis of the submitted answers showed that companies observe in full or at least in part a great number of the recommendations and expectations referred to in both of the above mentioned documents; however, too low a percentage of observance of recommendations and expectations was noted in regard to some recommendations and expectations and SSH expects this proportion of observance to be improved with time, for which SSH will strive in the future.

4



Prof Miloš Pantoš

MEMBER OF SUPERVISORY BOARD OF
HOLDING SLOVENSKE ELEKTRARNE, D. O. O.

The HSE Group represents the main pillar of the Slovenian energy industry with an average annual production of 8 TWh which suffices for approximately 65% of electricity requirements in Slovenia. The structure of HSE Group is very heterogeneous, and it employed 3390 persons as of 31 December 2016.

The conditions on electricity energy markets in Europe bring new challenges to companies in power generation and production, particularly the decrease in the electricity prices on the wholesale electricity markets. On one hand, energy companies must maintain their competitive edge by restructuring, and by rationalisation and optimisation, and by developing new services and expanding to new markets on the other, thus consequently providing for sustainable operation and returns for their owners.

Adapting to new conditions requires action-taking at the level of the management and supervision of companies. Acting with all necessary prudence, supervisory boards must foremost provide for a strong and competent management to tackle tasks in a successful manner. On the other hand, the management urgently needs forward looking and goal-oriented supervisory boards which by way of their suitable personnel structure give a competent support to management teams in achieving excellence in operations and in the production of development plans.

In the past years, in addition to the above mentioned challenges, HSE Group faced other challenges, such as the completion of the investment into the Unit 6 at TEŠ, the disposition of non-operating assets, divestment activities, the liquidation of Termoelektrarna Trbovlje, the provision of long-term sources of financing and other challenges. For managing and realising these tasks, HSE Supervisory Board, in accordance with HSE Article of Associations, provided for the suitable personnel composition of the management by expanding its membership.

In the beginning of 2016, SSH, as the capital asset manager, followed the above mentioned policies and by appointing additional members to the HSE Supervisory Board, in addition to the expertise in energy industry and legal affairs, provided for the enhancement of the Supervisory Board profile structure in the areas of business administration, finance and restructuring. Personally, as a Member of Supervisory Board, I have viewed this move as being urgently necessary for the continuation of a complex implementation of operational and financial restructuring of the HSE Group. The expansion of the Supervisory Board brought about the reorganisation of its work. In addition to the already functioning Audit Committee, additional Supervisory Board's expert committees were established which are active in their specialized fields. These committees are: the Restructuring Committee, Marketing and Investment Activities Committee and Nomination Committee. This has enabled the professional deepening into the topics handled and increased the efficiency of the work carried out by the Supervisory Board. When formulating the committees, several goals were pursued: a) suitable personnel structure in regard to the topics to be dealt with; b) the composition of committees' membership for ensuring suitable mutual communication and cooperation between the members of the Supervisory Board; c) increasing the operational efficiency of the work carried out by the Supervisory Board. It is worth highlighting that, on account of competence and operational efficiency of committees, the HSE management may find in them a suitable partner of great assistance in the preparation of business and development plans for the company and the HSE Group.

The mid-term results of the extended Supervisory Board show that a dispersed personnel structure is of key importance for the successful performance of the HSE Supervisory Board, in addition to the organisation of work by engaging Supervisory Board's expert committees and professional, respectful, sincere and fair communication between the members of the Supervisory Board, aiming at common achieving of goals.

It is my honour and pleasure to take part in and cooperate with the HSE Supervisory Board and it is my wish to have, by way of its current work and results, this Supervisory Board become a model for the organisation of work of other supervisory boards in larger and more complex group companies than HSE.

**CORPORATE GOVERNANCE OF
SOES IN 2015 AND ACTIVITIES
FOR IMPROVING THEIR
PERFORMANCE**

Corporate governance that is organised and developed at a certain level is important from the aspect of the entire State and its economic efficiency, effectiveness and competitiveness as it reduces the risk of company failures. Slovenian Sovereign Holding has a central role in this regard as it deploys a systemic approach for the corporate governance of a great number of enterprises by introducing various mechanisms at various segments of governance. In doing so it takes into consideration both good international guidelines and practices in corporate governance, practices and standards which have been introduced in Slovenia upon the initiative of professional associations and its own experiences obtained through its legal predecessors (AUKN, SOD) within the scope of implementing tasks related to the management of SSH's and RS's capital assets.

The systemic nature of corporate governance pursued by SSH is primarily shown in adopted documents which represent the foundation of corporate governance and are the main condition for ensuring transparency in corporate governance. These documents are: the State Assets Management Strategy, the Criteria for Measuring Performance of SOEs, Annual Asset Management Plan, Corporate Governance Code for SOEs, SSH Recommendations and Expectations. In addition to setting up the system, its actual implementation is of vital importance which is why SSH, by way of various management supervision instruments and pro-active approach in governance continually provides for having the established system realised, thus growing the level of the corporate governance, with the aim of attaining the management goals set.

For attaining its objectives, SSH, as the manager of state assets, advocates the improvement of the corporate governance in SOEs, it follows the long-term interests of companies which may be exclusively economic, national and strategic goals, a combination of both goals while being simultaneously oriented towards the sustainable development of companies; in addition, SSH supports the establishment of such ownership structure which will ensure efficient management, competitiveness and successful development in the long term.

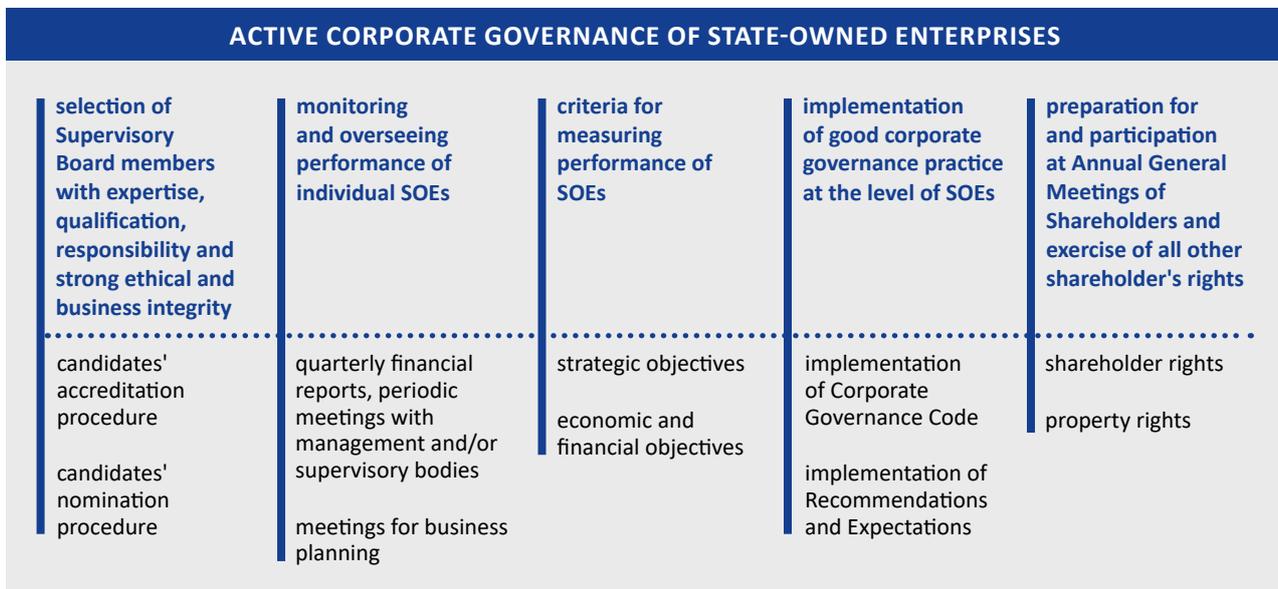
The fundamental document for SSH corporate governance is the Assets Management Strategy. The Assets Management Strategy has determined clear fundamental rules in regard to asset management, defining the classification of assets in strategic, important and portfolio groups of assets which further defines the nature of asset management goals, the minimum stake held by the State in companies (and their related companies) which is then connected with the option of their disposal and acquisition. Further on, the Assets Management Strategy regulates the definition of development policies of the Republic of Slovenia and individual strategic goals for individual strategic assets.

More detailed goals for individual capital assets and measures and policies for attaining these goals are determined in the Annual Asset Management Plan which presents a refined system necessary for the realisation of goals and policies defined in the Asset Management Strategy.

Since the realisation and the attainment of goals set for a company depends on the activities and expertise of company's bodies, one of the very important tasks of SSH pursued within the scope of asset management is the appointment of suitable experts in supervisory bodies of SOEs. In order to ensure that adequate persons are appointed it is vital that SSH has in place both a suitable recruitment system and procedures for the accreditation and nomination of candidates and a properly established internal organisation system with the Nomination

Committee playing an important role when, in accordance with the ZSDH-1 as the consultation body of the SSH Management Board, carries out the necessary recruitment procedures, evaluations and assessment of the suitability of candidates running for the members of supervisory bodies, and the procedures for their accreditation.

Figure 7:
Key activities regarding corporate governance of state-owned enterprises



4.1 SSH duties related to state assets management

Slovenian Sovereign Holding manages state assets in accordance with ZSDH-1, the act governing companies, and in accordance with the Asset Management Strategy and other legal documents related to asset management, taking into consideration the legal form of an individual company and its internal corporate legal documents. SSH manages assets in accordance with good corporate governance practices while also following the principles of due care, responsibility, independence, transparency and economy.

With the aim of creating long-term value in capital asset management, SSH must strive to achieve the following: good relationships between companies and their

owners; transparent operation of SOEs; the adoption of measures for measuring SOEs' performance and their presentation to SOEs Management Boards and the public; the formation of professional, heterogeneous and independent SOEs Supervisory Boards consisting of members without any conflict of interest; and developing such remuneration measures that will enable the value of companies to grow, while preventing the company from taking excessive risks.

Slovenian Sovereign Holding must also provide for the transparency of operations of companies under its management, together with SSH recommendations and expectations in regard to SOEs operation since a high level of transparency improves forecasting and contributes to the confidence on the part of enterprises which has a positive impact on the value of assets.

From 1 January 2015 until 31 December 2015, 139 General Meetings of Shareholders were executed and the founder's resolutions were passed in companies with capital assets of SSH or RS. In accordance with ZSDH-1, SSH exercised shareholder's rights on its behalf and on behalf of the Republic of Slovenia in regard to shares and shareholdings held in the above stated companies.

SSH actively participated in the majority of key business events and took part in making decisions in companies managed by SSH which referred to strategic and development topics, to financing and which were related to handling other issues in which responsible ministries were involved as stakeholders, to restructuring of companies and to other issues.

4.2 Amendments to Statutes and Articles of Association

In 2015, SSH reviewed all statutes and articles of association of the most important portfolio companies and on this basis made proposals and then voted on General Meetings for modifications and amendments of Articles of Association and, when in the role of a sole shareholder, decided in favour of such amendments.

4.3 Periodic meetings with SOEs and goals

The efficient supervision of operation of state-owned enterprises is one of the most important pillars of effective asset management. Slovenian Sovereign Holding thus regularly monitors performance of SOEs through quarterly financial reports and quarterly meetings prepared on the basis of such reports which are organised with Supervisory Boards and/or Management Boards of SOEs. Relevant business analysis and other necessary basis for thorough presentation and briefing on the state of affairs of a company are prepared by SSH for these meetings, together with the relevant bases for a constructive dialogue and substantiation of its viewpoints. The aim of these meetings

is to review key operational results and to attain the owner's expectations, to highlight key challenges in operation and in corporate governance, presentation of short-term and long-term plans of companies when business plans are discussed. Everything must be conducted with the aim of long-term development and the attainment of growth on key operational areas of the company, and from the perspective of the owner, the attainment of the main company's objectives defined by the Asset Management Strategy and the Annual Asset Management Plan. These periodic meetings are also important for SSH for presenting to company's bodies its view regarding company's performance and viewpoints and expectations in this regard.

In addition to such periodic meetings, SSH also organises occasional and ad hoc meetings in the event of unforeseen yet particularly important developments which may have an impact on the attainment of the goals set and on the value of a company. Considering the recent practice in corporate governance, such activities pursued by SSH contribute to faster acknowledgement of all stakeholders of the situation and of the anticipated necessary measures while it also provides for the exchange of expert viewpoints which are particularly important when effects extend to the areas, expectations and goals of key company stakeholders. Meetings are organised in accordance with the applicable legislation.

For the attainment of the SSH's vision, i.e. creating the value of capital assets for the owner, SSH pursues various selectively targeted goals in the management of state capital assets, taking into consideration goals defined by the Asset Management Strategy which are either strategic or economic.

Goals cover all key aspects which are important for the development and competitive position of enterprises, and in particular the following:

- growth of operations,
- cost efficiency,
- innovation and launching of new products or services on the market,
- internationalisation of operations,
- effectiveness of business model,
- efficiency of investing activities,
- return on assets,
- optimum structure of sources of financing,
- return on equity, and
- dividend yield.

For the necessary efficient monitoring of the success in regard to goals set for SOEs in the portfolio managed by SSH, all the adequate tools are deployed by SSH, together with data available, 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;
- the benchmarking analysis – the values of key performance indicators and the values of selected financial ratios 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;

- 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.

4.4 Criteria for Measuring Performance of SOEs

4.4.1 SSH has determined the criteria for measuring performance of individual companies

In the corporate governance regarding an individual company, in accordance with ZSDH-1, the criteria for measuring the performance of state assets differ according to the classification of a company as a strategic, important or portfolio asset. While in regard to strategic assets, in addition to economic objectives, development and other strategic objectives related to the provision of individual services of general economic interest are pursued, and in regard to important assets, key development components are desired to be retained in Slovenia, in the case of portfolio assets, exclusively economic objectives are being reached for.

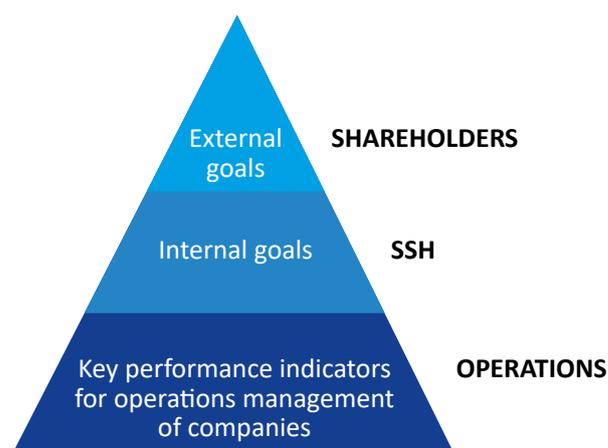
From the aspect of measuring the performance of the asset portfolio, it is vital to design the right indicators which are important for measuring the company's performance. For this purpose, the Criteria for Measuring Performance of SOEs were adopted in 2015. The Government of the Republic of Slovenia granted its consent to the said document.

These criteria are not quantified which is why they have to be applied in connection with each Annual Asset Management Plan. The performance criteria are quantified in the Annual Asset Management Plan and with a forward look they represent expectations by SSH from SOEs in regard to the attainment of future business results, while in retrospect, these criteria are (and will be) a quantified basis for measuring and assessing past performance of companies in regard to the expectations set by SSH.

For each company, individually, a special section of the Annual Asset Management Plan therefore separately summarizes and defines (i) management goals, (ii) key criteria for measuring the performance in attaining the management objectives, (iii) policies and specific measures for attaining goals.

Value-oriented governance of a company connects external objectives with operational management

The determination of an optimum combination of financial and non-financial indicators makes it possible to obtain an integrated piece of information regarding the company's performance. The strategic goals set and financial indicators will contribute to setting realistic and ambitious expectations on the part of the owner for attaining better profitability.



4.4.2 Monitoring performance

For a successful monitoring of performance of companies under management, updated, exact and full information on past and planned business results is needed, together with a series of other factors which enable transparency, increase efficiency of the management (data on members of supervisory bodies, management boards, their terms of office, contact data of various service departments in these companies, financial calendars with information on General Meetings, publication of business results, ownership structure, and similar pieces of information). For every company, measurable performance goals have been set by SSH, that are monitored and analysed by means of financial statements submitted by enterprises and by means of publicly published business reports on operations, and on the basis of periodic meetings held with supervisory and/or management bodies of individual companies.

The State is an important shareholder. The portfolio of companies, in which the State holds its shares and shareholdings, comprises a significant number of Slovenian businesses which poses a great obligation on the State to be an active and professional owner. In accordance with the OECD Guidelines on Corporate Governance of State-Owned Enterprises, all enterprises must be well managed, and in this regard, it is expected from them that they will manage their business with the diligence of a prudent businessman, following the principles of economy, productivity and economic viability.

4.5 Expectations in regard to dividends and returns on equity

The value and volume of state assets represent an important part of the Slovenian economy. 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 purpose of their establishment (rendering services of general economic interest, and similar).

When managing capital assets, SSH takes into account the specific characteristics of operations regarding individual companies, strives to increase the profitability of individual companies and the portfolio as a whole – while simultaneously taking into account risks which are usually an intrinsic part of higher profitability. 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 state asset, while taking into account the above mentioned business factors and the value of this indicator generated by selected comparable companies.

Premises for voting on General Meetings of Shareholders are adopted by SSH every year; these premises include the dividend policy which takes into account the balance between current dividends and future growth of company's operation and maximises the market value of an equity unit and thus the equity of company's owners. A reasonable dividend policy must therefore contribute to the solid long-term market rate of return and development policy of a company. From this aspect, for SSH, the dividend policy is one of more important elements in corporate governance to which the necessary attention is paid.

Long-term expectations regarding dividends will be determined by considering the following criteria:

- the company's Strategy,
- the company's development phase,
- the company's capital structure,
- access to the sources of financing,
- tax aspect,
- 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
- the characteristics of the sector in which a company operates, including the level of competition present in the sector.

4.6 Capital increases in 2015

4.6.1 Capital increases in companies owned by SSH

In 2015, SSH did not take part in any capital increase.

4.6.2 Capital increases in companies owned by RS

Polzela, d. d.

Conversion of liabilities into equity was carried out by RS in the compulsory composition proceedings with the total amount of EUR 922,853.58 EUR (EUR 500,000 of a short-term loan, EUR 331,982.46 EUR arising from VAT and EUR 90,81.12 arising from the cashed-in guarantee under the guarantee scheme). On the basis of the above conversion, 30.42% stake in Polzela was acquired. Before the conversion, the Republic of Slovenia was not the owner of any shareholdings in Polzela.

Final compulsory composition: 13 March 2015. Confirmed compulsory composition: 20 February 2015. The Subscription of Shares Report by asset manager (all shares, including RS' shares are included) is of 12 February 2015.

Slovenske železnice, d. o. o.

In July 2015, the capital increase in Slovenske železnice was carried out in the amount of EUR 110.2 million, allocated for the financial consolidation of the subsidiary, SŽ Potniški promet, d. o. o., which is 100% owned by the parent company, SŽ, d. o. o.

5



Anton Horvatič

SUPERVISORY BOARD MEMBER OF POLZELA, D. D.

Our Supervisory Board worked in a company that was in a highly critical position in the previous period, on the edge, both in terms of its operations and in financial terms. The greatest asset was actually dedicated employees and knowledge and know-how which is still present in the company. Thus, Supervisory Board Members were faced with issues that supervisory boards in normally functioning enterprises do not know; for example, the issue of expert support for the work carried out by the Supervisory Board, non-organised official records, and similar problems. The Supervisory Board did not work according to the usual agenda, instead, sessions were more frequent, we actually met on a monthly basis, in addition to a series of additional and urgent extraordinary and correspondence sessions. That is why it was so important that the membership of the Supervisory board was wide enough, comprising members who cover various fields and complement each other. It is not insignificant that members with expertise in sales were the predominant ones as they are more pragmatic by nature. On the first day of our work, we agreed to strive really hard in reaching consensus in decision-making, even if that meant holding longer sessions. When this was not possible any longer, we were fast in breaking down the inefficient situation which would lead to divisions and constant down voting.

