



SLOVENSKI DRŽAVNI HOLDING, d. d.

***COMPANY AND GROUP
SLOVENIAN SOVEREIGN HOLDING***

**NON-CONSOLIDATED and
CONSOLIDATED ANNUAL REPORT**

FOR YEAR ENDING 31 DECEMBER 2016

Important abbreviations used in the document:

Institutions:

SSH, the Company	-	Slovenian Sovereign Holding
SSH Group	-	Slovenian Sovereign Holding Group
SOD	-	Slovenska odškodninska družba, d. d.
RS	-	Republic of Slovenia

Acts:

ZSDH, ZSDH-1	-	Slovenian Sovereign Holding Act
ZDen	-	Denationalisation Act
ZGD	-	Companies Act
ZSPOZ	-	Act on Payment of Compensation to Victims of War and Post-War Violence
ZIOOZP	-	Act Regulating the Issuing of Bonds in Compensation for Confiscated Property pursuant to the Abrogation of the Penalty of Confiscation of Property
ZVVJTO	-	Reimbursement of Investments in Public Telecommunications Network Act

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LETTER OF THE MANAGEMENT BOARD

Dear Sirs,

In Slovenia, the entire corporate governance system of SOEs was finalised in 2015 when the following important documents were adopted: the State Assets Management Strategy, the SOEs Performance Criteria and the Annual Asset Management Plan. These key documents have provided Slovenian Sovereign Holding (hereinafter: SSH) with the relevant basis for pursuing the role of an active owner who sets goals to its companies on an annual basis and oversees the attainment of these goals. The State is an important shareholder in numerous and important Slovenian Companies which is why it has assumed a great responsibility of acting as an engaged and professional owner.

Attaining long-term goal of the State in regard to performance of state assets portfolio

For the purpose of attaining the long-term goal of the State in regard to portfolio performance by 2020, within the portfolio of capital assets managed by SSH, several activities will be needed, i.e. strategic restructuring of some companies, seeking for synergies within the portfolio itself, sale of some assets and prudent acquisition of profitable assets and, finally, the selection of supervisors of good quality which is one of key factors for successful management.

In order to follow SSH's vision, which is generating value from capital assets for the owner, SSH pursues goals defined in the State Assets Management Strategy which are of strategic and economic and financial nature. These goals cover all key aspects which are important for the development and competitive position of enterprises.

Successfully closed transactions and activities for acquisition of capital assets

By 2016, eight processes of sale were closed, involving the sale of eight companies stated on the list of 15 companies to be sold which had been approved by the National Assembly in 2013. In 2016, shares in the following companies were sold: Adria Airways, d. d., and following the satisfaction of conditions precedent referred to in the Share Sale and Purchase Agreement concluded in 2015, the sale of Nova KBM, d. d., was also completed. At the end of 2016, after a successful capital increase, the take-over bid by ECO-INVESTMENT, a. s., and ECO INVEST SVK, a. s., was submitted, on the basis of which, in 2017, SSH sold all its shares held in Paloma, d. d., SSH also sold minor assets held in seven companies which have been defined as portfolio assets.

In 2016, SSH also pursued activities in connection with the acquisition of capital assets. Thus, in 2016, following the transfer of liabilities and bonds of Sava, d. d., against payment, and after a successful compulsory composition of Sava, d. d., SSH acquired a 22.56 % ownership interest in the said company from BAMC. SSH also acquired stocks in its own behalf and on behalf of the Republic of Slovenia in Polzela, d. d., and Petrol, d. d., in which case the process for the acquisition of 3.03 % shareholding was completed in 2017.

Amount of dividends received increased in 2016

The recent 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.

Settlement of liabilities due to denationalisation beneficiaries and reduction of indebtedness

SSH continues to actively participate in denationalisation proceedings and in procedures for the determination of compensation for beneficiaries in which property has been restituted to denationalisation beneficiaries in kind. Only the most complex denationalisation procedures are still being handled. On behalf of and for the account of the Republic of Slovenia, SSH also settles liabilities under the following laws: ZSPOZ, ZIOOZP, ZVVJTO. Cash outflows for the settlement of SSH statutory obligations in 2016 were lower by 50 % than outflows in 2015, and by 15 % lower than planned. More than 94 % of all statutorily stipulated cash flows represent outflows in accordance with the Denationalisation Act. On 1 June 2016, SSH paid out the last, 40th regular coupon of SOS2E bond. Denationalisation is still not completed as payments to beneficiaries will continue.

SSH provided monies for the coverage of its liabilities mainly with inflows from matured deposits and liquid (portfolio) assets as well as other inflows. An important source of funds to cover the SSH liabilities in 2016 was a record-hitting pay-out of dividends of companies owned by SSH, revenue from the sale of capital assets and the sale of UCITS units of mutual funds. Other important source for ensuring the Company's liquidity included the inflows from matured long-term receivables due from the Republic of Slovenia (pursuant to ZVVJTO, ZSPOZ, and ZIOOZP). The capital increase in SSH realised by the Republic of Slovenia in December 2016, amounting to EUR 200 million, provided for an increase in the liquidity portfolio, specifically, deposits.

Analysis of SSH operations

SSH was successful in 2016, since the operating profit and loss before taxes amounted to EUR 46.4 million, and following the deduction for deferred taxes, net profit and loss for the reported period amounted to EUR 50.7 million. There was a EUR 68.1 million income generated, of which good 75 % amounted for financial income. Dividend income received was again the most significant revenue. Operating expenses amounted to EUR 8.1 million, and income expense EUR 7.7 million. This year was again rather favourable for borrowers.

Future outlook

SSH is highly active in implementing the most important mission of the Company, i.e., the management of capital assets owned by the Republic of Slovenia and SSH. The goal in respect of asset management includes efficient implementation of launched processes of sale in accordance with the Annual Asset

Management Plan 2017, together with the realisation of financial, strategic and other goals in connection with the capital asset management which have been set for each individual asset.

The performance of the portfolio which includes assets held by the Republic of Slovenia and SSH has been significantly improving for several consecutive years. The main challenge to be faced by SSH in the future remains to be constant improvement of the portfolio performance, by focusing on those companies in the portfolio for which key operational performance are not yet internationally comparable. However, it must be pointed out, that relevant consideration is given to specific characteristics in respect of operations of some companies for which priority concern is required in the direction of attaining strategic goals.

SSH regularly improves the quality and analytical value of information system basis necessary for the management of capital assets. The Company will thus dedicate special attention to upgrading one of key tools for the management of SSH that is the monitoring and benchmarking of key performance indicators obtained by individual companies in the portfolio against relevant competitive companies, by way of which a more active and more efficient management of capital assets will be enabled.



Lidia Glavina, President of the Management Board



Nada Drobne Popovič, Member of the Management Board

CORPORATE GOVERNANCE

In accordance with the provision of Article 70, Paragraph 5 of ZGD-1, SSH hereby provides the Company's and Group's Corporate Governance Statement which forms an integral part of this Business Report; the said Statement is also available on the Company's web site www.sdh.si. The Corporate Governance Statement relates to the period from 1 January 2016 to 31 December 2016. All significant events taking place after the balance sheet date are described in Chapter 9.7. Post-Balance Sheet Events.

I. Corporate Governance Codes - Statement of Compliance with Governance Codes

In accordance with SSH Management Policy, adopted on 19 December 2014 and last supplemented on 14 December 2016, SSH uses the Corporate Governance Code for SOEs as the reference corporate governance code (*also available on SSH's web site <http://www.sdh.si/>*).

The Corporate Governance Code for SOEs, which is the legal document used by the manager of state-owned enterprises, recommends good practice in corporate governance and sets expectations from SOEs and is one of the most important legal documents regarding the system of capital asset management with which SSH aims to increase the general level of corporate governance of companies owned by the Republic of Slovenia.

The purpose of the Corporate Governance Code for SOEs is as follows:

- to determine in advance more exact rules of conduct by SSH in the management of capital assets of the Republic of Slovenia;
- to establish expectations from enterprises owned/under management with the goal to optimise the return on investment invested by the State, SSH and ZPIZ;
- to contribute to the efficiency of carrying out services of general economic interest and to the accessibility to infrastructure;
- to contribute to the development and to the growth of national economy and
- to provide for economically effective privatisation while taking into account other privatization objectives determined upon the sale of individual asset.

In the formulation of Corporate Governance Code for Companies with Capital Assets of the State, SSH consistently took into consideration international guidelines regarding good practice in corporate governance, in particular EU guidelines and recommendations, OECD Guidelines on Corporate Governance of State-Owned Enterprises and OECD Principles of Corporate Governance. An important source was also the Slovenian recommendations regarding good practice, in particular the Corporate Governance Code for Joint Stock Companies. In addition to principles, procedures and criteria regarding the conduct pursued, the Corporate Governance Code for SOEs also includes expectations to be delivered by state-owned enterprises. Some segments of corporate governance are regulated in detail by other Company's legal documents, such as, for example, the SSH Recommendations and Expectations, and the SSH Asset Policy.

The Corporate Governance Code for SOEs, the SSH Recommendations and Expectations, and the SSH Asset Policy are all accessible on the SSH's web site.

In 2016, SSH deviated from the following recommendations referred to in the referenceCode:

1. Recommendations regarding remuneration for Supervisory Board members and members of Supervisory Board Committees for their services and attendance fees were not fully taken into account due to specific regime applied by ZSDH-1 (*deviation from the Corporate Governance Code for SOEs*).
2. On 15 July 2016, in accordance with the Article 273 of ZGD-1, the SSH Supervisory Board appointed Mrs. Lidia Glavina, a member of the SSH Supervisory Board, to take up the position of the President of the SSH Management Board. The term of office of Mrs. Lidia Glavina, in the capacity of the SSH's Supervisory Board member, was suspended from 15. July 2016 until its resignation from this function which came into effect on 22 February 2017. Since 23 February 2017, Mrs. Lidia Glavina has been fully engaged as the President of the SSH Management Board. In addition, on 12 December 2016, in accordance with ZSDH-1, the mandate of a member of the Supervisory Board, Dr. Drago Ferfolja, was terminated. In 2016, in the period from July 2016, the SSH's Supervisory Board acted as a four-member body, and for the last two months, it was actually composed of three members. Irrespective of changes in regard to the number of members of the Supervisory Board, SSH's Supervisory Board approached the Supervisory Board's self-assessment procedure, deploying a combination of basic and advance approach in implementing the self-assessment procedure. Every member of the Supervisory Board filled out its own questionnaire and, after the analysis of answers received, the President of the Supervisory Board held the debate on results, comments and proposals for improvements. During the discussion, the Supervisory Board Members mainly focused on those issues which received the worst results and which had to be improved. After the debate, the Self-Assessment Report was produced, and the proposal of improvements for the work carried out by the SSH Supervisory Board was prepared in the form of an action plan. Similarly, on the basis of results obtained in the self-assessment procedure, the Supervisory Board will adopt proposals for improving the Supervisory Board's Rules of Procedure. In its forthcoming work, the Supervisory Board will regularly monitor the satisfaction of the action plan.
3. The recommendation regarding the preparation of the remuneration policy by the SSH Supervisory Board was not fully taken into account due to specific regime applied by ZSDH-1. The remuneration policy will be adopted and submitted to the General Meeting for its adoption in 2017 (*a deviation from the Corporate Governance Code for SOEs*).
4. The mandate of Supervisory Board's Committees (these Committees are composed of Supervisory Board members and independent external experts) by passing a resolution was not determined by the Supervisory Board. In accordance with the Rules of Procedure of the Audit Committee of the SSH Supervisory Board and the Rules of Procedure of the Risk Committee of the SSH Supervisory Board, the engagement of members for both committees is in line with the engagement term of Supervisory Board members. Similarly, the mandate of an independent external expert is linked to the mandate of a Supervisory Board member who has appointed the independent external expert (*a deviation from the reference code*).
5. The Supervisory Board failed to formally develop an efficient and timely succession plan for the members of the Management Board owing to special statutory provisions (ZSDH-1) which stipulate the procedure for the selection and appointment of the Company's Management Board (*a deviation from the reference code*).

6. The Supervisory Board failed to prepare a competence profile for Supervisory Board Members from the aspect of the Supervisory Board's optimum size and composition due to the fact that the procedure for the appointment of the Supervisory Board Members is regulated in ZSDH-1 and the Company's General Meeting is authorised to provide for such profile (*a deviation from the reference code*).

II. Main characteristics of internal control systems and risk management in connection with financial reporting:

In SSH, risk management and internal control processes are carried out at all levels. The risk management systems ensures the identification and assessment of risks, the definition of measures for risk mitigation and risk reporting. The internal control system provides for a suitable assurance regarding the attainment of goals and management of main risks. The establishment of the internal control system falls under the responsibility of the SSH Management Control and the necessary controls are incorporated into all business processes. The goal of internal controls is to provide for the compliance of operation with legislation and other regulations, with standards, contracts and internal corporate documents, to provide reliable and sound financial information, to safeguard assets, to attain efficient and effective performance and to achieve strategic goals set. The supervision over the functioning of internal controls is carried out by performing management supervision, by deploying internal audit reviews, by performing external audit of financial statements and by employing other independent assessment reviews. The risk management and control mechanisms introduced are presented in more detail in Chapters 1.3. and 9.2. of this Business Report.

III. Data in respect of Article 70, Paragraph 6 of ZGD-1

In accordance with the provision of Article 70, Paragraph 6 of ZGD-1, SSH hereby provides data as at the last day of the financial year and all necessary explanatory notes:

1. The structure of the Company's share capital:
All SSH shares are ordinary, no-par value shares which grant their holders the right to participate in the management of the Company, the right to dividends and the right to the corresponding part of assets remaining after the liquidation of a company. All shares are one class shares and are issued in a non-certified form.
2. Restrictions regarding transfer of shares:
All shares are freely transferable.
3. Qualified holding as stipulated by Takeovers Act:
As of 31 December 2016, the holder of the qualified holding as stipulated by the Takeovers Act was the Republic of Slovenia, holding 155,866 shares, that is 100% of the share capital.
4. Explanatory notes regarding the holder of securities with special controlling rights:
SSH has issued 155,866 ordinary, registered, no-par value shares of the same class with the same rights which means that the holder has no special controlling rights arising from the ownership of shares.
5. Employee Share Scheme:
There are no Employee Share Schemes established in SSH.
6. Agreements which could result in a restriction of the transfer of securities or voting rights:
There are no such agreements concluded.

7. Company's Rules on the appointment and replacement of members of Management and Supervisory Bodies and amendments to Articles of Association:

The Management Board of SSH consists of three members of which one holds the function of the President of the Management Board. The Management Board is appointed by the Supervisory Board upon an international invitation to apply for the position or in cooperation with an international HR agency. The term of office for the Management Board members lasts for four years with an option of reappointment. The Supervisory Board assesses the fulfilment of the criteria required by ZGD-1 and ZSDH-1 in a prudent and responsible manner. Any violation of duties pursuant to ZSDH-1 or any management-related documents is a severe violation of duties assumed by a Management Board Member. The provisions of ZGD-1 apply for the dismissal of a Management Board Member.

The SSH Supervisory Board consists of five members who are all elected by the National Assembly of the Republic of Slovenia upon the proposal given by the Government of the Republic of Slovenia. The National Assembly of the Republic of Slovenia grants its consent to the proposal given by the Government of the Republic of Slovenia which cannot be modified. The provisions of the act regulating employee participation in management do not apply to the SSH Supervisory Board. Detailed criteria regarding a SSH Supervisory Board Member are laid down in ZGD-1 and ZSDH-1. A SSH Supervisory Board Member may be dismissed by the National Assembly of the Republic of Slovenia upon the proposal by the Government of the Republic of Slovenia on the account of reasons stipulated in ZSDH-1.

There are no special rules applied by SSH in regard to amendments to Articles of Association. Any potential amendments are pursued in accordance with ZGD-1 and the Articles of Association.

8. Authorisations to the management, particularly authorisations to issue or purchase own shares:

Authorisations to the management are defined in the remaining part of this Chapter. However, there are no special authorisations granted to the Management Board in regard to the issue or purchase of own shares.

9. Major agreements to take effect, to be amended or cancelled following a change in control over the Company as a result of a public take-over bid:

There are no such agreements concluded.

10. Agreements between SSH and its management or supervision bodies or its employees subject to which a compensation is envisaged, if, due to a bid as determined by the act governing mergers and acquisitions, these persons are dismissed without cause or their employment is terminated:

There are no such agreements concluded.

IV. Data regarding SSH General Meeting, its key responsibilities and presentation of shareholder rights and the method of exercising them

In accordance with the provisions of ZSDH-1, the Government of the Republic of Slovenia is the body that carries out the powers and duties held by the SSH General Meeting. The General Meeting makes decisions on key issues pertaining to SSH which are defined in ZGD-1 and ZSDH-1, in addition to making decisions on the issue of new shares and on putting them into circulation, and adopting measures for measuring performance of SOEs.

A shareholder exercises rights at the General Meeting. The General Meeting is convened and organised in accordance with applicable regulations. A holder of shares has the right to manage a company, a right to a dividend and a right to receive the corresponding value of assets remaining after the liquidation of a company. The Republic of Slovenia has withheld

from its right to receive dividends, as long as the Republic of Slovenia is the sole shareholder of SSH.

V. Data on composition and functioning of supervision and management bodies and their committees:

In accordance with the Companies Act, a two-tier management system has been introduced in SSH, comprising the Management and Supervisory Boards. The Management Board runs the Company and organizes the work and operation of the Company, while the Supervisory Board oversees the running of business. The management of SSH is based on statutory provisions, on the Articles of Association which is the fundamental legal document, internal legal documents and on the established and generally accepted good business practice. Formally speaking, SSH does not pursue the diversity policy to be applied in connection with the presence in management and supervisory bodies as regards gender, age and education, however, regardless of the above stated, management and supervisory bodies are organized in a manner that the complementarity in knowledge, skills and experience of the board members is achieved, while also providing for the board's heterogeneous composition.

Management Board

The SSH Management Board organises and runs the operation of SSH; it is responsible for all management decisions taken in accordance with ZSDH-1. The adoption and implementation of all decisions is carried out in an independent manner, with the Board acting under their own responsibility. The Management Board represents the SSH. According to the Articles of Association, the Management Board is composed of the President of the Management Board and Members of Management Board. In 2016, the Management Board was first functioning in a three-member configuration and then from 10 October 2016 in a two-member configuration. The Management Board carried out its work within the scope of Management Board sessions, and in addition to formal board sessions it exercised its powers and duties which are necessary for the daily operation of SSH, together with powers and responsibilities held in respect of the General Meeting, as laid down in ZGD-1 and ZSDH-1. Activities in respect of the Supervisory Board were carried out by the Management Board in accordance with the provisions of the Articles of Association and the Rules on Procedure of the SSH Supervisory Board.

The President of the SSH Management Board represents SSH individually and without any restrictions, while the Members of the SSH Management Board represent the Company jointly with the President. Regardless of the ZGD-1 provisions, the Supervisory Board cannot issue a resolution stipulating the obligation to obtain a Management Board's consent for certain transactions, unless so stipulated in ZSDH-1 or in the SSH Articles of Association. The Management Board is obliged to obtain the Supervisory Board's consent for the following transactions:

- for legal transactions for approving short-term loans to entities which do not have the authorisation of the Bank of Slovenia for pursuing banking activities – regardless of the nominal amount of an individual transaction;
- for legal transactions for issuing guarantees to third persons – regardless of the nominal amount of an individual transaction;
- for legal transactions for obtaining or granting loans maturing within more than 365 calendar days – regardless of the nominal amount of an individual transaction;
- for acquiring and disposing of investments which exceed the book value of EUR 5 million as recorded in the share register;
- the adoption of the Criteria for Measuring the Performance of State-Owned Enterprises;
- the adoption of the Annual Asset Management Plan;
- the adoption of the Asset Management Policy;

- the adoption of the Corporate Governance Code for SOEs;
- for concluding agreements on the provision of advisory services, such as agreements concluded with legal and financial advisors, agreements for carrying out due diligence of a company, agreements for company's valuations in processes for the disposition of capital assets, the value of which exceeds EUR 5,000 per contractor.

The membership of the SSH Management Board in 2016

The SSH Management Board until 14 July 2016:

Mr. Marko Jazbec, President of the Management Board,
Nada Drobne Popovič, MSc, Member of the
Management Board,
Anja Strojín Štampar, MSc, MBA, Member of the
Management Board.

The SSH Management Board from 15 July 2016:

Mrs. Lidia Glavina, President of the Management Board,
Nada Drobne Popovič, MSc, Member of the
Management Board,
Anja Strojín Štampar, MSc, MBA, Member of the
Management Board (until 10 October 2016).

Management Board's Consultation Bodies

The *Nomination Committee* is a consultation body of the SSH Management Board, which, pursuant to ZSDH-1 and SSH Asset Management Policy, carries out duties that relate to the implementation of procedures for recruiting candidates for members of Supervisory Bodies of SOEs, their evaluation and their accreditation. The Nomination Committee is composed of three members which are appointed by the SSH Management Board for the 4 year tenure after having been selected from the list of experts in corporate governance, in HR management and from among the experts with knowledge of the functioning of bodies of supervision.

In 2016, SSH Nomination Committee carried out its work in the following configuration:

Mr. Luka Gaberščik, President,
Mrs. Maja Fesel Kamenik, Deputy President (until
5 April 2016),
Mrs. Jagoda Vitez, Member, Deputy President
(from 5 April 2016),
Mrs. Brigita Vončina, Member (from 5 April 2016).

The *Expert Committee for Economic and Social Affairs* (ECESA) is the SSH Management Board's consultation body composed of even members that provide opinions and initiatives related to the economic and social affairs. ECESA adopts opinions and initiatives that are related to affairs which result or may result in issues concerning the labour law, the company's Articles of Association or have or may have social impacts for SSH employees of for companies managed by SSH. Its members are appointed by the Slovenia's representative trade unions and confederations who are members of the Economic and Social Council.

In 2016, the members of the Expert Committee for Economic and Social Affairs were:

Mrs. Lidia Jerkič, President,
 Mr. Zdenko Lorber, Vice President,
 Mr. Miroslav Garb,
 Mr. Branimir Štrukelj,
 Mr. Franc Zupanc,
 Mrs. Nevija Pečar and
 Mr. Jakob Počivavšek.

Supervisory Board

The SSH Supervisory Board is appointed as a five-member Supervisory Board, in accordance with ZSDH-1. On 15 July 2016, in accordance with the Article 273 of ZGD-1, the SSH Supervisory Board appointed a member of the SSH Supervisory Board, Mrs. Lidia Glavina, to take up the position of the President of the SSH Management Board. During the time she performed the function of the President of the SSH Management Board, Mrs. Lidia Glavina did not perform the function of a member of the SSH Supervisory Board, therefore, the Supervisory Board met in a four-member configuration. On 12 December 2016, in accordance with ZSDH-1, the mandate of a member of the Supervisory Board, Dr. Drago Ferfolja, terminated. From 13 December 2016, the Supervisory Board operates in a three-member configuration. There were two mandatory committees operating within the SSH Supervisory Board in 2016: the Audit Committee and the Risk Committee. Owing to the appointment of the new President/Member of the Management Board, in accordance with the provisions of ZSDH-1, the Nomination Committee of the Supervisory board was operational in a part of the selection procedure in 2016, in the following configuration: Dr. Drago Ferfolja, the President, and members: Mr. Damjan Belič, Mr. Duško Kos and Dr. Barbara Smolnikar. The Nomination Committee was dissolved on 11 January 2017.

Members of Supervisory Board:

- until 14 July 2016: Mr. Damjan Belič, President,
 Mr. Drago Ferfolja, Vice President,
 Mrs. Lidia Glavina, Member,
 Mr. Duško Kos, Member,
 Dr. Barbara Smolnikar, Member.
- from 15 July 2016: Mr. Damjan Belič, President,
 Mr. Drago Ferfolja, Vice President,
 Mr. Duško Kos, Member,
 Dr. Barbara Smolnikar, Member.
- from 13 December 2016: Mr. Damjan Belič, President Board,
 Mr. Duško Kos, Vice President,
 Dr. Barbara Smolnikar, Member.

Members of Audit Committee:

- until 3 July 2016: Mrs. Lidia Glavina, President,
 Mr. Duško Kos, Member,
 Mr. Aldo Gabrijel, External Member.
- from 4 July 2016: Mr. Duško Kos, President,
 Mr. Damjan Belič, Member,
 Mr. Aldo Gabrijel, External Member.

- from 15 July 2016: Mr. Duško Kos, President,
Mr. Damjan Belič, Member,
Mrs. Darinka Virant, External Member.

Members of Risk Committee:

- until 12 December 2016: Dr. Barbara Smolnikar, President,
Dr. Drago Ferfolja, Member,
Mrs. Darinka Virant, External Member.
- from 14 December 2016: Dr. Barbara Smolnikar, President,
Mr. Duško Kos, Member,
Mrs. Darinka Virant, External Member.

VI. Compliance and corporate integrity system

A strong integrity of SSH is very significant 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 to ensure the transparency of operations in SSH to make SSH a role model in the field of corporate governance of companies. This efforts mainly include the commitment to operate in an ethical manner, in accordance with the highest expectations and standards, all of this pursued with the aim to introduce good practices in corporate governance and to maximise assets managed by SSH.

With this aim, SSH established a comprehensive compliance and corporate integrity system. The Compliance Manager, appointed to implement the compliance and corporate integrity system, or his deputy, after the Manager's resignation in April 2016 (hereinafter both referred to as "Compliance Manager"), reports to the SSH Supervisory Board on activities carried out and situation in regard to the compliance. In 2016, there was no illegal influence exercised in regard to his work and the Compliance Manager was granted the necessary independence in carrying out the duties. The Compliance Manager had the necessary support provided by the Supervisory Board and the Management Board and the employees which, together with the awareness on the importance of the function, is important for successful work.

With the aim of ensuring integrity, SSH designed an integrity plan. The integrity plan is a tool for internal supervision which identifies and limits corruption risks, conflict of interest, unauthorised disclosure of inside information and protected data, and restricts trading with confidential data and other illegal and unethical conduct in SSH and in regard to companies in which SSH has majority or controlling influence, and in relation to external stakeholders. In addition to regulatory documents, additional organisational and technical measures for the protection of confidential data and for the prevention of misuse of inside information were adopted; for example, monthly reporting to the Securities Market Agency on the list of SOEs in regard to which SSH had obtained confidential data or inside information, secondly, reporting on all transactions involving investments classified on the aforementioned list, thirdly keeping the gift register and the register of unofficial contacts, and providing for the traceability of communication between SSH, state authorities and other persons of public law. The Compliance Manager records procedures for the disclosure of conflict of interest, for recusal from processes and for recusal from making decisions about recusal. In addition, the whistle-blowing system was introduced in SSH in order to protect employees who, in good faith, report alleged irregularities or information of unethical conduct pursued by superiors, in addition to other alleged irregularities.

The efficient, uniform and transparent management and coordination of the procedure for the handling of information on alleged irregularities in SOEs, is operated by a three-member Committee which directs the work of every individual asset manager. The Compliance Manager regularly reports to the SSH Management Board specifically, however, the Supervisory Board is also informed.

Ljubljana, 20 April 2017

Nada Drobne Popovič
Management Board Member

Lidia Glavina
Management Board President



SLOVENSKI DRŽAVNI HOLDING, d. d.

SLOVENIAN SOVEREIGN HOLDING - COMPANY AND GROUP

BUSSINESS REPORT

FOR YEAR ENDING 31 DECEMBER 2016

1. COMPANY DETAILS

Corporate name:	Slovenian Sovereign Holding
Registered office:	Mala ulica 5, 1000 Ljubljana, Slovenia
Activity code:	64.990
VAT ID:	SI 46130373
Registration No.:	5727847
No. of employees as of 31.12 2016:	70
Registered legal form:	public limited company registered with Ljubljana District Court, under the Reg. Entry No. 1/21883/00
Date of incorporation:	19 February 1993
Date of company transformation from SOD into SSH:	11 June 2014
Share capital:	EUR 260,166,917.04

1.1. SSH IN FIGURES

EUR 1,013 million	in assets as of 31 December 2016
73 %	of the Company's total assets placed as equity investments
EUR 557.4 million	of the total capital of the Slovenian Sovereign Holding as of 31 December 2016
26	active capital investments in Slovenia in the ownership of SSH as of 31 December 2016
52	active capital investments in Slovenia in the ownership of the Republic of Slovenia as of 31 December 2016, under the management by SSH (<i>excluding mutual funds</i>)
1	concluded Sale and Purchase Agreement in regard to capital stake owned by SSH in 2016
9	concluded Sale and Purchase Agreements in regard to capital stake owned by RS in 2016
1	implemented Sale and Purchase Agreement in regard to capital stake owned by SSH in 2016
17,318,608	SOS2E bonds delivered by 31 December 2016

EUR 72.9 million	of settled liabilities arising from denationalisation in 2016
EUR 4.2 million	in the outflows arising from compensation settled on behalf and for the account of the Republic of Slovenia in 2016
EUR 50.7 million	net profit or loss of the Company in 2016

1.2. SSH PROFILE

1.2.1. Main Areas of Operation

Asset Management

The management of capital assets in direct or indirect ownership of the Republic of Slovenia includes the acquisition and disposition of capital assets and the exercise of rights of a shareholder. The SSH manages its capital assets in a responsible manner and in line with good practice in corporate governance. On its own behalf and for the account of RS, and on its own behalf and for its own account, the Company enforces corporate rights arising from individual equity investments held by the Republic of Slovenia.

When managing capital assets, SSH strives for attaining goals, such as, increasing the value of assets, providing for as high as possible rate of return for the owners, increasing the corporate governance in companies and realising other economic and operational goals, including strategic goals defined by legal documents on asset management.

This also includes the management of SSH asset portfolio intended for the provision of the Company's recurrent liquidity.

Denationalisation

The SSH was established for settling liabilities due to beneficiaries under ZDen and other regulations governing the denationalisation of property. For implementing these duties, SSH:

- participates in denationalisation proceedings and in procedures for the determination of compensation for liable entities in which property has been restituted to denationalisation beneficiaries in kind. In these procedures, the compensation amount attributable to beneficiaries on the basis of the above mentioned laws is consistently and accurately determined;
- regularly enforces final decisions issued in proceedings regulating denationalisation of property by issuing SOS2E bonds. On 1 June 2016, SSH paid out the last, 40th regular coupon of SOS2E bond. Denationalisation is still not completed as the payments to beneficiaries will continue.

Settlement of liabilities arising from compensation

On behalf of and for the account of RS, the Company performs duties stipulated by special laws also regulating the method for the financing of these duties. SSH implements three laws, i.e.:

- it implements final decisions on the determination of the compensation amounts arising from compensation owing to the abrogation of the penalty concerning the confiscation of property (ZIOOZP);
- it issues and implements decisions on the compensation amount for beneficiaries on the basis of compensation to victims of war and post-war aggression (ZSPOZ);
- implements written settlements and final decisions for beneficiaries on the basis of reimbursements of investments into the public telecommunication network (ZVVJTO).

1.2.2. Vision, mission, strategic policies and values

Vision

Generating value for the owner from capital assets.

Mission

Since the State is an important owner of companies in Slovenia, the main duty of SSH is a responsible, professional and active management of enterprises owned by the State and SSH. 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. 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 to strive for maximising the economic impact of the sales of shares of SOEs.

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

SSH Strategic Policies

Strategic policies are directions selected for approaching the SSH vision in the next long-term period, and they form the basis for defining the operation of SSH as an integrated organisation.

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:

- restructuring individual assets of the portfolio under management for achieving objectives laid down in the State Assets Management Strategy;
- 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.

The **focus** is the second direction which will ensure that sources and energies will be focused

on such factors that will return the highest value for the owners of capital assets. The main factors included in the second direction comprise:

- stabilising the capital asset portfolio;
- increasing and taking advantage of synergies within the capital assets portfolio and by means of the environment in which SSH operates.

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 second 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 and
- 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 Values

The values which from the foundation of SSH operations are inter-related, giving the basis for activities pursued and for decisions made by SSH:

- excellency in all aspects of operation within SSH and in the environment in which SSH operates;
- fairness/integrity among all SSH stakeholders;
- meritocracy-based operation in which measured performance and demonstrated achievements count;
- respect to all SSH internal and external stakeholders and in regard to all aspects of economic operation;
- confidence and trust in people and
- professional competence and expertise as the main criteria for managing and implementing the Strategy.

1.2.3. Objectives and future development of SSH

The main directions in the operation of SSH are:

- to improve the image of SSH as a professional state assets manager by constantly and consistently observing and implementing the statutory asset management principles and the State Assets Management Strategy;
- to increase the quality and analytical value of information platforms needed for the management of capital assets and to play an active role in the financial and business restructuring of assets, together with corporate restructuring with the aim of increasing the value of assets, providing for comparable rates of returns and achieving other legitimate strategic goals;
- to continue the privatisation processes and to increase the efficiency of the disposition of assets and prudent acquisition of new assets;
- to improve the quality of risk management and internal controls;
- to conduct professional and traceable communication activities and to exchange viewpoints with representatives of all the most stakeholders of SSH, in accordance with ZSDH-1.

The objectives pursued by SSH in state asset management are: the increasing of the value of assets, the provision of the highest possible returns to the owners and the attainment of other business-financial and strategic objectives regarding the assets which are defined by way of governance 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 for SSH 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 SOEs. Some individual expectations are being communicated to SOEs by means of SSH Recommendations and Expectations.

1.2.4. Other objectives of SSH

Besides the above mentioned strategic objectives, the operation of SSH is also focused on the following objectives:

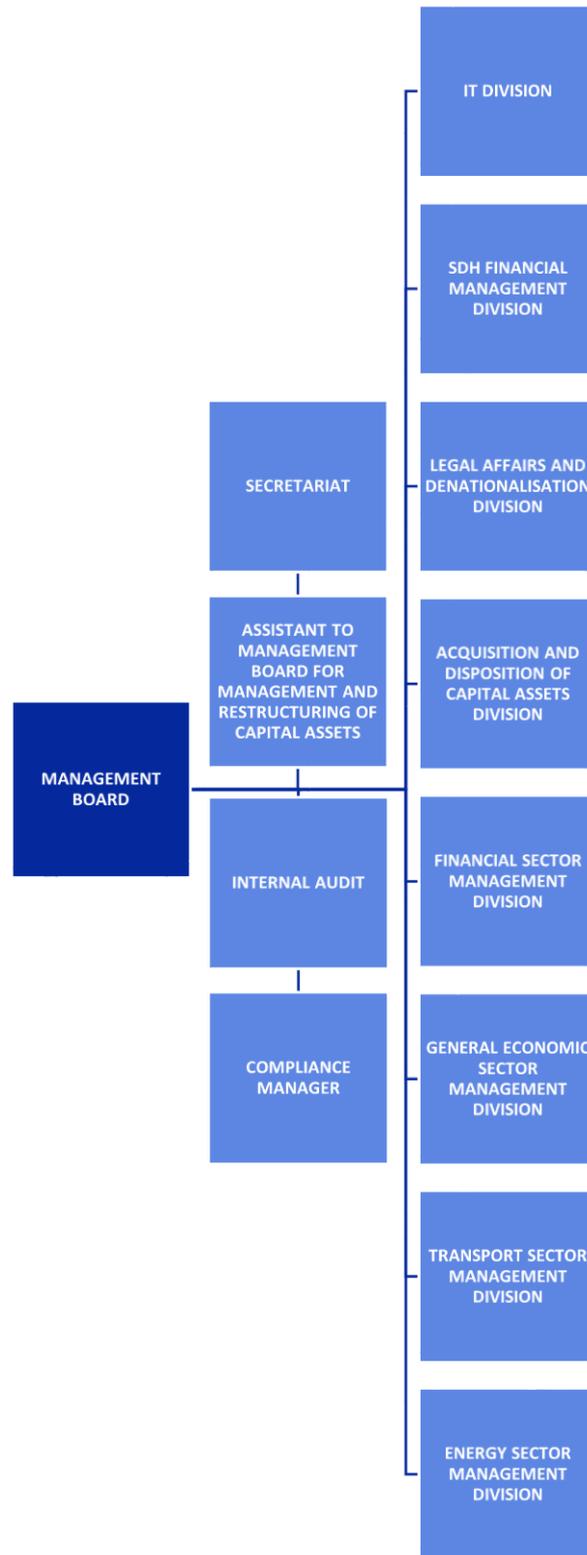
- constant raising of the efficiency level of internal procedures, also aiming at achieving the highest level of computerisation of the Company's operation possible;
- successful conclusion of denationalisation proceedings and provide for a reliable settlement of all statutory liabilities due to beneficiaries;
- ensuring profitable and efficient operation of the Company;
- further deleveraging and efficient debt management;
- providing for the relevant funds for recurrent settling of statutory requirements and smooth operation of the Company.

1.2.5. Organisational Structure of SSH and its employees

Business processes in SSH are organised by functions into departments and services.

Organisational Structure and Employees of the SSH as of 31 December 2016

Legend: see separate document



On 1 April 2016, a new organisation chart entered into force in SSH. With the aim of optimizing work processes, and in accordance with the new organisation, some internal changes in staff were deployed. In 2016, the Company hired five new employees and made five employees redundant (one of them for the period of two years).

Following the resignation of the President, The Supervisory Board, on 15 July 2016, appointed an interim president of the Supervisory Board (a previous member of the Supervisory Board) for the period of 6 months. On 10 October 2016, the mandate of another member of the Management Board ended. The Management Board operated in two-member configuration until the end of 2016.

At the end of 2016, there were 70 employees employed in SSH.

Educational structure of the SSH's employees as of 31 December 2016

Education level:	No. of employees as of 31 December 2016	Average No. of employees in 2016*
Secondary education (V)	6	5.16
Higher education first-tier diploma (VI/1)	5	5
University education (VII/2)	6	6
University education/Bologna Master's Degree (VII)	45	43.50
Master of Science (VIII)	8	8
Total	70	67.66

Note: * the average number is calculated using monthly data for the number of employees at the end of the month

The Company strives to design the optimum HR and educational structure of its employees, dedicating special attention to regular training of its employees. In 2016, employees from all organisational units took part in individual training programmes relating to various areas of the Company's operation which in total comprised approximately 550 hours of training. Employees also took part in specialized training sessions intended both to employees and to external participants – members of Supervisory Boards of companies under management, and other representatives of companies under direct or indirect ownership of the State.

1.3. INTERNAL CONTROL SYSTEM AND RISK MANAGEMENT

1.3.1. Internal control system

The internal control system is established within the Company; the said system is regularly monitored and upgraded.

The Internal Audit Service carries out supervision of all processes and situations within the Company with the aim to determine whether the information and reports on the operation of individual areas of work as well as regarding the Company are accurate and reliable and whether the operation is run in an efficient and effective manner, in accordance with regulations and defined business goals. The Internal Audit Service assessed the suitability and efficiency of the established internal controls. In 2016, the Internal Audit Service carried out independent audits and, in regard to the audit areas, provided its assurance that the internal control system in the audited areas is established, operational and effective. Several recommendations were proposed and their implementation was regularly verified. The Internal Audit Service regularly

informed the SSH Management Board and the Supervisory Board's Audit Commission of its findings and recommendations.

The external audit review which is carried out for the purpose of auditing the SSH Annual Report verifies and submits proposals in connection with internal controls and risk management. Likewise, the Supervisory Board's Committee in charge of monitoring risks gives recommendations and verifies the internal control system and risk management system on a periodic, quarterly basis.

1.3.2. Risk management system

Risk management is an important feature of the Company's management and governance system in SSH with an important impact on business decisions. The efficient risk management ensures the following: a clear understanding of risks which SSH is exposed to; the forecasting of changes in the business environment; an efficient selection of suitable measures, procedures and strategies for managing risks; a conscious consideration of uncertainty in the processes of planning, operation and supervision; the existence and operation of internal controls and processes built into the business process and monitoring risks so that measures, procedures, controls and strategies reducing risks during the attainment of goals are actually realised.

Aiming at efficient risk management, SSH adopted the Risk Management Rules, a risk reporting protocol and a detailed register of all identified risks.

SSH established Risk Management Committee with the following main tasks: to provide a detailed examination and discussion on the content of the register of risks, to identify and define new risks in individual work processes and to provide efficient measures, deadlines and persons responsible for implementing these measures for risk minimising.