The diversity of profiles of Supervisory Board Members makes sure that the Management Board must dedicate itself to all aspects of restructuring, not only the financial one which usually prevails. Members whose background is not financial obviously require other aspects of operations to be relevantly dealt with in documents and reports. They are also more familiar with risks connected with sales, loss

of reputation, lack of funds for innovations. This is why they require monitoring also in these areas of work. The fact is that a company in crisis must repair itself, it must reset its focus and redefine its short-term and long-term goals, the ways for achieving positive cash flow, which consequently means that it sells products and/or services with relevant profitability. The cutting of costs and investment activities cannot be the only guidance in this regard.

In crisis management it is also important that Supervisory Board Members appointed by equity holders know how to connect with employees and gain their trust. For instance, it becomes important to Board Members to know when they can park their cars when they come to a session, that they can find time to greet and exchange a few words with employees with whom they meet in the company, that they spread positive energy, and it is mandatory to share the fate of employees in charging their session attendance fees (no income, no attendance fees) and they must always be available to communicate with representatives of employees in the Supervisory Board, at midnight, if necessary. The representatives of employees must have all the necessary pieces of information available to all other Supervisory Board members, and it must be explained clearly to them why disclosure of sensitive information may damage the company. Fewer hide-and-see games, and there is more transparency and communication is better, there is less lack of trust and the team is more successful and more unified in solving hard situations.

Let me summarize, the Supervisory Board must set an example for all other stakeholders in the company and must act in a positive, uniform and professional manner. The Supervisory Board must know well where, together with the management, to head the company. Objectives must be long-term, specific and clear. Supervisory Board Members must never forget that they serve the company and not directly the owners of the company whereby they must obviously observe the resolutions of the General Meeting which, among other things, define the expected performance results.

CORPORATE RESTRUCTURING

The corporate restructuring process is adapted to the situation of an individual company. In some companies the restructuring of only one individual area of operations is needed while for others, a more integrated approach is required for the majority of areas of operation, including the turnaround of operation. Regardless, there are some general common guidelines which are typical for any restructuring process which mainly includes the preparation of the recovery plan which includes the identification of root causes of problems and measures for their restoration, stabilisation of crisis situation and verification of viable parts of operations and the verification of the suitability of the business model. The communication with all stakeholders and the setting of clear strategic guidelines are extremely important. By means of taking the necessary measures inside the company, especially, by controlling costs, inventories and daily liquidity, obviously also making suitable replacements of key top managers, and by taking actions outside the company, i.e., by pursuing financial restructuring and by restructuring suppliers' agreements, efforts are made to stabilise the operation of the company and to reach a turnaround.

In the processes of corporate restructuring SSH wishes to provide for a company to become profitable in the long-term and to make it capable of achieving other strategic goals, while also taking into account the maximisation of value for owners.

Given the nature of work and the intensity of restructuring processes, a very intense cooperation with the company's bodies is typical which includes participation in the preparation of the Grace Period Agreement, the Restructuring Agreement, the Financial and Business Restructuring Plan and similar instruments, together with the cooperation with other stakeholders, the identification of key problems and reasons for the current situation and the preparation of proposals and measures for their elimination. This area of work also included monitoring and supervision of the implementation of agreements which have been reached. In 2015, SSH played an active role in dealing with capital assets of companies in which corporate restructuring is in place. These include:

- **HSE, d. o. o. (Holding Slovenske Elektrarne Group)**

For several years, HSE Group has been facing particularly challenging external operation conditions as the situation in the market is not favourable at all. In the last 8 years, the electricity price has dropped to approximately one third of its value, and the emissions trading system (ETS) entered into force in 2013. For these reasons the revenue decreased significantly, together with the mark-up generated by HSE Group from electricity trading. At the same time high costs for CO₂ coupons were incurred, amounting to EUR 20 to 30 million per annum. During this period of time, HSE Group was involved in a very complex modernisation of its production capacities – the value of Unit 6 at TEŠ amounts to more than EUR 1.4 billion, or approximately 50% of total assets of HSE Group and the external indebtedness for this investment equals EUR 750 million.

Forecasts regarding the movements in electricity prices in the EU markets are very pessimistic in the medium-term perspective. Liberalised wholesale electricity markets are crashing since market prices for electricity have ceased to play a central role (or are just about to do so), i.e., ensuring incentives for efficient operations and investments,

reimbursement of costs to energy providers while giving efficient price signals and reliable and safe supply to users. At the level of the European Union, in cooperation with the European Commission, extensive discussions are being held on the necessary market reforms, particularly by introducing capacity remuneration mechanisms (CRM) which would support energy investment necessary for maintaining a reliable and safe power supply. European electricity markets are still organised so as to reflect and optimise cost structures typical of conventional technologies known for energy power systems of the 20th century which, unfortunately, are not adapted to systems which, among other things, with the aim of pursuing environmental and climate goals, are being intensively developed in the EU in order to satisfy the requirements and to manage conditions of the 21st century. As a result, they do not give efficient signals. One group of technologies (variable RES and CHP) thus obtains substantial state support off the market whereas other technologies are expected to be paid off on the market although both technologies operate on the same market. This is a structural error which may only be solved by a new electricity market design otherwise the system may crash bringing forth all the negative consequences for national economies and states. Thus, in July 2015, the European Commission launched the Market Design Initiative which focuses on three main pillars: investments and security of supply, participation of the demand side and market management.

For smooth operation in these demanding conditions, for maintaining liquidity, solvency, financial stability and for attaining the goals set, HSE Group has implemented extensive measures aiming at rationalisation and optimisation and for managing its liquidity.

Development plan of the company and HSE Group for the 2016-2020 period

On 18 November 2015, the Management Board of SSH, in the role of the founder and the sole shareholder of Holding Slovenske elektrarne, adopted two important documents: firstly, the Development Plan for Holding Slovenske elektrarne and HSE Group for 2016-2020 which includes financial, business, personnel-related and organisational restructuring, and secondly, the Action Plan for Holding Slovenske elektrarne and HSE Group for optimisation and rationalisation of operations of HSE Group in which activities, persons responsible, time periods and anticipated financial effects were defined which are necessary for the attainment of the goals set in the said Development Plan for Holding Slovenske elektrarne and HSE Group for 2016-2020. Activities and value effects from the Financial and Business Restructuring Plan for TEŠ and the Financial and Business Restructuring Plan for PV Group are incorporated in both documents within the scope of HSE Group.

These two documents mentioned above were prepared on the basis of expectations and policies from the Ordinance on State Assets Management Strategy and on the basis of recommendations and remedial measures required by the Court of Audit of the Republic of Slovenia from the Audit Report on managing cash flows in HSE Group due to investment into Unit 6 of TEŠ in the period from 1 January 2012 until 31 December 2014.

In the 2016-2020 period, HSE Group must continue to implement additional measures of financial, business, personnel-related and organisational restructuring which is the necessary condition for maintaining its long-term performance and is necessary for the operation of HSE as a going concern.

The Plan has been prepared by taking into account numerous changes which took place in the past years and it is set in the current, highly demanding business environment in which key operational parameters have changed but which must be urgently observed. This specifically includes the following:

- historically low electricity prices with an emphasis on a divide between wholesale electricity prices and retail electricity prices paid by final users;
- variable prices of emission coupons and uncertain operation of the emission coupon market in the future period;
- low coal prices on the global level;
- the introduction of support mechanisms, such as CRM mechanism, in individual states;
- lowering grants for RES;
- a decrease in electricity demand;
- demanding economic and financial conditions in the Republic of Slovenia and the EU;
- the tightening of environmental legislation;
- non-updated national energy policy.

In regard to HSE and its realisation of the set investment projects, the launch of operation of the Unit 6 at TEŠ is critical (the operating permit was issued in June 2016), in addition to the preparation of RES Projects within the scope of maintaining the minimum dynamics regarding the projects for the siting of production facilities (particularly hydro power plants) when conditions are more favourable. The TEŠ Unit 6 Project is a project of national significance which will improve the reliability of electricity supply, provide for the stability of the energy system, and TEŠ is compliant with the international standards for best available technologies.

Business restructuring of HSE Group

The business model for the restructuring of HSE Group which is reflected in the Development Plan, is based on the decreasing average electricity price generated in HSE Group and on the cessation/selling off of activities which do not belong to HSE Group's core business, such as coal mining and electricity production and trading.

The focus of cost-cutting in HSE Group, and consequently the decrease in the average cost per electricity produced in HSE Group, lies in three categories of costs (controlled costs), specifically, labour costs, and costs of materials and services. For the purpose of managing liquidity and solvency of the Group and individual companies within HSE Group, in addition to implementing measures for reducing the average cost of electricity production, additional measures are planned which will focus on the reduction of expenditure, which mostly include the reduction in investment activities and their management.

The effects of implementing the rationalisation and optimisation measures in HSE Group are monitored on a monthly basis on the basis of special reports submitted by the Management Board of HSE to the Supervisory Board of HSE and SSH by the tenth day of a current month. By way of these reports, the implementation of 8 measures is closely followed, on the aggregate for HSE Group and separately for each individual company in HSE Group.

So far, the rationalisation and optimisation measures in HSE Group has been successful and the objective of attaining the reduction in controlled costs by the end of 2016 will be met at a level of 78%; in spite of that, numerous other demanding projects will still have to be implemented.

- **Nafta Lendava, d. o. o.**

Negotiations with financial creditors of Nafta Lendava continued and closed successfully at the end of the first mid-term of 2015. Additional liquidity assets were acquired which had laid down new foundations for the restructuring of the entire Nafta Lendava Group, including its subsidiaries, EKO-Nafta and Nafta varovanje in požarna varnost. In 2015, the restructuring measures were carried out in both subsidiaries, however, the restructuring is not yet completed and the conclusion of key agreements is planned to take place in the second mid-term of 2016.

- **Peko, d. d.**

The activities pursued by SSH in regard to Peko were focused on finding potential solutions in cooperation with the company, on the coordination between creditors and Peko and on the preparation of the Financial and Business Restructuring Plan which aims to ensure long-term stability and sources of financing for the company. In the beginning of 2016, after the failure of backing the planned restructuring plan by creditors, bankruptcy proceedings were initiated against the company.

- **Lipica Turizem, d. o. o.**

On 2 February 2015, in accordance with ZSDG-1, SSH took over the management of Lipica Turizem, d. o. o., and immediately started the restructuring process. Considering the fact that decisions on the development of the Lipica destination as a whole must be made with the view of finding an integrated solution, measures for improving the operations were implemented in 2015, and numerous coordination activities were carried out with the responsible ministry and other ministries involved. The final implementation of the integrated solution is expected to be realised by the end of 2016.

- **Polzela, d. d.**

Slovenian Sovereign Holding took over the management of capital assets held by RS in Polzela in the beginning of 2015. In spite of the compulsory composition having been carried out, Polzela failed to achieve the goals set due to the lack of liquidity. In 2015, the company was marked by the crisis in management and supervision which was reflected in numerous changes in the membership of the company's bodies.

In the second mid-term of 2015, after stabilising the situation the leadership of the management and supervisory bodies, the concept of an integrated long-term recovery of Polzela was set.

- **Sava, d. d.**

The company is currently undergoing compulsory composition proceedings which were initiated in the middle of September 2015. Considering the applicable Ordinance on State Assets Management Strategy, according to which assets in Sava are classified as important assets, SSH actively monitored activities pursued by Sava for its business and financial restructuring, which includes the drafting of the framework for the Business and Financial Restructuring Plan in accordance with ZFPPIPP.

- **Javno podjetje Uradni list RS, d. o. o.**

In light of changes in the operation of this company which derive mainly from changes in the functioning of the market, SSH, together with the company, in an active manner, approached the projects for implementing the necessary restructuring measures, which mainly include business restructuring measures. The first significant effects of these measures were noticed in 2015 and they will continue in 2016.

- **RTH, Rudnik Trbovlje-Hrastnik, d. o. o.**

Considering the Financial Liabilities Restructuring Agreement concluded with banks in September 2015, 2015 saw an intensive implementation of the activities and measures planned in which regard the main activity and associated issues were focused on providing for the necessary liquidity assets and the timely sale of company's assets.

6



Prof Julijana Kristl

SUPERVISORY BOARD MEMBER OF KRKA, D. D.
(UNIVERSITY OF LJUBLJANA, FACULTY OF PHARMACY)

In addition to its supervisory role, the Supervisory Board should encourage the Management Board for realising ambitious plans

From a regional pharmaceutical enterprise, Krka has developed into one of the leading generic company in the world. Its success is mainly the result of knowledge, professional competence and dedication of employees, an efficient international marketing and sales network, good organisation of the research and development function, adaptable production facilities and ancillary services. As the Supervisory Board Members who come from various environments, have diversified education and qualification backgrounds, who differ by gender and age and who possess heterogeneous work experience, we have the duty that by setting up questions for the Management Board and by pursuing discussions on proposals and standpoints, in addition to overseeing the operational results, we encourage the Management Board to realize the goals set and to meet the expectations of stakeholders.

Achieving good operational results is not easy. The pharmaceutical industry, particularly the generic one, must be fast in responding to economic fluctuations of countries which, among other stabilisation measures, increasingly lead to the reduction in prices, especially generic drugs, both on the markets in Europe and elsewhere across the world. At the same time we witness fast and deep changes in the fields of science and legislation which bring forth additional requirements in regard to the manufacture and registration of new generic products. The competition is growing every day. How should we maintain the existing competitive advantages? Is achieving annual financial and operational objectives every year enough for maintaining the competitive edge in the long term and for ensuring sustainable operation? Owing to the globalisation, in the long term, Krka may only be competitive with constant

materialization of innovative ideas that are successful in the market. In Krka, we are aware of this fact which is why, in addition to partnership and trust, speed and flexibility and creativity and efficiency are highlighted as main values, thus investing in research and development more than EUR 100 million per annum. Constant development is of strategic importance in the pharmaceutical industry.

In the past years the pharmaceutical industry across the world has intensified its research efforts and it has recognized the advantages of various scientific discoveries for the development of efficient, safe medicine products of good quality for the support of drug users. From its incorporation, Krka has been closely connected with universities and institutions. More than half of all employees in the company hold at least a university degree and there are many masters of science and holders of PhD qualifications employed in the company. I come from an academic environment and I have thought long and hard and extensively over methods how we should raise the exchange of knowledge from the academic sphere into the economy, in addition to employing graduates and doctors. Considering the speed of changes and requirements faced today, there is a lack of relevantly qualified staff in the economy in general. This is why new methods of cooperation between the academic sphere, research centres and economy must be established, engaging thus all interested parties for co-creating targeted projects. The cooperation should be based on tested good practices and established standards of research work which should contribute to better applicability of research results for the economy. In order to achieve shorter market-entry time and simultaneous reduction of costs, the interests of individual stakeholders involved will have to be coordinated while following the principle of sustainability. This reformed type of cooperation would thus improve the skills of parties participating in the research process, resulting in the increased capacities of institutions and in the development of diverse cooperation. Attaining these goals is not the task of one party but of everybody.

Only an independent, diversified and professionally competent Supervisory Board that is aware of relevant trends being closely monitored and has the understanding of limitations imposed by the company may contribute to the successful performance of the company and the satisfaction of all stakeholders. I hope that the range of priorities include that priority which is necessary for Krka to be successful in the future.

SALE OF CAPITAL ASSETS OWNED BY SSH AND/OR RS

6.1 Observance of EU rules on state-aid

When assessing the compliance of the privatisation process with state-aid rules, it is assessed whether the process of a sale of an entity conducted by the State has been done on market terms, the same as applied by a normal market operator (the Market Economy Investor Principle test). It is assumed that a private vendor who intends to sell his company would do so for the highest possible price and without imposing conditions that would be liable to depress the price (for example, limiting the list of potential buyers). Thus, the privatisation does not entail state aid when it has been carried out on market terms and conditions and no advantage has been given (typically in the form of foregone revenues) to the buyer and/or the sold undertaking. Given the Community practice, from the point of view of state aid rules, the privatisation is not questionable when it is effected by sale of shares on a stock exchange or by a trade sale in a public call to tender which must meet the following conditions:

- the tender must be open to all comers, transparent, non-discriminatory and of a competitive nature;
- the tender must not include any unusual conditions for comparable transactions concluded between privately-owned undertakings which might decrease the purchase price;
- the company / assets must be sold to the highest bidder; and
- bidders must be given enough time and information to carry out a proper valuation of the assets as the basis for their bid.

When the above stated conditions are met, it is assumed that the privatisation process does not involve state aid.

This does not mean that a state vendor must not set any conditions but those imposed must not be those which would not be set by a private vendor, they must not depress the price or be formulated so as to limit the number of potential buyers. From this aspect, certain non-financial commitments (for example, saving jobs, maintaining salary levels, submitting a business plan regarding jobs to be saved or to be created, maintaining a certain production or a scope of production, maintaining a certain scope of local suppliers) may be problematic since they represent advantages from state funds (arising from foregone revenues) for a privatised company which would otherwise not be received by this company.

When, in spite of facts such as mentioned above, a state vendor decides to include in the privatisation process non-financial commitments which imply state aid or it is likely to entail state aid, in order to prevent any illegal action or subsequent cancellation of the transaction, such privatisation process, like any other state-aid, must be notified by the state vendor to the European Commission. Such notification must be as complete and detailed as possible. Since no state-aid is put into effect until the Commission has taken a decision authorising it (standstill obligation), the privatisation process cannot be initiated until such non-financial commitments are approved. According to the statistical data from the Commission, such a process lasts for 18 months, on average.

6.2 Special purpose vehicle participating in sale processes

The rationale behind the establishment of a special purpose vehicle lies in the limitation and isolation of individual risks (connected with a certain transaction) and in the provision of a more transparent structure of financing the transaction with clearly determined rights and obligations assumed by individual players in the transaction. The main purpose for utilizing a special purpose vehicle (SPV) is, therefore, (1) in limiting risks carried by its founders when engaged alone in the transaction implemented by the SPV by way of which the transparency of their operation is ensured; (2) in finding a partner in the project – the SPV sets clearly the amounts invested by individual partners and determines clearly their liabilities (the owners or larger parent corporations at the highest level are liable as guarantors for liabilities assumed), and (3) tax optimisation. All these objectives are justified and legitimate in the privatization process. This is why it is customary that investors in privatization processes indicate upfront in their bids that a SPV may be utilized for realising the transaction. When the use of a SPV is prohibited, this would be reflected in the purchase price which a potential investor is willing to pay. In fact, when an investor is prevented from optimising tax in a legitimate and lawful manner, the investor would be willing to pay less since the economic benefit of the transaction would be attained at a later time. Such a prohibition may result in a reduced interest by foreign investors for acquiring capital assets in Slovenia.

Regardless of the above stated, it must be additionally emphasized that, from the aspect of rules on state-aid, every call to tender for the acquisition of shares must be unconditional and must not select individual investors in regard to their organisational structure or any other features.

With the aim of ensuring transparency, SSH, as a co-signatory in sale processes, with the due care of a prudent and fair businessman, among other matters, must obtain data on its co-contracting parties and on their potential final and beneficial owners as the viability of the agreements concluded is highly important for SSH when entering into agreements. In accordance with this principle, SSH carries out the customary Know-your-customer (KYC) process for verifying its co-signatories in sale and purchase agreements in which, among other matters it checks the copies of extracts from register of directors for relevant companies, the copies of instruments of incorporation of these enterprises, the copies of relevant management contracts, the copies of relevant corporate resolutions and other proofs of entitlement for executing sale and purchase agreements on the part of co-signatories.