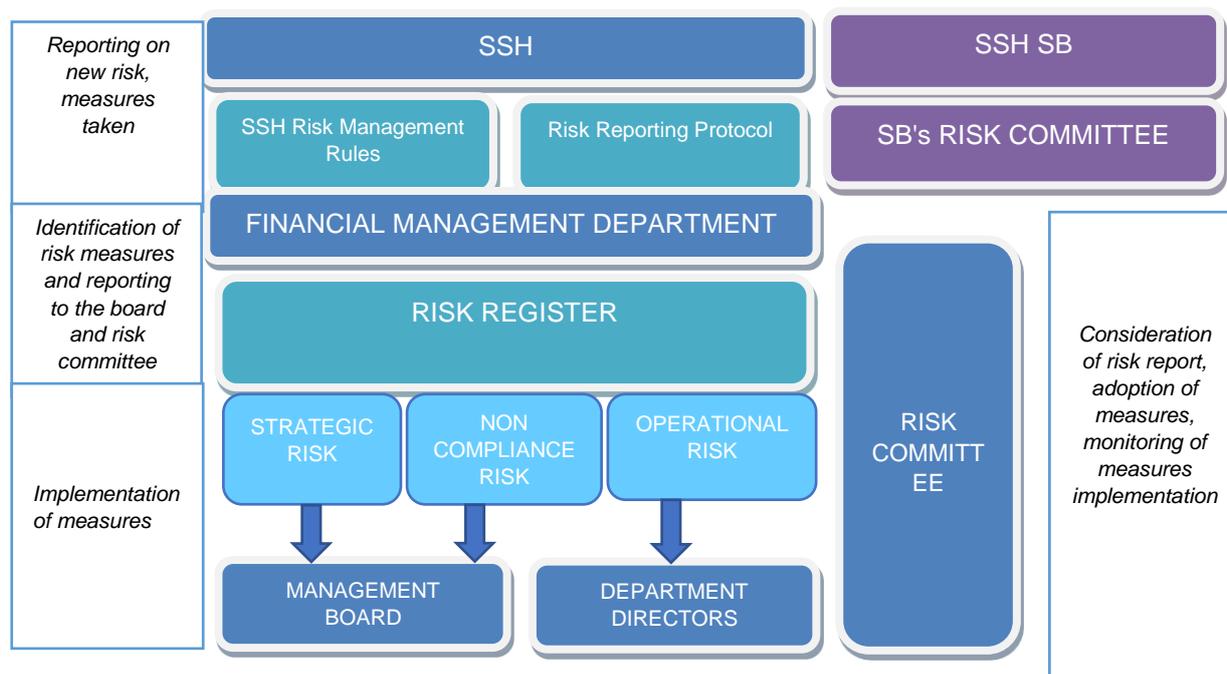
The Supervisory Board's Risk Committee is a consultation body of the Supervisory Board which oversees risk management in SSH and within this scope formulates its professional opinions on the existing risk management system and gives proposals for their improvement.

In SSH, risks are divided into three main groups: strategic risks, risks related to non-compliance and operational risks. SSH pays particular attention to the group of financial and security risks.

The fundamental strategic risks are connected with the attainment of objectives determined in strategic documents and with the provision of liquidity and solvency of SSH.

The most important risks related to non-compliance include: influencing the independent and professional operation of SSH, the misuse of internal information, unauthorised disclosure of confidential and protected data on SSH or an individual company with capital asset held by the state and regulatory risk.

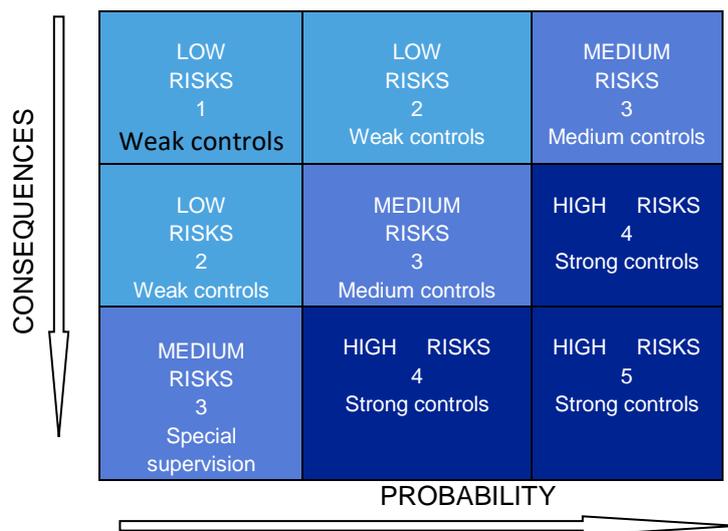
Operational risks arise from business processes according to particular business areas.

The risk management process flow chart**1.3.3. Risk management in SSH in 2016**

In 2016, SSH continued its standard practice of detailed risk monitoring and implementing the measures for minimising the risks. Two Risk Committee meetings were held to examine all the risks according to the Risk Register, taking into account all the parameters (risk level, measures, persons responsible and deadlines for the implementation of measures). Proposals or changes were related to particular risks, either strategic or operational. The highest number of changes was recorded in respect of the deadlines for the implementation of particular measures. Changes included additional measures for minimising the existing risks, some new risks were added, together with changes of the assessments of particular risks and the bodies responsible for the measures. The implementation of measures is regularly monitored.

Particular risks are assessed in terms of the importance of possible consequences or the influence on the SSH's operations and the probability of occurrence of the event, using the risk assessment criteria.

Risk degree matrix and risk management



Legend of probability levels:

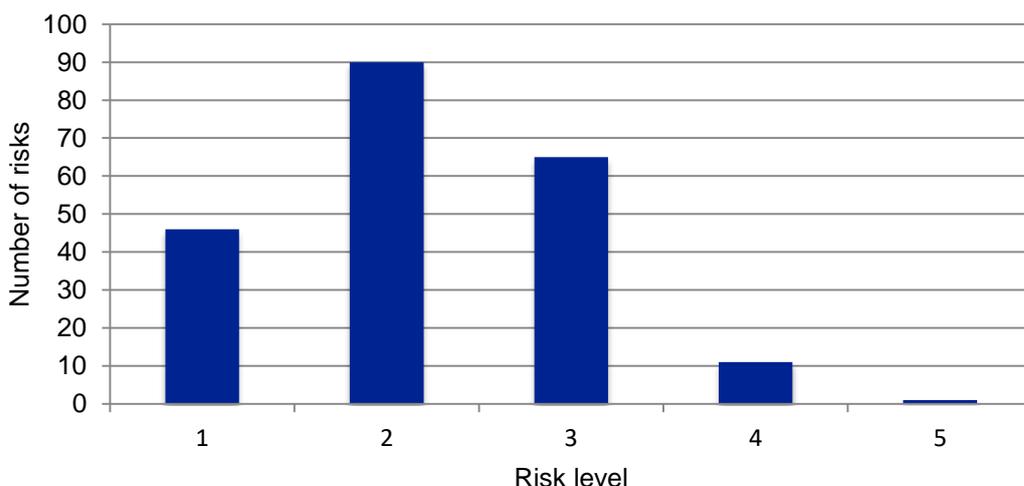
- 1 - event can occur in exceptional circumstances once in 10 years to once in 3 years,
- 2 - event should occur in a certain period of time or is likely to occur once in 2 years,
- 3 - event is expected to occur once a year or more often with high certainty.

Legend of consequence levels:

- 1 - potential damage to business is up to EUR 300,000,
- 2 - potential damage to business is up to EUR 1,000,000,
- 3 - potential damage to business is above EUR 1,000,000.

On 31 December 2016, SSH was in the position of managing 213 risks, of which 12 risks were assessed as highly-rated risks (with the assessment grades 4 and 5 being attributed to them), 65 as middle risks (with the assessment grade 3 being attributed to them) and 136 as low risks (with the assessment grades 1 and 2 being attributed to them).

Structure of all recorded risks by risk levels on 31 December 2016



In December 2016, the total number of operational risks recorded was 179, followed by 19 risks from the group of risks in respect of lack of compliance and 15 strategic risks.

Structure of risks by main risk groups as of 31 December 2016

Risks by main risk groups	%
Strategic risks	7
Non-compliance risks	9
Operational risks	84
Total (SSH)	100

SSH will continue to pursue a detailed monitoring of risks, measures and deadlines for the implementation of measures also in the future, however, in 2017, a different protocol will be deployed. The basis for this amendment has been provided with the supplemented Risk Management Rules which will enter into force in 2017.

1.3.3.1. SSH's key risks*Market risk*

Market risk is present due to the changes in the value of financial instruments, which is the result of changes in their market prices. The capital assets acquired by SSH in the process of companies' ownership restructuring remain exposed to changes in market conditions in Slovenia, the European Union and around the world. The SSH cannot directly control the risk related to the changes in market prices of these capital assets. These capital assets comprise the major part of SSH assets. The company intends to divest the surplus of capital assets, including the strategic and important ones, provided this is done in accordance with the existing strategy, and is admissible in view of the ownership management.

SSH manages the market risk associated with the investment portfolio, representing a small part of SSH assets, by dispersing investments according to issuers, sectors and regions.

The risk of investment concentration is managed by dispersing the investment portfolio in different types of investments, i.e. deposits, deposit certificates, bonds, shares and mutual funds.

Liquidity risks

SSH is exposed to liquidity risk mainly due to the mismatch between the maturity of assets and maturity of liabilities since the major part of SSH assets is still held in long-term capital investments. A great deal of attention was dedicated to weekly and monthly inflow and outflow planning. The SSH minimises this risk by having a sufficient volume of available liquid assets and liquid portfolio investments which may be immediately cashed in at the current market values. By EUR 200 million capital increase, executed in December 2016 by RS, SSH acquired sufficient liquid assets to repay the loans which are due in 2017. Besides capital increase, sources for EUR 280 million loan repayment will include dividend income and new debt resources in the estimated amount of EUR 40 million. SSH estimates that a guarantee granted by the Republic of Slovenia will not be required for new borrowings. The Company assesses its liquidity risk as being fully managed in the long-term (see section 1.3.3.2.).

Risks in the area of disposal and acquisition of capital assets

Risks in regard to disposal and acquisition of capital assets arise from processes in connection with the preparatory activities for the sale of capital assets (the development of the disposal strategy, the obtaining of consents required, the conclusion of agreements with sellers, the process for the selection of advisors), from the process of sale itself (access to confidential data during the process of the sale of assets by unauthorised persons, conflict of interests in connection with the performance of advisory services rendered during the process of sale, and similar elements), processes in connection with the closure of the process of the sale of capital assets (breaches of European legislation in connection with the prohibited state aid, and similar elements), and processes after the completion of the sale process (failure to satisfy non-financial contractual commitments on the part of the buyer, failure to satisfy conditions precedent referred to in Sale and Purchase Agreements, and similar elements). For the purpose of managing risks of this type, SSH has established a relevant system of work which enables both to verify the stated risks in connection with the legal feasibility of an individual transaction prior to the selection of an individual buyer and to monitoring the satisfaction of non-financial commitments given by a buyer, together with the potential filing of legal remedies in case of identified violations. An important element in the process of the sale of assets is the execution of the Non-Disclosure Agreement by external business partners and employees taking part in sale teams; SSH has also adopted relevant internal legal documents in this regard. For the purpose of limiting the possibility of conflict of interest to occur when rendering advisory services during a process of sale, SSH has established a system of verifying bidders who must submit a written statement and oblige themselves by way of an agreement to observe the said statement during the time period of rendering the service.

Risks in managing and restructuring of capital assets

Risks in managing capital assets arise from the following elements and factors: processes of regular management, the process for the selection and proposal of suitable members of supervisory boards and monitoring their suitability during the mandate, the processes for the monitoring, examining, analysing and documenting data and information and the preparation of reports, processes for the preparation and updating of Articles of Associations, Memorandum of Associations, keeping of various records and other data on companies under management and preparation of financial reports.

Risks in connection with the restructuring of capital assets arise from the following elements and factors: processes for financial and business restructuring, processes in connection with preparatory activities for acquisitions, and processes in connection with the purchase of receivables, conclusion of Master Restructuring Agreements (MRAs), SSAs, NFPPs, and processes following the closing of the formal restructuring phase.

Several measures have been adopted for managing the above stated risks. Some of the most important measures refer to preventing conflict of interests when performing the position in the management body and the supervisory body in the same company. The criteria for the evaluation of candidates for members of supervisory bodies were publicly published by SSH. The SSH Management Board has the obligation to verify and warn Nomination Committees of the professional and transparent implementation of the nomination procedure. The list of persons, acting in concert with the Republic of Slovenia or SSH under ZPre-1, is regularly updated (on a monthly basis).

Risk in connection with influencing independence and professional conduct of SSH

Owing to the nature of its work, SSH is subject to pressures on decision-making by the SSH bodies, non-registered lobbying contacts, unethical and illegal conduct and inducing the employees to such conduct. SSH is aware of these risks and, as a result, several internal legal

documents were adopted in connection with the independent and professional conduct by SSH, internal controls, in addition to providing training for employees and raising their awareness in regard to the above mentioned risks. SSH regularly cooperates with the Commission for the Prevention of Corruption and other responsible institutions.

Risk of internal and external frauds

This set of risks refers to risks connected with illegal actions by employees against SSH (internal frauds) and illegal actions by third parties against SSH (external frauds). They include, for example, unauthorised disclosure of confidential and protected information about SSH and individual state-owned enterprise, the abuse of internal information, conflict of interest, disclosing trade secrets, possibilities for corruption, frauds in the settlement of denationalisation cases, and similar. SSH manages the enumerated risks by means of several measures (for example, by restricting authorisations to employees, by establishing efficient disciplinary measures). The access to confidential data is limited, together with the number of persons submitting information to the public; further, suitable internal legal documents were adopted and training sessions were organised raising the awareness of employees on potential risks and proper conduct. SSH has in place internal controls for controlling the implementation of work tasks.

Risks connected with Information Technology

Main risks associated with the information technology arise from processes for obtaining, maintaining and managing the ICT equipment, processes for controlling the operation of ICT equipment, the processes for physical and technical security, processes in regard to managing users' rights and protection of personal data. Several measures have been taken by SSH in this regard and some additional measures are in progress which are to be carried out by the end of 2017.

In order to manage each particular risk, SSH has taken numerous appropriate measures and set deadlines for the implementation of those measures which are reviewed and supplemented on a regular basis.

1.3.3.2. Review of Company's solvency situation as of 31 December 2016

In addition to managing capital assets held by SSH and the Republic of Slovenia, SSH is also obliged to settle liabilities due to bond holders, in accordance with ZDen and other regulations. Several measures are used by SSH to manage the insolvency risk, such as: regular monitoring and valuations of capital assets, preparation of short-term and long-term liquidity plans, precise cash flows planning and similar.

Throughout 2016, the Company regularly monitored its solvency situation. On the basis of the examination of the situation and established facts, SSH concluded as follows:

- the value of the Company's assets as of 31 December 2016 exceeds its total liabilities;
- the share capital exceeds the value of uncovered losses and, at the same time, SSH has at its disposal a relatively high amount of the fair value reserve arising from the revaluation of financial assets which is expected to be converted into other capital categories during the process of the sale of assets in the years to come;
- SSH settles all its current matured liabilities in due time. All employees received their salary payments in accordance with employment contracts and the salary-related taxes and benefits are regularly settled on the day of the salary payment;

- several long-term loans obtained by SSH in 2009 and 2010 for the purpose of supplying its own funds allocated for the payment of compensation under ZVVJTO, and for maintaining its current liquidity, are secured by way of guarantees issued by the Republic of Slovenia. In 2017, all the guarantees issued by the Republic of Slovenia will expire and SSH will not need new guarantees;
- by way of the Constitutional Court Judgement No. U-I-140/94 of 14 December 1995, it was determined that the Republic of Slovenia is obliged to provide additional funds to the Company when the Company's sources of funds do not suffice for the regular settlement of the Company's liabilities in accordance with the Denationalisation Act, the Cooperatives Act and other regulations governing the restitution of property.

On the basis of the above-stated findings, it is determined that:

- SSH settles all its liabilities in due time;
- the Company does not default on the payment of salaries and on settlement of the salary-related taxes and benefits;
- all long-term loans due in 2017, amounting to EUR 280 million, will be repaid. Repayment sources include SSH's EUR 200 million capital increase, the Company's own resources and a planned EUR 40 million short-term debt;
- in 2017, the volume of debt is expected to decrease to EUR 145 million, which is completely manageable also without guarantees by RS. Sources for repayment will be mainly inflows from dividends and, to a lesser extent, from the sale of capital asset;
- the above mentioned Constitutional Court Judgement binds the Republic of Slovenia, when SSH funds do not suffice for the regular settlement of the Company's liabilities, to provide for additional funds for this purpose.

It is clear from the above stated that the Company's short-term and long-term solvency is provided for.

1.3.3.3. Risk management in the companies managed by SSH

As the manager of its own capital assets and those owned by RS, in 2016, SSH implemented a methodology of identifying and quantifying key risks that companies face in particular branches. In the future, SSH will meet with management boards and supervisory boards of companies under management with the purpose to obtain some feedback on risks considered by companies to be the key ones, on risk management systems established and deployed by companies and on potential methods to improve these systems and to minimise key risks by introducing additional risks. This area of work represents another field of risk management related tasks and it is included in an indirect management by way of which SSH will be informed of key risks to which companies are exposed, to then provide a critical evaluation of the quality of risk management systems provided by individual companies and propose relevant amended and supplemented features to these systems.

1.4. REPORTING ON SUSTAINABLE DEVELOPMENT

Since the State is an important owner of companies in Slovenia, the main duty of SSH is a responsible, professional and active management of state-owned enterprises from its portfolio. Among other matters, active ownership means focusing on creating value for owners, that is, the Republic of Slovenia. 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 to strive for maximising the economic impact of the sales of shares of SOEs.

The sustainable development of the Company includes both, successful economic business performance of SSH which is discussed in details in the second part of the report, and responsible attitude towards social environment and all company's stakeholders.

1.4.1. Relations with the media

Media are considered to be of key importance in conveying messages between SSH and its public groups. This is why, as regards SSH relations with the media, it is vital to ensure honest and fair communication with journalists and other public groups with the aim to improve the level of information, to contribute to better understanding of SSH operation and to provide support in the attainment of the Company's goals. These goals were realised by providing daily answers to questions raised by journalists, by issuing press releases, by responding to media reporting when this was necessary in order to ensure full information to the public, by organising occasional press conferences, by publishing the Company's voting positions for all General Meetings of companies, by giving occasional interviews, by having the management take part at public round tables and conferences and by publishing other publicly accessible documents. SSH replies to numerous questions raised by journalists and received on a daily basis in a fast, comprehensive and thorough manner. The website of SSH is also available where all reports from General Meetings of Shareholders held by portfolio companies are regularly published, all significant pieces of information in regard to sale processes managed by SSH are revealed, press releases are put out and the accreditation and nomination systems for candidates for SOEs' Supervisory Board members are presented. All reports prepared by SSH in accordance with ZSDH-1 and ZGD-1 are available for the general public.

1.4.2. Investor relations

SSH provides for the transparency of its operation which is ensured by publishing information which are important for bond investors. Since June 2016, one bond issued by SSH has been listed on the Ljubljana Stock Exchange, specifically: SOS3. Bond investors may follow all important announcements issued by SSH through SEOnet and via notifications published on the Company's website www.sdh.si.

1.4.3. Responsible management of capital assets and relations with the companies managed by SSH

Regulated corporate governance at an appropriate level is important for the entire country and its economic efficiency and competitiveness as it reduces the risk of unsuccessful operation of companies. SSH plays a key role in this regard as it manages a large number of companies using a systemic approach. Since 2015, a comprehensive corporate governance system for the management of the state's capital assets has been established; it consists of the following acts: the State Assets Management Strategy, Annual Asset Management Plan, Criteria for Measuring Company Performance, SSH Asset Management Policy, Corporate Governance Code and SSH Recommendations and Expectations.

Besides its establishment, the practical implementation of the system is crucial; therefore, SSH attends to the practical implementation of the established system and to the raising of corporate governance to a higher level using various management control instruments and proactive management approach in order to achieve management objectives that have been set.

The efficient supervision of operation of state-owned enterprises is one of the most important pillars of effective asset management. SSH monitors the performance of SOEs through quarterly, semi-annual and annual financial reporting on the part of companies and, together with SOE, SSH organises regular periodic meetings. Periodic meetings are intended to verify the current performance results and the business planning process of companies with the aim to ensure successful performance and to achieve long-term development of these enterprises. "Ad hoc" meetings are organised several times, particularly in the event of important developments which may have an impact on the attainment of the goals which have been set and which may affect the value of a company.

In general, the results of the management of capital assets in the ownership of RS and SSH have been gradually improving for the third consecutive year. Among the selected indicators, ROE of the companies in the portfolio (one-time events were excluded from calculations) has increased significantly. ROE for the RS direct investment portfolio increased by 3.1 %, rising to 4.2 %, in 2015, while ROE for the SSH direct investment portfolio remained on the same level as in 2014 (11.1 %). In view of the entire portfolio (direct investments of RS and SSH together), ROE increased by 2.9 %, to 4.7 %, in 2015.

In October 2016, SSH organised two sector-oriented strategic conferences for the first time, i.e. a strategic conference in the area of transport and infrastructure and a strategic conference in the energy sector, in order to promote the discussion on the future development of companies in these sectors and the exchange of cases of good practice. All Supervisory and Management Board members of companies from these two sectors were invited to attend the strategic conference, together with external experts who were also invited to present future strategic challenges in the area of transport and energy sectors. A part of the conference was organised as a closed-type conference for the members of SSH's Supervisory Board to take detailed notes on the plans of individual companies, management goals and thus the final formation of the Annual Asset Management Plan 2017.

In 2016, the Company continued with the organisation of several training sessions dedicated to the members of supervisory boards and to representatives of companies dealing with corporate governance with the aim to improve professional expertise and to promote cases of good practice. All 14 sessions were free of charge which promoted high participation among the interested companies' representative bodies.

1.4.4. Cooperation with the social partners

The Expert Committee for Economic and Social Affairs (ECESA) is the SSH Management Board's consultation body that provide opinions and initiatives related to the economic and social affairs. At its meetings, ECESA adopts opinions and initiatives that are related to affairs which result or may result in issues concerning the labour law, the company's Articles of Association or have or may have social impacts for SSH employees or for companies managed by SSH. ECESA is composed of seven representatives of Slovenia's representative trade unions and confederations who are members of the Economic and Social Council.

1.4.5. Relations with state authorities and other entities of public law

The activities carried out by SSH are closely connected with decisions made by state authorities and other state bodies operating in sectors in which an individual company from the SSH/RS portfolios operates. The Article 7 of ZSDH-1 stipulates that communication between SSH, state bodies and other entities of public law must be traceable. This is why SSH has prepared Instructions on Traceability of Communication between SSH and State Bodies and other Entities of Public Law. These instructions thus regulate the method of ensuring traceability as stipulated by ZSDH-1.

In 2016, the SSH's Management Board members responded to the invitation of the Commission of Public Finance Control of National Assembly several times where they explained some decisions they made and their circumstances. The SSH's Management Board members also regularly participate at all the meetings they are invited to; i.e. other bodies of Slovenian National Assembly (particularly Committee on Finance and Monetary Policy) and National Council.

Annual report on the management of capital assets in the ownership of RS and SSH is also prepared quarterly by SSH for National Assembly, the Government of the Republic of Slovenia and Commission for Public Finance Control, while also carrying out quarterly reporting.

1.4.6. Relations with business partners

SSH has established a clear and transparent manner of selecting business partners for cooperation (financial advisors, legal advisors and other goods and services suppliers). In the end of 2016, the supplemented Public Procurement Rules were adopted which regulate simplified procedures with the value of goods or services not exceeding EUR 20 thousand (excluding VAT), and public procurement procedures with the value exceeding EUR 20 thousand (excluding VAT). The said Rules lay down detailed regulations on duties, appointments, tasks and liabilities of individual persons participating in the process for the procurement of goods or services. SSH respects business agreements and settles its liabilities in due time.

1.4.7. Relations with employees

At the end of 2016, there were 70 employees employed in SSH on a permanent basis. Part-time employment is an exception in SSH. As regards the employment structure by gender, as of the end of 2016, women held 70 % of all employees, and men 30 %. The fluctuation of staff, amounting to 6.76 %, is relatively low.

Both to SSH as a whole and to individual employees, organisational changes introduced in 2016 mean a starting point to upgrade the staff development (Human Resources Development Strategy for Increasing Efficiency and Effectiveness, and similar mechanisms).

SSH pays a premium for additional pension insurance to all employees who make a decision about this option. By doing this, the Company reinforces social security of the employees.

Throughout the year, the Company sends its employees from various areas of work to different training programmes. In this regard, the requirement for new know-how or the improvement of the existing knowledge is taken into account. Training sessions organised by SSH for employees in SOEs contribute greatly to the improvement of knowledge. These training programmes are regularly attended by SSH employees.

SSH holds the Family Friendly Company Certificate. In addition to benefiting from 15 adopted measures, employees are awarded with the understanding for successful balancing of professional and private life. They have thus at their disposal internal Protocol for Family Friendly Company which includes a thorough description of terms and conditions for benefiting from special measures, and may resort to personal counselling when in need of information. Communication in this area is successful.

In 2016, through the group for health promotion, SSH adopted additional measures to support and encourage employees to follow a healthier lifestyle, at home and at work. In addition to organised hikes in nature, company bicycle and training programme on a healthy life style, employees occasionally may have a healthy breakfast organised with produce by local producers. Excellent cooperation was demonstrated by employees at summer team running festival. Considering the interest shown by employees, some new additional measures are envisaged for the next year.

Sustainable relations with employees are reflected in the constant improvement of organisational culture in SSH which was contributed to, by the adopted Code of Ethical Conduct in which the fundamental values of employees are stated. All employees are bound to observe the said Code in which the following fundamental values are determined: *fairness and legality, principle of due care and responsibility, trust, credibility, effectiveness, independence, objectivity, impartiality, confidentiality, transparency and professional capacity.*

Employees are obliged to disclose circumstances which might lead to conflict of interest and to consistently avoid conflict of interest. They should pay attention to restrictions in operations with related persons, take into consideration the prohibition and restrictions in respect of accepting gifts, they are aware of the importance of leading by example, they strengthen their loyalty to SSH and they are tolerant and respectful to their colleagues and other stakeholders.

The internal communication function plays an important role in achieving good relations with employees. Open and regular communication between employees and the management of the Company is of vital importance. For the purpose of improving the information flow among employees, the Intranet Project was launched in 2016, which involves several employees from various departments. Intranet will be kicked off in the first three-month period of 2017. It use will facilitate cooperation between employees in various areas of work and in respect of various activities.

After the mandate for the SSH Employees' Council expired in November 2016, the elections of new members were held and carried out. New members elect will continue to act as an interface between employees and the Management Board. The Employees Council plays a particularly important role in cases regarding the reorganisation of SSH.

1.4.8. Sponsorships and donations

No Sponsorship or Donation Agreements were concluded by SSH in 2016. In accordance with ZSDH-1, SSH is subject to explicit prohibition of concluding Sponsorship and Donation Agreements.

1.5. BASIC INFORMATION ON SSH BONDS

SSH has issued two bonds, i.e., SOS2E and SOS3.

The last, 40th coupon of this bond matured on 1 June 2016. With the pay-out of the last coupon, SOS2E bonds ceased to be listed on the Ljubljana Stock Exchange.

On 24 June 2015, SSH issued a bond SOS3 in the amount of EUR 100 million. It was mainly insurance and re-insurance firms, pension funds and other funds, as well as banks and other investors (mainly domestic) that subscribed to this bond. By issuing this bond, SSH has accomplished several goals and has diversified its financial sources, extended the maturity of financing and re-financed financial liabilities arising from loans.

About SOS3 bond

Bond symbol	SOS3
Issue amount	EUR 100,000,000
Insurance	ordinary, unguaranteed
Commencement of interest calculation	24 June 2015
Maturity date	24 6 2020
Annual interest rate	2.5 % fixed
Interest pay-out	annually
Denomination composition	EUR 1,000
Trading	LJSE

No trading transactions with this bond were registered on the Ljubljana Stock Exchange in 2016.

2. MACROECONOMIC ENVIRONMENT IN 2016

2.1.1. Economic indicators around the world

In 2016, the Euro area economy slightly slowed its growth, similarly as in the USA where one percentage point lower economic growth was recorded in 2016 in comparison to the previous year. In Slovenia, the economic growth remained at the same level as in 2015. Inflation in the Euro area slightly increased but it nevertheless remained at a rather low level, close to 0.0 %. Inflation expectations strengthened in the second half of the year. In 2016, Slovenia repeatedly recorded a deflation.

GDP movements in %

State and region	2012	2013	2014	2015	2016
USA	2.2	1.7	2.4	2.6	1.6
Euro area	-0.9	-0.3	1.2	2.0	1.7
Slovenia	-2.7	-1.1	3.1	2.3	2.5

Source: Bloomberg, Federal Reserve, European Central Bank, European Commission

Review of inflation movements in %

Inflation	2012	2013	2014	2015	2016
USA	2.1	1.5	1.6	0.1	1.3
Euro area	2.5	1.4	0.4	0.0	0.2
Slovenia	2.6	1.8	0.2	-0.5	-0.1

Source: Bloomberg, Federal Reserve, European Central Bank, European Commission

2.1.2. Economic growth in Slovenia increased in 2016

In 2016, Slovenia recorded economic growth of 2.5 % which exceeds the Euro area average by 0.8 %. The greatest contribution to the economic growth was still related to export, however, in comparison to the previous years, domestic consumption has also increased. According to the Statistical Office of Republic of Slovenia, the export increased by 5.9 %, domestic demand increased by 2.4 % and consumption of households increased by 2.8 %. Higher household consumption was particularly noticed in the last quarter, when it increased by 4.1 % on year-on-year basis. The higher household consumption is the result of improved situation in the labour market. At the end of the year, the registered unemployment rate dropped to 11.2 % which is 1.1 % lower than at the end of 2015.

The yield rate for the 10-year Slovenian sovereign bond fell in 2016. In the beginning of the year it stood at 1.6 % and it gradually decreased to 0.6 % recorded in the middle of October, to then slightly rise again to 0.8 % recorded at the end of the year. Bonds of other EU area countries recorded similar record-low yields (with the exception of Greece) which is mainly the result of the decision made by the European Central Bank to continue with the quantitative easing programme at least by the end of March 2017.

Solid macroeconomic results increased the confidence of the credit rating agencies. Slovenia was thus assigned the rating of at least "investment grade" by all of three important credit rating agencies (Moody's, Fitch, Standard & Poor's). In 2016, the agencies, Standard & Poor's and

Fitch, upgraded the credit rating by one grade, specifically to A-(Fitch) and A (Standard/Poor's), while Moody's kept the assignment of Baa3 while improving the outlook (positive).

2.1.3. Measures taken by central banks, governments and institutions

Capital markets were highly volatile in 2016 which was again due to decisions by central banks and vivid political developments in the international environment. The following events had the greatest impact on the capital markets: the decision of the Great Britain to leave the European Union (Brexit), the election of Donald Trump at the US presidential election and the result of the constitutional referendum in Italy which resulted in the fall of the Italian government at the end of the year.

The decision of the Great Britain to leave the European Union caused the greatest surprise on the international markets. In spite of the initial strong correction on the capital markets and speculations about the near end of the European Union, the volatility of the markets gradually stabilised in the post-referendum period. The second greatest surprise was triggered by the American presidential election at which Donald Trump won, contrary to pre-election polls. In accordance with pre-election announcements, the American administration is expected to strive for increasing employment in the USA and to have jobs returned to the USA. These pre-election promises may be summarised into three larger groups of measures supposedly to have positive impacts on American companies and, consequently, on GDP.

The first group of measures will be focused on infrastructure projects, on the basis of pre-election announcements, American companies are to invest USD 1,000 billion in infrastructure projects in the next 10 years. The second group of measures is oriented towards the decreasing of taxes. According to election campaign announcements, the income tax is to be reduced from the current 35 % to 15 % which should significantly increase the profitability of American companies. The third group of measures will be focused on incentives provided to American companies for large investments in their homeland. In the past period, American companies kept more than USD 2,500 billion abroad, mostly for tax reasons, which, upon a favourable arrangement with the American Government, might be reallocated back to the USA in order to purchase treasury shares, for M&A activities or for new investment projects. In principle, all three groups of measures are positive for the American economy. This is how they were assessed by investors who, following the initial fall, pushed the American stock indices to new, historically high values. On the other side, however, investors ignored predictions by the new American president for the USA to withdraw from certain trade agreements, both with the neighbouring countries and with the European Union and China. Obviously, the potential tightening of protectionism politics would have an adverse impact on the growth of American and global economy.

Sound macroeconomic indicators, especially situation in the labour market, had encouraged the American Central Bank - FED to raise the key interest rate in December, specifically, by 0.25 %, to stand at 0.75 % and to announce further interest rate hikes during 2017. While FED pursues a gradual tightening of its monetary policy, other large central banks keep maintaining a loose monetary policy, strengthened by purchases of government securities, that is, by quantitative easing (QE) programmes. Thus, in the beginning of 2016, the European Central Bank announced that the QE programme would be extended by March 2017 while at the same time it also announced that purchases would be tapered by purchasing slightly less bonds on a monthly basis, i.e. the new EUR 60 billion month rate instead of previous EUR 80 billion of asset purchases per month.

2.1.4. Stock markets

In 2016, stock markets around the world awarded investors with positive returns and the MSCI World index (*a stock market index comprising the largest companies from developed stock markets by market capitalisation*) gained 8.50 % in value, calculated in the Euro. According to regions, the highest growth was recorded by North American indices; the technological index Nasdaq gained 8.97 %, S&P 500 gained 11.95 % and Dow Jones gained 16.50 % (returns in USD). The pan-European Eurostoxx 600 gained 2.34 %. After few years of stagnation, some gains were recorded by emerging markets, MSCI Emerging Markets Index thus gained 11.46 % in value (in USD); all indices returns include dividends.

2.1.5. Bond markets

In 2016, the 10-year US Treasury Note yield slightly increased, specifically from 2.25 % at the beginning of the year to 2.44 % at the end of the year. During the year, it fell way below the ceiling of 2.00 % (1.4 % in the middle of July), to start increasing again at the end of the year on the basis of solid macroeconomic indicators (mainly due to data from the labour market). After the ECB's decision to extend the QE programme by the end of March 2017, the Germany 10-year bond yield saw additional decline during 2016, specifically, from 0.63 % to 0.21 % recorded at the end of the year. In the period from July to September it hit the record-low level of between 0.00 % to 0.20 %. Bonds of other Euro area countries mostly gained in value and the IBOXX Eurozone TR index thus recorded a gain of 3.27 % in 2016. Corporate bonds also gained in value, and the IBOXX Eurozone Corporates Overall TR index, which includes both corporate bonds (financial and non-financial) of the investment grade and the lower-rating bonds, rose by 4.72 %. As regards emerging markets the IBOXX index, which measures yield in local currency, gained 9.31 %, while Bloomberg/Barclay's EM Index, which records the movement of prices of bonds issued in USD, gained 10.10 %.

2.1.6. Currency markets

In 2016, the Euro lost 2.92 % of its value in regard to the US Dollar, and stood at 1.05 US Dollar to 1 EUR as of 31 December 2016. The Euro drop against the Dollar was particularly noticeable in the second half of 2016 and was mainly the result of the divergence between the monetary policies of the two largest central banks. While ECB insists in pursuing loose monetary policy with its QE programme, FED, influenced by solid macroeconomic indicators, has gradually been increasing the interest rate.

2.1.7. Money market

Review of EURIBOR interest rate movements in %

Value/Type:	31/12/2015	31/03/2016	30/06/2016	30/09/2016	31/12/2016
3M EURIBOR	-0.131	-0.244	-0.286	-0.301	-0.319
6M EURIBOR	-0.040	-0.132	-0.179	-0.203	-0.221
12M EURIBOR	0.060	-0.005	-0.051	-0.064	-0.082

Source: Bloomberg

3. SLOVENIAN SOVEREIGN HOLDING GROUP

3.1. SLOVENIAN SOVEREIGN HOLDING GROUP

ORGANISATION OF THE GROUP

As of 31 December 2016, SSH is the controlling company drawing up the consolidated annual report for the broadest circle of companies within its Group. For this purpose, the companies have been classified into three groups:

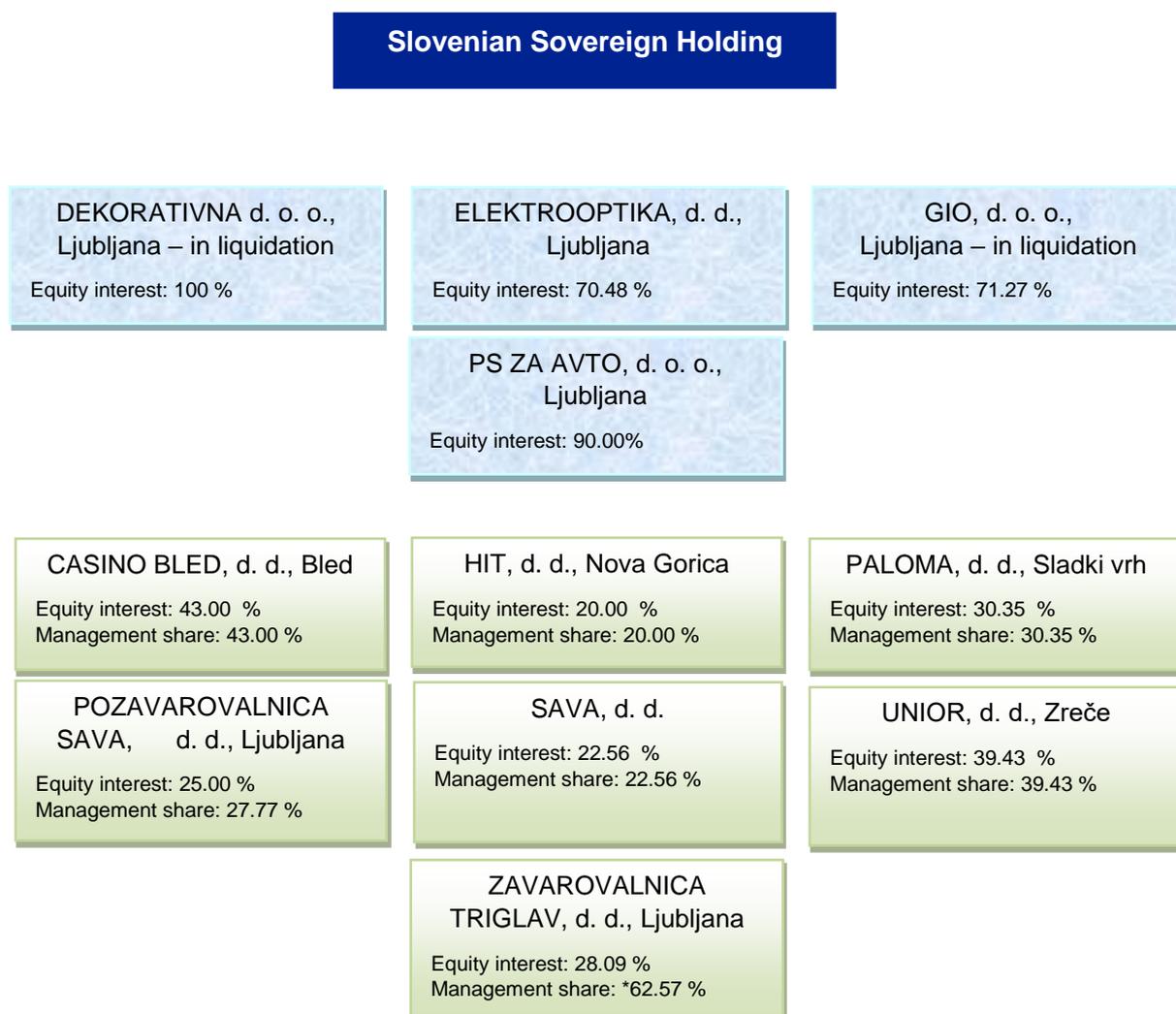
- subsidiaries;
- associates;
- and companies subject to management and owned by RS and/or SSH.

On the basis of the analysis and criteria adopted in accordance with IFRS 10, SSH does not control companies referred to in the third group, but it manages them in accordance with the legal basis arising from ZSDH-1. A consolidation procedure is carried out once a year by SSH, on the basis of the analysis and criteria set. The remainder of the section gives a presentation of all companies, i.e. subsidiaries, associates and companies managed by SSH.