In connection with the utilization of a SPV as a buyer, it must be pointed out that in cases of acquiring a qualified stake in a bank or an insurance firm, the acquirer must always obtain a formal permission by a responsible supervisory body (the Bank of Slovenia, the European Central Bank, the Securities Market Agency, the Insurance Supervision Agency). Within the scope of the process for issuing a certain permit, the acquirer and persons who stand behind the acquirer are verified. When there is any doubt on the suitability of the acquirer, such a permit is not issued by the responsible authorities.

The Slovenian legislation regulates a SPV indirectly and considers it as a market reality. It is thus regulated by the Insurance Act, Investment Funds and Management Companies Act and the Act Regulating Measures of the Republic of Slovenia to Strengthen the Stability of Banks. Special purpose vehicle are also recognised by European Union law, ^[1] and the Commission Decision of 21 October 2008, No. C(2008) 6022 provides a definition for it, among other matters. It is therefore clear from the above stated that SPVs are not a mere letterbox companies but, legitimate and usual undertakings utilized in transactions for acquisitions of companies.

6.3 How is the sale of assets conducted?

The disposition of capital assets held in the ownership of SSH and the Republic of Slovenia, including the sale and swaps of capital assets, represents one of the main activities related to the management of capital assets performed by SSH.

The Slovenia Sovereign Holding strives for the sale processes to run in an efficient, transparent and competitive manner 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 specialised 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. The sale of the most important shareholdings owned by the Republic of Slovenia, SSH, within the scope of statutory limitations strives to 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.

6.4 In the sale of capital assets, SSH runs procedures in accordance with the Asset Management Policy and relevant international standards

The Asset Management Policy, which was adopted in December 2014, is a legal document which presents principles, procedures and criteria which are applied by SSH in carrying out its duties and activities which are stipulated by ZSDH-1. The purpose of the Asset Management Policy is to provide for transparency and traceability of decision made by SSH. One of larger Chapters is dedicated to the processes for the disposition of assets and acquisition of new capital assets. The Asset Management

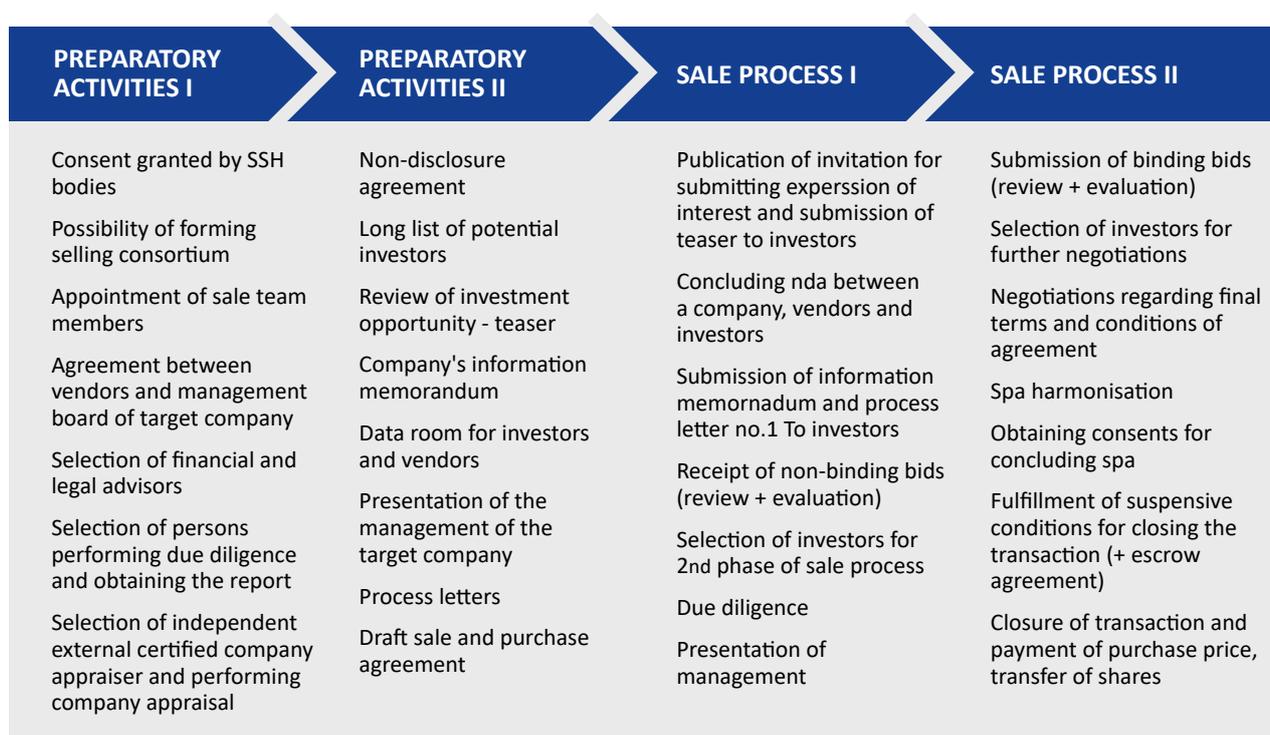
^[1] Commission Implementing Regulation (EU) 2015/462 of 19 March 2015 laying down implementing technical standards with regard to the procedures for supervisory approval to establish special purpose vehicles, for the cooperation and exchange of information between supervisory authorities regarding special purpose vehicles as well as to set out formats and templates for information to be reported by special purpose vehicles in accordance with Directive 2009/138/EC of the European Parliament and of the Council of 25 November on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II); Directive 2005/68/EC of the European Parliament and of the Council of 16 November 2005.

Policy determines the methods of sale of capital assets, the communication on disposition of capital assets, the sale process in the case of the sale of majority shareholding and in the sale process in the case of the sale of minority shareholding, the management of the sale process and it also includes provisions regarding financial institutions and other advisors in addition to other matters.

The phases of the process of sale may be divided into the three main areas:

- preparatory activities,
- sale process activities,
- post-sale activities (verifying the meeting of potential additional contractual commitments on the part of the buyer or the vendor).

The following section presents key steps in individual phases of sale process under the M&A method for large SOEs. The process is simplified in regard to a process which involves the sale of smaller SOEs.



6.5 Activities related to the sale of SOEs in 2015

The disposal of capital assets held in the ownership of SSH and the Republic of Slovenia, including the sale and swaps of capital assets, represents one of the main activities related to the management of capital assets performed by SSH.

In 2015, SSH continued the activities pursued in regard to the sale of capital assets held in the ownership of the Republic of Slovenia and SSH, initiated in 2013 on the basis of the decision adopted by the National Assembly. In addition to these activities,

SSH also managed other activities related to the sale of other capital assets held in the ownership of SSH and the Republic of Slovenia, in accordance with the State Assets Management Strategy which was adopted on 13 July 2015 and in accordance with the Annual Assets Management Plan 2016, to which the consent of the Government of the Republic of Slovenia was granted.

Table 1:

The list of capital assets referred to in the consent granted by the National Assembly and ownership stakes of the Republic of Slovenia and of state assets management companies held in these companies

On 21 June 2013, pursuant to ZSDH, the National Assembly of the Republic of Slovenia granted its consent to SSH for the disposal of capital assets of the Republic managed by SSH. In addition to SSH, the consent was also granted to KAD d. d. (Pension Fund Management), Modra zavarovalnica d. d., D.S.U., d. o. o. and PDP d. d., for the disposal of their capital assets in the total of 15 companies (Table 1).

No.	Company name:	RS (%)	SDH (%)	KAD (%)	DSU (%)	SSH (former PDP) (%)	MZ (%)	Total (%)
1	Adria Airways Tehnika, d. d.**	0	0	0	0	52.3	0	52.3
2	Adria Airways, d. d.	69.9	0	0	0	2.1	0	72.0
3	Aero, d. d. – in bankruptcy*	0	0	0	0	1.4	0	1.4
4	Aerodrom Ljubljana, d. d.**	50.7	6.8	7.4	0	0	0	64.9
5	Cinkarna Celje, d. d.	0	11.4	0	0	0	20	31.4
6	Elan, d. o. o.****	0	0	0	17.3	49	8.6	75.0
7	Fotona, d. d.**	0	0	0	0	70.5	0	70.5
8	Gospodarsko razstavišče, d. o. o.	0	0	29.5	1.2	0	0	30.7
9	Helios, d. d.**	0	9.5	0	0	0	8.3	17.8
10	Nova KBM, d. d.*	100.0	0	0	0	0	0	100.0
11	Paloma, d. d.,	0	0	0	0.04	71.0	0	71.0
12	Telekom Slovenije, d. d.	62.5	4.3	5.6	0	0	0	72.4
13	Terme Olimia Bazeni, d. d.***	0	0	49.7	0	0	0	49.7
14	Unior, d. d.	0	2.3	5.6	0	37.1	0	45.0
15	Žito, d. d.**	0	12.3	0	0.01	0	15.0	27.3

Companies in direct ownership by the Republic of Slovenia or SSH

* Ownership stakes have already been modified due to the implemented capital increases – the current ownership structure is being taken into account; in the beginning of April 2015, bankruptcy proceedings were initiated for Aero, d.d.

** Closed sale (in 2016 the sale of Adria Airways and NKBM was also closed).

*** Terme Olimia Bazeni, d. d., ceased to exist from 30 September 2014, due to its merger with Terme Olimia, d.d..

**** On 30 June 2015, the ownership stake of PDP in Elan, d.o.o., decreased from 66.37% to 49,03% whereas the ownership stake of DSU increased from 0 to 17.34%, pursuant to the agreement concluded by and between PDP and DSU.

As shown in the Table 1, the list includes: two companies in direct ownership of RS and SSH (Telekom Slovenije, d. d., and Aerodrom Ljubljana, d. d.), two companies owned by RS (Adria Airways, d. d., and NKBM, d. d.) and four companies co-owned by SSH (Cinkarna Celje, d. d., Helios, d. d., Unior, d. d., and Žito, d. d.). Of these assets, shares of the following companies were sold by the end of 2014: Aerodrom Ljubljana, d. d. and Helios, d. d., and by the end of 2015, Žito shares were also sold. On 1 July 2015, on the basis of the merger with PDP, SSH became a direct owner of ownership stakes in four companies (Adria Airways Tehnika, d. d., Aero, d. d. – in bankruptcy,

Paloma, d. d., and Unior, d. d.) and a co-owner of one company (Elan, d. o. o.). Of these assets, ownership stakes of the following companies were sold by the end of 2015: Adria Airways Tehnika, d. d., Elan, d. o. o. In the process of the sale of shares of Paloma, d.d., the agreement was concluded by way of which SSH has committed itself to sell the shares at the highest price in the merger and acquisition process which is to follow the issue of new shares in the capital increase process. The list also includes three companies with capital assets which are not directly owned by the Republic of Slovenia and SSH. Of these companies, the shares of Fotona, d. d., at the time of sale held in the ownership of PDP, d. d., were sold in 2014.

In cases where there is a large number of owners of companies, sale processes related to the disposition of capital assets held in co-ownership by the Republic of Slovenia and SSH are conducted on the basis of Agreements on Joint Sale of Shares and Letters of Intent concluded by and between SSH and other shareholders and lienors. In 2013, the Agreements on Joint Sale of Shares were concluded for the following companies: Cinkarna Celje, d. d., Telekom Slovenije, d. d., and Žito, d. d., and in 2015 for the sale of shares in Adria Airways, d. d., and Adria Airways Tehnika, d. d. It is envisaged by these agreements that signatory parties will jointly implement the sale processes, in cooperation with relevant advisors. In 2014, advisors rendering financial advisory services and legal advisory services were selected in the sale processes related to the sale of shares in Cinkarna Celje, d. d., Žito, d. d., and Nova KBM, d. d., and in 2015, in the sale process related to the sale of shares of Adria Airways, d. d., and Adria Airways Tehnika, d. d. The selection of the financial and legal advisors in the process for the sale of shares of Paloma, d. d., was conducted by Paloma itself.

An effective implementation of sale process requires an active cooperation of the company which is the subject to the sale. With the aim of defining in detail the method of cooperation with the individual company subject to the sale process (submission of data, enabling due diligence reviews, payment of some costs related to the procedure, communication activities, etc.), the sellers strive to conclude a special agreement on mutual relations in the sale process. In 2014, such agreements were concluded by SSH with Nova KBM, d. d., Cinkarna, d. d., and Žito, d. d., and in 2015 with Adria Airways, d. d., and Adria Airways Tehnika, d. d..

In 2014, the Slovenian daily newspaper Finance and the Financial Times published the announcements of invitation to submit an expression of interest for the potential acquisition of shareholdings in the following companies: Telekom Slovenije, d. d., NKBM, d. d, Cinkarna Celje, d. d., and Žito, d. d., while the invitation to submit an expression of interest for the potential acquisition of Elan shares was published in the Slovenian daily newspaper Delo and in the Financial Times in 2013. The invitations to submit an expression of interest for the potential acquisition of shareholdings in Adria Airways, d. d., and in Adria Airways Tehnika, d. d., were published in 2015. For all above mentioned companies, and in cooperation with the above mentioned companies and the selected advisors, the documentation related to the sale of respective shares was produced: for each sale process, the teaser and the Information Memorandum which were received by investors who had demonstrated their interest in the sale and concluded the Non-Disclosure Agreement (NDA). In 2014, SSH obtained Financial and Legal Due Diligence Report for Telekom Slovenije, d. d., NKBM, d. d, Cinkarna Celje, d. d., and Žito, d. d., and in 2015 for Adria Airways, d. d., and

Adria Airways Tehnika, d. d. , and in some cases, other types of due diligence reports were produced (Environmental, Technical Due Diligence Reports, etc.). Prior to the conclusion of the Purchase and Sale Agreements, SSH also obtained the appraisals of the company value produced by independent certified appraiser of company value.

Table 2: Review of significant information in relation to the progress of processes of sale conducted in 2015 in relation to capital assets owned by SSH and/or RS which the consent by the National Assembly had been granted in June 2013 for their sale.



SSH ownership stake (%)	4.3	0.0	12.3	11.4	49.0
RS ownership stake (%)	62.5	100.0	0.0	0.0	0.0
ownership stake subject to sale (%)	75.6	100.0	51.6	72.9	100.0
Agreement on Joint Sale of Shares	yes	no	yes	yes	no
Financial advisor	Citigroup Global Markets Limited	Lazard Frères SAS	Erste Group Bank AG and P & S Capital	Daiwa Corporate Advisory GmbH	KF Finance
Legal advisor	White & Case and Ulčar & partners	White & Case and Ulčar & partners	Jadek & Pensa	Šelih & Partners	Law firm Soršak, Vagaja and attorneys, Ltd.
Public announcement of invitation for submitting expressions of interest for the purchase of shares	April 2014	May 2014	September 2014	October 2014	July 2013
Deadline for submitting non-binding bids	June 2014	July 2014	October 2014	November 2014	September 2013
Phase of the process of sale at the end of 2015	closure of the sale process in August 2015 upon the receipt of the notification by Cinven, the sole bidder, of not desiring to continue with the acquisition process.	Sale and Purchase Agreement executed in June 2015 (sale closed in April 2016)	transaction closed; purchase price paid in October 2015 and shares transferred to the buyer	in August 2015, the decision was passed by the Consortium of Sellers on closing the sale process due to open environmental issues.	transaction closed; purchase price paid in October 2015 and shares transferred to the buyer

	Adria Airways Tehnika, d. d.	Adria Airways, d. d.	Paloma, d. d.
SSH ownership stake (%)	52.3	2.1	71
RS ownership stake (%)	0.0	69.9	0.0
ownership stake subject to sale (%)	100.0	91.6	71
Agreement on Joint Sale of Shares	yes	yes	no
Financial advisor	KF Finance	KPMG	Erste Group Bank AG
Legal advisor	Schoenherr	Karanović&Nikolić, d. o. o.	Šelih & Partners
Public announcement of invitation for submitting expressions of interest for the purchase of shares		July 2015	February 2015
Deadline for submitting non-binding bids		September 2015	March 2015
Phase of the process of sale at the end of 2015	transaction closed; purchase price paid in October 2015 and shares transferred to the buyer	review and assessment of binding bids (sale closed in 2016)	Agreement reached with investor on voting on General Meeting of Shareholders in regard to capital increase (Resolution on capital increase adopted in 2016)

In 2015, the Purchase and Sale Agreements on the sale of shares in Goriške opekarne, d. d., and in Večer, d. d., which used to be directly owned by SSH, were concluded and implemented. More detailed information in connection with the realisation of sales of capital assets owned by SSH and RS are presented in the continuation of the document.

6.6 Sales of capital assets owned by SSH and/or RS realised in 2015

In 2015, SSH concluded contracts on the purchase and sale of the capital assets held by SSH in the following companies: Žito, d. d., Elan, d. o. o., Adria Airways Tehnika, d. d., Večer, d. d., and Goriške opekarne, d. d. In the same period, the contracts on the Sale and Purchase Agreements (purchase price paid) were implemented in regard to assets held in the ownership of SSH in the following companies: Žito, d. d., Elan, d. o. o., Adria Airways Tehnika, d. d., Večer, d. d., and Goriške opekarne, d. d. After

the receipt of the proceeds from sale, SSH transferred all shares of the mentioned companies held in its ownership to the buyers of shares.

In the reported period, SSH signed two contracts on the sale of shares held in the ownership of the Republic of Slovenia in respect of the following two companies: Nova KBM, d. d. This Agreement was closed in April 2016 when the purchase price was paid.

Table 3: Concluded Agreements on Purchase and Sale of Shares in the ownership of SSH and/or RS in 2015

Asset	Buyer	Date of signing the agreement	SSH ownership stake (%)	Proceeds from sale attributed to SSH (EUR)	RS ownership stake (%)	Proceeds from sale attributed to RS (EUR)
Žito, d. d.	Podravka, d.d.	21 April 2015	12.3	7,858,844	/	/
Elan, d. o. o.	Merrill Lynch International and Wiltan Entterprises Limited	30 July 2015	49.0	Confidential	/	/
Adria Airways Tehnika, d. d.	Linetech Holding S.A.	24 November 2015	52.3	Confidential	/	/
Večer, d. o. o.	DOBER VEČER, holdinška družba, d.o.o.	20 April 2015	10.0	99,809	/	/
Goriške opekarne, d. d.	Jožef Stibilj and Vianej Višnjevce	30 November 2015	12.3	10,430	/	/
Nova KBM, d. d.	Apollo and EBRD	30 June 2015	/	/	100.0	(EUR 250 million of purchase price realised in 2016)
Total				7,969,083		

In connection with the Contract on Regulation of Mutual Relations in regard to Casino Portorož, d. d., which was concluded in 2012 by and between SOD, KAD, Casino Riviera, d. d. and Eurotas, d. d., and included an option for the sale of shares held in Casino Portorož, d. d., the court settlement was concluded in the first half of 2014 on the basis of which SSH and KAD, in case of amendments to the Gambling Act are to sell the Casino Portorož shares to Casino Riviera and Eurotas under terms and conditions stated in the court settlement decision.

As of 31 December 2015, SSH also held the agreement which had been concluded for the sale of shares of Casino Bled but was not yet realised. The Purchase and Sale Agreement was concluded by and between SSH, together with KAD, and the respective buyer in 2011, but the issue of the consent for the acquisition of ordinary shares required in accordance with the Gambling Act was refused to the buyer by the Ministry of Finance for several times. Considering the above stated, SSH is still the holder of these shares.