As of 31 December 2016, SSH:

- controlled the following **subsidiaries**:
 - DEKORATIVNA d. o. o., Ljubljana - in liquidation, Dunajska 160, Ljubljana;
 - ELEKTROOPTIKA, d. d., Stegne 7, Ljubljana;
 - GIO, d. o. o., Ljubljana - in liquidation, Dunajska cesta 160, Ljubljana;
 - PS ZA AVTO, d. o. o., Tržaška cesta 133, Ljubljana.
- exercised a significant influence in the following companies regarded as its **associate companies**:
 - CASINO BLEED, d. d., Cesta svobode 15, Bled;
 - HIT, d. d., Delpinova ulica 7A, Nova Gorica;
 - PALOMA, d. d., Sladki vrh 1, Sladki vrh;
 - POZAVAROVALNICA SAVA, d. d., Dunajska cesta 56, Ljubljana;
 - SAVA, d. d., Dunajska cesta 152, Ljubljana;
 - UNIOR, d. d., Kovaška cesta 10, Zreče;
 - ZAVAROVALNICA TRIGLAV, d. d., Miklošičeva cesta 19, Ljubljana.

3.1.1. Equity interest of the controlling company in associates as of 31 December 2016



Legend:  Subsidiaries
 Associates

Note:

* In accordance with Article 85 of ZSDH-1, the management of capital asset held by ZPIZ (equity interest of 34.47 %) in Zavarovalnica Triglav d. d., was transferred to SSH.

3.2. BASIC INFORMATION ON SUBSIDIARIES WITHIN THE GROUP

DEKORATIVNA, d. o. o., Ljubljana - in liquidation

Registered office: Dunajska cesta 160, 1000 Ljubljana
 Liquidator: D.S.U., družba za svetovanje in upravljanje, d. o. o., Ljubljana
 Ownership structure: SSH 100 %
 Core business: Company is subject to liquidation proceedings

In 2016, the company generated net profit in the amount of EUR 18,000 according to non-audited data. At the end of 2016, there were no employees employed in the company.

Dekorativna, d. o. o., Ljubljana – in liquidation, is not a significant company for the Group therefore it has not been included in the consolidated financial statements of SSH Group.

ELEKTROOPTIKA, d. d., Ljubljana

Registered office: Stegne 7, 1000 Ljubljana
 Director: Rebeka Lea Kovačič
 Ownership structure: SSH 70.48 %, G.I. Dakota investments limited 11.80 %, Iskra, d. o. o., 10.40 %, and other minority shareholders.
 Core business: Consulting services

The company does not render any services. In 2016, Elektrooptika, d. d., generated profit in the amount of EUR 10,000, according to non-audited data. At the end of 2016, there were no employees employed in the company.

Elektrooptika, d. d., is not a significant company for the Group therefore it has not been included in the consolidated financial statements of SSH Group.

GIO, d. o. o., Ljubljana – in liquidation

Registered office: Dunajska cesta 160, 1000 Ljubljana
 Liquidator: Law firm Fašun, Melihen, Milač, Strojani, d. o. o.
 Ownership structure: important owners: SSH 71.27 %, Kapitalska družba, d. d., 28.68 %
 Core business: the Company is subject to liquidation proceedings

In 2016, the company generated net loss in the amount of EUR 13,000 according to non-audited data. At the end of 2016, there were no employees employed in the company.

GIO, d. o. o., Ljubljana – in liquidation, is not a significant company for the Group therefore it has not been included in the consolidated financial statements of SSH Group.

PS ZA AVTO, d. o. o., Ljubljana

Registered office: Tržaška cesta 133, 1000 Ljubljana
 Director: Brane Obal
 Ownership structure: 90 % of the company's share capital is owned by SSH and 10 % by Kapitalska družba, d. d.
 Core Business: property rental activities, asset management

The company generates most of its income through rental activities and financial asset management. It does not pursue any other activity. Proceedings in relation to the denationalisation of properties are pending and processes necessary for the subsequent liquidation of the company are ongoing although, officially, the latter has not yet been initiated due to ongoing proceedings. Only one person with indefinite time employment contract is employed at the company, together with the director on a part-time employment contract.

In 2016, the company generated net profit in the amount of EUR 25,000 according to non-audited data. As of 31 December equity disclosed by PS ZA AVTO, d. o. o., amounted to EUR 4.6 million. As regards assets, the most significant items included long-term financial investment in the amount of EUR 130,000 and short-term financial investment in the amount of EUR 3.2 million. At the end of 2015, there were 2 employees employed in the company.

PS ZA AVTO, d. o. o., is not a significant company for the Group therefore it has not been included in the consolidated financial statements of SSH Group.

3.3. BASIC INFORMATION ON ASSOCIATES WITHIN THE GROUP

CASINO BLED, d. d., Bled

Registered office:	Cesta svobode 15, 4260 Bled
President of the Management Board:	Boris Kitek
Ownership structure:	The SSH's shareholding in the said company's share capital amounts to 43 %. Shares are classified into ordinary and preference shares in the ratio of 50:50. The holders of the ordinary shares are: SSH 86 %, Kapitalska družba, d. d., 7 %, Bled Municipality 5.2 % and Gorje Municipality 1.8 %. The holders of all preference shares are: Best Gold Bet, d. o. o., (before Gold Club, d. o. o., Sežana) and GC Investicije, d. d., Sežana.
Core business:	gambling

In 2016, the company generated net profit in the amount of EUR 35,000 according to non-audited data.

HIT, d. d., Nova Gorica

Registered office:	Delpinova 7a, 5000 Nova Gorica
President of the Management Board:	Dimitrij Piciga, MSc
Ownership structure:	The SSH equity interest which is divided into ordinary and preference shares in the 60:40 ratio amounted to 20 %. SSH holds 33.3 % of ordinary voting shares. The two other significant holders of ordinary shares are: Kapitalska družba, d. d., with 33.3 % and Nova Gorica Municipality with 22.1 %. The ownership of preference shares is dispersed.
Core business:	gambling

The said company concluded the financial year of 2016 with a growth in sales revenue and with high increase in operating profit, and the reported net profit amounted to EUR 3.8 million;

this is less than in the previous year, however, the last year's result was positively affected by the sale of Maestral Resort and the subsidiary HIT Montenegro. Likewise, HIT Group concluded the financial year of 2016 with a high increase in operating profit, recording the net profit in the amount of EUR 3.7 million. The financial and business restructuring process continues, and the indebtedness of the parent company and the Group decreased.

PALOMA, d. d., Sladki vrh

Registered office:	Sladki vrh 1, 2214 Sladki vrh
President of the Management Board:	Tadej Gosak
Ownership structure:	SSH 30,34 %, Eco Investment 57,23 %, Arca Capital Bohemia 3,60 %, Avtotehna, d. d., 1,75 % and other minority shareholders
Core business:	manufacture of paper

Paloma is a public limited company with a 140-year tradition in the manufacture and marketing of hygienic paper products in Europe and a market leader in South-Eastern Europe. Their products are marketed under the Paloma brand, which is well known in the region. Their main sub-brands are Paloma Sensitive Care, Paloma Super Care, Paloma Deluxe, Paloma Multi Fun, Paloma Exclusive, Paloma Elite, Paloma Style, Paloma Joy, Paloma Classic, Paloma Natura, Paloma Junior and Paloma Professional. The structure of sales revenue by products shows that the highest share is taken up by toilet paper, specifically, 64 %, and it is followed by paper towels (17 %) and pocket tissues (8 %).

The SSH ownership interest in Paloma decreased from 70.30 % to 30.34 %, on the account of capital increase carried out in December 2016.

In 2016, Paloma generated sales revenue amounting to EUR 86.7 million which is 2 % higher than in 2015, thus coming close to the record sales levels seen in 2014. The operating result amounted to EUR 2.3 million at the end of the year, while the net profit or loss stood at EUR 1.6 million which is 127 % higher as compared to 2015. The company launched significant investment projects for modernising the production capacities which, together with other measures, contributed to the increase in productivity. The company recorded the highest growth in sales in the Brand Division. In 2016, the company completed one of large-scale investments, it purchased Paper Machine 5 worth of EUR 1.3 million, which means the kick-off of investment cycle. As compared to 2015, the company also improved its productivity in paper production and in the production of made-up articles. As regards paper production, 67,000 tonnes of paper were produced, which is 1,400 tonnes more than in the previous year, and in the segment of ready-made articles, the company produced 63,000 tonnes of finished products which is by 2,666 tonnes more than in 2015.

POZAVAROVALNICA SAVA, d. d., Ljubljana

Registered office:	Dunajska cesta 56, 1000 Ljubljana
President of the Management Board:	Jošt Dolničar, until the receipt of the Decision on the issue of the permit for performing the function of the Member of the Management Board issued by the Insurance Supervision Agency for Marko Jazbec
Ownership structure:	SSH is the largest individual shareholder of Pozavarovalnica Sava, d. d., holding 25.00 % of the company's equity interest. Other company's major shareholders are: Zagrebačka banka, d. d.,

– fiduciary account (14.34 %), European Bank for reconstruction and development (6.22 %), Raiffeisen bank Austria – fiduciary account (4.51 %). Pozavarovalnica Sava has 10 % of treasury shares. The Republic of Slovenia owns 2.77 % of its shares.

Core business: reinsurance activities

Aggregate gross premiums of Pozavarovalnica Sava Group amounted to EUR 490.2 million, according to non-audited data, thus being higher by 0.8 % as compared to 2015. The growth arises from operations in non-life insurance business. The net combined ratio (excluding the impact of exchange differences) of the Pozavarovalnica Sava Group amounted to 94.6 % in 2016 (thus being by 0.2 % more favourable than the one planned by the Pozavarovalnica Sava Group, and by 0.3 % higher than in 2015).

According to audited data, the Pozavarovalnica Sava Group closed the financial year of 2016 with the earnings before taxes amounting to EUR 40.7 million, which is by 1.4 % higher than in 2015. Net profit thus amounted to EUR 32.9 million which is lower by 1.3 % as compared to 2015 on account of tax impacts. Return on equity (ROE) for Pozavarovalnica Sava Group for 2016 thus amounts to 11.3 % In 2016, there were 2,488 employees employed in the Pozavarovalnica Sava Group according to the measurements on the basis of full-time equivalent methodology (FTE) (in 2015, it employed 2,540 employees).

SAVA, družba za financiranje in upravljanje, d. d., Ljubljana

Registered office: Dunajska cesta 152, 1000 Ljubljana
 Management Board: Klemen Boštjančič (President), Dejan Rajbar (Deputy President), Aleš Škoberne (Member), Tina Pelcar Burgar (Member)
 Executive Director: Gregor Rovanšek
 Ownership structure: SSH 22.56 %, Kapitalska družba, d. d., 22.56 %, York 41.74 %
 Core business: financial holding companies

In 2016, the company generated net profit in the amount of EUR 16.8 million, according to audited data. At the end of 2016, there were 14 employees employed in the company. In 2016, the Sava Group generated profit in the amount of EUR 24.5 million according to non-audited data. At the end of 2016, there were 1,029 employees employed in the Sava Group.

UNIOR, d. d., Zreče

Registered office: Kovaška cesta 10, 3214 Zreče
 President of the Management Board: Darko Hrastrnik
 Ownership structure: SSH 39.43 %, Štore Steel 12.20 %, Alpen.si 6.46 %, Kapitalska družba, d. d., 5.55 % and other minority shareholders
 Core business: forging

In 2016, the company generated net profit in the amount of EUR 5.1 million according to audited data. At the end of 2016, there were 2,128 employees employed in the company. Unior, d. d., and the Unior Group again recorded income growth in 2016 (the company generates 57 % of its income through the Forging Programme, 19 % through the Hand Tools Programme, 12 % through Mechanical Equipment and 10 % through Tourism); consequently,

growth was recorded in all other categories as well, EBIT, EBITDA. In addition, Unior, d. d., is successfully deleveraging. At the end of 2016, the Master Restructuring Agreement was replaced by the Syndicated Loan Agreement which provides for significant savings in the financing of operations and for further deleveraging. The company's return on equity is 4.72 % and the Group's is 7.10 %.

ZAVAROVALNICA TRIGLAV, d. d., Ljubljana

Registered office:	Miklošičeva cesta 19, 1000 Ljubljana
President of the Management Board:	Andrej Slapar
Ownership structure:	SSH's equity interest in the company amounts to 28.09 %, and including shares owned by its subsidiary PS Za Avto, d. d., to 28.12 %. The major shareholder of Zavarovalnica Triglav, d. d., is Zavod za pokojninsko in invalidsko zavarovanje Slovenije, holding 34.47 % of equity interest. In accordance with ZSDH-1, this shareholding is managed by SSH. Another major shareholders is: Addiko bank, d. d., - fiduciary account (6.46 %).
Core business:	insurance activities

According to the audited data, the Triglav Group charged for EUR 936 million of consolidated gross insurance and co-insurance premium, while the planned figure stood at round EUR 900 million. Successful operations in core business comprising non-life insurance and health insurance in 2016 is indirectly shown by the combined ratio of the Triglav Group which amounts to 92.9 % (the value planned by the Triglav Group was around 95 %). In 2016, the Triglav Group thus generated EUR 95 million of earnings before taxes (EBIT planned by the Triglav Group was between EUR 80 and EUR 90 million) and EUR 82 million of net profit, according to non-audited data. Return on equity of the Triglav Group amounted to 11.4 %. As of 31 December 2016, the number of employees was 5,046, which is slightly less than in 2015 (5,379 employees).

3.4. LIST OF ASSETS OWNED BY SSH AT THE END OF 2016

As of 31 December 2016, SSH was a shareholder in 26 companies headquartered in the Republic of Slovenia. The capital assets referred to are active assets for which the company implements all ownership entitlements. These are assets in companies, banks and insurance companies acquired by the Company free of charge in ownership transformation procedures and on the basis of other legal bases. Some of these assets were also acquired by purchases and swaps. The remaining assets, 14 in number, are inactive - these are capital assets of companies in bankruptcy proceedings or in liquidation.

The total number of capital assets held by SSH

Type of capital asset	Situation as of 31 December 2015	Situation as of 31 December 2016
Active assets	29	26
Inactive assets (companies in bankruptcy, liquidation)	14	14
TOTAL	43	40

Capital Assets Portfolio of SSH/SSH Group as of 31 12 2016

Company name	Industry	% SSH
Adria, turistično podjetje, d. o. o., Ankaran	Tourism	11.74
CASINO BLED, d. d., Bled	Gaming industry	43.00
Casino Portorož, d. d.	Gaming industry	9.46
Cetis, d. d., Celje	General economic sector	7.47
Cinkarna Celje, d. d.	Manufacturing	11.41
Elektro Gorenjska, d. d., Kranj	Energy sector	0.31
Elektro Ljubljana d. d.	Energy sector	0.30
Elektrooptika, d. d.	General economic sector	70.48
Geoplin, d. o. o.	Energy sector	0.05
HIT, d. d., Nova Gorica	Gaming industry	20.00
Intereuropa, d. d.	Traffic, transport and infrastructure	1.73
Intertrade ITA, d. d., Ljubljana	General economic sector	7.69
KDD, d. d., Ljubljana	Financial holding companies	19.23
Krka, d. d., Novo mesto *	Manufacturing	16.21
Loterija Slovenije, d. d., Ljubljana	Gaming industry	15.00
Luka Koper, d. d.	Traffic, transport and infrastructure	11.13
Paloma, d. d.	Manufacturing	30.35
Petrol, d. d., Ljubljana	Energy sector	19.75
Pozavarovalnica Sava, d. d., Ljubljana	Insurance business	25.00
PS za avto, d. o. o., Ljubljana	General economic sector	90.00
Sava, d. d.	Financial holding companies	22.56
Telekom Slovenije, d. d., Ljubljana	Postal services, Telecommunications	4.25
Terme Olimia, d. d., Podčetrtek	Tourism	4.01
Unior, d. d., Zreče	Manufacturing	39.43
Varnost Sistemi, d. o. o.	General economic sector	9.74
Zavarovalnica Triglav, d. d., Ljubljana *	Insurance business	28.11

Companies in bankruptcy or in liquidation	Industry	% SSH
ABC trgovina, d. d., Ljubljana - in bankruptcy	General economic sector	2.37
Aero, d. d. - in bankruptcy	Manufacturing	1.44
Casino Maribor, d. d. - in bankruptcy	Gaming industry	22.83
Dekorativna, d. o. o. - in liquidation	Manufacturing	100.00
GIO, d. o. o., Ljubljana – in liquidation	General economic sector	71.27
Gradis skupina G, d. d. - in bankruptcy	Manufacturing	1.36
Ipoz Trbovlje, d. o. o. - in liquidation	Manufacturing	1.20
Mura, d. d. - in bankruptcy	Manufacturing	12.23
Novoles, d. d. - in bankruptcy	Manufacturing	16.69
Dekorativna, d. o. o. - in liquidation	Manufacturing	28.57
Rimske terme, d. o. o. - in bankruptcy	Tourism	13.55
Svea, d. d. - in bankruptcy	Manufacturing	15.57
Univerzale, d. d. - in bankruptcy	Manufacturing	8.53
Vegrad, d. d. - in bankruptcy	Manufacturing	29.00

Note:

* Capital asset in which the shareholding is held both, by SSH and its subsidiary, PS ZA AVTO, d. o. o.: in case of Krka, SSH shareholding is 16.20 % and the subsidiary's shareholding 0.01 %, and in case of Zavarovalnica Triglav, d. d., the SSH equity stake amounts to 28.09 %, while the subsidiary holds a 0.02 % equity stake.

3.5. LIST OF ASSETS OWNED BY RS AND MANAGED BY SSH AT THE END OF 2016

In 2016, the total number of capital assets held by the Republic of Slovenia and managed by SSH decreased by 13 due to intensive sale-related activities. As of 31 December 2016, out of the total of 70 capital assets, there were 55 active (including investments in 3 mutual funds) and 15 inactive capital assets (in bankruptcy proceedings or in liquidation).

The total number of capital assets in direct ownership of the Republic of Slovenia and managed by SSH

Type of capital asset	Situation as of 31 December 2015	Situation as of 31 December 2016
Active assets (including mutual funds)	71	55
Inactive assets (companies in bankruptcy, liquidation)	12	15
TOTAL	83	70

Capital Assets Portfolio in direct ownership of the Republic of Slovenia and managed by SSH as of 31 December 2016

Company name	Industry	% RS
2TDK, Družba za razvoj projekta, d. o. o.	Traffic, transport and infrastructure	100.00
Abanka, d. d.	Banking	100.00
Bodočnost Maribor, d. o. o.	Sheltered workshops	75.83
Cimos, d. d.	Manufacturing	24.26
CSS, d. o. o.	Sheltered workshops	96.65
D.S.U., d. o. o., Ljubljana	Financial holding companies	100.00

DRI upravljanje investicij, d. o. o.	Traffic, transport and infrastructure	100.00
Družba za avtoceste v Republiki Sloveniji d. d., (Motorway Company of the Republic of Slovenia), Celje	Traffic, transport and infrastructure	100.00
DTK Murka, družba tveganega kapitala, d. o. o.	Venture capital companies	49.00
Elektro Celje, d. d.	Energy sector	79.50
Elektro Gorenjska, d. d.	Energy sector	79.42
Elektro Ljubljana d. d.	Energy sector	79.50
Elektro Maribor, d. d.	Energy sector	79.50
Elektro Primorska, d. d.	Energy sector	79.50
Elektrogospodarstvo Slovenije - razvoj in inženiring,	Energy sector	100.00
Elektrooptika, d. d.	General economic sector	0.01
GEN energija, d. o. o.	Energy sector	100.00
Geoplin, d. o. o.	Energy sector	41.24
Gorenjska banka, d. d.	Banking	0.20
Holding Slovenske elektrarne, d. o. o.	Energy sector	100.00
Infra, izvajanje investicijske dejavnosti, d. o. o.	Traffic, transport and infrastructure	100.00
Inkos, d. o. o., Krmelj	Manufacturing	2.54
Javno podjetje Uradni list RS, d. o. o.	Service of General Economic	100.00
Kontrola zračnega prometa, d. o. o. (Slovenia Control)	Traffic, transport and infrastructure	100.00
Krka, d. d., Novo mesto	Manufacturing	0.01
Luka Koper, d. d.	Traffic, transport and infrastructure	51.00
Mariborska livarna Maribor, d. d.	Manufacturing	32.73
Meta Ingenium, Družba tveganega kapitala, d. o. o.	Venture capital companies	49.00
Nafta Lendava, Proizvodnja naftnih derivatov, d. o. o.	Holding company	100.00
NLB, d. d.	Banking	100.00
Paloma, d. d.	Manufacturing	0.01
Perutnina, d. d.	Food and beverages	0.003
Pomgrad - vodnogospodarsko podjetje, d. d.	Service of General Economic Interest	25.01
Pošta Slovenije, d. o. o.	Postal services, Telecommunications	100.00
Pozavarovalnica Sava, d. d.	Insurance business	2.77
Prvi sklad, družba tveganega kapitala, d. o. o.	Venture capital companies	48.90
RRA, regionalna razvojna agencija Celje, d. o. o.	RRA (to be transferred to SRRP)	5.89
RTH, rudnik Trbovlje-Hrastnik, d. o. o.	Mining	100.00
RŽV, Javno podjetje za zapiranje rudnika urana, d. o. o.	Mining	100.00
Savaprojekt, d. d.	General economic sector	3.34
SID - Slovenska izvozna in razvojna banka, d. d.	Banking	99.41
SIJ - Slovenska industrija jekla, d. d.	Manufacturing	25.00
Slovenske železnice, d. o. o.	Traffic, transport and infrastructure	100.00
STH Ventures, d. o. o.	Venture capital companies	49.00
Studentenheim Korotan GmbH	Tourism	100.00
Telekom Slovenije, d. d.	Postal services, Telecommunications	62.54
Telemach Rotovž, d. d.	Postal services, Telecommunications	1.17
Toplotna oskrba, d. o. o., Loče	Energy sector	49.17

Vodnogospodarsko podjetje Drava, d. o. o,	Service of General Economic	25.00
Vodnogospodarsko podjetje Novo Mesto, d. d.	Service of General Economic	25.00
Vodnogospodarsko podjetje, d. d.	Service of General Economic	25.00
Zavarovalnica Triglav, d. d.	Insurance business	34.48

Companies in bankruptcy or in liquidation	Industry	% RS
Družba za spodbujanje razvoja TNP, d. d. - in bankruptcy	Tourism	51.04
Glin IPP, d. o. o. - in bankruptcy	Sheltered workshops	16.06
Lipica Turizem, d. o. o. - in bankruptcy	Tourism	100.00
Maksima holding, d. d. - in bankruptcy	Financial holding companies	0.01
Maksima invest, d. d. - in bankruptcy	Financial holding companies	0.005
NFD holding, d. d. - in bankruptcy	Financial holding companies	0.0003
Peko, d. d., Tržič – in bankruptcy	Manufacturing	61.16
Podjetje za urejanje hudournikov, d. d. - in bankruptcy	General economic sector	40.00
Polzela, d. o. o. - in bankruptcy	Manufacturing	71.43
Rimske terme, d. o. o. - in bankruptcy	Tourism	3.83
Rudnik Kanižarica v zapiranju, d. o. o., Črnomelj - in liquidation	Mining – in shut down	100.00
Rudnik Senovo v zapiranju, d. o. o. - in bankruptcy	Mining – in shut down	100.00
Rudnik Zagorje v zapiranju, d. o. o. - in liquidation	Mining – in shut down	100.00
Rudnik živega srebra Idrija v zapiranju, d. o. o. - in liquidation	Mining – in shut down	100.00
TAM Maribor d. d. - in bankruptcy	Manufacturing	10.85

Investment funds	Industry	No. of units
KBM Infond, Infond dynamic, equity VS	Mutual Funds	326
KBM Infond, Infond global, VS flexible	Mutual Funds	536
VS NLB Funds - Equity Global	Mutual Funds	894

Note: *34.47 % equity interest in Zavarovalnica Triglav is owned by the Pension and Disability Insurance Institute of Slovenia.

4. OPERATIONS OF SSH AND THE GROUP BY AREA OF OPERATION

The Group is composed of the controlling company SSH and subsidiaries: Dekorativna, d. o. o., Ljubljana - in liquidation, Elektrooptika, d. d., GIO, d. o. o., Ljubljana - in liquidation, Paloma, d. d., and PS ZA AVTO, d. o. o.

The main areas of operation of the controlling company are:

- the management of capital assets owned by SSH and/or the Republic of Slovenia;
- acquisition and disposition of assets owned by SSH and/or the Republic of Slovenia;
- settling liabilities arising from statutory obligations and their implementation:
 - the participation in denationalisation proceedings and settlement of liabilities arising from denationalisation,
 - the settlement of liabilities arising from compensation for confiscated property pursuant to the abrogation of the property confiscation penalty,
 - implementing public powers for carrying out procedures for the issue of decisions on the compensation amount allocated to the victims of war and post-war aggression and the settlement of liabilities under ZSPOZ,
 - the settlement of liabilities under the Return of Investments in the Public Telecommunications Network Act;
- liquidity management, management of portfolio investments and SSH, and balancing the SSH's financial position.

The two companies undergoing liquidation proceedings (GIO, d. o. o., and Dekorativna, d. o. o.) do not carry out any activities, and the aim of the liquidation proceedings is to distribute the liquidation estate of both companies and delete them from the Business Register of Companies. Similarly, in Elektrooptika, d. d., no activities are being carried out. The core business of the Company's subsidiary, PS ZA AVTO, d. o. o., is the rendering of property rental services. Activities are presented in detail under item 2.2.

4.1. MANAGEMENT OF CAPITAL ASSETS

One of the most important activities pursued by SSH is the management of capital assets held in the ownership of SSH and/or the Republic of Slovenia. The activity includes the acquisition and disposition of capital assets and the exercise of rights of a shareholder or a company member. Review of capital assets is shown in the tables under items 3.4 and 3.5.

The adoption of the State Assets Management Strategy enabled the first-ever adoption of the Performance Criteria for SOEs and the Annual Asset Management Plan (hereinafter referred to as AAMP) in 2016; these two documents define detailed goals for the management of individual assets and measures and policies for achieving these goals. AAMP represents the main improvement of the existing corporate governance system deployed by SSH since, on one hand, it clearly expresses the expectations of the owner (RS and/or SSH in the capacity of a shareholder or a company member), while on the other hand, it enables the comparison between the results actually achieved and goals set on which further management decisions and activities may be based.

In accordance with ZSDH-1 and other key legal management documents (State Assets Management Strategy, AAMP, Performance Criteria for SOEs, Asset Management Policy,

Corporate Governance Code), in 2016, SSH continued to exercise shareholder's rights and carried out other duties, particularly as follows:

- on the basis of the adopted State Assets Management Strategy, SSH drafted a proposal of the Annual Asset Management Plan 2016 in which, in accordance with ZSDH-1, it defined detailed goals pursued by SSH in the management of individual assets and measures and policies for achieving these goals, in addition to expected cash flows arising from the management of these assets;
- it took part at General Meetings of companies, casting votes on behalf of RS and/or SSH, and adopted founder's resolutions for companies managed by SSH. In 2016, the total of 122 General Meetings/General Meeting Resolutions were convened and passed;
- SSH provided for the exercise of other rights of a shareholder such as the convocation of General Meetings, extensions of agenda, filling of counter-proposals, requests for an extraordinary audit and lodging of compensation claims and similar, in accordance with shareholder's rights;
- provided for suitable assessment of merits and legal assessment of individual activities and decisions made in the capacity of the manager of capital assets;
- carried out all activities necessary for relevant and timely procedures for accreditation, nomination and selection of candidates for Supervisory Board members, with the aim of appointing professional, heterogeneous and independent supervisory boards;
- through mechanisms and management tools, such as setting the expected goals of operations, establishing the standardised system for regular reporting on companies' operations, periodic meetings with companies' bodies, preparing analysis in respect of companies' operations as benchmarked to comparable companies, SSH provided for regular monitoring of operations of SOEs, and, in light of operations by individual companies, planned and carried out management activities, including the restructuring activities, within authorisations granted and in accordance with the applicable laws and management-related legal documents;
- prudently followed the adopted companies' strategies and took part in the preparation and/or adoption of such strategies, within the scope of its capacity of a shareholder/company member;
- encouraged and within the scope of its corporate rights provided for the introduction and implementation of cases of good practice in respect of corporate governance, by way of Recommendations and Expectations given, the organisation of free-of-charge training programme for members of supervisory bodies in regard to current business and corporate topics, by way of proposed/adopted amendments to Articles of Associations of companies, and expert cooperation and by rendering advisory services in some procedures carried out by companies, and other similar activities;
- acquired and disposed of individual capital assets, in accordance with applicable legislation and other applicable relevant documents.

With the aim of providing for long-term creation of value from the management of assets, SSH also advocated suitable inclusion of other stakeholders, professional communication with relevant ministries and other bodies and institutions.

A very important method of communication with companies' bodies and at the same time a tool in overseeing the operations of companies are period meetings. In principle, topics highlighted at these meetings refer to performance results and operational plans, market challenges, strategic perspectives regarding a company's development, expectations on the part of SSH in regard to main goals, ROE and dividends, the aspect of potential optimisation of operations and restructuring measures, observance of recommendations and expectations, and similar elements, all of which is obviously tailored to the operations of an individual company. The content and the scope of information is subject to the legal organisational form of a company and the shareholding held by RS and/or SSH in a company.

In addition to the usual management and supervision activities over the operations of companies, SSH has established an additional supervision mechanism. On 16 June 2015, the Committee for Handling Irregularities in SOEs was appointed, functioning within the scope of Instructions on Actions in Cases of Alleged Irregularities and Applicant Protection. The said Committee gives guidance for the work of an individual account manager in connection with the handling of irregularities and is authorised to either reject or handle the case and to adopt proposals of relevant measures to eliminate irregularities which are submitted to the Management Board for its adoption.

The measures for eliminating irregularities are mainly as follows:

- the procedure for the dismissal and replacement of members of a Supervisory Board of an SOE through the General Meeting;
- the proposal for judicial dismissal of members of a Supervisory Board of an SOE;
- the proposal for General Meeting resolution/founder's resolution for carrying out an extraordinary audit, or in cases of limited liability companies, on carrying out another audit of business transactions;
- a proposal by minority shareholders lodged before the court for appointing a special auditor;
- a proposal for General Meeting/Founder's resolution on lodging a lawsuit for compensation of damages (and on appointing a special representative, when needed);
- a lawsuit by minority shareholder for compensation of damages;
- a lawsuit by a shareholder against a third party who, by means of exercising his/her influence to the company has intentionally solicited a member of the management or supervisory bodies, a procurator-holder or a proxy to act to the detriment of a company or its shareholders;
- the convocation of General Meeting, the extension of the GM Agenda;
- the modification to the reward system;
- establishing the reporting system;
- the acquisition or disposal of capital assets;
- another relevant procedures by way of which the property and interests of an individual asset held by RS and SSH are protected (for example, refusing to grant a discharge, and similar instruments).

In 2016, the Committee received 84 new applications on irregularities, carried out 4 regular and 3 irregular and 1 correspondence session at which applications on alleged irregularities in SOEs were handled and adopted 16 resolutions on refusing the handling of an application, 16 resolutions on initiating the handling of an application, together with a guidance for the account manager on the continuation of the procedure, and 34 resolutions on completion of the procedures.

In the processes for restructuring capital assets, by way of its activities, SSH desires to assist companies owned by RS and SSH to establish conditions for long-term sustainable and viable operations in order to, by way of operational turnaround, provide for profitable operations and attainment of other strategic goals. As a matter of fact, the attaining the above stated goals also provides for the maximisation of value for owners.

In light of the nature of work and the intensity of restructuring processes, intensive cooperation with management bodies in companies subject to restructuring is a typical feature of such work; it may include the cooperation in the preparation of the Moratorium Agreement, the Financial and Restructuring Plan, the proposal for capital increase and similar instruments. An important part of the activities refers to the verification of assumptions utilised in the projections regarding company's operations. Restructuring processes requires the cooperation to take place with all key stakeholders involved in restructuring (banks, creditors, potential investors, employees), the identification of the main reasons for the situation in which the company is and which requires the restructuring measures to take place, together with the preparation of

proposals and the action plan for eliminating such reasons. This area of work also included monitoring over the implementation of agreements reached and the supervision of such agreements.

4.1.1. Main activities in respect of management carried out in 2016

In 2016, SSH played an active role in dealing with capital assets of companies in which corporate restructuring is in place. These include:

- CSS, d. o. o.: Several staff-related changes occurred in this company in 2016. In May 2016, the company's director, Mr. Andraž Kopač, submitted his resignation notice. By way of public recruitment notice, the company sought to find a new director and in October 2016, Mr. Urož Zarnik was appointed for four-year terms of office. In the interim period, the company was run by the procurator-holder, Darja Kopač. The company closed the business year with a low net profit for the second consecutive year, but the plan was not fully realised. The company was undergoing the restructuring program which had been adopted in 2014. As regards operations, the key issue was a drop in sales revenues resulting from the decline in orders by clients while no new orders were obtained. Another operational issue refers to insufficient maintenance and rather outdated equipment, together with financial burdens accumulated from previous years. With the aim of establishing a long-term sustainable and viable operations for the company, the new director prepared a new restructuring programme for the company. The proposed restructuring programme in the process of being examined by SSH. Subsequent processes will take place in 2017.
- HSE, d. o. o.: Management activities were focused on the relevant integrated business and financial restructuring of the company and HSE Group in order to provide for long-term stability and economically viable operation of the company. The financial restructuring of the HSE Group was successfully completed in 2016 when HSE, d. o. o., following extremely hard negotiations and after obtaining a consent by the Ministry of Finance, HSE signed the Long-Term Loan Agreement with the syndicate of banks that amounted to EUR 180 million, and the Revolving Loan which amounted to EUR 40 million. Due to successful implementation of measures for optimisation and rationalisation of operations, HSE Group managed to repay early approximately EUR 72 million of loans. Prudent supervision over the implementation of other financial covenants given to banks is needed in the next phase as in case of any potential violations, the request for an early loan repayment may be instituted which may lead to the insolvency of the HSE Group or to the cashing-in of the government guarantee for a loan by the European Investment Bank in the amount of EUR 440 million. Considering the successful completion of financial restructuring, the phase to follow will see a greater attention being placed on the implementation of measures for business restructuring and measures of operational rationalisation. 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. Likewise, at the organisational level, HSE Group will try to come close as much as possible to the actual group of companies providing homogeneous activity of electricity generation and distribution whereby the Group will strive to bring to the Group as much as possible of the value chain, starting from the increasing of the volume of internal procurement (on the supply side) to the increasing of the share by final customers (vertical integration all the way to retail). Activities will be dedicated to merging support functions which brings forth higher transparency and comparability of operations of individual companies within

HSE Group and easier management of common risks. SSH takes an active part in the integrated restructuring of HSE Group.

- Nafta Lendava, d. o. o.: Nafta Lendava, d. o. o., in accordance with the agreement concluded with banks - creditors, followed the goals set for the period of 2015-2019 and is prudent in implementing the restructuring plan. SSH took an active part in restructuring the companies of Nafta Lendava Group, d. o. o., and in 2016, put its focus on the restructuring of EKO Nafta, d. o. o. The main part of activities pursued by SSH referred to the transfer of assets (fuel tanks) to the Institute of the Republic of Slovenia for Commodity Reserves (hereinafter referred to as: "ICR") and the purchase of accounts receivables by SSH and EKO Nafta, d. o. o., (purchase of liabilities from banks, i.e., Hypo Bank, and other creditors and BAMC at a discount). SSH took an active part in negotiations and in reaching the agreement with BAMC in regard to the discount for the purchase of the account receivable owed to BAMC by EKO Nafta, d. o. o., and it also participated in the review of the data room in connection with the purchase of the said liability, in the drawing up of the contract between SSH and BAMC on the Account Receivable Purchase Agreement and in the drawing up of the agreement on the regulation of mutual relations. The account receivable purchase by SSH from BAMC in the said procedure was subsequently sold to EKO Nafta, d. o. o. In addition to the above mentioned activities, SSH also took part in the harmonisation of the Purchase and Sale Agreement for fuel tanks and the capital increase in the Institute of Commodity Reserves (ICR) as, by means of the capital increase by the Republic of Slovenia, the latter also received financial funds for the purchase of fuel tanks. Funds obtained by EKO Nafta, d. o. o., with the sale of fuel tanks were used for the purchase of accounts receivable. All financial transaction were successfully executed and completed on 18 October 2016. By way of the transaction implemented with the sale of fuel tanks and the purchase of accounts receivable from Eko Nafta, d. o. o., Nafta Lendava, d. o. o., was free of obligations arising from the guarantee in the amount of EUR 5.57 million, whereby conditions have been provided for further normal business operations. Nafta – Varovanje in požarna varnost continues its business and financial restructuring in accordance with the dynamics set. From October 2016, the company has become solely a professional fire protection unit which carries out the activity of fire safety.
- Lipica Turizem, d. o. o.: Owing to the repeating trend of negative operations, SSH has assessed that the existing business model of the company, without any capital increase being implemented, does not provide for any positive turnaround in the operations of the company. Considering the above stated, 2016 saw activities being pursued in the direction of restructuring the management of the area of Lipica and towards the winding-up of the company, Lipica Turizem, d. o. o. In the first half of 2016, on the account of seasonally-conditioned liquidity issues, Lipica Turizem, d. o. o., strived to keep its operations until the start of the "season" and until the adoption of the Kobilarna Lipica (Lipica Stud Farm) Act. The liquidity funds were provided by Delavska hranilnica and the Trade Union of Employees in Hospitality and Tourism Industry of Slovenia as several guarantor and Ministry of Economic Development and Technology using the "de minimis" scheme in the amount of EUR 200,000. In May 2016, the National Assembly of the Republic of Slovenia adopted the Act Amending the Kobilarna Lipica Act (Official Gazette of the Republic of Slovenia, No. 38/16) which entered into force on 11 June 2016. The said Act stipulated that the institute Kobilarna Lipica (Lipica Stud Farm) falls under the responsibility of the ministry of economics or the ministry, responsible for tourism, and that, in accordance with amendments to the Act, after the winding up of Lipica Turizem, d.o.o., the institute will also pursue tourist activity. In accordance with the annual asset management plan in respect of Lipica Turizem, d. o. o., and the Sustainable Model for Protection, Integrated

Development, Organisation and Financial Resources for Operation of Kobilarna Lipica, all necessary activities for the provision of uniform handling of the Lipica area were carried out, which also included the winding up of Lipica Turizem, d. o. o. SSH was informed of the statutory framework for the winding up of Lipica Turizem, d. o. o., and of activities having been implemented prior to the filing of the proposal for the initiation of bankruptcy proceedings. On the basis of the Management Report on Measures for Financial Restructuring it was determined that there were no economic grounds on the basis of which the founder would financially restructure the company with capital increase. In accordance with Article 28 of ZFPPIPP, the management of the company filed the proposal for the initiation of bankruptcy proceedings. On 8 December 2016, the Decision on Initiation of Bankruptcy Proceedings was issued.

- Polzela, d. o. o.: In 2016, SSH carried out all activities necessary for the purchase of accounts receivables from creditors of Polzela, d. d. After the purchase of accounts receivables due from Polzela, d. d., was implemented, for which EUR 678,000 were allocated by SSH, and following the implemented increase in share capital, undertaken by SSH (debt conversion) and the Republic of Slovenia (monetary contribution amounting to EUR 1.5 million), the Republic of Slovenia and SSH became the 100 % owners of the said company. SSH swapped the majority of purchased debt to equity while retaining the claim in the amount of EUR 650,000 for which the Agreement on Restructuring of Financial Liabilities was concluded with Polzela, d. d. Activities undertaken by SSH were aimed at providing the capital for the company for it to accede to the implementation of measures referred to in the Restructuring Plan which was supposed to provide for the turnaround in operations. Immediately after the implemented capital increase and on the basis of current data on operational performance of Polzela, d. d., SSH identified significant deviations in results achieved from those planned which were used as the basis for the decision made by SSH and RS for their participation in the process for financial recovery of the said company. In light of the above stated, and with the purpose of providing for a long-term viability of Polzela, d. d., in the beginning of October 2016, SSH initiated activities in connection with the seeking for a long-term investor into the company who would be willing to ensure additional capital, further development, know-how and access to new markets for Polzela, d. d. The process was undertaken in close cooperation with the company. The process for finding a long-term investor failed since none of the potential investors contacted expressed any interest in entering into the ownership of Polzela, d. d., Considering the above mentioned fact, the financial situation of Polzela, d. d., and on the basis of the assessment that no positive operation could be set up in the company, SSH made a decision to adopt a resolution on regular winding-up of Polzela, d. d., and to initiate the liquidation procedure. Subsequently it was determined that the procedure for regular winding-up of Polzela, d. d., could not be carried out and that the company's bankruptcy was highly probable. SSH also passed a decision on transforming the company into a limited liability company since such legal organisational form was more reasonable for the existing ownership structure on account of faster decision-making process. The management of Polzela, d. o. o., was given the task to, not later than by 19 January 2016, submit to the General Meeting the Report on Financial Restructuring Measures in accordance with Article 35 of ZFPPIPP ("the Report"). In the next phase, SSH verified whether there was any interest on the part of potential investors for purchasing individual assets of Polzela, d. o. o., (the activity with the transfer of a certain number of employees, machines, properties, exchange of goods or a combination of various types of assets). On 18 December 2016, the management of Polzela, d. o. o., presented the Report to SSH from which it was clear that Polzela, d. o. o., was insolvent in the long-term. Additional capital increase in the amount of EUR 2.2 million would provide for the company's solvency. SSH and the Republic of Slovenia, in the capacity of the sole owners of Polzela refused to provide for additional capital increase in the company. SSH requested from Polzela, d. o. o., to continue with measures in

accordance with Article 38 of ZFPPIPP: On 23 March December 2016, Celje District Court initiated bankruptcy proceedings against the debtor Polzela, d. o. o.

- Sava, d. d.: In 2016, SSH carried out all activities necessary for the purchase of accounts receivable from BAMC. The major part of SSH's activities referred to the evaluation of economic justification for the purchase of receivables, to obtaining the evaluation of collateral and to actions in respect of the notification of concentrations and in regard to harmonising all documents necessary for the said transaction. On 15 July 2016, the Agreement was concluded on transfer against payment of Sava's receivables and bonds from BAMC to Kapitalska družba, d. d., pokojninskega in invalidskega zavarovanja, d. d., (hereinafter referred to as: "Kapitalska družba, d. d.") and SSH (hereinafter referred to as: "Agreement"). By entering into this Agreement, SSH and Kapitalska družba, d. d., have assumed, each to one half, liabilities, of which the principal value amounted to EUR 122.37 million, for the price of EUR 68.89 million (for SSH: EUR 34.45 million). After the purchase of Sava's receivables and bonds, SSH and Kapitalska družba, d. d., swapped the outstanding non-collateralised liabilities in the amount of EUR 29.35 million (for SSH: EUR 14.67 million) into equity of Sava, d. d., and retained the collateralised portion of liabilities in the amount of EUR 92.16 million (for SSH: EUR 46.08 million) as creditors. All the existing shareholders were expropriated in the compulsory composition procedure. In the compulsory composition procedure, on the basis of the conversion of non-collateralised liabilities, SSH and Kapitalska družba, d. d., obtained newly issued shares, specifically, 4,891,650 Sava shares were obtained by SSH which represents 22.56 % ownership stake, while Kapitalska družba, d. d., obtained 4,891,651 Sava shares which represents 22.56 % ownership stake in Sava. After the compulsory composition, the second largest owner is York Global Finance Offshore S. a. r. l., which holds 41.74 % ownership stake in Sava. In March 2016, the Creditor Agreement was concluded by SSH and Kapitalska družba, d. d., with the said company by way of which the implementation of the company's Financial Restructuring Plan is regulated. The Decision on Compulsory Composition became final on 12 November 2016. On 23 December 2016, the General Meeting of Sava, d. d., approved the introduction of one-tier management system in the company and appointed members of the Management Board. In 2017, key company's activities will be focused on the sale of non-strategic assets (its stake in Gorenjska banka, d. d., and units in Alpen.SI fund) and on the consolidation of tourism business.
- Studentenheim Korotan GmbH (hereinafter referred to as: "SH Korotan"): By way of underlying investments carried out in 2016 which were financed by a short-term loan and by obtaining public funds, SH Korotan renovated the hotel premises (all bathrooms, student and hotel rooms) and extended its services by providing "post-graduate" student rooms. These rooms will be provided for post-graduate students and will be offered at higher prices. The renovation of student rooms enabled the company to provide some student rooms to tourist at the peak of the season. In 2016, the company intensified its activities in the fields of culture, science and rendering the services of the Slovenian House in Vienna. SSH was actively involved in these activities. In addition to the above mentioned, in respect of the management of this capital asset, SSH actively cooperated with the Ministry of Culture. On the proposal by SSH, the review of the entire investment was also carried out. In 2016, SSH also passed the resolution on the replacement of the management of the company.
- RTH, Rudnik Trbovlje - Hrastnik, d. o. o.: Considering the Financial Liabilities Restructuring Agreement concluded with banks in 2014, 2016 saw an intensive implementation of planned activities and measures which were focused on providing for the necessary liquidity assets and the timely sale of company's assets.

In addition to management activities pursued in respect of capital assets undergoing usual restructuring processes, SSH actively took part in activities which, in the broader sense represent activities in the direction of changes of the structure of the portfolio of assets under management, both from the organisational aspect and in terms of the content, on the basis of strategic policies stated in the State Assets Management Strategy:

- Geoplin, d. o. o., (carve-out of Plinovodi, d. o. o., and stake swap):** In accordance with the Ordinance on State Assets Management Strategy, the strategic interest of the Republic of Slovenia is that companies from the Group RS obtain and retain the majority (more than 50 %) shareholding in Plinovodi, d. o. o., which is currently in the 100 % ownership of Geoplin, d. o. o. This aim may be realised by carving-out Plinovodi, d. o. o., from Geoplin, d. o. o., into the direct ownership of members of Geoplin, d. o. o. After the carve-out of Plinovodi, d. o. o., assets held by RS in Geoplin, d. o. o., is considered as important assets and assets in Plinovodi, d. o. o., as strategic assets. In accordance with the above stated, in 2016, SSH pursued very complex activities for achieving the goals stated, These included as follows: the conversion rate was negotiated; the Agreement on Stake Swap in Geoplin, d. o. o., and Plinhold, d. o. o., (a future, newly-established company which will be incorporated after the carve-out and will manage Plinovodi, d. o. o.) was executed by SSH and Petrol, d. d.; communication was undertaken with the Energy Agency of the Republic of Slovenia; on the basis of application by SSH, the Slovenian Competition Protection Agency (hereinafter referred to as: "CPA") issued a decision that the concentrations of undertakings envisaged to take place between RS and Plinovodi, d. o. o., was not subject to provisions of ZPOmK-1; during the year, Petrol, d. d., harmonised data and market analysis with EC-DGCom in respect of the acquisition by Petrol, d. d., of Geoplin, d. o. o.; on the basis of the Merger Regulation, on 13 March 2017, the European Commission approved of the acquisition of Geoplin, d. o. o., by Petrol, d. d.
- Electricity distribution (purchase of own shares):** In accordance with the Ordinance on State Assets Management, the goal of the State is to acquire 100 % ownership of the Republic of Slovenia in companies rendering the service of general economic interest in respect of electricity distribution and owning the infrastructure facilities for electricity distribution.

In accordance with the above stated, in 2016, SSH was engaged in numerous complex activities, such as: the valuation of all five companies involved in electricity distribution was carried out; resolutions on authorisation to management boards for acquiring and withdrawing of treasury shares were adopted at General meetings; and with the end of 2016, companies started with the process for the purchase of own shares. The main purpose of acquiring own shares in companies is to increase the value of share, to increase the volume of trading and liquidity of share, to set an alternative to the non-transparent grey capital market, to optimise tax effects for shareholders in the case of the sale of shares, to provide for the improved possibility for shareholders to take advantages of the allocative function of the capital market and to ensure greater protection of shareholders against speculative trading. In the case of the withdrawal of own shares to the debit of share capital, the stock of shareholders who do not intend to sell their shares is increased. On the basis of General Meeting resolutions, the management boards of all five companies from the electricity distribution sector will continue to repurchase own shares by March 2018.
- GEN energija Group (vertical integration):** In accordance with the Ordinance on State Assets Management, GEN energija must manage and provide for the management of its subsidiaries so that it ensures the operation and availability of the systems which provide for the regulated level of nuclear safety and provide for the concerted action in the generation and sale of electricity with the aim of maximising the income. In accordance with the above stated, in 2016, as regards the management of

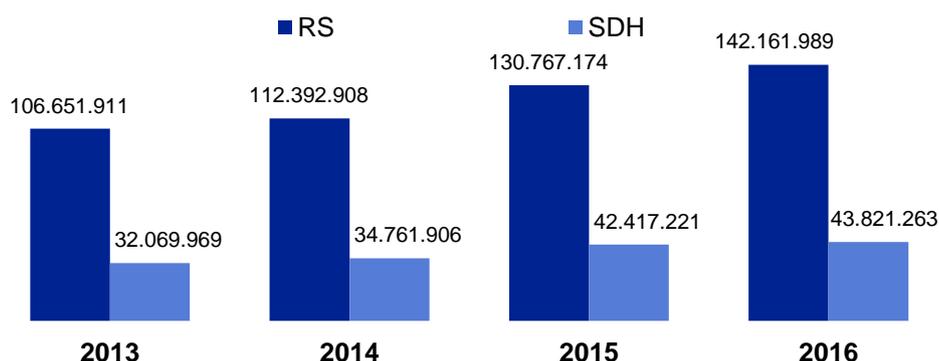
GEN energija Group, SSH dedicated special attention to the full control of the marketing function and the final sale of electricity (together with natural gas). The goal was successfully realised as in 2016, following a prior consent issued by CPA, Elektro energija, d. o. o., was merged with GEN-I Group, d. o. o., (and indirectly, with GEN energija Group), in addition to the 50 % shareholding in GEN-I, d. o. o., acquired from Petrol, d. d., (specifically, from its subsidiary IGES, d. o. o.). The assessment by SSH is that the acquisition of the ownership stake in GEN-I, d. o. o. and the merger of Elektro energija, d. o. o., with GEN Group will contribute to the following:

- a higher value of EBITDA ratio of GEN Group;
- a suitable level of sales revenues for the production part of the Group;
- the consolidation of financial statements;
- the setting up of a suitable economic whole according to the criteria set by the Slovenian Competition Protection Agency;
- better supervision and management of GEN-I, d. o. o.;
- control of the entire chain from the production to the end user;
- better risk management, both in respect of trading and sales and in respect of production;
- liquidity management of the entire Group.

4.1.2. Dividends paid out from capital assets owned by SSH and/or the Republic of Slovenia

The recent 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.

The amount of dividends paid out to SSH in RS between 2013 and 2016 (in EUR)



Note: All dividend amounts paid out to the Republic of Slovenia include dividends paid out by Zavarovalnica Triglav 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).

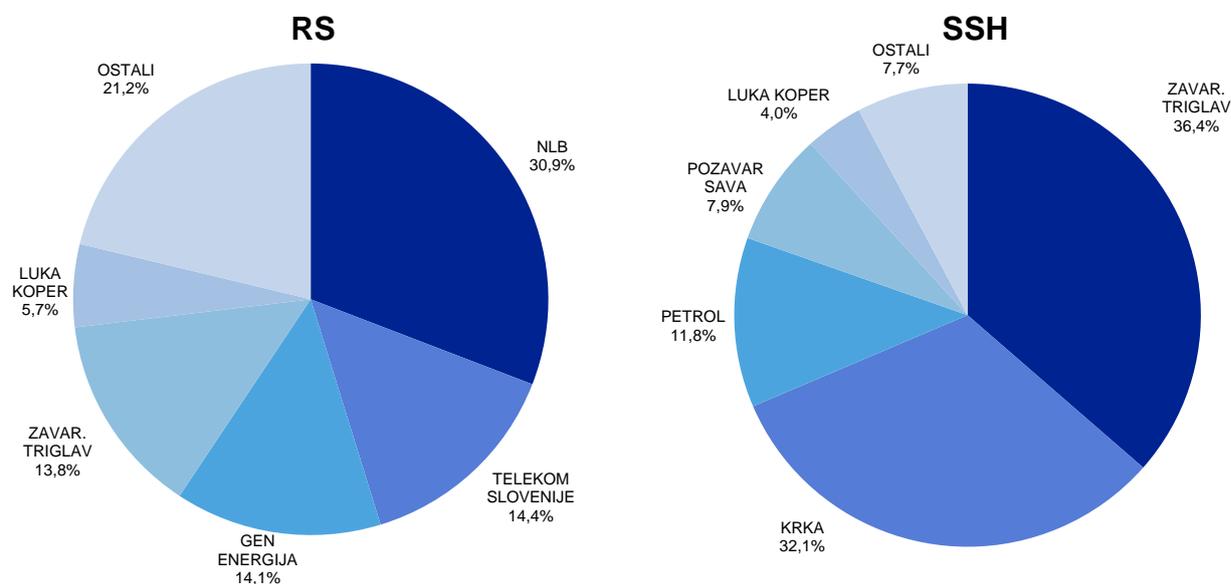
Dividend-to-equity ratio of the portfolio of assets held by the Republic of Slovenia and SSH from 2013 to 2015

in EUR 000	RS			SSH		
	2013	2014	2015	2013	2014	2015
Sum of book-value of equity stakes	10,589,017	10,896,904.	10,810,410	658,735	706,001	780,845
Dividend amount for year...	106,652	130,767	142,162	32,070	42,417	43,821
Dividend-to-equity ratio	1.0 %	1.2 %	1.3 %	4.9 %	6.2 %	5.9 %

In 2016, dividend income was similarly concentrated on a small portion of companies from the management portfolio. In the case of the RS portfolio, five the largest 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, d. d., again paid out dividends: RS, in the capacity of its sole owner, received EUR 43.9 million of dividends. In addition to some largest Slovenian brokerage firms which each year contribute high amounts in dividend pay-outs for the Republic of Slovenia and SSH, the dividend pay-out by Gen energija increased significantly in 2016, paying to the Republic of Slovenia dividends in the amount of EUR 20 million.

The shares of companies in the sum of dividends received by SSH and the Republic of Slovenia in 2016

Legend: Other companies



4.1.3. Work performed by Nomination Committee

The Nomination Committee is a consultative body of the SSH Management Board carrying out duties that relate to the implementation of procedures for recruiting candidates for members of Supervisory Bodies of SOEs, their evaluation and their accreditation. The Nomination Committee is a consultative body of the SSH Management Board and its opinion is binding for the SSH Management Board, except in some cases specifically defined in the SSH Asset Management Policy. In 2016, the Committee operated in the following configuration: Luka Gaberščik, President, Maja Fesel Kamenik, Deputy President, and Jagoda Vitez, Member. On 5 April 2016, Maja Fesel Kamenik, the member, was replaced by Brigita Vončina, and Jagoda Vitez took up the function of the Deputy President.

The said Committee met at 27 regular and 2 correspondence sessions, at which 42 applications were handled for carrying out nomination procedures for candidates for supervisory boards of 30 companies, specifically:

Infra, d. o. o., Slovenske Železnice, d. o. o., SIPCO, d. d., Nafta Lendava d. o. o., HSE, d. o. o., Kapitalska družba, d. d., Abanka, d. d., Adria Airways, Slovenski letalski prevoznik, d. o. o., Elektrooptika, poslovne storitve, d. d., Zavarovalnica Triglav, d. d., Elektro Celje, d. d., Telekom Slovenije, d. d., Krka, d. d., Paloma, higienski papirji, d. d., Sava, d. d., Perutnina Ptuj, d. d., Luka Koper, d. d., Loterija Slovenije, d. d., Geoplin, d. o. o., Cinkarna Celje, d. d., NLB, d. d., Bodočnost Maribor, d. o. o., Pomgrad, d. d., GEN Energija, d. o. o., Mariborska livarna Maribor, d. d., Prvi Sklad, družba tveganega kapitala, d. o. o., Polzela, tovarna nogavic, d. d., 2TDK, družba za razvoj projekta, d. o. o., Pozavarovalnica Sava, d. d., STH Ventures, družba tveganega kapitala, d. o. o.

In addition to the above stated applications for procedures within the framework of which the said Committee performs the accreditation, examines the target profiles for supervisory boards and takes part in public invitations and calls performed by SSH, in October 2016, in accordance with the SSH Asset Management Policy, the Nomination Committee renewed the Rules of Procedure of Nomination Committee and the Rules on Supervisory Board Member Selection, while also taking an active part in the development of web solution for the SSH Nomination Committee Portal for candidates for members of supervisory bodies of companies under management.

4.1.4. Training programme for members of Supervisory Boards and other representatives of SOEs

By organising training sessions, SSH desires to contribute - to the best of its ability - to the improved level of professional work carried out by supervisory board members of SOEs, to increase the corporate culture in these companies and to improve the operations of SOEs. In 2016, SSH organised 14 training sessions. 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;
- Annual Report;
- cooperation between auditors and Audit Committee;
- financial statements;
- tax risks;
- company restructuring;
- access to public information and protection of professional secrecy;
- innovation in SOEs;
- efficiency of work of supervisory bodies and committees;
- how to make innovation the part of the company's culture;

- management of strategic IT risks;
- control over the implementation of business strategies in SOEs;
- management of needs and zero-based budget planning;
- topics in respect of the commitment and agility of organisation and
- digitalisation and digital strategies.

Lecturers were top experts coming from various sectors of economy, corporate governance, had financial and auditing areas of expertise, and were active in communication industry. Knowledge and competences of Supervisory Board Members are one of 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 constantly be 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.

4.2. ACQUISITION AND DISPOSITION OF CAPITAL ASSETS

4.2.1. Acquisition and disposition of capital assets held by SSH in 2016

In March 2016, SSH sold its 2.08 % stake in Adria Airways, d. d. In April and June, owing to the completion of the liquidation procedure and bankruptcy procedure, the two companies, KLI Logatec, d. d. - in liquidation, and Gradbinec Kranj, d. d. - in liquidation, were deleted from the Court/Business Register. SSH held a 0.59 % stake and a 2.68 % stake in the above mentioned companies, respectively. In October, following a failed proposal for compulsory composition, Gradis skupina G, d. o. o., ended up in bankruptcy. In November 2016, the compulsory composition of Pomurske mlekarne, d. d., became final, by way of which SSH lost it 3.34 % stake in this company. On the other hand, following the simplified reduction in share capital and increase in share capital by way of in-kind contributions, SSH's equity stake in Sava, d. d., increased from 11.06 % to 22.56 %. In December 2016, the bankruptcy proceedings against Polzela, d. o. o., were initiated; prior to that, the company had been transformed from public limited company to limited liability company. Similarly in December 2016, the capital increase was carried out in Paloma, d. d., on account of which the SSH's equity stake in the said company was reduced from 70.97 % to 30.35 %. In Adria, Turistično podjetje, d. o. o., owing to capital increase, the SSH's ownership stake was reduced from 12.24 % to 11.74 %.

4.2.2. Acquisition and disposition of capital assets held by RS in 2016

In January 2016, the transfer of a small quantity of shares of Gorenjska banka, d. d., was carried out, specifically, from the account of two public institutions to the credit of the RS's account, by way of which the RS's shareholding in Gorenjska banka, d. d., increased from 0.16 % to 0.20 %. Applying the same legal basis, a small quantity of Zavarovalnica Triglav shares was transferred to RS, although there was no change made to the equity stake, rounded up to two decimal places. In March 2016, RS sold its shareholding (69.87 %) in Adria Airways, d. d., and Snežnik, d. o. o., merged with a newly-established company, Slovenski državni gozdovi, d. o. o. In April 2016, from accounts of public institutions, RS again acquired small quantities of shares in Telemach Rotovž, d. d., (the increase of RS's shareholding in the company from 1.10 % to 1.17 %) and TelemachTabor, d. d., (from 0.03 % to 0.04 %). The sale of NKBM, d. d., was closed in the same month, RS used to have 100 % equity stake in the said company. In May and June 2016, on account of inheritance, the total of 31 Zavarovalnica Triglav shares were transferred to the RS's account, although there was no

change made to the RS's equity stake, rounded up to two decimal places. There were 14 shares of Gorenjska banka, d. d., transferred to the RS's account from public institutions (no change made to RS's equity stake, rounded up to two decimal places). In June 2016, 2TDK, d. o. o., was incorporated in which RS holds 100 % ownership stake; the company came under the management of SSH. In July and August, there were some more transfers of small quantities of shares being transferred to the RS's account on the basis of inheritance (Sava, d. d., and Zavarovalnica Triglav, d. d.), and more importantly, the capital increase in Polzela, d. d., also took place by way of which the RS's equity stake in the said company increased to 71.43 %. Geoplin, d. o. o., withdrew its shareholding, thus increasing the RS's stake in this company from 39.57 % to 41.24 %. Shareholdings in the following companies were sold: Energetika Črnomelj, d. o. o., (49.3 %), A-Cosmos, d. d., (0.81 %) and Dom upokojeincev Idrija, d. o. o., (18.91 %). September saw more sales taking place, specifically, 49.07 % RS's equity stake in Ekoen, d. o. o., in October, 0.17 % equity stake in Murka, d. d., was sold, and in November 1.46 % equity stake in Počitniška skupnost Krško, d. o. o. was also sold. As a result of the simplified decrease in share capital and debt to equity swap, 0.03 % ownership stake of RS in Sava, d. d., was deleted. Owing to the completed compulsory composition procedure, RS was deleted from the ownership structure of Pomurske mlekarne, d. o. o., (0.004 % stake). In December 2016, bankruptcy proceedings against Lipica Turizem, d. o. o., were initiated.

Capital increases

With the monetary contribution in the amount of EUR 1.5 million, the Republic of Slovenia provided for capital increase in Polzela, d. d., while SSH carried out the capital increase in the said company by means of in-kind contribution amounting to EUR 0.6 million. Similarly, by means of debt-to-equity swap, for the amount of EUR 14.7 million, SSH carried out the capital increase in Sava, d. d., and RS in Adria Airways, d. d., by providing the contribution in the amount of EUR 3.1 million, and in Rudnik Zagorje v zapiranju, d. o. o., - in liquidation, in the amount of EUR 0.2 million. At the end of the year, RS carried out the capital increase of SSH in the amount of EUR 200 million.

4.2.3. Activities in connection with the sale of capital assets owned by SSH and/or RS

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 main activities related to the management of capital assets in the ownership of SSH and RS and performed by SSH.

The SSH strives for to run the sale processes in an efficient, transparent and competitive manner following the principle of equal treatment of participants and in line with international market practice. For this purpose and with the aim of increasing its credibility with investors, SSH leads the sales processes of the largest capital assets in cooperation with credible 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. As regards the sale of the most important shareholdings owned by the Republic of Slovenia, within the scope of statutory limitations, SSH 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 objectives.

In 2016, SSH continued activities pursued in regard to the sale of capital assets held in the ownership of the Republic of Slovenia and SSH, which were 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.

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

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 the state assets management companies in these companies (as of December 31st 2016)

No.	Company name	RS (%)	SSH (%)	KAD (%)	DSU (%)	PDP ¹ (%)	MZ (%)	Total (%)
1	Adria Airways Tehnika, d. d.	0	0	0	0	52.33	0	52.33
2	Adria Airways, d. d. *	69.87	0	0	0	2.08	0	71.95
3	Aero, d. d., – in BANKRUPTCY**	0	0	0	0	1.44	0	1.44
4	Aerodrom Ljubljana, d. d.	50.67	6.82	7.36	0	0	0	64.85
5	Cinkarna Celje, d. d.	0	11.41	0	0	0	20	31.41
6	Elan, d. o. o.	0	0	0	17.34	49.03	8.57	74.94
7	Fotona, d. d.	0	0	0	0	70.48	0	70.48
8	Gospodarsko razstavišče, d. o. o.	0	0	29.51	1.22	0	0	30.78
9	Helios, d. d.	0	9.54	0	0	0	8.31	17.85
10	Nova KBM, d. d.	100.00	0	0	0	0	0	100.00
11	Paloma, d. d. **	0	0	0	0.04	70.97	0	71.01
12	Telekom Slovenije, d. d.	62.54	4.25	5.59	0	0	0	72.38
13	Terme Olimia Bazeni, d. d.***	0	0	49.70	0	0	0	49.70
14	Unior, d. d.	0	2.31	5.55	0	37.11	0	44.97
15	Žito, d. d.	0	12.26	0	0.01	0	15	27.24

Note:

■ Successfully closed sale process

■ In the acquisition process

¹ PDP, d. d., was merged with SSH on 1 July 2015 by way of which all assets held by PDP were transferred to SSH.

*After executing the Share Purchase Agreement, the capital increase of the company was carried out by the buyer and RS in accordance with provisions of this Agreement and new equity stakes were determined on this basis. These are: RS: 72.95 % and SSH: 0.96 %

** Capital increase of the company was carried out in 2016, as a result of which, SSH's equity stakes now amounts to 30.348 %

*** Družba Terme Olimia Bazeni, d. d., ceased to exist from 30 September 2014, due to its merger with Terme Olimia, d. d.; the State Assets Management Strategy has defined these assets as important which is why is not subject to sale.

As shown in the table above, by the end of 2016, assets in eight companies were sold. In 2016, the Adria Airways shares were sold, following the satisfaction of conditions precedent and, in 2015, the sale of Nova KBM was also completed. At the end of 2016, following the successful implementation of capital increase, the take-over bid for the purchase of Paloma shares was published.

On 13 July 2015, the National Assembly of the Republic of Slovenia adopted the Ordinance On State-Owned Capital Assets Management Strategy (hereinafter referred to as: the

"Strategy"), which, among other matters, in accordance with certain criteria has grouped and classified state-owned capital assets into one of three classes determined by ZSDH-1 (portfolio, important and strategic assets). On the basis of the adopted Strategy, the Annual Assets Management Plan 2016 was developed by SSH to which the consent of the Government of the Republic of Slovenia was granted, thus providing for the basis for further disposition of capital assets owned by RS and SSH in 2016.

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. It is envisaged by these agreements that signatory parties will jointly implement sale processes. In 2016, the Agreements on Joint Sale of Shares were concluded for the following companies: KDD, d. d., and Unior, d. d.

In case of sales of large capital assets, sale processes are conducted in cooperation with relevant advisors. In 2016, advisors rendering financial advisory service were selected in the sale processes related to the sale of shares in NLB, d. d.

For all large companies in which the sale process took place in cooperation with the selected advisors, the sell-side documentation was produced: 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 accordance with internal rules, Financial and Legal Due Diligence Reports had to be obtained by SSH for certain companies. Prior to the conclusion of the Purchase and Sale Agreements, SSH always obtains the valuation of assets, produced by independent certified appraiser of company value; in case of small SOEs subject to sale, the internal value assessment is produced.

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, payments of some costs related to the procedure, communication activities, etc.), the sellers usually work to conclude a special agreement on mutual relations in the sale process. In 2016, SSH concluded such agreements with two companies.

The largest asset in respect of which SSH, together with the selected advisors intensively pursued preparatory activities in connection with the sale process, were the shares of NLB owned by the RS. SSH also led intensive activities in respect of the closure of the process for the sale of shares of NKBM and Adria Airways and took part in leading activities in respect of the sale of shares of Cimos, d. d., Mariborska livarna Maribor, d. d., and activities in connection with the transformation of legal organisational form of Geoplin, d. o. o. In October 2016, SSH launched activities in connection with the seeking for long-term investor in Polzela, d. d.

In the process of sale of Cimos shares, the Share Purchase Agreement was executed in October 2016, while the closure of the transaction is envisaged for 2017 and will depend on the satisfaction of conditions precedent. In the process for the sale of shares of Mariborska livarna Maribor, d. d., the decision was made in the autumn of 2016 to temporarily suspend the process of sale whereas no interest had been demonstrated by long-term investors for investing into Polzela, d. d.

In 2015 and 2016 the share capital increase process was conducted in Paloma, d. d., and run by the management of Paloma, in cooperation with a financial and legal advisors. At the General Meeting of the said company held in July 2016, SSH granted its support for capital increase to be performed by Eco-Invest, a. s., the Republic of Slovakia. Subsequently, Eco-Invest merged with daughter company ECO Investment, a. s. At the end of December 2016, these two companies published their intent to purchase Paloma shares and at the end of January 2017, they published their take-over bid.

In 2016, SSH published a public invitation for the expression of interest for the purchase of shares in KDD, d. d., and two public invitations for submitting bids for several small-size capital assets. The first public invitation referred to the sale of capital assets held in 13 companies owned by RS or SSH whereas the second invitation referred to the sale of capital assets in 5 companies owned by RS, SSH and Kapitalska družba, d. d., which have not yet been completed at the time of drawing up this report. The sale process related to the sale of shares in KDD, d. d., is still ongoing.

4.2.4. Sales of capital assets owned by SSH and/or RS realised in 2016 and capital assets acquired in 2016

According to the processes described above, in 2016, SSH concluded two Share Purchase Agreements for the purchase and sale of shares held by SSH in Adria Airways Tehnika, d. d., and Cimos, d. d. Additionally, on the basis of the first public invitation, 7 Share Purchase Agreements were concluded for the purchase and sale of shares in the following companies: Murka, d. d., A-Cosmos, d. d., Telemach Tabor, d. d., Počitniška skupnost Krško, d. o. o., Ekoen, d. o. o., Energetika Črnomelj, d. o. o., and Dom upokoencev Idrija d. o. o.

In March 2016, the process for the sale of shares of Adria Airways was successfully closed, following the fulfilment of the conditions precedents of which the most important one was linked to the capital increase being carried out by the RS and the buyer. In April 2016, the process for the sale of NKBM shares was successfully closed.

Concluded Agreements on Purchase and Sale of Shares in the ownership of SSH and/or the RS in 2016

Asset	Buyer	Date of signing the agreement	SSH ownership stake (%)	RS ownership stake (%)
Adria Airways, d. d.	AA Int. Aviation Holding GmbH	18/01/2016	0.96	72.95
Cimos, d. d.	TCH S. r. l	14/10/2016	0	24.26
Energetika Črnomelj, d. o. o.	Petrol, d. d.	08/07/2016	0	49.30
A-cosmos, d. d.	A-cosmos, d. d.	27/06/2016	0	0.81
Telemach Tabor, d. d.	Telemach, d. o. o.	08/08/2016	0	0.04
Dom upokoencev Idrija, d. o. o.	FMR, d. d.	10/08/2016	0	18.91
Ekoen, d. o. o.	Rok Suhadolnik	20/09/2016	0	49.07
Murka, d. d.	Finančna pot, d. d.	16/09/2016	0	0.17
Počitniška skupnost Krško, d. o. o.	Labod PSK, d. o. o.	09/11/2016	0	1.46

On the basis of the Agreement on Legal Organisational Transformation of Geoplin, d. o. o., concluded between Petrol, d. d., and SSH in 2015, which regulates the carving-out of activities by establishing a new company Plinhold, d. o. o., which will be a 100 % owner of Plinovodi, d. o. o., in 2016, SSH and Petrol signed the Agreement on Stake Swap in Geoplin, d. o. o., and Plinhold, d. o. o., which will enter into force after the cumulative satisfaction of conditions precedent. These, among other, refer to decisions and consents to be obtained in regard to concentrations. On 23 December 2016, SSH and Kapitalska družba, d. d., signed the Agreement on Regulation of Mutual Relations in connection with the sale or swap of equity stakes in Geoplin, d. o. o., on the basis of which, in accordance with ZSDH-1, on behalf of and for the account of Kapitalska družba, d. d.; SSH manages the process for the sale of equity stakes in Geoplin, d. o. o., owned by Kapitalska družba, d. d.

In connection with the Agreement on Regulation of Mutual Relations in regard to Casino Portorož, d. d., which was concluded in 2012 by and between SOD, Kapitalska družba, d. d., 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 Kapitalska družba, d. d., were recognised as having an unconditional right for the monies which had already been received in 2013. These monies were obtained by SSH and Kapitalska družba, d. d., by cashing in the bank guarantee in accordance with the Agreement on Regulation of Mutual Relations and they represent the contribution for the loss of purchase price and for the reduction in majority shareholding in the company. On the basis of the court settlement concluded, in case of modifications to the Gambling Act, in the next three years, SSH and Kapitalska družba, d. d., will sell the shares in Casino Portorož, d. d., to two companies, Casino Riviera, d. d., and Eurotras, d. d., under terms and conditions stated in the court settlement mentioned.

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 Kapitalska družba, d. d., 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.

4.2.5. Activities in connection with the acquisition of capital assets owned by SSH and/or RS

In 2016, SSH also pursued activities in connection with the acquisition of capital assets.

In July 2016, the Agreement was concluded on transfer against payment of Sava's receivables and bonds from BAMC to Kapitalska družba, d. d., and SSH, by way of which SSH and Kapitalska družba, d. d., took over, each one half of receivables and thus obtained the legal basis for voting in the compulsory composition process for Sava, d. d. After the successfully completed compulsory composition process, which became final in November 2016, SSH obtained 22.56 % equity stake in Sava, d. d.

On the basis of General Meeting resolutions of Polzela, d. d., held in August 2016, and on the basis of the invalidation of shares and capital increase by means of in-kind contributions (receivables bought by SSH from creditors, i.e., BAMC, NLB, d. d., Gorenjska banka, d. d., Elektro Celje, d. d., and Geoplin, d. o. o.) and capital increase by way of monetary contribution by RS in the amount of EUR 1.5 million, RS acquired 28.57 % equity stake and SSH 71.43 % equity stake in Polzela d. d.

In light of the vested interest by SSH, and indirectly by the RS, for the State to retain the largest equity stake in Petrol, d. d., and considering the demonstrated threat for the potential dilution of equity stakes in direct or indirect ownership of the State, the Annual Asset Management Plan for Petrol, d. d., was amended in October 2016. On the basis of the public invitation by NLB, d. d., for submitting bids to purchase 3.03 % shareholding in Petrol, SSH, on behalf and for the account of the RS, submitted its bid to purchase the said shares. The acquisition process was not yet finished by the end of 2016.

4.3. SETTLEMENT AND IMPLEMENTATION OF STATUTORY OBLIGATIONS

4.3.1. SETTLEMENT OF LIABILITIES ARISING FROM DENATIONALISATION

In 2016, in accordance with the provisions of Denationalisation Act (hereinafter referred to as: "ZDen"), and other regulations regulating denationalisation of property, SSH took part in procedures and proceedings before administrative and judicial bodies and in proceedings for the determination of compensation under Article 73 of ZDen, therefore, in addition to duties stipulated by ZSDH-1, SSH executed all authorisations, powers and enforced rights and obligations of the company prior to its transformation. According to the data provided by the Ministry of Justice monitoring the conclusion of the denationalisation, as of 31 December 2016, 99.6 % of cases before administrative bodies were concluded with a final decision issued. Local courts settled as many as 98.6 % of cases, with the data referring to cases handled under Article 5 of ZDen; there are 14 cases still to be settled by local courts. The published data do not include any data on claims lodged and outstanding pursuant to the provision of Article 73 of ZDen and on claims made by re-established agricultural communities for compensation in bonds. The above mentioned claims may still be lodged before courts in the future under the provisions of ZPVAS. As of 31 December 2016, a total of approximately 294 claims registered were still outstanding.

SSH takes part in two types of procedures, specifically, in denationalisation procedures (before administrative authorities), and in the proceedings for the determination of compensation value owed to claimants in which property was restored to denationalisation beneficiaries in kind (before the competent courts). The Company also takes part in the mediation procedures for claims handled by courts. In accordance with the provisions of Article 51 of ZDen, SSH is a party liable to pay compensation in bonds and in shares, held at the disposal of the Republic of Slovenia; pursuant to the provisions of Article 60 of the same Act, SSH holds the status of a party to proceedings. In accordance with ZDen and other regulations, in denationalisation proceedings, any compensation in bonds is determined when the restitution of nationalised property in kind is not possible, and when obstacles are present for their restitution in kind as well as in extraordinary circumstances when a beneficiary holds a right to select the form of restitution. However, in procedures for the determination of compensation to claimants from whom property was restored to beneficiaries in kind (procedures in accordance with Article 73 of ZDen), a compensation in bonds is explicitly envisaged under condition that all stipulated criteria for such a condition are met.

In 2016, SSH received 17 new claims and 47 amended claims. New claims are considered to be those claims for which a body handling the procedure (either administrative or judicial) invites SSH for the first time to take part as a party to proceedings. The Company followed its established practice for the settlement of claims, diligently examining all claims received upon their legal basis, their scope and amount and strove to consistently determine the appropriate compensation in bonds attributable to a beneficiary in accordance with regulations on denationalisation of property. SSH assesses these claims on the basis of documentation submitted by the authority running the procedure and, when necessary, obtains evidence and documents by itself directly from various archives and other sources. The Company verifies data by also accessing the electronic land register, examining ortho photo images and checking data bases of surveying and mapping authorities, etc. When it is not possible to establish the current state of immovable property in any other way, an inspection of immovable property is conducted. SSH regularly replies to the submitted claims within the set time periods and in its first reply makes its stand regarding all facts having an impact on the decision, when sufficient documentation is available.

In 2016, SSH received 33 appraisals and value calculations of the nationalised property which had been submitted by authorities running the procedures. Following the established practice, the construction and mechanical engineering appraisals are examined by the Company's experts as well as by appraisers or experts of relevant disciplines (for example when items to be decided about are art works). These appraisals and value calculations usually represent the compensation amount claimed by beneficiaries. The value calculations of the nationalised property (agricultural and building plots of land, valuation of movable property, purchase prices, compensation granted upon nationalisation, and similar) are reviewed by the Company's employees during the handling of the case.

SSH actively settles claims also by taking part in the scheduled oral proceedings and hearings when the participation is required to provide a correct and complete determination of actual and legal state of affairs regarding the case. In 2016, SSH took part in 46 proceedings or hearings out of 79 proceedings scheduled for the period. When necessary, meetings with applicants and other parties to proceedings were organised at the Company's headquarters.

SSH also settles claims by entering into composition agreements when all conditions are met as stipulated in Rules on Concluding Composition Agreements of SSH in procedures governed by regulations on denationalisation. In 2016, 2 composition agreements were concluded whereas one proposal for concluding settlement agreement was rejected. Since its establishment in 2007 until 31 December 2016, the Settlement Commission met at 111 sessions and concluded 75 composition agreements.

Denationalisation procedures before administrative bodies at the first instance are conducted in the following manner: after the completed fact-finding procedure and prior to issuing a decision determining the compensation amount, the authority running the denationalisation procedure or a relevant commission, draws a report on the established actual and legal state of affairs regarding the case handled. The report therefore represents a kind of conclusion of the procedure from which it is clear how the administrative body intends to decide in the decision which follows the report. In 2016, SSH received 59 such reports and amendments to reports.

Denationalisation - report on procedures

	Total by 31 December 2015	Total by 31 December 2015	Total by 31 December 2016	Total in 2016
Claims received	22,455	22,473	22,491	17
Appraisals and calculations received	20,312	20,362	20,412	33
Reports on the established actual and legal state of affairs regarding the case	22,405	22,461	22,517	59

In 2016, SSH received 62 first-instance decisions with the compensation amount determined in SOS2E bonds (administrative procedures and judicial proceedings), together with 44 decisions by way of which claims were rejected both on the first-instance and on higher instances as no conditions were met to determine compensation amounts in accordance with regulations governing denationalisation.

The preclusion period for filing the appeals were determined in 59 decisions received in 2016 in which the compensation amount was determined. SSH filed 15 appeals against those decisions. In 2016, the Company received 11 second-instance decisions (administrative and judicial decisions issued by ministries acting as appeal bodies and decisions issued by higher courts) in which a decision regarding its appeals against first-instance decisions on the determination of compensation in bonds was made.

SSH lodged applications for legal remedies against decisions on compensation amounts only when justified reasons were given, specifically, either due to an incorrectly determined statement of affairs, or due to mistaken application of the substantive law. Reasons for appeal mainly referred to the questionable legal foundation of the claim and the eligibility for denationalisation, the timely lodging of claims, and an incorrectly determined compensation amount.

In 2016, SSH lodged 7 applications for administrative disputes before the Administrative Court of the Republic of Slovenia, appealing against decisions on the compensation in bonds. In the same period, two appeals for review were lodged before the Supreme Court of the Republic of Slovenia. In 2016, 9 judgements by the Supreme Court of the Republic of Slovenia were received (issued by the senate for administrative and civil law issues) by way of which rejections and dismissals of applicants' claims were approved.

Denationalisation – decisions

	Total by 31 December 2014	Total by 31 December 2015	Total by 31 December 2016	Total in 2016
First-instance decisions received determining compensation in bonds	20,273	20,326	20,379	62
Appeals lodged in regard to decisions with time of preclusion	5,026	5,040	5,054	15
% of appeals against decisions determining compensation in bonds	24.79	24.79	24.79	25.42
Initiated legal actions and revisions	884	901	918	9

Fifty (50) decisions referring to a compensation amount in SOS2E bonds became final in 2016. These include decisions regarding the determination of the compensation amount and the decisions on rejection of claims. The total compensation amount to be paid under these decisions was EUR 3.7 million.