»Privatisation in Slovenia was open, fair, transparent, fast and very professional.«

Gertrud Rantzen, President of Management Board of Slovenian-German Chamber of Commerce

Večer, 23 January 2015, page 3

7



Prof Aleš Groznik

MEMBER OF SUPERVISORY BOARD OF
POŠTA SLOVENIJE, D. O. O., FACULTY OF
ECONOMICS OF THE UNIVERSITY OF LJUBLJANA)

In November 2014, Slovenian Sovereign Holding, in the role of the founder, appointed new Supervisory Board Members representing the equity. The Supervisory Board is composed of experts in the field of law, finance, the industry and restructuring which, together with the representatives of employees, oversee the operations of Pošta Slovenije in a successful manner. The diversity of the Supervisory Board membership enables individuals to complement each other while simultaneously giving an integrated perspective on the company's operations. The perspective is highly important in times when Pošta Slovenije is faced with decreased revenues, changed customer habits and various strategic options for its

development. In fact, in addition to monitoring regulatory compliance, performance and effectiveness of operations, the Supervisory Board gives to the Management Board an independent view of various business areas. In this important period of time, Pošta Slovenije is in a position where the question regarding its long-term sustainable business model is being raised to be answered by its Management and Supervisory Board. The functioning of the Supervisory Board is therefore not limited only to carrying out its supervision function, and overseeing past business events, but it is oriented towards the future, focusing on the long-term strategy of the company and its key challenges.

ECONOMIC ENVIRONMENT IN 2015

7.1 Macroeconomic Environment

In 2015, Slovenia recorded similar economic growth trends to those achieved in 2014, thus again surpassing the economic growth trends of the entire EURO area. Slovenia benefited from positive trends in the Euro area economy due to its export orientation.

Exports contributed significantly to the **growth of gross domestic product** (2.9% in 2015), and the growth in domestic consumption was enhanced. The expansion of exports was driven by the growth in foreign demand and further improvement in competitiveness levels. Thus, in spite of a slowdown at the end of the year, exports remained the main factor of economic recovery. The recovery in domestic consumption continued in 2015 to which private consumption contributed the most. The growth in employment and higher average gross salary strengthened the growth of the available household income, and consequently, private consumption. The growth in investment activities slowed down in 2015 due to the repeated drop in construction investments which, however, increased significantly in 2014, particularly in regard to investments in public infrastructure, in connection with the accelerated absorption of EU funds prior to the expiry of the financial perspective. With 2015, the option for drawing down from EU funds from the previous EU Financial Perspective expired. On the other hand, private investments in machinery and equipment increased in 2015. Government spending increased in 2015 for the first time since 2010; in this regard it should be mentioned that growth was recorded in all categories of government spending although the increase in intermediate consumption, expenditures for social transfers and consumption of fixed capital contributed the most to the increased growth levels.

Owing to the strengthening of economic activity, **employment** increased in the majority of private sector activities, particularly in processing activities of moderate technological complexity, in the hospitality industry, transport and trade. The effects of improvements in economic conditions in Slovenia were noticed on the labour market, and as a result the level of registered unemployment decreased, resulting from the higher economic activity and enhanced recruitment. The registered unemployment rate decreased from 13.1% in 2014 to 12.3 % in 2015.

In 2015, added value continued to grow in the majority of activities, although after one year of recovery a renewed drop was recorded in the construction industry. In 2015, the aggregate growth was slightly lower than in the previous year, i.e. 2.9%, while it stood at 3.8% in 2014. The growth in foreign demand and further improvement in competitiveness levels maintained a relatively high growth in the added value of processing activities. High domestic production activity and revival of private consumption further enhanced the growth of the added value of the majority of important market services which in some sectors was also encouraged by increased sales in foreign markets. A decrease in activities related to the construction of community infrastructure in 2015 which significantly increased in 2014 due to the absorption of EU funds, and resulted in the repeated shrinking of the value added in construction. Construction of buildings remained at the lowest level since the onset of the crisis. In public services, with continued implementation of measures for the rationalization of the public sector, the growth of the added value remained weak in 2015.

Table 4:
Overview of
macroeconomic
indicators for Slovenia
in 2014 and 2015.

Source: Statistical Office of the
Republic of Slovenia

INDICATOR	2014	2015
Annual inflation growth (in %)	0.2	-0.5
GDP – current prices (in million EUR)	37,303.2	38,543.2
GDP – constant prices, 2010 as the reference year (in million EUR)	36,191.1	37,233.1
GDP – real growth in %	3.0	2.9
GDP per citizen (in million EUR)	18,092.5	18,679.9
Gross salary (EUR)	1,540.25	1,555.89
Net salary (EUR)	1,005.41	1,013.23
Active working population	797,792	804,637
Registered unemployed persons	120,109	112,726
Registered unemployment rate in %	13.1	12.3
Registered survey-based unemployment rate in %	9.7	9.0
Export of goods (in million EUR)	22,936	23,940
Import of goods (in million EUR)	22,580	23,305
Trade balance (in million EUR)	355	635

7.2 Capital markets

7.2.1 Global capital markets

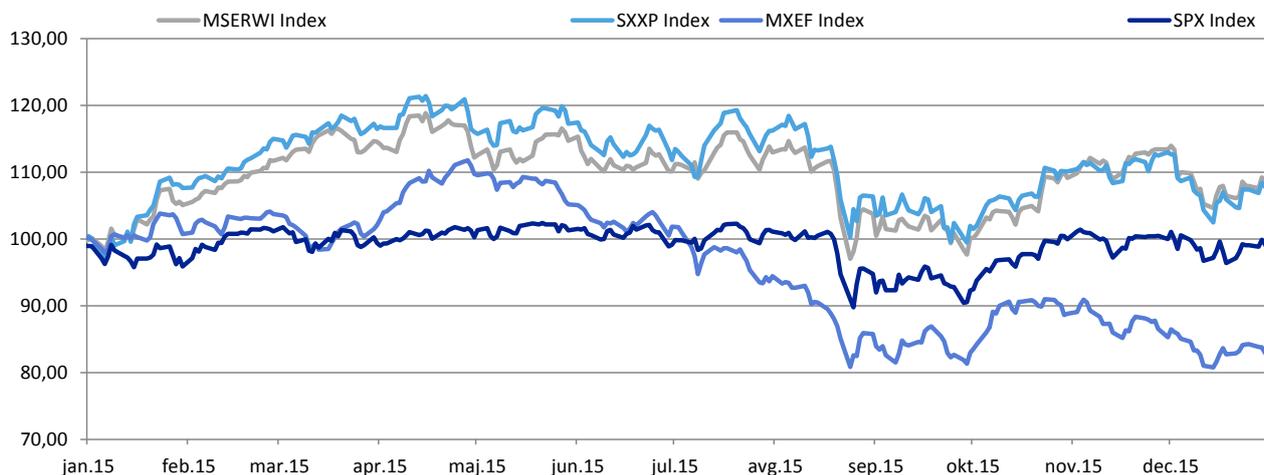
Graph 1:

Indices performance
in the period from 31
December 2014 to 31
December 2015

Source: Bloomberg.

Note: The dark purple curve
presents the movement of S&P
500 Index (USD currency), the gray
curve shows the movement of
MSCI World Index (EUR currency),
the light blue curve indicates the
movement of Stoxx Europe 600
Index (EUR currency), and the
light purple curve presents the
movement of MSCI Emerging
markets Index (USD currency).

In 2015, **stock markets** around the world rewarded investors with positive returns and the MSCI World index (*a stock market index comprising companies from developed stock markets in the world*) gained 8.34 % in value in 2015, calculated in the Euro. Some differences were noted among individual regions and investors in the American stock market (S&P 500 Index) recorded negative return of -0.73% calculated in US Dollars whereas investors in European stock markets recorded a positive return of +6.49% (Stoxx Europe 600 Index). In 2015, investors in emerging markets similarly recorded negative returns as the MSCI Emerging markets Index lost 16.96% of its value, calculated in US Dollars. Movements in global capital markets in 2015 were shaped by expectations triggered by the anticipated European Central Bank's monetary policy and by the Greek and Chinese crises.



In 2015, the global **bond market** recorded an 8.37% aggregate return in EUR (calculated according to the JPM Global Bond Index). The bond growth was recorded in the Euro area in Q1 2015 as a result of the announcement on the initiation of the ECB's quantitative easing but the growth was set back due to the Greek crisis. The resolution of the Greek crisis contributed to the recovery of bond trading and, in 2015, the aggregate yield of IBOXX EUR Sovereigns Index stood at 1.63 %, while the aggregate yield of IBOXX EUR Corporates was -0.66 %. In emerging markets, investors in bonds issued in local currencies lost 10.71% of the investment value while bonds issued in the US dollars generated the loss of 0.32% .

In 2015, the Euro lost 10.20% of its value in regard to the US Dollar, and stood at 1.0866 US Dollar to 1 EUR as of 31 December 2015. The Euro drop against the Dollar is a result of the ECB monetary policy and of expectations related to interest rate hikes to be pursued by the US Central Bank in the future. The situation was quite dynamic also in regard to other currency pairs, and the raising of the Swiss Franc and the falling of the value of the Russian Rouble particularly need to be pointed out.

Table 5:
Review of EURIBOR
interest rate
movements (in %)

Source: Bloomberg.

Value/Type:	31 December 2014	31 March 2015	30 June 2015	30 September 2015	31 December 2015
3M EURIBOR	0.078	0.019	-0.014	-0.040	-0.131
6M EURIBOR	0.171	0.087	0.050	0.029	-0.040
12M EURIBOR	0.325	0.198	0.164	0.142	0.060

7.2.2 Capital markets in Slovenia

In 2015, the total turnover on the **Ljubljana Stock Exchange** amounted to EUR 393 million, which is less than in 2014 when it amounted to EUR 700 million. The poor liquidity at LJSE was present in 2015, similarly as in 2014. Trading in shares generated the highest turnover. The highest share market capitalisation was generated by shares of the prime market (EUR 4.8 billion), followed by standard market shares with EUR 0.4 billion of market capitalisation and shares of the entry market with EUR 0.3 billion of market capitalisation. The market capitalisation of shares of the prime market (EUR 4.8 billion in 2015) decreased by EUR 368 million in 2015 as compared to 2014.

Graph 2:
SBITOP Index lost
11.22% of its value
in 2015

Source: Bloomberg.



The highest share market capitalisation was generated by Krka shares with EUR 2.1 billion, followed by Zavarovalnica Triglav, Petrol, Mercator and Telekom Slovenije shares. (all amounting to the market capitalisation of approximately EUR 0.5 billion). The highest share turnover was generated by Krka shares and it amounted to EUR 123 million. The highest bond market capitalisation at the Ljubljana Stock Exchange amounted to EUR 18.6 billion and the highest turnover was generated by Zavarovalnica Triglav bonds (EUR 11.3 million). Slovenska odškodninska družba Bond (SOS2E), generating EUR 9.7 million of turnover was ranked second according to the liquidity criteria, and Petrol bond (third emission) recorded EUR 7.1 million of turnover. There was no turnover generated with treasury bills at the Ljubljana Stock Exchange in 2015, the trading volume of commercial bills was modest, the highest turnover was recorded with Gorenje commercial bills, third emission, that generated EUR 1.1 million of turnover.

The process of the falling required sovereign debt yields continued in the majority of Euro area Member States which was the result of market expectations in regard to the effects of the quantitative easing (QE) programme within the scope of the monetary policy pursued by the European Central Bank. Volatility triggered in the **bond market** by the Greek and Chinese crises affected Slovenian sovereign bonds, but in spite of that, the required yield rates for Slovenia 10-year bond were lower at the end of the year as compared to the beginning of 2015. The required yield rates for Slovenia 10-year bond did not experience such a significant falling trend as in 2014, and the investor's trust in the Republic of Slovenia was increased in 2015 which was reflected in the lower required yield rates. The required yield rates for Slovenia 10-year bond RS70 dropped from 2.22 % in the beginning of 2015 to 1.68 % at the end of 2015.

Graph 3:

Overview of the required yield rates for generic Slovenia 10-year bond in 2015 (in %)

Source: Bloomberg.

Note: The highest value of the required yield rates for generic Slovenia 10-year bond in 2015 stood at 2.592% and the lowest at 0.792% which was the result of the effects caused by the announcement of the ECB programme.

In 2015, the Republic of Slovenia was assigned positive outlook on the rating by credit rating agencies S&P and Fitch, and Moody's upgraded Slovenia's **credit rating** from Ba1 to Baa3 with stable outlook. The assignment of the Baa3 credit rating by Moody's thus gave the Republic of Slovenia the credit rating that is considered investment grade by all three of the most important credit agencies.



Following fast increases from the onset of the crisis, high government **debt** levels signify higher costs of financing which may limit the space for other issuers of public finances. In fact, in 2015, the government debt increased to 83.2 % of GDP. High public debt, which increased fourfold during the crisis, exceeds the reference value of 60% GDP and,

according to IMAD, is close to the level that might have a negative effect on economic activity. This refers to the capacity of the fiscal policy to manage aggregate demand and the capacity of large interventions in the economy in case of unfavourable conditions. Debt is mainly of a long-term nature but its maturity is even longer in which regard it must be pointed out that the 30-year bond was issued for the first time by Slovenia in 2015. In regard to the issue of sovereign bonds, low required yield to maturity rates are influencing debt markets which is why, for two consecutive years, the increases in public debt come from an extensive pre-financing of borrowing requirements. Due to low required yield to maturity rates for new borrowing as compared to the costs of the matured debt, the debt market conditions lead to the falling of the implicit interest rate of the entire debt which amounted to 3,6 % in 2014. In this regard it must be highlighted that following the constitutional amendments in 2013, the Republic of Slovenia adopted the Fiscal Rule Act in 2015 by way of which the implementation of the constitutional provision regarding the medium-term balance of government budgets (the Fiscal rule) was defined in detail, the statutory basis for establishing the Fiscal Council was provided for, and the mechanism for managing deviations from the medium-term budgetary targets was determined together with the definition of extraordinary circumstances when such deviations are possible. From the onset of the crisis, the gross external debt of the Republic of Slovenia maintained similar levels, but its structure changed significantly. The proportion of public debt increased significantly, which is higher by EUR 22.4 billion as compared to the pre-crisis period and represents more than one half of the gross external debt (42.2 percentage points higher than in 2008). High growth in external government debt is connected with the recapitalisation of state-owned enterprises, particularly banks, with the offsetting of general government deficit and the pre-financing of borrowing requirements. After the increase in 2014, the gross external debt decreased by EUR 1.5 billion in 2015 to amount to EUR 44.8 billion (116% of GDP) at the end of the year. The fall was particularly the result of a slower growth of the government debt with continued deleveraging by corporates and banks abroad. It should be pointed out that, at the end of 2015, the external debt of commercial banks was lower by EUR 12.6 billion as compared to 2008, while the unwarranted private debt was lower by EUR 14.4 billion. In fact, in spite of the growth recorded in individual years, publicly guaranteed debt was lower than in 2008.

7.3 Review of developments in individual industries

7.3.1 Traffic, transport and infrastructure

Railway transport and infrastructure. The volume of land freight transport, of which railway freight transport is an important part, amounted to 90.9 million tonnes in the Republic of Slovenia in 2015, which is 3.75 lower than in 2014. The decrease in freight transport by road was more substantial (−4.9 %), while the volume of railway freight transport increased by 0.4%. The proportion of railway freight transport slightly increased in 2015, rising from 21.5% to 22.4%. The proportion of freight transport held by Slovenske železnice in total freight transport was still high and it amounted to

91%, despite the decrease in 2015 by 1.5 of percentage point. In perspective, due to the liberalization of the access to public railway infrastructure, the proportion of other rail carriers in the railway market is gradually being enhanced which may lead to further reduction in the share held by Slovenske železice; however, the route of two European rail freight corridors (that is, RFC5 – Baltic– Adriatic and RFC6– Mediterranean) over the territory of the Republic of Slovenia and the potential future RFC (Alpine – Western Balkans Corridor) provide for increases in long-distance rail freight transport due to more competitive prices and the shift of transport from road to railway.

Public passenger transport in 2015 saw a reduction in the share of railway transport, which amounted to 28% and was mainly the result of increases in air transport and public road transport. An important factor for the drop are closures of railway lines owing to their restoration on the account of extraordinary weather conditions in 2014 and owing to the increases in delays, cancellation of trains and the fall in the quality of transport services related to the transportation of migrants. In addition to the generally high proportion of individual transport by motor vehicle, which is the main competitor to rail journeys, the falling share was affected by low fuel prices resulting from falling oil prices. Half of all passengers carried are daily train users (mostly secondary-school students and university students with subsidised tickets) which is why, to further maintain the competitive position of passenger rail transport and of Slovenske železnice, the national policy for stimulating public passenger rail transport and the search for new market approaches in Slovenske železnice, particularly in regard to providing tourist rail journeys, are highly important.

Motorway infrastructure. The area regarding the construction of motorways and expressways in the Republic of Slovenia falls under the responsibility of DARS, in accordance with ZDARS-1. In 2015, activities for the implementation of the National Motorway Construction Programme (adopted in 2004) continued, among other things, the construction works included the total of 23.6 km of new motorways, the restoration of 44.4 km of motorway carriageways and slip roads, siting in spatial planning in regard to 11 road sections, the setting of 54.6km of new protection barriers and 14.4 km of in new noise barriers and other works. At the end of 2014, DARS managed and maintained 610.4km of motorways and highways, 140.7km of slip roads, 22.3 of turn-offs and 34.1km of roads of other categories. In regard to the tolling, as the main source of financing for repaying loans obtained for the motorway construction and for their maintenance and restoration, further growth in revenues from vignette sale (+4%) was recorded, while the revenue from freight vehicle tolling remained at the same level as in 2014 (in spite of the increase in freight road transport by 5%). In 2016, activities for the construction of new motorways and restoration of existing motorways are being continued in accordance with the above mentioned National programme, however, the final realisation is subject to the adoption of the new Motorway Guarantee Act for new investments by DARS in the motorway infrastructure. At the same time, activities are underway for the closure of the procedure regarding the selection of provider of the electronic tolling system in free-flow traffic for road freight transport which, among other things, should provide for higher and more stable revenues in the future.

Postal services. Pošta Slovenije maintained its leading position in the activity of rendering postal services in 2015. It rendered services of EUR 979.8 million which is 0.2 million higher than in 2014. The universal postal service as the most important section of its operation dropped by 12% which is the result of the liberalisation of the postal market, the rationalisation of operations by larger senders, the substitution of postal services with other communication methods (e-commerce), changed legislation and other developments. Other postal services which include logistics-related services recorded 3% growth. The trend of decreasing cash-related services on behalf of and for the account of PBS continued in 2015. Further decline in the volume of postal services rendered is expected for 2016, specifically, by 2.3%, which is expected to be offset by the growth in operating revenues due to the introduction of new parcel-logistics services and information services.

7.3.2 General economic sector

Tourism. Statistical data for 2015 show a very positive trend for European and Slovenian tourism. Demand is continually increasing in spite of current social and economic challenges in the region. According to the data from the UNWTO World Tourism Barometer, in 2014 the number of international tourists (overnight visitors) to Europe increased by 5% as compared to 2014. The improvement of the general economic climate contributed to the growth in tourism demand. The increase in the economic growth and private consumption is an important indicator of the increase in general prosperity. Higher private consumption, along with the increase in available income and the improvement in the consumer sentiment, makes tourist travelling more probable. Higher GDP growth is an indicator of greater business activity which increases the probability of business travelling. Uncertainties are brought by with the refugee crisis, terrorist attacks and there are increasingly more reports on the cooling of the Chinese economy and on a new economic recession. All of the above mentioned will affect the tourism industry all over the world, including Slovenia. A fall in the number of visitors may be expected which, however, is subject to the perception of safety of Slovenia as a tourist destination in regard to competitive foreign markets.