In 2016, SSH received some decisions made by the highest decision-making bodies that were important in terms of the content and which enhanced the case law in connection with the timely lodging of claims for a reduced value of properties, the entitlement to denationalisation, active legitimation and similar issues. Only the most complex denationalisation cases are still being handled. These include cases which are either highly complex or include a claim for a high compensation amount and which refer to complex legal issues. In the period under consideration, claims handled by SSH had been lodged by individuals, cooperatives, the church and claimants by way of which property had been restituted to denationalisation beneficiaries in kind (companies, public institutions, banks and similar institutions). Several cases referring to the denationalisation of companies and capital assets, as well as claims for the denationalisation of real property and movable property continued to be the subject of denationalisation procedures in 2016. In addition, claims were handled that referred to the denationalisation of property that used to belong to owners - members of agricultural communities, and which are dealt with in accordance with ZPVAS and in accordance with Agricultural Communities Act which was adopted in 2015 (agricultural communities with a registered seat in another country).

The claim by Banka Celje, considered to be one of high-volume claims (the figure claimed amounts to EUR 4.2 million, only for the principal) still remains to be outstanding; in regard to this claim, SSH strives to substantiate the lack of existence of legal succession by commercial banks from the National Bank of Yugoslavia. In February 2016, SSH received the judgement by the Supreme Court of the Republic of Slovenia which refers to the direct entitlement for compensation on the part of newly-established agricultural communities. This means that

beneficiaries to claim the compensation does not only include previous owners in the capacity of the members of agricultural communities but the right to claim compensation is also recognised to a newly established agricultural community. The decision by the Supreme Court of the Republic of Slovenia ruling that former owners who had been granted the right to compensation pursuant to the Financial and Compensation Treaty (hereinafter referred to as: the "FCT") concluded by and between the Federal Republic of Germany and the Republic of Austria in 1961, were not eligible to denationalisation, in accordance with the provision of Article 10, Paragraph 2 of ZDen. Claims with this issue were finally rejected, similarly as appeals for review which were rejected or dismissed. The issue in regard to the entitlement for denationalisation in connection with FCT was first opened by SSH in 2010. In this regard, the Supreme Court of the Republic of Slovenia fully accepted the argumentation provided by SSH in relation to certain issues in connection with the FCT.

An important issue still outstanding is the case referring to the claim by Nova KBM, d. d., in accordance with the provision of Article 73 of ZDen (the claim by the applicant is set at the amount of EUR 15.6 million). The case refers to the disputed legal succession by Nova KBM, d. d., from KBM and the resulting entitlement to denationalisation. SSH reiterates the standpoint that there is no entitlement, mainly on the ground that not one of conditions for the payment of compensation under Article 73 of ZDen is given, i.e., the condition regarding the valuable consideration. The case is currently processed by the appeal procedure since SSH lodged an appeal against the decision in which it was determined that there is the legal basis for denationalisation. SSH received some other important judgements by the Supreme Court of the Republic of Slovenia passed in 2016 which dealt with the issue regarding the issue of eligibility for compensation under the provision of Article 73 of ZDen.

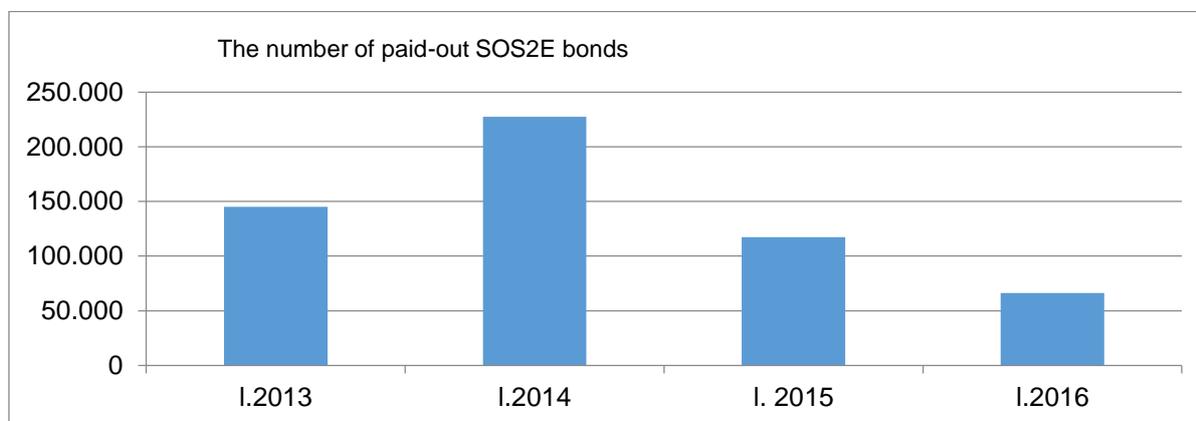
In 2016, the Supreme Court of the Republic of Slovenia again confirmed the position that there were no grounds to amend the basic value of agricultural land, which is used under Article 4 of the Ordinance on the Method for Determining the Value of Agricultural Land, Forest and Land for Construction Applied in the Denationalisation Procedure. This is important for SSH as it affects the future liabilities carried by SSH not only in regard to the compensation for agricultural land but also for construction land.

SSH is liable to pay compensation in bonds when assets cannot be restituted in kind or when a beneficiary decides for this type of compensation upon the existence of special statutory conditions. For settling liabilities due to beneficiaries under ZDen, Cooperatives Act and other regulations governing the denationalisation of property, SSH floated eight bond issues, issuing 18.7 million of SOS2E bonds, in bearer bond form; their total value amounted to EUR 956 million. Bonds are denominated in EUR 51.13. As of 31 December 2016, SSH held 1,381,392 SOS2E bonds.

SSH implements denationalisation decisions pursuant to the provision of the first indent of Article 59 of the ZDen. It also implements decisions issued by the Ministry of the Environment and Spatial Planning in relation to the decision-making under the provisions of Article 125 of the Housing Act (hereinafter referred to as: "SZ"), and the provisions of Article 173, Paragraph 3 of the Housing Act (hereinafter referred to as: "SZ-1"). Decisions issued on the basis of the above stated regulations are no longer implemented by transferring bonds from the temporary account at the Klirinško depotna družba, d. d., (Central Securities Clearing Corporation) to the account of a beneficiary, but the total liability arising from bonds is paid out to the account of a beneficiary who may be a heir or a trustee for special cases. The SOS2E bond matured on 1 June 2016, which is why an eligible person is paid out all of 40 coupons. The implementing regulation governing the implementation of decisions on denationalisation has not been modified (the Decree on Bond Issue and Decision Implementation regarding decisions on compensation liable to be paid by Slovene Compensation Fund (hereinafter referred to as: "the Decree"); similarly, no amendments have been made to ZDen. This means that decisions are to be implemented on the basis of full application for their implementation

which must include data referred to in Article 15, Paragraph 1 of the said Decree. The implementation of the decision is completed by paying out all matured coupons.

The number of paid-out SOS2E bonds



Until 31 December 2016, SSH transferred 17,318,608 bonds to 27,488 bond holders, for the purpose of fulfilling its duties.

In 2016, SSH transferred 66,165 SOS2E bonds to 280 bond holders. The number of recipients increased since the processing of denationalisation claims is in its final phase, however, the number of paid-out bonds decreased. Otherwise, denationalisation decisions which have recently been received to be enforced by SSH include decisions with lower compensation amounts or which, due to the initiated and completed probate proceedings, are enforced on a partial basis only. This is due to the fact that heirs fail to decide to enforce the implementation of decisions in a concerted manner. There is a possibility, that the remaining part of decisions will not be implemented due to objective grounds, regardless of the time distance of the final decisions. Considering the high-value of claims, it is expected that pay-outs will be paid in the future.

In addition to individuals, a beneficiary of the compensation under ZDen can also be a company: in 2015, individuals received 9,689 bonds, and companies 56,476 bonds. The sum of bonds attributable to companies was higher in 2016 since more complex denationalisation cases relating to the denationalisation of property owned by companies were in the process of being completed.

Pursuant to Article 173 of SZ-1, according to which a tenant enforcing a right to purchase a second apartment holds the right to claim compensation from SSH in bonds in the amount of 25 % of the value of the apartment and 36 % in cash, SSH transferred 948 SOS2E bonds and paid out EUR 69.809 in cash.

4.3.2. Settlement of liabilities arising from compensation for confiscated property pursuant to the abrogation of the property confiscation penalty

The Act Regulating the Issuing of Bonds in Compensation for Confiscated Property pursuant to Abrogation of the Penalty of Confiscation of Property ("ZIOOZP"), has expanded SSH duties which originally related to the settlement of liabilities under regulations governing denationalisation to handling the issue, servicing and payment and calculation of interests for bonds issued under the said Act on 1 February 2001 by the Republic of Slovenia for the payment of compensation. Two million registered bonds were issued with the symbol RS21, amounting to the total value of EUR 83 million, and denominated in EUR 41.73.

SSH enforces final decisions on compensation for the confiscated property by paying out the relevant compensation amounts and no longer by transferring bonds since RS21 bond matured on 1 March 2015. Since pursuant to ZIOOZP, the compensation for the confiscated property is still determined in bonds, considering the interpretation of Article 3, Paragraph 5 of ZIOOZP, the interest is calculated from the day when the decision on the abrogation of the penalty for the confiscation of property and the determination of compensation for the confiscated property becomes final until the issue/hand-over of bonds. The enforcement of a decision may be requested by a beneficiary or his/her legal successor demonstrating such status by way of a final decree of distribution or any other valid legal title. Since the beginning of the process for enforcing these decisions until 31 December 2016, SSH paid out the equivalent amount of 1,744,715 RS21 bonds.

In 2016, 4 decisions made by responsible courts were implemented and on their basis 5 beneficiaries or their legal successors were paid out the compensation in the value equivalent to 4,152 RS21 bonds.

4.3.3. Settlement of liabilities for compensation to victims of war and post-war violence

The Payment of Compensation to the Victims of War and Post-war Aggression Act ("ZSPOZ"), has granted to SSH public powers to run procedures for issuing decisions on compensation amounts and for performing administrative and technical activities in relation to their implementation. SSH continues to decide on the compensation amount for status acknowledged under the Victims of War Violence Act (hereinafter referred to as: "ZZVN") and Redressing of Injustices Act ("ZPkri"), which provide for the legal basis for acknowledging the status of a beneficiary to compensation under ZSPOZ.

On 1 January 2002, the Republic of Slovenia issued 30 million bonds in the value of EUR 125.1 million for the payment of compensation to victims of war and post-war violence, and on 7 April 2009, the second issue which comprised 2.5 million bonds in the value of EUR 10.4 million. The RS39 bonds are registered bonds issued in denominations of EUR 4.17. The compensation is paid out in two instalments, specifically, up to the value of EUR 1,251.88 is paid in cash, and the residual balance is paid in bonds. Since the beginning of activities carried out under these public powers and until 31 December 2016, SSH transferred 31,759,443 RS39 bonds, and in 2016 paid out the amount equivalent to 9,131 RS39 bonds and EUR 21,847 in cash.

By adopting the Act Amending ZSPOZ, beneficiaries who had been issued and serviced the decision after 7 April 2009, are being paid their compensation in cash. A beneficiary may receive compensation either under ZZVN or under ZPkri or under the combination of both laws, but the total sum to be received by an individual beneficiary under ZSPOZ should not exceed the sum of EUR 8,345.85. In light of the above stated, SSH also issues decisions by way of which it is determined that a beneficiary is not entitled to compensation regardless of having been given the status under ZZVN or ZPkri.

In 2016, SSH issued 759 decisions on compensation amounts and, on this basis, paid the sum of EUR 3,031,238 in cash. In regard to decisions, decisions issued under ZPkri still prevailed while decisions issued under ZZVN are less significant in terms of number and compensation amount. The compensation was not determined for a great number of beneficiaries since they had received the highest possible compensation ruled in previous decisions. The number of decisions issued increased by 24 % as compared to previous year.

4.3.4 Settlement of liabilities under the Return of Investments in the Public Telecommunications Network Act

SSH reimburses payments for investments into the public telecommunication network in accordance with Article 3 of the Reimbursement of Investments in Public Telecommunications (hereinafter referred to as: "ZVVJTO"),. The above mentioned obligation is carried out on behalf of the Republic of Slovenia and for its account - the Republic of Slovenia is the party liable to carry out the payment. SSH fulfilled its obligations arising from these enforceable instruments in six months following the entry into force of amendments to ZVVJTO. The settlement of liabilities pursuant to the enforceable instruments which are submitted directly by the State-Attorneys of the Republic of Slovenia, is carried out by SSH within 60 days following their receipt.

Until 31 December 2016, the total sum of EUR 191.45 million was paid for liabilities arising under ZVVJTO; of this figure, EUR 0.8 were paid in 2016.

4.4. LIQUIDITY MANAGEMENT, LIQUID INVESTMENT PORTFOLIO MANAGEMENT AND BALANCING FINANCIAL POSITION

4.4.1. The main policy of the SSH investment policy

The SSH implemented the adopted business and investment policy within the scope of the adopted 2016 Financial Plan and Rules on Free Cash Investment. In regard to financial investments, and in accordance with the basic premises of its investment policy, both the security and liquidity of assets as well as the investment and liability maturity matches were taken into account. Significantly, in 2016, SSH settled all of its statutory and contractual obligations on a regular and timely basis. It maintained its current liquidity by planning cash flows and keeping a permanent liquidity reserve.

4.4.2. Cash flows and financial debt

SSH provided monies for the coverage of its liabilities mainly with inflows from matured deposits and liquid (portfolio) assets as well as other inflows. An important source of funds to cover the SSH liabilities in 2016 was a record-hitting pay-outs of dividends of companies owned by SSH, revenue from the sale of capital assets and the sale of UCITS units of mutual funds. Other important source for ensuring the Company's liquidity included the inflows from matured long-term receivables due from the Republic of Slovenia (pursuant to ZVVJTO, ZSPOZ, and ZIOOZP).

Cash outflows for the settlement of SSH statutory obligations were lower by 50 % than outflows in 2015, and by 15 % lower than planned. More than 94 % of all statutorily stipulated cash flows represent outflows in accordance with the Denationalisation Act. On 1 June 2016, SSH paid out the last, 40th regular coupon of SOS2E bond. Denationalisation is still not completed as the payments to beneficiaries will continue.

SSH invested the surplus funds solely in new deposits redeemable at notice and in deposits. For the purpose of providing for liquidity for the settlement of financial liabilities arising from short-term loans, the liquid investment portfolio significantly decreased as compared to previous year. The capital increase in SSH realised by the Republic of Slovenia in December

2016, amounting to EUR 200 million, provided for an increase in the liquidity portfolio, specifically, deposits.

As of 31 December 2016, the SSH total indebtedness amounted to EUR 285 million, of which EUR 280 million will mature in 2017. The Euribor plus the average weighted mark-up for these loans amounts to 1.05 %. All loans have been secured by guarantees granted by the Republic of Slovenia.

Loans in the amount of EUR 5 million will mature in 2020. Euribor plus the average weighted mark-up for this loan amounts to 1.55 %. Interest rate for this loan is not hedged against interest rate risk, and the loan have not been secured by a sovereign guarantee.

SOS3 bond in the amount of EUR 100 million will mature in 2020. The interest rate is fixed and amounts to 2.5 %.

In 2016, SSH repaid EUR 55 million of loans; as a result, the SSH's total indebtedness amounts to EUR 385 million. SSH will continue to decrease its indebtedness in the coming years. In 2017, SSH intends to decrease its indebtedness by approximately EUR 240 million, which is EUR 40 million more than the recapitalisation amount.

SSH liquid investment portfolio structure by investment type

Investment type	Balance as of 31 December 2015		Balance as of 31 December 2016	
	in EUR 000	%	in EUR 000	%
Total debt investments	54,862	64	203,260	95
Deposits	35,435	41	201,300	94
Deposits	2,427	3	1,960	1
Certificate of deposits	17,000	20	0	0
Equity investments	30,440	36	9,859	5
Mutual Funds	23,651	28	9,767	5
Shares and EFT (foreign, listed)	6,789	8	92	0
Total investment portfolio	85,302	100	213,119	100

Note: The table does not include EUR 23.9 million on the transaction account.

The value of debt investments as of 31 December 2016 amounted to EUR 203 million. Debt investments mainly include deposits. Deposit maturity varies although all deposits are short-term deposits intended for the settling of statutory and other liabilities in 2016 and particularly to the SSH's deleveraging in 2017. One part of the bond portfolio includes various domestic bonds.

At the end of 2016, SSH held only 5 % of assets of the investment portfolio allocated in the equity stake investment class. As regards this investment class, SSH diversifies its investments by investing in liquid securities issued by various global issuers and in investment funds. As of 31 December 2016, SSH held assets invested in various, mainly equity investment mutual funds of UCITS' management companies (domestic and foreign). This method ensures the dispersion of the SSH invested assets and provides for a low level risk. These assets are highly liquid. Assets held in mutual funds represent a small part of the investment portfolio since the primary goal of the SSH investment portfolio management is the provision of liquidity and safety, while the taking advantage of market potentials and the generation of portfolio yield represent only a secondary goal.

4.4.3. Liquid investment portfolio performance

In 2016, the returns generated by all segments of investment portfolio were positive, with the exception of investments in foreign shares and EFTs which had to be cashed in by the Company for liquidity reasons. A relatively low return was generated by deposits, mainly as a result of a negative impact due to the falling interest rates on deposits. The weighted rate of return of the SSH portfolio amounted to 0.26 % in 2016. The growth in the portfolio profitability was mostly contributed by the segment comprising bonds and mutual funds. In 2017, a correction on stock markets is expected, although the values of significant stock indices are expected to be positive, according to forecasts. SSH will be prudent when investing and continue with conservative investment policy as it lacks long-term surplus.

The SSH investment portfolio performance by investment type and individual investment grades (in %)

Investment type	2014	2015	2016
Deposits	1.99	0.82	0.14
Certificate of deposits	3.00	0.63	0.63
Euro-commercial papers	-	-	-
Bonds	10.14	11.71	1.94
Mutual Funds	10.09	1.76	2.2
Shares and EFT (foreign, listed)	40.52	10.47	-2.3
The investment portfolio's performance	4.41	1.44	0.26

4.5. SIGNIFICANT EVENTS AFTER BALANCE SHEET DATE

Significant events after balance sheet date are described in detail under item 9.7 of this Annual Report.

Done in Ljubljana, on 20. April 2017

Nada Drobne Popovič
Management Board Member

Lidia Glavina
Management Board President



SLOVENSKI DRŽAVNI HOLDING, d. d.

SLOVENIAN SOVEREIGN HOLDING - COMPANY AND GROUP

ACCOUNTING REPORT

FOR YEAR ENDING 31 DECEMBER 2016

5. STATEMENT OF MANAGEMENT RESPONSIBILITY

The Management Board is responsible for the preparation of the Annual Report so that it provides a true and accurate account of the financial position and performance of SSH in 2016.

The Management confirms that applicable accounting policies have been consistently used and that accounting estimates have been prepared in compliance with the principles of prudence and due diligence. The Management Board further confirms that financial statements have been prepared under the assumption of the going concern and are in line with applicable legislation and the International Financial Reporting Standards as adopted by the EU.

The Management Board is responsible for adequate and orderly accounting and the adoption of appropriate measures for safeguarding property and other assets as well as for the prevention and detection of frauds and other irregularities and illegalities.

At any time, tax authorities may verify the operation of SSH within five years from the tax calculation date which may consequently result in additional tax liability, default interest and penalty being imposed pursuant to the Corporate Income Tax Act, or to the charging of any other taxes and levies. The Management Board is not familiar of any circumstances that may give rise to any potential significant liability arising thereunder.

The Company has in place the internal control and risk management systems necessary for the accounting reporting procedure.

The President and the Member of the Management Board of SSH hereby declare that we are familiar with the content of all integral parts of the Annual Report and we confirm it hereby with our signatures.

Done in Ljubljana, 20 April 2017

Nada Drobne Popovič
Management Board Member

Lidia Glavina
Management Board President

6. INDEPENDENT AUDITOR'S REPORT

6.1. SLOVENIAN SOVEREIGN HOLDING



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INDEPENDENT AUDITOR'S REPORT to the owners of Slovenski državni holding, d.d.

Opinion

We have audited the accompanying financial statements of Slovenski državni holding, d.d., (hereinafter 'the Company'), which comprise the statement of financial position as at 31 December 2016, and the statement of total comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the EU (hereinafter 'IFRSs').

Basis for Opinion

We conducted our audit in accordance with the International Standards on Auditing (ISA). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and other ethical requirements that are relevant to our audit of the financial statements in Slovenia, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matters	How our audit addressed the key audit matter
Measurement and recognition of investments	
In its financial statements as at 31 December 2016, the Company discloses EUR 545,014 thousand of available-for-sale financial assets, which account for 54% of total assets.	We considered the adequacy of the methods used for measurement of financial assets of the Company. Important investments were subject to the following procedures:

Ime Deloitte se nanaša na Deloitte Touche Tohmatsu Limited, pravno osebo, usklajevano v skladu z zakonodajo Združenega kraljestva Velike Britanije in Severne Irske (v izvirniku »UK private company limited by guarantee«), in mrežo njenih članic, od katerih je vsaka ločena in samostojna pravna oseba. Podroben opis pravne organiziranosti združenja Deloitte Touche Tohmatsu Limited in njenih družb članic je na voljo na <http://www2.deloitte.com/si/en/pages/about-deloitte/articles/about-deloitte.html>

Družba članica Deloitte Touche Tohmatsu Limited.

Deloitte Revizija d.o.o. - Družba vpisana pri Okrožnem sodišču v Ljubljani - Matična številka: 1647105000 - ID Št. za DDV: SI62560085 - Osnovni kapital: 74.214.30 EUR

<p>These investments are measured at:</p> <ul style="list-style-type: none"> • fair value taken from the price per share on active market for marketable securities; • fair value estimated based on different valuation techniques for investments in non-marketable securities the fair value of which can be determined; or • fair value less potential impairment for investments in interests and shares the fair value of which cannot be measured reliably. <p>Due to significance of the amount as at 31 December 2016, the said investments are considered a key audit matter.</p>	<ul style="list-style-type: none"> • we recalculated the fair value of investments in marketable securities using the prices on active securities market as at 31 December 2016; • for investments in non-marketable securities measured at fair value, a valuation expert was engaged to assist us in evaluating the assumptions and methodologies used by the Company, in particular the assumptions used to calculate discount rates and expected future cash flows; • for investments in non-marketable securities the fair value of which cannot be measured reliably, we assessed whether management had evaluated indicators of impairment of such investments and whether they had been considered adequately when assessing the need for impairment. <p>Further disclosures are provided in Note 9.1.3.</p>
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Other Information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. We obtained the other information before the auditor's report date except for the Supervisory Board report, which will be made available subsequently. Management is responsible for the other information.

Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements, legal requirements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. In addition, we assess whether the other information has been prepared, in all material respects, in accordance with applicable law or regulation, in particular, whether the other information complies with law or regulation in terms of formal requirements and procedure for preparing the other information in the context of materiality, i.e. whether any non-compliance with these requirements could influence judgments made on the basis of the other information.

Based on the procedures performed, to the extent we are able to assess it, we report that:

- The other information describing the facts that are also presented in the financial statements is, in all material respects, consistent with the financial statements; and
- The other information is prepared in compliance with applicable law or regulation.

In addition, our responsibility is to report, based on the knowledge and understanding of the Company obtained in the audit, on whether the other information contains any material misstatement of fact. Based on the procedures we have performed on the other information obtained, we have not identified any material misstatement of fact.

Responsibilities of Management, the Supervisory Board and the Audit Committee for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Supervisory Board and the Audit Committee are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

With the Supervisory Board and the Audit Committee we communicate the planned scope and timing of the audit and significant findings from the audit, including significant deficiencies in internal control we have identified during our audit.

We also provide the Supervisory Board and the Audit Committee with the statement of compliance with relevant ethical requirements regarding independence, and we communicate with them all relationships and other matters for which it may reasonably be thought to bear on independence, and, if appropriate, all the related safeguards.

Among the matters we communicate with those charged with governance, we select those matters that were of most significance in our audit of the financial statements of the current period, and, therefore, represent key audit matters. We describe these matters in our auditor's report, unless law or regulation precludes public disclosure about the matter, or, in extremely rare circumstances, we determine that the matter should not be communicated in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

DELOITTE REVIZIJA d.o.o.

Barbara Žibret Kralj
Certified Auditor

*For signature please refer to the original
Slovenian version.*

Deloitte.

DELOITTE REVIZIJA D.O.O.
Ljubljana, Slovenija

Ljubljana, 20 April 2017

TRANSLATION ONLY – SLOVENIAN ORIGINAL PREVAILS

6.2. SLOVENIAN SOVEREIGN HOLDING GROUP



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INDEPENDENT AUDITOR'S REPORT to the owners of Slovenski državni holding, d.d.

Opinion

We have audited the accompanying consolidated financial statements of Slovenski državni holding, d.d., and its subsidiaries (hereinafter 'the Group'), which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of total comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the EU (hereinafter 'IFRSs').

Basis for Opinion

We conducted our audit in accordance with the International Standards on Auditing (ISA). Our responsibilities under those standards are further described in *the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and other ethical requirements that are relevant to our audit of the financial statements in Slovenia, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How our audit addressed the key audit matter
Measurement and recognition of investments	
In its financial statements as at 31 December 2016, the Group discloses EUR 545,014 thousand of available-for-sale financial assets, which account for 54% of total assets.	We considered the adequacy of the methods used for measurement of investments. Important investments were subject to the following procedures:

Ime Deloitte se nanaša na Deloitte Touche Tohmatsu Limited, pravno osebo, ustanovljeno v skladu z zakonodajo Združenega kraljestva Velike Britanije in Severne Irske (v izvirniku »UK private company limited by guarantee«), in mrežo njenih članic, od katerih je vsaka ločena in samostojna pravna oseba. Podroben opis pravne organiziranosti združenja Deloitte Touche Tohmatsu Limited in njenih družb članic je na voljo na <http://www2.deloitte.com/ssi/en/pages/about-deloitte/articles/about-deloitte.html>

Družba članica Deloitte Touche Tohmatsu Limited.

Deloitte Revizija d.o.o. - Družba vpisana pri Okrožnem sodišču v Ljubljani - Matična številka: 1647105000 - ID št. za DDV: SI62560085 - Osnovni kapital: 74.214,30 EUR

<p>These investments are measured at:</p> <ul style="list-style-type: none"> • fair value taken from the price per share on active market for marketable securities, • fair value estimated based on different valuation techniques for investments in non-marketable securities the fair value of which can be determined; or • fair value less potential impairment for investments in interests and shares the fair value of which cannot be measured reliably. <p>Due to materiality of the amount as at 31 December 2016, the said investments are considered a key audit matter.</p>	<ul style="list-style-type: none"> • we recalculated the fair value of investments in marketable securities using the prices on active securities market as at 31 December 2016; • for investments in non-marketable securities measured at fair value, a valuation expert was engaged to assist us in evaluating the assumptions and methodologies used by the Group, in particular the assumptions used to calculate discount rates and expected future cash flows; • for investments in non-marketable securities the fair value of which cannot be measured reliably, we assessed whether management had evaluated indicators of impairment of such investments and whether they had been considered adequately when assessing the need for impairment. <p>Further disclosures are provided in Note 9.1.3.</p>
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Other Information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. We obtained the other information before the auditor's report date except for the Supervisory Board report, which will be made available subsequently. Management is responsible for the other information.

Our opinion on the consolidated financial statements does not cover the other information.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements, legal requirements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. In addition, we assess whether the other information has been prepared, in all material respects, in accordance with applicable law or regulation, in particular, whether the other information complies with law or regulation in terms of formal requirements and procedure for preparing the other information in the context of materiality, i.e. whether any non-compliance with these requirements could influence judgments made on the basis of the other information.

Based on the procedures performed, to the extent we are able to assess it, we report that:

- The other information describing the facts that are also presented in the consolidated financial statements is, in all material respects, consistent with the consolidated financial statements; and
- The other information is prepared in compliance with applicable law or regulation.

In addition, our responsibility is to report, based on the knowledge and understanding of the Group obtained in the audit, on whether the other information contains any material misstatement of fact. Based on the procedures we have performed on the other information obtained, we have not identified any material misstatement of fact.

Responsibilities of Management, the Supervisory Board and the Audit Committee for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Supervisory Board and the Audit Committee are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence concerning the financial statements of group companies or their business activities in order to express an opinion on the consolidated financial statements. We are responsible for conducting, overseeing and performing the audit of the Group. We have sole responsibility for the audit opinion expressed.

With the Supervisory Board and the Audit Committee we communicate the planned scope and timing of the audit and significant findings from the audit, including significant deficiencies in internal control we have identified during our audit.

We also provide the Supervisory Board and the Audit Committee with the statement of compliance with relevant ethical requirements regarding independence, and we communicate with them all relationships and other matters for which it may reasonably be thought to bear on independence, and, if appropriate, all the related safeguards.

Among the matters we communicate with those charged with governance, we select those matters that were of most significance in our audit of the consolidated financial statements of the current period, and, therefore, represent key audit matters. We describe these matters in our auditor's report, unless law or regulation precludes public disclosure about the matter, or, in extremely rare circumstances, we determine that the matter should not be communicated in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

DELOITTE REVIZIJA d.o.o.

Barbara Žibret Kralj
Certified Auditor

For signature please refer to the original Slovenian version.

Deloitte.
DELOITTE REVIZIJA D.O.O.
Ljubljana, Slovenija 3

Ljubljana, 20 April 2017

TRANSLATION ONLY – SLOVENIAN ORIGINAL PREVAILS

7. FINANCIAL STATEMENTS OF SSH, COMPANY AND GROUP

7.1. STATEMENT OF FINANCIAL POSITION / BALANCE SHEET

in 000 EUR	Note	Company		Group	
		31/ 12/ 2016	31/ 12/ 2015	31/ 12/ 2016	31/ 12/ 2015
ASSETS - TOTAL		1,013,068	913,470	1,013,224	952,908
LONG-TERM ASSETS		780,539	780,943	779,598	785,509
Intangible assets and long term deferred costs and accrued revenues	9.1.1.	90	69	90	69
Tangible fixed assets	9.1.2.	583	595	583	595
Long-term financial investments	9.1.3.	779,866	780,279	778,925	784,845
SHORT-TERM ASSETS – TOTAL		232,529	132,527	233,626	167,399
Short-term assets without deferred costs and accrued revenues		232,005	132,288	233,102	167,160
Non-current assets held for sale	9.1.4.	4,988	4,988	6,085	39,860
Short-term financial investments	9.1.5.	166,000	38,420	166,000	38,420
Short-term operating receivables	9.1.6.	1,779	74,225	1,779	74,225
Cash	9.1.7.	59,238	14,655	59,238	14,655
Short-term deferred costs and accrued revenues	9.1.8.	524	239	524	239
EQUITY AND LIABILITIES - TOTAL		1,013,068	913,470	1,013,224	952,908
EQUITY	9.1.9.	557,384	325,108	557,540	331,714
Share capital		260,167	60,167	260,167	60,167
Share premium		0	0	0	0
Revaluation surplus		483,602	501,982	299,858	322,450
Retained net profit or loss		-186,385	-237,041	-2,485	-53,148
Equity - minority owners		0	0	0	2,245
NON CURRENT LIABILITIES - TOTAL		144,127	453,366	144,127	453,366
Provisions and long-term deferred costs and accrued revenues	9.1.10.	39,396	48,754	39,396	48,754
Long-term liabilities		104,731	404,612	104,731	404,612
Long-term financial liabilities	9.1.11.	104,731	404,612	104,731	404,612
SHORT-TERM LIABILITIES - TOTAL		311,557	134,996	311,557	167,828
Short-term liabilities		310,997	134,786	310,997	167,618
Liabilities classified into disposal group		0	0	0	32,832
Short-term financial liabilities	9.1.12.	293,172	114,528	293,172	114,528
Short-term operating liabilities	9.1.13.	17,825	20,258	17,825	20,258
Short-term deferred costs and accrued revenues	9.1.14.	560	210	560	210

Notes to the financial statements form an integral part of financial statements and should be read in conjunction with them.

7.2. STATEMENT OF COMPREHENSIVE INCOME

in EUR 000	Note	Company		Group	
		1.1.-31.12.2016	1.1.-31.12.2015	1.1.-31.12.2016	1.1.-31.12.2015
Net sales revenues	9.1.15.	5,571	5,082	5,571	5,082
Other operating income (with revaluated operating revenues)	9.1.15.	11,725	20,890	11,725	20,890
Operating income		17,296	25,972	17,296	25,972
Costs of goods, material and services	9.1.16.	3,607	4,620	3,607	4,620
Labour costs	9.1.17.	4,047	4,406	4,047	4,406
Amortisation and depreciation	9.1.18.	144	142	144	142
Long-term provisions	9.1.19.	0	0	0	0
Write-offs	9.1.19.	144	786	144	786
Other operating expenses	9.1.20.	113	281	113	281
Operating profit or loss		9,241	15,737	9,241	15,737
Financial income	9.1.21.	50,853	62,035	50,853	61,967
Financial expenses	9.1.21.	13,659	19,480	13,659	19,480
Profit/loss share from investments evaluated according to the equity method	9.1.22.	0	0	2,410	-2,888
Other income		0	0	0	0
Other expenses		0	25	0	25
Profit or loss before tax		46,435	58,267	48,845	55,311
Income tax expenses	9.1.23.	0	0	0	0
Deferred taxes	9.1.23.	4,221	-3,575	4,221	-3,575
Net profit or loss for the reporting period from discontinued operation		50,656	54,692	53,066	51,736
Profit/loss from discontinued operation	9.1.24.	0	0	1,546	-5,096
Net profit / loss for the financial year		50,656	54,692	54,612	46,640
Net profit or loss for the reporting period - majority owner		0	0	54,163	97,760
Net profit or loss for the reporting period - minority owner		0	0	449	-1,733
Profit/loss recognised in revaluation surplus		-14,138	-20,553	-18,350	-17,760
Income tax expense from other comprehensive income		-4,221	3,575	-4,221	3,575
Net other comprehensive income to be recognised in the Income Statement in the future		-18,359	-16,978	-22,571	-14,185
Post-employment benefits calculation		-21	11	-21	11
Net other comprehensive income not to be recognised in the Income Statement in the future		-21	11	-21	11
Other comprehensive income after tax		-18,380	-16,967	-22,592	-14,174
Total comprehensive income for the financial year after tax		32,276	37,725	32,020	32,466

Notes to the financial statements form an integral part of financial statements and should be read in conjunction with them.

7.3. CASH FLOW STATEMENT

in EUR 000	Company		Group	
	1. 1. - 31. 12. 2016	1. 1. - 31. 12. 2015	1. 1. - 31. 12. 2016	1. 1. - 31. 12. 2015
Cash flows from operating activities				
<i>Proceeds from operating activities</i>	84,930	91,344	84,930	91,344
Proceeds from operating activities	8,858	9,303	8,858	9,303
Proceeds from Republic of Slovenia (commission business)	76,072	82,041	76,072	82,041
<i>Expenses from operating activities</i>	-85,317	-163,457	-85,317	-163,457
Expenses for materials and services	-3,289	-5,111	-3,289	-5,111
Labour costs	-4,115	-4,005	-4,115	-4,005
Expenses for various levies and charges	-624	-897	-624	-897
Payments pursuant to ZDen and SZ (inc. SOS2E)	-72,875	-136,251	-72,875	-136,251
Expenses for the account of the Republic of Slovenia (commission business)	-4,173	-16,800	-4,173	-16,800
Other expenses for operating activities	-241	-393	-241	-393
Net cash flow from operating activities	-387	-72,113	-387	-72,113
Cash flows from investing activities				
<i>Proceeds from investing activities</i>	242,317	404,577	242,317	404,577
Interest and dividends received	44,088	43,892	44,088	43,892
Proceeds from sale of property, plant and equipment	36	4	36	4
Proceeds from sale of long-term financial investments	25,276	21,800	25,276	21,800
Proceeds from sale of short-term financial investments	172,917	338,881	172,917	338,881
<i>Expenses from investing activities</i>	-336,479	-303,004	-336,479	-303,004
Acquisition of intangible assets	-55	-57	-55	-57
Acquisition of tangible assets	-98	-80	-98	-80
Acquisition of long-term financial investments	-35,523	-17,004	-35,523	-17,004
Acquisition of short-term financial investments	-300,803	-285,863	-300,803	-285,863
Net cash flow from investment activities	-94,162	101,573	-94,162	101,573
Cash flows from financing activities				
<i>Proceeds from financing activities</i>	200,000	105,000	200,000	105,000
Receipts from paid capital	200,000	0	200,000	0
Receipts from increase in long-term financial liabilities	0	105,000	0	105,000
<i>Expenses from financing activities</i>	-60,868	-129,105	-60,868	-129,105
Interest expenses related to financing activities	-5,868	-9,105	-5,868	-9,105
Repayment of long-term financial liabilities	-55,000	-120,000	-55,000	-120,000
Net cash flow from financing activities	139,132	-24,105	139,132	-24,105
Closing cash balance	59,238	14,655	59,238	14,655
<i>Net increase/decrease in cash for the financial year</i>	44,583	5,355	44,583	5,355
<i>Opening cash balance</i>	14,655	9,300	14,655	9,300

Notes to the financial statements form an integral part of financial statements and should be read in conjunction with them.

7.4. STATEMENT OF CHANGES IN EQUITY

7.4.1. Statement of changes in equity of SSH

in EUR 000	Share capital	Statutory reserves	Retained profit/loss	Net profit/loss	Fair value reserve	Total
Balance as of 1 January 2015	60,167	0	-291,733	0	518,949	287,383
Total comprehensive income for the reporting period	0	0	0	54,692	-16,967	37,725
Input of net profit/loss for the reporting period	0	0	0	54,692	0	54,692
Other comprehensive income	0	0	0	0	-16,967	-16,967
Changes in equity	0	0	54,692	-54,692	0	0
Transfers	0	0	54,692	-54,692	0	0
Closing balance as of 31 December 2015	60,167	0	-237,041	0	501,982	325,108
Transactions with owners	200,000	0	0	0	0	200,000
Capital increase	200,000	0	0	0	0	200,000
Total comprehensive income for reporting period	0	0	0	50,656	-18,380	32,276
Input of net operating profit/loss for the reporting period	0	0	0	50,656	0	50,656
Other comprehensive income	0	0	0	0	-18,380	-18,380
Surplus/deficit changes from actuarial calculations	0	0	0	0	0	0
Changes in equity	0	0	50,656	-50,656	0	0
Transfers	0	0	50,656	-50,656	0	0
Closing balance as of 31 December 2016	260,167	0	-186,385	0	483,602	557,384

Notes to the financial statements form an integral part of financial statements and should be read in conjunction with them.

7.4.2. Determination of accumulated profit/loss of SSH

in EUR 000	
Net profit or loss for 2015	50,656
Retained net profit or loss	-237,041
Accumulated loss for 2015	-186,385

The accumulated loss has been disclosed in accordance with Article 66 of ZGD-1.

7.4.3. Statement of changes in equity for SSH Group

in EUR 000	Share capital	Retained profit/loss	Net profit/loss	Fair value reserve	Actuarial gains/losses	Total
Balance as of 1 January 2015	60,167	-102,019	0	336,624	0	294,772
Total comprehensive income for the reporting period	0	0	48,373	-14,174	744	34,943
Changes due to merger with PDP	0	0	0	0	2,477	2,477
Input of net profit/loss for the reporting period	0	0	48,373	0	-1,733	46,640
Other comprehensive income	0	0	0	-14,174	0	-14,174
Changes in equity	0	48,373	-48,373	0	0	0
Transfers	0	48,373	-48,373	0	0	0
Movements from equity	0	498	0	0	1,501	1,999
Other changes in equity	0	498	0	0	1,501	1,999
Closing balance as of 31 December 2015	60,167	-53,148	0	322,450	2,245	331,714
Transactions with owners	200,000	0	0	0	0	200,000
Capital increase	200,000	0	0	0	0	200,000
Total comprehensive income for the reporting period	0	0	54,163	-22,592	449	32,020
Changes due to merger with PDP	0	0	0	0	0	0
Input of net profit/loss for the reporting period	0	0	54,163	0	449	54,612
Other comprehensive income	0	0	0	-22,592	0	-22,592
Changes in equity	0	54,163	-54,163	0	0	0
Transfers	0	54,163	-54,163	0	0	0
Movements from equity	0	-3,500	0	0	-2,694	-6,194
Other changes in equity	0	-3,500	0	0	-2,694	-6,194
Closing balance as of 31 December 2016	260,167	-2,485	0	299,858	0	557,540

Notes to the financial statements form an integral part of financial statements and should be read in conjunction with them.

8. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

8.1. REPORTING COMPANY

The reporting company – SSH, is a public limited company registered before the Ljubljana District Court by way of a Decision Srg. No. 199304616, holding the Registration Entry No. 1/21883/00. Considering the provisions of Articles 55 and 56 of ZGD-1, the Company is classified as a large company obliged to undergo a regular annual audit.

In line with the Standard Classification of Activities, the Company's activity is categorised in the following class: K 64.990 – *other financial service activities, except insurance and pension funding n. e. c.* The Company's activity is presented in detail in the Business Report, Chapter 4.

The Company is a controlling company of SSH, Group with the registered seat in the Republic of Slovenia, at the address: Mala ulica 5, Ljubljana.

The subsidiary companies as of 31 December 2016: Dekorativna d. o. o., Ljubljana - in liquidation, Elektrooptika, d. d., GIO, d. o. o., Ljubljana - in liquidation, Paloma, d. d., and PS ZA AVTO, d. o. o.

The associated companies as of 31 December 2016: Casino Bled, d. d., Hit, d. d., Paloma, d. d., Pozavarovalnica Sava, d. d., Sava, d. d., Unior, d. d., and Zavarovalnica Triglav, d. d.

The Company produced the consolidated financial statements, reporting the situation as of 31 December 2016, in which the associated companies had been included using the equity method. The subsidiary, Paloma, d. d., has been classified into non-current assets held for sale and it is disclosed as such in the Financial Statements.

The inclusion of a subsidiary, PS ZA AVTO, d. o. o., into the consolidated financial statements is insignificant from the aspect of presenting fair and true financial statements for the Group; therefore the company was not included in the consolidation. The companies Dekorativna, d. o. o., Ljubljana - in liquidation, Elektrooptika, d. d., Ljubljana and GIO, d. o. o., Ljubljana - in liquidation, are non-going concerns. The inclusion of these companies is insignificant from the aspect of presenting fair and true financial statements for the Group; therefore they were not included in the consolidation.

On the basis of provisions of IFRS 10, it was thoroughly examined whether any of capital assets owned by RS and being part of the portfolio of companies managed by SSH pursuant to ZSDH-1 should be included in the consolidated financial statements. SSH has no economic benefits, it is the RS that is eligible to receive dividends; for rendering its management services, SSH is paid a contractually-determined fee which does not equal to the arm's length fee; the strategy and the Annual Asset Management Plan is approved by the RS Government, and business transactions in an individual company are managed by the company's management body.

The Annual Report of the Company and the Group is available for inspection at the Company's head office and on its web site.

In 2016, the average number of employees employed with the Company was 64.54, calculated from the number of hours worked. As of 31 December 2016, there were 70 employees employed.

The Company's share capital in the amount of EUR 260,166,917.04 is divided into non-par value shares not listed on the regulated stock exchange market.

The 2016 Financial Statements were approved by the Management Board on 20 April 2017.

8.1.1. Capital increase in SSH

The RS Government made a decision to increase the share capital of SSH by EUR 200 million, or by 119,820 ordinary, registered no par value shares of the same class, solely for the purpose of repaying SSH's financial liabilities arising from current loans collateralised by RS guarantee. Shares were paid in cash on 28 December 2016 and registered in the Court Register on the same day. Following the said increase, the share capital amounts to EUR 260,166,917.04 and is divided into 155,866 shares. The Republic of Slovenia remains a 100 % owner of the company.

8.1.2. Polzela, d. d.

The purchase of claims (the gross amount of EUR 3.5 million) due by Polzela, d. d., was executed at a high discount and was only one of procedures undertaken in the integrated restructuring of Polzela, d. d., with the aim to sell the viable part of the company in the years to come. On the basis of the debt to equity swap, SSH became a 28.57 % co-owner of Polzela, d. d. One portion of the purchased liabilities in the amount of EUR 0.65 million was retained by SSH. An agreement was concluded with Polzela, d. d., on gradual repayment of the said debt. In addition to SSH, RS also took part in the capital increase which, after the completion of the process, held 71.43 % equity stake. It was assessed that by way of the capital increase and monetary contribution in and for Polzela, d. d., a stable financial situation would be provided for positive future operations.

However, results achieved by Polzela, d. d., significantly differed from results planned which were the basis for making the decisions mentioned. In the next phase, with the aim of keeping the production viable, SSH sought to find a strategic partner but the process failed. The management of Polzela, d. d., prepared the Report on Financial Restructuring Measures in accordance with provisions of Article 35 of ZFPPIPP in accordance with which the management then took actions in accordance with Article 38 of ZFPPIPP, specifically, it filed the proposal for bankruptcy proceedings of the company (see also Chapter 4.1.1.).

8.1.3. Sava, d. d.

On the basis of the Government Decision of 29 January 2016, the Agreement on Transfer of Liabilities and Bonds of Sava, d. d., against Payment from BAMC to Kapitalska družba, d. d., and SSH was concluded in July 2016. SSH and Kapitalska družba, d. d., purchased Sava's liabilities, each up to one half, for which the principal amounted to EUR 122.4 million, for the price of EUR 68.9 million (for SSH: EUR 34.5 million). With the purchase of liabilities, within the scope of calculating the economic justification for their purchase, SSH and Kapitalska družba, d. d., took into consideration that non-collateralised liabilities in the amount of EUR 29.4 million (EUR 14.7 million for SSH) would be swapped to equity of Sava, d. d., while SSH and Kapitalska družba, d. d., would retain the collateralised portion of liabilities in the

amount of EUR 93 million (EUR 46.5 million for SSH) as creditors. On the basis of debt-to-equity swap for non-collateralised portion of liabilities, SSH acquired 4,891,650 of newly issued Sava shares (22.56 % equity stake). The Decision on Compulsory Composition became final on 12 November 2016. On 28 November 2016, the cancellation of existing shares issued by Sava, d. d., was recorded, together with the increase in share capital carried out by paying-in in-kind contributions in the compulsory composition proceedings. The fund, York Global Finance Offshore BDH, Luxembourg, also swapped its liabilities and thus became a 41.74 % owner of Sava.

For the calculation of economic justification for the transfer of liabilities and bonds, SSH and Kapitalska družba, d. d., obtained valuations of key collateral (the valuation of Gorenjska banka, d. d., and Sava Turizem, d. d., as of 31 December 2015 were performed in April 2016, while the value of units of Alpen.SI is publicly published). As regards the assessment made it was essential that monies used for the purchase of liabilities and bonds would be recovered and that collateral is suitable and its valuation realistic.

8.2. SIGNIFICANT ACCOUNTING POLICIES

8.2.1. Statement of compliance

The Accounting Report presents in parallel accounting data for Slovenian Sovereign Holding and for Slovenian Sovereign Holding Group. For the purpose of providing clear and unambiguous data, the term "SSH" is used for Slovenian Sovereign Holding in the remainder of the text while data in regard to Slovenian Sovereign Holding Group are disclosed under the term "the Group".

For the year ending on 31 December 2016, the consolidated statements have been prepared, in addition to individual financial statements. The consolidated financial statements for the controlling company and the financial statements for the Group have been prepared in accordance with International Financial Reporting Standards (hereinafter referred to as: "IFRS"). The Slovenian legislation (ZGD-1) and SSH's internal legal documents have been taken into account in the development of the financial statements.

8.2.2. Basis of preparation

The IFRS are applied in the presentation and valuation of individual items. The historical cost basis was used as the basis for measurement in these financial statements.

However, available-for-sale financial assets were measured at fair value. Impairment of all assets is regularly reviewed and recorded, when necessary.

The book value of assets as of the day of the transition to IFRS was applied for property, plant and equipment. In the past, the book value of assets was reported at historical cost value and its increases made by 2001 were due to applying annual consumer price indices. Impairment of the above mentioned assets is regularly reviewed and recorded, when necessary.

In accordance with IFRS, the preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The estimates and underlying assumptions are based on historical experience and other factors reasonable in

circumstances given and are the basis for determining the carrying amount of assets and liabilities that do not result directly from other sources. Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised if only this period is affected, or in current and any future periods affected. The financial statements should give a true and fair view of the financial position, financial performance and cash flows of SSH/the Group. The precautionary principle and the principle of fair value as required by IFRS must also be taken into account.

The general valuation rules are observed in the preparation of financial statements of SSH/the Group. These are: going concern, consistency concept, and, particularly, accrual concept. SSH/the Group expects to continue to function as such and remain viable in the future. Changes in economic categories are considered alongside accruals. Each comparison between revenue and expenditure must present only relevant expenditures being posted against revenues, regardless of income and costs. The accounting handling of economic categories cannot change as a result of any current business interests of SSH/the Group. Financial statements must provide for consistent presentation and classification of items being continued from one period to another period. In case of any discrepancies in various periods, the reasons for such changes and their consequences must be presented.

Financial statements include all items that are significant enough to affect estimates and decisions. Reliable information is free of any significant errors and biased viewpoints. Uncertainty is associated with several business events which is why accounting policies must be selected with due caution. The assets and liabilities items must not be offset; the same applies to revenues and expenditures except when explicitly allowed so by any of IFRS. Business events are handled in accordance with their contents and not only according to their legal form. When explaining a document, its content is given a priority over its form. The accounting information must be appropriate, understandable, reliable, complete, timely and accurate.

Accounting policies mentioned in the remainder of the report were consistently applied in all periods presented in these financial statements.

a) Standards and interpretations valid in the current period

The following standards, amendments to existing standards and notes issued by the International Accounting Standards Board (IASB) and adopted by the EU apply for the current period:

- **Amendments to IFRS 10 - Consolidated Financial Statements, IFRS 12 - Disclosure of Interests in Other Entities and IAS 28 Investments in Associates and Joint Ventures** - Investment entities: Application of exemption in consolidation adopted by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2016);
- **Amendments to IFRS 11 - Joint arrangements** - Accounting for Acquisitions of Interests in Joint Operations adopted by the EU on 24 November 2015 (effective for annual periods beginning on or after 1 January 2016);
- **Amendments to IAS 1 - Presentation of Financial Statements** – Disclosure Initiative adopted by the EU on 18 December 2015 (effective for annual periods beginning on or after 1 January 2016);
- **Amendments to IAS 16 - Property, plant and equipment and IAS 38 - Intangible Assets** – Clarification “Acceptable Methods of Depreciation and Amortisation” adopted by the EU on 2 December 2015 (effective for annual periods beginning on or after 1 January 2016);
- **Amendments to IAS 16 - Plant, Equipment and in IAS 41 - Agriculture** - Agriculture: Bearer Plants” as adopted by the EU on 23 November 2015 (effective for annual periods beginning on or after 1 January 2016);

- **Amendments to IAS 19 - Employee Benefits** - Certain Benefits Programmes: Employee Benefits adopted by the EU on 17 December 2014 (effective for annual periods beginning on or after 1 February 2015);
- **Amendments to IAS 27 - Separate Financial Statements** - “Equity Method in Separate Financial Statements” adopted by the EU on 18 December 2015 (effective for annual periods beginning on or after 1 January 2016);
- **Amendments to various standards - Annual Improvements cycle 2010-2012**, resulting from the Annual Improvements process of IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) with the aim to eliminate inconsistencies and interpretations adopted by the EU on 17 December 2014, (amendments effective for annual periods beginning on or after 1 February 2015);
- **Amendments to various standards - Annual Improvements cycle 2012-2014**, resulting from the Annual Improvements process of IFRS (IFRS 5, IFRS 7, IAS 19 and IAS 34) with the aim to eliminate inconsistencies and interpretations adopted by the EU on 15 December 2015, (amendments effective for annual periods beginning on or after 1 January 2016).

The above mentioned amendments to standards were taken into account when developing these financial statements. It is assessed by the Company that their application should not have any significant impact on the Company's financial statement in the transition period.

b) Amendments to existing standards issued by the IASB and adopted by the EU not yet effective

As of the day of approval given to these financial statements, the following standards and amendments to existing standards, issued by IASB and adopted by the EU but not yet being effective, are:

- **IFRS 9 - Financial Instruments**, adopted by the EU on 22 November 2016 (effective for annual periods beginning on or after 1 January 2018) and
- **IFRS 15 - Revenue from Contracts with Customer** and amendments to IFRS 15 - Effective date of IFRS 15 which was adopted by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2018).

c) New standards and amendments to existing standards issued by the IASB and yet to be adopted by the EU

Currently, IFRS as adopted by the EU do not significantly differ from standards adopted by IASB with the exception of the following new standards and amendments to the existing standards which, as of 20 April 2017, have not yet been adopted for their application in the EU (the dates mentioned below in regard to the effective date apply for the entire IFRS):

- **IFRS 14 - Regulatory Deferral Accounts** - (effective for annual periods beginning on or after 1 January 2016) - the European Commission (EC) has concluded not to initiate the process for endorsement of the interim standard and to wait for its final version;
- **IFRS 16 - Leases** - (effective for annual periods beginning on or after 1 January 2019);
- **Amendments to IFRS 2 'Share-based Payment'** – Classification and measurement of share-based payment transactions (effective for annual periods beginning on or after 1 January 2018);
- **Amendments to IFRS 4 Insurance Contracts** – Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (effective for annual periods beginning on or after 1 January 2018, or when with first application of IFRS 9 Financial Instruments);
- **Amendments to IFRS 10 - Consolidated Financial Statements and IAS 28 - Investments in associates and Joint Ventures** – Sales or contributions of assets between an investor and its associate/joint venture and subsequent amendments (the effective date of the amendments made has been deferred for indefinite period of time until the research project in regard to the equity method is completed);

- **Amendments to IFRS 15 - Revenue from Contracts with Customers** - Clarifications to IFRS 15 'Revenue from Contracts with Customers' (effective for annual reporting periods beginning on or after 1 January 2018);
- **Amendments to IAS 7 - Presentation of Financial Statements** – Disclosure Initiative (effective for annual periods beginning on or after 1 January 2017);
- **Amendments to IAS 12 - Income Tax** - Recognition of deferred tax assets for unrealised losses (effective for annual periods beginning on or after 1 January 2017);
- **Amendments to IAS 40 - Investment Property** – Transfer of Investment Property (effective for annual periods beginning on or after 1 January 2018);
- **Amendments to various standards - Annual improvements - 2014-2016 cycle** resulting from the Annual Improvements process of IFRS (IFRS 1, IFRS 12 and IAS 28) with the aim to eliminate inconsistencies and interpretations (amendments to IFRS 12 effective for annual periods beginning on or after 1 January 2017, while amendments to IFRS 1 and IAS 28 effective for annual periods beginning on or after 1 January 2018);
- **IFRIC 22 - Foreign Currency Transactions and Advance Consideration** - (effective for annual periods beginning on or after 1 January 2018).

It is expected by SSH/the Group that the adoption of IFRS 9 will have an impact on the Company's classification and measurement of financial assets, while no changes are expected in the classification and measurement of financial liabilities. In regard to other standards, it has been assessed by SSH/the Group that their application should not have any significant impact on the Company's financial statement in the transition period.

Hedge accounting in relation to financial assets and the liabilities portfolio, the principles of which have not yet been adopted by the EU, is still not regulated.

It has been assessed by SSH/the Group that the application of hedge accounting in relation to financial assets and liabilities in conformity with the requirements of **IAS 39: - Financial Instruments: Recognition and Measurement** should not have a significant impact on the Company's financial statement when applied at the balance sheet cut-off date.

8.2.3. Currency reporting

a) Functional and presentation currency

All financial information in financial statements of SSH/the Group is presented in the Euro (EUR) which is the functional and presentation currency of SSH/the Group. All accounting information, with the exception of earnings for the members of the Management Board, Supervisory Board and Audit Committee, presented in the Euro has been rounded to the nearest thousand. The rounding of the value information may result in some insignificant differences in sums and tables.

b) Transactions and balances

Transactions presented in foreign currencies are converted into the Euro at the European Central Bank's reference exchange rate at the transaction date. The gain or losses incurred in these transactions and in the reconversion of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Comprehensive Income.

Exchange rate differences arising from debt securities and other monetary assets recognised at fair value are included in gains or losses incurred in transactions in foreign currencies. Exchange rate differences arising from non-monetary items, such as available-for-sale assets are included in other comprehensive income and disclosed in equity, under fair value reserve.

8.2.4. Value estimates of individual items

The estimates made by the Company's management, actuarial appraisers and other valuation experts have served as a basis for making value estimations of the following items: financial investments, provisions, amortisation and depreciation. Considering the fact that this is an estimate, there is a degree of uncertainty present in regard to individual assumptions used by appraisers.

8.2.5. Significant policies for SSH and the Group

Revenue recognition

Revenue from the sale of services is recognised when those services have been rendered.

Other revenue is recognised by applying the following principles:

- dividend income - it is recognised on the date when the shareholder's right to receive payment is established;
- revenue from the sale of financial investments is recognised on the date of their settlement and or on the date of transfer of risks and benefits to a buyer. A receipt of an irrevocable guarantee issued by a top-rating bank, or any other full guarantee is also deemed to be a settlement;
- interest income - it is recognised as it accrues unless there is a doubt about its collection when the interest income amount is written off and the replacement cost is applied.

Investments in subsidiaries

A consolidated subsidiary is a company in which the controlling company has a controlling interest or a controlling influence for other reasons as a result of which such company is actually controlled, and which joins the Group for which the consolidated financial statements are prepared. When the value of a subsidiary is irrelevant for the true and fair presentation of the Group's financial statement, such a subsidiary is not included in the consolidated financial statements.

Investments in subsidiaries are valued at the historical acquisition value. Income from profit participation is recognised as income from financing activities when a resolution on the distribution and payment of profits is adopted by the AGMs of these companies. Investments are impaired when the recoverable value of the investment is less than its book value. A loss due to impairment is immediately recognised as financial expenses when the drop in value is significant or long-lasting, otherwise it is recognised in the Statement of Comprehensive Income.

Investments in associates

Associates are companies in which SSH holds from 20 % to 50 % of the voting power and in which it has a significant influence, but not control over their operations. In SSH's financial statements, financial investments in associates are valued at fair value.

In accordance with IAS 28, financial investments in associates are recognised using the equity method from the date when the investment becomes an associate company. In the Statement of Financial Position, by using the equity method, the investment is recognised initially at cost

increased by changes - upon the acquisition - in the capital of the associate and reduced by any impairment. The amount obtained from the distribution of net profit of a company in which the controlling company has a significant influence reduces the book value of the financial investment.

On the acquisition of a financial investment, each difference between the acquisition value of the financial investment and the investor's interest in the net fair value of the identifiable assets, debts and contingent liabilities of the associate is recognised in accordance with IFRS 3 - Business Combinations.

Each surplus of the investor's interest in the net fair value of the identifiable assets, debts and contingent liabilities of the associate over the amount paid for the acquisition of the financial investment is excluded from the book value of the financial investment and is recognised as income for the period when the investment is acquired.

Intangible assets and long-term deferred costs and accrued revenues

Intangible assets include investments in computer software and other intangible assets. When computer software forms an integral part of the suitable computer hardware, it is considered a tangible fixed asset. Intangible assets are recognised as such only when it is likely that future economic benefits will be generated for SSH/the Group and when its cost can be reliably measured.

The cost model is applied which is why intangible assets are recognised at cost less accumulated amortisation and impairment losses.

The estimated useful life is reviewed at least at the end of each financial year. When the estimated useful life of an intangible asset significantly differs from the previous estimation, the depreciation period is modified accordingly.

The depreciation of intangible assets is calculated at the straight line method by taking into account the useful life of the assets. The depreciation rates used range from 10.0 % to 33.3 %. Long-term deferred costs and accrued revenues are recorded in the profit and loss account during the useful life of the assets.

Tangible fixed assets

Tangible fixed assets include property, plant and small equipment. Tangible fixed assets are recognised at cost less depreciation and accumulated impairment losses.

The depreciation of intangible assets is calculated at the straight line method by taking into account the useful life of the assets. The following depreciation rates are used:

- property and land	3.0 – 5.0 %,
- parts of buildings	6.0 %,
- computer equipment	33.3 – 50.0 %,
- motor vehicles	12.5 %,
- other equipment	20.0 – 33.3 %,
- office equipment	25.0 – 100.0 %.

Land is not depreciated since it is presumed to have an unlimited useful life. Likewise, assets in course of construction are not depreciated until they are ready to be used. Since the book value of assets exceeds their estimated recoverable value, they must be revalued to the estimated recoverable value, i.e. impaired pursuant to IAS 36. Profits and losses incurred upon

the disposal of land, buildings and equipment are determined according to their book value and affect the Company's operating results. Subsequent costs associated with tangible fixed assets increase their acquisition cost when future economic benefits are expected from these assets. Costs of all other repairs and maintenance services are included in the Statement of Comprehensive Income for the period in which they are incurred. Tangible fixed assets with useful life exceeding one year and individual acquisition cost being less than EUR 500 are allocated to costs, except for printers, facsimile machines, desktop calculators, and similar equipment.

The residual value and estimated useful life of assets are reviewed and, when necessary, also amended during the preparation of financial statements.

Financial assets

SSH/the Group classifies its investments into the following categories: financial assets measured at fair value through profit or loss, loans and receivables, financial assets held until their maturity, and assets available for sale. The classification depends on the purpose for which an individual asset was acquired.

a) Financial assets measured at fair value through profit or loss

Financial assets measured at fair value through profit or loss when held for trading purposes or when measured as such on recognition. Investments acquired for the purpose of generating profit from short-term price fluctuations are classified into the group of financial assets intended for trading. These assets are measured at fair value, and any gains/losses due to the fluctuations in prices are included in the Statement of Comprehensive Income in the period in which they were generated.

As of 31 December 2016, SSH/the Group did not have any financial assets measured at fair value through profit or loss.

b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments not quoted on a regulated market. They are classified either as short-term assets or long-term assets with a maturity of more than twelve months following the balance sheet date. In the Statement of Financial Position, loans are recognised at the amortised cost using the effective interest rate method. Subsequent impairments are recognized in profit or loss. Impairment loss is eliminated when the subsequent increase in the recoverable value of the asset may be associated in an objective manner with the event occurring after the impairment recognition.

c) Financial assets held to maturity

Fixed maturity investments which SSH/the Group intends to hold and is able to hold until their maturity are classified as investments held-until-maturity and form a part of long-term assets. In the balance sheet, these financial investments are valued at amortised cost. The portion of the investment to mature within twelve months of the balance sheet date is recognised as a short-term asset. Subsequent impairments are recognized in profit or loss. Impairment loss is eliminated when the subsequent increase in the recoverable value of the asset may be associated in an objective manner with the event occurring after the impairment recognition.

As of 31 December 2016, SSH/the Group did not have any financial assets held-to-maturity.

d) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either classified into this group or are not classified into any of the aforementioned groups. Assets in this group are measured at fair value or at cost when fair value cannot be measured in a reliable manner.

Fair values of financial instruments determined by a valuation model include:

- a comparison to prices obtained upon the last transactions performed;
- the use of the discounted cash flow model;
- valuation using the price model.

These valuation models reflect market conditions as of the measurement date which can differ from market conditions existing before or after this date.

Gains and losses arising from the changed fair value of the available-for-sale financial assets are recognized directly in the comprehensive income except for impairment losses, until recognition of the financial assets is eliminated. In this case, the accumulated gains and losses presented in the capital are recognized in the Profit and Loss Statement.

Interests from debt securities are recognized directly in the Profit and Loss Statement.

On each balance sheet cut-off date, SSH/the Group makes an assessment whether there is objective evidence that the value of financial assets or a group of financial assets has been impaired. In case of available-for-sale financial assets, a typical and long lasting reduction in fair value getting below the acquisition cost is considered as an indicator of impairment of investments. In cases when there is such evidence (a 20 % drop below the acquisition cost in a particular year, or a drop during a period of not more than nine months), the cumulative losses (determined as the difference between the acquisition cost and the current fair value less impairment losses recognised in equity) are recognised in financial expenses and are simultaneously eliminated from equity. Impairments of equity instruments recognised in the Profit&loss Statement cannot be cancelled, however, a subsequent increase in fair value is recognised in other comprehensive income.

It is annually reviewed whether there are any signs of impairments associated with financial investments being classified in the group of available-for-sale assets and not listed on the regulated market. In such cases, fair value is determined by using internal models based on market data or the discounted cash flow method. When it is established that there are no operating market assumptions associated with certain investment, the fair value is determined by also applying the valuation model.

Derived financial instruments

Derived financial instruments are initially recognized at fair value; costs associated with the transaction are recognized in profit or loss when they are incurred. After their initial recognition, derived financial instruments are measured at fair value and the related amendments are handled in two manners:

- When a derived financial instrument is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognized asset or liability or highly probable expected transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognized in the comprehensive income for the period. Any ineffective portion of changes in the fair value of the derivative is recognised directly in profit or loss. If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued prospectively.

- Effects of other derivatives not designated as the hedging instrument in a hedge of the variability in cash flows are recognised in profit or loss.

In 2016, SSH/the Group did not have any derived financial instruments.

Assets held for sale or distribution

Assets or disposal group comprising assets and liabilities that are expected to be recovered primarily through sale or distribution, are classified as held for sale or distribution. When this criterion is met, financial investments in subsidiaries and associates are also classified into the category of assets/disposal group held for sale. Immediately before the classification as held for sale or distribution, the assets or disposal group is remeasured. Accordingly, the long-term asset or disposal group is recognized at book value or fair value less transaction costs, whichever is lower. Financial investments reclassified into the category of assets/disposal group held for sale are not measured under the provisions of IFRS 5 but under the provisions of IAS 39. Impairment losses on initial classification as held for sale or distribution and subsequent gains or losses on re-measurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment losses.

Once classified as held for sale or distribution, intangible assets and property, plant and equipment are not amortised or depreciated. After their classification as held for sale or distribution, any equity-accounted investment is no longer equity accounted for.

Impairment of non-financial assets

At each reporting date, book value of assets is reviewed with the aim to assess any indication of impairment. Indefinite-lived assets that are not amortised or depreciated are tested for impairment on an annual basis. Assets subject to amortisation or depreciation are checked for impairment whenever the events or circumstances indicate impairment. An impairment loss is recognized in the amount by which the carrying amount of an asset exceeds its recoverable value. The recoverable value is the higher of the fair value of the asset, less the costs to sell and its value in use.

For the purpose of identifying impairment, assets are divided into smaller units identified as generating cash flows independently of other units (cash-generating units).

Operating receivables

Receivables arising from financial, legal and other relations are guaranteed rights to claim from an entity the payment of debt, the supply of goods or the provision of services. Operating receivables are not considered to include long-term financial investments or short-term financial investments but only those associated with financial revenues derived thereunder.

In books of account and the balance sheet, receivables are recognised as an asset when it is probable that the future economic benefits embodied within the asset will flow to the company and its cost can be reliably measured. Recognised receivables are de-recognised as assets in books of account and balance sheet when its contractual obligations are no longer controlled, have already been exercised, have expired or have been assigned.

Receivables are initially recognised in amounts stated in relevant documents with an assumption that they will be paid. Receivables are measured at amortised cost using the effective interest rate method less impairment. Impairment of operating receivables occurs

when it is expected that the full amount of outstanding receivables will not be collected. The impairment amount is the difference between the carrying amount and the current value of the expected estimated cash flows being discounted at the effective interest rate. Impairments are recognized in profit or loss.

Cash and cash equivalents

Cash and cash equivalents are initially recognized in the amount stated in relevant documents. For the purposes of the Cash Flow Statement, cash and cash equivalents comprise cash in hand, cash at bank, deposits and certificates of deposit held with banks (maturing within 90 days from the transaction execution date) and other investments in money market instruments. When a bank account overdraft contract has been signed, bank overdrafts are recognised as short-term financial liabilities in the Balance Sheet.

Provisions

Provisions are recognised, if, as a result of past events, SSH/the Group has a present legal obligation that can be reliably estimated and it is highly probable that it will have to be settled. Amounts recognised as provisions are the best possible estimation of an expenditure necessary to be settled on the balance sheet date in order to meet the present obligations. Provisions may not be created in order to offset future operating losses.

Provisions for retirement benefits and jubilee premiums

In accordance with the statutory requirements and internal legal documents, SSH/the Group is liable to pay jubilee premiums and retirement benefits to its employees. For these, provisions are created. This liability is calculated by the actuary who takes into account the following factors: the probability of death, probability of retirement, probability of staff turnover, and probability of disability. The calculation is discounted to the present value. The actuarial calculation is based on assumptions and estimates valid at the time of calculation development and are likely to be modified in the future. The actuarial calculation is usually prepared every second year, and earlier in case of any significant changes in regard to employees.

Deferred taxes

Deferred taxes are directly associated with the basic accounting principle of comparing revenues and expenses in the Profit and Loss Statement. Deferred taxes are recognised in full using the liability method on the basis of the temporary differences between the tax bases of assets and liabilities and the amounts reported in the financial statements. Deferred taxes are calculated using statutory tax rates for the period in which it is expected to be applied when the tax receivable is realized and tax liability is settled.

Tax receivable is recognised when it is probable that tax income is to be generated in the future to allow for making use of temporary differences. Tax liability is recognised in accordance with IAS 12. Tax receivables and liabilities are recognised in the offset amount in the Balance Sheet.

Liabilities

Operating liabilities are liabilities due to suppliers for assets acquired or services rendered, and liabilities due to employees, government, owners, etc. In books of account, liabilities are recognized when it is probable that their settlement will decrease factors enabling economic benefits, and when the settlement amount can be reliably measured.

Financial liabilities are recognised when incurred at fair value without any transaction costs arising thereunder. In subsequent periods, financial liabilities are measured at amortised cost using the effective interest rate method. Any difference between proceeds (without transaction costs) and liabilities is recognised in profit and loss throughout the period of existence of the financial liability. Interest received is calculated in accordance with contracts; as a result, financial interest expenses are increased. A portion of long-term liabilities to mature within twelve months after the reporting date is recognised as short-term liabilities.

Equity

The entire SSH's equity is its liability due to its sole owner, the Republic of Slovenia, and falls due for payment on the dissolution of SSH. The entire capital consists of called-up capital, capital reserves, profit reserves, revaluation, retained earnings or losses from previous periods and the provisionally undistributed net profit for the current year or the uncovered losses for the current year.

Any revaluation surplus refers to the change of fair value of financial investment in equity of other companies measured at fair value through equity. In line with the amendments to IAS 19, revaluation surplus also includes actuarial gains/losses created as a result of the change in current value of the termination benefits.

The profit remaining after covering losses and creating statutory reserves is allocated to other reserves in accordance with ZSOS, ZSDH-1, the SSH's Articles of Association, and ZGD-1.

Fair value measurement

In accordance with SSH's/the Group's accounting policies, the fair value of the financial and non-financial assets is required to be determined in numerous cases. The fair value is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement of a nonfinancial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

When measuring fair value of financial instruments, the following 3-level fair value hierarchy is taken into account:

- the first level includes quoted prices (unadjusted) in the operating markets for identical assets or liabilities;
- the second level includes the values which are not equal to quoted prices but can be also acquired directly or indirectly from the market (for example values derived from quoted prices in an active market);
- the third level includes input data for an asset or liability not based on market data.

Quoted prices are used as a basis for determining fair value of financial instruments; if they were not listed on the regulated market or the market is evaluated as inoperative, inputs from the second and third levels are used by SSH/the Group to evaluate the fair value of a financial instrument.

In case when additional explanations about assumptions in regard to fair value measurement are required, these are stated in the notes to individual items of assets or liabilities.

The fair value of financial assets at fair value through profit or loss and of available-for-sale assets is determined in accordance with the above mentioned 3-level fair value hierarchy. When the fair value cannot be reliably measured, the financial asset is measured at cost and indications of its impairment are measured at least once a year. The fair value of investments in associates is measured by SSH/the Group in accordance with the above mentioned 3-level fair value hierarchy. The fair value of receivables and loans is calculated as a current value of future cash flows, discounted at market interest rate at the end of the reporting period.

Own shares

When an interest in a controlled company is acquired by the controlling company or its subsidiary, the amount paid, including the transaction costs less tax, are deducted from the total capital as own (treasury) shares until such shares are withdrawn, reissued or sold. When own shares are sold or reissued at a later date, all the payments received less transaction costs and related tax effects are included in the equity capital.

Neither the controlling company nor its subsidiary holds its own shares or interests, nor does it intend to acquire them.

Consolidation

Subsidiaries in which the Group holds a direct or indirect equity interest exceeding one half of the voting power or having an influence over their operations in any another manner are subject to consolidation. They are included in the Group's financial statements from the date of the acquisition of a controlling interest by the Group. The consolidation no longer applies when the Group loses its controlling interest. All transactions, receivables and liabilities between the Group companies are eliminated for the purpose of the preparation of consolidated financial statements. Any impairment of the subsidiaries recognised in the individual financial statements of the controlling company should also be eliminated. In order to provide accurate information for the purposes of consolidation and financial reporting of the Group, the accounting policies of the subsidiaries should be aligned with those of the controlling company. No major discrepancies between the accounting policies were identified.

Takeovers of companies within the Group are accounted for using the acquisition method. The acquisition value of takeovers is measured at fair value of the assets given, the equity instruments and liabilities assumed as of the transaction date, including costs directly attributable to the takeover. The assumed assets, liabilities and contingent liabilities are initially recorded at fair value as of the takeover date notwithstanding the size of the minority shareholding. The excess of the acquisition value over the fair value of the Group's share of the net assets of the acquired company is recognised as goodwill. If the acquisition value is lower than the fair value of the acquired company's net assets, the difference is recognized as financial income in the Statement of the Comprehensive Income.

After loss of control, assets and liabilities of the respective subsidiary are de-recognised and gains or losses are recognised in the Profit and Loss Statement of the Group. When the Group retains any interest in the former subsidiary, this interest is measured at fair value on a date of the loss of control. Subsequently, the interest is accounted for as investment in associate (using the equity method) or available-for-sale financial asset, depending on the level of control retained. Changes in a parent's ownership interest in a subsidiary that do not result in the parent losing control of the subsidiary are equity transactions.

Transactions with minority owners are treated in the same way as transactions with outside partners. The profits and losses of the minority owners are shown in the Group's Statement of the Comprehensive Return.

Structure of the Group of associated companies

SSH is 100 % owned by the Republic of Slovenia. A subsidiary is a company in which the controlling company has a controlling interest or a controlling influence due to other reasons, and which joins the Group for which the consolidated financial statements are prepared. When the value of a subsidiary is irrelevant for the true and fair presentation of the Group's financial statement, such a subsidiary is not included in the consolidated financial statements. Moreover, consolidation does not apply to companies for which bankruptcy proceedings are instituted; in such cases, the owners lose their management rights.

9. NOTES AND DISCLOSURES

9.1. NOTES TO FINANCIAL STATEMENTS

9.1.1. Intangible assets and long-term deferred costs and accrued revenues of SSH and Group

in 000 EUR	Long-term property rights	Other long-term deferred costs and accrued revenues	Total
Purchase value			
<i>Purchase value as of 1 January 2016</i>	570	0	570
New purchases	64	0	64
Disposals	-1	0	-1
<i>Purchase value as of 31 December 2016</i>	633	0	633
Value adjustment			
<i>Value adjustment as of 1 January 2016</i>	501	0	501
Depreciation for the current year	43	0	43
Transfer to profit or loss	0		0
Disposals	-1	0	-1
<i>Value adjustment as of 31 December 2016</i>	543	0	543
Present value as of 1 January 2016	69	0	69
Present value as of 31 December 2016	90	0	90

in 000 EUR	Long-term property rights	Other long-term deferred costs and accrued revenues	Total
Purchase value			
<i>Purchase value as of 1 January 2015</i>	511	0	511
New purchases	60	0	60
Disposals	-1	0	-1
<i>Purchase value as of 31 December 2015</i>	570	0	570
Value adjustment			
<i>Value adjustment as of 1 January 2015</i>	468	0	468
Depreciation for the current year	34	0	34
Disposals	-1	0	-1
<i>Value adjustment as of 31 December 2015</i>	501	0	501
Present value as of 1 January 2015	43	0	43
Present value as of 31 December 2015	69	0	69

The useful life of computer software is 3 to 10 years.

In accordance with the Accounting Rules, a significant asset is an asset with an individual value exceeding 10 % of the value of all intangible assets and is greater than EUR 25,000.

9.1.2. Tangible fixed assets of SSH/SSH Group

Tangible fixed assets are not encumbered with any mortgages, pledges or any other encumbrances. Disposals of fixed assets represent sales and distributions of assets.

Items of tangible assets that are significant for SSH are buildings and parts of equipment with the purchase value higher than 10 % of all tangible assets.

in EUR 000	Land	Buildings	Equipment and spare parts	Office equipment	Total
Purchase value					
<i>Purchase value as of 1 January 2016</i>	140	1,940	575	19	2,674
New purchases	0	0	89	0	89
Disposals	0	0	-77	0	-77
<i>Purchase value as of 31 December 2016</i>	140	1,940	587	19	2,686
Value adjustment					
<i>Value adjustment as of 1 January 2016</i>	0	1,589	471	19	2,079
Depreciation for the current year	0	47	54	0	101
Disposals	0	0	-77	0	-77
<i>Value adjustment as of 31 December 2016</i>	0	1,636	448	19	2,103
Present value as of 1 January 2016	140	351	104	0	595
Present value as of 31 December 2016	140	304	139	0	583

in EUR 000	Land	Buildings	Equipment and spare parts	Office equipment	Total
Purchase value					
<i>Purchase value as of 1 January 2015</i>	140	1,940	593	19	2,692
New purchases	0	0	78	0	78
Acquired by merger with PDP	0	0	23	0	23
Disposals	0	0	-119	0	-119
<i>Purchase value as of 31 December 2015</i>	140	1,940	575	19	2,674
Value adjustment					
<i>Value adjustment as of 1 January 2015</i>	0	1,542	452	19	2,013
Acquired by merger with PDP	0	0	23	0	23
Depreciation for the current year	0	47	61	0	108
Disposals	0	0	-65	0	-65
<i>Value adjustment as of 31 December 2015</i>	0	1,589	471	19	2,079
Present value as of 1 January 2015	140	398	141	0	679
Present value as of 31 December 2015	140	351	104	0	595

It has been assessed that there are no factors giving grounds for any impairments of tangible fixed assets to be carried out.

9.1.3. Long-term financial investments

in EUR 000	Company		Group	
	31/ 12/ 2016	31/ 12/ 2015	31/ 12/ 2016	31/ 12/ 2015
Long-term fin. investments in subsidiaries**	3,512	7,269	3,512	7,269
Long-term fin. Investments in associates	231,340	220,906	230,399	225,472
Other financial investments available for sale	545,014	552,104	545,014	552,104
Total	779,866	780,279	778,925	784,845

Note: ** Subsidiaries PS ZA AVTO, d. o. o., GIO, d. o. o., Ljubljana – in liquidation, Elektrooptika, d. d., and Dekorativna d. o. o., Ljubljana - in liquidation, d. o. o., are not included in the consolidation.

SSH is not liable without limitation for any liabilities in any company in which it holds an equity interest.

Investments in shares and holdings of companies in which SSH/the Group holds at least a 20 % ownership shareholding

Company name	Registered office	Activity/notes
Casino Bled, d. d.	Cesta svobode 15 4 260 Bled	gaming
Dekorativna d. o. o. Ljubljana - v likvidaciji	Dunajska 160 1 000 Ljubljana	in liquidation
Elektrooptika, d. d., GIO, d. o. o., Ljubljana - v likvidaciji	Stegne 7 Dunajska 160 1 000 Ljubljana	business and other management consultancy services
Hit, d. d.	Delpinova 7A 5 000 Nova Gorica	gaming
Paloma, d. d.	Sladki Vrh 1 2 214 Sladki Vrh	manufacture of paper
Pozavarovalnica Sava, d. d.	Dunajska cesta 56 1 000 Ljubljana	reinsurance services
PS za avto, d. o. o.	Tržaška cesta 133 1 000 Ljubljana	rental activities
Sava, d. d.	Dunajska cesta 152 1 000 Ljubljana	activity of finan.holding companies
Unior, d. d.	Kovaška cesta 10 3 214 Zreče	forging
Zavarovalnica Triglav, d. d.	Miklošičeva 19 1 000 Ljubljana	insurance service

SSH held a higher than 20 % shareholding in the following companies for which the bankruptcy proceedings have been initiated: Casino Maribor, d. d., (22.83 %), Vegrad, d. d., (29 %) and Polzela, d. o. o., (28.57 %).