According to the World Travel and Tourism Council (WTTC), tourism in Slovenia generates as much as 13 % of GDP and, according to WTTC forecasts, it should increase by 2.9% in 2015 and by 3.7% annually by 2025. At the same time, tourism is an important export activity which comprises a solid 8 % of the total export in the Slovenian balance of payments and represents over 40 % of export in services. According to data by the Statistical Office of the Republic of Slovenia (SORS), in 2015, the total number of tourist arrivals increased by 11% as compared to 2014, in which regard a 9% increase was recorded in the category of domestic tourist arrivals and an 11% increase in foreign tourist arrivals. Similarly, the total number of overnight stays increased, specifically, by 7% as compared to 2014 in which regard a 6% increase was recorded in the category of domestic visitors and an 8% increase in the category of foreign visitors. In accordance with the Slovenian Tourism Development Strategy 2012-2016, tourism is one of the leading Slovenian economic sectors which is of crucial importance to attaining development objectives of Slovenia. By implementing activities for improving the business environment for tourism (for example, in

SPIRIT Slovenia - Public Agency for Entrepreneurship, Internationalization, Foreign Investments and Technology), the volume of Slovenian tourism activity is planned to be increased, in specific terms: 2% annual growth in overnight stay, 4% annual growth in number of visitors and 6% to 8% growth in revenues from travelling.

Gaming industry. The main market for Slovenian gaming providers is Italy with 85% to 90% of all visitors coming to gaming centres. This primary market started to shrink in 2007 when, together with the crisis, the liberalisation of the Italian gaming market was initiated which affected the revenues generated by Slovenian concession-holders in a significant manner. In 2015, the shrinking of the primary market along the Slovenian western border continued, and was measured by the total gross turnover generated by the main gaming providers. In comparison to 2014, it decreased by 1 %. In 2015, there were four casinos operating in Italy, in addition to ancillary gaming services as dictated by global trends, that is: slot machines located outside casinos, internet gaming, sports betting and mobile device gaming that recorded a positive trend. In 2016 and 2017, no significant changes are to be expected which might have a positive impact on the operations of gaming providers. Further modernisation of services by all competitors is expected while no new casinos in Italy are planned to be opened neither are the remaining gaming services expected to be increased.

Water utility companies render services of general economic interest on the basis of a concession agreement. The Slovenian Water Agency, an authority within the Ministry of the Environment and Spatial Planning, currently does not provide for efficient implementation of services of general economic interest in terms of finding sources of financing for efficient water management and does not carry out any investment activities in water infrastructure to provide for flood safety. As a result, companies not carrying out any additional activity are in a difficult position.

Pulp and paper industry. The economic recovery in Europe is supposed to continue in 2016 and 2017 which boosts private consumption. Increases in consumption are also influenced by the growth in the number of refugees and in the numbers in the workforce. This sector sees potentials for growth mainly due to the ageing of the population and there are opportunities in developing ecologically friendly products. The tissue paper business is mainly subject to cellulose pulp prices. The cellulose pulp prices were significantly higher in 2015 due to the US Dollar exchange rate. The performance of companies operating in this industry varies subject to fluctuations in cellulose pulp prices in the market.

Pharmaceutical industry. Conditions in pharmaceutical markets are highly demanding and very uncertain. There is a saving trend present which is pursued by public purses and private consumers. On the other hand, the pharmaceutical sector has potential due to the ageing of the population and simultaneous increases in life expectancy of the advanced countries. Owing to the increased life expectancy, the demand for health care services and services to improve general medical conditions will increase. Health care expenditures are increasing, particularly in the advanced countries. In addition, the occurrence of new infectious diseases which spread fast, such as avian influenza and swine influenza, drive the demand by states and private individuals for drugs treating these diseases.

Telecommunications. This industry is characterised by strong competition among operators, with increased consolidation attempts. Opportunities for the growth of new mobile orders are limited and the growth of broadband connections is slow in the majority of markets. It is expected that the period before changing mobile devices will be extended. Revenues from classical telecommunication services are decreasing and the pressure on margins is intensifying. The growth in data transmission is expected as a result of the increased use of social networks, and a decrease in sending SMS messages.

Manufacturing activities. In 2015, as compared to 2014, manufacturing activities saw the highest increases in revenues generated by the sale of industrial products and services in the category of metal products except for machinery and equipment, specifically, by more than 28%, and in the category of other vehicles and vessels (by as much as 24%); the decrease in sales revenues was the largest in the production of computers, electronic and optical products (by 9%) and in the manufacture of textiles. In the last five years, the highest growth was recorded in the following categories of activities: repair and installation of machinery and equipment (by 45%), which is followed by manufacture of rubber and plastic products and manufacture of fabricated metal products, except machinery and equipment. On the other hand, the largest fall in the same period was recorded in the manufacture of textiles.

7.3.3 Financial sector

Banking sector. In 2015, the banking market was faced with the record low costs of financing, anti-inflation pressures, and with the abundance of liquid assets the pressure on interest margins continued. According to the Bank of Slovenia, the Slovenian banking system generated EUR 132 million of net profit (4.5% ROE) in 2015 which is the first positive recorded in the last six years. At the end of 2015, bank assets improved which, according to the assessment by IMAD, is the result of positive effects of financial restructuring agreements. In regard to the assessment of bank portfolios, it must be pointed out that the defaults of over 90 days decreased by EUR 3.5 billion (9.9% of total exposure of the banking system). The deleveraging of banks abroad is gradually stabilising and it is important that liabilities to foreign banks are significantly lower than before the onset of the crisis. In January 2015, liabilities to foreign banks amounted to EUR 5.4 billion, which is EUR 13.7 lower than in September 2008. The banking system has a suitable capital base. The review of the banking environment must emphasize that in 2015, banks further reduced new lending to enterprises which amounted to EUR 6 billion which is one fifth lower than in 2014. However, new lending to households and government increased. Net interest income is shrinking which, with very low deposit interest rates, is a result of modest lending activity and very fast adjustment of lending interest rates in 2015, according to the estimate by IMAD. However, it must be highlighted that lending interest rates remain higher than the average of the Euro area. Performance results of the banking system are improving which are mostly the result of lower provisions and impairments. According to IMAD, the lending to households is expected to continue on account of the growth in private consumption and the recovery of the property market, and similar effects are expected in regard to the trend of improving assets of Slovenian banks. The increase

in lending activity will be driven by low net interest income. In spite of the above mentioned and regardless of some options provided for favourable findings (SID Bank, the Slovene Enterprise Fund), as regards access to the sources of financing, small and medium enterprises remain the most vulnerable part of the economy.

Insurance business. The global insurance/reinsurance market recorded slightly better results in 2015 than in 2014. According to data by Swiss Re (Sigma 3/2016), in 2015, gross insurance premiums increased by 3.8% in real terms (by 3.5 % in 2014), of this figure, a 4 % increase was recorded in life insurance premiums (4.3 % in 2014), and in non-life insurance premiums by 3.6 % (by 2.4 % in 2014). The growth in life insurance premiums improved the most in the US markets and in the advanced Asian markets (Japan, South Korea), while Western Europe recorded a significant fall in growth, and the shrinking of the volume of gross premiums was recorded in the CEE region. Similarly, the developed markets were the main drivers of growth in the segment of other non-life insurance products, in which regard, the growth in Western Europe was a modest one (+1.5%). As regards the Slovenian insurance market, 2015 was a relatively good year - stable and without any catastrophic natural disasters and with a solid GDP growth. According to the Slovenian Insurance Association, EUR 1.98 billion of gross premiums were collected in Slovenia in 2015, which is 2% higher than in 2014.. The growth recorded was mainly the result of the growth of life insurance products (+5.7%) while the premiums of non-life insurance products remained at the same level as in 2014. As to the premium structure, non-life insurance premiums continue to take up the majority share (71.4%). In 2015, Slovenian insurance firms dedicated the majority of their activities to adapting to the requirements of the Solvency II programme which started to be applied in the EU Member States on 1 January 2016; in connection with the above mentioned EU regulatory programme, new Insurance Act was enacted at the end of 2015. In the future period, with slightly lower economic growth and low interest rates which hamper the generation of profit from the investment portfolio, competitive pressures in the insurance market will continue which will force insurance firms to deploy additional rationalisation and optimisation measures.

7.3.4 Energy sector

In spite of encouraging news on economic growth, the unfavourable price trends regarding energy products continued in the European markets. The energy products market in 2015 was marked by high price fluctuations and crude oil continues to play the most important role in these markets. In 2015, crude oil significantly lost its value and stood at price levels seen last in 2009 in the period of the most severe financial and economic crisis. Similar trends as in oil prices were recorded for coal and gas prices; these energy products are important for the generation and production of electricity. In light of the fact that the majority of energy products are traded in the US Dollar, the US Dollar - Euro exchange rate is important for European enterprises. In regard to the US Dollar, the Euro lost one tenth of its value in 2015 as a result of which energy products in Europe were hugely more expensive which, on the other hand, did not prevent energy prices from falling in all European markets.

Electricity. Electricity markets give unfavourable price signals to investors as current electricity prices prevent an economically viable construction of energy facilities with the exception of those which are subject to supporting schemes. The effects of low electricity prices mainly affect producers of electricity generated from conventional sources. At the level of the European Union, the reorganisation of the electricity market is being contemplated, and some countries had already introduced capacity remuneration mechanisms (CRM) in order to provide for the necessary stability of the electricity system which currently can only be provided by power plants utilizing conventional energy resources. Owing to increasing production costs and falling electricity prices in the market, the majority of European energy producers started to reorganize their operations and deployed cost-cutting programmes which is a challenge dealt with by HSE Group and GEN energija Group in Slovenia. The wholesale electricity prices in Slovenia are highly affected by neighbouring markets, such as Germany, Italy, Hungary and other countries in South East Europe, specifically, in addition to direct impact of wholesale prices in these markets, they are also affected by the quantities and by prices of cross-border transmission capacities. The energy sector will have to adapt to the consequences of the unsettled policy promoting RES in the EU Member States. The RES promoting policy is not based on arm's length principles and disturbs the electricity market by deploying subsidy mechanisms without taking responsibility for the reliability of electricity supply in regard to the transmission network operator (systemic services, deviations). A lack of uniform policy to attain climate objectives after 2020 at the level of the EU and lack of coordination between market signals and necessary investments into the production capacities affect the necessary investments into production capacities which are not subject to support schemes.

Crude oil and oil products. In 2015, oil prices ranged from 35.6 USD/barrel to 66,7 USD/barrel. The average price of crude oil in 2015 amounted to 52.4 USD/barrel which is 47 % lower than in 2014 and the average price in the EUR currency was 35% lower. The prices of motor gasoline and middle distillate followed the crude oil price trends. The main reasons for such a dramatic fall in oil prices lie in the increased quantity of the extracted oil and slower economic activity in the largest economies, particularly in China. In Slovenia, the prices for petroleum products were shaped in accordance with the Decree setting prices for petroleum products which applied from 9 October 2014 to 8 October 2015. Gross fuel margins are still significantly below the European average: in regard to motor gasoline they reached 73 % of the average gross margin in the EU Member states (64 % without the membership fee for the Agency the Republic of Slovenia for Commodity Reserves), in regard to diesel fuel 57 % (50 % without the membership fee for the Agency the Republic of Slovenia for Commodity Reserves), and in regard to extra light fuel oil 49 % (40 % without the membership fee for the Agency the Republic of Slovenia for Commodity Reserves).

Natural gas and liquefied natural gas. Natural gas and liquefied natural gas are classified as fuel of the best quality and highest purity with wide use, from heating, industrial utilization to electricity production and propulsion of vehicles. Both energy products are characterized by the efficiency in use, low costs and reduction of negative impacts on the environment. By way of EU Directive No. EU 2014/94, natural gas and liquefied gas were defined as the first two energy products for the future in transport.

In 2015, the trend of falling natural gas prices continued; the prices for natural gas used as energy product had been decreasing for the fourth consecutive year. Reasons for lower prices lie in changed conditions in the international markets, the falling prices of supply under long-term contracts and competitive bids by suppliers. The aggregate data show that the difference between the highest and the lowest price increased in 2015, thus leading to increased saving potentials for customers. In case of shifting from a supplier with the highest price to a supplier with the lowest price, as much as EUR 0.2 could have been saved in 2015 for each Sm³ of natural gas used. Market liberalisation seeking for competitiveness of offers led to the change in the structure of natural gas supply. Long-term contracts concluded directly with natural gas producers from the Russian Federation were replaced by short-term contracts concluded on hubs, trading exchanges and other points inside the EU where the demand and supply meet. Thus in 2015, as much as 60% of natural gas was brought to the Slovenian natural gas market that was purchased on the basis of short-term contracts. The maturity of contracts and the ratio between short-term and long-term contracts may affect the reliability of the supply since the shortage of natural gas may result in insufficient supply under short-term contracts. The main highlights for the development of the natural gas market in 2015 are: the adoption of new systemic operational instructions for the natural gas transmission system, the execution of network codes for managing deviations, the establishment of the virtual point of contact and the trading platform, the issue of consents for new regulatory frameworks for all natural gas operators, the reduction of natural gas prices and the growth in the use of this energy product.

8

Directors should spend a greater share of their time **shaping an agenda for the future.**

Directors still spend the bulk of their time on quarterly reports, audit reviews, budgets, and compliance—70 percent is not atypical—instead of on matters crucial to the future prosperity and direction of the business.

Governance arguably suffers most, though, when boards spend too much time looking in the rear-view mirror and not enough scanning the road ahead.

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

8.1 Portfolio of RS and SSH capital assets as of 31 December 2015

As of 31 December 2015, Slovenian Sovereign Holding managed 80 capital assets held in direct ownership of the Republic of Slovenia (of this number, 68 were active and 12 were inactive, i.e., companies in bankruptcy or liquidation), and 43 capital assets directly owned by SSH (29 active and 14 non-active).

Table 6: Portfolio of capital assets directly owned by the Republic of Slovenia and Slovenian Sovereign Holding, as of 31 December 2015

Industry/Capital asset	RS's share-holding in %	SSH's share-holding in %	Total %
BANKING			
ABANKA, D. D.	100	–	100
GORENJSKA BANKA, D. D.	0.2	–	0.2
NKBM, D. D.	100	–	100
NLB, D. D.	100	–	100
SID BANKA, D. D.	99.41	–	99.41
VENTURE CAPITAL COMPANIES			
DTK MURKA, DRUŽBA TVEGANEGA KAPITALA, D. O. O.	49	–	49
META INGENIUM, DRUŽBA TVEGANEGA KAPITALA, D. O. O.	49	–	49
PRVI SKLAD, DRUŽBA TVEGANEGA KAPITALA, D. O. O.	48.9	–	48.9
STH VENTURES, D. O. O.	49	–	49
ENERGY SECTOR			
EKOEN, D. O. O.	49.07	–	49.07
ELEKTRO CELJE, D. D.	79.5	–	79.5
ELEKTRO GORENJSKA, D. D.	79.42	0.31	79.73
ELEKTRO LJUBLJANA D. D.	79.5	0.3	79.8
ELEKTRO MARIBOR, D. D.	79.5	–	79.5
ELEKTRO PRIMORSKA, D. D.	79.5	–	79.5
ELEKTROGOSPODARSTVO SLOVENIJE – RAZVOJ IN INŽENIRING, D. O. O.	100	–	100
ENERGETIKA ČRNOMELJ, D. O. O.	49.3	–	49.3
GEN ENERGIJA, D. O. O.	100	–	100
GEOPLIN, D. O. O.	39.57	0.05	39.62
HSE, D. O. O.	100	–	100
PETROL, D. D.	–	19.75	19.75
TOPLOTNA OSKRBA, D. O. O., LOČE	49.17	–	49.17

Industry/Capital asset	RS's share-holding in %	SSH's share-holding in %	Total %
FINANCIAL HOLDING COMPANIES			
GEOPLIN, D. O. O., LJUBLJANA	100	–	100
KAD, D. D.	100	–	100
KDD, D. D., LJUBLJANA	–	19.23	19.23
SAVA, D. D.	0.03	11.06	11.09
SERVICE OF GENERAL ECONOMIC INTEREST (SGEI)			
DOM UPOKOJENCEV IDRJA, D. O. O.	18.91	–	18.91
JAVNO PODJETJE URADNI LIST REPUBLIKE SLOVENIJE, D. O. O.	100	–	100
POMGRAD – VODNOGOSPODARSKO PODJETJE, D. D.	25.01	–	25.01
STA, D. O. O.	100	–	100
VGP KRANJ, D. D.	25	–	25
VODNOGOSPODARSKO PODJETJE DRAVA, D. D., PTUJ	25	–	25
VODNOGOSPODARSKO PODJETJE NOVO MESTO, D. D.	25	–	25
GAMING INDUSTRY			
CASINO BLEDE, D. D., BLEDE	–	43	43
CASINO PORTOROŽ, D. D., PORTOROŽ	–	9.46	9.46
HIT, D. D.	–	20	20
LOTERIJA SLOVENIJE, D. D., LJUBLJANA	–	15	15
COMPANIES EMPLOYING DISABLED PEOPLE (SHELTER WORKSHOPS)			
BODOČNOST MARIBOR, D. O. O.	75.83	–	75.83
CSS, D. O. O.	96.65	–	96.65
POSTAL SERVICES, TELECOMMUNICATIONS			
POŠTA SLOVENIJE, D. O. O.	100	–	100
TELEKOM SLOVENIJE, D. D.	62.54	4.25	66.79
TELEMACH ROTOVŽ, D. D.	1.1	–	1.1
TELEMACH TABOR, ŠIROKOPASOVNE KOMUNIKACIJE, D. D.	0.03	–	0.03
FOOD AND BEVERAGES			
PERUTNINA, D.D., PTUJ	0.00003	–	0.00003
POMURSKE MLEKARNE, D. D., MUR.SOBOTA	0.00004	3.34	3.34004
MANUFACTURING			
CIMOS, D. D.	24.26	–	24.26
CINKARNA CELJE, D. D., CELJE	–	11.41	11.41
GRADIS SKUPINA G, D.D.	–	1.36	1.36
INKOS, D. O. O., KRMELJ	2.54	–	2.54
KRKA, D. D.	0.01	16.2	16.21
MARIBORSKA LIVARNA MARIBOR, D.D.	32.73	–	32.73
NAFTA LENDAVA, D. O. O.	100	–	100
PALOMA, D. D.	0.01	70.97	70.98