Equity value and profit or loss generated in associates and subsidiaries

Company name	No. of shares / holdings	31/12/2016 % ownership	Total equity of company in EUR 000	Profit / loss in EUR 000	Data refer to
Casino Bled, d. d.	35,381	43.00	245	35	2016
Dekorativna d. o. o. Ljubljana - v likvidaciji*	-	100.00	1,311	18	likv.bil.2016
Elektrooptika, d. d., Ljubljana	463,570	70.48	-78	10	2016
GIO, d. o. o., Ljubljana - v likvidaciji*	-	71.27	8,566	-13	likv.bil.2016
Hit, d. d.	1,357,727	20.00	47,778	3,780	2016
Paloma, d. d.	2,410,007	30.35	29,693	1,546	2016
Pozavarovalnica Sava, d. d.	4,304,917	25.00	270,356	32,874	2016
PS za avto, d. o. o.	-	90.00	4,619	25	2016
Sava, d. d.	4,891,650	22.56	26,312	16,829	2016
Unior, d. d.	1,119,079	39.43	112,849	4,757	2016
Zavarovalnica Triglav, d. d.	6,386,644	28.09	563,389	75,334	2016

Note: Data in regard to Zavarovalnica Triglav, d. d., and Pozavarovalnica Sava, d. d., are taken from audited annual financial statements.

*The column regarding equity presents the liability due to owners from the initial liquidation balance sheet increased and/or decreased by profits/losses during liquidation proceedings.

Non-current investments in subsidiaries

	Voting rights	Ownership	Company		Group	
	31/12/2016	31/12/2016	31/12/2016	31/12/2015	31/12/2016	31/12/2015
	in %	in v %	in EUR 000	in EUR 000	in EUR 000	in EUR 000
Dekorativna d. o. o. Lj. v likvid.	100.00	100.00	309	309	309	309
Elektrooptika, d. d.	70.48	70.48	0	0	0	0
GIO, d. o. o., Lj., - v likvidaciji	71.27	71.27	3,203	3,203	3,203	3,203
PS za avto, d. o. o.	90.00	90.00	0	3,757	0	3,757
Total			3,512	7,269	3,512	7,269

None of subsidiaries is listed in the regulated market. The impairment test is carried out every year. There were no transactions carried out between the parent company and a subsidiary which should have been excluded during consolidation. The inclusion of the mentioned subsidiaries into the consolidated financial statements is insignificant from the aspect of presenting fair and true financial statements for the Group; therefore they were not included in the consolidation.

Assets / revenues / equity of subsidiaries

Company name	Income in year 2016	Equity 31/12/2016	Assets 31/12/2016
Dekorativna d. o. o. Lj. v likvid.	44	1,311	1,315
Elektrooptika, d. d.	31	-78	16
GIO, d. o. o., Lj., - v likvidaciji	0	8,566	9,126
PS za avto, d. o. o.	288	4,619	6,371
SDH	68,149	557,384	1,013,068
Total (SDH + subsidiaries)	68,512	571,802	1,029,896
Proportion (%) of subsidiaries in total	0.53	2.52	1.63

Non-current investments in associates

Investments in associates are measured at fair value through equity. A trading value is applied for listed assets whereas for other investments valuations have been made. SSH regularly monitors business results and major events related to each company holding its financial investment in order to determine whether any indications of impairment have arisen and whether any adjustment chargeable to financial expenses must be made.

In the consolidated financial statements, investments in associates are measured by using equity method. When the value of a financial investment obtained in this manner exceeds the recoverable value of the same financial investment, the impairment must be made, being charged to financial expenses.

Overview of investment value in associates in the financial statements of SSH/SSH Group

	Voting rights	Ownership	Company		Group	
	31/12/2016	31/12/2016	31/12/2016	31/12/2015	31/12/2016	31/12/2015
	in %	in v %	in EUR 000	in EUR 000	in EUR 000	in EUR 000
Casino Bled, d. d.	43.00	43.00	0	0	106	90
Hit, d. d.	20.00	20.00	2,593	2,593	9,476	9,275
Pozavarovalnica Sava, d. d.	26.13	25.00	56,911	55,749	56,911	55,749
Sava, d. d.*	22.56	22.56	1,844	-	2,536	-
Unior, d. d. *	39.43	39.43	21,822	12,478	13,200	10,272
Zavarovalnica Triglav, d. d.	28.09	28.09	148,170	150,086	148,170	150,086
Total			231,340	220,906	230,399	225,472

*see section 8.1.3.

SSH applied the net asset value method (of adjusted carrying amounts) when making valuation of Sava, d. d., under assumption of regular liquidation. Asset-based valuation method was applied owing to the fact that Sava, d. d., is currently undergoing compulsory settlement procedure which envisages a sale of all financial investments and other assets and a repayment of financial debt.

Considering the assessed market value of assets, Sava's financial liabilities were adjusted, in accordance with the Financial Restructuring Plan ("FRP"). In accordance with FRP, after the sale of collateralised assets, by an individual outstanding liability, 90 % of the difference between nominal collateralised financial liabilities and market value of collateral is written-off while 10 % is converted into an ordinary financial liability.

The basis for the valuation made for Sava Turizem, d. d., and Gorenjska banka, d. d., was provided for by valuations reports made by authorised external company appraisers, whereas in regard to Alpen.SI Mutual Fund, the value of the said Fund's unit as of 31 December 2016 was taken into consideration, reduced by exit costs (3 %). In light of high indebtedness of Hoteli Bernardin, d. d., and considering the fact that in its press release the said company had announced a formal agreement with creditor banks being envisaged to be shortly made in regard to financial restructuring of the said company, the valuation of Hoteli Bernardin, d. d., stood at EUR 0,00. For shares of the following companies: Melanin, d. d., Krka, d. d., and Petrol, d. d., their closing trading value at Ljubljana Stock Exchange on 31 December 2016 was taken into account.

When valuation for Sava shares was made at 31 December 2016, the above mentioned assumptions and other general assumptions were taken into account, together with the fact that Sava, d. d., was obliged to implement the Financial Restructuring Plan stipulating the

repayment by Sava of its creditors in accordance with the Decision on Approved Compulsory Composition.

Other available-for-sale financial investments

Other available-for-sale financial investments listed on the regulated market are measured at fair value through equity. The fair value of listed investments is determined on the basis of a market (quoted) price on the reporting date. Model-based fair value is applied by SSH for non-listed companies. In case of shareholdings for which fair value is impossible to be determined, such shares are measured at at-cost value reduced by impairments. SSH/the Group regularly monitors business results and major events related to each company holding its financial investment. On the basis of these facts, SSH/the Group determines whether any indications for impairment have arisen, produces a valuation report when necessary and verifies whether adjustment chargeable to financial expenses must be made.

Overview of other available-for-sale investments (without subsidiaries and associates)

in EUR 000	Company		Group	
	31/ 12/ 2016	31/ 12/ 2015	31/ 12/ 2016	31/ 12/ 2015
<i>A) Listed instruments</i>				
Investments in domestic companies	490,140	515,984	490,140	515,984
Investments in mutual funds	9,769	23,651	9,769	23,651
Investments in foreign shares.	92	6,789	92	6,789
Bond investments	1,960	2,021	1,960	2,021
<i>Total listed instruments at fair value</i>	<i>501,961</i>	<i>548,445</i>	<i>501,961</i>	<i>548,445</i>
<i>B) Non-listed instruments, value based on valuation</i>				
Investments in domestic companies	8,922	3,659	8,922	3,659
Investments in purchased receivables	34,131	0	34,131	0
<i>Total non-listed at fair value</i>	<i>43,053</i>	<i>3,659</i>	<i>43,053</i>	<i>3,659</i>
Total	545,014	552,104	545,014	552,104

The ten major investments in domestic companies (including associates), at the value presented in SSH's financial statements as of 31 December 2016, are:

- Krka, d. d., EUR 281.0 million,
- Zavarovalnica Triglav, d. d., EUR 148.2 million,
- Petrol, d. d., EUR 133.9 million,
- Pozavarovalnica Sava, d. d., EUR 56.9 million,
- Luka Koper, d. d., EUR 38.9 million,
- Unior, d. d., EUR 21.8 million,
- Telekom Slovenije, d. d., EUR 19.8 million,
- Cinkarna Celje, d. d., EUR 15.1 million,
- Loterija Slovenije, d. d., EUR 5.1 million,
- Paloma, d. d., EUR 5.0 million.

As of 31 December 2016, SSH/the Group held financial investments in 22 mutual funds, their market value totalling EUR 9.8 million. Fair values of the five largest funds:

- fund: NLB funds – Global Equity Fund, management company NLB Skladi – EUR 1.2 million,
- fund: Infond Beta, management company: KBM Infond DZU – EUR 0.8 million,
- fund: Triglav Evropa, management company: Triglav DZU – EUR 0.6 million,
- fund: Infond Evropa, management company: KBM Infond DZU – EUR 0.6 million,

- fund: Triglav Top Brands, management company: Triglav DZU – EUR 0.5 million.

There are two long-term bonds in the portfolio of SSH/the Group maturing in 2020; their total value amounted to EUR 2.0 million.

In 2016, bond interest rates moved from 5 % to 5.95 %.

Purchased Receivables

In 2016, during the financial restructuring process on the basis of the Agreement on Transfer of Liabilities and Bonds of Sava, d. d., against Payment, SSH acquired from BAMC Sava's liabilities, whose nominal value amounted to EUR 61.2 million while its transaction value stood at EUR 34.5 million. The subject of this purchase were loans that Sava had been unable to pay back to creditor banks and were transferred to BAMC. Purchased receivables were secured by means of a lien registered against financial instruments (units in mutual funds, bank and company shares) with an interest rate of 1 % per annum.

In accordance with the provisions of IAS 39, at the initial recognition of Sava's financial liabilities, these were measured at fair value. The value of collateralised assets was used for the calculation of fair value. For shares in Sava Turizem, d. d., and Gorenjska banka, d. d., values calculated by external certified company's value appraisers were taken into account. On the basis of the analysis of financial data of Hoteli Bernardin, d. d., its value was assessed to amount to EUR 0.00. In case of units in Alpen.SI Mutual Fund, the value of the Fund's unit at the day of acquisition was taken into account, however, reduced by 3 % on account of exit fees. Shares in companies Melanin, d. d., Krka, d. d., and Petrol, d. d., were valued at their closing value at the day of their acquisition. For property in BTC, the transaction value was taken into account; the sale of property was realised simultaneously with its acquisition.

Taking into account all of the above stated, the fair value of the claim was determined which amounted to EUR 37.3 million as of the day of its acquisition. The difference between the transaction and the fair value (EUR 2.9 million) will be gradually transferred from long-term accrued and deferred liability items into income statement during the time of holding the claim and subject to payment dynamics.

In 2016, on account of proceeds from the sale of pledged assets, SSH reduced the claim by EUR 3.6 million and EUR 0.6 million were transferred from long-term accrued and deferred liability items into revenues.

At the end of the year, the fair value of pledged assets was again verified to find its increase in value by EUR 0.5 million that was recognised as a portion of fair value reserve.

Fair value levels of financial instruments

Financial instruments measured at fair value according to fair value hierarchy levels as of 31 December 2016

in EUR 000	Company			Group		
	Level1	Level 2	Level 3	Level1	Level 2	Level 3
Investments in subsidiaries	0	0	3,512	0	0	3,512
Investments in associates	226,903	0	4,437	218,607	0	13,830
Long-term financial investments - available-for-sale financial assets	492,192	9,769	8,922	492,192	0	8,922
Listed shares	490,232	0	0	490,232	0	0
Mutual funds	0	9,769	0	0	9,769	0
Listed bonds	1,960	0	0	1,960	0	0
Non-listed shareholdings and shares	0	0	8,922	0	0	8,922
Purchased receivables	0	0	34,131	0	0	34,131
Non-current assets held for sale		0	4,988	0	0	4,988
Other short-term financial investment	0	0	166,000	0	0	166,000
Short-term operating receivables	0	0	1,779	0	0	1,779
Long-term financial liabilities	0	0	104,731	0	0	104,731
Short-term financial liabilities	0	0	293,172	0	0	293,172
Short-term operating liabilities	0	0	17,826	0	0	17,826

Financial instruments measured at fair value according to fair value hierarchy levels as of 31 December 2015

in EUR 000	Company			Group		
	Level1	Level 2	Level 3	Level1	Level 2	Level 3
Investments in subsidiaries	0	0	7,269	0	0	7,269
Investments in associates	218,313	0	2,593	216,107	0	9,365
Long-term financial investments - available-for-sale financial assets	524,793	23,651	3,659	0	23,651	3,659
Listed shares	522,772	0	0	0	0	0
Mutual funds	0	23,651	0	0	23,651	0
Listed bonds	2,021	0	0	0	0	0
Non-listed shareholdings and shares	0	0	3,659	0	0	3,659
Long-term operating receivables	0	0	0	0	0	0
Non-current assets held for sale	0	0	4,989	0	0	4,989
Short-term financial investments - available-for-sale financial assets -	406	0	0	0	0	0
Other short-term financial investment	0	0	38,420	0	0	38,420
Short-term operating receivables	0	0	74,225	0	0	74,225
Long-term financial liabilities	0	0	404,612	0	0	404,612
Short-term financial liabilities	0	0	114,528	0	0	114,528
Short-term operating liabilities	0	0	20,258	0	0	20,258

The fair value hierarchy as laid down by the IFRS 7 includes input data and assumptions used in measuring the financial instruments at the fair value. Market input data come from

independent sources whereas non-market input data are assumed by SSH or the Group. The fair value hierarchy consists of the following levels:

- level 1 – market prices (unadjusted) from the operating market; this level includes shares, bonds;
- level 2 – valuation model, which is directly or indirectly based on the market data; the source of the market data, such as the yield curve and counterparties bonuses, is the Bloomberg system, for example, UCITS units of the investment/mutual funds;
- level 3 – valuation model which is not based on the market data; this level represents non-market shares and non-market bonds. Valuations are based on the yield-based method and partially on the asset-based method. Methods used by SSH are the discounted method, the method including comparable listed companies, the comparable purchases-and-sales method and the adjusted book values method.

Movement in long-term financial investments of SSH

in EUR 000	1/ 1/ 2016	Acquisitions	Disposals	Revaluations	31. 12. 2016
Long-term investments in subsidiaries	7,269	0	0	-3,757	3,512
Long-term investments in associates	220,906	1,872	0	8,562	231,340
Other available for sale finan. Investments	0	0	0	0	0
Loans	0	650	0	-650	0
Total	780,279	41,980	-27,025	-15,368	779,866

in EUR 000	1/ 1/ 2015	Acquisitions	Disposals	Revaluations	31/ 12/ 2015
Long-term investments in subsidiaries	7,269	5,469	-5,469	0	7,269
Long-term investments in associates	225,048	13,605	-8,642	-9,105	220,906
Other available for sale finan. investments	503,349	53,263	-11,138	6,630	552,104
Total	735,666	72,337	-25,249	-2,475	780,279

The amount for the revaluation of investments in subsidiaries represents the impairment of investment in PS za avto, d. o. o., in the amount of EUR 3.7 million (on account of a received judgement).

The revaluation of investments in associates refers to:

- the decrease in market value of shares of Zavarovalnica Triglav, d. d., EUR 1.9 million,
- the increase in market value of shares of Pozavarovalnica Sava, d. d., EUR 1.2 million,
- the increase in market value of shares of Unior, d. d., EUR 9.3 million.

The revaluation of other available-for-sale investments refers to:

- the decrease in market value of shares of Krka, d. d., EUR 65.3 million,
- the increase in market value of shares of Petrol, d. d., EUR 28.5 million,
- the increase in market value of shares of Cinkarna Celje, d. d., EUR 8.0 million,
- the increase in estimated value of shares of Loterija, d. d., EUR 4.5 million,
- the increase in market value of shares of Luka Koper, d. d., EUR 3.1 million.

A gain in the category of associates is the conversion of non-collateralised Sava's claims purchased during the compulsory composition procedure. SSH acquired 4,891,650 shares whose value was assessed using the net asset value method to stand at EUR 1.8 million, under the assumption of regular liquidation.

The acquisitions of other available-for-sale investments include purchases/exchanges in mutual funds (EUR 2.1 million). Significant amounts in regard to dispositions include the sale of mutual fund (EUR 16.7 million) and the sale of foreign shares (EUR 6.7 million).

In 2016, the sale of shares of Adria Airways, d. d., was realised.

Movement in long-term financial investments of SSH Group

in EUR 000	1/ 1/ 2016	Acquisitions	Disposals	Revaluations	31/ 12/ 2016
Long-term investments in subsidiaries	7,269	0	0	-3,757	3,512
Long-term investments in associates	225,472	1,844	0	3,083	230,399
Other available for sale finan. investments	552,104	39,458	-27,025	-19,523	545,014
Loans	0	650	0	-650	0
Total	784,845	41,952	-27,025	-20,847	778,925

in EUR 000	1/ 1/ 2015	Acquisitions	Disposals	Revaluations	31/ 12/ 2015
Long-term investments in subsidiaries	7,269	0	0	0	7,269
Long-term investments in associates	232,437	14,098	-8,639	-12,424	225,472
Other available for sale finan. investments	503,349	53,263	-11,138	6,630	552,104
Total	743,055	67,361	-19,777	-5,794	784,845

9.1.4. Non-current assets held for sale

It assessed by SSH that sale processes for the sale of the title for 2,410,007 shares in Paloma, d. d., would be completed in 2016. As a result, they were classified as non-current assets held for sale. No profits or losses were realised with the re-classification of financial investments held for sale. Although fair value of shares exceeds book-value of shares, in accordance with applicable standards, such assets are measured at fair value, decreased by the costs of sale or at carrying value, whatever is the lowest.

Paloma, d. d., successfully completed the capital increase process in the value of EUR 18.2 million invested by a private financial fund, Eco-Investment, with the value per share of EUR 4.01. Thus, Eco-Investment became a 57.2 % owner of Paloma, d. d., and the SSH's shareholding was reduced to 30.35 %.

9.1.5. Short-term financial investments

General notes and guidelines applied in the development of financial statements are equal to those explained in regard to long-term financial investments.

In addition to investments in financial liabilities which are treated as short-term financial investments upon their occurrence, long-term investments in financial liabilities maturing one year after the date of the preparation of the financial statements are presented in this section.

in EUR 000	Company		Group	
	31/ 12/ 2016	31/ 12/ 2015	31/ 12/ 2016	31/ 12/ 2015
Short-term finan.investments held for sale	0	406	0	406
Deposits given and commercial bank deposits	166,000	38,000	166,000	38,000
Loans given to related parties	0	14	0	14
Total	166,000	38,420	166,000	38,420

The value of the recognised short-term financial investments reflects their fair value.

Interest rates ranged from:

- for deposits from 0.1% to 0.53 %,
- for call deposits from 0.015 % to 0.3 %,
- for bonds - see Note 9.1.3.,
- for in payments from 0.60 % to 0.63 %.

In 2016, no loans were granted by SSH/the Group neither to the management, members of the Supervisory Board nor to members of its Commission or employees. No collateral instruments were received by SSH/the Group for loans given. Risk exposure is described in section 9.2.

Movement in short-term financial investments of SSH/SSH Group

in EUR 000	1/ 1/ 2016	Acquisitions	Disposals	Revaluations	31/ 12/ 2016
Other available for sale finan. investments	406	0	-406	0	0
Loans granted to related persons	14	0	0	-14	
Loans	38,000	315,265	-187,265	0	166,000
Total	38,406	315,265	-187,671	-14	166,000

in EUR 000	1/ 1/ 2015	Acquisitions	Disposals	Revaluations	31/ 12/ 2015
Other available for sale finan.investments	2,891	406	-2,891	0	406
Loans granted to related persons	0	1,793	-1,779	0	14
Loans	84,800	288,163	-334,963	0	38,000
Total	87,691	290,362	-339,633	0	38,420

9.1.6. Short-term operating receivables

in EUR 000	Company		Group	
	31/ 12/ 2016	31/ 12/ 2015	31/ 12/ 2016	31/ 12/ 2015
Receivables due from domestic customers	1,568	1,183	1,568	1,183
Adjustment of receivables due from customers	-911	-767	-911	-767
Interest receivables	155	196	155	196
Dividends receivable	11	34	11	34
Receivables due from RS pursuant to ZSPOZ	625	24,516	625	24,516
Receivables due from RS pursuant to ZIOOZP	0	15,410	0	15,410
Receivables due from RS pursuant to ZVJTJO	0	32,587	0	32,587
Other receivables due from state institutions	325	1,045	325	1,045
Receivables arising from the ownership of housing units	786	794	786	794
Adjustments of receivables for ownership of housing units	-785	-789	-785	-789
Other receivables (cashed-in guarantees, etc.)	1,245	1,237	1,245	1,237
Value adjustment of other receivables	-1,225	-1,221	-1,225	-1,221
Total	1,779	74,225	1,779	74,225

In regard to receivable that is challenged by the buyer, the relevant adjustment has been made (EUR 911,000); otherwise there are no outstanding items among receivables due from customers. Interest receivables refer to interest from bonds, deposits granted and other loans granted. Receivables from state institutions include receivables due from the Farmland and Forest Fund of the Republic of Slovenia, D. S. U., d. o. o., and the Republic of Slovenia.

A source of funds to cover liabilities arising from denationalisation also included proceeds from the sale of nationalised apartments and 10 % of proceeds from the sale of socially-owned flats. Persons liable for payment in the first case are buyers of apartments, while these are sellers of housing units in the second case. The receivables are adjusted on a monthly basis, taking into account the provisions of the contract on the sale of apartments.

Except for items in which adjustment is made, there are no outstanding receivables recorded by SSH.

There are no receivables due from related entities, except for receivables due from the Republic of Slovenia which is considered a related party in accordance with IAS 24.

Receivables for which it is assumed that they will not be paid in full are considered dubious. Two criteria are used by SSH/the Group for value adjustment of a receivable:

- based on past experience and expectations, a – 50 % value adjustment is applied for receivables outstanding for the period from 90 to 150 days; a 75 % value adjustment is applied for receivables outstanding for the period from 151 to 210 days, and a 100 % value adjustment is applied for receivables outstanding for more than 210 days;
- a debtor's rating – a value adjustment is also applied to other individual receivables when a justified suspicion is given as to the likelihood of their settlement.

The value of the recognised short-term financial investments reflects their fair value.

Movement in value adjustment of receivables

in EUR 000	Company		Group	
	31/ 12/ 2016	31/ 12/ 2015	31/ 12/ 2016	31/ 12/ 2015
Balance of value adjustment of receivables as of 1 January	2,777	4,879	2,777	4,879
Collected receivables for which adjustment was formed	1	1	1	1
Written-off receivables for the year	3	2,868	3	2,868
Formation of adjustment for the year	163	767	163	767
Total adjustments as of 31 December	2,936	2,777	2,936	2,777

9.1.7. Cash and cash equivalents

in EUR 000	Company		Group	
	31/ 12/ 2016	31/ 12/ 2015	31/ 12/ 2016	31/ 12/ 2015
Cash in hand	0	1	0	1
Credit balances with commercial banks	23,938	219	23,938	219
Cash equivalents	35,300	14,435	35,300	14,435
Total	59,238	14,655	59,238	14,655

Cash equivalents include call deposits held with BKS Bank, AG, which amounted to EUR 35.3 million.

9.1.8. Short-term deferred costs and accrued revenues

in EUR 000	Company		Group	
	31/ 12/ 2016	31/ 12/ 2015	31/ 12/ 2016	31/ 12/ 2015
Deferred costs and accrued revenues	26	23	26	23
Short-term non-calculated income	498	216	498	216
Total	524	239	524	239

In addition to deferred costs of insurance premiums, newspaper subscriptions, tuition fees and financial information data bases access fee, income related to the sale of capital assets of the Republic of Slovenia which, at the balance sheet date, has not yet been calculated, in accordance with the provisions of the Contract signed by and between the Ministry of Finance, is also recognised under this item in the reporting period.

9.1.9. Equity*Equity of SSH*

The equity of SSH includes the called-up capital, fair value reserve arising from financial investments revaluation, retained losses and, provisionally, unsettled loss for the financial year. The sole shareholder is the Republic of Slovenia. The share capital of SSH amounts to EUR 260,166,917.04 and is divided into 155,866 (one hundred fifty-five thousand eight hundred and sixty-six) non-par value shares.

Fair value reserve

in EUR 000	Company	
	31/ 12/ 2016	31/ 12/ 2015
Increases of investements in domestic listed investments	388,453	404,902
Increases of investements in domestic non-listed investments	5,832	0
Increases of investements in foreign shares	-9	2,057
Increases in mutual funds	1,807	2,903
Increases of investements in shares of insurance companies	141,050	141,803
Increases of investements in purchased receivables	461	0
Actuarial surplus/deficit	-11	10
Increases/impairments of investments in bonds	210	277
Deferred tax liability	-54,191	-49,970
Total	483,602	501,982

Significant increases in the balance as of 31 December 2016:

- Krka, d. d.,	EUR 239.6 million,
- Zavarovalnica Triglav, d. d.,	EUR 108.9 million,
- Petrol, d. d.,	EUR 87.9 million,
- Pozavarovalnica Sava, d. d.,	EUR 32.1 million,
- Luka Koper, d. d.,	EUR 27.9 million,
- Unior, d. d.,	EUR 17.9 million,
- Cinkarna Celje, d. d.,	EUR 11.6 million,
- Loterija Slovenije, d. d.,	EUR 4.5 million,
- Telekom, d. d.,	EUR 2.8 million.

Movements in fair value reserve

in EUR 000	Balance 1/1/2016	Transfer to profit or loss	Added during the year	Balance 31/12/2016
Surplus from domestic listed investment	404,902	100	-16,349	388,453
Surplus from domestic non-listed investr	0	0	5,832	5,832
Surplus from foreign companies (shares)	2,057	2,054	-12	-9
Surplus from mutual funds	2,903	1,784	688	1,807
Surplus from investments in insurance companies	141,803	0	-753	141,050
Bond surplus	277	5	-62	210
Surplus from puchased receivables	0	0	461	461
Actuarial surplus/deficit	10	0	-21	-11
Total by surplus type	551,952	3,943	-10,216	537,793
Deferred tax liability	-49,970	-670	-4,891	-54,191
Total	501,982	3,273	-15,107	483,602

in EUR 000	Balance 1/1/2015	Transfer to profit or loss	Added during the year	Balance 31/12/2015
Surplus from domestic companies	410,915	3,468	-2,545	404,902
Surplus from foreign companies (shares)	1,625	79	511	2,057
Surplus from mutual funds	4,240	1,269	-68	2,903
Surplus from investments in insurance companies	155,486	0	-13,683	141,803
Presežek iz finančnih družb (banke)	0	0	0	0
Bond surplus	229	71	119	277
Surplus from purchased receivables	0	0	0	0
Actuarial surplus/deficit	-1	0	11	10
Total by surplus type	572,494	4,887	-15,655	551,952
Deferred tax liability	-53,545	-535	3,040	-49,970
Total	518,949	4,352	-12,615	501,982

The book value per SSH's share is calculated as a ratio between the total capital and the number of SSH's shares:

- As of 31 December 2016 $557,383,763 / 155,866 = \text{EUR } 3,576.05,$
- As of 31 December 2015 $325,107,693 / 36,046 = \text{EUR } 9,019.24.$

Equity of SSH

The equity of the Group includes the equity of the controlling company amounting to EUR 325.1 million, and the proportional value of the equity of associates measured in compliance with the equity method. In line with the equity method, the consolidation included the following companies: Zavarovalnica Triglav Group, Pozavarovalnica Sava Group, Hit Group, Unior Group, Sava Group and Casino Bled, d. d. The effect of an individual associate on the equity of the Group is explained in section: 9.1.22.

The book value per Group's share is calculated as a ratio between the total capital and the number of SSH's shares:

- As of 31 December 2016 $557,539,507 / 155,866 = \text{EUR } 3,577.04,$
- As of 31 December 2015 $331,714,357 / 36,046 = \text{EUR } 9,202.53.$

9.1.10. Long-term provisions and long-term accrued costs and deferred revenues

in EUR 000	Company		Group	
	31/ 12/ 2016	31/ 12/ 2015	31/ 12/ 2016	31/ 12/ 2015
Provisions for denationalisation	36,360	47,928	36,360	47,928
Provisions for onerous contracts	180	181	180	181
Provisions for jubilee premiums	41	36	41	36
Provisions for retirement benefits	229	181	229	181
Other provisions	317	428	317	428
Accrued costs and deferred revenues	2,269	0	2,269	0
Total	39,396	48,754	39,396	48,754

Provisions with the value exceeding 10 % of the value of the total long-term provisions are considered significant by SSH/the Group, provided that the amount of total provisions created attains at least 0.5 % of the value of assets as of the balance sheet date.

The applicable legislation, past experience and, particularly, the legal practice are taken into account when it is assessed whether conditions have been met to form long-term provisions for denationalisation claims received under ZDen. The sum of provisions was assessed by examining each denationalisation claim. The current practice shows that the sum on such claims usually significantly exceed compensation amount endorsed which is taken into account when forming the estimation. The amount of the provision is reviewed once a year. Denationalisation claims undergo various phases of the procedures; coming closer to the procedure's final phase makes the estimation more reliable:

- potential final decisions with the compensation amount determined - SSH agrees with the claim, however, legal remedies lodged by claimants are considered possible;
- claims with issued decisions but legal remedies have been lodged and the procedure has been renewed;
- claims undergoing the process and waiting for a decision.

The amount for the provision is the sum of estimated compensation amounts and the accrued interest calculated using the SOS2E bond amortisation plan (compensation is converted into the number of SOS2E bonds, for the purpose of calculating the interest).

When assessing which claims to be included among provisions and which are to be included among contingent liabilities, decisions of administrative bodies and current case law in similar cases were taken into account, together with own assessment. Contingent claims, for example, include claims by persons who were granted or obtained the right to claim compensation from Austria on the basis of a treaty between the Federal Republic of Germany and the Republic of Austria on the settlement of damages to deportees, resettled and displaced persons, settlement of other financial issues and issues relating to the social area or to the Financial and Compensation Treaty, including the Bad Kreuznach Abkommen agreement of 27 November 1961. Contingent liabilities also include some claims referring to various legal issues. In regard to all these cases it is difficult to make a reliable assessment but it can be expected that SSH will not be classified as an entity liable to pay compensation. In cases when, by examining the facts, it was assessed, that there is a small probability for SSH to be classified as a party liable to pay compensation, such claims were classified as contingent liabilities.

Provisions have been formed for jubilee premiums and retirement benefits paid to employees; amounts are presented in the table above. The following assumptions have been taken into account in the last calculation made (as of 31 December 2016):

- upon their retirement, employees are entitled to a severance grant in the amount of his/her two average salaries, or in the amount of two average salaries at the state level, whichever is more favourable for employees;
- retirement takes place in accordance with the model pursuant to Pension and Disability Insurance Act (ZPIZ-2);
- mortality probability (SLO2007, selection factor for working population is 75 %);
- disability probability;
- jubilee premiums are granted to employees for the total length of their service;
- staff turnover ranging from 0 to 3 %, depending on the age of employees;
- the 2.0 % wage growth in Slovenia;
- the 2.5 % wage growth in the company;
- discount rate of 1.31 %;
- the 0.5 % growth of sums referred to in Decree on tax treatment of reimbursement of costs and of other income arising from employment.

On the basis of judgements received, SSH/the Group made an assessment that reserves for labour disputes were too high which is why they were eliminated.

Accrued costs and deferred revenues are formed as a difference between the nominal value of purchased Sava's financial liabilities and the fair value of these assets as of the day of their acquisition. The item will be transferred to revenues in proportion to the repayment of the said liability and with regard to the time element.

Movements in provisions of SSH/SSH Group

in EUR 000	Balance as of 1/1/2016	New created provisions	Disbursement of provisions	Reversed provisions	Balance as of 31/12/2016
Provisions for denationalisation	47,928	0	2,913	8,655	36,360
Provisions for onerous contracts	181	0	0	1	180
Provisions for jubilee premiums	36	7	2	0	41
Provisions for retirement benefits	181	48	0	0	229
Other provisions	428	0	84	27	317
Accrued costs and deferred revenues	0	2,876	0	607	2,269
Total	48,754	2,931	2,999	9,290	39,396

in EUR 000	Balance as of 1/1/2015	New created provisions	Disbursement of provisions	Reversed provisions	Balance as of 31/12/2015
Provisions for denationalisation	75,870	0	11,826	16,116	47,928
Provisions for onerous contracts	211	0	0	30	181
Provisions for jubilee premiums	41	4	9	0	36
Provisions for retirement benefits	173	15	7	0	181
Other provisions	153	275	0	0	428
Total	76,448	294	11,842	16,146	48,754

9.1.11. Long-term financial and operating liabilities

in EUR 000	Company		Group	
	31/ 12/ 2016	31/ 12/ 2015	31/ 12/ 2016	31/ 12/ 2015
Loans obtained from banks	4,997	304,954	4,997	304,954
Principial for SOS3 bond	99,734	99,658	99,734	99,658
Total	104,731	404,612	104,731	404,612

Long-term debt is a recognised liability associated with the financing of own assets which must be settled in a period longer than a year. The liability must be settled in cash.

SSH's/the Group's long-term financial liabilities include long-term debt securities issued and loans granted. The SOS3 bonds was issued by SSH in 2015, with a single repayment due after five years at 2.5 % interest rate.

The interest rate for loans received from banks ranged between 0.79 % and 1.6 % annually. Negative EURIBOR is not taken into account in the calculation, only the mark-up is calculated; the average value of the mark-up (for all loans, both long-term and short-term loans) amounted to 1.06 % as of 31 December 2016.

Loans obtained from banks are secured by a guarantee issued by the Government of the Republic of Slovenia, which is regulated by way of two acts: the Act on Guarantee of the Republic of Slovenia for Liabilities Assumed by Slovenska odškodninska družba, d. d., for Loans Obtained for the Financing of Slovenska odškodninska družba, d. d., in 2009 (ZPSOD09), and the Act on the Guarantee of the Republic of Slovenia for Liabilities Assumed by Slovenska odškodninska družba, d. d., totalling EUR 300 million for Loans and Bonds

Issued for the Financing of Slovenska odškodninska družba, d. d., in 2010 (ZPSOD10) and blank bills of exchange. As security for the guarantee under ZPSOD09, 3,282,381 Krka shares were pledged for the benefit of the Republic of Slovenia. In order to secure the guarantee under ZPSOD10, in accordance with the Contract and Annex to the Contract, the following shares were pledged: Zavarovalnica Triglav shares (6,378,919), Krka shares (1,101,691), Hit shares (1,357,727), Loterija shares (11,142) and Luka Koper shares (1,557,857). In 2016, SSH executed annexes to Loan Agreements with the majority of banks, thus extending the loan repayment period for 7 to 10 years, however, subject to the extension or the obtainment of a RS's guarantee. Instead of granting a guarantee, RS provided for a capital increase in SSH and during 2017, SSH will repay EUR 280 million-worth of loans.

No liability falls due within a period of five years after the reporting date.

The value of the recognised long-term financial investments reflects their fair value.

Movements in long-term financial and operating liabilities of SSH/SSH Group

in 000 EUR	Balance 1/1/2016	Acquisitions	Repayments	Transfer to/from short term liab.	Balance 31/12/2016
Loans obtained from banks	304,954	-47	20,000	-279,910	4,997
SOS2E bond	99,658	76	0	0	99,734
Total	404,612	29	20,000	-279,910	104,731

in 000 EUR	Balance 1/1/2015	Acquisitions	Repayments	Transfer to/from short term liab.	Balance 31/12/2015
Loans obtained from banks	154,979	4,889	120,000	265,086	304,954
SOS2E bond	63,265	6,144	3,643	-65,766	0
SOS3 bond	0	99,658	0	0	99,658
Total	218,244	110,691	123,643	199,320	404,612

9.1.12. Short-term financial liabilities

in EUR 000	Company		Group	
	31/ 12/ 2016	31/ 12/ 2015	31/ 12/ 2016	31/ 12/ 2015
Loans obtained from banks	279,911	34,925	279,911	34,925
Principal for SOS2E bond	13,261	79,603	13,261	79,603
Total	293,172	114,528	293,172	114,528

Short-term debt includes those liabilities which must be settled not later than within a year. Financial debt includes short-term loans given pursuant to loan agreements as well as short-term securities. The matured long-term debt and the portion of long-term debt maturing within a year following the reporting date are also included in short-term debt. In accordance with applicable agreements, loans received by the following banks will mature in 2016:

- Abanka Vipava, d. d., EUR 80 million,
- SKB banka, d. d., EUR 70 million,
- NLB, d. d., EUR 50 million,
- Unicredit banka Slovenije, d. d., EUR 40 million,
- Banka Intesa SanPaolo, d. d. EUR 40 million.

Interest rates for loans given by banks are disclosed in the section reporting on long-term loans, item 9.1.11.

SSH executes denationalisation decisions pursuant to the provisions of ZDen. Such decisions are no longer executed by way of transferring SOS2E bond, the entire liability arising from bonds is now paid out on the account of a beneficiary. The SOS2E Bond matured on 1 June 2016 which is why all 40 coupons are paid out to a beneficiary. The execution of a decision is completed by paying out all of matured coupons.

The last coupon matured in 2016, which is why all liabilities arising from SOS2E that have already been handed over and those bonds to be handed over on the basis of final court decisions are disclosed in short-term liabilities. The amount of the matured and outstanding debt has no significant value for SSH. The reason for the non-payment lies with beneficiaries who fail to submit the necessary data.

The interest rate for SOS3 amounts to 6 % and the interest is calculated applying conformal calculation method.

Movement in short-term financial investments of SSH / SSH Group

in 000 EUR	Balance 1/1/2016	Acquisitions	Repayments	Transfer to/from short term liab.	Balance 31/12/2016
Loans obtained from banks	34,925	76	35,000	279,910	279,911
SOS2E bond	79,603	1,406	67,748	0	13,261
Total	114,528	1,482	102,748	279,910	293,172

in 000 EUR	Balance 1/1/2015	Acquisitions	Repayments	Transfer to/from short term liab.	Balance 31/12/2015
Loans obtained from banks	299,933	78	0	-265,086	34,925
Interest rate swap fair value	1,688	-1,688	0	0	0
SOS2E bond	131,543		117,706	65,766	79,603
Total	433,164	-1,610	117,706	-199,320	114,528

9.1.13. Short term operating liabilities

Short-term operating debt includes loans granted to suppliers, employee payables, payables relating to interest settlement, payables to the Republic of Slovenia relating to taxes and payables to buyers relating to advances and collaterals received. The matured long-term debt and the portion of long-term debt maturing within a year following the reporting date are also included in short-term debt.

At the end of the reporting period, except for wages and salaries payables, there are no payables outstanding associated with related undertakings.

in EUR 000	Company		Group	
	31/ 12/ 2016	31/ 12/ 2015	31/ 12/ 2016	31/ 12/ 2015
Accounts payable	4,198	4,267	4,198	4,267
Interest on loans obtained from banks	550	608	550	608
Interest for SOS2E bond	11,187	13,331	11,187	13,331
Interest for SOS3 bond	1,305	1,308	1,305	1,308
Employee payables	243	237	243	237
Payables related to state institutions	292	486	292	486
Other payables	50	21	50	21
Total	17,825	20,258	17,825	20,258

The liability for the purchase of a part of office building in the amount of EUR 4.1 million sold by GIO, d. o. o., Ljubljana – in liquidation, to mature upon the fulfilment of special contractual provisions (the Seller must submit certified copies of the Land Register Entry Deletion Permit, a deletion of writ of execution and the release of other easements) represents a major sum included in trade payables. The above mentioned co-ownership share of the office building was transferred against payment to D.S.U., d. o. o., in autumn 2014.

There are no matured and outstanding liabilities.

9.1.14. Short-term accrued costs and deferred revenues

The accrued costs and deferred revenues include the liability of SSH/the Group for the unused portion of the paid holiday leave and not yet charged costs which refer to the past period.

in EUR 000	Company		Group	
	31/ 12/ 2016	31/ 12/ 2015	31/ 12/ 2016	31/ 12/ 2015
Accrued expenses	560	210	560	210
Total	560	210	560	210

9.1.15. Operating income

In accordance with the Agreement, SSH/the Group recognised costs incurred in the implementation of the following activities as being part of operating income:

- the process of the sale of the state-owned assets in NKBM d. d.;
- the process of the sale of the state-owned assets in NLB d. d.;
- the process of the sale of the state-owned assets in Adria Airways d. d.;
- the management of state-owned capital assets;
- fees for the implementation of the laws (i.e., ZSPOZ, ZIOOZP and ZVVJTO).

in EUR 000	Company		Group	
	1 - 12 / 2016	1 - 12 / 2015	1 - 12 / 2016	1 - 12 / 2015
Income from the sale of products and services	5,571	5,082	5,571	5,082
<i>Total net sales revenue</i>	<i>5,571</i>	<i>5,082</i>	<i>5,571</i>	<i>5,082</i>
Income from the use and reversal of long-term provisions denationalisation	8,655	16,117	8,655	16,117
Income from the use and reversal of other long-term provisions	28	30	28	30
Income for denationalisation purposes	2,758	3,846	2,758	3,846
Revaluation operating income	284	897	284	897
<i>Other operating income</i>	<i>11,725</i>	<i>20,890</i>	<i>11,725</i>	<i>20,890</i>
Total	17,296	25,972	17,296	25,972

Income allocated for denationalisation includes:

- proceeds from the sale and management of agricultural land and forests, paid by the Farmland and Forest Fund of the Republic of Slovenia;
- proceeds from the sale of socially-owned housing units – 10 % of the purchase money belongs to SSH/the Group; persons liable for payment are the former owners of the socially-owned housing units;
- proceeds from sale of nationalised housing units – 100 % of the purchase money belongs to SSH/the Group, the payment is directly transferred to SSH;
- proceeds resulting from the companies' ownership transformation procedures – paid in cash or by means of shares or equity holdings, transferred to SSH/the Group partly from D.S.U., d. o. o., and partly from the budget of the Republic of Slovenia.

In 2016, the operating income amounted to 25 % of all income that was generated by SSH. All sales revenues are generated in the domestic market.

9.1.16. Costs of goods, materials and services

Costs of intellectual services include the costs of attorneys-at-law, notaries, auditors, appraisers of enterprises, appraisers specialised in denationalisation issues, and similar. A major portion of costs (approx. EUR 2.1 million) is connected with the sale of capital assets of the Republic of Slovenia.

Maintenance costs include the maintenance of software and business premises.

The contractual amount for the auditing of the financial statements of the Company and Group for 2016 amounted to EUR 15,000, excluding VAT. An additional amount of EUR 11,590 (VAT inclusive) was transferred to the auditing firm for various other services and

the amount of EUR 44,859 (VAT inclusive) was transferred to Deloitte d. o. o., (related to the auditing firm).

The item "Costs of services rendered by individuals not in the capacity of sole traders" includes meeting fees, remuneration for the execution of the function and reimbursement of travel expenses for members of Supervisory Boards, its Committees and Nomination Committee. The above mentioned costs are increased for mandatory contributions.

Costs of other services mostly include costs of municipal utility services, reception costs, legal fees, publications of advertisements and costs related to archiving.

in EUR 000	Company		Group	
	1 - 12 / 2016	1 - 12 / 2015	1 - 12 / 2016	1 - 12 / 2015
Costs of energy	34	38	34	38
Office equipment write-off	2	3	2	3
Costs of office equipment	16	25	16	25
Other costs of material	24	18	24	18
<i>Total</i>	<i>76</i>	<i>84</i>	<i>76</i>	<i>84</i>
Costs of telecommunication services, etc	64	76	64	76
Maintenance costs	152	147	152	147
Rents	89	88	89	88
Reimbursement of employee-related costs	75	61	75	61
Costs of payment transactions, banking services, and insurance premiums	95	131	95	131
Costs of intellectual and personal services	2,559	3,504	2,559	3,504
Costs of trade fairs, advertising and representation expenses	4	6	4	6
Costs of services rendered by individuals not in the capacity of sole traders	225	241	225	241
Costs of other services	268	282	268	282
<i>Total</i>	<i>3,531</i>	<i>4,536</i>	<i>3,531</i>	<i>4,536</i>
Skupaj	3,607	4,620	3,607	4,620

9.1.17. Labour costs

Labour costs include wages and salaries paid to employees, wage compensation attributable to employees for a period off work in accordance with the law, collective agreement or an employment agreement, bonuses and rewards paid to employees, as well as taxes charged on the aforementioned items. This also include reimbursement for travel expenses paid to employees and costs of meals, holiday allowances, any severance payments paid upon the termination of the employment relationship and costs of provisions for jubilee premiums and retirement benefits, as well as provisions for potential labour-law related lawsuits.

As of 31 December 2016, there are no outstanding payables related to labour costs.

in EUR 000	Company		Group	
	1 - 12 / 2016	1 - 12 / 2015	1 - 12 / 2016	1 - 12 / 2015
Salaries and wages	3,204	3,208	3,204	3,208
Costs of pension insurance	286	285	286	285
Costs of voluntary supplementary pension insurance	90	97	90	97
Costs of social insurance	230	238	230	238
Annual leave allowance, reimbursements and other earnings	208	553	208	553
Provisions for jubilee premiums	6	3	6	3
Provisions for retirement benefit	23	22	23	22
Total	4,047	4,406	4,047	4,406

9.1.18. Depreciation

in EUR 000	Company		Group	
	1 - 12 / 2016	1 - 12 / 2015	1 - 12 / 2016	1 - 12 / 2015
Depreciation of intangible fixed assets	43	34	43	34
Depreciation of buildings	47	47	47	47
Depreciation of equipment and spare parts	54	61	54	61
Total	144	142	144	142

The depreciable amount of an individual fixed asset is consistently allocated to an individual accounting period during its entire useful life.

9.1.19. Amounts written-off

in EUR 000	Company		Group	
	1 - 12 / 2016	1 - 12 / 2015	1 - 12 / 2016	1 - 12 / 2015
Revaluation of operating expenses related to intangible and tangible fixed assets	0	19	0	19
Revaluation of operating expenses related to short-term assets, excluding fin. investments	144	767	144	767
Total	144	786	144	786

A negative difference between the selling price achieved in the disposal of fixed assets and their book value was recognised in the revaluation operating expenses related to intangible

and tangible fixed assets. The revaluation operating expenses were also increased by the book value of asset with an expired useful life.

Revaluation of operating expenses related to short-term assets represents impairments of operating receivables.

9.1.20. Other operating expenses

in EUR 000	Company		Group	
	1 - 12 / 2016	1 - 12 / 2015	1 - 12 / 2016	1 - 12 / 2015
Denationalisation expenses	79	255	79	255
Charge for the use of construction land	21	20	21	20
Contribution for the employment of people with disabilities	13	6	13	6
Total	113	281	113	281

Denationalisation expenses include compensation amounts that have been recognized and are payable to beneficiaries pursuant to the Housing Act.

9.1.21. Net profit or loss

in EUR 000	Company		Group	
	1 - 12 / 2016	1 - 12 / 2015	1 - 12 / 2016	1 - 12 / 2015
Financial income from shareholdings and bonds	50,681	59,186	50,681	59,186
Financial income from loans given	172	2,849	172	2,781
Total financial income	50,853	62,035	50,853	61,967
Financial expenses for the write-offs and impairments of financial investments	5,980	407	5,980	407
Financial expenses for financial liabilities	7,679	19,073	7,679	19,073
Total financial expenses	13,659	19,480	13,659	19,480
Net profit or loss	37,194	42,555	37,194	42,487

Financial income from shareholdings and other financial instruments

in EUR 000	Company		Group	
	1 - 12 / 2016	1 - 12 / 2015	1 - 12 / 2016	1 - 12 / 2015
Dividend income paid by companies	24,483	24,262	24,483	24,262
Dividend income paid by banks and insurance companies	19,411	18,334	19,411	18,334
Dividend income paid by mutual funds	87	165	87	165
Profit from the sale of mutual funds	1,912	1,800	1,912	1,800
Profit from the sale of shares in companies	4,074	12,927	4,074	12,927
Proceeds for the reversal of bond impairment	607	0	607	0
Proceeds from the sale of bonds	0	1,457	0	1,457
Interest income from bonds	107	241	107	241
Total	50,681	59,186	50,681	59,186

Finance income from loans given

in EUR 000	Company		Group	
	1 - 12 / 2016	1 - 12 / 2015	1 - 12 / 2016	1 - 12 / 2015
Income from loans given – interest	168	1,040	168	972
Profit obtained with derivatives	0	1,688	0	1,688
Other financial income	4	121	4	121
Total	172	2,849	172	2,781

Financial expenses for the write-offs and impairments of financial investments

in EUR 000	Company		Group	
	1 - 12 / 2016	1 - 12 / 2015	1 - 12 / 2016	1 - 12 / 2015
Expenses for impairment of available for sale financial investments	5,058	306	5,058	306
Expenses related to sale of bonds	0	0	0	0
Expenses related to sale of mutual funds	619	100	619	100
Expenses related to sale of other fin.instruments	303	1	303	1
Total	5,980	407	5,980	407

Financial expenses for financial liabilities

in EUR 000	Company		Group	
	1 - 12 / 2016	1 - 12 / 2015	1 - 12 / 2016	1 - 12 / 2015
SOS2E bond interest expense	1,616	8,980	1,616	8,980
SOS3 bond interest expense	2,572	1,346	2,572	1,346
Interest expense for loans received	3,487	8,742	3,487	8,742
Loss of derivatives	4	5	4	5
Total	7,679	19,073	7,679	19,073

Review of financial income and expenses generated and incurred for SSH by subsidiaries and associates

in EUR 000	Company	
	1 - 12 / 2016	1 - 12 / 2015
Financial income in connection with subsidiaries	362	819
Financial income in relation with associates	21,084	18,334
Financial income in connection with associates	54	0
Financial expenses in relation with associates	678	4
Net financial profit or loss	20,714	19,149

Financial income and expenses in relation to subsidiaries and associates are separately disclosed in this section. All sums stated in the above table are included in tables where financial income and expenses are disclosed.

9.1.22. Participation in profit/loss in associates

in EUR 000	Group	
	1 - 12 / 2016	1 - 12 / 2015
Financial income in relation with associates	38,671	47,731
Financial expenses in relation with associates	36,261	50,619
Net financial profit or loss	2,410	-2,888

As of 31 December 2016, the SSH Group held in its ownership 6,386,644 of shares in **Zavarovalnica Triglav**, which amounted to the 28.09 % ownership stake. In 2016, Zavarovalnica Triglav Group generated profit in the amount of EUR 82,332K and distributed dividends in the amount of EUR 56,838K, so that SSH Group recorded net financial income which, proportionally, amounted to EUR 7,162K. On the basis of other changes in equity of Zavarovalnica Triglav Group, the fair value reserve was increased by EUR 2,856K and the retained profit or loss by EUR 1,305K. Due to fact that the fair (market) value of the investment in Zavarovalnica Triglav shares is lower than the value for which equity method is applied, SSH Group recorded a financial expense in the amount of EUR 13,238K.

As of 31 December 2016, SSH Group held in its ownership 4,304,917 shares of **Pozavarovalnica Sava**, representing a 25 % ownership stake in the said company. In 2016, Pozavarovalnica Sava generated profit in the amount of EUR 32,918K and distributed dividends in the amount of EUR 12,398K. On this basis, Group recorded net financial income which, proportionally, amounted to EUR 4,786K. On the basis of impacts of other changes in equity, the fair value reserve was increased by EUR 1,148K, and the retained profit or loss was decreased by EUR 3,311. Due to fact that the fair (market) value of the investment in Zavarovalnica Triglav shares is lower than the value for which equity method is applied, SSH Group recorded a financial expense in the amount of EUR 1,497K.

As of 31 December 2016, SSH Group held in its ownership 1,357,727 shares of **Hit, d. d.**, representing a 20 % ownership stake in the company. In 2016, Hit Group generated profit in the amount of EUR 3,718K and distributed dividends in the amount of EUR 1,893K. On this basis, SSH Group recorded net financial income which, proportionally, amounted to EUR 472K. On the basis of other changes in equity, the fair value reserve was decreased by EUR 69K, and the retained profit or loss was decreased by EUR 202K.

As of 31 December 2016, the SSH Group's ownership stake in **Unior, d. d.**, amounted to 39.43 %. In 2016, Unior Group, d. d., generated profit in the amount of EUR 10,192K. On this basis, the SSH Group recorded net financial income which, proportionally, amounted to EUR 4,018K. On the basis of other impacts of changes in equity, the fair value reserve was increased by EUR 407K, and the retained profit or loss was decreased by EUR 1,497.

In the middle of November 2016, within the scope of the financial restructuring process (compulsory composition) and on the basis of the conversion of non-collateralised Sava's liabilities, SSH Group became a holder of 4,891,650 Sava shares, representing a 22.56 % ownership stake in **Sava d. d.** As of the date of acquisition, the fair value (estimated value) amounted to EUR 1,844. In 2016, Sava Group, d. d., generated profit in the amount of EUR 24,525K. On this basis, the SSH Group recorded net financial income which, proportionally, amounted to EUR 692K.

As of 31 December 2016, the SSH Group held in its ownership 35,381 shares of **Casino Bled d. d.**, representing a 43 % ownership stake in the company. In 2016, Casino Bled d. d., generated profit in the amount of EUR 35K, of which the financial income of EUR 16K was recognised by the SSH Group.

9.1.23. Taxes

Current and deferred taxes

in EUR 000	Company		Group	
	1 - 12 / 2016	1 - 12 / 2015	1 - 12 / 2016	1 - 12 / 2015
Current income tax	0	0	0	0
Deferred tax	4,221	-3,575	4,221	-3,575
Total	4,221	-3,575	4,221	-3,575

Calculation of the effective tax rate

in EUR 000	Company		Group	
	31/ 12/ 2016	31/ 12/ 2015	31/ 12/ 2016	31/ 12/ 2015
Profit before tax	46,435	58,267	46,435	58,267
Anticipated income tax expense 17%	7,894	9,905	7,894	9,905
Adjustment of income	-43,836	-52,660	-43,836	-52,660
Adjustment of expenses	-22,953	-20,661	-22,953	-20,661
Tax relief	0	0	0	0
Other adjustments	2,191	2,279	2,191	2,279
Income tax	0	0	0	0
Effective tax rate	0	0	0	0

Movement in tax losses

in EUR 000	Company		Group	
	31/ 12/ 2016	31/ 12/ 2015	31/ 12/ 2016	31/ 12/ 2015
Opening balance of unused tax losses	869,998	856,186	869,998	856,186
Increases during the year	18,163	12,775	18,163	12,775
Increases due to company merger	0	1,037	0	1,037
Disbursement during the year	0	0	0	0
Closing balance of unused tax losses	888,161	869,998	888,161	869,998

Long-term deferred tax assets and liabilities are recognised by applying the liability method in regard to the statement of financial positions in which regard temporary differences between the carrying value of assets and liabilities for the purpose of financial reporting and the values for the purpose of tax reporting. The 19 % tax rate is applied in the calculation. Deferred tax assets are recognised in the value of potential future taxable profit against which the deferred tax will be applied in the future.

Balance of long-term deferred tax assets and liabilities

in EUR 000	Company		Group	
	31/ 12/ 2016	31/ 12/ 2015	31/ 12/ 2016	31/ 12/ 2015
Long-term deferred tax assets	54,191	49,970	54,191	49,970
Long-term deferred tax liabilities	54,191	49,970	54,191	49,970
Net long-term deferred tax liabilities	0	0	0	0

Deferred tax assets are a result of impairment of financial investments and revaluation of receivables, provisions formed for litigation costs and unused tax losses.

SSH/the Group holds the following deferred tax assets:

- impairment of financial investments and receivables EUR 11.21 million;
- provisions not being fully recognised for tax purposes upon their formation EUR 0.02 million;
- unused tax losses EUR 168.8 million.

As it is shown in the tables above and notes to the preceding paragraph, deferred tax assets are not fully recognised in the financial statements of SSH/the Group.

Movement in long-term deferred tax liabilities

in EUR 000	Company		Group	
	31/ 12/ 2016	31/ 12/ 2015	31/ 12/ 2016	31/ 12/ 2015
Deferred tax liabilities as of 1 January	49,970	53,545	49,970	53,545
Transfer to profit or loss	-670	-535	-670	-535
Change due to changes in taxable base	-823	-3,040	-823	-3,040
Change due to changed tax rate	5,714	0	5,714	0
Balance as of 31 December	54,191	49,970	54,191	49,970

Long-term deferred tax liabilities include the revaluation of financial investments to fair value through equity. When forming long-term deferred tax liabilities or deferred tax assets, the provisions of the applicable Corporate Income Tax Act are taken into account, on the basis of which and subject to the fulfilment of certain conditions, half of the capital gain is excluded from the taxable base.

Movement in long-term deferred tax assets for SSH and SSH Group

in EUR 000	Revaluation of financial investments	Impairment of short-term operating receivables	Provisions	Unused tax losses	Total
Balance of deferred tax assets as of 1 January 2016	12,831	429	15	36,695	49,970
Used in 2016	-3,600	0	0	0	-3,600
Newly created in 2016	1,554	357	2	0	1,913
Exclusions in 2016	0	0	0	0	0
Adjustment with tax liability	0	0	0	5,908	5,908
<i>Total changes in profit and loss statement</i>	<i>-2,046</i>	<i>357</i>	<i>2</i>	<i>5,908</i>	<i>4,221</i>
<i>Total changes in statement of financial position</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>
Balance as of 31 Dec 2016	10,785	786	17	42,603	54,191

9.1.24. Performance result of discontinued operations

in EUR 000	Group	Group
	Paloma	Paloma
	1 - 12 / 2016	1 - 12 / 2015
Operating income	88,405	85,604
Operating expense	-85,978	-84,383
Net profit or loss	-881	-516
Profit or loss before tax	1,546	705
Taxes	0	0
Net profit or loss for the reporting period	1,546	705
Part for minority owners	449	205
Interest expense generated in SSH Group	-	-
% of SSH ownership (prior to the sale)	30.35%	70.97%

9.1.25. Net earnings per share

in EUR 000	Company		Group	
	31/ 12/ 2016	31/ 12/ 2015	31/ 12/ 2016	31/ 12/ 2015
Profit/loss of majority owners	50,656	54,692	54,163	48,373
Number of issued shares	155,866	36,046	155,866	36,046
Weighted number of shares	37,356	36,046	37,356	36,046
Net loss / profit per share	1.356	1.517	1.450	1.342

The weighted number of shares is calculated by taking into account the following number of shares:

- from 1 January 2016 to 27 December 2016 – 36,046 shares (362 x 36,046) and
- from 28 December 2016 to 31 December 2016 – 155,866 shares (4 x 155,866).

9.1.26. Dividends per share

In compliance with its rules and regulations, the controlling company does not pay out any dividends.

9.1.27. Note to the Cash Flow Statement

The cash flow statement shows changes in the balance of monies in a particular financial year, using direct method. The data were obtained from the books of account of SSH/Group and from other accounting records such as original documents on receipts and expenditure and account balance slips provided by commercial banks. The data for the preceding year were prepared by using the same methodology.

The amounts paid for SOS2E bond interest and principal were disclosed in the first part of the Cash Flow Statement (cash flows from operating activities), since SSH/the Group's core business is the settling of denationalisation liabilities. Proceeds, with the exception of proceeds from financial investments sold for covering these outflows, were recognised as operating proceeds. Similarly, the first part of the Cash Flow Statement includes cash flows arising from

the payment of liability due by the Republic of Slovenia which are executed on its behalf by SSH (ZSPOZ, ZIOOZP and ZVVJTO).

Cash flows in 2016 based on the execution of the following acts: ZSPOZ, ZIOOZP and ZVVJTO

in EUR 000	ZSPOZ	ZIOOZP	ZVVJTO	Total
Payments to beneficiaries	3,102	259	812	4,173
Receipts from the Republic of Slovenia - Current payments	2,819	4,029	860	7,708
Received from the Republic of Slovenia - Contract debt	24,178	11,643	32,543	68,364
Net financial effect	23,895	15,413	32,591	71,899

9.2. FINANCIAL RISK MANAGEMENT OF SSH/SSH GROUP

The financial risks are continuously monitored and assessed by SSH/the Group with the aim to provide for a long-term liquidity and avoid excessive exposure to individual risks. The following risks are faced and managed by SSH/the Group: credit risk, interest rate risk, currency risk, and particularly market and liquidity risk.

9.2.1. Credit risk

Financial investments in banks or other issuers of securities create risks that might arise due to the borrowers' default in settling their liabilities, which means that upon maturity, funds invested are not repaid in full or in part. For the purpose of managing credit risks, the financial position of issuers and their capacity to generate sufficient funds for repayment are assessed. In regard to investments in debt securities, restrictions and limits have been set by SSH/the Group in relation to individual issuers and banks, which, by taking into account their balance sheet data, are renewed on an annual basis. Ratings of internationally renowned credit agencies are used in the analysis of individual securities.

A high risk exposure experienced by SSH/the Group relates to financial institutions and banks in which it holds its deposits, and any defaults would result in decreasing the liquidity of SSH/the Group. It is however assessed, that there are no risks associated with a failure of fulfilling contractual obligations.

9.2.2. Interest rate volatility risk

Interest rate risk is the risk that the value of interest sensitive assets will change due to a change in market interest rates, as well as the risk that financially sensitive assets and financially sensitive liabilities will mature on different dates and in different amounts. SSH/the Group is exposed to interest rate risk particularly with its liabilities. When depositing assets, a fixed interest rate is usually applied. Less than 72 % of financial liabilities (as of 31 December 2016) bear an interest rate that is linked to Euribor. A fixed interest rate is applied to other liabilities. Changes in the market interest rates do not affect SSH/the Group's liabilities in relation to bonds issued. Liabilities arising in relation to SOS2E bond which represent approximately 3 % of SSH's/the Group's financial liabilities are subject to an agreed fixed interest rate of 6 % (compounded interest rate calculation), while SOS3 bond (25 % of all financial liabilities) bears 2.5 % interest rate p.a. (linear interest calculation).

It has been assessed that a change in interest rate for loans bearing a floating interest rate (1/3/6-month Euribor + a fixed mark-up) will have a moderate impact on the financial statements of SSH/the Group. The calculation shows that with an increase in the interest rate:

- by 0.5 %, the interest expense will increase by EUR 1.4 million per year;
- by 1.0 %, the interest expense will increase by EUR 2.9 million per year;
- by 1.5 %, the interest expense will increase by EUR 4.3 million per year.

The calculation does not take into account the deleveraging undertaken by SSH during the year by way of which the debt will be reduced by EUR 280 million which means that the impact of this change will be half.

In 2016, the key Central Bank interest rates were exceptionally low and a gradual increase is expected in the long-term which will consequently lead to an increase in the reference interest rates (e.g., Euribor).

9.2.3. Currency risks

The introduction of the Euro as a national currency significantly reduced the currency risk. Considering the fact that the majority of financial instruments is linked to the Euro, the currency risk was negligible for SSH/the Group in 2016. At the end of 2016, there were no investments of SSH/the Group denominated in foreign currencies.

9.2.4. Liquidity risks

Owing to the situation in the financial markets, special attention was dedicated to managing liquidity risk. As before, all liabilities were regularly settled. Greater attention was dedicated to the preparation of cash flows plans. A thorough planning of cash flows enabled a timely forecasting in regard to potential deficits or surpluses and their optimum management

In accordance with the provisions of the Act on financial operations, insolvency proceedings and compulsory dissolution, particularly in regard to the short-term and long-term financial capacity and solvency of SSH/the Group, it was assessed that SSH/the Group is solvent and not threatened by insolvency. Detailed findings are presented in section 1.2.7. in the Business Report.

Liquidity ratios

A key ratio for measuring an entity's liquidity is a liquidity ratio (=liquid assets/short-term liabilities *100) providing an answer as to whether a company holds enough liquid assets to settle all its short-term liabilities. It is stated in the expert literature that the value of this coefficient should always be greater than 100 %. However, this rule applies only in the case when all short-term liabilities immediately fall due for payment. Usually, not all liabilities need to be settled immediately which is why a coefficient in the value of 30 % is acceptable.

In addition to the liquidity ratio, another two ratios are used in practice:

- quick ratio = (current assets + inventories)/current liabilities *100 and
- current ratio = current assets / current liabilities *100.

Since SSH/the Group does not have any inventories, the value of the last two ratios is equal.

	in EUR 000		in %	
	31/ 12/ 2016	31/ 12/ 2015	31/ 12/ 2016	31/ 12/ 2015
<i>direct coverage of short-term liabilities</i>				
liquid assets	225,238	53,075	72.42	39.38
short-term liabilities	310,997	134,786		
<i>quick coverage of short-term liabilities</i>				
liquid assets + short-term receivables	232,529	132,527	74.63	98.17
short-term liabilities	311,557	134,996		

All liquid financial investments are considered as liquid assets by SSH/the Group as these are mainly deposits with a maturity date matching the maturity date of liabilities that have been planned. In spite of the fact, that cash flows are planned as thoroughly as possible, there is a small degree of probability that an unpredictable liability may arise. An option of selling individual investments accounted for as long-term financial investments (domestic shares, foreign shares, mutual funds, bonds) is envisaged by SSH for the occurrence of any unforeseen events. In an extreme case, if SSH/the Group runs out of funds, it was determined in the Decision of the Constitutional Court No. U-I-140/94 of 14 December 1995 that the Republic of Slovenia is obliged to provide additional funds to SSH when SSH's sources of funds do not suffice for the regular settlement of SSH's liabilities in accordance with the Denationalisation Act, the Cooperatives Act and other regulations governing the denationalisation of property.

Maturity of assets and liabilities

in EUR 000	Call deposits and highly liquid assets	Maturing in 1-6 month period	Maturing in 6-12 month period	Maturing in 1-3 year period	Maturing in a period after 3 years
Assets	69,099	61,768	123,094	22,037	736,372
Deposits and cash	59,238	55,000	111,000	0	0
Bonds	0	0	0	0	2,021
Mutual funds	9,769	0	0	0	0
Foreign shares	92	0	0	0	0
Shares and shareholdings in dome	0	4,989	0	0	734,351
Purchased receivables	0	0	12,094	22,037	0
Operating receivables	0	1,779	0	0	0
Liabilities	2,002	6,975	290,402	39,145	113,286
Repayment of loans	0	0	279,911	0	4,996
SOS2E bond + interest	1,069	5,345	6,414	39,145	8,632
SOS3 bond + interest	0	1,305	0	0	99,658
Short-term operating receivables	933	325	4,077	0	0
Difference	67,097	54,793	-167,308	-17,108	623,086
Cumulative surplus/deficit	67,097	121,890	-45,418	-62,526	560,560

9.2.5. Market risk

Liquidity of the most important investments of SSH/the Group in shares quoted

	Turnover ratio * in 2016
Krka, d. d.	5.70%
Luka Koper, d. d.	5.66%
Petrol, d. d.	10.37%
Pozavarovalnica Sava, d. d.	8.19%
Telekom, d. d.	3.92%
Zavarovalnica Triglav, d. d.	5.51%
Prime market	6.00%
Standard market	3.61%

Note: * A ratio between the yearly turnover and an average market capitalisation based on values as of 31 December, before 6 and before 12 months.

Source: Monthly and Annual Statistics LJSE, 2016

Domestic marketable shares of SSH/the Group as of 31 December 2016

Type of equity investments	Value in EUR 000	Structure in %
Krka, d. d.	281,009	39.19
Zavarovalnica Triglav, d. d.	148,170	20.66
Petrol, d. d.	133,903	18.67
Pozavarovalnica Sava, d. d.	56,911	7.94
Other investments	97,050	13.53
Total	717,043	100.00

Changes in market share prices represent a significant risk which is being increased by low liquidity levels in regard to main investments.

It has been assessed that the risk exposure related to changes in market prices of shares is extremely high. The average duration of liabilities held on the passive side of the balance sheet is slightly more than a year, whereas 73 % of the assets on the active side include shares in domestic companies. The largest three individual investments of SSH/the Group represent approximately 72 % of all long-term financial investments (shares of Paloma d. d., are not included in this group since they are recorded in the disposal group recorded among current assets). The risk due to a low dispersion of investments is extremely high since the majority of investments are exposed to risks of changes in market prices in the domestic capital market.

Sensitivity of equity financial investments against changes in market prices

Type of equity investment in EUR 000	Value 31/ 12/ 2016	Change in market prices 15 %	Change in market prices 20 %	Change in market prices -15 %	Change in market prices -20 %
Krka, d. d.	281,009	42,151	56,202	-42,151	-56,202
Zavarovalnica Triglav, d. d.	148,170	22,226	29,634	-22,226	-29,634
Petrol, d. d.	133,903	20,085	26,781	-20,085	-26,781
Pozavarovalnica Sava, d. d.	56,911	8,537	11,382	-8,537	-11,382
Other marketable domestic shares	97,050	14,558	19,410	-14,558	-19,410
Non-mark.shares and domestic sharehold.	21,860	3,279	4,372	-3,279	-4,372
Foreign shares	92	14	18	-14	-18
Mutual funds	9,769	1,465	1,954	-1,465	-1,954
Total	748,764	112,315	149,753	-112,315	-149,753

9.3. TRANSACTIONS WITH RELATED ENTITIES

In addition to the Republic of Slovenia, considered as a 100 % owner, in accordance with IAS 24, the following entities are considered to be related entities:

- subsidiaries and associates;
- management personnel and members of Supervisory Board and Audit Committee;
- companies related to the state.

In 2016, no transactions were concluded by SSH which might result in harmful consequences for the operation of related parties.

9.3.1. Subsidiaries and associates

SSH holds a 20 % or higher shareholding in the following companies: Casino Bled, d. d., Dekorativna d. o. o., Ljubljana - in liquidation, GIO in liquidation, d. o. o., Hit Nova Gorica, d. d., Paloma, d. d., Pozavarovalnica Sava, d. d., PS za avto, d. o. o., Unior, d. d., and Zavarovalnica Triglav, d. d. The majority of the above mentioned shares and shareholdings were obtained pursuant to the Ownership Transformation of Companies Act and other laws passed with the aim of settling denationalisation compensation to beneficiaries and compensation to victims of war- and post-war violence and ZSDH-1. There were no significant business transactions taking place between SSH and the above mentioned companies.

In 2016, no mandatory instruction in the capacity of a controlling company was given by the SSH Management Board. Neither was there any legal transaction concluded by and between the controlling company and related parties, as a result of any mandatory instruction.

SSH hereby declares that the controlling company has not used its influence by forcing its related entities to carry out any legal transaction which is a detriment to them or to do anything which is to their detriment. In addition to capital-related connections, business cooperation with associates mainly refers to insurance transactions.

9.3.2. Management personnel and members of Supervisory Board and Audit Committee

All payments received by the management personnel and members of Supervisory Board and its committees refer to the reporting period.

Payments to executive officers in the period

v EUR	Lidia Glavina	Jazbec Marko	Drobne Popovič Nada	Strojin Štampar Anja
	16.7. - 31.12.2016	1.1. - 15.7.2016	1.1. - 31.12. 2016	1.1. - 10.10.2016
Fixed earnings (brutto)	60,623	71,075	118,529	91,500
Variable earnings (brutto)	0	0	0	0
Other earnings (bonuses, company car)	0	1,687	3,575	4,205
Other bonuses (liability insurance, collective acciden.insurance)	3,130	56	148	127
Holiday pay	0	791	791	791
Reimbursement of costs (meals, transportation)	4,994	741	2,011	985
Reimbursement of mission expenses	2,197	0	133	2,944
Voluntary suppl.pension insurance	0	0	2,819	2,190

Labour costs in 2016 per employee who are not members of the Management board but are employed on the basis of individual employment contract:

- wages and salaries EUR 165,514;
- holiday pay EUR 2,372;
- reimbursement of costs (meals, transportation cost, costs for business trips): EUR 2,808;
- bonuses EUR 2,483 and
- voluntary supplementary pension insurance EUR 3,191.

Salaries paid to the members of Management Board are paid in accordance with the Act Governing the Remuneration of Managers of Companies with Majority Ownership held by the Republic of Slovenia or Self-Governing Local Communities (ZPPOGD), by way of which SSH is considered a large company. Members of the Management Board using company cars for private purposes do not receive any payments reimbursing their travel costs.

Members of the Management Board represented the interest of capital contributors by participating in Supervisory Boards of the following non/related entities:

- Nada Drobne Popovič, MSc, in Hit, d. d., and
- Anja Strojin Štampar in Krka, d. d.

On 4 December 2014, the Government of the Republic of Slovenia, acting as the General Meeting of SSH, decided on the type and amount of income paid to SSH Supervisory Board Members appointed in procedure under Article 40 of ZSDH-1 (from 23 July 2015 onward). On the basis of the above mentioned Resolution, Supervisory Board Members are eligible to receive a meeting fee in the gross amount of EUR 275 for their attendance of the session, and the session fee for the attendance at sessions held by Supervisory Board Committees amounts to EUR 220 gross. The meeting fee for a correspondence session amounts to 80 % of the meeting fee.

In addition to meeting fees, members of the Supervisory Board also receive a payment for the execution of their function, in the gross amount of EUR 1,200 per month for an individual member. The President of the Supervisory Board is eligible to receive the extra monies in the amount of 30 % of the basic payment for the performance of the function, while for the Vice

President this extra payment amounts to 10 % of the basic payment. Members of the Supervisory Board Committees receive extra payment for the performance of their function in the sum of 25 % of the basic payment for each individual member. In addition, upon a proposal by the Minister of Finance, the Government of the Republic of Slovenia acting as the General Meeting of SSH may determine additional payment for a Member of Supervisory Board who has special knowledge and experience that have been obtained from carrying out such functions abroad and who has a proven record of successful business performance.

The Government of the Republic of Slovenia acting as the General Meeting of SSH has decided that in case SOEs owned and managed by SSH reach the return on equity planned, Members of Supervisory Board are entitled to receive a bonus in the range from 10 % to 40 % of the annual payment for the performance of the function, subject to the level of the ROE achieved. The bonus is paid to the Members of the Supervisory Board following the approval of the Annual Report, as laid down in ZGD.

Members of the Supervisory Board and its commissions are also entitled to receive reimbursement of costs (applicable for both resolutions) associated with their execution of the Supervisory Board member function, specifically, in the form of daily allowances, travel expenses and accommodation costs. Daily allowances and travel expenses are paid in accordance with regulations regulating this topic in the business sector.

Earnings of Members of the Supervisory Board in 2016

in EUR	Payment for the execution of the function	Gross meeting fee	Bonuses	Travel expenses	Total
Belič Damjan	18,720	7,205	110	0	26,035
Ferfolja Drago	14,988	5,995	33	2,026	23,042
Glavina Lidija	7,742	4,180	33	1,734	13,689
Kos Duško	14,470	7,205	33	345	22,053
Smolnikar Barbara	14,400	6,435	33	0	20,868
Total	70,320	31,020	242	4,105	105,687

Earnings of Members of the Supervisory Board Nomination Committee in 2016

in EUR	Payment for the execution of the function	Gross meeting fee	Bonuses	Travel expenses	Total
Belič Damjan	1,771	1,760	0	0	3,531
Ferfolja Drago	1,577	880	0	105	2,562
Kos Duško	1,771	1,760	0	19	3,550
Smolnikar Barbara	1,771	1,540	0	0	3,311
Total	6,890	5,940	0	124	12,954

Earnings of Members of the Supervisory Board Audit Committee in 2016

in EUR	Payment for the execution of the function	Gross meeting fee	Bonuses	Travel expenses	Total
Belič Damjan	1,665	1,276	0	0	2,941
Gabrijel Aldo	1,945	1,056	0	314	3,315
Glavina Lidia	1,935	1,056	0	330	3,321
Kos Duško	3,600	2,332	0	43	5,975
Virant Darinka	1,655	1,276	0	37	2,968
Total	10,800	6,996	0	723	18,519

Earnings of Members of the Supervisory Board Risk Committee in 2016

in EUR	Payment for the execution of the function	Gross meeting fee	Bonuses	Travel expenses	Total
Ferfolja Drago	3,406	660	0	210	4,276
Kos Duško	174	0	0	0	174
Smolnikar Barbara	3,600	660	0	0	4,260
Virant Darinka	3,600	660	0	52	4,312
Total	10,781	1,980	0	261	13,022

9.3.3. Transactions with the Government of the Republic of Slovenia, state authorities and enterprises controlled by the Government or in which its significant influence is exercised

Companies that are related to the state include all companies in which the Republic of Slovenia exercises a significant influence.

in EUR 000	Receivables 31/ 12/ 2016	Income 1 - 12 / 2016
Ministry of Finance	2,229	5,775
Farmland and forest Fund of RS	80	2,069
D.S.U.	21	292
Total	2,330	8,136

SSH also carries business with other companies, authorities, bodies and agencies in which the Republic of Slovenia is a majority or a minority shareholder. All transactions with the above mentioned entities are concluded at arm's length. Since no significant amounts are involved, these pieces of data are not disclosed.

9.4. DISCLOSURE UNDER ARTICLE 69 ITEMS 12 AND 13 OF ZGD-1

There are no operations which have not been disclosed in the Statement of Financial Position neither are there any risks or benefits resulting from such transactions and having a significant impact to the assessment of the financial position of SSH/the Group.

There were no transactions with related parties that might have been significant or not carried out at arm's length.

9.5. OPERATING SEGMENTS

The SSH Group carries out various tasks which usually do not entail the generation of significant revenues. The main activity leading to SSH's establishment was the determination and the payment of compensation arising from denationalisation (ZDen). For this purpose, SSH had received a portion of a previously socially-owned property, in the form of shares and shareholding registered as revenues upon its receipt. These assets are sold subject to the financial needs and depending on the situation in capital markets. Upon their disposal, the financial income is a difference between the acquisition value and the selling price of an individual financial investment.

SSH carries out the following tasks on behalf of and for the account of the Republic of Slovenia: the payment of compensation to beneficiaries for confiscated property pursuant to the abrogation of the penalty of confiscation of property (ZIOOZP), the payment of compensations to war and post-war violence victims (ZSPOZ), and reimburses investments made into in the public telecommunications network (ZVVJTO).

Upon the abolition of the Capital Assets Management Agency of the Republic of Slovenia, SSH/the Group has taken over its duties as well as employees. One portion of costs incurred with the management of capital assets are reimbursed to SSH by the Ministry of Finance. In accordance with the agreement, SSH should be reimbursed for all costs incurred in the processes for the sale of capital assets of the Republic of Slovenia.

It has been assessed that requirements for reporting on operating segments as laid down by IFRS 8 have not been met. As a result, the Segment Reporting was not developed. SSH/the Group does not sell its services/goods/material to outside customers; the subsidiaries are not consolidated by SSH/ the Group since they are irrelevant for the presentation.

9.6. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

In addition to future liabilities for which provisions have been recognized by SSH/the Group due to the fact that conditions had been met for their recognition, SSH/the Group also has formed contingent liabilities arising from denationalisation in the amount of EUR 81,9 million. Administrative units and ministries are known to have additional requests for compensation according to ZDen that have not yet been communicated to the Group. The value of these liabilities has therefore been determined by means of an assessment.

Blank bills of exchange (the total amount of EUR 235 million) were submitted by SSH/the Group to the majority of banks as a security for the repayment of long-term loans secured by the guarantee issued by the Republic of Slovenia.

The liens registered are listed in Notes 9.1.11.

SSH holds the following contingent assets:

- receivables due from buyers of socially-owned and nationalised housing units (EUR 19k) and
- insurance of a receivable – a lien established to the benefit of SSH (EUR 0,99 million).

9.7. EVENTS AFTER THE BALANCE SHEET DATE

On 22 February 2017, the selection procedure for the appointment of the President and a member of the SSH Management Board was completed. Mrs. Lidia Glavina was appointed President of the Management Board. The Management Board will operate in two-member configuration until further notice.

SSH Holding and Kapitalska družba, d. d., harmonised the Purchase and Share Agreement in respect of SSH's stake (0.0519 %) and Kapitalska družba, d. d., stake in n Geoplin, d. o. o., (0.4282 %) which has been executed on 9 February 2017. The transaction refers to a conditioned sale of stakes as the sale is only implemented when the responsible regulatory bodies grant their consent for carving-out Plinovodi, d. o. o., from Geoplin, d. o. o.

SSH accepted a take-over bid submitted by acquirers ECO-INVESTMENT, a. s., and ECO INVEST SVK, a. s., on the basis of which SSH sold all of its shares held in Paloma, d. d., on account of which, on 6 March 2017, SSH received purchase price in the amount of EUR 9,664,128.07.

Ljubljana, 20 April 2017

Nada Drobne Popovič
Management Board Member

Lidia Glavina
Management Board President