Industry/Capital asset	RS's share- holding in %	SSH's share- holding in %	Total %
MANUFACTURING			
PEKO, D. D.	61.16	–	61.16
POLZELA, D. D.	30.42	–	30.42
RTH, D. O. O.	100	–	100
RŽV, JAVNO PODJETJE ZA ZAPIRANJE RUDNIKA URANA, D. O. O.	100	–	100
SIJ, D. D.	25	–	25
SNEŽNIK, D. D.	70.04	–	70.04
UNIOR, D. D.	–	39.43	39.43
TRAFFIC, TRANSPORT AND INFRASTRUCTURE			
ADRIA AIRWAYS, D.D.	69.87	2.08	71.95
DRI UPRAVLJANJE INVESTICIJ, DRUŽBA ZA RAZVOJ INFRASTRUKTURE, D. O. O.	100	–	100
DRUŽBA ZA AVTOCESTE V REPUBLIKI SLOVENIJI (MOTORWAY COMPANY OF THE REPUBLIC OF SLOVENIA), D. D., CELJE	100	–	100
INFRA, IZVAJANJE INVESTICIJSKE DEJAVNOSTI, D. O. O.	100	–	100
INTEREUROPA, D. D.	–	1.73	1.73
KONTROLA ZRAČNEGA PROMETA (SLOVENIA CONTROL, LIMITED), D. O. O.	100	–	100
LUKA KOPER, D. D.	51	11.13	62.13
SLOVENSKE ŽELEZNICE, D. O. O.	100	–	100
COMPANIES TO BE TRANSFERRED TO SRRF			
RRA REGIONALNA RAZVOJNA AGENCIJA CELJE, D. O. O.	5.1	–	5.1
GENERAL ECONOMIC SECTOR			
A-COSMOS, D. D.	0.81	–	0.81
CETIS, D. D.	–	7.47	7.47
ELEKTROOPTIKA, D. D.	0.00004	70.48	70.48
INTERTRADE ITA, D. D., LJUBLJANA	–	7.69	7.69
MURKA, TRGOVINA IN STORITVE, D. D.	0.17	–	0.17
PS ZA AVTO, D. O. O., LJUBLJANA	–	90	90
SAVAPROJEKT, D. D.	3.34	–	3.34
VARNOST SISTEMI, D. O. O.	–	9.74	9.74
TOURISM			
ADRIA, TURISTIČNO PODJETJE D. O. O., ANKARAN	–	12.24	12.24
LIPICA TURIZEM, D. O. O.	100	–	100
POČITNIŠKA SKUPNOST KRŠKO, D. D. O.	1.46	–	1.46
STUDENTENHEIM KOROTAN GMBH	100	–	100
TERME OLIMIA, D. D.	–	4.01	4.01

Industry/Capital asset	RS's share-holding in %	SSH's share-holding in %	Total %
INSURANCE BUSINESS			
POZAVAROVALNICA SAVA, D. D.	2.77	25	27.77
ZAVAROVALNICA TRIGLAV, D. D.**	34.47	28.09	62.56

Companies in bankruptcy, liquidation or being wound-up	RS's share-holding	SSH's share-holding in %	Total %
ABC TRGOVINA, D. D., LJUBLJANA - IN BANKRUPTCY	–	2.37	2.37
AERO, D. D. – IN BANKRUPTCY	–	1.44	1.44
CASINO MARIBOR, D. D. – IN BANKRUPTCY	–	43.4	43.4
DEKORATIVNA, D. O. O. – IN LIQUIDATION	–	100	100
DRUŽBA ZA SPODBUJANJE RAZVOJA TNP, D.D. – IN BANKRUPTCY	51.04	–	51.04
GIO, D. O. O, LJUBLJANA – IN LIQUIDATION	–	71.27	71.27
GLIN IPP, D. O. O. - IN BANKRUPTCY	16.06	–	16.06
GRADBINEC KRANJ, D. D. - IN BANKRUPTCY	–	2.68	2.68
IPOZ TRBOVLJE, D. O. O. – IN LIQUIDATION	–	1.2	1.2
KLI LOGATEC, D. D. - IN LIQUIDATION	–	0.59	0.59
MAKSIMA HOLDING, D. D. – IN BANKRUPTCY	0.01	–	0.01
MAKSIMA INVEST, D. D. – IN BANKRUPTCY	0.005	–	0.005
MURA, D. D. – IN BANKRUPTCY	–	12.23	12.23
NFD HOLDING, D. D. – IN BANKRUPTCY	0.0003	–	0.0003
NOVOLES, D. D. – IN BANKRUPTCY	–	16.69	16.69
PODJETJE ZA UREJANJE HUDOURNIKOV, D. D. – IN BANKRUPTCY	40	–	40
RIMSKE TERME, D. O. O. - IN BANKRUPTCY	3.83	13.55	17.38
RUDNIK KANIŽARICA V ZAPIRANJU, D. O. O., ČRNOMELJ – IN LIQUIDATION	100	–	100
RUDNIK SENOVO V ZAPIRANJU, D. O. O. - IN BANKRUPTCY	100	–	100
RUDNIK ZAGORJE V ZAPIRANJU, D. O. O. – IN LIQUIDATION	100	–	100
RUDNIK ŽIVEGA SREBRA IDRJA V ZAPIRANJU, D. O. O. – IN LIQUIDATION	100	–	100
SVEA, D. D., ZAGORJE OB SAVI - IN BANKRUPTCY	–	15.57	15.57
TAM MARIBOR, D. D. – IN BANKRUPTCY	10.85	–	10.85
UNIVERZALE, D. D., DOMŽALE – IN BANKRUPTCY	–	8.53	8.53
VEGRAD D. D. – IN BANKRUPTCY	–	29	29

*In accordance with the provision of Article 19 in connection with Article 88 of ZSDH-1, KAD and STA are included on the list, however, SSH does not manage these capital assets as SSH has not been granted any managerial authority, and the Government of the Republic of Slovenia functions as the General Meeting in both companies.

Table 7: Five largest assets held by RS and SSH by book value of equity as of 31 December 2015

	Industry	RS ownership stake as of 31 December 2015	Book value of shareholdings as of 31.12.14 (EUR)	Share in total portfolio (in %)
RS's Capital asset				
DARS, D. D., CELJE	Traffic, transport and infrastructure	100 %	2,566,206,940	23.7 %
NLB, D. D.	Banking	100 %	1,422,800,000	13.2 %
KAPITALSKA DRUŽBA, D. D.	Financial holding companies	100 %	1,004,495,000	9.3 %
HSE, D. O. O.	Energy sector	100 %	991,749,078	9.2 %
GEN, D. O. O.	Energy sector	100 %	685,366,008	6.3 %
TOTAL			6,670,617,026	61.7 %
SSH's Capital asset				
	Industry	RS ownership stake as of 31 December 2015	Book value of shareholdings as of 31 December 2014 (EUR)	Share in total portfolio (in %)
KRKA, D. D.	Manufacturing	16.2 %	227,769,408	29.2 %
ZAVAROVALNICA TRIGLAV, D. D.**	Insurance companies	28.09 %	197,766,100	25.3 %
PETROL, D. D.	Energy sector	19.75 %	108,109,655	13.8 %
POZAVAROVALNICA SAVA, D. D.	Insurance companies	25 %	71,600,420	9.2 %
UNIOR, D. D.	Manufacturing	39.43 %	57,028,014	7.3 %
TOTAL			662,273,597	84.8 %

8.2 Operations of companies in direct ownership of the Republic of Slovenia

The assets of the Republic of Slovenia in the form of direct equity stakes in corporations maintained the same values in 2015 as in previous years. As of 31 December 2015, the book-value of capital assets (excluding SSH assets) amounted to EUR 10.8 billion (EUR 10.9 billion in 2014), and the growth trend regarding the value of total assets and equity capital of corporations in the RS portfolio continued. The growth of the net profit generated by these entities in 2015 was particularly high, and it amounted to EUR 883 billion which is twice as much as in 2014.

Table 8:
Overview of key aggregated balance sheet data for companies with direct RS shareholding

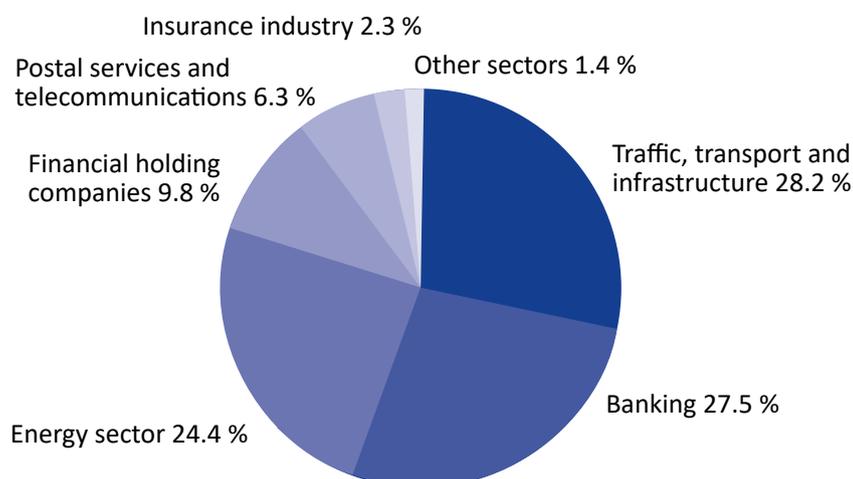
Companies directly owned by RS (excl. companies in bankruptcy, liquidation or being wound-up) – in EUR	2015	2014	2013
Assets (aggregated amounts)	48,193,371,734	47,701,359,767	47,277,868,408
Equity (aggregated amounts)	14,375,009,190	14,061,271,855	13,625,876,557
Net profit or loss*	882,577,779	474,029,022	322,515,000
Total of book-value of assets	10,810,409,906	10,896,903,999	10,589,017,397

*In 2013, due to extraordinary events in banking sector, bank losses were not included (EUR 2.4 billion) in data capture; banks were nationalised at the end of 2013. In 2015, extraordinary write-offs linked to TEŠ 6 Project, amounting to EUR 474 million, were similarly excluded.

Graph 3:

The share of individual sectors in the portfolio of the Republic of Slovenia, measured at the book value as of 31 December 2015

The assets of the Republic of Slovenia in the form of direct equity stakes in corporations was relatively concentrated in 2015, similarly as in previous years. Equity stakes of the three largest sectors (i.e., Traffic, Transport and Infrastructure, Banking and Energy sector) represent four fifths of the value of the entire portfolio.



The continuation of the text presents some basic financial data for companies in direct ownership of the Republic of Slovenia, aggregated by individual sectors (excluding companies in liquidation, bankruptcy or being wound-up).

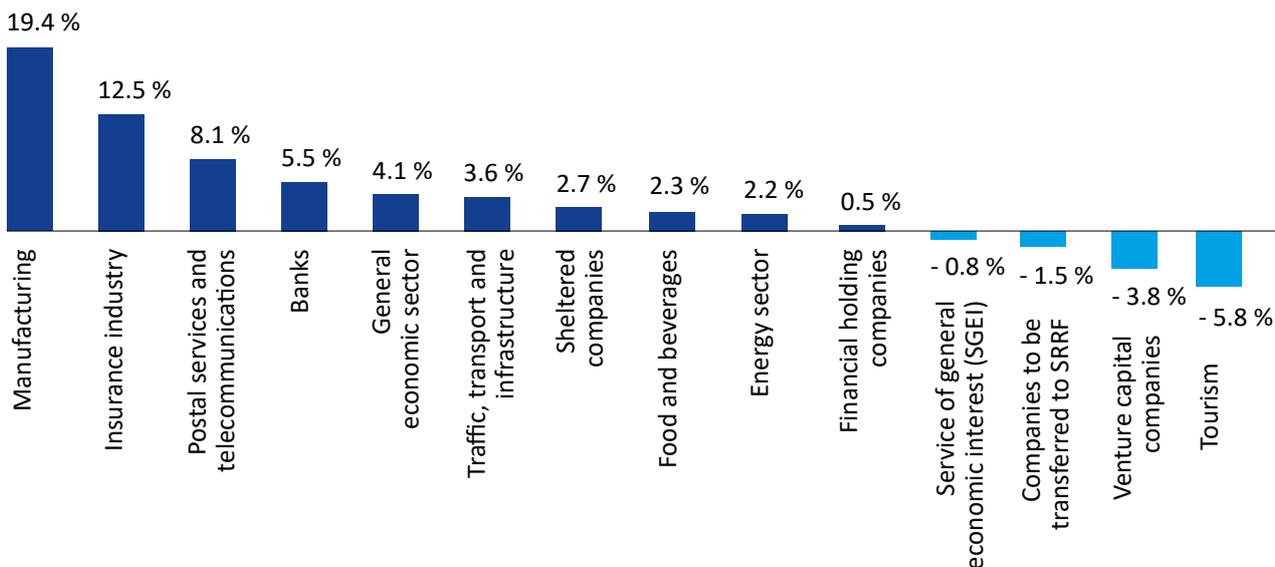
Table 9: Overview of aggregated financial data for companies in direct ownership of the Republic of Slovenia, by sector in FY 2015 (in EUR)

Sectors (excl. companies in bankruptcy, liquidation or being wound-up)	Assets	Equity	Net profit or loss	Qualifying Participation of RS
Traffic, transport and infrastructure	6,632,029,273	3,204,577,373	110,702,769	3,053,491,051
Banking	24,597,350,000	3,163,866,000	165,718,000	2,976,890,281
Energy sector	5,179,979,352	3,045,628,962	71,006,282	2,641,259,980
Financial holding companies	1,565,830,693	1,008,390,855	4,954,430	1,062,414,855
Postal services, Telecommunications	1,636,889,326	962,681,173	77,225,519	676,390,173
Insurance companies	5,100,737,860	990,446,178	122,226,645	250,687,870
Manufacturing	3,160,507,309	1,828,672,441	329,334,992	118,272,316
Venture capital companies	31,622,466	31,119,801	-933,995	15,232,584
Public service companies	43,879,710	26,629,912	1,118,446	9,631,842
Tourism	9,805,641	7,159,139	-427,800	4,368,350
Sheltered workshops	4,352,565	1,991,607	53,961	1,559,970
General economic sector	23,103,393	7,536,821	-60,759	116,686
Companies to be transferred to SRRP	3,853,790	1,841,567	-27,922	93,920
Food and beverages	203,430,356	94,467,361	1,687,211	29
TOTAL	48,193,371,734	14,375,009,190	882,577,779	10,810,409,906

Note: If extraordinary write-offs of HSE had been taken into account, the net profit or loss of the energy sector would amount to -EUR 403 million.

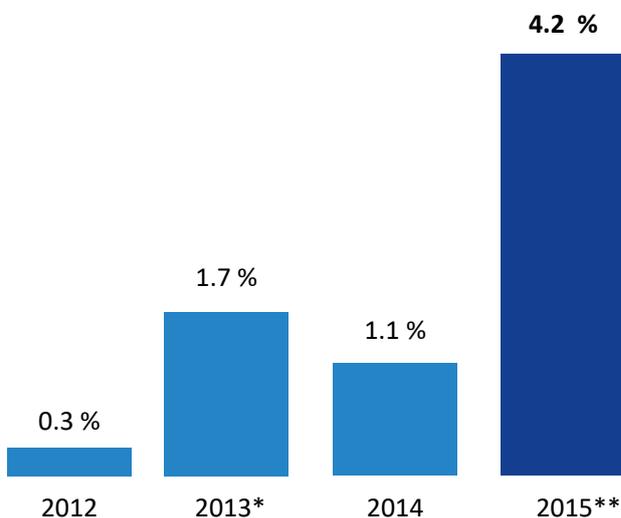
Graph 4:
ROE by sectors
in 2015

Taking into account the aggregate net profit and loss generated by companies in the RS portfolio and their aggregate average equity capital in 2015, the highest ROE was recorded by manufacturing companies (Krka) and insurance firms, while the lowest was achieved by companies from tourism industry and venture capital companies.



In 2015, by not considering extraordinary write-offs caused to HSE by TEŠ6 Project, ROE of the RS portfolio increased significantly - the calculation includes shareholdings held by the Republic of Slovenia in individual companies (book-values of shareholding in equity). ROE of the portfolio amounted to 4.2% which is approximately three percentage points higher than a year before. The graph below presents sectors which contributed the most to the portfolio growth.

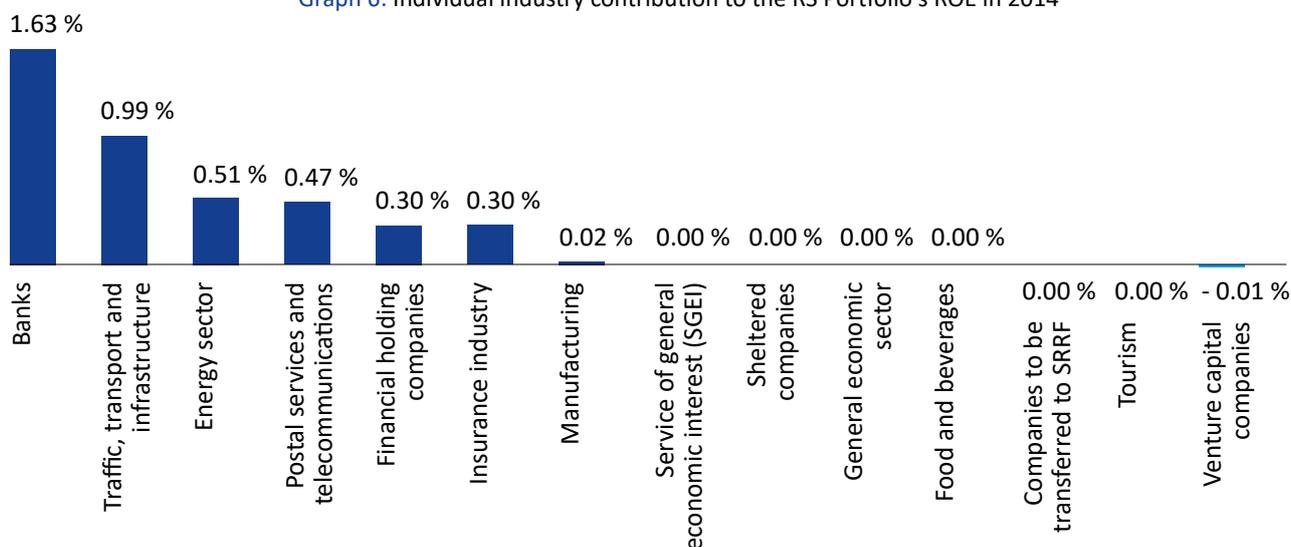
Graph 5:
ROE of the portfolio
of assets in direct
ownership of the
Republic of Slovenia
in the 2012 - 2015
period



*Owing to extraordinary events in banking sector, ROE calculation for 2013 does not include bank losses (EUR 2.4 billion); banks were nationalised at the end of 2013.

**Excluding extraordinary write-offs by HSE linked to TEŠ 6 Project in the amount of EUR 474 million.

Graph 6: Individual industry contribution to the RS Portfolio's ROE in 2014



Owing to high equity stake held by the Republic of Slovenia in banks and owing to their successful performance in the past year, banking contribution to ROE of the RS portfolio stood at 1.6 percentage points, that is more than one third of the entire ROE which is completely opposite to the situation in 2014 (contribution to ROE by banking sector was –1,3 percentage points). Companies from Traffic, transport and infrastructure category of companies contributed additional percentage point to ROE of the Republic of Slovenia's portfolio, which is similar to the situation in 2014, when their contribution stood at 0.97 percentage points,. Similarly as in 2014, companies from tourism industry and venture capital companies, in which the Republic of Slovenia holds relatively low amounts of equity capital, were found on the negative side of the portfolio ROE performance.

8.3 Operations of companies in direct ownership of Slovenian Sovereign Holding

In 2015, the shrinking of the total value of assets in companies from the Slovenian Sovereign Holding portfolio continued; this fact is mainly connected with the deleveraging of companies and by the shrinking of insurance assets. On the other hand, the share of capital in sources of funds increased in average terms, along with the net (total) profit generated by companies. In 2015, net profit thus amounted to EUR 450 million which is 46 % higher than in 2014. The sum of book-value of equity holdings also increased which is mainly the result of merger with PDP, d. d., taking place in July 2015. As of 31 December 2015, the book-value of shareholdings held by SSH thus amounted to EUR 781 million and was by 10.6% higher than at the end of 2014.

Table 10: Overview of key aggregated balance sheet data for companies with direct SSH shareholdings (in EUR)

Companies directly owned by SSH (excl. companies in bankruptcy, liquidation or being wound-up) – in EUR	2015	2014	2013
Assets (aggregated amounts)	13,056,771,468	13,287,430,573	14,317,331,576
Equity (aggregated amounts)	5,268,589,963	5,042,611,650	4,955,221,844
Net profit or loss*	450,431,084	308,750,331	215,078,729
Total of book-value of assets	780,845,496	706,001,273	658,734,782

Graph 7:

The share of individual sectors in the portfolio of Slovenian Sovereign Holding, measured at the book value as of 31 December 2015

In 2015, in terms of sectors, the SSH portfolio was relatively concentrated, similar as the RS portfolio of assets. The three largest sectors, measured by the sum of the book-value of shareholdings, i.e., insurance business, manufacturing and energy industry, - if put together, represent more than 85% of the entire SSH's portfolio.

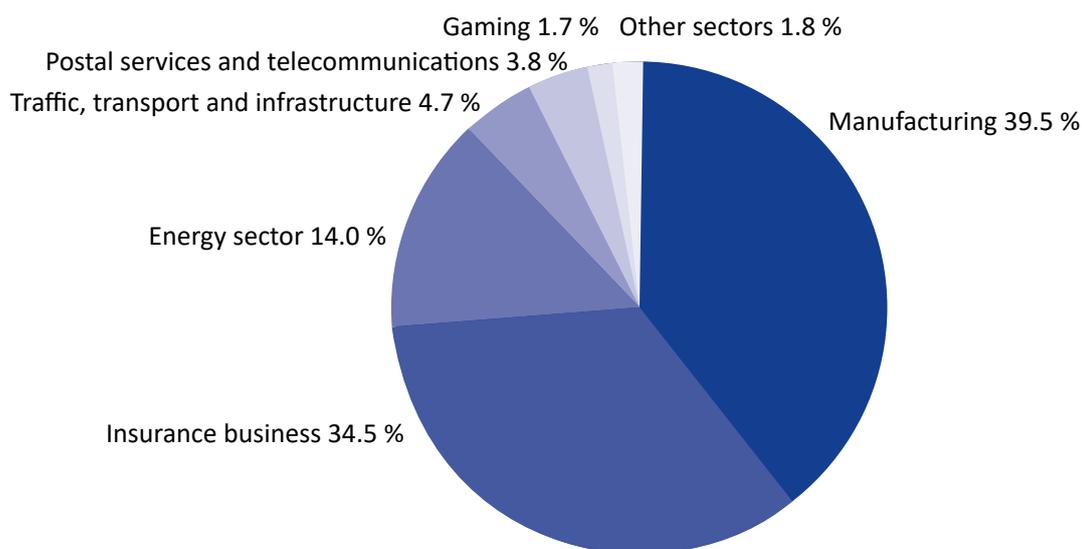


Table 11: Overview of aggregated financial data of companies in direct ownership of Slovenian Sovereign Holding, by sector in FY 2015 (in EUR)

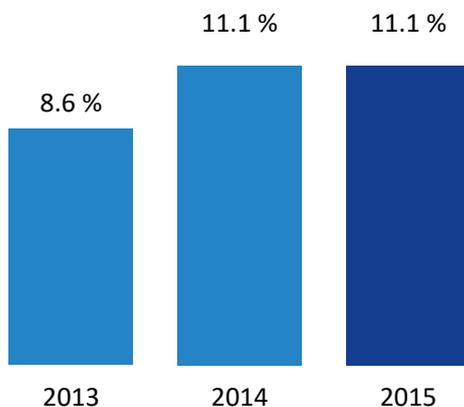
Sectors (excl. companies in bankruptcy, liquidation or being wound-up)	Assets	Equity	Net profit or loss	Qualifying Participation of SSH
Manufacturing	2,408,986,897	1,688,704,705	151,288,931	308,186,669
Insurance business	5,100,737,860	990,446,178	122,226,645	269,366,520
Energy sector	2,712,565,307	1,296,415,844	99,330,042	109,598,511
Traffic, transport and infrastructure	810,396,343	457,796,670	26,274,999	36,722,849
Postal services, Telecommunications	1,315,988,000	698,692,000	68,095,000	29,694,410
Gaming industry	241,858,629	73,471,359	6,524,905	13,256,181

General economic sector	77,631,459	53,783,823	956,044	8,093,776
Tourism	94,283,224	48,521,620	860,380	3,554,661
Financial holding companies	273,411,338	-42,203,931	-26,668,411	2,272,999
Food and beverages	20,912,411	2,961,695	1,542,549	98,921
TOTAL	13,056,771,468	5,268,589,963	450,431,084	780,845,496

Owing to the size and relatively successful performance, similarly as in 2014, industries that contributed the most to ROE of the SSH portfolio were: insurance business (Pozavarovalnica Sava, Zavarovalnica Triglav), manufacturing sector (Krka) and energy sector (Petrol). Contrary to 2014, none of sectors had a negative impact on ROE of the portfolio (on the account of negative capital, Sava financial results were excluded from the calculation).

Graph 8:

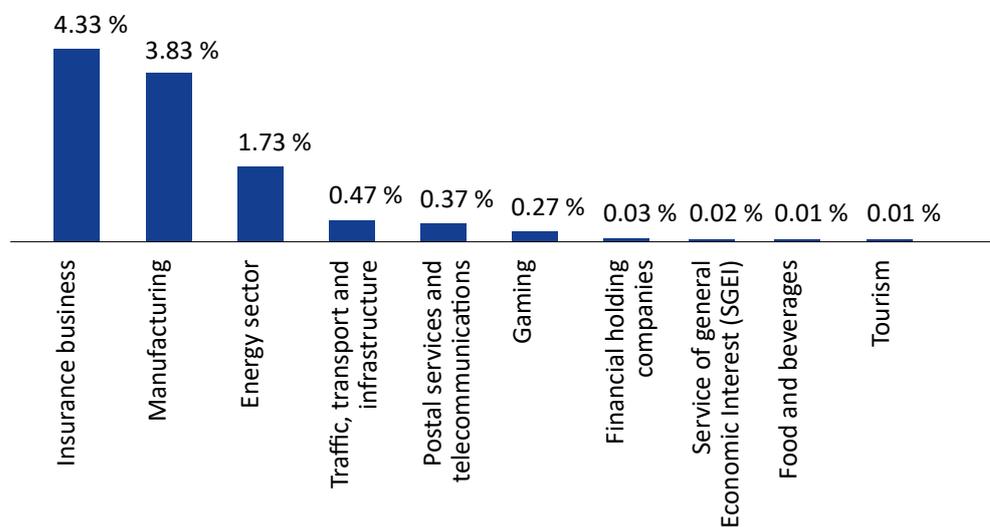
ROE of SSH portfolio in 2013 up to 2015



In 2015, ROE of the SSH portfolio of companies - the calculation includes the book-value of shareholdings held by SSH in individual companies - remained at the same level as recorded in 2014, i.e., it amounted to 11.1%. In addition to the above mentioned companies (both insurance companies, Krka and Petrol), the growth of ROE of the portfolio was mostly contributed to by performance results generated by Luka Koper, Telekom Slovenije and Unior.

Graph 9:

Contribution by individual sector to the ROE of SSH portfolio in 2014



8.4 Review of Key Highlights of Aggregate Portfolio of RS and SSH capital assets

RS + SSH	2013	2014	2015
Assets (aggregated amounts)	61,595,199,984	60,988,790,340	61,250,143,202
Equity (aggregated amounts)	18,581,098,401	19,103,883,505	19,643,599,153
Total of book-value of assets	11,247,752,179	11,602,905,271	11,591,255,402
Dividend amount per year	138,721,880	173,184,394	185,983,252
Dividends-to-equity ratio	1.2 %	1.5 %	1.6 %
Portfolio ROE	2.1 %	1.8 %	4.7 %

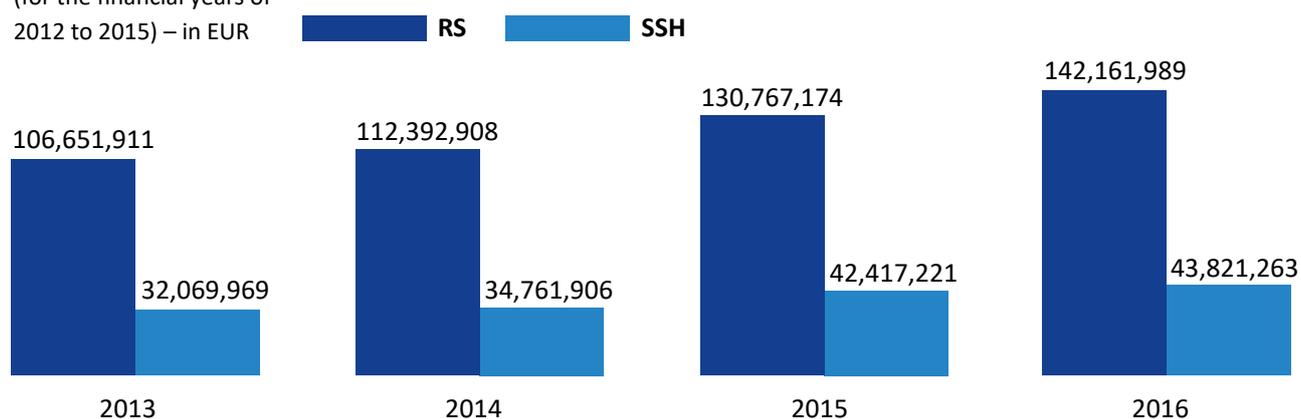
Note: *Owing to extraordinary events in banking sector, the calculation ROE for 2013 does not include bank losses (EUR 2.4 billion); banks were nationalised at the end of 2013. In 2015, extraordinary write-offs incurred by HSE and connected with the TEŠ 6 Project, amounting to EUR 474 million, were excluded.

8.5 Dividend Pay-Outs in 2015

The growth trend in dividend pay-outs received by the Republic of Slovenia and SSH for their equity participation continued in 2016 (dividends paid out for FY 2015). The amount of dividends paid out to the Republic of Slovenia increased by 8.7 %, rising to EUR 142.2 million, while the amount of dividends paid out to SSH increased by 3.3 %, rising to EUR 43.8 million.

Graph 10:

The amount of dividends paid out to RS and SSH between 2013 and 2016 (for the financial years of 2012 to 2015) – in EUR



Note: All dividend amounts paid out to the Republic of Slovenia also include dividends paid out by Zavarovalnica Triglav of which 34.47 per cent shareholding that is managed by SSH for RS, is owned by the Pension and Disability Insurance Institute of Slovenia (ZPIZ).

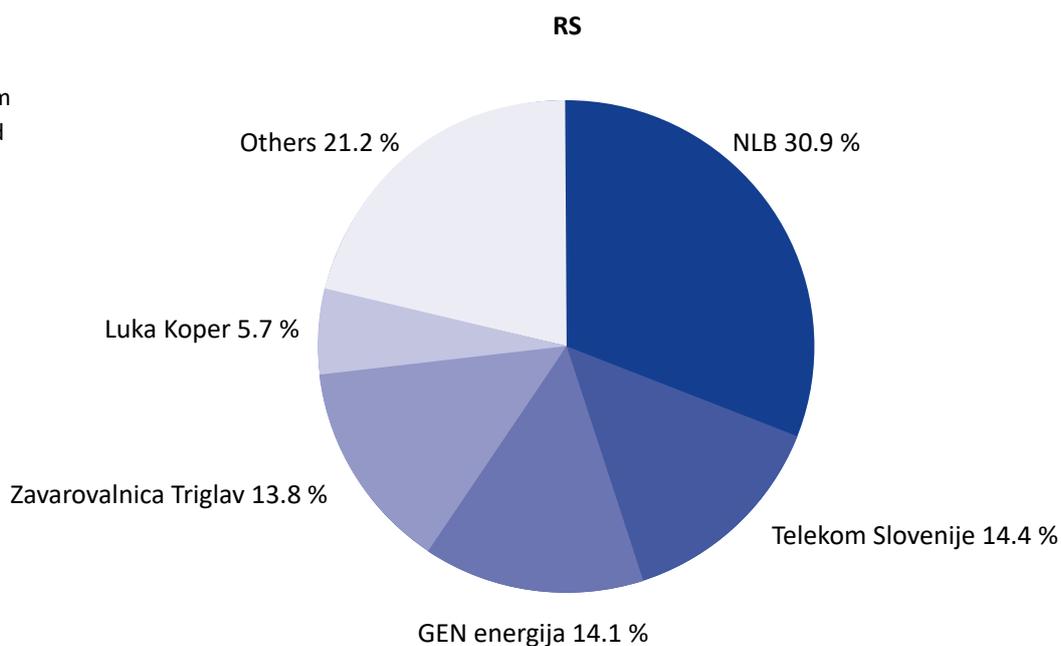
Table 12: Dividends-to-equity ratio of equity stakes of RS and SSH in the 2013 -2015 period

in EUR	RS			SSH		
	2013	2014	2015	2013	2014	2015
Total of book-value of assets	10,589,017,397	10,896,903,999	10,810,409,906	658,734,782	706,001,273	780,845,496
Dividend amount per year	106,651,911	130,767,174	142,161,989	32,069,969	42,417,221	43,821,263
Dividends-to-equity ratio	1.0 %	1.2 %	1.3 %	4.9 %	6.0 %	5.6 %

In spite of relatively high and increasing dividend income, similarly as in previous years, dividend pay-outs in 2016 were limited to a relatively small number of companies, both from the RS portfolio and from the SSH portfolio. In the case of the RS portfolio, the largest five companies by dividend paid-outs, contributed as much as 80% of all dividends and this percentage was even higher in the SSH portfolio as it stood at 90%. After seven years, NLB once again paid dividends, and the Republic of Slovenia, as the sole owner, received EUR 43.9 million in dividends paid by the largest Slovenian bank. In addition to some largest Slovenian brokerage firms contributing high amounts in dividend pay-outs for the Republic of Slovenia and Slovenian Sovereign Holding every year, the dividend pay-out by Gen energija increased significantly, paying out to the Republic of Slovenia dividends in the amount of EUR 20 million.

Graph 11:

The shares of companies in the sum of dividends received by SSH and the Republic of Slovenia in 2016 (for FY 2015)



Graph 13:

The proportion of dividend paying companies in the sum of dividends received by SSH and the Republic of Slovenia in 2016 (for FY 2015)

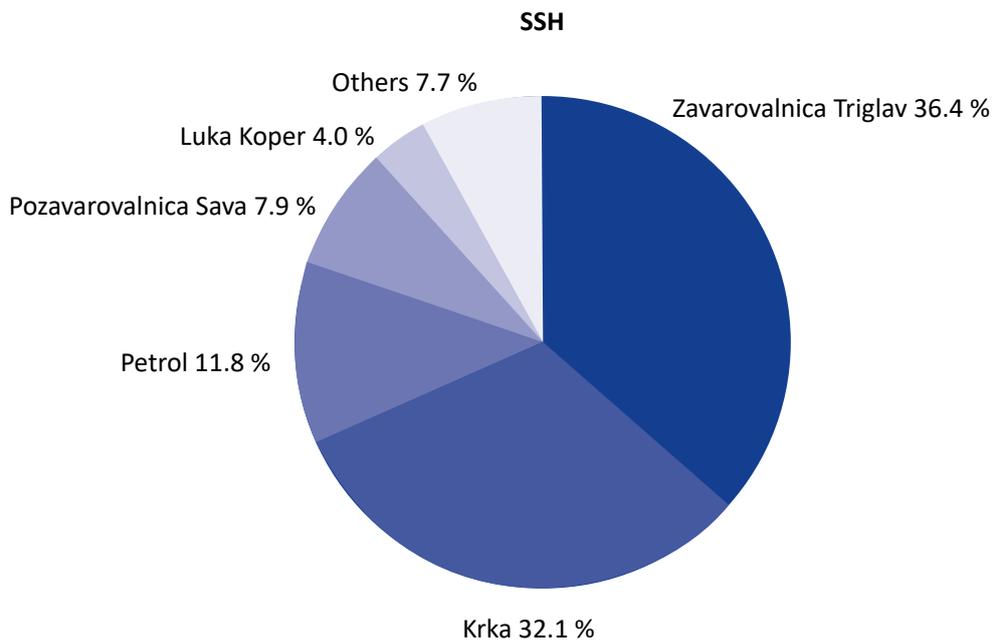


Table 13: Key financial data for 20 largest companies in the RS and SSH portfolio as of 31 December 2015

Asset	RS's share-holding	SSH's share-holding	Book value of stakes by RS+SSH	Industry	Strategic orientation
DARS, D. D.	100.00	–	2,566,206,940	Traffic, transport and infrastructure	Strategic assets
NLB, D. D.	100.00	–	1,422,800,000	Banking	Important assets
KAPITALSKA DRUŽBA, D. D.	100.00	–	1,004,495,000	Financial holding companies	Strategic assets
HSE, D. D.	100.00	–	991,749,078	Energy sector	Strategic assets
GEN, D. O. O.	100.00	–	685,366,008	Energy sector	Strategic assets
NKBM, D. D.	100.00	–	623,073,000	Banking	Portfolio assets
ABANKA, D. D.	100.00	–	550,379,000	Banking	Portfolio assets
TELEKOM SLOVENIJE, D. D.	62.54	4.25	466,656,387	Postal services, Telecommunications	Portfolio assets
ZAVAROVALNICA TRIGLAV, D. D.**	34.48	28.09	440,520,643	Insurance business	Strategic assets
SID BANKA, D. D.	99.41	–	380,268,103	Banking	Strategic assets
SLOVENSKE ŽELEZNICE, D. O. O.	100.00	–	293,099,775	Traffic, transport and infrastructure	Strategic assets
POŠTA SLOVENIJE, D. O. O.	100.00	–	239,236,846	Postal services, Telecommunications	Strategic assets
ELEKTRO LJUBLJANA D. D.	79.50	0.30	235,240,552	Energy sector	Strategic assets
KRKA, D. D.	0.01	16.20	227,910,006	Manufacturing	Important assets
ELEKTRO MARIBOR, D. D.	79.50	–	207,369,290	Energy sector	Strategic assets
LUKA KOPER, D. D.	51.00	11.13	190,298,268	Traffic, transport and infrastructure	Strategic assets
ELEKTRO CELJE, D. D.	79.50	–	165,072,948	Energy sector	Strategic assets
GEOPLIN, D. O. O.	39.57	0.05	122,462,815	Energy sector	Important assets
ELEKTRO PRIMORSKA, D. D.	79.50	–	118,238,118	Energy sector	Strategic assets
ELEKTRO GORENJSKA, D. D.	79.42	0.31	115,723,393	Energy sector	Strategic assets

Note: Financial data for all companies, except for DARS, are presented at the Group level (consolidated balance sheets).

Total assets	Equity	Net profit and loss for the period	EBIT margin	ROE	Financial leverage
5,479,326,877	2,566,206,940	60,456,694	32.3 %	2.4 %	2.1
11,821,600,000	1,422,800,000	91,900,000	n.m.	6.6 %	8.3
1,184,036,000	1,004,495,000	29,351,000	-13.5 %	2.9 %	1.2
2,233,923,431	991,749,078	-480,102,728	-34.9 %	-39.0 %	2.3
803,556,008	685,366,008	14,225,014	9.3 %	2.1 %	1.2
4,246,167,000	623,073,000	16,960,000	n.m.	2.7 %	6.8
3,830,227,000	550,379,000	41,722,000	n.m.	9.8 %	7.0
1,315,988,000	698,692,000	68,095,000	6.6 %	9.8 %	1.9
3,493,456,800	704,044,499	88,861,194	n.m.	12.8 %	5.0
3,247,397,000	382,525,000	11,395,000	n.m.	3.0 %	8.5
573,530,518	293,099,775	22,314,044	6.6 %	9.7 %	2.0
292,123,024	239,236,846	8,171,884	3.3 %	3.5 %	1.2
518,698,004	294,787,659	14,459,067	4.4 %	5.0 %	1.8
1,809,204,000	1,405,984,000	158,185,000	16.3 %	11.5 %	1.3
369,398,672	260,841,874	11,673,330	8.2 %	4.5 %	1.4
466,991,445	306,290,469	32,414,723	22.4 %	10.9 %	1.5
312,244,544	207,638,928	10,233,231	6.8 %	5.1 %	1.5
505,676,104	309,093,425	12,328,738	3.8 %	4.0 %	1.6
217,720,959	148,727,193	7,058,003	6.2 %	4.8 %	1.5
213,797,402	145,144,102	7,239,406	16.3 %	5.1 %	1.5

8.6 Summary of criteria for measuring performance of SOEs and information on fulfilment of performance criteria in 2015

In 2016, the Annual Asset Management Plan (AAMP) was prepared for the first time. At the time of the preparation of this Report, only data for FY 2015 were available. It will be possible to compare the expected results (AAMP2016) with performance results for the first time when performance results for 2016 are known.

Company	ROE *		EBITDA margin **	
	Real. 2015	AAMP 2016	Real. 2015	AAMP 2106
ABANKA, D.D. **	7.95	3.80	59.39	68.57
ADRIA, TURISTIČNO PODJETJE D.O.O., ANKARAN	0.84	0.95	28.00	23.00
BODOČNOST MARIBOR, D.O.O.	0.71	4.61	4.27	8.46
CASINO BLED, D.D., BLED	n.s.	43.50	19.52	17.44
CASINO PORTOROŽ, D.D., PORTOROŽ	18.53	15.00	15.17	17.00
CETIS, D.D., CELJE	2.50	1.14	11.28	9.42
CINKARNA CELJE, D.D., CELJE	4.86	5.92	12.45	12.54
CSS, D.O.O.	19.04	16.50	6.39	6.45
D.S.U., D.O.O., LJUBLJANA	5.87	3.30	63.54	63.20
DRI UPRAVLJANJE INVESTICIJ, DRUŽBA ZA RAZVOJ INFRASTR., D.O.O.	5.60	5.00	10.70	11.50
DRUŽBA ZA AVTOCESTE V REPUBLIKI SLOVENIJI, D.D., CELJE	2.40	2.91	74.70	79.15
EKOEN, D.O.O.	-2.99	0.00	22.08	17.00
ELEKTRO CELJE, D.D. *	2.54	3.50	38.37	42.00
ELEKTRO GORENJSKA, D.D., KRANJ *	2.86	3.00	41.42	45.30
ELEKTRO LJUBLJANA D.D. *	2.67	3.00	40.90	42.58
ELEKTRO MARIBOR, D.D. *	3.30	3.00	37.60	40.10
ELEKTRO PRIMORSKA, D.D. *	3.09	2.80	36.49	34.80
ELEKTROGOSPODARSTVO SLOVENIJE - RAZVOJ IN INŽENIRING, D.O.O.	-4.16	3.37	2.06	34.10
GEN ENERGIJA, D.O.O.	2.65	3.75	18.20	19.37
GEOPLIN, D.O.O.	4.03	5.90	8.63	10.40
HIT, D.D., NOVA GORICA	4.35	8.01	16.32	15.35
HOLDING SLOVENSKE ELEKTRARNE, D.O.O.	-38.98	0.04	9.56	14.64
INKOS, D.O.O., KRMELJ	nm	10.00	3.63	8.00
INTEREUROPA, D.D., KOPER	1.30	2.00	8.30	11.50
INTERTRADE ITA, D.D., LJUBLJANA	0.61	1.24	-76.91	-67.12

Company	ROE *		EBITDA margin **	
	Real. 2015	AAMP 2016	Real. 2015	AAMP 2106
JAVNO PODJETJE URADNI LIST REPUBLIKE SLOVENIJE, D.O.O.	0.61	0.93	8.64	13.34
KDD D.D., LJUBLJANA	9.80	16.00	25.05	29.30
KONTROLA ZRAČNEGA PROMETA, D.O.O.	8.84	9.00	17.89	17.00
KRKA, D.D., NOVO MESTO	11.50	13.50	26.30	32.00
LOTERIJA SLOVENIJE, D.D., LJUBLJANA	15.43	13.85	5.67	5.45
LUKA KOPER, D.D., KOPER	10.94	11.50	36.97	37.00
MARIBORSKA LIVARNA MARIBOR, D.D.	-77.12	0.00	0.03	0.00
NAFTA LENDAVALA, PROIZVODNJA NAFTNIH DERIVATOV, D.O.O.	-15.66	0.00	nm	-25.00
NLB, D.D. **	7.60	4.20	61.60	65.00
PALOMA, D.D.	7.47	35.00	4.06	8.30
PETROL, D.D., LJUBLJANA	12.47	13.80	3.46	3.50
POMGRAD - VODNOGOSPODARSKO PODJETJE, D.D.	2.14	5.00	6.56	9.00
POMURSKE MLEKARNE D.D., MUR.SOBOTA	nm	0.00	10.16	5.00
POŠTA SLOVENIJE, D.O.O.	3.44	4.00	10.75	11.50
POZAVAROVALNICA SAVA, D.D., LJUBLJANA **	12.00	12.00	96.69	95.00
PS ZA AVTO, D.O.O., LJUBLJANA	1.44	3.10	-35.77	-33.33
RTH, RUDNIK TRBOVLJE-HRASTNIK, D.O.O.	-3.48	6.37	3.81	33.16
RŽV, JAVNO PODJETJE ZA ZAPIRANJE RUDNIKA URANA, D.O.O.	34.94	-35.99	22.98	0.46
SAVA, D.D.	nm	5.00	17.77	21.00
SID - SLOVENSKA IZVOZNA IN RAZVOJNA BANKA, D.D., LJUBLJANA **	2.92	2.00	34.53	48.00
SIJ - SLOVENSKA INDUSTRIJA JEKLA, D.D.	3.10	8.70	9.50	10.97
SLOVENSKE ŽELEZNICE, D.O.O.	10.40	7.00	12.50	12.60
STUDENTENHEIM KOROTAN GMBH	-4.26	0.00	2.51	1.27
TELEKOM SLOVENIJE, D.D., LJUBLJANA	9.78	6.40	26.87	27.20
TERME OLIMIA, D.D., PODČETRTEK	2.43	3.10	23.48	35.00
TOPLOTNA OSKRBA, D.O.O., LOČE	-12.75	0.00	6.65	14.40
UNIOR, D.D., ZREČE	3.43	6.00	11.04	13.50
VODNOGOSPODARSKO PODJETJE DRAVA, D.D., PTUJ	19.37	15.20	8.82	6.90
VODNOGOSPODARSKO PODJETJE NOVO MESTO, D.D.	6.43	6.80	11.11	12.20
VODNOGOSPODARSKO PODJETJE, D.D., KRANJ	0.24	5.00	3.47	9.00
ZAVAROVALNICA TRIGLAV, D.D., LJUBLJANA **	12.77	12.00	92.80	94.00

Note: The Annual Asset Management Plan 2016 does not include capital assets in regard to which SSH had concluded Sale and Purchase Agreements, and those which are subject to sale process, or for which separate annual asset management plans had been prepared in their regard by SSH.

*The value of ROA and not ROE is indicated in the case of energy companies.

** In case of banks, instead of EBITDA margin, CIR ratio is given, and in case of insurance firms, combined ratio is presented.

nm - not meaningful

Roll back the future to access top board members

9

An incoming chairman should try to imagine what his or her board might look like, ideally, three years from now. What kinds of skills and experience not currently in place will help fulfill the company's long-term strategy? What, in other words, is the winning team?

This forward-looking imperative comes in part from the way long-term economic, technological, and demographic trends are radically reshaping the global economy, making it more complex to oversee a successful multinational business.

METHODOLOGICAL, LEGAL AND OTHER NOTES

Legal basis

It is very important 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

In a case when consolidated statements were available, data for the Group were taken into account. The audited financial statements were observed when such reports were available at the time of drawing up 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 of 31 December 2015. These presentations are only available in Slovenian version of the Report. The presentation has not prepared for NKBM because the bank was sold in April 2016. Short company presentations have been developed for all other companies except for companies in bankruptcy, liquidation or being wounded-up (only a list has been produced) and for companies in which the SSH and RS shareholdings are smaller than 1.5 %. These presentations are only available in Slovenian version of the Report. Stakes in companies which were sold in 2016 are as follows: Energetika Črnomelj, d. o. o., A-Cosmos, d. d., Telemach Tabor, d. d., Dom upokojenecv Idrija, d. o. o., and Ekoen, d. o. o.

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-off
EBITDA margin	EBITDA/gross return
EBIT	operating earnings
EBIT margin (operating margin)	EBIT/gross return
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 SLO
Gross added value per employee	gross return – COGS – other operating expenses/No. of employees
Dividend amount RS+SSH	Gross dividend amounts received by SSH and RS paid out in the current year for the previous year
dividend payout ratio	Total dividend pay-out amount of the current year/average shareholder's equity of the previous year

When in regard to individual enterprise (Group), the value of equity capital was negative, the assumption of the sum of EUR 0 of book-value of equity stake was taken into account in the calculations made.

Sources:

- Bank of Slovenia 2016. www.bsi.si.
- Financial and Annual Reports of companies held in ownership of RS and SSH
- Christian Casal, Christian Caspar (2014). Building a forward-looking board. McKinsey Quarterly - February 2014.
- Bloomberg Information System
- Ministry of Finance of the Republic of Slovenia 2016. www.mf-rs.si.
- Ordinance On State-Owned Capital Assets Management Strategy (OdSUKND) was adopted by the National Assembly on 13 July 2015.
- OECD, Accountability and Transparency: a Guide for State Ownership, 2010.
- OECD, Guidelines on Corporate Governance of State-Owned Enterprises, 2015
- Slovenian Sovereign Holding, 2016 SSH Recommendations and Expectations
- Slovenian Sovereign Holding, 2016 Corporate Governance Code for Companies with Capital Assets of the State
- Slovenian Sovereign Holding, 2014 SSH Asset Management Policy
- Slovenian Sovereign Holding, SSH Premises for Voting on General Meetings of Shareholders in 2015
- Slovenian Sovereign Holding, 2014 Rules on Supervisory Board Member Selection (Conditions, Criteria, Procedures and Evaluation for Determining Suitability and Selecting Potential Candidates for Members of Supervisory Bodies of Companies with State's Capital Assets)
- The Institute of Macroeconomic Analysis and Development, 2016. www.umar.gov.si.
- Metrology Institute of the Republic of Slovenia, <http://www.mirs.gov.si/>
- Directors' Association of Slovenia, Managers' Association of Slovenia, Ljubljana Stock Exchange, 2009 Corporate Governance Code for Joint Stock Companies

Explanatory note in regard to impairment of assets by Holding Slovenske elektrarne (HSE), d. o. o.

Impairment of assets is regulated by **IAS 36** which stipulates procedures applied by a company seeking to ensure that the entity's assets are not carried at more than their recoverable amount. An asset is carried at more than its recoverable amount if its carrying amount exceeds the amount to be recovered through the use or sale of the asset. If this is the case, the asset is described as impaired and the Standard requires the entity to recognise an impairment loss.

Therefore, an **impairment loss** is the amount for which the carrying amount of the asset or the cash-generating unit exceeds its recoverable amount.

Where there is an indication of impairment of an asset, entities are required to conduct impairment tests in which its recoverable amount should be calculated. When the recoverable amount of **that asset** cannot be measured, the recoverable amount allocated to its cash-generating unit should be determined.

The **recoverable amount** of an asset or a cash-generating unit is the higher of two items: **its fair value less costs of disposal, or its value in use.**

Where there is an indication of impairment loss, entities are required to formally assess its recoverable amount. As of the reporting date, an enterprise determines whether there is an indication of impairment of an asset. Where there is such an indication, the recoverable amount of an asset should be calculated.

In assessing whether there is an indication of impairment of an asset, an enterprise should take into account indications from internal and internal sources of information. For example, in case of HSE Group, the following indication is vital: *»In the reported period or in the near future, significant changes are expected to take place in the technological, marketing, economic or legal environments in which the company operates or in a market to which the asset is intended for, that will have **unfavourable impact** on the company.«*

Determining value in use comprises two steps: (a) an estimate of the future cash flows an entity expects to derive from the asset and from its final disposal, and (b) the use of the relevant discount rate for these future cash flows. Estimates of future cash flows shall include projections of cash outflows that are necessarily incurred to maintain the level of economic benefits expected to arise from the continuing use of the asset in its current condition.

Estimates of future cash flows should not include: (a) cash inflows or outflows from financing activities; or (b) income tax receipts or payments.

The **discount rate** (or discount rates) used should be the pre-tax rate that reflects current market assessments (a) of the time value of money and (b) risks specific to the asset for which future cash flows have not been adjusted.

IAS 36 also regulates the **reversing of an impairment loss** recognised for an asset or cash-generating unit in prior periods.

In assessing whether there is any indication that an impairment loss recognised in prior periods for an asset other than goodwill may **no longer exist or may have decreased**, an enterprise should take into account **indications** from internal and internal sources of information. For example, in case of HSE Group, the following indication is vital: *»In the reported period or in the near future, significant changes are expected to take in the technological, marketing, economic or legal environments in which the company operates or in a market to which the asset is intended for, that will have **unfavourable impact** on the company.«*

An impairment loss recognised in prior periods for an asset other than goodwill should be **reversed** if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. In such case, the carrying amount of the asset, except as stated in Article 117 of IAS 36, should be increased to reflect its recoverable amount. Such increase is considered the **reversal of an impairment loss**.

In the case of HSE Group, the reversal of an impairment loss may take place in the future when forecasts regarding electricity prices in the market are improved (if higher prices are to be predicted) or when lower market prices for CO₂ coupons are to be expected or when the Government of the Republic of Slovenia introduces the priority dispatch system for B6 TEŠ.

The reversal of an impairment loss due to the impairment of revalued asset must be allocated directly to equity capital under the revaluation surplus category. When an impairment loss of the same revalued asset is recognised in prior profit or loss statements, the reversal of such impairment loss should be recognised in the profit or loss.

Abbreviations

AAMP 2016	Annual Asset Management Plan 2016
ATVP	Securities Market Agency
AUKN	Capital Assets Management Agency of RS
BAMC	Bad Asset Management Company
DTK	venture capital firms
EU	European Union
EUR	Euro
EURIBOR	Euro Interbank Offered Rate
GDP	gross domestic product
HE	hydro power plant (HPP)
HESS	Hidroelektrarne na spodnji Savi d. o. o. (HPPs on Lower Sava River)
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
IMAD	Institute of Macroeconomic Analysis and Development
IP	Internet Protocol
IPTV	Internet Protocol television
JARSE	The Energy Agency
KAD	Pension Fund Management
MoF	Ministry of Finance
OECD	Organisation for Economic Cooperation and Development
PIFE	Programme of Instruments of Financial Engineering
ROE	Return-on-Equity
ROA	Return-on-Assets
RŽV	Žirovski vrh Mine
SAS	Slovenian Accounting Standards
SEL	Savske elektrarne Ljubljana, d. o. o.
SES	Slovenian Entrepreneurial Fund
SME	small and medium-sized enterprises
SOD	Slovenian Compensation Fund
SRRF	Slovenian Regional Development Fund
SSH	Slovenian Sovereign Holding
TWh	TheraWatt hour
ZBan-1	Banking Act
ZDSŽ	Slovenian Railway Company Act
ZFPPIPP	Financial Operations, Insolvency Proceedings and Compulsory Dissolution Act
ZGD-1	Companies Act
ZPKDPIZ	Act Governing Conversion of the Pension Fund Management and Investment Policy of Pension Fund Management (KAD) and the Slovenian Compensation Company (SOD)
ZSDH-1	Slovenian Sovereign Holding Act
ZTFI	Financial Instruments Market Act



SLOVENSKI DRŽAVNI HOLDING, d. d.

**Annual Report - Management of Capital Assets of RS and SSH in 2015
SSH Report to the National Assembly of RS**

Issued by and Copyright Holder: Slovenian Sovereign Holding

Address: Mala ulica 5, 1000 Ljubljana, Slovenia

Telephone: ++ 386 (0)1 300 91 13

E-mail: info@sdh.si

Web site: <http://www.sdh.si>

Text: Slovenian Sovereign Holding

English translation and proofreading: Maja Vitežnik, David Lillie

Design and lay-out: Nicha, agencija za tržno komuniciranje in svetovanje, d. o. o.

Photos: www.shutterstock.com and photos from the Archives of the largest companies

Date of issue: Ljubljana, October 2016

Due to the Report's extensive nature, the abbreviated version of the Annual Report - Management of Capital Assets of the Republic of Slovenia and Slovenian Sovereign Holding for 2015 has been translated, excluding thus the original Chapters 9 - Company Details for 20 Largest SOEs, and Chapter 10 - Company Details of Other Companies with Direct Ownership Stake by the Republic of Slovenia and Slovenian Sovereign Holding. In spite of the fact that the English version is abbreviated it includes all the most significant highlights and information from the original Annual Report in Slovenian.

Legal disclaimer: The original text of this document is written in Slovenian; in case of any doubt or misunderstanding, the Slovenian text shall therefore prevail.

Limitation of liability

The Annual Report was produced by SSH in accordance with Article 67 of ZSDH-1, imposing on SSH the task of monitoring the effectiveness of SOEs' operation. The document has also been created in accordance with recommendations regarding good practice drawn in OECD Guidelines for Corporate Governance of State-Owned Enterprises, 2015, which in Item VI imposes on the company managing state assets to develop a consistent and aggregate reporting on state-enterprises and publish annually an aggregate report on SOEs. The publication of the report on the Company's website is advised with the aim of informing the general public. The Annual Report 2015 refers to the management of capital assets owned by the Republic of Slovenia and Slovenian Sovereign Holding. The 2015 Annual Report was developed in accordance with the principle of conscientiousness and fairness by applying the necessary expertise and in accordance with the principle of professional due diligence. The information on companies and Groups of companies used in the document were obtained from publicly accessible data bases and directly from companies (the right to information obtained is recognised to all other shareholders and an individual company is obliged to provide such pieces of information in a suitable manner). The information does not represent any inside information within the meaning of Article 373 of Financial Instruments Market Act. Any potential indicative value assessments are stated for informational purposes only and do not in any way bind SSH by way of any actions or decisions. The document does not represent a recommendation or a piece of advice for personal investment decisions or any other conduct and it is not an offer nor an invitation to submit offers for the purchase of shares or shareholdings in direct or indirect ownership of the state. Users of information from this Report are advised by SSH to verify the data with other suitable sources and to consult with an expert of a relevant discipline about any investment decision into a company referred to in the document or in regard to any other action. Slovenian Sovereign Holding warns that information presented in the 2015 Annual Report is of informational nature and data error, linguistic and other errors might have occurred in the document which is why SSH is not held responsible in relation to users for consequences of any actions which might be based on the content of this document. Slovenian Sovereign Holding has put an effort into ensuring the correctness of the data provided. Supervisory Board Members' presentations express Supervisory Board Members' own views and standpoints. Any public publication, reproduction, sale, modification or transformation of the content is prohibited without the written consent being given by SSH.



Manufacturing Output Data

STRATEGY
MANAGER



3%

2%

1%

0%



7/11
1/2007